MINUTES
Approved by the Committee
State Employee Group Insurance & Benefits Committee
Friday, June 02, 2017
9:00 A.M.
Room EW42
Boise, Idaho

Co-chair Fred Wood called the meeting to order at 9:06 a.m.; a silent roll call was taken. Committee members in attendance: Co-chair Senator Todd Lakey and Co-chair Representative Fred Wood; Senators Dan Johnson, Jim Patrick, and Mark Nye; and Representative Robert Anderst. Senator Robert Nonini and Representative Dustin Manwaring participated via conference-phone. Absent and excused: Representatives Neil Anderson and Hy Kloc. Legislative Services Office (LSO) staff present were: Kristin Ford, Robyn Lockett, and Ana Lara.

Other attendees: Sean White, Shelli Stayner, and Carly Debo, Mercer; Julie Weaver, Office of the Attorney General; and Fred Birnbaum, Idaho Freedom Foundation.

Co-chair Wood called for the approval of the May 18, 2017 minutes. **Senator Johnson made a motion to approve the May 18, 2017 minutes. Senator Nye seconded the motion. The motion passed unanimously.**

Co-chair Wood announced that this would be a meeting to ensure that there is agreement between the committee and the contractor as to what directions to take. He stated that it was his intent to adjourn at noon due to several other commitments that the committee members have. He further explained that, at this time, the contract is still being negotiated.

Co-chair Lakey explained to the committee that there are still some items that need to be resolved, but they are very close to completing contract negotiations. He further explained that this meeting would be an exchange of information with the following caveats:

- Mercer would need to feel comfortable meeting with the committee with the understanding that there will be no compensation if a contract is not able to be negotiated; and
- No confidential information should be discussed given there is no contract at this time.

Mr. White accepted those caveats and explained that any information shared with the committee should not be construed as consultative advice given that there is no contract in place at this time.

Senator Nye made a motion to authorize the co-chairs to resolve the remaining contract negotiation issues with the assistance of counsel. The final contract will be provided to the committee prior to it being signed and approved by the appropriate parties. Representative Anderst seconded the motion. Senator Johnson asked what remedies are available if the consultant does not complete its work. Ms. Weaver responded that in this particular contract, there is a limitation of liability proposed that would limit the remedies. Co-chair Lakey also explained that the approach to this contract would be to pay after completion of the work. The co-chairs invited the committee members to share any comments or any questions they might have between now and when the contract negotiations are final. **The motion passed unanimously.**

Healthcare Plan Remarks - Co-chair Wood and Co-chair Lakey

Co-chair Wood explained that they were to discuss employee healthcare benefits and the cost associated with those benefits. He stated that when it comes to employee healthcare benefits, there has to be an affordable healthcare plan for them; a little more than 50% of Idaho's state employees make less than a $40,000 annual gross salary. He emphasized that to have an affordable healthcare plan, it must be constructed in such a way that the average employee would not be financially burdened by the healthcare product. Co-chair Wood added that, from a cost perspective, the state must have a sustainable healthcare product going forward; the current cost trend is not sustainable to the taxpayers. He stated that both of these items must be addressed and balanced.

Co-chair Wood listed a few of the areas to be analyzed:

- Healthcare delivery system infrastructure availability today and what it will be in five to ten years;
- Self-insured versus not self-insured;
- Should the State of Idaho exempt itself from Chapter 40 of Title 41, Idaho Code, as the counties have done;
- Current cost-share ratio between employer and employee of 90:10 versus potential cost-share of 80:20;
- Consumer-driven plans (as long as it's a choice and not a mandate);
- Grandfathered status versus non-grandfathered status;
- Adverse selection (i.e., dependent spouses, tobacco-users, plan equitability, etc.); and
- Aggressive component in every plan to manage pharmacy benefits.

Co-chair Wood emphasized that, throughout this process, he expects Mercer as the consultant to provide all recommendations to the committee - regardless if the recommendations interfere with current state statutes or administrative rules. He reminded Mercer that members of the Legislature have the ability to change statutes.

Co-chair Lakey agreed with Co-chair Wood's comments and thoughts. He also agreed that the committee values all state employees and strives to be competitive and to retain their good employees. However, the committee must also find a healthcare benefits product that is sustainable. He asked Mercer to help the committee find innovative and traditional feasible options for healthcare benefit products.

Mercer Presentation - Shelli Stayner, Sean White, and Carli Debo

Co-chair Wood called upon Mercer to begin their comments and presentation.

