

2010 Premium Rates and Benefits

- ⤴ HOP Medical Plan,
- ⤴ Pre-65 Medical Plan,
- ⤴ Basic and Enhanced Medicare Rx Options,
- ⤴ HOP Managed Care Plan by Highmark, and
- ⤴ Pre-65 Managed Care Plan by Highmark
- ⤴ Legacy Medicare Advantage Plans
- ⤴ Legacy Pre-65 Managed Care Plans

Of The

HOP

HEALTH OPTIONS PROGRAM



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Background

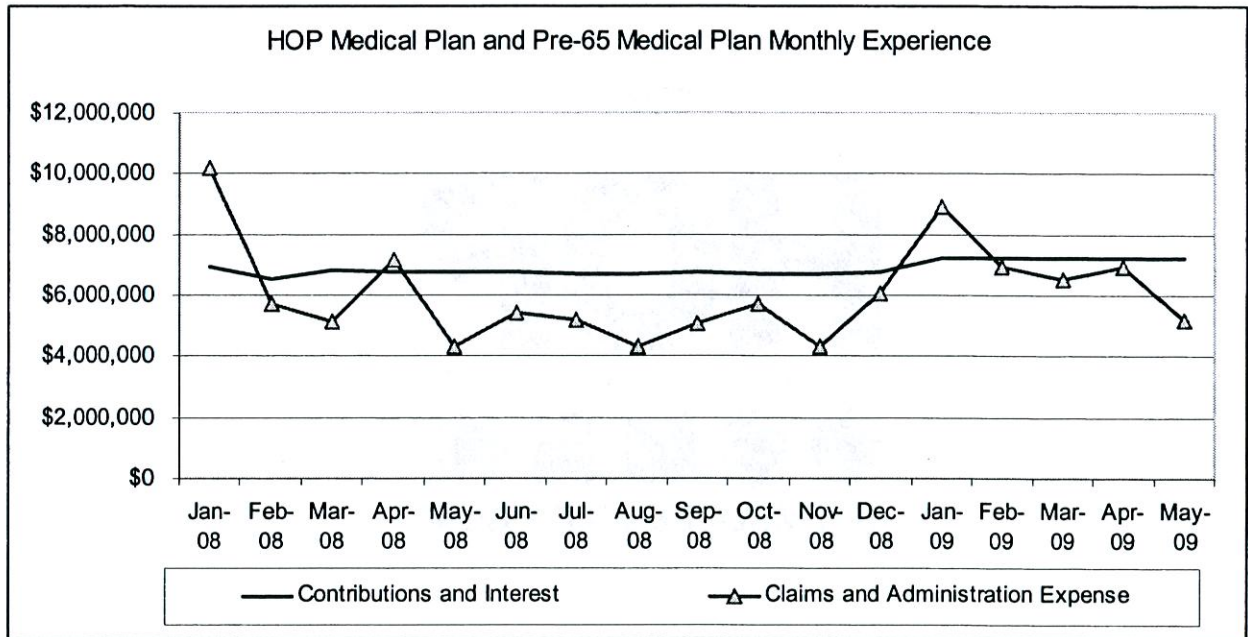
Each year the Retirement Board reviews and approves the participant contribution rates for the self-funded benefit plans provided by the Health Options Program (HOP). The Segal Company developed contribution rates for the HOP Medical Plan for individuals eligible for Medicare and the Pre-65 Medical Plan 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.

Beginning January 1, 2009, the Board entered into contract with Highmark to provide Medicare Advantage and companion pre-65 plans through HOP. Highmark has submitted its rate and benefits for the 2010 plan year for the Board's review and approval. There are also a number of "legacy" managed care plans participating in HOP. The rates and benefits of these plans have not been submitted to PSERS at this time.

