



# State of Wisconsin

## Self-Insured State Medical and Prescription Drug Plans

### 2014 Rate Development

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# Overview

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Overall, premium rates will be increasing by varying amounts for 2014. Prescription drug claims experience is running as expected. However, due to previous Net Fund Balance buy-downs and a recommended \$20.5 million Net Fund Balance buy-down in 2014, the prescription drug premiums will result in a 10.9% rate increase driven by the Medicare retiree population. Medical claims experience is running as expected, requiring a small rate increase with no Net Fund Balance buy-down.

- Net Fund Balance

- The Net Fund Balance is based on investment outlook and anticipated experience in the aggregate. The Net Fund Balance continues to feel the impact of recent market fluctuations and allocation of the 2008 investment losses (which received the final amortization in 2012).

- Prescription Drugs

- The overall prescription drug claims experience was as expected. In conjunction with previous Net Fund Balance buy-downs, a \$20.5 million reduction from the Net Fund Balance will result in a prescription drug rate increase of 10.9%.

- Standard Preferred Provider Plan (PPO)

- The Standard PPO medical claims experience was as expected and overall projected a 3.5% increase (including prescription drugs). We are recommending a 3.5% increase with no explicit medical Net Fund Balance contribution.

- State Maintenance Plan (SMP)

- SMP has been placed in all counties where another qualified Tier 1 option does not exist. In 2014, SMP will be needed in 8 counties (no change from 2013).
- Given the size of the population, which is not fully credible we are recommending an overall rate increase equal to the Standard plan increase of 3.5% (including prescription drugs).

- Medicare Plus Plan

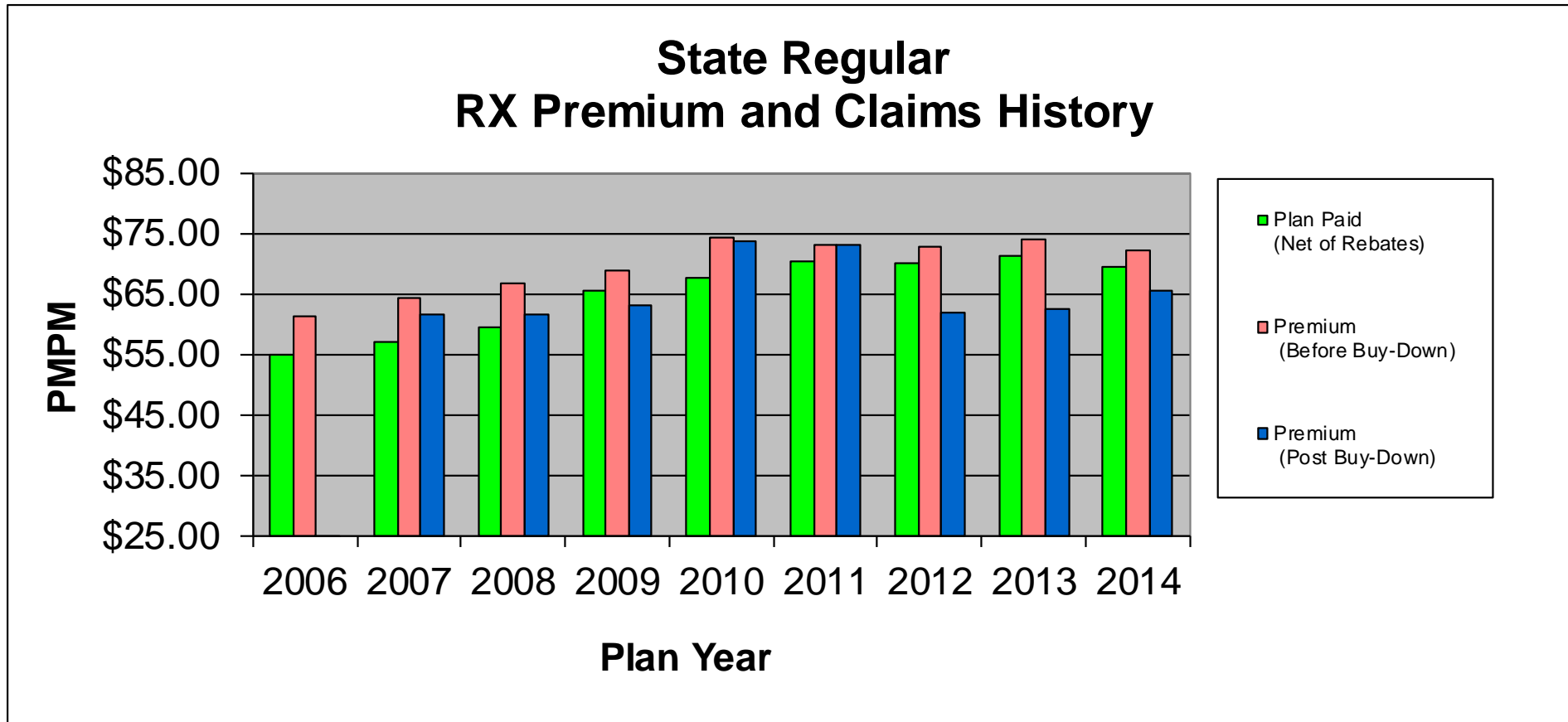
- The Medicare Plus plan medical claims experience is running as expected. However, due to the large prescription drug rate increase for the population, the Medicare Plus plan projected a 14.5% overall increase. We are recommending 14.5% increase with no explicit medical Net Fund Balance contribution.

