



CCRC
Actuaries, LLC

STATE OF WEST VIRGINIA



PUBLIC EMPLOYEES INSURANCE AGENCY

Fiscal Year 2013

Detailed Medical and Prescription Drugs Claim Trend Report

September 2013

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**West Virginia Public Employees Insurance Agency
Report of Independent Actuary**

**Fiscal Year 2013 Detailed Medical & Prescription Drugs
Claim Trend Report**

OVERVIEW

CCRC Actuaries, LLC (“CCRC Actuaries”) was engaged by the West Virginia Public Employees Insurance Agency (“PEIA”) to assist the Finance Board in monitoring the plan experience for fiscal year ending June 30, 2013 on a quarterly basis and the forecasting of Fiscal Years 2014 through 2018. This annual trend report to the Finance Board serves as the basis for projecting medical and drugs claims through Fiscal Year 2013 and beyond. This report is intended for the sole use of the Finance Board, and any other use requires written approval by CCRC Actuaries.

CCRC Actuaries has collected and reviewed the medical and drugs claims experience using Non-Medicare claims incurred and paid through June 2013. Effective July 1, 2012, West Virginia Retiree Health Benefit Trust Fund (“Trust Fund” or “RHBT”) had contracted with Humana to provide a Medicare Advantage Plan (“Humana MAPD”) benefit to Medicare-eligible retired employees and their Medicare-eligible dependents. Under this arrangement, Humana has assumed the financial risk of providing comprehensive medical and drugs coverage with limited copayments. Non-Medicare retirees will continue enrollment in PEIA's Preferred Provider Benefit or the Managed Care Option.

Current Medicare coverages are transferred from a self-insured secondary basis by RHBT to the Humana MAPD plan. However, it should be noted that new Medicare eligible retirees, who become Medicare eligible during the plan year, which ends in June, will be covered on a secondary basis by the PPB Plan until the beginning of the next plan year. CCRC Actuaries has not reviewed the Medicare claims experience in this report due to the lack of credibility of Medicare claims where the State is secondary.

Since July 1, 2000, HealthSmart Holding Inc. (“HealthSmart”), recently acquired the former Third Party Administrator Wells Fargo in October 2011, has been the administrator of the plan’s medical claims and has provided reports for both medical and prescription drugs claims. The analysis utilized claim data supplied from HealthSmart as a primary source of claims data for this report and PEIA provided enrollment information.

Trends were developed by category for the 24-month, 36-month and the 48-month credible periods ending April 2013. Our analysis for medical claims do not include incurred claims for the months after April 2013, since the claim experience for these months is largely non-credible with substantial reserves as part of the projected monthly incurred amount. The claim information supplied by HealthSmart for the purposes of this analysis was compared to PEIA’s general ledger system to ensure accuracy of aggregate reporting. In an effort to assure accuracy, the claim information provided by HealthSmart and used in this analysis was reconciled and balanced to the PEIA general ledger amounts.

KEY FINDINGS

- The three methodologies resulted in similar results, and we chose the 24 month as the methodology that is most likely to produce accurate future trends. The overall medical trend decreased from 5.3% last year to 0.9% in Fiscal Year 2013 using a 24-month study period. Using the 24-month analysis, PEIA experienced a 2.6% utilization increase and a -1.6% unit cost decrease, resulting in an aggregate trend of 0.9%. The 36-month and 48-month overall show similar trends due to the favorable experience in the previous fiscal years to the 24-month analysis.

These results compare similarly to the 24-month trend calculated since Fiscal Year 2002.

