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

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CORRESPONDENCE MEMORANDUM

DATE: August 17, 2011

TO: Group Insurance Board

FROM: Roni Harper
Optional Insurance Plans

SUBJECT: EPIC Benefits+ benefit and premium change request

Staff recommends the Board approve the proposal by EPIC Life Insurance Company to change the excess medical portion of its Benefits+ plans to a hospital indemnity plan.

Background

Under authority granted to the Group Insurance Board (Board) by Wis. Stats. § 40.03 (6) (b) and pursuant to Wis. Stats. § 20.921 (1) (a) (3) and § ETF10.20, the Group Insurance Board (Board) may approve optional employee-pay-all group insurance plans to be offered via payroll deduction. Proposals for new or changed plans are reviewed under the Board's Guidelines for Optional Group Insurance Plans Seeking Group Insurance Board Approval for Payroll Deduction Authorization.

EPIC Life Insurance Company (EPIC) has offered a Board-approved supplemental dental, excess medical and accidental death & dismemberment (AD&D) plan since 1994, after purchasing the business from John Deere Life. This plan is now known as Benefits+. A small portion of the plan covers excess medical claims. In 2010 this portion of the Benefits+ insurance represented about 7.3% of the premiums, but only about 3.4% of the value of claims paid by EPIC.

Last June the Board approved changes to the group health insurance benefits. These changes included 10% coinsurance for all non-preventive medical care. This would have had the potential to expose the excess medical portion of Benefits+ to increased liabilities not contemplated when the current "wrap-around" plan was developed — up to $250 dollars per member who is hospitalized or has day surgery. Under plans in effect through 2011, HMO health insurance has essentially covered 100% of charges related to hospital care, except for durable medical equipment. Additionally, "state mandated services" such as therapy for autism, cochlear implants, and diabetic supplies would create claims for the coinsurance portion previously covered by HMO plans.

Reviewed and approved by Lisa Ellinger, Administrator, Division of Insurance Services.
Lisa Ellinger 8/18/11
Signature Date

Board	Mtg Date	Item #
8.23.11	8/23/11	7B

EPIC estimates the total Benefits+ premium would need to be approximately double in order to meet the claims obligations associated with new coinsurance requirements of the group health plan beginning in 2012.

EPIC presented members of the state Payroll Council's Fringe Benefits Committee (FBC) three options for addressing the effect of the changes to state group health insurance. Given the compressed timeframe to view and discuss the alternatives, the FBC was able to assist EPIC with a recommendation to replace the excess medical benefit with the proposed hospital indemnity plan (vs. dropping that portion entirely or doubling premiums for the existing Benefits+).

EPIC intends to offer a special enrollment for Benefits+, including Benefits+ with Vision, which will coincide with the *"It's Your Choice"* October 2011 enrollment period. EPIC will waive any waiting periods for dental coverage for those employees currently enrolled in other comparable comprehensive dental plans; it will also offer open enrollment in the Dental Wisconsin plans, introduced in 2011.

Proposed New Benefit
As outlined in EPIC's Actuarial Memorandum, attached, the new benefit will pay $100 for any outpatient surgery that occurs in a hospital or freestanding ambulatory surgery center, and will pay $100 per day after the third day of hospitalization, up to 365 days. There is no coordination of benefits.

Premiums for Benefits+, or Benefits+ with Vision, would increase by $2.34/month/single or $7.02/month/family for Active employees, and by $3.45 for a single non-Medicare annuitant, or a 14.0% to 16.5% increase overall. See page three of the attached Deloitte Actuarial Memorandum for the full schedule of current and proposed premiums. In calculating the premium for the hospital and surgical indemnity portion, EPIC used a loss ratio of 75%.

There would be no change to the Benefits+ package for annuitants for whom Medicare is primary and their premium rates would remain as approved by the Board for 2012.

Staff has some concerns that this type of indemnity insurance is not well-suited to reimburse members for excess medical coinsurance and deductibles they incur. There is also some concern that it could encourage use of hospital facilities for outpatient procedures, as opposed to less costly clinic settings. Based on discussions with Deloitte, we expect these concerns to be insignificant, given the modest benefits in this plan. ETF will monitor this issue and work with EPIC as the need arises in the future.

Conclusion
The EPIC program has historically devoted a small portion of its benefit to medical claims reimbursement. The attached proposal does not significantly alter this emphasis. While staff and the Board's actuary have some concerns, we recognize that EPIC was under significant time constraints in developing this benefit proposal following the recent actions that lowered the basic employee health benefits with which Benefits+ coordinates.

Deloitte Consulting reviewed EPIC's proposal. Because the hospital indemnity coverage represents a completely new type of offering as part of the Benefits+ package, the analysis process included several rounds of clarifying questions, as well as discussions between Deloitte, EPIC, and ETF. Deloitte's analysis (see attached memo) indicates EPIC has used appropriate methods, assumptions, and experience to calculate their revised rates for this proposal.

Deloitte recommends the Board accept EPIC's proposal to replace the current excess medical benefit for active employees, COBRA continuants, and annuitants for whom Medicare is non-primary with a hospital and ambulatory surgical indemnity benefit, and to revise the Benefits+ premium rates to reflect this change.

Based on staff review and the attached Deloitte evaluation, the staff recommends approval of payroll deduction authorization for the revised EPIC Benefits+ proposal.

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

Attachments: Deloitte Consulting, LLP Memorandum
EPIC Benefits+ Proposal
EPIC Actuarial Memorandum

Deloitte.

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August 16, 2011

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

Re: EPIC – Proposal to replace the excess medical benefit with an inpatient hospital and outpatient surgery indemnity benefit included within the Benefits+ program

Dear Roni:

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 (Benefits+) program, offered to employees of the State of Wisconsin, since 1994. This program is primarily a dental plan with currently over 90% of the non-vision claims paid for dental benefits.

