CITY OF MADISON

# Health Insurance Options

An Analysis of Various Health Insurance Delivery Options for the City to Consider

**By the Health Insurance Workgroup**

**3/25/2014**

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# Executive Summary

In the 2014 Operating Budget, the City allocated $34.6 million for health insurance costs, or 12.5% of the total Operating Budget. This is more than a 10% increase over the $31 million budgeted in 2012, and consistent with past increases the City has seen in the insurance costs. In addition, changes under Act 10 changed the amount of premium the City and employees are required to pay for premiums. As a result, the City is reviewing different options to determine if health insurance can be delivered to employees at a savings to the taxpayers, but with similar benefits to employees. A workgroup was developed to analyze these issues. The following items were identified as key principles when evaluating health insurance:

- Bending the cost curve for active employee, retirees, and worker's compensation
- Being competitive when recruiting potential employees
- Economic protection of current employees
- Better health outcomes for employees and occupationally
- Bridging the gap for retirees until Medicare eligible
- Administrative efficiency
- Ease of implementation

The workgroup looked at a number of different delivery methods for health insurance, and analyzed each method against the criteria outlined above. The methods analyzed included:

- The current model of obtaining health insurance through Employee Trust Funds
- The City directly purchasing health insurance on the open market
- Health Savings Accounts/High Deductible Health Plans
- On-Site Health Clinics
- Health Exchanges through the Affordable Care Act

After reviewing the various options, the workgroup concluded there may be opportunities to change the City's model for health insurance that could lead to savings to the City. However, the City would be best served by hiring a consultant to assist in sifting through the various options, in developing the questions to ask, and in defining how to evaluate each option.

# Introduction

In 2011, the Act 10 changes imposed new requirements on the amount of money the City could contribute to health insurance premiums. Because the City participates in the State plan administered by the Department of Employee Trust Funds, these Act 10 changes had a direct impact on City employees. Instead of negotiated agreements where the City agreed to contribute a premium amount equal to 105% of the lowest cost HMO through ETF, the City was now prohibited from contributing greater than 88% of the tier 1 average towards employee premiums. This means that initially, non-represented employees, but by 2014, most employees were required to pay up to 12% of the health insurance costs. Because the City has been concerned for a number of years about the rising cost of insurance, and now that Act 10 imposed greater costs on employees, the Human Resources Director and Finance Director recommended that a work group be created to review the City's delivery of health insurance to determine if more cost-effective options should be considered.

A work group was created that started meeting in August, 2013. The workgroup consisted of

- David Schmiedicke—Finance Director
- Pat Skaleski—Accountant 4/Payroll Chief
- Randy Whitehead—Accountant 4/Purchasing
- Eric Veum—Risk Manager
- Patricia Lauten—Deputy City Attorney
- Greg Leifer—Employee and Labor Relations Manager/Benefits
- Mike Lipski—HR Services Manager/Former Benefits Manager
- Emaan Abdel-Halim—HR Analyst

The work group heard presentations from David Noshay, representing QuadMed; Norman Cummings, Director of Administration for Waukesha County, which is developing an on-site clinic; Connie Goss, Risk Manager for Chippewa County; and Bill Kox, from Employee Trust Funds. In addition, in 2012, Mr. Leifer and Mr. Lipski met with Patrick Glynn, former HR Director of Calumet County, to discuss Calumet County's transition to Health Savings Accounts and a High Deductible Health Plan.

## *General Considerations*

The work group considered that while there have been changes to the premium paid by employees, dictated by Act 10, the City's health insurance continues to be a good deal for employees. Many employers in the private sector require employee premium contributions of 20% or more, and the plan design also includes co-pays and/or deductibles that employees pay in addition to the premium contribution. Some plans in the private sector will only cover the employee and additional coverage is at the expense of the employee. Many public sector employers are also moving in this direction. In contrast, the City's current health plan, while requiring some premium contribution from employees, still does not include deductibles or co-pays, meaning most expenses are covered 100% by the insurance.

The work group also discussed the impact health insurance design could have on workers' compensation costs. Workers' compensation in Wisconsin is governed by Wis. Stat. 102. So any

cost saving solutions must also meet the requirements of this statute. According to statute, employers in Wisconsin cannot direct the care of an employee injured on the job. So regardless of the health insurance structure that is selected, employees will be able to seek care from any physician, chiropractor, etc. ("provider") they desire, regardless of whether the provider is included in the City's plan or not. Employers are allowed to offer suggestions, but cannot tell an employee that they have to go to certain doctors. However, there may still be opportunity for workers' compensation savings depending on which plan is chosen and how the options are structured. The City may be able to build in wellness and other programs for employees that may result in reduced Workers' Compensation claim counts and costs. In addition, the City would have the opportunity to put restrictions on the collection activities of the health insurance carrier against it. The City could require all bills to run through the health program, instead of being billed separately. All these options depend on the type of plan the City chooses.

