

A photograph of three business professionals in an office setting. In the foreground, a woman with long brown hair, wearing a black blazer over a white collared shirt, stands with her arms crossed and a slight smile. Behind her, a man with short dark hair, wearing a dark suit and a blue and yellow striped tie, smiles. To the right, another man with grey hair, wearing a dark suit and a red patterned tie, looks towards the camera. The background is a blurred office interior with light-colored walls and a window. A large blue diagonal graphic element is on the left side of the image.

***Get a Grip! Proven Strategies to Control
Costs of Your Employee Benefits
Program***

Colonial Life.
Making benefits count.

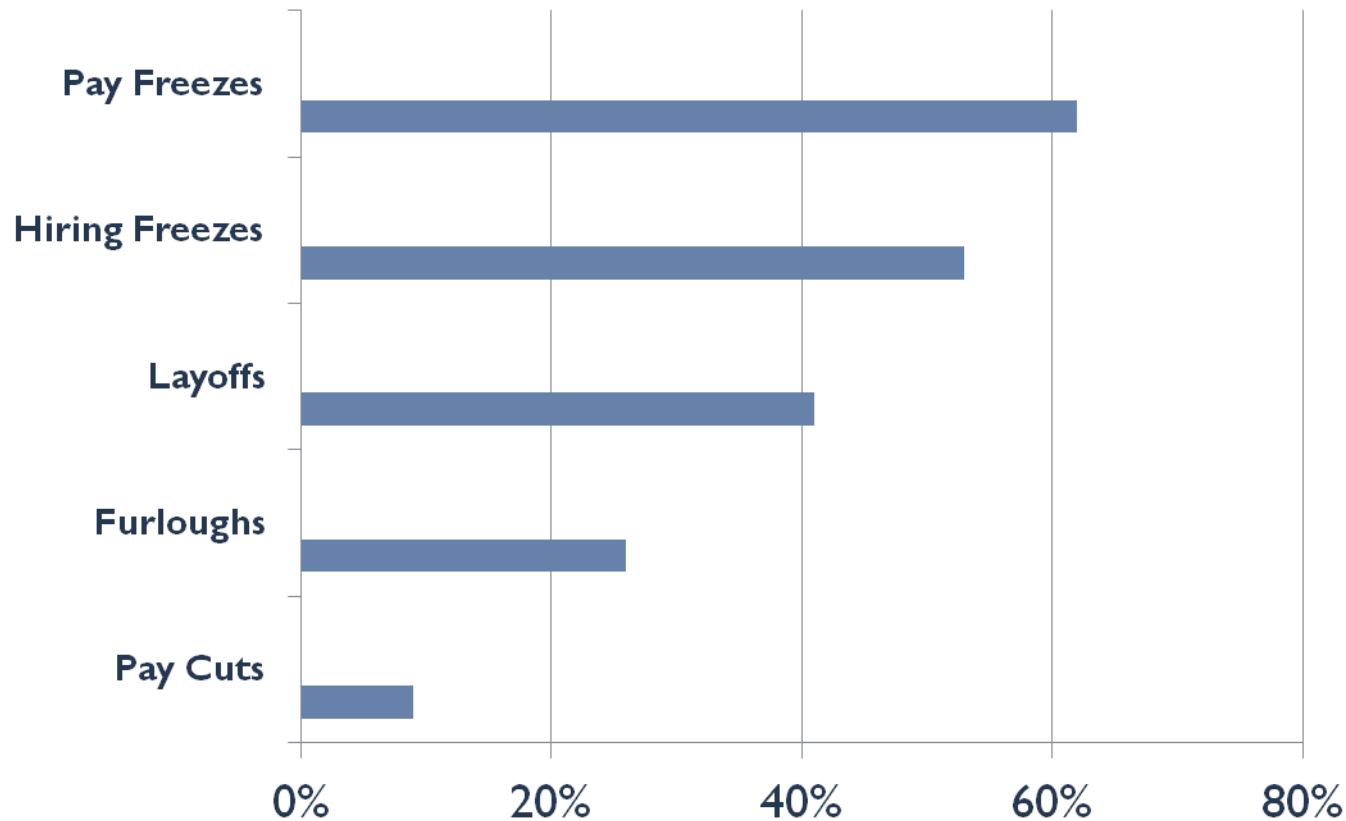
Steve Vermette, Regional Public Sector Manager

We've All Seen the Headlines



We've All Seen the Headlines

Because of the current economic climate, which of the following workforce changes has your government implemented



Source: Center for State and Local Government Excellence, 2011

We've All Seen the Headlines

Bankruptcies



Governing.com, Aug 2012

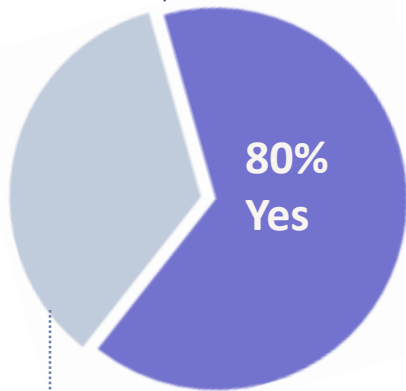
“Both cities have been hurt by high labor costs, particularly health insurance”

**Bankruptcy Attorney
Dale Ginter**

Commenting on Stockton and Vallejo bankruptcies

Everyone is Trying Something

1. Are You Currently Looking for Ways to Reduce Costs of Your Benefit plan?



2. What is The Top Priority of Your Employee Benefits Plan?

Controlling the organizations cost

58%

*Ability to retain key employees/
employee satisfaction*

20%

*Ability to recruit and compete
for top talent*

13%

*Controlling employees
out of pocket cost*

9%


Colonial Life-IPMA Conference Pulse Survey 2011

About the Project


- GFOA received a grant from Colonial Life to study health care benefit management in late 2011.
- GFOA's research included a survey, case studies, & secondary sources
- Finding and publication reviewed and approved by an independent panel of GFOA members with experience in employee benefit management


But What Exactly is Everyone Doing?

Containing Health Care Costs



Proven strategies for success in the public sector

 Government Finance Officers Association

 Colonial Life.
Making benefits count.

- Employee benefit cost management techniques
 - What strategies are being used?
 - How many are using them?
 - Would you recommend?
 - How much can you save?
 - Why are you not using strategies?
- Survey *and* case interviews with CFO's, Finance Directors, Budget Managers, HR Directors and managers.



Four Key Leverage Points Emerge

Supplier Management

- Purchasing Co-ops
- Re-bidding
- ESP enrollment
- Self-funding

Governance and Optimization

- Dependent verification
- Benefit waivers
- Plan redesign
- Plan Restrictions
- Section 125

Cost Sharing

- Increase Deductibles
- Increase Co-pays
- Increase Premium
- Move Benefits to VB

Wellness

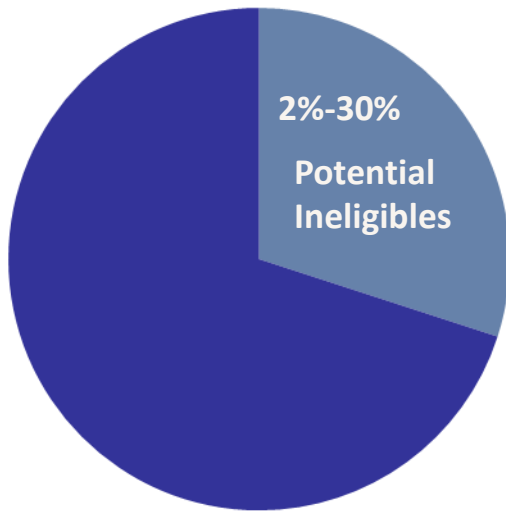
- Healthy behaviors
- Preventive treatment



Dependent Eligibility Verification

Dependent Eligibility Verification

Total Dependents on Health Plan



According to market research anywhere from 2% to 30% of dependents on any given health plan are ineligible for coverage, with the typical range being 8% to 11%.

Source: AON-Hewitt 2010

	Public Sector	Private Sector
Healthcare coverage for dependent grandchildren	61%	34%
Healthcare coverage for dependent foster kids	50%	25%

SHRM 2010 Employee Benefits Survey.

