

NCPERS TASK FORCE ON HEALTH CARE BENEFITS
November 8-9, 2002 Meeting
Washington, DC

SUMMARY OF SPEAKER PRESENTATIONS

Several speakers delivered presentations to the Health Care Task Force. Following is a summary of some of those presentations.

Opening Session

Elmer J. Khal

President of NCPERS

I want to welcome all the members of the NCPERS Task Force on Health Care Benefits and to thank each one of you for agreeing to serve on this important national task force and for giving up your time to come to Washington, DC for this historic meeting.

I have no notion that we are going to solve all the problems in one meeting, but we must begin to address this serious issue. Rising health care costs are a concern for public pension plans, employers, retired and active employees.

NCPERS, for the past 62 years, has focused on preserving and protecting the pensions of public sector employees. This remains our main primary focus. However, we would be remiss in our responsibilities if we ignored the fact that rising health care costs are eating away the pension benefits of our current retirees.

If something is not done to stop these spiraling costs, future retirees could lose their pension to health care costs. Worse yet, they could be forced to forego health care protections and treatment. That is a situation we cannot and will not tolerate.

I look forward to two days of intense discussions about health care costs and to innovative recommendations that will come from this task force. This is an historic journey for NCPERS and we will meet the challenges of rising health care costs as we have met the challenges of protecting our pension benefits.

At this time, I would like to recognize and personally thank Dan Givens. First, I would like to thank Dan for raising this issue with the NCPERS Executive Board and for sponsoring the resolution that created this Task Force.

Second, I would like to thank Dan for agreeing to serve as Chairman of the Task Force. Dan has already made a huge contribution and I know that under his leadership and by working together, we will have recommendations for the NCPERS Executive Board that will address the rising costs of health care benefits for public sector employees and retirees.

Opening Statement by the Chairman of the Task Force

Dan Givens

Chairman, Miami Firefighters' Relief and Pension Fund and NCPERS

Executive Board Member

I want to personally thank NCPERS President Elmer Khal for his support in creating this national task force on health care benefits. I also want to commend him for appointing such a highly qualified, diverse group of individuals who will be meeting here for the next two days. I also want to thank Elmer for appointing me as the Chairman and I promise to fulfill the responsibilities given to this task force.

It is appropriate for NCPERS, The Voice for Public Pensions, to take a leadership role in addressing this destructive issue facing our public pension plans, employers, active members and retirees across the nation.

The statement that "retiree health care costs have become the major cost that erodes most public employee pension benefits," has now evolved to "retiree health care costs may be the number one crisis facing our country."

The "swinging pendulum" from employee-paid to employer-paid, and then back again, cuts a wide gap in our retirement systems. These drastic swings inevitably leave many retirees unable to pay and on the outside of the pendulum's arc.

Public sector employees and retirees also have a responsibility to improve the efficiencies in the health care industry by becoming educated health care consumers, understanding the costs involved with prescription drugs, co-pays, generic drugs and wellness/fitness during employment and retirement.

Over the next two days, we will address several questions.

1. Why was this national health care task force created?

Public employee retirement benefits are being seriously eroded by the exponential increase in health care costs! Future retirees face an even bleaker future if something is not done about double-digit increases in health care costs. We must find a way to ensure our retirees do not become "health care poor," having to make a choice between health care and living.

2. What do we hope this health care task force can do?

We are under no illusion that we will solve all the nation's problems in these two days. Other groups have grappled with the health care issue and not arrived at a foolproof solution. However, our task is unique in that we are focusing on just one segment of the problem -- public sector employees and retirees. This task force needs to:

- a. Define how health care costs impact public pension plans, active employees, and retirees;
- b. Create an action plan with clear objectives for addressing health care costs of our public employee retirees; and
- c. Direct the action plan objectives toward individual actions, pension plan actions, and legislative initiatives at the federal and state levels.

We must be prepared to be innovative, think outside the box, and not be afraid to tackle the issues head on -- whether we like what we hear or don't hear what we like. No idea is unacceptable.

