Ottawa County, MI:

A Health Benefits Success Story – Part II

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Gallagher

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Abstract

In 2010, facing sharply rising costs for their traditional employee health benefits offerings, the County of Ottawa, Michigan, worked with employee benefits consultants from Arthur J Gallagher to develop and introduce a new health plan design. The new design featured a high deductible medical and pharmacy plan, together with a health savings account (which the County funded significantly) and a wellness plan offering financial incentives to those employees who participated. Management strongly promoted the new offering amongst employees and invested heavily in communication of new plan details

In 2018, actuaries from Gallagher's Healthcare Analytics team reviewed the plan's performance over a 5-year period. Member health, as measured by Gallagher's Health Risk Index (HRI), improved significantly over the study period as compared to the County's benchmark. Similarly, plan costs for participating members increased at a slower rate in comparison to benchmark trend. Across all key measures, the new plan was a success.

In 2020, the County hoped to confirm these positive outcomes were continuing. While wellness participation rates have remained incredibly strong, and population health risks continued to decline, cost savings estimates from the wellness program have leveled off. This analysis illustrates these results and provides recommendations for future program enhancements..

In 2010, Alan "Al" Vanderberg, County Administrator for Ottawa County Michigan, was looking for a solution to the county's health benefits problem. The county offered a fairly rich set of health benefits to its employees (fire, police and other county administrative staff) but had been seeing double digit annual increases in the cost of these benefits for several years in a row. Looking forward, Al and his team felt uncertain that they would be able to continue to offer this level of health benefit to the employees unless they could find a way to contain the cost.

Six Years Later: *Al and his team entered a conference room in the county administration building for a meeting they had been waiting a long time to have. A team of data analysts and actuaries from Arthur J Gallagher had been reviewing the revised health benefits program that Al and his team had put in place almost six years ago, and they were about to make their report. Al's team had felt good about the steps they had taken over the years to preserve the quality of the health benefits they were able to offer county employees but had never seen a definitive assessment of what was driving the performance of the plan. Now they would finally get that information.*

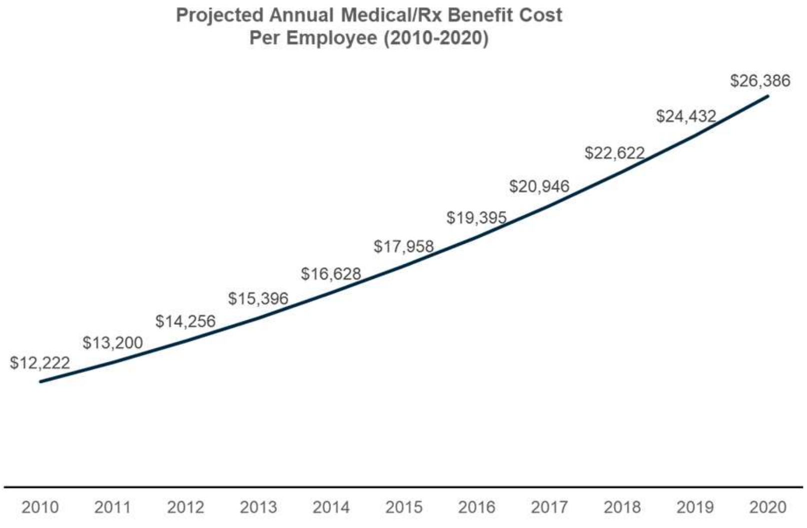


Figure 1: Projected Annual Medical and Pharmacy Benefit Cost Per Employee. Starting point is the cost for a "typical" employee in 2010 (a blend across all of the plans offered). Subsequent years represent the projected cost per employee, using an average 8.0% per year cost trend factor.

DEVELOPING THE SOLUTION

Back in 2011, as he was seeking out new ideas for how to help manage the cost of the county's health benefit program, Al was struck by the way most of the traditional insurance carriers were presenting ideas that boiled down to shifting more costs onto employees. Fortunately, Al had recently attended a conference and heard a presentation that gave him confidence there was another way to approach this. Instead of focusing on how to split the healthcare cost pie between the county and employees, what if they could actually make the pie smaller? They could do this in two ways: Making employees and their dependents smarter consumers of healthcare and improving their overall health status.

