

**MINUTES OF AUGUST 23, 2011, MEETING**

**DRAFT**

**STATE OF WISCONSIN  
GROUP INSURANCE BOARD**

Holiday Inn and Suites  
1109 Fourier Drive, Madison, WI

**BOARD MEMBERS PRESENT:**

Cindy O'Donnell, Chair Jon Litscher, Vice Chair [via phone] Esther Olson, Secretary Janis Doleschal	Brian Hayes Jessica O'Donnell Daniel Schwartzer
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**BOARD MEMBERS NOT PRESENT:**

David Arena Robert Baird	Marty Beil
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**PARTICIPATING EMPLOYEE TRUST FUNDS (ETF) STAFF:**

Dave Stella, Secretary Bob Conlin, Deputy Secretary David Nispel, General Counsel, Secretary's Office	Lisa Ellinger, Bill Kox, Arlene Larson, Division of Insurance Services Sharon Walk, Board Liaison
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**OTHERS PRESENT:**

ETF Office of the Secretary: Rhonda Dunn, Robin Reinke ETF Office of Budget and Trust Finance: Jon Kranz ETF Office of Communications and Legislation: Vickie Baker, Nancy Ketterhagen, Sari King, Shawn Smith ETF Office of Internal Audit: John Vincent ETF Division of Insurance Services: Marcia Blumer, Jeff Bogardus, Russell Hann, Roni Harper, Diane Poole, Brian Shah, Betty Wittmann ETF Division of Retirement Services: Matt Stohr Ameritas Group: Cathy Hodgson Anthem: Susan Brins, Angie Gehrman, Sandy Reblin Dean Health Plan: Katie Beals, Penny Bound Deloitte Consulting: Tim Gustafson, Julie Maendel, Pat Pechacek, Pete Roverud	Department of Justice: Charlotte Gibson Legislative Audit Bureau: Brian Geib Legislative Fiscal Bureau: Art Zimmerman Mercy Care: Mary Hesse Minnesota Life: Kjirsten Elsner, Hans Larsen, Bob Olafson, Paul Rudeen, Chris Schmelzer Navitus: Tom Pabich, Tom Radloff Network Health Plan: Carrie Helms Office of State of Employment Relations: Paul Ostrowski Physicians Plus: Ron Sebranek Security Health Plan: Becky Gorst State Engineers Association: Bob Schaefer United Health Care: Brandon Widell Unity Health Insurance: Kathy Ikeman University of Wisconsin System Administration: Beth Ritchie University of Wisconsin-Milwaukee: Habib Tabatabai
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Department of Administration: Jennifer Kraus EPIC: Wendy Hougan EPIC Life: Gary Butzlaff Group Health Cooperative SCW: Emily Daws, Elizabeth Dye Health Choice: Guy Penna Humana: Gina DiBruin	UW Health: Kris Sutelife, Demi Wiemann Wisconsin Association of Health Plans: Phil Dougherty WEA Insurance Trust: Melanie Hirshfeld, Cheryl McIlquham, Randy Mullin Wisconsin Physicians Service Insurance: David Grunke
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Cindy O'Donnell, Chair, Group Insurance Board (Board), called the meeting to order at 9:48 a.m.

### **CONSIDERATION OF JUNE 7, 2011, OPEN AND CLOSED SESSION MEETING MINUTES AND JUNE 28, 2011, OPEN SESSION MEETING MINUTES**

***MOTION: Esther Olson moved approval of the June 7, 2011, open and closed session meeting minutes and June 28, 2011, open session meeting minutes as submitted by the Board Liaison. Jessica O'Donnell seconded the motion, which passed without objection on a voice vote.***

### **ANNOUNCEMENTS**

Lisa Ellinger, Administrator of the Division of Insurance Services, announced the reappointment of Esther Olson to the Board to a term which will expire in May 2013.

Secretary Stella announced that he would be retiring in January 2012. He expressed his appreciation to the Board for their hard work on behalf of the members of the Wisconsin Retirement System. Chair O'Donnell thanked Secretary Stella for his leadership and assistance to the Board.

### **CLEARINGHOUSE RULE #11-040**

Chair O'Donnell introduced David Nispel, the Department's General Counsel. Mr. Nispel referred the Board to the memo about the changes in Clearinghouse Rule (CR) #11-040 (Ref. GIB | 8.23.11 | 3A). Mr. Nispel summarized the changes to the rule. The new text of the rule reflects that forms are available on ETF's website; that communication may be by e-mail; and noted changes made by the Legislature, specifically those made by Wisconsin Acts 10 and 32 that affect health insurance.

