

**State and Public School Life  
And Health Insurance Board  
Minutes  
May 10, 2011**

The 116th meeting of the State and Public School Life and Health Insurance Board (hereinafter called the Board), met on May 10, 2011 at 1:00 p.m. in the EBD Board Room, 501 Woodlane, Suite 500, Little Rock, AR 72201.

**MEMBERS PRESENT**

Janis Harrison  
Lloyd Black  
William Goff  
Shelby McCook  
Renee Mallory  
Bob Alexander  
Kelly Chaney  
Coby Logan

**MEMBERS ABSENT**

Dr. Joseph Thompson  
John Kirtley  
Dr. Andrew Kumpuris

Jason Lee, Executive Director, Employee Benefits Division.

**OTHERS PRESENT:**

George Platt, Leigh Ann Chrouch, Michelle Hazelett, Doug Shackelford, Stella Greene, Paige Harrington, Shannon Roberts, Amy Redd, Pamela Lawrence, Sherry Bryant, Sherri Saxby, Melissa Fox, Cathy Harris, EBD; Rhonda Hill, EBD-ACHI; Barbara Melugin, Ron Deberry, David Bridges, ABCBS/Health Advantage; Sarah Sanders, AR Highway & Transportation Dept, Shonda Rocke, Connie Bennett, Mike Shepard, Informed Rx; Bryan Meldrum, Dwane Tankersley; NovaSys; Marc Watts, AR State Employee Association; Vicki Fleming, Health Department; Mike Moratz, EES; Warren Tayes, Merck; Joseph Chang, MN Life; Bridget Johnson, Pfizer; Susan Walker, Data Path Administrative Services; George Burks, US Able Life; Sharon Marcum, LifeSynch; Jill Johnson, UAMS College of Pharmacy; Karen Henson, Wanda Henry, AR Games & Fish Commission; Peggy Roberts, AR Education Association

**CALL TO ORDER**

Meeting was called to order by Janis Harrison, Chairman.

**APPROVAL OF MINUTES**

The request was made by Harrison to approve the April 12, 2011 minutes. Goff made the motion to approve minutes. Mallory seconded. All were in favor. Minutes approved.

## **FINANCIALS** *by Leigh Ann Chrouch, CFO*

Chrouch presented detailed financial statements for the Arkansas State Employees (ASE) and the Public School Employees (PSE) and the penalties assessed by state agencies and school districts for March 2011.

## **BENEFITS SUBCOMMITTEE REPORT** *by Jason Lee*

Lee reported the committee met on May 6, 2011 and then presented the following recommendation for the Board's consideration.

### **1. AR State Employee Group**

Lee explained the Board adopted changes to the MN Life Insurance coverage policy for Legislators & Constitutional Officers and State Employees based on \$10,000 increments. Lee said three quarters of the membership will have to increase their coverage with an increase in premiums due to this change.

**Recommendation:** Rescind the part of the previous motion to allow Legislators & Constitutional Officers and State Employees to elect supplemental life insurance in increments of \$10,000. Both groups will be able to elect supplemental life insurance in increments of \$1,000.

McCook made the motion to adopt. Black seconded. All were in favor. Motion carried.

### **2. 2012 Plan Year Rating**

Colberg provided an overview of the ASE & PSE Actives and Retires preliminary rates for Plan Year 2012. The Board reviewed benefit options for the Gold, Silver (Tentative), and Bronze (Tentative) plans, rate development and the final rate details.

## **“SPECIALITY” PHARMACY** *by Michael Shephard, InformedRx*

Shepard explained specialty drugs are:

- Self injectable medications
- Expensive with high medical cost potential
- Produced through biotechnology mechanism
- Associated with complex clinical management
- Require close patient monitoring including REMS program compliance
- Distributed through restricted pharmacy network
- Require special handling – like refrigeration

Shepard provided some examples of specialty drugs and then answered questions from Board members.

No action taken by the Board.

**DIRECTOR'S REPORT** *by Jason Lee*

Lee reported the scoring for the Bronze plan is complete, but the Silver plan is still in the process of being scored. Lee said state procurement will soon provide the Request for Proposal (RFP) for the Pharmacy Benefit Manager (PBM).

The Board agreed to delay the June meeting until the scoring processes are complete. The Board meeting was rescheduled for June 14<sup>th</sup>.

**Meeting adjourned.**

# AGENDA

## State and Public School Life and Health Insurance Board

EBD Board Room - 501 Building - 5<sup>th</sup> Floor

May 10, 2011 1:00 p.m.

1. Call to Order .....*Janis Harrison, Chair*
2. Approval of Minutes .....*Janis Harrison, Chair*
3. Financials (March 2011)..... *Leigh Ann Chrouch, Chief Fiscal Officer*
4. Benefits Sub-Committee Report .....*Jason Lee Executive Director*
  - a. Life Insurance
  - b. 2012 Plan Year Rates
5. “Specialty” Pharmacy.....*Jason Lee, Executive Director*
6. Director’s Report .....*Jason Lee, Executive Director*

Upcoming Meetings  
June 7 (Tentative)  
July 19

Public School Employees (PSE) Financials - October 1, 2010 through March 31, 2011				
	ARHealth	Health Adv	NovaSys	Total
Actives		37,499	2,927	40,426
Actives HD			4,733	4,733
Retirees	8,014			8,014
COBRA		739	84	823
Total	8,014	38,238	7,744	53,996
<b>Operations as of 03/31/11</b>				
<b>Funding</b>			<b>Current Month</b>	<b>Year to Date (6 months)</b>
District Contribution			\$ 5,919,366	\$ 35,460,259
Employee Contribution, Rebates, and ERRP			\$ 13,229,461	\$ 78,849,079
Dept of Ed \$35,000,000 & \$15,000,000			\$ 3,181,818	\$ 26,590,909
<b>Total Funding</b>			<b>\$ 22,330,645</b>	<b>\$ 140,900,248</b>
<b>Expenses</b>				
Medical Expenses:				
Claims Expense			\$ 19,431,973	\$ 93,117,499
Claims IBNR			\$ -	\$ -
Medical Admin Fees			\$ 1,395,805	\$ 8,170,165
Refunds			\$ 284	\$ (7,541)
Behavioral Health			\$ 341,219	\$ 2,354,531
Pharmacy Expenses:				
RX Claims			\$ 4,489,954	\$ 27,134,183
RX IBNR			\$ -	\$ -
RX Admin			\$ 65,140	\$ 398,035
Plan Administration			\$ 257,558	\$ 1,585,527
<b>Total Expenses</b>			<b>\$ 25,981,932</b>	<b>\$ 132,752,398</b>
<b>Net Income/(Loss)</b>			<b>\$ (3,651,287)</b>	<b>\$ 8,147,849</b>
<b>Reserve Activity:</b>				
Allocation for Active Premiums for Plan Yr 10/01/10-12/31/11			\$ 789,333	\$ 4,736,000
Retiree Premiums for Plan Year 01/01/11-12/31/11			\$ 63,333	\$ 190,000
<b>Net Income/(Loss) After Reserves</b>			<b>\$ (2,798,620)</b>	<b>\$ 13,073,849</b>
<b>Balance Sheet as of 03/31/11</b>				
<b>Assets</b>				
Bank Account			\$	11,995,357
State Treasury			\$	68,818,957
Receivable from Provider			\$	944,661
Accounts Receivable			\$	493,126
Due from ASE			\$	-
<b>Total Assets</b>			<b>\$</b>	<b>82,252,102</b>
<b>Liabilities</b>				
Accounts Payable			\$	3,937,184
Due to ASE			\$	-
Deferred Revenues			\$	1,404,181
Health IBNR			\$	25,500,000
RX IBNR			\$	2,340,000
<b>Total Liabilities</b>			<b>\$</b>	<b>33,181,365</b>
<b>Net Assets</b>			<b>\$</b>	<b>49,070,737</b>
<b>Less Reserves Allocated:</b>				
Active Premiums for Plan Year 10/01/10-12/31/11 (\$11,840,000)			\$	(7,104,000)
Retiree Premiums for Plan Year 01/01/11-12/31/11 (\$760,000)			\$	(570,000)
Active Premiums for Plan Years 1/01/12-12/31/13 (\$7,344,000 + \$3,296,000 = \$10,640,000)			\$	(10,640,000)
Retiree Premiums for Plan Years 01/01/12-12/31/13 (\$456,000 + \$304,000 = \$760,000)			\$	(760,000)
Catastrophic Reserve			\$	(10,000,000)
Pharmacy Reward Program (2010-\$1,500,000)			\$	(1,500,000)
<b>Net Assets Available</b>			<b>\$</b>	<b>18,496,737</b>

Arkansas State Employees (ASE) Financials - January 1, 2011 through March 31, 2011				
	ARHealth	Health Adv	NovaSys	Total
Actives		25,724	921	26,645
Actives HD			1,040	1,040
Retirees	9,031			9,031
COBRA		113	8	121
Total	9,031	25,837	1,969	36,837
Operations as of 03/31/11				
			Current Month	Year to Date (3 months)
<b>Funding</b>				
State Contribution			\$ 13,603,722	\$ 40,861,032
Employee Contribution, Rebates, Medicare Subsidy, and ERRP			\$ 8,444,554	\$ 22,929,044
<b>Total Funding</b>			<b>\$ 22,048,276</b>	<b>\$ 63,790,076</b>
<b>Expenses</b>				
Medical Expenses				
Claims Expense			\$ 17,429,957	\$ 39,328,817
Claims IBNR			\$ -	\$ -
Medical Admin Fees			\$ 941,094	\$ 2,775,157
Refunds			\$ 2,005	\$ 12,994
Behavioral Health			\$ 329,528	\$ 988,889
Life Insurance			\$ 101,828	\$ 305,576
Pharmacy Expenses				
RX Claims			\$ 5,343,492	\$ 16,269,399
RX IBNR			\$ -	\$ -
RX Admin			\$ 72,009	\$ 222,378
Plan Administration			\$ 204,416	\$ 597,485
<b>Total Expenses</b>			<b>\$ 24,424,329</b>	<b>\$ 60,500,695</b>
<b>Net Income/(Loss)</b>			<b>\$ (2,376,052)</b>	<b>\$ 3,289,381</b>
Balance Sheet as of 03/31/11				
<b>Assets</b>				
Bank Account			\$	11,182,891
State Treasury			\$	105,590,160
Due from Cafeteria Plan			\$	577,658
Due from PSE			\$	-
Receivable from Provider			\$	1,031,915
Accounts Receivable			\$	960,144
<b>Total Assets</b>			<b>\$</b>	<b>119,342,768</b>
<b>Liabilities</b>				
Accounts Payable			\$	3,551,433
Deferred Revenues			\$	4,259,737
Due to Cafeteria			\$	-
Due to PSE			\$	-
Health IBNR			\$	21,570,000
RX IBNR			\$	2,680,000
<b>Total Liabilities</b>			<b>\$</b>	<b>32,061,170</b>
<b>Net Assets</b>			<b>\$</b>	<b>87,281,598</b>
<b>Less Reserves Allocated:</b>				
Catastrophic Reserve			\$	(8,900,000)
Pharmacy Reward Program (2010-\$1,500,000)			\$	(1,500,000)
<b>Net Assets Available</b>			<b>\$</b>	<b>76,881,598</b>

# ASE Cafeteria Plan Financials 2011- January 1, 2011 through March 31, 2011

## Cafeteria Plan Operations as of 03/31/11

<b>Funding</b>	<b>Current Month</b>	<b>Year to Date (3 months)</b>
FICA Savings	\$ 363,640	\$ 1,075,610
Interest, Penalties, Tax Set Off	\$ 3,551	\$ 15,521
<b>Total Funding</b>	<b>\$ 367,192</b>	<b>\$ 1,091,131</b>
<b>Expenses</b>		
Plan Administration	\$ 26,194	\$ 40,894
Forfeited Benefits (Annual Expense)	\$ -	\$ -
FICA Savings Transfer (Annual Expense)	\$ -	\$ -
<b>Total Expenses</b>	<b>\$ 26,194</b>	<b>\$ 40,894</b>
<b>Net Income/(Loss)</b>	<b>\$ 340,997</b>	<b>\$ 1,050,238</b>

## Balance Sheet as of 03/31/11

<b>Assets</b>	
State Cafeteria (Flexible Benefits)	\$ 647,015
Admin Acct (FICA Savings)	\$ 53,298
State Treasury	\$ 3,163,191
Due from Health Plan	\$ -
Due from State Employee Fund	\$ -
Accounts Receivable	\$ 13,868
<b>Total Assets</b>	<b>\$ 3,877,372</b>
<b>Liabilities</b>	
Accounts Payable	\$ 20,339
Due to Health Plan (FICA Savings Annual)	\$ 9
Due to Health Plan (Forfeited Benefits Annual)	\$ 577,649
<b>Total Liabilities</b>	<b>\$ 597,997</b>
<b>Net Assets</b>	<b>\$ 3,279,375</b>

