



# 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, 2016 there are 107,689 participants (91,206 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, 2016 to January 1, 2017.

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, 2017. 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 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 2016 to 2017:

Standard Benefit	2016	2017
Deductible	\$ 360	\$ 400
Initial Coverage Limit	3,310	3,700
Out-of-Pocket Threshold	4,850	4,950
Minimum Cost sharing in Catastrophic Coverage Portion of the Benefit		
Generic	\$ 2.95	\$ 3.30
Other	7.40	8.25

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

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The Affordable Care Act (ACA) mandates that Medicare prescription drug plans provide 42% coverage for generic drugs in the Coverage Gap for 2016, and 51% in 2017. 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 5% of the cost of brand drugs in the Coverage Gap for 2017, 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:	2016 Medicare Rx Option	2017 Medicare Rx Option
Generic Drugs	58%	51%
Brand Drugs	45% (after 50% manufacturer discount and 5% plan benefit)	40% (after 50% manufacturer discount and 10% plan benefit)
Non-preferred Brand Rx	45% (after 50% manufacturer discount and 5% plan benefit)	40% (after 50% manufacturer discount and 10% 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 2017 option selection period conducted in the fall of 2016. The following is a list of HOP plans as of January 1, 2017:

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

## 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 premium rates for 2017 compared to the 2016 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.

<b>Southeastern Region: Bucks, Chester, Delaware, Montgomery, and Philadelphia Counties</b>	<b>2016</b>	<b>2017</b>	<b>Increase/ (Decrease)</b>
<b>Medicare Supplement Plans</b>			
Value Medical Plan	\$117	\$117	0%
Value Medical Plan w/ Value Medicare Rx Option	136	139	2%
HOP Medical Plan	199	199	0%
HOP Medical Plan w/ Basic Medicare Rx Option	248	257	4%
HOP Medical Plan w/ Enhanced Medicare Rx Option	298	310	4%
<b>Medicare Advantage Plans</b>			
Aetna Medicare 15 Special PPO	379	368	(3)%
Highmark FreedomBlue PPO	363	376	4%
Independence Blue Cross/Keystone 65 Select HMO	335	353	5%
<b>Legacy Medicare Advantage Plans (no new enrollment)</b>			
Aetna Medicare 10 Special Plan HMO	461	449	3%
IBC's Personal Choice 65 PPO	671	714	6%

<b>Southwestern Region: Allegheny, Fayette, Greene, Indiana, Washington, and Westmoreland Counties</b>	<b>2016</b>	<b>2017</b>	<b>Increase/ (Decrease)</b>
<b>Medicare Supplement Plans</b>			
Value Medical Plan	\$115	\$115	0%
Value Medical Plan w/ Value Medicare Rx Option	134	137	2%
HOP Medical Plan	195	190	(3)%
HOP Medical Plan w/ Basic Medicare Rx Option	244	248	2%
HOP Medical Plan w/ Enhanced Medicare Rx Option	294	301	2%
<b>Medicare Advantage Plans</b>			
Aetna Medicare 15 Special PPO	345	328	(5)%
Highmark SecurityBlue HMO	304	317	4%
UPMC for Life HMO	243	243	0%
<b>Legacy Medicare Advantage Plans (no new enrollment)</b>			
Aetna Medicare 15 Special Plan HMO	454	437	(4)%
Highmark FreedomBlue PPO	338	351	4%

## Section 4 - Other PSERS Programs

### Health Options Program

(continued)

North & Central Region: (All other counties in Pennsylvania)	2016	2017	Increase/ (Decrease)
<b>Medicare Supplement Plans</b>			
Value Medical Plan	\$102	\$102	0%
Value Medical Plan w/ Value Medicare Rx Option	121	124	2%
HOP Medical Plan	172	172	0%
HOP Medical Plan w/ Basic Medicare Rx Option	221	230	4%
HOP Medical Plan w/ Enhanced Medicare Rx Option	271	283	4%
<b>Medicare Advantage Plans</b>			
Aetna Medicare 15 Special PPO <sup>1</sup>	253	229	(9)%
Capital Blue Cross SeniorBlue PPO <sup>1</sup>	222	222	0%
Highmark FreedomBlue PPO	297	310	4%
UPMC for Life HMO <sup>1</sup>	243	243	0%
<b>Legacy Medicare Advantage Plans (no new enrollment)</b>			
Aetna Medicare 10 Special HMO Plan <sup>1</sup>	290	274	(6)%
Highmark SecurityBlue HMO <sup>1</sup>	304	317	4%
Keystone Central SeniorBlue HMO <sup>1</sup>	200	200	0%