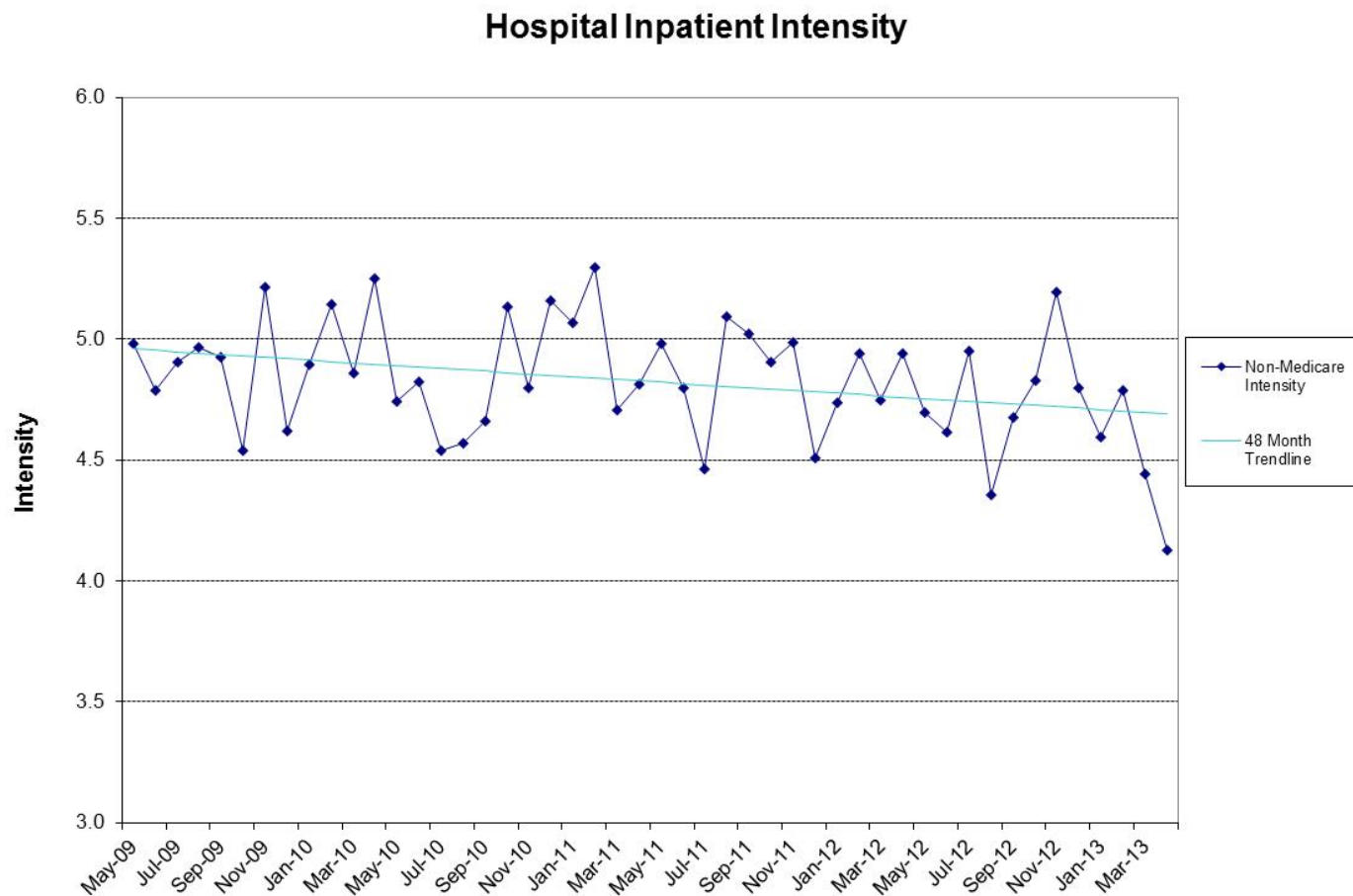
West Virginia PEIA Non-Medicare Total 24-Month Trend Analysis			
	<u>Utilization</u>	<u>Cost/Service</u>	<u>Total Trend</u>
2002	4.1%	3.6%	7.8%
2003	9.8%	-3.0%	6.5%
2004	11.7%	-6.8%	4.0%
2005	2.8%	-1.1%	1.7%
2006	2.9%	1.0%	4.0%
2007	7.2%	-2.0%	5.1%
2008	2.9%	3.9%	6.9%
2009	2.5%	2.6%	5.1%
2010	2.5%	1.8%	4.4%
2011	4.2%	3.5%	7.8%
2012	5.1%	0.1%	5.3%
2013	2.6%	-1.6%	0.9%

