

Review of the Actuarial Analysis of Including Local Government and School Employees in the State's Health Care Coverage

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- Brief Overview of JLARC Report and Recent General Assembly Actions**
- Overview of First Actuarial Study Report Completed in 2013
- Review of 2015 Appropriation Act Language and Result of Second Actuarial Study Report
- Review of Premium Structures Across Public Employee Plans
- Potential Modifications to the Local Choice Plan
- Final Thoughts

Continuous Discussion in Recent Years on Merits of a Statewide Health Insurance Plan for Teachers

- During the 2010 General Assembly Session, HJR 60 (Del. Cox, M.K.) was adopted that directed JLARC to study the feasibility and effectiveness of requiring school divisions to contract collectively in certain areas of procurement
 - JLARC presented their findings just before the 2011 Session: “Use of Cooperative Procurement by Virginia School Divisions” – and some of the key findings from the report included:
 - Out of the \$2.6 billion in recurring purchases, school divisions reported spending a total of \$948 million for health insurance in FY 2009 – over 50% of expenditures (spent by 72 of the 132 divisions) used some form of cooperative procurement
 - JLARC estimated that schools could potentially save between \$50-60 million each year from some type of statewide insurance pool for teachers
 - The estimate was based on a 5% - 7% savings range from another state’s mandatory program and analysis done for proposed plans for Michigan and Minnesota; however, neither state implemented their plans – issues dealt with start-up costs and loss of local flexibility
 - JLARC’s recommendation was that the General Assembly may wish to have an actuarial analysis done to determine the total statewide financial impact of including all school & local government employees in the state’s health care plan

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2013 Appropriations Act Required DHRM to Conduct An Actuarial Review of the Impact of Including Local Employees in the State Employee Health Care Plan

- Item 83, I., of Chapter 806 of the 2013 Virginia Acts of Assembly provided \$100,000 for DHRM to conduct analysis
 - Directed DHRM to assume implementation in a manner consistent with the provisions included in legislation introduced during the 2013 session, HB 1356 (Yost) and report finding by October 15, 2013
- DHRM contracted with Aon Hewitt to conduct an actuarial analysis of viability and financial impact of including all political subdivisions into the state's health plan
 - Compare the claims cost of the school divisions and local government population to the claims cost of the state plan
 - Determine whether bringing the new population in would change the expected cost of the state plan
 - Outline considerations in implementing a state-wide plan if approved by the General Assembly

Actuarial Analysis in 2013 Was Limited Partially Due to Low Response Rate

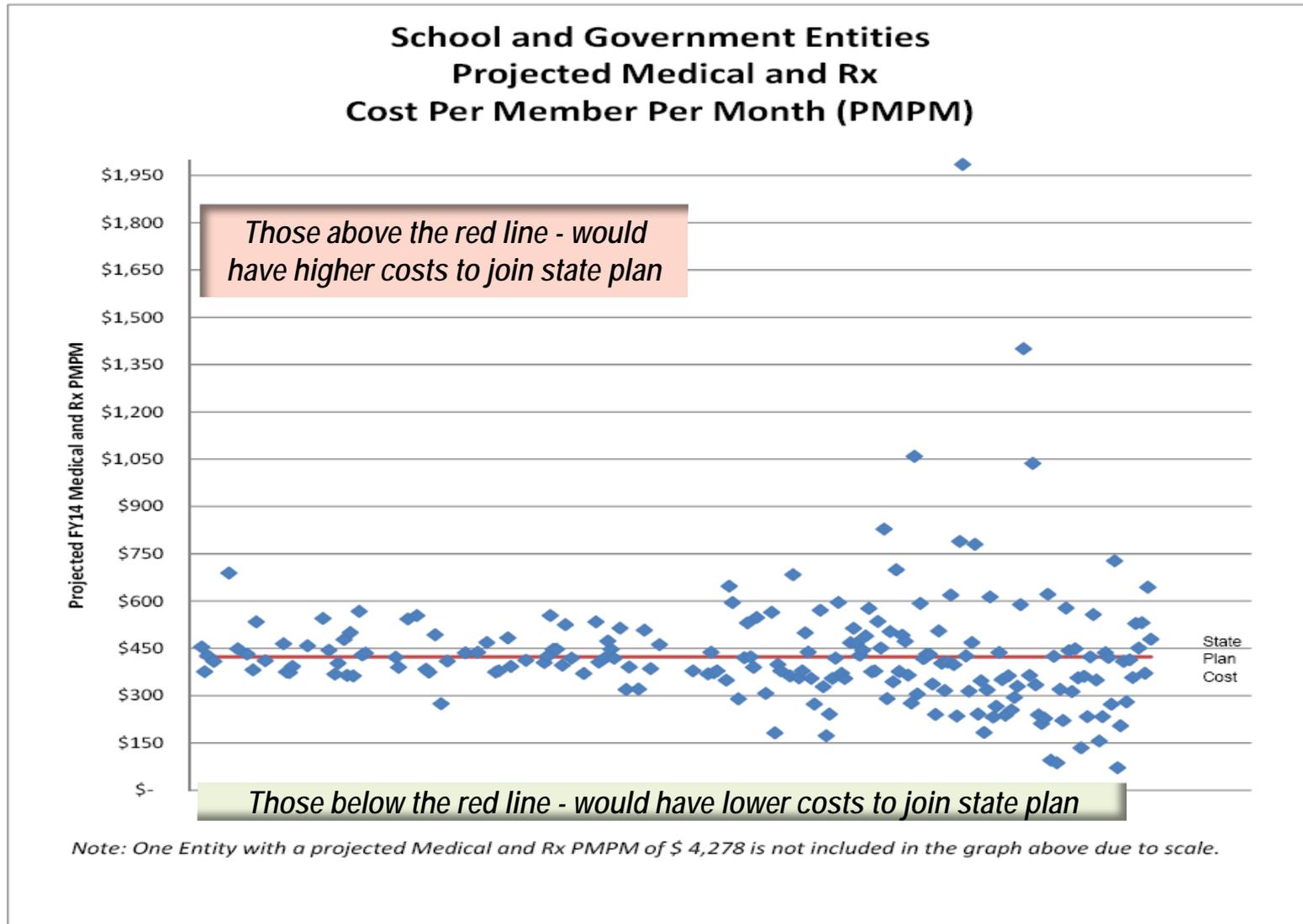
- As part of the analysis, DHRM requested detailed health claims data from school divisions and other political subdivisions
 - DHRM requested data from 450 entities, of which 159 did not respond and 88 provided data that could not be used in the analysis; data from the remaining 203 entities was used
 - While the data represented 45% of the entities, most of the large localities and school divisions did not participate and therefore the data represented a much smaller % of the total number of local employees receiving health insurance
 - The data used included 49,200 covered employees and a total, of 86,800 average monthly enrolled members, including dependents
- The analysis estimated that the average cost for the members in the plans of the political subdivisions was essentially identical to the average cost for members in the state employee plan
 - While the average is the same, there is a wide variation with some individual plans having significantly higher average costs and some having significantly lower costs

