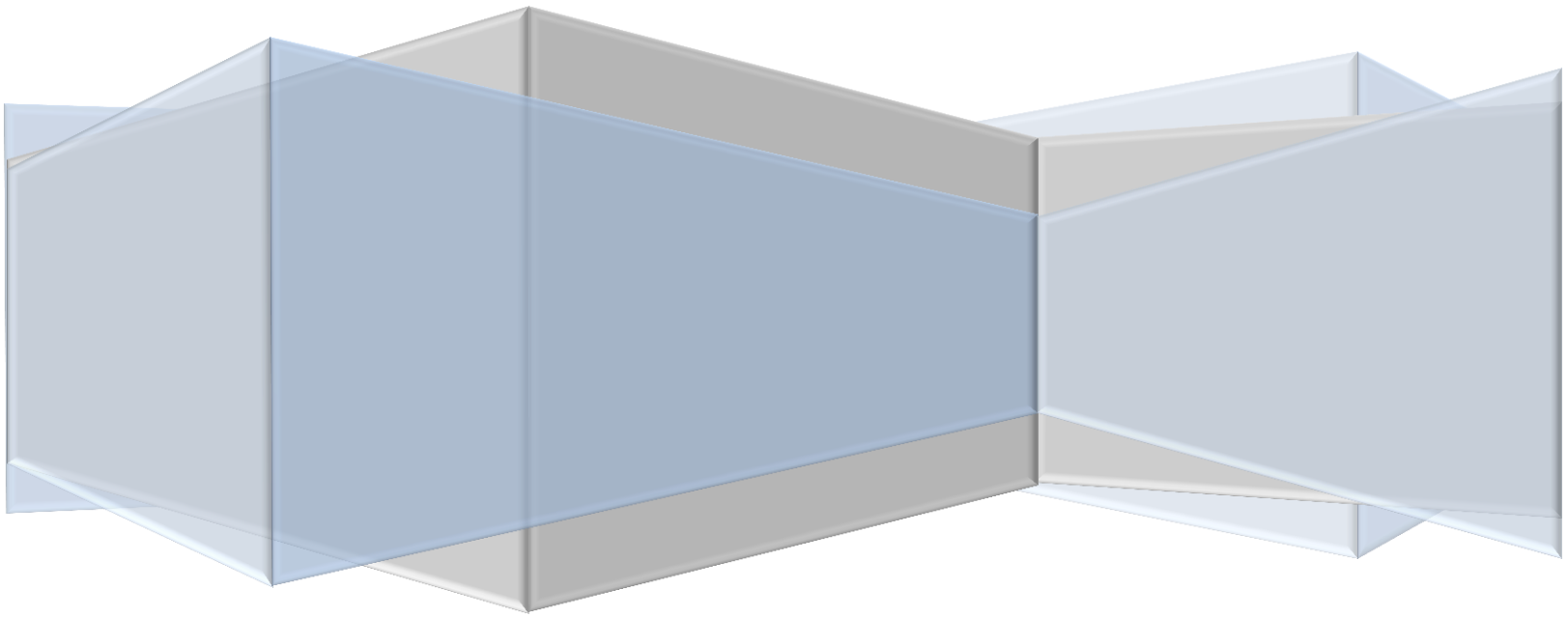
Commonwealth of Virginia Retiree Health Benefits Program

Medicare-Coordinating Plans

Annual Report 2015--2016



Virginia Department of
HUMAN RESOURCE
MANAGEMENT

Contents:

Introduction

The Commonwealth of Virginia Retiree Health Benefits Program provides health plan coverage to eligible retirees, survivors, and long-term disability participants who choose to enroll within the enrollment window. They may also cover eligible family members. Those participants who are eligible for Medicare are required to enroll in an available Medicare-coordinating plan if they wish to maintain coverage in the state program. This is in compliance with Medicare Secondary Payer guidelines. The reduction in expense due to Medicare primary payments and prescription drug subsidies helps to control premium costs paid by enrollees.

The Program offers a Medicare supplement plan, Advantage 65, to which a Medicare Part D (prescription drug) plan and/or a dental/vision option can be added. The dental/vision option can be added and deleted one time. The Medicare Part D plan can be elected upon initial Medicare primacy (pending approval by Medicare), but if it is not elected or it is terminated at any time, it may not be elected again in the future. The Department of Human Resource Management enforces these eligibility criteria to protect the assets of the program on behalf of its enrollees who pay the full cost of coverage.

