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Recent Headwinds in Healthcare / Impact on MI Public Employers

What are they and what do we do?

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Problem

Doing more with less is nothing new for public sector employers.

Unfortunately, recent headwinds will put additional pressure on resources.

Understanding this is important so you can properly prepare and make changes where applicable (and possible).

What headwinds are we facing?

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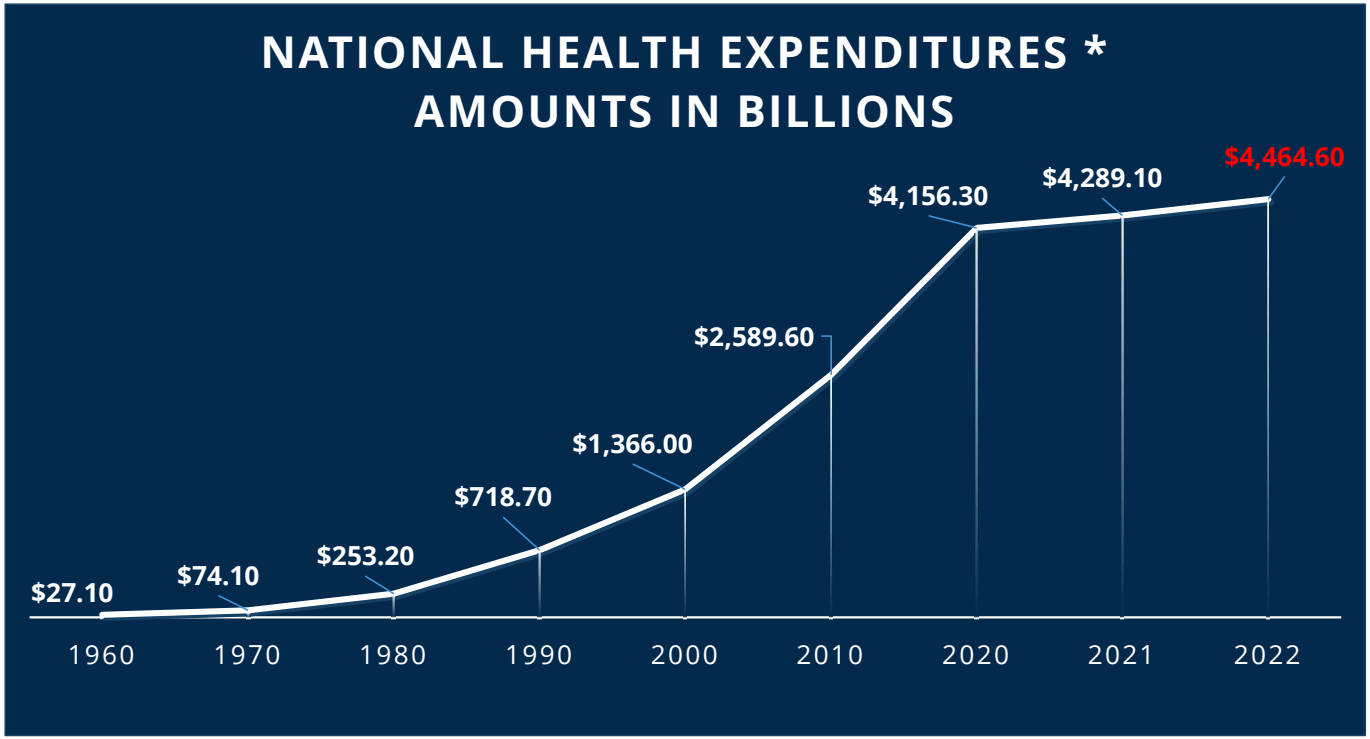
Historical

