BancorpSouth
Insurance Services, Inc.

April 29, 2014

Senator Jim Hendren, Chairman
State & Public School Life & Health Insurance Program Legislative Task Force
Arkansas State Capitol
500 Woodlane St.
Little Rock, AR 72201-1090

Delivered via email to Mark Hudson at mark@blr.arkansas.gov

Senator,

On April 17th, Mark Hudson relayed an email from you to Bob Alexander, Jody Carreiro, Stuart Collier and Henry Lindeman in which you asked had several questions regarding some of the projections set forth by Collier Insurance and ContinuousHealth, LLC., and in particular why some of our projections are significantly lower than those set forth by Collier and ContinuousHealth (CCH). Additionally you asked about the viability regarding the addition of another "minimum value" benefit plan to both the ASE and PSE programs as well as the question of whether or not to segregate the retirees from the rest of the population when rating the group. As the consultant to EBD, I was asked to work with both the Task Force and EBD's actuaries to prepare a response to those questions. Please consider this letter to be EBD's formal response to your inquiry.

What you will see below is your original question and our response below that. Some of our responses will have exhibits that will accompany this letter.

The "Part-Time" Question:

You asked... *"Collier / Osborn- Assumption of 36 Million in savings by making Employees working less than 30 hr/wk ineligible. How can this be when Osborn's handout shows on page 4 that total payout of claims was only $11,369.932?"*

Before we can respond it is important to first explain what CCH's assumptions are to understand why we disagree with their estimate.

<u>1st Assumption: Trend</u>

CCH used the assumption that the annual increase of the claims cost, or trend, to the plan is 9%. In our mind this is too aggressive due to the following facts:

- The plans trend over the past 10 years has averaged 7%;

- According to CMS, national health expenditures are expected to increase at a modest 5.8% over the coming years (Exhibit 1); &
- 1st quarter 2014 medical and pharmacy claims as compared to last year are significantly better (Exhibit 2).

Because of those facts we feel a more prudent estimate would be 5% or 6%.

2nd Assumption: Reallocating state monies currently used on PT employees to FT employees

CCH assumes that monies currently allocated to offset the PT employees premiums would be shifted to use on FT employees. The number they use is $163 per month which we have no problem. We realize that the State funds the program based on the estimated number of employees expected to be on the plan so if the number of eligible employees decreases then so will the funding.

We feel it is quite risky to assume that State would continue to fund at this level when traditionally they never have.

3rd Assumption: Foundation and required District funding to offset employee premiums

CCH also assumes that the $150 per month contribution would be reallocated from the PT employees to the FT employees. Whereas those monies are to be used for health insurance, the reality is if the employee doesn't elect coverage then the monies traditionally have been retained by the Districts to be used for such things as; offsetting their required contributions for those who elect coverage, provide other benefits such as dental, life and/or disability insurance *or* is used for other purposes.

We maintain that using the aforementioned assumption is flawed at best as it provides an unrealistic expectation of savings.

4th Assumption: The number of PT employees that would sign up for coverage in 2015 due to the ACA mandate

CCH assumes that the number of PT employees that would sign up for coverage in 2015 due to the ACA mandate will be roughly 8,000 participants. We realize their assumption is predicated on a certain percentage of the total PT population, and even we don't know what exactly that percentage is we generally don't have a problem with it. What we cannot agree on with our colleagues is their assumption of the additional 5,000 people who they state would enroll and here's why...

First off the mandate requiring all Americans to have coverage went into effect 01-01-2014. Whereas the plan did see a modest increase in the enrollment of part-time employees (from roughly 3,000 to over 4,000 participants) this year, we feel you can't assume this number would almost double in 2015. It seems like their modeling program assumes the mandate is starting in 2015 instead of 2014. Our experience tells us that if those employees felt compelled to get coverage they would have done so when the mandate began in 2014. Additionally, we have no idea and cannot accurately predict how many PT employees already have coverage which leads to my second point.

Secondly, and this is something we generally all agree on, the census data we received is still flawed for many reasons. We did agree for the purposes of calculating the initial cost estimates that roughly 3,000 PT employees were enrolled in 2013. Because the census data is so flawed, we feel that predicting any future enrollment trends among this segment of the population is just not possible.

We had our actuary run multiple scenarios (Exhibit 3) on this and the maximum amount they could achieve was $16.8 million but we do not feel that scenario is realistic.

Working with the Task Force actuaries, we did agree that based off the 2013 data, a realistic savings estimate to the plan by removing the PT employees would be $7.5 million.

Based on the facts we have outlined above, we simply cannot agree with our friends at CCH and their assumption of $36 million in savings to the plan by removing the PT employees would occur. We are comfortable with the savings amount of $7,500,000 as obtained by Osborn, Carreiro and Associates. Additionally, we will present it as a part of our recommendations to the Task Force on April 30, 2014.

<u>Spousal and Dependent Eligibility Audits:</u>

You asked... *"EBD/Collier/Osborn - EBD had different numbers and feelings about spousal participation. Can we come to agreement on what the actual number is and if the 3.4 Million projected savings from spousal exclusion is an accurate projection?"*

One thing we all agree on is that a prudent move by the plan would be to either require spouses who have access to group health coverage through their job to obtain coverage there, or to add a surcharge on those spouses who have access to coverage through their employer but for whatever reason choose coverage on our plan.

