BancorpSouth
Insurance Services, Inc.

A PRESENTATION
FOR
THE STATE & PUBLIC SCHOOL
LIFE & HEALTH INSURANCE TASK FORCE

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TABLE OF CONTENTS

- Who we are;
- Mission Statement;
- The Need;
- Methodology /Assumptions, Recommendations and Projected Savings;
- Observations and Recommendations;
  - Changes we've already made or will make for 2015 with projected savings;
  - Recommendations that require Legislative approval with projected revenue or savings;
  - Potential changes for PY 2015 and beyond with projected revenue or savings;
- Total Projected Savings/Revenue.

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WHO WE ARE AND WHAT WE OFFER

- Owned by BancorpSouth Bank, a $13.4 billion publically traded financial institution;
- 33rd largest U.S. insurance/risk management firm with over $90 million in revenue;
- Over 600 insurance professionals in 33 offices in 9 states;
- 3 offices in Arkansas;
- Serve the consulting and insurance placement needs of over 350 public entities across our footprint;
- With access to over 30 million lives, we use advanced analytics to compare, recommend and implement attractive and sustainable employee benefit programs in both the public and private sectors;
- We are stakeholders in this beyond our consulting role.

Mission Statement

As with the State & Public School Life & Health Insurance Task Force; our mission is to assist in developing and implementing a robust benefits program that will operate on a transparent and actuarially sound basis while insuring a high-quality, low-cost program for state employees, state employee retirees, public school employees and public school employee retirees.

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THE NEED

- The Affordable Care Act (ACA) has placed additional cost burdens on both plans that has precipitated the need to change internal procedures as well as plan designs to control future expenses;
- State contributions for both plans have not kept up with the cost trends thereby forcing more cost sharing on the members;
- Poor behavior by the membership is causing abnormally high mid to large claims;
- Efficiencies are hindered with additional cost burdens due to certain administrative procedures;
- Both plans have been burdened by covered members that traditionally are not eligible for coverage;
- The design of the Gold plan is not reflective of current best practice trends;
- The Bronze plan is designed for consumerism but no real incentives are given to the member to help offset those costs;

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THE NEED (*CONTINUED*)…

- Both plans have moved away from a proven Pharmacy strategy which resulted in an increase in costs;
- Certain inefficient practices have robbed the plan of much needed revenue and hindered the ability to properly educate the members;
- Whereas the pharmacy component has a Drug Utilization and Evaluation Committee (DUEC) that regularly implements changes and innovations, the medical component does not;
- Cost sharing on the Bronze plan has placed an excessive financial burden on the plan;
- The rebate component of the pharmacy vendor contract should be analyzed to make sure all monies owed to the plan have been paid;
- The ASE plan is trending much the same way the PSE plan was when it suffered the catastrophic claims years;

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Methodology of Recommendations, Assumptions and Estimates

- Recommendations provided are for both plans;
- Generally the habits of the ASE plan members mirror those of the PSE and should be addressed accordingly;
- Recommendations were derived from a combination of…
  - Reviewing the practices and procedures of both plans;
  - Interviewing stakeholders in the plan which include members of the Legislature, Task Force, EBD, Participants, Vendors; *as well as*
  - Reviewing the "Best Practices" of other large public and private employers;
- Census data is from 2014 and claims data is from 2013;
- Savings estimates are prudently based in a "real-time" environment;

ASSUMPTIONS & RECOMMENDATIONS (*CONTINUED*)…

- We focused on changing what we know we can control such as the plan design, administrative procedures, plan and member contributions and incentives;
- Relying on assumptions related to future enrollment trends is very difficult and in our opinion very risky because…
  - The ACA has polarized people in such a way as never seen before. Relying on traditional methodologies to determine such things as future enrollment patterns is nearly impossible because political views are influencing habits;
  - The ACA has made it difficult to project the financial impact with any real certainty because mandates like PHSA Section 2707 (cost-sharing requirements) haven't technically made it into final binding regulatory guidance; *&*
  - Certain constraints and gaps with the census data have made it very difficult to project with any real confidence the level of savings that might be realized.
- Additionally, providing potentially unrealistic savings due the aforementioned reasons would only hinder your ability to effectively budget for and appropriate funds for the program.

