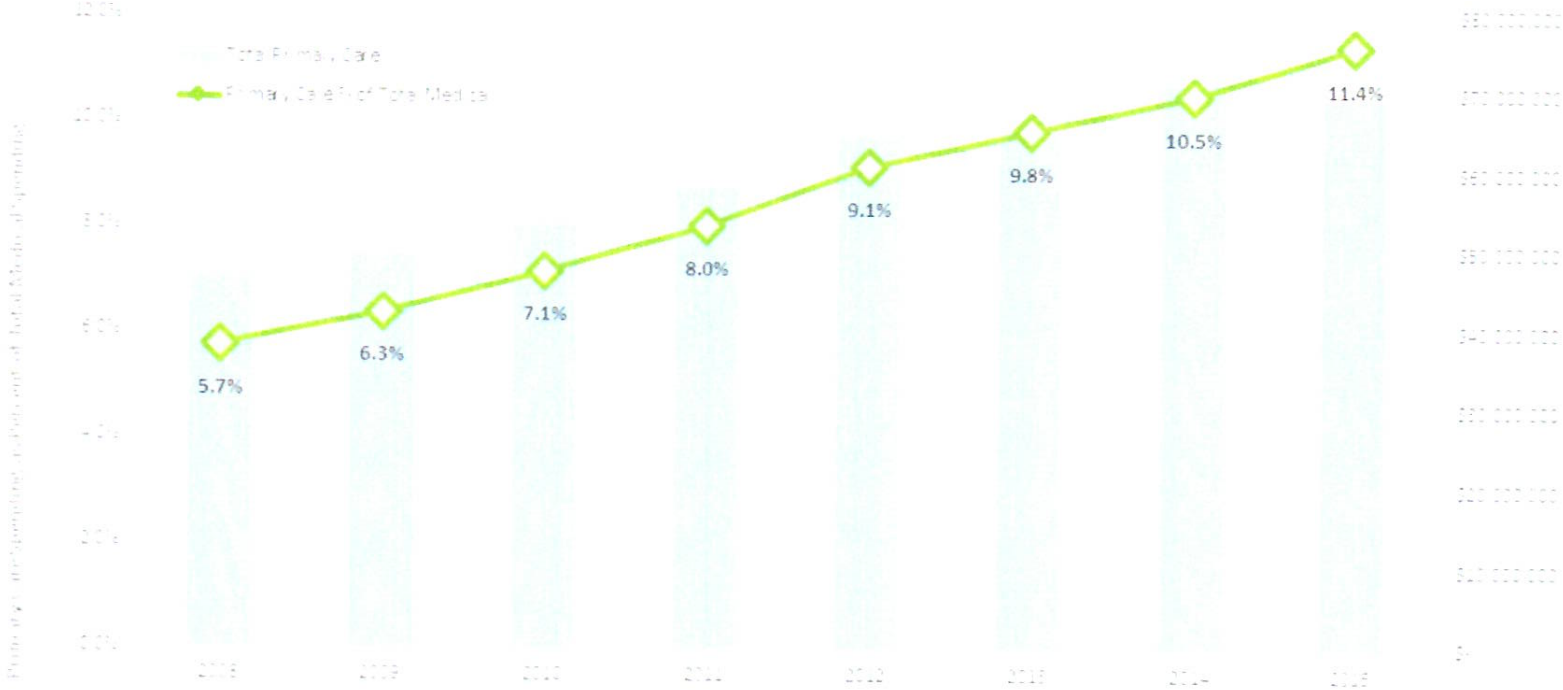
OFFICE OF THE
HEALTH INSURANCE COMMISSIONER
STATE OF RHODE ISLAND

Primary Care Spending in Rhode Island

Commercial Health Insurer Compliance

January 2014

Figure 1: Primary Care Spending, Total and as Percent of Total Medical Spending
2008 - 2015



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ABOUT THE REPORT

Primary Care Spending & OHIC's Affordability Standards

This report details the actual and projected primary care spending of Rhode Island's three largest commercial health insurers: Blue Cross Blue Shield of Rhode Island (BCBSRI), United Healthcare (United), and Tufts Health Plan (Tufts). The report compares each insurer's performance against targets established by the Office of the Health Commissioner's (OHIC) Affordability Standards, analyzing both the relative portion of primary care spending and the ways insurers invest their primary care dollars.

The first Affordability Standard, which establishes targets for total primary care spending and types of investments, is a core element of OHIC's strategy to facilitate delivery reform in Rhode Island. It requires all insurers to increase primary care's share of total medical payments by one percentage point per year from 2010 to 2014, incrementally raising primary care's share of total commercial medical payments to a level comparable to that seen in other states and high performing health care systems. This spending cannot result in higher premiums and cannot increase overall medical expenses; rather, it must reflect a shift in issuers' primary care payment strategies away from the dominant FFS system.

