Progress Report

Program Evaluation Unit
Legislative Finance Committee
August 20, 2015

Public Employee Health Benefit Plans

The Evaluation: The evaluation, *Oversight of Public Employee Health Benefit Plans*, (November 2013) reviewed health plans of the four entities comprising the Interagency Benefit Advisory Committee (the Risk Management Division, Retiree Health Care Authority, Public School Insurance Authority, and Albuquerque Public Schools). LFC staff analyzed healthcare cost drivers within each plan, identified effects of the Affordable Care Act and Medicaid expansion, assessed how benefit costs impacted total employee compensation, and identified benefits and barriers to IBAC agency consolidation and/or joint negotiation. The evaluation found IBAC agencies could more effectively monitor and control costs and better leverage economies of scale in negotiating with providers and plan administrators.

AT A GLANCE

In 2010, LFC staff completed a program evaluation of two IBAC agencies, PSIA and RMD, finding the state had not maximized purchasing power for health benefits nor taken advantage of comprehensive quality improvement initiatives that would better contain costs. Agencies focused little on the price of medical care or the outcomes the care provides. The evaluation included various recommendations, none of which were implemented.

The 2013 LFC evaluation of all four IBAC agencies found they have generally done a poor job of controlling health care costs for public employees. Instead of focusing on cost saving measures, the agencies have shifted costs onto employees and employers through higher premiums. This practice is unsustainable in the long run. Merging PSIA, RMD, and APS would put the agencies in a better position to negotiate on cost and implement cost-saving measures.

In FY14, the four member agencies of the IBAC spent $890 million to provide health care to 196 thousand participants. This makes the IBAC the 3rd largest state cost center (after Medicaid and K-12 public education). While public employee health care benefits are a support function of state government, the volume of expenditures require increased legislative oversight to ensure public monies are spent wisely while also complying with requirements under the Affordable Care Act to ensure health care adequacy and affordability.

Self-Funded Plans: All four IBAC health plans are self-funded, meaning the state assumes the risk for providing health coverage. There are various benefits to being a self-funded health plan such as complete freedom in plan design and provider contracting, better cash flow management, and not being subject to state premium taxes.

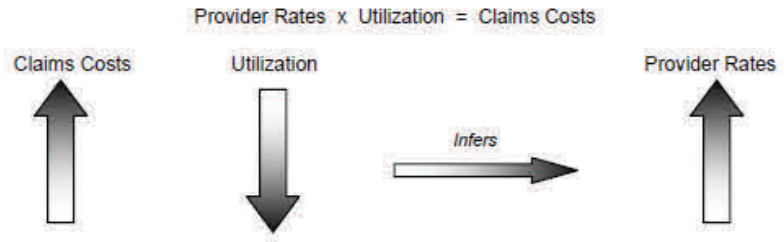
Progress Reports foster accountability by assessing the implementation status of previous program evaluation report recommendations and need for further changes.

New Mexico Legislative Finance Committee

Provider Rates

The evaluation found price was the primary driver of increased expenditures for all four IBAC agencies, as opposed to utilization or enrollment growth.

Figure 1. Healthcare Cost Drivers

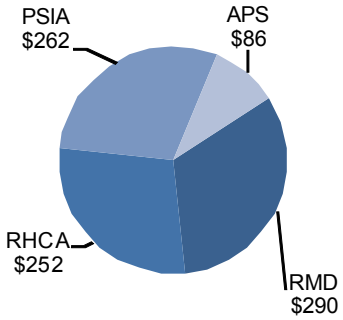


All four IBAC agencies will be offering a request for proposals (RFP) for medical, dental, and vision plan administration services starting with plan year 2017. Payment reforms such as value-based purchasing and bundled payments will be key components of the RFP. RHCA noted equal scoring weight will be offered to value-based payment models as fee-for-service, which is a change from previous procurements which more favorably weighted fee-for-service costing.

