Financial Overview: Proposed Health Clinic

Initial QuadMed Proposal vs. LGMG Costs

In November 2014, QuadMed provided Hempfield School District a preliminary financial analysis to operate a workplace health clinic for the Hempfield School District. They operate more than 90 clinics in 18 states and have been operating workplace clinics for more than 20 years. In fact, QuadMed is the company that the IU13 has partnered with for their on-site workplace health clinic operations in Lancaster and Lebanon locations.

At the district's request, QuadMed evaluated our population and costs. The QuadMed assumptions, based on their years of experience, were the following:

- Hempfield's average medical cost would rise at 8% annually without a medical clinic. Our experience has proven higher than this, as our costs per member have increased 10% annually over the last five years. Therefore, the QuadMed analysis provides a conservative, best-case scenario.
- 50% of HSD staff and 25% of dependents would use the clinic initially, growing over the next five years to 70% of staff and 45% of dependents.

The chart below shows projected Return on Investment (ROI), based on the above assumptions and HSD's population. The second row shows net savings after costs are accounted for under the QuadMed model, which was shared with the district in November, 2014. By comparison, the third row shows the cost of operating a health clinic under the Lancaster General Medical Group (LGMG) model. Please note that the annual cost under the LGMG model is less than the QuadMed cost in every year. Please also note, however, that there are some differences between the QuadMed and LGMG models that are discussed below.

	Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**
HSD Cost of Operation (QuadMed)	$791,629	$906,656	$1,020,281	$1,144,854	$1,252,485
HSD Net Savings After Costs (QuadMed)	$179,311	$511,821	$699,372	$928,259	$1,170,268
HSD Cost of Operation (LGMG, including construction)	$698,350	$698,773	$717,636	$737,065	$757,077

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Differences between the QuadMed and LGMG proposals include:

- QuadMed proposed physical therapy services from the clinic's opening. This could be added, if needed, or presents a potential increase in ROI in the future with LGMG, but is not part of LGMG's initial proposal.
- QuadMed proposed potential revenue for HSD if IU13 purchased access to the HSD clinic site for IU13 employees. The LGMG proposal had no such provision, as the clinic would only serve HSD members.
- QuadMed had more complete pharmacy offerings with respect to access to maintenance medications vs. those medicines prescribed in conjunction with provision of acute care.
- QuadMed did not include renovations or construction of a clinic location. This would have been an expense borne by the district in its entirety.

While these differences exist between the QuadMed and LGMG models, they do not translate to a significant difference in ROI between the models. In fact, in all models researched, the data suggests that the most significant ROI is realized through benefits related to offering primary care, health risk assessments, and preventative care

<u>How Are Healthcare Savings Achieved?</u>

Another way to look at savings is through a multi-prong approach. First, we need to slow the year-over-year increase to our healthcare cost per member. We have seen our per member costs grow at 10% per year. The clinic is intended to slow this growth by reducing costs through improved health. This is achieved through the combination of more accessible primary care, integrated health risk assessments and focused preventative care. The second cost reduction associated with the clinic is the fact that people using the clinic are not using another, more costly, alternative for the same care.

Below are nine potential scenarios of several worst case and conservative estimates of healthcare savings or (cost) over the proposed five-year LGMG contract. The table and graphs are labeled with two percentages. In the first row, the first percentage (9%) is the increase in healthcare costs year-over-year; current experience has been a trend of 10% increases in cost year over year. The second percentage (20%) is the portion of members (currently 1,950 members on plan) using the proposed clinic. As you work your way across the row, you will see projected savings (or costs) for 20% usage, then 30% usage, and finally 40% usage. The second row shows projected savings if the cost against trend drops from 10% to 8%, given different levels of usage. The third row provides projected savings given a drop in cost against the trend from 10% to 7%, given usage at the 20%, 30%, and 40% levels.

