

STATE HEALTH BENEFIT PLAN FINANCIAL STATUS

Presentation to
Board of Community Health
August, 26, 2010



Scott Frederking, Interim Chief Financial Officer

DCH Mission

ACCESS



Access
to affordable,
quality health
care in our
communities

RESPONSIBLE



Responsible
health planning
and use of
health care
resources

HEALTHY



Healthy
behaviors and
improved
health
outcomes

DCH Initiatives FY 2011

FY 2011

**Continuity of Operations
Preparedness**

Customer Service

Emergency Preparedness

Financial & Program Integrity

Health Care Consumerism

Health Improvement

Health Care Transformation

Public Health

Workforce Development

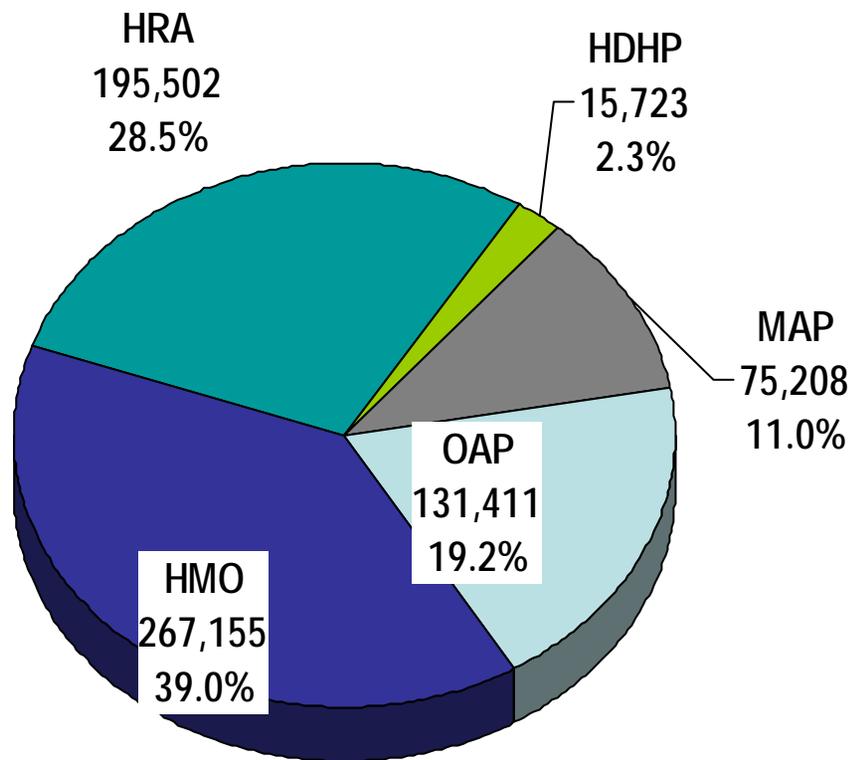


Discussion Points

- Review of Strategy
- FY 2008 – FY 2010 Revenue and Expense Trend
- FY 2010 Fiscal Status
- FY 2011 – FY 2012 Projected Fiscal Status
- CY 2011 Plan Design Changes
- Next Steps



