A Bolder Retiree Health Vision

For the State of Michigan

House Committee on Retiree Health Care Reforms

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Incremental Steps are Not Sufficient…

- The state, cities and other government plans face overwhelming GASB liabilities
- Health care trend continues to outpace overall inflation and growth in the Michigan economy
- Health costs have a significant negative effect on taxes, the competitiveness of the State, and the competitiveness of the State's industry
- Health costs are a major concern of the State's retirees as well as active state employees planning for retirement
- Slowing or even stopping the increase in direct health costs will not be sufficient to address these concerns

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Strategies to Avoid

Achieving reductions in overall retiree liability can be done in a variety of ways. However, some options should be off the table:

Dramatic cost shift/ benefit reduction	Not fair to retirees on fixed income. May undercut the important risk protection aspect of insurance
Curtailing eligibility	Some changes in eligibility are probably appropriate, but the effect will be longer term
Care rationing	Used by many countries but very unpopular. Difficult to implement and to maintain. Counter to U.S. value system of choice and access
Price setting	Again used by many countries but also unpopular. Constrains innovation and encourages "two class" system for those who can afford to pay privately
Reduced care quality & access	Not in the interest of the state or its retirees/employees. Also counter to the American value system

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A Bolder Vision…

A substantial reduction in Retiree Health costs would:

- Dramatically reduce GASB liabilities
- Permit tax reductions or reallocation of spending on other critical needs
- Improve the competitiveness of the State
- If done correctly, reduce concerns about future health care costs for employees and retirees
- Establish Michigan as a leader in health care

A **Bold** objective would be to reduce the State's retiree health costs by **20%** by 2012

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A "Straw-man" Allocation of Savings

The target could be reached by:

- A modest increase in plan participant responsibility
- A more focused approach to reducing the cost of care

Why any increase in participant responsibility?

- Need to engage consumers as part of the solution through ownership of controllable expenses
- Create the ability to provide incentives for good health practices and decision-making
- Equalize eligibility fairness between different employee groups

Note that there are opportunities to reduce the impact of this change:

- More readily available savings vehicles
- Roll-overs of other benefit payouts, e.g., unused vacation pay
- Incentive contributions for healthy lifestyle choices

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Key Elements of an OPEB Mitigation Strategy

Products alone are insufficient as rating agencies expect a formal, cohesive strategy for managing OPEB obligations

Comprehensive OPEB Mitigation/Management Plan

Financial Planning Strategy

Financial Services

Coordinate/provide key elements of financial strategy including:

- Funding strategy
- Actively managed investment strategies
- Performance forecasting and reporting
- Capital planning support

Cost Containment Strategy

Health Plan

Provide key elements of health care cost containment strategy including:

- Defined contribution approaches
- Medicare Advantage / Part D
- Medical management strategy
- Disease management program
- Wellness and incentive programs

Supporting Analysis

Other Plan Sponsor Advisors

Provide key elements of analysis including:

- Actuarial analysis
- Capital planning analysis
- Regulatory guidance
- Tax guidance

A bold solution will help reduce liability, control costs, maintain labor relations, and deliver quality benefits to retirees seamlessly and efficiently.

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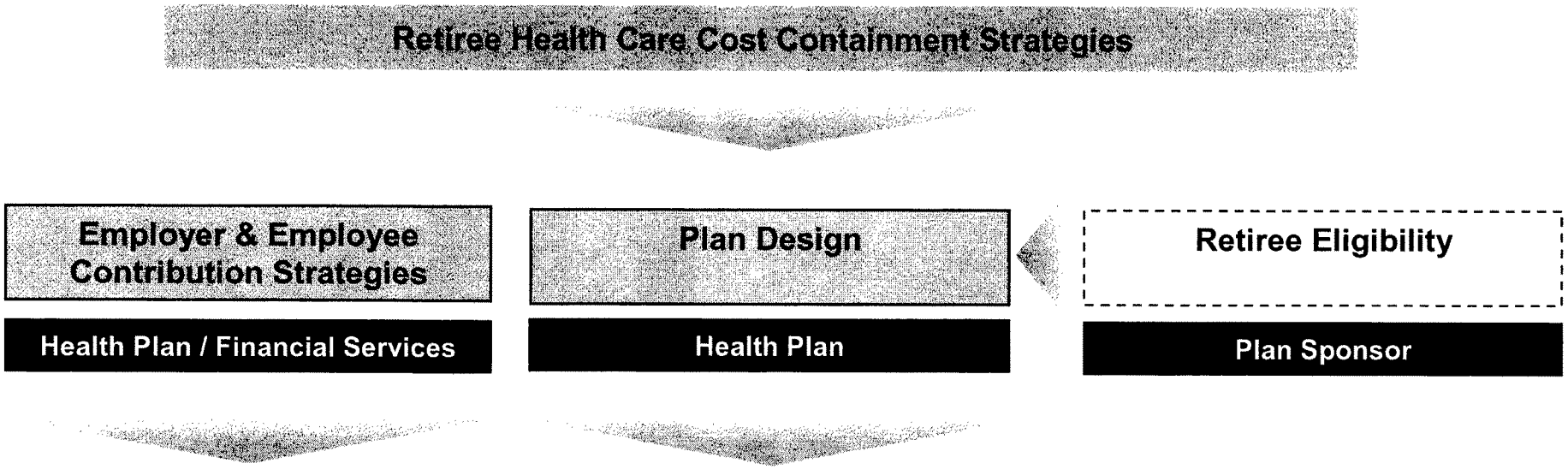
A Focus on Cost Containment Strategies



