



**Statement by  
the Honourable Minister for Finance & Economic Development  
on Co-Pay of Health Insurance Premiums by Civil Servants**

6 May 2016

Madam Speaker, I would like to make a statement in response to the 3 May 2016 letter that was issued by Mr. James Watler, President of the Cayman Islands Civil Service Association ("CICSA") on the issue of co-pay of health insurance premiums by Civil Servants and to provide information on healthcare costs borne by the Government.

I would like to thank Mr. Watler for responding promptly to the very important issue of the Government's rising healthcare costs – an issue that is important to both Civil Servants and the Government alike.

**2015/16 Budget Debate Contribution**

Madam Speaker, on 15 May 2015, the Honourable Premier in his Policy Statement on the 2015/16 Budget acknowledged that good governance means the Government owning up to and taking steps to deal with the intractable problems that plague the Government, such as the burgeoning government health care costs.

In my 2015/16 Budget Address, which I also presented on 15 May 2015, I expounded on the Honourable Premier's statement where I referenced the Ernst & Young Report where it was recommended that "we should introduce co-pay and deductibles for all CINICO customers."

Madam Speaker, I went on to state in my 2015/16 Budget Address that "given that the majority of CINICO customers are Civil Servants and healthcare benefits are part of their contractual terms and conditions of service, we will request the Deputy Governor and Head of the Civil Service, to present a business case to Cabinet on the feasibility of this recommendation and potential impacts on the Civil Service, Civil Servants, CINICO and the Health Services Authority."

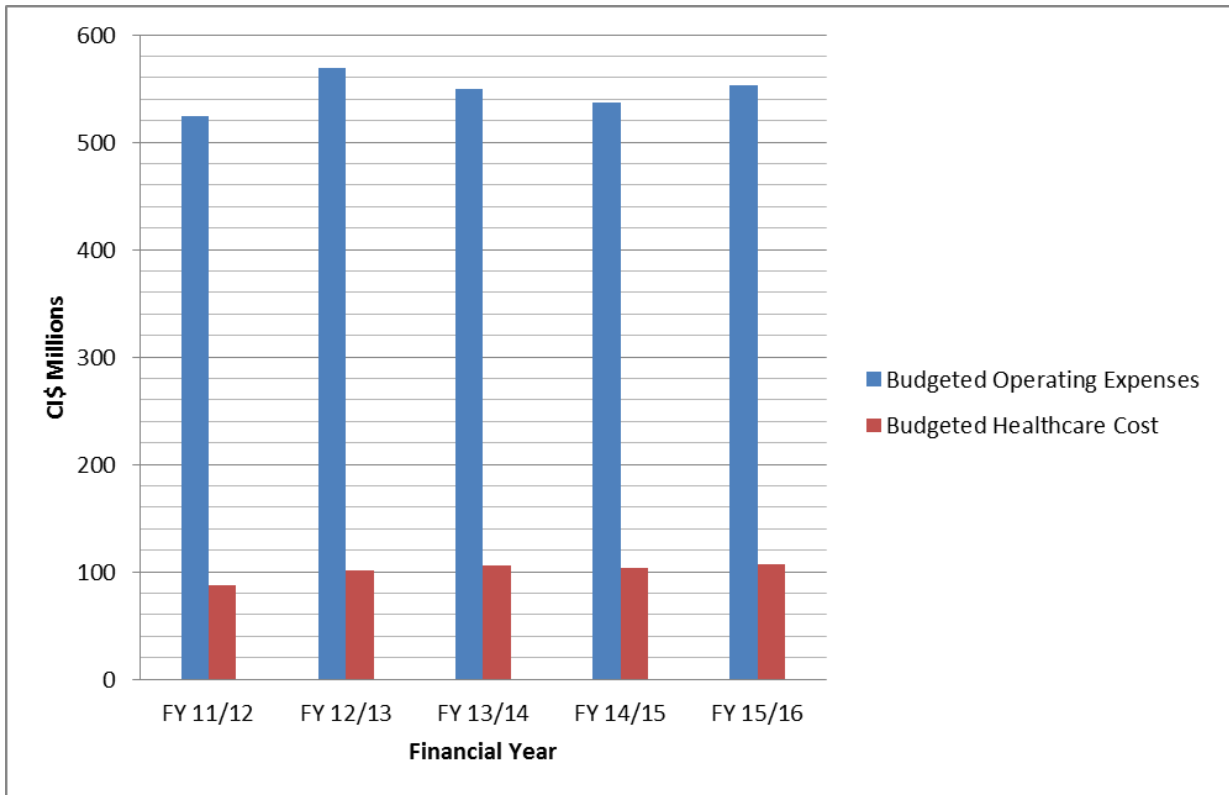
The Deputy Governor in his contribution to the 2015/16 Budget debate also stated that, as the Head of the Civil Service, he would be asking the Portfolio of the Civil Service to review the terms and conditions of Civil Servants including a proposal to introduce cost sharing for healthcare by 2018.

