

PSERS Budget Report

Fiscal Year 2019-2020



Pennsylvania Public School Employees' Retirement System

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 January 1, 2019 there are 117,728 participations (99,164 retirees plus their dependents) in the Health Options Program. The HOP is funded solely by and for eligible participants. The following is a summary of HOP initiatives during the period January 1, 2018 to January 1, 2019.

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, 2019. 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

The Retirement Board issued a Request for Proposal (RFP) for Health Care Consulting and Project Management Services PSERS RFP 2017-2. Based on the total scores for all bid proposal categories, the Segal Company was

determined to be the successful bidder for RFP 2017-2. The Retirement Board accepted the results of the RFP process and awarded the Segal Company the contract with an initial term of two (2) years beginning February 1, 2018, with options to renew the contract, upon mutual consent of the parties, annually for three (3) additional years.

The Retirement Board issued a Request for Proposal (RFP) for CMS Part D Compliance Activities Services and Pharmacy Benefit Consulting PSERS RFP 2017-3. Based on the total scores for all bid proposal categories, Blue Peak, LLC was determined to be the successful bidder. The Retirement Board accepted the results of the RFP process and awarded Blue Peak the contract with an initial term of two (2) years beginning February 1, 2018, with options to renew the contract, upon mutual consent of the parties, annually for three (3) additional years.

The Health Options Program offers PSERS annuitants a variety of health benefits and insurance plans. Annuitants and their dependents may select among plans supplementing original Medicare, Medicare prescription drug plans, and dental insurance. Annuitants also may select a Medicare Advantage plan that provides prescription drug coverage and may include a dental benefit. All plans offered through the Health Options Program provide a pre-65 plan for individuals not yet eligible for Medicare. Each year participants of the Health Options Program may change their health benefit coverage to meet changing needs. The following is a summary of the plans and premium rates paid by participants:

Standard Benefit	2018	2019
Deductible	\$ 405	\$ 415
Initial Coverage Limit	3,750	3,820
Out-of-Pocket Threshold	5,000	5,100
Minimum Cost sharing in Catastrophic Coverage Portion of the Benefit:		
Generic	\$ 3.35	\$ 3.40
Other	8.35	8.50

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.

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Health Options Program

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Medicare prescription drug plans are required to provide 44% coverage for generic drugs in the Coverage Gap for 2018, and 37% in 2019. There is effectively no additional funding from CMS; accordingly, the cost of the mandated benefit increase is paid by participants not receiving low-income subsidies. Recent legislation accelerated the Brand drug closure, and Medicare prescription drug plans will pay 25% of the cost of brand drugs in the Coverage Gap beginning in 2019. The following table shows how much members pay for drugs in the Coverage Gap:

The Member Pays in Coverage Gap:	2018 Medicare Rx Option	2019 Medicare Rx Option
Generic Drugs	44%	37%
Brand Drugs	35% (after 50% manufacturer discount and 15% plan benefit)	25% (after 70% manufacturer discount and 5% plan benefit)
Non-preferred Brand Rx	35% (after 50% manufacturer discount and 15% plan benefit)	25% (after 70% manufacturer discount and 5% plan benefit)

Plans Available Through the Health Options Program

The Health Options Program offers participants a choice among supplements 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 2019 option selection period conducted in the fall of 2018. The following is a list of HOP plans as of January 1, 2019:

For Individuals Eligible for Medicare:	For Individuals Not Eligible for Medicare:
HOP Value Medical Plan (Medicare supplement)	HOP Pre-65 Medical Plan
HOP Medical Plan (Medicare supplement)	
Value Medicare Rx Option (Medicare Part D)	HOP Pre-65 Medical Plan w/ Rx coverage
Basic Medicare Rx Option (Medicare Part D)	
Enhanced Medicare Rx Option (Medicare Part D)	
Medicare Advantage Plans:	Companion Pre-65 Managed Care Plans:
Aetna Medicare V02 PPO	Aetna Premier Open Choice PPO
Capital Blue Cross BlueJourney PPO	Capital Blue Cross PPO
Highmark FreedomBlue PPO	Highmark PPO Blue
Highmark Security Blue HMO Point of Service	
Independence Blue Cross-Keystone 65 HMO (\$5/\$40)	Independence Blue Cross- POS (\$20-\$40/\$250)
UPMC for Life HMO	UPMC Health Plan

