OVATION HEALTH
THE FUTURE OF HEALTHCARE

White Paper

Ovation Health - Group Plans

By

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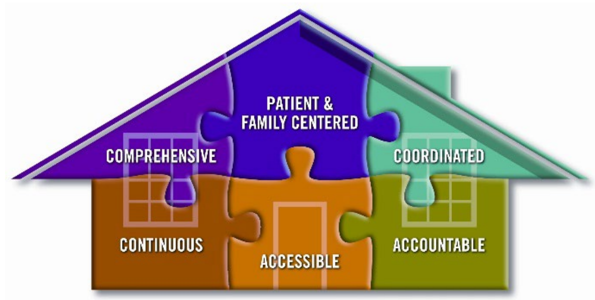
Executive Summary

Reimagining Employer Self Insured Health Plans through the Medical Home Model



Before the Affordable Care Act (ACA) and every year since its passage, health care costs have continued to rise. According to a report issued by the McKinsey Center for US Health Care reform in the years following the ACA, the rise in costs has been modest (3% to 10%).[1] However, in 2018 drastic cost increases took place which resulted in a spike in prices by 29.7%. [2] In 2021 Employer-based health plans are projected to rise another 5.3%. [3] The ever-increasing rates are one of the unintended consequences of the ACA. The primary contributing factors for these dramatic rate increases were: (i) for the first-time insurers were prohibited from denying coverage to individuals with preexisting conditions, and (ii) within the ACA is a requirement that 85% of the premium for large groups must be spent delivering health care for the members. Since large insurance companies were not about to take a net profit loss, they made two major business model adjustments. First, they reclassified some of the plan elements, so they aligned with the definition of care. Second, they increased the premium amount so that the cost of administration now fell within the 15% legislated threshold.

By going to a 'self-fund' plan allows an employer to break the cycle of full insurance and take control of their health care spend. This approach allows the employer to retain the savings for themselves. Ordinarily the insurance carrier keeps the savings as profits. By keeping the savings in the employer trust, annual premium increases become a thing of the past as the employer trust fund accumulates reserves to manage critical claims fluctuations from year to year.

The medical home model delivers proven cost savings and improved outcomes and should be a critical part of any employer's strategy to implement a comprehensive health care offering. This white paper examines why employers should be moving to self-funding and why, with all the self-funded options, the Ovation plan outperforms the competition in care, service, and value.

Context

A consolidated study from 2016 shows that the medical home model of health-care delivery is helping control costs by "right-sizing" health-care use. Twenty-three of the 25 studies looking at utilization measures found reductions in emergency room visits, inpatient hospitalizations, hospital readmissions, or other signs of unnecessary health-care utilization. Twenty-one of the 23 studies that included cost measures found overall cost savings which positively impacted the member and plan.

"Once again, the data show that by coordinating care through well-established primary-care teams, there is overall improvement in health as evidenced by improvements in measures such as long-term diabetes control," says psychologist W. Douglas Tynan, Ph.D., director of integrated health care at APA's Center for Psychology and Health. "And with improvements in health, there are reductions in health-care costs."[4] Unlike other plan administrators who have yet to embrace or are only recently coming to the medical home model. Ovation has been actively engaging in this care model since 2005.

The Problem

Over half the United States' non-elderly population — some 150 million people — receive health benefits coverage through an employer-based health-care plan. Of that 150 million, (61 percent) are covered by self-funded or partially self-funded health-care plans. Yet many people remain unfamiliar with the term.[5] Even though self-insured plans are "generally" more cost-effective for employers than plans administered by a wide range of TPA's and other plan managers. The cost of even the self-insured plans continue to rise almost in parallel with fully insured plans. As a result, in 2019 the average annual premiums were $7,188 for single coverage and $20,576 for family coverage. In 2021, when using an Ovation plan, the average self-insured employer with 50 or more employees is paying around $5,160 per year for an individual and $16,800 for a family.

