THE BENEFIT SERVICES GROUP, INC.

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Greetings:

In the coming months, Wisconsin legislators and other state policy makers will be faced with a difficult evaluation that will impact state finances, state employees, health care providers, insurers and other private-sector businesses.

There are many issues that come into play when considering whether an employer should assume financial risk for a health plan (self-fund) or use a fully insured model where the financial risk remains with the health plan. Over the years, The Benefit Services Group, Inc. has helped numerous private-sector and public-sector employers make this evaluation. Given our expertise in this area, the Wisconsin Hospital Association and the Wisconsin Association of Health Plans retained BSG to analyze the self-funding feasibility studies commissioned by the state and the RFP process currently under way.

The Wisconsin Department of Employee Trust Funds is unique in several aspects, including its size, its local focus and its successful trend rate, which we believe can be attributed to its managed competition approach.

The RFP process currently under way by the Group Insurance Board will provide some valuable answers to assessing self-funding options; however, by its nature, it will not provide definitive answers of its own. The enclosed/attached white paper outlines some issues that must also be addressed before the state makes a decision in this matter, including:

- The ability to fairly compare the proposed RFP approaches with the existing fully insured model to reach an accurate understanding of potential costs or savings
- The RFP's inability to identify all of the risks inherent in self-funding, including increased volatility in the budgeting process, especially in the first years of a transition
- The reasons for the competitive strength of Wisconsin's insurance market and the superior performance of Wisconsin's existing group health program when compared to other states and private-sector plans

Few discussions will be as monumental in the upcoming budget process as the consideration of whether or not the state should self-fund the ETF group health plan. It is imperative that the debate is based on a comprehensive and realistic assessment of the financial risks and rewards.

Respectfully,

Gerald W. Frye
President
The Benefit Services Group, Inc. (BSG®)

Four Issues Wisconsin Policy Makers Should Keep in Mind When Evaluating Self-Funding Proposals for the Employee Trust Fund's Group Health Plan

The State of Wisconsin is exploring potential strategies to reform the State Group Health Program. While the existing fully insured program has proven effective at controlling costs and providing access to high-quality health care, the Group Insurance Board has proceeded with the Segal Consulting report recommendation to evaluate the feasibility of self-funding the state health program through a request for proposal (RFP) process.

RFPs are standard industry practice for identifying the services and fees of third-party administrators; however, the results are only as good as the specificity of the questions asked, as well as the granularity (and accuracy) of the data provided by the RFP respondents. Further, there are serious considerations beyond the scope of the RFP process that should be explored before the state can meaningfully conclude whether or not self-funding is right for the group health program. It is important for the state's decision makers to understand what information the RFP needs to capture in order to make a fair and comprehensive evaluation, as well as the issues the RFP process cannot adequately address.

Following are four issues that require critical consideration when evaluating the self-funding proposals.

The RFP should allow for a fair comparison with the current fully insured model to accurately assess any potential cost savings.

RFP responses should allow the state to effectively compare a self-funded option with the current fully insured program. Valid comparisons become challenging when there are multiple variables not being accounted for.

Respondents should demonstrate, in specific terms, how they plan to match or improve on the performance of the existing fully insured health plans on quality, efficiency and care management.

Respondents should provide rigorous documentation regarding the cost trend they have been able to achieve in their regions over the last five years (including a detailed description of any benefit design changes that were implemented during this time).

The Department of Employee Trust Funds (DETF) enjoys working with a well-established, competition-based system that has successfully mitigated trend and made Wisconsin a leader in health care quality. DETF has enjoyed an average trend of 2.5 percent over the past five years, and experienced a 2.5-percent decline in costs in 2016 (resulting in $89 million in savings). For 2017, DETF just announced an increase of only 1.6 percent. RFP respondents should provide concrete guarantees that the state will

achieve better cost savings than it realizes today. Respondents should be required to provide guarantees of their projected medical savings for the entire length of the DETF contract and explain how state taxpayers will be indemnified if the savings do not materialize.

An RFP cannot identify all of the risks of self-funding.

Under the existing fully insured model, individual health plans are at risk if their medical costs are higher than anticipated. This has provided financial stability for the state. This stability is a result of the built-in incentives for health plans and providers to align the dollars and manage utilization of services. Self-funding does not accomplish this same alignment, nor can the utilization levels be expected to remain as well managed.

