



TOTAL COMPENSATION APPROACH BRINGING IMPROVED BENEFITS

BY JEFF WELLS
DPA EXECUTIVE DIRECTOR

This past legislative session was a pretty good one for state employees. The legislature passed a state budget that provides a \$47 million increase in employee compensation. When Governor Owens signed the budget, commonly called the Long Bill, he brought to an end an uphill battle we had been fighting since early November 2003. As you may remember, I recommended to the legislature's Joint Budget Committee (JBC) that the State provide salary increases based on the Annual Compensation Survey and for pay for performance awards, along with an increase in the amount the State contributes for group benefit plans. Working with the General Assembly and the Governor's Office of State Planning and Budgeting we were able to provide funds for each of these three areas of total compensation for the 2004-05 fiscal year budget.

Salary ranges for all nine occupational groups will be adjusted for the new fiscal year to reflect the results of the Annual Compensation Survey, and to maintain market competitive salary ranges.

The General Assembly appropriated \$26.1 million to provide all employees, except those evaluated as "needs improvement" (Level 1), a 2% salary increase. After a year of no effective cash compensation increases, I felt it was important to provide such an increase for all employees who meet performance expectations. These funds will also be used to bring those employees that fall below their new range minimum up to their adjusted range minimum.

Additionally, \$13.7 million was set aside for performance based pay increases, allowing the State to reward and encourage its high level performers. In order to provide statewide consistency in payouts and to accommodate the various department's budgets, I have provided agencies the following ranges for setting their performance salary increases:

July 1, 2004 Percentage Ranges for Performance Levels

Level 2		Level 3		Level 4	
Low	High	Low	High	Low	High
0.0%	1.0%	0.5%	2.0%	1.5%	5.0%

My grandmother used to tell me to look for the silver lining in problem areas. Because of budget shortfalls last year the legislature was unable to fund increases based on the annual compensation survey. However, even without funding, the pay ranges were increased based on competitive market levels as reported in the survey. The silver lining is, that virtually 100% of the workforce will now be able to accept their performance awards as a base building salary adjustment.

The Long Bill also provides \$8 million to be used to increase the amount the State contributes to employee health, life and dental benefits. Below is a chart that compares the new monthly total contribution levels for health, life and dental, which will begin January 1, 2005, to current total levels. This continues the commitment of the Administration and DPA to close the gap between State contributions to employee benefits and prevailing practices in both the private and public sectors.

Tier	Calendar Year 2004	Calendar Year 2005
Employee Only	\$173.92	\$199.00
Employee Plus One	\$250.39	\$324.44
Family	\$344.33	\$440.97

Our State has weathered some difficult financial times these past few years and it has been the employees that have carried much of that burden. State employees face demands all the time in the form of new changes, new challenges, and new expectations. How you have responded to all the changes and ever-rising expectations is something in which the State can take a lot of pride. Thousands of Coloradoans benefit every day from your being there. This year's budget reflects our and Governor Owens' commitment to those employees that have continued to serve our state's citizens through these difficult times.

Working to Improve the State's Group Benefit Plans

Three straight years of double-digit premium increases, higher copays and deductibles, and dwindling choice have many employees wondering: What are the state's benefits professionals doing to improve our benefits? While the state's Employee Benefits Unit cannot control the medical economics and state workforce demographics that have driven our current situation, a number of ways exist in which we are working to improve the state's plans.

Improving the state's contribution to group benefits plans

Much has been reported in the past about how the state's contribution to group medical plans lag the market. Through the Total Compensation Act and our continued advocacy for competitive group benefits plans, the General Assembly allocated \$8 million in new funds toward its contributions to group plans (detailed by DPA Executive Director Jeff Wells on the previous page).

These new monies will help stem the increasing financial burden on employees, but more money alone will not change the trends driving the costs of medical economics: increased demand and cost of technology, the aging population and workforce, and the cost of and demand for prescription drugs. Nor will more money change the move away from managed care toward consumer-driven health plan options, options that continue to shift costs and responsibilities away from the group and to individual users.

