



State of Wisconsin

Self-Insured State Medical and Prescription Drug Plans

2015 Rate Development

REVISED

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Table of Contents

• Overview	2
• Prescription Drug Plan	3
• Standard PPO Plan	6
• State Maintenance Plan	8
• Medicare Plus Plan	11
• Net Fund Balance	13
• Appendices	
– Final Rates	
– Plan Descriptions	
– Key Metrics	

Overview

Overall, premium rates will be increasing by varying amounts for 2015. Prescription drug claims experience is running higher than expected. In addition, due to previous Net Fund Balance buy-downs and a recommended \$20.0 million Net Fund Balance buy-down in 2015, the prescription drug premiums will result in a 17.9% rate increase. Medical claims experience is running as expected, requiring a slightly higher than trend 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.

- Prescription Drugs

- The overall prescription drug claims experience was higher than expected. In conjunction with previous Net Fund Balance buy-downs, a \$20.0 million reduction from the Net Fund Balance will result in a prescription drug rate increase of 17.9%.

- Standard PPO Plan

- The Standard PPO medical claims experience was slightly higher than expected and overall projected an 11.7% increase (including prescription drugs). We are recommending an 11.7% 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 2015, SMP will be needed in 8 counties (changes from 2014 include Pepin county will no longer offer SMP and Vilas will offer SMP).
- 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 11.7% (including prescription drugs).

