# Ten Best Practices in Municipal Benefit Management

Benefits Administration
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If you are one of the many counties in the state of New York with a labor group scheduled for negotiations in 2014, then you no doubt are working to strategically prepare for the challenging road that lies ahead. The pressure on local governments to curb spending and reign in budgets has reached unprecedented levels, yet you understand the importance of offering a holistic benefit package in order to attract and retain qualified and skilled employees. It may feel like the days of offering comprehensive municipal benefits are in the past as you struggle to obtain the delicate balance between quality benefits and affordable costs, but with some strategic planning and innovative plan modeling, both you and your employees can share a compensation and benefits package that is both competitive and cost-effective. What follows is a list of 10 strategic trends that are helping municipalities find that optimal balance:

## 1. Consumer Driven Health Plans (CDHPs)

Employers across the country are looking to shift not only the cost of health care but also the responsibility of seeking affordable health care to employees. For years, traditional HMO and PPO plans have allowed members to seek recurring services such as specialist visits, therapies, diagnostic testing, and even maintenance care for the cost of nominal copays. While these non-urgent and non-preventive services may have only cost an employee $50-$100 in copays in any given year, employer plan costs have been escalating faster than the rate of inflation. CDHPs, or high deductible health plans (HDHPs), coupled with health savings accounts (HSAs), health reimbursement accounts (HRAs) and/or flexible spending accounts (FSAs) effectively shift cost share to employees from a plan design perspective and effectively work to reduce the occurrence of unnecessary medical care. This two-pronged approach to cost mitigation can significantly reduce overall medical plan costs for employers. These plans heavily encourage employees to act as true consumers of health care.

In order for an employee to reduce their own out-of-pocket costs (which ultimately works to reduce plan costs as well) they must consider factors such as network coverage, benefit availability, provider charges, cost-effective levels of care, and true need for services, among other considerations. The consumer psychology behind these CDHPs requires a significant paradigm shift from that which governs the utilization of a traditional PPO plan, so some employees may feel resistant to the adoption of a high deductible plan.

To ease employees into this new plan design model, some employers offer both an HDHP and a PPO plan for a few years—incentivizing enrollment into the HDHP with a reduced premium contribution and/or a contribution into an HSA. A potential strategy might be to agree to a five-year transition plan in which the PPO plan will be grandfathered out, leaving only one or two CDHP options for newly hired employees. In 2018 rich benefit, or "Cadillac," health plans will be subject to a 40% excise tax under the Affordable Care Act (ACA). This upcoming potential tax can provide the necessary leverage with unions to make plan design changes now to avoid fees that taxpayers will not stand for, by 2018.

## 2. Benefit design changes

If moving to a CDHP is not a feasible change for your employees at this time, identify plan features that can be reduced or restructured within ACA guidelines without eliminating key coverage areas. Encourage and enable members to take a proactive and preventive approach to their health. Limit the number of visits for services that could be considered maintenance in nature and not medically necessary, such as physical therapy and chiropractic care. Consider changing copays to a percentage of coinsurance so that employees share in increasing costs and are more selective about providers, services, and network utilization.

## 3. Consider self-funding employee benefits

The ACA subjects municipalities that are currently fully insured to the Health Insurance Industry Fee, a tax intended to help fund the cost of implementing provisions of the ACA. The total annual amount of the industry fee starts at $8 billion in 2014 and increases to $14.3 billion in 2018. Beyond 2018, the total annual fee amount will increase in direct proportion to the growth in health insurance premiums in perpetuity. The financial impact to health plans from a premium perspective is expected to increase from 2% in 2014 to 4% in later years. Self-funded health plans are exempt from this tax. Municipalities who self-insure their health benefits will avoid this tax in addition

to benefiting from other cost-saving factors associated with self-funding, such as reduced administrative fees, the ability to maintain and reinvest unused premium equivalent dollars back into the health plan, flexible plan design, and custom network development. To protect against catastrophic claims, self-funded plans may obtain a stop loss insurance policy which is also not subject to the ACA's health insurance fee, and caps the plan's liability for large, unexpected medical claim costs.

