PEBB & OEBB Cost Containment Strategies

to Meet the 3.4% Annual Growth Limit

House Bill 2266 (2019)

PEBB and OEBB Report to the Oregon Legislature

Oregon Health Authority

Contents

Acknowledgments

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Executive Summary

The Public Employees' Benefit Board (PEBB) and Oregon Educators Benefit Board (OEBB) are mandated to redesign the health care delivery system so public employees have access to high quality plans at a lower price, defined in SB 1067 (2017) as no more than 3.4 percent growth annually. How to stay at or under a 3.4 percent annual growth trend when the Oregon commercial insurance market trend averages 6-7 percent — which equates to a combined annual savings requirement of $70-$80 million — is without a doubt PEBB and OEBB's biggest challenge.

To address their cost containment challenges and meet the requirement of 3.4 percent annual growth, the PEBB and OEBB boards have:

- ★ Invested in short- and long-term strategic planning to align programs and maximize public dollars and developed a strategic framework to advance Oregon's coordinated care model;
- ★ Formed the joint Innovation Workgroup (IWG), made up of PEBB and OEBB board members and legislators, to analyze cost drivers, measure access and quality, and explore joint alternative payment models that bring true value and the potential for big savings;
- ★ Continued to encourage members to move from less coordinated open network plans to better coordinated plans structured around primary care medical homes; and
- ★ Committed to work towards 70 percent value-based payments by 2024 in alignment with the Oregon Health Plan.

As required by House Bill 2266 (2019), this report outlines:

Actions and strategies employed by the boards to meet the growth target

PEBB and OEBB have implemented efficiencies through an administrative merger, as directed by SB 1067 (2017), and have made significant progress in formulating aligned strategic plans to maximize the value of public dollars procured for benefits. The boards recognize that the old way of doing business is not going to work in the long term and are seeking to move from a *reactive* annual renewal process to a *proactive* one where they use their purchasing power to procure health plans and a delivery system that will provide higher value, and where decisions made in the short term will ensure the long-term viability of the programs.

Challenges faced in meeting the annual 3.4 percent growth target

Staying within the 3.4 percent annual growth trend is PEBB and OEBB's greatest challenge for many reasons, including:

- ✓ Rising commercial health care costs — especially unit costs or price of services and supplies;
- ✓ Increased market leverage among providers, resulting in upward pressure on health care prices and creating a challenge for PEBB and OEBB to negotiate reimbursement arrangements within the growth cap; and
- ✓ Timing: The 3.4 percent growth target is measured on an annual basis instead of a "rolling" average extending over multiple years.

Joint activities employed by the boards to maximize their purchasing power

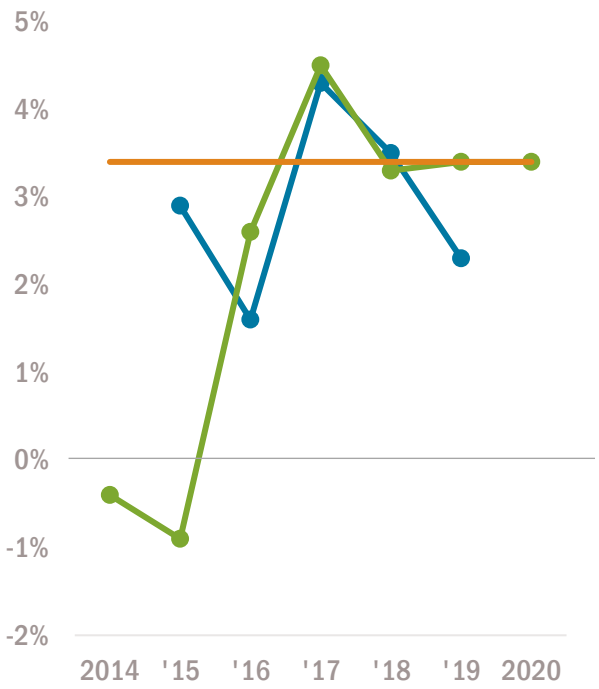
Together PEBB and OEBB provide coverage to approximately 300,000 people in communities across Oregon. Leveraging PEBB and OEBB's combined size is one important strategy in the effort to sustain high quality benefits at an affordable cost. The coordinated care model and value-based payments are two approaches that PEBB and OEBB are implementing together to slow cost growth. Additionally, the PEBB-OEBB Innovation Workgroup was formed with the specific charge to identify further opportunities to leverage PEBB and OEBB's combined size to achieve greater cost containment and improvements in quality.

