A Look at Montana’s State Employee Health Plan Savings from Reference-Based Pricing

Tuesday, May 4, 2021
3:00 – 4:00 pm Eastern

This webinar is supported by Arnold Ventures.
Welcome and Introductions

**Trish Riley**, Executive Director, National Academy for State Health Policy

**Steve Schramm, MScHEPM**, Founder and Managing Director, Optumas

**Zach Aters, ASA, MAAA**, Senior Actuary, Optumas

**Daniel Villa**, Executive Director, Montana Board of Investments

Questions and Discussion
Review of Montana’s State Employee Health Plan (SEHP)

Health plan reserves

- Dec 2014 – loss of $28.9 million
- Reserves below actuary recommendation
- Projections for future losses

Legislative action in 2015 (SB418)

- State employee salary increase, *if* health plan implemented effective cost containment measures
Fair, Transparent Hospital Pricing

Goal = Montana hospital reimbursement will be a multiple of Medicare for ALL facility services

• Selected Medicare as reference point because:
  • Common reference to overcome variation in charge masters and differences in billing practices
  • Largest healthcare payer in country
  • Adjusted for case mix and geography
  • Calculation process publicly available
  • Moves Plan to DRG (diagnosis related group pricing) reimbursement methodology

• State of Montana Plan “constraints”:
  • No Balance Billing = Contracting
  • No steerage or narrow network = Include all facilities, if possible
  • Needed quick financial results
  • Control over future reimbursement increases
  • State Procurement Regulations
Developing and Negotiating the Medicare Reference Point

11 acute care hospitals made up 87% of MT’s SEHP hospital spend

- Focused on acute care, not critical access hospitals

Key take away – most efficient hospitals had little, if any, change in revenue, while Medicare reference-based pricing brought the higher cost facilities more in line

Used Medicare repricer for one year of claims

- Outpatient hospital services
  - Range = 239% to 611% of Medicare rate
  - Identified sweet spot around 250% of the Medicare rate
- Inpatient hospital services
  - Range = 191% - 322% of Medicare rate
  - Identified sweet spot around 220% of the Medicare rate

Negotiated with all 11 acute care hospitals

- Higher cost hospitals contracted for a glide path to reach target over 3 years
Immediate Results

- SEHP reserves reached $112 million by Dec. 2017
- No premium rate increases for 3 years (2017, 2018, 2019, 2020, 2021)

Unexpected: Health plan reserves larger than MT General fund in 2017
Montana State Employee Plan
Independent Evaluation: Impact of Reference Based Pricing

completed for the National Academy for State Health Policy with support from Arnold Ventures

MAY 4, 2021
Agenda

▪ Objective
▪ Background
▪ Data
▪ Process
▪ Externalities
▪ Conclusion
### Objective

- **Estimate Impact of Reference Based Pricing (RBP)**
  - Montana’s State Employee Health Care Benefits (HCBD) Division’s implementation of RBP
    - Implementation Date
      - July 1, 2016
    - Services
      - Hospital Inpatient Services
      - Hospital Outpatient Services
Background

• **Reference Based Pricing (RBP) Defined**
  ▪ Reference based pricing pays a percentage of an existing pricing benchmark, such as Medicare.
  ▪ Medicare’s buying power/access to cost data allows Medicare to establish a benchmark for hospitals relative to cost.
Data

• Data Sources
  ▪ Publicly-Available reports provided by Allegiance to the State Employee Group Benefit Advisory Council (SEGBAC)

<table>
<thead>
<tr>
<th>Prior to Reference Based Pricing (RBP)</th>
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</thead>
<tbody>
<tr>
<td>SFY14 – July 2013 to June 2014</td>
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<tr>
<td>SFY15 – July 2014 to June 2015</td>
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<tr>
<td>SFY16 – July 2015 to June 2016</td>
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<table>
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<th>After Reference Based Pricing (RBP)</th>
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<td>SFY18 – July 2017 to June 2018</td>
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<tr>
<td>SFY19 – July 2018 to June 2019</td>
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Data (cont’d)

- **Historical Experience**
  - HCBD paid % Discount off Charges for 11 Acute Care Facilities

