

SECTION 4 - PSERS POSTEMPLOYMENT HEALTHCARE PROGRAMS

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Section 4 - 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 commenced on January 1, 1994. As of December 1, 2015 there are 100,871 participants (84,530 retirees plus their dependents) in the Health Options Program. The HOP is funded solely by and for eligible participants. Employers provide no funding for the HOP. The following is a summary of HOP initiatives during the period January 1, 2015 to January 1, 2016.

- 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, 2016. As a result of the IFA, PSERS is expecting the following carriers to participate in HOP:

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

- Geisinger did not submit an application for 2016. Health Option Program participants enrolled in a Geisinger plan during 2015 were so advised and asked to select another plan. Participants failing to select another plan will be transferred to the HOP Medical Plan with Basic Medicare Rx Option until a positive election can be made.
- The Retirement Board continues to make changes in the Basic and Enhanced Medicare Rx Options as required by the Centers for Medicare and Medicaid Services (CMS). The following is a summary of the changes in Part D Medicare benefits from 2015 to 2016:

Standard Benefit	2015	2016
Deductible	\$ 320	\$ 360
Initial Coverage Limit	2,960	3,310
Out-of-Pocket Threshold	4,700	4,850
Minimum Cost sharing in Catastrophic Coverage Portion of the Benefit		
Generic	\$ 2.65	\$ 2.95
Other	6.60	7.40

These plan design limits and thresholds are tied to specific indices, including the average per capita Part D spending and the annual percentage increase in the Consumer Price Index.

The Affordable Care Act (ACA) mandates that Medicare prescription drug plans provide 35% coverage for generic drugs in the Coverage Gap for 2015. For 2016, that plan share moves up to 42%. While the Act increases this

benefit 7% per year toward an ultimate level of 75%, it provides effectively no additional funding from CMS. Accordingly, the cost of the mandated benefit increase is paid by participants not receiving low-income subsidies. The Affordable Care Act also mandates that Medicare prescription drug plans pay 5% of the cost of brand drugs in the Coverage Gap for 2015, which will increase to 25% over the next several years. The following table shows how much members pay for drugs in the Coverage Gap:

The Member Pays in Coverage Gap:	2015 Medicare Rx Option	2016 Medicare Rx Option
Generic Drugs	65%	58%
Brand Drugs	45% (after 50% manufacturer discount and 5% plan benefit)	45% (after 50% manufacturer discount and 5% plan benefit)

Section 4 - Other PSERS Programs

- The retirement Board added three plans to the Health Options Program effective January 1, 2016 in response to surveys of retirees becoming eligible for Medicare. The new plans are as follows:

Value Medical Plan-A Supplement to Original Medicare In Conjunction with Medicare the Member Pays:	Value Medical Plan
Part A	
Hospital Deductible (day 1-60)	\$500
Coinsurance (days 61-90)	0%
Coinsurance (days 91-150)	0%
Skilled Nursing Facility Coinsurance (day 21-100)	\$50/day
Hospice Cost-sharing (5% plus \$5/Rx)	0%
Part B	
Part B Deductible Annual	\$147
Part B Coinsurance	20% (up to following maximum ¹)
Physician Visits	\$20
Emergency Room	\$50
Outpatient Surgery	\$100
MRI and CT Scans	\$100
Durable Medical Equipment	20% (no maximum)
A&B Out-of-pocket Limit	\$5,000

¹Member copayment not to exceed remaining allowed amount after Medicare

Value Medicare Rx Option-A Medicare Prescription Drug Plan Member Pays:		Value Rx Option Benefits
Annual Deductible		\$360
Initial Coverage	Generic Drugs	25%
	Preferred Brand Drugs	25%
	Non-Preferred Brand Drugs	25%
	Specialty Drugs	25%
Coverage Gap	Generic Drugs	58%
	Brand Drugs	45%
	Specialty Drugs	
	Generic Drugs	58%
Brand Drugs	45%	
Catastrophic	Generic Drugs	Greater of \$2.95 or 5%
	Brand Drugs	Greater of \$7.40 or 5%

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Voluntary Dental Plan Benefits Effective January 1, 2016 for the 2016 Plan Year

Member Pays:	In-Network	Out-Network
Class I - Diagnostic & Preventative	0%	20%
Deductible (Excluding Class I)	\$0	\$100
Class II - Basic Services	30%	50%
Class III - Major Services	40%	50%
Annual Maximum Benefits	\$1,200	

The Retirement Board conducted an open enrollment for the Health Options Program for benefit coverage effective January 1, 2016. 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.

