AFA Update
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We're Old, We're Sick, We're Tired: A Very Expensive Combination

On November 21, 2005, General Motors announced a massive reorganization, which includes cutting 30,000 manufacturing jobs in their North American plants. While analysts can easily point to GM's inability to adapt to changing market and environmental conditions, the corporation itself cites the rising costs of health care as a major cause of non-profitability. They are working with union leadership to create early retirement incentives to address most of the layoffs; one of the biggest problems, however, is still the out-of-control cost of health benefits.

So, you might be asking, "What do GM's problems have to do me and SRJC?" The simple answer to that complex question is that GM and SRJC have exactly the same problem with health care costs, and we, too, are searching for creative solutions to this ongoing problem.

> On December 5, AFA brought in a health care consultant, Linda Pierce, from the firm of Rael & Letson, to meet with representatives from all the bargaining units and the District. At the end of the meeting, we were all extremely impressed with breadth of her knowledge and experience. She is currently working with Foothill-DeAnza, Chabot-Las Positas, and West Valley-Mission Community Colleges, and therefore has a real sense of our situation; she also works with the Sonoma County Health and Welfare Trust (Cotati-Rohnert Park School District) and therefore knows our geographic area. AFA is pleased that Dr. Agrella and Dr. Beebe agreed to contract with Rael & Letson to work on solving our health benefits crisis. We will begin next week to identify the kinds of work that Ms. Pierce will be doing.

Background

Up until the termination of coverage under Health Plan of the Redwoods (HPR) on October 31, 2002, negotiations for health benefits were mostly pro forma. When HPR's financial woes became apparent, it also became clear that HPR's premiums were artificially low or that maybe the low pricing had led to their insolvency. As AFA, SEIU, and the District had become used to predictable rate increases and pricing that was only slightly higher than Kaiser's, the search for a new alternative carrier created more than a little dismay at the bargaining table. When we were presented with Health Net's proposal (the only carrier interested in our business) the result was only a $93.52 increase over the former HPR monthly rate for a family, translating into an increase of $15.4%. Placed in the context of our overall budget of $93 million at that time, health benefits represented 3.8% of the total budget.

Fast forward to today where that portion has increased to 5.83%. Between 2001 and 2005, SRJC has experienced an increase of $2,914,112 to the District in the annual cost of health benefits—this includes regular faculty, staff, and management. In 2001-02, the total cost to the District was $3,692,445 and in 2005-06 the cost is now $6,638,557, which represents an increase of $2,914,112 or an increase of 12.25% compounded annually over the five-year period. The $6.6 million figure does not include costs associated with the State's Adjunct Medical Benefits Program, which AFA and the District have been subsidizing for the past four years. As the chart on the reverse side details, this steady rise in health care costs to the District has been phenomenal, although not unusual across the state.

The Crux of the Problem

Benefits have always been a big-ticket item, but now it's become a problem of overwhelming proportions. Every year underwriters total up the

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cost of claims and evaluate the seriousness of our illnesses—that becomes our "experience rating" for that year. From that rating they are able to project future usage and decide how much it will cost to cover us and also make a profit. This is where the study of statistics becomes highly relevant. Most insurance carriers, excepting Kaiser, are now for-profit, tacking on at least a 15% administrative charge that covers the cost of doing business and a projected profit margin. Sadly, in the world of insurance underwriting we are old and sick and, as a relatively small group, we cannot spread that age and infirmity over a large population. Last year SRJC experienced a blended increase of 14.21% from Kaiser and 35.39% from Health Net. In recent discussions held at the District-wide Fringe Benefits Committee, members are expecting at least a 16% increase from Kaiser and approximately 38% from Health Net for 2006-07.

Fiscal Year	Total Cost of Health Insurance	Total Operating Budget	Percentage of Total Operating Budget
2001/02	$3,692,445	$95,693,969	3.80%
2005/06	$6,638,558	$113,802,971	5.83%
Total $ Increase Over 5 years			$2,914,112
Cumulative % Increase Over 5 Years			78.24%

It would be easy to blame insurance companies and their underwriters, but the truth is that insurance is simply a form of legalized gambling and we know what that means—the house always wins. Risk management is about balancing cost and risk, and the insurance company's ultimate goal is to make a profit. It's difficult to argue with that logic since some of our pension funds, and our personal funds as well, are invested in insurance companies. We expect them to make a profit for us, but it's painful to watch those profits, made on our behalf, eroded by increased costs for local health insurance, especially when that money could be augmenting our salaries.

Looking to the Future

AFA believes that health care is a basic human right, an opinion that is not shared by our government, either state or federal. While we believe fervently that some form of national health care is absolutely needed (and we believe that GM executives now share our view) we do not foresee this as a viable solution for many years to come. The short-term solution to this crisis is for SRJC to become part of a larger, younger, and healthier "pool" of applicants, since a larger pool will dilute the effects of our aging and infirm population. So far, that search for another pool has not proved to be easy. Last year's Request for Proposals (RFP) yielded no new carriers interested in even meeting the same pricing as Health Net's. Furthermore, we realize that Health Net is not providing the best service to our group, even though their prices should yield better results. If our group were more attractive or competition would force a change, then prices and service might improve.

Reason for Hope

As we begin negotiations, solving this problem is AFA's number one priority. If we cannot bring these costs under control, all other monetary considerations will be affected. With the help of our new consultant, we have reason to hope that we can stabilize the situation. AFA welcomes your input as we work toward finding feasible and equitable solutions to your benefit needs.

Attn: Regular Faculty: District Reimbursement for Hospitalization Copay

Did you know that the District reimburses regular faculty who are participating in District-paid health plan coverage for certain copayments related to hospitalization, outpatient surgery, emergency coverage, and urgent care? You must pay the bill first, and then submit a copy of the paid invoice to the Human Resources Department for reimbursement. For more information, see Article 10 in the AFA/District Contract at www.santarosa.edu/afa/ or call Louise in Human Resources. at 527-4304 or Judith in the AFA office at 527-4731.