



STATE OF WISCONSIN
Department of Employee Trust Funds
David A. Stella
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CORRESPONDENCE MEMORANDUM

DATE: July 27, 2010
TO: Group Insurance Board
FROM: Betty Wittmann, Manager
Optional Insurance Plans & Audits
SUBJECT: EPIC Plan Benefit Change Request

Corrected copy. First page
of attachment was incorrect.

Staff recommends approval of EPIC Life Insurance Company's (EPIC) request to add vision benefits to the existing Wisconsin State Employee (WSE) Plan.

Background

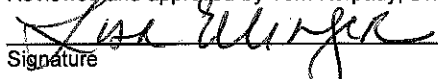
The EPIC WSE Dental, Excess Medical and Accidental Death & Dismemberment (AD&D) Insurance plan is an optional plan that has been approved by the Board for premium payment by payroll deduction under Wis. Stat. § 20.921 (1)(a) 3. and ETF 10.20. Plans are reviewed under the Board's Guidelines for Optional Group Insurance Plans Seeking Group Insurance Board Approval for Payroll Deduction Authorization. This plan has been offered by EPIC since 1994 when they purchased the business from John Deere Life.

Discussion

EPIC is proposing to add vision material (not including an exam) coverage to the current WSE Plan. EPIC will partner with Davis Vision to administer the vision benefit and coverage will be effective January 1, 2011, and run through December 31, 2012.

Prior to submitting this proposal to ETF, EPIC proposed this benefit change to their Advisory Council made up of state payroll representatives. At the July 17th meeting (meeting notes and materials enclosed) the payroll representatives indicated they were in favor of adding the vision benefit as it would provide access to those retail providers, such as Shopko and Wal-Mart, not offered through the current Vision Service Plan (VSP). However, the payroll representatives expressed concern with the proposed premium tiering and noted that the marketing material needed to clearly explain the various benefit offerings.

EPIC has indicated they will conduct a special enrollment this fall where state employees can enroll in the WSE Supplemental Plan with or without the vision benefit. As in the past, for new enrollees, the dental benefits will be capped at \$500 and \$750 respectively for the first two years, with full benefits starting in the 3rd year and no orthodontic coverage

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

Signature Date 8/17/10

Board	Mtg Date	Item #
GIB	8.24.10	4B

available during the first 24 months. However, new enrollees will not have any reduction to their vision benefits. Those currently enrolled in the supplemental plan will have the option to add the vision benefit without any reduction in benefits. EPIC's proposal provides a description of the benefits and enrollment offering beginning on page 1 of their Actuarial Memorandum (Attachment A).

Deloitte reviewed EPIC's proposal and a full copy of their analysis is attached. Deloitte's memo (beginning on page 3, Attachment B) indicates EPIC relied on Davis Vision's rate methodology and claims experience to develop the premium structure for the vision portion of the benefits shown below. These premiums would be in addition to the premiums paid for the supplemental plan. Deloitte also compared EPIC's vision benefits to those currently offered by VSP and found the premium rates (page 5 of the Deloitte memo) to be about 20-40% less than those offered by VSP. However, the difference in the premium rate was mainly due to the lack of a vision exam. While the premiums are reasonably relative to the benefits EPIC provides, it should be noted that the wholesale allowances are significantly lower for frames and contact lenses than that offered by VSP.

Tier	Active Employees	Annuitants
Employee Only	\$4.00	\$4.31
Employee + Spouse or Employee + Child(ren)	\$7.07	\$7.77
Family	\$10.39	\$11.22

EPIC's proposal indicates they are not requesting to increase the current premium rates for the 2011 supplemental plan. Deloitte reviewed EPIC's current premium rate with the three-tier dental structure for those special enrollees to ensure their rate methodology remains justified. Deloitte indicates in their memo (beginning on page 6), the 72% loss ratio is still justified and expects EPIC's loss ratio, based on first quarter 2010 claims and accounting for seasonality, to be around 73.9%.

Conclusion

Based on staff review and the attached Deloitte evaluation, staff recommends approval of EPIC's request to add vision benefits to the WSE Plan.

