# Retiree Health Plan Advisory Board
# Modernization Subcommittee Meeting Agenda

| | |
|---|---|
| Date: | Wednesday January 4, 2023 |
| Time: | 09:00 am – 12:00 pm |
| Location: | ANC Atwood 19th Floor Conference Room |
| Video Tele-Conference: | Click here to join the meeting |
| Audio Only: | Phone: (907) 202-7104 ID: 511 967 410# |
| Committee Members: | Cammy Taylor, Nanette Thompson, Mauri Long |

09:00 am **Call to Order – Cammy Taylor, Modernization Subcommittee Chair**

- Roll Call and Introductions
- Approval of Agenda
- Ethics Disclosure

09:10 am **Working Session**

- Lifetime Maximum
- Supplemental Non-Emergent Surgery and Travel Benefits (SurgeryPlus)
- Virtual Physical Therapy and Musculoskeletal Care Program (Hinge Health)

10:30 am **Break**

10:40 am **Resume Working Session**

11:50 am **Public Comment**

12:00 pm **Adjourn**

| Proposal # and Title | Lifetime Maximum (R008) |
|---|---|
| Health Plan Affected | Defined Benefit Retiree Plan |
| Proposed Effective Date | January 1st, 2024 |
| Reviewed By | Retiree Health Plan Advisory Board – Modernization Subcommittee |
| Next Review Date | January 4, 2023 |

## Contents

# 1) Background

### *Current Lifetime Maximum Provisions*

The lifetime maximum insurance benefit is the maximum dollar amount that AlaskaCare Defined Benefit Retiree Health Plan (Plan) will pay out during a member's lifetime for healthcare services.

The Plan currently contains a $2 million lifetime maximum described below and found in section *3.1.5 Lifetime Maximum* of the Defined Benefit AlaskaCare Retiree Insurance Information booklet.

> *"The maximum lifetime benefit for each person for all covered medical expenses is $2,000,000.*
>
> *At the end of each benefit year, up to $5,000 of medical benefits used is automatically restored regardless of your physical condition. If you have received more than $5,000 of covered medical benefits, your full annual spent maximum may be restored when you submit proof of good health satisfactory to the claims administrator within the following year. This provision will not provide benefits for covered expenses incurred before the date the maximum is restored."*[1]

Prescription drug expenses billed through the pharmacy plan do not count toward the lifetime maximum. However, medical pharmacy expenses, such as injections or other prescription medications provided when a member is inpatient at the hospital, are counted toward the lifetime maximum. Beginning on January 1, 2023, the cost of Gene-based, Cellular, and other Innovative Therapies (GCIT) products obtained through the medical claims administrator's GCIT Designated Network program does not accrue towards the plan's lifetime maximum.[2]

Once a member becomes Medicare-eligible, the Plan becomes supplemental to Medicare.[3] Claims costs are then limited by Medicare's fee schedule, and the Plan's responsibility is limited to amounts not covered by Medicare. Any amount paid by the Plan continues to accrue to a member's lifetime maximum, however the majority of their expenses are covered by Medicare, typically leaving a much smaller amount to be considered by AlaskaCare.

### *Lifetime Maximum History*

The lifetime maximum provision currently in the plan represents an increase from the initial plan provision which set the limit at $250,000. In 1985, the $250,000 lifetime max was increased to $1 million, and in 1999 it was increased again to the present limit of $2 million.

---

[1] https://drb.alaska.gov/docs/booklets/DB-RetireeInsuranceBooklet_WEB.pdf

[2] Retiree Insurance Information Booklet, *Section 3.3.26 Gene-based, Cellular, and other Innovative Therapies (GCIT)*, January 2023. pg. 71-72. https://drb.alaska.gov/docs/booklets/DB-RetireeInsuranceBooklet_WEB.pdf

[3] Retiree Insurance Information Booklet, *Section 3.1.7 Effect of Medicare*, January 2023. pg. 21-22. https://drb.alaska.gov/docs/booklets/DB-RetireeInsuranceBooklet_WEB.pdf

A lifetime maximum provision of $2 million may have been sufficient to cover most individuals' medical care over 20 years ago, however it is now causing serious hardship for a small but growing number of members. Removing or increasing the lifetime maximum would represent a valuable gain for members with chronic and catastrophic conditions. If the current lifetime maximum has adjusted in keeping with inflation, based solely on the Consumer Price Increase for All Urban Consumers (CPI-U) for Medical Services, then it would have increased by approximately 220% to $4.4 million based on inflation from 1999 to 2022.[4] This estimation does not account for cost pressures specific to Alaska.

In 2009, the Patient Protection and Affordable Care Act (PPACA) required most health plans to remove any lifetime maximum, and as a result these provisions are becoming increasingly uncommon in health plans. There are very few group plans remaining with similar limits on lifetime benefits due to the Affordable Care Act, these are limited to retiree only plans.

On June 17, 2010, the Internal Revenue Service, U.S. Department of Labor, and U.S. Department of Health and Human Services issued joint interim final regulations clarifying that stand-alone retiree plans are exempt from the insurance mandates of PPACA. Thus, the State's retiree health plan is excluded from the ACA insurance mandates, including the prohibition of lifetime maximums.

The AlaskaCare Employee Health Plan was not initially subject to the ACA insurance requirements due to having grandfathered status. However, the employee plan forfeited grandfathered status in 2015 and eliminated the lifetime maximum at that time. The Defined Contribution Retiree Health Plan does not have a lifetime benefit maximum.

### *Options for Members Approaching or Reaching the Lifetime Maximum*

The impact of the current lifetime maximum limit varies depending on a member's individual circumstances. A major factor that will determine the severity of the impact is whether the member is eligible for Medicare.

#### Medicare Members

Members with Medicare as their primary coverage who have reached the AlaskaCare lifetime maximum can still receive coverage for their health care services through Medicare. Medicare does not have a lifetime maximum limit on benefits. As long as the member uses services that Medicare covers, and the services are deemed to be medically necessary, they can continue to use as many as needed, regardless of the cost accumulated, in any given year or over a lifetime. Their secondary AlaskaCare coverage will still be limited by the lifetime maximum, but their Medicare coverage will continue.

[4] *Removal of the Retiree Plan Lifetime Maximum – Focus on Actuarial and Financial Impact for the Retiree* Plan (Updated), Segal Consulting memo dated December 30, 2022.

### Non-Medicare Members

Members who are not eligible for Medicare and facing extraordinarily high health care costs are disproportionately impacted by the current lifetime maximum as they do not have guaranteed access to other health insurance the way Medicare-eligible members do.

Options for members who are not eligible for Medicare are limited to the following:

1) Medicaid - for those who meet certain eligibility or income thresholds.[5]
2) Federally Facilitated Marketplace - members may qualify for coverage and enroll during a special enrollment period; but the $5,000 reinstatement creates complexity for members requiring special approval and/or review.
3) Alaska Comprehensive Health Insurance Association (ACHIA)[6] – this has been a resource for some members who have reached their lifetime maximum. Premiums range depending on age and the deductible selected. In 2023, an individual who is 60 years of age would have a monthly premium of $2,876 for a plan with $1,000 deductible and $1,106 for a plan with a $15,000 deductible.[7]

An unintended consequence of the $5,000 annual reinstatement provision is that even after a member reaches their lifetime maximum, they are considered by other plans to have insurance which meets minimum essential coverage provisions limiting their ability to qualify for other forms of insurance. Because of this, some members who have met their lifetime maximum but who are not yet Medicare eligible may not be able to access other health coverage options.

Even members who have not reached their lifetime maximum may be impacted by the lifetime maximum provision. The Division is aware of at least one circumstance where providers have withheld care or delayed treatment until the member comes up with enough monetary deposit because they are concerned the recommended treatment course will exceed the remainder of their plan benefit despite having over $1 million left.

Another individual has indicated he must delay a necessary procedure for 2 years, until he reaches Medicare eligibility, because his remaining plan benefits are not sufficient to cover the service.

Often, members are not necessarily aware of the lifetime maximum plan provision and retire confident that they have health insurance for themselves and their dependents for the

[5] Alaska Department of Health and Social Services [DHSS], Division of Public Assistance, Medicaid Eligibility Standards: http://dpaweb.hss.state.ak.us/POLICY/PDF/Medicaid-Standards.pdf
[6] Alaska Comprehensive Health Insurance Association [ACHIA]: http://www.achia.com/premiums.asp
[7] ACHIA 2023 Monthly Individual Premiums Rates: https://www.achia.com/docs/ACHIA%202023%20Non-Medicare%20Premium%20Rates.pdf

remainder of their lives. When they do reach the maximum, they are generally extraordinarily sick and highly vulnerable.

## 2) Goals and Objectives

1. Ensure members retain access to health insurance during a catastrophic health event.
2. Implement strategies to prudently utilize the funds that support the AlaskaCare Retiree Health Plan.

## 3) Summary of Proposed Change

This proposal considers three options. The first is to increase the lifetime maximum to $4 million, the second is to increase the lifetime maximum to $8 million, and the third is to remove the lifetime maximum limit. The first and second options contemplate removing the reinstatement of benefits provisions related to the lifetime maximum. A change implemented under any of the three options would be prospective from the effective date. Increased or removed limits would not be applied retroactively. Claims incurred prior to the effective date of the change would not be adjusted.

### *Option 1: Lifetime Maximum Increased to $4 million*

Coverage for all members, including those who have already reached the current $2 million lifetime maximum benefit, would be updated to reflect to the new $4 million limit. The annual reinstatement provisions would be removed.

The retiree plan annual individual out-of-pocket maximum, benefit maximums and other cost sharing provisions would remain unchanged. Pharmacy benefits do not accumulate toward the lifetime maximum and would not be impacted by this change.

### *Option 2: Lifetime Maximum Increased to $8 million*

Coverage for all members, including those who have already reached the current $2 million lifetime maximum benefit, would be updated to reflect to the new $8 million limit. The annual reinstatement provisions would be removed.

The retiree plan annual individual out-of-pocket maximum, benefit maximums and other cost sharing provisions would remain unchanged. Pharmacy benefits do not accumulate toward the lifetime maximum and would not be impacted by this change.

### *Option 3: Lifetime Maximum Removed*

Coverage for all members, including those who have already reached the current $2 million lifetime maximum benefit, would be updated to reflect to removal of the lifetime maximum. The annual reinstatement provisions would become moot.

The retiree plan annual individual out-of-pocket maximum, benefit maximums and other cost sharing provisions would remain unchanged. Pharmacy benefits do not accumulate toward the lifetime maximum and would not be impacted by this change.

## 4) Analysis

While the number of individuals impacted by the existing lifetime maximum is small (see member impact below); those who are impacted find themselves without an avenue for affordable health insurance at an extremely vulnerable time. Without a change to this plan provision, it is likely that an increasing number of individuals will reach the lifetime maximum given the growing cost of health care and advances in medical technology.

This is a priority item for the Division, which sees the devastating impacts on members reaching their lifetime maximum. More members are reaching the lifetime maximum due to the significant growth of health care costs over the past decade. The growth in health care costs is due to a variety of factors including access to new technological advancements. Few can deny the benefits of these medical advancements, but plan sponsors have a fiduciary responsibility to ensure that they are properly used and reimbursed. Targeted programs intended to manage costs and incentivize quality care (*e.g.*, the GCIT designated network program for complex, high-cost therapies implemented in the Plan in January 2023) are an important tool to protect the Plan against ballooning costs, while at the same time providing access to necessary medical treatments.[8]

An increase or the removal of the lifetime maximum may ease the financial barriers to health care that members experience once the current $2 million maximum is reached, potentially improving their clinical outcomes. Lack of health insurance coverage or high out of pocket costs may negatively affect health[9] and lead members to delay or forgo needed care. However, it is likely that most members exceeding this cost threshold have very serious, critical health issues.

