Special Report

Legislative Joint Auditing Committee

January 30, 2014

Arkansas State and Public School Employees Health Benefits

Employee Benefits Division
Arkansas Department of Finance and Administration

INTRODUCTION

Health and pharmacy claim payments for Arkansas state and public school employees are administered by the Department of Finance and Administration (DFA) Employee Benefits Division (EBD). This report is designed to provide information to assist in the legislative decision-making process regarding these plans.

OBJECTIVES

The objectives of this report were to:

- Analyze the state and public school employee health and benefit plans' fund balances at June 30, 2013.
- Examine the process EBD uses to select drugs for inclusion in pharmacy benefits.
- Review high-dollar claims and their corresponding case management services.
- Review the EBD/public school invoicing/refunding process for timeliness.

SCOPE AND METHODOLOGY

The review was conducted for the period July 1, 2012 through June 30, 2013. Division of Legislative Audit (DLA) staff analyzed the state and public school employee health and benefit plans' fund balances by reviewing financial data from the Arkansas Administrative Statewide Information System (AASIS). Additional information for this review was obtained from relevant documents, such as contracts, case management files, claims, and invoices, as well as interviews with current and former EBD employees.

The methodology used in preparing this report was developed uniquely to address the stated objectives; therefore, this report is more limited in scope than an audit or attestation engagement performed in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

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FUND BALANCES

EBD administers the health and benefit plans for both state and public school employees. Benefits are provided through self-funding, a method by which the State takes in contributions from both the employee and the employing agencies. The two funds are as follows:

- Arkansas State Employee (ASE) Health and Benefit Plan General Fund.
- Public School Employee (PSE) Health and Benefit Plan Proprietary Fund.

The purposes of these funds are to pay health and pharmacy claims and to serve as reservoirs to prevent dramatic rate increases for enrollees.

Both ASE and PSE health plans are administered on a calendar-year basis (January to December). During plan year 2012, Health Advantage managed the Gold and Bronze plans, while QualChoice managed the Silver plan. Pharmacy claims were managed by Catamaran.

At June 30, 2013, there were 38,283 ASE participants, an increase of 704 participants from the previous fiscal year. PSE participants totaled 57,655, an increase of 1,670. See **Exhibit I on page 3** for more detail regarding participation by plan.

Arkansas State Employee (ASE) Fund

The primary sources of revenue for the ASE Fund are participant and employer contributions. Participant contributions are based on plan type (Gold, Silver, or Bronze) and coverage selected (employee only, employee and spouse, employee and family, employee and child, retired, or COBRA). **Schedule 1 on page 9** provides employee contribution amounts for monthly premiums for plan year 2013. Employer contributions are based on Ark. Code Ann. § 21-5-414, which requires each state agency to make a monthly contribution for each budgeted state employee position.

The employer contribution amount for fiscal year 2013 was $4,680 ($390 per month) per budgeted position. The 34,668 budgeted positions for 2013 increased 217 from fiscal year 2012. The participant contributions increased $0.2 million, primarily due to increased enrollment, and employer contributions increased $0.7 million, primarily due to an increase in budgeted positions.

Health and pharmacy claims are the primary source of expenditures for the ASE Fund. Overall, expenditures for claims and other plan benefits increased $23.9 million over fiscal year 2012, as shown in **Exhibit II on page 4**. Additionally, professional and administrative fees increased $2.5 million due to the following:

- new vendor contracts implemented in January 2012.
- increased programming costs for implementation of federal health care reform.
- costs associated with a new Condition Management program, which helps members manage chronic conditions.

Overall, the ASE Fund balance decreased by approximately $25.2 million to $59.9 million in fiscal year 2013, as shown in **Exhibit III on page 4**. The fund balance grew $0.3 million in fiscal year 2012. The decline in the fund balance for fiscal year 2013 was primarily due to increased claim costs and higher expenses related to new vendor contracts. EBD anticipated this decline and, rather than raise premiums, allocated part of the prior-year fund balance to compensate for the decline.