# Arkansas State Employees Health Benefits Program

## Preliminary Rates for CY 2012

John Colberg, FSA, MAAA

May 6, 2011





# Topics

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# PSE Actives

## PSE ACTIVE RATE DEVELOPMENT for CY2012

Plan:	<b>Gold</b>			<b>Silver (based on Gold Actives)</b>			<b>Bronze</b>		
Benefit:	<u>Medical</u>	<u>Pharmacy</u>	<u>Total</u>	<u>Medical</u>	<u>Pharmacy</u>	<u>Total</u>	<u>Medical</u>	<u>Pharmacy</u>	<u>Total</u>
Experience Period - Service (Incurred) Dates	2/10 - 1/11	2/10 - 1/11		2/10 - 1/11	2/10 - 1/11		2/10 - 1/11	2/10 - 1/11	
Experience Period - Processed (Paid) Dates	2/10 - 2/11	2/10 - 2/11		2/10 - 2/11	2/10 - 2/11		2/10 - 2/11	2/10 - 2/11	
	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>	<b>F</b>	<b>G</b>	<b>H</b>	<b>I</b>
1 Total Incurred Medical & Rx Claims (Experience Period)	\$179,025,721	\$52,902,002	\$231,927,723	\$167,967,091	\$48,253,901	\$216,220,991	\$6,214,080	\$414,886	\$6,628,966
2 Less High Cost Claims Above (Med/Rx) <span style="background-color: yellow;">\$100,000</span> <span style="background-color: yellow;">\$20,000</span>	\$11,434,026	\$3,248,325	\$14,682,351	\$10,301,814	\$2,910,729	\$13,212,542	\$669,728	\$0	\$669,728
3 Net Incurred Claims below Pooling Point [1 - 2]	\$167,591,695	\$49,653,677	\$217,245,372	\$157,665,277	\$45,343,172	\$203,008,449	\$5,544,351	\$414,886	\$5,959,238
4 Person Months for Experience Period	742,518	742,518	742,518	714,212	714,212	714,212	62,191	62,191	62,191
5 Net Incurred Claims Per Person Per Month (PPPM) [3 / 4]	\$225.71	\$66.87	\$292.58	\$220.75	\$63.49	\$284.24	\$89.15	\$6.67	\$95.82
6 Change in Benefits During Experience Period	1.0000	1.0000		1.0000	1.0000		1.0000	1.0000	
7 Change in Demographics or Risk During Experience Period	1.0009	1.0005		1.0009	1.0005		0.9869	0.9860	
8 Change in Geographic During Experience Period	0.9991	0.9991		0.9991	0.9991		1.0003	1.0003	
9 a) Annual Trend Rate	7.5%	5.0%		7.5%	5.0%		7.5%	5.0%	
b) Months to Trend	23	23		23	23		23	23	
c) Trend Adjustment	1.1487	1.0980		1.1487	1.0980		1.1487	1.0980	
10 Adjusted Claims Charged PPPM [5 x 6 x 7 x 8 x 9c]	\$259.25	\$73.39	\$332.65	\$253.56	\$69.68	\$323.24	\$101.10	\$7.22	\$108.32
11 Charge for Claims above Pooling Point PPPM	\$15.40	\$4.37	\$19.77	\$14.42	\$4.08	\$18.50	\$10.77	\$0.00	\$10.77
12 Total Claims Charged PPPM [9 + 10]	\$274.65	\$77.77	\$352.42	\$267.98	\$73.76	\$341.74	\$111.86	\$7.22	\$119.09
13 Change in Future Benefits	1.0320	1.0100		0.9767	0.9096		1.0320	1.0000	
14 Change in Future Demographics (Age/Gender/Family) or Risk	1.1088	1.1088		0.7962	0.7962		1.1094	1.1094	
15 Change in Future Geographic	1.0000	1.0000		1.0000	1.0000		1.0000	1.0000	
16 Change in Future Network	0.9734	1.0000		1.0688	1.0000		1.0000	1.0000	
17 Projected Incurred Claim PPPM [13x 14 x15x16]	\$305.92	\$87.09	\$393.01	\$222.75	\$53.42	\$276.17	\$128.07	\$8.01	\$136.09
18 Projected Blended Incurred Claim PPPM	n/a	\$75.13		n/a	\$67.66		n/a	\$56.23	
19 Percent to Use Blended Experience		0%			0%			0%	
20 Rating Incurred Claim PPPM [17 blended with 18]	\$305.92	\$87.09	\$393.01	\$222.75	\$53.42	\$276.17	\$128.07	\$8.01	\$136.09
21 Projected Persons Months	603,355	603,355	603,355	96,437	96,437	96,437	149,733	149,733	149,733
22 Projected Total Incurred Claims [20 x 21]	\$184,578,067	\$52,547,391	\$237,125,459	\$21,481,416	\$5,151,736	\$26,633,152	\$19,176,960	\$1,200,007	\$20,376,967
23 Conversion to Rating Tiers [20 x rating tier x counts]	<u>x tier</u>	<u>Projected</u>		<u>x tier</u>	<u>Projected</u>		<u>x tier</u>	<u>Projected</u>	
Method: <span style="background-color: #cccccc;">Historical</span>	<u>factor</u>	<u>Ee Months</u>	<u>PEPM</u>	<u>factor</u>	<u>Ee Months</u>	<u>PEPM</u>	<u>factor</u>	<u>Ee Months</u>	<u>PEPM</u>
a) Employee Only	1.11	336,619	\$435.67	1.13	51,265	\$310.70	1.11	75,451	\$151.03
b) Employee & Spouse	3.26	15,305	\$1,282.68	3.31	2,392	\$914.73	3.22	4,918	\$438.84
c) Employee & Child(ren)	2.07	55,781	\$814.30	2.10	10,006	\$580.71	2.06	8,786	\$279.98
d) Family	3.29	19,603	\$1,292.16	3.34	2,938	\$921.49	3.26	9,844	\$443.26
e) Child(ren) of Medicare Retirees	0.96	224	\$378.63						
24 Rates Balance Confirmation		427,533	\$237,125,459		66,600	\$26,633,152		99,000	\$20,376,967

**Note: The figures presented are preliminary and subject to change.**



# PSE Actives (Cont.)



## PSE Detailed Financials



### Premium Rates

Tier Factor Method **Historical**  
 Historical = from prior years  
 Relation = rates by Ee/Sp/Ch(n)  
 tiers become additive

[Go to Enrollment Changes](#)

### Retiree Subsidy from Actives

PSE - PEPM  
 Apply to NME Retirees  
 NME Ret Holdback

	2011	2012
PSE - PEPM	\$11.20	\$11.20
Apply to NME Retirees	N	Y
NME Ret Holdback	\$63.55	\$0.00

[Go to NME Ret](#)

[Go to ME Ret](#)

[Go to ASE](#)

### State/Reserve Contributions

Addl Reserves for Actives (\$ mil)	\$0.0
Addl Reserves for NME Retirees (\$ mil)	\$0.0
Addl Reserves for ME Retirees (\$ mil)	\$2.9
Method for allocating to rating tiers	Same as 2011
For each Rating Tier, e.g. Employee	Silver Bronze
Amount should be what % of Gold	100% 66%

Total Active & Ret (\$ mil)	\$295.5	\$23.5	\$6.6	\$325.6	\$56.6	\$9.3	\$73.9	\$132.3	\$146.5	\$39.4		55,400
Actives	Medical and Pharmacy*	Expenses	Retirement Subsidy	Total Monthly Premium	State Cont. (Act 1842/1421)	Res. Alloc.	School District Contrib.	2012 Total EE Cost	2011 Total EE Cost	Change in Premiums (\$/%)		Assumed Enrollment
Gold												
Employee Only	\$435.67	\$37.52	\$11.20	\$484.39	\$83.91	\$12.30	\$131.00	\$257.18	\$170.34	\$86.84	51%	26,588
Employee & Spouse	1,282.68	37.52	11.20	1,331.40	149.17	21.87	131.00	1,029.36	771.74	257.62	33%	1,143
Employee & Child(ren)	814.30	37.52	11.20	863.02	114.29	16.75	131.00	600.98	436.87	164.11	38%	4,640
Family	1,292.16	37.52	11.20	1,340.88	154.48	22.65	131.00	1,032.75	773.82	258.93	33%	1,629
Est. Monthly Total (\$mil)	\$18.9	\$1.3	\$0.4	\$20.6	\$3.2	\$0.5	\$4.5	\$8.1	\$8.7	\$3.8		34,000
Silver									(2011 HA)			
Employee Only	\$310.70	\$34.82	\$11.20	\$356.72	\$83.91	\$12.30	\$131.00	\$129.51	\$170.34	(\$40.83)	-24%	3,800
Employee & Spouse	914.73	34.82	11.20	960.75	149.17	21.87	131.00	658.71	771.74	(113.03)	-15%	151
Employee & Child(ren)	580.71	34.82	11.20	626.73	114.29	16.75	131.00	364.69	436.87	(72.18)	-17%	806
Family	921.49	34.82	11.20	967.51	154.48	22.65	131.00	659.38	773.82	(114.44)	-15%	243
Est. Monthly Total (\$mil)	\$2.0	\$0.2	\$0.1	\$2.2	\$0.5	\$0.1	\$0.7	\$1.2	\$1.3	-\$0.3		5,000
Bronze												
Employee Only	\$151.03	\$32.38	\$11.20	\$194.61	\$55.38	\$8.12	\$131.00	\$0.11	\$15.10	(\$14.99)	-99%	6,073
Employee & Spouse	438.84	32.38	11.20	482.42	98.45	14.43	131.00	238.54	333.10	(94.56)	-28%	388
Employee & Child(ren)	279.98	32.38	11.20	323.56	75.43	11.06	131.00	106.07	155.36	(49.29)	-32%	720
Family	443.26	32.38	11.20	486.84	101.96	14.95	131.00	238.93	333.70	(94.77)	-28%	820
Est. Monthly Total (\$mil)	\$1.7	\$0.3	\$0.1	\$2.0	\$0.5	\$0.1	\$1.0	\$0.4	\$0.6	-\$0.2		8,000
Total (Monthly) (\$ mil)	\$22.6	\$1.7	\$0.5	\$24.8	\$4.2	\$0.6	\$6.2	\$9.7	\$10.6	\$3.3		47,000
Est Annual Total (\$ mil)	\$271.2	\$20.5	\$6.3	\$298.0	\$50.0	\$7.3	\$73.9	\$116.0	\$127.3	\$39.5		

**Note: The figures presented are preliminary and subject to change.**



# PSE Retirees

## PSE RETIREE RATE DEVELOPMENT for CY2012

Plan:

Benefit:

Experience Period - Service (Incurred) Dates

Experience Period - Processed (Paid) Dates

	Non-Medicare (combined with Act; Gold)			Medicare	
	Medical	Pharmacy	Total	Medical	Total
	2/10 - 1/11	2/10 - 1/11		2/10 - 1/11	
	2/10 - 2/11	2/10 - 2/11		2/10 - 2/11	
1 Total Incurred Medical & Rx Claims (Experience Period)	\$179,025,721	\$52,902,002	\$231,927,723	\$9,140,621	\$9,140,621
2 Less High Cost Claims Above (Med/Rx) <b>\$100,000</b> <b>\$20,000</b>	<u>\$11,434,026</u>	<u>\$3,248,325</u>	<u>\$14,682,351</u>	<u>\$143,707</u>	<u>\$143,707</u>
3 Net Incurred Claims below Pooling Point [1 - 2]	<b>\$167,591,695</b>	<b>\$49,653,677</b>	<b>\$217,245,372</b>	<b>\$8,996,914</b>	<b>\$8,996,914</b>
4 Person Months for Experience Period	742,518	742,518	<b>742,518</b>	<u>\$72,446</u>	<b>72,446</b>
5 Net Incurred Claims Per Person Per Month (PPPM) [3 / 4]	<b>\$225.71</b>	<b>\$66.87</b>	<b>\$292.58</b>	<b>\$124.19</b>	<b>\$124.19</b>
6 Change in Benefits During Experience Period	1.0000	1.0000		1.0000	
7 Change in Demographics or Risk During Experience Period	1.0009	1.0005		0.9993	
8 Change in Geographic During Experience Period	0.9991	0.9991		1.0000	
9 a) Annual Trend Rate	7.5%	5.0%		7.0%	
b) Months to Trend	23	23		23	
c) Trend Adjustment	<u>1.1487</u>	<u>1.0980</u>		<u>1.1385</u>	
10 Adjusted Claims Charged PPPM [5 x 6 x 7 x 8 x 9c]	<b>\$259.25</b>	<b>\$73.39</b>	<b>\$332.65</b>	<b>\$141.29</b>	<b>\$141.29</b>
11 Charge for Claims above Pooling Point PPPM	<u>\$15.40</u>	<u>\$4.37</u>	<u>\$19.77</u>	<u>\$1.98</u>	<u>\$1.98</u>
12 Total Claims Charged PPPM [9 + 10]	<b>\$274.65</b>	<b>\$77.77</b>	<b>\$352.42</b>	<b>\$143.28</b>	<b>\$143.28</b>
13 Change in Future Benefits	1.0320	1.0100		1.0000	
14 Change in Future Demographics (Age/Gender/Family) or Risk	1.1088	1.1088		1.0000	
15 Change in Future Geographic	1.0000	1.0000		1.0000	
16 Change in Future Network	<u>0.9734</u>	<u>1.0000</u>		<u>1.0000</u>	
17 Projected Incurred Claim PPPM [13x 14 x15x16]	<b>\$305.92</b>	<b>\$87.09</b>	<b>\$393.01</b>	<b>\$143.28</b>	<b>\$143.28</b>
18 Projected Persons Months	603,355	603,355	<b>603,355</b>	79,607	<b>79,607</b>
19 Projected Total Incurred Claims [17 x 18]	<b>\$184,578,067</b>	<b>\$52,547,391</b>	<b>\$237,125,459</b>	<b>\$11,405,755</b>	<b>\$11,405,755</b>

**Note: The figures presented are preliminary and subject to change.**



# PSE Retirees

## PSE RETIREE RATE DEVELOPMENT for CY2012

### 20 Conversion to Rating Tiers

Method:

Historical

PPPM [17]

- a) NME Retiree
- b) NME Retiree & NME Spouse
- c) NME Retiree & Child(ren)
- d) NME Retiree & NME Spouse & Child(ren)
- e) NME Retiree & ME Spouse
- f) NME Retiree & ME Spouse & Child(ren)
- g) ME Retiree
- h) ME Retiree & NME Spouse
- i) ME Retiree & Child(ren)
- j) ME Retiree & NME Spouse & Child(ren)
- k) ME Retiree & ME Spouse
- l) ME Retiree & ME Spouse & Child(ren)

### 20 Rates Balance Confirmation

<u>x Non-Med.</u>	<u>Non-Med.</u>	<u>x Medicare</u>	<u>Medicare</u>	<u>Projected</u>	<u>TOTAL</u>
<u>tier factor</u>	<u>PEPM</u>	<u>tier factor</u>	<u>PEPM</u>	<u>Ret Months</u>	<u>PEPM</u>
1.11	\$435.67	-	\$0.00	15,450	\$435.67
3.26	\$1,282.68	-	\$0.00	1,590	\$1,282.68
2.07	\$814.30	-	\$0.00	59	\$814.30
3.29	\$1,292.16	-	\$0.00	50	\$1,292.16
1.11	\$435.67	1.00	\$143.28	842	\$578.95
2.07	\$814.30	1.00	\$143.28	8	\$957.58
-	\$0.00	1.00	\$143.28	66,160	\$143.28
1.11	\$435.67	1.00	\$143.28	1,271	\$578.95
0.96	\$378.63	1.00	\$143.28	174	\$521.90
2.07	\$856.48	1.00	\$143.28	37	\$999.76
-	\$0.00	2.00	\$286.55	5,545	\$286.55
0.96	\$378.63	2.00	\$286.55	12	\$665.18
	<u>\$9,914,451</u>		<u>\$11,405,755</u>		<u>\$21,320,206</u>

**Note: The figures presented are preliminary and subject to change.**

# PSE Retirees (Not Medicare Eligible)



## PSE Detailed Financials



**Go to Enrollment Changes**

**Retiree Subsidy from Actives**

**State/Reserve Contributions**

**Go to Actives**

PSE - PEPM

2011 2012

Addl Reserves for NME Retirees (\$ mil)