To turn this vision into a reality, the county government leadership team sought out a new employee benefits consulting firm to help guide them. That search brought them to Doug Derks, a senior consultant at the employee benefits consulting firm of Arthur J Gallagher. Through the consultant selection process, Al and the team grew confident that Doug and his Gallagher team could help them make their benefits vision a reality. Doug sensed early on the commitment the Ottawa County team had to doing things very differently, so he guided them towards thinking well "outside the box" in terms of what might be possible.

The Core Offering: Everyone on the combined Ottawa County/Gallagher team believed that a high deductible health plan (HDHP), paired with a Health Savings Account (HSA), was important to get employees to think like smart shoppers instead of passive consumers of health care. So it would not simply be a cost-shift to employees, the county would fund the HSA at 100%, at least at first.

To create incentives and support for employees to better manage their own health, the team put in place an outcomes-oriented wellness program. This program encouraged participating employees and dependents to engage with the health care system and to be aware of different ways in which they could better manage their own health. It also made "jumping through the wellness plan's hoops" worthwhile financially.

Pricing The Plan: The final hurdle in the design of the new offering was how to structure it financially in order to make it both financially viable and attractive to employees. This task was compounded by the structure of many of the union contracts the county had with different employee groups. Typically, changes to benefits had to be negotiated with the unions, a process that could easily have killed the new plan before it was able to be offered to employees.

Figure 2: The New Health Benefit Design

Existing Health Benefits Offered

- Choice of 2 traditional PPO plans
  - Relative low deductibles
  - Little out-of-pocket expense for members
  - Little "consumerism", few features to motivate members to improve their health
- No wellness plan
- Self-funded: Carrier Administrative Services only, using carrier-provided care management services

New Health Benefits Offered

- High deductible health plan with Health Savings Account (HSA)
  - $1,200 individual, $2,400 family deductible
  - 100% coverage after deductible is met
  - HSA was fully funded to cover the $1,200/$2,400 deductible
  - Participation-based wellness plan offered by the carrier
- Two POS plans, essentially duplicating the two existing PPO plans
- Fully insured with a new carrier, which also provided the integrated wellness plan with the high deductible plan

Note: *The goal of the new plan offerings was two-fold:*

1) *Increase healthcare consumerism among the members, without just shifting costs onto employees*
2) *Promote better employee health*

The two POS plans were offered to essentially match the existing benefit offerings. The new benefit plan offerings would be financially more attractive to employees, which they did. This allowed the introduction of the new benefit plan simultaneously across the board, in a multi-union environment.

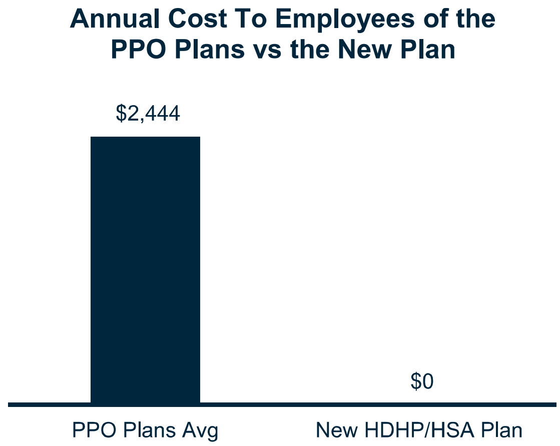


Figure 3: Annual Cost to Employees of the PPO Plans vs the New Plan, 2011. Costs are the average paid by a "typical" employee**.**

The Ottawa County team's solution was creative: Structure the combined new offering (HDHP/HSA and Wellness plan) so that its actuarial value to employees was greater than the existing plans. Offering employees a health benefit that was, to them, of higher value than the current offerings did not require any negotiations with the unions. This was simply a new choice the employees had, in addition to the traditional plans, which would continue to be offered.

This was a bit of a gamble since whether or not this plan, priced this way, would be sustainable in the longer term and depend on whether the structure of the plan and the new consumerism and wellness components would lead to employees making better healthcare decisions, which, in the long run, would improve their health status. The team was betting that this would happen. As one team member put it, "We believed there was a good chance it would work, but if it didn't, we wouldn't really be worse off than we already were."

IMPLEMENTATION

Everyone who was involved in this effort agreed that the key to successfully implementing the new plan was communication. This type of plan was new to almost everyone, and the concept of a "high deductible" did not immediately sound like a good thing for employees.

