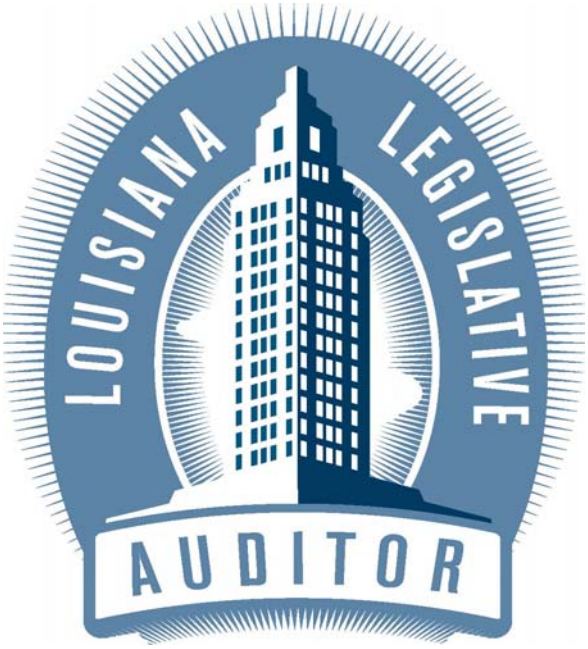
COMPARISON OF FULLY INSURED AND SELF-INSURED HEALTH PLANS FOR STATE EMPLOYEES



RESPONSE TO SENATE RESOLUTION NO. 171
ISSUED NOVEMBER 15, 2017

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LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

November 15, 2017

The Honorable Neil Riser,
State Senator

Dear Senator Riser:

Senate Resolution (SR) 171 of the 2017 Regular Session requests and urges the Legislative Auditor to study the feasibility and possible savings to taxpayers if the State of Louisiana were to purchase a traditional fully insured private health insurance plan for state employees instead of continuing the current self-insured health plan administered by a third-party administrator. Under the current self-insured plan, the state is liable for employee health benefit costs but contracts with a third-party administrator to process claims. Under a fully insured plan, the State would pay a premium to an insurer who would be liable for employee health benefit costs. Our results addressing SR 171 are summarized below.

Without knowing the specific parameters of the proposed alternative plan, it is not possible to forecast whether the State could save money on employee health benefits by switching from a self-insured plan to a fully insured plan. However, an analysis of health plan data shows that the vast majority of states and other large employers have either self-insured health plans or some mix of self-insured and fully insured plans, as shown below.

- According to the National Conference of State Legislatures (NCSL), as of April 2017, only two states – Idaho and North Dakota – have plans that are fully insured in their entirety. Nineteen states, including Louisiana, have plans with some fully insured and some self-insured components. The remaining 29 states have entirely self-insured plans.[1] In 2017, Idaho retained the actuarial firm Mercer to study this issue, and Mercer projected that the state could save $13 million by moving from its current fully insured plan to a self-insured plan, mostly by avoiding paying premium taxes and Affordable Care Act (ACA) fees.[2]

- The U.S. Department of Labor reports that, as of 2014 (the most recent year available), 90% of private employers with 5,000 or more plan participants were partly or entirely self-insured.[3]

- The Kaiser Family Foundation (KFF) reports that 91% of workers at firms with 5,000 or more employees in 2017 were in plans that were partially or entirely self-insured.[4]

In addition, NCSL's report from 2017 classifies Wisconsin's state employee health insurance plan as having both self-insured and fully insured characteristics.[5] In May 2017, Wisconsin Gov. Scott Walker proposed moving to a self-insured plan. The proposal was expected to save $60 million over two years.[6] However, the Wisconsin Legislature's Joint Finance Committee rejected this plan in June 2017 because of uncertainty and because the state had seen higher growth in health care costs under its self-insured plan that was in effect in the early 1980s.[7,8]

