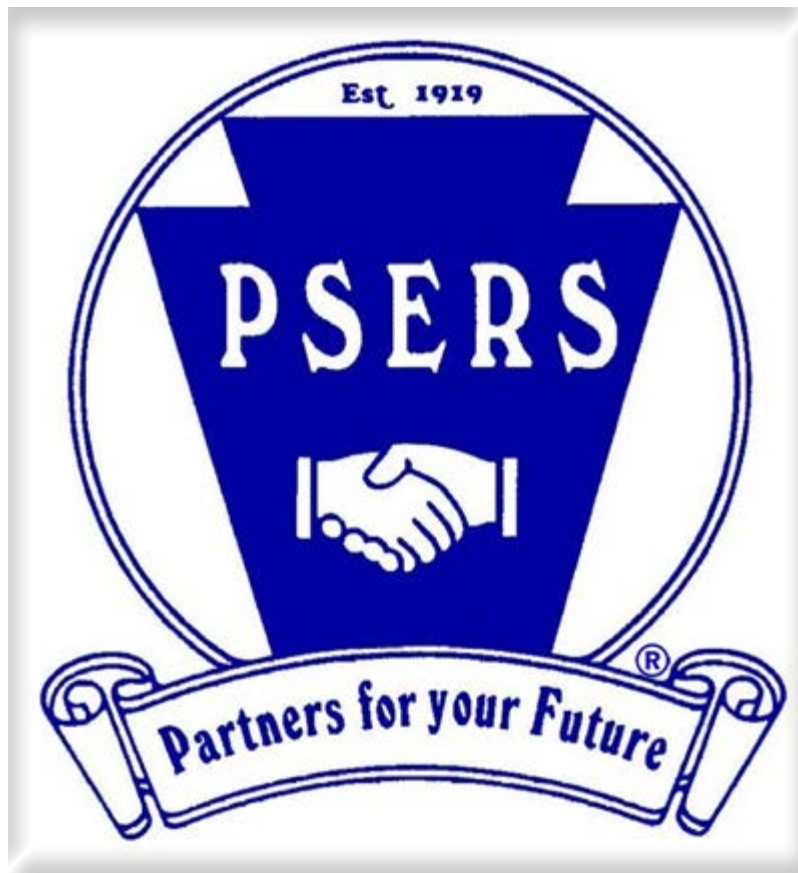
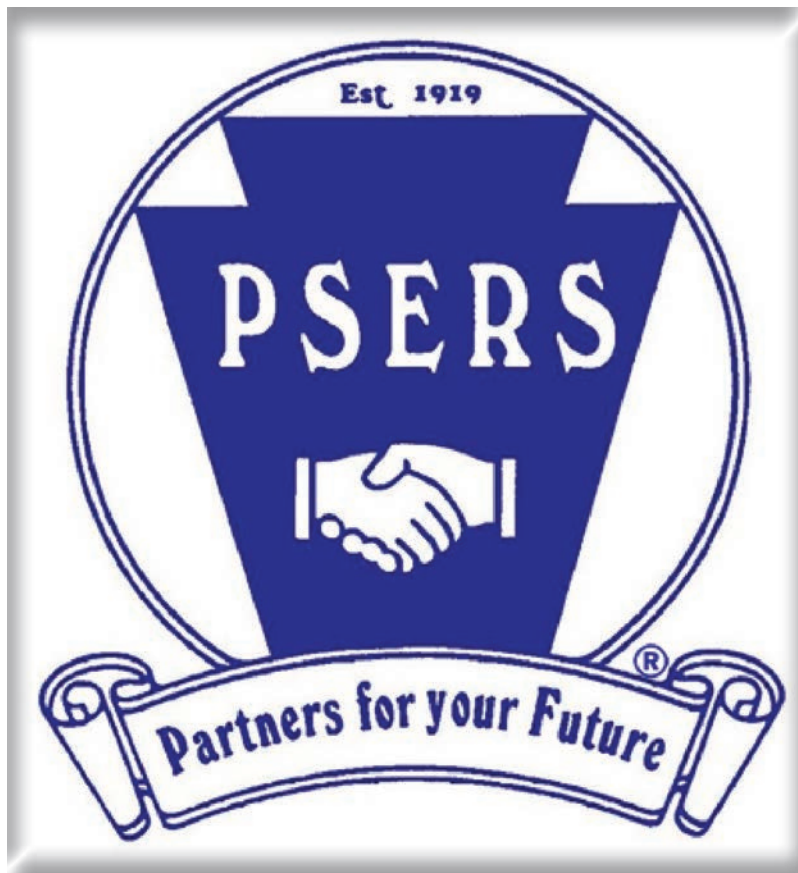


## Section 5 - Other PSERS Programs





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**Health Options Program**

Pursuant to Sec. 8701 et seq. of the Public School Retirees Health Insurance Act 24 Pa. C.S. § 8701 et seq. 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 is funded by and for eligible participants. The following is a summary of HOP initiatives during the period July 1, 2012 to January 1, 2014.



