

Board of Community Health  
Meeting  
August 23, 2012

**Members Present**

Ross Mason  
Norman Boyd  
Clay Cox  
Jamie Pennington  
Rick Jackson  
William Wallace

**Members Absent**

Kiera von Besser  
Donna Moses  
Jack M. Chapman, M.D

The Board of Community Health held its regularly scheduled meeting at the Department of Community Health, Fifth Floor Board Room, 2 Peachtree Street, N.W., Atlanta, Georgia. Commissioner David A. Cook was also present. (An agenda and a List of Attendees are attached hereto and made official parts of these Minutes as Attachments #1 and #2). Chairman Ross Mason called the meeting to order at 10:35 a.m.

Chairman Mason introduced and welcomed the newest member of the Board, Rick Jackson.

**Minutes**

The Minutes of the August 9, 2012 meeting were UNANIMOUSLY APPROVED and ADOPTED.

**Report of the Commissioner**

The Commissioner stated that the department's recommendations for the FY13 and FY14 budgets will be presented. The budget instructions given to the department are to present a 3% reduction in costs in FY13 and an additional 2% reduction in costs for FY14. Before turning the budget presentation over to the staff, the Commissioner indicated that he wanted to make a few general comments regarding the two largest components of our budget: the State Health Benefit Plan (SHBP) and Medicaid.

With regards to SHBP, we have made great progress over the past year. Last year SHBP had a two-year projected deficit of \$815 million. The department took several steps to address this deficit: it began implementing a 3-year plan to increase employer

contributions on behalf of the non-certificated employees to help cover the loss of state appropriation. It also streamlined administration by implementing direct billing for teacher employer contributions, implemented the largest wellness plan in the country (349,527 members), opened PeachCare to eligible members' children, and made other design changes such as mail order drugs and coverage for tobacco cessation drugs. It also implemented policy changes to address the long-term OPEB obligations by tying the subsidy for retirees to the years of service. By doing this, we reduced our OPEB liability from \$62 billion to \$51 billion, a reduction of \$11 billion. This action was favorably noted by Georgia's bond rating companies. SHBP ended the fiscal year with a \$16 million cash balance.

This year's proposed budget continues to build on the wellness plan and other strategies implemented last year. Unfortunately, due to increased utilization, premiums will be raised by an aggregate of 7.5%. Premiums were also raised an additional 2% to pay for coverage mandated by the Affordable Care Act. The most significant adjustment will be the reduction of subsidy for spousal coverage.

With regard to Medicaid, there are some very hard decisions to make. Medicaid consumes 17% of the state's budget and Georgia has more than 1.7 million people enrolled in Medicaid/PeachCare. The FY13 budget exceeds \$8.2 billion with state and matching federal funds. As Medicaid continues to grow, so does our challenge to fund the program.

Due to federal restrictions on the Medicaid program, the major component of the department's budget consists of a request for funds. The department looked at all areas for cost reduction: eligibility, scope of benefits, utilization, and payments to providers. The option of reduced payment to providers was the last considered, and we are pleased to say that the budget proposal does not include any reduction in rates to providers.

Commissioner Cook expressed his thanks to the department's staff, the Governor's staff and OPB for their hard work on the budget proposal. The department will continue to work with OPB and the Governor's office over the next several months as the Governor prepares his budget to be presented to the General Assembly.

Vince Harris, Chief Financial Officer presented the FY13 amended budget and FY14 budget proposals to the Board. Mr. Harris stated the majority of our funds, almost 95% of the state funds in our budget are spent on expenditures for the Aged Blind and Disabled and Low Income Medicaid populations.

PeachCare makes up about 3% of our state funds, Healthcare Access and Healthcare Facility Regulation comprise less than half a percent of our state funds, while Administration is about 2.5%. That last number is notable because over the last several years Administration's share had been below 5% but is now half of that.

The budget instructions for the FY13 amended budget given to the department require cuts of 3% to state funds. The FY14 budget requires 3% for all programs except Medicaid and PeachCare. Those programs require a 5% cut. Revenue from Tobacco funds, Hospital Provider Payments and Nursing Home Provider Fees are exempt from cut.

The department has held steady on its cost for staffing, reduced operating funds, and reductions in the contracts we use for professional services.

These contracts include the Medicaid Management Information System, member eligibility, our pharmacy benefits manager, our financial audit as well as actuarial and professional financial analysis of the way in which we spend our benefits dollars.

For our non-Medicaid Programs, our 3% target is based on the following programs supported with state funds – administration, healthcare access and improvement and healthcare facility regulation.

State funds for these 3 programs totals \$81.5 million, so our 3% target is about 2.4 million. This of course has a roughly \$5M impact on our operations when you factor in the federal funds we match with these funds. The amounts cut are basically doubled when paired with federal matching funds.

Part of Affordable Care Act is the expansion of eligibility to children ages 6-18. We are expecting to shift over 59,000 children who currently qualify in PeachCare to Medicaid. We currently anticipate more SHBP members to enroll their children into PeachCare. In addition, the department anticipates an increase in enrollment in Medicaid for those individuals who qualify for Medicaid now but have not enrolled.

Cost Strategies for Medicaid and PeachCare will focus on: eligibility, scope of benefits, utilization and price.