This memo summarizes our analysis of the proposed premium rates effective for the period January 1, 2012 through December 31, 2012 for the Benefits+ program. The proposed 2012 Benefits+ program replaces the current excess medical benefit for active employees, COBRA continuants, and non-Medicare primary annuitants with an inpatient and outpatient surgery indemnity benefit. We received the following information from EPIC:

- Original Actuarial Memorandum
- Benefit descriptions for each coverage
- 2005-2010 monthly Loss Ratios, Claims, Premium, Enrollment information for each coverage by member type (active employee, COBRA continuants, annuitants)
- Summary of Rating Methodology for new inpatient hospital and outpatient surgery indemnity coverage
- Aggregate historical rate comparison
- Responses to questions regarding proposal, including;
    - Detailed Rating Methodology description,
    - Retention and expense load components,
    - Support for trend assumptions,

  - Detailed historical rate comparison
  - Assumptions for rate tiering, annuitant claim costs, enrollment, and premium volume.
- Additional Responses to questions, including:
  - Historical First Quarter Loss Ratio experience,
  - Additional support for 2012 Loss Ratio projection.

- Revised 2012 Inpatient/Outpatient Indemnity Rates based on 25% retention assumption

- Updated Actuarial Memorandum and Exhibits – dated August 16, 2011

<u>Summary of EPIC's Benefits+ Coverage Proposal</u>

On June 28, 2011 the State of Wisconsin Group Insurance Board (GIB) approved changes to active employees, COBRA continuants, and non-Medicare primary annuitants' uniform health insurance benefit and standard plan design effective January 1, 2012. These changes include increases in the members' cost-sharing for emergency room, inpatient hospital stays, outpatient surgeries, and other non-preventive services. EPIC's Benefits+ program currently includes an excess medical benefit that supplements insured members' primary health insurance plans by reimbursing members' out-of-pocket expenses associated with inpatient hospital stays and outpatient surgeries after they satisfy a $250 single and $500 family deductible.

The Benefits+ program includes three core benefits and an optional vision benefit. The three core benefits include a small accidental death and dismemberment (AD&D) benefit, the excess medical benefit, and a supplemental dental benefit that covers services that most state employees' preventive dental benefits do not reimburse. Members can purchase Benefits+ with or without the vision benefit that EPIC began offering January 1, 2011.

Benefits+ is a voluntary employee-pay-all insurance program where individuals who enroll in the coverage remain enrolled until they die or terminate coverage for other reasons. The current special enrollment opportunity will be available to all agencies currently sponsoring Benefits+ and any new agency requesting Benefits+. All eligible employees and their eligible dependents will have the opportunity to enroll in Benefits+ with or without vision. This special enrollment opportunity will not be available to annuitants. EPIC anticipates offering a special enrollment period every two to four years, as they have done in the past.

As a result of the changes authorized in the Group Health Plan, EPIC estimated that the value of the Excess Medical benefit will increase such that it would be necessary to approximately double the overall Benefits+ rate in order to meet their target loss ratio. Rather than request this significant premium increase for a benefit that primarily functions as a dental benefit, EPIC is proposing to replace the excess medical benefit for active employees, COBRA continuants, and non-Medicare primary annuitants with an inpatient hospital and outpatient surgery indemnity benefit effective January 1, 2012. The Benefits+ plan would remain unchanged for Medicare primary annuitants. Specifically, EPIC is proposing to provide the following inpatient hospital and outpatient surgery benefits:

- $100 per day for inpatient hospital stays beginning on the third day and continuing through the 365th day. Members confined in a skilled nursing facility do not qualify for this indemnity benefit.
- $100 per outpatient surgery that occurs in a hospital outpatient department or freestanding ambulatory surgery center. This does not include additional benefits for multiple procedures occurring during a single session, nor does it include surgeries performed in a physician's office.

Summary of EPIC's Proposed Rates for the Benefits+ Program

EPIC has identified three classes or groups of employees and former employees beginning January 1, 2012:

1. Active employees and COBRA continuants
2. Annuitants for whom Medicare is not their primary health insurance plan
3. Annuitants for whom Medicare is their primary health insurance plan.

EPIC is not proposing any changes to the rates or benefits for the third group because their health insurance coverage is unaffected by the aforementioned changes the GIB approved June 28. The table below shows the current versus proposed EPIC rates by coverage for the two affected groups:

Group	Current				Proposed				Percent Difference			
Active / Cobra	AD&D	Medical	Dental	Total	AD&D	Medical	Dental	Total	AD&D	Medical	Dental	Total
Employee Only	$ 0.20	$ 0.85	$15.65	$16.70	$ 0.20	$ 3.19	$15.65	$19.04	0.0%	275.3%	0.0%	14.0%
Employee + Spouse	$ 0.40	$ 1.70	$31.30	$33.40	$ 0.40	$ 6.38	$31.30	$38.08	0.0%	275.3%	0.0%	14.0%
Employee + Child	$ 0.40	$ 1.70	$31.30	$33.40	$ 0.40	$ 6.38	$31.30	$38.08	0.0%	275.3%	0.0%	14.0%
Family	$ 0.60	$ 2.55	$46.95	$50.10	$ 0.60	$ 9.57	$46.95	$57.12	0.0%	275.3%	0.0%	14.0%

Group	Current				Proposed				Percent Difference			
Non-Medicare Annuitants	AD&D	Medical	Dental	Total	AD&D	Medical	Dental	Total	AD&D	Medical	Dental	Total
Employee Only	$ 0.19	$ 1.13	$19.55	$20.87	$ 0.19	$ 4.58	$19.55	$24.32	0.0%	305.3%	0.0%	16.5%
Employee + Spouse	$ 0.37	$ 2.27	$39.00	$41.64	$ 0.37	$ 9.16	$39.00	$48.53	0.0%	303.5%	0.0%	16.5%
Employee + Child	$ 0.45	$ 2.65	$45.15	$48.25	$ 0.45	$10.58	$45.15	$56.18	0.0%	299.2%	0.0%	16.4%
Family	$ 0.54	$ 3.13	$53.76	$57.43	$ 0.54	$12.60	$53.76	$66.90	0.0%	302.6%	0.0%	16.5%

EPIC's proposal to replace the current Excess Medical benefit with a new inpatient hospital and outpatient surgery benefit results in approximately a 275%-305% increase in premium for the excess medical benefit and a 14.0%-16.5% increase in the total Benefits+ premium.

Excess Medical Benefit

The following summarizes EPIC's rating methodology and assumptions for the new Excess Medical benefit.

- **Rating methodology –** EPIC uses a loss ratio rating method to determine their proposed rates for the Benefits+ program. For the new inpatient hospital and outpatient surgery indemnity benefit, EPIC developed the expected claim costs and then applied the retention and rate-tiering assumptions to develop the rates. The expected claims costs were derived in three steps: (1) determine the expected incidence of inpatient hospital stays and outpatient facility surgeries, (2) determine the expected benefit payable for each type of claims, (3) expected claims costs are the product of these incidence rates, benefit costs, and July 1, 2011 enrollment.

- **Claim Incidence Rates**: EPIC calculated the expected annual inpatient stays and expected annual outpatient facility surgeries per 1,000 members using Milliman's 2005 Managed Care Rating Model (MCRM) and Commercial Rating Structures. The model trends the resulting utilization rates into the rating period using assumptions the user enters. EPIC derived the inpatient admit and outpatient surgery incidence rates using Milliman's 2005 benchmarks, assuming members' plans deliver care midway between Milliman's loosely managed and well-managed benchmarks.

- **Trend**: EPIC derived the inpatient admit incidence rates using Milliman's 2005 benchmarks, with no utilization change between 2005 and 2012. For outpatient surgery, incidence rates were derived assuming a 4% compound annual utilization trend between 2005 and 2012. These trend assumptions are based on the fact that inpatient hospital utilization trends have been relatively flat for the past number of years while outpatient hospital utilization trend has been around 4%.

- **Expected Claims Costs**: The benefit per outpatient surgery case is a fixed $100. For inpatient hospital stays, EPIC used the Wisconsin Hospital Association's (WHA) public use inpatient discharge database. They analyzed this inpatient data to isolate the pertinent member cohort, and projected the claims costs resulting from a $100 benefit for the third through 365th day of each stay.

- **Retention**: EPIC originally applied 28% retention to the first $0.648 PMPM of inpatient hospital and outpatient surgery indemnity claims costs, which includes 2% for risk and profit. They then applied 25% retention to claims costs in excess of this value. Their revised proposal applied a 25% retention to the entire benefit.

- **Premium Classes**: EPIC currently offers a four-tier rate structure with two classes of enrollees. The first class includes active employees and COBRA continuants. The second class includes Wisconsin Retirement System (WRS) annuitants, regardless of whether or not Medicare is the primary health insurance coverage. Since the state health plan changes effective January 1, 2012 will apply only to the annuitants for whom Medicare is not primary, EPIC is proposing to split the second class into two. The new inpatient hospital and outpatient surgery benefit will replace the excess medical benefit for everyone but Medicare-primary annuitants.

- **Target Loss Ratio**: The Group Insurance Board has authorized EPIC to use a 75% minimum loss ratio for the core Benefits+ benefits. Based upon EPIC's recent financial results and expected trend, EPIC anticipates a 75% loss ratio during 2012 for the Benefits+ program.

- **Projected Enrollment**: EPIC has calculated the average annual premium for the core Benefits+ program on January 1, 2012 using July 1, 2011 enrollment. They have assumed that the relative relationship between each tier of members will remain relatively constant to determine the average annual premium per subscriber.

Other Aspects of Benefits+ Program

The following summarizes EPIC's key assumptions for the other aspects of the overall Benefits+ program.

- **Trend**: EPIC does not incorporate a trend assumption in the AD&D benefit, given that the benefit is not inflation sensitive. For the supplemental dental benefit, EPIC reflects a trend to represent both provider's price changes and members' utilization of dental services. EPIC's historical annual trend experience has been 0-2% with the exception of 2009, when major benefit changes were made. Historically, they have assumed that trend will eventually revert to levels more typical of a commercial dental population, i.e., 4-6%. EPIC is not proposing a rate change for the dental benefit in 2012, so they did not select a specific dental trend rate.

- **Target Loss Ratio**: EPIC is aware of DETF's concern over actual loss ratios being lower than the 75% loss ratio the GIB has authorized. EPIC believes that the AD&D results require substantially more life years of experience than they possess to be fully credible, and they point out that the current dental loss ratio is approaching the pricing target. The vision loss ratios are not included in these calculations, because EPIC just recently developed the capability to include vision claims in their financial reports.

Deloitte Consulting Analysis

Excess Medical Benefit

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 for the Benefits+ program. For the new inpatient hospital and outpatient surgery indemnity benefit, EPIC developed the expected claim costs and then applied the retention and rate-tiering assumptions to develop the rates. The expected claims costs were derived using appropriate industry incidence assumptions multiplied by the expected benefit payable. Based on our detailed review of the calculation EPIC provided, we have determined that their methodology to determine the expected cost and premium rates by tier is appropriate for this new benefit.

Assumptions:

  - **Claim Incidence Rates**: EPIC's has appropriately calculated incidence rates based on applicable industry data sources which have been adjusted to reflect the target group's location, age and gender distribution, plan design, and the efficiency with which the plan's providers deliver care.

- **Trend**: Given the lack of applicable client experience to rely upon for this assumption, EPIC has appropriately relied on industry-based assumptions. Based on our review of applicable industry information, these assumed trends in inpatient and outpatient utilization are reasonable.

- **Expected Claims Costs**: The expected claims costs were determined by taking the sumproduct of each age band's expected inpatient and outpatient utilization x $100. Based on our review of EPIC's calculation, they have correctly determined the expected claims costs.

- **Retention**: In support of the retention assumptions, EPIC provided the following summary of their internal cost allocation studies:

	Calendar 2009		January-May 2010		January-May 2011	
	$	% of Prem	$	% of Prem	$	% of Prem
Premium PEPM	30.07		$ 30.61		$ 32.55	
Expenses PEPM						
Variable	5.04	16.8%	5.01	16.4%	5.10	15.7%
Fixed	1.87	6.2%	2.24	7.3%	3.08	9.5%
Total	6.91	**23.0%**	7.25	**23.7%**	8.18	**25.1%**

Based on the table above, their experience suggests that administrative expenses are approximately 25% of premium. They use this figure in calculating the rates for expected claims costs in excess of their current coverage, even though it does not provide for a risk or profit margin.

Based on the information which EPIC provided, we believe that their Retention assumption is reasonable.

- **Premium Classes**: EPIC's updated its rate tier factors for the two classes affected by this proposed benefit change to be as follows:

Tier	Actives and COBRA	Non-Medicare Annuitants
EE Only	1.00	1.00
EE+SP	2.00	2.00
EE+CH	2.00	2.31
Family	3.00	2.75

Based on our review of the methodology used to derive the factors, and industry standards, we believe this assumption is reasonable.

- **Target Loss Ratio**: EPIC has valued the current excess medical benefit at a PMPM of $0.648. In their revised rates, EPIC is maintaining a target loss ratio of 75% for expected claims up to this value of the current excess medical benefit, and 75% for expected claims beyond this value. EPIC believes this methodology is reasonable given the expenses EPIC incurs to administer this business, and the risk and profit margin. Our assessment of their Loss Ratio is addressed relative to the recent experience for the Benefits+ program.

- **Projected Enrollment**: EPIC has based their assumed enrollment projection on an assumption that the Benefits+ enrollment distribution by tier will remain consistent from July 1, 2011 to January 1, 2012. While there are a number of “once in a generation” factors influencing this upcoming enrollment process, we have concluded that EPIC’s projected enrollment assumption is reasonable.

Other Aspects of Benefits+ Program

The following summarizes our review of EPIC’s rating methodology and key assumptions for the overall Benefits+ program.

- **Trend**: Given that EPIC is not currently assuming a dental trend for purposes of this calculation, we would deem this assumption to be reasonable. EPIC’s recent experience would suggest a lower trend than is typically observed in the industry. This lower than expected trend appears to be due to the EPIC’s ability to manage adverse dental selection.

- **Target Loss Ratio**: Based on a review of the last 12 months of EPIC’s experience, their dental loss ratio is 72.3% and the aggregate total loss ratio is 69.3%. Assuming that dental would trend according to historical levels and the new indemnity plan performs close to its targeted loss ratio, EPIC anticipates their 2012 loss ratio will ultimately end up between 72.3% and 76.2%.

Summary

Based on our analysis, we believe that EPIC’s proposal to replace the current excess medical benefit for active employees, COBRA continuants, and non-Medicare primary annuitants with an inpatient and outpatient surgery indemnity benefit is adequately supported and in line with the Group Insurance Board’s guidelines. EPIC has relied upon appropriate methodology and applicable industry assumptions to develop the premium rates for this new plan. Additionally, EPIC relies upon a loss ratio rating method to determine their proposed rates for the Benefits+ program, and the expected claims relied upon to project the loss ratios are based on actual recent experience.

In conclusion, we recommend that the Group Insurance Board accept EPIC’s proposal to replace the current excess medical benefit for active employees, COBRA continuants, and non-Medicare primary annuitants with an inpatient and outpatient surgery indemnity benefit 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 Benefits+ 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 2011 loss ratio for this new product, which is anticipated to be approximately 75%.

Sincerely,

Timothy D. Gustafson, FSA, MAAA

Enclosure

cc: Eric Viney

July 29, 2011

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

RE: Benefits+ Excess Medical Plan

Dear Ms. Harper:

EPIC Life Insurance Company is requesting that the Group Insurance Board approve a change in the Excess Medical benefit of the Benefits+ plan. This benefit currently provides wrap-around medical coverage to the base medical coverage, primarily when the employee is hospitalized or had outpatient surgery performed. With the base medical benefit changes made for 2012 to the state health plans for the active employees and non-Medicare annuitants, the EPIC Excess Medical risk has increased significantly, necessitating a change for these categories of employees effective, January 1, 2012.

No such change is required for Medicare annuitants, since they are unaffected by the base health plan changes. Therefore, this group will see no change in benefits or rates.

As requested by the Department of Employee Trust Funds, EPIC met with the State Fringe Benefits Council on July 26, 2011 to elicit their advice regarding several options developed by EPIC to deal with the change. Their primary recommendation was to replace the Excess Medical coverage for active and non-Medicare annuitants with a new plan designed to provide a benefit for inpatient hospital stays (beginning on the third day) and outpatient surgeries (performed at an outpatient hospital department or a free-standing Ambulatory Surgical Center). EPIC developed this plan to provide cash benefits to employees for high-cost services at a modest additional cost to the Benefits+ program. The attached Actuarial Memorandum provides details of the proposed changes to benefits and premiums.

General Guidelines for seeking Group Insurance Board approval:

1. Statutory authority to conduct business of insurance.

The EPIC Life Insurance Company ("EPIC") was incorporated August 30, 1984 as a wholly owned subsidiary of Wisconsin Physicians Service Insurance Corporation ("WPS"), a Wisconsin health service insurance corporation licensed under WI ST § 613. EPIC is a licensed under WI

ST § 611 as a Domestic Insurance Corporation specializing in term life, disability, accident and health insurance to group subscribers in 27 states. 100% of all outstanding voting securities of EPIC, comprised of a single class of common stock, are directly owned by WPS.

2. Operating experience.

The EPIC Life Insurance Company (EPIC) has underwritten the existing voluntary, payroll deduction supplemental plan, offered to employees of the State of Wisconsin, since November 1994. Previously, the product was underwritten by John Deere Life and had been offered to employees since the 1960's. The benefit plan has been well accepted with over 19,000 employees and annuitants currently enrolled. This product is viewed primarily as a dental plan with over 90% of the claims paid for dental benefits and the remaining benefits paid for medical services and accidental death.

EPIC's annual statements due each May 1 provide experience on the existing plan.

3. Broad-based community support.

This section does not apply since the plan has demonstrated under #2 above that it is designed specifically for the state group.

4. Types of plans that are eligible.

a. The plan is true group insurance and does not consist of individual policies marketed on a group basis.

b. As noted above, this plan has been in place since the 1960's. The plan is a supplemental plan and typically provides benefits not provided by other plans. The addition of the vision benefit provides an employee and their dependents the opportunity to choose vision coverage that does not duplicate coverage under their base health plan, and offers the added benefit of more providers.

c. Due to the low level of premium associated with the plan, EPIC has previously been approved to retain 28 percent of premium income for purposes other than claim payments. The only change to the existing plan involves the Excess Medical benefit, as described above. The actuarial memorandum supports our request and tiering of the benefits for the dental coverage for late enrollees.

5. Financial requirements.

a. EPIC financial statements were provided to William Kox on April 20, 2011.

b. WI ST § 611.19 requires that EPIC maintain a minimum capital or minimum permanent surplus of $2,000,000.00 and must also have an initial expendable surplus, after the payment of all of the organization's expenses, of at least 50% of the minimum capital or minimum permanent surplus. EPIC has securities with a par value of $2,100,000 on deposit with the State of Wisconsin for the benefit of all Policyholders and Creditors as required by law.

c. Again, WI ST § 611.19 requires that EPIC maintain a minimum capital or minimum permanent surplus of $2,000,000.00 surplus and must also have an initial expendable surplus, after the payment of all of the organizations expenses, of at least 50% of the minimum capital or minimum permanent surplus. EPIC exceeds all statutory prescribed surplus minimums as required under state law.

6. Marketing and enrollment.

a. EPIC will provide the Group Insurance Board with a copy of our marketing material, which includes a detailed brochure, bulletin board poster (which will be used for email announcements also) announcing the 1/1/12 Special Enrollment opportunity for active employees. The documents are currently being developed for distribution to the Group Insurance Board; they are very similar to the documents presented in 2009 for the 2010 Special Enrollment proposal. These documents will be printed and distributed to each payroll office prior to the State of Wisconsin open enrollment period in October.

b. Along with the marketing material, EPIC will provide the Group Insurance Board Members with copies of our Enrollment Applications which will include the new Hospital/Outpatient Surgery benefit. A Special Enrollment Sticker detailing the dental maximums provided to each member enrolling through the Special Enrollment (as indicated in the Certificate of Insurance) opportunity. EPIC will submit monthly billing statements to all payroll offices on an ongoing basis as we do today.

c. EPIC's billing procedure follows the state agency payroll deduction timeliness by producing a billing statement on the 20th of each month prior to the month of coverage.

d. EPIC will announce and hold the Special Enrollment opportunity and benefit change during the State of Wisconsin's standard open enrollment period from October 3, 2011 through October 28, 2011. New enrollees in EPIC's existing plan will be subject to the normal dental benefit tiers our Certificate identifies.

e. Through EPIC's 2012 Special Enrollment opportunity, all eligible employees and their eligible dependents will have the opportunity to enroll in the EPIC optional plan with or without vision. The Special Enrollment opportunity will not be available to annuitants.

f. The 2011 Special Enrollment is offered to all agencies already offering the EPIC optional plans to its employees, and any new agency requesting an EPIC optional plan.

7. Reporting.

We acknowledge the annual reporting requirements and agree to comply with this guideline.

8. Benefits.

a. The attached actuarial memorandum provides a description of the proposed benefit changes to the existing plan.

b. For the core coverages of Benefits+, including dental, AD&D and Excess Medical for Medicare Annuitants, no changes are being made to the exclusions and limitations of the current plan. If necessary, a copy of the current plan brochure or a draft of the brochure under the proposed changes can be provided that lists the exclusions and limitations.

c. We acknowledge that benefits may not be changed or added to the plan during the coverage period unless necessary to comply with state or federal regulations.

d. Situations may arise when a member is unhappy about a claim decision or policy administration. The member or provider of service may contact EPIC at any time to discuss their situation. The member is provided appropriate phone numbers and addresses for whom to contact. If this does not resolve the issue, the employee has the option to file a written grievance in accordance with the employee's grievance rights under Sections 632.853, and 632.855, Wisconsin Statues, and Sections Ins. 18, Wisconsin Administrative Code, as amended, respectively.

9. Notification of significant events.

We acknowledge the notification of significant events requirements and agree to comply with this guideline.

10. Rate-making process.

The attached actuarial memorandum provides the detailed description of how the premium rates were determined.

EPIC requests approval of these actions by the Group Insurance Board at its next regularly scheduled meeting.

I hope you find this information helpful. If you need anything further, please contact me. If you have any questions about the actuarial memorandum, please contact Gary Butzlaff at 608-223-2110 or gary.butzlaff@epiclife.com.

Sincerely,

Mark H. Granoff
Vice President, Sales

MHG:lle
Enclosures

Benefits+ Benefit and Rate Change
Actuarial Memorandum

1. Scope and Purpose

On June 28, 2011 the State of Wisconsin Group Insurance Board (GIB) approved changes to active employees, COBRA continuants, and non-Medicare primary annuitants' uniform health insurance benefit and standard plan design effective January 1, 2012. The uniform benefit changes include increasing the emergency room copay to $75 and decreasing the coinsurance from 100% to 90% on non-preventive services with a $500 single and $1,000 family out-of-pocket maximum. The Department of Employee Trust Funds (ETF) and its consulting actuaries at Deloitte estimated these changes will reduce total plan costs about 5%, or $31.20 per member per month (PMPM); see Exhibit 1 for details.

EPIC's Benefits+ program includes an excess medical benefit that supplements insured members' primary health insurance plans by reimbursing members' out-of-pocket expenses associated with inpatient hospital stays and outpatient surgeries after they satisfy a $250 single and $500 family deductible. As a result of the changes the GIB authorized, we have estimated that the value of this benefit will increase such that it would be necessary to approximately double the overall Benefits+ rate in order to meet our target loss ratio.

Considering all the changes to state employees' benefit programs and the associated reduction in their take-home pay, we believe that a rate increase of this magnitude would cause a significant number of our Benefits+ enrollees to terminate their coverage. We are therefore proposing to replace the excess medical benefit for active employees, COBRA continuants, and non-Medicare primary annuitants with an inpatient hospital and outpatient surgery indemnity benefit effective January 1, 2012. The remainder of this memorandum describes the benefit in greater detail and justifies our rates.

2. Benefit Description

The Benefits+ program includes three core benefits and an optional vision benefit. The three core benefits include a small accidental death and dismemberment (AD&D) benefit, the excess medical benefit we described above, and a supplemental dental benefit that covers services that most state employees' preventive dental benefits do not reimburse. Members can purchase Benefits+ with or without the vision benefit that we began offering January 1, 2011. See Exhibit 2 for additional details on all four benefits.

We propose replacing the excess medical benefit with the following inpatient hospital and outpatient surgery benefits:

- $100 per day for inpatient hospital stays beginning on the third day and continuing through the 365th day. Members confined in a skilled nursing facility do not qualify for this indemnity benefit.

- $100 per outpatient surgery that occurs in a hospital outpatient department or freestanding ambulatory surgery center. Multiple procedures occurring during a single surgical session will qualify the member for only one $100 benefit. In addition, members having surgery in their physician's office would not qualify for the benefit.

Since an inpatient hospital stay or outpatient surgery triggers payment of the existing excess medical benefit, we felt that the new indemnity benefits are reasonable proxies for the existing benefit. Moreover, we can deliver them at a price that we believe will be more palatable to current and prospective enrollees.

3. Renewability Clause

Benefits+ is a voluntary employee-pay-all insurance program. Coverage is not renewable per se. Individuals who enroll in the coverage remain enrolled until they die or terminate coverage for other reasons. EPIC periodically updates Benefits+ benefits and rates and can only discontinue the program in consultation with ETF and the GIB.

4. Applicability

The changes we describe herein are effective for all currently enrolled active employees, COBRA continuants, and non-Medicare primary annuitants effective January 1, 2012. New members enrolling during their initial open enrollment period and their dependents will be eligible for the same benefits and pay the same premiums as members who already have coverage.

5. Morbidity

Determining expected claims costs for the inpatient hospital and outpatient surgery indemnity benefit is a relatively more straightforward exercise than determining expected claims costs for the excess medical coverage. We derived these costs in three steps. First, we determined the expected annual incidence of inpatient hospital stays and outpatient facility surgeries. Then we determined the expected benefit payable for each type of claim. Expected claims costs are the product of these incidence rates, benefit costs, and July 1, 2011 enrollment. We review each step in more detail below.

<u>Incidence Rates</u>
We calculated the expected annual inpatient stays and expected annual outpatient facility surgeries per 1,000 members using Milliman's 2005 Managed Care Rating Model (MCRM) and Commercial Rating Structures. Milliman's MCRM allows the user to adjust utilization rates for the target group's location and age and gender distribution, plan design, and the efficiency with which the plan's providers deliver care, which is known as the level of healthcare management. The model trends the resulting utilization rates into the rating period using assumptions the user enters.

We derived the inpatient admit incidence rates using Milliman's 2005 benchmarks with no utilization change between 2005 and 2012. We derived the outpatient surgery incidence rates assuming 4% compound annual utilization trend between 2005 and 2012. For both sets of utilization rates, we assumed that members' primary health insurance plans deliver care midway between Milliman's loosely managed and well-managed benchmarks.

Milliman's MCRM produced annual frequencies per 1,000 members by age and gender cohort for employees, spouses, and dependents. While our licensing agreement with Milliman does not permit us to share these detailed values, we believe that we can share the following aggregate expected frequencies for each benefit:

	Utilization Rate/1,000 Members	
Subscriber Category	*Inpatient Hospital*	*Outpatient Surgery*
Active Employees & COBRA Continuants	60.4	148.8
Annuitants Who Are Not Medicare Primary	80.8	247.5
Total	62.2	157.4

<u>Expected Benefit per Case</u>
The benefit per outpatient surgery case is a fixed $100.

We derived the expected benefit per inpatient hospital stay using the Wisconsin Hospital Association's (WHA) public use inpatient discharge database that we license through Databay Resources. We analyzed this data by discharge year and Milliman age and gender cohort for discharges between 2008 and 2010 where the primary payer was private insurance, self-pay, or unknown, the admit source did not indicate a transfer from a different inpatient setting, and the discharge status did not indicate a transfer to another inpatient setting. Exhibit 3 provides our summary of these 700,000 discharges and the claims costs resulting from a $100 benefit for the third through 365th day of each stay.

<u>Expected Claims Costs</u>
Exhibit 4 provides the general form of our expected claims cost calculation in total and for each of the two subgroups, i.e., active employees and COBRA versus annuitants who are not Medicare primary (or early retirees), along with as much specific data we believe we can provide and yet preserve Milliman's intellectual property rights. We derived the early retiree census counts based upon annuitant subscribers who were age 64 or younger as of July 1, 2011.

6. Mortality

   We have not embedded a mortality assumption in our rates.

7. Persistency

   We have not embedded a persistency assumption in our rates.

8. Expenses

We originally applied 28% retention to the first $0.648 PMPM of inpatient hospital and outpatient surgery indemnity claims costs and 25% retention to claims costs in excess of this value. In accord with ETF's August 11 request, we have reduced our retention to a flat 25% across all inpatient hospital and outpatient surgery indemnity claims costs.

9. Marketing Method

EPIC offers the Benefits+ program as a worksite marketed, voluntary group insurance product. As a result, EPIC's primary marketing involves soliciting state agencies to offer their employees the opportunity to participate in the program. Individuals' enrollment decisions occur around the time they begin eligible employment and during special enrollment opportunities that EPIC offers occasionally in conjunction with the state's annual health insurance open enrollment period.

10. Underwriting

EPIC does not use traditional underwriting techniques such as short form health questionnaires. We do however use other techniques to manage adverse selection. For example, EPIC phases in the full supplemental dental benefit over three years for employees who do not enroll during their initial open enrollment opportunity. In addition, members who enroll in the optional vision coverage and subsequently terminate it are not eligible to enroll again unless EPIC offers a special enrollment opportunity that allows them to re-enroll.

11. Premium Classes

EPIC currently offers a four-tier rate structure with two classes of enrollees. The first class includes active employees and COBRA continuants. The second class includes Wisconsin Retirement System (WRS) annuitants, regardless of whether or not Medicare is their primary health insurance coverage. EPIC uses the following four-tier rate structure for both classes:

- Employee-only
- Employee + spouse
- Employee + child
- Family

Since the state health plan changes effective January 1, 2012 will apply only to the annuitants for whom Medicare is not primary, EPIC is proposing to split the second class into two. As a result, there will be three classes beginning January 1, 2012. The first class will remain active employees and COBRA continuants. The second class will include WRS annuitants for whom Medicare is not primary. The third class will include WRS annuitants for whom Medicare is their primary health insurance. Again, as we noted earlier, the new inpatient hospital and outpatient surgery benefit will replace the excess medical benefit for everyone but Medicare-primary annuitants, i.e., those who will be in the third class on January 1.

12. Issue Age Range

The plan does not include issue age limits per se. However, people cannot enroll until they satisfy the definition of covered WRS employment, which means they could enroll as young as age 17 or 18. Coverage continues on a voluntary basis with no upper age limit because EPIC again allows retirees to retain coverage.

13. Area Factors

Benefits+ rates do not vary geographically within Wisconsin or nationally.

14. Average Annual Premium

The only premium rate change we are proposing involves substituting the rates for the inpatient hospital and outpatient surgery indemnity benefit rates for our existing excess medical rates. In the following table, we display both sets of rates along with the net change for active employees and COBRA continuants versus annuitants for whom Medicare is not primary. Exhibit 5 provides our derivation of these rates starting with the premium PMPM we calculated in Exhibit 4.

	Active Employees & COBRA			*Non-Medicare Annuitants*		
Tier	*Proposed Indemnity*	*Excess Medical*	*Net Change*	*Proposed Indemnity*	*Excess Medical*	*Net Change*
EE-Only	$3.19	$0.90	$2.29	$4.58	$1.13	$3.45
EE + SP	$6.38	$1.80	$4.58	$9.16	$2.27	$6.89
EE + CH	$6.38	$1.80	$4.58	$10.58	$2.65	$7.93
Family	$9.57	$2.70	$6.87	$12.60	$3.13	$9.47

The recent and upcoming changes to state employees' benefits and who pays for them are events that likely occur only once in a generation. Given the resulting impact on take-home pay, it is very difficult to anticipate how Benefits+ enrollment will be affected. Consequently, in the table below, we calculate average annual premium for the core Benefits+ program using July 1, 2011 enrollment. These averages will hold true come January 1, 2012 provided enrollment within each category as a percentage of total is reasonably consistent between these two dates. We derived the Medicare-Primary versus Non-Medicare Annuitant counts assuming that annuitant subscribers age 65 and older are Medicare-Primary.

	Active EE & COBRA			*Non-Medicare Annuitants*			*Medicare-Primary Annuitants*		
Tier	*Count*	*Rate*	*Premium*	*Count*	*Rate*	*Premium*	*Count*	*Rate*	*Premium*
EE-Only	5,394	$18.99	$102,432	809	$24.32	$19,675	1,755	$20.87	$36,627
EE + SP	3,761	$37.98	$142,843	664	$48.53	$32,224	1,537	$41.64	$64,001
EE + CH	228	$37.98	$8,659	7	$56.18	$393	1	$48.25	$48
Family	3,588	$56.97	$204,408	134	$66.90	$8,965	30	$57.43	$1,723
Total	12,971	$35.34	$458,343	1,614	$37.95	$61,257	3,323	$30.82	$102,399
All Subsets	17,908	$34.73	$621,998			Average Annual Premium:			$416.80

The following table provides average annual premium for the optional vision benefit:

	Active EE & COBRA			*Non-Medicare Annuitants*			*Medicare-Primary Annuitants*		
Tier	*Count*	*Rate*	*Premium*	*Count*	*Rate*	*Premium*	*Count*	*Rate*	*Premium*
EE-Only	574	$4.00	$2,296	14	$4.31	$60	3	$4.31	$13
EE + SP	446	$7.07	$3,153	20	$7.77	$155	1	$7.77	$8
EE + CH	35	$7.07	$247	2	$7.34	$15	0	$7.34	$0
Family	562	$10.39	$5,839	4	$11.22	$45	2	$11.22	$22
Total	1,617	$7.13	$11,536	40	$6.88	$275	6	$7.19	$43
All Subsets	1,663	$7.13	$11,854			Average Annual Premium:			$85.54

15. Premium Modalization Rules

State agencies remit active employees’ premiums monthly.

EPIC collects COBRA continuants and annuitants’ premiums by mail or electronic funds transfer (EFT). Subscribers electing to pay by mail can remit premiums quarterly, semiannually, or annually, and EPIC charges a $2 administrative fee for each quarterly and semiannual payment. Subscribers paying by EFT can remit premiums monthly, quarterly, or semiannually; EPIC does not charge any administrative fees for EFT payments.

16. Claim Liability and Reserves

Dental claims represent more than 90% of all the claims EPIC pays for the core Benefits+ coverages. Consequently, EPIC calculates its claims reserves for AD&D, excess medical, and supplemental dental using a traditional completion factor approach. EPIC held $923,000 in claims reserves for these benefits as of June 30, 2011.

The Benefits+ optional vision coverage is relatively new, and EPIC has limited claims data from which to calculate reserves. Consequently, our actuarial staff calculates a preliminary reserve equal to 75% of premium, which is the target loss ratio for this coverage. We then deduct paid claims from this result to arrive at the final reserve.

17. Active Life Reserves

EPIC does not hold a traditional active life reserve because Benefits+ is a group product and we assume no durational impact on claims and hence our loss ratio. We do however hold a rate stabilization reserve that reflects our desire to change rates no more frequently than every other year. This reserve was $434,000 as of June 30, 2011.

18. Trend Assumption

a. Medical

AD&D coverage is not inflation sensitive, so we have not incorporated a trend assumption in developing this rate. We are proposing no AD&D rate change January 1, 2012.

Our inpatient hospital and outpatient surgery indemnity benefit is sensitive only to underlying changes in the frequency of these services. We have not assumed any trend from 2005 through 2012 for the inpatient hospital portion of this benefit as related to changes in admits per 1,000 or lengths of stay. We have assumed a 4% compound annual utilization trend from 2005 through 2012 for the outpatient surgery portion of this benefit.

Our supplemental dental benefit is sensitive to both provider's price changes and members' utilization of dental services. As page two of Exhibit 6 indicates, the 2010 loss ratio for this benefit was 70.8%, and our historical trend rates from 2005 through 2010 have been 0-2% with the exception of 2009 when we last made major changes to this benefit. Trend for first quarter 2011 versus first quarter 2010 is up somewhat at 3.7%. For purposes of this rate filing, we are not proposing a supplemental dental rate change for 2012 even though it is quite likely that the 2012 loss ratio for this benefit will exceed our 72% target.

Our per service claims costs for the optional vision coverage are fixed between July 1, 2010 and June 30, 2013. We also do not anticipate significant utilization trend, so we have not embedded a trend assumption in the optional vision rates. We are not proposing a rate change for this coverage effective January 1, 2012.

b. Insurance

We have not incorporated any margins in our trend assumptions to account for underwriting wear-off because we do not apply traditional underwriting techniques to Benefits+ applicants. Likewise, we have not added margins for deductible leveraging as our dental deductible is relatively nominal. Finally, we hope to retain an acceptable cross-section of our current enrollment and have not anticipated any anti-selection resulting from the change in Benefits+ benefits and rates or other changes that will be occurring external to the program.

19. Minimum Loss Ratio

    At its August 26, 2003 meeting, the GIB authorized EPIC's request for a 72% minimum loss ratio for Benefits+. On August 11, ETF requested EPIC use a 75% minimum loss ratio for the new inpatient hospital and outpatient surgery benefit that will replace the excess medical benefit. Consequently, the overall target loss ratio for the Benefits+ core benefits is a blend of the 75% target loss ratio for the new benefit and the 72% target loss ratio for the AD&D and supplemental dental benefits.

    Last year when EPIC proposed the optional vision coverage, we used a 75% target loss ratio only for this benefit.

20. Anticipated Loss Ratio

    Based upon our recent financial results and anticipated trend, we anticipate an actual Benefits+ loss ratio of approximately 72-76% during 2012. We do not perform an anticipated loss ratio calculation more typical of traditional individual insurance coverage because we do not believe it is applicable to the Benefits+ program.

21. Distribution of Business

    We provide actual July 1, 2011 enrollment in sections 14 and 26 by subscriber status and core versus optional vision coverage. We do not anticipate significant changes to the relative proportions of subscribers within each of these categories.

22. Contingency and Risk Margins

    For those benefits where EPIC applies 28% retention, this value includes 2% for risk and profit. For those benefits where EPIC applies 25% retention, EPIC's risk and profit margin is effectively zero.

23. Experience

    a. Past

       Exhibit 6 provides monthly Benefits+ enrollment, premium, and incurred claims from January 2005 through March 2011 based upon activity through May 2011.

       ETF has expressed concern in the past that our actual loss ratios were lower than the 72% target loss ratio the GIB has authorized. The AD&D results require substantially more life years of experience than we possess to be fully credible. We are replacing the excess medical benefit with the proposed inpatient hospital and outpatient surgery indemnity benefit, so we hope to eliminate this benefit as a potential concern relative to the target loss ratio. As the exhibit demonstrates, our current dental loss ratio is quite close to our pricing target. Finally, as we noted earlier, we just recently developed the capability to include vision claims in our financial reports, so Exhibit 6 does not report an actual loss ratio for this option.

b. Future

We are not including a forecast of future anticipated experience as these calculations are more typical of an individual insurance product.

24. Lifetime Loss Ratio

As we noted above, we anticipate an actual loss ratio of approximately 72% during the 2012 rating period. We do not perform a more elaborate lifetime loss ratio calculation typical of traditional individual insurance coverage because we do not believe it is applicable to the Benefits+ program.

25. History of Rate Adjustments

Rates for the core Benefits+ benefits, i.e., AD&D, excess medical, and supplemental dental, have been as follows since January 2004:

Period		*Active Employees + COBRA*				*Annuitants*			
From	*Through*	*EE Only*	*EE + SP*	*EE + CH*	*Family*	*EE Only*	*EE + SP*	*EE + CH*	*Family*
1/2004	10/2005	$11.30	$22.60	$22.60	$33.90	$13.15	$26.30	$30.45	$36.25
11/2005	12/2005	$11.30	$22.60	$22.60	$33.90	$16.85	$33.65	$39.00	$46.40
1/2006	12/2008	$12.90	$25.80	$25.80	$38.70	$16.85	$33.65	$39.00	$46.40
1/2009	Current	$16.70	$33.40	$33.40	$50.10	$20.87	$41.64	$48.25	$57.43

As we noted earlier, EPIC began offering optional vision coverage January 1, 2011. The rates for this benefit are as follows:

Period		*Active Employees + COBRA*				*Annuitants*			
From	*Through*	*EE Only*	*EE + SP*	*EE + CH*	*Family*	*EE Only*	*EE + SP*	*EE + CH*	*Family*
1/2011	Current	$4.00	$7.07	$7.07	$10.39	$4.31	$7.77	$7.34	$11.22

26. Number of Policyholders

As of July 1, 2011, the following number of employees and former employees, i.e., COBRA continuants and annuitants, were enrolled in Benefits+:

Coverage	*Active & COBRA*	*Annuitants Under Age 65*	*Annuitants Age 65+*	*Total*
Core Benefits	12,971	1,614	3,323	17,908
Optional Vision	1,617	40	6	1,663

27. Proposed Effective Date

We propose replacing the excess medical benefit and using the new rates for active employees, COBRA continuants, and WRS annuitants for whom Medicare is not primary beginning January 1, 2012. Benefits and rates for Medicare-primary annuitants will remain the same as they are currently.

28. Actuarial Certification

I certify the following, to the best of my knowledge and judgment:

1. The entire rate filing is in compliance with the applicable laws of the State and with the rules of the Department of Insurance.

2. The rate filing complies with applicable Actuarial Standards of Practice including No.8, "Regulatory Filings for Rates and Financial Projections for Health Plans," as adopted by the Actuarial Standards Board, December 2005.

3. The plans' benefits are reasonable in relation to the proposed premiums.

4. The plans' premiums are not excessive, inadequate, or unfairly discriminatory.

Gary Butzlaff
Gary Butzlaff, FSA, MAAA
Director, Actuarial Services
EPIC Life Insurance Company

08-16-2011
Date

Attachments