



Wisconsin Department of Employee Trust Funds HDHP Design and Implementation Considerations

Deloitte Consulting LLP
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Strategic considerations for HDHP design and implementation

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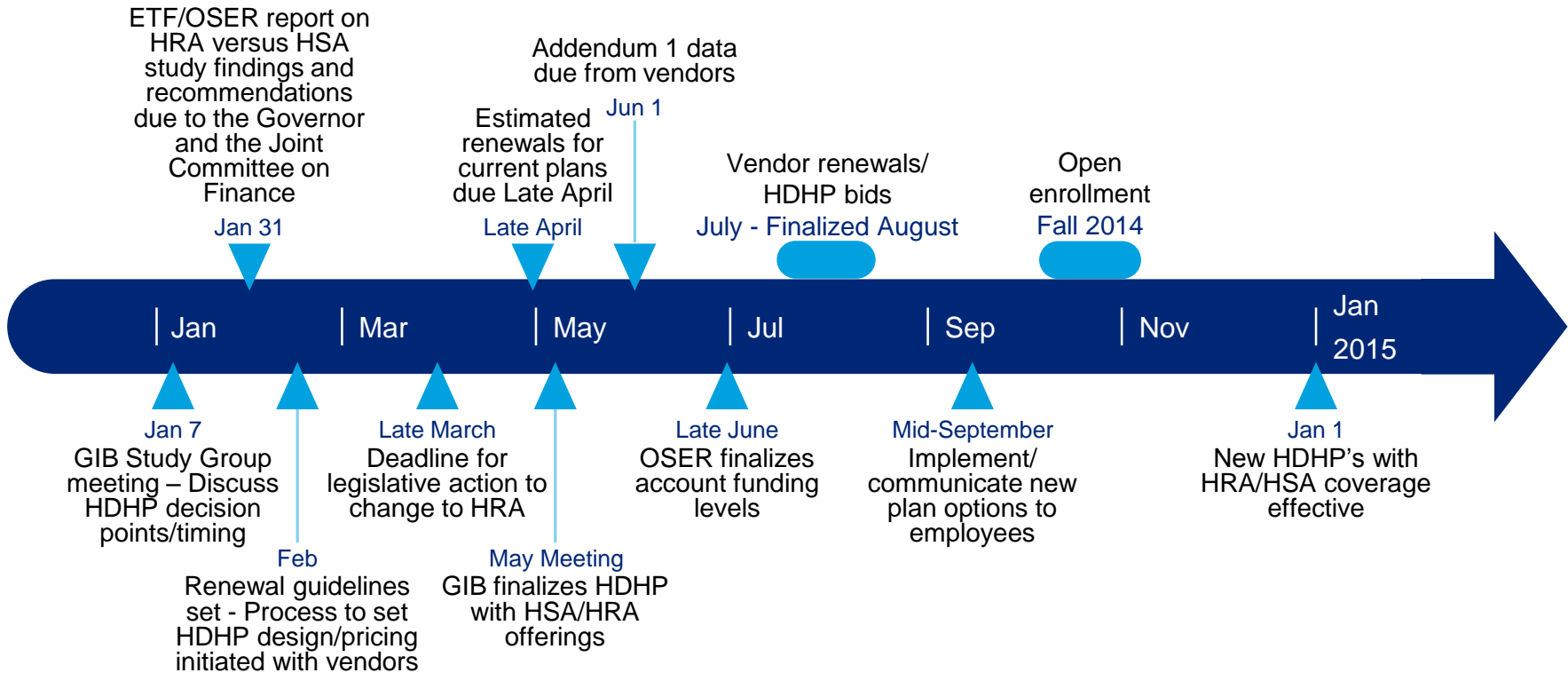
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HDHP with HSA mandate

In addition to the health care coverage plans offered under s. 40.51 (6), beginning on January 1, 2015, the group insurance board shall offer to all state employees the option of receiving health care coverage through a high-deductible health plan (HDHP) and the establishment of a health savings account (HSA).

