South Carolina
PUBLIC EMPLOYEE BENEFIT AUTHORITY

PEBA

South Carolina Public Employee Benefit Authority
Healthcare Policy Committee
Meeting Minutes (adopted as amended 4-17-2013)

Wednesday, December 12, 2012

2nd Floor Conference Room
202 Arbor Lake Drive
Columbia, South Carolina 29223

Board Members Present:

Ms. Cynthia Hartley, Chairman (in person)
Mr. Joe "Rocky" Pearce (in person)
Mr. Art Bjontegard, Ex-officio (in person)
Ms. Stacy Kubu (in person)
Mr. Audie Penn (in person)

Others present for all or a portion of the meeting:
Bill Blume, Robbie Bell, Lil Hayes, Stephen Van Camp, Travis Turner, Laura Smoak, David Avant, Frank Fusco from the South Carolina Public Employee Benefit Authority (PEBA); Donald Tudor, Wayne Pruitt, Wayne Bell from State Retirees' Association; Mike Madalena, actuarial consultant for the State Health Plan (by telephone); Will Kenney from Mullikin Law Firm.

I. CALL TO ORDER; ADOPTION OF PROPOSED AGENDA

Chairman Hartley called the meeting to order at 10:07 a.m.. Ms. Hayes confirmed meeting notice compliance with the Freedom of Information Act. Chairman Hartley had everyone in the room introduce themselves.

A. Adoption of Proposed Agenda

Mr. Bjontegard moved to adopt the proposed agenda. Mr. Pearce seconded, with the unanimous vote to approve.

B. Approval of Meeting Minutes – November 21, 2012

Mr. Pearce recommended changing 6/30/2012 to 6/30/2013 for LTC. Changing "w" to "t" for Mr. Hickman explained "that." Mr. Penn pointed out another incorrect date on the same page as Mr. Pearce. Mr. Bjontegard moved to approve as amended. Mr. Penn seconded. The meeting minutes were unanimously approved as amended.

II. CONTINUING RESEARCH ON STATE HEALTH PLAN 2014 PLAN OPTIONS

Chairman Hartley reminded the committee members of their action at the November 21, 2012 meeting about the budget recommendation. She stated that the committee will wait on the General Assembly to communicate the possible budget allotments before moving to the committee's next step in the process. She suggested that the Wampee retreat in January will allow the committee to consider its options. She introduced Mr. Travis Turner of PEBA staff who began by discussing the health care budgeting process. He stated that the Board's responsibility