The standard compliments OHIC's commitment to payment reform by ensuring the foundation of our health care system remains a funding focus. It encourages efficient, affordable health care through organizational innovations in care delivery and payment reform.

The Affordability Standards

Begun in 2010, the Affordability Standards ensure health plans invest their premium dollars in structural improvements to the healthcare system. OHIC directs commercial health insurers to:

1. Expand and improve the primary care infrastructure:
2. Spread the adoption of patient-centered medical homes
3. Support CurrentCare, the state's health information exchange
4. Work toward comprehensive payment reform across the health care system

About OHIC

The Office of the Health Insurance Commissioner (OHIC) was established through legislation in 2004 to broaden the accountability of health insurers operating in Rhode Island. The Office is dedicated to:

1. Protecting consumers
2. Encouraging fair treatment of medical service providers
3. Ensuring solvency of health insurers
4. Improving the health care system's quality, accessibility, and affordability

The Office sets and enforces standards for health insurers in each of these four areas. It is the only state agency in the country that specifically oversees health insurance.

Key Findings In This Report

1. **Insurers are hitting their targets |** In 2012, both BCBSRI and UHC met or exceeded their primary spending targets. Though Tufts does not have an established target, they spent nearly the same percentage of their medical spending on primary care as United. United and BCBSRI predict they will again hit their targets in 2013.

2. **Primary care spending is rising |** Spending on primary care grew 37% from 2008 to 2012, while *total* medical spending fell 14%. In 2012, the market spent $7m more on primary care than it did in 2011.

3. **Non fee-for-service (non-FFS) investments continue to increase |** Insurers continue to invest in non-FFS methods, particularly Patient Centered Medical Homes, to drive their primary care spending. Insurers predict they will meet OHIC's requirements to allocate at least 35% of their total primary care spending to non-FFS investments in 2013.

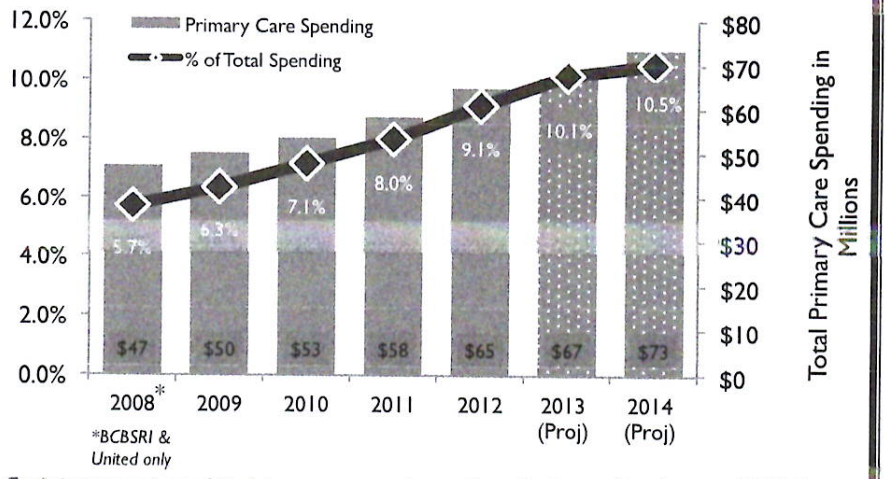
4. **The future of primary care in Rhode Island looks promising |** Investments in both fee schedules and non-FFS methods bolster the state's primary care delivery system. OHIC will build on insurers' commitment to innovative supports for primary care by updating its Affordability Standards in 2014.

MARKET TRENDS:
Primary Care's Share of Total Medical Spend Grows Steadily

For all three commercial insures, spending on primary care is rising. On the right, Figure 1 shows annual primary care spending in both dollars and as a percent of total medical payments. The 2009-2012 data reflect actual spending, while 2013 and 2014 show projected spending based on data from the first six months of 2013.

In 2012, insurers spent 9.1 cents of every fully insured commercial medical dollar on primary care services; this was an increase of nearly 3.5 cents from 2008. The share of spending on primary care is projected to rise to 10.1% ($67m) in 2013 and 10.5% ($73m) in 2014. If these projections are realized, the share of primary care spending will have grown by 84% between 2008 and 2014.