There is also a grandfathered plan, Medicare Supplemental/Option II, which is only available to existing participants. There are some coverage differences, including:

- Option II pays the Medicare Part B deductible, which is not paid by the Advantage 65 Plan.
- Option II has a Major Medical benefit that is not covered by the Advantage 65 Plan.
- Option II does not cover at-home recovery care and visits that are covered by the Advantage 65 Plan.

Because of the small grandfathered population and its demographics, the premium for the Option II Plan is significantly higher than the Advantage 65 Plan premium (see ***Monthly Premium Cost*** section). Option II participants are encouraged annually to review the impact of these coverage differences to determine whether a move to Advantage 65 would be to their benefit. For many Option II participants, there is minimal value in maintaining Option II coverage. Due to moves to the Advantage 65 Plan, in addition to normal attrition, the population of the Option II Plan continues to decrease (see ***Enrollment*** section).

Notable changes occurring during this coverage period included:

- **Termination of the Medicare Complementary/Option I Plan effective January 1, 2015**

  All remaining Option I participants were defaulted to the Advantage 65 with Dental/Vision Plan, resulting in better benefits and a lower premium increase

than they would have experienced had the Option I Plan continued to be available.

- **Addition of a hearing benefit effective January 1, 2016**

  The new benefit includes a routine hearing exam, hearing aid(s) and related supplies and services once every 48 months.

- **Change in dental plan administrator effective January 1, 2016**

  This resulted in a small cost decrease for the dental portion of the total premium for those who have that benefit.

The information that follows provides an overview of the program, including demographics, plan assets, and plan costs.

Enrollment

Total enrollment in the Medicare-coordinating plans decreased between 2015 and 2016. Much of the decrease was due to lower enrollment in the Option II Plan, which can be attributed to normal attrition as well as movement to the Advantage 65 Plan.

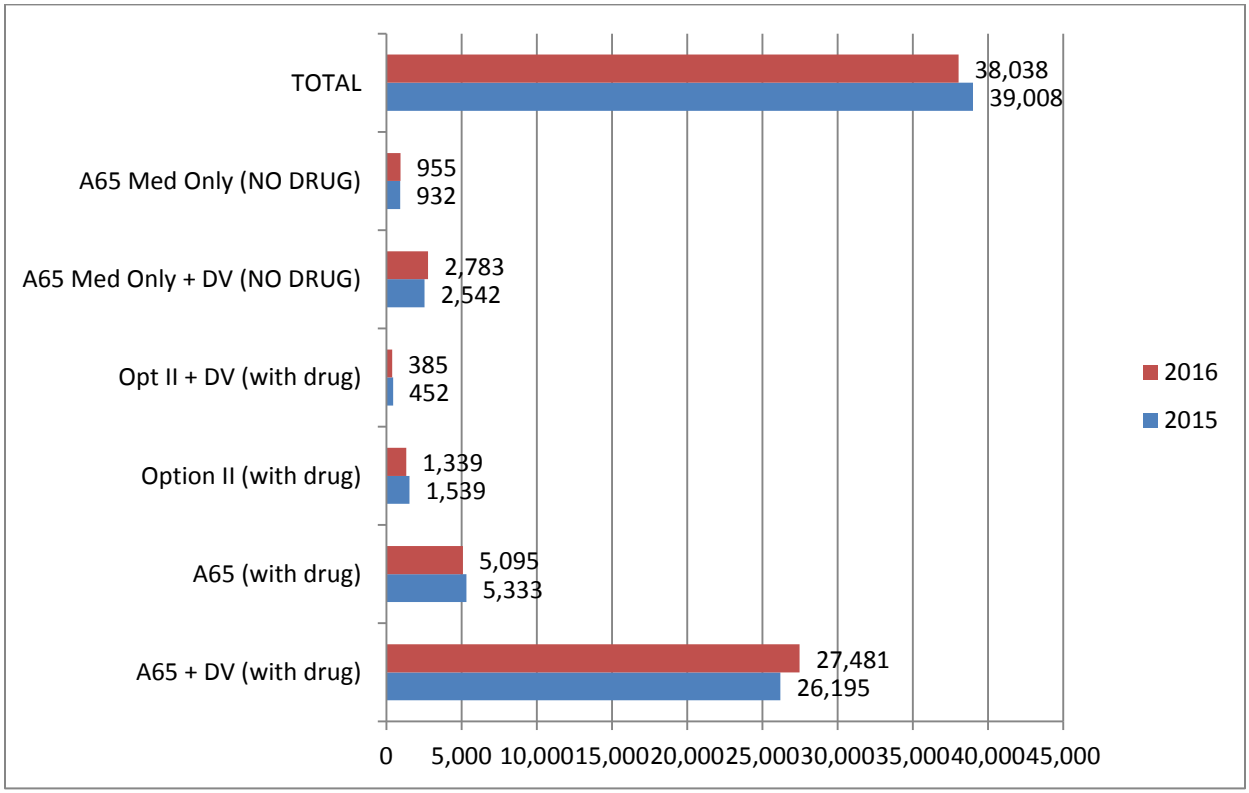
There was also a decrease in the Advantage 65 Plan and a very small increase in the Advantage 65 Medical Only Plan. This is similar to enrollment changes from 2012 to 2014 and suggests that new enrollees are selecting plans that include the dental/vision option.