Forecasting potential savings requires knowledge of the specific parameters of the proposed alternative plan coupled with an actuarial analysis of the state's experience and projections about future costs. Even without knowing the specific parameters of the proposed alternative plan, we did identify the following factors that affect the cost-effectiveness of the different plans:

All else being equal, the following factors would make a *self-insured plan* more cost-effective:

- Self-insurance enables the State to avoid paying premium taxes, ACA fees, and for a private insurer's profit margin, which are built in to the premiums for a fully insured plan.[9,10]

- Self-insurance can give the State more control and better access to information on factors affecting cost, which could enable the State to make better decisions to reduce cost.[11]

All else being equal, the following factors would make a *fully insured plan* more cost-effective:

- Some private insurers may have greater expertise than the State's current third-party administrator in disease management, wellness programs, or other programs to reduce utilization, which could result in greater savings.[12]

- Some private insurers may have greater bargaining power or negotiating expertise than the State's current third-party administrator, which would enable them to secure more favorable prices from providers.[13]

- Some private insurers may have more efficient administrative practices than the State's current third-party administrator.[14]

This is not an exhaustive list of factors. Whether the State can save money by moving to a fully insured model will depend upon the extent to which one set of factors prevails over another. Although the State could save money in a fully insured plan if employee health claims are higher than expected, it is also possible that the State could lose money if claims are less than expected.

The State's current self-insured health plan already provides incentives for Blue Cross Blue Shield (BCBS), the State's third-party administrator, to deliver cost savings through disease management, wellness programs, provider discounts, and other cost management services.[15] Although insurers typically provide these services in connection with

fully insured health plans, such services are distinct from insurance and can be purchased separately as part of a self-insured plan. In other words, a self-insured employer can still benefit from an insurance company's cost management services and bargaining power without buying insurance and paying the insurer to assume liability for employees' health claims. Any evaluation of a fully insured policy should consider whether the State could still realize savings by purchasing the insurer's other services separate from a fully insured health plan.

The State could reduce its risk for sickness and catastrophic illness as a self-insured employer by purchasing stop-loss coverage, which enables an employer to reduce its exposure to losses from large, catastrophic claims. A fully insured plan enables the employer to pay a fixed amount per participant for the duration of the policy, even if health care costs are higher than expected. In contrast, a self-insured employer is liable for all employee health care expenses, even if costs are higher than expected.[16]

A self-insured employer can purchase stop-loss coverage so that the employer pays claims up to a certain dollar threshold, but the stop-loss coverage pays any amounts exceeding the stop-loss threshold. In exchange, the stop-loss insurance provider receives a premium. Stop-loss coverage costs more in the long run, but the employer benefits from less year-to-year variation resulting from catastrophically large claims. KFF reports that 39% of workers in self-insured plans at firms with 5,000 or more employees in 2017 were covered by stop-loss coverage.[17]

- A May 2017 analysis by Arthur J. Gallagher & Co., the Office of Group Benefits' actuary, concluded that purchasing stop-loss coverage for State employee health benefits would be "atypical and not recommended." The State would pay roughly $1 in premiums for every $0.75 it received in reimbursements, which would increase health care costs in the long run. In the short run, the state's large risk pool enables it to absorb large claims more easily.[18] The $0.75 figure is also supported by a report from A.M. Best Rating Services on the status of the stop-loss market in 2016, released in August 2017. [19]

The purpose of this letter is solely to describe our research and conclusions pertaining to SR 171. Under Louisiana Revised Statute 24:513, this letter is a public document, and it has been distributed to appropriate public officials.

Sincerely,

Daryl G. Purpera, CPA, CFE
Legislative Auditor

DGP/aa

SR 171

End Notes

[1] National Conference of State Legislatures. "State Employee Health Benefits, Insurance, and Costs." April 4, 2017, http://www.ncsl.org/research/health/state-employee-health-benefits-ncsl.aspx.