Contributions

– Employee contributions may be initiated or increased

– Deploy strategies to move from the pay-as-you-go to one that promotes pre-funding

Plan Design

– Close the current plan

– Transition from a Defined Benefit model to a Defined Contribution model

– Consider leveraging alternative solutions available through the Medicare Modernization Act

– Implement and embed programs that optimize health & healthy behaviors

Retiree Contribution Strategies

Maximize Equity through Funding Strategies

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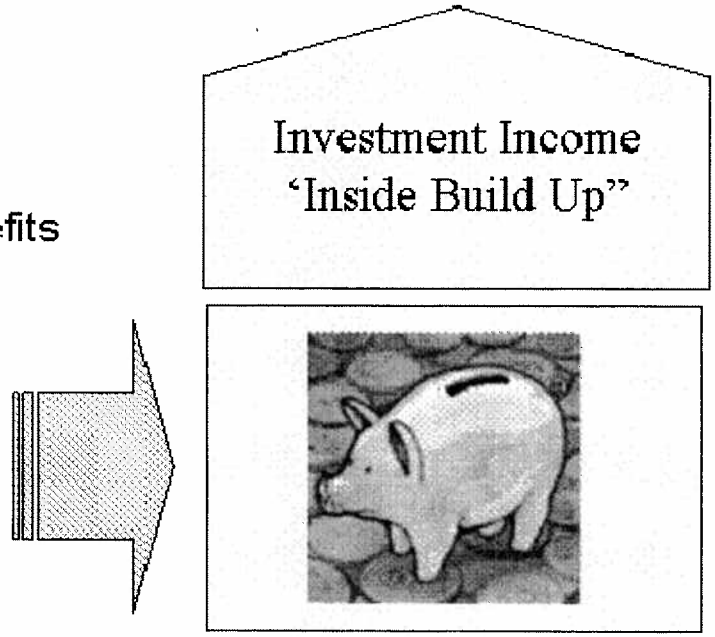
Collective Bargaining

- Union negotiated benefits

Employer-Mandated Contributions

- Unused vacation
- Unused sick pay
- Severance
- Bonus, other comp
- Annual salary increase



Tax Advantaged Payout for Qualified Health Care Transactions

Employee Buy-outs

Notional Account Balances (Employee Vouchers)

Section 213(d) expenses,

Post-65 Individual Options

Ohio Public Employees Retirement System

"A Health Care Preservation Plan"

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1. Preserve access to quality healthcare coverage for all eligible members and dependents
2. Commit to a long term solvency period
3. Balance healthcare changes between current and future retirees
4. Consider career service, membership status and affordability in determining health care premiums
5. Balance OPERS responsibilities with personal accountability and consumerism of their members to preserve benefits for the long term
6. Manage the program with sound business practices consistent with industry norms and marketplace developments
7. Review annual program adjustments to keep pace with increasing health care and pharmacy trends – allowing a phased in approach to benefit changes
8. Support health and disease management activities that assist benefit recipients and hold vendors accountable for results
9. Pursue health care public policy changes and related advocacy activities
10. Maintain affordability of health care for members through multiple plan designs while maximizing group purchasing power
11. Educate and communicate with all interested parties as early as possible and on an ongoing basis about all aspects of the OPERS health care program