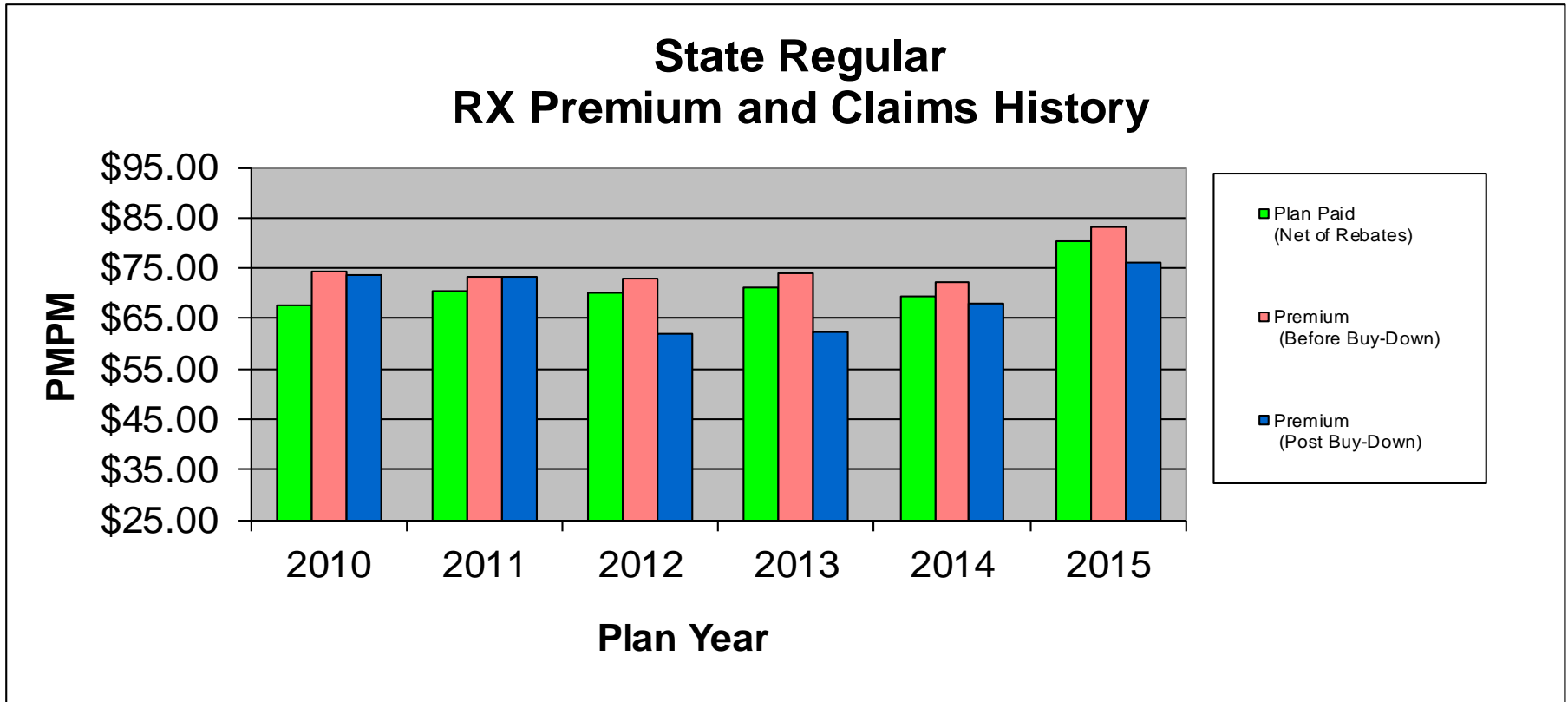
- Medicare Plus Plan

- The Medicare Plus plan medical claims experience is better than expected. However, due to the large prescription drug rate increase for the population, the Medicare Plus plan projected a 10.4% overall increase. We are recommending 10.4% increase with no explicit medical Net Fund Balance contribution.

Prescription Drug Plan

- 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, 2013 through June 30, 2014. This projection is based on the claims data, administrative fees, drug rebate estimates and Medicare drug subsidy estimates supplied by Navitus.
- A 2014-2015 average trend rate assumption of 8.2% is used in our projection.
 - Last year, to develop the 2014 rates, we utilized a 3.9% trend based on historical program experience and Navitus projected future trends.
- For 2015, the prescription drug rates are projected to increase 28.7% without utilizing any of the Net Fund Balance.
 - For 2014, a \$20.5 million reduction from the Net Fund Balance was used to achieve a 10.9% increase from the 2013 rates.
 - Utilizing fund balance is a temporary one-year premium reduction and the large Net Fund Balance buy-down in 2014 is driving the large rate increase needed for 2015.
- We discussed several strategies for the Net Fund Balance buy-down for 2015 and chose to recommend a scenario that would apply a \$20.0 million reduction from the Net Fund Balance to achieve an aggregate prescription drug rate increase of 17.9% compared to the 2014 rates, varying by group category.
 - Following this buy-down strategy, the fund balance is expected to be sufficient to protect against unfavorable claim cost and investment experience in 2015.

Prescription Drug Plan



Notes:
2014 Plan Paid PMPM based on actual experience through 6/30/14 and projected experience for the rest of the year
2015 Plan Paid PMPM based on projected experience and Net Fund Balance buy down of \$20.0 million.

Prescription Drug Plan Rates

The recommended rate increase for the prescription drug plans is 17.9% after utilizing Net Fund Balance buy-down.

	<u>Rate Change</u>	<u>2015</u> <u>Single Rates</u>	<u>2014</u> <u>Single Rates</u>
Non-Medicare			
HMO	16.3%	\$ 90.50	\$ 77.80
HMO Grad	12.5%	35.50	31.60
Standard	6.5%	160.93	158.90
SMP	31.1%	88.58	73.80
Medicare			
Medicare HMO	21.3%	\$ 158.90	\$ 131.00
Medicare Plus	21.3%	168.20	145.40

Standard PPO Plan

- The Standard plan continues to see enrollment drop and has seen an approximate 9.1% reduction in the number of members since last year's rating.
- The Standard plan experience is credible with approximately 1,870 members. The medical claims experience has been running better than expected with a 10.7% observed annual trend.
 - WPS corporate trend is 10.8% for this population.
- For purposes of this rate calculation we used a trend rate assumption of 9.6%, blending lower industry-wide PPO benchmarks in the 8 – 9% trend range with the WPS trends.
- The medical-only administrative expenses will decrease from \$39.88 PCPM in 2014 to \$39.11 PCPM in 2015.
 - 2015 Affordable Care Act (ACA) reinsurance fees included in the administrative expenses decreased from \$62 PMPY (or \$11.51 PCPM) in 2014 to \$44 PMPY (or \$8.17 PCPM).
- Overall Standard plan medical and prescription drug rates are projected to increase 11.7% for 2015.
 - Medical-only rates are projected to increase approximately 12.2% for 2015.
 - Prescription drug rates are projected to increase approximately 6.5% for 2015.
- We recommend an 11.7% increase with no explicit medical Net Fund Balance contribution for 2015.
- Beginning January 1, 2015 a High Deductible Health Plan (HDHP) will be offered to active members, excluding graduate assistants. Similar to the HMO plans, the HDHP rate must be 0.875 times the regular rate.