The work group determined that a white paper outlining various health insurance plan design options should be created for review by the HR Director, Finance Director, and Mayor's Office to determine next steps. The work group identified key principles to consider when evaluating the different options. The principles are as follows:

- **Bending the cost curve for employees, retirees, and occupational health**—Will the option help reduce costs, or will it merely slow the rise in the increase in costs? The work group noted that certain drivers, such as chronic disease management and preventable conditions (smoking and obesity), would have the most impact on bending costs.
- **Being competitive when recruiting potential employees**—Will the health insurance offered by the City attract applicants, or will applicants not want to work for the City because of the health insurance plan?
- **Economic protection of current employees**—Act 10 already imposed increases for employees in the amount of premium contribution. Does the option impose significant additional costs for employees.
- **Better health outcomes generally and in the workplace**—Does the option allow the City to assist employees in preventative care and in the workplace?
- **Bridging the gap for retirees until Medicare eligible**—The minimum retirement age for City employees is 50 for protected service employees, and 55 for general employees. Employees are not eligible for Medicare until age 65. Does the option provide affordable coverage for employees from retirement until age 65?
- **Administrative Efficiency**—Will the option create substantial additional work for City staff?
- **Ease of implementation for employees**—Is the option similar to the City's current plan, or will implementation require significant explanation for employees to understand the changes?

The work group agreed that a number of health insurance options exist, but in order to provide simplicity to the discussion, the most likely options would be reviewed. These include:

- Wisconsin Public Employers Group Health Insurance Program (The current provider)
- Purchasing insurance on the open market
- Providing employees with Health Savings Accounts and/or Health Reimbursement Accounts and/or a High Deductible Health Plan

- Providing an on-site clinic(s) for employees
- Providing insurance through the Affordable Care Act exchanges

This paper provides an explanation of the various options and a brief evaluation of each option against the principles identified above.

# Wisconsin Public Employers Group Health Insurance Program

The State of Wisconsin, under the auspices of the Department of Employee Trust Funds (ETF), offers local governments access to a health insurance pool known as the Wisconsin Public Employers (WPE) Group Health Insurance Program. The City of Madison currently participates in the WPE plan option that allows access to HMOs in Dane County. Health care plans offered include Dean, Group Health Cooperative, Physicians Plus, Unity-UW Health, and WEA Trust. With 12,715 employees participating in the WPE program, the City of Madison represents approximately 21% of total enrollment. The City's share of program participation is approximately 40% to 50% of the total in Dane County.

There are three primary options under the WPE program:

- Traditional Option -- No co-insurance or deductibles and limited co-pays (the City of Madison participates in this program option).
- Co-insurance plan -- 90% / 10% co-insurance to a maximum out-of-pocket of $500 single / $1,000 family (this is the same plan offered to state employees with premiums about 5% less than the traditional option). Under a co-insurance model, the employee pays 10% of the discounted cost of health care services until the amount paid reaches the maximum out-of-pocket. A transition to this option would reduce premium costs to the city by approximately $1.9 million in 2015. The share of the premium paid by employees would also be expected to fall as well. Out-of-pocket costs would increase for employees would increase depending on utilization of care.
- Traditional Option with Deductibles -- $500 single / $1,000 family deductible (this is the same plan the City currently uses, but with upfront deductibles; premiums are approximately 10% less than the traditional option). Under the deductible approach, the employee pays the entire amount of the discounted cost of health care services until the amount paid reaches the maximum out-of-pocket. A transition to this option would reduce premium costs to the city by $3.8 million in 2015, with the share of the premium paid by employees falling as well. Out-of-pocket costs for employees would increase depending on utilization of care.

In response to recent changes in state law, ETF is developing a health savings account / high-deductible insurance option for state employees, which it will also be offering through the WPE to participating local governments. Under a high-deductible health plan, the minimum deductible for a single is $1,250 and for a family is $2,500. Maximum out-of-pocket costs under these plans is $6,250 for a single and $12,500 for a family. The Group Insurance Board, which sets policy for the state employee and WPE health insurance programs, is working with ETF in establishing this option. ETF expects this option to be available beginning in January 2015, and it will replace the traditional option with deductibles explained above. It is expected to result in premium savings of between 10% and 12%. Employers that utilize this option may want to consider

returning a portion of the premium savings to help finance the health savings account portion of the plan to help offset some of the cost of the high deductible health insurance plan.

The WPE is operated as a single pool of participants. Claims experience data is not broken down by local government. Contractually, the health plans cannot provide the information to participating local governments. If the City were to leave WPE, ETF can work with health plans to gather some utilization data. ETF may also be able to provide a basic comparison of actual claims to premiums paid to each of the providers as a measure of utilization. Utilization data is important in order to compare the cost of the WPE option to self-insurance options.

By using the ETF plan, the City has the advantage of all administrative costs being addressed by a third-party (ETF and the health care plans). In addition, participants in the plan have the advantage of the health insurance networks established to provide care to State employees that live in Dane County.

ETF is pursuing a number of initiatives aimed at "bending the cost curve," with a long-term goal of holding the growth in health care costs to the rate of inflation. Efforts include expanding palliative care options, controlling the use of high-cost imaging, improving coordination of care, and implementing "shared decision-making" where members are more involved in receiving health care information and participating in decisions with providers regarding options.

ETF continues to seek ways to manage prescription drug costs as the pharmaceutical industry releases new specialty drugs in the areas of rheumatoid arthritis, Hepatitis C and oral oncology treatment. Twenty-seven percent of prescriptions represent 88% of prescription drug costs, and with costs growing at 20% annually, controlling the use of these treatment methods is important in managing the growth in overall costs.

