Texas Health Insurance Pool
Board of Directors Meeting
September 24, 2013

The meeting of the Board of Directors of the Texas Health Insurance Pool was held Tuesday, September 24, 2013 at 4140 Governor's Row, Room Southpark A, Austin, Texas. Notice of the meeting was filed electronically with the Secretary of State's office on Monday, September 16, 2013 and published immediately on the *Texas Register* web site (TRD#2013006230).

Board members present were: Gary Cole, Chair; Rick Ott, Vice-Chair; Greg Barbutti, Secretary/Treasurer; Robert Emmick, M.D.; Pati McCandless; Maureen Milligan, Ph.D.; Vicky Paparelli, APRN; and Marinan Williams. Steven Browning, Pool Executive Director and Betty DeLargy, General Counsel to the Pool, were also in attendance.

Meeting Called to Order

With a quorum of the Board present, Chairman Cole called the meeting to order at 8:30 a.m.

I. Approval of Minutes

Dr. Emmick moved to approve the minutes of the May 29, 2013 Board of Directors meeting. The motion was seconded by Mr. Barbutti and unanimously approved.

II. Financial Report

Mr. Browning presented the Pool's unaudited monthly financial reports for the period April through July 2013. The unpaid $133,240 assessment receivable at July 31, 2013 was owed by Valley Baptist Insurance Company, which was taken over by new management. Once the invoice was redirected, the receivable was cleared in early August. Expenses for the reporting period were generally as anticipated, with higher legal fees for May due to the intensity of legislative activity.

After further discussion, **Mr. Ott moved to approve the April, May, June, and July 2013 Financial Statements. The motion was seconded by Mr. Barbutti and unanimously approved.**

Mr. Browning reviewed the mid-year Budget vs. Actual expense report, which reflects a $7,688 overall favorable variance. He anticipates that final expenses at year-end will approximate annual budget projections.

Mr. Browning presented the TDI Statement filing, which is a reformatted version of previously approved Pool financial statements. After further discussion, **Ms. Williams moved to ratify the TDI 2nd Quarter 2013 Statement. The motion was seconded by Dr. Emmick and unanimously approved.**

III. Executive Director's Report

Mr. Browning presented the Board of Directors Summary key metrics report, with results updated through July 2013. Comparing YTD2013 to the same period last year, the average premium per member per month (PMPM) decreased 6% to $669, which reflects the 6% rate decrease implemented August 2012. In contrast, claims expense PMPM increased 9% to $1,145. Application volume thus far this year is up 9% compared to last year. The Pool has averaged 450 new enrollees per month year-to-date. Deductible plan selection remains largely unchanged. The $2,500 plan is now the most popular option, with 32% of enrollees in that plan. Since inception of the Pool program, 65% of revenues have derived from premium payments, with most of the balance covered by industry assessments.

Mr. Browning reviewed the updated operational timeline and noted there is a separate timeline to be discussed later, strictly for transition outreach activities. This timeline contains the usual deadlines, but also includes a proposed November 15 date as the final date to accept applications for the low-income subsidy program. In addition, a board meeting will be needed in May 2014 to approve the Y2013 Annual Report to the Governor and financial auditor's report.

Mr. Browning presented his updated membership outreach plan, which was originally provided to the Board in May. He discussed the list of activities now complete, including the first notice letter and answers to FAQs, mailed to all policyholders on September 18, 2013. Mr. Browning will send a copy of this notice letter by email to all House and Senate legislative offices. He also mentioned that premium billing statements now include a notice that Pool coverage is ending at year-end. In addition, emails are going out this week to all Pool members registered with BCBSTX and Express Scripts. To reinforce this first wave of messaging, the Pool's customer service telephone number conversant has been revised to remind callers that Pool coverage is ending, and to ask the service representative any questions, once connected. The Pool's website was completely revamped in late August, and now provides links to numerous marketplace resources, an enrollment count-down clock, and a sign-up tool for Pool email updates. All annual and semi-annual premium mode enrollees have now been converted to monthly payment, and reference to upcoming coverage termination was included in that separate letter. Discussion ensued about the inquiries generated by the member letters, and the likely impact of any defunding efforts on the Affordable Care Act.

