Credit Union Employee Benefits
Joint Purchasing: An efficiency initiative

CONCEPT DOCUMENT

INTRODUCTION

Issue: Higher Health Care & Benefit Costs for Small Firms

For many credit unions, employee benefits are one of the larger expense components on the income statement and one that has been increasing at a time many institutions are in need of driving operating costs down. The average credit union in the United States has less than 200 employees, and would be considered a "small" employer group in the health insurance business. In turn, the best available evidence suggest small groups pay higher health insurance costs for the same benefits than do large firms of over 2,000 employees. Our i3 team challenge was to explore whether credit unions could drive cost savings in health care benefit cost through joint purchasing arrangements and do so without significant impediments.

Limited pooling has been developed in the past with some previous initiatives undertaken. No current operational models were identified in the credit union industry and no past models like our proposed model. The concept borrows from innovative initiatives in place outside of the credit union industry.

Timing is right for exploration in the midst of the national health care debate. The current proposed health care legislation includes elements intended to foster this type of arrangement. Additionally, carriers are eager to demonstrate flexibility and consumer savings approaches to congress.

While multiple approaches exist to joint purchasing, this paper outlines a streamlined, efficient, and replicable approach that captures immediate efficiencies for participating credit unions while avoiding some key burdens associated with larger, more complex approaches.

EXECUTIVE SUMMARY

Solution: Joint Purchasing to Increase Purchasing Power

The concept is to establish a joint purchasing or pooling approach to achieve purchasing power and economies of scale by joining together various credit unions to purchase healthcare insurance and benefits as one buyer. Credit unions with similar employee characteristics and insurance needs within a common state geography (to account for variances in state mandates and laws) would affiliate under a common buyer to obtain leverage in health care insurance purchasing and other benefits.

Key Benefits

1. A savings of 7-10% of annual premium costs is achievable based on pricing research and an actuarial estimate based on current pricing in one sample credit union.
2. Immediate group purchasing savings in non-medical benefits including EAP, dental, etc. with 10% savings readily achievable.
3. Assistance with the increasing complexity and compliance of benefit regulations available to larger groups.
4. Increased plan choices can be made available to larger groups than are available to small groups.

OPPORTUNITY

Approach: Considerations for Innovation Solution Development

Pooling together for purchasing has been shown to hold down the price per individual when set up appropriately. This concept has been shown in strategies such as the creation of large purchasing pools for employers as well as with more similar models through associations and groups. It should be noted that pooling does not directly address the issue of high health care costs in general (such as managing care and reducing high cost/low value procedures) but rather focuses on the administrative costs and risk spreading. Pooling also increases purchasing clout with health plans.

In contrast to a small group, a large employer group constitutes an attractive pool of employees to insure because of what carriers often refer to as a "natural group" – a group that is constituted for purposes other than health insurance. Such groups include a normalized share of low-risk employees.

Unlike large employer groups, small employer groups may contain a disproportionate share of high (or low) risk employees and affiliation or pooling outside of a natural group can therefore lead to adverse risk in a non-natural group. To account for this additional risk, carriers charge higher premiums to small employers to mitigate the risk inherent in increased variability of claims. Carriers also charge higher premiums due to individual medical underwriting done for small groups as part of the risk mitigation process.

With a pool setup and architecture elements, small groups can be aggregated and claims risk variability reduced. One approach is for employers to subsidize premiums for employees and only contract with a health carrier through a pool. In this approach both employees and health carriers will find it attractive as it will be the only way for carriers to reach the employee group and the only way for employees to enjoy subsidized coverage. Pools can also minimize adverse risk selection and the potential for a "death spiral" – when only high risk firms opt in while low risk firms exit – by obtaining a multi-year commitment from employers.

