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June 23, 2010

Oregon Public Employees' Benefit Board

Renewal Increases, Stabilization Fund Update
and Follow-up on Plan Design Options

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Mikel Gray, Mercer

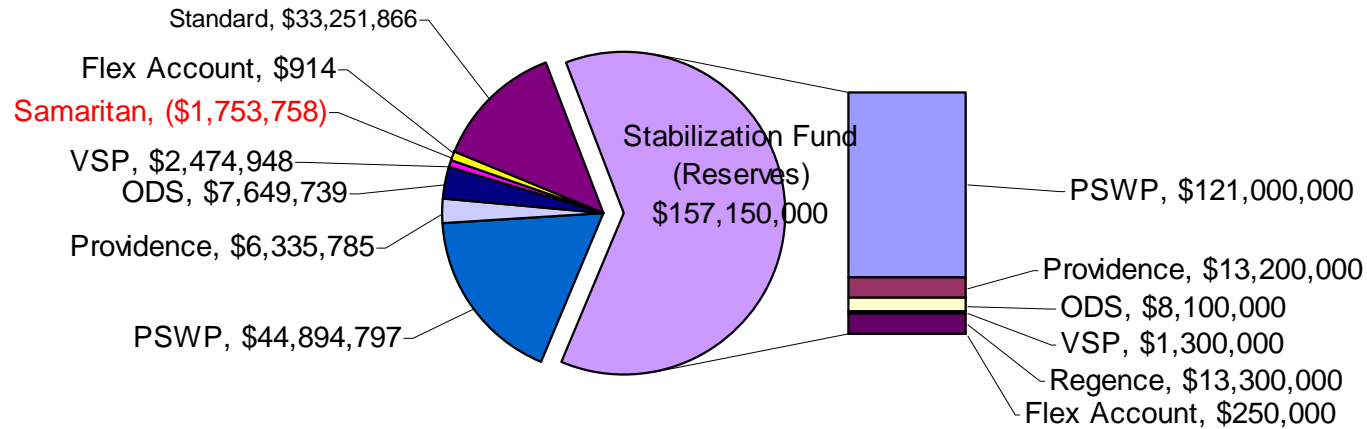
Plan for Today

- Review
 - Stabilization account balance 2009-11 and projections for PY 2011
 - Risk Based Capital recommended reserves 2011-2013
 - Reserve standards at 10% trend for 2011
 - 5% and 10% for 2012, 2013
- 2011 renewal increase and the Governor's Recommended Budget
 - Updated composite rate based on Board decisions through June 15, 2010 meeting
 - Collective Bargaining Agreement
- Gap Scenarios
 - Impact on Standard demutualization account
- Options to fill the gap
 - Evidence- based plan design changes
 - Benefit changes
 - Impact of not including retirees in active PEBB pool
 - Spend funds as agreed in Collective Bargaining Agreements
- Next Steps

Current Stabilization Account Balance

Stabilization Account Ending Balance 09-11 (June 30, 2011)