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 2016 option selection period conducted in the fall of 2015. The following is a list of HOP plans as of January 1, 2016:

For Individuals Eligible for Medicare:	For Individuals Not Eligible for Medicare:
HOP Value Medical Plan (Medicare supplement)	
HOP Medical Plan (Medicare supplement)	HOP Pre-65 Medical Plan
Value Medicare Rx Option (Medicare Part D)	
Basic Medicare Rx Option (Medicare Part D)	
Enhanced Medicare Rx Option (Medicare Part D)	HOP Pre-65 Medical Plan w/ Rx coverage
Medicare Advantage Plans	Companion Pre-65 Managed Care Plans
Aetna Medicare PPO	Aetna PPO Plan
Capital Blue Cross SeniorBlue PPO	Capital Blue Cross 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

Section 4 - Other PSERS Programs

Health Options Program (continued)

HOP Program Plan Premiums

Assistance benefit provided to eligible retirees or discounts available to individuals enrolling at age 65.

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 2016 compared to the 2015 rates in Pennsylvania for single coverage. These rates do not reflect the \$100 Premium

Southeastern Region: Bucks, Chester, Delaware, Montgomery, and Philadelphia Counties	2015	2016	Increase/ (Decrease)
Medicare Supplement Plans			
Value Medical Plan ¹		\$117	
Value Medical Plan w/ Value Medicare Rx Option ¹		136	
HOP Medical Plan	\$199	199	0%
HOP Medical Plan w/ Basic Medicare Rx Option	234	248	6%
HOP Medical Plan w/ Enhanced Medicare Rx Option	288	298	3%
Medicare Advantage Plans			
Aetna Medicare 15 Special PPO	376	379	1%
Highmark FreedomBlue PPO	592	363	(39)%
Independence Blue Cross/Keystone 65 Select HMO	326	335	3%
Legacy Medicare Advantage Plans (no new enrollment)			
Aetna Medicare 10 Special Plan HMO	461	461	0%
IBC's Personal Choice 65 PPO	665	671	1%

¹New plans effective January 1, 2016.

Southwestern Region: Allegheny, Fayette, Greene, Indiana, Washington, and Westmoreland Counties	2015	2016	Increase/ (Decrease)
Medicare Supplement Plans			
Value Medical Plan ¹		\$115	
Value Medical Plan w/ Value Medicare Rx Option ¹		134	
HOP Medical Plan	\$195	195	0%
HOP Medical Plan w/ Basic Medicare Rx Option	230	244	6%
HOP Medical Plan w/ Enhanced Medicare Rx Option	284	294	4%
Medicare Advantage Plans			
Aetna Medicare 15 Special PPO	355	345	(3)%
Highmark SecurityBlue HMO	304	304	0%
UPMC for Life HMO	234	243	4%
Legacy Medicare Advantage Plans (no new enrollment)			
Aetna Medicare 15 Special Plan HMO	454	454	0%
Highmark FreedomBlue PPO	371	338	(9)%

¹New plans effective January 1, 2016.

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Health Options Program (continued)

North & Central Region: (All other counties in Pennsylvania)	2015	2016	Increase/ (Decrease)
Medicare Supplement Plans			
Value Medical Plan ¹		\$102	
Value Medical Plan w/ Value Medicare Rx Option ¹		121	
HOP Medical Plan	\$169	172	2%
HOP Medical Plan w/ Basic Medicare Rx Option	204	221	8%
HOP Medical Plan w/ Enhanced Medicare Rx Option	258	271	5%
Medicare Advantage Plans			
Aetna Medicare 15 Special PPO ²	273	253	(7)%
Capital Blue Cross SeniorBlue PPO ²	222	222	0%
Highmark FreedomBlue PPO	308	297	(4)%
UPMC for Life HMO ²	234	243	4%
Legacy Medicare Advantage Plans (no new enrollment)			
Aetna Medicare 10 Special HMO Plan ²	290	290	0%
Highmark SecurityBlue HMO ²	304	304	0%
Keystone Central SeniorBlue HMO ²	215	200	(7)%

¹New plans effective January 1, 2016.

