

Healthcare Coverage Feasibility Study (A147):

**An Executive Briefing
for the
Leadership of the Episcopal Church**

September 2008

Confidential

Project Background

At the request of the General Convention, CPG is conducting a Church-wide study of the costs and issues surrounding the provision of healthcare benefits to all clergy and lay employees serving dioceses, congregations (i.e., cathedrals, parishes, missions and chapels) and other church institutions. Over the last eighteen months, comprehensive data has been gathered from these sources and the Episcopal Church Medical Trust (MEDICAL TRUST) to further our understanding of the current healthcare benefits situation in The Episcopal Church (TEC).

In an attempt to address this situation, the 75th General Convention passed Resolution A147:

Resolved, the House of _____ concurring, That the 75th General Convention endorse the Church Pension Group's proposal to conduct a church-wide study of the costs and issues surrounding the provision of healthcare benefits to all clergy and lay employees serving churches, dioceses and other church institutions and to report their findings to the 76th General Convention; and be it further

Resolved, That all dioceses, parishes and other church institutions are urged to cooperate with the conduct of this study by responding to requests for data regarding employee census and healthcare costs; and be it further

Resolved, That this study will include an analysis of the potential for a mandated denominational healthcare benefits program and other viable alternatives, culminating in a recommended solution and an actionable implementation plan.

Integral to the study has been extensive analysis of the healthcare benefit data. The findings of the data analysis, in conjunction with direct input from TEC employers and employees, will be used to formulate recommendations that will be presented to the 76th General Convention. These recommendations must be prepared and submitted for the Blue Book by December 14, 2008.

Project Goals

The three main goals of the Healthcare Coverage Feasibility Study are:

1. Propose the best long-term solution for The Episcopal Church, including the analysis of the potential for a mandated denominational health plan;
2. Prepare a detailed implementation plan; and
3. Communicate the study's results and recommendation, and build consensus for whatever solution is proposed throughout the church before the 2009 General Convention.

The project team, based at the Church Pension Group, has been steadily pursuing these goals since January 2007.

Project Progress

In preparation for General Convention 2009, a strategic communications program was developed in anticipation of questions arising from the published materials in the forthcoming Blue Book. Realizing that most questions will come from bishops and deputies to the 2009 General Convention, it is important that they collectively have the information showing the positive potential impact of a DHP. We believe there are two critical items that are of interest to both houses: the positive financial impact of a DHP and the degree of “local control” available to each diocese. Communications with both Houses is ongoing and occurring simultaneously.

Communications with the bishops began by meeting with the Presiding Bishop, followed by a CPG presentation at the March 2008 House of Bishops’ meeting. The initial draft model of the DHP was well received by the bishops.

Diocesan meetings with individual bishops and their management staff continue to be held. The goal is to provide current information on research findings and possible recommendations and to provide illustrative 2010 financial information related to the financial impact of the DHP. More than 50 such meetings are completed and by October 2008 another 13 are anticipated to be completed.

Communications with the deputies began with a meeting with the President of the House of Deputies on February 2008. As a result, meetings have been completed with several Standing Commissions (i.e., Ministry Development, Health, Constitutions and Canons and the executive council of the Standing Commission on Small Congregations). Due to the success of the meetings thus far, official endorsements of the CPG recommendation are anticipated.

Meetings with the Provincial synods are being scheduled. In addition, CPF is planning six regional forums in Puerto Rico, Atlanta, Dallas, Cincinnati, San Francisco, and an East-coast location yet to be determined. The regional forums will be day long and will address issues related to current pension benefit, pension benefit proposals, and the DHP proposal.

Collection of data, opinions and feedback

A survey to determine employee and General Convention deputy awareness and understanding of the project was completed in April 2007. Findings from the survey indicated that overall awareness of the study was fairly low. Only 40% of the respondents were aware of the feasibility study before the survey mailing. Less than half of the respondents felt “well-informed” about the resolution or the project.

The findings show that nearly all respondents agreed on the following:

- The cost of healthcare is high and rising rapidly toward levels that are unsustainable (96%).
- Controlling the rising cost of healthcare for each church employer is an important issue for the Church to address (95%).
- The cost of healthcare benefits as a percentage of an employee’s compensation in the Episcopal Church is growing (85%).

- Purchasing healthcare benefits collectively rather than per parish or per dioceses could help slow the rising cost of healthcare coverage (79%)

Gathering Opinions through Focus Groups

Throughout 2007 project leadership traveled the country -- from Oregon to Florida -- to conduct 23 focus groups with more than 785 clergy and lay employees to learn their perspectives about: Resolution A147 in general, eligibility, cost sharing, plan design, employer funding, and the legislative method for making healthcare mandatory.

