Medical Cost Trend – Yesterday, Today and Tomorrow

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Core Healthcare Analytics
Agenda

- Impact of Flu: Historical experience vs. this season
- Let it Snow: How much makes a difference?
- Hepatitis-C: Predicting the impact
- ICD-10: Big changes coming
- COBRA: Something to consider again?
Impact of Flu

The CDC’s weekly ILI metric indicated that the 2014-2015 flu season was similar to the 2012-2013 flu season, which was worse than average.
Impact of Flu – Commercial

Steeper downslope than expected = improvement in 1Q15 and FY15 estimate

1Q15 and FY 2015 estimate are approximately equal to the trended 3-year average

The 2014-2015 Flu season was worse than average, but much of the impact was in 4Q14
Impact of Flu - Medicare

- Severity was worse than previous years, measured by the rate of Laboratory-Confirmed Influenza Hospitalizations
- Increase in hospitalization rate was driven by the 65+ age group. This age group saw the highest hospitalization rate recorded since data collection on laboratory-confirmed influenza-associated hospitalization in adults began during the 2005-2006 season.
- This disproportionately impacts Medicare
Impact of Flu - Medicare

Steeper downslope than expected = improvement in 1Q15 and FY15 estimate
But, there is still pressure on 2015 trend

Severity impacted the Medicare population, as the 65+ population saw the highest flu hospitalization rate in the CDC’s recorded history
Impact of Snow – Methodology

- Snow impact is influenced by:
  - snow frequency
  - snowfall totals
  - location of snow / members
  - day of the week
- Snow Threshold = amount required to have an impact on school closings
- Measured the average number of weekdays with snow > Snow Threshold, in each market, for a period of three years
- By market, determined the average claims reduction on days with snow

<table>
<thead>
<tr>
<th>Market</th>
<th>City/Airport</th>
<th>Airport Code</th>
<th>Snow Threshold (inches)</th>
<th>Avg. Snow Days/Yr ('12-'14)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Atlanta</td>
<td>Hartsfield-Jackson</td>
<td>ATL</td>
<td>0.0</td>
<td>1.0</td>
</tr>
<tr>
<td>Connecticut</td>
<td>Bradley International</td>
<td>BDL</td>
<td>3.0</td>
<td>4.3</td>
</tr>
<tr>
<td>Dallas</td>
<td>Dallas/Fort Worth</td>
<td>DFW</td>
<td>0.0</td>
<td>0.7</td>
</tr>
<tr>
<td>Maryland</td>
<td>Baltimore-Washington International</td>
<td>BWI</td>
<td>1.5</td>
<td>2.7</td>
</tr>
<tr>
<td>Massachusetts</td>
<td>Boston Logan Airport</td>
<td>BOS</td>
<td>6.0</td>
<td>1.7</td>
</tr>
<tr>
<td>Pittsburgh</td>
<td>Pittsburgh International</td>
<td>PIT</td>
<td>3.0</td>
<td>4.3</td>
</tr>
<tr>
<td>Vermont</td>
<td>Burlington International</td>
<td>BTV</td>
<td>12.0</td>
<td>0.3</td>
</tr>
</tbody>
</table>
Impact of Snow in Weeks over Threshold

- In this market, allowed dollars per day are 30% lower on days over threshold
- Week 6 didn’t meet threshold definition, but did have snow and ice
Impact of Snow by Medical Cost Category

- Different types of services are impacted differently
- Inpatient claims are the least impacted by snow (15%)
- Ambulatory Facility, Radiology, and PCP have the biggest changes in utilization
Impact of Snow – Results

<table>
<thead>
<tr>
<th>Market</th>
<th>2015 Change in Medical Costs vs Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Atlanta</td>
<td>-0.57%</td>
</tr>
<tr>
<td>Connecticut</td>
<td>0.00%</td>
</tr>
<tr>
<td>Dallas</td>
<td>0.28%</td>
</tr>
<tr>
<td>Maryland</td>
<td>0.44%</td>
</tr>
<tr>
<td>Massachusetts</td>
<td>0.45%</td>
</tr>
<tr>
<td>Pittsburgh</td>
<td>-0.92%</td>
</tr>
<tr>
<td>Vermont</td>
<td>0.00%</td>
</tr>
</tbody>
</table>

- Overall 2014 was greatly impacted by snow
- Overall 2015 snow was close to the average, and less impactful than 2014
- Individual markets have results that vary from the overall results based on local snowfall
Impact of Snow – 2015 vs. Average
Specialty Drugs
Pharmacy trend will be high through 2016 due to elevated specialty drug trend. Key trend drivers include (but are not limited to):

- Shifting benefit designs
- Introduction of Exchanges
- Member cost awareness
- Govt. subsidies
- Projected drug launches
Hepatitis C

PMPM = \frac{\text{Cost}}{\text{Script}} \times \frac{\text{Scripts}}{\text{RX Members}}

Unit Cost considerations:
- AWP
- Rebates
- Mix of Treatments
  - Sovaldi
  - Sovaldi + Olysio
  - Harvoni
  - Viekira Pack