Any fixed amount lifetime maximum will impact more members over time, as costs continue to increase. Predicting future claims activity for individuals can be challenging given the limited information on health risks and current treatment plans for each individual.

## 5) Impacts

It is important to note that the true value of this benefit enhancement will likely vary and fluctuate annually, potentially to a substantial degree. Even with over 70,000 members, the claims data are not a credible source for the analysis, given the relatively small number of individuals who currently reach the lifetime maximum limit.

[8] Ibid.

[9] Institute of Medicine (U.S.) Committee on Health Insurance Status and Its Consequences. (2009). *America's uninsured crisis: Consequences for health and health care*. National Academies Press.

## Actuarial Impact to AlaskaCare | Increase

The actuarial impact of this proposal will vary depending on the option selected for implementation. [10]

*Table 1. Actuarial Impact*

| Option | Actuarial Impact |
|---|---|
| Option 1: Lifetime Maximum Increased to $4 million | 0.25% increase |
| Option 2: Lifetime Maximum Increased to $8 million | 0.35% increase |
| Option 2: Lifetime Maximum Removed | 0.40% increase |

## Financial Impact to AlaskaCare| | Cost Increase

### *Projected Annual Financial Impact*

The annual financial impact of this proposal will vary depending on the option selected for implementation. The projections outlined in Table 2 below are based on the most recent retiree medical and pharmacy claims projection of $646,600,000 for 2023 (dated September 2, 2022) and trended forward at 6% to $685,400,000 for 2024.[11]

*Table 2. Annual Financial Impact*

| Option | Financial Impact |
|---|---|
| Option 1: Lifetime Maximum Increased to $4 million | 0.25% increase |
| Option 2: Lifetime Maximum Increased to $8 million | 0.35% increase |
| Option 2: Lifetime Maximum Removed | 0.40% increase |

### *Projected Long-Term Financial Impact*

The annual cost increase associated with the proposed benefit additions may have long-term impacts to the healthcare Actuarial Accrued Liability (AAL) and to the Additional State Contributions (ASC) associated with the Plan.

Analysis of these impacts is forthcoming in a future iteration of this proposal.

## Member Impact | Enhancement

An increase or the removal of the lifetime maximum would provide financial relief and continued health coverage for members who have met or are approaching the current lifetime limit. This change would also provide additional reassurance that future health care costs will be covered for members who are not currently approaching the lifetime maximum.

AlaskaCare retiree plan members who are at or near the lifetime maximum as of Quarter 3 of 2022:

[10] *Removal of the Retiree Plan Lifetime Maximum – Focus on Actuarial and Financial Impact for the Retiree* Plan (Updated), Segal Consulting memo dated December 30, 2022.
[11] Ibid.

- **Between $1.5-$1.7 Million**: 30 members (17 of the 30 are no longer covered by the Plan)
- **Between $1.7-$1.9 Million**: 10 members (7 of the 10 are no longer covered by the Plan)
- **Above $1.9 Million**: 31 members (17 of the 31 are no longer covered by the Plan)
    - 6 are under $2 million
        - 5 have Medicare primary
        - 1 has AlaskaCare primary and is not Medicare age eligible
    - 8 have reached $2 million
        - 4 have Medicare primary
        - 2 have Medicare as secondary due to End Stage Renal Disease
        - 2 have other coverage and AlaskaCare is secondary

It is unknown exactly how many members have reached this maximum limit over the lifetime of the plan, as the records for individuals who have "termed," or who are no longer covered by the plan, are not retained in perpetuity.

### Operational Impact (DRB)| Minimal

Operational impacts to the Division will be minimal. The Division will need to notice the membership, amend the plan booklet, communicate the change, direct the Third-Party Administrator to implement the change, and ensure members are reinstated. Once the implementation activities are complete the Division does not anticipate any additional operational impact.

### Operational Impact (TPA) | Minimal

An increase or the removal of the lifetime maximum provision will bring the retiree health plan in-line with other, mainstream, health plan provisions and will require less effort for the TPA once the initial change is completed. The TPA will need to assist in identifying and informing members who would benefit from having their plan benefits reinstated and will need to update the claim adjudication processes and systems to update the lifetime accumulators. These activities will be a one-time effort that should not require significant work by the TPA.

### Provider Impact | Minimal

Any impacts to health plan providers are estimated to be both minimal and positive as this removes a potential barrier to care for their patients.

## 6) Clinical Considerations

An increase in or the removal of the lifetime maximum will ease existing impediments to care that members experience potentially improving their clinical outcomes; however, it is likely that most members exceeding this cost threshold have very serious, critical health issues.

## 7) Implementation and Communication Overview

Division staff will follow the standard process for making changes to the Defined Benefit retiree plan, which includes completion of the following:

- Proposal analysis and stakeholder input
- Commissioner of Administration determination
- Public comment periods
- Any needed language updates to the Retiree Insurance Information Booklet
- Education outreach to benefit recipients

# 8) Proposal Recommendations

## DRB Recommendation

The Division recommends Option XXX

## RHPAB Board Recommendation

The RHPAB board voted on ##/##/## to recommend/not to recommend Option XX

## Commissioner of Administration Recommendation

The plan administrator made the determination on ##/##/## to …

| Description | Date |
|---|---|
| Proposal Drafted | |
| Reviewed by Modernization Subcommittee | 1/4/2023 |
| Reviewed by RHPAB | |

# 9) Plan Language

| January 2023 Plan Booklet Language | Proposed Plan Booklet Language |
|---|---|
| 3.1.5 Lifetime Maximum<br>The maximum lifetime benefit for each person for all covered medical expenses is $2,000,000.<br>At the end of each benefit year, up to $5,000 of medical benefits used is automatically restored regardless of your physical condition. If you have received more than $5,000 of covered medical benefits, your full annual spent maximum may be restored when you submit proof of good health satisfactory to the claims administrator within the following year. This provision will not provide benefits for covered expenses incurred before the date the maximum is restored.<br>EXAMPLE: Assume you have used $3,000 of medical benefits during the year and your lifetime benefit is decreased to $925,000. At the end of the year, the $3,000 would be restored and your maximum lifetime benefit available would be $928,000. If you had used $6,000 of medical benefits, your maximum lifetime benefit would be reset to $930,000, unless you submitted proof of your good health and were approved for a full reinstatement. | TBD – Depending on which Option is selected for implementation |

Segal

Richard Ward, FSA, FCA, MAAA
West Region Market Director, Public Sector
T 956.818.6714
M 619.710.9952
RWard@Segalco.com

500 North Brand Boulevard
Suite 1400
Glendale, CA 91203-3338
segalco.com

# Memorandum

**To:** Ajay Desai, Director, Division of Retirement and Benefits

**From:** Richard Ward, FSA, FCA, MAAA

**Date:** December 30, 2022

**Re:** Removal of Retiree Lifetime Plan Maximum – Focus on Actuarial and Financial Impact for the Retiree Plan *(Updated)*

The State currently provides retiree coverage up to a lifetime maximum of $2,000,000, with an annual $5,000 reinstatement once the limit is reached.

The Plan applies the general benefit provisions, such as deductible, coinsurance and out-of-pocket limits, to determine any portion of the costs that are the member's responsibility. If the member has additional coverage, such as Medicare or other employer provided coverage, any portion of the costs covered by that plan is also considered. Below is a table outlining the current benefits offered under the Plan:

| | |
|---|---|
| **Deductibles** | |
| Annual individual / family unit deductible | $150 / up to 3x per family |
| **Coinsurance** | |
| Most medical expenses | 80% |
| Most medical expenses after out-of-pocket limit is satisfied | 100% |
| Second surgical opinions, Preoperative testing, Outpatient testing/surgery<br>• No deductible applies | 100% |
| **Out-of-Pocket Limit** | |
| Annual individual out-of-pocket limit<br>• Applies after the deductible is satisfied<br>• Expenses paid at a coinsurance rate other than 80% do not apply against the out-of-pocket limit | $800 |
| **Benefit Maximums** | |
| Individual lifetime maximum<br>• Prescription drug expenses do not apply against the lifetime maximum | $2,000,000 |
| Annual reinstatement once lifetime maximum is reached | $5,000 |
| Individual limit per benefit year on substance abuse treatment without precertification. Subject to change every three years | $12,715 |
| Individual lifetime maximum on substance abuse treatment without precertification. Subject to change every three years | $25,430 |

| Prescription Drugs | Up to 90 Day or 100 Unit Supply | |
|---|---|---|
| | Generic | Brand Name |
| Network pharmacy copayment | $4 | $8 |
| Mail order copayment | $0 | $0 |

## Actuarial Value

We reviewed claims data through mid-October 2022 provided by Aetna for retirees over and under 65 who are currently active on the plan and identified:

- 30 claimants with claims totaling over $1.5 million
- 17 claimants with accumulated claims over $1.70 million; and
- 10 claimants with at least $1.99 million

Any fixed amount lifetime maximum will impact more members over time, as costs continue to increase.

Predicting future claims activity for individuals can be challenging given the limited information on health risks and current treatment plans for each individual. The true value of this benefit enhancement will likely vary and fluctuate annually, potentially to a substantial degree. Even with over 70,000 members, the claims data are not a credible source for the analysis, given the relatively small number of occurrences.

Based on information provided by the State, the initial plan provisions set the limit at $250,000 before an increase in 1985 to $1 million and another increase 1999 to the current amount of $2 million. If the lifetime maximum was increased based solely on the Consumer Price Increase for All Urban Consumers (CPI-U) for Medical Services, then it would have increased by approximately 220% to $4.4 million based on inflation from 1999 to 2022.

However, this would not necessarily account for the unique inflationary pressures for Alaska and may by understated. Additionally, on a forward-facing basis there are increasingly more expensive treatments, such as gene therapy, that may have more total charges than the current lifetime maximum.

As these treatments emerge, it is anticipated there will be targeted programs available in the industry to manage costs for quality care. A recent example is the gene therapy center of excellence (COE) network developed by Aetna. It would be prudent for the Division to continue to evaluate and consider targeted programs and options as they become available in the industry in order to manage the high costs associated with certain specialized treatments, while still providing access to high quality care.

There are very few group plans remaining with similar limits on lifetime benefits. Due to the Affordable Care Act, these are limited to retiree only plans. The trend we observe in the market is to remove these lifetime limits. The cost differential between increasing the limit and removing the limit is generally considered to be relatively minor, and provides additional coverage for members with the greatest needs.

Due to the challenges regarding analyzing removing the lifetime maximum using the State's data, our updated analysis utilizes the Optum Comprehensive Benefit Pricing Model[1], along with the previously completed work using the Apex Actuarial Rate Modeling System[2], to determine the impact of removing the lifetime maximum as well as increasing the maximum to different levels. The model was calibrated to account for the current membership's demographics, geography, and overall cost structure. Our results are representative of the average anticipated increase for a typical year under typical circumstances.

The following table summarizes the impact for three different options:

| New Lifetime Maximum | Impact on Actuarial Value |
|---|---|
| $4,000,000 | 0.25% |
| $8,000,000 | 0.35% |
| Unlimited | 0.40% |

## Financial Impact

The financial impact is based on the most recent retiree medical and pharmacy claims projection of $646,600,000 for 2023 (dated September 2, 2022), and trended forward at 6% to $685,400,000 for 2024.

The following table summarizes the impact for three different options:

| New Lifetime Maximum | Annual Financial Impact |
|---|---|
| $4,000,000 | $1,710,000 |
| $8,000,000 | $2,400,000 |
| Unlimited | $2,740,000 |

## Additional Notes

The data used for this analysis was reviewed, but not audited, and found to be sufficient and credible.

