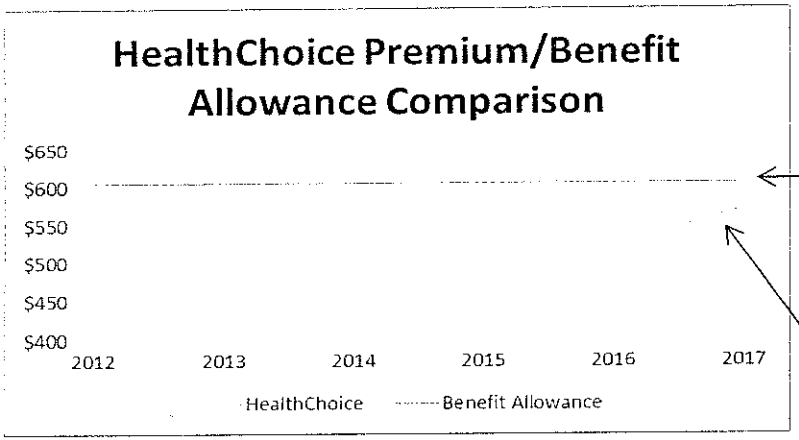
Interim Study on State Employee Benefits October 18, 2016

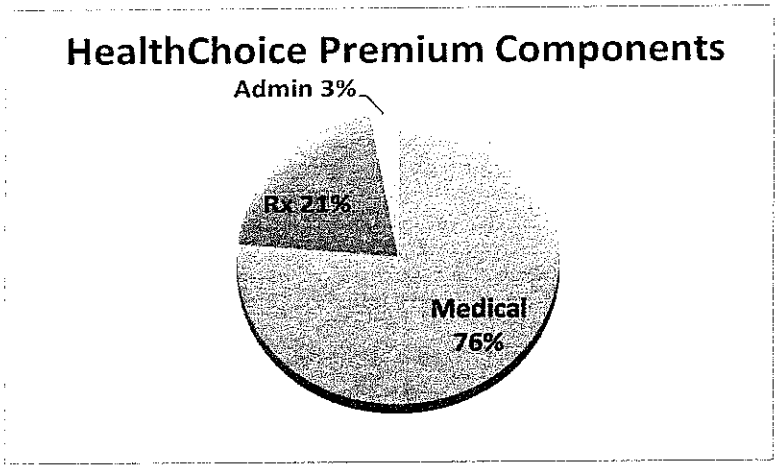
OMES
OFFICE OF MANAGEMENT & ENTERPRISE SERVICES

Cost to the State



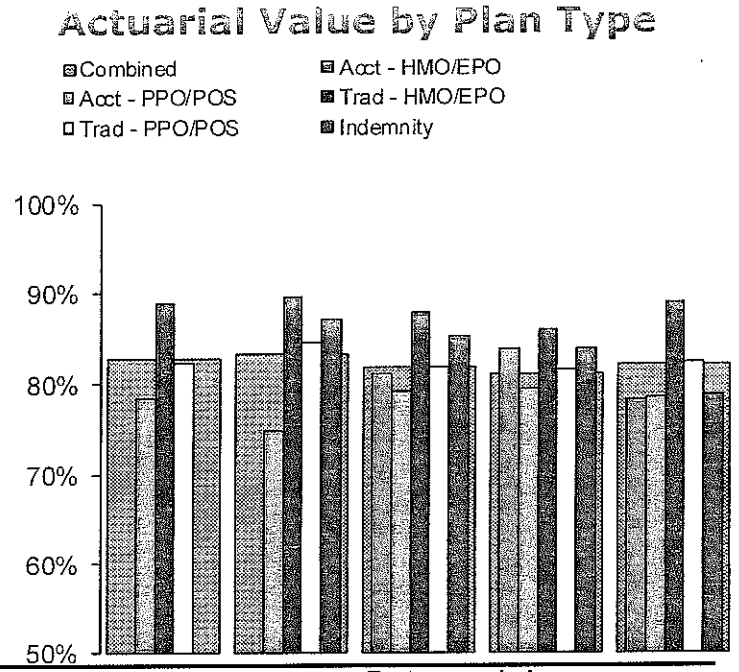
O.S.§74-1370.C.1 – Benefit allowance for state employees frozen at greater of 2012 benefit allowance or HealthChoice High Option
(34,750 * $606.09 = $274 million)

O.S.§74-1310.1.A – Benefit allowance for education employees based on HealthChoice High Option
(64,319 * $571.04 = $441 million)



Benchmarking—HVI: 2016 Actuarial Value by Plan Type

- **Actuarial value** is the percentage of total health care costs expected to be paid by the plan after deductibles, coinsurance, and copays are applied
- An actuarial value of 100% indicates no participant cost; that is, no copays, deductibles, or other out-of-pocket cost
- HealthChoice High Option plan fall under Traditional – PPO/POS
- HealthChoice Basic Option and HDHP fall under Account Based – PPO/POS