Total Estimated Local vs. State Cost Comparison – with 100% Participation

- Estimated cost for local governments, schools and other political subdivisions plans in the 2013 study was similar to the cost of the state plan within a 2% margin of error
 - State cost was based on medical and prescription drug costs for FY 2014 actuarial budget rate from the COVA Care Basic plan
 - Local cost was based on data submitted, and then adjusted upward to estimate FY 2014 costs

Estimated FY 2014 Cost PMPM			
	Local	State	Difference
Low Trend	\$415	\$423	(1.9%)
Best Estimate Trend	\$423	\$423	0.0%
High Trend	\$431	\$423	1.9%
Average Enrolled Members	86,796	192,324	
<i>Low and High Trends are based on either +/- 2% of the Best Estimate</i>			

Total Medical and Rx Projected PMPM Costs for the 2013 Analysis



Consequences of Adverse Selection

- If joining the state plan had been optional, it could have created adverse selection -- disproportionate share of higher cost entities increases cost
 - Adverse selection impact would have been a primary risk factor to consider and challenging to manage or control without some type of mandates
- State's costs could have:
 - Increased by 1.4% if only high cost entities joined – an estimated cost at the time of approximately \$15 million (\$7.0 million GF)

Estimated FY 2014 Cost PMPM				
	Local	State	Combined	Impact to State
Highest Cost Quartile	\$547	\$423	\$429	1.4%
Average Enrolled Members	9,438	192,324	201,762	4.9%
Number of Local Entities	51			

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2015 Budget Requires a More Complete Review of Public Employee Health Plans in the Commonwealth

- Item 82.H of Chapter 665 of the 2015 Virginia Acts of the Assembly provided up to \$250,000 for DHRM to conduct the review
 - Required an actuarial review, with the more complete data, of the impact on the state, the school boards, and other political subdivisions, from including the employees and their families in the state employee health program or in one statewide pooled plan for the employees of political subdivisions
 - Budget language required school boards and localities to provide information as requested by the DHRM
 - The language also required a review of the current policies of The Local Choice (TLC) program, including its pooling and rating methodology, to determine whether overall improvements may be made to the program, with a specific goal of trying to increase the appeal of the program for rural school divisions and local governments
 - Directed DHRM to hold series of meetings with political subdivisions to better educate and share information with them about The Local Choice program and to request specific feedback that could be considered for improving the program options

Overall, the Analysis Looks at Four Potential Options Going Forward

- Mandating the inclusion of all political subdivisions in the state employee health insurance plan with one pool
- Allowing political subdivisions the option of participating the state employee plan
- Modifying TLC to make it one pool for all political subdivisions that choose to participate
- Continuing the current policies, which include offering political subdivisions the option of participating in TLC Program with the potential of some modifications to the program

Reported Findings from the Second Review

- DHRM contracted with the same consultant group to perform the review
- Participation was better, 47%, with complete data from 336 out of the 708 school and political subdivisions polled -- the remaining entities either:
 - Submitted incomplete data – which was not used in the analysis: 184
 - Did not respond: 188
- Also, the total number of employees included in this analysis is much better than the last one
 - 203,593 employees and a total of 318,715 enrolled members compared to 49,200 employees and 86,800 members in the 2013 analysis
- This analysis evaluated the total costs on an adjusted FY 2016 basis for population demographics, medical and prescription drugs, and also dental relative to the state's COVA Care Basic plan with expanded dental costs on a per member per month (PMPM) basis
 - Vision coverage and related costs were excluded from the analysis as it represented only about 2.0% of the state's plan total costs