Mr. Browning discussed the remaining outreach activities scheduled for the last quarter. The case and disease management nurses now working with the Pool's ±900 members with the most complex cases will reinforce the Pool's messaging about coverage termination and the importance of finding a replacement plan that includes their treatment teams in the provider network. The ±40 Pool enrollees now on a transplant list will receive a special letter that reinforces the need to find a plan that includes the transplant team and facility. Discussion ensued about the networks that will be available next year and the fact that many of the networks offered by plans sold on the exchange will be narrower, though broader network options should continue to be available off the exchange. The Pool's "information campaign" begins this week at the Pool's BCBSTX call center, and the customer service representatives will begin asking all callers whether they received the first notice letter and if they have any questions. The representatives will also reinforce the December 15th deadline to enroll for January 1st coverage. The redesigned Pool website was presented, and discussion ensued about the new countdown clock and email signup tool. Mr. Barbutti asked Mr. Browning to use more precise wording about coverage termination in upcoming member communications, with specific reference to 12:01 a.m., January 1, 2014.

Mr. Browning presented the update for the Pool's low-income premium subsidy program. As of the end of August, the excess penalty fund balance held by the Pool stood at $37 million. Consequently, $5 million was transferred earlier this month to the Texas Health Services Authority, as provided by SB 1367. After that distribution, the fund balance increased to $36 million, with ±$5 million in penalties collected in September alone. After Pool coverage is cancelled, SB 1367 requires the Pool to continue to collect penalty payments from insurers and HMOs, holding the funds on TDI's behalf, until the commissioner takes further action. For 2013, the Pool bill allows the commissioner to redirect penalty funds to the Healthy Texas insurance program, but TDI has indicated that program will not require any penalty funds this year. Starting next year the commissioner may redirect the penalty funds for any purpose that will help uninsured Texans access coverage. Ms. Milligan suggested that TDI evaluate the possibility of using these funds in such a way that would pull down matching federal dollars, perhaps under a waiver program.

IV. Board Issues and Administrative Matters

Mr. Browning discussed the current version of the Pool's draft Dissolution Plan, included in the Board materials. Mr. Browning noted that he added a timeline of important dates to the draft Plan, as was suggested by Ms. McCandless during the Board comment period after the last meeting. Mr. Browning noted that he and Ms. DeLargy recently met twice with TDI staff to discuss the Plan. TDI suggested in the last couple of days that the timeline of duties be shifted back so that the Pool is responsible for additional duties in Y2015, including the 2014 Annual Report to the Governor, due on June 1, 2015, and the annual assessment true up.

Mr. Browning distributed an updated redlined draft Plan, reflecting these date shift changes. Extensive discussion ensued about the timing of the Pool's dissolution and the mechanics involved with that process. Mr. Barbutti requested changes to the first three items in the draft, striking the unnecessary references to SB 1367, clarifying that Pool coverage will end as 12:01 a.m. on January 1, 2014, and deleting the words "Prior to dissolution." Consensus was reached to also add a new paragraph to the Plan to state that, upon completion of all duties and obligations set out in the Dissolution Plan, the Board will vote to formally apply to the Commissioner for final dissolution of the Pool and Board. There was also consensus for Mr. Browning to send a separate, detailed transmittal letter to TDI, immediately prior to formal dissolution, that documents the successful completion of each item listed within the Plan and evidences each file and item of property being transferred to TDI upon dissolution.

After further discussion, **Dr. Emmick moved to approve: 1) all redline changes marked in the updated draft Plan that was handed out to the Board; 2) the additional Plan revisions requested by Mr. Barbutti; and 3) insertion of the new paragraph about formal application for Pool dissolution upon completion of all Plan duties. Mr. Barbutti seconded the motion and it was unanimously passed.**

