

SECTION 5 - OTHER PSERS PROGRAMS

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Section 5 - Other PSERS Programs

Health Options Program

Pursuant to Sec. 8502.2 PSERS sponsors a group health insurance program called the Health Options Program (HOP) for individuals who are annuitants or survivor annuitants or the spouse or dependents of an annuitant or survivor annuitant. The HOP is funded by and for eligible participants. The following is a summary of HOP initiatives during the period January 1, 2014 to January 1, 2015.

- » The Retirement Board issued an Invitation for Application (IFA) to allow qualified insurance carriers to apply to PSERS to offer a fully insured Medicare Advantage group insurance plan and accompanying Pre-65 group insurance plan to PSERS retirees who participate in the Health Options Program. The effective date of the insurance is January 1, 2015. As a result of the IFA, PSERS is expecting the following carriers to participate in HOP:

Aetna
 Capital Blue Cross/Keystone Health Plan Central
 Geisinger Health Plan
 Highmark
 Independence Blue Cross (IBC)/
 Keystone Health Plan East
 UPMC

- » The Retirement Board continues to make changes in the Basic and Enhanced Medicare Rx Options as required by the Affordable Care Act (ACA, health care reform) and adjust maximum co-payments to reflect prescription drug cost inflation. Effective January 1, 2015, the following benefit changes were adopted:

Basic Medicare Rx Option		For 2014 Member Paid	For 2015 Member Pays
Annual Deductible		\$0	\$0
Initial Coverage	Generic Drugs	\$7 (\$21 for 90-days)	\$8 (\$24 for 90-days)
	Preferred Brand Drugs	30% up to \$60 (\$120 for 90-days) (\$100 for 90-days by mail)	30% up to \$100 (\$250 for 90-days) (\$225 for 90-days by mail)
	Non-Preferred Brand Drugs	40%	40%
	Specialty Drugs	33%	33%
Coverage Gap	Generic Drugs	72%	65%
	Brand Drugs	47.5%	45%
	Specialty Drugs Generic Drugs	72%	65%
	Brand Drugs	47.5%	45%
Catastrophic	Generic Drugs	Greater of \$2.55 or 5% up to \$100	Greater of \$2.65 or 5% up to \$100
	Brand Drugs	Greater of \$6.35 or 5% up to \$100	Greater of \$6.60 or 5% up to \$100

Section 5 - Other PSERS Programs

Health Options Program

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Enhanced Medicare Rx Option		For 2014 Member Paid	For 2015 Member Pays
Annual Deductible		\$0	\$0
Initial Coverage	Generic Drugs	\$7 (\$21 for 90-days)	\$7 (\$21 for 90-days)
	Preferred Brand Drugs	25% up to \$50 (\$100 for 90-days) (\$90 for 90-days by mail)	25% up to \$65 (\$130 for 90-days) (\$120 for 90-days by mail)
	Non-Preferred Brand Drugs	Same as Preferred Brand	35% up to \$75 (\$150 for 90-days) (\$140 for 90-days by mail)
	Specialty Drugs	33%	33%
Coverage Gap	Generic Drugs	72%	65%
	Brand Drugs	47.5%	45%
	Specialty Drugs Generic Drugs Brand Drugs	72% 47.5%	65% 45%
Catastrophic	Generic Drugs	Greater of \$2.55 or 5% up to \$100	Greater of \$2.65 or 5% up to \$100
	Brand Drugs	Greater of \$6.35 or 5% up to \$100	Greater of \$6.60 or 5% up to \$100

» The Retirement Board is evaluating the impact of the ACA on retirees (and other eligible persons) participating in the PSERS Health Options Program who are not yet eligible for Medicare. PSERS retirees and their dependents not eligible for Medicare are required by ACA to have health insurance or pay a tax. For 2014 the tax is the greater of \$95 or 1% of income. By 2016 the tax will be the greater of \$695 or 2.5% of income. Most, if not all, pre-65 participants of the Health Options Program and some pre-65 retirees covered under their former school employer's plan will be able to reduce their monthly premium costs by enrolling in an ACA plan through the exchange. A PSERS retiree who enrolls in an ACA plan will not receive Premium Assistance as only Commonwealth school plans and plans offered through the Health Options Program are approved for Premium Assistance. The legal and administrative ramifications of the Retirement Board

approving ACA plans for Premium Assistance are under review.

» The Retirement Board will be deciding whether to conduct an open enrollment for the Health Options Program for benefit coverage effective January 1, 2016. Currently, a retiree and their dependents must have a Qualifying Event to enroll. Once an individual enrolls in the Health Options Program, he/she may change their benefit coverage annually during the option selection period. An open enrollment gives all PSERS retirees and their dependents an opportunity to enroll. The last open enrollment was conducted for coverage effective January 1, 2011 and before that, January 1, 2006. If the Board decides that an open enrollment will be conducted, PSERS staff and consultants will look at adding or terminating plans to meet the health benefit needs of current and future enrollees.