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- » 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, 2013. As a result of the IFA, PSERS has entered into contract with the following carriers to participate in HOP:

- Aetna
- Capital Blue Cross/Keystone Health Plan Central
- Geisinger Health Plan
- 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 Affordable Care Act (ACA, health care reform) and adjust maximum co-payments to reflect prescription drug cost inflation. Effective January 1, 2014, the following benefit changes were adopted:

***Basic Medicare Rx Option***

Initial Tier:	Member Paid in 2013	Member Pays in 2014
Retail Pharmacy Preferred Brand Rx	30% (\$50 maximum for up to 33-day supply & \$100 maximum for a 34 to 90-day supply)	30% ( <b>\$60</b> maximum for up to <b>30</b> -day supply & <b>\$120</b> maximum for a <b>31</b> to 90-day supply)
Mail Pharmacy Preferred Brand Rx	30% (\$100 maximum for a 34 to 90-day supply)	30% (\$100 maximum for a <b>31</b> to 90-day supply)
Non-Preferred Brand Rx	40% (no maximum)	40% (no maximum)
<b>Coverage Gap:</b>		
Generic Rx	<b>79%</b>	<b>72%</b>

**Health Options Program**

(continued)

***Enhanced Medicare Rx Option***

Initial Tier:	Member Paid in 2013	Member Pays in 2014
Retail Pharmacy Brand Rx	25% (\$50 maximum for up to 33-day supply & \$90 maximum for a 34 to 90-day supply)	25% (\$50 maximum for up to 30-day supply & \$100 maximum for a 31 to 90-day supply)
Mail Pharmacy Brand Rx	25% (\$90 maximum for a 34 to 90-day supply)	25% (\$90 maximum for a 31 to 90-day supply)
<b>Coverage Gap:</b>		
Generic Rx	79%	72%

- » The Retirement Board adopted the PSERS Health Options Program Eligibility and Enrollment Policy effective January 1, 2014. The Policy defines “Qualifying Events” which create opportunities for eligible persons to enroll in the Health Options Program.
- » The Retirement Board is evaluating the impact of the ACA defined on previous retirees (and other eligible persons) participating in the PSERS Health Options Program who are not yet eligible for Medicare. PSERS retirees and their dependents not eligible for Medicare are required by ACA to have health insurance or pay a tax. For 2014 the tax is the greater of \$95 or 1% of income. By 2016 the tax will be the greater of \$695 or 2.5% of income. Most, if not all, pre-65 participants of the Health Options Program and some pre-65 retirees covered under their former school employer’s plan will be able to reduce their monthly premium costs by enrolling in an ACA plan through the exchange. A PSERS retiree who enrolls in an ACA plan will not receive Premium Assistance as only Commonwealth school plans and plans offered through the Health Options Program are approved for Premium Assistance. The legal and administrative ramifications of the Retirement Board approving ACA plans for Premium Assistance are under review.



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**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 without prescription drug coverage or a managed care plan. These options are available to new enrollees or Health Option Program participants electing to change coverage during the 2014 option selection period conducted in the fall of 2013. The following is a list of HOP plans as of January 1, 2014:

## Section 5 - Other PSERS Programs

### Health Options Program

(continued)

For Individuals Eligible for Medicare:	For Individuals Not Eligible for Medicare
HOP Medical Plan (Medicare supplement)	HOP Pre-65 Medical Plan
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
Geisinger Gold Preferred PPO	Geisinger Choice 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

#### 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 2014 compared to the 2013 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	2013	2014	Increase
<b>Medicare Supplement Plan</b>			
HOP Medical Plan	\$ 199	\$ 199	0%
w/ Basic Rx	\$ 227	\$ 231	2%
w/ Enhanced Rx	\$ 281	\$ 283	1%
<b>Medicare Advantage Plans</b>			
Aetna Medicare 15 Special PPO	\$ 329	\$ 344	5%
Highmark FreedomBlue PPO	\$ 575	\$ 592	3%
Independence Blue Cross / Keystone 65 Select HMO	\$ 289	\$ 299	4%
<b>Legacy Medicare Advantage Plans (no new participants)</b>			
Aetna Medicare 10 Special Plan HMO	\$ 406	\$ 426	5%
IBC's Personal Choice 65 PPO	\$ 636	\$ 636	0%

## Section 5 - Other PSERS Programs

### Health Options Program

(continued)

Southwestern Region: Allegheny, Fayette, Greene, Indiana, Washington, and Westmoreland Counties	2013	2014	Increase
<b>Medicare Supplement Plan</b>			
HOP Medical Plan	\$ 195	\$ 195	0%
w/ Basic Rx	\$ 223	\$ 227	2%
w/ Enhanced Rx	\$ 277	\$ 279	1%
<b>Medicare Advantage Plans (compared with 2010 legacy plan)</b>			
Aetna Medicare 15 Special PPO	\$ 306	\$ 320	5%
Highmark FreedomBlue PPO	\$ 281	\$ 298	6%
UPMC for Life HMO	\$ 234	\$ 234	0%
<b>Legacy Medicare Advantage Plans (no new participants)</b>			
Aetna Medicare 15 Special Plan HMO	\$ 353	\$ 419	19%
Highmark SecurityBlue HMO	\$ 272	\$ 289	6%

North & Central Region: All other counties in Pennsylvania	2013	2014	Increase
<b>Medicare Supplement Plan</b>			
HOP Medical Plan	\$ 164	\$ 169	3%
w/ Basic Rx	\$ 192	\$ 201	5%
w/ Enhanced Rx	\$ 246	\$ 253	3%
<b>Medicare Advantage Plan (compared with 2010 legacy plan)</b>			
Aetna Medicare 15 Special PPO*	\$ 228	\$ 238	4%
Capital Blue Cross SeniorBlue PPO*	\$ 228	\$ 228	0%
Geisinger Gold Preferred PPO*	\$ 198	\$ 265	34%
Highmark FreedomBlue PPO	\$ 260	\$ 277	7%
UPMC for Life HMO*	\$ 234	\$ 234	0%
<b>Legacy Medicare Advantage Plans (no new participants)</b>			
Aetna Medicare 10 Special Plan HMO*	\$ 244	\$ 255	5%
Highmark SecurityBlue HMO*	\$ 271	\$ 289	7%
Keystone Central SeniorBlue HMO*	\$ 223	\$ 227	2%

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

Health Options Program participants may select Basic or Enhanced Medicare Rx Option coverage without enrolling in the HOP 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.

