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January 16, 2009

President Andrew J. Matonak, Ed.D.  
Hudson Valley Community College  
80 Vandenberg Ave  
Troy, NY 12180

Report Number: P5-08-17

Dear Dr. Matonak:

One of the Office of the State Comptroller's primary objectives is to identify areas where local governments and school districts can improve their operations and provide guidance and service that will assist local and school officials in making those improvements. Our goals are to develop and promote short-term and long-term strategies to enable and encourage local government and school district officials to reduce costs, improve service delivery and to account for and protect their entity's assets.

In accordance with these goals, we conducted a regional audit of health insurance costs for seven local governments. Our sample included two counties, a city, two villages, a town and a community college. The objective of our audit was to determine whether local governments have explored options and implemented actions to contain or reduce their health insurance costs. We included Hudson Valley Community College (College) including the Capital District Educational Opportunity Center (EOC) in this audit. Our examination of the costs associated with the College's provision of health insurance benefits covered the period of January 1, 2004 through December 31, 2007.

This report of examination letter contains our audit results specific to Hudson Valley Community College. We discussed the audit results with College officials and considered their comments in preparing this report. The College's response is attached to this report in Appendix A. At the completion of our audit of the seven local governments, we prepared a global report that summarizes the significant issues we identified at all of the local governments audited.

### **Summary of Findings**

Based on our audit, we conclude that overall, the College has creditably explored various options and undertaken actions designed to contain and reduce its health insurance costs.

### **Background and Methodology**

Hudson Valley Community College, a State University of New York (SUNY) associated two-year college, is located in Rensselaer County. Hudson Valley Community College currently ranks as the largest undergraduate college in terms of enrollment in the Capital District. In 2008, 1,824 students received diplomas. The College currently has an enrollment of approximately 8,000 full time students.

The College's expenditures totaled \$71.3 million in FYE 2007; major costs included personal service, contractual and benefits. These costs are funded primarily through sponsor contributions, state aid, and tuition revenues.

The College is governed by a ten member Board of Trustees (Board). The Board is responsible for the general management and control of the College. The College President, who reports to the Board, serves as the Chief Executive Officer. The Vice President for Finance is responsible for managing the financial and business operations of the College.

Health Insurance costs have risen continuously over recent years and have shown no signs of slowing down. The National Coalition on Health Care reported that employer health insurance premiums increased by 7.7% in 2006 and that the annual premium for an employer sponsored health plan covering an individual or family averaged close to \$4,200 and \$11,500 respectively. Hudson Valley Community College's health insurance premiums increased by 1% from 2005 to 2006 and the annual premiums for individual and family health insurance averaged \$4,827 and \$10,653 respectively in 2006. The College's health insurance premiums increased by 12% from 2006 to 2007, and by 7% from 2007 to 2008. At the time of our audit, there were approximately 630 employees and 190 retirees and eligible spouses participating in the College's health insurance plan. The College incurred health insurance premiums totaling approximately \$5.5 million in 2006 and 6.2 million in 2007.

In planning our audit, we initially surveyed 75 municipalities in Northeastern New York State to obtain information about the health insurance benefits provided to their employees and retirees. We received responses from 41 of the municipalities indicating the respondents spent approximately \$82.4 million for health insurance for 10,315 employees and retirees during fiscal year 2006.

Health insurance expenditures comprise a significant portion of municipal budgets. As such, it is important that local governments continually monitor costs and implement health insurance savings practices so that the level of expenditures for health insurance remains manageable and within the budgeted fiscal constraints. Many local governments employ a variety of strategies in their efforts to contain or reduce health insurance costs:<sup>1</sup>

- Section 125 of the Internal Revenue Code - Cafeteria Plan - Generally, certain benefits excludable from the gross income of an employee may be offered by an employer under a pre-tax cafeteria plan under a specific provision of the Internal Revenue Code (e.g., health insurance premiums and co-payments for medical services). Offering pre-tax deductions from employees' pay for their health insurance contributions is typically referred to as a premium only plan, or POP. Offering pre-tax deductions for contributions to a flexible spending account allows employees to set aside a portion of their earnings to pay for qualified expenses as established in the cafeteria plan, most commonly for medical expenses, but also for dependent care or other qualified expenses. Pre-tax deductions are beneficial for both the employer and its employees as the amounts are deducted before they are subject to income, Social Security, and Medicare taxes, thereby reducing both the employees' wages for income, Social Security, and Medicare tax purposes and the amount of Social Security and Medicare taxes the employer has to pay.
- Payments in Lieu of Health Insurance - As part of their compensation package, employees are often offered health insurance. Some municipalities offer employees the option of a cash payment in lieu of health insurance if the employee can show evidence that they have alternative

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<sup>1</sup> For additional information on cafeteria plans, payments in lieu of health insurance and self-funded Insurance see Office of the New York State Comptroller, Division of Local Government and School Accountability, *Local Government Management Guide, Personal Service Cost Containment*, February 2008.

insurance. Incentives paid to employees to waive health insurance can vary greatly depending on many factors, but when properly structured the health insurance buy-outs can be beneficial to both the municipality and eligible employees, because the buy-out amount is typically much less than the health insurance premium the municipality would otherwise have to pay, and the employees are increasing their overall compensation in lieu of a benefit they do not need.

