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Correspondence Memorandum

Date: May 15, 2015

To: Group Insurance Board

From: Bill Kox
Office of Strategic Health Policy

Subject: STAR Update and Health Insurance Contract

This memo discusses the effect of certain elements of the State's STAR initiative on components of ETF's benefit programs and makes certain recommendations concerning premium payment for the group health insurance program to participating insurers.

Staff recommends Option 1: Move the employer and health plan due dates as requested by the STAR program.

Background

The STAR initiative was discussed with the Board at its November 18, 2014 meeting. STAR will implement a PeopleSoft solution creating a consolidated human resource, payroll and benefits, and budgeting information system covering more than 40 agencies and approximately half of state employees under what is now referred to as the Central Payroll system. This does not include the UW System, the various Authorities, or the local government employers.

There are several areas in which the STAR project has asked for modifications to the administration of ETF programs in order to avoid costly or complicated programming changes and/or to enhance processing efficiencies. In November, for example, the Board modified its practice of allowing individual state agencies to decide which optional employee-pay-all plans to offer its employees and instead implemented a plan to provide a more uniform offering to all state agencies, in part to address requests from the STAR project.

Other ETF programs that the STAR project has sought modifications to include:

1. Eliminating the six-month waiting period before state employees become eligible for Income Continuation Insurance (ICI) and life insurance. Currently, employees

Reviewed and approved by Lisa Ellinger, Director, Office of Strategic Health Policy

Lisa Ellinger

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must have six months state service as a participating employee to be eligible. A participating employee is one who is covered by the Wisconsin Retirement System (WRS).

2. Modifying the effective date of coverage for the initial enrollment in health insurance, life insurance and ICI. Currently, the effective date is the first of the month following receipt of the application by the employer. STAR wants the effective date to be the first of the month that occurs during a 30-day period beginning with the date of hire for all participating employees.
3. Unifying and changing the effective date of termination of coverage. Currently, coverage for a non-retiring employee is the end of the month following the month of termination of employment, or the second month following termination for certain retirees. STAR wants the effective date of termination to be the end of the month of termination of employment in all cases.
4. Moving the payment date to health insurance carriers from the beginning of the month of coverage toward the end of the month.

Discussion

These eligibility changes will affect all participating employers and vendors. Changes to the premium payment dates can be directed at the state program alone or both state and local.

Eligibility

The first three items above are related to eligibility, whether upon hire or upon termination. The six-month waiting periods for life insurance and ICI eligibility are found in state statute in various sub-sections of the definition of eligible employee under s. 40.02 (25). The effective date of coverage upon hire is found in s. 40.51(2) for health insurance and s. 40.61(2) for ICI. These statutory provisions currently apply to both the state and local government programs.

We understand that legislation is being prepared to make these changes in the law for an effective date of January 1, 2016. Modifications to the insurance contracts must be made for those provisions not found in statute, or for which the statutory provisions are complimentary. This includes the application effective date and termination provision for life insurance.

While these changes are possible to implement, there will be net benefit costs for additional months of coverage in the range of $80,000 each, annually, for life insurance for the state and local government programs. There will also be an undetermined increase in adverse selection in the health insurance program and in system costs that will need to be made by third-party administrators and participating employers. Finally, these changes will also have some impact on ETF’s Benefits Administration System

(BAS), but this system is in the process of development and should be able to be modified.
These changes also have advantages. Minnesota Life, for example, has indicated that efforts to simplify the enrollment rules would be welcome by all employers. This would apply to ICI as well. Such simplification should help reduce cases of employer error, for example.

Health Insurance Premium Payment

The fourth item is the payment date for health insurance and presents the most significant issue. The issue is one of liquidity for the health program.

For many years, the payroll systems of our participating employers have deducted health insurance premiums from employee paychecks, added contributions for the employer share, and transmitted the total to ETF in time to pay the health insurers by the first of the month of the month of coverage. For example, we pay the insurers for June coverage by June 1.

The STAR system is designed to collect half of the employee contributions in the last half of the prior month and in the first half of the coverage month. For example, half the June employee contribution is collected in late May and the other half in early June. In order to facilitate reconciliation of this payment of employer and employee contributions, PeopleSoft calculates and transmits the total payment due at the end of the month of coverage.

The consequence of accommodating the STAR project's request on this issue is that ETF will not have sufficient cash flow from premiums to pay the health plans under the current schedule.

Staff has identified three options that may address this concern. These include:

> Option 1: Modify the payment date to the health insurers.
>
> Option 2: Accept late payment from the STAR system and applying late payment provisions found in statute and code. This would require using trust funds to be paid out prior to ETF's receipt of payments from employers.
>
> Option 3: Establish an add-on to the administrative fee instead of a penalty charged to employers to offset ETF's costs to the trust fund.

