

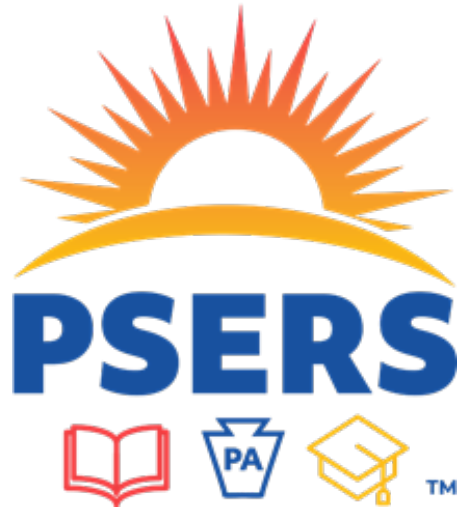
PSERS Budget Report

Fiscal Year 2020 - 2021



SECTION 4 - 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, 2020 there are 120,273 participants (102,062 retirees plus their dependents) in the HOP. The HOP is funded solely by and for eligible participants. The following is a summary of HOP initiatives during the period January 1, 2019 to January 1, 2020.

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 HOP. The effective date of the insurance is January 1, 2020. 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 Proposals (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 an RFP for Center for Medicare and Medicaid Services (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 HOP 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 HOP provide a Pre-65 plan for individuals not yet eligible for Medicare. Each year participants of the HOP 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	2019	2020
Deductible	\$415	\$435
Initial Coverage Limit	\$3,820	\$4,020
Out-of Pocket Threshold	\$5,100	\$6,350
Minimum Cost sharing in Catastrophic Coverage Portion of the Benefit		
Generic	\$3.40	\$3.60
Other	\$8.50	\$8.95

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.

Section 4 - Other PSERS Programs

Health Options Program (continued)

Medicare prescription drug plans are required to provide 63% coverage for generic drugs in the Coverage Gap for 2019, and 75% in 2020 and beyond. 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. Medicare prescription drug plans pay 5% of the cost of brand drugs in the Coverage Gap, with the manufacturer discount covering the remaining 70%. The following table shows how much members pay for drugs in the Coverage Gap:

The Member Pays in Coverage Gap:	2019 Medicare Rx Option	2020 Medicare Rx Option
Generic Drugs	37%	25%
Brand Drugs	25% (after 70% manufacturer discount and 5% plan benefit)	25% (after 70% manufacturer discount and 5% plan benefit)
Non-preferred Brand Rx	25% (after 70% manufacturer discount and 5% plan benefit)	25% (after 70% manufacturer discount and 5% plan benefit)

Plans Available Through the Health Options Program

The HOP 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 HOP participants electing to change coverage during the 2020 option selection period conducted in the fall of 2019. The following is a list of HOP plans as of January 1, 2020:

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 (80-70 Plan)
Highmark Security Blue HMO Point of Service	Highmark PPO Blue (High Option)
Independence Blue Cross-Keystone 65 HMO (\$5/\$40)	Independence Blue Cross- POS (\$20-\$40/\$250)
UPMC for Life HMO	UPMC Health Plan

Section 4 - Other PSERS Programs

Health Options Program (continued)

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 2020 compared to the 2019 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	2019	2020	Increase/ (Decrease)
Medicare Supplement Plans			
Value Medical Plan	\$117	\$117	0%
Value Medical Plan w/ Value Medicare Rx Option	\$139	\$140	1%
Value Medical Plan w/ Basic Medicare Rx Option	\$184	\$186	1%
Value Medical Plan w/ Enhanced Medicare Rx Option	\$242	\$245	1%
HOP Medical Plan	\$203	\$203	0%
HOP Medical Plan w/ Value Medicare Rx Option	\$225	\$226	0%
HOP Medical Plan w/ Basic Medicare Rx Option	\$270	\$272	1%
HOP Medical Plan w/ Enhanced Medicare Rx Option	\$328	\$331	1%
Medicare Advantage Plans			
Aetna Medicare V02 PPO	\$201	\$241	20%
CBC BlueJourney PPO	N/A	\$246	New
Highmark FreedomBlue PPO	\$336	\$336	0%
IBC Keystone 65 Select HMO (\$5/\$40)	\$128	\$128	0%
UPMC for Life HMO	\$237	\$257	8%
Legacy Medicare Advantage Plans (no new enrollment)			
Aetna Medicare P02 HMO	\$509	\$568	12%
Aetna Medicare P01 PPO	\$401	\$453	13%
IBC Keystone 65 Select HMO (\$15/\$20)	\$374	\$381	2%
IBC Personal Choice 65 PPO	\$756	\$771	2%