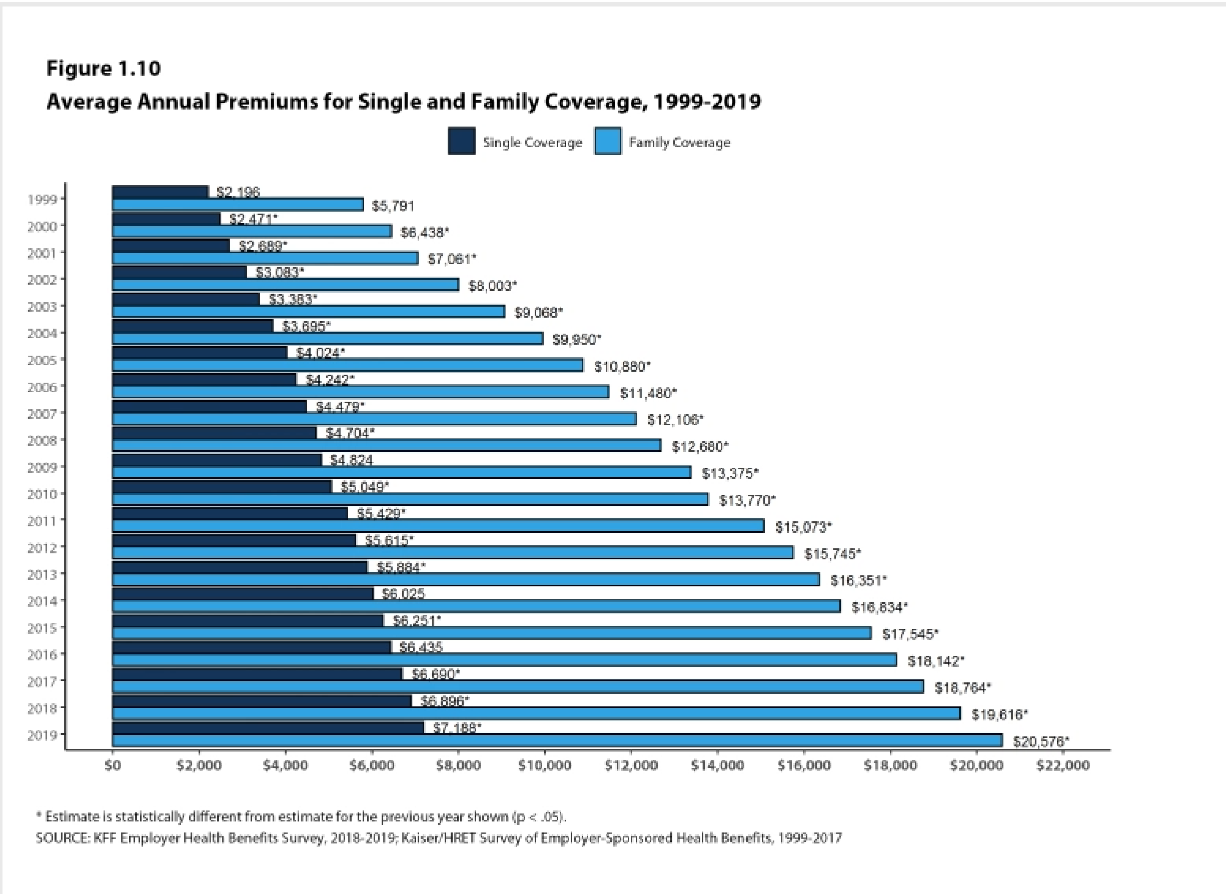


Figure 1.10: Average Annual Premiums for Single and Family Coverage, 1999-2019

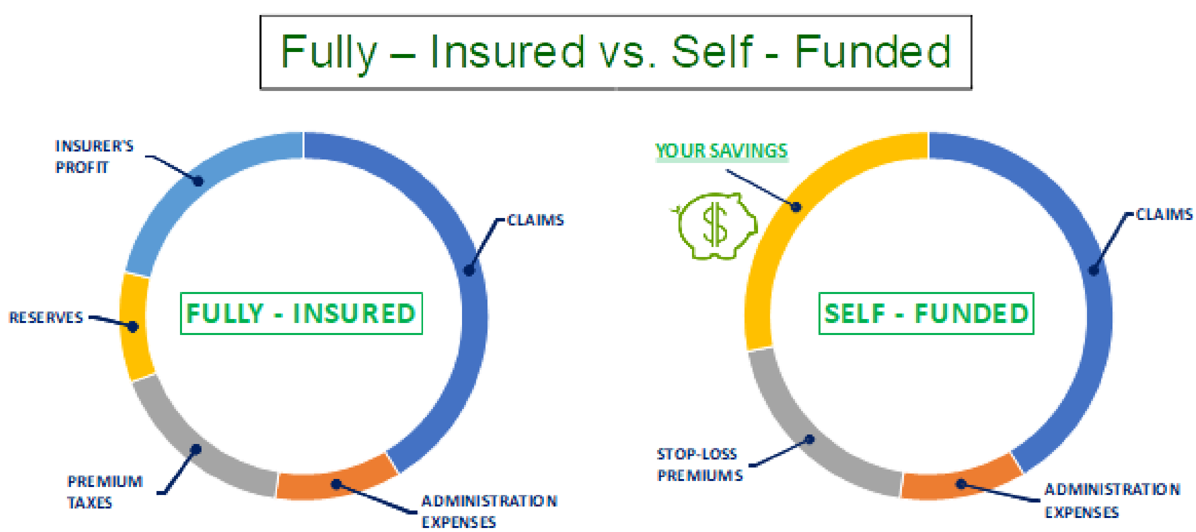
As prices continue to rise every year, one way to break the cycle is by selecting an Ovation plan and using PPC TPA as your administrator. We understand the health care system and have been flattening the cost curve for over 10 years.

The Solution

Nearly 90% of Fortune 500 companies avoid the headwind of buying 'Full Insurance' by 'Self-Funding' their health-care benefits. However, small, and medium employers give away millions of dollars in profits to insurance companies unnecessarily. Self-funding through Ovation can and will save the employer money. Some of the critical elements of why self-funding is more cost-effective than traditional insurance is:

- **No pooling risk**. Self-funded policies are covered under the federal Employee Retirement Income Security Act (ERISA) and do not need to account for the same kind of pooling volatility since your "risk" pool is limited to your own enrolled participants. As a result, your plan will not have to pay more to absorb the risk of other, more costly plans.
- **No profit margin**: A significant advantage of the Ovation Plan is that no carrier is keeping your unused premium payments. You get to utilize any unused premiums contribution payments to keep rates stable, reduce future rates or increase coverage.
- **Take the Benefit of Your Savings:** If claims are lower than anticipated for the year, your plan and your participants benefit, not an insurer.
- **Lower administrative fees**: Self-funded plans still pay for claims processing, stop-loss insurance coverage, plan services, and physician network contracts. However, as the Third-Party Administrator (TPA), PPC TPAs administrative fees are lower than fully insured plans.

Side by Side Comparison



As shown above, the fully insured plans are not setting aside more money to pay your claims. They are just charging you more money to manage your plan while taking the risk. The fully insured model means your employee's compliance with the plan does a great deal to add profits to the insurance carrier, but as noted in figure 1.10 has historically done nothing to reduce your cost or protect your company from annual rate increases.

