



**STATE OF WISCONSIN**  
**Department of Employee Trust Funds**  
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SECRETARY

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**CORRESPONDENCE MEMORANDUM**

**DATE:** July 27, 2010  
**TO:** Group Insurance Board  
**FROM:** Betty Wittmann, Manager  
Optional Insurance Plans & Audits  
**SUBJECT:** EPIC Dental for Payroll Deduction Authorization

**Staff recommends the Board approve payroll deduction authorization for EPIC Life Insurance Company to offer optional dental benefits as requested by the University of Wisconsin System Administration (UWSA).**

**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 Administrative Code 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 (Guidelines)*. Policies are issued directly to the participating state agencies, not the Board.

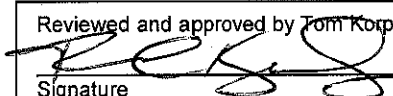
EPIC Life Insurance Company (EPIC) has offered the Board-approved supplemental dental, excess medical and accidental death & dismemberment (AD&D) plan since 1994 when they purchased the business from John Deere Life.

EPIC is now submitting a proposal to offer a stand-alone dental plan upon request from UWSA for coverage effective January 1, 2011. The EPIC Dental Wisconsin (EPIC Dental) would be offered in addition to the current supplemental plan. The UWSA request, as outlined in Beth Ritchie's July 15, 2010, cover letter (Attachment A), is requesting that the Board consider the EPIC Dental plan.

EPIC intends to offer an open enrollment period, which will coincide with the "It's Your Choice" enrollment period, and waive any waiting periods for those employees currently enrolled in the Anthem plan. Neither the State agencies, nor the University of Wisconsin Hospital and Clinics have indicated they will offer this plan to their employees at this time.

**Discussion**

The Guideline Requirements, as cited in Section II.4., require the Optional Insurance Plans to be group insurance, offer coverage not adequately provided through other plans, and meet the Board's 75% loss ratio requirements. EPIC is proposing to offer two group dental

Reviewed and approved by Tom Korpady, Division of Insurance Services.  
  
Signature \_\_\_\_\_ Date 8/2/10

Board	Mtg Date	Item #
GIB	8.24.10	4A

options as described in their Actuarial Memorandum beginning on page 2 (Attachment B). First, the Preferred Provider (PPO) plan is designed for employees without dental coverage in their health plans and offers diagnostic and preventive care in addition to the basic and major services. Second, the Select Plan is designed to supplement the health plan and covers basic and major dental services.

EPIC's benefits are similar to those currently offered by Anthem. However, in addition to Anthem's coverage, EPIC will also offer dental implant coverage in both plans (only currently offered in Anthem's PPO Plan) along with a \$1,000 orthodontic insurance benefit where subscribers can see any provider. Anthem requires that subscribers utilize DentalBlue Preferred Orthodontists to receive a 20% discount for this same benefit. EPIC will utilize the Delta Dental of Wisconsin network and has almost double the number of participating providers compared to Anthem's DentalBlue network. Therefore, staff believes EPIC's proposal meets the Board's requirement of providing coverage not adequately provided by other plans.

Deloitte Consulting reviewed EPIC's proposal to determine if the EPIC Dental Plan meets the Board's 75% loss ratio requirement and a copy of their full analysis is attached. Deloitte's memo (beginning on page 3, Attachment C) indicates EPIC developed their rates based on Anthem's claims experience and adjusted the premium rates based on the benefit differences. Based on Deloitte's assessment of the Board's loss ratio requirement, EPIC's proposed rates would need to be decreased by 3.6%. EPIC has agreed to this revised rate structure for 2011 and 2012 as outlined below:

Tier	Select Plan		PPO Plan	
	EPIC Revised 2011	EPIC Revised 2012	EPIC Revised 2011	EPIC Revised 2012
Employee	\$16.99	\$17.84	\$25.54	\$26.82
Employee + Spouse	\$34.93	\$36.68	\$54.08	\$56.78
Employee + Child(ren)	\$40.30	\$42.32	\$60.47	\$63.49
Family	\$59.28	\$62.24	\$91.41	\$95.97

### Conclusion

Based on staff review, and the attached Deloitte evaluation, staff recommends approval for payroll deduction authorization for the EPIC Dental Wisconsin proposal. We believe this plan offers a significantly better provider network while remaining competitive on rates and benefits.