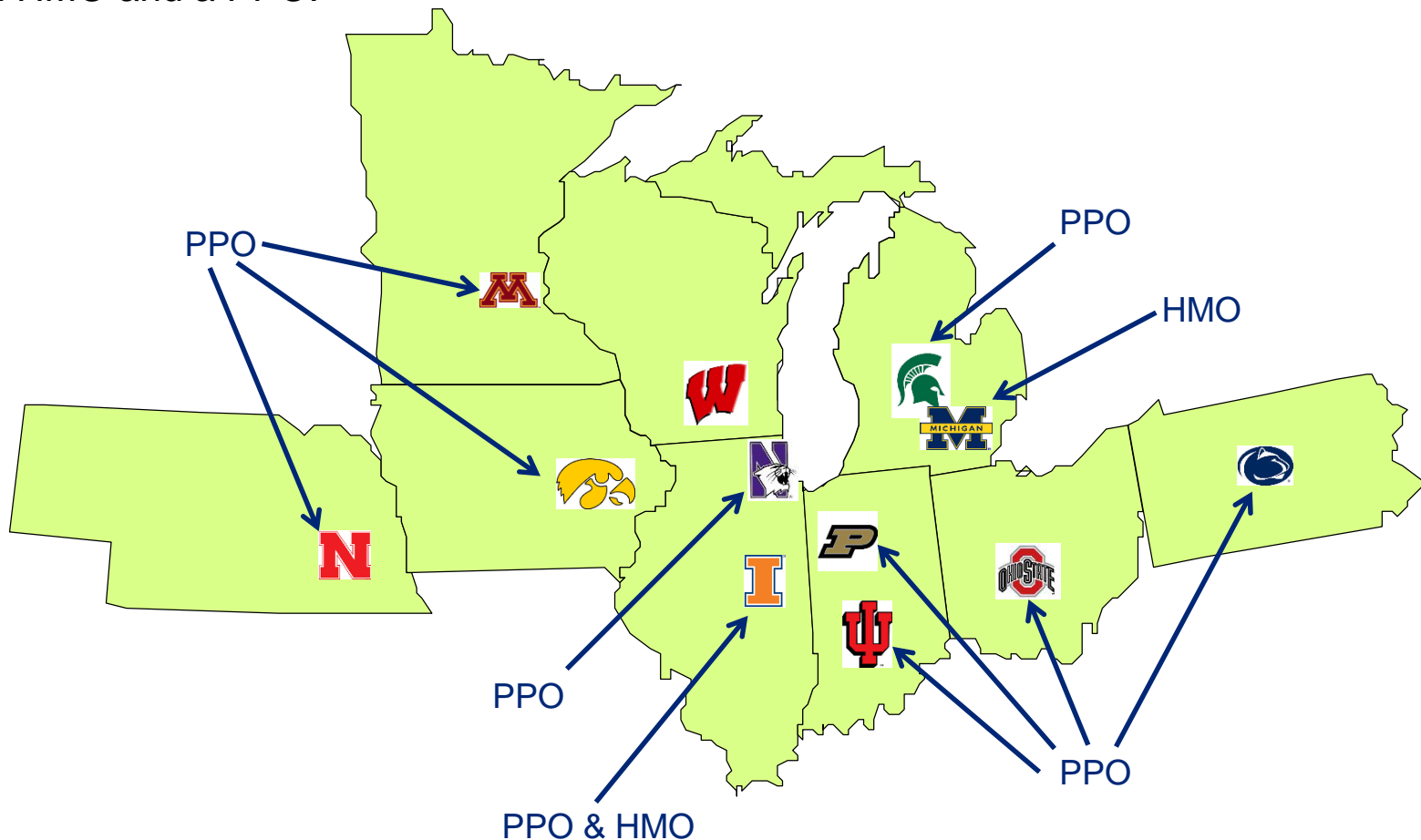
- The state shall make contributions into each employee's HSA in an amount specified by the director of the office of state employment relations (OSER).
- The group insurance board (GIB) shall ensure that the HDHP may be used in conjunction with a HSA.
- The GIB may contract with any person to provide administrative and other services relating to HSAs.
- The GIB may collect fees from state agencies to pay all administrative costs relating to the establishment and operation of HSAs.
- Beginning on January 1, 2015, to the extent practical, any agreement with any insurer or provider to provide health care coverage to state employees under s. 40.51 (6) shall require the insurer or provider to also offer a HDHP that may be used in conjunction with a HSA.

HDHP design and implementation timeline



What other states are doing: Grad assistants in the **BIG**

- None of the schools in the **BIG** offer a HDHP plan to graduate assistants.
- All but two only offer a PPO option. Michigan offers only an HMO, and Illinois offers an HMO and a PPO.



