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CORRESPONDENCE MEMORANDUM

DATE: April 25, 2013

TO: Group Insurance Board

FROM: Roni Harper, Manager
Optional Insurance Plans & Audits

SUBJECT: Aflac Proposal to Offer Two New Optional Plans to State Employees

Staff recommends the Group Insurance Board (Board) approve the Aflac Group Accident Advantage Plus Plan as outlined in the amended Aflac proposal, attached.

Staff recommends the Board not approve the Group Critical Illness plan as proposed.

Background

Under authority granted to the Board by Wis. Stats. § 40.03 (6) and § 40.55 and pursuant to Wis. Stat. § 20.921 (1) (a) (3) and Wis. Admin. Code ETF 10.20 and ETF 41, the Board is responsible for approving optional group insurance plans that wish to be offered via payroll deduction.

In considering a plan, the Board must consider whether the plan meets the following standards outlined in approved Guidelines:

a) Must be true group insurance. Although each state agency signs its own administrative contract, the "group" consists of all eligible state employees.
b) Must retain no more than 25% of premium income for other than claims payment. In other words, the loss ratio should be at least 75%, especially on average.
c) Must demonstrate financial stability as a plan and company.
d) Must offer coverage that is not readily or adequately provided by other plans available to state employees (exceptions for higher quality benefits and/or lower price).
e) Should have broad-based community support.

Reviewed and approved by Lisa Ellinger, Administrator, Division of Insurance Services.
Lisa Ellinger
Electronically Signed 5/9/13

Board	Mtg Date	Item #
GIB	5.21.13	5A

Each of these factors was evaluated by the Department of Employee Trust Funds (ETF), in consultation with the Board's consulting actuary, Deloitte LLC, and with the Fringe Benefits Committee (FBC) of the State Payroll Council. The analysis will be outlined after this overview of the proposed Aflac plans.

I. Aflac Group Accident Advantage Plus (Accident plan)[1]

Underwritten by Continental American Insurance Company (CAIC), this plan is available to WRS-eligible employees through age 69, as well as their spouse/domestic partner and dependent children. It offers guaranteed issue for eligible applicants, with annual open enrollment and portability if the employee terminates. It is important to note that individuals could not continue their coverage if the State group terminated its master plan.

The Accident plan uses a schedule of benefits, which are paid in a lump sum, not based on health or health care costs, but per incident.[2] It may be used for any purpose. Covered accidental injuries include fractures, dislocations, and lacerations that require stitches. In addition, per-treatment payments may be paid for medical and therapy visits, surgery, PTSD diagnosis, follow-up transportation, transfusions, appliances, and family lodging. There are time limits within which these services must be received following the accident.

The plan also includes:

- Benefits payable for accident-related hospital admission and/or confinement, intensive care, and rehab unit directly following hospital care.

- A Wellness benefit after premiums have been paid for 12 months and the policy remains in force. The plan will pay each covered person $25 for any <u>one</u> of several wellness exams as recommended by our Uniform Benefits.

- An accidental death and dismemberment benefit of $25,000. The accidental death or loss of fingers, toes, limbs, or sight must take place within 90 days of an accident. The death benefit is double if the accident is on a common carrier—airliner, train, or ship.

<u>Accident Plan Monthly Premiums</u>: Low Option High Option

Employee	$6.91	$13.75
Employee and spouse/partner	$10.58	$21.06
Employee and dependent children	$11.97	$23.81
Family	$15.64	$31.12

[1] See Attachment A.
[2] See Attachment B.

Aflac's proposal presented a "high" and "low" option, with the higher option paying double all the benefits quoted in this outline. However, only the "low" option is being recommended because the FBC considered it to be more broadly affordable, while offering value to employees.[3]

II. Group Critical Illness Proposal (Critical Illness plan)[4]

This plan provides a lump-sum benefit upon diagnosis of each of the illnesses named in the plan. Premiums are based on age at issue, and on smoking status.[5] The premium structure appears complex, which is one of the reasons for the FBC's recommendation to narrow the range of offerings to three levels of coverage. Once a person's premium is set, it will not change unless the entire "class" of participants is rated differently—in that way, the premium structure works much like long-term care insurance.[6]

Examples of monthly premium rates for a non-tobacco-using employee are:

	Coverage Levels		
Age	$5,000	$10,000	$20,000
30-39	$4.50	$7.25	$12.75
40-49	$7.05	$12.35	$22.95
50-59	$11.65	$38.85	$75.95

The covered illnesses are:

- Cancer (internal or invasive)
- Heart attack
- Major organ transplant
- End stage renal failure
- Stroke
- Benign brain tumor
- Carcinoma in situ (25%)*
- Coronary bypass surgery (25%)
- Advanced Alzheimer's (25%)
- Advanced Parkinson's Disease (25%)

*For these illnesses, pays 25% of the coverage amount

There is also a $50 health screening benefit similar to that paid under the Accident plan—the specific list of screening panels would be tailored to fit Wisconsin's wellness program. The covered employee and spouse/partner could each claim this benefit annually, after the waiting period.

[3] See Attachment C.
[4] See Attachment D.
[5] See rate table in Attachment D.
[6] See Attachment E.

The Plan includes a 30-day “waiting period,” meaning no benefit is payable for a diagnosis that occurs within 30 days from the effective date. Any of the above diagnoses during those 30 days would start a 12-month wait from their effective date to file a claim for losses after those 12 months, OR the member could cancel their coverage. Sequential diagnoses must be separated by six (6) or twelve (12) months, such as cancer followed by a heart attack (six months) or two separate cancer diagnoses (12 months).

A set of three coverage levels is being considered: $5,000, $10,000 and $20,000. Beyond $20,000, applicants are required by Aflac to submit to underwriting. $20,000 is the guaranteed issue amount for initial enrollment and new hires. When a parent enrolls, children are covered at no extra charge (with benefits paid at 50%). For this reason, we would consider only those policy amounts available without underwriting. This is consistent with the Board’s Optional Guidelines open enrollment requirement.

Discussion/Considerations

Both plans meet the criterion for true group insurance. Aflac has confirmed that it will consider the entire state to be one group for purposes of future premium adjustments. Aflac based its rates on its historic book of business, and would evaluate the need for rate updates based on the experience of the entire population of enrolled State employees. No underwriting is required for members who enroll during initial enrollment or during their first eligibility opportunity. However, for the Critical Illness plan, it appears underwriting would be required for employees who seek to enroll after the initial offering or their first period of eligibility.

Actuarial Analysis

As outlined in the analysis by Deloitte LLC, both plans have been presented by Aflac to offer an anticipated loss ratio of 75%. However, the way these ratios are calculated differs across the two plans.

For the accidental injury plan, the average Aflac loss ratio nationwide is well below 75%, but Aflac has agreed to hold to a ratio of 75% to meet the Board’s requirements. This “represents a more advantageous pricing arrangement” to State employees than would be available through individual or even most group plans of the same or similar products, according to Deloitte. The pricing is established based on a one-year anticipated claim and lapse rate, and could be expected to be adjusted based on enrollment and usage. [Note that following Deloitte’s review, Aflac confirmed that it would not seek annual rate adjustments, but would instead seek adjustments not more than every two years.]

Deloitte explains that the anticipated loss ratio for the Critical Illness plan is estimated across the life of the plan—across 30 years, rather than as an annualized loss ratio. While they note that this practice of “lifetime” pricing is “typical in the marketplace,” it is not a structure used for any other Optional Plan approved by the Board, except for Long-Term Care insurance. Deloitte found Aflac’s assumed lapse rates ranging from 16 to 22% in the first three years to be lower than, but consistent with, industry standards for critical illness insurers. (Lapse rates mean that members drop out of the plan, thereby foregoing invested premiums.)

Deloitte did recommend that ETF request Aflac to decrease its quoted premiums by 2.7% for the Critical Illness plan, in light of increases in the performances in high-quality bond rates in February 2013 (compared to the proposal date of December 2012). [ETF staff forwarded this recommendation to Aflac, but as of 4-24-13 Aflac declined to change the premiums outlined in their December 2012 proposal.]

Deloitte finds Aflac to be a “highly rated insurance company per A.M. Best, with a reasonable expectation of continued operation.” It has a strong record of financial solvency and of paying customer claims.

