MAINE STATE LEGISLATURE

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STATE OF MAINE
112TH LEGISLATURE
SECOND REGULAR SESSION

AGING, RETIREMENT & VETERANS SUBCOMMITTEE ON HEALTH INSURANCE

APRIL 1986

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HEALTH INSURANCE SUBCOMMITTEE

OVERVIEW OUTLINE

INTRODUCTION AND PROBLEMS

Two health insurance issues concerning retired state employees and retired teachers surfaced again in the First Session of the 112th Legislature. These were:

1. The disparity in health insurance premiums paid by retired state employees; in particular, LD 1049, AN ACT to Improve the Benefits Under Maine's State Retirement Law, which was introduced requesting that the State pay the employee's $15.50 share of Medicare Part B for former employees eligible for Medicare. Former state employees not eligible for Medicare have their entire health insurance paid for by the State.

2. The lack of state payment or continued employee (school unit) subsidy of health insurance premiums of retired teachers (LD 511, AN ACT to Provide an Accident and Sickness or Health Insurance Program to Retired Teachers).

If passed by the Joint Standing Committee on Aging, Retirement and Veterans (ARV) in their original form, the bills would have created a sizable fiscal impact on the State and would have had no real chance of final passage by the Legislature. Since these problems seemed to be only parts of larger issues, and since the federal government had indicated they were planning to implement changes in the rules for Medicare coverage, the ARV Committee requested and was granted approval to study the health insurance issue.

BACKGROUND

ELIGIBILITY FOR HEALTH INSURANCE

State statute requires the providers of health insurance to state employees and teachers to allow individuals to remain part of the group health insurance plans they were under while working provided they were of retirement age when they left state employment or teaching. This carry-over of membership applies also to major medical coverage. For state workers there is presently one state plan. However, certain groups -- viz., state police and game wardens -- are interested in forming their own health insurance groups. The majority of teachers are covered under a group sponsored by the Maine Teachers Association (MTA). The Maine School Management Association (MSMA) offers another health insurance plan. School units may have independent health insurance plans.

State employees and teachers who are not a member of the insurance group in the year prior to retirement, e.g., those who left state employment or teaching at least a year before retirement, are not able to participate in the group insurance plan on retirement.

Federal regulations require that retired state employees and retired teachers who are eligible for Medicare either through their own or their spouse's membership in the federal Social Security System, participate in Medicare. For these retirees who are eligible for Medicare, Blue Cross and Blue Shield offers a Companion Plan intended to even out the coverages between Medicare and Blue Cross and Blue Shield.

PREMIUMS:

The State pays the health insurance premium for active state employees and, subject to collective bargaining, 1/2 the premium for the employee's spouse or family coverage. For those retired state employees who are eligible to carry membership in the health insurance group into retirement, the State continues to pay the total premium for the retired employee's health insurance. For those former state employees who are eligible to participate in Medicare, the State pays the premium for the employee's Companion Plan. The State, does not pay, however, any of the cost of coverage for their spouses or families. In addition, it does not pay the premium for Medicare Part B for either the employee or the employee's spouse.

For active teachers, health insurance is a negotiable item between the school unit and its teachers. There is no unified practice among school units concerning who pays the health insurance premiums of active teachers. School units pay varying proportions of the premium for their teachers. Retired teachers pay all their own their and spouse and family premiums.

All the plans are experienced rated. The premiums charged relate, therefore, to the cost of the claims made by the particular group covered. Certain groups have higher usage rates than others. Families with women in child bearing ages are one example. Retired employees are another. Since retired state employees and retired teachers can remain part of the group they belonged to in the year before they retired, the higher cost associated with their generally higher usage is shared or subsidized by their actively employed former colleagues. Active employees generally would have lower rates, if there were no retired individuals in their group. If retired individuals formed a separate group and their premiums were based on the experience of the retired members, their premiums would be considerably higher than they presently are. The size of the inflation factor in premiums for the combined groups of active employees and retirees over active employees depends on the ratio of retired to active employees in the group. Groups with few retirees would generally have lower rates.

