



STATE OF WISCONSIN  
Department of Employee Trust Funds

David A. Stella  
SECRETARY

801 W Badger Road  
PO Box 7931  
Madison WI 53707-7931

1-877-533-5020 (toll free)  
Fax (608) 267-4549  
<http://etf.wi.gov>

**CORRESPONDENCE MEMORANDUM**

**DATE:** July 31, 2009  
**TO:** Group Insurance Board  
**FROM:** Betty Wittmann, Manager  
Optional Insurance Plans & Audits  
**SUBJECT:** VSP Proposal and Open Enrollment

**Staff recommends that the Board approve payroll deduction authorization for Vision Service Plan (VSP) to offer vision care benefits to active state and University employees, annuitants and their dependents effective January 1, 2010.**

**Background**

Under authority granted to the Group Insurance Board (Board) by Wis. Stats. § 40.03 (6) (b) and pursuant to § 20.921 (1) (a) (3) and § ETF10.20, the Board is responsible for approving optional employee pay for all group insurance plans to be offered via payroll deduction. Proposals for new plans are reviewed under the Board's Guidelines for Optional Group Insurance Plans Seeking Group Insurance Board Approval for Payroll Deduction Authorization. Benefit Adoption Agreements are issued to the participating state agencies, not the Board.

VSP, a Fortune 500 company with over 50 years of experience in providing and administering vision care benefits is seeking authorization for payroll deduction. VSP has won customer service awards, and utilizes providers who offer full service benefits (exam and materials). In addition, their providers are credentialed to the National Committee for Quality Assurance (NCQA) standards. VSP's proposal requests to offer vision care benefits to active state and University employees, annuitants and their dependents effective January 1, 2010, with premium rates guaranteed through December 31, 2013.

The VSP plan will be voluntary for both agencies and individual employees. State agencies, the University of Wisconsin, or the Hospital and Clinics are not required to offer this plan to their employees. VSP intends to offer an open enrollment from October 5 to November 13, which will coincide with the Employee Reimbursement Account enrollment period. Employees and retirees enroll on a voluntary basis and pay the entire premium.

Reviewed and approved by Tom Korpady, Division of Insurance Services.

Signature \_\_\_\_\_

Date \_\_\_\_\_

| Board | Mtg Date  | Item # |
|-------|-----------|--------|
| GIB   | 8/25/2009 | 6      |

## Discussion

Staff forwarded VSP's proposal to Deloitte Consulting, LLP (Deloitte) for evaluation (copy attached). Deloitte summarizes that VSP's rates are very competitive with OptumHealth's and its proposal meets the requirements outlined in the Board's guidelines. Detailed information regarding the premium rates is illustrated on page 2 of Deloitte's memo, and in the Staff's review below.

Staff has reviewed the proposal, and compared VSP's benefits to the current OptumHealth plan and would like the Board to note the following:

- VSP will administer the open enrollments for all state agencies, which will reduce the administrative burden experienced with the OptumHealth plan. The state agencies will only be responsible for entering the premium deductions and reporting to VSP all eligibility updates and changes, including new hire applications. In addition, VSP's enrollment process will greatly reduce the amount of our member's personal information that is reported to the plan.
- VSP will also administer open enrollments and all eligibility changes for the annuitant plan, and timely report enrollments to ETF in order to accommodate annuity deductions. In addition, VSP, unlike OptumHealth, can accommodate direct billing for annuitants not eligible for annuity deductions.
- VSP's premiums are competitive with OptumHealth as illustrated below (see full details on page 2 of Deloitte's memo):

| 2010 Monthly Premium Rates | VSP - Employee | VSP - Retiree* | OptumHealth |
|----------------------------|----------------|----------------|-------------|
| Employee Only              | \$ 5.24        | \$ 6.16        | \$ 5.83     |
| Employee & Spouse          | \$ 10.49       | \$ 12.32       | \$ 11.34    |
| Employee & Child(ren)      | \$ 11.23       | \$ 12.32       | \$ 11.88    |
| Employee & Family          | \$ 17.93       | \$ 14.50       | \$ 17.82    |

*\*Annuitant premium rates are higher to accommodate personalized enrollment features (online and phone) that were not available through the OptumHealth program. These features will allow annuitants a more secure enrollment process along with instant confirmations.*

