

TAX REFORM

Does Cutting Taxes Mean Cutting Benefits?

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What has Tax Reform Meant to Your Organization?

- ▲ Budget cuts – 3%–5% of entire budget
- ▲ Employee lay offs
- ▲ Affect on merit and COLA increases in pay
- ▲ Impact on Parks and Recreation facilities
- ▲ Cancelling of special projects
- ▲ Conferences, training and continuing education
- ▲ Did you cut your benefits?

Influences on Benefit Decisions

- ▲ Taxpayer watch groups
- ▲ Elections / Politics
- ▲ Comparability of your current schedule of benefits
- ▲ Comparability of your entire benefits package (including salary, retirement, etc.)
- ▲ Increases in benefit costs over prior years

Insurance Lingo

▲ Fully Insured Plan:

A health plan under which an insurer bears the financial responsibility of guaranteeing claim payments and paying for all incurred covered benefits and administration costs in return for a pre-determined premium.

▲ Self Insured Plan:

A health plan under which an employer, rather than an insurance company, is financially responsible for paying plan expenses, including claims made by group plan members.

▲ ASO (Administration Services Only):

The contract between an employer and a third party administrator.

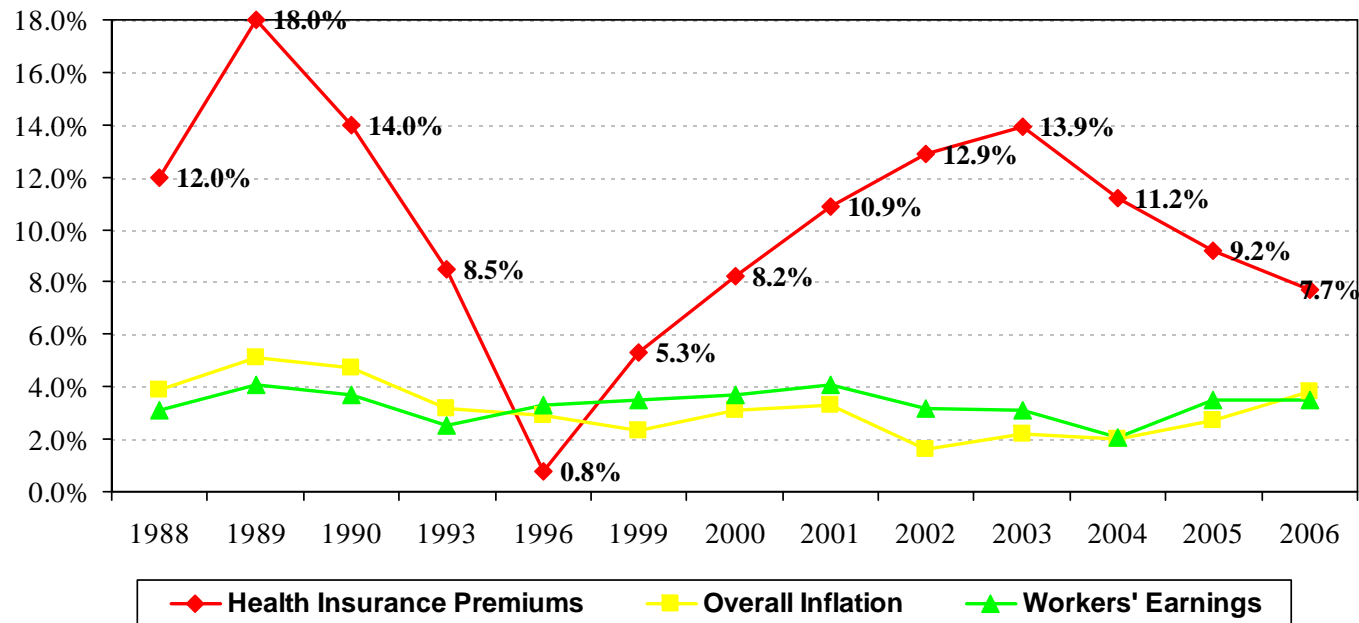
▲ Stop-loss Insurance (Reinsurance):

Enables self-funded groups or provider organizations to place a dollar limit on their liability for paying claims. The insurer reimburses the insured organization for claims paid in excess of a specified yearly maximum.