HOP Medical Plan

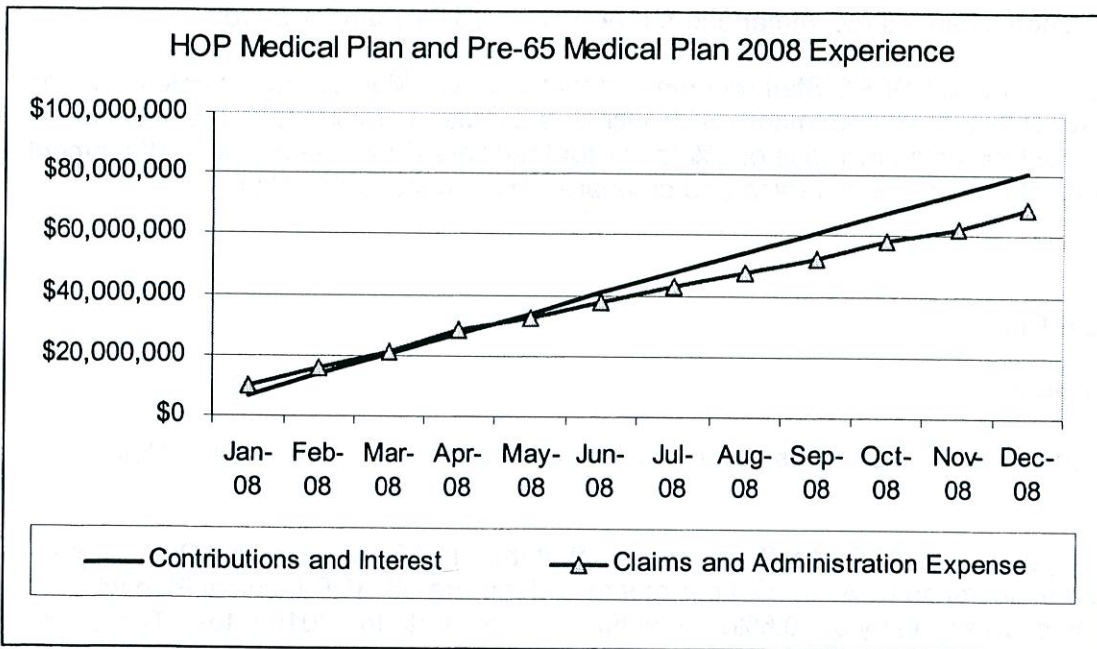
Experience

The claims and administrative expense experience for the HOP Medical Plan over the past 17 months has fluctuated between \$4 and \$10 million per month. As illustrated by the following graph, claims tend to be highest during the first quarter of the calendar year.



January 2008 claims exceeded contributions, as did April 2008 claims. For 2009, the contributions rates were increased between 4 and 10%. While January 2009 claims expense exceeded contribution income, 2009 claims in general are not substantially higher than 2008, even though the overall number of participants has increased.

The next graph looks at the accumulated claims and income expense for the 2008 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 2009 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 \$3.30 per member per month, or approximately \$1.6 million for the year. For 2010, the cost for SilverSneakers moves to \$4.10 per member per month, or about \$2.0 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. If the fitness program shows no cost saving over two years it may be discontinued.

As of May 2009, 4,900 HOP Medical Plan and Pre-65 Medical Plan participants have signed up for the SilverSneakers fitness program. This represents about 11% of all participants in those plans. In May 2009, over 3,500 participants visited participating locations 25,286 times, for an average of 7.2 visits per participant during the month. Through May 2009, HOP participants have made 108,296 fitness visits under the SilverSneakers program. These participation levels exceed our projections. Based on the latest utilization, fees translate to about \$5.90 per visit, or about \$42.50 per month per "utilizing participant". As more participants utilize the fitness benefit, the cost per visit and per month will continue to go down.

Benefits and Rates

There are no benefit changes recommended for the HOP Medical Plan for 2010.

The Segal Company and PSERS Staff recommend that the HOP Medical Plan single coverage rates be increased by \$2 (1%) per month. 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 2010 rates for each region and compares them to the 2009 rates.