Standard PPO Plan Rates

The recommended rate increase for 2015 is 11.7%.

	<u>2015 Rates</u>	<u>2014 Rates</u>
Standard PPO		
Single	\$ 1,392.80	\$ 1,246.70
Family	3,477.80	3,113.00
Standard PPO Grads		
Single	\$ 1,048.60	\$ 938.60
Family	2,617.30	2,342.70
High Deductible Health Plan (Non-Grads)		
Single	\$ 1,222.40	N/A
Family	3,049.70	N/A

State Maintenance Plan (SMP)

- 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 8 counties in 2015.
 - 8 in 2014, 8 in 2013, 8 in 2012, 9 in 2011
 - SMP currently has approximately 40 contracts and 90 members.
- SMP has seen a 27% 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 as expected.
- We employed a 9.6% trend assumption in setting the 2015 rates, similar to the Standard PPO plan.
- Given that the SMP experience is not fully credible we recommend an 11.7% increase with no explicit medical Net Fund Balance contribution for 2015, consistent with the Standard PPO plan.
- Beginning January 1, 2015 a High Deductible Health Plan (HDHP) will be offered to active members, excluding graduate assistants. Similar to the HMO plans HDHP rate must be 0.875 times the regular rate.

State Maintenance Plan Rates

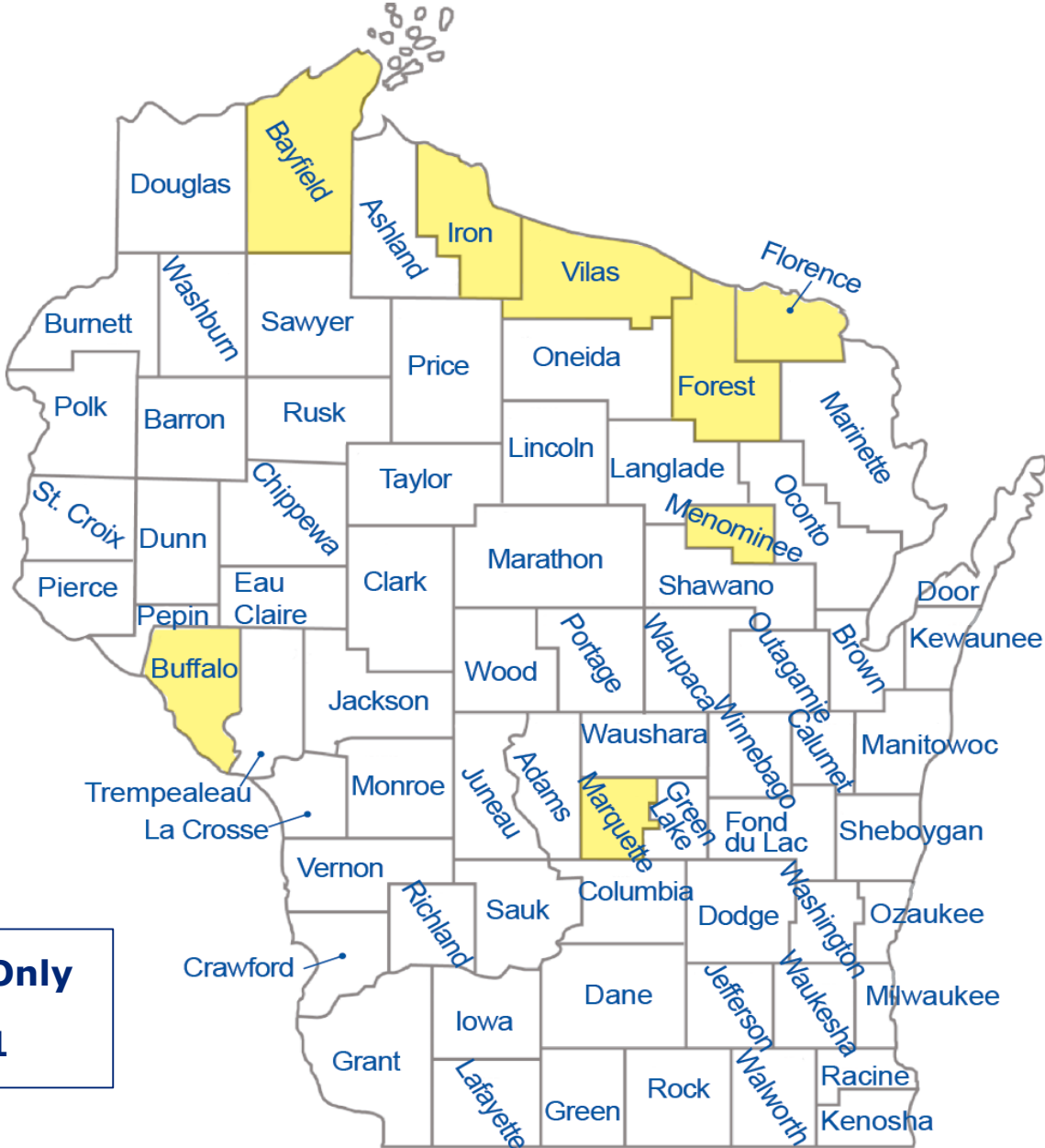
The overall recommended rate increase for 2015 is 11.7%.