<sup>1</sup>Plans 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	2016	2017	Increase
Enhanced Medicare Rx Only	\$99	\$111	12%
Basic Medicare Rx Only	49	58	18%
Value Medicare Rx Only	19	22	16%

## Section 4 - Other PSERS Programs

### 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 2017 compared to the 2016 rates in Pennsylvania for single coverage. These rates do not reflect the \$100 Premium Assistance benefit provided to eligible retirees.

All Regions	2016	2017	Increase
<b>HOP Pre-65 Medical Plan</b>			
HOP Pre-65 Medical Plan (Single Coverage)	\$ 836	\$ 889	6%
Pre-65 Medical Plan w/ Prescription Drugs	964	1,001	4%

Southeastern Region: Bucks, Chester, Delaware, Montgomery, and Philadelphia Counties	2016	2017	Increase
<b>Managed Care Plans</b>			
Aetna PPO	\$1,147	\$1,147	0%
Highmark PPOBlue	1,150	1,588	38%
Keystone East HMO	1,629	1,864	14%
<b>Legacy Managed Care Plans (no new enrollments)</b>			
Aetna Citizen HMO Plan	1,245	1,245	0%
IBC's Personal Choice PPO	1,653	1,934	17%

Southwestern Region: Allegheny, Fayette, Greene, Indiana, Washington, and Westmoreland Counties	2016	2017	Increase
<b>Managed Care Plans</b>			
Aetna PPO	\$1,147	\$1,147	0%
Highmark PPOBlue	1,150	1,588	38%
UPMC Health Plan EPO	1,384	1,384	0%
<b>Legacy Managed Care Plans (no new enrollments)</b>			
Aetna Citizen HMO Plan	1,245	1,245	0%
Highmark PPOBlue - High Option	1,438	2,170	41%

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### Health Options Program

(continued)

<b>North &amp; Central Region: (All other counties in Pennsylvania)</b>	<b>2016</b>	<b>2017</b>	<b>Increase</b>
<b>Managed Care Plans</b>			
Aetna PPO*	\$1,147	\$1,147	0%
Capital Blue Cross PPO*	1,304	1,343	3%
Highmark PPO	1,150	1,588	38%
UPMC EPO*	1,384	1,384	0%
<b>Legacy Managed Care Plans (no new participants)</b>			
Aetna Citizen Plan HMO	1,245	1,245	0%
Highmark PPOBlue – High Option	1,541	2,170	41%
Capital Blue Cross / Keystone Central HMO	1,239	1,338	8%

\*Not available in all North and Central Region counties.



