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# **Benefits Sustainability Health Insurance Plan Comparisons**

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*Presentation to the Public  
Employees' and Retirees' Benefit  
Sustainability Commission*

**Department of Legislative Services  
Office of Policy Analysis  
Annapolis, Maryland**

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# Components of Employee Health Benefits

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- **Premium Cost:** Monthly payment by employee to obtain coverage
- **Premium Subsidy:** Employer portion of the premium as a percent of total
- **Deductibles:** Amount of money the employee must pay before receiving benefits from the policy
- **Co-pay:** Employee payment to initiate medical/Rx service
- **Coinsurance:** Payment responsibility share of total cost of medical/Rx service between employee and employer

# Difficulty of Comparing Health Benefits Across States

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- The employer can tailor the cost-sharing characteristics of health insurance benefits to balance cost levels and utilization incentives
- So, for example, two states with equivalent premium subsidy percentages may be offering vastly different dollar value benefits depending on the other cost-sharing variables

# Difficulty of Comparing Health Benefits Across States (Cont.)

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- Multiple plan types are not shared by all states
- Within each plan type there are multiple carriers, so the value of access to these networks varies
- All plans go through frequent periodic contract alterations (without needing legislative input), so data changes rapidly

# Comparison Factors for Employee Health Benefits

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- Type of Plan Offered
- Premium Subsidy
- Plan Efficiency
- Prescription Co-pays
  - Generic
  - Formulary
  - Non-formulary
- Retiree Care
  - Coverage
  - Premium subsidy

# State Employee Health Benefit Comparisons – Plan Types

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- A 2009 Segal study surveyed all 50 states and Washington, DC
- Compares the benefits provided to full-time active state employees
- Details what type of plans the employers provide and compares certain benefit levels
- In terms of medical coverage, it compares offering of the following plan types:

# State Employee Health Benefit Comparisons – Plan Types (Cont.)

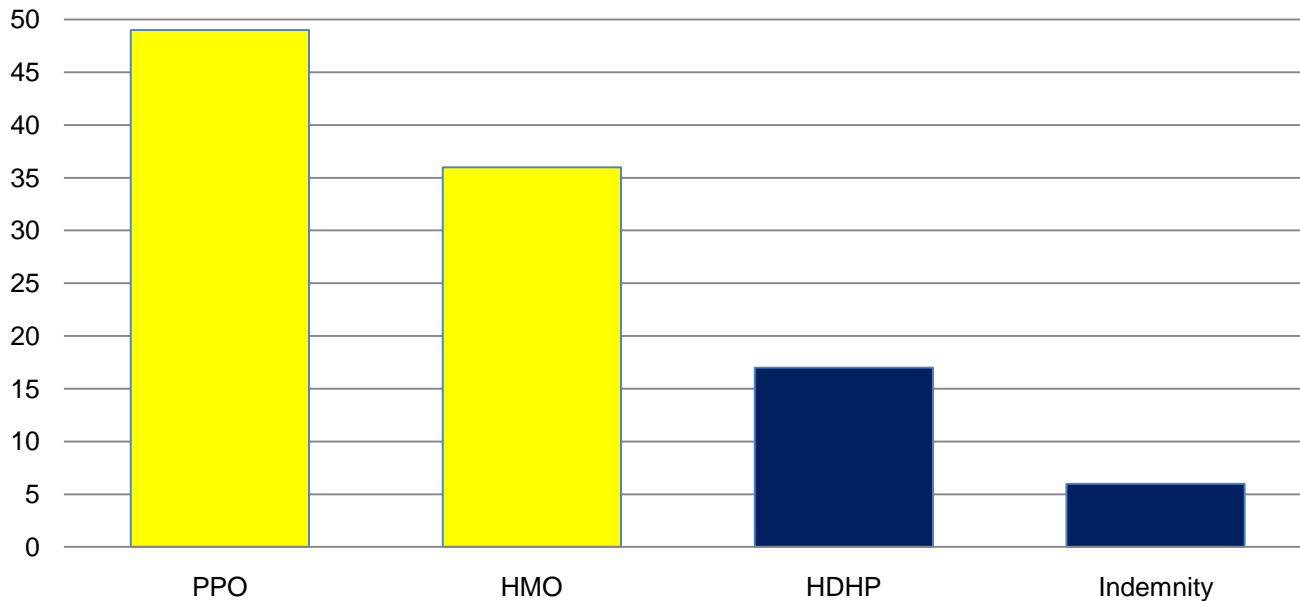
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- ***Preferred Provider Organization (PPO):*** The plan has contracts with a network of "preferred" providers from which the member can choose. No need to select a primary care physician (PCP) or obtain referrals to see any providers, in- or out-of-network.
- ***Health Maintenance Organization (HMO):*** The member receives all health care from a network provider. Requires the selection of a PCP who is responsible for managing and coordinating all of the member's health care.
- ***High Deductible Health Plan (HDHP):*** Lower premiums and higher deductibles than other options and an out-of-pocket maximum to cover catastrophic incidences. Attractive to younger/healthier participants.
- ***Indemnity Plan:*** Each individual family member must meet a deductible before the carrier pays for claims. After the deductible, the member is responsible for co-insurance up to a specific annual out of pocket maximum. Provides freedom of choice of providers for participants.