<table>
<thead>
<tr>
<th>Prior to RBP*</th>
<th>Inpatient</th>
<th>Outpatient</th>
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<tbody>
<tr>
<td>Low</td>
<td>190% Medicare</td>
<td>240% Medicare</td>
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<tr>
<td>High</td>
<td>310% Medicare</td>
<td>610% Medicare</td>
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<table>
<thead>
<tr>
<th>After RBP**</th>
<th>Inpatient</th>
<th>Outpatient</th>
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<tbody>
<tr>
<td>Low</td>
<td>220% Medicare</td>
<td>230% Medicare</td>
</tr>
<tr>
<td>High</td>
<td>225% Medicare</td>
<td>250% Medicare</td>
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* Measured as a Percentage of Medicare
**MT HCBD did not change Critical Access Hospitals’ pricing
Process

• **Comparison of Paid vs. Billed Reimbursement Amounts**
  
  ▪ Prior to RBP
    • Establish the historical Paid/Billed Ratio by taking Paid PEPM/Billed PEPM
  
  ▪ After RBP
    • Establish the *ACTUAL PAID PEPM*
    • Estimate what *would have been paid* using the actual Billed PEPM adjusted to *ESTIMATED PAID PEPM* using the historical Paid/Billed Ratio
Process (cont’d)

- **Inpatient Paid – Actual Paid vs. Estimated Paid**

**Chart 1**

Inpatient Services: Average Amount Paid Per Member, Per Month based on Traditional Negotiations vs. Reference-Based Pricing

<table>
<thead>
<tr>
<th>SFY14</th>
<th>SFY15</th>
<th>SFY16</th>
<th>SFY17</th>
<th>SFY18</th>
<th>SFY19</th>
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<tbody>
<tr>
<td>$205.83</td>
<td>$233.33</td>
<td>$211.67</td>
<td>$272.01</td>
<td>$262.56</td>
<td>$288.03</td>
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- Medicare Reference-Based Pricing
- Traditional Negotiation Reimbursement
Process (cont’d)

• Outpatient Paid – Actual Paid vs. Estimated Paid
Externalities

• **Changes in Mix/Risk**
  - **Service Mix** – controlled for using ratios
  - **Population Risk/Mix**
    • Risk – Risk scores did not change materially over time
    • Mix – Age, duration, and contract type did not change materially over time

• **Medicaid Expansion**
  - Effective January 1, 2016
    • Highest enrollment in 2016 – approx. 59,500 enrollees
    • Enrollment as of March 2021 – approx. 98,000 enrollees
Conclusions

• Impact of MT HCBD Reference Based Pricing
  ▪ Savings over 3 years:
    • Inpatient – approx. $60 PEPM or $30M
    • Outpatient – approx. $32 PEPM or $17M
  ▪ Hospitals:
    • Financials - appear stable under RBP pricing in current environment
## Savings for Taxpayers and Employees

### Fiscal Note 2019 Biennium

**Bill #:** SD0003  
**Title:** Providing a two month state employer contribution holiday  
**Primary Sponsor:** Ryan Osmundson  
**Status:** As Introduced  

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<th>FY 2020</th>
<th>FY 2021 Difference</th>
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<td>State Special Revenue</td>
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<td>Federal Special Revenue</td>
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**Description of fiscal impact:** This bill allows the Governor to suspend the $1,054 per employee monthly contributions to the State Employee Group Benefit Plan for a period of up to two months.

### Fiscal Note 2023 Biennium

**Bill #:** SB0119  
**Title:** Revise state employee and U-system health plan laws for temporary state employer holiday  
**Primary Sponsor:** Osmundson, Ryan  
**Status:** As Introduced  

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<tr>
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<td>State Special Revenue</td>
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**Description of fiscal impact:** SB 110 directs the Governor and the Commissioner of Higher Education to suspend the employer contribution to the state employee group benefit plan or the Montana university group benefit plan for a period of up to two months in FY 2022. Savings are generated due to employer contributions not being made for this two-month period.
Please type your questions into the chat box.
Thank you!

Your opinion is important to us. After the webinar ends, you will be redirected to a web page containing a **short survey**. Your answers to the survey will help us as we plan future NASHP webinars.

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