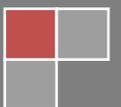


# Commonwealth of Virginia Retiree Health Benefits Program Medicare-Coordinating Plans

Combined Annual Reports for  
2012, 2013 and 2014





Virginia Department of  
**HUMAN RESOURCE**  
M A N A G E M E N T

## **Content:**

- Introduction
- Enrollment
- Monthly Premium Cost
- Medical Claims
- Prescription Drugs – Medicare Part D
- Optional Dental
- Optional Vision
- Operating Summary
- Medicare Plans – Health Insurance Fund Status

## **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, and 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 at a later time. 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.

Through 2014, there were also three grandfathered plans (into which no new participants could enroll): Option I/Medicare Complementary, Option II/Medicare Supplemental, and Option II/Medicare Supplemental + Dental/Vision. At the end of 2014, the Option I Plan was discontinued since its demographics and small enrollment resulted in a premium that surpassed that of the Advantage 65 Plan that succeeded it and offered a higher level of benefits. All remaining Option I participants were notified and moved to the Advantage 65 + Dental/Vision Plan effective January 1, 2015, enjoying the elimination of a \$1,000 Medicare Part B deductible and a lower premium increase than they would have experienced under Option I.

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

# Enrollment

The total enrollment in the Medicare-coordinating plans continues to grow, with an increase of 5% in 2012, 4% in 2013 and 4% in 2014.

Despite numerous Medicare Part D (prescription drug coverage) options available to Medicare beneficiaries outside of the state program, the growth in Advantage 65, including drug coverage, is still slightly higher than the medical-only (no prescription drug coverage) plans, with an increase of 6.6% in 2013 and 6.5% in 2014 for Advantage 65 plans with drug coverage compared to 5.4% and 6.2%, respectively, in the medical-only plans.

Enrollment in the grandfathered Option I and Option II plans continues to decrease, and the Option I plan was discontinued at the end of 2014 as discussed in the Introduction.

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

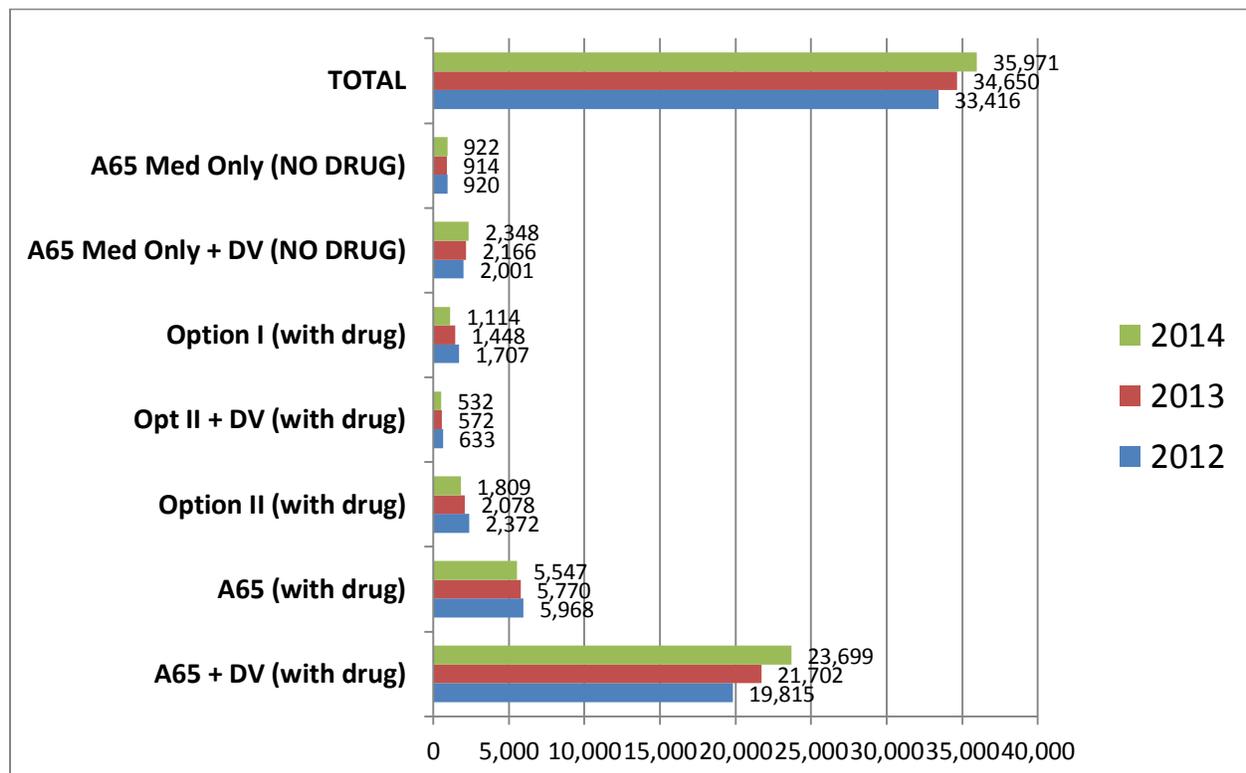
## Chart Plan Key

A65 – Advantage 65 Plan

DV – Dental and Vision Coverage

Med Only – Medical Only (no outpatient drug coverage)