Pre-65 Medical Plan

Benefits and Rates

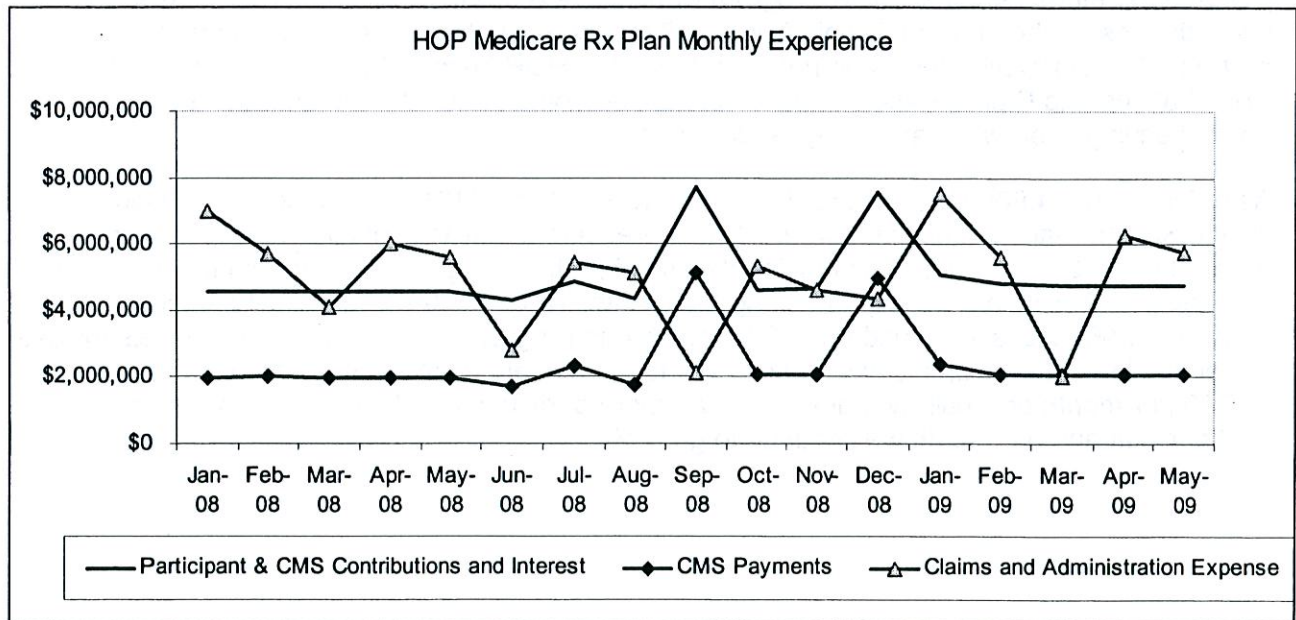
There are no changes in the benefit structure recommended for the Pre-65 Medical Plan for 2010.

The Segal Company and PSERS Staff recommend that the Pre-65 HOP Medical Plan single coverage rates be increase by \$3 (0.5%) per month and the Pre-65 HOP Medical Plan with Prescription Drug Coverage by \$4 (0.6%). Attachment 1 sets forth the 2010 rates. There are no regional differences for the Pre-65 rates.

