SJR 372: Joint Subcommittee to Study the Feasibility of a Statewide Health Insurance Experience Pool for Educators and Local Government Employees

<u>September 5, 2007 - Meeting Summary</u>

Senate Joint Resolution 372 (Norment) establishes a joint subcommittee to study the feasibility of a statewide health insurance experience pool for educators and local government employees. The joint subcommittee held its first meeting on Wednesday, September 5, 2007, in Richmond. The joint subcommittee elected Senator Norment, the patron of SJR 372, as chairman of the joint subcommittee and Delegate S.C. Jones as vice-chairman of the joint subcommittee. Other legislative members of the joint subcommittee are Senator Martin, Senator Ruff, Delegate Bulova, Delegate Byron, Delegate Hall, Delegate Peace. Three nonlegislative citizen members of the joint subcommittee are Dr. Joseph O. Cox, Mr. Wayne C. Carruthers, and Mr. Thomas W. Long. Secretary Baskerville serves as the ex officio member of the joint subcommittee.

Overview

Staff presented an overview of the mandates of SJR 372. Primarily, the joint subcommittee is charged with reviewing current health insurance coverage available for active and retired school employees and other local government employees, including state and local early retirees not eligible for Medicare. The resolution also specifies that the Department of Human Resource Management is to provide technical assistance to the joint subcommittee.

Presentations

Virginia State and Local Health Benefits Programs

Mr. Walt Norman, the Department of Human Resource Management Program Manager for The Local Choice Program, provided the joint subcommittee with an overview of the state and local health plans.

The state health plan began in the early 1970s and evolved into two self-funded plans in the 1990s. The two plans merged to form COVA Care in fiscal year 2004. Currently, over 94,000 state and early retirees are enrolled in the state health plan. There is a 4.5% increase in state premiums in fiscal year 2008, and a single digit increase is projected for fiscal year 2009.

By contrast, The Local Choice (TLC), established in 1990 by an act of the General Assembly, is exclusively for political subdivisions and schools and is funded entirely through group premiums. To be eligible for TLC enrollment, an entity must be created by or under an act of the General Assembly. While no minimum participation is required for TLC, an employer must make a minimum contribution, i.e., 80% for full-time employees and 40% for part-time employees; an employer is not required to make a contribution for retirees.

The Department of Human Resource Management manages TLC and program specialists administer self-funded plans. The advantages of TLC are numerous and include:

(1) Procurement savings;
(2) Multiple plan choices;
(3) Low administrative costs;
(4) Access to Department of Human Resource Management benefits expertise;
(5) Disease management, EAP, and CommonHealth wellness program;
(6) Large provider network with substantial network discounts;
(7) Shared risk multiple employer pooling;
(8) Drug, behavioral, dental, and Medicare component pooling;
(9) Specific stop-loss protection; and
(10) Adverse experience adjustment (AEA) protection.

Currently, 238 school and local government groups are enrolled in TLC. Specifically, eight community service boards participate in TLC; 25 independent school groups are enrolled in TLC; and 119 local governments are enrolled in TLC. Four school groups are enrolled in TLC as a part of a local government group--a school division for a locality and that locality participates in TLC as a single group. Finally, there are 82 other groups, such as commissions, authorities, and regional jails that participate in TLC.

Moreover, TLC's enrollment consists of nearly 25,000 employees and nearly 43,000 members. Fifty-five percent (55%) of all groups enrolled in TLC have fewer than 50 employees. In addition, 36% of all TLC-enrolled groups each have between 50 and 299 employees. Only 9% of groups enrolled in The Local Choice have over 300 employees.

TLC plan choices for active employees and early retirees include: (1) Key Advantage Expanded; (2) Key Advantage 200; (3) Key Advantage 300; (4) Key Advantage 500; (5) TLC HDHP (High Deductible Health Plan); and (6) fully insured regional Kaiser HMO. In 2007, the number of groups offering Key Advantage Expanded is 176, and the average monthly premium is $475. In addition, the number of groups offering Key Advantage 200 in 2007 is 74, and the average monthly premium is $458. This year, the number of groups offering Key Advantage 300 is 41, and the average monthly premium is $446. Furthermore, 23 groups are offering Key Advantage 500 in 2007, and the average monthly premium is $406. Finally, only 4 groups are offering TLC HDHP (High Deductible), and the average monthly premium is $343. In addition, TLC offers an optional Medicare supplemental plan.