Changing options within the WPE requires that a local government adopt a resolution and submit that resolution prior to October 1 of the year prior to the next calendar year. Program option changes take effect on January 1. Different collective bargaining units can use different program options, with approval of ETF. If the City were to consider a change in its WPE program option for 2015, the Council would have to adopt a resolution to that effect prior to October 1, 2014.

## *Analyzing the WPE Group Health Insurance Plan*

### Bending the cost curve

Because the City currently participates in the WPE Group Health Insurance Plan, the only way the cost curve will change is if ETF can negotiate better rates from the HMOs or if the City changes to either the co-insurance or the deductible plan. However, even a change to the co-insurance or deductible plan is a short-term fix. There would be reduced premiums initially, but within a year or two, the City will be paying the same amount it pays now, assuming that those plans will continue to see annual premium increases of approximately 5%.

### Remaining competitive in attracting applicants for positions

The current plan the City offers is very competitive in terms of monthly premiums. Although employees are now required to pay a portion of the monthly premium, it is still significantly less

than many plans in the private sector. Many private employer plans require employees to contribute 20% or more to the monthly premium, and still include a deductible and/or coinsurance. In addition, certain private sector plans provide coverage for the employee, but employees wanting a family plan must pay the full cost of the additional coverage.

### Economic protection of the employees

This is the plan employees currently participate in. Switching to a co-insurance or deductible plan will result in more out-of-pocket expenses for employees who use insurance for more than preventative care. However, the Affordable Care Act requires coverage of preventative care, such as annual physicals, to be covered at 100%. Although there may be greater out-of-pocket expenses for some employees, this will be somewhat offset by lower monthly premiums.

### Better health outcomes

Because ETF does not break out utilization data by participating employer, the City cannot assess utilization data and determine if there are certain conditions that are more prevalent among employees. The City therefore cannot tailor preventative care to address specific concerns.

### Taking care of retirees and bridging the gap to Medicare

Retirees are allowed to participate in the ETF plans until they are eligible for Medicare, assuming they are enrolled at the time of retirement. Retirees are responsible for the full cost of the premium until becoming Medicare-eligible, and the premium can be automatically deducted from their pension check.

### Administrative Efficiency

By using the ETF plan, the City has the advantage of all administrative costs being addressed by a third-party (ETF and the health care plans). In addition, participants in the plan have the advantage of the health insurance networks established to provide care to state employees that live in Dane County.

### Ease of Implementation for Employees

Because this is the same plan the City participates in currently, even if the City were to move to a co-insurance or deductible model, the coverage and access to services remains unchanged. The City would have to explain to employees how the out-of-pocket costs works.

## The City Purchasing Insurance on the Open Market (similar to what the County currently does)

The City currently participated in ETF's Wisconsin Public Employees Group Health Insurance Plan. Each year ETF bids out the four HMO plans that are available (Unity, Dean, GHC, and Physicians Plus). Employees then get to choose which of the four HMOs they want to participate in. The City pays 88% of the average price of the four plans, and the remainder is paid by the employee. In some cases, there is no employee contribution if one of the plans is well below the average price.

Dane County does not participate in the ETF insurance program; rather, the County bids out its own insurance plans every 5 years. They put out to bid coverage that is very similar to the ETF

plans that the City currently uses. Once they receive the bids, they do the evaluation and choose one vendor to be the provider for the County for a period of five years. The employee only has one option, instead of the four options City employees have. While there are fewer options available, there is no cost to the employee, as the County pays 100% of the premium.

The 2013 cost to the County was $531.40 for single coverage, and $1,248.80 for family coverage. To compare, when paying 88% of the average tier 1 premium, the City contributed $511.74 toward a single plan and $1,275.16 towards a family plan in 2013. So the cost per employee was almost identical for the County as it is for the City, but the County was paying 100% of the premiums vs. the City paying 88% of the premiums.

The County's contract with Physician's Plus caps annual increases at 7%. The cap may or may not be a good deal, depending on what happens to insurance rates during the term of the contract. The County's contract started in 2012, and the increase for 2013 was actually 6%, so they did keep the increase below the allowable level for that one year. The benefit of the five-year contract is that employees won't have to switch providers on an annual basis and the County achieves cost certainty in budgeting the health insurance increase, knowing it will not increase greater than 7% a year.

An additional factor to consider is that this would take substantial staff time to put out an RFP and to do the contracting with the winning vendor. There may also be additional work for someone (presumably HR) to monitor and administer the contract going forward. In the grand scheme, these costs are probably minimal in comparison to the total cost of the contract.

## *Analyzing the Option of the City Purchasing Insurance*

As noted earlier, the Committee identified guiding principles in reviewing the various plan options.

### Bending the cost curve

While there would appear to be some potential savings in the total premiums being paid by bidding out the insurance on our own, it would probably be a one-time savings, with future increases not changing much from what they currently are. If we continue to pay 88% of the premiums as we currently do, there would be about a 12% savings for the City in the first year, based upon the Dane County contract. It is likely, however, that future year increases would be about the same as they are now. In this scenario, there would be a significant increase in the amount of premiums that City employees with Unity would pay, and that is about 56% of City employees. If the City were to take the same approach as Dane County and pay 100% of the premiums there would be no cost savings, but City employees would receive an additional benefit.[1]

### Remaining competitive in attracting applicants for positions

The option to bid out our own insurance would have little to no effect on our ability to attract applicants to open positions. Since the coverage we provide and the cost to the employee would

[1] Only participants in the plan administered by ETF are prohibited from paying more than 88% of the tier one average premium. If the City is self-funded, we can choose to pay any amount of the premium.

be similar to our current situation, it is unlikely to have much effect. While we would have fewer options than we currently do, most other employers only have one option as well.