Ohio Public Employees Retirement System

Innovative Funding Structure

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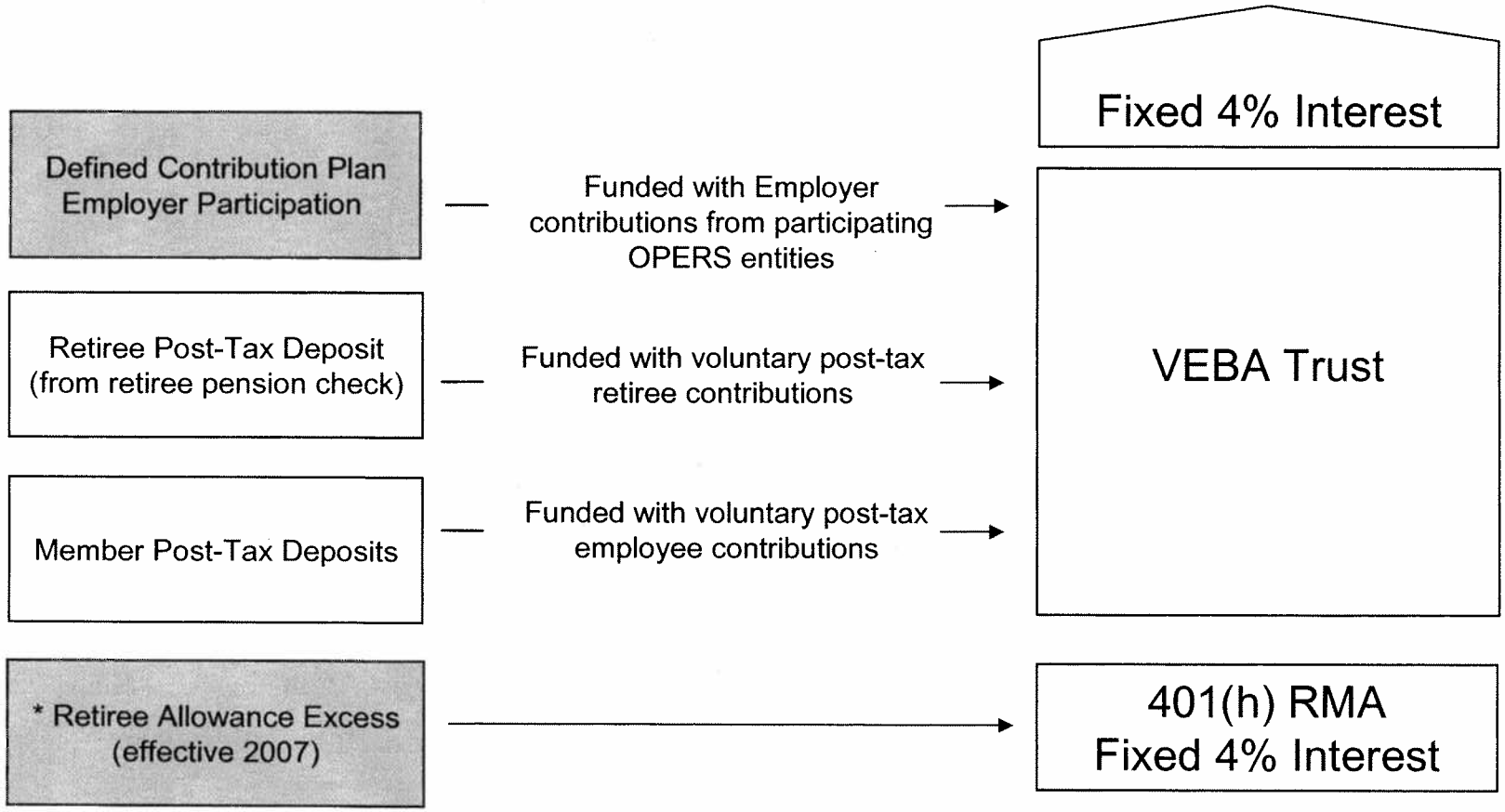

- When the premiums deducted for a retirees selected plan cost less than the amount of the allowance, the excess amount will be deposited in the 401(h) RMA and made available to pay for other health care related premiums or expenses.

