The Future of Public Sector Employer Health Benefits

Presented to NCPERS 2015 Healthcare Symposium by:

J. Richard Johnson
Senior Vice President,
National Public Sector Health Practice Leader
rjohnson@segalco.com

January 25, 2015
Public Employers/Employees Have Had It Easy

- Few, if any, Federal regulations governing public sector health benefit plans
- Benefits designs and employer subsidies have fattened over time in place of direct pay increases
- Hire to grave benefit promises
- Retirees are rated as part of overall group, so their base premium rates are understated to actual cost
- Employees and retirees are sheltered from having to make detailed choices among cost, coverage, networks, accessibility
- Management of benefits access and service steerage usually stops short of patient coercion
- No taxability issues for employers or plan members
What is the Future of Healthcare for Public Sector Employers?

Many changes in just a few years

- Affordable Care Act mandates
- State health marketplaces
- Continued technology and specialty drug development
- Expanded Medicare coverage
- Expanded Medicaid coverage
- Accountable Care Organizations
- Patient Centered Medical Home
- Private exchanges
Health Care Directions

**THEN**
- Inpatient
- General diagnoses
- Treating symptoms
- Invasive therapy
- General purpose drugs

**NOW**
- Outpatient
- Tested diagnoses
- Treating causes
- Non-invasive therapy
- Specialty drugs

**COMING**
- Non-patient
- Tracked diagnoses
- Preventing causes
- Preventive therapy
- Personalized drugs
### Health Benefit Insurance Directions

<table>
<thead>
<tr>
<th>THEN</th>
<th>NOW</th>
<th>COMING</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual Policies</td>
<td>Employer-sponsored health plans</td>
<td>Exchange driven insurance</td>
</tr>
<tr>
<td>Family doctor / managed care</td>
<td>Open Access managed care</td>
<td>Patient Centered Medical Home</td>
</tr>
<tr>
<td>Personal subsidy</td>
<td>Employer subsidy</td>
<td>Federal subsidy</td>
</tr>
<tr>
<td>Health benefits as a fringe</td>
<td>Health benefits as a right</td>
<td>Health benefits as a tax</td>
</tr>
<tr>
<td>Benefits risk assumption</td>
<td>Benefits risk management</td>
<td>Benefits risk avoidance</td>
</tr>
</tbody>
</table>

Copyright © 2015 by The Segal Group, Inc. All rights reserved.
The Playing Field Has Changed!

**Why it’s different now and for the future**

1. Health Care Reform places new and increasingly more stringent requirements onto public sector health plans.
2. The Federal Government is now a player in every state and local jurisdiction health plan.
3. Medicaid now impacts more employees and dependents.
4. Public employers have had to make significant changes to their health plan eligibility rules and/or workforce composition.
5. An individual now has the ability to buy individual insurance without pre-existing conditions outside of an employer health plan.
6. Public plans have a new competitor (*state marketplaces*) that may eventually be more cost effective for some groups.
The Floor – Federal law now mandates public sector employers and plans to provide a minimum level of benefits

The Ceiling – By 2018, the 40% Excise Tax imposes an effective maximum on pre-tax health benefits

- Increasing clamp on the richness of employer provided health benefits
- Combined with reduced health care spending account cap

The Delivery Vehicle – State health insurance marketplaces provide a new delivery vehicle for both individual and employer sponsored health insurance

- Standardized benefit levels will increasingly become the norm for defining health benefit choices
- Smaller private employers will ultimately use the SHOP exchanges as the most efficient way to offload health benefit administration as a required employment tax

The Safety Net – Medicaid is now a factor for lower paid employees and their dependents, as well as for retirees
No longer just “How well can we manage health plan costs?” but now “How long can we keep doing what we’ve been doing?”

How can we maximize federal and state subsidies for health benefits to ease our own budgetary issues?

How do we deal with new “full-time” employees eligible for health benefits? Do we fund them, accommodate them, or manage them out of the plan?

