Minnesota Judicial Branch Report

Advantages & Disadvantages of Leaving State Employee Group Insurance Program

Prepared pursuant to 2011 Laws, 1st Spec. Sess., ch. 1., art 1, § 3, subd. 2(b)

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Introduction

As required by 2011 Laws, 1st Spec. Sess., ch. 1., art 1, § 3, subd. 2(b), the Chief Justice of the Supreme Court is requested to study and report to the chairs and ranking minority members of the House of Representatives and Senate committees with jurisdiction over judiciary, on the advantages and disadvantages of having the Judicial Branch leave the State Employee Group Insurance Program (SEGIP) and form its own group benefit plan, including the option of shifting to a plan based on high-deductible health savings accounts.

The Minnesota Judicial Branch (MJB) currently obtains health insurance through the Executive Branch Department of Minnesota Management and Budget (MMB) SEGIP plan. The MJB covers approximately 2,400 eligible employees and 3,000 dependents, for a total of 5,400 lives. Annual health insurance premiums through MMB SEGIP are $15,780/year for family coverage and $5,367/year for single coverage. The MJB's total employer-paid annual premium expense in 2010 was $24,000,000.

The purpose of this analysis is to explore the concept of leaving SEGIP and highlight potential advantages, disadvantages, costs and/or savings associated with obtaining separate health insurance for MJB judges and employees. In order to assess the potential advantages and disadvantages staff researched benchmark health insurance data from Trusight (formerly Employer's Association) and Kaiser Family Foundation and consulted with Nathan Moracco, MMB Insurance Division Director.

Study Challenges

As with any cost benefit analysis, it is important to rely on accurate cost estimates and direct comparisons. Staff identified a number of challenges associated with conducting this type of analysis. Primarily:

- It is difficult to estimate the premium and fee costs that MJB would experience without actually going to market for bids;
- MJB plan design would require access to health care providers in all parts of the state, which is an additional complexity; and
- SEGIP is a self-funded plan and MJB, if a separate group, would likely be a fully insured plan, making direct comparisons difficult.

Despite these challenges, staff was able to identify a number of advantages and disadvantages to facilitate the discussion.

Research into a Separate MJB Group Insurance Plan

Premium Cost

A primary consideration for the MJB in assessing health plan options, would be anticipating the increase/decrease in premiums if MJB separated from the larger SEGIP group. There are a number of factors that impact premium costs charged to employers, such as plan design, number of covered employees, workforce demographics (employee average age, percent of professional vs. non-professional staff, etc.) and geographic considerations such as whether the plan covers employees in one concentrated metropolitan area or employees in sparsely populated areas of the state.

SEGIP is the largest employer group in the State of Minnesota, with over 120,000 insured. The Judicial Branch would comprise a much smaller group of approximately 5,400 insured. A large group size equates to more purchasing power in the marketplace. Given the considerably smaller group size, MJB would not be able to rely on the same purchasing power to drive premium savings.

Comparisons may be drawn by reviewing the experience of the University of Minnesota. The University left SEGIP in 2,000 in order to obtain lower premium rates and greater flexibility in plan design. Today, University premiums on average exceed those of SEGIP (Table 1).

Table 1: 2011 University of Minnesota Health Insurance Premium Rates

Coverage Type	U of M Annual Premium (average)[1]	SEGIP Annual Premium
Single Coverage	$6,543.77	$5,367.00
Family Coverage[2]	$18,807.43	$15,780.00

The University is considered a large employer with over 19,000 employees and over 40,000 lives insured. Based on the size differences, it can be predicted that the Judicial Branch would experience higher premiums than either SEGIP or the U of MN for similar plan design.

In further examining the factors that impact premium rates, MJB possesses some workforce attributes that typically result in higher premiums, including employing workers represented by

[1] http://www1.umn.edu/ohr/benefits/medical/rates/index.html, assumes 24 pay periods per year.

[2] The University of Minnesota also offers two other types of coverage; (1) Employee and Spouse/Same Sex Domestic Partner (annual average premium: $14,034.17); and (2) Employee and Child/Children (annual average premium: $11,360.91).

unions and having a significant portion of the workforce, nearly 50%, at or over age 50.[3] Additionally, over 77% of the MJB workforce is female, another attribute that typically drives higher premiums depending upon average age.

A League of Minnesota Cities report recommends caution when shopping the market for insurance quotes, noting that some carriers may offer unusually low rates for the first few years then raise rates significantly in the following years to recover their costs. This practice could result in an aggregate cost for the life of the contract equal to or in excess of MJB's current costs with SEGIP[4].