Mr. Nispel explained that if the Board approves the rule, it will go before the ETF, Teachers Retirement, Wisconsin Retirement and Deferred Compensation Boards. If those boards approve the rule, it will be sent to the Governor and then to the Legislature for their consideration.

***MOTION: Mr. Hayes moved to accept the proposed changes in CR #11-040. Ms. Doleschal seconded the motion, which passed without objection on a voice vote.***

## **ESTABLISHMENT OF HEALTH AND PHARMACY RESERVE POLICY**

Chair O'Donnell introduced Tim Gustafson and Pat Pechacek of Deloitte Consulting, the Board's consulting actuary. Mr. Gustafson referred the Board to the memo from Deloitte, which was distributed at the meeting (Ref. GIB | 8.23.11 | 4.5).

Mr. Gustafson summarized the contents of the memo. Employers with self-insured health care plans have a practice of establishing reserves to provide for future fluctuations of enrollment and claims and to promote rate stabilization from year-to-year. The capital requirements of the insurance industry are used to determine an appropriate level of reserves. Mr. Gustafson explained that maintaining a Net Fund Balance of 15%-25% of the annual claims of the medical and pharmacy plans is a prudent approach and is consistent with best practices. He stated the Net Fund Balance refers to the portion of the reserves remaining after the Unpaid Claims Liability is paid. He also explained that the formula used to determine the 15%-25% range is the Risk Based Capital formula developed by the National Association of Insurance Commissioners.

Mr. Gustafson referred the Board to the table on page 3 of the memo and highlighted the following data:

<b>Program</b>	<b>Net Fund Balance, \$</b>	<b>Net Fund Balance, %</b>
State – Medical	\$51,600,000	20.6%
State – Pharmacy	\$102,600,000	46.8%
Local – Medical	\$2,900,000	7.2%
Local – Pharmacy	\$16,100,000	50.5%

Deloitte recommends establishing a target range, instead of a specific percentage, in order to avoid constant "ups and downs" and the need for draw-downs and adjustments. If the Net Fund Balance is outside the recommended range, they recommend a multi-year approach so as to smooth out any changes.

Deputy Secretary Bob Conlin explained this is a policy benchmark that gives the Board guidance and decisions about how much to draw down each year would still be made by the Board on an annual basis.

***MOTION: Ms. Doleschal made the following motion:***

- 1. The Board finds that the Net Fund Balance (net of incurred-but-not-paid [IBNP] claims and other payables) has funds in excess of what is needed to maintain a prudent balance to protect against the potential for unforeseen claims and/or expenses that may exceed the amount of premium revenue collected to cover overall self-funded plan costs.***
- 2. The Board accepts the recommendation of the actuary that the Net Fund Balance (net of IBNP claims and other payables) for health insurance and pharmacy benefits be maintained at approximately 15% to 25% of annual claims to provide protection against the potential for self-funded medical and pharmacy benefit claims, and enrollment fluctuations in any given plan year and sufficient program premium stabilization protection.***
- 3. The Board has decided to draw down the Net Fund Balance to the top of the target range (25%) over two years to reduce premiums for the state program and for the local government program for plan year 2012.***
- 4. The Board will revisit the status of the Net Fund Balance in 2012 as part of the rate setting process to determine its relationship to the 15% to 25% target range.***

***Ms. Olson seconded the motion, which passed without objection on a voice vote.***

#### **CONSULTATION WITH LEGAL COUNSEL REGARDING THE SECRETARY'S IMPLEMENTATION OF THE \$28 MILLION ALLOCATION OF GROUP INSURANCE BOARD RESERVES UNDER 2011 WISCONSIN ACT 13**

Secretary Stella introduced Charlotte Gibson, Assistant Attorney General with the Department of Justice. Secretary Stella stated that he had requested the Attorney General's opinion on section 9115 of Wisconsin Act 13 regarding the allocation of monies from the public employee trust fund and whether this allocation would constitute a taking of property, in violation of the Wisconsin and U.S. Constitutions.