The above projection is an estimate of future cost and is based on information available to Segal at the time the projection was made. Segal has not audited the information provided. A projection is not a guarantee of future results. Actual experience may differ due to, but not limited to, such variables as changes in the regulatory environment, local market pressure,

[1] The Optum Comprehensive Benefit Pricing Model provides comprehensive plan design and rate modeling capabilities and is widely utilized throughout the industry by insurance carriers and consulting actuaries. Segal held an annual license to utilize this model at the time the analysis was conducted.

[2] The Apex Actuarial Rate Modeling System provides comprehensive plan design and rate modeling capabilities and is widely utilized throughout the industry by insurance carriers and consulting actuaries. Segal held an annual license to utilize this model at the time the analysis was conducted.

change in demographics, overall inflation rates and claims volatility. Projection of retiree costs takes into account only the dollar value of providing benefits for current retirees during the period referred to in the projection. It does not reflect the present value of any future retiree benefits for active, disabled, or terminated employees during a period other than that which is referred to in the projection, nor does it reflect any anticipated increase in the number of those eligible for retiree benefits, or any changes that may occur in the nature of benefits over time.

The Coronavirus (COVID-19) pandemic continues to evolve and will likely continue to impact the 2022 and 2023 US economy and health plan claims projections for most Health Plan Sponsors. Unanticipated changes in the pandemic may impact the retirees' ability to utilize this program and result in experience that deviates from these projections.

cc: Betsy Wood, Division of Retirement and Benefits
Andrea Mueca, Division of Retirement and Benefits
Noel Cruse, Segal
Eric Miller, Segal
Quentin Gunn, Segal

| | |
|---|---|
| **Proposal # and Title** | **Supplemental Non-Emergent Surgery and Travel Benefits (R001)** |
| **Health Plan Affected** | Defined Benefit Retiree Plan |
| **Proposed Effective Date** | TBD (July 2023 – January 2024) |
| **Reviewed By** | Retiree Health Plan Advisory Board – Modernization Subcommittee |
| **Review Date** | January 4, 2023 |

## Contents

# 1) Background

Many AlaskaCare Defined Benefit retiree health plan (Plan) members travel to access medical care. A large portion of the membership lives in Alaska or rural areas where they do not always have local access to the medical care they require. As a result, these members may have no choice but to travel outside their community to obtain certain types of medical care. For others, they may prefer to travel to obtain care that is less expensive than the care available in their community, or to obtain care from a specific provider or facility located outside their community.

### Current Travel Coverage

The Plan provides members limited coverage for certain travel costs when members need to travel away from their home to obtain care. The expenses eligible for coverage and the portions of covered travel costs vary depending on the qualified travel circumstance but are typically limited to airfare costs only. Lodging, per diem expenses, and travel for a companion are rarely eligible for coverage.

The Plan currently covers member health related travel costs within the contiguous limits of the United States, Alaska, and Hawaii. Coverage is limited to the member receiving care, unless a companion benefit is clearly stated or authorized by the plan administrator (e.g. a travel companion for a minor) and includes:[1]

a) Transportation to the nearest hospital by professional ambulance.
b) Round-trip transportation, not exceeding the cost of coach class commercial air transportation, to the nearest professional treatment.
c) Documented travel expenses for ground transportation including fares, mileage, food and lodging for the most direct route if ground transportation and the most direct one-way distance exceeds 100 miles. This applies only while the member is in transit and ends once they arrive at the location of treatment.

The plan provides coverage in the following circumstances:

a) Emergencies
b) Treatment not available locally. Treatment must be received for travel to be covered.
c) Second surgical opinions which cannot be obtained locally.
d) Surgery provided less expensively in another location.

In most circumstances, travel costs do not include the following:

a) Travel for a companion
b) Lodging
c) Food
d) Other transportation costs

Currently, in order to enable the Plan's claims administrator to determine to maximum payable airfare benefit, travel in most circumstances must be precertified. If travel is not precertified, eligible travel expenses will be paid up to $500 (not to exceed actual eligible costs). The plan does not pay for travel costs up front, the member is required to front those costs and submit them for reimbursement following completion of the trip.

[1] For full travel coverage details, see: Retiree Insurance Information Booklet, *Section 3.3.18 Travel*, January 2023. pg. 56-60. https://drb.alaska.gov/docs/booklets/DB-RetireeInsuranceBooklet_WEB.pdf.

Members traveling to seek care may see the provider of their choice. Except for transplant and Gene-based Cellular and Other Innovative Therapies (GCIT) services, the plan does not currently passively or actively steer members to providers or facilities who have demonstrated they meet certain quality or outcome metrics or offer members access to decision support tools to seek out high-quality providers and facilities.

### Supplemental Non-Emergent Surgery & Travel Programs

Recognizing that traveling to seek care often enables members to visit providers best suited to meet their health needs, many health plans, including the AlaskaCare Employee Health Plan (employee plan) have implemented programs to ease the burden of travel, and to incentivize use of providers who meet certain quality and cost metrics. Plans report benefits from this model including avoided unnecessary procedures, reduced complication and readmittance rates, and discounted costs.[2]

These programs are intended to support members when accessing care outside their community by streamlining the travel process, expanding eligible travel expenses in specific circumstances, providing care coordination support, connecting members to a network of high-quality providers, and ensuring services are provided at cost-effective prices.

## 2) Goals and Objectives

1. Connect members with specialists that may not be available locally, and who have been vetted against stringent quality measures.
2. Expand travel expenses eligible for Plan coverage in certain circumstances.
3. Streamline the administrative and coordination tasks for members requiring non-emergent surgery.
4. Enhance patient outcomes through reduced complication rates based on the quality of providers available to members through specialized networks.
5. Drive value through competitive pricing.

## 3) Summary of Proposed Change

This proposal considers adding a supplemental travel program coupled with access to a narrow, high-quality network of providers and facilities delivering non-emergency surgical services to the Plan. This proposal does not contemplate changing or updating the standard travel benefits detailed in *Section 3.3.18 Travel* in the AlaskaCare Retiree Insurance Information Booklet.[3] The proposed program would be supplemental to all existing benefits.

The proposed program would:

1. Provide access to dedicated care advocates to assist members with provider selection, care coordination, and travel arrangements.
2. Provide access to a high-quality network of providers.

---

[2] Jonathan R. Slotkin, Olivia A. Ross, M. Ruth Coleman, and Jaewon Ryu. *Why GE, Boeing, Lowe's, and Walmart Are Directly Buying Health Care for Employees.* Harvard Business Review. June 08, 2017. https://hbr.org/2017/06/why-ge-boeing-lowes-and-walmart-are-directly-buying-health-care-for-employees

[3] Retiree Insurance Information Booklet, *Section 3.3.18 Travel*, January 2023. pg. 56-60. https://drb.alaska.gov/docs/booklets/DB-RetireeInsuranceBooklet_WEB.pdf.

3. Ease the travel process by coordinating and pre-paying the travel itinerary for the member and a traveling companion for services provided through the program.
4. Bring savings to the Plan through discounted rates.

Currently, the Division has contracted with SurgeryPlus to act as a Third-Party Administrator (TPA) and administer this program for active employee plan members. This proposal contemplates implementing the proposed change by expanding the SurgeryPlus service offering to retiree plan members. As with all AlaskaCare contracted TPA services, the contract currently held by SurgeryPlus will be periodically competitively bid, and a different TPA may administer this program in the future based on the outcome of the procurement process.

## SurgeryPlus Overview

SurgeryPlus has developed a network of providers across the United States that meet certain stringent quality criteria, both objective and subjective. These criteria include verification of licensure, board certification, completion of a fellowship, no state sanctions, a reputational review, passage of a comprehensive malpractice review, and a demonstrated complication rate of less than 1% over the past five year. SurgeryPlus negotiates deeply discounted case rates with these high quality providers for specific non-emergent services and procedures.

SurgeryPlus' care advocates serve as a single point of contact for members. When members require an elective surgery, they can contact SurgeryPlus to see if the procedure they are seeking is offered through the SurgeryPlus network. If so, a dedicated care advocate will assist the member.

Member's lodging will be covered for a necessary duration as determined by the surgeon. After the member completes the procedure and travels home, follow up care can be provided through their primary care physician or other appropriate local providers, combined with telehealth services as needed. If necessary, the member can travel back to the surgeon for needed follow up care.

## Episode of Care

An episode of care under the SurgeryPlus benefit can be considered in two categories:

1. Care Coordination and Travel: Includes quality provider recommendations and care coordination from a dedicated Care Advocate, all travel expenses for travel arrangements made through the SurgeryPlus Care Advocate (see "Travel Benefits" section below for more detail).
2. Medical Expenses: Includes all services and treatments administered from admission to discharge at the selected venue for a procedure, as well as the pre-operative and post-operative consultations with the SurgeryPlus provider. Any medical services received outside of the episode of care would be covered under the other provisions of the medical plan.

For non-Medicare-eligible members, a SurgeryPlus episode of care included both the care coordination/travel expenses, and the medical expenses associated with the procedure.

For Medicare-eligible members, a SurgeryPlus episode of care includes the care coordination and travel expenses. To ensure appropriate coordination with Medicare, the medical expenses associated with the procedure will pay under the standard medical benefit.

## Member Cost Share

All expenses included in a Surgery Plus Episode of Care will be subject to the Plan's standard cost share:

*Table 1. AlaskaCare Retiree Health Plan Member Cost Share*

| Deductible | Coinsurance | Out-Of-Pocket Maximum |
|---|---|---|
| $150 | 80% | $800; applies after the deductible is satisfied |

## Covered Services and Procedures

SurgeryPlus provides coverage for non-emergent procedures, including but not limited to the common procedures listed below. The full list of procedures available will vary based on the current capabilities of SurgeryPlus' network of providers, or any future TPA's network of providers.

*Table 2. Common SurgeryPlus Covered Services and Procedures*

| AREA | PROCEDURE TYPES | |
|---|---|---|
| KNEE | • Knee Replacement<br>• Knee Replacement Revision | • Knee Arthroscopy<br>• ACL/MCL/PCL Repair |
| HIP | • Hip Replacement<br>• Hip Replacement Revision | • Hip Arthroscopy |
| SHOULDER | • Shoulder Replacement<br>• Shoulder Arthroscopy | • Rotator Cuff Repair<br>• Bicep Tendon Repair |
| FOOT AND ANKLE | • Ankle Replacement<br>• Bunionectomy<br>• Hammer Toe Repair | • Ankle Fusion<br>• Ankle Arthroscopy |
| SPINE | • Laminectomy/Laminotomy<br>• Anterior Lumbar Interbody Fusion<br>• Posterior Lumbar Interbody Fusion | • Anterior Cervical Disk Fusion<br>• 360 Spinal Fusion<br>• Artificial Disk |
| WRIST AND ELBOW | • Elbow Replacement<br>• Elbow Fusion<br>• Wrist Fusion | • Wrist Replacement<br>• Carpal Tunnel Release |
| GENERAL SURGERY | • Gallbladder Removal<br>• Hernia Repair | • Thyroidectomy |
| GASTROINTESTINAL | • Colonoscopy<br>• Endoscopy | |
| GYNECOLOGY | • Hysterectomy<br>• Bladder Repair | • Hysteroscopy |
| BARIATRIC | • Gastric Bypass<br>• Laparoscopic Gastric Bypass | • Laparoscopic Sleeve Gastrectomy |
| EAR/NOSE/THROAT | • Ear Tube Insertion (Ear Infection)<br>• Septoplasty | • Thyroidectomy<br>• Sinuplasty |

## Care Coordination

After a member reaches out to SurgeryPlus to access their benefit, SurgeryPlus care advocates provide an initial list of providers who are best suited to perform the procedure. For Medicare-eligible members, the

care advocates will provide recommendations for Medicare-accepting providers, based on the quality metrics used to assess SurgeryPlus-contracted providers.