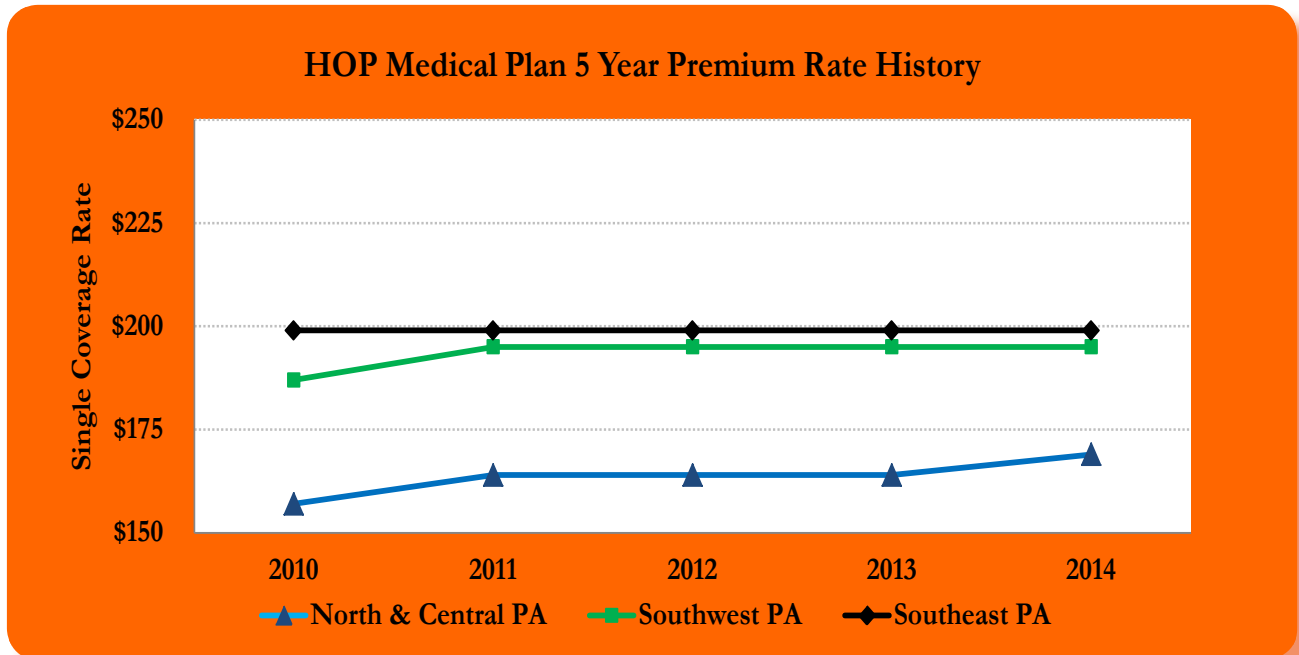
Medicare Prescription Drug Plans All Regions	2013	2014	Increase
Basic Medicare Rx Only	\$ 28	\$ 29	4%
Enhanced Medicare Rx Only	\$ 82	\$ 82	0%

## Health Options Program (continued)

### Premium History

#### HOP Medical Plan

The following chart illustrates the HOP Medical Plan monthly premium rates for single coverage since 2010. Rates vary by region in the Commonwealth to reflect differences in the cost of health care.



This remarkable premium stability can be attributed to:

1. Plan design changes adopted by the Retirement Board to manage the utilization of health care services.
2. Increasing number of enrollees at age 65 (baby-boomer generation), thereby lowering the average age of the participant population.



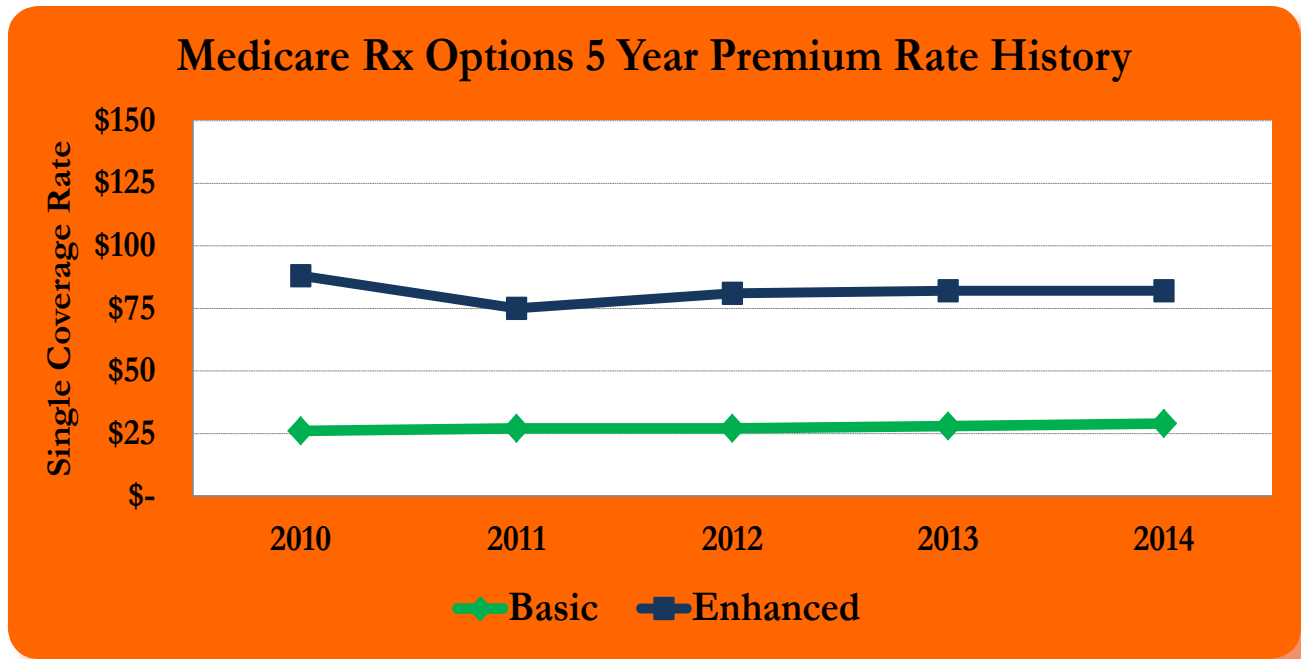
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## Health Options Program