Figure 1: Primary Care Spending, Total and as Percent of Total Spending 2009-2012 Actual | 2013-2014 Projections

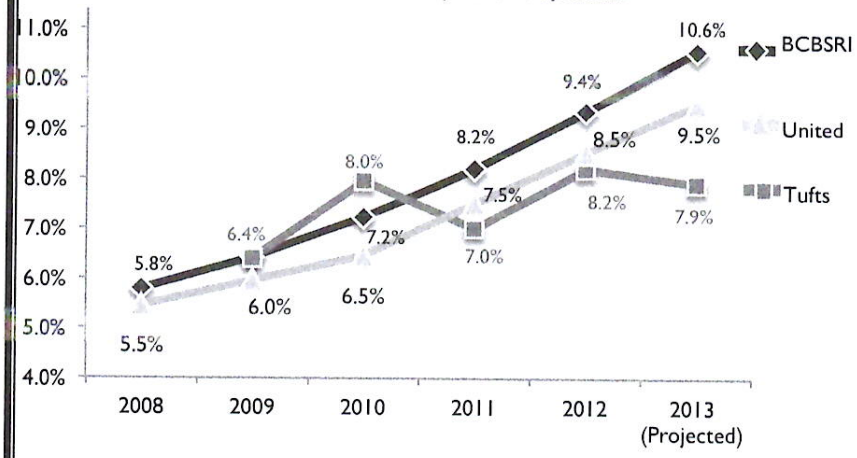


Each insurer reported its primary care and overall medical spending data to OHIC. These figures were combined in the market trends listed throughout this report.

How Primary Care Differs by Company

Figure 2 below shows how each insurer contributes to the market results above. Each company has steadily increased the portion of their premium dollars they dedicate to primary care since 2008. Tufts' results are more uneven than BCBSRI or UHC in part because of their small, but growing, membership in Rhode Island.

Figure 2: Primary Care Spending as Percent of Total Medical Spending by Company 2008-2012 Actual | 2013 Projections



The first Affordability Standard requires companies to increase primary care's share of total medical spending by one percentage point, on average, per year from 2010 to 2014. Figure 2 demonstrates that both commercial insurers with targets exceeded their goals through 2012. From 2011 to 2012, BCBSRI's spending on primary care grew 1.2 percentage points, United's by 1.0 and Tufts, a recent market entrant, by 1.4, in line with the other insurers. Next year, BCBSRI and United predict they will again meet their cumulative primary care spending target, dedicating 10.6% and 9.5% respectively.

Tufts' historically small market share in Rhode Island contributes to a relatively volatile claims experience that has thus far been unsuitable for the same targets that BCBSRI and UHC are required to meet. Tufts is also the only insurer to project a decline in the share of primary care spending for 2013. Due to rising non-primary care spending, Tufts expects the share to fall from 8.2% in 2012 to 7.7% in 2014.

ACTUAL, TARGET, and PROJECTED SPENDING:
Insurers are hitting their primary care spending targets

Insurers report their primary care spending and projections to OHIC quarterly, which creates a sustainable and transparent evaluation process towards the targets. Each company employs its own strategy to reach its target over the course of a year, monitoring its evolving claims, utilization, enrollment and other factors that affect the "denominator" of the primary care spending equation.

Figure 3a compares each insurer's actual share of primary care spending in 2012 against its target and its previously reported spending projection for that year, as of October 2012. **Figure 3b** shows insurers' projected share of primary care spending against its projected target for 2013. Note that Tufts does not have a specified spending target because of its recent entry into the Rhode Island market and low enrollment.

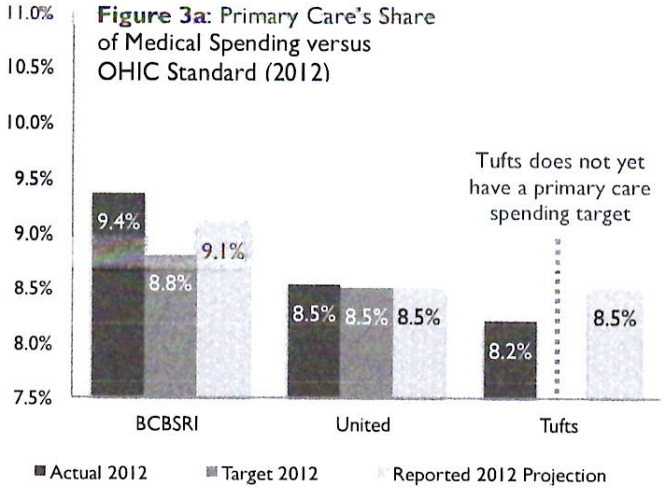


Figure 3a: Primary Care's Share of Medical Spending versus OHIC Standard (2012)

