Feasibility Study for Consolidation of Benefits

UTAH SYSTEM OF HIGHER EDUCATION

Milliman

JUNE 6, 2025

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Overview

This report contains Milliman's findings of the feasibility for various consolidation approaches for the benefit programs of the Utah System of Higher Education institutions.

Background

The benefit programs for Utah System of Higher Education (USHE) institutions currently utilize six different health benefit carriers, each with distinct costs, coverage options, and contract negotiation processes. The USHE includes:

- Five degree-granting institutions and one technical college that are self-insured (four of these six benefit programs have the same benefits administrator to manage their plans)
- Four degree-granting institutions (including Utah State University – Eastern) and seven technical colleges that are not self-insured and instead use traditional insurance carriers (nine of these are covered by the Public Employees Health Program (PEHP)*, two use other carriers)

This feasibility study is intended to explore the consolidation of employee benefit programs across USHE member institutions. Centralizing benefit functions across USHE institutions is anticipated to enhance system-level efficiencies and reduce aggregate health and welfare benefit program costs of USHE member institutions.

Scope of the Analysis

As requested by USHE, Milliman used data received from each of the USHE institutions to perform the following tasks:

1. Evaluate the relative value of benefits for each institution against Milliman benchmarks
2. Evaluate the current state of benefits offered to determine if there are any outliers.
3. Summarize stakeholder engagement survey results
4. Estimate the costs and benefits across a continuum of options for consolidating employer provided health benefits across USHE institutions

*PEHP, a non-profit government entity, provides medical, dental, employee life, and long-term care insurance to employees of state agencies, including some members from higher education and public education sectors. However, the Utah Public Employees' Benefit and Insurance Program Act prevents PEHP from insuring larger public higher education institutions in Utah.

Consolidation Scenarios

This report explores the feasibility of each of the following consolidation scenarios for USHE member institutions, including the pros, cons, and potential financial impact of each.

Vendor Selection	Ancillary Benefits	Stop Loss Pool	Form a Consortium	Join State Risk Pool	Establish a USHE Risk Pool
Institutions collaborate to select vendors while maintaining their individual benefit options	Institutions consolidate ancillary benefits (Life, AD&D, LTD) without consolidating health, dental, or vision benefits	Institutions pool their medical and pharmacy claims experience for stop-loss. Each institution remains responsible for claims under the stop-loss threshold	Form a consortium to leverage negotiations with vendors	Move all USHE institutions to a fully-insured benefit through PEHP	All USHE institutions pool risk of benefits. This is explored three ways: 1) Institutions are rated based on their specific risk 2) All institutions are charged a single pooled rate 3) Form a separate entity to managed the USHE pool

Current Benefits

Plan Outliers

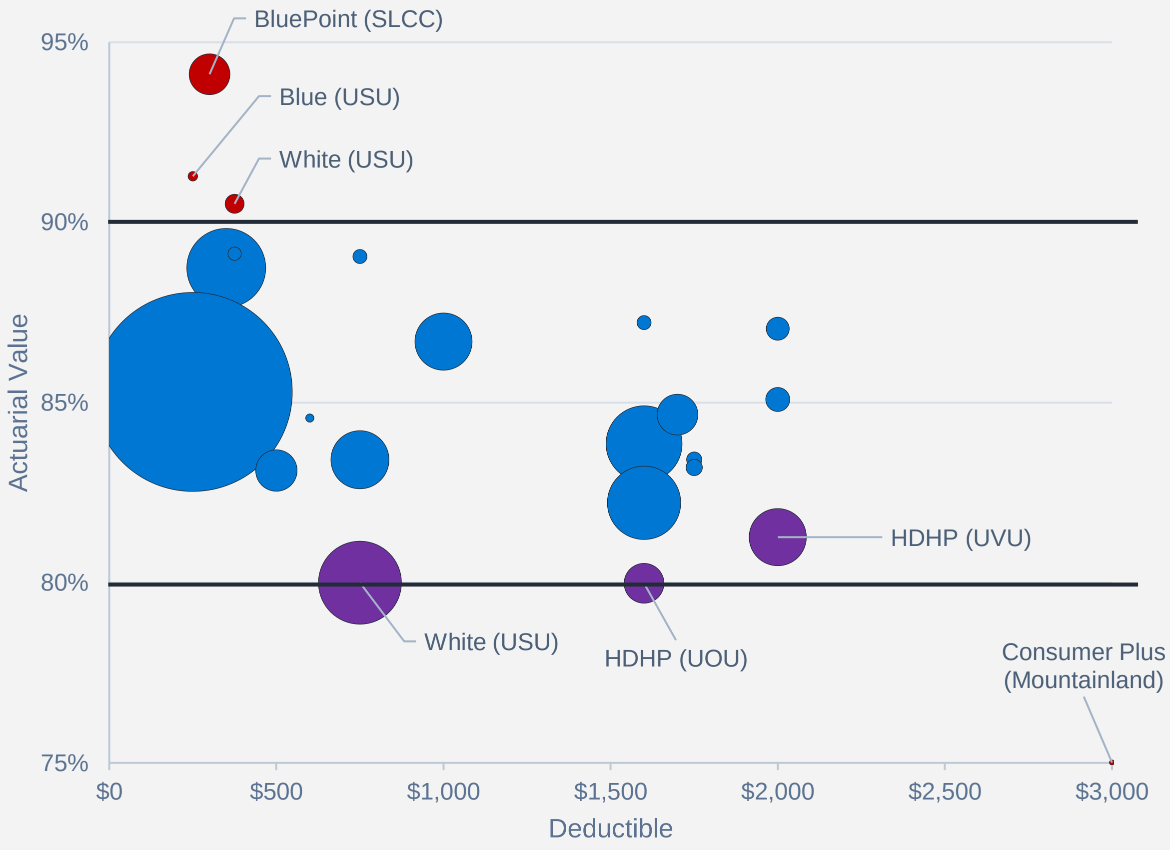
We measured the value of plans using actuarial value (i.e., the expected percent of claims paid by the plan after member cost sharing) and identified outliers