(continued)

### Basic and Enhanced Medicare Rx Options

The following graph illustrates the Basic and Enhanced Medicare Rx Options monthly premium rates for single coverage since 2010. The rates for the Medicare Rx Options do not vary by region.



This relative premium stability can be attributed to:

1. Plan design changes adopted by the Retirement Board to encourage the use of generic drugs.
2. Increasing number of enrollees at age 65 (baby-boomer generation), thereby lowering the average age of the participant population in the Basic Rx Option.

The significant decrease in the premium cost of the Enhanced Rx Option in 2011 is attributable to the reduction in benefits (plan payments) of 50% mandated by the Affordable Care Act. The participants out-of-pocket expense remained the same while their monthly premium decreased.



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## Section 5 - Other PSERS Programs

### Health Options Program

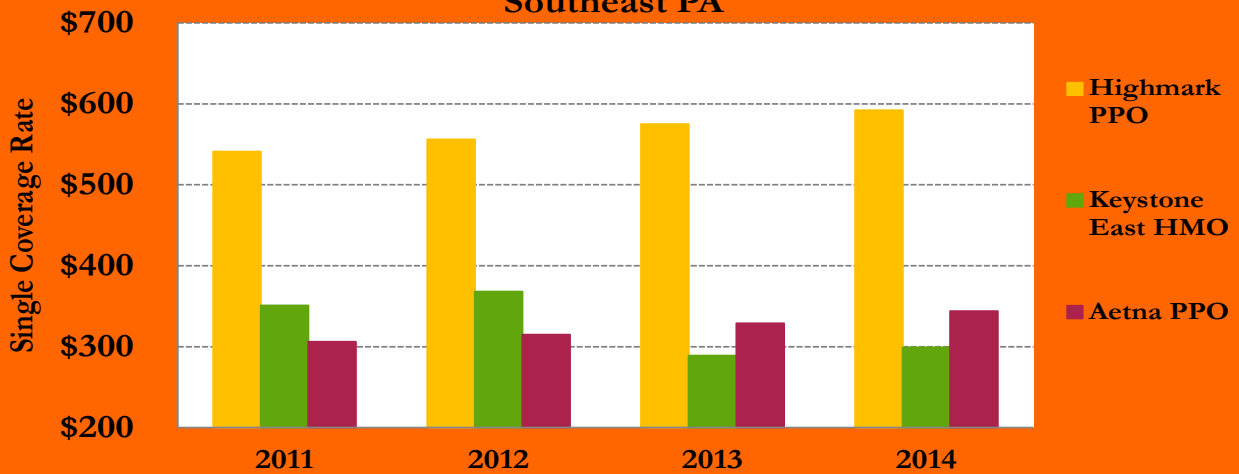
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#### Medicare Advantage Plans

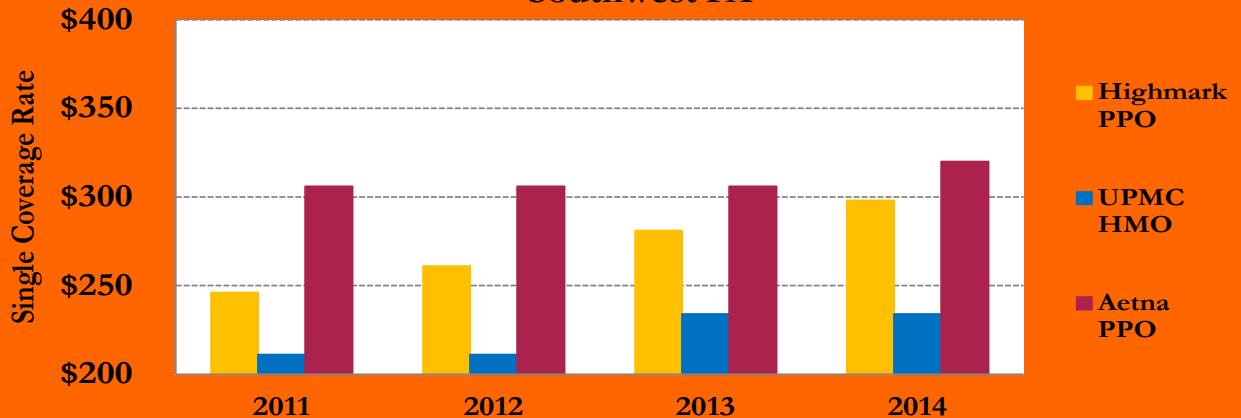
PSERS issues an IFA to allow qualified insurance carriers to apply to offer a fully insured Medicare Advantage group insurance plan through HOP. Other than requiring prescription drug coverage, the insurance carriers are given wide latitude to offer a plan tailored to the PSERS retiree population.