**Economic protection of the employees**

This option would have little impact on the economic protection of the employee, since the insurance coverage would be essentially the same. For employees that are currently using Unity, there could be a somewhat significant increase in the monthly premiums if we continue with the 88% of premiums that we are currently using, and assuming Physicians Plus would be the low cost provider. There could also be a decrease in premiums if the employee had one of the other options.

**Better health outcomes**

Health outcomes would likely not be significantly different, since the insurance coverage would likely be very similar to what we currently have. There would be an opportunity to make changes that could benefit the employees, such as wellness plans. Since the City would be bidding out the coverage ourselves, we can put incentives in the policies that could lead to better health outcomes and lead to reduced premiums in the future.

**Taking care of retirees and bridging the gap to Medicare**

There would be little to no impact in this area, as the City could still provide health insurance to retirees just as they do now. We would just need to include the retiree health care in the specifications when it is put out to bid. If the City was looking to change the policy on retiree health coverage, this option would also allow for that.

**Administrative Efficiency**

The administrative efficiency of this option would be more cumbersome than our current insurance option. First there would be the resources spent by HR and Purchasing to put together a comprehensive set of specifications required to do the bid. Secondly would be the resources of HR and Purchasing to evaluate the responses and determine a winning bidder. This may very well take 200-300 hours of staff time the first time it is done. There should be some efficiencies in future bids.

There will be additional staff resources required to administer the insurance program that are currently not required, such as open enrollment and claim appeals. It may require the addition of a new position merely to administer health insurance claims and deal with issues that come up with the provider.

**Ease of Implementation for Employees**

This type of plan would be very similar to what we currently have. The primary difference would be that the employees would only have one option instead of multiple options.

# Health Savings Accounts, Health Reimbursement Accounts, High Deductible Health Plans[2]

More employers are looking at health plans that force their employees to consider the costs of receiving health care. These plans generally have substantial deductibles that employees must pay when receiving care, but the deductibles may be offset by a Health Savings Account. In some cases, the employer will reimburse medical expenses through a Health Reimbursement Account.

A Health Savings Account (HSA) is similar to a retirement plan for health care. An employer and employees may contribute money to the HSA tax-free, and this money can be used to pay for qualifying medical expenses. A major benefit to the HSA is that the money in the HSA can accrue over time, without limit, and the HSA belongs to the employee. If the employee leaves employment, the employee still keeps the money in the HSA to use for qualifying medical expenses. Money in the HSA is invested in a variety of funds, such as bonds and mutual funds, and can accrue interest over time. The employee can control how the money is invested, conservatively to aggressive, similar to a retirement portfolio. Finally, the HSA account balance can be passed on to a beneficiary if the owner of the HSA passes away with money left in the account.

As noted above, the HSA provides tax benefits for the participants. Money is contributed pre-tax, earnings on the account are not taxed, and withdrawals are not taxed provided they are used for qualifying medical expenses. The HSA covers the plan deductible, qualified health expenses that the plan may exclude, and co-payments/co-insurance up to the plan's out-of-pocket maximum. In addition, as part of the Affordable Care Act, preventative care is covered at 100% under an HSA-qualified plan. Also, money from the HSA can be used to cover qualified dependents tax-free.

The HSA must be paired with a High-Deductible Health Plan (HDHP). For 2014, the minimum deductible to qualify for an HSA is $1,250 for single coverage, and $2,500 for family coverage, and the out-of-pocket maximums are $6,350 and $12,700, respectively.[3] Because of the high deductible, premiums are generally much lower than a traditional health plan. The savings on premiums can be funneled into the employee's HSA.

A Health Reimbursement Account (HRA) is different from an HSA in that the employer pays money for services that an employee has already received. The HRA is still paid tax-free for employees, and are tax deductible for the employer. However, because the HRA is a reimbursement for services rendered, the HRA is generally not portable.

The HRA may be combined with an HSA under a qualifying HDHP. The HRA may be used to pay qualifying expenses accrued up to the deductible amount, and then the HSA is used to pay other expenses up to the out-of-pocket maximum.

[2] Information in this section is taken from "Have You Considered "Stacking" Your Health Plans to Improve Cost Savings and Control?," Associated Financial Group, LLC, Employee Benefits eLine, May 13, 2010, vol. 9, No. 4. and Neeleman, Stephen MD, "The Complete HSA Guidebook," 5th Edition, 2011.

[3] http://www.psfinc.com/press/irs-releases-hsa-and-hdhp-limits-for-2014?page=1

Under either an HSA and/or HRA plan, the employer has flexibility in determining how much to pay towards premiums and the respective accounts.

## *Analyzing the HSA/HRA/HDHP plan*

As noted earlier, the Committee identified guiding principles in reviewing the various plan options.

### Bending the cost curve

Currently, the City pays premiums to HMOs to cover the cost of care. Under a HDHP arrangement, a premium structure still exists. However, because employees bear more responsibility for the cost of care, the City would save money on premiums. Although premiums would be lower, the City would also likely contribute a significant portion to employee HSAs in order to help sell the concept to employees. Therefore, while there would be initial savings to the City in reduced premiums, this would likely be eaten up in the HSA contributions. Yet, over time, because employees are able to keep the money in the HSA, this would tend to inspire employees to become more informed consumers when paying for health care services. This would help drive down utilization, which would have the long-term impact of reducing the increase in premiums.

