



STATE OF TENNESSEE
DEPARTMENT OF FINANCE AND ADMINISTRATION
BENEFITS ADMINISTRATION

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Agenda Item 2

TO: Members of the State Insurance Committee
Members of the Local Education Insurance Committee
Members of the Local Government Insurance Committee

FROM: John G. Anderson
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DATE: July 31, 2008

SUBJECT: FINANCIAL ACTIVITY –
Reported 2000 through 2007; Estimated 2008; Projections for 2009
Benefit and Premium Recommendations for 2009

The purpose of this transmittal is to provide for your review an analysis of the financial activity associated with the State, Local Education, and Local Government Plans. This analysis presents information about each of the healthcare options (PPO, POS, and individual HMO's) available through the three state sponsored Plans.

This correspondence is organized into four parts. First is a description of the methodology used to prepare the detailed information supporting these analyses. Second is a discussion of the factors which have been impacting the accuracy of the estimating techniques. Third is a review of the financial status of each Plan. The final section presents benefit and premium recommendations for 2009.

Methodology

The financial comparisons incorporate reported information through June 2008 for enrollment, premium and other revenues actually collected, claims payments and administrative expenses.

The monthly premium estimates are based upon enrollment by coverage type and the rates in effect during the specified time period. Rebates, recoveries and penalties are the amount of pharmacy rebates received during the period, audit recoveries, performance penalty payments and settlements attributable to the risk sharing arrangements found in our administrator contracts. Other revenues represent payments for such items as the state appropriation for the direct support of cost of retirees under the Local Education Plan. The POS/HMO premiums for

For each Plan, the significant rate of increase in per capita pharmacy expenditures (doubling every three to four years) was very evident in 2007, but not as marked as in past years. The rates of increase for 2007 were 7 to 9 percent for the PPO, 6 to 9 percent for the POS option, and about six percent for the HMO option. This office has observed similar, though higher, rates of increase in per member pharmacy expenditures for the past several years and continues to bring it to the attention of the Committees.

Each of the Plans will have significant fund equity amounts at the end of 2008, a very positive development. These amounts are estimated to be: \$157 million for the State Plan; \$112 million for the Local Education Plan and about \$10 million for the Local Government Plan.

Local Education Plan

Revenues for the Local Education Plan exceeded expenses from 2002-2007. This follows two years of losses in 2000 and 2001 (the combined losses were approximately \$21 million). During 2007, there was a gain of approximately \$27 million, almost 7% of premium. At the end of 2007, the Local Education Plan had a fund equity of approximately \$119 million after having negative fund equity for several years prior.

For 2008, the Division anticipates that the Local Education Plan will collect \$461 million in total revenues and pay \$468 million in expenses; a loss of about \$7 million or about 1.5% of premium. Fund equity at the end of 2008 will be approximately \$112 million. On a combined basis for 2008, the per employee premiums will be about \$672 per month while the per employee expenses will be about \$714 per month. It is worth mentioning that a significant source of funding for the Local Education Plan comes from a yearly "transfer" from the State's General Fund to this Fund; this year totaling approximately \$15.2 million. Provision for this transfer is

Proposed Benefit Changes

- ***Benefit Modifications***

At the previous meeting of the Insurance Committees held on May 22, 2008, benefit changes for 2009 were presented (see attached Recommended Plan Benefit changes for 2009). These changes include increases in the physician co-payments for the POS and HMO plans, an increase in the pharmacy co-payments for all plans (POS, PPO, and HMO), and an increase in the PPO deductible and out-of-pocket maximums. In addition, a \$25 increase in emergency room visit co-pay was also proposed. These recommended changes, while bringing balance to the portion of claims paid by the plan and plan member, also allow for an estimated three percent reduction in claims trend from 2008 to 2009.

- ***Targeted Benefit Enhancement***

- ***Diabetes***

Diabetes is the sixth leading cause of death in the U.S. and is the leading cause of non-traumatic amputations, blindness among working-aged adults and end-stage renal disease. The extent of diabetes in Tennessee is reflected in the State of Tennessee sponsored plans. In 2007 there were 24,007 (12.4% of total) plan members who incurred \$12.5 million in claims specific to diabetes. Total claims cost for these individuals totaled \$211.3 million or \$8,800 per diabetic member. Effective and economical strategies exist for controlling diabetes and preventing serious complications such as those mentioned above. These strategies include controlling glucose, lipid and blood pressure levels, getting regular foot and eye exams, and getting an annual flu vaccine.

A number of employers are initiating “value based” benefits for the purpose of removing barriers to care for members with specific chronic diseases. Removing these co-payments for individuals with diabetes have shown an increase in compliance with the strategies mentioned above. Staff has

estimated the cost of removing the co-payments for oral diabetic drugs, insulin, and diabetic supplies (strips etc.). The cost of removing these co-payments for the plan year 2009 for each plan is estimated as follows:

- State Plan - \$1,825,663
- Local Education - \$1,063,585
- Local Government - \$290,680

The premium recommendations listed below take into consideration the cost of making these plan changes.

Premium Recommendations

Based upon the recommended benefit changes and the guidelines for the utilization of the fund equity, the following 2009 premium recommendations are provided for your consideration.

State Plan

PPO	4%
POS	4%
United HMO	4%
HMO Nashville	4%
HMO Memphis	4%

Our estimates indicate that Plan expenses for 2009 will exceed revenues by between 2% and 5% of annual premium if these recommended changes are adopted, that the cross funding of options (POS and HMO to PPO) will continue and a fund equity of about \$131 million or \$108 million exist, depending on claims trends. Plan premium will increase from about \$756 million annually for 2008 to \$787 million for 2009.

Local Education Plan

PPO	0%
POS	0%
United HMO	0%
HMO Nashville	0%
HMO Memphis	0%

Our estimates indicate that for 2009 expenses will exceed premiums by about 6.5% and 9.8% if these recommended changes are adopted, cross funding between options will be minimized and that a fund equity will exist at the end of 2009 to partially offset 2010 funding requirements.

Local Government Plan

PPO	4%
PPO Limited	0%
POS	4%
United HMO	4%
HMO Nashville	4%
HMO Memphis	4%

Our estimates indicate that Plan expenses for 2009 will exceed revenues by between 1.1% and 4.2% of annual premium if these recommended changes are adopted, that the cross funding of options (POS and HMO to PPO) will continue and some fund equity will exist at the end of 2009 to partially offset 2010 financial requirements. Plan premium will increase from about \$101 million annually for 2008 to about \$105 million for 2009.

This action will fund each of the healthcare options independently and provide for a gradual spend down of the fund.

Attached you will find tables which present revenues and expenses on a reported basis for 2000 through 2007, on an estimated basis for 2008 and projected for 2009. These financial comparisons are provided for each option and on a combined basis for each plan; they reflect for 2009 the estimated impact of the proposed changes in the monthly premium levels as well as the proposed plan benefit changes and the diabetes benefit enhancement.

Should you have any questions regarding this information, please contact us at your convenience.