Public School Employee (PSE) Fund

Ark. Code Ann. § 6-17-1117 requires each school district to make a monthly contribution of not less than $131 for each eligible employee electing to participate in the Public School Employee Health Insurance Program. Additionally, in fiscal year 2013, the Arkansas Department of Education provided $35 million to the PSE Fund in accordance with Ark. Code Ann. § 6-17-1117 and an additional $15

Exhibit I

Arkansas State Employee (ASE) and Public School Employee (PSE)
Health and Benefit Plan Enrollees, Including Retirees
At June 30, 2013

Arkansas State Employee (ASE)					
Enrollees	Gold	Silver	Bronze	**2013 Total**	**Increase (Decrease) from 2012**
Employee Only	20,778	711	1,029	**22,518**	**353**
Employee and Child(ren)	5,014	190	274	**5,478**	**143**
Employee and Spouse	6,132	132	256	**6,520**	**139**
Employee and Family	3,255	186	326	**3,767**	**69**
2013 Total	**35,179**	**1,219**	**1,885**	**38,283**	
Increase (Decrease)	**(318)**	**624**	**398**		**704**
Public School Employee (PSE)					
Enrollees	Gold	Silver	Bronze	**2013 Total**	**Increase (Decrease) from 2012**
Employee Only	32,266	2,821	9,668	**44,755**	**1,088**
Employee and Child(ren)	3,473	967	2,302	**6,742**	**219**
Employee and Spouse	1,503	180	1,114	**2,797**	**139**
Employee and Family	773	409	2,179	**3,361**	**224**
2013 Total	**38,015**	**4,377**	**15,263**	**57,655**	
Increase (Decrease)	**(8,053)**	**3,623**	**6,100**		**1,670**

Source: *Employee Benefits Division (unaudited by the Division of Legislative Audit)*

million through Act 269 of 2012 for a total of $50 million. Employees contribute based on the plan type and coverage they select. **Schedule 1 on page 9** provides maximum employee contribution amounts for monthly premiums for plan year 2013.

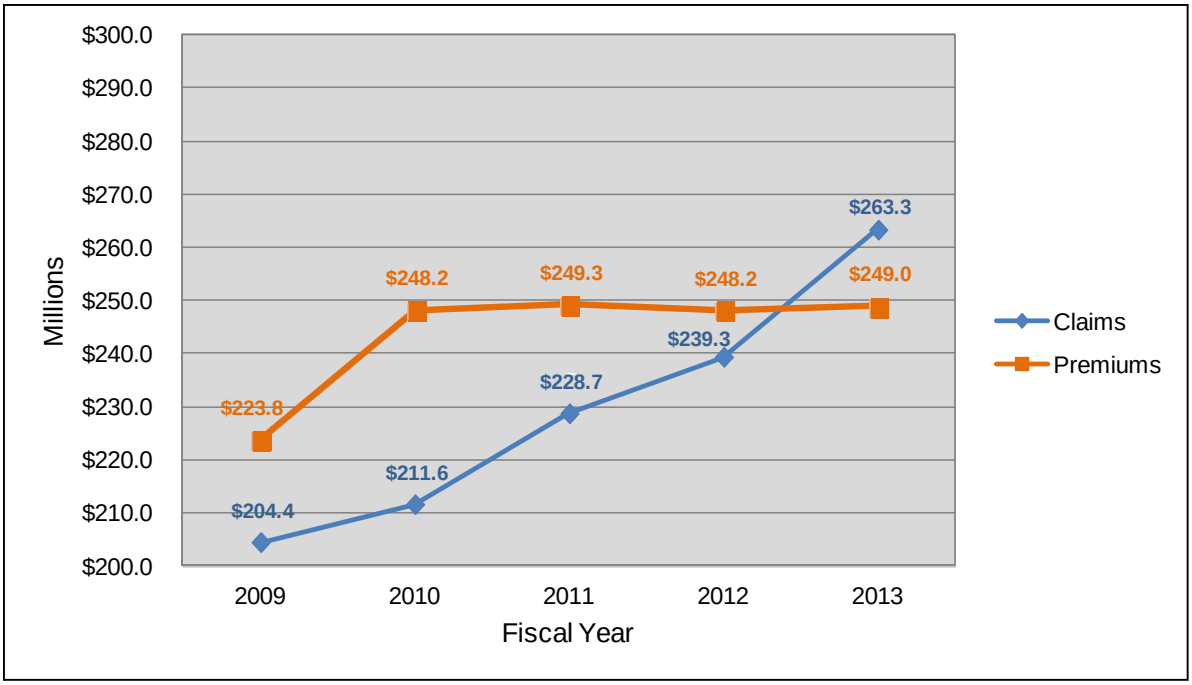
PSE employer contributions increased in 2013 by $14.2 million, while employee contributions decreased by $11.7 million. The primary reason for these changes was that the new software system, implemented in January 2012, allows EBD to designate amounts paid by school districts above the required $131 as employer contributions. Previously, all contributions above $131 were designated as employee contributions. The net $2.5 million increase was due to increases in plan membership (as shown in **Exhibit I on page 3**) and premiums for plan year 2013.

