

State Health Benefit Plan Financial Status

Presentation to the
Board of Community Health
September 10, 2009



Discussion Points

- Review of Strategy
- FY 2009 Fiscal Status
- FY 2010 – FY 2011 Projected Fiscal Status
- CY 2010 Plan Design Changes
- Next Steps



SHBP Strategies

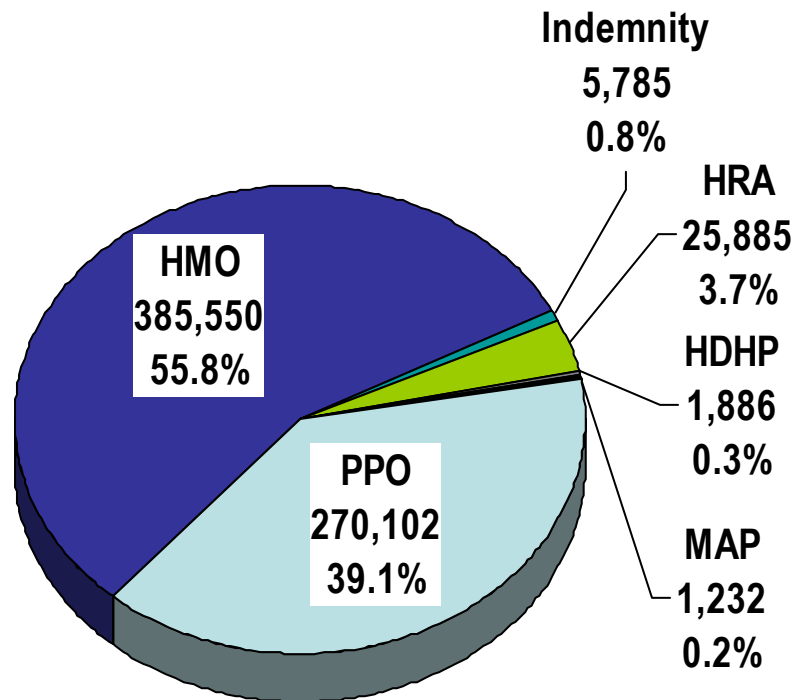
A year ago...

- CY 2009 was Year 2 of a 5-year strategy to promote consumer directed health care
 - Redirect focus of members to plan design not vendors
 - Vendor consolidation
 - Incentives for consumerism
 - Lower premiums for CDHP plans
 - Provision of Health Reimbursement Accounts (HRAs)
 - Member incentives for preventive care
- Utilize excess fund balance
 - To avoid increases in member premiums for CDHP products
 - To reduce the need for current year employer contributions in tight budget years

FY 2009 Fiscal Status



SHBP Enrollment – CY 2008

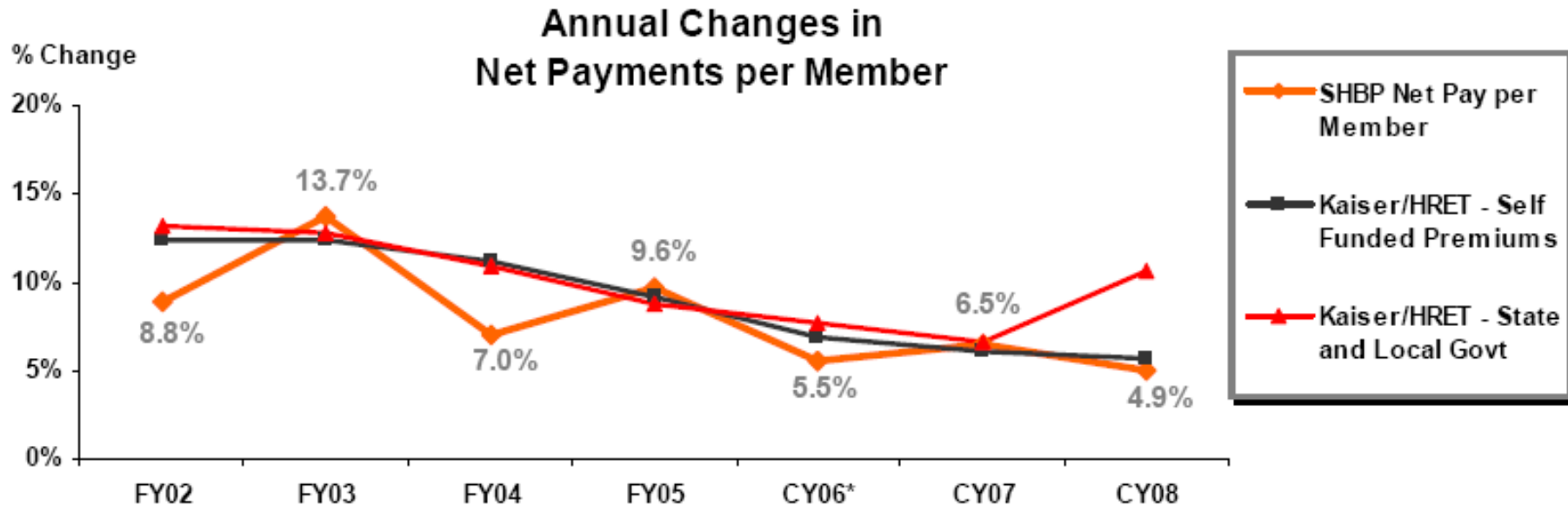


July 2008 SHBP Enrollment

CY 2008:

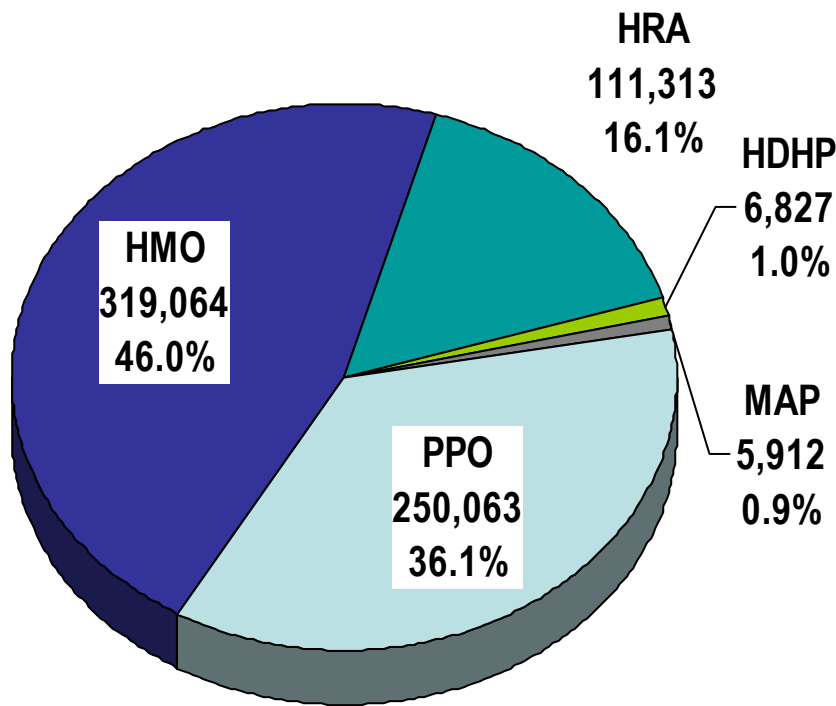
- 1st year of statewide CDHP
- Indemnity Plan available only to those who were in during CY 2007
- 3 HMO's to pick from
- 1 PPO plan
- Medicare Advantage limited to Kaiser in Atlanta

Annual Changes in Net Payments Per Member thru CY 2008



The CY 2008 **PMPY increase of 4.9%** was consistent with projections for other self-funded employer plans and better than other State and Local Governments.