Health Care Cost Explosion

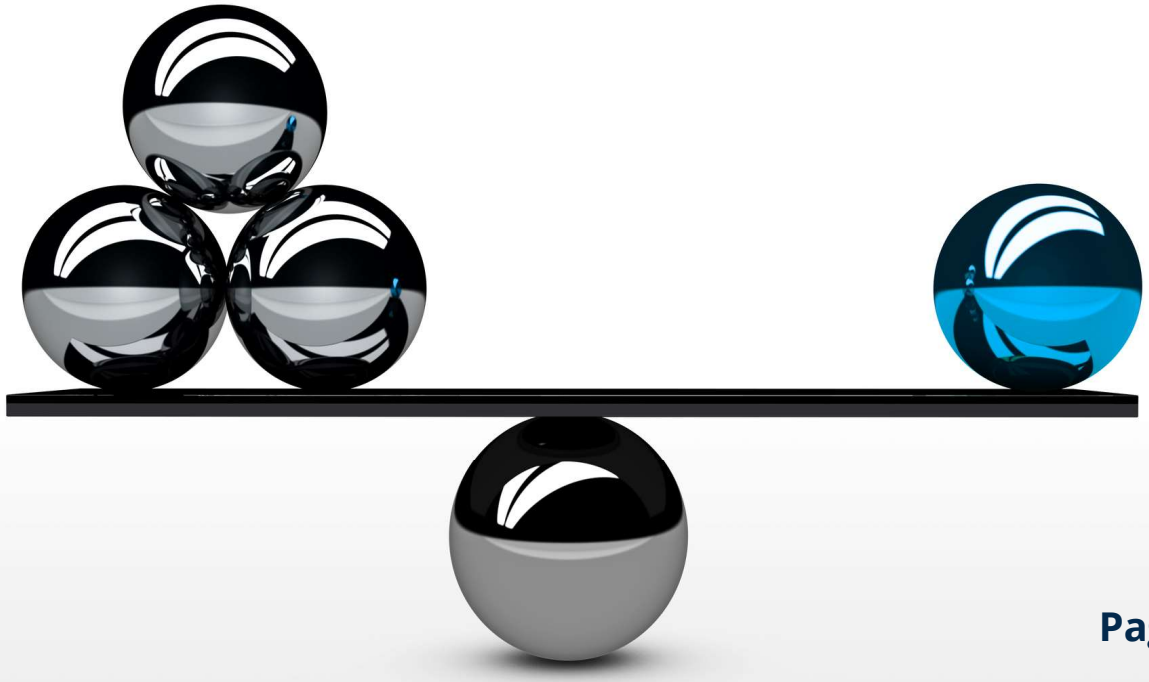


* Source: https://www.cms.gov/data-research/statistics-trends-and-reports/national-health-expenditure-data/historical

Historical

Health Care Cost Explosion

Important to understand that employers have increased deductibles, copays, and contributions to combat these increases. ***How much more can employers shift to employees?***



Chronic Conditions

Chronic Conditions (these get worse EVERY YEAR)

- **According to the CDC:**
  - 51.8% of US adults have at least one chronic condition [1]
  - 42% of US adults have 2+ chronic conditions
  - 12% have 5+ [2]
- Five of ten leading causes of death in US are treatable and preventable chronic conditions [2]
- ***It's reasonable to assume these stats are consistent among your respective organizations***

[1] Source: https://www.cdc.gov/pcd/issues/2020/20_0130.htm

[2] Source: https://www.cdc.gov/pcd/issues/2024/23_0267.htm

Mental Health

Mental Health Crisis

- **According to the National Institute of Health:**
  - "Any Mental Illness", aka AMI, prevalence in females: 27.2%, males: 18.1%
  - Ages 18-25: 33.7%, ages 26-49: 28.1%, age 50+: 15%
    - *Editorial: Speaking of 50+, especially in the range of 65+, is mental illness truly that low or is it not "real" like it is with my parents? Or considered "weakness?"*
  - Of those receiving mental health support, females (51.7%) seek more treatment than males (40%)
- ***What are the odds that half of US adults have a chronic condition but only 20% have a mental health illness. Underreported?***

How likely are police/fire to discuss and report mental health issues?

[1] https://www.nimh.nih.gov/health/statistics/mental-illness

GLP-1

Oh, I didn’t mention the GLP-1 explosion?

