

GIC COMMISSION MEETING
Thursday, September 19, 2019
8:30 A.M. – 10:30 A.M.

Charles F. Hurley Building
19 Staniford Street
Boston, MA 02114

MINUTES OF THE MEETING

NUMBER: Six Hundred Forty-six
DATE: September 19, 2019
TIME: 8:30 a.m.
PLACE: John W. McCormack Building, Conference Rooms 1 & 2, 21st Floor, 1 Ashburton Place,
Boston, MA 02108

Members Present:

VALERIE SULLIVAN (Chair, Public Member)
MICHAEL HEFFERNAN (Secretary of ANF) Designee Bill McNamara
GARY ANDERSON (Commissioner of Insurance) Designee Matt Veno
TAMARA P. DAVIS (Public Member)
EILEEN P. MCANNENY (Public Member)
CHRISTINE HAYES CLINARD, ESQ. (Public Member)
TIMOTHY D. SULLIVAN (Massachusetts Teachers Association)
JOSEPH GENTILE (AFL-CIO, Public Safety Member)
ADAM CHAPDELAIN (Town of Arlington--Massachusetts Municipal Association)
BOBBI KAPLAN (NAGE)
EDWARD T. CHOATE (Public Member)
JANE EDMONDS (Retiree)
ANNA SINAIKO, Ph.D. (Health Economist)
KEVIN DRAKE (Council 93, AFSCME, AFL-CIO)
ELIZABETH CHABOT (NAGE)
MELISSA MURPHY-RODRIGUES (Town of Sudbury--Massachusetts Municipal Association)

Absent:
KEVIN DRAKE (Council 93, AFSCME, AFL-CIO)

Comm. McAnneny arrived at 8:35
Comm. Clinard arrived at 8:35
Comm. Sullivan arrived at 8:37
Comm. Edmonds arrived at 8:39
Designee Veno arrived at 8:42
Comm. Chapdelaine arrived at 9:47
Comm. Edmonds departed at 10:25

I. Approval of June 6, 2019 Meeting Minutes

The Chair called the Meeting to order at 8:32 a.m. After opening remarks and reviewing the Meeting agenda, the Chair asked if there were any questions or comments on the June 6, 2019 meeting minutes. Hearing none, the Chair then asked for a motion to approve the minutes. Commissioner Choate moved to approve the minutes seconded by Commissioner Davis. The motion passed unanimously. The Chair then greeted the Executive Director and asked for her report.

II. Director's Report

The Executive Director welcomed everyone and provided a brief overview of her report before discussing each topic in detail.

- **Flexible Spending Account (Benefit Strategies)/Long Term Disability (LTD)**

The Executive Director stated that Benefit Strategies assumed administration of the Flexible Spending Accounts on July 1, 2019. She noted that member enrollment is now an entirely online process and that many other member requests can also be accomplished online. The Executive Director discussed the FSA 101, a member education initiative via an online webinar that explained the benefits of flexible spending accounts. She then discussed a member outreach campaign where GIC staff worked with Benefit Strategies to contact members with high balances prior to the deadline for filing claims and noted that member feedback has been positive.

The Executive Director discussed the long term disability ("LTD") open enrollment and noted that members were allowed to enroll in LTD insurance without having to provide evidence of insurability during an extended enrollment period. She noted that 1,520 employees enrolled in LTD coverage during the special enrollment period bringing the total number of members with LTD coverage to 42,321.

- Stakeholder Meetings

The Executive Director discussed the GIC's stakeholder outreach efforts with municipal and labor leaders over the summer. She noted that, in addition to municipalities, the GIC met with independent insurance consultants who help municipalities evaluate benefit options. The Executive Director indicated that municipal engagement will continue through the fall, and that the meetings have been enormously productive and informative.

The Executive Director briefly discussed the labor meeting and reviewed the topics of discussion at the meeting and noted that there was a request that these meetings take place on a regular basis. The Executive Director listed each organization in attendance and thanked them for their participation.

Vice Chair Kaplan complemented the Executive Director and the GIC for their stakeholder meetings. She noted that the labor groups represented greatly appreciated the GIC's time and effort. The Vice Chair stated that it was the first time in recent memory that such a meeting had happened and expressed the wish of her constituency to have such meetings on a regular basis well into the future.