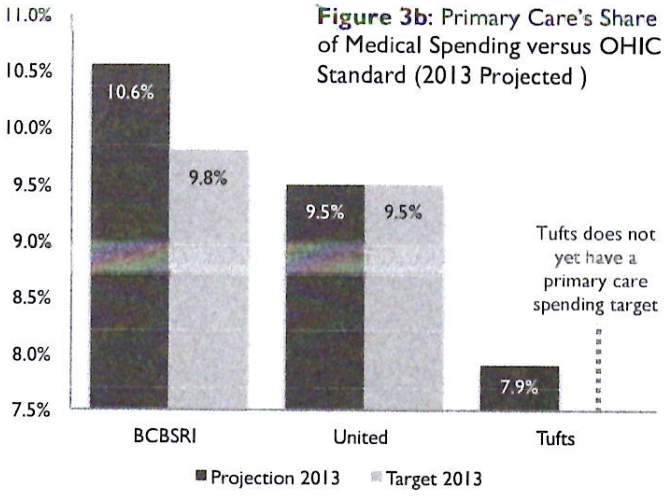


Figure 3b: Primary Care's Share of Medical Spending versus OHIC Standard (2013 Projected)

Highlights of Insurer Performance in 2012 and 2013 Projections

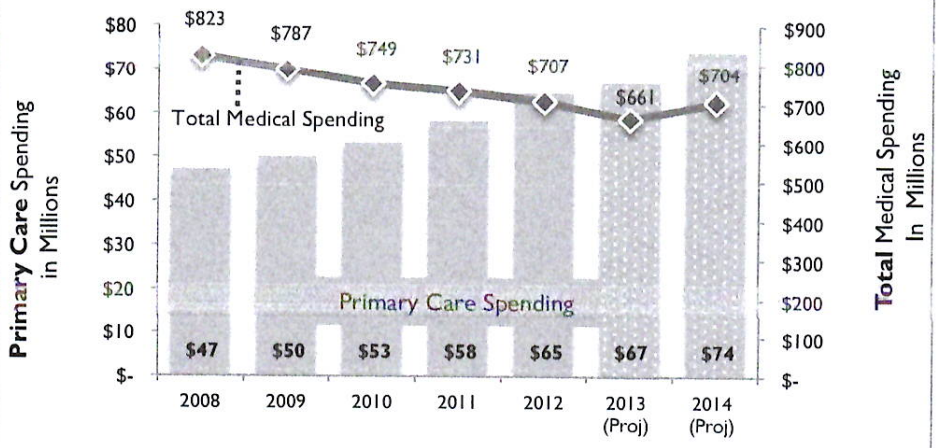
BCBSRI | BCBSRI's actual spending (2012) and projected spending (2013) on primary care met or exceeded their Affordability Standard targets. In 2012, BCBSRI committed 9.4% of its total medical spending to primary care, surpassing both the target and its previous projections. Next year, the company predicts it will again exceed its target, due in part to lower than expected total medical claims. About 40% of BCBSRI's 2012 primary care spend went to non-FFS investments, exceeding its previous projection of 37.6%. Patient centered medical homes, particularly BCBSRI's proprietary program, led these investments, which are further analyzed on page six.

UNITED | United met its target primary care share of 8.5% in 2012 and projects to meet its 2013 target of 9.5%. Similar to BCBSRI, United projects lower total medical spending in 2013 and 2014 than in previous years, though this change did not affect its projections relative to actuals for either 2012 or 2013. UHC has also shown significant growth in non-FFS spending (detailed on page 6) and projects nearly half of total primary care spend will support such investments by 2014.

TUFTS | Tufts' actual 2012 spending (8.2%) was slightly lower than the company previously projected for 2012 (8.5%). Tufts representatives note the company's recent market entrance and relatively low but growing enrollment make precise spending projections difficult. The company projects the share primary care spending to fall in 2013 due to rising spending in other areas, particularly inpatient hospital care. Non-FFS investments composed 12% of Tufts' primary care spending in 2012, lower than BCBSRI or United, but more than double their 2009 percentage. However, projections show primary care spending as a percent of total medical spending will drop to 7.9% in 2013 due in part to a discontinued EMR grant program.

Primary Care Spending is Rising While Total Medical Spending is Falling

Figure 4: Total Medical Spending and Total Primary Care Spending
2008-2012 Actual | 2013 & 2014 Projections



The Affordability Standards prevent divestment in primary care when other areas of medical spending unexpectedly rise or fall. Evidence of this principal is seen in Figure 4: insurers have spent more money on primary care even as their spending on all other services has fallen. Annual primary care spending rose by $18m from 2008 to 2012 while annual total medical spending dropped $115m during the same time. Projections indicate the commercial insurers will spend an additional $8m dollars annually on primary care during by 2014 while total medical spend in 2012 and 2014 will be about even.

