

State of Wisconsin Self-Insured State Medical and Prescription Drug Plans

2012 Rate Development

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Overview

Overall, premium rates will be decreasing due to a variety of factors: better than expected experience, plan design changes, Medicare drug subsidy arrangement and employment of \$30 million Net Fund Balance buy down.

- Net Fund Balance

- The Net Fund Balance is based on investment outlook and anticipated experience in the aggregate. The Net Fund Balance continues to feel the impact of recent market fluctuations and allocation of the 2008 investment losses (which continue to be amortized over the next few years).

- Prescription Drugs

- The overall prescription drug experience is better than expected. Due in part to the impact of the change from the Medicare drug subsidy arrangement to an Employer Group Waiver Program (EGWP), the average rate need for 2012 is expected to be a 7.7% decrease without utilizing any of the Net Fund Balance. A \$30 million reduction from the Net Fund Balance will be used to achieve an overall rate decrease of 22.1%.

- Standard Preferred Provider Plan (Standard PPP)

- The Standard PPP medical experience was as expected and overall projected a 0.0% increase (including prescription drugs). We are recommending employing the 0.0% increase with no additional Net Fund Balance contribution.

- State Maintenance Plan (SMP)

- SMP has been placed in all counties where another qualified Tier 1 option does not exist. In 2012, SMP will be needed in 8 counties (down from 9 counties in 2011).
- Given the size of the population, which is not credible, and changes to the SMP network, we are recommending employing an overall rate increase equal to the Standard plan increase of 0.0%.

- Medicare Plus Plan

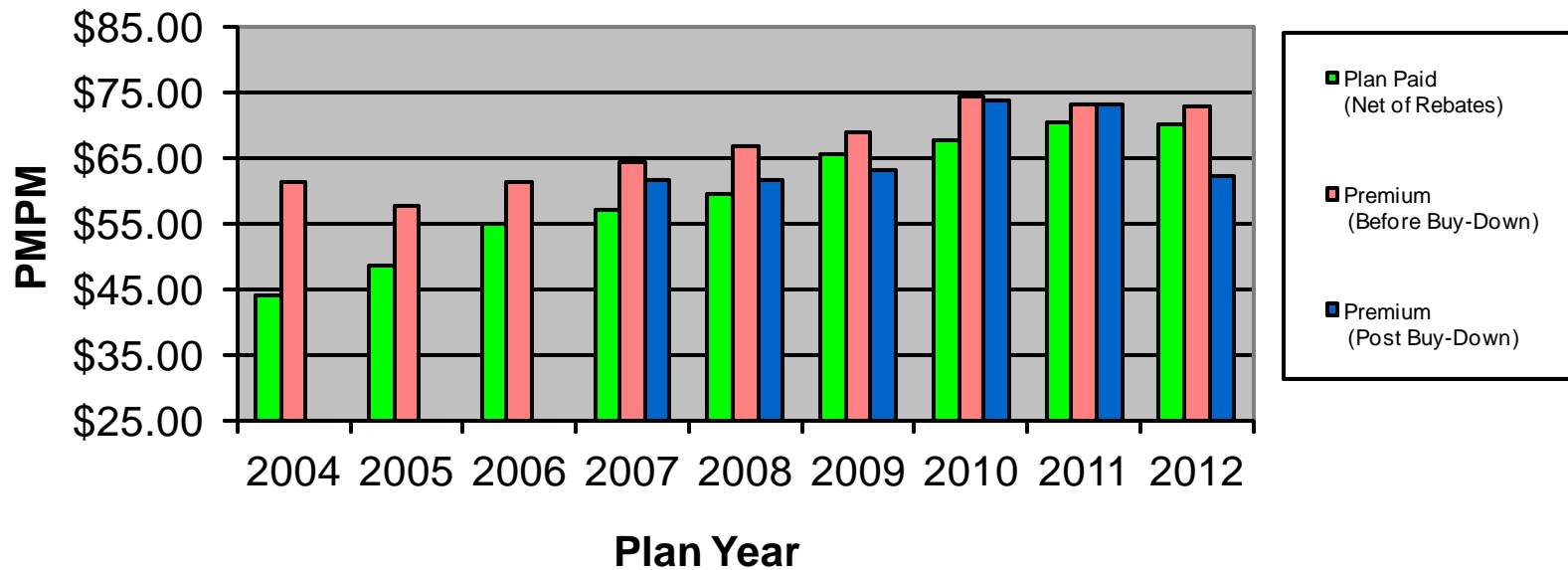
- The Medicare Plus Plan experience was better than expected. Due largely to the impact of the EGWP, the Medicare Plus plan projected a 19.7% overall decrease. We are recommending employing the 19.7% decrease with no additional Net Fund Balance contribution.