## 4. Employee wellness plans

Wellness plans seek to keep healthy individuals healthy, identify individuals at risk for adverse health conditions and help those living with chronic conditions to mitigate the side effects of their conditions through healthy lifestyles and better decision making. Talk to your benefits administrator or insurance carrier about wellness plan options such as biometric screenings, disease management coaching, or wellness program opportunities. The employers who have seen the greatest success in employee participation are those who offer an incentive for participation, such as an increase in employer premium contribution for those employees who agree to participate in a biometric screening and/or initial nurse health coaching discussion. Incentivizing employees to lead healthier lifestyles through financial incentives is an upfront cost that has the potential for significant overall cost reductions throughout the year in the form for cost avoidance of both acute incidents and chronic condition maintenance. Negotiate these incentives with union leadership by positioning the availability of services such as wellness coaching and online tools as employee benefits at the municipality's expense.

## 5. Replace RDS with EGWP

Prescription drugs are one of the most significant aspects of health plan costs, especially for retirees and employees over age 65. With the rising prevalence of specialty drugs created to treat chronic and catastrophic disease states such as cancer, multiple sclerosis, and rheumatoid arthritis, the cost of offering prescription drug coverage is only expected to increase. An Employer Group Waiver Plan, (EGWP), is a Medicare Part D reimbursement program with financial benefits that may significantly exceed current RDS payments and may relieve some of the administrative burden of RDS program management. Municipalities that offer retiree benefits should consult their prescription drug benefits administrator or insurance carrier to consider the opportunity for financial savings associated with EGWP.

## 6. Eligibility audits

One of the largest causes of benefit leakage is outdated or inaccurate coordination of benefits. Municipal plans should conduct an eligibility audit at least every four years in order to identify enrollees who, per the plan guidelines, should no longer be eligible for coverage. Eligibility audits have the potential to identify, for example, divorced spouses who should no longer be offered coverage, enrollees for whom Medicare should be primary, dependent children over the limiting age and coordination of benefits for enrollees and dependents. By removing any individuals from your plan for which the plan is not obligated to incur costs, you can stop benefit leakage and help control unnecessary spending.

## 7. The working spouse rule

A significant portion of health plan costs are spent on the spouses of employees. By implementing the "working spouse rule" plans can dramatically reduce plan costs annually. A working spouse rule stipulates that if the spouse of an employee has access to primary health care through his/her own employer and the employer pays for a designated portion of the single coverage cost, the spouse is not eligible for coverage under your plan. As a less stringent alternative, plans may choose to allow the spouse to enroll, but only with secondary coverage. Municipalities are known to have comprehensive health benefits and often draw enrollment of spouses with access to less comprehensive benefits through their public sector employers. Thus those spouses with adverse health conditions who are in need of coverage often skew the enrollment in municipal plans.

## 8. Pension plan paradigm shift

The majority of municipalities are no longer financially able to sustain the costs associated with defined benefit pension plans. Choose a future date after which all new employees must join a 401(k)-style "defined contribution" pension system, such as a 403(b) plan, as is common in public sector employment, rather than a "defined benefit" plan. Switching to a defined contribution plan and phasing out defined benefits may require other concessions such as wage increases in order to maintain a competitive advantage in your region. This will be an important negotiating factor for collectively bargained groups. While a wage increase will offset a portion of your immediate savings, long-term the plan will save money with a retirement plan strategy that offers a benefit that ceases once depleted, rather than one that is maintained for the life of the employee and/or spouse post retirement—a period of time that has been elongating with the passing generations.

## 9. Reward years of service

If your plan pays a portion of retirees' health care premiums once he/she has worked for a specified number of years, negotiate a longer term. In order to maintain a workforce that is dedicated to long-term employment there must be proper motivation to limit attrition. Some plans offer retiree benefits for those who have served as little as 10 years. By negotiating a longer service requirement of 15 or 20 years instead, the plan would look to save a significant amount of premium costs and could use the savings to offer a slightly increased compensation percentage for the remaining dedicated retirees in return.

## 10. Use on-site services to prevent seasonal illness

According to the Centers for Disease Control, the flu costs businesses approximately $10.4 billion in direct costs for hospitalizations and outpatient visits for adults, not to mention a reduction in productivity and profitability caused by employee absenteeism. Offering the influenza vaccine at no cost to employees when obtained through your county's Public Health Office could allow you to pay for the vaccine at-cost and enable your employees to easily obtain the vaccine. This could lead to a higher percentage of immunized employees and a reduction in medical claim costs associated with employees who obtain the vaccine at a clinic or a doctor's office.

**For a review of your existing compensation plan strategy and a custom recommendation for ways that your municipality can use these strategies to mitigate costs, contact POMCO Group at 1.800.934.2459.**

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