Employee Medical and Pharmacy Benefits for Fiscal Year 2015

Board of Governor’s Meeting
Presented by David Bea, Ph.D.
March 26, 2014
Employee Medical and Pharmacy Benefits Presentation

1. College Medical/Pharmacy Background
2. Medical Insurance Types
3. RFP process
4. Options
5. Recommendation
Current Medical/Pharmacy Plan Overview

• College provides all regular employees with medical coverage
• Preferred Provider Organization (PPO) base plan
• Employee Only offered at no cost to Employee
• College subsidizes dependent coverage
• 180 employees waive health coverage
• Pharmacy Benefits Management (PBM)
  – Self-funded with custom formulary
Current Medical Plans

• PPO (Open Access Plus – OAP)
  – In and out of Network providers available
  – Co-pays for in-network office visits
    • $20 - Primary Care Physician
    • $35 - Specialist
  – Deductible/Co-insurance for ER, Hospital, MRIs
    • $500 - Individual
    • $1000 - Family
    • 20% Co-insurance after deductible
  – Out of pocket maximums per plan year (excludes deductibles and co-pays)
    • $2,000 per person
    • $4,000 per family
  – 633 Employees, plus 486 dependents covered
Current Medical Plans

- HMO (Open Access Plus In-Network – OAPIN)
  - In-Network only providers available
  - Co-pays for in-network office visits
    - $20 - Primary Care Physician
    - $35 - Specialist
  - No Deductible/Co-insurance
  - Out of pocket maximums per plan year
    - $3,000 per person
    - $9,000 per family
  - 534 Employees, plus 236 dependents covered
PCC Total Pharmacy Claims Paid and Medical Premiums Paid FY 2008-2014

<table>
<thead>
<tr>
<th>Year</th>
<th>Pharmacy Claims Paid</th>
<th>Medical Premium Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2008</td>
<td>$1,528,193</td>
<td>$4,518,649</td>
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<tr>
<td>FY 2009</td>
<td>$1,908,552</td>
<td>$4,987,348</td>
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<tr>
<td>FY 2010</td>
<td>$2,176,872</td>
<td>$5,588,025</td>
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<tr>
<td>FY 2011</td>
<td>$2,299,907</td>
<td>$6,269,456</td>
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<tr>
<td>FY 2012</td>
<td>$2,626,475</td>
<td>$7,348,201</td>
</tr>
<tr>
<td>FY 2013</td>
<td>$2,912,467</td>
<td>$8,406,796</td>
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<tr>
<td>FY 2014</td>
<td>$3,100,000</td>
<td>$8,948,944</td>
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</tbody>
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Note: FY 2014 is estimated
Employee Medical Benefits:
Annual Average Medical Loss Ratio
(Total Claims/Total Premium Paid, FY 2014 data is through February 2014)

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>FY 2010 (Cigna)</td>
<td>75%</td>
</tr>
<tr>
<td>FY 2011 (Cigna)</td>
<td>100%</td>
</tr>
<tr>
<td>FY 2012 (Cigna)</td>
<td>75%</td>
</tr>
<tr>
<td>FY 2013 (Cigna)</td>
<td>75%</td>
</tr>
<tr>
<td>FY 2014 (Cigna)</td>
<td>75%</td>
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Healthcare Reform Medical Loss Ratio Guideline (85%)
Medical Coverage Funding Types

• Traditional Fully Insured
• Minimum Premium
  – Fully insured product
  – Lower monthly premiums and variable medical claims
  – Claims paid directly
  – Premiums fund: retention charge; ACA taxes; and pooling charge
• Self-Funding
  – Administrative Services Organization (ASO) - provides the medical network with discounts, billing administration, and health management services
  – Stop-Loss Coverage. Limits College’s liability on:
    • Individual claims above $150K
    • Annual aggregated claims that are over 125% of projected claims
Who uses Self-Insurance?

• 60% of all workers in USA
• 78% of employers with 1,000 to 4,999 workers
• All Arizona community colleges
• Pima County
• Tucson Unified School District (TUSD)

• PCC’s Pharmacy Benefits Management (PBM) has been self-funded since 2001
Request For Proposals (RFP) Process

- RFPs issued concurrently for Medical Benefits and Pharmacy Benefits Management (PBM)
- Benefits working group served as the review committee
- Segal Consulting provided expert analysis on bids and had an underwriter and a pharmacist on their analysis team

- Requested bid for:
  - Fully insured
  - Minimum premium
  - Self-funded medical responses
  - Self-funded Pharmacy Benefits Management (PBM)
- Received 4 medical bids and 7 PBM bids
Option 1: Fully Insured with Minimum Premium plus Pharmacy

• Cigna for Medical Benefits and Pharmacy Benefits Management (PBM)
• Saves $1.6 million in FY 15
• No financial risk beyond annual premiums
• Some potential savings if claims lower than projected
• Higher costs likely over time
• Cigna is current Medical vendor – employee convenience
• Same vendor for Medical and PBM
• Some drug formulary disruption
Option 2: Self-Funded Medical plus Pharmacy

- Blue Cross Blue Shield for Medical Benefits and Express Scripts, Inc. (ESI) for Pharmacy Benefits Management (PBM)
- Saves $2.1 million in FY 15
- More clarity and predictability for future cost increases
- Claims cost variability will be mitigated by Stop-Loss Coverage
- Likely to experience lower costs over time than fully insured
- Large provider network, however on HMO side, possible doctor disruption
- Some drug formulary disruption
Frequency Distribution of Monthly Claim Ratios

Claims Costs/Premium (%)

# Months in Last 5 Years
Cost Comparison of Current Year Medical/Pharmacy versus FY 2015 Bids

- Savings of $1.6 million
- Savings of $2.1 million
Recommendation

• Self-Funded Medical with Pharmacy
  – Blue Cross/Blue Shield (BCBS) for medical benefits
  – Express Scripts, Inc. (ESI) for pharmacy benefits management (PBM)

  – Immediate Cost Savings
  – Long-term cost containment
  – Prolonging potential impact of ACA “Cadillac Tax”
“Cadillac Plan” Tax Implications
(Cost to College for Base Plan (PPO/OAP) for Employee Only)

Note: FY 2016-2020 are estimated
Recommendation (continued)

- Maintain current employee contribution levels
  - No employee cost for base plan - PPO employee only
  - No change to buy-up for HMO employee only
  - No change for dependent coverage costs
- Keep current plan design for both plans
  - Co-pays, deductibles, co-insurance, Healthy Rewards Accounts
  - Except for ACA-mandated change to true out-of-pocket maximums
- Continue health waivers with flexible spending accounts for health and/or dependent care
Wellness Program

• Best practice for containing future cost increases involves a strong wellness program
• Recommend developing a wellness working group
• Integrated plan - enhancing existing elements (fitness classes, flu shots, etc.) with new educational offerings, wellness incentives
• Improved outreach and communication
Questions?

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