How will we attract new employees who are settled into health exchange coverage and no longer consider health benefits an employment motivator?

How will we trim benefits for actives and retirees to avoid excise tax penalties?
How tightly should we manage prescription drug benefits?

- Specialty drugs and high cost designer drugs will ultimately drive plan costs.
- At some point Rx costs will exceed medical costs.
- How aggressively will we limit the number and type of drugs our participants can access?
How can we maintain generational equity and balance among stakeholders when large numbers of Baby Boomers are flooding the promised retiree health benefit plans?

How will we realign our retiree health benefit promises to send the right message for the future?

- Social Security Normal Retirement Age continues to increase
- Public sector retirement and health benefit plans encourage early retirement
- Economic needs encourage longer service just to keep subsidized health benefits
- Early retirees can now qualify for subsidies on the state health exchange even if eligible for employer plans
And Don’t Forget the Environmental Factors

- The population keeps aging (Older = Sicker = Costlier)
- The cost of health care keeps rising faster than inflation
- Life expectancy is still increasing
- More seniors are having to go back to work to make ends meet, even with retirement benefits
The Need to Change Your Philosophy

- Change requires stress and trauma
- Fiscal stress will drive funding changes
  - Health benefit cost is a fast growing budget item
  - Balancing cost among key groups of employees and retirees
  - Maximizing federal and state level subsidies
  - Eliminating GASB OPEB liabilities once they affect the balance sheet
- Private sector employer philosophy will drive changes in public sector benefits
  - Benefits and subsidies will increasingly be aligned to minimum ACA compliance requirements
  - Defined contribution will become the primary approach for health benefit subsidies
  - Gap benefits will increase – employer offers non-health and voluntary benefits to make up for reduction of health benefits funding and benefit levels
The Need to Change Your Philosophy  

- Hire to grave health benefits mentality will have to change
  - Fiscal realities will limit generous retiree health benefit programs
  - Focus on addressing differing needs of employee and retiree cohorts
  - Corridor management – benefits / cost / taxability / compliance

- A part of the greater good
  - Eventual annexation of state and local jurisdiction employee health plans into the state exchanges
  - Ignore until it comes or take action to provide exchange options at an earlier date?

- Staying competitive when health benefits are provided through (or measured against) the state health exchange offerings
  - Maximizing federal subsidies and Medicaid
  - Gap benefits – non-health and voluntary
Looking Forward
Looking Forward – What to Expect

- Continued political pressure to reduce pre-tax treatment for health benefits that exceed the corridor between mandates and excise tax
- Growing public stakeholder demand to maximize subsidies from other entities before spending budget dollars or raising taxes
- Increased employer risk and cost for maintaining a separate self-funded health benefit plan
- Reduced concern about owning the plan; increased concern about complying with federal requirements
- Changing employee attitudes and expectations
- Increased employee/retiree choice through outside programs (exchanges, Medicare, etc.)
- Increased level of concern about potential for retirees to drain resources needed for active employees
Some Predictions: *In 10 Years or Less...*

- A majority of employees in the US workforce will be covered by health insurance through an exchange.
- Many persons applying for work with public jurisdictions will have been covered by health insurance through an exchange either individually or in their previous private sector employment.
- New hires will expect to be able to keep their exchange coverage and merely change the source of funding.
- Employer health benefit subsidies will be on a defined contribution basis (fixed dollar amount or fixed percent of pay).
- Public sector employers will be health plan facilitators, not health plan sponsors; health insurance will no longer be an employer risk.
- Private employers will offer supplemental benefits to attract qualified employees. Public employers may have to follow suit to stay competitive.
Health Reform Resources

On the Segal Website:

Health Care Reform Timeline

Health Care Reform Insights

Stat!

Bulletins

Public Sector Letters

Webinar recordings and slides

Health Reform Resources:
http://www.segalco.com/publications-and-resources/health-care-reform/