

**Government of Guam
Health Insurance Contracts Analysis**

**Performance Audit
October 1, 2013 through September 30, 2017**

**OPA Report No. 18-05
June 2018**



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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.

Doris Flores Brooks, CPA, CGFM
Public Auditor



Introduction

This report presents the results of our audit of the Government of Guam (GovGuam) Health Insurance Contracts for fiscal year (FY) 2014 through FY 2017. The audit was initiated based on a request received from the Speaker of the 34th Guam Legislature relative to health insurance for GovGuam employees, retirees, and dependents. The Speaker requested cost analyses on the health insurance contracts between GovGuam and various Health Insurance Companies (“Carriers”).

The audit objectives were to:

1. Determine the actual health insurance premiums and claims for active employees and retirees (“Subscribers”);
2. Determine any participating contract refund arising from FY 2014 through FY 2016 health insurance contracts; and
3. Compare GovGuam’s health insurance costs against other government instrumentalities’ health insurance programs.

The audit objectives, scope, methodology, and prior audit coverage are detailed in Appendices 1 and 2.

Background

Title 4 of the Guam Code Annotated (GCA), Chapter 4, Article 3, is relative to Group Benefits, which include health, life, automobile, home mortgage, and false arrest insurances. Provisions on how the health insurance contracts were entered into are contained under § 4301 and § 4302.

- § 4301(a) – The Governor of Guam is authorized to enter into contracts and reject proposals, with the concurrence of the Speaker of the Guam Legislature or the Chief Justice of the Supreme Court, with one or more insurance companies for group insurance including, but not limited to, hospitalization, medical care, life, and accident, for all employees or separate group of employees, and foster children of GovGuam. If the Legislative or Judicial Branches of government elect to enter into separate contracts for their employees as authorized in § 4301(c), the Governor shall obtain the written concurrence of the branch electing to remain with the Executive Branch before the group insurance contract is entered into or a proposal rejected.
- § 4301(b) – The government’s contribution for health and dental insurance shall be uniform within each class (including separate classes and rates for retired employees and their survivors) for all competing plans, and shall not be less than 50% of the lowest premium for a single employee, except that the government shall increase the contributions it makes on behalf of a retired employee or survivor of a retired employee, so that the retired

employee or the survivor of the retired employee contributes no more than an active employee who is otherwise in the same class.

- § 4302(c) – Each fiscal year, the Negotiating Team shall solicit both exclusive and non-exclusive proposals from each Carrier and enter into negotiations with the top three (3) ranked Carriers submitting qualified proposals for health insurance coverage for qualified active employees and qualified retirees, and foster children.

Negotiating Team

Pursuant to 4 GCA §4302(c), the GovGuam Health Insurance Negotiating Team shall consist of representatives from various agencies and interested groups. The Negotiating Team shall develop minimum qualifications for proposals to be submitted for health insurance coverage and shall develop a ranking system to rank the proposals. The Negotiating Team, with the approval of the Governor, is authorized to contract an actuary competent to develop proposed health insurance rates or other recognized expert to train and/or advise the Negotiating Team.

Exclusive and Non-Exclusive Request for Proposals (RFP)

Under 4 GCA § 4301.1(e), exclusive proposal means a proposal based upon the assumption that the government will contract with only one (1) health insurance provider that is selected by the Negotiating Team from up to three (3) different health insurance providers that all negotiate best and final offers with the Negotiating Team.

Under 4 GCA § 4301.1(f), non-exclusive proposal means a proposal based upon the assumption that the government will contract with three (3) health insurance providers that negotiate best and final offers with the Negotiating Team. If only two (2) health insurance providers submit qualified proposals then non-exclusive proposal shall mean a proposal based upon the assumption that the government will contract with two (2) health insurance providers that negotiate best and final offers with the negotiating team.

Contracted External Consultant

In March 2011, GovGuam contracted the professional services of the former external Consultant to provide actuarial consultation services in GovGuam health and life insurance related matters. The former Consultant worked on the FY 2012 thru FY 2017 GovGuam health insurance contracts (ending September 30, 2017). The Consultant's scope of services included:

- Lead negotiations with Carriers;
- Provide expert advice on compliance with both local and federal mandates;
- Make best efforts to ensure fairly negotiated premiums;
- Prepare necessary plan designs for issuance in the RFP;
- Review all proposals received by GovGuam; and
- Conduct an audit of approximately 200 health insurance claims.

The contract term was for one (1) year, with option to renew for five (5) additional one (1) year terms. With the expiration of the consulting contract, GovGuam engaged a new Consultant for the FY 2018 health insurance negotiations and contracts.

Public Law (P.L.) 34-83

In January 2017, the Speaker introduced Bill No. 3-34 to amend 4 GCA § 4301(a) and § 4302(c)(2). This is relative to ensuring that only the most economical and beneficial healthcare insurance proposal plan for GovGuam employees and retirees and foster children is forwarded by the Negotiating Team to the Governor for consideration, and divesting the Legislature of final approval authority over any contract entered into by the Governor.

The bill amends § 4301(a), that no government funds shall be authorized or expended and no contract shall be executed with any Carrier for all employees or separate groups of employees, and foster children of GovGuam, whose proposal does not represent the most economical and beneficial healthcare insurance proposal plan.

The bill further amends 4 GCA § 4302(c)(2): Notwithstanding any other provision of law, rule or regulation, *the most economical and beneficial healthcare insurance proposal plan for GovGuam employees and retirees, and foster children, shall be defined as the lowest cost option of either the exclusive or non-exclusive proposal* (emphasis added). The Negotiating Team shall forward only the single most economical and beneficial healthcare insurance proposal plan for GovGuam employees and retirees, and foster children, and shall not forward both an exclusive and a non-exclusive proposal to the Governor.

Bill No. 3-34 was passed by the Guam Legislature, but vetoed by the Governor in March 2017. However, in February 2018, the Guam Legislature overrode the Governor's veto and Bill No. 3-34 was signed into law as P.L. 34-83 which is effective for FY 2019 RFP.

GovGuam Medical Health Plans

The GovGuam Health Insurance Program currently offers various medical plans for its Subscribers. The first two below applies to both active employees and retirees and works with a set deductible amounts. Deductible means the amount paid by the Subscriber or covered persons for covered services, except for preventive care services, before the Carrier pays for the medical coverage.

1. **Preferred Provider Organization (PPO) 1500 Plan** – The annual deductible under the participating providers is \$1,500 for individual, or \$3,000 for annual family deductible. While the annual deductible under the non-participating providers is \$3,000 for individual, or \$9,000 for annual family deductible.
2. **Health Savings Account (HSA) 2000 Plan** – HSA is a form of High Deductible Health Plan (HDHP). For GovGuam, HSA 2000 has a higher deductible compared to the PPO plan. The annual deductible under the participating providers is \$2,000 for individual, or \$4,000 for the annual family deductible. While the annual deductible under the non-participating providers is \$4,000 for individual, or \$12,000 for annual family deductible.

The PPO 1500 and HSA 2000 plans have a different schedule of benefits. For example, for outpatient primary care visit, the deductible does not need to be met and the covered person only pay a minimal co-payment per visit under the PPO 1500 plan, whereas the deductible must be met first before a minimal co-payment applies under the HSA 2000 plan.

3. **Retiree Supplement Plan (RSP)** – This is also known as Medicare Supplemental Insurance Program. Starting FY 2016, this was added as an option for retirees apart from the existing PPO 1500 and HSA 2000 plans. Retirees who have Medicare Parts A and B are eligible to enroll in the RSP, and if they do, they will not be eligible for the PPO 1500 and HSA 2000 plans.
4. **Foster Children Plan** – This benefit is given to foster care children who are under the legal custody of the Department of Health and Social Services Child Protective Services Division. Under 4 GCA § 4301(b), the government shall cover the full cost of insurance coverage for foster children which include full payment of medical care, dental care, and prescription drug with no deductibles nor co-payments and co-insurance. Our audit did not include an analysis of this plan.

Gua, Economic Development Authority's Separate Health Insurance Contract

During our exit meeting with the Department of Administration (DOA), we learned that GEDA issued its own RFP for group health and dental insurance in July 2015. Its RFP stated that it was issued under the authority of the Guam Procurement Act and the Guam Procurement Regulations, and that it requested proposals as an autonomous entity (public corporation), as provided by 12 GCA, Chapter 50.

According to 4 GCA § 4301(a), only the legislative or judicial branches of GovGuam have the option to enter into a separate health insurance contract. Therefore, we discourage executive branches of the government to enter into separate health insurance contracts.

Results of Audit

From FY 2014 to FY 2017, GovGuam's total medical health insurance premiums amounted to \$320.4 million (M) or \$80.1M annually. Whereas total medical claims amounted to \$197.2M from FY 2014 to FY 2016 (FY 2017 claims still pending), or \$65.7M annually. Per subscriber, average premium was \$6,751 while the average claim was \$5,612.