Ms. Stayner explained that the topics the co-chairs have listed were items that Mercer planned to address over the next several months. She stated that the goal of the presentation was to inform the committee about healthcare trends, both locally and nationally, in both the private and public sectors.

Highlights and additional facts from Mercer's presentation included:

Update on external environment and market trends:

- Even with cost-shifting and employers managing the cost increase, healthcare is outpacing inflation by 2.5 times, which is not sustainable over the long term;
- The U.S. spends more on healthcare than other countries, but has worse outcomes;
- It's estimated that about one-third of what is spent on healthcare is waste;
- Specialty drugs are expected to increase more than 50% over the next five years;
- Although employers pay about two-thirds of the healthcare that is delivered, other stakeholders control the system;
- Four vitals for change in order to achieve employer-led transformation:
    - Pay for value;
    - Quality;
    - Personalize the experience (e.g., leveraging better data and technology to engage employees in the right behaviors); and
    - Embrace disruption (e.g., injecting change into the system with both internal stakeholders and external partners).

Discussion:

Senator Patrick asked how one would go about lowering the cost of prescription drugs, especially given their vital importance. Mr. White agreed that pharmacy drugs, especially specialty drugs, were quite costly. One can certainly make the argument that pharmacy drugs can be a societal good in that they can cure and treat illnesses. From an employer standpoint, he said, there are strategies from a plan design standpoint and a point-solution standpoint to manage that component of the program as effectively as possible and impact the price.

Senator Nonini asked how an employer can help employees embrace disruption. Mr. White acknowledged that some difficulty could lie ahead both with approving and implementing a new plan. Senator Nye asked if Mercer could provide the source materials for information cited on page five of the handout. Mr. White said yes, and that they would provide the information to LSO staff in the next month so that they may pass it along to the committee members.

Mercer Market Survey

- There is almost a 2% difference in cost savings for employers using 16 or more best practices compared to employers using fewer than eight best practices;
- Page 13 of the handout illustrates why cost-shifting for deductibles will not be able to continue indefinitely, as the cost may become too overwhelming for employees;
- By 2019, 72% of large employers expect to offer a consumer-directed health plan;
- There is a 20% cost difference between the cost of a PPO and an HSA plan, while the actuarial value difference is about 6%. The additional incremental difference is driven by behavioral change;
- The deductible, combined with the HSA, seems to produce positive behavioral change;
- There has been a high increase in telemedicine offered to employees;
- An example of a reference-based strategy is when the employer sets a reference price, and if the individual chooses to go somewhere more expensive, then that individual pays the cost difference;
- Most important objectives for offering expert medical opinion providers (EMOs):
  - Steer patients to high-quality providers;
  - Assist patients who have complex conditions;
  - Lower medical plan cost; and
  - Expand access to care.
- Health advocacy is a customer service resource that employers make accessible to employees to help them navigate the system, understand care, and improve utilization of high-quality providers;
- The goal with any well-being program is to convert this extrinsic motivator in the form of an incentive, and offer a program that is valued by employees so that their motivation to continue improving health becomes intrinsic behavior;
- Employers are increasingly gravitating towards offering voluntary benefits;
- There is an increasing recognition from employers regarding financial wellness. Employers hope that by offering financial wellness programs to employees, it will have a positive correlation with shifting that focus to their health and well-being as well;
- For employers with 20,000 employees or more, 97% of them are self-funded and 3% are fully insured;
- For state government employers with 500 employees or more, 72% of them are self-funded without stop-loss, and only 11% are fully insured; and
- 74% of employers with 20,000 employees or more are still purchasing stop-loss due to the fact that large claim risks have increased.

Discussion:

Representative Anderst asked if those who have HSA plans tend to utilize the plan less for things that could potentially improve their health. Mr. White responded that there was a study released recently from a large employer that found that utilization decreased overall, which may be a cause for concern. The combination of strategy and education can help to address concerns regarding individuals not obtaining the care that they should.