It would first be helpful to present a brief history behind dependent eligibility audits and our rationale of why having an outside party perform an audit at this time would not be a prudent use of the EBD's or the Task Force's funds. Up until the ACA's mandate requiring health plans to cover dependents (2010 for nongrandfathered and 2014 for grandfathered plans), having detailed dependent eligibility audits conducted was a very important function for large employer groups in both the public and private sector. Since the ACA mandate however, the overall effectiveness of dependent eligibility audits is significantly less than they once were (Exhibit 4).

We don't disagree with the need to periodically conduct audits of both groups but the fact remains that EBD conducted a full eligibility audit of the spouses last year. Whereas they haven't conducted a full audit of the dependents recently, they do however "spot check" them through the year by randomly selecting dependents and verifying their eligibility which is in addition to the full Social Security audit EBD performs. Additionally, they require that all mid-year enrollees to the plan provide proof of dependent eligibility. For all of the shortcomings EBD has, either real or perceived, one thing they have consistently handled better than any plan I've been associated with is Spouse and Dependent audits.

One easy and cost effective solution to this could be to require all enrolling in coverage for 2015 to provide supporting documentation at the open enrollment to verify dependent eligibility. This is an easy and effective way that would not cost the estimated $340,000 CCH is proposing which seems to be in addition to their base consulting fee.

Since the ACA mandate moving the dependent age to 26 and the resulting impact on dependent eligibility, we can't with any real accuracy predict what, if any, meaningful results a dependent audit will produce. Because of that as well as EBD's thorough verification process and the recent studies that have been released, we respectfully disagree with CCH on their savings assumptions that performing such an audit would produce.

<u>Plan Design:</u>

You asked... "I would like EBD to prepare a plan design based on the assumptions in Collier's pricing model for presentation. It looks like Osborne has done most of that already in there handout. However, since procurement laws may prevent us from moving to a 4 plan system in 2015, can we find a 3 plan system that will realize similar savings and price structure?"

This will be sent as part of another request from you to Bob.

<u>Cost Remaining within the 9.5% threshold:</u>

You wanted to know... *"Obviously, we need to verify that raising bronze plan to 80 or 85 dollars still complies with 9.5% requirement."*

Based on the latest salary and wage information we have that raising the Employee contribution to that amount will not violate the 9.5% rule. We do however recommend that the contributions not exceed $60 per month.

BancorpSouth
Insurance Services, Inc.

<u>Segregating the Retirees from the Plan:</u>

You asked about wanting to know.... *"I will also prepare draft legislation that would segregate retiree plan. I'm not sure how that will go, but, again, I would like some consensus of likely cost savings to plan. If you don't agree - then each of you tell me your number and what you base it on."*

See Attached (Exhibit 5).

Whereas the numbers show that there would be a decrease to the active employee's monthly premium by segregating the retirees, the resulting impact to the retirees on both plans would be severe. As a result we do not recommend segregating the retirees at this time.

<u>Keeping and Modifying 3 Plans:</u>

You wanted to know... *"I believe if we go with 3 plans and simply modify payment and benefit structure, legislation won't be required, but I need EBD to confirm that this is the case."*

We concur with your assumption.

I hope we have adequately answered the preceding questions to your satisfaction. Should you need anything else please don't hesitate to let me know.

Respectfully submitted,

Mark Meadors
Vice-President
BancorpSouth Insurance Services, Inc.

EXHIBIT 1

Health Affairs
Expand
content.healthaffairs.org

Published online before print September 2013, doi: 10.1377/hlthaff.2013.0721
Health Aff October 2013 vol. 32 no. 10 1820-1831

National Health Expenditure Projections, 2012–22: Slow Growth Until Coverage Expands And Economy Improves

Gigi A. Cuckler[1,*], Andrea M. Sisko[2], Sean P. Keehan[3], Sheila D. Smith[4], Andrew J. Madison[5], John A. Poisal[6], Christian J. Wolfe[7], Joseph M. Lizonitz[8] and Devin A. Stone[9]

+ Author Affiliations

*Corresponding author

Abstract

Health spending growth through 2013 is expected to remain slow because of the sluggish economic recovery, continued increases in cost-sharing requirements for the privately insured, and slow growth for public programs. These factors lead to projected growth rates of near 4 percent through 2013. However, improving economic conditions, combined with the coverage expansions in the Affordable Care Act and the aging of the population, drive faster projected growth in health spending in 2014 and beyond. Expected growth for 2014 is 6.1 percent, with an average projected growth of 6.2 percent per year thereafter. Over the 2012-22 period, national health spending is projected to grow at an average annual rate of 5.8 percent. By 2022 health spending financed by federal, state, and local governments is projected to account for 49 percent of national health spending and to reach a total of $2.4 trillion.