# State Employee Health Benefit Comparisons – Plan Types

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Number of States Offering Medical Plan Types



- Totals are above 51 because multiple plan types are available in many states
- PPO most frequent plan type, prominent main offering of large states
- HDHPs more common among small-sized states

# Premium Subsidy Comparison – Variations to Consider

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- Bundling of some combination of medical, dental, vision, and Rx in one premium
- Salary-based distinctions
- Union-negotiated rates
- Smoker vs. nonsmoker rates
- Wellness program participant vs. nonparticipant
- Regional differences within state offerings

# State Employee Health Benefit Comparisons – Employer Share of Premium by Plan Type

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## Percentage of State Plans Offering Various Subsidy Levels for Employee-only Coverage, By Type

<u>Subsidy</u>	<u>PPO</u>	<u>HMO</u>	<u>HDHP</u>	<u>Indemnity</u>
100%	14%	5%	24%	20%
81-99%	40%	62%	48%	10%
61-80%	31%	18%	24%	40%
41-60%	14%	14%	5%	30%
<40%	1%	1%	0%	0%

# State Employee Health Benefit Comparisons – Employer Share of Premium by Plan Type

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- Segal's study indicates that PPO premiums are subsidized by the employer at 80% or higher in over half of the state plans, as is true in Maryland
- Employers offering HMOs and HDHPs provide higher premium subsidies than those with PPOs, but this is generally the case because the employer's claim cost liability is reduced
- Indemnity plans see the least employer support due to high costs of service
- Subsidy amounts generally decline when premium for family coverage is included

# State Employee Health Benefit Comparisons – Premium Subsidy

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- From 2006-2008, the National Conference of State Legislators (NCSL) compared family coverage using the “standard benefit package” – typically the lowest cost HMO
  - Of 47 states surveyed, the average state subsidy was 81%, or \$880 of \$1,075 total monthly premium cost
  - Maryland, whose subsidy was 85% for the lowest cost plan, paid more of the premium than 28 states
  - 6 states pay 100% of the premium

# Gabriel Roeder Smith & Company

## Data Warehouse – Plan Efficiency

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- Because of the variability of plans and subsidies discussed, plan efficiency is the best comparative cost measure
- Plan efficiency = the dollar value of claims paid by the employer as a percentage of the total dollar value of paid claims
- This measure reflects how members that make frequent and costly use of the health plan receive a greater dollar benefit than those strictly paying the premium
- Calculated by Gabriel Roeder Smith & Company (GRS), the State's benefit actuary