Section 5 - Other PSERS Programs

Health Options Program

(continued)

Plans Available Through the Health Options Program

The Health Options Program offers participants a choice among a supplement to Medicare, various Medicare prescription drug plans, and Medicare Advantage plans. Participants under age 65 and not eligible for Medicare may elect to enroll in a high deductible health insurance plan

with or without prescription drug coverage or a managed care plan. These options were available to new enrollees or Health Option Program participants electing to change coverage during the 2015 option selection period conducted in the fall of 2014. The following is a list of HOP plans as of January 1, 2015:

For Individuals Eligible for Medicare:	For Individuals Not Eligible for Medicare
HOP Medical Plan (Medicare supplement)	HOP Pre-65 Medical Plan
Basic Medicare Rx Option (Medicare Part D)	HOP Pre-65 Medical Plan w/ Rx coverage
Enhanced Medicare Rx Option (Medicare Part D)	
Medicare Advantage Plans	Companion Pre-65 Managed Care Plans
Aetna Medicare PPO	Aetna PPO Plan
Capital Blue Cross SeniorBlue PPO	Capital Blue Cross PPO
Geisinger Gold Preferred PPO	Geisinger Choice PPO
Highmark FreedomBlue PPO	Highmark PPO Blue
Highmark SecurityBlue HMO	Highmark PPO Blue
Independence Blue Cross-Keystone 65 HMO	Independence Blue Cross-Keystone HMO
UPMC for Life HMO	UPMC Health Plan

HOP Program Plan Premiums

Paid By Individuals ELIGIBLE for Medicare

The premiums paid by participants eligible for Medicare generally vary by geographical area. The exceptions are the premiums for the HOP Medicare Rx Options. The following tables show the standard premium rates for 2015 compared

to the 2014 rates in Pennsylvania for single coverage. These rates do not reflect the \$100 Premium Assistance benefit provided to eligible retirees or discounts available to individuals enrolling at age 65.

Southeastern Region: Bucks, Chester, Delaware, Montgomery, and Philadelphia Counties.	2014	2015	Increase
Medicare Supplement Plans			
HOP Medical Plan	\$199	\$199	0%
HOP Medical Plan w/ Basic Medicare Rx Option	231	234	1%
HOP Medical Plan w/ Enhanced Medicare Rx Option	283	288	2%
Medicare Advantage Plans			
Aetna Medicare 15 Special PPO	344	376	9%
Highmark FreedomBlue PPO	592	592	0%
Independence Blue Cross / Keystone 65 Select HMO	299	326	9%
Legacy Medicare Advantage Plans (no new enrollment)			
Aetna Medicare 10 Special Plan HMO	426	461	8%
IBC's Personal Choice 65 PPO	636	665	5%

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Health Options Program

(continued)

Southwestern Region: Allegheny, Fayette, Greene, Indiana, Washington, and Westmoreland Counties	2014	2015	Increase
Medicare Supplement Plans			
HOP Medical Plan	\$195	\$195	0%
HOP Medical Plan w/ Basic Medicare Rx Option	227	230	1%
HOP Medical Plan w/ Enhanced Medicare Rx Option	279	284	2%
Medicare Advantage Plans			
Aetna Medicare 15 Special PPO	320	355	11%
Highmark SecurityBlue HMO ¹	289	304	5%
UPMC for Life HMO	234	234	0%
Legacy Medicare Advantage Plans (no new enrollment)			
Aetna Medicare 15 Special Plan HMO	419	454	8%
Highmark FreedomBlue PPO ¹	298	371	25%

¹Highmark elected to activate its HMO product and freeze its PPO product for 2015.

North & Central Region: (All other counties in Pennsylvania)	2014	2015	Increase/ (Decrease)
Medicare Supplement Plans			
HOP Medical Plan	\$169	\$169	0%
HOP Medical Plan w/ Basic Medicare Rx Option	201	204	1%
HOP Medical Plan w/ Enhanced Medicare Rx Option	253	258	2%
Medicare Advantage Plans			
Aetna Medicare 15 Special PPO*	238	273	15%
Capital Blue Cross SeniorBlue PPO*	228	222	(3)%
Geisinger Gold Preferred PPO*	265	323	22%
Highmark FreedomBlue PPO	277	308	11%
UPMC for Life HMO*	234	234	0%
Legacy Medicare Advantage Plans (no new enrollment)			
Aetna Medicare 10 Special HMO Plan*	255	290	14%
Highmark SecurityBlue HMO*	289	304	5%
Keystone Central SeniorBlue HMO*	227	215	(5)%

* Not available in all North & Central Region counties.

Health Options Program participants may select Basic or Enhanced Medicare Rx Option coverage without enrolling in the HOP Medical Plan. The premium rates for the Medicare Rx Options do not vary by region. Stand-alone prescription drug coverage does not qualify for Premium Assistance.