Total Population Demographic Factors

- The overall results from the demographics comparison between schools and local governments relative to the mix of state employees remained unchanged
 - State employees were slightly older compared to schools and local governments
 - Schools and local governments had a higher percentage of females employed
 - The actuarial analysis determined that the two demographic factors combined had somewhat of an offsetting cost neutral impact

Demographic Comparison – Enrolled Employees				
	School	Local Gov't	Total	State
Average Age	46.2	47.7	47.1	47.7
Females % of Total	77.1%	45.4%	61.6%	53.5%
Age/Gender Variance	1.004	0.963	0.984	1.000

Total Estimated Local vs. State Cost Comparison Based on 100% Participation

- State cost was based on medical and prescription drug, and dental costs for FY 2016 actuarial budget rate from the COVA Care Basic plan with expanded dental coverage
- Local cost was based on data submitted and then adjusted upward to estimate FY 2016 costs

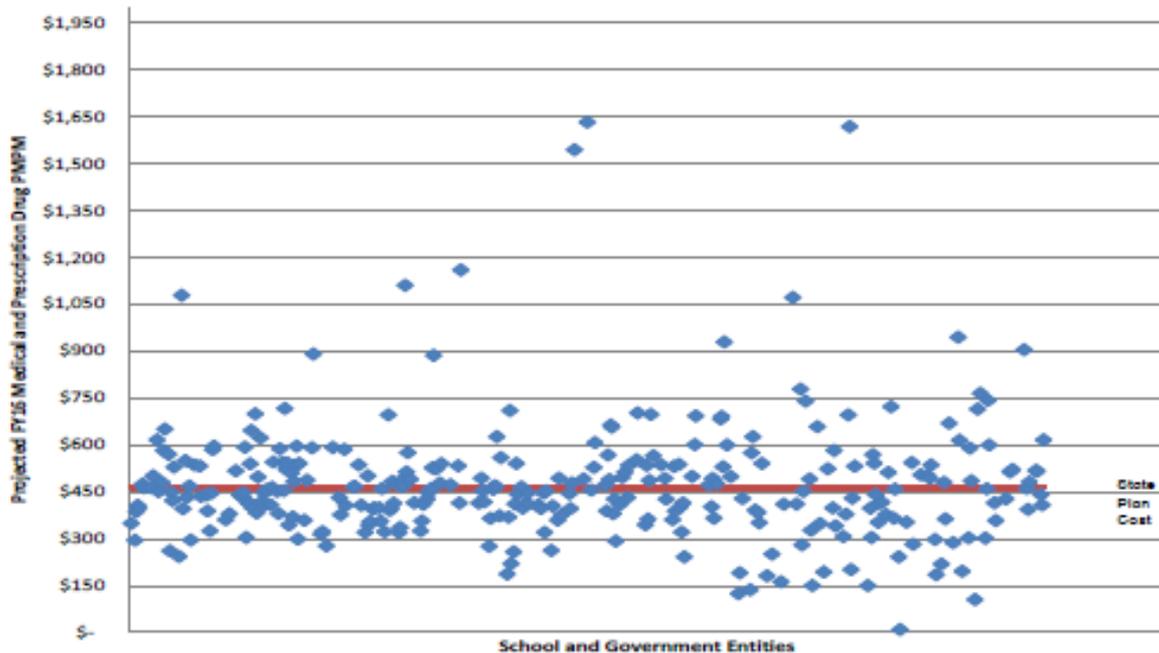
Medical and Prescription Drugs - Estimated FY 2016 Cost PMPM			
	School/Govt	State	Difference
Low Trend	\$444	\$464	(4.2%)
Best Estimate Trend	\$454	\$464	(2.0%)
High Trend	\$465	\$464	0.3%
Average Enrolled Members	380,715	195,483	

Potential Impact On State Employee Plan

- The estimates from the actuarial analysis indicated that if 100% of the political subdivisions in the study were enrolled in the state's COVA Care Basic plan, the revised PMPM premium would decrease by approximately 2.0%
 - Saving the state program \$24.0 million annually (\$10.6 million GF)
- Further, the study also estimated that if only the Highest Cost Quartile plans were to join the state employee plan, the state plan premium would increase 5.58%
 - Costing the state program an additional \$67.0 million annually (\$29.5 million GF)

Although the Best Estimate Trend Cost Would be Slightly Lower, Nearly Half of the Study's Participating Schools and Governments Would Have to Pay More in the State Plan

**School and Government Entities
Projected Medical and Prescription Drugs
Cost Per Member Per Month (PMPM)**



Note: Two entities with projected Medical and prescription drug PMPMs in excess of \$ 2,600 are not included in the graph above due to scale.

