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BCBSRI Presentation on Rate Limits to

Health Insurance Advisory Committee (HIAC)
and
Office of the Health Insurance Commissioner (OHIC)

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Challenges to Carrier Cost/Premium Control

- Government Requirements
  - In 2014 Total State and Federal Taxes and Assessments will be $100 or more for a Monthly Family Premium
  - Additional Coverage Mandates [federal requirements]
  - Administrative Costs of Complying with new Requirements (i.e. Preparation for Exchange Participation and ICD-10)
- Cost and Use of Out of State Medical Services
  - For BCBSRI, Price is Set by Local Blues Plan
  - 25% of BCBSRI Claims Cost for Group Business Involves an Out of State Provider not contracted with us
- Rx Price is Controlled by Manufacturer
- New Technology – Drugs/Devices - CBO Says 50% of Increase in Health Costs in the Last Few Decades is Technology Driven
- RI Market has Shown a Preference for Rich Benefit Designs
- Provider/Member Resistance to Preauthorization of Services
- Lack of Statewide Healthcare "Plan"

The Delivery System is Dynamic, Not Static

- One Entity's Claims Cost Reduction is Another's Income Reduction
- For Every 1% of Insured Claims Cost Reduction by BCBSRI, Provider Payments Must be Reduced by About $10 Million (Not Including Additional Reduction from Self-funded Accounts)
- Many Providers may React to Income Reduction with Strategies to Find Other Income Sources or to Lower Cost
  - Physician Consolidation into Larger Groups for Greater Efficiency and Market Leverage
  - Physician Sponsored Competition with Hospitals
  - Hospital Consolidation for Greater Efficiency and Market Leverage
  - Hospital Offerings of New, Specialized Lines of Business
- Increased Utilization and "Upcoding" of Service coding is a risk in FFS environment

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Components of Trend that BCBSRI *may* be able to Impact

- Instate Hospital, Physician, Ancillary [DME] "Price"
- Medical Service Utilization (i.e. High End Imaging, Pharmacy, Hospital days)
- Health Plan Administrative Costs

What BCBSRI May Need to do to Comply with Limits

- Reduction in Specialist provider, and possibly some PCP, **Fees**
- Closure and Contraction of Provider Networks, with Restrictions on Access to Out of State Services
- Require that Certain Ambulatory Services be Provided at Lowest Cost Venues
- **Greater** Levels of **Preauthorization** Requirements for More Medical Services
- More Limited Rx Formularies and Greater Cost Sharing on Brand Drugs
- Reduce "Investments" in Delivery System Transformation [inability to comply with Primary Care spend requirement]
- **Lower** hospital fees

— No discussion of risk contracts w/ providers
- No discussion of benefit design.

If Rate Limits are to be in place, will need:

- Address Member Indemnification and Carrier Obligation to Pay Charges when Payor and Provider are Unable to Reach Contractual Agreement
- Robust Health System Planning and Strict Certificate of Need Process
- Allow for Adjustment of Limits for Deterioration of Plan **Reserves**
- Allow Adjustments for new Mandates and/or new Taxes
- Broaden the Base for Collection of Revenues Currently Raised Through Premium Taxes and Assessments
- Multistakeholder consensus among State leadership, OHIC, Business , and Provider communities on the process

- **Most important : Rate Limitation Will Require Clear Public Support of Health Plan Actions, from Business, OHIC and Dept. of Health**

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Appendix

- Federal and State Taxes & Assessments
- Brand Drug Utilization and Cost
- Specialty Drug Cost

Components of Claims Trend

- Price (Change in Cost of Services-Examples Below)
  - MD Fee Schedules
  - Hospital Payment Levels
- Utilization (Change in the Number of Services-Examples Below)
  - Hospital Admits
  - Rx Scripts/1000
- Service Mix (Change in the Type or Intensity of Services-Technology-Examples Below)
  - New Biologic Drugs (i.e. Remicade, Copaxone)
  - Use of Higher Level Procedure Codes (MRI vs. X-ray)

What is BCBSRI Doing to Address Trend and Cost – Short Term

- Medical Expense Team (MET) has Reduced Insured Group Claim Cost by $63 million in 2010 and 2011
- MET Target of $22 million in 2012 for Insured Commercial Business
- Pharmacy Cost Reductions
  - Renegotiated Pharmacy Benefit Contract to Reduce 2012 Cost
  - Introduced Formulary/Step Therapy Changes to Drug Benefit - $20 Million in Annual Savings
  - New Pharmacy Benefit Manager in 2013 - $50 Million Reduction in Cost Annually
- Administrative Cost Reductions [$35 Million in 2010-2011, including staff reductions]

