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COMMISSIONER

PA 12-16
PA EX 12-15

To: Participating Agency Chief Executive Officers &
Health Benefit Administrators

From: Robert W. DuBois, Director of the Employee Benefits Division

Subject: Empire Plan Quarterly Experience Report

Date: September 28, 2012

Enclosed are the Second Quarter Empire Plan Experience Report for 2012 and the cover letter to the Chief Executive Officers. This report presents the projected 2012 Empire Plan experience and the projected 2013 premium rates.

Enclosures



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JERRY BOONE
COMMISSIONER

September 28, 2012

Dear Chief Executive Officer:

Attached is the Empire Plan Second Quarter Experience Report for 2012. This report presents the projected 2012 Empire Plan experience, based on claims paid through June 30, 2012, and the projected 2013 premium rates.

For the 2012 Plan Year, the Empire Plan carriers project a net loss of \$61.6 million, 0.92% of premium. This projection represents an improvement of \$134.7 million from the projection made by the carriers in the Empire Plan First Quarter Experience Report for 2012. Historically, experience projections based on six months of paid claim data have been conservative. We expect the projected loss to continue to shrink as actual claims materialize.

In Exhibit II, you will find the projected 2013 premium based on the Empire Plan carriers' second quarter experience reports. Plan savings attributable to the 1/1/2013 implementation of a Medicare Prescription Drug Plan under an Employer Group Waiver Plan, commonly referred to as an EGWP, are reflected in the projections. Additionally, these projections include a tentative dividend application amount of \$50 million; \$320 million less than the credits loaded in the 2012 rates. The reduction in the dividend credits results in a greater increase in the projected premium rates charged to payors as compared to the increase in premium rates charged by the insurance carriers.

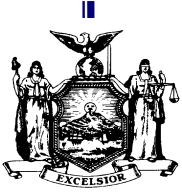
The insurer driven "best estimate" projected net premium increases for 2013 are 11.9% in aggregate for The Empire Plan and 14.0% in aggregate for The Excelsior Plan. These projections are consistent with the Department's projections following the 1st Quarter of 2012. Currently the Department projects 2013 net premium increases that range from 9% to 12% and 11% to 14% for The Empire Plan and The Excelsior Plan, respectively, using the dividend application assumption presented above.

Given the fiscal challenges that the State and its localities continue to face, our goal is to achieve 2013 NYSHIP rates that are as low as possible while promoting rate stability for the near future. The rate development and carrier negotiations are underway.

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

Sincerely,

Robert W. DuBois, CEBS
Director
Employee Benefits Division



PARTICIPATING AGENCIES

EMPIRE PLAN 2012 Second Quarter Experience Report

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

EMPIRE PLAN EXPERIENCE REPORT

SECOND QUARTER

Produced for

PARTICIPATING AGENCIES IN THE

NEW YORK STATE

HEALTH INSURANCE PROGRAM

by

the Employee Benefits Division

New York State Department of Civil Service

- Projected 2012 Empire Plan Experience Pages 1-2
- Projected 2013 Premium RatesPages 2-3

EXHIBITS

- I.** Projected 2012 Empire Plan Experience
- II.** Projected 2013 PA Premium Rates
- III.** Empire Plan PA 5-Tier Group Rates (2004-2013)
- IV.** Empire Plan PA 2-Tier Group Rates (2004-2013)

- *NYSHIP News*

**NEW YORK STATE HEALTH INSURANCE PROGRAM
PARTICIPATING AGENCY GROUP
EMPIRE PLAN EXPERIENCE REPORT
SECOND QUARTER REPORT**

PROJECTED 2012 EMPIRE PLAN EXPERIENCE

The Empire Plan carriers project an aggregate loss of \$61.6 million (0.92% of premium) for 2012, as presented in Exhibit I. This projection is based on six months of 2012 paid claim data. The following chart presents the percentage of the projected incurred claims actually paid, as well as the most recent projected 2012 trend as compared to the trend assumed during the 2012 premium rate development:

| | <u>% of Paid Claims to Projected Incurred Claims</u> | | <u>Projected 2012 Trend</u> | |
|---------------------|---|--------------------|------------------------------------|--------------------------------------|
| | <u>2011</u> | <u>2012</u> | <u>@ Final Renewal</u> | <u>@ 2012 2nd Quarter</u> |
| Blue Cross Hospital | 99.2% | 38.4% | 10.0% | 10.0% |
| UHC Medical | 98.8% | 40.1% | 7.3% | 7.0% |
| UHC MHSA | 99.0% | 35.7% | 10.4% | 7.2% |
| UHC Rx | 99.9% | 48.3% | 8.9% | 4.3% |