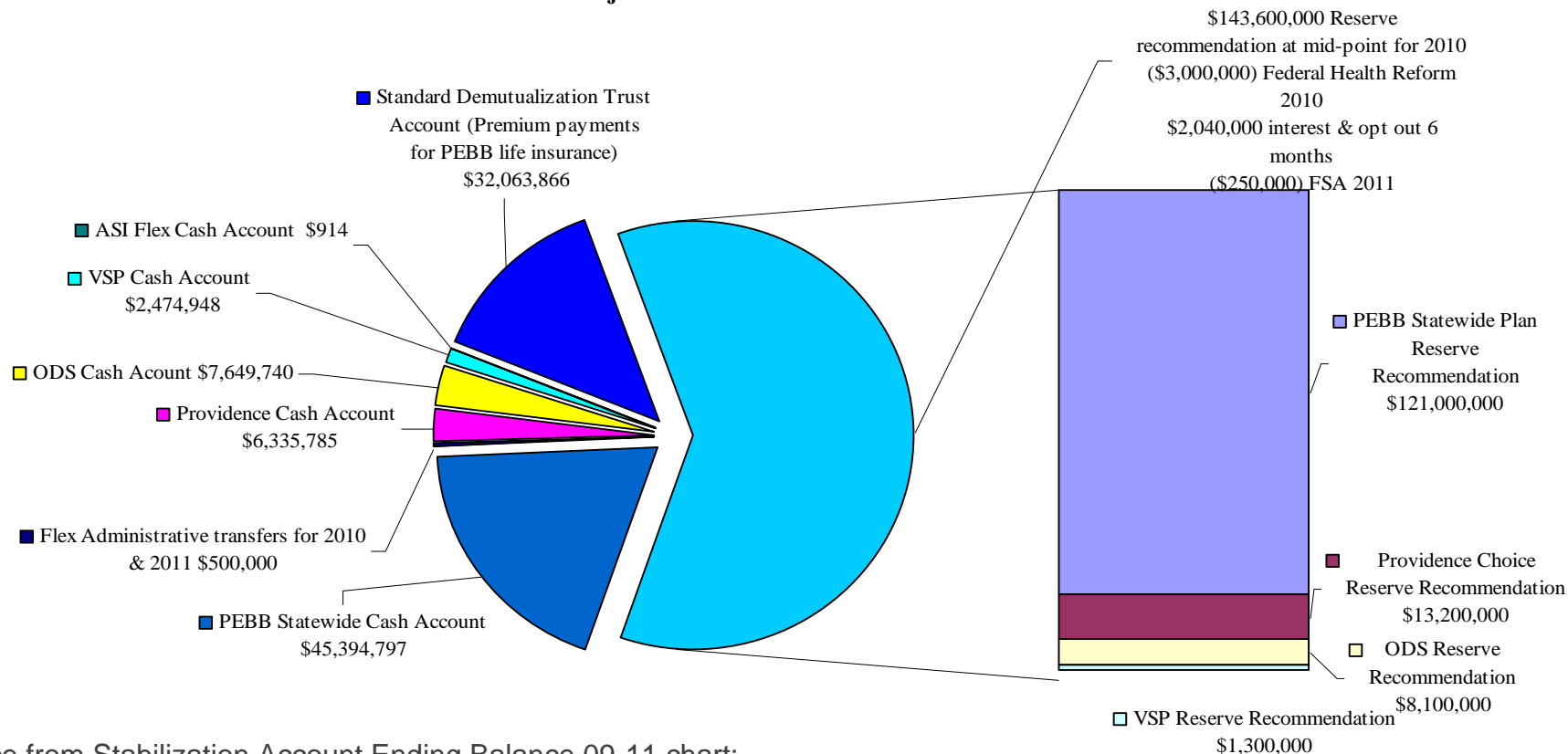
Does not include Reserve requirements to be paid:
 Federal health reform in 2010 ~\$3 million
 Flexible Spending Account administration 2011 ~\$250,000
 Increase to reserve levels at % RBC 2011 ~TBD



Stabilization Account projected through Plan Year 2011

Stabilization Fund Reserve
\$142,390,000

Stabilization Fund Projection of Accounts on 12/31/2011



- Variance from Stabilization Account Ending Balance 09-11 chart:
 - Decrease in stabilization reserve fund balance: moved allocation to flexible spending account administration for 2010 (\$250,000) from Reserve fund to cash flow and added an additional expenditure \$250,000 for 2011
 - Zero impact: Samaritan account zeroed out and deleted from PEBB fund
 - Zero impact: Close out Regence settlement account (final settlement in late 2011)
 - Decrease in Standard Demutualization account: Pay additional premium for PEBB life insurance for 6 months (\$1.19 million)
 - Decrease in stabilization reserve fund balance: federal health reform impact on PY 2010 (\$3.0 million)
 - Increase in stabilization reserve fund balance: Interest payments for 6 months and opt-out for 6 months (\$2.04 million)

Stabilization Fund Variance PY 2011

▪ Reserve Fund balance for PY 2011 based on 2010 reserves (includes interest and opt-out)	\$142,390,000
▪ Current Reserve for PY 2010* -	<u>\$143,600,000</u>
Fund variance:	(\$1,210,000)

* Current reserve is the mid-point of Mercer's recommended range.

Mercer Recommended Self-funded Plan Reserves

- Mercer strongly recommends maintaining rate stabilization reserves related to PEBB's self-funded medical, dental, and vision programs (in addition to IBNR)
- Mercer's recommended reserve ranges are based on the National Association of Insurance Commissioners (NAIC) Risk Based Capital (RBC) requirements for Underwriting Risk (insufficient premiums relative to expense)
 - Rate Stabilization Reserve recommendation is based on percentage ranges of RBC depending on type of coverage (e.g., medical, dental)
 - Stabilization fund should not be reduced below the low end of the recommended range
- Appropriateness of reserve ranges should be reviewed periodically
 - Timing depends on ongoing monitoring of PEBB's actual funding experience, and if and when significant plan design, population, vendor, or health insurance market changes occur
- The following pages show current recommended reserve ranges by type of coverage, year, and assuming current best estimate trend versus increases limited to 5% GRB level.

