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CORRESPONDENCE MEMORANDUM

DATE: August 5, 2013

TO: Group Insurance Board

FROM: Mary Statz, Director, Health Benefits and Insurance Plans Bureau
Roni Harper, Manager, Optional Plans and Audits

SUBJECT: Vision Service Plan (VSP) proposal to renew and adjust plan for 2014-2017

Staff recommends the Group Insurance Board (Board) approve the proposal to renew the VSP Choice Plans for active employees and for annuitants. VSP seeks to modify benefits and increase premiums as outlined herein, adding an increased benefit for children. VSP will continue to offer open enrollment annually for employees and annuitants.

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 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).

VSP was approved to replace Spectera, effective January 2010. VSP offers separate plans for active employees, and for annuitants. Enrollment has increased from 15,121 in 2011 to 16,615 as of December 31, 2012, with over 55 agencies participating. When VSP was first implemented, state agency representatives asked the company to make the plan's benefits similar to the plan it was replacing, for ease of transition. This proposal marks the first time in three years that VSP has sought a revision in its plan.

Proposed Changes

VSP proposes changes to the benefits and premiums for both the Active and Annuitant plans. This new plan structure would remain in effect from January 1, 2014 through December 31, 2017:

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

Lisa Ellinger

Electronically Signed 8/12/13

Board	Mtg Date	Item #
GIB	8.27.13	7C

a) Increase the co-pay for a vision exam from $10 to $15; leave the co-pay for materials at $25 (for frames and lenses).
b) Evaluation and elective fitting for contacts would continue to be discounted 15%, but with a new maximum member co-pay of $60 and a $130 contact lens allowance at in-network providers (making the benefit for contact lenses the same as for retail frames).
c) Add the VSP KidsCare Program, which covers extra benefits for dependent children:
    a. Two exams per year (adults get one)
    b. Impact resistant lenses
    c. Lens replacement annually or more often if needed (per .5 diopter prescription change)
    d. Frames replaced annually with $25 co-pay (adult frame replacement is every two years)
d) Increase the benefit for frames from an open access provider, from $45 to $70.

VSP proposes premium changes as outlined below:

Premium Category Monthly	Current Active Rate	Proposed Active Rate	Percent Increase	Current Annuitant Rate	Proposed Annuitant Rate	Percent Increase
Single	$5.24	$6.35	21%	$6.16	$7.30	19%
Member + Spouse or Domestic Partner	$10.49	$12.70	21%	$12.32	$14.60	19%
Member + Child(ren)	$11.23	$14.30	27%	$12.32	$14.60	19%
Family	$17.93	$22.85	27%	$14.50	$17.15	18%

Discussion
VSP has seen a growth of 65% in subscribers since 2010, with retiree participation doubling. In 2010 there was a 94% ratio of claims filed compared to subscriber contracts across all member groups, indicating that members are making use of this insurance plan.

Earlier in 2013, VSP presented four variations for updating its plan, including making no change to benefits but increasing premiums to account for market trends. Staff assisted the State Employer Payroll Council in conducting a survey of all agencies to vote on the most desired option. VSP weighted the votes by agency size, resulting in this proposal that includes the KidsCare option with its premium increase covered by the premium categories that include children in the Active plan.

VSP included KidsCare with the Annuitant plan with no impact to rates. This allowed the plan benefits to remain the same in both cases, and accounted for the fact that there are very few children covered under the Annuitant plan, and therefore very low expected utilization of the enhanced benefits associated with KidsCare.

Administratively, VSP has been reviewed favorably in its three years of providing insurance to state employees. It has responded to concerns regarding provider access by increasing its affiliation with larger “chain” type providers. A staff person dedicated to enrollment and billing issues responds quickly when member questions arise. VSP uses a significant level of automation in its enrollment process and monthly processing, which makes monthly reconciliation simpler for agencies. Therefore, no issues were raised related to renewing the Board’s approval for VSP to continue its relationship with state agencies.

Actuarial review
Deloitte Consulting, LLP (Deloitte) reviewed the VSP proposal (see Attachment B). They note that VSP has met the Guidelines requirement of a 75% loss ratio in the last three years. There has been significant claims utilization in the early months of 2013, resulting in a loss ratio over 100%.