For 2012, the carriers once again agreed to remove margin from the premium. Also, based on the size of the projected 2011 dividend that was being generated and continued underlying carrier conservatism, the State requested additional premium reductions totaling \$186 million from the 2012 premium rates. The carriers agreed to the premium reductions in exchange for retrospective premium arrangements that total \$439.1 million. The 2012 projected dividend for each carrier as compared to the margin level and premium reductions factored in the 2012 premium are as follows:

| | <u>Margin</u> | <u>Premium Adjustments</u> | <u>2012 Projected Dividend/(Loss) Second Quarter Report</u> | <u>Experience Improvement</u> |
|---------------------|----------------------|---------------------------------------|--|--|
| Blue Cross Hospital | \$0 | (\$61.0) | \$3.8 | \$64.8 |
| UHC Medical | \$0 | (\$60.0) | (\$102.7) | (\$42.7) |
| UHC MHSA | \$0 | \$0.0 | \$3.1 | \$3.1 |
| UHC Rx | \$0 | (\$65.0) | \$34.2 | \$99.2 |
| Total | \$0 | (\$186.0) | (\$61.6) | \$124.4 |

The overall projected 2012 experience has improved \$124.4 million from the projection made when the premium was developed. While the Medical Program projected loss is moderately higher due to the increase in the 2011 claim base, the projections for the Hospital and Mental Health and Substance Abuse Programs are lower due to decreases in the 2011 claim base. In addition, improvement in the Prescription Drug Program projection is the result of lower than expected utilization of the new Hepatitis C drugs, higher level of Pharma Revenue and lower 2012 trend caused by the impact in utilization from the generic availability of Lipitor.

The Department expects these projections to improve consistent with the improvement of experience observed in prior years. For example, in 2011, the carriers projected a \$65.7 million surplus as of the end of the second quarter and by year's end a \$226.8 million surplus resulted. The claim projections will become more reliable as actual claim data materializes.

2013 PROJECTED PREMIUM RATES

Empire Plan carrier rate proposals for 2013 are required to be submitted to the Department by September 1. Upon review of the documentation by the Department and Buck Consultants, we will negotiate aggressively with each of the carriers to achieve appropriate reductions in the submitted premium levels. Additionally, we will continue to use retrospective agreements with the carriers and the prudent application of dividends to lower the Plan's net premiums. Our goal is to achieve the lowest rates possible for 2013 while maintaining rate stability for the coming years. Taking these rate factors into account, the carriers project 2013 net premium increases that range from 9% to 14% and 11% to 16% for The Empire Plan and The Excelsior Plan, respectively. The carrier best estimates of the projected 2013 net premium increases, as presented in Exhibit II, are 11.9% and 14.0% for the Empire Plan and the Excelsior Plan, respectively. Future quarterly reports will reflect updates to these estimates as 2012 experience is incurred and analyzed.

The carriers estimate a 6.6% increase in the 2013 gross premium (premium paid to the carriers). This is based on an estimated 2012 claim base projected to generate a 1% loss, 8.0% trend, 0% margin and plan savings of \$250 million attributable to the implementation of a Medicare Prescription Drug Plan (PDP) effective 1/1/2013. The PDP, which will be implemented under an Employer Group Waiver Plan (EGWP) will have benefits that are comparable to those under The Empire Plan Flexible Formulary. The savings is attributable to premium funding provided by CMS, additional manufacturer discounts on drugs in the "donut hole" and federal funding of catastrophic claims.

The projected 6.6% increase in gross premium will be negatively leveraged by a reduction in the application of available dividends resulting in a projected 11.9% increase in premium charged to payors in 2013. While \$156.6 million in dividend is anticipated to be available on 12/31/2012, DCS anticipates the application of \$50 million in the 2013 rates. This credit is \$320 million less than the 2012 credit resulting in the higher rate of increase to the net premium as compared to the 6.6% increase in gross premium. The balance is necessary to fund anticipated retrospective premium payments for 2012 and potentially 2013. The actual amount of dividend to be applied in the 2013 premium rates will be determined in October 2012 based on a number of factors including, but not limited to, the following:

- The final results of premium negotiations with the carriers, which include projections of the incurred 2012 experience as well as estimates of the 2013 trend, both of which are affected by the Federal health care legislation and NYS legislation. Of particular note is the fact that 2013 is the final year of the Prescription Drug and the Mental Health and Substance Abuse contracts. Carrier premium requirements in the last year of a contract tend to be more conservative.
- The actual impact of collectively bargained Plan benefit changes on claims experience.
- The ability, or lack thereof, to stabilize the premium over time (2013–2017).
- The status of the economy, as well as the State and Local Government fiscal climate.

