



2011/2012 State Employee Health Plan Trend Analysis

Review of Medical Claims Trends by Service Category

April 12, 2013



Trend Analysis Methodology

- **Source data from Truven**
 - Prior period: claims incurred in 2011
 - Current period: estimated completed claims incurred in 2012
 - Enrollment is based on subscribers

- **Allowed Dollar Basis**
 - Trend analyzed on claims costs after provider discounts but before member cost sharing
 - Neutralizes any shifts in enrollment between plans or plan design changes

- **Trend Components**
 - Split trend between utilization and cost per service
 - Reviewed costs by major service category

- **Provider Discount Impact**
 - Estimated by comparing allowed dollars to submitted charges
 - Pharmacy discounts could not be split between brand and generic drugs

Active employee trend driven by increased overall utilization in services

Service Category	Overall Trend	Number of Services	Cost per Service	Comments
Inpatient Facility	1.2%	8.0%	-6.4%	<ul style="list-style-type: none"> • General medical/surgical services increased 8%, Maternity services increased 9% • Cost decrease reflects discount improvements with billed cost per service remaining flat
Outpatient Facility	13.7%	12.7%	0.9%	<ul style="list-style-type: none"> • Utilization increases driven by large increase in surgical procedures and ER visits • Improved discounts helped offset cost increases
Physician and other Provider	3.5%	4.5%	-1.0%	<ul style="list-style-type: none"> • Office visits including preventive care increased 5% • Mental Health visits increased by 21%
Pharmacy (including phys. adm. drugs)	6.4%	6.9%	-0.4%	<ul style="list-style-type: none"> • Generic utilization improved by 6% to over 72% of script utilization • Retail costs per script increased yet physician administered drugs experienced a large reduction in cost of 21% resulting in an overall decrease
Total	5.7%	7.5%	-1.6%	<ul style="list-style-type: none"> • Increased utilization across all service categories • Overall discount improvement of 3.9% offset slight increase in billed cost per service

Retiree trend is significantly lower than active trend

Retiree population is smaller than the active population, so trend results are less credible

Service Category	Overall Trend	Number of Services	Cost per Service	Comments
Inpatient Facility	-17%	-15.8%	-1.4%	<ul style="list-style-type: none"> Total utilization has decreased significantly Average cost per service decreased reflecting lower intensity of services, since discounts actually deteriorated 3%
Outpatient Facility	-1.7%	2.5%	-4.1%	<ul style="list-style-type: none"> Increase reflects shift from expensive inpatient hospital to more cost effective setting 4% Improved discounts lower cost per service
Physician and other Provider	-5.7%	-3.5%	-2.3%	<ul style="list-style-type: none"> Office visits including preventive care increased 4% Surgery and Mental Health utilization decreased by 16% and 14% respectively
Pharmacy (including phys. adm. drugs)	2.0%	4.5%	-2.4%	<ul style="list-style-type: none"> Generic utilization improved by 3% to over 68% of script utilization Retail costs per script increased yet physician administered drugs experienced a large reduction in cost of 34% resulting in an overall decrease
Total	-5.0%	0.1%	-5.1%	<ul style="list-style-type: none"> Decreased Inpatient and Physician Utilization 1% improvement in overall discount

Trend Comparison

- The blended incurred basis PEPM self-funded trend for both the active and retirees is 5.0%
- Total aggregate expenses from the HCC projection from 2011 to 2012 increased by 1.8%
 - The 1.8% includes the paid expenses for self-funded medical/dental plans, administrative costs, visions costs and the Medicare retiree expenses
 - The aggregate expense trend will not reflect changes in enrollment and shifts in dependent coverage

Aggregate Expense Items	2011 Total Expenses	2012 Total Expenses	Aggregate Trend
Medical/Rx Self-funded Claims	\$357,907,967	\$367,981,819	2.8%
Dental Self-Funded Claims	\$25,395,109	\$26,113,483	2.8%
Medical/Rx ASO Fees	\$14,185,918	\$14,108,818	-0.5%
Dental ASO Fees	\$962,400	\$972,926	1.1%
Medicare Plans*	\$23,544,464	\$20,501,746	-12.9%
Vision	\$4,612,523	\$4,755,706	3.1%
Total	\$426,608,381	\$434,434,498	1.8%

*2012 Silverscript plans were paid directly by retirees instead of a pass through to Kansas driving the 12% decrease

Trend Comparison

- The 2.2% difference in medical cost trends is driven primarily by shifts in member coverage
- Total enrollment decreased from 2011 to 2012 by 1.2% but total members increased by 0.2% - which equates to more dependent coverage on average per employee driving up the PEPM trend
- To neutralize the membership increase we looked at the trend on a per member basis (PMPM), which explains an additional 1.5% of the variance from the aggregate trend
- The remaining 0.7% variance is explained by the difference between claims paid versus claims incurred. The PEPM and PMPM trends are based on incurred claims and the aggregate trends are based on paid.

Aggregate Expense Items	Aggregate Trend	PEPM Trend	PMPM Trend
Medical/Rx Self-funded Claims	2.8%	5.0%	3.5%
Difference From Aggregate	0.0%	2.2%	0.7%

Wellness Program Impact

- Method
 - Analyzed the risk adjusted cost differences for participating employees vs. non-participating employees
 - Risk adjustment attempts to account for differences in demographic and morbidity levels between populations
- Results
 - Approximately 57% of the employee population were identified as wellness participants for Plan Year 2012
 - Analysis indicates that the wellness participants' actual costs are ~2% lower than non-participants after risk adjustment
 - Suggests Kansas saved approximately \$2.1M in employee medical costs with the program
 - This translates roughly to a 0.6% trend reduction
- Caveats
 - This method of estimating wellness impact is simplistic in nature and does not capture the selection bias which manifests in programs of this type. To truly measure the impact of a wellness program, longitudinal statistical based studies are performed using matched control groups. Therefore, the actual impact could be materially different than this estimate and should be understood in the context of its limitations.
 - Wellness programs often have a long term impact and savings generally grow over time