

MEETING SUMMARY
STATE AND PUBLIC SCHOOL
LIFE AND HEALTH INSURANCE PROGRAM
LEGISLATIVE TASK FORCE

Monday, February 24, 2014
1:00 p.m.
Room 171, State Capitol
Little Rock, Arkansas

Senator Jim Hendren, the Chair of the State and Public School Life and Health Insurance Program Legislative Task Force, called the meeting to order at 1:00 p.m.

MEMBERS OF THE STATE AND PUBLIC SCHOOL LIFE AND HEALTH INSURANCE PROGRAM LEGISLATIVE TASK FORCE IN ATTENDANCE: Senator Jim Hendren, Chair; Representative Harold Copenhaver, Vice Chair; Senator Cecile Bledsoe; Senator Eddie Cheatham; Senator Linda Chesterfield; Senator Jason Rapert; Senator David Sanders, Representative Bill Gossage; and Representative Allen Kerr.

OTHER MEMBERS OF THE GENERAL ASSEMBLY IN ATTENDANCE: Senator Johnny Key; Senator Uvalde Lindsey; Representative Robert Dale; Representative Mary P. "Prissy" Hickerson; Representative Sheilla Lampkin; and Representative Betty Overbey.

Remarks by the Chair and Vice Chair

Senator Hendren welcomed the members. He remarked that the Task Force has serious challenges to be faced in bringing structural reform to benefit plans which will ensure the long-term fiscal stability of the plans. He said, hopefully, the Task Force will be able to find solutions in the upcoming months.

Minutes:

Without objection, the minutes of January 7, 2014, were approved as written.

Exhibit:

Exhibit C – 01/07/14 Minutes

Update on the Activities of the Task Force's Consultants

Senator Hendren noted several items in the report from Collier Insurance in the members' packets. He said the data gathering and validation phase is 90% complete. He said the customization and validation phase working with CHROME technology is estimated to be completed by March 15, 2014. He stressed the importance of attendance by all members of the Task Force at the open public meeting in April when the initial report and presentation would be delivered. Senator Hendren commented that communications with and cooperation by state agencies in the collection of data has been good.

Presenter & Synopsis:

Mr. Steve Osborn, President, Osborn, Carreiro & Associates, Inc., was recognized. Mr. Osborn referred to the Osborn, Carreiro & Associates, Inc. letter, dated February 18, 2014, in members' packets. He said the majority of data that will be needed for the analysis has been collected and is currently being reviewed. He noted that three (3) graphs showing the effects of various levels of Per Employee Funding (PEF) by employer entity were attached

to the letter. He commented that the data used for the graphs were from the Employee Benefits Division (EBD) Information Packet, dated February 18, 2014. He said the results are summarized in the letter and show that the more a school district contributes, the higher the level of participation among their employees, and the more a school district contributes, the more likely their employees will choose the Gold Plan over the Silver Plan or the Bronze Plan.

Issues Included in the Discussion:

- trends in participation levels over the past several years,
- availability of data on whether teachers who are not enrolled in a plan have no insurance or are covered by a spouse's plan, and
- employees' reasons for not enrolling in a plan.

Handouts:

Collier Activity Update

Osborn, Carreiro & Associates, Inc., Activity Update February 18, 2014

Review of the Division of Legislative Audit's Report, *Special Report—Arkansas State and Public School Employees Health Benefits—Employee Benefits Division—Arkansas Department of Finance and Administration*

Presenter & Synopsis:

Mr. Douglas Spencer, Audit Supervisor, Arkansas Division of Legislative Audit, was recognized. Mr. Spencer stated the primary objective of this report had been to analyze the State and Public School Employee Health and Benefit Plan fund balances at June 30, 2013. He called members' attention to exhibits on page 4. He said Exhibit II, Arkansas State Employee (ASE) Health and Pharmacy Employer and Employee Premiums and Claims by Year For Fiscal Years Ending June 30, 2009 through 2013, shows the change in premiums and medical claims for the state employee plan. He said Exhibit III, Arkansas State Employee (ASE) Health and Benefit Plan General Fund Balance At June 30, 2009 through 2013, shows the state employee fund balance declined \$25 million to \$60 million in FY2013. He noted the decline in the fund balance for FY2013 was primarily due to increased claim costs and higher expenses related to new vendor contracts. He commented that EBD had anticipated this decline, and, rather than raise premiums, allocated part of the prior year fund balance to compensate for the decline. Mr. Spencer next discussed exhibits on page 6. He said Exhibit IV, Public School Employee (PSE) Health and Pharmacy Employer and Employee Premiums and Claims by Year For Fiscal Years Ending June 30, 2009 through 2013, shows the change in the premiums and medical claims for the public school employee plan. He stated Exhibit V, Public School Employee (PSE) Health and Benefit Plan Proprietary Fund Balance At June 30, 2009 through 2013, decreased \$31 million to a negative balance of \$4 million, and noted the decline was primarily due to an increase in the claim cost without a significant additional source of revenue received from either the participants or the employers. Mr. Spencer commented that as part of the examination for the decline in the public school employee fund balance, the six (6) largest public school employee claimants were also reviewed, and results of the review are shown in Exhibit VI on page 8 of the report. In the conclusion to the report, Mr. Spencer noted that, with declining funds primarily due to increasing health and pharmacy claims costs, EBD may desire to reconsider its drug selection process. In addition, EBD should provide timely claim management referrals, and evaluate the referral process to ensure qualified claimants are directed to case management in a timely manner. He said EBD management has agreed to the recommendation.