Medicare Prescription Drug Plans All Regions	2014	2015	Increase
Basic Medicare Rx Only	\$29	\$35	21%
Enhanced Medicare Rx Only	82	89	9%

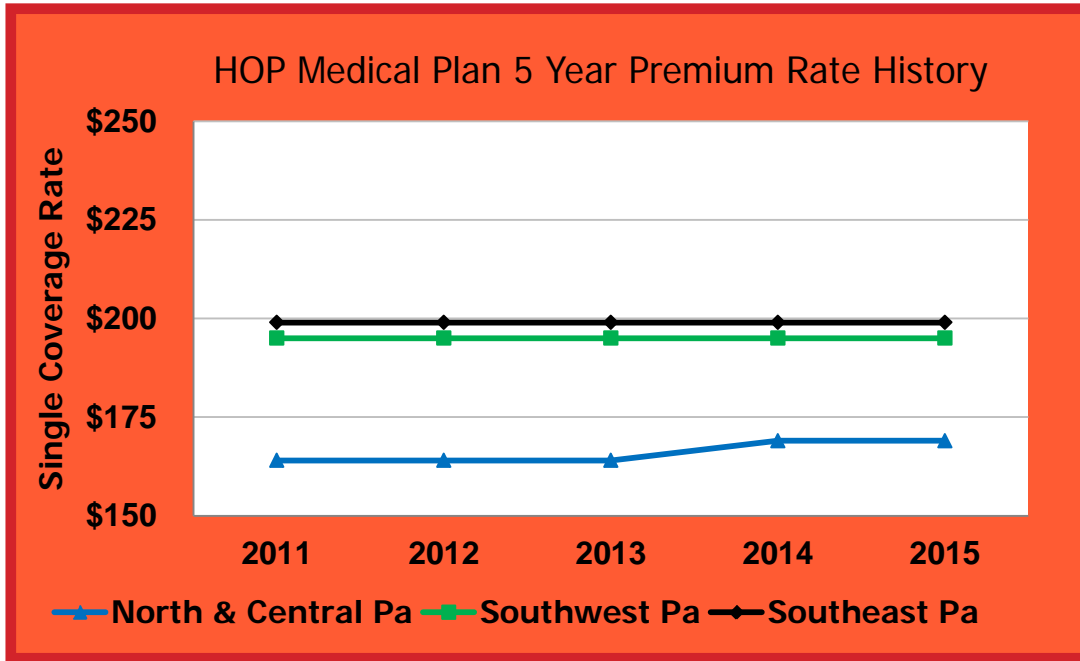
Health Options Program

(continued)

Premium History

HOP Medical Plan

The following chart illustrates the HOP Medical Plan monthly premium rates for single coverage since 2011. Rates vary by region in the Commonwealth to reflect differences in the cost of health care.



This remarkable premium stability can be attributed to:

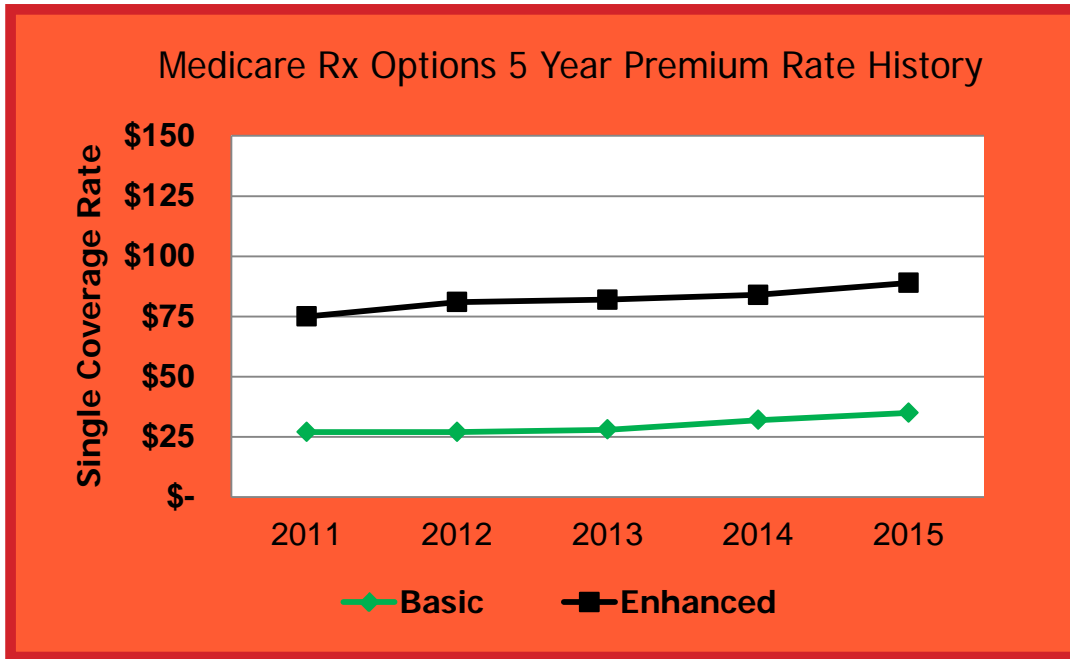
1. Plan design changes adopted by the Retirement Board to manage the utilization of health care services.
2. Increasing number of enrollees at age 65 (baby-boomer generation), thereby lowering the average age of the participant population.

Health Options Program

(continued)

Basic and Enhanced Medicare Rx Options

The following graph illustrates the Basic and Enhanced Medicare Rx Options monthly premium rates for single coverage since 2011. The rates for the Medicare Rx Options do not vary by region.



This premium stability can be attributed to:

1. Plan design changes adopted by the Retirement Board to encourage the use of generic drugs.
2. Increasing number of enrollees at age 65 (baby-boomer generation), thereby lowering the average age of the participant population in the Basic Rx Option.