Changing statute to improve our purchasing power

When the state chose to end its former self-insured program and enter the private market in 1999, many Health Maintenance Organizations (HMOs) were pricing plans to gain market share. The state's business was a hot commodity, and companies priced their plans below cost to gain our business.

The health insurance market has significantly changed in the last five years. Most of Colorado's regional HMOs who were in business back in 1999 are no longer in business, and many of the HMOs still around cannot afford to do business with the state. In recent years, the statutory requirement for two HMOs in every county hampered the state's ability to negotiate the best deals for state employees. This requirement was removed from statute in the legislative session that just ended. In addition to the \$8 million in new funding and removing the two HMO requirement, the Employee Benefits Unit has been investigating a number of ways to improve the benefit plans themselves.

Analyzing a return to self-funding

For a couple of years, DPA has been considering the

possibility of returning the state's group medical and dental plans to self-funding. When the idea was floated in 2002, employees became concerned over being charged an additional \$10 fee to build a reserve fund. This spring, a team of consulting actuaries, agency representatives and DPA professionals formulated a plan to return to self-funding without charging employees an additional fee. While details are still being worked out, the approach has garnered support from state departments and initial success in negotiations with Delta Dental.

A clause we recently added to our contract with Delta Dental allowed the state to return the dental plan to self-funding at any time. The self-funding team saw dental coverage as a good transitional start toward self-funding medical plans. The risk is relatively smaller and internal systems are in place to manage self-funded dental coverage. When we approached Delta Dental, they offered us a 10% rate reduction if we would delay the move to self-funding a little longer. In consultation with our actuaries, we determined that the rate reduction would save the dental plans almost the same amount of money in the short run without any of the self-funding risk.

Taking the 10% rate reduction effective May 1, 2004 and setting those savings aside will allow us to build a modest contingency reserve to help foster a possible return to self-funding of both our dental and medical plans. Had we returned to self-funding Dental immediately we wouldn't have seen such savings until we moved past the early self-funding risk. Offering the reduction to employees would have required a burdensome open enrollment for the short remainder of the 2004 plan year, the costs of which would have eaten into the savings. Our intent is to give the savings back to participating employees through enhancements in the benefit structure. Such enhancements may include improving the orthodontic benefit and the annual maximum benefits. While some may disagree with these choices, we feel strongly that this approach is part of a sound long-term strategy to improve benefits for state employees.

Many current employees were here when the state was previously self-funded, and we have heard from agency representatives that employees have high hopes for improved benefits at less cost through self-funding. It is important to remember, however, that prices have increased over the past five years, and a return to self-funding will NOT provide cost savings in the short-term. Self-funding will give us greater flexibility and control, and through proper management of the plan, it should lead to more choices and better options.

Please see *Improving Plans* page 3

Why Does My Neighbor Have Better Rates and Plans?

The Employee Benefits Unit often hears the following types of questions: "Why does my neighbor pay only \$20 a month, with no deductible, for her insurance?" or "Why does my wife's company pay for all of her insurance, and she only has \$10 co-pays?" These are certainly valid questions, but to adequately understand the answer, it is extremely important to understand the reasons behind these differences.

How much does the employer contribute to their group medical plans?

It is no secret that most employers' contributions to their group benefits plans exceed the state's. Even with the additional \$8 million allocated this year, the state contributes, on average, around 37% less than comparable employers. While most employers nationwide are struggling with a fourth straight year of double-digit increases and, more often than not, passing the costs on to employees, state employees are bearing a larger portion of the burden than colleagues at comparably sized companies.

What are the demographics of the workforce?

The average age of the state worker is nearly 46, and not only is the state workforce older on average, but it is also geographically dispersed, with employees in every county in the state. Comparing our rates and plans to a company with employees only in Denver or Boulder or

Grand Junction, really is comparing apples to oranges. Some counties have higher insurance costs than others, just as some states have higher rates than others. These costs vary with numbers of hospitals or doctors, cost of living factors that drive rates, and the general health of a regional area. DPA has made a commitment not to carve out the areas that may disproportionately drive up rates for all of us.

