State Employe Health Insurance Plans Due Increased Benefits and Increased Premiums on August 1

Editor's Note: The State Employes' Benefit Board recently awarded new health insurance contracts for state employes to Blue Cross of Oregon and to the Kaiser Foundation Health Plan of Oregon. The contracts, which become effective August 1, provide for increases in both premiums and benefits. The OSEA News conducted the following interview relating to the state's health insurance plans with Insurance Manager Ralph Bolt shortly after the new contracts were awarded.

The OSEA News: We would like to begin the interview by asking you to list for us the total premiums collected and claims paid by each of the four health plans so far this year.

Bolt: We have those figures only for the three statewide plans—Plans I, II and III—and only for the first nine months of operation—from July, 1972 to April, 1973. The figures include both total premiums received and expenses incurred by each plan.

Here are the figures: Plan I received premiums of $176,137 and incurred expenses of $115,171. Plan II had $982,080 in premiums and $814,052 in incurred expenses. And Plan III received premiums totaling $4,019,469 and incurred expenses of $4,192,167. I should point out that premiums alone account for each plan's income. Incurred expenses include paid claims, reserves for future claims liability and administrative operating costs.

We do not have figures available for Plan IV because it is community rated rather than rated on the experience of an individual group. In other words, it is rated according to the claims experience of the entire community it serves rather than by the experience of a single group under the plan.

The OSEA News: What percentage of the state's employes are enrolled in each plan?

Bolt: A total of 29,902 employes currently are enrolled in all four plans. As you might expect, the majority of them—26,902 to be exact—are enrolled in the three statewide plans—Plans I, II and III—serviced by Blue Cross of Oregon. Of that number, 75 per cent are enrolled in Plan III, 20 per cent are enrolled in Plan II and 5 per cent are enrolled in Plan I.

There are only 3,000 employes enrolled in Plan IV, our group practice plan for employes who live and work in the greater Portland area. As you know, the carrier for that plan is the Kaiser Foundation Health Plan.

The OSEA News: Since the health plans have been in effect for less than one year, why did the State Employes' Benefit Board call for bids upon which to award new contracts for the plans July 1? Why didn't the board wait for another year when it would have had more experience upon which to base the bid specifications?

Bolt: Because the law directs the board to put the contracts out to bid every two years on odd-numbered years.

The OSEA News: How many insurance companies were asked by the board to submit bids on the health plans?

Bolt: The board asked a total of 54 companies throughout the country to bid on the plans. They included such giants in the insurance industry as the Equitable Life Assurance Society of the United States, Metropolitan Life Insurance Company, New York Life Insurance Company, the Prudential Insurance Company of America and a host of other large and not-so-large companies.

The board got the list of companies from Insurance Commissioner Lester Rawls. It included all insurance companies doing business in Oregon with more than one-half million dollars in annual premiums.

You must remember that our total contract for all four plans amounts to $10 million a year in gross premiums. It takes a good-sized insurance company to handle that much business.

The OSEA News: How many companies submitted a bid?

Bolt: Only four: Blue Cross of Oregon, Oregon Physicians' Service, Fidelity Bankers of Richmond, Virginia, and the Kaiser Foundation Health Plan.

Unfortunately, two of the bids had to be rejected. The bid submitted by Fidelity Bankers was incomplete and therefore could not be considered. The bid submitted by Oregon Physicians' Service was a good bid but was rejected because it included "usual and customary fees" for doctors. That would have substantially increased premiums.

Rejection of those two bids left Blue Cross of Oregon the only bidder for the three statewide plans and Kaiser the only bidder for the group practice plan. Those two companies were awarded the contracts.

The OSEA News: What in your opinion is the reason for such a low level of interest among the insurance carriers in four health plans that cover thousands of employes and generate millions of dollars in premiums?

Bolt: There probably are a lot of reasons why more companies didn't submit bids. I can only tell you some that I've thought about. First of all, insurance companies generally have had a poor experience with health insurance. It isn't the money maker that life and other types of insurance have been.

For that reason, many of the companies have underwriting rules which require life, disability and other forms of insurance to be bid along with health insurance. They won't bid on health insurance alone. Our mandate from the legislature, however, is to provide health insurance and that is what we asked the carriers to bid.

I believe another reason for the lack of bids can be traced to the liberal coverages provided by the state's health plans. For example, we provide coverage for treatment by "licensed practitioners," which includes chiropractors, osteopaths, chiropodists, naturopaths and religious healers in addition to medical doctors.

Our health coverage extends to sterilization, abortions, maternity benefits for women who do not have a spouse covered by the insurance, alcoholism, drug addiction, nervous and mental disorders, infant coverage at birth, coverage of pre-existing conditions and so forth. We also charge equal premiums to male and female employes.

The board included such liberal health insurance coverage in the bid specifications because that's the kind of coverage state employes told us they wanted. As a matter of fact, there are bills pending in the legislature right now to force all insurance companies doing business in Oregon to provide such kind of coverage. The State Employes' Benefit Board, in responding to the desires of state employes, has in my opinion pioneered in providing the kind of liberal health insurance coverage I've mentioned.

