

To: Participating Agency Health Benefit Administrators
From: The Employee Benefits Division
Subject: Empire Plan Quarterly Experience Report
Date: May 31, 2001

Enclosed are the First Quarter Empire Plan Experience Report for 2001 and the cover letter to the Chief Executive Officers.

This report provides actual 2000 experience, projected 2001 experience, and projected premium rates for the 2002 plan year.

Enclosures

May 31, 2001

Dear Chief Executive Officer:

Attached is the Participating Agency First Quarter Report for 2001. This report provides actual 2000 Empire Plan experience, projected 2001 Empire Plan experience based on claims paid through March 31, 2001, and projected premium rates for the 2002 plan year.

The Empire Plan carriers declared a plan year 2000 surplus of \$105.0 million or 4.5% of premium. After consideration of the \$39.4 million deficit recovery on the Prescription Drug Program and the incremental dividends earned on contracts that terminated in 1998, a net dividend of \$70.6 million was earned.

The Empire Plan carriers project a 2001 net dividend of \$52.2 million, 2.0% of premium. The report explains the basis for these projections and future reports will include revisions based on additional claims experience.

The projected premium rates for 2002 are included in Exhibit III. The Participating Agency Fourth Quarter 2000 Report, had rate projections reflect increases in the gross and net premiums of approximately 11.9% and 12.6%, respectively. Please note that these projections have been made with only three months of 2001 paid claims data. The rate projections in future reports are expected to be more credible as the 2001 experience matures. Please read the "Keeping You Informed" section of this report for information on our plans to distribute the Participating Agency Benefit Statements.

I hope this report is informative and useful to you. If you have any questions, comments or suggestions, please don't hesitate to contact me.

Sincerely,

Robert W. DuBois, CEBS
Director
Employee Benefits Division

Attachments

cc: Health Benefits Administrators

PARTICIPATING AGENCIES

**EMPIRE PLAN
2001 First Quarter
Experience Report**

**Prepared by The State of New York
Department of Civil Service**

EMPIRE PLAN EXPERIENCE REPORT

JANUARY - MARCH 2001

Produced for

PARTICIPATING AGENCIES IN THE

NEW YORK STATE

HEALTH INSURANCE PROGRAM

by

the Employee Benefits Division

New York State Department of Civil Service

George C. Sinnott

President, New York State Civil Service Commission

• Actual 2000 Empire Plan Experience.	Page 1
• Projected 2001 Empire Plan Experience	Page 1
• 2002 Projected Premium Rates.	Page 2
• Keeping You Informed.	Pages 2 - 3

Attachment 1 – Transmission of Reports Electronically

Exhibits

- I. 2000 Actual Empire Plan Experience
- II. 2001 Projected Empire Plan Experience
- III. Projected Empire Plan PA 2002 Premium Rates
- IV. Empire Plan PA Group Rates 1985-2002
- V. Empire Plan PA 5 Tier Group Rates 1995-2002

**NYS HEALTH INSURANCE PROGRAM
PARTICIPATING AGENCY GROUP
EMPIRE PLAN EXPERIENCE REPORT
1ST QUARTER REPORT**

ACTUAL 2000 EMPIRE PLAN EXPERIENCE

The Empire Plan carriers declared a composite surplus of \$105.0 million (4.5% of premium), or \$46.8 million more than the margin loaded in the 2000 rates. The 2000 annual experience by carrier is reported in Exhibit I.

This higher than anticipated surplus in comparison to the margin load is primarily the blended result of lower projected claims under both the Blue Cross and Cigna components. The primary difference between the actual experience and the experience projected at rate development, for the most part, relates to the 1999 claim base projected at the time the 2000 rates were developed.

Though Cigna declared a \$55.8 million surplus, such amount must first be used to offset the 1999 loss of \$39.4 million and results in a dividend of \$16.4 million. Though a partial loss recovery was envisioned at the time of rate development, the improved claims experience resulted in the complete elimination of the loss and the return of dividend equal to 2.5% of the prescription drug premium. The lower claims experience is attributable to higher than expected utilization and mix savings resulting from the change in the copay amounts that were effective, January 1, 2000. Though these savings benefit the current and future experience, we must note that the trend factor developed by the carrier is 24% and represents the blend of all the factors driving prescription drug costs.

An additional \$5.0 million in dividend was earned from terminated contracts whose runout claims was lower than the established reserve at the time of termination. The Prescription Drug Program as well as the Mental Health and Substance Abuse Program were rebid and replaced with new contracts effective, January 1, 1999. In total, a net dividend of \$70.6 million ($105.0 - 39.4 + 5.0 = 70.6$) was earned in Plan Year 2000.