The following graphs illustrate the monthly premium rates (single coverage) for the active Medicare Advantage plans since 2011. Prior to 2011, Highmark FreedomBlue PPO was the only active Medicare Advantage plan in the Health Options Program.

#### Medicare Advantage Plans 4 Year Premium Rate History - Southeast PA



#### Medicare Advantage Plans 4 Year Premium Rate History - Southwest PA

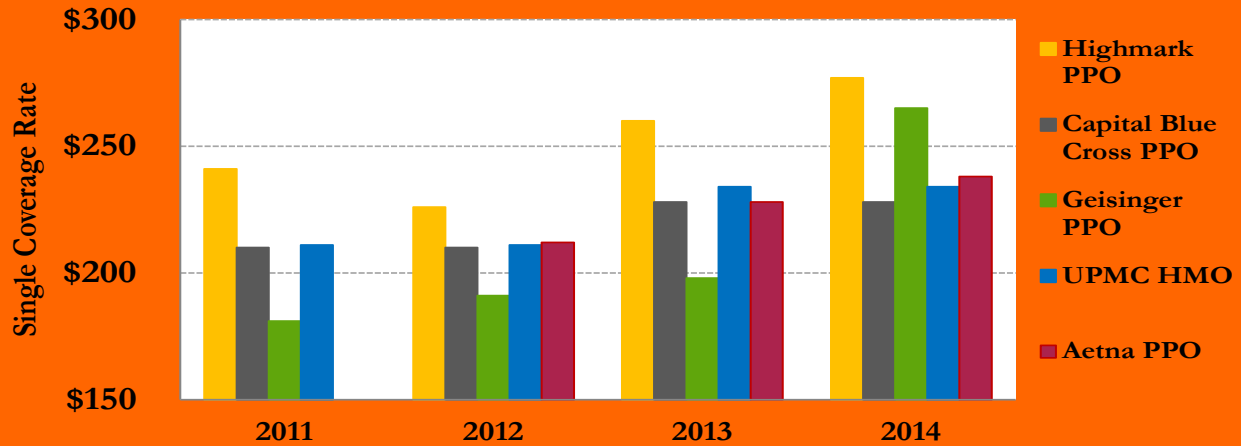


## Section 5 - Other PSERS Programs

### Health Options Program

(continued)

**Medicare Advantage Plans 4 Year Premium Rate History - North & Central PA**



While the Medicare Advantage plans have not had the premium stability of the HOP Medical Plan the increases have been modest when considering the decrease in federal funding set forth in the Affordable Care Act. This relative premium stability can be attributed to:

1. Plan design changes proposed by the Medicare Advantage carriers to control utilization, and
2. Competition among Medicare Advantage carriers.

#### **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 2014 compared to the 2013 rates in Pennsylvania for single coverage. These rates do not reflect the \$100 Premium Assistance benefit provided to eligible retirees.

All Regions		2013		2014	Increase
<b>HOP Pre-65 Medical Plan</b>					
HOP Pre-65 Medical Plan (Single Coverage)	\$	676	\$	717	6%
Pre-65 Medical Plan w/ Prescription Drugs	\$	780	\$	827	6%

## Section 5 - Other PSERS Programs

### Health Options Program

(continued)

Southeastern Region: Bucks, Chester, Delaware, Montgomery, and Philadelphia Counties.	2013		2014		Increase/ (Decrease)
<b>Managed Care Plans</b>					
Aetna PPO	\$	960	\$	1,109	16%
Highmark PPOBlue	\$	1,169	\$	1,007	(14)%
Keystone East HMO	\$	1,185	\$	1,295	9%
<b>Legacy Managed Care Plans (no new enrollments)</b>					
Aetna Citizen HMO Plan	\$	1,201	\$	1,207	0%
IBC's Personal Choice PPO	\$	1,189	\$	1,291	9%

Southwestern Region: Allegheny, Fayette, Greene, Indiana, Washington, and Westmoreland Counties	2013		2014		Increase/ (Decrease)
<b>Managed Care Plans</b>					
Aetna PPO	\$	960	\$	1,109	16%
Highmark PPOBlue	\$	1,169	\$	1,007	(14)%
UPMC Health Plan EPO	\$	2,256	\$	1,384	(39)%
<b>Legacy Managed Care Plans (no new enrollments)</b>					
Aetna Citizen HMO Plan	\$	1,201	\$	1,207	0%
Highmark PPOBlue - High Option	\$	1,459	\$	1,255	(14)%

North & Central Region: (All other counties in Pennsylvania)	2013		2014		Increase/ (Decrease)
<b>Managed Care Plans</b>					
Aetna PPO*	\$	960	\$	1,109	16%
Highmark PPOBlue	\$	786	\$	832	6%
Capital Blue Cross PPO*	\$	1,169	\$	1,007	(14)%
Geisinger PPO*	\$	1,050	\$	1,069	2%
UPMC EPO*	\$	2,256	\$	1,384	(39)%
<b>Legacy Managed Care Plans (no new participants)</b>					
Aetna Citizen Plan HMO	\$	1,201	\$	1,207	0%
Highmark PPOBlue – High Option	\$	1,459	\$	1,255	(14)%
Capital Blue Cross / Keystone Central HMO	\$	1,057	\$	1,039	(2)%

\* Not available in all North & Central Region Counties.