# Prescription Drug Plan

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- Consistent with prior years, we considered the experience of the following groups separately as the rates were developed:
  - HMO Regular, HMO Grads, HMO Medicare, Standard PPO (includes Grads), SMP, Medicare Plus
- The pricing of the drug benefit is based on the State's experience from July 1, 2012 through June 30, 2013. This projection is based on the claims data, administrative fees, drug rebate estimates and Medicare drug subsidy estimates supplied by Navitus.
- A 2013-2014 average trend rate assumption of 3.90% is used in our projection.
  - Last year, to develop the 2013 rates, we utilized a 3.35% trend based on historical program experience and Navitus projected future trends.
- For 2014, the prescription drug rates are projected to increase 23.3% without utilizing any of the Net Fund Balance.
  - For 2013, a \$32.8 million reduction from the Net Fund Balance was used to achieve a 2.5% increase from the 2012 rates.
  - Utilizing fund balance is a temporary one-year premium reduction and the large Net Fund Balance buy-down in 2013 is driving the large rate increase needed for 2014.
- A \$20.5 million reduction from the Net Fund Balance will be used to achieve an aggregate prescription drug rate increase of 10.9% compared to the 2013 rates, varying by group category.
  - Implementing a phased-in buy-down approach of \$20.5 million in 2014 and a smaller amount in 2015 will help mitigate the expected premium rate increases while bringing the Net Fund Balance down to the target level.
- From the inception of Medicare Part D in January 1, 2006 through December 31, 2011 the Department had utilized the CMS sponsored Retiree Drug Subsidy (RDS) to support prescription drug coverage for their retirees. In January 1, 2012, the Department entered into an Employer Group Waiver Plan (EGWP) arrangement with Navitus. The projected EGWP subsidy has been reflected for the Medicare groups.

# Prescription Drug Plan



**Notes:**  
2013 Plan Paid PMPM based on actual experience through 6/30/13 and projected experience for the rest of the year  
2014 Plan Paid PMPM based on projected experience and Net Fund Balance buy down of \$20.5 million.

# Standard Preferred Provider Plan (PPO)

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- The Standard plan continues to see enrollment drop and has seen an approximate 16.5% reduction in the number of members since last year's rating. This is likely due to the addition of the WEA Trust Northwest plan on the west side of the State in 2012.
- The Standard plan experience is credible with approximately 1,940 members. The medical claims experience has been running better than expected with a -2.0% observed annual trend.
  - WPS corporate trend is 11.0% for this population.
- For purposes of this rate calculation we used a trend rate assumption of 9.6%.
- The medical-only administrative expenses will increase from \$27.23 PCPM in 2013 to \$39.88 PCPM in 2014.
  - 2014 Accountable Care Act (ACA) reinsurance fees of \$62 PMPY (or \$11.51 PCPM) were included in the administrative expenses.
  - Wellness contract amount of \$0.80 PCPM was also included in the administrative expenses.
- Overall Standard plan medical and prescription drug rates are projected to increase 3.5% for 2014.
  - Medical-only rates are projected to increase approximately 2.8% for 2014.
  - Prescription drug rates are projected to increase approximately 12.4% for 2014.
- We recommend a 3.5% projected increase with no explicit medical Net Fund Balance contribution for 2014.