Basic components of the pooling plan include:

- Begin by taking advantage of the fact that many credit unions already have a common health insurance carrier. In many markets, the largest providers have a significant market share.
- Target group employee size based upon point where purchasing power and administrative cost spreading can be achieved while maintaining a reasonable size number of employer groups in order to simplify decision making.
- Limit to employers in one state to avoid variances in mandated benefits that exist among states.
- Offer multiple options but not an excessive number in order to maximize administrative cost savings.
- Recommend a period of participation (number of years) in the group to ensure participation is not in question each year as variations in insured expenses by employer arise.
- Employer pays portion of premium – to encourage employee participation to further increase employee participation and leveling of risk as well as make the pool more appealing to carriers.
- Ensure employers participating in pool do not offer coverage options outside of pool or carriers will have incentive to capture employees outside of the pool plan.

ENVIRONMENTAL SCAN

External Innovation: Recent Models Developed in Other Industries

Because administrative costs associated with insurance are significant and largely fixed, smaller firms face much larger administrative costs per unit of benefit.[1] In addition, small employers experience greater variability in covered medical expenses due to smaller group sizes. This in turn increases the risk premiums charged.

Similar model innovation includes a new initiative from the pet care industry where the American Animal Hospital Association recently established a joint purchasing pool for medical costs. The average employer group size in this association is 12 employees, combining together for savings in both health and ancillary benefit costs.

What Drives Higher Premiums for Small Firms:

Given the lack of transparency in competitive pricing data among insurers, and the significant variances in coverage, direct comparisons of cost differentials between small and large firms are difficult. The Kaiser Family Foundation's 2008 study noted that in 2008, the average annual premium for family coverage was lower in small firms than large. Yet the survey also showed that workers in small firms have higher deductibles. [2] Drivers of higher premium costs in small firms include:

- Higher administrative costs. A 2001 GAO study indicates that small firms pay about 20% of premium for administrative costs compared to about 10% for large firms. [3]
- Premium variability due to medical underwriting. Small firms are more often underwritten for each employee individually, increasing direct costs and resulting in greater cost variability as well.
- Higher risk premiums associated with greater variability over time in medical expenses. Small firms have fewer workers over which to spread risk.
- Significant policy changes and frequent cycling in and out of the market can increase costs.
- Higher turnover rates can create instability and risk for insurers resulting in increased costs. Evidence indicates turnover is greater in smaller firms.[4]
- Natural disincentives for insurers to want to increase the purchasing power of their customer.

SOLUTION

Identified Path: Simplified Pooling Through Common Carrier

The steps outlined below provide the recommended approach to capture meaningful benefit cost savings through joint purchasing while limiting complexity and compliance hurdles. It is a solution that takes advantage of existing industry collaboration and familiarity at the state level. It provides flexibility to participating credit unions while minimizing the pain of plan changes and overhead costs and the benefit of joint group administration.

The solution calls for credit unions that already use the same carriers, and those willing to consider switching carriers, to band by state of incorporation, and establish joint purchase benefits through an existing third party administrator broker. It recognizes and acknowledges that in many states health carrier market share is consolidated in large providers. In Illinois for example, state records indicate Blue Cross Blue Shield has between 40-60% market share. Our solution for Illinois calls for combining together credit unions that already receive coverage through BCBS but do not enjoy the economies of large group sizes.

Through the process of our group's presentation to the Illinois Credit Union League, we have developed a toolkit which will help support the following implementation steps when approaching other interested groups. The toolkit contains:

1. An agenda with talking points for discussion with a group of interested credit unions
2. Frequently Asked Questions
3. Survey templates
4. Sample marketing materials

The overall approach to implementation is outlined below:

Step 1:

Identify existing credit unions within a state interested by survey and collect 4 key pieces of information. The key information needed from each interested credit union is:

1. Existing health insurance carrier
2. Plan design summary – deductibles, coverage, co-pays, etc.
3. Current premium costs for each plan
4. Number of eligible employees

Step 2:

Using data from survey, identify common plans that fit interested credit unions. Goal is to attract an eligible group size of 1500+ employees. This is the size needed on a state level to achieve significant buying power. (Note: There are 38 states that have a credit union employee count of 1500 or more.)

Step 3:

Identify and authorize third party administrator broker to negotiate with carriers on behalf of group. The broker could negotiate for health care purchasing as well as ancillary benefit buying.

