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PE 12-4

To: Participating Employer Chief Executive Officers &  
Health Benefit Administrators

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

Subject: Empire Plan Quarterly Experience Report

Date: March 9, 2012

Attached is the Empire Plan Fourth Quarter Report for 2011. This report presents the projected 2011 Empire Plan experience, based on claims paid through December 31, 2011, as well as the projected 2013 premium rates.

For the 2011 Plan Year, the Empire Plan carriers project a net surplus of \$210 million, 3.15% of premium. This report presents the underlying causes and assumptions for these projections. The carriers will issue the Annual Experience Statement on March 15, 2012 and the experience will be included in the First Quarter Report.

In Exhibit II, you will find the 2013 premium rates projected by the Department. These projections include a tentative dividend application amount of \$74.6 million, \$200.6 million less than the amount loaded in the 2012 rates, as well as a tentative \$57.6 million credit for monies received from the Early Retirement Reinsurance Program (ERRP), \$32.4 million less than the amount loaded in the 2012 rates. 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. ERRP subsidies received by NYSHIP are credited to all payors, as is done with earned dividends and earned interest. As of December 2011, more than \$4.5 billion of the \$5 billion appropriated for the program had been disbursed and ERRP managers announced that no claims incurred after December 31, 2011 would be considered.

The Department projects a "best estimate" net premium increase for 2013 of 10.9% in aggregate for The Empire Plan. While the projected increase is primarily based on carrier estimates, it is lower than the carrier estimates as it excludes the margin factor and assumes the 2012 claim base will decrease from the level used in the development of the 2012 premium. In addition, plan savings attributable to the 1/1/2013 implementation of a Medicare Prescription Drug Plan under an Employer Group Waiver Plan, was included.

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. The rate development and carrier negotiations will begin in September 2012. We intend to aggressively negotiate each premium element and include both retrospective premium agreements with the carriers and the application of dividend and ERRP monies to the rates to accomplish this goal. However, it is important to recognize that given the application of substantial dividend amounts to the 2009 – 2012 rates coupled with the relatively low earned dividend for 2009 - 2012, the dividend available to apply to the 2013 premium rates is more limited. Therefore, the percentage increase in the 2013 net premium is expected to be moderately higher than the increases in recent Plan trend. Please be assured that we will consider every possible option for achieving a rate of increase that is as low as possible for 2013 while promoting rate stability for the near future.

I hope this report is informative. If you have any questions, comments or suggestions, please don't hesitate to contact the Financial Management Unit at (518) 402-4264.

Attachments



## **PARTICIPATING EMPLOYERS**

# **EMPIRE PLAN 2011 Fourth Quarter Experience Report**

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

**EMPIRE PLAN EXPERIENCE REPORT**

**FOURTH QUARTER 2011**

**Produced for**

**PARTICIPATING EMPLOYERS IN THE**

**NEW YORK STATE**

**HEALTH INSURANCE PROGRAM**

**by**

**The Employee Benefits Division**

**New York State Department of Civil Service**

- Projected 2011 Empire Plan Experience . . . . . Pages 1 and 2
- Projected 2013 Premium Rates . . . . . Pages 2 and 3

Exhibits

- I.** Projected 2011 Empire Plan Experience
- II.** Projected 2012 Empire Plan Premium Rates
- III.** Monthly Rate History (2004-2013)

- *NYSHIP News*

**NEW YORK STATE HEALTH INSURANCE PROGRAM  
PARTICIPATING EMPLOYER GROUP  
EMPIRE PLAN EXPERIENCE REPORT  
4th QUARTER REPORT**

**PROJECTED 2011 EMPIRE PLAN EXPERIENCE**

The Empire Plan carriers project that the 2011 premiums, which included no margin, will generate a composite surplus of \$210.0 million (3.15% of premium). The 2011 annual experience projected by the insurance carriers is reported in Exhibit I.

This projection is based on twelve months of 2011 paid claim data. The following chart presents the percentage of the projected incurred claims actually paid as well as the most recent projected 2011 trend as compared to the trend assumed during the 2011 premium rate development:

	<u>% of Paid Claims to Projected Incurred Claims</u>		<u>Projected 2011 Trend</u>	
	<u>2010</u>	<u>2011</u>	<u>@ Final Renewal</u>	<u>@ 2011 4th Quarter</u>
Blue Cross Hospital	99.4%	86.3%	11.9%	10.4%
UHC Medical	99.9%	91.7%	8.7%	6.9%
UHC MHSA	99.5%	84.7%	8.0%	24.4%
UHC Rx	99.9%	96.1%	11.8%	9.4%

The 2011 projected dividend for each carrier as compared to the margin level used in the 2011 premium development is as follows:

	<u>Margin</u>	<u>2011 Projected Dividend/(Loss)</u>	<u>Increase/(Decrease) over Margin</u>
Blue Cross Hospital	\$0	\$34,709,000	\$34,709,000
UHC Medical	\$0	\$71,164,000	\$71,164,000
UHC MHSA	\$0	(\$24,570,000)	(\$24,570,000)
UHC Rx	\$0	\$128,690,000	\$128,690,000
<b>Total</b>	<b>\$0</b>	<b>\$209,993,000</b>	<b>\$209,993,000</b>

The overall improvement in the 2011 experience from the level projected at the time the premiums were developed is primarily due to the following three factors: 1) a \$70 million decrease in the 2010 claim base, 2) the decrease in the 2011 trend from 10.6% to 9.4% and 3) an \$80 million increase in pharma revenue. In retrospect, the 2011 premium was conservative. Factors that contributed to the conservative premiums were the unknown impact from the Federal Health Care legislation and the assumption that 2011 would be the last year of the prescription drug contract insured by United Healthcare; this contract is being extended for two years to accommodate the implementation of a Medicare Prescription Drug Program, as explained below.

Offsetting the surplus is the \$24.5 million projected loss on the Mental Health and Substance Abuse Program. The loss is primarily attributable to the large increase in utilization of services. For 2011, the number of services per 1000 contracts has increased 12.7% for network claims and 37% for out-of-network claims. In addition, the 2010 claim base has deteriorated by \$4 million since the 2012 premium rates were developed.

### **2013 PROJECTED PREMIUM RATES**

Empire Plan carrier rate proposals for 2013 are required to be submitted to the Department by September 1<sup>st</sup>. 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 as well as Early Retirement Reinsurance Program (ERRP) subsidies 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 Department's best estimate of the projected 2013 net premium increases, as presented in Exhibit II, are 10.8% for the Empire Plan. Future quarterly reports will reflect updates to these estimates as 2012 experience is incurred and analyzed.

The Department estimates the 2013 gross premium paid to the carrier will increase 6.8%. This is based on an estimated 2012 claim base projected to generate a 1% loss, 8.6% trend, 0% margin and plan savings of \$260 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 the same benefits as the Empire Plan. The savings is attributable to premium funding provided by CMS, additional manufacturer discounts on drugs in the "donut hole" and federal funding on catastrophic claims. The EGWP is more cost effective than the Retiree Drug Subsidy approach which will be eliminated as an option effective 12/31/2013. The carrier projected 2013 gross premium increase of 14.9% is considered to be too conservative as it included the margin and excluded the EGWP savings.

The projected 6.8% increase in gross premium will be negatively leveraged by a reduction in the application of available dividends and ERRP funds resulting in a projected 10.9% increase in premium charged to payors in 2013. While \$175 million in dividend is anticipated to be available on 12/31/2012, DCS anticipates the application of \$75 million in the 2013 rates. The balance is necessary to fund anticipated retrospective premium payments for 2012 and potentially 2013. With the inclusion of

anticipated ERRP amounts, credits of \$132 million are anticipated for 2013. This credit is \$233 million less than the 2012 credit resulting in the higher rate of increase to the net premium as compared to the 6.8% increase in gross premium. The actual amount of dividend/ERRP credits 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, possibly, future NYS legislation. Of particular note is the fact that 2013 is the final year of the Prescription Drug Contract. Carrier premium requirements in the last year of a contract tend to be more conservative.
- The actual impact of collective bargaining on the Plan's benefit design.
- 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.

Exhibit III presents The Empire Plan individual and family rate history since 2004 for groups with and without drug coverage.

**Exhibit I**
**2011 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)	2,271,647	1,942,411	282,000	283,467	2,507,878	129,820	4,973	4,266	139,059	1,752,102	6,670,686
B Incurred Claims (2)	2,077,331	1,708,203	247,967	250,019	2,206,189	125,181	8,866	8,961	143,008	1,534,961	5,961,489
C Administrative Expense (3)	159,607	187,243	21,597	21,685	230,525	18,128	1,246	1,247	20,621	88,451	499,204
D Gain/(Loss) (A-B-C)	34,709	46,965	12,436	11,763	71,164	(13,489)	(5,139)	(5,942)	(24,570)	128,690	209,993

(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 2011 4th Quarter Experience Reports



## 2013 Premium Projections Empire Plan With Drug Coverage

	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>
<u>Department Best Estimate Projections</u>						
Individual	596.76	634.27	6.3%	562.98	621.59	10.4%
Family	1,421.77	1,517.90	6.8%	1,345.26	1,490.13	10.8%
<b>Aggregate</b>			<b>6.7%</b>			<b>10.7%</b>
 <u>Department Optimistic Projections</u>						
	<u>2012</u>	<u>2013</u>	<u>% Change</u>	<u>2012</u>	<u>2013</u>	<u>% Change</u>
Individual	596.76	615.25	3.1%	562.98	602.57	7.0%
Family	1,421.77	1,472.35	3.6%	1,345.26	1,444.58	7.4%
<b>Aggregate</b>			<b>3.5%</b>			<b>7.3%</b>
 <u>Department Pessimistic Projections</u>						
	<u>2012</u>	<u>2013</u>	<u>% Change</u>	<u>2012</u>	<u>2013</u>	<u>% Change</u>
Individual	596.76	653.29	9.5%	562.98	640.61	13.8%
Family	1,421.77	1,563.45	10.0%	1,345.26	1,535.68	14.2%
<b>Aggregate</b>			<b>9.9%</b>			<b>14.1%</b>

(1) Represents premiums charged by the carriers.

(2) Represents cost to a participating employer.

(3) Projected Rates

## 2013 Premium Projections Empire Plan Without Drug Coverage

	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>
<u>Department Best Estimate Projections</u>						
Individual	421.61	462.62	9.7%	400.73	457.40	14.1%
Family	1,064.04	1,167.32	9.7%	1,013.79	1,154.61	13.9%
<b>Aggregate</b>			<b>9.7%</b>			<b>13.9%</b>
 <u>Department Optimistic Projections</u>						
Individual	421.61	448.75	6.4%	400.73	443.53	10.7%
Family	1,064.04	1,132.29	6.4%	1,013.79	1,119.58	10.4%
<b>Aggregate</b>			<b>6.4%</b>			<b>10.5%</b>
 <u>Department Pessimistic Projections</u>						
Individual	421.61	476.49	13.0%	400.73	471.27	17.6%
Family	1,064.04	1,202.35	13.0%	1,013.79	1,189.64	17.3%
<b>Aggregate</b>			<b>13.0%</b>			<b>17.4%</b>

(1) Represents premiums charged by the carriers.

(2) Represents cost to a participating employer.

(3) Projected Rates

<b>PARTICIPATING EMPLOYER RATES</b> <b>2003-2012 MONTHLY RATES</b> <b>REPRESENTS ENROLLEES WITH RX DRUG COVERAGE</b>				
	Gross Rate (1)	% Change	Net Rate (2)	% Change
<b>Individual</b>				
2004	395.01	12.9%	386.48	14.2%
2005 (3)	425.95	7.8%	415.33	7.5%
2006 (4)	463.20	8.7%	432.64	4.2%
2007 (4)	493.70	6.6%	462.74	7.0%
2008	517.06	4.7%	483.37	4.5%
2009	508.00	-1.8%	481.52	-0.4%
2010	536.22	5.6%	499.07	3.6%
2011	599.25	11.8%	561.83	12.6%
2012	596.76	-0.4%	562.98	0.2%
2013 Department Projection	634.27	6.3%	621.59	10.4%
<b>Average Percent Increase</b>				
From Inception (1985)		7.3%		7.3%
Most Recent 10 Years		6.2%		6.4%
Most Recent 5 Years		4.3%		5.3%
<b>Family</b>				
2004	885.05	11.9%	866.17	13.2%
2005 (3)	953.46	7.7%	929.14	7.3%
2006 (4)	1,045.11	9.6%	976.50	5.1%
2007 (4)	1,123.91	7.5%	1,056.23	8.2%
2008	1,191.70	6.0%	1,118.71	5.9%
2009	1,190.98	-0.1%	1,132.44	1.2%
2010	1,248.31	4.8%	1,165.06	2.9%
2011	1,390.76	11.4%	1,308.84	12.3%
2012	1,421.77	2.2%	1,345.26	2.8%
2013 Department Projection	1,517.90	6.8%	1,490.13	10.8%
<b>Average Percent Increase</b>				
From Inception (1985)		7.8%		7.8%
Most Recent 10 Years		6.8%		7.0%
Most Recent 5 Years		5.0%		6.0%

(1) Represents the premiums charged by the carriers.

(2) Represents the premium charged to a participating employer.

(3) Includes the impact of benefit changes effective 1/1/05.

(4) Rates presented do not include Medicare Part B surcharge.

<b>PARTICIPATING EMPLOYER RATES</b> <b>2003-2012 MONTHLY RATES</b> <b>REPRESENTS ENROLLEES WITHOUT RX DRUG COVERAGE</b>				
	<b>Gross Rate (1)</b>	<b>% Change</b>	<b>Net Rate (2)</b>	<b>% Change</b>
<b>Individual</b>				
2004	259.72	12.2%	254.23	13.8%
2005 (3)	287.34	10.6%	280.29	10.3%
2006 (4)	310.87	8.2%	291.21	3.9%
2007 (4)	338.77	9.0%	322.24	10.7%
2008	358.10	5.7%	343.35	6.6%
2009	359.79	0.5%	346.01	0.8%
2010	383.85	6.7%	361.11	4.4%
2011	422.70	10.1%	407.98	13.0%
2012	421.61	-0.3%	400.73	-1.8%
2013 Department Projection	462.62	9.7%	457.40	14.1%
<b>Average Percent Increase</b>				
From Inception (1985)		6.8%		6.9%
Most Recent 10 Years		7.2%		7.6%
Most Recent 5 Years		5.3%		6.1%
<b>Family</b>				
2004	616.78	11.6%	603.78	13.2%
2005 (3)	678.06	9.9%	660.92	9.5%
2006 (4)	742.45	9.5%	695.56	5.2%
2007 (4)	809.96	9.1%	770.95	10.8%
2008	870.96	7.5%	835.62	8.4%
2009	883.85	1.5%	850.83	1.8%
2010	938.53	6.2%	884.48	4.0%
2011	1,034.74	10.3%	999.11	13.0%
2012	1,064.04	2.8%	1,013.79	1.5%
2013 Department Projection	1,167.32	9.7%	1,154.61	13.9%
<b>Average Percent Increase</b>				
From Inception (1985)		7.5%		7.6%
Most Recent 10 Years		7.8%		8.1%
Most Recent 5 Years		6.1%		6.8%

(1) Represents the premiums charged by the carriers.

(2) Represents the premium charged to a participating employer.

(3) Includes the impact of benefit changes effective 1/1/05.

(4) Rates presented do not include Medicare Part B surcharge.



## Information for NYSHIP Participating Employers

### *Fourth Quarter Report - 2011*

#### **Federal Health Care Reform**

**Employer Group Waiver Plan:** Effective January 1, 2013, NYSHIP will implement a Medicare Prescription Drug Plan (PDP) under an Employer Group Waiver Plan, or EGWP (pronounced “egg-whip”). The EGWP will replace the current prescription drug benefit for Medicare primary enrollees and dependents. The EGWP will include a “wrap” which will enhance the PDP benefits so that they will be virtually the same as the non-Medicare Empire Plan drug benefits. There will be some differences due to CMS requirements for PDP coverage; those differences will be beneficial to the covered individual.

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 on 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 PEs. Additional information regarding the implementation of the EGWP will be provided to PEs as soon as it is available.

**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.

**Early Retiree Reinsurance Program (ERRP):** This temporary program is intended to encourage employers to continue to provide coverage to retired employees who are not yet eligible for Medicare coverage by reimbursing 80% of the cost of claims greater than \$15,000 and less than \$90,000. As of December 2, 2011, the ERRP had disbursed more than \$4.5 billion of its \$5 billion funding allocation. The ERRP Center has implemented a cut-off for submission of claims. The Center will not accept claims submitted after December 31, 2011 for reimbursement. We anticipate receipt of an additional \$96.2 million from the ERRP during the 2012 plan year for claims incurred prior to the December 31, 2011 cut-off. All proceeds of the reinsurance program are being used in the same manner as plan dividend to help offset future premium increases for all plan participants.

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 Regional Meetings for Participating Employers:** The 2011 Regional Meetings were held November 10 and November 17 in Albany and Manhattan. The meetings were attended by over 100 representatives of PEs from across the State. The Regional Meetings provide us with the opportunity to connect with PEs and provide necessary program updates, including benefits information, rate projections and policy changes, as well as information concerning the administration of NYSHIP at the employer level. The meetings also provide PEs with the opportunity to ask questions to staff of both the Employee Benefits Division and the NYSHIP insurers. We look forward to seeing you at the 2012 Regional Meetings.

**Employer Experience Reports:** Employer specific Empire 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, PEs may submit an official written request on employer letterhead indicating the calendar years for which reports are desired. The request may be directed to the Employee Benefits Division - Director's Office. Please note: 2011 experience reports will not be available until April 2012.

**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 Employer Version* is now available online at: [http://www.cs.ny.gov/gasb\\_pa/2011PEAssumptionsReport.pdf](http://www.cs.ny.gov/gasb_pa/2011PEAssumptionsReport.pdf). NYSHIP will provide 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 employer'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](mailto:Kevin.Hill@cs.state.ny.us). Please include your name, employer name, five digit agency code, phone number and e-mail address. For additional information about GASB 45, please refer to Memos PE06-11 and PE06-21.

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

**Availability of Reports Electronically:** The Empire Plan Experience Reports are available through the following direct link to our website: <http://www.cs.ny.gov/ebdonline/ebdonlinecenter/hbamem/index.cfm>.

**CEO, CFO & HBA Name and Address Changes:** Employers must notify the Employee Benefits Division of any changes in the names and/or addresses (including e-mail addresses) of 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.DOrazio@cs.state.ny.us](mailto:Deborah.DOrazio@cs.state.ny.us).