METHODOLOGY AND PROCESS BEHIND COMPARABLE PLAN DESIGN

A key goal of the Oregon Educators Benefit Board in designing its new benefit plan offerings is to ensure that they are comparable to current plan offerings. The purpose of this summary is to make sure future OEBB members understand the process the Board used to determine the benefits and benefit levels that would meet the comparability requirements and provide a variety of high-quality benefit plan choices. To assist in these efforts, the Board contracted with a nationally- and internationally-recognized consulting and actuarial firm called Watson Wyatt Worldwide (Watson Wyatt). One of the reasons the Board contracted with Watson Wyatt was the firm's experience and expertise in the areas of health and other benefit plans.

Watson Wyatt started by gathering information on the plan designs available through the three entities offering benefits to school and education service districts (OSBA Health Trust, OEA Choice Trust and OSEA). They also sent a survey to all school districts requesting additional information including plan design information from the districts that had direct-contract relationships with plan providers. The results of this survey were excellent. Ninety-six percent (209 of the 217 school districts and ESDs) provided information on their plan designs. Eighty-nine medical plans were identified.

Watson Wyatt's actuary led the value analysis of the plans. The purpose of the analysis was to determine the value of each of the current plans so that comparable OEBB plans could be designed. An important tool in the analysis of the plans was an industry standard actuarial model based on a broad (national) claims dataset derived from the actual claims history of 3.3 million individuals. Using this model, Watson Wyatt evaluated each of the 89 current medical plans submitted by school districts and/or their Trusts.

The process to evaluate the plans was to apply each current plan design to the actuarial model's dataset of allowed charges in order to estimate the claims which would be paid under each particular plan. The current district plan that had the highest total amount in expected claims payment became the "index" plan and was assigned a value of 1.0. The total amount of expected claims payment that was produced for each of the other current plans was divided by the total expected claims payment for the index plan. For example, if the total expected paid claims of the "index" plan was $100 million and the total expected paid claims of one of the other plans was $98.2 million, that plan was assigned an actuarial value of 0.98; that is, it's actuarial value is 98% of the index plan. Likewise, in this example, a plan with total expected paid claims of $90 million was assigned an actuarial value of 0.90. Actuarial values for current district medical plans ranged from 1.0 (the index plan) to 0.47.

Once the current plans were assigned an actuarial value, Watson Wyatt "grouped" plans based on the actuarial values. Generally, these groupings were made up of plans whose actuarial values fell within a three percent range. In some cases, plans were grouped based on a five percent range (or slightly more for the high deductible, major medical plan designs). Based on these groupings, nine medical plan options were prepared for consideration by the Board. The Board considered the plans and felt that the slate

presented could be offered without creating undue administrative complexity, and while still achieving the comparability and cost savings goals of SB 426. The Board understands that continuing to offer 89 medical plans would add a lot of administrative complexity and would make the cost savings intended by creating a large pool much more difficult to achieve. At the same time, the Board feels confident that the proposed slate of plans provides a variety of plan design choices focusing on quality and preventive care. Thus, the comparability standard established by the Board was 2.5%, meaning a future OEBB plan is considered to be comparable to a current plan if their actuarial values are within 2.5% (higher or lower) of one another.

A few groupings resulted in variances slightly greater than the 2.5% adopted standard, and the Board applied strict standards when determining whether a variance of more than 2.5 percent should be allowed. If the actuarial value of the OEBB medical plan design was higher than the actuarial value of the current plan, the 2.5 percent threshold could be surpassed. Also, if the enrollment reported for the specific current plan was less than 100, the 2.5 percent threshold could be expanded. The Board was careful not to allow the enrollment counts alone determine plan design decisions. The focus of the Board was to develop plan designs that better meet the OEBB's vision of providing benefit plans with an emphasis on high-quality care and services.

The following examples should be used in conjunction with the OEBB Plan Design Comparison document:

Example One -- OEBB Medical Plan 1 and Medical Plan 2 grouping -- the current plans are either an HMO or a plan that works much like an HMO with a limited panel of providers, with actuarial values ranging from 1.0 (the index plan) to 0.97 (OEA Choice's MCP 5 Plan and OSEA's $15 co-payment plan). The OEBB Medical Plan 1 design provides a comparable plan for both of these current plans and has an actuarial value of 0.98 – 2% lower than the index plan and 1% higher than the OEA Choice MCP 5 Plan and the OSEA $15 co-payment plan -- which is within 2.5% of all of the plans in this group. The OEBB plan is not exactly like any of the three plans, but the expected claims payment under the OEBB Medical Plan 1 is expected to be around 2% lower than the total claims payment made if coverage was still under the Kaiser $10 co-payment plan (index plan) and is expected to be around 1% percent higher than if coverage was still under the OEA Choice or OSEA plans.

Example Two -- OEBB Medical Plan 3 grouping -- the actuarial value of the $200 deductible plan offered through OSEA is 0.89 and the $100 deductible plan offered by OSEA is 0.92 -- a variance within the group of only 3%. The OEBB plan design created to provide a comparable plan for both of these current plans has an actuarial value of 0.90 – 1% higher than the $200 deductible plan and 2% lower than the $100 deductible plan. The OEBB plan is not exactly like either plan, but the expected benefits paid under the OEBB plan is expected to be less than 2% lower than the benefits paid if coverage was still under the OSEA $100 deductible plan and is expected to be 1% higher than if coverage was still under the OSEA $200 deductible plan.

Example Three (an example of a grouping that has a 5% range in actuarial values) -- OEBB Medical Plan 7 grouping -- the actuarial value of the OSEA 40-50/50 plan is 0.69 and the Plan C-500 plan offered through OSBA has an actuarial value of 0.74. The OEBB plan design created to provide a comparable plan for both of these current plans has an actuarial value of 0.72 – 3% higher than the OSEA plan and 2% lower than the OSBA Plan C-500 plan. The OEBB plan is not exactly like either plan, but the expected benefits paid under the OEBB plan is expected to be around 3% higher than the total benefits paid if coverage was still under the OSEA 40-50/50 plan and is expected to be around 2% less than the total claims payment made if coverage was still under the OSBA Plan C-500 plan. In this example, the actuarial value of OSEA 40-50/50 plan is more than the 2.5 percent variance that OEBB used as its standard for comparability. However, the actuarial value of the OEBB Medical Plan 7 plan design is three percent "higher" than the current OSEA 40-50/50 plan. The Board approved the plan design as the benefit levels is expected to provide a higher benefit than is available at this time and also because the enrollment numbers in the OSEA 40-50/50 plan were estimated at less than 100. The OEBB plan design also supported OEBB's vision of providing benefit plans with an emphasis on high-quality care and services.

Example Four (an example from the grouping that has the greatest variance in actuarial values) -- OEBB Medical Plan 9 -- the actuarial value of the OEA Choice major medical plan is 0.47 and the actuarial value of the OSBA HSA plan is 0.58. The OEBB plan designed to provide a comparable plan for both of these current plans has an actuarial value of 0.58, the same actuarial value as the OSBA HSA plan, but eleven percent higher than the OEA Choice major medical plan. Even though the variance is more than the 2.5% standard, the Board approved the plan design as the plan is expected to provide a higher benefit than is available at this time under the OEA Choice plan and the OEBB plan design better meets the OEBB's vision of providing benefit plans with an emphasis on high-quality care and services.