[2] "State of Idaho Benefit Strategy Development: Meeting 3: Design." Presentation by actuarial services firm Mercer to the Idaho State Employee Group Insurance and Benefits Committee, September 21, 2017, p. 20.

[3] Advanced Analytical Consulting Group and Deloitte Transaction and Business Analysis LLP, on behalf of U.S. Department of Labor. "Self-Insured Health Benefit Plans 2017." February 8, 2017. https://www.dol.gov/sites/default/files/ebsa/researchers/statistics/retirement-bulletins/annual-report-on-self-insured-group-health-plans-2017-appendix-b.pdf, p. 20.

[4] Kaiser Family Foundation. "Employer Health Benefits 2017 Annual Survey." September 2017. http://files.kff.org/attachment/Report-Employer-Health-Benefits-Annual-Survey-2017, p. 166.

[5] National Conference of State Legislatures. "State Employee Health Benefits, Insurance, and Costs." April 4, 2017, http://www.ncsl.org/research/health/state-employee-health-benefits-ncsl.aspx.

[6] Wisconsin Office of the Governor. "Governor Walker Urges JFC Approval of Cost Saving Reform." May 8, 2017. https://walker.wi.gov/press-releases/governor-walker-urges-jfc-approval-cost-saving-reform.

[7] Jessie Opoien. "Wisconsin Budget Committee Rejects Scott Walker's Self-Insurance Proposal." *The Capital Times*. June 16, 2017. http://host.madison.com/ct/news/local/govt-and-politics/election-matters/wisconsin-budget-committee-rejects-scott-walker-s-self-insurance-proposal/article_7a96bc9c-f623-5f9d-abed-87ff8c98ec1c.html.

[8] Wisconsin Legislative Fiscal Bureau. "Group Insurance Board: Contracts to Self-Insure for State Employee Group Health Plans." June 15, 2017. https://docs.legis.wisconsin.gov/misc/lfb/section_13_10/2017_06_15_group_insurance_board_contracts_to_self_insure_for_state_employee_group_health_plans.pdf.

[9] Internal Revenue Service. "Affordable Care Act Provision 9010 – Health Insurance Providers Fee." Accessed October 19, 2017. https://www.irs.gov/businesses/corporations/affordable-care-act-provision-9010

[10] Louisiana Legislative Auditor. "Office of Group Benefits – Proposed Privatization." August 24, 2011. http://app1.lla.state.la.us/PublicReports.nsf/E5ABDBDDC0C72402862578F7005CAD0F/$FILE/00021AD6.pdf, p. 3.

[11] Ibid.

[12] Congressional Budget Office. "Chapter 3: Factors Affecting Insurance Premiums." *Key Issues in Analyzing Major Health Insurance Proposals*. December 2008. https://www.cbo.gov/sites/default/files/110th-congress-2007-2008/reports/12-18-keyissues.pdf, p. 60.

[13] Ibid.

[14] Ibid.

[15] Contract between Office of Group Benefits and Louisiana Health Service and Indemnity Company d/b/a Blue Cross and Blue Shield of Louisiana and its subsidiary HMO Louisiana, Inc., October 20, 2015. Attachment 1: Scope of Services.

[16] U.S. Bureau of Labor Statistics. "Definitions of Health Insurance Terms." Accessed October 20, 2017. https://www.bls.gov/ncs/ebs/sp/healthterms.pdf.

[17] Kaiser Family Foundation. "Employer Health Benefits 2017 Annual Survey." September 2017. http://files.kff.org/attachment/Report-Employer-Health-Benefits-Annual-Survey-2017, p. 169.

[18] Arthur J. Gallagher & Co. "Re: Documentation of May 16, 2017 OGB Stop Loss Discussions." Undated (received October 12, 2017).

[19] A.M. Best Rating Services. "Best's Special Report: Stop-Loss Insurance Market Continues to Grow." August 15, 2017. http://www3.ambest.com/ambv/bestnews/presscontent.aspx?refnum=25577&altsrc=9.