### Remaining competitive in attracting applicants for positions

Health insurance is a driver applicants consider when accepting positions. Many younger candidates may prefer a HSA/HDHP structure. Studies show that millennials change jobs frequently. According to Edelman Digital, only 23% of millennials expect to stay with their first employer longer than 2 years, and the average millennial has had 7 different jobs by age 26.[4] Also, according to Forbes, 91% of millennials expect to stay at a job less than 3 years.[5] Because of the flexibility and portability a HDHP/HSA plan offers, this could be a recruiting tool for younger workers.

For older workers who may have more immediate health care needs, taking a position where the only health insurance option is a HDHP/HSA plan may be a drawback. If the City were to contribute into the HSA to cover much of the cost of the deductible, then this may not be as much of a negative, although as noted above, this then lessens the impact on the cost curve.

### Economic protection of the employees

Currently, the City is prohibited from contributing more than 88% of the tier 1 average premium for the various HMOs. This results in employees paying up to $137 a month for a single plan, or up to $344 a month for a family plan. However, under the HMO arrangement, most expenses are covered at 100%. There are no co-pays or deductibles under this arrangement.

[4] "By the Numbers—50 Facts about Millennials," June 1, 2011. http://www.edelmandigital.com/2011/06/01/by-the-numbers-50-facts-about-millennials

[5] Meister, Jeanne, "Job Hopping Is the 'New Normal' for Millennials: Three Ways to Prevent a Human Resource Nightmare," Forbes online, August 14, 2012. http://www.forbes.com/sites/jeannemeister/2012/08/14/job-hopping-is-the-new-normal-for-millennials-three-ways-to-prevent-a-human-resource-nightmare/

With an HSA, as noted above, it must be paired with an HDHP. Employees will be required to bear out-of-pocket costs as part of the plan. Again, while the City may choose to contribute a significant portion into the HSA to cover the deductible and other qualified medical expenses, it is under no obligation to do so. Employees with a high utilization of health care could face significantly higher out-of-pocket costs under this arrangement.

Although some employees may face higher out-of-pocket costs, for employees who do not utilize the health insurance benefit to a significant degree, they may actually make money. Monthly premiums are lower, and if the employee does not incur medical expenses, the money in the HSA continues to grow and accrue. In addition, the portability of the account is a benefit to the employees. Therefore, some employees may see great cost savings and advantages through this type of arrangement.

**Better health outcomes**

It is difficult to see this type of plan having a significant impact on employee health outcomes. Because preventative care is still covered at 100%, employees should not be dissuaded from regular physicals. However, in some cases, the HSA arrangement may be a negative in that employees may be tempted not to seek care beyond preventative care in order to preserve the money in their HSA. In other cases, the HSA arrangement may have a positive impact in that as consumers, employees will shop around to ensure they are getting the best care for their dollar, including quality as a factor.

**Taking care of retirees and bridging the gap to Medicare**

The HDHP/HSA arrangement would be beneficial for retirees in bridging the gap to Medicare. Money in the HSA accrues over time and can be used by retirees for qualifying medical expenses. This includes premium costs after leaving the City. As long as the retiree has money in the account, it remains the property of the retiree. Once the account is exhausted, the retiree would be responsible for medical costs and would have to pay for it in other ways.

**Administrative Efficiency**

Because ETF currently does not provide for a HDHP that qualifies for an HSA, the City would likely have to become self insured to implement this structure (although ETF is planning on offering an HDHP starting in 2015). This would be a significant administrative change. It may include adding a position just to administer the health insurance. In addition, the HDHP/HSA arrangement would require finding an outside party to maintain the HSA accounts. Payroll would have to set up a payroll deduction to the HSA, in addition to the deduction made for health insurance premiums. This would be similar to the deduction for a 457 account, and would be taxed and tracked similarly.

**Ease of Implementation for Employees**

This type of health plan would be very different from the HMO arrangement employees have been used to for years. Employees would need to be educated as to how the HSA works and its benefits. In addition, the City would need to do work to educate the employees as consumers of health care. Employees would likely see the imposition of high deductibles as a reduction in benefits, even if the City makes up a significant portion of the cost through the HSA contribution, so education on how this works will be critical.

# On- Site Health Care Clinics

The Human Resources Department began to investigate other forms of health care delivery in 2012, including investigating on-site health care delivery by a third party administer. On-site clinics have developed through attempts to curb increased health care costs in other ways than just cost shifting. On-site health care clinics have an added element of changing health care delivery by putting the focus on wellness and disease management. While there are many who can provide on-site medical clinics, Human Resources staff and this work group have had presentations done by Quad Medical based in Sussex Wisconsin, and Waukesha County, who is building an on-site clinic for employees. Quad Medical was one of twelve onsite providers that recently answered Waukesha County's request for proposals for an on-site clinic.