In short the actual premiums vary depending upon the specifics of individual policies and the percentage of retirees in the group. The following table summarizes the premiums.

Table 1. Monthly Health Insurance Premiums for 1985

	Individual	2-Person	Surviving Spouse	Percent Retirees*
State BC/BS Plan plus major medical	$ 72.56	$154	$ 72.56	14%
MTA BC/BS Plan plus major medical	$ 56.04	$123.20	$ 56.04	3 to 4%
MSMA BC/BS Plan including major medical	$ 55.93	$125.68	$ 55.93	0.28%
Medicare Part B	$ 15.50	$ 31	$ 15.50	
State -- BC/BS Companion plan	$ 37.12	$ 73.60	$ 37.12	
MTA -- BC/BS Plan				
Companion Plan	$ 30.04	$ 60.08	$ 30.04	
Major medical	$ 18.32	$ 36.64	$ 18.32	
Total	$ 48.36	$ 96.72	$ 48.36	
MSMA -- Union Mutual Including major medical	$ 44.06	$ 89.02	$ 44.06	

* 34% of all State employee insurance enrollees are retirees. Three fifths of these are Medicare recipients leaving 14% of all State enrollees as retirees on the BC/BS plan. For the MTA, 17% of all enrollees are retirees. Approximately, 80% of these are on Medicare, leaving 3 to 4% retirees in the BC/BS plan.

The differences in the premiums among the three plans is due to a combination of factors. Without assessing an order of importance they are:

1. Experience ratings -- Teachers generally have lower utilization of health care than other groups in the population. State workers include a more representative cross section of occupations. The MSMA plan premium was not fully computed on experience ratings for the year quoted here. There will be a 2% reduction in premium in 1986.

2. Proportion of retirees in the group -- Based on the experience of the State plan, individual retirees have an experience rating which indicates twice the utilization of individual active employees.

3. Co-payment and deductible structure -- the MSMA and MTA plans differ in their co-payment and deductable structure. Co-payments and deductibles are confined to the major medical portion of the MTA plan. The MSMA plan is a comprehensive plan and does not have a separate major medical component. It applies a 20% co-payment for the first $2000 of non-hospital costs.

4. Competition.

COVERAGE:

Coverage can be defined in several ways: the actual procedures or services covered, the amount of any first dollar deductible, the percentage of the cost of covered services paid by the insurer, and any limitation on allowable fees. There are differences among the various Blue Cross and Blue Shield health insurance plans on all these items, which may be important to an insured individual in a particular situation. However, taken as a whole, the plans are relatively comparable to each other. As indicated above, MSMA's Union Mutual Plan does apply a co-payment to the in-hospital physicians' fees while the BC/BS plans do not.

The Medicare program is also basically similar to the Blue Cross and Blue Shield plans. There are certain services which Medicare does not cover but these are accommodated under the Companion Plans or Union Mutual Plan offered under both the state and teacher plans.

The major difference remaining between the Blue Cross and Blue Shield plans and Medicare is the setting of allowable fees. Blue Cross and Blue Shield set their allowable fees at a level which generally means that 90% of physicians will accept the insurance allotment as full payment subject to the co-payment specified in the policy. In an attempt to control physicians' fees, Medicare sets their allowable fee at a much lower rate. Only about 60% to 70% of physicians will accept the Medicare reimbursement as full payment. The general result is that individuals covered under Medicare run a greater risk of being treated by a physician who does not accept Medicare assignments and of bearing a higher direct patient cost if they are treated by a non-participating physician. A hypothetical example is presented in the following table:

Table 2: Cost to Patient of a Hypothetical $600 Physician Fee.