- **English please!** GLP-1 medications have shown an ability to control blood sugar and support weight loss
- Most common GLP-1 meds include Ozempic, Mounjaro, Wegovi, Zepbound (now approved for sleep apnea)
- According to Kaiser, 12% of US adults claim to have used (or are using) a GLP-1 medication

GLP-1

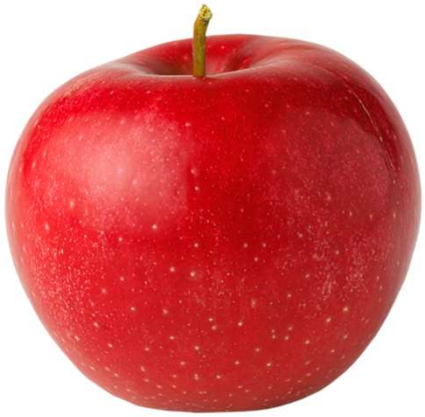
GLP-1 continued

- Polarizing discussions
- Side effects?
- Weight loss should lead to fewer chronic conditions and lower healthcare costs. ROI?
- Plan / carrier controls
- JP Morgan projects that US GLP-1 spend will increase from:
  - $5.1 billion in 2023
  - $13 billion in 2025
  - $31 billion in 2028
  - $44 billion in 2030

Medicare D

Inflation Reduction Act Impact on Part D

I could speak on this for hours; I promise I won't. Brief info:



Part D Funding Model Pre IRA

Part D Funding Model Post IRA

- Member benefit enhancements
- Cost shifts to carriers, which are then integrated into rates
- Some help on the way

State

PA 152, Proposed Amendment

Update, Status of Amended bill:

- The Senate passed proposed bill and the House agreed to the full title
- The bill was referred to the House Clerk for enrollment printing and presentation to the Governor
- House adjourned without a quorum
- Bill has not been presented to Governor Whitmer for signing
- Current discussions and potential confusion whether the bill can still legally head to the Governor's desk for signature now that a new legislative session has begun
- Rumor: Unlikely to proceed without court intervention

State

PA 152, Specifically Hard Cap

The Michigan Hard Cap DOES NOT index based on healthcare inflation, instead uses "medical care component" of US CPI

- **Definition of medical care component**
  - Patient payments made directly to retail establishments for medical goods & services
  - Health insurance premiums paid for by consumers, including Part B
  - Health insurance premiums deducted from employee paychecks

- **Recent hard cap increases by year:**
  - 2020: +2.0%
  - 2021: +3.3%
  - 2022: +3.7%
  - 2023: +1.3%
  - 2024: +4.1%

- **2025 CY hard cap is only increasing by 0.2%.**
  - In comparison, BCBSM large group insured renewals are expected to increase by 12.9% (PPO) and 12.0% (HMO)

State

PA 152, Proposed Amendment

This is a brief summary of the recent PA 152 amendments.

We have a separate presentation on the complete PA 152 amendment details

Highlights:

- **80/20**
  - Prior: Employer may not pay more than 80%
  - New: Employer may not pay less than 80%
  - MV Thoughts: Unions will ask for no contributions / improved benefit levels. 312 award concerns

- **Hard Cap, many changes, we'll address one at a time**
  - **2025 Hard Cap updated from original percentage increase**
    - Prior: +0.2% increase from CY 2024
    - New: +7.2% increase from CY 2024
    - MV Thoughts: Special OE, budgetary issues, HSA funding to hard cap (cash and claims), attraction/retention

State

PA 152, Proposed Amendment

- **Hard Cap continued: 2 person slope increases**
  - Prior: 2011-2024 slope 2.0, PA 270 of 2014-current slope 2.091
  - New: 2.2x single in 2026, 2.3x in 2027, 2.4x in 2028+
  - MV Thoughts: Internal modeling found an average cost increase of +1.9%

- **Hard Cap continued: Medical care component baseline change**
  - Prior: Change in medical care component of US CPI
  - New: Change in **medical care component** of average Michigan health insurance rates (DIFS)
  - MV Thoughts: Small group insurance rates are not trend, but rather projected revenue figures needed to cover costs (include margin/profit). These are not linear to large group trend. This index creates a composite total trend estimate which is +11.3% for CY 2025. This composite trend is weighted by carrier and their relative size (BCBSM & BCN are 65% of the small group pool meaning their relative weight can impact the net result)

- **Hard Cap continued: Hard cap increase floor**
  - Prior: No ceiling or floor to the annual hard cap change
  - New: Not only is the baseline changing to MI small group trend, but an "or" has been introduced where the annual floor is 3%
  - MV Thoughts: Historical annual hard cap change was +2.65% prior to 2025 modification. With modification, historical average is +3.18

What Else is Brewing?

