REPORT OF THE
SECRETARY OF EDUCATION AND
SECRETARY OF ADMINISTRATION ON

# ALTERNATIVES IN COVERAGE, FINANCING, AND ADMINISTRATION OF HEALTH INSURANCE FOR GRADUATE STUDENTS AND THEIR DEPENDENTS

TO THE GOVERNOR AND
THE GENERAL ASSEMBLY OF VIRGINIA

## HOUSE DOCUMENT NO. 2

COMMONWEALTH OF VIRGINIA
RICHMOND
1995

# COMMONWEALTH of VIRGINIA

*Office of the Governor*

George Allen
Governor

Michael E. Thomas
Secretary of Administration

September 30, 1994

The Honorable Bruce F. Jamerson
State Capitol
Richmond, Virginia 23219

The Honorable Susan Clarke Schaar
State Capitol
Richmond, Virginia 23219

Dear Mr. Jamerson and Mrs. Schaar:

We are pleased to submit the study, conducted pursuant to House Joint Resolution 232, which examines alternatives in coverage, financing, and administration of health insurance for graduate students and their dependents.

This study shows that the most practical course of action to follow if the Commonwealth chooses to provide its graduate students with health insurance coverage is to view these individuals as employees of their respective universities; however, it is our collective recommendation that the potentially enormous costs to the Commonwealth, either from the General Fund or from indirect financing sources, of providing this service more than offset the benefits to be derived for graduate students.

Thank you for the opportunity to study this matter.

Sincerely,

Beverly H. Sgro

Beverly Huston Sgro

Sincerely,

Michael E. Thomas

Michael E. Thomas

## EXECUTIVE SUMMARY

This study, conducted pursuant to House Joint Resolution 232, examines alternatives in coverage, financing and administration of health insurance for graduate students and their dependents. It finds that the marketplace offers many types of coverage suitable to the needs of graduate teaching assistants, and that the cost of such coverage is reasonable. Each of the universities has particular needs which can more readily be accommodated by the variety of plans available in the marketplace than by any single benefits plan. The ineluctable conclusion is that each university should procure the best plan available which meets its needs.

The study does not directly address the financing of coverage, that is, which parties should pay what proportion of the cost of insurance for graduate students and their dependents. It should be noted, however, that if the employer neither mandates coverage nor provides an individual subsidy to those participating in the plan, the group may attract only those people who expect to incur claims. If that happens, the claims expenses of the group may result in a plan which is either relatively high priced or fails to provide adequate coverage. This caution applies most seriously to an association plan, which is discussed under Alternative Administrative Arrangements.

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## Introduction

In October of 1993, the State Council of Higher Education submitted its report entitled *Graduate Education*. The study was based on a previous report prepared by the Instructional Programs Advisory Committee, the Council's advisory committee of chief academic officers in Virginia's public colleges and universities. Part of this report included a series of recommendations to improve the quality of the educational experience graduate students receive. As one of its recommendations, the Council suggested that the General Assembly request that the Department of Planning and Budget explore the feasibility of a statewide pool for graduate health insurance.

More specifically, the Council concluded that

> The national problems associated with health insurance are found in microcosm in the graduate schools of Virginia. Graduate students are generally adults, which means that often they have given up-full time employment to come to graduate school and may have spouses, partners, or other dependents. Besides foregone income, then, the decision to pursue graduate study may entail higher expenses with respect to health insurance, a cost that increases if an employed spouse has also given up his or her job to move to a new location.
>
> Institutions [therefore] are encouraged to offer, to the degree possible, comprehensive health insurance packages for single and married graduate students, both with and without children. For graduate students, who, as teaching or research assistants, are part of the institutional staff, the percentage of the premium paid by the student should be in line with those offered to faculty and staff. Such insurance may be very costly or difficult to provide, however, since state personnel regulations dictate that part-time employees cannot participate in the state health insurance plan. This is an argument for a relaxation of state personnel regulations that make it difficult for institutions to manage their business as effectively as possible" (Graduate Education, p. 25).