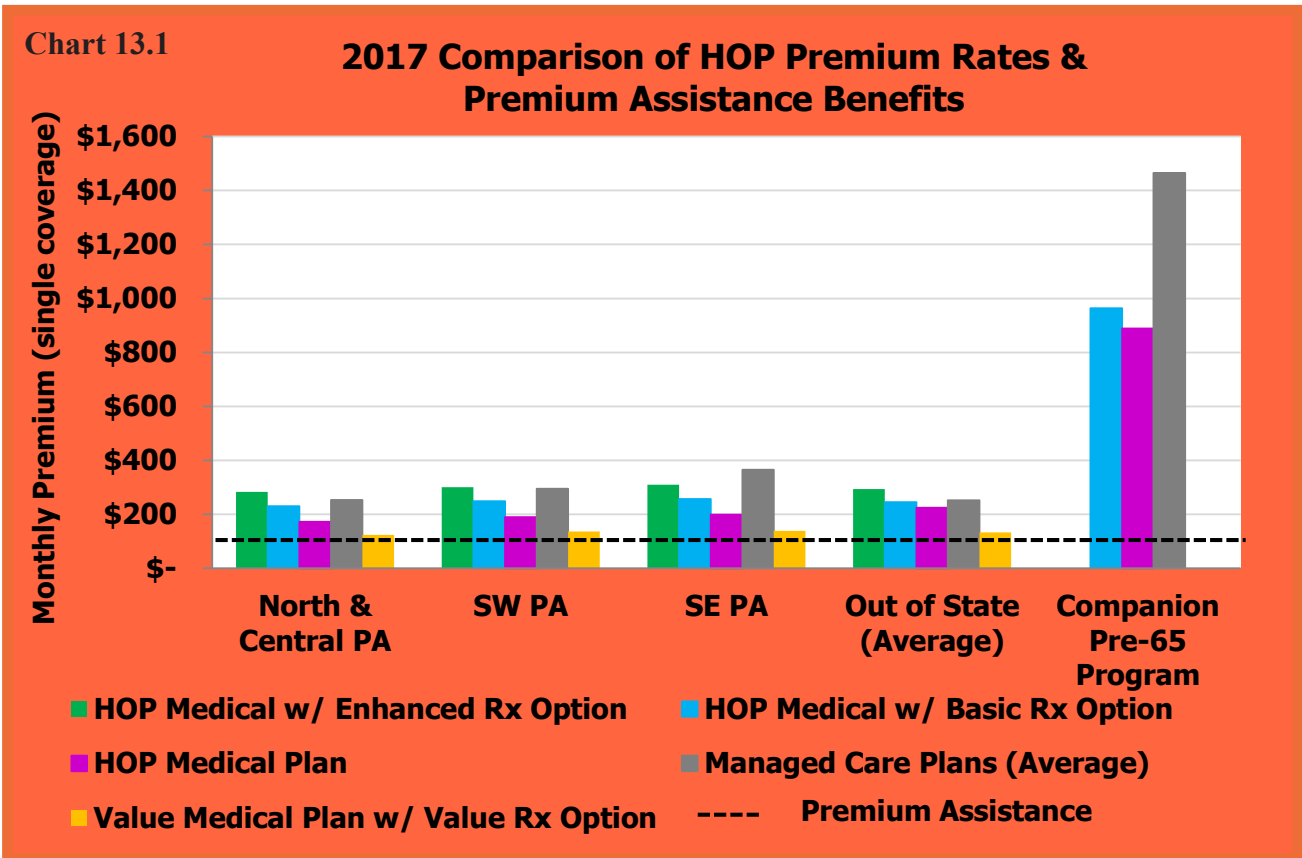
## Section 4 - Other PSERS Programs

### Health Options Program

(continued)

#### HOP Premiums Compared to the PSERS Premium Assistance Benefit

Chart 13.1 displays the HOP 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	\$283	\$301	\$310	\$294	
HOP Medical w/ Basic Rx Option	230	248	257	245	\$964
HOP Medical Plan	172	190	199	224	889
Value Medical Plan w/ Value Rx Option	124	137	139	133	
Managed Care Plans (Average)	253	295	365	252	1,465
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.

## Section 4 - Other PSERS Programs

### Health Options Program

(continued)

#### HOP Enrollment

As of December 1, 2016 there are 107,689 participants (91,206 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	38,948	45,482
HOP Medical w/ Enhanced Medicare Rx Option	28,355	33,097
HOP Medical w/ Value Medicare Rx Option	496	532
HOP Medical Plan (no Rx)	7,609	8,426
HOP Enhanced Rx Only	92	113
HOP Basic Rx Only	241	309
HOP Value Rx Only	8	8
HOP Value Medical Only	41	46
HOP Value Medical w/ Enhanced Medicare Rx Option	7	11
HOP Value Medical w/ Basic Medicare Rx Option	26	36
HOP Value Medical w/ Value Medicare Rx Option	97	121
Highmark PPO/Legacy HMO	12,014	15,407
Keystone East HMO/IBC Legacy PPO	1,013	1,217
Capital BC PPO/Keystone Central Legacy HMO	779	1,008
UPMC HMO	767	1058
91Aetna PPO/Legacy HMO	554	658
<b>Total Medicare Eligible</b>	91,047	107,529
Individuals Not Eligible for Medicare		
HOP Pre-65 Medical Plan w/ Rx Coverage	93	94
HOP Pre-65 Medical Plan	27	27
Highmark PPO	22	22
Capital BC PPO/Keystone Central Legacy HMO	9	9
Keystone East HMO/IBC Legacy PPO	7	7
Aetna PPO/Legacy HMO	1	1
<b>Total Not Eligible for Medicare</b>	159	160
<b>Total in Health Options Program</b>	91,206	107,689