A recently executed contract with IBAC's pharmaceutical benefit manager (PBM) requires the vendor to meet specific targets or incur penalties. IBAC estimates the new contractual requirements will yield estimated savings of $92 million over the four-year term of the contract.

IBAC is in the process of meeting with its largest healthcare providers to discuss risk-sharing arrangements or improved fees.

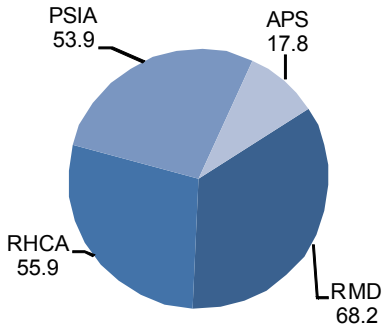
FY14 Total Claims Paid
(in millions)
Total: $890 Million



Note: Includes medical, dental, vision, life and disability. APS data based on calendar year.

Source: LFC Files

FY14 Total Enrollment
(in thousands)
Total: 195,701



Note: Includes medical, dental, vision, life and disability. APS enrollment data as of July 2014.

Source: LFC Files

IBAC Consolidation

The evaluation noted that over its entire history, IBAC has not consolidated purchasing for medical services. IBAC agencies issue a common request for proposals, but enter into separate contracts with health plan administrators. Furthermore, many standard contract provisions, such as for reporting, contain language allowing each individual IBAC agency to negotiate terms independently with the health plan. The only example of IBAC performing consolidated purchasing was for a pharmaceutical benefits manager (PBM.)

IBAC and other public health benefit programs compose a large portion of the health insurance market in New Mexico. Funding redundant administrative functions across these agencies reduces their ability to take advantage of opportunities to perform more beneficial functions like data analysis, quality improvements, and claims management. Combining IBAC agencies would also increase the enrollee pool, spreading risk more effectively, and allow IBAC to better negotiate provider rates. Oregon has leveraged a similar model combining multiple publicly-funded health care functions (public employee plans, Medicaid, and public health) into one health care authority.

However, LFC staff did not recommend including RHCA in a new employee health care entity due to the unique characteristics and cost challenges of its covered population.

RMD signed a contract to open a health clinic in Santa Fe in 2015. Employees and eligible dependents can obtain basic medical services such as primary care and occupational health without co-pays.

Payment Reform and Cost-Saving Initiatives

RHCA entered into a value-based payment arrangement with one of its health plan administrators focusing on two versions of the patient-centered medical home model, where a monthly care coordination fee is provided and health outcome goals established. This arrangement does not currently include risk-sharing. RHCA is also looking at bundled payments for physician and hospital care to be implemented in 2016.

APS plans to issue a RFP for an on-site health clinic with the goal of maintaining greater control over healthcare costs. Among other services, the clinic will administer biometric screenings, reducing these costs as related to APS' wellness program.

In 2015, IBAC worked with its PBM, Express Scripts, to implement cost-control measures around Hepatitis C medications, compounded drugs, specific cholesterol inhibitors, and other specialty drugs. IBAC also began an initiative with Presbyterian Health Plan to increase patient compliance with key treatment measures for diabetes, with the goal of reducing non-emergent ER usage and unnecessary surgeries.

IBAC is involved in the New Mexico Coalition for Healthcare Value (NMCHCV), a group of public entities, private industry, and health care and health plan professionals as a forum to discuss issues and propose strategies to improve the value of health care in New Mexico.

The evaluation recommended IBAC agencies institute a spousal surcharge for spouses who decline coverage through their employer. IBAC agencies are currently exploring this option, with one agency, RHCA, requiring a spousal surcharge.

Performance Measurement and Reporting

At the time of the evaluation, only RHCA contracted for claims analysis, looking at cost drivers and other risks within its covered population. The other three IBAC agencies, RMD, PSIA, and APS, relied on summary reports from their health plan administrators, all with differing levels of detail. This made any in-depth analysis of an agency's participant pool difficult.