Issues Included in the Discussion:

- explanation of the recommendation based on the six claims on page 8,
- purpose of case management,
- level at which self-insured plans would experience reinsurance,
- clarification of the PSE cash balance on page 6,
- accelerated decline in the PSE fund balance,
- types of cases for which claims were paid,

- result when a member declines a case management file being opened,
- performance comparison of the ASE and the PSE plans,
- number of pregnant mothers having premature deliveries who are smokers, and
- impact of claims exceeding \$250,000 on reserves.

Handouts:

Special Report, Legislative Joint Auditing Committee, January 30, 2014

Senator Hendren announced that there would be a deviation from the agenda, and the Committees would next take up Item G.

Updates on Activities Of and Issues Concerning the Employee Benefits Division (EBD) of the Arkansas Department of Finance and Administration

Presenter & Synopsis:

Mr. Bob Alexander, Director, Employee Benefits Division, Arkansas Department of Finance and Administration, was recognized. Mr. Alexander clarified issues raised in the Division of Legislative Audit's Special Report regarding large claims and claims management.

He said that the following steps have been taken to help address the problem of timing:

- EBD has terminated the contract with its case management company and has entered into a contract with a new company, American Health Holding, Inc.
- EBD has implemented a plan whereby all hospital admissions have to be pre-certified.
- EBD is in the process of implementing a pre-certification program for all oncology patients that will enable earlier involvement of case management.

Mr. Alexander stated that, with regard to the decrease in reserves, the State and Public School Life and Health Insurance Board had approved use of the reserves to keep benefits and premiums level during hard economic times when employees were not receiving pay raises.

Contributor to the Discussion:

Mr. Doug Shackelford, Deputy Director, Employee Benefits Division, Arkansas Department of Finance and Administration

Issues Included in the Discussion:

- the five or six claims over \$1 million in one year were an anomaly,
- addressing the delay in case management implementation,
- policy of vigorously pursuing issues of subrogation,
- implication of pre-certification for patients,
- case management company charged with the pre-certification requirement,
- rate increases anticipated for 2015,
- clarification of ASE and PSE Financials in EBD Information Packet,
- explanation of "Incurred But Not Recorded (IBNR),"
- authority for making the decision to buy down premium rate increases in future years,
- total annual cost for the plans in 2013,
- legislative involvement in making changes to plans,
- studies on the benefits of bariatric surgery,
- evaluation of reinsurance rates or costs on catastrophic claims,

- PSE Monitoring Report Through December 31, 2013,
- timelines of two (2) enrollment periods,
- ability to make sound decisions based on consultants' data,
- need for stabilizing rates moving forward in addition to possibly making policy changes, and
- clarification of the charge given to consultants.

Handouts:

Arkansas Public School Employees (PSE) Monitoring Report, through December 31, 2013
EBD Information Packet, dated February 18, 2014
EBD Timeline

Senator Hendren announced that the Committees would now return to Item F.

Discussion of Issues Regarding Prescription Drug Benefits for State and Public School Employees

Presenter & Synopsis:

Mr. Mark Riley, Executive Vice President and Chief Executive Officer, Arkansas Pharmacists Association, was recognized. Mr. Riley advised Committee members that this is not the first time that costs have gotten out of control, and that their concern is understandable. Mr. Riley discussed his significant experience in the Pharmacy Benefit Manager (PBM) industry. He said when he came to the Arkansas Pharmacists Association in 2003, the pharmacy program had been experiencing increases of about 20% each year for the previous four to five years, and that the legislature said the increases could not continue. He commented that recommendations can be made to save small amounts of money, but the problem will continue if major issues are not addressed. He stated that on the pharmacy side, the belief is that evidence-based common-sense answers will settle down the cost in the program. Mr. Riley then discussed recommendations that came out of the Arkansas Pharmacy Association in early 2004, and that, while the recommendations were not popular, after the first recommendation was adopted, the rates went flat and never rose above 2% for the next four years. Mr. Riley said the Association is committed to helping in the current process of finding solutions.

Presenter & Synopsis:

Dr. Dwight Davis, Director, Evidence Based Medicine Program, University of Arkansas for Medical Sciences (UAMS) College of Pharmacy, was recognized. In a PowerPoint presentation, Dr. Davis shared the progress that is being made with EBD and the prescription drug program. He discussed trend data in several of the accompanying charts. Dr. Davis reviewed cost containment changes that have already been implemented in the program, and mentioned other critical issues that need to be addressed, including specialty drugs, new cancer therapies, uncontrolled inflation from drug manufacturers, and prescription coupons for designer drugs. He stated that reassignment of rebate contracting on behalf of the plan is of long-term importance to the prescription drug program.

Issues Included in the Discussion:

- ∴ explanation of recommendations made in 2004, and whether the process is currently working,
- ∴ percentage of claims in the PSE program that are pharmaceutical,
- ∴ ability and method for patients who do not respond to *evidence-based* prescription drugs to get other types of medicine,
- ∴ control of rebate contracting as a cost-containment measure,
- ∴ necessity of a legislative remedy for prescription coupons,
- ∴ negotiating price protection on costs for a plan and including that in a contract,
- ∴ more claims on the ASE side even though the PSE side has many more members,
 - Medicare-eligible retirees on PSE side do not have a drug benefit,
 - Medicare-eligible retirees on ASE side do have a drug benefit,

- ∴ relationship between EBD and PBMs and reasons for EBD's lack of leverage in negotiations, and
- ∴ increase in costs driven by the traditional health care side

Handouts:

EBD Prescription Drug Program Overview

Other Handouts:

Shelley Smith Letter

Next Scheduled Meeting:

Tuesday, March 11, 2014, at 1:30 p.m. in Room 171 of the State Capitol

Adjournment:

The meeting adjourned at 2:45 p.m.

Approved: 04/16/14