Health and pharmacy claims are the primary source of expenditures for the PSE Fund. Overall, claims expenditures increased $19.7 million over fiscal year 2012, as shown in **Exhibit IV on page 6**. Additionally, professional and administrative fees increased $3.2 million due to the following:

- new vendor contracts implemented in January 2012.

Exhibit II

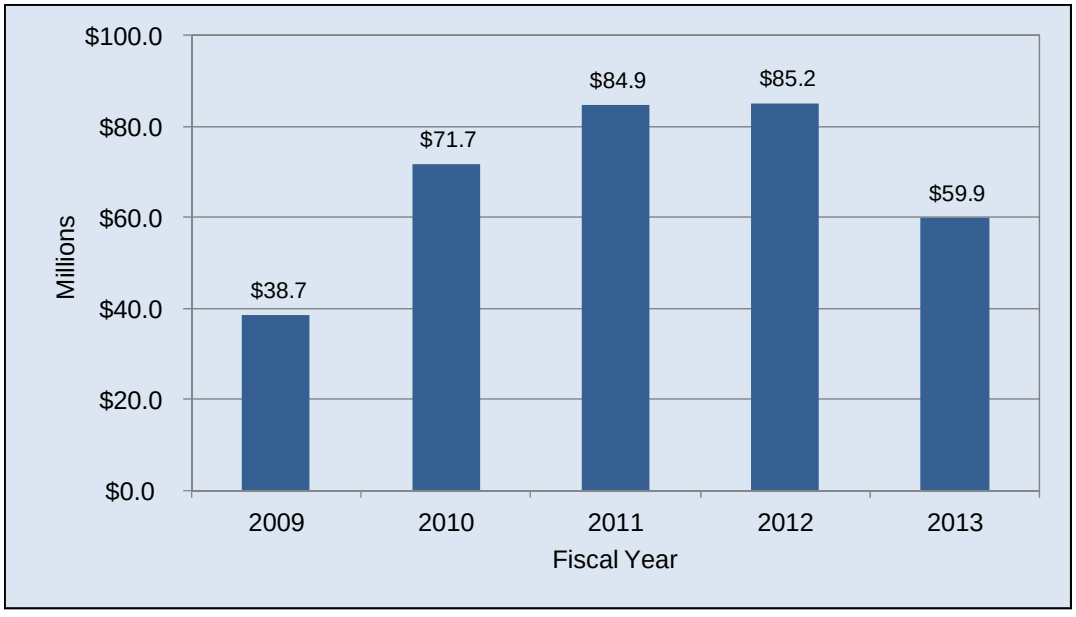
Arkansas State Employee (ASE) Health and Pharmacy
Employer and Employee Premiums and Claims by Year
For Fiscal Years Ending June 30, 2009 through 2013



Source: *Arkansas Administrative Statewide Information System (AASIS) (unaudited by the Division of Legislative Audit)*

Exhibit III

Arkansas State Employee (ASE) Health and Benefit Plan General Fund Balance
At June 30, 2009 through 2013



Source: *Arkansas Administrative Statewide Information System (AASIS) (unaudited by the Division of Legislative Audit)*

- increased programming costs for the implementation of federal health care reform.
- costs associated with a new Condition Management program, which helps members manage chronic conditions.

Overall, the PSE Fund balance decreased by $31.3 million to ($3.7 million), as shown in **Exhibit V on page 6**, primarily due to an increase in claims costs without significant additional revenue received from participant and employer contributions.

DRUG SELECTION PROCESS

EBD contracts with EBRx (Evidence Based Prescription Drug Program), a program of the University of Arkansas for Medical Sciences College of Pharmacy, to support formulary management, administer pharmacy prior authorizations and appeals, and implement cost savings through long-term pharmacy management. EBRx identifies potential savings through peer-reviewed literature, usage data, and other sources. Potential savings are proposed if more cost-efficient drugs are shown to have no significant differences from more costly alternatives. If there is any significant difference in clinical benefit, EBRx defers to the more effective drug.