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

Attachments: Attachment A: University of Wisconsin System Administration Cover Letter  
Attachment B: EPIC Dental Wisconsin Proposal (Confidential)  
Attachment C: Deloitte Consulting, LLP Memorandum

**Human Resources**

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July 15, 2010

Group Insurance Board  
C/O Department of Employee Trust Funds  
P.O. Box 7931  
Madison, WI 53707-7931

Dear Group Insurance Board:

Enclosed for your consideration is a request from EPIC Life Insurance Company and the University of Wisconsin System Administration to authorize payroll deductions under WAC §10.20(1) for a new optional employee-pay-all dental plan to UW System employees who are eligible to participate in the state group health insurance program. There are currently approximately 5,350 non-represented employees enrolled in one of the offered Anthem DentalBlue plans. If the payroll deduction is approved, the Dental Wisconsin program will be available for a January 1, 2011 effective date.

The UW System has offered optional employee-pay-all dental plans since the early 1980's and has offered three benefit designs through Anthem DentalBlue since 2004. However, in recent years we have experienced on-going difficulties with customer service, claims payments and a lack of provider access. The bargaining agreements currently in effect for represented classified employees require that these employees be offered the Anthem DentalBlue plan. It is UW System's intention to continue to offer the Anthem plan to represented employees. Provided this request is approved, all employees not covered by a bargaining agreement that provides Anthem DentalBlue coverage will only be eligible to be covered by the new EPIC Dental Wisconsin plan.

The proposed dental plan will be underwritten by EPIC Life Insurance Company and administered by Delta Dental. The name of the plan will be Dental Wisconsin and it will offer two plan designs: a PPO and a Select plan. In addition to coverage for basic, major/restorative and orthodontic services, the PPO plan will include 100% coverage for preventive and diagnostic services received from a network provider. Like the current Anthem DentalBlue Supplemental plan, the Dental Wisconsin Select plan will not cover preventive and diagnostic services because these services are covered by all of the participating health plans except for the Standard Plan. Its benefit levels match the coverage of the Anthem DentalBlue Supplemental plan. We felt it was important to match the coverage levels of the Anthem DentalBlue Supplemental plan because 75% of the UWS employees currently enrolled in an Anthem dental plan are enrolled in the Supplemental Plan and we want to make the transition to the new plan as simple as possible.

EPIC will also waive any waiting periods for services for any employees who are currently enrolled in Anthem dental coverage who decide to enroll in the EPIC Dental Wisconsin plan.

In accordance with Section II, 4.b. of the Optional Guidelines, the Dental Wisconsin plan will offer the following coverage that is not adequately provided through other plans currently available. This includes:

- Coverage of implants under both of the proposed benefit designs. Despite multiple requests for the coverage, only the Anthem Preferred PPO covers implants.
- Employees may elect the Select plan regardless of the health plan in which they are enrolled. Under Anthem DentalBlue employees must be enrolled in a health insurance plan that covers preventive and diagnostic dental services to be eligible to enroll in their Supplemental plan. This adds to the complexity to the Anthem Dental Blue program and employees are potentially enrolled in a plan for which they are not eligible.
- A true orthodontic insurance benefit for children under age 19. Anthem DentalBlue offers a 20% discount (\$1000 lifetime maximum) if orthodontic services are received from participating providers. The provider network includes very few orthodontists and these providers are not adequately represented throughout the state.
  - The Delta Dental Premiere network has more than double the number of participating dentists in Wisconsin than Anthem's dental provider network meaning that members of the Dental Wisconsin Select plan will not have any balance billing from these providers (3,761 providers in the Delta Dental network versus 1,642 in the Anthem DentalBlue Preferred PPO network and 760 in the DentaCare HMO network).
  - In most counties in which there are UWS institutions, the number of available dentists is higher than those available through the Anthem DentalBlue network.
  - For the PPO plan, the Dental Wisconsin plan has 1,417 network providers state-wide whereas Anthem's Preferred PPO plan has 1,642. The current enrollment in the Preferred PPO is approximately 500 employees, which is the lowest enrollment of the offered Anthem DentalBlue plans.
  - In most counties in which there are UWS institutions, the number of available dentists is significantly higher than those available through the Anthem DentalBlue network.
  - There are also Delta Dental providers available in Minnesota, Iowa, Illinois and Michigan, as well as nationwide.
- The proposed premium rate for the EPIC Select plan is lower than the proposed Anthem DentalBlue Supplemental premium. Over 7,000 UW System employees (75% of Anthem dental enrollments) are enrolled in the Supplemental plan. Without the restriction that employees must have a health insurance plan that covers preventive and diagnostic services in order to enroll in the Supplemental plan, we anticipate that enrollment in the Select plan will increase.
- EPIC Life Insurance Company will offer a four-tier rate structure which appears to be the preferred rating structure of our employees and benefits staff [Employee only, Employee + Spouse/Domestic Partner, Employee + Child(ren) and Family]. This will lower the cost for a single parent with more than one child.
- EPIC Life Insurance Company has provided guaranteed premium rates for 2011 and 2012.
- EPIC Life Insurance Company has a proven track record of outstanding customer service and has consistently been responsive to the needs of State and University employees and employers.

