Individual State Agency Fiscal Note

Bill Number: 6589 SB	Title: Direct patient-provider care	Agency: 107-Wash State Health Care Authority

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

ACCOUNT	FY 2012	FY 2013	2011-13	2013-15	2015-17
Public Employees' and Retirees Insurance Account-Non-Appropriated 721-6		3,437,971	3,437,971	10,923,884	11,653,077
Total $		3,437,971	3,437,971	10,923,884	11,653,077

Estimated Expenditures from:

	FY 2012	FY 2013	2011-13	2013-15	2015-17
FTE Staff Years	0.0	1.5	0.8	1.5	1.5
Account					
General Fund-State 001-1	0	1,633,036	1,633,036	5,188,844	5,535,212
General Fund-Federal 001-2	0	233,782	233,782	742,825	792,409
General Fund-Private/Local 001-7	0	24,066	24,066	76,467	81,571
St Health Care Authority Admin Acct-State 418-1	0	204,001	204,001	284,002	284,002
Uniform Medical Plan Benefits Administration Account-Non-Appropriated 439-6	0	1,086,673	1,086,673	1,703,690	1,703,690
Public Employees' and Retirees Insurance Account-Non-Appropriated 721-6	0	256,413	256,413	2,928,056	3,256,193
Total $	0	3,437,971	3,437,971	10,923,884	11,653,077

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

[X] If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

[ ] If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

[ ] Capital budget impact, complete Part IV.

[ ] Requires new rule making, complete Part V.

Legislative Contact:	Erik Sund	Phone: 360-786-7454	Date: 02/06/2012
Agency Preparation:	Kim Grindrod	Phone: 360 923-2749	Date: 02/08/2012
Agency Approval:	Janice Baumgardt	Phone: 360-725-9817	Date: 02/08/2012
OFM Review:	Adam Aaseby	Phone: 360-902-0539	Date: 02/08/2012

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

See attached narrative.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

See attached narrative.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

See attached narrative

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2012	FY 2013	2011-13	2013-15	2015-17
FTE Staff Years		1.5	0.8	1.5	1.5
A-Salaries and Wages		92,994	92,994	185,988	185,988
B-Employee Benefits		27,656	27,656	55,312	55,312
C-Personal Service Contracts		1,136,673	1,136,673	1,703,690	1,703,690
E-Goods and Services		20,451	20,451	40,902	40,902
G-Travel		900	900	1,800	1,800
J-Capital Outlays		12,000	12,000		
N-Grants, Benefits & Client Services		2,147,297	2,147,297	8,936,192	9,665,385
Total:	$0	$3,437,971	$3,437,971	$10,923,884	$11,653,077

III. B - Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

Job Classification	Salary	FY 2012	FY 2013	2011-13	2013-15	2015-17
Comm Cons 3	53,148		0.5	0.3	0.5	0.5
Med Pg Spec 2	66,420		1.0	0.5	1.0	1.0
Total FTE's	119,568		1.5	0.8	1.5	1.5

Part IV: Capital Budget Impact

NONE

None

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

See attached narrative.

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

This bill amends Section 1 of RCW 41.05.065(6), adding subsection (ii) to require the Public Employees Benefits Board (PEBB) to:

- Offer at least one self-insured health plan in 2013 that it will pay the full monthly subscription fee for members who choose to contract with a direct patient-provider primary care practice ("direct practice") for their primary care services;

- Prohibit establishing an employee contribution for the new plan that is greater than 75 percent of an employee contribution established for traditional comprehensive health plan.

- Prohibit the Health Care Authority (HCA) from including the cost of the direct practice subscription fee when calculating the member's total premium costs.

- Educate prospective members on the plan's benefits and invite direct practices who eligible to participate to open enrollment meetings and other communication methods.

Section 2 amends RCW 48.150, the insurance code definition of a "direct agreement" to add the agreement with a PEBB health plan offered in exchange for a direct fee. It further redefines a direct practice provider as one that does not accept payment for health care services to direct practice patients from any regulated health carrier, PEBB or Basic Health plan, except for direct fees paid for the PEBB members enrolled under the health plan created by this Act.

Background
This bill does not impact the Health Care Authority's (HCA) Medicaid or Basic Health programs.

The HCA organizational structure is set up to fulfill its responsibility to sponsor the public employees insurance benefit program as a key State health care purchasing agency. This structure is dependent on HCA utilizing services of contracted insurance carriers and third party administrators (TPA) to manage and administer the operations of the PEB health plans and to provide a full-service network of facilities and professional providers within Washington and out-of-state. HCA's PEB organizational structure does not support direct contracting with professional providers.