PROJECTED 2001 EMPIRE PLAN EXPERIENCE

The Empire Plan carriers project a composite dividend of \$52.2 million (2.0% of premium), or \$22.1 million more than the margin loaded in the 2001 rates. The 2001 annual experience projected by the insurance carriers is reported in Exhibit II.

Most of the projected dividend increase is attributable to the Medical Program. There continues to be a shift in claims from basic medical to participating provider, which saves money for the plan and reduces the enrollee's out-of-pocket expense. In the first quarter of 2001, 74% of the paid claim dollars were made to participating providers compared to 71% for the first quarter of 2000. The projected claim amount also indicates a lower 2001 trend in relation to the 8.9% factor used in the development of the premium rates.

Modest dividends are projected by Empire Blue Cross and Cigna. Please note that the 2001 rates for these components do not contain any margin as the carrier claim projections were viewed to be too conservative. In exchange for the marginless rates, both Empire Blue Cross Blue Shield and Cigna may call additional funds (approximately \$46 million) up to 3% of the claim base should claims and retention exceed the premium level. At this point in time, a call is not anticipated as modest dividends are projected.

2002 PROJECTED PREMIUM RATES

Exhibit III presents projected 2002 Empire Plan gross and net premium rates and assumes the application of \$69.9 million in dividend to all payors. In the aggregate, the Empire Plan gross premium is projected to increase approximately 11.9% while the net premium is projected to increase to 12.6%.

Historically, the rate projections provided in the Quarterly Report are based on carrier projections. Since the projections made by the carriers for this report were viewed to be excessively conservative, the Department of Civil Service with the advice of Buck Consultants made reasonable adjustments to the carrier projections. As a result, the projected rates in this report reflect a range of 10.4% to 15.8% with a best estimate of 12.6%. Because such projections are based on only three months of 2001 claim data, each agency must assess its level of comfort in using them.

For comparison purposes, Exhibit IV presents the individual and family rate history for the Core Plus Medical and Psychiatric Enhancements option based on the Two Tier Empire Plan rate structure in effect prior to January 1, 1996, while Exhibit V presents the five tier history from 1996 to 2002.

KEEPING YOU INFORMED

Participating Agency Benefit Statements

Empire Plan Benefit Statements will be distributed to Participating Agency enrollees' homes in June 2001. This statement will enable enrollees to review their official health insurance enrollment record at the Employee Benefits Division and will instruct them to notify their agency Health Benefits Administrator of any necessary additions, changes or deletions to their record. Prior to this distribution, we will send agency Health Benefit Administrator's detailed information about this project.

Transmission of Reports Electronically

The Employee Benefits Division has the capability to transmit the Participating Agency Quarterly Experience Report via E-mail. Using a software product called Adobe Acrobat Reader™, the PA Quarterly Report is converted into a portable document format (PDF). This is a format that can be read by any recipient, if they have Adobe Acrobat Reader™ installed on their system. Adobe Acrobat Reader™ is available free from Adobe Systems, Inc., at <http://www.adobe.com>.

There are many advantages to receiving the reports electronically including: reports will be received sooner; there will be less paper to handle; and the reports can be stored electronically and/or a hard copy may be printed.

If you would like to receive the report electronically, please provide your E-mail address by completing the bottom section of Attachment 1 and returning it to the Employee Benefits Division.

NYSHIP Representation at Municipal Events

NYSHIP's Empire Plan will be represented at the following municipal events:

- The 2001 Training Seminar sponsored by the NYS Association of Personnel and Civil Service Officers on June 3-6, 2001, in Lake Placid, NY.
- The 2001 Annual Meeting sponsored by the NYS Conference of Mayors and Municipal Officials on June 11-12, 2001, in Saratoga Springs, NY.
- The Eastern Region Conference sponsored by the International Personnel Management Association on June 18-20, 2001, in Albany, NY.

Name and Address Changes

Please be sure to notify the Employee Benefits Division of any changes so that we may keep our mailing lists up-to-date. This updated information may be sent to:

**Mr. Stephen Kavanaugh
Assistant Director
Employee Benefits Division
NYS Department of Civil Service
State Office Campus, Building #1
Albany, NY 12239**

TRANSMISSION OF REPORTS ELECTRONICALLY

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Mr. Stephen Kavanaugh
Assistant Director
Employee Benefits Division
NYS Department of Civil Service
State Office Campus, Building #1
Albany, NY 12239

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Contact Person:	E-mail Address:
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