

Issue Brief

5 Myths That Could Keep Local Governments from Sustainable Health Coverage

Insurmountable Insurance Costs?

Local governments have long been committed to offering their employees high-quality health plans. They are also much more likely than other employers to offer retiree health benefits. In fact, 68 percent of counties cover retirees compared to 28 percent of similarly sized private sector employers.¹ At the same time, local governments face rising costs associated with both employee and retiree health plans. A recent study revealed that 61 percent of local governments experienced health insurance cost increases between 6 percent and 15 percent over the last 5 years, and 11 percent had seen expenses rise by over 15 percent.²

Local governments will soon have additional burdens to carry, including the forthcoming excise tax (also known as the “Cadillac” tax) which is set to take effect in 2018. This provision of the Affordable Care Act (ACA) places a 40 percent tax on employers (including local governments) that offer “high-cost” health benefits. As health care costs rise, local governments are finding the long-term picture for providing the benefits they once did is becoming increasingly bleak.

As a result, 33 percent of counties shopped for new benefit plans in 2013, with 31 percent of them stating the reason was to lower health insurance costs. Local governments looking to provide affordable health insurance for the long term are

taking various approaches — including making benefit design changes, raising employee and retiree contributions, implementing wellness programs, and offering disease and care management programs.

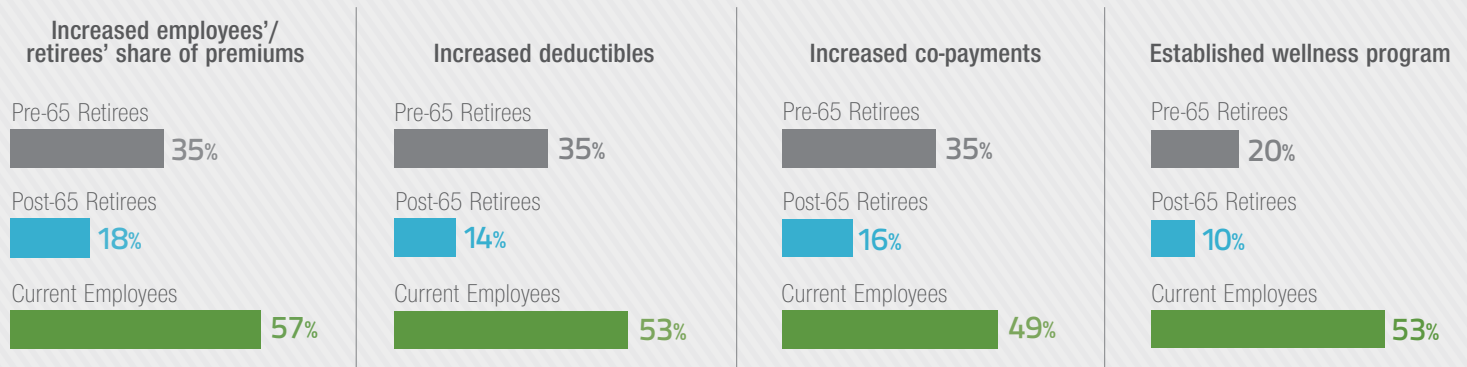
However, implementing these approaches can create new administrative burdens, and may even generate additional costs. Most importantly, a sudden change in approach could come as a shock to local government employees and/or retirees — generating questions, concerns and anxiety.

Fortunately, there may be a way to deliver much-needed savings and simplify benefit administration at the same time. This issue brief will discuss how, by utilizing private health insurance exchanges, government agencies can continue to provide affordable coverage for the long term.

What is a Private Health Insurance Exchange?