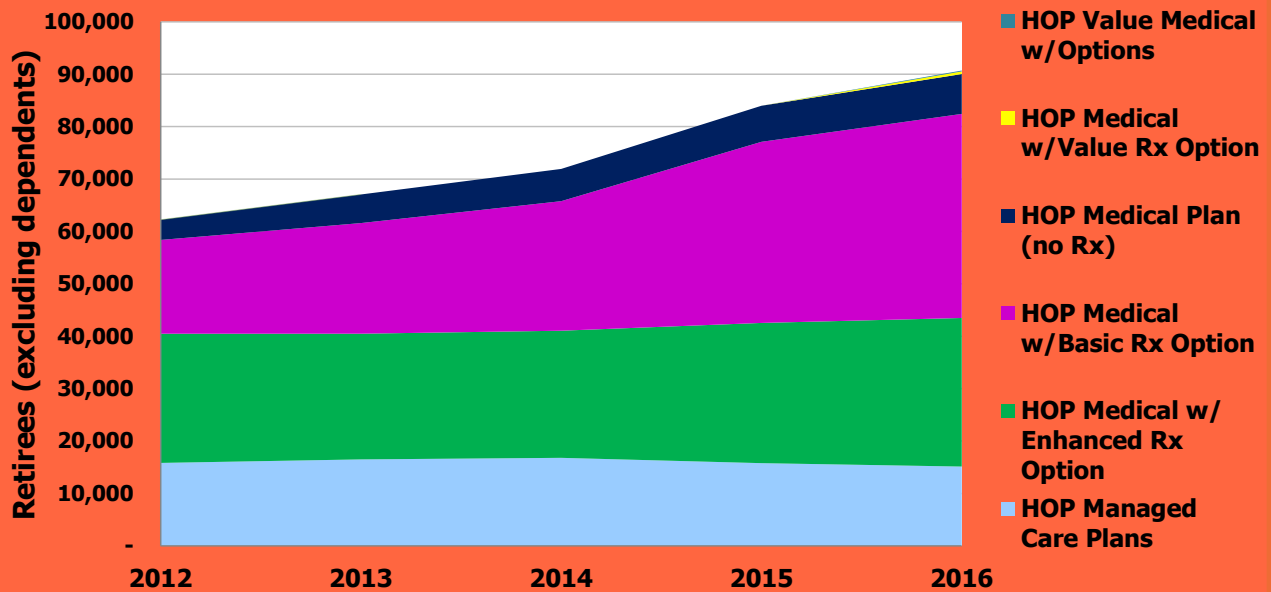
**Health Options Program**

(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 48% 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 \$393 million during the 2017 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):

<b>Table 13.1 Income</b>	<b>Calendar Year 2017</b>
Participant Contributions	\$ 332.7
CMS - Medicare Prescription Drug Payments	59.6
Interest Income	0.4
<b>Total</b>	<b>\$ 392.7</b>

**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 74,000 of the 91,206 HOP retirees receive Premium Assistance. This accounts for nearly \$88 million of the \$108 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):

<b>Table 13.2 Benefit Expense</b>	<b>Calendar Year 2017</b>
Self-funded Hospital, Medical & Major Medical Benefits	\$165.8
Self-funded Prescription Drug Benefits	137.2
Insured Managed Care and Dental Premiums	79.0
<b>Total</b>	<b>\$382.0</b>

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, 2016, HOP had net assets of \$233.3 million held in trust to pay the expenses of Health Options Program for the exclusive benefit of participants.