SHBP Enrollment – CY 2009



July 2009 SHBP Enrollment

- HRA enrollment increased from 25,885 in July 2008 to 111,313 in July 2009 – a **330 % increase**
- PPO and HMO enrollment decreased by 7.4% and 17.2%, respectively
- Over 60% of the Indemnity members chose HRA
- New Entrants initially limited to only CDHP options after January 1, 2009
- Medicare Advantage available statewide

FY 2009 Expense

Based on 1st 6 months of claims data (through December 2008)

- 3.2% trend PMPY

Final FY 2009 Expense

- 8.0 % trend PMPY

8% overall plan trend over FY08 **is still less than market trend** at 10.5% but what changed since December 2008?

“Good” HRA Trends CY2009

Due to plan design and incentives, HRA plan so far has achieved **better outcomes for preventive care** services than the PPO/HMO.

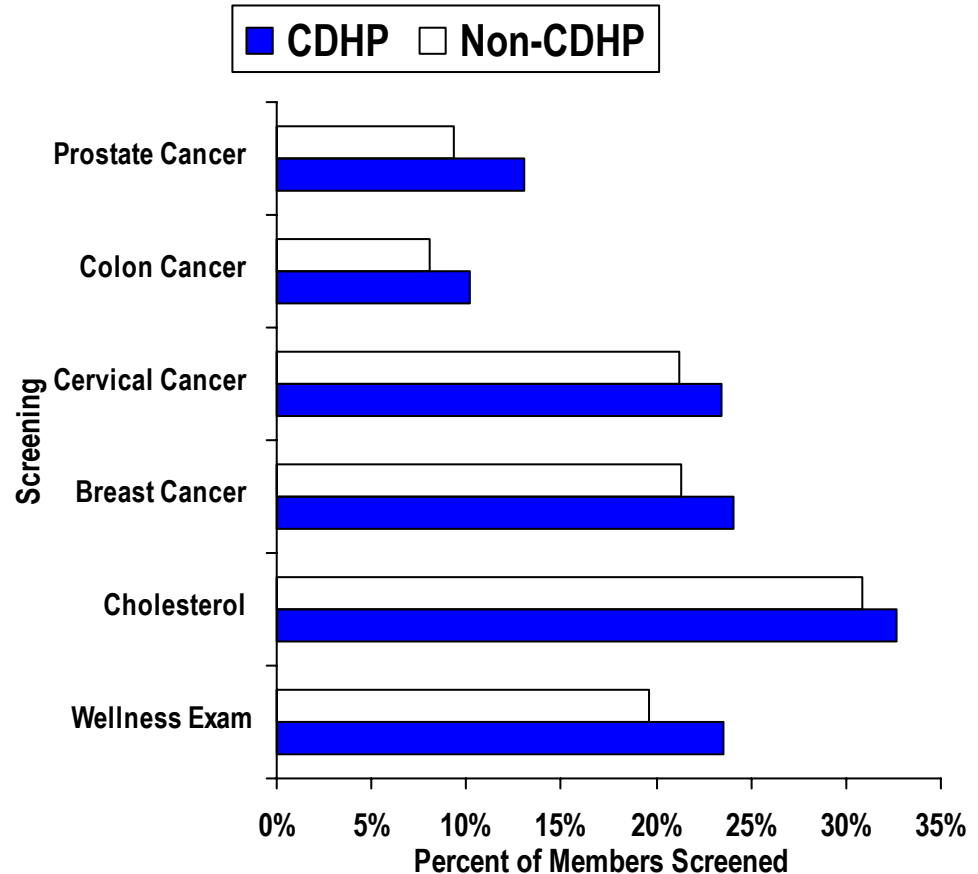
BUT that lead to additional services and **short term costs**.

Other HRA Preventive Investments:

- Drug co-pay waiver program for diabetes, asthma and cardiac conditions
- Morbid obesity surgery

These short term costs are an investment in the health of SHBP members and will produce **longer term savings** due to early identification and treatment before conditions are more costly

Preventive Screening Participation



Other SHBP Cost Drivers in CY 2009

- Increased utilization over all products
 - “Use it while you can” mentality?
 - Adverse selection from COBRA subsidies?
- High cost claimants*/1,000 increased by 24% overall – largest increase in the HRA plan
 - Claims with primary diagnosis of “neoplasm” was the primary medical cost driver
- Hospital admits/1000 and days/1000 have decreased, but net paid for each are up 11% and 8% respectively
- Generic drug utilization was lower in the HRA than the HMO/PPO plans
 - Pharmacy costs per script in the HRA have increased 70%

*Claims over \$100,000

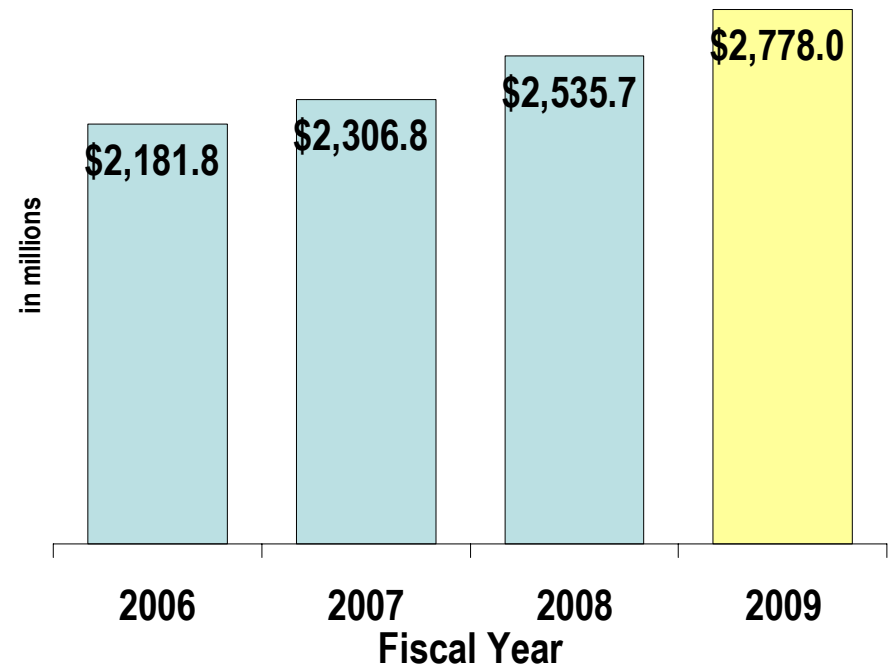
SOURCE: United Health Care

FY 2009 Expense

\$242.3 million or 9.6% growth in expenditures* in FY 2009 as compared to FY 2008