Madam Speaker, the Government has an obligation to pursue policy actions which address rising cost drivers where such costs are a significant element of its annual operating expenditures. Madam Speaker, healthcare cost is the latest such issue facing our country according to Mercer actuarial report, the Auditor General’s audit report and the Ernst & Young report.

Madam Speaker, the below table and charts indicate that the Government’s budgeted healthcare costs have risen steadily in the last five (5) years. However, the actual healthcare cost is even higher because of the unpredictable nature of the NGS 55 output that will usually exceed the budgeted amount.

Therefore, the healthcare cost as a percentage of operating expenses would be even higher than the numbers shown in the table but time did not allow me to get the actual expenditure for these categories.

	CIS in Millions				
	FY 11/12	FY 12/13	FY 13/14	FY 14/15	FY 15/16
Budgeted Operating Expenses	524	569	549	537	553
Budgeted Healthcare Cost	87	102	106	104	107
Budgeted Healthcare Cost as a % of Budgeted Operating Expenses	16.6%	17.9%	19.2%	19.4%	19.3%



In the fiscal year 2011/12, budgeted healthcare costs were approximately CI\$87.0 million representing 16.6% of the CI\$524.0 million budgeted operating expenses for that same fiscal year.

Four years later, the 2015/16 budget indicates healthcare costs at approximately CI\$107.0 million, which represents 19.3% of the CI\$553.0 million budgeted operating expenses for that same fiscal year.

There is no doubt that healthcare costs are significant and increasing annually.

In addition, to fully funding healthcare costs for Civil Servants, Pensioners, and Seafarers & Veterans, the Government offers loans to underinsured and uninsured persons who seek medical care overseas. As at 4<sup>th</sup> May 2016, there were 345 outstanding overseas medical loans with unpaid balances totalling CI\$12.3 million owed to the Government.

The Mercer actuarial valuation Report shows that at 30 June 2014 the present value of the country's post-retirement healthcare liability was approximately CI\$1.18 billion dollars. Unless healthcare costs are addressed, this liability will only increase with time. Madam Speaker, in 2009 when the Government issued the US\$312.0 million bond, the Government disclosed in the offering memorandum for the bond issue that

the healthcare liability was approximately CI\$654.0 (US\$798.0) million as at 1 July 2004.

Therefore, it is clear that the healthcare liability has doubled, or grown by 100%, in 10 years and is growing by approximately CI\$50.0 million per year.

Madam Speaker, the numbers in the above table represent an estimate of the annual healthcare cost incurred and expensed. These estimates do not reflect any accounting for future post-retirement healthcare cost. However, if the future post-retirement healthcare liability was recognized and expensed every fiscal year, the increase in the annual expenditure would be significantly more than shown in the table above.