The decline in overall medical spending is the result of myriad factors including improved care coordination and focus on primary care; the slow economic recovery in Rhode Island relative to the rest of the country; fewer fully-insured commercial enrollees due to the market-wide growth in self-insured groups; and a falling population.

Tables 1a and 1b below show the changes in total primary care spending and total medical spending by insurer from 2008 to 2012. As the annual growth rate from 2008 to 2012 shows, primary care spending is growing (8.2% annually, on average) while total medical spending is falling (-3.7% annually).

Table 1a: Primary Care Spending by Insurer, 2008-2012, 2013 (Projected)

	2008 (Actual)	2012 (Actual)	2013 (Projected)	% Change 2008-2012	% Change 2008-2013 (Proj)
BCBSRI	$38,094,327	$49,359,059	$51,049,096	29.6%	34.0%
United	$9,009,969	$11,382,057	$11,786,549	26.3%	28.8%
Tufts (2009)	$2,355,556	$3,853,443	$4,211,018	63.8%	78.8%
TOTAL	**$47,104,296** *(BCBSRI & United)*	**$64,594,559**	**$67,046,663**	**37.2%** *Annual Growth Rate: 8.2%*	**42.3%** *Annual Growth Rate: 7.3%*

Table 1b: Total Medical Spending by Insurer, 2008-2012, 2013 (Projected)

	2008 (Actual)	2012 (Actual)	2013 (Projected)	% Change 2008-2012	% Change 2008-2013 (Proj)
BCBSRI	$657,952,445	$527,432,444	$483,872,012	-19.8%	-26.51%
United	$165,281,490	$133,505,554	$124,085,574	-19.2%	-24.9%
Tufts (2009)	$36,797,475	$46,994,384	$53,258,046	25.0%	44.7%
TOTAL	**$823,233,936** *(BCBSRI & United)*	**$707,932,382**	**$661,215,632**	**-14.1%** *Annual Growth Rate: -3.7%*	**-19.7%** *Annual Growth Rate: -4.3%*

TYPES OF PRIMARY CARE INVESTMENT:
Prioritizing Non-FFS Types of Investment

Figure 5: Percent of Primary Care Payments Dedicated to Non-Fee for Service Investments
2008-2012 Actual | 2013-2014 Projected

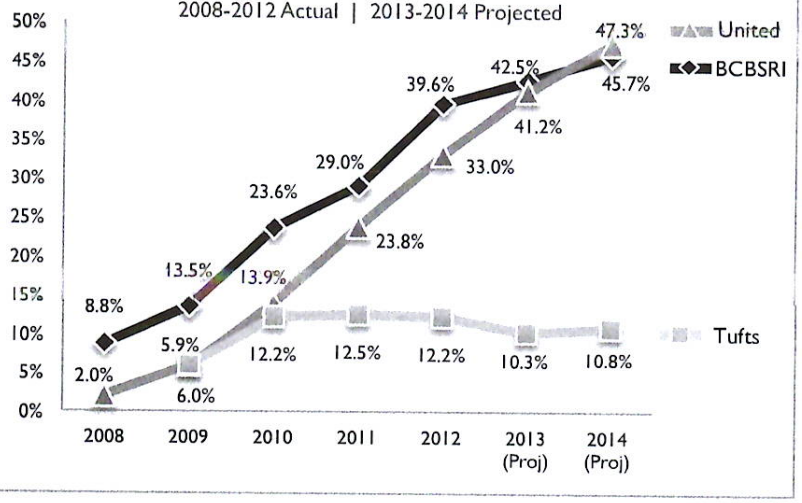


Figure 5 at the left illustrates the proportion of primary care spending that insurers dedicated to non-FFS investments. OHIC's Affordability Standards requires insurers allocate at least 35% of their total spending on primary care to non-FFS payments in 2013 and 40% in 2014.

Since 2008, insurers have increasingly invested in structural, non fee-for-service (non-FFS) projects. In a fee for service (FFS) system, insurers pay for each service a provider performs or orders separately, which rewards the quantity, and not necessarily the quality, of care. A value-based care system, however, invests in structural improvements so doctors are encouraged and able to keep people well and avoid unnecessary treatment.

Of the $65m spent on primary care in 2012, nearly $22m (34%) funded non-FFS projects. BCBSRI's proportion of primary care spending dedicated to non-FFS investments is 3.5 times higher than it was in 2008. United's 2012 investments in non-FFS is 15 times greater than it was in 2008. BCBSRI and UHC project non-FFS investments will account for 45.7% and 47.3%, respectively, of primary care spending in 2014. Tufts, however, is the only insurer to report a decrease in non-FFS investments, falling 0.3% from 2011 to 2012 and 1.8% in 2013.

