SELF-INSURED PLANS

A Report Prepared for the
Legislative Finance Committee

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LFD
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INTRODUCTION

As part of its work plan for the 2017 interim the Legislative Finance Committee (LFC) included developing an understanding of the financial condition of the state employee and Montana University System (MUS) group benefit plans. The LFC requested a report on how Montana state self-insured pools operate as part of its examination. The purpose of this report is to provide the LFC with information on:

- Reasons why employers self-fund health plans
- Purpose of the state self-funded plans
- Statutory requirements
- Impacts of the Patient Protection and Affordable Care Act (PPACA)
- Comparison of the state employee and university group benefit plans including:
    - Demographics of beneficiaries
    - Plan options
    - Financial condition of plans at FYE 2015
    - Open enrollment options
    - Participation in employee health care clinics
- Areas for further consideration

REASONS WHY EMPLOYERS SELF-FUND PLANS

Self-insured plans are funded by employers and employee contributions held in a reserve, rather than purchasing a health insurance policy for employee and dependent health care benefits from private insurance companies. In other words the employer assumes the financial risk for providing health care benefits for its employees and their dependents. The employer may collect contributions towards the costs of the health plan from employees or fund the health plan entirely. The employer must make the payment of medical claims for its employees and eligible dependents in accordance with the benefits outlined in the summary plan document. At their option employers can contract services with a third party administrator such as: enrollment, claims processing, and access to financial arrangements with providers through provider network agreements via a contract.

Characteristics of self-funding for health care benefits include:

- Control over health plan reserves including the interest generated from the reserves which can be used to lower the costs of providing health care benefits
- Exceptions to insurance reserve requirements which can also lower the cost of providing benefits
- Ability to customize the benefits to the health care needs of the employees
- Ability to administer provisions of the benefit plan to meet the needs of the employer and its employees
- Improved cash flow as prepayment for the insurance coverage is not required
- Regulation is at the federal level under the Employee Retirement Income Security Act (ERISA) so that the employer is not subject to state health insurance regulations. State and local governments are specifically excluded from the ERISA requirements
- Exemption from state health insurance premium taxes which in Montana are 2.75% of net premiums
- Exemption from health insurer tax required in the Patient Protection and Affordable Care Act which is currently 2.5%
- Ability to develop customized provider networks or contracts with providers that serve employers workforce needs

LEGISLATIVE PURPOSE IN ESTABLISHING SELF-INSURED PLANS FOR STATE AND UNIVERSITY EMPLOYEES

As outlined in statute, the purpose of the state group insurance is to establish a program under which the state may provide state employees with adequate group hospitalization, health, medical, disability, life, and other related group benefits in an efficient manner and at an affordable cost. Statute allows the Board of Regents to transfer its authority for providing group benefits for employees of the Montana University System to the Department of Administration. The Board of Regents has not elected to transfer its authority and as a result the state has two separate self-insured plans for its employees, one for Montana University System employees and one for all other state employees including legislators .

STATUTORY REQUIREMENTS

Federal Statutes

As discussed under Reasons Why Employers Self Fund Plans, most self-insured plans come under the requirements of the Employee Retirement Income Security Act. ERISA provides employees covered under self-insured plans participant rights including:

- Providing plan information to plan participants comprised of a plan summary, annual report, rules, financial information, and information on the operations and management of the plan
- Timely and fair process for benefit claims
- Ability to continue group health coverage if employee loses coverage under certain circumstances
- Ability to recover benefits provided by the plan
- Provision of a certificate evidencing health coverage under the plan

While state and local governments are exempted under ERISA both the state employee and Montana University System employee benefit plans provide similar participant rights

In addition self-insured group health plans must comply with applicable federal statutes included in:

- Health Insurance Portability and Accountability Act (HIPAA)
- Consolidated Omnibus Budget Reconciliation Act (COBRA)
- Patient Protection and Affordability Care Act (ACA)
- Genetics Information Non-Discrimination Act (GINA)
- Americans with Disabilities Act (ADA)
- Pregnancy Discrimination Act
- Age Discrimination Act
- Civil Rights Act

Plans may also come under requirements contained in federal budget reconciliation acts.

While the majority of the statutes have been fully in effect for a number of years the ACA requirements were implemented beginning March 28, 2010 (with certain look-back provisions to September 23, 2009) through 2018 and thus the full impact of the changes on the state's group benefit plans have not yet been realized. The following section discusses the ACA requirements that apply to all self-insured plans.