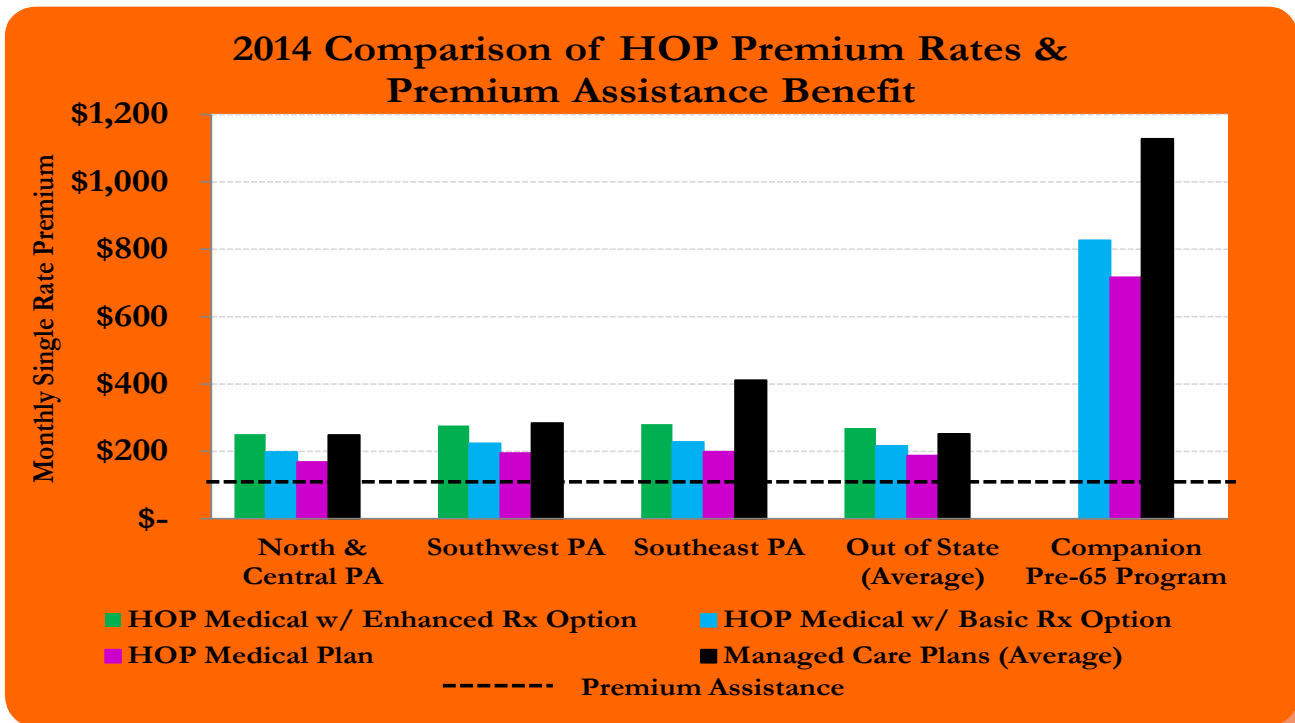
## Section 5 - Other PSERS Programs

### 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	\$ 251	\$ 277	\$ 281	\$ 270	N/A	
HOP Medical w/ Basic Rx Option	\$ 198	\$ 224	\$ 228	\$ 217	\$ 827	
HOP Medical Plan	\$ 169	\$ 195	\$ 199	\$ 188	\$ 717	
Managed Care Plans (Average)	\$ 248	\$ 284	\$ 412	\$ 252	\$ 1,128	
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 5 - Other PSERS Programs

### Health Options Program

(continued)

#### HOP Enrollment

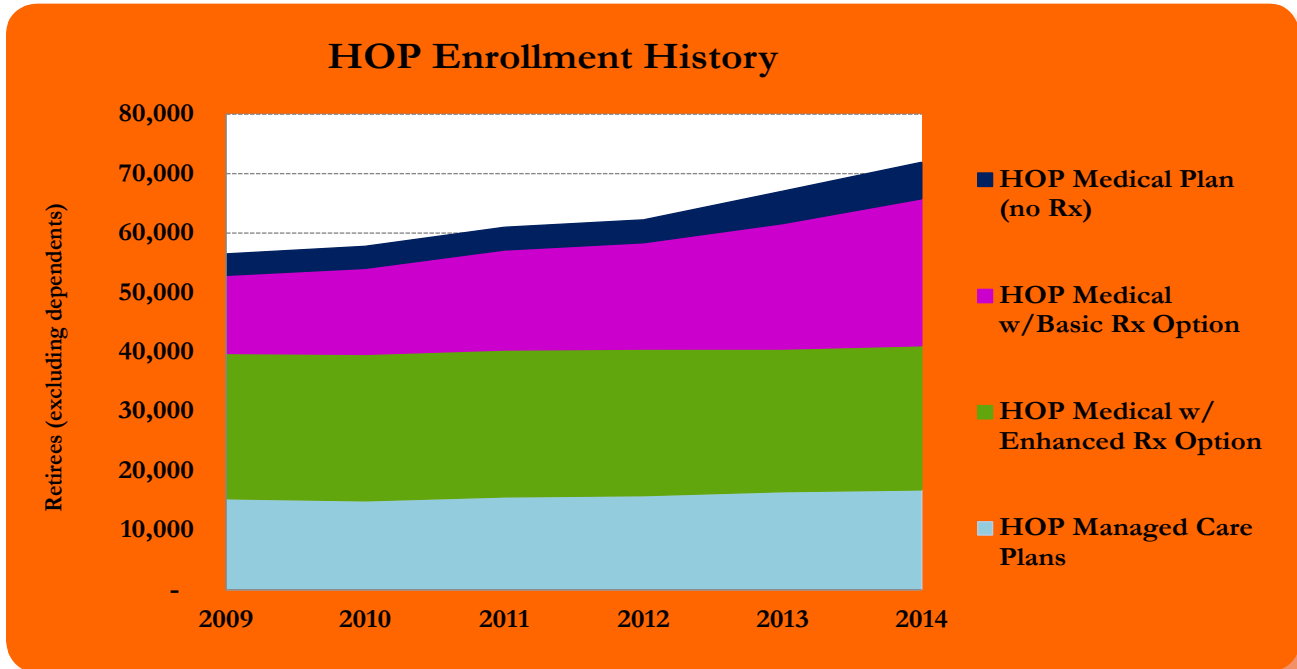
As of January 1, 2014 there are 88,484 participants (72,597 retirees plus their dependents) in the Health Options Program. The total numbers of retirees by Option are:

Individuals Eligible for Medicare	Retirees	Participants
HOP Medical w/ Enhanced Medicare Rx Option	24,262	29,070
HOP Medical w/Basic Medicare Rx Option	24,721	29,962
HOP Medical Plan (no Rx)	6,154	6,941
HOP Enhanced Rx Only	80	103
HOP Basic Rx Only	241	311
Aetna PPO/Legacy HMO	724	882
Capital BC PPO/Keystone Central Legacy HMO	807	1,061
Geisinger PPO	243	311
Highmark PPO/ Legacy HMO	13,493	17,587
Keystone East HMO/IBC Legacy PPO	1,179	1,436
UPMC HMO	345	463
<b>Total Medicare Eligible</b>	<b>72,249</b>	<b>88,127</b>
<b>Individuals Not Eligible for Medicare</b>		
HOP Pre-65 Medical Plan	70	72
HOP Pre-65 Medical Plan w/Rx Coverage	166	170
Aetna PPO/Legacy HMO	15	16
Capital BC PPO/Keystone Central Legacy HMO	16	16
Geisinger PPO	10	11
Highmark PPO	41	41
Keystone East HMO/IBC Legacy PPO	30	31
UPMC HMO	0	0
<b>Total Not Eligible for Medicare</b>	<b>348</b>	<b>357</b>
<b>Total in Health Options Program</b>	<b>72,597</b>	<b>88,484</b>

## Section 5 - Other PSERS Programs

### Health Options Program (continued)

The enrollment in the PSERS Health Options Program continues to increase. As illustrated by the following chart, the number of members has increased 28% over the past 5 years.



#### Funding

A majority of the premium income is deducted from the retiree's monthly retirement benefit and transferred to the plans (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 \$295 million during the 2014 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), anticipated payment from the Early Retirement Reinsurance Program (ERRP) from Health and Human Services (HHS), and interest income. The following is a breakdown of these sources of income (Dollar amounts in millions):

Income	Calendar Year 2014
Participant Contributions	\$ 260.0
CMS - Medicare Prescription Drug Payments	\$ 35.0
HHS – Early Retiree Reinsurance Program	\$ 0.3
<b>Total</b>	<b>\$ 295.3</b>

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## Section 5 - Other PSERS Programs

### 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 61,500 of the 72,600 HOP retirees receive Premium Assistance. This accounts for about \$74 million of the \$111 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):

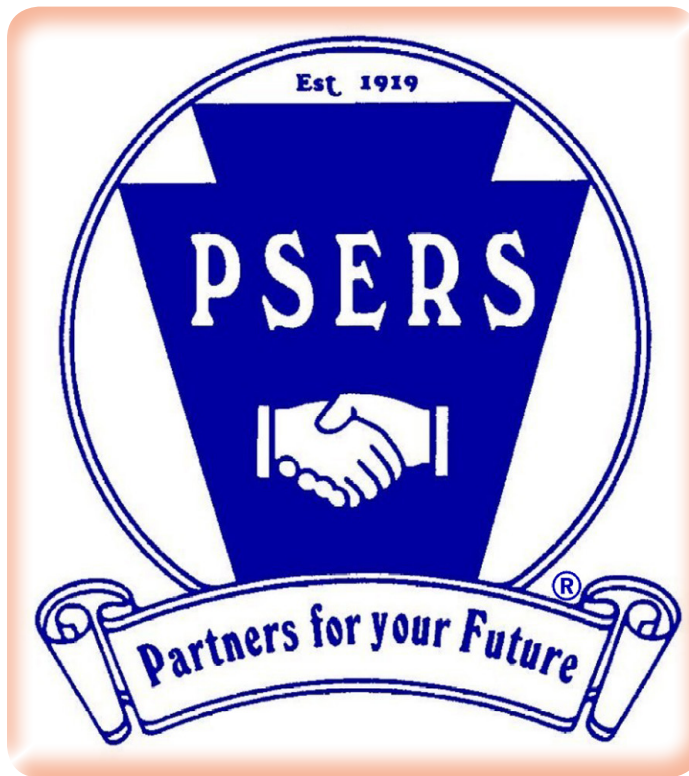
<b>Benefit Expenses</b>	<b>Calendar Year 2014</b>	
Self-funded Hospital, Medical & Major Medical Benefits	\$	129.0
Self-funded Prescription Drug Benefits	\$	79.0
Insured Managed Care Premiums	\$	79.0
<b>Total</b>	\$	<b>287.0</b>

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, 2013, HOP had net assets of \$187 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**