Understanding Shifts in non-FFS Investment Types

Non-FFS investments include Health Information Technology (HIT), Patient Centered Medical Homes (PCMHs), CurrentCare (the state's health information exchange), incentives to providers, and other methods like investments in loan forgiveness for training physicians, flu clinics, or rewards for provider reporting.

Figures 6a and 6b show the types of non-FFS investments made in 2012 and 2013 (projected). While all insurers invest in the state's all payer medical home program, as required by the second Affordability Standard, investments in the companies' own PCMHs account for nearly half of all 2012 non-FFS investments. All carriers expect to double their payments to CSI in 2013 to account for the program's expansion.

Each insurer also contributes in some form to CurrentCare in support of the third Standard. For instance, in 2013, BCBSRI partnered with the Rhode Island Quality Institute to reward providers that met enrollment targets for CurrentCare.

In addition to Current Care and PCMHs, insurers also fund incentive payment to providers. UHC, for instance, dedicates over half (57%) of its non-FFS spending to these payments. This coordinated investment in non-FFS initiatives reflects market support for comprehensive payment reforms, innovative care delivery models and a patient-centered primary care system.

Figure 6a: 2012 Spending on Non-FFS Investments
Total: $23,780,326

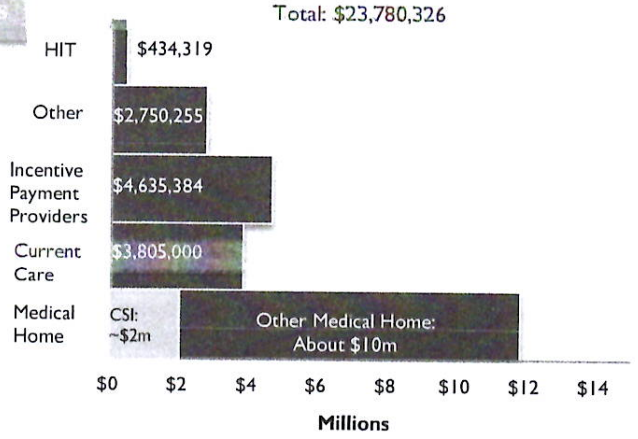
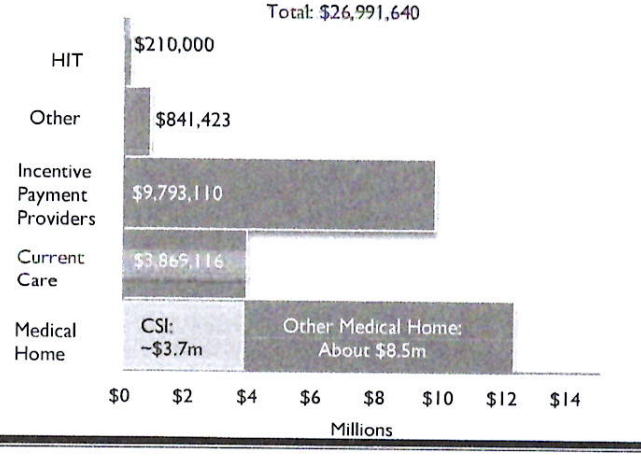


Figure 6b: 2013 Projected Spending on Non-FFS Investments
Total: $26,991,640



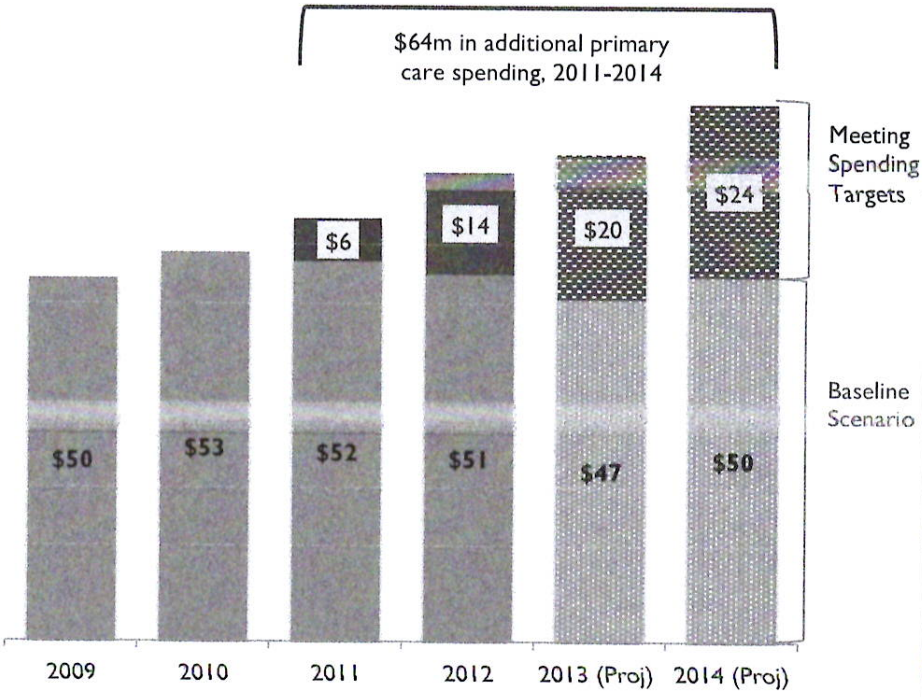
POLICY IMPACT:
The Future of Primary Care Spending and Non-FFS Investments