SHBP Consumerism Strategy



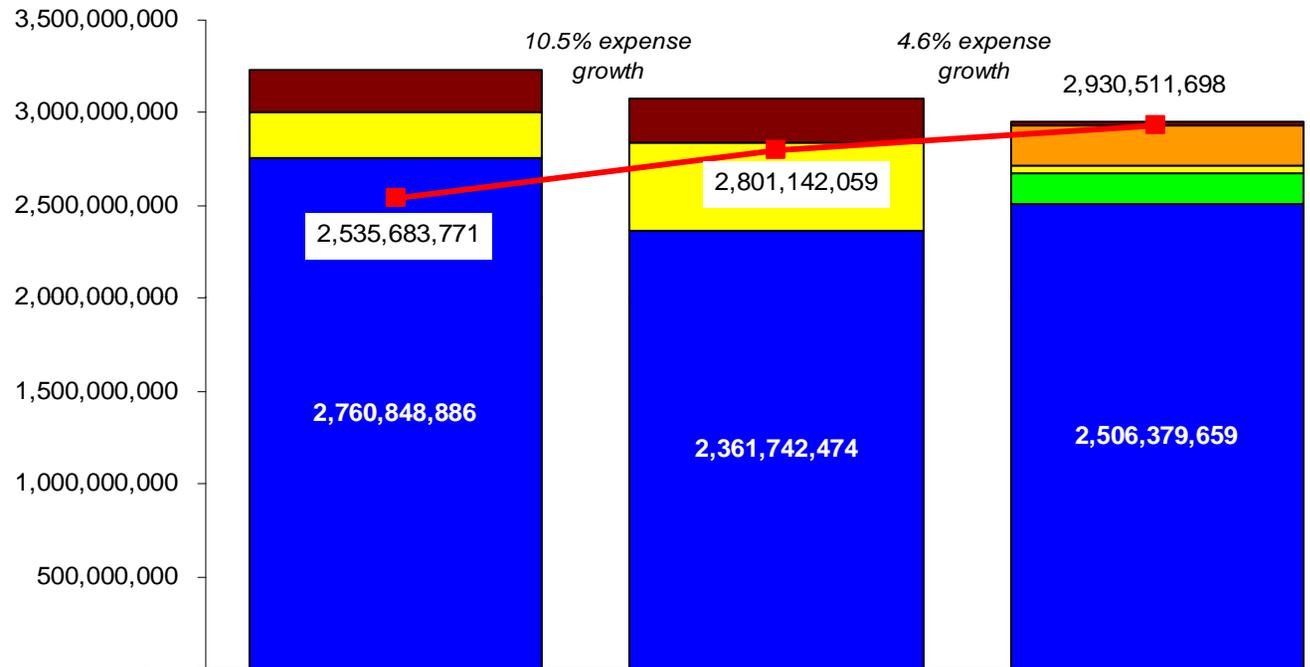
June 2010 SHBP Enrollment

- HRA enrollment increased from 111,313 in July 2009 to 195,502 in June 2010 – a **76% increase**
- OAP and HMO enrollment decreased by 47% and 17%, respectively
- Medicare Advantage enrollment increased from 5,912 in July 2009 to 75,208 in June 2010 – a **1172% increase**

FY 2008 – FY 2010 Revenue and Expense Trend



FY2008-2010 Revenue and Expense Trend



	2008	2009	2010 Proj
■ Incurred But Not Reported (IBNR) Reserves	222,889,000	237,631,000	17,711,076
■ Revenue - IBNR Reserves Utilized			219,919,924
■ Revenue - Prior Year Fund Balance	247,708,324	472,873,439	33,473,854
■ Revenue - Long-term investment funds			170,738,260
■ Revenue - Contributions and Other	2,760,848,886	2,361,742,474	2,506,379,659
■ Total SHBP Annual Expense	2,535,683,771	2,801,142,059	2,930,511,698