Of the 23 unique plan designs offered by the USHE benefit programs, 19 have an actuarial value (AV) between 80% and 90%. 1 plan is leaner and 3 are richer.

- Mountainland Technical College, Consumer Plus $3000 Deductible – 75.0% AV
- Utah State University, White $375 Deductible – 90.5% AV
- Utah State University, Blue $250 Deductible – 91.3% AV
- Salt Lake Community College, BluePoint $300 Deductible – 94.1% AV

Three plans with significant enrollment could experience a financial impact if more expensive plan options are selected:

- Utah State University, White $750 Deductible – 80.0% AV
- University of Utah HDHP, $1,600 Deductible – 80.0% AV
- Utah Valley University HDHP, $2,000 Deductible – 81.3% AV



Potential Disruptions

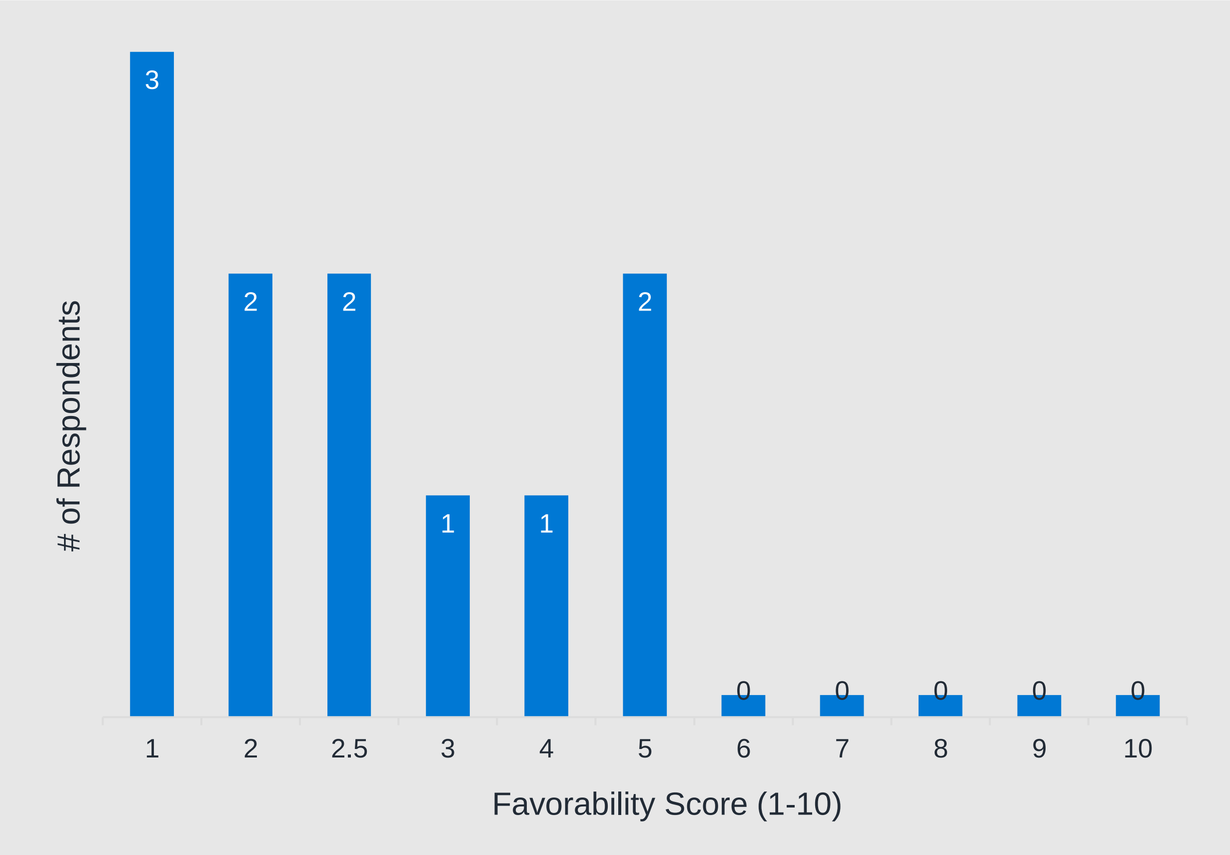
Summary of Institution Survey

Benefit program managers provided input on how consolidation could help or hinder their program’s performance

Milliman conducted a survey, requesting responses from the seventeen USHE member institutions, eleven institutions responded

The primary concerns centered around the following:

- **Plan Design Options**
- **Network**
- **Membership Disruption**
- **Autonomy**



Overview of Consolidation Options

Financial Modeling - Savings

The financial modeling included in this report is focused on direct savings from consolidation under various scenarios

Financial Modeling - Savings

The financial impact modeled for five of the consolidation options is focused on savings that would be expected through:

- Reduced administrative expenses
  - Vendor, broker, and other professional fees
- Improved Rx rebates
- Improved contracts
- Reduced reserves due to lower claims variability
- Selection of improved vendor expenses (e.g., most competitive rates for comparable ancillary benefits)
- Removal of stop-loss insurance based on the size of a consolidated pool

There are additional areas where savings would likely be captured, but we have not included in our analysis:

- Indirect savings due to efficiencies of managing a single large H&W benefit program rather than 17 smaller, individual H&W benefit programs
  - Benefits managers and other human resource professionals carry significant responsibilities and workloads, a consolidated approach reduces their workload and frees their time for other duties
- A large organization would be able to explore options for more effective utilization and case management options that could effectively reduce claims – estimates of these savings are highly dependent upon the selection of the programs and the adopted consolidation option (such a study is beyond the scope of this assignment)