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Annual Increase to Healthcare Costs & Clinic Usage	5-year Savings or (Cost)	Annual Increase to Healthcare Costs & Clinic Usage	5-year Savings or (Cost)	Annual Increase to Healthcare Costs & Clinic Usage	5-year Savings or (Cost)
9% & 20%	$(863,871)	9% & 30%	$(452,733)	9% & 40%	$(41,595)
8% & 20%	$1,010,184	8% & 30%	$1,421,322	8% & 40%	$1,832,460
7% & 20%	$2,836,567	7% & 30%	$3,247,705	7% & 40%	$3,658,843

A few things to consider:

- The analysis assumes the same level of clinic staffing throughout the time period. It must be noted that if clinic usage is only 20%, the clinic would be overstaffed and staffing reductions would be made by LGMG, resulting in lower costs.
- The analysis assumes all costs have been accounted for, including the initial cost of renovations and equipment to open the clinic.
- The 9% healthcare cost increase model assumes almost no change to user behavior or cost with the clinic from the 10% increase without a clinic. Without at least a 2% drop (8% annual increase) against our current cost trend, the district would need to evaluate and consider terminating clinic services.
- This analysis is based on the proposal presented on the agenda at the October School Board meetings. It must be noted that the model is under review and will be modified to incorporate the required fees for employees participating in Health Savings Accounts. All details regarding this change have not yet been determined, but a net result of these changes will be additional revenue to help offset the monthly fees associated with clinic operation. These additional fees will improve the projections.

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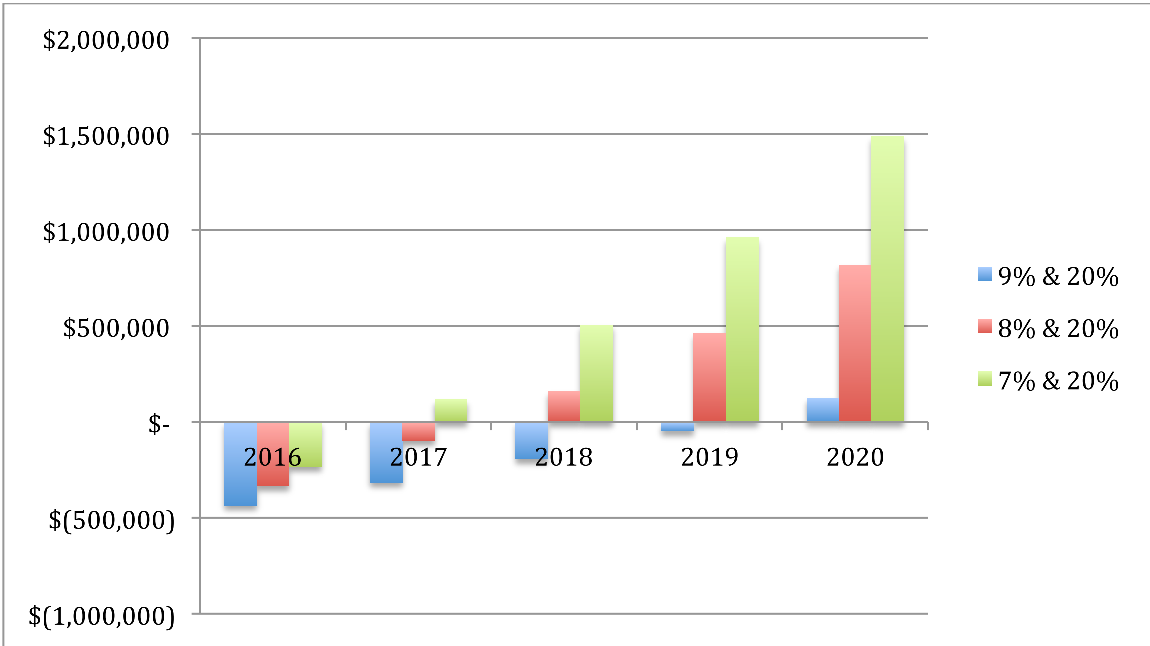
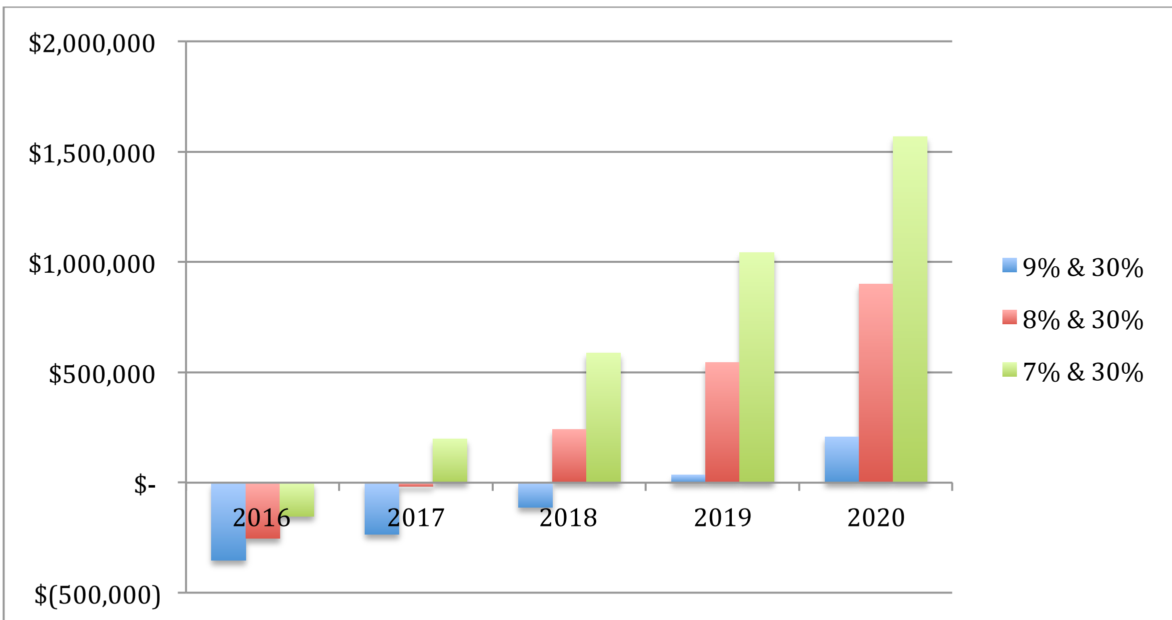
20% Member Usage of Clinic