3. How do we plan to do our work?

We will utilize the collective, broad-based knowledge and experience of our task force members in a focused brainstorming session. We will enlist additional help in the appropriate areas when needed. We will maintain our focus on the subject at hand: Affordable health care for our public pension employees in retirement.

Attacking the retiree health care crisis across our nation is sure to be a long journey, riddled with sacrifice and casualties along the way. NCPERS is speaking up for the public employee pension systems, recognizing that postponing this first step will only increase the casualties.

It is not the intent of NCPERS, representing established, successful, and well-funded public pension plans across our nation, to create a bigger "pot of gold" for health care providers.

It is not the intent of NCPERS to allow the federal government to stand idly by and not shoulder its fair share of this national crisis.

And finally, it is not the intent of NCPERS to allow skyrocketing health care costs go unchallenged and unchecked from one generation to another.

This is our mission and our challenge. I look forward to our speakers' presentations, your discussions and ideas, and our recommendations.

Statewide Pension Plans and Health Care Coverage for Teachers

Cynthia L. Moore

Washington Counsel, National Council on Teacher Retirement

A recent survey among teachers nationwide shows that, like other public sector employees, they are concerned about health care costs and availability. The study, conducted by the National Council on Teacher Retirement, was presented by NCTR Washington Counsel Cynthia Moore.

The survey asked retirement plan administrators these three questions:

1. Does your state retirement system provide health care to retired teachers, as either a separate plan, or under a plan that covers several categories of employees (such as fire fighters or police)?
2. If the retirement system is involved, how is it funded?
3. What are your concerns about the future of health care coverage?

The survey identified several shared concerns among the plan administrators:

- The rising cost of retiree health care, both the insurance coverage and the cost of prescription drug coverage, is their single biggest concern.
- The availability of health care in rural areas is declining.
- There is a critical need for new ways to set aside funds for retiree health care coverage while the individual is working.

Other general concerns the plan administrators mentioned include the need to pre-fund retiree health care. Moore noted that the State of Alaska already has such a requirement. Some states have partial funding; Colorado, for example, is 20% funded. Moore also offered several topics for the task force to consider, notably whether public employee groups are taking advantage of group buying opportunities.

About the Speaker

Cynthia L. Moore is an attorney in private practice, specializing in issues affecting teacher retirement. Since 1988 she has served the National Council on Teacher Retirement (NCTR) as its Washington Counsel by advising NCTR members on federal legislative and regulatory issues that affect the operation of state and local government retirement systems. She frequently presents at the Retirement and Benefits Forum of the National Education Association. She has also conducted a series of surveys on teacher retirement issues.

Ten Things To Know About Health Care Cost Trends

Bradley C. Strunk, Health Research Analyst

Center for Studying Health Care Change

To help task force members understand current problems in health care trends, and anticipate future obstacles to better health coverage, Bradley Strunk reviewed recent research findings from the Center for Studying Health Care Change. HSC, an organization funded exclusively by The Robert Wood Johnson Foundation, conducts an annual analysis of health care costs.

Strunk identified the 10 most significant trends in health care costs:

1. Spending is rising very rapidly. After seeing spending decline in the early 1990s, costs have increased since the mid-1990s, and were up 10% in 2001.
2. The increase in spending on hospital care drove overall costs trends in 2001. The share of overall costs allocated to prescription drugs has actually declined since 1999.
3. Rising hospital spending reflects steeper increases in prices paid to hospitals and in the use of services. Hospital cost increases are due in part by the shortage of some professions, such as nurses, leading to higher salaries.
4. A key short-term cost driver is the ongoing retreat from managed care. Health care services have become more accessible, including access to specialists.

5. Aging plays a limited role in health care cost trends, a situation expected to remain unchanged in this decade.
6. The general economy influences health care cost trends, but there is a lag in the effect. During a recession, higher cost trends are actually driven by previous booms.
7. New technology is the dominant long-term driver of cost trends.
8. Premiums are increasing more than the trends in the underlying costs.
9. A shift to more patient cost sharing is underway (including higher deductibles, coinsurance and copayments).
10. The potential exists for some slowing of the overall cost trend.

Strunk summarized his report by noting that in the mid-1990s we experienced a temporary hiatus from cost pressures. He suggested that the current financing system will force attention on health care costs.

