# *Overview of VEHI Testimony to Senate Finance Committee*

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***Exploratory Discussion:*** *The Vermont Education Health Initiative (VEHI) desires legislative authorization to function as an Inter-municipal Insurance Association* off exchange *to continue serving Vermont school districts, local unions and the Vermont State Teachers Retirement System.*

a. Our goal is to have redesigned benefit plans available by July 1, 2017 (FY 18), which will be competitive with those marketed by Vermont Health Connect. This means they will be ACA-compliant in benefits, significantly lower in premiums, non-grandfathered, and compatible with medical savings accounts (HRAs and HSAs).
b. Participation by schools and VSTRS under this arrangement would be voluntary.
c. VEHI would maintain its 20-plus year collaboration with BCBSVT and wellness programs.

**This proposal offers several advantages and opportunities:**

1. A preliminary cost analysis shows potential savings to school districts of between $18 and $35 million. (See *"Modeling of Potential Cost Savings if VEHI Offers Non-Grandfathered, ACA-Compliant, Lower AV Plans Off Exchange."*).

2. The Trust will continue helping VSTRS control medical and Rx costs. VSTRS is our largest member and has saved millions of dollars by being part of VEHI's risk pool. In 2014 alone, CMS estimates the retirement system will save $3.4 million in pharmaceutical costs because it partnered with VEHI to implement a new drug benefit program (EGWP) for Medicare retirees.

3. As an Inter-municipal Insurance Association, VEHI is exempt from the federal health insurer tax, which will save taxpayers an estimated $7.9 million in 2015. This fee is scheduled to increase annually.

4. Over the last decade, VEHI's rates rose on average only a modest 4.9%, saving school districts, employees and taxpayers millions of dollars. Our relatively low rate increases is due, in part, to our 25-year investment in wellness initiatives.

5. New plans with lower actuarial values (thus, lower premiums) will push out the date of impact of the ACA's excise tax, far enough in the future, we hope, to see the repeal of this provision.

6. VEHI is a non-profit, member-owned health pool, which means every dollar collected is invested in member school districts and VSTRS. Funds not allocated to pay claims or program costs are utilized to lower future rate increases.

7. VEHI sets rates on a fiscal-year basis, which ensures that school budgets include actual rates for the upcoming year, which prevents cost speculation and over-budgeting for health insurance.

8. VEHI, as it's done for more than 20 years, will continue working with school management and local unions to provide timely, accurate and trusted information on the utilization of health benefits and the cost implications of decisions consumers make when seeking care.

**If VEHI secures legislative authorization to function as an Inter-municipal Insurance Association off exchange before the current session ends, it would enable us to assist with or expedite the following steps:**

1. Providing school districts and local unions with assurances that a stable transition from grandfathered health plans to ACA-compliant plans off exchange can be facilitated, if they remain VEHI members, through VEHI's labor-management structure rather than through VHC or, if the latter is closed in the near future, through the federal health exchange portal.

2. Allotting time for VEHI and BCBSVT to develop alternative plan designs available for enrollment by FY 18.

3. Seeking input from school districts and local unions on the future of VEHI's plan designs.

4. Giving school districts and local unions detailed guidance on the future market options for employer-sponsored health benefits in Vermont, on or off exchange, in time for their next cycle of collective bargaining.

5. Informing school budget deliberations, especially in light of current worries about the 2018 excise tax and legislative proposals being debated now on how to curtail education spending.

6. Educating school employees on the differences between high and low actuarial value plans and the purposes of medical savings accounts.

7. Providing the Vermont Department of Financial Regulation with maximum time to review and approve changes to VEHI's Financial and Operational Plans, and to incorporate knowledge of new plan designs into the next renewal process.

8. Informing the general public/taxpayers of the actions taken by VEHI and the legislature to control health care costs for school employee post-ACA and to avoid two reform fees, the excise tax and Health Insurer Fee.

# Modeling of Potential Cost Savings if VEHI Offers Non-Grandfathered, ACA-Compliant, Lower AV Plans Off Exchange

## March 13, 2015

Based on preliminary cost modeling done by BCBSVT at VEHI's request, VEHI has concluded there are substantial cost savings for school districts and property tax payers in providing VEHI health benefit plans to school employees off exchange. Savings are found in marketing non-grandfathered, ACA-compliant plans with lower actuarial values (AV), in combination with systematic initiatives to reduce unnecessary or excessive utilization through plan design, medical savings accounts, consumer education and workplace wellness programs. *Our findings show potentially tens of millions of dollars in savings, even when out-of-pocket (OOP) costs are shared between employers and employees, which will be a subject of collective bargaining.*

For the purposes of this analysis, please note the following:

a. Estimates of savings are based on FY 14 data for Vermont school districts.

b. The Vermont State Teachers' Retirement System's data was excluded.

c. When we calculate and compare cost savings in this document, the figures associated with the three modeled, lower AV plans are based on the assumption that 100% of school employees are in only one plan. In actuality, if school districts offered a choice of VEHI plans, as most do today, employees most likely would be divided among them.