Cost Of Health Care Health Economics Health Reform Health Spending

Articles citing this article

National trends in prescription drug expenditures and projections for 2014
Am J Health Syst Pharm March 2014 71:6482-499
Abstract Full Text PDF

EXHIBIT 2

Public School Employees (PSE) Financials - January 1, 2014 through March 31, 2014								
	GOLD		SILVER		BRONZE		GRAND TOTALS	
	Employee Only	Plus Dependents	Employee Only	Plus Dependents	Employee Only	Plus Dependents	Employee Only	Plus Dependents
Actives	18487	22438	5009	7838	23206	42008	46702	72284
Retirees	1873	2179	102	105	1211	1517	3186	3801
Medicare	8901	9753					8901	9753
TOTAL	29261	34370	5111	7943	24417	43525	58789	85838

REVENUES & EXPENDITURES

Funding		Current Month		Year to Date (3 months)
Per Participating Employee Funding (PPE Funding)	$	8,485,280	$	25,476,376
Employee Contribution	$	10,134,339	$	30,593,723
Department of Education $35,000.000 & $15,000,000	$	3,181,818	$	13,295,455
Other	$	563,935	$	575,226
Allocation for Actives - Plan Year 2014	$	3,583,333	$	10,750,000
Total Funding	$	**25,948,706**	$	**80,690,780**
Expenses				
Medical Expenses				
Claims Expense	$	14,237,825	$	49,134,476
Claims IBNR	$	-	$	-
Medical Administration Fees	$	1,626,750	$	4,803,909
Refunds	$	24,997	$	51,304
Employee Assistance Program (EAP)	$	80,827	$	242,951
Pharmacy Expenses				
RX Claims	$	3,492,968	$	11,691,478
RX IBNR	$	-	$	-
RX Administration	$	332,999	$	1,000,423
Plan Administration	$	443,903	$	976,622
Total Expenses	$	**20,240,269**	$	**67,901,163**
Net Income/(Loss)	$	**5,708,436**	$	**12,789,617**

BALANCE SHEET

Assets		
Bank Account	$	21,100,540
State Treasury	$	49,123,666
Receivable from Provider	$	-
Accounts Receivable	$	1,642,810
Due from ASE	$	505,747
Total Assets	$	**72,372,763**
Liabilities		
Accounts Payable	$	642
Due to ASE	$	-
Deferred Revenues	$	-
Health IBNR	$	28,000,000
RX IBNR	$	1,800,000
Total Liabilities	$	**29,800,642**
Net Assets	$	**42,572,121**
Less Reserves Allocated:		
Premiums for Plan Year 1/1/14 - 12/31/14 ($43,000,000)	$	(32,250,000)
Catastrophic Reserve (2014 - $11,100,000)	$	(10,322,121)
Net Assets Available	$	**(0)**

Public School Employees (PSE) Financials - January 1, 2013 through March 31, 2013				
	Gold	Silver	Bronze	Total
Actives	37,571	7,643	26,389	71,603
Retirees	2,523	37	914	3,474
Medicare	8,449			8,449
Total	48,543	7,680	27,303	83,526

Revenues & Expenditures

	Current Month	Year to Date (3 months)
Funding		
District Contribution	$ 8,178,489	$ 24,545,889
Employee Contribution	$ 11,038,910	$ 33,292,699
Dept of Ed $35,000,000 & $15,000,000	$ 3,181,818	$ 13,295,455
Other	$ 24,168	$ 108,586
Allocation for Active/Retiree Premiums for Plan Year 2013	$ 750,000	$ 2,250,000
Total Funding	$ 23,173,384	$ 73,492,628
Expenses		
Medical Expenses:		
Claims Expense	$ 20,729,371	$ 55,458,100
Claims IBNR	$ -	$ -
Medical Admin Fees	$ 1,598,794	$ 4,786,465
Refunds	$ 25,861	$ 52,567
Employee Assistance Program (EAP)	$ 81,817	$ 246,214
Pharmacy Expenses:		
RX Claims	$ 6,275,631	$ 17,438,722
RX IBNR	$ -	$ -
RX Admin	$ 40,527	$ 772,273
Plan Administration	$ 388,152	$ 1,175,884
Total Expenses	$ 29,140,154	$ 79,930,224
Net Income/(Loss)	$ (5,966,769)	$ (6,437,596)

Balance Sheet

Assets	
Bank Account	$ 11,322,719
State Treasury	$ 23,073,950
Receivable from Provider	$ 208,717
Accounts Receivable	$ 5,121,967
Due from ASE	$ 15,614
Total Assets	$ 39,742,967
Liabilities	
Accounts Payable	$ 86
Due to ASE	$ -
Deferred Revenues	$ 1,794,868
Health IBNR	$ 24,700,000
RX IBNR	$ 2,600,000
Total Liabilities	$ 29,094,954
Net Assets	$ 10,648,013
Less Reserves Allocated:	
Active/Retiree Premiums for Plan Year 01/01/13 - 12/31/13 ($9,000,000)	$ (6,750,000)
Active/Retiree Premiums for Plan Year 01/01/14 - 12/31/14 ($3,600,000)	$ (3,600,000)
Catastrophic Reserve (2013 - $11,100,000)	$ (298,013)
Net Assets Available	$ 0

