

**STATE OF WISCONSIN**  
**DEPARTMENT OF EMPLOYEE TRUST FUNDS**  
801 West Badger Road  
Madison, WI 53702

**CORRESPONDENCE MEMORANDUM**

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**DATE:** February 12, 2003

**TO:** Group Insurance Board

**FROM:** Bill Kox, Director, Health Benefits & Insurance Plans  
Arlene Larson, Manager, Self-Insured Health Plans

**SUBJECT:** Update on Recommendations from the Health Insurance Study Group

At the Group Insurance Board (Board) meeting on November 19, 2002, the Study Group presented its recommended alternatives to the existing health benefit plan. The Board approved the recommendations in concept and asked staff to continue research and development of the proposals. This memo is intended to update the Board on our activities and serve as an outline for the discussion during our meeting.

**Although this item is primarily informational, staff requests the Board's approval to proceed with a proposed procurement process for Pharmacy Benefit Management services.**

The memo presented at the November 19, 2002, Board meeting described the Study Group's five recommendations:

- Using one Pharmacy Benefit Manager (PBM) for all covered lives in the health program.
- Changing to the current premium contribution structure.
- Converting the Standard Plan to a Preferred Provider Plan (PPP).
- Creating a uniform free-standing dental plan available to all State employees, separate from Uniform Benefits, at the time that a meaningful employer contribution becomes available.
- Implementing quality and safety initiatives through Leapfrog and the National Quality Forum (NQF) measures.

**Progress to Date**

**Summary:** Staff has communicated with a variety of people and organizations on the recommendations. During the past two months, staff has:

- Met with the Executive Committee of the Wisconsin Association of Health Plans (WAHP) to identify the concerns of the HMOs;
- Met with Wisconsin Education Association Insurance Trust (WEAIT), The Alliance, and various insurers and interest groups to discuss participating in proposed changes;
- Met with the UW faculty Compensation Committee and various employee union leaders to present the potential changes and solicit their input;
- Contacted other states such as Maine and West Virginia to learn more about their process of acquiring one PBM;
- Met with the State Budget Office to explain the proposals and to discuss fiscal issues;

- Contacted other major employers such as General Motors to learn more about their work with Leapfrog;
- Began reviewing statutes and administrative codes that would need to be changed to implement alterations to the benefit plan;
- Advised division administrators and bureau directors within ETF of our activities and assessed their need to participate in the process.

Specific action taken on the individual recommendations include the following:

**1. Carve out and consolidate all members under one Prescription Benefit Manager (PBM).**

**Meetings/Discussions:** Staff has made sufficient progress on the change to a Pharmacy Benefit Manager (PBM) so that it may be possible to implement this change by 1-1-04. Staff met with several experts and other purchasers of PBMs, including: The Alliance, WEAIT, Touchpoint Health Plan, Dean Health Plan, Steve Maike from APS Health Care, the firm hired by Blue Cross & Blue Shield United of Wisconsin (BCBSUW) to handle the management of their PBM, Chris Decker of the Wisconsin Pharmacy Association and the Wisconsin Patient's Safety Board, Dave Kemp of the State Medical Society, Lee Vermerellen of the UW Pharmacy School, and Jeff Schulte of Axia, a consultant on PBM's. The major findings from these discussions are:

- The timeline to convert to a PBM is optimally 10 months. This allows two months to write a Request For Proposal (RFP), a month to allow the RFP to be in the field, one month for evaluation, and 6 months to convert to the PBM.
- A major factor to consider during the conversion is the mapping of eligibility data from the department's data system or our HMOs to the PBM.
- Another important factor to consider is data transfer from the PBM to the plans. This data is necessary to allow the plans to perform disease management. This requirement of data supply must be built into our RFP as many PBMs do not routinely do this.
- Ideally, PBM's should be monitored by a separate pharmacy manager within ETF to monitor and audit their activities. The ETF has yet to determine how to incorporate this function.
- Other large employers such as GM have determined that they will stay with the strategy that we currently have, allowing their individual HMOs to hire their own PBMs.
- The Wisconsin Association of Health Plans (WAHP) feels that the rebates we currently achieve with HMOs such as Humana, using a nationwide formulary, are already significant and additional savings may be difficult to attain.
- Considerable potential exists to affect utilization and cost by using a three-tier, therapy-based formulary.
- In addition to the national PBMs, our initiative has generated considerable interest among various providers and insurance entities who may be candidates to operate the drug benefit.
- Staff surveyed plans to determine the norms of drug cards for commercial business. The most common three-tier drug card requires copays of \$10/\$20/\$30 or \$40.

