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## PENNFLEX

### Exploring Flexible Benefit Options for Penn Faculty and Staff

Approximately three years ago, the University began to study the feasibility of offering more flexible options in the benefit plans for faculty and staff. Members of the Office of Human Resources/Benefits have worked in consultation with the University Council's Personnel Benefits Committee and the actuarial firm of Tillinghast Nelson and Warren, Inc., to develop a set of specific objectives and to design a proposed PENNFLEX plan.

In addition to consultations with the Personnel Benefits Committee, open presentations on the concept and various aspects of flexible benefits have been made at meetings sponsored by the A-3 Assembly, the A-1 Assembly, the Association of Business Administrators and the Human Resources Council during the past several months.

To date, the Personnel Benefits Committee has reviewed and endorsed the PENNFLEX concept and has endorsed specific objectives and guiding principles, these are:

- Offer basic "core" benefits that provide at least minimum protection in the event of illness, death, or retirement.
- Allow faculty and staff to continue present benefit coverage.
- Give participants the opportunity to select additional benefits beyond the core that best meet their needs.
- Sponsor an overall program that is both competitive and attractive.

- Offer tax-sheltering opportunities to participants.

- The program should provide a "core" of benefits and a series of credits that could be:

- a. converted to cash if the core level of benefits is considered adequate by the participant,
- b. used to "purchase" the present level of benefits at an out-of-pocket cost roughly equivalent to the participant contributions existing just prior to enactment of the new program,
- c. applied towards the purchase of benefits in excess of those presently provided.

#### Why use PENNFLEX?

A single person with no dependents may not need as much life insurance as the current plan allows and would prefer to apply flexible credits toward something else, or,

A faculty or staff member with health insurance available through a spouse might select the Comprehensive Plan in place of the current plan; or, if the spouse's coverage is full, the faculty or staff member might waive coverage completely and receive flex credits, or,

A married faculty or staff member with several dependents might decide to increase insurance coverage to the maximum under PENNFLEX! In any case, the individual could use available tax-sheltered flex credits to pay for the additional coverages, fund reimbursement accounts, move unused credits into supplemental retirement annuity plans, or convert the credits to cash. That's what flexibility is all about.

- Savings derived from core program will be passed on to participants through credits.

- The program should take advantage of existing tax-sheltering opportunities with the knowledge that much of the favorable tax treatment surrounding employee benefits is on the Treasury's "hit list".

- The program should not provide so many options or be so complex as to (i) result in costly adverse selection, (ii) be unduly burdensome to administer, or (iii) cause communication and enrollment problems.

Upon the recommendation of the Personnel Benefits Committee, the University implemented tax-sheltering of subscriber contributions to health and dental plans effective in June, 1985.

Effective January 1, 1986, a tax-sheltered Dependent Care Expense Account plan was implemented under the umbrella of the "cafeteria benefits plan" section of the tax code which applies to flexible benefits plans like PENNFLEX.

The material on the following pages describes the PENNFLEX features that continue under discussion for implementation in the future.

These features include the proposed addition of 1) a comprehensive health plan option, 2) flexible options for group life insurance coverage and 3) development of a tax-sheltered medical expense reimbursement account option.

## I. Comprehensive Health Plan Option

Flexible benefit programs typically include a comprehensive health insurance plan among the options offered to participants. The University presently offers faculty and staff a choice of Blue Cross/Blue Shield-100/Major Medical insurance (BC-BS 100) or participation in any one of six health maintenance organization (HMO) plans. Choice of a plan may be exercised once each year during the "open enrollment" period in April.

PENNFLEX would add a *Comprehensive Health Plan* to the existing range of choices that could be exercised during the annual open enrollment period.

In the chart displayed on the following pages, features of the proposed Comprehensive Health Plan are compared with those of Penn's current health plan options. Although the comparison chart shows HMO plans along with the BC-BS 100 Plan, the discussion in the paragraphs below will highlight differences between the proposed Comprehensive Plan and Blue Cross-Blue Shield 100. It is important to recognize that the Comprehensive Plan is a service insurance and reimbursement plan as is Blue Cross-Blue Shield. HMOs on the other hand are essentially direct providers of care rather than primarily medical expense insurers.

The Comprehensive Health Plan differs from the more traditional kinds of health insurance in several important respects:

Premium rates would be lower (about 20% lower than the Blue Cross-Blue Shield 100 Plan).

Lower premiums are achieved by having a deductible (similar to the concept of deductibles on home or auto insurance) and copayments (meaning a covered individual pays a portion of medical expenses).

Typical deductibles are \$200 per person (\$400-\$600 aggregate maximum per family).

