Alaska Public Employer Health Care Authority

Estimate of Potential Cost Savings

Developed for: State of Alaska Department of Administration, Webinar: September 13, 2017

Developed by: Mark A. Foster (MAFA)
Topic Overview

Consolidated Procurement (>100,000 Covered Lives)
- Potential Impact on Cost Trends
  - Benchmark Cost Trends
    - Statewide (Payer & Provider) Trends
      - Statewide Employer Sponsored Health Insurance
        - State of Alaska
      - Other State + Local Public Employers
        - Reference Pricing Opportunity
        - Reference Pricing Challenges
        - Price v Quality (Outcomes)
          - Price v Local Provider Capacity
- ER/EE Cost Sharing Effectiveness
  - Value Based Insurance Design
  - Price & Quality Transparency

Alaska Public Employer Health Care Authority Opportunity

Administrative Efficiencies

Insurance Risk Pooling Efficiencies

ER/EE Cost Sharing Efficiencies

Note: ER = Employer; EE = Employee
Executive Summary

Potential Savings – Figure 1
Savings grows to ~8.7% by 2025;
Aggregate savings ~655 million from 2018-2025
# Executive Summary

Potential Savings – Table 2 (p. 12)

<table>
<thead>
<tr>
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<td>Reference Pricing Savings Estimate</td>
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<td>1.8%</td>
<td>1.9%</td>
<td>2.7%</td>
<td>2.7%</td>
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<td>13</td>
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<td>2.5%</td>
<td>2.5%</td>
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<td>14</td>
<td>+ Benchmark price trend reduction</td>
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<td>1.1%</td>
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<td>2.5%</td>
<td>2.5%</td>
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<td>15</td>
<td>Offset by an increase in primary care utilization</td>
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<td>0.2%</td>
<td>0.4%</td>
<td>0.6%</td>
<td>0.8%</td>
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<td>0.8%</td>
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</tbody>
</table>
Executive Summary

Potential Savings – 2025 Opportunity Summary, Fig 2, p. 18

Potential savings associated with consolidated purchasing & simplified plan administration for ~44,000 public employees & 114,000 covered lives in Alaska Health Care Market in 2025

- Value based insurance design: increase cost sharing for lower value care
- Employer side reference pricing reset & reducing price trend to benchmark initiatives will drive insurance / medical provider side improvements -- which are likely to include a mix of high value networks, bundled payments and improvements in chronic condition management
- Value based insurance design: decrease cost sharing for high value care

MAFA

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13 Sept 2017
### AK Health Care Authority Potential Savings

MAFA Table 2, Lines 3 & 4, based on PRM Coordinate Plan Admin & Pooled Purchasing Estimates

**PRM, Phase 2 Report, Coordinated Plan Administration, p. 38**

1. Reduce/eliminate claims fluctuation margins
2. Reduce administrative costs & fees
3. Reduce/eliminate “stop-loss” insurance
4. Reduce plan administration complexity of annual administrative tasks, e.g., rate development, plan communications, eliminate redundancies and inconsistencies in periodic billing and procurement
5. Savings = 1.5% X $1.192B/114,000 members ≈ $157 pmpy

**PRM, Phase 2 Report, Pooled Purchasing Function, p. 38**

1. Carve out prescription drug benefit coverage
2. Travel benefit/centers of excellence consolidated contract
3. Savings = 1.2% X $1.192B/114,000 members ≈ $125 pmpy
AK Health Care Authority Potential Savings

PRM Coordinated Plan Administration savings estimate (Table 2, line 3) – appears reasonable compared to industry SG&A data

Exhibit 1

The payor industry’s scale curve flattens quickly


1 Commercial risk (large group, small group, and individual), Medicare, and Medicaid – top 100 players by premium, PMPM per member per month, SG&A, sales, general, and administration.
AK Health Care Authority Potential Savings

PRM Coordinated Plan Administration savings estimate (Table 2, line 3) – appears reasonable compared to industry data on volatility of medical loss ratio (and associated risk reserves / stop loss insurance premiums)

Exhibit 5

Within a business line, scale could be important for managing volatility

PRM, Phase 2 Report, Table 17 Modeled Savings from Adjusting the Spousal Contribution

- 13% savings on illustrative example that compares one AK health plan without tiers to two AK health plans with tiers

MAFA assumes that over time, the AK Health Care Authority will move toward multiple tiers across all State of Alaska, UA, local and school district plans that do not currently have multiple tiers to reduce cross-subsidization from single to family plans and incentivize households to find the most cost effective coverage for their families.