A collective bargaining agreement that was negotiated between the Governor and state and higher education employees is in place through calendar year 2013. The agreement requires the state, as the employer, to contribute an amount equal to 85 percent of the total weighted average of the projected health care premiums. This bill requires 100 percent of the cost for the direct practice subscription fee to be paid by the employer. The result will be employers will pay a larger share of the medical premium than 85 percent and employees will pay a lower percent of the premium than an average of 15 percent.

In addition, once the direct practice calculations are removed from the premium costs, and if the resulting employee contribution for the direct practice plan is more than 75 percent of the next lowest employee contribution for a comprehensive plan, other employee contributions would need to increase to achieve the overall cost share in the collective bargaining agreement.

Benefits Budget Assumptions (Account 721)

Please note: The fiscal impact measured in the fiscal note is driven by the enrollment assumption of 5,300 members. Higher enrollment would drive a higher cost and lower enrollment would drive a lower cost.

The provisions of this bill introduce substantial challenges to a feasible implementation strategy. The bill does not clearly state whether or not direct practices may increase fees at will. For purposes of this fiscal note, we assume HCA or HCA's third party administrator has the authority to contractually decide which direct patient provider practice will and will not be authorized to receive a per member per month subscription fee. This assumption is necessary because based on the 2011 Direct Practices A*nnual Report to the Legislature*, the range of the subscription fees are $25 to $895 per member per month. We assume PEBB would not be required to pay an $895 subscription fee for employees interested in the high cost plans.

We assume:

- HCA will partner with it's TPA, Regence, in determining acceptable terms for the agreement for use in Regence's negotiations with direct practices to enter the UMP network.
- Regence is willing to enroll these providers into the network upon successful negotiation of the service agreement terms.
- Subscribers who select the direct patient arrangement will be subject to all UMP cost-sharing arrangements and premium arrangements as other subscribers to the UMP for health care service utilization outside the direct practice.
- Health Care Authority payment of the monthly fee on behalf of the PEB member selecting the direct practice plan option will have to be paid independent of the UMP premium and cost-sharing arrangements.
- The primary care delivery model as proposed in this bill would not limit the risk to the UMP self-insured plan for referrals into the open PPO structure of the self-insured health plan and would not limit the risk to health plan members for referrals to out-of-network providers and the associated higher out-of-pocket cost sharing liability.

- An estimate was made for the difference between current primary care claim costs and those that would be incurred under the direct practice model using the following assumptions:
    - Enrollment – 5,300[1] members beginning January 2013 and will remain constant through Calendar Year 2017. Our enrollment assumption is based on our recent experience with adding a new plan structure.

[1] We made our enrollment assumption using our recent experience adding a new plan structure, the Consumer Directed Health Plan (CDHP) which is a high deductible health plan with a health savings account. About 4.2% of the active members moved to the new plan in 2012. We assume half as many,

- The subscription fee (aka capitated rate) paid to the direct practices will be $84.00[2] Per Member Per Month (PMPM) in 2011 dollars. HCA assumes this amount is effective in Calendar Year 2011 and will increase at the same rate as the current incurred claims. See medical trend assumption below.
- We assume the employer will pay all increased costs.
- Members are exempt from cost-sharing arrangements of the self-funded plan. The monthly fee paid to the direct practice is not subject to the deductible as is the case for an incurred claim for primary care service. The 2010 primary and preventive Claims Paid were $24.88[3] PMPM and is trended using the following Medical Trend[4]:
- Calendar Year 2011: 5.6%;
- Calendar Year 2012: 4.0%; and, every year thereafter.

Using the assumptions above, the following table shows the estimated increased claims cost that will be passed on to UMP Employers through Calendar Year 2017.

Fund 721 Benefits Costs	**CY 2010**	**CY 2013**	**CY 2014**	**CY 2015**	**CY 2016**	**CY 2017**
UMP Professional Svs Trend	Baseline	4.0%	4.0%	4.0%	4.0%	4.0%
UMP Professional Services Trend Factor provided by Milliman		1.040	1.040	1.040	1.040	1.040
Current Per Member Per Month (PMPM)	$ 24.88	$ 28.42	$ 29.55	$ 30.74	$ 31.97	$ 33.24
Direct Patient-Provdier Est. Capitated PMPM using Professional Svs Trend	$ 84.00	$ 95.94	$ 99.78	$ 103.77	$ 107.92	$ 112.24
Difference PMPM (Increased Cost)	$ 59.12	$ 67.53	$ 70.23	$ 73.04	$ 75.96	$ 78.99
Times 5,300 Members = Monthly Increase	$ 313,336	$ 357,883	$ 372,198	$ 387,086	$ 402,570	$ 418,672
Times 12 Months = Annual Increase	$ 3,760,032	$ 4,294,594	$ 4,466,378	$ 4,645,033	$ 4,830,834	$ 5,024,068
		FY 2013	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**
Convert To Fiscal Year Basis		$ 2,147,297	$ 4,380,486	$ 4,555,706	$ 4,737,934	$ 4,927,451

Administrative Budget (Fund 418)

Operational Impacts

PEBB Plan Management and Customer Service unit tasks:

---

or 2.1% would move to the direct practice plan in 2013. We assumed a lower enrollment because employees would be required to change their doctor unlike with the CDHP plan.