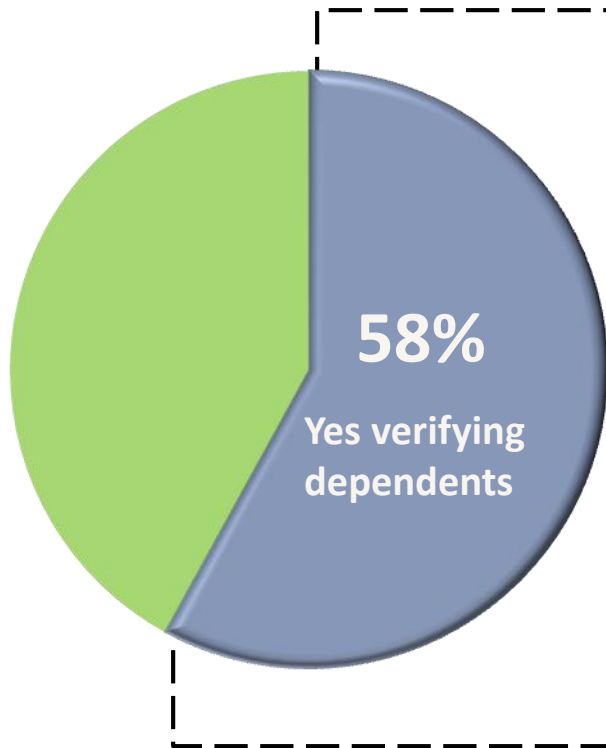
Examples of Dependents:

- Domestic partner*
- Birth Child*
- Adopted Child*
- Step Child*
- Grand Child*
- Legal Guardianship*
- Domestic partner child*
- Disabled adult child*
- Adult children*



Dependent Eligibility Verification

Total Respondents



Based on your experience would you recommend dependent verification to other Public Sector organizations?

Very likely to recommend	64%
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Somewhat likely to recommend	11%
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Neutral	20%
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Unlikely	5%
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Source: GFOA-Colonial Life 2011

County finds \$1M savings after insurance audit

Montgomery County 356 ineligible dependents

Source: Dayton Daily News

Dependent Audit Finds \$7.3M in Health Benefit Savings

Source: Nassau County Comptrollers Office

Denver Taxpayers Paid Millions for Non-Dependents

“For decades the city relied on the honor system”

Source: CBS Channel 4 Denver

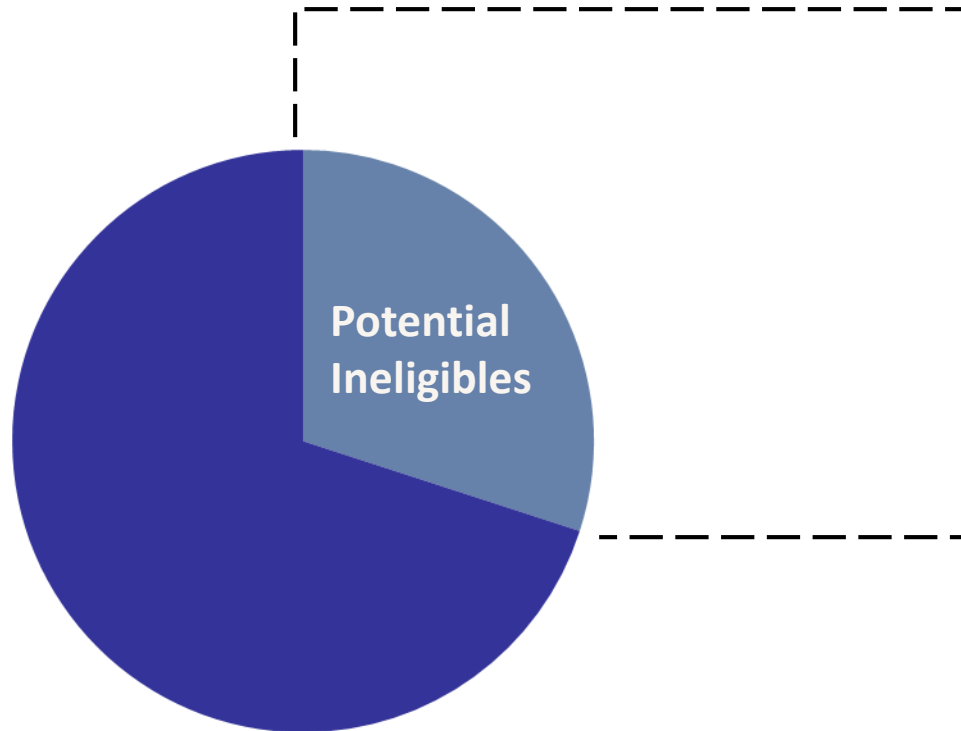
Ann Arbor Schools Find and Oust 200 Ineligible Dependents from District Health Plan

“It is just a flat out extra cost to taxpayers”

Source: Education Report.org

Dependent Eligibility Verification

Large School District



Savings Illustration

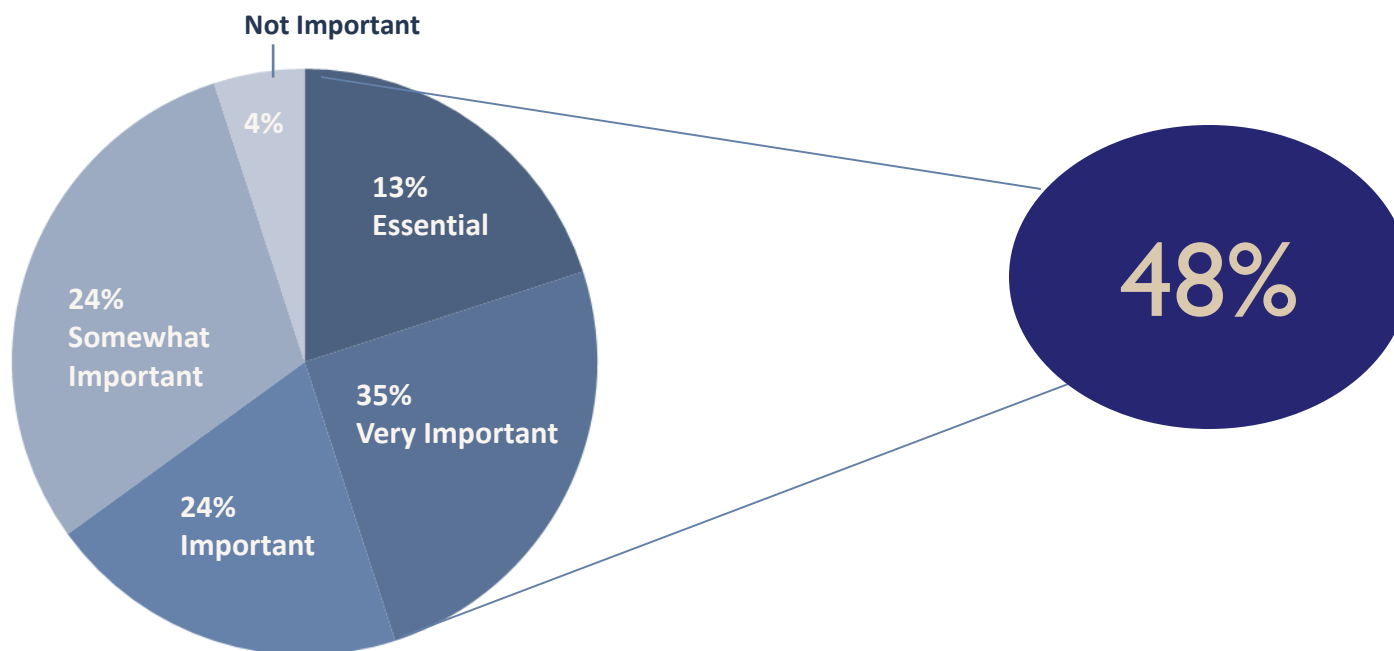
Employees	12,000
Discovered Ineligible Dependents	1,100
% of Dependent Population	7%
Savings per Dependent	\$2000
Final Savings	\$2,200,000

Most Common:

Divorced individuals who continued to carry spouse

Dependent Eligibility Verification

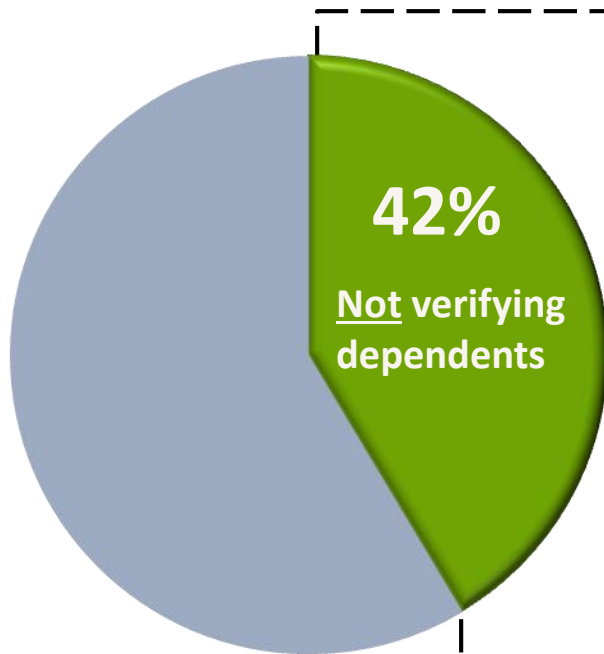
How important is this technique as a part of your overall cost management efforts?



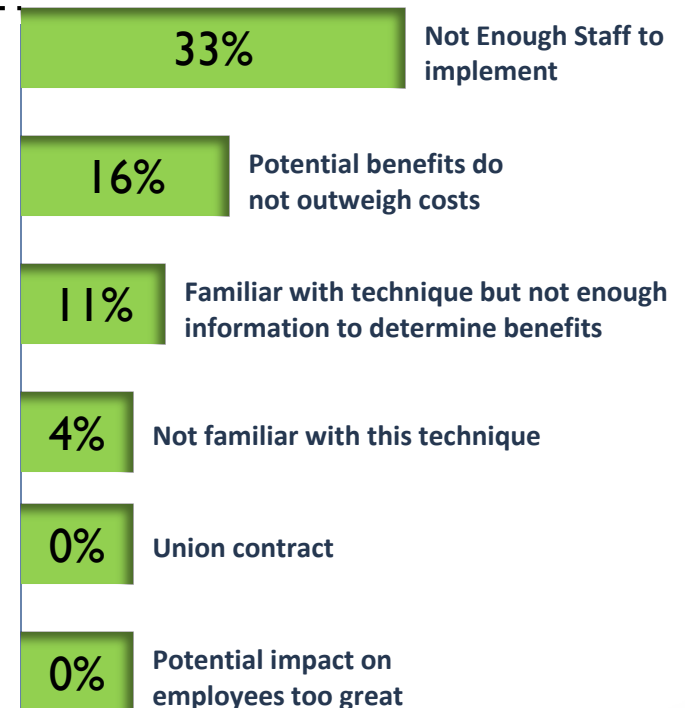
Source: GFOA-Colonial Life 2011

Dependent Eligibility Verification

Of those not using, why have you not used this technique?



Execution Hurdles



Source: GFOA-Colonial Life 2011

Dependent Eligibility Verification

Several Techniques

- ✓ Hard Audit using outside firm
- ✓ Review Verification documents using outside firm with 30 day provision for HR
- ✓ Have employees sign affidavit at time of enrollment as to who dependents are.
- ✓ Build a process into the front end of your own enrollment system that forces verification.

No wellness

Source: GFOA-Colonial Life 2011

It Works	“It helped us save money”		
		“With Obama-care must insure until age 26 so no use to verify”	Healthcare Reform
Minimal Impact	“Does not hurt eligible enrollees and saves money “		
		“Process is very time consuming“	Staffing
Good Governance	“We verify dependents every year”		
		“We are small government and know each others dependents“	Size
Healthcare Reform	“Would recommend due to new extensions of dependent coverage”		
		“Responsibility of health plan”	Already Covered

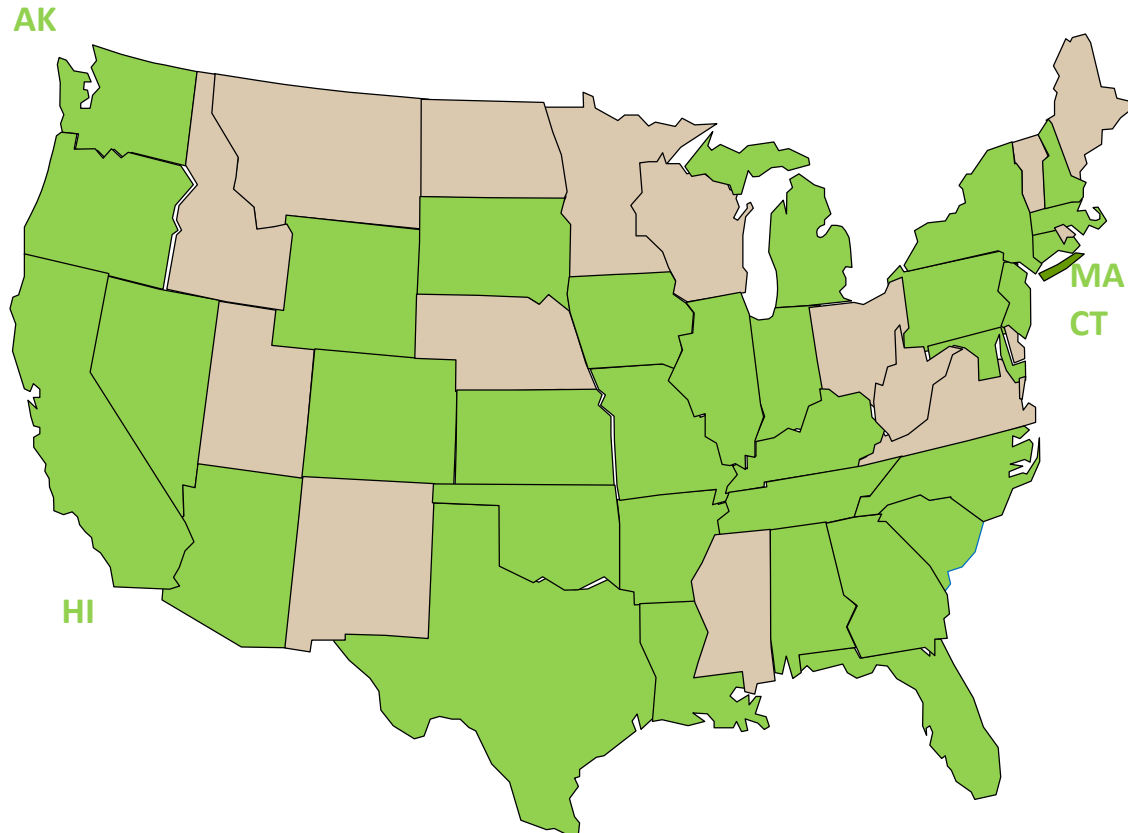
Source: GFOA-Colonial Life 2011

Dependent Eligibility Verification

We called Carriers/TPA's in your States....

Key Findings

91%	Periodic review and verification of dependent eligibility is the responsibility of employer.
9%	Help monitor and track age of dependent children only.



“The employer handles everything related to this, including periodic review and verification.”

Medical Insurance Carrier, Ohio

Dependent Eligibility Verification

Key Takeaways From Research

Dependent verification is **highly utilized** and recommended

Health care reform has **people confused** in regards to dependent coverage

Confirm the exact process your health carrier or TPA is following

Smaller groups just mean **easier execution**







Your **benefits partners** can be a good resource to assist in overcoming any knowledge and manpower gaps in regards to execution

Dependent verification is **good plan governance** and should be performed on a regular basis







Proactively keep this a “good” story, not a reactive one

Overcoming Concerns Within Your Organization

Possible Concern

	We do not pay for dependent coverage.
	We already did this a few years ago.
	We verify dependents whenever a new employee is hired.
	Our health carrier or TPA does this for us.
	We do not have the staff or time to do this.
	This could upset employees.