### TOTAL ENROLLMENT BY PLAN – 2012, 2013, 2014



**PERCENT CHANGE IN ENROLLMENT BY PLAN, 2012--2014**

	<b>2012</b>	<b>% Change (from 2011)</b>	<b>2013</b>	<b>% Change</b>	<b>2014</b>	<b>% Change</b>
A65 + DV (with drug)	19,815	12%	21,702	10%	23,699	9%
A65 (with drug)	5,968	-2%	5,770	-3%	5,547	-4%
Option I (with drug)	1,707	-12%	1,448	-15%	1,114	-23%
Option II (with drug)	2,372	-10%	2,078	-12%	1,809	-13%
Option II + DV (with drug)	633	-6%	572	-10%	532	-7%
A65 Medical Only (NO DRUG)	920	-1%	914	-1%	922	1%
A65 Medical Only + DV (NO DRUG)	2,001	6%	2,166	8%	2,348	8%

# 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, Option I and Option II medical benefits pay secondary to Medicare. Following is a breakdown of premium costs by benefit:

## PREMIUM BREAKDOWN BY BENEFIT

	2012	2013	2014*
Advantage 65 (Medical)	\$137.00	\$139.00	\$131.40
Option I (Medical)	\$125.00	\$135.00	\$142.10
Option II (Medical)	\$202.00	\$206.00	\$200.50
Prescription Drugs	\$83.00	\$98.00	\$115.80
Dental	\$28.00	\$29.00	\$29.20
Vision	\$5.00	\$5.00	\$2.90

\*Premiums were reduced for 2014 to adjust for overfunding of the Medicare Health Insurance Fund as identified by the Auditor of Public Accounts’ October 2011 review of the State Employees Health Insurance Fund.

The following chart depicts the changes in each part of the total premium, illustrating that prescription drug premiums have had the largest increases in 2013 and 2014, and also that the Option I Plan experienced a greater increase than the other Medicare supplemental offerings despite its lower level of supplemental benefits.