Because of the Affordability Standards, primary care has seen an additional investment from the commercial insurers of $64m since 2010 (relative to maintaining the same contribution rate as 2010). Raising the portion of premium dollars spent on primary care supports the state's transition into a system of value-based care.

These investments strengthen both the primary care system and the medical delivery system generally. They help clinicians keep people well and out of more intensive care. They augment the state's health IT system and enable primary care practices to coordinate the care their patients receive from specialists, hospitals, and home health care.

The aggregate value of these investments is clear, though OHIC continues to monitor whether the Affordability Standards meet the evolving market needs.

Figure 7: Total Primary Care Spending in Millions
Baseline Scenario vs. Meeting Primary Care Target



Key Points

- **Insurers are meeting their primary care spending targets**
  BCBSRI, United, and Tufts meet the requirements established by the first Affordability Standard
- **The rate of primary care spending is increasing faster than total medical spending is falling**
- **Insurers predict medical spending to fall in 2013 and recover slightly in 2014**
- **Insurers are focusing on non-FFS investments to both meet the standard's targets and evolving market direction**
  In 2014, nearly half of all primary care spending can be attributed to non-FFS investments.
- **Spending on medical homes dominate non-FFS investments**
  Approximately 17% in 2012 and 30% in 2013 of medical home spending was spent on the state's PCMH (also known as CSI-RI)
- **Shifts in spending and infrastructure have implications for effective policy making**
  Understanding insurers' investments in primary care and the emerging needs of a value-based care environment will guide the evolution of the Affordability Standards in coming years

APPENDIX

The tables included in the appendix show primary care spending for each insurer from 2008 through its 2014 projections. It is important to note that these tables therefore include data prior to the enactment of the Affordability Standards in 2010. Each table includes the data on the following: (1) a comparison of each insurers actual spending on primary care to its established target for each year; (2) a break-down of total primary care payment methods into FFS or non-FFS components; (3) the dollar expenditures for each non-FFS category and the percentage contribution of each category to total non-FFS expenditures for a given year.

The calculated percent change and average annual growth rate are based on the period of data used from 2008 to 2012 unless data from these years was not available. Particularly, all calculations for Tufts Health Plan are based off Tufts' 2009 data submissions since Tufts did not start selling insurance in Rhode Island until 2009.

