

# Why Wisconsin is not as likely as Other States to Benefit from Self-Funding its State Group Health Program

September 27, 2016

The Group Insurance Board's decision to explore the option of self-funding the State Group Health Program is based in large part on Segal Consulting's November 2015 report titled "Observations and Recommendations for 2017 and Beyond." The 50-page report offers many valuable insights, but minimizes four factors that should be considered by state lawmakers. These factors illustrate why Wisconsin is not as likely as other states to benefit from self-funding its State Group Health Program.

1. The current, fully insured approach produces predictable, stable costs for taxpayers.
2. The Segal analysis does not properly reflect Wisconsin's unique health care market.
3. The state will not realize many of the benefits typically associated with self-funding.
4. Projected savings may never be realized, putting other state programs at financial risk.

## The importance of predictability and stability

The State Group Health Program has consistently outperformed other employer-sponsored health plans. Its managed competition approach – in which fully insured plans compete for both enrollees and the lowest premium costs – gives employees a selection of plans from which to choose while keeping health care cost increases to a minimum. Most large employers do not enjoy this type of competition-based leverage. Over the past five years, the program's plan costs have increased at an average that is half that of other large employers in the state.<sup>1</sup> For 2017, plan costs are expected to increase 1.6 percent, again well below projections for large employers nationally.<sup>2</sup>

Most of the health plans in the State Group Health Program are affiliated with an integrated health care system within the local geographic area they serve. This ensures that the financial incentives for the plan and provider are appropriately aligned to improve quality, efficiency and patient outcomes. The state's leverage has led to the lowest premiums in each of the regionally-developed areas.

Converting to a self-funded plan could lead to budget instability. When Milwaukee County converted to self-funding in 2007, per-employee health care costs fluctuated between 9 and 20 percent per year for the next three years.<sup>3</sup> Even established self-funded plans can experience higher increases than tightly managed, fully insured plans. Over the last four years, family

<sup>1</sup> HCTrends' Greater Milwaukee Employer Health Care Benefits Survey Results

<sup>2</sup> August 16, 2016 Group Insurance Board News Release & Willis Towers Watson and National Business Group on Health surveys

<sup>3</sup> Milwaukee County Budget Documents

premium equivalents for self-funded plans have increased an average of 1.2 percent more per year than fully insured plans nationally, a differential that would mean an additional cost of \$16.2 million per year for a self-funded plan the size of the State Group Health Program.<sup>4</sup>

## **Preserving Wisconsin's Unique and Successful Health Care Market**

Many of the self-funding benefits cited in Segal's analysis for the Group Insurance Board assume that Wisconsin's insurance and health care delivery systems are similar to other states. They are not. Most states have one or two dominant insurers that use their market leverage to negotiate discounts and implement care management strategies within a fragmented health care delivery system. Wisconsin's health care market is the opposite. It is a highly competitive market served by more than 200 health insurers, with the highest individual market share not exceeding 15 percent of the market.<sup>5</sup>

Wisconsin is also unique in that it is served by several highly developed integrated health care delivery systems, several of which are closely affiliated with health plans. Care coordinated within an integrated delivery system that is aligned with a health plan and focused on quality improvement is generally more effective than care coordinated by a third-party payer with a stand-alone, or wrap-around program focused primarily on costs.

An HCTrends analysis of the state's largest, most completely integrated health systems – Aurora Health Care, Dean/SSM, ThedaCare and UW Health – found that these health systems are 4 percent more efficient in the utilization of health care resources than other providers.<sup>6</sup> All four systems also outperformed the state average in combined medical and hospital quality.<sup>7</sup>

Several of Wisconsin's integrated delivery systems are closely affiliated with health plans. Because they align operational and financial incentives to improve efficiency and quality, they have lower premiums than the non-affiliated plans currently participating in the State Group Health Program. According to a recent analysis that focused exclusively on Dane County, the provider-affiliated plans serving Dane County had both the highest average quality ratings and the lowest premiums of the participating plans.<sup>8</sup>

Segal's self-funding recommendations do not fully take into account the disruption that will occur to patients, payers and providers. Stability and predictability are important given the age and chronic illness prevalence in the State Group Health Program population. Creating new artificial regions will disrupt the current health care and payment alignment between providers, health plans and consumers that has developed over time. This disruption will impact not only

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<sup>4</sup> 2012, 2013, 2014 and 2015 The Henry J. Kaiser Family Foundation & Health Research & Educational Trust Health Care Surveys

<sup>5</sup> Wisconsin Insurance Report Business of 2015 (Wisconsin Office of the Commissioner of Insurance)

<sup>6</sup> Based on WHIO DMV14 commercial claims between April 2013 and June 2015

<sup>7</sup> HCTrends analysis of medical group quality from the Wisconsin Collaborative for Healthcare Quality (December 2015 data download) and hospital inpatient quality from the Centers for Medicare and Medicaid Services (December 2015 data download)

<sup>8</sup> The Dane Difference, Mike Bare, Erik Bakken, David Riemer and John Mullahy

the 250,000 lives in the health plan, but also will reduce competition and the benefits of a competitive market for all other purchasers in Wisconsin, including other commercial market participants and the state's Medicaid Managed Care Program.