NOTE: FY 2010 Unaudited

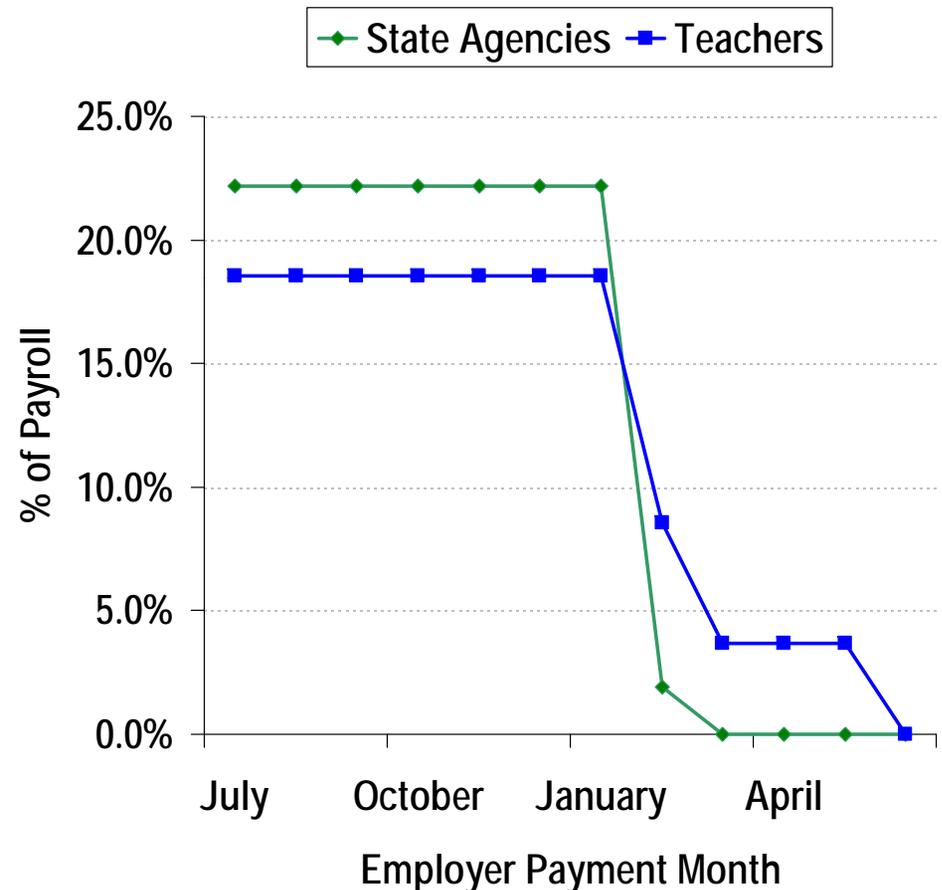
Changes in FY 2009 Employer Contributions

22% decrease in FY 2009

employer revenue as collection methods changed in FY 2009*

- Percent of Payroll for teachers and state employees decreased over the year, eventually to 0%
- DOE contributions on behalf of school personnel decreased from \$279.2 m to \$124.4m but used \$30.3 m from prior year contributions