is not to approve the required increase, but to react to the General Assembly's decisions regarding budget allotments. Mr. Bjontegard asked what the committee and Board's responsibilities are regarding the budgeting process. Mr. Van Camp stated that the first action of PEBA staff would be to communicate with the various GA committees to explain their options to manage the required increase as compared to the allotments available from the General Assembly. Chairman Hartley stated that her struggle is whether the committee/Board is required to communicate their recommendations to the GA. She asked whether the Board's authority allows it to determine what it will do with the money allotted by the GA. Mr. Van Camp explained it is more of a process of telling the GA what PEBA needs and then receiving and responding to the GA's response as to what they can appropriate. Mr. Penn asked who is responsible for understanding the options for cost-containment. Mr. Van Camp responded that it is within the purview of the PEBA Board. Mr. Van Camp explained that in the November 21, 2012 meeting the options for various plan changes were discussed. Mr. Bjontegard asked whether those options are within the discretion of the PEBA Board. Chairman Hartley agreed with this question. Mr. Fusco interjected that the Board is responsible for steering the plan options within the budgeting process. He stated the PEBA staff would communicate the options to the Governor, the GA, and the Budget and Control Board as part of the budgeting process. This way, the Governor may make budget recommendations based upon her discussions with PEBA staff. He stated that the PEBA Board is not in position to immediately make a recommendation, as it is early in the budgeting process. He explained that there is no way the General Assembly will approve $85 million. He asked what the requirement would be for the other half of the year. Ms. Smoak explained that the total general funds required for FY2014 would be $85 million. Mr. Turner explained that there is an additional requirement of a $5 per member tax imposed on plans by the Affordable Care Act. Mr. Fusco asked Mr. Madalena what the actual increase would be in dollars. Mr. Madalena explained it would amount to about $24 million additional. He also explained that if you pass this on to the employees, you may jeopardize grandfathered status by altering the ratio between employer and employee contributions. Mr. Pearce asked whether this requirement applies whether you are grandfathered or not and whether you are self-funded or insured. Mr. Madalena responded that it does. Mr. Fusco explained that the PEBA Board must propose a balanced plan to the B&C Board by August 15. Mr. Van Camp explained this requirement now applies to the PEBA Board and the B&C Board will have subsequent approval. Mr. Bjontegard asked when the Board will know how much money it has available. Mr. Fusco explained that would only begin to come in view when the GA responds with what it can pay. Mr. Van Camp explained that depending how much money is actually available, certain plan design changes may not even be options. Mr. Madalena explained that plan design changes and premium ratios for employer/employee contributions may be off the table if the intent is to maintain grandfathered status for 2014. Chairman Hartley stated her concern of the order of approval in the budgeting process and what the PEBA Board's authority actually is. Mr. Fusco explained that the Governor makes a proposal to the GA based upon the information given to her by PEBA staff. That recommendation is then either accepted or modified. Mr. Van Camp explained that the GA can even decide on its own budget proposal. Chairman Hartley asked then what the PEBA Board's authority is. Mr. Blume explained that the Board makes recommendations which are ultimately approved or rejected by the B&C Board. Mr. Fusco explained that the previous actions of the B&C Board suggest that the path the two boards are going on is lining up such that the B&C Board will likely be able to approve or reject all recommendations presented to it in whole, but not in part. Mr. Blume explained that this may be the case. Mr. Fusco explained that he believes the B&C Board will not get involved in low-level plan design changes such as chiropractic care benefits, etc. He explained that it will be important to maintain communication with the B&C Board so that they are not "blind-sided" by the Board's

recommendations. Mr. Bjontegard explained he views the process as having both a formal and informal component. The formal process is the Governor's recommendation to the GA and the GA's response. The informal process involves PEBA staff communication behind the scenes with the Governor's staff and then the GA staff to get them on board with the PEBA Board's recommendation. Mr. Pearce explained that the need exists to drastically change the plan, not just try to correct the plan's issues by adjusting copays and deductibles. He explained he believes there should be user fees applied to higher-risk, higher-cost members such as tobacco users and obese members. Mr. Penn added that the Board should not just be in the position of having to constantly respond to fiscal year budgeting decision, but to make real decisions to make an impact. Mr. Pearce agreed. Ms. Kubu stated that she believes it would be helpful to gather information from plan members about their desires for plan changes. Mr. Fusco agreed. Mr. Bjontegard stated that the State Employees' Association and the State Retirees' Association can be helpful in this process. Chairman Hartley stated her belief that this discussion is necessary and meaningful. Mr. Blume explained that he agrees with Mr. Penn that the Board must be involved in driving down the increases in plan costs. He explained that there are options offered by some consultants (from whom the Board will hear at Wampee in January) who will be able to demonstrate options that will produce results within two years or so. He also explained that the changes necessary to improve the plan's status are more long-term than what would impact the plan for 2014. He explained that real changes to improve the plan's status will not produce results until later. Mr. Pearce asked whether PEBA has an idea of the potential savings possible by the proposed major changes to the plan. Mr. Madalena explained that there are changes for 2014 that can produce cost-savings without necessarily impacting the plan's grandfathered status. He explained that these involve alternate structures for provider reimbursement. He explained that there are some options such as value-based health care setups, but these options will not produce immediate results. He also explained that some changes to improve the plan long-term may actually cost money in the short term. For example: channeling resources to the plan for improving the health of diabetics. This may cost the plan more in the short-term, but will save larger amounts of money later by avoiding the costs of amputations or kidney transplants. Mr. Blume concurred with this assessment. He explained the most effective changes that can be made should be considered as investments. He explained that this conflicts with the budget process, but it is necessary and helpful. Mr. Madalena explained that there are cost-shifting changes that can save the plan money short-term, such as restructuring the drug plan to four tiers instead of three or shifting more cost to the member when a higher-cost service is administered, but not necessary. Mr. Bjontegard asked whether the plan is "backed into" remaining grandfathered for 2014, and whether in 2015 the plan will have to come out of grandfathered status. Mr. Madalena explained that it will be harder to maintain grandfathered status for 2015 because of the economics. He explained that the trade-off of losing grandfathered status is picking up costs, but also gaining latitude to make plan changes to offset more of the costs. Mr. Turner explained that if the objective is to remain grandfathered, there are some changes that can be made short-term. This includes increasing deductibles and coinsurance maximums which would impact a number of members. Mr. Fusco stated he would like to see the impact to those who actually meet their deductibles on a regular basis. Mr. Turner explained that there are other options such as changing ER or outpatient per-occurrence deductibles and increasing drug copays. Mr. Fusco asked whether these changes will drive improvements in health outcomes. Mr. Turner explained that they would not likely improve health outcomes. Chairman Hartley explained that these changes are intended more to reduce cost increases to the plans. Mr. Turner explained that these changes are those which are permitted while maintaining grandfathered status. Any changes that would make a significant impact to the plan would likely drive the plan out of grandfathered status. Chairman Hartley explained that

