The Vermont Education Health Initiative

52 Pike Drive, Berlin, VT 05602
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Vermont School Boards Insurance Trust / Vermont-National Education Association

Memorandum

To: Chairperson Emilie Kornheiser & Members of the Education Finance Subcommittee of the Commission on the Future of Public Education in Vermont

From: Mark Hage and Bobby-Jo Salls, VEHI Trust Administrators

RE: Background information on the **Vermont Education Health Initiative** (VEHI), Explanation of Major Factors Driving Rate Increases, and Potential Future Initiatives to lower costs and expand access to high-quality care

Date: October 14, 2024

On behalf of VEHI, thank you for the invitation to speak with you today. This document contains basic information about VEHI and the allocation of its spending on health insurance benefits, followed by narrative, beginning on page 3, on the major cost factors responsible for premium rate increases. We will also speak to reform and benefit design measures that we are researching or monitoring.

We want to stress at the outset, VEHI is not alone in facing rising prices, especially for hospital and pharmaceutical services. This is a critical problem across the state, regionally, and nationally. All commercial insurance risk pools – and insurance carriers – are confronting the same systemic problems and cost drivers, and all of us are struggling to contain costs and lower prices without eroding essential coverage. The post-Covid care world has also seen an increase in utilization.

The information and perspectives we will share today are anchored to our experiences chiefly in **FY24** and **FY25**, because our **FY26 rates** have not been finalized by our Board of Directors yet nor approved by the Department of Financial Regulation. That said, across multiple years, the main cost drivers have remained the same.

Bobby-Jo and I would be happy to take questions during our presentation or at the end at the committee's pleasure. First, some background on VEHI.

What is VEHI?

1. The Vermont Education Health Initiative is a non-profit, self-insured, intermunicipal insurance association. We are regulated by the Vermont Department of Financial Regulation (DFR) and we contract with Blue Cross and Blue Shield of Vermont (BCBSVT) for actuarial and administrative services, including claims processing and customer support.

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2. We provide health insurance benefit plans to every public school in Vermont, to several private educational institutions, to non-Medicare eligible retirees in the Vermont State Teachers' Retirement System (VSTRS), and, transitionally since 2022, to Medicare retirees who are not yet eligible under CMS rules for VSTRS's Medicare Advantage plans.

3. Currently, roughly 34,200 active school employees and their dependents are enrolled in health insurance coverage through VEHI. Additionally, in partnership with VSTRS, there are approximately 800 non-Medicare retirees and their dependents and 1,000 Medicare retirees and their dependents.

4. Our Board of Directors consists of six members, three appointed by the Vermont-National Education Association and three appointed by the Vermont School Boards Association.

5. The management team responsible for day-to-day operations consists of four individuals: three employed by the Vermont School Boards Insurance Trust (VSBIT) (Bobby-Jo Salls, Jon Steiner, and Chris Roberts) and one by Vermont-NEA (Mark Hage). Most interactions with central office staff and local union leaders and school employees are facilitated by Ms. Salls and Mr. Hage. VSBIT and Vermont-NEA were the founding organizations of VEHI, dating back to the mid-1990s.

6. Additionally, VEHI offers school districts competitive dental and LTD benefit plan programs in tandem with Delta Dental and National Insurance Services, respectively.

7. Our PATH Wellness Program, which is administered and managed by VSBIT staff, is long established and popular statewide with school employees.

VEHI Benefit Plans

1. VEHI offers 4 health insurance plans to school districts, public and private. They provide access to the same medical and Rx benefits and medical networks.

2. Additionally, VEHI offers three benefit plans to non-Medicare enrollees in VSTRS, and one Medicare supplement plan (VSTRS-65) to Medicare enrollees not eligible for Medicare Advantage, as explained above.
3. VEHI sets the premiums for its benefit plans for active employees annually, on a fiscal-year basis, in collaboration with BCBSVT's actuarial team. Our premium rates for retirees are set on a calendar-year basis.

