



STRATEGIES FOR MANAGING HEALTH PLANS THROUGH A CHALLENGING ECONOMY

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1 Fiscal and Financial Environment

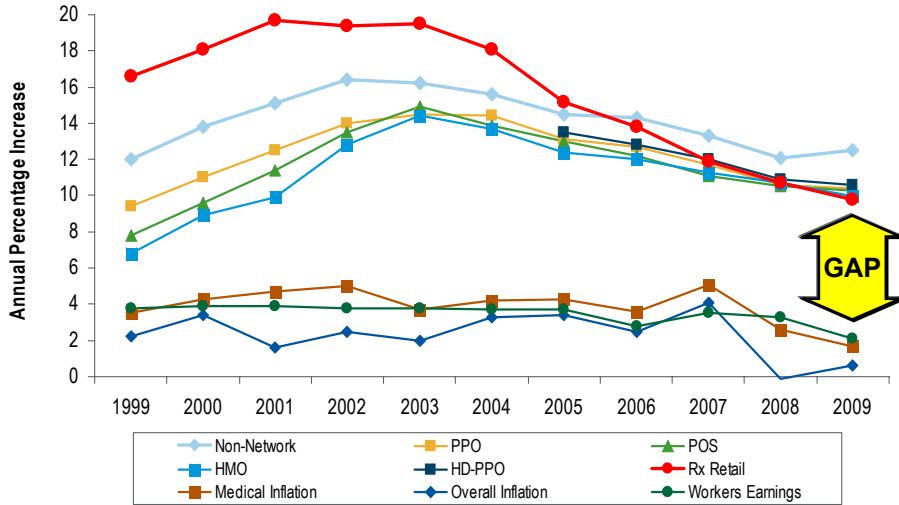
2 Factors That Can Increase Health Plan Costs

3 Actions Health Plans Are Taking



The Underlying Inflation Problem

ACTIVES AND RETIREES UNDER AGE 65

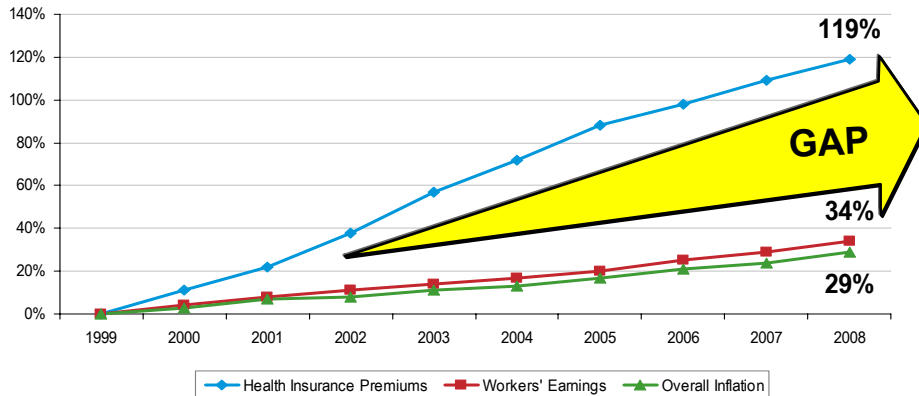


¹ Based on 2009 Segal Health Plan Cost Trend Survey and U.S. Bureau of Labor Statistics.

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The Underlying Inflation Problem

CUMULATIVE CHANGES IN HEALTH INSURANCE PREMIUMS, INFLATION, AND WORKERS' EARNINGS, 1999 – 2008



Note: Due to a change in methods, the cumulative changes in the average family premium are somewhat different from those reported in previous versions of the Kaiser/HRET Survey of Employer-Sponsored Health Benefits. See the Survey Design and Methods Section for more information, available at <http://www.kff.org/insurance/7790/index.cfm>.

