

The Teacher Retirement System's Implementation of TRS-ActiveCare, the Health Care Plan for Active School District Employees

Overall Conclusion

The Teacher Retirement System (System) implemented TRS-ActiveCare, the health insurance program covering active school district employees and their dependents, as required by statute. As the Texas Insurance Code requires, TRS-ActiveCare offers a catastrophic coverage health plan and a health plan (ActiveCare 3) with benefits that are comparable to the benefits offered to state employees through HealthSelect. TRS-ActiveCare is funded solely through employees' premium payments and state and school district contributions.

To further evaluate the System's implementation of TRS-ActiveCare, we surveyed school district and other participating entity administrators. We found that most of them were satisfied with the System's implementation of TRS-ActiveCare.

We also identified related supplemental information and potential risks regarding the coverage resulting from having multiple TRS-ActiveCare plans. For example, it appears that supplemental insurance compensation levels and the existence of other less costly TRS-ActiveCare plans have contributed to employees' moving away from enrollment in TRS-ActiveCare 3 (referred to as adverse selection). This movement away from TRS-ActiveCare 3 may significantly increase the cost for those individuals who remain in the plan and reduce the health care coverage levels of active school district employees in general.

Our review of the System's procedures and controls also indicated that the System generally implemented TRS-ActiveCare in a manner that adequately protects program resources. The provisions of the System's contracts with TRS-ActiveCare contractors appear adequate. The System's routine business operations include frequent interactions with its contractors and reviewing and responding to information in various contractor reports. However, the System has not formalized a comprehensive plan to monitor contractor performance.

Background Information

The Teacher Retirement System (System) implemented TRS-ActiveCare in fiscal year 2003. TRS-ActiveCare covers approximately 130,000 active school district employees and their dependents. As of December 2003, a total of 998 out of 1,245 districts and qualifying entities were enrolled in TRS-ActiveCare. Districts with fewer than 500 employees were required to join TRS-ActiveCare, but enrollment is optional for districts with more than 500 employees.

TRS-ActiveCare offers three health plans:

- ActiveCare 3, which provides coverage comparable to the coverage state employees receive through the Employees Retirement System's HealthSelect plan.
- ActiveCare 2, an intermediate plan.
- ActiveCare 1, a catastrophic coverage plan.

Beginning in fiscal year 2004, TRS-ActiveCare also began offering enrollment in three health maintenance organizations.

The State's and School Districts' Contributions

The State's contribution for full-time active school district employees is \$116.66 per month. Of that amount, \$75.00 is paid through the Foundation School Program, while \$41.66 is in the form of employee supplemental compensation. The minimum that school districts must contribute is \$150.00 per month. All other premium costs are paid by the employee or district.



Key Points

The TRS-ActiveCare program meets statutory requirements.

As the Texas Insurance Code requires, one of the three TRS-ActiveCare health plans that the System implemented (ActiveCare 3) offers health insurance benefits that are comparable to the benefits offered to state employees through the Employees Retirement System's HealthSelect plan. Another TRS-ActiveCare health plan (ActiveCare 1) offers catastrophic coverage as required by statute. As statute allows, the System has elected to provide an intermediate plan (ActiveCare 2). In addition, our survey results indicated that most school district and other participating entity administrators are satisfied with TRS-ActiveCare. Most of them also responded favorably to questions concerning the System's implementation of TRS-ActiveCare.

Our audit of the System's implementation of TRS-ActiveCare identified related supplemental information and potential risks.

We found that most active school district employees have not enrolled in the TRS-ActiveCare plan that is comparable to the plan offered to state employees. In addition, the premium costs of ActiveCare 3 coverage options are from 20 to 48 percent higher than those of HealthSelect. In addition, 27 percent of the participants who were enrolled in ActiveCare 3 in fiscal year 2003 enrolled in less costly TRS-ActiveCare plans in fiscal year 2004. This coincided with a reduction in active school employee supplemental compensation. The existence of less costly plans within the program has caused an adverse selection of ActiveCare 3 that may significantly increase the cost for those individuals who remain in the plan.

We also found that additional school district premium contributions cause employees to capitalize on their increased compensation by selecting plans that provide more benefits than the catastrophic coverage plan.

The System's procedures for protecting program resources appear adequate.

While its contract provisions and procedures appear adequate, the System initially focused primarily on implementation of the program and has not formalized a comprehensive plan to monitor TRS-ActiveCare contractors. Formalizing a comprehensive monitoring plan will become more important in minimizing the risk of substandard contractor performance.

It appears reasonable for the System to rely on school districts to determine employees' eligibility for TRS-ActiveCare, but there are certain measures the System could implement to strengthen eligibility controls. Controls over the distribution of supplemental compensation for active school district employees also appear to be reasonable.

Summary of Management's Response

The System generally agrees with our recommendations; however, it disagrees with our recommendation to consider periodically checking eligibility files for invalid Social Security numbers.

Summary of Information Technology Review

Our review of information technology included analysis and research on fiscal year 2003 health care claims data, pharmacy claims data, and member eligibility data to determine its accuracy. This data is maintained by the TRS-ActiveCare third-party administrator and pharmacy benefits manager and is provided to the System's actuarial consultant on a monthly basis. While we found some discrepancies in the data, the number of discrepancies was less than 1 percent of the total population of data that we analyzed. We did not review the internal controls of systems on which the third-party administrator and pharmacy benefits manager store data, but we did review other independent auditors' assessments of those controls. Those auditors found no weaknesses in controls.

Summary of Objective, Scope, and Methodology

Our objective was to determine whether the System implemented the TRS-ActiveCare program as the Legislature intended and in a manner that adequately protects program resources.

The scope of the audit included reviewing the System's TRS-ActiveCare requests for proposals and contracts, conducting a survey of school district administrators, and analyzing insurance costs and membership. The scope also included reviewing and analyzing claims and eligibility databases and the Texas Education Agency's Public Education Information Management System (PEIMS). We tested information from September 2002 to December 2003.

The audit methodology consisted of collecting information and documentation, performing selected tests and other procedures, analyzing and evaluating the results of the tests, and conducting interviews with the System's management and staff.

Table of Results and Recommendations
The TRS-ActiveCare program meets statutory requirements. (Page 1)
(No recommendations.)
Most school district administrators are generally satisfied with TRS-ActiveCare. (Page 2)
(No recommendations.)
Supplemental information for future consideration. (Page 5)
(No recommendations.)
The System should comprehensively monitor TRS-ActiveCare plan administrators' compliance with the terms of their contracts. (Page 11)
The System should develop and implement a formal TRS-ActiveCare contract monitoring plan to comprehensively monitor its contracts with the TRS-ActiveCare third-party administrator and pharmaceutical benefits manager. At a minimum, the plan should include:
<ul style="list-style-type: none"> ▪ A list of the compliance requirements each contractor has agreed to follow. These requirements are the deliverables the contractors agreed to provide when the contracts were executed. ▪ A risk assessment process for identifying contract provisions with the highest risk of contractor noncompliance and the greatest impact of noncompliance. ▪ Documentation of intended processes such as reviews of supporting documentation relating to payment requests, desk reviews (using analytic procedures) of reports submitted by the contractors, limited scope site visits, and independent audits of contractor operations.

Table of Results and Recommendations

Controls over TRS-ActiveCare eligibility appear reasonable but could be strengthened; controls over the distribution of supplemental compensation appear reasonable. (Page 13)

The System should consider strengthening eligibility controls by:

- Routinely reconciling TRS-ActiveCare claims payments with the eligibility file.
- Periodically checking the TRS-ActiveCare eligibility file for invalid Social Security numbers.

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