CC 16-053
Rec. 08/16/16

August 16, 2016

DANGEROUS DISTORTIONS:

SEGAL SAYS: "[T]here is a direct relationship between age and illness. The older a person is, the more likely he or she is to have one or more serious conditions. More conditions means greater medical costs, and increased medical cost means higher premiums required to fund those medical costs. In effect, the older and sicker persons covered in the plan will drive up the required premium cost for younger and healthier members, so with a broad based employer health plan covering active employees, non-Medicare and Medicare retirees, premium costs will be higher per person than in a plan that does not cover non-Medicare and Medicare retirees."

COUNTERVAILING FACTS:

1. This sweeping generalizations completely ignores the fact that Medicare exists! Federal subsidies received through Medicare Parts A, B and D program reimbursements radically reduce the amount of healthcare costs all GIB health plans must cover for Medicare-retirees.

2. Medicare retirees also bring in millions of dollars in pharmaceutical company "rebates" each year through the "EGWP/Medicare Rx" plan, which encompasses all Medicare-retirees in ETF/GIB's Group Insurance Program. These "rebates" are not deposited in any of ETF's trust funds. Nor are they used to lighten out-of-pocket prescription costs weighing on Medicare-retirees. Quite the contrary, manufacturing "rebates" are swallowed whole by ETF! (See Addendum Two of Navitus' contract.) Presumably, these "retiree-generated" revenues support more generalized ETF's administrative expenses, especially considering recent reductions in State GPR revenues imposed on ETF in recent years.

3. "Early retirees" have also brought in significant Federal subsidies in recent years that grease the entire system. This includes a total of $39.9 million received between 2011 and 2013 through a transitional ACA program, known as the "Early Retiree Reimbursement Program" or ERRP. Public records reveal little about how these Federal funds were actually distributed and used. Approximately 13 million dollars appears to have been used to reduce a one-year, premium rate rise for "self-insured" plan participants. However, it appears that little or any of this money flowed back to "early retirees" to lighten the individual burdens of monthly premium costs.

4. All retirees in Wisconsin's Group Health Insurance Program pay 100% of their monthly premiums with their own monies. Some state-level retirees have accumulated back wages in the form of unused "sick leave" hours, which can be used to fund their post-retirement healthcare premiums. These back wages are held and invested by ETF, but none of these investment earnings flow back into the individual "sick leave" accounts of state-level retirees. Local government retirees, in contrast, receive the full value of their unused vacation/sick-leave earnings upon retirement, whereupon they are free to invest it in a range of interest-generating, premium" investment accounts designed for this purpose.

5. Medicare-retirees must also pay supplementary monthly premiums (ranging from $114 to close to $400) to maintain Medicare Part B coverage, as is required for their continued participation in Wisconsin's Group Health Insurance Program. Indeed, one important "benefit commitment" made to retired state-employees is that health plan premium rates will drop to half, or less than half of the rate applied to "regular" members of the same health plan upon first acquiring eligibility to Medicare. It is noteworthy that Segal Consulting appears to have maintained this "benefit commitment" over the past two years for Medicare-retirees enrolled in favored "self-insurance" and HDHP plans but not for those enrolled in "fully-insured" HMO plans. This difference in treatment is puzzling, and I urge GIB members to examine it more closely.

CONCLUSIONS: Segal recognized in its First Report that the "net ETF cost" of "Medicare-retirees" is zero. What Segal may not have understood back in early 2015 is how "Medicare-retirees," and "early retirees," have supported the entire Program by funneling in millions upon millions of Federal dollars and Medicare Rx manufacture "rebates" to underwrite GIB's entire program. Because state- and local-level retirees pay 100% of their healthcare costs, there is no way to reduce healthcare benefits costs for "regular" state employees and their employers by loading deductibles, co-pays and co-insurance charges onto "retirees." It is unjustifiable on the basis of any level-headed cost/benefit analysis, not to mention "employer welfare benefit commitments" made to them. A significant segment of WRS annuitants have experienced fixed, if not contracting WRS pensions that are no longer adequate to cover monthly premiums. Although Segal seems to characterize "retirees" everywhere as creating an unnecessary and undesirable "drag" on all broad-based, group health plans, this assertion does not hold "true" in Wisconsin, for all the reasons examined above as well as others that could be elaborated. In order to make informed decisions about these matters GIB members need to reflect more broadly and critically about the narrow notion of "generational equity" pro-offered by Segal. A perspective that only projects forward in time but never looks back is fatally flawed. Retirees, after all, have already experienced and contributed to earlier phases in the life-cycle, as it were, of Wisconsin's Group Insurance Program.