# Standard Preferred Provider Plan Rates

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The recommended rate increase for 2014 is 3.5%.

	<u>2014 Rates</u>	<u>2013 Rates</u>
<b>Standard PPO</b>		
<b>Single</b>	\$ 1,246.70	\$ 1,204.30
<b>Family</b>	3,113.00	3,007.10
<b>Standard PPO Grads</b>		
<b>Single</b>	\$ 938.60	\$ 906.70
<b>Family</b>	2,342.70	2,263.00

# State Maintenance Plan (SMP)

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- In 2004, SMP became the designated Tier 1 plan in every county where there was no other qualified Tier 1 plan.
- SMP will be offered in the same 8 counties in 2014 as 2013.
  - 8 in 2013, 8 in 2012, 9 in 2011, 8 in 2010, 10 in 2009, 9 in 2008, and 12 in 2007
  - SMP currently has 52 contracts and 111 members.
- SMP has seen a 34% reduction in the number of members since last year's rating.
- Although the experience is not fully credible, the SMP medical claims experience has been running lower than expected.
- We employed a 9.6% trend assumption in setting the 2014 rates, similar to the Standard PPO plan.
- Given that the SMP experience is not fully credible we recommend a 3.5% projected increase with no explicit medical Net Fund Balance contribution for 2014, consistent with the Standard PPO plan.



# State Maintenance Plan Rates

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The overall recommended rate increase for 2014 is 3.5%.

	<u>2014 Rates</u>	<u>2013 Rates</u>
<b>SMP</b>		
<b>Single</b>	\$ 771.60	\$ 745.30
<b>Family</b>	1,924.60	1,859.10
<b>SMP Grads</b>		
<b>Single</b>	\$ 583.20	\$ 563.40
<b>Family</b>	1,454.00	1,404.50

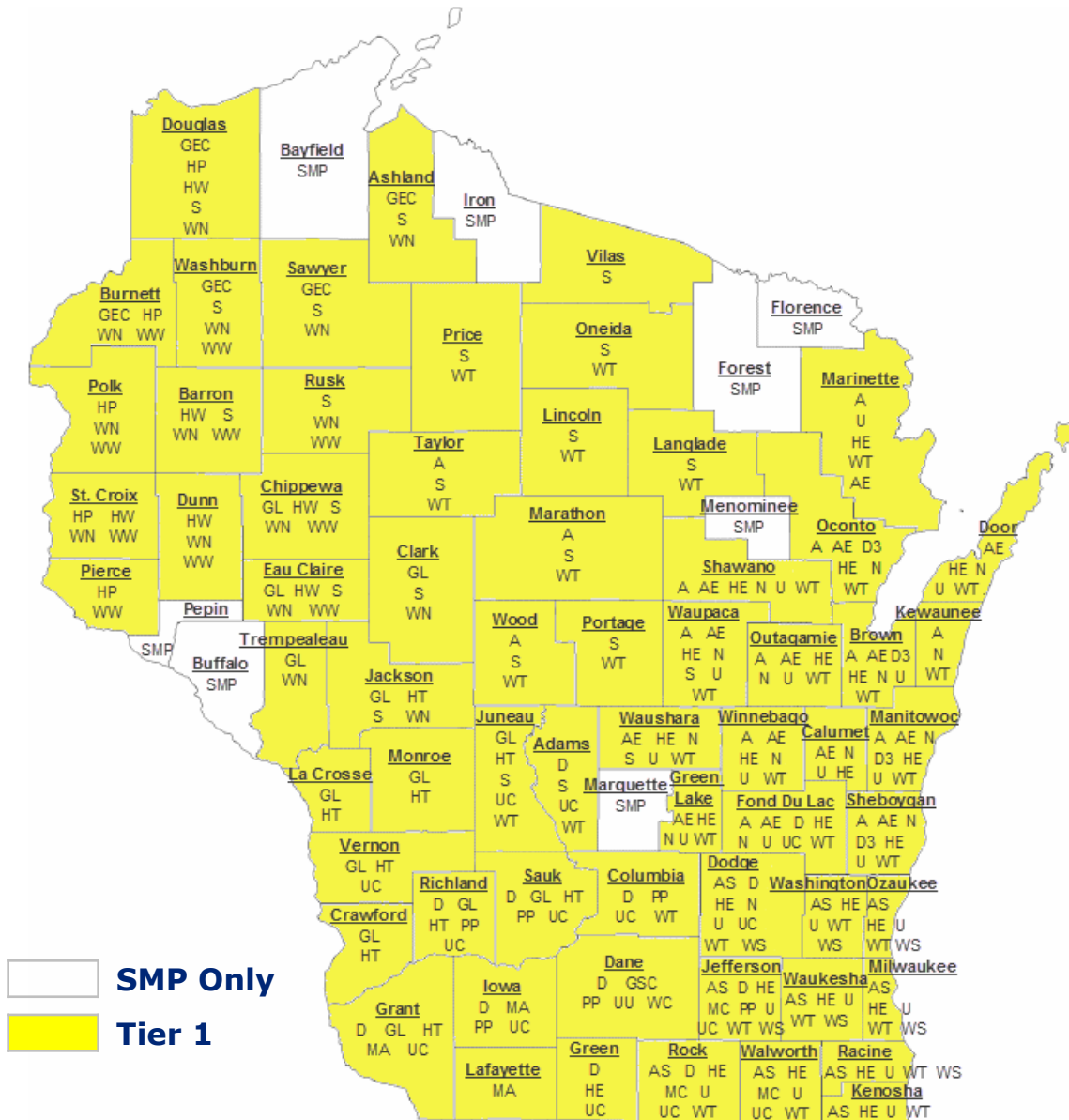
SMP will be offered in the following counties next year:

Bayfield	Forest	Menominee
Buffalo	Iron	Pepin
Florence	Marquette	

A map of the SMP counties for 2014 follows.

# State Map

## 2014 Qualified Health Plan Tiers



### Health Plan Name Legend

Anthem BCBS – Northeast	AE
Anthem BCBS – Southeast	AS
Arise Health Plan	A
Dean Health Plan	D
Dean Prevea360	D3
GHC of Eau Claire	GEC
GHC of South Central Wisconsin	GSC
Gundersen Lutheran Health Plan	GL
HealthPartners	HP
Health Tradition Health Plan	HT
Humana – Eastern	HE
Humana – Western	HW
Medical Associates Health Plan	MA
MercyCare Health Plan	MC
Network Health Plan	N
Physicians Plus	PP
Security Health Plan	S
State Maintenance Plan	SMP
UnitedHealthcare	U
Unity – Community	UC
Unity – UW Health	UU
WEA Trust PPO – East	WT
WEA Trust PPO – Northwest	WN
WEA Trust PPO – South Central	WC
WPS Metro Choice – Northwest	WW
WPS Metro Choice – Southeast <sup>(1)</sup>	WS

(1) 2014 Tier 3 Plan

# Medicare Plus Plan

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- On May 22, 2012 the Board approved changes to modify the Medicare Plus plan in order to simplify administration and modernize the plan. The plan modifications resulted in a slight decrease in benefits that was considered in the rating.
- The Medicare Plus Plan medical claims experience has been running as expected.
  - WPS corporate trend is 5.7% for this population.
- We used a 5.0% medical trend assumption for setting this year's rate.
- Overall Medicare Plus plan medical and prescription drug rates are projected to increase 14.5% for 2014.
  - The medical rates are projected to increase by approximately 7.1% for 2014.
  - The prescription drug rates are projected to increase by approximately 28.6% for 2014.
    - For 2013, a \$3.6 million reduction from the Net Fund Balance was used to achieve a 7.7% prescription drug increase for the Medicare Plus population.
    - Utilizing fund balance is a temporary one-year premium reduction and the large Net Fund Balance buy-down in 2013 is driving the large rate increase needed for 2014.
    - The projected EGWP drug subsidy, factored into this rating, assumes a subsidy of approximately \$71 PMPM for 2014 which decreased from \$87 PMPM for 2013.

# Medicare Plus Plan Rates

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The overall recommended rate increase for 2014 is 14.5%.

	<u>2014 Rates</u>	<u>2013 Rates</u>
<b>Single</b>	\$ 330.60	\$ 288.60
<b>Family (2- Eligible)</b>	657.40	573.90

# Net Fund Balance

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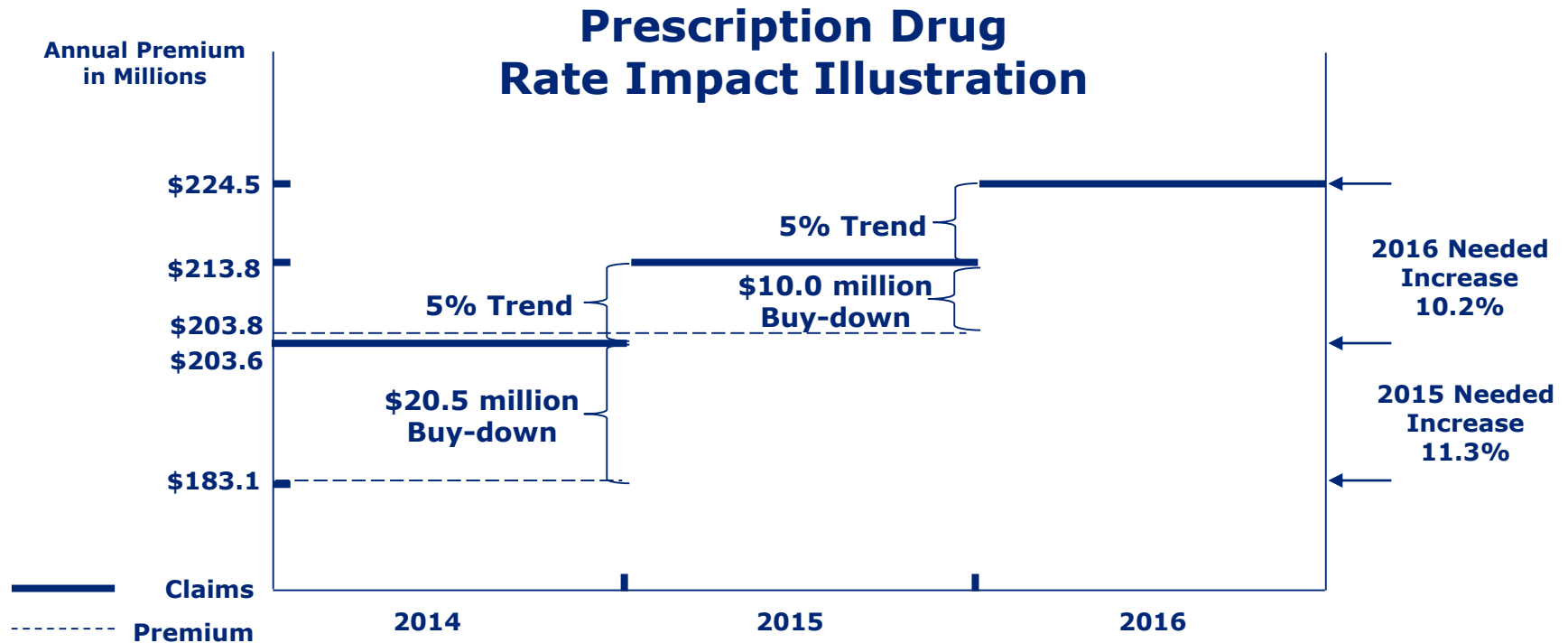
- Overall, estimated fund balances increased for the medical plan and decreased for the pharmacy plan during the last year.
  - Fund balances include accrued but not received drug rebates and Medicare EGWP Subsidy.
  - Early Retiree Reinsurance Program (ERRP) reimbursement of \$13.1 million was received. There are specific rules regarding the use of these funds.
- Based on prevailing regulatory capital requirements applicable to the insurance industry, as well as leading practices for self-insured employers, maintaining a Net Fund Balance of 15% to 25% of the annual claims of the Medical and Prescription Drug plans is recommended.
  - At the August 2011 meeting, the Board accepted the use of this benchmark policy.
- The current Net Fund Balance ratio to annual claims for the state program is estimated to be approximately 23% (in the target range) for the Medical program and approximately 35% (above the target range) for the Prescription Drug program before any buy-down actions this year.