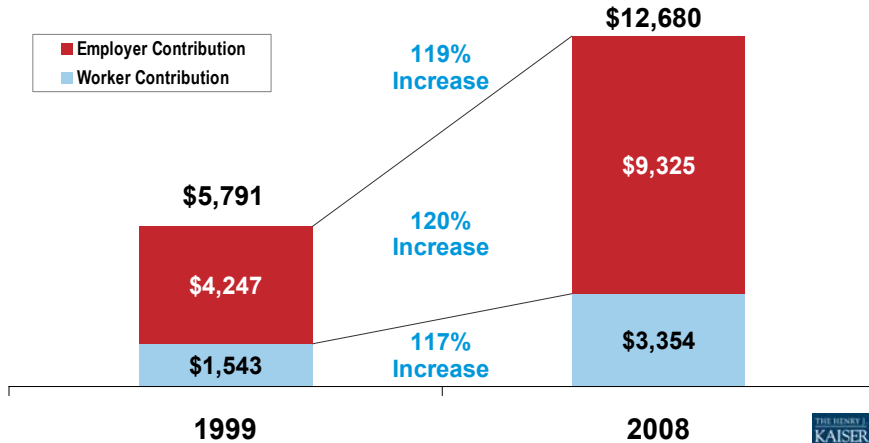
Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2000-2008. Bureau of Labor Statistics, Consumer Price Index, U.S. City Average of Annual Inflation (April to April), 2000-2008; Bureau of Labor Statistics, Seasonally Adjusted Data from the Current Employment Statistics Survey, 2000-2008 (April to April).

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Cost Concerns

AVERAGE HEALTH INSURANCE PREMIUMS AND WORKER CONTRIBUTIONS FOR FAMILY COVERAGE, 1999 – 2008



Note: The average worker contribution and the average employer contribution do not add to the average total premium due to rounding.
 Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999-2008.



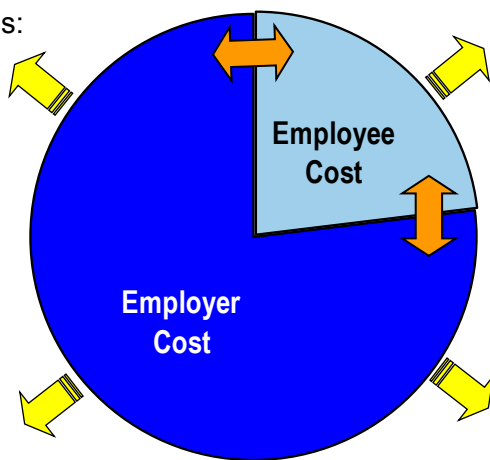
Health Benefit Funding

➤ Only two sources of funds:

- Employer subsidy
- Employee premiums and out-of-pocket costs

➤ Cost levers

- Hold down overall cost of the plan
 - Size of the pie
- Shift cost to the members
 - Size of the pie slices



Impact of Falling Budgets

➤ Falling budget revenue ultimately translates into staff reduction through:

- Attrition
- Reduction of hours worked
- Layoffs
- Reduction of services
- Restructuring
- Retirement patterns



➤ But a reduced workforce could also mean higher costs...



① Fiscal and Financial Environment

② **Factors That Can Increase Health Plan Costs**

③ Actions Health Plans Are Taking

Factors That Can Increase Health Plan Costs



Increased enrollment of dependents

- As spouses with other coverage lose jobs and benefit coverage
- Attempted enrollment of non-qualified "Dependents"



Increased COBRA coverage elections

- As laid-off workers fail to find other work with health benefits
- To take advantage of the new COBRA federal subsidy payments

Factors That Can Increase Health Plan Costs



Delayed retirement

- As those eligible for retirement reconsider their ability to pay for health coverage after they retire



Increased likelihood of stress-related disorders

- Fear of job loss can trigger stress-related diseases and increased mental health claims
- Can cascade into increased overall sickness of the group
- Increased number of disabilities will negatively impact the disability program experience (both pre and post RIF)

Factors That Can Increase Health Plan Costs



Acceleration of claims for covered discretionary procedures

- Might have been delayed in normal times (elective surgery or major dental work)
- Pushed up now for fear of job and benefit coverage loss



Postponement of preventive services

- Preventive services help keep down long-term costs
- Out-of-pocket costs for some preventive services discourage utilization among employees worried about their jobs, who believe they can hold off until later



Claims against Medical Spending Accounts before they are fully funded

- Employer is "at risk"
- Employees intend to use the full deferred amount prior to departure, whether funded or not



