



Texas Employees Group Benefits Program
Senate State Affairs Committee
March 31, 2010

Review of FY 2010-2011 Insurance Appropriations



Legislative Appropriation Request:

- 8 percent cost trend each year
- Leave \$50 million in the contingency fund
- Current benefits

General Appropriations Act:

- Funding capped at:
 - 6.5% increase for FY 2010
 - 6.8% increase for FY 2011
- Spend all of the contingency fund
- Current benefits

5% Reduction:

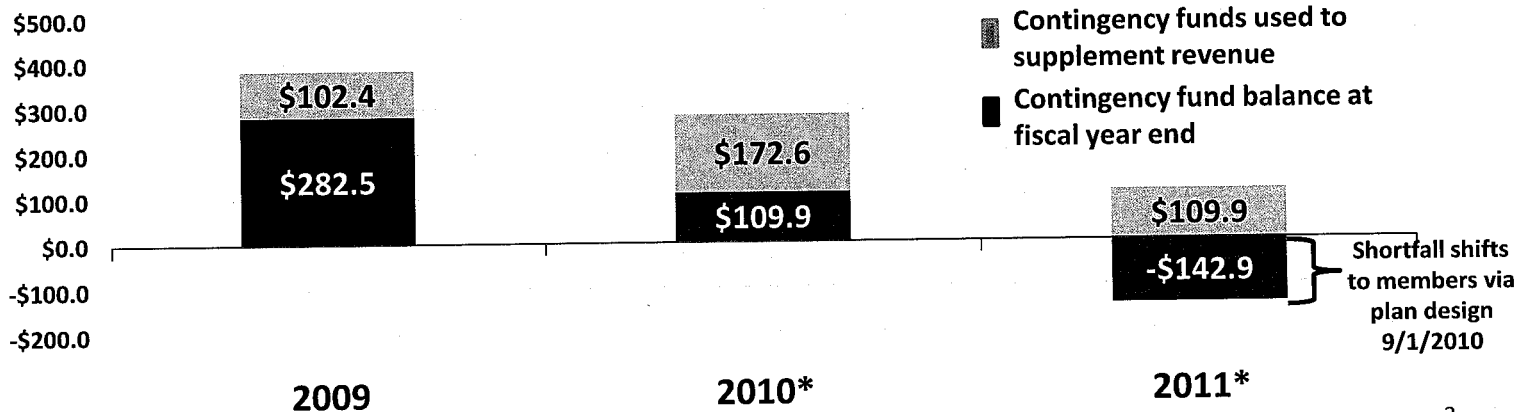
- Realized through state agencies' hiring delays or freezes that lower the state's total contributions for the biennium

GBP Contingency Fund

Expenses are exceeding revenue - ERS is using the contingency fund to pay health claims



| | FY 2009 | FY 2010* | FY 2011* |
|-------------------|------------|------------|------------|
| Total revenue | \$ 2,477.1 | \$ 2,694.7 | \$ 2,896.4 |
| Contingency funds | \$ 102.4 | \$ 172.6 | \$ 109.9 |
| Total expenses | \$ 2,579.5 | \$ 2,867.3 | \$ 3,149.2 |
| Net shortfall | (\$ 0.0) | (\$ 0.0) | (\$ 142.9) |



*Projected based on 9.1% cost trend

GBP Cost Drivers

Projected annual plan benefit cost trends for FY 2010-2011



Benefit Cost Trend – August 2008

| Category | Utilization Trend | Cost/Unit Trend | MCS Leverage | Plan Cost Trend | % of Total Plan Costs |
|-----------------------|-------------------|-----------------|--------------|-----------------|-----------------------|
| Hospital | 2.6% | 4.4% | 1.0% | 8.0% | 43.7% |
| Other Medical Expense | 4.2% | 1.3% | 0.5% | 6.0% | 33.6% |
| Pharmacy | 3.2% | 3.7% | 3.6% | 10.5% | 22.7% |
| Total | 3.3% | 2.3% | 1.4% | 7.9% | 100.0% |

Benefit Cost Trend – February 2010

| Category | Utilization Trend | Cost/Unit Trend | MCS Leverage | Plan Cost Trend | % of Total Plan Costs |
|-----------------------|-------------------|-----------------|--------------|-----------------|-----------------------|
| Hospital | 2.5% | 7.0% | 1.0% | 10.5% | 45.5% |
| Other Medical Expense | 2.5% | 3.0% | 0.5% | 6.0% | 32.2% |
| Pharmacy | 3.2% | 3.7% | 3.6% | 10.5% | 22.3% |
| Total | 2.7% | 5.0% | 1.4% | 9.1% | 100.0% |

Texas Employees Group Benefits Program

The plan design change process



- Board will consider design changes ranging from 6 percent (\$150mm) to 8 percent (\$200mm) at its May 2010 meeting
- ERS has involved participants in the process
 - More than 100 meetings with legislative staff and employee/retiree groups and associations
 - Close to 48,000 responded to the educational survey asking for feedback on potential design changes
 - In-person and on-line focus groups went behind the numbers to discover how people felt about the options
 - Board will host more feedback sessions across the state in May
- Design changes will take effect September 1, 2010

Texas Employees Group Benefits Program
Evaluation of Benefit Change Examples on FY 2011 Costs

Physician Office Visit Copayment Change; Retain PCP Referral.