Next Steps

Over the next year, the boards will look for further opportunities for alignment and refine a strategic framework to work together to advance and implement the Oregon Health Plan's coordinated care model. The boards see strength and opportunity in the coordinated care model, and PEBB and OEBB members have migrated to plans with coordinated care model attributes in great numbers. Around this framework, the boards hope to attract greater participation in PEBB and OEBB from local governments that would see the value in a cost-sustainable program with high quality benefits and access. PEBB and OEBB have been able to meet the 3.4 percent target nearly every year since 2014 (as shown at right). The boards are committed to working together to achieve the mandate the legislature has laid out for them.

PEBB and OEBB renewal rates have been at or below the 3.4% target most years since 2014.

(Actual overall premium changes since previous year)



Board Actions to Meet the Target

Developing a strategic framework

The boards are in different phases of advancing strategies to contain costs, but both have made significant progress in 2019 in developing and aligning plans to maximize the value of public dollars procured for employee benefits. The boards set out on their strategic work with a shared approach:

1) Revisit the current state of PEBB and OEBB
2) Determine the priorities of the boards moving forward
3) Discover what opportunities and actions exist
4) Develop a plan for 2020 and beyond
5) Agree on timing and next steps

1) Revisit the current state of PEBB and OEBB

With each annual contract renewal, the boards get stuck in a cycle addressing the same question: how to lower costs, improve quality and improve the overall health care experience for PEBB and OEBB members while beating commercial market trend by 50 percent each year? Each year the boards undergo the rigorous process of starting at a 6-7 percent commercial insurance trend; analyzing a list of reduction options to get down to the target; and ultimately making very difficult decisions to arrive at a 3.4 percent renewal. They recognize that the old way of doing business (i.e. negotiating annual rates) will not work in the long term and are seeking to move from a *reactive* annual renewal process to a *proactive* one where they use their purchasing power to procure health plans and a delivery system that will provide higher value and where decisions made in the short term will ensure the long-term viability of the programs.

2) Determine the priorities of the boards moving forward

PEBB and OEBB share many similar priorities, allowing for opportunities to align on powerful purchasing initiatives and work toward a future state that provides higher value at lower cost. These shared priorities include:

- Seek an innovative delivery system in communities across the state that uses evidence-based medicine to maximize health outcomes and utilize health-related dollars wisely;
- Focus on improving quality and outcomes, not just providing health care;
- Promote health and wellness through consumer education, healthy behaviors and informed choices;

- Deliver the appropriate provider, health plan and consumer incentives that encourage the right care at the right time and at the right place;
- Ensure members have accessible and understandable information about costs, outcomes and other health data that is available for informed decision-making; and
- Provide benefits that are affordable to employers and employees and their families.

3) What opportunities for actions exist?

By transforming the delivery system and advancing the coordinated care model, PEBB and OEBB support the triple aim of better health, better care and lower costs. The boards are in the unique position of leveraging the state's purchasing power of 300,000 people to receive better value for their members and drive transformative change.

More than ever, opportunities exist for the boards to align with other publicly-funded programs. Joint purchasing and policy initiatives already underway include:

- Increasing the percentage of health care expenditures in value-based payment arrangements in alignment with CCO 2.0 targets by 2024;
- Increasing the total proportion of expenditures to primary care; and
- Rewarding patient-centered, high-quality care and payment for outcomes by further incenting participation in CCM medical plans.

The joint PEBB/OEBB Innovation Workgroup (IWG) provides a forum for exploring opportunities to advance the coordinated care model. In its current form, care is coordinated and managed by primary care teams via patient-centered primary care homes (PCPCH). The IWG seeks to expand the coordinated care model to include the entire continuum of health care services (around a primary care core), with upside/downside risk-sharing arrangements and thoroughly vetted quality metrics. More information about the workgroup starts on page 13 of this report.

The Joint Innovation Workgroup (IWG) seeks to expand the coordinated care model to include the entire healthcare continuum of services, and thoroughly vetted quality metrics.

4) Develop a plan for 2020 and beyond

Over the next year, the boards will firmly establish a strategic framework with clear requirements for advancing the coordinated care model by improving quality, reducing costs and improving the member experience while seeking innovative health care delivery designs. Alignment with OHA's key elements of the coordinated care model offers a roadmap for success:

Key elements of the coordinated care model offer a roadmap for success.

- Provide equitable, patient-centered care
- Commit to transparency in price and quality
- Partner with communities to support health and health equity
- Measure performance and efficiency
- Seek financial stability and strategic investment
- Pay for outcomes and health

The boards have also studied other states with similar demographics for models of success, including Vermont, Pennsylvania and Washington.

5) Agree on timing and next steps: What does success look like?