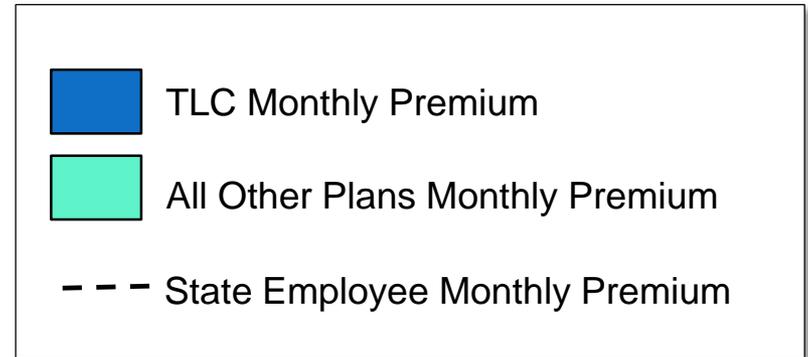
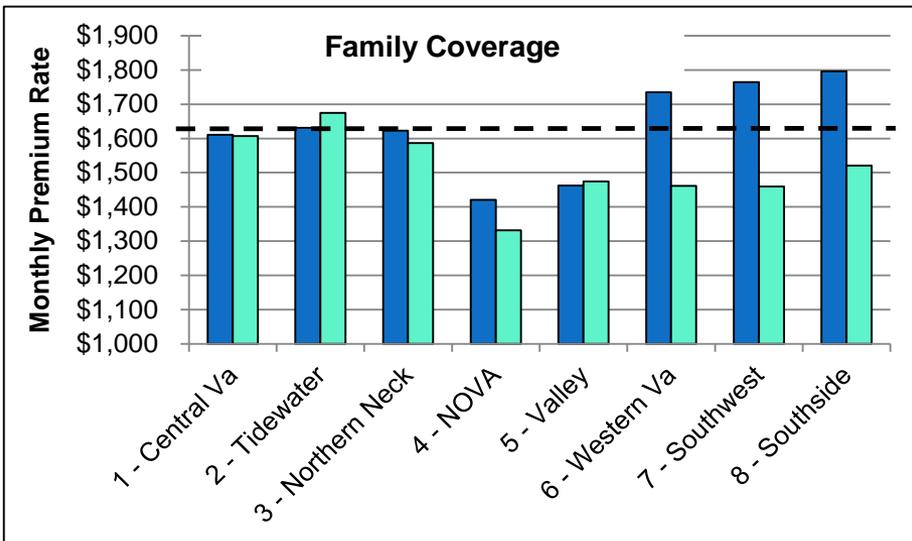
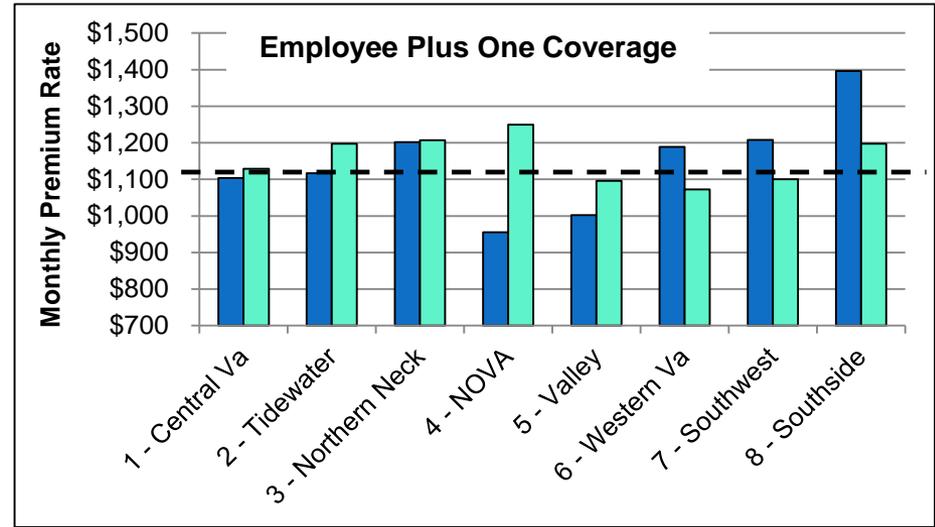
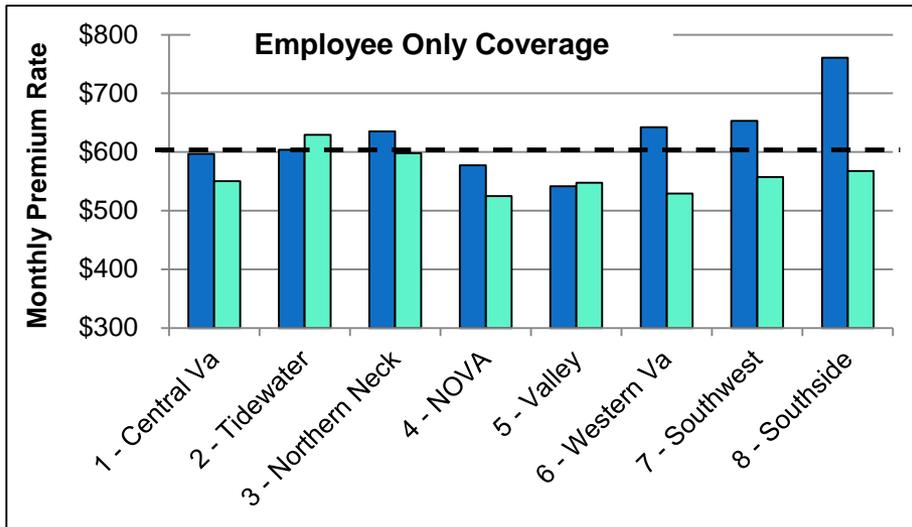
State Cost \$464 PMPM	Govt	Schools	Total
Higher Cost	98	47	145
Lower Cost	124	49	173
TOTAL	222	96	318