## Many Self-Funding Benefits Will Not Apply to the State

Employers explore self-funding for a variety of reasons, but many of these are not applicable to the state of Wisconsin.

- **The State Group Health Program has had stable and small premium increases.**  
For some employers, self-funding can provide relief from unsustainable year-to-year cost increases; the state program has outperformed state and national averages.
- **The state has already established a uniform benefit plan design.**  
For some employers, self-funding makes it easier to offer a uniform benefit plan similar to the State Group Health Plan
- **By law, the State Group Health Program must offer state-mandated benefits.**  
For some employers, self-funding provides an exemption from health care benefits mandated at the state level; state legislation prohibits the State Group Health Plan from doing this even if it self-funds
- **The premium tax is not a concern for the State Group Health Program.**  
Some employers may self-fund to exempt themselves from premium taxes imposed at the state level, but Wisconsin-based insurers are not subject to a state premium tax. The Affordable Care Act's federal premium tax has been suspended for 2017 and there is bipartisan support for its repeal.
- **Wisconsin insurers have low administrative costs and profit margins.**  
Some employers self-fund to recoup significant insurer administrative costs and profits. The health plans participating in the State Group Health Program had an average margin of 0.16% of revenue, well below the 4 to 5 percent national average historically.<sup>9</sup>
- **The State Group Health Program already offers a health coverage option for out-of-state employees.**  
Some employers self-fund with a national PPO to provide coverage for employees living or working out of state.

The Segal analysis also cited the ACA's Cadillac tax as a benefit for moving to a self-funding platform; however, moving to self-funding will not exempt the state from this 40 percent excise tax on premium-equivalent amounts above a specified threshold. Reducing plan costs through benefit design changes, whether the plan is self-funded or fully insured, is much more critical to

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<sup>9</sup> Wisconsin Association of Health Plans analysis of 2015 financial filings of its commercial health plan members

avoiding the tax if it is ever implemented. Slated initially to go into effect in 2018, implementation has been postponed and there is bipartisan support to repeal it.

## **What if the Savings Don't Materialize?**

Savings from a self-funding conversion are projected, in contrast to the bookable savings achieved through fully insured, fixed-premium arrangements. Many times, projected savings are calculated by comparing the worst-case financial scenario for the existing plan with the best-case scenario for the proposed plan. As a result, potential savings often fail to materialize. In Georgia, for example, state legislators were told that converting the employee health program to a self-funding option would generate significant savings for the state. Instead, medical payments per member increased 18.6 percent in 2014 and 15.6 percent in 2015, more than four times the average annual increase in the five years prior to 2014.<sup>10</sup>

Segal's self-funding recommendations are based on the assumption that the current financial arrangements between insurers and providers will be the same or better in a self-funded plan. In a self-funding conversion, even a small change in payment arrangements with providers can mean the difference between saving and spending money. For every \$50 million in billed medical claims, a 5-percentage-point shift in provider payments would increase medical costs by \$2 million to \$3 million.<sup>11</sup>

In addition, it is more difficult to keep people from using unnecessary or duplicative health care services in a self-funded, PPO network than it is in a tightly managed network. As a result, moving from a fully insured managed care plan to a self-funded plan could increase utilization and therefore costs.

Moving away from the guaranteed cost in the fully insured model to self-funding would put the state budget at risk because the state would assume liability for changes in the cost of care. Funding for other state programs could be jeopardized if the potential savings don't materialize or if emergency funds have to be allocated to the health plan to cover unexpected medical cost overruns, similar to what can occur with fee-for-service plans in the state's Medicaid program.

## **Conclusion**

Wisconsin has developed a highly competitive health care market that features high quality health plans and integrated health care delivery systems. Integral to this development has been the State Group Health Program, which uses managed competition to provide flexibility and constrain costs. It has helped to foster the development of several provider-affiliated health plans that have been state leaders in quality improvement and cost efficiency. The proposal to self-fund the State Group Health Plan could jeopardize the benefits of the managed competition approach as well as the

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<sup>10</sup> Georgia Department of Community Health 2013, 2014 and 2015 annual reports

<sup>11</sup> A company with \$50 million in a network offering a 40-percent discount would pay \$30 million in allowed charges. If the same company self-funded and moved to a network with a 35-percent discount, it would pay \$32.5 million, or 8 percent more.

broader health insurance market in Wisconsin, including other commercially insured employers, integrated health systems and the state's Medicaid Managed Care Program.

An accurate and comprehensive understanding of the existing State Group Health Program and its relationship to Wisconsin's health care community is critical in the upcoming debate concerning self-funding. The four factors discussed above provide a starting point for discussion.