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PE 14-22

To: Participating Employer Chief Executive Officers &
Health Benefit Administrators

From: David Boland, Acting Director of the Employee Benefits Division

Subject: Empire Plan Quarterly Experience Report

Date: July 15, 2014

Attached is the Empire Plan First Quarter Experience Report for 2014. This report presents the 2013 Empire Plan experience, the projected 2014 Empire Plan experience, based on claims paid through March 31, 2014, and the projected 2015 premium rates.

For the 2013 Plan Year, the Empire Plan carriers declared a net surplus of \$300.6 million, or 4.5% of premium. The underlying causes for these amounts are discussed in the report.

For the 2014 Plan Year, the Empire Plan vendors project a net loss of \$18.0 million, or 0.3% of premium. Historically, experience projections based on three months of paid claim data have been conservative. We expect the projected experience to modestly improve as actual claims materialize.

Exhibit III presents the projected 2015 Empire Plan premium rates. These projections include a tentative dividend application amount of \$250 million; \$122 million greater than the dividend credit included in the 2014 rates. The projected dividend application for 2015 results in an increase in the projected premium rates charged to payors that is modestly lower than the increase in the projected gross premium rates.

The "best estimate" projected net premium increase for 2015 is 5.4% in aggregate for The Empire Plan. These projections are based on a number of assumptions made by the vendors and the Department of Civil Service. Historically, the actual increase in the premium has been less than the increase in premium projected in the 1st Quarter Reports; however, these projections include a degree of optimism not previously reflected in prior 1st 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 into the future. The rate development and related proceedings 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
2014 First Quarter
Experience Report**

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

EMPIRE PLAN EXPERIENCE REPORT

FIRST QUARTER 2014

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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- Projected 2015 Premium Rates Page 2

Exhibits

- I.** 2013 Empire Plan Experience
- II.** Projected 2014 Empire Plan Experience
- III.** Projected 2015 Empire Plan Premium Rates
- IV.** Monthly Rate History (2006-2015)

NYSHIP News Section

**NEW YORK STATE HEALTH INSURANCE PROGRAM
PARTICIPATING EMPLOYER GROUP
EMPIRE PLAN EXPERIENCE REPORT
1ST QUARTER REPORT**

ACTUAL 2013 EMPIRE PLAN EXPERIENCE

As presented in Exhibit I, the Empire Plan vendors declared an aggregate surplus of \$300.6 million (4.5% of premium), which is nearly identical to the surplus projected in the 2013 Fourth Quarter Report.

There was an overall improvement of \$445.9 million in the 2013 experience from the level projected at the time the premiums were developed. The substantial improvement in experience is primarily attributable to a decrease in the projected 2013 claim base and a reduction in the 2013 trend estimates as anticipated by the State and its benefit consultant. Other contributing factors include an increase in 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.

PROJECTED 2014 EMPIRE PLAN EXPERIENCE

The Empire Plan vendors project a net loss of \$18.0 million (0.3% of premium) for 2014, as presented in Exhibit II. This projection is based on three months of 2014 paid claim data. The following chart presents the percentage of the projected incurred claims actually paid, as well as the most recent projected 2014 trend as compared to the trend assumed during the 2014 premium rate development:

	<u>% of Paid Claims to Projected Incurred Claims</u>		<u>Projected 2014 Trend</u>	
	<u>2013</u>	<u>2014</u>	<u>@ Final Renewal</u>	<u>@ 2014 1st Quarter</u>
Blue Cross Hospital	97.9%	14.4%	7.1%	7.4%
UHC Medical	98.9%	16.1%	6.0%	5.9%
MHSA	94.9%	8.1%	7.4%	7.4%
Rx	99.9%	24.8%	5.5%	5.5%

Effective January 1, 2014 the Empire Plan and Excelsior Plan are fully self-funded plans and as a result the Department developed the rates based on incurred claim amounts projected by the vendors as well as by the Department's benefits consultant, Aon Hewitt. Furthermore, the premium rates established for the 2014 plan year did not include any margin. The projected surplus as compared to the margin level included in the 2014 premium is as follows:

	<u>Margin</u>	<u>Projected 2014 Dividend/(Loss)</u>	<u>Projected Experience Change</u>
Blue Cross Hospital	\$0	(\$50.8)	(\$50.8)
UHC Medical	\$0	(\$29.8)	(\$29.8)
Value Options MHSA	\$0	\$3.2	\$3.2
CVS Caremark Rx	\$0	\$59.4	\$59.4
Total	\$0	(\$18.0)	(\$18.0)

(In millions)

The overall projected 2014 experience has decreased by \$18.0 million from the projections made at the time the premium was developed. The projected loss is primarily attributable to an increase in the 2013 claim base projected for the Hospital and Medical Programs as compared to the projections used in developing the 2014 premium rates. The projected loss is offset, in part, by improvement in the observed Prescription Drug and Mental Health and Substance Program 2014 claims experience. The Department remains confident that the final 2014 plan year experience will be comparable to the premium charged participants.

2015 PROJECTED PREMIUM RATES

The development of the 2015 premium rates will once again be challenging as a result of the Empire Plan becoming fully self-funded effective January 1, 2014. Similar to 2014, premium rates will be developed by the Department with assistance from the Department's benefits consultant and the contractors administering the Plan's programs. Empire Plan vendor rate recommendations for 2015 are required to be submitted to the Department by September 1st. Our continuing goal is to achieve the lowest rates possible while maintaining rate stability for the coming years. Taking these changes into account, the projected increase in the 2015 Empire Plan net premium as presented in Exhibit III is 5.4%. The underlying assumptions/factors contributing to this increase include:

- 2014 premium rates that are 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.
- Increased application of federal and manufacturer subsidies received under the Employer Group Waiver Plan.

While a \$443.0 million surplus is anticipated to be available on December 31, 2014, the projected 2015 premium rates include the tentative use of \$250.0 million in dividend or \$122.0 million more than the dividend credit included in the 2014 rates. The remaining dividend balance will be used to provide stability to future year's rate increases. The actual amount of dividend to be applied in the 2015 premium rates will be determined in October 2014 when the new rates are established.

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

Exhibit I**2013 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)	2,399,754	2,068,603	295,987	295,782	2,660,372	161,152	10,062	11,769	182,983	1,475,347	6,718,456
B Incurred Claims (2)	2,185,187	1,796,924	262,430	263,547	2,322,901	121,158	13,723	10,758	145,639	1,278,540	5,932,267
C Administrative Expense (3)	164,379	141,689	14,897	14,943	171,529	20,374	1,272	1,495	23,141	126,587	485,636
D Gain/(Loss) (A-B-C)	50,188	129,990	18,660	17,292	165,942	19,620	(4,933)	(484)	14,203	70,220	300,553

(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 Annual Experience Reports

2014 PROJECTED EMPIRE PLAN EXPERIENCE

In (000's)

	EMPIRE BLUE CROSS	UNITED HEALTHCARE MEDICAL				Value Options MHSA				CVS Caremark DRUG	TOTAL
		Core	NY Enhancement	PA Enhancement	Combined	Core	NY Enhancement	PA Enhancement	Combined		
A Premium (1)	2,434,083	2,079,844	298,547	295,814	2,674,205	158,328	9,854	11,701	179,883	1,605,200	6,893,371
B Incurred Claims (2)	2,383,886	1,955,920	289,175	281,020	2,526,115	137,813	13,304	11,994	163,111	1,521,359	6,594,471
C Administrative Expense (3)	101,003	146,835	15,705	15,331	177,871	11,423	1,103	994	13,520	24,473	316,867
D Gain/(Loss) (A-B-C)	(50,806)	(22,911)	(6,333)	(537)	(29,781)	9,092	(4,553)	(1,287)	3,252	59,368	(17,967)

(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' 2014 1st Quarter Experience Reports

2015 Premium Projections Empire Plan With Drug Coverage

	Monthly Gross Premium Rates (1)			Monthly Net Premium Rates (2)		
<u>Optimistic Projections</u>	<u>2014</u>	<u>2015</u>	<u>% Change</u>	<u>2014</u>	<u>2015</u>	<u>% Change</u>
Individual	633.04	661.17	4.4%	617.51	639.68	3.6%
Family	1,534.36	1,597.99	4.1%	1,499.61	1,546.56	3.1%
Aggregate			4.2%			3.2%
<u>Best Estimate Projections</u>	<u>2014</u>	<u>2015</u>	<u>% Change</u>	<u>2014</u>	<u>2015</u>	<u>% Change</u>
Individual Plan Prime	633.04	675.07	6.6%	617.51	653.58	5.8%
Family Plan Prime	1,534.36	1,631.39	6.3%	1,499.61	1,579.96	5.4%
Aggregate			6.4%			5.4%
<u>Pessimistic Projections</u>	<u>2014</u>	<u>2015</u>	<u>% Change</u>	<u>2014</u>	<u>2015</u>	<u>% Change</u>
Individual Plan Prime	633.04	688.98	8.8%	617.51	667.49	8.1%
Family Plan Prime	1,534.36	1,664.79	8.5%	1,499.61	1,613.36	7.6%
Aggregate			8.6%			7.7%

(1) Represents premiums set to fund all self insured costs.

(2) Represents cost to a participating employer.

2015 Premium Projections Empire Plan Without Drug Coverage

	Monthly Gross Premium Rates (1)			Monthly Net Premium Rates (2)		
<u>Optimistic Projections</u>	<u>2014</u>	<u>2015</u>	<u>% Change</u>	<u>2014</u>	<u>2015</u>	<u>% Change</u>
Individual	472.25	498.04	5.5%	464.40	480.57	3.5%
Family	1,198.84	1,259.60	5.1%	1,179.71	1,216.52	3.1%
Aggregate			5.1%			3.2%
<u>Best Estimate Projections</u>	<u>2014</u>	<u>2015</u>	<u>% Change</u>	<u>2014</u>	<u>2015</u>	<u>% Change</u>
Individual Plan Prime	472.25	506.89	7.3%	464.40	489.42	5.4%
Family Plan Prime	1,198.84	1,282.53	7.0%	1,179.71	1,239.45	5.1%
Aggregate			7.0%			5.2%
<u>Pessimistic Projections</u>	<u>2014</u>	<u>2015</u>	<u>% Change</u>	<u>2014</u>	<u>2015</u>	<u>% Change</u>
Individual Plan Prime	472.25	515.75	9.2%	464.40	498.28	7.3%
Family Plan Prime	1,198.84	1,305.46	8.9%	1,179.71	1,262.38	7.0%
Aggregate			8.9%			7.1%

(1) Represents premiums set to fund all self insured costs.

(2) Represents cost to a participating employer.

PARTICIPATING EMPLOYER RATES 2006-2015 MONTHLY RATES REPRESENTS ENROLLEES WITH RX DRUG COVERAGE				
	Gross Rate (1)	% Change	Net Rate (2)	% Change
Individual				
2006 (3)	463.20	8.7%	432.64	4.2%
2007 (3)	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 (4)	646.04	7.8%	612.26	9.0%
2013	622.25	-3.7%	609.56	-0.4%
2014	633.04	1.7%	617.51	1.3%
2015 Projected	675.07	6.6%	653.58	5.8%
<u>Average Percent Increase</u>				
From Inception (1985)		7.0%		7.0%
Most Recent 10 Years		4.8%		4.7%
Most Recent 5 Years		4.9%		5.7%
Family				
2006 (3)	1,045.11	9.6%	976.50	5.1%
2007 (3)	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 (4)	1,500.45	7.9%	1,423.94	8.8%
2013	1,499.54	-0.1%	1,470.65	3.3%
2014	1,534.36	2.3%	1,499.61	2.0%
2015 Projected	1,631.39	6.3%	1,579.96	5.4%
<u>Average Percent Increase</u>				
From Inception (1985)		7.5%		7.5%
Most Recent 10 Years		5.6%		5.5%
Most Recent 5 Years		5.6%		6.3%

(1) Represents premiums charged by the carriers (2006-2013) and premiums set to fund all self insured costs (2014-2015).

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

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

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

PARTICIPATING EMPLOYER RATES 2006-2015 MONTHLY RATES REPRESENTS ENROLLEES WITHOUT RX DRUG COVERAGE					
		Gross Rate (1)	% Change	Net Rate (2)	% Change
2006	(3)	310.87	8.2%	291.21	3.9%
2007	(3)	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	(4)	470.89	11.4%	450.01	10.3%
2013		473.37	0.5%	466.99	3.8%
2014		472.25	-0.2%	464.40	-0.6%
2015	Projected	506.89	7.3%	489.42	5.4%
<u>Average Percent Increase</u>					
From Inception (1985)			6.6%		6.6%
Most Recent 10 Years			5.9%		5.8%
Most Recent 5 Years			5.8%		6.4%
Family					
2006	(3)	742.45	9.5%	695.56	5.2%
2007	(3)	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	(4)	1,142.72	10.4%	1,092.47	9.3%
2013		1,190.63	4.2%	1,174.47	7.5%
2014		1,198.84	0.7%	1,179.71	0.4%
2015	Projected	1,282.53	7.0%	1,239.45	5.1%
<u>Average Percent Increase</u>					
From Inception (1985)			7.3%		7.3%
Most Recent 10 Years			6.6%		6.6%
Most Recent 5 Years			6.5%		7.1%

(1) Represents premiums charged by the carriers (2006-2013) and premiums set to fund all self insured costs (2014-2015).

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

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

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



Information for NYSHIP Participating Employers

Federal Health Care Reform

As part of the Affordable Care Act, health insurers and plan sponsors of self-insured health plans are required to finance the Patient-Centered Outcomes Research Institute (PCORI) Trust Fund. PCORI fees fund the Institute's research into the comparative effectiveness of medical treatments. The fee, which applies to policy or plan years ending on or after October 1, 2012, and before October 1, 2019, is based on the average number of covered lives under the policy and is due by July 31 of the calendar year following the last day of the plan year. The fee for the 2013 plan year is \$2 per covered life. For plan years ending on or after October 1, 2014, the fee increases are based on a formula that includes increases in the projected per capita amount of National Health Expenditures provided by the Department of Health and Human Services (HHS).

For the 2013 plan year, PCORI assessments related to the fully insured components of the Empire Plan (Hospital, Prescription Drug and Mental Health & Substance Abuse programs) were funded through the established premium rates charged to plan participants. For the Empire Plan Medical program, which converted to self-funding effective January 1, 2013, the PCORI assessment is also applicable; however, since Internal Revenue Service (IRS) rules and regulations prohibit plan sponsors from charging enrollees for PCORI fees associated with self-funded plans, this amount was not included in the premium rates.

To fund this fee, the Employee Benefits Division is billing each NYSHIP chargeable agency for its allocated portion of the 2013 PCORI fee related to the self-funded Empire Plan Medical program. In calculating the 2013 PCORI fee, IRS rules and regulations require plan sponsors to use one of three counting methods for determining the average number of lives covered during the plan year. Plans may select the counting method that is most favorable to the plan. For the 2013 plan year, the "Snapshot Factor" method produced the most favorable average enrollment count and lowest PCORI fee for the NYSHIP. The calculated fee was then allocated to each NYSHIP agency based on average enrollment using the "Snapshot Factor" counting method. If an agency did not participate in the NYSHIP for the entire 2013 plan year, the assessment was prorated accordingly.

PCORI fee assessments for the plan year ended December 31, 2013, will be included on the July 2014 NYSHIP Participating Agency/Employer monthly billing statement. The charge is labeled "ACA PCORI FEE2013" and is included in the total amount due June 25, 2014. The Employee Benefits Division will remit payment to the Internal Revenue Service on behalf of the entire plan by July 31, 2014.

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.

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 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 now available online at: <http://www.cs.ny.gov/GASB/2012PEReport.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.ny.gov 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/hbamem/index.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.ny.gov.