Labor and Employee Relations
211 Butrovich Building
P.O. Box 755140
Fairbanks, Alaska 99775-5140
(phone) 907-450-8230
(fax) 907-450-8231
(web) http://www.alaska.edu/labor/

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Statewide Human Resources
212 Butrovich Building
P.O. Box 755140
Fairbanks, Alaska 99775-5140
(phone) 907-450-8200
(fax) 907-450-8201
(web) http://www.alaska.edu/hr/

Donald F. Smith, Chief Human Resources Officer &
Executive Director Labor and Employee Relations

March 19, 2012

To: All UA employees

From: Donald Smith, Interim Chief Human Resources Officer Donald Smith

RE: FY13 Health Plan Costs

Open Enrollment for FY 13 is from April 16 through May 15. This is your annual opportunity to change health plans, add or drop dependents, increase supplemental life insurance and elect flexible spending accounts for health care and dependent day care expenses. During this process you will notice changes in employee contribution rates. I want to take this occasion to address that subject.

The costs for the UA Choice health plan are increasing this year. The University will still cover 83% of projected plan costs, but employees will see their rates increase this year because of an increase in plan cost over FY12, and an under recovery of the employee obligation in FY12. Under recovery means that the employee charges set for FY12 were not enough to meet the employees' obligation to cover 17% of the costs.

The University of Alaska is self-insured. This means the university pays all covered costs for employee and dependent health care when they are due and subsequently collects the employees' portion of those costs through payroll deduction. For the current year, total plan costs are projected to be about $65 million. This comes to approximately $15,900 per employee enrolled on the plan, of which the University's share is $13,170.

The attached chart reveals the employee health care charges that will become effective for UA Choice in FY13, beginning July 1, 2012. There are several reasons why employee charges must increase. To begin with, employee bi-weekly charges for FY12 were kept the same as they had been for FY11. Consequently, when setting FY13 rates we had to calculate from a rate base that was two years old. Recall that the decision to not raise FY12 rates was made by the Joint Health Care Committee in order to keep rates low while other health plan changes were simultaneously enacted.

Secondly, more employees than we had anticipated opted for the High Deductible Health Plan (HDHP), and concurrently an unexpected number of employees waived coverage entirely. The net effect of these two decisions was a smaller pool in which to spread costs.

Lastly, the university was responsive to employee criticisms and did not impose the tobacco surcharge, which would have had a slight mitigating effect on employee cost. All of these factors combined to cause a $3.5 million "under recovery" from employees. That is why FY13 rates for health plan participants must increase.

For more information on the increase in health plan costs, a list of Frequently Asked Questions will be available after March 19 at www.alaska.edu/benefits.

If you have any questions, please feel free to contact me at donald.smith@alaska.edu.