Section 4 - Other PSERS Programs

Health Options Program (continued)

Southwestern Region: Allegheny, Fayette, Greene, Indiana, Washington, and Westmoreland Counties	2019	2020	Increase/ (Decrease)
Medicare Supplement Plans			
Value Medical Plan	\$115	\$115	0%
Value Medical Plan w/ Value Medicare Rx Option	\$137	\$138	1%
Value Medical Plan w/ Basic Medicare Rx Option	\$182	\$184	1%
Value Medical Plan w/ Enhanced Medicare Rx Option	\$240	\$243	1%
HOP Medical Plan	\$194	\$194	0%
HOP Medical Plan w/ Value Medicare Rx Option	\$216	\$217	0%
HOP Medical Plan w/ Basic Medicare Rx Option	\$261	\$263	1%
HOP Medical Plan w/ Enhanced Medicare Rx Option	\$319	\$322	1%
Medicare Advantage Plans			
Aetna Medicare V02 PPO	\$181	\$218	20%
CBC BlueJourney PPO	N/A	\$246	New
Highmark SecurityBlue HMO POS	\$248	\$248	0%
UPMC for Life HMO	\$237	\$257	8%
Legacy Medicare Advantage Plans (no new enrollment)			
Aetna Medicare P01 PPO	\$360	\$409	14%
Highmark FreedomBlue PPO	\$317	\$317	0%

North & Central Region: (All other counties in Pennsylvania)	2019	2020	Increase/ (Decrease)
Medicare Supplement Plans			
Value Medical Plan	\$102	\$102	0%
Value Medical Plan w/ Value Medicare Rx Option	\$124	\$125	1%
Value Medical Plan w/ Basic Medicare Rx Option	\$169	\$171	1%
Value Medical Plan w/ Enhanced Medicare Rx Option	\$227	\$230	1%
HOP Medical Plan	\$175	\$175	0%
HOP Medical Plan w/ Value Medicare Rx Option	\$197	\$198	1%
HOP Medical Plan w/ Basic Medicare Rx Option	\$242	\$244	1%
HOP Medical Plan w/ Enhanced Medicare Rx Option	\$300	\$303	1%
Medicare Advantage Plans			
Aetna Medicare V02 PPO	\$144	\$177	23%
CBC BlueJourney PPO	\$263	\$246	-6%
Highmark FreedomBlue PPO	\$243	\$243	0%
UPMC for Life HMO ¹	\$237	\$257	8%
Legacy Medicare Advantage Plans (no new enrollment)			
Aetna Medicare P02 HMO	\$316	\$366	16%
Aetna Medicare P01 PPO	\$255	\$299	17%
Highmark SecurityBlue HMO POS	\$297	\$297	0%
CBC BlueJourney HMO	\$198	\$198	0%

¹Not available in all North & Central Region counties.

Section 4 - Other PSERS Programs

Health Options Program (continued)

HOP 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	2019	2020	Increase
Enhanced Medicare Rx Only	\$125	\$128	2%
Basic Medicare Rx Only	\$67	\$69	3%
Value Medicare Rx Only	\$22	\$23	5%

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 2020 compared to the 2019 rates in Pennsylvania for single coverage. These rates do not reflect the \$100 Premium Assistance benefit provided to eligible retirees.