Additional information on HSC's research is available from their website (www.hschange.org).

About the Speaker

Bradley Strunk is a health research analyst at the Center for Studying Health System Change. Mr. Strunk's current research is focused on trends in private health care costs and insurance premiums, the managed care industry and the specific role of Blue Cross and Blue Shield plans in the industry, and access to health care among the US population. He has also worked extensively on the site visit research component of HSC's Community Tracking Study. Prior to joining HSC, Mr. Strunk was at the Department of Public Health Sciences at the Wake Forest University School of Medicine, where he studied the implications of tobacco reform efforts on rural tobacco farmers across the U.S. Mr. Strunk received a BA in economics from Wake Forest University.

What Can We Expect from Prescription Drug Benefits in the Next Few Years?

Michael R. Jacobs, Principal

Mercer Human Resource Consulting

Prescription drug costs will continue to escalate, with additional increases possible as the biotechnology industry brings hundreds of new products to the market, according to a leading health care consulting firm.

Mike Jacobs, of Mercer Human Resource Consulting, said that by 2006, Americans could spend an additional \$100 a month on prescription drugs—costs that will be covered in part by employers. As a result, those companies' profits could be severely affected.

Hundreds of new medications will be introduced in the next few years, according to Jacobs. They will treat a variety of health problems, notably age-related diseases and special needs of children. Many of the most popular “blockbuster” drugs will soon lose patent protection. As that occurs the opportunity for greater access to generic drugs will increase.

Specialty drug sales, including those generated by the rapidly growing biotechnology field, doubled between 1999 and 2002. That trend will increase because this field represents one-third of all drugs in human clinical testing.

Increasing costs for the treatment of chronic disease patients continue to be a major reason for prescription drug cost increases. These treatments represent 1% of the population, but as much as 30% of the pharmacy spending nationwide.

Jacobs suggests there are several ways to reduce prescription drug costs. To save money, however, he said most employers must do a better job of understanding how and where they are currently spending money on prescription drugs. He believes cooperatives are the best cost saving option currently available; buying cooperatives can save employers

3-10%. Greater use of generic drugs, step treatment programs and mail order incentives are other options with significant cost-cutting potential.

About the Speaker

Michael R. Jacobs is a Principal in the Atlanta office of Mercer Human Resource Consulting and is a full-time member of the Health and Group Practice and a member of the National Managed Pharmacy Practice Leadership Group. His focus includes working with clients and the pharmaceutical industry on the design, pricing, funding, impact, evaluation, administration and implementation of integrated pharmacy benefit programs. This also involves communication, preparation and review of contracts to promote and support various health care strategy needs.

Retiree Pension Health Care Crisis

Kirby Bosley, Practice Leader, Health and Group Consulting Mercer Human Resource Consulting

Medicare as a component within the larger health care industry is an area worthy of concern as NCPERS' task force examines rising health care costs, according to Kirby Bosley. The consultant reviewed significant trends in Medicare during her presentation as they relate to health care plans for retirees.

Mercer's most recent data, according to Bosely, shows that retiree health care plans exist in 77% of all government programs (federal, state and municipal). However, they are offered in less than one-fourth of large private sector employers.

The number of Medicare HMOs has declined noticeably since 2000. Without Congressionally-authorized changes to improve Medicare payments, Bosley believes this trend will likely continue.

Bosley recommended several options for the task force to consider relative to Medicare. Finally, she reviewed three possible strategies for retiree health care coverage. The strategies were based on three existing public sector plans.

About the Speaker

Kirby Bosley is a principal and heads the health care and group benefits practice in the Los Angeles office of Mercer Human Resource Consulting. She has more than 20 years of experience in health and welfare benefits, 17 in the consulting field. Bosley specializes in managing the financial and design aspects of large employer health and welfare benefit programs. She also specializes in public sector retiree medical design and funding issues. Bosley has experience in employee communications and international employee benefits.

Government Accounting Standards Board: What Its Exposure Draft Will Mean to State and Local Governments, and How It Could Affect Health Care Benefits

Nell Hennessy, President, Aon Fiduciary Counselors, Inc.

