



## **EXECUTIVE SUMMARY**

### **Government of Guam Health Insurance Contracts Analysis**

#### **Report No. 18-05, June 2018**

Our audit of the Government of Guam's (GovGuam) Health Insurance Contracts from fiscal year (FY) 2014 to FY 2017 found that the government generously shouldered a substantial portion of subscribers' health insurance premiums. For four years, total health insurance premiums (medical and dental) amounted to \$347 million (M), of which \$275.6M, or 79%, was borne by the government, while only \$71.4M, or 21%, was borne by the subscribers. GovGuam's share increased from \$56.9M in FY 2014, to \$66.8M in FY 2015, \$75.6M in FY 2016, and \$76.3M in FY 2017. Retirees were 32% of total enrollees, but their medical premiums were more than half, or 55% of total medical premiums. This happened mainly because: (1) active employees and retirees' premiums were negotiated separately, wherein retirees' premiums were significantly higher and the law prohibited retirees from paying more than the active employees share; and (2) subscribers had the option to choose between three Health Insurance Companies or Carriers (non-exclusive option).

On an annual average, an active employee's premiums were not enough to cover his claims, while a retiree's premiums exceeded his claims by \$3,839. If subscribers' premiums were pooled and the government only contributed the 50% minimum requirement per law, GovGuam would have saved up to \$62M or \$16M annually on medical insurance from FY 2014 to FY 2017. On the other hand, the Health Insurance Contract Negotiating Team identified an overall potential savings of \$52.6M for four years, or \$13.2M annually, which the Office of Public Accountability did not verify, had the exclusive contract option (only one Carrier) been selected.

Despite paying higher premiums compared to the Guam Judiciary and federal government, we also found that GovGuam might not be receiving the correct refunds from the health insurance contracts, if any, due to the lack of monitoring.

#### **Guam Law and Lack of Price Pooling Caused Significant Costs to the Government**

The health insurance Request for Proposals (RFP) for the past four years required separate price proposals for active employees and retirees. The Carriers propose higher premiums for retirees than active employees because retirees use more of the health insurance. However, we found that the actual retiree premiums were \$3,839 or 35% higher than their claims. Meanwhile, Guam law requires that the government's share shall not be less than 50%, and shall increase its contribution on behalf of a retired employee so the retiree contributes no more than an active employee. As a result, the government shouldered a significantly higher portion of a retiree's premiums. In FY 2017, the average annual medical premiums for an active employee was \$4,523, of which the government shouldered \$3,214 or 71%. On the other hand, the average annual total medical premiums for a retiree was \$12,530, of which the government shouldered \$11,561 or 92%.

#### **Lowest Premium Not the Employees' Top Choice**

Despite reporting \$52.6M, or \$13.2M annually in potential savings, under the exclusive contract option, GovGuam selected the non-exclusive contract option from FY 2014 to FY 2017. This amount was not verified. In February 2018, Public Law (P.L.) 34-83 required consideration of the

lowest cost option. The Governor previously vetoed this, stating that the government needs high quality healthcare and not reduce employees to the cheapest price. This also raised concern from the Department of Administration (DOA) because the most economical option is not always the most beneficial one for employees. Our analysis showed that about 84% or 9,917 subscribers per year did not choose the lowest cost option. If an exclusive contract option is selected for FY 2019, the change may be disruptive to employees who are used to going to a particular service provider that may not be within the network of the single Carrier, and thus can be very costly to the employees in the long term.

### **Lack of Verification of Refunds/No Refunds Accounting from the Carriers**

We noted several variances between the premiums and claims compiled by GovGuam's external Consultant and the accounting submitted by the Carriers. We found a variance of \$5M, which may suggest a possible refund to GovGuam that might not have been collected because no one at DOA is reviewing the reasonableness of premiums and claims accounting received. DOA relied heavily on the external Consultant to compile information for the next RFP. As a result, there is a risk that GovGuam is accepting incorrect amounts of refunds, or not receiving refunds when it should be.

### **GovGuam's Premiums Higher than Guam Judiciary and Federal Government**

We found that GovGuam's PPO 1500 plan premiums for an active employee was \$950 or 18% higher than that of Guam Judiciary PPO 1000 plan in FY 2017. We also noted that GovGuam's medical and dental premiums were higher by \$4,722 per employee than the federal government. The government share was likewise higher at 87% compared to federal government's 75% contribution. In FY 2017, the federal government had blended premiums for its Guam active employees and retirees averaging \$6,631, while GovGuam had varying premiums averaging \$11,353.

### **Conclusion and Recommendations**

GovGuam substantially shouldered the cost of health insurance for its subscribers. For every 5% that it shared above the 50% minimum required by law, the government added \$5M annually to its cost. With P.L. 34-83 in effect for FY 2019, it is expected that this will bring down the overall cost because the lowest proposal will be selected. While well intended, the vast majority of subscribers did not select the lowest cost option and may cause disruption and angst to administer if a single Carrier will be selected. Meanwhile, by paying for retiree healthcare and life insurance, GovGuam is facing \$1.98 billion in additional actuarial accrued liability to be in compliance with Governmental Accounting Standards Board Statement No. 75 which will be recognized in FY 2018.

The Health Insurance RFP for the upcoming FY 2019 contract year has requested for pooled rates, which will give GovGuam more flexibility as to how much it is able to contribute towards employees' premiums. GovGuam may consider shifting some of the costs to the employees while complying with the minimum requirement of the law. For example, each PPO 1500 plan subscriber on an average may have an additional monthly payment of at least \$55.57. We recommend the DOA Director assign staff to verify the refunds/no refunds reported by the Carriers.

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