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SEGAL SAYS: "Self-insurance" will prove financially beneficial to the State of Wisconsin's Group Health Insurance Program because it will lead to "**the elimination of most 'premium tax'**" [because]: There is no premium tax on the self-insured claim expenditures." (First [full-length] Segal Report, p. 8.)

COUNTERVAILING FACTS:

1. Health plans domiciled in Wisconsin do not pay a premium tax.

2. The proportion of GIB Program participants enrolled in a "fully-insured," "out-of-State" insurance group health plans that may or may not be subject to a

"premium tax" is small—being limited, perhaps, only to those associated with Humana.

3. It would be possible to encourage Wisconsin-based health plans to expand into areas where "out-of-state" insurance companies subject to "premium taxes" currently exist.

CONCLUSION: Moving people out of "fully-insured," Wisconsin-based HMOs into "self-insured" plan options will NOT reduce "premium tax" costs. Permanently eliminating ALL present and future "premium tax" costs/risks can be accomplished most "prudently" by eliminating any "out-of-State" health insurance companies subject to this tax from GIB's program. Which companies are these? GIB Members have a fiduciary responsibility to find out. Segal implies it knows the answer because it has asserted repeatedly that moving the "98.8%" of GIB Program participants who are not already enrolled in "self-insured/fee-for-service" health plans into such plans will save $900,000 annually in "premium taxes." GIB Members cannot possibly make an informed decision about this matter without asking Segal to explain and justify this $900,000 figure.

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SEGAL SAYS: "Employers find that administrative costs for a self-insured program administered through a TPA [Third Party Administrator] are significantly lower than those included in the premium by an insurance carrier or health plans."

COUNTERVAILING FACTS:

1. Segal's sweeping generalization does not ring true for Wisconsin's uniquely structured system, which revolves primarily around "fully-insured" and regionally-competitive, Wisconsin-based HMO plans.

2. Public record documents reveal that TPA expenses and other ETF/GIB-related administrative expenses have increased tens of millions of dollars over the past two years, often as a direct result of Segal's activities and recommended policy changes. Under Segal's direction, CY2014 "ETF administrative fees" of $3.60 buried within the monthly premiums of "self-insured" plans rose to $5.50 PCPM in 2016. This amounts to a 52% leap in just two years. If Segal's recommended "modified negotiation strategies" with the "fully-insured" HMOs over the past two years have incorporated a parallel rise in "ETF administrative fees," this would calculate out to about $7,590,000 in annual "ETF administrative fees" built into program-wide premium rates for CY2016. ETF administrative charges built into the monthly HMO premiums are difficult to identify in the public record, but Group Insurance Board members should know—or have access to—all relevant details. To these must be added more modest TPA "medical fee" increases on "regular" Standard Plan/SMP and "Medicare Plus" contracts of 17% and 5%, respectively, owing in part to significant numbers of "non-renewals" in all three plans. "ACA reinsurance fees" and Navitus fees, in contrast, remained steady at $11.51 and $8.10 PCPM for the "self-insured" plans.

3. Segal's recommendations for "rapid-fire" RFPs during 2016 required additional GPR funds for at least one FTE position as well as the re-direction of considerable numbers of in-house staff. To this must be added both the financial expense of Segal's two, open-ended and concurrent contracts, plus others expenses that will be incurred through on-going RFP processes in order to assess the "true" administrative impacts of Segal's recommended program changes.

CONCLUSIONS: A balanced analysis must weigh all of these rising "administrative" cost against the unsubstantiated "cost-savings" Segal claims would result from a Program-wide transition to "self-insured/fee-for-service" health plans.

These public comments were respectfully delivered to all Group Insurance Board Members by Dr. S. E. Hutchinson on August 16, 2016

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August 19, 2016

SHARON HUTCHINSON

Dear Ms. Hutchinson:

This is to acknowledge receipt of your August 16, 2016 letter to the Group Insurance Board. Your letter will be provided to the Board for review in advance of its November 2016 meeting.

The Board will continue to discuss and analyze the Segal Report recommendations (Observations and Recommendations for 2017 and Beyond) over the next several months. The best way to stay informed is to monitor the work of the Board. Board meeting dates and agendas are located on the ETF website at http://www.etf.wi.gov/boards/board_gib.htm. You may also sign up for automatic e-alerts by clicking the red envelope on our home page.

Thank you again for your interest in the state health insurance program.

Sincerely,

Sara C. Brockman
Health Policy Advisor

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