With regard to rating pools, medical experience, which comprises 60% of claims, is pooled based on group size. Drug, behavioral health, dental, and Medicare experience account for 40% of claims and are pooled across all TLC groups. Note that demographic adjustments are made for smaller groups.

Virginia Education Association

Mr. Robley S. Jones, Director of Government Relations for the Virginia Education Association (VEA), testified before the joint subcommittee. First, Mr. Jones thanked Senator

Norment for his patronage of SJR 372. Next, Mr. Jones explained how the VEA initiated legislation 20 years ago to reduce the costs of health insurance and bring the economy of scale to all of Virginia's school divisions. That legislation led to the creation of the Local Choice Health Benefits Program. Mr. Jones further stated that the average total cost of health insurance increased about 60% between 2001-02 and 2006-07. Moreover, the out-of-pocket cost to a teacher for family coverage is as high as $12,372 per year; thus, while some VEA members receive pay increases, their take-home pay declines as a result of increased health premiums.

Mr. Jones posed the following questions for the joint subcommittee's consideration:

1. How much will health care cost Virginia's school divisions in the years ahead?

2. Is the current voluntary pool (TLC) approach working? Why aren't more localities participating?

3. Studies in Minnesota, Michigan, Pennsylvania, Ohio, and Montana have all concluded that pooling saves substantial amounts of money. No studies have concluded the opposite. How much would be saved in Virginia?

4. What additional information is needed in Virginia to reach an informed decision?

5. Does the Constitution of Virginia allow mandatory participation in the pool? If not, what incentives would lead to widespread participation? What steps need to be taken to engender support for this approach?

6. What governance structure should oversee a statewide program?

Introduction to Experience Rated Pools

Ms. Carol Forrester and Ms. Beth Phares, Vice-Presidents and Senior Consultants for Hilb, Rogal & Hobbs (HRH), delivered an overview of experience rated pools. To begin, the two presenters discussed the type of funding for experience rated pools. Namely, an experience rated pool can be fully insured or self-insured. To be a fully insured experience rated pool, the carrier assumes risk. All administration, stop loss coverage, and claims risk are included in the fully insured rate. The employer's risk is limited to the amount of premiums paid. To be a self-insured experience rated pool, however, the pool assumes the risk. Specifically, the pool is at risk for claims and administration, and the pool generally purchases specific/aggregate stop loss coverage (reinsurance) to protect against catastrophic claims, which can be paid by the carrier, third party administrators, or the pool.

According to HRH, experience rated pools have numerous advantages and disadvantages. The benefits of experience rated pools include: (1) risk being shared between several entities/organizations; (2) pool of risk for small organizations; (3) increased premium volume increases leveraging position with carriers; (4) flexibility in funding/plan options; (5) the possibility of favorable plan performance and competitive rate increases; and (6) reduced administrative costs. These benefits are limited, however, by (1) geographical limitations; (2) complexities of funding/underwriting/pricing; (3) benefit design restrictions (i.e., the inability of a carrier to offer unlimited options); and (4) the threat of a "death spiral," i.e., good risks leaving the pool resulting in an adverse risk pool, which is possibly unable to sustain an appropriate rate structure or viability.

Virginia Municipal League Programs

Mr. Greg Dickie, Director of Member Services for Virginia Municipal League (VML) Insurance Programs, and Ms. Claire Holbrook, Senior Consultant with Wachovia Insurance Services, gave joint testimony regarding VML insurance programs. First, Mr. Dickie stated that VML offers an employee-retiree program in conjunction with Wachovia. Ms. Holbrook, by contrast, testified that Wachovia assists VML in the marketing, implementation, and administration of the program. Moreover, a VML employee-retiree health insurance plan is underwritten on a fully insured plan and is in place for a year. Ms. Holbrook conceded that the VML plan has achieved "limited success." That is, success of the VML program cannot be judged solely on the number of participating political subdivisions because political subdivisions made decisions regarding health care plans before the unveiling of the VML program. Finally, Ms. Holbrook testified that the VML program cannot compete with the TLC plans.

The next meeting of the joint subcommittee has not yet been set. Prior to the next meeting, staff is to study the constitutionality of state mandates for political subdivisions' participation in certain health insurance programs, multi- and regional jurisdictional consortiums, and how wellness programs affect local government/school health insurance programs. Meeting materials, for this meeting, are available on the joint subcommittee's website at: http://dls.state.va.us/insurance.htm.