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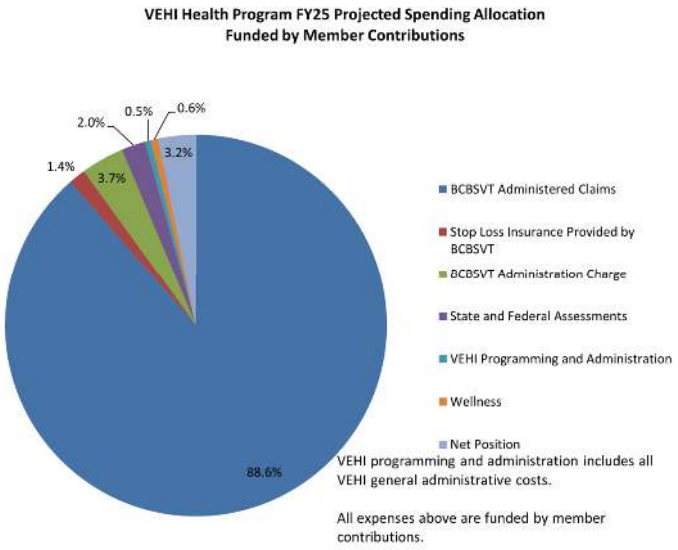
4. Our premium rates for both subscriber populations, active and retired, are subject to review and approval by DFR. Further, to accommodate school budget-setting timelines, VEHI's active premiums are filed with DFR well in advance of their effective date. For example, the rates that go into effect on July 1, 2024, and run through June 30, 2025 (i.e., FY25), were filed in the fall of 2023.
5. Cost-sharing between public school boards and public-school employees for health insurance expenses is set by the terms of statewide health care bargaining. This includes cost-sharing amounts for both **premiums** and **out-of-pocket expenses** (deductibles, copayments and co-insurance) between school districts and school employees. Per the terms of statewide bargaining, school districts provide funding to health spending accounts (HRAs/HSAs) to assist employees with their out-of-pocket expenses. We would be happy to provide more details on the plan designs and on how HRAs and HSAs [and Flexible Spending Accounts (FSAs)] work.

FY25 Spending Allocation of Premium Dollars

As you can see from the graph below, **89 percent** of premium dollars in FY25 were allocated to paying incurred claims. This is in line with past years. In FY25, VEHI projects it will pay out **$6.4 million** dollars **per week in claims**.

4.2 percent of our aggregate spending covers administrative services; **3.2 percent** sustains our "net position" (e.g., financial reserves), which we are required to have as a matter of fiscal prudence; **.5 percent** is dedicated to internal management and administrative costs; and **.6 percent** funds our Wellness Program. We run a lean program, and always have.



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What is driving premium increases?

Premiums, as you know, are increasing for everyone in Vermont and nationally. The biggest factor is price inflation. VEHI, like all risk pools and insurance carriers, has been impacted greatly by rising **hospital budgets** and **hospital prices**; also, like everyone else, we are experiencing sharp spikes in costs for prescription medications, notably for **specialty drugs**.

- Hospital costs (inpatient and outpatient services combined) account for approximately **55 percent** of our total spend.
- Prescription medications drive **20 percent** of our total spend.
- **4 percent** of our claims are attributable to primary care, and **12 percent** to specialty office visits.

Here is what we shared with school districts and their local unions about VEHI's FY24 (July 2023 – June 2024) premium rate increase:

As in past rating cycles, we analyzed medical and pharmaceutical price inflation, plan enrollment and cost-sharing trends, utilization of medical and Rx services, mandates and fees, and administrative costs. ***Increases in medical and pharmacy prices are responsible for virtually the entire increase in FY24 premiums, with higher commercial rates charged by hospitals being the most significant factor.*** *This, coupled with an unfavorable market for investments, has driven the need for the increase to cover FY24 expenses.*

Here is what VEHI explained to school districts and local unions about its FY25 (July 2024 – June 2025) premium rate increase:

Breaking down FY25's medical trend, ***two-thirds is attributable to higher medical prices****. Continued increases in hospital budgets and in prices for hospital services, plus more expensive pharmaceutical charges, remain the major cost drivers. We are not alone in this regard. In a recent FAQ explaining to Vermonters its affiliation with Blues Michigan,* ***Blue Cross and Blue Shield of Vermont noted that the main driver of premium increases in FY24 is "rising hospital budgets, and the cost of inpatient and outpatient services, and pharmaceutical prices."***

One third of our FY25 rate increase is attributable to an increase in utilization of services, hospital and non-hospital based, which we explained to our members this year as follows:

One third of the medical trend increase for FY25 is pegged to an increase in utilization of services. Services for members in our pool increased in FY23, as it did for the Blues' membership statewide, as people returned to care, post-pandemic, after deferring treatments for ongoing medical conditions, and, generally, as more folks with medical needs now feel comfortable returning to hospitals and physician practices after a long hiatus.