The solution was communication, to everyone, in every way possible. This task was spearheaded by Marcie Ver Beek and Erin Rotman and supported by

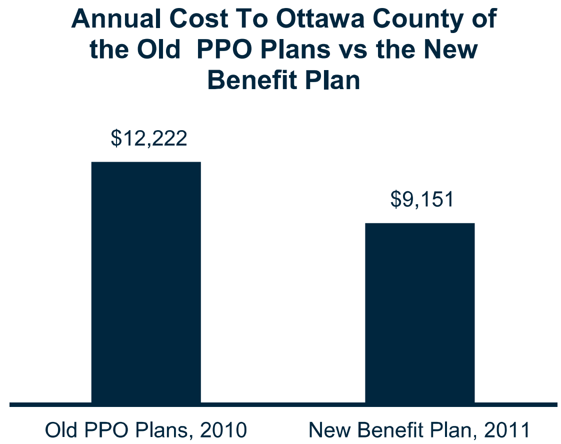


Figure 4: Annual Cost to Ottawa County of the PPO Plans vs the New Plan. Costs are the average paid by Ottawa County for a "typical" employee**. Old PPO plans are 2010 costs / New Benefit Plan is 2011 cost.**

Kerry Simmons from Gallagher. Between them, they met with members of each stakeholder group, including all 13 unions at the time and stayed late at the meetings to answer every question anyone had. Additional meetings were held at different times throughout the day and into the evening. Spouses were invited to attend, and more meetings were offered in the evening to ensure that spouses could find a time that worked for them to attend.

Eventually, open enrollment time came, and at the end, the first results were in: Over 50% of all employees had chosen the new plan option. The team had successfully completed the first portion of the journey.

The journey did not end there, however. Communication about the plan became a regular event. Once

13 Meetings with unions and labor representatives

24 Information sessions with employees and spouses

4 Information sessions held after working hours employees and dependents were enrolled, regular communications took place to keep employees aware of the various elements of the plan and, in particular, to help guide them through successful completion of the requirements of the wellness plan.

Wellness Plan Participation: A major concern of the team was the wellness plan. They believed this would be a big part of any long-term success, so they worked hard at designing the plan and the associated communication about the plan to stimulate employee interest and participation. Education in health management concepts was as much a part of the communication as was education around the logistics of the program. They wanted to make sure employees understood the principles behind this program – this was not just about paying for them when they were sick, but was equally about investing in the future health of employees and helping employees and their dependents take steps to actually improve their own health status.

The team decided to make not participating fully in the wellness plan carry a significant cost – up to 50% of the cost of standard employee health plan contributions. At the same time, they communicated this as an opportunity: Employees had the opportunity to avoid the penalty by taking simple steps to improve their health and report on it. The team highlighted the fact that many employees were already doing a number of things the wellness plan required – they just needed to report that activity to get credit for it.

90%+

Annual Wellness Plan Participation Rate – both employees & spouses

Wellness Plan Participation Rates The percentage of health plan members receiving a biometric screening has exceeded 90% every year from 2012 through 2018.

These results continue to be "best-in-class". Having over 90% participation from both employees and spouses in 7 straight years is strong evidence that the communication and outreach efforts to members has been successful – and, frankly, beyond anyone's expectations.

Ongoing Improvements: While the first few years have been a great success, the team was not content to rest on this success. Each year the combined Ottawa County/Gallagher team would conduct a review of what was working well and what wasn't and make changes for the next year. A key element of the annual discussions was always how to "tweak" the wellness program to keep it interesting and useful for members. Financial elements were reviewed and adjusted based on the prior year's performance, and at one point, it was necessary to reduce the county's funding of contributions to the members' HSA from 100% to 50% in order to keep the program viable. Communication around these annual changes and about the plan overall continued to be very high, and employee satisfaction with the plan grew over time as they came to understand it more fully.

The following outlines Gallagher's most recent analysis and associated recommendations.