When a member selects one of the SurgeryPlus-recommended providers, their care advocate will arrange for the transfer of the member's medical records to the selected provider who will review the case. Upon review, if the provider accepts the case SurgeryPlus will begin to schedule the procedure and make arrangements for the member's travel. The member will receive assistance with everything from scheduling, to billing to transport, making the experience easier at every step. This care advocate will continue to assist the member through their end-to-end surgical journey and into recovery.

## Travel Benefits

Members utilizing the SurgeryPlus benefit would receive plan coverage for additional travel expenses beyond what is covered under the standard benefit.

Only travel arrangements made through the SurgeryPlus Care Advocate are eligible for coverage under the SurgeryPlus benefits. The specific travel benefit depends on the procedure, the provider and the distance between the provider and a member's residence.

Covered expenses may include the following as arranged by the SurgeryPlus Care Advocate:

1. Roundtrip coach class commercial air transportation for patient.
2. Roundtrip coach class commercial air transportation for one companion.
3. Assistance with transportation costs to and from the airport to appointments.
4. Lodging away from home while traveling to receive pre-operative consult services, procedures covered under the SurgeryPlus benefits, and post-procedural consults. Lodging away from home will be covered until such time as the provider has advised that the patient is cleared to travel and does not require a near term in-person visit with the treating provider, or in any case where the member does not have easy access to primary care.
5. Pre-loaded debit card to cover $25 per patient per day ($50 per day for patient & companion) for meals and incidental expenses traveling away from home to receive services covered under the SurgeryPlus benefits, during the stay to obtain a SurgeryPlus Episode of Care and for the travel from the place of care to the member's place of residence.
6. When member uses ground transportation in lieu of air travel, and the most direct one-way distance:
    a. is less than 100 miles from the member's residence, the member receives a pre-loaded debit card of $25 to help with fuel,
    b. exceeds 100 miles but is less than 200 miles from the member's residence, the member receives a pre-loaded debit card of $50 to help with fuel,
    c. exceeds 200 miles from the member's residence, the member receives a pre-loaded debit card of $100 to help with fuel.

## Limitations

Certain examinations, tests, treatments or other medical services may be required prior to, or following, a planned medical procedure with a SurgeryPlus provider. Any medical services performed by anyone other than a SurgeryPlus provider, including pre- and post-care, will be subject to the coverage limits and other terms of the medical plan.

SurgeryPlus Episode of Care does not cover:

1. diagnostic testing in advance to determine whether a procedure is necessary;
2. convenience expenses;
3. procedures or care that are not medically necessary; and
4. treatment for any complications that arise during an episode of care that requires the member to be discharged from the facility and transported via ambulance to an appropriate venue (*e.g.*, Emergency Room).

After an Episode of Care, if a member needs emergency care for any reason, that care would be covered under the standard terms of the Plan.

SurgeryPlus travel benefits may not be used in conjunction with other AlaskaCare travel benefits provided by the Plan. SurgeryPlus travel benefits cannot be combined with travel benefits provided by other plans, and these benefits do not coordinate with other primary or secondary plans.

# 4) Analysis

The expansion of covered travel costs in certain circumstances will benefit the membership and will ease the process for people who need to seek care outside of their community. The addition of a supplemental, narrow, travel-related network will provide members with access to surgeons who demonstrate they meet and maintain a combination of objective and subjective quality metrics. For Medicare-eligible members, the additional support and provider recommendations will help them to identify the Medicare-accepting provider best suited to deliver the care they need.

Note: These benefits are available to be added based on services being offered by a third-party provider (currently SurgeryPlus). The ability to continue to offer them is dependent on the continued availability of third-party service providers offering these or similar services. If this service model changes in the future, the plan benefit will be impacted.

## Members Traveling Now for Care

The Division estimates that utilization of travel benefits provided through SurgeryPlus will increase from travel claims today, However, it is difficult to predict with certainty what actual usage will be.

Member requesting travel reimbursement has been trending down. Due to COVID-19, there was a decline in in-person medical services and elective surgeries during 2020 and 2021 as well as a decline in members seeking travel reimbursement.

*Table 3. AlaskaCare Retiree Health Plan Travel Expense Claims*

| Year | Number of Travel Claims | Total Spend on Travel Claims |
|---|---|---|
| 2022 (Q1 and Q2 only) | 224 | $45,698 |
| 2021 | 444 | $100,780 |
| 2020 | 402 | $77,483 |
| 2019 | 624 | $115,994 |
| 2018 | 822 | $92,851 |

The above table may not fully reflect the volume of members traveling to receive care. Factors that can impact member utilization of travel benefits include:

A. Members may have traveled to receive care, but were denied coverage for their travel expenses due to a failure to precertify their travel;
B. Members may have traveled to receive care and not realized their travel expenses were eligible for coverage and therefore did not apply for reimbursement;

## Employee Plan Experience with SurgeryPlus

SurgeryPlus benefits were implemented on August 1, 2018 for the AlaskaCare employee plan and have been quite successful. From 2018 through 2022, 166 procedures were completed, resulting in combined savings of nearly $6 million[4].

*Table 4. AlaskaCare Employee Plan: SurgeryPlus Highlights*

| | |
|---|---|
| Lifetime Utilization Metrics | 166 completed procedures |
| Lifetime ROI | 7.51X |
| Lifetime Savings Metrics | $5,989,257 in Procedure Savings<br>$527,824 in Avoided Procedures<br>$900,093 in Avoided Complications |
| SOA Member Survey Results | Overall rating on the benefit: *Very Positive*<br>How likely are you to recommend the benefit: *10/10*<br>Most important factor to choosing SurgeryPlus: *Cost and Care Advocacy* |

# 5) Impacts

## Actuarial Impact | Neutral

The proposed program would result in enhancements to the plan that are favorable for members and promote efficient utilization of services. However, as this proposal does not suggest changes to how a member's cost share for medical services is calculated, the actuarial impact will be neutral.[5]

## Financial Impact | Cost Decrease

### *Projected Annual Financial Impact*

Based on book of business data provided by SurgeryPlus, it is estimated that approximately 400 procedures (20% of eligible procedures) annually will be provided through the SurgeryPlus program, resulting in savings due to the utilization of lower cost providers and fewer associated complications. Offset by contractual administrative expenses and assuming an average of $3,000 per procedure in travel costs, it is estimated there will be approximately $2,800,000 in annual savings to the Plan associated with the SurgeryPlus program.[6]

[4] SurgeryPlus utilization 2018 through year-to-date November 2022.
[5] Segal Consulting Memorandum, *Travel Benefits Focus on Actuarial and Financial Impact for the Retiree Plan*, December 21, 2022.
[6] Segal Consulting Memorandum, *Travel Benefits Focus on Actuarial and Financial Impact for the Retiree Plan*, January 27, 2022.

*Projected Long-Term Financial Impact*

The annual cost decrease associated with the proposed benefit additions may have long-term impacts to the healthcare Actuarial Accrued Liability (AAL) and to the Additional State Contributions (ASC) associated with the Plan.

Analysis of these impacts is forthcoming in a future iteration of this proposal.

## Member Impact | Enhancement

Members would benefit from the addition of this program, as it would provide additional financial assistance in covering the cost of travel for themselves and a companion. It will facilitate access for members requiring care from specialists that are not available locally. It may also result in better outcomes through reduced complication rates due to the provider quality of the SurgeryPlus network. It can be difficult to identify the best physician or surgeon for a procedure and tools to do so are limited. The physician credentialing and recommendations along with the scheduling assistance and care coordination can assist members in navigating that process.

- SurgeryPlus does not currently have any Alaska-based providers in their network. Any Alaska-based member using SurgeryPlus to receive care would need to travel out of state.[7]
- Members utilizing SurgeryPlus would not have to pay out of pocket for their eligible travel expenses and seek reimbursement later. While this represents a change from current procedure, it does not represent a change to covered expenses.

### Non-Medicare Eligible Members

Members who are not eligible for Medicare will benefit from the expanded coverage for travel expenses, the care coordination services, and from the anticipated positive outcomes associated with high quality care from the SurgeryPlus network of providers.

Members will be required to pay any applicable deductible and coinsurance to SurgeryPlus prior to receiving care, but then all travel and medical costs will be covered by SurgeryPlus. The member will not have to pay bills after their procedure and will not have to cover the cost of their travel up front and submit for reimbursement after the fact.

### Medicare Eligible Members

Medicare eligible members can seek services from any provider that accepts Medicare, and any services provided would be subject to Medicare's fee schedule. SurgeryPlus' care advocates can offer Medicare-accepting provider recommendations based on the quality metrics used to evaluate providers who participate in the network. Medicare eligible members will be able to utilize SurgeryPlus for travel arrangement and care coordination.

Medicare does not cover travel, so the expansion of travel coverage beyond the standard benefit to include costs for a member and companion will provide a better benefit to members who are Medicare eligible.

[7] SurgeryPlus is willing to begin contracting discussions with any Alaska-based providers that meet the credentialing requirements.

## Operational Impact (DRB)| Neutral

The Division anticipates minimal operational impacts, and the SurgeryPlus program is already provided to Employee Plan members. The combined teams have completed a successful implementation and transition to operations. The majority of coordination has already occurred, and the operational tasks can be scaled to include the retiree population.

Staff will need to oversee expansion of SurgeryPlus' services offering to the retiree plan population, resulting in a minor increase to the routine work to administer and monitor the benefit including quality control, reporting, billing, responding to eligibility questions, and communications.

## Operational Impact (TPA) | Increase

The impact to the medical Third-Party Administrator (TPA), Aetna is anticipated to be high for several reasons:

- Aetna will need to enhance and streamline the coordination activities with an external vendor (SurgeryPlus) to share member accumulator data, eligibility, and claims data.
- Aetna will provide eligibility to the external vendor.
- Aetna will need to maintain its existing process for travel claims administration in parallel with the additional services provided by the external vendor.

The impact to the current supplemental travel and non-emergent surgery benefit administrator (SurgeryPlus) is anticipated to be high for several reasons:

- SurgeryPlus will need to enhance and streamline the coordination activities with the medical TPA to share member accumulator data, eligibility, and claims data.
- SurgeryPlus will need to scale its operations to effectively service a larger population than it does today for the State.

# 6) Considerations

## Clinical Considerations

These changes are anticipated to result in overall better quality of care for members. Surgery Plus drives value and positive patient outcomes by only contracting with providers that meet strict quality standards. Not only must providers be licensed, board certified, fellowship trained, have no state sanctions, pass reputational and malpractice reviews, but they and the facility they practice at must meet additional quality metrics related to procedure-specific volume, patient support programs, complication, outcome, and readmission rates, and more.[8]

Across their book of business, SurgeryPlus reports a <1% complication rate for joint, spine, bariatric, and general procedures, while the industry complication rate for the same procedure categories ranges from 8 – 15%.[9]

## Provider Considerations

The expansion of travel benefits, particularly the SurgeryPlus program, could create additional competition in the Alaska medical marketplace as providers compete with those offering the same

[8] SurgeryPlus presentation to RHPAB. Transforming Access to Excellent Care. November 3, 2022. p 9.
[9] Ibid. p 10.

services outside of their community. This could result in reduced costs and better services as providers work to remain competitive. Alternatively, as members in small communities seek care elsewhere, any fixed cost for providing those services could be spread across a smaller number of patients increasing costs for those who receive care at home.

# 7) Implementation and Communication Overview

Division staff have already worked with SurgeryPlus to successfully implement this program beginning August 1, 2018 for the AlaskaCare employee plan.

Division staff will follow the standard process for making changes to the Defined Benefit retiree plan, which includes completion of the following:

- Proposal analysis and stakeholder input
- Public comment period(s)
- Any needed language updates to the Retiree Insurance Information Booklet
- Education outreach to benefit recipients

# 8) Proposal Recommendations

## DRB Recommendation

The Division recommends…

## RHPAB Board Recommendation

The RHPAB board voted on ##/##/## to recommend/not to recommend…

## Commissioner of Administration Recommendation

The plan administrator made the determination on ##/##/## to …

| Description | Date |
|---|---|
| Proposal Drafted | 07/20/2018 |
| Reviewed by Modernization Subcommittee | 08/10/2018, 09/28/2018, 10/30/2018, 04/23/2019, 06/12/2019, 1/4/2022 |
| Reviewed by RHPAB | 08/29/2018, 11/28/2018, 02/06/2019, 05/08/2019, 08/07/2019 |

# 9) Plan Language

New language for the Retiree Health Plan will need to be drafted.