Option 1: Modify the payment date to health insurers
Section 2.6 of the health insurance contract currently provides for payment to the health plans at the beginning of the month of coverage. Section 2.8 requires premium payment by the employers by the 24^{th} of the month prior to the coverage month.

The contract could be modified beginning January 1, 2016 to provide that employers pay by the 24th of the month of coverage and that ETF will transmit a calendar month's premium prior to the end of the month as follows:

> 2.6 FINANCIAL ADMINISTRATION
> Prior to the ~~beginning~~ end of any calendar month, the DEPARTMENT shall transmit to the HEALTH PLAN that month's estimated PREMIUM for SUBSCRIBERS who are properly enrolled less the pharmacy premium and administration fees required by the BOARD
>
> 2.8 DUE DATES
> (1) Reports and remittances from EMPLOYERS required in the administration of the group health insurance program shall be submitted to the DEPARTMENT no later than the 24th day of the calendar month for the ~~following~~ current month's coverage.

This option raises cash flow issues for participating health insurance plans. Estimated insured premium paid to the health plans is approximately $110 million per month from all employers. The actual cost to the plans of providing this liquidity is unknown, though we assume the plans can access this liquidity through the capital markets at favorable rates. However, it is presumed that the plans may build this cost into their proposed premium rates. Assuming ETF's 7.2% long-term investment return as the cost, this would equate to $660,000 per month to the program that presumably will be built into the health plan bids in one fashion or another. However, it is also possible that the plans may choose to spread this cost through premiums charged to other employers or otherwise absorb it. In any event, this option poses uncertainty for the GIB.

<u>Option 2: Apply late payment penalties</u>
If no changes are made to either the health plan payment date or the employer due date, the trust fund will have to pay the health plans the amount not paid by employers on time. In doing so, the fund will need to recoup its cost from the employers. Under current law, s.40.06, stats, the department would charge .04% per day. Assuming that the amount for the STAR agencies is approximately one-third of the $110 million monthly total, or $36 million, the penalty cost would be $14,400 per day until the payment was received. This amount is in excess of the actual cost to the trust fund (see below), and we therefore do not believe that it is a practical option. However, it is an option that targets only those employers who would not pay on time.

<u>Option 3: Apply a uniform administrative fee</u>
Another alternative would be to change only the due date for employers, as cited above, and then build the trust fund cost into an administrative fee. ETF has latitude to identify administrative costs of programs and build that cost into its fee structure. Currently the Department builds a $5.00 per-contract per-month fee into the cost of the health insurance premium. If ETF were providing the liquidity, we would assume our monthly costs for borrowing from the trust fund to be approximately $660,000, based on $110 million monthly premium at 7.2% annual interest (the trust fund's long-term assumed rate of return). Assuming the $660,000 monthly cost identified above and 110,000

health insurance contracts, an additional $6 per-contract-per-month fee would be required. As indicated above, this cost to employers may be offset by the later date required for payment. This option carries more certainty regarding the additional cost to the employer.

At this time we believe that ETF systems and insurance contracts are able to apply the payment options to the state program alone or state and local programs under the same provision. Ideally, the changes would be made to both programs to unify administration. However, we have not had sufficient feedback from local governments to determine the extent of the effort needed to make these changes. Our intent is to go forward for the state program only, with the understanding if local government preference is to make the same change, we are able to do so.

Summary and Conclusion

The STAR team is requesting changes to eligibility and monthly premium payment to accommodate its PeopleSoft system beginning January 1, 2016. Some changes are statutory, while others are contractual. At the time that the statutory eligibility changes are confirmed, staff will bring the required contractual changes to the GIB, at either at the August or November meeting. The changes to premium payment due dates are contractual and not dependent upon statutory changes. Staff identified three options, which include:

1) Delay the payment from the employers and the payment to the health plans;
2) Make no changes to the payment dates and apply current penalties to employers who pay late;
3) Delay the payment due from employers but continue to pay the health plans under the current schedule, and assess an administrative fee to cover costs.

All options have associated costs that ultimately will be borne by employers, either through some combination of higher premiums, penalties, and/or administrative costs. If the payment due date is changed to the end of the month, employers will presumably benefit from the positive cash flow, so the net effect on participating employers will be mitigated to some degree.

All of the options have advantages and disadvantages. Option 2 and Option 3 have the advantage of a known cost. Option 1 is less transparent on the cost, but has the possibility of being the lowest-cost option overall and is the preferred option of the STAR program.

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