- **1.6% growth in membership**
 - Growth in teachers & school employees at 2.5% tempered by reductions in state employee members at -1.1%
- **8% growth in PMPY**
 - private sector at 10.5%

Cash-Based Expenditures by Fiscal Year

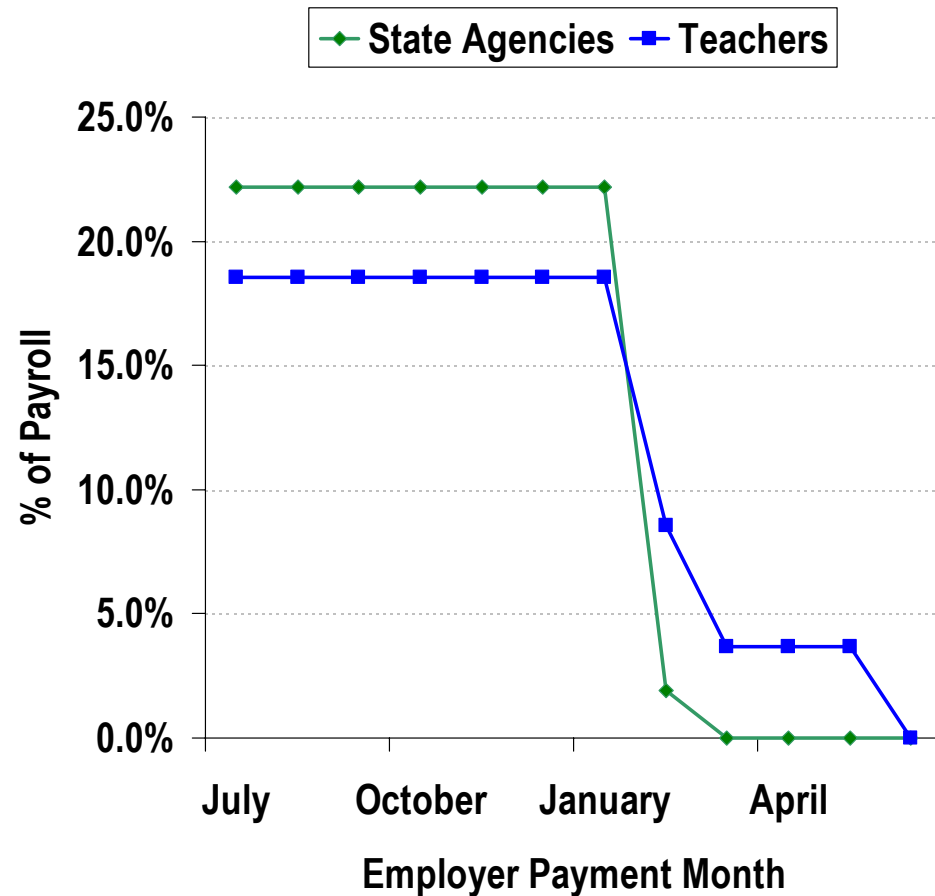


Changes in FY 2009 Employer Contributions

20% decrease in current year employer revenue as collection methods changed in FY 2009*

- Percent of Payroll for teachers and state employees decreased over the year, eventually to 0%
- DOE contributions on behalf of school personnel decreased from \$279.2 m to \$124.4m but used \$30.3 m from prior year contributions

Use of June 30, 2008 fund balance in lieu of current year contributions



* Does not consider OPEB contributions

FY 2009 Member Revenue

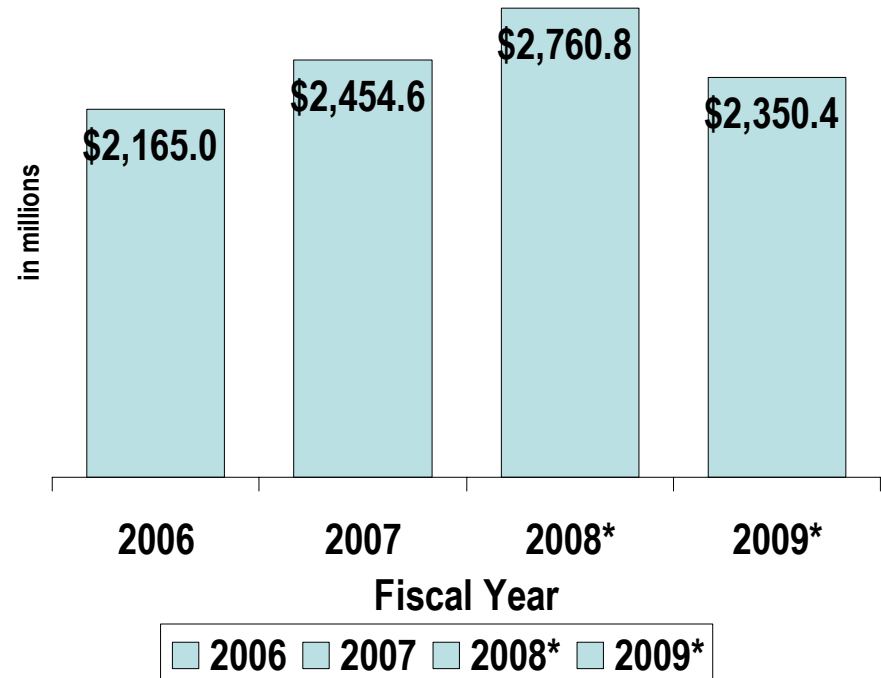
3.3% increase in **employee premium** revenue

- No increase in CDHP premiums in CY 2009; 7.5% average increase in non-CDHP plans
- New entrants and conversion from other plan options into CDHP resulted in lower premium revenue since these plans are cheaper
- Retiree incentives to take Medicare results in lower premium payments to SHBP

FY 2009 Revenue

\$410.4 million or 14.9% reduction in current year revenues collected in FY 2009 as compared to FY 2008*