The proposal would fix premiums for a four year period; therefore, the premiums are front-loaded. Even so, as the chart on page five of the Deloitte review shows, the aggregate loss ratio for 2014 would be 75.2%, and could reach 82.9% in 2017.

Deloitte notes that the premium rates for the KidsCare benefit enhancement are skewed toward the two coverage levels of households with children, but states that this is not inappropriate from an actuarial standpoint, given that the added value is available only to those levels. In addition, the chart on page six of the Deloitte memo shows that even with the KidsCare premium increase applied only to the two categories with children in the Active plan, the overall loss ratio is skewed slightly toward the single subscribers (.749 single vs. .814 employee + 2 or more).

Conclusion
Staff recommends the Board accept VSP’s proposed benefit enhancements and premium changes, for the period from January 1, 2014 through December 31, 2017. This will include an open enrollment for active and annuitant members coinciding with the “It’s Your Choice” enrollment period.

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

Attachments
A. VSP Cover Letter
B. VSP Proposal (Confidential)
C. Deloitte Memo

Joe Hein
Senior Account Executive

May 29, 2013

Roni Harper
State of Wisconsin, Department of Employee Trust Funds
801 W. Badger Road
Madison, WI 53713-2526

RE: VSP 2014 Plan Renewal

Dear Roni:

We are excited by the opportunity to continue to provide the State of Wisconsin with smarter vision care. As you have experienced during the past four years with VSP, we offer you and your members the best in care and service.

We know that consumers' number one priority in a vision plan is low out-of-pocket costs, and the experts at Jobson agree. Over the last year, State of Wisconsin employees and retirees saved over $680,000 on lens options thanks to VSP's cost-controls. Also 14% of frames that were priced above the $130 retail frame allowance had no out-of-pocket expense thanks to our wholesale frame pricing guarantee. This saved State of Wisconsin employees and retirees over $8,000 – money they would have had to pay under other vision plans.

Provider access, choice, and convenience are also key drivers of satisfaction with the vision plan. Your VSP members and their families always have the freedom to choose any provider. Our proposed Choice plan offers 51,000 preferred provider access points nationwide, with 734 in Wisconsin. In addition, we've contracted with Costco Optical, Visionworks, and Wisconsin Vision as affiliate providers. And with VSP Open Access[SM], your members and their families will have a generous reimbursement schedule to use at all other provider locations - including any local or national chains. In fact, we have a national arrangement with Walmart and Sam's Club that makes it simple for your employees and retirees to use their VSP benefits at any of these locations.

We appreciate the confidence you have placed in us since 2010 and look forward to our continued partnership. In accordance with the State of Wisconsin's proposal guidelines, we are providing the required documentation within the context of this renewal. If you have any questions, or if there is any additional information we can provide to assist in your review, please do not hesitate to call.

Sincerely,

Joe Hein

Deloitte.

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U.S.A.

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August 5, 2013

Ms. Roni Harper
Manager of Optional Insurance Plans and Audits
Division of Insurance Services
Wisconsin Department of Employee Trust Funds
Madison, WI 53707

Re: VSP Proposal to Change Plan Provisions and Premium Rates for Voluntary Vision Benefits

Dear Roni:

The State of Wisconsin Department of Employee Trust Funds (ETF) has requested that Deloitte Consulting LLP (Deloitte Consulting) review the voluntary insurance coverage proposal provided by VSP for voluntary vision benefit coverage. Our review relates to the assumptions provided by VSP with respect to this voluntary coverage, and the associated premium rates for that coverage.

Proposed Plan Design Change Description

VSP has proposed a change to the voluntary vision benefit plan for both the State of Wisconsin active & UW employees and the State of Wisconsin Retirees effective January 1, 2014 (proposed changes highlighted).