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Health Options Program

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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 monthly premium rates for 2019 compared to the 2018 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	2018	2019	Increase/ (Decrease)
Medicare Supplement Plans			
Value Medical Plan	\$117	\$117	0 %
Value Medical Plan w/ Value Medicare Rx Option	139	139	0 %
HOP Medical Plan	199	203	2 %
HOP Medical Plan w/ Basic Medicare Rx Option	257	270	5 %
HOP Medical Plan w/ Enhanced Medicare Rx Option	310	328	6 %
Medicare Advantage Plans			
Aetna Medicare V02 PPO (new Active for 2019)	N/A	201	N/A
Highmark FreedomBlue PPO	376	336	(11)%
Independence Blue Cross/Keystone 65 Select HMO (\$5/\$40) (new Active for 2019)	N/A	128	N/A
UPMC for Life HMO	242	237	(2)%
Legacy Medicare Advantage Plans (no new enrollment)			
Aetna Medicare P02 HMO (Previously titled Aetna Medicare 10 Special HMO) ¹	511	509	0 %
Aetna Medicare P01 PPO (Previously titled Aetna Medicare 15 Special PPO) ¹	428	401	(6)%
Independence Blue Cross/Keystone 65 Select HMO ¹	363	374	3 %
IBC's Personal Choice 65 PPO ¹	734	756	3 %

¹Plans not available in all counties.

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Health Options Program

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Southwestern Region: Allegheny, Fayette, Greene, Indiana, Washington, and Westmoreland Counties	2018	2019	Increase/ (Decrease)
Medicare Supplement Plans			
Value Medical Plan	\$ 115	\$ 115	0 %
Value Medical Plan w/ Value Medicare Rx Option	137	137	0 %
HOP Medical Plan	190	194	2 %
HOP Medical Plan w/ Basic Medicare Rx Option	248	261	5 %
HOP Medical Plan w/ Enhanced Medicare Rx Option	301	319	6 %
Medicare Advantage Plans			
Aetna Medicare V02 Plan (new Active for 2019)	N/A	181	N/A
Highmark SecurityBlue HMO - Point of Service	317	248	(22)%
UPMC for Life HMO	242	237	(2)%
Legacy Medicare Advantage Plans (no new enrollment)			
Aetna Medicare P01 PPO (new Legacy for 2019) ¹	382	360	(6)%
Aetna Medicare P02 HMO ¹	389	385	(1)%
Highmark FreedomBlue PPO ¹	351	317	(10)%

North & Central Region: (All other counties in Pennsylvania)	2018	2019	Increase/ (Decrease)
Medicare Supplement Plans			
Value Medical Plan	\$102	\$ 102	0 %
Value Medical Plan w/ Value Medicare Rx Option	124	124	0 %
HOP Medical Plan	172	175	2 %
HOP Medical Plan w/ Basic Medicare Rx Option	230	242	5 %
HOP Medical Plan w/ Enhanced Medicare Rx Option	283	300	6 %
Medicare Advantage Plans			
Aetna Medicare V02 (new Active for 2019)	N/A	144	N/A
Capital Blue Cross BlueJourney PPO	237	263	11 %
Highmark FreedomBlue PPO	310	243	(22)%
UPMC for Life HMO ¹	242	237	(2)%
Legacy Medicare Advantage Plans (no new enrollment)			
Aetna Medicare P02 HMO (Previously titled Aetna Medicare 10 Special HMO) ¹	313	316	1 %
Aetna Medicare P01 PPO (Previously titled Aetna Medicare 15 Special PPO) ¹	267	255	(4)%
Highmark SecurityBlue HMO Point of Service ¹	317	297	(6)%
Capitol Blue Cross BlueJourney HMO ¹	210	198	(6)%

¹Plans not available in all counties.

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Health Options Program

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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 monthly 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	2018	2019	Increase/ (Decrease)
Enhanced Medicare Rx Only	\$ 111	\$ 125	13%
Basic Medicare Rx Only	58	67	16%
Value Medicare Rx Only	22	22	0%

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 monthly premium rates for 2019 compared to the 2018 rates in Pennsylvania for single coverage. These rates do not reflect the \$100 Premium Assistance benefit provided to eligible retirees.

