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JERRY BOONE
COMMISSIONER

PE 13-18

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: November 5, 2013

Attached is the Empire Plan Second Quarter Experience Report for 2013. This report presents the projected 2013 Empire Plan experience and the projected 2014 premium rates as of the close of the second quarter of 2013.

Based on claims processed up to the end of the quarter, the Empire Plan carriers project a 2013 net surplus of \$197.4 million, 2.93% of premium. Historically, experience projections based on six months of paid claim data have been conservative. We expect the projected surplus to increase as actual claims materialize.

Exhibit II presents the projected 2014 Empire Plan premium rates. These projections include a tentative dividend application amount of \$260.6 million; \$120.6 million greater than the dividend credit included in the 2013 rates. In addition, the 2014 premium rates include the tentative use of \$27.9 million in funds received from the Early Retirement Reinsurance Program (ERRP); the 2013 premium rates did not include any ERRP credits. The increase in the dividend and the ERRP credits result in an increase in the projected premium rates charged to payors that is modestly lower than the increase in the projected premium rates charged by the insurance carriers/vendors.

While the report reflects a "best estimate" projected net premium increase for 2014 of 4.2% in aggregate for The Empire Plan, emerging experience now results in a projected increase of approximately 2%. This projection is based on a number of assumptions made by the carriers and the Department of Civil Service. Historically, the actual increase in the premium has been less than the increase in premium projected in the 2nd Quarter Reports.

Given the fiscal challenges that the State and the participating employers continue to face, our goal is to achieve 2014 NYSHIP rates that are as low as possible while promoting rate stability for the near future. The rate development and carrier negotiations will begin in September.

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) 402-4739.

Attachments



PARTICIPATING EMPLOYERS

**EMPIRE PLAN
2013 Second Quarter
Experience Report**

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

EMPIRE PLAN EXPERIENCE REPORT

SECOND QUARTER 2013

Produced for

PARTICIPATING EMPLOYERS IN THE

NEW YORK STATE

HEALTH INSURANCE PROGRAM

by

The Employee Benefits Division

New York State Department of Civil Service

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Exhibits

- I.** Projected 2013 Empire Plan Experience
- II.** Projected 2014 Empire Plan Premium Rates
- III.** Monthly Rate History (2005-2014)

NYSHIP News Section Pages 1-3

**NEW YORK STATE HEALTH INSURANCE PROGRAM
PARTICIPATING EMPLOYER GROUP
EMPIRE PLAN EXPERIENCE REPORT
2ND QUARTER REPORT**

PROJECTED 2013 EMPIRE PLAN EXPERIENCE

The Empire Plan carriers project an aggregate surplus of \$197.4 million (2.93% of premium) for 2013, as presented in Exhibit I. This projection is based on six months of 2013 paid claim data. The following chart presents the percentage of the projected incurred claims actually paid, as well as the most recent projected 2013 trend as compared to the trend assumed during the 2013 premium rate development:

	<u>% of Paid Claims to Projected Incurred Claims</u>		<u>Projected 2013 Trend</u>	
	<u>2012</u>	<u>2013</u>	<u>At Renewal</u>	<u>At 2013 2nd Quarter</u>
Blue Cross Hospital	99.2%	38.3%	8.7%	5.0%
UHC Medical	99.6%	40.6%	9.0%	6.3%
UHC MHSA	99.1%	34.8%	8.0%	6.9%
UHC Rx	99.9%	45.7%	4.3%	4.6%

As a result of negotiations with the State, the carriers agreed to remove the margin from the 2013 premium rates. Additionally, based on the amount of the projected 2012 dividend and our concern about continued underlying carrier conservatism, the State requested additional premium reductions totaling \$142.3 million from the 2013 premium rates. In return for the reductions in the carrier premium requests, retrospective premium agreements totaling \$403.7 million were necessary. The projected 2013 surplus by each carrier as compared to the margin level and premium reductions factored in the 2013 premium are as follows:

	<u>Margin</u>	<u>Premium Adjustments</u>	<u>Projected 2013 Dividend/(Loss)</u>	<u>Experience Change</u>
Blue Cross Hospital	\$0	(\$60.0)	\$56.0	\$116.0
UHC Medical	\$0	(\$70.0)	\$140.7	\$210.7
UHC MHSA	\$0	(\$2.3)	\$9.1	\$11.4
UHC Rx	\$0	(\$10.0)	(\$8.4)	\$1.6
Total	\$0	(\$142.3)	\$197.4	\$339.7

In millions

The overall 2013 experience is projected to improve by \$339.7 million from the carrier projections made at the time the premium was developed. The primary causes for the substantial improvement in the projected experience is attributable to the decrease in the projected 2012 claim base and the reduction in the 2013 trend estimates as anticipated by the State and its benefit consultant. In addition, since the 2013 rates were implemented, the medical contract was converted to a self-insured arrangement resulting in an \$80 million improvement in the experience due to the elimination of premium taxes.

2014 PROJECTED PREMIUM RATES

The development of the 2014 premium rates will be more challenging because the Prescription Drug contract and Mental Health and Substance Abuse contract will become self-funded effective 1/1/2014. For these contracts, “premium equivalent rates” will be developed by the Department with assistance from the Department’s benefit consultant and the contactors administering the Plan’s programs. While NYS premium taxes are not assessed on these self-insured contracts, new federal fees/assessments as stipulated under the Affordable Health Act are applicable; however, the impact of the fees/assessments will be reduced due to the conversion of three of the four contracts to self-funding.

Taking these changes into account, the projected increase in the 2014 Empire Plan net premium as presented in Exhibit II is 4.2%. The underlying assumptions/factors contributing to this increase include:

- Improvement in the 2013 claim base since the 2013 premium development.
- 2014 projected trend of 7.0%.
- Removal of NYS taxes and assessments on the Prescription Drug and MHSA contracts.
- New federal fees (Insurer Fee and Reinsurance Fees).
- Improved pricing on the new Prescription Drug contract effective 1/1/14.
- Lag in federal and manufacturer revenues received under the Employer Group Waiver Plan.

While \$282.8 million in dividend is anticipated to be available on 12/31/2013, the projected 2014 premium rates include the tentative use of \$260.6 million in dividend or \$120.6 million more than the dividend credited in the 2013 rates. In addition, the projected 2014 premium rates include the tentative use of \$27.9 million in monies received from the Early Retirement Reinsurance Program (ERRP); the 2013 premium rates did not include any ERRP credits. The actual amount of dividend and ERRP monies to be applied in the 2014 premium rates will be determined in October 2013 with the balance of the dividends set aside to fund potential retrospective premium payments for 2014 or to provide stability to future year’s rate increases.

Exhibit III presents The Empire Plan individual and family rate history since 2005 for groups with and without drug coverage.

2013 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)	2,403,778	2,070,148	296,219	296,052	2,662,419	161,289	10,081	11,780	183,150	1,476,371	6,725,718
B Incurred Claims (2)	2,182,713	1,826,184	262,180	257,833	2,346,197	132,936	8,046	9,750	150,732	1,356,655	6,036,297
C Administrative Expense (3)	165,051	145,868	14,930	14,706	175,504	20,560	1,283	1,509	23,352	128,151	492,058
D Gain/(Loss) (A-B-C)	56,014	98,096	19,109	23,513	140,718	7,793	752	521	9,066	(8,435)	197,363

(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 2013 2nd Quarter Experience Report

2014 Premium Projections Empire Plan With Drug Coverage

	Monthly Gross Premium Rates (1)			Monthly Net Premium Rates (2)		
<u>Optimistic Projections</u>	<u>2013</u>	<u>2014</u>	<u>% Change</u>	<u>2013</u>	<u>2014</u>	<u>% Change</u>
Individual Plan Prime	622.25	639.08	2.7%	609.56	613.51	0.6%
Family Plan Prime	1,499.54	1,551.11	3.4%	1,470.65	1,490.82	1.4%
Aggregate			3.3%			1.2%
<u>Best Estimate Projections</u>	<u>2013</u>	<u>2014</u>	<u>% Change</u>	<u>2013</u>	<u>2014</u>	<u>% Change</u>
Individual Plan Prime	622.25	656.68	5.5%	609.56	631.11	3.5%
Family Plan Prime	1,499.54	1,595.11	6.4%	1,470.65	1,534.82	4.4%
Aggregate			6.2%			4.2%
<u>Pessimistic Projections</u>	<u>2013</u>	<u>2014</u>	<u>% Change</u>	<u>2013</u>	<u>2014</u>	<u>% Change</u>
Individual Plan Prime	622.25	674.28	8.4%	609.56	648.71	6.4%
Family Plan Prime	1,499.54	1,639.11	9.3%	1,470.65	1,578.82	7.4%
Aggregate			9.1%			7.2%

(1) Represents premiums charged by the carriers.

(2) Represents cost to a participating employer.

2014 Premium Projections Empire Plan Without Drug Coverage

	Monthly Gross Premium Rates (1)			Monthly Net Premium Rates (2)		
<u>Optimistic Projections</u>	<u>2013</u>	<u>2014</u>	<u>% Change</u>	<u>2013</u>	<u>2014</u>	<u>% Change</u>
Individual Plan Prime	473.37	484.63	2.4%	466.99	465.95	-0.2%
Family Plan Prime	1,190.63	1,229.83	3.3%	1,174.47	1,183.54	0.8%
Aggregate			3.2%			0.6%
 <u>Estimate Projections</u>	 <u>2013</u>	 <u>2014</u>	 <u>% Change</u>	 <u>2013</u>	 <u>2014</u>	 <u>% Change</u>
Individual Plan Prime	473.37	497.45	5.1%	466.99	478.77	2.5%
Family Plan Prime	1,190.63	1,263.89	6.2%	1,174.47	1,217.60	3.7%
Aggregate			6.0%			3.5%
 <u>Pessimistic Projections</u>	 <u>2013</u>	 <u>2014</u>	 <u>% Change</u>	 <u>2013</u>	 <u>2014</u>	 <u>% Change</u>
Individual Plan Prime	473.37	510.27	7.8%	466.99	491.59	5.3%
Family Plan Prime	1,190.63	1,297.95	9.0%	1,174.47	1,251.66	6.6%
Aggregate			8.8%			6.4%

(1) Represents premiums charged by the carriers.

(2) Represents cost to a participating employer.

**PARTICIPATING EMPLOYER RATES
2005-2014 MONTHLY RATES**

REPRESENTS ENROLLEES WITH RX DRUG COVERAGE

	Gross Rate (1)	% Change	Net Rate (2)	% Change
Individual				
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 (5)	646.04	7.8%	612.26	9.0%
2013	622.25	-3.7%	609.56	-0.4%
2014 Projected	656.68	5.5%	631.11	3.5%
Average Percent Increase				
From Inception (1985)		7.2%		7.1%
Most Recent 10 Years		5.3%		5.1%
Most Recent 5 Years		5.4%		5.7%
Family				
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 (5)	1,500.45	7.9%	1,423.94	8.8%
2013	1,499.54	-0.1%	1,470.65	3.3%
2014 Projected	1,595.11	6.4%	1,534.82	4.4%
Average Percent Increase				
From Inception (1985)		7.7%		7.7%
Most Recent 10 Years		6.1%		5.9%
Most Recent 5 Years		6.1%		6.3%

(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.

(5) Reflects rates effective 7/1/2012.

**PARTICIPATING EMPLOYER RATES
2005-2014 MONTHLY RATES**

REPRESENTS ENROLLEES WITHOUT RX DRUG COVERAGE

	Gross Rate (1)	% Change	Net Rate (2)	% Change
Individual				
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 (5)	470.89	11.4%	450.01	10.3%
2013	473.37	0.5%	466.99	3.8%
2014 Projected	497.45	5.1%	478.77	2.5%
Average Percent Increase				
From Inception (1985)		6.8%		6.8%
Most Recent 10 Years		6.8%		6.6%
Most Recent 5 Years		6.8%		6.8%
Family				
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 (5)	1,142.72	10.4%	1,092.47	9.3%
2013	1,190.63	4.2%	1,174.47	7.5%
2014 Projected	1,263.89	6.2%	1,217.60	3.7%
Average Percent Increase				
From Inception (1985)		7.5%		7.5%
Most Recent 10 Years		7.5%		7.3%
Most Recent 5 Years		7.4%		7.5%

(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.

(5) Reflects rates effective 7/1/2012.

Second Quarter Report – 2013

Federal Health Care Reform

Guidance on Marketplace Notice Requirements: A memo to assist Participating Employers and Participating Employers with the Marketplace Notice requirements was issued. The Patient Protection and Affordable Care Act (PPACA) requires all employers to provide employees a Marketplace Notice detailing the existence of the healthcare coverage Marketplace (referred to as “Exchanges” in the law), its function, and the potential advantages it holds for employees. This notice must be provided to new hires and current employees starting October 1, 2013. The memo aims to detail and clarify specific requirements for the notice, thus ensuring all Participating Agencies and Participating Employers are acting within the requisites of the law.

Employer Shared Responsibility Requirements: The shared responsibility requirement, a crucial provision of the Patient Protection and Affordable Care Act (PPACA), has been delayed until 2015. Previously, the requirement was set to take effect January 1, 2014. NYSHIP is currently awaiting further direction from the Administration on this issue before providing information to Participating Employers.

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.