**\$0.0**

**Go to ME Ret**

**Go to ASE**

Apply to NME Retirees

N Y

NME Ret Holdback

\$63.55 \$0.00

For each Rating Tier, e.g. Employee

Silver Bronze

Amount should be what % of Gold

**100% 100%**

Total Active & Ret (\$ mil)	\$295.5	\$23.5	\$6.6	\$325.6	\$56.6	\$9.3	\$73.9	\$126.3	\$146.5	\$39.4		55,400
<b>NME Retirees</b>	Medical and Pharmacy*	Expenses	Retirement Subsidy	Total Monthly Premium		Res. Alloc.		2012 Total Ret. Cost	2011 Total Ret. Cost	Change in Premiums (\$/%)		Assumed Enrollment
<b>Gold</b>												
Retiree Only	\$435.67	\$37.52	\$11.20	\$484.39		\$0.00		\$484.39	\$457.42	\$26.97	6%	1,288
Retiree & NME SP	1,282.68	37.52	11.20	1,331.40		0.00		1,331.40	1,152.01	\$179.39	16%	133
Retiree & Child(ren)	814.30	37.52	11.20	863.02		0.00		863.02	768.28	\$94.74	12%	5
Retiree & NME SP&CH	1,292.16	37.52	11.20	1,340.88		0.00		1,340.88	1,159.82	\$181.06	16%	4
Retiree & ME SP	578.95	37.52	11.20	627.67		0.00		627.67	596.82	\$30.85	5%	70
Retiree & ME SP & CH	957.58	37.52	11.20	1,006.30		0.00		1,006.30	907.71	\$98.59	11%	1
Est. Monthly Total (\$mil)	\$0.8	\$0.1	\$0.0	\$0.9		\$0.0		\$0.9	\$0.8	\$0.1		1,500
<b>Silver</b>												
Employee Only	\$310.70	\$34.82	\$11.20	\$356.72		\$0.00		\$356.72	\$457.42	(\$100.70)	-22%	472
Employee & Spouse	914.73	34.82	11.20	960.75		0.00		960.75	1,152.01	(\$191.26)	-17%	49
Employee & Child(ren)	580.71	34.82	11.20	626.73		0.00		626.73	768.28	(\$141.55)	-18%	28
Family	921.49	34.82	11.20	967.51		0.00		967.51	1,159.82	(\$192.31)	-17%	2
Est. Monthly Total (\$mil)	\$0.2	\$0.0	\$0.0	\$0.2		\$0.0		\$0.0	\$0.3	-\$0.1		550
<b>Bronze</b>												
Employee Only	\$151.03	\$32.38	\$11.20	\$194.61		\$0.00		\$194.61	\$457.42	(\$262.81)	-57%	215
Employee & Spouse	438.84	32.38	11.20	482.42		0.00		482.42	1,152.01	(\$669.59)	-58%	22
Employee & Child(ren)	279.98	32.38	11.20	323.56		0.00		323.56	768.28	(\$444.72)	-58%	13
Family	443.26	32.38	11.20	486.84		0.00		486.84	1,159.82	(\$672.98)	-58%	1
Est. Monthly Total (\$mil)	\$0.0	\$0.0	\$0.0	\$0.1		\$0.0		\$0.1	\$0.1	-\$0.1		250
Total (Monthly) (\$ mil)	\$1.0	\$0.1	\$0.0	\$1.1		\$0.0		\$0.9	\$1.2	(\$0.1)		2,300
Est Annual Total (\$ mil)	\$12.4	\$1.0	\$0.3	\$13.7		\$0.0		\$10.9	\$14.7	-\$0.9		

**Note: The figures presented are preliminary and subject to change.**



# PSE Retirees – Medicare Eligible

CHEIRON

## PSE Detailed Financials

H-scan

[Go to Enrollment Changes](#)

### Retiree Contributions

Increase per Medicare Person	\$10.00
Additional increase if have children	\$10.00

### State/Reserve Contributions

Addl Reserves for ME Retirees (\$ mil)	\$2.9
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[Go to Actives](#)

[Go to NME Ret](#)

[Go to ASE](#)

Total Active & Ret (\$ mil)	\$295.5	\$23.5	\$6.6	\$325.6	\$56.6	\$9.3	\$73.9	\$126.3	\$146.5	\$39.4		55,400
ME Retirees	Medical and Pharmacy*	Expenses	Retirement Subsidy	Total Monthly Premium	Subsidy from Actives	Res. Alloc.		2012 Total Ret. Cost	2011 Total Ret. Cost	Change in Premiums (\$/%)		Assumed Enrollment
Medicare Eligible												
Retiree Only	\$143.28	\$27.04		\$170.32	\$91.94	\$26.94		\$51.44	\$41.44	\$10.00	24%	5,513
Retiree & NME SP	578.95	27.04		605.99	0.00	0.00		605.99	568.37	\$37.62	7%	106
Retiree & Child(ren)	521.90	27.04		548.94	83.35	24.42		441.17	421.17	\$20.00	5%	15
Retiree & NME SP&CH	999.76	27.04		1,026.80	0.00	0.00		1,026.80	877.42	\$149.38	17%	3
Retiree & ME SP	286.55	27.04		313.59	95.13	27.87		190.59	170.59	\$20.00	12%	462
Retiree & ME SP & CH	665.18	27.04		692.22	86.54	25.36		580.32	550.32	\$30.00	5%	1
Est. Monthly Total (\$mil)	\$1.0	\$0.2	\$0.0	\$1.2	\$0.6	\$0.2		\$0.4	\$0.4	\$0.1		6,100
Total (Est. Annual)	\$11.9	\$2.0	\$0.0	\$13.9	\$6.6	\$1.9		\$5.4	\$4.5	\$0.8		

**Note: The figures presented are preliminary and subject to change.**



# ASE Actives

## ASE ACTIVE RATE DEVELOPMENT for CY2012

Plan:

Benefit:

Experience Period - Service (Incurred) Dates

Experience Period - Processed (Paid) Dates

	Gold			Silver (based on Gold Actives)			Bronze		
	<u>Medical</u>	<u>Pharmacy</u>	<u>Total</u>	<u>Medical</u>	<u>Pharmacy</u>	<u>Total</u>	<u>Medical</u>	<u>Pharmacy</u>	<u>Total</u>
	2/10 - 1/11	2/10 - 1/11		2/10 - 1/11	2/10 - 1/11		2/10 - 1/11	2/10 - 1/11	
	2/10 - 2/11	2/10 - 2/11		2/10 - 2/11	2/10 - 2/11		2/10 - 2/11	2/10 - 2/11	
	<u>A</u>	<u>B</u>	<u>C</u>	<u>D</u>	<u>E</u>	<u>F</u>	<u>G</u>	<u>H</u>	<u>I</u>
1 Total Incurred Medical & Rx Claims (Experience Period)	\$143,177,761	\$41,753,311	\$184,931,071	\$128,283,829	\$37,205,186	\$165,489,015	\$1,595,219	\$137,985	\$1,733,204
2 Less High Cost Claims Above (Med/Rx)	\$7,046,324	\$3,158,356	\$10,204,680	\$5,952,884	\$2,790,131	\$8,743,015	\$96,970	\$8,333	\$105,303
3 Net Incurred Claims below Pooling Point [1 - 2]	\$136,131,436	\$38,594,955	\$174,726,391	\$122,330,945	\$34,415,055	\$156,746,000	\$1,498,249	\$129,652	\$1,627,901
4 Person Months for Experience Period	599,304	599,304	599,304	560,384	560,384	560,384	19,156	19,156	19,156
5 Net Incurred Claims Per Person Per Month (PPPM) [3 / 4]	\$227.15	\$64.40	\$291.55	\$218.30	\$61.41	\$279.71	\$78.21	\$6.77	\$84.98
6 Change in Benefits During Experience Period	1.0000	1.0000		1.0000	1.0000		1.0000	1.0000	
7 Change in Demographics or Risk During Experience Period	0.9943	0.9945		0.9943	0.9945		0.9964	1.0342	
8 Change in Geographic During Experience Period	1.0000	1.0000		1.0000	1.0000		0.9982	0.9982	
9 a) Annual Trend Rate	7.5%	5.0%		7.5%	5.0%		7.5%	5.0%	
b) Months to Trend	23	23		23	23		23	23	
c) Trend Adjustment	1.1487	1.0980		1.1487	1.0980		1.1487	1.0980	
10 Adjusted Claims Charged PPPM [5 x 6 x 7 x 8 x 9c]	\$259.44	\$70.32	\$329.76	\$249.33	\$67.06	\$316.39	\$89.36	\$7.67	\$97.03
11 Charge for Claims above Pooling Point PPPM	\$11.76	\$5.27	\$17.03	\$10.62	\$4.98	\$15.60	\$5.06	\$0.44	\$5.50
12 Total Claims Charged PPPM [10 + 11]	\$271.19	\$75.59	\$346.79	\$259.95	\$72.04	\$331.99	\$94.42	\$8.11	\$102.53
13 Change in Future Benefits	1.0310	1.0100		0.9580	0.9110		1.0310	1.0100	
14 Change in Future Demographics (Age/Gender/Family) or Risk	1.0353	1.0353		0.7840	0.7840		1.1129	1.1129	
15 Change in Future Geographic	1.0000	1.0000		1.0000	1.0000		1.0000	1.0000	
16 Change in Future Network	0.9857	1.0000		1.0825	1.0000		1.0000	1.0000	
17 Projected Incurred Claim PPPM [13x 14 x15x16]	\$285.33	\$79.04	\$364.37	\$211.34	\$51.45	\$262.79	\$108.33	\$9.11	\$117.45
18 Projected Blended Incurred Claim PPPM	n/a	\$76.75	n/a	n/a	\$69.92	n/a	n/a	\$57.44	n/a
19 Percent to Use Blended Experience		0%			0%			0%	
20 Rating Incurred Claim PPPM [17 blended with 18]	\$285.33	\$79.04	\$364.37	\$211.34	\$51.45	\$262.79	\$108.33	\$9.11	\$117.45
21 Projected Persons Months	551,052	551,052	551,052	59,553	59,553	59,553	26,076	26,076	26,076
22 Projected Total Incurred Claims [20 x 21]	\$157,228,939	\$43,555,639	\$200,784,578	\$12,585,750	\$3,063,873	\$15,649,623	\$2,824,894	\$237,667	\$3,062,561
23 Conversion to Rating Tiers [20 x rating tier x counts]									
Method: <input type="text" value="Historical"/>	<u>x tier</u>	<u>Projected</u>		<u>x tier</u>	<u>Projected</u>		<u>x tier</u>	<u>Projected</u>	
	<u>factor</u>	<u>Ee Months</u>	<u>PEPM</u>	<u>factor</u>	<u>Ee Months</u>	<u>PEPM</u>	<u>factor</u>	<u>Ee Months</u>	<u>PEPM</u>
a) Employee Only	1.15	187,782	\$419.46	1.14	22,133	\$299.94	1.11	10,727	\$130.89
b) Employee & Spouse	2.91	42,426	\$1,061.99	2.89	4,754	\$759.37	2.78	2,016	\$326.78
c) Employee & Child(ren)	1.79	51,780	\$650.63	1.77	6,070	\$465.23	1.72	1,601	\$201.51
d) Family	3.25	36,377	\$1,184.47	3.22	3,043	\$846.95	3.11	1,856	\$364.79
e) Child(ren) of Medicare Retirees	0.63	792	\$231.16				-		
24 Rates Balance Confirmation		319,157	\$200,784,578		36,000	\$15,649,623		16,200	\$3,062,561

**Note: The figures presented are preliminary and subject to change.**



# ASE Actives



## ASE Detailed Financials



### Premium Rates

Tiering Factor Option **Historical**

Historical = from prior years

Relation = rates by Ee/Sp/Ch(n)  
tiers become additive

[Go to Enrollment Changes](#)

[Go to NME Ret](#)

[Go to ME Ret](#)

[Go to PSE](#)

### State / Reserve Contributions

Contribution per Budgeted Position **\$390**

	Employees	Dependents
Contrib. for Gold Plan	75%	50%
Contrib. for Silver Plan	75%	50%
Contrib. for Bronze Plan	100%	50%
Reserve alloc. needed (\$ mil)	<b>\$30.2</b>	

Total Active & Ret (\$ mil)	\$256.7	\$16.9	\$273.6	\$164.1	\$15.1	\$94.4	\$85.3	\$9.1		37,500
Actives	Medical and Pharmacy	Expenses	Total Monthly Premium	State Contributions	Reserve Allocation	2012 EE Total Cost	2011 EE Total Cost	Change in Premiums (\$ / %)		Assumed Enrollment
Gold										
Employee Only	\$419.46	\$40.05	\$459.51	\$315.56	\$29.08	\$114.88	\$95.78	\$19.10	20%	14,059
Employee & Spouse	1,061.99	40.05	1,102.04	609.72	56.18	436.14	367.74	68.40	19%	3,151
Employee & Child(ren)	650.63	40.05	690.68	421.39	38.83	230.46	193.64	36.82	19%	4,238
Family	1,184.47	40.05	1,224.52	665.80	61.34	497.38	419.62	77.76	19%	3,002
Est. Monthly Total (\$mil)	\$15.6	\$1.0	\$16.5	\$10.1	\$0.9	\$5.5	\$4.6	\$0.9		24,450
Silver							(2011 HA)			
Employee Only	\$299.94	\$37.35	\$337.29	\$231.62	\$21.34	\$84.32	\$95.78	(\$11.46)	-12%	1,525
Employee & Spouse	759.37	37.35	796.72	441.96	40.72	314.04	367.74	(53.70)	-15%	283
Employee & Child(ren)	465.23	37.35	502.58	307.30	28.31	166.97	193.64	(26.67)	-14%	449
Family	846.95	37.35	884.30	482.06	44.41	357.83	419.62	(61.79)	-15%	242
Est. Monthly Total (\$mil)	\$1.1	\$0.1	\$1.2	\$0.7	\$0.1	\$0.4	\$0.4	(\$0.1)		2,500
Bronze										
Employee Only	\$130.89	\$34.91	\$165.80	\$151.81	\$13.99	\$0.00	\$7.16	(\$7.16)	-100%	830
Employee & Spouse	326.78	34.91	361.69	241.50	22.25	97.94	154.02	(56.08)	-36%	145
Employee & Child(ren)	201.51	34.91	236.42	184.14	16.97	35.31	60.33	(25.02)	-41%	122
Family	364.79	34.91	399.70	258.90	23.85	116.95	183.54	(66.59)	-36%	152
Est. Monthly Total (\$mil)	\$0.2	\$0.0	\$0.3	\$0.2	\$0.0	\$0.0	\$0.1	(\$0.0)		1,250
Total (Monthly) (\$ mil)	\$16.9	\$1.1	\$18.0	\$11.1	\$1.0	\$5.9	\$5.1	\$0.8		28,200
Est Annual Total (\$ mil)	\$202.6	\$13.4	\$216.0	\$133.2	\$12.3	\$70.5	\$61.1	\$9.4		