During the 1994 General Session, the Honorable James M. Shuler worked with the Council and a graduate student organization known as the Graduate and Professional Student Association of Virginia (GAPSAV) to craft legislation to address this concern. House Joint Resolution No. 232 was agreed to by the Senate on March 8, 1994 and agreed to by the House of Delegates on March 10, 1994. The Resolution requests the Secretary of Education and the Secretary of Administration to study various alternatives for providing graduate student and their dependents a means to purchase adequate and affordable health insurance. The full text of the Resolution is found in Appendix A.

## The Current Status of Health Insurance Programs

### Employee Coverage

Traditionally, the health insurance options available to full-time employees at Virginia's colleges have been limited to a single state plan. More recently, this plan has been supplemented by a variety of options and other plans provided by health maintenance organizations (HMOs) in some parts of the Commonwealth.

The current national debate over health care and health care costs have caused many providers of health care and health care insurance to reexamine how they conduct business. Recent developments in the health care industry suggested that "managed care" may be the most appropriate way to reduce costs.

At the same time, Virginia's public colleges and universities have asked for more autonomy at the agency level. Many college presidents have argued that the decentralization of certain financial, personnel, and procurement processes would create greater efficiency and save tax dollars. The General Assembly, through the 1994 Appropriations Act, authorized colleges and universities to submit proposals to the Secretary of Finance "to grant relief from rules, regulations, and reporting requirements in such areas as finance and accounting, the purchase of goods and services, and personnel."

As a result, Secretary Timmreck received over 160 decentralization proposals. Seven of these proposals requested the authority to establish health and other benefit programs. The College of William & Mary, George Mason University, James Madison University, the University of Virginia, Virginia Commonwealth University, Virginia Military Institute, and Virginia Polytechnic Institute and State University have all indicated an interest in developing institution specific or regional health maintenance groups to service various groups of employees.

Those making the proposals suggest that these community based programs may better meet local needs at lower costs. The health insurance issue will remain quite fluid.

Graduate Student Coverage

Students attending most of Virginia's public colleges and universities have access to student health insurance programs provided by vendors who contract with the individual institution. Typically, these programs are inexpensive but do not always offer the coverage and options graduate students desire. Representatives from GAPSAV suggest that these programs are often tailored around undergraduate student needs.

Those graduate students who are employed by Virginia's colleges and universities are classified as part-time employees. Currently, because of this part-time status, they do not have access to the health insurance programs provided by the state.

## Insurance Alternatives

The possible designs for a health benefits program approach infinity. Programs designed for students are typically limited in order to control costs. On the other hand, the Virginia employee health benefits program's Key Advantage plan is one of the most generous health benefits programs available anywhere. The following table reflects several student plans and Key Advantage.

| Name of School | Single Prem | Family Prem | Deductible | | In-Network Reimb | | Out-of-Network Reimb | | Contract Maximum |
|---|---|---|---|---|---|---|---|---|---|
| Catholic University | $568 | $2,184 | | $100 | | 85% | | 75% | $50,000 |
| Creighton University | $864 | $3,310 | | $100 | | 100% | | 70% | *$100,000 |
| James Madison Univ. | $630 | $1,932 | | $150 | | 80% | | 80% | $50,000 |
| Old Dominion Univ. | $555 | $1,773 | | $300 | | 85% | | 65% | $50,000 |
| Univ. of Las Vegas | $468 | $3,414 | | $200 | | 80% | | 65% | * $25,000 |
| Univ. of New Hampshire | $552 | $2,757 | | $150 | | 80% | | 65% | *$500,000 |
| Univ. of Utah | $641 | $3,479 | | $250 | | 75/80/100% | | 50% | $50,000 |
| Virginia Commonwealth Univ. | $615 | $2,589 | | $200 | | 85% | | 65% | $50,000 |
| Virginia Polytechnic Inst. | $480 | $1,965 | | $100 | | 80% | | 65% | $50,000 |
| William and Mary | $516 | $2,064 | | $200 | | 85% | | 65% | $50,000 |
| Key Advantage | $2,256 | $6,312 | Hosp | $100 | Hosp | 100% | Hosp | 100% | 365 days |
| | | | Phys | $10 | Phys | 100% | Phys | 75% | none |

*Lifetime per incident

The student plans are similar to each other in terms of premiums, coverage, co-insurance and other copayments, and maximum contract liability. The variations in premiums may be attributed to such factors as locality, demographics of the covered population, availability of campus health programs, objectives of the sponsoring group, variations in coverage, contract maximums, and management of care.