All Regions	2019	2020	Increase
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

	2019	2020	Increase
Managed Care Plans			
Aetna Premier Open Choice PPO	\$1,261	\$1,628	29%
CBC PPO	N/A	\$1,264	New
Highmark PPOBlue (80-70 Plan)	\$1,733	\$1,754	1%
IBC POS (\$20-\$40/\$250)	\$1,690	\$2,085	23%
UPMC Health Plan EPO	\$1,383	\$1,383	0%
Legacy Managed Care Plans (no new enrollments)			
Aetna HMO Plan	\$1,244	\$1,528	23%
Aetna Value Open Choice PPO	\$1,146	\$1,408	23%
IBC Personal Choice PPO	\$1,789	\$2,227	24%

Section 4 - Other PSERS Programs

Health Options Program (continued)

Southwestern Region: Allegheny, Fayette, Greene, Indiana, Washington, and Westmoreland Counties			
	2019	2020	Increase
Managed Care Plans			
Aetna Premier Open Choice PPO	\$1,261	\$1,628	29%
CBC PPO	N/A	\$1,264	New
Highmark PPOBlue (80-70 Plan)	\$1,733	\$1,754	1%
UPMC Health Plan EPO	\$1,383	\$1,383	0%
Legacy Managed Care Plans (no new enrollments)			
Aetna HMO Plan	\$1,244	\$1,528	23%
Aetna Value Open Choice PPO	\$1,146	\$1,408	23%
Highmark PPOBlue (High Option)	\$2,265	\$2,314	2%

North & Central Region: (All other counties in Pennsylvania)			
	2019	2020	Increase
Managed Care Plans			
Aetna Premier Open Choice PPO	\$1,261	\$1,628	29%
CBC PPO	\$1,264	\$1,264	0%
Highmark PPOBlue (80-70 Plan)	\$1,733	\$1,754	1%
UPMC EPO ₂	\$1,383	\$1,383	0%
Legacy Managed Care Plans (no new participants)			
Aetna Citizen Plan HMO	\$1,244	\$1,528	23%
Aetna PPO	\$1,146	\$1,408	23%
Highmark PPOBlue (High Option)	\$2,265	\$2,314	2%
CBC HMO	\$1,827	\$1,827	0%

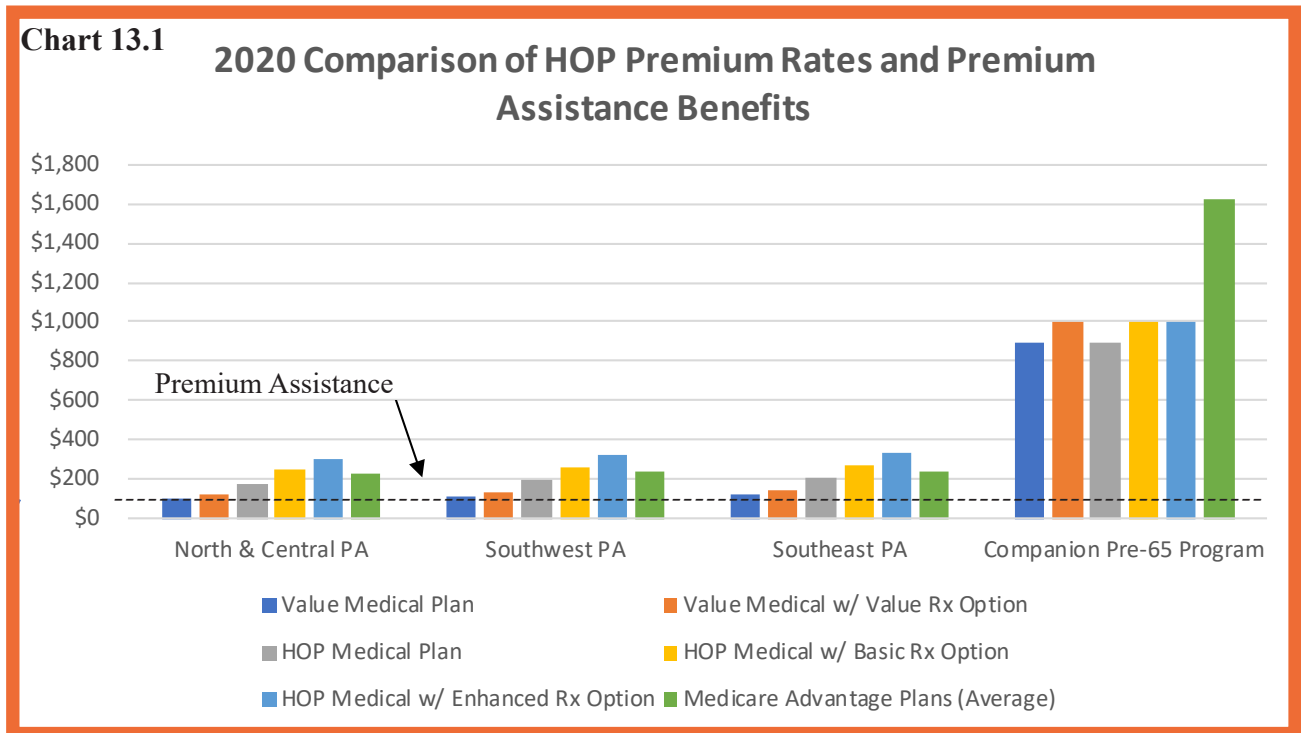
²Not available in all North & Central Region counties