Resources: www.healthcare.com/health-insurance/state/
www.nahu.org

Step 4:

Third party collects participant data and develops actuarial costs in conjunction with carriers for premiums.

Step 5:

Third party assists in benefit administration, compliance, regulation, and enrollment, providing a level of expertise and guidance not available to many smaller firms.

Step 6:

Maintenance of group purchasing, possible expansion to new credit union employers, expansion to other benefits.

Longer term, future steps could include consolidation of various state purchasing groups into a larger muli-state group as well as exploration of partial self insurance, where additional efficiencies of roughly 10% additional savings are feasible.

MEMBER BENEFITS

The financial industry shakeout has left organizations in the credit union industry as well as the greater financial services industry in need of cost savings. Narrow margins require the industry to identify efficiencies in order to preserve their value proposition to members. As competitors cut costs themselves, efficiencies will become more critical and competition more fierce.

CREDIT UNION BENEFITS

The benefits, including cost savings will vary by credit union based on current premiums, size of group, current carrier, and other factors. We believe the key benefits to include:

- Estimated health insurance cost savings of 7-10%, often with benefits being the second largest G&A expense item in the financial statement.
- Increased access to more plan options.
- Expanded (or new where not available today in smaller credit unions) access to third party assistance on managing the increasingly complex benefit regulations and administration. Benefit administration is becoming an increasingly complex and resource-draining activity, requiring expertise many credit unions cannot afford to retain.
- Savings on ancillary benefit costs including dental, EAP, and other common benefit programs.
- Limited administrative burden with approach calling for coordination and administration handled through third party administration broker.
- Rate variance control – more leverage to lock in rates or limit the range of rate change year to year.

Conversely, some credit unions may not be a good fit where:

- Specialized benefit plans exist and there is not an openness to modifications of plan benefits where goal is to develop several options yet not custom.
- Not able to commit to multiyear participation in group.
- Existing group size is already very large - in excess of 2,000 employees.
- A preference for a non-national insurance carrier exists.
- Employee population represents very high or very low health risk, relative to typical credit unions.

TARGET MARKET

The solution works best for credit unions with eligible employee counts of 51+ employees as 46 states strictly regulate the health benefit flexibility for employers under this size. For those employers with under 51 employees the pricing flexibility is greatly diminished. However key benefits accrue in savings on ancillary benefit costs, 2-3% administrate savings, and assistance with compliance and regulatory changes.

The collective group size target is 1,500-2,000 eligible employees.

PROOF OF CONCEPT

Our team is scheduled to present this concept to Illinois credit unions in October at the Illinois Credit Union League. The goal will be to identify an initial survey group to begin data collection.

Similar initiatives can be readily undertaken in each interested state.

We have worked to keep the approach as simple as possible yet provide very tangible value. One question to ask is why we don't see more examples of this in practice. Reasons include the fact that there are only a handful of national third party brokers that can facilitate and that bring the scope and expertise in small to large employers, there are not incentives for the carriers to abdicate power to employer groups, the insurance industry would not be considered highly innovative, legal barriers to pooling were reduced during the previous administration and could open further with pending legislation, and it takes some effort to bring together a large number of employers.

MARKETING TACTICS

The credit union employers must belong to a natural group such as an association. The natural group cannot be formed solely for the purpose of joint purchasing for healthcare.

The marketing strategy is to clearly demonstrate the benefit of the joint purchasing initiative.

FINANCIAL PRO-FORMA

Based on our survey of market research and meetings with benefits administrators real savings are possible. Anticipated ranges on overall savings depend on initial number of eligible employees and the resulting number in a combined group.

Using current actual expense data for Alliant Credit Union, an actuarial estimate of 7-10% savings was calculated. This would result in an annual savings of approximately $100,000 with further savings compounded in lower future premium increases. These levels are consistent with premium trend variances found between small and large groups nationally.

Additional savings is available in group purchasing of ancillary employee benefits.

PROJECT TEAM

Filene i³ is a creative group of insightful and energetic credit unions professional who develop new ideas, innovate, and implement for the benefit of the credit union system. Please visit filene.org/home/innovation or email innovation@filene.org to learn more. The team members who developed this idea are:

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