

## 2011 Premium Rates and Benefits

- ⤴ HOP Medical Plan,
- ⤴ Pre-65 Medical Plan,
- ⤴ Basic and Enhanced Medicare Rx Options,

Of The



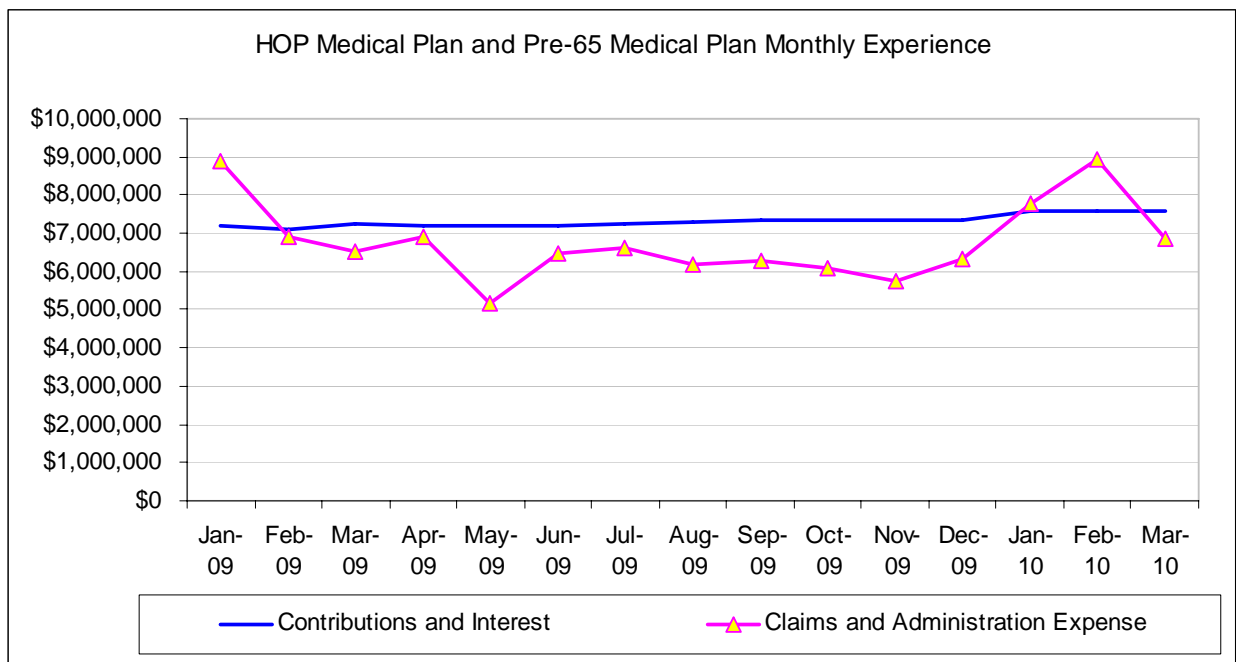
## Background

Each year the Retirement Board reviews and approves the level of benefits and participant contribution rates for the self-funded benefit plans provided by the Health Options Program (HOP). The Segal Company developed contribution rates for the HOP Medical Plan for individuals eligible for Medicare and the Pre-65 Medical Plan for individuals not eligible for Medicare. Preliminary contribution rates for the Enhanced and Basic Medicare Rx Option are also developed by the Segal Company for the Board's review. The Medicare Rx Option rates are subject to change when the Centers for Medicare and Medicaid Services (CMS) advise us of their funding of the programs.