²Plans not available in all North & Central Region counties.

Health Options Program participants may select Enhanced, Basic, or Value Medicare Rx Option coverage without enrolling in the HOP Medical Plan or Value 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	2015	2016	Increase
Enhanced Medicare Rx Only	\$89	\$99	11%
Basic Medicare Rx Only	35	49	40%
Value Medicare Rx Only ¹		19	

¹New plan effective January 1, 2016.

The dramatic increase in premium is due, in large part, to a decrease in payments from the federal government for the Medicare prescription drug program.

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Health Options Program

(continued)

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 2016 compared to the 2015 rates in Pennsylvania for single coverage. These rates do not reflect the \$100 Premium Assistance benefit provided to eligible retirees.

All Regions	2015	2016	Increase
HOP Pre-65 Medical Plan			
HOP Pre-65 Medical Plan (Single Coverage)	\$ 761	\$ 836	10%
Pre-65 Medical Plan w/ Prescription Drugs	877	964	10%

Southeastern Region: Bucks, Chester, Delaware, Montgomery, and Philadelphia Counties	2015	2016	Increase
Managed Care Plans			
Aetna PPO	\$1,147	\$1,147	0%
Highmark PPOBlue	982	1,150	17%
Keystone East HMO	1,439	1,629	13%
Legacy Managed Care Plans (no new enrollments)			
Aetna Citizen HMO Plan	1,245	1,245	0%
IBC's Personal Choice PPO	1,438	1,653	15%

Southwestern Region: Allegheny, Fayette, Greene, Indiana, Washington, and Westmoreland Counties	2015	2016	Increase
Managed Care Plans			
Aetna PPO	\$1,147	\$1,147	0%
Highmark PPOBlue	982	1,150	17%
UPMC Health Plan EPO	1,384	1,384	0%
Legacy Managed Care Plans (no new enrollments)			
Aetna Citizen HMO Plan	1,245	1,245	0%
Highmark PPOBlue - High Option	1,438	1,541	7%

North & Central Region: (All other counties in Pennsylvania)	2015	2016	Increase
Managed Care Plans			
Aetna PPO*	\$1,147	\$1,147	0%
Capital Blue Cross PPO*	1,145	1,304	14%
Highmark PPO	982	1,150	17%
UPMC EPO*	1,384	1,384	0%
Legacy Managed Care Plans (no new participants)			
Aetna Citizen Plan HMO	1,245	1,245	0%
Highmark PPOBlue – High Option	1,438	1,541	7%
Capital Blue Cross / Keystone Central HMO	1,088	1,239	14%

* Not available in all North & Central Region Counties.

