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State Comptroller Finds Local Governments Could Collectively Save More Than $100 Million Each Year by Switching to State Health Plan

The OSC audit focused on four public entities and found that all could have netted savings through the state plan; none had properly evaluated their options

New Jersey local governments could save more than a hundred million dollars each year by opting for the state health plan instead of pricier alternatives, based on findings released today by the Office of the State Comptroller (OSC).

The OSC audit specifically examined four government entities of varying locations and size – Essex County, Brick Township, East Brunswick Township and Haddon Township – and found that joining the State Health Benefits Plan (SHBP) would have collectively saved those entities $12.5 million over the two-year period of 2009 and 2010. On average, the savings would have amounted to approximately $1,000 per enrollee. If that ratio held true for all local governments in the state that do not use SHBP, then the collective savings would amount to more than $100 million a year.

The OSC audit found that only one of the four audited government entities had evaluated the costs and benefits associated with joining the state plan – and that evaluation was incomplete, resulting in incorrect conclusions.

"Health coverage for public employees is an area in which substantial savings can be realized for taxpayers," State Comptroller Matthew Boxer said. "Too many public entities in New Jersey are not taking basic steps to ensure that they are getting the best deal."

As of April 2011, 14 of the 21 New Jersey counties and 217 of the state's 566 municipalities were participating in health plans other than SHBP.

Of the four government entities audited by OSC, three had contracted with insurance brokers to assist them in securing coverage from insurance carriers. The OSC audit found the three government entities who hired a broker collectively had paid more than $1 million in broker fees over a two-year period.

Government entities that participate in SHBP do not incur expenses for broker fees. One of the brokers interviewed by OSC admitted that, as a result, there is no incentive whatsoever for brokers to promote SHBP as a healthcare option to public entities. In an OSC survey sent to a broader pool of local governments, many of the respondents stated their broker did not even include SHBP when presenting health insurance options for consideration.

"Health insurance costs are a significant part of the property tax picture in New Jersey and all coverage options should be evaluated," Boxer said. "Government officials selecting a health plan for their employees must make sure that their allegiance is with local taxpayers, not with special interest groups."

The SHBP offers medical services and related benefits that are generally comparable to the health plans of the four government entities OSC audited, although SHBP co-pays are larger in some instances ($10 or $15 as opposed to $5). Some of the audited entities cited those co-pays as an obstacle to switching to SHBP.

"New Jersey taxpayers shouldn't have to bear the burden of local officials participating in a Cadillac health plan," Boxer said. "If the state health plan is good enough for state workers and most municipalities, then it should be good enough to meet the needs of other local government workers as well."

As part of its review, OSC also contacted four municipalities that recently switched from private insurance to SHBP. All four reported that their premiums decreased under the state plan. One township told OSC it was able to hire seven additional police officers and avoid planned layoffs that would have been necessary had the township not made the switch. The audit noted that in general, insuring larger groups of employees is more cost-effective than insuring multiple smaller groups because it spreads consultant fees and administrative costs across a larger base of participants.

The OSC audit separately found that one of the audited municipalities violated the state's pay-to-play law in hiring its health insurance broker. The broker had made multiple contributions to the election funds of local public officials that should have disqualified the broker from performing these services. OSC has referred the matter to the New Jersey Election Law Enforcement Commission.

All four of the audited government entities also failed in some way to comply with state contracting law when procuring health insurance services, OSC found. For example, one township failed to seek quotations from competing vendors when awarding the contract to administer its health plan.

Each of the four audited entities submitted a written response to the audit. Those responses have been appended to the audit.

Boxer thanked the state's Division of Pensions and Benefits and the Department of Banking and Insurance for their assistance with the audit.