Use of June 30, 2008 fund balance in lieu of current year contributions

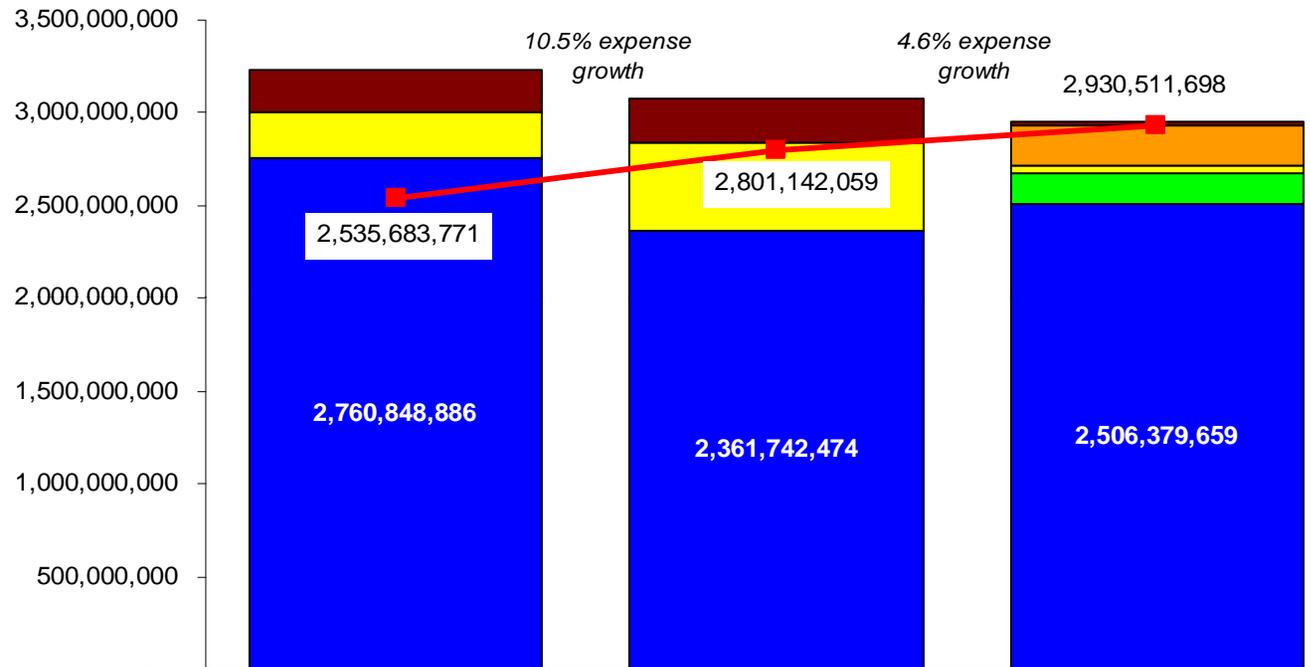


* Does not consider OPEB contributions

Summary of Cost Drivers in CY 2009

- Expenditure increase in CY 2009 plan year primarily driven by 2 factors:
 - Increase in inpatient and outpatient hospital price payments
 - Inpatient payments per admit had the highest price increase, increasing by 16.2%
 - Outpatient payments per visit increased 13.5%
 - Outpatient utilization increased by 4.2% while inpatient utilization decreased by 2.4%
 - Pharmacy payments per script remained relatively stable
 - Large Claimants
 - The number of claimants with total claims over \$100,000 increased 31% from 1,841 in CY2008 to 2,415 in CY2009
 - Total paid for claimants with claims over \$100,000 increased 34% from \$358M in CY2008 to \$480M in CY2009

FY2008-2010 Revenue and Expense Trend



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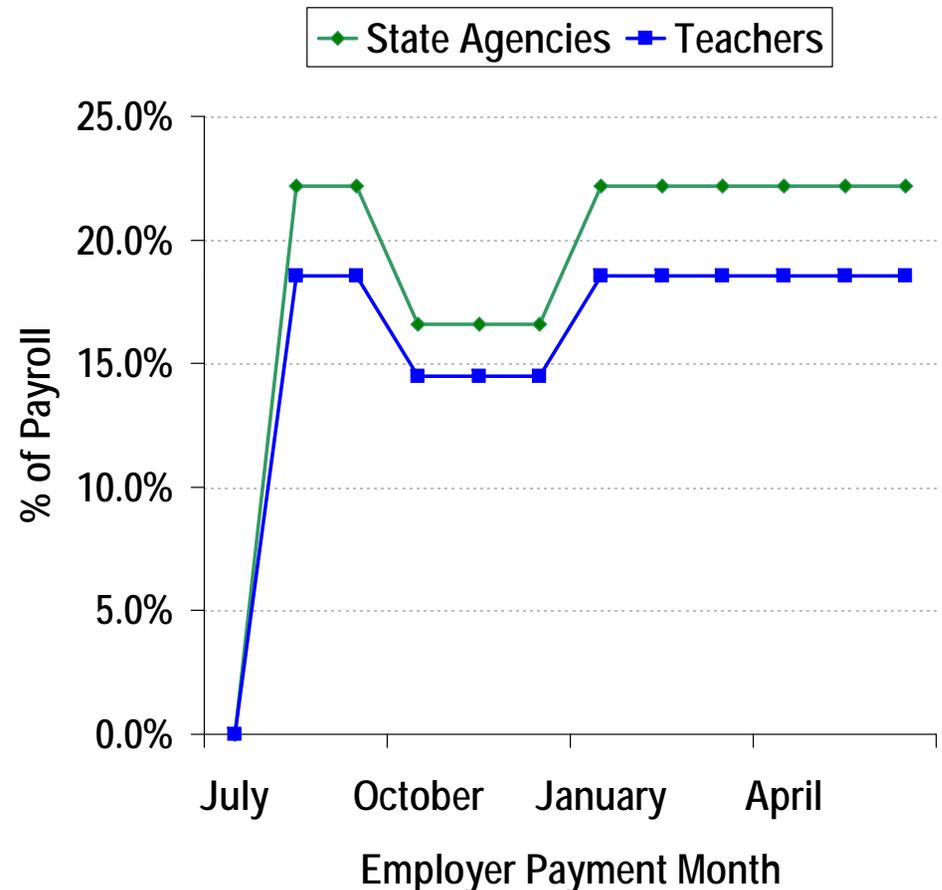
FY 2010 Fiscal Status