*(continued on p. D)*

# Health Insurance and Health

Benefit Plan Name	PENNFLEX Comprehensive Health Plan	Blue Cross/Blue Shield 100/ Major Medical	Philadelphia Health Plan
Abbreviation	PENNFLEX	BC/BS/MM	P.H.P.
Type of Plan	Catastrophic coverage for hospitalization, medical, surgical services. Plan pays 80% of all covered expenses after a \$200 annual deductible is met (\$400 family maximum annually), and 100% of covered expenses that exceed \$5,000. Out-of-pocket payments for all covered expenses listed below can be applied toward meeting the annual deductibles. Coverages subject to deductibles and coinsurance are identified by • symbol.	Hospitalization, medical, surgical service and major medical insurance	**GPP
Service Area and Emergencies	Guaranteed benefits in any approved hospital—services of any physician up to UCR***	Guaranteed benefits in any approved hospital—services of any physician up to UCR***	5 Delaware Valley Counties and Burlington, Camden and Gloucester Counties—Emergency treatment anywhere covered in full
Inpatient Hospital	• Unlimited days, semi-private room.	Up to 120 days, semi-private room with \$5/day co-payment for first 10 days	No maximum limit
Outpatient Treatment	Covered in full at hospital within 72 hours of accident or medical emergency. Home health care covered in full. <i>No deductibles or coinsurance required.</i>	Covered at hospital within 72 hours of accident or med. emergency—\$5 co-payment	Covered in full
Physician Visits: Hospital Office	• Covered up to UCR*** • Covered up to UCR***	Covered in full 80% covered Maj Med, \$100 deducted	Covered in full Covered in full
Home	• Covered up to UCR***	21 visits covered if applicant subscriber is totally disabled, \$25 deducted	Covered in full
Physician Care: Surgery	• Covered up to UCR*** • Outpatient surgery covered at 100% UCR***	Covered up to UCR***	Covered in full
Anesthesia Consultants	• Covered up to UCR*** • Covered up to UCR***	covered up to UCR*** Covered up to UCR***	covered in full Covered in full
Laboratory X-ray Cardiogram	Covered up to UCR*** for diagnostic purposes only. <i>No deductibles or coinsurance required.</i>	Covered in full for diagnostic purposes only	Covered in full
Maternity	• Covered up to UCR***	Covered up to UCR***	Covered in full
Preventive Medicine, Physical Exam	Not covered	Not Covered	Covered in full
Eye, Ear Exams	Not covered	Not covered	Covered including refractions hearing aids and glasses not covered
2nd Surg. Opinion for Specific Proc.	Covered up to UCR*** <i>No deductibles or coinsurance required.</i>		
Mental Inpatient: Hospital Physician	Coverage for 30 days. After 365 days, the 30 days are renewed. Maximum coverage limited to \$100,00 lifetime, including coverage for outpatient care	Coverage for 30 days. After 365 days, the 30 days are renewed	30 days per Benefit Year 30 days per Benefit Year
Mental Outpatient: Physician	Up to 50 visits per year, \$25.00 per visit. Maximum coverage limited to \$100,000 lifetime, including coverage for inpatient care	Up to 50 visits per year, \$12.50 per visit	20 visits per year—first 3 visits covered in full. Next 17—\$10 co-pay per visit
Dependent Definition	Spouse and unmarried dependent children to age 19 or to age 23 if a full time student	Spouse and unmarried dependent children to age 19 or to age 23 if a full-time student	Spouse and to age 19 or to age 23 if a full-time student
Monthly Rate/Single	Approximately 80% of BC/BS Rate	\$ 68.93	\$ 65.03
University Contr. (Full-Time F/S)	Same as rate for BC/BS 100 Plan	53.13	53.13
Subscriber Contr. (Monthly)	May be paid in part with PENNFLEX credit or cash	15.80	11.90
Monthly Rate/Family	Approximately 80% of BC/BS Rate	200.33	180.13
University Contr. (Full-Time F/S)	Same as BC/BS 100 Plan	145.63	145.63
Subscriber Contr. (Monthly)	May be paid in part with PENNFLEX credits or cash	54.70	34.50

\*Prepaid Individual Practice Association (IPA)—contracts with private physicians' offices located in the community. Medical care is provided in the physicians' own offices.

\*\* Prepaid Group Practice Plan (GPP)—a team of personal physicians and medical professionals practice together to provide members with medical care in a multispecialty medical center.