	Participating Physician		Non-Participating Physician	
	State Plan	Medicare	State Plan	Medicare
Total Cost	$600	$600	$600	$600
Allowable Cost	$500	$400	$500	$400
Insurance Allowance	$480	$384	$464	$384
Cost to Patient	$ 20	$ 16	$136	$216

For services rendered by participating physicians the coverage of costs is nearly identical -- 97% in the above example. Patients pay a sizable penalty for using a non-participating physician. The penalty is considerably higher under Medicare (36% paid directly by the patient) than under the Blue Shield Plan (23% paid by the patient). Combined with the fact that fewer physicians accept Medicare fees as total payment, the potential for substantial out of pocket expenditures is a serious problem for retired state employees and teachers on Medicare versus those on Blue Cross and Blue Shield plans.

ISSUES AND COSTS

The issues resulting from the subcommittee's study fall into four categories: eligibility, coverage, premiums and competition.

ELIGIBILITY:

Regardless of how long an individual has been in state employment or taught, they are not eligible to be a member of the state or teacher health plans unless they worked as a state employee or teacher in the year prior to retirement. The converse is also true. Individuals who have participated in the State, MTA or MSMA health plans for only one year can remain members of the health plan into retirement, so long as their active service immediately precedes their retirement. As indicated above, regardless of whether the individual pays the premium or not, this carry over of membership can represent an enormous cost savings to the individual retiree.

There appears to be no public purpose served by subsidizing the health insurance costs of those individuals who have worked as a state employee or teacher for only one year prior to reaching retirement age while denying coverage to long term employees who might have left their profession before reaching retirement age. The question is particularly sharp for state employees since the State pays the premium of retired workers who are eligible to remain in their plan but not for workers who left state employment before retirement age.

The groups of retired state employees and teachers who are neither eligible for participation in the State or teacher plans nor in Medicare must purchase insurance on the private market without any cross subsidization from other members or without any reduced cost from Medicare. There is no data on the numbers of individuals involved or on the size of the premiums they pay. However, one can surmise that for the individuals affected the costs are very high and increase as the experience rating of their age group indicates higher utilization the older they get. The reason for using the criteria of being a member of the insured group on retirement is statutory for State employees.

The cost of including these other groups of retirees would depend on how many would take advantage of joining their respective group. If the level of cross subsidization of retired by active employees remained the same, half the costs would be paid through the active employees premiums and, potentially, by the State or the local school unit. The cost of the retiree's premium would depend on whether the State or other employer paid for all or paid for a prorated share of the premium. A potential saving could come from applying a proration of the payment from those state employees who are eligible for state payment of insurance but who have only worked for the State for a short period of time.

COVERAGE:

The major coverage issue results from the lower allowable costs services under Medicare. Blue Cross and Blue Shield offer what they call a "Carve Out Plan," which provides the present additional coverage provided in the Companion Plans plus an adjustment to bring the allowable costs up to the Blue Cross and Blue Shield levels. The cost of the "Carve out Plan" for retired State employees is estimated to be around $43.29 per person per month for 1986 and is compared to $37.12 in 1985 for the present "Companion Plan". Taking into account an expected 10% increase in "Companion Plan", the total cost to the State for moving to a "Carve Out Plan" would be approximately $93,000 for State employees.

PREMIUMS:

There are two issues regarding premiums. One is the $15.50 retired State employees who are eligible for Medicare must pay for Medicare Part B coverage. Retired State employees who are not eligible for Medicare remain in the State's health insurance group and have their insurance premiums totally paid for by the State. On the other hand, retired State employees who have a two person plan or the surviving spouse of a State employee pay lower premiums if they are Medicare eligible. Those on the two person state plan pay $77 per month while those eligible for Medicare pay $31 in Part B premiums and $36.80 for their spouse's Companion Plan or a total of $67.80, a savings of $9.20. For a surviving spouse, the premium is $72.56 per month on the State plan and $15.50 for Part B and $37.12 for the Companion Plan for a total of $52.62 for a savings of $19.94.