Prescription Drug Plan

- We considered the experience of the following groups separately as the rates were developed:
 - HMO Regular, HMO Grads, HMO Medicare, Standard PPP (includes Grads), SMP, Medicare Plus
- The pricing of the drug benefit is based on the State's experience from July 1, 2010 through June 31, 2011. This projection is based on the claims data, administrative fees, drug rebates estimates and Medicare drug subsidy estimates supplied by Navitus.
- In setting the trend rate for 2012, several factors were considered:
 - Observed trends over the last 12 months have varied between 0.4% to 3.3%, with trends averaging about 1.3%. More recent trends are slightly higher.
 - Large national PBMs expect 2011 trends to be between 4.0% and 9.5% and 2012 trends to be between 4.0% and 7.0%.
- A 2011-2012 average trend rate assumption of 3.3% is used in our projection.
 - Last year, to develop the 2011 rates, we utilized a 5.0% trend based on historical program experience and Navitus projected future trends.
- For 2012, due in part to the impact of the change to the Medicare drug subsidy arrangement (EGWP), the average rate need for 2012 results in a 7.7% decrease without utilizing any of the Net Fund Balance.
- A \$30 million reduction from the Net Fund Balance will be used to achieve an overall rate decrease of 22.1% compared to the 2011 rates.
 - From the inception of Medicare Part D in January 1, 2006 through December 31, 2011 the Department has utilized the CMS sponsored Retiree Drug Subsidy (RDS) to support prescription drug coverage for their retirees. Beginning January 1, 2012, the Department is pursuing an Employer Group Waiver Plan (EGWP) arrangement with Navitus. The projected EGWP subsidy has been reflected for the Medicare groups (approximately \$26.0 million for 2012). This estimate was provided by Navitus and been reviewed at a high level for reasonableness and appropriateness for use in rate development.

Prescription Drug Plan

State Regular RX Premium and Claims History



Notes:

Overall 2003 HMO RX Premium was \$54.39 per member per month (PMPM)

2011 Plan Paid PMPM based on actual experience through 6/30/11 and projected experience for the rest of the year

2012 Plan Paid PMPM based on projected experience and Net Fund Balance buy down of \$30 million.

Standard Preferred Provider Plan (PPP)

- The Standard plan continues to see enrollment drop and has seen an approximate 10% reduction in the number of members since last year's rating. This is likely due to the addition of the HealthPartners plan on the west side of the State in 2010 and the WEA Trust plan on the east side of the State in 2011.
 - It may see a further drop in enrollment with the addition of the WEA Trust plan on the west side of the State in 2012.
- The Standard plan experience has been running as expected with an 8.4% observed annual trend
 - WPS corporate trend is 11.0% for this population
- For purposes of this rate calculation we used a trend rate assumption of 8.9%.
- The medical-only administrative expenses will increase from \$23.58 PCPM in 2011 to \$26.28 PCPM in 2012 (as a result of the recent contract with WPS).
- Overall Standard plan rates were projected to increase 0.0% for 2012.
 - Medical-only rates (including the impact of benefit changes) are projected to increase approximately 2.9% for 2012.
 - Prescription drug rates are projected to have a decrease of 17.8% for 2012.
- We recommend employing the 0.0% projected increase with no Net Fund Balance contribution for 2012.

Standard Preferred Provider Plan Rates

- The overall recommended rate increase for 2012 is 0.0%

	<u>2012 Rates</u>	<u>2011 Rates</u>
Standard PPP		
Individual	\$ 1,147.60	\$ 1,147.60
Family	2,865.60	2,865.60
Standard PPP Grads		
Individual	\$ 864.00	\$ 864.00
Family	2,156.50	2,156.50

SMP Plan

- In 2004, SMP became the designated Tier 1 plan in every county where there was no other qualified Tier 1 plan.
- SMP will be offered in 8 counties in 2012
 - 9 in 2011, 8 in 2010, 10 in 2009, 9 in 2008, 12 in 2007
 - SMP will not be offered in Vilas in 2012
 - SMP currently has 103 contracts and 228 members
- While the experience is not credible, the SMP experience has been running lower than expected with a 3.2% observed annual trend
 - WPS corporate trend is 11.6% for this population
- SMP has again seen an enrollment decrease at January 1, 2011 and we employed an 8.9% trend assumption in setting the 2012 rates similar to Standard plan.
- Prescription drug rates are being established at a decrease of approximately 30.9% for 2012.
- SMP will have the same benefit changes as Uniform Benefits.
- Given that the SMP experience is not credible and there have been changes to the SMP network we recommend employing no rate change similar to the Standard plan.

SMP Plan Rates

- The overall recommended rate increase for 2012 is 0.0%

		<u>2012 Rates</u>	<u>2011 Rates</u>
SMP	Single	\$ 710.20	\$ 710.20
	Family	\$ 1,771.60	\$ 1,771.60
SMP Grads	Single	\$ 536.90	\$ 536.90
	Family	\$1,338.40	\$ 1,338.40

- SMP will be offered in the following counties next year:

- Bayfield
- Forest
- Menominee
- Buffalo
- Iron
- Pepin
- Florence
- Marquette

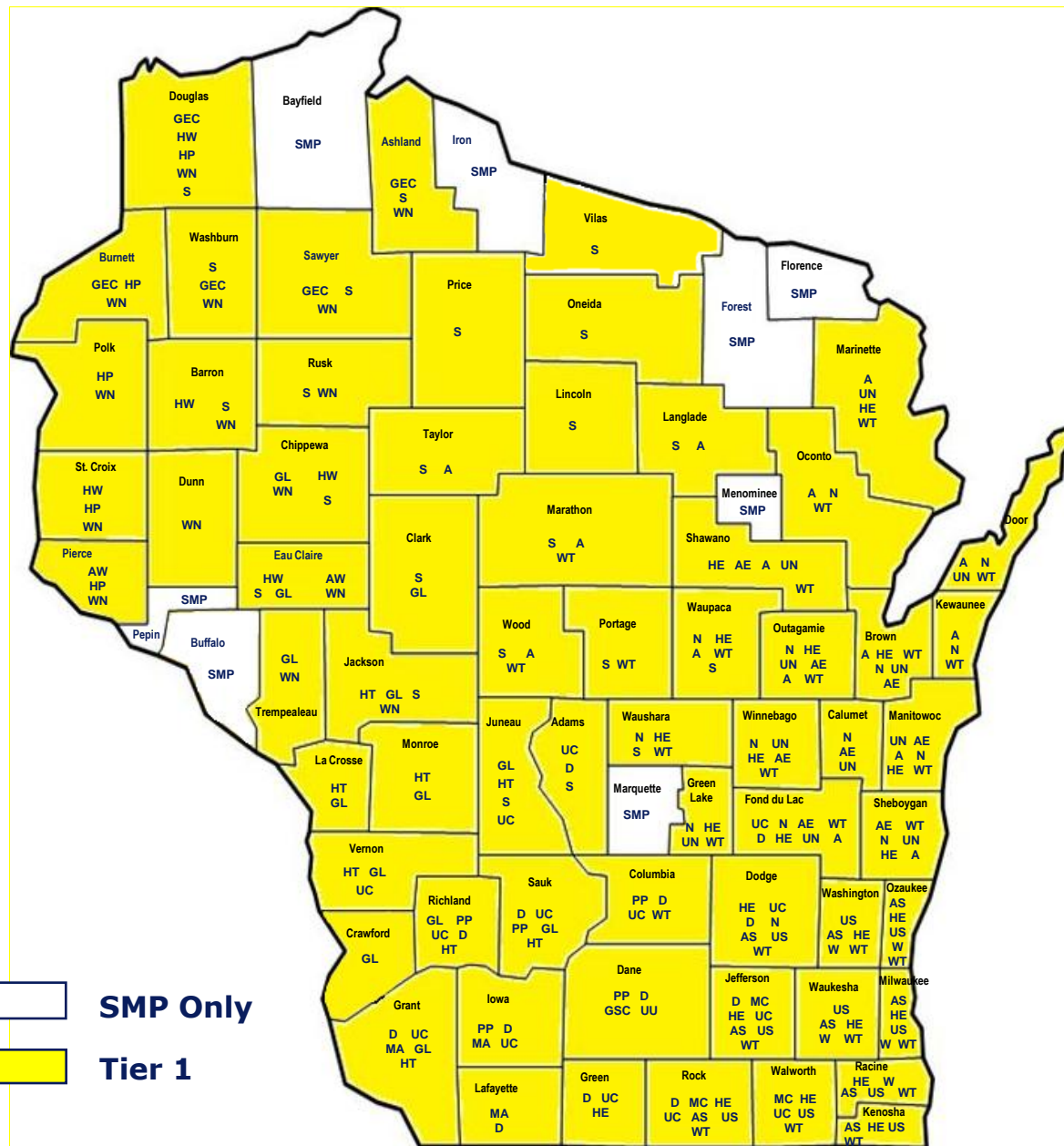
*Vilas is no longer a SMP county for 2012

- A map of the SMP counties for 2012 follows.

State Map

State of Wisconsin 2012 Health Plan Tiers

Health Plan Name Legend	
Anthem BCBS-Northeast	AE
Anthem BCBS-Northwest	AW
Anthem BCBS-Southeast	AS
Arise Health Plan	A
Dean Health Plan	D
GHC of Eau Claire	GEC
GHC of South Central	GSC
Gundersen Lutheran	GL
HealthPartners	HP
Health Tradition	HT
Humana Eastern	HE
Humana Western	HW
Medical Associates	MA
MercyCare Health Plan	MC
Network Health Plan	N
Physicians Plus	PP
Security Health Plan	S
State Maintenance Plan	SMP
UnitedHealthcare Northeast	UN
UnitedHealthcare Southeast	US
Unity Community	UC
Unity UW Health	UU
WEA Trust East	WT
WEA Trust Northwest	WN
WPS Metro Choice	W



SMP Only
 Tier 1

Medicare Plus Plan

- The Medicare Plus Plan experience has been running slightly better than expected with an 3.4% observed annual trend
 - WPS corporate trend is 5.7% for this population
- We used a 5.0% medical trend assumption for setting this year's rate.
- We recommend overall rates decrease 19.7% for 2012.
 - The projected medical rates increased 2.7% for 2012.
 - We are recommending a prescription drug rate decrease of 41.1% for 2012.
 - The projected EGWP drug subsidy, factored into this rating, assumes a subsidy of approximately \$86 PMPM for 2012.
- There are no changes to the plan design for this plan in 2012.

Medicare Plus Plan Rates

- The overall recommended rate decrease for 2012 is 19.7%

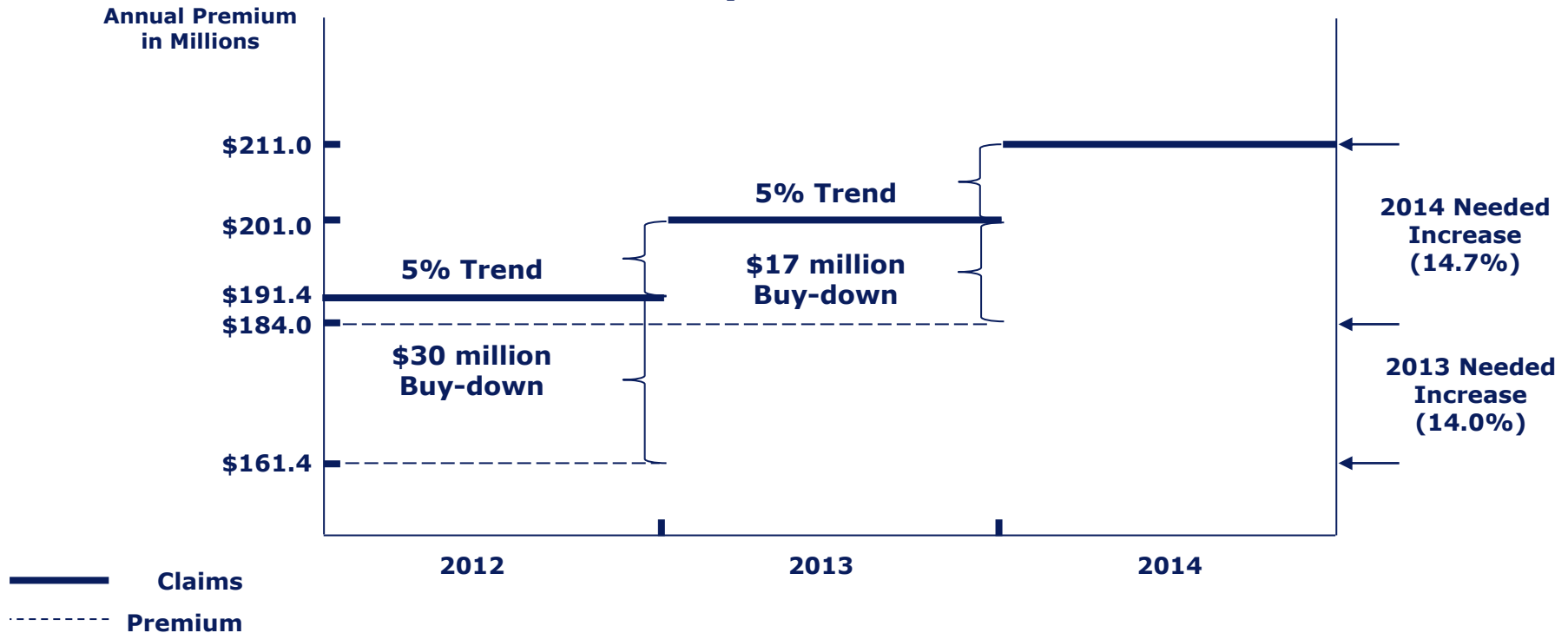
	<u>2012 Rates</u>	<u>2011 Rates</u>
Single	\$ 283.20	\$ 352.50
Family (2-Eligible)	\$ 563.50	\$ 702.30

Net Fund Balance

- Overall, estimated fund balances increased for the medical and pharmacy plan during the last year.
 - Fund balances include accrued but not received drug rebates and Medicare Retiree Drug Subsidy.
 - Early Retiree Reinsurance Program (ERRP) reimbursement of \$14.2 million was received. There are specific rules regarding the use of these funds.
- A \$30 million reduction from the Net Fund Balance will be used to reduce the prescription drug rates from a 7.7% decrease to a 22.1% decrease compared to the 2011 rates.
 - Utilizing fund balance is a temporary one-year cost reduction. Any cost reduction will likely need to be recouped in upcoming years impacting future rate increases.
- We expect the Net Fund Balance will continue to be sufficient to allow an additional smaller buy down in 2013 to help mitigate the expected increase in premium rates.
- Following this buy-down strategy, the fund balance is expected to be sufficient to protect against unfavorable claim cost and investment experience in 2012.

Net Fund Balance

Prescription Drug Rate Impact Illustration



Observations

- Estimated 5% trend rate for illustration purposes.
- Utilizing fund balance is a temporary one-year cost reduction. Any cost reduction will likely need to be recouped in upcoming years impacting future rate increases.
- Implementing a phased in buy down approach of \$30 million in year 1 and a smaller amount in year 2 will help mitigate the expected premium rate increases while bringing the Net Fund Balance to the target level.

Net Fund Balance

	6/30/2011	6/30/2010	6/30/2009
MEDICAL (in millions)			
Cash Balance ⁽¹⁾	57.3	55.4	54.9
Incurred But Not Report Claim Liability (IBNR)	(5.7)	(6.7)	(6.5)
Net Fund Balance	51.6	48.7	48.4

	6/30/2011	6/30/2010	6/30/2009
PHARMACY (in millions)			
Cash Balance	77.5	65.4	66.8
Estimated Accrued Drug Rebates	12.3	12.3	8.8
Estimated Accrued Medicare Part D Subsidy	5.1	5.2	5.3
Navitus Advance	11.9	11.9	11.9
ERRP Reimbursement ⁽²⁾	14.2	0.0	0.0
Projected Future Cash Balance⁽¹⁾	121.0	94.8	92.9
IBNR ⁽³⁾	(4.1)	(4.0)	(3.8)
Net Fund Balance	116.8	90.8	89.1

(1) Source: Department of Employee Trust Funds

(2) ERRP: Early Retiree Reinsurance Program reimbursement cannot be used as General Revenue

(3) 2011 RX IBNR is estimated at one week of claims



Appendix II

Final Rates

Standard and SMP

**State of Wisconsin
State Medical Plans
2012 Rate Development Detail**

State Active								
2011 Rates								
	REGULAR				GRADUATE ASSISTANTS			
	Standard Plan				SMP		Standard Plan	
	Single	Family	Single	Family	Single	Family	Single	Family
Medical Claim Cost	\$981.12	\$2,453.32	\$610.64	\$1,526.59	\$735.86	\$1,840.06	\$457.97	\$1,144.97
Rx Claim Cost	\$147.31	\$368.26	\$82.53	\$206.33	\$108.97	\$272.42	\$61.90	\$154.75
Expenses	\$19.17	\$44.02	\$17.03	\$38.68	\$19.17	\$44.02	\$17.03	\$38.68
TOTAL	\$1,147.60	\$2,865.60	\$710.20	\$1,771.60	\$864.00	\$2,156.50	\$536.90	\$1,338.40

State Active								
2012 Rates								
	REGULAR				GRADUATE ASSISTANTS			
	Standard Plan				SMP		Standard Plan	
	Single	Family	Single	Family	Single	Family	Single	Family
Medical Claim Cost	\$1,007.62	\$2,519.84	\$637.72	\$1,594.61	\$755.54	\$1,889.56	\$477.61	\$1,194.37
Rx Claim Cost	\$117.60	\$294.01	\$52.74	\$131.85	\$86.08	\$215.19	\$39.55	\$98.89
Expenses ⁽¹⁾	\$22.38	\$51.75	\$19.74	\$45.14	\$22.38	\$51.75	\$19.74	\$45.14
TOTAL ⁽²⁾	\$1,147.60	\$2,865.60	\$710.20	\$1,771.60	\$864.00	\$2,156.50	\$536.90	\$1,338.40
Change	0.0%		0.0%		0.0%		0.0%	

- (1) Expenses include a per contract per month fee for the following:
- A) ETF administrative fee of \$2.80
 - B) Medical Expense of \$23.48
 - C) RX Expense fee of \$8.50
 - D) Expenses are allocated between Single and Family contracts.
- (2) Total rates must be rounded to the nearest ten cents.
- (3) SMP Graduate Assistants is based on 75% of SMP.

Medicare Plus

State of Wisconsin State Medical Plans 2012 Rate Development Detail

Medicare Plus				
2011 Rates				
	Single	Family	Family + 1 (Non-Medicare eligible in)	
			Standard Plan	SMP
Medical Claim Cost	\$161.20	\$322.31	\$1,142.36	\$771.77
Rx Claim Cost	\$172.32	\$344.63	\$319.62	\$254.85
Expenses	\$18.98	\$35.36	\$44.02	\$38.68
TOTAL	\$352.50	\$702.30	\$1,506.00	\$1,065.30
Medicare Plus				
2012 Rates				
	Single	Family	Family + 1 (Non-Medicare eligible in)	
			Standard Plan	SMP
Medical Claim Cost	\$165.40	\$330.70	\$1,173.08	\$802.75
Rx Claim Cost	\$96.47	\$192.94	\$214.07	\$149.21
Expenses ⁽¹⁾	\$21.33	\$39.86	\$51.75	\$45.14
TOTAL ⁽²⁾	\$283.20	\$563.50	\$1,438.90	\$997.10
Change	-19.7%		-4.5%	-6.4%

(1) Expenses include a per contract per month fee for the following:

- A) ETF administrative fee of \$2.80
- B) Medical Expense of \$16.45
- C) RX Expense fee of \$8.50
- D) Expenses are allocated between Single and Family contracts.

(2) Total rates must be rounded to the nearest ten cents.



Appendix III

Plan Descriptions

Standard Preferred Provider Plan

- In-Network
 - Deductible: \$200 Single, \$400 Family
 - 90/10% Coinsurance
 - Out-of-Pocket Maximum: \$800 Single, \$1600 Family
- Out-of-Network
 - Deductible: \$500 Single, \$1000 Family
 - 70/30% Coinsurance
 - Out-of-Pocket Maximum: \$2000 Single, \$4000 Family
- Drug Benefit
 - \$5 Level 1 Copay
 - \$15 Level 2 Copay
 - \$35 Level 3 Copay
 - Out-of-Pocket Maximum: \$1000 Single, \$2000 Family

SMP

Uniform Benefits

- Medical Benefit
 - 90/10% Coinsurance
 - DME and hearing aids remain at 80/20%
 - Out-of-Pocket Maximum: \$500 Single, \$1000 Family
 - ER Copay \$75
- Drug Benefit
 - \$5 Level 1 Copay
 - \$15 Level 2 Copay
 - \$35 Level 3 Copay
 - Out-of-Pocket Maximum: \$410 Single, \$820 Family

Medicare Plus

100% after Medicare

- Uniform Benefit Drug Coverage
 - \$5 Level 1 Copay
 - \$15 Level 2 Copay
 - \$35 Level 3 Copay
 - Out-of-Pocket Maximum: \$410 Single, \$820 Family



Appendix IV

Key Metrics

Key Metrics

Prescription Drug Plans

	Members	Trend	2012 Claims PMPM ⁽¹⁾	2012 PCPM Expenses
HMO Regular and Grads	180,056	3.3%	\$ 56.79	\$ 8.50
HMO Medicare	15,986	3.3%	81.15	8.50
Standard PPP and Grads	2,763	3.3%	105.27	8.50
SMP and Grads	263	3.3%	47.87	8.50
Medicare Plus	9,379	3.3%	94.09	8.50

Self-Funded Medical Plans

	Trend	2012 Claims PMPM ⁽¹⁾	2012 PCPM Expenses
Standard PPP and Grads	8.9%	\$ 834.17	\$ 23.48
SMP	8.9%	528.36	23.48
Medicare Plus	5.0%	165.36	16.45

(1) These numbers are illustrative only and net of fund balance buy-down.

Key Metrics

Plan	RX Rate Change	RX Single Rate
HMO Active	-15.4%	\$74.00
HMO Grads	-15.0%	\$28.10
HMO Medicare	-43.3%	\$92.10
Standard Plan	-17.8%	\$126.10
SMP	-30.9%	\$61.20
Medicare Plus	-41.1%	\$105.00

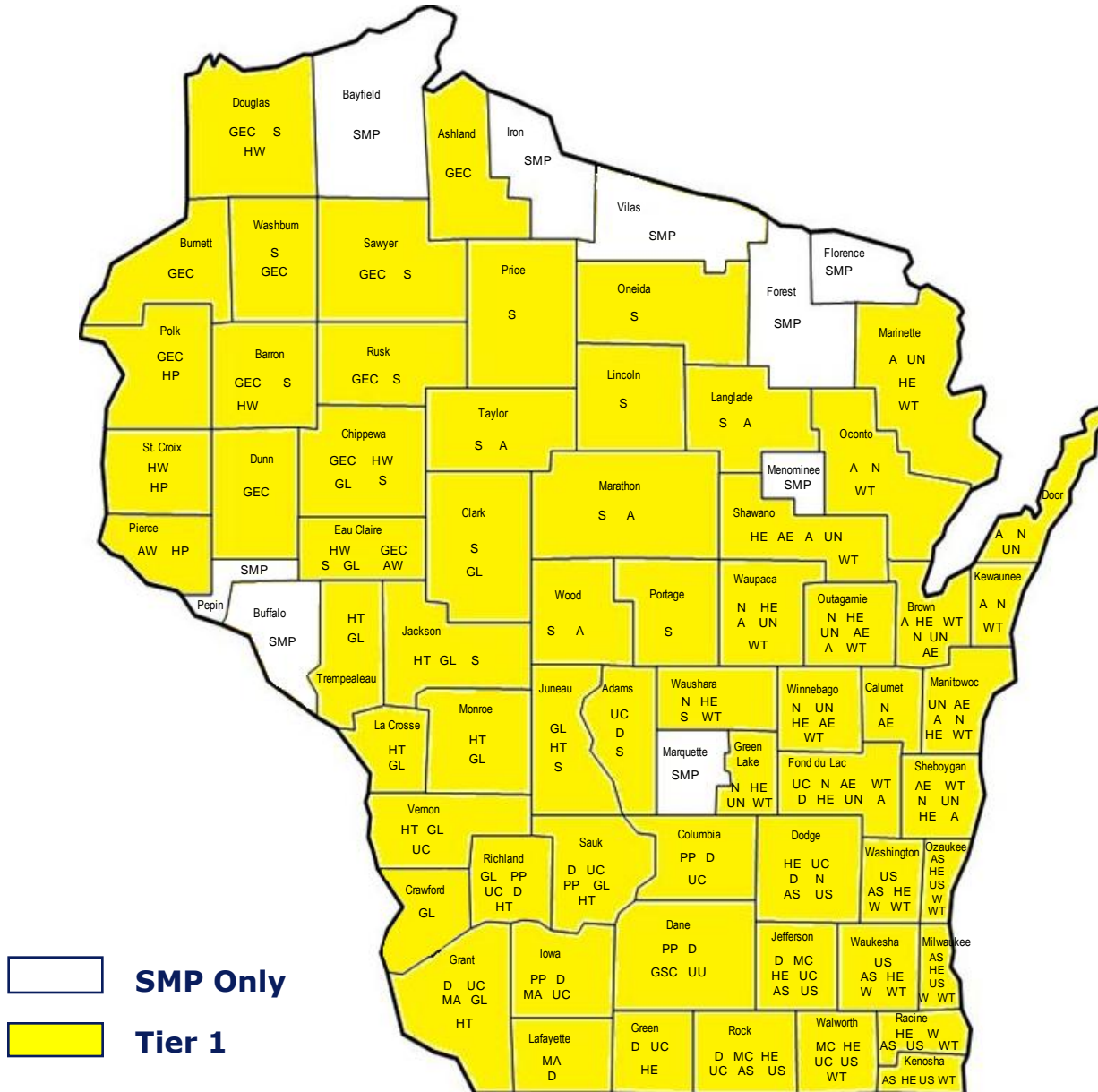


Appendix V

State Map - 2011

State Map

State of Wisconsin 2011 Health Plan Tiers



Health Plan Name Legend	
Anthem BCBS-Northeast	AE
Anthem BCBS-Northwest	AW
Anthem BCBS-Southeast	AS
Arise Health Plan	A
Dean Health Plan	D
GHC of Eau Claire	GEC
GHC of South Central	GSC
Gundersen Lutheran	GL
HealthPartners	HP
Health Tradition	HT
Humana Eastern	HE
Humana Western	HW
Medical Associates	MA
MercyCare Health Plan	MC
Network Health Plan	N
Physicians Plus	PP
Security Health Plan	S
State Maintenance Plan	SMP
UnitedHealthcare Northeast	UN
UnitedHealthcare Southeast	US
Unity Community	UC
Unity UW Health	UU
WEA Trust	WT
WPS Metro Choice	W

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