Note: 5th Week of Medical and Pharmacy Claims = $5,341,040

Arkansas State Employees (ASE) Financials - January 1, 2014 through March 31, 2014								
	GOLD		SILVER		BRONZE		GRAND TOTALS	
	Employee Only	Plus Dependents	Employee Only	Plus Dependents	Employee Only	Plus Dependents	Employee Only	Plus Dependents
Actives	24290	44598	1523	2819	2308	4510	28121	51927
Retirees	2463	3425	25	37	55	103	2543	3565
Medicare	8152	10812					8152	10812
TOTAL	34905	58835	1548	2856	2363	4613	38816	66304

REVENUES & EXPENDITURES	Current Month	Year to Date (3 months)
Funding		
State Contribution	$ 14,317,578	$ 42,953,200
Employee Contribution	$ 7,636,636	$ 22,908,633
Other	$ 1,247,102	$ 1,987,463
Allocation for Actives - Plan Year 2014	$ 2,154,167	$ 6,462,500
Total Funding	**$ 25,355,483**	**$ 74,311,796**
Expenses		
Medical Expenses		
Claims Expense	$ 13,154,499	$ 43,938,034
Claims IBNR	$ -	$ -
Medical Administration Fees	$ 1,121,304	$ 3,310,903
Refunds	$ 10,684	$ 42,371
Employee Assistance Program (EAP)	$ 56,242	$ 168,711
Life Insurance	$ 54,747	$ 164,137
Pharmacy Expenses		
RX Claims	$ 5,232,324	$ 16,584,154
RX IBNR	$ -	$ -
RX Administration	$ 254,796	$ 763,156
Plan Administration	$ 372,618	$ 1,050,552
Total Expenses	**$ 20,257,215**	**$ 66,022,019**
Net Income/(Loss)	**$ 5,098,268**	**$ 8,289,777**

BALANCE SHEET		
Assets		
Bank Account		$ 9,360,267
State Treasury		$ 71,491,322
Due from Cafeteria Plan		$ 668,305
Due from PSE		$ -
Receivable from Provider		$ -
Accounts Receivable		$ 439,134
Total Assets		**$ 81,959,028**
Liabilities		
Accounts Payable		$ 2,520
Deferred Revenues		$ 4,920
Due to Cafeteria		$ 601
Due to PSE		$ 505,747
Health IBNR		$ 23,200,000
RX IBNR		$ 2,400,000
Total Liabilities		**$ 26,113,788**
Net Assets		**$ 55,845,240**
Less Reserves Allocated:		
Premiums for Plan Year 1/1/14 - 12/31/14	($7,460,000 + $9,390,000 + $9,000,000)	$ (19,387,500)
Premiums for Plan Year 1/1/15 - 12/31/15	($6,260,000 + $5,400,000)	$ (11,660,000)
Premiums for Plan Year 1/1/16 - 12/31/16	($3,600,000)	$ (3,600,000)
Catastrophic Reserve		$ (10,600,000)
Net Assets Available		**$ 10,597,740**

Arkansas State Employees (ASE) Financials - January 1, 2013 through March 31, 2013				
	Gold	Silver	Bronze	Total
Actives	45,785	2,054	3,445	51,284
Retirees	3,335	36	74	3,445
Medicare	10,255			10,255
Total	59,375	2,090	3,519	64,984

Revenues & Expenditures	Current Month	Year to Date (3 months)
Funding		
State Contribution	$ 13,534,916	$ 40,618,512
Employee Contribution	$ 7,226,921	$ 21,684,789
Other	$ 273,248	$ 652,032
Allocation for Active/Retiree Plan Year 2013	$ 2,236,667	$ 6,710,000
Total Funding	$ 23,271,751	$ 69,665,333
Expenses		
Medical Expenses		
Claims Expense	$ 18,703,608	$ 49,007,706
Claims IBNR	$ -	$ -
Medical Admin Fees	$ 1,071,956	$ 3,238,560
Refunds	$ 6,761	$ 29,748
Employee Assistance Program (EAP)	$ 56,460	$ 169,424
Life Insurance	$ 54,888	$ 164,655
Pharmacy Expenses		
RX Claims	$ 7,913,454	$ 22,070,233
RX IBNR	$ -	$ -
RX Admin	$ 26,751	$ 592,353
Plan Administration	$ 305,765	$ 858,254
Total Expenses	$ 28,139,642	$ 76,130,933
Net Income/(Loss)	$ (4,867,891)	$ (6,465,600)

Balance Sheet	
Assets	
Bank Account	$ 2,433,700
State Treasury	$ 88,485,345
Due from Cafeteria Plan	$ 610,945
Due from PSE	$ -
Receivable from Provider	$ 151,460
Accounts Receivable	$ 1,490,114
Total Assets	$ 93,171,564
Liabilities	
Accounts Payable	$ 472
Deferred Revenues	$ 87,843
Due to Cafeteria	$ 827
Due to PSE	$ 15,614
Health IBNR	$ 21,100,000
RX IBNR	$ 3,200,000
Total Liabilities	$ 24,404,756
Net Assets	$ 68,766,808
Less Reserves Allocated:	
Active/Retiree Premiums for Plan Year 1/1/13 - 12/31/13 ($11,190,000 + $15,650,000)	$ (20,130,000)
Active/Retiree Premiums for Plan Year 1/1/14 - 12/31/14 ($7,460,000 + $9,390,000)	$ (16,850,000)
Active/Retiree Premiums for Plan Year 1/1/15 - 12/31/15 ($6,260,000)	$ (6,260,000)
Catastrophic Reserve	$ (10,000,000)
Net Assets Available	$ 15,526,808