Once the EBRx team discovers potential cost-savings, it presents recommendations to the EBD Executive Director for review. After reviewing available options, the Executive Director determines the items placed on the Drug Utilization Evaluation Committee (DUEC) agenda for the upcoming meeting. Items that the Executive Director chooses not to place on the agenda are either deferred until future meetings or removed from consideration.

Recommendations placed on the agenda are presented to DUEC for a review process that the prior Executive Director separated into two components: clinical and financial. Initially, only clinical merit of new drugs and recommendations is discussed. Once a clinical decision to accept or deny the drug or recommendation is made, the financial impact is discussed. The prior Executive Director decided it was important to emphasize clinical effectiveness over cost and that the cost discussion had tainted the clinical discussion in the past. However, due to the separation of these discussions, DUEC may not make the most cost-effective decisions related to the formulary.

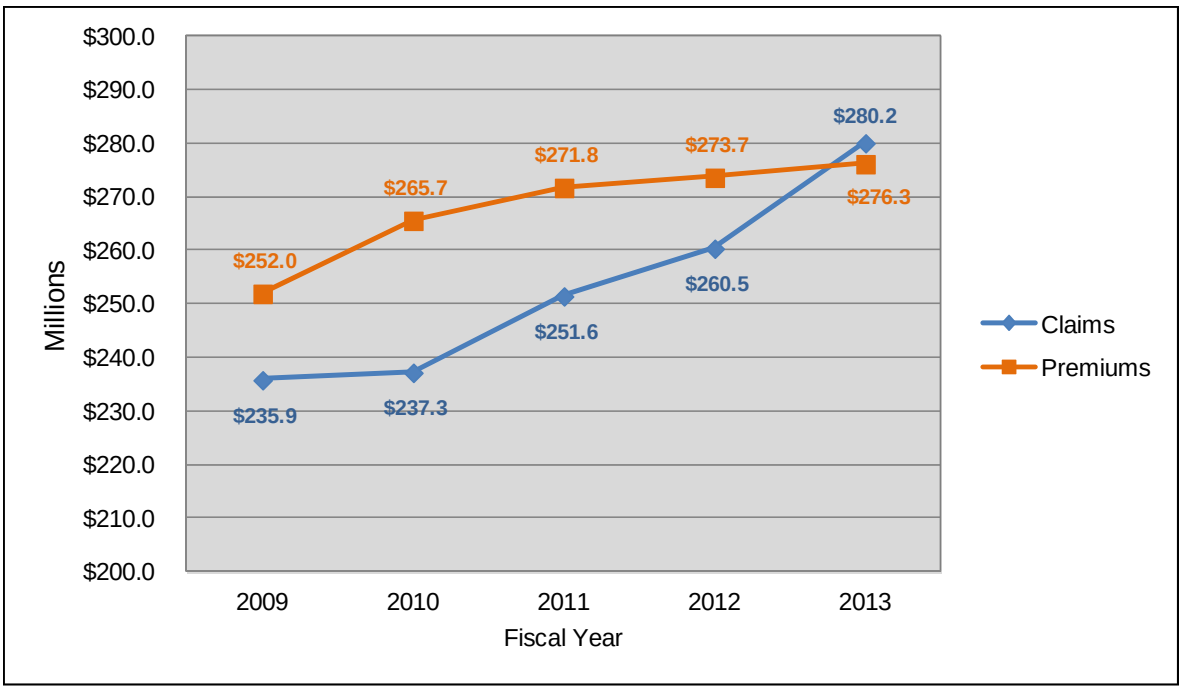
After these discussions, DUEC makes recommendations to the State and Public School Life and Health Insurance Board (Board) for a vote. No Board members serve on DUEC, but the DUEC Chair presents recommendations to the Board for approval.

The prior Executive Director instituted this process when he assumed the position. Previously, the EBRx team created the agenda and brought it before DUEC; the previous Executive Director felt this resulted in too many recommendations being brought to the Board and did not allow for timely and effective discussion of the recommendations. At the beginning of his tenure, the prior Executive Director directed the Board to create a set of Formulary Management Rules to guide discussion of changes to the plan. Under these rules, changes to the plan for existing drugs could only occur at the beginning of the new plan year, except for "significant clinical, access or financial reasons." As a result, the previous Executive Director sought to defer some recommendations to later DUEC meetings, since changes would not take effect until the next plan year.