Section 4 - Other PSERS Programs

Health Options Program (continued)

HOP Premiums Compared to the PSERS Premium Assistance Benefit

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.



2020	North & Central PA	Southwest PA	Southeast PA	Companion Pre-65 Program
Value Medical Plan	\$102	\$115	\$117	\$889
Value Medical w/ Value Rx Option	\$125	\$138	\$140	\$1,001
HOP Medical Plan	\$175	\$194	\$203	\$889
HOP Medical w/ Basic Rx Option	\$244	\$263	\$272	\$1,001
HOP Medical w/ Enhanced Rx Option	\$303	\$322	\$331	\$1,001
Medicare Advantage Plans (Average)	\$231	\$242	\$242	\$1,623
Premium Assistance	\$100	\$100	\$100	\$100

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

Section 4 - Other PSERS Programs

Health Options Program (continued)

HOP Enrollment

As of January 1, 2020 there are 120,273 participants (102,062 retirees plus their dependents) in the HOP. The total numbers of retirees by Option are:

Individuals Eligible for Medicare	Retirees	Participants
HOP Medical w/ Basic Medicare Rx Option	47,666	56,363
HOP Medical w/ Enhanced Medicare Rx Option	30,092	35,087
HOP Medical w/ Value Medicare Rx Option	1,906	2,094
HOP Medical Plan (no Rx)	8,923	9,868
HOP Enhanced Rx Only	93	113
HOP Basic Rx Only	207	267
HOP Value Rx Only	18	20
HOP Value Medical Only	47	54
HOP Value Medical w/ Enhanced Medicare Rx Option	6	9
HOP Value Medical w/ Basic Medicare Rx Option	33	47
HOP Value Medical w/ Value Medicare Rx Option	222	272
Highmark PPO/Legacy HMO	9,602	12,070
Keystone East HMO/IBC Legacy PPO	760	885
CBC PPO/Keystone Central Legacy HMO	662	840
UPMC HMO	1,126	1,494
Aetna PPO/Legacy HMO	451	535
Total Medicare Eligible	101,814	120,018
Individuals Not Eligible for Medicare		
HOP Pre-65 Medical Plan w/ Rx Coverage	158	161
HOP Pre-65 Medical Plan	53	55
Highmark PPO	7	7
CBC PPO/Keystone Central Legacy HMO	13	13
Keystone East HMO/IBC Legacy PPO	3	3
Aetna PPO/Legacy HMO	13	15
UPMC Health Plan EPO	1	1
Total Not Eligible for Medicare	248	255
Total in HOP	102,062	120,273