Overall, results show a common theme among participants in their responses, including:

- Healthcare benefits should be mandatory for clergy and lay employees across The Episcopal Church.
- The ultimate goal should be universal coverage for all employees, but, due to cost, this may not be possible. However, all employees should have the ability to purchase healthcare benefits.
- At a minimum, healthcare benefits should be provided to and paid for employees working 30 or more hours a week.

The project team has and will continue to consider this feedback in developing and recommending the best long-term solution for the Church.

Data Collection and Analysis

The project team spent a large part of 2007 collecting data from within and outside the Episcopal Church. The project team has completed the majority of its data collection activities and has moved into the analytic phase which will be completed by the end of the third quarter 2008.

1. The Lay Census (As gathered from A125 study data)

A census of lay employees was completed in 2007. Lay employment data was provided by over 90% of the diocesan offices, and by over 60% of the congregations. While analysis continues, the major findings related to the healthcare project were:

- Only 17% of lay employees working 20-29 hours per week had health benefits from their church employer
- The number of lay employees working 30-39 hours per week with health benefits from their church employer increased to 50%
- For those lay employees working 40+ hours per week, 65% of those employees have coverage from the church.

For the purposes of the healthcare feasibility study, working 30 hours or more per week proves to be the pivotal point at which healthcare benefits are provided for lay employees. Further analysis is needed, however, before any firm conclusions can be made.

2. **Denominational Benchmarking Study**

With the help of Aon Consulting in Chicago, IL, an analysis of other denomination's health plans was undertaken in the first quarter of 2007. Healthcare benefits and financial data were obtained from Board of Pensions of the Presbyterian Church (USA), the Evangelical Lutheran Church of America Board of Pensions, the General Board of Pension and Health Benefits of The United Methodist Church, Concordia Plan Services of the Lutheran Church Missouri Synod, and Guidestone Financial Services of the Southern Baptist Convention.

Analysis of the data from the other denominations is ongoing, and a comparison of the data will be made to the Episcopal Church in the near future. However, a number of findings are relevant to report here:

- BlueCross BlueShield is the sole healthcare provider network as of 2008 for all of the denominations.
- All of the denominations use a *Participating Provider Organization* (PPO) program as their primary plan for employee benefits.
- All of the denominations' healthcare benefits plans are "self-insured" or "self-funded" and administered by their pension plan, i.e., the plans are underwritten by the pension plan and very few "fully-insured" (off-the-shelf) plans are made available.
- The Board of Pensions of the Presbyterian Church (USA) is the only plan that has a provision for mandatory participation and this only applies to clergy – not lay employees.
- Two out of five denominations (ELCA Board and the Presbyterian Board) offer only one plan option. In other words, employees do not have a choice of plan options from which to choose.

3. **Diocesan/Congregational Benefits and Financial Data**

The team has collected data from over 90 domestic dioceses and from over 3,200 congregations nationwide. In addition, a seventy page document detailing healthcare coverage in non-domestic dioceses has been completed. Conversations about our findings with the leadership in these dioceses occurred in the spring of 2008.

Key preliminary findings:

- The majority of domestic "full-time clergy" are receiving family coverage for health benefits at little to no cost to themselves.
- Approximately 40% of our congregations have no regular part-time or full-time staff that qualifies for benefits currently.
- Most of the non-domestic dioceses have socialized healthcare.

4. **Clergy Employment Data**

Using the data from the June 2007 Clergy Compensation report, an analysis was completed to determine the number of full-time verses part-time priests. Data was reviewed from over 6,700 clergy compensation records. Employment status data was

received from 63 of 101 domestic dioceses and employment status data on 4,665 clerics nationwide was collected. Preliminary analysis indicates that 87% of all clergy are working 30+ hours per week.

5. **Individual Data Analysis** (As gathered from A147 study data)

Current data indicates that more than 13,000 clergy and lay employees are covered through parish and diocesan-sponsored healthcare benefits programs. Of these 13,000 employees, almost 8,000 of them are in plans administered and sponsored by the Episcopal Church Medical Trust (“Medical Trust”). The Medical Trust currently provides benefit options to 72 dioceses and more than 20 separate Episcopal agencies, institutions and seminaries.

Today, Episcopal Church employees can choose whether to receive coverage from The Episcopal Church or another source. Several thousand full-time employees have opted-out of health benefits coverage from their Episcopal Church employer and are covered by other sources such as a spouse’s or partner’s plan.