- Fiscal Year 2013 PEIA and Retiree Health Benefit Trust Fund (RHBT) 24-month detail trends are shown in the following table:

Fiscal Year 2013 Claim Type	Medical	Drugs
PEIA – Active Local	0.6%	-1.1%
<u>PEIA – State</u>	<u>1.0%</u>	<u>-3.3%</u>
PEIA – Total	0.9%	-3.0%
RHBT – Non-Medicare	1.3%	5.4%
Grand Total	1.0%	-1.8%

- Hospital Inpatient services represent approximately 19% of all medical services and experienced the most favorable trend of the broader claim categories with a total trend of -3.6%. This decreasing trend was caused by a 3.0% reduction in utilization and a 0.6% reduction in unit cost.
- Hospital Outpatient services represent approximately 33% of all medical services and experienced the third favorable trend of the broader claim categories with a total trend of 4.4%. This increasing trend was caused by an 8.9% increase in utilization and a 4.1% reduction in unit cost.
- Physician services represent approximately 45% of all medical services and experienced the second favorable trend of the broader claim categories with a total trend of -0.6%. This decreasing trend was a result of a 0.2% increase in utilization of these services and a 0.8% reduction in unit cost.
- Other services, which are services that are principally Durable Medical Services and Ambulance, represent approximately 3% of all medical services and experienced the least favorable trend of the broader claim categories with a total trend of 14.1%. This increasing trend was caused by a 6.5% increase in utilization of these services and a 7.1% increase in unit cost.
- Overall, Out-of-State services show higher trends for Non-Medicare coverages in the 24-month analysis, with higher unit cost increases for services provided Out-of-State. A comparison of Non-Medicare medical trends for In-State claims versus Out-of-State claims over the 24-month period analysis reveals an aggregate In-State trend of 1.3% and an Out-of-State trend of 3.7%. For In-State, the utilization trend has been higher while the cost per service trend has been lower compared to Out-of-State. For In-State, the utilization trend for Non-Medicare was 2.8%, while the Out-of-State trend was -2.4%. For In-State, the cost per service trend for Non-Medicare was -1.5%, while the Out-of-State trend was 6.3%. The Out-of-State cost per service increase was fairly consistent for the major categories in the Other services group except for the Other Services category where we observed an unfavorable upward trend of 105.7%.
- It should be noted that as of January 1, 2010, PEIA began following the CMS guidelines and PEIA will not reimburse for Consultations under Physician Services. We have combined the services under Consultations category into the Office Visits category.

- A component of the cost per service trend for hospital inpatient is the length of stay, or intensity. Over the 48-month analysis, the intensity for Non-Medicare hospital stays has a trend of -1.4%, compared to -0.6% last year.



The table below presents the Non-Medicare Hospital Inpatient trend using the intensity breakdown.

West Virginia PEIA Non-Medicare Hospital Inpatient Trend Analysis			
	<u>24-Month</u>	<u>36-Month</u>	<u>48-Month</u>
Visits	-5.4%	-3.1%	-0.8%
Intensity	-3.5%	-1.7%	-1.4%
<u>Cost/Day</u>	<u>2.2%</u>	<u>2.7%</u>	<u>3.5%</u>
Total	-6.6%	-2.2%	1.2%

KEY FINDINGS - DRUGS

- Overall, prescription drugs trends for Non-Medicare coverages have decreased significantly compared to 4.2% last year. Using the 24-month analysis, we observe a 3.4% utilization increase and a 6.2% prescription cost reduction, resulting in an aggregate trend of -3.0%. The 24-month overall trend is lower than the 36-month and 48-month analysis.