Mercer recommended reserve requirements for PEBB self-insured plans for 2011 - 2013

- Best estimate based on 10% medical, 5% dental, and 4% vision increases

Stabilization Fund for Self-Insured Plans	Recommended Rate Stabilization Reserve Range								
	1/1/2011 - 12/31/2011			1/1/2012 - 12/31/2012			1/1/2013 - 12/31/2013		
	Mid-Point	Low	High	Mid-Point	Low	High	Mid-Point	Low	High
Statewide plan	\$137,000,000	\$124,000,000	\$149,000,000	\$149,500,000	\$136,000,000	\$163,000,000	\$164,000,000	\$149,000,000	\$179,000,000
% of RBC	275%	250%	300%	275%	250%	300%	275%	250%	300%
Providence	\$14,500,000	\$13,000,000	\$16,000,000	\$15,500,000	\$14,000,000	\$17,000,000	\$16,500,000	\$15,000,000	\$18,000,000
% of RBC	275%	250%	300%	275%	250%	300%	275%	250%	300%
ODS	\$8,750,000	\$7,000,000	\$10,500,000	\$9,000,000	\$7,000,000	\$11,000,000	\$9,500,000	\$7,500,000	\$11,500,000
% of RBC	250%	200%	300%	250%	200%	300%	250%	200%	300%
VSP	\$1,300,000	\$1,100,000	\$1,500,000	\$1,400,000	\$1,200,000	\$1,600,000	\$1,400,000	\$1,200,000	\$1,600,000
% of RBC	175%	150%	200%	175%	150%	200%	175%	150%	200%
Total	\$161,550,000	\$145,100,000	\$177,000,000	\$175,400,000	\$158,200,000	\$192,600,000	\$191,400,000	\$172,700,000	\$210,100,000

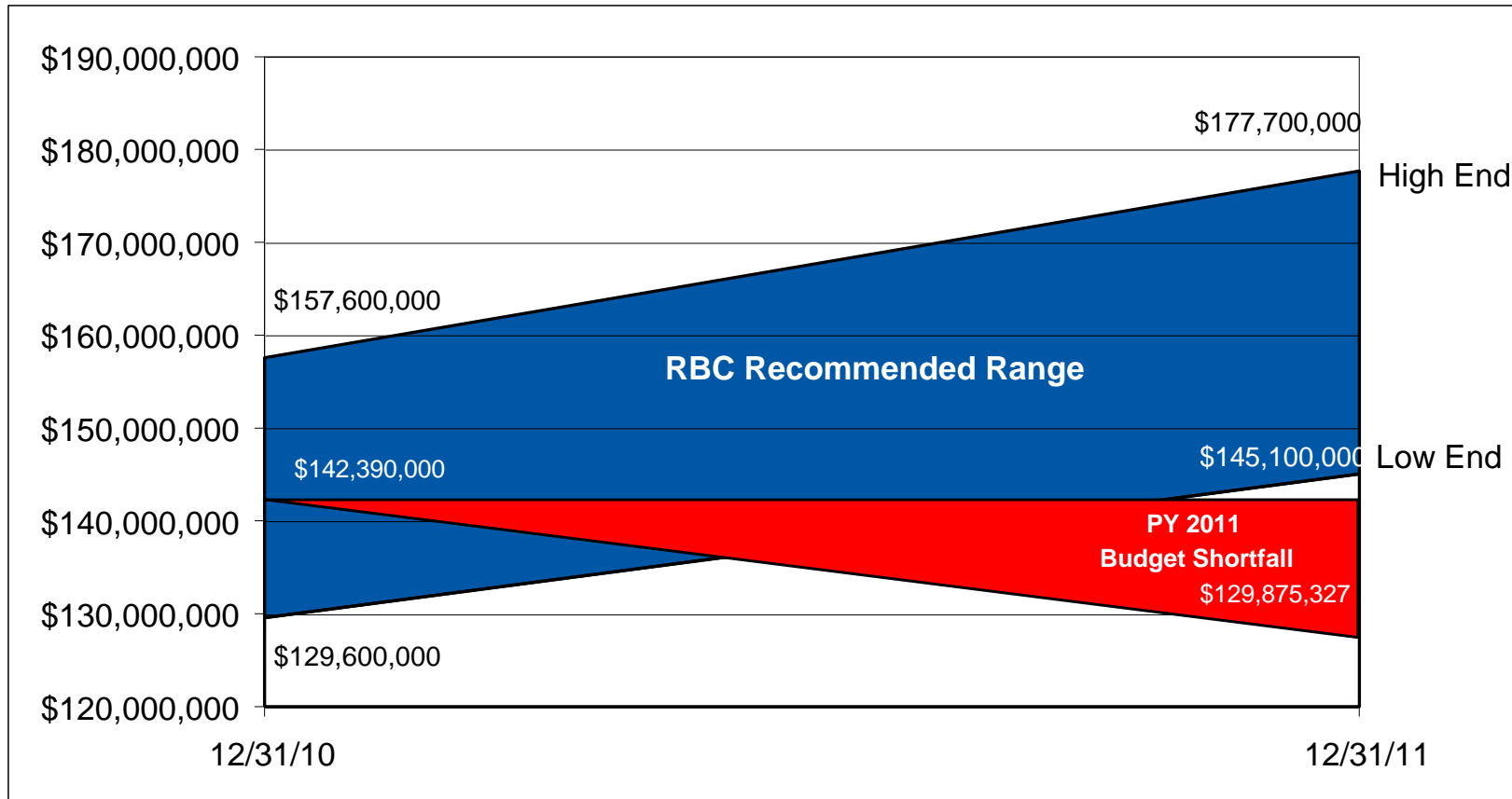
Mercer recommended reserve requirements for PEBB self-insured plans for 2011 - 2013