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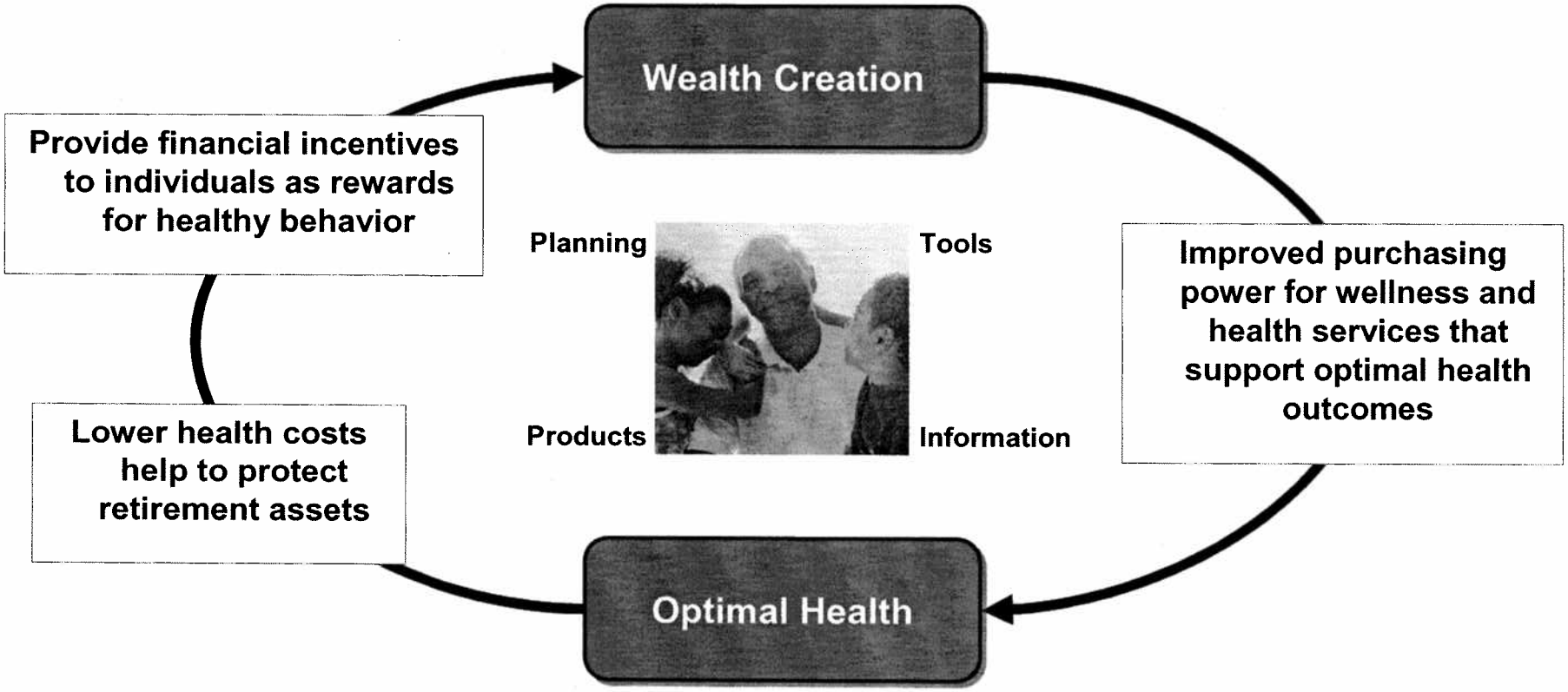
Investing in "Health Equity"



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Reducing Care Costs

Additional savings must be achieved through reductions in the total cost of care. This can be achieved through four basic mechanisms:

Maximize the Medicare Reform	Make available Medicare Advantage and Part D plans to simplify coverage, reduce cost and administrative burden and improve coordination of care
Health optimization	Providing the right care at the right time, with a particular emphasis on effective management of chronic illness and health risks to avoid acute illness
Innovations in delivery	Less costly, more convenient delivery of health services, particularly focused on monitoring and management of health risks
Efficient clinical pathways	Application of the most efficient treatment protocols to achieve desired health outcomes. Systematic elimination of medical errors and unneeded care.

Medicare Advantage Plans

An Integrated Delivery System

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Goal: Offer Medicare Advantage Solutions

The Coordinated Challenge

Original Medicare Plan Part A
(inpatient hospital care – 2007 amounts)

- $992 initial deductible (days 1-60)
- $248 per day copay (days 61-90)
- $496 per day copay (days 91-150)

Original Medicare Plan Part B
(doctor visits + emergency, outpatient & preventive care – 2007 amounts)

- $131 deductible
- Then 20% coinsurance
- No hearing aid allowance
- No eyewear allowance

Medicare Wraparound (supplement)
(typically self-insured plan covering gaps in Original Medicare Plan coverage)