# ASE Retirees

## ASE RETIREE RATE DEVELOPMENT for CY2012

Plan:

Benefit:

Experience Period - Service (Incurred) Dates

Experience Period - Processed (Paid) Dates

	Non-Medicare (combined with Act; Gold)			Medicare		
	Medical	Pharmacy	Total	Medical	Pharmacy	Total
	2/10 - 1/11	2/10 - 1/11		2/10 - 1/11	2/10 - 1/11	
	2/10 - 2/11	2/10 - 2/11		2/10 - 2/11	2/10 - 2/11	
1 Total Incurred Medical & Rx Claims (Experience Period)*	\$143,177,761	\$41,753,311	\$184,931,071	\$14,698,277	\$17,325,796	\$32,024,073
2 Less High Cost Claims Above (Med/Rx)* <span style="border: 1px solid black; padding: 2px;">\$100,000</span> <span style="border: 1px solid black; padding: 2px;">\$20,000</span>	\$7,046,324	\$3,158,356	\$10,204,680	\$187,985	\$1,456,805	\$1,644,789
3 Net Incurred Claims below Pooling Point [1 - 2]	\$136,131,436	\$38,594,955	\$174,726,391	\$14,510,293	\$15,868,991	\$30,379,284
4 Person Months for Experience Period	599,304	599,304	599,304	102,554	102,554	102,554
5 Net Incurred Claims Per Person Per Month (PPPM) [3 / 4]	\$227.15	\$64.40	\$291.55	\$141.49	\$154.74	\$296.23
6 Change in Benefits During Experience Period	1.0000	1.0000		1.0000	1.0000	
7 Change in Demographics or Risk During Experience Period	0.9943	0.9945		0.9997	1.0000	
8 Change in Geographic During Experience Period	1.0000	1.0000		1.0000	1.0000	
9 a) Annual Trend Rate	7.5%	5.0%		7.0%	5.0%	
b) Months to Trend	23	23		23	23	
c) Trend Adjustment	1.1487	1.0980		1.1385	1.0980	
10 Adjusted Claims Charged PPPM [5 x 6 x 7 x 8 x 9c]	\$259.44	\$70.32	\$329.76	\$161.03	\$169.91	\$330.94
11 Charge for Claims above Pooling Point PPPM	\$11.76	\$5.27	\$17.03	\$1.83	\$14.21	\$16.04
12 Total Claims Charged PPPM [10 + 11]	\$271.19	\$75.59	\$346.79	\$162.86	\$184.11	\$346.97
13 Change in Future Benefits (Level/Mgt/Discounts)	1.0310	1.0100		1.0000	1.0000	
14 Change in Future Demographics (Age/Gender/Family) or Risk	1.0353	1.0353		1.0000	1.0000	
15 Change in Future Geographic	1.0000	1.0000		1.0000	1.0000	
16 Change in Future Network	0.9857	1.0000		1.0000	1.0000	
17 Projected Incurred Claim PPPM [13x 14 x15x16]	\$285.33	\$79.04	\$364.37	\$162.86	\$184.11	\$346.97
18 Projected Persons Months	551,052	551,052	551,052	107,714	107,714	107,714
19 Projected Total Incurred Claims [17 x 18]	\$157,228,939	\$43,556,137	\$200,785,076	\$17,542,355	\$19,831,703	\$37,374,058

**Note: The figures presented are preliminary and subject to change.**



# ASE Retirees

## ASE RETIREE RATE DEVELOPMENT for CY2012

### 20 Conversion to Rating Tiers

Method:

Historical

PPPM [17]

- a) NME Retiree
- b) NME Retiree & NME Spouse
- c) NME Retiree & Child(ren)
- d) NME Retiree & NME Spouse & Child(ren)
- e) NME Retiree & ME Spouse
- f) NME Retiree & ME Spouse & Child(ren)
- g) ME Retiree
- h) ME Retiree & NME Spouse
- i) ME Retiree & Child(ren)
- j) ME Retiree & NME Spouse & Child(ren)
- k) ME Retiree & ME Spouse
- l) ME Retiree & ME Spouse & Child(ren)

0.63

<u>x Non-Med.</u>	<u>Non-Med.</u>	<u>x Medicare</u>	<u>Medicare</u>	<u>Projected</u>	<u>TOTAL</u>
<u>tier factor</u>	<u>PEPM</u>	<u>tier factor</u>	<u>PEPM</u>	<u>Ee Months</u>	<u>PEPM</u>
1.15	\$419.47	-	\$0.00	13,032	\$419.47
2.91	\$1,061.99	-	\$0.00	4,608	\$1,061.99
1.79	\$650.63	-	\$0.00	528	\$650.63
3.25	\$1,184.48	-	\$0.00	355	\$1,184.48
1.15	\$419.47	1.00	\$346.97	1,776	\$766.44
1.79	\$650.63	1.00	\$346.97	100	\$997.60
-	\$0.00	1.00	\$346.97	56,953	\$346.97
1.15	\$419.47	1.00	\$346.97	4,269	\$766.44
0.63	\$231.16	1.00	\$346.97	643	\$578.14
1.79	\$765.01	1.00	\$346.97	297	\$1,111.99
-	\$0.00	2.00	\$693.95	21,690	\$693.95
0.63	\$231.16	2.00	\$693.95	148	\$925.11
	<u>\$14,135,752</u>		<u>\$37,374,058</u>		<u>\$51,509,810</u>

### 20 Rates Balance Confirmation

\* Pharmacy Cost for Medicare has subtracted the RDS Subsidy.

**Note: The figures presented are preliminary and subject to change.**



# ASE Retirees – Not Medicare Eligible

CHEIRON

## ASE Detailed Financials

H-scan

[Go to Enrollment Changes](#)

[State / Reserve Contributions](#)

[Go to Actives](#)

[Go to ME Ret](#)

[Go to PSE](#)


	Retiree	Dependents
Contrib. for Gold Plan	<b>P</b>	<b>30%</b>
Contrib. for Silver Plan	<b>S</b>	<b>30%</b>
Contrib. for Bronze Plan	<b>0%</b>	<b>0%</b>

Total Active & Ret (\$ mil)	\$256.7	\$16.9	\$273.6	\$164.1	\$15.1	\$94.4	\$85.3	\$9.1		37,500
NME Retirees	Medical and Pharmacy*	Expenses	Total Monthly Premium	State Contributions	Reserve Allocation	2012 Ret. Total Cost	2011 Ret. Total Cost	Change in Premiums / %)	(\$	Assumed Enrollment
<b>Gold</b>										
Retiree Only	\$419.47	\$40.05	\$459.52	\$204.90	\$18.88	\$235.74	\$235.74	\$0.00	0%	1,086
Retiree & NME SP	1,061.99	40.05	1,102.04	481.77	44.39	575.88	575.88	0.00	0%	384
Retiree & Child(ren)	650.63	40.05	690.68	229.68	21.16	439.84	439.84	0.00	0%	44
Retiree & NME SP&CH	1,184.48	40.05	1,224.53	281.84	25.97	916.72	916.72	0.00	0%	30
Retiree & ME SP	766.44	40.05	806.49	370.79	34.16	401.54	401.54	0.00	0%	148
Retiree & ME SP & CH	997.60	40.05	1,037.65	394.53	36.35	606.77	606.77	0.00	0%	8
Est. Monthly Total (\$mil)	\$1.0	\$0.1	\$1.1	\$0.5	\$0.0	\$0.6	\$0.6	\$0.0		1,700
<b>Silver</b>										
Employee Only	\$299.94	\$37.35	\$337.29	\$125.00	\$11.52	\$200.77	\$235.74	(\$34.97)	-15%	319
Employee & Spouse	759.37	37.35	796.72	300.27	27.66	468.78	575.88	(107.10)	-19%	113
Employee & Child(ren)	465.23	37.35	502.58	150.57	13.87	338.13	439.84	(101.71)	-23%	56
Family	846.95	37.35	884.30	207.02	19.07	658.21	916.72	(258.51)	-28%	11
Est. Monthly Total (\$mil)	\$0.2	\$0.0	\$0.2	\$0.1	\$0.0	\$0.1	\$0.2	(\$0.0)		500
<b>Bronze</b>										
Employee Only	\$130.89	\$34.91	\$165.80	\$0.00	\$0.00	\$165.80	\$235.74	(\$69.94)	-30%	64
Employee & Spouse	326.78	34.91	361.69	0.00	0.00	361.69	575.88	(214.19)	-37%	23
Employee & Child(ren)	201.51	34.91	236.42	0.00	0.00	236.42	439.84	(203.42)	-46%	11
Family	364.79	34.91	399.70	0.00	0.00	399.70	916.72	(517.02)	-56%	2
Est. Monthly Total (\$mil)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0		100
Total (Monthly) (\$ mil)	\$1.3	\$0.1	\$1.4	\$0.6	\$0.1	\$0.7	\$0.8	(\$0.0)		2,300
Est Annual Total (\$ mil)	\$15.2	\$1.0	\$16.2	\$6.8	\$0.6	\$8.8	\$9.2	(\$0.4)		


**Note: The figures presented are preliminary and subject to change.**



# ASE Retirees – Medicare Eligible



# ASE Detailed Financials



Go to Enrollment Changes

State / Reserve Contributions

Retiree

Dependents

Contrib. for Gold Plan

P

40%

Go to Actives

Go to NME Ret

Go to PSE

Total Active & Ret (\$ mil)	\$256.7	\$16.9	\$273.6	\$164.1	\$15.1	\$94.4	\$85.3	\$9.1		37,500
ME Retirees	Medical and Pharmacy*	Expenses	Total Monthly Premium	State Contributions	Reserve Allocation	2012 Ret. Total Cost	2011 Ret. Total Cost	Change in Premiums / %)	(\$	Assumed Enrollment
Medicare Eligible										
Retiree Only	\$346.97	\$29.54	\$376.51	\$237.51	\$21.88	\$117.12	\$117.12	\$0.00	0%	4,746
Retiree & NME SP	766.44	29.54	795.98	319.80	29.46	446.72	446.72	0.00	0%	356
Retiree & Child(ren)	578.14	29.54	607.68	268.11	24.71	314.86	314.86	0.00	0%	54
Retiree & NME SP&CH	1,111.99	29.54	1,141.53	455.11	41.94	644.48	644.48	0.00	0%	25
Retiree & ME SP	693.95	29.54	723.49	407.46	37.54	278.49	278.49	0.00	0%	1,807
Retiree & ME SP & CH	925.11	29.54	954.65	438.05	40.36	476.24	476.24	0.00	0%	12
Est. Monthly Total (\$ mil)	\$3.2	\$0.2	\$3.5	\$2.0	\$0.2	\$1.3	\$1.3	\$0.0		7,000
Total (Est. Annual)	\$38.9	\$2.5	\$41.4	\$24.1	\$2.2	\$15.1	\$15.1	\$0.0		

**Note: The figures presented are preliminary and subject to change.**



# Stress-Testing

- State/Reserve Contributions
- Enrollment
  - Migration to silver/bronze
  - Addition of employees waiving coverage
- Health Risks



# Appendices



# Appendix A – PSE Actives

## 10/1/10-12/31/12 Final Rate Details

Actives	Medical and Pharmacy*	Expenses	Corp Health	Retirement Subsidy	Base Monthly Premium	Act 1842 Contrib.	Act 1421 Contrib.	Res. Alloc.	School District Contrib.	2011 EE Total Cost	2010 EE Total Cost	Change in Premiums (\$ / %)		Assumed Enrollment
<b>Health Advantage</b>														
Employee Only	\$347.70	\$37.84	\$6.04	\$11.20	\$402.78	\$57.97	\$24.94	\$18.53	\$131.00	\$170.34	\$152.69	\$17.65	12%	30,042
Employee & Spouse	1,032.36	37.84	9.08	11.20	1,090.48	103.06	44.17	40.51	131.00	771.74	721.45	50.29	7%	1,557
Employee & Child(ren)	653.29	37.84	7.86	11.20	710.19	78.96	33.84	29.52	131.00	436.87	406.05	30.82	8%	5,134
Family	1,036.06	37.84	13.08	11.20	1,098.18	106.73	45.75	40.88	131.00	773.82	723.40	50.42	7%	1,795
Est. Monthly Total (mil \$)	\$17.3	\$1.5	\$0.3	\$0.4	\$19.4	\$2.5	\$1.1	\$0.8	\$5.0	\$10.0	\$9.1	\$0.9		38,528
<b>NovaSys</b>														
Employee Only	\$385.00	\$24.21	\$6.04	\$11.20	\$426.44	\$57.97	\$24.94	\$18.53	\$131.00	\$194.00	\$173.33	\$20.67	12%	2,962
Employee & Spouse	1,113.21	24.21	9.08	11.20	1,157.70	103.06	44.17	40.51	131.00	838.96	779.05	59.91	8%	116
Employee & Child(ren)	710.43	24.21	7.86	11.20	753.70	78.96	33.84	29.52	131.00	480.38	443.21	37.17	8%	520
Family	1,117.23	24.21	13.08	11.20	1,165.72	106.73	45.75	40.88	131.00	841.36	781.20	60.16	8%	182
Est. Monthly Total (mil \$)	\$1.8	\$0.1	\$0.0	\$0.0	\$2.0	\$0.2	\$0.1	\$0.1	\$0.5	\$1.1	\$1.0	\$0.1		3,780
<b>NovaSys HD PPO</b>														
Employee Only	\$206.10	\$24.21	\$6.04	\$11.20	\$247.54	\$57.97	\$24.94	\$18.53	\$131.00	\$15.10	\$48.19	(\$33.09)	-69%	1,855
Employee & Spouse	607.35	24.21	9.08	11.20	651.84	103.06	44.17	40.51	131.00	333.10	429.93	(96.83)	-23%	154
Employee & Child(ren)	385.42	24.21	7.86	11.20	428.68	78.96	33.84	29.52	131.00	155.36	217.98	(62.62)	-29%	241
Family	609.56	24.21	13.08	11.20	658.06	106.73	45.75	40.88	131.00	333.70	430.84	(97.14)	-23%	293
Est. Monthly Total (mil \$)	\$0.7	\$0.1	\$0.0	\$0.0	\$0.9	\$0.2	\$0.1	\$0.1	\$0.3	\$0.2	\$0.3	-\$0.1		2,543
Total (Monthly) (mil \$)	\$19.9	\$1.6	\$0.3	\$0.5	\$22.3	\$2.9	\$1.3	\$1.0	\$5.9	\$11.2	\$10.4	\$0.8		44,851
Est. Annual Total (mil \$)	\$238.3	\$19.3	\$3.6	\$6.0	\$267.3	\$35.0	\$15.0	\$11.8	\$70.5	\$134.9	\$124.9	\$10.0		