- Estimate based on
 - Medical trend of 10% for 2011 and 5% for 2012 and 2013
 - 5% dental and 4% vision increases for all years
- Reducing below medical trend requires some changes in medical program.

Recommended Rate Stabilization Reserve Range									
Stabilization Fund for Self-Insured Plans	1/1/2011 - 12/31/2011			1/1/2012 - 12/31/2012			1/1/2013 - 12/31/2013		
	Mid-Point	Low	High	Mid-Point	Low	High	Mid-Point	Low	High
Statewide plan	\$137,000,000	\$124,000,000	\$149,000,000	\$143,000,000	\$130,000,000	\$156,000,000	\$150,000,000	\$136,000,000	\$164,000,000
% of RBC	275%	250%	300%	275%	250%	300%	275%	250%	300%
Providence	\$14,500,000	\$13,000,000	\$16,000,000	\$14,900,000	\$13,500,000	\$16,300,000	\$15,400,000	\$14,000,000	\$16,800,000
% of RBC	275%	250%	300%	275%	250%	300%	275%	250%	300%
ODS	\$8,750,000	\$7,000,000	\$10,500,000	\$9,000,000	\$7,000,000	\$11,000,000	\$9,500,000	\$7,500,000	\$11,500,000
% of RBC	250%	200%	300%	250%	200%	300%	250%	200%	300%
VSP	\$1,300,000	\$1,100,000	\$1,500,000	\$1,400,000	\$1,200,000	\$1,600,000	\$1,400,000	\$1,200,000	\$1,600,000
% of RBC	175%	150%	200%	175%	150%	200%	175%	150%	200%
Total	\$161,550,000	\$145,100,000	\$177,000,000	\$168,300,000	\$151,700,000	\$184,900,000	\$176,300,000	\$158,700,000	\$193,900,000

Fund Balance Versus RBC Recommended Range

10% Medical, 5% Dental, and 4% Vision Trend



2011 Renewal Increase & The Governor's Recommended Budget (GRB)

- For all plans combined, the 2011 projected rate increase over 2010 actual is currently 9.93%
- The 2011 projected rate increase is 4.93% above the 5% GRB increase based on the 2010 actual composite rate
 - 3.93% above the 5% GRB increase and the 1% provider tax.
 - Costs incorporate previously approved dental plan changes, vision renewal, reduced PEBB administration and elimination of communications fees.
 - Also includes plan design changes for plan year 2011 made on June 15 to PEBB's self-insured plans (Providence Choice and the PEBB Statewide Plan):
 - Sleep study benefit modifications
 - Require flat co-payment amount of \$100. Does not apply to maximum OOP.
 - \$300,000 in savings, which is approximately 0.1% for the PPO
 - Imaging benefit modifications (CT, MRI & PET)
 - Require flat co-payment amount of \$100. Does not apply to maximum OOP.
 - \$2.5 million in savings, which is approximately 0.5% for the PPO

Renewal Increases for 2009-2011 and the Collective Bargaining Agreement

- Article 31—Insurance, in the Collective Bargaining Agreement
 - “...Effective January 1, 2009 through December 31, 2009, the Employer shall make a contribution sufficient to cover the premium costs for the PEBB health, dental and basic life benefits chose by each eligible full-time employee who has at least eighty (80) paid regular hours in a month.

For plan year January 1, 2010 through December 31, 2010, the Employer will increase its monthly contributions by up to five percent (5%) of the actual monthly composite resulting for plan year 2009.

For plan year January 1, 2011 through December 31, 2011, the Employer will increase its monthly contributions by up to five percent (5%) of the actual monthly composite resulting for plan year 2010.

If in either or both of the plan years described above, the premium increase is greater than five percent (5%), the Parties shall jointly petition the Public Employees' Benefit Board to use reserve funding to pay for premium increases in excess of five percent (5%) up to a maximum of ten percent (10%) in each year...”