- Staff Updates

The Executive Director informed the Commission that the following people were hired since the June 6, 2019 meeting: Denise Donnelly, Director of Benefit Procurement and Vendor Management; Joan Matsumoto, Chief of Staff; Joe Healy, Deputy Director; and Cameron McBean, Manager of Health and Ancillary Benefits. She discussed the professional background of each employee, noted the addition of temporary employees, and introduced the new employees that were present at the meeting. The Chair commended the Executive Director for her efforts in bringing such talented people to the GIC.

- Health Plan Updates

The Executive Director informed the Commissioners that Tufts Health Plan and Harvard Pilgrim Health Care intended to merge. She stated that she was in contact with representatives from both companies who assured her that the GIC's members would not face any short-term disruption and that the GIC will be kept informed with respect to the proposed merger. The Executive Director discussed the timing of the proposed merger as well as how the GIC was informing members about the proposed merger.

The Executive Director reported that the claims integration and automation project between UniCare and Beacon Health Options continued to progress well and informed the Commission about her recent meeting with the new CEO at Health New England.

- Legislative Update/Hampshire Council of Governments Legislation

The Executive Director informed the Commissioners that the Legislature finalized the fiscal year 2020 budget and that the balance billing protection provision for GIC members was included in the Conference Committee report. She noted the support of both the Governor and the Legislature with regard to balance billing protection and thanked them. The Executive Director stated that she anticipates proposed healthcare legislation in the months ahead.

The Executive Director informed the Commission of a recently signed law called an Act Relative to the Hampshire Council of Governments (the "Act"). She explained that the legislation was designed to ensure that retirees of the Hampshire Council of Governments, which was dissolving, did not lose health insurance coverage. The Executive Director stated that the Act authorizes a transfer of \$250,000 to cover health care coverage expenses of 52 retirees of the Hampshire Council of Governments until December 31, 2019, and enabled coverage under the GIC beginning January 1, 2020. She informed the Commission of communication initiatives from Massachusetts State Senator Joanne M. Comerford's office and from the GIC to ensure a smooth transition for the 52 retirees.

- Calendar

The Executive Director next discussed the calendar of Commission meetings. She explained that the calendar represented the GIC's and the Commissioners' action items for the remainder of the calendar year. She indicated her preference to move the commission to a more functional meeting schedule that reflected staffs work flow. She noted that in October they meet with all their vendors for annual reports of the prior year. This is the first step in beginning the process to determine benefit changes and evaluate the impact of prior initiatives. This is an intensive and time consuming process making an October meeting difficult. Additionally these meetings follow on the heels of the annual cost trend hearings and together provide the substance for the November meeting. She suggested that the Commission not meet in October so that the GIC could have the time to effectively handle these items and noted that not meeting in October would allow the GIC to obtain more data for a more wholesome report to the Commissioners in November. Designee Veno agreed with the Executive Director and stated that there is so much change taking place in the industry and with vendor networks that there is value in omitting the October

meeting to allow for a more complete report at the November meeting. After a discussion, the Commission agreed not to meet in the month of October.

III. Pharmacy

The Executive Director introduced Deven Shah, RPh, MBA, as the GIC's pharmacy expert and the presenter of the pharmacy update to the Commission. Mr. Shah provided an overview of his presentation, noting that pharmacy is a broad topic and that today's focus would be on pharmacy benefit managers ("PBMs") and the GIC with an emphasis on how pricing works. He stated that he would explain each page of the presentation and that he would provide necessary details to ensure that everyone understood the process and how it impacted the GIC and its members. His goal was to provide the Commissioners with an understanding of the current state of prescription benefit managers.

Referring to a chart showing actual changes and projected changes in per capita prescription drug spending by year, Mr. Shah explained that the wide disparity in actual versus projected prescription drug spending was directly related to the proportion of blockbuster drugs that were protected by patents. He noted the number of blockbuster drugs released in the 1990s and the corresponding spike in prescription spending. He contrasted that to the period between 2009 and 2011, when the number of blockbuster drugs protected by patents decreased which resulted in a corresponding decrease in prescription spending. He noted that prescription spending projections show an increase in the years ahead, especially due to the lack of blockbuster generics and uncertainty about the future cost of biosimilar pharmaceuticals. Mr. Shah stated that biosimilar pharmaceuticals were expensive and that the uncertainty was based on whether the price of biosimilar pharmaceuticals would decrease as these drugs became more prevalent. He also stated that the trend in blockbuster drugs was toward the new field of biopharmaceuticals, which were administered at a high cost per patient. Mr. Shah explained that the costs of biosimilar pharmaceuticals and biopharmaceuticals would likely cause the GIC's pharmaceutical expenses to increase.

