

# Department of Corrections



## Health Services Unit

**2017 Senate Finance Committee Annual Meeting:**

**Fiscal Issues Facing the Commonwealth**

**November 16, 2017**

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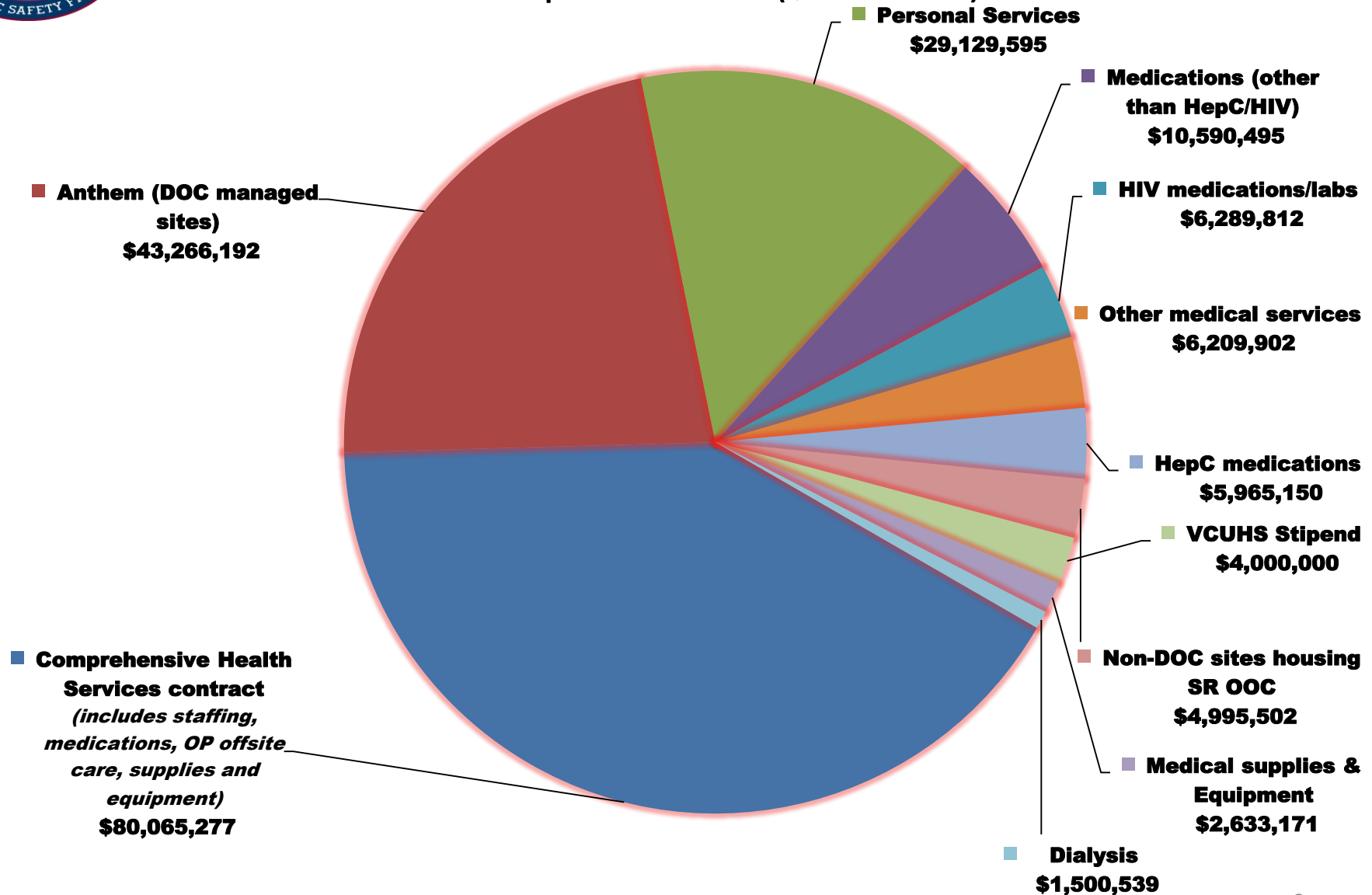


# Overview of today's presentation

- Explanation of how we use contract services to provide the majority of healthcare in our system, and how Anthem is used as a third party reimbursement service.
- Who do we pay for?
- What do we pay for?
- How much do we pay?
- Cost Drivers.
- Options to better manage costs.