Both PEBB and OEBB are still designing their future vision of coordinated care model plans. However, they have already taken steps to transform their delivery systems to meet the triple aim and have committed to finding a successful model that is sustainable under a 3.4 percent annual trend cap. Both boards agree on embracing innovative ideas and taking advantage of opportunities to leverage the state's purchasing power. The boards' next steps are to develop a strategic framework to define what success looks like to them independently, and in alignment with the other program(s). Success indicators currently being discussed include:

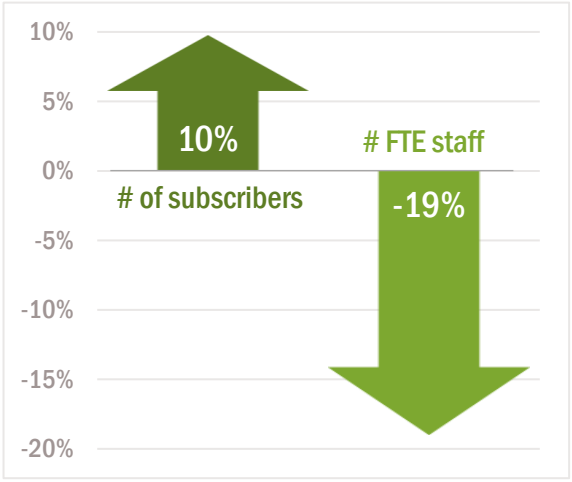
- Year-over-year health care cost growth is at or below 3.4 percent;
- 70 percent of total medical expenditures are in a value-based payment arrangement;
- High levels of active participation in wellness programs;
- Employees and their families feel like PEBB and OEBB benefits are of value, and appreciate their provider/patient experiences;
- Providers meet or exceed all quality metrics and other targets while receiving the maximum financial rewards for performance;
- Systematic shared decision-making tools result in improved clinical outcomes, empowered patients, and lower costs; and
- Increasing the growing number of participating local governments in PEBB and OEBB.

Once the boards have the final vision for the transformed system, they will actively seek partners who can implement the vision, increase value and contain costs long term. When all is said and done, the boards will look to further evolve the goals they set to achieve in the triple aim, the priorities on health care set forth by the governor, and the guiding principles of the Oregon Health Authority.

Administrative efficiency actions: merging the administration of the boards

Senate Bill 1067 (2017) directed the administrative merger of the two boards. The intent behind merging the functions and operations was "to avoid duplication of effort and to promote efficiency" across both programs. While the overall number of PEBB and OEBB subscribers increased from 108,314 in the 2009-11 biennium to 118,861 in the 2017-19 biennium a 10 percent increase), an overall decrease from 47 to 38 operations staff FTE was achieved in the same period. Staff cuts included two management service positions and three benefit services positions. Both programs are now managed by a single director, deputy director and director of operations.

Although the overall number of PEBB and OEBB **subscribers** has increased over the past several years, the number of **FTE staff** has decreased.



Challenges

Background: History of the 3.4 percent cap

For the 2011-13 biennium, a 3.4 percent cap on PEBB and OEBB annual expenditure growth was contained in a Budget Note. The message was clear: *If the state wants to make future investments in other areas, it must lower costs in health care while improving outcomes*. The thinking was this would create greater leverage for PEBB, which was entering a competitive contracting process at the time, and help prospective bidders to understand PEBB's "budget box" and to expect innovation and better outcomes within a fixed rate of growth. This would also create additional accountability from PEBB and OEBB to the legislature if that cap was exceeded.

In order to secure federal investments, in 2012, the Oregon Medicaid waiver proposal included a target to beat the 5.4 percent federal Medicaid trend by 2 percentage points, resulting in the 3.4 percent growth cap. To achieve cost savings, this target was then applied to PEBB and OEBB, but no other public-funded employee benefits programs. In the 2013-15 biennium the legislatively approved budgets for PEBB and OEBB were built using 4.4 percent inflation in year one and 3.4 percent in year two. In 2017, Senate Bill 1067 established 3.4 percent into law. It set a 3.4 percent cap in two separate ways. First, language from Section 8(a) states:

> "The board shall use payment methodologies in self-insured health benefit plans offered by the board that are designed to limit the growth in per-member expenditures for health services to no more than 3.4 percent per year."

This would be considered a budgetary cap due to the limit on actual expenditures such as claims costs, taxes and fees rather than on a premium growth rate.

The second 3.4 percent cap is contained in section 8(b) with the language:

> "The board shall adopt policies and practices designed to limit the annual increase in premium amounts paid for contracted health benefit plans to 3.4 percent."

This would be considered a revenue cap as the board sets premium amounts, invoices agencies/educational entities/local governments, and receipts the premiums coming in as revenue.

