

Health Insurance Cost Management Strategies

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Introductions

Name: Mel Diaz, MBA. Role: Speaker
- *Area Senior Vice President, Gallagher*



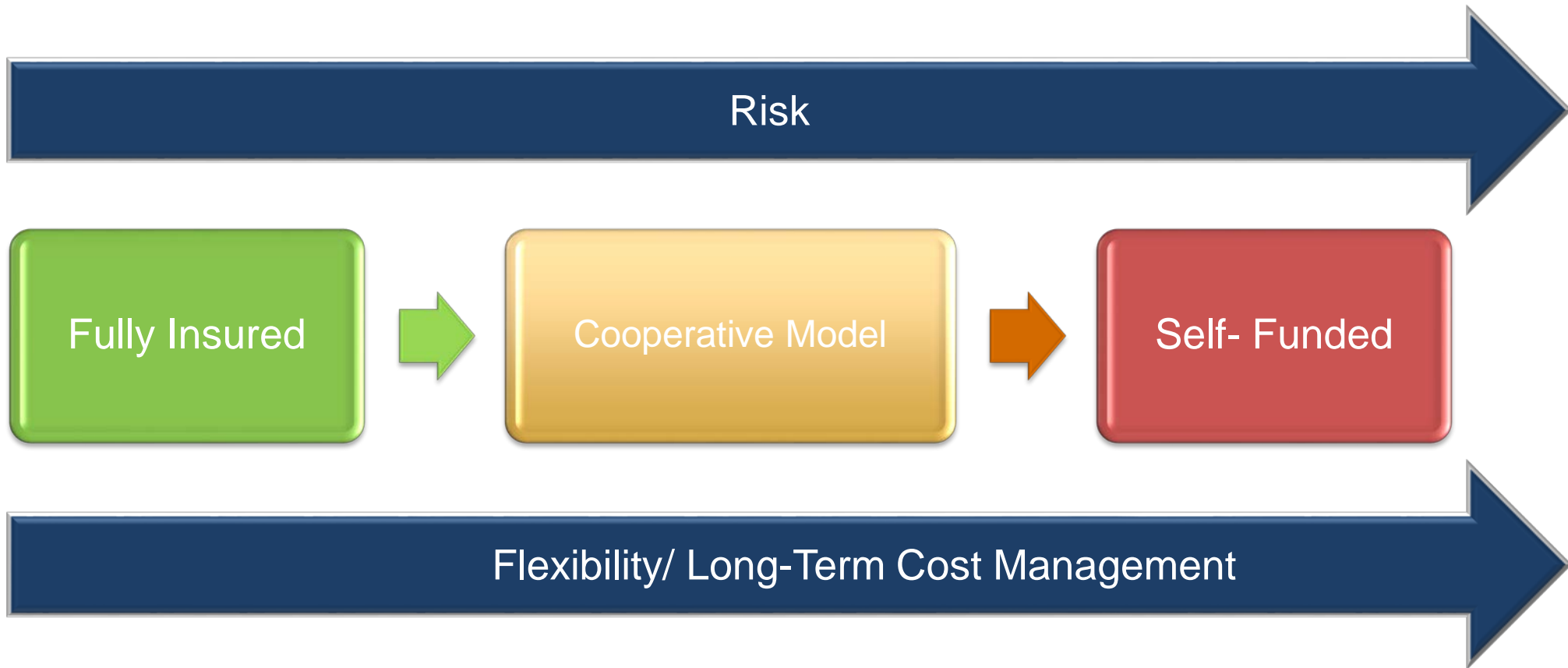
Name: Jay Kahn, CSBO. Role: Speaker
- *Director of Finance & Operations, Lake Bluff Elementary School District 65*



Name: Kourtney Kellen. Role: Moderator
- *Associate, Gallagher*



Plan Funding Spectrum



Consideration: Types of Insurance Programs

- Fully Insured
- Self- Funded
- Cooperative

Consideration: Risk Tolerance

- Fully Insured: Insurer bears risk of claims exceeding expectations
- Self- Funded: Employer bears risk of claims exceeding expectations
- Cooperative: Hybrid of fully insured & self-funded



Consideration: Plan Flexibility

- Fully Insured: Preset selection of plan designs & limited flexibility
- Self- Funded: Flexible
- Cooperative: Preset plan designs OR flexibility of self-funding



Consideration: Funding

- Fully Insured: Employer pays premiums
- Self- Funded: Employer has a great deal of flexibility
- Cooperative: Employer pays premiums



