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CORRESPONDENCE MEMORANDUM

DATE: August 13, 2012
TO: Group Insurance Board
FROM: Roni Harper, Manager
Optional Insurance Plans and Audits
SUBJECT: EPIC Proposal for Premium and Benefit Adjustments for 2013 and 2014

Staff recommends the Group Insurance Board (Board) accept the EPIC Life Insurance Company (EPIC) proposal as submitted June 29, 2012, and amended July 31, 2012. If approved, the provisions would begin January 1, 2013.

BACKGROUND

Under authority granted to the Board by Wis. Stats. § 40.03 (6) (b) and pursuant to Wis. Stats. § 20.921 (1) (a) (3) and § ETF10.20, the 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 GIB Approval for Payroll Deduction Authorization (Guidelines).

EPIC, a subsidiary of Wisconsin Physician's Service (WPS), has offered a Board-approved employee-pay-all plan since 1994, after purchasing the business from John Deere Life.

EPIC currently offers two sets of optional insurance plans, Benefits+ and Dental Wisconsin (see Attachment 1 - Benefits).

Benefits + is a "wrap-around" optional insurance plan which includes coverage for dental, accidental death and dismemberment (AD&D), hospital indemnity or excess medical, and vision services. The supplemental dental benefit has typically been the plan's main feature, representing almost 94% of incurred claims in 2011. When Wisconsin Retirement System (WRS) group health insurance announced a 10% coinsurance to begin in 2012, EPIC sought the approval of the Board to replace its Benefits+ excess medical provision with

Reviewed and approved by Lisa Ellinger, Administrator
Division of Insurance Services

Lisa Ellinger

Signature

8.16.12
Date

Board	Mtg Date	Item #
GIB	8.28.12	7B

hospital and surgical indemnity insurance for active employees and non-Medicare retirees. That provision was approved, along with premium increases for Benefits+ ranging from 14% to 16.5%.

Dental Wisconsin is a set of two group dental options developed just for State of Wisconsin workers and retirees. It was approved by the Board in 2010 and has had policies in effect since January 1, 2011. When introduced, the Board approved a two-year premium structure. There was no difference in premiums or benefits for active or retired employees because there was not sufficient experience on which to base a premium differential for the new plan. Dental Wisconsin's premiums and benefits were designed as an alternative to another optional dental plan, Anthem DentalBlue.

PROPOSED CHANGES

EPIC proposes to:

- Split the premium structure for Dental Wisconsin
- Make minor modifications in eligibility and benefits for Dental Wisconsin and Benefits+
- Increase monthly premiums for both plans (see Attachment 2 - Summary)

EPIC has presented a composite proposal that reflects the interdependencies of administrative costs as well as some subsidization of premiums across classes. In the aggregate, the proposal seeks to meet the Board's Guidelines requirement for a minimum 75% loss ratio over the period from January 1, 2013, to December 31, 2014.

Dental Wisconsin: EPIC is proposing to split the Dental Wisconsin plans into two premium classes—Active and COBRA continuants in one class and retirees in another. Claims experience for the first year of the Dental Wisconsin plans showed that members in the Active category are significantly subsidizing the coverage of the retiree households. The State Payroll Council Fringe Benefits Subcommittee advised EPIC that it would prefer a dual rate system, keeping premiums for current employees closer in line with their actual claims utilization. EPIC is also proposing minor changes in enrollment/eligibility to administer the plans similarly to State group health insurance, at the request of the Fringe Benefits Committee—for example, allowing children of divorced parents to be covered under each parent's plan (see Attachment 2 – Summary of Requested Changes).

Benefits+: The proposal replaces the catastrophic coverage for Medicare-covered retirees with an indemnity plan that became effective for active employees in January 2012. Retirees on Medicare remained on the existing excess medical benefit because

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they were not affected by the implementation of a 10% coinsurance in the State group insurance plans. Under the 2013/14 proposal all Benefits+ enrollees, active or retired, will have hospital/surgical indemnity benefits, but the benefit amount will be age-driven. Members over 65 will receive only \$75/day (versus \$100 for members under 65) and the waiting period will be five days (versus two for younger members and dependents). EPIC will also remove the exclusion of hospitalization in a Veterans Administration (VA) facility from the indemnity benefit. Consolidation of the benefit structure and inclusion of VA hospitalization were approved by the Fringe Benefits Committee.