Separate Insurance Carrier

- $300 deductible
- Then 20% coinsurance

Medicare Prescription Drug Coverage
(typically self-insured plan at least actuarially equivalent to Medicare Part D)

Separate Pharmacy Insurance Carrier

- $10 copay preferred generic
- $20 copay preferred brand
- $40 copay non-preferred generic/brand
- Costly consulting services and heavy ongoing administrative burden to obtain federal Retiree Drug Subsidy

The Solution

Inpatient hospital care
(enhances Original Medicare Plan Part A)

- No deductible
- $0 to $750 per stay copay

Doctor visits + emergency, outpatient & preventive care
(enhances Original Medicare Plan Part B)

- No deductible
- $5 to $25 copay for primary care doctor visit
- $0 copay for preventive services
- Hearing aid allowance: up to $800 every 36 months
- Eyewear allowance: up to $100 every 24 months

More benefits than the Original Medicare Plan

- No need for Medicare wraparound

Medicare Prescription Drug Coverage (Medicare Part D)

- $10 copay preferred generic
- $20 copay preferred brand
- $40 copay non-preferred generic/brand
- Aetna handles the administrative burden – plus reduced plan premiums often provide similar savings to federal Retiree Drug Subsidy

Results - Aetna's Holistic Integrated Medical Management Approach

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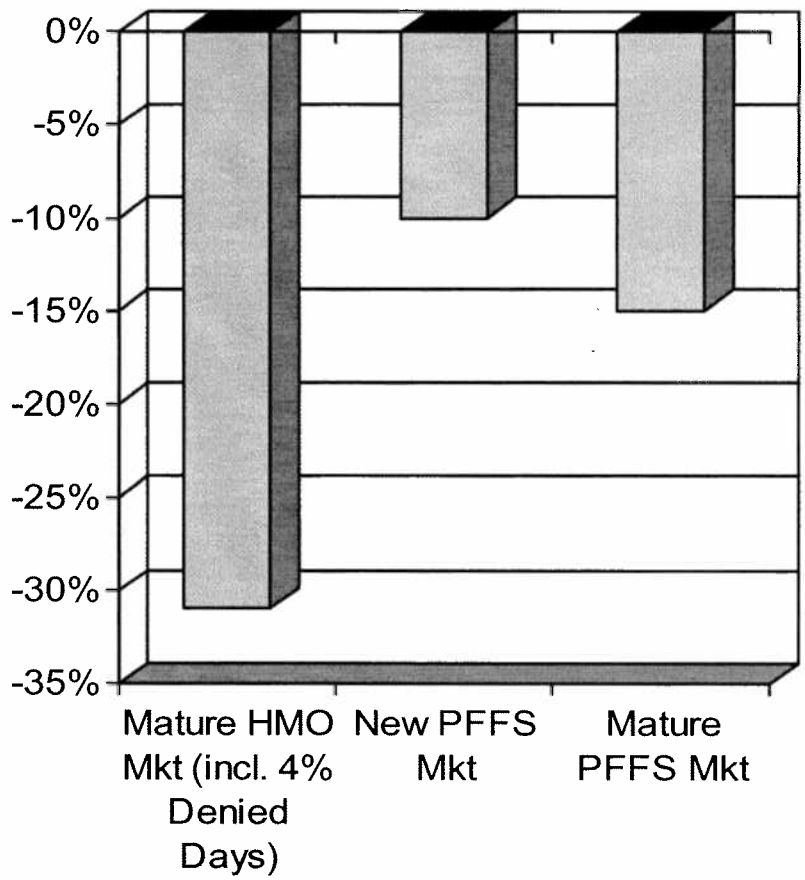
- Dedicated Medicare care management has reduced acute bed days
- Dedicated Geriatric **Case Management** and Disease Management included for PFFS
- Acute and subacute bed days account for 47% of *total* medical cost
- Avoided days yield better quality of life
- Results require substantial membership and time for impact
- Investment required:
  - Dedicated Geriatric Case Manager staff sufficient to manage 17% of members
  - All work integrated into a single process

Reduction in Acute Bed Days Compared to FFS Medicare



Demonstrated Savings through Medicare Advantage PFFS plans

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	Projected 2008 Costs Under Current ASO Arrangement	Projected 2008 Costs Under PFFS	Projected 2008 Savings With PFFS
Plan Sponsor A *(Medical plan of similar benefit level)*	$87,120,000	$77,760,000	10.7%
Plan Sponsor B *(Medical plan of similar benefit level)*	$31,680,000	$27,360,000	13.6%
Plan Sponsor C *(Medical & Rx plan of similar benefit level)*	$15,000,000	$13,800,000	8.0%