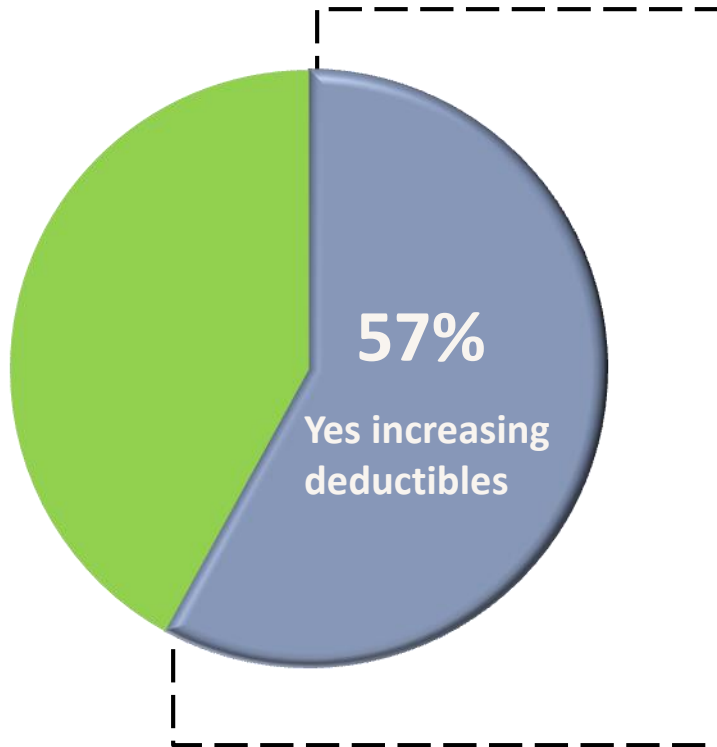
Keep in Mind

	Dependents can still drive up your claims cost, renewals rates, and experiential rating.
	Repeating the process annually is a best-practice.
	Family situations are constantly changing. i.e. divorce.
	<u>Confirm!</u> Many carriers view this as the employers responsibility.
	Look to benefit partners who can assist with execution.
	<u>Not</u> educating employees on dependent eligibility requirements is a disservice.

Increase Deductibles

Increase Deductibles

Total Respondents



Based on your experience would you recommend increasing deductibles to other Public Sector organizations?

Very likely to recommend

40%

Somewhat likely to recommend

33%

Neutral

22%

Unlikely

5%

Source: GFOA-Colonial Life 2011

Increase Deductibles

	Public Sector	Private Sector
Healthcare coverage for part time workers	56%	26%
Healthcare for retirees	75%	15%
No EE Contribution	35%	7%
Average Deductable Single/Family	\$400/\$1000	\$1000/\$2000
Plan to raise deductibles Co-pays, OOPM	41%	35%

Source: SHRM EE Benefit Survey

Transylvania Tries New health Plan to Control Costs

Deductibles moved from \$750 to \$1,500

Source: Times-News

New Health Plan to Save Haverhill \$1.1M per year: Workers Face \$200 Deductible

“Ultimately this was the only way to preserve city services”

Source: Eagle Tribune

Coweta County Employees to See Higher health Plan Co-pays, Deductibles

Increases expected to save the county \$200,000 year

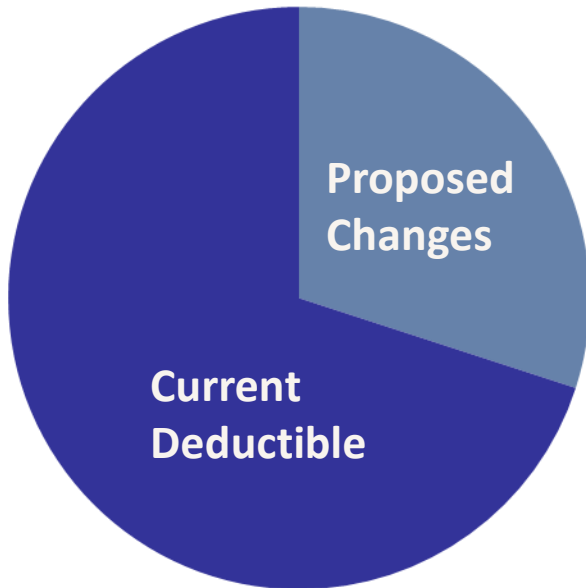
Source: Education Report.org

Increase Deductibles

Local Government

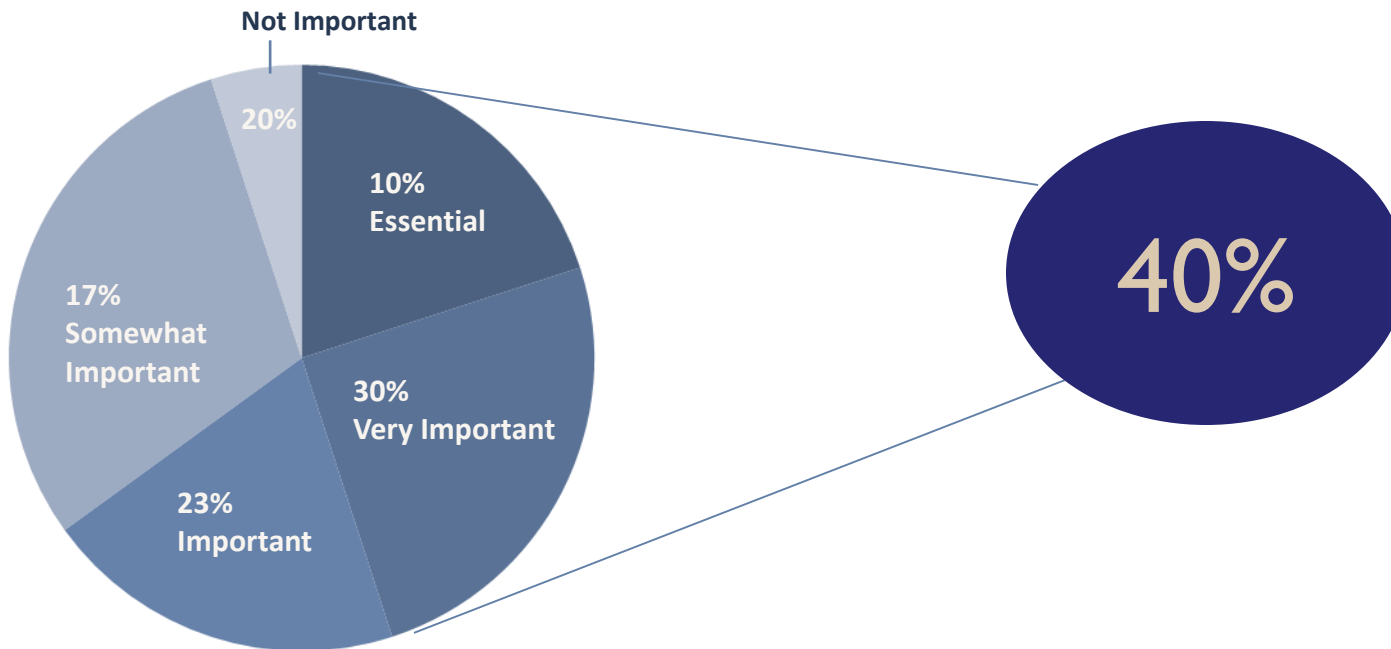
Savings Illustration

Employees	300
Current Deductible	\$1,500
Renewal	\$1,836,000
New Deductible	\$3,000
Renewal	\$1,286,000
Savings	\$550,000



Increase Deductibles

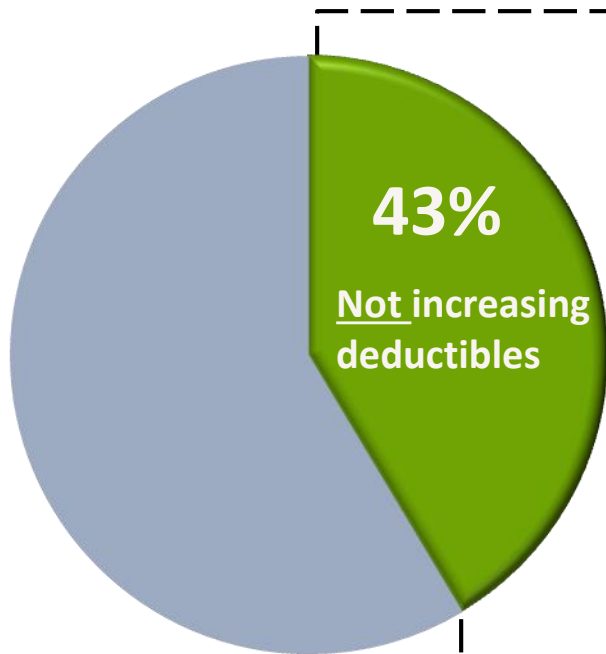
How important is this technique as a part of your overall cost management efforts?