West Virginia PEIA Prescription Drugs Total 24-Month Trend Analysis			
	<u>Utilization</u>	<u>Cost/Prescription</u>	<u>Total Trend</u>
FY 2012	3.4%	-6.2%	-3.0%

METHODOLOGY

HealthSmart provided allowed and paid claim information for Non-Medicare and Medicare eligibility from July 2001 through June 2013. This data set was analyzed on Non-Medicare claims that were incurred from May 2009 through April 2013 for the 48-month credible period. This claim data was consolidated into 24 categories for Hospital Inpatient, Hospital Outpatient, Physician Services and Other. In addition, claim experience was analyzed based on the state of service as defined by HealthSmart. HealthSmart provides the information based on the location that the service was performed, rather than the billing location of the provider. CCRC Actuaries verified that the HealthSmart information balanced in total to previously produced claim lag reports that PEIA personnel have balanced to the PEIA ledger accounts.

The trend analysis includes assumptions with respect to the completeness of the claim information to reflect and adjust for unreported claims. There was no adjustment to reflect the various reductions and changes in benefit design as affected by the Finance Board over the analysis period, such as the reduction in hospital inpatient reimbursement rates. In developing aggregate claim trends, individual claim categories were weighted by claims paid for each category over the last 24, 36 and 48 months, respectively depending on the analysis. The following chart summarizes the amount of allowed dollars by category for each paid fiscal year.

The calculated trends for utilization, unit cost and in aggregate were based on a least squares methodology in defining the regression trend line. We manually adjusted these trend lines where the results appeared to be less credible.

Consistent with prior reports, the trends published in this report for Non-Medicare medical claims are based on the allowed amount in order to neutralize the impact of deductibles and copayments that have a varying impact on paid amounts depending on the month of the year. Paid claim trends are higher over the study period, since cost-sharing provisions of the plan have essentially been unchanged over the four years period.

The trends published in this report for Non-Medicare drugs claims are based on the paid amount because the allowed amount is less reflective of PEIA's liability since the Medicare program is primary.

A summary of the Non-Medicare data provided by HealthSmart by Hospital Inpatient (HI), Hospital Outpatient (HO), Physician Services (PS), and Other Services (O) is detailed below.

<u>Non-Medicare Claims</u>	<u>12 months ending April 2010</u>	<u>12 months ending April 2011</u>	<u>12 months ending April 2012</u>	<u>12 months ending April 2013</u>
Hospital Inpatient	\$94,647,777	\$103,305,735	\$103,872,214	\$96,639,286
Hospital Outpatient	137,884,319	152,136,045	164,739,286	169,567,681
Physician Services	209,979,644	218,095,487	231,036,120	225,705,810
Other Services	<u>12,774,828</u>	<u>14,195,464</u>	<u>15,142,179</u>	<u>15,692,037</u>
Total	\$455,286,568	\$487,732,732	\$514,789,799	\$507,604,815

Certain categories in the data provided by HealthSmart were consolidated to provide the following summary table for Non-Medicare claims.