The credit for 2012 included amounts provided by the Early Retiree Reinsurance Program (ERRP). ERRP was established by the Affordable Care Act and is a temporary Federal program which became effective June 1, 2010. ERRP provides reimbursement to employer and union sponsors of participating employment-based plans for a portion of the cost of health benefits for early retirees and their spouses, surviving spouses, and dependents. The Department filed an application for the ERRP subsidy on behalf of all NYSHIP participants. The Department received \$81.5 million for ERRP claims on behalf of Empire Plan members. The ERRP application stated that the ERRP subsidies received by NYSHIP would be credited to all payors, as is done with earned dividends and earned interest. The Department applied \$30 million of the ERRP funds in the 2011 Plan Year as a credit to the premium rates and applied the \$51.5 balance in the 2012 Plan Year. In January 2012, the \$5 billion appropriated for the program had been disbursed and ERRP managers announced that no additional payments would be made.

Exhibit III presents The Empire Plan individual and family 5-tier billing rate history since 2004. Exhibit IV presents, for illustrative purposes only, the 2-tier rate history from 2004 to 2013.

2012 PROJECTED EMPIRE PLAN EXPERIENCE
In (000's)

| | EMPIRE BLUE CROSS | UNITED HEALTHCARE MEDICAL | | | | UHC MHSA | | | | UHC DRUG | TOTAL |
|------------------------------|----------------------|---------------------------|-------------------|-------------------|-----------|----------|-------------------|-------------------|----------|-------------|-----------|
| | | Core | NY Enhancement | PA Enhancement | Combined | Core | NY Enhancement | PA Enhancement | Combined | | |
| A Premium (1) | 2,358,721 | 1,898,113 | 281,962 | 282,812 | 2,462,887 | 147,216 | 9,612 | 9,506 | 166,334 | 1,728,430 | 6,716,372 |
| B Incurred Claims (2) | 2,189,902 | 1,818,319 | 249,991 | 250,612 | 2,318,922 | 127,006 | 7,807 | 9,409 | 144,222 | 1,599,232 | 6,252,278 |
| C Administrative Expense (3) | 165,010 | 202,529 | 22,140 | 21,999 | 246,668 | 16,775 | 1,047 | 1,231 | 19,053 | 94,976 | 525,707 |
| D Gain/(Loss) (A-B-C) | 3,809 | (122,735) | 9,831 | 10,201 | (102,703) | 3,435 | 758 | (1,134) | 3,059 | 34,222 | (61,613) |

(1) Earned Premium - Premium which pays for coverage for the period reported (accrual basis).

(2) Incurred Claims - Represents the cost of covered services provided during the period reported by the insurance company (accrual basis).

(3) Administrative Expenses - All charges by the insurance carrier other than for the payment of claims.
Includes carrier's cost to administer the program, interest charges, and other retention.

Source: Carriers 2012 2nd Quarter Experience Report

2013 Premium Projections

Empire Plan

| <u>Carrier Best Estimate Projections</u> | Monthly Gross Premium Rates (1) | | | Monthly Net Premium Rates (2) | | |
|--|---------------------------------|-----------------|-----------------|-------------------------------|-----------------|-----------------|
| | <u>2012</u> | <u>2013 (3)</u> | <u>% Change</u> | <u>2012</u> | <u>2013 (3)</u> | <u>% Change</u> |
| Individual Plan Prime | 751.55 | 816.09 | 8.6% | 712.75 | 813.04 | 14.1% |
| Family Plan Prime | 1,645.31 | 1,788.78 | 8.7% | 1,562.80 | 1,782.21 | 14.0% |
| Individual Mediprime | 447.66 | 446.36 | -0.3% | 419.24 | 440.19 | 5.0% |
| Family - 1 Mediprime | 1,341.42 | 1,419.04 | 5.8% | 1,269.28 | 1,409.35 | 11.0% |
| Family - 2+ Mediprime | 1,037.53 | 1,049.32 | 1.1% | 975.77 | 1,036.51 | 6.2% |
| Aggregate | | | 6.6% | | | 11.9% |

