

**STATE OF NEW JERSEY
OFFICE OF THE STATE COMPTROLLER**

**COST ANALYSIS OF
SELECTED LOCAL GOVERNMENT UNITS JOINING
THE STATE HEALTH BENEFITS PROGRAM**

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COMPTROLLER**

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PA-15**

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BACKGROUND, AUDIT OBJECTIVES AND METHODOLOGY

The New Jersey State Health Benefits Program (SHBP) was established in 1961 to provide health insurance coverage to State employees, retirees and their dependents. In 1964, SHBP was expanded to allow participation by other public employers in New Jersey, including counties, municipalities, school districts and public authorities. The Department of the Treasury's Division of Pensions and Benefits (DPB) administers SHBP.

SHBP offers medical, prescription and dental coverage options. As of the time of our audit fieldwork, there were four medical plans available to local government units (LGUs) through SHBP: two preferred provider organization (PPO) plans and two health maintenance organization (HMO) plans. NJ DIRECT 10 and NJ DIRECT 15 are the two PPO plans and both are administered by Horizon Blue Cross Blue Shield of New Jersey (Horizon). Under these plans, participants are not required to choose a primary care physician, nor do they need referrals to visit physicians or other healthcare professionals in the Horizon network. Aetna and CIGNA HealthCare administer the two HMOs. All of the plans have substantial networks of healthcare providers and provide services nationwide, generally with co-pays of either \$10 or \$15.

The SHBP prescription plan is administered by Medco Health Solutions, Inc. SHBP offers seven choices of dental plans.

The scope of medical services offered through SHBP is comprehensive. SHBP offers benefits which include but are not limited to: primary and preventive care; specialty and outpatient care; inpatient services; surgery and anesthesia; mental health treatment; alcohol and drug abuse treatment; emergency room services; and disease management programs.

SHBP currently provides coverage for more than 850,000 participants, including employees, retirees and dependents. According to enrollment

information obtained from DPB, as of April 2011, 7 of the 21 New Jersey counties (33 percent), and 349 of the State's 566 municipalities (62 percent) are participating in SHBP.

In March 2010, the State enacted legislation (P.L. 2010, ch. 2) mandating a series of changes to SHBP. These changes included requiring that all participating State and local government employees contribute at least 1.5 percent of their base salary toward the cost of their healthcare coverage.

In June 2011, the State made additional changes to SHBP (P.L. 2011, ch. 78). These changes included:

- requiring that all public employees and certain public retirees contribute toward the cost of their healthcare coverage based upon a percentage of the cost of coverage. This increase is being phased in over several years. The specified percentage to be paid is based upon the employee's salary, with lower compensated employees paying a lower percentage than higher paid employees; and
- permitting LGUs that do not participate in SHBP to agree to different employee contribution rates if certain cost savings associated with those employee contributions can be demonstrated.

The primary objective of our audit was to determine whether cost savings could be realized for LGUs if they joined SHBP. We also sought to determine whether LGUs that chose not to join SHBP were procuring their health insurance in accordance with applicable legal requirements. Our audit covered the period September 1, 2008 through December 9, 2011.

As part of our audit procedures, we reviewed applicable statutes, relevant studies and related documents. We also interviewed DPB personnel concerning SHBP and the process through which LGUs enroll and participate in SHBP.

We focused our analysis on four LGUs that we selected for review. As part of our LGU selection process, we obtained SHBP enrollment data as of June 1,

2010, as well as 2009 employment data from the New Jersey Public Employees' Retirement System and the Police and Firemen's Retirement System. From this data, we identified the number of employees at LGUs not participating in SHBP. We divided those LGUs into three groups based on their number of employees: large (more than 500 employees), medium (101 to 500 employees) and small (less than 100 employees). We selected one large, two medium and one small LGU for review, while also attempting to ensure a degree of geographic diversity. Specifically, we selected Essex County, Brick Township, East Brunswick Township and Haddon Township:

- Essex County is located in northeastern New Jersey and has a population of 783,969, as of the 2010 census. During the 2009 and 2010 health benefit years, Essex County's health benefit plans were comprised of approximately 3,579 active employees, 1,574 retirees and 15 surviving dependents.
- Brick Township is located in Ocean County and has a population of 75,072, as of the 2010 census. During the 2009 and 2010 health benefit years, Brick's health benefit plan was comprised of approximately 369 active employees, 182 retirees and 5 surviving dependents.
- East Brunswick Township is located in Middlesex County and has a population of 47,512, as of the 2010 census. During the 2009 and 2010 health benefit years, East Brunswick's health benefit plan was comprised of approximately 315 active employees, 186 retirees and 5 surviving dependents.
- Haddon Township is located in Camden County and has a population of 14,707, as of the 2010 census. During the 2009 and 2010 health benefit years, Haddon's health benefit plan was comprised of approximately 67 active employees and 24 retirees.

The medical and related benefits these LGUs offer their employees are the same or generally comparable to the benefits SHBP offers public employees.

As part of this audit, we reviewed relevant documentation at these four LGUs and compared the LGUs' medical and prescription benefit costs with the costs they would have incurred if they had participated in SHBP. We reviewed details of the health benefits provided and applicable collective bargaining agreements. We also reviewed documents associated with the procurement of insurance coverage by each LGU, including broker costs. To obtain statewide feedback regarding health benefit costs and related procurement practices, we also sent a survey to officials at other LGUs.

This audit was performed pursuant to the State Comptroller's authority set forth in *N.J.S.A. 52:15C-1 et seq.* We conducted our audit in accordance with generally accepted government auditing standards applicable to performance audits. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

SUMMARY OF AUDIT RESULTS

The four LGUs we examined would have saved approximately \$12.5 million by joining SHBP during the 2009 and 2010 health benefit years. Our audit found that three of the four LGUs had not evaluated the costs and benefits associated with joining SHBP, and the one that did had not taken into account all relevant information.

We found specifically that the use of insurance brokers by the LGUs contributed to additional costs in providing healthcare coverage. The expense of such broker fees is not incurred by LGUs participating in SHBP. Further, since the broker's profit often is directly related to the amount of insurance premiums or fees the LGU pays, there are conflicting incentives for brokers in seeking lower cost healthcare alternatives for LGUs they represent. One broker we interviewed admitted that the broker has no incentive to promote SHBP as a healthcare option for its clients.

In addition, we found that the LGUs are not procuring their insurance coverage and insurance brokers in accordance with requirements of the Local Public Contracts Law and the State's "pay to play" law. Our audit found several violations of these laws, including the award of a government contract to an insurance broker that had made campaign contributions that should have disqualified the broker from receiving such a contract.

We make five recommendations to address the deficiencies we identified.

AUDIT FINDINGS AND RECOMMENDATIONS

Cost Analysis

The four selected LGUs could have saved approximately \$12.5 million by joining SHBP during the 2009 and 2010 health benefit years. The average savings would have been approximately \$1,000 per individual enrollee.

Based on the enrollment numbers of the four sampled LGUs and the premium rates offered by SHBP, we determined average costs that each LGU would have incurred if they had participated in SHBP and compared it to the cost they paid for their health plans during the 2009 and 2010 benefit years. We found that the four LGUs could have saved approximately \$12.5 million over the two-year period if they had enrolled in SHBP. The amount of savings by year for each LGU is set forth in the table below:

LGU	Savings Per LGU		
	2009	2010	Total
Essex County	\$4,649,846	\$4,919,046	\$9,568,892
Brick Twp.	\$1,120,410	\$1,010,188	\$2,130,598
East Brunswick Twp.	\$507,595	\$120,827	\$628,422
Haddon Twp.	\$153,486	\$76,563	\$230,049
Total	\$6,431,337	\$6,126,624	\$12,557,961

The average savings per individual enrollee would have been \$1,007 in 2009 and \$979 in 2010.

We asked the four LGUs if they include SHBP in their cost analysis each year when deciding upon healthcare coverage. We found that only Brick Township had performed a comparative analysis that included the cost the township would incur if it participated in SHBP. Brick's comparative analysis was incomplete, however, because it did not take into account that SHBP rates include prescription benefits for retirees. Brick's analysis incorrectly presumed that

prescription benefits for retirees would constitute an additional cost under SHBP, which resulted in an incorrect assessment.