Appendix Table 1

Fully Insured Commercial Market

Year	2008	2009	2010	2011	2012	2013 (Proj)	2014 (Proj)	2008-2012 % Change	2008-2012 Average Annual Growth	2008-2013 % Change	2008-2013 Average Annual Growth	2008-2014 % Change	2008-2014 Average Annual Growth
Primary Care Share of Total Market													
Actual %	5.7%	6.3%	7.1%	8.0%	9.1%	10.1%	10.5%	59.6%	12.4%	77.2%	12.1%	84.2%	10.7%
Primary Care Share by Method of Payment													
Primary Care Spending	$47,104,296	$49,919,759	$53,440,630	$58,208,681	$64,594,559	$67,046,663	$74,085,760	37.1%	8.2%	42.3%	7.3%	57.3%	7.8%
FFS	$43,561,165	$44,002,521	$42,038,717	$42,518,059	$40,814,234	$40,055,023	$41,546,276	-6.3%	-1.6%	-8.0%	-1.7%	-4.6%	-0.8%
Non-FFS	$3,543,131	$5,917,238	$11,409,913	$15,690,622	$23,780,325	$26,991,640	$32,539,484	571.2%	61.0%	661.8%	50.1%	818.4%	44.7%
% of Total Primary Care	7.5%	11.9%	21.3%	27.0%	36.8%	40.3%	43.9%						
Breakdown of Non-FFS Investments													
Medical Home-CSI	$297,776	$1,005,972	$1,755,346	$1,878,824	$1,966,628	$3,703,170	$7,564,759	560.4%	60.3%	1143.6%	65.6%	2440.4%	71.5%
% of Total Non-FFS	8%	17%	15%	12%	8%	14%	23%						
Medical Home-Proprietary	$0	$0	$4,735,768	$5,202,336	$9,838,740	$8,574,820	$6,226,141	107.8%	44.1%	81.1%	12.6%	31.5%	4.7%
	0%	0%	42%	33%	41%	32%	19%						
HIT	$0	$110,000	$447,136	$446,539	$986,319	$760,116	$682,000	796.7%	107.8%	591.0%	47.2%	520.0%	35.5%
		2%	4%	3%	4%	3%	2%						
Loan Forgiveness	$0	$500,000	$437,500	$179,250	$400,000	$0	$0						
	0%	8%	4%	1%	3%	0%	0%						
Incentive to Providers *Included in Other	$410,000.00	$450,000.00	$2,276,961.35	$5,447,110.26	$3,055,384.00	$6,900,000.00	$8,650,000.00	645.2%	65.2%	1582.9%	75.9%	2009.8%	66.2%
	12%	8%	20%	35%	13%	26%	27%						
Other	$ 3,245,355	$ 4,147,266	$ 4,046,664	$ 8,153,700	$ 5,805,639	$ 7,841,423	$ 11,561,084	78.9%	15.7%	141.6%	19.3%	256.2%	23.6%
	92%	70%	35%	52%	24%	29%	36%						

Appendix Table 2

Blue Cross Blue Shield Rhode Island

Year	2008	2009	2010	2011	2012	2013 (Proj)	2014 (Proj)	2008-2012 % Change	2008-2012 Average Annual Growth	2008-2013 % Change	2008-2013 Average Annual Growth	2008-2014 % Change	2008-2014 Average Annual Growth
Primary Care Share of Total Market													
Actual %	5.6%	6.4%	7.2%	8.2%	9.4%	10.6%	10.8%	62.1%	12.8%	82.8%	12.8%	86.2%	7.0%
Target %	5.6%	6.3%	6.8%	7.8%	8.8%	9.8%	10.8%	51.7%	11.0%	69.0%	11.1%	86.2%	8.0%
Primary Care Share by Method of Payment													
Primary Care Spending	$38,094,327	$38,085,352	$41,678,819	$40,853,014	$49,359,059	$51,049,096	$56,371,095	29.6%	6.7%	34.0%	6.0%	48.0%	6.7%
FFS	$34,730,827	$33,585,352	$31,854,244	$31,146,956	$29,802,234	$29,349,650	$30,619,476	-14.2%	-3.8%	-15.5%	-3.3%	-11.8%	-2.1%
Non-FFS	$3,363,500	$5,260,000	$9,824,575	$12,706,058	$19,556,825	$21,699,446	$25,751,539	481.4%	55.3%	545.1%	45.2%	665.6%	40.4%
% of Total Primary Care	8.8%	13.5%	23.6%	29.0%	39.6%	42.5%	45.7%						
Breakdown of Non-FFS Investments													
Medical Home-CSI	$190,000	$750,000	$1,244,672	$1,268,872	$1,378,852	$2,160,626	$4,811,398	625.7%	64.1%	1037.2%	62.6%	2432.3%	25.3%
% of Total Non-FFS	6%	14%	13%	10%	7%	10%	19%						
Medical Home-Proprietary	$0	$0	$4,735,768	$5,202,336	$9,838,740	$8,574,820	$6,226,141	107.8%	44.1%	81.1%	21.9%	31.5%	4.7%
HIT		$110,000	$259,636	$267,289	$160,319	$210,000	$210,000	45.7%	13.4%	90.9%	17.5%	90.9%	13.8%
		2%	3%	2%	1%	1%	1%						
Loan Forgiveness	$0	$500,000	$0	$0	$350,000	$0	$0	-100.0%	-11.2%	-100.0%	-100.0%	-100.0%	-100.0%
		10%	0%	0%	2%			-81.2%	-42.7%				
Incentive to Providers *Included in Other	$410,000	$450,000	$2,276,961	$4,002,110	$3,055,384	$6,900,000	$8,650,000	645.2%	65.2%	1582.9%	75.9%	2009.8%	66.2%
	12%	9%	23%	31%	16%	32%	34%						
Other	$3,173,500	$3,900,000	$3,584,499	$5,967,560	$4,624,914	$7,550,000	$11,300,000	45.7%	9.9%	137.9%	18.9%	256.1%	23.6%
	94%	74%	36%	47%	24%	35%	44%						