Contra Costa County – Health Insurance Plan Design Options

March 11, 2015

buckconsultants

xerox

Presentation of the Buck Report on Health Insurance Options for Contra Costa County

- Medical Cost Trend Background
- County Plan Fragmentation
- County Tier Structure
- Partner Insurers' Plan Offerings & Pricing
- Impactful Plan Design – Cost Drivers
- ACA Excise Tax – Cadillac Tax

Medical Cost Trend Background

- Health (Medical and Prescription Drug) Care Trend
  - Impacts all plans – not controlled by employer groups
    - Higher than Consumer Price Index (CPI) – because it includes CPI
    - Includes cost for new technology, aging population, use of more expensive treatments and drugs, mandates from both state and federal levels
    - Federal impact largely due to Affordable Care Act (ACA) implementation
  - Starting point for health insurers' renewal calculations
  - Individual health insurer's business also contributes to cost – financial investments and risk, provider network contracting, geographic market factors
- 2014 Q2 Buck National Health Care Trend Survey Findings
  - Medical = +8.5% to +8.7% for HMO, PPO & High Deductible Health (HDHP) plan designs
  - Prescription Drug (Rx) = +4.1% if Pharmacy Benefit Manager (Rx only) or +9.2% if part of a health insurer
  - Medical has trended down – single digits since 2012
  - Rx has trended up and down – higher than medical since 2013

Medical Cost Trend Background

- Utilization Impact on Trend
  - For larger plans, claim utilization impacts renewal calculation
  - Claims cost compared year over year
    - Fluctuation in utilization difficult to monitor/manage
    - Need significant reduction in claims to offset trend impact
  - Fragmentation/shift in enrollment impacts utilization comparison
- Legislation Impact
  - Component for ACA and state mandates (autism & transgender) added after renewal calculation – insurers view as add on fee/tax
  - Recent ACA cost impact has not been timely – released after renewal is provided
  - Has expanded plan design features and cost (essential benefits & taxes/fees)

County's Plan Fragmentation Increases Costs

- CalPERS Component
  - Plan design is not under County's control
  - Of the over 12,000 participants covered by the County, 17% are enrolled in CalPERS
- Medicare Retiree Component
  - Medicare plans subject to Centers for Medicare & Medicaid Services (CMS) guidelines and impacted by CMS reimbursement levels
  - Medicare population is roughly 26% of County's covered population – no claim utilization experience provided and little flexibility available in plan designs
- Remainder of Covered County Active and Pre-Medicare Retirees
  - The remaining 53% of participants are divided among three insurer partners – CCHP (3,512), Kaiser (2,448) & Health Net (925) with eight plan options
  - Two HMO offerings for each insurance vendor plus two PPO plans
  - Result: economies of scale impact is reduced for utilization claim management and renewal leverage, thus driving higher plan costs

Note: All enrollments are based on census data used for 2015 renewal

County Tier Structure

- County's Current Plan Design is Based on Two Tier Structure
  - Employee only or employee plus family
  - Other employers increasingly offer three tier or four tier structures – Additional structures to differentiate number of dependents or spouse only and children only coverage
  - Implementation of different number of tiers does not result in change to insurers needed total premium – it changes contribution split
- Rationale for Growth in Multiple Tiers
  - Introduction and increase in employee contribution amounts – transition from subsidization by one dependent families for larger families
  - Increase in dual earner/medical coverage family composition as well as non-traditional family composition growth – means dual coverage no longer as common
  - ACA legislation – required child coverage to age 26 – many employers added another tier at that point to offset potential cost increase

Partner Insurers' Plan Offerings & Pricing

- Assumptions
  - Requested similar HMO options from all three health plans – CCHP, Kaiser & Health Net as follows:
    - A plan design option that closely matches current Kaiser Plan B - $500 deductible ($1,000 family), $20 office visit copay, 10% cost share for hospitalization, $10 copay generic Rx and $20 Brand Rx.
    - A High Deductible Health Plan (HDHP) option - $1,500 deductible applied to all but preventive care, which is paid in full. Allows participants to set up their own Health Savings Account to pay for deductible and other medical care needs. We assume 10% of the current Kaiser & Health Net population enroll in this plan for example purposes.