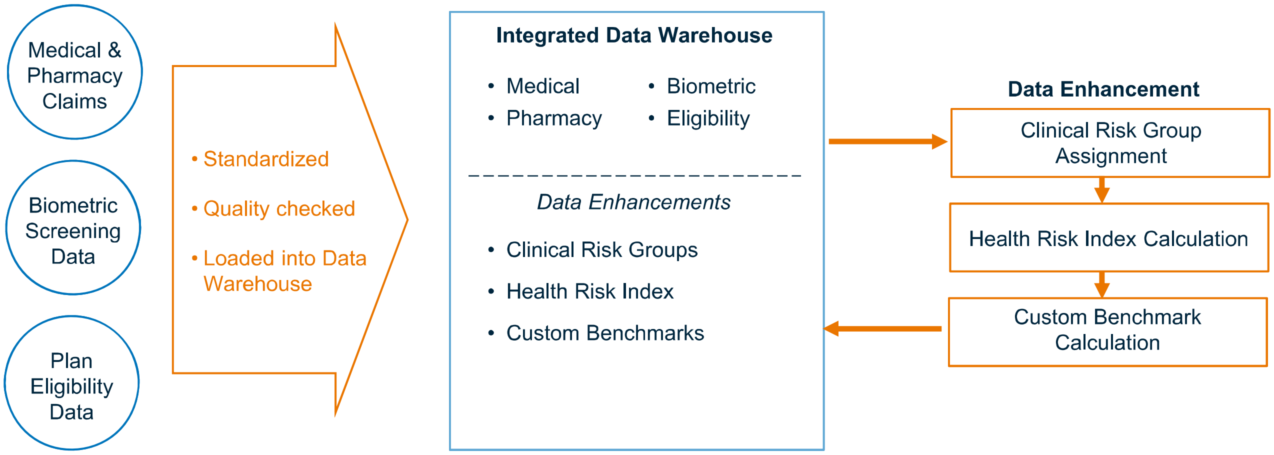
PREPARATION OF DATA FOR ANALYSIS

The continuous focus of the Ottawa County team is the reduction in cost of various benefit plan components. Gallagher's analysis will continue to provide the information necessary to understand whether or not the County's wellness plan continues to be effective and valuable to the County moving forward.

Data Collection and Integration: The Gallagher team began by collecting information. They received five years of historical member eligibility and medical/pharmacy claims data and loaded that into the Gallagher data warehouse for calendar years 2014 through 2018. They also received and integrated the same five years of biometric data from wellness plan participants and five years of data on which members participated in the wellness program. All of this data was integrated at the member level.

Gallagher data analysts then "cleaned" the data, identifying and resolving issues with claims items, and transformed the data into the standard Gallagher database format.

Figure 6: Creating The Tools To Measure Results



Data Enhancement: The data was then enhanced, using 3M Clinical Risk Group (CRG) software to assign each member to one of about 1,100 different clinical risk groups. The CRG model was developed by clinicians and is a well-respected tool in the healthcare industry. Many papers have been published on the CRG system in peer-reviewed publications, and is used by many leading healthcare organizations, including the Centers For Medicare and Medicaid Services (CMS).

Gallagher actuaries use the CRG ratings to create a standardized measure of clinical and financial risk - the Health Risk Index (HRI). The HRI translates clinical risk group classifications into a standardized financial risk measure. 1.0 is the average HRI for the Gallagher "universe" of over 4 million individuals, and each CRG has a corresponding HRI score. Each individual in the database is assigned a Health Risk Index score in addition to their Clinical Risk Group score.

The value of the HRI scores is that they combine both clinical status/risk and financial risk. For example, a well-controlled diabetic will have a lower HRI score than a poorly controlled diabetic. This makes HRI scores a valuable tool for monitoring the impact of disease management and wellness programs – while a diabetic may not be "cured", they may move from uncontrolled to well controlled status, and their HRI should reflect that change.

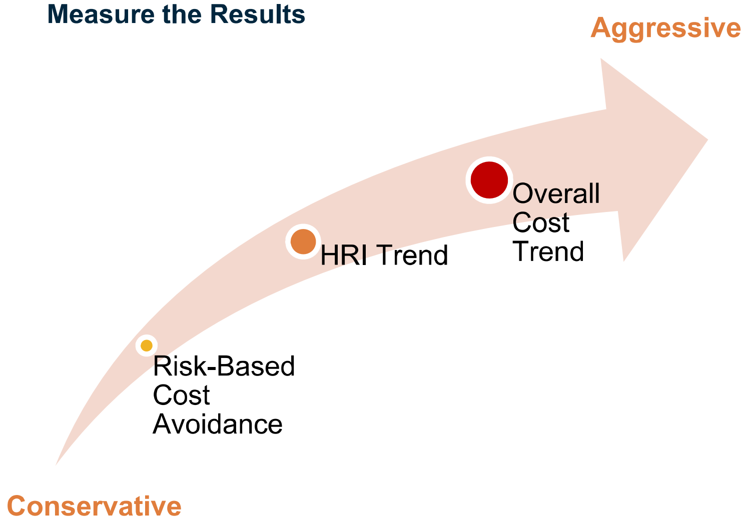
In addition to HRI scores, Gallagher developed a custom benchmark for the Ottawa County population – controlling for demographics, industry, geography and plan design.