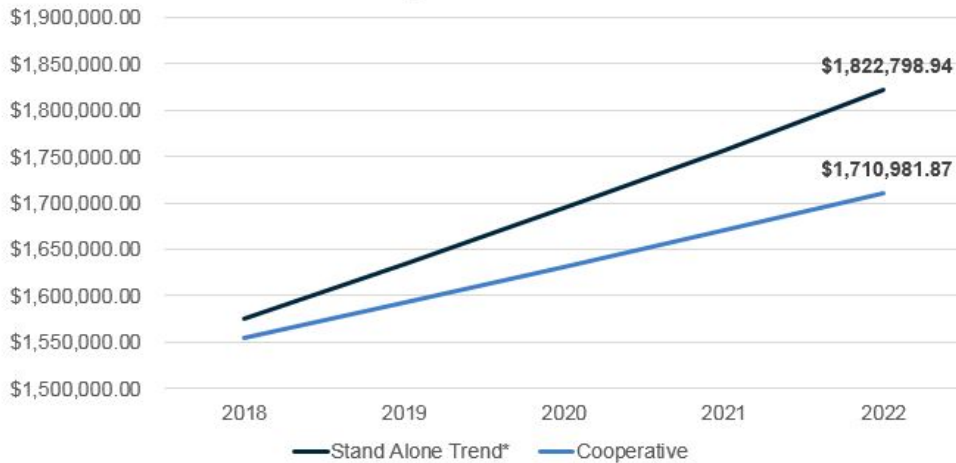
Consideration: Cash Flow

- Fully Insured: Predictable premium level
- Self- Funded: Variable and unpredictable
- Cooperative: Steady premium and predictable annual adjustment



Fully Insured vs. Cooperative- Sample 5-Year Projection

Sample School District- Standalone Trend vs Cooperative Trend



* Annual stand alone trend percentages from the Price Waterhouse Cooper Medical Cost Trend: Behind the Numbers 2018 Report

5-Year Cost Savings = \$322,400

| | Fully Insured Composite Trend | Co-op Composite Trend | Savings |
|----------------------|-------------------------------|-----------------------|------------------------|
| 5-Year Trend | 3.725% | 2.42% | |
| Current Annual Spend | \$ 1,518,174.00 | N/A | |
| Year 1 Annual Spend | \$ 1,574,725.98 | \$ 1,554,913.81 | \$ (19,812.17) |
| Year 2 Annual Spend | \$ 1,633,384.52 | \$ 1,592,542.73 | \$ (40,841.80) |
| Year 3 Annual Spend | \$ 1,694,228.10 | \$ 1,631,082.26 | \$ (63,145.84) |
| Year 4 Annual Spend | \$ 1,757,338.09 | \$ 1,670,554.45 | \$ (86,783.64) |
| Year 5 Annual Spend | \$ 1,822,798.94 | \$ 1,710,981.87 | \$ (111,817.07) |
| TOTAL | | | \$ (322,400.52) |

Consideration: Claims Administration

- Fully Insured: Insurer handles
- Self- Funded: Third Party Administrator (TPA) handles
- Cooperative: Third Party Administrator (TPA) handles

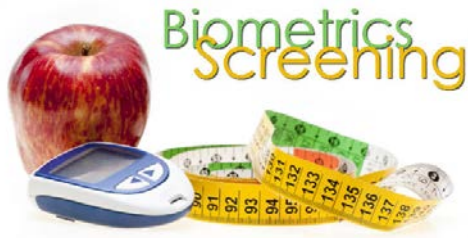


Consideration: Value-Added Programs

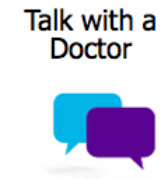
- Fully Insured: Options available through carriers, limited selection
- Self- Funded: Limited options available
- Cooperative: More affordable options through purchasing power of cooperative



Examples of Value-Added Programs



COBRA/HIPAA
Administration



Consideration: Pharmacy

- Fully Insured: Pharmacy solution built in
- Self- Funded: Carrier or carve-out solution
- Cooperative: Carrier or carve-out solution



Pharmacy- Quick Facts



Specialty drugs will account for 50% of annual pharmacy costs in 2018.



The prescription drugs sector suffers from lack of cost transparency, so drug pricing is an important area for scrutiny in the PBM procurement process and analysis.