Madam Speaker, the Government recognized the gravity and significance of the healthcare cost liability facing the country and the struggles it presented in preparing the budget annually. Prior to the Government's recognition of this issue, the former Minister responsible for the Overseas Territories, Honourable Mark Simmonds, in June 2013 when the Premier, myself and the Financial Secretary travelled to the UK for the 2013/14 Budget, the Minister stressed his concern about the size of the Civil Service and the related cost and liabilities and queried what did the Government intended to do about it.

In preparing the 2014/15 Budget, the Government faced the same dilemma. On 11 March 2014, the Financial Secretary, the former Chief Officer for the Ministry of Finance and myself met with the CICSA Management Council to apprise them of the UK's concerns and the Government's dilemma. At that meeting, it was stated by Council Members that in exchange for co-pay, Civil Servants would want freedom to choose healthcare providers.

We received a letter dated 24 March 2014 from the CICSA President, Mr Watler, referring to our discussion and the issue of co-pay with choice and requesting that the issue be discussed with the Deputy Governor, Portfolio of the Civil Service and the Ministry of Health.

In July 2014, as Minister for Finance & Economic Development along with the then Minister for Health, the Honourable Osbourne Bodden, formed the Healthcare Cost Reduction Committee to review the issues that were driving the Government's healthcare costs and to make recommendations on how the Government could reduce those costs.

The Committee met four times between July and December 2014.

The Committee's report, inclusive of its recommendations on healthcare reductions, was presented to Caucus on 9 February 2015 and 2 November 2015 and accepted by Cabinet on 12 January 2016. Cabinet's approval also included the instruction of the Healthcare Liability Reform Working Committee to prepare and deliver to Cabinet, by 31 March 2016, an Outline Business Case for the recommendation on co-pay for Civil Servants.

Madam Speaker, the preparation of an Outline Business Case involves extensive analysis and appraisals, as it relates to economic and qualitative benefits and risks, and consultation with stakeholders which include Civil Servants and CICSA.

Madam Speaker, as decided above by Cabinet, the Portfolio of the Civil Service has been meeting with the CICSA Management Council over the last four months to agree on the details as to how co-pay with choice would be implemented, meaning who would contribute based on ability and how much they would contribute, i.e. what percentage of the premium.

Madam Speaker, in addition to co-pay, as a means of addressing the healthcare liability, the Government has already delivered to this Honourable House, two Bills to amend the Public Service Management Law and the Public Service Pensions Law to increase the retirement age from 60 to 65. These Bills will be debated in the next Session of this Honourable House. Madam Speaker, the proposed increase in the retirement age will benefit Civil Servants in numerous ways such as allowing willing and able Civil Servants to earn a higher salary as compared to a pension; being able to negotiate lower mortgage payments with more years to repay their mortgages; and the accompanying mental and physical health benefits of working and remaining active for a longer period of time in line with the National Pensions (Amendment) Bill, 2016.

Further, the Government is also considering the feasibility of the following measures:

1. Capping the lifetime limit on claims. Madam Speaker, presently, every Civil Servant enjoys a lifetime maximum on health insurance claims of \$5 million. Very few actually reach that limit, but the fact that it exists, results in a potential liability that is quite high. The Government will therefore propose to lower that limit to a more realistic figure which will also limit government's potential future liability. For the sake of comparison, private sector employees

usually have a lifetime maximum of \$2 million, and that is for the very senior employees and partners in professional firms.

2. Introduction of a graduated post-retirement benefit scheme. It is possible, Madam Speaker, for someone to spend 30-plus years of their working career in the private sector, then join the Government and retire after 10 years with the same full coverage of lifetime free medical as someone who has worked their entire career in the Civil Service. This is the present regime which should be re-examined as this also impacts the post-retirement healthcare liability amount that the Government now faces.