All Regions	2018	2019	Increase/ (Decrease)
HOP Pre-65 Medical Plan			
HOP Pre-65 Medical Plan (Single Coverage)	\$ 889	\$ 889	0 %
Pre-65 Medical Plan w/ Prescription Drugs	1,001	1,001	0 %

Southeastern Region: Bucks, Chester, Delaware, Montgomery, and Philadelphia Counties	2018	2019	Increase/ (Decrease)
Managed Care Plans			
Aetna Premier Open Choice PPO (new Active for 2019)	N/A	\$ 1,261	N/A
Highmark PPOBlue (80-70 plan)	1,189	1,733	46 %
IBC's POS \$20-\$40/\$250 (new Active for 2019)	N/A	1,690	N/A
UPMC Health Plan EPO ¹	1,383	1,383	0 %
Legacy Managed Care Plans (no new enrollments)			
Aetna Value Open Choice PPO (new Legacy for 2019) ¹	1,146	1,146	0 %
Aetna HMO Plan ¹	1,244	1,244	0 %
IBC's Keystone East HMO (new Legacy for 2019) ¹	2,169	1,770	(18)%
IBC's Personal Choice PPO ¹	2,248	1,789	(20)%

¹Plans not available in all counties.

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Southwestern Region: Allegheny, Fayette, Greene, Indiana, Washington, and Westmoreland Counties	2018	2019	Increase/ (Decrease)
Managed Care Plans			
Aetna Premier Open Choice PPO (new Active for 2019)	N/A	\$ 1,261	N/A
Highmark PPOBlue (80-70 plan)	1,189	1,733	46 %
UPMC Health Plan EPO	1,383	1,383	0 %
Legacy Managed Care Plans (no new enrollments)			
Aetna Value Open Choice PPO (new Legacy for 2019) ¹	1,146	1,146	0 %
Aetna Citizen HMO Plan ¹	1,244	1,244	0 %
Highmark PPOBlue (High Option) ¹	1,618	2,265	40 %

North & Central Region: (All other counties in Pennsylvania)	2018	2019	Increase/ (Decrease)
Managed Care Plans			
Aetna Premier Open Choice PPO (new Active for 2019)	N/A	\$ 1,261	N/A
Capital Blue Cross PPO	1,831	1,264	(31)%
Highmark PPOBlue (80-70)	1,189	1,733	46 %
UPMC Health Plan EPO ¹	1,383	1,383	0 %
Legacy Managed Care Plans (no new participants)			
Aetna Value Open Choice PPO (new Legacy for 2019) ¹	1,146	1,146	0 %
Aetna HMO Plan ¹	1,244	1,244	0 %
Highmark PPOBlue (High Option) ¹	1,618	2,265	40 %
Capital Blue Cross HMO ¹	1,824	1,824	0 %

¹Plans not available in all counties..