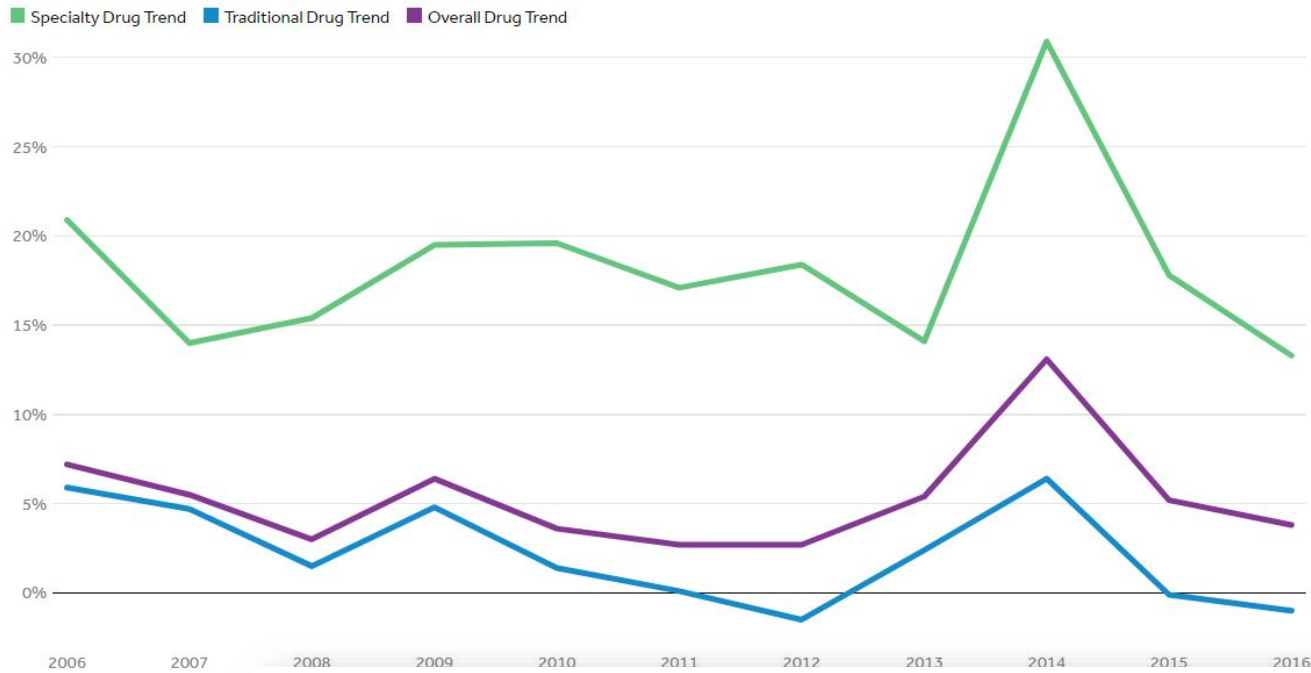


Drug utilization management tools: Step-Therapy, Prior Authorization, and Drug Quantity also continue to offer opportunities for cost containment.



Costly new specialty drugs were a major driver of a recent spike in health spending

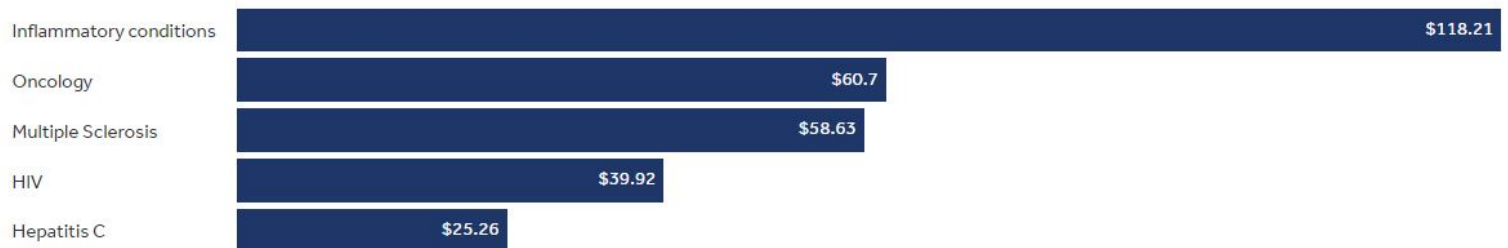
Express Scripts drug trend by therapy class, 2006 -2016



Source: Kaiser Family Foundation

Medications for inflammatory conditions and multiple sclerosis topped specialty drug spending in 2016

Express Scripts per-member-per-year spending, top 5 specialty therapy classes, 2016



Source: Kaiser Family Foundation analysis of data from Express Scripts 2016 Drug Trend Report. • Get the data • PNG