	EGID	Public	Fortune 500	Labor Market	HVI
Account Based–HMO/EPO		—	80.9%	83.7%	78.3%
Account Based–PPO/POS	78.4%	74.7%	79.2%	79.4%	78.3%
Traditional–HMO/EPO	88.7%	89.6%	87.7%	86.0%	88.7%
Traditional–PPO/POS	82.2%	84.4%	81.7%	81.5%	82.3%
Indemnity	—	87.0%	85.2%	83.7%	78.6%
Combined	82.8%	83.2%	81.8%	81.1%	82.1%

Source: AON Hewitt HVI database

Current Enrollment by Plan

	Aetna	BC/BS	CommunityCare	GlobalHealth	HealthChoice	Total
Education	383	212	1,294	10,712	72,601	85,202
Local Government	26	40	89	645	10,408	11,208
State	747	375	554	19,612	57,478	78,766
Total Active	1,156	627	1,937	30,969	140,487	175,176
Pre-Medicare Retirees	21	25	208	1,268	9,174	10,696
Medicare Retirees	-	8	1,891	1,360	36,089	39,348
Total Enrollment	**1,177**	**660**	**4,036**	**33,597**	**185,750**	**225,220**
	1%	***0%***	***2%***	***15%***	***82%***	***100%***
Ratio of Actives to Pre-Medicare	55:1	25:1	9:1	24:1	15:1	

Risk Adjustment Overview

- Risk adjustment is a method to adjust payments to health plans based on the risk assumed relative to other competing plans to provide for a level of protection from adverse selection.
  - *O.S.§74-1371 H. Benefit plan contracts with the Board, health maintenance organizations, and other third party insurance vendors shall provide for a risk adjustment factor for adverse selection that may occur, as determined by the Board, based on generally accepted actuarial principles.*

Risk Adjustment Overview

- Various models to calculate risk adjustment:
  - Demographic – Based upon age/gender only
    - Society of Actuary (SOA) Demographic tables
  - Clinical – Based upon individual clinical data
    - Pharmacy only
    - Medical and pharmacy
    - Various software models for clinical methods

Problems with Historical Risk Adjusted Payments

- Not applied to all covered lives (employees and dependents).
- Source of historical factors unknown and have not been updated since at least 2001.
- The factors did not appear to be reflective of the underlying risk assumed by various plans.
- The OEIBB requested a review of the risk adjustment process.

Actuary's Annual Risk Adjustment Review Memorandum

February 8, 2007
Mr. Dan Melton
EBC and OSEEGIB Risk Adjustments Review
Page 3

Based upon the above, we find risk adjustment process for both the EBC and OSEEGIB to be in accordance with sound actuarial principles of risk assessment and risk adjustment. Our Actuarial Certification stating this finding is provided under separate cover.

Observations

We did note that both the EBC and OSEEGIB methodology appears to reflect only the age/gender profile of covered employees, without consideration of dependent spouses and children. We believe the risk adjustment process could be made more robust by inclusion of the dependent population in the average age/gender factor calculations. For example, a vendor that was successful in attracting relatively more children might experience relatively lower overall healthcare costs, something that would not be contemplated by the current risk adjustment methodology. We suggest that both EBC and OSEEGIB consider such an enhancement in future plan years.

While age/gender adjustments are widely recognized as acceptable and reasonable measures of relative risk, the premise of an age/gender adjustment assumes the general health status of the underlying population resembles to that of the population on which those age/gender factors were based. Another potential risk adjustment methodology that may be more equitable and reflective of the underlying risk involves the utilization of clinical measures of health status. This approach has been adopted by the federal government in administering the Medicare program. These systems are more predictive of relative risk, but require detailed claims and eligibility data along with the necessary predictive modeling software. EBC and OSEEGIB may wish to explore the feasibility and viability of such an approach in future years.

We are available to address any questions regarding our analysis or findings with respect to the risk adjustment process.

Best regards,

Neil Yang, ASA, MAAA
Consulting Actuary
APEX Management Group, a division of Gallagher Benefit Services, Inc.

cc: Don Heilman, Gallagher Benefit Services, Inc.
Bill Robinson, Gallagher Benefit Services, Inc.