- A consolidated organization could also benefit from certain third-party platforms, based on the specific morbidity profile of the consolidated H&W program

Financial Modeling - Costs

The financial modeling included in this report took into consideration costs that may be incurred through consolidation

Financial Modeling - Costs

We do not anticipate any direct costs from consolidation itself; however, we would expect that costs would arise in the event that benefits are added to or expanded from an institution's current benefit package.

- We did not model additional medical, dental, or vision costs since our recommendation would be to preserve current benefit levels as much as possible for these benefits
- We would anticipate costs for ancillary benefits since some institutions are not covering these benefits or are covering minimal levels
- In the event that USHE elects to form a separate entity to manage the consolidated risk pool, we did not include implementation costs for that entity in our financial modeling.

Establish USHE Risk Pool

We modeled three options for establishing a single risk pool for all USHE member institutions.

We modeled three options under a single risk pool.

1. Single risk pool, managed by current USHE or institution staff, with individual rates reflecting individual member institutions' risk profiles
2. Single risk pool, managed by current USHE or institution staff, with a single pooled rate
3. Single risk pool, managed by a newly constructed entity

Each of these options assumed the following:

1. All institutions would offer the same ancillary benefits. Rates per member were set to the most favorable rate available among current USHE member institutions
2. Benefit levels of medical, dental, and vision coverage for the respective institutions would be maintained. Claims experience for the institutions was projected to a common date (see the Assumptions and Methodology section of this report for details on projection of the claims experience) to establish appropriate comparisons with current premiums and premium equivalent rates. Current costs for fully-insured entities reflect their current fully-insured premiums. Current costs for self-insured entities reflect their claims expense, professional fees, vendor fees, stop-loss premiums, stop-loss recoveries, and Rx rebates.
3. All vendor and professional service fees are set to reflect market norms for a group of the size of the consolidated entity.
4. Removal of all stop-loss coverage – consistent with market norms for a group of this size.
5. Rx Rebates were set at the same percentage of claims as that experienced by the current self-insured institutions, on average.