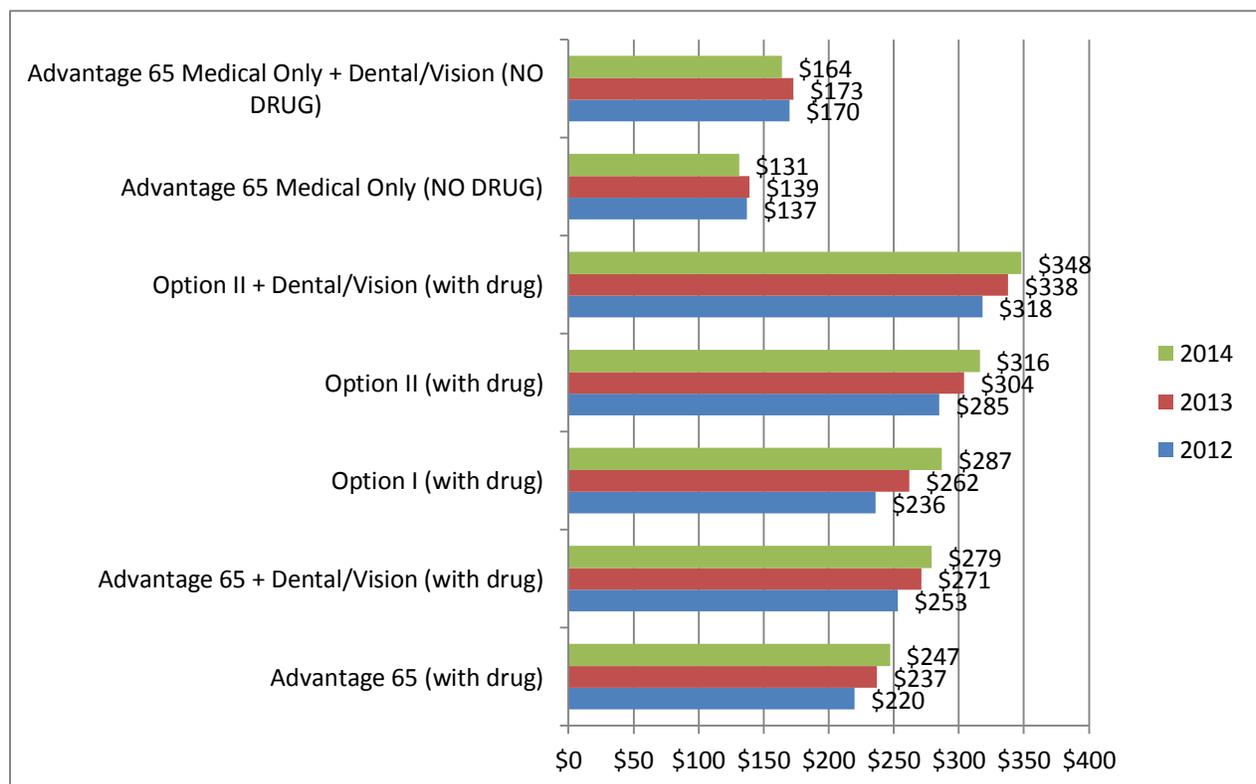


The following chart shows the progression of the total premium by plan, once again showing the impact of the increases in drug premium cost in 2013 and 2014 on the total premium for the plans that include that benefit. The medical-only plans reflect the stability of the Advantage 65 supplemental plan's claims experience and resulting premium cost. However, note that the 2014 premiums include the Medicare Health Insurance Fund adjustment noted on the previous page.

### TOTAL PREMIUM BY PLAN

	2012	% Change (from 2011)	2013	% Change	2014	% Change
Advantage 65	\$220	-3%	\$237	8%	\$247	4%
Advantage 65 + Dental/Vision	\$253	-2%	\$271	7%	\$279	3%
Option I	\$236	0%	\$262	11%	\$287	10%
Option II	\$285	0%	\$304	7%	\$316	4%
Option II + Dental/Vision	\$318	1%	\$338	6%	\$348	3%
Advantage 65 Medical Only	\$137	4%	\$139	1%	\$131	-6%
Advantage 65 Medical Only + Dental/Vision	\$170	4%	\$173	2%	\$164	-5%

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

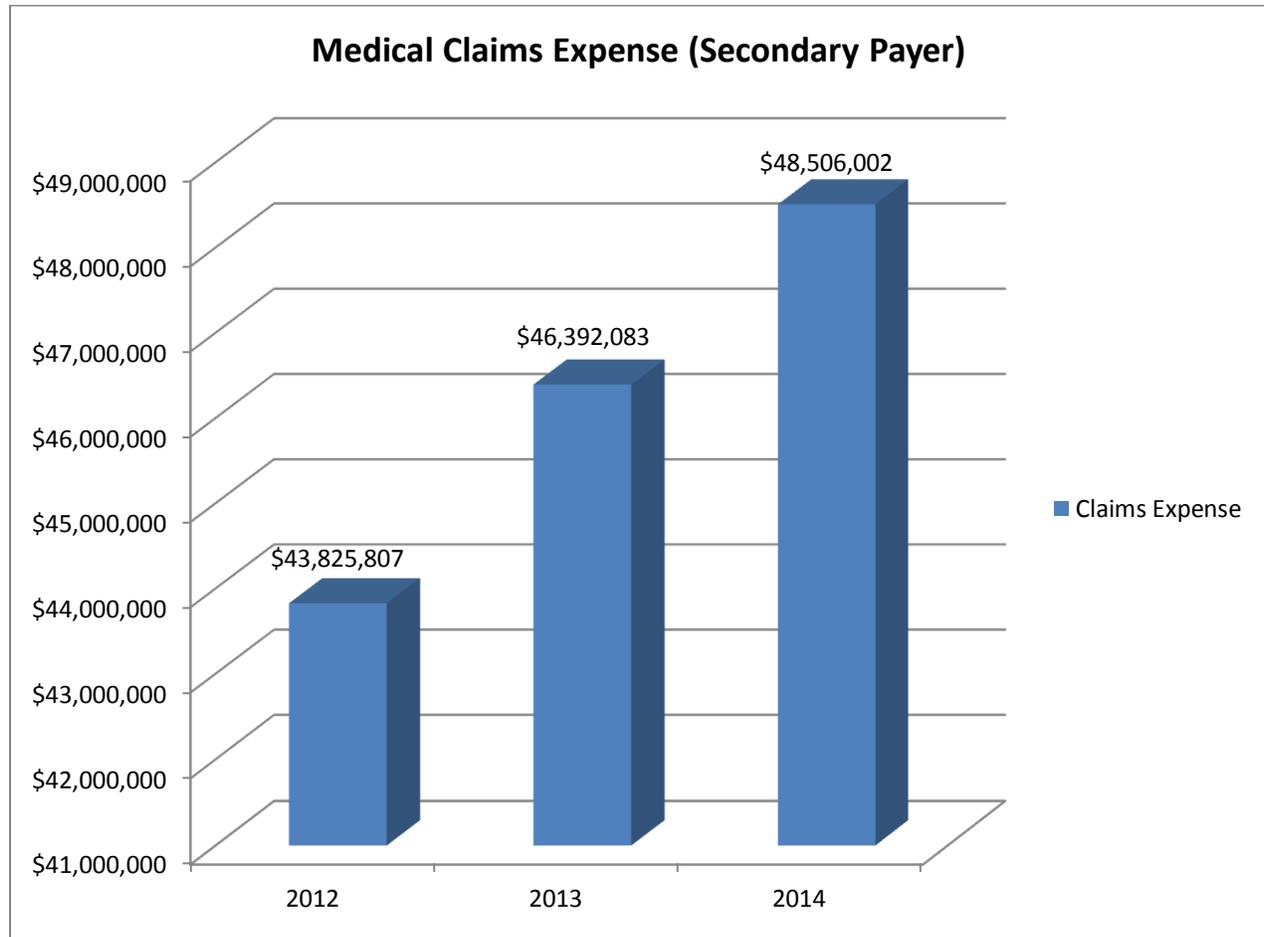


# Medical Claims

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.

