

Firm Targets Soaring Health Costs



PBN PHOTO/KATE WHITNEY LUCEY

GOOD ADVICE: KTP Advisors has begun offering its Medicare experience to communities in need of benefit guidance. Pictured above is KTP Advisors Vice President of Product Development Barry Eyre.

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Anyone who's taken an interest in the finances of their local city or town in recent years is aware of the challenges posed by retiree health care obligations.

Like pensions, few municipalities have put enough money away to cover the ever-climbing cost of health benefits promised to past, present and future workers.

But with budgets stretched and attempts to shift costs to workers and retirees usually challenged, even those communities who have faced their health-insurance liability issues have found solutions elusive.

Now KTP Advisors of Newport, which has managed health care benefits for corporations and nonprofits since 2002, wants to help.

By better utilizing of Medicare, the federal health-insurance system for seniors, cities and towns can cut health-insurance costs without shifting them to workers, said KTP Vice President of Product Development Barry Eyre.

So KTP decided to offer their Medicare experience to city managers without detailed knowledge about it or the supplement plans that cover what the federal government doesn't.

"Before, politicians were giving away these benefits and didn't realize their long-term cost; most municipalities are not being well-advised and could benefit from these strategies," Eyre said.

Spurring KTP's move into the municipal market was the 2011 Massachusetts law that allowed cities and towns to move employee health coverage into the state's Group Insurance Commission package, which has generally lower costs than local plans.

Accounting rules that forced cities and towns to acknowledge their full "post-employment benefit" liabilities also brought the issue to the forefront.

The most high-profile test of KTP's municipal plan took place this year in Brockton, Mass., where the firm was hired to help the city as it wrestled with a \$700 million retiree health care liability and was debating a switch to the GIC plan.

By getting Brockton to competitively bid its Medicare supplement for retirees, KTP estimates it will save the city \$2.4 million each year over the next four years.

Eyre said most communities, like Brockton, provide Medicare benefits through the same local insurers that provide coverage for active workers.

But because, unlike most health insurance, Medicare is a national program, insurers from all around the country run supplement plans and many are much cheaper than the dominant local provider.

By putting the supplemental plans out for bid, a community can find a much cheaper provider than defaulting to their main insurer.

Another tool KTP uses is switching from a retiree prescription-drug reimbursement program to a program that lowers the cost of the benefit without a reimbursement.

Eyre said for whatever reason, communities have typically used the reimbursement system, even though it doesn't reduce costs as much and forces them to wait for the reimbursement check.

One reason the reimbursement may be popular is that it is payable to the local government general fund and can be used to plug budget gaps, although this just increases the future health care liability.

Because many cities and towns across New England could benefit from better management of Medicare, Eyre said KTP hopes to broadly expand its municipal work in the coming years.

The main challenges are the slow pace of work with local governments and the fact that many, especially in a place like Rhode Island, are not large enough to make it worthwhile for KTP.

The firm is paid as a broker on a percentage of the insurance premium.

Even more problematic are those communities in Rhode Island that still don't use Medicare to cover their eligible retirees and continue to insure them with private plans.

"It's crazy," Eyre said. "Integration with Medicare is a fundamental benefit to every municipality. The subsidy from the federal government is huge."

Eyre said he has spoken with Rhode Island General Treasurer Gina M. Raimondo about developing a statewide system for Ocean State towns, and is also establishing a presence in Connecticut.

For now KTP intends to focus on Massachusetts, but eventually sees wide demand in the municipal space nationally for Medicare specialists.

“Although there is recognition nationally, it is still a low-boil problem everywhere - unless a city is facing bankruptcy, they don’t feel necessary to do anything right away,” Eyre said.

COMPANY PROFILE

KTP Advisors

Owner: Don Whitcher and Mark Whitcher

Type of business: retirement health-benefit management

Location: 38 Washington Square, Newport, RI 02840

Employees: 9

Year Established: 2002

Annual sales: WND