| <u>Carrier Optimistic Projections</u> | Monthly Gross Premium Rates (1) | | | Monthly Net Premium Rates (2) | | |
|---------------------------------------|---------------------------------|-----------------|-----------------|-------------------------------|-----------------|-----------------|
| | <u>2012</u> | <u>2013 (3)</u> | <u>% Change</u> | <u>2012</u> | <u>2013 (3)</u> | <u>% Change</u> |
| Individual Plan Prime | 751.55 | 796.78 | 6.0% | 712.75 | 793.73 | 11.4% |
| Family Plan Prime | 1,645.31 | 1,746.69 | 6.2% | 1,562.80 | 1,740.12 | 11.3% |
| Individual Mediprime | 447.66 | 429.29 | -4.1% | 419.24 | 423.12 | 0.9% |
| Family - 1 Mediprime | 1,341.42 | 1,379.20 | 2.8% | 1,269.28 | 1,369.51 | 7.9% |
| Family - 2+ Mediprime | 1,037.53 | 1,011.72 | -2.5% | 975.77 | 998.91 | 2.4% |
| Aggregate | | | 3.8% | | | 8.9% |

| <u>Carrier Pessimistic Projections</u> | Monthly Gross Premium Rates (1) | | | Monthly Net Premium Rates (2) | | |
|--|---------------------------------|-----------------|-----------------|-------------------------------|-----------------|-----------------|
| | <u>2012</u> | <u>2013 (3)</u> | <u>% Change</u> | <u>2012</u> | <u>2013 (3)</u> | <u>% Change</u> |
| Individual Plan Prime | 751.55 | 832.69 | 10.8% | 712.75 | 829.64 | 16.4% |
| Family Plan Prime | 1,645.31 | 1,825.12 | 10.9% | 1,562.80 | 1,818.55 | 16.4% |
| Individual Mediprime | 447.66 | 456.73 | 2.0% | 419.24 | 450.56 | 7.5% |
| Family - 1 Mediprime | 1,341.42 | 1,449.16 | 8.0% | 1,269.28 | 1,439.47 | 13.4% |
| Family - 2+ Mediprime | 1,037.53 | 1,073.19 | 3.4% | 975.77 | 1,060.38 | 8.7% |
| Aggregate | | | 8.8% | | | 14.2% |

(1) Represents premiums charged by the carriers.

(2) Represents cost to a participating agency.

(3) Projected Rates

2013 Premium Projections

Excelsior Plan

| <u>Carrier Best Estimate Projections</u> | Monthly Gross Premium Rates (1) | | | Monthly Net Premium Rates (2) | | |
|--|---------------------------------|-----------------|-----------------|-------------------------------|-----------------|-----------------|
| | <u>2012</u> | <u>2013 (3)</u> | <u>% Change</u> | <u>2012</u> | <u>2013 (3)</u> | <u>% Change</u> |
| Individual Plan Prime | 666.18 | 734.18 | 10.2% | 634.99 | 731.54 | 15.2% |
| Family Plan Prime | 1,467.78 | 1,618.28 | 10.3% | 1,401.03 | 1,612.61 | 15.1% |
| Individual Mediprime | 374.30 | 394.24 | 5.3% | 350.85 | 389.14 | 10.9% |
| Family - 1 Mediprime | 1,175.91 | 1,278.33 | 8.7% | 1,116.93 | 1,270.18 | 13.7% |
| Family - 2+ Mediprime | 884.04 | 938.38 | 6.1% | 832.81 | 927.76 | 11.4% |
| Aggregate | | | 8.8% | | | 14.0% |

| <u>Carrier Optimistic Projections</u> | Monthly Gross Premium Rates (1) | | | Monthly Net Premium Rates (2) | | |
|---------------------------------------|---------------------------------|-----------------|-----------------|-------------------------------|-----------------|-----------------|
| | <u>2012</u> | <u>2013 (3)</u> | <u>% Change</u> | <u>2012</u> | <u>2013 (3)</u> | <u>% Change</u> |
| Individual Plan Prime | 666.18 | 717.32 | 7.7% | 634.99 | 714.68 | 12.5% |
| Family Plan Prime | 1,467.78 | 1,581.33 | 7.7% | 1,401.03 | 1,575.66 | 12.5% |
| Individual Mediprime | 374.30 | 379.43 | 1.4% | 350.85 | 374.33 | 6.7% |
| Family - 1 Mediprime | 1,175.91 | 1,243.44 | 5.7% | 1,116.93 | 1,235.29 | 10.6% |
| Family - 2+ Mediprime | 884.04 | 905.54 | 2.4% | 832.81 | 894.92 | 7.5% |
| Aggregate | | | 6.0% | | | 11.0% |

