AmWINS Group Benefits

CLIENT ADVISORY

Common-Sense Ways for Public Entity Clients to Lower Health Plan Expenses and Reduce Liabilities

Public entities trying to meet the ballooning costs of employee and retiree health benefits face a continuous battle to control those costs and lower their claims experience. However, a multi-pronged strategy that explores both alternative insurance structures and administrative enhancements can help turn this challenge into an opportunity for otherwise cash-strapped public entities.

Public Entities Struggle to Meet Obligations

From the local to the state level, the days when governments could hike taxes to raise needed funds are mostly a memory. In the wake of the Great Recession, entities from school districts to cities and counties continue to struggle, and governments are finding it difficult to ask more from a shrinking tax base. In this environment, almost three dozen municipalities have filed for bankruptcy since 2010. The latest filing was the largest.

In late February, officials in Detroit detailed a plan to exit the largest municipal bankruptcy in U.S. history, looking to restructure $18 billion in debt. According to *The Wall Street Journa*l, employee and retiree pension and healthcare obligations accounted for about $7 billion of that debt — almost 40 percent of the city's total. Short of bailing on these obligations — The *Journal* estimates Detroit's public employees will have to settle for as little as 30 percent of what was initially promised — there are still ways to survive in this environment.

Dealing With the Great GASB

All public entities must deal with the Government Accounting Standards Board (GASB). When GASB issued Statement 45 10 years ago this June, it altered the way that many deal with the non-pension benefits of their retired employees. GASB 45 governs how public entities should address Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, also known as other post-employment benefits (OPEBs).

GASB 45 requires financial statements from government entities that reflect the current and future cost of OPEB benefits. Health benefits comprise a huge percentage of total OPEB costs, second only to payroll. In many plans, drug costs equal or are nearing other medical costs. Prescription drug plans can help rein in some of these costs.

Public and private organizations that offer retiree healthcare can take advantage of the Retiree Drug Subsidy (RDS) Program offered by the Centers for Medicare & Medicaid Services. The federal government will reimburse up to 28 percent of drug costs to Medicare-eligible retirees. However, organizations using this subsidy lose their federal tax deduction for expenses paid in this area.

One way around this is to involve third-party administrators (TPAs) that offer Employer Group Waiver Plans, or EGWPs. EGWPs — pronounced egg whips — help plan sponsors take further advantage of capitation, or fixed fees paid to prescription drug plans. Public entities using a wrap-around secondary plan with an EGWP might expect higher federal subsidies and federal assistance in meeting the costs of coverage for catastrophic illnesses. Other benefits can include reduced administrative costs — this arrangement doesn't require an expensive RDS audit — and lower GASB drug benefit liabilities.

Examine Alternatives Designed to Stop Runaway Costs

Alternative risk transfer strategies, executed skillfully, can help public entities stem costs. Stop-loss insurance, for instance, is a time-honored way to protect against catastrophic losses.

But as catastrophic claims continue to impact health plans, organizations have to consider additional ways to protect themselves from devastating costs. Organ transplants and end stage renal disease are becoming increasingly more costly for self-funded medical plans. Medical excess insurance, a layer of protection organizations can purchase from traditional markets, can address transplants by providing first-dollar coverage, thus reducing stop-loss triggers. Some estimates show transplants account for 40 percent of stop-loss claims.

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Closer management of dialysis treatment and wellness programs that address the most chronic and expensive health conditions of employees are two other ways plans can lower costs. Addressing all of these issues can drive a strategy in which a plan sponsor lowers its cost of stop-loss coverage by carving out expensive health events.

Find Strength in Numbers

Another strategy — group captives — has become an increasingly popular way for small- and medium-sized employers to help control current health benefit costs. Like-minded employers, grouped by organization type or region, get together to theoretically insure homogeneous risks through a captive insurance company. Captives are legal entities separate from the sponsoring organizations.

Among the advantages of insuring through a captive include potentially lower insurance costs, retained profits when claims are low, plan design flexibility and coordinated plan administration.

Farm Out the Minutiae

All self-funded clients understand that maintaining a health benefits plan is complex, time-intensive and ever-changing. By outsourcing to the right partner, public entities transfer these responsibilities to professionals well-versed in varied benefits and the challenge public organizations face. An experienced administrator should:

- Build and monitor a health provider network
- Provide reporting and update management about changing regulations
- Monitor quality of care and spending patterns
- Offer turn-key claims management
- Provide additional services like COBRA/HIPAA, FSA/HSA/HRA administration

Freeing risk managers of these administrative duties lets them focus on ways to reduce risk.

Choosing a Partner

Monitoring soaring costs and providing cost control solutions has never been more important than today in the public sector. Even in the face of rising costs and increasing regulations, the right partner can help any type of employer better manage these situations to move forward in the right direction.