Additionally, when determining the recommendations to place on the agenda, the previous Executive Director considered any potential for member disruption, "grandfathering in" of changes, and impact on member health claims. Any changes that would result in the plan paying less for a drug or no longer covering a drug would result in either a member paying more out of pocket or being forced to choose a different brand of

Exhibit IV

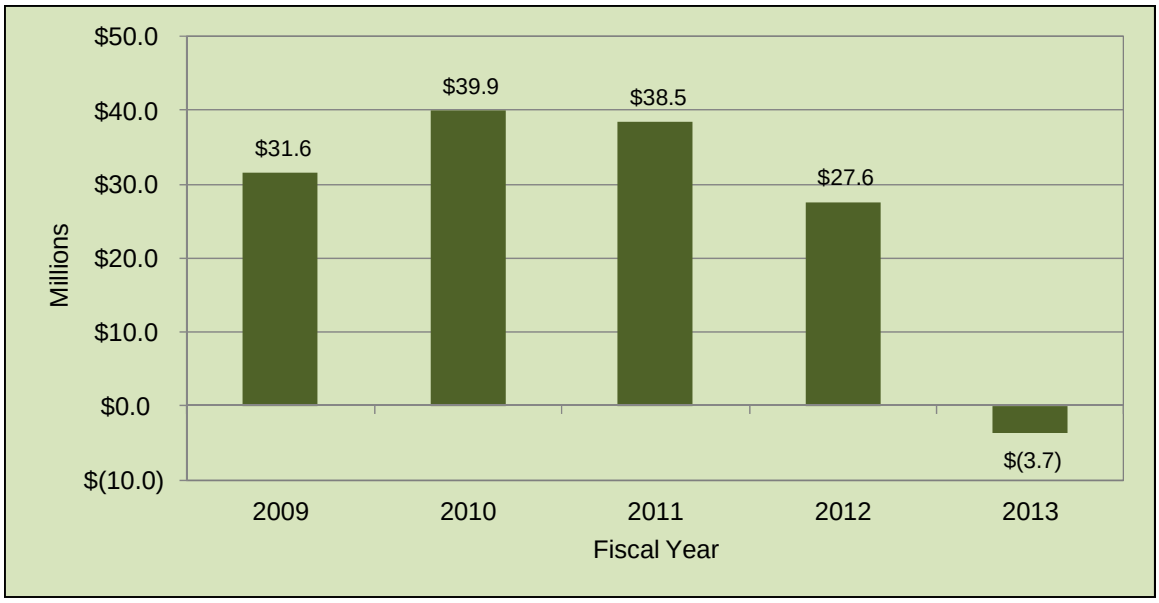
Public School Employee (PSE) Health and Pharmacy
Employer and Employee Premiums and Claims by Year
For Fiscal Years Ending June 30, 2009 through 2013



Source: *Arkansas Administrative Statewide Information System (AASIS) (unaudited by the Division of Legislative Audit)*

Exhibit V

Public School Employee (PSE) Health and Benefit Plan Proprietary Fund Balance
At June 30, 2009 through 2013



Source: *Arkansas Administrative Statewide Information System (AASIS) (unaudited by the Division of Legislative Audit)*

drug, which could result in complaints or reduced member confidence in the plan.

The process to determine and limit the DUEC agenda may result in more efficient Board meetings, fewer member complaints, and greater confidence in the plan. However, cost-savings are potentially lost due to the delay or lack of implementation of cost-saving recommendations as well as a lack of transparency before the Board.

LARGE CLAIMANTS CASE MANAGEMENT

Due to funding issues regarding the PSE Health Insurance Fund, especially the number of large claimants in plan year 2012 noted by the actuary, DLA staff reviewed EBD processes for potential reductions in costs of such claims. EBD contracts with a vendor to help with this process, referred to as "case management." Blue Cross Blue Shield was the vendor for plan year 2012, and American Health Holdings is the current vendor.

Case management is the process by which a case manager educates and assists members in navigating the health care system and includes services such as:

- Contacting physicians on the member's behalf.
- Negotiating rates for skilled nursing facilities and hospice care.
- Monitoring the level of care received based on national standards.
- Maintaining regular communication with members with extraordinary needs.