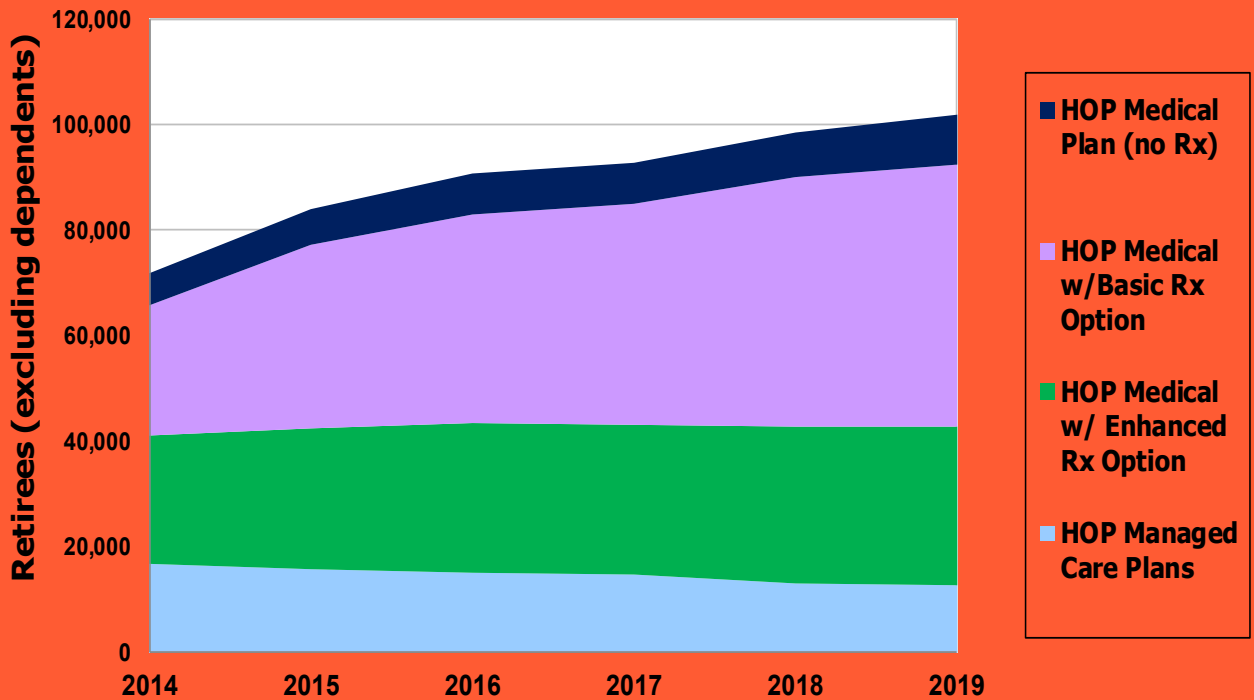
Section 4 - Other PSERS Programs

Health Options Program (continued)

Enrollment in the PSERS' HOP continues to increase. As illustrated by Chart 13.2, the number of retirees participating in the HOP has increased 42% over the past 5 years.

Chart 13.2

HOP Enrollment of Retirees Eligible for Medicare



Section 4 - Other PSERS Programs

Health Options Program (continued)

HOP Voluntary Dental Program

Beginning January 1, 2016, HOP offers a voluntary MetLife Dental Plan to members and dependents enrolled in the HOP Medical Plan or the Value Medical Plan (those enrolled in a Medicare Advantage Plan are not eligible for this program as most of these plans have dental coverage).

Prior to January 1, 2020, enrollment was limited to the initial offering or upon a qualifying event. For 2020, all HOP participants were given the opportunity to elect dental benefits during a special open enrollment period, with benefits effective January 1, 2020.