## HOP Medical Plan

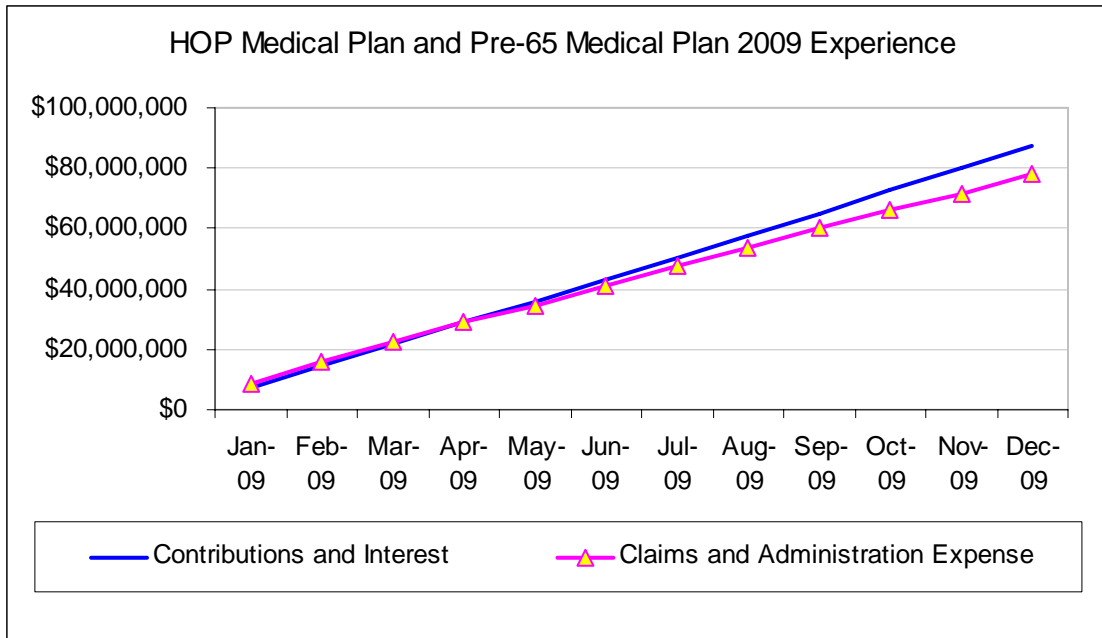
### Experience

The claims and administrative expense experience for the HOP Medical Plan over the past 15 months has fluctuated between \$5 and \$9 million per month. As illustrated by the following graph, claims tend to be highest during the first quarter of the calendar year.



January 2009 claims exceeded contributions, as did January and February 2010 claims. For 2010, the contributions rates were increased 1%. While January 2010 claims expense exceeded contribution income, 2010 claims in general are not substantially higher than 2009, even though the overall number of participants has increased.

The next graph looks at the accumulated claims and income expense for the 2009 plan year.



This graph smooths the monthly fluctuations and illustrates that income caught up with and exceeded claims expenses about mid-year. Year-to-date 2010 experience is following a similar pattern.

### SilverSneakers Fitness Program

HOP added the SilverSneakers fitness benefit to the HOP Medical Plan and Pre-65 Medical Plan effective January 1, 2009. The cost of the fitness benefit is \$4.10 per member per month, or approximately \$2 million for the year. For 2011, the cost for SilverSneakers is anticipated to increase to \$4.60 per member per month, or about \$2.2 million for the year. The benefit was added as a pilot program to determine if the fitness program would have a positive impact on claim costs. As such, the cost of the program is paid from HOP reserves and has not been added to the participants' contribution rates and not reflected in the HOP Medical Plan – Comparison of Contributions and Claims Expense graph on the preceding page.

### Benefits and Rates

There are no benefit changes recommended for the HOP Medical Plan for 2011.

The Segal Company and PSERS Staff recommend that the HOP Medical Plan single coverage rates stay the same for the Southeast Region and increase 4% for the Southwest, North and Central Regions. This increase compares favorably to the national average claim cost expected increase of 6% to 7% for Medicare Supplement plans. Attachment 1 sets forth the 2011 rates for each region and compares them to the 2010 rates.

## Pre-65 Medical Plan

### Benefits and Rates

There are no changes in the benefit structure recommended for the Pre-65 Medical Plan for 2011. It is unclear at this time whether the Health Care Reform (HCR) legislation will affect the \$200,000 annual maximum benefit provision of the Plan. Annual limitations are prohibited for employer plans, but we are not sure if voluntary retiree plans are exempt. Increasing or eliminating the annual benefit limitation will increase the premium cost of the Plan.