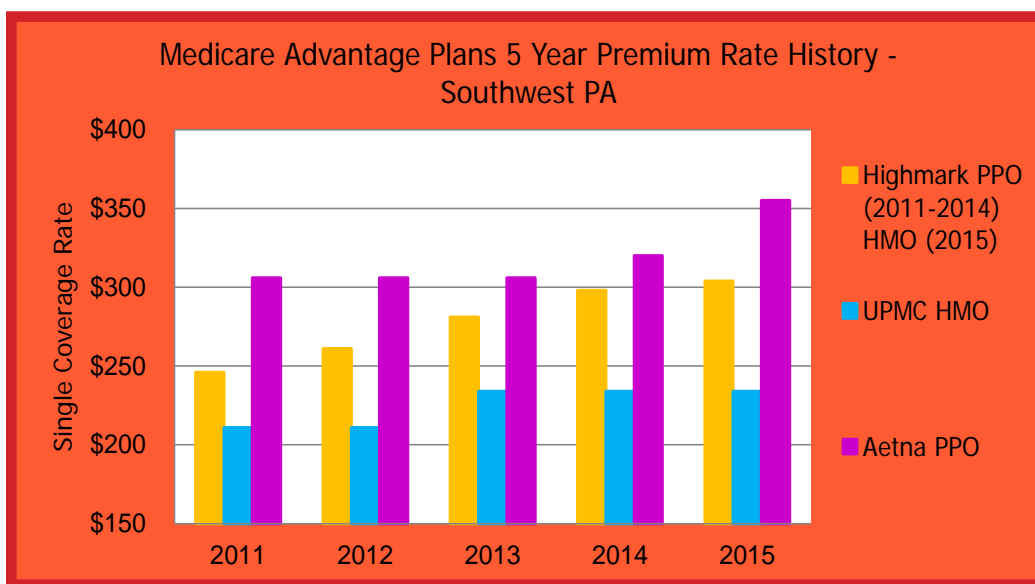
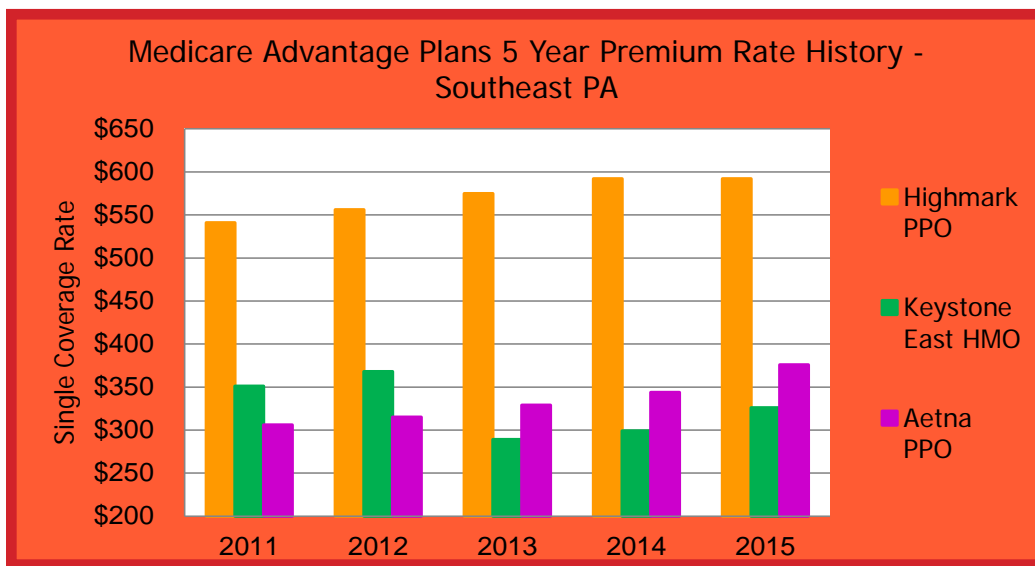
Health Options Program

(continued)

Medicare Advantage Plans

PSERS issues an IFA to allow qualified insurance carriers to apply to offer a fully insured Medicare Advantage group insurance plan through HOP. Other than requiring prescription drug coverage, the insurance carriers are given wide latitude to offer a plan tailored to the PSERS retiree population.

