

Introduction

Keenan conducted an analysis of cost of the Anthem HMO to the proposed Anthem EPO. The comparison was done strictly based on cost. Plan Design was not changed. Changes from the HMO to the EPO are limited to the elimination of signing up for a primary care physician. An analysis of moving from the HMO network to the EPO/PPO network showed close to a 100% crossover meaning all HMO providers are also in the EPO/PPO network.

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 tested to determine whether the capitation fee or fee for service claims would produce a savings. In order to do this analysis we would compare 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 cover 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, Keenan looked for savings in administration and pool charges as it is anticipated that the EPO would adopt the PPO administrative fees and reinsurance costs. Administrative savings were not realized when the quote was received however reinsurance savings were.

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	\$ 45.34	\$ -
Total EPO Savings			\$ 2,817,048

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

SJVIA HMO Versus EPO Analysis		
	Conservative Savings	Projected Savings
Capitation Savings	\$ 1,316,341	\$ 2,632,682
Reinsurance Savings	\$ 92,183	\$ 184,367
Administration Cost	\$ -	\$ -
Total EPO Savings	\$ 1,408,524	\$ 2,817,048
% Savings	6.3%	12.6%
HMO Annual Cost		\$ 22,390,630
HMO Enrollment		3,333

Keenan requests the Board implement the EPO for a January 1, 2018 effective date.