What is BCBSRI Doing to Address Trend and Cost - Long Term

- Unique Patient-Centered Medical Home Program that Includes co-located Pharmacy and Behavioral Health Support
- Assessment of Provider Performance Program (APP) to inform decisions regarding the BCBSRI provider network
- Hospital Quality Program/Safe Transitions program
- Provider/Payor Collaboration (esp. PCPs) to change the way care is delivered and reimbursed ["shared savings" program , case based hospital payment, etc]
- New Behavioral Health Strategy in RI
- Ongoing Internal Administrative Cost Reduction
- But the movement away from Fee for Service payment will NOT happen "overnight"

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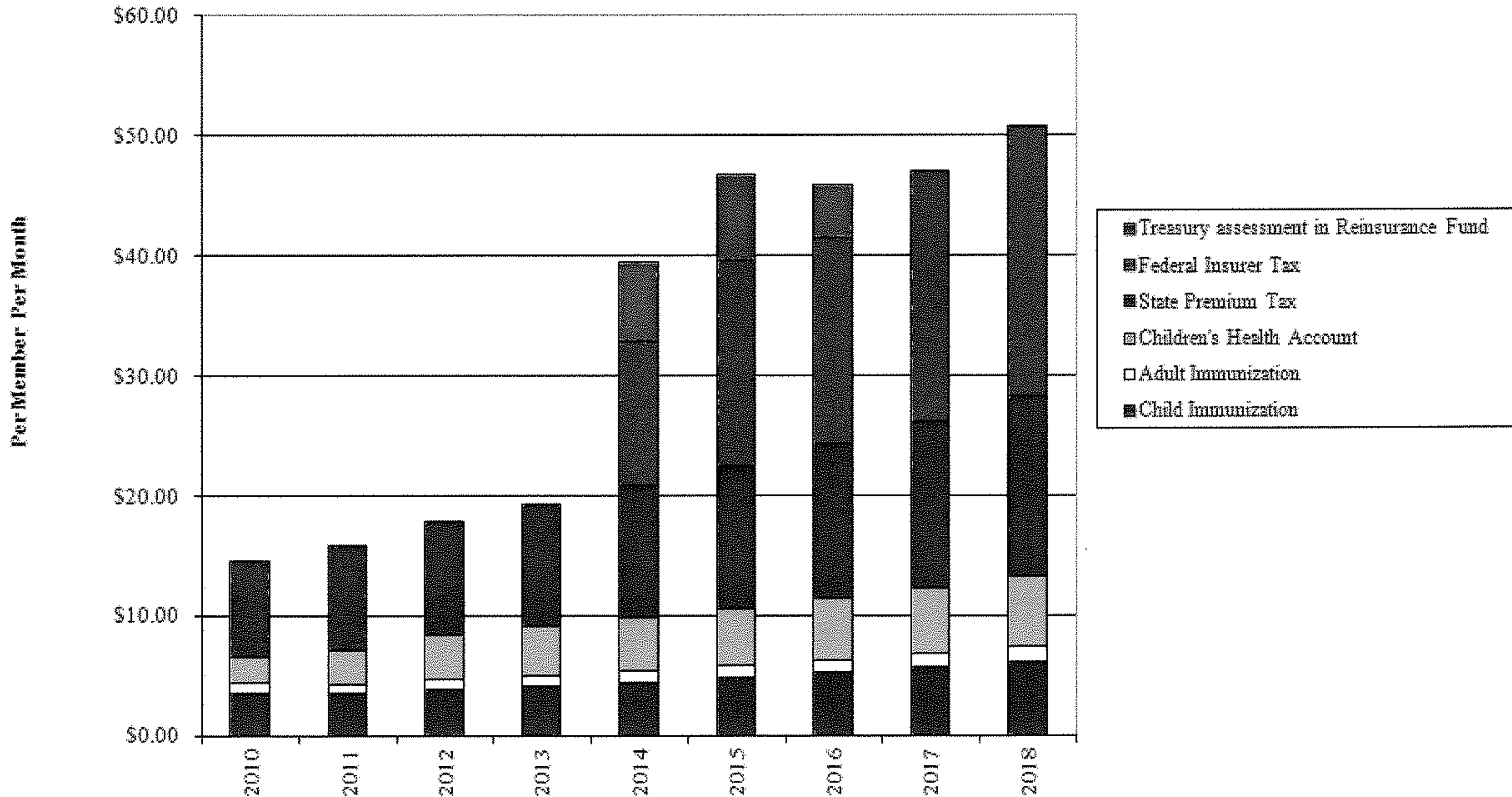
Federal and State Taxes & Assessments – Small Group