Case managers assess the member's health situation and current treatment level and create a case service plan by collaborating with the member and those involved in his or her care. The case manager monitors the case regularly and ensures the member is receiving the appropriate level of care for his or her condition. The case manager also re-evaluates the case periodically to determine the level of case management needed.

This process is primarily initiated through a "trigger list" of medical codes. When a claim is filed that contains one of the codes, the member is referred to a case manager, who contacts the member and offers services. This process is also initiated if an individual's total claims exceed $50,000 in a given plan year. The case management process is entirely voluntary and can be either accepted or declined by the member. If case management is declined, the member continues to follow a doctor's advice for health care, and EBD pays claims based on the health plan administrator's negotiated rates, following standard plan rules.

To ensure this process was followed in plan year 2012, DLA staff determined the six largest PSE claimants based on high-dollar claims testing from current and prior-year audits and requested case management information from EBD regarding those claimants for calendar year 2012. **Exhibit VI on page 8** shows the results of DLA review of documentation for the six claimants, including health claims, pharmacy claims, timely referral to case management by EBD, and documented savings.

PSE INVOICING PROCESS

DLA reviewed the process used by EBD to invoice school districts and issue refunds for health insurance premiums. Invoices are generated on the first day of the month and are due by the last day of the month. Districts may collect premiums from employees in the month of or the month prior to the invoice. Any changes made to the employees' coverage are sent to the districts as soon as EBD receives an election form or a change is made in the ARBenefits system. Additionally, the district also receives a deduction list summarizing all changes for the month. All changes are imported into EBD's accounting system at the end of each month.

On the 15th of the next month, a report is generated to compare the prior-month invoice to any changes that were made. The district is notified if it owes a balance, which is due by the end of the month. If a refund is due to the district, EBD ensures no outstanding balances for prior months are owed, and a refund check is issued to the district within a few days. The EBD invoicing process is designed so that all refunds due are paid out in the month after the overpayment.

To test the payment and refund process, DLA obtained a report from EBD showing the balances for each school district after the August 2013 invoicing period. After reviewing the report, DLA staff selected five school districts for testing: three due refunds from EBD and two owing money to EBD. As a result of testing, no exceptions were noted. All refunds were issued by EBD on September 17 in a timely manner and in accordance with EBD procedures. The two districts owing money also paid timely.

CONCLUSION

The ASE and PSE Funds are declining, primarily due to increasing health and pharmacy claims costs. EBD may desire to reconsider its drug selection process. In addition, EBD should provide more timely claim management referrals and evaluate the referral process to ensure qualified claimants are directed to case management timely.

Exhibit VI

Employee Benefits Division (EBD)
Case Management For Six Largest Public School Employee (PSE) Claimants
For January 1, 2012 through December 31, 2012

Claimant	Health Claims	Pharmacy Claims	Timely Referral to Case Management by EBD	Case Management File Opened	Documented Savings
Member A	$ 649,092	$ 0	Yes	Yes	No
Member B	719,907	2,506	Yes	Yes	No
Member C	921,640	789	No	Member declined	N/A
Member D	1,591,868	10,816	Yes	Yes	No
Member E	1,851,694	0	No	No	N/A
Member F	4,136,861	0	No	Yes	No

Source: *Employee Benefits Division*
N/A = Not Applicable

Schedule 1

Arkansas State Employee (ASE) and Public School Employee (PSE) Health and Benefit Plans
Maximum Employee Contributions for Monthly Premiums
At June 30, 2013

Arkansas State Active Employees			
Plan	**Gold**	**Silver**	**Bronze**
Employee Only	$95.78	$62.12	$0.00
Employee and Child(ren)	$193.64	$141.44	$27.84
Employee and Spouse	$367.74	$282.52	$77.22
Employee and Family	$419.62	$324.60	$92.20
Public School Active Employees (Note 1)			
Plan	**Gold**	**Silver**	**Bronze**
Employee Only	$226.70	$157.56	$10.00
Employee and Child(ren)	$581.48	$404.10	$108.32
Employee and Spouse	$1,027.20	$713.86	$242.48
Employee and Family	$1,029.96	$715.78	$245.00

Source: *Employee Benefits Division*

Note 1: Some school districts contribute more than the required $131 for each eligible employee electing to participate in the PSE Health Insurance Program.

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