Consolidation Option Comparison - Pros

Pros	Consolidate for selecting vendors	Consolidate ancillary benefit(s)	Establish a stop-loss pool	Form consortium to leverage negotiations	Join State Risk Pool via PEHP	Establish a risk pool for all institutions		Form a separate entity to manage pooled risk
						Rates vary by Institution	Pooled Rate	
Reduced costs	■	■	□	■	■	■	■	■
Reduced administrative burden	■	■	□	■	■	■	■	■
Increased opportunity for selecting high-quality vendors	■	□		■		■	■	■
Most types of benefits can be covered directly by a single entity					■			
Reduced claims risk			■		■	■	■	■
Rates reflect risk of individual institutions						■		

Legend

□ Potential Pro ■ Expected Pro

Consolidation Option Comparison - Cons

Cons	Consolidate for selecting vendors	Consolidate ancillary benefit(s)	Establish a stop-loss pool	Form consortium to leverage negotiations	Join State Risk Pool via PEHP	Establish a risk pool for all institutions		Form a separate entity to manage pooled risk
						Rates vary by Institution	Pooled Rate	
Limited financial benefits / Potential for increased costs	■	■	■	■			□	
Limited administrative relief	■	■	□			■	■	
Reduced flexibility (selecting benefits, vendors, networks, business partners)	□	■		■	■	■	■	
Administrative complexity			■	■		□	□	■
Limitations on specialized approaches to manage costs or improve member experience	□	□	■	□	■			
Limited to self-insured institutions			■					

Legend

□ Potential Con ■ Expected Con

Detail of Consolidation Options

Consolidation for Ancillary Benefits – Implementation & Financial Impact

Implementation notes and financial impact of consolidation

Implementation Notes

If USHE member institutions consolidate ancillary benefits, we make the following recommendations:

- Convene a meeting to determine which benefits will be included. It likely makes sense to include life insurance, AD&D, and disability. The institutions may elect to include other benefits, such as pet insurance, critical illness coverage, etc.
- Determine the benefit levels the institutions would like to make available.
- Have a single point of contact negotiate and contract rates

Financial Modeling Notes

We modeled the estimated financial impact using the following assumptions:

- Any institutions that are not currently offering all 3 of life, AD&D, and LTD would begin to offer all 3 benefits after consolidation, and at the same level of benefit. This is creating projected “costs” for some institutions.
- Consolidation of LTD benefits is unlikely to result in significant savings because the rates have already been optimized.

Due to the relatively small dollar value of these benefits, however, these savings would likely only represent a fraction of a percent of USHE’s total benefits budget.

Based on market norms, there is potential for 1.8% - 10.9% savings for life and AD&D costs *only* under consolidation.

9 USHE institutions do not currently offer either a group life, AD&D, or disability benefit (or a combination thereof).

Join State Risk Pool via PEHP – Implementation & Financial Impact

Implementation notes and financial impact of consolidation

Implementation Notes

All member institutions would join the state risk pool via PEHP.

- This would require code amendments

Financial Modeling Notes

- Approximately 90% of savings in this scenario are attributable to the University of Utah due to their current program costs being significantly higher than the PEHP state risk pool average.

Estimated savings of

6.0%

to

10.5%

to USHE's current total health & welfare spend

6 institutions project to have cost savings

11 institutions project to have increased costs

Establish a Risk Pool for All Institutions – Rates Vary by Institution – Implementation & Financial Impact

Implementation notes and financial impact of consolidation

Implementation Notes

If USHE member institutions establish a single risk pool, we make the following recommendations:

- Select a managing committee who will be tasked with making benefit decisions, vendor negotiations, contracting, and employee benefit support.
- We recommend that a portfolio of plans are made available from which member institutions could select from.
- We recommend securing multiple network partners to minimize disruption to institutions employees and the respective benefit programs.
- We recommend that the pool work with a third-party for claims administration.
- Contract with a vendor who can underwrite the rates each year to ensure schools are paying rates reflecting their demographic and risk profile.

Financial Modeling Notes

- The four institutions with projected cost increases under this scenario are entities whose fully-insured rates do not wholly reflect their risk.
- No credibility adjustment was applied when developing institution-specific rates. In practice, the premium equivalent rates would be established with credibility adjustments by institution based on covered lives.