Budgetary and revenue caps (as explained in the box on the previous page) create significant challenges for the boards to maintain increases at less than half the trend amount seen in the Oregon commercial insurance marketplace.

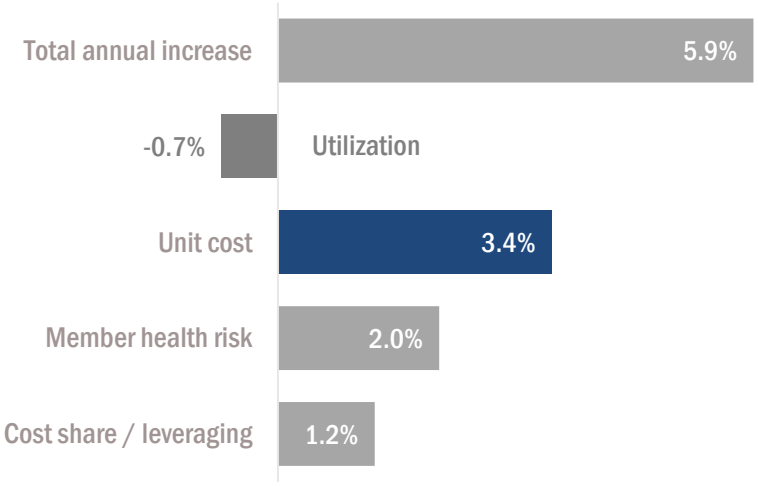
More than 85 percent of PEBB's business is self-insured. While both PEBB and OEBB have the authority to limit premiums to a maximum of a 3.4 percent annual increase, the actual expenditure target of 3.4 percent per-member per month is a variable cost with self-insurance, which affects PEBB significantly. In a self-funded arrangement, annual increases in claims costs are driven by the actual utilization of members, and the PEBB has few controls to hold claims cost increases to 3.4 percent. The variability inherent in claims costs can lead to large swings, both negatively and positively. When multimillion-dollar claims occur, PEBB has few options. PEBB maintains approximately 25 percent of total annual premiums in reserves ($225 million) to account for unanticipated claims costs in a given year.

In a self-funded arrangement, annual increases in claims costs are driven by the actual utilization by members, and the PEBB has few controls to hold claims cost increases to 3.4 percent.

Commercial market trend and rising health care costs

PEBB and OEBB contract with commercial health insurers and carriers to manage the health plans offered to members. As such, PEBB and OEBB health care premium rates are subject to market trends. Each year, Oregon's Commercial Market Cost "Trend" for health care premiums hovers between 6 and 7 percent. This means that PEBB and OEBB must come in at 3.4 percent and beat trend by the equivalent amount each year. The 3.4 percent in savings represents a combined $70-$80 million that PEBB and OEBB must achieve each year.[1] The primary factor driving the PEBB and OEBB growth trend is the unit cost, or price of services and supplies. Unit cost was the main factor in the cost increase of facility outpatient surgery, inpatient services, specialty medications and outpatient emergency room services. As shown at right, unit cost is the number one factor PEBB and OEBB must change to reduce the trend.

Unit cost is the number one factor PEBB and OEBB must change in order to reduce the trend.



Provider market leverage

Another challenge facing PEBB and OEBB is that providers are seeking to increase their market leverage, resulting in upward pressure on health care prices and making it harder for PEBB and OEBB to negotiate reimbursement arrangements within the growth cap. Provider consolidation and market control are important factors that drive increased provider market leverage. Provider consolidation has increased nationwide, with facilities and practices merging in order to gain leverage in negotiating with payers. Studies have shown that areas with more provider consolidation have higher health care prices. The impact of lack of competition on costs can be seen in Oregon when comparing costs for hospital service in areas with different numbers of facilities. A PEBB analysis of 10 procedures found hospital costs higher in Eastern and Southern Oregon areas with fewer facility options vs. the competitive Portland metro area.[4]

Growth cap timing

Another challenge in meeting the 3.4 percent growth cap is that it's measured on an annual basis instead of a "rolling" average extending over multiple years. This is especially challenging for PEBB because claims fluctuate in its self-insured health plans, where PEBB bears the risk of costs that exceed collected premiums. Claims costs fluctuate over time, but because the growth cap is measured on an annual basis, PEBB cannot transfer savings to future years.

Looking ahead

PEBB and OEBB have both met the 3.4 percent overall expenditure increase and annual premium increase "test" nearly every year since 2012. Fulfilling the growth cap has been done through cost containment strategies and efficiencies. But the "low-hanging fruit" is gone. PEBB and OEBB face challenges in meeting the 3.4 percent tests as a payer in the commercial market in battling trend, provider market leveraging and the timing of the annual growth cap.

