STATE OF WISCONSIN
Department of Employee Trust Funds
Robert J. Conlin
SECRETARY

801 W Badger Road
PO Box 7931
Madison WI 53707-7931

1-877-533-5020 (toll free)
Fax 608-267-4549
etf.wi.gov

May 26, 2017

The Honorable Alberta Darling, Co-Chair
Joint Committee on Finance
317 East, State Capitol
Madison, WI 53701

The Honorable John Nygren, Co-Chair
Joint Committee on Finance
309 East, State Capitol
Madison, WI 53701

Dear Senator Darling and Representative Nygren:

At the May 24, 2017 Group Insurance Board (Board) meeting, the Board received early estimates for 2018 premium increases in a fully insured program structure. These estimates were based on 2016 trend and claims data recently submitted by the health plans participating in the state group health insurance program.

The preliminary estimates indicate premiums for state employee medical care are likely to increase by at least 10% for 2018. There will also need to be an increase to the premiums of local employees at the rate of 5.1%. This new information confirms that the current fully insured model will be much costlier than moving to a self-funded approach. It clearly demonstrates the necessity of making an on-going structural change to our health care system.

The Board members found the estimate alarming and it is our desire to ensure you are fully advised of the future risk in our ability to sustain reasonable annual increases in the current fully-insured approach.

The Board also discussed several alternative methods to achieving the required cost savings if the Joint Committee on Finance (Committee) rejects the contracts. Even regionalization, which is the only option that the Board advised ETF to continue to explore, would not generate sufficient savings to address the $60 million GPR savings requirement, the $32.8 million (AF) in ACA fees, and the 10% increase to medical expenses. Some of the other alternatives have been offered by legislators in recent media reports, and raise numerous concerns for the Board as discussed below.

1. **Employee Cost-Shifting**
   Certain legislators have been very candid about being open to shifting additional costs to state employees to achieve the required cost savings. Segal Consulting provided cost estimates for potential benefit changes to better understand the employee impact should any of these legislative options be selected.

   <u>Increase State Employee Premium Contributions</u>
   Employee health insurance premium contributions would need to increase from the current rate of 12% of the total premium to 18%, to meet the $60 million GPR savings target required by the Budget. **This reflects a 50% premium contribution increase.**

Increase Out-of-Pocket Costs

The annual deductible would need to increase by an estimated amount of $1,000 per individual and $2,000 per family, along with corresponding increases to the out-of-pocket limits to meet the $60 million savings target. **This represents a 400% increase from the current deductibles.**

The Board has concerns about shifting additional costs to state employees, who have already absorbed significant increases to health care costs in recent years, including the following changes:

- **2011:** State employee share of premiums increased from 6% to 12%, saving the state $82.4 million all funds per year
- **2012:** The Group Insurance Board was directed to find an additional 5 percent in savings by redesigning the state health insurance program.
    - These savings are estimated to be $65 million all funds in CY12, largely from having implemented a 90/10 co-insurance model for state employees.
- **2016:** Per budget goal, implemented deductibles of $250 individual/$500 family, office visit copayments and coinsurance for prescription drugs. It is estimated that this action saved the state $84.7 million all funds over the last biennium.

These prior actions taken by the Board were done to address budget realities and to rationalize the benefits of state employees as compared to benefits offered by other employers. Rather than shifting costs to employees yet again, the Board has presented a solution which will accomplish significant savings and avoid unreasonable premium increases or benefit reductions.

2. **Health Insurance Reserve Fund**

Recent media reports have also highlighted legislative interest in exploring a draw down on the reserve fund to accomplish the $60 million in GPR savings, which on an all funds basis is $135.6 million. Department of Employee Trust Funds (Department) staff presented the following information to the Board.

- The current reserve net fund balance is approximately $160 million.
- The Board reviews the reserve balance annually to align with Board protocols based on actuarial guidance (15-25% of annual claims).
- Since 2007 reserves have been utilized in every year except 2011 and 2016.
- $103.3m in reserve funding has been utilized in past 6 years.
- A draw down of $135.6 million as an alternative to self-insurance would reduce the reserve to an amount inconsistent with the Board reserve policy and sound actuarial principles.
- Severely depleting the reserves would limit the Board's ability to smooth out large premium increases in future years. The Board has successfully used this strategy in the past to buffer premium increases.

To reiterate, the Board has serious concerns about a solution that rests on a one-time reserve draw down. A $135.6 million reduction significantly exceeds the typical conservative approach used by the Board, which has been in the $20-30 million range, and would leave the reserve at risk.

3. **Fully Insured Negotiation Strategy**
The final legislative alternative to achieve the required cost savings is to pursue an aggressive approach to fully insured renewal negotiations. Given the preliminary results noted above, this does not appear to be a realistic mechanism to attain the required savings.

   As a reminder, continuance of this strategy does nothing to stave off the anticipated fees to be paid under the Affordable Care Act Insurer Assessment Fees. The fees for this assessment are estimated to be $32.5 million annually all funds for 2018 based on data reported by the health plans.

Summary

While the Board certainly recognizes that the Governor and Legislature of the state will make the final determination, the Board has a sworn fiduciary duty that is not taken lightly. It is with this significant responsibly in mind, that we alert you to this new information.

Given the information presented at the Board meeting, the Board remains strongly committed to the self-insured and regionalized approach as the best way to secure the savings included in the Governor's biennial budget, and strongly encourages the Committee to approve the self-insured contracts.

Solutions other than self-insuring either provide a short-term fix or do nothing to reign in long-term program costs. Self-insuring provides flexibility and opportunities for cost reduction and sustained benefit levels into the future.

Finally, we request that you schedule a meeting to resolve this issue as soon as possible in order for the Department to develop and execute a workable strategy for the CY2018 contracts. In particular, the contracts presented to you included a contract for the single statewide insurance provider. The contract with the current provider, WPS, expires December 2017. Failure to act in a timely manner jeopardizes ETF's ability to negotiate a new contract and ensure an insurance provider is available in all corners of Wisconsin and to our retirees around the country.

Sincerely,

Michael Farrell, Chair
Group Insurance Board

Stacey Rolston
Division of Personnel Management
Department of Administration