

PA 02 – 06

To: Participating Agency Health Benefit Administrators  
From: The Employee Benefits Division  
Subject: Empire Plan Quarterly Experience Report  
Date: June 6, 2002

Enclosed are the First Quarter Empire Plan Experience Report for 2002 and the cover letter to the Chief Executive Officers. This report presents the actual 2001 Empire Plan experience, projected 2002 Empire Plan experience and projected 2003 premium rates.

Enclosures

June 6, 2002

Dear Chief Executive Officer:

Attached is the Empire Plan First Quarter Experience Report for 2002. This report presents the actual 2001 Empire Plan experience, projected 2002 Empire Plan experience based on claims paid through March 31, 2002, and projected 2003 premium rates.

The Empire Plan carriers declared a 2001 net dividend of \$146.2 million, 5.5% of premium. After consideration of the incremental dividends earned on contracts that terminated in 1998 (see Page 1 of the report), total dividend of \$148.7 million was earned.

For Plan year 2002, the Empire Plan carriers project a net dividend of \$6.9 million, .2% of premium. The report explains the basis for these projections and future reports will include revisions based on additional claims experience.

The projected 2003 premium rates are presented in Exhibit III and reflect a "best estimated" net increase of 14.2%. The report also presents a range of the potential 2003 rate increase for your budget development considerations.

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 2002 First Quarter Experience Report**

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

# **EMPIRE PLAN EXPERIENCE REPORT**

**JANUARY – MARCH 2002**

**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 2001 Empire Plan Experience . . . . .	Page 1
• Projected 2002 Empire Plan Experience . . . . .	Page 2
• 2003 Projected Premium Rates . . . . .	Page 3
• Keeping You Informed. . . . .	Pages 3 & 4

Attachment 1 – Transmission of Reports Electronically

## Exhibits

- I. Actual 2001 Empire Plan Experience
- II. Projected 2002 Empire Plan Experience
- III. 2003 Projected PA Premium Rates
- IV. Empire Plan PA 5-Tier Group Rates 1995-2003
- V. Empire Plan PA 2-Tier Group Rates 1995-2003

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

**ACTUAL 2001 EMPIRE PLAN EXPERIENCE**

The Empire Plan carriers declared a composite dividend of \$146.2 million (5.5% of premium), or \$117 million more than the margin loaded in the 2001 rates. The 2001 annual experience is reported in Exhibit I. In addition, incremental dividends of \$1.3 million were declared for both the Prescription Drug Program and the Mental Health and Substance Abuse Program, respectively, that terminated effective December 31, 1998.

Approximately \$43.3 million of the surplus is attributable to the better than expected experience of the Prescription Drug Program. After adjusting for plan and discount pricing changes, the normalized trend, reported by Cigna, is 18.0% or approximately 25% below the pricing trend factor used in the development of the 2001 prescription drug rates.

United HealthCare has declared an \$83.6 million dividend, \$26.0 million greater than the 3<sup>rd</sup> quarter projection. This incremental increase is primarily due to a moderate reduction in the projected 2001 trend. The majority of the dividend in excess of the margin is attributable to a lower 2000 claim base than what was assumed during the development of the 2001 premium rates.

The \$3.1 million dividend for the Mental Health and Substance Abuse Program represents a \$1.1 million increase over the margin incorporated in the 2001 rates. This modest improvement is explained by a reduction in the actual year 2000 claim base in comparison to the amount projected and used in the development of the 2001 premium rates and approximately \$830,000 in credits attributable to performance penalty guarantees as well as the year 2000 unit cost guarantee. This reduction was partially offset by the higher 2001 trend (9.2%) observed in comparison to the trend factor (1%) used in the 2001 rate development.

Empire BlueCross BlueShield declared a \$16.3 million dividend representing 2.1% of premium. This modest gain, in relation to the marginless premium rate, was primarily attributable to the fact that Empire BlueCross BlueShield did not become a "for profit company" in 2001. As such, tax assessments chargeable to the Plan were lower than the amount anticipated in the development of the 2001 premium rates. In addition, incurred claim projections for 2001 are marginally lower than amounts previously projected.