# Appendix A – PSE Retirees 2011 Final Rate Details

Retirees	Medical	Prescription Drug	Corp Health		Total Monthly Premium	Subsidy from Active Employees	Reserve Allocation			2010 Total Cost	2009 Total Cost	Change in Retiree Premiums (\$ / %)		Assumed Enrollment
<b>Non-Medicare Eligible</b>														
Retiree Only	\$413.54	\$37.84	\$6.04		\$457.42	\$0.00				\$457.42	\$527.62	(\$70.20)	-13%	1,818
Retiree & NME SP	1,105.09	37.84	9.08		1,152.01	0.00				1,152.01	1,213.72	(\$61.71)	-5%	204
Retiree & Child(ren)	722.58	37.84	7.86		768.28	0.00				768.28	939.28	(\$171.00)	-18%	11
Retiree & NME SP&CH	1,108.90	37.84	13.08		1,159.82	0.00				1,159.82	1,900.80	(\$740.98)	-39%	2
Retiree & ME SP	552.96	37.84	6.04		596.82	0.00				596.82	609.70	(\$12.88)	-2%	-
Retiree & ME SP & CH	862.01	37.84	7.86		907.71	0.00				907.71	1,004.01	(\$96.30)	-10%	-
Est. Monthly Total (mil \$)	\$1.0	\$0.1	\$0.0		\$1.1	\$0.0				\$1.1	\$1.2	-\$0.1		2,035
<b>Medicare Eligible</b>														
Retiree Only	\$134.75	\$15.41	Not Offered		\$150.16	\$108.72				\$41.44	\$41.44	\$0.00	0%	4,739
Retiree & NME SP	552.96	15.41	Not Offered		568.37	-				568.37	674.34	(\$105.97)	-16%	136
Retiree & Child(ren)	443.79	15.41	Not Offered		459.20	38.03				421.17	421.17	\$0.00	0%	12
Retiree & NME SP&CH	862.01	15.41	Not Offered		877.42	-				877.42	1,054.07	(\$176.65)	-17%	3
Retiree & ME SP	269.50	15.41	Not Offered		284.91	114.32				170.59	170.59	\$0.00	0%	440
Retiree & ME SP & CH	578.55	15.41	Not Offered		593.96	43.64				550.32	550.32	\$0.00	0%	2
Est. Monthly Total (mil \$)	\$0.8	\$0.1	\$0.0		\$0.9	\$0.6				\$0.4	\$0.4	\$0.0		5,332
Total (Est. Monthly)	\$1.8	\$0.2	\$0.0		\$2.0	\$0.6				\$1.4	\$1.6	(\$0.2)		7,367
Est. Annual Total (mil \$)	\$21.9	\$1.9	\$0.2		\$24.0	\$6.8				\$17.2	\$19.1	-\$1.9		



# Appendix A – ASE Actives 2011 Final Rate Details

Actives	Medical and Pharmacy	Expenses	Corp Health	Total Monthly Premium	State Contributions	Reserve Allocation	2011 EE Total Cost	2010 EE Total Cost	Change in Premiums (\$ / %)		Assumed Enrollment
<b>Health Advantage</b>											
Employee Only	\$359.09	\$36.47	\$6.00	\$401.56	\$305.78	\$0.00	\$95.78	\$95.78	\$0.00	0%	14,614
Employee & Spouse	912.33	36.47	12.00	960.80	593.06	0.00	367.74	367.74	0.00	0%	3,563
Employee & Child(ren)	556.69	36.47	9.60	602.76	409.12	0.00	193.64	193.64	0.00	0%	4,217
Family	1,011.13	36.47	19.80	1,067.40	647.78	0.00	419.62	419.62	0.00	0%	3,134
Est. Monthly Total (\$ mil)	\$14.0	\$0.9	\$0.2	\$15.2	\$10.3	\$0.0	\$4.8	\$4.8	\$0.0		25,528
<b>NovaSys</b>											
Employee Only	\$399.13	\$22.84	\$6.00	\$427.97	\$305.78	\$0.00	\$122.19	\$96.36	\$25.83	27%	756
Employee & Spouse	991.81	22.84	12.00	1,026.65	593.06	0.00	433.59	369.18	64.41	17%	141
Employee & Child(ren)	610.82	22.84	9.60	643.26	409.12	0.00	234.14	194.54	39.60	20%	209
Family	1,097.65	22.84	19.80	1,140.29	647.78	0.00	492.50	421.22	71.28	17%	121
Est. Monthly Total (\$ mil)	\$0.7	\$0.0	\$0.0	\$0.7	\$0.5	\$0.0	\$0.3	\$0.2	\$0.0		1,227
<b>NovaSys HD PPO</b>											
Employee Only	\$284.10	\$22.84	\$6.00	\$312.94	\$305.78	\$0.00	\$7.16	\$20.60	(\$13.44)	-65%	578
Employee & Spouse	712.24	22.84	12.00	747.08	593.06	0.00	154.02	187.34	(33.32)	-18%	127
Employee & Child(ren)	437.01	22.84	9.60	469.45	409.12	0.00	60.33	80.86	(20.53)	-25%	103
Family	788.69	22.84	19.80	831.33	647.78	0.00	183.54	220.42	(36.88)	-17%	120
Est. Monthly Total (\$ mil)	\$0.4	\$0.0	\$0.0	\$0.4	\$0.4	\$0.0	\$0.1	\$0.1	(\$0.0)		928
Total (Monthly) (\$ mil)	\$15.1	\$1.0	\$0.3	\$16.3	\$11.2	\$0.0	\$5.2	\$5.1	\$0.0		27,683
Est Annual Total (\$ mil)	\$181.3	\$11.8	\$3.0	\$196.1	\$134.3	\$0.0	\$61.9	\$61.5	\$0.3		



# Appendix A – ASE Retirees 2011 Final Rate Details

Retirees	Medical and Pharmacy	Expenses	Corp Health	Total Monthly Premium	State Contributions	Reserve Allocation	2011 Ret. Total Cost	2010 Ret. Total Cost	Change in Premiums (\$ / %)		Assumed Enrollment
<b>Non-Medicare Eligible</b>											
Retiree Only	\$359.09	\$36.47	\$6.00	\$401.56	\$165.82	\$0.00	\$235.74	\$235.74	\$0.00	0%	1,360
Retiree & NME SP	912.33	36.47	12.00	960.80	384.92	0.00	575.88	575.88	0.00	0%	488
Retiree & Child(ren)	556.69	36.47	9.60	602.76	162.92	0.00	439.84	439.84	0.00	0%	57
Retiree & NME SP&CH	1,011.13	36.47	19.80	1,067.40	150.68	0.00	916.72	916.72	0.00	0%	33
Retiree & ME SP	696.35	36.47	6.00	738.82	337.28	0.00	401.54	401.54	0.00	0%	-
Retiree & ME SP & CH	893.94	36.47	9.60	940.01	333.24	0.00	606.77	606.77	0.00	0%	-
Est. Monthly Total (\$ mil)	\$1.0	\$0.1	\$0.0	\$1.1	\$0.4	\$0.0	\$0.7	\$0.7	\$0.0		1,938
<b>Medicare Eligible</b>											
Retiree Only	\$332.33	\$15.41	Not Offered	\$347.74	\$230.62	\$0.00	\$117.12	\$117.12	\$0.00	0%	4,641
Retiree & NME SP	696.35	15.41	Not Offered	711.76	265.04	0.00	446.72	446.72	0.00	0%	533
Retiree & Child(ren)	529.93	15.41	Not Offered	545.34	230.48	0.00	314.86	314.86	0.00	0%	44
Retiree & NME SP&CH	893.94	15.41	Not Offered	909.35	264.87	0.00	644.48	644.48	0.00	0%	27
Retiree & ME SP	664.67	15.41	Not Offered	680.08	401.59	0.00	278.49	278.49	0.00	0%	1,785
Retiree & ME SP & CH	862.27	15.41	Not Offered	877.68	401.44	0.00	476.24	476.24	0.00	0%	16
Est. Monthly Total (\$ mil)	\$3.2	\$0.1	\$0.0	\$3.3	\$2.0	\$0.0	\$1.3	\$1.3	\$0.0		7,045
Total (Est. Monthly)	\$4.2	\$0.2	\$0.0	\$4.4	\$2.4	\$0.0	\$2.0	\$2.0	\$0.0		8,983
Total (Est. Annual)	\$49.9	\$2.2	\$0.2	\$52.2	\$28.6	\$0.0	\$23.7	\$23.7	\$0.0		



# Appendix B - Benefit Options

<b>Benefit Option Name :</b>	<b>Gold</b>	<b>Silver (Tentative)</b>	<b>Bronze (Tentative)</b>
<b>Last Modified:</b>	<b>1/1/2012</b>	<b>1/1/2012</b>	<b>1/1/2012</b>
<b>Plan Coverage Relative Value:</b>	<b>1.00</b>	<b>0.92</b>	<b>0.82</b>
<b>Provider Network:</b>	<b>Health Advantage</b>	<b>TBD</b>	<b>TBD</b>
<b><u>In-Network (INN) Benefits</u></b>			
Deductible (Individual / Family)	None / None	\$500 / \$1000	\$1500 / \$3000
Coinsurance	20%	20%	20%
Copays			
Office Visit (OV)-Primary Care (PCP)	\$25	\$35	Ded. & Coins.
OV - Specialist Care Provider (SCP)	\$35	\$50	Ded. & Coins.
Urgent Care (UC)	\$100	\$150	Ded. & Coins.
Hospital Emergency Room (ER) Non-admitted	\$100	\$150	Ded. & Coins.
Outpatient Surgery	\$100 then Ded. & Coins.	\$100 then Ded. & Coins.	Ded. & Coins.
Hospital Inpatient	\$250 then Ded. & Coins.	\$250 then Ded. & Coins.	Ded. & Coins.
Out-of-Pocket Max (Individual / Family)	\$1500 / \$3000	\$2000 / \$4000	\$2500 / \$5000
<b><u>Out-of-Network (OON) Benefits</u></b> <sup>1</sup>			
Deductible (Individual / Family)	\$1000 / \$2000	\$1000 / \$2000	\$3000 / \$6000
Coinsurance	40%	40%	40%
Out-of-Pocket (OOP) Max (Individual / Family)	\$5000 / \$10000	\$5000 / \$10000	\$5000 / \$10000
<b>Annual Maximum INN / OON</b>	Unlimited / \$1,000,000	Unlimited / \$1,000,000	Unlimited / \$1,000,000
<b><u>Prescription Drugs</u></b>			
Separate Deductible then the following Copays:			
Retail (30 Days) - Generic/Formulary /Non-Form.	\$10 / \$30 / \$60	\$15 / \$35 / \$70	Ded. & Coins.
Mail Order (90 Days) - Generic/Form. /Non-Form.	\$10 / \$30	\$15 / \$35	Ded. & Coins.
<b><u>Selected Detail Benefits</u></b>			
Mental Health (MH) / Substance Abuse (SA):	IP: \$250 then Ded & Coins; OP: Ded & Coins	IP: \$250 then Ded & Coins; OP: Ded & Coins	Ded. & Coins.
Psychiatry	INN: \$25 Copay; OON: Ded & Coins.	INN: \$35 Copay; OON: Ded & Coins.	Ded. & Coins.
Rehabilitation (i.e., speech, occup. physical):	Ded & Coins.	Ded & Coins.	Ded. & Coins.
Chiropractors:	\$35 then Ded & Coins	\$35 then Ded & Coins	Ded. & Coins.
Hearing Aids:	No Cost; Limit of \$1400 per ear every 3 years	No Cost; Limit of \$1400 per ear every 3 years	Ded. & Coins.
Preventive Care:	INN: No Cost; OON: Coins. except immun. no cost	INN: No Cost; OON: Coins. except immun. no cost	INN: No Cost; OON: Coins. except immun. no cost



## Appendix B - Benefit Options (Cont.)

<b><u>Medical Management</u></b>			
PCP referral to specialists required:	No	No	No
Inpatient:	Health Advantage (HA) - Patient Responsible	TBD	TBD
Outpatient:	Selected	Selected	Selected
Case Management:	Yes	Yes	Yes
Disease Management:	Yes, select conditions	Yes, select conditions	Yes, select conditions
Wellness	Yes	Yes	Yes
Nurse-Line / Informed Decision Support:	Yes	Yes	Yes
<b><u>Medicare Integration:</u></b>			
Non- Medicare Benefits Covered:	Coordination of Benefits Yes, same as NME	Not Available	Not Available
Non- Medicare Providers Covered:	Non-Par & Non-Accepting		
Pharmacy Covered:	Non-Par & Non-Accepting		
<b><u>Vision Care Services</u></b>			
Exam every 24 months - INN	\$35 Copay	\$35 Copay	\$35 Copay
<b>Flexible Spending Account Offered:</b>	Yes	Yes	Yes
<b>Health Savings Account Offered:</b>	No	No	Yes
<b><u>Life Insurance (ASE Only)</u></b>			
Prior to Age 65	\$10,000	\$10,000	\$10,000
From Age 65 to Age 69	\$5,000	\$5,000	\$5,000
From Age 70 on	\$4,000	\$4,000	\$4,000
<sup>1</sup> When an in-network provider is not available within 50 miles for a hospital and 25 miles for all other providers, then in-network			



# Appendix C

## Assumptions & Methods

### Total Rate Projection Methodology:

The H-Scan model methodology includes several options when projecting rates. First, choose a period for the per person per month (PPM) experience period. These claims are trended to the projection period, starting from 1/1/2012 using the trend factors below (or those input by the user of H-scan). Next, decide which groups to combine for rating. This includes the options of whether or not to blend ASE and PSE, Actives and Non-Medicare Eligible (NME) Retirees, and NovaSys and NovaSys HD. Once the rating groups are set, decide on the appropriate tiering factors, primarily deciding whether or not to use the current tiering factors. The resulting rates will reflect the decisions displayed in the Rating Options. For expenses, we relied on actual and expected vendor fees plus estimated EBD expenses.

