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August 2, 2019
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CORPORATE SECRETARY

A&RMC – 8/2/19
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PURDUE UNIVERSITY

Office of the Treasurer and Chief Financial Officer

TO: Members of the Board of Trustees

FR: Christopher A. Ruhl, Senior Vice President, Finance

DATE: July 22, 2019

RE: Approval of 2020 Medical Plans

Background

Effective January 1, 2014, the University redesigned its medical plans to offer two consumer-driven health plans with health savings accounts (HSA 1 and HSA 2) and one traditional preferred provider organization (PPO) plan. All plans are self-insured and funded by the University and employees. As of December 31, 2018, the three plans covered approximately 26,000 employees, spouses and dependents. Eighty percent of employees participate in the two consumer-driven health plans. Relative to cost share there are two key metrics. One measures total plan costs, including employee out-of-pocket expenses. For 2019, the University will cover 73% of total costs, with active employees and early retirees funding the remaining 27%. The other metric excludes out-of-pocket costs and compares share of total premiums paid. In 2019, across all three plans, the University will fund 88% of total premiums, active employees 10% and early retirees 2%.

Plan design changes in 2015 and 2016 added several benefits, including preventive dental, bariatric surgery and full autism coverage for all employees and their dependents. The University established a wellness program in 2018, providing additional monetary incentives to encourage employees to engage in healthy activities and complete educational programs. Also in 2018, the University moved to CVS Caremark as its pharmacy benefits manager generating substantial cost savings to the plans.

Total costs grew from $155 million in 2014 to $180 million in 2017. This $25 million increase was borne by the University as premiums and out-of-pocket expenses paid by employees remained flat over that period. In 2018, total costs declined to $177 million. Total expenses are expected to increase 5% in 2019 to $185 million.

As we discussed last year, a number of factors have contributed to the increase in total plan costs:

- Indiana hospitals charge substantially higher rates than peers in other states (in-patient and out-patient spend is nearly 50% of total plan expenditures);
- Chronic conditions and high cost claims have increased, driven by the worsening overall risk profile of the covered population;
- Prescription costs have risen more quickly than the overall medical trend, in part due to the shift to more specialty drugs; and
- Hospital systems have actively acquired primary care practices (primary care affiliated with hospital systems is typically more expensive than unaffiliated providers).

The University has mitigated some of the overall cost increases through a series of initiatives, including contracting with MACL to perform laboratory tests, offering imaging services at the Purdue Student Health Center, implementing diabetes management programs and moving pharmacy benefits administration to CVS.

Numerous changes were made to the University's medical plans for 2019, including employee premium increases, plan design changes (increased deductibles and making a portion of HSA contributions contingent upon completing certain activities) and modifications to the formulary for prescription drugs. The University also identified additional annual administrative cost savings by (1) eliminating the University's stand-alone purchase of Castlight, (2) consolidating external consulting services and (3) moving to a new provider to manage employee health savings accounts. In totality, the changes described above are expected to save the University $7.8 million. We proposed, but agreed to postpone, a rule whereby working spouses with access to medical coverage through their employer would no longer be covered on the Purdue medical plans.

During 2019, we have also made progress on numerous longer-term strategic initiatives to address the underlying drivers behind increasing costs. We prepared and issued RFPs for orthopedic services and for imaging/radiology with the goal of contracting directly with high quality, cost efficient providers, to reduce per unit costs. Several other RFPs are under consideration, including infusion, physical therapy and maternity/childbirth. We are also participating in a project undertaken by the Greater Lafayette Chamber in partnership with local employers to address hospital prices in the Lafayette market.

We discussed last October the idea of Purdue building its own health care facility. We have continued those discussions with numerous entities who have provided critical insight into the array of services that could be offered in the facility. In late June, following this due diligence, we started preparing a project plan, timeline and budget to help us evaluate the feasibility and return on investment for an on-campus facility with the goal of making a formal recommendation to the Board by the end of the year.