Our findings concerning SHBP cost savings are consistent with the insurance industry concept of economies of scale. As confirmed by the New Jersey Department of Banking and Insurance, insuring larger groups of employees is generally more cost-effective than insuring multiple smaller groups because it spreads broker and consultant fees as well as administrative costs across a larger base of participants. State health benefit programs generally are able to take advantage of the economies of scale associated with large employers.

Our research thus revealed that in states outside of New Jersey, local government employers have joined their state health benefit plans in an effort to reduce costs. For example, an April 2011 report issued by a nonprofit organization named the Boston Foundation identified significant, realized savings for 15 Massachusetts municipalities that successfully switched to the state-sponsored health plan. Those entities collectively saved \$35 million during their first year of joining their state plan.

To address rising health insurance costs, a number of New Jersey municipalities recently have switched to SHBP. We contacted four of those municipalities to obtain information concerning their experiences in switching from private insurance to SHBP:

- Union Township officials told us that they enrolled in SHBP to address a \$3 million budget gap. The township was able to hire seven additional police officers and avoid planned layoffs that would have been necessary had the township not joined SHBP.
- City of Millville officials told us that they went from private insurance to SHBP in 2010 to avoid a \$1.2 million increase in premiums. The change resulted in lower premium costs than the city had paid the prior year. Because of what Millville described as minor differences in the

two plans, however, all four local labor unions have filed an unfair labor practice charge against the city.

- According to Branchburg Township officials, by joining SHBP four years ago the township avoided what would have been a \$700,000 increase in its insurance premiums.
- Mt. Olive Township joined SHBP in May 2010. Local officials informed us that the township's total cost for health benefits decreased following the township's transition to SHBP.

During our conversations with these LGUs we asked whether they experienced any problems with the enrollment process when joining SHBP. Branchburg stated they had not experienced any such problems. Millville similarly reported no negative issues, except the unfair labor practice charge referenced above. Mt. Olive and Union reported no significant issues, but noted that the enrollment process could have been expedited if they were able to talk to the same DPB employee each time they called the agency.

Recommendation

1. Evaluate annually the costs and benefits of participating in the State Health Benefits Program. Consider enrollment in SHBP based on that evaluation. (We note that joining SHBP in some instances may not be possible until the expiration of current collective bargaining agreements.)

Insurance Brokers

The use of insurance brokers results in additional costs to LGUs.

LGUs frequently contract with insurance brokers to analyze their health insurance needs and assist them in securing coverage from insurance carriers. Of the four LGUs we reviewed, three (Essex County, Brick Township and Haddon Township) contracted with insurance brokers during the time period reviewed in this audit.

Insurance brokers typically are paid by third-party administrators (TPAs) that are hired by LGUs to collect, review and pay healthcare bills. TPAs pay the brokers using funds provided to the TPA by the LGU. The broker fees can either be a fixed dollar amount or a percentage of the insurance premiums paid. Because the payment ultimately is handled by the TPA, none of the three LGUs referenced above were able to tell us the amount of the broker fees they had paid.

We found those rates or fixed fees, however, stated in the service agreements between the LGU and the TPA. The payments made, which were included in the cost analysis discussed in the previous section of this report, were as follows:

LGU	Broker Fees		
	2009	2010	Total
Essex County	\$346,867	\$409,583	\$756,450
Brick Twp.	\$130,930	\$132,121	\$263,051
Haddon Twp.	\$28,706	\$28,344	\$57,050
Total	\$506,503	\$570,048	\$1,076,551

The expense of broker fees is not incurred by LGUs that participate in SHBP. Thus, one broker we interviewed admitted that her company has no incentive whatsoever to promote SHBP as a healthcare option for its clients.

An insurance broker's fee often is directly related to the size of the insurance premiums or fees paid by the LGU, i.e., the higher the cost of the premiums, the larger the broker's commission. This arrangement inherently could lead to abuse in that brokers are presented with conflicting incentives in seeking lower cost insurance alternatives in certain instances. Moreover, our audit found that in part because health insurance is a specialized area, LGUs often place heavy reliance on their broker's recommendations and at times completely defer to them.

As part of our audit, we surveyed other LGU officials concerning their use of brokers. Of the 116 LGUs who responded that they contracted with an insurance broker, 61 stated that they did not know how much their broker was paid during the last audited fiscal year. Of the 55 that were aware, 11 reported paying their broker more than \$150,000, 16 reported paying their broker between \$50,000 and \$150,000, and 28 reported paying their broker less than \$50,000. Twenty-seven of the LGUs stated that their broker did not consider SHBP in presenting health insurance options to the LGU.

Recommendations

2. Utilize a pre-set fee structure for payments to brokers to mitigate the risk of brokers recommending more expensive insurance coverage in order to make more in commissions from the LGU.
3. Require the amount of broker commissions to be clearly identified in billing statements sent to the LGU.

Procurement Issues

The selected LGUs did not procure their insurance coverage and insurance brokers in accordance with all requirements of the Local Public Contracts Law and the State's pay-to-play law.

Local Public Contracts Law

LGUs that do not join SHBP are required to adhere to the requirements of New Jersey's Local Public Contracts Law (LPCL), *N.J.S.A. 40A:11-1 et seq.*, in procuring insurance coverage, insurance brokers and TPAs. Under the LPCL, the purchase of insurance coverage and related consultant services is exempt from formal public bidding procedures. Those services must, however, be procured in accordance with the statutory requirements concerning "extraordinary unspecifiable services." Among the requirements for such procurements in excess of \$17,500, LGUs must:

- solicit at least two competitive quotations;
- award the contract to the vendor whose response is most advantageous to the LGU, price and other factors considered;
- pass a resolution awarding the contract which includes supporting reasons for the action; and
- adhere to other technical and procedural requirements including publishing notice of the contract award, retaining records of the quotation solicitation and issuing a certification concerning available funds.

Such contracts may not span longer than three years unless a separate resolution subsequently is passed authorizing an extension for up to two additional years.

We found that procurements of health insurance coverage, brokers and TPAs conducted by the four selected LGUs did not comply with requirements of the LPCL. The following are examples of the procurement violations that we identified:

- Haddon Township failed to seek quotations in 2010 when selecting its TPA and instead simply contracted again with the incumbent vendor for these services. The township did not pass a resolution awarding this contract, issue a certification of funds or publish notice of the contract award. In addition, in 2010 the township's insurance broker submitted a proposal that omitted information that was required by the township's Request for Qualifications, such as the qualifications of the individuals working for the broker, the number of licensed professionals working for the broker, the proposed cost of the brokerage services, documentation of the required insurance coverage and a statement of compliance with the State's affirmative action laws. Based on the broker's failure to provide this information, the township should have disqualified the broker's proposal.
- Brick Township did not pass a resolution in 2010 authorizing the award of a contract for its health insurance coverage as required by the LPCL. Similarly, the township advised us that it has not passed a resolution awarding its insurance broker contract since 2002.
- Essex County has permitted its insurance broker to perform services beyond the LPCL's statutory time limit. Specifically, the county awarded a three-year contract to its insurance broker in 2006 with a term that expired on December 31, 2009. In 2010, the county issued a Request for Qualifications for its broker services and conducted an evaluation in which its incumbent broker received the highest score. However, a resolution approving the contract award was never presented to the Board of Chosen Freeholders for approval, and a resolution

authorizing an extension of the original three-year term was never passed.

- East Brunswick Township did not retain a record of the quotation solicitation documents it used in procuring its TPA. In addition, East Brunswick did not publish notice of the contract award stating the nature, duration and amount of the contract.

Pay-to-Play Law

LGUs are also required to comply with the State's pay-to-play law, *N.J.S.A. 19:44A-20.1 et seq.*, when awarding contracts to insurance brokers and TPAs in excess of \$17,500. Under that law, LGUs must use either a fair-and-open process or a non-fair-and-open process in awarding the contract. A fair-and-open process requires that at a minimum the contract shall be:

- publicly advertised in newspapers or on the website maintained by the public entity in sufficient time to give notice of the contract opportunity in advance of the contract award;
- awarded under a process that provides for public solicitation of proposals or qualifications;
- awarded under criteria established in writing by the public entity prior to the solicitation of proposals or qualifications; and
- publicly opened and announced when awarded.