Note: 5th week of Medical and Pharmacy Claims = $5,373,491

EXHIBIT 3

IMPACT OF REMOVING PART-TIME EMPLOYEES FROM PSE - 2015

	(A)	(B)	(C)	(D)	(E)	(A)-(B)-(C)-(D)-(E)	
	Total Monthly Premium*	Direct State Contribution	Min. School District Contrib.	Employee Contributions @2014 Rate	Retiree Contributions (2015 Premiums)	Additional $ Needed	Assumed Enrollment
Baseline - (April Benefits Committee & Board)							
Actives	$278.3	$86.6	$79.9	$77.9	n/a	$33.9	44,415
Non-Medicare Eligible Retirees	$29.0	$0.0	$0.0	n/a	$29.0	n/a	3,829
Medicare Eligible Retirees	$13.4	$0.0	$0.0	n/a	$13.4	n/a	9,481
Total - Baseline	$320.7	$86.6	$79.9	$77.9	$42.5	$33.9	57,725
Scenario 1 - If 2,849 Part-Time Employees Removed							
Actives	$264.4	$86.6	$74.8	$73.2	n/a	$29.8	41,566
Non-Medicare Eligible Retirees	$29.3	$0.0	$0.0	n/a	$29.3	n/a	3,829
Medicare Eligible Retirees	$13.7	$0.0	$0.0	n/a	$13.7	n/a	9,481
Total - Scenario 1	$307.4	$86.6	$74.8	$73.2	$43.0	$29.8	54,876
Change from Baseline	($13.3)	$0.0	($5.1)	($4.7)	$0.6	($4.1)	(2,849)
Scenario 2 - If 4,600 Part-Time Employees Removed							
Actives	$255.8	$86.6	$71.6	$70.3	n/a	$27.3	39,815
Non-Medicare Eligible Retirees	$29.5	$0.0	$0.0	n/a	$29.5	n/a	3,829
Medicare Eligible Retirees	$13.9	$0.0	$0.0	n/a	$13.9	n/a	9,481
Total - Scenario 2	$299.2	$86.6	$71.6	$70.3	$43.4	$27.3	53,125
Change from Baseline	($21.5)	$0.0	($8.3)	($7.5)	$0.9	($6.6)	(4,600)

We read OCA's write-up to say that they assume the District contributions would not decrease.
The Results under that assumption are shown below

Scenario 3 - If 2,939 Part-Time Employees Removed							
Actives	$264.4	$86.6	$79.9	$73.2	n/a	$24.6	41,535
Non-Medicare Eligible Retirees	$29.3	$0.0	$0.0	n/a	$29.3	n/a	3,773
Medicare Eligible Retirees	$13.7	$0.0	$0.0	n/a	$13.7	n/a	9,478
Total - Scenario 3	$307.4	$86.6	$79.9	$73.2	$43.0	$24.6	54,786
Change from Baseline	($13.3)	$0.0	$0.0	($4.7)	$0.6	($9.2)	(2,939)
Scenario 4 - If 4,600 Part-Time Employees Removed							
Actives	$255.8	$86.6	$79.9	$70.3	n/a	$19.0	39,815
Non-Medicare Eligible Retirees	$29.5	$0.0	$0.0	n/a	$29.5	n/a	3,829
Medicare Eligible Retirees	$13.9	$0.0	$0.0	n/a	$13.9	n/a	9,481
Total - Scenario 4	$299.2	$86.6	$79.9	$70.3	$43.4	$19.0	53,125
Change from Baseline	($21.5)	$0.0	$0.0	($7.5)	$0.9	($14.9)	(4,600)

OCA's write-up also assumed that 1,200 new part-time employees would have elected coverage in 2015. This changes the baseline as follows.

Actives	$284.6	$86.6	$82.3	$80.0	n/a	$35.7	45,715
Non-Medicare Eligible Retirees	$28.9	$0.0	$0.0	n/a	$28.9	n/a	3,829
Medicare Eligible Retirees	$13.3	$0.0	$0.0	n/a	$13.3	n/a	9,481
Total - New Baseline	$326.8	$86.6	$82.3	$80.0	$42.2	$35.7	59,025
Change from Baseline	$6.1	$0.0	$2.3	$2.1	$41.6	$1.9	1,300

Therefore, if the Scenario 4 above were compared to the new baseline, the totals would be as follows:

Total - Scenario 4	$299.2	$86.6	$79.9	$70.3	$43.4	$19.0	53,125
Change from New Baseline	($27.6)	$0.0	($2.3)	($9.6)	$1.2	($16.8)	(5,900)

*ME Retiree premiums are net of subsidies from actives & NME retirees

Results based on data incurred in 2013 and paid through February 2014; follows assumptions and methods as presented April 22, 2014.

EXHIBIT 4

Fraud in the Workplace?
Evidence from a Dependent Verification Program

by

Michael Geruso, University of Texas at Austin
Harvey S. Rosen, Princeton University

Griswold Center for Economic Policy Studies
Working Paper No. 232, April 2013

Acknowledgements: We are grateful for invaluable advice from the human resources experts at the (unnamed) employer whose data were used in this paper, to Peter Perdue for outstanding research assistance, to Janet Holtzblatt, Jonathan Meer, and Katherine Swartz for useful suggestions, and to Princeton's Griswold Center for Economic Policy Studies for financial support.

Abstract

Fraud in the Workplace?

Evidence from a Dependent Verification Program

In recent years many employers, both in the private and public sectors, have implemented dependent verification (DV) programs, which aim to reduce employee benefits costs by ensuring that ineligible persons are not enrolled in their health plan as dependents. However, little is known about their efficacy. In this paper, we evaluate a DV program using a panel of health plan enrollment data from a large, single-site employer who implemented it several years ago. We find that relative to all other years, dependents were 2.7 percentage points less likely to be reenrolled in the year that DV was introduced, indicating that this fraction of dependents was ineligibly enrolled prior to the program's introduction. These disenrollment effects were especially large for same-sex partners and older children. We show that the program did not induce employees to leave the employer's plan and (say) put themselves and their dependents on the spouse's plan. We also show that disenrollment occurred because dependents were actually ineligible, not because of compliance costs that might be associated with providing documentation. The DV program saved about $46 per enrolled employee. A considerable fraction of these cost savings came from removing older children who didn't meet additional criteria. Therefore, the dependent coverage provision of the Affordable Care Act of 2010, which essentially renders all children up to age 26 eligible in all employer health plans, will substantially limit the future cost saving potential of such programs. Hence, as the state governments and private employers that have implemented DV programs adapt to the new regulatory environment, the popularity of dependent verification programs may well diminish.

Michael Geruso
Department of Economics
University of Texas at Austin
Austin, TX 78712

mike.geruso@austin.utexas.edu

Harvey S. Rosen
Department of Economics
Princeton University
Princeton, NJ 08544

hsr@princeton.edu

EXHIBIT 5

PSE

Monthly Premiums for Public School Active Employees

	Actual 2014 Base Monthly Premium*	If Retirees Separated*	Difference
Employee Only			
Gold	$566.72	$534.72	**($32.00)**
Silver	$426.54	$418.86	**($7.68)**
Bronze	$267.66	$251.30	**($16.36)**
Employee & Spouse			
Gold	$1,360.06	$1,286.18	**($73.88)**
Silver	$1,009.82	$997.90	**($11.92)**
Bronze	$600.98	$566.92	**($34.06)**
Employee & Child(ren)			
Gold	$1,048.24	$990.66	**($57.58)**
Silver	$779.76	$769.50	**($10.26)**
Bronze	$468.20	$441.02	**($27.18)**
Family			
Gold	$1,841.60	$1,742.12	**($99.48)**
Silver	$1,363.04	$1,348.54	**($14.50)**
Bronze	$801.52	$756.66	**($44.86)**

Monthly Premiums for Public School Non-Medicare Retirees

	Actual 2014 Base Monthly Premium*	If Retirees Separated*	Difference
Retiree Only			
Gold	$566.72	$738.90	**$172.18**
Silver	$426.54	$670.70	**$244.16**
Bronze	$267.66	$539.38	**$271.72**
Retiree & Spouse			
Gold	$1,360.06	$1,584.88	**$224.82**
Silver	$1,009.82	$1,438.62	**$428.80**
Bronze	$600.98	$1,143.28	**$542.30**
Retiree & Child(ren)			
Gold	$1,048.24	$1,233.64	**$185.40**
Silver	$779.76	$1,119.52	**$339.76**
Bronze	$468.20	$891.72	**$423.52**
Retiree & Family			
Gold	$1,841.60	$2,151.66	**$310.06**
Silver	$1,363.04	$1,952.82	**$589.78**
Bronze	$801.52	$1,546.94	**$745.42**
Retiree & Medicare Primary Spouse			
Gold	$720.18	$1,099.30	**$379.12**
Silver	---	---	
Bronze	---	---	
Retiree & Medicare Primary Spouse & Child(ren)			
Gold	$1,201.70	$1,594.04	**$392.34**
Silver	---	---	
Bronze	---	---	

Monthly Premiums for Public School Medicare Retirees

	Actual 2014 Base Monthly Premium*	If Retirees Separated*	Difference
Retiree Only	$153.46	$183.65	**$30.19**
Retiree & Spouse	$708.98	$922.55	**$213.57**
Retiree & Child(ren)	$676.52	$678.40	**$1.88**
Retiree & Family	$1,428.33	$1,417.30	**($11.03)**
Retiree & Medicare Primary Spouse	$306.92	$337.11	**$30.19**
Retiree & Medicare Primary Spouse & Child(ren)	$788.44	$831.86	**$43.42**

*Includes $5 per adult to replenish reserves

SENATOR HENDREN ADDITIONAL QUESTIONS

APRIL 22, 2014

Mark Meadors

From: Bob Alexander <Bob.Alexander@dfa.arkansas.gov>
Sent: Tuesday, April 22, 2014 7:30 PM
To: Doug Shackelford; John Colberg; Mark Meadors
Subject: Fwd: Questions - More Info PSE Insurance

Sent from my iPhone

Begin forwarded message:

> **From:** Jody Carreiro <JodyC@oca-actuaries.com>
> **Date:** April 22, 2014, 5:28:28 PM CDT
> **To:** "Hudson, Mark" <mark@blr.arkansas.gov>, 'Bob Alexander' <Bob.Alexander@dfa.arkansas.gov>, Stuart Collier <scollier@collier.com>
> **Cc:** 'Jim Business' <jimhendren@hendrenplastics.com>, Hendren Jim <HendrenJim@arkleg.state.ar.us>, 'Henry Lindeman' <hlindeman@collier.com>
> **Subject: RE: Questions - More Info PSE Insurance**
>
> Gentlemen,
>
> There will clearly be more to respond to these issues, but I said we would get the response going today and it is below. We here at OCA have tried to at least combine the response from the Collier team and our team together and try to make clear what each team was responsible for. There are some items that either explicitly or implicitly need input from EBD. I plan to directly reach out to Bob Alexander tomorrow about the three plan tier set up and the Collier team is going to run their econometric model on what is described below to make sure that it has the same total plan cost reductions. In other words, after that run and additional input is received, the answer to item 3 will be adjusted.
>
> The responses will be in blue after the questions.
>
> Jody Carreiro
> Jody B. Carreiro, FCA, ASA, MAAA, EA
> Actuary
> Osborn, Carreiro & Associates, Inc.
> 124 West Capitol Ave., Suite 1690
> Little Rock, AR 72201
> (501) 376-8043
>
> -----Original Message-----
> From: Hudson, Mark [mailto:mark@blr.arkansas.gov]
> Sent: Thursday, April 17, 2014 7:25 AM
> To: Jody Carreiro; 'Bob Alexander'; Stuart Collier
> Cc: 'Jim Business'; Hendren Jim; 'Henry Lindeman'
> Subject: FW: Questions - More Info PSE Insurance
> Importance: High
>
> Gentlemen,

Thanks for your hard work and great presentation today. Your presentations did raise a few questions since I have had some more time to review some of the data you handed out. I have listed them below and would like responses from each of you, if appropriate.

1. Collier / Osborn- Assumption of 36 Million in savings by making Employees working less than 30 hr/wk ineligible. How can this be when Osborn's handout shows on page 4 that total payout of claims was only $11,369.932?

First to clarify, the measurement of $36 million was from a projected 2015 system based on the behavior model under the assumption that the state continues to follow the same funding pattern, compared with a 2015 system that is the same except all of the identified part time people are excluded. This was labeled as the difference between the Maintain option and the Remove under 30 Hour option.

OCA attempted to verify coming from another direction.

1. There were about $11.4 million of claims identified with the under 30 hour people in 2013. This represented about 2,900 claimants.
2. The enrollment information we had was as of 2014, so if we implied the 2013 enrollment based on the fact that we paid claims for about 95% of enrollees, that would mean there were just over 3,000 employees enrolled. The state money used to supplement those premiums in 2013 was about $163 PEPM. This is $5.9 million dollars that could be used elsewhere in the system.
3. The savings in 2013 would then be about $17.3 million.
4. Based on the enrollment information received and the way that the numbers were completed, the under 30 enrollment for 2014 is about 4,600 (4,654) members. If these completion assumptions hold, the claims will increase from $11.4 by (4600/3000) to about $17.5. This would be increased for one year of medical inflation (9%) to $19.1. The state money available for redistribution would also increase $5.9 X (4600/3000) = $9.0. This is a total in 2014 of $28.1 million.
5. In 2015, the behavioral model would have many more part time people electing coverage since the personal penalty is assumed to kick in. If another 1,300 of the 4,200 eligible but waived part time elect coverage and the same model was in place and therefore a similar savings, this would produce the additional savings of $8.2 million in 2015, so that the total savings in 2015 is in the range of the $36.3 million in the Continuous Health report. (there are an anticipated 8,825 PT employees eligible for coverage: 4,532 enrolled and 4,293 waived)

2. EBD/Collier/Osborn - EBD had different numbers and feelings about spousal participation. Can we come to agreement on what the actual number is and if the 3.4 Million projected savings from spousal exclusion is an accurate projection?

On the dependent and spouse question, there are two parts of those items. These are Collier team calculations, but the OCA team verified certain pieces of these calculations. This will be detailed in this answer so that the portion of the formula that may generate some disagreement can be discussed more directly.

