

***New Jersey
School Employees' Health Benefits Commission
July 14, 2009 Meeting***

***School Employees' Health Benefits Program
(SEHBP)***

***Recommended Plan Year 2010
Medical/Rx Rate Renewal Recommendation
for Active Employees and Retirees***

- For Plan Year 2010, Aon is recommending premium rate changes that – in the aggregate – represent an ***overall increase*** of 15% for SEHBP Active Employees and Retirees:

	Active Employees	Early Retirees	Medicare Retirees
NJ DIRECT10	25%	11%	1%
NJ DIRECT15	25%	11%	1%
Aetna HMO	24%	19%	6%
CIGNA HMO	24%	19%	6%
Rx Card Plan	7%	NA	NA
Average Change	23%	12%	1%

- This recommended renewal assumes:
 - For Retiree Rx for NJ DIRECT and HMOs, the brand copays and Out-of-Pocket maximum will receive formula increases based on Retiree Rx experience;
 - The Prescription Benefit Manager (PBM) RFP will result in a new contract, effective 1/1/10 that will reduce Rx costs by a

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- minimum of 2% to 5%. Premium levels in the renewal report assume a 2% reduction in Rx costs;
- The Dependent Eligibility Verification Audit will generate Plan Year 2010 SEHBP claim savings of \$9 million through the elimination of coverage for ineligible dependents;
 - No other changes in Employee or Retiree benefits, other than those mandated by NJ or federal law, as outlined in the Renewal Report;
 - SEHBP Employee enrollment will increase in August 2009 at half the rate of July 2009 and then remain level from September 2009 through December 2010, and
 - SEHBP Retiree enrollment will continue to increase at about the same rate as in prior years, with a 3% increase in total Retirees (the combination of a 6% increase for Medicare Retirees and a 3% decrease for Early Retirees).
- Aggregate differences in the rate changes for different benefit plans and between Actives and Retirees reflect the impact of:
 - Medicare Retiree medical trends have been well below industry norms for the past few years and we are projecting that the low trend levels will continue into Plan Years 2009 and 2010.
 - Prior to Plan Year 2009, Early Retiree HMO costs were pooled with Active HMO costs to develop premiums. Since there are now over 5,000 SEHBP Retirees enrolled in HMOs, the Plan Year 2010 renewal rates were again adjusted to partially reflect the higher level of claim costs attributable to Early Retirees.
 - HMO medical claim trends have averaged about 3% higher than Horizon trends over the past several years, and we are projecting that HMOs will continue to trend at a higher rate than the Horizon plans in Plan Year 2010.

- Factors contributing to the overall recommended rate actions include:
 - 9% trend from Plan Year 2009 to Plan Year 2010;
 - Higher than previously anticipated trends for Plan Years 2008 and 2009;
 - NJ DIRECT benefit changes approved after the Plan Year 2009 renewal, which add 2% to the increase;
 - Mandated benefit enhancements, which add 1% to the increase;
 - Spend down of the accumulated Claim Stabilization Reserve to reduce Plan Year 2009 premium rates, which adds 6% to the increase;
 - 2% margin added to the Plan Year 2010 premium rates in order to build up the Claim Stabilization Reserve, and
 - 1% decrease in Education Surcharge credits per member, due to the growth of enrollment in the SEHBP.
- Plan Year 2010 projected costs for the SEHBP are \$1.84 billion (\$1.10 billion for Actives and \$.74 billion for Retirees). Plan Year 2010 renewal premiums are set 2% higher than projected costs for Actives and 2% lower than projected costs for Retirees. This results in a projected \$18 million gain for Actives and a projected \$15 million loss for Retirees in Plan Year 2010.
- The 12/31/10 Claim Stabilization Reserve level for Actives is projected at 1.2 months of projected plan costs, significantly below the recommended level of 2.0 months, so the slight gain will help restore the Active reserve to a more adequate level.
- Despite the projected 2% loss, the Retiree Claim Stabilization Reserve is projected at 3.4 months as of 12/31/10.