Partner Insurers' Plan Offerings & Pricing

- Assumptions
  - Pricing assumes each vendor replaces all active/pre-Medicare HMO and PPO plans with the new plan design– it does not include non-impacted CalPERS plans
  - Medicare enrollment is not included
  - CCHP's responses were limited by the structure of their health plan. CCHP cannot offer a HDHP with a HSA. CCHP can only offer copays of $25 for Emergency Room (ER), $10 for generic Rx and $20 for brand Rx. CCHP advised that pricing of this option would not be available at this time, therefore, they are not included in the financial cost estimates

Note: All estimated costs provided are based on enrollment shown in the census from 2014 used for the 2015 renewal and based on the above assumptions and instructions both verbal and written from Contra Costa County. They are reflective only of potential 2016 cost impacts. They are estimated to show the relationship between plan design costs and not the actual costs which are not yet known.

Partner Insurers' Plan Offerings & Pricing

- Assumptions (continued)

  - The below estimated summary is based on a 3-tier rate structure assuming current contribution. Costs are based on 2016 estimates from Kaiser and Health Net and do not take into consideration CCHP enrollment or enrollment shifts or plan selection. All participants would enroll in the Plan B design offered and 10% of that number would enroll in the HDHP option if offered

Active & Pre-Medicare Retirees	Premium Impact	Employee Impact	County Impact
Current 2015	$61,145,531	$23,675,291	$37,470,240
Option 1 Plan B; 3-tier	$56,330,132	$18,859,891	$37,470,240
Option 1 Estimated Savings	-7.9% -$4,815,399	-20.3% -$4,815,399	0% $0
Option 2 Plan B & HDHP; 3-tier	$55,947,491	$18,477,250	$37,470,240
Option 2 Estimated Savings	-9.1% -$5,198,040	-22.0% -$5,198,040	0% $0

Note: All estimated costs provided are based on enrollment shown in the census from 2014 used for the 2015 renewal and based on the above assumptions and instructions both verbal and written from Contra Costa County. They are reflective only of potential 2016 cost impacts and do not include the final 2016 rate impacts. They are estimated to show the relationship between plan design costs and not the actual costs which are not yet known

Impactful Plan Design – Cost Drivers

- Addition of Cost Share Features Should Incent Thoughtful Use of Health Care
  - Plan design should encourage use of low cost alternatives, not avoidance until significant health problems occur
  - Making changes that impact more than one year's costs is key – controlling the cost of health insurance requires continuous monitoring of insurance trends and making corresponding changes to plan designs or plan offerings based on emerging opportunities
  - Features that increase cost for emergency room over urgent care or office visits, surgery at outpatient facilities over surgery centers, generic Rx use over brand name and specialty Rx management are examples of impactful longer term cost drivers
  - Education of plan participants is key to reducing costs over the long term – wellness programs, prevention efforts and chronic disease management can play an important role in the thoughtful use of health care
- Qualified High Deductible Health Plan Design (HDHP)
  - Allows active/pre-Medicare Retirres to fund with a Health Savings Account, which is owned by them
  - Encourages wiser use of health care services due to cost share – HOWEVER…
  - Education and engagement of participants is key to insuring the right level of services are received – and required care isn't avoided to save costs

ACA Excise Tax (Cadillac Tax) Consideration

- Implementation of the Cadillac Tax Begins in 2018
  - Impacts active plans with annual single premium of $10,200 and family premium of $27,500
  - Excise tax of 40% applies to any premium amount above this threshold. Thresholds to be indexed in future years
  - No consideration of who pays premium (employer or participant) in threshold level
  - Threshold is slightly higher for retirees at $11,850 and $39,500 respectively
- County Projected Impact
  - Based on annual estimate of 8% increase to current premiums, all current County plans except Kaiser Plan B and CCHP Plan A will be subject to excise tax in 2018
  - Total estimated cost impact for 2018 based on 8% increase assumption is $5.2 million
  - Final Cadillac Tax guidance expected this summer – comment period until May 15th

©2014 Xerox Corporation and Buck Consultants, LLC. All rights reserved. Xerox® and Xerox and Design® are registered trademarks of Xerox Corporation in the United States and/or other countries.
Buck Consultants® is a registered trademark of Buck Consultants, LLC in the United States and/or other countries.