# Fiscal Year 2017 Healthcare Expenditures (\$194.6M)





# VADOC Health Care System Contracts

Anthem Blue Cross Blue Shield –  
Dual Function Contract

Responsible for administering all health care claims for services provided off site from the prison system, including hospitals and physicians, and provides inpatient utilization reviews as part of claims verification.

VADOC participates in the Anthem provider network at the Anthem reimbursement rates

Armor Correctional Health –  
Provides all on site health care services at 14 prisons including 4 infirmaries

Provides all health care staff and pharmacy products on site for a capitated “per-member-per-month” (PMPM) rate

Mediko P.C. –  
Provides all on site health care services at 2 prisons

Complicated offender cases are sent off site for health care services to hospitals and/or physicians within the Anthem network. The vendors are responsible for outpatient claims through Anthem. VADOC is responsible for inpatient claims and dental claims for the vendors.

GEO Group –  
Provides all on site health care services at Lawrenceville under a comprehensive private prison contract

Medical Center of Virginia (VCU) –  
Two memos of Agreement

Provides inpatient and outpatient care to offenders and maintains a secure unit for inpatient services. All claims are paid through Anthem.

Provides 340B Drug Pricing to the prison system for all HIV, Hepatitis C and hemophilia drugs

Diamond Pharmacy Services

Provides pharmacy services to all non-contracted VADOC prisons and to Armor and Mediko under separate contracts with each vendor



# Offender Health Care

## *Who do we pay for?*

- Approximately 30,000 offenders in state institutions in and out of the system throughout the year.
- Offenders who are state responsible (SR) in the jails (itemized bills from the jails).



# Offender Health Care

## *What do we pay for?*

- Salaries for State healthcare providers (Personal Services).
- Major Medical Contractors (Armor, MEDIKO). All inclusive rate with inpatient carved out.
- Individual contract providers (doctors, agency nurses etc. who are not state employees).
- Dialysis Contract.
- Anthem bills (VADOC's share).
- Medical and Dental Supplies.
- VCUHS discounted drugs such as HIV, Hep C, Biologics (340b federal discount).
- Diamond Pharmacy (VADOC's share of all other drugs).
- State Responsible inmates in jails (when billed to VADOC).
- Medical Equipment.



# Offender Health Care

*How much do we pay?*

Cost	FY2012	FY2017	Variance	% change
Personal Services	\$30,191,201	\$29,129,595	-\$1,061,606	-3.52%
Medical Contracts	\$72,310,858	\$80,065,277	\$7,754,419	10.72%
Individual staffing contracts	\$6,288,306	\$8,297,009	\$2,008,703	31.94%
Anthem (VADOC share)	\$30,957,892	\$43,266,192	\$12,308,300	39.76%
<b>Medical Total:</b>	<b>\$139,748,257</b>	<b>\$160,758,073</b>	<b>\$21,009,816</b>	<b>15.03%</b>
VCUHS discount drugs	\$4,502,370	\$13,082,222	\$8,579,852	190.56%
Diamond drugs (VADOC's share)	\$7,154,184	\$8,357,065	\$1,202,881	16.81%
<b>Drug Total:</b>	<b>\$11,656,554</b>	<b>\$21,439,287</b>	<b>\$9,782,733</b>	<b>83.92%</b>
<b>Total Medical and Drug costs</b>	<b>\$145,116,505</b>	<b>\$173,900,351</b>	<b>\$28,783,846</b>	<b>19.83%</b>
Medical Supplies	\$1,370,004	\$1,233,810	-\$136,194	-9.94%
Jails' bills for SR	\$855,086	\$4,996,062	\$4,140,976	484.28%
Medical Equipment	\$167,466	\$1,080,004	\$912,538	544.91%