Hours Worked Per Week	% Covered by The Episcopal Church	
	Clergy	Lay
40+	82.9%	67.2%
30-39	60.7%	57.1%
20-29	63.3%	20.9%

The Feasibility Study

The Healthcare Marketplace

- Employers nationwide continue to struggle with the high cost of employee healthcare benefits.
- Employers continue to use cost-shifting as a means of controlling increasing premium costs and in an effort to change consumer behavior.
- The cost differential between HMOs and PPOs has largely eroded.
- With this erosion, more employers are turning to PPOs as the preferred plan for their employees.
- The majority of small employers are offering employees only one healthcare plan option. (Most parishes, and their vestries, view themselves as a small employer.)
- Employers are increasing deductibles, but still only 27% of employees had a deductible of \$500 or more in 2007.

Given the available marketplace information and what is occurring in other denominations, the study is likely to recommend a PPO as the *standard* for the Episcopal Church.

The Economics within The Episcopal Church

Examining the cost of healthcare benefits cannot be completed without first understanding the plans and coverage being purchased. Presently there are more than 100 different health plans being sponsored across the Church by domestic dioceses. While the Medical Trust administers approximately 20 self-funded plans for approximately 70 dioceses, there are almost 80 health plans administered locally by the remaining 30 dioceses. Nearly 60% of all TEC employees are enrolled in a traditional *participating provider organization* (PPO) plan. Some PPO plans have out-of-network doctors and some allow employees and their dependents to access healthcare only through a participating doctor (i.e., an *exclusive provider organization*, EPO plan). Another 35% of employee households are enrolled in a *health maintenance organization* (HMO) or a *point-of-service* (POS) plan. The remaining 5% of employees are enrolled in new *high deductible/health savings account* (HDHP/HSA) plans. The majority of employees insured through TEC are covered through the BlueCross BlueShield (BCBS) provider network and the largest numbers of employees are in a BCBS plan administered by the Medical Trust.

TEC spending for healthcare benefits for employees continues to rise at an alarming rate. In 2008, the amount paid for employee healthcare benefits is expected to increase by 10.5%. Total spending on employee healthcare benefits by domestic US congregations, dioceses and official agencies in 2008 is projected to be \$133.7 million dollars, or \$10, 237 per employee. Total annual spending on employee healthcare benefits in 2008 may represent approximately 10% of the projected Plate and Pledge. Left unchecked, TEC spending on employee healthcare benefits is anticipated to increase at a similar rate for the next two trienniums. It is projected to reach an estimated \$250.4 million in 2015, an unsustainable increase of 87% over that eight year period, which potentially will consume 15% of projected Plate and Pledge. (Projected Plate and Pledge assumes a growth rate of 2.5% for years 2009-2015.)

It is critical to understand the underlying TEC demographics as an employer to measure the financial impact of employee healthcare benefits on the Church. One of the most significant findings our research was that approximately 44% of TEC congregations do not have full-time staff. These congregations are predominantly Family and Pastoral size congregations. These congregations typically have a part-time or supply priest and the research shows the congregation contributes 50% or less of the cost of healthcare benefits for the priest. Many of these congregations share a priest, e.g., yoked parishes or cluster ministries, and the cost of healthcare benefits is shared across the congregations or is paid for by the diocese.

There is much concern that a mandatory Denominational Health Plan (DHP) would have an adverse impact on Family and Pastoral size churches. While these congregations account for 75% of total churches, individually most of them do not have full-time clergy or lay employees who would be eligible for healthcare benefits. However, while the congregation may employ a part-time priest, the priest serving these congregations may be working more than 30 hours per week by virtue of working in multiple congregations. The cost of healthcare benefits for these priests is often shared across each of the congregations for which the priest works.

Transitional, Program and Resource size congregations account for only 25% of the total number of Episcopal congregations. However, 50% of full-time clergy and almost 60% of full-time lay employees are working in these congregations. Consequently these larger

congregations have large line items in their budgets for employee healthcare benefits and are eager to find means to contain the rising cost of employee healthcare benefits.

The unsustainability of the rising costs of healthcare benefits is revealed in projected parish revenue not being sufficient to meet operating expenses. Maintaining the “status quo” of the voluntary system is not a viable option. TEC is facing large and growing deficits largely due to known demographic trends and rising health care costs. TEC cannot simply “grow its way out” of this problem.

Assessing the Situation of Overseas Dioceses

The project team has completed an in-depth study and research into healthcare in TEC overseas dioceses. This work has provided a new appreciation for the enormity of the task as TEC seeks to provide adequate employee healthcare benefits, particularly to those employees working in non-U.S. dioceses.