It should also be mentioned that the State also saves considerable money in premiums when a retired state employee is Medicare eligible. The difference between the $72.56 premium for the state plan and $37.12 premium for the State Companion Plan is $35.44 per month. The following table indicates the cost to the State of the premiums if the State paid the Part B premium or adopted a Carve Out Plan. For comparative purposes it also estimates the cost savings to the State for state employees eligibility for Medicare.

Table 3. Premium Costs to the State.

	Premium	Number of Retired Employees	Total Cost
State Plan	$72.56 - $77.00	1799	$1.566m - $1.662m
Companion	$37.12	3164	$1.409m
plus 10%	$40.83	3164	$1.550
Part B	$15.50	3164	$ .570m
Carve Out	$43.29	3164	$1.644m
less Companion	$ 2.46	3164	$ .093m
Savings from Medicare Eligibility	$35.44	3164	$1.346

COMPETITION:

Competition is a desirable mechanism to keep prices low through efficient provision of services and a way to insure that consumers are offered the scope of coverage desired. However, competition can defeat other social purposes, eg. subsidizing health insurance to retired workers to provide them with insurance at a reasonable cost, especially if it leads to the isolation of retired workers in one group and to the formation of other groups composed of active employees. If the state police or the game wardens are allowed to withdraw from the state group, they will, under existing practices, form a new group composed only of active members. Retired state police and game wardens would remain in the present state insurance group. This new group would gain retired employees over time but in the short and medium period they would have, as estimated above, a 10% reduction in premiums. In theory, if all employee groups withdrew and formed their own plan, the original state plan would have only retired employees. As estimated above, the premiums for these retired employees would increase by about 85% to 90%.

The same general inequality exists in the competitive situation between the Maine Teachers Association plan, which has a considerable number of retired teachers, and the Maine School Management plan, which is new and as yet has very few retired teachers. If all school units made the economic decision to go with the cheaper plan, then the MTA plan would be predominately retired teachers and their premiums would increase dramatically. The MSMA plan does allow retired teachers in a unit to transfer to a new active teacher group. However, few retirees take the option of transferring to a new insurance program when given a choice.

CHANGES IN MEDICARE:

A major problem faced by the subcommittee in discussing possible solutions to the above issues has been the plethora of proposals for changes in Social Security and Medicare emanating from Washington. The nature of the problems will change dramatically depending upon the type and scope of changes by Congress will enact.

There are four possible directions that Medicare can go:

1. No change regarding state employee or teacher participation.

2. Requirement that all new state employees and teachers contribute to Medicare.

3. Requirement that all present state employees and teachers contribute to Medicare.

4. Requirement that all present state employees and teachers contribute to Medicare and open eligibility to all retired state employees and teachers.

Possibilities 2 and 3 entail increased costs to the State while option 4 would balance increased costs with reduced expenditures for the premiums of retirees.

As of the present date, the second option has passed Congress and appears likely to be signed into law by the President. The cost to both the State and the new employees will be 1.45% of salary.

RECOMMENDATIONS:

The subcommittee makes the following recommendations:

1. The MTA and the MSMA should discuss the potential problem for retirees caused by the competition between their two plans. They should propose to the next Legislature a method of equitably apportioning retired teachers between the two plans so that if a local teacher group or school unit decides to shift to the MSMA plan the retired teachers who used to work in that unit will not remain with the previous insurer.

2. The MTA and MSMA should work together to propose a solution to the problem of providing health insurance for retired teachers. In devising a plan, they should consider mechanisms for apportioning costs in a manner which does not leave the total costs for the State but either proposes sources of revenues or methods of sharing costs among active and retired teachers, school units and the state.

3. The State's Employee Health Insurance Program should explore the possibility of providing a "Carve Out Plan" for retired state employees who are covered by Medicare.

4. The State's Employee Health Insurance Program should also analyze the possibility of relating the State payment of

health insurance for retirees to the number of years of state service rather than employment with the State in the year before retirement.

5. The State's Employee Health Insurance Program should also assure that any subgroup of state employees which develops and independent health insurance coverage package also include the retired former employees associated with that group in their new program.

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