Ms. Sue Hart presented Milliman's premium rate analysis for Y2014, to be applied if the Pool's coverage is extended beyond January 1, 2014. Mr. Browning distributed the confidential analysis to the Board, Pool counsel, and TDI staff. To maintain Pool rates at 200% of the standard market rate next year the Pool's rates would increase by an overall average 32.8%. Due to requirements of the Affordable Care Act including, among other things, modified community rating, essential

health benefits, and no consideration of individual health status, the carriers' premium rating structures are changing significantly next year. In addition, geographic rating areas are expanding to 26 in Texas, compared to the 6 areas the Pool has used in the past. These Texas rating areas are composed of 25 metropolitan areas, with one area for all rural areas combined. The relative cost of premiums across these new 26 rating areas is not linear, as is the case with the Pool's current six rating areas, but carriers can still develop their own cost loads to apply within each rating area. Carriers must use the same premium rates for a product that is offered both on and off the exchange. As in the past, Milliman adjusted rates to reflect the relative differences between the Pool's more limited benefits package and the expanded, standardized benefits to be offered in the reformed marketplace next year. Milliman analyzed the rates filed by the same five carriers that have been evaluated in the past, but on a straight average instead of a weighted average by in force counts, as these will be new product offerings. The rate loads to be applied by the carriers were used to adjust the Pool's smoker rates as well. Age rating factors will be standardized in the market next year, on a unisex basis, a significant change from past practice. Single year age bands will be used, with a 1 to 3 range limit in the rates from ages 21 to 64. Milliman applied the market rates for the particular metal level that was most similar to each Pool deductible plan.

There is significant variation by deductible plan in the levels of Milliman's proposed increases in Pool rates. For example, the proposed average rate increase for the Pool's $1,000 plan is only 1.1%, while the average increase for the $7,500 plan is 45.3%. This wide deviation is due to the market reforms that no longer allow carriers to select for and against anticipated risk by deductible plan. For example, in the past, carriers surcharged premium rates in lower deductible plans to reflect the anticipated adverse selection by sicker individuals of those lower deductible plans.

Mr. Browning observed that the assignment for Milliman was to use cost-effective actuarial methods to develop a reasonable set of premium rates for the Pool's plans in the unexpected event that termination of Pool coverage is delayed beyond January 1, 2014. If the delay is for a significant length of time, Milliman could further refine these proposed rates. Discussion ensued about the options available to the Commissioner for postponing Pool coverage cancellation and the 30-day notice required after Commissioner approval of new rates. Depending on the timing of approval, in a delay scenario, Pool rates might not be implemented until February 1, 2014. At this point there is no plan to actually program and load these rates into the billing system, but rather to have the rates available should there be a delay. Depending on the duration of a delay, it may be appropriate to implement the increase to serve as additional incentive for enrollees to move to the new marketplace.

After further discussion, **Dr. Emmick moved to approve the premium rate increases recommended by Milliman to maintain pool premiums at 200% of the standard risk rate, in accordance with the rate tables presented as Exhibit 3 in the analysis, which are estimated to produce the following average rate increases by deductible plan: 1) 1.1% Plan I; 2) 30.8% Plan II; 3) 36.4% Plan III; 4) 45.3% Plan IV; and 5) 37% Plan V. The new rates are subject to Commissioner approval, and will be implemented only if the Commissioner delays termination of Pool coverage beyond 12:01 am, January 1, 2014. The motion was seconded by Ms. Milligan and unanimously approved.** The Board commended Ms. Hart for her work on this challenging rate analysis project.

Ms. Hart presented her projections of assessment amounts needed, under different enrollment and claim trend assumptions, to fund the operations of the Pool through December 2014. All estimates

assume the Pool drops to zero enrollment after December 2013. A $12.4 million assessment is required under a mid-enrollment, mid-claim trend scenario that funds the Pool until year-end 2014, without ever dropping below a zero cash balance at any point during the year. When the claim trend assumption is revised to a high level, the needed assessment in that scenario increases to $20.4 million. This approach is more conservative and acknowledges the likelihood that enrollees will seek more medical care and prescription fills prior to losing their Pool coverage. Ms. Hart recommends this higher level of assessment to produce a more conservative result, which may eliminate the need for an additional assessment or accessing a line of credit next year. Extensive discussion ensued about the different assumptions under consideration.