There's no doubt in my mind that this kind of insurance coverage scared some insurance companies and kept them from submitting a bid. Most of them simply do not have actuarial and underwriting statistics upon which to base premiums for such coverages. I think Blue Cross should be complimented for its willingness to grant the requests of employes by providing the coverage.

The OSEA News: We understand there will be an increase in premiums August 1 when the new contracts go into effect. Would you outline them?

Bolt: Sure, but remember the new rates do not include the state's $10 monthly contribution. As you know, the contract between OSEA and the Executive Department calls for the state contribution to go to $15 a month and further provides that any difference between the premium and the contribution may be applied to dependent coverage. As you also know, the contract presently is awaiting legislative approval. Employes may determine their cost by subtracting either $10 or $15 from the new premium rates. Here they are:

Plan I (Blue Cross). Employe now $8.06, will go to $12.36. Employe and spouse now $17.17, will go to $27.44. Employe and child or children now $15.21, will go to $23.00. Employe and family now $24.62, will go to $38.38.

Plan II (Blue Cross). Employe now $9.58, will go to $9.52. Employe and spouse now $20.49, will go to $19.92. Employe and child or children now $17.13, will go to $17.08. Employe and family now $28.78, will go to $28.20.

Plan III (Blue Cross). Employe now $13.43, will go to $14.88. Employe and spouse now $28.72, will go to $31.85. Employe and child or children now $25.44, will go to $28.61. Employe and family now $41.06, will go to $45.91.

Plan IV (Kaiser). One party now $14.27, will go to $15.71. Two party now $28.15, will go to $31.18. And three party or more now $40.73, will go to $45.43.

The OSEA News: We also understand there will be an increase in benefits. Could you briefly describe them?

Bolt: It's difficult to be brief when describing something as complicated as health insurance benefits, but I'll try. Employes should be aware that there will be benefit changes that affect all three plans serviced by Blue Cross and benefit changes that affect each individual plan serviced by both Blue Cross and Kaiser.

Here are the changes in benefits that will affect all the the plans serviced by Blue Cross—Plans I, II and III: (1) All unmarried dependent children between the ages of 19 and 24 will be eligible for coverage, regardless of whether or not the dependent child is a student. (2) Psychologists will be added to the list of health practitioners who may provide treatment. (3) A special maternity benefit which pays 80 per cent of expenses in excess of $700 will be added.

Here are the changes in benefits that will affect each individual plan: (1) In Plan I, a $50,000 major medical policy which pays 80 per cent after a $100 deductible will be added. (2) In Plan II, the basic maternity benefit of $150 has been removed. (3) In Plan III, a $300 supplemental accident benefit and emergency outpatient benefit at the hospital will be added. In addition, office calls, laboratory, x-ray and surgery benefits will be increased from $5 to $7 per unit, but the maximum annual benefit for out-patient treatment for nervous and mental conditions will be decreased from $500 to $300 a year.

The following benefit changes will be made in Plan IV: (1) Days of fully covered hospitalization will be extended from 111 to 180 days per condition. In addition, 185 days per condition will be covered at one-half the prevailing rate. (2) Payment classifications will be changed to read one party, two party and three party or more. (3) All family members do not have to be enrolled in order to qualify for maternity benefits. (4) All unmarried dependent children between the ages of 19 and 24 will be eligible for coverage, regardless of whether or not the dependent child is a student.

The OSEA News: Are the increased premiums a direct result of claims experience, or a result of increased benefits, or both?

Bolt: The increased premiums are the result of the increased benefits. Blue Cross submitted a bid for next year to maintain the present coverage at the present rates. However, employes indicated to the board that they wanted certain benefits changed. For example, employes told us they wanted greater doctor benefits both in and out of the hospital. They told us they wanted emergency out-patient benefits at the hospital. They indicated they wanted a supplemental accident benefit. And that is only a partial listing. To provide these new benefits, we had to increase premiums. Employes told the board they would pay more to get more.

The OSEA News: How was that accomplished? How did the board contact employes to learn whether or not they wanted increased benefits? Were any other opinions sought?

Bolt: We mailed two pretty comprehensive opinion surveys to 10 per cent of the state's work force. The surveys were sent to every tenth name on the state payroll. In addition, we received 600 letters from employes during the first six months of operation asking the board to revise the plans in certain ways. Those letters were tabulated in terms of the changes sought and the board tried to respond to them in drafting bid specifications for the new contracts.

The board tried to react to OSEA's desires as made known to us by General Council resolutions and contact with members of the Association's Board of Directors and staff.

Both members of the board and I met with the Personnel Officers Association and with individual personnel officers. I think those meetings gave us the feelings of both employes and management toward the health plans.