OBSERVATIONS AND RECOMMENDATIONS

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CHANGES WE HAVE AND ARE GOING TO IMPLEMENT IN 2015

Plan Design

- We will add a $1000 deductible to the “Gold” plan;
- This is in line with what other large plans are doing;
- Eliminate the “Silver” plan due to the change in the “Gold” plan;
- Estimated savings resulting from adding a deductible to the gold plan…

ASE	PSE
$15,200,000.00	$9,100,000.00

CHANGES IMPLEMENTING IN 2015 (CONTINUED)…

TPA Administrative Procedures

- There are two administrative processes that if eliminated will reduce costs;
  - EBD is approving all claims before they are paid resulting in two additional daily data feeds. This is not a generally accepted practice and results in added time and expenses for both EBD and our TPA's;
  - There is no direct feed of the pharmacy claims from the PBM to the TPA. Again this isn't a generally accepted practice and is causing additional work for both EBD and the TPA
- Estimated savings from eliminating these two processes…

ASE	PSE
$400,000.00	$600,000.00

CHANGES IMPLEMENTING IN 2015 (CONTINUED)…

Pharmacy Program

- In the past the Pharmacy program aggressively used a Reference-Based pricing model but in recent years had moved away from it*;
- Last Summer both plans went back to that model and immediately realized increased savings;
- Estimated savings by continuing this valuable program in it's current form…

ASE	PSE
$3,300,000.00	$4,600,000.00

**Source: Special Report of the Legislative Joint Auditing Committee; January 30, 2014*

CHANGES IMPLEMENTING IN 2015 (CONTINUED)…

Pharmacy Program (CONTINUED)…

- Our experience tells us that the pharmacy rebates both plans receive are low and warrants further investigation to determine if any rebates have been mistakenly withheld by our vendor;
- Our vendor contract allows for this type of audit;
- The investigation will be retrospective, back to the contract's inception;
- Realistic estimates of the savings are…

ASE	PSE
$1,000,000.00	$2,000,000.00

CHANGES IMPLEMENTING IN 2015 (CONTINUED)…

Employee Contribution to the (current) Bronze Plan

- In the past, the plan greatly reduced the amount the employee contributes for the employee-only premium on the Bronze Plan. Any attempt to raise the employee-only contributions were discussed but legislative limits prevented it;
- Whereas this has had a positive impact on those electing coverage, it has also placed an "unintended" cost burden on the plan;
- A fair solution is to have the employees on both the ASE and PSE pay $60.00 per month for single coverage;
- Based on current enrollment, the additional revenue to both plans would be…

ASE	PSE
$850,000.00	$8,400,000.00

CHANGES IMPLEMENTING IN 2015 (CONTINUED)…

Annual Wellness/Preventive Visits

- In 2013, only 24% of ASE and PSE members combined had their annual preventative services exam with a licensed physician;
- Also in 2013, 1331 members on the Gold and Bronze plans with chronic conditions such as Hypertension, Asthma, Bronchitis, Diabetes and Heart Failure visited the ER a total of 1,668 times for a cost just under $900,000;
- Additionally in 2013, 675 members had claims in excess of $25,000 that exceeded $39,000,000 in claims, many of which were directly related to a chronic condition;
- There were 40,351 members on the Gold and Bronze plans that had 4 or more chronic conditions that cost the plan over $136,000,000 in 2013;
- What this shows is that not only are members not getting their wellness exam but they are using the ER to treat their chronic conditions;

CHANGES IMPLEMENTING IN 2015 (CONTINUED)…

Wellness (CONTINUED)…

- The lack of proper care for their chronic conditions is resulting in high-dollar claims, some of which could have been prevented;
- With the uncertainty about future ACA requirements and potential costs, it makes it imperative to change the culture of the members;
- It is imperative to get the members engaged in this and it's ***FREE*** to the employee!;
- We recommend implementing a "Participation Based" wellness program that provides covered employees an incentive to complete their annual preventive services check-up;
- Many self-funded plans, both public and private have implemented this;
- It actively engages the member in their personal health care management;
- Those who would receive an annual check-up would receive a discount equal to 30% of the employee only premium on the plan they elect (Gold, Bronze, etc.), regardless of the coverage level they choose (Employee Only, Employee-Spouse, etc.).