Mr. Shah stated that there was a lot of consolidation in the pharmacy industry and explained the potential impact of such consolidation, including reduced competition in the pharmacy marketplace. He noted that the three largest PBMs represented almost 85% of the prescription drug market. Mr. Shah noted that some of the impacts of industry consolidation were positive and referenced increased efficiencies in delivery, increased retail operations, and new pricing models. He discussed how the GIC monitors the pharmaceutical industry to understand its machinations in order to extract the best value for the GIC's members. He also discussed how drug prices impact the GIC's budget.

Mr. Shah stated that PBMs have come under increased scrutiny which continues to result in legislative action on the state and national level. He explained that legislative action will focus on drug prices and areas where legislation could lower drug prices, including contract reform and price transparency. Mr. Shah stated that, historically, PBMs have benefited health plan members, but he also explained how PBMs can distort pricing benefits and provided examples. He explained further that PBM pricing models can become increasingly sensitive on a per claim basis and noted how high-cost pharmaceuticals can disproportionately impact the GIC's pharmaceutical spending. Mr. Shah noted how certain health care management companies have worked within the PBM model. He discussed the rebate model and how rebates are factored into the retail price of the drug. He noted how rebates can benefit large purchasers, including the GIC.

In response to questions from Commissioner Davis, Mr. Shah explained that the benefit of rebates are applied universally (e.g. to premiums) and not member or illness specific, so all GIC members receive the benefit. In response to a question from Designee McNamara, Mr. Shah noted that prices subject to rebate arrangements do not reduce the price to zero on the commercial side, and explained the differences between commercial and retail pricing. In response to a question from Commissioner McAnney and mounting questions from other Commissioners, the Executive Director noted that questions concerning the pricing model would be addressed in Mr. Shah's presentations and that slides explaining the pricing model were forthcoming. Designee Veno addressed Mr. Shah and asked for his patience as the Commission educates itself on the complexities of PBMs and also asked that he not oversimplify the presentation because the complexity of the PBM industry needs to be understood.

Mr. Shah continued his presentation by explaining that any actions that decrease drug prices has a direct benefit to the GIC which also benefits members. He explained further that members do not see the whole price of the drugs they purchase, but often mistake their pharmacy co-pay as the total cost. Mr. Shah stated that the GIC is trying to provide price transparency in order to educate members about the total cost of the drugs they purchase.

Mr. Shah next explained that "peaking" was a stage in a drug's life cycle characterized by market penetration, peaking sales, and high prices. He further explained the challenges that the GIC faces when members purchase drugs in the peak stage. Mr. Shah highlighted certain conditions associated with expensive drugs, including hepatitis C and cystic fibrosis. He described actions the GIC takes in an attempt to manage the care and cost associated

with expensive drugs and noted that value-based and outcome-based pricing models could help. Mr. Shah also noted the detractions of such models and discussed how the models would be applied to members. The Executive Director stated that it was critical for the GIC to review and implement practices for managing pharmaceutical costs. Mr. Shah discussed disruptive innovators, noted that industry consolidation was resulting in more types of service, and how the GIC continues to monitor and discuss these changes as well as their impact on the GIC's members.

Mr. Shah next discussed the emergence of specialty pharmaceuticals noting they were very innovative, expensive to manufacture, and very expensive to buy. He explained that the development of disease-specific cures tended to be the most expensive specialty pharmaceuticals. Mr. Shah stated that 2% of the GIC population had very expensive pharmaceutical needs and noted that some pharmaceutical treatments can cost one million dollars per year. He stated further that the GIC cannot deny treatment but the GIC can try to manage the costs. Mr. Shah also explained how drug prices increase based on the function of the drug and inefficiencies in the drug's distribution model. He also noted how the site of care can have a significant impact on the cost of treatment and described how the GIC can help members find the lowest cost sites to obtain treatment. Mr. Shah concluded this section of his presentation by stating that the GIC will continue to examine which models of pharmaceutical care provide the best value for the GIC and its members.

