Strategies to Reduce Health & Welfare Spending

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The Current California Fiscal Landscape

- **Good News:**
  - Unemployment at 4.7%; California economy 6th largest in the world
  - Budget agreement includes $8.6 billion community colleges budget, an approximate 3.1% increase

- **Bad News:**
  - Revenue forecast $5.8 billion lower than expected over three years (2015-2018)
  - Employer-provided health insurance premiums continue to rise– averaging $19,389 for family PPO coverage in 2016 in the West
  - CalPERS and CalSTRS plans to lower discount rate from 7.5% to 7% over next three years which means higher employer contributions

- **Uncertainties:**
  - Impact of federal decision-making on ACA, immigration, trade, climate change etc. on California economy and state budget

The True Cost – More than Medical Trend

- OPEB Liability – GASB 74/75
- Waste, Fraud, Abuse, Identity Theft
- Competitive economic forces not the same in Health Care market
  - Little transparency on pricing/quality metrics
  - Consumer limited in buying decisions
  - Often no control at the point of purchase

Many Arrows in the Quiver

- Plan design and contribution changes
- High deductible plans
- Narrow network quotes
- Dependent audits
- Private exchange options
- Carve out Rx, behavioral health
- Telemedicine
- Spousal surcharge or elimination
- Smokers' surcharge
- Eliminate out of network option
- Wellness and condition management
- Self fund vs fully insured

Finding Best-Value Solutions

- What are your specific cost drivers?
- Are employee demographics a factor?
- Can you find common ground with represented groups?
- Is your employee benefits program aligned with organizational goals?
  - Competitive for recruitment/retention
  - Realistic for budget
  - Sound contribution strategy

Strategies

- Optimizing plan design within the boundaries of state and federal requirements
- Reducing dependent load through eligibility audits and spousal incentive accounts
- Employee wellness and condition management programs
- Other postemployment benefit (OPEB) liability reduction and private health insurance exchange options for early and Medicare retirees.

Benchmarking – Data Mining

- Public agency cost drivers and utilization differ from private sector
- Benchmarking provides means for peer comparisons and better prediction of future costs
- Application of solutions relevant to organization
- Identification of approaches that align with objectives
- Decision making that is fact-based

Benchmarking – Surveys

- Additional source of data if claims data unavailable
- Benefit from the collective experience of like organizations
- Identify “better practices” to achieve desired results
- Community colleges rated their top three employee benefits challenges:
  - Offering affordable, competitive health care benefit
  - ACA compliance
  - Employee wellness and participant engagement

Self Funding

- Some organizations can save 2-10% vs. fully insured
- Savings derive from premium taxes, margin, pooling costs and greater design flexibility
- Depends on risk tolerance
- Risk mitigation strategies:
  - Stop loss pooling
  - Catastrophic claims liability carve out
  - Multiyear rate caps
  - Early renewal locks

Self Funding – Capitated Strategies

- HMOs have experienced lower, yet still significant increases since 2010
- Self-funded EPO and customized limited PPO networks
- Self funding allows access to effective carve out programs for pharmacy, behavioral health and other specialty programs.

Chronic Condition Impact

- According to the CDC, chronic conditions (including mental health conditions) account for 86% of the US $2.7 trillion annual health care expenditures
- Employee Wellness – addresses awareness and lifestyle changes for preventing chronic conditions
- Disease Management – promotes effective management of heart disease, diabetes, arthritis, depression, hypertension to reduce complications leading to hospitalization and disability

Wellness and Disease Management

- Long-term approach to limit cost increases
- “One size fits all?”
- Gap for the Early Retiree segment
- Significant impact for overall plan cost since Early Retiree is typically blended with Active
- Collaboration with health plans to improve member engagement and return on investment

Audits and Performance Incentives

- Operational and claims audits to assess performance
- Incentives tied to audit results and service metrics
- Procedural and financial accuracy of claims administration
- Audits can involve significant expense, but may be important in diagnosing problems with processes or utilization
- May be possible to share costs with TPA/carrier

Performance-based Reimbursement

- Incentives to link reimbursement with value and efficacy of treatment
- Soon representing one-third of medical spending, Pharmacy may be a fruitful target for this strategy
- Specialty drugs (Biologics) now a fast growing and increasingly expensive segment of health care
- Outcomes-based pricing contracts could be a valuable tool for pharmacy cost control

OPEB Expense Reduction

- Many educational institutions and public agencies have retiree health & welfare liabilities in the millions of dollars
- Less than 5% of this liability for California public agencies has been funded
- Required contributions are a major health & welfare expense
- Strategic reduction of OPEB liabilities

OPEB Reduction – Case Study 1

SITUATION

- A California public agency had accumulated OPEB liabilities of $250 million as of the end of the 2015 fiscal year.
- Over the coming decade, projected annualized benefits subsidies to be paid by the agency were predicted to nearly triple.
- New GASB standards going into effect would have a devastating impact on the City's financial statement.

OPEB Reduction – Case Study 1

SOLUTION

- Transition Early and Medicare retirees from the employer plans into health care benefit exchange services.
- This allowed the agency to “unblend” retiree costs from the premium rates for the active employee population.
- Involving the affected retiree population in the discussion and development of the proposed solution, the retirees were ultimately provided with a coverage solution giving them greater flexibility and lower premium costs than participating in the existing plans.

OPEB Reduction – Case Study 1

RESULT

- Because of the open and proactive communication to the retirees, the governing board gave unanimous approval to the new benefit arrangement in October 2015.
- The solution effectively reduced the agency’s unfunded OPEB liability by $200 million and will permit them to affordably address the remaining liability under the GASB standards.

OPEB Reduction – Case Study 2

SITUATION

- Another California agency was experiencing an increasing rise in costs of OPEB, primarily in the retiree health care sector.
- Their unfunded liabilities of $48 million were climbing and a viable solution needed to be found before serious consequences developed.

OPEB Reduction – Case Study 2

SOLUTION

- Implement various exclusively designed plan solutions with greater choice that resulted in cost savings for the both the agency and participants.

OPEB Reduction – Case Study 2

RESULT

- As of March 2015, OPEB liability had been reduced by 73%.
- The agency expects to be 95% funded in the next 11 years, an extraordinary change from being 92% unfunded just four years ago.

Dependent Coverage Exposure

- Dependent Audit Verification during enrollment
- Spouse Coverage Surcharge
- Prohibit Coverage for Employed Spouse
- Spousal Incentive Reimbursement Arrangement

Voluntary Plans

- Employees have varied insurance and financial security needs

With health care costs continuing to outpace salary increases and consumer inflation for other goods and services, cost containment remains a priority for 73% of organizations.

Despite the recent postponement of the Cadillac Tax to 2020, organizations are implementing plan design strategies and innovations to improve quality and control costs.

The 2017 Medical Plan Trends and Observations Report* highlights **10 trends among employers' health care plan design strategies** in three major categories:

- Flattening plan design cost shifts
- Sustainable cost saving mechanisms
- Convenient and high-quality health care options

**This report is based on an annual joint initiative by CEB and DirectPath (formerly known as HighRoads) to collect and analyze more than 975 employee benefit health and medical plans.*

Thank You

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