LOWER COST ALTERNATIVES TO THE STATE HEALTH BENEFITS PLAN

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If you're part of a public entity that is a member of the State Plan or with any private insurance company, you have an important decision to make: remain where you are or consider alternate options.

On May 22, 2009 the State of New Jersey shared troubling news with municipalities, school districts, counties and other local government entities around the state. The state warned that participants in the State Health Benefits Plan and the State Educators Health Benefit Plan (the State Plans) should anticipate a "substantial, double-digit increase in program premiums expected to hit the State as early as January 2010."

In light of the economic challenges facing the state, the timing could not be worse. Public entities are already facing budgets outpaced by the growing demands in their communities. In addition, the economic environment has burdened public entities to operate beyond bare-bones. A "substantial, double-digit increase" to employee benefit costs will be devastating. On the heels of their warnings, in mid-July the State Plans announced record increases—25 percent for schools and 16 percent for municipalities and other local public entities.

A Look at the State Health Benefits Plan The State Plan operates a large pool that leverages the economies of scale. These large numbers help to reduce risk and ensure predictability. Additionally, the State Plan has generally offered easy management for participant clients and name recognition that made participants comfortable. Yet from the beginning, the State Plan has had operational challenges. For example, it provides no local autonomy and local leaders lose the ability to bargain with local unions for benefit changes.

State Plan rates have been applied statewide without accounting for the differences in cost in different areas. From Cape May to Hoboken, rates are the same. Plus, public entities can come in and out of the State Plans with only 60-days notice and without regard for their claims experience. What has often happened is groups go in when their experience is poor and leave when it is better. Also, the lack of engagement at the local level has been a disincentive for proactive health and wellness management.

A recent Watson Wyatt survey found that the greatest challenge in maintaining affordable benefit coverage was employees' poor health habits and underuse of preventative care. In the State Plans there is no local engagement to help influence wellness or quality. (The Watson Wyatt survey included 489 employers with 7.8 million employees and $56 billion in total health care spending.)

For years, the advantages of the State Plan—affordable cost and low hassle—outweighed some of its disadvantages. This has changed. In January 2010, public entities in the State Plans will face enormous double-digit premium increases. "Due to escalating health care costs nationwide and the downturn in the economy, premium increases are unavoidable," said the state in a recent release.

In our view, the State Plans have grown too big and some of the operational challenges they face may make their platforms less desirable for the short and long term. As a result, public entities around the state are asking: How will we continue to provide high-quality benefits and meet our collective bargaining obligations at affordable and predictable costs?

Joint Insurance Funds One solution worthy of consideration is a Health Joint Insurance Fund or Health JIF. Like a property and casualty Joint Insurance Fund, a Health JIF is a governmental entity regulated by the New Jersey Department of Banking and Insurance. A Health JIF allows public entities to purchase and deliver health benefits using the same shared services model that has been extremely effective for decades as a means of delivering property and casualty insurance across the state.

The advantage of the Health JIF model is that each public entity that participates enjoys the economies of scale but does not sacrifice local control and autonomy. Essentially, each entity has a say in the process, products offered and outcome. It's a better way to leverage public entities working together.

The most successful version of this model in New Jersey is the PERMA Health JIF which offers a unique plan. A few of the differences as compared to the State Plan are:

- More stability and predictability of future healthcare costs
- Maintain local control of health insurance; including collective bargaining control
- Continue current benefits offering on "equal to or better than basis"
- Improved claim costs through better program management
- Administrative expenses reduced through greater negotiating clout
- Local data is easily accessible

However, the greatest difference is what you *don't get*: waste. Through a Health JIF, you retain the dollars that would otherwise be paid to an insurance company, thereby reducing the profit margin and decreasing overhead expenses.

Unlike the State Plan, which does not account for local cost and demographics, PERMA Health JIFs are regionally organized to more accurately and fairly distribute costs. PERMA oversees five HIFs in New Jersey: Southern NJ Regional HIF, Northern NJ Fund, Central Jersey Fund, Southern NJ Regional Fund and Municipal Re-Insurance HIF that provides re-insurances to all four Funds. In fact, PERMA runs three of the largest Health JIFs in the nation and its re-insurance Fund for benefits is the largest Fund of its kind in the United States.

Furthermore, HIFs are managed and monitored by certified actuaries to ensure that the Fund's financial health is secure and stable. The actuary is responsible for certifying the claim reserves and member claim rates of the Health JIF to the Commissioners (each participating entity appoints a commissioner) and state regulators.

Health JIFs give public entities unique control by accessing financial records and discussing best practices, performance results and program plan design. At the same time, public entities maintain a high level of assistance with implementing the program. For example, the Health JIF will handle: employee education, service and advocacy; negotiating fees with carriers; overseeing financial performance of the Fund; manage enrollment, billing and COBRA and retiree billing; and, issue identification cards and benefit booklets. These responsibilities can be a tremendous strain on a public entity's staff; however, with the HIF that challenge is removed.

While the Health JIF model has received recent attention, it is not a new solution. State law created the first municipal Health JIFs in 1991 and school districts were allowed to establish Health JIFs four years later. Legislation from 2007 allows all public entities to be in the same Health JIFs stimulating dramatic growth over the past two years.

Ultimately, health insurance comes down to cost. While a Health JIF is not the solution for every public entity in New Jersey, it may be the right fit for many.

ULTIMATELY, HEALTH INSURANCE COMES DOWN TO COST. WHILE A HEALTH JIF IS NOT THE SOLUTION FOR EVERY PUBLIC ENTITY IN NEW JERSEY, IT MAY BE THE RIGHT FIT FOR MANY.

The Next Steps Many public entities have already created budgets for next year, yet most in the State Plans planned for single digit increases.

If you're part of a public entity that is a member of the State Plan or with any private insurance company, you have an important decision to make: remain where you are or consider alternate options. With the many challenges facing New Jersey's public entities we believe there is good reason to explore all the options, including a Health JIF. ▲

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