Note: Large Group Taxes and Assessments are Very Similar

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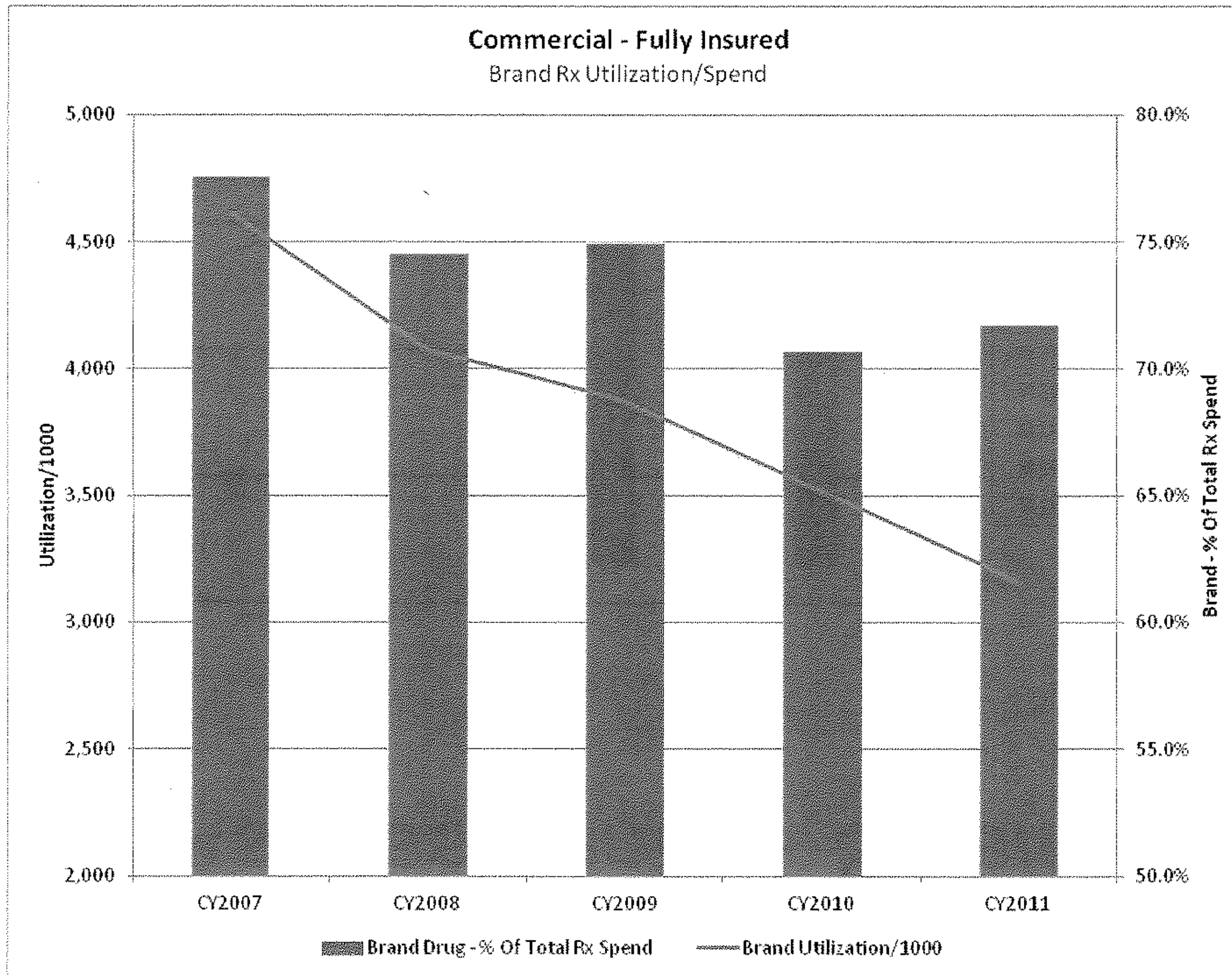
Rx Brand Manufacturers have Reacted to Increased Use of Generic Alternatives by Substantial Price Increases on Brand Drugs



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Increasing Use and Price of Specialty Drugs