Changes in FY 2010 Employer Contributions

7% increase in current year employer revenue

- Percent of Payroll for teachers and state employees:
 - 0 for July 2009
 - 18.534 and 22.165 for 8 months
 - 14.492 and 16.581 for 3 months
 - Reduction budget neutral due to transfer of assets from long-term investment
- DOE contributions on behalf of school personnel decreased from \$154.8 m to \$22.8 m



FY 2010 Revenue/Expense Statement

(in millions)	FY 2010*
Employer Contributions	\$1,799.6
Employee Premiums	668.3
Other Revenue	38.5
Prior Year Fund Balance	33.5
OPEB Long-Term Investment Funds	170.7
Total Revenue	\$2,710.6
Cash Expense	\$2,930.5
Total Expense	\$2,930.5
(Deficit) – Covered By IBNR Reserve	(\$219.9)

* unaudited

FY 2011 and FY 2012 Projected Fiscal Status



Budgeted Revenue*

FY 2011

\$277.8 million or 11.3% growth in employee and employer revenues collected in FY 2011 as compared to FY 2010*

- **13.3% increase in current year employer** revenue considering:
 - Full twelve months of percent of payroll valued at 18.534 and 22.165;
 - Offset by 4-6-8% budget reduction levels for state agencies; 2% for QBE
- **5.7% increase in revenue from member** premiums
 - Reflects 10% premium increase and surcharge increases in CY 2010
 - Reflects revenue from employee migration to dependent tiers (described below)
- **Projected revenue due to federal health care reform**
 - **Early Retiree Reinsurance Program**
 - **Expanded Dependent Coverage**
 - Requires coverage of dependents aged 19 through 25
 - **Revenue generated from employee migration to dependent tiers**

* Based on DCH projections as of 8/9/10

Budgeted Revenue*

FY 2012

(\$13.2) million or 0.5% decrease in employee and employer revenues collected in FY 2012 as compared to FY 2011

- **2.5% decrease** in employer revenue:
 - FY11 Percent of Payroll levels carry forward in FY12;
 - Offset by 6-8-10% budget reduction levels for state agencies; 2-4% for QBE
- **5.3% increase** in the collection of member premiums
 - Reflects 10% premium increase and surcharge increases in CY 2010
 - Reflects revenue from employee migration to dependent tiers (described below)
- **Projected revenue due to federal health care reform**
 - **Early Retiree Reinsurance Program**
 - **Expanded Dependent Coverage**
 - Requires coverage of dependents aged 19 through 25
 - Revenue generated from employee migration to dependent tiers

* Based on DCH projections as of 8/9/10

Future Expense

FY 2011 – \$20.6 million or 0.7% growth

FY 2012 – \$235.4 million or 8.0% growth

Assumptions for FY 2011 and FY 2012

- Pricing, Benefit Design and Marketing of CDHP plans moves 6% of HMO membership and 3% of OAP membership to a CDHP plan option in CY 2011
- Negative growth for active state employees, teachers, and school employees;
- Positive growth for Early and Medicare Retirees in all groups
- Projected expense due to federal health care reform
 - Expanded dependent care coverage
 - Requires coverage of dependents aged 19 through 25

FY 2011-12 Revenue/Expense Statement

(in millions)	FY 2011	FY 2012	% change
Employer Contributions	\$2,039.7	\$1,989.0	-2.5%
Employee Premiums	706.1	743.6	5.3%
Early Retiree Reinsurance Program	50.0	110.0	120%
Total Current Year Revenue	\$2,795.8	\$2,842.6	1.7%
Cash Expense	\$2,951.1	\$3,186.5	8.0%
Total Expense	\$2,951.1	\$3,186.5	8.0%
Surplus/(Deficit)	(\$155.3)	(\$343.9)	