VEHI can provide more than three AV options in the future if permitted to operate off exchange. We are also confident, presuming we are authorized reasonably soon to operate off-exchange, that VEHI can offer lower-AV plans to school districts and local unions, compatible with the ACA and medical savings accounts, by **July 1, 2017**.

***Part I: Pure Premiums***

1. **We asked BCBSVT to model three lower-AV plans at 75% AV, 80% AV and 85% AV. As a first step, we asked them to establish baseline on pure premium savings from these lower-AV plans. This exercise showed that projected savings from lower premiums for the three lower AV plans range from $62.1 million (if all employees were enrolled in a 75% AV plan) to $48.5 million (if all school employees were enrolled in an 80% AV plan) to $33.6 million (if all school employees were enrolled in an 85% AV plan).**

   Again, these are strictly premium savings. They reflect the difference in premium costs between the three lower AV plans modeled and the cost of an AV plan of 94.9%, which is the type of VEHI plan most employees have today. These estimates do not take into account arrangements negotiated at the local level to reduce OOP cost exposure for employees. BCBSVT's calculations of cost savings in this exercise are attributable, then, to the following factors and variables:

- Markedly lower premiums for lower AV plans
- Employees being fully responsible for the total exposure to out-of-pocket (OOP) costs, with no employer assistance in the form of contributions to a medical savings account(s)
- Reduced utilization of inappropriate or excessive medical care and better utilization of medically appropriate, lower-cost services (like primary and preventive care) by virtue of the fact employees are responsible for more of their OOP costs.

2. The Vermont School Boards Association estimates the average, premium cost-sharing percentages at present between school employers and employees are 86% and 14%. Based on this data, the aggregated potential savings for **property tax payers** range from $53.4 million (75% AV) to $41.7 million (80% AV) to $28.9 million (85% AV). Additionally, **school employees** would see aggregate premium contribution reductions of $8.7 million (75% AV), $6.8 million (80% AV) and $4.7 million (85% AV).

***Part II: Out-of-Pocket Costs***

3. Enrollment in the lower AV health plans used in our modeling (75%/80%/85%) increases significantly the OOP costs of school employees. VSBA reached the same conclusion in its analysis on premium savings for school districts if all their employees were enrolled in a "Gold" VHC plan at the current 86% - 14% premium cost-sharing formula. This fact will undoubtedly raise the question of overall affordability of lower AV plans and, thus, be a subject of collective bargaining across the state.

4. Our second modeling exercise, therefore, takes into account higher OOP costs for employees and considers an option for mitigating them. Specifically, BCBSVT looked at potential cost savings if school districts covered **one-half of the difference** in total OOP cost exposure between their current 94.9% AV plan and our modeled, lower AV options. In practical terms, this lowers the employees' exposure to OOP costs, while preserving the lower AV premiums for the employer.

5. For example, with employer OOP assistance structured using an HRA or HSA, along the lines of what we said in point 4, a benefits' plan with an **80% AV** premium can have an actual OOP cost exposure equal to an **87.5% AV plan**. Thus, an employer can reap the benefit of an 80% AV premium, for example, while employees get financial assistance with OOP cost exposure up to the amount required in an 87.5% AV plan. The AV value for the two other plans we modeled, using the approach referenced in point 4, would be boosted to 85% for the 75% AV plan and 90% for the 85% AV plan.

6. **In this second scenario, inclusive of employer assistance with OOP costs, BCBSVT projected savings to school districts (and, by extension, property taxpayers) as follows: $34.6 million (75% AV option), $26.5 million (80% AV option), and $17.9 million (85% AV option).** BCBSVT's calculations of cost savings here are attributable to the following factors and variables:

- Markedly lower premiums of lower AV plans
- Employers paying lower premiums for lower AV plans, but contributing to OOP costs through medical savings accounts to reduce OOP cost exposure for employees to the level of plans with 85%, 87.5% or 90% AV

- Reduced utilization of inappropriate or excessive medical care and better utilization of medically appropriate, lower-cost services (like primary and preventive care) by virtue of the fact employees are responsible for more of their OOP costs.

