

June 2, 2015

Ms. Wanda Page
Deputy City Manager
101 City Hall Plaza
Durham, North Carolina 27701

RE: BlueCross BlueShield of North Carolina's Discount Guarantee

Dear Ms. Page:

Pursuant to Brad Wilson's commitment of putting our financial offer in the strongest contractual terms possible, we are proposing the following:

1. Blue Cross will commit a total of \$2 million at-risk to ensure we meet the 34-month discount target of 56.1%. This figure assumes the 60% enrollment in the Blue Local product beginning July 1, 2016.
2. In the first 10 months of the program, Staff has modeled a \$735,000 financial advantage for Aetna. A large portion of that money was to be used to lower the contribution costs for City employees. Like Council and Staff, we are committed to lowering the cost of insurance for City employees, as reflected in their payroll deductions. To help with that and address the cost difference, Blue Cross will grant the City a \$735,000 payment to be taken monthly or in one lump-sum.
3. At the end of the 34-month period, an accounting of the effective discount will take place. Blue Cross will guarantee the dollar value difference of the allowed claims based on the actual in-network discounts and the guaranteed discounts. We have removed the risk-free corridor for this 34 month period in an effort to be as aggressive as possible. If there are no penalty payouts, the City will retain the \$735,000. If there are penalty payouts, the first \$735,000 will be deemed as having been credited given the initial payment. From there, if there are additional penalty amounts, they will be paid until the full \$2 million is exhausted.
4. This guarantee assumes other negotiated provisions still apply. Two important provisions are the prescription drug program remains with Blue Cross/Prime and the Blue Rewards incentive program is implemented for the ten (10) months remaining in the 2015/16 fiscal year.
5. At this discount level and first-year "City employee health benefits fund," Blue Cross will have a \$379,369 advantage. This figure is calculated using the attached spreadsheet.

I have also attached the terms of this Discount Guarantee. We look forward to discussing this information with you tomorrow at 1:30pm at your offices.

Warmest regards,



Steve Crist
Vice President, Group Markets
BlueCross BlueShield of North Carolina

Spreadsheet Representation of the Proposed Blue Cross Discount Guarantee (3-years)
City of Durham (3 YEAR PROJECTION)

Best Case (High ACO enrollment; High Discounts)	2015/2016		2016/2017		2017/2018		Total	
	Aetna	BCBS	Aetna	BCBS	Aetna	BCBS	Aetna	BCBS
A. Expected Billing Charges (1)	\$ 51,500,000	\$ 51,500,000	\$ 54,075,000	\$ 54,075,000	\$ 56,778,000	\$ 56,778,000	\$ 162,353,000	\$ 162,353,000
B. Enrollment % in ACO (2)	70%	0%	70%	60%	70%	60%		
C. Discount Level (3)	56.10%	53.89%	56.10%	56.90%	56.10%	56.90%		
D. Allowed Amount	\$ 22,608,500	\$ 23,746,650	\$ 23,738,925	\$ 23,306,325	\$ 24,925,542	\$ 24,471,318	\$ 71,272,967	\$ 71,524,293
E. Run-out Administration	\$ 252,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 252,000	\$ -
F. Core Coordination Fee (\$4 pMpm)	\$ 168,000	0	\$ 168,000	0	\$ 168,000	0	\$ 504,000	\$ -
G. Total ASO Fee Net of Allowances/Additional Costs (4)	\$ 782,760	\$ 1,026,013	\$ 790,260	\$ 976,013	\$ 790,260	\$ 976,013	\$ 2,363,280	\$ 2,978,039
H. Total Expected Before ACO Clinical Savings (D+E+F+G)	\$ 23,811,260	\$ 24,772,663	\$ 24,697,185	\$ 24,282,338	\$ 25,883,802	\$ 25,447,331	\$ 74,392,247	\$ 74,502,332
I. Expected ACO Savings as a % of Allowed (D)	2.0%	0.0%	3.0%	1.0%	3.0%	2.0%		
J. \$ Value of ACO Savings	\$ 452,170	\$ -	\$ 712,168	\$ 233,063	\$ 747,766	\$ 489,426	\$ 1,912,104	\$ 722,490
K. Adjusted Costs Before Any Benefits Changes (H-J)	\$ 23,359,090	\$ 24,772,663	\$ 23,985,017	\$ 24,049,275	\$ 25,136,036	\$ 24,957,905	\$ 72,480,143	\$ 73,779,842
L. Benefit Improvements As a % of Allowed (D)	3.0%	0.0%	3.0%	2.5%	3.0%	2.5%	3.0%	1.7%
M. Total Benefit Improvement	\$ 678,255	\$ -	\$ 712,168	\$ 582,658	\$ 747,766	\$ 611,783	\$ 2,138,189	\$ 1,194,456
N. Total Plan Costs (K+M)	\$ 24,037,345	\$ 24,772,663	\$ 24,697,185	\$ 24,631,933	\$ 25,883,802	\$ 25,569,688	\$ 74,618,332	\$ 74,974,298
		\$ 735,318		\$ (65,252)		\$ (314,114)		\$ 355,951

