

Notes from ACE Annual Meeting
September 26, 2016
Capitol Lakes, Premier Room

Justin Sydnor, Professor in Risk Management and Insurance, UW
Madison School of Business

Currently there are 17 health insurance providers for the WI state insurance system administered by Employee Trust Funds. Generally, these are integrated systems involving hospitals, providers, and insurers.

Most neighboring states and Fortune 500 companies in the U.S. use self-insurance. They contract with a 3rd party administrator.

There are costs to the current system. The insurers make a profit, about 1 or 2% of the total cost of the program. There are taxes by the federal government related to premiums.

Wisconsin is unique, with the most competitive health insurance model in the country. We have lots of localized small insurers/providers. Moving to a self-insurance system for the state system would be a big change.

Segal recommends that the State of WI move away from localized health insurers, which would be very disruptive to the current system. Our current system works well and is competitive. The change would affect citizens who are not state employees or retirees.

The current vision for the system administered by ETF: control of health insurance costs results from managed care.

Segal's vision: Patients are supposed to compare costs and pay large deductibles and co-pays in order to limit the costs of their health insurance.

The most effective way to control costs is competition, and the current system is functioning well. The change to self-insurance by the state is likely to lead to mergers of insurance systems. Although

the change would save the 1 or 2% profit currently made by insurers, the costs would rise significantly later.

Nancy Wenzel, CEO, WI Association of Health Plans

According to the Kaiser Family Foundation, WI has the most competitive health insurance market in the county. 18 different insurers are involved in covering 80% of the insured population. Segal's experience is mostly with states that have one or two major insurers.

250,000 insured persons are involved in the state and local employee/retiree system administered by ETF.

Deloitte Consulting suggested in 2012 that self-funding could save \$20 million or cost \$100 million. Deloitte suggested that there could be negative impacts on small business in WI from the switch.

Administration of the system is 9% of the total cost—that is what the winner bidder(s) will handle. Bids were turned into ETF on Sept. 19. On November 30 Segal will provide a (mostly closed) briefing to the Group Insurance Board. Segal will score the RFP technical responses, thus evaluating their own recommendation to self-fund.

In early December the GIB will meet to decide what to do. Any new model would begin January 2018.

Premiums for the current system are increasing 1.6% for 2017. In Georgia, which moved to self-insurance, the per employee cost went up 18.6% in 2014. In Milwaukee County, which switched to self-insurance, overall costs decreased while Walker was the County Executive because the number of county employees decreased. However per employee premiums have increased 9 – 20% annually.

Chris Taylor, State Representative Assembly District 76

The federal "Cadillac tax" on high cost plans has been delayed.

Segal reports that self-funding would require tripling the cash reserves the state has for health insurance. When North Carolina

switched to self-insurance, the state took money from other programs to fund the increase needed for cash reserves for health insurance.

Money could be saved by increasing the deductibles paid by employees/retirees. Any self-insurance program is not required to follow state coverage mandates.

Health actuaries agree that reducing competition increases costs.

The Joint Committee on Finance must approve any switch.

General Discussion and Responses to Questions

In November 2015, Segal indicated that they do not recommend splitting out WI retirees from the system because in WI retirees pay their own premiums. (Although the RFP leaves that option open.) The panelists do not anticipate any change in use of converted sick leave to pay retiree insurance premiums. If the sick leave conversion system changed, they expect it would affect only new employees.

Segal did recommend that Medicare eligible retirees be placed into national Medicare Advantage Plans, but that recommendation was put on hold.

In response to a question about Wisconsin's reportedly high health insurance costs, Nancy Wenzel explained that this was based on a study involving only large national insurer costs. Because large national insurers have so few insured in Wisconsin, this was not representative of typical Wisconsin costs.

She said that Deloitte found that WI health insurance costs are 4.1% lower than national costs. She also said that WI is rated in the top 3 states for quality of health care.

Nancy pointed out that Chuck Grapentine represents insured participants on the Group Insurance Board, and that he is conscientious and does his homework. She indicated that the representative on the GIB from the Attorney General's office is thoughtful. Nancy Thompson represents local units of government on the GIB.

There was discussion of the need for local constituents to contact the Joint Committee on Finance.

It was suggested that the general public should be warned of the potential for the system to cause a reduction in the number of insurers in the state and therefore an increase in health insurance costs.

Prof. Sydnor said that research shows that systems of integrated care in which the insurers and providers have incentive to restrict costs, which is the system we have in Dane County currently, have been shown to effectively hold down health care costs.

Rep. Taylor noted that the end result of self-insurance may be shifting jobs from Wisconsin employers to a national firm.