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Health Options Program

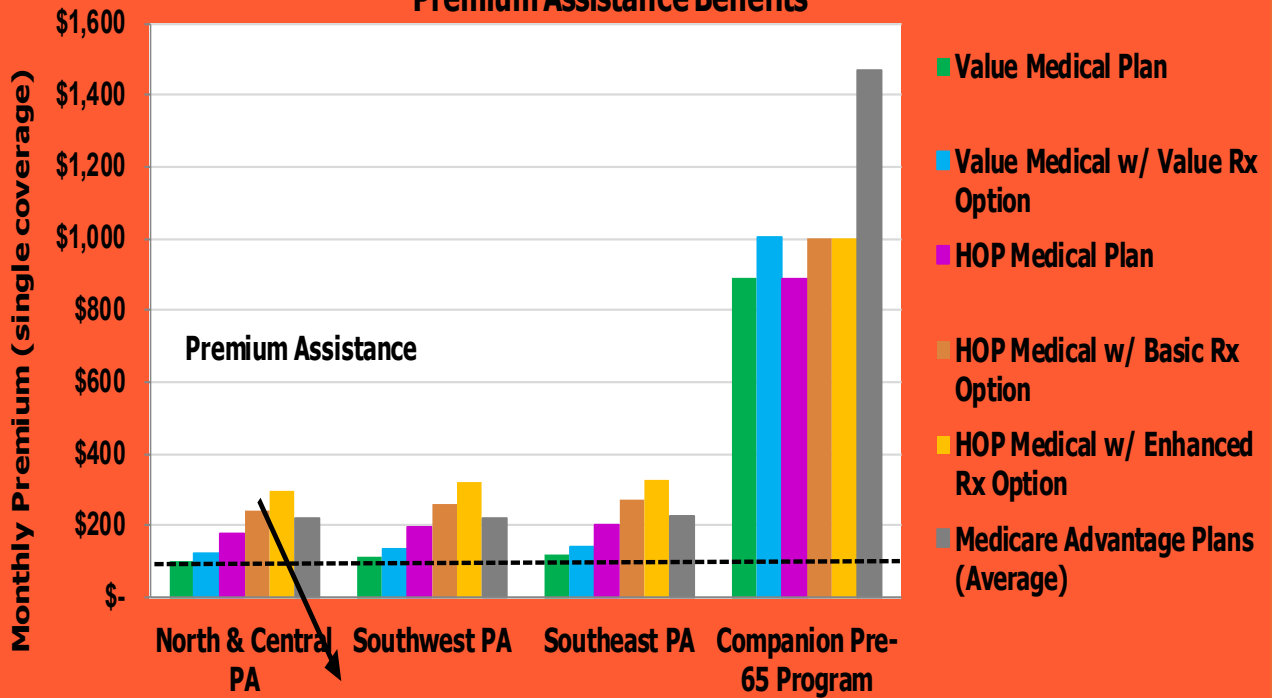
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HOP Premiums Compared to the PSERS Premium Assistance Benefit

Chart 13.1 displays the HOP monthly 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.

Chart 13.1

2019 Comparison of HOP Premium Rates & Premium Assistance Benefits



	North & Central PA	Southwest PA	Southeast PA	Companion Pre-65 Program
Value Medical Plan	\$ 102	\$ 115	\$ 117	\$ 889
Value Medical Plan w/ Value Rx Option	124	137	117	1,001
HOP Medical Plan	175	194	203	889
HOP Medical Plan w/ Basic Rx Option	242	261	270	1,001
HOP Medical Plan w/ Enhanced Rx Option	300	319	328	1,001
Medicare Advantage Plans (Average)	222	222	226	1,466
Premium Assistance	100	100	100	100

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Health Options Program

(continued)

HOP Enrollment

As of January 1, 2019 there are 117,728 participants (99,164 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	45,498	54,185
HOP Medical w/ Enhanced Medicare Rx Option	29,630	34,775
HOP Medical w/ Value Medicare Rx Option	1,472	1,626
HOP Medical Plan (no Rx)	8,672	9,647
HOP Enhanced Rx Only	91	114
HOP Basic Rx Only	212	277
HOP Value Rx Only	18	20
HOP Value Medical Only	50	57
HOP Value Medical w/ Enhanced Medicare Rx Option	8	11
HOP Value Medical w/ Basic Medicare Rx Option	28	40
HOP Value Medical w/ Value Medicare Rx Option	175	212
Highmark PPO/Legacy HMO	10,071	12,746
Keystone East HMO/IBC Legacy PPO	825	967
Capital BC PPO/Keystone Central Legacy HMO	706	909
UPMC HMO	983	1,321
91Aetna PPO/Legacy HMO	474	561
Total Medicare Eligible	98,913	117,468
Individuals Not Eligible for Medicare		
HOP Pre-65 Medical Plan w/ Rx Coverage	156	159
HOP Pre-65 Medical Plan	50	52
Highmark PPO	16	16
Capital BC PPO/Keystone Central Legacy HMO	10	11
Keystone East HMO/IBC Legacy PPO	5	5
Aetna PPO/Legacy HMO	14	17
Total Not Eligible for Medicare	251	260
Total in Health Options Program	99,164	117,728