# GRS Data Warehouse – Plan Efficiency Comparison

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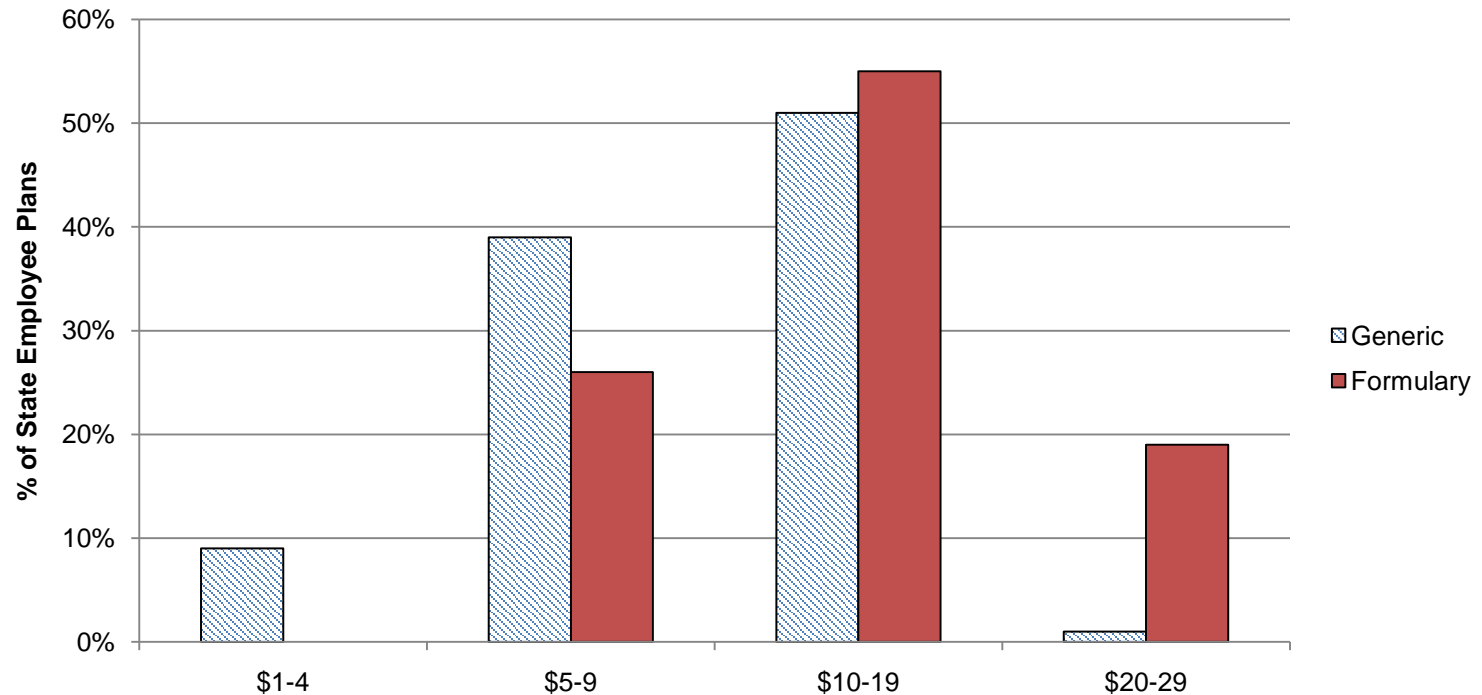
- According to GRS, the typical plan efficiency figure for a large plan is 83%
- This means that after receiving and applying the employee/retiree premium contribution, co-pays, and out-of-network payments, the state plans typically contribute 83% of the actual amount paid to provide service
- Maryland's efficiency is 95% for its medical plans for active employees

# Factors of Comparison of Health Benefits – Rx

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- Co-payments are more common than co-insurance
- 10% of state plans use co-insurance for retail generic prescription drugs, ranging from employee responsibility of 1 to 60% of total expense
- Co-pay Comparisons
  - **Generic:** Lowest cost, past-patent drugs
  - **Formulary/Preferred Brand:** Drugs selected by the Pharmacy Benefits Manager as best options in terms of safety, side effects, efficacy, and cost
  - **Nonformulary Brand:** Any other brand-name drugs
- Other Benefits
  - Out-of-pocket (OOP) maximum
  - 45-day Rx supply

