

Co-ops search for a **CURE**

By Andrea Blowers



The rising costs of providing health care and pension programs for employees is spurring tough choices by cooperatives, including Basin Electric. As Congress takes on health care and pension reform, consumers have also engaged in the debates.

Health care and pension costs continue to rise in the United States, putting tremendous stress on family, business and government budgets. It's no wonder we rarely see the words "health care" or "pension" anymore without the word reform attached. President Barack Obama and Congress have placed comprehensive health care reform at the forefront of the legislative agenda, and this country is in the midst of a retirement crisis.

Something needs to be done

"Our members have seen double-digit increases in their health care premiums every year for years now," says Paul Sukut, Basin Electric senior vice president and deputy general manager. With health care costs rising at such extraordinary rates, it's no wonder the debate on how to solve the problem persists. The National Coalition on Health Care reports

the cumulative increase in employer-sponsored health insurance premiums rose at four times the rate of inflation and wage increases during the last decade.

To combat these increases, businesses are taking steps to afford the additional costs. That includes Basin Electric. The cooperative's board recently approved a benefits package for administrative and Dakota Gasification Company employees that included a deductible increase and a prescription drug deductible.

"Basin Electric is a little different than our members in that we're self-insured," Sukut says. "That means we pay claims. Our members, for the most part, are fully insured. They pay premiums."

Sukut explains to be self-insured means that if an employee goes to the doctor, the bill is paid by Basin Electric through Blue Cross Blue Shield. He says it's actually less expensive because there are a few employees with high claims and a lot with low claims. In addition, Basin

Electric pays an administrative fee to Blue Cross for paying claims as well as a stop loss premium each month for each employee to cover the cooperative for expenses greater than \$200,000. So, if claim costs for an individual reach \$200,000, Blue Cross will cover those expenses above and beyond that defined amount.

Last year, Basin Electric saved about \$2.1 million being self-insured. "With rising costs, while some companies are moving toward having the employees pay part of the premium, Basin Electric has chosen a different path, and that's to raise deductibles. That has the employees who use it, pay for it."

Last year, Basin Electric's health care costs rose 8 percent. "We're hoping to stay flat in 2010," he says.

"Most of our members, on the other hand, are fully insured. They pay the same amount each month for each employee whether they use it or not. Because they typically don't have a lot of employees, it's too risky for

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A look at the proposed health care co-op plan

Consumer health care insurance cooperatives (HCs), operating at the state level or regionally, would provide a consumer-driven coverage option in every state to deliver maximum value for consumers.

The federal government would provide startup loans and/or grants for individual states to form the co-ops. The HCs would obtain health insurance coverage on behalf of its membership – individuals and small companies. They would be member-controlled. All exchange rules and state laws that apply to other plans also would apply to co-ops. Strong governance standards would be required to ensure a strong consumer focus and democratic structure.

HCs would not be operated for profit, but for the benefit of the members. Other than the consumer focus and not-for-profit operation, they would operate as any insurance company does. However, at this time, it would be limited to individuals and employers with less than 50 people.

Annual meeting preconference session

Basin Electric will be hosting a two-part preconference session on health care and employee benefits prior to the start of the 2009 Annual Meeting Nov. 4. The first half of the preconference will focus on health care and the second half will be on employee incentives and benefits. Each will be moderated panel discussions with local, regional and national experts.

them to be self-insured. . . . This year alone, many of our members will see their rates go up anywhere from 8 to 14 percent,” Sukut says. “To say something doesn’t need to be done in this country with health care is putting your head in the sand. It’s messy; something needs to be done.”

Where to begin

“Obviously, it’s not going to be easy, but we can’t simply reform health insurance. We have to reform providers, pharmaceutical companies and consumers as well. Each plays a significant role in the rising costs of health care,” he says.

Sukut says providers pose a great challenge. “Health care is the only business in the world that, if a hospital buys an MRI machine, and another local hospital buys an MRI machine, the costs actually increase for consumers. You would think that would create competition, and the costs would come down. Not so,” he says. “If they both have an MRI machine, they both have to raise their prices to pay for them because there are fewer patients to cover the costs.”