Impacts of the Patient Protection and Affordability Care Act

Both the state employee and Montana University System group health plans must follow certain provisions of the ACA. The majority of the requirements were not included as part of the plans prior to adoption of the ACA. It should be noted that with the exception of the excise tax on high value plans the other major requirements have taken effect and have been in place at least since 2014. These include:

- Expanding coverage of dependents to age 26
- Open enrollment for dependent children up to age 18
- Covering 100 % of preventative health services
- Elimination of prior authorization and higher out-of-network copayment or coinsurance rates if covering emergency services
- Elimination of any requirements that primary doctors refer women for obstetrical and gynecological care allowing women to obtain services from the provider of their choice
- Coverage for individuals participating in approved clinical trails
- Essential health benefits only limited as permitted by federal or state law
- Elimination of lifetime benefit limits for essential health benefits
- Prohibition on rescinding benefit coverage unless fraud or intentional misrepresentation occurs
- Providing for contraceptive coverage at no cost to the beneficiary
- Prohibition on discriminating health care benefits based on preexisting conditions or health status
- Mental health and substance abuse disorder services parity if services provided by the plan
- Limitations on cost sharing and out-of-pocket spending
- Payment of a comparative effectiveness research fee which was $1 of the average number covered lives in 2013 and $2 of the average number of covered lives in 2014. This provision sunsets in FY 2019
- Uniform explanation of coverage documents and standardized definitions
- Requires internal and external appeals process
- ACA Employer Shared Responsibility Requirements - Penalties if employees receive premium credits through an exchange and the employer does not offer coverage. In 2014 this is determined by the number of full-time employees minus 30 multiplied by $166.67 per employee per applicable month. After 2014 the penalty is indexed by the premium adjustment percentage for the calendar year
- ACA Employer Shared Responsibility Requirements - Penalties if employer offers coverage but the employee's required contribution exceeds 9.5% of the employee's household income or if the plan play for less than 60% of covered expenses. In 2014 this is determined by the number of full-time employees that receive the credit multiplied by $250 for any applicable month. Total penalty is limited to the penalty paid if employer does not provide coverage as discussed above
- Subject to excise tax (also referred to as the Cadillac tax) of 40% of the value of the plan that exceeds threshold amounts. For 2018 high-cost health plans are plans that the aggregate value of the plan exceeds $10,200 for single coverage or $27,500 for coverage tiers other than single. Aggregate value includes reimbursements under a flexible spending account, employer contributions to a health savings account, employer and employee contributions or premiums to health care plans
- Reinsurance fee of $63 per eligible participant per year. Cost estimated to be $1.04 million in FY 2014 for the state employee group health plan and $1.04 million for the Montana University system employee health plan. This requirement expires in 2016

A number of the provisions such as expanding coverage of dependents to age 26, elimination of lifetime maximum limits, and elimination of pre-existing condition exceptions added to the costs of both plans.

Montana Statutes

By law, both the state employee and Montana University System group benefit plans are exempted from statutory provisions on insurance and insurance companies found under Title 33. Both the Board of Regents and the Department of Administration are required, if they implement alternatives to conventional insurance, to maintain the alternative plans on an actuarially sound basis. It should be noted that both plans have elected to provide group health benefits through a self-insurance model.

Statute also provides for certain health plan requirements including:

- Annual copayment and deductible provisions that are subject to the same terms and conditions applicable to all other covered benefits within a given policy
- Written informational materials on cancer screening coverages
- Coverage for hospital in-patient care following a mastectomy, lumpectomy, or lymph node dissection for the treatment of breast cancer
- Outpatient self-management training and treatment for diabetes management including $250 benefit for training and education and coverage for diabetic equipment and supplies
- Compliance with statutes that outline the coverage of routine patient costs for participants in cancer clinical trials

COMPARISON OF THE STATE EMPLOYEE AND MONTANA UNIVERSITY SYSTEM GROUP BENEFIT PLANS

While both plans offer a variety of benefits including medical, dental, vision, and life insurance for comparison purpose this portion of the report is focused on medical benefits provided by each plan.

Demographics of Beneficiaries

Demographics of a plan can impact health care costs. For example, it is generally understood that younger individuals have lower healthcare costs when compared to individuals who have retired. In addition certain types of employment or extra-curricular activities pose a greater risk of injury than others. While workplace injuries are insured through workers' compensation insurance extra-curricular activities would be insured through the group health plans.