# State Employee Health Benefit Comparisons – Rx Co-pays Generic and Formulary

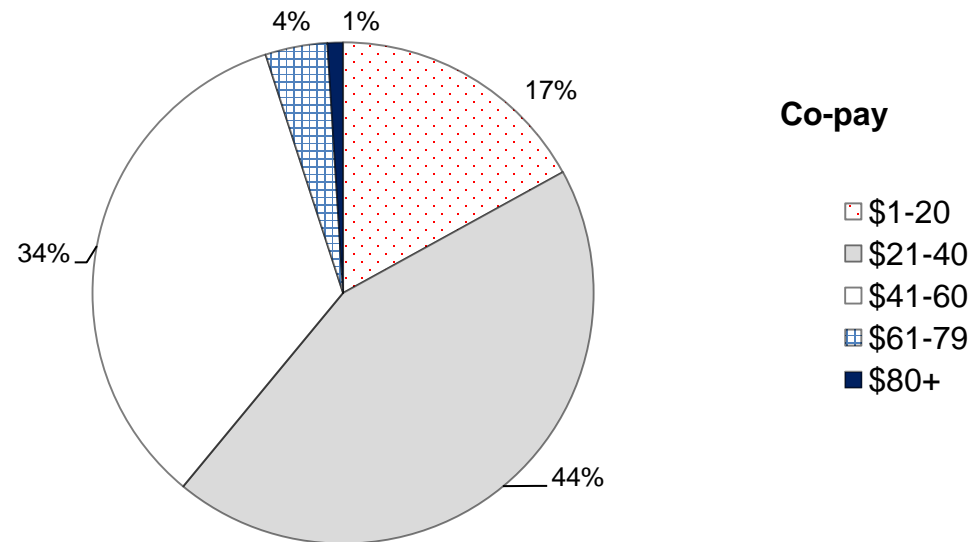


- Segal shows that most common generic co-pays are in the \$10 to \$19 range, so Maryland's \$5 generic co-pay is below average
- Formulary scripts are also in this range, as is Maryland's \$15 charge

# State Employee Health Benefit Comparisons – Rx Co-pays Nonformulary Brand-name

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Percentage of State  
Plans Offering Various  
Co-pay Levels



- Segal shows a majority of state plans require a \$21-40 co-pay for these drugs, so Maryland's \$25 co-pay is in this range
- 40% of plans charge more than \$40 for this high-cost benefit
- Brand name (both formulary and nonformulary) medication accounted for 36% of total prescriptions but 82% of total costs in fiscal 2010 in Maryland

# Out-of-pocket Rx Maximum and 30- vs. 45-day Rx supply

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- Maryland has an OOP maximum meaning that once an individual or family has paid \$700 in prescription co-pays during a single plan year, the cost of all subsequent co-pays is assumed by the State
- While 11 states have an OOP limit, these are typically tied to high deductible plan limits (AL, AK...) not on top of existing coverage
- This OOP maximum increases plan costs by \$8 million annually when compared to having no maximum at all.
- Maryland's prescriptions are filled with a 45-day supply for a single co-pay, instead of the standard 30-34 day supply
- Two other state offers supplies higher than the standard (AK/ME)
- 45 days vs. 30 days increases plan costs by \$7 million annually

# Retiree Plans – Coverage

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Center for State & Local Government Excellence 2008 Study

- 24 states allow any retiree that receives a pension benefit to participate in their health insurance systems
- The other 26 states have additional requirements such as:
  - A minimum number of years of service (e.g., 20 years of service) greater than the pension system's vesting requirement
  - Previous enrollment in the plan as an active employee
  - Direct retirement from service
- All states provide dependent coverage for retirees, but this is often limited to those enrolled as such during the employee's active service.
- When the retiree reaches age 65 and becomes eligible for Medicare, 45 states require enrollment in the federal program
  - The state coverage typically becomes secondary in this case, which is often a separate retiree-only plan with a distinct premium
  - Only Nebraska ceases all coverage upon Medicare eligibility

# Retiree Plans – Premium Subsidy

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- Providing coverage in a plan linked to the active employees (even if no premium contribution is made) is a benefit = implicit subsidy
  - Premium is adjusted to track the average cost per beneficiary in a plan
  - The cost of health insurance typically rises with age
  - Retirees participating in a plan that includes active workers benefit from a lower rate than they would have paid if the plan covered only retirees, while increasing the cost to active employees
- 22 have a subsidy system under which the state and the retiree each pay a part of the premium for health coverage
  - Sliding scale with increasing state contribution for each additional year of credited service that can be capped at a certain percentage subsidy (as in MD) or at a flat dollar amount (CO)
  - Flat rates for the subsidy are provided as a given percentage (GA) or dollar amount (OK)
- 14 states paid the entire premium for at least some portion of the retiree population, with 6 of these paying the entire amount in all cases
- 14 states did not contribute to the premium for retired workers so the retiree paid the entire cost of the premium

# Summary – Maryland Compared to Other States

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- Provision of three plan types is consistent with national offerings
- Premium subsidy levels are slightly above average
- Plan efficiency is well above benchmark due to combination of all plan characteristics
  - Rx OOP maximum and 45-day limit are uncommon benefits
- Retiree coverage is consistent with national offerings
- Retiree premium subsidy is above average due to
  - Low requirements to receive benefit
  - Rapid scaling to 100% benefit