It is apparent from the chart that student coverage tends to be limited compared with Key Advantage. Students are generally much better risks than government employees. Thus, there is an explicit trade-off of ore limited coverage for lower premiums. While there may be a reason to deviate from the general pattern of student coverage, it should be borne in mind that lower co-insurance and copayments, more coverage, and higher contract maximums will each serve to increase premiums, and, in combination, synergistically increase each elemental increase.

Key Advantage

Key Advantage, unlike the student plans, does not rely on co-insurance and copayments to control access to care. In fact, its broad coverage of outpatient visits and prescription drugs promotes early intervention, health maintenance, and prevention, as may well be appropriate for this group. The state employee group is a very much older, more at risk, and higher cost group than the graduate student population. (Age is one proxy for health status inasmuch as older people usually use more health services than younger people.)

It is possible, of course, to have a single statewide student health plan. The single benefit design fits best with the single risk pool or association plan arrangements.

## Recommendation

The benefits package should reflect mainstream student benefits. It should include meaningful co-insurance and copayments, coverage for only or principally acute illnesses, and annual contract maximums. Furthermore, to the extent that savings are available from managed care or preferred provider arrangements, such feature(s) should be incorporated into the plan.

**Financing Alternatives**

The resolution sought recommendations about the advisability of revising state personnel law as means of achieving the objective of affordable health care. It also suggested exploring the alternative of establishing a state wide pool. This and additional financing options are discussed below, although the real financing question is who pays the premium, and, if there is more than one payor, what is the proportional responsibility of each.

<u>Students as State Employees</u>

The proposal to revise state personnel law would seem to be directed toward classifying graduate students as employees of the state. The presumption seems to be that, as state employees, they would then be eligible for the state employee health benefits program and benefit from the efficient and popular Key Advantage program and from the state subsidy toward Key Advantage premiums.

In itself, classifying graduate students as employees may not be sufficient to procure health benefits. Most, if not all, of the subject population are part time employees. As such, they would not be eligible for participation in the employee health benefits program, which, by law, covers only full time employees. If it is determined that eligibility for the program will be changed to include part time employees, the cost of the change probably should include the cost of providing health benefits for approximately 14,000 full time equivalent employees (excluding adjunct faculty) represented by the part time workforce. It may be indefensible to provide the health benefits to 42,000 graduate students without providing health benefits to the current part time workforce.

Based on the current rates for Key Advantage, the total cost of providing benefits to both graduate students and part time workers (excluding adjunct faculty) would approximate $138,631,039 if all eligibles participated in the plan and the average number of enrollees per contract were the same as in Key Advantage. Twenty percent, or some $28,419,363, would be paid by the students and workers, and 80%, or $110,211,676, would be paid by the state. The state's contribution would consist of both general and special funds. Based on the information available, the proportion of general funds would approximate 50%, or $55,105,838.

## Students as University Employees

A second alternative is to treat the students as employees of the universities rather than as employees of the state. Universities have many "local" employees who are paid out of special funds.

The advantages of this proposal are immediately obvious. Each university could establish the student health program which best meets its needs. It could provide whatever cross subsidies seemed appropriate across classes of membership (for example, a higher than necessary single premium in order to lower the family premium). The employer contribution would be discretionary with the institution and could vary from place to place. (It should be noted that universities would have to come up with over $55 million in special funds to fund the previous proposal.) There are a variety of student programs on the market from which to choose. If the General Assembly chose to participate in the cost of the program, it could do so on a variety of bases, including a percentage of the total cost or a flat amount per capita. Also, this arrangement is most consistent with the drive to decentralize decision making among the universities.