The State Experienced Significant Adverse Selection in the Line of Duty Act (LODA) Program

- In the 2010 Appropriation Act, the Line of Duty Program was transitioned from a program that was 100% funded with state General Fund to a program funded through premiums charged to state agencies and political subdivisions (counties, cities and towns) based on the number of employees potentially covered under the program
- The political subdivisions were given the option of staying in a state pooled program or opting out and **funding** identical benefits on their own
 - 80% of the political subdivisions elected to **fund** the benefits outside of the state run program with only 20% remaining with the state run program
- In FY 2013, the 20% of localities that remained with the state run plan employed 11.7% of the employees eligible for the Line of Duty benefit, but accounted for 30% of the total benefit cost for the program
 - **Because of the adverse selection, state agencies are subsidizing the benefits of many of the localities that participate in the LODA Fund**

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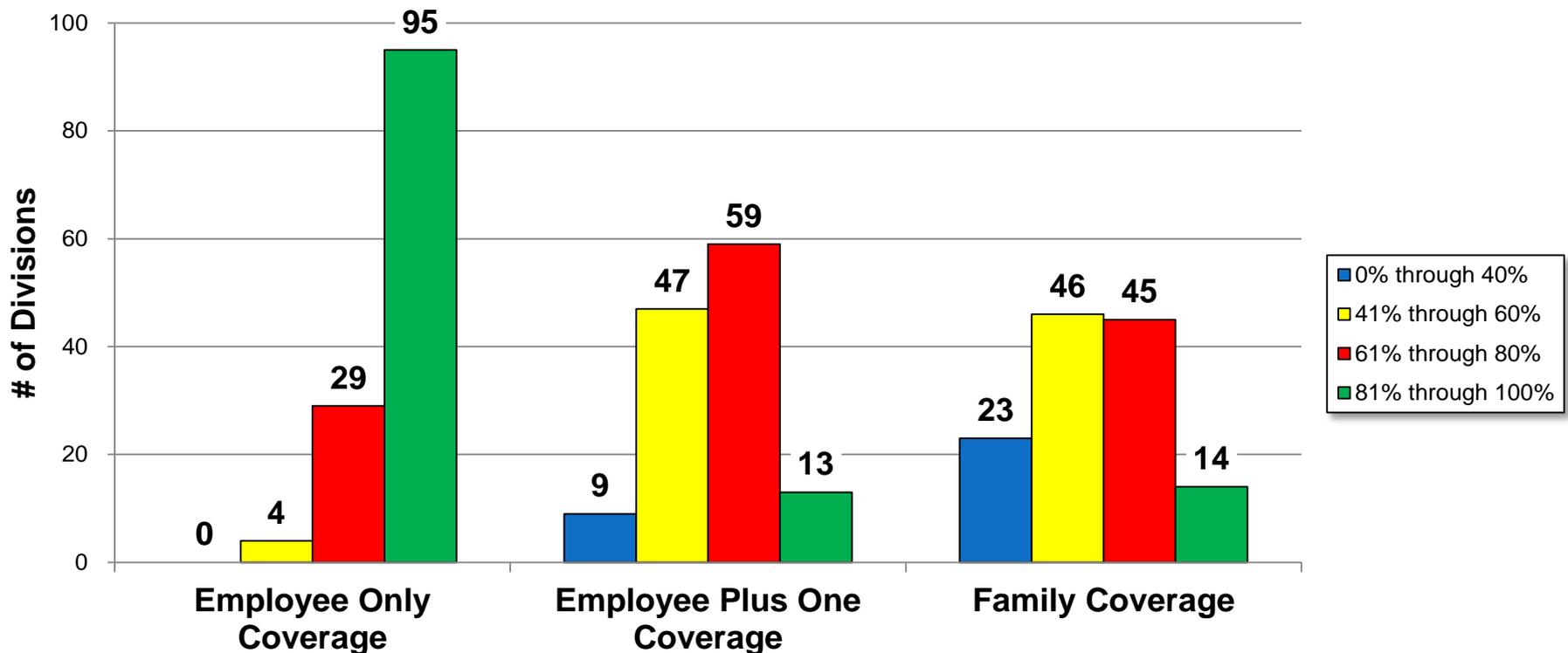
Average Monthly Total Premium Rate: for Each Superintendent Region by Coverage Type



Is the Employee's Share the Issue?