Members from the project team have travel to conduct research and collect data in all Latin and South American dioceses. The research indicates that several overseas dioceses (i.e., Ecuador, Colombia, Honduras and Venezuela) have national healthcare programs or socialized medicine. However, the presence of a national healthcare system does not guarantee that clergy and lay employees have access to adequate healthcare. The research reveals serious systemic issues in terms of access, quality, adequacy and affordability of healthcare services. Adequate healthcare services are often reserved for those with private health insurance.

The research to date clearly indicates that clergy and lay employees in overseas dioceses are in need of additional healthcare benefits; however, the cost of even the most basic healthcare insurance plan typically exceeds the monthly cash compensation paid to employees (clergy and lay) and is beyond the means of the congregations or dioceses to provide. A typical clergy cash salary in most of overseas diocese is between \$200-400/month. However, the average private health insurance program is approximately \$500-\$600/month for family coverage.

The research on overseas dioceses has identified many issues and concerns, and the Church Pension Fund is actively engaged with the bishops and leadership of these dioceses to develop meaningful recommendations that will assist them in addressing their employee healthcare benefit needs. A meeting to further this discussion is scheduled for the end of October, 2008 in San Juan, Puerto Rico.

Draft Model for a Denominational Health Plan

The following is a draft of the Denominational Health Plan (DHP) Model. The project team intends to integrate three issues in the DHP model. The first is equity between clergy and lay employees who are regularly scheduled to work 30 or more hours per week. Secondly, it attempts to balance the financial constraints of The Episcopal Church with the cost of providing adequate health benefits. Finally, it increases potential savings by leveraging large scale purchasing of medical benefits. The model assumes that all employees of participating employers are eligible to participate in the DHP, even if their employers are not mandated to fund their coverage.

Categories of TEC employers mandated to participate in the DHP

TEC employers required by the proposed canon to participate in the DHP

- Dioceses – Domestic U.S. dioceses, including Puerto Rico and dioceses in other U.S. territories. The study of non-domestic dioceses has occurred through data collection and meetings with their diocesan representatives during spring 2008. Efforts to create a Province IX benefits council for all employee benefits are currently underway with Province IX leadership.
- Congregations – Includes all cathedrals, parishes, missions and chapels. As of the 2005 parochial data, 7,155 entities are in this category. This number includes Puerto Rico and other U.S. territories.
- Official ecclesiastical organizations or bodies (subject to the authority of the General Convention) which are defined as The Domestic and Foreign Missionary Society, the Church Pension Fund, Episcopal Relief and Development, Forward Movement, The General Theological Seminary and the Archives.
- Other ecclesiastical agencies and institutions may participate on a voluntary basis but they and their employees would not be subject to the mandate.

Categories of TEC employees subject to a mandatory DHP

(Note: The information below does not reflect the number of employees in the Diocese of Puerto Rico or employees in dioceses in other U.S. territories.)

- Clergy regularly scheduled to work at least 1,500 hours per year for one or more TEC employers and receiving a W-2. There are an estimated 5,900 active clergy in this category, of which an estimated 1,000 have medical coverage through non-TEC sources, e.g., spousal coverage, Tricare, Medicare, etc. (Note: Non-stipendiary clergy and retired clergy serving in congregations are eligible but not mandated.)
- Diocesan and congregational lay employees regularly scheduled to work at least 1,500 hours per year for one or more TEC employers receiving a W-2. An estimated 6,950 lay employees are in this category, and approximately 4,450 (65%) are covered through their TEC employer, 2,150 (31%) have medical coverage through non-TEC sources, and an estimated 350 (4%) of them have no medical benefit coverage.
- Lay employees of official ecclesiastical organizations or bodies regularly scheduled to work at least 1,500 hours per year for one or more TEC employers and receiving a W-2. There are an estimated 1,400 employees in this category who have medical coverage through TEC sources.
- Lay employees of other ecclesiastical agencies and institutions may participate on a voluntary basis if their employer chooses to participate in the DHP.

Opt Out Option

Clergy and lay employees who have health benefits through approved sources will be allowed to waive coverage under the DHP (“opt out”) and may choose to maintain their healthcare benefits through the approved source. Approved sources will be fully defined in

the future. Examples include coverage through a spouse's or partner's employment, military service benefits through Tricare, or coverage from a previous employer.

DHP Collective Purchasing

Healthcare plans for TEC employers subject to the mandate will be administered by a single source, the Episcopal Church Medical Trust (Medical Trust). Using a single source for healthcare benefits will enable the Church to leverage its aggregate size and obtain lower unit costs.