Insurance Lingo

▲ Trend = Healthcare Inflation

Increases in Health Insurance Premiums Compared to Other Indicators, 1988-2006



▲ Loss Ratio = Claims / Premium

Example: \$800,000 claims / \$1,000,000 premium = 80% Loss Ratio

CASE STUDIES

	Market Size	# of Employees	Type of Entity	Funding Method	Carrier/Administrator
Example 1	Large Group	1,500	County	Fully Insured	Incumbent: BCBS Renewal: Aetna
Example 2	Large Group	1,800	Municipality	Fully Insured	Incumbent: UHC Renewal: Humana
Example 3	Large Group	1,200	County	Self Insured	Incumbent: BCBS Renewal: BCBS
Example 4	Large Group	1,050	Municipality	Fully Insured	Incumbent: BCBS Renewal: BCBS
Example 5	Middle Market	105	Municipality	Fully Insured	Incumbent: BCBS Renewal: BCBS
Example 6	Middle Market	120	Municipality	Fully Insured	Incumbent: Aetna Renewal: Aetna
Example 7	Middle Market	120	Municipality	Fully Insured	Incumbent: UHC Renewal: UHC
Example 8	Middle Market	85	Municipality	Fully Insured	Incumbent: BCBS Renewal: BCBS
Example 9	Middle Market	110	Special Taxing District	Fully Insured HDHP with HSA	Incumbent: UHC Renewal: UHC
Example 10	Middle Market	225	Municipality	Fully Insured	Incumbent: UHC Renewal: UHC
Example 11	Small Group	30	Municipality	Fully Insured	Incumbent: Aetna Renewal: BCBS

Case # 1:

Number of Employees: **1,500**
 Type of Entity: **County**
 Funding Arrangement: **Fully Insured**

Background information:

- Active health insurance committee
- Incumbent carrier: BC&BS (\$15 million annual premium)
- No health insurance rate increase for 4 years
- Triple option: High Option HMO, Basic HMO, PPO
- Loss ratio through June-2007 = 102%
- Commission voted to eliminate \$0 cost option and impose \$25 cost on Low Option Plan in anticipation of budget cuts.

QUESTION: Did this group:

A. Go to bid in anticipation of a high renewal and tax cut concerns.

B. Negotiate renewal with current carrier due to high employee satisfaction.

C. Decide to self-fund their health plan.

Case # 1:

Number of Employees: 1,500
Type of Entity: County
Funding Arrangement: Fully Insured

ANSWER: Did this group:

A. Go to bid in anticipation of a high renewal and tax cut concerns.

B. Negotiate renewal with current carrier due to high employee satisfaction.

C. Decide to self-fund their health plan.

Result:

- BC&BS renewal – 36%
- Aetna proposal – 16% (\$2 million difference)
- Why not self-fund?

Case # 2:

Number of Employees: **1,800**
 Type of Entity: **Municipality**
 Funding Arrangement: **Fully Insured**

Background information:

- Active health insurance committee
- Incumbent carrier: United Healthcare (\$15 million annual premium)
- Initial renewal increase: 12% - Committee decided to bid
- 0% budgeted for health insurance increase due to budget uncertainty and that the City had absorbed over \$1 million in increases over prior three years
- Loss ratio at time of bid: 81.5%

QUESTION: What did the insurance committee recommend?

A. Renew with incumbent due to high employee satisfaction and accept cost increase.

B. Switch to alternate carrier (Humana) due to cost savings.

C. Decide to self-fund their health plan.

Case # 2:

Number of Employees: **1,800**
 Type of Entity: **Municipality**
 Funding Arrangement: **Fully Insured**

ANSWER: What did the insurance committee recommend?