We have met numerous times with our colleagues from the College of Pharmacy who have suggested several ideas to address rising prescription costs. One idea we are recommending is carving out utilization management of specialty drugs from CVS. Specialty drugs comprise around 1-2% of total volume as measured by the number of scripts but are typically very expensive, representing 46% of total Rx dollars. We believe that contracting with an independent third-party whose sole assignment is to manage the clinical need for specialty drugs will provide significant savings to the plan and employees. The CVS contract is managed by the State of Indiana who is agreeable to Purdue piloting this on behalf of the State and other public universities.

Lastly, we embarked on a process to evaluate our third-party administrator for the medical plan. We are recommending to retain our current vendor, Anthem, for an additional two years. Numerous enhancements were made to our contract with Anthem, including a new offering called Health Sync, a narrow network with Franciscan, Lutheran (Fort Wayne) and St. Vincent, who have agreed to reduce their prices. Anthem has agreed to put a portion of their fee at-risk based on the overall expenditure trend of the medical plan; a first ever commitment from Anthem and a major step towards better alignment to the University's overall goals. Anthem has also agreed to modifications in the areas of direct contracting and an in-network owned facility. We believe this new agreement will provide key alignment of our most important vendor to Purdue's strategic plan. Anthem also agreed to maintain their current fee for the next two years.

Medical Plan Strategy
Consistent with our approach last year, we are recommending a series of changes for 2020 as part of the multi-year plan to (1) improve population health, (2) control overall costs and (3) achieve the Board target of a 70/30 cost share.

Recommendations to take effect January 1, 2020 include:

- Increase the current $44,000 salary tier to $45,500. This increase ensures employees don't jump tiers due to their merit salary increase. The financial impact is less than $50,000.
- To maintain eligibility for working spouses to access the Purdue medical plans, we are proposing a surcharge for spouses who have access to medical coverage through their employer but do not enroll in their employer's plan. This idea was suggested at the Benefits town hall last fall as a way to preserve coverage for spouses. Our recommendation is a $1,500 annual surcharge for employees in the upper salary tier and $750 for those in the lower tier. Savings are $1.2 million.
- Increase by $500 the surcharge for tobacco users enrolled on the medical plans (around 1,000 in 2019). Savings are $0.5 million.
- Carving-out the utilization management of specialty drugs, as described above. Savings are estimated at $1.2 million.
- Establishing the Health Sync narrow network as a tiered benefit within the existing medical plans. Total savings are estimated at $3.3 million.
- Creating two concierge programs, one for prescription drugs and one for cancer treatment. Both programs are meant to provide additional resources for our members to more effectively find high quality, cost efficient providers and services. When fully implemented, savings are estimated at $1.6 million, with $0.7 million in savings expected for 2020.
- Increasing premium rates for early retirees by 5%. Approximately 300 early retirees are on the medical plans. Collectively their claims exceed premiums by over $1 million. Our intent is to reduce this subsidy over time. Savings are $0.1 million.
- Lastly, we are recommending to sunset the PPO plan. For 1/1/2020, we would not allow new enrollments into the PPO plan. Effective 1/1/2021, we would eliminate the PPO plan in favor of a third high deductible health plan. During 2020 we would assist the 2,100 employees currently enrolled in the PPO plan as they migrate to one of the three other plans. When fully implemented, this is expected to save $2.6 million annually, starting in 2021.

Collectively, these recommendations are expected to produce an annual savings of $10.5 million to the medical plans when fully implemented; $7.1 million for 2020; reducing an expected 5% increase in total costs for 2020 to 3%.. Many of these recommendations will provide savings directly to our employees, including the new Health Sync network, the concierge programs and the carve-out of specialty Rx. Those savings are estimated at $900,000 which are in addition to the $10.5M. The expected total cost share for 2020 is 72% Purdue and 28% employees.

We request your approval of the proposed 2020 Medical Plans during the August Board of Trustees meeting.