Plan Design

One of the largest determinants of premium cost is plan design. There is an intrinsic relationship between plan design and premium; as plans are designed to include more out-of-pocket costs for the insured, the premium decreases, and as plans are designed to minimize out-of-pocket costs for the insured, the premium increases.

The current SEGIP plan includes a number of plan design concepts that shift costs to employees such as tiered networks with higher copays for employees who choose more expensive clinics, wellness incentives that provide copay discounts for employees who take an annual health assessment engage in wellness programs, and a high deductible plan. More information on high-deductible health plans will be provided later in this report.

If the Judicial Branch were to leave SEGIP and seek a similar plan design, it would be challenging to find the exact mix of plan design, cost sharing (including a high deductible plan) and access to providers for employees in all parts of the state. According to Nathan Moracco, SEGIP Plan Director, for similar coverage, the Judicial Branch would not find a comparable plan or comparable premium rates. According to a Hewitt Associates survey, SEGIP has been able to achieve lower than average premium increases compared with other large Twin Cities employers (Table 2).[5]

TABLE 2: Twin Cities Employers Average Insurance Premium Increases

	2006	2007	2008	2009	2010	2011
SEGIP	0	9.9%	6.7%	3.5%	0	6.7%
Other Large Employers	2.5%	6.7%	9.1%	4.4%	5.6%	8.8%

[3] The Kaiser Family Foundation and Health Research and Educational Trust Employer Health Benefits 2010 Annual Survey, http://ehbs.kff.org/pdf/2010/8085.pdf
[4] "Controlling Spiraling Health Care Costs", League of Minnesota Cities, April 2004.
[5]Hewitt Associates Annual Benefits Survey,2011

Fully Insured vs. Self-Insured

Whether a plan is fully insured or self-insured has a significant impact on premiums. Self-insured plans generally garner lower premiums because the employer assumes risk. Because larger employers have more employees over whom to spread the risk of costly claims, self-funding is more common and less risky for larger organizations. In addition to the advantage of lower premiums, self-funded plans are exempt from state insurance laws, including reserve requirements, mandated benefits, premium taxes and consumer protection regulations by the Employee Retirement Income Security Act (ERISA) of 1974.

The Judicial Branch could not assume the risk and costs of a self-insured plan due to lack of experience, an older than average work force and the Branch's small size. Typically, a fully-insured plan costs 4% more than an identical self-insured plan. By leaving SEGIP, a self-insured plan, MJB could anticipate a 4% increase in costs simply by virtue of being fully insured.

Administration Processes and Costs

In order to separate from SEGIP, MJB would need to add additional human resources staff to research, negotiate, implement and administer a separate plan. Based on information obtained from MMB and Trusight, we estimate the need to hire three additional HR staff at an estimated annual cost of $230,000.[6]

Additionally, a departure from SEGIP would require the Branch to add additional IT resources to establish new technology system interfaces between human resources information systems (HRIS) and the insurance company in order to update and maintain eligibility information. MJB would no longer be able to rely on the existing system interfaces between the State's SEMA4 HRIS system and SEGIP providers. Additional IT resources would be required to build the necessary databases and interfaces to provide data from the state's SEMA4 system to the health plans on a weekly basis. These additional IT resources are estimated to cost approximately $150,000 a year.

There would be additional administrative services that are currently provided by SEGIP for which MJB would likely pay an insurance company and/or broker such as COBRA administration, HIPPA compliance, etc. The MJB currently pays SEGIP administration fees of $8.02 per month for each employee enrolled in the plan.[7] In addition to the administrative fees paid to SEGIP, MJB pays approximately 5% of premium costs to the insurance companies, plus 1% paid to MMB. The industry standard for administrative fees for fully insured plans is approximately 15%. A 9% increase in administrative fees would amount to roughly $700,000 annually in additional administration expenses.

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[6] Based on midpoint of salary range; including benefit costs.

[7] Additionally, there is a $4 per month fee for approximately 25 percent of eligible employees who participate in pre-tax accounts, per Nathan Morocco, Director of MMB Insurance Division.

Additionally, through participation in SEGIP, MJB also obtains other employee group insurance benefits such as dental, life, disability, and long term care insurance. A departure from SEGIP would likely require a departure from other State of Minnesota group insurance plans. Again, without the significant purchasing power of SEGIP, it likely that the Judicial Branch would face cost increases for dental, life, disability and long-term care benefits as well as the need to add additional HR and IT staff to support and administer these plans at an estimated annual cost of an additional $238,000 (Table 3).