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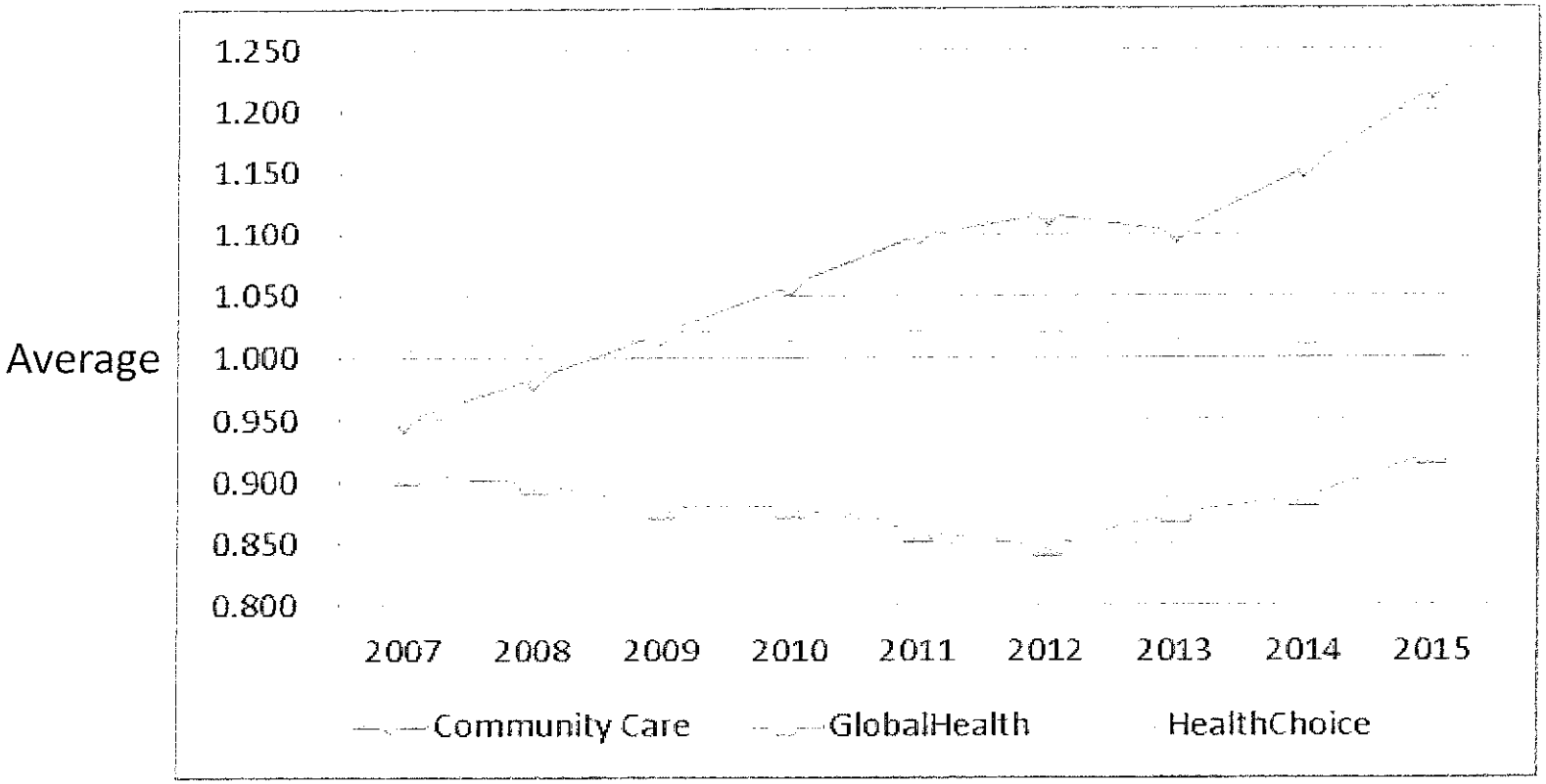
APEX

Actuarial Review of 2013 Data

	AON Hewitt			Gallagher Benefit Services		
	CommunityCare	GlobalHealth	HealthChoice	CommunityCare	GlobalHealth	HealthChoice
Current Risk Adjustment	($2,760,044)	$4,336,645	($1,576,601)	($2,760,044)	$4,336,645	($1,576,601)
SOA Demographic	(6,193,414)	20,711,175	(14,517,761)	(4,893,576)	18,160,286	(13,266,710)
Difference	**($3,433,370)**	**$16,374,530**	**($12,941,160)**	**($2,133,532)**	**$13,823,641**	**($11,690,109)**
		(DxCG Software)			(3M Software)	
Clinical - Pharmacy	(12,936,888)	28,102,735	(15,165,847)	(17,311,241)	20,378,800	(3,067,559)
Difference	**($10,176,844)**	**$23,766,090**	**($13,589,246)**	**($14,551,197)**	**$16,042,155**	**($1,490,958)**

Historical Average Risk Adjustment Scores



Based on Society of Actuaries demographic factors for all covered lives

Historical Analysis of Risk Adjusted Payments 2007 to 2015 Plan Years

	Aetna Note 1	CommunityCare	GlobalHealth	HealthChoice	UnitedHealthCare Note 2
Actual Risk Adjusted Payments (Employees Only)	$2,241,255	($19,246,361)	$23,401,405	($8,287,226)	$1,890,927
Recalculated based on All Covered Lives and SOA Factors	$2,958,717	($27,061,239)	$110,786,619	($116,909,465)	$30,225,368
Overpayment/(Underpayment)	**$717,462**	**($7,814,878)**	**$87,385,214**	**($108,622,239)**	**$28,334,441**

Note 1: Aetna left the program 12/31/10
Note 2: UnitedHealthcare left the program 12/31/12