Since the 3.4 percent growth cap applies only to the plan level and there is currently no accountability in place for *providers* to contain costs, PEBB/OEBB are caught in the middle. Senate Bill 889 (2019) creates the Oregon Health Care Cost Growth Benchmark Program, which will set a state spending target that all insurance companies, hospitals and health care providers will have to stay within. With the Benchmark Program, there will be accountability at the carrier and the provider level, creating pressure on both parts of the system to manage costs.

Value-based payments are another mechanism to incentivize the broader delivery system to focus on value instead of volume of care delivered, and to reward providers for a combination of high-quality care, positive member health outcomes and cost savings.

Maximizing Purchasing Power

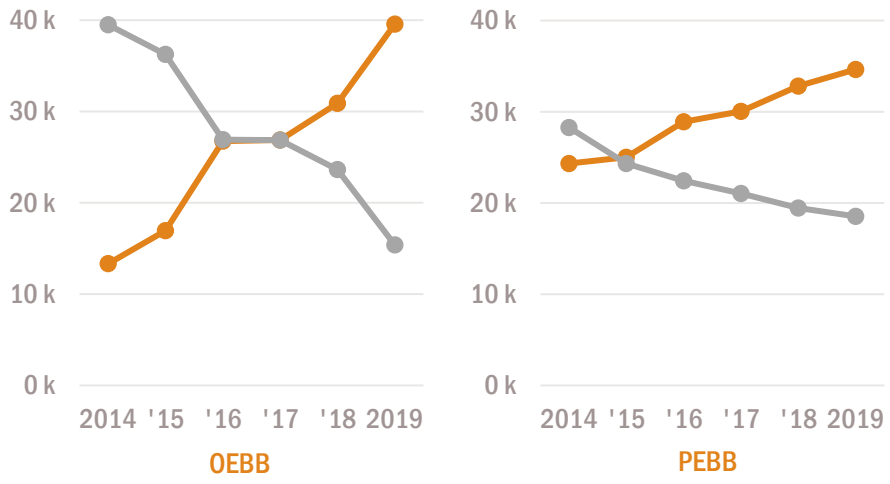
Together PEBB and OEBB provide coverage to approximately 300,000 people in communities across Oregon. Leveraging PEBB and OEBB's combined size is an important strategy in the effort to sustain high quality benefits at an affordable cost. PEBB and OEBB are also looking to slow cost growth by aligning their strategies on coordinated care and value-based payments. Additionally, the PEBB-OEBB Innovation Workgroup was formed with the specific charge to identify further opportunities to leverage PEBB and OEBB's combined size to achieve greater cost containment and improvements in quality.

Coordinated care model plans support slower cost growth and improve quality

Promoting delivery of more efficient, better coordinated care is a fundamental strategy to contain costs and improve health outcomes. PEBB and OEBB have developed coordinated care model plans and encouraged members to move from less coordinated open network plans to better coordinated plans structured around primary care medical homes.

Member enrollment in coordinated care model (CCM) plans has been incentivized through lower cost-sharing for these plans and reduced employee premium contributions. In 2014 approximately 46 percent of PEBB members were enrolled in CCM plans, with remaining members selecting an open network preferred provider organization (PPO) for their medical coverage. By 2018, the percentage of PEBB members who selected CCM plans increased to 59 percent. OEBB members have also had significant migration to coordinated care model plans. In 2014, 25 percent of OEBB members were enrolled in coordinated care model plans, with this increasing to 50 percent by 2018.

Coordinated Care Model plans are now more popular than PPO plans.



Value-based payments leverage purchasing and pay for value

Traditional fee-for-service models provide payment for each health care visit, service or test. Value-based payments shift focus from volume to value by rewarding providers for delivering high quality care that supports improved outcomes and slower cost growth. As shown in the table below, OEBB and PEBB health plans currently incorporate a variety of value-based payment strategies to incentivize provider quality and efficiency. Many of the general strategies align with value-based payment approaches also used by coordinated care organizations (CCOs) serving Oregon's Medicaid population.

Many of the strategies used by PEBB & OEBB align with value-based payment approaches also used by coordinated care organizations (CCOs) serving Oregon's Medicaid population

	OEBB	PEBB	CCO
Infrastructure payments	✓	✓	✓
Pay for reporting	✓	✓	✓
Pay for performance	✓	✓	✓
Shared savings with upside risk	✓	✓	✓
Shared savings upside and downside risk	✓	✓	✓
Condition-specific population-based payment			✓
Comprehensive population-based payment	✓	✓	✓
Integrated finance and delivery system	✓	✓	✓

PEBB and OEBB continue to work toward increasing the percentage of total health care payments that use value-based approaches and have identified future year targets that generally align with those established for CCOs. PEBB and OEBB currently have approximately 47 percent of total medical expenditures in a value-based payment arrangement with a goal of 70 percent by 2024, thereby matching the goals as defined in CCO 2.0.