Basic and Enhanced Medicare Rx Options

Experience

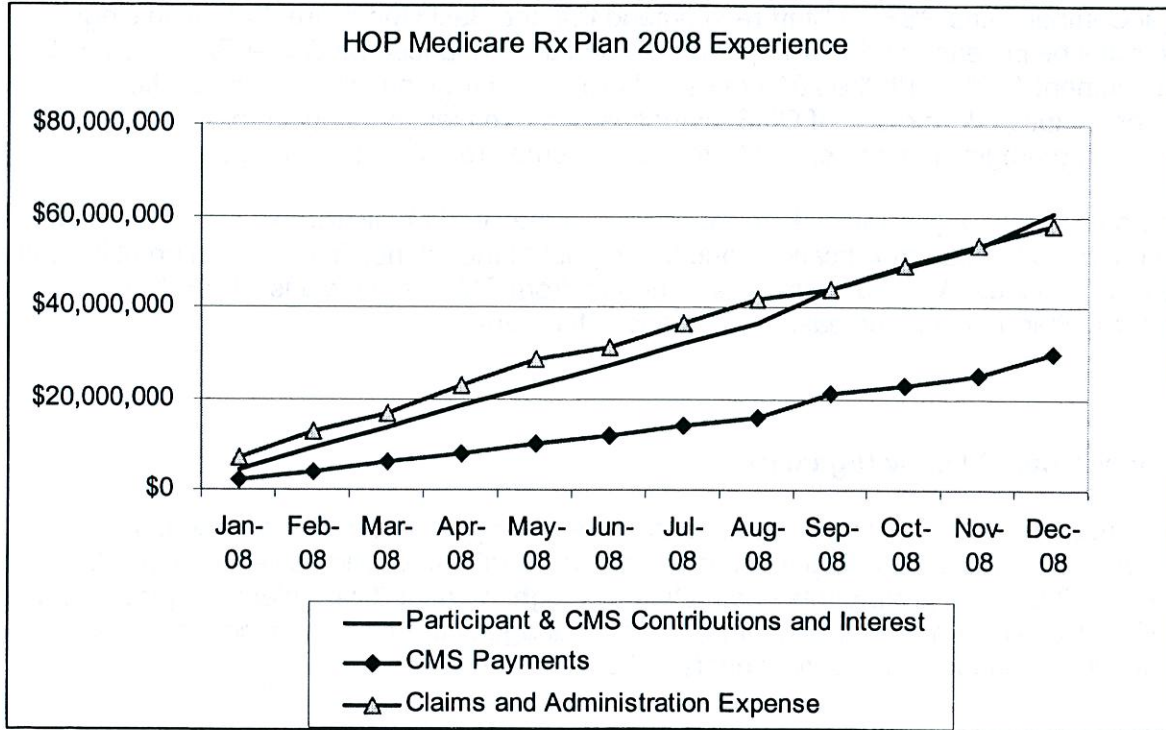
As illustrated by the following graph, the monthly income and expenses of the Basic and Enhanced Medicare Rx Options have fluctuated widely over the past 17 months.



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 (September and December 2008).
- ⌘ Claim 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 three times during 2008 and once so far in 2009.

The next graph looks at the accumulated income and expenses for the 2008 plan year.



This graph smoothes the monthly fluctuations and illustrates that income caught up with and exceeded claims expenses at the end of the year. For 2009, the contributions rates were increased 6% for the Enhanced Option. For the Basic Medicare Rx Option, contribution rates remained constant for 2008 and 2009.

Benefits and Preliminary Rates

Due to stable costs, Segal and IPC recommend that the benefit co-pays and coinsurance of the Basic and Enhanced Options remain primarily the same for 2010. The coverage thresholds are indexed by law and will change each year as determined by the Centers for Medicare and Medicaid Services (CMS). Since the PSERS Rx plans exclude front end annual deductibles (which reduce coverage value), the members will see a slight increase in benefit value as the initial coverage level will rise to \$2,830 in 2010, from \$2700.

CMS, by regulation, is requiring a change in one element of the benefit structure of the Basic and Enhanced Medicare Rx Options for 2010. Currently, the Basic and Enhanced Options require a member who elects a brand name drug when a generic equivalent is available to pay the cost differential between the generic and brand. CMS is taking the position that this benefit design

design does not give a participant sufficient information to make a pre-determination of the cost of the drug. In response to this position, the Basic and Enhanced Options will charge the member 30% of the cost of the brand name drug even if there is a generic equivalent effective January 1, 2010. For participants in the Enhanced Option who reach the Coverage Gap, the plan will charge the participants 50% of the cost of the brand name drug even if there is a generic equivalent.

CMS is anticipated to hold or reduce payments to Medicare prescription drug plans (PDPs) for 2010. Even with this decrease in Federal funding, however, the Basic and Enhanced Medicare Rx Options will require only a modest premium increase. Benefit modifications made to the Basic and Enhanced Options for 2008 have largely offset the decrease in CMS funding, increasing coverage thresholds and prescription drug inflation.

The Segal Company and PSERS Staff recommend that the Basic Medicare Rx Option single coverage rates be increase by \$1 (4%) per month and the Enhanced Medicare Rx Option by \$5 (6%). Attachment 1 sets forth the 2010 rates. There are no regional differences for the Medicare prescription drug rates. If CMS increases or decreases the funding for the Medicare prescription drug program, the rates set forth in this memo are subject to change.

Segal has noted that the favorable claim experience in the HOP Medicare Rx plans may not last. The effect of the prior plan modifications and the impact of the economic recession on utilization rates may not continue. Without increases in income from CMS, these plans will likely see pressure for higher premium increases to retirees in the future.