Mr. Shah stated that he was going to explain why drugs prices can be exceptionally high. He explained that pharmaceutical companies that bring new drugs to market expend a great deal of their budget on research and development, often spending hundreds of millions of dollars developing drugs for the market, and that the majority of drugs fail to make it to the market. Mr. Shah stated that it can cost one billion dollars to bring a drug to the market. He explained that the only way to justify this business model is to register one or more patents on a drug in order avoid competition in the marketplace which, in turn, allows the manufacturer to set any price it deems fit. He also noted that patent protection was often the basis of litigation against companies producing similar low-cost generic drugs. Mr. Shah explained further that the United States is the only developed nation that does not control drug prices. He stated that the GIC has taken steps to make drugs more affordable for members, including encouraging the use of generics and low cost and mail order pharmacies for chronic medications, a preferred drug lists of the highest value drugs, strong vendor contract and oversight management, and price transparency tool that allow members to price shop for individual drugs.

In response to questions and statements from Commissioner Davis about the lack of price controls in the United States as compared to other developed nations, Mr. Shah stated

many would agree that the United States is the world's pharmaceutical research center and that the U.S. is also subsidizing the global pharmaceutical market. Commissioner Davis asked if there was a way to use this fact to negotiate lower drug prices or if other innovative ways to manage drug prices existed. Mr. Shah responded that he agreed that increasing drug prices were unsustainable and stated that the GIC continually researches the pharmaceutical marketplace in order to obtain the best value for the GIC's members. In response to Commissioner McAnneny's questions about the lack of government intervention on drug prices and the impact on the GIC's members, Mr. Shah stated that it is a widely held view that, under Medicare Part D, the government is barred by law from negotiating prices with drug manufacturers. He stated that insurance plans, including PBMs and the GIC, cannot negotiate price directly, but can and do negotiate prices through rebate arrangements. After a brief discussion, Commissioner Sinaiko stated that drug prices were high, but questioned how much drug prices could drop. She explained that from a pharmaco-economic standpoint, if drug prices were too low, it would stifle innovation. In response to a question from Commissioner Sinaiko, Mr. Shah stated that the average pharmaceutical expenditures were between 18% and 25% of a health plan's budget and the GIC's expenditures were 21%.

Mr. Shah directed the Commission's attention to a PBM money flow illustration and discussed the manufacturer's list price, manufacturer's markup, the wholesaler's markup, and the pharmacy's markup, explaining the impact each has to pricing. Mr. Shah explained all the administrative and management services performed by the pharmacy, including compliance with applicable laws and collecting payment from PBMs. He then pointed out the final drug price based on that supply chain and then deconstructed it by describing the PBM's cost, the benefit the PBM provides, the plan sponsor's cost, the amount the plan sponsor pays, the amount of the rebate the plan sponsor receives versus the amount the PBM receives.

Mr. Shah noted that the prior discussion represented the money flow of a traditional PBM contract. He then presented the differences under a transparent contract similar to the one the GIC has with its PBMs. He stated that, unlike a traditional contract where the PBM brings down premiums based on volume and where the amount of the benefit provided by the PBM and paid for through partial rebates and spread pricing is not always clear, the transparent contract model allows the GIC to retain the entire rebate and the PBM gets a per-employee per-month ("PEPM") contractually agreed upon rate. Mr. Shah stated that the GIC has chosen a model that creates the most transparency which allows the GIC to negotiate better terms for the GIC's members. He stated that while the GIC does not have direct influence over manufacturers or pharmacies, the GIC has indirect influence through the use of PBMs. Mr. Shah explained the depth of the GIC's audits and how the GIC uses

this information in order to ascertain how competitive the GIC is compared to its peers. The Executive Director stated that this oversight, analysis, and negotiations are an example of how the GIC uses its resources to obtain the best value for its participants.

Mr. Shah and the Executive Director then answered questions on topics including, among others, rebates versus list price, price modeling and price discrimination, who benefits from different pricing models, the impact of an aging population, attempts at price reform through different presidential administrations, and the difference between list price and the insured's price.