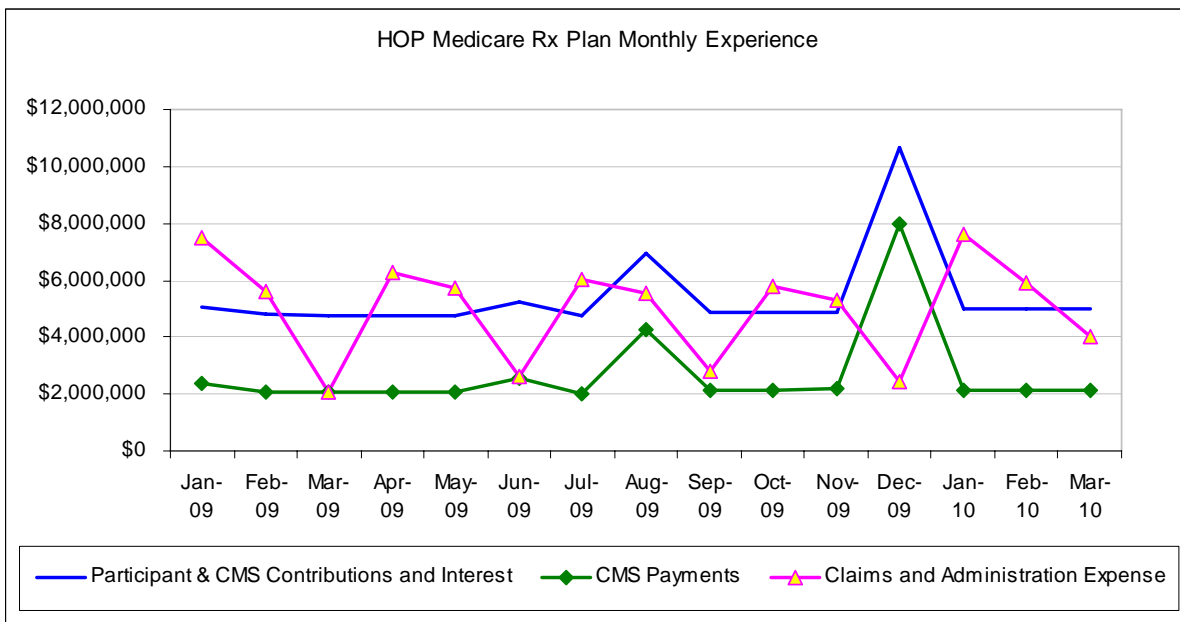
HCR provides a reinsurance-type subsidy to plans covering retirees between the ages of 55 and 65 (not eligible for Medicare). For each early retiree (and his or her spouse, surviving spouse, and dependents), the plan will receive up to 80% of costs, minus negotiated price concessions, for health benefits between \$15,000 and \$90,000. This reinsurance corridor shall be adjusted in subsequent fiscal years by the medical component of the consumer price index. Considering the small number of early retirees and dependents participating in the program, the claims experience can be expected to fluctuate widely which makes it difficult to calculate the subsidy.

The Segal Company and PSERS Staff recommend that the Pre-65 HOP Medical Plan single coverage rates and the Pre-65 HOP Medical Plan with Prescription Drug be increase 9%. Attachment 1 sets forth the 2011 rates. There are no regional differences for the Pre-65 rates.