Current HealthSelect: \$20 PCP/\$30 specialist

| | |
|--|------|
| Increase all primary care physician office visit copays by \$5 | 0.5% |
| Increase all specialist copays: | |
| by \$10 | 1.1% |
| by \$20 | 2.2% |

HealthSelect Deductible Change.

Current HS-in net/HS-out net/HS-out area: \$0/\$500/\$200

| | |
|-------------------|------|
| \$100/\$750/\$300 | 1.0% |
|-------------------|------|

HealthSelect Coinsurance Stop Loss Change.

Current HS-in net/HS-out net/HS-out area: \$1,000/\$3,000/\$1,000.

| | |
|----------------------|------|
| \$1500/\$4500/\$3000 | 0.7% |
| \$2000/\$7000/\$3000 | 1.3% |
| \$3000/\$7000/\$3000 | 2.0% |

Inpatient Copayment Change.

Current HealthSelect and HMO: \$100 per day/5 day maximum.

| | |
|-------------------------|------|
| \$150 per day/5 day max | 0.1% |
| \$150 per day/7 day max | 0.2% |

Outpatient Facility Copayment Change.

Current HS/HMO: \$100/\$100

| | |
|-------------|------|
| \$150/\$150 | 0.4% |
|-------------|------|

Emergency Room Copayment Change.

Current HealthSelect/HMO: \$100/\$100

| | |
|-------------|------|
| \$150/\$150 | 0.2% |
|-------------|------|

Prescription Drug Copayment Change.

*Current \$10/\$25/\$40 retail, 3x mail for all, \$5/\$10/\$15 retail maintenance fee,
\$50 deductible at retail and mail.*

| | |
|--|------|
| \$10/\$35/\$60, \$50 deductible | 2.1% |
| \$15/\$35/\$60, \$100 deductible | 3.1% |
| Move all Specialty Drugs to 3rd Tier. | 0.1% |

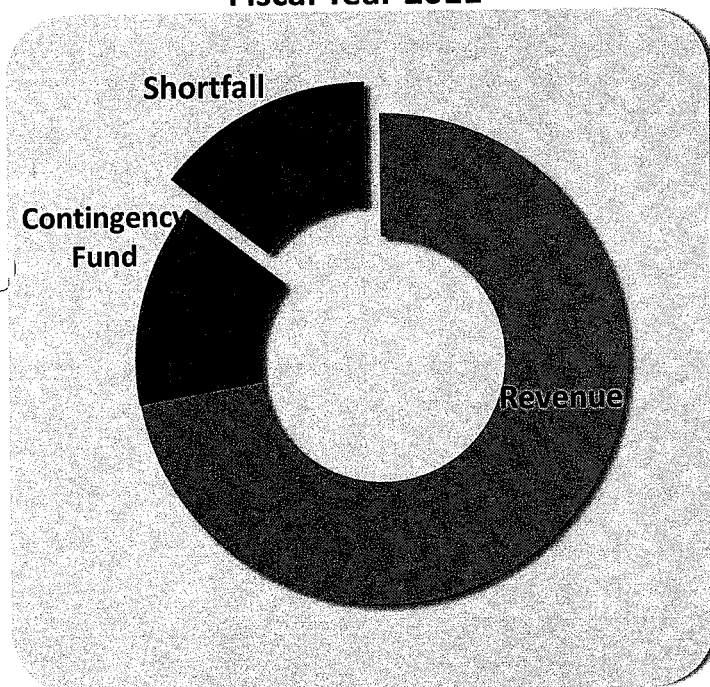
Note: 1% = \$25 million

Texas Employees Group Benefits Program

Future funding issues



Fiscal Year 2011



- Contingency funds will not be available for ERS to finance health care expenses in FY 2012-2013
- LAR Issue for FY 2012-13**
 - Should baseline request include the amount of contingency funds used during FY 2010-11?