Mr. Shah then discussed the GIC's pharmacy benefits vendor strategy, and noted the decreasing number of vendors in the market due to consolidation and how consolidation was creating standardization. He discussed the GIC's extensive member communication efforts during the pre-transition and transition phase and noted that members were given enough time and information to get acclimated to the single PBM model. Mr. Shah also noted the role of the PBMs in helping members change their approach to pharmacy benefits. He explained that the transition went remarkably smoothly, without disruptions, and that member satisfaction scores were high. The Executive Director noted that, while there are always the inevitable unexpected disruptions, the implementation of this new model was outstanding and it created a great deal of value for the GIC. She also noted how having direct contract authority and fewer vendors allows the GIC to have greater leverage and focus.

Mr. Shah reviewed the initially projected pharmacy costs against actuals to date for fiscal year ended June 30, 2019 ("FY19"). He discussed costs on a per claim basis and noted that the aggregate actual cost for both (combined) Commercial and Medicare pharmacy claims was \$942M which was just under the \$945M that had been projected during the procurement process. Mr. Shah noted that these were gross (preliminary) numbers because the rebate process will not be finalized until six months after the fiscal year end. He noted that it is likely that actual costs after rebates or subsidies will decrease the total actual cost for FY19.

Mr. Shah reviewed the GIC's key performance metrics with respect to the ESI administered pharmacy benefit program against the ESI Government and Public Sector Benchmark, noting that while slightly higher, the GIC's generic dispensing rate was in line with the benchmark. He stated that Diabetes, hypertension and anti-depressants were the three big pharmaceutical costs for the GIC and noted that the GIC's medication adherence based on the portion of days covered ("PDC") measure shows that GIC member adherence is well above the benchmark. Mr. Shah explained that each percentage of adherence above the benchmark represented a savings to the GIC by virtue of preventative health maintenance.

He described the additional benefits ESI provided, including 20,000 communications with GIC members each month.

Mr. Shah reviewed similar key performance metrics for the CVS EGWP plan, and noted the generic dispensing rate, members adherent based on PDC, and member co-pays were all similar to or better than the benchmarks. Mr. Shah also stated that the GIC works closely with product partners in order to understand the needs of the GIC's members and to make prescriptions benefits more affordable. Mr. Shah and the Executive Director then answered questions from the commission on topics including, among others, fiscal year 2019 data and reports, the role of PBM pricing, and GIC's PBM relationships. At the conclusion of the discussion, the commission thanked Mr. Shah for his report.

IV. CFO Update – FY19 Year End Budget Summary

The Chair turned the floor over to the Chief Financial Officer ("CFO"), James Rust, who presented a summary of FY19. He discussed the claim amounts by each health insurance provider for each month of the fourth quarter and the total FY19 claims noting that claims in May and June were lower than projections but within the normal range compared to previous years. The CFO then reviewed expenses payable by the Commonwealth of Massachusetts for all accounts, including health care, life, disability, dental, and administrative expenses. He then reviewed the employee's share for all accounts for the same period. The CFO reviewed the claims budgeted for all accounts versus the actual claim amounts on a month-by-month basis for FY19 and noted the disparities, pointing out the low actual claims amount for May and June versus the budgeted amount. He then presented the claims budgeted for all accounts versus the actual claim amounts on a cumulative basis and noted that monthly anomalies tend to smooth out over the entire fiscal year, and how FY19 to date was in line with projections. The CFO then discussed the state's share of premiums for all accounts as of the end of FY19. He noted that the GIC was under budget by 3.2% for basic life and health insurance accounts that this variation was with actuarial expectations, and explained that the application of an additional pharmacy rebate, lower utilization in June and the weekly timing of end of June billing were factors in spending being favorable to budget. In response to questions from the Committee, the CFO and the Executive Director discussed budget data, budget projections, deductibles, and the role of other state agencies with regard to surpluses and shortfalls.

V. Procurement Update

The Executive Director introduced the General Counsel for an update on procurements. The General Counsel stated that the audit vendor RFR was posted and bids were due the

following week. They had had a good turnout at the bidder's conference and expected a number of competitive bids.

The Data Warehouse procurement had begun. The notice of intent was posted and they hoped to have the RFR posted within a few weeks.

Staff had decided to combine the Life and LTD consultants into one vendor and, unless advised otherwise, would look for a single Life /LTD vendor. The team planned on having the consultant RFR posted by the end of September. One of the areas staff was exploring was whether the GIC could help its HR partners develop a more unified leave benefit, particularly with the impact of the new Paid Family and Medical Leave law.

