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PE 14-14

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: April 4, 2014

Attached is the Empire Plan Fourth Quarter Experience Report for 2013. This report presents the actual 2013 Empire Plan experience and the projected 2015 premium rates.

For the 2013 Plan Year, the Empire Plan carriers project a net surplus of \$303.6 million, or 4.52% of premium. While this represents a decrease of \$29.4 million in the projected surplus reported by the carriers in the third quarter reports, it is an improvement of \$106.3 million from the projections reflected in the carriers' second quarter reports.

Exhibit III presents a range of the projected 2015 Empire Plan premium rates. These projections include a tentative dividend application amount of \$220 million which is \$92 million greater than the dividend credit included in the 2014 rates.

The "best estimate" projected net premium increases for 2015 is 5.0% in aggregate for The Empire Plan. These projections are 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 4th Quarter Reports.

Given the ongoing fiscal challenges faced by the State and the participating employers, our continuing goal is to achieve 2015 NYSHIP rates that are as low as possible while promoting rate stability for the near future. The 2015 premium 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 Fourth Quarter
Experience Report**

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

EMPIRE PLAN EXPERIENCE REPORT
FOURTH 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

- Projected 2013 Empire Plan Experience. Page 1
- Projected 2015 Premium Rates. Page 2

Exhibits

- I.** Projected 2013 Empire Plan Experience as of 12/31/2013
- II.** Projected 2013 Empire Plan Experience as of 9/30/2013
- III.** Projected 2015 Empire Plan Premium Rates
- IV.** Monthly Rate History (2006-2015)

NYSHIP News Section. Pages 1-2

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

PROJECTED 2013 EMPIRE PLAN EXPERIENCE

The Empire Plan carriers project an aggregate surplus of \$303.6 million (4.52% of premium) for 2013, as presented in Exhibit I. For comparison purposes, the Empire Plan carriers' projected 2013 experience based on claims paid through September 2013 are presented in Exhibit II. 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 4th Quarter</u>
Blue Cross Hospital	99.7%	87.9%	8.7%	6.5%
UHC Medical	99.9%	91.8%	9.0%	4.7%
UHC MHSA	99.8%	85.2%	8.0%	4.7%
UHC Rx	100.0%	96.8%	4.3%	5.5%

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)	\$39.4	\$99.4
UHC Medical	\$0	(\$70.0)	\$190.9	\$260.9
UHC MHSA	\$0	(\$2.3)	\$16.0	\$18.3
UHC Rx	\$0	(\$10.0)	\$57.3	\$67.3
Total	\$0	(\$142.3)	\$303.6	\$445.9

(In millions)

The overall 2013 experience is projected to improve by \$445.9 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 2013 claim base and the reduction in the 2013 trend estimates as anticipated by the State and its benefit consultant. Other contributing factors include an increase in anticipated pharma revenue receipts and Employer Group Waiver Plan (EGWP) subsidies from the implementation of the Empire Plan Medicare Rx plan in 2013 and \$80 million in premium tax savings associated with the conversion of the Medical Program contract to a self-insured arrangement effective January 1, 2013.

2015 PROJECTED PREMIUM RATES

Similar to 2014, development of the 2015 premium rates will again be challenging as a result of the Empire Plan becoming fully self-funded effective January 1, 2014. For all four Empire Plan contracts, “premium equivalent rates” will be developed by the Department with assistance from the Department’s benefit consultant and the contractors administering the Plan’s programs. The projected increase in the 2015 Empire Plan net premium, as presented in Exhibit III, is 5.0%. The underlying assumptions/factors contributing to this increase include:

- A 2014 premium that is expected to result in a marginal dividend.
- 2015 projected trend of 6.0%.
- Transitional Reinsurance Fee mandated by the Affordable Care Act is projected to decrease from \$54 million in 2014 to \$38 million in 2015.
- An increased application of federal and manufacturer subsidies received under the Employer Group Waiver Plan.

While \$460.0 million in dividend is anticipated to be available on December 31, 2014, the projected 2015 premium rates include the tentative use of \$220.0 million in dividend or \$92 million greater than the dividend credit included in the 2014 rates (\$52.8 million greater than the aggregate of the dividend credit plus the Early Retirement Reinsurance Program “ERRP” credit, included in the 2014 rates). The actual amount of dividend monies to be applied in the 2015 premium rates will be determined in September 2014 with the balance of the dividends set aside to provide stability to future year rate increases.

Exhibit VI presents The Empire Plan individual and family rate history since 2006 for groups with and without drug coverage.