BOARD APPROVED
August 7, 2020
Janice Indrutz
Corporate Secretary

PURDUE UNIVERSITY Office of the Chief Financial Officer and Treasurer

To: Members of the Board of Trustees

Fr: Christopher A. Ruhl, Chief Financial Officer and Treasurer
Candace Shaffer, Senior Director, Benefits

Date: July 27, 2020

Re: Approval of 2021 Medical Plans

Background
Effective January 1, 2014, the University redesigned its medical plans to offer two consumer-driven health plans with health savings accounts (HSA 1 and HSA 2) and one traditional preferred provider organization (PPO) plan. All plans are self-insured and funded by the University and employees. As of December 31, 2019, the three plans covered approximately 25,000 employees, spouses and dependents. Eighty four percent (84%) of employees participate in the two consumer-driven health plans. Relative to cost share there are two key metrics. One measures total plan costs, including employee out-of-pocket expenses. For 2020, the University will cover 73% of total costs, with active employees and early retirees funding the remaining 27%. The other metric excludes out-of-pocket costs and compares share of total premiums paid. In 2020, across all three plans, the University will fund 88% of total premiums, active employees 10% and early retirees 2%.

Plan design changes in 2015 and 2016 added several benefits, including preventive dental, bariatric surgery and full autism coverage for all employees and their dependents. The University established a wellness program in 2018, providing additional monetary incentives to encourage employees to engage in healthy activities and complete educational programs. Also in 2018, the University moved to CVS Caremark as its pharmacy benefits manager generating substantial cost savings to the plans.

Total costs grew from $155 million in 2014 to $180 million in 2017. This $25 million increase was borne by the University as premiums and out-of-pocket expenses paid by employees remained flat over that period.

Starting in earnest in 2018, the University has undertaken a series of aggressive cost containment measures to mitigate cost increases. Those initiatives include contracting with MACL to perform laboratory tests, offering imaging services at the Purdue Student Health Center, implementing diabetes management programs, prescription and cancer concierge services, moving pharmacy benefits administration to CVS, establishing a narrow network tiered offering and negotiating direct agreements with specific providers to drive lower costs and higher quality care. Additional changes were made to the University medical plans, including employee premium increases and a new spousal premium tier, plan design changes (increased deductibles and making a portion of HSA contributions contingent upon completing certain activities) and modifications to the formulary for prescription drugs. The University also identified additional annual administrative cost savings such as eliminating the administrative vendors that do not provide value, consolidating external consulting services, moving to cost efficient vendors for various healthcare services and renegotiating the University's medical TPA agreement.

During 2020, amidst the global pandemic, we continue to make progress on numerous longer-term strategic initiatives to address the underlying drivers behind increasing costs. We announced a new partnership for orthopedic services and for imaging/radiology that will provide high quality, cost efficient services while reducing per unit costs. Other RFPs are under consideration, including physical therapy and specialty prescription carve out. We continue to actively participate in a project undertaken by the Greater Lafayette Chamber in partnership with local employers to address hospital prices in the Lafayette market. Discussions continue on the idea of Purdue partnering with strategic providers to build health care facilities on campus.

As a result of all of these measures, the rate of growth in medical costs has been slowed. 2020 total costs are projected at $185M, flat vs 2019.

2021 Medical Plan Strategy
We are recommending a series of changes for 2021 as part of the multi-year plan to (1) improve population health, (2) control overall costs and (3) achieve the Board target of a 70/30 cost share.

Recommendations to take effect January 1, 2021 include:

- Eliminating the PPO plan in favor of a third consumer driven health plan (CDHP). Savings are estimated at $1.6 million. As part of the 2020 medical plan approval, we announced the sun-setting of the PPO plan, effective January 1, 2021.
- Front load Purdue's health savings account contributions, as a one-time effort to support the transition to full offering of CDHPs to all Purdue employees.
- Continue to provide vision coverage to employees but remove its dependency to the medical plan. This de-coupling will allow employees more flexibility and ensuring those who need vision coverage are provided the option. For 2021, the University will fund 100% of the standalone vision premiums. We anticipate an employee cost share over time, similar to dental plans.
- Enhance the dental voluntary plan to match benchmarks based on recent review of other universities and employers. This change is a direct result of feedback from stakeholder groups (MaPSAC, CSSAC, University Senate). Any additional costs will be paid by employees enrolling in the voluntary plan.
- Continue and increase carving-out the utilization management of specialty drugs, total hip and knee replacement steerage and implement a direct agreement for physical therapy. Savings are estimated at $1.5 million.
- Increasing premium rates for early retirees by 5%. Approximately 300 early retirees are on the medical plans. Collectively their claims exceed premiums by over $1 million. Our intent is to reduce this subsidy over time. Savings are $0.085 million.
- Establish a new eligibility rule for enrollment into the pre-65 retiree medical plan. Employees hired on or after January 1, 2021 will no longer be eligible to enroll in the pre-65 retiree plan. No current employee will be impacted by this rule.
- Transition from MetLife to Voya the administration of three voluntary benefits programs saving employees and their families an average of 10%.
- Reduction in life and AD&D rates per early renewal of Securian contract. Savings are $0.1 million.

Collectively, these recommendations are expected to produce an annual savings of $3.4 million to the medical plans when fully implemented. Many of these recommendations will provide savings directly to our employees, including the front load of Purdue contributions into employees' health savings accounts, continued carve-out of specialty Rx direct provider agreements, vision coverage and voluntary benefits rate reductions. Those savings are estimated at $1.4 million which are in addition to the $3.4M.

We request your approval of the proposed 2021 Medical Plans during the August Board of Trustees meeting.