7. **Regardless of whether employees move to a lower AV plan on VHC or within VEHI, the savings over time would be determined chiefly by the cost-sharing percentages for premium and OOP costs between employers and employees.** These matters, which would involve more extensive use of medical savings accounts (HSAs, HRAs and FSAs), would be addressed and resolved through collective bargaining.

**Part III: Vermont State Teachers' Retirement System**

8. By operating off exchange, VEHI can continue to help the **Vermont State Teachers' Retirement System** control insurance costs, both for the state and its retirees. VSTRS is VEHI's largest member, and it depends on VEHI to save costs. Thanks to a new CMS drug program for Medicare retirees implemented with considerable assistance from VEHI and BCBSVT, VSTRS may save an estimated $3.4 million in drug costs alone for 2013-14.

   Without VEHI, VSTRS has no safe harbor in the form of a large risk pool that serves a mix of young and old, health and unhealthy, active and retired subscribers. This is fundamental to cost control in any insurance pool.

***Part IV: Other benefits to VEHI operating off exchange***

9. Municipal risk-sharing pools are well-established, successful and conservative financial stewards of taxpayer funds. VEHI's health pool is governed and managed by school districts in partnership with Vermont-NEA. Together they share a common interest and commitment to the most effective use of taxpayer dollars in providing high-quality health benefits to schools and their employees.

10. In consultation with BCBSVT, VEHI also feels confident asserting that its off-exchange plans would provide additional financial advantages to school districts, including: lower administrative costs, lower (but still adequate) reserves, and exemption from the federal health insurer tax, which is estimated to be **$7.9 million** (including VSTRS) in 2015.

11. Non-grandfathered, lower-cost plans marketed by VEHI will distance school employers even further from the thresholds of the **ACA's excise tax**, slated to go into effect in 2018.

12. VEHI's premium rates rose over the past 10 years (FY 07-FY 16) by an **average of 4.9%**. That is attributable to the unique demographics of our enrollees, a majority of whom are well-educated, female and responsive to our consumer education efforts, our wellness programs, and our prudent use of the program's fund balance to reduce premium increases when that is necessary.

13. VEHI is well positioned to educate its membership and employees on how to access care in higher-deductible insurance plans, again, in conjunction with medical savings accounts, in judicious and cost-effective ways. No other entity has VEHI's track record, now more than 20 years old, in working with school management and local unions to provide timely, accurate and trusted information on the

utilization of health benefits and the cost implications of the decisions consumers make in this regard.

14. VEHI's existence off exchange will ensure that its wellness initiatives continue to be available to schools, their employees and VSTRS. These programs, as noted already, have been critical to controlling costs and helping employees lead healthier, more balanced lives, and in building a culture of wellness in the school workplace.

15. It is important to remember that as a non-profit, member-owned health pool, every dollar invested in VEHI is reinvested in member school districts. VEHI, in conjunction with BCBSVT and Vermont's Department of Financial Regulation, sets the lowest responsible rates for its health plans, and any funds not needed to pay actual claims or program costs are utilized to lower future rate increases.

16. Finally, VEHI provides value in timing the rate setting process to ensure budgets include actual rates for the upcoming year, preventing speculation, as well as the possibility of over-budgeting for these costs.

# Conceptual Framework:
# Bill to allow VEHI to serve School Districts, their employees and VSTRS in the area of health coverage outside of VHC

**This bill would allow VEHI to continue to operate a health plan as an Intermunicipal Insurance Association (as it has since June of 2013), retaining its own plans and managing risk outside of the Vermont Health Connect for a period of seven to ten years from the point in time when new VEHI plans are offered.** Authorization would be then subject to review and would sunset without legislative action to extend.

*Note: All other states with municipal health pools have continued to allow these pools to operate since the passage of the ACA. Municipal health plans must comply with all aspects of the ACA, but there is nothing in the ACA that prohibits municipal pools.*

## Goals

(1) Reduce the burden on property taxpayers by offering school districts comprehensive but less costly health plans that are fully ACA compliant but not bound by the grandfathering provisions of the ACA, and by preserving the composition of VEHI's risk pool;

(2) Reduce the employer costs of health care and therefore reduce school budgets;

(3) Continue serving the Vermont State Teachers' Retirement System (VSTRS) within the larger pool of VEHI members, thus reducing costs for the state and retirees;

(4) Ensure fair and affordable access to health benefit plans for employees and retirees.

