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# State Employees' Group Health Self-Insurance Trust Fund

## Report on the Financial Outlook

For the Fiscal Years Ending June 30, 1999, 2000, & 2001

February 26, 1999

Prepared by: Division of State Group Insurance,  
Bureau of Accounting & Financial Management

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STATE OF FLORIDA  
DIVISION OF STATE GROUP INSURANCE

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CHARLES P. SLAVIN, DIRECTOR

MEMORANDUM

**TO:** Interested Parties

**FROM:** Jeff Dykes, Chief  
Bureau of Accounting & Financial Management

**SUBJECT:** Financial Outlook - State Employees' Group Health Self-Insurance Trust Fund

**DATE:** February 26, 1999

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Enclosed is the current financial outlook for the State Employees' Group Health Self-Insurance Trust Fund for the fiscal years ending June 30, 1999, 2000 & 2001. In accordance with Sec. 216.136, *Florida Statutes*, this report has been prepared for presentation to the principles and participants associated with the Economic Estimating Conference. The entire report should be read for a comprehensive understanding of the underlying assumptions, methodologies, and data used to support the following projections and comments.

Our current outlook revises our previous projected ending cash balance from \$65.2 million to an ending cash balance of \$71.2 million for fiscal year 1998-99. The projected ending cash balance includes cash collections of \$21.4 million [House Bill 4201 (General Appropriations Act)] to assist with HMO rate increases and cash flow during the fiscal year. Earlier this fiscal year, \$50.0 million in trust funds maintained by the State Treasury was transferred to the State Employees' Group Health Self-Insurance Trust Fund to assist with cash flow while the premium rate increase was phased in. In accordance with Sec. 215.18, *Florida Statutes*, the projected cash position reflects a required repayment of this loan from the Trust Fund prior to fiscal year end.

Our current outlook also revises our previous projected ending cash balance from \$40.3 million to an ending cash balance of \$20.5 million for fiscal year 1999-00. As required for this conference, we have included a projection for fiscal year 2000-01. Our current outlook indicates an ending cash balance of \$(57.1) as of June 30, 2001. The results of our projections indicate that the Trust Fund will actually begin experiencing cash deficits as early as September, 2000. However, considering cash reserves of \$25 million to ensure the timely payment of routine Program obligations, an adjusted

ending cash balance for fiscal year 1998-99, 1999-00 and 2000-01, becomes \$46.2 million, \$(4.5) million, and \$(82.1) million, respectively.

Most variances in the projected cash positions, for fiscal year 1998-99 and fiscal year 1999-00, are primarily due to minor changes in various revenue, expense and enrollment assumptions and factual events that have occurred. Exhibit I (Summary of Financial Outlooks), of this report, further describes the variances.

Prior to calendar year 1999, historical premium payments negotiated with participating HMO vendors were at, or slightly below, enrollee contributions received by the Trust Fund. This situation allowed the Trust Fund to maintain budget neutrality with respect to HMO funding requirements. However, the costs of providing health care to state employees and retirees by participating HMO vendors have not been similarly suppressed and many of them have been incurring significant underwriting losses. Because of these losses, HMO vendors continue to withdraw coverage in high cost counties, or from the Program entirely, at accelerating rates. As a stop gap measure, the Division increased overall HMO premium rates by approximately 14.5%, effective January 1, 1999. However, Division management believes that in the absence of a change in the funding policy for HMO vendors, further withdrawals will be forthcoming. It is also believed that these withdrawals could lead to a significant disruption in the availability of HMO plans, statewide, for state employees and retirees.

Consequently, we adjusted our previously projected HMO premium payments to reflect an overall expected increase of approximately 15%, effective January 1, 2000, which impacts the ending cash position for fiscal year 1999-00 by \$19.8 million. With this increase, and an additional 4% increase effective January 1, 2001, the projected ending cash position for fiscal year 2000-01 is impacted by \$46.4 million. The rate increases exclude potential savings that the Trust Fund could achieve through reduced HMO premium payments resulting from changes in enrollee cost sharing responsibilities.

A comparison of our previous enrollment projection to actual enrollment experience suggests a need for slight adjustment to our projection to recognize the results of Open Enrollment. Therefore, we have decreased our projected HMO plan enrollment by .2% for fiscal year 1998-99 and by .5% for fiscal year 1999-00, and we have increased our projected PPO plan enrollment by .3% and .9%, respectively. These adjustments increase our overall enrollment projection by .1% for fiscal year 1998-99 and by .4% for fiscal year 1999-00. Currently, the PPO plan represents 58% of Program enrollment with HMO plans representing 42%, as compared to a 73% to 27% split 5 years ago. In addition, the overall average age in the PPO plan continues to be 50, with active employees averaging the age of 45. The overall average age in the HMO plans continues to be 42, with active employees averaging the age of 41.

Please be advised that the results of our analyses 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. Nevertheless, we believe that the results of our analyses reasonably present the Trust Fund's financial outlook through the forecasted period.

