



Partners for Your Future

SECTION 4 - PSERS POSTEMPLOYMENT HEALTHCARE PROGRAMS

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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, 2017 there are 110,635 participants (93,419 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, 2017 to January 1, 2018.

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, 2018. 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 three (3) years beginning February 1, 2018, with options to renew the contract, upon mutual consent of the parties, annually for two (2) additional years.

The Retirement Board issued a Request for Proposals (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

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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	2017	2018
Deductible	\$ 400	\$ 400
Initial Coverage Limit	3,700	3,750
Out-of-Pocket Threshold	4,950	5,000
Minimum Cost sharing in Catastrophic Coverage Portion of the Benefit:		
Generic	\$ 3.30	\$ 3.35
Other	8.25	8.35

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 51% coverage for generic drugs in the Coverage Gap for 2017, and 44% in 2018. While the Act increases this benefit ratably 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 15% of the cost of brand drugs in the Coverage Gap for 2018, 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:	2017 Medicare Rx Option	2018 Medicare Rx Option
Generic Drugs	51%	44%
Brand Drugs	40% (after 50% manufacturer discount and 10% plan benefit)	35% (after 50% manufacturer discount and 15% plan benefit)
Non-preferred Brand Rx	40% (after 50% manufacturer discount and 10% plan benefit)	35% (after 50% manufacturer discount and 15% plan benefit)

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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 2018 option selection period conducted in the fall of 2017.

The following is a list of HOP plans as of January 1, 2018:

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)	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
Highmark FreedomBlue PPO	Highmark PPO Blue
Independence Blue Cross-Keystone 65 HMO	Independence Blue Cross-Keystone HMO
UPMC for Life HMO	UPMC Health Plan

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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 premium rates for 2018 compared to the 2017 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	2017	2018	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	199	0%
HOP Medical Plan w/ Basic Medicare Rx Option	257	257	0%
HOP Medical Plan w/ Enhanced Medicare Rx Option	310	310	0%
Medicare Advantage Plans			
Aetna Medicare 15 Special PPO	368	428	16%
Highmark FreedomBlue PPO	376	376	0%
Independence Blue Cross/Keystone 65 Select HMO	353	363	3%
UPMC for Life HMO	N/A	242	N/A
Legacy Medicare Advantage Plans (no new enrollment)			
Aetna Medicare 10 Special Plan HMO	449	511	14%
IBC's Personal Choice 65 PPO	714	734	3%

Southwestern Region: Allegheny, Fayette, Greene, Indiana, Washington, and Westmoreland Counties	2017	2018	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	190	0%
HOP Medical Plan w/ Basic Medicare Rx Option	248	248	0%
HOP Medical Plan w/ Enhanced Medicare Rx Option	301	301	0%
Medicare Advantage Plans			
Aetna Medicare 15 Special PPO	328	382	16%
Highmark SecurityBlue HMO	317	317	0%
UPMC for Life HMO	242	242	0%
Legacy Medicare Advantage Plans (no new enrollment)			
Aetna Medicare 15 Special Plan HMO	437	389	(11)%
Highmark FreedomBlue PPO	351	351	0%

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North & Central Region: (All other counties in Pennsylvania)	2017	2018	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	172	0%
HOP Medical Plan w/ Basic Medicare Rx Option	230	230	0%
HOP Medical Plan w/ Enhanced Medicare Rx Option	283	283	0%
Medicare Advantage Plans			
Aetna Medicare 15 Special PPO ¹	229	267	17%
Capital Blue Cross SeniorBlue PPO ¹	221	237	7%
Highmark FreedomBlue PPO	310	310	0%
UPMC for Life HMO ¹	242	242	0%
Legacy Medicare Advantage Plans (no new enrollment)			
Aetna Medicare 10 Special HMO Plan ¹	274	313	14%
Highmark SecurityBlue HMO ¹	317	317	0%
Keystone Central SeniorBlue HMO ¹	199	210	6%

¹Plans 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	2017	2018	Increase/ (Decrease)
Enhanced Medicare Rx Only	\$111	\$111	0%
Basic Medicare Rx Only	58	58	0%
Value Medicare Rx Only	22	22	0%

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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 2018 compared to the 2017 rates in Pennsylvania for single coverage. These rates do not reflect the \$100 Premium Assistance benefit provided to eligible retirees.

