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Pennsylvania
Insurance Department

VIA HAND DELIVERY

Stephen J. Johnson
Deputy Insurance Commissioner
Pennsylvania Insurance Department
1326 Strawberry Square
Harrisburg, PA 17120

Re: Highmark Non-Confidential Response to Condition 19 of the Pennsylvania Insurance Department's Approving Determination and Order No. ID-RC-13-06

Dear Deputy Commissioner Johnson:

We are enclosing herewith and filing with the Pennsylvania Insurance Department a Non-Confidential Response to Condition 19 of the Pennsylvania Insurance Department's Approving Determination and Order (ID-RC-13-06). Please address any questions to the undersigned.

Very truly yours,

Jack M. Stover

JMS/skm
Enclosure

RESPONSE TO CONDITION 19 OF THE PENNSYLVANIA INSURANCE DEPARTMENT'S APPROVING DETERMINATION AND ORDER (ORDER NO. ID-RC-13-06)

EXECUTIVE SUMMARY

Highmark submits this description of the methodology for measuring and reporting IDN Savings in compliance with Condition 19 of the Pennsylvania Insurance Department's Approving Determination and Order ID-RC-13-06 (termed *Approving Order*).

Condition 19 requires an annual report showing actual results achieved on four benchmarks:

Benchmark 1: Total IDN Savings
Benchmark 2: $3,000 savings for a family of four by fiscal year 2016
Benchmark 3: 10% cost savings on inpatient spend
Benchmark 4: 10% cost savings on outpatient spend

In Highmark's Form A filings (collectively "Form A") with the Pennsylvania Insurance Department, Highmark presented three scenarios. The first scenario is for *No Transaction* in which the IDN transaction did not occur. The second is *UPMC Out of Network* in which Highmark Health Services (Highmark Health) is unable to negotiate a contract with UPMC after 12/31/14 resulting in UPMC being out of network beginning in 2015. Finally, the third is *UPMC In Network* in which Highmark Health is able to negotiate a contract with UPMC after 12/31/14 so that UPMC is still in network after 2014. The term *IDN Scenario* will refer to whichever of the last two scenarios is relevant pertaining to the actual outcome of the UPMC negotiations.

The *Form A* presented an IDN savings opportunity built up from a variety of factors that were representative of the types of initiatives Highmark might employ. Highmark has always recognized that some of the initiatives presented in the Form A may be less effective than anticipated when actual results are measured, in which case other initiatives would be pursued to help realize the total savings. As a result, the foundational and ultimate measure of IDN savings is the total (i.e. across all service categories) per member per month cost (PMPM) relative to the *No Transaction* scenario.

Achieved savings will be measured by taking the difference between the actual experience PMPMs and *No Transaction* PMPMs and multiplying by the actual enrollment. A more detailed description of the proposed methodology is described below.

Report and Data Specifications

Consistent with the Form A, the actual enrollment and claims data will be limited to members and clients residing in the Western Pennsylvania (*WPA*) service area for the included business segments, which are detailed below. As with the Form A, the savings calculations will be done separately for each business segment and composited to an aggregate amount.

Highmark made every effort to project accurately the claim PMPMs in the Form A. However, given the general historical volatility in claim trends and the length of time into the future of these projections, it is possible that the emerging experience will include material factors beyond Highmark's control that are not reflected in the Form A and that may obscure the measurement of the true value of the IDN. Therefore, Highmark may adjust or normalize the actual data for mix or selection issues as long as such adjustments are actuarially appropriate. If any adjustments are made, they will be noted in the annual report.

Given the uncertainty concerning the terms of a contract with UPMC effective beginning in 2015, Highmark proposes adjusting the *Reimbursement* component and consequently the *Total IDN Savings* for the *UPMC In Network* benchmarks to reflect the actual terms of the contract if such an agreement between Highmark and UPMC is reached.

IDN SAVINGS BENCHMARKS

Highmark proposes the following changes to the required level of detail for reporting IDN Savings:

1. Both Appendix 3 and Attachment 4 of the Approving Order use the term "Utilization Shift" but not in the same way. The third item in Attachment 4 is "Utilization Shift", but Appendix 3 uses the same term to refer to the sum of the first three items in Attachment 4. To prevent confusion, the term "Utilization Shift" as referenced in Attachment 4 has been changed to "Facility Mix" in this proposal.

2. As specified in the Approving Order, the report must present the actual savings in the eight categories of Attachment 4 of the Approving Order "or such other categories as the Department may approve." Highmark proposes combining the last two categories, "Cost/Quality" and "Other" into a single category labeled "Other Savings". Cost/Quality is a small portion of the *IDN Implementation* savings and will be very difficult to isolate and measure in the actual experience both because of the nature of the savings and the small size.