Quad Medical begin 22 years ago when the President of Quad Graphics was seeking a more cost efficient method of health care delivery for his employees and brought health care providers in house with an on-site clinic at its Sussex printing plant. Quad Medical has since developed into a business of its own and now delivers health care in 18 states nationwide with more than 90 health centers and over 150,000 covered lives. Health care providers are hired and employed by Quad Medical, who manages the clinics and provide care services to participating employer employees and dependants. Clinics do not need to be on-site but may be near-site or shared site with other employers, and a telehealth option is offered. Patients would be able to schedule appointments with the health care provider via a concept titled "open access scheduling" that allows a patient to be seen on the same day.

The service spectrum of the clinics is focused on family and internal medicine, obstetrics and pediatric care, rehabilitation, fitness and wellness, minor emergency, radiology and lab services, workers compensation evaluation and treatment. Primary care physicians (PCP) are not incentivized to refer patients to specialists, so they focus more time on developing a relationship with the patient, delving into medical history, and truly assessing the root causes of health issues. Where an appointment with a PCP at an HMO may be 5 minutes or less, the doctor will visit with a patient at the on-site clinic for upwards of 30 minutes or more, depending on the need of the patient.

## *Analyzing On-Site Health Clinics*

### Bending the cost curve

It is an undisputable fact that the cost of health care has been on upward path since the early 1990s. The majority of cost saving efforts by employers have focused on either plan design changes and/or cost sharing with employees. Both of these models are just a form of either reduced benefits to the employees, increased costs, or both. In other words, cost shifting. Neither achieves any kind of true cost savings for either employees or their employers. The only outcome is that of shifting deck chairs on a sinking ship: the result is still the same increased cost to all and no bending of the cost curve. On-site health care may well attain true cost savings by bending the cost curve backwards through better management of health care chronic conditions, leading to less hospitalization and less missed scheduled days of work.

The Quad Medical model is focused on "Patient Centered Medical Home" with an emphasis on wellness and prevention that leverages health information technology, evidence based medicine and a strong patient- provider relationship. The model views health on a continuum as follows;

*Good Health- Preventive Care- Short Term acute- Chronic- Complex Catastrophic*

The goal of this model, with its emphasis on wellness and prevention, is to move and maintain as much of the patient population from chronic to good health. The result is less specialist referrals and in–hospital stays because chronic conditions are managed through preventative care. The end result is reducing overall health care dollars spent and reducing employer/employee health care cost. This is different from slowing the increase in rates; this is actual reductions in expenditures on health care.

Initial start up cost for one clinic would be less than $500,000.[6] If the City opted for two clinics there might be some cost savings for the second clinic as all costs may not have to be duplicated. In addition the City might be able to mitigate cost by inviting a partner such as the County to join in the venture. The clinic(s) would be staffed in the first year by either a half time doctor or a full time nurse practitioner/physician assistant, an LPN, a medical assistant, and a receptionist, for a total of 4.5 employees. This staff would grow in year 4 to 5.5 employees, assuming increased employee usage of the clinic's services.

While the projected annual operating cost would begin at just less than $850,000, it would grow to $1,345,131 by year 5 due to increased usage and addition of staff to meet increased demand for services. Again this cost may be able to be mitigated by the inclusion of other employer populations for an increased economies of scale in operations.

Lastly the City would either have to offer this benefit as add on to existing coverage, as an option with the ability of employees to secure coverage from a market based provider, or lastly as the sole means of providing health care, with the City becoming self insured over a certain dollar amount.

### Remaining competitive in attracting applicants and retaining employees

Clearly one objective of the City is to attain and maintain a qualified work force; to that end, offering a good overall benefits package is essential to that objective. The ease of accessing good health care at a reasonable cost is an effective tool in attracting and maintaining a good qualified workforce. On-site clinics assure potential employees that access to medical care is not a concern, and rather that the health of the work force is of paramount importance to the City.

In addition, the City filled approximately 200 permanent full time positions in 2013 or 7.2% of all permanent positions. If these recruitments could be reduced by 10%, or 20 a year, because of the access to care, that would lead to savings for the City in work hours spent on these recruitments overall, and these hours could be used to deliver other City services.

[6] The numbers in this section are based on projections provided by Quad Medical. Actual numbers would be determined through a RFP process.

### Economic protection of the employees

As noted above, by focusing on preventative care and active management of chronic conditions, employees should see overall reductions in the amount spent on health care because utilization of specialists and hospitals should be reduced. Therefore, the annual 5-15% increases in premiums seen with traditional plans should mostly disappear.

### Better health outcomes

The true benefits from this model of health care delivery are managing chronic conditions that lead to overall health decline. The three major chronic conditions in America today are asthma, diabetes, and hypertension/cardio vascular disease that will, if left unmanaged, lead to emergency and in-patient hospital stays, which drive up health care cost for all participants. On-site clinics focus on moving patients from uncontrolled/ unmanaged chronic conditions to controlled/well-managed chronic condition that leads to improved health.

### Taking care of retirees and bridging the gap to Medicare

The question of if and how to provide health care for retirees needs to be given thoughtful consideration. The City currently provides access to health care through Employee Trust Funds plans that are offered to regular City employees. No subsidies are paid by the City to offset retirees cost; however retirees have the benefit of being part of a large group plan that clearly achieves some economies of scale. If the City establishes on site health care clinics, retired employees could have access for a fee that accounts for their status. If the City would self insure, retired employees may be granted access and enjoy the benefit of economies of scale.

### Administrative efficiency

The City would see a more productive and content workforce that loses fewer days for medical leave. In addition, the City would contract with an outside vendor to run the clinics. The City would not be directly involved in their operation. However, the City would have to go through a time-consuming RFP process to find a vendor, and this likely would have to be done every few years pursuant to City purchasing rules.