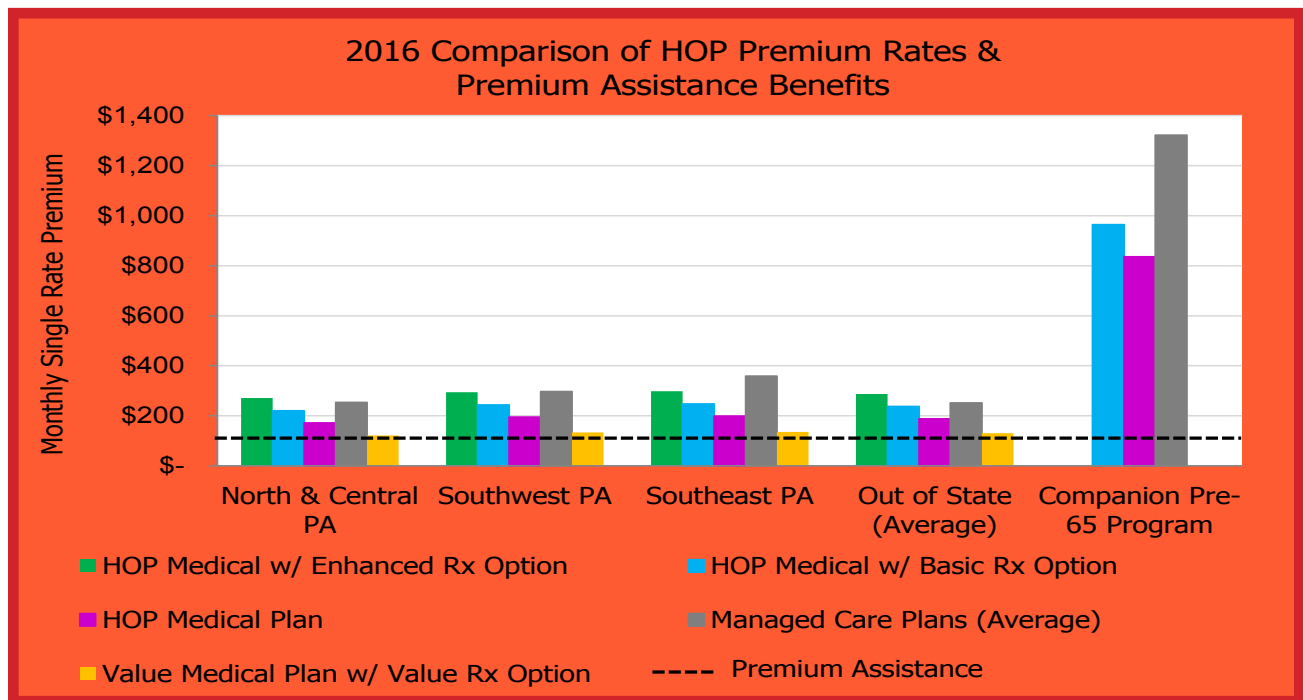
Section 4 - Other PSERS Programs

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	\$271	\$294	\$298	\$288	
HOP Medical w/ Basic Rx Option	221	244	248	238	\$964
HOP Medical Plan	172	195	199	189	836
Value Medical Plan w/ Value Rx Option	121	134	136	130	
Managed Care Plans (Average)	254	297	359	252	1,323
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 (continued)

