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CORRESPONDENCE MEMORANDUM

DATE: October 23, 2014
TO: Group Insurance Board
FROM: Shayna Gobel, Manager, Self-Insured Health Plans
Mary Statz, Director, Health Benefits and Insurance Plans Bureau
SUBJECT: Dental Administrator Request for Proposal (RFP)

Staff requests the Group Insurance Board (Board) authorize the release of a Request for Proposal (RFP) for administration of a self-insured, stand-alone dental plan.

Pending Board approval, the Department of Employee Trust Funds will release an RFP for a single stand-alone dental plan administrator for the current Uniform Dental Benefit. Staff expects to bring a recommendation and proposal to award a contract to the Board at the May 2015 meeting.

Background

At the Board's Strategic Planning Workgroup meeting on April 16, 2014, staff presented information on developing a stand-alone dental plan offering to be available effective January 1, 2016. As the Board may recall, the stand-alone dental plan presentation at that meeting identified several areas of opportunity that would increase the quality and value of the existing dental benefit, while maintaining cost-neutrality for the state. For the Board's reference, we have included detailed information from that April 2014 stand-alone dental presentation below.

Starting in 1984, health plans unilaterally began adding various levels of dental coverage to attract enrollees. In 1993, the Board transitioned to a uniform benefit design for **medical** coverage. The Board had considered several alternatives for offering dental benefits **with** uniform medical benefits but, ultimately, decided to remain silent on dental coverage. This decision gave plans the flexibility to offer dental coverage at their discretion.

In 2002, the Board adopted a recommendation to implement a stand-alone dental program, separating the dental benefit from the medical benefit. The implementation of

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

Electronically Signed:
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the stand-alone dental program failed to advance at that time. Beginning in 2014, the Board elected to proceed with a uniform benefit design for dental coverage. The opportunity to transition to a stand-alone dental plan administrator has been simplified because of that 2002 recommendation.

For 2015, the average dental premium is \$28.60 for single coverage and \$71.38 for family coverage. The employer contribution for the current combined medical and dental premium is approximately 88%, which translates to an employer contribution to the stand-alone dental premium of \$25.17 for single coverage and \$62.81 for family coverage. The total premium paid to health plans for dental coverage is approximately \$42 million.

Under the current Uniform Dental Benefit design, employees and annuitants cannot opt-out or opt-in to the Uniform Dental Benefit and state employees are given dental coverage if they have elected a fully-insured health insurance plan through the State. The same is true for employees in the Wisconsin Public Employers (WPE) program, as long as the employee or annuitant chooses an insurance plan that offers dental coverage. It should be noted that the self-insured health plans (State Maintenance Plan, Standard Plan, and Medicare Plus) do not offer any dental coverage for State or WPE employees or annuitants.

Discussion

The objective of the RFP is to acquire a single dental administrator to provide services that will accommodate the current Uniform Dental Benefit plan design and enhance the value of the plan through the following improvements:

- Consistent administration of dental benefits
- Expanded access to dental providers
- All eligible employees will have the option to elect dental coverage
- Execute a cost-effective service agreement

Staff also plan to work with the optional plan dental insurers on potential modifications to the employee-pay-all dental plans. These potential modifications would provide complementary benefits that integrate with the stand-alone dental plan for 2016, making comprehensive dental coverage available for state employees and retirees.

Industry trends suggest that stand-alone dental plans, whether fully-insured or self-insured, are the industry norm. According to the National Association of Dental Plans, 98% of dental benefits are provided through stand-alone dental policies independent from the medical plan. In addition, there may be a need to review the current benefit structure for dental benefits to avoid fees and taxes related to the Affordable Care Act (ACA). This topic is described in more detail below.

Dental Administration

Currently, each health plan either administers its own dental benefit or contracts with a third-party administrator (TPA) to manage the dental benefit. Of the 17 health plans that offer dental benefits to state employees, ten administer their own dental benefits, and

the remaining plans use two different TPAs. Plans that administer their own dental benefits, though knowledgeable, may focus more on the medical benefit and may dedicate fewer resources to administering the dental benefit.