The Advantage 65 with Dental/Vision Plan continues to grow, indicating consistency in new enrollees who elect prescription drug coverage under the state program instead of going to non-state program plans. Also, the Option I Plan was discontinued effective January 1, 2015, and remaining participants were defaulted to the Advantage 65 with Dental/Vision Plan.

The following enrollment charts include retirees, survivors, long-term disability participants, and family members who have their own single memberships due to Medicare primacy.

Chart Plan Key
A65 – Advantage 65 Plan
DV – Dental and Vision Coverage
Med Only – Medical Only (no outpatient drug coverage)

TOTAL ENROLLMENT BY PLAN – 2015 to 2016



PERCENT CHANGE IN ENROLLMENT BY PLAN, 2015—2016

	A65 + DV (with drug)	A65 (with drug)	Option II (with drug)	Opt II + DV (with drug)	A65 Med Only + DV (NO DRUG)	A65 Med Only (NO DRUG)	TOTAL
2015	26,195	5,333	1,539	452	2,542	932	39,008
2016	27,481	5,095	1,339	385	2,783	955	38,038
Change	1,286	-238	-200	-67	241	23	-970
% Change	4.9%	-4.5%	-13.0%	-14.8%	9.5%	2.5%	-2.5%

Monthly Premium Cost

All Medicare-coordinating plan premiums are single memberships since they coordinate with the individual participant's Medicare coverage. While the dental, vision and Medicare Part D (prescription drug) benefits cannot be purchased as stand-alone options, their cost is determined separately as a part of the bundled offering. The Advantage 65 and Option II medical benefits pay secondary to Medicare for Medicare-covered services.

Following is a breakdown of premium costs by benefit. The cost of dental coverage decreased with the change in dental plan claims administrators effective January 1, 2016.

PREMIUM BREAKDOWN BY BENEFIT

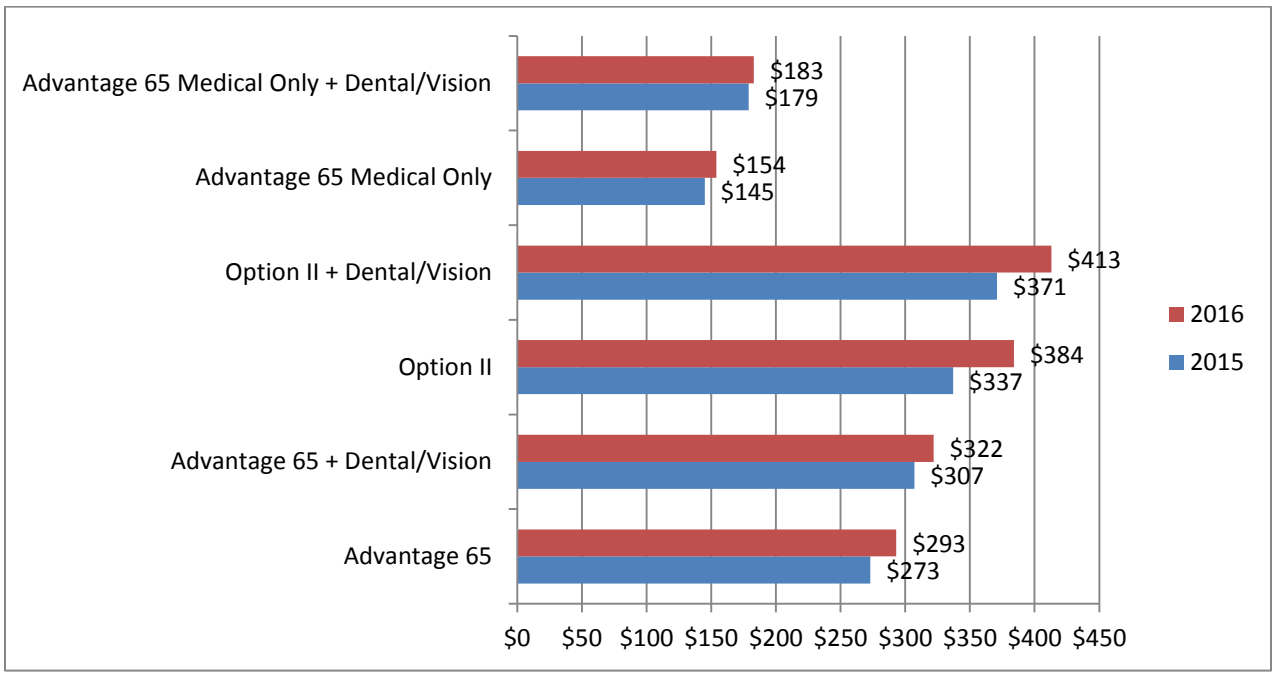
	2015	2016	$ Change	% Change
Advantage 65 (Medical)	$145.00	$152.00	$7.00	4.8%
Option II (Medical)	$209.00	$243.00	$34.00	16.3%
Prescription Drugs	$128.42	$139.00	$10.58	8.2%
Dental	$31.27	$26.70	-$4.57	-14.6%
Vision	$2.46	$2.52	$0.06	2.4%