### Total Rate Projection Assumptions:

**Population Projection:** As shown in the detailed financials

**Investment return\*:**

0%

**ASE / PSE Annual Trend\*:**

	<u>Medical</u>	<u>Behavioral Health</u>	<u>Pharmacy</u>	<u>Life</u>	<u>Expenses</u>
non-Medicare:	7.50%	0.00%	5.00%	0.00%	0.00%
Medicare:	7.00%	0.00%	5.00%	0.00%	0.00%

\* Unless otherwise shown in the screen capture. Please see additional analyses on following page.

**ASE / PSE Benefit Ratio:** As Shown on Rating Worksheet

**ASE / PSE Change in Geo Factors:** As Shown on Rating Worksheet

**ASE / PSE Change in Demo Factors:** As Shown on Rating Worksheet

**ASE / PSE Change in Network:** As Shown on Rating Worksheet

**Expenses:**

Per Subscriber Per Month	Actives <u>Health Adv/Gold</u>	Actives <u>NovaSys/Silver</u>	Actives <u>HD/Bronze</u>	Retirees <u>Non-Medicare</u>	Retirees <u>Medicare</u>	<u>EBD*</u>	<u>Rx</u>
ASE 2010	\$27.13	\$13.90	\$13.90	\$20.74	\$15.41	\$8.34	\$1.15
ASE 2011	\$27.53	\$13.90	\$13.90	\$20.74	\$15.41	\$7.80	\$1.15
ASE 2012	\$27.04	\$24.34	\$21.90	\$29.70	\$29.70	\$16.72	\$2.50
PSE 2010	\$27.13	\$13.90	\$13.90	\$20.74	\$15.41	\$6.21	\$0.91
PSE 2011	\$27.53	\$13.90	\$13.90	\$20.74	\$15.41	\$9.26	\$1.45
PSE 2012	\$27.04	\$24.34	\$21.90	\$27.04	\$27.04	\$8.18	\$2.30

\* Assumed to include UAM expenses (both Rx and Medical), EAP, weight management, smoking cessation, and Integriail cost. This applies to Actives for 2010, and for Actives & NME retirees thereafter.

**Rx Rebates:** None Assumed

**Part D Subsidy:** The Part D Subsidy is assumed to be approximately 15.5% of Incurred Rx Claims

**Seasonality:** We have not used seasonality factors, instead we are requiring that the base and projected period be for an annual period.



# Appendix C

## Assumptions & Methods (Cont.)

### Used for Incurred Claims Development:

**Method:** We calculated the Paid-to-Date claims by network provider and major rate structure (Actives, Non-Medicare Retirees v. Medicare Retirees) by using the claims triangles for Health Advantage and the individual claims and eligibility databases for NovaSys and InformedRx. To determine the relationship and family tiers, we link each claim to the eligibility database. Also, we use the Plan ID in the eligibility data for each month to determine whether a member should be considered as part of the Active, Non-Medicare Retiree or Medicare Retiree Plan. Finally, we applied the below completion factors to the Paid-to-Date claims to calculate the Incurred claims.

#### ASE / PSE Paid-to-Date Claims:

Health Advantage: Service dates from January 1, 2010 to December 31, 2010 and process dates from January 1, 2009 to February 28, 2011.  
 NovaSys: Service dates from January 1, 2010 to February 28, 2011 and process dates from January 1, 2009 to February 28, 2011.  
 Pharmacy: Service dates from January 1, 2010 to February 28, 2011 and process dates from January 1, 2009 to February 28, 2011.

#### ASE / PSE Completion Factors:

Health Advantage: We used the data from lag reports with service dates from January 1, 2008 to February 28, 2011 and process dates from January 1, 2008 to February 28, 2011 to develop the completion factors.  
 NovaSys: We used the individual claims database with service dates from January 1, 2008 to February 28, 2011 and process dates from January 1, 2008 to February 28, 2011 to develop the completion factors. We aggregated the data by network provider and major rate structure (Actives, Non-Medicare Retirees v. Medicare Retirees)  
 Pharmacy: We used the individual claims database with service dates from January 1, 2008 to February 28, 2011 and process dates from January 1, 2008 to February 28, 2011 to develop the completion factors. We aggregated the data by network provider and major rate structure (Actives, Non-Medicare Retirees v. Medicare Retirees)

ASE		<u>Health Advantage</u>	<u>NovaSys</u>	<u>HD PPO</u>	<u>Pharmacy</u>	<u>ARHealth Non-</u>	<u>Pharmacy Non-</u>	<u>ARHealth Medicare</u>	<u>Pharmacy</u>
						<u>Medicare Retirees</u>	<u>Medicare Retirees</u>	<u>Retirees</u>	<u>Medicare Retirees</u>
	January-10	0.999	0.994	0.978	1.000	1.000	1.000	0.997	1.000
	February-10	0.999	0.992	0.977	1.000	0.999	1.000	0.996	1.000
	March-10	0.998	0.991	0.973	1.000	0.998	0.999	0.996	1.000
	April-10	0.998	0.990	0.973	1.000	0.998	0.999	0.995	1.000
	May-10	0.996	0.988	0.969	1.000	0.997	0.998	0.993	1.000
	June-10	0.995	0.984	0.967	1.000	0.997	0.997	0.990	1.000
	July-10	0.995	0.982	0.963	1.000	0.986	0.996	0.988	1.000
	August-10	0.993	0.976	0.951	0.999	0.986	0.996	0.984	0.999
	September-10	0.988	0.967	0.920	0.999	0.980	0.995	0.972	0.999
	October-10	0.978	0.956	0.898	0.999	0.972	0.994	0.962	0.999
	November-10	0.946	0.906	0.854	0.999	0.959	0.993	0.941	0.998
	December-10	0.896	0.865	0.821	0.999	0.912	0.992	0.894	0.998
	January-11	0.755	0.686	0.658	0.999	0.763	0.991	0.661	0.997
	February-11	0.252	0.191	0.162	0.999	0.237	0.991	0.048	0.997

PSE		<u>Health Advantage</u>	<u>NovaSys</u>	<u>HD PPO</u>	<u>Pharmacy</u>	<u>ARHealth Non-</u>	<u>Pharmacy Non-</u>	<u>ARHealth Medicare</u>	<u>Pharmacy</u>
						<u>Medicare Retirees</u>	<u>Medicare Retirees</u>	<u>Retirees</u>	<u>Medicare Retirees</u>
	January-10	0.998	0.999	0.994	1.000	0.996	1.000	0.999	1.000
	February-10	0.998	0.999	0.994	1.000	0.995	1.000	0.998	1.000
	March-10	0.998	0.997	0.992	1.000	0.995	1.000	0.984	1.000
	April-10	0.997	0.996	0.992	1.000	0.991	1.000	0.982	1.000
	May-10	0.996	0.995	0.991	1.000	0.990	1.000	0.981	1.000
	June-10	0.993	0.993	0.989	1.000	0.989	1.000	0.979	1.000
	July-10	0.992	0.992	0.986	1.000	0.985	1.000	0.972	1.000
	August-10	0.990	0.988	0.978	1.000	0.982	1.000	0.967	1.000
	September-10	0.984	0.984	0.965	0.999	0.970	1.000	0.959	1.000
	October-10	0.972	0.977	0.919	0.999	0.955	1.000	0.949	1.000
	November-10	0.951	0.964	0.893	0.999	0.940	1.000	0.928	1.000
	December-10	0.889	0.928	0.811	0.999	0.894	1.000	0.882	1.000
	January-11	0.743	0.774	0.645	0.999	0.745	1.000	0.670	1.000
	February-11	0.244	0.228	0.166	0.999	0.250	1.000	0.049	1.000

Note that Life and Behavioral health are insured. Therefore, no completion factors are needed. Actual premium was used and trended.



# Appendix C

## Assumptions & Methods (Cont.)

### Rating Tier Methodology:

To develop the rates by family status, we take the prior approved rating tier factors and multiply them by a factor to adjust for the current enrollment selection for each of the major groupings: Active - Health Advantage, Actives: NovaSys, Actives - HD PPO, Non-Medicare Retirees, and Medicare Retirees. We further adjusted the mixed split with a Medicare and Non-Medicare covered adult to be the same.

### Allocation of Rate Methodology:

Once the total rates are developed, we split the contributions to cover the rates first by removing the costs that have already been legislated to be covered from reserves. We then allow the user to select the methodology for allocating the remainder of the rates. The total actual cost may be somewhat impacted by the desired allocation as participant selection of Plan option and coverage could be impacted.

### Rate Allocation Assumptions:

	<u>Actives</u>	<u>Retirees</u>
Previously adopted reserves allocations:		
ASE / PSE 2010:	\$0.00	\$0.00
ASE / PSE 2011:	\$0.00	\$0.00
ASE / PSE 2012:	\$0.00	\$0.00

#### ASE

State Contribution per Budget Position per Month:  
Interest Income:

\$390
\$0

*\* Unless otherwise shown in the screen capture.*

#### PSE

District Contribution per Enrolled per Month:  
Additional State Contributions (in Millions):  
Interest Income:

\$131
\$50
\$0

### Standard Statements:

**Reliance Statement:** In preparing our report, we relied without audit, on information (some oral and some written) supplied by the Employee Benefits Division and the Plan's vendors. This information includes, but is not limited to, the plan provisions, employee data, and financial information.

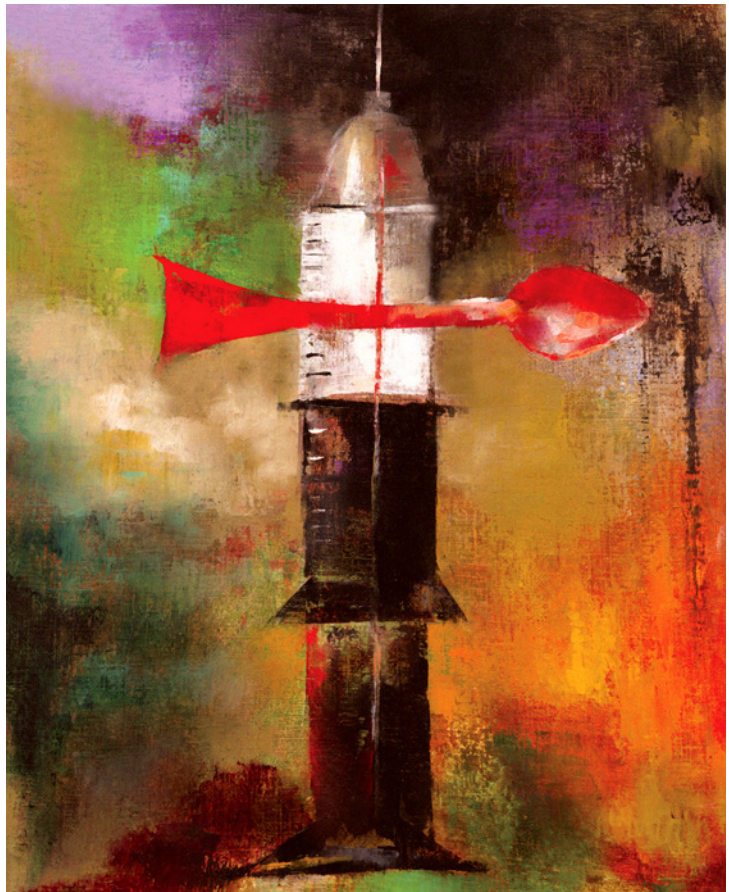
**Results presented in this presentation are preliminary and should not be used for final rates.**

# Our Definition of a Specialty Medication

»» A subset of drugs that have some or all of the following characteristics:

- Self injectable medications
- Expensive with high medical cost potential
- Produced through biotechnology mechanism
- Associated with complex clinical management
- Require close patient monitoring including REMS program compliance
- Distributed through restricted pharmacy network
- Require special handling – like refrigeration

# Primer on Specialty Pharmacy



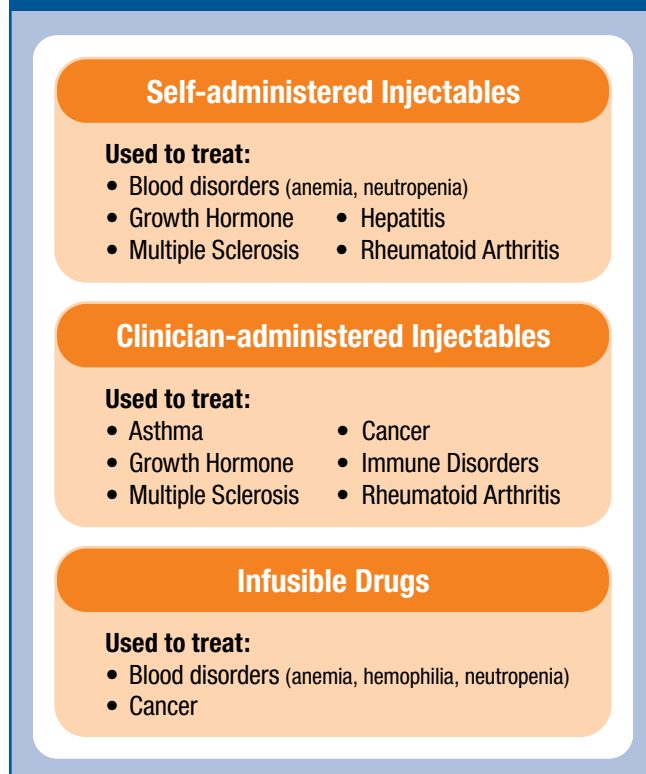
PHARMACY BENEFIT MANAGEMENT INSTITUTE, LP

## What is Specialty Pharmacy?

Specialty pharmacy medications are high-cost injectable, infusible, and oral drugs used to treat complex, chronic or life-threatening conditions. Some of these drugs can decrease or reverse the progression of disease in a way never before possible. Conditions now managed with specialty drugs include blood disorders, cancer, growth hormone deficiency, hepatitis, multiple sclerosis, rheumatoid arthritis, and other autoimmune disorders.

Specialty medications typically have a targeted treatment focus and may require patient-specific dosing. The method of administration is a common way of classifying specialty drugs as shown in Figure 1. Special transportation and storage often are required for refrigeration and timely delivery. Infusible drugs must be administered by physicians or other medical professionals. Injectables can be administered by clinicians or by patients who have been trained to self-inject. Monitoring for adherence, case management, and patient education are critical, as indicated in Table 1. Periodic lab work and diagnostic testing are necessary to monitor patient response to therapy and potentially serious side effects. Because of the complex manufacturing, handling and administration, specialty drugs are costly – usually more than \$1,300 for a 30-day supply.