As IBAC moves into the RFP process for health plan administrators, consistent and more robust reporting will be a factor in awarding contracts. Moreover, PSIA states it is working with its health benefits consulting firm to leverage data warehousing, similar to RHCA. APS is working with its consulting firm to measure its plan performance against a larger pool of health care participants nationwide.

For 2015, RMD reduced deductibles and decreased specialty drug co-pays that had been increased in previous years.

IBAC agencies need to continue working with health plan administrators to gain greater access to claims data. This will allow IBAC to make more informed and better targeted plan design decisions, as well as focus payment reform initiatives to highest risk/cost enrollees.

Continued Impact of the Affordable Care Act

Public employee health plans are impacted by the ACA in various ways. First, plans have to meet federal requirements for affordability and adequacy as a way of ensuring plans do not materially reduce benefits or shift costs to enrollees. Second, health plans, such as those managed through IBAC, are required to pay fees in support of ACA initiatives. Third, the evaluation identified opportunities for lower-wage employees to access coverage through Medicaid expansion, reducing costs to IBAC as well as to the employee.

While the ACA does not allow employers to induce employees to Medicaid, IBAC agencies are working with HSD and providing information on Medicaid eligibility as well as options through the Health Insurance Exchange as part of their enrollment materials. APS notes an increase in employees qualifying for Medicaid canceling their coverage through the APS health plan.

Status of Key Recommendations

Finding:

Consolidating PSIA and RMD into a single entity is still a relevant recommendation. Further examination of health care costs and plans shows that APS is now a viable candidate for consolidation with PSIA and RMD.

Recommendation	Status			Comments
	No Action	Progressing	Complete	
The Legislature should create a consolidated health care finance entity to administer employee health benefits on behalf of governmental entities, including state and local governments, school districts, and institutions of higher education. Merge the employee health benefit function at APS into this entity as well. Require the New Mexico Retiree Health Care Authority participate in the joint purchase of health care and ancillary services with the consolidated health care finance entity.				The Legislature has not taken action on IBAC consolidation as of the release of this progress report.

Recommendation	Status			Comments
	No Action	Progressing	Complete	
The Legislature should include responsibilities to coordinate and where appropriate, consolidate purchasing, quality improvement, and fraud and abuse surveillance activities with other state-funded health programs, including Medicaid. The Legislature should also direct the new authority to evaluate the feasibility of a data warehouse and claims processing function using the existing systems in Medicaid.				The Legislature has not taken action on IBAC consolidation as of the release of this progress report.

Finding:

Continued price increases, not utilization or enrollment, are driving rising costs. Healthcare costs have continued to increase despite a decrease in the number of claims and enrollment.

Recommendation	Status			Comments
	No Action	Progressing	Complete	
Actively participate in provider rate development by establishing acceptable rates for state-sponsored programs, allowing no rate changes without state approval, continuing active involvement in negotiations with high-cost providers, and developing contractual reporting mandates for insurance companies for more in-depth reporting on cost drivers including regional data.				IBAC is meeting with providers and health plan administrators to discuss payment reforms and rates, will be placing greater weight on non-fee-for-service payment models and increasing reporting requirements in the upcoming RFP for health plan administrators.

Status of Key Recommendations

Finding:

Limited incentive exists for health plan administrators to aggressively contain health care spending and the state does not exert cost containment as part of its administrative service contracts.

Recommendation	Status			Comments
	No Action	Progressing	Complete	
Consider incentives or disincentives to health plans relating to the increase or decrease of provider rates.				IBAC agencies have been meeting with larger providers directly to discuss risk-sharing arrangements and rates.

Finding:

Lower-wage state employees eligible to migrate to Medicaid under expansion in 2014 may reduce plan costs for IBAC agencies.

Recommendation	Status			Comments
	No Action	Progressing	Complete	
Partner with Human Services Department (HSD) to inform state employees of Medicaid coverage expansion available beginning in January 2014.				IBAC agencies include information on Medicaid eligibility in their enrollment materials.