Virginia Department of Human Resource Management

STATE EMPLOYEE HEALTH BENEFITS TRENDS

SENATE FINANCE COMMITTEE
RICHMOND, VA • OCTOBER 19, 2017
HEALTHCARE TRENDS

- Employer health care inflation will accelerate
  - Lagged impact of economic recovery will drive costs higher

- An unhealthy and aging workforce burdens employers and our economy
  - Unhealthy behaviors continue to drift higher

- Healthcare industry is slowly going through large delivery system transformation
  - Delivery systems and pharmacy manufactures continue to gain pricing power
  - Movement from volume to value adoption has slowed
  - Robust pipeline of new drugs and continued unit price increases keep Rx costs high

- Election impact will be felt by all stakeholders
  - Uncertainty will not help mitigate trends
COMMONWEALTH OF VIRGINIA
SPECIFIC TREND FACTORS

- **Factors** projected to impact medical/pharmacy cost in FY19
  - Risk Avoidance
  - Erosion of Benefit Plan Provisions
  - Utilization
  - Unit cost increase
  - Specialty Drugs
  - Large claims
RISK AVOIDANCE

- **Risk avoidance** with members adverse to change
  - Majority of COVA Care enrollment in the **highest cost plans**
    - COVA Care OON with Expanded Dental/Vision
    - COVA Care with Expanded Dental/Vision
  - **No offset to trend** due to employee plan migration
    - HDHP

- **Trend Impact: 1-2% of total claims**
RISK AVOIDANCE - ENROLLMENT

- **Cost of premium is not a driver** in plan selection

**State Premiums and Employee Enrollment**
**FY 2017**

- **Total Premium**
  - COVA Care Basic: $1,972
  - COVA Care OON: $2,004
  - COVA Care + Exp Dental: $2,095
  - COVA Care/Exp D/OON: $2,105
  - COVA Care/Exp D/Van & Hrng: $2,137
  - COVA Care + All Buyups: $1,783
  - COVA HA: $1,873
  - COVA HA/Exp Dental: $1,896
  - COVA HA/Exp D/Van: $1,496
  - COVA HDHP Basic: $1,586
  - COVA HDHP/Exp Dental: $1,675
  - Kaiser HMO: $161

- **Enrollment**
  - COVA Care Basic: 13,764
  - COVA Care OON: 1,590
  - COVA Care + Exp Dental: 17,925
  - COVA Care/Exp D/OON: 3,732
  - COVA Care/Exp D/Van & Hrng: 28,395
  - COVA Care + All Buyups: 14,803
  - COVA HA: 2,040
  - COVA HA/Exp Dental: 1,323
  - COVA HA/Exp D/Van: 2,464
  - COVA HDHP Basic: 532
  - COVA HDHP/Exp Dental: 310
  - Kaiser HMO: 1,987
  - Tricare: 106
RISK AVOIDANCE - PREMIUMS

- 100% of the **plan buy ups** are paid for by employees
**RISK AVOIDANCE – COST PER EMPLOYEE**

- Cost per employee varies by plan
- While COVA Care cost has increased each of the last 3 years, COVA HealthAware decreased each year

<table>
<thead>
<tr>
<th>Year</th>
<th>COVA Care</th>
<th>COVA HealthAware</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>$12,493</td>
<td>$9,159</td>
</tr>
<tr>
<td>2016</td>
<td>$10,116</td>
<td>$7,160</td>
</tr>
<tr>
<td>2017</td>
<td>$9,697</td>
<td>$7,451</td>
</tr>
<tr>
<td>2015</td>
<td>$16,353</td>
<td>$3,334</td>
</tr>
<tr>
<td>2016</td>
<td>$17,797</td>
<td>$2,956</td>
</tr>
<tr>
<td>2017</td>
<td>$18,754</td>
<td>$2,246</td>
</tr>
<tr>
<td>2015</td>
<td>$12,710</td>
<td>$3,643</td>
</tr>
<tr>
<td>2016</td>
<td>$14,309</td>
<td>$3,488</td>
</tr>
<tr>
<td>2017</td>
<td>$14,916</td>
<td>$3,838</td>
</tr>
</tbody>
</table>

Employee Cost (includes out-of-pocket and premium)
EROSION OF BENEFIT PLAN PROVISIONS

- **Erosion of Benefit Plan Provisions** (leveraging) occurs when the value of specific benefit provisions diminishes because they do not change to keep up with health care inflation.
- **Cost management tools**
  - **Deductibles**
  - **Out of Pocket Maximums**
- **Trend Impact: 1-2% of total claims**

### National and State Average Annual Cost Per Employer and Employee

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>State Employer</strong></td>
<td>$11,471</td>
<td>$11,835</td>
<td>$12,883</td>
<td>$14,308</td>
<td>$14,608</td>
</tr>
<tr>
<td><strong>National</strong></td>
<td>$12,311</td>
<td>$12,761</td>
<td>$13,383</td>
<td>$13,868</td>
<td>$15,259 *</td>
</tr>
<tr>
<td><strong>State Employee</strong></td>
<td>$3,112</td>
<td>$3,611</td>
<td>$3,682</td>
<td>$3,521</td>
<td>$3,762</td>
</tr>
<tr>
<td><strong>National Average</strong></td>
<td>$9,144</td>
<td>$9,695</td>
<td>$10,473</td>
<td>$11,033</td>
<td>$11,685 *</td>
</tr>
</tbody>
</table>