METHODOLOGY FOR CALCULATING ACTUAL IDN SAVINGS

Appendix 3 of the Approving Order specifies that the IDN Savings shall be measured "relative to the 'no transaction scenario' as described in the Form A". The report must compare the savings in total dollars as well as per member per month (PMPM) and must show the calendar year results as well as the cumulative effect. Finally, the comparison must be at the level of detail found both in the table in

Appendix 3 and in Attachment 4 of the Approving Order "or such other categories as the Department may approve."

A detailed discussion for each of the components of IDN Savings follows. Highmark has reviewed this methodology with an independent actuarial consulting firm, which considers the proposed methodology to be reasonable.

Total IDN Savings

As mentioned above, Highmark views the *Total IDN Savings* PMPM as the foundational and ultimate measure for the financial value of the IDN. The *Total IDN Savings* PMPM will be measured as the difference in the actual PMPM and the *No Transaction* PMPM by business segment for the appropriate measurement period. Both the actual and *No Transaction* PMPMs will be based on all products (i.e. broad and narrow network products) so that the measure will represent actual achieved savings rather than just potential savings. Also, both the actual and *No Transaction* PMPMs will be composited across business segment using the actual enrollment by business segment for the appropriate period.

The *Total IDN Savings* in millions will be the *Total IDN Savings* PMPMs times the actual enrollment by business segment for the appropriate measurement period.

IDN Savings by Component

As mentioned above, the *Total IDN Savings* was built up from a variety of components that were representative of the types of initiatives Highmark might employ. Splitting the savings in the emerging experience into these components is considerably more complicated than simply projecting the estimated savings. The methodology below is a reasonable approach to approximate the projections and has been reviewed with an independent actuarial consulting firm.

In Highmark's view, the *Total IDN Savings* is the true measure of success, and the amounts by component are explanatory, useful in understanding the nature of the *Total IDN Savings*. The methodology below is intended to decompose the *Total IDN Savings* into the components in a consistent way with the development and without double counting any savings. In order to assure that the components sum to the total, the final component *Other* will be calculated as the *Total IDN Savings* less all of the other components.

Oncology Shift

UPMC changed its billing practice so that reimbursement for physician oncology services switched from the physician contract to the facility outpatient contract. This resulted in a significant increase in cost to the community. The *Oncology Shift* savings relate to shifting this care to a setting where the reimbursement is more appropriate.

Since it is difficult to isolate the oncology care that actually shifted in the emerging experience, Highmark proposes measuring *Oncology Shift* PMPM as the difference in the total oncology PMPM across all providers in both outpatient and physician settings combined for the actual PMPM and the *No Transaction* PMPM for the measurement period.

The *Oncology Shift* in millions will be the *Oncology Shift* PMPMs times the actual enrollment by business segment for the appropriate measurement period.

Facility Mix

The next several factors are not independent, which makes isolating each of them more complicated. *Facility Mix* represents the savings related to shifting inpatient and outpatient care to more efficient and cost effective facilities before accounting for changes in reimbursement or overall utilization reductions. *Reimbursement* represents the savings (or costs) related to the changes in facility price levels after adjusting for *Facility Mix*. *Healthier Population* represents elimination or avoidance of inpatient utilization due to more effective care management such as found in Patient Center Medical Homes and Accountable Care Organizations. This factor is applied after adjusting for *Facility Mix* and *Reimbursement*. Finally, *Right Setting - Inpatient* reflects savings related to shifting inpatient care to an outpatient setting after applying all of the previous factors. This sequence of calculations is described below.

In order to isolate these effects, one needs to construct *No Transaction* and *IDN* PMPMs for the intermediate steps. This construction is purely to split the emerging savings into these components. The nature of these formulas is such that the sum of the pieces equates to the change in the PMPM's for the service category.

As stated above, *Facility Mix* represents savings related to changing the percent of total facility care from more expensive facilities to less expensive facilities. This is calculated before accounting for changes in reimbursement or in overall facility utilization.

In order to isolate this effect, Highmark constructs *No Transaction* and *IDN* PMPMs with baseline costs per utilization and the total utilization from the *No Transaction* scenario. The only difference in the two calculations is the distribution of utilization by provider.

This calculation is done separately for the inpatient and outpatient service lines by business segment.

Facility Mix in millions will be the *Facility Mix* PMPMs times the actual enrollment by business segment for the appropriate measurement period.

Reimbursement

Reimbursement represents the savings (or costs) related to the difference in facility price levels after adjusting for *Facility Mix*. *Reimbursement* will be measured using the same formulas above for *Facility Mix* except that *Baseline* Cost/Util is replaced with the *No Transaction* Cost per Utilization and the *Actual* Cost per Utilization, respectively. The calculated savings will be reduced by the amounts calculated in the *Facility Mix* component above.

This calculation is done separately for the inpatient and outpatient service lines.