As of January 1, 2020 there are 18,864 participants (16,729 retirees plus their dependents) in the HOP voluntary dental program. The total numbers of retirees by year since program inception:

Dental Enrollment Per Year (As of January 1)	Retirees	Participants	Increase (Participants)
2020	16,729	18,864	15%
2019	14,482	16,436	25%
2018	11,535	13,099	35%
2017	8,497	9,701	110%
2016	3,930	4,622	N/A

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.

HOP income is projected to be \$466.7 million during the 2020 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 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 2020
Participant Contributions	\$398.0
CMS - Medicare Prescription Drug Payments	\$65.3
Interest Income	\$3.4
Total	\$466.7

Section 4 - Other PSERS Programs

Health Options Program (continued)

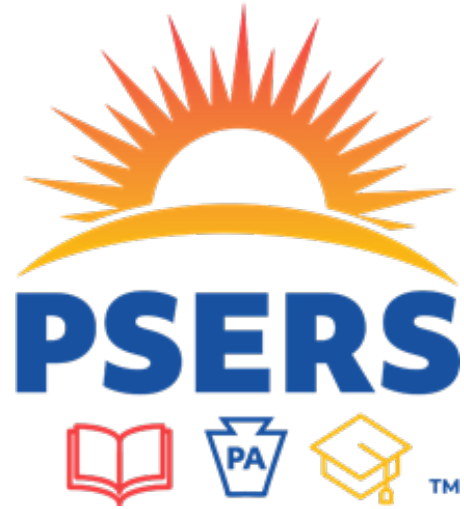
PSERS retirees enrolled in the HOP, who meet the eligibility requirements for Premium Assistance, receive up to \$100 per month as a partial reimbursement for the out-of-pocket premium expense. Approximately 94,000 of the 102,062 HOP retirees receive Premium Assistance. This accounts for nearly \$99 million of the \$113 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 HOP 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 2020
Self-funded Hospital, Medical & Major Medical Benefits	\$228.9
Self-funded Prescription Drug Benefits	\$172.1
Insured Managed Care and Dental Premiums	\$62.2
Total	\$463.2

In addition to the benefit expenses identified above, the HOP will pay \$11 million in enrollment and administrative expenses including reimbursing PSERS for its expenses.

As of September 30, 2019, HOP had net assets of \$275 million held in trust to pay the expenses of HOP 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:

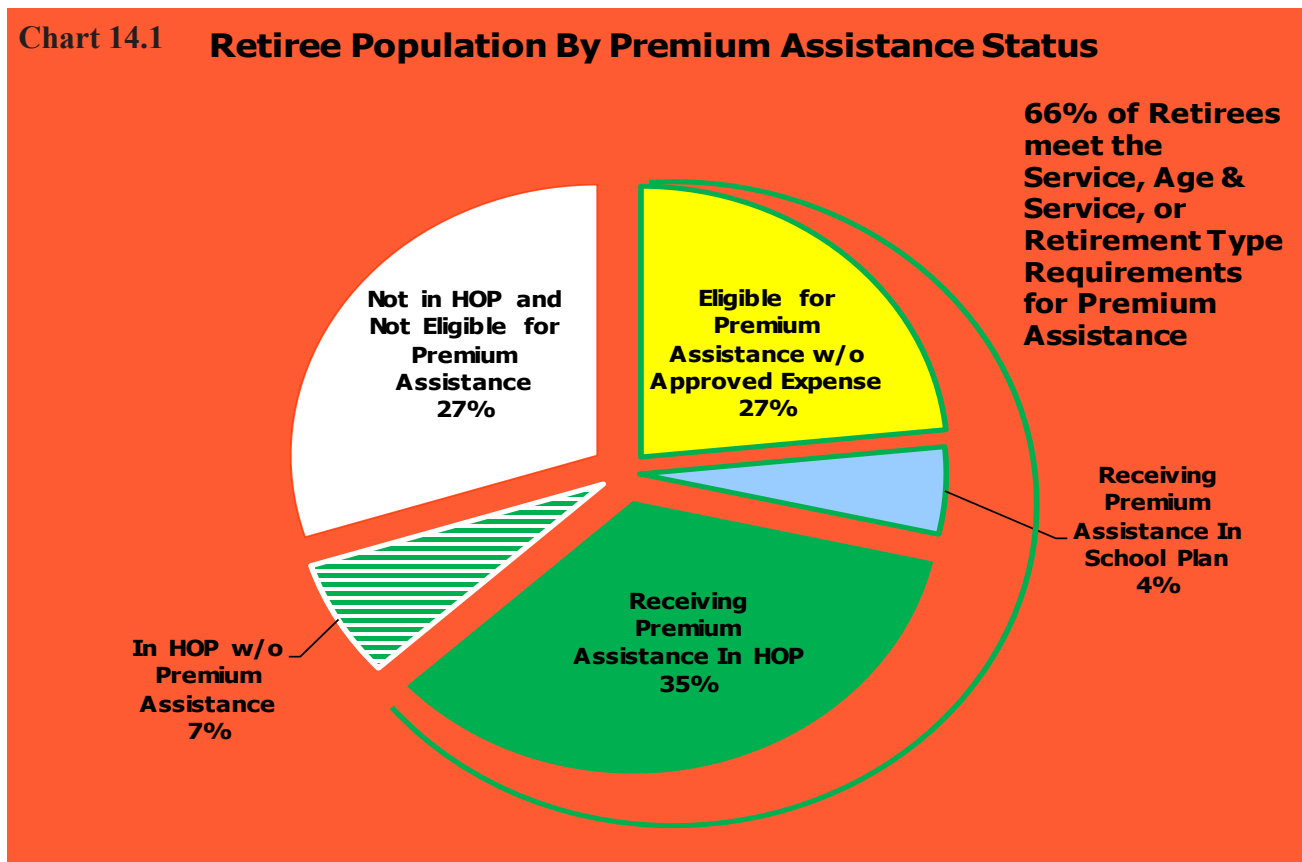
- 24.5 years of credited service, or
- 15 years of credited service if termination of employment and retirement occurred after superannuation age , or
- Receiving a disability annuity from PSERS; and
- Have an out-of-pocket premium expense from their former school employer's health plan or the PSERS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

Enrollment

As of June 30, 2019, PSERS had 237,339 retirees receiving a monthly benefit. Of these retirees 157,653 meet the service, age and service, or retirement type (disability) eligibility requirements for the premium assistance program. Of the retirees meeting these requirements, 63,476 are not receiving premium assistance payments because they do not have an out-of-pocket premium expense from an approved plan. Of the 94,177 retirees receiving premium assistance benefits, 83,977 are enrolled in HOP and 10,200 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:

Chart 14.1 Retiree Population By Premium Assistance Status



Section 4 - Other PSERS Programs

Premium Assistance Program (continued)

June 30, 2019	Number	Percentage
Eligible for Premium Assistance w/o Approved Expense ¹	63,476	27%
Receiving Premium Assistance In School Plan ¹	10,200	4%
Receiving Premium Assistance In HOP ¹	83,977	35%
In HOP w/o Premium Assistance	15,901	7%
Not In HOP and not in Eligible for Premium Assistance	63,785	27%
Total Retiree Population ²	237,339	100%

- (1) Meeting the service, service and age at termination of school employment or retirement type requirements.
(2) As of June 30, 2019 Actuarial Data.

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 FY2020/21 is 0.82% of payroll.

For the year ended June 30, 2019, employer contributions equaled \$115.0 million and net investment income totaled \$2.3 million. During this period, PSERS paid Premium Assistance benefits equaling \$112.8 million and incurred administrative expenses of \$1.9 million.

As of September 30, 2019, the Premium Assistance Program had net assets of \$122 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.