Segal

Richard Ward, FSA, FCA, MAAA
West Region Market Director, Public Sector
T 956.818.6714
M 619.710.9952
RWard@Segalco.com

500 North Brand Boulevard
Suite 1400
Glendale, CA 91203-3338
segalco.com

# Memorandum

**To:** Ajay Desai, Director, Division of Retirement and Benefits

**From:** Richard Ward, FSA, FCA, MAAA

**Date:** December 21, 2022

**Re:** Travel Benefits – Focus on Actuarial and Financial Impact for the Retiree Plan

The AlaskaCare Retiree Plan currently reimburses for coach airfare associated with select services and treatments. Precertification is required and travel is restricted to the treatment facility. The Plan does not reimburse members if airline miles are used to purchase tickets, nor does it reimburse for the cost of food, lodging, or local ground transportation such as airport shuttles, cabs or rental cars.

The Plan applies the general benefit provisions, such as deductible, coinsurance and out-of-pocket limits, to determine any portion of the costs that are the member's responsibility. If the member has additional coverage, such as Medicare or other employer provided coverage, any portion of the costs covered by that plan is also considered.

Below is a table outlining the current benefits offered under the Plan:

| **Deductibles** | |
|---|---|
| Annual individual / family unit deductible | $150 / up to 3x per family |
| **Coinsurance** | |
| Most medical expenses | 80% |
| Most medical expenses after out-of-pocket limit is satisfied | 100% |
| Second surgical opinions, Preoperative testing, Outpatient testing/surgery<br>• No deductible applies | 100% |
| **Out-of-Pocket Limit** | |
| Annual individual out-of-pocket limit<br>• Applies after the deductible is satisfied<br>• Expenses paid at a coinsurance rate other than 80% do not apply against the out-of-pocket limit | $800 |
| **Benefit Maximums** | |
| Individual lifetime maximum<br>• Prescription drug expenses do not apply against the lifetime maximum | $2,000,000 |
| Annual reinstatement once lifetime maximum is reached | $5,000 |

| | | |
|---|---|---|
| Individual limit per benefit year on substance abuse treatment without precertification. Subject to change every three years | $12,715 | |
| Individual lifetime maximum on substance abuse treatment without precertification. Subject to change every three years | $25,430 | |
| **Prescription Drugs** | Up to 90 Day or 100 Unit Supply | |
| | Generic | Brand Name |
| Network pharmacy copayment | $4 | $8 |
| Mail order copayment | $0 | $0 |

The Department of Administration is contracting with SurgeryPlus to provide enhanced travel benefits, which include a per diem for lodging and meals, companion airfare, and concierge-level member services to coordinate travel arrangements with medical care. The scope of covered services and procedures eligible for travel benefits will also be expanded to include the following:

| Circumstance | Current Benefit | Proposed Benefit |
|---|---|---|
| Emergency travel | Transportation to nearest hospital by professional ambulance | No change |
| Transplant via Aetna Institute of Excellence | -Member and companion<br>-Overnight stay:<br>-$50 per person/night<br>-$100/night maximum<br>-Companion expense:<br>-$31/night | No change |
| Travel for minor | -Minor and companion<br>-Transportation covered | -Add overnight lodging benefit of $80/night up to 14-day maximum<br>-Add per diem benefit of $31 per patient/day; or $62 per patient & companion/day |
| Second surgical opinion | -Transportation covered for member only | -Add lodging and per diem benefit as described above |
| Treatment and diagnostic services not available locally | -Transportation, lodging and per diem covered for member only<br>-Limited to treatment only<br>-Limited to the following visit per benefit year:<br>-1 treatment for condition<br>-1 for follow-up<br>-1 pre- or post-natal care<br>-1 for maternity delivery<br>-1 pre- or post-surgery<br>-1 per surgical procedure<br>-1 per allergic condition | -Restrict to services received from a network provider<br>-Add lodging and per diem benefit as described above to cover the member's entire length of stay subject to medical necessity<br>-Allow for both pre- and post-op visit coverage if post-op received within 60-days of discharge<br>-Add companion benefit if procedure requires general anesthesia |

| Circumstance | Current Benefit | Proposed Benefit |
|---|---|---|
| Surgery and diagnostic services in other locations less expensive | -Only applicable for surgery<br>-Transportation covered for member only<br>-Total cost may not exceed the recognized charge for same expenses received locally<br>-Total cost must include:<br>-surgery<br>-hospital room and board<br>-travel to another location | -Restrict to services received from a network provider<br>-Add "if not available through the SurgeryPlus program"<br>-Add coverage for companion if procedure requires general anesthesia<br>-Add lodging and per diem benefit as described above to cover the member's entire length of stay subject to medical necessity |
| SurgeryPlus Program | -Not currently available to retiree members | -All travel includes member and companion<br>-Travel costs arranged for and covered up front by SurgeryPlus<br>-Hotels arranged and paid for by plan<br>-$31 per diem for member/$62 with companion<br>-Members receive pre-loaded debit card in advance of trip |

Additionally, the Division would maintain prior-authorization requirements and add new requirements for prior-authorization if a member is seeking less expensive treatment and intend to have travel arranged through SurgeryPlus.

The Division is considering the standard SurgeryPlus benefits, as described above, for non-Medicare members. The current consideration for the Medicare members is to provide access to the travel coverage, provider recommendations and care coordination component of the SurgreyPlus offerings. The Division has indicated that they are planning to undertake additional negotiations to ensure that the plan will still coordinate with Medicare with no impact to the member or the plans status as a secondary coverage.

## Actuarial Value

While these enhancements are favorable for the member, there will be no impact on actuarial value. These changes promote efficient utilization of medical services, which helps manage program costs. However, there are no changes to how the cost share is determined and therefore, the enhanced travel benefits do not affect the actuarial value of the program.

Additional incentives that affect cost sharing (such as waiving deductibles and/or coinsurance) would likely result in an increase to actuarial value.

## Financial Impact

While there is no impact on the Plan's actuarial value, there would be a financial impact.

Based on previous analysis utilizing Book of Business data from SurgeryPlus, it is estimated that 20% of eligible procedures will result in about 400 procedures accessing the SurgeryPLus network and associated travel benefit annually, resulting in savings due to the utilization of lower cost providers and fewer associated complications. Offset by contractual administrative expenses and assuming $3,000 per procedure in travel costs, it is estimated there will be approximately $2,800,000 in annual savings to the Plan associated with the SurgeryPlus program.

Segal reviewed the assumptions used by SurgeryPlus and consider them to be reasonable. For budgeting purposes, to be conservative in projecting the impact of a new program, Segal's analysis utilizes a 20% margin.

## Additional Notes

The data used for this analysis was reviewed, but not audited, and found to be sufficient and credible.

The above projection is an estimate of future cost and is based on information available to Segal at the time the projection was made. Segal has not audited the information provided. A projection is not a guarantee of future results. Actual experience may differ due to, but not limited to, such variables as changes in the regulatory environment, local market pressure, change in demographics, overall inflation rates and claims volatility. Projection of retiree costs considers only the dollar value of providing benefits for current retirees during the period referred to in the projection. It does not reflect the present value of any future retiree benefits for active, disabled, or terminated employees during a period other than that which is referred to in the projection, nor does it reflect any anticipated increase in the number of those eligible for retiree benefits, or any changes that may occur over time.

The Coronavirus (COVID-19) pandemic continues to evolve and will likely continue to impact the 2022 and 2023 US economy and health plan claims projections for most Health Plan Sponsors. Unanticipated changes in the pandemic may impact the retirees' ability to utilize this program and result in experience that deviates from these projections.

cc: Betsy Wood, Division of Retirement and Benefits
Andrea Mueca, Division of Retirement and Benefits
Noel Cruse, Segal
Eric Miller, Segal
Quentin Gunn, Segal

| | |
|---|---|
| Proposal # and Title | Virtual Physical Therapy and Musculoskeletal Care Program (R027) |
| Health Plan Affected | Defined Benefit Retiree Health Plan |
| Proposed Effective Date | TBD (July 2023 – January 2024) |
| Reviewed By | Retiree Health Plan Advisory Board – Modernization Subcommittee |
| Review Date | January 4, 2023 |

## Contents



# 1) Background

### Current Rehabilitative Care Telehealth Coverage

The AlaskaCare Defined Benefit Retiree Health Plan (Plan) currently providers coverage for physical therapy (PT) and other outpatient rehabilitative care services designed to restore and improve bodily functions lost due to injury or illness.[1] Most rehabilitative care services are commonly delivered in person;

[1] Retiree Insurance Information Booklet, *Section 3.3.12 Rehabilitative Care*, January 2023. pg. 52-53. https://drb.alaska.gov/docs/booklets/DB-RetireeInsuranceBooklet_WEB.pdf

however some rehabilitative care services can be delivered remotely, via telemedicine by providers practicing within the scope of their license.

The Plan covers services when delivered via telehealth in accordance with the AlaskaCare third-party administrator's (Aetna) policies. These policies are actively managed and updated by Aetna to reflect standard care delivery practices. For example, some care may be appropriately delivered via a telephone connection, while other services may require an audiovisual connection.

### Virtual Physical Therapy

Virtual PT is a method of providing physical therapy or musculoskeletal (MSK) care services where instead of traveling to a provider for an in-person visit, patients communicate with a provider via phone call or videoconference and attend the appointment from home.

Telehealth has been used across different PT specialties, and are frequently a fit for members who would not necessarily require physical touch from the therapist. For example, virtual sessions might be used to help educate patients, or to supplement in-person sessions.

While different from traditional services, telehealth physical therapy has multiple benefits.

- Virtual physical therapy is accessible to more people. For those who live in rural areas far from the nearest PT clinic—or who don't have access to transportation—attending online sessions may be considerably more feasible than traveling to in-person appointments. This is particularly valuable to our retiree members who may live in rural areas.
- Virtual physical therapy is generally more comfortable for rehabilitation patients. While recovering from surgery or an acute injury, a patient may not be able to drive to an in-person appointment. Telehealth PT allows them to make progress on their recovery without needing to leave home.
- Allowing members to self-manage their symptoms in their own homes can grant them a greater sense of independence, making them feel more in control of their recovery process. It may also be helpful to conduct virtual sessions in the same area of the home where members would be practicing exercises on their own. That way, the therapist can provide guidance on using rehabilitative equipment and features of the home (such as walls, doorways, and furniture) within certain exercises.
- Virtual PT sessions may be easier for patients to fit into their busy lives, since they don't have to drive to the PT clinic. For busy retirees, an at-home appointment can offer a welcome level of convenience.

### AlaskaCare Retiree Health Plan Musculoskeletal Spend

A large cost driver in the Plan is treatment of MSK conditions including osteoarthritis, fractures, neck pain, mechanical joint disorders, and back pain. From January through December 2021, the plan's costs associated with MSK treatments for 8,141 members totaled $30.7 million, making up approximately 18.6% of the plan's overall paid medical expenses.[2]

### AlaskaCare Employee Health Plan Virtual PT Experience

The AlaskaCare Employee Health Plan has contracted with a virtual MSK care provider organization to

[2] Aetna Consultative Analytic Impact Report, State of Alaska Retiree Plan, May 4, 2022.

offer virtual-only MSK care and physical therapy since July of 2021. The benefit is administered by Hinge Health, an affiliate of the supplemental travel and non-emergency surgery benefit administrator, SurgeryPlus.

