State Employee Healthcare

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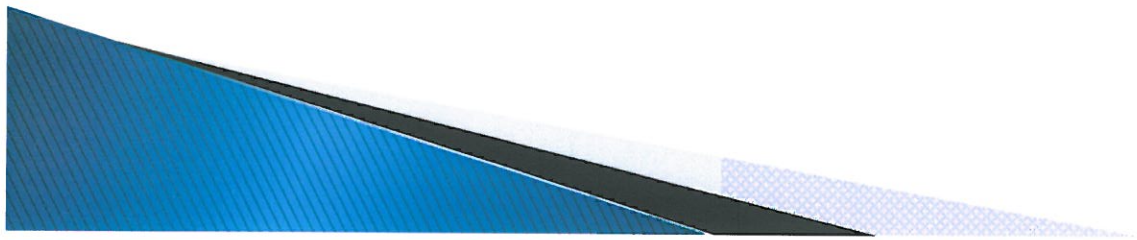

State Wide Insurance

When looking at potential legislation that allows for pooling of smaller public entities and school districts with the State's health insurance plan there are several logistical and administrative issues that should be considered in order to effectively implement any such plan. To keep this document brief we will only be addressing four major issues:

1. Adverse Selection within the State's Plan
2. Funding, Staffing and Proposed Timelines
3. Risk Pools and the State's Funding Arrangement
4. The Role of the Department of Administrative Services

Adverse Selection

We would expect a significant degree of adverse selection based on the health status of groups joining the program.

The basis for this expectation is that most of the previous pooling legislation allowed for voluntary participation by public employers. If participation is to be voluntary the State must require fixed participation terms (3 years prescribed in proposed legislation- 5 years suggested) with little ability by the employer to leave the plan. We also suggest a fixed time where if an employer left the plan they could not come back (minimum 2 years). These types of restrictions along with possible monetary penalties would need to be in place to lessen the adverse selection the pool's experience would surely observe.

Funding, Staffing and Timelines

Most proposed pooling legislation has allowed DAS to charge enrolling entities for participation in a partnership, but unfortunately these past bills do not appear to envision or incorporate start-up costs associated with implementation. The work and staff time necessary to develop any partnership will be significant and it would not be appropriate to use State department utility rates to fund this work. We anticipate the need for considerable up front funding in order to develop the infrastructure, staffing and vendor relationships necessary to support this legislation.

Equally problematic, most proposed legislation has allowed for only a brief implementation window. Implementation of such a significant program is definitely possible but not under a six month timeline. DAS will likely not have finalized enabling legislation until later in any legislative session and it would be difficult to develop admininstrative rules, vendor contracts, the application process, and perform the underwriting or conduct an enrollment period necessary to implement by most proposed implementation dates. DAS would propose an implementation date no earlier than a year and a half from the passage of any legislation and even this is a very aggressive timeline given DAS's other responsibilities.

Last, as it relates to timelines, previous legislation has allowed employers to make application to DAS anytime within the year and DAS must enroll their employees within three months. This is not feasible. The State would need to be able to assess the experience coming to the State's

Not enough time.

plan to develop an accurate premium for the year. Because of this we would need to be able to collect potential employer experience on behalf of the plan prior to premium development and enrollment. This need would disallow the State to allow any employer to come on three months after making application.

The State would need to maintain a plan year and employers would need to apply within a designated period of time and their employees would need to enroll within a designated period of time. We suggest that application and experience of any potential group must be provided in late winter or early spring so that that information can be factored into any premium calculation; that all employees including the State's enroll in the fall; and that the effective date of that enrollment be January 1st of a given year.

Risk Pools and the State's Funding Arrangement

Previous pooling legislation has mandated a single risk pool for all State employees as well as the employees that would enroll through any proposed partnership. At the same time, it enabled DAS to offer plans and insurance carriers that it currently does not provide to State employees. There are only two ways to accommodate both these points. Either offer only one health carrier under the State's current funding arrangement or offer multiple vendors as TPAs with the State self-insuring such an arrangement.

The State currently has a minimum premium arrangement with Wellmark Blue Cross Blue Shield to provide Indemnity, Preferred Provider Organization (PPO), Managed Care Organization (MCO) plans. This means that the State's risk is capped for the life of the contract and anything over the cap is Wellmark's responsibility. This is a very advantageous relationship for the State. It allows the State the ability to budget for a fixed cost in any one year, protects the State from unusually high claim costs in any given year.

If the State were to start to self-insure the program budgeting would become more complex. The need for greater reserves through increased funding levels would be necessary. There would be greater administrative costs driven by increased staffing, consultant and vendor costs. The vendor costs would arise from paying multiple TPAs and possibly contracting with a reinsurer.

The Role of the Department of Administrative Services

Any proposed pooling legislation will shift the basic purpose of the department and the State's health insurance program there are a number of considerations associated with this shift

1. The role of DAS as it relates to health insurance is as an employer providing insurance to its employees. Iowa Code 8A.402 delineates the department's responsibilities. We are currently the plan sponsor for the State's plan and with this comes certain responsibilities and requirements. Under this legislation our fiduciary responsibility will be drastically expanded. This responsibility would be even greater if the State began to self-insure any partnership. This would likewise increase the State's potential liability.

2. Past pooling legislation usually requires DAS to collaborate or report to some oversight body. This requirement may contradict and potentially undermine the authority of the

Executive Council which is the governing authority for the State's Plan as defined in 509A. Such requirements also may be in conflict with DAS's enabling legislation.

3. While previous pooling legislation allows for the State to offer additional plans other than what is being offered to State employees, our current plan design and costs associated with these plans are expensive. This is due to the fact the state's plans are bargained and do not take into account the needs of other employers or public policy relating to affordable healthcare or access to healthcare.

4. This legislation will likely impact the practical application of Chapter 20. Eligible employers and unions would need to agree to participate in any partnership. This will effectively limit the parties' ability to negotiate plan design. However, because of the importance of health benefits it is likely that DAS could be expected to be present at each bargaining session in the State where an employer and union have agreed to participate in the partnership. This would likely increase administrative costs significantly.

Summary

We believe pooling as a concept is legitimate but the issues discussed above and others issues not discussed here need to be addressed if any future pooling legislation is to have the intended effect of providing affordable healthcare for public employers that are seeking an alternative to individually contracting with health insurance carriers while at the same time equipping DAS with the tools to implement this legislation effectively and efficiently.