### Ease of implementation for employees

This plan is radically different from the City's current insurance offering. Employees may be resistant to the fact they would not be able to see doctors with whom they have a long-standing relationship. Education of employees would be critical. In addition, employees will likely have concerns about confidentiality of medical information, especially if occupational health were included as part of the clinic. Again, education would be critical. Finally, there would be the factor of employee ease of access to the clinic, or in some cases inconvenience of access if employees live outside the city or county.

## Health Insurance Exchanges: Public and Private

A health insurance exchange is a marketplace through which employees and/or retirees can purchase health insurance and evaluate the differences among plan designs and/or carriers. An exchange is generally a web-based portal that includes support tools to help users understand how the exchange operates and make informed decisions.

The Affordable Care Act created a set of regulated public health insurance exchanges. There are 2 types of public exchanges – individual exchanges and small business health options program (SHOP) exchanges. Participants purchasing coverage through individual public exchanges will be eligible for a federal premium assistance tax credit or subsidy toward coverage if their household income is less than 4 times the federal poverty level and they do not have affordable coverage available through their employer, Medicaid or Medicare. The federal subsidy is not available in the SHOP exchange, but employers can use cafeteria plans to allow employees to pay their portion of the premium on a pre-tax basis.

The private exchange model typically uses a defined contribution approach to health care. Employers provide a set dollar amount toward health coverage, and the employees use that money toward the purchase of health insurance from the carriers on the exchange. Private exchanges negotiate premium rates with participating insurers and employers select options based on the needs of their employees. Generally, there are 2 types of private exchanges:

- Single-carrier exchanges are typically run by insurers and offer only the sponsoring insurer's plans. Employers are generally involved in selecting the various plan design options that will be offered to their employees.
- Multi-carrier exchanges are typically run by 3rd parties and include numerous plan design options from multiple insurers. The insurers compete for enrollment by offering different pricing structures, health care networks and levels of performance and customer support.

Like SHOP exchanges, private exchanges cannot take advantage of federal subsidies. However, employers can allow employees to pay for their share of the premium on a pre-tax basis.[7]

## *Analyzing the Exchanges*

### Bending the cost curve

Currently, the City pays premiums to HMOs to cover the cost of care. If the City were to stop offering health insurance to employees and send them to the public exchanges, the penalties are almost certain to be less than what coverage would cost.[8] Private exchanges for employers are a relatively new health insurance concept. There is not a lot of data that shows a decrease in costs to employers. The incentive for shifting to a private exchange is gaining more predictable annual health insurance costs through defining premium contributions per employee and by selecting specific products to provide.[9] However, there appears to be a tendency of purchasers in private health exchanges to buy plans with significantly lower premium prices - and higher deductibles and co-pays – than what their current company-offered plans cost.[10] And, a study by Booz & Company indicates that midsized companies will be the greatest beneficiaries of private exchanges because of increased negotiating leverage, competition and risk pooling.[11]

[7] Sibson Consulting's Perspectives - Thinking of Joining a Private Health Insurance Exchange? Look Before You Leap
[8] Obamacare is losing altitude - Chicago Tribune
[9] BB&T enters private exchange sector offering health insurance options to employers - Winston-Salem Journal: Local Business
[10] Betting on a boom in private health exchanges-cnbc.com
[11] http://www.booz.com/media/file/BoozCo_Private-Health-Exchanges.pdf

### Remaining competitive in attracting applicants for positions

Health insurance is a driver applicants consider when accepting positions. Booz & Company has found that the vast majority of companies still consider health insurance an important part of the employee benefits package. Employers worry that moving to a private exchange with a pure defined-contribution solution could hurt their ability to attract and retain talent.

### Economic protection of the employees

Currently, the City is prohibited from contributing more than 88% of the tier 1 average premium for the various HMOs. This results in employees paying up to $137 a month for a single plan, or up to $344 a month for a family plan. However, under the HMO arrangement, most expenses are covered at 100%. There are no co-pays or deductibles under this arrangement.

According to the previously referenced Sibson Consulting study, a private exchange that has 3 or 4 employer members today and doubles in size next year may change its rates if the new members change its demographics. Depending on the underwriting model of the exchange, costs could swing wildly from year to year and premiums would follow suit. If the City decided not to keep pace with its defined contribution, the employee could pay substantially more.

The public and private exchange models may give employees more freedom and choice of coverage options, but they could enroll in a less rich plan and be subject to more out-of-pocket costs than intended.

### Better health outcomes

It is difficult to see this type of plan having a significant impact on employee health outcomes. According to Sibson, with a private exchange, employers should compare their current plan offerings with those in the exchange to determine if the benefits they currently offer are similar to those being offered through the exchange and whether the networks are similar or different. They should also look at the premium rates and investigate whether the quality of care would be reduced within an exchange. If employees choose a cheaper plan in either a private or public exchange, they may be tempted not to seek care in order to prevent out-of-pocket costs. In other cases, the exchange may have a positive impact in that as consumers, employees will shop around to ensure they are getting the best care for their dollar, including quality as a factor.