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

Attachments: Attachment A: EPIC WSE Proposal (Confidential)
Attachment B: Deloitte Consulting, LLP Memorandum



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July 27, 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 – Proposal to offer Vision coverage with Additional Premium to the Dental, Excess Medical, and Accidental Death and Dismemberment Plan

Dear Betty:

As requested by the State of Wisconsin Department of Employee Trust Funds (DETF) we have reviewed the information submitted by the EPIC Life Insurance Company (EPIC) for the Dental, Excess Medical Plan and Accidental Death and Dismemberment (AD&D) plan. EPIC has underwritten this voluntary, payroll-deduction supplemental plan, offered to employees of the State of Wisconsin, since 1994. This plan is primarily a dental plan with over 90% of the claims paid for dental benefits.

EPIC is proposing to allow state employees enrolled in this existing “base” coverage to elect to add supplemental vision coverage, effective January 1, 2011. After this special enrollment period ends, only new State of Wisconsin employees will be allowed to enroll. The vision plan is based upon a Preferred Provider Organization (PPO) design featuring a national network of independent optometrists and ophthalmologists as well as retail providers who satisfy NCQA credentialing process. EPIC’s target loss ratio for the supplemental vision benefit plan is 75%.

Many of the health plans available to State of Wisconsin employees include routine eye exam coverage. EPIC’s plan supplements this benefit by providing corrective materials coverage, including coverage (with a \$25 copay) for eyeglass lenses or contact lenses once every 12 months and frames every 24 months. There are different copay amounts for varying levels of frames, eyeglass lenses, lens upgrades, and contact lenses. Low vision benefits providing coverage for exams, and value-added features, which provide discounts for in-network services, are also included. The maximum benefits of the plan can be realized by visiting network providers.

This memo summarizes our analysis of the proposed premium rates effective for the period January 1, 2011 through December 31, 2011. We received the following information from EPIC:

- 2005-2009 Loss Ratios
- Actuarial Memorandum
- Benefit descriptions for each coverage
- May 17, 2010 DETF Correspondence Memorandum to Group Insurance Board
- Responses to questions regarding proposal, including;
 - Rating Methodology description,
 - Retention and expense load components,
 - Support for trend assumptions,
 - Assumptions for rate tiering, annuitant claim costs, rate guarantees, enrollment, and premium volume.
- Additional Responses to questions, including:
 - First Quarter 2010 Loss Ratio experience
 - Estimated value of adding exam coverage

Summary of EPIC's Vision Coverage Proposal

EPIC has partnered with Davis Vision to develop the plan that they are proposing. Davis Vision is one of the nation's largest managed vision plan administrators with nearly 55 million enrolled members.

The following summarizes EPIC's rating methodology and assumptions.

- **Rating methodology** – EPIC developed their rates by using a standard industry 4-tier rate schedule, expected claims costs that Davis provided, and retention assumptions. The initial resulting premium rates implied expected loss ratios increasing from 52.6% for employee-only coverage to 74.8% for family coverage with an average expected loss ratio across all rate tiers of about 66%. They subsequently recalculated the rates using DETF's 75% minimum target loss ratio. EPIC then recalibrated the rates from the standard industry 4-tier rate schedule to DETF's 4-tier rate schedules using tier factors designed to produce a revenue neutral result.
- **Experience data** – EPIC has relied exclusively on Davis Vision to provide expected claims costs. EPIC began marketing the proposed plan in Wisconsin earlier this month and has yet to accumulate any claims experience for the plan. We understand that EPIC did not make any adjustments to the claims costs Davis Vision provided. Davis Vision administers vision plans for about 55 million members nationally with about 17 million lives from groups where the employer makes some premium contribution. Within this data, they have considerable experience with materials-only plans, similar to the plan EPIC is proposing to offer to the State of Wisconsin.
- **Assumptions** – To calculate the projected claims, EPIC incorporated the following assumptions:

- **Trend:** Davis Vision has guaranteed its administrative fees and fee schedules for professional services and materials to EPIC from July 1, 2010 through June 30, 2013. Therefore, they have not included a trend assumption in their rate calculations.
 - **Retention:** EPIC initially incorporated expense assumptions into the rates using a combination of percentage of premium and fixed employee per month (PEPM) loads from internal cost accounting studies taking into account that EPIC will gain some economies of scale by cross-selling vision to existing customers. Due to relatively low expected claims costs, they have since needed to revise the proposal rates to allow them to meet the DETF requirement that voluntary plan rates include no more than 25% retention.
 - **Premium Classes:** EPIC's rates are a function of employment status and family composition. EPIC addresses employment status by using different rates for active employees and annuitants. EPIC applies an 8% load to annuitant rates to account for this population's expected excess utilization relative to active employees.
 - **Retention:** EPIC initially incorporated expense assumptions into the rates using a combination of percentage of premium and fixed employee per month (PEPM) loads from internal cost accounting studies taking into account that EPIC will gain some economies of scale by cross-selling vision to existing customers. Due to relatively low expected claims costs, they have since needed to revise the proposal rates to allow them to meet the DETF requirement that voluntary plan rates include no more than 25% retention.
- **Proposed Rates:** EPIC's proposed rates are as follows:

Tier	Active Employees	Annuitants
Employee Only	\$4.00	\$4.31
Ee + Spouse	\$7.07	\$7.77
Ee + Child(ren)	\$7.07	\$7.34
Family	\$10.39	\$11.22

EPIC intends to manage its vision rates with an objective of holding rates constant for at least two years. This will result in loss ratios running below target during the first half of the rate guarantee period and loss ratios running above target during the last half of the rate guarantee period.

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 rates. The expected claims relied upon to project the loss ratios are provided by Davis Vision. Davis Vision sets initial claims costs by employing a community rating methodology, based on the plan entitlement and group demographics. Renewal claims costs are subject to a credibility formula assessing the group's specific utilization data over the contract term. The underlying average cost per claims is established by estimating the blended professional fees based on a network access report and by applying historical service utilization assumptions to the fee schedules, as defined by the plan design, plan frequency, and plan entitlements. EPIC did not make any adjustments to the claims costs Davis Vision provided. They used the same expected claims costs to set rates for the proposed plan as were used to set rates for commercial business in Wisconsin.

EPIC's vision program includes five families of fully insured plans providing exam-only coverage, materials only coverage, and comprehensive coverage (i.e., exam and materials). Davis Vision provided expected claims costs for all 15 of these options, one of which is the plan EPIC is proposing to offer to State of Wisconsin employees. The expected claims costs of the materials only coverage plan were estimated based upon the credible information that Davis Vision provided.

Assumptions:

- **Trend** – EPIC began marketing its PPO vision plans in June 2010 with first coverage effective dates of July 1, 2010. The plan proposed to the State of Wisconsin is one of these new plans. Prior to June 2010, they did not offer PPO vision coverage, and consequently they do not have any historical information to rely upon. Davis Vision has guaranteed the administrative fees it charges EPIC will increase by no more than 3% from the 3-years ending June 30, 2013 to the 2-years ending June 30, 2015. EPIC has not embedded a trend assumption in their rate calculations. Given the guarantees Davis Vision has provided, we believe that EPIC's assumed trends are reasonable.
- **Retention** – EPIC's initial rates reflected the following retention components:

Administrative Expenses (PEPM)	PPO Plan
Fixed costs	\$1.30
Internal variable costs	\$0.83
<u>Davis Vision fee</u>	<u>\$0.29</u>
Total	\$2.42
Risk and Profit (% of Premium)	5.0%

EPIC revised its retention assumption to a straight 25% of premium as a result of the 25% maximum retention requirement. EPIC indicated that the plan's proposed claims costs are relatively low, due to them not proposing eye exam coverage and the modest proposed frame and contact lens allowances. 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.

For comparative purposes, the Optional VSP plan offered to state and university employees which includes eye exams, lenses, contacts and frames at full coverage, has the following 2010 Monthly Premium Rates:

Tier	EPIC '11 Vision Plans		VSP '10 Vision Plans		Percentage Difference	
	Active	Annuityants	Active	Retirees	Active	Retirees
Employee Only	\$4.00	\$4.31	\$5.24	\$6.16	-24%	-30%
Ee + Spouse	\$7.07	\$7.77	\$10.49	\$12.32	-33%	-37%
Ee + Child(ren)	\$7.07	\$7.34	\$11.23	\$12.32	-37%	-40%
Family	\$10.39	\$11.22	\$17.93	\$14.50	-42%	-23%

The 2011 proposed EPIC rates are approximately 20-40% less than the 2010 VSP rates. Based on a review of the plan benefit designs, we have concluded that the major difference between the EPIC and VSP benefits is the inclusion of exam coverage in VSP's benefits. Based on the additional information we were provided with from EPIC and VSP, we valued this exam benefit to be approximately 30% of VSP's comprehensive benefit. Given that EPIC's premium is approximately 70% of VSP's premium, we have concluded that the EPIC premium rates are reasonable relative to the benefit value they are providing.

Target Loss Ratio – The target loss ratio for the Vision Plan is 75%. EPIC based their calculated rates exclusively on meeting this 75% loss ratio.

The historical experience of the Optional Dental, Excess Medical, and AD&D plans for the past five years have been:

2005	2006	2007	2008	2009
72.8%	64.2%	64.5%	65.0%	66.9%

A more detailed breakdown of the 2009 loss ratio of experience is:

EPIC Life Insurance Program		
2009	Actives	Annuityants
Enrolled Participants	12,735	4,620
Enrollment % change from 2008	1% increase	1% increase
Premium Income	\$6,363,920	
Amount of Claims	\$4,255,730	
Loss Ratio (includes admin cost)	66.9%	

This plan is viewed primarily as a dental plan, with over 90% of the claims paid for dental benefits, and the remaining 10% for medical services and accidental death. In 2006, EPIC implemented a three-tier dental structure for those enrolling during the special enrollment opportunities. In 2009, EPIC lowered the dental deductible from \$200 to \$75 for this plan.

EPIC provided us with First Quarter 2010 Loss Ratio experience for this plan, which averaged out to 76.2% for the period. After accounting for the seasonality due to dental deductibles and maximums, they projected that the first quarter is typically 3.2% higher than the loss ratio for the entire year. Consequently, they are projecting the program's 2010 loss ratio to lie between 70.4% and 80.0% with an expected value of 73.9%.

Based on our review of the information EPIC provided, we are comfortable with their projected 2010 loss ratio. The target loss ratio used, which is above the 72% guideline for this product, is reasonable due to the product's low average premiums.

- **Enrollment and Total Premium** – EPIC has based their assumed total annual premium calculations on an assumption that Vision enrollment will remain consistent with EPIC's base coverage enrollment distribution by tier. The table below summarizes the expected enrollment and resulting aggregate premium PEPM.

Tier	Active		Annuitant	
	%	Rate	%	Rate
Employee Only	43.0%	\$4.00	52.2%	\$4.31
Employee + Sp	29.0%	\$7.07	45.0%	\$7.77
Employee + Ch	2.0%	\$7.07	2.0%	\$7.34
Family	26.0%	\$10.39	2.6%	\$11.22
Expected Premium PMPM		\$6.61		\$6.18

We believe that EPIC's projected enrollment and premium distribution is reasonable.

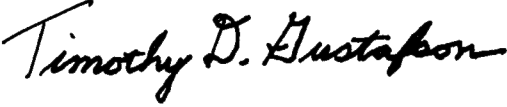
Summary

Based on our analysis, we believe that EPIC's proposal to offer Vision coverage with additional premium to the Dental, Excess Medical, and Accidental Death and Dismemberment plan is adequately supported and in line with the Group Insurance Board's guidelines. EPIC relies upon a loss ratio rating method to determine their proposed rates, and the expected claims relied upon to project the loss ratios are provided by Davis Vision. We understand that Davis Vision has established these claim costs estimates specifically for the materials-only benefit EPIC is proposing to offer to State of Wisconsin employees.

In conclusion, we recommend that the Group Insurance Board accept EPIC's proposal to offer Vision coverage with additional premium to the Dental, Excess Medical, and Accidental Death and Dismemberment plan in its current form. We believe that EPIC's proposal is reasonable and appears to be in line with the State's guidelines. It provides adequate assurance that the Vision plan design is sound and that the additional premium rates proposed are reasonable in relation to the benefits provided. Additionally, we are comfortable with EPIC's projected 2010 loss ratio, which is above the 72% guideline for this product.

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July 27, 2010

Sincerely,

A handwritten signature in black ink that reads "Timothy D. Gustafson". The signature is written in a cursive style with a prominent initial 'T' and a long, sweeping underline.

Timothy D. Gustafson, FSA, MAAA

Enclosure

cc: Eric Viney