Applying the applicable premium components to each plan results in the total premium by plan. While the largest increase is in the Option II medical supplement and resulting total premium for both Option II plans, the other plans reflect the increases, as applicable, in the Advantage 65 medical supplement, the prescription drug coverage and, to a very small degree, vision coverage. These total increases were mitigated by the decrease in dental coverage cost for those plans that include that benefit.

TOTAL PREMIUM BY PLAN

	2015	2016	$ Change	% Change
Advantage 65	$273	$293	$20	7.3%
Advantage 65 + Dental/Vision	$307	$322	$15	4.9%
Option II	$337	$384	$47	13.9%
Option II + Dental/Vision	$371	$413	$42	11.3%
Advantage 65 Medical Only	$145	$154	$9	6.2%
Advantage 65 Medical Only + Dental/Vision	$179	$183	$4	2.2%

The progression of premiums during this time period is depicted below:

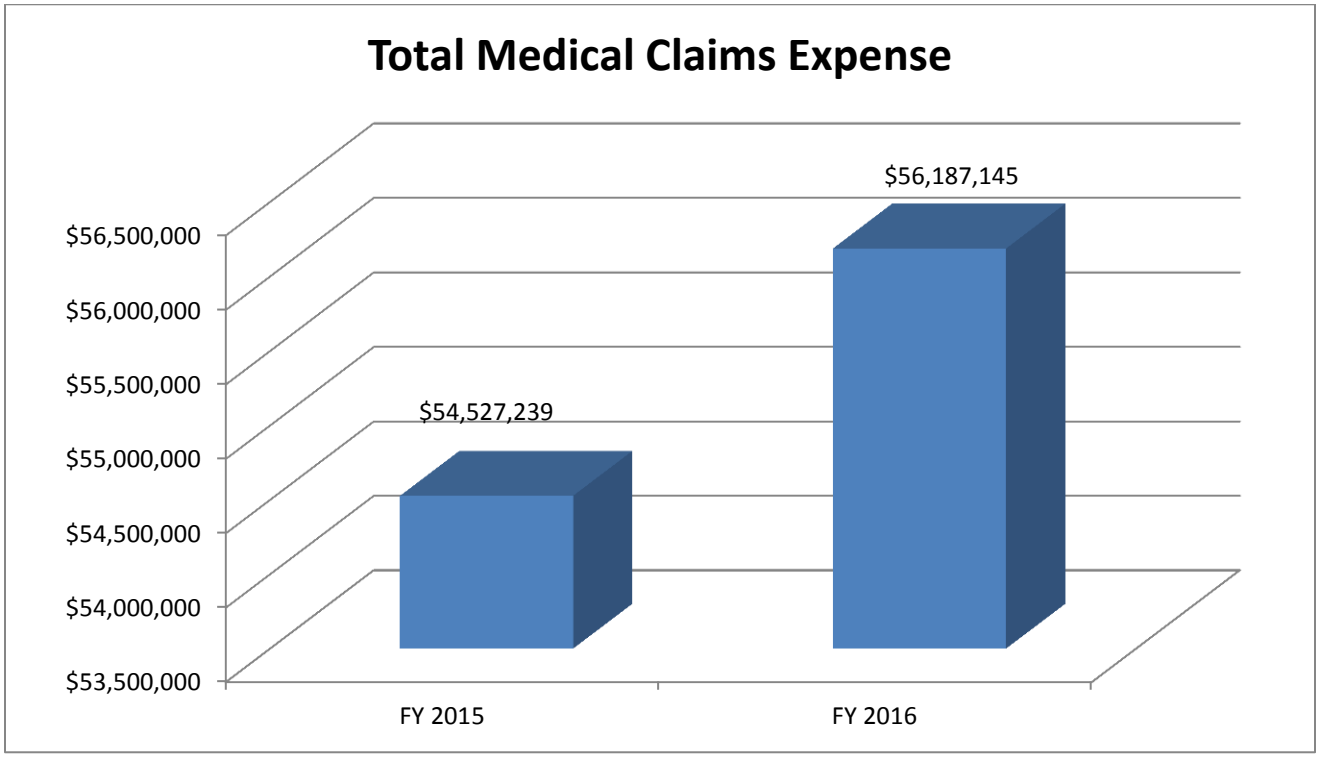


Medical Claims

Except for some ancillary benefits (e.g., at-home recovery visits, out-of-country major medical benefits), medical claims paid under the Medicare-coordinating plans are secondary to Medicare and represent a copayment or coinsurance, not the actual charge for services. Following are total expenses, reflecting cost reduction due to Medicare primary payments and any network savings realized by the claims administrator.

The 3% increase from 2015 to 2016 represents a smaller percent increase than had been experienced into 2013 (6%) and into 2014 (5%).

	FY 2015	FY 2016	$ Change	% Change
Total Medical Claims Expense	$54,527,239	$56,187,145	$1,659,906	3.0%



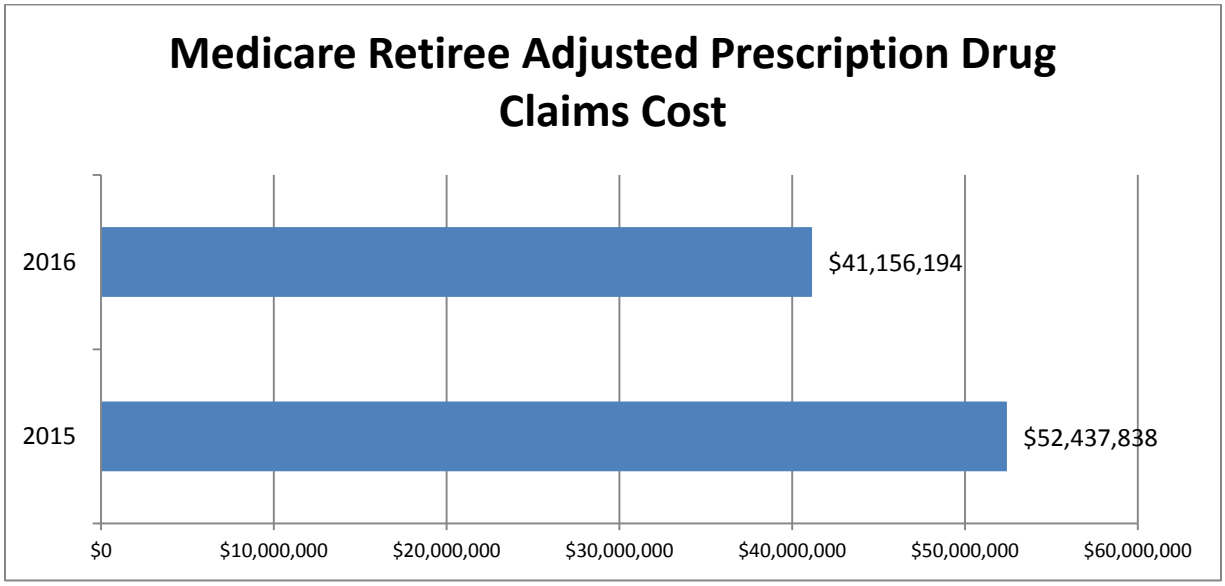
Prescription Drugs – Medicare Part D

Other than the medical supplement under the Option II Plan, the largest increase affecting premiums was the cost of prescription drugs. This is attributable to the availability of more and increasingly expensive options to address disease states. Specialty drugs are generally the highest cost drugs and often address rare and complex diseases. A significant number of new drugs in the pipeline for approval are specialty drugs.

The adjusted claims cost below reflects the total cost of drugs minus network and mail discount savings, costs paid by participants (e.g. deductible, copayment, coinsurance), low income subsidies paid by Medicare, the coverage gap discount program, the federal subsidy, federal reinsurance, and formulary rebates. Taxes and administrative costs are included.

Since the prescription drug adjusted claims costs below are based on a calendar year, the 2016 total claims were not available until 2017. After actuarial review of the available claims information prior to establishing the 2016 prescription drug premium, it was determined that, based on estimated trend, a premium increase was warranted for the prescription drug portion of the total premium in order to protect the financial stability of the plan.

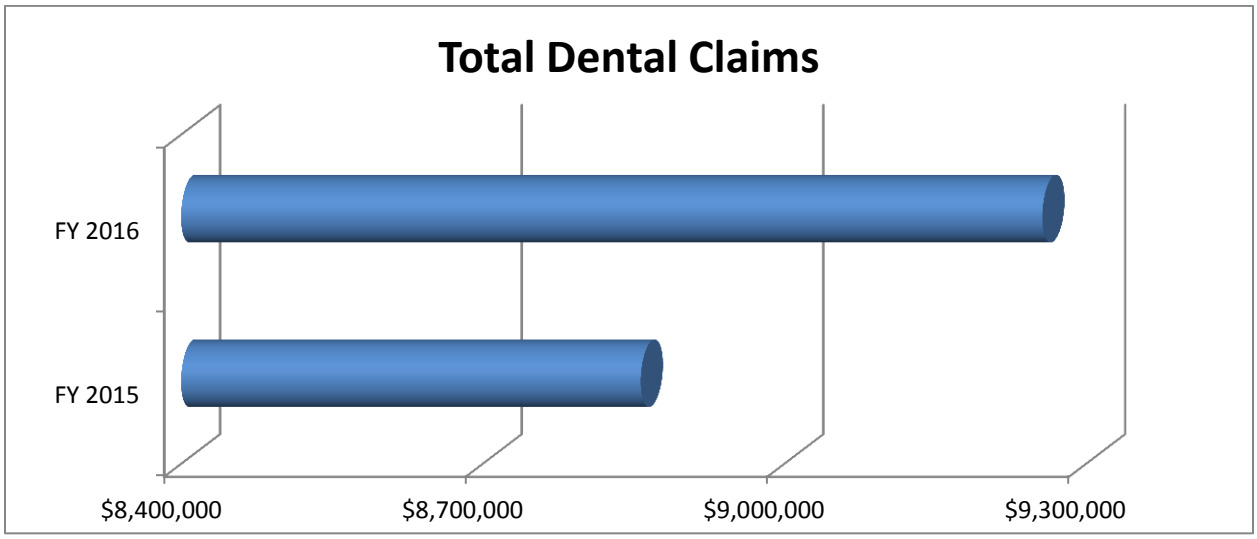
	2015	2016	$ Change	% Change
Adjusted Claims Cost	$52,437,838	$41,156,194	-$11,281,644	-21.5%



Optional Dental (bundled with Vision)

Dental plan administration was moved to Anthem Blue Cross and Blue Shield effective January 1, 2016 (the second half of fiscal year 2016. The increase in fiscal year 2016 (4.3%) was less than the increase from 2014 to 2015 (6.3%). This resulted in a decreased dental premium cost for 2016.

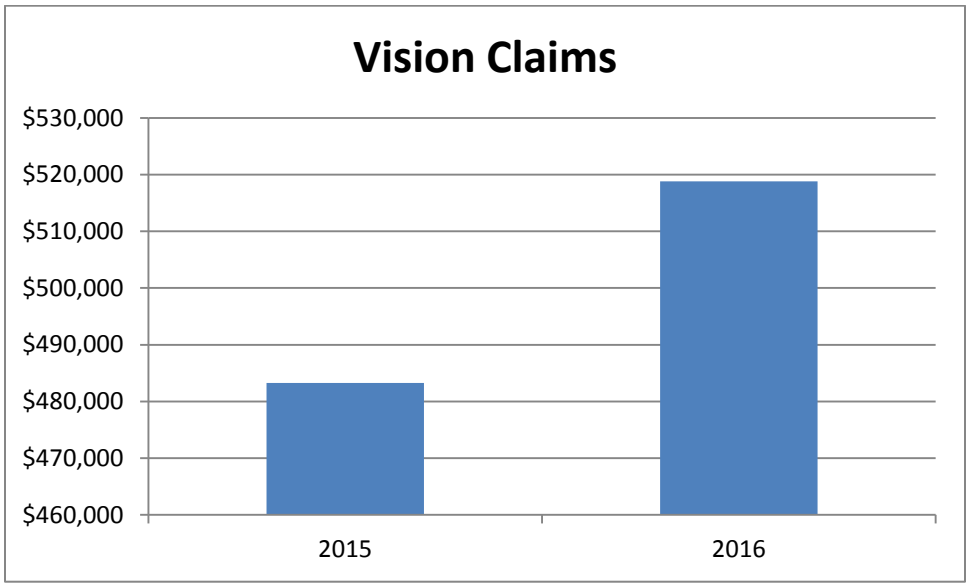
	Total Dental Claims
FY 2015	$8,857,298
FY 2016	$9,256,632
$ Increase	$399,334
% Increase	4.3%



Optional Vision (bundled with Dental)

Routine vision coverage is available bundled with dental coverage. Total vision claims increased by 7.4%, resulting in a $.06 increase in the vision portion of the dental/vision premium.