MAFA estimated pool savings of 1% associated with migration toward multiple tiers across all plans.
AK Health Care Authority Potential Savings

Background: AK public employer health plans have lagged L48 in tiering & cost sharing (2013 PEW Compilation) -- while some progress has been made since 2013, more progress can be made in tiering and cost sharing to improve health plan efficiency

<table>
<thead>
<tr>
<th>State</th>
<th>Average Total Premium</th>
<th>Employee Only</th>
<th>Employee plus dependents</th>
<th>Per Employee</th>
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<td>($287)</td>
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<td>($357)</td>
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<td>($402)</td>
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<td>$1,063</td>
<td>($560)</td>
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<td>$1,415</td>
<td>$1,048</td>
<td>($324)</td>
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Source: State Employee Health Plan Spending: An examination of premiums, cost drivers, and policy approaches, PEW Charitable Trusts / MacArthur Foundation, September 2014 Update; selected Western States excerpts from Table 1 State Health Plan Premiums, Employee Contribution Arrangements Vary (2013 data)
“Value based insurance design” aims to increase health care quality and manage costs by using financial incentives to promote cost efficient health care services and consumer choices. Health benefit plans can be designed to reduce barriers to maintaining and improving health. By covering preventive care, wellness visits and cost effective treatments such as medications to control blood pressure or diabetes at low to no cost, health plans may saving money by reducing future expensive medical procedures. Benefit plans may increase cost sharing for health choices that may be unnecessary or repetitive, or when the same outcome can be achieved at a lower cost. To decide what procedures are most effective and cost efficient, payers may use evidence-based data to design their health plans. [NCSL, 2016 update]

Emerging success stories

• Value-Based Design in Action: How Five Public Sector Employers are Managing Cost and Improving Health Using Value-Based Design, Center for Health Value Innovation (2009) [ME, counties & cities in WI, FL, OR, MI, KS]

AK Health Care Authority: Potential Savings over 7 year period, (2018 – 2025)
MAFA estimate of 2.6% savings at the end of 7 year period.
AK Health Care Authority Potential Savings

Consolidated Procurement (>100,000 covered lives)
AK Health Care Authority Potential Savings

Consolidated Procurement Opportunity – What is the potential savings associated with consolidating purchasing power?

First, what is the magnitude of the market consolidation and resulting book of business associated with State, UA, local gov’t and school district employer sponsored health plans?

From Fragmented

- From fragmented buy side
  - HHI market power index = 35
- Number of specialists, e.g., cardiologists, per largest current employer pool (L52) = 2
- Median number of specialists, e.g., cardiologists, associated with currently fragmented employer pools = <1

To Consolidated

- Consolidate employer buy side
  - HHI market power index = 497
- Number of specialists, e.g., cardiologists, associated with consolidated book of business employer pool = 8

HHI = Herfandahl Hirshfield Index of market concentration (sum of the squares of market share)
AK Health Care Authority Potential Savings

What are the Key Cost Trends that buy-side consolidation can address – State Level Comparisons (CMS June 2017 release, 2009-2014 data ALL PAYERS, adj for age/gender)
AK Health Care Authority Potential Savings

State Level Comparisons (CMS June 2017 release, 2009-2014 nominal data); by Payer

CAGR = compound annual growth rate

<table>
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<tr>
<th>State</th>
<th>Private Insurance $/enrollee</th>
<th>2009</th>
<th>2014</th>
<th>CAGR</th>
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<td>WY</td>
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<td>4957</td>
<td></td>
<td>3.4%</td>
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Comp State Avg.