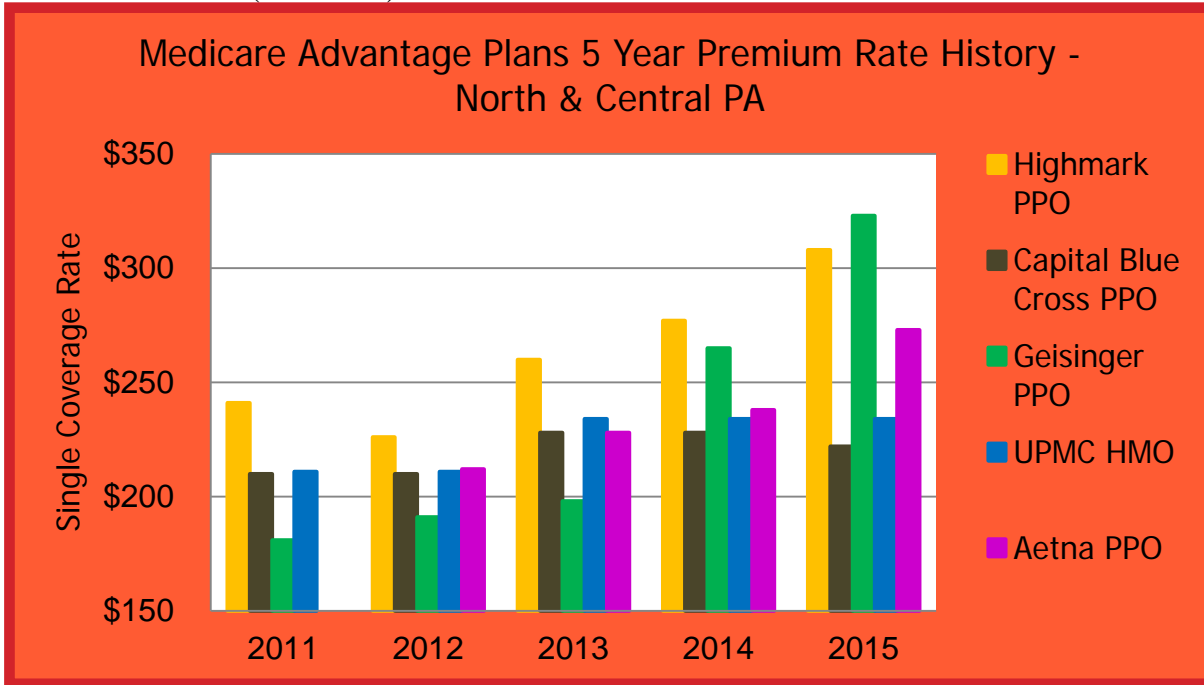
The following graphs illustrate the monthly premium rates (single coverage) for the active Medicare Advantage plans since 2011.



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Health Options Program

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While the Medicare Advantage plans have not had the premium stability of the HOP Medical Plan, some of the increases are attributable to the decrease in federal funding set forth in the Affordable Care Act.

HOP Premiums Paid By Individuals NOT ELIGIBLE for Medicare

The premiums paid by participants not eligible for Medicare generally do not vary by geographical area. The exceptions are the regional managed care plans. The following tables show the premium rates for 2015 compared to the 2014 rates in Pennsylvania for single coverage. These rates do not reflect the \$100 Premium Assistance benefit provided to eligible retirees.

All Regions	2014	2015	Increase
HOP Pre-65 Medical Plan			
HOP Pre-65 Medical Plan (Single Coverage)	\$ 717	\$ 761	6%
Pre-65 Medical Plan w/ Prescription Drugs	827	877	6%

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Health Options Program

(continued)

Southeastern Region: Bucks, Chester, Delaware, Montgomery, and Philadelphia Counties.	2014	2015	Increase/ (Decrease)
Managed Care Plans			
Aetna PPO	\$1,109	\$1,147	3%
Highmark PPOBlue	1,007	982	(2)%
Keystone East HMO	1,295	1,439	11%
Legacy Managed Care Plans (no new enrollments)			
Aetna Citizen HMO Plan	1,207	1,245	3%
IBC's Personal Choice PPO	1,291	1,438	11%

Southwestern Region: Allegheny, Fayette, Greene, Indiana, Washington, and Westmoreland Counties	2014	2015	Increase/ (Decrease)
Managed Care Plans			
Aetna PPO	\$1,109	\$1,147	3%
Highmark PPOBlue	1,007	982	(2)%
UPMC Health Plan EPO	1,384	1,384	0%
Legacy Managed Care Plans (no new enrollments)			
Aetna Citizen HMO Plan	1,207	1,245	3%
Highmark PPOBlue - High Option	1,255	1,438	11%

North & Central Region: (All other counties in Pennsylvania)	2014	2015	Increase/ (Decrease)
Managed Care Plans			
Aetna PPO*	\$1,109	\$1,147	3%
Capital Blue Cross PPO*	1,007	1,145	14%
Geisinger PPO*	1,069	903	(16)%
Highmark PPO	832	982	18%
UPMC EPO*	1,384	1,384	0%
Legacy Managed Care Plans (no new participants)			
Aetna Citizen Plan HMO	1,207	1,245	3%
Highmark PPOBlue - High Option	1,255	1,438	15%
Capital Blue Cross / Keystone Central HMO	1,039	1,088	5%

* Not available in all North & Central Region Counties.