| <u>Carrier Pessimistic Projections</u> | Monthly Gross Premium Rates (1) | | | Monthly Net Premium Rates (2) | | |
|--|---------------------------------|-----------------|-----------------|-------------------------------|-----------------|-----------------|
| | <u>2012</u> | <u>2013 (3)</u> | <u>% Change</u> | <u>2012</u> | <u>2013 (3)</u> | <u>% Change</u> |
| Individual Plan Prime | 666.18 | 748.79 | 12.4% | 634.99 | 746.15 | 17.5% |
| Family Plan Prime | 1,467.78 | 1,650.40 | 12.4% | 1,401.03 | 1,644.73 | 17.4% |
| Individual Mediprime | 374.30 | 403.33 | 7.8% | 350.85 | 398.23 | 13.5% |
| Family - 1 Mediprime | 1,175.91 | 1,304.95 | 11.0% | 1,116.93 | 1,296.80 | 16.1% |
| Family - 2+ Mediprime | 884.04 | 959.50 | 8.5% | 832.81 | 948.88 | 13.9% |
| Aggregate | | | 11.0% | | | 16.3% |

- (1) Represents premiums charged by the carriers.
(2) Represents cost to a participating agency.
(3) Projected Rates

**EMPIRE PLAN
PA 5 TIER GROUP RATES
2004 - 2013 Monthly Rates**

| | Gross Rate(1) | % Change | Net Rate(2) | % Change |
|---|------------------|-------------|----------------|-------------|
| Individual Planprime | | | | |
| 2004 | 448.00 | 12.0% | 438.15 | 13.8% |
| 2005 | 490.41 | 9.5% | 478.49 | 9.2% |
| 2006 | 547.86 | 11.7% | 529.76 | 10.7% |
| 2007 | 600.69 | 9.6% | 564.84 | 6.6% |
| 2008 | 633.79 | 5.5% | 592.38 | 4.9% |
| 2009 | 630.73 | -0.5% | 598.58 | 1.0% |
| 2010 | 660.24 | 4.7% | 612.34 | 2.3% |
| 2011 | 734.00 | 11.2% | 693.92 | 13.3% |
| 2012 | 751.55 | 2.4% | 712.75 | 2.7% |
| 2013 | 816.09 | 8.6% | 813.04 | 14.1% |
| | | | | |
| Average Percent Increase | | | | |
| From Inception of 5 Tier Structure (1996) | | 7.8% | | 8.4% |
| Most Recent 10 Years | | 7.5% | | 7.9% |
| Most Recent 5 Years | | 5.3% | | 6.7% |
| Family Planprime | | | | |
| 2004 | 945.29 | 12.2% | 924.74 | 14.0% |
| 2005 | 1,038.64 | 9.9% | 1,013.68 | 9.6% |
| 2006 | 1,164.16 | 12.1% | 1,126.19 | 11.1% |
| 2007 | 1,273.96 | 9.4% | 1,198.07 | 6.4% |
| 2008 | 1,346.27 | 5.7% | 1,258.78 | 5.1% |
| 2009 | 1,350.26 | 0.3% | 1,282.17 | 1.9% |
| 2010 | 1,431.43 | 6.0% | 1,330.93 | 3.8% |
| 2011 | 1,598.49 | 11.7% | 1,513.92 | 13.7% |
| 2012 | 1,645.31 | 2.9% | 1,562.80 | 3.2% |
| 2013 | 1,788.78 | 8.7% | 1,782.21 | 14.0% |
| | | | | |
| Average Percent Increase | | | | |
| From Inception of 5 Tier Structure (1996) | | 7.6% | | 8.2% |
| Most Recent 10 Years | | 7.9% | | 8.3% |
| Most Recent 5 Years | | 5.9% | | 7.3% |
| Individual Medprime | | | | |
| 2004 | 341.87 | 11.4% | 334.22 | 12.3% |
| 2005 | 340.50 | -0.4% | 331.93 | -0.7% |
| 2006 | 359.35 | 5.5% | 338.88 | 2.1% |
| 2007 | 363.02 | 1.0% | 333.18 | -1.7% |
| 2008 | 397.23 | 9.4% | 360.41 | 8.2% |
| 2009 | 384.38 | -3.2% | 359.22 | -0.3% |
| 2010 | 400.76 | 4.3% | 367.37 | 2.3% |
| 2011 | 446.90 | 11.5% | 405.64 | 10.4% |
| 2012 | 447.66 | 0.2% | 419.24 | 3.4% |
| 2013 | 446.36 | -0.3% | 440.19 | 5.0% |
| | | | | |
| Average Percent Increase | | | | |
| From Inception of 5 Tier Structure (1996) | | 4.7% | | 5.4% |
| Most Recent 10 Years | | 3.9% | | 4.1% |
| Most Recent 5 Years | | 2.5% | | 4.1% |

- (1) Represents premiums paid to the carriers.
(2) Represents cost to a participating agency.
(3) Inception of Medprime Rate Structure

**EMPIRE PLAN
PA 5 TIER GROUP RATES
2004 - 2013 Monthly Rates**

| | Gross Rate(1) | % Change | Net Rate(2) | % Change |
|---|------------------|-------------|----------------|-------------|
| Family - 1 Medprime | | | | |
| 2004 | 839.18 | 12.0% | 820.82 | 13.4% |
| 2005 | 888.71 | 5.9% | 867.09 | 5.6% |
| 2006 | 975.66 | 9.8% | 935.32 | 7.9% |
| 2007 | 1,036.30 | 6.2% | 966.44 | 3.3% |
| 2008 | 1,109.74 | 7.1% | 1,026.86 | 6.3% |
| 2009 | 1,103.90 | -0.5% | 1,042.81 | 1.6% |
| 2010 | 1,171.95 | 6.2% | 1,085.94 | 4.1% |
| 2011 | 1,311.39 | 11.9% | 1,225.62 | 12.9% |
| 2012 | 1,341.42 | 2.3% | 1,269.28 | 3.6% |
| 2013 | 1,419.04 | 5.8% | 1,409.35 | 11.0% |
| | | | | |
| <u>Average Percent Increase</u> | | | | |
| From Inception of 5 Tier Structure (1996) | | 6.3% | | 6.9% |
| Most Recent 10 Years | | 6.7% | | 7.0% |
| Most Recent 5 Years | | 5.1% | | 6.6% |
| Family - 2 or More Medprime | | | | |
| 2004 | 733.05 | 11.7% | 716.88 | 12.6% |
| 2005 | 738.79 | 0.8% | 720.53 | 0.5% |
| 2006 | 787.16 | 6.5% | 744.45 | 3.3% |
| 2007 | 798.65 | 1.5% | 734.81 | -1.3% |
| 2008 | 873.21 | 9.3% | 794.94 | 8.2% |
| 2009 | 857.54 | -1.8% | 803.45 | 1.1% |
| 2010 | 912.48 | 6.4% | 840.98 | 4.7% |
| 2011 | 1,024.28 | 12.3% | 937.31 | 11.5% |
| 2012 | 1,037.53 | 1.3% | 975.77 | 4.1% |
| 2013 | 1,049.32 | 1.1% | 1,036.51 | 6.2% |
| | | | | |
| <u>Average Percent Increase</u> | | | | |
| From Inception of 5 Tier Structure (1996) | | 4.9% | | 5.6% |
| Most Recent 10 Years | | 4.9% | | 5.1% |
| Most Recent 5 Years | | 3.9% | | 5.5% |

(1) Represents premiums paid to the carriers.
(2) Represents cost to a participating agency.
(3) Inception of Medprime Rate Structure

EMPIRE PLAN
PA 2 TIER GROUP RATES
2004 - 2013 Monthly Rates
(For Illustrative Purposes Only)

| | Gross Rate(1) | % Change | Net Rate(2) | % Change |
|--|------------------|-------------|----------------|-------------|
| Individual | | | | |
| 2004 | 402.70 | 12.7% | 394.31 | 14.2% |
| 2005 | 433.70 | 7.7% | 423.31 | 7.4% |
| 2006 | 477.33 | 10.1% | 459.25 | 8.5% |
| 2007 | 511.23 | 7.1% | 477.96 | 4.1% |
| 2008 | 536.84 | 5.0% | 498.88 | 4.4% |
| 2009 | 527.09 | -1.8% | 497.91 | -0.2% |
| 2010 | 557.46 | 5.8% | 515.75 | 3.6% |
| 2011 | 621.78 | 11.5% | 581.69 | 12.8% |
| 2012 | 619.95 | -0.3% | 584.75 | 0.5% |
| 2013 Projection | 653.11 | 5.3% | 648.15 | 10.8% |
| <u>Average Percent Increase</u> | | | | |
| From Inception (1986) | | 7.4% | | 7.5% |
| Most Recent 10 Years | | 6.3% | | 6.6% |
| Most Recent 5 Years | | 4.1% | | 5.5% |
| Family | | | | |
| 2004 | 899.98 | 11.7% | 881.48 | 13.2% |
| 2005 | 968.40 | 7.6% | 945.11 | 7.2% |
| 2006 | 1,073.28 | 10.8% | 1,034.40 | 9.4% |
| 2007 | 1,158.16 | 7.9% | 1,084.90 | 4.9% |
| 2008 | 1,233.38 | 6.5% | 1,150.41 | 6.0% |
| 2009 | 1,230.02 | -0.3% | 1,165.24 | 1.3% |
| 2010 | 1,297.06 | 5.5% | 1,203.56 | 3.3% |
| 2011 | 1,441.84 | 11.2% | 1,353.97 | 12.5% |
| 2012 | 1,478.23 | 2.5% | 1,398.52 | 3.3% |
| 2013 Projection | 1,580.62 | 6.9% | 1,570.21 | 12.3% |
| <u>Average Percent Increase</u> | | | | |
| From Inception (1986) | | 7.9% | | 8.0% |
| Most Recent 10 Years | | 7.0% | | 7.3% |
| Most Recent 5 Years | | 5.2% | | 6.5% |

(1) Represents premiums charged by the carriers.