* * Represents adjusted values.
EROSION OF BENEFIT PLAN PROVISIONS – PLAN CHANGES

• Plan design changes over the last 5 years to address erosion

<table>
<thead>
<tr>
<th>Plan Year</th>
<th>Plan</th>
<th>Change</th>
<th>Estimated Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2014</td>
<td>COVA Care</td>
<td>Increased ER Copay from $125 to $150</td>
<td>$909,000</td>
</tr>
<tr>
<td>FY 2015</td>
<td>COVA Care</td>
<td>Increased Rx Copay by $5 at Retail for Tiers 2-4 (from $25/40/50 to $30/45/55)</td>
<td>$9,120,000</td>
</tr>
<tr>
<td>FY 2015</td>
<td>COVA Care</td>
<td>Increased Rx Copay by $10 at Mail for Tiers 2-4 (from $50/80/100 to $60/90/110)</td>
<td>$17,926,000</td>
</tr>
<tr>
<td>FY 2016</td>
<td>COVA Care</td>
<td>Increased Plan Yr. Deductible from $225 to $300 for single and from $450 to $600 for 2 or more</td>
<td>$2,245,000</td>
</tr>
<tr>
<td>FY 2017</td>
<td>None</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>FY 2018</td>
<td>None</td>
<td>None</td>
<td>None</td>
</tr>
</tbody>
</table>
UTILIZATION - AGE

- **Utilization** is greatly impacted by the age of the covered members.
- COVA average age of 48 years is significantly over the marketplace “norm” of 41 years.
- Members over 50 (35.2% of total membership) drove 57.8% of total claims.
- **Trend Impact:** 2-3% of total claims.

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**Average State Employee Age**

<table>
<thead>
<tr>
<th>Year</th>
<th>State</th>
<th>Other Employers*</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY13</td>
<td>46.3</td>
<td>46.1</td>
</tr>
<tr>
<td>FY14</td>
<td>46.1</td>
<td>46.2</td>
</tr>
<tr>
<td>FY15</td>
<td>46.2</td>
<td>45.2</td>
</tr>
<tr>
<td>FY16</td>
<td>45.2</td>
<td></td>
</tr>
<tr>
<td>FY17</td>
<td>44.6</td>
<td></td>
</tr>
</tbody>
</table>

*Employers with Anthem, Optima Health or Aetna depending on the year shown.

**2017 State Health Plan Enrollment By Age**

- **Members**
  - <1: 1,890
  - 1-19: 69
  - 20-29: 8,083
  - 30-39: 16,685
  - 40-49: 19,561
  - 50-59: 24,817
  - 60-64: 13,674
  - 65+: 4,684

- **Employees**
  - <1: 43,400
  - 1-19: 25,532
  - 20-29: 324,887
  - 30-39: 30,284
  - 40-49: 36,519
  - 50-59: 18,779
  - 60-64: 8,167
  - 65+: 5,000

*Employers with Anthem, Optima Health or Aetna depending on the year shown.*
• **Lifestyle-related health issues** and **chronic conditions** tied to obesity are generating more health care costs

• **70% of members are overweight or obese**, down from 74% in the prior year of those taking health risk assessments

### 2017 Weight of State Population

**Body Mass Index (BMI)**

- **Under Weight**: 18.5-23.9 (14%)
- **Healthy Weight**: 18.5-24.9 (18,193 (29%))
- **Over Weight**: 25-29.9 (12,716 (23%))
- **Obese**: 30-34.9 (7,847 (21%))
- **Morbid Obese**: 35+ (6,534 (17%))

Source: ActiveHealth Management
• **79% of the medical and pharmacy costs** were driven by these “Top Ten”

<table>
<thead>
<tr>
<th>Medical Procedures</th>
<th>Chronic Uncontrolled Conditions</th>
<th>Chronic Controlled Conditions</th>
<th>Prescription Drugs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Unclassified causes and preventive-related</td>
<td>1. Unclassified causes and preventive-related</td>
<td>1. Osteoarthritis (except low back)</td>
<td>1. <strong>Humira Pen</strong> - rheumatoid arthritis</td>
</tr>
<tr>
<td>5. Gastrointestinal</td>
<td>5. Gastrointestinal</td>
<td>5. Chronic kidney disease</td>
<td>5. <strong>Victoza 3-Pak</strong> - diabetes</td>
</tr>
</tbody>
</table>

Cost $934.6 million  | Cost $633.9 million  | Cost $126.2 million  | Cost $54.6 million
UTILIZATION - MULTIPLE CHRONIC CONDITIONS