After further discussion, **Ms. McCandless moved to approve the Y2013 Interim Assessment in the amount of $20.4 million. The assessment will be considered past due if not fully paid within 30 days of the final invoice date. Dr. Emmick seconded the motion and it was unanimously approved.**

Mr. Browning reported that he continues to work with three American National-related insurance companies, which are revising the stop loss data they underreported to the Pool over several years. This erroneous reporting was discovered through TDI examinations. He is now awaiting a final piece of information needed to calculate the amounts owed to the Pool as a special assessment. He also reported that very recently UnitedHealthcare sent him notice that the company discovered, through internal audits, that it had underreported its stop loss lives counts. The combined additional assessments from American National and UnitedHealthcare will exceed $2 million. Consensus was reached not to reduce the Pool's $20.4 million Interim assessment by this anticipated special assessment.

At 10:05 a.m., Mr. Cole announced a short break. At 10: 20 Mr. Cole brought the meeting back to order.

Mr. Browning discussed the final FY13 federal risk pool grant of $5,433,902, awarded earlier this month to the Pool. He presented his memorandum about the use of projected excess grant funds at year-end, reviewing the Board's decision at the May meeting to allocate 100% of the FY13 federal bonus grant and 50% of the operating losses grant to premium trend reduction. At that meeting, it was estimated that this split would result in a ±$1 million premium credit for enrollees in December. Since that meeting, however, Milliman has refined its analysis with updated information, and now estimates that the year-end premium credit will be much smaller, at ±$170,000. Given this significant premium subsidy reduction, Mr. Browning said he wanted to give the Board an opportunity to reconsider the grant allocations, and the possible allocation of more funds to premium reduction. Discussion ensued about the mechanics of the year-end premium credit and the pros and cons of revising the allocation amounts. The Board reached consensus to leave the previous allocation in place, as it closely reflects the relative share of enrollee premiums and assessment funding, over time.

Mr. Browning asked the Board to consider administrative actions needed in connection with the low-income subsidy program, the mail order benefit, Directors and Officers liability insurance, and the Pool's line of credit. With the scheduled cessation of new enrollment at year-end and the time required to process premium subsidy applications and set up subsidies in the billing system, Mr. Browning recommended that the Pool accept applications for subsidies until November 15, 2013. He and Ms. DeLargy confirmed that the Board has the discretion to make this decision.

Mr. Browning noted that the Pool's Directors and Officers liability policy expires March 28, 2014, which may precede the next board meeting; he asked whether the Board wishes to renew that policy. Consensus was reached to renew that D&O policy for another year. In addition, the Board agreed that Mr. Browning should be reauthorized to access up to a $5 million line of credit, should unexpected supplemental funding be needed between future assessments.

After further discussion, **Mr. Barbutti made a motion to: 1) accept applications for low-income premium subsidies no later than November 15, 2013; 2) renew the Pool's Directors and Officers liability insurance policy for one year; and 3) authorize the Executive Director to obtain up to a $5 million line of credit, if required to maintain a positive cash balance. The motion was seconded by Dr. Emmick and unanimously approved.**

Mr. Browning raised an issue about the Pool's drug program associated with the anticipated termination of Pool coverage. Enrollees currently receive up to a 90-day supply of non-specialty medications through the Pool's mail order program. Unless the mail order benefit is modified, those enrollees who fill their mail scripts late in the year will be able to obtain a full 90-day supply of drug without having to pay corresponding premium for the full 90-day period. He suggested converting the mail benefit to 30-days, effective November 1. The existing copayment advantage at mail would be preserved, but copays would be reduced to 1/3 of their current levels. He presented a draft policy amendment that would be mailed to the Pool members at least 30 days prior to the effective date. After extensive discussion about the pros and cons of such a benefit change, **Ms. Williams made a motion not to revise the Pool's mail order benefit. Her motion was seconded by Ms. Milligan and the motion passed, with Mr. Ott opposed.**

Professional services contract proposals for 2014 were discussed and approved, as follows:

- **Ms. Milligan moved to approve the 2014 Milliman actuarial services proposal. The motion was seconded by Dr. Emmick and unanimously approved.**
- **Mr. Barbutti moved to approve the Y2014 HealthLinX pharmacy consulting services proposal for an hourly fee arrangement. The motion was seconded by Mr. Ott and unanimously approved.**
- **Ms. Williams moved to approve the PBM Helin Donovan financial audit proposal for the year ending December 31, 2013. The motion was seconded by Ms. McCandless and unanimously approved.**

V. Third Party Administrator & Consultant Reports

A. Report from Blue Cross Blue Shield of Texas (BCBSTX)

Ms. Sandra Sadler presented account management highlights, comparing YTD July 2013 data to YTD July 2012 results. Network discounts are now averaging 59.5%, up from 59.1% last year. The patient share of total medical expenses dropped 3.9%, as medical costs have increased and additional enrollees selected lower deductible plans. The number of high-cost claimants, with medical claims above $50,000, increased from 512 to 611. Ms. Sadler discussed the cost and medical management savings report, and she described the hospital recovery programs in place for

the Pool. The BlueChoice PPO provider count increased 6.1% over the prior period and the ParPlan count increased 9.7%.