30% Member Usage of Clinic



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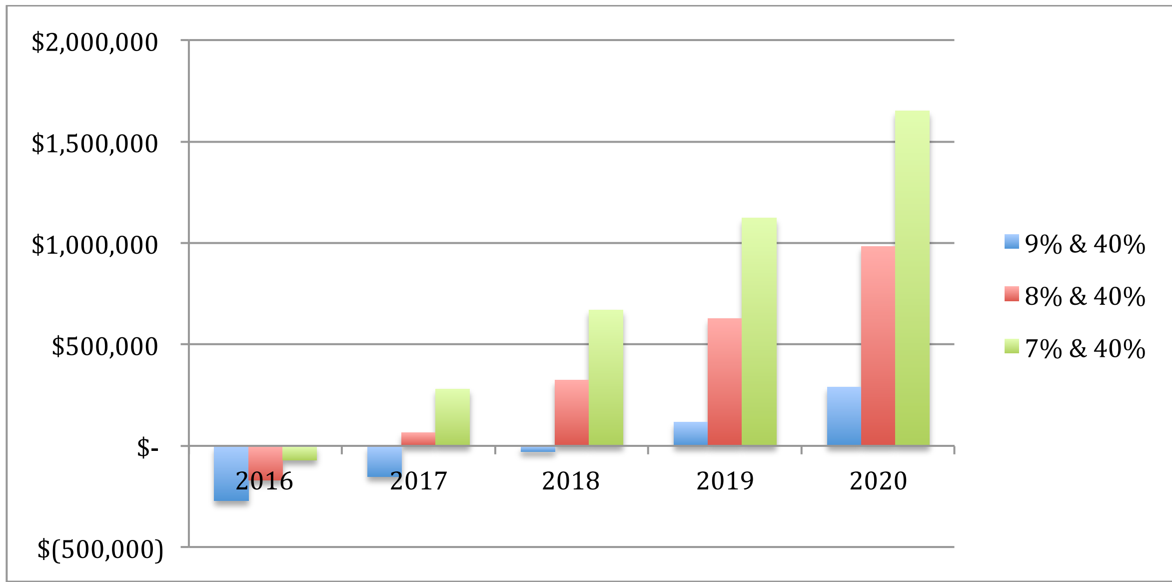
40% Member Usage of Clinic



The detail specified in this Financial Overview is a compilation of information presented at various School Board Meetings from May through October 2015. Because some of the information was presented verbally, we have provided the accompanying detail to provide a clear representation of the financial savings related to the proposed healthcare clinic.