If a contract is awarded pursuant to a non-fair-and-open process, then the LGU may not award the contract to a vendor that has made a disqualifying political contribution in the year prior to the contract award. Disqualifying contributions include those "to any municipal committee of a political party in that municipality if a member of that political party is serving in an elective public office of that municipality when the contract is awarded or to any candidate

committee of any person serving in an elective public office of that municipality when the contract is awarded.”

Our review of the insurance-related procurements conducted by the four selected LGUs identified violations of the State’s pay-to-play law by Brick Township and East Brunswick Township. Specifically, we found:

- Despite the fact that Brick Township used a non-fair-and-open process, in 2009 Brick’s insurance broker made five disqualifying contributions totaling \$1,700 to the election funds of the township’s mayor and several members of the township’s council. Pursuant to the State’s pay-to-play law, when an LGU engages in a non-fair-and-open process it must require all vendors seeking the contract to submit a certification concerning contributions made in the year preceding the award of the contract. Brick Township did not obtain the required certification, which should have disclosed the prohibited contributions described above. We have referred this matter to the New Jersey Election Law Enforcement Commission for any action it deems appropriate.
- East Brunswick Township’s resolution awarding a contract to its TPA stated that the contract was awarded pursuant to a fair-and-open process. However, our review found that the contract award did not comply with fair-and-open requirements. Specifically, the township could not provide evidence that the contract was publicly advertised and the township did not establish evaluative award criteria.

Recommendations

4. Comply with all applicable legal requirements, including those set forth in the Local Public Contracts Law and the State’s pay-to-play law, when procuring insurance coverage and other insurance-related services.
5. Present to the municipal or county governing body any resolutions required to authorize the award of insurance-related contracts.

REPORTING REQUIREMENTS

We provided a draft copy of this report to Essex County and the Townships of Brick, East Brunswick and Haddon for their review and comment. Their comments were considered in preparing the final report and are attached as Appendix A. We address selected points from the responses in Notes set forth in Appendix B.

In several of the responses, LGUs expressed concern that their current collective bargaining agreements may require a level of health benefits that SHBP does not provide, which may make a switch to SHBP difficult. For example, two of the LGUs noted that their collective bargaining agreements may require continuation of their current \$5 co-pay for doctor visits, while SHBP provides for \$10 or \$15 co-pays. As noted in this report, we acknowledge that joining SHBP in some instances may not be possible until the expiration of current collective bargaining agreements. In view of the findings of this report, when engaging in future bargaining LGUs should consider whether it is appropriate to continue to require local taxpayers to fund these special health plan commitments contained in prior agreements.

One LGU also expressed concern with the financial stability of SHBP. DPB stands behind the stability of the plan, and as discussed in this report the State recently has taken steps to enhance its stability. Further, the most recent independent audit of SHBP for the period ending June 30, 2011 indicated the assets of all three SHBP funds exceeded their liabilities. To the extent there is a concern about future SHBP rate increases resulting from any such financial issues, we note that LGUs can choose to opt out of SHBP in the future if an alternate plan becomes more favorable at that time. In the meantime, local taxpayers are losing an opportunity for savings.

Notwithstanding the concerns raised, the LGUs have taken steps to implement several of the report's recommendations. For example, Brick Township

informed us that based on our recommendation, in 2011 it engaged in a competitive process for the selection of its insurance broker. Haddon Township similarly stated in its response to the draft report that Haddon used a competitive selection process in selecting its health insurance broker for 2012.

The Office of the State Comptroller is required by statute to monitor the implementation of our recommendations. To meet this requirement, Essex County and the Townships of Brick, East Brunswick and Haddon shall report to the Office of the State Comptroller, within 90 days of the date of this report, the corrective action taken or underway to implement the recommendations contained in this report and, where not implemented, the reason therefore. *N.J.A.C. 17:44-2.8(a)*.



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Joseph N. DiVincenzo, Jr.
Essex County Executive

January 18, 2012

Ralph J. Ciallella
County Administrator

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RE: Response to State Health Benefits Performance Audit Draft Report

Dear Mr. Challice:

This letter is in response to the draft report dated January 11, 2012 of the performance audit conducted by the Office of the State Comptroller regarding a Cost Analysis of Selected Local Government Units Joining the State Health Benefits Program.

We request that our response be appended to the final report. The audit performed by the Office of the Comptroller did not take into consideration the many cost savings strategies the County of Essex has implemented over the past several years to attempt to lessen the increasing cost of employee and retiree health benefits. The County's responses to the report recommendations are listed below.

Audit Recommendations

- 1. Evaluate annually the costs and benefits of participating in the State Health Benefits Program. Consider enrollment in SHBP based on that evaluation. (We note that joining SHBP in some instances may not be possible until the expiration of the current collective bargaining agreement.)**

Response

A comprehensive analysis of the health benefit plan options and associated costs for the SHBP was conducted prior to the County's January 1, 2012 health benefits renewal (Appendix A).

Due to the number of collective bargaining agreements (26 total) all recommended changes to employee health benefits must be negotiated at the expiration of each agreement. Wholesale changes cannot be made to the agreements upon expiration of the existing agreements. Appendix B (Arbitration between County of Essex, Essex County Sheriff's Office and Essex County Sheriff's Officers, P.B.A., Local No. 183), #5 demonstrates the County's attempt to increase co-pay agreements in the prescription benefits plan. The arbitrator did not rule in the County's favor and

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ruled that the co-pays remain unchanged. All changes must be negotiated separately for each agreement and attempts are made for health benefit plan increases during negotiations. Page 4 of the Audit Findings Report states that:

“The medical and related benefits these LGUs offer their employees are the same or generally comparable to the benefits SHBP offers public employees.”

Our analysis of the plan differences included as Appendix A demonstrates that the employee and retire health benefits programs currently offered by the County of Essex exceed the options provided by the SHBP and the County is required to provide **“Equal to or Better Than”** health benefits coverage as part of the collective bargaining agreements. The analysis compared the SHBP Direct 10 Plan only since the Direct 15 and HMO plans offered by the SHBP are not comparable to the health benefits plans that were in effect during the 2009 – 2010 audit period.

All medical plans offered by the County of Essex require a \$5 co-pay for doctor office visits where the plans offered by the State of New Jersey Health Benefits Program offers either a \$10 or \$15 co-payment for doctor visits. The attached plan comparison chart (Appendix A) defines the many other coverage discrepancies between the current SHBP Direct 10 benefits plan and the plans offered by the County of Essex.

Additionally, the County offered “lower cost options” for health benefits plans for the January 1, 2012 enrollment period and only eight employees selected the lower cost plan options that mirror the benefits provided in the SHBP. Six employees selected the POS 15 (Direct 15) and two employees selected the HMO option.

Since 1999, all new employees who select dependant health benefits coverage are required to pay 25% of the cost of the selected dependant coverage. Also, since 2008, all unclassified (non-represented) employees paid a percentage of their health benefits premium based upon salary level (10%, 15% or 20%).

The amount of health benefit premium offset generated by these initiatives for 2009 and 2010 are as follows:

2009	\$4,473,846.47
2010	\$4,501,597.05

If the above listed health benefits premium off-sets were taken into consideration in calculating potential savings from a change in health benefits providers, the actual savings would amount to \$593,448.48 over the two year audit span period and the savings do not accurately reflect the costs associated with providing an equal to or better than level of health benefits as required in all collective bargaining agreements that were in place during at the time the audit was conducted.

The audit conducted for the 2009 and 2010 health benefits program years did not take into consideration the ongoing costs associated with the NJ Supreme Court’s decision in *Gauer v. Essex County Division of Welfare*, 108 NJ 140 (1987) where the Supreme Court held that the County of Essex was bound by the resolution of the Welfare Board to reimburse the health insurance premiums of employees who retired with twenty-five years or more of service. The benefit plan in place at the time of this decision, know as the “Traditional Plan”, offers the most comprehensive coverage at the greatest premium level. Further, in an unpublished opinion (*David H. Weiner and Louis DeBello, as Class Representative of the Employees of the Former Essex County Welfare Board v. County of Essex*, Docket No.: ESX-L-3667-89, decided July 10, 1992), the court ruled that health benefits payments “Apply to all eligible present and **future** pensioners of the employer and their dependents.”