Mr. Michael Garcia presented the YTD 2013 operations update. The number of applications received increased 13% over last year. Nearly 40% of all applications received this year were agent-assisted and Mr. Garcia confirmed that the agent-assisted applications are generally more complete. The Membership Department continues to call applicants who will be subject to the Pool's preexisting condition exclusion period, to be sure they understand that provision. Mr. Garcia discussed the call center information campaign that was launched yesterday, following the mailing last week to all members of the Pool's termination notice letter and Marketplace FAQs. Pool members who make a call to Customer Service are being asked if they have questions about the information provided in the notice.

Mr. Garcia reported that the Pool's full service unit in Abilene is working diligently to clear application and claim inventories so that account staff is prepared for the additional work expected during the upcoming transition period. There should be a large spike in work at year-end to process member cancellations and issue premium refunds. Mr. Garcia reconfirmed that staffing levels for the Pool account will remain largely unchanged throughout the remainder of the year, although it is not unusual in this circumstance for employees to consider promotion opportunities. At present, ±50 employees in Abilene work on the Pool account, in the areas of billing, customer service, and claims.

Mr. Garcia noted that one enrollee was added to the Pool's high claimant tracking report since the May meeting, and two others incurred large claims in that same period. Discussion ensued about the adequacy of the Pool's $4,000,000 lifetime benefit cap. Mr. Garcia reported that the rate of average monthly benefit usage was calculated for this group of claimants; the cap should be more than adequate through January 1, 2014, at current utilization rates. A total of three enrollees moved from the active to the cancelled high claimant tracking report.

B. Report from HealthLinX

Mr. Kellogg reported that the Pool's Y2012 formulary rebate guarantees were achieved by Express Scripts, and are significantly higher than in the past. The audits of the Y2012 net effective discounts and generic pricing guarantees remain in a pending status. Extensive discussion ensued about the delay this year in completing these two contract performance audits, due primarily to the merger of the Medco and ESI reporting systems. Mr. Craig Kessler, Express Scripts, offered his solid commitment to provide, within 3 weeks, the information that Mr. Kellogg needs to conclude these audit projects.

Mr. Kellogg discussed his slides that track the Pool's cost of drugs over time and, as expected, the Pool's retail brand discounts improved after January 2013, when Walgreens was removed from the Pool's pharmacy network. He confirmed that the YTD savings from the Walgreens removal appears to be on track to reduce the Pool's drug costs by $1.4 million, which was projected last year at the time of the Board decision and is guaranteed in the contract, based on this network adjustment. Next year, Mr. Kellogg will verify that the Pool in fact attained the anticipated level of savings. If the savings target is not met, ESI will credit the difference to the Pool.

Mr. Kellogg discussed pharmacy network trends, and the general narrowing of networks within the industry. He noted that this is likely his last Pool Board meeting, and he thanked the Board for allowing him to provide consulting services to the Pool for many years.

C. Report from MedWatch

Ms. Sally-Ann Polson, President of MedWatch, presented her company's update for the Pool's disease management (DM) program. She thanked the Board on behalf of her nurses for the opportunity to serve the Pool. Her nurses work with ±900 of the Pool's more complex patients and she confirmed that the nurses will attempt to assist with the transition to new coverage. She asked Mr. Browning to continue to send the nurses copies of all member communications.

Currently 494 Pool members, who are actively enrolled in the DM program, are classified in the highest risk category, with more than five co-morbidities, and whose conditions were out-of-control at time of enrollment in the program. The other participants fall into the high-moderate to low-risk categories.