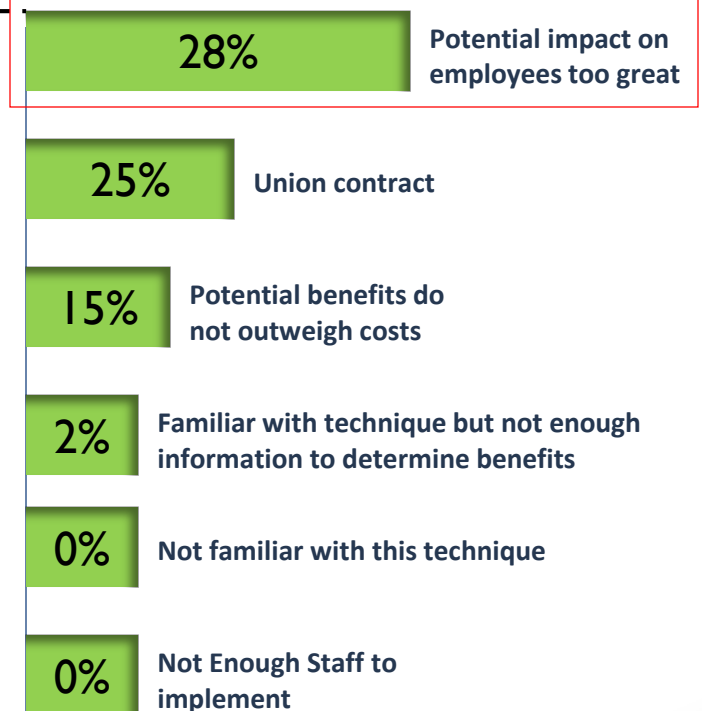
Source: GFOA-Colonial Life 2011

Increase Deductibles

Of those not using, why have you not used this technique?



Execution Hurdles

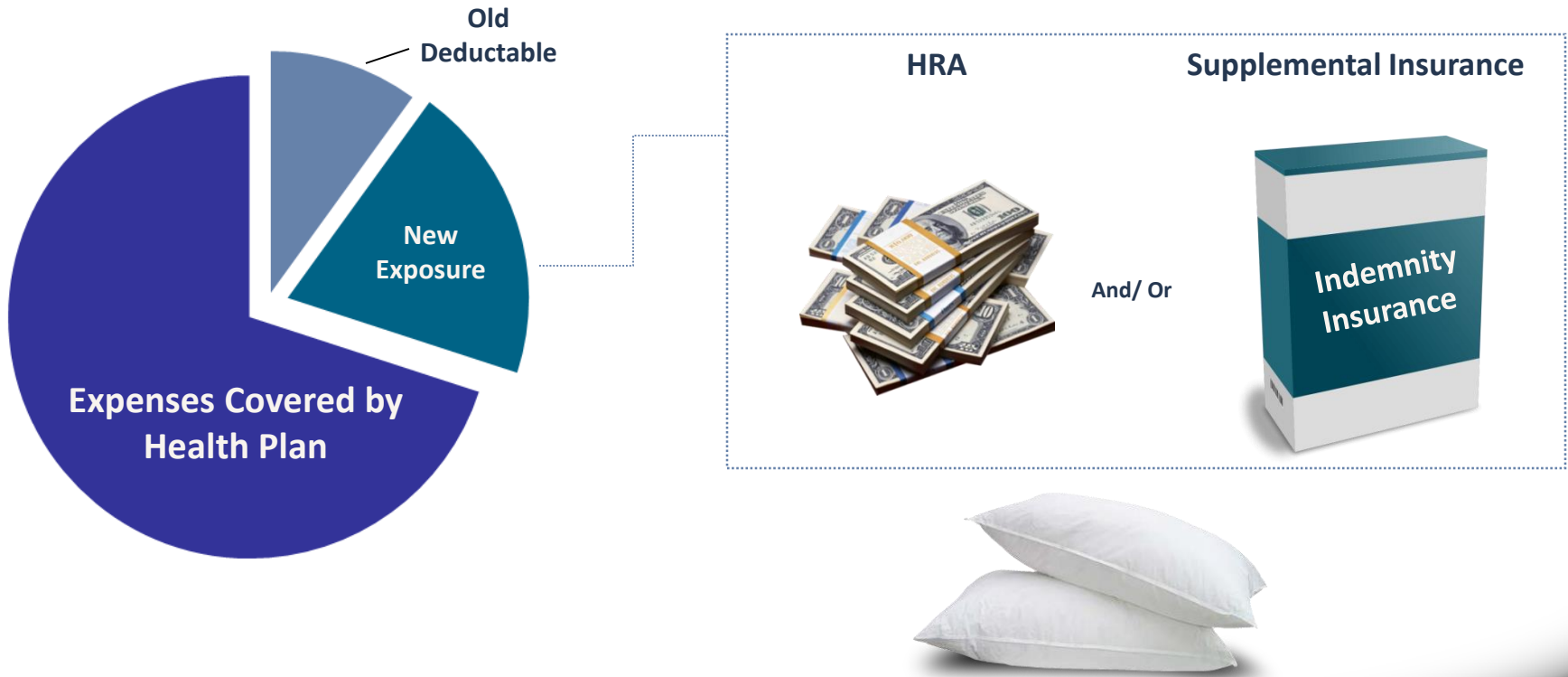


Source: GFOA-Colonial Life 2011

Increase Deductibles

Mitigate Employee Impact

Increasing deductibles is easier on employees when given the option of a “soft landing” to offset new out-of-pocket costs.



Saves Money	“Reduced monthly premiums and saved us quite a but of money”	“Increasing deductibles may serve as a hardship on lower paid employees”	Employee Impact
Mind Shift	“Deductibles help shift cost and change behavior“	“Health insurance is through our state plan“	Plan Control
Tough But Necessary	“This was necessary but certainly not popular”	“Union controls the plan“	Contract
Unavoidable	“This helped us avoid double digit increases”	“We did this 3 years ago, too soon to do again”	Selective Usage

Source: GFOA-Colonial Life 2011

Increase Deductibles

Key Takeaways From Research

Many government organizations have increased deductibles to **directly lower the cost** of their health plan

Facing more out-of-pocket expense makes employees more prudent and **cost conscious** about utilizing their health care benefits






Increasing deductibles does not always mean HDHP. Even a **modest increase** can have an impact both on premiums and employee behavior

Employers can **offset the financial impact** of a deductible increase by shifting some of the projected savings to seeding a HRA or funding a supplemental indemnity policy for employees






Minimally provide a FSA or voluntary insurance benefit the employees can **independently choose** to utilize

Overcoming Concerns Within Your Organization

Possible Concern

	We want to lessen employee barriers to health care, not erect new financial ones
	Impact on our employees would be too great
	We are self-funded so we have no monthly premium to reduce
	HDHP's are too drastic a change
	Our employee / unions will not be in favor of these changes