# Offender Health Care

## *Why did medical increase?*

<u>Cost</u>	<u>FY2012</u>	<u>FY2017</u>	<u>Variance</u>	<u>% change</u>
Personal Services	\$30,191,201	\$29,129,595	\$-1,061,606	-3.52%
Medical Contracts	72,310,858	80,065,277	7,754,419	10.72%
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<b>Medical Total:</b>	<b>139,748,257</b>	<b>160,758,073</b>	<b>21,009,816</b>	<b>15.03%</b>

- Over the period of time we added more beds to the contract sites due to the increased demand for infirmary and long-term care.
- We were unable to recruit state positions so we used contracts for physicians and agencies for nursing staff.
- The bulk of the increase is in the Anthem billing. Increase in both inpatient and outpatient billing. This does not even include the increases the contractors are paying for their outpatient Anthem billing (which was capitated but we know it was the same level of increase).





# Offender Health Care

## *Why did drug cost increase?*

<u>Cost</u>	<u>FY2012</u>	<u>FY2017</u>	<u>Variance</u>	<u>% change</u>
VCUHS discount drugs	\$4,502,370	\$13,082,222	\$8,579,852	190.56%
Diamond drugs (VADOC's share)	7,154,184	8,357,065	1,202,881	16.81%
<b>Drug Total:</b>	<b>11,656,554</b>	<b>21,439,287</b>	<b>9,782,733</b>	<b>83.92%</b>

- The increase in drug cost was 83.92%.
- We began to purchase our most expensive drugs through VCU at half cost.
- If we had not bought the \$8.6 million of drugs at VCU the overall increase would have been double.
- We estimate VCUHS saves us approximately \$10 million a year in drug costs.



# Offender Health Care

*Why did the medical/Rx increase?*

<u>Cost</u>	<u>FY2012</u>	<u>FY2017</u>	<u>Variance</u>	<u>% change</u>
Personal Services	\$30,191,201	\$29,129,595	\$-1,061,606	-3.52%
Medical Contracts	72,310,858	80,065,277	7,754,419	10.72%
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<b>Medical Total:</b>	<b>139,748,257</b>	<b>160,758,073</b>	<b>21,009,816</b>	<b>15.03%</b>
VCUHS discount drugs	4,502,370	13,082,222	8,579,852	190.56%
Diamond drugs (VADOC's share)	7,154,184	8,357,065	1,202,881	16.81%
<b>Drug Total:</b>	<b>11,656,554</b>	<b>21,439,287</b>	<b>9,782,733</b>	<b>83.92%</b>
<b>Total Medical and Drug costs</b>	<b>145,116,505</b>	<b>173,900,351</b>	<b>28,783,846</b>	<b>19.83%</b>

- So taking in the total medical costs (contract and state) we get an increase of almost 20%.
- Most of the increased cost is in outpatient and inpatient Anthem billing. Because hidden in the “Medical Contract” cost is the increase in Anthem payments the contractors are paying.
- The other factor is the increase in medication cost. The bulk of which are the very expensive specialty pharmacy drugs (e.g., Humira, Hep C. and HIV)



# Offender Health Care

## *Additional increase?*

<u>Cost</u>	<u>FY2012</u>	<u>FY2017</u>	<u>Variance</u>	<u>% change</u>
Medical Supplies	\$1,370,004	\$1,233,810	\$-136,194	-9.94%
Jails' for State Responsible	855,086	4,996,062	4,140,976	424.28%
Medical Equipment	167,466	1,080,004	912,538	639.70%

- An unexpected increase in medical cost was the 424% increase in the jails billing VADOC state responsible offender house in the jails.
- Jails are billing very large medical bills to the VADOC for those held in the jails. It appears there has been even greater increases in the jail medical care costs due to the same factors affecting DOC and also the increased attention to medical deaths in jails.
- Also, jails have improved their billing and collection from VADOC for the cost of state responsible.
- The medical equipment increase accounts for the purchasing of more computers and equipment at DOC facilities to perform medical procedures onsite instead of outpatient.