Revenues Collected by Fiscal Year



NOTE: FY 2009 Unaudited

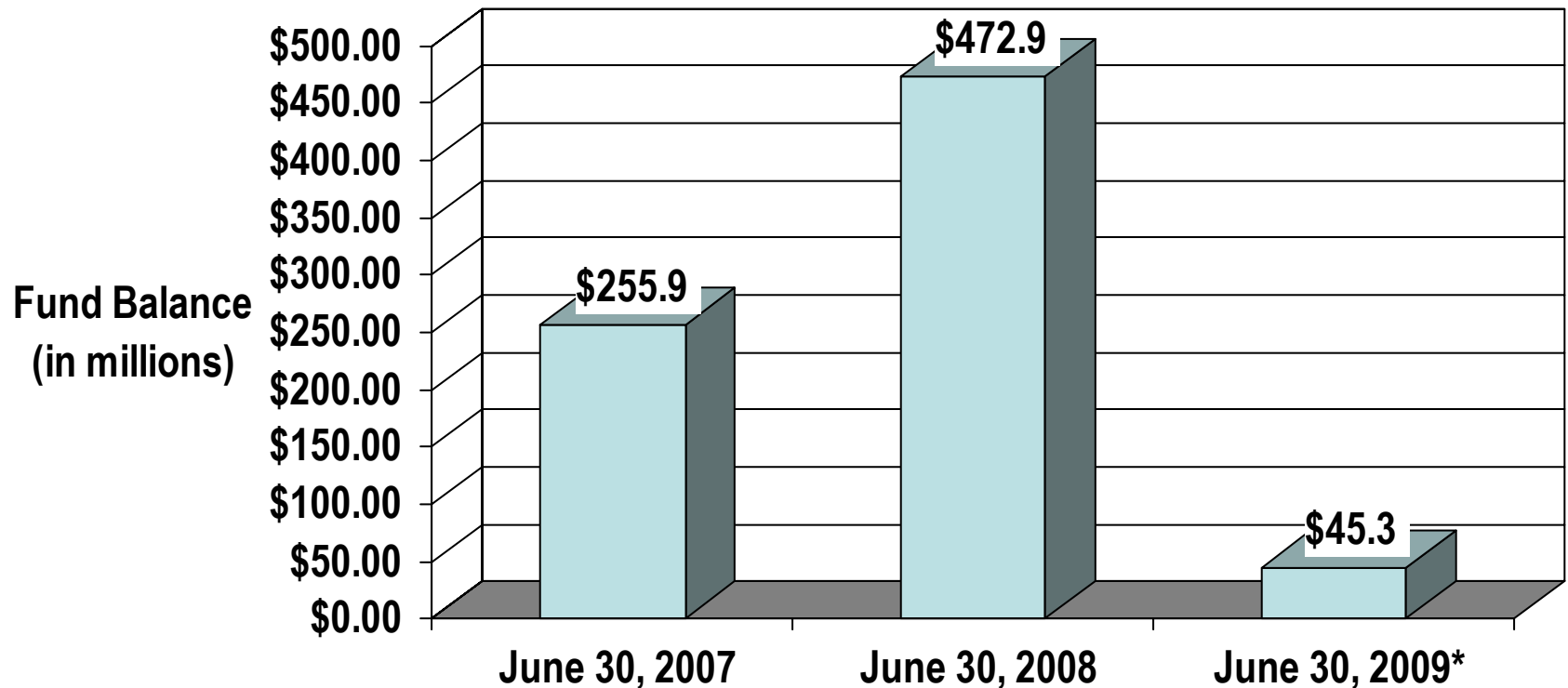
* Does not include OPEB contributions for state employees

FY 2009 Revenue/Expense Statement

(in millions)	FY 2009*
Current Year Employer Contributions	\$1,691.4
Member Premiums	645.1
Other Revenue	14.0
CY Earmarked for OPEB Long Term Investment	9.6
Total Revenue	\$2,360.1
Cash Expense	\$2,778.0
Transfer to OPEB LTI	9.6
Total Expense	\$2,787.7
(Deficit) – Covered By June 30, 2008 Fund Balance	(\$427.6)

* unaudited

Use of SHBP Fund Balance



* Known as of September 9, 2009 but unaudited

FY 2010 and FY 2011 Projected Fiscal Status



Budgeted Revenue*

FY 2010

\$171.7 million or 7.3% growth in revenues collected in FY 2010 as compared to FY 2009*

- **11.0% increase in current year employer** revenue considering:
 - Increases in percent of payroll as compared to FY 2009 levels but only for part of the year;
 - Percent of Payroll levels reduced September – November to use long term OPEB funds to pay retiree expenses
 - 3 days of furloughs for state employees and teachers and no pay raise
- **2.4% reduction** in revenue from **member** premiums
 - No premium increase for CDHP members originally planned for CY 2010; only 5% for non-CDHP
 - Premium reduction for members enrolling in MAP in January 2010 because SHBP becomes a secondary payer