Financial Outlook supervised by:  
Jeff Dykes

Financial Outlook developed by:  
Leticia Nazario-Braddock

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- Revenues
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**Exhibit I**  
**Summary of Financial Outlooks**

**Fiscal Year 1998-99**

(In Millions)

\$	<b>65.2</b>	<b>Previously Projected Ending Cash Balance (November '98 Conference)</b>
+	4.1	Estimated Increase in Projected Revenues
	* \$ 2.2	- Adjustment to contribution collections due to increased enrollment and minor changes to collection calculations.
	* \$ 0.3	- Increase in interest earnings.
	* \$ 1.6	- Increase in TPA refunds and prescription drug rebates.
+	1.9	Estimated Decrease in Projected Expenses
	* \$ 2.7	- Minor adjustments to medical claims costs primarily due to changes in enrollment and changes in utilization and pricing assumptions.
	* \$ (1.7)	- Adjustments to prescription drug costs primarily due to higher than expected utilization and price experience, and enrollment changes.
	* \$ 0.3	- Minor adjustment to HMO premiums due to changes in enrollment.
	* \$ 0.6	- Minor adjustments to overall administrative costs, but primarily to TPA administrative fee calculations due to changes in enrollment.
\$	<b>71.2</b>	<b>Current Projected Ending Cash Balance</b>
+	(25.0)	Less Reserve for Operations
\$	<b><u>46.2</u></b>	<b>Adjusted Current Projected Ending Cash Balance</b>

**Fiscal Year 1999-00**

(In Millions)

\$	<b>40.3</b>	<b>Previously Projected Ending Cash Balance (November '98 Conference)</b>
+	6.0	Funding and expense activity during fiscal year 1998-99 as listed above
+	(0.2)	Estimated Decrease in Projected Revenues
	* \$ (0.5)	- Adjustment to contribution collections due to changing enrollment and minor changes to collection calculations.
	* \$ 0.3	- Increase in TPA refunds and prescription drug rebates.
+	(25.6)	Estimated Increase in Projected Expenses
	* \$ (0.6)	- Minor adjustments to medical claims costs primarily due to changes in enrollment and changes in utilization and pricing assumptions.
	* \$ (5.2)	- Adjustments to prescription drug costs primarily due to higher than expected utilization and price experience and changes in enrollment.
	* \$ (19.8)	- Adjustment to HMO premium payments due to expected overall rate increase.
	* \$ 0.5	- Minor adjustments to HMO premium payments due to changes in enrollment.
	* \$ (0.5)	- Minor adjustments to overall administrative costs, but primarily to TPA administrative fee calculations due to changes in enrollment.
\$	<b>20.5</b>	<b>Current Projected Ending Cash Balance</b>
+	(25.0)	Less Reserve for Operations
\$	<b><u>(4.5)</u></b>	<b>Adjusted Current Projected Ending Cash Balance</b>

\* It should be noted that changes in enrollment projections inherently impact certain revenue and expense items.

**STATE EMPLOYEES' GROUP HEALTH SELF-INSURANCE TRUST FUND**

**Exhibit II  
Financial Outlook  
Fiscal Year 1998-99  
(In Millions)**

	(A) Financial Outlook <u>November '98</u>	(B) Financial Outlook <u>February '99</u>	(B) - (A) Difference
<b>BEGINNING CASH BALANCE <sup>(1)</sup></b>	\$ 14.4	\$ 14.4	\$ 0.0
<b>REVENUES:</b>			
Insurance Premiums:			
State Contributions	502.5	504.6	2.1
Employee Contributions	104.7	105.0	0.3
Medicare Contributions	30.4	30.5	0.1
Early Retiree Contributions	17.4	17.1	(0.3)
COBRA Contributions	5.1	5.1	0.0
Interest on Investments	4.6	4.9	0.3
TPA Refunds/Rebates	7.8	9.4	1.6
Pre-Tax Trust Fund Transfer	11.0	11.0	0.0
Other Revenues	0.0	0.0	0.0
<b>TOTAL REVENUES</b>	\$ 683.5	\$ 687.6	\$ 4.1
<b>TOTAL CASH AVAILABLE</b>	697.9	702.0	4.1
<b>EXPENSES:</b>			
Medical Claims - BCBSF	\$ 282.1	\$ 279.7	\$ (2.4)
Medical Claims - Unisys	8.5	8.2	(0.3)
Prescription Drug Claims	80.8	82.5	1.7
HMO Premiums	243.8	243.5	(0.3)
ASO Fee - BCBSF	28.0	27.3	(0.7)
ASO Fee - Unisys	2.7	2.6	(0.1)
ASO Fee - EHS	0.1	0.2	0.1
DSGI Administrative Costs	5.0	6.9	1.9
Premium Refunds	1.2	1.2	0.0
Other Expenses	1.9	0.1	(1.8)
<b>TOTAL EXPENSES</b>	\$ 654.1	\$ 652.2	\$ (1.9)
<b>EXCESS OF REVENUES OVER EXPENSES</b>	\$ 29.4	\$ 35.4	\$ 6.0
Plus GR Appropriation <sup>(2)</sup>	\$ 21.4	\$ 21.4	\$ 0.0
Plus Cash Transfer <sup>(3)</sup>	50.0	50.0	0.0
Less Repayment of Cash Transfer	(50.0)	(50.0)	0.0
<b>ENDING CASH BALANCE</b>	\$ 65.2	\$ 71.2	\$ 6.0
Less Reserve for Operations <sup>(4)</sup>	0.0	(25.0)	(25.0)
<b>ADJUSTED ENDING CASH BALANCE</b>	\$ 65.2	\$ 46.2	\$ (19.0)
<b>Projected Average Enrollment</b>			
PPO Plan	93,096	93,416	320
HMO Plans	67,829	67,694	(135)
Total	160,925	161,110	185

**Notes:**

- (1) Excludes Certificate of Deposit (\$4.5 million) and cash balances (\$3.5 million) maintained in bank accounts.
- (2) General revenue appropriation provided by the 1998 Legislature.
- (3) Temporary transfer from trust funds in the State Treasury pursuant to Sec. 215.18, F.S.
- (4) Solvency requirement to ensure timely payment of Program obligations.

**STATE EMPLOYEES' GROUP HEALTH SELF-INSURANCE TRUST FUND**

**Exhibit III  
Financial Outlook  
Fiscal Year 1999-00  
(In Millions)**

	(A) Financial Outlook <u>November '98</u>	(B) Financial Outlook <u>February '99</u>	(B) - (A) Difference
<b>BEGINNING CASH BALANCE <sup>(1)</sup></b>	\$ 65.2	\$ 71.2	\$ 6.0
<b>REVENUES:</b>			
Insurance Premiums:			
State Contributions	489.2	488.3	(0.9)
Employee Contributions	108.8	108.4	(0.4)
Medicare Contributions	34.0	34.5	0.5
Early Retiree Contributions	19.2	19.0	(0.2)
COBRA Contributions	5.6	6.1	0.5
Interest on Investments	2.7	2.7	0.0
TPA Refunds/Rebates	6.7	7.0	0.3
Pre-Tax Trust Fund Transfer	11.0	11.0	0.0
Other Revenues	0.0	0.0	0.0
<b>TOTAL REVENUES</b>	\$ 677.2	\$ 677.0	\$ (0.2)
<b>TOTAL CASH AVAILABLE</b>	<u>742.4</u>	<u>748.2</u>	<u>5.8</u>
<b>EXPENSES:</b>			
Medical Claims - BCBSF	\$ 308.3	\$ 308.9	\$ 0.6
Prescription Drug Claims	95.2	100.4	5.2
HMO Premiums	262.2	281.5 <sup>(3)</sup>	19.3
ASO Fee - BCBSF	28.2	28.5	0.3
ASO Fee - EHS	0.1	0.2	0.1
DSGI Administrative Costs	5.0	6.9	1.9
Premium Refunds	1.2	1.2	0.0
Other Expenses	1.9	0.1	(1.8)
<b>TOTAL EXPENSES</b>	\$ 702.1	\$ 727.7	\$ 25.6
<b>EXCESS OF REVENUES OVER EXPENSES</b>	\$ (24.9)	\$ (50.7)	\$ (25.8)
<b>ENDING CASH BALANCE</b>	\$ 40.3	\$ 20.5	\$ (19.8)
Less Reserve for Operations <sup>(2)</sup>	<u>0.0</u>	<u>(25.0)</u>	<u>(25.0)</u>
<b>ADJUSTED ENDING CASH BALANCE</b>	\$ 40.3	\$ (4.5)	\$ (44.8)
<b>Projected Average Enrollment</b>			
PPO Plan	94,089	94,990	901
HMO Plans	68,695	68,382	(313)
Total	<u>162,784</u>	<u>163,372</u>	<u>588</u>

**Notes:**

(1) Excludes Certificate of Deposit (\$4.5 million) and cash balances (\$3.5 million) maintained in bank accounts.

(2) Solvency requirement to ensure timely payment of Program obligations.

(3) Includes \$19.8 million to cover an expected overall rate increase of approximately 15%, effective January 1, 2000.



**STATE EMPLOYEES' GROUP HEALTH SELF-INSURANCE TRUST FUND**

**Exhibit IV  
Financial Outlook  
Fiscal Year 2000-01  
(In Millions)**

	(A) Financial Outlook <u>November '98</u>	(B) Financial Outlook <u>February '99</u>	(B) - (A) Difference
<b>BEGINNING CASH BALANCE <sup>(1)</sup></b>	\$ 0.0	\$ 20.5	\$ 20.5
<b>REVENUES:</b>			
Insurance Premiums:			
State Contributions	0.0	529.2	529.2
Employee Contributions	0.0	117.6	117.6
Medicare Contributions	0.0	38.6	38.6
Early Retiree Contributions	0.0	20.9	20.9
COBRA Contributions	0.0	7.1	7.1
Interest on Investments	0.0	0.2	0.2
TPA Refunds/Rebates	0.0	7.4	7.4
Pre-Tax Trust Fund Transfer	0.0	11.0	11.0
Other Revenues	0.0	0.0	0.0
<b>TOTAL REVENUES</b>	\$ 0.0	\$ 732.0	\$ 732.0
<b>TOTAL CASH AVAILABLE</b>	<u>0.0</u>	<u>752.5</u>	<u>752.5</u>
<b>EXPENSES:</b>			
Medical Claims - BCBSF	\$ 0.0	\$ 337.9	\$ 337.9
Prescription Drug Claims	0.0	121.4	121.4
HMO Premiums	0.0	312.2 <sup>(3)</sup>	312.2
ASO Fee - BCBSF	0.0	29.7	29.7
ASO Fee - EHS	0.0	0.2	0.2
DSGI Administrative Costs	0.0	6.9	6.9
Premium Refunds	0.0	1.2	1.2
Other Expenses	0.0	0.1	0.1
<b>TOTAL EXPENSES</b>	\$ 0.0	\$ 809.6	\$ 809.6
<b>EXCESS OF REVENUES OVER EXPENSES</b>	\$ 0.0	\$ (77.6)	\$ (77.6)
<b>ENDING CASH BALANCE</b>	\$ 0.0	\$ (57.1)	\$ (57.1)
Less Reserve for Operations <sup>(2)</sup>	<u>0.0</u>	<u>(25.0)</u>	<u>(25.0)</u>
<b>ADJUSTED ENDING CASH BALANCE</b>	\$ 0.0	\$ (82.1)	\$ (82.1)
<b>Projected Average Enrollment</b>			
PPO Plan	0	96,379	96,379
HMO Plans	0	69,421	69,421
Total	<u>0</u>	<u>165,800</u>	<u>165,800</u>

**Notes:**

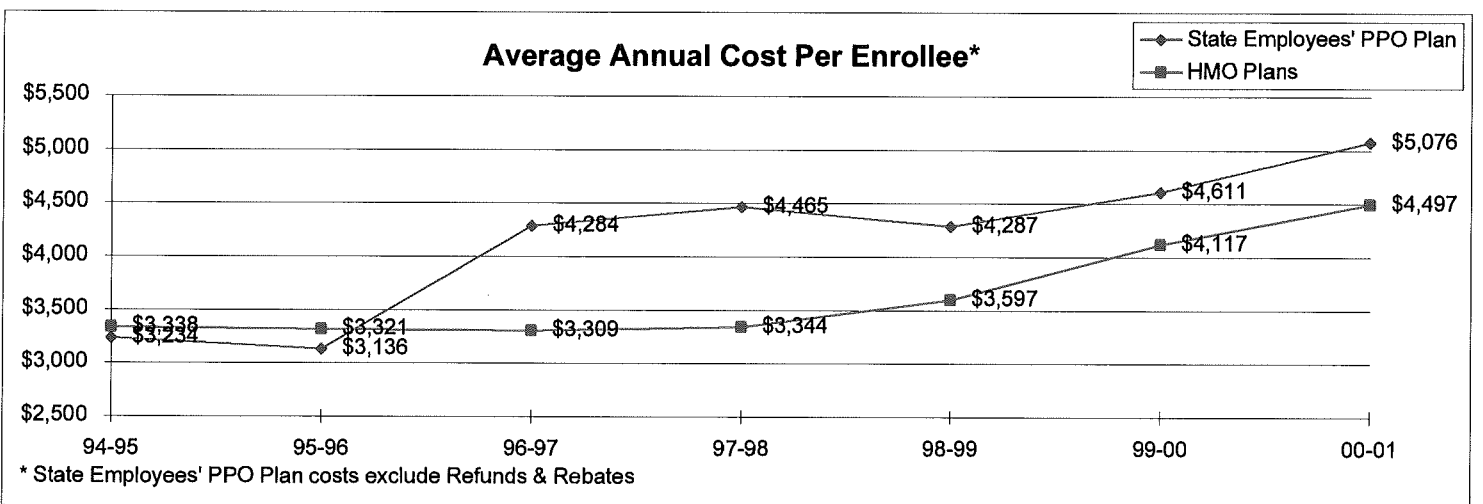
- (1) Excludes Certificate of Deposit (\$4.5 million) and cash balances (\$3.5 million) maintained in bank accounts.
- (2) Solvency requirement to ensure timely payment of Program obligations.
- (3) Includes \$40.3 million to cover an expected overall rate increase of approximately 15%, effective January 1, 2000, and \$6.1 million to cover an additional overall rate increase of 4%, effective January 1, 2001.

**STATE EMPLOYEES' GROUP HEALTH SELF-INSURANCE TRUST FUND**

**Exhibit V**  
**Comparison of Annual Costs Per Enrollee Between Plans**  
(In Millions)

<b>Estimated Total State Employees' PPO Plan Costs Per Enrollee</b>							
	<u>94-95</u>	<u>95-96</u>	<u>96-97</u>	<u>97-98</u>	<u>98-99</u>	<u>99-00</u>	<u>00-01</u>
Paid Medical Claims	\$ 288.0	\$ 270.4	\$ 331.8	\$ 319.7	\$ 287.9	\$ 308.9	\$ 337.9
Paid Prescription Drug Claims	49.7	53.3	56.5	68.1	82.5	100.4	121.4
Medical Admin Fees	10.7	15.3	9.1	19.6	29.9	28.5	29.7
Prescription Drug Admin Fees	0.9	0.9	0.4	0.1	0.2	0.2	0.2
<b>Total Claims Paid and Admin Fees</b>	<b>\$ 349.3</b>	<b>\$ 339.9</b>	<b>\$ 397.7</b>	<b>\$ 407.5</b>	<b>\$ 400.5</b>	<b>\$ 438.0</b>	<b>\$ 489.2</b>
Average Number of Enrollees	<u>108,008</u>	<u>108,363</u>	<u>92,838</u>	<u>91,263</u>	<u>93,416</u>	<u>94,990</u>	<u>96,379</u>
Average <b>Gross</b> Annual Cost Per Enrollee	<b>\$ 3,234</b>	<b>\$ 3,136</b>	<b>\$ 4,284</b>	<b>\$ 4,465</b>	<b>\$ 4,287</b>	<b>\$ 4,611</b>	<b>\$ 5,076</b>
Total Claims Paid and Admin Fees	\$ 349.3	\$ 339.9	\$ 397.7	\$ 407.5	\$ 400.5	\$ 438.0	\$ 489.2
Less: Refunds & Rebates	(8.6)	(7.4)	(6.8)	(8.4)	(9.4)	(7.0)	(7.4)
<b>Total Net Cost</b>	<b>\$ 340.7</b>	<b>\$ 332.5</b>	<b>\$ 390.9</b>	<b>\$ 399.1</b>	<b>\$ 391.1</b>	<b>\$ 431.0</b>	<b>\$ 481.8</b>
Average Number of Enrollees	<u>108,008</u>	<u>108,363</u>	<u>92,838</u>	<u>91,263</u>	<u>93,416</u>	<u>94,990</u>	<u>96,379</u>
Average <b>Net</b> Annual Cost Per Enrollee	<b>\$ 3,154</b>	<b>\$ 3,068</b>	<b>\$ 4,210</b>	<b>\$ 4,373</b>	<b>\$ 4,187</b>	<b>\$ 4,537</b>	<b>\$ 4,999</b>

<b>Estimated Total HMO Plan Cost Per Enrollee</b>							
	<u>94-95</u>	<u>95-96</u>	<u>96-97</u>	<u>97-98</u>	<u>98-99</u>	<u>99-00</u>	<u>00-01</u>
HMO Premiums	\$ 148.0	\$ 178.0	\$ 211.9	\$ 226.4	\$ 243.5	\$ 281.5	\$ 312.2
Average Number of Enrollees	<u>44,340</u>	<u>53,592</u>	<u>64,042</u>	<u>67,710</u>	<u>67,694</u>	<u>68,382</u>	<u>69,421</u>
<b>Annual Average Cost Per Enrollee</b>	<b>\$ 3,338</b>	<b>\$ 3,321</b>	<b>\$ 3,309</b>	<b>\$ 3,344</b>	<b>\$ 3,597</b>	<b>\$ 4,117</b>	<b>\$ 4,497</b>



**Notes:**

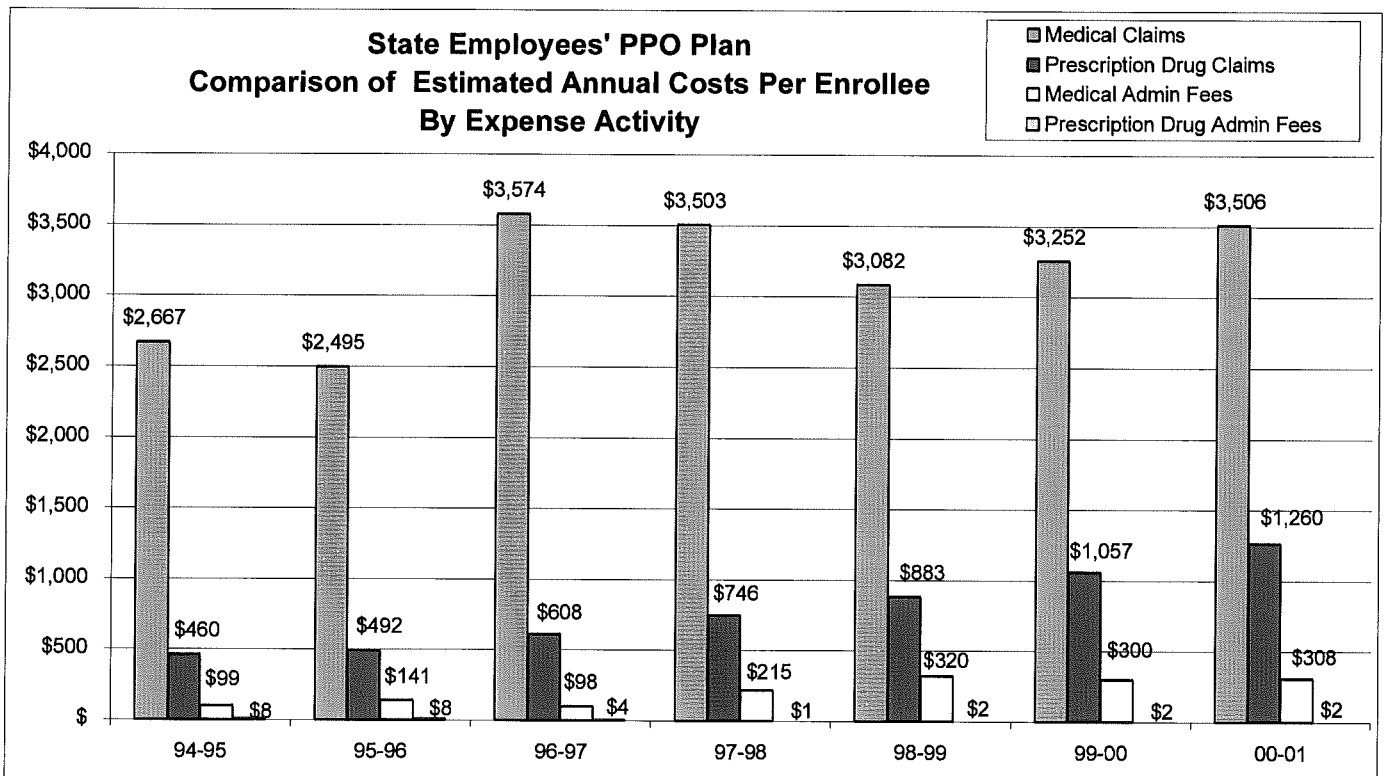
- (1) Information is reported on a cash basis.
- (2) Costs excludes enrollees out-of-pocket expenses, such as deductibles and copayments.

**STATE EMPLOYEES' GROUP HEALTH SELF-INSURANCE TRUST FUND**

**Exhibit VI**  
**Comparison of Annual Costs Per Enrollee By Expense Activity**  
 (Actual/Estimated)

<b>State Employees' PPO Plan</b>							
<b>Estimated Annual Costs Per Enrollee</b>							
	<b>94-95</b>	<b>95-96</b>	<b>96-97</b>	<b>97-98</b>	<b>98-99</b>	<b>99-00</b>	<b>00-01</b>
Medical Claims	\$ 2,667	\$ 2,495	\$ 3,574	\$ 3,503	\$ 3,082	\$ 3,252	\$ 3,506
Prescription Drug Claims	460	492	608	746	883	1,057	1,260
Medical Admin Fees	99	141	98	215	320	300	308
Prescription Drug Admin Fees	8	8	4	1	2	2	2
<b>Total Gross Cost Per Enrollee</b>	<b>\$ 3,234</b>	<b>\$ 3,136</b>	<b>\$ 4,284</b>	<b>\$ 4,465</b>	<b>\$ 4,287</b>	<b>\$ 4,611</b>	<b>\$ 5,076</b>
Less: Refunds & Rebates	\$ (80)	\$ (68)	\$ (74)	\$ (92)	\$ (100)	\$ (74)	\$ (77)
<b>Total Net Cost Per Enrollee</b>	<b>\$ 3,154</b>	<b>\$ 3,068</b>	<b>\$ 4,210</b>	<b>\$ 4,373</b>	<b>\$ 4,187</b>	<b>\$ 4,537</b>	<b>\$ 4,999</b>

<b>HMO Plans</b>							
<b>Estimated Annual Cost Per Enrollee</b>							
	<b>94-95</b>	<b>95-96</b>	<b>96-97</b>	<b>97-98</b>	<b>98-99</b>	<b>99-00</b>	<b>00-01</b>
<b>Total Cost Per Enrollee</b>	<b>\$ 3,338</b>	<b>\$ 3,321</b>	<b>\$ 3,309</b>	<b>\$ 3,344</b>	<b>\$ 3,597</b>	<b>\$ 4,117</b>	<b>\$ 4,497</b>



**Notes:**

- (1) Information is reported on a cash basis.
- (2) Costs excludes enrollees out-of-pocket expenses, such as deductibles and copayments.

STATE EMPLOYEES' GROUP HEALTH SELF-INSURANCE TRUST FUND

Exhibit VII  
New Premium Rate Table

Premium Contribution Table (Revised)								
Effective January 1, 1999								
Category	Coverage	Coverage Code	Biweekly Contribution			Monthly Contribution		
			State	Enrollee	Total	State	Enrollee	Total
Active Full-Time Employees	Single	01	88.66	14.96	103.62	177.32	29.92	207.24
	Family	02	181.30	53.80	235.10	362.60	107.60	470.20
	Spouse	22	117.55	0.00	117.55	235.10	0.00	235.10
	Spouse	89	117.55	0.00	117.55	235.10	0.00	235.10
COBRA Participants	Single	09	0.00	0.00	0.00	0.00	211.40	211.40
	Family	10	0.00	0.00	0.00	0.00	479.64	479.64
Early Retirees	Single	61	0.00	0.00	0.00	0.00	207.25	207.25
	Family	62	0.00	0.00	0.00	0.00	470.23	470.23
Medicare Participants	(I) One Eligible	63	0.00	0.00	0.00	0.00	110.21	110.21
	(II) One Under/Over	64	0.00	0.00	0.00	0.00	317.46	317.46
	(III) Both Eligible	65	0.00	0.00	0.00	0.00	220.42	220.42

## Enrollment Projection Assumptions/Methodologies

### Assumptions

- Net Program enrollment will continue to increase (measured by net enrollment) at a rate of approximately 1% annually.
  - New enrollees will continue to distribute between the PPO Plan and HMO Plans at a ratio of 1 to 3, respectively.
  - New enrollees will further distribute by enrollment category and enrollment coverage based on historical Program demographics.
- As a result of each Open Enrollment, normal monthly growth, and category shifting, net Program enrollment will increase by approximately 1,027 subscribers effective each January 1<sup>st</sup>, as determined by the average of this increase over the last two years.
  - New enrollees, resulting from Open Enrollment, will distribute between the PPO Plan and HMO Plans at a ratio of 9 to 1, respectively, as measured over the last two years.
  - New enrollees will further distribute by enrollment category and enrollment coverage based on historical Program demographics.

### Methodology

Using January '99 Program enrollment as the base:

- Increase and distribute monthly projected Program enrollment based on the aforementioned assumptions for CY 1999.
- For each calendar year thereafter, increase the overall calculated Program enrollment for the month of January by 1,027 subscribers to account for the assumptions associated with the net increase in new and shifting enrollment. Apply annual enrollment increase and distribution assumptions to the adjusted enrollment base to arrive at monthly projected Program enrollment.

## Revenue Projections Assumptions/Methodologies

### Insurance Premiums

- Monthly Program enrollment projections were entered into a premium calculation model to estimate monthly contributions by plan, by category, by coverage, and by state and enrollee share during the forecasted period.
- The monthly results calculated by the model were adjusted to reflect specific issues affecting the actual timing of cash collections. Such issues include the timing of bi-weekly payroll contributions, double premium deductions for SUS members during certain months out of the year to cover other months where there are no premium deductions, etc.

### Interest on Investments

- It is assumed that interest revenue will continue to be earned at a rate of approximately 6% annually. A calculated monthly rate (0.005) is applied to the estimated ending cash balance of the previous month to arrive at the forecasted month's interest earnings.

### TPA Refunds/Rebates

- *Rebates* - Based on CY 1998 rebate collections, it is assumed that approximately \$2.2 million will be rebated to the Trust Fund annually.
- *Refunds* - It is assumed that increasing recovery activity will continue to occur through the current fiscal year with BCBSF now that claim receipt and processing volumes have stabilized. However, recovery activity will stabilize in future periods and certain recoveries will begin to decrease as their "Run-Out" administration terminates in July '99.

### Pre-Tax Trust Fund Transfer

- Until we are in receipt of substantive data which reflects the effect of the pay raise effective October 1998; the effect of the employee contribution increases effective January 1999; and historical results of premium payments based on insurance selections made during Open Enrollment; on pre-tax savings, it is assumed that \$11.0 million will continue to be transferred to the Trust Fund annually.

### Other Revenues

- It is assumed that less than \$50,000 will be collected as other revenue during the forecasted period.

## Expense Projections Assumptions/Methodologies

### Medical Claims - BCBSF

Actual paid claims experience for CY 1998 (June through December) indicates the following:

* Average state cost per claim	\$ 148.93
* Average number of claims per enrollee per month	1.62
* Calculated per enrollee per month state cost	\$ 240.94
* Calculated per enrollee per year state cost	\$ 2,891.26

\* Rounded

### Assumptions

- Beginning with the month of February, based on a combination of current trends and healthcare economists' projections, it is assumed that the per enrollee per month state cost, computed by multiplying the calculated CY 1998 utilization (measured by the average # of claims per enrollee) to the calculated CY 1998 costs (measured by the average state cost per claim), will increase 8% annually. Down 1% from previous projection.
- Utilization by new enrollees entering the PPO Plan will be similar to the current population's experience.
- Risk is shared equally across all enrollment categories.

### Methodology

- Industry standard formulas are used to calculate monthly estimated incurred state costs. Based on payment completion factors and other variables, adjustments are made to monthly estimated incurred state costs to arrive at monthly estimated state costs on a cash basis.

Medical claims costs, on a paid basis, are calculated as follows:

	1998-99	1999-00	2000-01
Projected average enrollment	93,416	94,990	96,379
* Calculated per enrollee per month state cost	\$ 247.11	\$ 271.48	\$ 293.20
* Calculated per enrollee per year state cost	\$ 2,965.31	\$ 3,257.78	\$ 3,518.39
Total Projected Cost (Adjusted to a cash basis - In millions)	\$ 279.7	\$ 308.9	\$ 337.9
	% Change	+ 10.4%	+ 9.4%

\* Rounded

## Expense Projections Assumptions/Methodologies

### Medical Claims - "Run-Out"

- Effective October 31, 1998, Unisys' contractual responsibilities were officially terminated. Unisys paid \$8.2 million in claims during the fiscal year prior to termination. BCBSF assumed "Run-Out" responsibilities effective November 1, 1998.
- The outstanding claims liability (claims that have been incurred but not paid (IBNR)) has been estimated to be approximately \$2.9 million as of January 1999. It is assumed that of this amount, \$2.4 million will be processed under BCBSF administration during FY 1998-99. The remainder of \$0.5 million will be processed during FY 1999-00. This estimated claims experience has been included with the overall medical claims cost projections.

### Prescription Drug Claims

Annualized paid scripts experience for CY 1998 indicates the following:

* Average state cost per claim	\$ 32.73
* Average number of claims per enrollee per month	2.12
* Calculated per enrollee per month state cost	\$ 69.38
* Calculated per enrollee per year state cost	\$ 832.55

\* Rounded

### Assumptions

- Beginning with the month of February, based on a combination of historical trends and healthcare economists' projections, it is assumed that utilization (measured by the average # of claims per enrollee) and costs (measured by the average state cost per claim) will increase 7.5% and 11%, respectively, annually. Up 1% each, as previously projected.
- It is estimated that approximately \$.6 million will be saved annually due to the implementation of the Pre-Authorization Program.
- Utilization by new enrollees entering the PPO Plan will be similar to the current population's experience.
- Risk is shared equally across all enrollment categories.



## Expense Projections Assumptions/Methodologies

### Methodology

- Prescription drug costs, on a paid basis, are calculated as follows:

	1998-99	1999-00	2000-01
Projected average enrollment	93,416	94,990	96,379
* Average state cost per claim	\$ 34.32	\$ 38.09	\$ 42.28
* Average number of claims per enrollee per month	2.18	2.35	2.52
* Calculated per enrollee per month state cost	\$ 74.95	\$ 89.42	\$ 106.70
* Calculated per enrollee per year state cost	\$ 899.35	\$ 1,073.07	\$ 1,280.44
Total Projected Cost (Adjusted to a cash basis - In millions)	\$ 82.5	\$ 100.4	\$ 121.4
% Change	+ 21.4%	+ 21.5%	+ 20.9%

\* Rounded

### HMO Premiums

- Individual HMO Plan enrollment projections were entered into an HMO premium calculation model to estimate current premiums by HMO, and by category and coverage, for calendar years 1999, 2000, and 2001.
- A comprehensive HMO rate survey was provided by the Division to HMO vendors contracted with the state during CY 1998, in an effort to determine their funding expectations for CY 2000. The responses to the surveys were compiled by actuaries with William M. Mercer. It was determined by the Division that an overall rate increase of approximately 15.2%, or \$39.7 million, would be a likely increase for total HMO premiums for CY 2000, excluding any enrollee cost sharing changes. Consequently, the amount of \$39.7 million was added to the total HMO premium base for CY 2000.
- For purposes of estimating for CY 2001, it is assumed that an additional 4% increase will be provided to participating HMO vendors.

### ASO Fees

### BCBSF

- Multiplied the projected monthly PPO Plan enrollment by the calendar year per enrollee monthly base administrative charge. Beginning April 1999, and every third month thereafter, added to the per enrollee monthly base administrative charge is a contractually required calculated per enrollee per quarter incentive payment. It is assumed that BCBSF will meet, or exceed, the specified performance incentives to earn the incentive payment.

**Expense Projections  
Assumptions/Methodologies**

**Base Administrative Fee Schedule**

<u>Calendar Year</u>	<u>Monthly per Enrollee Fee</u>
1999	\$ 20.31
2000	\$ 21.32
2001	\$ 22.38

**Incentive Payment Schedule**

<u>Calendar Year</u>	<u>Monthly per Enrollee Incentive Fee</u>
1999	\$ 3.58
2000	\$ 3.76
2001	\$ 3.95

- Due to circumstances surrounding the termination of the Unisys contract, an agreed upon fixed administrative fee of \$2.8 million will be paid to BCBSF for additional administrative services provided to the state. These payments are made monthly and will expire August 1999.

**Unisys**

- Due to termination of their contract, an agreed upon fixed "Run-Out" administrative fee of \$564,884 (less deductions) was paid to Unisys on a monthly basis. These payments ended November 1998. Approximately \$2.6 million was paid to Unisys this fiscal year.

**EHS**

- Multiplied the projected monthly PPO Plan enrollment by the calendar year per enrollee monthly base administrative charge (\$.125).
- Beginning April 1999, added to the monthly base administrative charge is an estimated monthly charge (\$3 per each pre-authorization \* 1,222 estimated monthly cases = \$3,666) for the TPA administration of the newly implemented Pre-Authorization Program.

**DSGI Administrative Costs**

- The Division's currently approved operating budget is assumed to continue through the forecasted period.

**Expense Projections  
Assumptions/Methodologies**

**Premium Refunds**

- Historical data indicates approximately \$100,000 of premium refunds are occurring on a monthly basis. This activity is expected to continue through the forecasted period.

**Other Expenses**

- Routine payments for administrative hearings, patient auditor refunds, and other administrative activities, indicates that annual payments will not exceed \$100,000. This activity is expected to continue through the forecasted period.