Estimated savings of

2.5%

to

7.0%

to USHE’s current total health & welfare spend

13 institutions project to have cost savings

4 institutions project to have increased costs

USHE Risk Pool – Breakdown of Estimated Savings

Areas of savings estimated to establish estimates for USHE risk pool scenarios

Savings estimates

We have focused savings estimates on four key categories:

- Self-insured economies of scale
  - ASO fees
  - Professional fees (e.g., legal, brokers, consultants, etc.)
  - Claims volatility reserves (a larger pool is more stable and may allow for release of some volatility reserves)
  - Rx rebates
  - Improved contracts
- Fully insured groups transition to a self-insured structure – generally this would result in savings, but we have estimated costs in the low-end scenario since some of the PEHP groups are currently running at losses that are being absorbed by the state risk pool
- Net stop-loss expenses – removal of stop-loss for the consolidated pool results in significant savings
- Ancillary savings – a consolidated approach would result in savings for groups with ancillary benefits. If benefits are expanded so that all institutions have the same coverage, some of these savings would be offset by the cost of the expanded benefits.

	Estimated Savings %	
Savings Category	**Low End**	**High End**
Self-insured economies of scale		
ASO Fees	0.1%	0.1%
Professional Fees	0.1%	0.1%
Claims Volatility Reserves	0.0%	0.6%
Rx Rebates	1.1%	1.8%
Improved Contracts	0.0%	2.0%
Fully insured transition to self-insured	-0.1%	0.5%
Net stop-loss expenses	1.4%	1.6%
Ancillary savings	-0.1%	0.3%
Total Estimated Savings	**2.5%**	**7.0%**

Recommendations

Milliman Recommendations

Establish a USHE risk pool with rates varying by institution – involving input from member institutions

Recommendations (from financial considerations)

- We recommend establishing a USHE risk pool, with rates varying by institution and involving input from each of the member institutions
- A portfolio of health plans be offered to member institutions from which institutions select 1-4 designs
- A third-party administrator(s) (TPA) be utilized to administer claims
- A wellness program option made available
- Removal of fully-insured stop-loss coverage (only if all USHE institutions participate)
- Consolidation of dental benefits, with two benefit designs offered
- Consolidation of vision benefits, with one or two benefit designs offered
- Consolidation of life insurance, disability insurance, and AD&D insurance
- Contracting with business partners who will help identify health plan financial risks to mitigate impact of cost trends on future years

Assumptions & Methodology

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Assumptions and Methodology

The following outlines the key assumptions and methodology used in the analysis of the feasibility study.

Incurred but not paid estimates

We have developed claim cost estimates for each entity based on its own experience, as available. From the claim lag data for each benefit (medical, pharmacy, dental, and vision) provided, we calculated factors based on historical claim payment patterns that show the estimated percent of total expected claims that have been paid as of a given lag duration. Incurred claims were estimated by applying these average completion factors to the already paid amounts. For the most recent months, an average PMPM based on prior incurred amounts was sometimes used to predict ultimate levels of claims instead of using the completion factor method.

Medical and pharmacy claim estimates used in consolidation scenarios

We received medical and pharmacy claims for all USHE entities. Incurred medical and pharmacy PMPM estimates for these groups are based on three years of claim experience from October 2021 to September 2024. After applying estimated completion factors to the paid claims, we assumed 5.1% medical claim trend and 14.9% pharmacy claim trend to adjust all experience to a single point in time (October 2024). These assumptions are based on actual Utah administrative services only (ASO) trends sourced from Milliman's Health Trend guidelines. We have assigned 1/6th credibility to the earliest year of data (October 2021 to September 2022), 1/3rd credibility to the second year of data (October 2022 to September 2023), and ½ credibility to the most recent year in the experience period (October 2023 to September 2024).

Pharmacy rebates were provided by four of the self-insured entities. In projecting pooled USHE costs, we calculated the average pharmacy rebates as a percentage of pharmacy claims for those for entities and assumed rebates as a percentage of Rx claims would remain consistent for the pool as a whole.

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Assumptions and Methodology

The following outlines the key assumptions and methodology used in the analysis of the feasibility study.

Dental claim estimates used in consolidation scenarios

We received dental claims information for twelve USHE entities. Incurred dental PMPM estimates for these groups are based on three years of claim experience from November 2021 to October 2024. After applying estimated completion factors to the paid claims, we assumed 4% dental claim trend to adjust all experience to a single point in time (October 2024). We have assigned 1/6th credibility to the earliest year of data (November 2021 to October 2022), 1/3rd credibility to the second year of data (November 2022 to October 2023), and ½ credibility to the most recent year in the experience period (November 2023 to October 2024).