HOP Managed Care Plan by Highmark

Effective January 1, 2009, Highmark became the sole managed care option offered to new enrollees of HOP and those participants changing plans during the option selection period. Prior to January 1, 2009, HOP participants had a choice of eight managed care plans, Highmark being one. HOP participants enrolled in one of the seven managed care plans may continue their participation in the "legacy" plan until January 1, 2011.

Experience

The Highmark Plans are fully insured. Premium rates, however, are experience rated. This means the premium rates paid by the participants in the HOP Managed Care Plan and Pre-65 Managed Care Plan by Highmark are based upon the claims experience of the group and (for the Medicare Advantage plan) payments from the Centers for Medicare and Medicaid Services (CMS).

Highmark provided aggregate drug and medical claims and income data and some information regarding the rate development, but without complete detailed claims and administrative expense experience as well as income received from CMS, a comprehensive independent analysis could not be done to justify the rates. Segal disagreed with the assumed cost trend assumption applied by Highmark for the prescription drug benefit plans and appealed to Highmark to review and lower the trend assumption, which has a direct impact on 2010 premium. Highmark rejected Segal's appeal to use a lower trend assumption for the fully insured rates.

Benefits and Preliminary Rates

Given the cutback in the funding of Medicare Advantage plans by CMS, Highmark maintains that a 20% to 33% rate increase (varies by region) will be required to 2010 to maintain the current level of benefits. To mitigate the premium increase, Highmark has recommended the following prescription drug benefit modification for 2010:

Prescription Drug Program	2009	2010
Annual Deductible	None	None
1st Tier		
Generic Copay	\$20 (\$40 Mail Service)	\$15 (\$30 Mail Service)
Preferred Brand Copay	\$20 (\$40 Mail Service)	\$30 (\$60 Mail Service)
Non-preferred Brand	\$50 (\$100 Mail Service)	\$60 (\$120) Mail Service
Specialty	\$50	33%
2nd Tier - Gap Coverage		
Generic Copay	\$20 (\$40 Mail Service)	\$15 (\$30 Mail Service)
Preferred Brand Copay	\$20 (\$40 Mail Service)	50%
Non-preferred Brand	\$50 (\$100 Mail Service)	50%
Specialty	\$50	50%
3rd Tier - Catastrophic Coverage	95%	95%

The proposed prescription drug program changes for 2010 bring the benefit level more in line with the HOP Enhanced Medicare Rx Option. While this will represent a significant cost shifting to some of Highmark's current participants, it is still superior to any of the prescription drug programs of the legacy managed care plans.

With these benefit modifications the Highmark rates for individuals eligible for Medicare will increase between 6% and 12% for 2010. Attachment 2 sets forth the 2010 rates for each region and compares them to the 2009 rates. The Segal Company and PSERS Staff recommend that the benefit modifications and rates of the HOP Managed Care Plan by Highmark be accepted. If CMS increases or decreases the funding for the Medicare Advantage program, the rates set forth in this memo are subject to change.

Pre-65 Managed Care Plan by Highmark

Benefits and Rates

There are no benefit changes recommended for the Pre-65 Managed Care Plan by Highmark for 2010.

The following table sets forth the 2010 premium rates to be paid by HOP participants in the Pre-65 Managed Care Plan by Highmark not eligible for Medicare and compares them to the 2009 rates. Highmark's pre-65 rates will go up by 7.8% for 2010:

Pre-65 Managed Care Plan by Highmark	2009	2010	Increase
Single	\$852	\$918	\$66
2-Person	\$2,201	\$2,373	\$172
Family	\$2,532	\$2,729	\$197

The Segal Company and PSERS Staff recommend that the rates of the Pre-65 Managed Care Plan by Highmark be accepted.

Legacy Managed Care Plans – Medicare Advantage

Benefits and Rates

The premium rates for the legacy managed care plans for individuals eligible for Medicare are not available at this time. An addendum to this report will be issued as soon as these rates are submitted in final form by all the managed care organizations.

Legacy Managed Care Plans – Pre-65 Managed Care Plans

Benefits and Rates

The premium rates for the legacy managed care plans for individuals eligible for Medicare are not available at this time. An addendum to this report will be issued as soon as these rates are submitted in final form by all the managed care organizations.