All Regions	2017	2018	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	2017	2018	Increase/ (Decrease)
Managed Care Plans			
Aetna PPO	\$ 1,146	\$1,146	0%
Highmark PPOBlue	1,588	1,189	(25)%
Keystone East HMO	1,864	2,169	16%
UPMC Health Plan EPO	N/A	1,383	N/A
Legacy Managed Care Plans (no new enrollments)			
Aetna Citizen HMO Plan	1,244	1,244	0%
IBC's Personal Choice PPO	1,934	2,248	16%

Southwestern Region: Allegheny, Fayette, Greene, Indiana, Washington, and Westmoreland Counties	2017	2018	Increase/ (Decrease)
Managed Care Plans			
Aetna PPO	\$ 1,147	\$ 1,147	0%
Highmark PPOBlue	1,588	1,189	(25)%
UPMC Health Plan EPO	1,384	1,384	0%
Legacy Managed Care Plans (no new enrollments)			
Aetna Citizen HMO Plan	1,244	1,244	0%
Highmark PPOBlue - High Option	2,170	1,618	(25)%

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North & Central Region: (All other counties in Pennsylvania)	2017	2018	Increase/ (Decrease)
Managed Care Plans			
Aetna PPO*	\$1,146	\$1,146	0%
Capital Blue Cross PPO*	1,343	1,831	36%
Highmark PPO	1,588	1,189	(25)%
UPMC EPO*	1,383	1,383	0%
Legacy Managed Care Plans (no new participants)			
Aetna Citizen Plan HMO	1,244	1,244	0%
Highmark PPOBlue – High Option	2,170	1,618	(25)%
Capital Blue Cross / Keystone Central HMO	1,338	1,824	36%

*Not available in all North and Central Region counties.

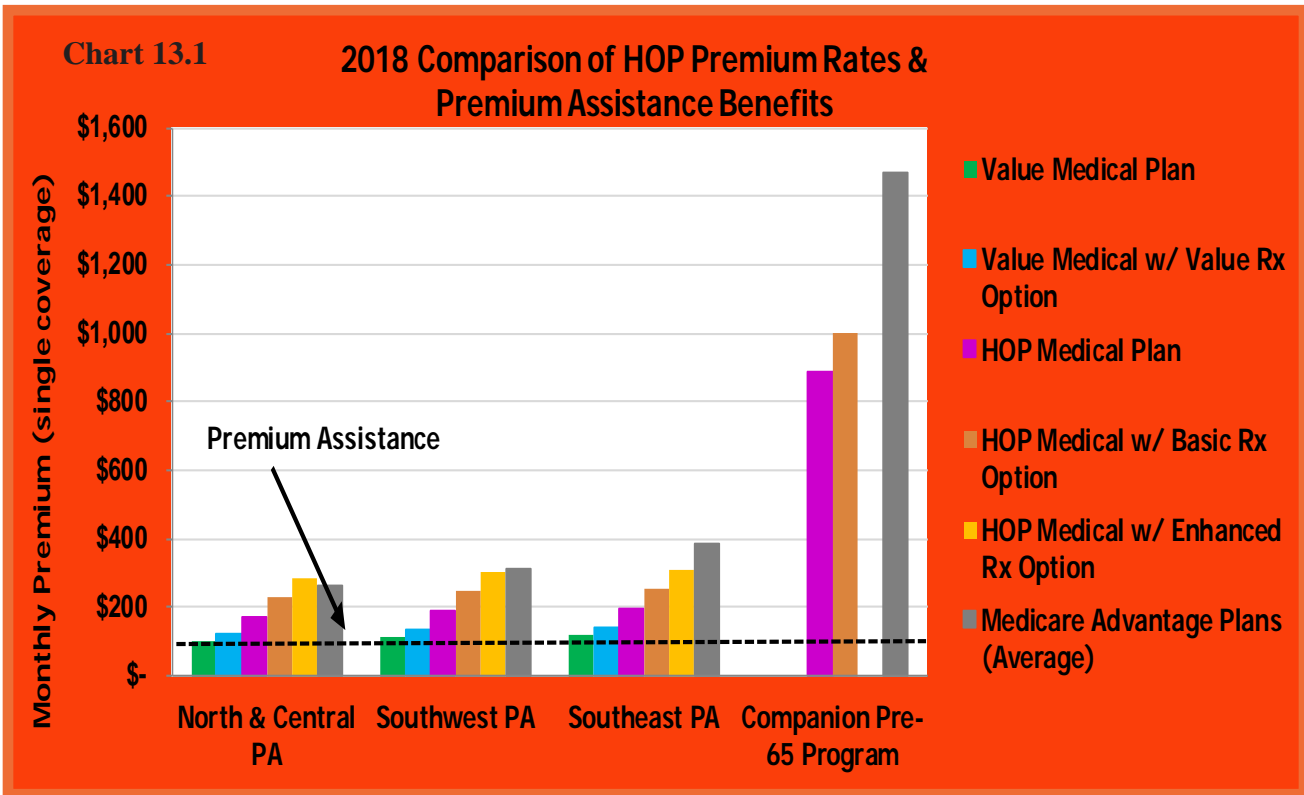
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HOP Premiums Compared to the PSERS Premium Assistance Benefit