	FY 2015	FY 2016	$ Change
Vision Claims	$483,235	$518,795	$35,560



Covered Program Services Not Covered by Medicare

The Advantage 65 and Option II Plans provide additional protection for some services not covered by Medicare. When these services are covered, the state program is the primary payer. The following chart illustrates the cost of these claims and the number of participants using these benefits.

		FY 2016	
Benefit	**Total Claims**	**Total Members**	**Total Claims $**
Out-of-Country Major Medical Benefits*	52	19	$67,942.62
Skilled Nursing Facility - Days 101--180*	0	0	$0.00
Inpatient Hospital Coverage--Medicare Part A Exhausted Benefits*	3	2	$152,263.29
At-Home Recovery**	0	0	$0.00
Option II Major Medical Benefits***	0	0	$0.00
TOTAL	55	21	$220,205.91

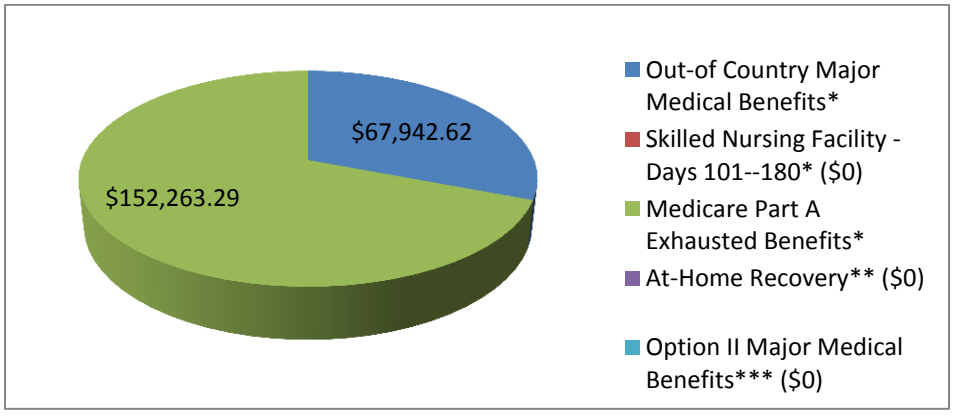
*Advantage 65 and Option II

**Advantage 65 only

***Option II only

The most commonly used of these benefits is Out-of-Country Major Medical Services, which represents 95% of total claims and 90% of total members using these benefits. However, it represents only 31% of the total claims cost. The average claims cost for members using this benefit is $3,575.93, or $1,306.59 per claim.

The most expensive of these benefits was only used by two participants who exceeded their Part A Inpatient Hospital Medicare benefit. The average cost for each participant was $76,131.65. (One participant had two claims, likely due to a break in the inpatient stay in the same benefit period.)