	<u>2015 Rates</u>	<u>2014 Rates</u>
SMP		
Single	\$ 862.00	\$ 771.60
Family	2,150.20	1,924.60
SMP Grads		
Single	\$ 651.60	\$ 583.20
Family	1,624.40	1,454.00
High Deductible Health Plan (Non-Grads)		
Single	\$ 757.40	N/A
Family	1,887.30	N/A

SMP will be offered in the following counties next year:

Bayfield	Forest	Menominee
Buffalo	Iron	Vilas
Florence	Marquette	

State Map



	SMP Only
	Tier 1

Medicare Plus Plan

- The Medicare Plus plan has seen a slight decrease in enrollment, approximately 1.2% in the number of members, since last year's rating.
- The Medicare Plus plan experience is credible with approximately 8,840 members. The medical claims experience has been running better than expected with a 1.8% observed annual trend.
 - WPS corporate trend is 5.7% for this population.
- We used a 5.0% medical trend assumption for setting next year's rate, blending the observed and WPS corporate trends, as well as other national industry benchmark trends.
- Overall Medicare Plus plan medical and prescription drug rates are projected to increase 10.4% for 2015.
 - The medical rates are estimated to increase by approximately 1.5% for 2015.
 - The prescription drug rates are estimated to increase by approximately 35.0% for 2015. A \$1.9 million reduction from the Net Fund Balance will be used to achieve an aggregate prescription drug rate increase of 21.3% compared to the 2014 rates.
 - In 2014, a \$2.3 million reduction from the Net Fund Balance was used to achieve an aggregate prescription drug rate increase of 28.6% compared to the 2013 rates.
 - Utilizing fund balance is a temporary one-year premium reduction and the large Net Fund Balance buy-down from 2014 is driving the large rate increase needed for 2015.
 - The projected EGWP drug subsidy, factored into this rating, assumes a subsidy of approximately \$74 PMPM for 2015 which increased from \$71 PMPM for 2014.