# Net Fund Balance (continued)

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- We discussed several strategies for the Net Fund Balance buy-down for 2014 and chose to recommend a scenario that would:
  - Not apply any buy-downs for the Medical plans which are in the targeted 15% - 25% range.
  - Apply a \$20.5 million buy-down to the Prescription Drug plan, which will reduce the Prescription Drug Net Fund Balance ratio to approximately 26% and the combined Medical and Prescription Drug ratio to approximately 24%.
  - In order to provide rate stability, it is recommended that the buy-downs needed to bring the Net Fund Balance ratio for the Prescription Drug program into the target range be phased in over a two year period.
  - This scenario is consistent with the buy-down approach that was applied last year.
- A \$20.5 million reduction from the Net Fund Balance will be used to reduce the prescription drug rates from a 23.3% to a 10.9% increase compared to the 2013 rates.
  - Early Retiree Reinsurance Program (ERRP) reimbursement of \$13.1 million is required to be used by 12/31/2013. Therefore, \$13.1 million from the Net Fund Balance will be used to reduce the prescription drug rates for the State Regular, Graduate Assistants, Standard PPO and SMP populations.
  - The remaining \$7.4 million of the net fund balance buy-down will be used to reduce the prescription drug rates for the State Medicare and Medicare Plus populations.
  - Utilizing fund balance is a temporary one-year premium reduction.
- We expect the Net Fund Balance will continue to be sufficient to allow an additional smaller buy-down in 2015 to help mitigate the expected increase in premium rates.
- Following this buy-down strategy, the fund balance is expected to be sufficient to protect against unfavorable claim cost and investment experience in 2014.

# Net Fund Balance



## Observations

- Estimated 5% trend rate for illustration purposes
- Utilizing fund balance is a temporary one-year premium reduction
- Implementing a phased in buy-down approach of \$20.5 million in year 1 and a smaller amount in year 2 will help mitigate the expected premium rate increases while bringing the Net Fund Balance to the target level

# Net Fund Balance

	6/30/2013	6/30/2012	6/30/2011	6/30/2010
<b>MEDICAL (in millions)</b>				
Cash Balance <sup>(1)</sup>	62.3	57.4	57.3	55.4
Incurred But Not Reported Claim Liability (IBNR)	(4.2)	(5.3)	(5.7)	(6.7)
<b>Net Fund Balance</b>	<b>58.1</b>	<b>52.1</b>	<b>51.6</b>	<b>48.7</b>

	6/30/2013	6/30/2012	6/30/2011	6/30/2010
<b>PHARMACY (in millions)</b>				
Cash Balance	40.7	66.7	77.5	65.4
Estimated Accrued Drug Rebates	13.3	11.4	12.3	12.3
Estimated Accrued Medicare Part D Subsidy	10.9	7.9	5.1	5.2
Navitus Advance	6.3	10.5	11.9	11.9
ERRP Reimbursement <sup>(2)</sup>	13.1	12.6	14.2	0.0
<b>Projected Future Cash Balance<sup>(1)</sup></b>	<b>84.3</b>	<b>109.1</b>	<b>121.0</b>	<b>94.8</b>
IBNR <sup>(3)</sup>	(4.3)	(3.9)	(4.1)	(4.0)
<b>Net Fund Balance</b>	<b>80.1</b>	<b>105.2</b>	<b>116.8</b>	<b>90.8</b>

<sup>(1)</sup> Source: Department of Employee Trust Funds

<sup>(2)</sup> ERRP: Early Retiree Reinsurance Program reimbursement cannot be used as General Revenue.

