

State of Ohio

School Pooling of Health Care Benefits

Board Discussion

February 22, 2006



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Today's Discussion

- Review of Watson Wyatt assessment of State of Ohio assumptions and Watson Wyatt initial report
- Workplan to assist the State with feasibility study
- School district data collection – Questionnaire
- Marketplace data collection – Questionnaire
- Survey/discussion with other states
- Report of findings





Assessment of State of Ohio Assumptions

Background

- Watson Wyatt requested by State of Ohio (The State) to assess its assumptions in projecting potential savings of a statewide health care pool for K through 12 employees
- Pool would potentially include 600+ districts, and 300,000+ active employees
- Retirees would continue to be provided benefits through State retirement systems
- Some purchasing consortiums in place currently – generally range from several hundred to several thousand employees





Assessment of State of Ohio Assumptions

Background (continued)

- Individual districts and small to mid-sized purchasing consortiums create significant administrative inefficiencies
 - Purchasing
 - Funding / risk sharing
 - Day-to-day administration
 - Employee communication
- School districts are faced with increasing benefit plan costs
 - \$3 Billion in aggregate costs
 - \$9,700+ per employee
- Expected to continue to increase at 8% to 10% per year. As individual districts, and/or small to mid-sized consortiums, limited ability to implement comprehensive programs to control and moderate costs and cost increases





Assessment of State of Ohio Assumptions

Current Program Costs

- State assumed an annual cost for medical and pharmacy benefits of \$8,040 for FY05
 - OEA 2004 survey data – monthly cost \$313 per single and \$719 per family for FY04
 - 33% single and 67% family enrollment
 - 14.5% annual trend
- Watson Wyatt estimates cost of \$9,084 for FY05 – 13% higher than State's estimate
 - OEA 2005 survey data - \$351 per single and \$892 per family for FY 05 (certified employees)
 - 25% single and 75% family enrollment
 - Rich level of benefits
 - Relatively low employee contributions





Assessment of State of Ohio Assumptions

Administration Cost Assumptions

- State estimates approximately \$70 per employee per month (PEPM) for administrations costs
 - Claim adjudication
 - Network access
 - Customer service
 - Risk charges
 - Stop loss charges
- State believes a \$20 PEPM administration charge would be appropriate for a “mega” group of 300,000+ employees
 - Estimated annual savings of \$186 Million





Assessment of State of Ohio Assumptions

Administration Cost Assumptions (continued)

- Watson Wyatt concurs that an average PEPM administrative charge in the range of \$18 to \$23 is appropriate. Such charge based on:
 - 3 to 4 Common Plan Offerings
 - 2 to 3 Administrators
 - Self-Insured Funding Arrangement
 - Claim Administration
 - Network Access Fees
 - Customer Service
 - Exclusion of Stop Loss Insurance, Commissions, External Consulting, etc.





Assessment of State of Ohio Assumptions

Administration Cost Assumptions (continued)

- Assuming a ramp up enrollment, Watson Wyatt estimates the following potential savings in the first four years of the program

	Employees Enrolled	Low-End Reduction	High-End Reduction	Cumulative Reduction
Year 1	103,000	\$ 59,328,000	\$ 108,768,000	\$ 59,328,000 to \$ 108,768,000
Year 2	206,000	\$ 118,656,000	\$ 217,536,000	\$ 177,984,000 to \$ 326,304,000
Year 3	309,000	\$ 177,984,400	\$ 326,304,000	\$ 355,968,000 to \$ 652,608,000
Year 4	309,000	\$ 177,984,400	\$ 326,304,000	\$ 533,952,000 to \$ 978,912,000





Assessment of State of Ohio Assumptions

Potential Administration Cost Assumptions

- Health improvement and disease management programs will be critical in changing employee behavior and controlling costs
- Additional costs of such programs could be in range of \$10 to \$12 per month
- Adjusted for inclusion of health improvement and disease management program, Watson estimates the following potential savings in the first four years of the program

	Employees Enrolled	Low-End Reduction	High-End Reduction	Cumulative Reduction
Year 1	103,000	\$ 44,496,000	\$ 96,408,000	\$ 44,496,000 to \$ 96,408,000
Year 2	206,000	\$ 88,992,000	\$ 19,816,000	\$ 133,488,000 to \$ 289,224,000
Year 3	309,000	\$ 133,488,400	\$ 289,224,000	\$ 266,976,000 to \$ 578,448,000
Year 4	309,000	\$ 133,488,400	\$ 289,224,000	\$ 400,464,000 to \$ 867,672,000

- Return-on-investment of 1:1 to 3:1 can be expected from comprehensive health improvement and disease management programs





Assessment of State of Ohio Assumptions

External Consulting Assistance and Start-Up Costs

- The State has assumed external consulting assistance of \$1.1 million to \$2.0 million for start up costs
 - Strategic planning
 - Data collection
 - Requests for Proposal (RFP)
 - Actuarial
- Start-Up costs are reasonable, however, need to add additional funding of \$400,000 to \$700,000 for
 - Implementation assistance
 - Employee communications
 - HMO RFP, if appropriate





Assessment of State of Ohio Assumptions

First Year Operation Costs

- State estimates costs of \$304,000 to \$518,000
- Need to include
 - Data management
 - Employee communications
 - Additional staff
 - Legal assistance
 - Actuarial
 - Strategic planning
 - Enrollment/eligibility/management
- Therefore, we estimate annual operating costs, in addition to administration fees, could be in the \$1.5 million to \$2.0 million range