Pharmacy Procurement Example

Background

- School District with 1,369 employees seeking reduction in projected prescription drug costs through procurement and contract changes

Challenge

- Reduce projected PBM costs without impacting member copays or placing restrictions on plans

Solution

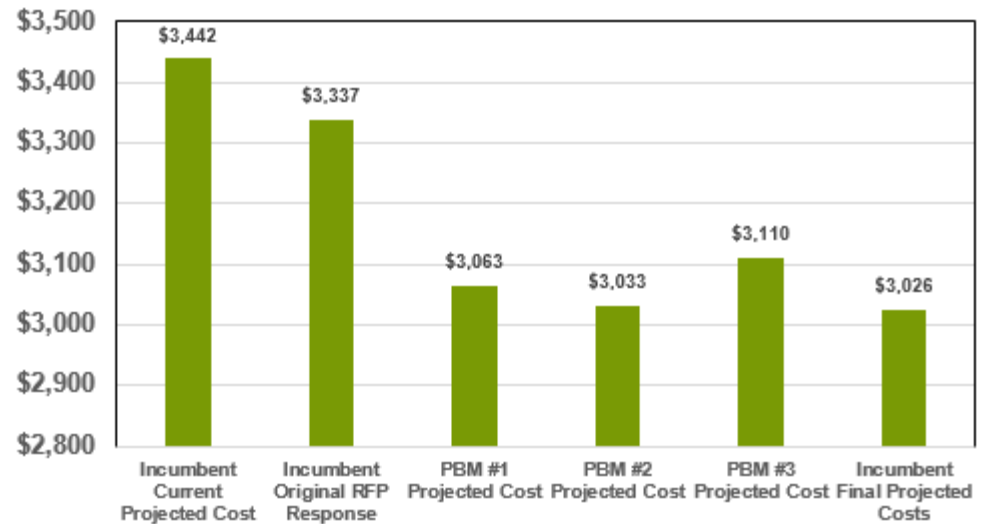
- Conduct RFP soliciting several national PBMs to compare, negotiate and revise contractual provisions

Pharmacy Procurement Example

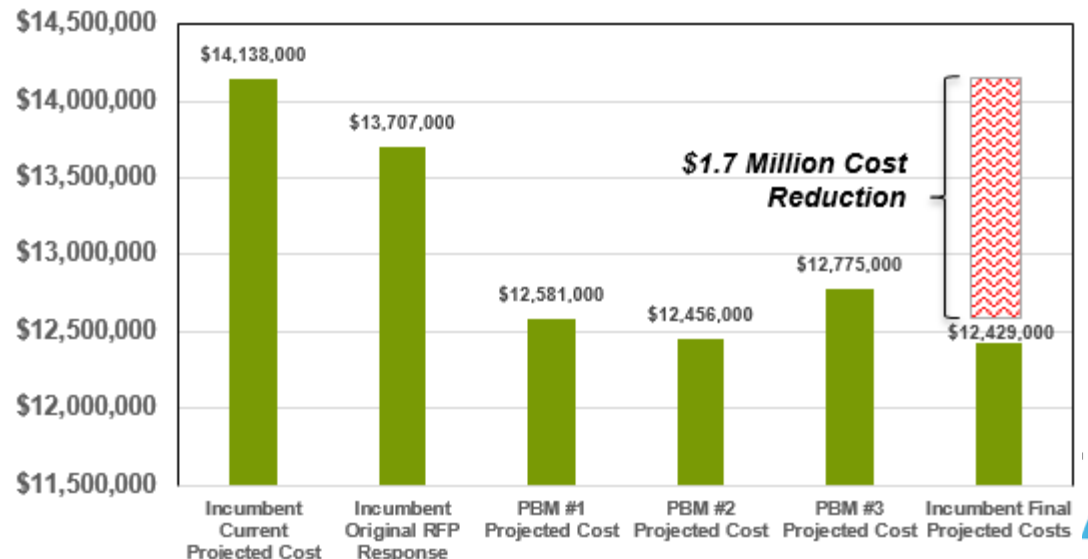
Results

- Estimated **savings of \$1.7 million** or \$416 per employee per year over three years by negotiating with incumbent PBM to adjust contract provisions to compete with other PBMs. RFP stipulated that the selected PBM would pay procurement fee and audit fees in years two and three of the contract.
- Savings were achieved **without** changing copays, adding additional plan restrictions, without changing vendors and did not affect the stop loss policy.

PEPY Cost Projections (2015-2017)



3 Year Rx RFP Cost Projections (2015-2017)



Questions and Answers

We thank you for your time!

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