Our audit found that the government generously shouldered the substantial portion of the subscribers' health insurance premiums. We also found that:

- Separate price proposals for active employees and retirees, coupled with law prohibiting retirees from paying more than the active employees, caused significant costs to the government;
- The creation of RSP starting FY 2016 resulted in 12% increase in retiree PPO 1500 and HSA 2000 premiums;
- Approximately 9,917 or 84% of the subscribers per year, did not choose the lowest cost health insurance option;
- DOA did not verify the participating contract refunds reported by the Carriers, which led to other financial impact of \$5M.
- GovGuam's PPO 1500 plan premiums were higher by \$950 per active employee in FY 2017 than the Guam Judiciary;
- GovGuam's medical premiums were higher by \$4,722 or 71% per subscriber than the federal government in FY 2017;
- GovGuam's contribution of 87% was higher than the federal government's 75% contribution to Guam federal employees in FY 2017; and
- GovGuam's pooled rates for active employees and retirees makes its 89% government share higher than with other states' 76% employer share.

Health Insurance Premiums and Claims

For the FY 2014 through FY 2017 health insurance contract years, total health insurance costs amounted to \$347M, or an annual average of \$86.7M. Of the total amount, \$320.4M or 92% pertained to medical premiums, while only \$26.6M or 8% pertained to dental premiums¹. These amounts were based on the "close-to-actual" enrollment count provided by DOA, and included the RSP subscribers starting FY 2016. Table 1 shows consistent increases in premium costs in which the government paid 79% while the employees only paid the remaining 21%.

¹ This audit focused on medical premiums. Although we also requested for dental enrollment data, we did not receive the dental enrollment count for FY 2017. However, DOA provided us with "close-to-actual" total dental premium costs for FY 2017.

Table 1: Total Health Insurance Premium Costs (in millions)

	FY 2014	FY 2015	FY 2016	FY 2017	Total 4 Years	Average Per Year	% to Total
Medical	\$67.5	\$78.6	\$86.1	\$88.2	\$320.4	\$80.1	92%
Dental	6.1	6.4	7.0	7.1	26.6	6.6	8%
Total	\$73.6	\$85.0	\$93.1	\$95.3	\$347.0	\$86.7	100%
Gov Share	56.9	66.8	75.6	76.3	275.6	68.9	79%
Emp Share	16.7	18.2	17.5	19.0	71.4	17.9	21%

Since dental plans are more like a secondary health plan, not all subscribers obtained dental plans. Thus, the dental plan enrollment was always lower than that of the medical plans.

Graph 1 shows sharper increases in retirees’ medical premiums than active employees’ premiums for the past four years.

Graph 1: Increasing Medical Premiums

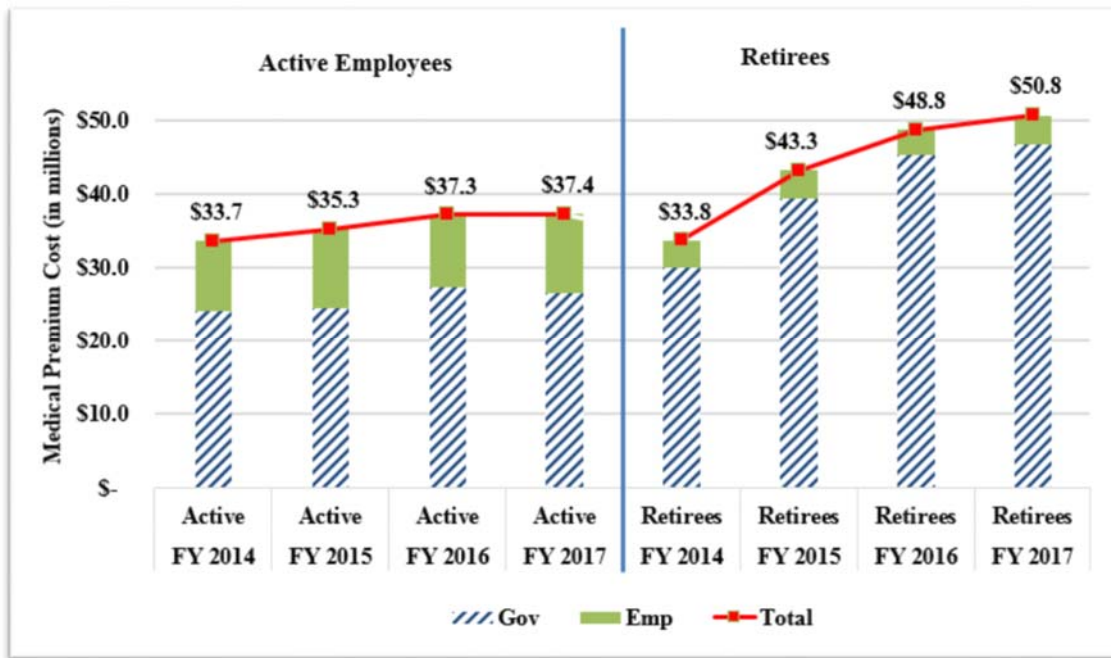


Table 2 shows further breakdown of the annual premium per subscriber, as well as the contribution allocation between the government and the employee. Despite retirees representing 32% of total enrollees, their medical premiums were more than half, or 55% of the total medical premiums.

Table 2: Medical Premium and Average Cost per Subscriber

	Enrollment Count	Total Premium (in millions)			Average Cost Per Subscriber			Gov Share	Emp Share
		Gov	Emp	Total	Gov Share	Emp Share	Total		
FY 2014	11,362	\$54.4	\$13.1	\$67.5	\$4,785	\$1,155	\$5,939	81%	19%
Active Employee	7,682	24.3	9.4	33.7	3,158	1,228	4,386	72%	28%
Retiree	3,680	30.1	3.7	33.8	8,180	1,001	9,181	89%	11%
FY 2015	11,579	64.1	14.5	78.6	5,541	1,248	6,789	82%	18%
Active Employee	7,890	24.6	10.7	35.3	3,120	1,357	4,477	70%	30%
Retiree	3,689	39.5	3.8	43.3	10,718	1,017	11,735	91%	9%
FY 2016	12,192	72.8	13.3	86.1	5,977	1,086	7,063	85%	15%
Active Employee	8,260	27.4	9.9	37.3	3,321	1,193	4,514	74%	26%
Retiree	3,932	45.4	3.4	48.8	11,556	862	12,418	93%	7%
FY 2017	12,327	73.5	14.7	88.2	5,959	1,197	7,156	83%	17%
Active Employee	8,273	26.6	10.8	37.4	3,214	1,309	4,523	71%	29%
Retiree	4,054	46.9	3.9	50.8	11,561	969	12,530	92%	8%
Total	47,460*	\$264.8	\$55.6	\$320.4**	\$5,580	\$1,171	\$6,751	83%	17%
Active Employee	32,105*	\$102.9	\$40.8	\$143.7**	\$3,205	\$1,271	\$4,477	72%	28%
Retiree	15,355*	\$161.9	\$14.8	\$176.7**	\$10,547	\$961	\$11,508	92%	8%

* Of the 47,460 total enrollment count, 32,105 or 68% were active employees and 15,355 or 32% were retirees.

** Of the \$320.4M total medical premium, \$143.7M or 45% were for the active employees and \$176.7M or 55% were for the retirees.

On the other hand, Table 3 shows the total medical insurance claims of \$197.2M, as well as the average claim per subscriber of \$5,612, from FY 2014 to FY 2016 (complete claims data for FY 2017 still unavailable as of this report date).

Table 3: Medical Claims and Average Claim per Subscriber

	Enrollment Count	Total Claims (in millions)	Average Per Subscriber
FY 2014	11,362	\$58.7	\$5,166
Active employee	7,682	33.4	4,352
Retiree	3,680	25.3	6,865
FY 2015	11,579	66.5	5,741
Active employee	7,890	39.3	4,976
Retiree	3,689	27.2	7,377
FY 2016	12,192	72.0	5,904
Active employee	8,260	42.2	5,109
Retiree	3,932	29.8	7,575
Total Claims	35,133	\$197.2	\$5,612
Active employee	23,832	\$114.9	\$4,812
Retiree	11,301	\$82.3	\$7,272

From FY 2014 to FY 2016, the average medical claim was \$4,812 per active employee and \$7,272 per retiree, retirees being 51% higher.

Table 4 shows that retirees, on a per capita basis, have more claims than an active employee, but also pay more premiums.

Table 4: Average Medical Premium and Claims per Subscriber

	FY 2014	FY 2015	FY 2016	Average Per Year
Per Active Employee:				
Average Premium	\$4,387	\$4,477	\$4,514	\$4,459
Average Claim	(4,352)	(4,976)	(5,109)	(4,812)
Excess (Deficiency)	\$35	(\$499)	(\$595)	(\$353)
Per Retiree:				
Average Premium	\$9,181	\$11,735	\$12,418	\$11,111
Average Claim	(6,865)	(7,377)	(7,575)	(7,272)
Excess	\$2,316	\$4,358	\$4,843	\$3,839
Net Excess Premium	\$2,351	\$3,859	\$4,248	\$3,486

In FY 2014, active employees' premiums almost equaled their claims. However, in FY 2015 and FY 2016, active employees' claims were more than their premiums, resulting in deficiencies. On the other hand, retirees consistently had excessive premiums after deducting their claims since FY 2014. The active employees' deficient premiums over claims have been increasing, while retirees' excessive premiums over claims have been increasing for the past three years. While it may appear that the retirees excess premiums subsidized the active employees' deficient premiums, Table 4 shows that retirees' premiums were significantly more than their claims from FY 2014 to FY 2016.