- VSP's network is comprised mainly of private stand alone providers (66%); OptumHealth's provider network was primarily retail chain-based (80%). While this may be an adjustment for some members, VSP's reference checks have indicated subscribers report high provider satisfaction and 90% utilize in-network benefits. In addition, Staff analyzed VSP's provider list and found approximately 20% of VSP providers are also in OptumHealth's network.
- VSP's in-network benefits are comparable to those of OptumHealth: \$10 co-pay for exams, \$25 co-pay for materials, along with a \$130 retail frame allowance (\$50 wholesale) and \$105 elective contact lens allowance. In addition, VSP will include

polycarbonate lenses for children, no material co-pay for contact lenses, and in-network discounts. Staff compared the benefits and found they require their providers to offer a minimum of 200 frames and 50% of those must be covered in full at the \$130 retail allowance, reporting an average out-of-pocket cost of \$28.02 for any frame of choice. In addition, VSP's cost controlled pricing on the most popular lenses compares to the out-of-pocket costs experienced with OptumHealth.

- VSP's out-of-network benefits are slightly lower than OptumHealth's out-of-network benefits, as illustrated on page 2 of Deloitte's memo. This may present an issue for our participants, given the small percentage of OptumHealth providers who also qualify as in-network with VSP. However, the comparable in-network benefits and discounts offered by VSP should assist our participants in the transition.

### **Conclusion**

Based on staff review and the attached Deloitte evaluation, Staff recommends approval of the VSP proposal. We believe this plan offers significantly better administration while remaining competitive on rates, benefits and provider availability.

Staff will be available at the meeting to answer any questions you may have regarding this proposal.

Attachments: Deloitte Consulting, LLP Memorandum  
VSP Proposal

August 1, 2009

Ms. Betty Wittmann  
Manager, Optional Plans & Audits  
Division of Insurance Services  
Department of Employee Trust Funds  
801 West Badger Road  
Madison, WI 53702

**Re: VSP Proposal – Proposed 2010-2013 Vision Benefits**

Dear Betty:

As requested by the State of Wisconsin Department of Employee Trust Funds, we have reviewed the proposal submitted by VSP to replace OptumHealth as a voluntary, payroll-deduction vision option for active state employee, eligible state retirees, and employees and dependents of the University of Wisconsin. VSP is proposing a four-year guarantee with comparable benefits to what OptumHealth currently offers the State of Wisconsin.

This memo summarizes our actuarial analysis of the proposed four-year premium rates, effective January 1, 2010 through December 31, 2013. We received a copy of the July 14, 2009 proposal from VSP, which is the basis for our analysis. We have evaluated VSP's rating methodology, calculated rates, and recent experience with a similar plan.

**VSP Rating Methodology**

VSP uses a per-participant-per-month claim cost development methodology, which is based on known costs and actual experience from similar existing clients of VSP. Rates are developed separately for the Employee and Retiree populations. VSP developed four-tier rates for these two populations for the following plan benefits:

- Exams/Lenses/Frames covered every 12/12/24 months
- \$10 Exam Co-pay / \$25 Materials Co-pay
- \$130 Retail Frame Allowance
- \$105 Elective Contact Lens Allowance

The following provides an overview of the rating methodology:

- Average Claim Cost and Claim Frequency was calculated for Employees/Retirees
- 5% of Claims Cost Risk Margin is added
- 10% of Gross Premium Administration Fee is added

August 1, 2009

Page 2

- Add-on Admin Fees for Open Enrollment is added for both Employees and Retirees

We analyzed VSP's documentation supporting their premium rate development, and did not identify any calculation errors or any concerns about the methodology.

### VSP Rates

The Resulting VSP Rates for Employees and Retirees along with the combined rates from OptumHealth are provided below:

| <b>2010 Monthly Premium Rates</b> | <b>VSP - Employee</b> | <b>VSP - Retiree</b> | <b>OptumHealth</b> |
|-----------------------------------|-----------------------|----------------------|--------------------|
| Employee Only                     | \$ 5.24               | \$ 6.16              | \$ 5.83            |
| Employee & Spouse                 | \$ 10.49              | \$ 12.32             | \$ 11.34           |
| Employee & Child(ren)             | \$ 11.23              | \$ 12.32             | \$ 11.88           |
| Employee & Family                 | \$ 17.93              | \$ 14.50             | \$ 17.82           |