As a result of the court rulings, the County must continue to provide the Traditional Benefits Plan to 187 retirees and provide the plan as an option to 52 active employees. The SHBP does not offer a benefit option that provides "Equal to or Better Than" coverage provided by the County's Traditional Plan. Current premium rates for the Traditional Plan are as follows:

Single - \$14,628
Two Adults - \$31,356
Parent/Child - \$27,036
Family - \$ 39,912

The County has made attempts to reduce the number of active employees that are enrolled in the Traditional Plan through outreach and educational efforts and has experienced success by reducing the total number of enrollees for the 2012 enrollment period by 60 active employees.

2. **Utilize a pre-set fee structure for payments to brokers to mitigate the risk of brokers recommending more expensive insurance coverage in order to make more in commissions from the LGU.**

Response

This recommendation will be taken into consideration. Numerous meetings are held with the County's broker utilized for placement of health benefits coverage for employees and retirees prior to each enrollment period. Consideration is always given to the "equal to or better than" provisions of the collective bargaining agreements and careful scrutiny of proposed rates is conducted by the County. We are of the opinion that the health benefit options presented by the County's broker provides the "equal to or better than" mandated coverage options at the best available rates. Rates for the various plan offerings are primarily determined by past plan utilization and no consideration was given in the audit analysis to increased costs resulting from prior medical plan utilization.

3. **Require the amount of broker commissions to be clearly identified in billing statements sent to the LGU.**

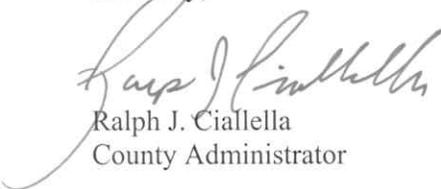
Response

All broker commission rates are clearly identified prior to initiating contracts with the County's health benefits and prescription benefits providers. A pre-set fee option will be included in the next Request for Qualifications process anticipated to be advertised mid February 2012 in accordance with the Local Public Contracts Law and the State's Pay-to-Play Law.

Comptroller Note 3

Based upon the information provided above, the County believes that with the current legal requirements that dictate health benefit plans options, there would be no reductions in costs by joining the State of NJ Health Benefits Program. Please do not hesitate to contact me at 973-621-4432 or via e-mail at rciallella@admin.essexcountynj.org with any questions or concerns you may have.

Sincerely,



Ralph J. Ciallella
County Administrator

Appendix A

County of Essex vs. State Health Benefits Direct 10 Plan

County of Essex vs. State Health Benefits Direct 10 Plan

Plan Name	SEHBP- NJ DIRECT 10		County of Essex POS Choice		County of Essex POS w/Dental		County of Essex Traditional
	IN-NETWORK	OUT-OF-NETWORK	IN-NETWORK	OUT-OF-NETWORK	IN-NETWORK	OUT-OF-NETWORK	
Out of Network Reimbursement Level 1 Primary and Preventive Care	N/A	90th percentile HIAA	N/A	90th percentile HIAA	N/A	80th percentile HIAA	80% of HIAA
Physician (Office Visits)	100% after \$10 copay per visit	80% : no coverage for wellness care	100% after \$5 co-payment per visit	80% after deductible	100% after \$5 co-payment per visit	60% after deductible	90% after deductible
Annual Routine Physical Exams	100% after \$10 copay per visit	Not covered except for immunizations for children under 12 and annual mammogram - these are 80% after deductible	100%	80% after deductible	100%	60% after deductible	100%
Routine Eye Exams	100% after \$10 copay per visit	Not covered	100%	80% after deductible	100%	60% after deductible	Not Covered
Routine Gyn	100% after \$10 copay per visit	80% after deductible	100%	100% after \$5 copay	100%	60% after deductible	100%
Specialist Office Visit	100% after \$10 co-payment per visit	80% after deductible; no coverage for wellness care	100% after \$5 co-payment per visit	80% after deductible	100% after \$5 co-payment per visit	60% after deductible	80% after deductible
Prenatal Care/Maternity Care	\$10 copay for first prenatal office visit then 100% covered. Precious Additions - a voluntary prenatal education program	80% after deductible	\$5 co-payment for first prenatal office visit then 100% covered	80% after deductible	\$5 co-payment for first prenatal office visit then 100% covered	60% after deductible	80% after deductible
Outpatient Facility Visits and other services							
X-Rays and Lab Tests	100%	80% after deductible	100%	80% after deductible	100%	60% after deductible	100% of first \$800 then 80% after deductible
Outpatient Therapy (Speech, Occupational, Physical)	100% after \$10 co-payment	80% after deductible	100% after \$5 copay per visit. limit 90 visits combined Speech, Occ & Physical therapy combined in and out of network per year	80% after deductible. limit 90 visits combined Speech, Occ & Physical therapy combined in and out of network per year	100% after \$5 copay per visit. limit 90 visits combined Speech, Occ & Physical therapy combined in and out of network per year	60% after deductible. limit 90 visits combined Speech, Occ & Physical therapy combined in and out of network per year	100% Basic Physical Therapy then 80% after deductible. 80% after deductible for other therapies
Emergency Room	100% after \$25 copay	100% after \$25 copay	100% after \$35 copay	100% after \$35 copay	100% after \$25 copay	100% after \$25 copay	100% Accidental Injury; 80% after deductible Medical Emergency

County of Essex vs. State Health Benefits Direct 10 Plan

Plan Name	SEHBP- NJ DIRECT 10	County of Essex POS Choice	County of Essex POS w/Dental	County of Essex Traditional
Ambulance	90%	100%	100%	80% after deductible
Chiropractic Care	100% after \$10 copay (30 visit limit combined in and out of network)	100% after \$5 copay (30 visit limit combined in and out of network per year)	100% after \$5 copay (30 visit limit combined in and out of network per year)	80% after deductible (30 visit limit per year)
Home Health Care	Services and supplies covered at 100%; prior inpatient hospital stay not required	Services and supplies covered at 100%	Services and supplies covered at 100%	80% after deductible Limit 120 visits per year
Hospice Care (Outpatient)	100%	100% with pre-approval; no co-payment	80% after deductible with pre-approval	80% after deductible
Durable Medical Equipment (DME) Inpatient Services	90%	100%; no co-payment	80% after deductible	80% after deductible
Hospital (Room and Board and other inpatient service)	100%	100%	100%	100% for 120 days; then 80% after deductible
Skilled Nursing Facility	100% for up to 120 days per calendar year; combined in-network and out-of-network	100% after deductible for up to 60 days per calendar year; combined in-network and out-of-network	100% after deductible for up to 60 days per benefit period	100% for 80 days; then 80% after deductible
Hospice Facility	100%	80% after deductible	80% after deductible	80% after deductible
Inpatient Visits	100%	80% after deductible	80% after deductible	100% for 120 days; then 80% after deductible
Inpatient Surgery	100%	80% after deductible	80% after deductible	80% after deductible

County of Essex vs. State Health Benefits Direct 10 Plan

Plan Name	SEHBP- NJ DIRECT 10	County of Essex POS Choice	County of Essex POS w/Dental	County of Essex Traditional
Outpatient Surgery	100%	80% after deductible	100%	80% after deductible
Biologically Based Mental Illness, Alcohol and Drug Abuse Services				
Inpatient	same as any other illness	same as any other illness	same as any other illness	same as any other illness
Outpatient	same as any other illness	same as any other illness	same as any other illness	same as any other illness
Office Setting	same as any other illness	same as any other illness	same as any other illness	same as any other illness
Non-Biologically Based Services				
Inpatient	100% up to 25 days per calendar year; balance at 90%	same as any other illness	same as any other illness	same as any other illness
Outpatient	90%	80% after deductible	same as any other illness	same as any other illness
Plan Deductibles, Out-Of-Pocket Maximums and Annual/Lifetime Benefit Maximums				
Deductibles (Individual)	None	\$100 per calendar year; \$200 per hospital stay deductible	None	\$100 per calendar year
Deductibles (Family Maximum)	None	\$250 per family per calendar year; \$200 per hospital stay deductible	None	\$2,000 per family per calendar year
Maximum Out-Of-Pocket (Individual)	\$400 per calendar year ²	\$2,000 per calendar year (does not include deductibles)	N/A	\$5,000 per calendar year
Maximum Out-Of-Pocket (Family)	\$1,000 per calendar year ²	\$5,000 per calendar year (does not include deductibles)	N/A	\$500 per calendar year
Maximum Plan Covered Expenses Annual/Lifetime	Unlimited	Unlimited	Unlimited	Unlimited

¹ The Health Insurance Association of America (HIAA) issues a fee schedule for determining benefit amounts for out-of-network non-hospital health care services (as well as for benefits for indemnity plans not using a network). This schedule is widely used by insurance carriers nationwide.