Considering the government contributed approximately 92% of retirees' medical premiums, this excessive premium is an area of potential cost savings to the government moving forward. We found that the lack of price pooling of the subscribers, coupled with the law prohibiting retirees from paying more than what the active employees pay, have caused significant costs to the government. We also found that the creation of the RSP starting in FY 2016 resulted in increased PPO 1500 and HSA 2000 retiree premiums. In addition, DOA's lack of monitoring of refunds accounting from the Carriers may also be a factor to GovGuam's significant health insurance costs over the years.

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

For the past four years, the GovGuam Health Insurance Program RFP required separate price proposals for active employees and retirees. Meanwhile, 4 GCA § 4301(b) requires that the government's share shall not be less than 50% of the lowest premium for a single employee, and that the government shall increase its contribution on behalf of a retired employee or their survivor, so that the retired employee or their survivor does not contribute more than an active employee.

The Carriers propose higher premiums for retirees than active employees because retirees have more claims. As shown in Table 5, regardless of plan type and class, the government contributed between 70% ~ 74% towards active employees' premiums, and between 89% ~ 93% towards retirees' premiums.

Table 5: Average Annual Medical Premium per Subscriber

Fiscal Year	Total Premium per Subscriber	Gov Share (\$)	Emp Share (\$)	Gov Share (%)	Emp Share (%)
Active Employee:					
FY 2014	\$4,386	\$3,158	\$1,228	72%	28%
FY 2015	4,477	3,120	1,357	70%	30%
FY 2016	4,514	3,321	1,193	74%	26%
FY 2017	4,523	3,214	1,309	71%	29%
Retiree:					
FY 2014	\$9,181	\$8,180	\$1,001	89%	11%
FY 2015	11,735	10,718	1,017	91%	9%
FY 2016	12,423	11,561	862	93%	7%
FY 2017	12,530	11,561	969	92%	8%

A careful look at the Employee Share (\$) column indicated that for each year, retirees have lower premiums than active employees although their total premium is much higher. As a result, GovGuam shouldered a significantly higher portion of the retirees' premium, because retirees cannot pay more than active employees. Current statutes prohibit retirees from contributing more than active employees for the same type of health insurance coverage.

The Carriers are aware of the law prohibiting retirees from paying more than active employees. Therefore, if a lower rate is proposed for active employees, the subscriber's share towards the total premium will be lower, and more attractive to subscribers. This implies that the lower rate proposed for active employees may not be a fair premium cost since Carriers know that they may recoup much higher rates for the retirees' premium. Because of this, our comparative analysis discussed later in this report (GovGuam's Premium Share Higher than Other States) used the blended rate for active employees and retirees to compare GovGuam's health insurance premium against other health insurance programs.

Retiree Supplement Plan

The creation of RSP in FY 2016 resulted in increased retiree PPO 1500 and HSA 2000 premiums. Prior to RSP implementation, PPO 1500 and HSA 2000 plans offered² average medical premium per retiree of \$13,687. This rate went up by 12% or \$1,706 to \$15,393 in FY 2016, and another 8% to \$16,609 in FY 2017 when the RSP was implemented. According to the Negotiating Team, the RSP was created as part of a long-term strategy to reduce the total premium for both the government and the retiree because RSP offers a lower total premium than the PPO 1500 and HSA 2000 plans. On average, RSP offered on a monthly basis \$704 in FY 2016 and \$758 in FY 2017. However, savings can only be achieved when enough retirees (if not all) would migrate to the RSP in order to offset the rate increases in the PPO 1500 and HSA 2000 plans.

The RSP enrollment in FY 2016 was 6% or 211 of 3,721 retirees. In FY 2017, the numbers increased to 11%, or 453 of 4,054 retirees. All Medicare-eligible retirees are encouraged to move

² Based on offered medical rates table distributed by DOA to all GovGuam employees and retirees prior to health insurance enrollment.

to the RSP plan. The zero dollar retiree contribution has been the key incentive to encourage migration.

Pooled Medical Premiums

If the premiums for active employees and retirees were pooled, and the government only contributed the 50% minimum requirement per law, it would have saved up to \$62M, or \$16M annually. The government could have contributed \$202.7M for the past four years instead of \$264.8M. For four years, the government added approximately \$5M to its cost for every 5% increment above the 50% minimum requirement for the government’s share. Refer to Appendix 3 for the potential savings calculation. Note that the rates presented were based on offered medical premiums negotiated separately for active employees and retirees. Therefore, the savings assuming the rates are pooled are hypothetical.

Using FY 2017 GovGuam medical premiums for PPO 1500 plan, which had 71% of the subscribers, we analyzed the cost impact if rates were pooled per subscriber for every 5% additional share from the 20% average employee contribution. For example, each PPO 1500 plan subscriber on average will have an additional monthly employee share between \$55.57 (at 20% employee share) to \$376.53 (at 50% employee share). This is between \$666.78 and \$4,518.33 on average per subscriber in one year. See Table 6.

Table 6: Additional Monthly Employee/Retiree Share Using Pooled Medical Rates

FY 2017 PPO 1500 Plan	Class I	Class II	Class III	Class IV	Average Monthly	Average One Year
Not Pooled FY 2017 Active/Retiree Share	\$59.49	\$177.74	\$149.11	\$247.31	\$158.41	\$1,900.92
If Pooled:						
Employee/Retiree Additional Share	54.19	62.08	38.36	67.63	55.57	666.78
Total Premium at 20%	113.68	239.82	187.47	314.94	213.98	2,567.70
Employee/Retiree Additional Share	82.60	122.03	85.23	146.37	109.06	1308.71
Total Premium at 25%	142.09	299.77	234.34	393.68	267.47	3,209.63
Employee/Retiree Additional Share	111.02	181.99	132.10	225.10	162.55	1,950.63
Total Premium at 30%	170.51	359.72	281.21	472.41	320.96	3,851.55
Employee/Retiree Additional Share	139.44	241.94	178.96	303.84	216.05	2,592.56
Total Premium at 35%	198.93	419.68	328.07	551.15	374.46	4,493.48
Employee/Retiree Additional Share	167.86	301.90	225.83	382.58	269.54	3,234.48
Total Premium at 40%	227.35	479.63	374.94	629.89	427.95	5,135.40
Employee/Retiree Additional Share	196.28	361.85	272.70	461.31	323.03	3,876.41
Total Premium at 45%	255.77	539.59	421.81	708.62	481.44	5,777.33
Employee/Retiree Additional Share	224.70	421.80	319.56	540.05	376.53	4,518.33
Total Premium at 50%	284.19	599.54	468.67	787.36	534.94	6,419.25

Pooling the price will allow for a single premium that will give the government the flexibility as to how much it is able to contribute towards subscribers’ premiums, while still complying with the minimum requirement of 4 GCA § 4301(b). We learned that GovGuam’s FY 2019 Health

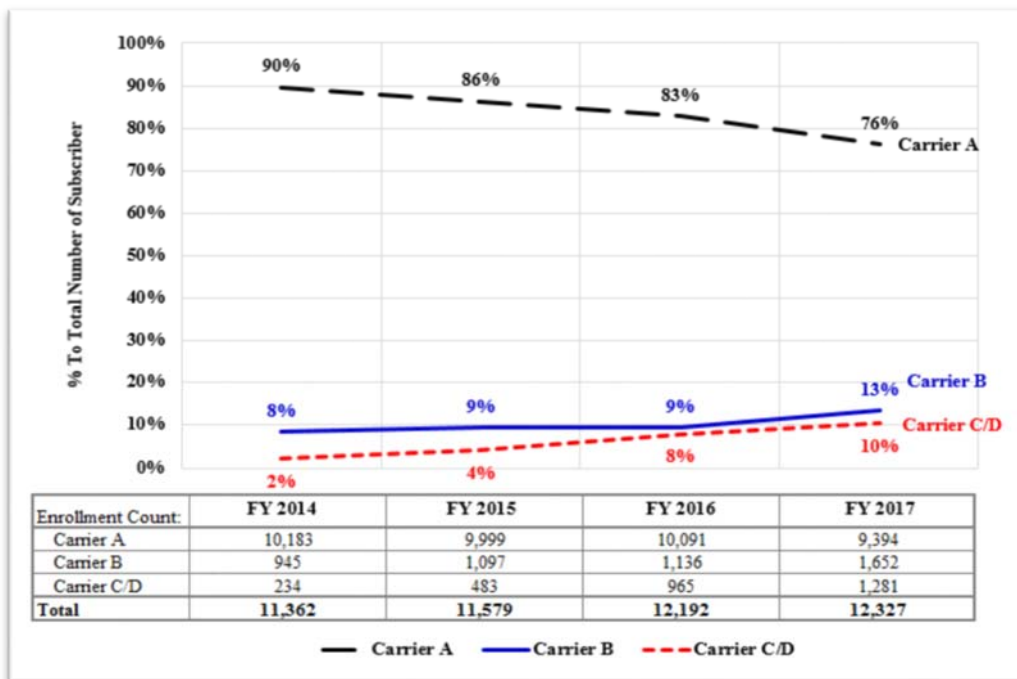
Insurance Program RFP issued in April 2018 already required blended or pooled rate proposals from interested Carriers.