Medicare Plus Plan Rates

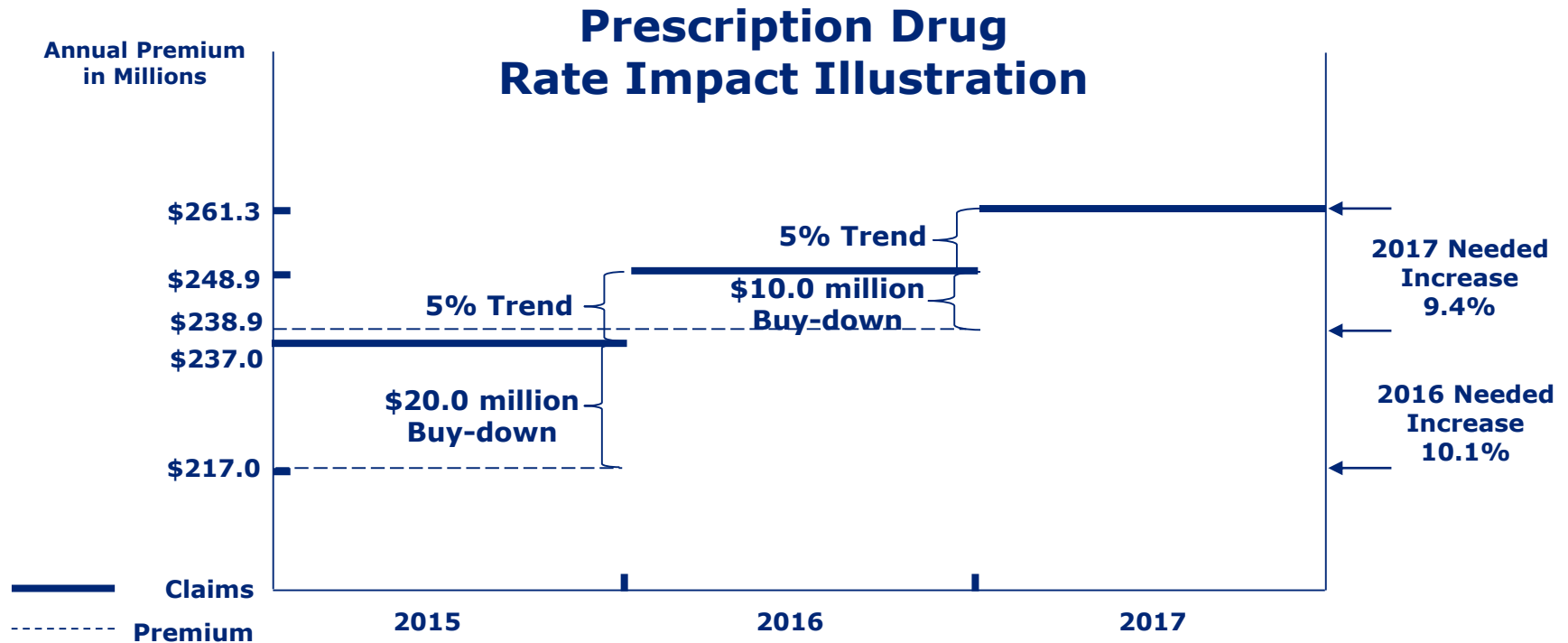
The overall recommended rate increase for 2015 is 10.4%.

	<u>2015 Rates</u>	<u>2014 Rates</u>
Single	\$ 365.00	\$ 330.60
Family (2- Eligible)	725.70	657.40

Net Fund Balance

- 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.
- 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 23.5% (in the target range) for the Medical and Prescription Drug programs combined before any buy-down actions this year.
- We discussed several strategies for the Net Fund Balance buy-down for 2015 and chose to recommend a scenario that would:
 - Not apply any explicit buy-downs for the Medical plans.
 - Apply a \$20.0 million buy-down to the Prescription Drug plan, which will reduce the combined Medical and Prescription Drug Net Fund Balance ratio to approximately 19.9%.
- A \$20.0 million reduction from the Net Fund Balance will be used to reduce the prescription drug rates from a 28.7% to a 17.9% increase compared to the 2014 rates.
 - Utilizing fund balance is a temporary one-year premium reduction.
- Following this buy-down strategy, the fund balance is expected to be sufficient to protect against unfavorable claim cost and investment experience in 2015.

