

Topic:

HEALTH INSURANCE; MUNICIPAL OFFICIALS/EMPLOYEES; MUNICIPALITIES; STATE OFFICERS AND EMPLOYEES;

Location:

INSURANCE - HEALTH; MUNICIPAL OFFICIALS AND EMPLOYEES; PUBLIC EMPLOYEES - STATE;



August 29, 2008

2008-R-0463

**IMPACT OF POOLING STATE AND LOCAL EMPLOYEE HEALTH
INSURANCE IN OTHER STATES**

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You asked whether states that allow pooling municipal employees with state employees in the state health insurance plan have analyzed the impact of the municipal employees on the plan's experience rating and if the analysis shows adverse selection. You also asked, for states where municipal participation is voluntary, what the municipal participation rate is and if there are reasons for a low rate.

SUMMARY

Eleven states have combined their state employees and retirees into one pool with municipal employees and retirees for experience rating purposes. Only California indicated it has evaluated how local government membership in the state program affects costs. California Public Employees Retirement System (CalPERS) officials indicate that local government participation has reduced the state plan's annual premium costs by about \$40 million a year.

None of the other states have analyzed the impact municipal members have had on the cost of health insurance. Several states indicated that allowing municipal employers into the program was a policy decision intended to provide more affordable health insurance for municipalities and the issue of whether it affects the pool is secondary.

Of the 22 states included in this report, 21 have voluntary municipal participation in the state plan. Of those some have relatively high municipal participation (in New Jersey about half of the state plan's 780,000 covered lives are from municipal employers) and others have lower participation rates. (The states self-identified their participation rate and their answers are not of a uniform nature, see Table 1.)

Lower participation rates were attributed to a number of reasons including: (1) local governments had other affordable coverage options, (2) state plan requirements made it difficult for some local governments to join, (3) some municipalities would rather have a less comprehensive (and less expensive) plan than the one the state offers, (4) some local governments prefer keeping local control over their health plan, and (5) one state placed a moratorium on any new members.

Since none of the states were required to track why municipalities do not join the state plan, many only had anecdotal explanations for their participation level.

IMPACT OF LOCAL GOVERNMENT PARTICIPATION

Of the 11 states that pool local government and state employees, 10 responded to our inquiry. Of those that responded only California indicated it has evaluated the impact of local government participation in the state plan. CalPERS attributes \$40 million in annual premium savings for the overall plan to the local participation. CalPERS provides health insurance coverage for 1.2 million people and 490,000 of them are local government and school district employees and dependents. The local participation greatly increases the state's buying power. California is

the third largest purchaser of employee health benefits in the nation behind the federal government and General Motors.

The other nine states have not analyzed the impact of including local governments in the state plan. Their responses break down as follows:

- Massachusetts, New Mexico, and New York indicated it was primarily a policy decision to help the local government entities so they had no plans to analyze the impact;
- Louisiana, South Carolina, and Washington indicated they review the claims history of local entities seeking admission and if the risk history is higher than the existing pool, the new member is charged a higher rate (usually for a limited period) to cover the risk;
- North Carolina indicated it had not done an analysis and did not mention other efforts to gauge the impact of new members;
- Delaware has moratorium on new members and is considering studying the impact in the future;
- Georgia has mandatory admission of all teachers and retired teachers, which removes the issue of adverse selection.

(Kentucky has not yet responded to our inquiry.)

PARTICIPATION RATES OF LOCAL GOVERNMENT ENTITIES

Table 1 displays the responses from 21 states that have state employee health insurance programs are open to some or all local government employees and retirees. Note that states self-reported their participation rates so the answers do not consistently use the same terms.

Table 1: Local Government Participation in State Employee Health Programs

<i>State and Program</i>	<i>Local Government Participation Level</i>	<i>Reason(s) for Low Participation (if known)</i>
Arkansas Employee Benefit Division	Low (respondent did not elaborate)	Desire not to disrupt status quo
California* California Public Employees Retirement System (CalPERS)	1.2 million employees, retirees, and dependents covered, and 490,000 are local government and school district employees and dependents (1,142 of 6,000 local governments participate)	<ul style="list-style-type: none"> ● Some localities are large enough to get good rates for their own pool (city/county of San Francisco) ● Some local governments do not participate due to CalPERS requirement that coverage be provided for retirees; ● Some have broader definition of domestic partners (i.e., they allow heterosexual couples to be considered domestic partners) than does CalPERS.
Delaware* Statewide Benefits Office	110,000 lives covered and approximately 5,000 are from local governments.	Currently a moratorium exists on new municipalities joining due to the frequency of municipalities joining and then leaving, which caused an administrative burden.
Florida Division of State Group Insurance	None	No towns have joined due to the burdensome requirements the law places on them.
Georgia* State Health Benefit Plan	Mandatory plan for all school districts for active and retired teachers, so there is 100% participation.	Not applicable

Illinois Group Insurance Division	About 36,000 out of 425,000 covered overall in the state program	Many local governments found coverage locally; state plan maintains separate pools for local governments so rates are comparable with what they can get on the market themselves
Kentucky* Kentucky Employees Health Plan	No response	No response
Louisiana* Office of Group Benefits	Only local school districts can join and 49 of the state's 66 districts have opted in.	New rules regarding retiree vesting period make it hard for additional districts to join.
Massachusetts* Group Insurance Commission	Program is only one year old, nine local governments joined in the first year. Second round of applications are due in October.	Too early to tell due to newness of program.
Missouri Missouri Consolidated Health Care Plan	250 of about 3,000 (or 8.3%) local government entities participate	Not pooled together with state plan so similar premiums available on the market; towns desire to keep business local
Nevada Public Employees Benefit Program	Out of a total of 70,000 lives covered, 8,258 are local government employees or retirees	Many towns desired to keep local control. Since local government employees are not pooled with state employees, when their premiums in the state program went up (due to increased claims) there was little reason to stay in the state plan.
New Jersey State Health Benefits Plan	About half of the state plan's 780,000 covered lives are municipal employees and dependents	Not applicable
New Mexico* State Agency Health Plan	About 30% of the state plan's 95,000 lives are local government employees or dependents	Not applicable
New York* New York State Health Insurance Plan	About 200 local governments participate.	Participation is high among downstate (New York City metropolitan area) local governments and is much lower among upstate local governments. The state plan is a deal for downstate entities, where the cost of health insurance and medical services is much higher than upstate.
North Carolina* North Carolina State Health Plan	No response	Program only allows retired teachers into the state plan
South Carolina* Employee Insurance Program	125 of 316 (towns and counties) participate	Not sure
Tennessee Benefits Administration	34 out of 95 counties participate; no response regarding towns.	No response

Utah Public Employee Health Plan (PEHP)	Approximately 52% of eligible local governments, including service districts, counties, and public schools	There is considerable competition among insurance carriers and brokers for government employee contracts. Many brokers steer local entities away from state plan as they get no commission from a PEHP contract
Washington* Public Employees Benefits Board	About 50 school districts and 225 other local governments have joined.	<ul style="list-style-type: none"> ● Some prefer less comprehensive plans that cost less; ● State education association also offers plan that competes well for school districts; and ● Not much has been done to market the state plan.
West Virginia Public Employees Insurance Agency	Do not track participation level	Not sure
Wisconsin Group Insurance Board	350 out of 1,200 local governments have joined; represents about 30,000 of the 230,000 lives the state plan insures	Some have similar options elsewhere in the market.
* Indicates programs where the state and local government employees are pooled together for insurance rating purposes.		

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