First, the Dependent Audit. That savings amount is based on the following:

25,161	Dependents from the 2014 projected active total count minus employees
X 8%	the Collier team estimate of number of dependents that would be removed.
X $2,629	2013 Dependent PEPY cost,
Less $261,110	Estimated cost of audit work from Collier team
$5,030,752	Estimated Cost Reductions

OCA verified that the 25,161 came from the EBD report. OCA calculated the 2013 Dependent PEPY cost based on the data given to us. Collier team has been involved in audit work in the past and was able to provide an estimate of cost. The item that may generate discussion is the 8%. This is an estimate based on the experience of the Collier team. OCA did not have the experience to verify and there is little national literature on the subject. There is a public report on the Eligibility Audits done by the West Virginia Public Employees Insurance Agency that is available and it was an audit of an even bigger group of insureds. That audit ultimately excluded 9.2% of dependents. Various websites of companies that advertise dependent audit suggest that there is a real market for making improvements in eligibility through such audits. Therefore, OCA found nothing to dispute the validity of that estimate.

The second part of that discussion was the Spousal Exclusion. This amount was estimated as follows:

7,172	Total Spouses per the 2014 projected enrollment
X 10%	The Collier team estimate of number of spouses with coverage
X $4,920	2013 Spouse PEPY cost
Less $81,220	Estimated cost of this audit work from Collier team
$3,447,404	Estimated Cost Reductions

OCA verified the number of spouses from the EBD report. OCA calculated the 2013 Spouse PEPY based on the data given to us. Collier team has been involved in this type of audit work in the past and was able to provide an estimate of cost. The spousal exclusion is a newer discussion that is resultant of ACA, therefore the evidence is still anecdotal. But, the evidence that exists suggests that the number at least 10%. Therefore, OCA found nothing to dispute the validity of that amount.

3. EBD/Collier/Osborn - Plan Design - I would like EBD to prepare a plan design based on the assumptions in Collier's pricing model for presentation. It looks like Osborne has done most of that already in there handout. However, since procurement laws may prevent us from moving to a 4 plan system in 2015, can we find a 3 plan system that will realize similar savings and price structure.

The OCA and Collier team heard all of the discussion last week about the need for a serious look at a 3 tier system that includes some more distinct choice. This would be in place of a four tier system that was shown. We have discussed the details of this and the Collier team will need to run the 3 valued tiers through their choice model to ensure that the efficiencies of a choice/premium combination remain. The initial discussion was generally to use the four tier system and cut off the top tier. That is, 80%, 70% and 60% AV plans using the premium structure in the OCA report. The more this was discussed and after listening to other inputs, we propose to test a three tier system where the top or Gold plan is similar to the current with some minor adjustments (about 85-87% AV) and then a Silver and Bronze that are 10-11% lower in AV. Possibly, something like 87%, 76% and 65%. This means Silver would be similar to current Silver benefits and Bronze would be reduced some in benefits. This should provide enough benefit (and ultimately price) difference to make the choices work efficiently assuming the demographic choice assumptions hold true. Therefore, OCA will need to provide a chart similar to what was in the addendum for these three plans and OCA in conjunction with Collier team will need to show the initial estimate of the gross and net employee premiums associated with those three plans. We should have this complete before the next meeting. Please note, the teams are not pricing these products, that will have to be done by EBD and their actuary, but we will have illustrative premiums based on experience that reflect the level of benefits so that the Task Force can see the effects of an efficient three tier model.

We have heard concern about one of the several reasons that the Silver has not worked well as a middle choice was that people "jumped" Silver because they wanted to stay with the BCBS structure of Gold and Bronze. EBD would need to address the level of this avoidance and any change that should be considered to address that part of the equation.

4. EBD/Osborn - Obviously, we need to verify that raising bronze plant to 80 or 85 dollars still complies with 9.5% requirement.

It is our understanding that one of the safe harbor rules to meet affordability is 9.5% of the Federal Poverty Line (currently $11,670). That amount would be $92.38 per month (9.5% X 11,670 / 12). Therefore, as long as the bronze premium was below this amount we are meeting the affordability rule. As noted, discussions have been as much as $80 or $85, which is below that limit.

I will be working with BLR for draft legislation regarding Part Time Employees; Dependent Verification Requirement, and spousal exclusion. However, I need to be sure we are in agreement about actual savings these three items would likely produce.

I will also prepare draft legislation that would segregate retiree plan. I'm not sure how that will go, but, again, I would like some consensus of likely cost savings to plan. If you don't agree - then each of you tell me your number and what you base it on.

I believe if we go with 3 plans and simply modify payment and benefit structure, legislation won't be required, but I need EBD to confirm that this is the case.

As I told you all after the meeting, the most important part that legislators will need is a clear chart showing current plan benefits and premiums vs new premiums and benefits. The other important talking point is what is net aggregate savings or costs to the Public School Employees. And of course, what is the net savings for the State due to plan restructure.

Regarding additional taskings by members of the task force. My hope is that since most of the modeling is done, it will not be difficult to plug in different scenarios. I believe that's what we were told we could do. However, if we get to the point that either of the firms under contract have exceeded their contracted obligations, let me know and we'll see what we can do. As we are under time constraints, if we have to wait for additional contract approval, this could cause us some real challenges.

I know you all have worked very hard and I'm asking for some additional effort to tidy this proposal up for presentation. Please help me get it done in a timely manner so we can get the program fixed in time for our 2015 year.

Thanks again for your hard work.

Jim Hendren
Senator - District 2