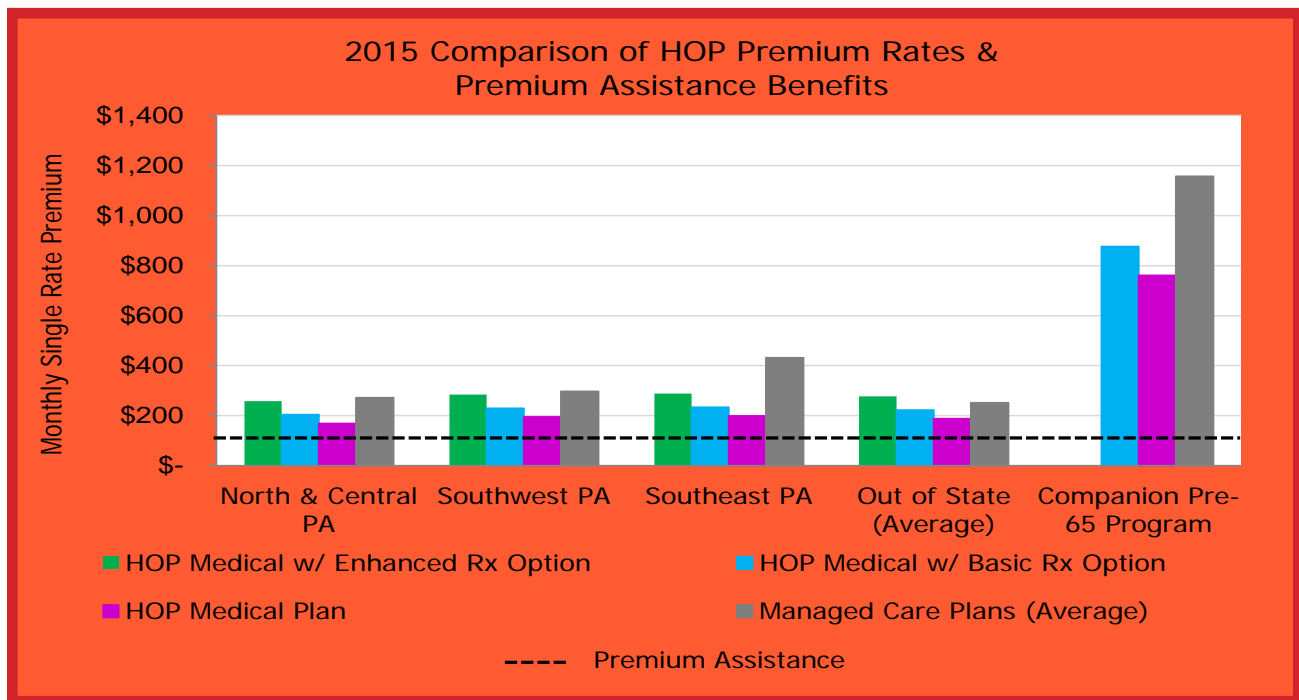
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Health Options Program

(continued)

HOP Premiums Compared to the PSERS Premium Assistance Benefit

The following charts illustrate the HOP premiums paid by PSERS retirees for single coverage compared with the PSERS Premium Assistance benefit. Participating eligible annuitants are entitled to receive Premium Assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. The premiums for 2-person and family coverage would be at least twice the cost of single coverage. Premium Assistance is an offset for the PSERS retiree's premium only.



	North & Central PA	Southwest PA	Southeast PA	Out of State (Average)	Companion Pre-65 Program
HOP Medical w/ Enhanced Rx Option	\$258	\$284	\$288	\$277	
HOP Medical w/ Basic Rx Option	204	230	234	223	\$877
HOP Medical Plan	169	195	199	188	761
Managed Care Plans (Average)	272	298	431	252	1,158
Premium Assistance	100	100	100	100	100

As illustrated in the table above, the percentage of Premium Assistance benefit coverage varies by region and plan.

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Health Options Program

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HOP Enrollment

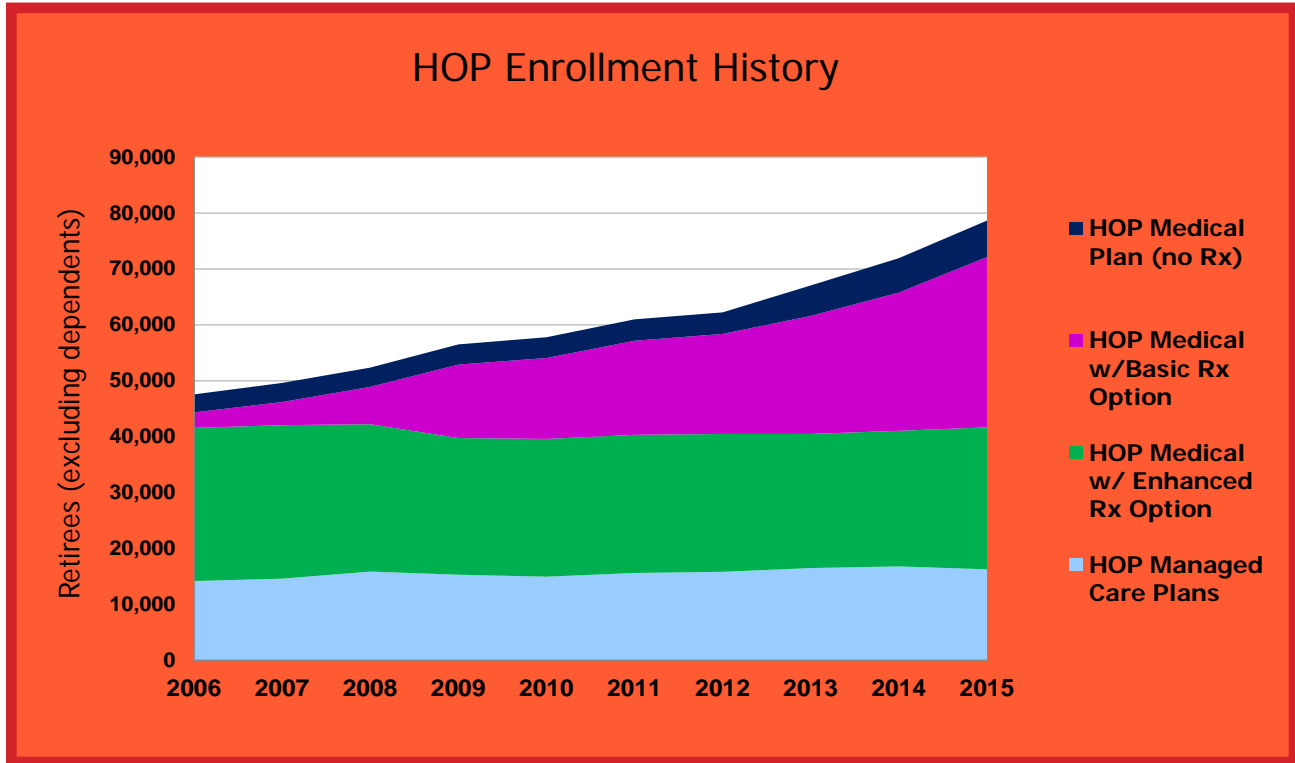
As of January 1, 2015 there are 95,503 participants (79,235 retirees plus their dependents) in the Health Options Program. The total numbers of retirees by Option are:

Individuals Eligible for Medicare	Retirees	Participants
HOP Medical w/Basic Medicare Rx Option	30,457	36,319
HOP Medical w/ Enhanced Medicare Rx Option	25,401	30,208
HOP Medical Plan (no Rx)	6,524	7,317
HOP Enhanced Rx Only	92	116
HOP Basic Rx Only	253	326
Highmark PPO/ Legacy HMO	12,954	16,786
Keystone East HMO/IBC Legacy PPO	1,129	1,366
Capital BC PPO/Keystone Central Legacy HMO	805	1,053
UPMC HMO	600	822
Aetna PPO/Legacy HMO	645	776
Geisinger PPO	136	171
Total Medicare Eligible	78,996	95,260
Individuals Not Eligible for Medicare		
HOP Pre-65 Medical Plan w/Rx Coverage	130	132
HOP Pre-65 Medical Plan	35	35
Highmark PPO	34	35
Capital BC PPO/Keystone Central Legacy HMO	16	17
Keystone East HMO/IBC Legacy PPO	14	14
Aetna PPO/Legacy HMO	5	5
Geisinger PPO	5	5
UPMC HMO	0	0
Total Not Eligible for Medicare	239	243
Total in Health Options Program	79,235	95,503

Section 5 - Other PSERS Programs

Health Options Program (continued)

Enrollment in the PSERS Health Options Program continues to increase. As illustrated by the following chart, the number of retirees participating in the HOP has increased 65% over the past 10 years.



Funding

A majority of the premium income is deducted from the retiree's monthly retirement benefit and transferred to the plan (claims administrator for the self-funded Options). Approximately 5,000 retirees submit monthly premium payments to the HOP Administration Unit, as their monthly retirement benefits, if any, are insufficient to cover the premium cost. In addition, individuals enrolled in a Medicare Rx Option without HOP Medical plan coverage must submit monthly premium payments

Health Options Program income is projected to be \$333 million during the 2015 Plan (calendar) Year. A majority of this income comes from premium payments from participants. Other sources of funding are Medicare prescription drug payments (for participants enrolled in a Medicare prescription drug plan) from the Center for Medicare and Medicaid Services (CMS) and interest income. The following is a breakdown of these sources of income (Dollar amounts in millions):

Income	Calendar Year 2015
Participant Contributions	\$297.0
CMS - Medicare Prescription Drug Payments	36.0
Interest Income	0.2
Total	\$333.2

Health Options Program

(continued)

PSERS retirees enrolled in the Health Options Program, who meet the eligibility requirements for Premium Assistance, receive \$100 per month as a partial reimbursement for the out-of-pocket premium expense. Approximately 67,400 of the 79,200 HOP retirees receive Premium Assistance. This accounts for about \$81 million of the \$104 million annual benefit expense of the Premium Assistance Program. The following Premium Assistance Program section provides additional information.

Contributions and interest income pay for the benefits provided to Health Options Program participants plus administrative expenses. The following is a breakdown of the benefit expenses (Dollar amounts in millions):

Benefit Expense	Calendar Year 2015
Self-funded Hospital, Medical & Major Medical Benefits	\$152.0
Self-funded Prescription Drug Benefits	86.0
Insured Managed Care Premiums	87.0
Total	\$325.0

In addition to the benefit expenses identified above, the Health Options Program will pay \$8 million in enrollment and administrative expenses including reimbursing PSERS for its expenses.

As of December 31, 2014, HOP had net assets of \$193 million held in trust to pay the expenses of Health Options Program for the exclusive benefit of participants.