Since inception of MedWatch services for the Pool in early 2012, the nurses have opened cases on 1,993 members, with whom there have been a total of 72,665 contacts. Currently, 783 Pool members are actively enrolled in the program; new enrollment was discontinued last month. The program has focused on the 5% of the Pool's costliest enrollees. A total of 1,236 cases have been closed to-date, with the largest number, 587, closing because the members' coverage with the Pool terminated.

Ms. Polson briefly described the claim cost savings generated by weight loss, hemoglobin A1C reductions, and blood pressure management. She compared the Pool's claims data for the 6 month period prior to commencement of MedWatch services to the subsequent 12 month period. While the inpatient claims for non-participants in the program increased during that first year, the inpatient claims for participants decreased by $8 million. Analysis of all medical claims confirms the same magnitude of savings.

Ms. Polson presented several success stories about Pool members, counseled by MedWatch nurses. One member was seeing multiple doctors and taking numerous pain medications, with frequent admissions to the emergency room. The member initially resisted the DM program, as many do, but complied when told her benefits could be withheld. Her DM nurse worked with her doctors and medications, and the patient has not been in the hospital since June. Ms. Polson said it is common for the nurses to encounter initial resistance from members, but the nurses are very skilled at persuading members to participate. She added that it will be hard for some of the participants and their caregivers to lose the support of their MedWatch nurse coaches. Ms. Polson described another case of a member with hepatitis C, on the transplant list. His DM nurse got this blood pressure under control, changed his diet, and helped him with smoking cessation. His hepatitis is no longer detectable and he has been taken off the transplant list.

D. Report from Express-Scripts (ESI)

Mr. Jeff Johnson presented the Pool's pharmacy program financial results for the first half of 2013, compared to the same period last year. There were several favorable trends in the Pool's account performance during this period, including an increase in drug discounts, from 33.9% to 35.5%, due

largely to the Walgreens exclusion. In addition, there was an increase in mail order volume and an improved generic fill rate, now at 73.3%. As generic utilization increased, brand name scripts dropped from 122,000 last period to 97,000 this period.

The Pool's PMPM cost trend was 5.1%, which is similar to the trends ESI is seeing across its book of business. Pool trend was driven largely by specialty drug cost inflation. The Pool's top three specialty drugs, Humira, Enbrel, and Copaxone, experienced a 15% inflation rate. Mr. Johnson discussed upcoming patent expirations and member cost share trends.

Mr. Ajay Dalal discussed the Top 25 Drugs by Plan Cost report. These 25 costliest drugs represented 37% of Pool drug costs. The Pool's highest cost drugs continue to be Enbrel and Humira, both rheumatoid arthritis medications, followed by Copaxone, for treatment of multiple sclerosis (MS). Generic Provigil had a significant jump in cost and utilization during the period, as more MS patients are using the drug to improve the management of symptoms.

ESI's clinical management programs saved the Pool $16.5 million during this reporting period, up from $12.2 million prior period. Although ESI has not added any new coverage rules, more patients are hitting system edits as drugs are being prescribed for more conditions. ESI denied ±15% of the coverage requests, resulting in script modifications that lowered Pool costs.

VI. Public Comment

Mr. Cole requested public comment, but none was offered.

VII. Executive Session

At 12:20 p.m. Mr. Cole announced that the Board would go into Executive Session in accordance with the Texas Open Meetings Act to discuss personnel and litigation matters. He asked Board members, Pool staff, and counsel to remain, and invited all others to rejoin the meeting upon conclusion of the Executive Session.

VIII. Approval of Executive Session Actions

At 12:55 p.m. Mr. Cole reopened the meeting to the public. **Mr. Barbutti moved to approve an 8% increase in the Executive Director's salary effective October 1, 2013. The motion was seconded by Ms. Williams and unanimously approved.**

IX. Adjournment

Discussion ensued about future meetings. Mr. Cole expressed his opinion that the Board should continue to have as many meetings as necessary to carry out the Board's duties until dissolution, and there was general agreement from the Board members. He added that the meetings would likely be of shorter duration, and could start later in the day, if necessary. There being no further business, **Ms. McCandless moved to adjourn the meeting. Ms. Milligan seconded the motion and it was unanimously approved.** Mr. Cole adjourned the meeting at 1:00 p.m.