# Offender Health Care

*How does this compare with Consumer Price Index (CPI)?*

<u>Cost</u>	<u>FY2012</u>	<u>FY2017</u>	<u>Variance</u>	<u>% change</u>
<b>Total Medical and Drug costs</b>	<b>\$145,116,505</b>	<b>\$173,900,351</b>	<b>\$28,783,846</b>	<b>20%</b>

<u>Health Care CPI</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
<b>Medical Care</b>	2.2	2.5	2.4	3.8	2.7
<b>Hospital and related services</b>	3.6	5.6	3.5	4.5	5.7
<b>Inpatient Hospital Services</b>	2.7	6.8	2.9	5.3	5.5
<b>Prescription Drugs</b>	1.2	3.8	4.6	3.6	3.8

*Bureau of Labor Statistics CPI-Urban Wage Earners and Clerical Workers, 12-Month Percent Change, Medical Care (Series Id: CWUR0000SAM), Hospital and Related Services (Series Id: CWUR0000SEMD), Inpatient Hospital Services (Series Id: CWUR0000SS5702, Prescription Drugs (Series Id: CWUR0000SEMF01)*



# Offender Health Care

*46.5% of the cost by 0.6%  
(179/30,000) of the offenders*

- Diagnoses: Cancer, Heart Disease, Digestive Systems, Infectious Disease, Diabetes
- Procedures: Chemotherapy, cardiac surgery, colon cancer, treatment for infections related to diabetes or chronic diseases.



# Offender Health Care

## *So what are the cost drivers?*

- The majority of the increase in medical cost is in the outpatient and inpatient services billed through Anthem by private providers. This is the care provided outside of the facilities in local doctor's offices and hospitals. Even the jails have increased in outside care.
- Medications have increased likely due to the introduction of newer effective high cost medications.
- A large increase in money going to pay for state responsible offenders in the jails.
- Need to explore using a commercial product (like Anthem) to develop utilization management protocols for offenders.
- It also appears that the difficulties in recruiting healthcare providers as state employees has resulted in the use of expensive contracts and agencies. These contracts and agencies often pay more than state pay scales can match to recruit.
- Large increases in outpatient and inpatient services billed through Anthem by private providers.
- Introduction of high cost newer medications.
- A large increase in bills for state responsible offenders in the jails.
- Use of contract and agencies to fill positions we are unable to fill with state workers.



# Offender Health Care

## *So what can be done?*

- The greatest possibility of slowing cost is in either in **disease prevention, case management, or finding more opportunities to treat offenders onsite**. Onsite infirmary beds cost a fraction of a hospital bed.
- Need to explore using a commercial product (like Anthem) to develop utilization management protocols for offenders.
- It also appears that the difficulties in recruiting state employees as healthcare providers has resulted in the use of expensive contracts and agencies. These contracts and agencies often pay more than state pay scales can match to recruit.



# Offender Health Care

## *What cost risks are we facing?*

- Sudden unexpected increase in need for infirmary beds. Will need to build them or buy them.
  - 1 bed at VCU = \$474,500 per year (\$1300/day)
  - 1 bed at SHMH = \$365,000 per year (\$1000/day)
  - 1 bed at infirmary = \$120,000 per year (\$330/day)
- Federal Class Action settlement agreement at Fluvanna Correctional Center for Women. They are taking us back to court in June for a show cause.
- Two potential class action lawsuits related to providing Hep C. medications.
- Medical contractors get to adjust their rates November 2018 based on CPI.