

SC PUBLIC EMPLOYEE BENEFIT AUTHORITY- BOARD OF DIRECTORS

Health Care Policy Committee

Wednesday, April 17, 2013 – 10:00 A.M. Meeting Minutes adopted 5-23-2013

202 Arbor Lake Drive, Columbia SC, Main Conference Room 2nd Floor

Board Members Present:

Mr. Joe “Rocky” Pearce, Chairman (in person)
Mr. Art Bjontegard, Ex-officio (in person)
Mr. Audie Penn (in person)

Others present for all or a portion of the meeting:

David Avant, Lil Hayes, Stephen Van Camp, Travis Turner, Laura Smoak, Frank Fusco from the South Carolina Public Employee Benefit Authority (PEBA); Craig Davis from David Law Firm; Wayne Pruitt the from State Retirees’ Association; Brooks Goodman from BlueCross BlueShield of South Carolina; Mike Madalena, actuarial consultant for the State Health Plan (by telephone).

AGENDA

1. CALL TO ORDER; ADOPTION OF PROPOSED AGENDA

Chairman Pearce called the meeting to order at 10:00 a.m. Ms. Hayes confirmed meeting notice compliance with the Freedom of Information Act. Mr. Bjontegard moved to adopt the proposed agenda. Mr. Penn seconded, with the unanimous vote to approve.

2. Approval of Meeting Minutes – November 21, 2012

Chairman Pearce asked for amendments to the November meeting minutes. There being none, he asked for a motion to approve the minutes. Mr. Bjontegard moved to approve the November minutes. Mr. Penn seconded. The meeting minutes were unanimously approved.

3. Continuing research on State Health Plan 2014 Plan Options

Chairman Pearce moved to the SHP options next, as the actuaries were unable later. He asked Mr. Turner to update the Committee on the research being conducted regarding plan options. He explained two options: A) maintaining grandfathered status and B) becoming ACA compliant and moving to performance-based reimbursement. He explained that the Board’s vision for the Plan for 2015 must be voiced soon, as the 2015 plan budgeting process will begin in the summer of 2013. Chairman Pearce asked for clarification that there is little the Committee or Board can do for the 2014 plan. Mr. Turner responded in the affirmative. Mr. Avant interjected that there was a Senate Finance Committee hearing on April 9, 2013 for the SHP. Mr. Bjontegard asked that, assuming the Committee is looking at 2015, what the timeline is. Mr. Turner responded that the Committee needs to know what the Plan will look like by late summer. Mr. Madalena confirmed this and added that sooner is better if there will be consideration given to offering high-performance networks or changes to reimbursement models. Mr. Bjontegard asked whether this is a matter to be taken up in the September Board meeting or the August meeting. Mr. Turner responded it should be the August meeting. Mr. Penn asked whether there is confirmation that 2014 is the last year of maintaining grandfathered status. Mr. Avant responded that much of that decision will be determined by the 2013 claims data, which will not be available until well into 2014. Mr. Madalena reminded the Committee that the General Assembly’s vision for the Plan will also play into whether the Plan can remain in grandfathered status or not. Mr. Avant added that if the GA’s appropriations require passing on costs to the employees (such as copays or deductibles) this could jeopardize the Plan’s ability to remain grandfathered. Mr. Fusco asked what the status is of the Senate Finance Committee and the Senate budget process. Ms. Hayes