|       | 3768                          | 4231 |      | 2.3% |

AK/Comp

|       | 1.330                          | 1.408 |      | 1.2% |

AK/WA

|       | 1.242                          | 1.377 |      | 2.3% |
**AK Health Care Authority Potential Savings**

Update Alaska Health Care Cost Commission Cost Driver Analysis (2011 Report on 2009 data) to the extent data is available (2014 ALL COMMERCIAL CLAIMS PAID) to identify areas amenable to mitigation with increased buy-side market share

1. Basic cost accounting framework: Cost = price * utilization
2. Aggregate utilization of medical services has been below L48 benchmarks (after adjustments for age/gender distribution) for Alaska ALL COMMERCIAL CLAIMS (2009, 2014), STATE OF ALASKA EMPLOYEE POOLS (2009-2016), Selected Alaska SCHOOL DISTRICTS (2009-2016)
3. Alaska All Commercial Claims prices for medical procedures (net price paid after discounts) have been substantially above and increasing faster than other states [2011 Cost Driver Reports]
4. Alaska All Commercial Claims prices for medical procedures (net price paid after discounts) have continued to trend above other high cost states [MAFA review of All Commercial Claims paid prices 2009-2014]. See for example, physician payments clustered by specialty below:
AK Health Care Authority
Potential Savings
Extend State Public Employee [cost = price * utilization] trend through 2016 and consider what cost drivers might be amendable to mitigation with increase in public employer buy-side market share.

Figure 16: State of Alaska Employee Health Plan Cost Drivers (Price / Utilization), 2014-2016
AK Health Care Authority Potential Savings

AK Market Costs: State of Alaska + Other State & Local Public Employers

Bubble size = f (# of employees in health plan)
AK Health Care Authority Potential Savings

What cost (price * utilization) trends in public employer health plans might be amendable to mitigation by substantially increasing employer buy-side market share?

Price.

- Business as usual
- Utilization rebound
- Price reductions

\[ \text{Cost} = \text{price} \times \text{utilization} \]

Graph showing trends over time.
AK Health Care Authority Potential Savings
Reference Pricing Challenges / Opportunities

Challenge 1: Price mitigation strategies are frequently associated with rebound in utilization

Nudge utilization rebound toward higher value care by accelerating migration toward measurement of value, e.g., health outcomes achieved per dollar spent (see [https://hbr.org/insight-center/innovating-for-value-in-health-care](https://hbr.org/insight-center/innovating-for-value-in-health-care), especially [https://hbr.org/2016/12/a-blueprint-for-measuring-health-care-outcomes](https://hbr.org/2016/12/a-blueprint-for-measuring-health-care-outcomes))

Challenge 2: Price mitigation strategies raise concerns around potential loss of quality

1. Measure and illuminate correlations between price/quality
2. Identify and monitor high value outcome measures

Illustrative examples
- International comparisons
- State & International comparisons
- Emerging health outcome metrics by care category ([http://www.ichom.org/medical-conditions](http://www.ichom.org/medical-conditions))

Challenge 3: Price mitigation strategies raise concerns around potential loss of access

- Identify and monitor high value access measures [local supply as proxy for access]

Illustrative examples
- AK specialists supply gains (fig 7, p. 32)
- AK dentists supply gains (fig 13, p. 51)
- Oak Street Health Medicare Clinic Model ([http://www.oakstreethealth.com/](http://www.oakstreethealth.com/))
Summary

• Potential Savings Opportunity
  – Consolidate buy side market power (HHI+, BOB)
  – Focus on value; improving outcome per dollar invested
  – Estimate on the order of $655 million over 7 years, approaching 9% savings vs. business as usual projection

• Implementation Challenges
  – Business as Usual Stakeholders
    • Employer / Employee groups
    • Health Insurance / Third Party Administrators
    • Medical Providers
  – Measure and manage outcomes per dollar invested and monitor cost / local capacity (access)