**Attachment 1
PSERS Health Options Program
2010 Rates**

Medicare Retiree Options		Southeast			
		Out of State Zone 1			
		2009	2010	Increase	%
HOP Medical Only					
Single	\$197	\$199	\$2	1%	
Two Person	\$388	\$392	\$4	1%	
HOP Medical + Basic Medicare Rx					
Single	\$222	\$225	\$3	1%	
Two Person	\$438	\$444	\$6	1%	
HOP Medical + Enhanced Medicare Rx					
Single	\$280	\$287	\$7	2%	
Two Person	\$554	\$568	\$14	3%	

Medicare Retiree Options		Southwest			
		Out of State Zone 2			
		2009	2010	Increase	%
HOP Medical Only					
Single	\$185	\$187	\$2	1%	
Two Person	\$365	\$369	\$4	1%	
HOP Medical + Basic Medicare Rx					
Single	\$210	\$213	\$3	1%	
Two Person	\$415	\$421	\$6	1%	
HOP Medical + Enhanced Medicare Rx					
Single	\$268	\$275	\$7	3%	
Two Person	\$531	\$545	\$14	3%	

Medicare Retiree Options		North & Central			
		Out of State Zone 3			
		2009	2010	Increase	%
HOP Medical Only					
Single	\$155	\$157	\$2	1%	
Two Person	\$302	\$306	\$4	1%	
HOP Medical + Basic Medicare Rx					
Single	\$180	\$183	\$3	2%	
Two Person	\$352	\$358	\$6	2%	
HOP Medical + Enhanced Medicare Rx					
Single	\$238	\$245	\$7	3%	
Two Person	\$468	\$482	\$14	3%	

Medicare Prescription Drug Plans	All Regions			
	2009	2010	Increase	%
Basic Medicare Rx Only				
Single	\$25	\$26	\$1	4%
Two Person	\$50	\$52	\$2	4%
Enhanced Medicare Rx Only				
Single	\$83	\$88	\$5	6%
Two Person	\$166	\$176	\$10	6%
Basic Medicare Rx Only				
Single	\$25	\$26	\$1	4%
Two Person	\$50	\$52	\$2	4%
Enhanced Medicare Rx Only				
Single	\$83	\$88	\$5	6%
Two Person	\$166	\$176	\$10	6%
Pre-65 Retiree Options				
	All Regions			
	2009	2010	Increase	%
HOP Pre-65 Medical Only				
Single	\$566	\$569	\$3	0.50%
Two Person	\$1,247	\$1,253	\$6	0.50%
HOP Pre-65 Medical with Rx				
Single	\$682	\$686	\$4	0.60%
Two Person	\$1,501	\$1,509	\$8	0.50%

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

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

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

Attachment 2
Highmark 2010 Rates - Active Plans
PSERS Health Options Program

Medicare Plans - 2010 Rates*	Pricing Region					
	PA West	PA Central	PA Philadelphia	Non-PA		
				Rate 1	Rate 2	Rate 3
Total (Medical & Rx) - PPO & PFFS	\$245.00	\$225.00	\$257.00	\$203.00	\$278.00	\$323.00

2009 PPO & PFFS Rates	\$223.00	\$211.00	\$235.00	\$181.00	\$256.00	\$301.00
Increase	\$22.00 9.9%	\$14.00 6.6%	\$22.00 9.4%	\$22.00 12.2%	\$22.00 8.6%	\$22.00 7.3%

HOP Pre-65 Managed Care Plan - 2010 Rates*

	<u>Individual</u>	<u>2-Person</u>	<u>3-Person</u>
<i>PPOBlue</i>			
Total (Medical & Rx)	\$918.00	\$2,373.00	\$2,729.00
2009 Pre-65 Rate	\$852.00	\$2,201.00	\$2,532.00
Increase	\$66.00 7.7%	\$172.00 7.8%	\$197.00 7.8%

PSERS SilverSneakers Senior Fitness Program 2010

Per member per month charge	2010	\$4.10
	2009	\$3.30
Increase		\$0.80 24.2%

* Health plan rates include administrative load.