The General Counsel noted that they had worked closely with DOR and ANF to procure and contract with an implementation vendor for the business modernization project. This contract was funded with Capital money (GIC is not a signatory on the contract), which is why the contract was not brought to the commissioners for approval.

Lastly, staff was actively exploring a RFR for Centers of Excellence. Connecticut and Delaware both recently ran procurements in this area and staff had spoken with their peers in those states regarding their experiences. Both states had been very generous with sharing not only their experiences and approaches, but also their materials.

VI. GIC Modernization

The Executive Director stated that the GIC's modernization efforts are taking a big step forward. She reviewed the GIC's two other core strategies - member experience and managing for value. The Executive Director stated that investing in modernization will allow the GIC to deliver these two strategies in a far more efficient manner and would help the GIC better attain its primary goals. The Executive Director explained that the focus of the modernization efforts included implementation of a GIC customer relations management platform, document management, and call recording in call center operations. She provided a brief overview of the changes to take place, noted that the GIC had seasoned, talented and steady leadership with its Chief Information Officer ("CIO"), John Harney and Director of Operations ("DOO"), Paul Murphy, and introduced John Harney to provide the presentation on the GIC modernization project.

In reference to the presentation, the CIO noted that a lot of work has already been done with regard to the following four key customer relationship tools: case management through Salesforce; document imaging through Databank; e-forms through DocuSign; and

call recording through Mitel. He discussed the benefits of each of these software programs, their function within the GIC and how they will increase productivity, improve member relations and create an infrastructure for future modernization. The CIO explained that he and the DOO, had been discussing how to modernize the GIC's operations for quite a long time and noted that the Executive Director got involved in the conversations which helped frame a feasible modernization effort that would get funded. In reference to the systems implementation milestones, the CIO noted that were a lot of steps in the process that required, and will continue to require, a great deal of work from the GIC before these projects are fully operational. In reviewing each step of the project, he discussed the vendor selection process and the key factors in choosing the right vendor. The CIO noted that they were currently in the discovery and design phase and explained that the goal of this phase is to obtain the best outcome with available resources. He then reviewed future steps, discussed the expectations and timelines associated with each step with a focus on going live in December of 2019. The CIO discussed DOO's role in the process and thanked him for his tireless help and support.

The DOO discussed the challenges of implementing changes. He stated that a lot of what the GIC is doing is a result of looking at the enrollment materials and other workflows while asking how to best augment these workflows to better facilitate member interaction. The DOO discussed the workflows created to deal with the large volume of documents that the GIC deals with on a regular basis, noting that the GIC handled over 170,000 documents during last year's open enrollment period. He explained the workflow review process and how the team was continually reviewing what was processed, what was not processed, and the best way to facilitate and complete member requests. The DOO stated that, while the GIC is servicing members to the best of its ability, members are still unaware of all the steps needed to carry out an action or request. He stated that it was his desire to make sure all members know the requirements which, in turn, should result in making sure their needs are met. The DOO stated that there was continued cooperation with other GIC departments while working toward implementation.

In response to questions from the Commission, the DOO discussed member engagement, the level of support for the modernization project, and vendor management and support. The Chief of Staff informed the Commission that the modernization project was exceptional in that the vendor had integrated training into the process from the beginning and were well managed which resulted in greater efficiencies for the project. The Commission thanked the CIO and the DOO for their presentation.

VII. In Closing: Out & About, Misc. Updates, Wrap-Up & Discussion & Other Business

The Chair noted that there was a Sub-Committee meeting immediately following the Commission Meeting and invited all Commissioners to attend.

The Chair congratulated Ms. Sinaiko for her recently published article in The Journal of the American Medical Association, briefly discussed Ms. Sinaiko's expertise in health economics and health policy, and stated that she was a great addition to the Commission.

The Chair thanked the Executive Director for all the information she and her staff provided to the Commission.

The Chair then asked for a motion to adjourn and reminded that the next meeting would take place in November. Commissioner Sullivan made the motion to adjourn, seconded by Commissioner Davis which was unanimously approved. The Meeting adjourned at 10:40 a.m.

Respectfully submitted,



Roberta Herman, MD
Executive Director



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