- As we have seen, the premium rates for TLC, all other school-based plans and the state employee plan are comparable
- There is significant difference in how school divisions split their cost between the employer and employee share, which may result in some of the concerns that have been raised

% of Total Premium Paid By Employer – By Type of Coverage



Impact to the Employer and Employee Costs

- The study presented its cost analysis assuming that the political subdivisions would use the same employer / employee cost split that is used in the state health program
- The current cost-sharing premium splits varied across the participating political subdivisions in the study
 - The split is determined by each individual entity and can be based on a variety of reasons: recruitment and retention of employees, market availability options, funding resources, regional joint contracts, etc.
- From the employees' perspective, in addition to paying their share of the premium split, they also have copays, deductibles and possibly co-insurance – collectively referred to as out-of-pocket (OOP) costs
- The study's analysis indicated that for the Employee Only coverage, applying the school and government group's OOP costs onto the state's premium structure, the results were about even
 - 52% would save more than 10%
 - 11% would be within 10% of current premium costs
 - 37% would pay 10% or more

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Since 1990 the State Has Offered a Statewide Plan

- The state-run Local Choice (TLC) Program plan was established in 1990 by the General Assembly
 - Statewide self-funded program
 - Exclusively for schools, local governments, and other political subdivisions
 - Participation in the program is optional, and schools divisions and other political bodies can leave and re-enter program when their contract expires
- Administered by Department of Human Resource Management (DHRM)
 - RFPs for health insurance contracts for state employee plan and TLC are bundled
 - Maximizing market share and purchasing power, as recommended by JLARC
- Currently offers six different health care plan options
 - Four statewide self-insured plans offered through Anthem
 - A high deductible health plan
 - A HMO plan offered by Kaiser Permanente in Northern Virginia
- Requires employer to pay at least 80% of the Employee Only coverage
 - No requirement related to dependent coverage if plan has 75% participation or higher
 - Required to contribute 20% of dependent costs if participation is below 75% and for high deductible plan

TLC Provides Political Subdivisions Benefits of Being in a Large Health Care Program

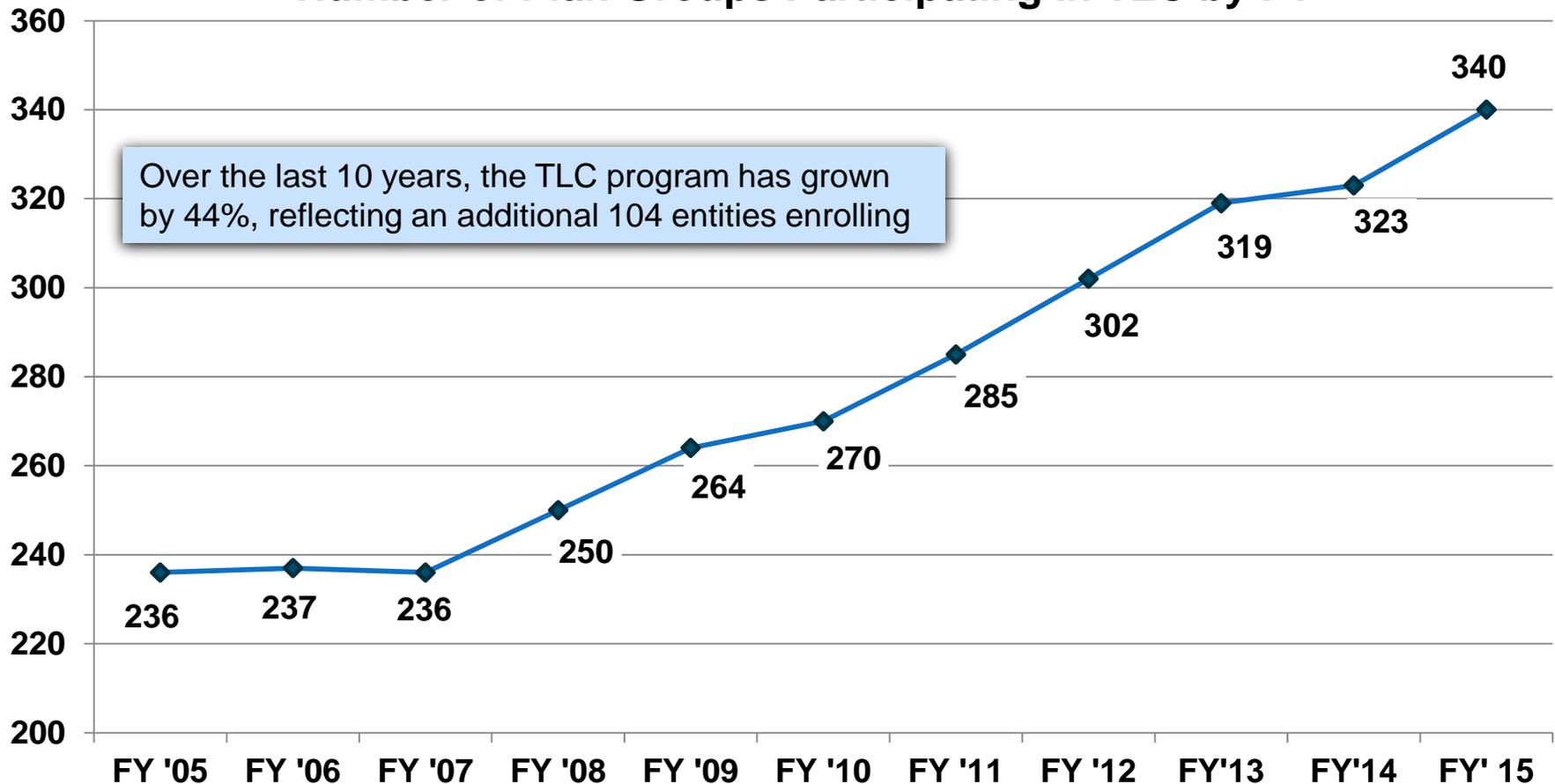
- Average administrative charge is 5% of medical premiums, which is comparatively low
 - This is actually slightly lower than the administrative charge for the state employee plan
- For purposes of negotiating contracts with health care providers, such as hospitals, physicians and pharmacies, Anthem treats the Local Choice Program and the State employee plan as one plan
 - This leverages the buying power for the state employee plan and TLC