There are no clear negatives to this alternative. It is theoretically more expensive than a self insured state wide risk pool, discussed below.

## Statewide Student Risk Pool

Another alternative depends on a specific administrative arrangement discussed below in that section, Alternative Administrative Arrangements. This alternative involves establishing a separate risk pool for students and administering a single program for students throughout the state. It is believed that such an arrangement promises the lowest cost coverage possible because of the retention of risk (possibly assumed but not stated in the resolution) and the state's purchasing and negotiating power with respect to administrative costs. (It should be noted that, in the absence of the state's retention of the risk of claims, there would be no reason to expect material savings from this arrangement. On the other hand, the retention of risk implies the availability of state funds to pay claims should the program run a deficit.)

In addition to the difficulties of actually realizing that arrangement as disclosed below, this scheme represents another step toward putting the state in the insurance business. It is far from clear that savings in administrative costs, once the overhead of state supervision is added, would be materially lower than that offered by the best products available in the market place. Also, the General Assembly may not have intended to assume the risk of claims for this group, and without that, the important source of potential savings evanesces. This alternative creates a centralized source of and authority for such coverage, and, in itself, does not address financing. The amount of the premium to be paid by the state, the university and the student are not determined by the administrative arrangement under which insurance is provided. Finally, this approach is inconsistent with the movement toward decentralization contained in the budget bill.

## Students as Customers

Another evident option is to treat the students as consumers and to require them to purchase insurance. The university would make available a program which is adequate and affordable and require the student, as a condition of her/his status, to purchase the package. This mandate for coverage is common practice today at universities and consistent with the trends toward universal coverage.

Should the university wish to subsidize coverage, it could do so under a variety of arrangements, including variable subsidies by department. Treating students as consumers is consistent with the previous option, which gives broad discretion to the universities.

## Additional Information

Summarized below is the Executive Summary of a study by Stephen L. Beckley & Associates, Inc., dated August 26, 1991, giving the results of a survey on institutional funding of contributions for health insurance coverage for graduate student teaching assistants and researchers.

- Institutional contributions toward the cost of health insurance coverage for graduate student teaching assistants and researchers has become a significant issue for many universities and colleges. The University of Cincinnati asked for a survey of major research institutions to determine the variety and scope of actions that are being taken in response to this concern.

The focus of the survey is on institutional contributions toward the cost of health insurance for graduate student teaching assistants and researchers. We are not aware of any university or college contributing to the cost of health insurance for its overall graduate or undergraduate student populace.

- o Twenty-five major public universities were selected for participation in the survey. The criteria for selection of survey recipients was three-fold: (1) the institution is engaged in diverse research activities; (2) the institution has a populace of students in excess of 25,000; and (3) the institution contributed to an overall geographic diversity among survey recipients. A four page survey was mailed by Stephen L. Beckley and Associates, Inc., (SLBA), on March 26, 1991. The cover letter stated the survey was requested by the University of Cincinnati, an SLBA client. As of the date of this report, 23 complete responses have been received.

- o Nineteen survey respondents are either contributing to the cost of health insurance for graduate student teaching assistants and researchers (10 respondents on either a departmental or uniform basis), or are giving consideration to doing so in the future. The four remaining survey respondents indicated they have not given any consideration to this issue.

- o Four survey respondents have granted employee status to graduate student teaching assistants and researchers (teaching assistants only at the University of Maryland). The majority of respondents contributing to the cost of health insurance have done so through either a special student health insurance plan, or some dollar contribution to be applied to a plan of the student's choosing. The amount of the contribution is difficult to characterize as several survey respondents use a sliding scale based on a half-time or full-time appointment.

The University of Wisconsin, the University of Maryland and the University of Michigan contribute toward the cost of health insurance for dependents. The contribution ranges between 50% and 70% at the University of Maryland, and is fixed at 80% at the University of Wisconsin and the University of Michigan.

In a telephone update, Mr. Beckley indicated that all twenty-five universities now offer coverage. All provide some contribution toward the cost of single coverage, and several contribute toward the cost of coverage for dependents.