- Letter of agreement 31.00-09.188 states that:
 - “...The Parties recognize that, pursuant to HB2116, the State of Oregon has levied an assessment on PEBB claims. Should PEBB increase the rates it charges to the Employer based on this assessment, the Employer will pay for the portion of the rate increase that is attributable to the assessment. These payments will be in addition to the up to five percent (5%) increase in premium costs provided under Article 31 of this Contract and shall be made without petitioning PEBB to use reserves...”

2010 rate increase- by the numbers

- Actual 2009 rate: \$1075.10 PEPM
- Actual 2010 rate: \$1149.04 PEPM
 - increase of 6.88% over 2009 actual
 - 5.00% GRB budget

1.88 % over 5% GRB	=	\$11,998,311
<u>1.00% provider tax</u>	-	<u>\$ 6,025,598</u>

Increase of 0.88% over 5% GRB and 1% provider tax= \$ 5,972,712

Therefore, the total funds needed to buy down the rates is \$ 5,972,712

- GF match, as calculated by DAS= 37.60%

=\$2,245,740 of PEBB reserves required to fill the gap in 2010 per the CBA

2011 Rate increase- by the numbers

- Actual 2010 rate: \$1149.04 PEPM
- Projected 2011 rate: \$1263.13 PEPM
 - increase of 9.93% over 2010 actual
 - 5.00% GRB budget

4.93% over 5% GRB	=	\$ 39,988,031
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1.00% provider tax	-	\$ 6,704,325
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Increase of 3.93% over 5% GRB and 1% provider tax= \$ 33,283,705

Therefore, the total funds needed to buy down the rates is \$ 33,283,705

- GF match, as calculated by DAS= 37.60%

=\$12,514,673 of PEBB reserves required to fill the gap in 2011 per the CBA

Impact of 2009-2011 plan year rate increase and PEBB reserves

- Total PEBB stabilization funds needed to pay for rate increases above 5% GRB and 1% provider tax for plan years 2010 and 2011, per the CBA:

Total Fund

2010: \$ 5,972,712

2011: \$33,283,705

Total: \$39,256,418

General Fund calculated at 37.60% of TF

2010: \$ 2,245,740

2011: \$12,514,673

Total: \$14,760,413

Gap Scenario: Current Board decisions for Plan Year 2011

Plan design changes reduced overall composite rate from 10.4% to 9.93%

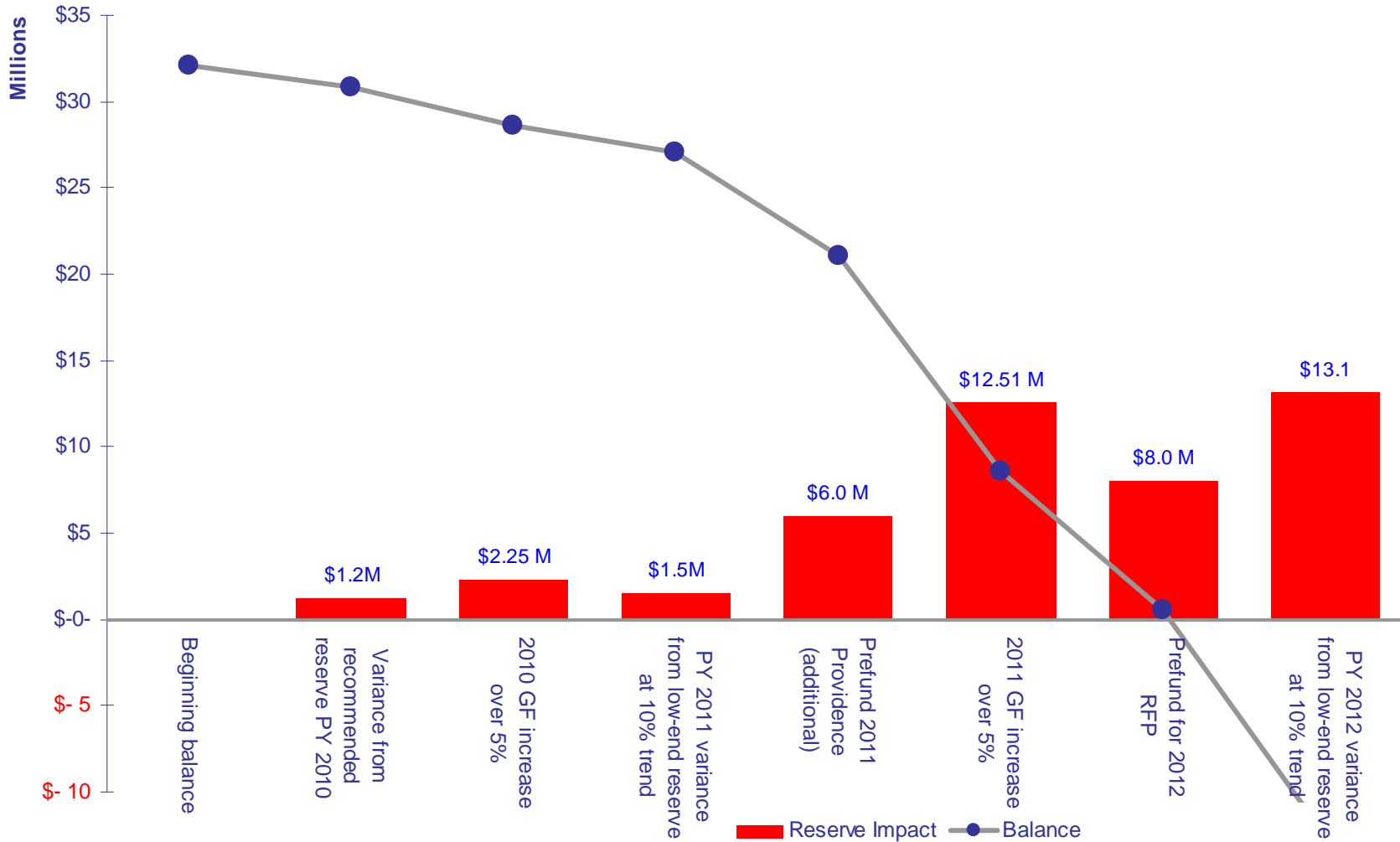
- PEBB pick-up difference between 9.93% and 5% GRB plus the 1% provider tax, consistent with CBA.
- Stabilization reserve fund balance: **\$142,390,000**
- Fund impact on picking up difference in 2011 (GF): - \$12,514,673
- Restates Stabilization reserve fund balance: \$129,875,327
- 2011 RBC reserve low end of standard at 10% trend: \$145,100,000
- Shortfall (Stabilization fund- reserve standard) = **(\$15,224,673)**