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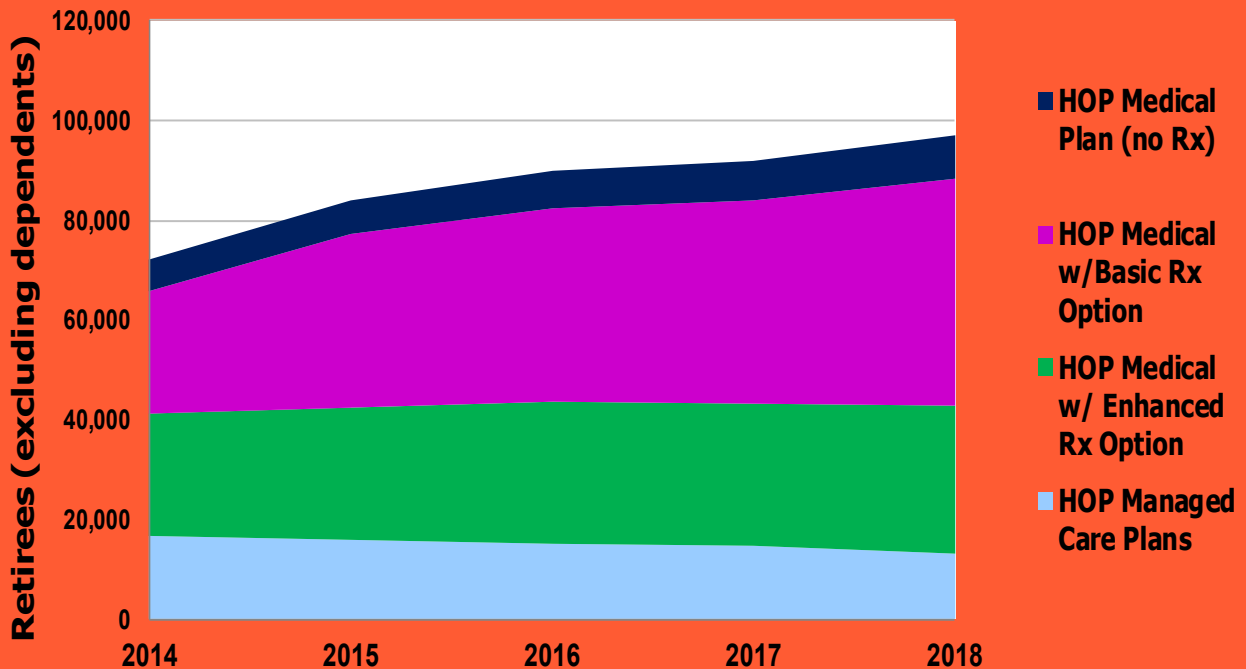
Health Options Program

(continued)

Enrollment in the PSERS' Health Options Program continues to increase. As illustrated by Chart 13.2, the number of retirees participating in the HOP has increased 37% over the past 5 years.

Chart 13.2

HOP Enrollment of Retirees Eligible for Medicare



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 \$466.5 million during the 2019 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. Table 13.1 displays the breakdown of these sources of income (Dollar amounts in millions):

Table 13.1 Income	Calendar Year 2019
Participant Contributions	\$ 395.6
CMS - Medicare Prescription Drug Payments	68.4
Interest Income	2.5
Total	\$ 466.5

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Health Options Program

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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 82,000 of the 99,164 retirees receive Premium Assistance. This accounts for nearly \$98 million of the \$112 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. Table 13.2 displays the breakdown of the benefit expenses (Dollar amounts in millions):

Table 13.2 Benefit Expense	Calendar Year 2019
Self-funded Hospital, Medical & Major Medical Benefits	\$ 206.4
Self-funded Prescription Drug Benefits	173.4
Insured Managed Care and Dental Premiums	74.4
Total	\$ 454.2

In addition to the benefit expenses identified above, the Health Options Program will pay \$9 million in enrollment and administrative expenses including reimbursing PSERS for its expenses.

As of September 30, 2018, HOP had net assets of \$246.2 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