It is our intent to offer an open enrollment period from October 4 – October 29, 2010 to coincide with the annual *It's Your Choice* enrollment period. We then intend to offer another open enrollment period for the 2013 coverage year. We do not believe that annual open enrollments are conducive to maintaining the program's integrity as it invites anti-selection. Open enrollments will be offered to active employees only.

As required in the Optional Guidelines for premium adjustments, EPIC Life Insurance Company will provide the requested information as set forth in Sections 5 – 11 of the Optional Guidelines. EPIC Life Insurance Company will pay billings for the required actuarial review in a timely manner.

In the event that the Group Insurance Board does not approve this proposal, the UWS will continue to offer the Anthem DentalBlue plans to all eligible employees.

If you have any questions, please contact me at 608-265-5150.

Sincerely,



Beth Ritchie  
Employee Benefits Program Analyst  
University of Wisconsin System Administration  
[britchie@uwsa.edu](mailto:britchie@uwsa.edu)

Cc: Mark Granoff, EPIC Life Insurance Company  
Wendy Hougan, EPIC Life Insurance Company  
Susan Chamberlain, UWSA  
Nicole Zimm, UWSA



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July 28, 2010

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

**Re: EPIC Life Insurance Company – Proposed 2011 Dental Wisconsin Plan**

Dear Betty:

As requested by the State of Wisconsin Department of Employee Trust Funds we have reviewed the information submitted by EPIC Life Insurance Company (EPIC) to offer dental coverage to non-represented employees of the University of Wisconsin, effective January 1, 2011. EPIC has underwritten the existing voluntary Excess Medical and Dental plan, payroll-deduction supplemental plan, offered to employees of the State of Wisconsin, since November 1994. The Dental Wisconsin plan is being proposed as a separate plan from the current EPIC Excess Medical and Dental plan.

The Dental Wisconsin plan consists of two options, the Preferred Provider (PPO) plan, and the Select plan. Both plans provide access to the Delta Dental of Wisconsin network of providers. Members who enroll in the Dental Select plan can visit any provider, but they will maximize their benefits by using providers in Delta's Premier network (which includes approximately 3,700 providers). Members enrolling in the Preferred Provider plan will receive the greatest value by utilizing Delta's PPO network (which includes approximately 1,400 providers) for in-network benefits and the Premier network for out-of-network benefits.

**Summary of EPIC's Wisconsin Dental Proposal**

EPIC's Select Plan is similar to Anthem's current Supplemental Plan, and their Preferred Provider Plan is intended to offer non-orthodontic benefits at the actuarial value approximately between Anthem's PPO and DHMO plan. An Orthodontic benefit has been added to both the Select and PPO plans. EPIC will offer an open enrollment period this fall to non-represented employees and will waive the basic and major restorative and orthodontic waiting periods for current Anthem enrollees.

This memo summarizes our analysis of the proposed premium rates effective for the period January 1, 2011 through December 31, 2012.

We received the following information from EPIC pertaining to their Supplemental Dental Program:

- 2005-2010 Monthly enrollment, premium, claims, and billing fees
- 2007-2011 Rate history
- 2006 Benefit design and changes implemented in 2009
- 2007-2010 Trend experience
- 2009-2010 Administrative expenses

We received the following information from EPIC pertaining to the proposed Select and PPO plans:

- Actuarial Memorandum
- Responses to questions regarding initial renewal proposal, including:
  - Anthem's claims experience relied upon from three Department of Employee Trust Funds (DETF) memorandums to Group Insurance Board (GIB)
  - Expense load components and percentage of premium
  - Support for Trend assumption
  - Detail regarding the Manual Rate development
  - Additional support for loss ratio, lag factors, persistency, and enrollment assumptions
- Responses to suggested revisions to Incurral Factor and Trend assumptions

### **Summary of EPIC's Dental Wisconsin Proposal**

The following summarizes EPIC's rating methodology and assumptions.

- **Rating methodology** – EPIC developed their rates by first reviewing manual rate relationships (based on Milliman's Health Cost Guidelines) of EPIC's current Supplemental plan with Anthem's Supplemental plan and Anthem's PPO plan. Anthem's current rates were determined to be higher than EPIC's own Supplement plan rates (relative to the calculated manual rates). The relationship of the current rates to EPIC's calculated manual rates is listed in the table below:

Tier	Relationship of Current Rates to EPIC Manual Rates		
	EPIC Supplement	Anthem Supplement	Anthem PPO
Single	76.3%	80.7%	94.8%
Two Party	91.6%	97.3%	111.0%
Family	80.4%	92.9%	114.6%

EPIC concluded that Anthem's higher rates are due to relatively greater adverse selection opportunities due to their annual open enrollment, which is more evident in the PPO as a result of this plan's broader coverage (relative to the Supplemental Plan).

EPIC applied trend to these calculated manual rates for the current non-orthodontic benefits and then added the value of the additional benefits included (orthodontic for the Select plan, orthodontic plus additional coverage for the PPO plan). They tested these rates by forecasting the loss ratios for Anthem’s current plans for the two years ending December 2012 using the data available from DETF’s 2010 memo.

EPIC developed their rates by using a loss ratio rating method to determine their proposed experience rate change, relative to the rates projected based on the experience of Anthem’s plans adjusted for the benefit differences between the plans. The calculated rate increase is determined by dividing a projected loss ratio by the target loss ratio (78% for the Select plan and 81% for the PPO plan), which is shown in the table below:

2009 Adjusted (for IBNR) Loss Ratio	73.5%
Trend from 2009 to Midpoint of 2011-12	<u>1.1568</u>
Projected Loss Ratio	85.0%
Supplemental Plan Target Loss Ratio	<u>78.0%</u>
Rate Increase Implied	9.0%

- **Experience data** – EPIC’s only source of experience was the DETF memos to the Group Insurance Board from 2005, 2007 and 2010. The 2010 memo provided the following data, which EPIC relied upon:

	UW Board of Regents	OSER	Total
Premium Income	\$3,014,547	\$3,081,752	\$6,096,299
Amount of Claims	\$2,109,076	\$2,267,777	\$4,376,853
Loss Ratio	70.0%	73.6%	71.8%
Enrolled Participants	7,723	8,486	16,209

- **Assumptions** – To calculate the projected claims, EPIC multiplied the base experience claims by an incurral factor, trend, and enrollment adjustment and then added in retention.

- **Incurral Factor:** The incurral factor is used to incorporate claims run out that is not captured in the base period claims. EPIC is using a 1.01 incurred but not reported (IBNR) reserve adjustment (or incurral) factor.

**Trend:** EPIC is assuming a 5.0% compound annual trend claim cost trend for both the Select and PPO plans. These trends are used to project the base period claims from the experience period to the proposal period.

- **Retention:** DentalBlue is incorporating the following retention percentages in their plans (based on a percentage of required annual premium); 22% for the Select Plan, 19% for the PPO. The components of the retention assumption



include: Administrative Expenses totaling \$5.98 PEPM, UW System Admin Fee of 0.5%, and Risk and Profit of 5.0%.

- **Proposed Rates:** EPIC revised their proposed Dental Wisconsin rates after reviewing our request for adjustments to be made to their incurral factor and trend assumptions.

		<b>Deloitte Adjustments</b>				<b>Calculated Change</b>	
		Incurral Factor	Reduced Trend			2011 Factor	2012 Factor
		0.9866	0.9906			0.9681	0.9572
<b>EPIC's Proposed</b>				<b>Deloitte's Revised</b>			
2011-12: 1.0237 Lag, 6% Trend, 6.2% Step Rate Increase				2011-12: 1.01 Lag Factor and 5% Trend			
		<b>Select Plan</b>				<b>Select Plan</b>	
		EPIC	EPIC			EPIC	EPIC
Tier		Proposed '11	Proposed '12	Tier		Proposed '11	Proposed '12
Employee		\$17.55	\$18.64	Employee		\$16.99	\$17.84
Employee + Spouse		\$36.08	\$38.32	Employee + Spouse		\$34.93	\$36.68
Employee + Child(ren)		\$41.63	\$44.21	Employee + Child(ren)		\$40.30	\$42.32
Family		\$61.23	\$65.03	Family		\$59.28	\$62.24
<b>EPIC's Proposed</b>				<b>Deloitte Revised:</b>			
2011-12: 1.0237 Lag, 6% Trend, 6.2% Step Rate Increase				2011-12: 1.01 Lag Factor and 5% Trend			
		<b>PPO Plan</b>				<b>PPO Plan</b>	
		EPIC	EPIC			EPIC	EPIC
Tier		Proposed '11	Proposed '12	Tier		Proposed '11	Proposed '12
Employee		\$26.38	\$28.02	Employee		\$25.54	\$26.82
Employee + Spouse		\$55.86	\$59.32	Employee + Spouse		\$54.08	\$56.78
Employee + Child(ren)		\$62.46	\$66.33	Employee + Child(ren)		\$60.47	\$63.49
Family		\$94.42	\$100.27	Family		\$91.41	\$95.97

### Deloitte Consulting Analysis

Our analysis included reviewing the information received, validating the proposed methodology, examining the assumptions used, and confirming the proposed rates.

#### **Methodology:**

EPIC relies upon a loss ratio rating method to determine their proposed experience rate change, relative to the rates projected based on the experience of Anthem's plans adjusted for the benefit differences between the plans. The calculated rate increase is determined by dividing a projected loss ratio by the target loss ratio (78% for the Select plan and 81% for the PPO plan).

The projected rates are developed by summing the current non-orthodontic benefit (determined by trending the adjusted manual rates) and additional benefits. No explicit adjustment has been made for the broader network of providers that EPIC provides through the Delta Dental Premier Network. Additionally, no adjustments were made to account for waiving the plans' waiting periods for current Anthem members.

**Assumptions:**

- **Benefit Changes:** EPIC will be offering new Orthodontic benefits to both Select and PPO plan members, and additional non-Orthodontic benefits to the PPO members (beyond what are currently available to Anthem’s PPO members). Based on our calculations, the additional value these benefits will provide to Select Plan members is approximately a 5.3% benefit increase. Similarly, the enhanced EPIC PPO benefits will add approximately 10.9% in value to current Anthem PPO members.
- **Incurral Factor:** The incurral factor is used to incorporate claims run out that is not captured in the base period claims. EPIC is using a 1.01 incurred but not reported (IBNR) reserve adjustment (or incurral) factor. Due to the short lag in dental claims, we would expect an incurral factor of less than 1%, so EPIC’s incurral factor of 1% is slightly high, but still likely within a range of reasonableness based on what we typically see in the industry and for this block of business.
- **Trend** – EPIC is assuming a 5.0% compound annual claim cost trend for both the Select and PPO plans, based on their selected sources. These trends are used to project the base period claims from the experience period to the proposal period. In our experience, we typically see annual dental trends in the range of 3% – 6%, with HMOs being at the lower end of this range, PPOs in the middle and Traditional Indemnity toward the upper end. Considering also that the UWBoR and OSER actual trend experience (based on our calculations) across for the most recent year was 0.1%, and flat for the past three years, we consider 5% to be at the high-end of the range we are comfortable with.
- **Retention** – EPIC’s retention is composed of administrative expenses, risk charges, and profit margin as follows:

Component	Select Plan	PPO Plan
Administrative Expenses (PEPM)		
Variable costs	\$5.04	\$5.04
Fixed costs	\$0.94	\$0.94
UW System Administrative Fee (% of Premium)	0.5%	0.5%
Risk and Profit (% of Premium)	5.0%	5.0%
Total Retention	\$3.52	\$3.73
Expected Claims Cost PMPM for Current Anthem Plan	\$12.06	\$15.64
Total Retention (% of Premium)	22.6%	19.3%
Stated Retention Assumption – Actuarial Memorandum	22.0%	19.0%

In view of the guideline 75% loss ratio requirement, which would allow for a 25% maximum retention, the stated retention assumptions do not appear to exceed the limits.

- **Target Loss Ratio** – The target loss ratio for each plan is as follows:
  - Select – **78.0%**

- PPO – **81.0%**
- Weighted Average – **78.8%**

The stated target loss ratios are considered reasonable as they meet or exceed the 75% minimum loss ratio guideline.

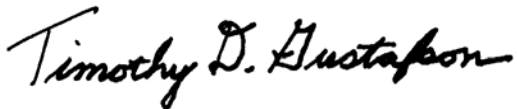
- **Enrollment and Total Premium** – EPIC has based their assumed total annual premium calculations on an assumption that 75% of the UW System's non-represented employees will enroll in the Select plan, with the remaining 25% joining the PPO. The enrollment by tier is assumed to be consistent with EPIC's current program. The resulting assumed total annual premium for 2011 and 2012 (based on their original assumptions) is:
  - Select – **\$1,530,761 in 2011 and \$1,625,785 in 2012,**
  - PPO – **\$781,763 in 2011 and \$830,234 in 2012.**

The revised premium would be approximately 3.2% less in 2011 and 4.3% less in 2012. We believe that EPIC's calculated Total Annual Premium is reasonable.

### Summary

Based on our analysis, we believe that EPIC's Dental Wisconsin proposal is using appropriate methodology in their rate development and calculating their rates reasonably. The overall premium EPIC is proposing is similar to Anthem's current premium, and the Dental Wisconsin plan appears to be of comparable value. We believe that EPIC's Dental Wisconsin 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