With a single dental administrator, staff believes the State would have more input on the administration of dental benefits and program management would become more efficient. In addition, a stand-alone dental plan would facilitate the auditing process by limiting the number of dental administrators and systems involved in claims processing. Targeting the 2016 plan year should provide health plans with sufficient lead time to disengage from their current dental contracts.

Provider Networks

The provider networks for dental coverage are currently regulated by the health plan or its dental administrator. Some health plans offer a very restricted network of providers, while others offer a Preferred Provider Organization (PPO) structured dental plan, where members can see any dentist, and have varying cost-share associated with “preferred” and “non-preferred” providers. Under a stand-alone dental plan, the State could have input on provider networks and possibly the potential to offer nationwide coverage. In addition, a properly-structured plan could allow the State to negotiate lower reimbursement rates than some plans currently provide and reduce the overall cost of the dental plan.

Employee Choice

A stand-alone dental plan would allow all eligible employees to have the choice to elect dental coverage. A longstanding concern among members enrolled in the Standard Plan and the State Maintenance Plan is that there is no dental benefit. Expanding the option of dental benefits to these members would likely be well received. For members, a stand-alone dental plan could also offer the choice of networks that would expand their choice of dental provider without the restrictions set by their chosen health plan.

Affordable Care Act Considerations

Stand-alone dental plans meet the “excepted benefit” provision of the ACA, which means that benefits offered through a stand-alone dental plan are not subject to the Essential Health Benefit (EHB) requirements. In order to meet the definition of the “excepted benefit”, a stand-alone dental plan must be optional to the member. For example, stand-alone dental plans are allowed to place monetary limits on benefits that are considered EHBs (e.g., pediatric dental benefits), and the plan is not subject to the annual maximum out-of-pocket restriction that is applied to EHBs.

In addition, the federal excise tax on high-cost coverage -- sometimes referred to as the “Cadillac Tax” -- does not include benefits offered through a stand-alone dental plan. The excise tax is a 40% tax imposed on benefits exceeding a certain threshold beginning in 2018. The projected 2018 per-employee premium threshold is \$10,200 for single contracts and \$27,500 for family contracts. Given current premium trends, the state employee health insurance program, is projected to reach that threshold shortly

after the tax becomes effective in 2018. Based on the actuarial calculations presented by Deloitte, LLC at the May 2014 Board meeting, the excise tax could be levied on our population as early as 2020 for our traditional plans and 2022 for the high deductible health plan.

Additional Information

A self-insured, stand-alone dental benefit model carries manageable premium risk because dental benefits are typically relatively low-cost claims and are generally predictable. In addition, our current plan has an annual benefit maximum of \$1,000 that also limits the exposure to high-cost claims. Dental services are not subject to broad variations in care and practice patterns. A self-insured dental plan may allow more accessibility to maximize provider discounts. A self-insured dental plan model would also likely increase the flexibility in managing the dental benefits, claims administration and auditing processes.

Currently, dental benefits are offered to all state employees who are enrolled in a fully-insured health plan. Our recommendations will make dental benefits available to employees and annuitants enrolled in the self-insured Standard Plan, State Maintenance Plan, or Medicare Plus plan. In addition, only half of the health plans currently offered to local government employees include dental benefits. Separating the dental benefit from the medical benefit would allow more flexibility to offer dental benefits to local government employees and retirees.

We expect to release the RFP in early 2015 and evaluate bid proposals in April. Members of the Board are invited to participate in the review of the proposals and help frame the final recommendation for the vendor selection.

Conclusion

Staff recommends the Board authorize the release of an RFP to contract with a single third-party administrator to manage a self-insured, stand-alone dental plan using the current Uniform Dental Benefit design. Rationale for this recommendation includes:

- Predictability of dental costs
- Minimizing administration of dental benefits
- Option for employees to elect dental coverage
- Option to offer to those enrolled in self-insured health plans
- Remove dental benefits from the medical benefit thereby reducing the ACA financial impact
- More control over provider networks

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