PEBB-OEBB Innovation Workgroup

Senate Bill 1067 (2017) directed PEBB and OEBB to form a joint Executive Committee to develop a plan to combine the operations and functions of the two boards. The Executive Committee fulfilled this directive by establishing the PEBB-OEBB Innovation Workgroup (IWG), whose charge is to work collaboratively toward innovative solutions to achieve sustainable, cost-contained benefit programs that strive to be a model for Oregon.

The workgroup serves as the primary forum where joint efforts and initiatives are examined and developed, using combined program data with the goals of improving quality of care, developing efficient models of care, and slowing the rate of growth in the cost of care. The

Innovation Workgroup launched in fall 2018 and includes members from both boards and from the state legislature. In its initial year, the Innovation Workgroup has examined a collection of issues aligned with the goals of improving quality and efficiency and containing costs, including:

- Development and implementation of Administrative Rules governing the 200 percent cap on PEBB and OEBB plan payments for inpatient and outpatient hospital services as established in SB 1067
- Examination of value-based payment approaches and current levels of value-based payment in PEBB and OEBB plans and establishment of value-based payment growth targets through 2024
- Review of program costs and utilization across areas of care, with specific focus on musculoskeletal and cancer care cost drivers and identification of strategies to support enhanced care coordination, quality, and efficiency
- Comparison of PEBB and OEBB plan payments for health care services to Medicare rates paid for these services as a method for benchmarking PEBB-OEBB costs, and consideration of approaches for applying benchmark payment rates to benefit design

Innovation Workgroup Members

Geoff Brown, Chair
OEBB Board Chair

Shaun Parkman
Vice-Chair
PEBB Board Chair

Dana Hargunani
PEBB Board Member

Jonian "JJ" Scofield
OEBB Board Member

Ali Hassoun
PEBB-OEBB Executive Director (non-voting)

Sen. Betsy Johnson
(non-voting)

Rep. Rob Nosse
(non-voting)

A few key findings of the workgroup include:

- **Benchmarking paid claims data to Medicare showed that in total, PEBB and OEBB allowed costs for non-hospital health care services is 187% of Medicare allowed.**
- **In reviewing utilization of 10 specific cancer drugs, analysis identified potential to save 23% on the cost of these drugs if administration was shifted to the lowest cost setting.**
- **Review of data on PEBB and OEBB knee replacements identified significant variation in procedure costs, ranging from $31,000 to $77,500, and presenting a savings opportunity if high-cost providers were brought closer to the average.**

As it continues work in its second year, the Innovation Workgroup has been directed by the PEBB and OEBB boards to prioritize research and strategy development on a number of focused topics, with the intent of developing recommendations to align PEBB and OEBB programs, contain costs and promote quality.

Conclusion

The United States spends more on health care than any other country, with costs approaching 18 percent of the gross domestic product (GDP) and with poorer health outcomes than in other developed countries. The dynamics of drivers of health care spending — utilization (the number of services used) and price (the amount charged for each service) — are similar in Oregon's commercial market as compared to the rest of the country. For all the money that is expended on health care, it doesn't always equate to better health care, or better health.

Without significant changes, health care costs will continue to rise at an unsustainable rate, far outpacing the state budget and wage growth. PEBB and OEBB have a mandate to redesign the health care delivery system so public employees have access to high quality plans at a lower price point, defined legislatively as no more than 3.4 percent growth annually.

Over the past year there has been a concerted effort to align both programs. This has led to the formation of the joint PEBB and OEBB Innovation Workgroup (IWG) made up of PEBB and OEBB board members and legislators. The IWG has leveraged the power of merging PEBB and OEBB datasets with the goal of using that data to leverage the groups' purchasing power. The IWG's charge is to analyze critical areas such as cost drivers, access and quality, and explore joint alternative payment models that bring significant value and the potential for sustained savings.

With the implementation of a final strategic framework, as outlined in this report, and the active role the boards have taken to address their primary cost drivers via the IWG, PEBB and OEBB have an opportunity to leverage a model that delivers 3.4 percent annually and delivers better health, better care and lower costs.