Stabilization fund balance would be below recommended “low” end of standard. Funds would have to come from Standard Demutualization Account balance to make up shortfall, based on Letter of Agreement 31.00-09.186 (2).

- Impacts on PEBB life insurance benefit going forward
- Short-term fix for rate increases

Current Board decisions: Impact on Standard demutualization fund

Stabilization Fund and Standard Demutualization Run-Through



Gap Scenario: Reduce rates from 9.93 to 5.0% for Plan Year 2011

Plan design changes to reduce overall composite rate from 9.93% to 5.0%

▪ Stabilization reserve fund balance:	\$142,390,000
▪ Fund impact on picking up difference:	\$0
▪ 2011 RBC reserve low end of standard at 5% trend:	<u>\$138,600,000</u>
▪ Margin (Stabilization fund- reserve standard)=	\$3,790,000

- Stabilization fund balance would be above recommended “low” reserves. No action required in 2011, however additional prefund amounts for Providence in 2011 may require utilizing some of the demutualization funds to maintain reserves above recommended low level. Prefunds are required annually in self-insured contracts and are equal to the estimate of 7 days of medical, 7 days of pharmacy and 30 days of mental health claims.

Options to fill gap

- Current Board decisions for PY 2011 renewals require funds to fill the gap between 9.93% and 5% GRB plus 1% provider tax
- Scenario to reduce rates from 9.93% to 5% for PY 2011
- Options to fill the gap include:
 - Spend funds as agreed in CBA
 - Demutualization funds to buy-down rates from 9.93% to 5% GRB plus 1% provider tax
 - Moving of PEBB Other Funds to General Fund agencies requires
 - E-Board approval
 - Refine process for agencies
 - Plan design changes
 - Evidence-based plan design
 - Benefit changes
 - Cost-sharing
 - Not including retirees in active pool

Evidence-based Plan Design Options

- Evidence-based plan design benefit tier
 - Providence estimates 1.3% savings for \$500 copay on certain Specialty Shared Services, which is approximately \$7.3 million.
 - Upper GI endoscopy
 - Spine procedures for pain
 - Knee and hip replacement
 - Shoulder and knee arthroscopy
- Require Health Risk Assessments (HRAs) for all members
 - Administrative costs TBD if this option is chosen
- Include WW for dependents
 - Dependents* age 18+ added as eligible for Weight Watchers at no cost
 - PY 2011 cost is \$100,000 for Kaiser
 - \$0 for self-insured Providence plans