A. Renew with incumbent due to high employee satisfaction and accept cost increase.

B. Switch to alternate carrier (Humana) due to cost savings.

C. Decide to self-fund their health plan.

Result:

- Bid finalists included:

<u>United Healthcare</u> 8% increase with reduced benefits	<u>Humana</u> 1.7% increase matching current benefits
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- Committee recommended renewing regardless of lesser benefits and higher cost
- City Council selected the lowest bidder, Humana, and increased contribution toward employee cost
- Impact on union relationships and insurance committee

Case # 3:

Number of Employees: **1,200**
 Type of Entity: **County**
 Funding Arrangement: **Self Insured**

Background information:

- Anticipated \$6 million in tax cuts to entire budget
- Located in rural area – limited network options
- Current employer contribution ratio: 75/25 (Employer/Employee)
- Staff decided to make plan changes to impact claims by \$900,000
- Insurance committee did not agree with all plan change recommendations
- Staff then met with committee to come to a compromise

QUESTION: What was the compromise?

A. Added High Deductible Health Plan (HDHP) option that would be at no cost to employee.

B. Implement a portion of the plan changes proposed by Staff.

C. Commissioners decided to renew the plan as is and requested to make budget cuts elsewhere.

Case # 3:

Number of Employees: 1,200
 Type of Entity: County
 Funding Arrangement: Self Insured

ANSWER: What was the compromise?

A. Added High Deductible Health Plan (HDHP) option that would be at no cost to employee.

B. Implement a portion of the plan changes proposed by Staff.

C. Commissioners decided to renew the plan as is and requested to make budget cuts elsewhere.

Result:

- Committee agreed to implement a portion of the plan changes in 2008 (projected savings: \$600,000)
- Group able to find additional savings by implementing an electronic enrollment and administration system

Case # 4:

Number of Employees: **1,050**
 Type of Entity: **Municipality**
 Funding Arrangement: **Fully Insured**

Background information:

- Incumbent carrier: BC&BS (\$9.5 million annual premium)
- Loss ratio as of July-2007: 83.3%
- Schedule of benefits include \$5 O.V. copay and \$0 hospital inpatient
- Decided not to bid if proposed renewal was within budget – 11%
- Entity under scrutiny of a “taxpayer watch group”

QUESTION: What was the initial renewal proposal from BC&BS?

A. 6%

B. 11%

C. 24%

Case # 4:

Number of Employees: **1,050**
 Type of Entity: **Municipality**
 Funding Arrangement: **Fully Insured**

ANSWER: What was the initial renewal proposal from BC&BS?

A. 6%

B. 11%

C. 24%

Result:

- BC&BS submitted 24% renewal increase
- Formal RFP released to insurance market
- Finalists included:

<p><u>BC&BS</u> 6.3% increase with slightly higher O.V. copays</p>	<p><u>Aetna</u> 6% increase matching current benefits</p>	<p><u>United Healthcare</u> 8% increase matching current benefits</p>
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- Group renewed with BC&BS

Case # 5:

Number of Employees: **105**
 Type of Entity: **Municipality**
 Funding Arrangement: **Fully Insured**

Background information:

- Incumbent carrier: BC&BS (\$900,000 annual premium)
- Budgeted amount for health renewal increase was 0%
- Reviewed various plan changes and carrier options
- Proposed renewal: 28%

QUESTION: What did group do?

A. Bid plan and switch to alternate carrier at 10% increase.

B. Renew current plan with no plan changes at 28%

C. Implement High Deductible Health Plan (HDHP) at 0% cost increase.

Case # 5:

Number of Employees: **105**
 Type of Entity: **Municipality**
 Funding Arrangement: **Fully Insured**

ANSWER: What did group do?