90 Day Waiting Period Limit: For plan years beginning after December 31, 2013, the Patient Protection and Affordable Care Act (PPACA) prohibit group health plans from imposing waiting periods greater than 90 days. The IRS released Notice 2012-59 (the “Notice”), which provides guidance about new limitations on the maximum waiting period a group health plan may impose. Participating Employers will be provided with information to assist employers in complying with this requirement.

Defense of Marriage Act (DOMA)

On August 29, 2013, the Treasury Department and Internal Revenue Service (IRS) ruled that same-sex couples, legally married in jurisdictions that recognize their marriages, will be treated as married for federal tax purposes. Any same-sex marriage legally entered into in one of the 50 states, the District of Columbia, a U.S. territory or a foreign country will be covered by the ruling. The ruling does not apply to registered domestic partnerships, civil unions or similar formal relationships recognized under state law. Participating Employers will be provided with information to assist employers in complying with this requirement once further information is available.

Procurement Updates/Self-Funding

CVS/Caremark was awarded a five year contract for the Empire Plan Prescription Drug Program with an effective date of January 1, 2014. Under the new contract the program will be administered on a self-funded basis. Empire Plan Medicare Rx will be administered by SilverScript, a CVS/Caremark company. Due to Medicare requirements, enrollee communications regarding the transition to SilverScript will begin in late summer/early fall of 2013.

The Department awarded a five year contract to value Options for the Empire Plan Mental Health and Substance Abuse Program for to be administered on a self-funded basis effective January 1, 2014. This self funded arrangement eliminates the Plan's exposure to certain taxes/fees charged under the Affordable Care Act in 2014 as well as State premium tax liabilities in 2013.

East End Health Alliance Update

Empire BlueCross BlueShield (EBCBS), the insurer for the hospital component of the Empire Plan, has reached contract agreement with the East End Health Alliance (EEHA). Since the new contract is retroactive to April 1, 2013, the facilities in the EEHA group remained in the EBCBS network. EEHA is comprised of three hospitals on the eastern end of Long Island (Suffolk County): Southampton Hospital, Peconic Bay Medical Center and Eastern Long Island Hospital.

UnitedHealthcare (UHC) Options PPO

Effective June 1, 2013, medical providers in the UnitedHealthcare (UHC) Options PPO network in the states of Maryland, Virginia, and West Virginia will be Empire Plan participating providers. Letters will be sent to active enrollees and retirees who live in these states and the District of Columbia to inform them of the network expansion. The total number of providers that will be added to the network is approximately 34,000. Enrollees may search for participating providers in these states online via the Department web site at: <http://www.cs.ny.gov/ebd> starting June 1, 2013, or, they can call The Empire Plan toll-free at: 1-877-7-NYSHIP (1-877-769-7447) and choose the Medical Program. A printed directory will be available later this year and a reference copy will be mailed to HBAs. Additional copies will be available to order on HBA Online.

NYSHIP e-News for HR Professionals-E-mail Notifications for Participating Employers

DCS maintains a listserv for HR professionals interested in receiving information about NYSHIP. This information includes broadcast messages that have been posted to NYBEAS, policy memos, memos sent to HBAs, and notices of new NYSHIP publications. To sign-up for this service go to; the Department's website at: <http://www.cs.ny.gov/nyship/nyshipnews>.

Employer Experience Reports

Participating Employers' 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 2012 Buck Consultants report *Development of Recommended Actuarial Assumptions for New York State/SUNY GASB Valuation – Participating Employer Version* is available online at: <http://www.cs.ny.gov/GASB/2012PERReport.pdf>.

NYSHIP will provide agency census reports upon request, for use in complying with the provisions of GASB 45. Since the data included in this report will be current at the time it is provided, it is important that an agency's NYBEAS file is up-to-date, including correctly identifying and coding retirees before requesting census data.

To request a copy of your agency's census information, please send an e-mail to: MaryEllen.Bruculeri@cs.state.ny.us and include your name, agency name & code number, mailing address, 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 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.

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/qer.cfm>.

2013 Participating Employer Regional Meeting Schedule

Memo PE13-17 concerning this year's NYSHIP PE Regional Meetings has been posted to HBA Online for Health Benefit Administrators, with a hardcopy mailing to CEO's and CFO's.

- **Friday, November 8th - 10:30 a.m. to 3:00 p.m. (10:00 a.m. Registration)**
Hilton Times Square
234 West 42nd Street
New York, NY 10036
- **Friday, November 15th - 10:00 a.m. to 3:00 p.m. (9:30 a.m. Registration)**
Albany Marriott Hotel
189 Wolf Road
Albany, NY 12205

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.