## Basic and Enhanced Medicare Rx Options

### Experience

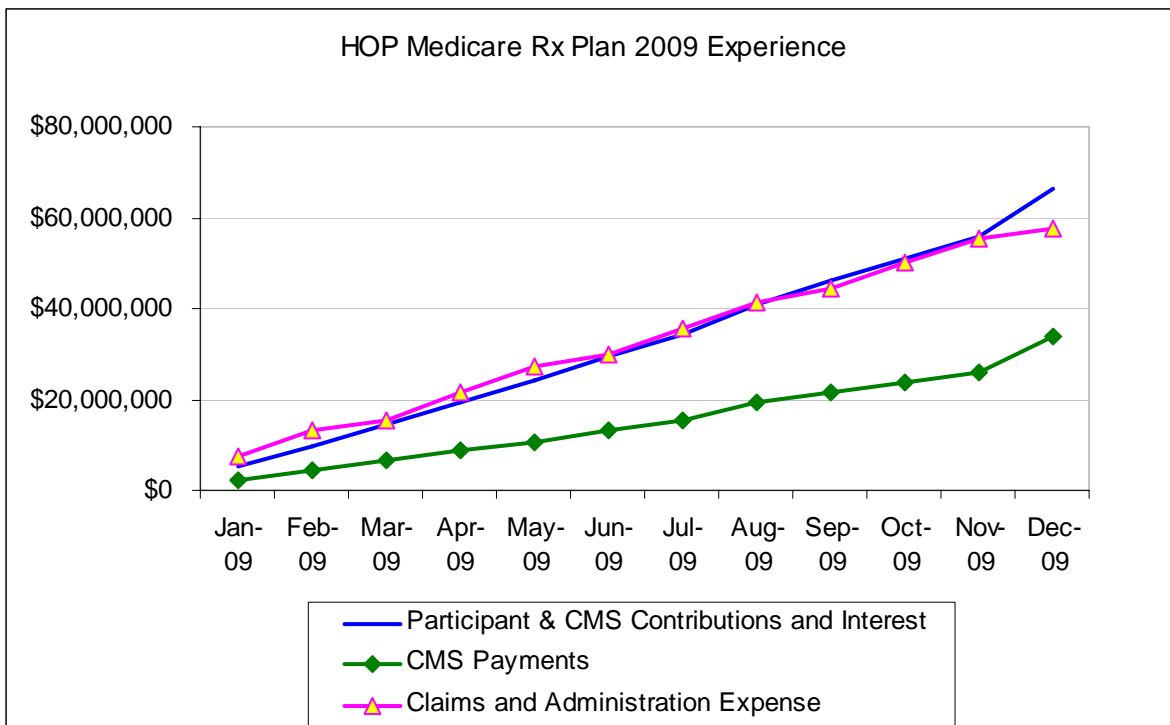
As illustrated by the following graph, the monthly income and expenses of the Basic and Enhanced Medicare Rx Options have fluctuated widely over the past 15 months.



The reasons for the fluctuations are as follows:

- ⤴ Contributions (payments) from the Centers for Medicare and Medicaid Services (CMS) come in the form of per member per month payments, payments for low income participants, and payments for catastrophic claims (members reaching TrOOP limits). Only the per member payments are made monthly. As illustrated above, two large payments were received from CMS during the year (August and December 2009).
- ⤴ Claims expenses also vary during the year with claims trending lower after the first of the year. In addition, the HOP Medicare Rx plan receives prescription drug rebates on a quarterly basis. These rebate payments reduce the claims expense for the month received, as seen on the graph above for the months of March, June, Sept, and December 2009.

The next graph looks at the accumulated income and expenses for the 2009 plan year.



This graph smooths the monthly fluctuations and illustrates that income caught up with and exceeded claims expenses at the end of the year. For 2010, the contributions rates were increased 4% for the Basic Option and 6% for the Enhanced Option.

Benefits and Preliminary Rates- Basic Medicare Rx Option

There are no changes in the benefit structure recommended for the Basic Medicare Rx Option for 2010. Participants will be receiving discounts on brand-name and generic drugs in the coverage gap (doughnut hole) as provided by HCR.

The Segal Company and PSERS Staff recommend that the Basic Medicare Rx Option single coverage rate increase \$1 from \$26 to \$27 per month or 4%. Attachment 1 sets forth the 2011 rates. There are no regional differences for the Medicare Rx Option rates.

## Benefits and Preliminary Rates- Enhanced Medicare Rx Option

HCR requires single source (brand name) drug manufacturers to provide Part D participants a 50% discount while they are in the coverage gap. This provision does not encourage Part D plans to provide brand drug coverage through the coverage gap as the manufacturer's discount is only applied to the participants out-of-pocket expense. If we do not change the benefit design of the Enhanced Medicare Rx Option, the Plan's 50% payment for brand drugs will reduce the manufacturer's discount by 50%. Under the current design, Enhanced Medicare Rx Option would pay 50% of the full cost of the drug, the manufacturer would discount the balance by 50% and the participant would pay 25% of the full cost.