<table>
<tr><th>Plan Provision</th><th>Current Benefits</th><th>Proposed Benefits</th></tr>
<tr><td>Benefit Frequency of Services: Exam / Lenses / Frame</td><td>12 / 12 / 24</td><td>12 / 12 / 24</td></tr>
<tr><td>Copays</td><td>$10 Exam / $25 Materials</td><td>$15 Exam / $25 Materials</td></tr>
<tr><td colspan="3">VSP Preferred Provider Coverage</td></tr>
<tr><td>Retail Frame Allowance</td><td>$130</td><td>$130</td></tr>
<tr><td>Elective Contact Lens Fitting/Evaluation</td><td rowspan="2">$105 towards contact lens materials, fitting & evaluation. Fitting/evaluation discounted 15%</td><td>Discounted 15% with maximum copay of $60</td></tr>
<tr><td>Elective Contact Lens Materials</td><td>$130</td></tr>
<tr><td>Covered Lens Options</td><td>Scratch-Resistant Coating</td><td>Scratch-Resistant Coating</td></tr>
</table>

Plan Provision	Current Benefits	Proposed Benefits
Non-Covered Lens Options	Cost controls averaging 20%-25% off provider's U&C fees.	Cost controls averaging 20%-25% off provider's U&C fees.
Other Coverage	Affiliate Provider Coverage	Affiliate Provider Coverage. VSP KidsCare Program (detail provided below).
Open Access Provider Maximum Reimbursement Allowance		
Examination	$40	$45
Single Vision Lenses	$33	$33
Bifocal Lenses	$50	$50
Trifocal Lenses	$66	$66
Frame	$45	$70
Elective Contact Lens Allowance	$105	$105
Monthly Premium Rates		
Actives & UW Employees	2013 Rates: $5.24 / $10.49 / $11.23 / $17.93	2014-2017 Rates: $6.35 / $12.70 / $14.30 / $22.85
Retirees	2013 Rates: $6.16 / $12.32 / $12.32 / $14.50	2014-2017 Rates: $7.30 / $14.60 / $14.60 / $17.15

The VSP KidsCare Program noted above as part of the proposed plan is designed to meet the eye care and eyewear demands for children:

Plan Provision	KidsCare Benefits
Plan Frequency	• Exam: 12 Months • Lens: 12 Months • Frame: 12 Months • Contact Lenses: 12 Months

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Plan Provision	KidsCare Benefits
Exam Services	• Two covered-in-full comprehensive eye exams that test for eye health and vision issues that can begin during childhood, like nearsightedness, amblyopia (lazy eye), and strabismus
Lenses	• Lenses covered-in-full (less any applicable copay), including child-friendly, impact-resistant polycarbonate lenses • Option to cover photochromic lenses (e.g., Transitions®), a great choice for kids that offers UV protection and the versatility of one pair of glasses for all environments • Discounts on non-covered lens options • Additional lenses covered-in-full when needed
Frame	• Frames covered-in-full (less any applicable copay) up to your current retail allowance • 20% off any amount above the retail allowance
Additional Pairs of Glasses	• 20-30% off unlimited additional pairs of prescription glasses • Option to purchase additional repair program

Plan Experience & Loss Ratios

Per the requirements of the Group Insurance Board's guidelines for optional plans, optional plans must maintain a loss ratio of at least 75%.

The following table summarizes the plan's loss ratio experience for 2010, 2011, 2012, and YTD 2013 (2 months of data for 2013):

Plan Year	Loss Ratio (Claims ÷ Premiums)		
	Actives	Annuitants	Total
2010	0.904	0.754	**0.886**
2011	0.881	0.660	**0.853**
2012	0.837	0.636	**0.810**
2013	1.094	0.754	**1.047**

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Historically the plan has met the minimum 75% loss ratio requirement. Clearly there has been a significant increase in claims experience thus far in 2013, an increase not related to monthly claims seasonality, but rather indicative of an increase in underlying claims utilization.

Given the size of the covered populations (15,000 active employees, 2,600 annuitants), even two months of claims experience under a vision benefit exhibits a reasonably high level of credibility for purposes of claims projection estimates.

