

# WISCONSIN COALITION OF ANNUITANTS

1924 Pleasant View Drive Stoughton, WI 53589-1959

(e-mail) palmer@wppa.com telephone 608-273-3840

WISCONSIN  
State and Local  
GOVERNMENT  
RETIREES

February 22, 2017

The Honorable Alberta Darling, Co-Chair  
Joint Committee on Finance  
317 East, State Capitol  
PO Box 7882  
Madison WI 53707-7882

The Honorable John Nygren, Co-Chair  
Joint Committee on Finance  
309 East, State Capitol  
PO Box 8953  
Madison WI 53708-8953

Dear Senator Darling and Representative Nygren:

On February 8, 2017, the Group Insurance Board (GIB) approved issuing letters of intent to contract with six prospective third party administrators (TPAs) to provide health claims payment and other services. These would replace the health insurance plans currently insuring the Wisconsin State Employee and Wisconsin Public Employers group health programs under Wisconsin Statutes Chapter 40. It is our understanding that the GIB intends to bring these negotiated contracts to your Joint Committee on Finance (JFC) by March 31, 2017 at which time you may choose to approve or not approve them.

The Wisconsin Coalition of Annuity (WCOA) would like to comment on this major restructuring of the health insurance program in hopes of providing additional perspective that may be helpful to the JFC in its deliberation. To be clear, our three main points are: 1) the timing is wrong 2) the GIB contracts need to include a number of cost protections, if they are to proceed and 3) savings can be achieved without eliminating the competitive insured system, which is something the GIB seems to acknowledge in their letter to you.

The Coalition is an organization representing twenty-two groups of retirees covered under the Wisconsin Retirement System, many of whom are provided health insurance, along with their spouses, dependents or surviving dependents through the state and public employers' group health plans. Other public employees not covered by the Wisconsin Retirement System and the general public will be indirectly affected. We wish to emphasize that the Coalition is not opposed to making changes to our coverage under these programs if such changes will improve these programs' benefits or contain/lower costs to our members. Health insurance is a vital concern and considerable cost to our members, many of whom pay for their insurance without assistance from the state or their former employer and who would have limited options for changing insurance should such a decision become necessary. Increasing health care costs is one of the top concerns for those of us with limited ability to absorb them.

## ORGANIZATIONS IN THE WISCONSIN COALITION OF ANNUITANTS

*West Allis Retirees - DILHR Retirees - Epsilon Sigma Phi - AFSCME Retirees Chapter 7 - WI Professional Police Association Retired - DNR Retirees - Wisconsin Retired School District Administrators - Wisconsin Education Association Council Retired - Beloit Area Retired Educators Association - UW Eau Claire Emeriti Faculty - UW-Madison Retirement Association - Office of the Commissioner of Insurance - UW Milwaukee Retiree's Association - Bay Lakes United Educators/Retired - Wisconsin State Attorneys Association - Association of Career Employees - SWIB Retirees - WFT/AFT Retirees - Retired Professional Fire Fighters of WI - Wisconsin Retired Corrections Personnel - State Engineering Association - Central Wisconsin Center Retirees - State Attorneys Association - DOT Retirees - Wauwatosa Employees Retirement Club - Wisconsin Retired Educators Association - Dodge County Area Retired Educators Association*

To elaborate, we ask that you consider the following:

- We are concerned about the timing of this major undertaking to shift the risk of health care costs and future cost increases from insurers to the state and, in our case, its retirees. In spite of the fact that the GIB has spent a lot of time studying the switch to self-insurance, and paying two consultants, the necessity of doing it now seems more closely related to Governor Walker's budget than the wisdom or the need to make changes immediately.
- Given the impending repeal of the federal Affordable Care Act reforms and its associated fees, we are entering a period of great uncertainty. As a result of the repeal of the fees, one of the primary reasons for adopting self-insurance no longer will exist. Any reading of today's news makes it clear that the President and the Congress are unclear as to what will replace it, but in general, it is quite uncertain whether these new reforms will continue to prevent health care providers from increasing our costs.
- Historically, periods of generally flat trends in health care costs such as we have experienced in the past few years are owed to health care providers holding back on cost increases due to reform efforts at the state or federal level. Following these periods of low inflation, a period of increased health care inflation often takes hold. This happened with significant impact in the late 1980s as well as the late 1990s to early 2000s.
- Recent data from the Bureau of Labor Statistics shows that health care inflation is increasing at the fastest rate since 2008.
- The GIB appears to be relying on steep fee discounts from providers in addition to the elimination of the risk premium to save the \$60 million the Governor has requested in the proposed budget.
- \$60 million is a large amount of money by itself, but at approximately only two percent of health care premium to be spent on this program over the biennium, it is a relatively modest sum for which to undertake such a major restructuring of a program that has worked quite well historically. And, such an amount will pale in comparison to greater increases in cost if health care inflation heats up as appears to be the case.
- As a result, this may very well be among the worst times for the GIB to consider transferring the insurance risk to itself, its employees and retirees for a relatively small, short term gain, especially given that a major impetus has been removed.