(2) Represents cost to a participating agency.

Second Quarter Report - 2012

Federal Health Care Reform

Employer Group Waiver Plan: Effective January 1, 2013, prescription drug coverage for Medicare-primary enrollees and dependents under The Empire Plan will include a Medicare Part D prescription drug program that has been expanded to provide a benefit level that is generally as good as, or better than, the benefits provided under The Empire Plan Flexible Formulary. The combination of these benefits is called **Empire Plan Medicare Rx**, which will continue to be administered by UnitedHealthcare in partnership with Medco during 2013. Enrollment in Empire Plan Medicare Rx will be automatic for Medicare-primary enrollees and dependents. This change only applies to prescription drug coverage under The Empire Plan; it does not affect prescription drug coverage under The Excelsior Plan. Additionally, this change does not impact other Empire Plan benefits (medical/surgical, hospital, mental health and substance abuse) or Medicare Part A or B coverage. Additional information concerning Empire Plan Medicare Rx can be found in Memo PA 12-17.

As previously reported, under the current NYSHIP prescription drug benefit, some employers receive a credit on their agency bill for distributions from the Retiree Drug Subsidy (RDS). Under the EGWP, employers will no longer receive this credit. However, due to changes resulting from Federal Health Care Reform, the EGWP will provide NYSHIP with significant financial advantages over the RDS. Savings under the EGWP will be attributed to premium funding provided by CMS, additional manufacturer discounts on drugs in the "donut hole" and federal funding of catastrophic claims. Although employers will no longer see an RDS credit on their agency bill, savings from the EGWP will be reflected in the overall premium charged to PAs.

Medical Loss Ratio (MLR) Notice: The MLR provision of the Affordable Care Act (ACA) requires all health insurance companies/programs to spend a certain portion of insurance premium dollars on health care claims and programs that improve health care quality. The ACA requires health insurers in the large group market to spend at least 85 percent of the premiums it receives on health care services and activities to improve health care quality. If this threshold is not met, insurers may have the obligation to rebate certain amounts back to the applicable policyholder. The law provides guidance regarding the calculation and reporting of medical loss ratio, as well as, where applicable, the criteria for when rebates to policyholders must be paid.

The MLR is not calculated at the individual plan or enrollee level, but based on the collective experience of each insurer (UnitedHealthcare and Empire BlueCross BlueShield) that makes up the Empire Plan. **For the 2011 plan year, the Empire Plan insurers met the MLR requirements and are not required to issue any rebates.** A Notice was sent to Empire Plan enrollees which includes this information. For more information on Medical Loss Ratio, visit www.HealthCare.gov.

W-2 Health Cost Reporting: The Patient Protection and Affordable Care Act (PPACA) amended the Internal Revenue Code (Code) to require employers to report the aggregate cost of employer-sponsored group health plan coverage on Form W-2 for taxable years beginning on or after January 1, 2011. Previous guidance from the IRS delayed reporting until taxable years beginning on or after January 1,

2012, reported in early 2013. The IRS has recently issued Notice 2012-9 [<http://www.irs.gov/pub/irs-drop/n-12-09.pdf>], which provides further interim guidance on the reporting requirement. In addition to other clarifications, the Notice provides that the transition relief for those employers required to file fewer than 250 Form W-2s will continue unless and until further guidance is issued.

The Department is currently programming a NYBEAS function that will provide PAs with the ability to run a report of the total cost of coverage during the 2012 calendar year for NYSHIP enrollees. The calculation will be based on the COBRA Applicable Method, or using the cost of COBRA coverage (less the 2% administrative fee) to calculate the aggregate cost of employer-sponsored group health plan coverage. Our expectation is that this function will be similar to that which is currently used to run the Reconciliation Listing. Additional information will be provided as soon as it is available.