Projected Claims Experience & Premiums

VSP has proposed plan design changes for the four-year period beginning 2014. Based on the Deloitte Vision Rate Model, we have estimated expected paid claims trend for each year inclusive of the plan design change between 2013 and 2014:

Plan Year	Active Claims Trend	Annuitant Claims Trend
2013 to 2014	11.4%	6.4%
2014 to 2015	3.2%	3.2%
2015 to 2016	3.4%	3.4%
2016 to 2017	3.3%	3.3%

Premiums from 2013 to 2014-2017 (rates will be fixed for the 2014-2017 period) are proposed to increase by:

Plan Year	Active Claims Trend	Annuitant Claims Trend
2013 to 2014	24.1%	18.4%
2014 to 2015	0.0%	0.0%
2015 to 2016	0.0%	0.0%
2016 to 2017	0.0%	0.0%

Such a multi-year fixed premium arrangement will produce a lower loss ratio in 2014, increasing each year thereafter.

While the YTD claims experience for 2013 is expected to be reasonably credible, we have nonetheless blended it with prior experience (prior 12 months) for projection purposes, producing annual expected loss ratios of:

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Plan Year	Projected Loss Ratio (Claims ÷ Premiums)		
	Actives	Annuitants	Total
2014	0.782	0.550	**0.752**
2015	0.807	0.568	**0.776**
2016	0.835	0.587	**0.802**
2017	0.862	0.607	**0.829**
Average 2014 - 2017	0.822	0.578	**0.789**

As the VSP plan is a single design offered to both active employees and annuitants, we have based our estimation of loss ratio adequacy on the blended active and annuitant population, consistent with the rate and loss ratio treatment for the 2010, 2011, 2012, and 2013 plan years.

Premium Increase Differences by Coverage Tier

Finally, with respect to the relative differences in the proposed rates by coverage tier, the rate increases for active employees are skewed toward the Employee + 1 Child and Employee + 2 or More Dependent tiers.

Covered Group	Proposed Premium Rate Increase by Coverage Tier			
	EE	EE + Spouse	EE + 1 Child	EE + 2 or More
Actives	21.2%	21.1%	27.3%	27.4%
Annuitants	18.5%	18.5%	18.5%	18.3%

The proposed rate increases for active employees reflects a larger increase for the coverage tiers that include children, corresponding approximately with the relative increase in benefits for children per the KidsCare benefits. This is to be expected given these KidsCare benefit enhancements, and does not represent actuarially an inappropriate approach to the rate renewal (versus a level percentage increase across all coverage tiers, which would also not be considered actuarially inappropriate). When looking at the actuarially expected claims versus premium rates by coverage tier, the following expected loss ratios for active employees by coverage tier are estimated for 2014:

Covered Group	2014 Projected Loss Ratio (Claims ÷ Premiums)			
	EE	EE + Spouse	EE + 1 Child	EE + 2 or More
Actives	0.749	0.754	0.813	0.814
Annuitants	0.471	0.474	0.438	0.737
Total	0.713	0.717	0.764	0.804

Even though the loss ratio for the Employee Only coverage tier is slightly less than 75%, assessments of loss ratios are typically conducted on an aggregate basis across all coverage tiers, and not at the coverage tier level. Thus, as long as the premium rates generate in aggregate sufficient revenue to cover claims and admin expenses, the plan would be sufficiently funded. In this case, since the aggregate loss ratio for actives is 0.782 in 2014 (and continuingly higher thereafter), the plan can be viewed as being sufficiently funded per the 75% requirement. Similarly, in aggregate across actives and annuitants, the overall loss ratio is 0.752. As such, actuarially, the differences in rate increases by coverage tier are not viewed as being actuarially unsound.

Summary

Thus, based on Deloitte's actuarial review, the premiums proposed compared to the benefits provided reflect annual loss ratios in aggregate of at least 75% per year during the period 2014 through 2017.

It should be recognized that because future events frequently do not occur exactly as expected, there are usually differences between projected and actual results. For example, actual experience may differ from assumptions, including but not limited to those for claim costs, trends and non-benefit expenses. Accordingly, there can be no assurance that the ETF's actual experience will match the estimates provided by VSP.

Once you have had an opportunity to review this information, please do not hesitate to contact me at (312) 486-0200 or via e-mail at dplante@deloitte.com with any questions.

Sincerely,

Daniel R. Plante, ASA, FCA, MAAA

cc: Timothy D. Gustafson, FSA, MAAA