* Based on DCH projections as of 9/9/09

Budgeted Revenue*

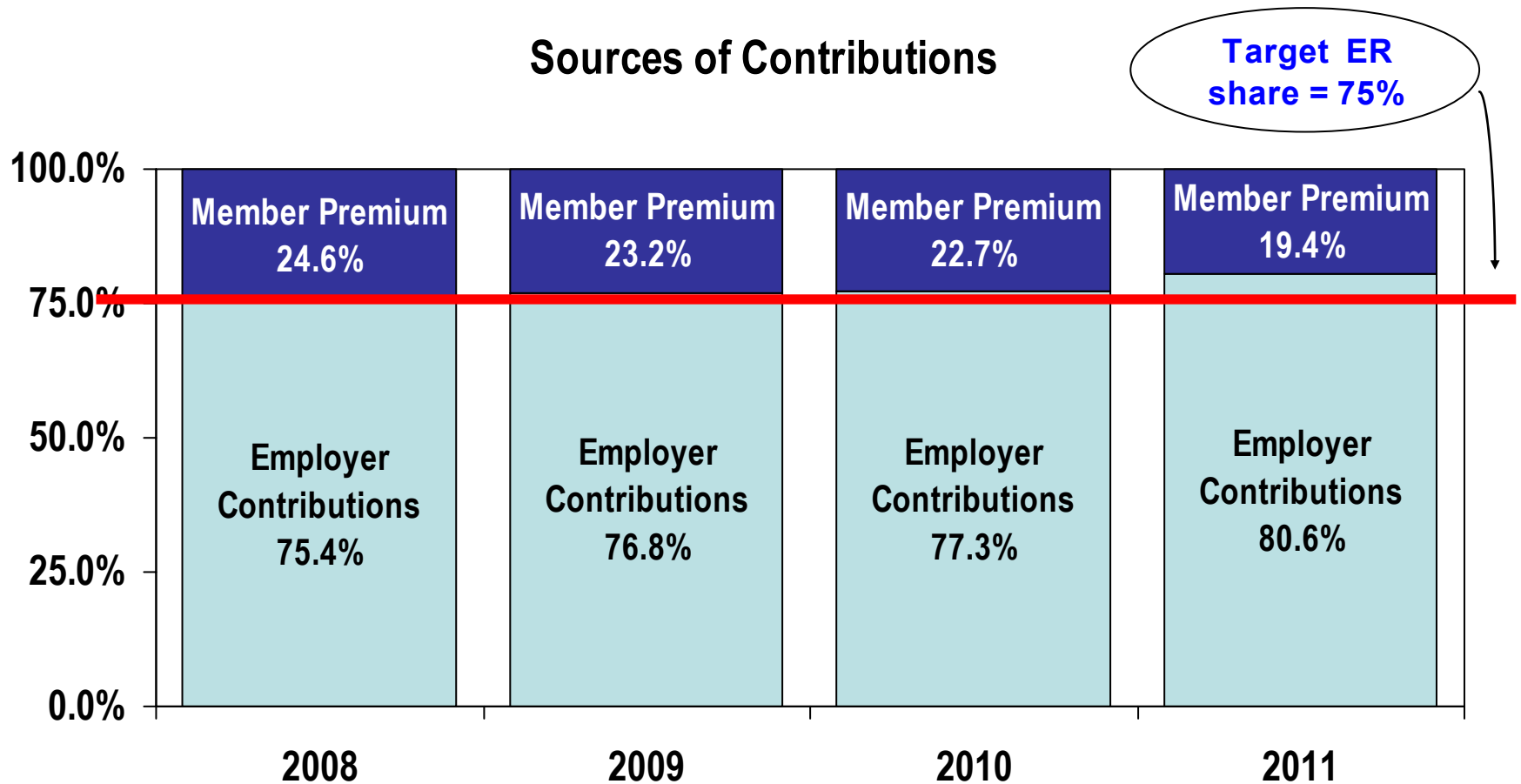
FY 2011

\$325 m or 12.9% increase in revenues collected in FY 2011 as compared to FY 2010

- **18.0% increase** in employer revenue:
 - Percent of Payroll levels assumed to be at higher levels all year
 - No furloughs assumed in FY 2011
- **2.8% decrease** in the collection of member premiums due to
 - No premium increase assumed for CY 2011 (will be up to Governor and General Assembly)
 - Premium reduction for members enrolling in MAP in January 2010 because SHBP becomes a secondary payer (impacts 1st half of FY 2011)

Revenue Sources

Sources of Contributions



Does not include co-insurance paid by employee when utilizing healthcare services.

Future Expense

FY 2010 – \$166.0 m or 6.0% growth

FY 2011 – \$206.9 m or 7.0% growth

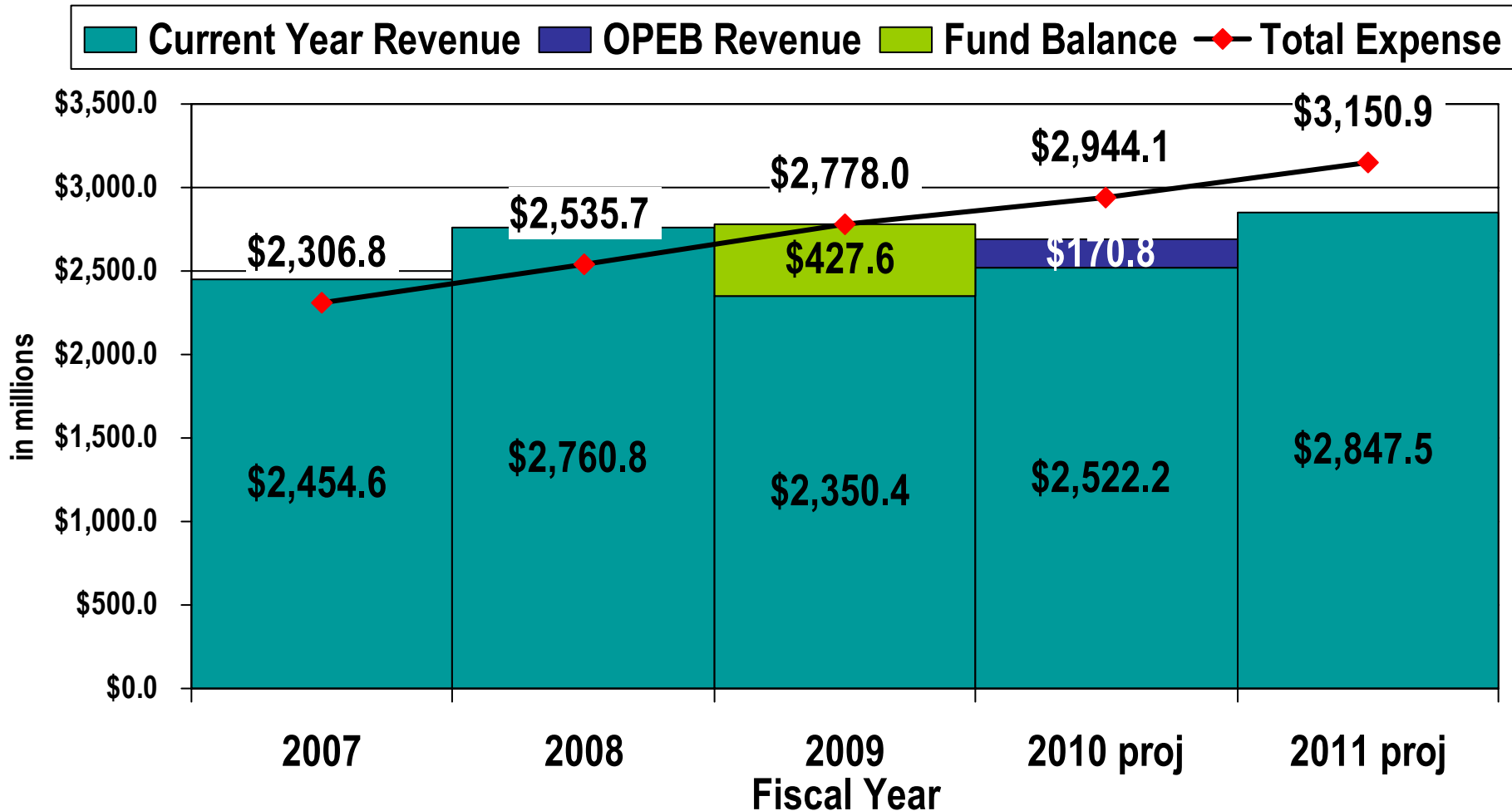
Assumptions for FY 2010 and FY 2011

- Consideration of Plan Experience from CY 2009 driving higher growth in FY 2010 than previously anticipated; annualizes in FY 2011
- Pricing, Benefit Design and Marketing of CDHP plans moves 8% of HMO membership and 4% of PPO membership to a CDHP plan option in CY 2010; 6% and 3%, respectively for CY 2011
- 100% enrollment in Medicare Advantage plans for members over 65 in CY 2010
- Membership growth for teachers, school employees, and retirees through FY 2011; however, no growth for active state employees