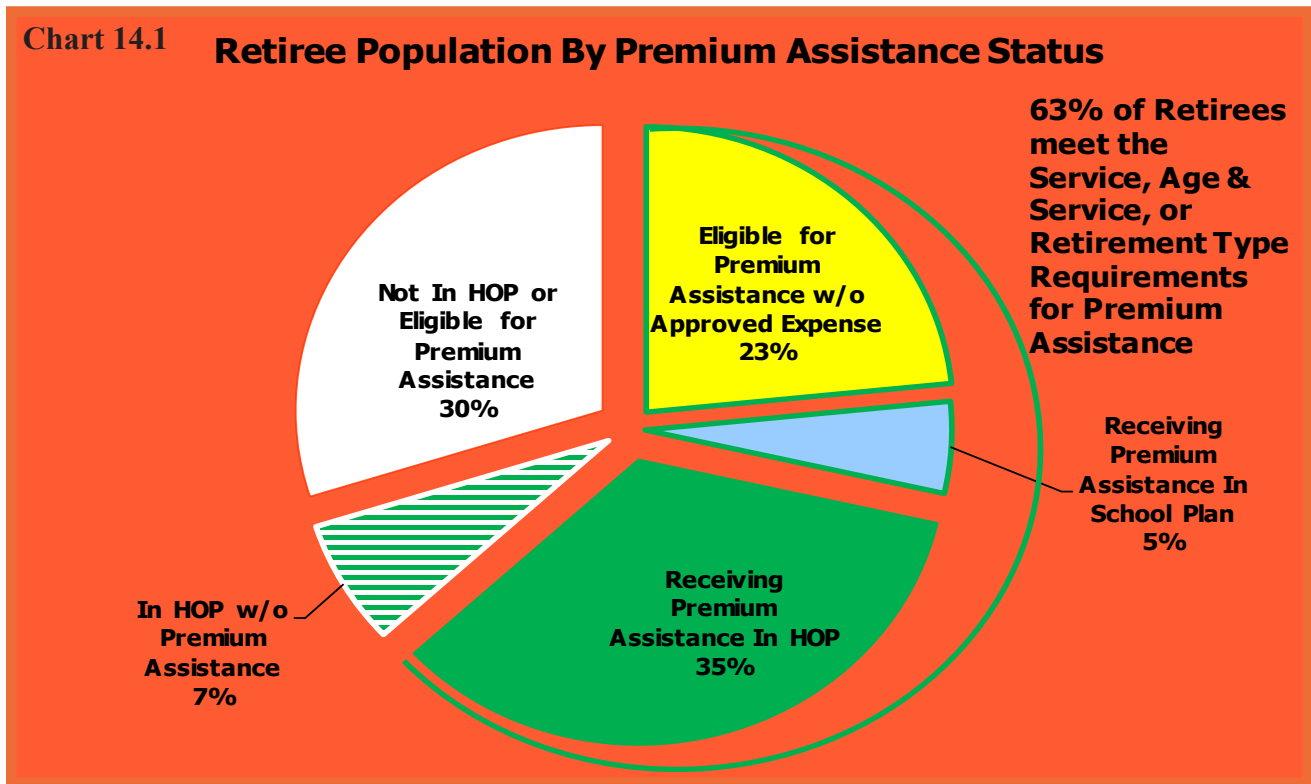
In accordance with Sec. 8509 of the Public School Employees' Retirement Code 24 Pa. C.S. § 8509, PSERS provides up to \$100 per month in Premium Assistance to eligible retirees to help cover the cost of their health insurance. The Premium Assistance program began on July 1, 1992. The eligibility requirements 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, 2018, PSERS had 233,288 retirees receiving a monthly benefit. Of these retirees 147,226 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, 54,571 are not receiving premium assistance payments because they do not have an out-of-pocket premium expense from an approved plan. Of the 92,655 retirees receiving premium assistance benefits, 80,573 are enrolled in HOP and 12,082 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 displayed in Chart 14.1:



June 30, 2018	Number	Percentage
Eligible for Premium Assistance w/o Approved Expense ¹	54,571	23%
Receiving Premium Assistance In School Plan ¹	12,082	5%
Receiving Premium Assistance In HOP ¹	80,573	35%
In HOP w/o Premium Assistance	16,368	7%
Not In HOP and Not Eligible for Premium Assistance	69,694	30%
Total Retiree Population ²	233,288	100%

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

(2) As of June 30, 2018 Actuarial Data.

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 FY2019/20 is 0.84% of payroll.

For the year ended June 30, 2018, employer contributions equaled \$112.0 million and net investment income totaled \$1.5 million. During this period, PSERS paid Premium Assistance benefits equaling \$111.8 million and incurred administrative expenses of \$2.6 million.

As of September 30, 2018, the Premium Assistance Program had net assets of \$119.8 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.