Additional Considerations

- Maintenance of reserves for incurred but unpaid claims
- Funding of deficits – particularly in early years of program
- Individual districts that cannot exit current self-funded arrangements due to lack of cash to fund run-out liability
- Potential premium tax loss to State from districts currently in insured arrangements
- Winners and losers on a year-to-year basis
- Plan, network and administration structure
 - Limited plan designs
 - Regional versus statewide networks and administrators
 - Eligibility
 - Membership requirements
- Pricing structures and risk sharing
 - Statewide
 - Regional
 - By District





Workplan and Timeline

Key Work Steps and Dates

- Initial Board meeting February 22, 2006
- School district data collection
 - Survey released to schools March 20, 2006
 - Responses due to Watson Wyatt April 7, 2006
- Marketplace network data collection
 - Request for information released March 20, 2006
 - Responses due to Watson Wyatt April 7, 2006
- Review and validation of data April 7 – April 28, 2006
- Analysis of data April 28 – May 19, 2006
- Develop report of findings May 19 – June 5, 2006





School District Data Collection

- Information collected from schools via internet-based survey tool
- Survey elements to include
 - Demographic data, including family status, gender, age, and ZIP code of residence
 - Summary of plan design coverage provisions for the top three most prevalent plans
 - Name of current medical and pharmacy benefits administrator
 - Name of current managed care network
 - Indication of participation in a school district consortium, including name of consortium





School District Data Collection

- Survey elements to include *(continued)*
 - Demographic data, including family status, gender, age, and ZIP code of residence
 - Summary of plan design coverage provisions for the top three most prevalent plans
 - Name of current medical and pharmacy benefits administrator
 - Name of current managed care network
 - Indication of participation in a school district consortium, including name of consortium
 - Funding arrangement (fully insured, minimum premium, self-insured, etc., including stop-loss deductibles and reserve balances for incurred but not yet reported claims)
 - Health improvement and wellness benefit offerings currently in place





School District Data Collection

- Survey elements to include *(continued)*
 - COBRA rates
 - Employee contributions
 - High-level claim experience, for a defined 24-month period
 - Administration, stop-loss and commission expenses for 24-month period
 - Plan enrollment for 24-month period
 - Payroll/HRIS system
 - How initial and ongoing enrollment/eligibility is collected and handled (paper, web-based, etc.)
 - How employee service is provided (self-service, school district personnel, centralized support, etc.)
 - Eligibility reporting, premium reporting





Marketplace Data Collection

- Distribute request for information (RFI) to select managed care networks, operating in Ohio, to determine
 - Provider quality
 - Number of providers and service areas
 - Level of network discounts
 - Ability to coordinate with high-deductible plans that are health savings account eligible
 - Availability of other potential differentiators and networks' interest in a competitive bidding process
- Information used in consideration of establishing regions and network size
- Workplan does not anticipate a review of third-party administrators, that adjudicate the benefit plans and provide customer service





Survey of States

- Identify other statewide school district purchasing programs across the U.S
- Employ resources of Watson Wyatt's Research and Information Center to review prior statewide benefit implementations, past and pending legislation, and other documents discussing statewide consolidation
- Supplement Research and Information Center resources with use of Group and Health Care consultants throughout the U.S. to identify their experiences and knowledge with such initiatives
- Contact up to ten State administrators and conduct phone conferences with each to discuss their experiences with statewide school district purchasing programs
- Scope does not include commenting on, or challenging the analysis of findings by, any third party hired by other states





Report of Findings

- Establishment of regions for the provisions of medical plans, including potential regions and advantages and disadvantages of a regional approach. Also consider the appropriateness of regional versus statewide pricing structures.
- Use of regional preferred provider and closed panel plans, health savings accounts, and alternative medical plans, to stabilize costs and premiums charged. Provide a framework of a recommended plan structure including consideration of health and disease management programs.
- Development of a system to obtain eligibility data and data compiled pursuant to COBRA. (Our assistance does not include an RFP for or design of such a system.)
- Requesting competitive proposals for the administration of regional and/or statewide medical plans for the school purchasing program. Will include a list of administrators and/or networks that may be included in the RFP process. (The scope of initial project does not include the RFP process.)





Report of Findings

- Development of an implementation timeline, planning for the design and use of board medical plans by no later than December 31, 2007
- Use of information on claims and costs, and of information reported by districts pursuant to COBRA, in analyzing administrative and premium costs. Provide estimate of the administrative savings that may be realized through the purchasing program.
- Experience of other states that have implemented statewide programs and the implementation strategies of those states
- Allowing schools to continue to participate in, or join in the future, a regional consortium as an alternative to the State's program
- Discuss requirements relative to the entrance to or termination from the statewide program (to control adverse selection to the plan)





Report of Findings

- Mandatory and optional coverages to be allowed through the State's program-health and welfare programs, as well as other nontraditional benefit programs
- Risks to the State of a statewide school purchasing program, and alternatives to minimize the risks to the State, and participating schools
- Topics to be included and addressed within legislation needed to establish and maintain the statewide plan and to ensure the long-term financial solvency and stability of the program. (Watson Wyatt cannot draft legislation or provide legal advice related to it, but will suggest topics for inclusion.)
- Potential impacts of changes from the schools' current structure to the statewide program on:
 - Existing health care pooling and consortiums
 - School district employees
 - Individual school districts





Report of Findings

- Favorable and adverse issues in areas of
 - Benefit design
 - Funding, cost
 - Administration
 - Communications
 - Access to providers
- Implementation issues, and how to minimize any adverse impact of transitioning school districts from their current purchasing structure to the statewide program
- Reserve funding, strategies for transitioning from district medical plans to school purchasing, and the need for individual claim and/or aggregate stop-loss insurance





Next Steps

- Finalize school district and marketplace survey documents
- Distribute survey documents
- Select states to discuss pooling experiences
- Gather data
- Draft report