**Next Steps:**

- Determine what data from the PBM will be needed by the plans.
- Review WEAIT Request for Information.
- Obtain Board approval for proposal procurement process.

**2. Replace the current contribution formula in Wis. Stats. §40.05 (4) with a three-tiered premium structure designed to encourage competitive pricing by providers.**

- Staff analyzed Dual Choice enrollment data from 1996 to the current year to identify dollar amounts associated with plans that experienced significant changes in enrollment. However, it was difficult to draw concrete conclusions on enrollment changes resulting from price sensitivity due to other factors that could influence an employee's decision. Staff concluded that the contribution level at which an employee changes their health plan varies more than expected and is based upon more than just price sensitivity.
- Under certain circumstances, there appears to be an opportunity to misuse the program, such as when employees select a Primary Care Physician (PCP) in a nearby county where the employee contribution is lower.
- One plan may be able to attract employees over another plan due to changes in network penetration, qualification procedures, plan loyalty and HMOs entering or leaving a service area.
- Shifts in enrollment occurred within a wide range of employee contributions. In our analysis, the change in employee contribution from Year 1 to Year 2 that resulted in an enrollment swing was based upon a range between an employee saving \$58.39 per month to spending an additional \$131.70 per month.

**Next Steps:**

- Continue meetings with interested parties to gather input and explain proposed changes.
- Review collective bargaining agreements to determine a possible timeline for implementation.
- Develop criteria to establish and distinguish tiers.
- Continue discussions with actuary to verify data needs.

**3. Convert the Standard Plan/Standard Plan II to one Preferred Provider Plan (PPP)**

The recommended approach is to establish a PPP with the Standard plan benefit level being available in network and the Standard Plan II benefit level applied to out-of-network services.

**Meetings/Discussions:** Staff contacted BCBSUW to receive input on:

- Areas of concern in this potential conversion to a three-tiered plan. BCBSUW reported back that they felt the change could be performed quite easily.

**Activities/Accomplishments:** Staff contacted BCBSUW to receive information about:

- Network penetration in Wisconsin and other states which contain substantial employee/annuitant populations such as Minnesota, Florida, Arizona, Illinois, and California. Staff has reviewed the networks to determine their adequacy.
- While the networks appear to be adequate, the percentage of participating physicians as a percentage of the total universe of licensed and practicing physicians range from 53% in Florida to more than 90% in Wisconsin, Minnesota and Illinois.
- Large percentage of providers in-network in our primary states leads to concerns that discounts given by providers would be less meaningful since "steerage" is likely minimal. This may result in

the effect that by changing to a PPP using the standard BCBS network, the State would receive less savings than expected.

- Contacted BCBSUW to ascertain if more limited networks, including better provider discounts, are available.

**Next Steps:**

- Review collective bargaining agreements and statutes to determine potential barriers to implementation.
- Review option to set different rates for annuitants in the Standard Plans in-state versus out-of-state.

**4. Implement a uniform free-standing dental plan outside of Uniform Benefits available to all State employees.**

**Meetings/Discussions:** Staff discussed methods to limit adverse selection and an option to extend the plan to retirees. They deliberated on:

- Potential levels of premium contribution to limit adverse selection and yet require a meaningful contribution. Staff felt a 50% contribution would be appropriate, with a benefit package that would result in premium contributions of \$25 or \$30 per month for a single and \$50 or \$60 per month for a family contract.
- Potential of allowing retirees into the plan. Discussed benefit levels to determine if they should be different than that of active employees to limit premium outlay.

**5. Implement Quality and Safety initiatives through Leapfrog and NQF.**

**Activities/Accomplishments:**

- Learned that General Motors (GM) is very active in Leapfrog. We have received contract language from GM that they may utilize in the future. Staff has shared this with the plans to begin discussing viability and timelines for implementation.
- Met with The Alliance and will meet with WEAIT to discuss combining our efforts in encouraging compliance with quality and safety initiatives.
- Contacted plans and asked them to encourage their qualifying hospitals to report on the Leapfrog Internet site.
- Contacted plans and asked them to encourage all of their participating hospitals to report on the measures endorsed by the Wisconsin Hospital Association.