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 \$20.0 million in year 1 and a smaller amount in year 2 will help mitigate the expected premium rate increases

Net Fund Balance

	6/30/2014	6/30/2013	6/30/2012	6/30/2011	6/30/2010
MEDICAL (in millions)					
Cash Balance ⁽¹⁾	70.3	62.3	57.4	57.3	55.4
Incurred But Not Report Claim Liability (IBNR)	(4.9)	(4.2)	(5.3)	(5.7)	(6.7)
Net Fund Balance	65.4	58.1	52.1	51.6	48.7
	6/30/2014	6/30/2013	6/30/2012	6/30/2011	6/30/2010
PHARMACY (in millions)					
Cash Balance	42.0	40.7	66.7	77.5	65.4
Estimated Accrued Drug Rebates	16.4	13.3	11.4	12.3	12.3
Estimated Accrued Medicare Part D Subsidy	8.4	10.9	7.9	5.1	5.2
Navitus Advance	4.2	6.3	10.5	11.9	11.9
ERRP Reimbursement ⁽²⁾	0.0	13.1	12.6	14.2	0.0
Projected Future Cash Balance⁽¹⁾	70.9	84.3	109.1	121.0	94.8
IBNR ⁽³⁾	(4.7)	(4.3)	(3.9)	(4.1)	(4.0)
Net Fund Balance	66.2	80.1	105.2	116.8	90.8

⁽¹⁾ Source: Department of Employee Trust Funds

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

⁽³⁾ 2014 RX IBNR is estimated at one week of claims

Appendix I

Final Rates

Standard and SMP Rate Comparison

State Active								
2014 Rates								
	REGULAR				GRADUATE ASSISTANTS			
	Standard Plan		SMP		Standard Plan		SMP	
	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	\$30.22	\$70.16	\$26.68	\$61.29	\$38.12	\$89.89	\$26.68	\$61.29
TOTAL	\$1,246.70	\$3,113.00	\$771.60	\$1,924.60	\$938.60	\$2,342.70	\$583.20	\$1,454.00

State Active								
2015 Rates								
	REGULAR				GRADUATE ASSISTANTS			
	Standard Plan		SMP		Standard Plan		SMP ⁽¹⁾	
	Single	Family	Single	Family	Single	Family	Single	Family
Medical Claim Cost	\$1,201.88	\$3,006.73	\$747.69	\$1,870.65	\$893.59	\$2,236.00	\$559.44	\$1,400.21
Rx Claim Cost	\$160.93	\$402.33	\$88.58	\$221.45	\$118.65	\$296.62	\$66.43	\$166.09
Expenses ⁽²⁾	\$29.99	\$68.74	\$25.73	\$58.10	\$36.36	\$84.68	\$25.73	\$58.10
TOTAL ⁽³⁾	\$1,392.80	\$3,477.80	\$862.00	\$2,150.20	\$1,048.60	\$2,617.30	\$651.60	\$1,624.40
Change	11.7%	11.7%	11.7%	11.7%	11.7%	11.7%	11.7%	11.7%
Change	11.7%		11.7%		11.7%		11.7%	

(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 \$4.15
- B) Wellness Contract Administrative Fee of \$0.80
- C) ACA Reinsurance Fee of \$8.17
- D) Medical Expense Fee of \$25.99
- E) Navitus Expense Fee of \$8.20
- 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				
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	\$31.10	\$58.60	\$70.16	\$61.29
TOTAL	\$330.60	\$657.40	\$1,586.20	\$1,106.50

Medicare Plus				
2015 Rates				
	Single	Family	Family + 1 (Non-Medicare eligible in)	
			Standard Plan	SMP
Medical Claim Cost	\$166.27	\$332.41	\$1,368.23	\$915.53
Rx Claim Cost	\$168.20	\$336.39	\$329.13	\$256.77
Expenses ⁽¹⁾	\$30.53	\$56.90	\$68.74	\$58.10
TOTAL ⁽²⁾	\$365.00	\$725.70	\$1,766.10	\$1,230.40
Change	10.4%		11.3%	11.2%

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

- A) ETF Administrative Fee of \$4.15
- B) Wellness Contract Administrative Fee of \$0.80
- C) ACA Reinsurance Fee of \$8.17
- D) Medical Expense Fee of \$18.56
- E) Navitus Expense Fee of \$8.20
- 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 PPO Plan Design