*Dependents include tax-dependents & domestic partners and their children

Plan Design Options

PEBB Statewide PPO-Updated impacts

Description of Option for Savings	Estimated Savings	% of Premium	Member Impact	Difficulty to Implement	Benchmark - Government *
\$100 In-Network/\$200 Out-of-Network Deductible	(\$6,600,000)	-1.2%	Low	Low	\$400 In/\$500 Out
\$250 In-Network/\$500 Out-of-Network Deductible	(\$15,900,000)	-2.8%	Medium	Low	\$400 In/\$500 Out
\$500 In-Network/\$1,000 Out-of-Network Deductible	(\$29,500,000)	-5.2%	Medium	Low	\$400 In/\$500 Out
\$100/\$200 Deductible, 4 Office Visits not subject to Deductible	(\$5,600,000)	-1.0%	Low	Low	\$400 In/\$500 Out
\$250/\$500 Deductible, 4 Office Visits not subject to Deductible	(\$14,000,000)	-2.5%	Medium	Low	\$400 In/\$500 Out
\$500/\$1,000 Deductible, 4 Office Visits not subject to Deductible	(\$25,700,000)	-4.5%	Medium	Low	\$400 In/\$500 Out
\$1,250 Out-of-Pocket Max	(\$3,700,000)	-0.7%	Low	Low	\$2000 OOP Max
\$1,500 Out-of-Pocket Max	(\$7,000,000)	-1.2%	Low	Low	\$2000 OOP Max
\$2,000 Out-of-Pocket Max	(\$11,700,000)	-2.1%	Medium	Low	\$2000 OOP Max
20% Emergency Room Coinsurance	(\$500,000)	-0.1%	Low	Low	\$50 Copay
\$100 Emergency Room Copay	(\$2,300,000)	-0.5%	Low	Low	\$50 Copay
20% PCP, 35% Specialist Office Visit Coinsurance	(\$4,700,000)	-0.8%	Low	Medium	\$20 PCP, \$30 Sp.
25% Medically Necessary, 50% Elective Surgery Coinsurance	(\$500,000)	-0.1%	Low	Medium	N/A
\$50 Deductible for Rx only	(\$1,900,000)	-0.3%	Low	Low	No Rx Deductible
Retail: \$10 Generic, \$30 Brand, Higher of 50% or \$60 Brand non-Formulary Mail Order: 2.5x Retail	(\$12,200,000)	-2.1%	Medium	Low	\$8/\$20/\$34 Retail \$14/\$37/\$61 Mail
4th Rx Tier for Specialty Drugs - \$100 Copay	(\$500,000)	-0.1%	Low	Medium	No 4th Tier
Bariatric Surgery Copay of \$1,000	(\$250,000)	-0.1%	Low	Low	N/A
Alternative Care Limit of 60 Visits	(\$600,000)	-0.1%	Low	Low	N/A
Discontinue Rural Subsidy	(\$4,000,000)	-0.7%	Medium	Medium	N/A
Rate Retirees and Actives Separately	(\$10,500,000)	-1.9%	Medium	Medium	N/A

* Government benchmark represents median plan designs from the 2009 Mercer National Survey of Employer-Sponsored Health Plans

Plan Design Options

Kaiser, Providence Choice & ODS- Updated impacts

Kaiser Permanente HMO

Description of Option for Savings	Estimated Savings	% of Premium	Member Impact	Difficulty to Implement	Benchmark - Government *
\$1,000 Out-of-Pocket Max	(\$20,000)	0.0%	Low	Low	\$400 In/\$500 Out
\$10 PCP, \$10 Specialist, \$5 X-Ray/Lab Copay	(\$1,500,000)	-1.6%	Low	Low	\$10 PCP, \$30 Sp.
\$10 PCP, \$10 Specialist, \$5 X-Ray/Lab Copay, \$1,000 Out-of-Pocket Max	(\$1,500,000)	-1.6%	Low	Low	\$10 PCP, \$30 Sp.
Rate Retirees and Actives Separately	(\$1,800,000)	-1.9%	Medium	Medium	N/A
Add \$100 copay for CT, MRI, and PET imaging	(\$140,000)	-0.1%	Low	Low	N/A
Add \$100 copay for Sleep Study	(\$10,000)	0.0%	Low	Low	N/A

Providence Choice

Description of Option for Savings	Estimated Savings	% of Premium	Member Impact	Difficulty to Implement	Benchmark - Government *
\$10 PCP, \$10 Specialist, \$5 X-Ray/Lab Copay	(\$200,000)	-0.5%	Low	Low	\$20 PCP, \$30 Sp.
Rate Retirees and Actives Separately	(\$800,000)	-1.9%	Medium	Medium	N/A

ODS

Description of Option for Savings	Estimated Savings	% of Premium	Member Impact	Difficulty to Implement	Benchmark - Government *
50% Crown Benefit	(\$1,800,000)	-4.4%	Low	Low	50%

* Government benchmark represents median plan designs from the 2009 Mercer National Survey of Employer-Sponsored Health Plans