- 1 Fiscal and Financial Environment
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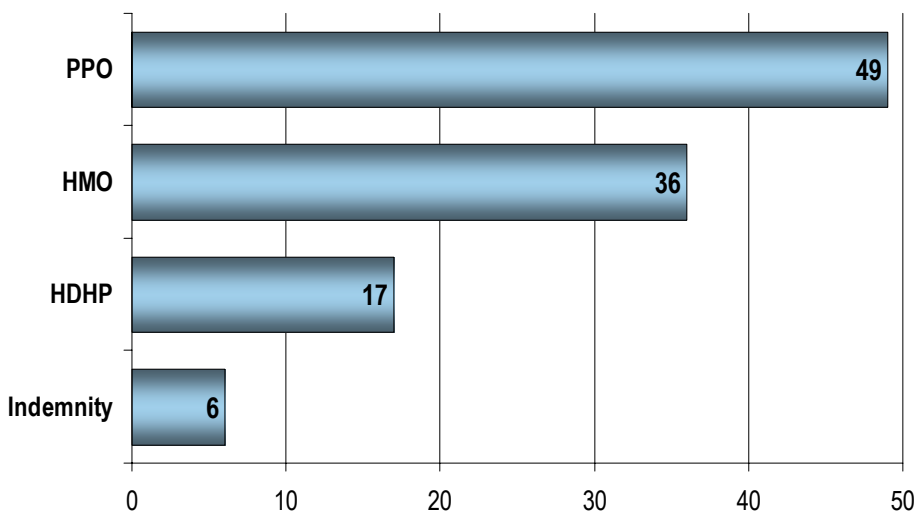
Actions Health Plans Are Taking

Redesign Health Benefit Plans

- Adverse times externally are a good time to make plan changes internally
- Identify benefit features that can be reduced or restructured without eliminating key coverage areas
- Does the plan design promote and encourage preventive care and discourage unneeded care?
- Can a lower-cost plan option help?



Number of States Offering Medical Plan Types



Source: Segal State Survey 2009.

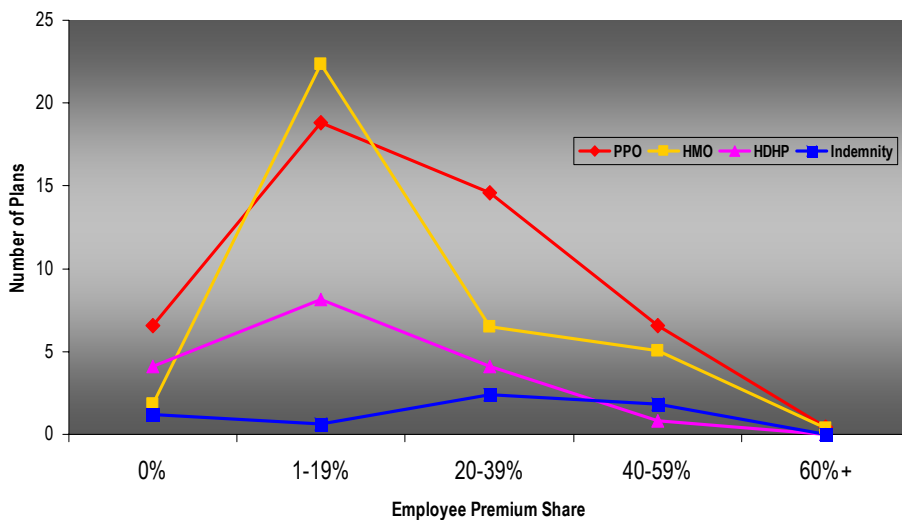
Actions Health Plans Are Taking *continued*

Review Cost-Sharing Strategy

- Trade fixed copayments for coinsurance so employees share in increasing costs automatically
- Where possible, share premium cost increases proportionally
- Be aware of limits on employees' ability to absorb radical cost increases in years without pay increases
- Balance cost shifting with need to provide a reasonable benefit level
- Incent participants to cover spouse and dependents elsewhere



Portion of Monthly Premium Paid by Employee



Source: Segal State Survey 2009.

Actions Health Plans Are Taking *continued*

Enhance Wellness Programs

- Even if they cost a bit more now, wellness programs can help hold plan costs down in the long-term
- Target specific “high results” areas rather than broad general programs
- Avoid the ROI argument, if possible, in favor of importance of keeping remaining work force healthy



Actions Health Plans Are Taking *continued*

Improve Case Management and Health Coaching Services

- Help participants stay on appropriate therapies now that will help them avoid future health complications with greater plan costs
- Target specific diseases and procedures with greatest potential for demonstrable effect
- Where possible, use existing carriers as a contract add-on to avoid need for full procurements