² In-network out of pocket maximums apply to the out-of-network out of pocket maximum

Appendix B

Arbitration Decision and Award – Docket No. IA-2008-098

~~RE~~

STATE OF NEW JERSEY
PUBLIC EMPLOYMENT RELATIONS COMMISSION

-----	*	
In the Matter of the Interest	*	
Arbitration between	*	
	*	
COUNTY OF ESSEX, ESSEX COUNTY	*	DECISION
SHERIFF'S OFFICE	*	AND AWARD
	*	
	*	
-and-	*	
	*	Docket No.
ESSEX COUNTY SHERIFF'S OFFICERS,	*	IA-2008-098
P.B.A., LOCAL NO. 183	*	
	*	
-----	*	

Before: Joel M. Weisblatt, Arbitrator

Appearances:

For the Employer

Genova, Burns

By: Angelo J. Genova, Esquire

Brian W. Kronick, Esquire

Carolyn Buccerone, Esquire

For the PBA

Loccke, Correia, Schlager, Limsky & Bukosky

By: Richard D. Loccke, Esquire

A W A R D

For the foregoing reasons IT IS HEREBY ORDERED that all issues in dispute at interest arbitration, in Docket No. IA-2008-098, be resolved as follows:

1. Duration

The duration of the collective negotiations agreement shall be from January 1, 2008 through December 31, 2010.

2. Wages

Wage rates of unit employees shall be increased as follows:

Effective January 1, 2008	- 2.85%
Effective January 1, 2009	- 0.0%
Effective September 1, 2009	- 2.75%
Effective July 1, 2010	- 2.50%

Retroactive payments shall be made in accordance with the effective dates set forth above.

3. Separate Retroactive Paycheck

Retroactive compensation due as a result of this Award shall be paid in a separate paycheck.

4. Health Insurance Benefits

Health insurance premium contributions under the contract, effective upon the implementation date of the statutory contributions, shall be consistent with those provided for by Chapter 2, P.L. 2010. It is assumed that these contributions shall be in accordance with a Section 125 account and paid in pre-tax dollars.

*** 5. Prescription Benefits**

The evidence does not support any change in the prescription co-pay benefit in this contract period. The current contract provision shall remain unchanged.

6. Overtime

Effective September 1, 2010, required appearances in court, during off-duty hours not contiguous to an employee's work time, shall be compensated at a minimum of two hours of overtime compensation.

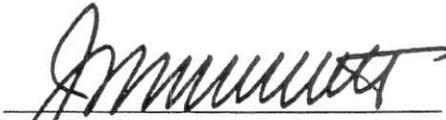
7. Parking

The contract shall include a reference to the existing practice of free parking, without any change or expansion in the existing benefit.

8. Other Proposals

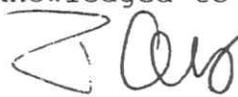
The remaining proposals of both parties: the County's proposals to eliminate four holidays and to change the work schedule and the PBA's proposals for improved vacation benefits, to add language relating to the PBA President's release time and to add new maternity/paternity language, are all rejected. The current contract language shall remain unchanged with respect to these issues.

Dated: July 29, 2010
Skillman, N.J.



Joel M. Weisblatt
Arbitrator

On this 29th day of July, 2010, before me personally came and appeared Joel M. Weisblatt, to me known and known to me to be the individual described in and who executed the foregoing instrument and he acknowledged to me that he executed the same.



Attorney-at-law

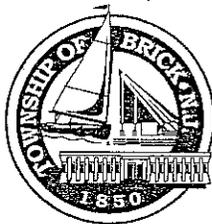
TOWNSHIP OF BRICK

OCEAN COUNTY, NEW JERSEY
401 CHAMBERS BRIDGE ROAD, BRICK, N.J. 08723

Stephen C. Acropolis, Mayor

Township Council:

John Ducey – President
Bob Moore – Vice President
Domenick Brando
Jim Fozman
Susan Lydecker
Joseph Sangiovanni
Dan Toth



Department of Administration & Finance

Office of the Business Administrator
Scott M. Pezarras, CMFO, CTC, CTA
732-262-1050
Fax: 732-451-0257
www.twp.brick.nj.us

February 3, 2012

Elizabeth Schulstad
Office of the State Comptroller
P.O. Box 024
Trenton, NJ 08625-0024

Ms. Schulstad:

This correspondence will address the audit findings and recommendations outlined in the Office of the State Comptroller's State Health Benefits Plan report.

We appreciate the effort that was put forth by the Comptroller's office in preparing such a document, and the Township's staff has responded to all of their questions and requests in a timely manner. That being said, there are some comments in the report that the Township believes need clarification.

In the cost analysis section of the report it is stated that the Township would have experienced a \$2,130,598 savings if it had participated in the SHBP for the years 2009 and 2010. While this is true for the years stated, it is important to stress that since the Township made the decision to leave the SHBP in 2003 it has seen an overall 10 year savings, which is why we opted out of the plan. The 10 year savings is some \$2,374,000 includes \$723,000 savings from having addressed the State's "premium holiday" obligation when the Township left the SHBP in 2003. This savings is reduced to \$1,011,000 when you factor in the enrollment shift from the Traditional plan to the less expensive plans that are available to SHBP participants today. A copy of this analysis is provided with this letter for your review.

Comptroller
Note
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It should also be noted that retirees of Brick Township are currently permitted to participate in Traditional plan coverage. Contract language is being looked at by the Township's labor counsel to determine if that is an obligation that must be contractually followed. Also the Township



utilizes a different prescription vendor for its retirees than it does for its active employees because it maintains carve outs for this benefit depending on the benefits provided when the employee separated service.

Another potential issue is plan design differences between the SHBP and the Township's Plans in which the SHBP unilaterally eliminated access to Traditional coverage and allowed only the less costly plans as options to its employees. This would affect approximately 125 Brick retirees that currently participate in a Traditional Plan. In addition the State's retiree prescription program has higher prescription co-pays and out of pocket maximums. There are numerous differences for active members as well, and these are outlined on page 5 of the Township's broker of record response letter attached to this correspondence.

Brick Township has and will continue to look at the SHBP as an option, but we have some concern as to whether it agrees with contractual language in our bargaining agreements. As I stated earlier we have labor counsel looking into this, and if it is not an issue it is possible that the Township will take a hard look at the SHBP option in the future.

On the point of procurement issues, it should be noted that after our professional staff met with the comptroller's staff and discussed the processes, the Township was in agreement on procedural issues and subsequently procured broker services based on the recommendation of the State Comptroller's Office for the 2011 year. Since 2002, when the current broker was named broker of record, it was the understanding of the Township and its professionals that the broker remained in place until a new broker of record was selected. The Township has never issued checks to the broker of record, as that is function of the third party administrator. The TPA was selected based on quote solicitations by the broker and discussions with the Township. As of 2011 the Township has solicited brokerage services through 2014 in accordance with the LCPL's fair and open process.

The comptroller's report states that disqualifying contributions were made by the Township's broker of record and that the Township was remiss by not obtaining the required contribution certification from the broker of record in accordance with the LPCL's non-fair and open process. This statement seems to contradict the report, which states that the Township had no contract with the broker of record for 2009 as reported on page 12 of the document. The Township contends that since no pay to play contracting was in place for brokerage services in 2009 that it should not be faulted for lack of a document which is required under a pay to play provisions set forth in the LPCL. As stated earlier in this response the Township has solicited brokerage services in 2011 under the fair and open process for a period of three years.