Medical Expense Reimbursement Plan (MERP)

- Some of our municipal clients have been approached by their IAFF fire unions with a proposal from the MERP
- **From FAQ supplied by MERP:**
  - **Q:** What is the WSCFF MERP?
  - **A:** "It is a tax-sheltered plan in which members' pre-tax contributions are pooled, invested in a tax-free fund, and provide a tax-free lifetime benefit for the reimbursement of qualifying medical expenses after retirement. **The plan was specifically developed by the Washington State Council of Fire Fighters (WSCFF) and endorsed by the IAFF to assist IAFF Local members with their retirement health care expenses**."
- At its core, this is a combination retirement investment trust (with an asset manager) and healthcare program (with a benefit consultant)

What Else is Brewing?

Medical Expense Reimbursement Plan (MERP)

Continued

- **Two of our municipal clients have been approached by their respective IAFF representatives with a MERP proposal**
  - **Client 1:** Proposal to take over as the RHS vendor for DC employees. Prospective funds would be transitioned to MERP and future retirees would receive a "lifetime annuity*" calculated based on numerous factors
  - **Client 2:** Proposal for an undiscounted buy out of fire retiree liability with those funds placed in the MERP. Essentially paying a buy out of fire OPEB funds
    - Members would then receive "guaranteed*" lifetime annuity
    - Active employees would be able to purchase MERP trust's PPO plan

* MERP trustees reserve the right to modify or term benefits to preserve financial stability (tweaked 3x to date – twice lower, once improved)

How can we manage these headwinds?

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Options

What now?

- It's disingenuous to assume one solution will fit everyone in this room. Solutions vary greatly based on numerous variables
  - These are only a handful of thoughts. You know your employees, culture, mgt team, unions, retirees, financials, and governing bodies best

Negotiate Alt Active Healthcare

- Not fun to negotiate
- Does this create imbalance in comps, resulting in attraction / retention issues?
  - Knowing how you compare to your comps is important

Change Retiree Healthcare

- Even less fun
- Not necessarily negative. Large continuum. Depends on how extreme
  - Could "match plans" via MAPD
  - Align retiree benefit levels to actives
  - Stipend (AGGRESSIVE)
  - MANY MORE

Efficiencies

- Funding type (self funded vs. insured)
- RFPs / negotiations
- Audits (dependent, primacy, claim, SS disability, etc.)
- Compare against comps (do your benefits exceed comps?)

Options

What now (continued)?

Other

- Pharmacy programs / specialty pharmacy programs
- Direct contracting
- Foreign importation (legal considerations, liability, optics)
- GLP-1 strategies: Strong PA's on weight loss? Eliminate coverage (weight loss)?
- Pools or Trusts (evaluate pros / cons)
- "Latest and greatest program" There's always something new. Be thoughtful and ask lots of questions

Wellness

- Large continuum in wellness. Where is your organization?
  - Carrot (incentives), stick (penalties), purely voluntary
  - Education, reinforcement, and support!
- Programs to target whole body or individual areas of focus, such as weight loss, pharmacogenomics diabetes, tobacco, etc.
- Don't forget about mental health!
- Program array: free, full turn-key, ad hoc programs (like walking, healthy cooking, mindful eating, financial well being, endless options)

Summary

Action Plan

1. It's important to be prepared. We're already experiencing many of these expensive healthcare trends, but they're worsening each year
2. Discuss with your colleagues - What have they done, what are they seeing?
3. Consider action plans to build programs that are more sustainable
4. Find efficiencies wherever you can
5. A financial cliff is coming that will offer substantial financial relief: closed DB healthcare, eventually all employees will be DC with no retiree healthcare
6. Lean on internal and external subject matter experts

Questions?

Thank you very much for attending!

Please contact us if you have any questions

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