

April 28, 2017

SJVIA Board Meeting: Consultant’s Report—Cost Savings Initiatives

Effective March 1, 2017, Keenan & Associates was engaged as the SJVIA’s consultant. Keenan met with the SJVIA’s staff and vendors to gain greater familiarity with the SJVIA’s benefit plans, vendors, and plan performance. Given the SJVIA’s deficit position, Keenan was tasked with seeking out opportunities for the SJVIA to reduce costs and recover the deficit position.

In Keenan’s stewardship meetings with the SJVIA’s vendor to review plan performance, service level and contracts, Keenan identified three projects that would produce savings to the SJVIA. In addition, Keenan looked to ensure that the SJVIA was aligned with the correct vendors/carriers, products, and contractual terms.

The three projects are:

- Anthem HMO evaluation to determine whether an EPO model may be more cost effective
- Pharmacy Benefit Manager analysis and marketing to determine whether US Scripts (now Envolve Prescription Solutions) is the appropriate PBM
- Review reinsurance/pooling level and costs to determine adequacy and cost effectiveness

We’ve completed our initial assessment of these projects and have the following to report:

SJVIA Annual Savings Projections		
	Low Estimate	High Estimate
HMO versus EPO	\$ 1.67m	\$ 3.33m
Prescription Drug PBM	\$ 2.77m	\$ 4.02m
<u>Pooling Level / Reinsurance</u>	<u>\$ 0.35m</u>	<u>\$ 0.60m</u>
Total Savings	\$ 4.79m	\$ 7.95m

HMO vs. EPO Analysis

Inherent within the Anthem HMO rate is a capitation fee of \$301.01 per employee per month. The capitation fee is paid to providers in lieu of fee for service claims to primary care provider, specialist providers, and lab work. Keenan wanted to test to see if the capitation fee produced a saving to whether these services were paid on a fee for service basis. In order to do this analysis we compared the SJVIA HMO data to the PPO data.

While Keenan looked at claims utilization data from 2011 through 2016 for the SJVIA, Keenan utilized 2016 data for this analysis. 2016 produced the most conservative results.

Keenan compared the capitated service in the HMO to the PPO (excluding PPO HDHP claim data) on a per member per month (pmpm) basis. The following chart shows the comparison.

PMPM Professional/Other	2016		
	HMO	PPO	\$ Difference
Other Professional Visits	\$ 0.90	\$ 7.62	\$ 6.72
All Other	\$ 6.80	\$ 29.35	\$ 22.55
Physician Visits	\$ 19.55	\$ 43.90	\$ 24.35
X-ray/Lab	\$ 1.56	\$ 25.84	\$ 24.28
Capitation Sub-total	\$ 28.80	\$ 106.70	\$ 77.90

The HMO values represent services not covered under capitation, while the PPO values covers all fee for service claims. The difference between the two is \$77.90 pmpm. Keenan recognizes that there are demographic differences between the HMO and PPO population. Keenan adjusted the difference based on these differences.

PMPM Professional/Other	2016		
	HMO	PPO	\$ Difference
Demographic and Experience Adjustment			
Dependent Load	2.22	1.75	1.27
Age Adjustment			
Subscriber	44.0	46.0	
Spouse	47.0	49.0	
Other	13.0	13.0	
Gender Adj. (% Male)	54.4%	55.7%	0.97
Gatekeeper Adj.			1.03
Network Discount Adj.			1.00
Total Adjustment Factor			1.26
Adj. Capitation Total	\$ 28.80	134.93	\$ 106.13

In addition to demographic adjustments, Keenan also adjusted for the loss of the Gatekeeper under the HMO model network differences. Adjusting for these factors increased the PPO value from \$106.70 to \$134.93 for a total difference of \$106.13 pmpm (from \$77.90 pmpm).

Given 3,333 subscribers and 7,386 members, Keenan calculated the annual cost of Capitation on the HMO as \$12.0m, and the cost of covered services under capitation, converted to a fee for service EPO model, at \$9.4m for a difference of \$2.6m. In addition to the claim cost savings, converting to an EPO from an HMO would realize administrative savings and pool charge savings as it is anticipated that the EPO would adopt the PPO administrative fees and reinsurance costs. For a total savings of \$3.33m.