The Township appreciates the opportunity to give its viewpoints on the report and hopes that its response has some bearing on the final document promulgated by the Office of the Comptroller

Comptroller Note 5

Sincerely,

A handwritten signature in black ink, appearing to read 'S. Pezarras', with a stylized flourish at the end.

Scott M. Pezarras
Business Administrator



540 Mill Street
Belleville, NJ 07109

973/450-9800
Fax 973/450-9892

www.imacagency.com

December 16, 2011

Scott Pezarras, Business Administrator
Township of Brick
401 Chambers Bridge Road
Brick Township, NJ 08723-2807

Comparison of Estimated Costs – Township’s Programs vs. SHBP 2003-12

Dear Scott:

We have updated our estimated cost comparisons of the Township’s medical program for employees and retirees and the prescription plan for retirees versus what the costs would have been in the State Health Benefits Plan. As you know, there are plan design differences between your program and the SHBP with your program providing overall better benefits than the SHBP.

One of the advantages the Township’s current program had beginning when it was started in 2003 was that the Horizon BCBS Direct Access Plan – the replacement for the SHBP’s NJ Plus Plan – does not require referrals to see a specialist where the NJ Plus plan did require referrals. This resulted in an immediate voluntary move of some people from the expensive Traditional Plan to the less expensive Direct Access plan. This enrollment shift would very likely not have occurred until 2008 if your group had stayed in the SHBP.

For 2003 through 2008, the Township’s program showed significant savings versus the SHBP. Beginning in 2009, those savings were no longer there due largely to the SHBP’s elimination of the Traditional Plan.

Because of the enrollment shift mentioned above, we have calculated the cost comparison of the Township’s program to the SHBP two ways:

- (1) Estimating SHBP costs on the assumption that the migration away from the Traditional Plan would not have occurred until after 2008 when the SHBP unilaterally eliminated the Traditional Plan.
- (2) Estimating SHBP costs making the unlikely assumption that people would have voluntarily switched from Traditional to NJ Plus to the same extent they switched from Traditional to Direct Access under the Township’s current plan.

The table on the next page provides a year-by-year estimate of costs under the Township's plan and the SHBP under the two methods listed on page 1 for projecting SHBP costs. For 2003 through 2008, the Township's costs under its existing program are the estimated fixed premium costs we projected before the year began. In 2009, the Township switched from a fully insured program to a self-insured program.

For 2009 through 2011, we are showing our estimate of what the actual costs were for the year under the Township's self-insured program. In 2009 and 2010, our estimate of the actual cost under the self-insured program was less than what we projected before the year began – about \$441,000 less in 2009 and about \$516,000 less in 2010. While 2011 is not yet complete, we expect that actual costs for 2011 will be about \$235,000 more than we expected – but that could change depending on actual paid claims data for the last few months of 2011. For 2012, we are showing our projection of costs under the Township's plan for next year.

As you know, in 2003 the Township needed to repay a prior SHBP “premium holiday” equal to two months of premiums. We estimated that cost at \$711,000. To help the Township deal with that additional expense in 2003, we secured a two-month premium lag from Horizon BCBS. The two months of deferred premiums from 2003 were split and half was paid in 2004 and half was paid in 2005. Because of this the 2003 Township medical program costs, shown in table on page 3, reflects only 10 months, not 12 months, of premiums paid. The Township's medical program costs for 2004 and 2005 include the projected premiums for each year plus half of cost from the 2003 premium lag.

There are two additional factors to keep in mind when comparing the costs of the SHBP versus your current program.

1. We estimate that the cost of repaying the “premium holiday” to the SHBP would have increased from an estimated \$711,000 in 2003 to about \$1,434,000 in 2012.
2. In addition, if the Township were to terminate its current self-insured plan with Horizon BCBS and join the SHBP, there would be significant run out claims and administration costs for the first year following the switch. As we have discussed previously, our current estimate of those costs is about \$1.4 million.

SHBP Premium Holiday					
SHBP Premium Holiday re-paid in 2003				\$ 711,000	
SHBP Premium Holiday estimate if not paid until 2012				\$ 1,434,000	
Savings attributable to early payment of Premium Holiday				\$ 723,000	
		SHBP Cost Based on No Enrollment Shift		SHBP Cost Based on Enrollment Shift Seen In Township Program	
	Township Program	SHBP Estimated Cost	Savings of Township Program vs. SHBP	SHBP Estimated Cost	Savings of Township Program vs. SHBP
2003	\$ 3,214,712	\$ 4,269,183	\$ 1,054,471	\$ 4,269,183	\$ 1,054,471
2004	\$ 4,621,887	\$ 5,201,670	\$ 579,783	\$ 5,003,433	\$ 381,546
2005	\$ 5,394,527	\$ 5,673,002	\$ 278,475	\$ 5,456,805	\$ 62,278
2006	\$ 5,664,882	\$ 6,324,432	\$ 659,550	\$ 6,114,034	\$ 449,152
2007	\$ 5,836,768	\$ 7,093,583	\$ 1,256,815	\$ 6,742,364	\$ 905,596
2008	\$ 6,883,402	\$ 7,901,786	\$ 1,018,384	\$ 7,514,237	\$ 630,835
2009	\$ 6,660,683	\$ 6,072,471	\$ (588,212)	\$ 6,072,471	\$ (588,212)
2010	\$ 7,388,044	\$ 6,856,450	\$ (531,594)	\$ 6,856,450	\$ (531,594)
2011	\$ 8,957,830	\$ 7,966,742	\$ (991,088)	\$ 7,966,742	\$ (991,088)
2012	\$ 9,691,000	\$ 8,606,137	\$ (1,084,863)	\$ 8,606,137	\$ (1,084,863)
Total	\$ 64,313,735	\$ 65,965,456	\$ 1,651,721	\$ 64,601,856	\$ 288,121
Premium Holiday debt savings			\$ 723,000		\$ 723,000
Total estimated savings			\$ 2,374,721		\$ 1,011,121
Estimated Costs if the Township joined the SHBP for 2012					
		SHBP Estimated Cost	Projected Cost of Township's Current Program	Savings of Township Program vs. SHBP	
	SHBP Premium	\$ 8,606,137			
	Estimated run out costs from current program	\$ 1,400,000			
	Total	\$ 10,006,137	\$ 9,691,000	\$ 315,137	

Under both SHBP enrollment scenarios, the Township's program shows annual savings versus the SHBP for 2003 through 2008. Even for the full ten-year period, your current program shows accumulated savings versus the SHBP. Including the estimated \$723,000 savings from having a smaller debt to the SHBP for the "premium holiday," these ten-year savings are about \$2,374,000 assuming no significant voluntary enrollment shift from the Traditional Plan to a less expensive plan had the Township stayed with the SHBP and about \$1,011,000 assuming an enrollment shift had the Township stayed in the SHBP.

Plan Design Differences between the SHBP and the Township's Plans

Beginning with the SHBP's unilateral elimination of the expensive Traditional Plan in 2008, the SHBP became less expensive than your program. As mentioned above, a major factor in that are the benefit cuts the SHBP has made over the years compared to the level of benefits your employees and retirees have under the Township's current program. There are three areas of notable plan design differences between the Township's current program and the SHBP:

1. Several plan design differences in the Township's Direct Access plan for employees versus the SHBP's NJ Direct plan;
2. The absence of a Traditional Plan in the SHBP would mean the approximately 125 Brick retirees currently in your Traditional Plan would have to enroll in a more managed care program like NJ Direct; and
3. Your retiree prescription program has lower prescription copays and out of pocket maximums than the SHBP.