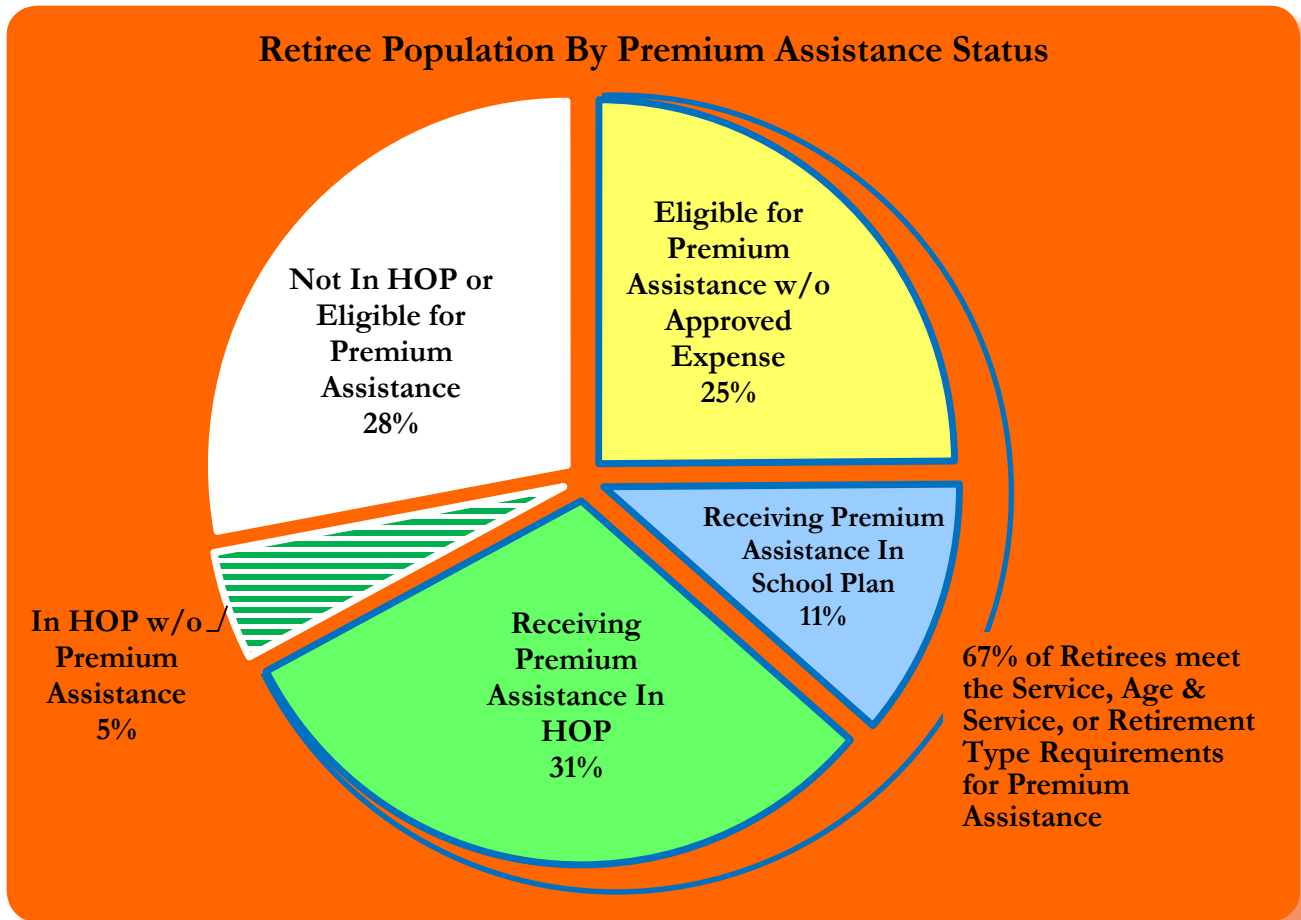
In accordance with Sec. 8509 of the Public School Employees' Retirement Code 24 Pa. C.S. § 8509, PSERS provides up to \$100 per month in Premium Assistance to eligible retirees to help cover the cost of their health insurance. The eligibility requirements for premium assistance are as follows:

- 24.5 years of credited service, or
- 15 years of credited service if termination of employment and retirement occurred after age 62, 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, 2013, PSERS had 197,735 retirees (excluding survivor annuitants and beneficiaries) receiving a monthly benefit. Of these retirees 132,990 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, 49,206 are not receiving premium assistance payments because they do not have an out-of-pocket premium expense from an approved plan. Of the 83,784 retirees receiving premium assistance benefits, 61,093 are enrolled in HOP and 22,691 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:



## Section 5 - Other PSERS Programs

### Premium Assistance Program

(continued)

June 30, 2013	Number	Percentage
Eligible for Premium Assistance <sup>1</sup> w/o Approved Expense (1)	49,206	25%
Receiving Premium Assistance In School Plan (1)	22,691	11%
Receiving Premium Assistance In HOP (1)	61,093	31%
In HOP w/o Premium Assistance	9,570	5%
Not In HOP or Eligible for Premium Assistance	55,175	28%
<b>Total Retiree Population (2)</b>	<b>197,735</b>	<b>100%</b>

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

(2) As of June 30, 2013 Actuarial Valuation (Excludes Survivor Annuitants and Beneficiaries)

#### Funding

The Premium Assistance Program is funded by employer contributions. The contribution rate calculated by PSERS actuary for FY2014/15 is 0.90% of payroll.

For the year ended June 30, 2013, employer contributions totaled \$108.7 million and net investment income totaled \$0.1 million, while PSERS paid Premium Assistance benefits totaling \$100.1 million and administrative expenses of \$2.1 million.

As of December 31, 2013, the Premium Assistance Program had net assets of \$102 million.



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