[2] "Direct patient provider primary care practices" Annual report to Legislature Dec.1, 2011, Washington State Office of the Insurance Commissioner. We arrived at this assumption by finding the weighted average of the subscription fee of two plans with the largest enrollment (60 percent of total enrollment).

[3] 2010 UMP Non-Medicare Claims Database (MCSource) using CPT codes for office-based primary and preventive care service, supplied byPEB Plan Management Analysts.

[4] The Professional Office Services Medical trend is provided by HCA's contracted actuary, Milliman in the trend update letter dated, November 15, 2011, page 3.

- Design of a new self-funded plan incorporating direct practice providers and payment of their monthly subscription fees. Nothing prohibits Medicare retirees from entering direct practice agreements, so the plan will have to be available to allow active and retired members.
- Amend the existing (UMP) third party administrator contract to include contracting with and making payments to direct practices, or draft and negotiate a new contract.
- Policy decisions will be needed to determine how the HCA or the third party administrator will:
    - Identify direct practices that are eligible to contract for participation in the new PEBB health plan (direct practices are not legally registered or licensed as such by any state entity prior to setting up a direct practice. The Office of the Insurance Commissioner (OIC) is only aware of direct practices operating in the state if and when they file an annual report required by RCW 48.150. The Commissioner has no regulatory authority to enforce the reporting requirement.
    - Establish an acceptable method to credential direct practices that wish to participate in the plan, for the protection of our members – most direct practices do not contract with health plans and operate exclusively as a direct practice. There will be no health carrier, third party administrator or credentialing organization that has any information about these provider's professional credentials.
- Create new benefit plan materials to include the Certificate of Coverage, open enrollment materials, PEBB web content.
- Data analysis and actuarial consulting to project costs and to rate the plan within the limits specified in the new law at RCW 41.05.065(6) (ii), and on-going health plan data analysis to determine the actual value of this benefit and to report out the results at least annually.

- Perform eligibility and enrollment system programming changes and testing with the third party administrator.

- Coordination with PEB plan management on the creation of communication materials for open enrollment, create Outreach and Training employer materials and enrollment forms and member letters, new PEBB web content.
- Determination if the plan will require new or amended eligibility rules - with direct practices in only nine Washington counties, the determination of where the product will be offered may affect existing rules.
- For purposes of this fiscal note we assume the current UMP third party administrator (TPA) will contract with the direct practice providers as directed by HCA. However, if the current UMP third party administrator is unable or unwilling to contract with direct practice providers for this limited population, additional administrative resources will be required than are measured in this fiscal note.

The above task can be accomplished with the following additional PEBB staff:

Cost:

- 1.0 FTE Medical Program Specialist 2 beginning July 2012 – on-going
- 0.5 FTE Communications Consultant 3 beginning July 2012 – on-going

Financial Services:

PEBB Financial Model Programming Costs.

This activity will require the financial models to capture member counts in its projections due to the structure of paying a fixed rate on a per member per month basis. Currently, the PEBB projections models capture enrollment on a tiered or per adult unit basis.

Cost: $50,000 one-time

Information Technology:

- Programming changes to the PEBB enrollment and eligibility systems
- New UMP and PEBB web site content to promote and explain the new PEBB health plan, to accept member inquiries and complaints

The IT tasks related to PAY 1 can be accomplished within existing resources.

The following table shows a summary of PEBB's administrative costs:

Bill #: 6428 SB HCA Request: 11-48-1	FY12	FY13	FY14	FY15	FY16	FY17
FTE	0.0	1.5	1.5	1.5	1.5	1.5
Salaries	0	92,994	92,994	92,994	92,994	92,994
Benefits	0	27,656	27,656	27,656	27,656	27,656
Personal Service Contracts	0	50,000	0	0	0	0
Goods and Services	0	20,451	20,451	20,451	20,451	20,451
1. Supplies	0	900	900	900	900	900
2. Telephone	0	300	300	300	300	300
3. Facilities Mgmt (EC, ED, & EK)	0	13,800	13,800	13,800	13,800	13,800
4. Printing & Copies	0	450	450	450	450	450
5. Employee Training	0	1,800	1,800	1,800	1,800	1,800
6. Personnel Serv Chg .007 of Salary	0	651	651	651	651	651
7. Basic Data Processing	0	2,550	2,550	2,550	2,550	2,550
Travel	0	900	900	900	900	900
Equipment	0	12,000	0	0	0	0
Total	0	204,001	142,001	142,001	142,001	142,001

TPA Costs (Fund 439)

- Regence IT system - Requires the build of a hybrid plan that is partially fee for service and partially subscription fees will require 4,000 hours of work at a one-time cost of $284,000.

