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# *CORRESPONDENCE MEMORANDUM*

**DATE:** January 11, 2013

**TO:** Group Insurance Board

**FROM:** Lucien Adams
Manager, Self-Insured Health Plans
Division of Insurance Services

**SUBJECT:** Uniform Dental Benefit Plan Design

**Staff recommends the Group Insurance Board (Board) approve a low deductible, cost-neutral uniform dental plan design for benefit year 2014.**

At the November 13, 2012 Board meeting, several options pertaining to a uniform dental benefit plan design were discussed. These options included:

- Implementing a cost-neutral uniform dental benefit plan design starting in 2014.
- Maintaining the current program, where dental benefits are offered as optional benefits through the insured health plans and plans are allowed to increase or decrease benefits at their discretion.
- Implementing a dental plan design similar to the current dental plan with the highest actuarial value to avoid the reduction of any benefits for current members.
- Implementation of stand-alone dental plan design.

Staff indicated they would bring this discussion to the Board in February 2013. Details of the key plan design provisions included and the analysis of these scenarios can be found in Attachment 1. After this discussion, staff will proceed consistent with the direction provided by the Board, with any necessary follow up information being presented at the May 2013 meeting.

| Board | Mtg Date | Item # |
|---|---|---|
| GIB | 2.5.13 | 4B |

Reviewed and approved by Lisa Ellinger, Division of Insurance Services.

Signature Lisa Ellinger 1/18/13
Date

## Background

At the November 13, 2012, meeting staff recommended a uniform dental benefits design be developed in response to plans' concerns that previously frozen levels of dental benefits left them at a competitive disadvantage.

Deloitte Consulting, the program actuary, reviewed each plan's current dental offerings to construct a preliminary composite dental plan design based on a weighted average actuarial value for the 19 plans offering dental benefits. To verify the accuracy of this composite design, staff worked with each plan to confirm that all covered services were captured in Deloitte's assessment of each plan's benefit structure.

## Discussion

Deloitte reviewed the current dental offerings for the 19 plans and has developed four separate uniform dental plan designs. Three of the designs were developed to be cost-neutral while the fourth design was developed to mirror the richest current dental benefit plan offering. The development of these plans was based on Deloitte's 2012 dental pricing model, adjusted to replicate the actual claims experience provided for each of the plans.

Deloitte estimated the actuarial value for each plan. The average actuarial value calculated was .358 and represents the value of a cost-neutral uniform dental plan design. This .358 value means a plan would cover approximately 35.8% of all expected services for a normalized population. According to Deloitte, the three cost-neutral uniform plan designs cover the same benefits, and only differ by the following: deductibles, annual benefit maximum, lifetime orthodontic maximum and coinsurance levels. The plans were designed to include a majority of the benefits currently offered, in order to avoid reducing benefits or introducing coverage for previously uncovered dental benefits.

Deloitte noted that coverage for services within each of the four main dental groups (Preventive, Basic, Major Restorative, and Ortho) may vary and/or be limited. A list of the major services covered under the four different scenarios developed by Deloitte is included in the attachment.

As an alternative to a cost-neutral uniform dental benefit design that would lower dental benefits for some members, a plan design offering the richest current benefits available was reviewed as well. Under this option, the plan design would be similar to the current dental benefits offered through the WEA Trust plan design, with an actuarial value estimated at .531 compared to the .358 weighted-average for all 19 plans. This plan design would prevent any current member from losing benefits but the approximately 42% richer benefit would result in an estimated $19.3 million in additional cost if implemented for all plans in 2014.

Deloitte also noted that its analysis does not account for any potential "benefit rush". This term refers to the accelerated utilization of benefits in order to take advantage of a current level of coverage set to decrease after a certain date. The impact of a benefit rush is excluded from this analysis but is not expected to have a significant impact on plan cost. There is also the possibility that, due to pent up demand, the plan would experience excessive initial utilization of previously unavailable services. Again, the plan proposals were designed to minimize this impact.

In addition, over the next several years, federal healthcare reform will begin requiring health plans to cover "pediatric oral" service costs. It is expected that ETF will be required to offer these services within the medical plans beginning in 2017. Currently there is no definition for the services that would be included as a part of "pediatric oral" services. However, Deloitte was able to use a published report developed by consulting firm Milliman to estimate the effect of this change would be $3.1 million for ETF in 2014 without any plan design changes. Based on the information in Milliman's report, approximately .124 actuarial value of the .358 neutral plan design value would shift to the medical plan. Approximately 81% of the .124 value is already included in the proposed plan design. This indicates that making these plan changes may better position the plans for the future requirements.

On several occasions in the past, the Board explored the implementation of a stand-alone dental plan design. As an example, in 2000 a dental study group was established by the Department of Employment Relations (now the Office of State Employment Relations -- OSER) to examine dental benefits and the possibility of a stand-alone dental plan, but under Wis. Stats. 40.03 (6) (c), the Board was prohibited from making material changes to the benefit plan. Again in 2002, the Board adopted a recommendation that a separate stand-alone statewide dental program be implemented. The recommendation was not supported, as the optional dental benefits provided by the health plans were deemed essentially “cost-free” to members; whereas any proposal for a stand-alone benefit would result in additional premium for employees.

## Recommendation

Based on the analysis provided by Deloitte, the implementation of a uniform plan will benefit the majority of members while at the same time maintain a neutral cost structure. Staff recommends the implementation of Option 1 (No Deductible) uniform dental plan design. Option 1 has an estimated difference in cost impact of less than .01% of current premiums. This is recommended because most of the plans do not currently require a deductible. In addition, the annual benefit maximum of $1,000 under the no deductible plan option is similar to what is being currently offered by most plans.

The table on the following page outlines the benefits for Option 1.

| Uniform Scenario 1 | Key Plan Provisions |
|---|---|
| No Deductible | Deductible: $0 / $0<br>Annual Benefit Max: $1,000<br>Diagnostic / Preventive: 100% IN / 100% OON<br>Restorative: 75% IN / 50% OON<br>Endodontic: 75% IN / 50% OON<br>Periodontic: 75% IN / 50% OON<br>Oral Surgery: 50% IN / 50% OON<br>Adjunctive Services: 75% IN / 50% OON<br>Ortho: 50% (Children Only)<br>Ortho Lifetime Max: $1,425 |

## Conclusion

Selection of a uniform dental plan at this time may move the Board closer to the implementation of a stand-alone dental plan design in the future, if desired. However, we do not believe that a stand-alone dental plan is feasible for 2014, due to the lead time involved in implementation.

While the option of increasing benefits to the richest level would prevent a reduction in member benefits, there are substantial implementation costs. Consideration must also be given to the health plans that will experience the greatest impact as a result of these changes—specifically, some plans may find it a challenge to meet these requirements.

To gain a better understanding of any limitations plans may have with implementing the uniform dental benefit, the next steps should be to confirm their ability to administer its provisions.

Finally, the valuation of the dental plan design was based on Deloitte's dental pricing model. Actual pricing may vary, depending upon each plan’s evaluation of the benefit requirements.

As recommended, staff believes Option 1 best meets the needs of the program at this time.

Staff will be available at the Board meeting to answer any questions.

Attachment A: Uniform Dental Plan Design