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**CORRESPONDENCE MEMORANDUM**

**DATE:** March 29, 2004  
**TO:** Group Insurance Board  
**FROM:** Sonya Sidky, Project Manager  
Division of Insurance Services  
**SUBJECT:** Local Government Survey Results

**This memo is informational only and requires no Board action.**

**Study Overview**

This memo discusses the results of a survey conducted by the Department of Employee Trust Funds (ETF) to gauge the interest of local government employers in alternative health plan benefit design. The survey was mailed to 307 local government employers who currently participate in the health insurance program offered through ETF (participating employers) and to 201 local government employers who do not currently participate (non-participating employers).

The purpose of this study was to:

- (1) Address recommendations from Representative McCormick's Local Government Task Force to consider a lower premium option for local governments employers.
- (2) Determine the level of interest for adding a second health plan option to the Local Government Health Insurance Program that would have a lower premium but higher cost sharing features such as deductibles, coinsurance and office visit copays.
- (3) Determine what plan design would be most attractive to current and potential participants of the Local Government Health Insurance Program.

**Respondent Characteristics**

Of the 508 surveys that were mailed, 160 (52%) were returned from participating employers and 90 (45%) from non-participating employers. The participating employers who responded have an average of 39 employees with 27 covered by the Local Government Health Insurance Program. Responding non-participating employers have an average of 171 employees with 140 employees covered by employer-sponsored health insurance. The non-participating employers tended to have more employees on average because the sample included several school districts.

**Interest in a Second Option**

Generally, respondents expressed interest in a lower-cost health insurance option in which employees share in the cost burden through features such as deductibles, copays, and coinsurance. Most participating employers expressed interest in an alternative plan (56% were very interested; 36% were somewhat interested). About 46% of non-participating employers indicated that they would be interested in offering such a plan, 47% indicated that they were not sure, and 7% indicated that they would not be interested.

Reviewed and approved by Tom Korpady, Division of Insurance Services.  
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Signature Date

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It is clear that the current program does not fit the needs of many of the participants it serves. Only 12% of participating employers strongly agreed that the current program fits their needs and their budget. Non-participating employers indicated that they would be more interested in joining the program if a cheaper option were offered (28% strongly agreed; 48% somewhat agreed). The majority of all respondents agreed (48% strongly agreed; 40% somewhat agreed) that employers need to be given the choice of more than one plan design with different premium levels.

Some employers expressed frustration about the rapid growth of health insurance costs in proportion of their overall budget. A few employers indicated that health insurance was the most expensive item in their budget. Several employers commented on the need to exert more pressure on providers to keep costs under control.

### **Cost-Sharing Preferences**

Although respondents are interested in another health plan option, many were only somewhat in favor of requiring employees to assume more of the cost of health coverage. When respondents were asked to state their preference for how employees should share in the cost of health insurance, office visit copays and deductibles were the most popular methods.

The vast majority of respondents favored (22% strongly agreed; 60% somewhat agreed) the use of deductibles as an effective and fair way to keep premiums down. The most desirable deductible amount was \$250/\$500, but many respondents also found \$500/\$1000 acceptable.

Office visit copays are seen as another effective way to keep costs down (21% strongly agreed; 62% somewhat agreed). Office visit copays of \$10 to \$20 were viewed as desirable, with more respondents indicating that \$20 was the most desirable copayment level. No copay or \$25 to \$30 copay levels were not desirable.

Interest in coinsurance was not quite as strong. Only 17% strongly agreed and 57% somewhat agreed that coinsurance is an effective and fair way to keep health insurance premiums down. The majority of respondents (82%) indicated that 90/10 was a desirable coinsurance level with 29% indicating that this was their first choice. No coinsurance and 80/20 were equally favored with just over 50% of respondents finding each of these options desirable.

A majority of respondents (55%) felt that employees should pay both higher employee share of premium and higher deductibles, coinsurance and/or copays. However, 34% of respondents felt that employees should pay only higher deductibles, coinsurance/and or copays, and 11% preferred that employees pay only a greater share of premium.

### **Other Desirable Plan Features**

Respondents felt that there should be limits on employees' out-of-pocket expenses. This was especially true for participating employers. The overwhelming majority of respondents (89%) indicated a preference for \$500 for a single/\$1000 for a family, out-of-pocket maximum. Only 26% of respondents favored a \$1000 single/\$2000 family out-of-pocket maximum while only 20% favored no maximum.

The majority of respondents felt that encouraging preventative care was a desirable feature. Most agreed (57% strongly agreed; 35% somewhat agreed) that the health plan benefit design should include an incentive for employees and their families to include preventative care services. The majority of respondents (69%) indicated that a plan that waives copays for

preventative care visits would make a plan with office visit copays more desirable. Only 6% indicated such plans would make office visit copays less desirable.

A provision that would allow employers to offer a financial incentive to employees who have comparable coverage to opt out of the health insurance plan would be supported (42% definitely in favor; 38% probably favor). However, several respondents pointed out that the required 65% participation rate would need to be modified or removed to allow them take advantage of this feature without violating program rules.

### **Barriers**

The biggest barrier to implementing a second plan option is bargaining concerns. Respondents urged ETF to share information about alternative options as early as possible in the process to give employers time to negotiate with their employee groups. Many respondents indicated that some of the program rules were too restrictive. For example, many school districts are interested in the program but cannot participate because the teachers have health insurance through their union contract. Applying the 65% participation requirement only to support staff (non-teachers) may allow them to participate.

### **Comments from the Local Government Employers**

- The local government employers are pleased that other options are being considered.
- Address the problem of high cost providers.
- Although some employers may not be able to implement a second option during the current contract, they would like to do so for the next one.
- Change collective bargaining laws that require negotiating with unions (such as QEO).
- For school districts, evaluate as 2 groups—one for support staff and one for teachers that bargain for different coverage.
- Omit certain types of employees, such as part time firefighters, in the 65% participation requirement.
- Allow employers to offer both plans to employees. A more flexible approach may help with bargaining issues.
- Some employers indicated that they need more health plan options in their area of the state.
- Offer family coverage that reflects the number of covered individuals on the policy.
- Set up medical savings accounts or cafeteria benefits.

### **Further Details**

Survey instruments and detailed results are available upon request.