Table 3: Potential Increased Administrative Costs

Resource/Activity	Annual Cost
Cost to add HR and IT infrastructure to support a new health plan	$380,000
Additional HR and IT to support ALL new insurance plans (dental, life, long term disability, short term disability, long term care)	$238,000
Increased Administration Fees	$700,000
TOTAL	$1,318,000

Advantages/Disadvantages

Potential Advantages to Leaving SEGIP

A departure from SEGIP would afford MJB increased flexibility in plan design, covered services, insurance companies, and third party administrators. For example, MJB could choose to work with Medica, which is currently not offered through SEGIP. Additionally, MJB could make changes in plan design such as moving all employees to a high-deductible health plan.

Separating from SEGIP would potentially allow MJB more influence in the collectively bargained aspects of the plan design as the Branch would negotiate directly with its unions regarding premium split (percent employer paid v. percent employee paid), premium caps, and insurance eligibility factors such as who is covered by the plan (retirees, part time employees, temporary employees, etc.). Additionally, the Branch would be able to modify the plan year to correspond with the fiscal year and offer multiple plans to different employee groups, if desired. All of which could potentially, result in premium savings if the plan design changes are agreed to by unions.

Potential Disadvantages to Leaving SEGIP

If the purpose of leaving SEGIP is to achieve similar level of benefits at less cost, this analysis concludes that it is highly unlikely to be achieved. The greatest potential disadvantage to MJB is the premium increase and additional risk associated with leaving a large group and forming a small group. With significantly smaller purchasing power than SEGIP, it is unlikely that the MJB would be able to provide similar coverage to its employees at current premium levels. Alternatively, if the purpose for leaving SEGIP is to achieve cost savings by offering a high deductible plan with fewer benefits for the employee, the Judicial Branch will be put at a distinct competitive disadvantage against the Executive and Legislative Branches and other public sector employers in attracting and retaining quality employees.

As a smaller group, there would be greater risk associated with volatility in claims experience; one big claim has a more pronounced impact on a smaller group than a larger one resulting in future premium increases. Currently, with the SEGIP plan, catastrophic claims are spread out over 120,000 insured lives. As a group of 5,400 insured, MJB would experience an increase in premiums if there are even one or two catastrophic claims.

The MJB would need to find a plan administrator that could meet the needs of a state-wide employer with operations in metro areas as well as the sparsely populated areas of Minnesota. If MJB encountered issues in finding a carrier to provide broadly accessible coverage networks, it would not be a large enough group to leverage negotiating power to compel the carriers to offer broad access.

Additionally, research indicates MJB's workforce demographics are not conducive to being self-insured as a small group; nearly 50% of the workforce is over age 50, and 77% of the workforce is female, traditionally the most expensive groups to insure.

MJB does not currently have the HR or IT staff required to support its own health insurance plans. As described in the previous section, branching off from SEGIP would require MJB to hire additional HR and IT staff to establish, negotiate, administer plan and provide support to over 2,800 staff located across the state, which is estimated at an additional expense of $380,000 annually. It is also questionable whether MJB could continue to procure other types of benefits (dental, life, disability, etc.) through SEGIP if not procuring health insurance. If unable to procure peripheral benefits through SEGIP, obtaining them independently would require additional staff to administer at an estimated annual cost of $238,000 and MJB would potentially face premium increases to these plans.

Finally, at a time of hard salary freezes, heavy workloads, and increasing requirements to do more with less, the SEGIP benefits offerings are a key tool to attract and retain staff. A departure from SEGIP would likely result in staff departures to other state agencies or the private sector and would put MJB at a distinct competitive disadvantage against the other branches and public sector employers in recruiting new employees.

Unlike the Executive Branch, the Judicial Branch negotiated a hard salary freeze for all of its employees in the FY10-11 biennium. Similarly, in FY12-13, MJB again negotiated no COLA increases and, unlike the Executive Branch, also negotiated no step/merit increases. With four years of hard wage freezes, a departure from SEGIP would be viewed as a loss of a valued benefit to Judicial Branch employees and would likely result in turnover and reduced ability to attract new employees as the job market recovers. The Minnesota Judicial Branch has embraced a multi-year aggressive agenda of innovation and reform to improve efficiency and service for court users and the public. It is vitally important that the Branch attract and retain quality staff to be able to meet these ambitious goals. Without the SEGIP and other insurance benefits offered to Executive Branch employees, the Branch's ability to compete for and retain employees would be greatly hindered.