CY 2011 Changes to Address Deficits



Trudie Nacin, Chief, State Health Benefit Plan

Change Recommendations

PLAN DESIGNS

Medical

- HMO: Specialist Office visit co-pay increase from \$35 to \$45
- All options: Increases in deductibles and Out of Pocket Maximums

Pharmacy

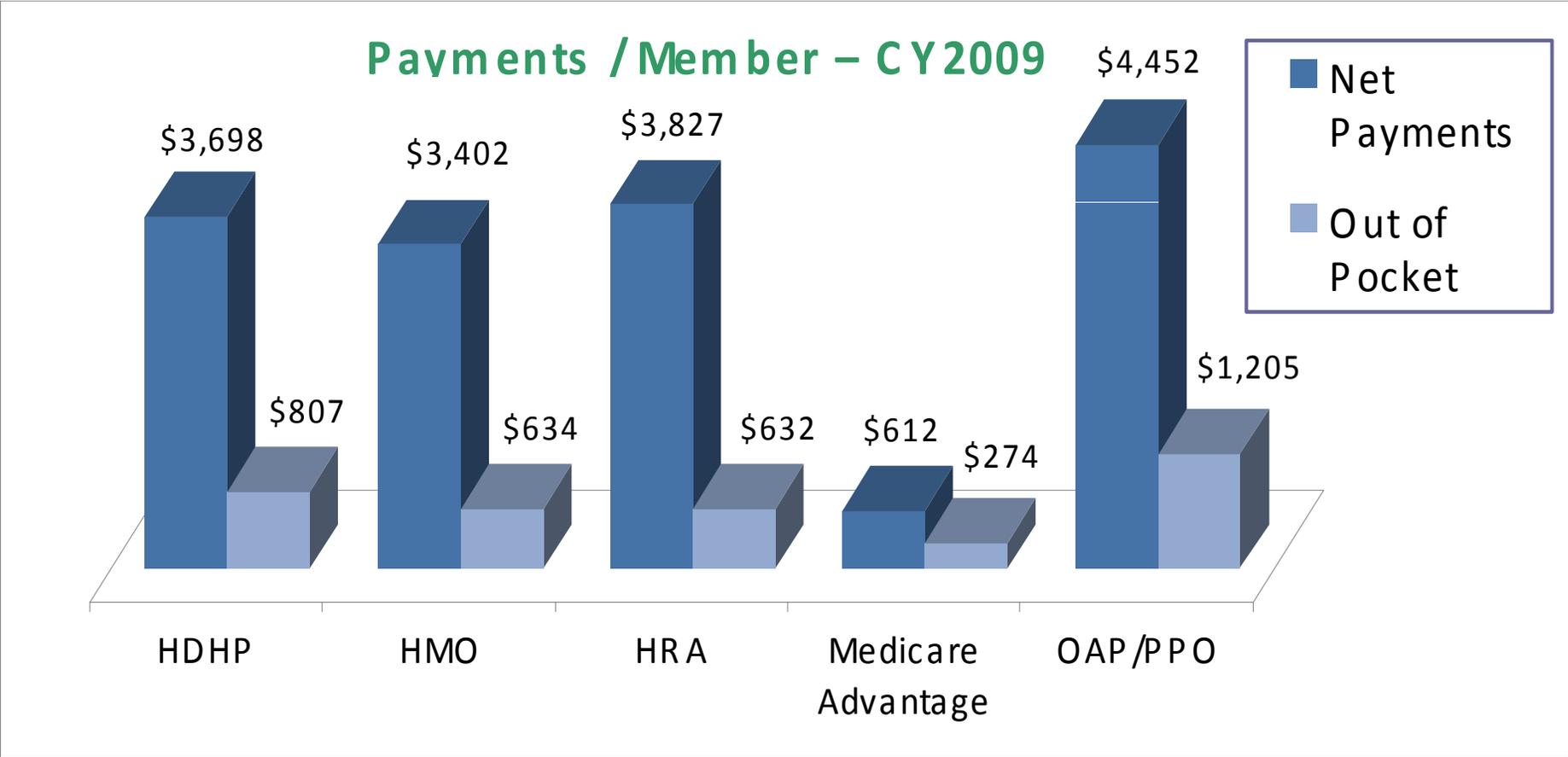
- HMO: Rx co-pay at \$20/\$50/\$90 for generic/preferred brand/nonpreferred brand