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Health Optimization

Goal: Reduce costs through health optimization

How it can be achieved:

- Application of clinical protocols to individual health status based on existing clinical records. This can be done today with applications like Aetna's Care Engine® powered Personal Health Record
- Emphasis on screening and monitoring to manage chronic illnesses and risks (e.g., diabetes, CHF) and avoid episodes of acute illness.
- Consumer incentives to maintain health status

Example:

- Effective management of diabetes can sharply reduce or eliminate the need for hospitalization, reducing overall costs by 60%+

Collateral benefits

- Healthier population, improved quality of life

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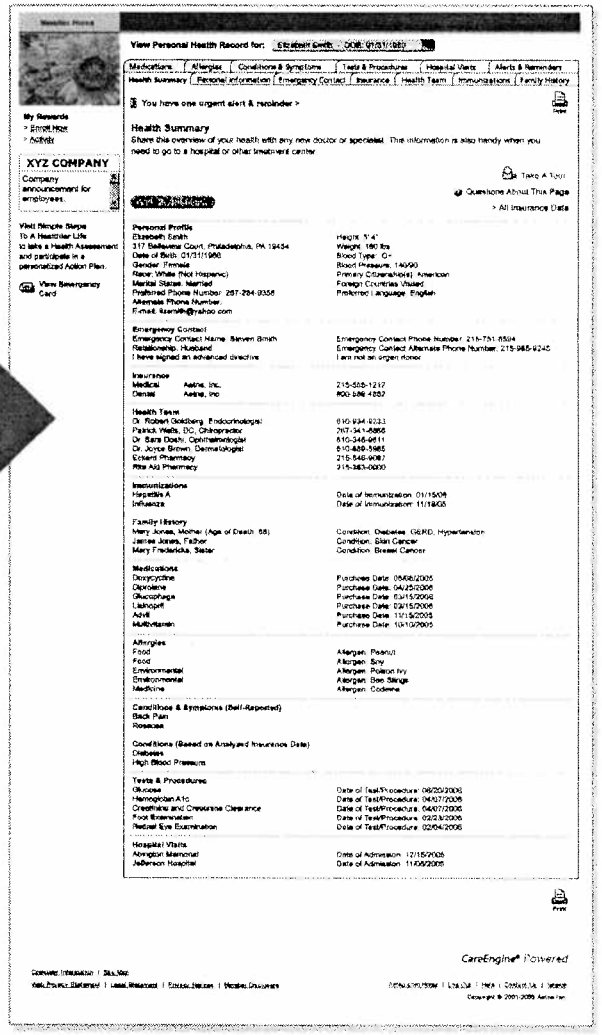
A Healthy Equation

Equity = Assets – Liabilities

Optimizing health status:

- Knowledge
  - Protocol-driven Personal Health Record
- Prevention
  - Diet and weight
  - Smoking
  - Stress and happiness
- Compliance
  - Care management programs
  - Wellness incentives



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PHR Pilot Preliminary Findings

- Optimal Health
  - Users are engaged in ensuring the completeness and accuracy of their records
  - Anecdotally, they are using the information to promote a more robust dialog with providers
- Data Privacy & Security
  - Individuals continue to be concerned about having their health information available on the web
  - Proactive communication of security practices and the utility and usability of the product have mitigated their concerns
- Member Adoption
  - Individuals across employer types are using the PHR
  - Targeted electronic marketing messages (email, website postings) are significantly more effective at driving adoption than other marketing activity
  - Adoption is high among companies with retail or manufacturing workforces whose employees do not use personal computers (PCs) with Internet access as part of their daily activity

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Wellness- Aetna's HealthyRoads Program

- The coach will help the member achieve their personal goals by developing a program focused on Weight Management, Tobacco Cessation, and Healthy Living
- Member outreach campaign to include welcome letter, two welcome phone calls and monthly electronic messages
- Phone-based coaching sessions that identify a specific program with licensed health professionals
- Continued follow-through, by providing incentives and rewards aligned with each program
- Targeting of preventive efforts
  - weight management
  - hypertension
  - high cholesterol
  - reduction in sedentary behavior

Innovations in Care Delivery

Goal: Reduce costs through innovation

How it can be achieved:

- Leveraging technology to support lower cost, more accessible care and health management options
- Substitution of alternative therapies, e.g., pharmacy, for traditional cost-intensive acute care, shifting the focus from treating acute episodes of illness to effectively managing health risks