- 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-Preferred Specialty Drugs do not count towards OOPL
 - A reduced Level 4 copay of \$15 is available for Preferred 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

Standard PPO Plan

High Deductible Health Plan Design

Preferred Provider

- Medical Benefit
 - Deductible: \$1,700 Single, \$3,400 Family (must be met first)
 - 90/10% Coinsurance
 - OOP: \$3,500 Single, \$7,000 Family
 - Combined medical and pharmacy, includes deductible
 - ER Copay \$75
 - Applies to OOP and is limited by OOP
- Drug Benefit (non-specialty)
 - \$5 Level 1 Copay (after deductible is met)
 - \$15 Level 2 Copay (after deductible is met)
 - \$35 Level 3 Copay (after deductible is met)
- Specialty Medications
 - Preferred Pharmacy: \$15 Copay
 - Non-Preferred Pharmacy: \$50 Copay

Non-Preferred Provider

- Medical Benefit
 - Deductible: \$2,000 Single, \$4,000 Family (must be met first)
 - 70/30% Coinsurance
 - OOP: \$3,800 Single, \$7,600 Family
 - Combined medical and pharmacy, includes deductible
 - ER Copay \$75
 - Applies to OOP and is limited by OOP
- Drug Benefit (non-specialty)
 - \$5 Level 1 Copay (after deductible is met)
 - \$15 Level 2 Copay (after deductible is met)
 - \$35 Level 3 Copay (after deductible is met)
- Specialty Medications
 - Preferred Pharmacy: \$15 Copay
 - Non-Preferred Pharmacy: \$50 Copay

State Maintenance Plan Design

UNIFORM BENEFITS

- Medical Benefit
 - 90/10% Coinsurance
 - DME and hearing aids remain at 80/20% coinsurance
 - OOPL: \$500 Single, \$1000 Family
 - ER Copay \$75, 90% coinsurance thereafter to OOPL
- Drug Benefit (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-Preferred Specialty Drugs do not count towards OOPL
 - A reduced Level 4 copay of \$15 is available for Preferred 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

High Deductible Health Plan Design

- Medical Benefit
 - Deductible: \$1,500 Single, \$3,000 Family (must be met first)
 - 90/10% Coinsurance
 - OOP: \$2,500 Single, \$5,000 Family
 - Combined medical and pharmacy, includes deductible
 - ER Copay \$75
 - Applies to OOP and is limited by OOP
- Drug Benefit (non-specialty)
 - \$5 Level 1 Copay (after deductible is met)
 - \$15 Level 2 Copay (after deductible is met)
 - \$35 Level 3 Copay (after deductible is met)
- Specialty Medications
 - Preferred Pharmacy: \$15 Copay
 - Non-Preferred Pharmacy: \$50 Copay

Medicare Plus Plan Design

- 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-Preferred Specialty Drugs do not count towards OOPL
 - A reduced Level 4 copay of \$15 is available for Preferred 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

Prescription Drug Plans				
	Members	Trend	2015 Claims PMPM ⁽¹⁾	2015 PCPM Expenses
HMO Regular and Grads	176,095	8.20%	\$ 76.96	\$ 8.20
HMO Medicare	21,828	8.20%	165.63	8.20
Standard PPO and Grads	1,759	8.20%	154.72	8.20
SMP and Grads	267	8.20%	84.35	8.20
Medicare Plus	8,091	8.20%	185.32	8.20

Self-Funded Medical Plans			
	Trend	2015 Claims PMPM ⁽¹⁾	2015 PCPM Expenses
Standard PPO and Grads	9.6%	\$ 1005.11	\$ 25.99
SMP	9.6%	663.15	25.99
Medicare Plus	5.0%	166.18	18.56

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

Key Metrics

	Rx Rate Change	Rx Single Rate
HMO Active	16.3%	\$ 90.50
HMO Grads	12.5%	35.50
HMO Medicare	21.3%	158.90
Standard Plan	6.5%	169.20
SMP	31.1%	96.80
Medicare Plus	21.3%	176.40

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