City of Durham
069114
Medical Rate Page - Administrative Services Only



Network Savings Guarantee Proposal

Assumptions

Number of Enrolled Employee Lives	2,731		
Number of Members Enrolled	5,345		
Number of Benefit Plans to be Administered	2 (Blue Options)		
Membership Breakdown by Service Area			
	NC	5,291	
	AZ	1	TX 2
	CO	1	VA 11
	FL	5	WA 1
	GA	1	
	KY	5	
	MA	4	
	MD	3	
	NJ	7	
	NY	1	
	OK	2	
	PA	4	
	SC	6	

Network Savings Guarantee

Estimated Annual Administrative Fees (excludes Network Performance Fees, if any) \$1,016,587
(excludes Discount Performance Fees, if any)

Blue Local Membership Weight (%)	Membership Weighted In-Network Provider Discount Percent*
60%	56.10%

Guarantee Assumptions

Guarantee Period: 9/1/15-6/30/18
Settlement Basis: Claims incurred 9/1/15-6/30/18 with 3 months of paid run-out
Metric: Dollar value of difference between allowed claims based on actual discounts and guaranteed discounts

Greater Than	Less than or Equal To	Payout
\$0	\$735,000	Credited*
\$735,000	\$2,000,000	\$ for \$
\$2,000,000	\$2,000,000+	N/A

*Per Wellness Payment via one-time check of \$735,000

Blue Cross and Blue Shield of North Carolina (BCBSNC) guarantees in-network provider savings on In-Network PPO Hospital and Physician claims expense for the above periods. The network savings guarantee is offered on total fee-for-service claims (Combination of Inpatient, Outpatient and Professional/Other costs), excluding Care Management Fees, Prescription drugs, and Network Access Fees, if any.

*The average **Membership** over the guaranteed period will be used to blend the average Blue Options discount with the average Blue Local discount over the guaranteed period to calculate the Membership Weighted In-Network Provider Discount Percent.

This guarantee is contingent upon existing Pharmacy terms continuing for the guarantee period.

The following definitions are applicable:

- In-Network Eligible Billed Charges = Total In-Network Billed Charges minus Total In-Network Non-eligible Charges
- In-Network Provider Savings Dollars = In-network Eligible Billed Charges minus Allowed Charges
- In-Network Provider Savings Percent = In-Network Provider Savings Dollars divided by In-Network Eligible Billed Charges

If total enrollment varies by more than 10% from the assumed, or the percent of employees enrolled by state (including other states) varies by more than 10% from the assumed, BCBSNC reserves the right to adjust the Percent of the In-Network Network Savings Guarantee, based on the expected savings by state.

If total enrollment varies by more than 10% from the assumed enrollment, or the percent of employees enrolled by state (including other states) varies by more than 10% from the assumed enrollment, BCBSNC reserves the right to adjust the Percent of the In-Network Network Savings Guarantee, based on the expected savings