HOP Enrollment

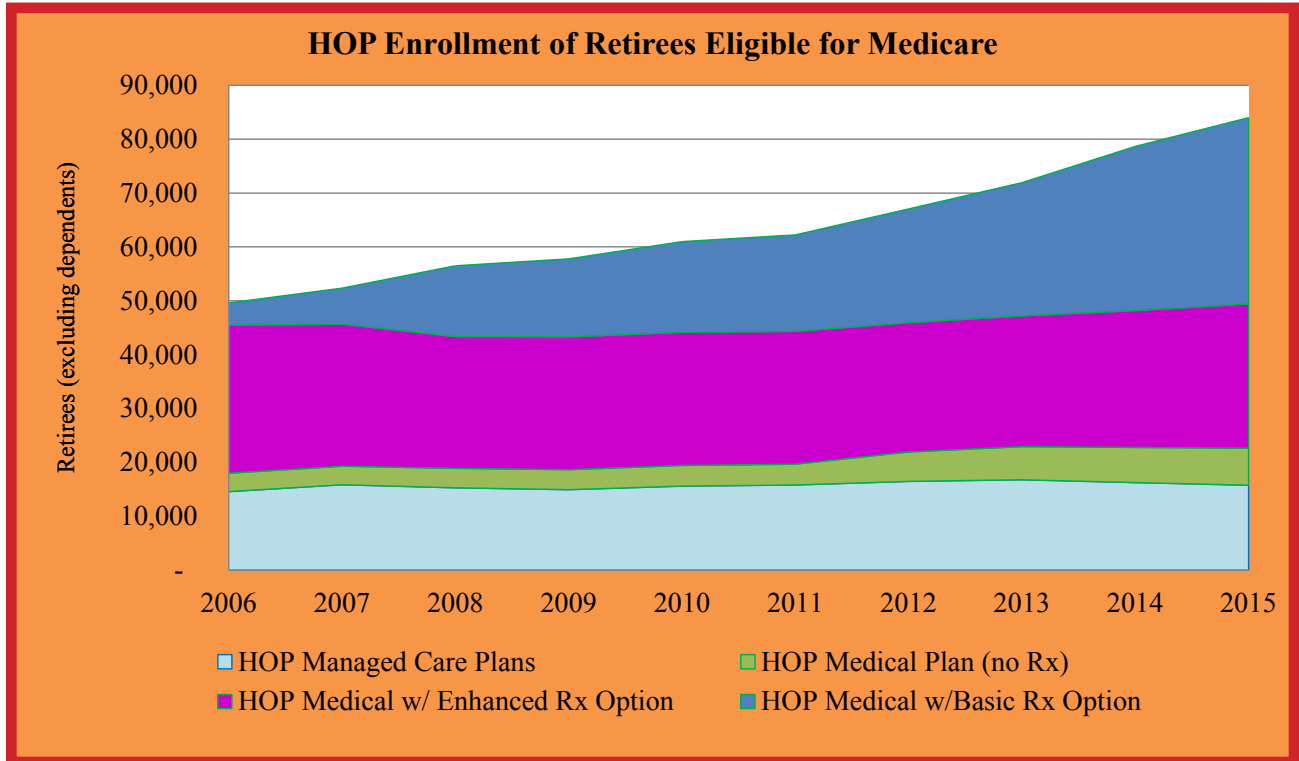
As of December 1, 2015 there are 100,871 participants (84,530 retirees plus their dependents) in the Health Options Program. The total numbers of retirees by Option are:

Individuals Eligible for Medicare	Retirees	Participants
HOP Medical w/ Basic Medicare Rx Option	34,567	40,804
HOP Medical w/ Enhanced Medicare Rx Option	26,761	31,545
HOP Medical Plan (no Rx)	6,881	7,665
HOP Enhanced Rx Only	91	114
HOP Basic Rx Only	266	339
Highmark PPO/Legacy HMO	12,497	16,085
Keystone East HMO/IBC Legacy PPO	1,086	1,304
Capital BC PPO/Keystone Central Legacy HMO	815	1,051
UPMC HMO	679	940
Aetna PPO/Legacy HMO	610	723
Geisinger PPO	90	112
Total Medicare Eligible	84,343	100,682
Individuals Not Eligible for Medicare		
HOP Pre-65 Medical Plan w/ Rx Coverage	100	100
HOP Pre-65 Medical Plan	31	31
Highmark PPO	28	29
Capital BC PPO/Keystone Central Legacy HMO	12	13
Keystone East HMO/IBC Legacy PPO	12	12
Aetna PPO/Legacy HMO	2	2
Geisinger PPO	2	2
Total Not Eligible for Medicare	187	189
Total in Health Options Program	84,530	100,871

Section 4 - 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 69% over the past 10 years.



Health Options Program 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 \$356 million during the 2016 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 2016
Participant Contributions	\$ 309.0
CMS - Medicare Prescription Drug Payments	47.0
Interest Income	0.2
Total	\$ 356.2

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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 71,000 of the 84,530 HOP retirees receive Premium Assistance. This accounts for about \$85 million of the \$106 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 2016
Self-funded Hospital, Medical & Major Medical Benefits	\$142.5
Self-funded Prescription Drug Benefits	132.2
Insured Managed Care Premiums	71.1
Total	\$345.8

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, 2015, HOP had net assets of \$212 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