In the midst of the government’s fiscal situation, the Negotiating Team should also consider shifting some of the premium costs to the employees rather than having the government shoulder most of it.

Lowest Cost Premium Not Employees’ Top Choice

Our analysis showed that on average, 84%, or approximately 9,917 subscribers per year, did not always choose the lowest cost health insurance option. See Graph 2 for the enrollment data per carrier.

Graph 2: Subscriber Enrollment per Carrier



Carrier A was consistently the employees’ top choice from FY 2014 through FY 2017, whether or not it was the lowest cost option for the employees. However, we observed that enrollment slowly shifted from Carrier A to other Carriers. Based on our interview with the DOA Personnel Specialist, most subscribers would not normally switch to another Carrier, unless they had bad experiences with their existing Carrier.

Despite the Negotiating Team’s reported potential savings totaling \$52.6M or \$13.2M annually, under the exclusive contract option, GovGuam still selected the non-exclusive contract option from FY 2014 to FY 2017. These savings were not verified by OPA and represents only one Carrier. Based on the Lieutenant Governor’s recommendation to the Governor of Guam, the multiple-carrier scenario for FY 2014 cost substantially less than the FY 2013 sole provider. He further explained that the benefits will be the same for any Carrier and that the only real variables for deciding between exclusive or non-exclusive contract were choice, reliability, and cost. The Governor of

Guam then affirmed the recommendation for the multiple-carrier scenario or the non-exclusive contract option.

In February 2018, the Guam Legislature passed P.L. 34-83 requiring only the lowest cost option be considered, which shall take effect in FY 2019. There is a high likelihood that the exclusive contract option will be selected if the basis will only be on price. For the non-exclusive contract (three Carriers) to be selected, the total premiums altogether should be lower than a single Carrier's exclusive contract option.

In his veto of the then Bill No. 3-34, the Governor stated that the government needs high quality healthcare and not reduce employees to the cheapest price. Similarly, DOA was concerned because the most economical does not always mean the most beneficial to the employees.

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 Carriers

GovGuam's health insurance contract is a fully participating contract, which allows for an annual accounting settlement that will produce either a positive or a negative balance after accounting for incurred claims and guaranteed retention. The guaranteed retention was 14% from FY 2014 to FY 2017 contract years. The other 86% is called the Medical Loss Ratio. The interest in this participating contract is whether GovGuam will be receiving refunds at the end of the contract year. Simply stated, a positive experience participation means a refund to GovGuam.

To illustrate:

	<u>Positive Balance</u>	<u>Negative Balance</u>
Premium earned by the Carrier(s)	\$100,000	\$100,000
Multiply by 86% Medical Loss Ratio	86%	86%
Target Experience	86,000	86,000
Actual/Incurred Claims	(70,000)	(95,000)
Positive (Negative) Balance	<u>\$16,000</u>	<u>(\$9,000)</u>

A positive balance or surplus will be returned to GovGuam either toward reducing any needed rate increase or in cash. If the result is negative, the amount will be added to any needed rate increase for the upcoming contract year, provided the incumbent Carrier continues to be the insurance provider. The Carriers send summary letters to DOA to report the above calculation after the end of each health insurance contract year.

GovGuam received \$2.6M in refunds arising from FY 2014 through FY 2016 health insurance contracts. This \$2.6M was reported by the Carriers on the participating contract summary letters at the end of each contract year. We verified that the amounts were received by DOA.

However, we noted discrepancies on the premiums and claims data provided by the Carriers to the Consultant against the summary letters previously provided by the Carriers to DOA. The discrepancies ranged from \$113K to \$3M. For Carrier A’s reported refunds in FY 2015 and FY 2016 based on its summary letters, the Consultant-compiled data showed that refunds could be higher. Refer to Table 7 below for the health insurance contract refunds from Carrier A.

Table 7: Health Insurance Contract Refunds – Carrier A Only

	FY 2015	FY 2016	Total
Refund per Consultant-Compiled Data	\$3,621,081	\$3,615,782	\$7,236,863
Refund per Carrier Summary Letter	1,215,064	1,025,415	2,240,479
Variance	\$2,406,017	\$2,590,367	\$4,996,384

Based on this, GovGuam could have received a total of \$7.2M in refunds for the FY 2015 and FY 2016 contract years from Carrier A, however, GovGuam only received \$2.2M or \$5M less. It was explained that the variances were due to the vague definition of what could count as “claims” for purposes of calculating participating contract refunds. The prior contracts were not explicit or were not clear in the calculations, which may be subject to legal interpretations. Therefore, the \$5M variance now falls into quality improvement charges and classified as other financial impact in this report. According to the current Consultant, this concern was already considered in the FY 2019 RFP. Refer to Appendix 4 for the complete table of variances noted on premiums, claims, and refunds (or no refund).

Although the definition aspect is now being addressed, DOA should also review the accuracy of the Carrier’s yearly accounting of the participating contract. DOA merely records the check received for reported refunds from the Carriers. For the past contract years, DOA relied heavily on the external Consultant to compile information only to prepare the next RFP, but not to review the data received. It was explained that this is due to lack of manpower and expertise to verify data submitted by the Carriers. As a result, there is a risk that GovGuam is not receiving the correct amounts of refunds, or is not receiving a refund when it should be.

We recommend the DOA Director assign staff to verify the refunds/no refunds reported by the Carriers.

Comparison of Health Insurance Costs

We compared GovGuam's health insurance premiums with that of the Guam Judiciary, the federal government, and other states and intended to show possible areas where GovGuam can reduce its costs. Premiums vary due to several factors such as subscribers' health status, dependent penetration, active employee and retiree mix, or benefits coverage among different health insurance programs. Although we did not look deeper into these factors, we believe that these health insurance programs met the minimum required benefits coverage.

We focused on the FY 2017 premium rates being the most recent year within our audit scope. Our comparison involved averaging and annualizing the premium rates for similar plan types and classes.

We found the following:

- Compared to Guam Judiciary:
 - GovGuam's premium for active employees of \$4,364 was \$469 higher than Guam Judiciary's \$3,895.
 - GovGuam's premium for PPO 1500 Plan of \$6,143 was \$950 higher than Guam Judiciary's \$5,193.

- Compared to Federal Government:
 - GovGuam's premium of \$11,353 was \$4,722 higher than federal government's \$6,631.
 - GovGuam's employer contribution was at 87% or 12% more than the federal government's 75%.

- Compared to Other States:
 - GovGuam's premium for active employees of \$4,400 was \$9,307 lower than other states' \$13,707.
 - GovGuam's employer's contribution for active employees was slightly lower at 74% compared with other states' 76%.
 - However, GovGuam's pooled premium for active employees and retirees would increase employer contribution to 89%, which is 13% higher than other states' 76%.

GovGuam's PPO 1500 Plan Premium Higher than Guam Judiciary

Guam Judiciary's health insurance contract is separate from GovGuam, only has active employees as enrollees, and is contracted with only one Carrier. Such Carrier was also one of the three FY 2017 GovGuam Carriers. Guam Judiciary's retirees are offered medical and dental insurance through the GovGuam health insurance program.

GovGuam's average annual medical premium of \$4,364 was \$469, or 12% higher than the Guam Judiciary's premium of \$3,895 in FY 2017. The GovGuam employer shared 72% towards active employees' premiums, while the Guam Judiciary was slightly higher at 76%. Table 8 shows the total premium costs between GovGuam and the Guam Judiciary's active employees.

Table 8: FY 2017 Offered Premium between GovGuam and the Guam Judiciary – Active Employees Only

GovGuam				Guam Judiciary			
	Total Monthly Premium	Gov Share (\$)	Gov Share (%)		Total Monthly Premium	Gov Share (\$)	Gov Share (%)
PPO 1500:				PPO 1000:			
Class I	\$266	\$206	78%	Class I	\$216	\$152	70%
Class II	552	374	68%	Class II	476	316	66%
Class III	463	314	68%	Class III	389	273	70%
Class IV	767	520	68%	Class IV	649	417	64%
HSA 2000:				HSA 2000:			
Class I	111	110	99%	Class I	108	108	100%
Class II	232	179	77%	Class II	238	226	95%
Class III	195	150	77%	Class III	195	185	95%
Class IV	323	248	77%	Class IV	325	308	95%
Average Monthly Premium	\$364	\$263	72%	Average Monthly Premium	\$325	\$248	76%
Average Annual Premium	\$4,364	\$3,153	72%	Average Annual Premium	\$3,895	\$2,978	76%

GovGuam and Guam Judiciary generally have the same premiums for the HSA 2000 plan. However, they have noticeable differences with the PPO plan where 72% of the Judiciary employees were enrolled. GovGuam offered a PPO 1500 plan, in which the Carrier pays for covered services after the employee meets the \$1,500 deductible, while Guam Judiciary offered a lower deductible at \$1,000. This should mean a higher premium for Guam Judiciary because the Carrier would pay sooner than it would with the \$1,500 deductible plan. However, GovGuam’s PPO premiums for active employees was \$950 or 18% higher than that of the Guam Judiciary in FY 2017. See Table 9 for the PPO Plan comparison between GovGuam and Guam Judiciary.