**Recommendation**

It would be consistent with the national movement toward universal coverage and with the Commonwealth's policy of testing decentralization for universities to view the universities as the employers of the students, to allow them to establish programs, premiums and cost sharing which meets their individual needs, and to encourage individual responsibility by requiring some important student participation in the payment of premiums. Treating students as employees of the state would provide coverage which is not necessary at a cost which is not affordable.

## Alternative Administrative Arrangements

Statewide Student Risk Pool

The Resolution requested consideration of establishing a separate risk pool for graduate students. Since there are many existing student insurance programs sponsored by many insurers, this requirement is interpreted to be a requirement for the DPT~ to establish a program for students along the lines of The Local Choice (TLC), the self insurance program established and operated by the Department for the benefit of school jurisdictions and local governments.

It certainly would be possible to establish a separate risk pool for graduate students and to underwrite coverage appropriate for the students. An appropriate benefits package coupled with the administrative efficiency of TLC and the relatively healthy population to be covered should result in an affordable health benefits program. Some background on the TLC program, may be helpful in understanding why this option may not be feasible.

TLC operates very much like the employee health benefits program. Almost the entire program is contracted out to private corporations. The state retains only the risk of claims and some very modest oversight and group service responsibilities. Administrative responsibilities for receiving and processing claims, customer service, provider networks and communications with providers, benefit cost containment, legal defense against claims, accounting, and other functions are currently performed under contract with BCBSVA.

BCBSVA also competes for the business of local governments and school jurisdictions with its private plans. One may legitimately question why BCBSVA is willing to compete against itself by making it possible for TLC to operate. The motives of the contractor would include (1) the risk charge (profit) portion of the administrative costs paid, (2) some interest earned on checking account balances, (3) provider discounts earned in excess of discounts passed along to the plan or the claimant, (4) market share and the effects thereof on competition, networks and discounts, and (5) the visibility of the state account. TLC could also be helpful to the current contractor in establishing a more credible presence and securing business in northern Virginia, where the company was relatively weak.

TLC, in other words, represented a special opportunity in terms of contractor motivation. The business risk among the small groups which comprise TLC is relatively high, competition is intense, administrative costs and brokerage fees are high, and the relationship between the groups and the insurer is more complex (for example, competitive pressures influenced a range of behaviors from underwriting procedures to premium payments). TLC has ameliorated many of these problems, and added to the credibility of the contractor with respect to these groups by interjecting the umbrella of the state.

The same opportunities may not be present in the student market. Although competition is intense, a local insurer has a material, if not decisive advantage in benefit cost control through efficient provider networks. Furthermore, student groups are non-government groups. Non-government groups are thought to have fewer service issues, lower group and subscriber expectations and prompt premium payments.

While it is very likely that a request for proposals to establish a student health benefits plan would attract qualified offerors, it is not at all clear that the responses would be as advantageous as the TLC arrangements, or that the resulting contract could be integrated into the TLC administrative structure and enjoy its multiple benefits. Compared to TLC, risk charges may be higher, provider discounts lower, service more limited.

Only by actually soliciting such a program could one be sure what the offers would look like, but the profitability of this line of business and the dynamics of the Virginia market suggest that the General Assembly should not rely on this administrative arrangement as the single, certain solution to the problem of affordable coverage for students.

University as Employer

The administrative scheme here is totally market oriented. Each university procures the plan most suitable to its needs.

Association Plan

Between the approach of a statewide risk pool along the lines of TLC and the university as employer option, there is the possibility of constructing single plan open to all students of any school. This plan would be fully insured and procured by a central agency for the benefit of all students who wished to participate. It may not be dependent upon an employer contribution and assumes the students are the customers.

The plan would have a uniform benefit package and guaranteed coverage. Premiums most likely would be based on medical underwriting. An applicant would have to fill out a short questionnaire on health status. If the applicant's health status were anything but standard, an additional premium would be charged.

Although premiums could be paid directly by the student to the insurer, there would be material tax benefits if the premiums were deducted by the employer under the provisions of a cafeteria benefits plan. Using payroll deduction would also allow the university to subsidize the premium to the extent it desired.