Deductibles/Out of Pocket (OOP) Maximums

(Single)	HMO	HRA	HDHP
Deductible	\$1000	\$1,300	\$1,500
Out of Pocket Max	\$3,000	\$3,000	\$2,400

Change Recommendations (continued)

Elimination of OAP Option



Change Recommendations (continued)

Medicare Advantage (MA)

- Out of pocket increase
 - MA standard \$1,000 to \$2,000
 - MA premium \$500 to \$1,000
- Eliminate office visit co-payment for preventive services (was \$20 MA standard; \$10 MA premium)
- Change outpatient nonsurgical services from co-payments to coinsurance (\$95 to 15% MA standard; \$50 to 10% MA premium)
- All co-payments, except pharmacy, included in annual out of pocket maximum (currently, office visit co-payments are excluded)



Change Recommendations (continued)

Medicare Advantage – Pharmacy changes:

- MA standard: change co-payments from \$10/\$25/\$50 to \$10/\$40/\$80
- MA premium: change co-payments from \$10/\$25% to max. of \$25/\$25% to max. of \$50 to \$10/\$30/\$60

Non-MA enrolled Medicare eligible retirees:

- Eliminating premium discounts for enrollment in parts of Medicare
 - Affects less than 700 retirees

Change Recommendations (continued)

Healthcare Reform Impact

- Expanded Preventive Care:
Required to cover, at 100%, an expanded list of preventive services. Projected plan expense - \$4.9 million FY11
- Extended Dependent Care Coverage:
Required to cover eligible dependents age 19 through 25 regardless of student status. Projected plan expense - \$36.9 million
Half of this expense will be passed to the member as additional premium for those tiers covering children

Change Recommendations (continued)

- 10% premium increase – all options
- Additional 'add-on' premium for Extended Dependent Coverage
- Surcharge increases: Tobacco Use \$80;
- Spousal \$50

Employee Contribution	CY 2010				CY 2011 10% increase			CY 2011 Expanded Dependent Coverage Add-On			CY 2011 Total Proposed		
	OAP	HMO	HRA	HDHP	HMO	HRA	HDHP	HMO	HRA	HDHP	HMO	HRA	HDHP
Employee only	94.70	100.20	62.50	54.40	110.22	68.75	59.84	0	0	0	110.22	68.75	59.84
Employee + Children)	268.10	227.60	185.30	171.40	250.36	203.83	188.54	13.91	11.33	10.48	264.27	215.16	199.02
Employee + Spouse	278.50	236.50	191.00	176.50	260.15	210.10	194.15	0	0	0	260.15	210.10	194.15
Family	289.10	245.40	196.60	181.60	269.94	216.26	199.76	15.00	12.02	11.10	284.94	228.28	210.86

Supplemental Funding Plan

FY 2011

- Maintain percent of payroll at current rates of 21.955 and 25.586 for teachers and state employees through March 2011
- Decrease percent of payroll toward the end of the fiscal year so that SHBP billings to agencies and school districts stay within their FY 2011 appropriated amounts
- Increase Per Member Per Month (PMPM) billings to school systems for non-certificated school service personnel, effective December 2010
 - From current rate of \$162.72 to \$218.20
 - Projected FY 2011 revenue = \$25 million
- Request \$50 million in additional state funds in our Amended FY 2011 budget submission to the Office of Planning and Budget

CY 2012

- Increase member premiums 10%

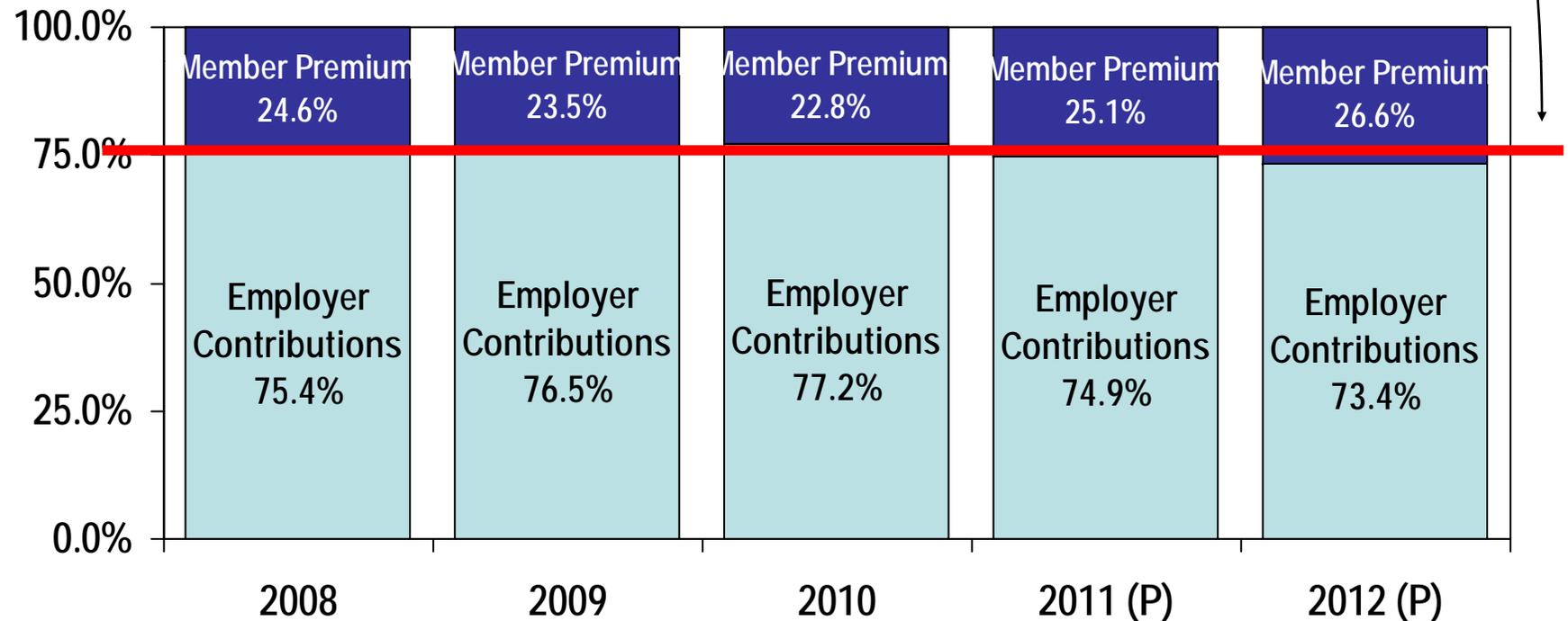
FY 2012

- Maintain \$218.20 PMPM billings to school systems
 - Projected FY 2012 revenue = \$49 million

Funding Splits after Changes

Share of Total Expense by Fiscal Year

Target ER share = 75%



Does not include co-insurance paid by employee when utilizing healthcare services.

FY 2011-12 Revenue/Expense Statement

(in millions)	FY 2011	FY 2012	% change
Employer Contributions	\$2,114.7	\$2,038.1	-3.6%
Employee Premiums*	715.2	792.5	10.8%
Early Retiree Reinsurance Program	50	110	120%
Total Current Year Revenue	\$2,879.9	\$2,940.6	2.1%
Cash Expense	\$2,853.4	\$2,977.9	4.4%
Total Expense	\$2,853.4	\$2,977.9	4.4%
Surplus/(Deficit)	\$26.5	(\$37.3)	

FY 2012 employee premiums reflect a 10% employee premium increase in CY 2012

Next Steps

- Today's resolutions for the board's consideration would approve employee premiums for CY 2011 based on:
 - Employee premiums for CY 2011 based on Plan design changes and premium increases
 - Employer contributions - % of payroll and non-certificated PMPM increase
- DCH will submit an Amended FY 2011 budget request to the Governor's Office of Planning and Budget that will include a request for \$50,000,000 in additional funding to support FY 2011
- DCH will continue to work with stakeholders to develop a strategy to address the projected FY 2012 deficit