State Employee Group Benefit Plan (SEGBP)

State employees, retirees, legislators, elected officials, judges, and eligible dependents are eligible for benefits if the employee qualifies for coverage. Part-time or seasonal employees must work 20 hours or more a week continuously for six months or more to qualify. The state employee group benefit plan averaged the following number of eligible participants in its medical plan in 2014:

- Active employees - 12,874
- COBRA participants - 28
- Retired employees under 65 – 697
- Retired employees over 65 – 2,415

The majority of the active employees under this plan are employed by the Executive Branch. According to the Calendar Year 2014 State Employee Profile, the average age of the Executive Branch employees was 46 in 2014. In addition the majority of the employees in state employment are included in the broadband pay plan. The report also states that 70% of the employees in the pay plan hold positions requiring a bachelor's degree or equivalent education and experience.

It should be noted that the type of employment varies greatly among the various state agencies. For example prison guards, psychiatric technicians, painters, budget analysts, and administrative assistants are among the variety of state positions.

Montana University System Group Benefit Plan (MUSGBP)

Individuals employed by a unit of the Montana University System, the Office of the Commissioner on Higher Education, or other agency or organization affiliated with the Montana University System of the Board of Regents of Higher Education are eligible to participate if:

- Permanent faculty or professional staff members scheduled to work at least 20 hours per week or 40 hours over two weeks for more than 6 months of any year
- Temporary faculty, professional staff, or seasonal faculty who work at least 20 hours per week or 40 hours over two weeks continuously for at least six months or more
- Academic or professional employees with an individual contract under the authority of the Board of Regents that meets eligibility under the other requirements

The Montana University System group benefit plan averaged the following number of eligible participants in its medical plan in 2014:

- Active employees and dependents – 15,369
- COBRA participants – 125
- Retired employees and dependents under 65 – 1,150
- Retired employees and dependents over 65 -1,768

The majority of the active employees under this plan are employed by the Board of Regents. The average age of MUS employees was also 46 in 2014. The Office of the Commissioner of Higher Education estimates that 75% of the employees in the system hold positions requiring a bachelor's degree or equivalent combination of education and experience.

Plan Options for 2015

The plan years for the state employee and Montana University System group benefit plans are different:

- State employee group benefit plan year is a calendar year from January 1 to December 31
- Montana University System group benefit plan year is a fiscal year from July 1 to June 30

For this portion of the report the plan year for the SEGBP is calendar year 2015 while the MUSGBP is FY 2016.

State Employee Group Benefit Plan

Employees under the SEGBP are eligible for medical benefits through a single third party administrator, Cigna. Monthly plan contributions for a single active employee in plan year 2015 were $845 or $10,140 annually. HCBD staff discussed potential increases for contributions, deductibles, copayments, and coinsurance for plan year 2016 with the State Employee Group Benefit Advisory Council (SEGBAC). Discussion included increasing contributions from $845 a month to $963 month or a 12.2% increase for a single employee. It should be noted that at this level the annual contribution would be $11,556 or $1,156 above the high-cost health plan threshold for the excise tax that takes effect in 2018.

Montana University System Group Benefit Plan

Employees eligible for medical benefits under the MSUGBP are offered a choice between three plan administrators:

- Allegiance
- Blue Cross/Blue Shield
- Pacific Source

Rates for coverage and provider networks vary between the three plans allowing employees to choose a plan that fits with their requirements. Deductibles, copayments, coinsurance and out of pocket limits are the same for all three plan administrators so that the benefits and coverage for each administrator is comparable. Monthly contributions for a single employee for each plan administrator in FY 2016 were:

- Allegiance - $624
- Blue Choice - $610
- Pacific Source - $682

Financial Condition of Plans at FYE 2015

As discussed in Reasons Why Employers Self Fund Plans, reserve requirements required by state law are not applicable to self-funded plans. However, in both cases the state self-funded plans have retained actuaries to determine the amount of reserves the plan should retain to be financial sound.

State Employee Group Benefit Plan (SEGBP)

In calendar year 2014, the financial health of SEGBP, as measured by the level of reserves, declined. This was due to a significant increase in medical claims that resulted in a decline in claims reserves of $24.2 million. The actuary for the plan recommends a reserve level of $78.9 million for plan year 2014. The ending reserve level for plan year 2014 was below the level recommended by the plan actuary by $16.9 million.