<b>FY 2012</b>	<b>% Change (from 2011)</b>	<b>FY 2013</b>	<b>% Change</b>	<b>FY 2014</b>	<b>% Change</b>
\$43,825,807	5%	\$46,392,083	6%	\$48,506,002	5%

Even though claims expense increases from year to year (5.9% in 2013 and 4.6% in 2014), the impact on individual premium cost is mitigated by the growing enrollment.



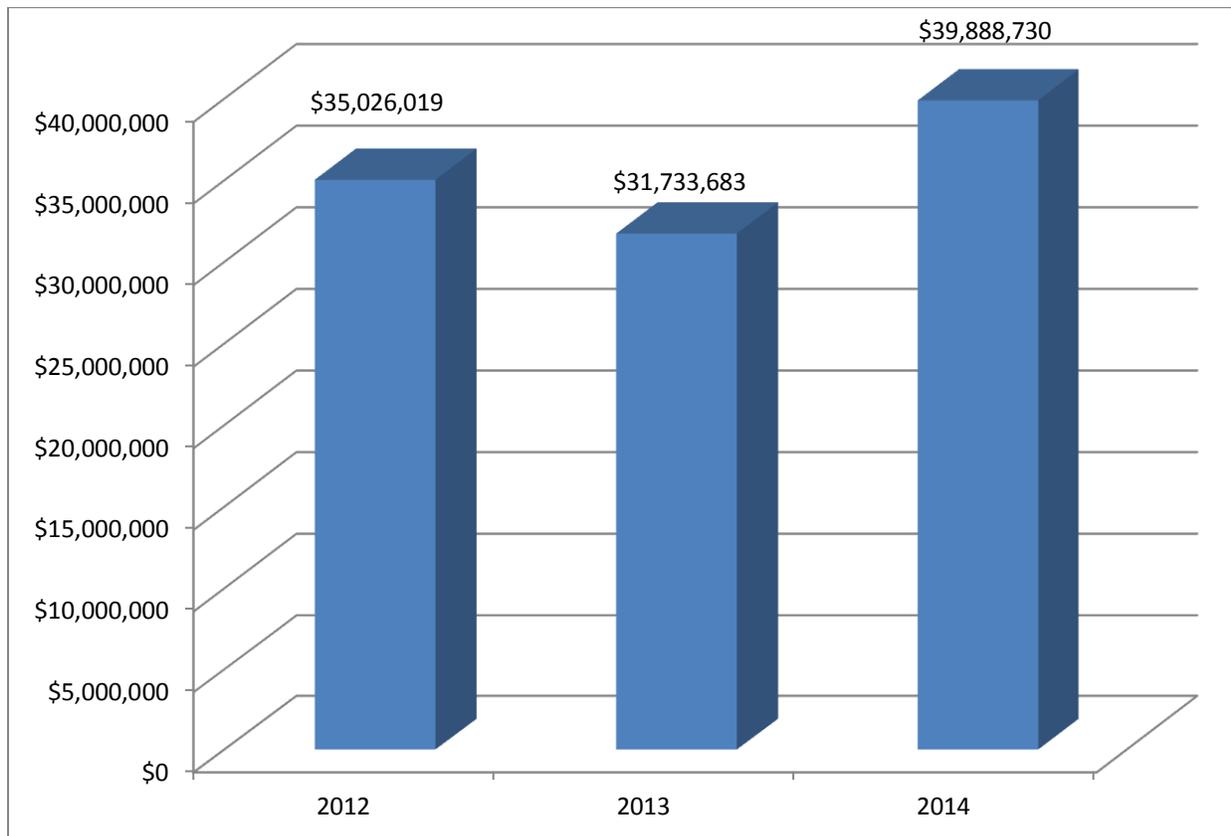
# Prescription Drugs – Medicare Part D

Prescription drug costs have the greatest impact on total premium cost. The adjusted claims cost below reflects the total cost of drugs minus network and mail discount savings, cost 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.

Even though the estimated increase and associated premium change in 2013 did not materialize in adjusted claims (-9%), it did help to mitigate the premium increase in 2014, even with the 26% higher adjusted claims. Despite the rising costs, the premium contribution for the current Medicare Part D plan is still less than the prescription drug portion of the total premium paid by participants prior to the introduction of Medicare Part D in 2006.