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One more thing about FY25's rates. 2.6 percent of that year's rate renewal figure was for the purpose of strengthening VEHI's net position (i.e., financial reserves). We will have to do that again by some measure for FY26.

Looking ahead to the FY26 rate setting process, VEHI, like everyone else, will be grappling again with rising prices and utilization.

Understanding Utilization Trends

While claims, as we said, are trending upward, VEHI's utilization trends are consistent or stable from year to year. This is generally the case for any large risk pool.

What we mean by this is that most high-cost medical and prescription utilization is highly concentrated among a relatively small percentage of patients. For example, in 2023, VEHI claimants, when stratified by **cost stratification**, broke down as follows:

- **Top 1 percent** of claimants (*345 people*) accounted for **25 percent** of our total spend, at an average cost of **$255,757** per member per year.

- **Top 5 percent** of claimants (*1,727*) accounted for **52 percent** of our total spend, at an average cost of **$104,854** per member per year.

- **Bottom 50%** of claimants (*17,268*) accounted for just **4 percent** of total cost, at an average of **$927** per member per year.

- High-cost members in our pool – meaning those whose claims exceeded $100,000 – who numbered just **474** in 2023, incurred total costs of **$98,345,776**. This group represented **30 percent** of total costs. Of the 474 patients in this cohort, **283** (60 percent) were new to it in FY23.

As you can see, in any given year, the great majority of our subscribers get little to modest amounts of medical care.

Rx Price Trends

Here is select data to help you better understand what VEHI (and others in the private insurance market) are facing with respect to prescription medications. The price trends here are staggering, and utilization for some of these expensive medications is also rising.

As you'll see, a utilization increase with high-cost prescriptions does not have to be large to have a big impact on costs.

In the first nine months of 2023 (January through September):

- VEHI incurred a gross Rx cost (*prior to estimated negotiated rebates being applied*) of **$55.1 million** compared to **$46.2 million** for the same period in 2022.

- Overall Rx cost/inflationary trend rose **22.5 percent.** Specialty drug cost trend rose **20.6 percent**, and the cost trend for non-specialty medications rose **24.9 percent**.
- Specialty medications account for **56.1 percent** of total VEHI Rx spending.

- In the first nine months of 2023, specialty medications came in at **$30.9 million** in costs, even though only **829 VEHI patients** had been prescribed them. This group represented just **3.2 percent** of our total patient count and **2.3 percent** of our total claim count.

- The average gross cost per patient on **specialty medications** was **$37,319**.

- Conversely, **21,633 VEHI patients** needed medications that cost between $1 and less than $1,000, with a gross cost per patient of just **$155**.

- Just **246 VEHI patients** needed medications that cost **$50,000 or more**. But in the aggregate, their claims represented **42 percent** of VEHI's gross cost.

- **84 percent** of our Rx claims were for generic medications, the least expensive on the market.

VEHI works diligently with its independent Rx consultant, **Remedy Analytics**, and with the pharmacy team at **BCBSVT** to analyze and manage pharmaceutical costs without compromising access to high-quality care. Nonetheless, the prices for high-cost medications present an enormous and accelerating challenge.

Where is VEHI looking in the future to substantially reduce costs and to constrain medical inflation, notably with respect to hospital and Rx spending? Our efforts will target both systemic reforms and regulation, and internal actions we can take largely on our own:

On reform side of things, with a focus on the systemic drivers of health care costs and state regulation:

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1. Our Board of Directors heard a presentation on **reference-based pricing benchmarked to Medicare rates** in 2023 for inpatient and outpatient hospital services. Simply put, RBP is when you reimburse hospitals based on a multiple of what Medicare pays.