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responded that they are in Committee. Mr. Fusco asked whether the House's budget is worth considering. Mr. Avant responded that it should fall between the Governor's executive budget and the House's budget. He added that they don't appear to want to give much more in the form of employer contributions. He noted that there are many options to consider using the proposed budgets as guidelines. Mr. Fusco then asked whether the considerations are all mathematical or do they consider health outcomes as well. Mr. Avant responded they are all mathematical. Mr. Fusco then asked Mr. Madalena what the cost would be to remain grandfathered for 2015 and what would it cost to go ACA compliant. Mr. Madalena responded that the ACA compliant costs would be probably higher, given inflation. He noted that claims trends will dictate the impact of either. Mr. Turner noted the trends in most recent years has been about \$200 million in increases. Mr. Fusco asked what the percentage increase would be to become ACA compliant. Mr. Turner responded it would be about 16%. Mr. Madalena interjected that with ACA compliance, there is greater latitude to make plan design changes. Mr. Bjontegard reminded the Committee that the consensus at the Wampee meeting in January was that the Plan will eventually have to become ACA compliant. He then asked whether staff has a sense of when that will likely be. He noted that if it will likely be 2015, the Committee needs to be considering how to design the Plan to take that into consideration. Mr. Avant responded that the decision to become ACA compliant must take into account the budgeting process because if the Board moves copays and deductibles to their threshold, there may be little flexibility for Plan design in future years if the GA does not appropriate enough to cover the increases. Mr. Turner reminded the Committee that the Governor's proposed budget would allow the Board to leave the copays and deductibles untouched for 2014 and use those as cost-leveraging tools for the 2015 Plan design, because the Governor's budget gives an additional \$85 million. Mr. Madalena added that the \$70 million mentioned earlier would be the incremental cost of going ACA compliant. Mr. Fusco asked what the number would be for remaining grand fathered compared to going ACA compliant. Mr. Turner responded that remaining grandfathered would require an additional \$239 million, whereas becoming ACA compliant would add another \$70 million to that. Mr. Bjontegard noted that if the focus is on 2015, the Board needs to move. Mr. Avant responded that it may be necessary to go ACA compliant if the Board is pushed by the budgeting process to pass costs onto the employees. Mr. Turner added that it will become increasingly difficult to stay grandfathered in the coming years. Mr. Bjontegard added the Committee/Board needs to make a call one way or another for 2015 so staff can be working on ACA compliance. Mr. Penn asked whether the Board would have to be forced to go ACA compliant by the budgeting process, since the GA is not willing to go ACA compliant voluntarily. Mr. Avant responded that is the tenor of the House, but that the Senate is not willing to absorb the increasing costs without seeing corresponding savings. Mr. Penn commented that the Board can either go ACA compliant and see whether there can offsetting costs and make the decision to go compliant voluntarily or it can plan what the compliant plan will look like in preparation for when the Board is forced to go ACA compliant by the budgeting process. Mr. Madalena noted that a compliant plan will essentially be a "clean slate" with regard to plan design so the Board will have more flexibility to build the savings into the plan. Mr. Penn asked whether the GA would be on board with a decision to go ACA compliant if the Board could show built in savings in the compliant plan design. Mr. Avant responded that the appetite of the GA is not to pass on these cost-shifting measures to the employees at this time. Chairman Pearce clarified this means the GA does not want higher deductibles or copays. Mr. Avant agreed. Chairman Pearce reminded the Committee that actuaries stated in Wampee that the SHP is an old plan. He added that the focus has been on ACA compliance but not on fixing a plan that is already outdated. This requires communicating to the GA earlier to make these considerations work. He asked for clarification that the August

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meeting is the deadline to have a plan design. Mr. Turner responded that the Committee needs to have an idea of where it would like the plan to be by then so the actuaries can begin determining the required premium rates will be for 2015. Mr. Avant reminded the Committee that PEBA must submit its proposal in November to the Governor's office. He added that this should contain options. Mr. Fusco commented that believed that PEBA should not be bound to have the Plan nailed down by the beginning of the budget cycle, but rather have a range of numbers and have data supporting improved health outcomes. He added he believed the Board could submit finalized Plan design numbers in June or July, rather than the previous November. Mr. Pearce asked Mr. Madalena what other states are doing to save. Mr. Madalena responded that there is more movement toward Patient Centered Medical Homes, pilot projects, and other innovations. He added that many states are adding HSA qualifying plans with employer contributions into Health Savings Accounts. Mr. Bjontegard noted that there are three potential pilots before the Board. He asked whether any states have already gone to a PCMH and whether there are data regarding the outcomes. Mr. Madalena noted that the North Carolina Medicaid plan has already implement PCMH and that there is consideration being given to making the state employee plan go to a PCMH setup. He added that is too early to have much useable data with regard to these setups. Mr. Bjontegard asked staff to explain where the Committee is and what should be submitted to the Board. Mr. Avant responded that the 2014 Plan is likely to be granted a \$54 million by the GA, with the House's bill including provisions to pass on costs to the employees in the form of copays and deductibles. Mr. Fusco asked how much this cost being passed on to the employees under this scenario. Mr. Madalena responded that this would probably be about \$30 million. Mr. Penn pointed out the current approach will require the Board to have the same discussion next year and the year after, etc. He added that he believes the solution is to plan out the direction the plan will go in future years. Mr. Avant responded that the Senate will drive the plan for 2014 through provisos. He added that the Senate does not agree with the House's plan and wants to come up with its own plan. Mr. Fusco agreed, stating that there should be public hearings and other efforts to research how the plan should go moving forward and to determine how to communicate this to the GA. Chairman Pearce asked whether the proviso amending the House bill is aimed at cost-shifting or plan design. Mr. Avant responded that it does both—it passes costs on and dictates how the plan can be designed. Mr. Fusco noted this is more mathematical than benefit design. Mr. Penn agreed, stating that these decisions are setting financial boundaries but that all the options to work within these boundaries have not been exhausted. Mr. Fusco asked whether the Board could use a portion of the appropriated funds to design an incentive program which would drive down costs. Mr. Avant responded that the savings would have to be immediate in order for the GA to go along with it. Mr. Fusco instructed staff to research the Irving, TX plan in which they created a weight-loss program, which saved over \$1 million a year for about 2,000 employees. He added that this could be a one-time measure to immediately drive costs down. Mr. Penn asked whether any consideration has been given to implementing a spousal mandate in which any spouse eligible for his or her own employer sponsored insurance would have to pay a higher premium. Mr. Madalena responded that this would still have to be figured into the calculation for maintaining grandfathered status. Mr. Avant added that the premium structure of the SHP has a built-in feature which increases the cost significantly for covering a spouse. Mr. Madalena added that to make it a meaningful change, it would make it difficult to keep the numbers within the grandfathered status parameters. Mr. Avant commented that part of the difficulty of designing a plan involves figuring out each what each party (PEBA Board, GA, B&C Board, etc.) is responsible for with regard to plan design. Mr. Fusco stated his belief that the PEBA Board is tasked with figuring out how to do business in a new way to meet the increasing challenges of maintaining affordable health care. He added that

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he believes this is why it is good that the Board contains representative members like him so they can work for the benefit of the groups they represent. Mr. Bjontegard noted that the discussion has always been directed at cost-shifting and cost-sharing, rather than toward the quality of care members are receiving. Mr. Fusco asked Mr. Madalena whether the Board can adjust the tobacco surcharge for 2014. Mr. Madalena responded that there is some leeway to make adjustments to the surcharge without jeopardizing the Plan's grandfathered status. Mr. Madalena excused himself at this point.

Chairman Pearce asked Mr. Bjontegard what his hope is for the Committee's decision at this point. Mr. Bjontegard responded that the Committee needs focus with regard to where they can look for designing the Plan for the coming years. Mr. Avant responded that there is only expected to be about \$54 million appropriated for employer premium contributions. He added that different versions being considered by the GA involved making up the remaining costs either in the form of employee contributions or through copays and deductibles. He noted that the Senate Finance Committee has added such specific parameters for the Plan design to avoid another situation like what happened in 2012, in which the B&C Board changed the cost-sharing structure of the Plan premium increases. Chairman Pearce sought clarification on whether the Committee can do anything with the 2014 Plan. Mr. Avant responded that there may be room for adjustment for the 2014 Plan design because the GA's guidelines define maximum increases for employee costs. Mr. Fusco restated his suggestion that the Board consider using a certain amount of funds to create a one-time incentive program to immediately cut costs to the Plan. Mr. Avant responded that these expenses would have to reduce expenditures at the end of the year. Mr. Fusco sought clarification as to whether such a program would be permitted while maintaining grandfathered status. Mr. Avant added that if the actuaries signed off that the program would save money and they were wrong, the Board would then be tasked with adjusting premiums mid-year to make up the losses. Chairman Pearce suggested Committee members make recommendations to their appointers for initial approval. He asked whether this is something the Committee should do now. Mr. Penn responded that designing the 2014 Plan year is a short-sighted goal. Chairman Pearce added that the B&C Board will only approve or reject the proposal of the PEBA Board. Therefore, there needs to be a finalized Plan going to the B&C Board. Mr. Penn restated his concern that action made year-to-year will only result in continuously chasing cost-sharing. Mr. Turner reminded the Committee that there are limits within which the Board can adjust the parameters set by the proposals of the GA. Mr. Fusco suggested leaving some room within the parameters of the Board's proposal to suggest some innovative ideas. Chairman Pearce advised staff to research the Irving, TX plan to determine the potential benefit of such a setup and allow the Board to tweak it to fit within the restraints of the anticipated provisos. Mr. Bjontegard suggested not limiting potential programs to just the Irving, TX program, but to include any proposed programs which may potentially save the Plan money. Chairman Pearce asked Mr. Penn whether he had any additional suggestions to staff for researching potential programs, such as those implemented at Michelin. Mr. Penn responded that he was not sure whether the parameters of the potential provisos and maintaining grandfathered status would allow many of these programs. Chairman Pearce asked whether the Board needs to submit a proposed plan design for the August B&C Board meeting. Mr. Penn suggested using the 2015 plan year as the stepping off point for what the future of the Plan should look like. Mr. Bjontegard stated that as long as the Plan is grandfathered, the Board's options are very limited—therefore, the Board should look at how to get out from underneath grandfathered status as soon as possible. Chairman Pearce agreed, stating that as members of the Board they should be able to make decisions in the best interest of the members of the Plan. He suggested that Mr. Penn could head a subcommittee to outline the long-term future of the Plan. Mr. Penn responded saying that

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the challenge to this would be his full-time job. Mr. Bjontegard agreed, adding that this is a lot of responsibility for one person to accept. Chairman Pearce stated that the Committee needs to task the actuaries with coming up with a three-year plan to develop the richest, most cost-effective Plan for the employees of South Carolina. Mr. Turner responded that this is similar to what Ms. Hartley had requested when she was the Chair of the HCP. Mr. Fusco suggested coming up with a Pareto chart showing the major health concerns for the members of the Plan and using this data to develop a plan of the best tested solutions and to update the Plan. Chairman Pearce asked Mr. Penn if there is any information from Michelin that could help the Committee develop a long-term Plan goal. Mr. Penn responded that he can, but the long term considerations should involve all three parties involved—employees, providers, and the Board. The employees must make good health decisions, the providers must provide the best care, and the Board must decide how to fund the Plan while also keeping the other parties accountable to do their parts. Mr. Fusco commented this is the basis of the framework for the new Plan design. Mr. Bjontegard suggested the Committee's report to the Board should be that there is nothing that can be done for the 2014 Plan, but that the focus will be long-term beginning with the 2015 Plan.

4. Information: Medical University of South Carolina Proposal

Chairman Pearce introduced a proposal by MUSC. Mr. Avant reported that a phone conference occurred a couple of weeks prior to this meeting in which staff discussed with MUSC executives regarding a pilot program called a population health approach—similar to a PCMH. He noted that the Medicare and Medicaid reimbursements to providers will decrease significantly in the coming years. They also have about 60,000 visits per year from SHP members and have 12,000 employees. Mr. Fusco asked how the SHP pays MUSC for services. Ms. Smoak stated she can easily provide this information. Mr. Turner added that MUSC has historically waived copays and deductibles for SHP members, pursuant to a 2005 proviso. Mr. Fusco asked whether this is still being done. Mr. Van Camp responded that they are doing voluntarily. Ms. Smoak clarified that the waiver has been only on the patient liability. Mr. Avant continued by explaining the reason they are proposing this is to pilot a program to improve member health outcomes. He added that a follow-up meeting will be scheduled between PEBA staff and MUSC executives. This proposal would include employees of the MUSC Hospital Authority and the university itself. Mr. Turner commented that MUSC cannot withdraw from the SHP because they cannot match the unit costs of the SHP. He added that MUSC is proposing to do things to save the Plan money on its employees, and in exchange they would get a decrease in premiums as acknowledgement of the Plan savings they created. Mr. Fusco asked whether the data being used to support MUSC's proposal is targeted to its employees specifically, or just generically accepted measures. Mr. Van Camp speculated that the second component of the proposal includes targets MUSC employees, but the first part is likely generic in nature. Mr. Bjontegard asked what the added value would be to Committee members travelling to Charleston to conduct these discussions instead of MUSC coming to Columbia. Mr. Avant responded there really is no reason for the Board members to travel to Charleston. Mr. Penn asked who would bear the cost of these programs. Mr. Turner responded that MUSC would pay these costs, as there is no mechanism for PEBA to fund such programs. Mr. Avant replied that many of the details have not been communicated by MUSC yet. Mr. Penn suggested considering the merits of the program to determine whether such a program would benefit the Plan at large. Mr. Bjontegard agreed, stating this would in effect be PEBA's initiative, not MUSC's. Mr. Avant commented that this proposal would be the easiest to implement and could perhaps provide the most meaningful data. Mr. Bjontegard asked whether MUSC is asking to benefit from the cost savings of such a program to the Plan. Mr. Fusco responded that they are looking to recoup some of the losses they will experience due to the

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reduction in reimbursements from Medicaid and Medicare. He suggested the measure should be starting with current costs of coverage for MUSC employees and every dollar saved by the program should be shared 50/50 between MUSC and PEBA.

Chairman Pearce concluded the discussion by asking staff to plan a meeting with the MUSC executives. Mr. Fusco asked for a contact to feed questions in advance of the meeting. Mr. Avant responded that he would act as the contact for these questions.

5. Update on the Pharmacy Benefit Manager Request for Proposal

Mr. Avant explained that the RFP for the Pharmacy Benefit Manager (PBM) was issued on February 13, 2013. A proposal conference was held on March 1, 2013. The proposals were opened on March 28, 2013. Five vendors submitted proposals which are being reviewed. Mr. Avant explained that the details of these proposals would need to be discussed in executive session because of some legal advice that may be required. Also, three members of the review panel for the PBM proposals were in attendance of the meeting and would have to excuse themselves to avoid any perception of influence on their decisions based upon the discussions of the Committee.

Chairman Pearce requested a motion to move into executive session to receive legal advice. Mr. Bjontegard moved to go into executive session. Mr. Penn seconded. The Committee unanimously voted to move into executive session pursuant to S.C. Code of Laws § 30-4-70(a)(2).

The Committee entered executive session at 11:45 a.m.

The Committee resumed open session at 12:30 p.m. No action was taken in executive session.

There being nothing further to discuss, Chairman Pearce requested a motion to adjourn. Mr. Bjontegard moved to adjourn and Mr. Penn seconded. The committee unanimously voted to adjourn at 12:31 p.m.