These custom benchmarks that would allow for robust comparisons of costs and trends to show where the Ottawa County membership stood compared to a customized portion of Gallagher's book of business.

MEASURING THE RESULTS

Gallagher advised the Ottawa County team that measuring financial impact of a wellness program includes many assumptions and that there is more than one reasonable methodology. The Gallagher team provided results under three methodologies. Each method ranges in conservatism of the calculation and the underlying assumptions (see Figure 7 below).

Figure 7: Approaches to Measure the Results



For each method, a cohort population was analyzed on a year over year basis to see if improvements in health and cost were made. The cohort population contains all employees and spouses who participated in each year from 2012 to 2018.

RISK-BASED COST AVOIDANCE APPROACH

As the most conservative approach, risk migration associated with particular conditions was used to develop a savings estimate. Cost avoidance was calculated by analyzing changes in member risk for those who participated in the wellness program. For example, if 10% of high risk members transitioned to low risk, in comparison to a benchmark of 6%, there is a 4% net reduction. And, each member who transitioned from high risk to low risk experienced an approximate medical cost decrease of $1,888

This approach was used by Priority Health for calculating ROI in 2018. Based on their methodology, **the total savings estimate for Ottawa County in 2018 under this approach is $140,000.**

The drawback to this approach is it may not provide sufficient credit to the program for impacting efficiency of plan utilization and other indirect cost savings.

HRI TREND APPROACH

HRI trend was calculated for the cohort population and compared to the benchmark HRI trend. Since HRI measures the cost risk associated with a member's overall plan utilization, it's more comprehensive than the risk-based cost avoidance approach.

HRI values have a 1:1 correlation to changes in cost. Based on an aging population, HRIs were expected to increase at a rate of approximately 4% each year.

In actuality, the cohort population beat the benchmark HRI trend by maintaining a flat HRI between 2014 and 2018. **Using this methodology, the total savings estimate from 2015 to 2018 is $1.2 Million.**

OVERALL COST TREND APPROACH

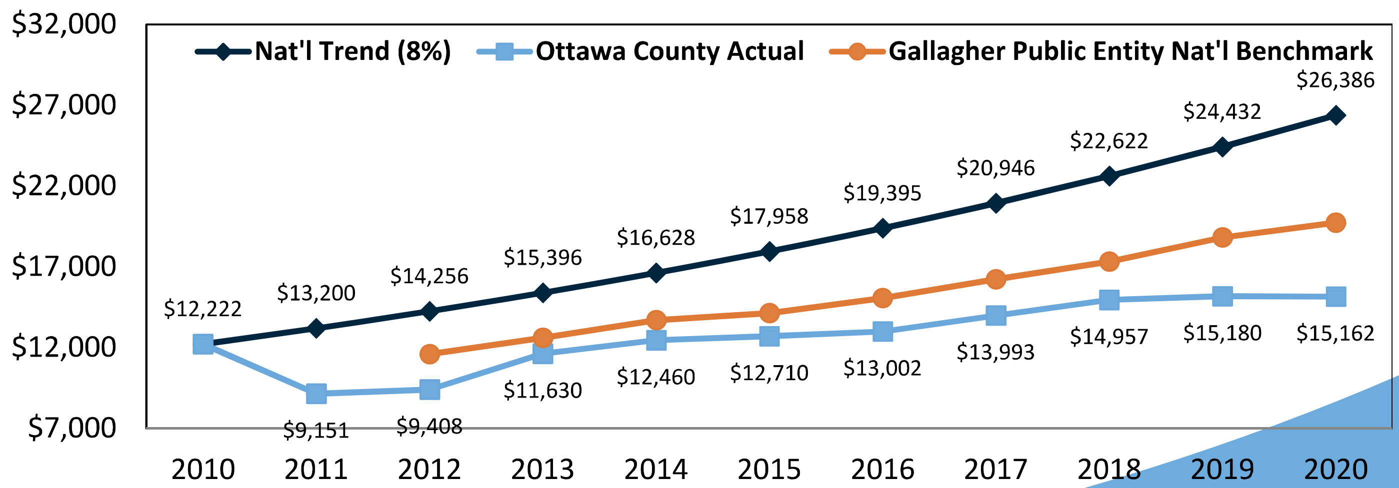
Ottawa County's PMPM cost trends were compared to Benchmark PMPM trends as the most aggressive measurement approach. This approach is aggressive because it does not explicitly account for plan changes, demographic changes or other programs that could have also impacted claims throughout the analysis period.