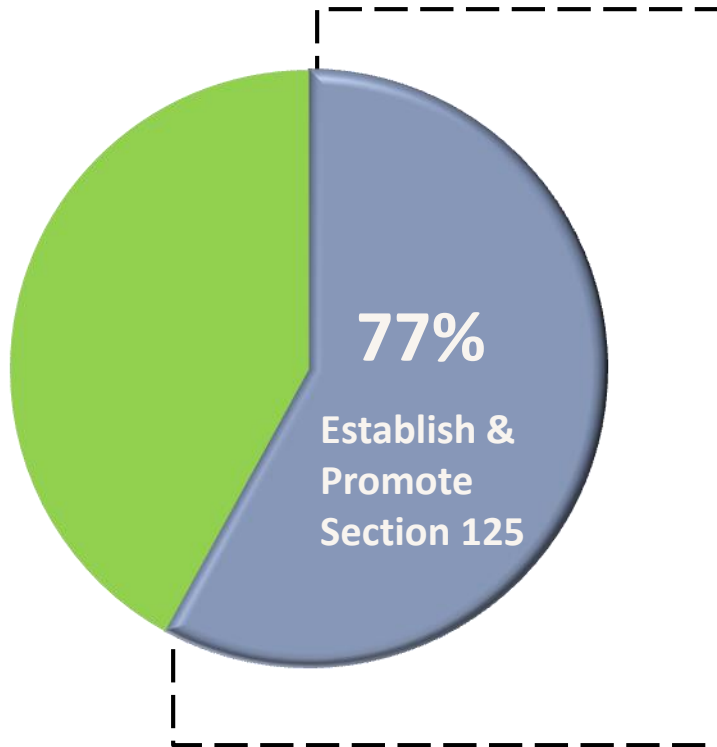
Keep in Mind

	More equitable sharing of costs contributes to long term plan sustainability
	There are many options that can help mitigate the impact
	Can still save on employee claims costs and install a “mind shift”
	Even a modest increase could be beneficial
	Unionized or not, employees should be engaged in the process

Establish & Promote Section 125 Plan

Establish & Promote Section 125 Plan

Total Respondents

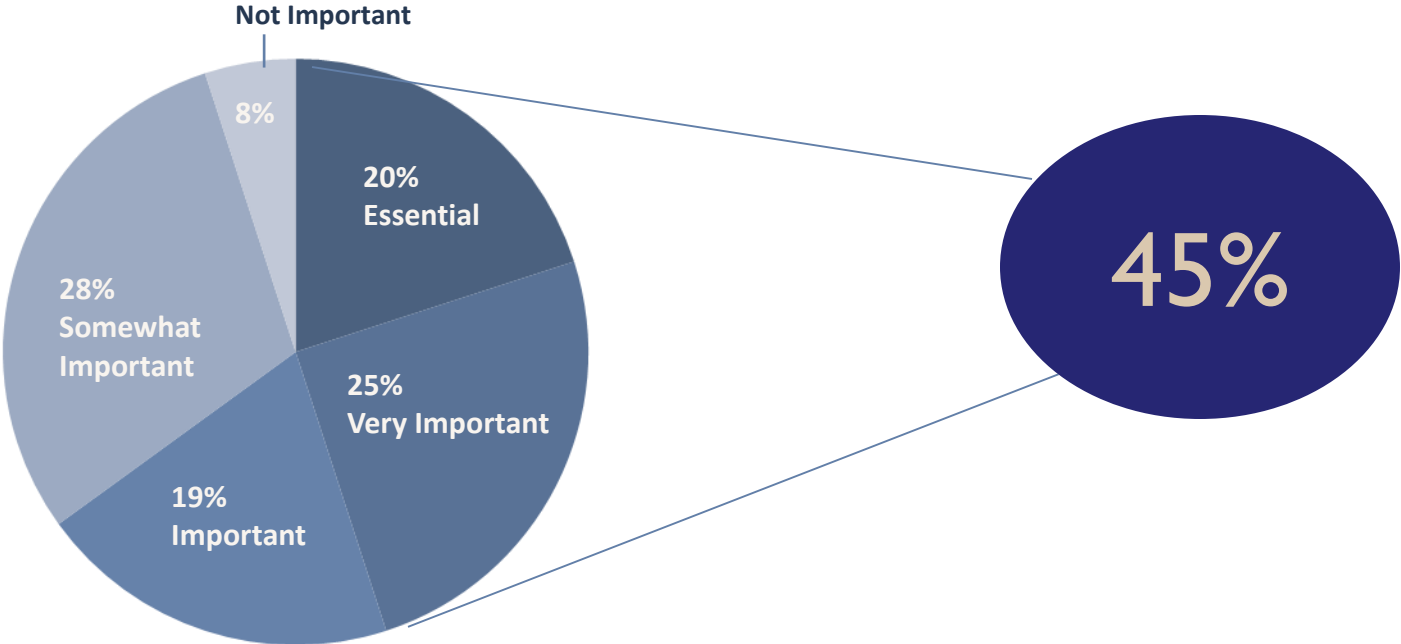


Based on your experience would you recommend establishing & promoting section 125 plans to other Public Sector organizations?	
Very likely to recommend	73%
Somewhat likely to recommend	13%
Neutral	11%
Unlikely	3%

Source: GFOA-Colonial Life 2011

Promote Section 125 Plan

How important is this technique as a part of your overall cost management efforts?



Source: GFOA-Colonial Life 2011

Establish & Promote Section 125 Plan

Savings Illustration			
250EE	Without Plan	With Plan	
POP			
Annual Payroll	\$10,000,000	\$10,000,000	
Pre-tax Insurance Deductions	0	\$750,000	\$250/M/EE
Taxable payroll	\$10,000,000	\$9,250,000	
Taxes	\$765,000	\$707,625	7.65%
ER Tax Savings		\$57,375	
FLEX			
Unreimbursed Medical	0	\$60,000	40EE/\$1500/YR
Dependent Care	0	\$40,000	20EE/\$2000/YR
Taxable Payroll	\$10,000,000	\$9,150,000	
Taxes	\$765,000	\$699,975	7.65%
ER Tax Savings		\$65,025	+15% with flex
Employee Savings		\$255,000	30% combined tax rate

Establish & Promote Section 125 Plan

	Public Sector	Private Sector
Medical FSA	86%	65%
Dependent Care FSA	79%	61%
FSA Participation	28%	36%

*30% higher
adoption rate
than commercial
businesses*

***BUT 30% lower
participation than
commercial businesses***

Source: SHRM 2010 Employee Benefits Survey

Promote Participation

FSA Participation

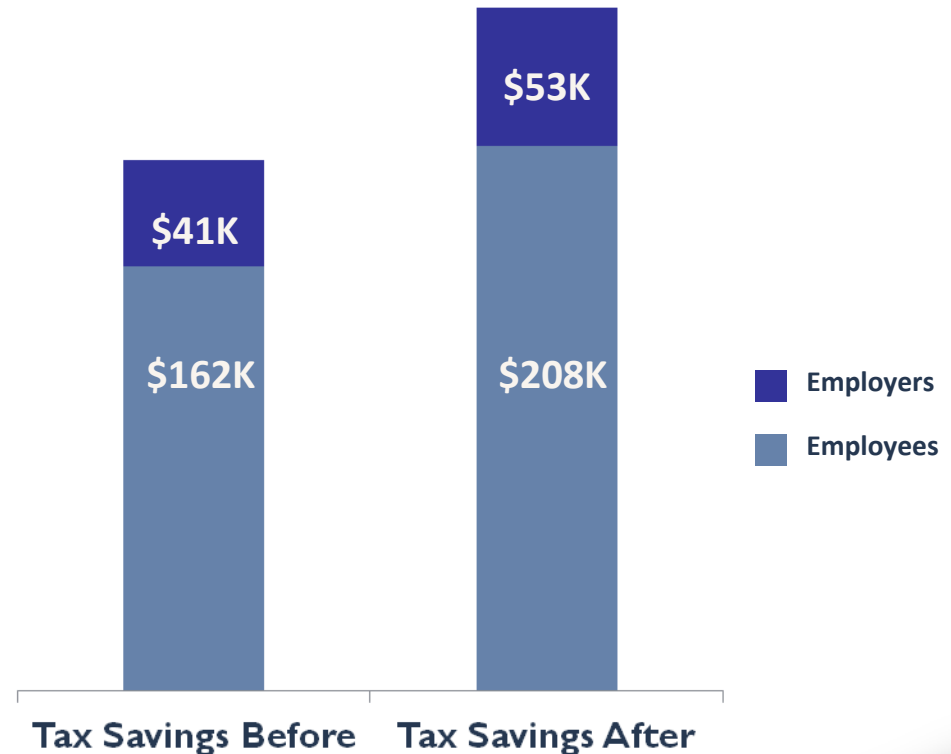
A good education and communication program has proven to be successful in helping public sector employees take full advantage of the pre-tax benefits being offered to them.