FY 2010-11 Revenue/Expense Statement

(in millions)	FY 2010	FY 2011	% change
Employer Contributions	\$1,878.3	\$2,221.6	18.0%
Employee Premiums	629.9	611.9	-2.8%
Other Revenue	14.0	14.0	-
Total Current Year Revenue	\$2,522.2	\$2,847.5	12.9%
Use of OPEB for Retiree Expense	\$170.8	n/a	
Cash Expense	\$2,944.1	\$3,150.9	7.0%
Total Expense	\$2,944.1	\$3,150.9	7.0%
Surplus/(Deficit)	(\$251.1)	(\$303.4)	

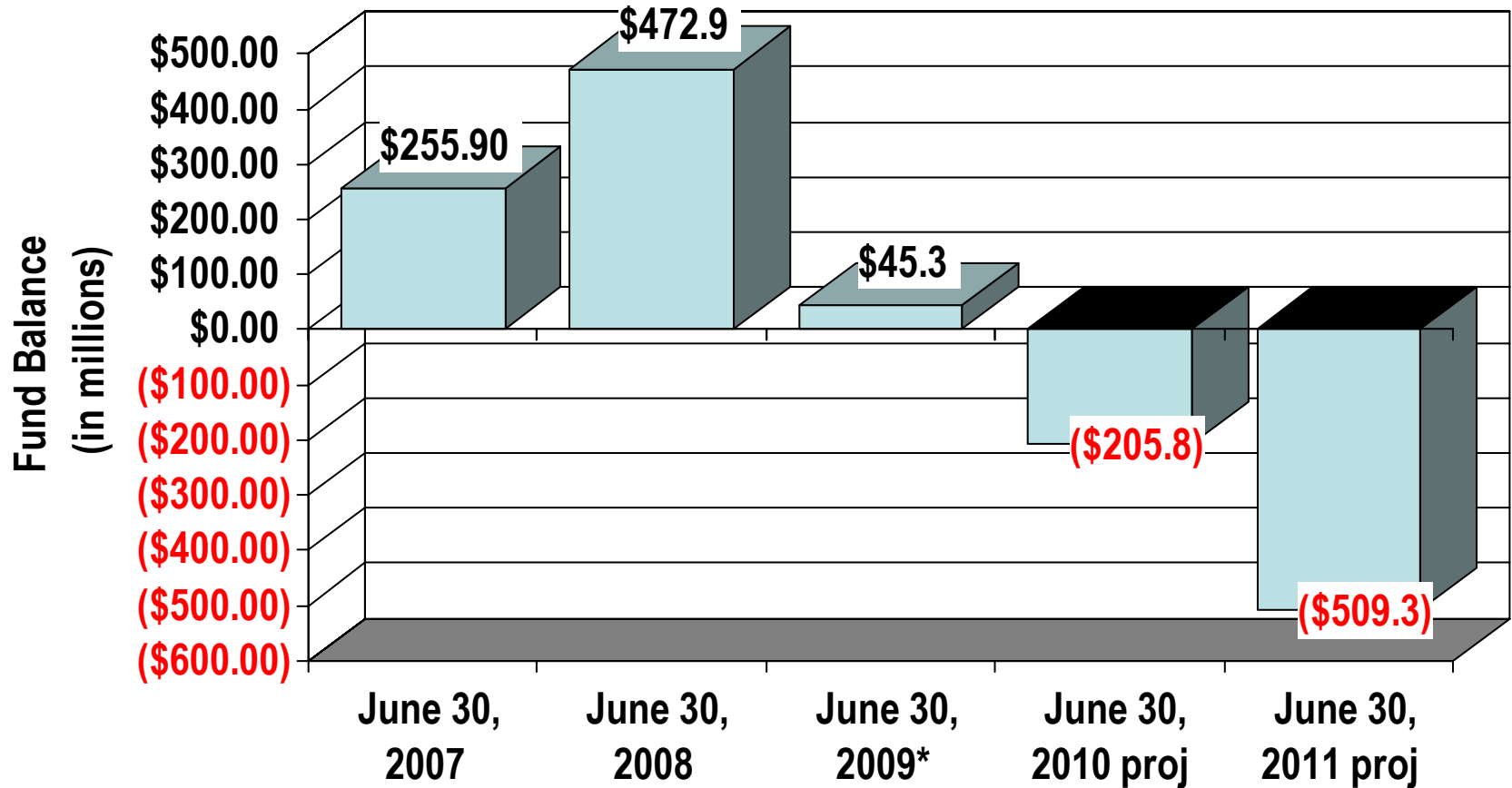
Revenue vs. Expense



NOTE: FY 2009 Unaudited

Chart does not include OPEB contributions for future liabilities of state employees in FY08 and FY09.

Projected SHBP Fund Balance



* Known as of September 9, 2009 but unaudited

CY 2010 Changes to Address Deficits



To Address with Change

- Plan solvency
- Employer/Employee Premium Sharing getting away from 75%/25% mix
- Concerning trends in the HRA Plan
 - Reduced use of generics
- Improvements to provider discounts
- Comparability to other employer sponsored plans



Change Recommendations

PLAN DESIGNS

Medical

- Member medical coinsurance at 20% for HMO/PPO and 15% for HRA
- Office visit co-pay set at \$35 for HMO and PPO
- ER co-pay set at \$150 for HMO and PPO

Pharmacy

- For the HRA, a higher coinsurance amount for brand drugs at 25%; generics would have a lower coinsurance at 15%
- Rx co-pay for HMO and PPO at \$15/\$40 for generic/preferred brand

Deductibles/Out of Pocket (OOP) Maximums

(Single)	HMO/PPO	HRA	HDHP
Deductible	\$600	\$1,100	\$1,200
Out of Pocket Max	\$2,000	\$2,500	\$1,800

Change Recommendations (continued)

MEMBER PREMIUMS

- Increase employee premiums 10% for ALL options
- \$40 premium add-on for spouses with access to other insurance
- \$60 premium add-on for tobacco users

Single	CY 2009	CY 2010	Difference
HMO	\$ 91.10	\$ 100.20	\$ 9.10
OAP (PPO)	\$ 86.10	\$ 94.70	\$ 8.60
HRA	\$ 56.84	\$ 62.50	\$ 5.66
HDHP	\$ 49.48	\$ 54.40	\$ 4.92
MAP	\$ 17.50	\$ 19.30	\$ 1.80
Family	CY 2009	CY 2010	Difference
HMO	\$ 223.10	\$ 245.40	\$ 22.30
OAP (PPO)	\$ 262.80	\$ 289.10	\$ 26.30
HRA	\$ 178.68	\$ 196.60	\$ 17.92
HDHP	\$ 165.10	\$ 181.60	\$ 16.50
MAP	\$ 35.00	\$ 38.60	\$ 3.60

Rates shown here do not include premium add-ons.

Change Recommendations (continued)

NETWORKS

- The United PPO plan will switch to the Open Access network, which is the same as what the HMO uses. This will allow the SHBP and members to maximize already negotiated provider discounts.