	2012	2013	2014
Adjusted Claims Cost	\$35,026,019	\$31,733,683	\$39,888,730

**Adjusted Claims**

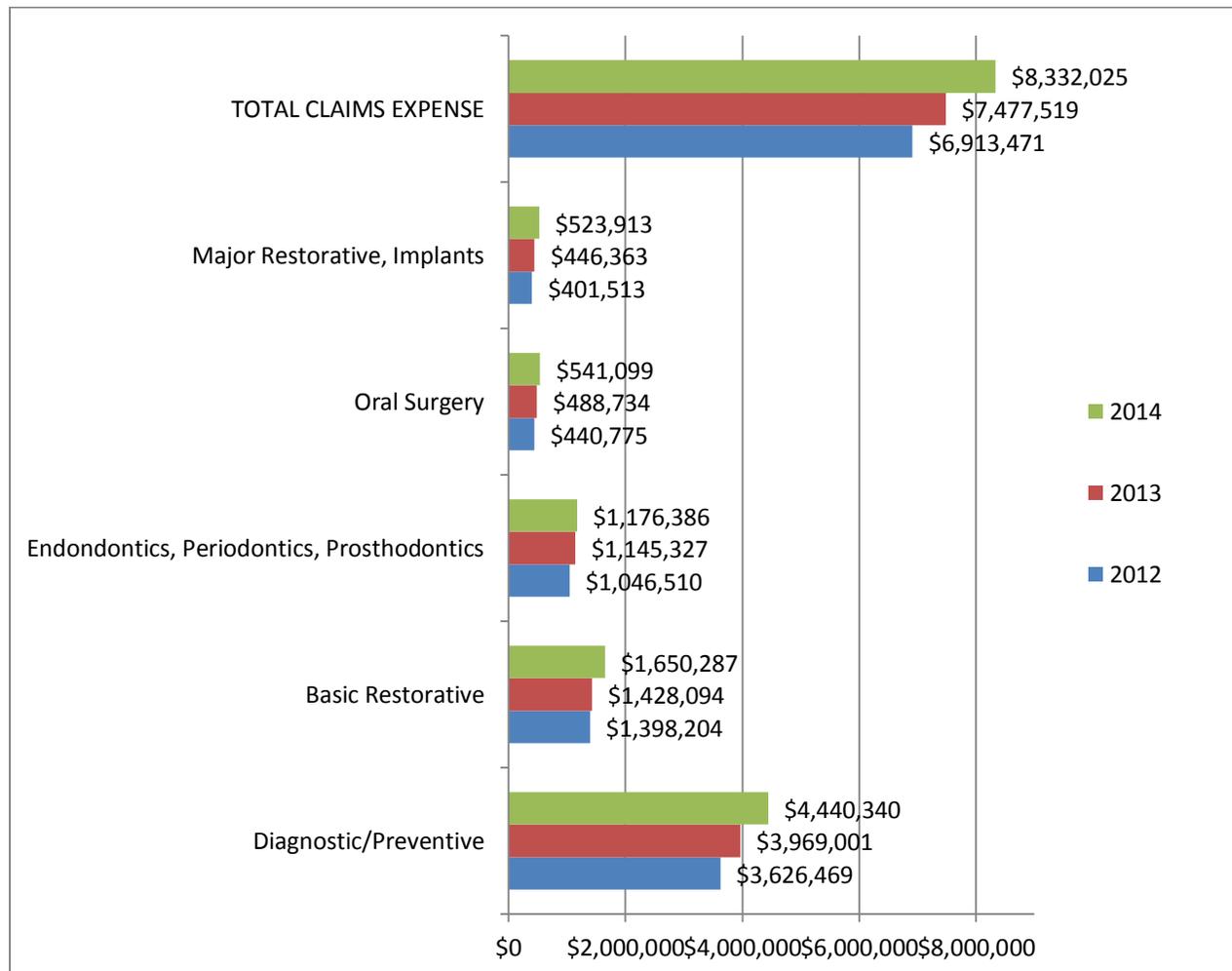


# Optional Dental (bundled with Vision)

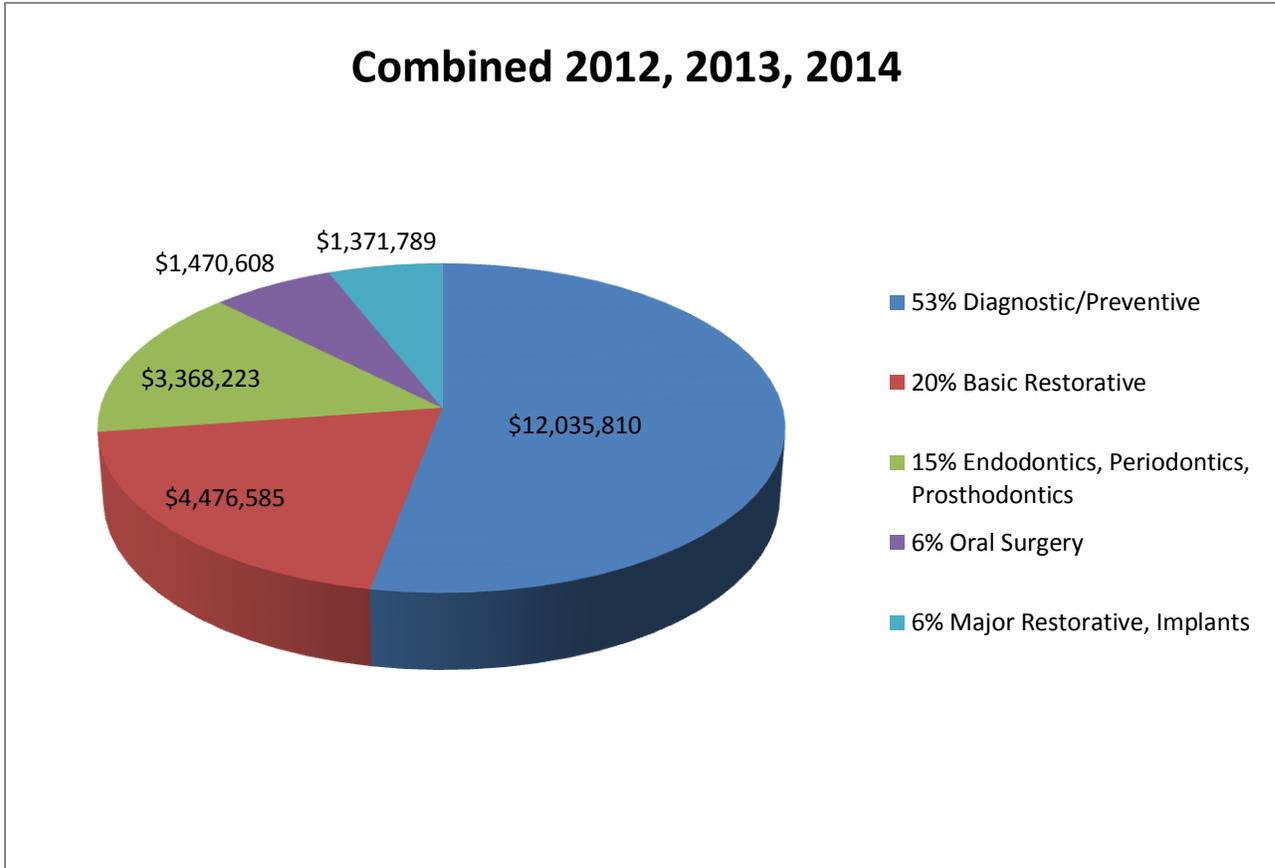
The claims cost for the optional dental coverage is summarized below by type of service.

	2012	2013	2014
Diagnostic/Preventive	\$3,626,469	\$3,969,001	\$4,440,340
Basic Restorative	\$1,398,204	\$1,428,094	\$1,650,287
Endodontics, Periodontics, Prosthodontics	\$1,046,510	\$1,145,327	\$1,176,386
Oral Surgery	\$440,775	\$488,734	\$541,099
Major Restorative, Implants	\$401,513	\$446,363	\$523,913
<b>TOTAL CLAIMS EXPENSE</b>	<b>\$6,913,471</b>	<b>\$7,477,519</b>	<b>\$8,332,025</b>

Claims for all categories of services increased between 2012 and 2014, with the highest costs for diagnostic and preventive services. While the coverage for major dental care is 5%, the benefit of the network discount represents an additional cost savings to participants that often exceeds the 5% benefit level, but with minimal impact on premium.



The following chart represents the combined total amount of dental claims for 2012 through 2014 by service type. Total claims increased by 8% in 2013 and 11% in 2014.

