

MEMORANDUM

TO: Fellow Board Members

From: Sharon Downs

Date: April 6, 2004

Subject: Report of Advance Trustees Institute Conference

Charlie Adkins and I attended the Advanced Trustees Institute conference presented by the International Foundation February 23-25, 2004. The conference had very good speakers who were willing to answer questions and assist participants after their presentations were completed. Each morning started with a main session that all participants attended. You then had concurrent sessions and/or workshops from which to pick for the remainder of the day according to your interests and level of expertise as a trustee.

Below are notes from ten of the eleven sessions I attended during the conference. I am also leaving my notebook from the conference at the OPERS offices as you may wish to review the handouts for any presentations that may be of interest to you.

Economic Forecast - Claire W. Zempel, CFA

The most recent Household Survey shows growth in employment

There are four factors needed for economic stimulus:

- Faster money growth
- Faster dollar decline
- Faster government spending
- Reduced tax collection

He sees no recession in the foreseeable future - unless there is an attack on our lands

There is no direct link between the federal deficit and interest rates
The federal deficit will reduce quicker than what is predicted
Real growth in the 4-5% range will do it

A fall in the dollar means our goods are becoming more competitive
The Chinese are talking about breaking their link with the dollar

The Federal Reserve wants to increase inflation two percent
Will take off at end of 2005

The odds are extremely low that the stock market will go down soon
He predicts that it will go up another 10-15%

Do You Know How Your Health Care Dollars Are Being Spent? - Laird Miller

There are 3-5 factors that can be used in predictive modeling and resources should be used heavily here

- Health risk appraisals - strongly encourages

 - Find a company that conducts these for your members and include physicals as part of the process

- Adequacy of what you are paying for and how it affects the insured

 - Things not commonly being paid for are homeopathic and over the counter drugs

- Heart conditions, cancer, transplants, and babies are responsible for 75% of the insurance costs today

20% of the people spend 80% of the dollars

Inappropriate treatment adds considerably to the cost of treatments and is either the third or fourth cause for deaths - the other three are heart attack, cancer and stroke

Make sure that members are going to the experts when needed - not only the doctor but also the hospital

- Doctors will do "tiering" - insisting that they be able to treat in multiple areas in order to give the best rates to the hospital - may result in that doctor not being the best for the condition being treated

Set up clinic management programs - this is done face to face by nurses and not over the telephone

- Gives the member someone to call when there is an issue and nurse is familiar with the patient and his/her health care needs

- Significantly cuts down on the number of doctor visits and need for prescriptions

Conclusion

- Track preventive measures and results

- Identify populations and members at risk

 - Track risk reduction activities and results

- Focus on disease management issue (\$)

Integrate data from all treatment sources, not just those paid by the plan
Integrate data on risk factors, health/safety status, disease/injury
treatment, results, costs, savings and return on investment
Track clinical effectiveness of providers, groups and networks
Monitor interventions to determine cost effectiveness

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Is the Only Answer Reducing Health Care Benefits? - Randall K. Abbott

Separate services are most effective when the vendor is in the area

Examples: nurse line, pharmacy, mental health

You must do due diligence to determine who the best provider is

Data management will save dollars 18-24 months down the road

There can be different rate tiers for members - some have up to 5-7

Some places are charging a spousal surcharge if insurance is available
elsewhere

Ranges from \$40-\$200 a month

He believes this is hard to monitor

Work with members to insure that they are an intelligent health consumer and
help them change their behavior to become one

Components of Health Management:

Education and awareness communications - make members aware of
health costs, health care decision making, consumerism in health care,
the impact of lifestyle on personal health and how to use health resources
prudently

Self-care and health decision support - provide members and their
families with tools and resources to help in health decision making

Preventive care reminders and services - help assure that members
receive needed preventive care on a scheduled basis to maintain health
and identify emerging concerns early

Health risk appraisals - help members assess their personal health and
educate them on how to manage their health, lifestyle and related
conditions

Disease management - targeted programs to help manage emerging,
chronic and acute conditions such as cardiac, asthma, diabetes, cancers
and depression

Lifestyle risk management - provide tools, resources and coaching to help
members change behaviors and lifestyles that contribute to poor health

Research needs to be done to determine which preventative programs are really needed and also insure that these services are being bought from the best group/provider

The current health plans are evolving and we need to monitor those changes and positions appropriately to avoid a competitive disadvantage or potential adverse selection

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	<u>Today</u>	<u>Future</u>
Plan Design:	<p>First dollar or small co pay</p> <p>Emphasis on paying for sickness emphasizing health protecting</p> <p>Limited choice in plans & features</p>	<p>More point of care cost share to influence behavior</p> <p>Focus on while still</p> <p>against catastrophic loss</p> <p>More choice in plans & features</p>
Cost sharing:	Members pay about 22-27% of total cost	Members pay 30-35% of total cost
Health Improvement/ Health	<p>Health risk appraisals not incented</p> <p>Members not engaged in</p>	<p>Health risk appraisals incented</p> <p>Members engaged in</p>
Management	<p>decision making</p> <p>Lifestyle decisions do not influence benefits costs</p>	<p>decision making</p> <p>Lifestyle decisions influence benefits costs</p>

