



STATE OF WISCONSIN
Department of Employee Trust Funds
Robert J. Conlin
SECRETARY

801 W Badger Road
PO Box 7931
Madison WI 53707-7931

1-877-533-5020 (toll free)
Fax (608) 267-4549
<http://etf.wi.gov>

CORRESPONDENCE MEMORANDUM

DATE: August 4, 2014
TO: Group Insurance Board
FROM: Roni Harper, Manager, Optional Plans and Audits
Mary Statz, Director, Health Benefits and Insurance Plans Bureau
SUBJECT: Vision Service Plan (VSP) proposal to adjust premiums

Staff recommends the Group Insurance Board (Board) approve the proposal to increase premiums for VSP Choice Plans for active employees by 3%, and to decrease premiums for annuitants by 10%, for 2015 through 2017. 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 Board Approval for Payroll Deduction Authorization (Guidelines for Optional Plans).

VSP has provided voluntary vision benefit coverage since January 2010. VSP offers separate plans for active employees and annuitants. Enrollment increased from 15,121 in 2011 to more than 18,000 in 2013, with more than 55 Wisconsin state agencies participating. During the first three years of its contracts with state agencies, VSP's combined loss ratio averaged 82.5%. At the August 2014 Board meeting, the Board approved renewing the plan, modifying benefits, and increasing premiums to be effective January 1, 2014 through December 31, 2017.

Proposed Changes

VSP proposes (Attachment A) to increase premiums for Active members by 3% effective January 1, 2015, through December 31, 2017, in order to offset the Health Insurance Provider Fee (HIPF), a tax implemented as part of the Affordable Care Act (ACA). VSP proposes to decrease premiums for the Annuitant plan by 10%. The resulting rate changes would be:

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

Electronically Signed:
08/11/2014

Board	Mtg Date	Item #
GIB	8.26.14	7C

Premium Category Monthly	2014 Active Rate	Proposed Active Rate	2014 Annuitant Rate	Proposed Annuitant Rate
Single	\$6.35	\$6.54	\$7.30	\$6.60
Member + Spouse or Domestic Partner	\$12.70	\$13.08	\$14.60	\$13.20
Member + Child(ren)	\$14.30	\$14.73	\$14.60	\$13.20
Family	\$22.85	\$23.54	\$17.15	\$15.50

Discussion

VSP has seen steady growth in subscribers since 2010, with a doubling of the retiree participation. For an outline of coverage and rates, see Attachment B.

VSP is proposing this premium increase for the Active plan as the company seeks to address industry-wide fees associated with the ACA. By implementing this 3% increase for 2015, VSP proposes to hold premiums steady through 2017.

For the Annuitant plan, initial experience showed that the recent premium increase overestimated utilization. Because of this, VSP is able to offer a 10% decrease in premiums for the Annuitant plan.

Actuarial review

Deloitte Consulting, LLP (Deloitte) reviewed the VSP proposal (Attachment C). They note that VSP has met the Guidelines requirement of a 75% loss ratio in the last four years for the Active plan. Deloitte also noted that the Annuitant plan has performed at loss ratio below 70% since 2011. They concur that the 3% ACA HIPF will likely grow, and therefore find the proposal to raise the premiums on the Active plan and decrease the Annuitant plan premiums by 10%, to be reasonable. With the premium increase, Deloitte projects the loss ratio to be 77.3% in 2015 and rise to 81.8% through 2017.

Conclusion

Staff recommends the Board accept VSP’s proposed premium increase of 3% for the Active plan, and premium decrease of 10% for the Annuitant plan, for the period from January 1, 2015 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 Proposal
 B: VSP Plan Design and Rates Summary
 C: Deloitte Memo



June 26, 2014

Ms. Roni Harper
Manager of Optional Insurance Plans and Audits
State of Wisconsin Department of Employee Trust Funds

Dear Roni:

Per our recent email and telephone communications, VSP is requesting your review of our proposed rate changes effective 1/1/15 and extending through the remaining 36 months of the current contract term. The attached documentation will provide additional information around the necessity for this change.