PLAN CHOICES

- The SHBP will offer an additional [Medicare Advantage Plan](#) option under both Cigna and United. Eligible members would pay a higher monthly premium but would have lower out of pocket costs when utilizing services.

Annual OOP Impact to Moderate Utilizer

	HMO			PPO			HRA		
	2009	2010	Increase	2009	2010	Increase	2009	2010	Increase
Employee Only	\$1,723	\$2,083	\$360	\$2,113	\$2,242	\$129	\$1,214	\$1,404	\$190
Employee + Family	\$3,757	\$4,410	\$653	\$4,714	\$5,159	\$445	\$2,596	\$2,932	\$336

These are estimated annual out of pocket costs; however, they do not consider the impact of the additional costs for spousal alternative coverage and tobacco premiums.

Estimates are based on a typical mix of services for a moderate user.

A moderate utilizer would be someone with an acute condition with sudden onset or short recovery time such as appendicitis.

Comparison of Fiscal Growth Factors

FY 2010

Before CY 2010 Changes

After CY 2010 Changes

Revenue:

Employer

+11%

+11%

Employee

-2.4%

+1.3%

Expense

+6.0%

+1.9

FY 2011

Before CY 2010 Changes

After CY 2010 Changes

Revenue:

Employer

+18%

+18%

Employee

-2.8%

+1.0%

Expense

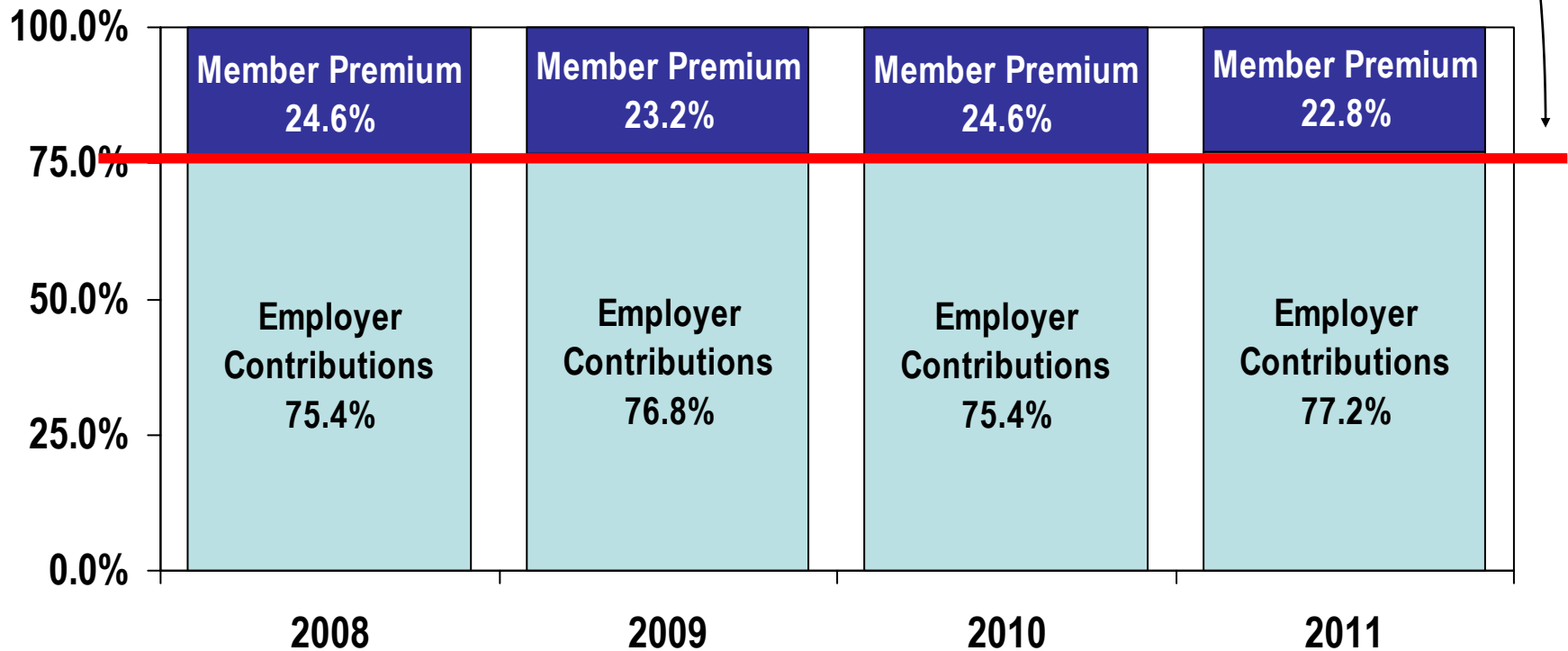
+7.0%

+2.4%

Revenue Sources after Changes