   Interest in this funding methodology was inspired in part by Mark's interest in an illuminating report by Vermont State Auditor Doug Hoffer in 2021, which concluded that just for the State of Vermont's risk pool:

   *We estimate that if reference-based pricing was implemented for just the 39 services we sampled, savings could reach **$2.3 million annually**, with an average savings of 13% per service. If this level of savings was achieved **across all services**, total savings could reach **$16.3 million annually**.*
   Additionally, Mark Hage researched the successful implementation of RBP for state employees and their dependents in Montana beginning in 2017. **31,000 covered lives** were affected, and the project proved remarkably successful. It lowered costs by **$48 million dollars** in just the first two years (2017-19), and there was no increase in premium contributions by state employees or the state for seven straight years.

   The **State of Oregon** established its own RBP initiative for approximately **300,000 public sector employees**, including educators and state employees. It did this via statute for twenty-four of its largest hospitals.

   It reimburses at 200 percent of Medicare rates for in-network hospital care and 184 percent for out-of-network care. A study published earlier this year in the journal Health Affairs estimated the savings in the first two years (2019-21) at **$107.5 million**; an independent audit by Willis Towers Watson pegged the savings at **$171 million**.

   The **Oliver Wyman** **Act 167 Report** recommended that the Green Mountain Care Board begin in 2025 the process of moving to a RBP reimbursement formula for hospitals at 200 percent or less of Medicare.

   We're proud that VEHI was very likely the first commercial insurance pool in Vermont to start researching RBP as a potential initiative to lower hospital costs, and we will be following closely what happens in the legislature and the Green Mountain Care Board in 2025 in this regard.

   We will also study the results of an RBP analysis of both our hospital claims and the State of Vermont, which will be conducted this fall under the auspices of the Green Mountain Care Board.

2. VEHI also endorsed a successful legislative initiative that Vermont-NEA first advocated in 2020, then again in 2023 and 2024: a **Prescription Drug Affordability Board** to regulate the prices of high-cost medications.

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This year, the Legislature authorized the creation of a division at GMCB to design a framework and methodology for lowering Rx prices and spending. In the near future, we anticipate this new regulatory entity will bring more rationality and lower costs to the prescription medication market.

Internally, with respect to VEHI benefit design and services, we will be investigating ways our benefit plans and wellness program can implement or support innovative ways to reduce hospital and Rx costs, while also simplifying administrative duties for patients and central offices:

- We will continue to work closely with our pharmaceutical consultants at Remedy Analytics. One of the future research projects we have started discussing is alternative Pharmacy Benefit Managers (PBMs).

  Nationally, the four big PBMs control **80 percent** of the market. There is very little competition in the PBM market, and the profit margins are very high. The new and smaller entities in this field, though still for-profit and limited in number, can fulfill the traditional functions of a PBM but at much lower costs and higher levels of transparency. Would this be viable for our risk pool in Vermont and for our members? We're going to find out.

- VEHI has also begun discussing how our benefit plans in the future can be modified or refined to meet the medical needs of our members and make the cost of medical care more affordable for them and for school districts.

This would include, but not necessarily be limited to:

a. Reviewing current plan designs for potential change in number of and type of plan offerings.

b. Expanding access to **telehealth services** (in fact, we just launched our first telehealth project for physical therapy and pain reduction with Hinge Health);

c. Exploring benefit design options that might be able to facilitate easier access to **primary care, mental health, and chronic disease management**. Affordable access to primary care and mental health counseling, together with chronic disease management, keeps people healthy and it lower costs associated with potentially avoidable hospitalizations and ER visits. It also helps keep patients, especially those with chronic diseases, prescription adherent. Most health care costs are associated with chronic diseases.

d. Identifying and contracting with in state or out of state **Centers of Excellence** – these hospitals and medical facilities deliver high-cost care and surgeries at lower cost.

e. Refining or expanding options for wellness through our own **Wellness Program**, which is long running and popular.

Conclusion:

We hope our presentation will prove helpful to your efforts.

Respectfully, as the Act 167 Report made clear, major health care reform is essential if we are going to bring down costs and ensure access to timely, high-quality care for all Vermonters, especially when it comes to hospital services and prescription medications. VEHI, like everyone else, will continue to do its best to deliver high-quality, affordable health plans to public schools and their employees.

Larger version of chart from page 3: