
State Employees' Group Health Self-Insurance Trust Fund

Report on the Financial Outlook

For the Fiscal Years Ending June 30, 2004, 2005 & 2006

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**Prepared by: Department of Management Services
Division of State Group Insurance
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FINANCIAL OVERVIEW

The purpose of the financial overview is to provide pertinent information about the outlook for the State Employees' Group Health Self-Insurance Trust Fund for the fiscal years ending June 30, 2004, 2005 & 2006. The exhibits that follow provide more in-depth information about projected enrollment and cash positions. In accordance with Sec. 216.136(11), *Florida Statutes*, this outlook has been prepared for presentation to the principals and participants associated with the Self-Insurance Estimating Conference.

Table 1. Financial Outlook

	FY 2003-04 (Estimate)	FY 2004-05 (Estimate)	FY 2005-06 (Estimate)
BEGINNING CASH BALANCE	39.1	42.2	0.0
REVENUES ¹	1,074.0	1,138.3	1,140.8
EXPENSES ²	(1,100.9)	(1,197.5)	(1,359.8)
OPERATING GAIN/(LOSS)	<u>(26.9)</u>	<u>(59.2)</u>	<u>(219.0)</u>
NONOPERATING ADJUSTMENTS	30.0 ³	0.0	0.0
ENDING CASH BALANCE	42.2	(17.0)	(219.0)

Dollars in Millions

¹ Includes a 16% employer and employee premium increase effective December 1, 2003.

² Includes medical/pharmacy benefit design changes to both the State self-insured PPO and State-contracted HMO plans (i.e., increased deductibles, coinsurance, copayments, etc.) effective January 1, 2004.

³ Transfer from Disability Insurance Trust Fund - Authorized per sec. 61, Conference Report on Senate Bill 2-A.

Total program costs are projected to increase by approximately 13% annually during the forecasted period. Health care costs will double in 5.5 years if the Trust Fund sustains year-over-year cost increases at this rate. Under the current funding structure, the State as the employer is contributing approximately 84% of the total required annual employee premium (\$833.3 million of \$987.0 million for Fiscal Year 2004-05). The State's contribution has historically been comprised of approximately 70% general revenue and 30% trusts.

Fiscal pressures are not new to the State Group Health Insurance Program. Since Fiscal Year 1997-98, the program has often faced near-term, mid-term, or long-term estimated cash deficiencies. A combination of cash infusions, temporary loans, double-digit premium increases, and various benefit design changes have been the historical short-term solutions to ensure solvency. However, in light of growing health care costs at double-digit percentage rates, new strategies and tactics are required to ensure affordability, funding stability/predictability, and solvency.

Outlook for Fiscal Year 2003-04

The outlook indicates an ending cash balance of \$42.2 million, up \$2.7 million from the previous outlook of \$39.5 million resulting from the conference held on November 13, 2003. An operating loss of \$26.9 million is expected, down \$2.7 million from the previous outlook of \$29.6 million.

Exhibits I and II present a detailed comparison between the current and previous outlook.

Outlook for Fiscal Year 2004-05

The outlook indicates an ending cash deficit of \$17.0 million, down \$1.5 million from the previous deficit projection of \$18.5 million resulting from the conference held on November 13, 2003. An operating loss of \$59.2 million is expected, up \$1.2 million from the previous outlook of \$58.0 million.

The Trust Fund is expected to be insolvent by the fourth quarter. Cash flow deficiencies could delay payments for certain program obligations as early as the second quarter.

Exhibits III and IV present a detailed comparison between the current and previous outlook.

Outlook for Fiscal Year 2005-06

As required for this conference, we have included our first outlook for Fiscal Year 2005-06. Assuming no changes in benefit design and premium rates, the outlook indicates an operating loss and ending cash deficit of \$219.0 million, or approximately 19% of premium revenue. The operating loss represents an average cash shortfall of approximately \$18 million per month. Recognizing that the ending cash deficit estimated for Fiscal Year 2004-05 must be resolved by year end, it is assumed that the beginning cash balance for Fiscal Year 2005-06 will be zero.

Exhibit V presents the outlook.

Variances in Projected Operating Losses and Cash Positions

Variances in projected operating losses and cash positions - as compared to the outlook presented November 13, 2003 - are primarily driven by a slight decrease in projected State Self-Insured PPO Plan enrollment, a slight increase in projected State-contracted HMO enrollment, and a slightly higher premium rate increase assumption for the State-contracted HMOs for Calendar Years 2005 and 2006.

Trends and Assumptions

State Self-Insured PPO Plan

Medical - According to the results of recent surveys of large employer-sponsored health care programs, PPO plan medical costs are expected to increase by 12.5%-14.5% per annum during the forecasted period. Directional cost indicators associated with the State Self-Insured PPO Plan indicate a combined cost and utilization increase of 12.5% per annum during the forecast period.

Rx - Prescription drug costs are expected to increase 15%-18% per annum. Directional cost indicators associated with State Self-Insured PPO Plan indicate a combined cost and utilization increase of 16.0% per annum during the forecasted period. However, it is important to note the Trust Fund cost share is increasing at a rate above 16.0% during periods when copayments remain fixed.

Overall trend for the State Self-Insured PPO Plan, inclusive of medical, Rx, and TPA administrative fees, is 13%. The State Self-Insured PPO Plan remains available statewide.

State-Contracted HMOs

- The weighted average premium increase for State-contracted HMOs was 17.1% for Calendar Year 2003. The weighted average premium increase requested by the six HMOs was 24.5%. There were no service area disruptions for 2003. The HMO offerings by vendor by service area were virtually identical to the offering for 2002. As a result, 38 counties had at least one State-contracted HMO for 2003.
- The weighted average premium increase for State-contracted HMOs was approximately 12.0% for Calendar Year 2004. The weighted average premium increase requested by the six HMOs was 14.6% after adjusting for the benefit design changes resulting from the 2003 Legislature. There are no service area disruptions for 2004. HMO offerings by vendor by service area have been slightly enhanced as compared to 2003. As a result, 39 counties have at least one State-contracted HMO.
- Results of recent surveys of large employer-sponsored health care programs are indicating HMO premium increases of 13%-15% per annum during the forecasted period. The outlook includes an assumption that the State-contracted HMO offerings for Calendar Years 2005 and 2006 will be consistent with the 2004 offerings with a weighted average premium increase of 13% per annum, up one-percent from the previous forecast.

It is important to note that the outcome of the rate renewal negotiations held each year determine the actual increase.

Procurements

It is noteworthy that contract agreements for Third-Party Administration and Pharmacy Benefits Management in the State Self-Insured PPO Plan, and agreements with the State-contracted HMOs, are due to expire during the forecast period. Specifically:

- The original term of all State-contracted HMO agreements expired December 31, 2001. The contracts allow for four, one-year rate renewal options through December 31, 2005. Rate

renewal options through December 31, 2004 have been exercised. The final rate renewal option for Calendar Year 2005 is available.

- The administrative services only contract for the medical component of the State self-insured PPO plan with Blue Cross and Blue Shield of Florida, Inc. expires December 31, 2005. All contract renewal options have been exercised.
- The original term of the pharmacy benefits management contract for the prescription drug component of the State self-insured PPO plan with Caremark, Inc. expires December 31, 2004. The contract allows for two, two-year renewal options.

Management decisions regarding contract renewals and/or to pursue a competitive bid process for the respective services could impact assumptions used for development of the financial outlook.

Enrollment Patterns

- Total program enrollment is projected to increase approximately .6% annually to an average enrollment of 167,952 for Fiscal Year 2003-04, 168,934 by Fiscal Year 2004-05, and to 169, 888 by Fiscal Year 2005-06. Overall enrollment growth has continued to be below one-percent since Fiscal Year 2000-01. Enrollment patterns are suggesting a rather stabilizing employee enrollment base, but increased growth continues to occur in both the pre-Medicare eligible retiree and Medicare eligible retiree populations. Contributing to the retiree enrollment growth during Fiscal Year 2003-04 are the employees (approx. 1,800 members) who reached the 5-year mandatory retirement requirement under the "DROP" program effective July 1, 2003. Enrollment patterns suggest that enrollment distribution will be approximately 64% enrollment in the State Self-Insured PPO Plan and 36% in the State-contracted HMOs.
- It is important to highlight the program's aging population. In addition, enrollment patterns continue to indicate that the retiree risk pool is increasing in count, representing a higher percentage of total enrollment. Consistent with industry norms, retiree medical and pharmaceutical costs are significantly outpacing the cost for active employees. Retiree enrollment currently represents 18.2% of total enrollment as compared to 14.5% five years ago, an increase in retiree enrollment of 31.4%. Retiree enrollment is currently projected to represent 19.7% of total enrollment by June 2006. Approximately 84.5% of all retirees participate in the State Self-Insured PPO Plan, and approximately 74% of all participating retirees are Medicare eligible.

Factors Significantly Impacting Program Costs

There are identifiable factors, such as enrollment demographics and health risks, types and frequency of services provided, price inflation, technology, and contract restructuring, that are significantly impacting health care costs. These factors are not unique to the State Group Health Insurance Program. A detailed discussion of the national and regional health care issues impacting employer-sponsored health insurance plans is beyond the scope of this report. However, in the recent past, there have been several public reports released which have addressed various factors impacting the State Group Health Insurance Program, including reports

by the Office of Program Policy Analysis and Government Accountability, Buck Consultants, Senate Committee on Governmental Oversight and Productivity, Mercer Human Resource Consulting, general industry reports, and previous financial outlook reports.

Please be advised that the projected cash positions are highly sensitive to the assumptions used. Cash positions could differ from the results presented to the extent that actual experience varies from that which was assumed. Actual health care utilization and cost experience varies by enrollment and plan risk pool. We have applied our assumptions to aggregate PPO and HMO plan costs without enrollment or risk pool adjustment. In addition, we have made no adjustment to cost data to account for geographic price differences. Nevertheless, we believe our projections reasonably present the Trust Fund's financial outlook through the forecasted period.

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Exhibit I
Financial Outlook
Fiscal Year 2003-04
(In Millions)

	(A) Financial Outlook <u>November '03</u>	(B) Financial Outlook <u>February '04</u>	(B) - (A) <u>Difference</u>
BEGINNING CASH BALANCE	\$ 39.1	\$ 39.1	\$ 0.0
REVENUES:			
Insurance Premiums:			
State Contributions	\$ 791.3	\$ 788.4	\$ (2.9)
Employee Contributions	146.6	145.6	(1.0)
Medicare Contributions	66.0	66.7	0.7
Early Retiree Contributions	40.8	40.2	(0.6)
COBRA Contributions	6.7	6.7	0.0
Interest on Investments	1.0	1.0	0.0
TPA Refunds/PBM Rebates	12.4	12.4	0.0
Pretax Trust Fund Transfer	13.0	13.0	0.0
Other Revenues	0.0	0.0	0.0
TOTAL REVENUES	\$ 1,077.8	\$ 1,074.0	\$ (3.8)
TOTAL CASH AVAILABLE	\$ 1,116.9	\$ 1,113.1	\$ (3.8)
EXPENSES:			
PPO Plan - Medical Claims	\$ 477.2	\$ 470.1	\$ (7.1)
PPO Plan - Prescription Drug Claims	185.1	184.6	(0.5)
HMO Premiums	401.7	402.9	1.2
ASO Fee - TPA	37.6	37.5	(0.1)
DSGI Administrative Costs	3.7	3.7	0.0
Premium Refunds	2.0	2.0	0.0
Other Expenses	0.1	0.1	0.0
TOTAL EXPENSES	\$ 1,107.4	\$ 1,100.9	\$ (6.5)
EXCESS OF REVENUES OVER EXPENSES	\$ (29.6)	\$ (26.9)	\$ 2.7
Plus: Transfer from Disability Trust Fund ⁽¹⁾	\$ 30.0	\$ 30.0	\$ 0.0
ENDING CASH BALANCE	\$ 39.5	\$ 42.2	\$ 2.7
Average Enrollment by Plan			
PPO Plan	109,225	108,965	(260)
HMO Plans	58,817	58,987	170
Total	168,042	167,952	(90)
Average Enrollment by Coverage Type			
Active	136,327	136,095	(232)
Medicare	22,235	22,458	223
Early Retirees	8,203	8,113	(90)
Cobra	1,277	1,286	9
Total	168,042	167,952	(90)

⁽¹⁾ Authorized per Section 61 - Conference Report on Senate Bill 2-A.

Exhibit II
Comparison of Financial Outlooks
Fiscal Year 2003-04
(In Millions)

\$ 39.5 Previously Forecasted Ending Cash Balance ⁽¹⁾

(3.8) Estimated Decrease in Forecasted Revenues

\$ (3.8) - Decrease in contributions due to slight reduction in projected enrollment and category shifting.

6.5 Estimated Decrease in Forecasted Expenses

\$ 7.1 - Decrease in PPO Plan Medical Claims Expense

\$ 1.2 - Decrease due to slight reduction in projected enrollment.
(Projected average enrollment from 109,225 to 108,965)

\$ 5.9 - Decrease due to lower claims paid experience through January 2004 than previously estimated.

\$ 0.5 - Decrease in PPO Plan Prescription Drug Costs

\$ 0.5 - Decrease due to slight reduction in projected enrollment.
(Projected average enrollment from 109,225 to 108,965)

\$ (1.2) - Increase in HMO Premiums

\$ (1.2) - Increase due to slight increase in projected enrollment.
(Projected average enrollment from 58,817 to 58,987)

\$ 0.1 - Decrease in ASO Fee Payment

\$ 0.1 - Decrease due to slight reduction in projected enrollment.
(Projected average enrollment from 109,225 to 108,965)

\$ 42.2 Current Forecasted Ending Cash Balance

⁽¹⁾ November 2003 Outlook.

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

	(A) Financial Outlook <u>November '03</u>	(B) Financial Outlook <u>February '04</u>	(B) - (A) <u>Difference</u>	
BEGINNING CASH BALANCE	\$ 39.5	\$ 42.2	\$ 2.7	
REVENUES:				
Insurance Premiums:				
State Contributions	\$ 839.6	\$ 833.3	\$ (6.3)	
Employee Contributions	155.6	153.7	(1.9)	
Medicare Contributions	72.3	73.4	1.1	
Early Retiree Contributions	46.1	44.7	(1.4)	
COBRA Contributions	7.2	7.2	0.0	
Interest on Investments	0.6	0.6	0.0	
TPA Refunds/PBM Rebates	12.4	12.4	0.0	
Pretax Trust Fund Transfer	13.0	13.0	0.0	
Other Revenues	0.0	0.0	0.0	
TOTAL REVENUES	\$ 1,146.8	\$ 1,138.3	\$ (8.5)	
TOTAL CASH AVAILABLE	\$ 1,186.3	\$ 1,180.5	\$ (5.8)	
EXPENSES:				
PPO Plan - Medical Claims	\$ 501.7	\$ 490.7	\$ (11.0)	
PPO Plan - Prescription Drug Claims	202.0	200.5	(1.5)	
HMO Premiums	457.2	462.7	5.5	
ASO Fee - TPA	38.1	37.8	(0.3)	
DSGI Administrative Costs	3.7	3.7	0.0	
Premium Refunds	2.0	2.0	0.0	
Other Expenses	0.1	0.1	0.0	
TOTAL EXPENSES	\$ 1,204.8	\$ 1,197.5	\$ (7.3)	
EXCESS OF REVENUES OVER EXPENSES	\$ (58.0)	\$ (59.2)	\$ (1.2)	
ENDING CASH BALANCE	\$ (18.5)	\$ (17.0)	\$ 1.5	
<hr/>				
Average Enrollment by Plan	PPO Plan	109,198	108,381	(817)
	HMO Plans	60,133	60,553	420
	Total	169,331	168,934	(397)
Average Enrollment by Coverage Type	Active	136,333	135,835	(498)
	Medicare	22,973	23,255	282
	Early Retirees	8,738	8,566	(172)
	Cobra	1,287	1,278	(9)
	Total	169,331	168,934	(397)

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

\$ (18.5) Previously Forecasted Ending Cash Balance ⁽¹⁾

2.7 Increase in Beginning Cash Balance

(8.5) Estimated Decrease in Forecasted Revenues

\$ (8.5) - Decrease in contributions due to slight reduction in projected enrollment and category shifting.

7.3 Estimated Decrease in Forecasted Expenses

\$ 11.0 - Decrease in PPO Plan Medical Claims Expense

\$ 3.7 - Decrease due to slight reduction in projected enrollment.
(Projected average enrollment from 109,198 to 108,381)

\$ 7.3 - Decrease due to a lower claims paid base for FYE 2004.

\$ 1.5 - Decrease in PPO Plan Prescription Drug Costs

\$ 1.5 - Decrease due to slight reduction in projected enrollment.
(Projected average enrollment from 109,198 to 108,381)

\$ (5.5) - Increase in HMO Premiums

\$ (3.2) - Increase due to slight increase in projected enrollment.
(Projected average enrollment from 60,133 to 60,553)

\$ (2.3) - Increase due to rate assumption adjustment from
12% to 13% effective January 2005.

\$ 0.3 - Decrease in ASO Fee Payment

\$ 0.3 - Decrease due to slight reduction in projected enrollment.
(Projected average enrollment from 109,198 to 108,381)

\$ (17.0) Current Forecasted Ending Cash Balance

⁽¹⁾ November 2003 Outlook.

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

	(A) Financial Outlook <u>November '03</u>	(B) Financial Outlook <u>February '04</u>	(B) - (A) Difference	
BEGINNING CASH BALANCE	\$ 0.0	\$ 0.0	\$ 0.0	
REVENUES:				
Insurance Premiums:				
State Contributions	\$ 0.0	\$ 831.6	\$ 831.6	
Employee Contributions	0.0	153.3	153.3	
Medicare Contributions	0.0	75.4	75.4	
Early Retiree Contributions	0.0	47.9	47.9	
COBRA Contributions	0.0	7.2	7.2	
Interest on Investments	0.0	0.0	0.0	
TPA Refunds/PBM Rebates	0.0	12.4	12.4	
Pretax Trust Fund Transfer	0.0	13.0	13.0	
Other Revenues	0.0	0.0	0.0	
TOTAL REVENUES	\$ 0.0	\$ 1,140.8	\$ 1,140.8	
TOTAL CASH AVAILABLE	\$ 0.0	\$ 1,140.8	\$ 1,140.8	
EXPENSES:				
PPO Plan - Medical Claims	\$ 0.0	\$ 548.9	\$ 548.9	
PPO Plan - Prescription Drug Claims	0.0	233.5	233.5	
HMO Premiums	0.0	533.4	533.4	
ASO Fee - TPA	0.0	38.2	38.2	
DSGI Administrative Costs	0.0	3.7	3.7	
Premium Refunds	0.0	2.0	2.0	
Other Expenses	0.0	0.1	0.1	
TOTAL EXPENSES	\$ 0.0	\$ 1,359.8	\$ 1,359.8	
EXCESS OF REVENUES OVER EXPENSES	\$ 0.0	\$ (219.0)	\$ (219.0)	
ENDING CASH BALANCE	\$ 0.0	\$ (219.0)	\$ (219.0)	
<hr/>				
Average Enrollment by Plan	PPO Plan	0	107,726	107,726
	HMO Plans	0	62,132	62,132
	Total	0	169,858	169,858
Average Enrollment by Coverage Type	Active	0	135,544	135,544
	Medicare	0	23,954	23,954
	Early Retirees	0	9,082	9,082
	Cobra	0	1,278	1,278
	Total	0	169,858	169,858

STATE EMPLOYEES' GROUP HEALTH SELF-INSURANCE TRUST FUND

**Exhibit VI
Premium Rate Table**

Effective through November 30, 2003								
Category	Coverage		Biweekly Contribution			Monthly Contribution		
	Type	Code	State	Enrollee	Total	State	Enrollee	Total
Active Full-Time Employees ⁽¹⁾	Single	01	\$ 124.43	\$ 20.98	\$ 145.41	\$ 248.86	\$ 41.96	\$ 290.82
	Family	02	\$ 254.44	\$ 75.49	\$ 329.93	\$ 508.88	\$ 150.98	\$ 659.86
	Spouse	22/89	\$ 329.93	\$ 0.00	\$ 329.93	\$ 659.86	\$ 0.00	\$ 659.86
COBRA Participants	Single ⁽²⁾	9	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 296.64	\$ 296.64
	Family ⁽²⁾	10	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 673.06	\$ 673.06
	Single ⁽³⁾	11	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 436.23	\$ 436.23
	Family ⁽³⁾	12	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 989.79	\$ 989.79
Early Retirees	Single	61	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 290.82	\$ 290.82
	Family	62	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 659.86	\$ 659.86
Medicare Participants ⁽⁴⁾	(I) One Eligible	63	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 154.67	\$ 154.67
	(II) One Under/Over	64	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 445.55	\$ 445.55
	(III) Both Eligible	65	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 309.35	\$ 309.35

Effective December 1, 2003								
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	\$ -	\$ 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

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.

Exhibit VII
Abbreviations

Avg.	.....	Average
ASO	.....	Administrative Services Only
COBRA	.....	Consolidated Omnibus Budget Reconciliation Act
DSGI	.....	Division of State Group Insurance
FTE	.....	Full Time Equivalency
FY	.....	Fiscal Year
HMO	.....	Health Maintenance Organization
PBM	.....	Pharmacy Benefits Manager
PPO	.....	Preferred Provider Organization
TPA	.....	Third Party Administrator