A. Bid plan and switch to alternate carrier at 10% increase.

B. Renew current plan with no plan changes at 28%

C. Implement High Deductible Health Plan (HDHP) at 0% cost increase.

 **Result:**

- Accepted 28% renewal
- After analyzing entire benefits package, they discovered that theirs was least competitive in local area
- Revisited budget

Case # 6:

Number of Employees: **120**
 Type of Entity: **Municipality**
 Funding Arrangement: **Fully Insured**

Background information:

- Incumbent carrier: Aetna (\$1.3 million annual premium)
- Loss ratio: 115%
- 0% budgeted due to anticipated tax cuts
- Initial renewal 20.7% - Group went to bid
- All carriers declined to quote except United Healthcare who proposed an increase of 7.5% with lesser benefits
- Aetna matched lesser benefit plan but still imposed increase of 14.7%
- Staff recommended carrier change due to budget constraints

QUESTION: What was final vote by City Council?

A. Renew with Aetna with plan changes at 14.7%

B. Renew current plan with no plan changes at 20.7%

C. Switch to United Healthcare at 7.5% increase.

Case # 6:

Number of Employees: 120
 Type of Entity: Municipality
 Funding Arrangement: Fully Insured

ANSWER: What was final vote by City Council?

**A. Renew with Aetna with
 plan changes at 14.7%**

**B. Renew current plan with
 no plan changes at 20.7%**

**C. Switch to United
 Healthcare at 7.5%
 increase.**

Result:

- Staff recommended carrier change
- City Council voted to renew at the 20.7% increase with Aetna

Case # 7:

Number of Employees: **120**
 Type of Entity: **Municipality**
 Funding Arrangement: **Fully Insured**

Background information:

- Incumbent carrier: United Healthcare (\$900,000 annual premium)
- Plan year begins July 1st
- Proposed renewal 11.5% - 07/08 budget not yet finalized
- They renewed knowing that the finalized budget would determine the extent of any required plan changes
- Very satisfied with UHC – did not want to bid/switch

QUESTION: What happened for October 1st budget year?

A. Moved plan anniversary date to 10/1 and absorbed whole increase

B. Kept anniversary date at 7/1 and absorbed whole increase

C. Made plan changes to meet finalized 10/1/07 budget figure of 7%

Case # 7:

Number of Employees: **120**
 Type of Entity: **Municipality**
 Funding Arrangement: **Fully Insured**

ANSWER: What happened for October 1st budget year?

A. Moved plan anniversary date to 10/1 and absorbed whole increase

B. Kept anniversary date at 7/1 and absorbed whole increase

C. Made plan changes to meet finalized 10/1/07 budget figure of 7%

Result:

- Made plan changes resulting in overall increase of 6.7%
 - Increased Out of Pocket Max from \$1,000 to \$1,500
 - Increased Emergency Room Visit from \$75 copay to \$100 copay
 - Added 10% coinsurance to hospital services

Case # 8:

Number of Employees: **85**
 Type of Entity: **Municipality**
 Funding Arrangement: **Fully Insured**

Background information:

- Incumbent carrier: BC&BS (\$550,000 annual premium)
- 12% budgeted for renewal increase
- Group made plan changes every year for the past four years due to high losses
- Rural area – limited network options
- Initial renewal: 26%

QUESTION: What was the final outcome of negotiations?

A. Group implemented High Deductible Health Plan with partially funded HRA at 5% cost increase

B. Group accepted 26% increase and absorbed 12% of the increase

C. Carrier conceded to 12% increase with no plan changes

Case # 8:

Number of Employees: **85**
 Type of Entity: **Municipality**
 Funding Arrangement: **Fully Insured**

ANSWER: What was the final outcome of negotiations?

A. Group implemented High Deductible Health Plan with partially funded HRA at 5% cost increase

B. Group accepted 26% increase and absorbed 12% of the increase

C. Carrier conceded to 12% increase with no plan changes

Result:

- Group was able to negotiate an acceptable increase within budget

Case # 9:

Number of Employees: 110
 Type of Entity: **Special Taxing District**
 Funding Arrangement: **Fully Insured/HSA with HDHP**

Background information:

- Incumbent carrier: United Healthcare
 - \$850,000 annual premium for High Deductible HSA qualified health plan
 - \$150,000 HSA employer funding
- Group implemented HDHP plan with HSA on January 1, 2006
- Initial renewal proposal: 18%
- Group initiated formal RFP process
- Finalist negotiations resulted in 12% increase for UHC to retain group

QUESTION: What is the net cost/(savings) of the 2008 HDHP/HSA plan cost in comparison to their 2006 traditional plan renewal?