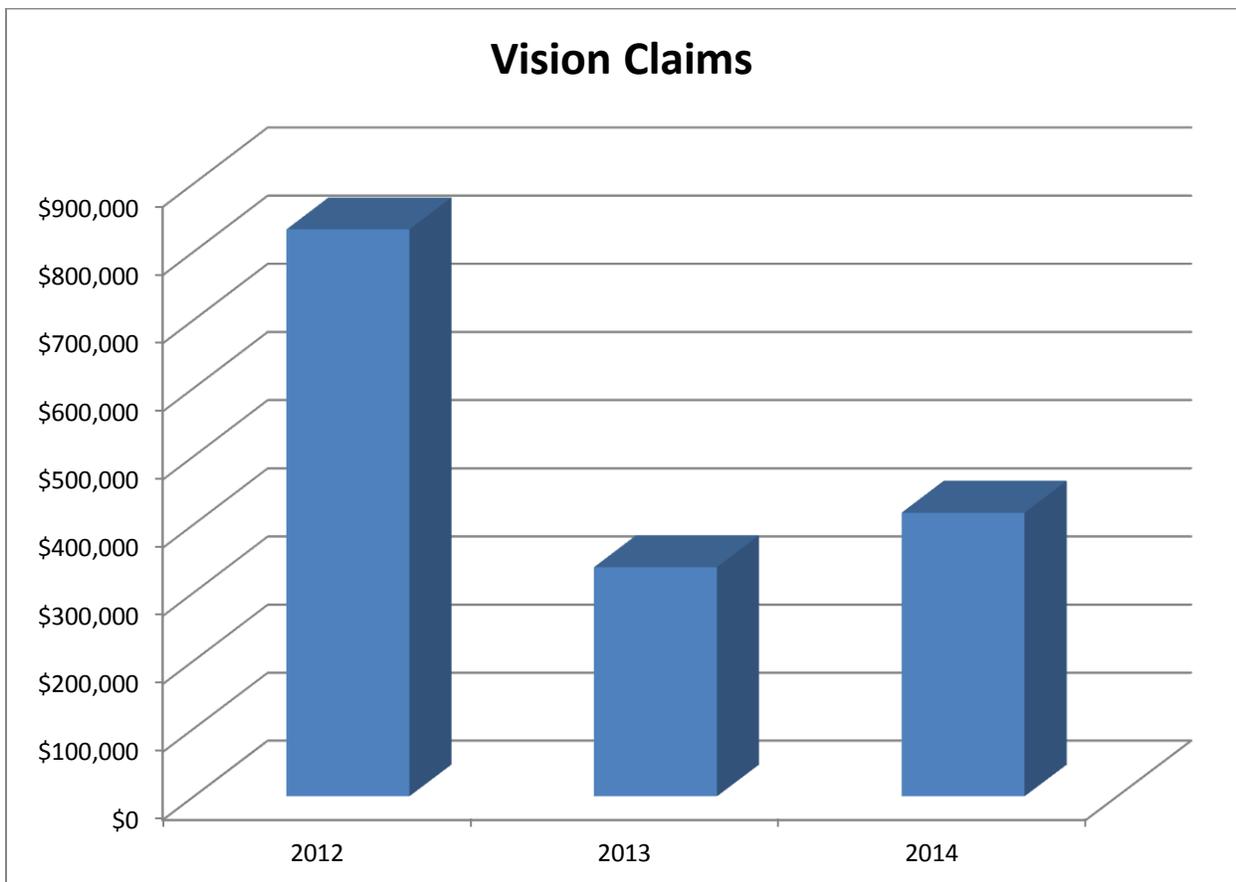


# Optional Vision (bundled with Dental)

Routine vision coverage is available bundled with dental coverage. The following total vision claims cost includes the optional coverage available under the Advantage 65 and Option II/Medicare Supplemental Plans but does not include the vision coverage embedded in the Option I Plan.

	2012	2013	2014
Vision Claims	\$832,377	\$336,874	\$416,773

The decreased claims cost in 2013 resulted in reduced premium cost for this option in 2014.