Reimbursement in millions will be the *Reimbursement* PMPMs times the actual enrollment by business segment for the appropriate measurement period.

<u>Healthier Population / Right Setting - Inpatient</u>

Healthier Population represents eliminated or avoided inpatient utilization due to more effective care management such as found in Patient Center Medical Homes and Accountable Care Organizations. *Right Setting - Inpatient* reflects shifting care from the more costly inpatient setting to an outpatient setting. Combined, the two factors represent total savings for the reduction in inpatient utilization.

Unfortunately, it is impossible to split these two components precisely in the emerging experience because it difficult to know for certain which portion of the inpatient utilization reduction is eliminated (*Healthier Population*) versus shifted (*Right Setting*). Therefore, Highmark proposes measuring the total inpatient utilization reduction first and then allocating to *Healthier Population* and *Right Setting - Inpatient* based on the assumptions underlying the components in the initial development. Finally, consistent with the Form A, the *Right Setting - Inpatient* savings will be reduced to reflect the offsetting costs in Outpatient after the care shifts to that setting.

To measure the savings related to lower overall utilization, the formulas are the same as for Reimbursement except the *Actual* PMPM uses actual Utilization per 1,000 by provider. Note that after this replacement, the two formulas equate to the final inpatient PMPM for the two scenarios. The calculated savings will be reduced by the amounts calculated in the *Facility Mix* and *Reimbursement* components above.

This calculation is unique to Inpatient.

The savings in millions for these components will be the PMPM savings times the actual enrollment by business segment for the appropriate measurement period.

<u>Right Setting - Outpatient</u>

The other components of *Right Setting* reflect shifting portions of various outpatient service categories to more cost effective settings. Highmark proposes measuring these components as the difference in the actual and *No Transaction* PMPM for each relevant service category across both outpatient and physician settings for the measurement period. The calculated savings will be reduced by any savings calculated for each service line in the previous components.

Right Setting / Right Treatment for Imaging and Lab

Finally, a portion *Right Setting* reflects shifting diagnostic imaging and lab services from outpatient facility to more cost effective settings, such as freestanding centers and physician offices. In addition to this, *Right Treatment* captures the overall utilization reduction in diagnostic imaging and lab services.

Similar to the inpatient process described above, Highmark needs to deconstruct the actual PMPM in order to split these two components. The Right Setting PMPM uses the total utilization from the *No Transaction* scenario with the actual distribution of utilization by place of service.

The savings for *Right Setting* is the difference between the *No Transaction* PMPM and the *Right Setting* PMPM above minus savings from prior components for the service category.

The savings for *Right Treatment* is the difference between the *No Transaction* PMPM and the actual PMPM for diagnostic imaging and lab services across outpatient and physician minus savings from prior components for the service category.

This calculation is done separately for the diagnostic imaging and lab.

The savings in millions for these components will be the PMPM savings times the actual enrollment by business segment for the appropriate measurement period.

Other Savings

The remainder of the IDN Savings is categorized as *Other Savings* category. As previously mentioned, this component includes both the *Cost/Quality* and *Other* from the Form A because Cost/Quality will be difficult to measure and isolate in the actual data.

Other Savings will be calculated as the *Total IDN Savings* less the amounts credited in the previous categories for both the savings PMPM and the savings in millions. This is to prevent double counting of savings and to ensure the components sum to the *Total IDN Savings*.

METHODOLOGY FOR CALCULATING SAVINGS TO A FAMILY OF FOUR

In the Form A development, Highmark stated that, by fiscal year 2016, the IDN Savings amounts to "approximately $3,000 per year for a family of four" in the narrow network product for the Regional Group insured segment relative to the *No Transaction* broad network product.

The original calculation compared PMPMs for regional commercial group insured business. Highmark proposes expanding the population to include members residing in Western PA for National and self-insured customers to be more consistent with the population used to calculate the *Total IDN*

Savings. However, it will still exclude seniors since the measure is for a family of four. The change in the population does not affect the projected benchmark materially but will make the actual emerging data more credible and the basis of the measure more consistent with the other benchmarks.

Highmark plans to measure the actual *Savings for a Family of Four* by utilizing the following steps for the appropriate measurement period:

- Calculate the difference in the actual total IDN narrow network product PMPM and the *No Transaction* broad product PMPM by business segment
- Calculate the composite of the above differences using average actual members in the IDN narrow network product by business segment
- Multiply by 12 Months
- Multiply by 4 Family Members

METHODOLOGY FOR CALCULATING INPATIENT AND OUTPATIENT SAVINGS

The last two benchmarks of Appendix 3 of the Approving Order are 10% cost savings on inpatient and outpatient spend. Highmark proposes measuring these benchmarks by taking the ratio of the actual and *No Transaction* PMPMs for Inpatient and Outpatient separately. The calculation will be done separately by commercial business segment and composited using actual enrollment.