A. 0%

B. -5%

C. 20%

**Calculations assume current enrollment.*

Case # 9:

Number of Employees: 110
 Type of Entity: Special Taxing District
 Funding Arrangement: Fully Insured/HSA with HDHP

ANSWER: What is the net cost/(savings) of the 2008 HDHP/HSA plan cost in comparison to their 2006 traditional plan renewal?

A. 0%

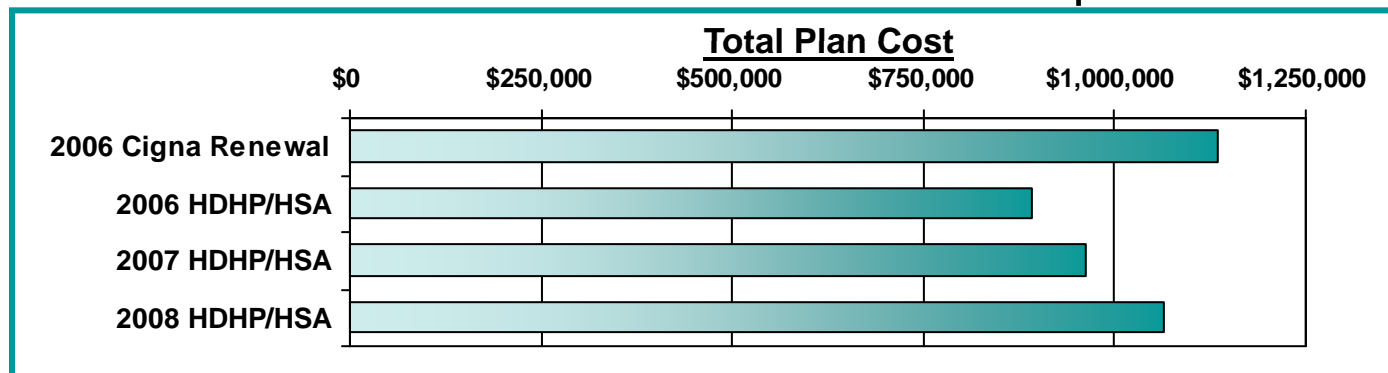
B. -5%

C. 20%

**Calculations assume current enrollment.*

Result:

- Finalist negotiations resulted in 12% renewal increase with UHC
- Total health plan cost remains 5% below what their 2006 renewal would have been to remain under a traditional plan



Case # 10:

Number of Employees: **225**
 Type of Entity: **Municipality**
 Funding Arrangement: **Fully Insured**

Background information:

- Incumbent carrier: United Healthcare (\$3 million annual premium)
- Group’s employer contribution policy is 60/40; however, group had been absorbing all rate increases for past five years bringing current employer contribution ratio to 88/12
- Group bid health plan in anticipation of tax cuts with loss ratio of 75%
- Six carriers responded – Finalists negotiations prior to council meeting:

<p style="text-align: center;"><u>United Healthcare</u> 2.5% increase on current plan</p>	<p style="text-align: center;"><u>Cigna</u> 7% decrease matching current plan</p>
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- October effective date pushed to January due to negotiations
- UHC matched Cigna’s quote the day before council meeting

QUESTION: What was final City Commission’s final vote?

A. Switch to Cigna at 7% cost savings

B. Renew with UHC at 7% cost savings

C. Renew with UHC at 7% cost savings and offer HDHP option alongside

Case # 10:

Number of Employees: **225**
 Type of Entity: **Municipality**
 Funding Arrangement: **Fully Insured**

ANSWER: What was final City Commission's final vote?

