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EMPLOYEE RELATIONS COMMITTEE MEETING

Tuesday, May 29, 2007
Council Chambers

PRESENT: Alds. Krill, Maher, Meaux (7:20 p.m.), Purins, Stepaniak – 5

ALSO PRESENT: J. Archambo, City Admin.; B. Aldana, Human Resources Dir.

Ald. Purins as chair called the meeting to order at 7:00 p.m.

Discussion of strategies for controlling health insurance costs

Ms. Aldana introduced Ms. Rae Anne Beaudry of Health Care Systems Consultants, Inc., who would give a presentation to the committee on a comparison of key elements of Health Savings Accounts (HAS), Health Reimbursement Accounts (HRA) and Flexible Spending Accounts (FSA). Ms. Aldana noted that this information was intended to provide the committee with an idea of strategies that are being used by cities and other businesses to help control health care costs.

Ms. Beaudry began by saying that there is a limit to what can and cannot be done while establishing a Health Savings Account (HSA). There is very little flexibility within the Internal Revenue Service (IRS) code. An HSA is a tax-exempt trust or custodial account created exclusively to pay for qualified medical expenses of the account holder/employee and his or her spouse or dependents. It has a rigid plan design. There must be a trustee who will administer the HSA consistent with requirements of Section Code 223, 448 or 816. An employer, employee, family member or others can fund the account. It is a qualified high deductible medical plan and an investment vehicle. The employee owns the money in these accounts. There is one rollover allowed per 12-month period within 60 days of the next plan year. The money can be used for retirement income, but before age 65 non-qualified withdrawals will incur both a 10% excise tax and FIT. HSAs also have plan design requirements. She added that there is no prescription drug provision and everything is subject to the deductible. Also the employee can't have another plan through a spouse. Flexible spending accounts would have to be modified to only provide coverage for dental and vision expenses. There are a number of administrative chores connected with HSAs. Many other companies have made it an option for their employees along with other health care packages.

Ms. Beaudry described Health Reimbursement Accounts (HRA) as employer funded accounts that reimburse employees for qualified medical expenses. It offers flexibility of design. An HRA can only be established by an employer for the employee. There are no restrictions to the plan design. The account is employer funded. There are no specific benefit designs just a promise of money for the HRA. No amount needs to be set aside. The employer owns the money in the account. The dollars can be rolled over; however, the plan may cap the amount of carry-forward (at the discretion of the employer). With this type of plan there is technically no value to the employee once they leave the employer. There are no plan design requirements. The employer sets the contract limitations.

Ms. Beaudry explained that with a Flexible Spending Account (FSA) the money is not refundable. The employee has use of the money during the year; however, the money reverts back to the employer at the end of the claim submittal period. The funds cannot be carried over. Most employers typically use any money left over, but there usually isn't much left. The funds are usually held by the employer or a third party administrator. There are no restrictions to the plan design and no plan design requirements. The employee typically funds the account, although there are certain instances whereby an employer can contribute some dollars. There are also FSAs for child care.

Ms. Beaudry spoke on consortiums and coalitions such as the state plan, the county's health trust plan, and the WEA trust. The larger the number of participants in a coalition, the greater the risk. Many small employers join coalitions when they are having problems providing health insurance for their employees. All mandate at least a 3-year commitment with some up to 5 years. The difficulty is determining if your company is the subsidizer or is being subsidized. There are pros and cons. The biggest challenge in joining a coalition is that the employer doesn't own their own experience anymore. It is difficult to get information unless the coalition is a close knit group and the members are willing to share that information. Wisconsin law prohibits a coalition to be formed just to buy health insurance. If the employer leaves the coalition, they are subject to surcharges.

Ms. Beaudry noted that southeastern Wisconsin is one of the states with the highest health care cost per capita. One factor is the number of coalitions and the large preponderance of heart hospitals in the area. There is an abundance of beds to fill and a large number of specialists as opposed to general practitioners. People in Wisconsin have a hard time accepting their health care from Health Maintenance Organizations (HMO). Ald. Stepaniak observed that there is very little leverage for the city to change some of those dynamics, but the city does have the ability to change some behaviors. One big challenge Ms. Beaudry pointed out was to provide more and better employee education such as information on generic drugs.

Ms. Beaudry spoke about wellness programs saying there are 2 reasons to implement them: 1) improve general health and 2) improve costs. There are also 2 types of wellness programming: 1) keeping the well healthy and 2) disease management which is encouraging patients to take their medication and to follow doctor's orders. Programs such as smoking cessation or weight management programs tie wellness programs with disease management programs. Giving incentives for taking Health Risk Assessments (HRA) also contribute to a wellness initiative. The focus is on not penalizing employees, but giving them incentives. Employers that make participation in wellness programs a condition of employment will probably end up in court. There are other questions such as if the employer provides flu shots will that improve attendance. It is up to the employer how wellness programs are implemented, but employees need incentives.

Ald. Maher brought up the idea that although the model for wellness programs is individually focused, the reality is that these changes should impact the community as a whole. He felt that thinking collectively was an important component. Ms. Beaudry responded that there are two challenges: 1) if incentives are not offered to the whole group, it is difficult to get to specific people and 2) healthcare is individual, for instance, you would not implement a smoking cessation program if no one is smoking. She predicted that with these programs an employer would see less payouts in approximately 18 months. She added that once the employer has the participation information as a data set they would see, for example, that 80% participation in health screenings would cause a drop in the premium. The employer also has to vary the wellness programs over time to keep employee interest. Mr. Archambo noted that in some cases the employer could choose to model healthy behavior for the employees.

Ald. Purins asked if businesses would want to self insure or buy insurance when they are starting up. Ms. Beaudry responded that a business would buy insurance until they became familiar with their workforce. An employer with 500 or more employees is almost always better off being self-funded.

The meeting adjourned at 8:07 p.m.

Carla A. Ledesma, City Clerk
City of Wauwatosa

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