Finally, both Jack Danley (OSEA's Director of Insurance) and I attended numerous meetings of OSEA's local chapters and other employe groups throughout Oregon to talk to employes about the health insurance plans. I've talked to employes in Tillamook Salem, Klamath Falls, Medford, Bend, Astoria, Ontario, La Grande, Eugene, Newport—in nearly every area of the state explaining the present plans and getting feedback from employes as to what they wanted in the new plans.

The OSEA News: The premium increase we've talked about is effective August 1, 1973. What about 1974?

Bolt: The bid accepted by the board permits Blue Cross to raise its premiums a maximum of 18.2 per cent on August 1, 1974. The increase, if any, will be based upon the claims experience. Depending upon that experience, the increase could be less. However, it cannot be more. The 18.2 per cent is a guaranteed maximum.

The OSEA News: We understand the State Employes' Benefit Board made a decision not to rate each individual plan according to its claims experience, but rather to combine the claims experience of all the plans to help offset the loss of any individual plan. Can you tell us why that was done?

Bolt: In the beginning we had no collective health insurance experience for state employes as a group that we could draw upon. We had liberal benefits in the plans—some as a result of employe requests and some as a result of the law—for which insurance companies had very little or no actuarial experience upon which to base a bid.

The law passed by the legislature required the state's health insurance program to offer employes their choice of three statewide plans and a fourth plan for Portland area employes. That had a tendency to dilute enrollment in some plans and cause adverse selection to the carrier. In other words, employes with critical health problems enrolled for the plan that offered the greatest benefits.

For those reasons, the board agreed in the first year of the contract to permit the carrier to pool losses and surpluses for the good of all state employes. The board wanted employes to be treated as a family and not as three different groups. At the time the board was considering the new contract, it had only six months of experience to draw upon. The board was conservative in the first year and it took a conservative stance in the new contract.

The State of Washington after its first year of providing state employe health insurance experienced a 46 per cent increase in premium rates. The State of Nevada received no bids on its last contract. Other states have experienced similar problems. The board was concerned that it might not get any bids. By agreeing to pool losses and surpluses, we encouraged the few bidders we got.

The OSEA News: Why are the new health insurance contracts effective August 1 rather than July 1, 1973?

Bolt: The board knew the collective bargaining contract between OSEA and the Executive Department would become effective July 1 if approved by the legislature. Since pay for the month of July is not received until August 1, the board felt changes in benefit schedules could not be made until that date. To accomplish that, the board renewed the present contracts to expire one month later than originally planned.

The OSEA News: As the state's Insurance Manager, you work for the State Employes' Benefit Board. Will you name its members?

Bolt: I'd be happy to. Members of the board work long, hard hours with no pay except for expenses. The two legislative members, who are appointed by the President of the Senate and Speaker of the House, are Senator E. D. Potts (D-Grants Pass) and Representative Howard Cherry (D-Portland).

William G. Hughes, administrator of the Personnel Division, and Leander Quiring, director of the Department of General Services, are by law members of the board.

The governor has a representative. He is Guy Frazier, director of personnel for Tektronix in Beaverton.

There are four employe representatives, all appointed by the governor. They are Jack Danley, staff benefits officer for Oregon State University in Corvallis; Carl R. Hobson, assistant personnel director for the Highway Division in Salem; William P. Holtsclaw, area director for the Department of Forestry's Eastern Oregon District in Prineville; and M. Keith Putnam, assistant administrator for the Public Welfare Division in Salem.

The OSEA News: If you were given the opportunity to say something to employes about the state's health insurance program, what would you say?

Bolt: I would tell them exactly what I've been telling OSEA chapters across the state. And that is this: the State Employes' Benefit Board has attempted to buy for employes the health insurance program they want within the bounds permitted by law.

I would tell them about the results of the opinion surveys and I would tell them of the board's reasoning in arriving at decisions. I would tell them how young employes want certain benefits, and how middle aged employes want other benefits, and how older employes want still other benefits. I would tell them of restrictions set forth in the law and how the board tried to develop the best insurance plans for the greatest number of employes.

I would tell them of the sky-rocketing costs of medical care and how those costs are reflected in premiums. I would tell them how difficult it is to satisfy the health insurance needs of nearly 30,000 individuals who live and work in every area of the state, and that the State Employes' Benefit Board has spent many long and difficult hours attempting to do just that.

And I would tell them if they are not satisfied with the state's health insurance plans to write either the board or me. Their opinions are wanted and will be taken into consideration in drafting bid specifications for future health insurance contracts.

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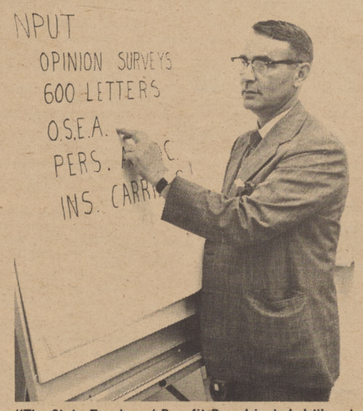

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