Examples:

- Minute Clinics can reduce the cost of certain primary care services by 50%+ while increasing patient convenience
- Remote monitoring can reduce the risk of hospitalization
- Intermediate care facilities can substitute for inpatient hospitalization

Collateral benefits

- Improved consumer convenience, less invasive care

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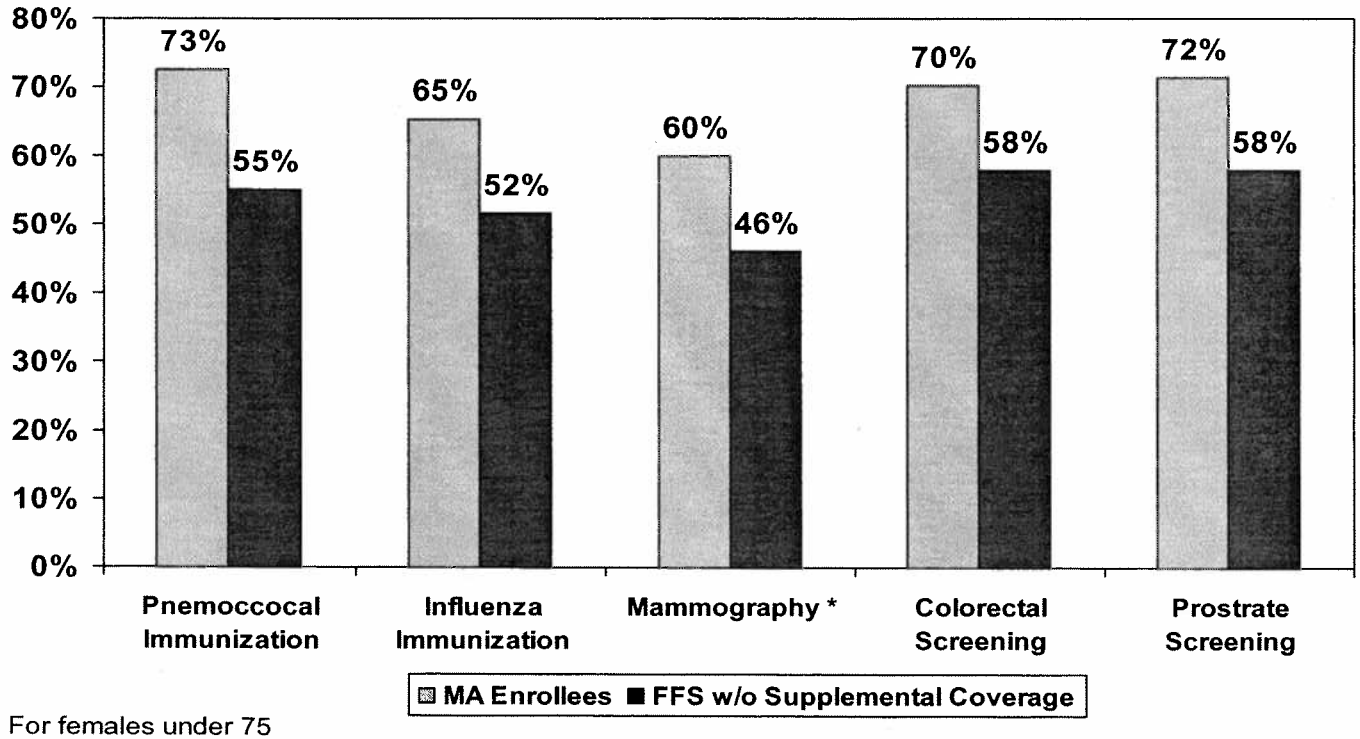
A Focus on Preventative Services

MA Enrollees Are More Likely to Receive Preventive Services Than FFS Beneficiaries w/o Supplemental Coverage



* For females under 75

Source: Based on 2005 Medicare Current Beneficiary Survey

Efficient clinical pathways

Goal: Reduce costs through clinical pathways

How it can be achieved:

- Application of efficient care protocols to condition management
- Standardization of treatment based on proven efficaciousness

Examples:

- The cost of lower back pain management can be reduced 60-70% through PT-based management protocol (Virginia Mason)
- Re-admissions following heart surgery can be effectively eliminated through application of standard treatment protocol (Geisinger)