Additional Benefits when Self-Funding (Tax Considerations)

1. State Premium Taxes

Unlike traditional fully insured coverage, self-funded programs do not pay state premium taxes. These taxes average between 2 and 3 percent of the premium's dollar value. Most carriers include that tax percentage in annual premium quotes, with many employers unaware they are paying them.[5]

2. State-Mandated Benefits and Fees

In addition to avoiding premium taxes, self-funded plans are also exempt from most state insurance laws. Because organizations customize their coverage, this also means an exception from associated fees and compliance audits, for example, the Health Insurance Marketplace User Fee. Exemptions from state-mandated benefits tend to reduce both the costs and complexity of providing coverage, benefiting businesses that go this route. [5]

3. Internal Revenue Codes (IRC)

More commonly known as the IRS Tax Codes, the IRC includes taxation parameters on health-care coverage programs. Self-funded plans must adhere to IRC §§104, 105, 106, 162, 213, 4976, and 5000, plus they can face tax consequences if found to be operating discriminatory coverage tactics under IRC § 105(h). [5] PPC TPA administered plans are fully compliant with the IRC and Department of Labor (DOL) regulations.

As demonstrated above, employers engaging in self-funding can save money and get higher-quality health care. However, not all plans or plan administrators can deliver these savings, or the level of benefits found in a PPC TPA administered plan. So how does Ovation achieve superior results?

Analysis

By breaking down the Ovation Platinum Plan foundational elements, the road map to employer's savings and exceptional care is revealed.

Primary Care. Primary care drives the medical home model that helps contain costs. Every Ovation member has a dedicated primary care physician for routine care. This front-line intervention helps identify health issues earlier and more effectively minimize emergency room visits and unnecessary surgical procedures.

- Members have better adherence to meet routine medical needs.
- Have better chronic disease management.
- And ultimately gain better health outcomes.

Ovation's Physician network is comprised of a dynamic combination of in-person care and virtual care. Through USA Primary Care IPA, Ovation currently holds virtual care contracts with Primary Care doctors and Specialists in every State and over a thousand physicians across Texas, Florida, Oklahoma, and Oregon, with physicians' groups in other states being added monthly. Moreover, the Ovation model allows the plan to grow organically in any state as our members can nominate their current physicians to join the Ovation plans. Additionally, Ovation holds two national telemedicine contracts that extend to every state in the US. This means our members have the care they need regardless of where they are located. The nationwide contracts include Direct Primary Care, Behavioral Health, Specialists services, Nutrition counseling, and 2nd opinion specialists' reviews, and 24/7 urgent care, all with no copays and unlimited utilization.

All Ovation's physician contracts are capitated, meaning Ovation never has unexpected claims or increased costs due to higher-than-normal utilization. **Plan savings for this category**:

- 15% - In person physicians
- 25% - Telemedicine Primary Care
- 80% - Telemedicine Behavioral Health
- 50% - Telemedicine Specialist
- 85% - Urgent care due to telemedicine option

Data from May 2021 OVATION Telemedicine report based on 161 encounters.

<u>Labs</u>. Ovation benefits from a national contract with Quest labs. Quest has numerous locations in every state, and members who cannot go to a lab in person can arrange to have their lab work sent to Quest by mail. The lab contract is also capitated, meaning that the plan pays one price per member per month, eliminating any variance in lab costs regardless of utilization. Additionally, removing the barrier of copays for labs for Ovation members Ovation ensures that members are getting the tests needed to provide excellent continuity of care, which allows our primary care physicians to be proactive in care management. **Plan savings for this category**:

- 20% - For all covered labs (lab contract covers all the routine labs needed for most care).
- 40% - Discount for all other labs.

<u>Diagnostic Imaging</u>. Ovation holds a direct capitated contract with imagining centers in every location that we have enough membership to secure them. In addition, Ovation has access to a national imaging center chain that has agreed to allow Ovation to expand its current capitated arrangement to each state as Ovation expands. The capitated contract means that Ovation members can get all the imaging services they require with no copay, and the cost is covered at 100% with unlimited utilization. This means the plan never experiences unexpected spikes in prices due to member(s) needing multiple scans, be they MRI's, CT, Ultrasound, etc. The ability for Ovation members to get any scan required by their physician means that critical conditions are detected early, and interventions can be done quickly. Rapid intervention saves the plan money and promotes better population health. **Plan savings for this category**:

- 40% - or more on average when using contracted imaging centers.