By now, most people are familiar with the state and federal public health insurance exchanges developed as part of the ACA. Private exchanges are analogous in some ways to public exchanges in that they offer an “e-commerce” approach to purchasing health insurance. However, private exchanges generally support a wider array of benefit strategies in a much different way and are run by private sector companies. The right private exchange can help local governments implement

Local Government Strategies for Containing Health Care Costs



Source: <http://slge.org/wp-content/uploads/2014/12/LG-Strategies-to-Address-Rising-Health-Care-Costs1.pdf>

new approaches and manage the cost of health insurance in the long term. It can also help employers remain compliant with ACA requirements.

By using this technology, employers can incorporate multiple cost-cutting approaches, including benefit design changes, increases in employee and retiree contributions, wellness programs, and care and disease management protocols. Private exchanges also help employers with increasingly complex benefits administration, which includes electronic enrollment and data feeds to insurance carriers.

These benefits are making private exchanges increasingly popular among private sector employers. According to a recent report, 20 to 33 percent of employers will adopt this approach within the next 3 to 5 years.³

Local governments may be hesitant to consider a private exchange because of misinformation or a lack of understanding of what it entails. Government entities on the hunt for better insurance plans may have pre-conceived notions about private exchanges – something that may obscure them as a viable option.

Debunking Private Exchange Myths

Obtaining health insurance – particularly with recent and upcoming changes driven by the ACA – is a complicated undertaking for any employer. Finding solutions that will lower costs can be overwhelming, particularly for local governments who often must attend to more pressing needs. Below are some common myths associated with private exchanges and their corresponding realities to help simplify the picture.

- Myth #1: Private exchanges only offer fully insured funding arrangements.
Reality: They can support fully insured or self-insured arrangements, which can be a critical feature for government agencies.
- Myth #2: Private exchanges don't let you keep group coverage for retirees.
Reality: There are private exchanges that offer group-based retiree medical plans and can help you transition to individual coverage if you choose that option in the future.
- Myth #3: Private exchanges only offer defined contribution plans.
Reality: Private exchanges support defined benefit plans, defined contribution plans – or both. Local governments that first choose defined benefit plans can also later transition to defined contribution plans if they so choose.

The Savvy RFP: Asking the Right Questions

While the government request for proposal (RFP) process is strictly defined, agencies can frame questions and evaluate vendors in a way that help them select a program that is affordable, effective and customized. Here are some questions you may want to include in your RFP to get you started.

1. Can you support fully insured or self-insured funding arrangements?
2. Do you offer group retiree coverage and is there a path if we decide to move to individual coverage in the future?
3. Can you support both defined benefit and defined contribution for different populations based on years of service, organization and grandfathered groups, etc., and can we implement this gradually over time?
4. Can you support our current plan designs, and develop a multi-year strategy that includes a plan to mitigate the health care excise tax (“Cadillac” tax) exposure?
5. What care and disease management programs are available on your exchange?

- Myth #4: You only get to choose from pre-determined plan designs.

Reality: Carrier-based private exchanges often give you the option to keep your current plan designs.

- Myth #5: Private exchanges alone can reduce long-term insurance costs.

Reality: Private exchanges are a big part of helping to manage costs, but there's more to consider. For true long-term savings, programs that help keep subscribers healthier over time are essential.

The Big Picture

In the world of private exchange insurance for the public sector, a handful of elements define a well-designed, well-executed, sustainable plan. These include a contribution strategy, plan design changes, care and disease management, and administrative ease.

Local governments owe it to the employees and retirees they represent to offer options that balance these important features for affordable, optimum care. But as stewards of taxpayer dollars, they also owe it to the public to get the most “spend” for those dollars – now and in the future.

Underwritten by:



For more information,
visit www.aetnaprivateexchange.com

Endnotes

1. www.naco.org/research/Documents/County%20Health%20Benefits%20FINAL_06.30.2014.pdf
2. <http://slge.org/wp-content/uploads/2014/12/LG-Strategies-to-Address-Rising-Health-Care-Costs1.pdf>
3. <http://files.kff.org/attachment/examining-private-exchanges-in-the-employer-sponsored-insurance-market-report>