CHANGES IMPLEMENTING IN 2015 (CONTINUED)…

Wellness (CONTINUED)…

- Based on the current enrollment count, if 80% of the employees (up from 24%) participated in getting a wellness exam, not only would the plan see lower claims costs over time but the resulting 30% cost shift (as allowed by the ACA) to the employees who do not participate would be…

ASE	PSE
$8,900,000.00	$13,400,000.00

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RECOMMENDATIONS THAT REQUIRE LEGISLATIVE APPROVAL

Cafeteria Plan (125) Administration on the PSE Plan, Enrollment/Education and FICA Savings

- Currently, EBD manages the 125 administration for the ASE plan only; On the PSE plan, each District handles those duties. EBD handles the enrollment for the ASE plan and the districts enroll their own employees;
- The call volume from PSE members with questions, problems or general frustration is always higher than with ASE members so to alleviate any future confusion about the benefits among PSE members, we recommend EBD handle all enrollment, education and 125 administration for the PSE plan;
- The goal is for *"One Voice, One Message"*;
- The education process of the employees is paramount and the only way to effectively handle that is to allow EBD to handle all aspects of the enrollment process;
- For this to happen, it would require "streamlining" some processes which include combining the voluntary products in order to simplify the message;

LEGISLATIVE APPROVAL (CONTINUED)…

125 Admin and Enrollment (CONTINUED)…

- Some PSE members are unable to apply for some supplemental products like a Cancer policy due to a preexisting condition. Using the purchasing power of the State products like that would then be available on a guaranteed issue basis not to mention lower rates for many of the products;
- All voluntary products would go the same RFP process as they do for the ASE plan. Multiple carriers may be chosen depending on the need. It would be handled in a fair and equitable manner;
- Brokers who currently work with the Districts would continue to be involved in the process;
- As you may know, teacher salaries are funded from the State on a gross basis which includes all FICA related expenses;
- Qualified Cafeteria Plans allow employees to pay for certain benefits (Medical, Dental, Vision, Supplemental Products) on a pretax basis which means that the employee's contribution are lower;

LEGISLATIVE APPROVAL (CONTINUED)…

125 Admin and Enrollment (CONTINUED)…

- As a result, FICA taxes in excess of what is needed are retained by the Districts.
- Allowing EBD to manage the 125 administration means that employee salaries and FICA contributions can be calculated and funded on a “net” basis allowing for all savings to be shifted to the plan;
- Monies would used initially to offset claims costs and/or the employee’s premiums as well as funding of an HSA;
- Based off what is paid by the employees for their medical coverage the revenue would be…

ASE	PSE
$0.00	$8,200,000.00

- No data concerning employee pretax contributions for anything other than medical was available. Our experience tells us this number is actually higher than what is projected.

LEGISLATIVE APPROVAL (CONTINUED)…

State Funding of Both ASE and PSE Plans

- The State funds 100% of the employer portion for the ASE employees and most of the employer portion for the PSE employees;
- Since 2007 the average increase for the state contribution to the ASE plan has averaged 3.7%. For the PSE plan the average increase has been 2.7%;
- The average contribution increase by employers nationally has been 5.9%* over the same time period;
- In the past both plans have used the reserves to fund any shortfalls in the premiums which resulted in masking the fact that the employer contributions have failed to keep up with the trend;
- Both plans have increased the monthly employee contributions;
- In the case of the PSE, catastrophic claims recently caused the reserves to be depleted thereby having to increase the employee monthly costs dramatically;
- Additionally both plans have seen a jump in the number of participants since 2007;

**Source: Kaiser Family Foundation Employer Health Benefits 2013 Summary of Findings*

LEGISLATIVE APPROVAL (CONTINUED)…

Plan Funding (CONTINUED)…

- In order to keep up with the annual cost increase as well as to fund the reserves to a proper level, we recommend that both plans receive an increase of $20 per employee per month;
- Monies would be used to initially fund the reserves and potentially offset employee contributions;
- Monies can then be used to match employee contributions to an HSA account which would promote the use of Consumer-Driven Health Plans;
- Based on the current enrollment the projected increase to the funding for each plan would be….