Table 9: FY 2017 Offered PPO Plan Premium between GovGuam and Guam Judiciary

Total Monthly Premium – PPO Plan				
	GovGuam PPO 1500	Guam Judiciary PPO 1000	Variance (\$)	Variance (%)
Class I	\$266	\$216	\$49	23%
Class II	552	476	76	16%
Class III	463	389	74	19%
Class IV	767	649	118	18%
Average Monthly	\$512	\$433	\$79	18%
Average Annual	\$6,143	\$5,193	\$950	18%

GovGuam Premium and Employer's Share Higher than the Federal Government

The FY 2017 federal government's health insurance program for Guam federal employees offered the same premium for both active employees and retirees. In addition, the premiums were inclusive of dental coverage. The federal government's premium contribution was required to be between 72% and 75%³.

In FY 2017, the federal government contributed 75% towards its Guam federal employees' premium, leaving its employees' contribution to 25%. This 75% share has been consistently applied across all plan types and enrollment classes. By comparison, GovGuam's employer contribution varied per plan and per class and ranged between 81% and 100%, or an average of 87%. See Table 10 for the comparison of premium rates between GovGuam and the federal government's health insurance premium for Guam federal employees.

Table 10: FY 2017 Offered Premium between GovGuam and the Federal Government

GovGuam ⁴				Federal Government ⁵			
	Total Monthly Premium	Gov Share (\$)	Gov Share (%)		Total Monthly Premium	Gov Share (\$)	Gov Share (%)
PPO 1500:				High & Standard Option⁶:			
Class I	\$602	\$527	88%	Self Only	\$448	\$336	75%
Class II	1,276	1,046	82%	Self + One	880	660	75%
Class IV	1,679	1,361	81%	Self + Family	1,171	878	75%
HSA 2000:				HDHP Option:			
Class I	361	359	100%	Self Only	129	97	75%
Class II	762	708	93%	Self + One	305	229	75%
Class IV	997	922	93%	Self + Family	381	286	75%
Average Monthly Premium				Average Monthly Premium			
\$946 \$821 87%				\$553 \$414 75%			
Average Annual Premium				Average Annual Premium			
\$11,353 \$9,849 87%				\$6,631 \$4,973 75%			

In FY 2017, GovGuam's average annual medical and dental premium of \$11,353 was higher than the federal government's \$6,631, higher by \$4,722 or 71% per employee. In addition, GovGuam's employer share was 87%, or 12% higher than the federal government's contribution of 75%.

Considering that GovGuam's law only requires a minimum of 50% contribution, the 87% contribution rate in FY 2017 when compared with federal government was far more generous.

³ U.S. Code 2011, Title 5 Government Organization and Employees, Chapter 89 Health Insurance, Section 8906 Contribution, (b) (1) and (2).

⁴ To be comparable with the federal government premiums, GovGuam premiums have been: (a) pooled together for active employees and retirees, (b) dental rates were included, and (c) only classes I, II and IV were included in the analysis.

⁵ Rates were derived by averaging the rates from the two federal government's health insurance contract for Guam federal employees.

⁶ High & Standard Options do not have deductibles to meet. Works with copayment, similar to GovGuam's PPO plan.

GovGuam’s Pooled Premiums Share Higher than Other States

We compared GovGuam’s health insurance premiums with that of other states’ health insurance premiums. See Table 11 for the total premium costs between GovGuam and Other States’ active employees.

Table 11: FY 2017 Premium Costs between GovGuam (Not Pooled Rates) and Other States – Active Employees Only

GovGuam⁷				Other States⁸			
	Total Monthly Premium	Gov Share (\$)	Gov Share (%)		Total Monthly Premium	Gov Share (\$)	Gov Share (%)
PPO 1500:				PPO:			
Class I	\$266	\$206	78%	Single Coverage	\$713	\$578	81%
Class IV	767	520	68%	Family Coverage	1,833	1,338	73%
HSA 2000:				HDHP with Savings Option:			
Class I	111	110	99%	Single Coverage	563	462	82%
Class IV	323	248	77%	Family Coverage	1,460	1,110	76%
Average Monthly Premium	\$367	\$271	74%		\$1,142	\$872	76%
Average Annual Premium	\$4,400	\$3,252	74%		\$13,707	\$10,461	76%

Table 11 shows that GovGuam premiums for active employees was lower than other states’ premiums. On average, total annual premiums for GovGuam was \$4,400 compared to \$13,707 for other states. Although GovGuam’s medical premiums were lower by \$9,307 per active employee in FY 2017, other states’ employer share of 76% was only 2% higher than GovGuam’s 74%.

As previously mentioned, because of the possibility that Carriers proposed more attractive lower rates for active employees and recoup costs with much higher rates for retirees, we attempted to compare GovGuam’s pooled rates for both active employees and retirees against premiums in other states. See Table 12.

⁷ To be comparable with other states, GovGuam’s premiums represent only active employees as the surveyed data only reported on active employees’ medical premiums, and do not take into account retirees and dental premiums.

⁸ Rates were derived from the survey conducted by Segal Consulting – Choice and Incremental Increases in Cost Sharing Characterize Health Benefits for State Employees Summer 2017.

Table 12: FY 2017 Premium Costs between GovGuam (Pooled Rates) and Other States' Active Employees Only

GovGuam⁹				Other States⁸			
	Total Monthly Premium	Gov Share (\$)	Gov Share (%)		Total Monthly Premium	Gov Share (\$)	Gov Share (%)
PPO 1500:				PPO:			
Class I	\$568	\$509	78%	Single Coverage	\$713	\$578	81%
Class IV	1,575	1,327	68%	Family Coverage	1,833	1,338	73%
HSA 2000:				HDHP/SO⁹:			
Class I	361	359	99%	Single Coverage	563	462	82%
Class IV	997	922	77%	Family Coverage	1,460	1,110	76%
Average Monthly Premium	\$875	\$779	89%		\$1,142	\$872	76%
Average Annual Premium	\$10,502	\$9,354	89%		\$13,707	\$10,461	76%

Based on Table 12, GovGuam's average pooled premiums amounted to \$10,502, which was still lower than that of other states' premiums of \$13,110. However, GovGuam's employer contribution rose to 89%, or 13% higher than other state's 76% employer share.

Other Employer Health Benefits data collected from private and government entities were within the same range as on Tables 11 and 12. Additional details on this data is found in Appendix 5, for information purposes only.

Other Matters – Other Post-Employment Benefits

In June 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The focus is on Other Post-Employment Benefits (OPEB) such as medical, dental, and life insurance benefits, which GovGuam provides for its retirees, spouses, children, and survivors. Unlike pensions where sponsors are pre-funding benefits due in the future, the impact of OPEB will be to significantly increase cash pay-as-you-go expense.

Per the GovGuam actuarial report as of October 1, 2015, there were 10,282 active employees who may be eligible for benefits in the future and 8,155 retirees, covered spouses, and survivors who are currently covered by GovGuam's medical, dental, and/or life insurance benefits. By paying for retiree healthcare and life insurance, GovGuam is facing \$1.98 billion in additional actuarial accrued liability as of October 1, 2015, which will be shared among GovGuam agencies. GASB 75 will be recognized in FY 2018.

⁹ Rates represent pooled medical rates for active employees and retirees.

Conclusion and Recommendations

Our audit of the GovGuam Health Insurance Contracts from FY 2014 to FY 2017 found that the government generously shouldered the substantial portion of the employees' health insurance premiums. For four years, total health insurance premiums (medical and dental) amounted to \$347M, of which \$275.6M or 79% was borne by the government, while only \$71.4M or 21% was borne by employees. 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. Despite retirees representing 32% of total enrollees, their medical premiums were more than half, or 55% of the 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; and (2) employees had the option to choose between three 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. While it may appear that the retirees excess premiums subsidized the active employees' deficient premiums, retirees' premiums considerably exceeded their claims.

If premium rates for active employees and retirees were pooled together, and the government only contributed the 50% minimum requirement per law, it 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, or \$13.2M annually, from FY 2014 to FY 2017, had the exclusive contract option (only one Carrier) been selected. OPA did not verify the savings identified by the Negotiating Team and the rates only represent one Carrier.

The government added \$5M annually to its cost for every 5% increment that it shared above the 50% minimum requirement of law. PL 34-83 in effect for FY 2019 is expected to reduce the overall cost because the lowest cost proposal will be selected. While well intended, the vast majority of employees and retirees did not select the lowest cost option, and switching to an exclusive contract may cause mass disruption and angst to administer.

