

Self-Insurance Estimating Conference
State Employees' Health Insurance Trust Fund
Last conference held: March 3, 2005

Executive Summary

The outlook for the State Employees' Health Insurance Trust Fund has improved significantly from the October forecast. The projected 2004-05 ending balance of the fund gained from \$81.7 million to \$109.4 million, and the 2005-06 ending balance changed from 2.9 million to \$86.3 million. The 2006-07 outlook tells a different story, however, projecting an ending balance for the trust fund of -\$98.0 million.

The enrollment projections were changed only slightly, decreasing overall by 153 participants in 2004-05 and increasing by 80 participants in 2005-06. The main difference since the previous forecast is a lower than expected migration of participants from the HMO plan to the PPO plan during the most recent open enrollment, which impacts the relative expenditures between the two plans.

Changes in the projections for revenues were also relatively small. The major change results from the higher level of pharmacy rebates expected due to the newly negotiated pharmacy administration contract, which adds \$7.1 million in additional revenues in 2005-06. Other positive impacts result from higher than expected interest on investments (\$.4 million in 2004-05 and \$1.3 million in 2005-06) due to higher than projected trust fund balances, and the expectation of projected premium surpluses associated with the newly offered TRICARE supplemental health benefit plan (\$1.6 million in 2005-06).

The most significant difference since the previous forecast is in PPO Plan Prescription Drug costs. The most recent data has shown a marked change in both costs and utilization resulting in lower than expected growth in recent months. Industry price reductions, copayment changes effective January 2004, and utilization of lower cost options including generic alternatives have been the major factors causing the lower growth rate. Additionally, contract price reductions were negotiated effective in January of 2005. These factors combine to support a reduction in the expected growth trends from 15.5% in the old forecast to 13.5% in the new forecast. The result is a decrease in program costs by \$15.4 million (7.7%) in 2004-05 and \$18.1 million (7.8%) in 2005-06.

The medical component of the State self-insured PPO plan has also been cut, with reductions of \$12.2 million (2.5%) in 2004-05 and \$23.9 million (4.4%) in 2005-06. The reductions are consistent with steadily declining growth rates, with the trend assumption being dropped from 12.0% in the last forecast to 11.0% in the current forecast.

HMO costs were affected by lower projected enrollment. The forecast was reduced by \$2.2 million (.5%) in 2004-05 and by \$5.7 million (1.1%) in 2005-06. Consistent with the previous forecast, the overall increase in contract rates is expected to be 12.0% for calendar year 2006; the 12.0% rate is extended in this forecast to calendar year 2007

Although the outlook for the trust fund for 2004-05 and 2005-06 is improved significantly from the previous forecast, by 2006-07 the outlook becomes less positive. Continued increases in costs with no growth monthly premium amounts result in an operating deficit of \$184.3 million for that year, resulting in a projected ending balance of -\$98.0 million.

State Employees' Group Health Self-Insurance Trust Fund

Report on the Financial Outlook

For the Fiscal Years Ending June 30, 2005, 2006 and 2007

Presented March 3, 2005

EXECUTIVE SUMMARY

The outlook for the State Employees' Group Health Self-Insurance Trust Fund has improved significantly from the previous forecast. Gross enrollment and revenue projections have changed slightly and stabilization of revenue is expected upon maturity of the ten-percent premium increase. The outlook for program expenses improved favorably and overall expense growth is expected to align with industry expectations during the forecast period.

The projected ending cash balance for fiscal year 2004-05 is increased from \$81.7 million to \$109.4 million. An operating gain of \$51.1 million is estimated, up \$27.7 million. With no change to benefit design, benefit attributes and premium rates, the projected ending cash balance for fiscal year 2005-06 is increased from \$2.9 million to \$86.3 million, an improvement of \$83.4 million. An operating loss of \$23.1 million is estimated, down \$55.7 million from \$78.8 million. The Fund is projected to go from a cash surplus of \$86.3 million to a projected ending cash deficit of \$98.0 million by fiscal year end 2007. The projected stabilization of revenue will fall short by \$184.3 million in meeting the expense growth.

Table 1. provides a summary of the outlook by fiscal year.

Table 1. Financial Outlook

	FY <u>2004-05</u>	FY <u>2005-06</u>	FY <u>2006-07</u>
BEGINNING CASH BALANCE	58.3	109.4	86.3
REVENUES ¹	1,203.6	1,266.9	1,270.1
EXPENSES ²	(1,152.5)	(1,290.0)	(1,454.4)
OPERATING GAIN/(LOSS)	<u>51.1</u>	<u>(23.1)</u>	<u>(184.3)</u>
ENDING CASH BALANCE	<u>109.4</u>	<u>86.3</u>	<u>(98.0)</u>

Dollars in Millions

¹ Includes a 10% premium increase effective January 1, 2005.

² Includes enhancement to the Lifetime Maximum benefit and Preventive Care/Wellness benefits in the State self-insured PPO plan effective July 1, 2004, and January 1, 2005, respectively.

Projected premium surpluses associated with the newly offered TRICARE supplemental health benefit plan, increased interest earnings, and negotiated increases in pharmacy rebate collections are driving the slight increase in projected revenue. The leading reason for the significant improvement in cash position is due to the affect of a slowing in the underlying growth rates in the State self-insured PPO plan for both the medical and pharmacy components.

Projected growth rates have been steadily dropping in the medical component of the State self-insured PPO plan. Due to the size of the State self-insured PPO plan, measured by both covered lives and dollars spent, the compounding affect of reducing annual growth rates by a half-percent to one-percent can have a noticeable impact on medical spend. Growth rates as high as 13.5% were projected a few years ago with continued incremental reductions since that time. The current growth rate assumption has been reduced from 12.0% to 11.0% for the forecast period. The projected growth rate falls within the expected industry range of 10.0 – 12.0%.

Consistent with industry norms, factors such as market pressures, benefit design changes, new cost control mechanisms, provider contract renegotiations, etc. are some of the reasons favorably impacting medical spend in a self-insured PPO health care environment. However, competing forces such as enrollment demographics and member health risks, types and frequency of services provided, price inflation, utilization of care, technology, etc. remain apparent and continue to prevent a sharp curving of price and utilization growth rates.

Projected growth rates have been relatively stable at 15.0 – 16.0% in the pharmacy environment of the State self-insured PPO plan for the last few years. Even though pharmacy spend is typically below 30% of the total cost for both the medical and pharmacy components of the State self-insured PPO plan, the compounding effect of reducing annual growth rates by one-percent to two-percent also has a noticeable impact on spend.

Emerging pharmacy cost and utilization data is indicating industry price reductions, utilization of lower cost alternatives inclusive of increases in generic dispensing rates, and continued savings resulting from the copayment changes effective January 2004. These factors, combined with negotiated contract price reductions effective January 2005, collectively support a reduction in the growth rate assumption from 15.5% to 13.5% for the forecast period. The projected growth rate falls within the expected industry range of 12.0 - 14.0%.

The projected medical and pharmacy cost reduction in the State self-insured PPO plan is \$28.6 million in fiscal year 2004-05 and an additional \$46.9 million in fiscal year 2005-06 – a cumulative effect to cash position of \$75.5 million through fiscal year 2005-06. The overall projected growth rate for the State self-insured PPO plan, inclusive of medical, pharmacy, and TPA administrative fees, is approximately 11.5% for the forecast period. The expected industry range is 10.5 – 12.5%.

HMO premium payments are projected to be slightly less than previously projected due to a smaller migration of State self-insured PPO plan subscribers to an HMO resulting from the 2004 Open Enrollment. The cumulative decrease in projected expenses through fiscal year 2005-06 is \$7.9 million. The overall increase in contract rates is projected to be 12.0% for calendar year 2006 and 2007. The rate increase assumption falls within the expected industry range of 11.0 – 14.0% and is consistent with the previous forecast.

It is noteworthy that the contractual agreements for Third-Party Administration, Pharmacy Benefits Management, and State-contracted HMOs are due to expire during the forecast period. Assumptions and projected growth rates used for the forecast could be directly impacted by the results of the procurements.

Enrollment patterns continue to suggest a rather stabilizing employee enrollment base, but increased growth continues to occur in both the pre-Medicare and Medicare eligible retiree populations (4.6% during the forecast period). As a result, a three-year average increase of .6% is projected to occur in total subscriber enrollment. Total average enrollment is projected to be 169,032 for fiscal year 2004-05, 169,928 by fiscal year 2005-06, and 170,979 by fiscal year 2006-07. Annual subscriber enrollment growth has continued to be below one-percent since fiscal year 2000-01. Enrollment patterns also suggest that plan distribution by subscriber will approximate 64% enrollment in the State self-insured PPO plan and 36% in the State-contracted HMOs during the forecast period.

The exhibits that follow provide more in-depth information about projected enrollment, cash positions, and comparisons to the previous forecast.

Exhibit I
Financial Outlook
By Fiscal Year
(In Millions)

	<u>FY 04-05</u>	<u>FY 05-06</u>	<u>FY 06-07</u>	
BEGINNING CASH BALANCE	\$ 58.3	\$ 109.4	\$ 86.3	
REVENUES:				
Insurance Premiums:				
State Contributions	\$ 888.1	\$ 934.2	\$ 931.9	
Employee Contributions	155.0	154.3	153.6	
Medicare Contributions	77.4	83.5	86.6	
Early Retiree Contributions	45.6	49.5	52.4	
COBRA Contributions	6.8	7.1	7.1	
Interest on Investments	2.6	3.2	1.0	
TPA Refunds/PBM Rebates	14.1	19.5	20.8	
Pretax Trust Fund Transfer	14.0	14.0	14.0	
Transfer: TRICARE Surplus ⁽¹⁾	0.0	1.6	2.7	
Other Revenues	0.0	0.0	0.0	
TOTAL REVENUES	\$ 1,203.6	\$ 1,266.9	\$ 1,270.1	
TOTAL CASH AVAILABLE	\$ 1,261.9	\$ 1,376.3	\$ 1,356.4	
EXPENSES:				
PPO Plan - Medical Claims	\$ 470.0	\$ 519.9	\$ 576.2	
PPO Plan - Prescription Drug Claims	183.8	213.9	249.7	
HMO Premiums	451.8	509.3	581.6	
ASO Fee - TPA	38.6	38.6	38.6	
DSGI Administrative Costs	4.2	4.2	4.2	
Premium Refunds	4.0	4.0	4.0	
Other Expenses	0.1	0.1	0.1	
TOTAL EXPENSES	\$ 1,152.5	\$ 1,290.0	\$ 1,454.4	
EXCESS OF REVENUES OVER EXPENSES	\$ 51.1	\$ (23.1)	\$ (184.3)	
ENDING CASH BALANCE	\$ 109.4	\$ 86.3	\$ (98.0)	
Average Enrollment by Plan	PPO Plan	108,532	108,205	107,866
	HMO Plans	60,500	61,723	63,113
	Total	169,032	169,928	170,979
Average Enrollment by Coverage Type	Active	135,984	135,804	135,449
	Medicare	23,564	24,346	25,269
	Early Retirees	8,305	8,607	9,090
	Cobra	1,179	1,171	1,171
	Total	169,032	169,928	170,979

⁽¹⁾ Transfer of the supplemental TRICARE health benefit plan surplus from Cash Account 2668004.

Exhibit II
Financial Outlook
Fiscal Year 2004-05
(In Millions)

	(A) Financial Outlook <u>October '04</u>	(B) Financial Outlook <u>March '05</u>	(B) - (A) Difference	
BEGINNING CASH BALANCE	\$ 58.3	\$ 58.3	\$ 0.0	
REVENUES:				
Insurance Premiums:				
State Contributions	\$ 889.0	\$ 888.1	\$ (0.9)	
Employee Contributions	154.7	155.0	0.3	
Medicare Contributions	77.5	77.4	(0.1)	
Early Retiree Contributions	46.9	45.6	(1.3)	
COBRA Contributions	7.3	6.8	(0.5)	
Interest on Investments	2.2	2.6	0.4	
TPA Refunds/PBM Rebates	14.1	14.1	0.0	
Pretax Trust Fund Transfer	14.0	14.0	0.0	
Other Revenues	0.0	0.0	0.0	
TOTAL REVENUES	\$ 1,205.7	\$ 1,203.6	\$ (2.1)	
TOTAL CASH AVAILABLE	\$ 1,264.0	\$ 1,261.9	\$ (2.1)	
EXPENSES:				
PPO Plan - Medical Claims	\$ 482.2	\$ 470.0	\$ (12.2)	
PPO Plan - Prescription Drug Claims	199.2	183.8	(15.4)	
HMO Premiums	454.0	451.8	(2.2)	
ASO Fee - TPA	38.6	38.6	0.0	
DSGI Administrative Costs	4.2	4.2	0.0	
Premium Refunds	4.0	4.0	0.0	
Other Expenses	0.1	0.1	0.0	
TOTAL EXPENSES	\$ 1,182.3	\$ 1,152.5	\$ (29.8)	
EXCESS OF REVENUES OVER EXPENSES	\$ 23.4	\$ 51.1	\$ 27.7	
ENDING CASH BALANCE	\$ 81.7	\$ 109.4	\$ 27.7	
Average Enrollment by Plan	PPO Plan	108,367	108,532	165
	HMO Plans	60,818	60,500	(318)
	Total	169,185	169,032	(153)
Average Enrollment by Coverage Type	Active	135,959	135,984	25
	Medicare	23,486	23,564	78
	Early Retirees	8,492	8,305	(187)
	Cobra	1,248	1,179	(69)
	Total	169,185	169,032	(153)

Exhibit III
Financial Outlook
Fiscal Year 2005-06
(In Millions)

	(A) Financial Outlook <u>October '04</u>	(B) Financial Outlook <u>March '05</u>	(B) - (A) Difference
BEGINNING CASH BALANCE	\$ 81.7	\$ 109.4	\$ 27.7
REVENUES:			
Insurance Premiums:			
State Contributions	\$ 933.7	\$ 934.2	\$ 0.5
Employee Contributions	153.8	154.3	0.5
Medicare Contributions	83.3	83.5	0.2
Early Retiree Contributions	52.1	49.5	(2.6)
COBRA Contributions	7.7	7.1	(0.6)
Interest on Investments	1.9	3.2	1.3
TPA Refunds/PBM Rebates	12.4	19.5	7.1
Pretax Trust Fund Transfer	14.0	14.0	0.0
Transfer: TRICARE Surplus ⁽¹⁾	0.0	1.6	1.6
Other Revenues	0.0	0.0	0.0
TOTAL REVENUES	\$ 1,258.9	\$ 1,266.9	\$ 8.0
TOTAL CASH AVAILABLE	\$ 1,340.6	\$ 1,376.3	\$ 35.7
EXPENSES:			
PPO Plan - Medical Claims	\$ 543.8	\$ 519.9	\$ (23.9)
PPO Plan - Prescription Drug Claims	232.0	213.9	(18.1)
HMO Premiums	515.0	509.3	(5.7)
ASO Fee - TPA	38.6	38.6	0.0
DSGI Administrative Costs	4.2	4.2	0.0
Premium Refunds	4.0	4.0	0.0
Other Expenses	0.1	0.1	0.0
TOTAL EXPENSES	\$ 1,337.7	\$ 1,290.0	\$ (47.7)
EXCESS OF REVENUES OVER EXPENSES	\$ (78.8)	\$ (23.1)	\$ 55.7
ENDING CASH BALANCE	\$ 2.9	\$ 86.3	\$ 83.4
Average Enrollment by Plan			
PPO Plan	107,497	108,205	708
HMO Plans	62,351	61,723	(628)
Total	169,848	169,928	80
Average Enrollment by Coverage Type			
Active	135,477	135,804	327
Medicare	24,124	24,346	222
Early Retirees	8,996	8,607	(389)
Cobra	1,251	1,171	(80)
Total	169,848	169,928	80

⁽¹⁾ Transfer of the supplemental TRICARE health benefit plan surplus from Cash Account 2668004.

Exhibit IV
Comparison of Financial Outlooks
Fiscal Year 2004-05
(In Millions)

\$ 81.7	Previously Forecasted Ending Cash Balance ⁽¹⁾
0.0	Increase in Beginning Cash Balance
(2.1)	Estimated Decrease in Forecasted Revenues
\$ (2.5)	- Decrease in Insurance Premiums due to a reduction in projected enrollment and category/coverage migration.
\$ 0.4	- Increase in Interest Income due to higher projected monthly ending cash balances.
29.8	Estimated Decrease in Forecasted Expenses
\$ 12.2	- Decrease in PPO Plan Medical Spend
\$ (0.7)	- Increase due to an increase in projected enrollment. (Projected average enrollment from 108,367 to 108,532)
\$ 12.9	- Decrease to account for actual claims paid experience through December 2004 and reduction of projected growth rate (from 12% to 11%).
\$ 15.4	- Decrease in PPO Plan Prescription Drug Spend
\$ (0.3)	- Increase due to an increase in projected enrollment. (Projected average enrollment from 108,367 to 108,532)
\$ 15.7	- Decrease to account for actual claims paid experience through December 2004 and reduction of projected growth rate (from 15.5% to 13.5%).
\$ 2.2	- Decrease in HMO Premium Payments
\$ 2.2	- Decrease due to a reduction in projected enrollment. (Projected average enrollment from 60,818 to 60,500)
\$ 109.4	Current Forecasted Ending Cash Balance

⁽¹⁾ October 2004 Estimating Conference.

Exhibit V
Comparison of Financial Outlooks
Fiscal Year 2005-06
(In Millions)

\$ 2.9	Previously Forecasted Ending Cash Balance ⁽¹⁾
27.7	Increase in Beginning Cash Balance
8.0	Estimated Increase in Forecasted Revenues
	\$ (2.0) - Decrease in Insurance Premiums due to enrollment/category/coverage migration.
	\$ 1.3 - Increase in Interest Income due to higher projected monthly ending cash balances.
	\$ 7.1 - Increase in PBM Rebates due to contract renewal.
	\$ 1.6 - Transfer of the supplemental TRICARE health benefit plan surplus from Cash Account 2668004.
47.7	Estimated Decrease in Forecasted Expenses
	\$ 23.9 - Decrease in PPO Plan Medical Spend
	\$ (3.4) - Increase due to an increase in projected enrollment. (Projected average enrollment from 107,497 to 108,205)
	\$ 22.1 - Decrease due to a lower claims paid base than estimated for FYE 2005.
	\$ 5.2 - Decrease due to a reduction in the utilization/cost growth rate assumption. (From 12.0% to 11.0%)
	\$ 18.1 - Decrease in PPO Plan Prescription Drug Spend
	\$ (1.5) - Increase due to a increase in projected enrollment. (Projected average enrollment from 107,497 to 108,205)
	\$ 15.0 - Decrease due to a lower claims paid base than estimated for FYE 2005.
	\$ 4.6 - Decrease due to a reduction in the utilization/cost growth rate assumption. (From 15.5% to 13.5%)
	\$ 5.7 - Decrease in HMO Premium Payments
	\$ 5.7 - Decrease due to a reduction in projected enrollment. (Projected average enrollment from 62,351 to 61,723)
\$ 86.3	Current Forecasted Ending Cash Balance

⁽¹⁾ October 2004 Estimating Conference.

STATE EMPLOYEES' GROUP HEALTH SELF-INSURANCE TRUST FUND

**Exhibit VI
Premium Rate Table**

Effective through December 31, 2004								
Category	Coverage		Biweekly Contribution			Monthly Contribution		
	Type	Code	State	Enrollee	Total	State	Enrollee	Total
Active Full-Time Employees ⁽¹⁾	Single	01	\$ 144.34	\$ 24.34	\$ 168.68	\$ 288.68	\$ 48.68	\$ 337.36
	Family	02	\$ 295.15	\$ 87.57	\$ 382.72	\$ 590.30	\$ 175.14	\$ 765.44
	Spouse	22/89	\$ 382.72	\$ 0.00	\$ 382.72	\$ 765.44	\$ 0.00	\$ 765.44
COBRA Participants	Single ⁽²⁾	9	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 344.11	\$ 344.11
	Family ⁽²⁾	10	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 780.75	\$ 780.75
	Single ⁽³⁾	11	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 506.04	\$ 506.04
	Family ⁽³⁾	12	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 1,148.16	\$ 1,148.16
Early Retirees	Single	61	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 337.36	\$ 337.36
	Family	62	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 765.44	\$ 765.44
Medicare Participants ⁽⁴⁾	(I) One Eligible	63	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 179.42	\$ 179.42
	(II) One Under/Over	64	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 516.78	\$ 516.78
	(III) Both Eligible	65	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 358.84	\$ 358.84

Effective January 1, 2005								
Category	Coverage		Biweekly Contribution			Monthly Contribution		
	Type	Code	State	Enrollee	Total	State	Enrollee	Total
Active Full-Time Employees ⁽¹⁾	Single	01	\$ 161.22	\$ 24.34	\$ 185.56	\$ 322.44	\$ 48.68	\$ 371.12
	Family	02	\$ 333.42	\$ 87.57	\$ 420.99	\$ 666.84	\$ 175.14	\$ 841.98
	Spouse	22/89	\$ 420.99	\$ 0.00	\$ 420.99	\$ 841.98	\$ 0.00	\$ 841.98
COBRA Participants	Single ⁽²⁾	9	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 378.54	\$ 378.54
	Family ⁽²⁾	10	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 858.82	\$ 858.82
	Single ⁽³⁾	11	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 556.68	\$ 556.68
	Family ⁽³⁾	12	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 1,262.96	\$ 1,262.96
Early Retirees	Single	61	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 371.12	\$ 371.12
	Family	62	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 841.98	\$ 841.98
Medicare Participants ⁽⁴⁾	(I) One Eligible	63	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 197.36	\$ 197.36
	(II) One Under/Over	64	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 568.48	\$ 568.48
	(III) Both Eligible	65	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 394.72	\$ 394.72

Notes:

(1) Premium contribution for Part-Time Employees is to be calculated as follows:

Step 1. State Contribution x FTE% = Calculated State Contribution

Step 2. Total Contribution - Calculated State Contribution = Employee Contribution

(2) Includes an additional 2% for administrative costs as permitted by federal regulations.

(3) Includes an additional 50% as permitted by federal regulations.

(4) The actual premium rate for some retirees participating in an HMO plan may differ from what is presented.