



Pooling municipal health benefits is a good start

Alan J. Desmarais

May 27, 2010

A new bill passed by the General Assembly and now before Gov. M. Jodi Rell for signature could offer fiscal relief as municipalities all over Connecticut stare down a current budget crisis that will become even more daunting in fiscal year 2011- 2012 and beyond. House Bill 5424 allows towns and boards of education a no-strings-attached option to pool their healthcare benefits-and thereby better control soaring benefit costs. This bill confirms that the previous legislative action, which allowed municipalities to "jointly perform any function that each municipality may perform separately," specifically applies to the financing of employee healthcare benefits. Many towns now understand that this law opens up a necessary cost-control opportunity, and none too soon.

This is not the first time such pooling arrangements have been green-lighted in New England. The Governmental Health Group of Rhode Island was created to 2005 and now includes cities, towns and school districts that have joined together on a voluntary basis. Among the keys to the success of the Rhode Island program-which are also essential to this latest effort in Connecticut-are that member groups define the pool's concepts, organizational structure, and financial framework.

Prior efforts in Connecticut to formalize benefit pooling among different municipalities have failed, in large part because they were not initiated by the municipal members. Prior efforts included benefit standardizations that may have been unattractive and costly to many towns, and did not have the benefit of the clarity of language included in HB 5424. This latest effort has gained approval in part because it is more flexible: It opens the door to pooling without mandating that it be done in one particular way.

So how will Connecticut cities and towns react to this law? Many of them face budget crises that are largely driven by benefit costs, and pooling opens new cost control possibilities beyond the obvious economies of scale and accompanying lower administrative costs. For example, with pools, towns can more readily participate in quality cost-saving wellness programs because they

can purchase such services at a group cost. As a larger group, they have access to more analytic horsepower and can more readily share ideas on plan design. They have more clout with hospitals and physicians in contract negotiations. Small towns in particular can benefit from these new avenues, which have traditionally been "large town features."

As is the practice in Rhode Island, the Connecticut law permits each plan to be underwritten and priced according to their respective experience and risk. Every town then has to carry its own weight. So while every town in the pool can benefit from increased negotiating clout, a town is still responsible for the costs associated with a less healthy population. This underwriting methodology is important in attracting the most successful towns into a pool, since these better performing municipalities would be the last to join a pool burdened by adverse selection. (Adverse selection is the desire of those with high claims activity to escape the accompanying high premiums by joining with those who have lower claims activity and premiums.) While the pooling law does not line up explicitly with health care reform, it encourages a few things in the spirit of the new federal law: An emphasis on prevention. Renewed focus on the analytics of efficiency. A spirit of innovation.

This approach seems well-suited for Connecticut, where a strong independent municipal culture has always prevailed and where inter-municipal organizations are already in place with existing administrative structures that are just beginning to bear fruit. The new law offers that delicate balance: The ability to remain independent while being a member of a group that can help moderate costs. My guess is we'll be seeing widespread interest in pooled benefits, and my hope is that this effort is the first of many that can offer practical, actionable solutions to looming municipal budget crises that are only getting worse.

Alan J. Desmarais is senior health benefits consultant for Milliman Inc. and a former municipal finance director in Connecticut. He lives in West Hartford.