# Maintenance Plan Comparison Chart

HealthAmerica	Health Maintenance Organization of Pennsylvania/New Jersey		Delaware Valley HMO; Greater Delaware Valley Health Care, Inc.	Health Care Plan of N.J.
	H.M.O. of PA/NJ		Delaware Valley H.M.O.	H.C.P. of NJ
**PGPP	*IPA		*IPA	**PGPP
5 Delaware Valley Counties in PA, plus parts of NJ Emergency treatment anywhere—Covered in full	5 Delaware Valley counties and 2 Lehigh Valley counties in PA., 8 counties in New Jersey. Emergency treatment anywhere covered in full after \$15 co-pay.		Delaware County, Philadelphia County, contiguous areas Montgomery and Chester counties. Emergency treatment anywhere—\$15 co-pay.	Burlington, Camden, and Gloucester Counties. Emergency treatment anywhere covered in full
No maximum limit	No maximum limit		No maximum limit	No maximum limit
Covered in full	Covered in full. \$5 co-payment for physician services in emergency cases		Covered in full	Covered in full
Covered in full	Covered in full		Covered in full	Covered in full
Covered in full	Covered \$2 co-pay per visit		Covered \$3 co-pay per visit	Covered in full
Covered in full	Covered \$5 co-pay per visit		Covered \$5 co-pay per visit	Covered \$5 co-pay per visit
Covered in full	Covered in full		Covered in full	Covered in full
Covered in full	Covered in full		Covered in full	Covered in full
Covered in full	Covered in full		Covered in full	Covered in full
Covered in full	Covered in full		Covered in full	Covered in full
Covered in full	Covered in full		Covered in full	Covered in full
Covered including refractions. Hearing aids and glasses not covered.	Covered including refractions. Hearing aids not covered. \$35.00 allowed for contacts or eyeglasses.		Covered including refractions for all ages. Hearing aids not covered. \$50 allowed for eyeglasses or contacts.	Covered including refractions (\$5 co-pay). Hearing aids and glasses not covered
N/A	N/A		N/A	N/A
45 days per year	35 days per year		30 days per year	30 days per year
45 days per year	35 days per year		30 days per year	30 days per year
30 visits per year first 3 visits covered in full. Next 27—co-pay \$10 per visit	20 visits per year. 2 visits no co-pay, next 3-10—\$10 co-pay. Next 10—\$25 co-pay		20 visits per year. 1-3 no co-pay, 4-10 25% co-pay, 11-20 50% co-pay	20 visits per year. first 10—no co-pay, next 10—\$10 co-pay
Spouse and unmarried dependent children to age 19 or to age 23 if a full-time student	Spouse and unmarried children to age 19 or to age 23 if a full-time student		Spouse and unmarried dependent children to age 19 or to age 23 if a full-time student	Spouse and unmarried dependent children to age 19 or to age 23 if a full-time student
\$ 60.98	(PA) \$ 66.40	(NJ) \$ 62.20	\$ 68.90	\$69.45
\$ 53.13	53.13	53.13	53.13	53.13
\$ 7.85	13.27	9.07	15.77	16.32
\$ 177.45	181.60	157.00	192.93	185.42
\$ 145.63	145.63	145.63	145.63	145.63
\$ 31.82	35.97	11.37	47.30	39.79

\*\* Prepaid Group Practice Plan (GPP)—a team of personal physicians and medical professionals practice together to provide members with medical care in a multispecialty medical center.

\*\*\*Usual, Customary, or Reasonable



## Comprehensive Health Plan Option *(continued from p. A)*

The deductible would apply no more than once per year.

The Comprehensive Plan would pay 80% of covered expenses in excess of the deductible and 100% once covered expenses exceed \$5,000. In other words, the maximum out-of-pocket expense for a covered member would be \$1,160 per year (the \$200 deductible plus 80% of \$4,800). Under the present plan the maximum out-of-pocket expense is \$2,100.

The Comprehensive Plan does, however, provide 100% reimbursement, without deductibles for certain services, such as home health care when prescribed in lieu of hospitalization. The plan also pays 100% of usual, customary and reasonable (UCR) fees for second opinions of elective surgery. There is no maximum dollar limit on the amount of covered medical, surgical or hospitalization expense that may be reimbursed under the Comprehensive Plan.

There is no limit on the total number of hospital days covered under the Comprehensive Plan whereas the Blue Cross-Blue Shield

100 Plan covers only the first 120 hospital days per year. Under the Blue Cross-Blue Shield 100 Plan, hospital charges for care in excess of 120 days would be transferred as claims under Major Medical insurance which is subject to a \$100 deductible and 20% copayment on the first \$10,000 of additional covered expense.

Both the Comprehensive and the Blue Cross-Blue Shield 100 Plans have special limitations on coverage for mental care. However, both the outpatient service allowances and lifetime maximum are greater under the Comprehensive Plan than under the Blue Cross Major Medical Plan.