Sources of Contributions

Target ER share = 75%

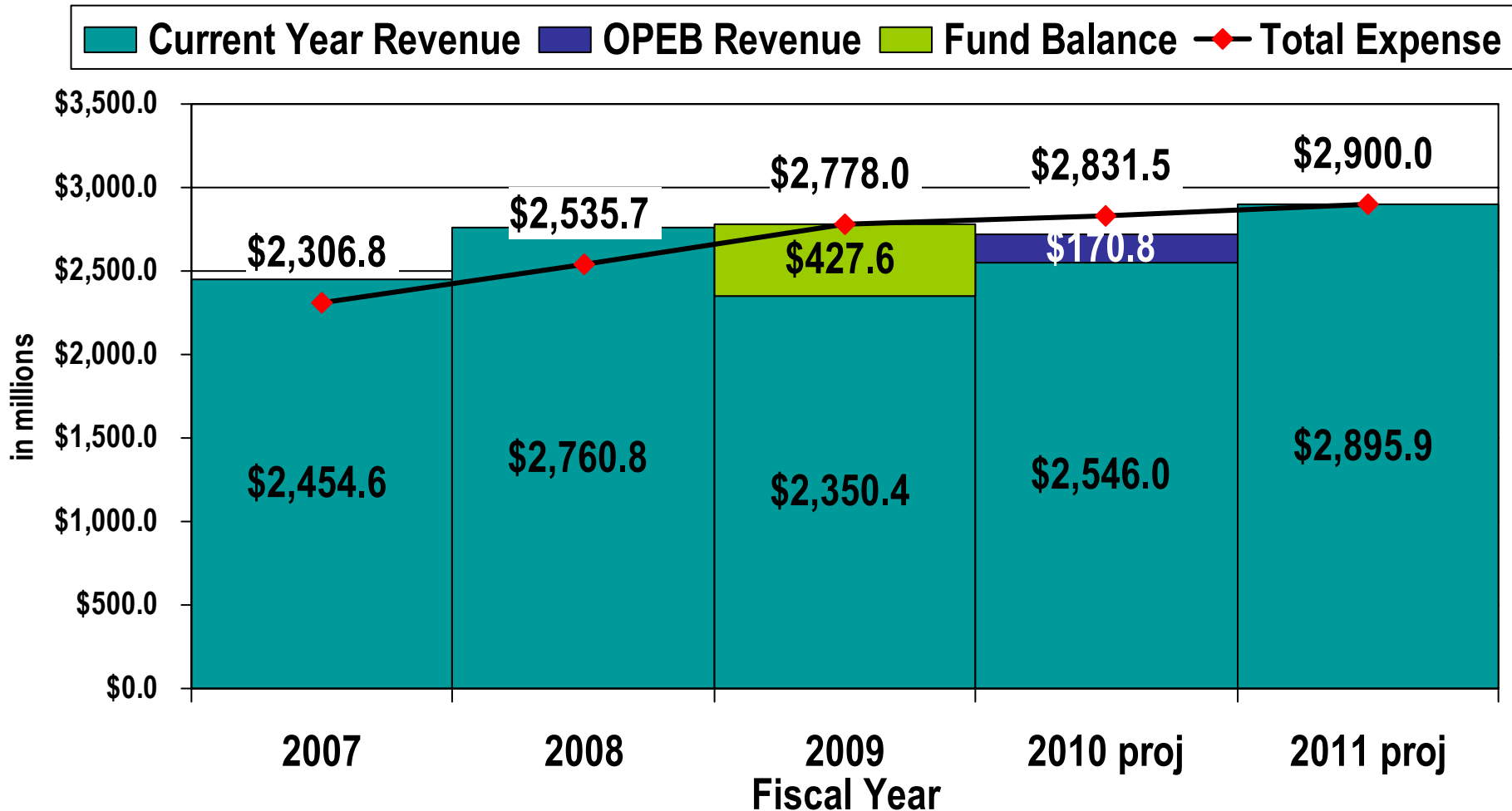


Does not include co-insurance paid by employee when utilizing healthcare services.

FY 2010-11 Revenue/Expense Statement

(in millions)	FY 2010	FY 2011	% change
Employer Contributions	\$1,878.3	\$2,221.6	18.0%
Employee Premiums	653.8	660.3	1.0%
Other Revenue	14.0	14.0	-
Total Current Year Revenue	\$2,546.0	\$2,895.9	13.7%
Use of OPEB for Retiree Expense	\$170.8	n/a	
Cash Expense	\$2,831.5	\$2,900.2	2.4%
Total Expense	\$2,831.5	\$2,900.2	2.4%
Surplus/(Deficit)	(\$114.7)	(\$4.3)	

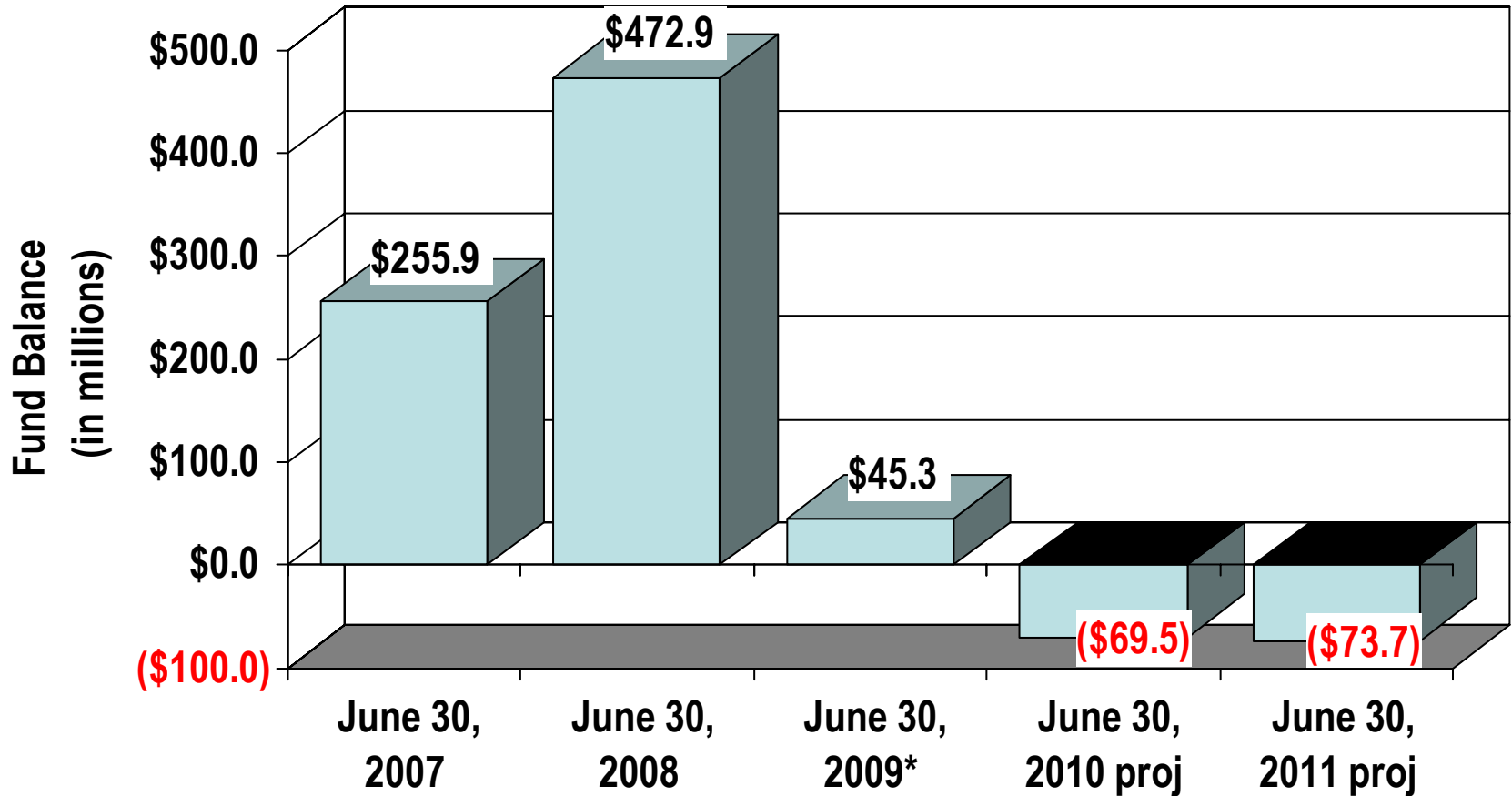
Revised Revenue vs. Expense



NOTE: FY 2009 Unaudited

Chart does not include OPEB contributions for future liabilities of state employees in FY08 and FY09.

Projected SHBP Fund Balance with Changes



* Known as of September 9, 2009 but unaudited

Next Steps

- Today's resolution for board's consideration would approve employee premiums for CY 2010 based on:
 - Plan design changes
 - Premium increases
 - Network update
 - Additional MAP option
- DCH will submit an Amended FY 2010 and FY 2011 budget request to the Governor's Office of Planning and Budget that will include a request to address the remaining fund balance deficit.