Annual Cost Comparison	HMO	PPO	\$ Difference
Enrollment Subscribers	3,333		
Capitation Cost (PEPM)	\$ 301.01	-	\$ 12,039,196
FFS Claim Increase (PMPM)	\$ 106.13	-	\$ 9,406,514
Capitation Savings			\$ 2,632,682
Reinsurance Cost			
Specific Stop Loss (PEPM)	\$ 27.69	\$ 18.30	\$ 375,562
Aggregate Stop Loss (PEPM)	\$ -	\$ 1.03	\$ (41,196)
Large Claim Exposure	\$ -	\$ (3.75)	\$ (150,000)
Reinsurance Savings			\$ 184,367
Administration Cost (PEPM)	\$ 45.34	\$ 32.53	\$ 512,349
Total EPO Savings			\$ 3,329,397

The following chart illustrates the total savings associated with this strategy.

SJVIA HMO Versus EPO Analysis		
	Low Estimate	High Estimate
Capitation Savings	\$ 1,316,341	\$ 2,632,682
Reinsurance Savings	\$ 92,183	\$ 184,367
Administration Cost	\$ 256,174	\$ 512,349
Total EPO Savings	\$ 1,664,699	\$ 3,329,397
% Savings	7.4%	14.9%
HMO Annual Cost		\$ 22,390,630
HMO Enrollment		3,333

Keenan requests the Board instruct Keenan to return at the May 19 Board meeting with a formal proposal from Anthem for the EPO to replace the HMO effective July 1, 2017.

Prescription Drug Repricing Analysis

The PBM repricing exercise was done based on the PBM vendors repricing 2016 prescription drug claims for the five continuing entities in the SJVIA. This included repricing over 136,000 claims. EmpiRX And OptumRX showed the greatest face value savings at \$4.02m and 2.7m respectively. Savings are produced by a combination of prescription drug pricing strategies and prescription drug program management to encourage appropriate drug utilization, greater drug efficacy usage and specialty drug control. Oversight of the Prescription drug program would be by Keenan's prescription drug unit.

SJVIA - RFP Face Value Pricing Comparison	Involve Pharmacy Solutions (Proposed New)	EmpiRx (Open Formulary w/out Drug)	OptumRx (Rebates with Drug Exclusions)	EnvisionRx	WelldyneRx	Anthem	CitizensRx
Rx Count							
Rx Count	136,523	136,523	136,522	135,910	131,838	136,013	136,502
Excluded Rx Count	0	0	1	613	4,685	510	21
Rx Count (w/out Exclusions)	136,523	136,523	136,523	136,523	136,523	136,523	136,523
Cost (Claims Re-price Face Value Amount)							
AWP	\$34,273,983	\$33,203,525	\$34,337,886	Not Provided	\$35,661,013	\$33,497,475	Not Provided
Ingredient Cost	\$17,771,189	\$17,230,673	\$17,862,892	\$17,928,282	\$18,460,407	\$16,463,772	\$17,685,751
Dispensing Fee	\$95,910	\$390,211	\$109,872	\$104,893	\$134,362	\$78,811	\$116,967
Admin Fee	Pending Contract Review	Pending Contract Review	Pending Contract Review	Pending Contract Review	Pending Contract Review	Pending Contract Review	Pending Contract Review
Keenan Pharmacy Management Fee (\$1.50)	\$201,006	\$201,006	\$201,006	\$201,006	\$201,006	\$201,006	\$201,006
Gross Cost before Rebates	\$18,068,106	\$17,821,890	\$18,173,770	\$18,234,181	\$18,795,775	\$16,743,589	\$18,003,724
Rebates	(\$1,589,093)	(\$3,116,908)	(\$4,481,090)	(\$3,039,475)	(\$2,400,420)	Not Provided	Not Provided
Clinical Care Management Program Savings	\$0	(\$2,250,000)	\$0	\$0	\$0	\$0	\$0
Final Cost	\$16,479,013	\$12,454,982	\$13,692,680	\$15,194,706	\$16,395,355	\$16,743,589	\$18,003,724
Savings from Incumbent New Offer		\$4,024,031	\$2,786,333	\$1,284,306	\$83,658	-\$264,577	-\$1,524,711
% Savings from Incumbent New Offer		24.42%	16.91%	7.79%	0.51%	-1.61%	-9.25%

Keenan has received the binding contracts from each PBM and will review to ensure face value savings are representative of the contract language with the SJVIA. A full marketing proposal has been requested from each PBM. Keenan requests the Board instruct Keenan to return at the May 19 Board meeting with a recommendation for PBM effective September 1, 2017 or later.