there are some options which can make these kinds of impacts and improve health outcomes. She gave the example of steering members through their primary care providers first for minor issues, rather than specialists. Chairman Hartley explained that other plans are already making changes to steer members. She gave the example that her husband's plan for 2013 now requires him to fill prescriptions only at Walgreen's. Mr. Penn suggested implementing a pay-the-difference policy which would require the member to pay any amount above the generic cost. Mr. Madalena responded that the plan already has this policy. Mr. Penn also explained that the plan could require members to fill any maintenance drugs via the mail-order pharmacy. Chairman Hartley explained that she has been involved with a plan that required members to go through mail-order pharmacy. She explained that members were not happy when this change was implemented, but over time the plan was able to show the value to the members by saving them money. Mr. Fusco added that medical processes and/or treatment options must also be considered because there is a lot of waste and/or repetition. Chairman Hartley agreed, but mentioned that the savings of these kinds of design changes are longer-term. Mr. Bjontegard added that his plan now makes it difficult for him to use his prescription coverage at any other pharmacy than the plan's. He stated that he was upset about this change at first, but now is pleased because of the savings. He then asked Mr. Madalena whether changing cost-sharing setups reduces waste or increasing costs by causing members to avoid receiving necessary treatment and further worsening their conditions. Mr. Madalena responded that it is proven that members are less likely to go to the doctor if it costs them more. He explained that the preferred setup is to incentivize efficient treatment while de-incentivizing inefficient treatment. Mr. Penn agreed. Ms. Kubu interjected that these changes should be considered in light of the resources available to members because many will have limited incomes. She explained that she is hesitant to dictate to members where they can fill prescriptions or what doctors to go. Mr. Blume added that a part of this steering process is to direct members to the best providers. He added that these providers would have to prove they are the best so that the managed care setup will actually be more likely to improve the health of the members. He also mentioned that the process of health information sharing will be improved by directing members to certain providers. He concluded that the considerations should made on the basis of providing better health care for a lower cost, but that these changes would not show an impact in 2014. He suggested that Board members should be discussing their thoughts on these potential changes to their respective appointing officers. He added that the plan improvements made in the coming years will impact no less than 20% of the entire population of South Carolina. Mr. Penn added that other companies in the state, seeing the improvement, would follow suit. Chairman Hartley commended Mr. Blume on his comments. Mr. Fusco agreed with all the comments being made. He added that PEBA should teach and incentivize medical best practices. He also mentioned decreasing administrative costs and reducing waste by increasing electronic medical record sharing. Mr. Bjontegard added that electronic file sharing works in metropolitan areas in the state, but not as much in rural areas—producing an uneven arrangement.