State of Idaho Benchmarking

- State of Idaho's PPO plan is generous in comparison to other employers in the market;
- The High Deductible Plan is less favorable or less generous compared to other market plans - mostly due to unfunded HSAs;
- The High Deductible Plan offered to Idaho state employees is not a Qualified High Deductible Plan, so employees are ineligible to make or receive HSA contributions. This is due to the fact that prescription copays apply before satisfaction of the deductible; and
- What the State of Idaho requires their employees to pay, for both the individual and family plans, are below average in comparison to the survey data;

Stakeholder Feedback:

Mercer requested stakeholder feedback regarding the following questions:

- What level of company cost increase (net of employee out-of-pocket costs through plan design and payroll contributions) is acceptable over the next three years?
- To what extent do healthcare costs impact your business?
- How does responding to the looming excise tax impact your long-term health and benefits cost strategy?
- Should the State address affordability via multiple plan design options with varying price points?
- Should the State address affordability via employee contributions that vary by salary (e.g., higher-paid employees pay more)?
- Should the State address affordability via company subsidies for employees earning less than a certain threshold (through employee contributions or account funding)?
- Do you or do you not need any special provisions for addressing employee affordability?
- Should the State pay the same percentage of costs for employees and dependents?
- Should the State pay slightly more or much more for employees than dependents?
- Should the State have a spousal surcharge for spouses that enroll in the plan, if the spouse has other coverage available?
- Should the State not provide coverage to spouses if they have other coverage available?

Discussion:

Senator Johnson asked how much of the estimated increase in healthcare costs were within the control of the State of Idaho as an employer. Mr. White answered that it depended on how aggressive the State of Idaho would like to be from a cost-goal standpoint. Co-chair Wood stated that he personally would like to see the trend for increasing healthcare costs to be general inflation plus one percent, and added that this would be an ambitious goal.

Mr. White asked the committee how responding to a potential future liability (e.g., excise tax) impacts their strategy development process. Representative Anderst asked what figure is used to calculate the 40% excise tax. Mr. White responded that it is calculated based on the incremental difference. Ms. Lockett inquired whether there are components that help to equate the health benefit coverage cost for an individual employee. Mr. White responded that it is measured on the individual level in terms of the plan choices that have been elected. Representative Anderst proceeded to answer Mr. White's initial question, explaining that if the excise tax is a significant number for the state, it would need to be factored into the decision-making process. Senator Johnson stated that he was not adverse to offering lower premiums to state employees who make significantly less than other employees.

Mr. White asked if the committee believed there should be a balance between point-of-service and contributions, and whether the concept of defined contributions is one that the committee would like to explore. Representative Anderst invited Mr. White to characterize the balance of the State's current healthcare program. Mr. White described it as fairly evenly balanced, but above market. Senator Nonini asked if Mercer had compared the State of Idaho's healthcare programs to other public employers or private employers. Mr. White responded that the State of Idaho had been compared to other public employers within the survey (i.e., states, cities, municipalities, etc.). Ms. Stayner asked the committee to reflect on whether they compete with only the public sector for qualified employees, or with the private sector as well. Representative Anderst opined that the public sector is creating innovative solutions to addressing the rising cost of healthcare programs and he would like to explore whether some of those innovations could be applied to the State of Idaho as an employer.

Mr. White inquired whether providing a comprehensive, integrated wellness program should be part of the benefit strategy or if the focus should be elsewhere. Co-chair Wood opined that the committee would be interested in learning more about wellness strategies that have been proven to be 'best practice' across the country. Senator Johnson stated that he would like to hear what valuable input employees might have regarding their healthcare programs. Mr. White explained that while measurement of the impact of wellness programs is difficult, there are generally accepted return on investment (ROI) methodologies.

Mr. White asked if the committee members could take the time to complete the survey on slide 58. Co-chair Wood asked LSO staff to email a copy of this slide electronically to the members; he asked the members to provide their responses to staff by Wednesday. Senator Johnson expressed a desire to have some sort of informal employee survey provided to state employees to obtain input from state employees. Mr. White stated that they would be able to assist with this request but, depending on the type of analysis requested, it may or may not be included in the cost of the contract.

Co-chair Wood asked when it would be best to have the next committee meeting, and how many meetings would be best. Mr. White explained that the statement of work contemplates four meetings with the Final Strategy to be provided in November; he feels completely comfortable with a next meeting date of early August. After some discussion, the next meeting date was set for either July 31st or August 1st. Mr. White stated that they were waiting for contract negotiations to be finalized to begin their work. Ms. Stayner inquired about how the funding mechanism for state employee healthcare compensation came about. Co-chair Wood stated he was unsure, but that it would not necessarily need to continue in the current manner. Ms. Ford offered to have Ms. Lockett contact Ms. Stayner to provide some further explanation on the process.

The committee adjourned at 12:35 p.m.