



Why Student Health Insurance Rates Vary by School

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As schools prepare for the 2004-2005 policy year renewal of their student health insurance coverage, they are likely to question how their student health insurance rate stacks up against the rates at other institutions, particularly those institutions they consider to be their peers. Unfortunately, the simple comparison of one rate to another sheds little to no light on the adequacy or appropriateness of that school's current premium level. The reason that comparisons among schools are difficult is that student health care costs, and the concomitant insurance rates, are influenced by a variety of health cost drivers and their effect on health care costs can vary dramatically from school to school, even when the schools appear to have similarities. Understanding how each of these factors affects student health care costs will provide the appropriate context for evaluating student health insurance rates by school.

As *Figure 1* illustrates, we have identified five major drivers of student health care costs:

- Benefit Plan Design
- Student Health Services
- Enrollment Process
- Demographics
- Cost of Medical Services

The range in variation in each of these drivers is described below, as is the differing impact such variation can have on health care costs and premium rates.

Benefit Plan Design

It is intuitively clear that benefit plan design effects the cost of a student health insurance plan. Generous plans have higher costs; limited plans, lower costs. But there are complexities and subtleties which often seem counterintuitive. A plan that covers medical services at the 80% coinsurance level obviously will cost less than one that reimburses at the 90% level. But unless one drills down, it may not be clear that an 80% coinsurance plan that has an out-of-pocket maximum of \$500 is comparable in cost to a plan with a 90% coinsurance with an out-of-pocket maximum of

\$3,000. Likewise, there are cost implications for plans that have an annual deductible, if the deductible is waived or not waived with a referral from the student health center. Inside limits on certain benefits can affect the cost, particularly if it is a \$2,500 limit per year on high-cost procedures, which may save premium dollars, but could leave the seriously sick or injured student without catastrophic coverage.

Exclusions play a key role in the determination of plan costs. A benefit plan that covers preventive services including lab tests will be more expensive than one that excludes such services, just as plans that cover pre-existing conditions will be more expensive than ones that exclude or limit such conditions.

Two-tier plans (programs that offer a choice between a base plan and a high-option plan) introduce additional complexity to any rate comparison. To maintain a viable two-tier plan, the base plan must subsidize the high-option plan. But the actual degree of cross-subsidization between the two plans will not be evident in the respective premium rates. A comparison of a single plan rate to either the base plan rate or the high-option rate in a two-tier program will have no validity without additional information and analysis.

Student Health Services

The student health insurance plan is a complement to the services provided at the student health center. It is a truism that most services provided at the health center are those that otherwise would be provided in the community and would be covered under the insurance plan. (The obvious exception are those marginal visits for symptoms of self-limiting conditions that resolve quickly.) As a result, the capabilities of the health center, the scope and depth of its services — be it limited to certain primary care services or expanded beyond primary care to include certain specialty care — are going to directly affect the utilization of services in the community that would fall under the insurance plan. Simply put, a robust student health center is going to generate fewer services in the community than a less comprehensive one. Also, a referral requirement

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will play a key role in determining where medical services are rendered. In addition to directing students to the appropriate care in the community, we have seen empirical evidence that a referral requirement increases the amount of services rendered at the health center. Referral requirements (often called “a requirement to initiate care at the SHS”) both eliminate unnecessary referrals and direct the student to the most appropriate specialist when that is required.

How all of this affects the cost of health care under the insurance plan depends not only on the scope and depth of services at the student health center, and the presence or absence of a referral requirement, but how medical services rendered at the student health center are financed.

For some schools, all services at the health center are financed by a student health fee that is totally separate from the student health insurance premium. For such schools, their respective student health insurance premium rates will vary based on the capabilities of the health center and the amount of medical services rendered there. At the other end of the spectrum, there are schools that bill the health insurance plan for virtually all services rendered at the health center. For these schools, when compared to those who use a separate student health fee, their health insurance premium rates will be considerably higher because their premium rate essentially incorporates a student health fee as well as the cost of insurance. Other schools tend to fall somewhere in the middle in that the student health center is financed by a combination of a separate, more modest, health fee and billings to the insurance plan.