<u>Non-Medicare Claims</u>	<u>May 2009 to April 2010</u>	<u>May 2010 to April 2011</u>	<u>May 2011 to April 2012</u>	<u>May 2012 to April 2013</u>
HI Maternity	\$2,455,257	\$2,819,737	\$3,136,705	\$3,367,538
HI Medical/Surgical	89,344,838	97,158,012	95,918,615	89,462,085
HI Psychiatric/Substance Abuse	2,847,681	3,327,985	4,816,894	3,809,664
HO Emergency Room	21,003,926	22,756,693	24,804,313	26,011,020
HO Medical/Surgical	66,854,781	74,285,412	81,119,921	85,665,155
HO Other Services	48,871,579	53,811,555	57,000,218	55,978,287
HO Psychiatric/Substance Abuse	1,154,032	1,282,384	1,814,834	1,913,219
PS Anesthesia	10,044,894	10,737,356	11,235,949	10,953,997
PS Chemotherapy/Radiation	4,417,399	3,622,285	4,561,785	4,402,381
PS Emergency Room	5,337,450	5,515,780	5,606,219	5,477,793
PS Immunizations/Allergy	5,465,389	5,833,166	6,587,821	7,205,485
PS Inpatient Surgery	9,805,076	9,420,458	9,642,845	9,059,786
PS Inpatient Visits	5,977,132	7,389,237	7,123,013	6,904,963
PS Lab & Pathology	15,279,863	16,535,478	17,802,077	17,553,261
PS Maternity	2,959,688	3,110,521	3,670,495	3,910,093
PS Office Visits	63,241,480	67,003,355	68,883,978	66,840,390
PS Other Services	37,600,729	39,705,124	43,475,701	42,343,910
PS Outpatient Surgery	16,497,715	17,299,297	18,145,932	17,375,064
PS Psychiatric/Substance Abuse	8,215,835	8,955,466	9,701,041	10,082,531
PS Radiology	18,622,539	15,831,912	16,425,150	15,866,275
PS Therapy/Rehab	6,514,455	7,136,052	8,174,114	7,729,882
O Ambulance	3,347,538	3,588,629	3,548,947	2,878,763
O Durable Medical Equipment	6,783,865	7,309,932	7,352,549	7,302,250
O Other Services	2,643,425	3,296,903	4,240,684	5,511,025

COMPARISON (PAID VS. ALLOWED)

The trend analysis has been developed throughout the report on an allowed basis for Non-Medicare claims to neutralize the impact of deductibles and co-payments that have a varying impact on paid amounts depending on the month of the year. The employees' annual deductible and cost sharing for medical expenses have not changed over the last five years. This has ultimately increased the medical paid trend that faces PEIA.

We have examined the trends utilizing paid claims as opposed to allowed claims. The following table summarizes the trends on a paid basis for the Fiscal Years 2010 through 2013 and on an allowed basis for Non-Medicare medical claims. This exercise is important since interim trend updates throughout the years are based on a paid basis.

West Virginia PEIA Non-Medicare Medical Total Trend Analysis		
	<u>Paid Basis</u>	<u>Allowed Basis</u>
24-Month Trend	-1.9%	0.9%
36-Month Trend	1.4%	3.0%
48-Month Trend	2.6%	3.7%

The calculated trends for utilization, unit cost and in aggregate were based on a least squares methodology in defining the regression trend line. We manually adjusted these trend lines where the results appeared to be less credible.

SUMMARY

The tables and sections that follow summarize the information and findings of the trend analysis. The tables and charts on the next several pages include separate analysis of utilization and unit cost trends for Non-Medicare coverages. The charts show the breakdown between the different study periods and for In-State and Out-of-State charges.

Recent experience has shown that the Non-Medicare medical claim trends are lower than the current trend assumption for FY 2014 of 6.0%. Consequently, at this time we believe it is prudent and appropriate to reduce the FY 2014 medical claim trend assumptions for Non-Medicare medical to 5.0%.

Recent experience has also shown that Non-Medicare drugs claim trends are lower than the current trend assumption for FY 2014 of 9.0%. At this time we believe it is prudent and appropriate to reduce the FY 2014 drugs claim trend assumptions for Non-Medicare drugs to 8.0%

Both changes are shown in the following chart.

	<i>Fiscal Year 2014 Trends</i>		
Claim Type	Previous Assumption	Updated Assumption	Change
Non-Medicare – Medical	6.0%	5.0%	-1.0%
Non-Medicare – Prescription Drugs	9.0%	8.0%	-1.0%

In the past, claim trends for the financial plan included a 0.5% margin in future years. The financial projection for medical and drugs claims will continue this practice and the trends will increase by 0.5% in each successive fiscal year beginning in FY 2015.

We will continue to monitor the claim trend experience and incorporate changes as necessary throughout the fiscal year based on the relatively volatile nature of recent trend experience at PEIA.

Respectfully,



Dave Bond, F.S.A., M.A.A.A.
Managing Partner



Chris Borcik, F.S.A., M.A.A.A.
Senior Actuarial Consultant