



*Office of the Governor of Guam*

May 3, 2013

Honorable Judith T. Won Pat, Ed.D.  
Speaker  
*I Mina Trentai-dos na Liheslaturan Guahan*  
155 Hesler Place  
Hagatna, Guam 96932

Dear Madam Speaker,

Attached is Bill No. 81-32 (COR) entitled "*An Act to Provide Health Insurance to Government of Guam Employees and Retirees for Fiscal Year 2014*" which I have vetoed.

How many times must the government tamper with the procurement process before expensive lessons are learned from the politics surrounding the annual health insurance provisions? How much money must taxpayers lose and how much time must pass before the finance chairman ends this political witch hunt?

Let's stop beating around the bush on this issue and call this for what it is. The half-dozen pieces of legislation authored over the past two years seeking to alter the health insurance contract and negotiations process have nothing to do with saving taxpayers any money. If they did, there would be empirical data to back all the claims made by the author of these bills. All we have at our disposal are the author's innuendo, backed only by a record of incorrect assumptions, assumptions that in like manner in similar subjects nearly led this government to bankruptcy.

As a matter of fact, all of the data and professional hypotheses by independent third parties (including those commissioned by the author himself), tell this government that meddlesome and political legislation like Bill No. 81 will end up costing government of Guam employees and the taxpayers of Guam even more money.

Senators, we went through this same debate last year. The Department of Administration clearly warned the legislature of the consequences of meddling with the procurement process in the middle of the process. The omen was that tinkering with the process will likely lead to a lengthy protest of the health insurance contract. Senators ignored our advice, and the employees and taxpayers were left holding the bag. The last of the protests were only recently resolved.

There is no common-sense reason for the passage of this latest bill. I can only imagine this legislation was authored to again stymie the current process, one which *already* allows for multiple insurance carriers to provide insurance to GovGuam employees *if* such provisions



actually reduce the costs for the subscribers *and* the taxpayers. This is another attempt to slow progress for political advantage. If this point is lost on any of the members, perhaps we should count the number of times the legislature attempted to thwart the health insurance procurement process in the years before I came to office. I know the answer because before I was governor, I was a member of the legislature; the answer is 'none.' This was never an issue until the author made it one for political purposes.

I must remind senators of an issue of credibility, one which belies all the fancy rhetoric and the powerful oratory on the floor of the legislature:

1. The financial strategies I have presented to the legislature, which the legislature agreed to undertake, have worked, despite the repeated objections of the author.
2. Many of the reasons our government was on the verge of bankruptcy are the severe miscalculations and misrepresentations of the Office of Finance and Budget, calculations that again have been presented in support of Bill No. 81.
3. We need only look back in recent history to the failure of the multi-carrier system, in which government of Guam employees and retirees almost were left without any insurance option (once when all other carrier pulled out, and again last year when the government had to make a last-ditch effort to continue the services of the current provider).

I have spoken with the professionals in government, who understand this process better than the politicians, and as a result I provide to you the details of the facts surrounding the reason this bill will be another catastrophe for this government and its taxpayers:

1. Bill 81 contains many of the deficiencies in an earlier failed bill, 513-31. It ignores the findings of a Health Insurance Review Committee established by Public Law 27-125, a law co-sponsored by Senator Pangelinan. That Health Insurance Review Committee commissioned Lewis & Ellis, Inc. Actuaries and Consultants, who released a report in January 2007 on the costs of health care for GovGuam employees and retirees. Their analysis indicated that "GovGuam would be better off with fewer benefit offerings (no more than 2) and probably only one carrier."
2. It is disingenuous for Senator Pangelinan to now attempt to rebut the findings of an internationally recognized actuary based on his own unsubstantiated and unvetted assumptions, all because that committee didn't come up with the answer that he wanted.
3. Bill 81 eliminates the negotiations process that has been an essential cost savings component for the government. The current solicitation process assures expert scrutiny of the health insurance proposals received by the government; it relies on the participation of professionals from the various government agencies and within the health

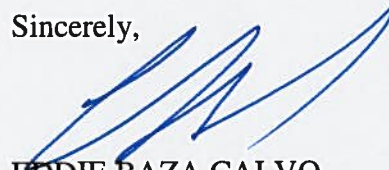
industry field, including several actuaries, consultants and attorneys. Under the current process, approximately 1300 manpower hours are spent in the development of the RFP, review of the proposals and negotiation of the final contract. Bill 81 completely disregards this highly technical and essential vetting process.

4. By removing negotiations and simply awarding a contract to everyone who qualifies, the government loses the ability to negotiate the best rates and the highest benefits for the employees of the government. The benefit of negotiations was evident by the decrease in FY2012 by \$11.5 million over the FY2011 rates while expanding benefits.
5. As a further practical matter, the Department of Administration, relying on expert opinion and available claims data, has testified that there is no mathematical formula which supports a combined medical and dental premium cap of \$68.9 million for all non-exclusive proposals. The Hay Group memo attached to the veto message of Bill 513-31 rebuts any mathematical assumptions of even this new bill. With the possibility of a divided insurance pool, each insurance provider would have to calculate the possibility of receiving a disproportionate number of the higher-risk insureds, thus assuring that the non-exclusive proposals will exceed this cap. There is no independent actuarial analysis offered by Senator Pangelinan to rebut this Hay Group memo.
6. The Hay Group memo further warned that one of the impacts would be to raise costs for retirees, especially those over 65, and that for all employees "the possibility over paying would be huge." Instead of addressing this concern, Bill 81 ignores it and imposes even further financial restrictions on the premium for retirees, thereby making the math even more out-of-sync with the realities of the insurance market.
7. As a catch-all, in the event that the \$68.9 million cap is exceeded, Bill 81 simply cancels the solicitation. It is unacceptable that the bill's author and its supporters insist on pursuing an "all or nothing" approach to the solicitation of insurance for 11,300 government of Guam employees and retirees. If the proposed process fails, and the actuarial experts are assuring us it will, the government would be left without any provision whatsoever for the solicitation of health insurance for the government of Guam. The only alternative left to the legislature would be to hastily draft new legislation and hope that works. The health insurance of the government of Guam employees is too important an issue to subject to a game of try-it-and-hope-it-works legislation.

Bill 81 is fiscally irresponsible. It is mathematically and actuarially impossible. It abandons a proven process for the solicitation and negotiation of the best health insurance plan for the government. It introduces an unacceptable level of uncertainty in the procurement of insurance for the government of Guam. This administration will not enact legislation that

increases the uncertainty and the cost of necessities on our manamko and on our hardworking employees.

Sincerely,

A handwritten signature in blue ink, consisting of several fluid, overlapping strokes that form a stylized representation of the name Eddie Baza Calvo.

EDDIE BAZA CALVO