## **PROJECTED 2002 EMPIRE PLAN EXPERIENCE**

The Empire Plan carriers project a composite dividend of \$6.9 million (.2% of premium), or \$42.2 million less than the margin loaded in the 2002 rates. The 2002 annual experience projected by the insurance carriers is reported in Exhibit II.

With the general improvement of the 2001 experience since the 2002 rates were developed (October 2001) and only 3 months of 2002 paid data, the \$42.2 million reduction in the 2002 dividend projection is rather conservative. While carriers tend to be conservative, the degree of such conservatism at this time appears to be excessive.

For the Prescription Drug Program, Cigna projects a loss of \$3.5 million in comparison to the \$24.4 million margin level used in the development of the 2002 rates. The prescription drug experience normally contains a significant amount of fluctuation throughout a given year due to seasonality. In addition, the enrollment count is approximately 3.1% higher than the October enrollment level. While the 1<sup>st</sup> quarter paid claims appear to be modestly higher than prior months, it is difficult to distinguish the cause of the increase between a change in seasonal trend, annual trend or the specific experience of the additional enrollment. As such, the annual claims projection is expected to fluctuate in future reports.

Though United HealthCare's projected medical experience is consistent with the amounts projected at rate renewal, it does not fully reflect the improvement in the 2001 experience and impact on trend since the 2002 rates were developed. The projection tends to be cautious as the impact on the incurred claims from the September 11<sup>th</sup> attack is still speculative. Specifically, some claim activity was canceled or moved to future months. As such, adjustments were made to historical completion factors that tend to increase incurred claim projections. In addition, the paid claim activity for March 2002 was significantly higher than prior months.

Group Health Incorporated (GHI) projects a loss of \$3.4 million for the Mental Health and Substance Abuse Program. The projected loss is primarily attributable to a higher 2001 claim base over projections made at the time of renewal, the projected non-realization of a previously projected 2001 Unit Cost Guarantee credit and a projected decrease in interest income earned for the program due to declining interest rates.

Empire BlueCross BlueShield projects a modest gain for the Hospital Program; slightly greater than the margin incorporated during rate development. The projected gain represents just 0.5% of billed premium and is the net result of a projected lower 2002 claim base offset by a significant increase in projected administrative expenses. Such administrative expenses are currently under review.

## **2003 PROJECTED PREMIUM RATES**

Exhibit III presents the projected 2003 Empire Plan gross and net premium rates assuming the application of \$115.0 million in dividend to all payors. In the aggregate, the Empire Plan gross premium is projected to increase approximately 15.2% while the net premium is projected to increase 14.2%.

A range of projected gross and net premium rates (10.9% - 17.6% increase) is also included. While carrier rate projections made at this time of the year have been historically conservative, each agency should assess its budgetary environment in using the enclosed projections.

Though the projected rate increase for 2003 is consistent with the rates of increase experienced over the last three years, the projected increase is lower than what many other large employers are experiencing. For example, the California Public Employees' Retirement System (CALPERS) recently announced that premiums for HMOs would increase an average of 25% and premiums for other plans would rise around 20%.

Exhibit IV presents the individual and family rate history for the Core Plus Medical and Psychiatric Enhancements option based on the 5-tier Empire Plan billing rate history in effect since January 1, 1996. Exhibit V presents, for illustrative purposes only, the 2-tier rate history from 1995 to 2003.

## **KEEPING YOU INFORMED**

### **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 was represented at the following municipal events:

- The 2002 Town Management and Finance School sponsored by the Association of Towns of the State of New York on May 15-17, 2002, in Saratoga Springs, New York.
- The 2002 Training Seminar sponsored by the NYS Association of Personnel and Civil Service Officers on June 10-11, 2002, in Corning, New York.
- The 2002 Annual Meeting sponsored by the NYS Conference of Mayors and Municipal Officials on June 3-4, 2002, in Saratoga Springs, New York.

**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  
Director - Employee Insurance Programs  
Employee Benefits Division  
NYS Department of Civil Service  
State Office Campus, Building #1  
Albany, New York 12239***



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***Mr. Stephen Kavanaugh  
Director – Employee Insurance Programs  
Employee Benefits Division  
NYS Department of Civil Service  
State Office Campus, Building #1  
Albany, New York 12239***

Agency Code:	Agency Name:
Contact Person:	E-mail Address:
Phone Number:	