Enrollment Process

Many higher education institutions have now implemented a hard waiver enrollment process for their

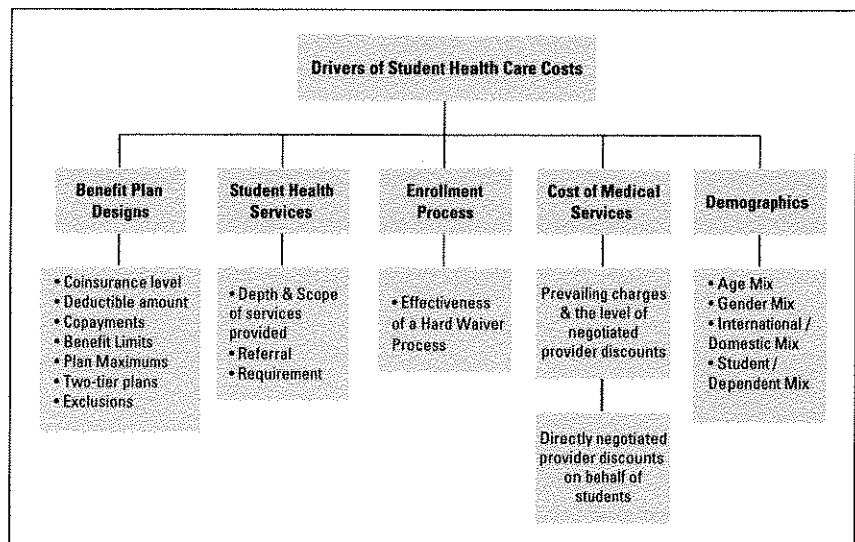


Figure 1: Five major drivers of student health care costs.

student health insurance plan. The process automatically enrolls each student in the insurance plan unless that student can furnish proof that he or she has comparable coverage. In general, the end result is that 20-25% of undergraduates and 35-50% of graduate/professional students will be enrolled in the insurance plan. Because this process essentially eliminates choice on behalf of the student, those enrolled tend to represent a balanced risk pool (high utilizers are offset by low utilizers) that translates into reasonable, stable insurance premium rates.

But, if, for some reason, the process is not strictly enforced, then some students will circumvent the process for a variety of reasons. This causes enrollment to drop and the risk pool to be negatively affected, which, in turn, translates into higher utilization under the insurance plan and higher insurance premium rates. We have seen empirical evidence of this. Schools that apply a hard waiver enrollment process on all students on an annual basis are going to have greater participation and lower costs under their insurance plan than those schools that apply the process only to first year students. Schools that use a voluntary enrollment are highly likely to experience negative risk selection.

Source: The Chickering Group, 2004

“...a fair comparison of health insurance premium rates among schools must factor in the differences in benefit plan design, the capabilities of the respective health centers and the way in which they are financed, the enrollment process, the demographics of the respective insured populations, as well as the cost of medical services.”

Source: The Chickering Group, 2004

	University 1	University 2	University 3	University 4	University 5
Male	49%	54%	48%	37%	51%
Female	51%	46%	52%	63%	49%

Figure 2: The gender split for five schools that are all in the same multi-campus university system.

Demographics

Differences in demographics will cause significant differences in student health insurance rates. As the enrollment rates under a hard waiver process above suggest, an insured student population will have different demographics than the general student population because of the higher enrollment rates for graduate and professional students. As a general rule, graduate students (including professional students) have health insurance costs that are 160% higher than undergraduates, primarily because they are five- to six years older (age 27 versus age 21) and have higher fertility rates.

The split of the general student population, as well as of the insured student population, between undergraduates and graduates can vary greatly from school to school and will have a dramatic effect on health insurance premium rates. For example, if School A has 2,000 undergraduates and 4,000 graduates enrolled in its insurance plan and School B has 4,000 undergraduates and 2,000 graduates enrolled in its insurance plan, we would expect School A's insurance premium rate to be 17% higher than School B's simply due to the average age difference of the two insured populations. Likewise for gender. Females have health insurance costs that are 150% higher than their male counterparts in these age cohorts. International students have health insurance costs that are 20-25% lower than their domestic counterparts. To illustrate the variance that can occur in the important variable of gender of a school's insured student population, Figure 2 shows the gender split

for five schools that are all in the same multi-campus university system.

Finally, there is the student/dependent mix of the insured population. Dependent coverage requires a subsidy from the student portion of the program. A general rule for the subsidy is that a 1% subsidy is needed for every 1% that dependents represent of the insured population — e.g. if dependents represent 8% of the insured population at School A and 2% at School B, then School A's student health insurance rate needs to be 6% higher than school B's.

Cost of Medical Services

Student health insurance rates, like commercial health insurance rates, will reflect prevailing charges for medical services. These vary by geographic area and the level of negotiated provider discounts, which are affected by the presence or absence of competing providers in the area. Additionally, for universities that own or are affiliated with medical centers, there may be favorable, directly negotiated discounts with the medical center that benefit the students in the form of lower health insurance premium rates.

In all, a fair comparison of health insurance premium rates among schools must factor in the differences in benefit plan design, the capabilities of the respective health centers and the way in which they are financed, the enrollment process, the demographics of the respective insured populations, as well as the cost of medical services, particularly in the immediate community.

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