The Segal Company and PSERS Staff recommend that the Enhanced Medicare Rx Option be modified effective January 1, 2011 as follows:

Member Pays for:	Current Enhanced Option	New Enhanced Option
<b>Deductible</b>	None	None
<b>Initial Coverage</b> to \$2,830 total cost		
Generic Co-pay (30/90 day)	\$7/21	\$7/21
Brand Coinsurance	30%	25%
<b>Coverage Gap</b> to \$4,550 TrOOP		
Generic Co-pay	50% (100% after \$200)	Lesser of \$7/21 or 50%
Brand Coinsurance	50% (100% after \$200)	100% <sup>1</sup> (with 50% discount)
<b>Catastrophic Coverage</b>		
Generic Co-pay (30/90 day)	5% (0% after \$100 OOP)	5% (0% after \$100 OOP)
Brand Coinsurance	5% (0% after \$100 OOP)	5% (0% after \$100 OOP)
<b>Monthly Premium</b> (single coverage)	\$88	\$75

<sup>1</sup> The Enhanced Plan will continue to pay 50% for non-Medicare covered brand drugs

The Segal Company and PSERS Staff recommend that the Enhanced Medicare Rx Option single coverage rate decrease \$13 from \$88 to \$75 per month or -15%. Attachment 1 sets forth the 2011 rates. There are no regional differences for the Medicare Rx Option rates.

Attachment 1  
PSERS Health Options Program

2011 Rates as Compared to 2010 Rates					
Southeast					
Out of State Zone 1					
Medicare Retiree Options		2010	2011	Increase	%
<b>HOP Medical Only</b>					
	Single	\$199	\$199	\$0	0.0%
	Two Person	392	392	0	0.0%
<i>Age 65 Rates</i>					
	<i>Single</i>	<i>189</i>	<i>189</i>	<i>0</i>	<i>0.0%</i>
	<i>Two Person</i>	<i>373</i>	<i>373</i>	<i>0</i>	<i>0.0%</i>
<b>HOP Medical + Basic Medicare Rx</b>					
	Single	225	226	1	0.4%
	Two Person	444	446	2	0.5%
<i>Age 65 Rates</i>					
	<i>Single</i>	<i>215</i>	<i>216</i>	<i>1</i>	<i>0.5%</i>
	<i>Two Person</i>	<i>425</i>	<i>427</i>	<i>2</i>	<i>0.5%</i>
<b>HOP Medical + Enhanced Medicare Rx</b>					
	Single	287	274	(13)	-4.5%
	Two Person	568	542	(26)	-4.6%
<i>Age 65 Rates</i>					
	<i>Single</i>	<i>277</i>	<i>264</i>	<i>(13)</i>	<i>-4.7%</i>
	<i>Two Person</i>	<i>549</i>	<i>523</i>	<i>(26)</i>	<i>-4.7%</i>

**Zone 1**

CONNECTICUT

DELAWARE (Kent, Sussex)

FLORIDA (Baker, Columbia, De Soto, Flagler, Gadsden, Hardee, Holmes, Jackson, Lake, Lee, Leon, Madison, Manatee, Marion, Okeechobee, Osceola, Pasco, Polk, Saint Lucie, Santa Rosa, Sarasota, Suwannee, Union, Volusia, Wakulla, Washington)

ILLINOIS

MARYLAND (Allegany, Anne Arundel, Baltimore, Baltimore City, Calvert, Caroline, Carroll, Cecil, Dorchester, Frederick, Howard, Kent, Montgomery, Queen Anne's, St. Mary's, Somerset, Talbot, Wicomico, Worcester)

MISSISSIPPI, NEVADA

NEW JERSEY (Atlantic, Bergen, Cape May, Camden, Hudson, Middlesex, Monmouth, Morris, Passaic, Somerset, Sussex, Union)

NEW YORK (Nassau, Orange, Putnam, Queens, Rockland, Suffolk, Sullivan, Ulster, Westchester)