The chart on the next page provides the details on the plan design differences – green (or grey if not printed in color) highlights the better benefit:

Highlights of Plan Design Differences		
	Township of Brick	
	Direct Access	SHBP NJ Direct 10
Employee Medical Plan		
In Network Office Visit Copay	\$5	\$10
Coinsurance In Network	100%	100% except:
Durable Medical Equipment	100%	90%
Prosthetics	100%	90%
Private Duty Nursing	100%	90%
Coinsurance Out of Network	70%	80%
Maximum Out of Pocket In Network		
Individual	\$400	\$400
Family	\$800	\$1,000
Preventive Care In Network		
Well Child Immunizations	100%	100% after \$10 copay
Preventive Care Out of Network		
Routine Adult	70%	Not Covered
Well Child Immunizations	70% for children under age 19	80% but only children under 12 months
Ambulance		
In Network	100%	100% after \$25 copay
Out of Network	70%	100% after \$25 copay
Chiropractic		
Visit Limit	No visit limit	30 visits per year limit - combined In and Out of Network
Retiree Medical Plan		
	Traditional Plan	NJ Direct Plan
Retiree Prescription Drug Plan		
Retail Copays	\$5 / \$11 / \$21	\$10 / \$22 / \$44
Mail Order Copays	\$5 / \$16 / \$26	\$5 / \$33 / \$55
Maximum Annual Out of Pocket	\$1,160	\$1,351

We believe these differences would cause a violation of any “equal to or better than” benefits language in your union contracts if you were to unilaterally join the SHBP without union consent or concessions.

If you were able to secure union agreement to match the SHBP level of benefits, we have estimated that your paid claim savings in 2012 would be as follows (these projections were developed in consultation with Horizon BCBS and GS-POPS):

	Estimated Annual Claim Savings	
Match SHBP NJ Direct 10 Plan for employees	1.10%	\$ 65,000
Replace current Traditional Plan with SHBP NJ Direct 10 for retirees	6.50%	\$ 106,000
Match SHBP retiree prescription drug plan	5.00%	\$ 69,000
Total		\$ 240,000

Let us know if you have any questions or need additional information.

Sincerely,



Joseph Maurillo
President

cc:

Mayor Stephen Acropolis, Township of Brick
 Juan Bellu, Township of Brick
 Ellen Privett, Township of Brick
 Kate MacDonald, Township of Brick
 Richard MacDonald, Township of Brick



Township of East Brunswick

DEPARTMENT OF FINANCE
L. MASON NEELY
CHIEF FINANCIAL OFFICER

January 25, 2012

Mr. William P. Challice, CIA, CFE, CGFM
Director, Audit Division
State of New Jersey
Office of the State Comptroller
PO Box 024
Trenton, NJ 08625-0024

Re: Response to Performance Audit
Cost Analysis of Selected Local Government Units
Joining the State Health Benefits Program

Dear Mr. Challice,

Thank you for the opportunity to respond to the Performance Audit (the "Draft Audit"). We are sorry to see that many of the comments the Township of East Brunswick ("Township") made to the initial draft report in November 2011 are not taken into account in the Draft Audit. The Township provided your staff with all relevant documentation and information so that it might analyze the Township's plan and costs, but the Draft Audit still fails to recognize the circumstances and rationale that have caused the Township to forego membership in the State Health Benefits Program (SHBP). As a result of the Draft Audit's continued inattention to the facts and the shortcomings of the SHBP, the Township continues to assert that many of the statements made in the Draft Audit, and particularly those that suggest the Township can save money by joining the SHBP, are incorrect.

As the Township explained in its November 30, 2011 comments to your office's first draft report (copy enclosed), there are a number of reasons why the Township does not participate in the SHBP. For one, the collective bargaining agreements between the Township and its five collective bargaining units prevent the Township from unilaterally opting into the SHBP even if the rates are lower. Page 6 of the Draft Audit, in the section entitled "Cost Analysis," states that the Township could have saved up to \$628,422 over two years had it participated in the SHBP. In addition to the Township's inability to participate because of the CBA's, the Draft Audit fails to note that the programs offered by the SHBP are different and of lesser quality, both in structure and choice, than those mandated by the CBA's. The Draft Audit does not reflect that you made any adjustment for the differences in cost and quality of the two programs. Accordingly, the savings the Draft Audit indicates could have been achieved by membership in the SHBP do not exist.

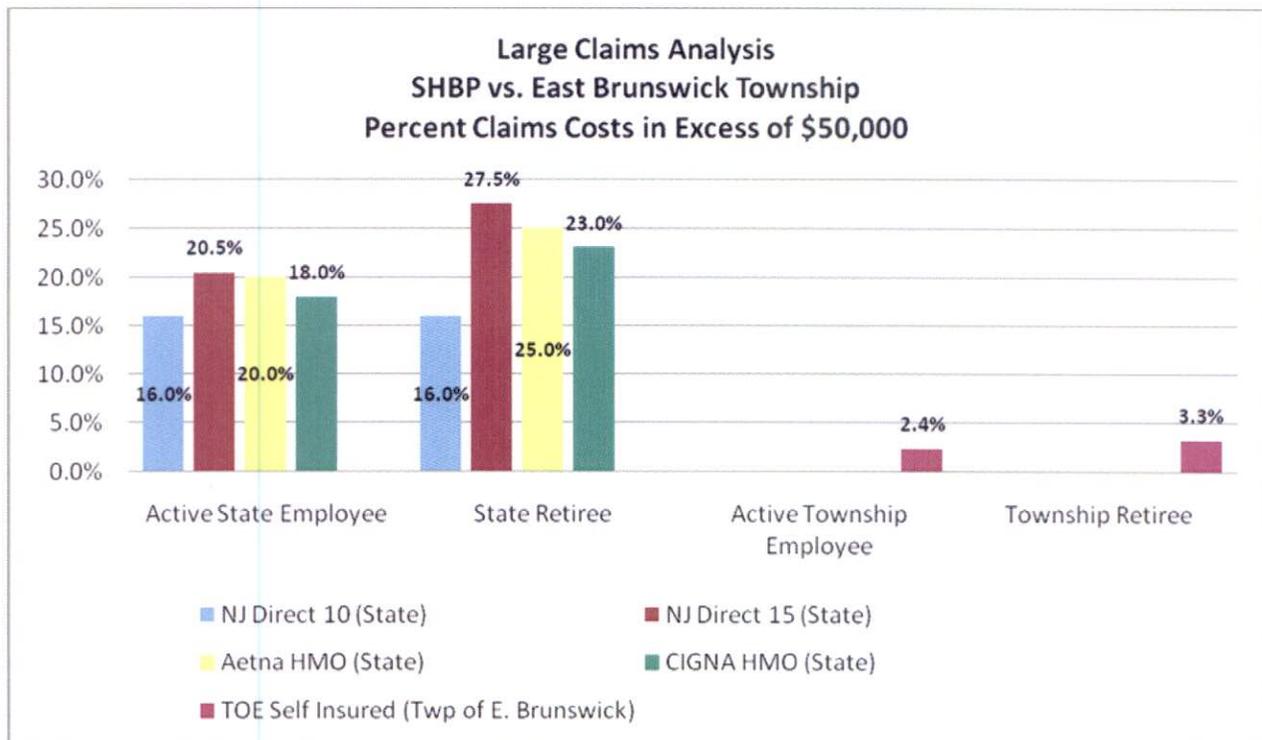
Comptroller
Note
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Also, as the Township noted in its November 30 2011 comments, the Mercer Human Resource Consulting Study (the "Study") of the State Health Benefits Program indicates that the SHBP response to local governments made it less than desirable. With respect to the condition of the SHBP ten years ago, the Study states that ***"[t]he local program was in a significant deficit position and adjusted capital was well below authorized levels in both 2001 and 2002. If the State were an insurance company, the DOBI Commissioner would be looking to***

rehabilitate or liquidate the insurer (e.g., mandatory control level due to lower solvency). While this does not happen on a self-insured employer groups such as the State, it does occur on MEWAs.” The Study revealed that the State began showing a deficit as a result of political decisions to grant “premium holidays” at the end of 2000. This decision caused the local SHBP fund to run a deficit of \$139.8 million the following year. The cumulative deficit in the next year added \$81.4 million, and created a total deficit of \$192.3 million. Over the years, other political decisions have resulted in operational deficits in the SHBP.