<sup>(3)</sup> 2013 RX IBNR is estimated at one week of claims



# Appendix I

## Final Rates

# Standard and SMP Rate Comparison

State Active								
2013 Rates								
	REGULAR				GRADUATE ASSISTANTS			
	Standard Plan		SMP		Standard Plan		SMP	
	Single	Family	Single	Family	Single	Family	Single	Family
Medical Claim Cost	\$1,048.34	\$2,622.01	\$659.20	\$1,648.64	\$782.40	\$1,957.05	\$493.68	\$1,234.99
Rx Claim Cost	\$133.31	\$333.26	\$65.52	\$163.80	\$97.98	\$244.95	\$49.14	\$122.85
Expenses	\$22.65	\$51.83	\$20.58	\$46.66	\$26.32	\$61.00	\$20.58	\$46.66
<b>TOTAL</b>	<b>\$1,204.30</b>	<b>\$3,007.10</b>	<b>\$745.30</b>	<b>\$1,859.10</b>	<b>\$906.70</b>	<b>\$2,263.00</b>	<b>\$563.40</b>	<b>\$1,404.50</b>

State Active								
2014 Rates								
	REGULAR				GRADUATE ASSISTANTS			
	Standard Plan		SMP		Standard Plan		SMP <sup>(1)</sup>	
	Single	Family	Single	Family	Single	Family	Single	Family
Medical Claim Cost	\$1,065.72	\$2,665.95	\$679.21	\$1,699.04	\$789.44	\$1,975.21	\$507.24	\$1,269.51
Rx Claim Cost	\$150.76	\$376.89	\$65.71	\$164.27	\$111.04	\$277.60	\$49.28	\$123.20
Expenses <sup>(2)</sup>	\$30.22	\$70.16	\$26.68	\$61.29	\$38.12	\$89.89	\$26.68	\$61.29
<b>TOTAL <sup>(3)</sup></b>	<b>\$1,246.70</b>	<b>\$3,113.00</b>	<b>\$771.60</b>	<b>\$1,924.60</b>	<b>\$938.60</b>	<b>\$2,342.70</b>	<b>\$583.20</b>	<b>\$1,454.00</b>
<b>Change</b>	<b>3.5%</b>		<b>3.5%</b>		<b>3.5%</b>		<b>3.5%</b>	

(1) SMP Graduate Assistants is based on 75% of SMP

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

- A) ETF Administrative Fee of \$3.60
- B) Wellness Contract Administrative Fee of \$0.80
- C) ACA Reinsurance Fee of \$11.51
- D) Medical Expense Fee of \$23.97
- E) Navitus Expense Fee of \$8.10
- F) Expenses are allocated between Single and Family contracts

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

# Medicare Plus Rate Comparison

Medicare Plus				
2013 Rates				
	Single	Family	Family + 1 (Non-Medicare eligible in)	
			Standard Plan	SMP
Medical Claim Cost	\$162.01	\$323.92	\$1,210.40	\$821.76
Rx Claim Cost	\$105.06	\$210.12	\$238.37	\$170.58
Expenses	\$21.53	\$39.86	\$51.83	\$46.66
<b>TOTAL</b>	<b>\$288.60</b>	<b>\$573.90</b>	<b>\$1,500.60</b>	<b>\$1,039.00</b>

Medicare Plus				
2014 Rates				
	Single	Family	Family + 1 (Non-Medicare eligible in)	
			Standard Plan	SMP
Medical Claim Cost	\$162.22	\$324.23	\$1,228.00	\$842.22
Rx Claim Cost	\$137.28	\$274.57	\$288.04	\$202.99
Expenses <sup>(1)</sup>	\$31.10	\$58.60	\$70.16	\$61.29
<b>TOTAL <sup>(2)</sup></b>	<b>\$330.60</b>	<b>\$657.40</b>	<b>\$1,586.20</b>	<b>\$1,106.50</b>
<b>Change</b>	<b>14.5%</b>		<b>5.7%</b>	<b>6.5%</b>

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

- A) ETF Administrative Fee of \$3.60
- B) Wellness Contract Administrative Fee of \$0.80
- C) ACA Reinsurance Fee of \$11.51
- D) Medical Expense Fee of \$16.90
- E) Navitus Expense Fee of \$8.10
- F) Expenses are allocated between Single and Family contracts