Mr. Turner continued by explaining that by giving up grandfathered status, the plan can increase its leverage to make changes in the plan design. Mr. Blume asked Mr. Turner and Mr. Madalena to explain the Employee Group Waiver Plan (EGWP). Mr. Madalena explained that this is an arrangement, which is transparent to members, under which the plan implements its own Medicare Part D plan. He also added that this would decrease the plan's OPEB liability. Chairman Hartley asked Mr. Turner to explain the preventive services required by the Affordable Care Act. He explained the various preventive services such as routine physicals and reproductive care for women. Mr. Bjontegard asked what the magic number for the fund appropriations from the GA would be to allow the plan to remain grandfathered. Mr. Turner responded that it would be about $40 million. Mr. Fusco added that the GA may view the

amounts going into the OPEB trust fund as overages and thus reduce its allotments to the plan. Chairman Hartley interjected that the current OPEB liability of $10.1 billion is a real liability that will have to be met, and therefore it cannot be viewed as something that does not have to be considered. Mr. Fusco responded that the plan is legally required to be self-balancing. This means that if allotments from the GA are reduced, the plan must eat those costs. Chairman Hartley added that in her experience, health care costs never decrease. Mr. Turner added that the GASB requirements for accounting for future liabilities will soon be added for health care. Mr. Fusco stated that the difference between the pending $100 million or $75 million going into the OPEB trust will not amount to a significant change. Mr. Madalena added that the OPEB trust is used to pay retiree insurance claims. He also explained that a proposed change would be to keep the $10 copay for visiting a primary care doctor for sick visits and to increase the copay for specialists to $25. Mr. Pearce asked whether these changes take into account the required preventive services under ACA. Mr. Turner responded that they do. Mr. Pearce reminded the committee that this will immediately involve a significant increase in costs because of the likelihood that once these preventive services are covered members will go for these services. Chairman Hartley added that other employers are already covering many of these preventive benefits, but they often require making changes that would likely be unpopular. Mr. Turner added that a consideration would also be the discrepancy between stand-alone high-end radiology providers versus hospital-provided radiology. He also introduced the possibility of offering a Medicare Advantage plan for Medicare-eligible retirees which would shift cost for those members to an outside provider. Mr. Fusco asked what the total increase per member would be to go ACA compliant. Mr. Turner explained that because of the allowed plan design adjustments, the outcome could be revenue-neutral. Chairman Hartley asked whether these changes are being recommended by PEBA staff. Mr. Turner responded that he does not believe it is staff's responsibility to make recommendations to the Board, but rather provide it with information of what options it has. Mr. Fusco asked for a matrix which explains the options available for maintaining grandfathered status while covering the increasing costs. Mr. Pearce stated his belief that the plan would be better to go ACA compliant sooner, rather than later. Mr. Blume added that the increased cost would complicate the budgeting process. Mr. Bjontegard asked whether the surcharge communicated this week was a new thing or did PEBA just not read about it. Mr. Madalena stated that is was released on November 30. Mr. Bjontegard asked whether there are other potential changes like this. Mr. Madalena stated there are others and for this reason, it makes it a potentially dangerous prospect to go ACA compliant because the regulations continue to be updated and changes are often unforeseen. Chairman Hartley asked for reference materials regarding the costs of various changes and various amounts appropriated by the GA. She asked whether groups can withdraw from participation in the plan. Mr. Turner responded only local subdivisions may withdraw. Ms. Hayes added that they must participate for 4 years and if they withdraw, they must remain out for 4 years. Mr. Fusco asked whether their premiums are experience rated. Ms. Hayes responded that local subdivision premiums are experience rated based upon the group size and claims experience. Mr. Turner asked whether members of the PEBA plan are likely to move to the health exchanges. Mr. Madalena responded that it is estimated that about 67% of the population will be eligible for the health exchanges. Chairman Hartley asked whether, at the January Board meeting in Wampee, PEBA will know what the GA will appropriate for the health plan. Ms. Hayes responded that it would not be likely that there would be anything official. Mr. Turner added that there may be some preliminary information available then.

III. NEW BUSINESS

There was no new business.

There being nothing further to discuss, Chairman Hartley requested a motion to adjourn. Mr. Pearce moved to adjourn and Mr. Penn seconded. The committee unanimously voted to adjourn at 12:08 p.m.