Utilization considerations:
- Current Scripts
- New Scripts
- Length of Treatment
- Persistency
Hepatitis C

- Hep-C Genotype Screening is a leading indicator of new scripts
- Screening utilization peaked in 4Q14 and has declined in 1Q15
Hepatitis C

- Warehousing in 3Q14 with the anticipation of Harvoni’s release (Oct 2014)
- New starts went up sequentially from September 2014 to February 2015 before seeing a recent decrease in March 2015
Hepatitis C

- As expected, market share is moving from Sovaldi to Harvoni after its October release
- Current Harvoni cost/regimen considerably lower than prior treatment options (~$75K vs. $100K)
ICD-10
# Financial Neutrality Risk Areas Identified

High Level Financial Neutrality risk areas identified in early ICD-10 impact assessments

<table>
<thead>
<tr>
<th>Risk Area</th>
<th>Why?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Provider Contracting / Pricing</strong></td>
<td>• DRG based reimbursed providers</td>
</tr>
<tr>
<td></td>
<td>• High dollar claims</td>
</tr>
<tr>
<td></td>
<td>• Percent of claims paid by carve-out within a contract</td>
</tr>
<tr>
<td></td>
<td>• Contracts with service groupings</td>
</tr>
<tr>
<td></td>
<td>• May indicate DRG shifts between ICD-9 and ICD-10</td>
</tr>
<tr>
<td></td>
<td>• May indicate a potential shift with ICD-10 coding practices</td>
</tr>
<tr>
<td></td>
<td>• Coding changes between ICD-9 and ICD-10 may cause more claims to be reimbursed as high dollar claims</td>
</tr>
<tr>
<td></td>
<td>• May indicate a shift in the percent of claims paid by a carve-out</td>
</tr>
<tr>
<td></td>
<td>• May cause a possible reimbursement shift if the grouping is not applied with CD-10 codes</td>
</tr>
<tr>
<td><strong>Clinical Policies</strong></td>
<td>• Claim denial rules</td>
</tr>
<tr>
<td></td>
<td>• Prioritized Clinical Policy Bulletins, such as Experimental procedures, Medical Necessity, Cosmetic</td>
</tr>
<tr>
<td></td>
<td>• May indicate differences between ICD-9 to ICD-10 claim edit results</td>
</tr>
<tr>
<td><strong>Medicare Revenue</strong></td>
<td>• Total Medicare Revenue</td>
</tr>
<tr>
<td></td>
<td>• Average risk scores</td>
</tr>
<tr>
<td></td>
<td>• Top problematic Hierarchical Condition Categories (HCC) overall and by top providers</td>
</tr>
<tr>
<td></td>
<td>• May indicate potential Medicare claims payment impacts from ICD-10 compared to ICD-9</td>
</tr>
<tr>
<td></td>
<td>• May indicate provider coding patterns in ICD-10 could alter risk scores compared to ICD-9</td>
</tr>
<tr>
<td></td>
<td>• May indicate shifts in HCCs for certain types of claims between ICD-9 and ICD-10</td>
</tr>
<tr>
<td><strong>Benefits</strong></td>
<td>• Preventive and Diagnostic Benefits and HCR impacts</td>
</tr>
<tr>
<td></td>
<td>• Hardcover benefits with custom plans</td>
</tr>
<tr>
<td></td>
<td>• May indicate different categorization of preventive and diagnostic between ICD-10 to ICD-9</td>
</tr>
<tr>
<td></td>
<td>• Inaccurate benefit categorization could lead to compliance issues</td>
</tr>
</tbody>
</table>

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The various sources of ICD-10 DRG variances observed in testing will have different implications and will require different preparation/response.

### Observed Variance Sources

#### Provider Coding Variances
- The majority of test variance is caused by inaccurate coding by providers.
- Some level of these inaccuracies exist today in ICD-9.
- ICD-10 mistakes will likely be more common for providers early in their learning curve.

**Examples:**
- Missing diagnosis or procedure codes
- Incorrect diagnosis or procedure codes
- Incorrect sequencing of codes

#### Uncontrollable Variances
- These variances were associated to accurately coded ICD-10 claims that demonstrated a DRG change due to the new code set grouping.
- These changes will continue in ICD-10.

**Examples:**
- More specific ICD-10 codes: Coding claims with “One to many” code mappings can result in valid DRG changes.
- Less specific ICD-10 codes: Coding claims with “Many to one” code mappings can result in valid DRG changes.
- Non-equivalent ICD-10 match: Coding claims with no equivalent ICD-9 to ICD-10 code mapping can result in valid DRG changes.

#### Test Environment Variances
- These issues are isolated to the Aetna or Provider test environment and will not be present in ICD-10.

**Examples:**
- Table updates
- Vendor related issues or updates

#### Distribution of DRG Variance Source

- **77% Controllable:** Provider Coding
- **12% Controllable:** Test Environment
- **11% Uncontrollable**

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COBRA Enrollment

- COBRA membership grew significantly in 2009 with the government subsidy, followed by a drop from June 2010 – December 2011
- The past few years have been relatively stable and follow a cyclical pattern