Association plans may become expensive and ineffective. If the plan, for any reason, does not attract a good cross section of risks, a premium spiral develops. That is, a poor selection of risks leads to a loss for the insurer, which then raises premiums to stop losing money and perhaps recoup losses. This higher premium causes more of the standard risk participants to drop their coverage, leaving the pool at an even higher level of risk, resulting in another loss, etc.

## Recommendation

The most satisfactory administrative arrangement would be the market oriented approach with the university as the employer. If the universities conduct careful procurements and secure the best products available, this approach should result in effective coverage at reasonable costs tailored to the need of each university. There is no clearly superior administrative arrangement.

# APPENDIX A

## Appendix A
## HOUSE JOINT RESOLUTION NO. 232

*Requesting the Secretary of Education and the Secretary of Administration to study the various alternatives for providing graduate students and their dependents a means to purchase adequate and affordable health insurance.*

Agreed to by the House of Delegates, March 10, 1994
Agreed to by the Senate, March 8, 1994

WHEREAS, as the cost of health care continues to escalate it becomes increasingly necessary for individuals to secure adequate health insurance coverage; and

WHEREAS, the typical graduate student is an adult, no longer eligible for health insurance coverage through a parent or guardian but, while enrolled in school, not eligible for employer-provided health care coverage and without the resources needed to pay the high premiums required for individual coverage; and

WHEREAS, many graduate students are also married and have dependent children who require frequent immunizations and other health care services; and

WHEREAS, the Council of Higher Education in its September 1993 Report on Graduate Education recommended that alternative means for securing adequate health care coverage for graduate students and their dependents be explored because of concerns that some students may be forced to forgo their graduate studies rather than lose health care coverage; now, therefore, be it

RESOLVED by the House of Delegates, the Senate concurring, That the Secretary of Education and the Secretary of Administration be requested to study the various alternatives for providing graduate students and their dependents a means to purchase adequate and affordable health insurance coverage. The study should include, but not be limited to, an examination of the feasibility of establishing a statewide health insurance pool for graduate students and their dependents. The Secretaries shall also review the feasibility of revising current state personnel laws and regulations to allow teaching and research assistants who are part of the educational institution's staff to participate in the state employee health benefits program.

The Secretaries shall complete their work in time to submit their findings and recommendations to the Governor and the 1995 Session of the General Assembly as provided in the procedures of the Division of Legislative Automated Systems for the processing of legislative documents.

# APPENDIX B

**Appendix B**
Graduate Headcount Enrollments at Public Institutions
Fall 1993

| | Uncl Graduate | First Prof | 1st Yr Graduate | Advanced Graduate | Total |
|---|---|---|---|---|---|
| Christopher Newport University | 74 | 0 | 23 | 0 | 97 |
| Clinch Valley College | 0 | 0 | 0 | 0 | 0 |
| College of William & Mary | 262 | 535 | 1,028 | 441 | 2,266 |
| George Mason University | 1,417 | 680 | 4,864 | 989 | 7,950 |
| James Madison University | 249 | 0 | 792 | 68 | 1,109 |
| Longwood College | 225 | 0 | 188 | 0 | 413 |
| Mary Washington College | 0 | 0 | 58 | 0 | 58 |
| Norfolk State University | 599 | 0 | 441 | 0 | 1,040 |
| Old Dominion University | 1,954 | 0 | 2,586 | 587 | 5,127 |
| Radford University | 268 | 0 | 712 | 17 | 997 |
| University of Virginia | 2,804 | 1,693 | 3,037 | 1,424 | 8,948 |
| Virginia Commonwealth University | 1,438 | 976 | 3,549 | 564 | 6,527 |
| Virginia Military Institute | 0 | 0 | 0 | 0 | 0 |
| Virginia Polytechnic Institute | 0 | 317 | 4,695 | 1,891 | 6,903 |
| Virginia State University | 293 | 0 | 359 | 0 | 652 |
| TOTAL | 9,583 | 4,191 | 22,332 | 5,981 | 44,089 |

Source: State Council of Higher Education