Data Mining - Cost Drivers

Status	# of CEPs	Percent of Total	Total Dollars Paid	Percent of Paid	Projected PMPY
Healthy	1,143	46.3%	\$386,903	4.5%	\$338
One or More Significant Acute Diseases	63	2.5%	\$215,111	2.5%	\$3,414
One Minor Chronic Disease	333	13.5%	\$516,322	6.1%	\$1,550
Multiple Minor Chronic Diseases	140	5.7%	\$468,616	5.4%	\$3,347
One Significant Chronic Disease	445	18.0%	\$1,715,530	19.9%	\$3,855
Two Significant Chronic Diseases	309	12.5%	\$2,772,816	32.2%	\$8,973
Three or more Significant Chronic Diseases	20	0.8%	\$245,149	2.8%	\$12,257
Complicated Malignancies	12	0.5%	\$1,965,300	22.8%	\$163,775
Catastrophic Condition	6	0.20%	\$331,685	3.8%	\$55,280
Total	2,471	100%	\$8,617,432	100%	\$3,487

CEP = Continuously Enrolled Participant



Identify Diseases That Are Driving Cost

CASE STUDY

Disease	Patients	Percent of Total	Total Cost	Percent of Cost	PMPY
Diabetes	209	5.95%	\$1,011,139	12.07%	\$ 4,838
Hypertension	318	9.05	726,934	9.06	2,286
CAD (coronary artery disease)	83	2.36	37,171	5.47	5,267
CHF (congestive heart failure)	20	0.57	186,979	2.34	9,349
Asthma	64	1.82	173,295	2.11	2,708
ESRD (end stage renal)	4	0.11	165,445	2.07	41,361
COPD (coronary, obstructive pulmonary disease)	39	1.11	153,314	1.92	3,931
Depression	84	2.39	131,262	1.59	1,562
Breast Cancer	17	0.48	126,774	1.59	7,457
CVA (Cerebrovascular accident)	7	0.20	78,204	0.98	11,172



Actions Health Plans Are Taking *continued*

Add Voluntary Benefits

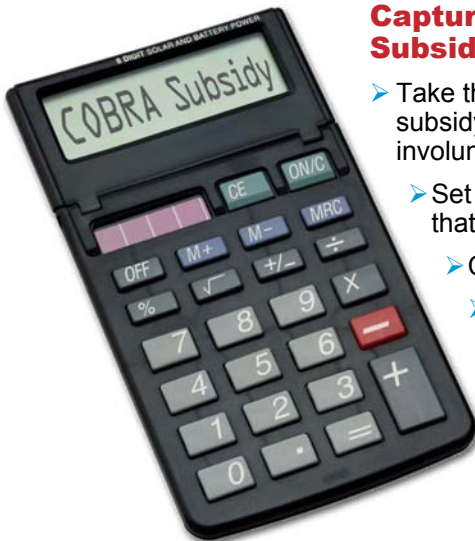
- Low/no-cost solution to providing ancillary and some core benefits
- Convert some employer paid benefits to voluntary programs
- Adds a new program, just when employer may be reeling under the cost of the existing plans



Actions Health Plans Are Taking *continued*

Capture the Temporary COBRA Subsidy

- Take the federal temporary COBRA subsidy into account when dealing with involuntary terminations and layoffs
- Set up process to identify terminations that qualify
 - Calculate effect on FICA taxes due
 - Work out plan for cross-crediting COBRA subsidy from FICA to health benefits



Actions Health Plans Are Taking *continued*



Conduct an Eligibility Audit

- Hold costs down by ensuring that the plan is covering only eligible participants and dependents
- Require proof of dependency for all new plan entrants, then progressively screen existing participants
- Provide plenty of notice of eligibility policy enforcement and have a procedure for appeals and grievances to resolve difficult issues
- 8% to 12% dependent coverage reduction is typical

Actions Health Plans Are Taking *continued*

Manage Contractors and Vendors More Tightly

- Simplify number of health plan options
- Create a competitive environment for the remaining vendors
- Link performance guarantees to plan cost
- Demand savings guarantees
- Auction visibility – barter access to your workforce
- Pilot new programs
- Embrace new technology to reduce waste and encourage personal responsibility for health costs



How Legislators and Staff Can Help

- Learn more about your employee and retiree plans and what drives the cost increases
- Take measured actions that support a strategy for cost containment
- Be open to structural long-term changes to manage cost
- Think of benefits as an integral part of total compensation
- Keep in mind the interaction between state employee benefits and state-funded entitlement programs



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