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Correspondence Memorandum

Date: February 9, 2016
To: Group Insurance Board
From: Lisa Ellinger, Director
Office of Strategic Health Policy
Subject: Self-Insuring Medical Claims – Request for Proposals

Based on the recommendations of the current benefits consultant, and current and previous consulting actuaries, staff recommends that the Board approve the development and issuance of a Request for Proposals (RFP) to evaluate the impact of self-insuring the group health insurance program.

Summary

Self-insuring is currently the prevalent model adopted by most states for employee health insurance coverage, with 46 states reporting that they partially or totally self-insure. The Group Insurance Board (Board) has considered self-insuring the medical portion of the group health insurance program periodically over the past four years. Two consulting actuarial firms – Deloitte and Segal – considered the financial impact of self-insuring the group insurance program. Both firms concluded that an RFP is the advisable next step to thoughtfully evaluate program structure options. With approval from the Board, ETF will prepare more detailed information regarding the contents of an RFP for Board discussion at the May 2016 Board meeting. It is anticipated that the RFP would be issued in July 2016.

Background

The Board has considered self-insuring the medical portion of the group health insurance program periodically over the past four years. A brief history of self-insured analysis and discussion conducted by the Board follows below.

- Oct 26, 2012: At the request of the Board, the Board’s consulting actuary – Deloitte Consulting (Deloitte) – prepared a report analyzing the financial impact of self-insuring the group health insurance program. The report noted that, “a more detailed analysis would be needed to further refine the estimated financial impact.”
- February 25, 2013: The Board convened a Strategic Planning Workgroup and discussed developing and issuing a Request for Information (RFI) to gather

Reviewed and approved by John Voelker, Deputy Secretary

Electronically Signed 2/11/16

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- additional information to assess the impact of self-insuring the group health insurance program.
- April 1, 2013: ETF/Deloitte issued a “Supplemental Information Request” to health plans participating in the group health insurance program. Non-participating insurers were also invited to respond to a request for information.
 - August 27, 2013: results of the supplemental information request and RFI were presented to the Board, which determined this topic would be discussed further at the next meeting of the Strategic Planning Workgroup.
 - October 8, 2013: The Strategic Planning Workgroup considered recommendations based on results of the supplemental information request and RFI. ETF staff presented several options to the Board and recommended proceeding with an RFP to collect additional information. The Workgroup tabled further discussion on self-insuring and directed staff to collect additional information about the cost drivers, utilization patterns and areas of variation in the administration of the group health insurance program.
 - January 7, 2014: The Strategic Planning Workgroup recommended hiring a benefits consultant to assist with the analysis of program structure and plan design.
 - April 16, 2014: Segal Consulting was awarded the contract for consulting actuarial services.
 - May 23, 2014: ETF issued an RFP for benefit consulting services.
 - September 2014: Segal Consulting was awarded the contract for benefit consulting services.
 - March 25, 2015: Segal presented its first report to the Board, “Observations and 2016 Recommendations,” which noted potential savings of 5-7% from self-insuring and recommended additional study.
 - August 2015: Segal issued an RFI to collect additional information from both participating and non-participating insurers to evaluate provider access and network discounts. This information was collected to inform the November 2015 recommendations to the Board.
 - November 17, 2015: Segal presented its second report to the Board, “Observations and Recommendations for 2017 and Beyond.” The report noted that, “An actual request for proposals (RFP), accompanied with full claims and encounter data, would be necessary to confirm and validate the RFI results.”
 - January 7, 2016: The Board convened to continue the discussion of the Segal report. This discussion included the recommendation that an RFP was the best way to determine the impact of self-insuring the group health insurance program.

Actuarial Approaches to Analyzing Impact of Self-Insuring

The two consulting actuarial firms – Deloitte and Segal – considered various impacts on plan costs resulting from a self-insured approach, and arrived at different cost estimates. Both actuaries considered the following elements in their recommendations:

Affordable Care Act (ACA) taxes and fees, administrative costs, carrier profit margin and risk charges, and premium taxes. Deloitte estimated the financial impact to range from 2% (savings) to -10% (additional cost). Segal estimated a financial impact with savings up to \$42.3 million annually.

The primary difference between the actuary findings pertains to assumptions about how network discounts would be affected as the market reacts to a change in program structure. Deloitte assumed that many of the discounts currently factored into the existing managed competition model may not be obtainable in a self-insured model. The Segal report assumed all current discounts would continue to be available in a self-insured structure, and could increase if patient volume to specific cost-efficient networks increases.

It should also be noted that Segal collected more in-depth data for the most recent analysis, and considered a variety of relevant changes to the current plan design and structure.

Discussion Points

As noted, self-insuring is currently the prevalent model adopted by most states for employee health insurance coverage, with 46 states reporting that they partially or totally self-insure. The State of Wisconsin program currently self-insures pharmacy, dental and a small portion of health insurance coverage.

The discussion of self-insuring is separate and distinct from any discussion regarding the number of participating insurers, member access to available providers, and the level of benefits offered. Self-insuring is the mechanism for paying for medical claims, and assuming the associated risk.

In the recommended RFP, ETF will request information to evaluate the ability of submitting proposers to support the strategic initiatives presented in the November Segal report. The RFP will be structured to evaluate the following components.

- **Program Structure: regional, statewide, and national**
Information will be collected to enable the Board to compare potential costs/savings associated with different program models. For example, information will allow the Board to weigh the pros and cons of a self-insured program under a regional structure using multiple insurers versus a single, statewide administrator approach.
- **Performance Measures**
Insurers will be required to demonstrate the ability to meet various operational and health-related performance measures. As recommended in the Segal report, baseline metrics will be established in areas such as: treatment compliance, medication adherence, clinical outcomes, utilization improvement, engagement in medical management, and wellness programs.

Such metrics will help the Board evaluate the impact of insurer medical management programs on unnecessary and avoidable claims, and reducing risk factors in the covered population.

- **Multi-year Contracting**
Proposers will be required to indicate a willingness to enter into three and five-year contracts and note the cost differentials associated with these options. This information will allow the Board to evaluate the benefits of multi-year contracts.
- **Provider Access**
Proposers will be required to demonstrate adequate provider access in the regions they propose to serve. Information submitted will allow the Board to evaluate the provider systems available, as well as the number of primary care physicians and specialty physicians available in the proposed networks.
- **Cost Impact**
Summary information of the anticipated cost to the state under the various proposals will be available in a standardized format for the Board to review.
- **Value Based Plan Design**
Each submitting proposer will be required to demonstrate the capability to provide value based plan design options, such as: provider-level tiering, reference value/pricing, and centers of excellence.

Timeline

While the two most recent actuarial firms retained by the Board have reached different conclusions about the financial impact of self-insuring, both have concluded that an RFP is the advisable next step to thoughtfully evaluate program structure options.

If the Board approves the recommendation to proceed with the RFP, ETF staff will prepare more detailed information regarding the RFP for additional Board discussion at the May 2016 Board meeting. The 2016 timeline for RFP-related activities follows below.

Proposed Implementation Timeline

- RFP Development: January – July 2016
- RFP Distribution: July 2016
- RFP Responses Due: August – September 2016
- RFP Evaluation: September – November 2016
- RFP Results Presentation to GIB: November 2016

As noted above, ETF staff will present summary findings from the RFP at the November 2016 Board meeting.

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