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

# Appendix II

## Plan Descriptions

# Standard Preferred Provider Plan Design

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- Medical Benefit
  - In-Network
    - Deductible: \$200 Single, \$400 Family
    - 90/10% Coinsurance
    - Out-of-Pocket Limit (OOPL): \$800 Single, \$1600 Family
  - Out-of-Network
    - Deductible: \$500 Single, \$1000 Family
    - 70/30% Coinsurance
    - OOPL: \$2000 Single, \$4000 Family
- Drug Benefit (non-specialty)
  - \$5 Level 1 Copay
  - \$15 Level 2 Copay
  - \$35 Level 3 Copay (does not count towards OOPL)
  - OOPL: \$1000 Single, \$2000 Family
- Specialty Medications
  - \$50 Level 4 Copay
  - OOPL: \$1000 Single, \$2000 Family
    - Copays for Non-Formulary Specialty Drugs do not count towards OOPL
    - A reduced Level 4 copay of \$15 is available for Formulary Specialty Drugs obtained at the preferred Participating Pharmacy for Specialty Medications (Diplomat Specialty Pharmacy)

NOTE: Medical, Drug Benefit, and Specialty Medication Out-of-Pocket Limits accumulate separately

# State Maintenance Plan Design

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## UNIFORM BENEFITS

- Medical Benefit
  - 90/10% Coinsurance
    - DME and hearing aids remain at 80/20% coinsurance
  - OOP: \$500 Single, \$1000 Family
  - ER Copay \$75, 90% coinsurance thereafter to OOP
- Drug Benefit (non-specialty)
  - \$5 Level 1 Copay
  - \$15 Level 2 Copay
  - \$35 Level 3 Copay (does not count towards OOP)
  - OOP: \$410 Single, \$820 Family
- Specialty Medications
  - \$50 Level 4 Copay
  - OOP: \$1000 Single, \$2000 Family
    - Copays for Non-Formulary Specialty Drugs do not count towards OOP
    - A reduced Level 4 copay of \$15 is available for Formulary Specialty Drugs obtained at the preferred Participating Pharmacy for Specialty Medications (Diplomat Specialty Pharmacy)

NOTE: Medical, Drug Benefit, and Specialty Medication Out-of-Pocket Limits accumulate separately

# Medicare Plus Plan Design

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- Medical Benefit
  - 100% to Usual, Customary and Reasonable (UCR) after Medicare
- Uniform Benefit Drug Coverage (non-specialty)
  - \$5 Level 1 Copay
  - \$15 Level 2 Copay
  - \$35 Level 3 Copay (does not count towards OOPL)
  - OOPL: \$410 Single, \$820 Family
- Specialty Medications
  - \$50 Level 4 Copay
  - OOPL: \$1000 Single, \$2000 Family
    - Copays for Non-Formulary Specialty Drugs do not count towards OOPL
    - A reduced Level 4 copay of \$15 is available for Formulary Specialty Drugs obtained at the preferred Participating Pharmacy for Specialty Medications (Diplomat Specialty Pharmacy)

NOTE: Medical, Drug Benefit, and Specialty Medication Out-of-Pocket Limits accumulate separately

# Appendix III

## Key Metrics



# Key Metrics

<b>Prescription Drug Plans</b>				
	<b>Members</b>	<b>Trend</b>	<b>2014 Claims PMPM <sup>(1)</sup></b>	<b>2014 PCPM Expenses</b>
HMO Regular and Grads	175,791	3.90%	\$ 66.45	\$ 8.10
HMO Medicare	20,554	3.90%	140.72	8.10
Standard PPO and Grads	1,924	3.90%	146.63	8.10
SMP and Grads	312	3.90%	64.40	8.10
Medicare Plus	8,309	3.90%	157.88	8.10

<b>Self-Funded Medical Plans</b>			
	<b>Trend</b>	<b>2014 Claims PMPM <sup>(1)</sup></b>	<b>2014 PCPM Expenses</b>
Standard PPO and Grads	9.6%	891.88	\$ 23.97
SMP	9.6%	586.01	23.97
Medicare Plus	5.0%	162.11	16.90

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

# Key Metrics

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	<b>Rx Rate Change</b>	<b>Rx Single Rate</b>
HMO Active	4.8%	\$ 77.80
HMO Grads	15.2%	31.60
HMO Medicare	30.2%	131.00
Standard Plan	12.4%	158.90
SMP	0.4%	73.80
Medicare Plus	28.6%	145.40

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