We have been tasked with increasing the rates for all fully-insured clients by 3% effective 1/1/15. Following our recent discussions, VSP conducted a review of the plan experience for both the State Retirees/Annuitants and for the Active State Employees. Our goal was to determine whether existing utilization data supports absorbing the additional 3% rather than increasing the rates. The plan experience for the Active State Employees does not allow this opportunity unfortunately, so we must request the full 3% increase. However, the Retirees/Annuitants plan is currently experiencing lower than projected utilization – allowing us to offer a net 10% rate decrease for that plan instead. Current plan experience reports for both Active Employees and Retirees/Annuitants are attached for your review.

It is our hope that the attached exhibits will provide sufficient evidence for Board review and approval, but if there is anything else that is needed from VSP in support of this proposal we will be pleased to assist.

Cordially,

David Ettipio, Market Director
Brian Nichelmann, Senior Account Manager

Attachment A



**State of Wisconsin Active & UW Employees
Policy #30015310, 30015848, & 30027840
Fully-Insured Three Year Rates – Effective 01/01/15**

	Initial Benefits (2013 Plan Rates)	Plan Renewal (2014 Plan/Rates)	2015 ACA Tax Adjustment
Benefit – Frequency of Services: Exam / Lenses / Frame	VSP Choice Enhanced Plan B (12/12/24)	VSP Choice Enhanced Plan B (12/12/24)	VSP Choice Enhanced Plan B (12/12/24)
Copays	\$10 Exam / \$25 Materials	\$15 Exam / \$25 Materials	\$15 Exam / \$25 Materials
VSP Preferred Provider Coverage			
Retail Frame Allowance	\$130	\$130	\$130
Elective Contact Lens Fitting/Evaluation	\$105 towards contact lens materials, fitting & evaluation.	Discounted 15% with maximum member copay of \$60.	Discounted 15% with maximum member copay of \$60.
Elective Contact Lens Materials	Fit/Eval discounted 15%.	\$130	\$130
Covered Lens Options	Scratch-Resistant Coating	Scratch-Resistant Coating	Scratch-Resistant Coating
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.	Cost controls averaging 20- 25% off provider's U&C fees.
Other Coverage	Affiliate Provider Coverage.	Affiliate Provider Coverage. VSP KidsCare Program.	Affiliate Provider Coverage. VSP KidsCare Program.
Open Access Provider Maximum Reimbursement Allowances			
Examination	\$40	\$45	\$45
Single Vision Lenses	\$33	\$33	\$33
Bifocal Lenses	\$50	\$50	\$50
Trifocal Lenses	\$66	\$66	\$66
Frame	\$45	\$70	\$70
Elective Contact Lens Allowance	\$105	\$105	\$105
Monthly Rates *	\$5.24 / \$10.49 / \$11.23 / \$17.93	\$6.35 / \$12.70 / \$14.30 / \$22.85	\$6.54 / \$13.08 / \$14.73 / \$23.54

* Monthly Rates assume:

- Continued VSP-administered annual enrollment and ongoing TPA Services for Active Employees & Retirees.
- Continued exclusion of VSP-administered annual enrollment and ongoing TPA Services for UW Employees.



**State of Wisconsin Retirees
Policy #30015309
Fully-Insured Three Year Rates – Effective 01/01/15**

<Green cells indicate change from current benefits coverage>	Current Benefits (2013 Plan Rates)	Proposed Renewal (2014 Plan/Rates)	2015 ACA Tax Adjustment	N/A
Benefit – Frequency of Services: Exam / Lenses / Frame	VSP Choice Enhanced Plan B (12/12/24)	VSP Choice Enhanced Plan B (12/12/24)	VSP Choice Enhanced Plan B (12/12/24)	
Copays	\$10 Exam / \$25 Materials	\$15 Exam / \$25 Materials	\$15 Exam / \$25 Materials	
VSP Preferred Provider Coverage				
Retail Frame Allowance	\$130	\$130	\$130	
Elective Contact Lens Fitting/Evaluation	\$105 towards contact lens materials, fitting & evaluation.	Discounted 15% with maximum member copay of \$60.	Discounted 15% with maximum member copay of \$60.	
Elective Contact Lens Materials	Fit/Eval discounted 15%.	\$130	\$130	
Covered Lens Options	Scratch-Resistant Coating	Scratch-Resistant Coating	Scratch-Resistant Coating	
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.	Cost controls averaging 20- 25% off provider's U&C fees.	
Other Coverage	Affiliate Provider Coverage.	Affiliate Provider Coverage. VSP KidsCare Program.	Affiliate Provider Coverage. VSP KidsCare Program.	
Open Access Provider Maximum Reimbursement Allowances				
Examination	\$40	\$45	\$45	
Single Vision Lenses	\$33	\$33	\$33	
Bifocal Lenses	\$50	\$50	\$50	
Trifocal Lenses	\$66	\$66	\$66	
Frame	\$45	\$70	\$70	
Elective Contact Lens Allowance	\$105	\$105	\$105	
Monthly Rates*	\$6.16 / \$12.32 / \$12.32 / \$14.50	\$7.30 / \$14.60 / \$14.60 / \$17.15	\$6.60 / \$13.20 / \$13.20 / \$15.50	