Premium increases: EPIC's final proposal includes the following average premium increases, which are guaranteed for a two-year period, through December 31, 2014:

- Benefits+ 8.6%
- Dental Wisconsin 12.2%
- Aggregate 9.6%

Dental Wisconsin: Premium increases would range from 5.6% to 25% depending on the type of member, household, and plan. Rates are proposed to increase the most for annuitants in the Dental Wisconsin "Select" Plan, reflecting claims experience and trends for that age group. The 25% monthly increase equates to an increase of \$4.46 for a single annuitant and \$9.68 for an annuitant plus spouse. Active employee households in the Select Plan will see a 15% increase, a monthly increase of \$2.68 for a single and \$9.35 for a family (i.e., two parents + child(ren)).

Benefits+ or Benefits+ with Vision: Premium increases would be held to approximately 4% to 10% for most enrollees over two years. The exception is the group of annuitants that had been on the Excess Medical Plan. Their premiums would increase by approximately 28%, but it is important to note they did not see the increase in 2012 that the Board approved for those who shifted to the hospital indemnity plan. Some typical household examples:

- An active employee on a single Benefits+ plan (without vision extension) will pay \$19.77 per month in 2013 and 2014, an increase of \$0.78 per month.
- An active employee or continuant with a family plan will pay \$59.31 per month, an increase of \$2.34 per month.
- An annuitant with a spouse or dependent will have a premium increase of \$4.74 per month if they were already on the hospital indemnity plan, going from \$48.53 to \$53.27 per month.
- An annuitant with spouse or dependant who is shifted from excess medical to hospital indemnity will have a monthly increase of \$11.64, going from \$57.43 to \$73.53 per month.

Attachment 2 – Summary shows specific premium changes for the different household sizes and different variations of the Dental Wisconsin and Benefits+ plans.

DISCUSSION

Initially, EPIC proposed a two-year rate with a right to reopen after one year, if circumstances warranted. After discussions with Employee Trust Funds (ETF) staff and actuaries for Deloitte Consulting, LLP (Deloitte), EPIC changed its proposal to guarantee the premium rates for two years. ETF staff believes that in addition to being fiscally sound, this decision will reduce administrative complexities for members, payroll offices, ETF contract management, and EPIC. The other changes to benefit structure and premium classes were suggested or approved by the Fringe Benefits Committee of the State Payroll Council.

ACTUARIAL REVIEW

Deloitte has extensively reviewed this proposal. Its analysis included review of EPIC's proposal and other requested claims data as well as discussion with EPIC and ETF staff.

Regarding Benefits+, Deloitte found that EPIC relied on appropriate data to calculate trends and expected claims costs for the hospital indemnity, AD&D, and vision portions of the plan. However, Deloitte expressed concern regarding the supplemental dental portion of the plan. Deloitte observed that EPIC had an abundant history of claims experience available within its supplemental plan in the pool of State of Wisconsin employees and should therefore base its projections more heavily on that experience versus national trend data. After discussions, EPIC agreed to change the proposal so that the premium requested reflects the trend assumptions weighted more heavily toward the plan's own experience versus statewide data for other dental plans.

Regarding Dental Wisconsin, Deloitte also found that EPIC relied upon reasonable assumptions and methodology for its two-year rate proposal. Please see the Deloitte review and analysis, which is attached.

CONCLUSION

Staff recommends the Board approve the changes in benefits and premiums as proposed by EPIC, as clarified in their amended proposal of August 1, 2012. Dental Wisconsin will be available for open enrollment concurrent with the *It's Your Choice* period in October 2012. All premium and benefit changes will be in effect from January 1, 2013, to December 31, 2014.

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

Attachments: Attachment 1 – Benefits overview
Attachment 2 – Summary of Requested Changes
Attachment 3 – Deloitte Actuarial Memo
Attachment 4 – EPIC Proposal Cover Letter
Attachment 5 – EPIC Addendum Letter