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Premium Assistance Program

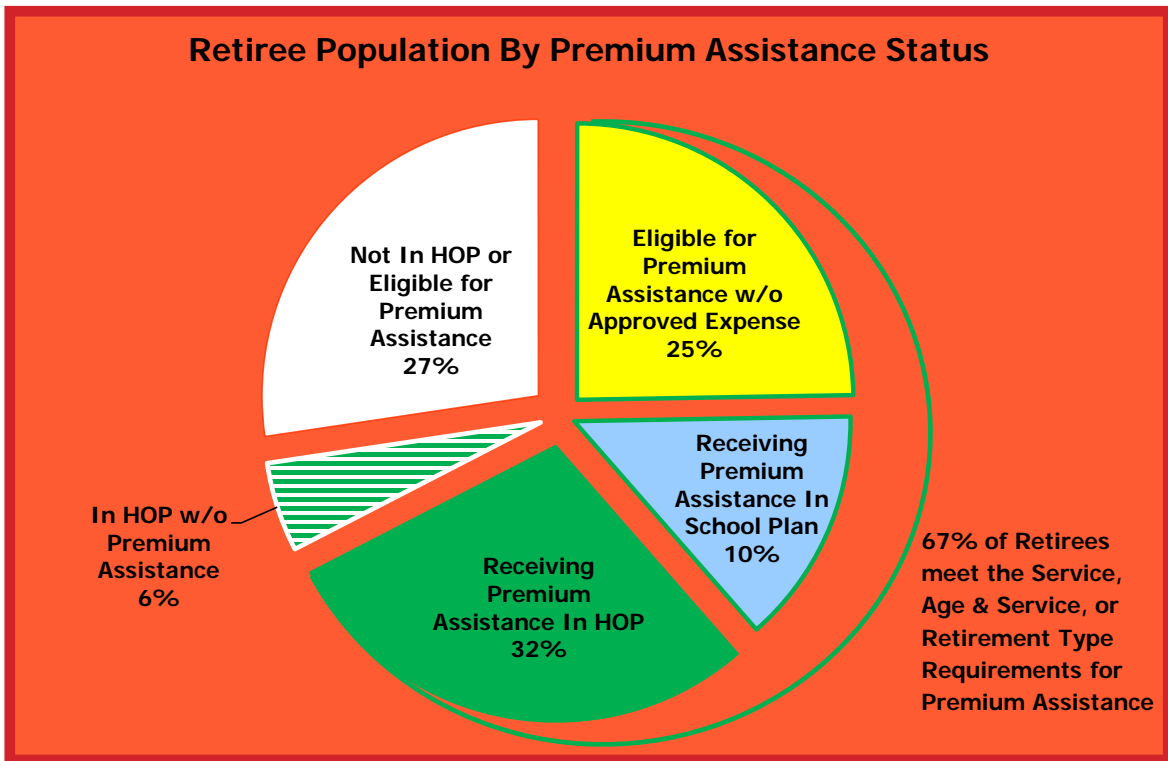
In accordance with Sec. 8509 of the Public School Employees' Retirement Code 24 Pa. C.S. § 8509, PSERS provides up to \$100 per month in Premium Assistance to eligible retirees to help cover the cost of their health insurance. The eligibility requirements for premium assistance are as follows:

- 24.5 years of credited service, or
- 15 years of credited service if termination of employment and retirement occurred after superannuation age, or
- Receiving a disability annuity from PSERS; and
- Have an out-of-pocket premium expense from their former school employer's health plan or the PSERS sponsored Health Options Program (HOP).

Enrollment

As of June 30, 2014, PSERS had 203,756 retirees (excluding survivor annuitants and beneficiaries) receiving a monthly benefit. Of these retirees 138,505 meet the service, service and age at termination of school service, or retirement type (disability) eligibility requirements for the premium assistance program. Of the retirees meeting these requirements, 51,816 are not receiving premium assistance payments because they do not have an out-of-pocket premium expense from an approved plan. Of the 86,689 retirees receiving premium assistance benefits, 65,436 are enrolled in HOP and 21,253 are participating in their former school employer's health plan and have an out-of-pocket premium expense.

A breakdown of retirees by their premium assistance status is as follows:



June 30, 2014	Number	Percentage
Eligible for Premium Assistance w/o Approved Expense ¹	51,816	25%
Receiving Premium Assistance In School Plan ¹	21,253	10%
Receiving Premium Assistance In HOP ¹	65,436	32%
In HOP w/o Premium Assistance	11,196	6%
Not In HOP or Eligible for Premium Assistance	54,055	27%
Total Retiree Population ²	203,756	100%

(1) Meeting the service, service and age at termination of school employment or retirement type requirements.

(2) As of June 30, 2014 Actuarial Valuation (Excludes Survivor Annuitants and Beneficiaries)

Premium Assistance Program

(continued)

Funding

The Premium Assistance Program is funded by employer contributions. The contribution rate is calculated by PSERS' actuary in accordance with the formula set forth in the Retirement Code¹. The contribution needed during FY2015/2016 is 0.84% of payroll.

For the year ended June 30, 2014, employer contributions equaled \$117.9 million and net investment income totaled \$0.07 million. During this period, PSERS paid Premium Assistance benefits equaling \$104.2 million and incurred administrative expenses of \$2.0 million.

As of December 31, 2014, the Premium Assistance Program had net assets of \$114 million.

¹§8509. Health insurance premium assistance program: (a) Contribution rate.-- For each fiscal year beginning after July 1, 1991, the premium assistance contribution rate shall be established to provide reserves sufficient, when combined with unexpended amounts from the reserves set aside the previous fiscal year for health insurance assistance payments, to provide premium assistance payments in the subsequent fiscal year for all participating eligible annuitants. The Board is authorized to expend an amount not to exceed 2% of the health insurance account each year to pay for the direct expense of administering the health insurance premium assistance program, which expenditure may be included in the Board's consideration when it establishes the premium assistance contribution rate each year.