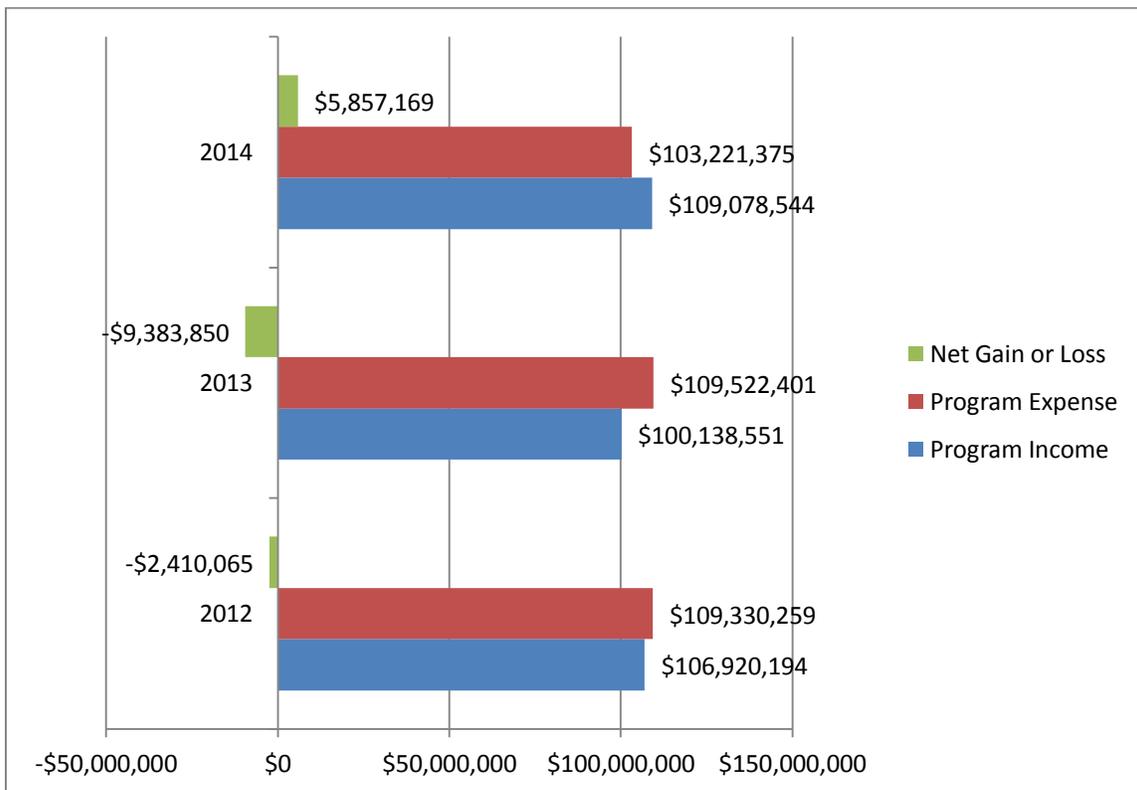


# Operating Summary

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

	2012	2013	2014
Program Income	\$106,920,194	\$100,138,551	\$109,078,544
Program Expense	\$109,330,259	\$109,522,401	\$103,221,375
Net Gain or Loss	-\$2,410,065	-\$9,383,850	\$5,857,169

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

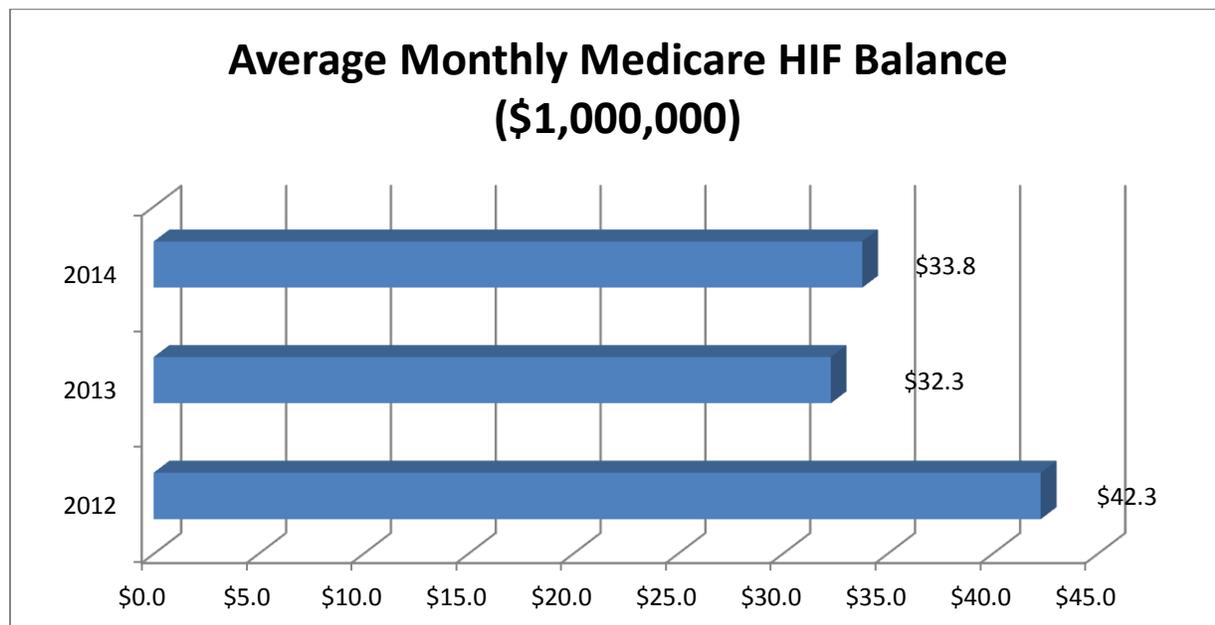


# Medicare Plans

## Health Insurance Fund (HIF) Status

In 2013, to address the surplus funding identified by the Auditor of Public Accounts' 2011 review of the State Employee HIF, specifically the part of the HIF attributed to the Medicare-primary plans, approximately \$9,000,000 was returned to program participants through reduced premiums, returning the funding to an appropriate level. Based on actuarial guidance, the Department of Human Resource Management will periodically review the status of the HIF to ensure funding to cover estimated program costs and health plan cost trends.

Following is the history and current status of the Medicare HIF. 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. The remaining balance represents an additional margin of approximately 10% of estimated total costs of the plan, which is a reasonable margin.



In 2014, IBNR was reported as \$15.4M, with a contingency of \$7.7M. That left an additional margin of \$10.7M, or 9.8% of the annual plan cost (\$109,000,000). The total amount of reserve in the HIF will be monitored to ensure that the reserve meets the recommended requirements.