Each TLC Plan is Individually Funded

- Premium represents entire funding
 - TLC operates like a single large self-funded group and it is not commingled with the state employee health plan
 - Program has provided relatively stable rates, with an average annual premium increase of less than 4.0% since 2008
 - Rate setting is based on the number of members in the plan
 - 1 to 49: Pooled with other similar sized groups
 - 50 to 299: Rates based on demographic factors of members in each plan
 - 300 and more: Based on actual cost experience for that individual group plan
- Budget language included a required review of the policies of the current Local Choice program
 - This past summer DHRM held 8 town hall meetings across the state to receive public comments concerning TLC
 - 108 entities attended the 8 town hall meetings (75 entities that are already in TLC & 33 entities that are not in TLC)
 - The report includes a series of recommendations related to TLC which were discussed during the meetings, none of which request a significant change in the program

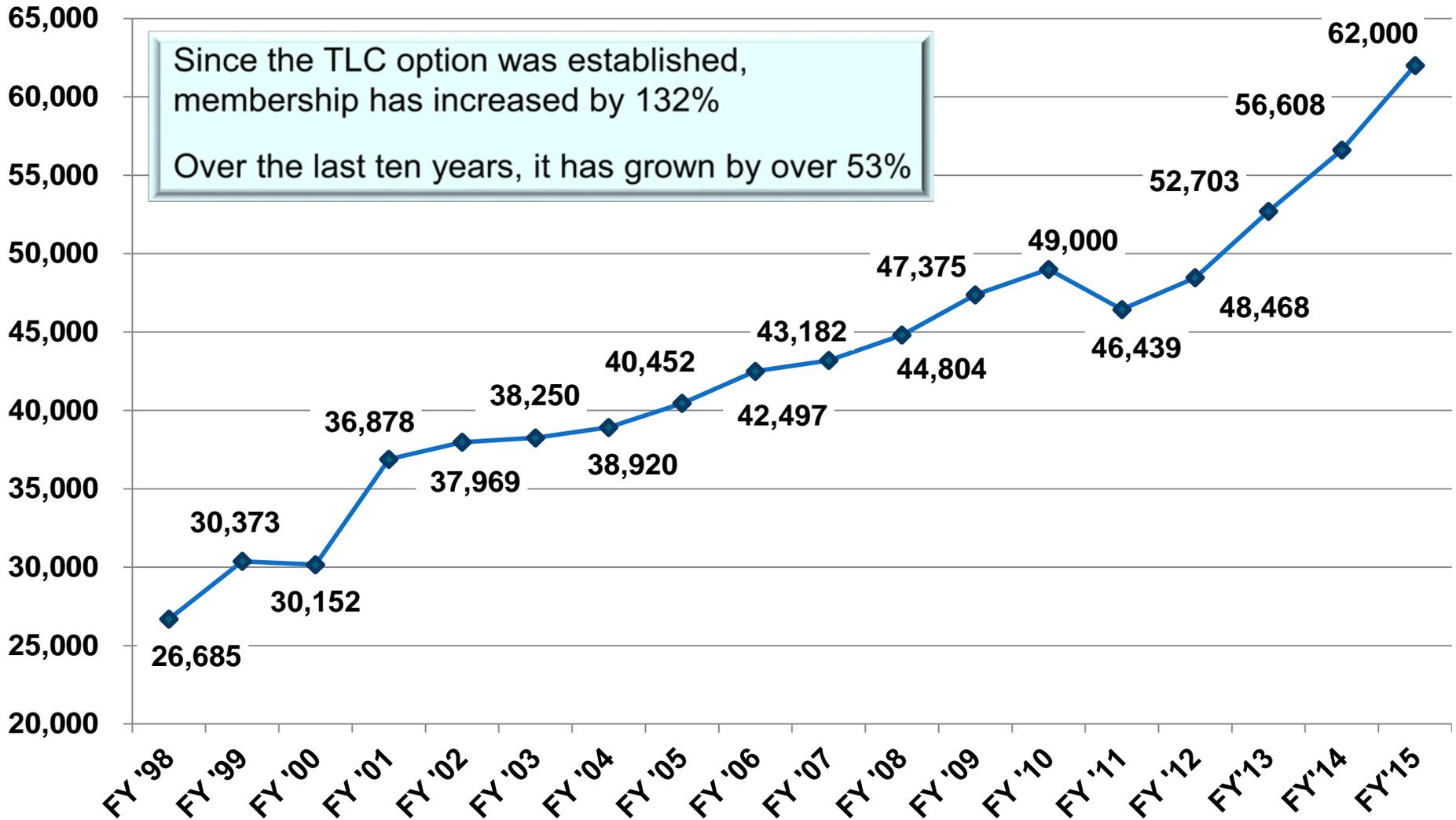
Overall, TLC Has Been Very Successful and Participation in the Program Has Steadily Increased