Collateral benefits

- Fewer medical errors
- Greater consumer convenience and satisfaction

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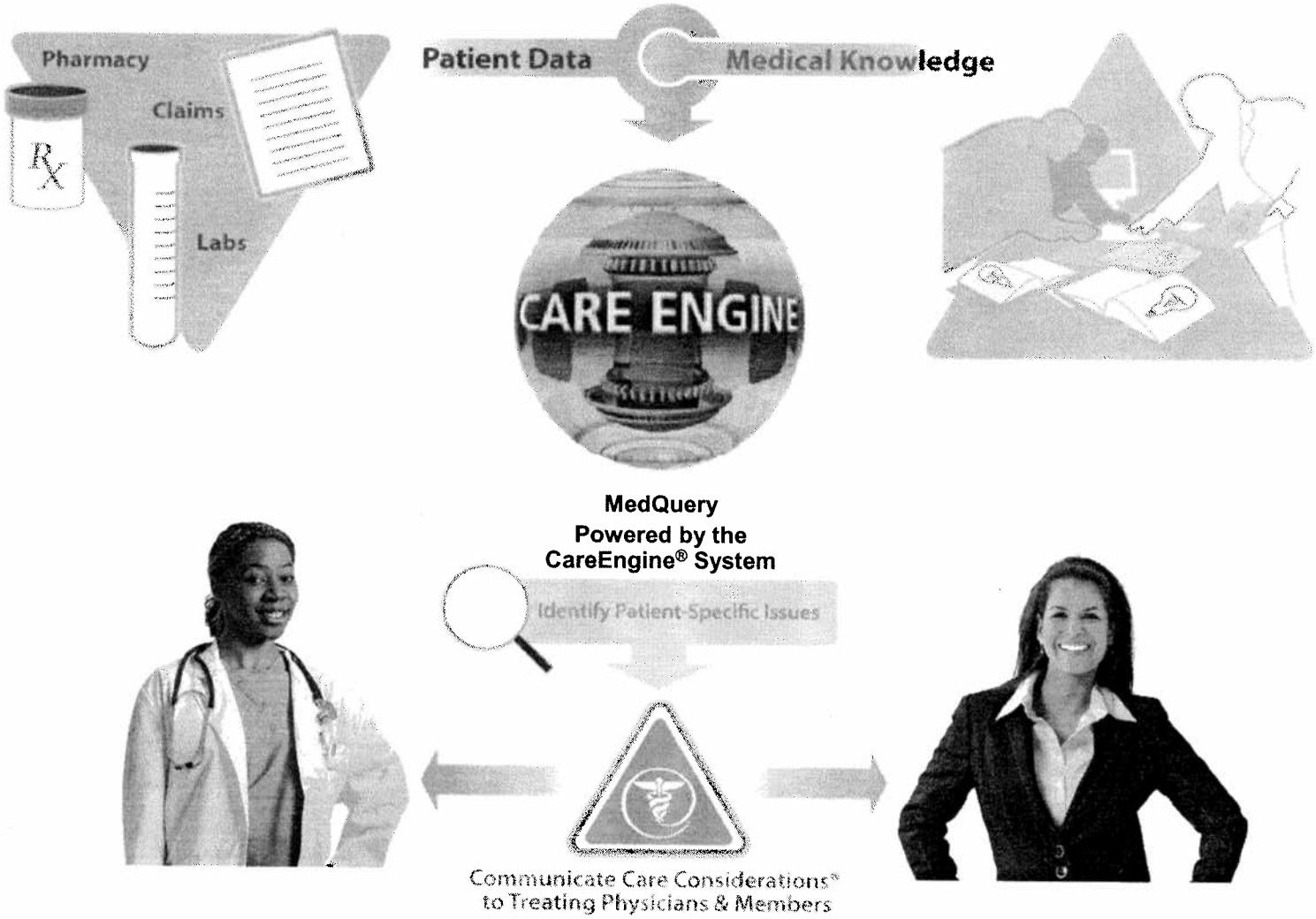
Aetna's Foundation is with the CareEngine



Summary

- The State and the people deserve a bolder solution than simply slowing the rate of increase of health care costs
- A ***substantial reduction*** in health costs is needed to maintain competitiveness for the state, meet other public goals, and protect retiree savings. That should be the vision and the goal
- Substantial cost reduction is feasible through
  - Maximizing the Medicare Reform
  - Health optimization
  - Efficient clinical pathways
  - Innovation
- Greater cost-sharing with consumers should be part, but only part, of the overall solution. The larger burden should be on the health system
- Cost reduction can be achieved while maintaining quality, reducing medical errors and improving the consumer experience
- States have the influence to drive this change

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