What are the utilization rates of the workforce?

How a group uses its medical plan directly affects what they pay in following years. The latest technologies and marketed prescription drugs come at a price. Our older workforce has had consistently high utilization rates. Those of us on the high-deductible plan have learned to question needs and costs.

The next time you hear of another employer's health plan and its low cost or its superior coverage, ask yourself: How much does the employer contribute? What are the characteristics of the company's workforce? What does the plan cover? Is it a small group? Is it younger and healthier? Is there a high rate of turnover, especially with younger employees? Is the coverage limited? If the plan truly is less expensive, has lower co-pays or has better benefits, chances are the answer is "yes" to one or more of these questions.

Improving Plans from page 2

Leveraging new tax-advantaged products

As the market moves toward more consumer-driven models, the federal government is seeking ways to empower individuals to save for health expenses through tax-exempt Health Savings Accounts (HSAs). HSAs are designed to work with high deductible medical plans and enable individuals to have an additional means to save for medical expenses.

The Employee Benefits Unit is aggressively seeking ways to incorporate a high deductible health plan that is HSA eligible. All employers are awaiting further guidance from the feds to help them develop HSA eligible plans, but it is our intent to make an HSA eligible plan available to employees as soon as possible, but no later than January 1, 2006.

Promoting the importance of wise consumer decisions

We have continued our work on Consumer Health Choice, an integrated, three-to-five-year program designed to inform employees about the direct link between wiser consumer health care choices and the bottom line costs of these choices. Whether it's choosing a generic drug equivalent, avoiding the emergency room

except for true emergencies, properly managing long-term illnesses such as diabetes, or committing to living more healthfully, **our choices as health care consumers have the greatest impact on the cost and value of our health plans.**

We hope to provide our employees with the self-service tools to manage their benefit options online anywhere, anytime. The first step was last year's online open enrollment, which helped us avoid over \$120,000 in printing and mailing costs. We are working to improve the system based on lessons learned from last year and will use additional feedback gleaned from a recent survey. Soon, we hope to have the system "on" continuously, allowing employees to view their choices, access information, and make eligible changes or enrollment decisions year round.

The challenges and issues of the health care industry are great. As citizens, as employees and as people who need health care, we cannot avoid them. The Employee Benefits Unit is continually working to improve what we can and minimize the impact of factors we cannot control. With employees doing their share by becoming wiser consumers of health care, together we will improve the state's health plans.

Department of Personnel & Administration
Division of Human Resources
Benefits Unit
1313 Sherman Street, Rm. 114
Denver, Colorado 80203

When Will I Get My 2005 Rates?

DPA understands how important 2005 health plans and rate changes are to employees, and we are committed to supplying you with this information as soon as possible. We are planning to publish a summary of plans and rates in the *Healthline* Newsletter, which will be mailed in early September.

Why early September?

Proposals for existing contract renewals and proposals based on RFPs for redesigned plans are due from vendors July 1. State benefits professionals and contracted private health care experts will review all proposals and make their recommendations to the DHR Management Team and DPA Executive Director Jeff Wells.

Jeff Wells and the DHR Management Team will take approximately five to six weeks to review the recommendations and proposals, and negotiate final rates and terms with vendors. Final 2005 plans and rates will be agreed upon by the end of August and distributed in *HealthLine*.

The DHR Employee Benefits Unit is providing department benefits administrators with the most current information we have available. We encourage you to speak directly with your department's benefits administrator with any questions or concerns you may have about your medical insurance options, the health care issues we are all facing, as well as any other state employee health care concerns. Your department benefits administrator can also explain how we are working to bring you affordable health plans for 2005 and beyond.

DHR is also here to help you. You can find answers to the most frequently asked health care questions as well as continually updated information at www.colorado.gov/dpa/dhr (under "Benefits"). In addition, you may contact us with your questions and concerns via email at benefits@state.co.us or by calling the **Benefits Hotline** at **303-866-3434** or **1 800-719-3434**.

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