

## HEALTH INSURANCE SUBCOMMITTEE

The following is a summary of the Health Insurance Subcommittee's first meeting held on Thursday, March 12, 2009. In attendance were committee members Sue Mahler (Chair), Steve Pace, Board member Julie Feasel, District Treasurer Becky Jenkins, District Director of Human Resources Gale Marsh, and guests Fritz Neuhart and Dan Shively from Joseph James & Associates.

Joseph James and Associates is a consultant and brokerage firm for health insurance. Some of their Central Ohio clients are Dublin School District, Worthington School District, Westerville School District, and Upper Arlington School District. They began working with Olentangy in 2007 to help evaluate the pros and cons of leaving the consortium.

The goal of the meeting was to determine if the Olentangy School District should pursue leaving their healthcare consortium.

The consortium (called CDMU) is made up of 9 area school districts. For many years, this consortium allowed nine smaller school districts to pool together to have the purchasing power of a large employer, which resulted in better rates and better predictability than each district would have been able to achieve on their own.

Here is the current situation:

- Each district gets one vote in CDMU business decisions.
- Olentangy's staff has grown significantly over the past ten years due to enrollment increases, which has resulted in the district now representing more than 50% of the current CDMU pool.
- Olentangy's staff average age is lower than the overall CDMU pooled staff. Younger staff generally is charged lower rates by health insurance providers. Due to this situation, Joseph James and Associates estimates that Olentangy's average monthly cost per contract is between 5% and 14% lower than the average monthly cost per contract that the District pays as part of the consortium. This means that the district is now financially subsidizing the consortium.
- Olentangy's staff is considered a large enough employer to get significant purchasing power benefits, if they choose to leave the consortium. Joseph James and Assoc estimates that the district could save approximately \$1,000,000 annually by being fully funded elsewhere.
- The CDMU voluntary withdrawal policy is as follows: *Any member district may withdraw from the Association by written notice to the Association, the insurance provider (if any) and all other district members at least sixty (60) days preceding the effective date of such withdrawal, which withdrawal date shall be the last day of that current fiscal year of the trust and shall become the effective date of withdrawal unless otherwise provided pursuant to the Trust Agreement. The fiscal year of the trust begins on September 1 of each year and ends on August 31 of the following year.*
- Leaving the consortium has the following costs associated with it:
  - Joseph James estimates that the district's terminal liability (ie, claims runoff) would cost the district approximately \$2.5 million

- The consortium retains a reserve. The consortium by-laws state that any district that leaves the consortium must also leave their share of the reserves. According to Becky Jenkins and Gale Marsh, this means the District would leave approximately \$3.5 million on the table. Even though the district would use legal counsel to aggressively challenge that stipulation, this “cost” should be considered in the decision.
- The district would most likely utilize a broker/consultant to not only assist with the change, but also assist with the management of the health insurance going forward. Examples of area school districts’ costs for this service include Dublin, which pays \$11-\$12 annually per contract and Westerville, which pays a flat annual fee of approximately \$85,000.

Based on this information as well as further analysis provided by Joseph James and Assoc, the subcommittee made the following recommendations:

- The district should pursue the option of leaving the consortium
- The district should request no less than two bids from health insurance consultants to do a market evaluation. The market evaluation should include an analysis of our current pool and current contract benefits and then request proposals from various insurance companies. This would allow the district to gain a better understanding of the potential financial benefits of leaving the consortium.
- Gale and Becky pointed out that Big Walnut School District pulled out of this consortium many years ago. The subcommittee recommended that Becky contact Big Walnut to understand their experience. For example, did their payback (defined as the time it takes to break-even on this change) match their expectations, what would they have done differently, and what suggestions might they have for Olentangy?
- Once the market evaluation has been performed, the subcommittee should reconvene to determine a recommendation for next steps.

The date for the next meeting has not been set.

Submitted on March 18, 2009 by Sue Mahler, Chair, Finance & Audit Committee