## 2) Goals and Objectives

1. Offer members a cost-effective, easy-to-access, highly personalized MSK care and treatment option.
2. Support members in achieving MSK condition prevention, surgical avoidance, and better surgical recovery outcomes.
3. Facilitate access to a wider range of medical providers for consultations and advice.
4. Drive value through cost-effective care.

## 3) Summary of Proposed Changes

This proposal considers providing Plan members with access to a digital PT clinic as an additional care and treatment option for MSK conditions. This proposal does not contemplate changing or updating the standard rehabilitative care benefits detailed in *Section 3.3.12 Rehabilitative Care* in the AlaskaCare Retiree Insurance Information Booklet. The proposed program would be supplemental to all existing benefits.

Such a program would focus on prevention, acute care for members experiencing an acute MSK condition, such as a pulled muscle or sprained ankle, and chronic care designed to treat ongoing MSK conditions, such as arthritis or chronic back pain.

This proposal contemplates implementing the proposed change by expanding the Hinge Health service offering to retiree plan members. As with all AlaskaCare contracted services, the contract currently held by SurgeryPlus and Hinge Health will be periodically competitively bid, and a different TPA may administer this program in the future based on the outcome of the procurement process. Changes or updates to the program may be necessary based on future service offering availability.

### Hinge Health Overview

Hinge Health's services are made up of four care pathways:

1. Prevention
   The prevention program is offered free of charge to all plan participants. To participate, members download a free software application to their smart device where they can access customizable exercise programs and lifestyle educational materials designed by physical therapists and physicians.

2. Acute
   The acute program is available to members experiencing an acute MSK condition, such as a sprained ankle or tendonitis. The program combines use of the Hinge Health software application with one-on-one video visits with a physical therapist to work through a treatment program. Participants in the acute program can a limited number of physical therapy sessions before they will be referred to in-person care. Should the member require surgery, the Hinge Health physical therapist will provide the member with information about their benefit options. If SurgeryPlus is implemented in the Plan, Hinge Health physical therapists can refer members to that program.

3. Chronic
   The chronic program is meant for members grappling with an ongoing MSK condition, such as arthritis or chronic back pain. Hinge Health will send program participants wearable body movement sensors and a linked tablet that provide real time feedback to physical therapists during video visits and tracks the patient's progress and adherence to their program of care. Program participants are also matched with a dedicated health coach to provide tailored educational information as well as to assist in developing the program of care. Should the member require surgery, the Hinge Health physical therapist will provide the member with information about their benefit options. If SurgeryPlus is implemented in the Plan, Hinge Health physical therapists can refer members to that program.

4. Surgery
   If a member requires surgery or decides to move forward with surgery after participating in the acute or chronic care programs, Hinge Health offers pre- and post-operative rehabilitation. Though members are free to use the surgeon of their choosing through the current medical benefits, if the Surgery Plus program is expanded to retiree health plan members, Hinge Health's providers would ensure that members were aware of the option to schedule their procedure through SurgeryPlus.

Hinge Health's services are available at no cost to the member. The cost of this service to the plan depends on the level of care received by the member.

1. Preventive services, including expert medical opinions, exercise therapy, and education, are offered free of charge to all plan participants.
2. Acute care for recent injuries, including video visits with a physical therapist is $250 per engaged participant per year.
3. Chronic care for high-risk individuals or pre- and post-surgical rehabilitation is $995 per engaged participant per year.

The plan will never be charged for members who do not engage in the program, and the plan will never be charged more than $995 per engaged participant per year. For example, if a person begins in the acute care program but transitions into a post-surgical rehabilitation course of care, the maximum cost to the plan for that person for the year will be $995.

Hinge Health offers a 1.5:1 Return-on-Investment (ROI), based on reduction in member's pain and avoided surgical interventions, with 100% of their fees at risk.

# 4) Analysis

Currently, the Plan will cover virtual PT and MSK care visits if the provider is practicing within the scope of their license, in alignment with Aetna's Clinical Policy Bulletins (CPB), and in alignment with the terms of the Plan. However, members do not currently have access to a specific virtual PT provider. The addition of such a plan should benefit the membership and allow for greater choice, improved accessibility, and additional convenience when seeking this type of care.

Note: These benefits are available to be added based on services being offered by a third-party provider. The ability to continue to offer them is dependent on the continued availability of the service provider. If this service model changes in the future, the plan benefit will be impacted.

### Employee Plan Experience with Hinge Health

This benefit was implemented in July 2021 for the AlaskaCare Active employee plan and has been quite successful. From inception through April 2022, 308 members participated in the chronic program and 98 members in the acute program. Participants in the chronic program reported a 52% reduction in pain and surgery likelihood decreased by 59%. In the acute program, participants reported a 63% reduction in pain over the first three weeks of therapy and a 28% reduction in pain during weeks four through six.[3]

Recent enrollment in the program has been robust, with 563 new users enrolled in 2022.

# 5) Impacts

## Actuarial Impact to AlaskaCare | To Be Determined

The proposed program would result in enhancements to the plan that are favorable for members, offer access to a new provider group, and promote efficient utilization of medical services. T

The actuarial impact of this change is under review.

## Financial Impact to AlaskaCare | Cost Decrease

The financial impact of this change is ultimately dependent on the number of members who choose to engage with the program. For example, the annual fee for Hinge Health to the employee plan is up to $995 per engaged participant per year. However, this fee is offset by employee plan savings due to improvements in members' pain management. Hinge Health estimates that a 1 percent improvement equates to $71.09 in saved claims cost. Hinge Health helps to protect the plan financially by offering a return on investment (ROI) of 1.5:1 with a prorated refund if the ROI is not met.

### *Projected Annual Financial Impact*

Based on the AlaskaCare employee plan's participation rate (3.85%), Segal estimates that among the approximately 76,000 retiree members, approximately 2,900 members would engage with Hinge Health. This would result in a plan cost of approximately $2.9 million annually. Based on Hinge Health's ROI guarantee, there would be approximately $4.3 million in combined claims savings and possibly returned fees, resulting in $1.4 million in net annual savings.

### *Projected Long-Term Financial Impact*

The annual cost decrease associated with the proposed benefit additions may have long-term impacts to the healthcare Actuarial Accrued Liability (AAL) and to the Additional State Contributions (ASC) associated with the Plan.

Analysis of these impacts is forthcoming in a future iteration of this proposal.

[3] SurgeryPlus Q4 2021 Utilization Report, January 28, 2022

## Member Impact | Enhancement

Providing members access to a virtual PT and MSK care provider will enhance the benefits available to all Plan members. The proposed program is not covered service under Medicare, so member's AlaskaCare coverage will be primary, regardless of the member's Medicare eligibility status.

Members may benefit from lower out-of-pocket MSK-related costs and positive health outcomes.

## Operational Impact (DRB)| Initial: Moderate Ongoing: Minimal

The Division anticipates moderate operational impacts associated with implementation and member communication as follows:

- DRB Staff would need to review and distribute communications to educate and increase awareness of the implementation of the virtual PT program.
- DRB Staff would need to coordinate and oversee implementation of the program to ensure that the addition of is implemented correctly, the process is running smoothly, and that member questions and/or concerns are responded to.

After implementation and once members are accustomed to the programs, the ongoing operational impacts are anticipated to be minimal.

## Operational Impact (TPA) | Initial: Moderate Ongoing: Minimal

The initial impact to the current virtual PT and MSK care provider (Hinge Health) is anticipated to be moderate for several reasons:

- Hinge Health will collaborate with the Division's staff to scale operations to effectively service a larger population than it does today for the State.
- Hinge Health will need to undertake a member outreach campaign in advance of the implementation.
- Hinge Health will need to produce reporting on the impacts and savings associated with the program.

After implementation, the ongoing operational impacts are anticipated to be minimal and will include maintenance of the program and ongoing outreach efforts.

# 6) Considerations

## Clinical Considerations

Participation in this program is anticipated to often result in positive clinical outcomes and reduced pain for members.

In April 2022, a study on the impacts of participation in the Hinge Health program on individuals who also participate in Medicare was released. The study found that in the 12 months after the program start date, the monthly MSK-specific medical costs for non-Hinge Health participants were $221.27 higher on average than participants in the program. Accounting for program fees, this would result in a 2.7x ROI.

The study found that main savings drivers were related to decreased hospital inpatient and outpatient facility utilization, and decreased utilization of professional services from specialists.[4]

### Provider Considerations

Providing members with access to a virtual PT and MSK care provider could create additional competition in the Alaska medical marketplace as providers compete with those offering the same services outside of their community. This could result in reduced costs and better services as providers work to remain competitive. Alternatively, as members in small communities seek care elsewhere, any fixed cost for providing those services could be spread across a smaller number of patients increasing costs for those who receive care from local providers.

## 7) Implementation and Communication Overview

Division staff have already worked with Hinge Health to successfully implement this program beginning July 2021 for the AlaskaCare employee plan.

Division staff will follow the standard process for making changes to the Defined Benefit retiree plan, which includes completion of the following:

- Proposal analysis and stakeholder input
- Public comment period(s)
- Any needed language updates to the Retiree Insurance Information Booklet
- Education outreach to benefit recipients

## 8) Proposal Recommendations

### DRB Recommendation

The Division recommends…

### RHPAB Board Recommendation

The RHPAB board voted on ##/##/## to recommend/not to recommend…

### Commissioner of Administration Recommendation

The plan administrator made the determination on ##/##/## to …

| Description | Date |
|---|---|
| Proposal Drafted | 1/4/2023 |
| Reviewed by Modernization Subcommittee | 1/4/2023 |
| Reviewed by RHPAB | |

## 9) Plan Language

New language for the Retiree Health Plan will need to be drafted.

[4] Patrick Curran, Heidi Laughlin. *Hinge Health Medicare Cost and Utilization Study*. April 28, 2022. https://assets.ctfassets.net/cad7d5zna5rn/6BN7T0unYTlqPcEFDmNw54/8a16f0f497294d25f9838871b7b053c2/Hinge_Health_Medicare_Cost_and_Utilization_Study.pdf

Surgery Plus

# Transforming Access to Excellent Care

**January 4th, 2023**

AlaskaCare Retiree Health Plan



Employer Direct Healthcare

# Two Pathways for AlaskaCare Retirees

**SurgeryPlus can provide services to all AlaskaCare Retirees regardless of coverage**

## Medicare Retirees

- Support with coordinating and booking travel services and covering cost upfront
- Access to concierge for provider recommendations if needed
  - Ensure Medicare is accepted
  - Can provide high-level quality review of current provider
- Scope of coverage aimed to make travel attainable
- Covered procedures limited medical necessity

## Non-Medicare Retirees

- Access to full SurgeryPlus benefit for eligible surgeries
  - Quality provider recommendations
  - Savings to the plan through our bundled rates
  - Coordinated care and travel with our Care Advocates with cost covered upfront
- Access to concierge for coordination of medical services
- Scope of coverage aimed to make travel attainable
- Covered procedures limited to medical necessity