- 11% more spend on Diabetes, Orthopedics, or Cardiac in FY17 over FY16
  - $304.4 million spent in FY17
- 23,932 members with these conditions drove 37% of total plan claims
UNIT COST INCREASE

• **Unit cost increase** of individual services year over year influences trend levels

• **Drivers**
  • 7.4% increase in **Professional services**
  • 9.7% increase in **Pharmacy**

• **Trend Impact**: 2-3% of total claims

### State Health Plan Claims Paid
FY 2013-2017 (in millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Behavioral Health</th>
<th>Inpatient Hospital</th>
<th>Outpatient Hospital</th>
<th>Physician</th>
<th>Dental</th>
<th>Prescription Drug</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>$11.3</td>
<td>$216.0</td>
<td>$220.3</td>
<td>$262.2</td>
<td>$54.1</td>
<td>$202.9</td>
</tr>
<tr>
<td>2014</td>
<td>$11.7</td>
<td>$219.7</td>
<td>$238.1</td>
<td>$259.5</td>
<td>$54.9</td>
<td>$219.6</td>
</tr>
<tr>
<td>2015</td>
<td>$12.1</td>
<td>$255.4</td>
<td>$288.0</td>
<td>$269.9</td>
<td>$53.7</td>
<td>$233.9</td>
</tr>
<tr>
<td>2016</td>
<td>$13.6</td>
<td>$286.2</td>
<td>$301.8</td>
<td>$274.0</td>
<td>$54.3</td>
<td>$273.1</td>
</tr>
<tr>
<td>2017</td>
<td>$15.7</td>
<td>$282.8</td>
<td>$313.2</td>
<td>$292.5</td>
<td>$54.5</td>
<td>$285.2</td>
</tr>
</tbody>
</table>
SPECIALTY DRUGS

- **Specialty Drugs** are high cost drugs in Tier 4 and are expensive.
- Accounted for **38.7% of pharmacy cost** in FY 17, up from 36% in FY16.
- **Top ten specialty drugs** represent 16.8% of total pharmacy spend.
  - 8 of these had double digit % PMPM plan cost increases.
- **Continued growth** of FDA approvals and pipeline expected.
- **Trend Impact:** 0.5-1% of total claims.

![Chart showing specialty drug cost and use from FY 2013 to FY 2017]
LARGE CLAIMS

- Large claims generally influence trend levels
- Total large claim figures remained relatively flat in FY17
- Trend Impact: Negligible
Members with expenses exceeding $300,000 are large claims

- **200 members** in FY17 accounted for **$96 million** in total expense
- **186 members** in FY16 accounted for **$97 million** in total expense

Large claim members

- **0.1%** of all members
- **8.4%** of total expense

8% increase in number of large claim members this year vs. 22% prior year

**COVA Care Catastrophic claimants**

<table>
<thead>
<tr>
<th>Members</th>
<th>Accounted for total expense</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY17</td>
<td>8.4%</td>
</tr>
<tr>
<td>FY16</td>
<td>9.0%</td>
</tr>
</tbody>
</table>

Membership in FY17

- **46.0%** Employees Drive 45.1% of the expense
- **21.7%** Spouses Drive 24.7% of the expense

- **50.3%** = Catastrophic claimants
- **32.1%** = Catastrophic claimants
2018 PROJECTED COVA TREND BY COMPONENT

• Trends are reported differently based on what is measured

COVA Trend Components

- Unit Cost: 4.5%
- Utilization: 2.0%
- Mix/Severity: 1.0%
- Allowed Trend: 7.5%
- Leveraging: 0.6%
- Plan Trend: 8.1%
- Plan Changes
- Program Changes
- Net Forecast

Source: Aon Hewitt
ECONOMIC MODELING PREDICTS INCREASING TRENDS

- GDP growth over the last 5 years explains 85% of the variation in healthcare spending for national trends\(^1\)
- Modeling projects increasing trends for the next 2 years

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**Predicted Healthcare Trends**

![Graph showing predicted healthcare trends from 2008 to 2019.](http://kff.org/health-costs/issue-brief/assessing-the-effects-of-the-economy-on-the-recent-slowdown-in-health-spending-2/)

1.2% increase projected from 2016 to 2018

TREND GUIDANCE

- **Trends** used for financial projections
  - Before any plan design changes
  - Does NOT include pharmacy rebates
  - Recommended by Aon, the plan's actuary

<table>
<thead>
<tr>
<th>Year</th>
<th>Medical</th>
<th>Rx</th>
<th>Combined</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016–2017</td>
<td>6.2%</td>
<td>11.0%</td>
<td>7.4%</td>
</tr>
<tr>
<td>2017–2018</td>
<td>6.7%</td>
<td>12.0%</td>
<td>8.1%</td>
</tr>
<tr>
<td>2018–2019</td>
<td>7.3%</td>
<td>12.0%</td>
<td>8.5%</td>
</tr>
<tr>
<td>2019–2020</td>
<td>7.3%</td>
<td>12.5%</td>
<td>8.7%</td>
</tr>
</tbody>
</table>