### Taking care of retirees and bridging the gap to Medicare

If the City adopted a private exchange, retirees could be allowed to continue to participate in the same group or a separate group. The public exchanges are also a viable option. (We may want to check with Precision/Pelion to make sure there isn't some tax reason for them to not reimburse retirees who purchase insurance from the public exchanges.) Below is a comparison of costs of coverage between what retirees currently pay and what they would pay under different plans under the exchange at different ages. This assumes that a family plan consists of 2 people of the same age. Note that some plans have dental benefits and that there are deductible and co-pays. This also doesn't factor in any tax credits based on income.

| Plan | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Age 55 | Current | | Average of Bronze Plans | | Average of Silver Plans | | Average of Gold Plans | | Average of Platinum Plans | |
| | Single | Family | Single | Family | Single | Family | Single | Family | Single | Family |
| Dean | 690.00 | 1,718.50 | 404.00 | 808.00 | 472.00 | 943.00 | 563.00 | 1,126.00 | N/A | N/A |
| GHC | 593.50 | 1,477.20 | 417.00 | 833.00 | 498.00 | 995.00 | 590.00 | 1,180.00 | 691.00 | 1,382.00 |
| Physicians + | 664.30 | 1,654.20 | 583.00 | 1,165.00 | 728.00 | 1,456.00 | 850.00 | 1,698.00 | N/A | N/A |
| Unity | 562.30 | 1,399.20 | 424.00 | 755.00 | 491.00 | 979.00 | 578.00 | 1,155.00 | 696.00 | 1,392.00 |

| Plan | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Age 57 | Current | | Average of Bronze Plans | | Average of Silver Plans | | Average of Gold Plans | | Average of Platinum Plans | |
| | Single | Family | Single | Family | Single | Family | Single | Family | Single | Family |
| Dean | 690.00 | 1,718.50 | 442.00 | 884.00 | 516.00 | 1,032.00 | 616.00 | 1,232.00 | N/A | N/A |
| GHC | 593.50 | 1,477.20 | 455.00 | 910.00 | 544.00 | 1,088.00 | 645.00 | 1,290.00 | 755.00 | 1,510.00 |
| Physicians + | 664.30 | 1,654.20 | 637.00 | 1,274.00 | 796.00 | 1,592.00 | 928.00 | 1,856.00 | N/A | N/A |
| Unity | 562.30 | 1,399.20 | 412.00 | 824.00 | 535.00 | 1,070.00 | 632.00 | 1,264.00 | 727.00 | 1,454.00 |

| Plan | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Age 60 | Current | | Average of Bronze Plans | | Average of Silver Plans | | Average of Gold Plans | | Average of Platinum Plans | |
| | Single | Family | Single | Family | Single | Family | Single | Family | Single | Family |
| Dean | 690.00 | 1,718.50 | 492.00 | 984.00 | 574.00 | 1,148.00 | 686.00 | 1,372.00 | N/A | N/A |
| GHC | 593.50 | 1,477.20 | 507.00 | 1,014.00 | 606.00 | 1,212.00 | 718.00 | 1,436.00 | 841.00 | 1,682.00 |
| Physicians + | 664.30 | 1,654.20 | 709.00 | 1,418.00 | 886.00 | 1,772.00 | 1,034.00 | 2,068.00 | N/A | N/A |
| Unity | 562.30 | 1,399.20 | 459.00 | 918.00 | 596.00 | 1,192.00 | 703.00 | 1,406.00 | 847.00 | 1,694.00 |

| Plan | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Age 64 | Current | | Average of Bronze Plans | | Average of Silver Plans | | Average of Gold Plans | | Average of Platinum Plans | |
| | Single | Family | Single | Family | Single | Family | Single | Family | Single | Family |
| Dean | 690.00 | 1,718.50 | 544.00 | 1,088.00 | 635.00 | 1,270.00 | 758.00 | 1,516.00 | N/A | N/A |
| GHC | 593.50 | 1,477.20 | 560.00 | 1,120.00 | 670.00 | 1,340.00 | 794.00 | 1,588.00 | 930.00 | 1,860.00 |
| Physicians + | 664.30 | 1,654.20 | 784.00 | 1,568.00 | 979.00 | 1,958.00 | 1,143.00 | 2,286.00 | N/A | N/A |
| Unity | 562.30 | 1,399.20 | 507.00 | 1,014.00 | 658.00 | 1,316.00 | 777.00 | 1,554.00 | 936.00 | 1,872.00 |

There are a total of 76 different options available under these 4 plans whether it's a single or a family plan.

### Administrative Efficiency

The adoption of a private exchange would be a significant administrative change compared with the current ETF process. The quality of the exchange's call center and web capabilities for employees and employers will affect its efficiency. The more education and help the exchange provides to employees, the less would be required of the City.

Shifting employees to the public exchange may be very efficient if the City takes a hands-off approach to helping employees choose a plan.

### Ease of Implementation for Employees

This type of health plan would be very different from the HMO arrangement employees have been used to for years. Employees would need to be educated as to how the exchanges work and how to be consumers of health care. Once again, the more the exchange does, the less the City would need to do.

## Conclusion

Overall, a number of different options exist for the City in reviewing its delivery of health insurance for employees. It is apparent from this brief analysis that pros and cons exist for any option under consideration. Because health insurance costs are such a significant portion of the City's Operating Budget, it is important that whatever choice is made is done after careful study

and consideration. To this end, hiring a consultant with experience in evaluating the various options would be beneficial to the City and could have a significant impact in reducing costs in the future.