Managing Pharmacy Costs: Is It Possible? - Brian B. Bullock, R.Ph., MBA

Three factors are fueling the rise in drug cost:
 Price increases - 37%
 Increase in number of prescriptions - 39%
 Shift to higher cost drugs - 24%

Need to hire a pharmacy benefits manager to help in controlling drug costs

However be aware of possible conflicts of interest:

- Drug manufacturer rebates to PBM

- Higher vs lower price drug - the PBM getting a rebate

The PBM should be able to help in issuing a carefully worded RFP that will assist in getting financial structure to obtain clarity in pricing and negotiate contract language that is clear, precise and auditable

There should be tiered co pays for prescriptions

- Some studies showed that savings may be decreased by 3-tier co pay

- Member confusion can be significant

- Alternative strategies may be:

- Coinsurance with minimum/maximum co pay e.g., 25% with brands at \$25 min/\$75 max and generics at \$10 min/\$40 max

- Members share target should be 25% to 40%

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Mail order savings may not be realistic for the following reasons:

- Contract language may result in generics at mail costing more than at retail

- Generic use rates at mail are lower than at retail

- Co pay structure to encourage mail may cost more than any savings gained, e.g. \$15 saved vs \$20 in co pay reduction = \$5/Rx under water

Advertising affects what doctors prescribe and patients want. Need to work with members to insure that they are taking drugs that work just as well, even though they are not the latest and the most advertised

Drugs from Canada will be cheaper but are not legal. Need coordination of care for all prescription medications. The state of Minnesota determined two safe pharmacies in Canada. He feels that cost differences will be ironed out soon. Canadian con artists are going to places like India for drugs that can not be purchased elsewhere and then reselling them.

Can You Afford Retiree Health Care? - Aruna Vobra and Peter M. Rosene

Recommendations were given for changing the way retirees contribute for their health care:

- Adopt multi-tier contributions instead of composite contributions

- Tie retiree contributions to years of service and age at retirement

- Consider defined contribution approaches

 - Percent of expected cost

 - Fixed dollar contributions toward expected cost

- Fixed dollar contributions toward a reimbursement account
- Fixed percentage increase on contributions
- Reduce spouse and children coverage subsidies
- Quantify active employee subsidies to retirees

Using the prefunding strategy:

- Define what the contributions allowance will be for pre-65 and post-65 coverage
- Determine age/service requirements for eligibility for full allowance
- Have regular actuarial valuations using the same method and assumptions as those used for the pension plan
- Employ the same investment strategy with respect to retiree health reserve as on pension fund
- Otherwise, if too conservative, returns may be lower and costs higher

Legal Fiduciary Update - Mark E. Belland, Esquire

There were synopsis of many cases in his handout which are available in the book I am leaving. Listed below are the issues he discussed that I thought would be of most interest:

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Recent court decision out of Massachusetts stating that domestic partners are entitled to benefits and the insurance companies must provide them

Make sure where the provider discounts go is covered in the contract

Must let employees know of proposed improvements which may affect them when they retire

- The summary plan description is what's valid if different from the plan

Participants who didn't choose where to move their funds had their funds moved by the trustees. There was a subsequent loss of funds. The participants could not file a class action as an individual analysis would be needed as to why the participant did not make a decision. The participants could file individual law suits.

Heightened arbitrary and capricious standard of review for decision by a conflicted ERISA fiduciary applies equally to determinations of fact as to determinations of plan interpretation. Do we need to look at all appeals and not just take what the staff has said?

Relying on financial advisors not always a defense. There is a three part test that

must be met. The fiduciary must: (1) investigate the expert's qualifications, (2) provide the expert with complete and accurate information, and (3) be certain that reliance on the expert's advice is reasonably justified under the circumstances.

Must make sure that the right to change benefits is clearly spelled out in the plan and materials to participants

There is no maximum duration for service provider contracts prescribed in ERISA. There should be a 60 day minimum for notice of change in benefits - good or bad

The Case for Chronic Disease Management - Susan E. Manning, R.N. and Victor G. Villagra, M.D.