APPENDICES



- I. Summary of plan's revenue and expenditure experience
- II. Update on HealthSelect's alternative health care payment programs

Texas Employees Group Benefits Program

Summary of Plan Experience

| | FY09 | FY10* | FY 11* (current benefits) | FY 11* (6% change) |
|-------------------------------------|------------------|------------------|------------------------------|-----------------------|
| REVENUE | (\$ millions) | | | |
| State Contribution - State Agency | \$1,076.7 | \$1,191.3 | \$1,293.2 | \$1,293.2 |
| State Contribution - Higher Ed | 436.9 | 480.4 | 521.5 | 521.5 |
| State Contribution - Other | 34.6 | 47.7 | 51.7 | 51.7 |
| Member Contribution | 336.0 | 374.8 | 406.9 | 406.9 |
| Member Cost Sharing | 461.6 | 501.8 | 520.1 | 661.4 |
| Refunds, Rebates and Part D Subsidy | \$93.8 | \$94.4 | \$99.7 | \$99.7 |
| Net Investment Income | 37.5 | 4.3 | 3.3 | 4.9 |
| Total Revenue | \$2,477.1 | \$2,694.7 | \$2,896.4 | \$3,039.3 |
| HEALTH CARE EXPENSES | | | | |
| Plan | \$2,117.9 | \$2,365.5 | \$2,629.1 | \$2,487.8 |
| Member Cost Sharing | 461.6 | 501.8 | 520.1 | 661.4 |
| Total Expenses | \$2,579.5 | \$2,867.3 | \$3,149.2 | \$3,149.2 |
| Net Gain/(Loss) | (\$102.4) | (\$172.6) | (\$252.8) | (\$109.9) |
| Contingency Fund Balance | \$282.5 | \$109.9 | (\$142.9) | \$0 |

*Projected



An Update on HealthSelect's Alternate Health Care Payment Programs

March 31, 2010

BACKGROUND:

The 81st Legislature (H.B. 4586, Supplemental Appropriation Bill) authorized ERS to establish a pilot program based on quality of care standards and evidence-based best practices where health care providers are compensated under alternative payment systems other than the traditional fee-for-service.

ERS has successfully concluded a pay-for-performance pilot program in Austin and continues to work with a number of groups throughout Texas to further explore innovative ways to improve quality and efficiency.

The following table summarizes ERS' progress toward implementing these systems within HealthSelect of Texassm:

| Provider Group | Program | Location | Status |
|--|--|----------|--|
| Austin Pediatric Surgeons | Pay-for-Performance | Austin | 12-month pilot successful, and resulted in GBP savings and provider group payments in the amount of \$42,250 each. |
| Austin Regional Clinic | Pay-for-Performance and Patient-centered Medical Home | Austin | This project is on track to begin Sept. 2010. |
| Seton Hospital | Clinical Integration or Patient-centered Medical Home | Austin | Discussions ongoing to establish pilot program. |
| Texas Medical Home Initiative | Patient-centered Medical Home (multi-payor) | Dallas | A demonstration project consisting of several provider groups and insurance carriers. Recruitment of medical groups and carriers has begun. |
| Memorial/Hermann Hospital System | Clinical Integration | Houston | Initial meetings have been held. Discussions on clinical and financial targets are scheduled. |
| Covenant Health Partners | Clinical Integration | Lubbock | Agreement on evidenced based clinical quality targets, cost targets, administrative requirements, the participant study group, and how to measure the results and savings. Implementation pending the outcome of a state and federal investigation of Covenant Health Partners. |
| Grace Medical Clinic | Patient-centered Medical Home | Lubbock | Conducted initial discussions related to using a supervising primary care physician to evaluate patients' care and identify possible cost savings opportunities. |
| Trinity Clinic/Mother Francis Hospital | Clinical Integration and Patient-centered Medical Home | Tyler | Initial meetings have been held. ERS is currently gathering cost data to establish performance targets. The goal is to implement a pilot program by September 2010. |

Program Descriptions:

PAY-FOR-PERFORMANCE: Clinical performance and economic benchmarks are set related to delivery of appropriate, quality care producing lower overall health care costs. These can include appropriate usage of outpatient facilities rather than in-patient; reducing duplicative lab work; and performing radiology services at lower cost facilities. Savings are shared with providers if the both clinical and economical targets are achieved.

PATIENT-CENTERED MEDICAL HOME: Enhanced access and care that is coordinated among physicians and across facilities, including health information exchange, extended office hours and open scheduling. Enhanced services are paid for by the health plan through per participant/per member payments. If clinical quality and cost performance targets are met, health plan shares savings with participating practices.

CLINICAL INTEGRATION: A group of physicians networked with integrated focus on improved patient outcomes, improved safety and reduced costs through ongoing evaluation and modification of practice patterns within a physician group. If administrative, clinical quality and economic performance targets are met, health plan's savings are shared with physicians.