ASE	PSE
$8,900,000.00	$10,500,000.00

LEGISLATIVE APPROVAL (CONTINUED)…

Employees Averaging Under 30-Hours Per Week (PT Employees)

- Currently on both the ASE and PSE plans, employees who average less than 30-hours a week are allowed to participate on the plan;
- For ASE it's 19-hours a week and for PSE it's 20-hours a week;
- According to the Task Force Actuaries as verified by EBD's Actuaries, the claims from the part-time employees (PSE*) are in fact higher than those employees who average more than 30-hours a week;
- This has caused the plan significant and unnecessary claims exposure through adverse selection;
- Fully-insured plans have never accepted those working less than the federal minimum;
- The vast majority of self-funded plans do not allow those employees to participate on their plan;

LEGISLATIVE APPROVAL (CONTINUED)…

PT Employees (CONTINUED)…

- With the advent of the ACA and the exchanges those who average less than 30-hours not have a way to obtain affordable coverage for themselves and their families through the Exchange;
- Coverage on the Exchange may include a subsidy;
- Additionally, if they were to remain eligible for affordable coverage through either the ASE or PSE plans then their families would not be eligible for a subsidy on the exchange;
- Based on the data we have the plans could expect to save…..

ASE*	PSE**
$2,000,000.00	$7,500,000.00

**As of the deadline no hard data existed on the exact number of PT employees on the ASE plan so we estimated based on the ratio of covered ASE employees to PSE employees.*
***2013 savings estimates as confirmed by the Task Force Actuaries.*

LEGISLATIVE APPROVAL (CONTINUED)…

Quality of Care Subcommittee (QCS)

- Act 6 of the First Extraordinary Session of 2013 mandated that EBD create the Quality of Care Subcommittee of the State and Public School Life and Health Insurance Board;
- The primary goal is to review and recommend quality indicators, improve performance as well as track improvements in the delivery of care;
- We agree wholeheartedly with the creation of this subcommittee we would like to increase the scope of what they do;
- We respectfully ask that QCS be replaced with the Medical Utilization and Evaluation Subcommittee (MUEC);
- Functions would be the same as the QCS but it would additionally research trends in plan management, review ways to improve the management of chronic care and disease management programs, look for ways to improve the health of the members and create additional efficiencies for the plan;
- We also recommend that the Medical Director's of our plan administrators or their designee be appointed to the MUEC.

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Recommendations We Are Exploring Potentially for 2015 and Beyond

- PHSA Section 2722 as it relates to PHSA 2707;
- Enhancing the current Disease Management Program;
- Add Spouses and Dependents to the Wellness Program;
- Creating a Results-Based Wellness program;
- Creation of Value-Based Benefit Design that would lower any remaining barriers to care;
- Direct contracting with pharmaceutical manufacturers for greater transparency, discounts and rebates;
- Fully-Insured Medicare Advantage Program;
- Excluding Spouses who have access to group health insurance or have a surcharge;
- Estimated Savings…TBD.

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Total Estimated Revenue and Cost Savings

Item	Est Rev/Savings ASE	Est Rev/Savings PSE
Deductible to Gold Plan ($1,000)	$15,200,000.00	$9,100,000.00
TPA Fees	$400,000.00	$600,000.00
Rx Savings	$3,300,000.00	$4,600,000.00
Additional Rx Rebates	$1,000,000.00	$2,000,000.00
Increase Bronze Employee Only Contribution $60 Per Month	$850,000.00	$8,400,000.00
Wellness Cost Shift (30% to 20% of EE's)	$8,900,000.00	$13,400,000.00
125 (FICA) Savings	$0.00	$8,200,000.00
Increase Plan Funding for Both Plans by $20 per employee per month	$8,900,000.00	$10,500,000.00
Elimination of Part-Time EE's	$1,000,000.00	$7,500,000.00
Total	**$39,550,000.00**	**$64,300,000.00**

QUESTIONS