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PA03-18

TO: Participating Agency Health Benefits Administrators
FROM: Employee Benefits Division
SUBJECT: Plan Year 2004 NYSHIP Empire Plan Rates
DATE: November 12, 2003

Enclosed are the Plan Year 2004 rates for the New York State Health Insurance Program (NYSHIP) and the cover letter to Chief Executive Officers. Schedule I contains the full share rates, the COBRA rates and the NYS Continuity of Coverage rates. Schedule II represents the Employee/Employer Variable Contribution Rate Table (PS-508). Your bill for January 2004 coverage will reflect the new rates.

The net Five-Tier Mediprime rates for the Core Plus Enhancement option have, in the aggregate, increased 13.5%. The factors, both positive and negative, contributing to this premium increase are:

Reductions in Renewal Requests /Retrospective Premium Payments (RETROS)

- Reductions of approximately \$152.0 million from the carriers' original baseline renewal requests were made as a result of discussions between the insurers, the Department and Buck Consultants, our benefit consulting firm. A significant portion of this reduction is due to the retro agreements, which are integral to this rate action. Under a retro agreement, the plan pays the insurance companies based on what the plan thinks the ultimate cost will be. The insurance company accepts the payment rate with the condition that if costs are greater than the premium earned from the payment rate, additional premium (the retro) will be paid to the insurance company. The retro payment, if needed, will be made from available dividend or future premium charges, if necessary. Of course, using plan year 2003 dividend to meet any plan year 2004 retro obligation will reduce the dividend amount available to offset future premium obligations. In sum, the retros amount to approximately \$277 million and, according to Buck Consultants, are considered a prudent premium development strategy for 2004. Both the Department of Civil Service and Buck Consultants do not expect that any material retro payment will be necessary.

Empire Blue Cross and Blue Shield (hospital)

- A 17.2% premium increase results from an 11.2% going forward trend, 2% margin load and a 2003 premium level generating a projected 2.6% loss.

United Healthcare (major medical)

- An overall 8.3% increase in the aggregate premium for the United Healthcare medical component of the Empire Plan is the net result of a trend factor of 10.8%, 3% margin and a 2003 premium level generating a projected 5.5% dividend.

Group Health Incorporated (mental health and substance abuse)

- A 6.0% premium increase is the blended combination of a 5% trend, 3.5% margin load and a 2003 premium level generating a projected 2.7% dividend.

Cigna (prescription drugs)

- A 12.8% premium increase is the result of a 17.9% underwriting trend, a 2.9% margin factor and a 2003 premium level generating a projected 4.8% dividend. In addition, significant cost reductions have been negotiated with Cigna in the Department's efforts in seeking a 2-year contract extension.

Medicare Premium

The Health Care Financing Administration has announced an increase of \$7.90 in the monthly Medicare Part B premium. Accordingly, the calendar year 2004 Medicare premium will be \$66.60 per month.

Retiree Deductions

Retiree pension deductions for health insurance will change in the checks issued by the retirement systems at the end of December 2003. As you know, with the New York Benefits and Eligibility and Accounting System (NYBEAS), the December 2003 deduction will pay for January 2004 coverage.

Participating Agency Administrative Charge

The 2004 annual administrative per enrollee charge will increase 17.5% from \$19.546 to \$22.957. This annual charge equates to a monthly per enrollee charge for 2004 of \$1.913. This increase is the blended result of an increase in PA enrollment, a carry-forward deficit and an increase in the administrative costs allocable to PA's. The agency fee portion of the administrative charge has been eliminated.

The administrative cost charge, which is less than .3% of premium, will be shown separately on your premium bill. Please send one check each month for the combined amount made payable to the "New York State Employees' Health Insurance Pending Account." Please note that the administrative charge must be borne entirely by the agency and may not be passed on to active employees, retirees or other enrollees.

If you have any questions about this rate change, please contact our Operations Unit at (518) 457-2364.