Impact of removing retirees from PEBB active pool

- Retirees pooled separately for medical and dental
- Retiree pool medical premiums increase 42% based on actual experience & unblended rates
- Retiree Pool, New Tiers, based on industry standard and projected claims experience to illustrate 2011 impact

Tier (Enrollment June 2010)	Statewide w/VSP			ODS Traditional		
	Current	Retiree Pool	Retiree Pool, New Tiers	Current	Retiree Pool	Retiree Pool, New Tiers
Retiree Only (1017)	\$997.71	\$1,412.06	\$1,049.03	\$81.58	\$81.83	\$60.22
Retiree & Spouse/DP (920)	\$1,336.78	\$1,891.94	\$2,098.02	\$109.32	\$109.66	\$120.43
Retiree & Children (71)	\$1,147.29	\$1,623.76	\$1,888.23	\$93.82	\$94.11	\$108.40
Retiree & Family (139)	\$1,366.71	\$1,934.29	\$3,147.03	\$111.77	\$112.12	\$180.66

PEBB Retiree Health Plan Eligibility, Enrollment and Portability

- An active employee becomes eligible for PEBB Retiree plan coverage by meeting the following requirements:
 - Eligible to receive retirement benefits through PERS or another state retirement system
 - Enrolled in a PEBB medical or dental plan
- PEBB allows retired employees to remain on the retiree plans until the individual becomes Medicare eligible. A spouse, domestic partner, and eligible dependent children may remain on the retiree plan until the member becomes ineligible or is eligible for Medicare.

What's Portability?

- PEBB complies with Health Insurance Portability and Accountability Act of 1996 (HIPAA).
- **Health Plan Portability of PEBB Coverage:**
- PEBB's Kaiser Permanente plan is fully insured and offers private plan options for individuals that lose PEBB group health coverage. These individuals may also elect COBRA continuation coverage.
- PEBB's Statewide and Providence Choice Plans are self-funded plans. PEBB does not offer private plan coverage to individuals when PEBB group health coverage ends. These individuals may elect COBRA continuation coverage.

Retiree COBRA & OMIP

- **Retiree COBRA Coverage Eligibility if the PEBB Retiree plan coverage terminates:**
 - PEBB could allow COBRA coverage only if the retiree is within the original allowable 18-month COBRA eligibility period.
- **Retiree COBRA Coverage Eligibility if the PEBB Retiree Plan Coverage premiums increase and the Retiree wants to move to COBRA:**
 - PEBB could allow COBRA coverage only if the Retiree is within the original allowable 18-month COBRA eligibility period.

OMIP

- The Oregon Medical Insurance Pool (OMIP) provides medical insurance coverage for all Oregonians who are unable to obtain medical insurance because of health conditions. **OMIP also provides health benefit portability coverage to Oregonians who have exhausted COBRA benefits and have no other portability options available to them.**

- Individuals may be eligible for coverage if they are an **Oregon resident** *and* meet any of the **portability requirements:** (medical requirements not included)

OMIP Portability Requirements:

- **To be eligible under Portability criteria, the individual must apply to OMIP within 63 days of losing COBRA, losing Portability coverage from another insurer in Oregon, or losing group health benefits coverage because of a move from another state to Oregon. Coverage must be continuous from the termination of prior coverage and premium is due from the effective date of the OMIP coverage.**

PERS

PERS Health Coverage Eligibility and Enrollment: (excerpted from the PERS 2010 Health Plan Handbook):

- An “eligible person” includes an eligible retiree, an eligible spouse, an eligible dependent or an eligible surviving spouse or dependent.

An eligible retiree means a PERS member who is receiving allowance or benefit under PERS or who is on service or disability retirement received an optional lump sum payment.

Enrollment Periods:

- There are several enrollment periods for PERS Health coverage available for retirees. (e.g., new retirees, retirees that work past Medicare eligibility or are Medicare eligible) There is an allowable enrollment if the individual has been receiving continuous group coverage:

- **Continuous group coverage.**

- PERS retirees may enroll at any time if they have been covered under another group health plan for 24 consecutive months immediately preceding enrollment in a PERS health plan.

In summary, retirees have several options including being in their own pool, separate from the PEBB active employees.

Next Steps

- Decide how to pay for rate variance
 - Standard demutualization reserves (slide 15)
 - Plan design changes
 - Evidence-based plan design changes (slide 18)
 - Benefit changes
 - PPO, Kaiser HMO, Providence Choice and ODS (slides 19 & 20)
 - Retirees pooled separately (slides 20-24)
- Meeting scheduled on June 29, 2010 to vote on composite rate based on Board action today
 - Schedule additional Board meetings as needed
 - Readjust 2012 RFP time line as needed
- July 20, 2010 draft meeting agenda currently includes following topics for discussion:
 - Plan design elements for 2012 RFP
 - Plan design changes
 - Benefit changes

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