Results: More employees participating in benefits and \$58K in new tax savings

School District 900EE			
Participants	Before Program	After Program	+%
Health Care FSA	60	117	95%
Dependent Care FSA	3	7	133%
Pre-Tax* Insurance	862	888	3%

Contributions & Deductions	Before Program	After Program	+%
FSA's	\$63,681	\$144,895	127%
Pre-Tax Insurance	\$476,754	\$547,290	14%
Total Pre-tax	\$540,435	\$692,185	28%

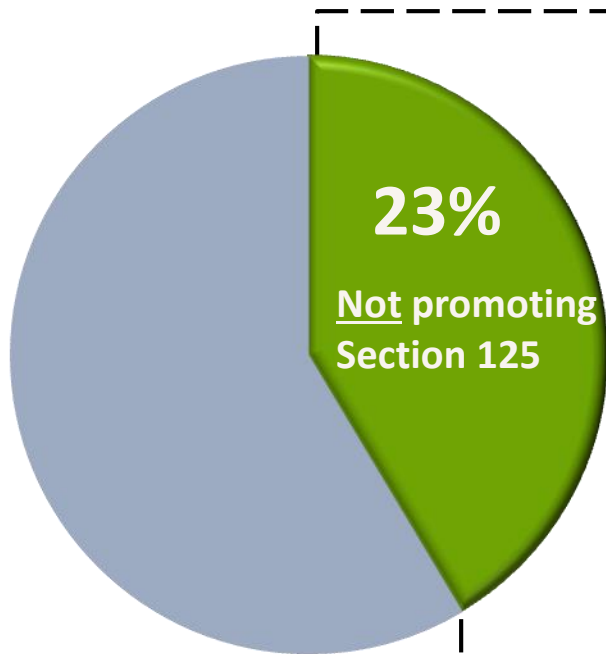
*Pre-tax insurance includes Dental, Vision, and Supplemental insurance.



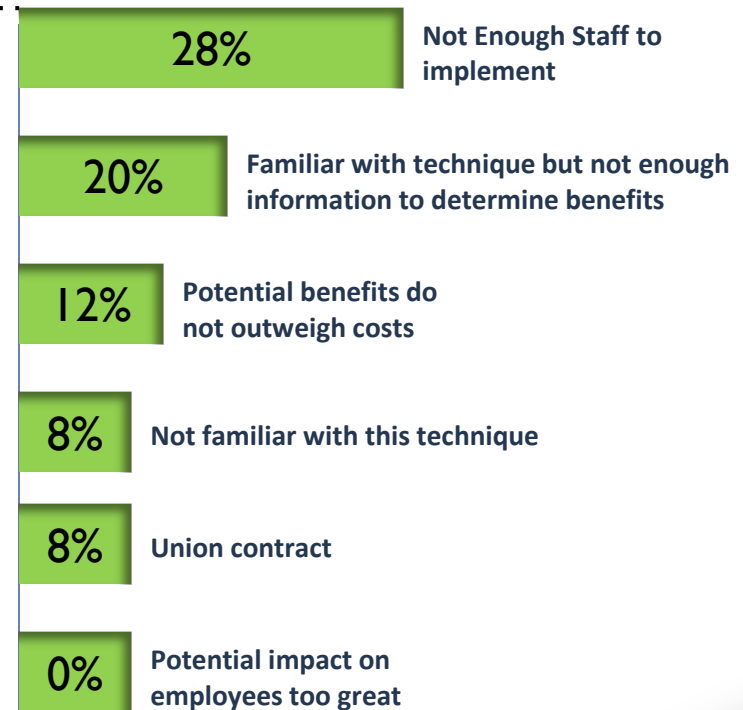
*Employee savings assumes a 30% combined federal, state, and local tax bracket. Employer savings based on FICA only.

Establish & Promote Section 125 Plan

Of those not using, why have you not used this technique?



Execution Hurdles



Source: GFOA-Colonial Life 2011

Quantifiable Results	“Tax savings to the employees and employer is real and measurable”	“Implementation of the plan takes staff time”	Staffing
Low Cost	“Low cost benefit with high value to employees”	“Lack of unused dollars is a downside to the program “	Plan Limitations
Automatic	“This is a no brainer”	“We have not used to full benefit “	Limited use
Union Support	“Employees appreciate the tax savings on their side so it is a positive that can used in negotiations”	“Employees have not been interested in the past”	Lack of Interest

Source: GFOA-Colonial Life 2011

Establish & Promote Section 125

Key Takeaways From Research

Section 125 plans are **highly utilized** and recommended by public sector organizations

Many public sector organizations acknowledge they **could be doing more** to promote and emphasize their plans

Staffing required to administer and promote the plan are impediments to taking full advantage of section 125 plans

Look to your benefit and enrollment partners for **additional manpower** to help you administer and promote the plan

To **manage costs** of full flex:

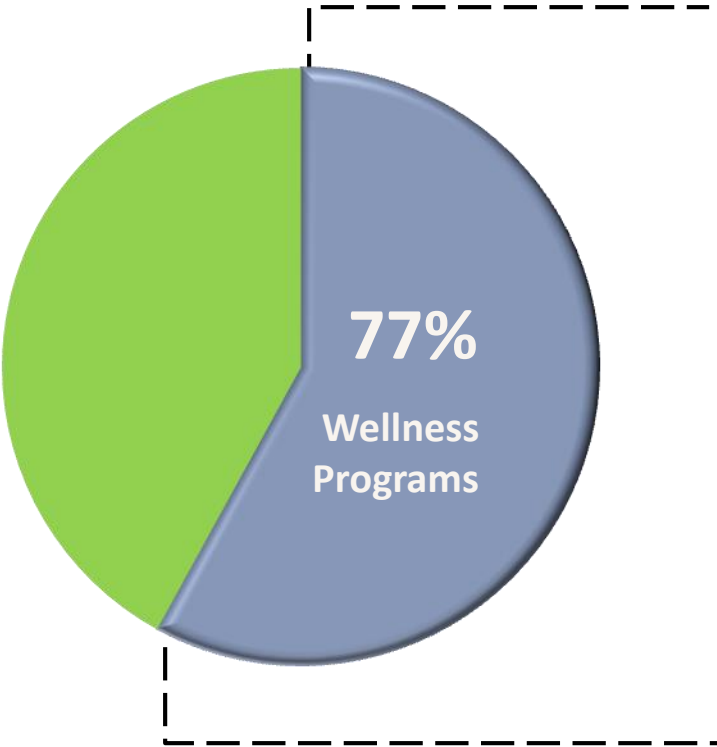
- Have employees cover the cost in full
- Split cost with employees
- Pay in full (redirect your tax savings)
- Seek discounted rates
- Vendor funding