Look at the return on investment

Of every 10 million people:

300,000 asthma

279,000 diabetes

300,000 CAD/CHF

350,000 low back pain

Cost of chronic illnesses is high

Accounts for more than 75% of the nation's \$1.4 trillion medical care costs

Direct and indirect costs of diabetes are nearly \$132 billion a year

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Arthritis results in medical care cost of more than \$22 billion and an additional loss in productivity of almost \$60 billion per year

In 2001, approximately \$300 billion was spent on all cardiovascular diseases

The quality of care you receive, depends on where you are in the country

There were 44,000 - 98,000 preventable hospital deaths per 10 million patients in 1994

These are the reasons why coordination of care is poor by primary care physicians:

No time

No data

No information systems

No mass communication infrastructure

Limited decision support
No reimbursement

Disease management where the nurses have routine contact with the patient, helps to make sure that coordination does happen
Should contract with a large disease management company rather trying to do it on own

Data needs to be integrated from various sources: hospitals, physician office, pharmacy, laboratory, home health and nursing homes

In hiring a disease management specialist, hire one that can manage the entire patient/ don't separate by disease

In 1998 program was started for 900+ diabetics. In two years results showed:
ROI of greater than 4:1
Adherence to all ADA standards of care were improving
Net savings to the trust was \$2.4 million

The retiree has to opt out of the program, not into it. Seems to work better in having them participate, may not enroll on their own.

The Value of Educating Participants on Their Health Care Plans - Dennis Ackley

Before addressing the financial issue, show empathy and instead tell them how important the benefits are, it's among every employers' top "people" priorities, and the amount of coverage/protection the plan provides over a life time

Simply showing the costs does not work and it sends the wrong message
\$3,768 average total individual coverage cost
\$10,656 average total family coverage cost

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Claims experience
10-15% have no medical expenses
45-55% have under \$700 expenses
10-15% use roughly 70% of all the plan's costs

Unintended consequences
\$708 average worker's cost to enroll in 2004 medical coverage
45-55% under \$700 expenses
This may encourage office visits that appear to cost less than a good haircut

Changing the deductible may not resolve the issue as most people won't buy

high-deductible car insurance and most people don't understand or use spending accounts

With health care spending accounts the message has to be changed from "insurance pays" to "you buy"

Have to teach users to be consumers by:

- Having health care professionals conducting onsite workshops

- Consumer updates in newsletter

 - prices charged for services and Rx

 - success stories

 - average costs for often-used treatments

- Wallet cards with things to ask the doctor

 - for generic prescription

 - if similar, less expensive name brand would work

 - for mail order Rx for long-term medications

 - about side effects

 - what foods/other medicines to take or avoid

 - how to avoid condition in the future

Can not use just one method or style in getting the message out. Not all individuals learn the same way or have access to the same tools.

Do not give out just pieces of the information on a subject this important. Adults want to take action and understand the big picture of "why" and "what"

Don't issue a special communication to give the bad news - use regular communications devices

Be very clear in the language used in the communications explaining the benefits offered - lawyers and judges will review them very carefully

Steps to follow in communicating bad news well:

- Describe the news in clear and straight forward manner

- Explain why the action is being taken

- Explain why the situation is as fair to as many people as possible

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- Deliver the message in a timely manner

- Identify who made the decision and what process was used

- Describe the effort that went into the decision

- Outline some of the alternatives that were considered and why they were not selected

- Show that the organization cares - show what is being done to help those affected

Describe what is required to help avoid the problem in the future

Trends in Defined Contribution Plans - Gary A. Amelio

Should have an investment policy statement covering fund selection criterion and monitoring

For every 10 investment options added, a plan loses 2% participation
35% of plan participants hold only 1 fund
75% of plan participants hold 4 or less funds

When using life style funds, employees gravitate to the middle
If you limit to one, you lose participants

When using a life cycle fund it should be based on draw down data - the federal government used 15 years from retirement date in establishing theirs

He recommends using a life style fund as a default

The DOL is considering restrictions on number of trades to help with day traders

The Mutual Fund Scandal and Its Implication on Plan Trustees - Howard M. Bard, Esq.

What is the liability to trustees:
Doing nothing
Rushing and doing something too quickly before doing a full investigation

Market timing is not illegal - prospectus says it's not allowed/not treating everyone as an equal

Late trading is illegal

Procedural versus substantive prudence
Procedural - process trustees undertook to make the decision - make sure outlined in the minutes - if procedurally prudent the trustees should not be found against
Substantive - was decision a good one - will not say imprudent just because there was a loss

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Look at investment guidelines quarterly or semi annually

Fiduciary considerations for trustees:
Investigate all sources of information

Assess the potential plan impact

Was one of plan's mutual funds owners or specific fund implicated

What has advisor done to assess the impact

Have the fund's ratings or returns been affected by the allegations

Review mutual fund prospectus for guidelines on late trading, market timing, or fair value pricing

Contact the firm and ask specific questions such as their contact with regulators, current or pending litigation or administrative actions against them, and did they conduct an internal review and what was the outcome

Evaluate alternatives such as replacing the fund

Document what was done, communicate it to participants and continue to monitor the situation