Plan Year 2015

For the first two quarters of plan year 2015:

- Revenues for the plan increased by 14.1% or $10.5 million when compared to the same period in plan year 2014. A portion of the increase is due to higher contributions for coverage by the participant and the employer share of the contributions made by the state of Montana. For plan year 2015 the state share of the contributions was increased by 10% from $806 per month per employee in plan year 2014 to $887 per month per employee in plan year 2015
- Expenditures for the plan decreased 9.0 % or $8.1 million when compared to the same period in plan year 2014. $3.5 million of the reduction is due a change in the estimate of incurred but not reported claims
- Plan reserves are projected to be $51.7 million at the end of the plan year, or $23.6 million below the actuarially recommended level of reserves. This represents an additional decline in plan reserves of $6.7 million since December 2014. Plan reserves are projected to increase by $1.0 million in plan year 2015

Montana University System Group Benefit Plan

MUSGBP ended FY 2014 with reserves that were $13.5 million above the level recommended by the plan actuary of $36.7 million.

FY 2015

- Medical and dental expenses exceeded revenues by 12.0%, in FY 2014 revenues exceeded expenses by 3.8%
- Plan lost $10.0 million over the plan year compared to an expected gain of $0
- Losses were mainly related to a large claims, mostly neonatal babies,
- Another factor was a prescription drug trend going from an increase of 2.8% in FY 2014 to 21.0% in FY 2015
- Reserves were $2.9 million below the level recommended by the actuary in FY 2015 of $41.0 million

Open Enrollment Options

Open enrollment whereby dependents can be added to the plan, can increase plan costs if dependents have chronic health conditions or serious health issues such as cancer.

State Employee Group Benefit Plan (SEGBP)

The state employee group health plan has had open enrollment for spouses and eligible adult dependents during its annual enrollment period in plan years 2014 and 2015, and plan to continue this practice in plan year 2016. The plan had not had open enrollment for seven years, and decided to follow the national trend of having an open enrollment. According to 2015 State of Montana Annual Change Booklet for Employees

> *The plan experienced an increase in claims spending. This is due to many factors like last year's open enrollment, which brought additional members onto the Plan; a record number of members receiving health screenings and subsequently seeking care for health conditions of which they may not have been aware; increases in the amounts charged by the hospitals; and more.*

Montana University System Group Benefit Plan

MUSGBP had:

- Closed enrollment for dependents in FY 2014
- Closed enrollment for spouses and adult dependents in FY 2015
- Closed enrollment for spouses and adult dependents in FY 2016

Participation in Montana Health Centers

The state of Montana began operating an employee health center in Helena August 31, 2012. Since then five additional health center sites have been added in:

- Billings
- Miles City
- Missoula
- Butte
- Anaconda

According to the Employee Health Clinics Frequently Asked Questions:

> *Based on an independent actuarial analysis of the CareHere proposal for the Helena clinic, Montana could save over $100 million over five years once clinics are up and running statewide. The cost savings comes in two ways. First savings will come from the increased efficiency of paying for care at cost instead of fee-for-service. The second level of savings comes as employees' health improves and catastrophic claims are reduced through wellness, disease management, and chronic care programs offered at the clinics.*

As a means of increasing use of the employee health centers employees that receive care at one of the health centers are not required to pay deductibles or copayments for medical appointments or services.

State Employee Group Benefit Plan (SEGBP)

The SEGBP funds the state health centers from the contributions made by employees and the state of Montana to the plan reserves. The figure on the next page shows:

- Costs for each health center from inception through February 9, 2015
- Appointments by member's home location. The members mainly zip code determines the location, not the actual health center visit location

Department of Administration				
Health Care and Benefits Division				
State Employee Health Clinics				
As of February 9, 2015				
Clinic	Inception Date	Appointments	Cost	Utilization as of 2/21/2015
Billings	6/3/2013	8,732	$1,179,671	83%
Butte	11/17/2014	5,648	$123,813	88%
Helena	8/31/2012	90,876	$7,423,795	87%
Miles City	9/24/2013	3,387	$567,902	36%
Missoula	5/27/2014	4,917	$516,099	85%

Montana University System Group Benefit Plan

Montana University System employees may utilize services in the Helena clinic under a memo of understanding with SEGBP.

AREAS FOR FURTHER CONSIDERATION

The LFC has expressed interest in gaining a better understanding of the financial condition and cost drivers of the two self-insured group benefit plans. This report and the panel discussion by the administrators of the plans may broaden the LFC's understanding of how the plans operate. Areas for further LFC consideration might include:

- Examination of the differences in benefits offered by each of the state plans
- Comparison of utilization of services and costs between employees served within the state health center and those utilizing other providers
- Costs associated with adding dependents during open enrollment periods provided by SEGBP
- Results of analysis being conducted by the SEGBP including:
    - Awarding a contract for a third party administrator
    - Examination of the state health centers
    - Cost containment measures
    - Actuarial review of the state health centers
- Other aspects of the plans as directed by the LFC