Chart 13.1 displays 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	Companion Pre-65 Program
Value Medical Plan	\$102	\$115	\$117	
Value Medical Plan w/ Value Rx Option	124	137	139	
HOP Medical Plan	172	190	199	\$ 889
HOP Medical Plan w/ Basic Rx Option	230	248	257	1,001
HOP Medical Plan w/ Enhanced Rx Option	283	301	310	
Medicare Advantage Plans (Average)	264	314	389	1,472
Premium Assistance	100	100	100	100

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HOP Enrollment

As of December 1, 2017 there are 110,635 participants (93,419 retirees plus their dependents) in the Health Options Program. The total numbers of retirees by Option are:

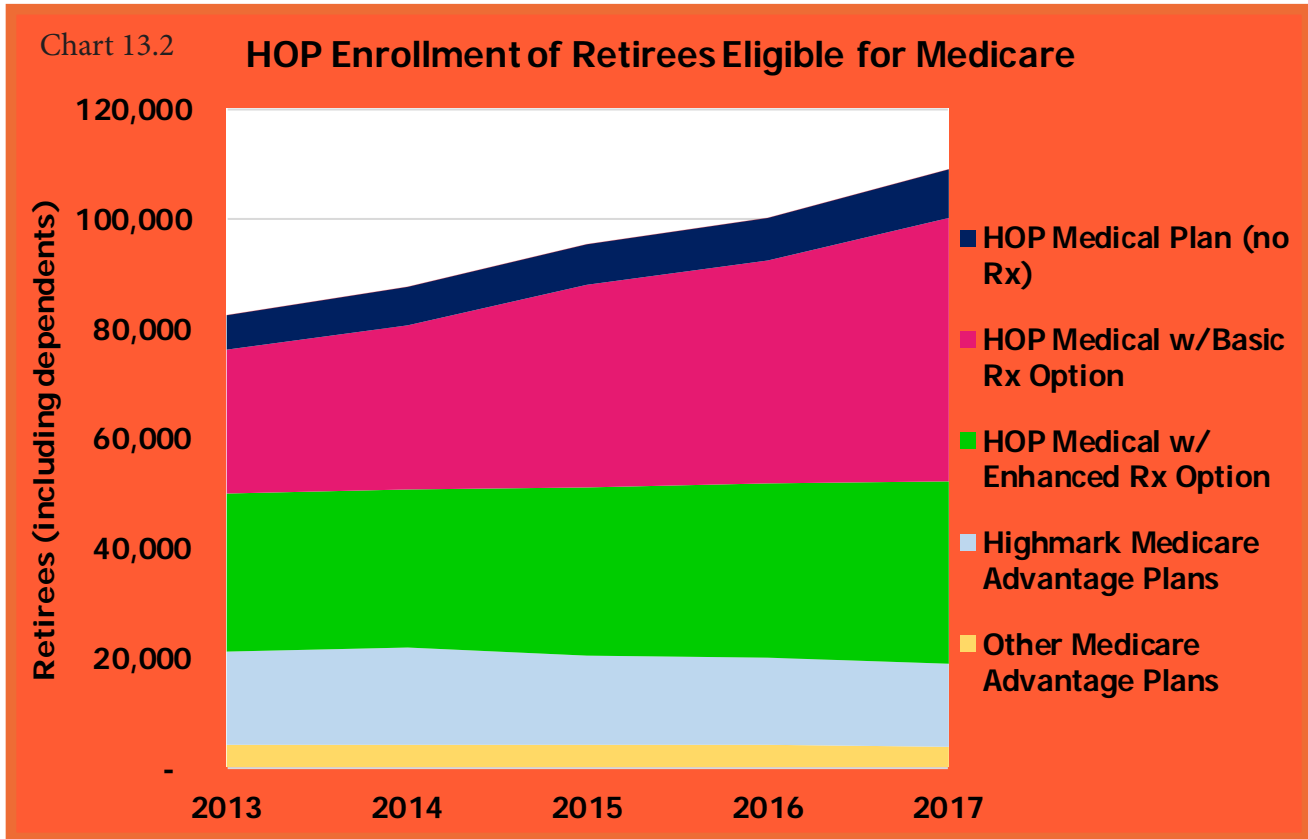
Individuals Eligible for Medicare	Retirees	Participants
HOP Medical w/ Basic Medicare Rx Option	40,865	48,120
HOP Medical w/ Enhanced Medicare Rx Option	28,445	33,272
HOP Medical w/ Value Medicare Rx Option	811	880
HOP Medical Plan (no Rx)	7,879	8,737
HOP Enhanced Rx Only	90	111
HOP Basic Rx Only	224	290
HOP Value Rx Only	11	11
HOP Value Medical Only	43	52
HOP Value Medical w/ Enhanced Medicare Rx Option	7	10
HOP Value Medical w/ Basic Medicare Rx Option	31	43
HOP Value Medical w/ Value Medicare Rx Option	122	158
Highmark PPO/Legacy HMO	11,624	14,873
Keystone East HMO/IBC Legacy PPO	938	1,116
Capital BC PPO/Keystone Central Legacy HMO	814	1,118
UPMC HMO	756	982
91Aetna PPO/Legacy HMO	542	640
Total Medicare Eligible	93,202	110,413
Individuals Not Eligible for Medicare		
HOP Pre-65 Medical Plan w/ Rx Coverage	40	41
HOP Pre-65 Medical Plan	139	141
Highmark PPO	15	15
Capital BC PPO/Keystone Central Legacy HMO	11	12
Keystone East HMO/IBC Legacy PPO	6	6
Aetna PPO/Legacy HMO	6	7
Total Not Eligible for Medicare	217	222
Total in Health Options Program	93,419	110,635

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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 32% over the past 5 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 \$412.7 million during the 2018 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 2018
Participant Contributions	\$ 356.0
CMS - Medicare Prescription Drug Payments	56.0
Interest Income	0.7
Total	\$ 412.7

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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 78,000 of the 96,045 retirees receive Premium Assistance. This accounts for nearly \$93 million of the \$110 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 2018
Self-funded Hospital, Medical & Major Medical Benefits	\$ 176.3
Self-funded Prescription Drug Benefits	150.6
Insured Managed Care and Dental Premiums	77.9
Total	\$ 404.8

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 December 31, 2017, HOP had net assets of \$242.1 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:

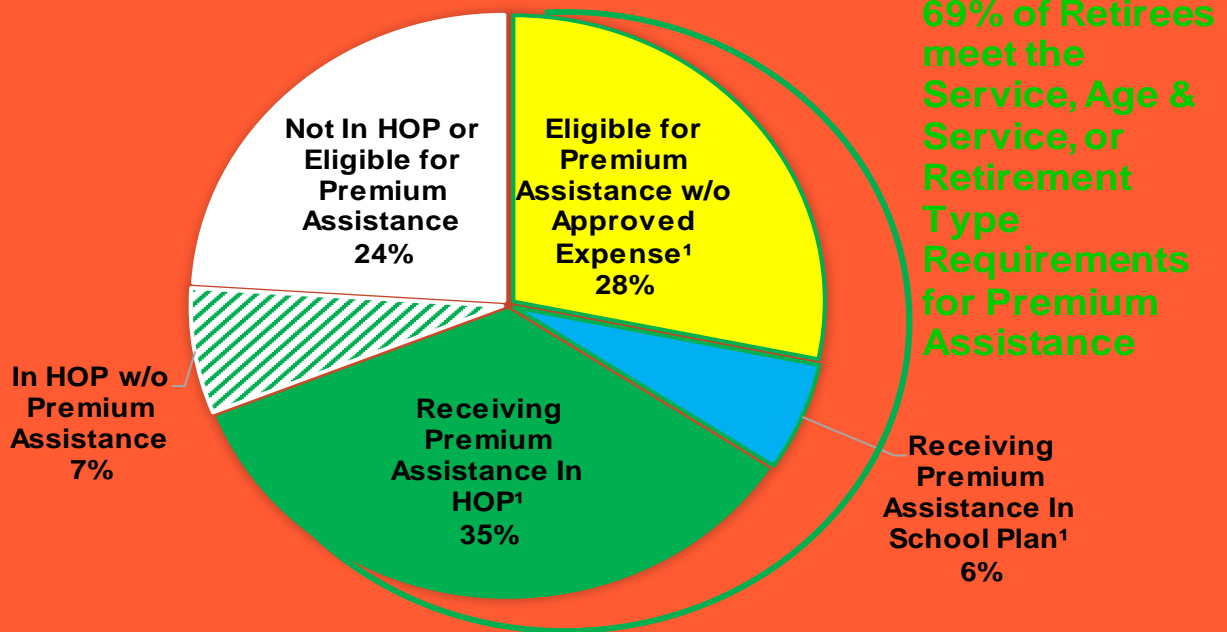
- 24.5 years of credited service, or
- 15 years of credited service if termination of employment and retirement occurred after superannuation age, or
- Receiving a disability annuity from PSERS; and
- Have an out-of-pocket premium expense from their former school employer's health plan or the PSERS sponsored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

Enrollment

As of June 30, 2016, PSERS had 224,828 retirees receiving a monthly benefit. Of these retirees 154,984 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, 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 91,508 retirees receiving premium assistance benefits, 77,767 are enrolled in HOP and 13,741 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



June 30, 2016	Number	Percentage
Eligible for Premium Assistance w/o Approved Expense ¹	63,476	28%
Receiving Premium Assistance In School Plan ¹	13,741	6%
Receiving Premium Assistance In HOP ¹	77,767	35%
In HOP w/o Premium Assistance	15,901	7%
Not In HOP or Eligible for Premium Assistance	<u>53,943</u>	<u>24%</u>
Total Retiree Population ²	224,828	100%

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

(2) As of June 30, 2016 Actuarial Valuation.

Premium Assistance Program

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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 FY2018/19 is 0.83% of payroll.

For the year ended June 30, 2017, employer contributions equaled \$111.0 million and net investment income totaled \$0.7 million. During this period, PSERS paid Premium Assistance benefits equaling \$110.2 million and incurred administrative expenses of \$2.2 million.

As of December 31, 2017, the Premium Assistance Program had net assets of \$120.1 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.