Endnotes

1. Hassoun, Ali. White Paper 3.4 percent. PEBB/OEBB Innovation Workgroup. 2018 November.
2. OEBB and PEBB. Initial Cost Drivers Report. PEBB/OEBB Innovation Workgroup. 2019 March.
3. Catalyst for Payment Reform, Provider Market Power in the U.S. Health Care Industry. 2012.
4. Mercer Health, Oregon's Public Employees' Benefits Board Utilization Report. 2019 July.

Appendix A

An Overview of Renewal Rates (Increase/Decrease) from Previous Years

OEBB Year-over-year Composite rate comparison
(Medical, Dental, Vision)

	PEPM Premiums	Actual Overall Premium Change
2013-14	$ 1,096	
2014-15	$ 1,136	3.60 %
2015-16	$ 1,169	2.90 %
2016-17	$ 1,188	1.60 %
2017-18	$ 1,238	4.30 %
2018-19	$ 1,282	3.50 %
2019-20	$ 1,311	2.30 %

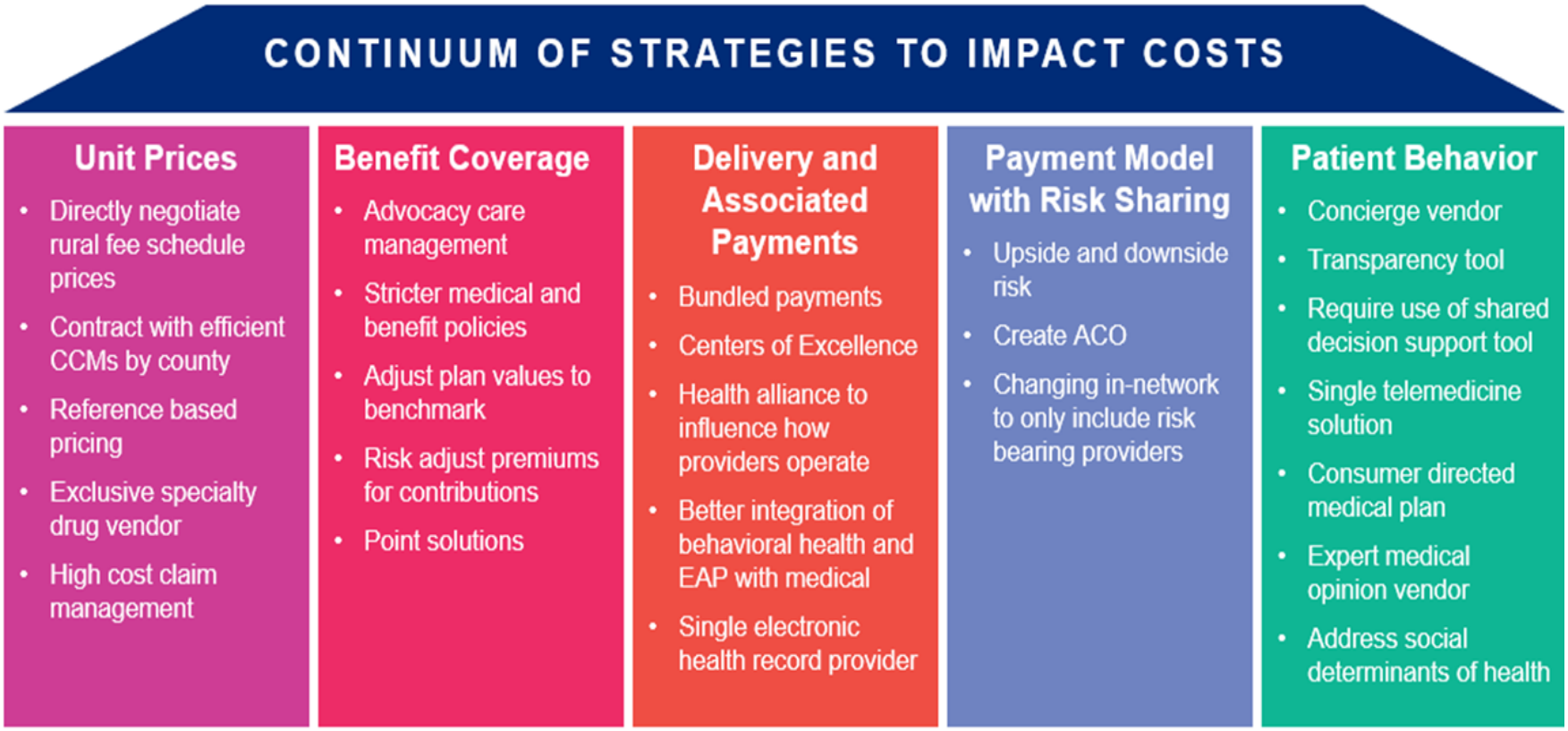
PEBB Year-over-year Composite rate comparison
(Medical, Dental, Vision)