Number of Plan Groups Participating in TLC by FY



Total Enrollment in TLC Has Also Increased Proportionally

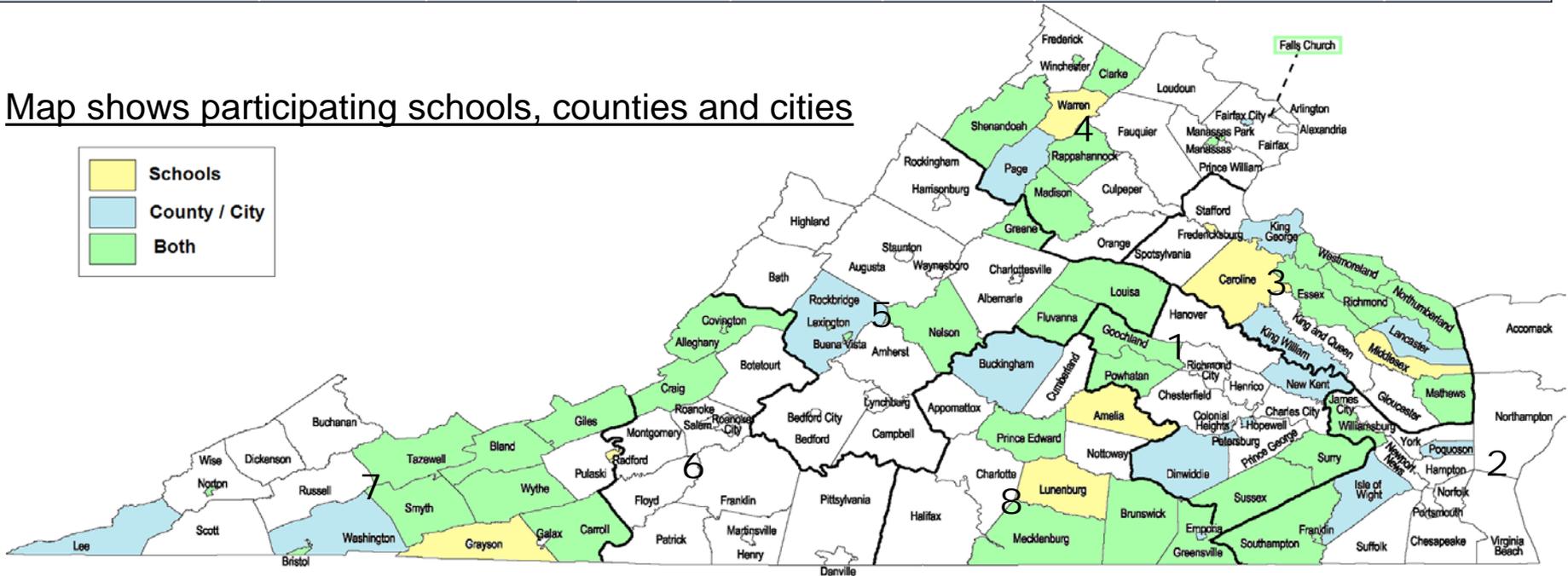
Since the TLC option was established, membership has increased by 132%
Over the last ten years, it has grown by over 53%



Current TLC Participation by Superintendent Region

	Region 1 Central VA	Region 2 Tidewater	Region 3 N Neck	Region 4 NOVA	Region 5 Valley	Region 6 Western VA	Region 7 Southwest	Region 8 Southside
Schools	4	3	9	9	7	3	10	6
County / City	11	5	8	11	8	4	15	6
Towns	3	5	7	27	14	6	32	14
Other Political Subdivisions	17	15	11	12	11	17	34	11
TOTAL	35	28	35	59	40	30	91	37

Map shows participating schools, counties and cities



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Pros & Cons With Proposed Modifications

- Mandating the inclusion of all political subdivisions in the state employee health insurance plan with one pool
 - **Pro:** Based on current analysis, the state and some political subdivisions would save money
 - **Con:** Cost would increase for about 50% of political subdivisions that currently have lower costs; political subdivisions would lose the flexibility to set policies for their own individual health insurance programs
- Allowing political subdivisions optional participation in the state employee health insurance plan
 - **Pro:** Political subdivisions would have the option of participating in the state health plans which would result in some local entities saving money
 - **Con:** Very high probability of adverse selection, as entities experiencing higher cost would have greater incentive to participate which would increase state cost
- Modifying the current Local Choice to make it one pool for all political subdivisions that choose to participate
 - **Pro:** Some political subdivisions with high cost not currently in TLC would be more likely participate
 - **Con:** Political subdivisions currently participating in TLC with below average costs would either experience higher cost or leave the program (or both)