OKLAHOMA

		Southwest			
		Out of State Zone 2			
Medicare Retiree Options		2010	2011	Increase	%
<b>HOP Medical Only</b>					
	Single	\$187	\$195	\$8	4.3%
	Two Person	369	384	15	4.1%
<i>Age 65 Rates</i>					
	Single	178	186	8	4.5%
	Two Person	351	366	15	4.3%
<b>HOP Medical + Basic Medicare Rx</b>					
	Single	213	222	9	4.2%
	Two Person	421	438	17	4.0%
<i>Age 65 Rates</i>					
	Single	204	213	9	4.4%
	Two Person	403	420	17	4.2%
<b>HOP Medical + Enhanced Medicare Rx</b>					
	Single	275	270	(5)	-1.8%
	Two Person	545	534	(11)	-2.0%
<i>Age 65 Rates</i>					
	Single	266	261	(5)	-1.9%
	Two Person	527	516	(11)	-2.1%

**Zone 2**

ARIZONA, CALIFORNIA  
 DELAWARE (New Castle)  
 FLORIDA (Baker, Columbia, De Soto, Flagler, Gadsden, Hardee, Holmes, Jackson, Lake, Lee, Leon, Madison, Manatee, Marion, Okeechobee)  
 INDIANA, KANSAS, KENTUCKY, LOUISIANA, MASSACHUSETTS, MICHIGAN, MINNESOTA,  
 MISSOURI, MONTANA, NEBRASKA, NEW HAMPSHIRE, OHIO, SOUTH CAROLINA,  
 TENNESSEE, TEXAS, UTAH,  
 WEST VIRGINIA, WYOMING



		North & Central			
		Out of State Zone 3			
Medicare Retiree Options		2010	2011	Increase	%
<b>HOP Medical Only</b>					
	Single	\$157	\$164	\$7	4.5%
	Two Person	306	319	13	4.2%
<i>Age 65 Rates</i>					
	<i>Single</i>	<i>150</i>	<i>156</i>	<i>6</i>	<i>4.0%</i>
	<i>Two Person</i>	<i>291</i>	<i>303</i>	<i>12</i>	<i>4.0%</i>
<b>HOP Medical + Basic Medicare Rx</b>					
	Single	183	191	8	4.4%
	Two Person	358	373	15	4.2%
<i>Age 65 Rates</i>					
	<i>Single</i>	<i>176</i>	<i>183</i>	<i>7</i>	<i>4.0%</i>
	<i>Two Person</i>	<i>343</i>	<i>357</i>	<i>14</i>	<i>4.0%</i>
<b>HOP Medical + Enhanced Medicare Rx</b>					
	Single	245	239	(6)	-2.4%
	Two Person	482	469	(13)	-2.7%
<i>Age 65 Rates</i>					
	<i>Single</i>	<i>238</i>	<i>231</i>	<i>(7)</i>	<i>-2.9%</i>
	<i>Two Person</i>	<i>467</i>	<i>453</i>	<i>(14)</i>	<i>-3.1%</i>

**Zone 3**

FLORIDA (Escambia, Franklin, Jefferson, Taylor)

HAWAII, IDAHO, IOWA, MAINE, NEW MEXICO

NEW YORK (Albany, Allegany, Broome, Cattaraugus, Cayuga, Chautauqua, Chemung, Chenango, Courtland, Erie, Essex, Franklin, Fulton, Genesee, Greene, Hamilton, Herkimer, Jefferson, Lewis, Livingston, Madison, Montgomery, Niagara, Oneida, Onondaga, Ontario, Orleans, Oswego, Rensselaer, St. Lawrence)

NORTH DAKOTA, OREGON, RHODE ISLAND, SOUTH DAKOTA, VERMONT, VIRGIN ISLANDS, VIRGINIA, WASHINGTON, WISCONSIN

		All Regions			
Medicare Prescription Drug Plans		2010	2011	Increase	%
<b>Basic Medicare Rx Only</b>					
	Single	\$26	\$27	\$1	3.8%
	Two Person	52	54	2	3.8%
<b>Enhanced Medicare Rx Only</b>					
	Single	88	75	(13)	-14.8%
	Two Person	176	150	(26)	-14.8%

		All Regions			
Pre-65 Retiree Options		2010	2011	Increase	%
<b>HOP Pre-65 Medical Only</b>					
	Single	\$569	\$621	\$52	9.1%
	Two Person	1,253	1,366	113	9.0%
<b>HOP Pre-65 Medical with Rx</b>					
	Single	686	748	62	9.0%
	Two Person	1,509	1,645	136	9.0%