- Regence Communications - New ID cards would be required as well as other communication, including a new Certificate of Coverage.booklet and the cost is estimated at $60 per member (5,300) at an annual ongoing cost of $318,000.

- Regence administrative - process requires some manual processing of monthly direct practice subscription fees processing at an estimated $7.95 times enrollment of 5,300 per member per month for an annual cost of $505,620.

- Regence development of a custom direct practice network would be about $50,000 for a start-up cost and then an on-going cost of $25,000 annually.

- Regence credentialing – About 350 providers would need to be credential at a cost of $25 each and then about 129 would be recertified annually at an initial cost of 8,750 and then an annual ongoing cost of 3,225. This assume a three year cycle.

The following table shows the estimated increased costs for PEBB's contracted TPA, (Regence) to implement the new plan design.

Fund 439 TPA Benefits Costs	Start-up Costs July 2012 thru Dec 2012	Ongoing				
Direct Practice Plan	**CY 2012**	**CY 2013**	**CY 2014**	**CY 2015**	**CY 2016**	**CY 2017**
Regence IT Systems	$ 284,000		$ -	$ -	$ -	$ -
Regence Communications Costs ($60*5,300)	$ 318,000	$ 318,000	$ 318,000	$ 318,000	$ 318,000	$ 318,000
Regence Administrative Costs ($7.95*5,300*12)		$ 505,620	$ 505,620	$ 505,620	$ 505,620	$ 505,620
Regence Custom Network	$ 50,000	$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 25,000
Credentially	$ 8,750	$ 3,225	$ 3,225	$ 3,225	$ 3,225	$ 3,225
	FY 2012	**FY 2013**	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**
Convert To Fiscal Year Basis	$ -	$ 1,086,673	$ 851,845	$ 851,845	$ 851,845	$ 851,845

II. B – Cash Receipts Impact

The following table shows the cash receipt impact to the PEBB accounts.

Cash Receipts	**FY 12**	**FY 13**	**FY 14**	**FY 15**	**FY 16**	**FY 17**
721 Benefits	$ -	$ 2,147,297	$ 4,380,486	$ 4,555,706	$ 4,737,934	$ 4,927,451
418 Administration	-	204,001	142,001	142,001	142,001	142,001
439 UMP TPA	-	1,086,673	851,845	851,845	851,845	851,845
Total	$ -	$ 3,437,971	$ 5,374,332	$ 5,549,552	$ 5,731,780	$ 5,921,297

II. C – Expenditures

The following table shows the source of the funding that will pay for the increased expenditures.

Expeditures	**FY 12**	**FY 13**	**FY 14**	**FY 15**	**FY 16**	**FY 17**
State Share	$ -	$ 3,437,971	$ 5,374,332	$ 5,549,552	$ 5,731,780	$ 5,921,297
UMP Subscriber Share	-	-	-	-	-	-
Other Enrollment	-	-	-	-	-	-
Non Medicare Retirees	-	-	-	-	-	-
Medicare Retirees	-	-	-	-	-	-
Total	$ -	$ 3,437,971	$ 5,374,332	$ 5,549,552	$ 5,731,780	$ 5,921,297

The following table shows the source of the funding for the state share.

Source of State Share	FY 12	FY 13	FY 14	FY 15	FY 16	FY 17
GF-State	$ -	$ 1,633,036	$ 2,552,807	$ 2,636,037	$ 2,722,596	$ 2,812,616
GF-Federal	-	233,782	365,455	377,370	389,761	402,648
GF-Local	-	24,066	37,620	38,847	40,122	41,449
Other Appropriated	-	691,032	1,080,241	1,115,460	1,152,088	1,190,181
Non Appropriated	-	856,055	1,338,209	1,381,838	1,427,213	1,474,403
Total Active revenue	$ -	$ 3,437,971	$ 5,374,332	$ 5,549,552	$ 5,731,780	$ 5,921,297

The following table shows the required increase to the funding rate.

State Share (Funding Rate) Change					
FY 12	FY 13	FY 14	FY 15	FY 16	FY 17
$ -	$ 4.28	$ 6.69	$ 6.91	$ 7.14	$ 7.37

Part IV: Capital Budget Impact

None

Part V: New Rule Making Required

Yes.