The complete health plan comparison chart found on the following two pages may be used to compare your current health plan with the proposed PENNFLEX comprehensive health plan option. Please note that Penn's contribution to the Comprehensive Plan would be the same as for the Blue Cross-Blue Shield 100 Plan and the HMO plans. The design of the Comprehensive Plan aims at bringing the premium

rate to about 80% of the rate for the BC-BS 100 Plan. This will produce a saving for Comprehensive subscribers which may be applied as flexible benefit credits toward the funding of other benefit options such as additional life insurance, funding of tax-sheltered medical expense reimbursement accounts, dependent care reimbursement accounts, supplemental or retirement savings. Flexible credits could also be converted to cash. When cash is taken in lieu of the benefit, the full range of federal, state and local tax would apply to the amount received in cash by the flex plan participant.

As you look at the chart and compare the features of the Comprehensive Plan with the University's other options, keep in mind that the estimated premiums, the amounts of the single and family deductibles and the \$5,000 copayment maximum are design objectives recommended by our consulting actuary. The actual amounts will be determined on the basis of premium rate quotations by the insurance carrier.

## II. Group Life Insurance—Flexible Options

At present, Penn's life insurance plan provides eligible faculty and staff with life insurance based on an individual's age and a multiple of his or her base salary.

For example, the plan provides individuals under age 36 with insurance equal to four times salary. At age 50 through 64, the plan provides insurance amounting to two and one half times salary.

Under the PENNFLEX Plan, an individual could either decrease or increase the amount of his or her life insurance according to expected needs.

If a lower insurance amount were selected, the individual would receive flexible credit to apply toward other benefits or to convert into cash, subject, of course, to applicable taxes. Faculty and staff would also have the option to purchase supplemental life insurance over and above what is currently provided by the University in the present plan. The example that follows, using a participant earning \$30,000, illustrates the three options proposed in the PENNFLEX plan.

Age	Option 1 (Basic)		*Option 2 (Current)		Option 3 (Maximum)	
	Amount of Insurance	Monthly Credit	Amount of Insurance	Monthly Credit	Amount of Insurance	Monthly Charge
35	\$30,000	\$ 4.50	\$120,000	0	\$150,000	\$ 1.50
35-39	30,000	5.25	105,000	0	150,000	3.15
40-44	30,000	9.00	105,000	0	150,000	5.40
45-49	30,000	12.00	90,000	0	150,000	12.00
50-54	30,000	13.50	75,000	0	120,000	13.50
55-59	30,000	18.00	75,000	0	120,000	18.00
60-64	30,000	27.00	75,000	0	120,000	27.00
65+	30,000	20.25	52,500	0	75,000	20.25

\*Option 2 above represents the University's present plan. The University would continue to provide these amounts of insurance at no cost to eligible faculty and staff who elect option 2 or 3. Individuals who elect Option 1 would receive flexible credits or cash in monthly amounts shown in the illustration.

## III. Tax-Sheltering Out-of-Pocket Medical Expenses

In addition to the automatic tax-sheltering of medical premiums which the University has recently implemented, it is proposed that faculty and staff be offered the opportunity to tax-shelter out-of-pocket medical expenses (including medical plan deductibles and co-payments, orthodontic, vision, prescription drug expenses and any other expenses not covered by the University's medical or dental plans). Under present tax law these expenses are not tax-deductible except to the extent that they exceed 5% of income.

This tax-sheltering can be accomplished by establishing a special form of medical reimbursement plan, under which each member will be given the option to reduce his or her salary by a specified amount (up to \$3,000 per year), with the provision that valid medical expenses incur-

red during the year and not covered by the member's insurance will be reimbursed by the University up to the amount of the salary reduction. The election to reduce salary and the amount of salary reduction must be made by the faculty or staff member prior to the beginning of the year, and may not be revoked or altered during the year except in special circumstances (change in family status such as marriage, birth, divorce or death).

In the event that the member has not incurred medical expenses at least equal to the amount of salary reduction by the close of the year, tax regulations require that he or she permanently forfeit the remaining balance. While this requirement may discourage some individuals from participating in the plan, it is probable that most will be able to reasonably

estimate at least a portion of their out-of-pocket medical expenses for the year (particularly for dental, orthodontic, vision, and psychiatric care where the person has significant control over the level and timing of the expenditure) and will find that participation in the plan yields significant tax savings.

Also, it is important to note that a person need not incur expenses equal to the full amount transferred to the plan in order to break even. An example is an individual in the 30% marginal tax bracket who transfers \$1,000 to the plan and only incurs \$700 of medical expenses during the year. This person's after-tax cost under the plan would be \$700—\$1,000 less than the 30% tax rebate, which would exactly equal his or her after-tax cost in the absence of the plan.