	PEPM Premiums	Actual Overall Premium Change
2013	$ 1,338	
2014	$ 1,333	-0.4 %
2015	$ 1,321	-0.9 %
2016	$ 1,356	2.6 %
2017	$ 1,416	4.5 %
2018	$ 1,464	3.3 %
2019	$ 1,513	3.4 %
2020	$ 1,565	3.4 %

Appendix B

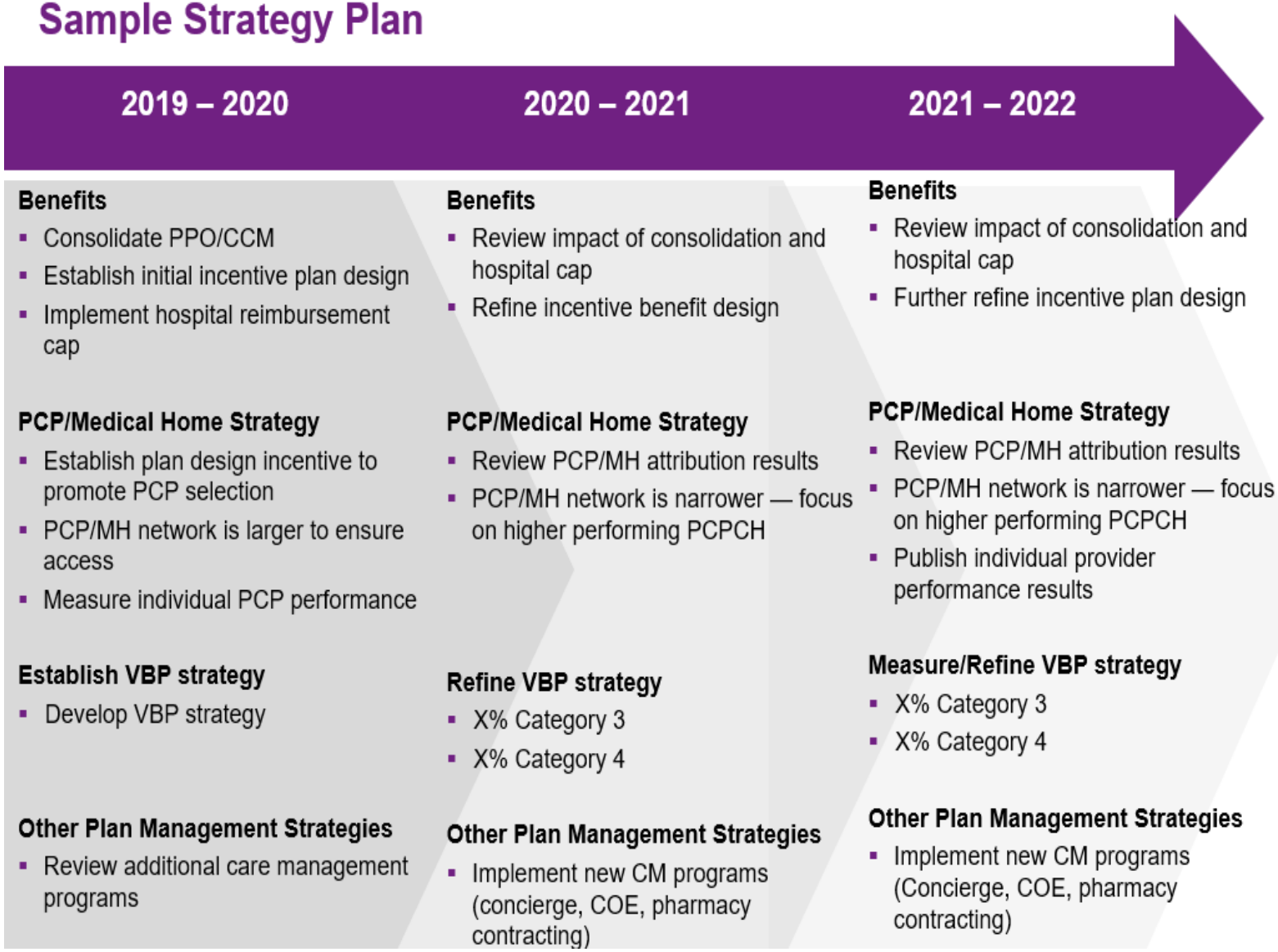
Strategic Framework Development

Below are examples of the strategies the PEBB Board has worked from in developing their strategic framework:



Below are examples of the strategies the OEBB Board has worked from in developing their strategic framework:

Sample Strategy Plan



HEALTH POLICY AND ANALYTICS
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