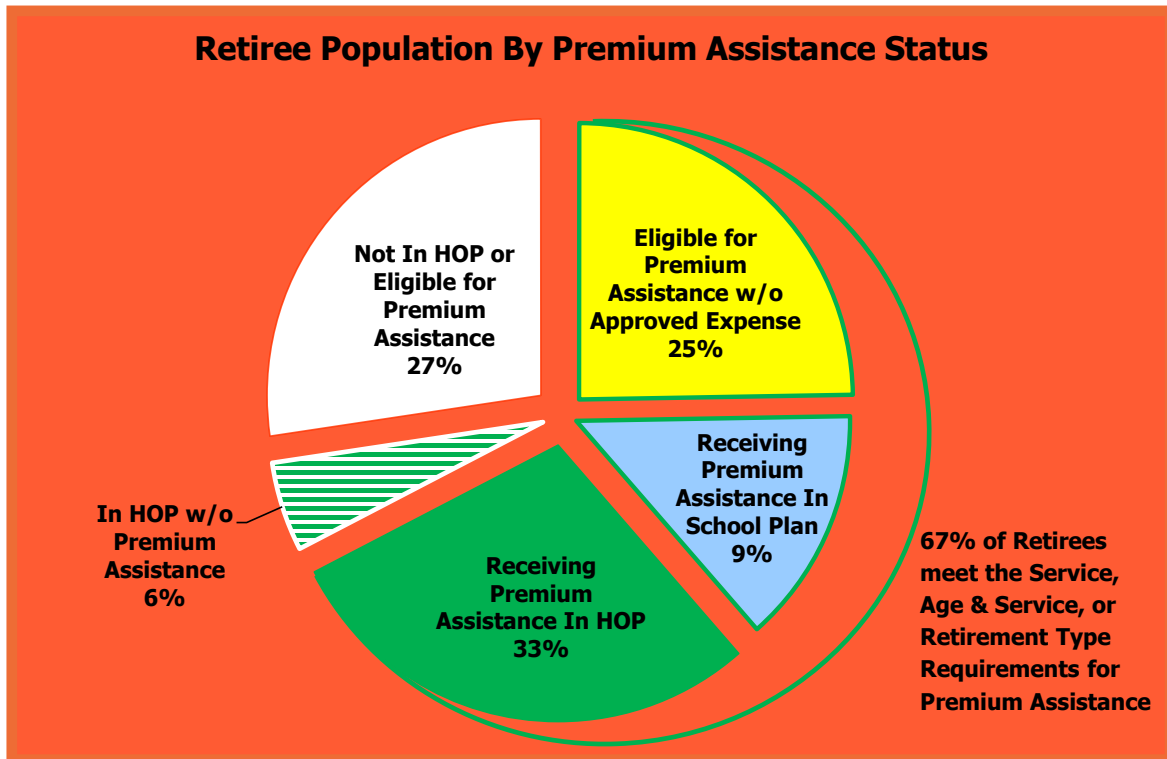
In accordance with Sec. 8509 of the Public School Employees' Retirement Code 24 Pa. C.S. § 8509, PSERS provides up to \$100 per month in Premium Assistance to eligible retirees to help cover the cost of their health insurance. The Premium Assistance program began on July 1, 1992. The eligibility requirements 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, 2015, PSERS had 209,266 retirees (excluding survivor annuitants and beneficiaries) receiving a monthly benefit. Of these retirees 140,859 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, 52,591 are not receiving premium assistance payments because they do not have an out-of-pocket premium expense from an approved plan. Of the 88,268 retirees receiving premium assistance benefits, 69,302 are enrolled in HOP and 18,966 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, 2015	Number	Percentage
Eligible for Premium Assistance w/o Approved Expense ¹	52,591	25%
Receiving Premium Assistance In School Plan ¹	18,966	9%
Receiving Premium Assistance In HOP ¹	69,302	33%
In HOP w/o Premium Assistance	12,908	6%
Not In HOP or Eligible for Premium Assistance	55,499	27%
Total Retiree Population²	209,266	100%

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

(2) As of June 30, 2015 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 FY2016/17 is 0.83% of payroll.

For the year ended June 30, 2015, employer contributions equaled \$116.8 million and net investment income totaled \$0.2 million. During this period, PSERS paid Premium Assistance benefits equaling \$106.3 million and incurred administrative expenses of \$2.1 million.

As of December 31, 2015, the Premium Assistance Program had net assets of \$119.2 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.