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

The Health Insurance Program RFP for the upcoming FY 2019 contract year already requested for pooled rates for active employees and retirees. Pooled rates will give GovGuam more flexibility as to how much it is able to contribute towards employees' premiums, while complying with the minimum requirement of the law. GovGuam may consider shifting some of the premium costs to the employees and retirees rather than shouldering most of it. For example, each PPO Plan subscriber on an average may have an additional monthly payment of at least \$55.59.

We recommend the DOA Director assign staff to verify the refunds/no refunds reported by the Carriers.

Classification of Monetary Impact

	Finding Description	Questioned Costs	Potential Savings	Unrealized Revenue	Other Financial Impact
1	Health Insurance Costs for Active Employees and Retirees				
	Lack of Price Pooling Caused Significant Costs to the Government	\$ -	\$ -	\$ -	\$ -
	Cheapest Premium Not the Employees' Top Choice	\$ -	\$ -	\$ -	\$ -
	Subtotal	\$ -	\$ -	\$ -	\$ -
2	Lack of Verification on Refunds/No Refunds Accounting from Carriers	\$ -	\$ -	\$ -	\$ 4,996,384
3	Comparison of Health Insurance Costs				
	GovGuam's PPO 1500 Plan Premiums Higher than Guam Judiciary	\$ -	\$ -	\$ -	\$ -
	GovGuam Premiums and Employer's Share Higher than the Federal Government	\$ -	\$ -	\$ -	\$ -
	GovGuam's Pooled Premiums Share Higher than Other States	\$ -	\$ -	\$ -	\$ -
	Subtotal	\$ -	\$ -	\$ -	\$ -
	Total	\$ -	\$ -	\$ -	\$ 4,996,384

Management Response and OPA Reply

In May 2018, draft report was transmitted to:

1. the DOA Director,
2. the Speaker of the 34th Guam Legislature who requested for this audit, and
3. a Senator in the 34th Guam Legislature who is the Chairperson for Committee on Health.

On May 17, 2018, we met with DOA officials to discuss our findings and recommendations where DOA generally concurred. However, we revised our draft report to reflect our meeting discussions primarily on the following:

- o The monetary impact classification of the \$5M variance on refunds calculation was changed from “unrealized revenues” to “other financial impact” based on DOA’s explanation.
- o Our recommendation to pursue resolving the \$5M variance on refunds calculation was also removed based on DOA’s explanation that pursuing such variance may not materialize due to language limitations on prior contract years.
- o Certain average premium calculations were corrected.

On May 23, 2018, DOA provided their official response, based on their consultant’s feedback, as follows:

- a. OPA added the average active premium to the average retiree premium to arrive at the average total premium. This overstates the premium, as it should be a weighted average.

OPA Reply: This has been corrected to reflect the total average premium per subscriber.

- b. The statement that the government could save \$16M if reducing the cost share to 50% seems low.

OPA Reply: The \$16M annual savings, or \$62M in four years, was calculated based on actual offered medical rates assuming these rates were pooled. Following the Consultant’s simple calculation based on total medical premiums of \$320M (government and employee share), the savings would be \$105M or \$26M annually. We retained our \$16M hypothetical annual savings, instead of the higher amount that the Consultant commented because our calculation considered annual pooled offered rates and enrollment count. Refer to Appendix 3 for OPA’s savings calculation.

- c. Table 11 on page 17 shows the opposite impact that the report is trying to prove. GovGuam’s share is 74%, other state’s share is 76%, so GovGuam cannot be stated to be paying a higher share.

OPA Reply: As advised, this table is to be read in conjunction with table 12. Table 11 illustrates the analysis based on active employees to be comparable to the survey data of other states. However, because of the possibility that Carriers have proposed attractive lower rates for active employees and may recoup costs with higher rates for retirees, we

pooled the rates to derive at the analysis on Table 12. As a result, GovGuam is paying a higher share in comparison to the other states.

- d. OPA report assumes that Carriers would have maintained the lower active premiums while reducing retiree premiums to an amount more in line with actual costs. The negotiations process attempts to create this, but cannot guarantee it. Any savings measured as a result of premiums that are assumed, not actually negotiated, cannot be relied upon.

OPA reply: OPA included a note in the report stating that the rates presented were based on actual prior medical rates negotiated separately for active employees and retirees. Therefore, savings measured assuming the rates are pooled are hypothetical.

- e. OPA report assumes that Carriers would charge the same premiums regardless of cost shifts between GovGuam/subscribers. Carriers are very likely to substantially increase premiums if subscribers are paying a higher percentage. Total premiums, and the attendant Government savings, must account for this likelihood.

OPA reply: OPA understands this concern and definitely agrees that costs of the insurance program are not known in advance and must be estimated based on expected utilization influenced by enrollment and premium sharing between government and employee. Since these factors are unknown at present, we can only use the existing premiums and enrollment count to assume cost shifts.

- f. The Consultant notes that comparisons of GovGuam premiums to the Judiciary and/or Federal government premiums are not as simple as the report implies. If the population differ in health status, dependent penetration, family status, and/or active/retiree mix, identical coverages can justify very different premium amounts.

OPA reply: OPA disclosed in the report that we understand that varying premiums is due to several factors such as subscribers' health status, dependent penetration, active employee and retiree mix, or benefits coverage among different health insurance programs and that we did not look deeper into those plan differences.

- g. OPA states that GovGuam and the External Consultant did not verify the PCR results. This is not the case – DOA shared the Consultant's findings with the OPA, and in fact those findings were used as the basis for parts of the OPA's report. The concern is the ability to enforce what amounts can be used in the calculations, and who has the authority to rule that a carrier must pay a refund based on the calculations.

OPA reply: As previously discussed, this finding remains as DOA only knew about the variance after the consultant compiled the premiums and claims data for this audit. We have removed the recommendation to pursue the \$5M variance as we clarified that the prior contracts were not explicit or clear about what could count as "claims" for the purposes of calculating participating contract refunds, which may be subject to legal interpretations.

- h. In a multi-plan environment, the Government provides subscribers the options (among carriers and plan designs) to choose the coverage that is best for them at the price they are willing to pay. The government's contribution has been set equal across the carriers, with subscriber's paying the difference, such that there should be no impact of carrier selection.

OPA reply: Our analysis was based on a comparison of the number of enrollees per carrier where we identified that the carrier with the most subscribers did not have the lowest rates amongst the three carriers.

- i. Neither GovGuam nor any of the consultants has any say about the decision. Both options are presented to the Governor each year, and he has the duty to accept one and reject the other.

OPA reply: We agree and have noted that with the passage of P.L. 34-83, only the lowest cost option will be considered and forwarded to the Governor.

Refer to Appendix 7 for DOA's official management's response.

On May 22, 2018, we met with the Speaker to discuss the findings and recommendations, in which the Speaker did not have any disagreements. As a result of our discussion with the Speaker and his staff, we added a section about the RSP as a factor affecting increased retiree PPO 1500 and has 2000 premiums in FY 2016 and FY 2017.

On May 23, 2018, we also met with the Chairperson on the Committee on Health as a courtesy for the upcoming audit release.

The legislation creating the Office of Public Accountability requires agencies to prepare a corrective action plan to implement audit recommendations, to document the progress of implementing the recommendation, and to endeavor to complete implementation of the recommendations no later than the beginning of the next fiscal year. We will be contacting DOA to provide the target date and title of the official(s) responsible for implementing the recommendation.

We appreciate the cooperation given to us by the staff and management of DOA, as well as GovGuam's external Consultant, during the course of this audit.

OFFICE OF PUBLIC ACCOUNTABILITY



Doris Flores Brooks, CPA, CGFM
Public Auditor

Appendix 1:**Objectives, Scope, and Audit Methodology**

The audit objectives were to:

1. Determine the actual health insurance premiums and claims for active employees and retirees (“Subscribers”);
2. Determine any participating contract refund arising from FY 2014 through FY 2016 health insurance contracts; and
3. Compare GovGuam’s health insurance costs against other government instrumentalities’ health insurance programs.

Scope

The scope of our audit is from October 1, 2013 through September 30, 2017 (FY 2014 ~ FY 2017). This audit was initiated as part of an audit request received from the Speaker of the 34th Guam Legislature relative to health insurance for GovGuam employees, retirees, and dependents.

Methodology

To accomplish our audit objectives, we completed the following:

- Gained a general understanding of the health insurance RFP process, including negotiations and contract finalization.
- Gained an understanding of the reporting requirements by Carriers to GovGuam in regards to premiums and claims.
- Requested relevant data from DOA in regards to enrollment, premiums, and claims.
- Calculated the average premium and claim per subscriber.
- Obtained information on actual refunds received by GovGuam arising from the participating contract refund.
- Inquired or interviewed DOA staffs and external Consultant on matters requiring clarifications.
- Analyzed health insurance contribution rates and percentages for active employees and retirees.
- Compared GovGuam’s health insurance premiums with the federal government, Guam Judiciary, and other states. However, we did not look deeper into plan coverage differences within the federal government, Guam Judiciary, and other states.