Madam Speaker, the 3 May 2016 letter from the President of CICSA stated that healthcare costs of Civil Servants, Pensioners and Indigents are conflated. This is not the case. Health insurance premiums paid to CINICO for Civil Servants and Pensioners are separate and different than other categories insured by the Government. Moreover, there are four different premium rates for Civil Servants depending on their marital status and whether they have children. Similarly, there are four different premium rates for Pensioners.

Madam Speaker, the below tables indicate that CINICO's monthly health insurance actuarial premium rates have risen steadily in the last five years for Civil Servants, Pensioners and Seafarers & Veterans.

<b>Civil Servants</b>					
<b>Actuarial rates</b>	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
Single	\$394	\$416	\$438	\$438	\$440
Couple	\$788	\$832	\$876	\$876	\$880
Single with children	\$788	\$832	\$876	\$876	\$880
Married with Children	\$1,180	\$1,242	\$1,361	\$1,314	\$1,317

<b>Pensioners</b>					
<b>Actuarial rates</b>	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
Single	\$762	\$870	\$965	\$955	\$911
Couple	\$1,523	\$1,741	\$1,930	\$1,911	\$1,821
Single with children	\$1,142	\$1,306	\$1,447	\$1,433	\$1,366
Married with Children	\$1,904	\$2,176	\$2,412	\$2,389	\$2,277

<b>Seafarers &amp; Veterans</b>					
<b>Actuarial rates</b>	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
Single	\$581.00	\$572	\$680	\$618	\$645

Over the past five (5) years, monthly health insurance actuarial premium rates have risen by 10% for Civil Servants and Seafarers & Veterans and by 16% for Pensioners.

Madam Speaker, the actual premium rates paid by the Government, to CINICO, are different than the above actuarially recommended premium rates.

Madam Speaker, the considerations that I have outlined thus far indicate that co-pay is one means of helping to reduce the healthcare liability and cost borne by Government but that in itself will not entirely address the significant healthcare liability and cost faced by Government.

Furthermore, in discussions with CICSA Management Council in March 2014 relating to the FCO concerns about the size and cost of the Civil Service, co-pay with choice was raised in the meeting as a possible way of reducing some costs faced by Government.

I repeat that in May 2015, during the budget address and debates, the Honourable Premier spoke to the growing healthcare cost, I spoke to the options available to address the growing healthcare cost starting 2018 and the Deputy Governor also stated that he and the Portfolio of the Civil Service would be holding discussions with the CICSA and the Civil Service with respect to their terms of employment in an effort to address the growing healthcare liability starting 2018.

The exercise of reducing healthcare costs has now been placed under the Project Future regime which involves further consultation including discussions with the CICSA.

For several years, spanning several Administrations, the issue of co-pay with choice has been discussed with the Civil Service and is it pretty much accepted that the implementation of co-pay should come with choice of healthcare services provider. What remains to be agreed are the details of who will contribute and how much the contribution will be.

That is precisely what was meant by those remarks on 28 April 2016 when I said that it is "pretty much accepted" that there will be a move to co-pay with choice. The Government and other Legislators have accepted that

something needs to be done and there are many Civil Servants who are not opposed to co-pay but simply want freedom of choice since they are already paying for private healthcare cost out of pocket instead of going to the Health Services Authority.

Madam Speaker, it is encouraging to know that CICSА stands ready to continue discussions with those responsible for the discussions as we are aware that discussions have been ongoing for several months around this very important aspect of healthcare cost reductions.

Madam Speaker, the Government has made great strides to control expenditure and to ensure that the FCO did not insist that we cut jobs to reduce costs. However, Madam Speaker, the truth is there are very few places to cut in order to control cost or expenditure without adversely affecting the quality of services provided. Everyday there are growing demands for new services and additional Civil Servants to provide those services. Essential services such as education, national security, and healthcare are under-funded because of the healthcare costs and the long term healthcare liability.

Madam Speaker, I trust that this Statement has clarified what was intended by co-pay with choice has been pretty much accepted and what remains to be agreed is who will contribute and how much they will contribute.

Thank you Madam Speaker