The Governmental Accounting Standards Board (GASB) has delayed issuance of new accounting and financial reporting standards for retiree benefits provided by governmental employers and their plans. The update on GASB standards was delivered by Nell Hennessy, a retirement consultant.

GASB's decision responds to concerns raised by several employee organizations whose representatives said that the standards under consideration would be too costly to administer for smaller jurisdictions and would overstate retiree liabilities, leading to elimination or substantial reductions in future benefits.

GASB staff has been working on the new rules for retiree benefits, Hennessy noted, for more than a decade. Although retiree health benefits are the major focus of the GASB standards, they will apply to all postemployment benefits other than pensions. These benefits are often referred to in accounting and actuarial circles as other postemployment benefits, or OPEB. When issued in final form, GASB's new OPEB standards will apply to both stand-alone retiree health and welfare plans and retiree health and welfare

benefits provided by public employee retirement systems and other governmental pension plans.

In 1990, the Financial Accounting Standards Board (FASB) issued similar standards for publicly traded companies and other private companies that prepare their financial statements in accordance with generally accepted accounting principles. In response, some employers imposed lifetime limits on retiree medical benefits, added retiree premiums for future or current retirees or increased the portion of the premium paid by retirees. Some employers eliminated retiree coverage for future retirees and some even eliminated coverage for current retirees.

GASB is a private nonprofit organization that establishes standards of financial accounting and reporting for state and local governmental entities. GASB standards guide the preparation of external financial reports of governmental entities that are used to demonstrate financial accountability to the public and to investors. The way in which information is required to be reported on the financials can influence legislative and regulatory decisions both directly (when, for instance an entity is required to fund all costs in the year they are accrued), and indirectly (through financial management reports).

In establishing its standards, GASB specifically evaluates similar standards established by FASB. However, GASB recognizes that there are differences between private employers and public entities. GASB also attempts to bring about changes in ways that minimize disruption of the accounting and financial reporting processes for governmental entities. Once issued by GASB, standards often become the yardstick by which public entities are measured for fiscal responsibility. Public policymakers will use the numbers generated by the standards to determine the cost of proposed changes.

Innovative Approaches in Responding to the Health Care Crisis

Sheldon L. Freilich, Director of Health Care Consulting

Carrie A. Olger, Health Care and Benefits Consultant

Gabriel, Roeder, Smith & Company

Collaborative efforts among public sector employee organizations, if properly structured, offer sound opportunities for cost saving, according to two leading health care consultants. Sheldon Freilich and Carrie Olger offered several examples of collaborative approaches that pursue value-based purchasing.

Collaborative efforts provide several benefits, notably a strong, unified voice when dealing with health care resources. The experience of several coalitions shows they have identified carriers with lower costs and better outcomes. Guaranteed service levels are another common benefit.

As one example, Freilich and Olger discussed the Michigan for Affordable Pharmaceuticals (MAP) Coalition. Comprised of Michigan employers, unions, and health care providers, MAP supports regulatory reforms that will help contain pharmaceutical costs while maintaining access and quality.

Another example discussed was the Michigan Health & Safety Coalition (MHSC). Comprised of Michigan health care plans, providers, employer and union groups, MHSC's core mission is to improve health care quality through cost-effective improvements in patient safety, including medical errors, across all health care settings. The coalition's initiatives have included studies of hospital physician order entry, hand-held prescribing technology, and creation of a Patient Safety Best Practices Conference.

Successful coalitions have several traits. Most important, the consultants say, is a strong commitment to the group.

About the Speakers

Sheldon Freilich is a recognized expert in the health care industry, with over 28 years of experience in the health and managed care industry, encompassing medical, pharmacy, behavioral health, disease management, dental and vision benefits. He has held executive positions in several managed care companies.

Carrie A. Olger's experience encompasses serving as the GRS Project Manager for the Michigan Public School Employees Retirement System (MPERS). Her primary responsibilities consist of coordinating and monitoring MPERS' health care strategic plan. The purpose of this plan is to improve the quality and manage the healthcare costs for the more than 400,000 members of the statewide retirement plan.