Our audit was conducted in accordance with the standards for performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our audit findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We identified three prior OPA performance audit reports related to GovGuam's health insurance program, as follows:

OPA Report No. 09-07, GovGuam's Wellness Benefits

Released in December 2009

The following were observations noted in this audit:

- There was no agency tasked to monitor the wellness benefits. As such, there was no requirement to collect or analyze data regarding the numbers of employees using the fitness and wellness centers, the frequency they used such services, or the success of the wellness benefits overall. No comprehensive plan was ever developed to create a culture of wellness within the government workforce to help members reduce their health risks. There are no incentives to participate, no efforts to encourage sustained participation, and no plans to promote the importance of good health.
- There was no cost-benefit analysis on the wellness benefits ever conducted. Without a cost-benefit analysis or complete and accurate utilization data, the wellness benefits could not be evaluated for effectiveness.
- The wellness benefits providers were sole sourced. The original RFP for the healthcare plan did not solicit fitness and wellness services, which were subsequently sole-sourced and not advertised.

The recommendation made for this audit to designate an entity to be responsible for monitoring the wellness benefits was closed as of December 2012.

OPA Report No. 11-03, GovGuam Liabilities Assessment

Released in April 2011

The audit objective was to assess GovGuam's liabilities, to include unfunded and unbudgeted items. The audit scope covered October 2009 through March 2011. One aspect that was reviewed pertained to increased health insurance.

Health insurance premiums were expected to increase by \$9.7M to \$20.1M beyond what was appropriated. For FY 2011, \$28.9M was appropriated for health insurance premiums. Based on actual payments from the DOA and projecting those payments for the remainder of the fiscal year, total health insurance premiums were estimated to total \$38.6M, a shortfall of \$9.7M. Actual payments have not been reconciled against the enrollment data.

There had been no recommendation made that directly addressed OPA's comment on increasing health insurance premiums.

Prior Audit Coverage

OPA Report No. 11-11, GovGuam Health Benefits Costs Account

Released in December 2011

In this audit, we found:

- The Carrier did not provide departments and agencies with regular monthly billings. Instead, each department and agency pays health insurance premiums based on bi-weekly payroll data. The audit found considerable differences between the Carrier's enrollment data and the government's information. Therefore, the auditors were unable to reconcile the data sets and were not confident in its reliability.
- A state plan that includes active employees will result in retirees paying a lower rate than if the plan covered only retirees. However, GovGuam separated the retirees from the active employees' health insurance. Since Guam law prohibits retirees and active employees from paying different amounts for the same coverage, GovGuam shoulders the health insurance carrier's substantially higher costs for retiree's insurance.
- Majority of enrollees participate in the SC1500 plan, which required a higher premium but a lower deductible and out-of-pocket expenses. Of the \$31.9M paid for retirees, \$25.2M or 79% was paid for enrollees under the SC1500 plan. In line agencies, \$4M was paid for active employees under the SC1500 plan. The premiums for active employees under the SC1500 plan were significantly lower (from \$96 to \$270), compared to retirees' SC1500 plan (\$315 to \$945), nearly a 350% differential.

The OPA made two recommendations: (1) to eliminate the mandate for OPA to conduct quarterly audits of GovGuam's health insurance payments; and (2) agency reconciliations should still be performed randomly to ensure the accuracy of enrollment data and that proper payments are made. Recommendation no. 1 was closed as not implemented due to Public Auditor's decision not to suggest changes in the law. Recommendation no. 2 was closed as implemented when the DOA Director clarified that payment reconciliation was being done every pay period.

Potential Savings from Pooled Medical Premiums

The table below shows our calculation of government savings if medical subscribers' premiums were pooled together, as well as if the government only shouldered the minimum 50% rate.

Class	Enrollment Count		Pooled Monthly Rates		Government Cost at 50%			Total	Close-to-Actual Gov't Cost	Potential Savings at 50% Gov't Cost
	A	B	C	D	E = A*(C*50%)*12	F = B*(D*50%)*12	G = E+F			
	HSA 2000	PPO 1500	HSA 2000	PPO 1500	HSA 2000	PPO 1500	Subtotal			
FY 2014										
I	2,660	3,961	\$308.33	\$461.67	\$4,920,991	\$10,971,930	\$15,892,922			
II	307	754	651.67	983.67	1,200,370	4,450,117	5,650,487			
III	545	1,232	538.00	806.00	1,759,253	5,957,940	7,717,192			
IV	650	1,253	908.67	1,361.67	3,543,795	10,237,012	13,780,807	\$43,041,407	\$54,365,505	(\$11,324,098)
FY 2015										
I	2,381	4,171	315.51	482.17	4,493,038	12,066,877	16,559,915			
II	307	855	663.25	1,015.76	1,221,700	5,210,823	6,432,524			
III	532	1,301	540.49	828.11	1,725,241	6,464,227	8,189,468			
IV	599	1,433	909.01	1,389.38	3,266,977	11,945,846	15,212,823	46,394,730	64,156,220	(17,761,490)
FY 2016										
I	2,266	4,357	351.22	537.09	4,775,229	14,040,665	18,815,894			
II	299	966	741.15	1,132.4	1,329,619	6,563,390	7,893,009			
III	502	1,449	576.91	884.45	1,737,640	7,689,396	9,427,036			
IV	600	1,542	970.55	1,485.03	3,493,973	13,739,480	17,233,453			
RSP							934,402*	54,303,793	72,869,275	(18,565,482)
FY 2017										
I	2,043	4,455	360.64	568.37	4,420,725	15,192,530	19,613,255			
II	306	967	761.60	1,199.08	1,398,298	6,957,062	8,355,360			
III	438	1,485	592.25	\$937.34	1,556,433	8,351,699	9,908,132			
IV	612	1,568	996.96	1,574.41	3,660,837	14,814,872	18,475,709			
RSP							2,593,766*	58,946,222	73,457,723	(14,511,501)
Grand Total - 4 Years								\$202,686,153	\$264,848,723	(\$62,162,571)

*RSP or Retiree Supplement Plan – The government shoulders 100% of the cost. For simplicity, we merely added the total RSP close-to-actual amounts to column H. The same amounts were already included in the amounts on column I so that no potential savings is reported for RSP.

Potential Savings from Pooled Medical Premiums

Using the same manner of calculation as with the previous page, the total government cost at each 5% increase in contribution would be as follows:

Government Cost at	Total 4 Years	Average Per Year	Cost Differential Per 5%
50%	\$202,686,153	\$50,671,538	
55%	222,601,951	55,650,488	\$4,978,950
60%	242,517,750	60,629,437	4,978,950
65%	262,433,548	65,608,387	4,978,950
70%	282,349,346	70,587,337	4,978,950

This shows that the government added \$5M annually to its cost for every 5% increment that it shared above the 50% minimum requirement of law.

Appendix 4:
Variations on Premiums, Claims, and Refunds (No Refund)

The following tables show the variations noted when we compared the Consultant-compiled data on premiums, claims, and refund (no refund) from FY 2014 to FY 2016. We noted that only Carrier A (for FY 2015 and FY 2016) and Carrier D (for FY 2014) reported refunds during those years. However, Carrier A’s report showed variance, while Carrier D had no variance.

Premiums Earned	86% Required MLR	Claims	Refund (No Refund)
A	B = A*86%	C	D = B-C

Carrier A

FY 2014:

Per Consultant-Compiled Data	\$64,471,556	\$55,445,538	(\$56,906,640)	(\$1,416,103)
Per Summary Letter from Carriers	64,356,915	55,346,947	(57,613,991)	(2,267,044)
Variations	\$114,641	\$98,591	\$707,351	\$805,941

FY 2015:

Per Consultant-Compiled Data	\$75,364,478	\$64,813,451	(\$61,192,370)	\$3,621,081
Per Summary Letter from Carriers	75,477,282	64,910,463	(63,695,399)	1,215,064
Variations	(\$112,804)	(\$97,012)	\$2,503,029	\$2,406,017

FY 2016:

Per Consultant-Compiled Data	\$77,808,894	\$66,915,648	(\$63,299,866)	\$3,615,782
Per Summary Letter from Carriers	78,283,753	67,324,028	(66,298,613)	1,025,415
Variations	(\$474,859)	(\$408,380)	\$2,998,747	\$2,590,368

Carrier B

FY 2014:

Per Consultant-Compiled Data	\$5,482,784	\$4,715,194	(\$6,392,204)	(\$1,677,010)
Per Summary Letter from Carriers	Unavailable	Unavailable	Unavailable	Unavailable
Variations	Unavailable	Unavailable	Unavailable	Unavailable

FY 2015:

Per Consultant-Compiled Data	\$6,854,086	\$5,894,514	(\$8,577,799)	(\$2,683,285)
Per Summary Letter from Carriers	6,323,134	5,437,895	(6,733,090)	(1,295,195)
Variations	\$530,952	\$456,619	(\$1,844,709)	(\$1,388,090)

FY 2016:

Per Consultant-Compiled Data	\$6,668,155	\$5,734,613	(\$9,570,610)	(\$3,835,997)
Per Summary Letter from Carriers	5,785,394	4,975,439	(8,424,407)	(\$3,448,968)
Variations	(\$882,761)	\$759,174	(\$1,146,203)	(\$387,029)

Premiums Earned	86% Required MLR	Claims	Refund (No Refund)
A	B = A*86%	C	D = B-C

Carrier C**FY 2015:**

Per Consultant-Compiled Data	\$2,330,036	\$2,003,831	(\$2,387,651)	(\$383,820)
Per Summary Letter from Carriers	2,377,391	2,044,555	(2,292,685)	(248,129)
Variances	(\$47,355)	(\$40,725)	94,966	(\$135,691)

FY 2016:

Per Consultant-Compiled Data	\$5,639,540	\$4,850,004	(\$5,397,804)	(\$547,800)
Per Summary Letter from Carriers	5,639,540	4,850,004	(5,415,250)	(565,246)
Variances	\$-	\$-	\$17,446	\$17,446

Carrier D**FY 2014:**

Per Consultant-Compiled Data	\$1,266,033	\$1,088,788	(\$739,260)	\$349,528
Per Summary Letter from Carriers	1,266,033	1,088,788	(739,260)	349,528
Variances	\$-	\$-	\$-	\$-

Appendix 5:**Employer Health Benefits – 2017 Survey**

We included this Appendix for additional information only on the other survey we found pertaining to employer health benefits. The survey was conducted by the Kaiser Family Foundation and Health Research & Educational Trust.

Active Employees Only	Total Monthly Premium	Gov Share (\$)	Gov Share (%)
PPO:			
Single Coverage	\$580	\$471	81%
Family Coverage	1,623	1,119	69%
HDHP with Savings Option:			
Single Coverage	502	417	83%
Family Coverage	1,465	1,082	74%
Average Monthly Premium	\$1,043	\$772	74%
Average Annual Premium	\$12,510	\$9,267	74%

The amounts on the table represents data collected from private and government entities offering health benefits to active employees, and do not include dental plans. In 2017, the total monthly premium on the above table was \$12,510 (employer share at 74%), while the other survey on pages 19 and 20 showed total monthly premium of \$13,707 (employer share at 76%).

The survey included a section on retiree health benefits. Among the observations were as follows:

- In 2017, 25% of larger firms that offer health benefits to their workers offer retiree coverage. However, there has been a downward trend from 40% in 1999, to 32% in 2007, to 25% in 2017.
- The share of large firms offering retiree health benefits varies considerably by industry. About 73% of the state and local government would offer retiree health benefits. About 47% of those in transportation/communications/utilities would offer retiree health benefits. Moreover, about 13% of those in agriculture/mining/construction industry would offer retiree health benefits.

Appendix 6:**Status of Audit Recommendations**

No.	Addressee	Audit Recommendation	Status	Action Required
1	DOA Director/ Negotiating Team	Consider shifting some of the premiums to the subscribers rather than having the government shoulder most of it.	Open	Please provide target date and title of official(s) responsible for implementing the recommendation.
2	DOA Director	Assign staff to verify the refunds/no refunds reported by the Carriers.		



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MAY 23 2018

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Public Auditor
Office of Public Accountability
238 Archbishop Flores St.
Hagatna, Guam 96910

Subject: Draft Audit Report – Government of Guam Health Insurance Contract Analysis
DOA Response

Dear Ms. Brooks,

Hafa Adail Thank you for meeting with our office on May 17, 2018 to provide feedback on the above referenced report.

We reviewed the draft Audit Report with our consultants, Aon Consulting. This is to memorialize the discussions during the meeting in more detail.

1. Calculation Issues

- a. Aon notes that in several places, OPA has added the average active premium to the average retiree premium to arrive at the average total premium. This overstates the total premium, as it should be a weighted average of the active and retiree costs.

OPA advised that this is reflected on Table 2 of the report. OPA will update the average total premium amounts (average for all).

- b. The Statement that the government could save \$16M if reducing the cost share to 50% seems low. If total premiums are \$100M, and total government cost share moves from 80% to 50%, the savings should be \$30M.

OPA requested the calculation for the \$30M potential savings. Aon advised that this a hypothetical example, but the calculation is straightforward. If total cost of the insurance program (combined premiums for government and subscribers) is \$100M, and the government currently pays 80% of the premiums on average, the government's cost is \$80M. If the

government were to shift their cost share downward to 50%, they would only be paying \$50M of the \$100M total premium, or \$30M less than the 80% cost share scenario.

- c. Table 11 on page 17 shows the opposite impact that the report is trying to prove. GovGuam's share is 74%, other states' share is 76%, so GovGuam cannot be stated to be paying a higher share.

OPA advised that Table 11 should be read in conjunction with Table 12. The emphasis would be on Table 12 which is, if rates were pooled, GovGuam's share would rise up to 89% (compared to other States' 76%). OPA will revisit the wordings on this particular section to provide more clarity.

2. Assumption Issues

- a. Pooled Premiums – OPA report assumes that carriers would have maintained the lower active premiums while reducing retiree premiums to an amount more in line with actual costs. The negotiations process attempts to create this, but cannot guarantee it. Any savings measured as a result of premiums that are assumed, not actually negotiated, cannot be relied upon.

OPA agreed. OPA commented that they can only work with existing premiums data, the assumption of what can happen to the upcoming negotiations is unknown. OPA will consider putting a caveat on the report to this effect.

- b. Government cost share – OPA report also assumes that carriers would charge the same premiums regardless of cost shifts between GovGuam/subscribers. Carriers are very likely to substantially increase premiums if subscribers are paying a higher percentage. Total premiums, and the attendant Governmental savings, must account for this likelihood.

OPA inquiring clarification on why the Carriers would increase premiums if subscribers are to pay a higher share.

Aon advised that from an insurance company's perspective, costs of an insurance program are not known in advance, and must be estimated based on the expected behavior (utilization) of the insured members (subscribers). Utilization will be influenced by the amount paid by the subscriber versus another entity (in this case, the government). If the government were to pay the entire cost of premiums, more employees are likely to elect coverage even if they were not planning to use the benefits. If the subscriber were to pay 100% of the premium, they would likely only enroll in the plan if they needed the benefit and likely use health care in a very different manner, and consume considerably more of it. Insurance companies know this, and charge higher total premiums for higher utilization (thus higher costs) as the subscriber share of the premium increases.

- c. Aon notes that Comparisons of GovGuam premiums to the Judiciary and/or Federal government premiums are not as simple as the report implies. If the populations differ in health status, dependent penetration, family status, and/or active/retiree mix, identical coverages can justify very different premium amounts.

OPA agrees. Draft report made some disclosures to this effect. OPA will revisit how they can emphasize this concern even more on the report.

3. Authority Issues

- a. Lack of Verification – OPA states that GovGuam and the External Consultant did not verify the PCR results. This is not the case – DOA shared Aon's findings with the OPA, and in fact those findings were used as the basis for parts of the OPA's report. The concern is the ability to enforce what amounts can be used in these calculations, and who has the authority to rule that a carrier must pay a refund based on the calculations.

The draft report states that DOA does not verify the PCR results. DOA only knew about the variances on the calculation of the refunds when AON put together the premiums and claims data as a result of this audit. OPA will revisit their recommendation regarding pursuing the \$5M variances.

- b. Cheapest Premium Not the Employees' Top Choice – in a multi-plan environment, the Government provides subscribers the options (among carriers and plan designs) to choose the coverage that is best for them at the price they are willing to pay. The government's contribution has been set equal across the carriers, with subscribers paying the difference, such that there should be no impact of carrier selection.

OPA commented that they looked at the Subscriber's' contribution or perspective when determining who's Carrier was the cheapest per year.

- c. Exclusive vs. Non-Exclusive offering – neither GovGuam nor any of the consultants has any say about this decision. Both options are presented to the Governor each year, and he has the duty to accept one and reject the other.

OPA agrees. The draft report made some disclosures to this effect.

4. Aon audited the reconciliations in which the extra \$5M can be categorized as either IBNP or "quality improvement" charges. Definitions have been now tightened up for the upcoming plan year to prevent the carriers from manipulating the calculation. Aon can backup calculations if the OPA is to pursue this calculation noting it will require legal interpretation. Aon does realize that the FY14-FY17 contracts were not explicit in the calculations, and would appreciate a legal interpretation on how firm the footing is on recovering these contracts. The OPA auditor is not interpreting the contract and making conclusions that may not conform to the experience rating calculation as written.

OPA notes this comment. Accordingly, the OPA will revisit their recommendation regarding pursuing the \$5M variance. During the exit meeting between OPA and DOA, it was discussed that pursuing the \$5M may not materialize due to language limitations on prior contract years.

We look forward to receiving the final report with edits incorporated, where applicable. Si Yu'us Ma'ase.


Edward M. Birn, Director
Department of Administration



**Government of Guam
Health Insurance Contracts Analysis
Report No. 18-05, June 2018**

ACKNOWLEDGEMENTS

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