<u>Discussion of Need for Coverage</u>

- These plans do not duplicate coverage that is currently available to State employees through payroll deduction.
    - There is a hospital indemnity portion provision in the EPIC Benefits+ plan, but that plan is primarily a dental benefit, so the indemnity portion seems to be underutilized, and it is a much narrower benefit than the Aflac injury plan.
    - Income Continuation Insurance is not a duplicate - it is income replacement insurance, which pays only after a person has been found to be disabled. There could be some advantage for members who have coverage under ICI and one or both Aflac plans, because ICI pays only 75% of wages. A significant portion of State ICI recipients have claims related to cancer, heart disease and stroke. There may be members who would be interested in the Critical Illness plan who did not enroll in ICI during their initial opportunity.
    - If members have chosen not to enroll in ICI because they “cannot afford” the premiums, or are deciding between the Critical Illness and ICI, as a new hire, the value of an Aflac plan seems questionable.
- State employees in most agencies have the option of a stand-alone Accidental Death and Dismemberment (AD&D) plan (see item 5b). The Department of Corrections, with the most employees enrolled in AD&D of any agency, has 1467 subscribers. There were no claims in 2012.

- In a survey of UW System employees during the 2012 It's Your Choice enrollment, approximately 10% listed the Aflac benefit as a kind of benefit they wish was available (for context, over twice that many listed a wish for pet insurance).

Discussion of Broad-based Community Support

ETF asked the Fringe Benefits Committee to give feedback on the likelihood of their agencies' participation in one or both plans, their questions and concerns about the premiums, benefits, and especially administration of the plans. A meeting with the FBC, Aflac representatives, and ETF staff answered many questions and raised others. The FBC held a subsequent meeting to construct a set of recommendations.[7] Overall, the FBC supports approval of both Aflac plans, with a list of caveats. In addition to narrowing the offering to the "Low" option, and to benefits choices of $5000, $10,000 and $20,000, and clarifying some definitions in the plan certificates, the FBC recommends that Aflac ensure that it can provide automated enrollment, and work with each state payroll center for simplified billing and reconciliation. Also, the FBC would like Aflac to provide employer training at the kick-off of the new plan offering and annually thereafter.

Each agency will decide whether to contract with Aflac based on the needs of its employees, and its resources to manage the administrative tasks.

History

The Board rejected a 1984 proposal from the American Family Life Assurance for Cancer company. However, that proposal was for insurance that covered the treatment of cancer only, and did not meet the required loss ratio. [That was the company that has evolved to become Aflac, and by acquiring the CAIC division is now able to underwrite group insurance.] This proposed Critical Illness insurance, which is meant to cover out-of-pocket costs and pays based on the diagnosis, not the medical bills, does not meet the OCI definition of cancer insurance.

References

A Wisconsin county that offers several Aflac plans to its employees advised ETF that there have been administrative problems ever since Aflac acquired their plans. Issues include poor responsiveness from the customer service representative and difficulty reconciling census and invoices. The state of Georgia reported no problems. Wisconsin's OCI reports that Aflac is not a company with frequent customer concerns—in 2012 Aflac had only two complaints where the company had to take corrective action by reinstating the policy or refunding premiums. This is in a similar range to our other Optional Plans.

[7] See Attachment C.

Considerations and Conclusion

ETF staff recommends the Board approve making Aflac's Accident Advantage Plus Plan available to state agencies that wish to contract with Aflac, and for premiums to be withheld from payroll. Staff does not recommend that the Critical Illness plan be approved at this time.

- The recommendations of the FBC are respected and ETF gives credibility to their recommendation to provide Aflac to state employees.
- Staff notes that it has been somewhat challenging to get answers to questions about plan specifics, with unclear assignment of communicators within Aflac.
- There are other changes occurring in employee benefits that will require staff resources and require employee education.
- The primary concern with the Critical Illness plan involves the front-loaded premium structure, and the manner in which it meets the 75% loss ratio raise concerns. This insurance is structured to meet the requirement over a thirty year period. Since the plan is not guaranteed renewable, the risk of early termination prior to achieving the 75% loss ratio is not within the Board's discretion. This also adds risk to employees who enroll initially, if the partnership is not successful, because this plan is not portable after a group master contract ceases.

Staff will be at the Board meeting to answer any questions.

Attachment A: Aflac Group Accident Advantage Plus Proposal
Attachment B: Aflac Group Accident Advantage Plus Brochure
Attachment C: Fringe Benefits Committee Memo
Attachment D: Aflac Group Critical Illness Proposal
Attachment E: Deloitte Analysis