Sukut suggests regulating providers similar to the way electric utilities are

regulated. “Basin Electric has to work with other utilities for interconnect agreements when providing electricity. Why can’t health care providers work together for services offered to lower the overall cost?”

In addition, doctors continue to write prescriptions for brand-name drugs when a generic is available and just as effective. The Food and Drug Administration has rules in force to ensure every generic drug contains the same components as its brand-name equivalent. The difference is the cost. A prescription filled with a generic drug will cost, on average, \$40 less per prescription. That leads to another health care cost challenge: pharmaceutical companies.

“Research is important, absolutely,” Sukut says. “But the exorbitant profits made on brand name drugs, especially those enjoying market exclusivity from a patent, often greatly exceeds costs needed for research and development.”



And finally, Sukut explains, the responsibility of understanding and maintaining health needs to start with consumers. “We need to focus on eating right, getting exercise and doing preventative care,” he says. According to the Centers for Disease Control and Prevention, during the past 20 years there has been a dramatic increase in obesity in the United States. In 2008, only one state – Colorado – had a prevalence of obesity less than 20 percent. Obesity is a major risk factor for cardiovascular disease, certain types of cancer, and type 2 diabetes.

So, reform is necessary, Sukut says, but all areas need to be addressed or it will not be successful. He adds it’s unclear how reform under the Obama administration will affect Basin Electric and its members. “We continue to monitor the proposals and how they may affect both employers and employees.”

Pension costs skyrocketing

Costs are escalating for another employer benefit called a defined benefit plan or pension. At one time, offering a company pension was common practice for businesses. Today, less than 20 percent of U.S. workers are covered by a defined benefit plan. That’s down from 40 percent in 1980.

Basin Electric has been able to continue offering a pension for employees through the National Rural Electric Cooperative Association (NRECA). The cooperative’s defined benefit plan is called the Retirement Security Plan.

It pays a guaranteed, fixed monthly amount or lump-sum payment upon retirement to employees who are fully vested. Basin Electric employees become fully vested after five years with the cooperative or at age 55. It’s similar to a 401(k), except it’s funded solely by the cooperative.

“Basin Electric has what can be considered a double pension because the cooperative offers both a defined benefit plan and 401(k),” Sukut says. In the last few years, however, the value of pension plan assets has fallen.

Sukut says market losses in recent years have had significant impact, and right now, additional funding is needed to recover those losses. “Basin Electric and its subsidiary premiums have increased 35 percent for next year to make up for market losses. The co-op paid \$28 million for our employee pension plan in 2009, but will need to pay \$38.5 million for 2010,” he says.

That’s simply the base contribution rate. “If the market doesn’t recover, the cooperative may have to make another payment to the plan called the deficit reduction contribution. This would bring the plan back to where it needs to be. However, that would mean total costs of about \$51 million in 2010, almost doubling what the cooperative paid this year.

Basin Electric has been in direct communication with NRECA on the status of the pension plan.

“While our costs continue to rise, we hope to find ways we can continue to offer this benefit to our employees,” Sukut says.

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Paul Sukut, Basin Electric

NRECA’s provisions for a health care bill

Though details of a health care bill have not been seen, many provisions discussed so far would not impact cooperatives that participate in NRECA’s Group Benefits Trust or get health care coverage from another source. NRECA’s message continues to be that health care can become more affordable, reliable and sustainable if reform legislation:

- Bends the cost curve for the overall health care system with greater quality and value;
- Addresses the real cost drivers of health care without costly “one-size-fits-all” mandates;
- Reforms the health delivery system;
- Protects “evidence-based” decisions, including medical malpractice reforms;
- Prevents any new “Public Plan Option” from worsening the current health care “cost-shift” from government plans like Medicare and Medicaid that underpay providers; and
- Avoids tax policies that affect employer-sponsored coverage.