Under a self-funded model, taxpayers will be responsible for higher-than-anticipated medical costs, which will make the budgeting process less predictable. The state can mitigate some of this risk through stop-loss insurance, but the cost of that insurance will have to be factored into the evaluation. Furthermore, a self-funding approach will require the state to set aside $150 million to $250 million in financial reserves (15 to 25 percent of annual medical and pharmacy claims), and to take on additional responsibilities (i.e., ensuring timely provider claims payments and oversight of claims processing), which are currently handled by the fully insured plans. It also will have to hire employees to manage a self-funded solution. The state should develop a comprehensive and meaningful framework for determining these additional costs, which will not be identified through the RFP process.

Wisconsin's competitive health insurance market is appropriately described as a slightly overlapping collection of regional markets. As a result of this approach, no insurer has optimal contractual relationships with all of the major health care providers in the state. Typically, an insurer is strong in one or two regions of the state, but weak in the others. Selecting an insurer to serve an area it does not currently serve presents significant challenges that should be explored:

- **Unit Price Cost-Containment:** A network's financial relationship with health care providers depends on that network's market strength in that region. The state should not assume a new health plan will be able to negotiate reimbursement arrangements that are as good as the established financial arrangements already negotiated by the dominant networks in the region.
- **Provider Disruption:** It is unlikely that respondents will be able to guarantee that all of the providers currently participating in the state program will be included in their network without sacrificing their negotiating leverage. All-inclusive networks with optimal reimbursement arrangements are virtually impossible for new market entrants to achieve. Disrupting long-standing physician-patient relationships could create employee morale problems, as well as a public relations challenge. Provider and member disruption can be positive and is a more acceptable solution when health plans are performing poorly and/or their cost trend is unsustainable. It is more difficult to justify when the existing health plans are significantly outperforming national benchmarks.
- **Care Coordination:** A new entrant to the market will face significant challenges in implementing care coordination programs with providers in a timely and effective manner due to the contractual and logistical issues that will have to be resolved. This will be even more difficult given that this will have to be accomplished simultaneously in multiple markets.

The Segal Report's vision for self-funding would weaken the competitive strength of Wisconsin's current health insurance market.

The Segal Report envisions a self-funded plan operating in a significantly different environment than what exists today. The report proposes the creation of artificial geographic regions that do not match the existing service areas, which have been organically developed by integrated health plans and providers. These new, artificial regions will likely disrupt both patient access and the established patterns of health care delivery. The report also recommends having either a single, statewide administrator or selecting one or two networks for each service area. Either way, there will likely be a significant impact on the viability of local health plans and the established relationships between providers and patients.

The report's recommendations focus on a discounted, fee-for-service approach that is more reflective of the less-developed health insurance markets in other states. It is an outdated approach that has proven to be ineffective as evidenced by government and private-sector pressure to move to accountable care organizations (ACOs). Wisconsin has achieved national leadership in health care quality, efficiency and outcomes in part through the current market competition model, which includes community-based integrated health plans and local and regional integrated health care providers. This approach aligns the economic interests of providers, consumers and health plans to deliver efficient, quality care with better outcomes. Focusing on discounts is a tactical approach that does not take into account outcomes or the volume of services provided.

Targeting appropriateness of care, quality, outcomes and then total cost of care is a stronger strategic approach that will help the state achieve the long-term savings it seeks.

Any proposed change to the State Group Health Program should be weighed against the current model's high level of performance. It also should include assurances as to how the benefits of integration will be maintained. To this end, RFP respondents should provide quality and efficiency data and actual examples of how the proposer has been able to manage costs over time (trend) with their existing customers.

The State of Wisconsin is not like other employers considering self-funding.

Unlike private-sector employers, the state has a dual responsibility in its self-funding analysis. As an employer and steward of taxpayer money, it needs to ensure that quality health care, focused on outcomes, is delivered as efficiently as possible. As the steward of the state's economy, decision makers should consider the impact on local economies and other health insurance purchasers. The 250,000 individuals in the state health plan represent 14 percent of the fully insured market in Wisconsin and 20 percent or more of the customer base for some individual plans. Based on Segal's analysis, few of the 17 health plans currently serving state employees would be able to retain the business under a self-funded program. These health plans would have to adjust their cost structures, including staffing levels. Insurance brokers and other supporting industries would also be affected. The question facing decision makers is whether or not this disruption is warranted, given the existing health plans' current superior performance.

Wisconsin residents and taxpayers are fortunate to enjoy the advantages of a robust health insurance market and a nationally recognized health care delivery system. Currently, the DETF leverages both to achieve superior quality, improved outcomes and minimal trend – without financial risk to the state's taxpayers. As the state begins the formal process of evaluating whether or not there should be a significant change in the State Group Health Program model, it is critical that decision makers consider the issues outlined above to ensure the state continues to move forward as a prudent steward of taxpayer money and a national leader in health care quality and efficiency.