Additionally we ask that you consider that the GIB is proposing to lock in such an arrangement with three year contracts that appear to rely primarily on provider discounts to contain costs. However, it is questionable whether they sufficiently protect the program for reasons that include the following:

- In the current fully insured program, the insurer is at risk for making sure that its finances are protected from such increases. Granted, insurers will try to build such cost increases into future premium increases, but at least the state would have an opportunity to negotiate, and to force insurers back to the negotiating table with its contracted health care providers.
- Locking in discount percentages will do little to contain cost increases when providers are able to increase the underlying charge level.
- Locking in charge levels is necessary, but not sufficient, to protect the interest of the state and its retirees. That is because, in addition to increasing base prices, providers may be able to increase revenue by increasing the level of service (often referred to as service intensity), for example.

- With TPAs/insurers having limited experience with the new ICD-10 coding requirements, there is an added level of uncertainty.
- The GIB has stated that vendors, as it refers to TPAs, have experience holding providers financially accountable for cost and quality. It is telling that they go on to indicate that the new contracts will include quality-related performance guarantees, but it does not state that its contracts provide for cost guarantees. If the \$60 million projected "savings" do materialize, will they be shared with all the contributors, including participants? If the projected "savings" are NOT achieved, and costs actually rise, will the State cover those costs, or will they be off-loaded onto active public employees and retirees?

Understandably, the public has no access to the final contracts while they are being negotiated, so it is possible (necessary?) that such protections will be negotiated into the contracts.

We think it is imperative that the GIB be able to demonstrate to the JFC that in addition to locking in discount levels, the TPA's have locked in the actual charges or fixed caps on price increases through contracts with their participating providers and that they have a fully demonstrated ability to adjust for increased service intensity or some other cost guarantee mechanism.

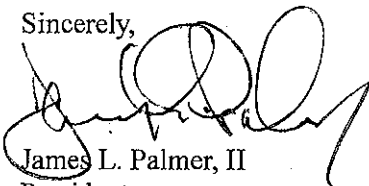
Finally, the GIB indicated that among other options considered were those that were fully insured, but that in order to achieve the same level of savings, it would require annual negotiations and premiums lower than today's rates, and would require likely reducing the number of vendors participating. Given that the proposed self-insured option itself has substantially reduced the number of vendors, we must ask what is to be lost from doing the very same thing in a fully insured program?

The answer may well be that very little is to be lost, but a great deal gained, at a time when uncertainty surrounding the future of health care and incipient cost inflation are much greater risks. If the GIB needs to do a better job negotiating future premiums and also needs to cull some of the least efficient plans in order to achieve the needed \$60 million savings, we would suggest this is much more preferable to taking the risks inherent in the path it has chosen.

The GIB's program first endorsed competition and partnership among commercial insurers and health care providers through health maintenance organizations with great success in 1984. While not immune to nationwide periods of increased inflationary trends, it has historically done a very good job of maintaining solid benefits, while keeping cost increases in line with other employers who often resorted to benefit reductions as part of their efforts. Just because other States self-insure it doesn't mean it's the best alternative for Wisconsin.

We again thank you for allowing us to weigh in on this topic of utmost importance to the State, its employees and our retired members.

Sincerely,



James L. Palmer, II  
President

cc: Michael Farrell, Chair Group Insurance Board  
Stacey Rolston, Deputy Administrator, Div. of Personnel Management, Group Insurance Board Member  
Robert J. Conlin, Secretary Employee Trust Funds  
Lisa Ellinger, Director of the Office of Strategic Health Policy