State of Wisconsin Employees EPIC Benefits+ and Dental Plan Benefits

Dental Plan		Benefits+ Dental Benefits			Dental Wisconsin Benefits		
<i>Design Feature</i>		<i>Active/COBRA</i>	<i>Annuitants</i>		Select Dental Benefit	PPO Dental Benefit	
					Open Network	In-Network	Non-Network
Annual Deductible		\$75			\$50	\$25	\$50
Diagnostic & Preventive ¹		Not Covered			Not Covered	100%	75%
Basic ²		50%			75%	75%	55%
Major Restorative ³		50%			50%	50%	25%
Annual Maximum		\$1,000			\$1,000	\$1,000	
Orthodontics		50%			50%	50%	50%
Orthodontics Lifetime Maximum		\$1,200			\$1,000	\$1,000	
Orthodontics Dependent Definition		Dependent Children Until Age 19			Dependent Children Until Age 19		
Provider Network		Any dentist			Any dentist	Delta Dental PPO	Delta Dental Premier & Non-participating
Waiting Periods					3 months		
- Basic		None for New Entrants			3 months		
- Major		Tiered Benefits for Late Enrollees			3 months		
- Orthodontics		12 - 24 months			12 months		
AD&D Plan		Benefits+ AD&D Benefits					
<i>Event Design Feature</i>		<i>Active/COBRA</i>			<i>Annuitant (Retiree)</i>		
		<i>Employee</i>	<i>Spouse</i>	<i>Child</i>	<i>Employee</i>	<i>Spouse</i>	<i>Child</i>
Death		\$10,000	\$5,000	\$2,000	\$5,000	\$2,500	\$1,000
Loss of both feet or hands		\$10,000	\$5,000	\$2,000	\$5,000	\$2,500	\$1,000
Loss of one hand, one foot, or sight in both eyes		\$10,000	\$5,000	\$2,000	\$5,000	\$2,500	\$1,000
Loss of one hand or foot and sight in one eye		\$10,000	\$5,000	\$2,000	\$5,000	\$2,500	\$1,000
Loss of one foot or hand		\$5,000	\$2,500	\$1,000	\$2,500	\$1,250	\$500
Loss of sight in one eye		\$5,000	\$2,500	\$1,000	\$2,500	\$1,250	\$500
Hospital/Surgery Plan		Benefits+ Hospital/Surgery Benefits					
<i>Design Feature</i>		<i>Active/COBRA</i>			<i>All Annuitants (Retirees) and Their Family Members</i>		
					<i>Patients Under Age</i>	<i>Patients Age 65+</i>	
Inpatient Hospital							
- Elimination Period		2 days			2 days	5 days	
- Daily Benefit		\$100			\$100	\$75	
- Maximum Benefit		363 days			363 days	360 days	
Outpatient Surgery		\$100 per case			\$100 per case	\$75 per case	
Optional Vision Plan		Benefits+ Optional Vision Benefits					
<i>Design Feature</i>		<i>In-Network</i>			<i>Non-Network</i>		
Eye Exam		Not applicable			Not applicable		
Frames		\$0 - \$40 copay on Collection Series or \$100 allowance plus 15% ⁴ discount on charges over the allowance for Non-Collection			\$30 Allowance		
Spectacle Lenses		\$25 copay			\$25 - \$60 Allowance		
Contact Lenses In Lieu of Eyeglasses		\$25 copay then \$100 allowance plus 15% ⁴ discount on charges over the allowance			\$75 Allowance		
Frequency:					12 months		
					24 months		

¹ For Dental Wisconsin, only the PPO covers space maintainers.

² Dental Wisconsin does not cover surgical extractions.

³ Dental Wisconsin reimburses all periodontic and endodontic services as major restorative benefits.

⁴ Members receive full allowance towards everyday low prices at Walmart and Sam's Club. Additional discounts do not apply.

The EPIC Life Insurance Company Summary of Requested Changes to be Effective January 1, 2013

Plan(s)	Change	Parties Affected
Dental Wisconsin & Benefits+	Implement new rates. <i>(See #1 & #2 below.)</i>	All members.
Dental Wisconsin	Mirror state's health plans by allowing children of divorced/terminated domestic partners (DP) and non-married state employed parents to be covered on both parents plan.	All members.
Dental Wisconsin	Mirror state's health plans by using the same qualifying events (marriage, birth, adoption, divorce, death) as Special Enrollments.	Active employees.
Dental Wisconsin	Allow an Open Enrollment during the 2013 <i>It's Your Choice</i> period.	Active employees.
Dental Wisconsin	Implement a rate differential for active employees and COBRA continuants versus annuitants. <i>(See #1 below.)</i>	All members.
Benefits+	Eliminate the VA exclusion for the Hospital/Surgery benefit.	All members.
Benefits+ ¹	Replace the Excess Medical benefit with a Hospital/Surgery benefit. <i>(See #3 below.)</i>	Medicare Primary Annuitants.
Benefits+ ¹	Change the Hospital/Surgery benefit for members age 65 and older to match the proposed Hospital/Surgery benefit for members age 65 and older above. <i>(See #3 below.)</i>	Non-Medicare Primary Annuitants.