**Figure 1: Classifying Specialty Drugs**



**Table 1: Comparing Traditional Oral Medications to Specialty Drug Therapy**

	Traditional Oral Therapy	Specialty Drug Therapy
<b>Level of Patient Effort Required for Compliance</b>	Low to medium	High
<b>Impact of Failure to Comply with Therapy</b>	May lead to adverse outcomes and increased health care costs over time	May lead to adverse outcomes including premature mortality and increased health care costs more quickly
<b>Side Effect Profile</b>	Fewer and less severe	More frequent and typically serious
<b>Patient Education</b>	Less education needed about use and storage of drugs	Significant education needed about use and storage of drugs
<b>Case Management</b>	Rarely needed. Physician oversight sufficient	Typically requires ongoing case management

## Major Driver of Drug Trend

In 1990, there were ten specialty drugs on the market. In 2000, there were 92.<sup>1</sup> Today, there are more than 250.<sup>2</sup> Annual costs per patient for these specialty medications can range from \$6,000 to \$400,000, which is significantly greater than the per patient cost of conventional medications.

Although specialty drugs account for a relatively small percentage of total prescription volume, they represent a significant component of pharmacy spending and a major driver of spending growth. In the *EMD Serono Injectables Digest™ 5th Edition*, commercial health plans reported a 14% increase in spending from 2007 to 2008 for specialty drugs covered under the pharmacy benefit.<sup>3</sup> PBMs report similar double-digit specialty drug cost trends for their clients. In contrast, PBMs and employers report overall drug spending increases in the low single digits.

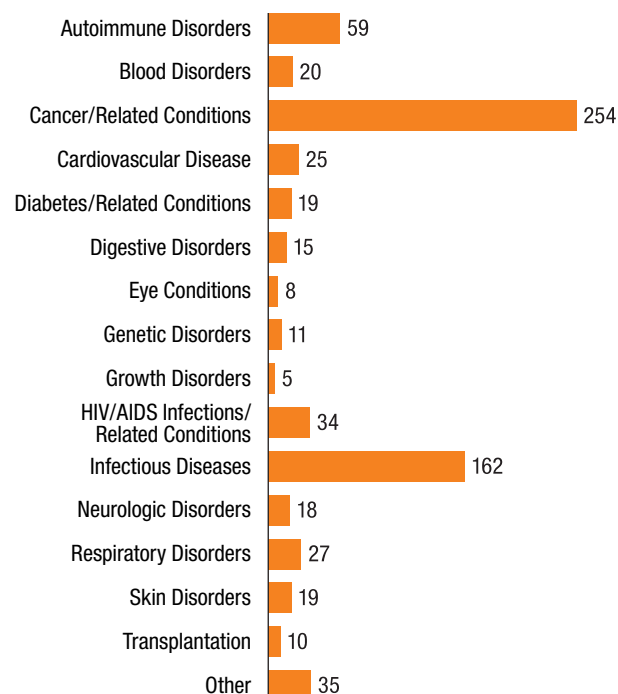
Trend figures for specialty drugs purchased through the pharmacy benefit tell only part of the story. An estimated 40% to 70% of specialty drugs are purchased under the medical benefit where drug costs are more difficult to track.

Factors driving the increase in specialty drug spend are:

- Price increases for existing specialty drugs
- Introduction of new specialty medications
- FDA approval to use existing specialty drugs for additional indications
- Increased utilization of existing specialty medications, partly from initiating therapy earlier in the disease treatment cycle

Specialty medications continue to dominate the new product development pipeline. There are 633 biotechnology products in development for more than 100 diseases according to a 2008 Pharmaceutical Research and Manufacturers of America (PhRMA) report.<sup>4</sup> This is a 51% increase from 2006 when PhRMA reported 418 biotech products in development.<sup>5</sup>

**Figure 2: Biotechnology Medications in Development by Therapeutic Category\***



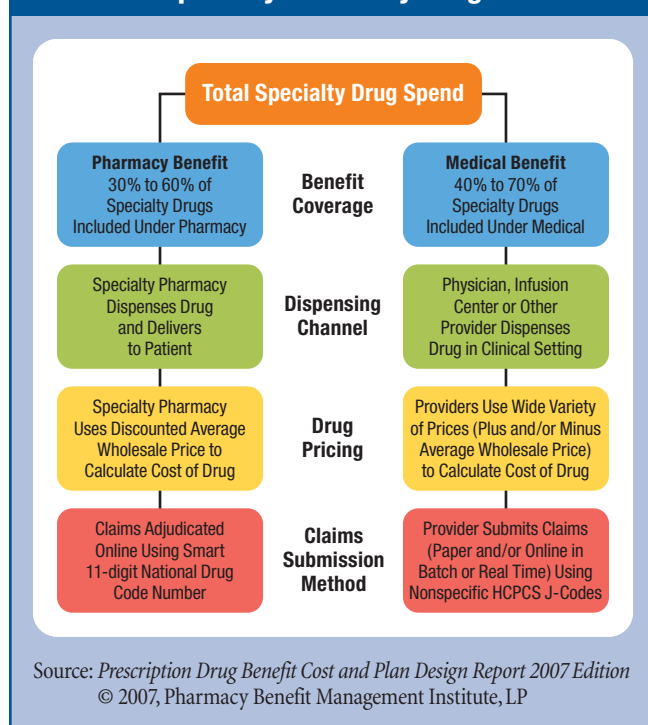
\* Some medications are listed in more than one category.

## Strategies for Managing Specialty Pharmacy

Enormous increases in availability and use, coupled with drug cost inflation, have made specialty drugs the fastest growing component of the prescription drug spend. Yet, when these expensive therapies are used appropriately, they can significantly improve employee health, prevent costly medical claims, and increase productivity.

Strategies used to manage traditional oral medications can be applied successfully to control specialty drug expenditures and maximize the value of these therapies. Specialty pharmacy does pose additional challenges. Unlike traditional oral pharmaceuticals, specialty drugs are dispensed, adjudicated and reimbursed through the medical benefit as well as the pharmacy benefit, as shown in Figure 3.

**Figure 3: Allocation and Dispensing of Specialty Pharmacy Drugs**



To get the right drug in the right amount at the right time to the patient in the most cost-effective manner, the following overall strategies apply:

- Optimize cost management
- Ensure appropriate use
- Establish reasonable member cost share
- Improve clinical management

## Cost Management

Cost management strategies focus on getting the best drug prices and using the most cost-effective distribution channel consistent with patient care requirements.

### Analyze Medical, Pharmacy Claims

Many payers don't realize how much they're spending for specialty drugs because much is hidden in the medical benefit. For a total picture of expenditures, payers need to work with their pharmacy benefit managers (PBMs) and medical providers to analyze both pharmacy and medical claims. The analysis should identify top therapeutic classes by cost and utilization.

Pharmacy claims are adjudicated online using National Drug Codes (NDCs) that provide detailed information on dispensed drugs. As a result, reports on drug utilization and costs are readily available. On the medical side, providers submit claims using nonspecific Healthcare Common Procedure Coding System (HCPCS) J-codes without detailed drug information. J-codes must be mined for billing of specialty drugs and converted to corresponding NDCs through a J-code crosswalk. If J-code data are not available or too expensive to obtain, predictive modeling can provide a picture of what the payer may be spending for specialty drugs under the medical benefit. These baseline data and continued tracking are essential to effective cost management.

### Negotiate Product-specific Pricing

Payers should negotiate pricing for specialty drugs through a specialty pharmacy provider (SPP) or PBM to take advantage of volume discounts. Negotiating discounts on a per-drug basis instead of agreeing to global discounts or blended rates will yield the best pricing. Reimbursement for specialty drugs covered under the pharmacy benefit is typically based on the price negotiated through the SPP or PBM as a percentage discount off Average Wholesale Price (AWP) plus a negotiated dispensing fee. Payers also should negotiate the ability to share in manufacturer rebates received by SPPs and PBMs for specialty pharmaceuticals.

### Discourage "Buy and Bill"

Specialty drugs administered by physicians under the medical benefit are typically reimbursed through a process known as "buy and bill." Physician offices individually purchase drugs from the manufacturer or wholesaler at a percentage off of AWP (not a volume discount). When the drug is administered, the physician bills the payer for reimbursement of the drug cost plus a markup to cover administration and patient monitoring. The markup varies widely and may be significantly higher than the physician's acquisition cost. "Buy and bill" provides an attractive revenue stream for physicians, but is not cost-effective for payers.

Health plans are changing their strategies to control costs for physician-supplied drugs. Some have negotiated with medical providers to separate the cost of medication from administration and monitoring fees. The health plan acquires the specialty products instead of the physician and arranges through an SPP to drop ship drugs to the physician's office on a "just-in-time"

basis. Many plans are following the lead of the Centers for Medicare and Medicaid Services (CMS) and recontracting with physicians to reimburse for specialty drugs using Average Sales Price (ASP) instead of AWP. Payers should be asking their medical carriers if they are implementing these or other measures to discourage the “buy and bill” practice.

## Use Optimal Dispensing Channel

The number of ways for patients to access specialty medications has increased dramatically, making distribution channel management a priority as detailed in Figure 4. Channel selection not only affects the cost of medications, it also impacts care management. Ensuring that patients use the optimal channel is critical to managing cost and return on investment in high-dollar specialty therapies.

**Figure 4: Ways for Patients to Access Specialty Pharmacy Therapy**



Drug administration requirements, benefit design, provider service availability, and manufacturers' distribution requirements can influence channel selection. Dispensing channels for infusible drugs are limited by the need to be administered by physicians or other qualified medical professionals. Infusible drugs can be administered at infusion centers, which may offer lower treatment costs than physician offices. However, the centers may not be available in all markets, limiting that distribution option. Benefit plan design dictates whether oral and injectable medications can be dispensed through retail, mail-order and/or specialty pharmacies. Some plan designs require these drugs to be dispensed through just one specialty pharmacy, unless the drug is not available to that pharmacy. Manufacturers sometimes limit distribution to selected specialty pharmacies.

Payers should be knowledgeable about the available distribution channels when deciding which drugs to cover under the pharmacy benefit and which to cover under the medical benefit. Many payers are moving self-administered oral and injectable drugs under the pharmacy benefit where they cost less and can be tracked easily. Under the drug benefit, plan designs should encourage or require patients to obtain these oral and injectable medications through specialty pharmacies qualified to provide special handling and patient education. Not all retail pharmacies are equipped to handle the refrigeration, compounding and patient counseling often required with specialty products.

Payers are beginning to contract with a preferred SPP or SPPs to help facilitate the distribution of drugs through different channels. In addition to dispensing onsite, SPPs can deliver medications to patient homes, physician offices and infusion centers. They also can manage billing and reimbursement under the pharmacy and medical benefits. (See Choosing a Specialty Pharmacy Provider on page 9.)

### Utilization Management

Utilization management strategies focus on the use of benefit design to optimize prescribing patterns, ensure affordability and use of the most appropriate drug, and prevent waste.

#### Employ Effective Clinical Tools

Payers should require prescriber use of evidence-based clinical guidelines to ensure appropriate use of specialty drugs and minimize the risk to patient safety. SPPs and PBMs provide technology-driven tools to help optimize the amount and type of medications prescribed for patients. Tools that should be implemented for specialty drugs adjudicated under the pharmacy benefit include prior authorization, quantity limits and, in some cases, step edits. Most are administered through the online, real-time drug claim adjudication systems. Prior authorization helps ensure that physicians follow evidence-based guidelines and minimizes off-label prescribing. Quantity limits help ensure proper dosing and prevent waste. Step therapy drives utilization to non-specialty first-line therapies before moving to preferred specialty products.

#### Establish Reasonable Member Cost Share

Member cost share for specialty drugs should reflect the increased cost of these therapies, without creating a barrier to access and adherence. Some payers are accomplishing this by expanding their benefit designs to include a specialty tier (usually a fourth tier) with fixed copayments or coinsurance coupled with minimum and maximum dollar amounts per script. With coinsurance, out-of-pocket maximums are especially important to ensure specialty therapies remain affordable for patients. Affordability impacts whether a patient refills the drug and persists with therapy. Figure 5 shows how member cost share for medication can escalate with coinsurance. Frequent and complete communication before and after implementing new cost and utilization management strategies is essential to minimize member disruption.

**Figure 5: Implications of Specialty Drug Plan Design**

Specialty Drug	Estimated Cost/One Month Supply	Fixed Copayment	25% Coinsurance One Month Supply	35% Coinsurance One Month Supply	50% Coinsurance One Month Supply
Hepatitis C	\$1,438.00	\$50.00	\$359.50	\$503.30	\$719.00
Multiple Sclerosis	\$2,480.00	\$50.00	\$620.00	\$868.00	\$1,240.00
Rheumatoid Arthritis	\$1,851.00	\$50.00	\$462.75	\$647.85	\$925.50

A detailed review of cost sharing data supplied by employers in PBMI's 2008 *Prescription Drug Benefit Cost and Plan Design Survey* indicates specialty cost share amounts still typically fall under the preferred or nonpreferred brand amounts in a three-tier plan design.<sup>6</sup> Tables 2 and 3 show average copayments and coinsurance for specialty drugs in four-tier plan designs. Because of the small sample size for the four-tier plan designs, these figures should be used with caution.

**Table 2: Four-tier Plan Designs with Dollar Copayments**

Drug Category	Average Copayment (Dollar Amount)
Generics at Retail	\$10.50
Generics at Mail	\$26.70
Preferred at Retail	\$26.10
Preferred at Mail	\$66.20
Nonpreferred Brands at Retail	\$44.50
Nonpreferred Brands at Mail	\$109.50
Specialty at Retail	\$68.50
Specialty at Mail	\$146.00

Source: *Prescription Drug Benefit Cost and Plan Design Report 2008-09 Edition* © 2008, Pharmacy Benefit Management Institute, LP

**Table 3: Four-tier Plan Designs with Coinsurance**

Drug Category	Average Coinsurance Amount (Percentage)	Average Minimum (Dollar Amount)	Average Maximum (Dollar Amount)
Generics at Retail	17.5%	\$10.00	\$75.00
Generics at Mail	17.5%	\$10.00	\$200.00
Preferred Brands at Retail	32.5%	\$20.00	\$75.00
Preferred Brands at Mail	32.5%	\$50.00	\$200.00
Nonpreferred Brands at Retail	55.0%	\$40.00	\$150.00
Nonpreferred Brands at Mail	55.0%	\$100.00	\$400.00
Specialty at Retail	30.0%	\$20.00	\$75.00
Specialty at Mail	30.0%	\$50.00	\$137.50

Source: *Prescription Drug Benefit Cost and Plan Design Report 2008-09 Edition* © 2008, Pharmacy Benefit Management Institute, LP

### Promote Preferred Products

There are enough specialty drugs now in various therapeutic classes to warrant preferred coverage to those that provide the best value. Some health plans already have selected preferred specialty products for their formularies, based on clinical and economic outcomes. PBMs are beginning to do so. When health plans have designated preferred products, they usually are in classes of drugs that treat growth hormone deficiency, multiple sclerosis, rheumatoid arthritis, anemia and Hepatitis C. There are challenges to selecting preferred specialty products, including a lack of data on comparative effectiveness and economic outcomes. Disease-based pharmacoeconomic models are being used to indicate how the cost of specialty therapies may be offset by reduced medical costs.