Surgery Plus

# Medicare Primary

AlaskaCare Retiree Health Plan



Employer Direct Healthcare

# SurgeryPlus: how our solution works for Medicare Primary

**We guide members to excellent providers with local access, driving usage of our network, which lowers spend**

## Guide Members

Dedicated Care Advocate

Human & digital via chat

## Excellent Providers

Provider recommendations upon request

High-level quality review of providers upon request

## Travel Assistance

Coordinate travel itinerary

Book and pre-pay hotel

Book and pre-pay flights

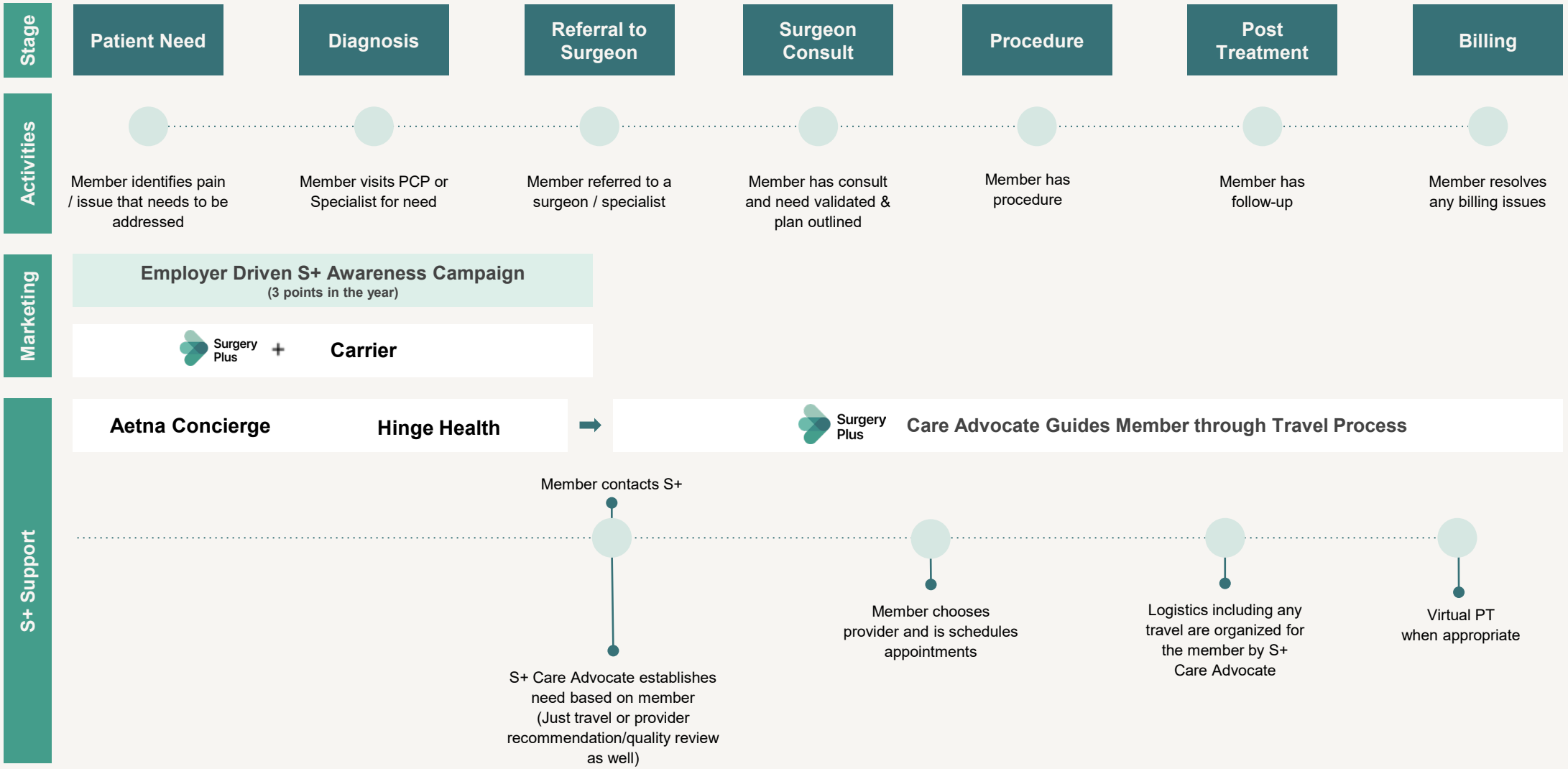
Provide debit card with applicable travel funds

## Lower Costs

Accessing care in lower 48 can bring savings to the plan

# Driving utilization in partnership with your ecosystem

**Thoughtful timely outreach, leveraging carrier / navigator data, and thoughtful hand-offs**



Surgery Plus

# Non-Medicare Primary




Employer Direct Healthcare

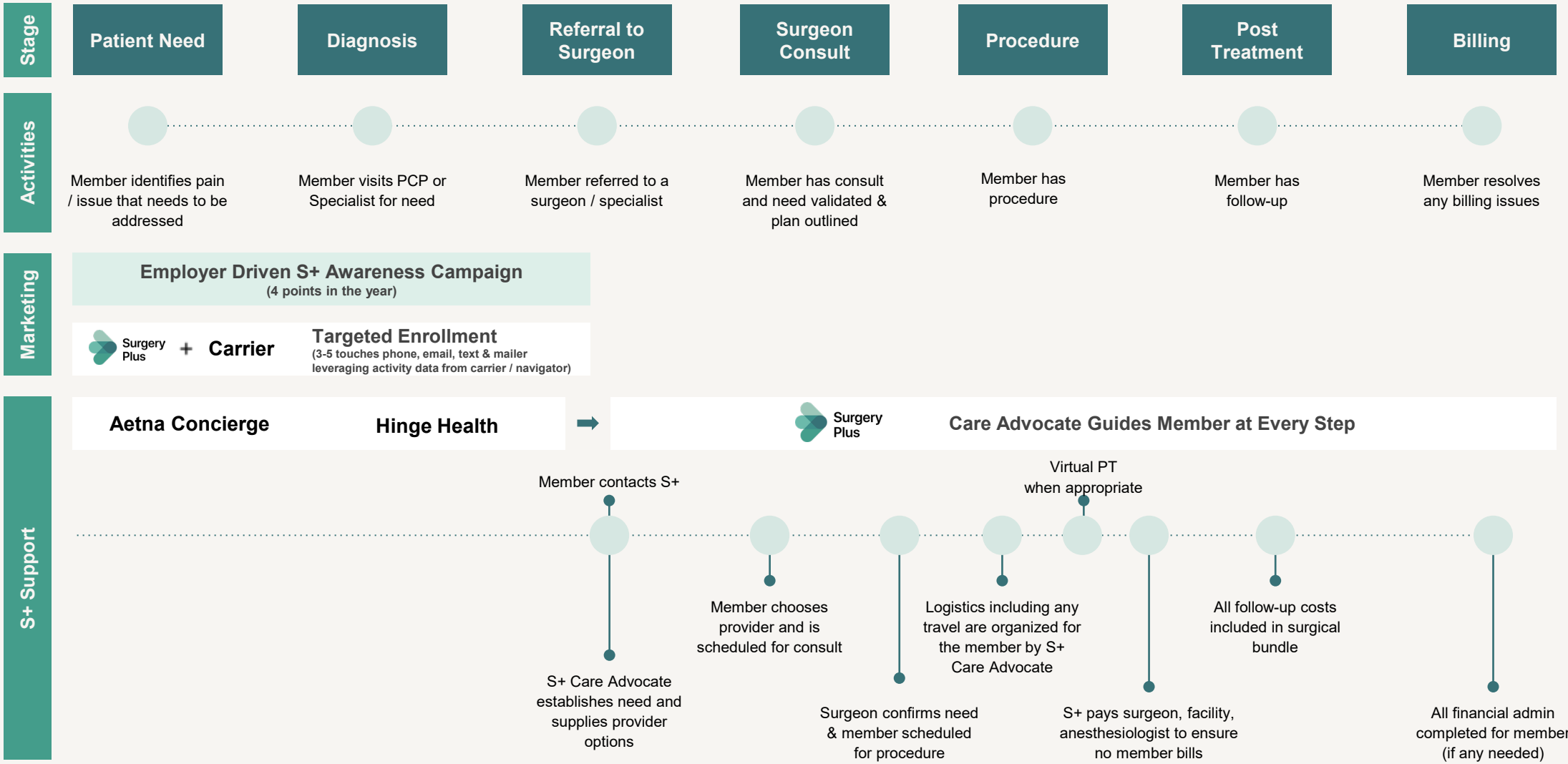
# SurgeryPlus: how our solution works for non-Medicare Primary

**We guide members to excellent providers with local access, driving usage of our network, which lowers spend**

| Guide Members | Excellent Providers | Travel Assistance | Lower Costs |
|---|---|---|---|
| Dedicated Care Advocate | Individually selected surgeons | Coordinate travel itinerary | Member protection from high out-of-pocket costs |
| Human & digital via app and chat | Sub 1% complication rate | Book and pre-pay hotel | No out-of-network risk with SurgeryPlus providers |
| | Better outcomes with procedure volume requirements | Book and pre-pay flights | Accessing care in lower 48 can bring savings to the plan |
| | | Provide debit card with applicable travel funds | |

# Driving utilization in partnership with your ecosystem

**Thoughtful timely outreach, leveraging carrier / navigator data, and thoughtful hand-offs**



# Surgery Plus

**John Zutter**
Chief Executive Officer

**Dickon Waterfield**
Chief Commercial Officer

**Megan Cunningham**
Regional Senior Manager



Employer Direct Healthcare

Hinge Health | Surgery Plus

# State of Alaska Retirees

2023

# Personalizing Care for Seniors

## Key Principles in Structuring Therapy for Medicare Members

### Reduce Pain

MSK pain can be the source of surgeries, injections, opioids, exacerbated co-morbidities, etc.

### Improve Safety

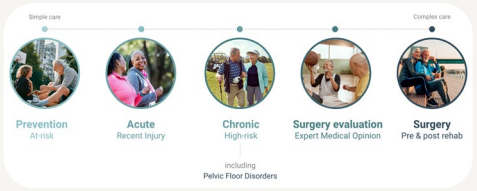
All Medicare members are screened for fall risk; therapy integrates preventive care

### Keep Active

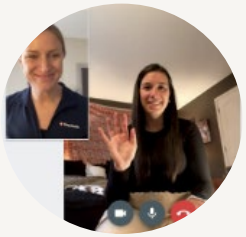
Programs tailor focus on maintaining independence, continuing activities of daily living, and other lifestyle goals

# Comprehensive Suite of MSK Services for Complex Care

## Personalized MSK Programs

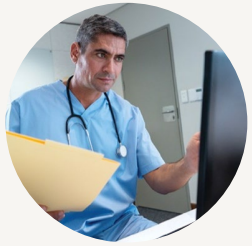



## Telehealth

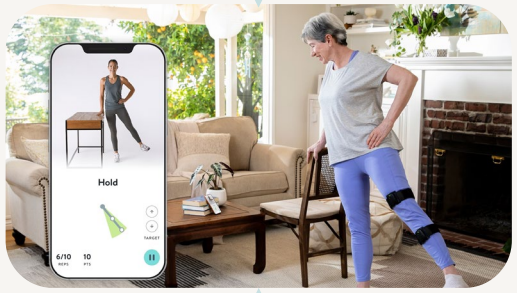


## Health Coaching

## High Risk Care Management



## App Based MSK Therapy




## Surgical Networks

## Pain Relief Device

## Sensorless Feedback

## Fall Prevention

# Help your members avoid unnecessary surgical procedures

SurgeryPlus customers can add Hinge Health for a complete end-to-end solution for all MSK care needs

Surgery Plus

## When surgery is appropriate:

- Nationwide network of top-quality surgeons for better outcomes
- Full service surgical concierge to coordinate a surgeon, manage appointments, medical records, bills, and travel
- Pre-negotiated bundled rates to optimize costs

Hinge Health

## When surgery is avoidable:

- Digital MSK Clinic helps members reduce MSK pain and avoid surgeries
- Dedicated MSK programs for everybody and every body part from prevention to pre/post-surgery care
- Personalized, digital MSK care delivered through a complete clinical care team, advanced technology, and an all-in-one app