¹Current plan's benefits and premiums are driven by employment status (active or retired) and Medicare status (primary or not). Medicare will no longer have any influence on an annuitant's (retiree's) benefits or premiums – only member's age will affect the Hospital/Surgery benefit.

Specific Changes –

1. New Rates for Dental Wisconsin:

Plan Member	Dental Wisconsin PPO				Dental Wisconsin Select			
	Active Employee		Annuitant Rate		Active Employee		Annuitant Rate	
	Year	2012	2013 <i>5.6% increase</i>	2012	2013 <i>15.5% increase</i>	2012	2013 <i>15% increase</i>	2012
Insured	\$26.82	\$28.32	\$26.82	\$30.98	\$17.84	\$20.52	\$17.84	\$22.30
Insured + Spouse/DP	\$56.78	\$59.96	\$56.78	\$65.59	\$36.68	\$42.19	\$36.68	\$45.85
Insured + Child(ren)	\$63.49	\$67.04	\$63.49	\$73.34	\$42.32	\$48.68	\$42.32	\$52.90
Family	\$95.97	\$101.34	\$95.97	\$110.86	\$62.24	\$71.59	\$62.24	\$77.80

Dental Wisconsin 2013 through 2014 Target Loss Ratio is 78%.

The EPIC Life Insurance Company Summary of Requested Changes to be Effective January 1, 2013

Specific Changes –

2. New Rates for EPIC's Benefits+:

Member	Active Employee & COBRA Continuent		Active Employee & COBRA Continuent Vision		Annuitant Currently in Hospital/Surgery		Annuitant Currently with Excess Medical		Annuitant Vision	
	2012	2013 <i>4.1% increase</i>	2012	2013 <i>6% increase</i>	2012	2013 <i>~9.9% increase</i>	2012	2013 <i>~28% increase</i>	2012	2013 <i>~6% increase</i>
Insured	\$18.99	\$19.77	\$4.00	\$4.25	\$24.32	\$26.69	\$20.87	\$26.69	\$4.31	\$4.57
Insured + Spouse/DP	\$37.98	\$39.54	\$7.07	\$7.50	\$48.53	\$53.27	\$41.64	\$53.27	\$7.77	\$8.24
Insured + Child	\$37.98	\$39.54	\$7.07	\$7.50	\$56.18	\$61.90	\$48.25	\$61.90	\$7.34	\$7.78
Family	\$56.97	\$59.31	\$10.39	\$11.03	\$66.90	\$73.53	\$57.43	\$73.53	\$11.22	\$11.90

Benefits+ 2013 through 2014 Target Loss Ratio is 74%.

3. Replace Medicare-Primary Annuitants' Excess Medical Benefit with New Hospital/Surgery Benefit and Add Age-Reduced Benefit to Non-Medicare Primary Annuitants' Hospital/Surgery Benefit:

	Inpatient Benefits		Outpatient Benefits	
	Current Excess Medical	New Hospital/Surgery	Current Excess Medical	New Hospital/Surgery
Deductible	\$250 Single/\$500 Family	None	\$250 Single/\$500 Family	None
Waiting Period	None	5 days ¹	None	None
Individual Lifetime Maximum	\$250,000 Non-Annuitant / \$100,000 Annuitant	None	\$250,000 Non-Annuitant / \$100,000 Annuitant	None
Kidney Disease or Specific Transplant Lifetime Maximum	\$30,000	None	\$30,000	None
Services Covered	Varied	Inpatient Hospital Stay	Varied	Outpatient Hospital Surgery
Coverage	50% - 100% after deductible to Specified Lifetime Maximum	\$75 per day ² (360 day Maximum) ³	50% - 100% after deductible to Specified Lifetime Maximum	\$75 per surgery ²

¹ Two days (2) for retiree or dependent under age 65

² \$100 for retiree or dependent under age 65

³ 363 day for retiree or dependent under age 65