- Self-Funded Insurance – Typically, municipalities provide health insurance through a fully insured plan, purchased from a health care provider. As an alternative, they can provide health insurance through a self-funded arrangement, where municipalities pay for their employees' health care benefits directly. Generally, when opting to self-fund, municipalities hire a third party administrator who collects and reviews employee health care bills, negotiates rates with medical service providers and estimates the amount of funding required to pay the employees' health care costs. To manage the greater liability risks of a self-funded plan, many municipalities also purchase a stop-loss policy from an insurer to cover catastrophic health care costs above a specific amount. Unlike with fully insured health plans, employers using a self-funded health plan do not pay a State tax that ranges from one to two percent of the premium. Additionally, if employers have employees with relatively good claims histories, the employers may be able to save money by using a self-funded health plan instead of purchasing equivalent insurance coverage with rates based on the pooled claims histories of all insured participants in the community. To minimize year-to-year fluctuations and resulting financial risks, it's advisable that employers considering a self-funded health plan have a relatively large number of employees (for example, 500 or more) so that administrators and risk managers can accurately predict potential claims experience. Although self-funded health plans can have significant benefits, they may not be suitable or cost-effective for everyone and local officials need to carefully consider all the associated risks when deciding whether to adopt such a plan.
- Maximizing Cost Savings Opportunities Under Medicare Part D - Under the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (Medicare Part D), if an employer provides prescription drug benefits to its Medicare-eligible retirees that are at least actuarially equivalent to those that otherwise would be provided by Medicare, the Federal government will make subsidy assistance payments either directly to or on behalf of the employer. It is expected that these Federal subsidy payments will equal 28 percent of allowable retiree costs (about \$600 per participant) for each Part D eligible retiree enrolled in the employer's prescription drug plan. The provisions of Medicare Part D became effective January 1, 2006. The Federal subsidy offered under this program is intended to provide a financial incentive or assistance to employers to continue providing prescription drug benefits to its Medicare-eligible retirees, thereby relieving the Medicare program of coverage responsibility.

To accomplish our audit objectives:

- We analyzed the College's health insurance costs for the period covering January 1, 2004 through December 31, 2007.
- We interviewed College officials and reviewed employee contracts and other documents to gain an understanding of the College's policies and procedures related to the provision of health insurance benefits.
- We determined the extent to which the College has developed a system to monitor health insurance costs and identify strategies to restrain the growth in these expenditures.

- We compared a listing of College retirees participating in the health insurance plan to the Social Security Death Master File to ensure no deceased participants were still listed as active on the College's health insurance plans.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our 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 objectives.

## **Audit Results**

We found the following during our review:

- The College contracts with a benefit consultant who assists with the design, implementation, management and administration of their employee benefit plans. The consultant's services include the identification of cost savings opportunities. For example, in 2006, on the recommendation of the benefits consultant, the College replaced a \$15 co-pay plan with a Health Management Organization (HMO) with a \$25 plan with the same HMO. Because the \$15 co-pay plan was a negotiated benefit specified in the College's collective bargaining agreements, the College reimbursed the difference of \$10 per co-pay to its employees covered under the plan. These co-pay reimbursements to employees totaled \$15,440, and the administrative cost of processing the co-payment refunds was estimated at \$14,400. These costs combined with the seven percent decrease in premiums resulting from the increased co-payment (\$15 to \$25) resulted in a net savings to the College of approximately \$168,000. Taking into account the nine percent increase the College would have experienced had it remained with the \$15 co-pay plan for 2006, the net savings could have been as high as \$470,000.
- The College was self insured in the past (1985-1992) and made a conscious decision to offer and promote HMO's in 1992. With the introduction of the HMO option, membership in the self-funded indemnity plan decreased to a point where it could no longer be offered. Currently, 84 percent of employees and retirees receiving benefits are enrolled in one of the five HMOs offered by the College. The College is self insured for a portion of its prescription drug coverage, dental, and long term disability insurance.
- The College implemented a premium only cafeteria plan and realized a cumulative savings of approximately \$190,000 in Social Security and Medicare taxes over a four year period.
- The College established a medical flexible arrangement effective April 1, 2000 as permitted by Internal Revenue Code Section 125. Between 2004 and 2007 the College deducted approximately \$590,000 on a pre-tax basis resulting in an estimated savings of \$45,000. The College's average enrollment in the dependent care account and health care flexible spending account were 15 and 104 participants, respectively, for the three year period 2005 to 2007.
- Each collective bargaining agreement currently in effect at the College provides for a health insurance waiver, which is comparable to a payment in lieu of benefits program. From 2004 through 2007, an average of 185 employees opted out of the health insurance plan each year. Each eligible employee agreeing to the waiver is paid \$600 at year end. Due to the large number of employees opting to take the health waiver payment, we could not readily determine the type