Local Control and Choice

- **Plan Design Options:** The DHP will provide *Participating Groups*, i.e., agencies, institutions, and dioceses and their congregations, with a number of plan options from which to choose. *Participating Groups* may offer as many of the available options as they choose. Additionally, *Participating Groups* can change plans annually. Likewise, employees will have the ability to make an annual enrollment decision, i.e., open enrollment.
- **Cost Sharing:** The Medical Trust will establish an annual process by which *Participating Groups* will adopt a group-wide level of employee contributions for health benefits coverage. Examples of cost-sharing levels are: 85% of *Family* coverage, 100% of *Individual* coverage, 100% of *Family* coverage, etc. The cost sharing requirements will be the same for both clergy and lay employees, within a *Participating Group*, who work 1,500 or more hours per year.
- **Domestic Partner Benefits:** *Participating Groups* will determine whether or not to offer domestic partner benefits. Domestic partner benefits will be administered in accordance with General Convention Resolution 1997-C024.
- **Schools, Day Care Facilities and other Diocesan Institutions:** The Medical Trust will establish a process by which dioceses will, on an annual basis, adopt a policy as to whether or not schools, day care facilities and other diocesan institutions must participate in the DHP. The diocesan policy will apply to employees of said school, daycare facilities and institutions who would otherwise be required to participate in the DHP. The policy will provide that qualified clergy and lay employees working for these employers are treated in the same way.

Employee Registration/Enrollment Process

There will be an employee registration process administered by the Church Pension Fund that will assist the Church and its employees in enrolling in the DHP.

Financial Administration

While employees may be required to share in the cost of their health plan, only employers will be billed monthly by the DHP. Incoming contributions will flow through the Episcopal Church Clergy and Employees Benefit Trust (a voluntary employees' beneficiary association, i.e., VEBA).

Church-wide Advisory Board

A Church-wide Advisory Board will be established and its members selected from participating employer groups and employees.

Financial Model

As previously mentioned, we estimate the DHP will bring collective savings of approximately 10%. Assuming complete implementation in 2010, first year savings would be \$17.7 million. Overall savings come from a variety of sources including elimination of most state premium taxes and brokerage fees, reduction in administrative service fees from our product partners, and improvement in the underlying health risk of the employee population.

DHP savings will be sensitive to three major variables: the number of uninsured full-time lay employees, the cost-sharing levels established by dioceses, and the number of individuals who chose to “opt-in” or enroll in TEC benefits after cost-sharing has been equalized. Our model currently projects that 350 uninsured lay employees will obtain TEC coverage at a cost of \$3.6 million in 2010. The cost of equalizing cost-sharing is more complicated. Current estimates, based on equalizing benefits for existing employees under existing cost-sharing rules, project the cost of this equalization at approximately \$6.2 million in 2010.

Our financial modeling indicates that adjusting the cost-sharing rules across TEC is expected to result in a large number of employees dropping their existing spousal benefits and choosing health benefits coverage from TEC. Assuming the typical diocese sets the congregational cost sharing level at 85% of the annual premium, with employees contributing 15% of the cost, the model predicts more than 800 employees choosing TEC coverage rather than their existing spousal benefits. This influx of employees may result in an additional \$9.4 million in additional healthcare benefit cost.

General Convention 2009

Currently, the team is considering a revision of Title 1, Canon 8 to address healthcare benefits coverage for clergy and lay employees that will define the following:

- What employers must participate in the Denominational Healthcare Plan (i.e., dioceses, parishes, missions, etc.)?
- What employees must be enrolled and have benefits funded by their employer (e.g., all clergy and lay employees working 30+ hours/week)? An opt out provision would be provided for those who have coverage provided through other approved sources.)
- In the broadest terms possible, what the plan is/will be?

Summary

The feasibility study is proceeding according to plan and is on schedule to present its findings and report in early 2009. As the data is analyzed and information derived from it, conclusions aimed at making cost-efficient recommendations for the Episcopal Church must be made. Any recommendation made will need to balance centralized administration with local control and choice at the diocesan and parish levels.

The project team believes it is important to share data and findings with a broad cross section of bishops, clergy, and lay leadership and to obtain input from them as early in the process as

possible. Current findings and the proposed plan is being reviewed with several of the Standing Commissions, Committees, Agencies and Boards to ensure early feedback. As additional data and findings become available, we look forward to sharing them with the church.

To discuss this material further you may contact us at the Church Pension Fund. The main number is (800) 223-6602 and individual extensions are listed below.

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