Letter 5 - Association of Career Employees (inquiry only)

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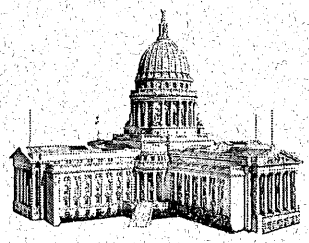

ACE

Association of Career Employees

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Friday, November 8, 2016

Group Insurance Board
c/o Board Liaison
Department of Employee Trust Funds PO Box 7931
Madison, WI 53707-7931

Dear Board Members:

The Association of Career Employees has been active since the 1970's in advocating for state employee and retiree compensation and fringe benefit programs.

ACE is very concerned about the potential negative effects of implementing many of the changes called for in the RFP for Administrative Services for the State of Wisconsin Health Benefit Programs. These potential changes include moving to a self-insurance system, use of Medicaid regions in place of the current regions, emphasis on statewide and national networks in place of smaller HMOs, the potential limitation of the number of providers operating in a region, possible separation of retirees eligible for Medicare from the state pool, and increasing data warehousing.

The current HMO model for the insurance system seems to be working quite well. Premiums for the current system increased on average by 1.6% for 2017, well below national premium increases. Deloitte Consulting found that WI health insurance costs were 4.1% lower than national costs, and Wisconsin is highly rated for quality of health care. Under the current system, Wisconsin insurers employ Wisconsin residents. The current system fosters competition, and this has kept costs lower.

Our understanding is that one impetus to look at self-insurance was the Cadillac tax under the Affordable Care Act. However, implementation of that tax has been delayed until 2020, and its future is uncertain. As Deloitte Consulting pointed out in 2012, while self-funding could save $20 million, it could also cost $100 million.

The current system of localized integrated care in which the insurers and providers have an incentive to restrict costs has been shown to effectively hold down health care costs, according to research cited by Justin Sydnor, Professor in Risk Management and Insurance at the UW Madison School of Business. He also emphasized that the most effective way to control costs is to encourage competition, and the current system is functioning well.

Prof. Sydnor also explained to ACE that making so many different types of changes at the same time could be very disruptive. The changes could increase mergers, make it difficult for some current providers to continue to operate, encourage large national providers, and thus limit competition.

In the short-term under self-insurance, the state could save the 1 or 2% profit currently made by insurers, but costs could likely rise later. In fact, that is what has happened in other jurisdictions that have moved to self-insurance. Employee premiums in Milwaukee County have been rising from 9 – 20% annually now that Milwaukee County self-insures. In the state of Georgia, which moved to self-insurance, per employee costs went up 18.6% in 2014.

According to the 2017 It's Your Choice Decision Guide, most counties have access to 3-8 providers, but there are a few low-population counties where the State Maintenance Plan (SMP) is the primary insurer. It does not appear that most of the state suffers from lack of quality health care.

Implementing changes in all of these areas at once, risks major upheaval in the provision of quality services and the cost of services.

- Potential for one-time costs savings due to the changeover to self-insurance, but no guarantee of long-term cost savings
- The need to create a self-insurance reserve fund and the increased risk to state finances and programs if it is not large enough
- Reduced competition among insurer/providers due to mergers, resulting in higher costs estimated at possibly $100 million annually
- Decrease in the number of providers or the potential elimination of providers in areas that are now well served
- Increased reliance on national instead of Wisconsin insurers, meaning loss of jobs for Wisconsin and loss of quality local service provision
- Disruption of systems of care in Wisconsin would mean that insured individuals outside of the ETF system would also be negatively affected
- Unnecessary separation of retirees from current pool resulting in higher costs for retirees
- Potential for greater corporate influence in service provision

There has not been a large voice from the public that these changes are needed. Many of the concepts reflected in the RFP came from Segal Consulting, a company that works in many states with much different health care environments.

ACE urges the Group Insurance Board to reject the proposal for self-insurance and to also reject implementation of other changes outlined in the RFP if there is significant risk of eliminating quality providers, reducing competition or increasing long-term costs.

Respectfully,

Bob Jordan
Executive Director