The Pros and Cons of a Consortium

Is a healthcare cooperative right for your district?

Anybody who has heard of Costco knows about receiving lower prices for buying in bulk. This is the basic concept behind healthcare cooperatives, also known as insurance consortiums or insurance purchasing groups.

While this approach works well with retail goods, it may not be the best strategy to control health insurance costs for some districts. Al Jaeger, senior benefits consultant, SVP, with the Associated Financial Group, advises districts to examine the options carefully, objectively and thoroughly.

Cooperative Considerations

Shared claims experience. In the standard insurance market, the premium each employer pays is largely based on their total claim costs, with adjustments for low-frequency, catastrophic claims that are less statistically credible for a given group size.

The smaller the group, the more likely they are pooled into a larger population's claims experience when calculating premiums.

School districts may not like or understand the typical rating process the insurance company uses as it may result in some districts paying more or less than other districts for the same insurance. The more money a given health plan costs the insurance company, the more they are likely to charge in premiums.

"This is what ultimately attracts districts with poor claims experience to cooperatives while dissuading districts with favorable experience" explains Troy Vander Pas, senior consulting actuary, VP, for the Associated Financial Group. In an existing consortium, this can lead to dissatisfaction over time for the 'good' districts in the pool.

Multi-year commitment. "When a district improves its claims experience, they start outperforming the claims experience of the rest of the pool which could allow them to get a better rate on their own and leave the pool." says Jaeger.

As a result, many cooperative arrangements hold each district to a multi-year commitment, *i.e.*, districts with effective employee wellness programs and good claims experience can't just leave the group to seek a better rate. But they eventually do and the resultant 'selection spiral' can lead to a consortium's demise.

Associated Financial Group's Employee Benefits Practice Group Leader, SVP, Jay Scott worked with a cooperative solution in the 90's.

"Districts banned together on the eastern shore of Wisconsin and had nice growth in membership for the first two or three years," Scott said. "Soon after, the districts with favorable claim experience left the pool because they could do better on their own. The remaining districts faced large premium increases that were not manageable."

The Challenge

Jaeger explains the *concept* of a consortium — joining forces to increase purchasing power and lower insurance costs — is powerful and effective if connected to the right strategy.

A consultant with strong relationships with multiple insurance companies can leverage this group purchasing power to negotiate health plan features and rates that benefit each district. Associated Financial Group has worked with several Cooperative Educational Service Agencies (CESAs) throughout Wisconsin to provide districts with consistent value in price, plan design and provider quality.

"CESA 2 districts have had statewide bragging rights to the best healthcare for over a decade," Jaeger said. "Before that, member districts were experiencing increases that simply were not sustainable."

A CESA 2 review of 25 school districts over a four-year span starting in 2000 reported the following increases:

- Avg. monthly rates, 2000 to 2001: Single: $330.10 / Family: $723.30
- Avg. monthly rates, 2004 to 2005: Single: $538.15 / Family: $1,423.41

That is a rate increase of 63 percent for a single plan and 98 percent for a family plan.

"When we partnered with Associated Financial Group in 2002, I knew a statewide pool with one carrier was not the solution and change was needed," said Dr. Gary Albrecht, CESA 2 agency administrator.

Solutions and Results Without a Consortium

Many CESA 2 districts averaged a savings of 20 percent after moving from a statewide pooling arrangement to a local purchasing solution.

"These districts, both large and small, continue to demonstrate the lowest premiums and highest coverage quality in the state," Jaeger said.

Some districts are paying the same or less in 2014 than they paid in 2004, while maintaining a Platinum Plus health plan. These impressive results have been achieved by leveraging the collective purchasing power

Joining forces to increase purchasing power and lower insurance costs is powerful and effective if connected to the right strategy.

of several districts through CESA 2 and negotiating with insurance companies to develop customized solutions for each district. This includes:

- **Competitive rates.** When faced with the possibility of acquiring several new districts as clients, the insurance companies started competing with one another by offering lower premium rates.
- **Multi-year premium rate increase caps.** In an effort to stabilize current and future healthcare budgets, some districts have been able to negotiate multi-year premium rate increase caps. Waunakee School District recently established an agreement with their insurance carrier that premiums would not increase more than 5% per year for 3 years without any additional plan design changes for a three-year commitment from the district.
- **Support or funding for wellness initiatives.** To sustain affordable costs and generous health plans, successful districts implement a variety of workplace wellness strategies. Insurance carriers and providers have been willing to provide services such as on-site nurse practitioners or assist in establishing on-site or near-site clinics for district employees. These services help reduce claims by providing affordable quality care that is easily accessible for employees.

School districts in Albany, Juda, Monticello, Brodhead, Parkview and Beloit Turner are smaller districts that are outperforming many large employers on their plan pricing because they have been able to leverage their combined purchasing power.

"The total premiums paid by these area districts are less than our collective claims over the past seven years. If claims had been pooled, we would have each paid higher rates. This arrangement provided the benefits of group purchasing without the strings of a formal consortium," explains Dr. Steven Guenther, superintendent of the Albany School District.

Dr. Albrecht adds, "The collaborative approach required an understanding of how to use the knowledge and resources, such as a different way of leveraging buying groups, relationships and experience to apply it in a manner that produced outstanding results in different geographies."

Ultimately, each district must examine all of their options and determine the best solution to meet their needs. Conducting a complete financial analysis before making any type of multi-year commitment should be done.

Wilmot School District compares and contrasts their options with other area districts. Multiple surrounding districts continually review their insurance financial reports and evaluate their best options before Wilmot makes any decisions.

"It just makes sense to me to make an informed decision," says Dan Kopp, superintendent, Wilmot School District. ■

Associated Financial Group is an endorsed agency through the WASB Insurance Plan. For more information, please contact Associated Financial Group at 800-258-3190 or info@associatedfinancialgroup.com.