Mr. Harris answered questions from Board members regarding the budget.

Mr. Jackson asked the Commissioner to explain a little about the drug he mentioned earlier and what affect it will have on the budget?

Commissioner Cook explained that the drug he mentioned was to assist in preventing pre-term birth. The drug is called McKenna and has just recently been approved by the FDA. An injunction was filed in federal court stating that McKenna had to be given the same consideration as the compound drug by physicians. The drug is given to women who have had a previous pre-term birth and is an injectible with multiple doses. Clinically there is nothing to substantiate that the manufactured drug is superior to the compound drug for this treatment. The major difference is cost. The compound drug is around \$20 per injection and the manufactured drug is around \$600 per injection. With the court mandate the fiscal impact on the department is approximately \$20 million per year. (A copy of the Amended FY 2013 and FY 2014 Budget is attached hereto and made an official part of these minutes as Attachment #3)

Vince Harris presented the financial status of State Health Benefit Plan (SHBP). Mr. Harris stated that if no plan design changes were implemented or premiums adjusted, SHBP would have a negative cash balance at the end of the year. The total in FY13 would be -\$89 million and -\$418 million in FY14. If you add the Incurred But Not Reported (IBNR), the deficit would be \$288 million in FY13 and \$617 million in FY14.

SHBP operates on a cash basis; there are no reserves in the program. FY12 ended with a little over \$16 million. The cost per day in SHBP is approximately \$11 million. Operating on a cash basis creates a major challenge any time the plan experiences a temporary fluctuation in claims expense. When SHBP experiences a major cash flow challenge, the plan is challenged to meet all of its obligations.

In order to address cash flow issues we have worked closely with our funding partners. Some of our strategies include: prepayment from state agencies, frontloading state percent of payroll rates and accelerating payments from the Department of Education.

To maintain an actuarially sound plan the size of SHBP, there should be a reserve of cash capable of funding six weeks of the program, which would be \$346 million.

Over the last five years, the expenses realized by the plan have increased more slowly at 5.1% compared to the national trend of 8.5%. SHBP continues to be a well-managed plan. The department continues to take fiscally responsible, member-driven actions to maintain a sound financial footing for SHBP.

To address the deficit in SHBP a number of structural and design changes have been implemented: began a three year plan to move the non-certificated per member per month to cover the cost, direct billing for teacher employer contributions, largest wellness plan in the country (349,527 members), opened PeachCare up to eligible member' children. Other design changes include: re-evaluating coverage of bariatric surgery, offering mail-order drugs to participants and coverage of tobacco cessation drugs.

There are several changes in the wellness plan for Calendar Year 2013 to further engage members in their health and well-being. In addition, SHBP has developed a Calendar Year 2014 plan that features a number of design changes, policy changes and necessary premium increases that are both fiscally responsible and member focused. In support of the Governor's strategic goals for the state, SHBP will be implementing initiatives to deal with childhood obesity. Future Plans for SHBP will be to move from a promise-based wellness plan to a rewards-based system.

SHBP will continue to move toward a goal of a 75/25 split, with employer contribution closer to the goal of 75%; employee premium share closer to a goal of 25% of total cost.

The Affordable Care Act has increased costs by requiring some women's health care services that currently require cost-sharing to be covered as preventative care at 100%. Also, there will be a Clinical Effectiveness Research fee at \$1 per covered life in the first year. These additional costs represent an additional 2% premium increase to employees.

After all plan and policy changes, premium increases, SHBP will still experience a deficit of \$7.9 million in FY14. For that reason DCH will request this amount as part of our budget requests to the Governor.

Ms. Nacin answered questions from the Board members pertaining to the SHBP changes and budget for Calendar Year 2013. (A copy of the State Health Benefit Plan Budget is attached hereto and made an official part of these minutes as Attachment #4)

Mr. Harris presented State Health Benefit Plan Calendar Year 2013 Member Contribution Resolution. Mr. Harris stated that the resolution cites various laws giving the Board authority to establish member contribution rates and states that rates have been developed in compliance with the law. The resolution approves continued imposition of an \$80 tobacco surcharge for all rates except subsidized Medicare Advantage with split eligibility rates. Please note that the rates no longer include a spousal surcharge. Ms. Pennington MADE a MOTION to approve adoption of the State Health Benefit Plan Design Change Resolution. Mr. Boyd SECONDED the MOTION. ON THE MOTION, the yeas were 6, nays 0 and the MOTION was Unanimously APPROVED. (A copy of the State Health Benefit Plan Calendar Year 2013 Member Contribution Resolution is attached hereto and made an official part of these minutes as Attachment #5)

Chairman Mason appointed Dr. Chapman chairman of the Care Management Committee.

## Adjournment


There being no further business to be brought before the board, Chairman Mason adjourned the meeting at 11:57 a.m.

THESE MINUTES ARE HEREBY APPROVED AND ADOPTED THIS THE 13th DAY OF September, 2012.



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ROSS MASON  
Chairman



JAMIE PENNINGTON  
Secretary

### Official Attachments:

- #1 List of Attendees
- #2 Agenda
- #3 Amended FY13 & FY14 Program Budget Request
- #4 State Health Benefit Plan Budget
- #5 State Health Benefit Plan Design Changes Resolution