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

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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.