• Minimally look to leverage **POP Plans**

Wellness

Wellness

Total Respondents

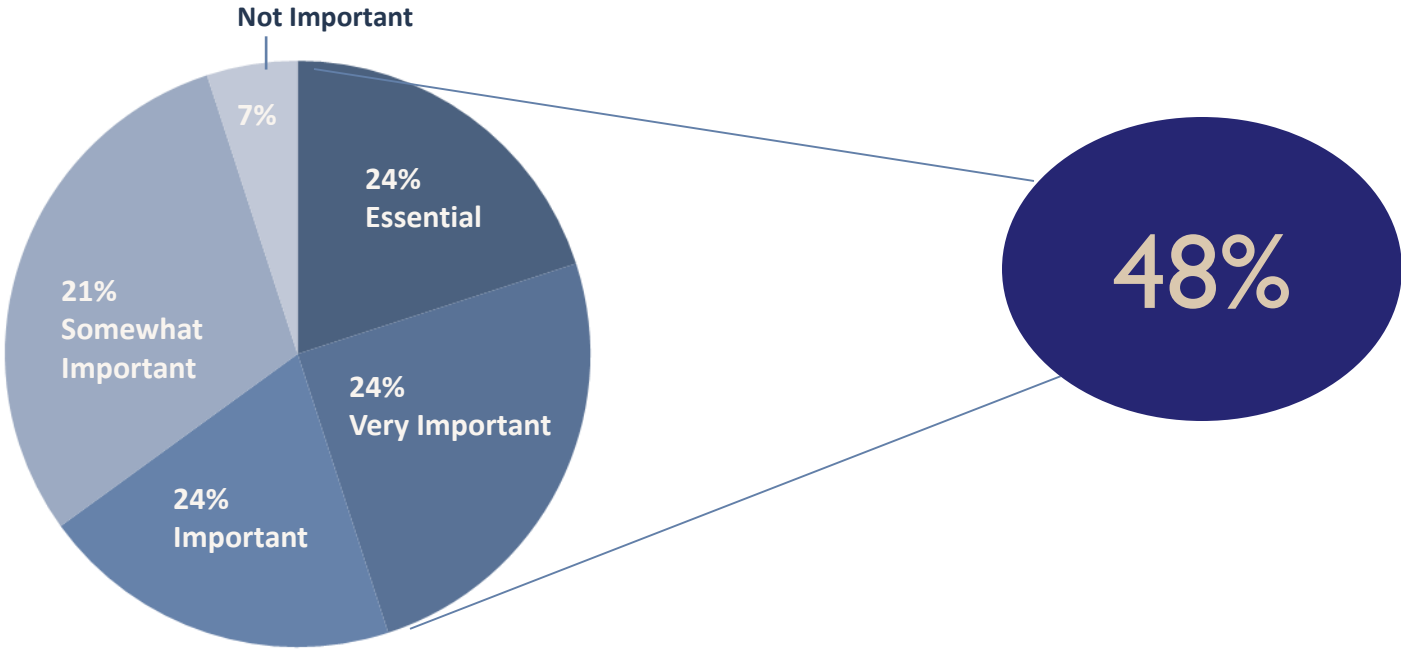


Based on your experience would you recommend wellness programs to other Public Sector organizations?	
Very likely to recommend	65%
Somewhat likely to recommend	25%
Neutral	10%
Unlikely	0%

Source: GFOA-Colonial Life 2011

Wellness

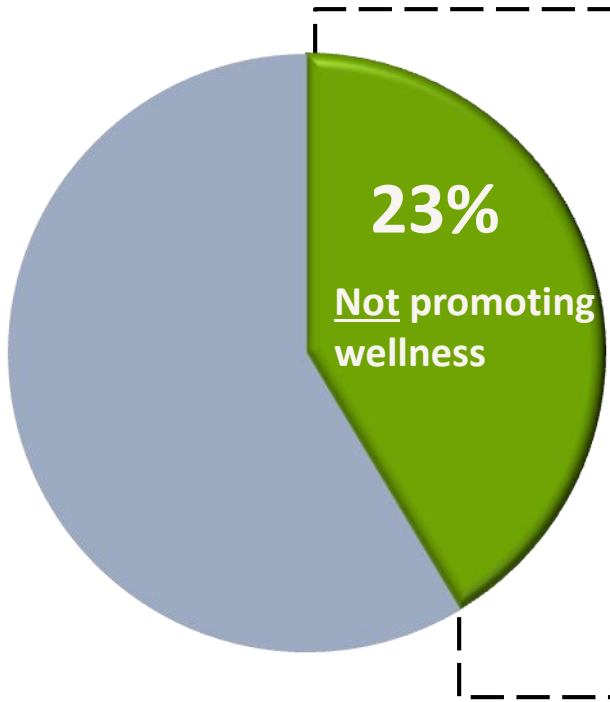
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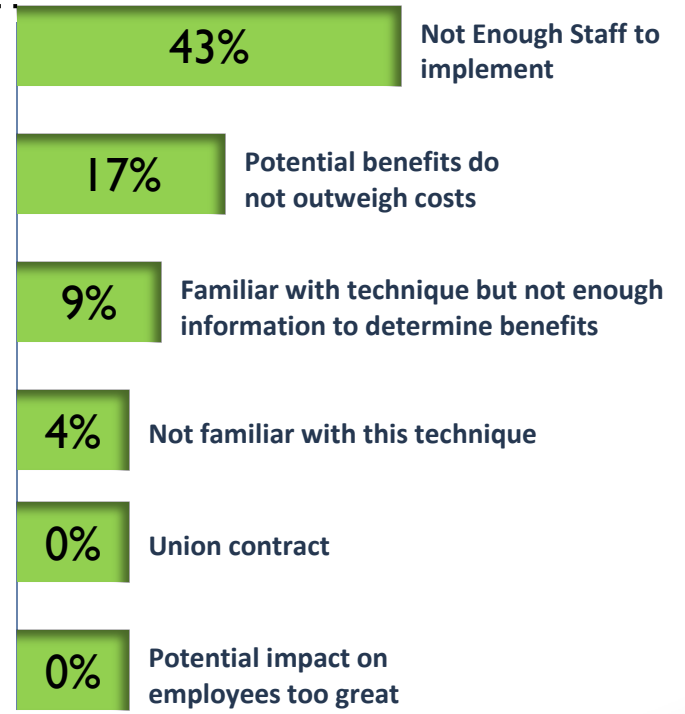
Source: GFOA-Colonial Life 2011

Wellness

Of those not using, why have you not used this technique?



Execution Hurdles



Source: GFOA-Colonial Life 2011

It Works	"Our wellness program reduces health costs"	"Popular to implement but difficult to keep the momentum and interest"	Employee Engagement
Low Cost	"These can usually be handled at little or no cost"	"There has to be a monetary penalty or gain for employees to jump aboard"	Incentives
Work Environment	"It is a great culture improvement with financial benefits"	"Fairly low cost and probably do some good, but it is difficult to quantify"	Measurement
Future Benefits	"If only one stroke is avoided the small cost will be worth it"	"In the process of getting information"	Planning Stage

Source: GFOA-Colonial Life 2011

Wellness

Key Takeaways From Research

Promoting healthy behavior at the workplace is a **widely used** technique

Assess your employee population to understand where to focus your activities and promotions. Sources such as biometric evaluations, claims analysis, and employee surveys are all helpful.

Establish benchmarks and track and monitor them regularly. Know the metrics you will monitor before you commence with any program.

Incentives are a popular way to encourage healthy behavior. Common incentives include cash payments, vacation days, or reduced insurance premiums.

Non-monetary incentives such as rewards, public recognition, and interdepartmental competitions can also be used.

Continuous workplace education and communication are required to ensure **momentum** and keep the programs top-of-mind with employees.

Stick with it, results may not immediate.

Savings

***GFOA Member Results of those participating in the study
Health Care Cost Savings....***

Savings Amount		Respondents	
1% to 5%		21%	
6% to 10%		15%	
11% to 15%		30%	
15%+		10%	
Don't Know		24%	

Unions

Contract Friendly

Of those not using, why have you not used this technique?

Union Contract Wont Allow...

Wellness	Preventive Treatment	0%
	Promote Healthy Behavior	0%
Plan Optimization	Dependent Verification	2%
	Benefit Waiver Program	3%
	Promote Section 125	8%
Supplier Management	Right Source Enrollment	1%
	Shift Communication Expenses	2%

Final Thoughts

Final Thoughts

	Analyze and understand your current costs and trends
	Take a multi-pronged approach to benefit cost management
	Nickels and dimes are important
	Look at both short and long term strategies
	Involve employees and bargaining units in program development and implementation
	Communicate early and often with employees. Employees need to understand context

ROI All-Stars

- Onsite clinic
 - ROI: \$1.60 to \$4.00 saved for every dollar invested
- Premium contributions that vary with total premium
 - Gives employees a stake in other strategies that reduce premiums
- High-deductible health plan and health savings account
 - Saves between 12% and 30% of total premium costs
- Wellness program
 - ROI for large employers averages \$3.27 over a 3-year period

ROI All-Stars

- Self-insurance
 - Provides about a 10% reduction in health care costs
- Cooperative purchasing
 - Can help reduce costs by around 5% to 20%
- Index Universal Life
 - Use in place of bonds to fund long-term liabilities for Pension & OPEB stabilization

Take-Aways

- Consider each of the ROI all-stars to see if they can help you.
- Develop a long-term strategy
 - Health economics take some time to develop
- Read GFOA's research report to learn:
 - More about the ROI all stars
 - First aid tactics
 - Implementation strategies

www.gfoaconsulting.org/researchreports