* Monthly Rates assume:

- Continued VSP-administered annual enrollment and ongoing TPA Services for Active Employees & Retirees.
- Continued exclusion of VSP-administered annual enrollment and ongoing TPA Services for UW Employees.

July 24, 2014

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 for active employees and annuitants (retirees). 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 premium rates for both the State of Wisconsin active & UW employees and the State of Wisconsin Retirees effective January 1, 2015.

Covered Group	Current 2014 Rates	Proposed 2015 Rates
Monthly Premium Rates		
Actives & UW Employees	2014 Rates: \$6.35 / \$12.70 / \$14.30 / \$22.85	2015-2017 Rates: \$6.54 / \$13.08 / \$14.73 / \$23.54
Retirees	2014 Rates: \$7.30 / \$14.60 / \$14.60 / \$17.15	2015-2017 Rates: \$6.60 / \$13.20 / \$13.20 / \$15.50

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, 2013, and YTD 2014 (5 months of data for 2014):

Plan Year	Loss Ratio (Claims ÷ Premiums)		
	Actives	Annuitants	Total
2010	0.904	0.754	0.886
2011	0.881	0.660	0.853
2012	0.838	0.636	0.811
2013	0.834	0.637	0.807
2014	0.789	0.579	0.761

Historically the plan has met the minimum 75% loss ratio requirement. There has been an increase in both active employee and annuitant claims per member per month thus far in 2014.

Given the size of the active covered population (16,000+ active members), five months of claims experience year-to-date 2014 under a vision benefit exhibits a reasonably high level of credibility for purposes of claims projection estimates (actuarially assessed as being 100% credible). For the annuitant group, the covered member population is approximately 2,700, which reflects a less than fully credible group for purposes of claims projection estimates (actuarially assessed as being 72% credible).

Projected Claims Experience & Premiums

VSP has proposed rate changes (active and annuitant) for the three-year period beginning 2015. For the active participants, VSP has requested an increase of 3.0% from 2014 to 2015; this increase reflects the contractual maximum increase allowed. For the annuitants, VSP has recommended a 10% rate decrease.

Given the increasing Health Insurer Provider Fees (HIPF) under health reform, VSP will experience additional costs that would require an increase in their retention not contemplated in the original contractual rate arrangement with the State.

Plan Year	ACA HIPF Load
2014	2.7%
2015	3.8%
2016	3.8%
2017	4.7%

Based on the increases in the HIPF for the period 2015 through 2017, plus an assumed claims trend of 2.9%, the 3% rate increase requested by VSP for the active population,

and the 10% rate decrease requested by VSP for the annuitant population, Deloitte has estimated the following loss ratios for 2015 through 2017:

Plan Year	Loss Ratio (Claims ÷ Premiums)		
	Actives	Annuitants	Total
2015	0.788	0.662	0.773
2016	0.811	0.681	0.795
2017	0.834	0.700	0.818

Based on the increases in the HIPF for the period 2015 through 2017, plus an assumed claims trend of 2.9%, the 3% rate increase requested by VSP for the active population seems reasonable.

With respect to the annuitant population, while the claims experience has been increasing, the loss ratio continues to fall well below the required 75% minimum. Under the same assumed claims trend of 2.9% per year, and the HIPF under ACA, a rate decrease of approximately 15% would initially appear reasonable. However, given that the size of the annuitant population is such that the claims experience is less than fully credible, the application of a 10% decrease seems reasonable given the potential for claims variations in 2015-2017 that may occur.

Summary

Thus, based on Deloitte's actuarial review, the premiums proposed by VSP for the 2015 through 2017 period appear to be reasonable given expected claims trends and the increases in HIPF costs imposed on VSP under health care reform.

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