For entities that did not supply dental claims or premium information, we assumed a PMPM equal to the average of the twelve USHE entities for which we had dental experience.

Vision claim estimates used in consolidation scenarios

Much of the vision claim experience was unable to be collected due to the closure of an entity that offered vision insurance to several USHE institutions. In lieu of this data, we have applied the PMPMs based on the limited available vision experience to all institutions. Given the modest natures of vision costs, this has a limited impact on the financial analyses presented in this report.

Ancillary costs

Life, AD&D, and long-term disability costs were based on rates provided by PEHP as well as salary and full-time employment numbers reported in USHE's 2024 Data Book.

Assumptions and Methodology

The following outlines the key assumptions and methodology used in the analysis of the feasibility study.

Projected administrative costs for the combined USHE pool

- The ASO fees for the combined pool were assumed to be the least of the currently self-insured USHE entities ($41.17 PEPM)
- Professional services fees were assumed to be $1,500,000 per year (this includes salary and benefits for a full-time dedicated staff member)
- Professional liability insurance was assumed to be $100,000 per year
- PCORI fees assumed to be $0.25 PMPM

Current premium

Medical premium was provided by each entity, either in total or in the form of premium rate tables. If total monthly premium was not provided, we applied the premium rates by tier to monthly enrollment by tier to estimate total monthly premium. For entities that did not provide dental or vision premium, we assumed a premium per member equal to that of the USHE pool average.

Benchmarks

Medical benchmarks were developed using Milliman's 2024 Health Cost Guidelines. The regionally adjusted market average benchmarks were adjusted for each entity's area, demographic distribution, and plan design offerings and represents average utilization management practices. The well managed benchmark is a nationwide "best practice" target. Both benchmarks were developed assuming average Utah commercial unit costs. The benchmarks are not adjusted for entity-specific unit costs, morbidity, or formulary differences. Benchmarks were trended to the midpoint of the medical claims experience period.

Dental benchmarks are based on Miliman's 2023 Dental Cost Guidelines and were developed at the pool-level. These benchmarks are adjusted for USHE's overall area, demographic distribution, and plan designs and were trended to the midpoint of the claims experience period.

Limitations & Caveats

Limitations & Caveats

Data Reliance and Caveats

We relied on medical, Rx, dental, and enrollment data for (part of 2021), 2022, 2023, and a portion of 2024 provided by each individual member institution. We also received partial vision data* and other ancillary benefit data. We have not audited or verified this data. We reviewed this data for reasonableness and consistency. If underlying data is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete.

Milliman has developed certain models to estimate the values included in this report. The intent of the models was to project the impact of USHE member institutions under various consolidation scenarios. We have reviewed the models, including their inputs, calculations, and outputs for consistency, reasonableness, and appropriateness to the intended purpose and in compliance with generally accepted actuarial practice and relevant actuarial standards of practice (ASOP). These models, including all input, calculations, and output, may not be appropriate for any other purpose.

These projections are highly variable. The actual costs, membership, and administrative expenses will differ from our analysis to the extent that future experience differs from our assumptions and historical data. Actual results could vary from estimates for a variety of reasons, including large claims volatility, changes in claim payment patterns, and benefit changes. It is certain that actual experience will not conform exactly to the assumptions used in this analysis.

*Not all vision data was available due to difficulties experienced by the administrator of vision benefits for a number of the member organizations.

Limitations & Caveats

Data Reliance and Caveats

This report has been prepared for USHE for use in the state's determination of the feasibility of consolidation of benefits of USHE member institutions. Milliman makes no representations or warranties regarding the contents of this report to third parties. Likewise, third parties are instructed that they are to place no reliance upon this report prepared for USHE by Milliman that would result in the creation of any duty or liability under any theory of law by Milliman or its employees to third parties. Other parties receiving this report must rely upon their own experts in drawing conclusion about the feasibility of USHE benefit consolidation. This report may be provided without Milliman's written approval only to third parties as follows: 1) professional service providers who are subject to a duty of confidentiality and who agree to not use Milliman's work product for any purpose other than to provide services to USHE, 2) any applicable regulatory or governmental agency, as required, or 3) as required by law. To the extent the report is released, it should be released in its entirety.

We are members of the American Academy of Actuaries and are qualified to prepare projections of this type.

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