A. Switch to Cigna at 7% cost savings

B. Renew with UHC at 7% cost savings

C. Renew with UHC at 7% cost savings and offer HDHP option alongside

Result:

- Due to media attention, UHC learned of the group's intent to switch
- Made last ditch effort to retain the business
- Group renewed with UHC with no plan changes

Case # 11:

Number of Employees: **30**
 Type of Entity: **Municipality**
 Funding Arrangement: **Fully Insured**

Background information:

- Incumbent carrier: Aetna (\$200,000 annual premium)
- Initial renewal: 33%
- Traditional POS plan in force
- Group decided to bid

QUESTION: What type of plan did the group select for 2008?

A. Renew with traditional POS plan

B. Switch to High Deductible Health Plan (HDHP) and fund 50% of deductible in an HSA

C. Switch to High Deductible Health Plan (HDHP) and fund 100% of deductible in an HSA

Case # 11:

Number of Employees: **30**
 Type of Entity: **Municipality**
 Funding Arrangement: **Fully Insured**

ANSWER: What type of plan did the group select for 2008?

<p>A. Renew with traditional POS plan</p>	<p>B. Switch to High Deductible Health Plan (HDHP) and fund 50% of deductible in an HSA</p>	<p>C. Switch to High Deductible Health Plan (HDHP) and fund 100% of deductible in an HSA</p>
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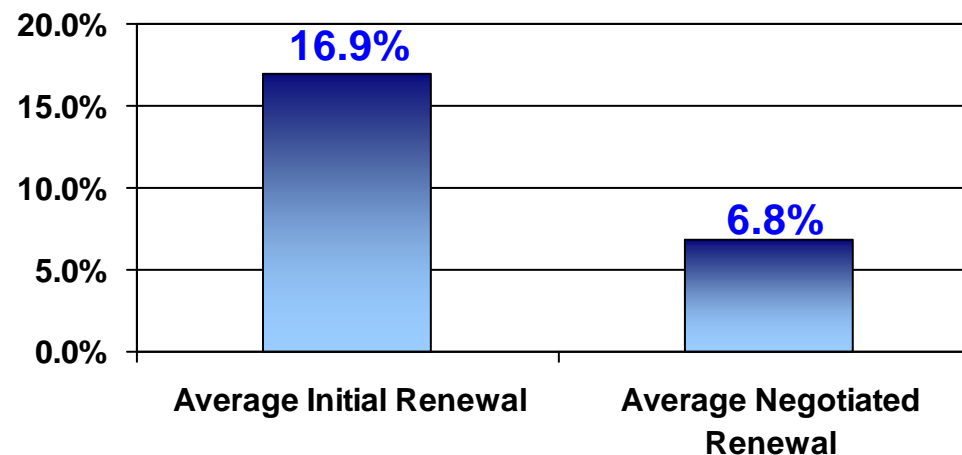
Result:

- Responses to the bid included a proposal from BC&BS for a HDHP option at a savings of 36% (\$65,000) over current:
 - Deductible: \$1,500/\$3,000
 - Coinsurance: 100% coverage after deductible (in-network)
- Group opted to fund the employee's entire deductible at an annual cost of \$50,000
- Net savings to group: 8%

Summary of Findings

- ▲ More employers evaluating whether to provide a \$0 cost health option
- ▲ More entities not automatically including an increase in budget for benefits
- ▲ Carriers' initial increases have consistently been in the double digits and is expected to continue in 2008.
- ▲ More entities taking advantage of ability to simultaneously negotiate as allowed under FL Statute 112.08.

**Gehring Group Client Base
07/08 Health Plan Renewals**



Summary of Findings

- ▲ Increased interest in Consumer Driven Health Plans.
- ▲ Increased interest in Wellness Programs and On-site Clinics.
- ▲ Councils and Boards expecting more options to be evaluated.

2008 Tax Reform

Regardless of the outcome of the tax reform proposal, all entities continue to expect some sort of cuts due to:

- ▲ Tax reform
- ▲ State mandated cuts
- ▲ Status of housing market
 - Declining home values
 - High foreclosure rate
 - Stagnant construction market
- ▲ Concerns regarding the economy