Both patients and payers benefit from an incented formulary that encourages the use of preferred specialty products. Payers who begin using incented formularies now will be better positioned to manage competing biosimilars when they become available. As of July 2009, there still is no regulatory process for review and approval of biogenerics, but change is on the horizon. There are two bills in Congress that would create a pathway for the U.S. Food and Drug Administration to approve biosimilar drugs that are highly similar in molecular structure to the brand-name specialty products. Similar bills have died in the previous Congress, but prospects may be better now.

## Clinical Care Management

Clinical care management strategies focus on medication adherence and persistence, patient education, therapy management, and disease management.

### Provide High-touch Patient Services

Specialty therapies require high-touch patient services. Adherence to prescribed medication regimens is critical, often with significant challenges. The side effects of specialty drugs can be severe and difficult to manage, often discouraging adherence and persistence. Additional medications may be needed to treat side effects. Managing specialty therapy, ambulatory or oral medication regimens, side effects, and disease-related lifestyle issues is extremely complex.

SPPs offer varied services to help patients manage these issues and remain compliant. Some employ outbound telephone calling, passing patients to a pharmacist if they're having problems with medications. Others provide more comprehensive medication therapy management (MTM) programs with collaboration of pharmacist, patient and physician. SPPs that offer a high level of care management may employ case managers. Patient education is an important part of overall case management. Specialty pharmacy patients need to understand their disease process, expectations for treatment, therapeutic options, coverage issues, appropriate use and administration of medications, side effects, and monitoring of results.

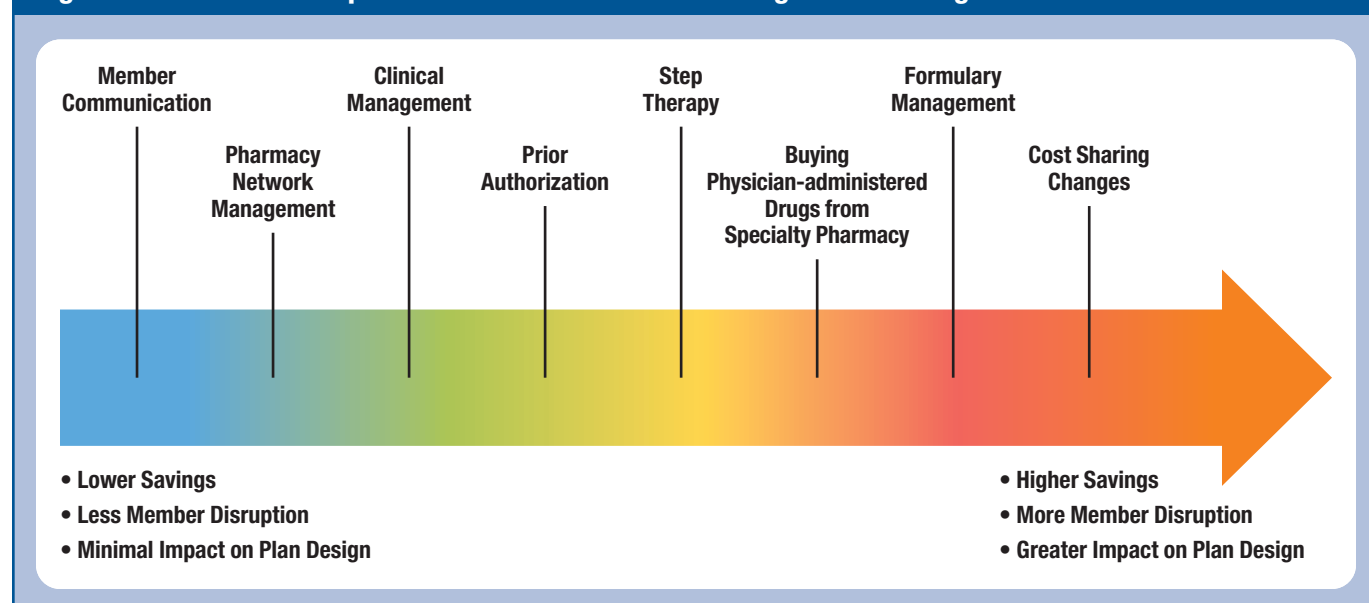
### Monitoring Adherence

Through online, real-time claims adjudication systems, SPPs and PBMs can track medication refills for oral and injectable medications. They can measure and monitor medication possession ratio (MPR) and alert physicians when it appears patients may not be refilling their prescriptions. Payers should require MPR reports that monitor changes in medication adherence.

When specialty drugs are covered under the medical benefit, the physician or other clinician controls medication administration, thereby directly influencing compliance and persistence. The medical professional also provides patient education and monitors side effects, therapy changes and treatment outcomes.

When making decisions about whether to cover oral and injectable drugs under the medical or pharmacy benefit, it's important to evaluate which dispensing channel can best provide needed high-touch patient services. Integrating effective care management with utilization management strategies leads to the best outcomes and maximizes the payer's investment in specialty therapy.

**Figure 6: Cumulative Impact of Utilization and Care Management Strategies**



## Choosing a Specialty Pharmacy Provider

SPPs offer a broad range of services to meet the billing, distribution and service challenges of specialty drugs. They work with manufacturers to obtain favorable pricing and drug rebates. They provide refrigeration and storage for biologics. They distribute drugs to both patients and physicians, while managing billing and reimbursement under both pharmacy and medical benefits. For drugs adjudicated through the pharmacy benefit, specialty pharmacy vendors can implement utilization management tools, monitor compliance, educate patients, provide therapy management, and monitor therapeutic outcomes.

When selecting a preferred SPP, there are many options to consider as shown in Figure 4 on page 4. Some SPPs are independent. Others are owned by PBMs, health plans, retail chains, or wholesalers. Services vary from one vendor to another. Factors to consider in evaluating an SPP include:

- Breadth of product line, including core products and access to limited distribution drugs
- Pricing, including product-specific discounts versus blended rates or global discounts
- Payer's ability to share in manufacturer rebates
- Clinical services, including disease-specific expertise, interventions, outcomes measurement

- Skill in communicating with physicians
- Reporting, including progress toward performance standards, patients meeting clinical guidelines, cost and utilization summaries, predictive modeling for future budgetary decisions
- Demonstrated results, including cost savings, improved compliance, and positive clinical outcomes

Nearly 47% of 223 U.S. employers responding to PBMI's *Prescription Drug Benefit Cost and Plan Design Survey* in 2008 said they require all specialty drugs filled through their PBM contracts to be dispensed through designated specialty pharmacies. (See Table 4.) The *EMD Serono Injectables Digest™ 5th Edition* reports 96% of 69 health plans responding to its 2008 survey had already contracted with one or more SPPs or were in the process of contracting with them.<sup>7</sup> In the EMD Serono, Inc. survey, health plans indicated they are most satisfied with their SPPs ability to manage the drug distribution process, coordinate eligibility and reimbursement, enforce plan's prior authorization guidelines, and provide dedicated account management. They are least satisfied with their SPPs ability to document cost savings and clinical outcomes, administer adherence and persistency programs, prevent drug waste, abuse and misuse, and provide performance guarantees.<sup>8</sup>

**Table 4: Dispensing Arrangements for Specialty Pharmacy Benefit**

Specialty Pharmacy Dispensing Arrangements	Percentage of Total Employers	
	2008	2007
My PBM is Exclusive Supplier of Specialty Drugs	36.1%	30.8%
Our Plan Requires All Specialty Drugs (Filled Through Our PBM Contract) to be Dispensed From PBMs Designated Specialty Pharmacies	46.9%	51.5%
Our Plan Permits Dispensing of Specialty Drugs at Retail Pharmacies	44.9%	36.7%
Our Plan Has Established Quantity Limits For Specialty Drugs	29.9%	22.8%
We Have Restricted Coverage in Our Medical Plan to Channel Specialty Drugs to PBM	18.4%	13.9%

Percentages total more than 100% because of multiple responses.

Source: *Prescription Drug Benefit Cost and Plan Design Report 2008-09 Edition* © 2008, Pharmacy Benefit Management Institute, LP

## Measuring Success

There are many ways to measure the success of specialty pharmacy program management. Benefit plan sponsors should work with their health plans, pharmacy benefit managers, and specialty pharmacy vendors to develop metrics linked to the sponsor's benefit objectives. Areas to evaluate include:

- Transition of patients to the appropriate distribution channel
- Minimum patient and provider disruption
- Impact of specialty benefit on patient satisfaction
- Savings realized by the plan and the patient
- Ability to monitor trends and implement changes quickly
- Favorable clinical outcomes

## References

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- <sup>8</sup> *EMD Serono Injectables Digest™, 5th Edition*. Rockland, MA. EMD Serono, Inc.; 2009:30.

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### **Biotechnology Healthcare**

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### **2008 Report: Medicines in Development, Biotechnology**

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Report on the biotech pipeline from the Pharmaceutical Research Manufacturers of America (PhRMA).

### **Specialty Pharmacy News**

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Subscription-based monthly newsletter published by Atlantic Information Services. News and strategies for managing high-cost biotech, infusible and injectable products.

### **Specialty Pharmacy: Stakeholders, Strategies and Markets**

<http://www.aishealth.com/Products/sprx.html>

Available for purchase from Atlantic Information Services.

## Need-to-Know Terms

**Adherence** – Patient compliance to a prescribed medical treatment plan or drug regimen.

**Average Sales Price (ASP)** – Drug price benchmark used for Medicare Part B drugs, primarily injectable drugs administered by physician offices and infusion clinics, as part of the Medicare Modernization Act of 2003.

$$\text{ASP}^* = \frac{\text{Manufacturer's Unit Sales of a Drug to all U.S. Purchasers in Calendar Quarter}}{\text{Total Number of Units of the Drug Sold by Manufacturer in Same Quarter}}$$

\*Net of any price concessions such as volume, prompt pay, and or cash discounts

Section 303(c) of the legislation established the ASP drug payment system. Beginning January 1, 2005, drugs and biologicals were paid based on the ASP methodology. The ASP methodology uses quarterly drug pricing data submitted to the CMS by drug manufacturers.

**Average Wholesale Price (AWP)** – The published or suggested cost of pharmaceuticals charged to a pharmacy by a large group of pharmaceutical wholesalers. The AWP is the basis for most third-party prescription reimbursement. It is analogous to a sticker price on a new automobile. Pharmacies do not pay for their drugs using the AWP. A markup of discount from Wholesale Acquisition Cost (WAC) is the current method.

**AWP Discount** – The negotiated amount a drug plan pays to pharmacies for the ingredient cost of a prescription and commonly expressed as a percentage off of Average Wholesale Price. It is expressed verbally as “AWP Minus 12%.”

**Biotech Drugs** – Drugs manufactured through biologic processes to treat chronic, complex or life-threatening conditions. Also called specialty drugs.

**Brand-name Drug** – Prescription drug covered by patent exclusivity.

**Cost Sharing** – Cost sharing refers to the amount beneficiaries contribute to the cost of each prescription covered by their drug benefit plan. A cost share amount is established in the plan design for major categories of drugs such as brand, generic, or formulary classification. The amount may be a flat-dollar amount (copayment) or a percentage of the total cost of the prescription (coinsurance).

**Formulary** – List of drugs used to treat patients in a drug benefit plan. Products listed on a formulary are covered for reimbursement at varying levels. The most common types of formulary are:

*Closed formulary:* Nonformulary products are not covered.

*Incented formulary:* Formulary products are classified for reimbursement by product type including brand, generic, specialty, lifestyle, preferred and nonpreferred. Incented formularies are increasingly popular because, when aligned with rational cost sharing levels, they help to drive utilization to the lowest net cost drug products.

*Open formulary:* Nonformulary products are covered at a defined level.

**Injectables** – Prescription drugs that are injected by patient or provider. Often used as a synonym for high cost specialty or biotech drugs because the majority of these drugs are administered via injection.

**National Drug Code (NDC)** – Numeric system to identify drug products in the United States. A drug's NDC number is often expressed using eleven digits in a 5-4-2 format (xxxxx-yyy-zz) where the first five digits identify the manufacturer, the second four digits identify the product and strength, and the last two digits identify the package size and type.

**Online Adjudication** – Electronic process of prescription drug claims at the point of service to verify coverage and detect potential problems that should be addressed before drugs are dispensed to patients.

**Outbound Telephone Calls** – Telephone calls made to plan members as part of disease or care management programs to encourage compliance with treatment regimens.

**Persistency** – Obtaining prescribed refills of medication at regular, appropriate intervals.

**Pharmacy Benefit Manager (PBM)** – Organization dedicated to providing prescription benefit management services to employers, health plans, third-party administrators, union groups and other plan sponsors. A full-service PBM maintains eligibility, processes and adjudicates prescription claims, provides clinical services, contracts a pharmacy network, pays the pharmacy, and provides management reports. PBMI provides a PBM Directory at <http://www.pbmi.com/pbmdir.asp>.

**Preferred Drug List** – List of drugs available to plan members with a lower copayment than drugs not on list.

**Prescriber** – The licensed clinician — a physician, nurse practitioner, or physician assistant — who writes a prescription for a patient.

**Prior Authorization** – A process where the prescription claim is only covered via criteria established by the managed care organization (MCO) or the pharmacy benefit manager (PBM). This requires action from the physician, pharmacist, or patient to obtain coverage.

**Quantity Limits** – A limit on the number of pills or dosages of a prescription drug allowable on a per claim basis.

**Specialty Drugs** – High cost drugs, often injected and used to treat complex or rare conditions. They also can be called biotech drugs although the manufacturing of these drugs through biologically engineered processes is not necessary for the drug to be considered a specialty drug. If the drug is injected by the member, it is considered self-injectable and usually covered under the pharmacy benefit. If the physician must inject the drug, it usually is covered by the medical benefit.

**Specialty Pharmacy Benefit** – A separate pharmacy benefit for specialty drugs that includes a separate network of pharmacies for distribution of the drug product by mail, utilization controls, and patient-specific education.

**Step Therapy** – Treatment guidelines used to recommend drug therapy beginning with the least expensive therapy. More expensive therapies are only used when the patient fails to respond to the first-line drug.



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