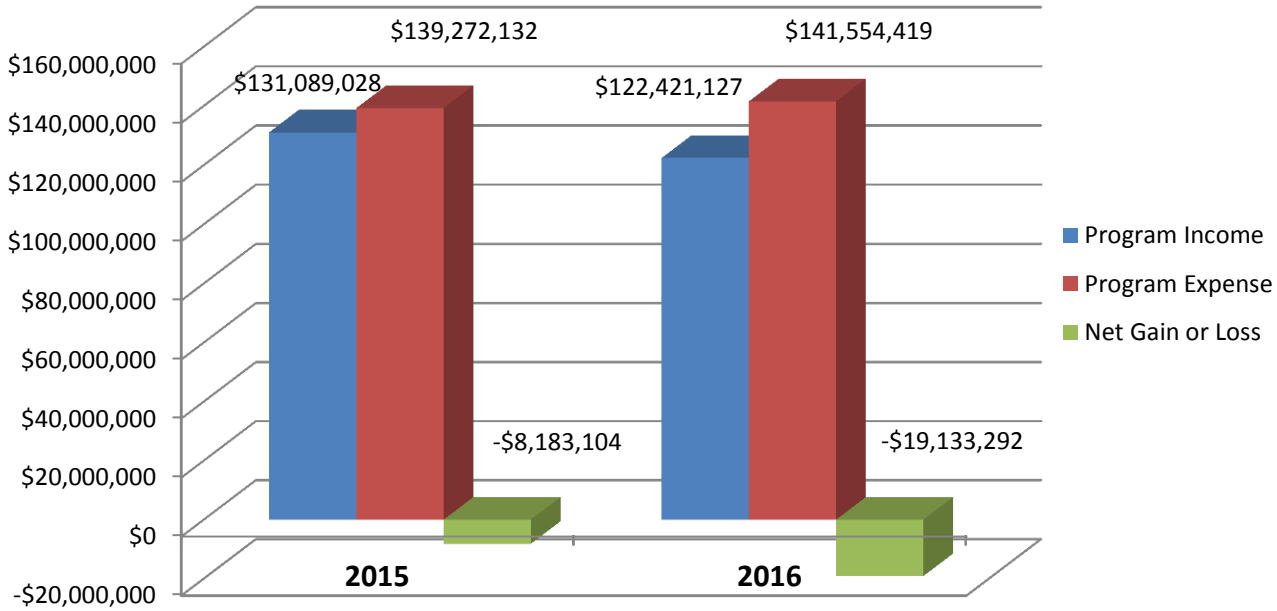


Operating Summary

Following is a summary and visual representation of the income and expenses of the Medicare-coordinating plans as a part of the Commonwealth of Virginia Retiree Health Benefits Program.

	2015	2016
Program Income	$131,089,028	$122,421,127
Program Expense	$139,272,132	$141,554,419
Net Gain or Loss	-$8,183,104	-$19,133,292

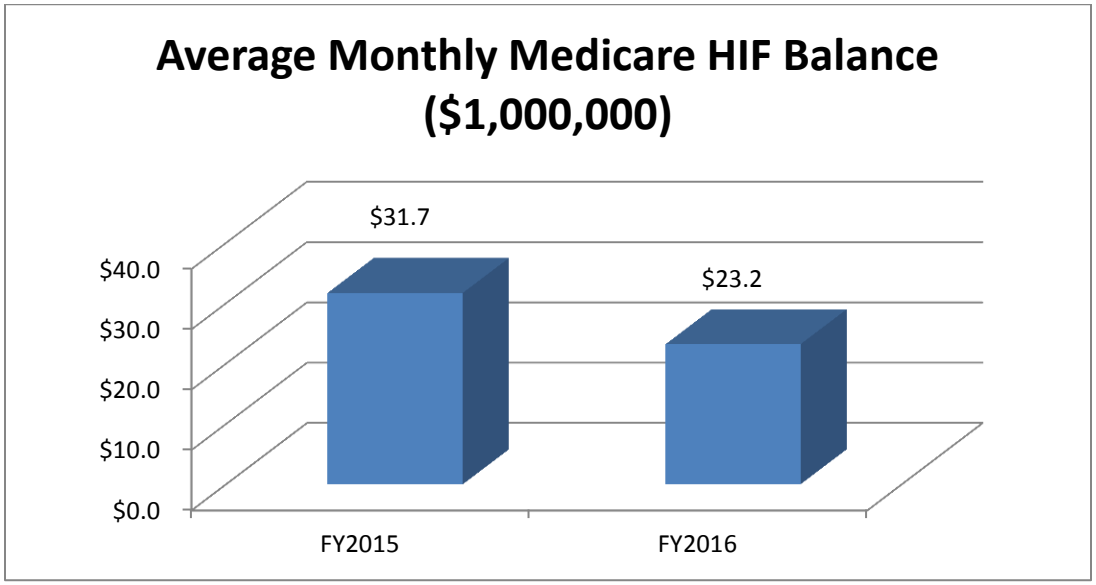
Income generally represents the premiums paid by participants. Expenses include the cost of claims and administrative costs of the program.



The net gain or loss at the end of the year can be affected by the timing of deposits and payments. The Medicare Retiree Health Insurance Fund (see following section) is monitored to ensure the health of the program.

Medicare Retiree Health Insurance Fund (HIF) Status

The following chart reflects the average HIF balance for fiscal year (FY) 2015 and FY 2016. Per actuarial guidance, the fund should keep in reserve a total amount sufficient to fund incurred but not reported claims (IBNR) and an estimated contingency amount. Any remaining balance represents an additional margin.



At the end of FY2016, IBNR was reported as $15.1M. A contingency reserve of $9.8M left a shortage of $1.7M based on the average FY2016 balance. However, continued monitoring of the balance indicates that the shortage resolved in FY 2017.