When comparing the rates in the table above, it is important to recognize that the VSP rates are guaranteed for four years (2010-2013), while the OptumHealth rates represent the current (2009) rates. The following table summarizes the percentage change (from OptumHealth to VSP) in premium rates by tier for both Employees and Retirees:

| <b>VSP % Difference from OptumHealth</b> | <b>VSP - Employee</b> | <b>VSP - Retiree</b> |
|--|-----------------------|----------------------|
| Employee Only                            | -10.1%                | 5.7%                 |
| Employee & Spouse                        | -7.5%                 | 8.6%                 |
| Employee & Child(ren)                    | -5.5%                 | 3.7%                 |
| Employee & Family                        | 0.6%                  | -18.6%               |

With VSP, the (non-Family) Employees will receive a rate decrease of approximately 6% to 10%, while the (non-Family) Retirees will receive an increase of approximately 4% to 9%. Employees with Families will receive a slight premium increase while Retirees with Families will receive close to a 19% rate decrease.

There are some Out-of-Network benefit differences in the proposed plans between VSP and OptumHealth which somewhat contribute to VSP's lower premium levels. Specifically, these Out-of-Network benefit differences include the following allowed reimbursement levels:

| <b>Out-of-Network Reimbursement</b>  | <b>VSP</b> | <b>OptumHealth</b> |
|--------------------------------------|------------|--------------------|
| Lenses - Single Vision               | \$33       | \$40               |
| Lenses - Bifocal                     | \$50       | \$60               |
| Lenses - Trifocal                    | \$66       | \$80               |
| Lenses - Lenticular                  | \$80       | \$80               |
| Contact Lenses - Elective            | \$105      | \$105              |
| Contact Lenses – Medically Necessary | \$210      | \$210              |

Given that a small percentage of the members' current In-Network providers with OptumHealth will qualify as In-Network providers with VSP, these reduced Out-of-Network benefits may be a

more significant issue to those affected members. It is difficult to quantify the financial impact precisely, although we would not expect the benefit differences to materially affect the assessment of the reasonableness of VSP's proposed rates.

### **VSP Experience**

VSP provided the following five year historical experience comparison for a "similar plan":

| <b>VSP 5-year Experience</b>    | <b>Year 1 - 2008</b> | <b>Year 2 - 2007</b> | <b>Year 3 - 2006</b> | <b>Year 4 - 2005</b> | <b>Year 5 - 2004</b> |
|---------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Number of Participants          | 14,603,083           | 13,956,032           | 12,968,658           | 12,302,803           | 11,496,069           |
| Annual Premium Income           | \$ 1,760,627,929     | \$ 1,637,226,598     | \$ 1,507,073,487     | \$ 1,419,414,993     | \$ 1,310,307,700     |
| Number of Claims                | 12,408,402           | 11,446,529           | 10,612,636           | 10,133,818           | 9,504,335            |
| Amount of Claims                | \$ 1,765,128,433     | \$ 1,613,608,930     | \$ 1,484,884,704     | \$ 1,387,070,604     | \$ 1,282,603,130     |
| Monthly Premium per Participant | \$ 10.05             | \$ 9.78              | \$ 9.68              | \$ 9.61              | \$ 9.50              |
| Monthly Claims per Participant  | \$ 10.07             | \$ 9.64              | \$ 9.54              | \$ 9.40              | \$ 9.30              |
| Loss Ratio                      | 100.3%               | 98.6%                | 98.5%                | 97.7%                | 97.9%                |

It appears that VSP's recent Loss Ratio experience is fairly high for this block of business and well in excess of the State's 75% minimum standard.

### **Summary**

Based on our review of VSP's four-year voluntary vision proposal, it appears that VSP is using appropriate methodology in their rate development and calculating their rates reasonably. Their 2010-2013 rates appear to be very competitive with OptumHealth's current 2009 rates, and they appear to be relatively consistent with their recent experience with a similar plan. We believe that VSP's proposal is reasonable and appears to be in line with State's guidelines. It provides adequate assurance that the plan design is sound and that the premium rates are reasonable in relation to the benefits provided.

Sincerely,

Timothy D. Gustafson, FSA, MAAA

Enclosure

cc: Eric Viney  
Tim FitzPatrick