The relevant section of Wisconsin Act 13 states:

**Section 9115. Nonstatutory provisions; Employee Trust Funds.**

**(1) ALLOCATION OF CERTAIN EXCESS RESERVES IN THE PUBLIC EMPLOYEE TRUST FUND TO REDUCE EMPLOYER HEALTH INSURANCE COSTS DURING 2011.** *Notwithstanding any action of the group insurance board under section 40.03 (6)(d) of the statutes, from reserve accounts established under section 20.515 (1)(r) of the statutes for group health insurance and pharmacy benefits for state employees, the secretary of employee trust funds shall allocate an amount equal to \$28,000,000 to reduce employer costs for providing group health insurance for state employees for the period beginning on July 1, 2011, and ending on December 31, 2011.*

Ms. Gibson explained the Legislature can prospectively change Wisconsin Retirement System (WRS) participants' benefits, but cannot go back and take benefits that have already accrued. She said the Board is authorized under Wis. Stat. § 40.03 (6)(e) to make allocations of money in the reserve, but only across all groups, unless there is a favorable experience that justifies giving it to a certain experience group. Section 9115 requires that all of the money go to the employers, which is not consistent with Wis. Stat. § 40.03 (6)(e).

Ms. Gibson said the statute need not be interpreted in that way, however. The wording of the statute does not need to be a dollar-for-dollar offset of the entire \$28 million, but that it must simply be allocated in such a way as to reduce employer costs. The Attorney General's opinion is that an across-the-board premium reduction that affects all participants, including employers, satisfies Section 9115 and is consistent with Wis. Stat. § 40.03.

Ms. Gibson stated that Secretary Stella's plan to act concurrently with the Board's allocations of any excess reserves does not violate the statute.

## **HEALTH INSURANCE PROGRAM**

### **Guidelines and Uniform Benefits Changes**

Mr. Kox referred the Board to the memo regarding the Guidelines and Uniform Benefits Changes (Ref. GIB | 8.23.11 | 5A). Mr. Kox highlighted the following changes that are follow-ups to actions the Board has taken recently:

- The definition of dependent has been changed to comply with Wisconsin Act 32.
- Adult dependents may be dropped during any open enrollment period offered.
- Allow employee enrollment immediately prior to retirement to preserve sick leave.

- Limit COBRA Continuation to 18 months, consistent with federal and state law, for employees except those who experience a layoff.

Mr. Kox then highlighted new changes:

- Allow employers to offer both the traditional Health Maintenance Organization (HMO) and deductible HMO by collective bargaining unit (not by individual).
- Base the 88% that Wisconsin Act 10 requires as the upper limit of employer's contribution on the average premium cost of plans offered in the service area of the employer, and not on the state average.
- Changes to the Uniform Benefits (approved by the Board at its June 28, 2011, meeting).
- Changes to the Standard Plan that update and modernize it, bring it more in line with industry standards, and make it more cost-effective.

***MOTION: Mr. Litscher moved to adopt the Guidelines and Uniform Benefits changes. Mr. Hayes seconded the motion, which passed without objection on a voice vote.***

Chair O'Donnell announced the Board would be meeting in closed session pursuant to the exemptions contained in Wis. Stat. § 19.85 (1)(e) for the purpose of discussing the use of public employee trust funds. Upon conclusion of the discussion, the Board will reconvene in open session.

***MOTION: Mr. Schwartzter moved to convene in closed session, pursuant to the exemptions contained in Wis. Stat. § 19.85 (1)(e) for the purpose of discussing the use of public employee trust funds. Ms. Olson seconded the motion, which passed on the following roll call vote:***

***Members Voting Aye: Doleschal, Hayes, Litscher, C. O'Donnell, J. O'Donnell, Olson, Schwartzter***

***Members Voting Nay: None***

***Members Absent or Not Voting: Arena, Baird, Beil***

The Board convened in closed session at 9:43 a.m. and reconvened in open session at 10:52 a.m.

## **ACTION TAKEN ON BUSINESS DELIBERATED DURING CLOSED SESSION**

Chair O'Donnell announced that during closed session the Board:

- Accepted the state and local self-insured medical and prescription plans for 2012;
- Approved the service area qualification recommendations for 2012;
- Accepted the methodology and tier assignments for 2012 as recommended by the actuary; and
- Verified that all health plans have satisfied the financial requirements for participation in 2012.

Mr. Litscher did not participate in the remainder of the meeting.

## **SECRETARY'S ALLOCATION OF EXCESS RESERVES UNDER 2011 WISCONSIN ACT 13**

Secretary Stella announced that, during closed session, the Board allocated \$30 million under Wis. Stat. § 40.06 (3)(e) to reduce employer and employee health insurance rates. Pursuant to Section 9115 of Wisconsin Act 13, and based upon advice of counsel, the Secretary joins the Board's allocation and concurrently allocates \$28 million in excess reserves to reduce employer and employee health insurance premiums.