Gallagher developed benchmark PMPM costs using annual trend rates from Gallagher's proprietary database of healthcare claims. The saving estimate was calculated as the difference between the actual and benchmark costs. **Using this methodology, the total savings estimate from 2015 to 2018 is approximately $1.6 Million.**

Figure 8 below shows Ottawa County overall Per Employee Per Year (PEPY) cost trends compared to benchmark and a national average over the past decade. These numbers are net of contributions and include employer H.S.A. funding.

Gallagher recommended using the HRI approach prior to drafting this document. It was important to the Ottawa Team to show ROI approach used from inception of the plan changes and the HRI approach as recommended by Gallagher. Both approaches portray positive outcomes though using different assumptions. The bottom line for the Ottawa County team is to be accountable to our original goal of creating and improving a method of improving the health of our workforce and their families and to continue the focus and achievement of reducing future claims cost.

Figure 8



ADDITIONAL IMPACTS

In addition to cost savings, Ottawa County's wellness program had a positive impact on access to care. Participants were engaged in their overall health and wellbeing. In 2018, only 5% of the population were non-claimants, meaning that 95% of members had at least a preventative visit or physician's office visit. In addition, spend on preventative care was 36% above benchmark. Engaging in preventative care can help identify and avoid health problems in the future.

When Doug Derks from Gallagher was asked whether he had replicated this approach with other clients, he provided an interesting answer. "The easiest pieces of this to replicate are the benefit plan design, the contribution levels, etc. It's much harder to implement a good, effective wellness program that employees embrace – it is really rare when that happens. There has to be the right leadership. The leadership team needs to buy-in and fully support it, but they also need to have the trust of their own employees so the employees believe it will work."

The wellness program has shown a great deal of success over the past decade. While cost savings results have leveled off compared to the prior analysis, they are still positive and show substantial value to the County's employee population and the financial health of their benefit offerings.

NEXT STEPS

While results of the wellness program impact analysis remain positive, actual costs savings have leveled off since A Health Benefits Success Story – Part I was completed.

To continue to maximize the program's impact, Gallagher provided the following recommendations:

- Continue current strategies to maintain best-in-class participation;
- Introduce additional opportunities and incentives for year-round wellness engagement
- Monitor and place additional focus on population cholesterol risks (the risk with the largest increase in prevalence since the prior analysis)
- Introduce non-physical wellbeing offerings to enhance current wellness program (emotional wellbeing, resiliency, financial wellbeing, etc.) – this will drive additional "soft dollar" savings around productivity, absenteeism and job satisfaction.

LOOKING BACK

The Gallagher presentation to the Ottawa County team was well received. It provided clear evidence that the benefit plan continues to have an impact in containing medical costs by helping employees and their dependents to become healthier. While the actual cost savings results have leveled off since the prior analysis, the County continues to see robust cost avoidance and major budget savings as a result of low annual health care increases resulting from wellness program design and participation. The County team believes this data will only highlight opportunities for improvement – especially in expanding into more robust disease management efforts. They also felt it would be valuable information to communicate to the unions, showing how the unions' willingness to go along with what had initially been viewed as something of an experiment had paid off for their members in both lower costs and better health.

When asked "If you were to do this over, what, if anything, would you do differently?", several Ottawa County team members said they would increase communications even more. As Al Vanderberg put it, "As well as we communicated to employees, we could always communicate better." The change had been stressful, and they all felt that even more communication could have helped reduce some of those biggest stressors.

ABOUT THE AUTHOR

Alex Kreibich is the Managing Director of Analytics Consulting for Gallagher's Healthcare Analytics practice. Mr. Kreibich is a strategic thought leader in the employee benefits space, with vast experience in population health and wellbeing analytics. The breadth and depth of Gallagher's data allows Alex to provide clients with customized and insightful reporting on key cost drivers, population health risks and the impact and value of the many programs organizations have in place to reduce costs and improve utilization of their health plan.

Mr. Kreibich earned his B.S. in Statistics and Actuarial Science at the University of Wisconsin, Madison. Alex is also an Associate of the Society of Actuaries.

Thank you!

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