of coverage (individual or family), plan selection, or contribution level of the employees opting out of health insurance benefits. As a result, we could not determine the exact savings realized by the College. However, we estimate that the current provisions and participation rates result in approximate savings of no less than \$730,000 per year, assuming that all of the employees opting out of coverage would have been provided individual coverage.<sup>2</sup> The College is considering increasing the amount of the payment in future contract negotiations.

- In 2006, the College filed for and received \$42,972 in Federal Medicare Part D employer subsidy payments, which were used to defray the College's cost of providing health benefits to active and retired employees and dependents. We found that not all Medicare eligible retirees receiving benefits qualified for the Medicare Part D employer subsidy payments; however the College is actively seeking cost containment opportunities under Medicare Part D for those retirees.
- Generally, College employees electing individual coverage are required to contribute toward the cost of their health insurance premiums only during their initial years of service.<sup>3</sup> Subsequent to their initial period of service, employees opting for individual coverage are not required to contribute toward the cost of insurance. Employees electing family coverage are required to contribute toward the cost of coverage regardless of their service time or collective bargaining agreement. The College is moving toward requiring all newly hired employees to contribute toward the cost of their health insurance premiums for individual coverage during their entire period of employment.<sup>4</sup> Under current contribution schedules, the College has offset the cost of health insurance benefits by approximately \$2.5 million over a four year period.
- The City of Albany, Rensselaer County, and the College have formed a Cooperative Employee Health Insurance Program for joint prescription benefit management to reduce the cost of employee health insurance while still providing necessary coverage. Currently, approximately 150 College employees and retirees are covered for prescription drugs under the program. The cost savings to the college resulting from this cooperative was approximately \$34,500 in 2007.

Based on the foregoing, we conclude the College has creditably explored various options and undertaken actions designed to contain and reduce its health insurance costs.

Sincerely,

Steven J. Hancox  
Deputy Comptroller  
Office of the State Comptroller  
Division of Local Government  
and School Accountability

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<sup>2</sup>The estimated savings of no less than \$730,000 included an allowance for payroll taxes on the payments in lieu of benefits and for employee contributions that would have been made if coverage would have been provided. Savings would increase for each employee that would have elected family coverage.

<sup>3</sup> The employee contribution period is governed by the employee's collective bargaining agreement or the Administrative Code for Non-Teaching Professional Personnel.

<sup>4</sup> New non-instructional employees first employed subsequent to March 23, 2007, shall pay 10 percent (10%) of the cost of individual coverage.

## **APPENDIX A**

### **RESPONSE FROM COLLEGE OFFICIALS**

The College officials' response to this audit can be found on the following page.



[Redacted]

Office of the State Comptroller  
One Broad Street Plaza  
Glens Falls, NY 12801

Dear [Redacted]

First of all, let me say that the College appreciates your efforts in reviewing our programs for potential cost savings in this area of continuous budgetary concern and we welcome your assistance.

In response to the draft audit, the College finds the content accurate with the exception of the misinformation supplied by the College with reference to the number of active and retired subscribers in the self-insured drug component of the indemnity plan; the number should be approximately 150.

In addition to the current content of the draft audit, the College would like to mention that the introduction in 2004 of several "Senior Blue" plans from Blue Shield, NENY, and in 2008 of CDPHP "Medicare Choice" has drastically reduced cost for many of our retirees who were paying full premium for much more expensive plans. The College realized some small savings on these plans with those few retirees for whom the College makes a contribution to health insurance in retirement, but the vast amount of savings accrued to our Medicare eligible retirees themselves.

Prospectively, the College intends to engage in several further cost-containment efforts. We are committed to a joint labor/management committee with the Faculty Association charged with evaluating any and all vehicles in the current market which might provide acceptable coverage at reduced cost. This committee is to produce said evaluation in time for our next open enrollment period in December of 2008. The College is also investigating the efficacy of providing drug coverage for its HMO members through NYRx, an assessment which is also intended for implementation in coverage year 2009.

The College will continue to make every effort to investigate and adopt cost containment measures which do not diminish quality of coverage and will welcome any suggestions or recommended practices which might emerge from your regional audit.

Very truly yours,

A handwritten signature in black ink, appearing to read "Andrew J. Matonak".

Andrew J. Matonak, Ed.D.  
President