## Section 4 - Other PSERS Programs

### Premium Assistance Program

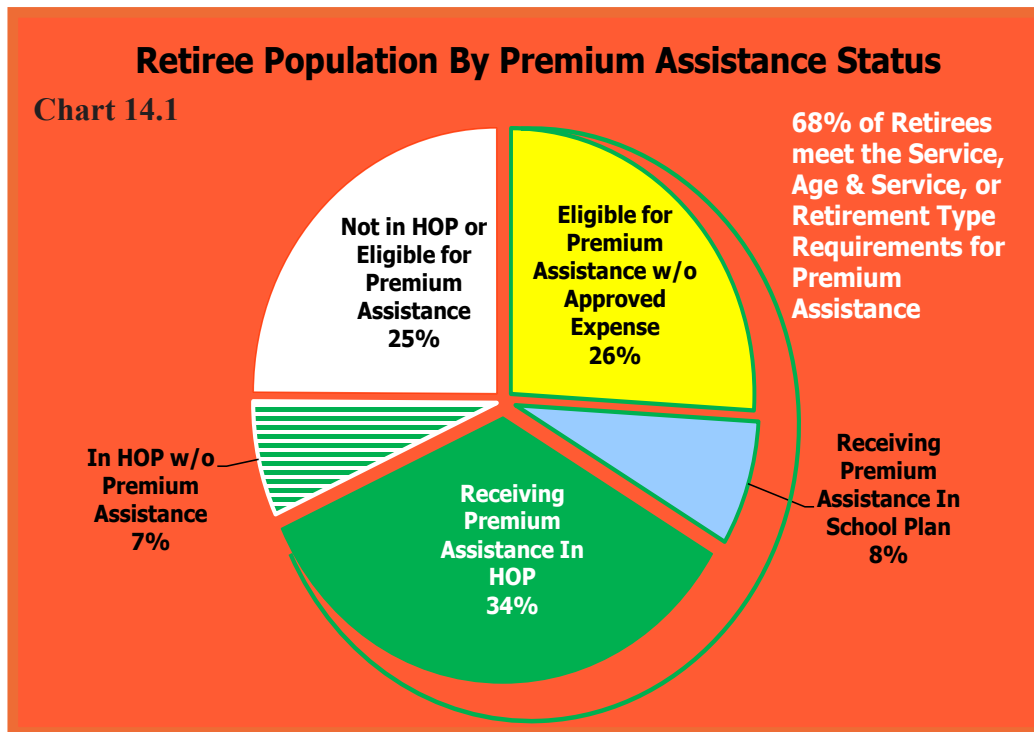
In accordance with Sec. 8509 of the Public School Employees' Retirement Code 24 Pa. C.S. § 8509, PSERS provides up to \$100 per month in Premium Assistance to eligible retirees to help cover the cost of their health insurance. The Premium Assistance program began on July 1, 1992. The eligibility requirements 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 214,019 retirees (excluding survivor annuitants and beneficiaries) receiving a monthly benefit. Of these retirees 146,114 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, 55,610 are not receiving premium assistance payments because they do not have an out-of-pocket premium expense from an approved plan. Of the 90,180 retirees receiving premium assistance benefits, 73,926 are enrolled in HOP and 16,254 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, 2015	Number	Percentage
Eligible for Premium Assistance w/o Approved Expense <sup>1</sup>	55,610	26%
Receiving Premium Assistance In School Plan <sup>1</sup>	16,254	8%
Receiving Premium Assistance In HOP <sup>1</sup>	73,926	34%
In HOP w/o Premium Assistance	14,921	7%
Not In HOP or Eligible for Premium Assistance	53,308	25%
Total Retiree Population <sup>2</sup>	214,019	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 (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 Code<sup>1</sup>. The contribution needed during FY2017/18 is 0.83% of payroll.

For the year ended June 30, 2016, employer contributions equaled \$113.3 million and net investment income totaled \$0.5 million. During this period, PSERS paid Premium Assistance benefits equaling \$108.3 million and incurred administrative expenses of \$1.6 million.

As of December 31, 2016, the Premium Assistance Program had net assets of \$122.4 million.

<sup>1</sup>§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.