Ten years later, the deficit situation had not improved. The audit of the SHBP performed by KPMG for years ending June 30, 2008 and 2009 indicates that the SHBP ran a deficit of \$90,696,056 for that time period, despite significant rate increases passed onto the participating LGU’s. (KPMG audit, page 23) More recently, the AON Hewitt report of October 2011 states that the prior year’s aggregate loss for all SHBP options was \$35.2 million. Thus, a significant increase in rates will be required to restore stabilization to the SHBP. However, the financial history of the SHBP shows that the rate-setting process is inadequate and continues to rely on reserves to fund the annual benefit cost. If the Township were to join the SHBP, it would be required to contribute to the under-funded reserves. The Township discussed this issue and its analysis of the SHCP with the audit staff when it visited the Township, but, unfortunately, neither was considered in the Draft Audit.

The Township’s lack of enthusiasm for the SHBP might best be illustrated by data from the AON Hewitt Report’s SHBP rate proposal for 2012. The chart below compares the Report’s October 2011 large claims analysis with the Township’s actual large claims.



The chart shows that the Township has large claim losses well below 5% of its loss experience. The State’s large claim losses are in excess of 20%. Because the cost of coverage is based upon loss experience, we compared the State’s large claims experience with Township

large claims experience under its managed program and found that the SHBP offers no financial advantages to the Township.¹

As of June 30, 2009, based upon information contained in the Pension Valuation Report, there were 43,764 retirees from the State PERS enrolled in the SHBP. This was an increase of 2112 over the number of retirees enrolled in 2008. However, in 2010 and 2011, retirements have accelerated because of changes in Chapter 78.

Retirements by System

2010 and First Ten Months of 2011

	2010	2011*
PERS - State	6,614	6,065
PERS - Local	4,095	5,212
PFRS - State	2,304	2,140
PFRS - Local	1,266	922
TPAF	460	368
Totals	14,739	14,707

*as of 10/31/11

The table above shows that as of June 30, 2009 the ratio of active state employees to retired state employees in PERS was 46.92%. This number is growing significantly. The number of retirees for 2010 and 2011 is 70% greater than the prior years. This means the large claim risk for the SHBP will accelerate this year and in the future. The significant difference between the Township’s experience and the reported experience of the SHBP will continue to expand and, projecting forward, the pooling of risk with SHBP would be a distinct disadvantage as compared to the Townships managed program. The SHBP’s potential for adverse experience will result in double-digit rate increases necessary to fund the benefit and deficit. The Township elects not to join this trend of escalating costs.

Pay to Play Law

The Report states the Township did not award its TPA contract in accordance with a fair and open process. This is incorrect. The Township published a Request for Qualifications for a TPA on its website.. The TPA RFQ included historical cost data, detailed evaluative criteria, and explained to prospective proposers what the Township was looking for in a TPA. The submissions in response to the RFQ from Horizon Blue Cross and Amerihealth were reviewed and evaluated for cost, disruption and discount. The Township provided these documents to the Audit staff. Based upon the Township’s written recommendation, the Township Council adopted a resolution awarding a TPA contract. We note that the resolution specifically stated the

Comptroller
Note
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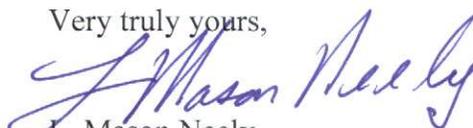
¹ The audit staff compared the SHBP Premiums Only program to the Township’s Paid In Full system, which includes all costs and reserves. This “apples to oranges” comparison is neither accurate nor fair.

Comptroller
Note
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amount to be paid to the TPA in accordance with its fee structure. As we pointed out in our November 30 comments, the resolution directly contradicts the comment on page 14 of the Draft Audit which states that the Township lacked knowledge of broker costs. Indeed, the Township was fully aware of the costs of the contract it awarded. The Township has already noted that it failed to publish the resolution in the newspaper of record, and will insure that this error is not repeated.

In summary, for the reasons stated in this letter and in our November 30, 2011 letter, the Draft Audit does not show that the Township's participation in the SHBP would provide cost savings, better programs, or anything else that would be to the Township's advantage. We hope that some of our comments and concerns will be reflected in the Final Audit.

Very truly yours,



L. Mason Neely
Chief Finance Officer

LMN/mrv

cc: Matthew Boxer, State Comptroller
Mayor David Stahl
James White, Business Administrator
Catherine E. Tamasik, Township Attorney
File/Chrono

Randall W. Teague, Mayor
Director of the Department of
Public Works, Parks, and Public Property

John C. Foley, Commissioner
Director of the Department
of Revenue & Finance

Paul Dougherty, Commissioner
Director of Public Safety
& Department of Public Affairs



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where community thrives

February 10, 2012

Elizabeth Schulstad
Senior Auditor
NJ Office of the State Comptroller
20 West State Street, PO Box 024
Trenton, NJ 08625

RE: Performance Audit

Dear Ms. Schulstad:

Please accept the following as Haddon Township's official response to the performance audit conducted by the Office of the State Comptroller dated January 11, 2012.

Haddon Township agrees with the State's primary audit finding as noted on page 12 of the audit report, specifically:

"Haddon Township failed to seek quotations in selecting its TPA and instead simply contracted again with the incumbent vendor for these services. The township did not pass a resolution awarding this contract, issue a certification of funds or publish notice of the contract award. In addition, the township's insurance broker submitted a proposal that omitted information that was required by the township's Request for Qualifications, such as the qualifications of the individuals working for the broker, the number of licensed professionals working for the broker, the proposed cost of the brokerage services, documentation of the required insurance coverage and a statement of compliance with the State's affirmative action laws. Based on the broker's failure to provide this information, the township should have disqualified the broker's proposal."

Please be advised, in November 2011, a Request for Qualifications (RFQ) for Haddon Township's Health Insurance Broker was issued. The township received three proposals (CBDI, Conner Strong & Buckelew, Alamo Insurance Group) and passed a resolution awarding the contract to the firm of Conner Strong & Buckelew and passed a notice of the contract award in December of 2011. Conner Strong & Buckelew's proposal included the qualifications of the individuals working for the broker, the number of licensed professionals working for the broker, the documentation of the required insurance coverage and a statement of compliance with the state's affirmative action law. The proposed costs of the brokerage services was not explicitly requested in the proposals, however Haddon Township will secure this information within the next 90 days.

Municipal Building, 135 Haddon Avenue, Haddon Township, New Jersey 08108

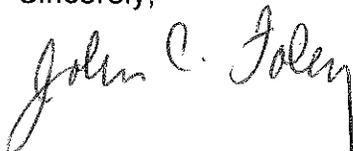
Page 2.

The Certificate of Funds will be issued with the passing of the 2012 municipal budget.

Furthermore, Conner Strong has been informed that they must provide *at least* two viable proposals for health insurance coverage at the time of our renewal.

If you have any questions, please contact me.

Sincerely,

A handwritten signature in cursive script that reads "John C. Foley". The signature is written in black ink and is positioned above the typed name.

John C. Foley, Commissioners
Director of Revenue & Finance

APPENDIX B

COMPTROLLER NOTES ON AUDITEE RESPONSES

The following notes correspond to the auditee responses as indicated in the margins of those responses.

- 1) While Appendix A to Essex County's response compares the plans, it does not show the associated costs.
- 2) State law requires such employee contributions whether or not an LGU participates in SHBP. The cost savings cited in our report are accurate.
- 3) As stated in our report, although broker rates are set forth in the service contracts, the LGUs could not tell us the actual amounts paid to their brokers. Accordingly, we calculated those amounts ourselves.
- 4) By its own broker's calculations, Brick would have saved money for the two years of our audit and the two subsequent years if it had participated in SHBP.
- 5) The report does not state that there was no contract between Brick and its broker. Rather, it states that there was no resolution authorizing the contract award.
- 6) As stated in our report, the medical benefits offered by the LGUs are generally comparable to those of SHBP.
- 7) During the latter part of the audit, East Brunswick asserted that it had publicly advertised a Request for Qualifications concerning its TPA contract. However, as stated in the audit report, the township was not able to provide any evidence of such an advertisement. We further note that East Brunswick provided a copy of written communications it had with two vendors regarding proposals, including proposed fees, prior to the alleged date of the public advertisement.

- 8) We compared the costs the LGUs would have incurred had they participated in SHBP to the costs they actually paid. The comparison is accurate and appropriate.
- 9) We are unclear as to this reference to broker costs. East Brunswick does not use a health insurance broker and therefore there is no such reference in our report.