Uniform Summary of Benefits and Coverage (SBC): PPACA requires that insurers provide an SBC to enrollees and prospective enrollees at certain times during the enrollment process, such as initial enrollment and during each option transfer period. The SBC is intended to provide clear, consistent and comparable summary information regarding enrollees' health plan benefits and coverage. The Employee Benefits Division is currently working to ensure compliance with the SBC requirement for Empire Plan enrollees. Enrollees will receive the SBC prior to the end of the year; they also will continue to receive the plan summary "At a Glance." Employee Benefits Division staff continues to review and monitor updates and clarifications related to Federal Healthcare Reform and its numerous provisions which NYSHIP will be required to implement in the future. We will continue to provide information as it becomes available.

2011 Participating Agency Self-Audit

If your agency has not yet completed the 2011 Self-Audit, it is very important that you complete it as soon as possible. The Self-Audit can be accessed at <http://www.cs.ny.gov/paaudit/index.cfm>.

NYSHIP Coverage for Volunteer Firefighters and Ambulance Workers

To date, 39 PAs have elected to extend coverage to qualified members of 184 volunteer fire and ambulance companies. For information on this coverage, refer to Memo PA10-29/PAEX10-25, issued September 1, 2010, which summarizes the provisions of Chapter 71 of the Laws of 2010 which amended Civil Service Law to extend NYSHIP eligibility to active members of volunteer fire and ambulance companies and to provide guidelines to PAs for administering this new legislation. As indicated in the memo, an agency is permitted, but not required, to provide coverage. PAs that elect to provide coverage are required to submit the form, *Notice of Election to Extend NYSHIP Coverage to Volunteer Firefighters and/or Ambulance Workers*, which was included with the PA Memo.

Agency Experience Reports

Agency specific Empire Plan and Excelsior Plan financial experience reports are available from the Employee Benefits Division upon request. These reports are calendar year based and provide aggregate data broken down by Plan component – hospital, medical/surgical, mental health/substance abuse and prescription drug. To obtain a financial experience report, PAs may submit an official written request on agency letterhead indicating the calendar years for which reports are desired. The request may be directed to the Employee Benefits Division - Director's Office.

GASB 45 Assumptions Report and Census Data

The 2011 Buck Consultants report *Development of Recommended Actuarial Assumptions for New York State/SUNY GASB Valuation – Participating Agency Version* is now available online at: http://www.cs.ny.gov/gasb_pa/2011PAAssumptionsReport.pdf. NYSHIP will provide agency census reports upon request, for use in complying with the provisions of GASB 45. Since the data included in these reports will be current at the time they are provided, it is important that an agency's NYBEAS file is up-to-date, including correctly identifying and coding retirees before requesting census data.

Requests for census data can be e-mailed to: Kevin.Hill@cs.state.ny.us. Please include your name, agency name, five digit agency code, phone number and e-mail address. For additional information about GASB 45, please refer to Memos PA06-11 and PA06-18.

Prompt Payment of NYSHIP Premium

The Employee Benefits Division continues to aggressively monitor agencies that fail to submit premium payments in a timely manner. This procedure includes suspension of claims for enrollees of any agency that falls three months behind in premium. To avoid disruption of NYSHIP coverage, agencies must ensure submission of premium payments by the due date, as we must submit premium to the NYSHIP insurers on time. Agencies may wish to consider submitting payments electronically to promote timely payments.

Mailing of HBA Memos

As you may be aware, it is mandatory that all Participating Agencies have access to the New York State Benefits Eligibility and Accounting System (NYBEAS) and HBA Online. On January 27, 2012 we issued Memo PA12-02/PAEX12-02, which notified agency HBAs that we will no longer be mailing printed copies of HBA Memos. All new HBA Memos are posted to HBA Online, with a notification sent through NYBEAS. As a result, it is very important that a representative of your agency access NYBEAS and HBA Online frequently to ensure receipt of the most up-to-date information from the Employee Benefits Division. It is also very important that your agency maintain current contact information and system access permissions with the Department of Civil Service. If your agency needs to request new permissions or needs to update its current permissions, please contact the Civil Service Help Desk at (800) 422-3671 or (518) 457-5406 to request a copy of the Information Resource Management Form IRM-302.

Availability of Reports Electronically

The Empire Plan Experience Reports are available through the following direct link to our website: <http://www.cs.ny.gov/ebd/ebdonlinecenter/pamarket/ger.cfm>.

CEO, CFO & HBA Name and Address Changes

Agencies must notify the Employee Benefits Division of any changes in the names and/or addresses (including e-mail addresses) of agency CEOs, CFOs and/or HBAs to ensure that our mailing and contact lists are up-to-date. Any updates should be e-mailed to Deborah.D'Orazio@cs.state.ny.us.