## **PAYROLL DEDUCTION FOR OPTIONAL EMPLOYEE PAY-ALL PLANS**

### **Anthem DentalBlue Proposal for Rate Increase**

Mr. Kox referred the Board to the memo regarding Anthem DentalBlue's Supplemental Plan rate (Ref. GIB | 8.23.11 | 7A). Mr. Kox explained that Anthem DentalBlue's coverage will remain the same, but Anthem is proposing a 9% premium rate increase in one of its three plans, the Supplemental Plan. The premium rates of the HMO plan and the Preferred PPO plan will not change.

***MOTION: Ms. Olson moved to accept Anthem DentalBlue's rate proposal. Mr. Schwartzer seconded the motion, which passed without objection on a voice vote.***

### **EPIC Premium Change Request**

Mr. Kox explained that while 90% of EPIC Benefits+ benefits is a dental plan, 10% is paid as an excess medical plan (Ref. GIB | 8.23.11 | 7B). He noted that Deloitte reviewed the proposal and recommends that the Board accept EPIC's proposal to change the excess medical portion of the plan to a hospital indemnity plan.

***MOTION: Ms. Jessica O'Donnell moved to change the excess benefit portion of EPIC Benefits+ to a hospital indemnity plan. Ms. Doleschal seconded the motion, which passed without objection on a voice vote.***

## **LIFE INSURANCE PROGRAM**

Paul Rudeen, Minnesota Life Insurance Co., referred the Board to the *Group Life Insurance 2010 Policy Year Report and Recommendations* (Ref. GIB | 8.23.11 | 8A). He summarized the structure of the Group Life Insurance Plan and noted that within each of the State and Local plans, there are three components: active employees, retirees, and spouses and dependents.

For the state plan, Minnesota Life recommends a rate decrease for the employee section and no change to the premium rate in the spouse and dependent section. In the local plan, the recommendation is no change to either the employee or spouse or dependent sections. Mr. Rudeen stated that each component of the plan is on track financially.

***MOTION: Ms. Doleschal moved to approve Minnesota Life Insurance Company's premium change recommendations. Ms. Olson seconded the motion, which passed without objection on a voice vote.***

## **LONG-TERM DISABILITY INSURANCE PLAN**

Tim Gustafson, Deloitte Consulting, summarized the *Long-Term Disability Insurance Plan 2012 Reserve Valuation* as of December 31, 2010 (Ref. GIB | 8.23.11 | 9). He noted that the Long-Term Disability Insurance (LTDI) premium has been suspended for several years. The actuary recommends the Board continue the LTDI premium suspension. Mr. Gustafson explained that Deloitte believes the reserves are sufficient to allow the suspension of the LTDI premium for 2012, but expects a possible need for a rate increase in 2013.

***MOTION: Mr. Hayes moved to approve the Long-Term Disability Insurance Plan Actuarial Review and continue the LTDI premium rate suspension for 2012. Ms. Jessica O'Donnell seconded the motion, which passed without objection on a voice vote.***

## **OPERATIONAL UPDATES**

Ms. Ellinger referred the Board to the Operational Updates in their binders. She noted the Department is planning to extend contracts with the Boards' actuaries, Gabriel Roeder Smith and Co. and Deloitte Consulting, LLP (ref. GIB | 8.23.11 | 10B). This is under the purview of the ETF board, but staff wanted to make the Board aware of this plan.



Ms. Ellinger updated the Board on the status of the study required by Wisconsin Act 32 which requires that ETF, in conjunction with the Office of State Employment Relations (OSER), study the following options:

- Low-cost, high-deductible health plan
- 1+1 coverage option
- Online prescription drug program
- State employees covered through a health insurance exchange
- One program that covers all state and local government employees and Medicaid participants

Ms. Ellinger referred the Board to the Dependent Eligibility Verification Review memo (Ref. GIB | 8.23.11 | 10K). She noted that ETF will bring a full report to the Board at its November meeting, but highlighted the following currently available data:

- Solicited documentation from approximately 1,000 dependents
- 906 submitted the necessary documentation and were found to be eligible
- 91 cases are under further review with follow-up on a case-by-case basis

#### **ADJOURNMENT**

***MOTION: Ms. Olson moved to adjourn the meeting. Mr. Schwartzer seconded the motion, which passed without objection on a voice vote.***

The Board meeting adjourned at 11:42 a.m.

Dated Approved: \_\_\_\_\_

Signed: \_\_\_\_\_

Esther Olson, Secretary  
Group Insurance Board