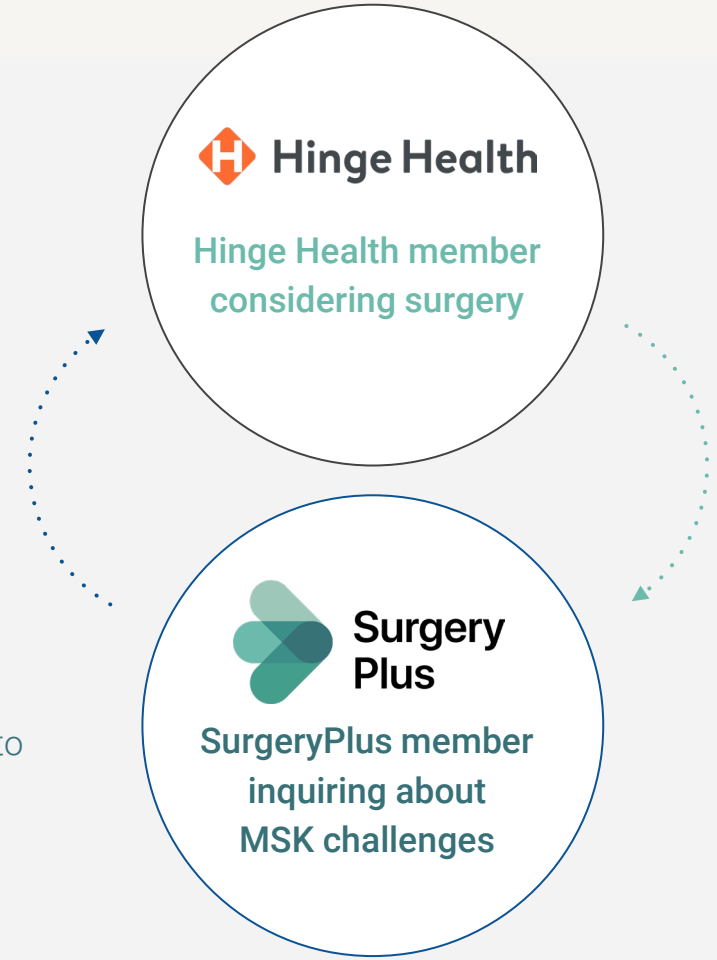
# Established referral process
## Improves member experience and outcomes

### Hinge Health will:

- Assess if Hinge Health member is a potential candidate for surgery
- Educate member on SurgeryPlus and connect them directly with SurgeryPlus concierge services

### SurgeryPlus will:

- Assess if there is a better option than surgery
- Educate member on Hinge Health and refer to Hinge Health's Digital MSK Clinic
- Help to enroll applicable members




### Benefits to members:

- Seamless member experience
- Improved clinical outcomes
- Optimize outcomes and cost of surgery

# Hinge Health and SurgeryPlus bring enhanced value

SurgeryPlus customers can add Hinge Health for a complete end-to-end MSK solution

## Streamlined administration

- **Easy contracting and claims billing**: Directly through SurgeryPlus
- **Quick implementation**: Reporting, eligibility file transfers, data exchange

## Member experience

- **Care needs and referral protocols**: Standardized to optimize costs and outcomes of surgery
- **Turnkey member marketing**: Custom enrollment strategy at zero extra cost

## Clinical and financial impact

- **Whole-person approach to care**: Address physical, social, and mental needs
- **Guaranteed cost savings:** 100% fees at risk, 1.5x ROI guarantee

**1.5x**
ROI guaranteed

**100%**
Fees at risk

**1000+**
On-time deployments

# appendix

Hinge Health

# Partnered to provide the most complete end-to-end care

## Seamless implementation

- **No additional contracting:** One contract via SurgeryPlus
- **Fast implementation:** Set up complete in 8-12 weeks
- **ROI guarantees:** Flexible pricing models with 1.5:1 ROI guarantee and 100% of fees at risk.

## Integrated end-to-end care

- **Complete clinical care team:** physicians, PTs, health coaches, expert specialists, and technology
- **Full service surgical concierge:** Locating a top-quality surgeon, managing appointments, medical records, bills, and travel

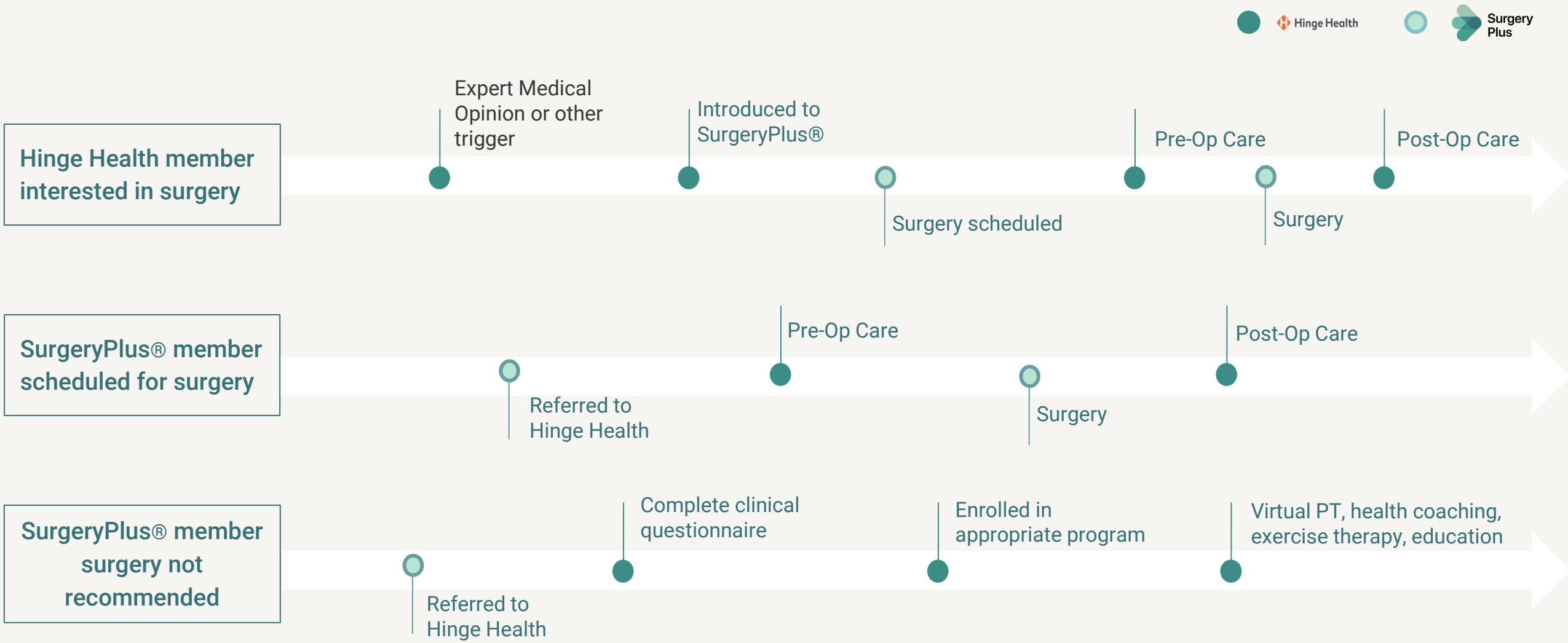
## Improved member experience

- **Referral & care protocols:** Standardized to optimize outcomes & cost of surgery
- **Focused on non-surgical care first:** Proven to avoid 2 out of 3 surgeries
- **Improved surgical care:** Top-quality surgeons and pre-negotiated bundled rates when surgery is necessary

Click to see how Hinge Health's Digital MSK Clinic works

# An integrated MSK journey

**Improves member experience and outcomes**



Segal

Richard Ward, FSA, FCA, MAAA
West Region Market Director, Public Sector
T 956.818.6714
M 619.710.9952
RWard@Segalco.com

500 North Brand Boulevard
Suite 1400
Glendale, CA 91203-3338
segalco.com

# Memorandum

**To:** Ajay Desai, Director, Division of Retirement and Benefits

**From:** Richard Ward, FSA, FCA, MAAA

**Date:** December 21, 2022

**Re:** Addition of Hinge Health – Focus on Actuarial and Financial Impact for the Retiree Plan

The State is considering offering the Hinge Health Digital Musculoskeletal Care program as a benefit for the Retiree Plan.

The Plan applies the general benefit provisions, such as deductible, coinsurance and out-of-pocket limits, to determine any portion of the costs that are the member's responsibility. If the member has additional coverage, such as Medicare or other employer provided coverage, any portion of the costs covered by that plan is also considered. Below is a table outlining the current benefits offered under the Plan:

| **Deductibles** | |
|---|---|
| Annual individual / family unit deductible | $150 / up to 3x per family |
| **Coinsurance** | |
| Most medical expenses | 80% |
| Most medical expenses after out-of-pocket limit is satisfied | 100% |
| Second surgical opinions, Preoperative testing, Outpatient testing/surgery<br>• No deductible applies | 100% |
| **Out-of-Pocket Limit** | |
| Annual individual out-of-pocket limit<br>• Applies after the deductible is satisfied<br>• Expenses paid at a coinsurance rate other than 80% do not apply against the out-of-pocket limit | $800 |
| **Benefit Maximums** | |
| Individual lifetime maximum<br>• Prescription drug expenses do not apply against the lifetime maximum | $2,000,000 |
| Annual reinstatement once lifetime maximum is reached | $5,000 |
| Individual limit per benefit year on substance abuse treatment without precertification. Subject to change every three years | $12,715 |
| Individual lifetime maximum on substance abuse treatment without precertification. Subject to change every three years | $25,430 |

| Prescription Drugs | Up to 90 Day or 100 Unit Supply | |
|---|---|---|
| | Generic | Brand Name |
| Network pharmacy copayment | $4 | $8 |
| Mail order copayment | $0 | $0 |

## Actuarial Value

While the inclusion of this program for the Plan can be viewed as an enhancement favorable for the member, there will be no impact on actuarial value. This change provides an additional option for members and helps to promote efficient utilization of medical services, which can in turn help manage program costs.

## Financial Impact

The financial impact is dependent on the number of members who choose to engage with Hinge Health. The annual fee for Hinge Health to the plan will be $995 per participant per year for the engage member. However, this fee is offset by plan savings due to improvements in pain management by the members. Hinge Health estimates that a 1 percent improvement equates to $71.09 in saved claims cost. Hinge Health helps to protect the plan financially by offering a return on investment (ROI) of 1.5:1 with a prorated refund if the ROI is not met.

Currently, the State's Employee plan offers Hinge Health as a benefit. Through the start of November 2022, there were 540 enrolled users out of approximately 14,000 members. Assuming a similar engagement rate of 3.85% among the approximately 76,000 retiree members, Segal would estimate about 2,900 members would engage with Hinge Health. This would result in a plan cost of approximately $2.9 million annually. Based on Hinge Health's ROI guarantee, there would be approximately $4.3 million in combined claims savings and possibly returned fees, resulting in $1.4M in net annual savings.

## Additional Notes

The data used for this analysis was reviewed, but not audited, and found to be sufficient and credible.

The above projection is an estimate of future cost and is based on information available to Segal at the time the projection was made. Segal has not audited the information provided. A projection is not a guarantee of future results. Actual experience may differ due to, but not limited to, such variables as changes in the regulatory environment, local market pressure, change in demographics, overall inflation rates and claims volatility. Projection of retiree costs takes into account only the dollar value of providing benefits for current retirees during the period referred to in the projection. It does not reflect the present value of any future retiree benefits for active, disabled, or terminated employees during a period other than that which is referred to in the projection, nor does it reflect any anticipated increase in the number of those eligible for retiree benefits, or any changes that may occur in the nature of benefits over time.

The Coronavirus (COVID-19) pandemic continues to evolve and will likely continue to impact the 2022 and 2023 US economy and health plan claims projections for most Health Plan Sponsors. Unanticipated changes in the pandemic may impact the retirees' ability to utilize this program and result in experience that deviates from these projections.

cc: Betsy Wood, Division of Retirement and Benefits
Andrea Mueca, Division of Retirement and Benefits
Noel Cruse, Segal
Eric Miller, Segal
Quentin Gunn, Segal