Reinsurance and Pooling Level Analysis

Keenan conducted an analysis to determine whether the SJVIA has set its pooling level appropriately. To do this analysis, we reviewed large claim activity from 2011 through 2016 and using current stop loss pricing asked the question, what would be the loss ratio if past history were to reoccur. The result yielded a 50% loss ratio. 65% to 85% should be the targeted loss ratio. Based on this analysis, one of two things should occur. The SJVIA should seek 1) a lower costing reinsurance program or 2) reduce its pooling level (\$350k or \$400k) to accommodate the targeted loss ratio and a dividend eligibility clause. A full marketing proposal has been requested from the reinsurance market for a July 1, 2017 effective date. Keenan requests the Board instruct Keenan to return at the May 19 Board meeting with a reinsurance recommendation.

TOTAL ESTIMATED AMOUNT REIMBURSED BASED ON SPECIFIC STOP LOSS DEDUCTIBLE							
Deductible	2011 Contract Total Reimbursement	2012 Contract Total Reimbursement	2013 Contract Total Reimbursement	2014 Contract Total Reimbursement	2015 Contract Total Reimbursement	2016 Contract Total Reimbursement	Total Reimbursement
Over \$450k (Current)	\$ 414,157	\$ 1,901,693	\$ 65,669	\$ 1,906,976	\$ 463,607	\$ 932,522	\$ 5,684,624
Over \$400k	\$ 596,842	\$ 2,177,165	\$ 115,669	\$ 2,364,577	\$ 716,336	\$ 1,220,298	\$ 7,190,887
Over \$350k	\$ 829,253	\$ 2,477,165	\$ 216,560	\$ 2,864,577	\$ 1,045,315	\$ 1,567,131	\$ 9,000,001
Over \$300k	\$ 1,174,371	\$ 2,797,491	\$ 407,216	\$ 3,401,022	\$ 1,641,000	\$ 2,095,616	\$ 11,516,716
Over \$250k	\$ 1,626,526	\$ 3,210,289	\$ 671,015	\$ 4,115,013	\$ 2,391,000	\$ 2,793,374	\$ 14,807,217
Over \$200k	\$ 2,195,459	\$ 3,767,650	\$ 1,092,225	\$ 5,070,326	\$ 3,304,994	\$ 3,725,441	\$ 19,156,095
RETROSPECTIVE RISK DUE TO DEDUCTIBLE CHANGE							
Historical Subscriber Counts							
Subscriber Count	8,427	8,005	8,332	8,782	9,541	9,971	53,058
Estimated Annual Premium							
EPO/PPO/HSA Annual Premium	\$ 1,850,569	\$ 1,757,898	\$ 1,829,707	\$ 1,928,527	\$ 2,095,204	\$ 2,189,632	\$ 11,651,537
Estimated Loss History	2011 Retrospective	2012 Retrospective	2013 Retrospective	2014 Retrospective	2015 Retrospective	2016 Retrospective	Total
Retrospective Loss History							
Over \$450k (Current)	22.4%	102.8%	3.5%	103.0%	25.1%	50.4%	48.8%
Over \$400k	32.3%	117.6%	6.3%	127.8%	38.7%	65.9%	61.7%
Over \$350k	44.8%	133.9%	11.7%	154.8%	56.5%	84.7%	77.2%
Over \$300k	63.5%	151.2%	22.0%	183.8%	88.7%	113.2%	98.8%
Over \$250k	87.9%	173.5%	36.3%	222.4%	129.2%	150.9%	127.1%
Over \$200k	118.6%	203.6%	59.0%	274.0%	178.6%	201.3%	164.4%