

***New Jersey State Health Benefits Commission
July 14, 2010 Meeting***

State Health Benefits Program (SHBP)

***Recommended Plan Year 2011
Medical/Rx Rate Renewal Recommendation
for Active Employees and Retirees
of the Local Government Group***

- For Plan Year 2011, Aon is recommending premium rate changes that – in the aggregate – represent an **overall increase** of 11.7% for Local Government Active Employees and Retirees:

	Employees	Early Retirees	Medicare Retirees
NJ DIRECT10	12.2%	13.3%	4.0%
NJ DIRECT15	12.2%	13.3%	4.0%
Aetna HMO	12.7%	17.3%	8.7%
CIGNA HMO	12.2%	16.8%	8.2%
Rx Card Plan	6.6%	NA	NA
Average Change	11.6%	14.3%	4.5%

- This recommended rate 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 selection of Medco as the Program's Prescription Benefit Manager (PBM) will result in a 9% reduction in Rx claim costs in Plan Years 2010 and 2011. In Plan Year 2011, this translates into \$17 million in savings as a result of deeper discounts and larger rebates than were available through the previous PBMs;

- The Dependent Eligibility Verification Audit is projected to generate Plan Year 2011 claim savings for the Local Government Group of \$10 million through the elimination of coverage for ineligible dependents;
- No other changes in Employee or Retiree benefits, other than those mandated by New Jersey or federal law, as outlined in the Renewal Report. Specific to Health Care Reform, the SHBP will be impacted by:
 - Coverage of Dependent Children to Age 26 (which increases costs \$3 million)
 - Elimination of Benefit Maximums (which increases costs \$4 million)
 - Early Retiree Reinsurance Program
- Active Employee enrollment will decrease 4% in Plan Year 2011, and
- Early Retiree enrollment will increase 2% in Plan Year 2011 and Medicare Retiree enrollment will not change.
- 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 in Plan Years 2010 and 2011.
 - HMO 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 2011.
- Factors contributing to the recommended rate actions include:
 - 10% trend increase from Plan Year 2010 to Plan Year 2011, which is close to the industry norm;

- Mandated benefit enhancements, including New Jersey and federal mandates (including Health Care Reform), which add about 2% to the increases,
 - Higher than expected claim levels in the current experience period, which add about 3% to the increases, and
 - 3% savings from the Dependent Eligibility Verification Audit and the transition to Medco.
- Plan Year 2011 projected costs for the Local Government Group are \$869 million (\$632 million for Actives and \$237 million for Retirees). Plan Year renewal premiums are set to match the projected \$869 million cost, so there is no loss or gain projected for Plan Year 2011.
 - The Claim Stabilization Reserve is projected to remain at the target level of 2 months of plan costs as of 12/31/11.