Key HDHP plan design objectives

- Cost neutral design financial impact to State
 - Net of employee contributions
 - Cost neutral design includes value of employer funding of HSA
 - Cost neutral for each coverage tier
- Employee contribution differential desired between HMO and HDHP+HSA options
 - Significant enough to drive enrollment (target of 5% migration to HDHP+HSA)
- HDHP+HSA plan provisions
 - HSA funding set at levels such that combination of contribution levels, HDHP deductible levels, and HSA employer funding levels produce cost-neutral design compared to Uniform HMO
 - Deductible set at \$1,500 single/\$3,000 family
 - Maximum out-of-pocket amounts at \$2,500 single, \$5,000 family, combined for medical and drugs
 - Adjustments for expected adverse selection and average utilization changes not included in estimated HDHP+HSA premiums
 - Contributions set at approximately 35% of the HMO contributions (with HSA funding set to then produce a cost-neutral design by coverage tier) – varies by coverage tier



| Key Plan Design Provision | Current Uniform HMO | Illustrative HDHP+HSA |
|--|---|---|
| Deductible (Single/Family) | \$0 / \$0 | \$1,500 / \$3,000 |
| HSA (Employer Funded) | | \$170 / \$340 |
| Maximum Out-of-Pocket (S/F) (Includes Deductible) Medical Drug Max OOP | \$500 / \$1,000 Med \$410 / \$820 Drug | \$2,500 / \$5,000 Combined |
| Preventive Care | 100% | 100% |
| Office Visits | 90% | 90% |
| Emergency Room | \$75 copay | 90% |
| All Other Medical Services | 90% | 90% |
| Prescription Drugs: | | |
| Level 1 Formulary Generic | \$5 copay | 90% |
| Level 2 Formulary Brand | \$15 copay | 90% |
| Level 3 Non-Formulary | \$35 copay | 90% |
| Estimated Premium Rates (2015) | \$719 / \$1,817 / \$1,440 | \$658 / \$1,628 / \$1,295 |
| Employee Contributions (Tier 1) | \$95 / \$235 / \$187 | \$48 / \$75 / \$65 |
| HSA Funding (Monthly) | | \$14 / \$28 / \$23 |
| Net Employer Cost (\$) | \$624 / \$1,582 / \$1,253 | \$624 / \$1,582 / \$1,253 |
| Net Employer Cost (% of Total) * | 86.8% / 87.1% / 87.0% | 92.9% / 95.5% / 95.0% |
| Estimated Relative Value (2015) | 0.950 | HDHP: 0.854 HSA: 0.015 Total: 0.870 |
| Employee Contribution Value | (0.123) | (0.043) |
| Estimated Net Relative Value | 0.827 | 0.827 |

- HDHP deductible of \$1,500 single, \$3,000 family.
- Employee contributions for the HDHP option set at approximately 35% of the employee contribution for the HMO plan.
- Assumed rate increase 2014 to 2015: 7.5%
- 90% of HSA accrual estimated to be used in 2015; remaining 10% rolled over/used for other expenses (“leakage”).

Single / Family / Average

* Net Employer Cost (% of Total) =
Net Employer Cost / (Estimated HDHP
Premium + HSA Funding)

Design & administrative considerations

- Illustrative average rate differentials: HDHP vs. HMO:
 - Single: HDHP premium = 91.5% of HMO premium
 - Family: HDHP premium = 89.6% of HMO premium

Would these factors vary by HMO?

- HMO and HDHP rates should not include any adjustments for potential adverse selection.
- Timing of employer HSA funding: Pro-rata each paycheck? Each Month? Semi-annually? Annually?
- Potential savings generated from prospective changes in utilization among HDHP enrollees. How should those savings be recognized?
 - Consider paying for any HSA monthly maintenance fees for employees.
- Offering HDHP option to local groups? Actuarial issues related to HDHP as a replacement option for one of the existing options.
- Streamline the process for opening an HSA for each employee.
- JP Morgan survey of 2012 HSA funding experience implies little elasticity in employee HSA contributions when employer HSA contributions vary.



Communication considerations – Overcome “inertia”

- Communication calendar: Provide employees plenty of time before open enrollment to understand the HDHP option
 - Early: Why is the option being offered, basic features and advantages – critical component
 - Closer to open enrollment: How to use HSA, tax savings potential
 - After: Continue with ongoing information on how to use the HSA effectively - retention
- Emphasize 1st-dollar coverage of preventive benefits
- Demonstrate advantages for those with chronic conditions through examples
- Emphasize HSA portability, especially into retirement – short-term and long-term savings vehicle; employer contributions are 100% funded (no unfunded liability)
- Key issues to address in communications:
 - Personal and family health status: What happens if major health care expense before HSA has enough funds to cover the deductible
 - Age: Demonstrate value of plan to older and/or less healthy employees
 - Financial comparisons

Communication considerations – Overcome “inertia”

- Show employees “the math” using examples:
 - Low claims examples
 - Moderate claims examples
 - High claims and chronic claims examples
- Provide plan cost comparison calculation tools
- Consistent messages between state and local groups to the extent possible
- Visible senior management/leadership engagement



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