Average Price Per Procedure
(based on CPT codes analyzed)

	Current	PPC Network	PER PROCEDURE SAVINGS	
MRI	$1,344	$550	59%	$794
CT	$6,623*	$375	94%	$6248
US	$333	$106	67%	$217
X-Ray	$440	$270	39%	$170
Mam	$273	$250	9%	$24

2021 Data from contracted imaging center analysis comparing OVATION rates to the general market.

Prescription program. Ovation is contracted with a national Pharmacy Benefit Manager (PBM) that is consistently 30% cheaper than any other PBM we have previously used. In addition, the PBM has access to international pricing and shipping, resulting in more savings for Ovation members. Ovation combines this favorable contract with our concierge approach working directly with members to guide them to the right RX solution at the best price point for the plan. According to a study conducted across several major medical plans from 2014 to 2019, an extremely well-run major medical plan spends about 55 dollars Per Member Per Month (PMPM) for RX alone. According to Forbes in 2021 most plans spent 100 dollars PMPM, accounting for 35% of the total plan cost. Ovation crushes both statistics with an average RX spend of less than 25 dollars PMPM, making the RX spend less than 9% of the total plan cost for the Ovation plan. **Plan savings for this category**:

- 26% - Of the total plan cost when compared to a poorly run plan.
- 10% - Of the total plan cost when compared to an exceptionally run plan.

Specialist. Ovation holds direct contracts with the full range of specialists at 100% of Medicare. When a member is in an area where Ovation may not contain a direct contract, the RBP (Reference-Based Pricing) model is used with single case agreements for care delivered to members. Ovation has a 100% success rate at securing Specialist coverage with the 100% to 130% of Medicare range. **Plan savings for this category**:

- 10% - 60% better than plans that get discounts on billed charges.

Hospitals. Ovation currently holds contracts with three hospital groups. These contracts range from 100% of Medicare to 135% of Medicare. For non-contracted hospitals, Ovation uses the RBP model with single case agreements for care delivered to members at these locations. Ovation secures the RBP rate at 100% of Medicare 90% of the time regardless of the facility, and the next 10% are secured between 100% and 130% Medicare. When Ovation has entered into a single case agreement using RBP for a hospital facility Ovation has not had to contract above 130% of Medicare. With the federally mandated price transparency laws, Ovation is in an even stronger position to negotiate RBP at these levels. **Plan savings for this category**:

- 30% to 50% - Or more, when compared to other major medical plans.

Case Management. Ovation takes our role in the Medical Home Model seriously. Every member receives the concierge service required to meet their medical needs. When Ovation members have chronic conditions, need ongoing care management to deal with a critical illness or injury, or help navigate the complex medical system to ensure they are getting excellent care at a fair price. Ovation Case Managers and Patient Advocates work directly with each member to ensure continuity of care from on-set through treatment completion. The hands-on approach to care drives down hospital admissions and readmissions. Ovation steers members away from high-cost care at underperforming medical centers. **Plan savings for this category**:

- 10% to 75% - Every case has its variation in savings percentage for the plan based on the treated condition.

Custodial Ancillary Services. Ovation does not hold any direct contracts with Home Health, Home Infusion, Hospice Care, etc. All traditional custodial services are readily obtained at 100% of Medicare through RBP and engaged according to the plan documents. **Plan savings for this category**:

- 5% - At most. All major carriers generally obtain contracted rates at 100% of Medicare for these services.

The synergy created by controlling all health care costs from basic medical needs through major medical interventions is how Ovation can deliver exceptional care at affordable prices. So, how does Ovation compare to the other plans? In figure 1.10, the trend line for health care costs continues to go up.[3] In 2021, when using an Ovation plan, the average self-insured employer with 50 or more employees is paying around $5,160 per year for an individual and $16,800 for a family. The average premium for single coverage increased by 4% since 2018, and the average premium for family coverage increased by 5%. The average family premium has increased 54% since 2009 and 22% since 2014.[6]

This means groups with Ovation are enjoying rates equivalent to rates paid by employers almost a decade ago and getting better plan benefits!

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