**All parties benefit from slowing the growth of medical costs.** This is a critical priority for the state and the Green Mountain Care Board. VEHI, with our management-labor partnership representing all school employees and serving nearly 43,000 covered lives, is uniquely positioned to contribute to this effort through ongoing investment in wellness programs, increased engagement of school employees in their own health care choices, and by redesigning the health plans available to school employees.

VEHI recognizes the need to develop, in partnership with school boards, employees, local unions and VSTRS, health benefit plans that mirror those available to other Vermonters through Vermont Health Connect, avoid the federal "Cadillac" tax for a longer duration, and incorporate thoughtful consumerism of health care through value-based plan designs.

**Property taxpayers will benefit:**

1. Health plans will be less expensive and reflect current community and state norms;
2. Health plans will be fully ACA complaint;
3. Health plans will avoid the federal "Cadillac" tax for a longer period;
4. The costs of the program will be appropriately balanced between premium and out-of-pocket costs;
5. Value-based plan designs that more successfully engage employees in their health choices will assist in reducing medical trend, further slowing the growth in premiums.

**Employers will benefit:**

1. Lower cost, ACA compliant health plans reflecting community and state norms;
2. Employers and employees can determine premium cost-sharing through collective bargaining <u>without</u> the constraint of grandfathered limitations;
3. New plans with lower premiums will avoid triggering the federal "Cadillac" tax for a longer period of time;
4. The costs of the benefit plans will be appropriately balanced between premium and out-of-pocket costs;
5. Employers will retain the benefits of VEHI's investment in wellness;
6. Employers will retain the service and support they have come to rely on from VEHI, including ACA compliance guidance;

7. Health plans will be offered on a fiscal-year basis and rates will be finalized before school budgets are approved, thus removing any speculation or need to over-budget this cost.

**Active employees will benefit**:

1. Employees will retain a voice, largely through Vermont-NEA, in the plan design and rate-setting process;
2. Employees will have access to multiple health plans to ensure their personal needs are met;
3. VEHI will produce resources to actively engage employees more in their health care decisions:
    a. In-person informational sessions, as well as materials, to assist employees in understanding the new health plans
    b. Decision support tools to select the plan that best meets their needs
    c. Increased integration of wellness in the design of the health plans
4. VEHI will design plans that can be integrated with health reimbursement arrangements, health savings accounts and flexible spending accounts to assist employees in managing out-of-pocket costs;
5. Employees retain access to VEHI extensive wellness programs.

**The Vermont State Teachers Retirement System will benefit:**

1. VSTRS has saved tens of millions of dollars in lower health benefit costs since joining VEHI. It is our largest member based on number of subscribers, and it needs a strong and well-balanced risk pool like VEHI to help contain costs;
2. If VEHI continues to function as proposed, it will work closely with VSTRS, Vermont-NEA, and other stakeholders to determine how best to serve VSTRS and what plan designs to offer the system going forward.

**Commitment of VEHI:**

1. Work in partnership with Vermont-NEA, VSBA and VEHI membership in the plan design process;
2. As of 7/1/17 [FY 18] offer an array of health plans that:
    a. Are not subject to federal grandfathered provisions
    b. Are fully ACA compliant and can be integrated with an array of medical saving accounts
    c. Distance themselves further from the federal "Cadillac" tax
    d. Are designed to promote cost-efficient use of health care services
    e. Index future out-of-pocket costs to premium growth so that the plans retain the intended balance
    f. Are competitive with Vermont Health Connect Plans
3. Provide a range of health plans to increase employee choice
4. Develop decision support tools to assist employees in selecting the appropriate health plan for their needs;
5. Develop member education materials and provide robust, in-person information sessions prior to the introduction of the new plans;
6. Provide education and support in the area of HRA, HSA and FSA plans to both employers and employees;
7. Provide research-based wellness programming and integrate wellness in plan design;
8. Support schools in compliance with the Affordable Care Act;
9. Provide program administration at the lowest possible cost;
10. In conjunction with DFR, set plan increases at the lowest responsible rate and;
11. Study the impact of plan design changes and the "Cadillac" tax on VSTRS, a current member of VEHI, and report back to DFR and the legislature.

**Performance Measures:**

1. Long-term avoidance of the federal "Cadillac" tax;
2. Maintain low administrative costs as benchmarked against administrative costs on VHC;
3. Retention of membership in the program;
4. The competitiveness of its premiums and OOP costs compared to VHC;
5. Track metrics to evaluate the impact of the investment in wellness on premiums and OOP costs.