

State of New Hampshire
Department of Administrative Services
Risk Management Unit

Self-Funded
Employee and Retiree
Health Benefit Program



Annual Report

July 1, 2006

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Donald S. Hill
Commissioner
(603)-271-3201

State of New Hampshire
DEPARTMENT OF ADMINISTRATIVE SERVICES
Risk Management Unit
State House Annex – Room 412
25 Capitol St.
Concord NH 03301

September 6, 2006

The Honorable Frederick W. King, Chairman
Fiscal Committee of the General Court
State House
Concord, New Hampshire 03301

Dear Representative King:

I am pleased to present to the Fiscal Committee the first annual report of the Self-Funded Employee and Retiree Health Benefit Program. This report compiles the previous FY 2006 financial activity reports previously sent to your Committee on a bi-monthly basis throughout the year.

In addition, the report contains information detailing the Program organization within the Department and summarizes some of the other administrative and operational activities of the Program. Again, I am happy to report the Program is *in* good financial condition and providing significant savings to the State.

I am available to address any questions you may have.

Sincerely,

A handwritten signature in black ink that reads "Donald S. Hill".

Donald S. Hill
Commissioner

CC: Governor John H. Lynch

I. Current Program Working Rates

July 1, 2006 Working Rates

The State of New Hampshire Employee and Retiree health Benefit Program (the “Program”) is financed through “working rates” charged to state agencies and other participants in the Program. The FY 2007 working rates for active employees in the Program declined between 1.6% and 4.8%, depending on the particular plan (i.e., active state employee POS or HMO) from the prior FY 2006 rates. The working rate is comprised of the base rate established by the Department’s health benefits consultant along with additional amounts calculated by the Department. The FY 2007 projected base rates for active state employees increased less than those of most employers, nationwide. This lower-than expected increase is attributable to the impact of the various 2005-2007 plan design changes (i.e., employee cost-sharing), more competitive contracting terms and actual state claims experience that is more favorable than industry experience. While the national trend projects a 12% to 13% increase, the average increases in the State of New Hampshire base rates were:

- 6.7 % for the HMO plans for active employees
- 3.3 % for the POS plans for active employees

This base rate is comprised of:

- Claim experience
- Incurred but not reported (IBNR) claims (i.e., those medical claims that have been incurred by enrollees but not yet received by the administrator)
- Healthcare claims administration
- Medical stop-loss coverage premium

To determine the working rate, the State added “other costs” to the base rate. These include:

- Health benefits consultant fee (i.e.; actuarial, audit, RFP services)
- Enrollment administration costs (i.e., Choicelinx Corporation)
- A small margin for unanticipated expenses

The total of these amounts, divided by the number of subscribers, is the working rate

For those program years prior to FY 2007, the working rate included an amount for a statutorily required claims reserve. The inclusion of an amount to support the “building” of this reserve increased the working rate in FY 2006 between \$16 and \$134 each month, again, depending on the plan. Now that the reserve is fully “built” for FY 2007, the State did not have to add any amounts to the base rate for purposes of the reserve. Thus, despite the base rate increase noted above, the absence of a necessary reserve amount results in a net decrease in the FY 2007 working rates over the last fiscal year.

EFFECTIVE FY 2007

**SELF-FUNDED HEALTH BENEFIT PROGRAM
WORKING RATES/MONTHLY & ANNUAL EXPENSE**

Active Employees (POS 1) POINT OF SERVICE								
Tier	Number of Subscribers AT 3/31/06	Medical & Prescription Base Rate	Other Costs	FY 2007		Expenses	Monthly Expense	Annual Expense
				Working Rate				
Employee	275	\$517.52	\$3.19	\$520.71		Medical & Prescription	\$1,197,420	\$14,369,043
Employee + 1	445	\$1,035.02	\$3.19	\$1,038.21		Other Expense	\$3,437	\$41,249
Family	359	\$1,656.04	\$3.19	\$1,659.23		Total	\$1,200,858	\$14,410,293
Total	1,079							

Active Employees (HMO) NETWK1								
Tier	Number of Subscribers	Medical & Prescription Base Rate	Other Costs	FY 2007		Expenses	Monthly Expense	Annual Expense
				Working Rate				
Employee	2,745	\$462.31	\$3.19	\$465.50		Medical & Prescription	\$10,906,502	\$130,878,019
Employee + 1	3,582	\$924.58	\$3.19	\$927.77		Other Expense	\$33,779	\$405,346
Family	4,276	\$1,479.33	\$3.19	\$1,482.52		Total	\$10,940,280	\$131,283,365
Total	10,603							

TROOPER (POS 3)								
Tier	Number of Subscribers	Medical & Prescription Base Rate	Other Costs	FY 2007		Expenses	Monthly Expense	Annual Expense
				Working Rate				
Employee	2	\$495.51	\$2.47	\$497.98		Medical & Prescription	\$15,658	\$187,895
Employee + 1	2	\$991.00	\$2.47	\$993.47		Other Expense	\$30	\$356
Family	8	\$1,585.61	\$2.47	\$1,588.08		Total	\$15,688	\$188,251
Total	12							

TROOPER (HMO) NETWK3								
Tier	Number of Subscribers	Medical & Prescription Base Rate	Other Costs	FY 2007		Expenses	Monthly Expense	Annual Expense
				Working Rate				
Employee	56	\$439.63	\$2.47	\$442.10		Medical & Prescription	\$282,937	\$3,395,249
Employee + 1	33	\$879.23	\$2.47	\$881.70		Other Expense	\$623	\$7,479
Family	163	\$1,406.77	\$2.47	\$1,409.24		Total	\$283,561	\$3,402,727
Total	252							

EFFECTIVE FY 2007

**SELF-FUNDED HEALTH BENEFIT PROGRAM
WORKING RATES/MONTHLY & ANNUAL EXPENSE**

Retired < 65 Employees (POS2)

Tier	Number of Subscribers	Medical & Prescription Base Rate	Other Costs	FY 2007 Working	Expenses	Monthly Expense	Annual Expense
				Rate			
Employee	1,239	\$854.62	\$3.24	\$857.86	Medical & Prescription	\$2,636,396	\$31,636,755
Employee + 1	889	\$1,712.05	\$3.24	\$1,715.29	Other Expense	\$6,974	\$83,687
Family	24	\$2,312.90	\$3.24	\$2,316.14	Total	\$ 2,643,370	\$31,720,442
Total	2,152						

Retired 65+ Employees (COMP1)

Tier	Number of Subscribers	Medical & Prescription Base Rate	Other Costs	FY 2007 Working	Expenses	Monthly Expense	Annual Expense
				Rate			
Employee	6,309	\$427.88	\$3.24	\$431.12	Medical & Prescription	\$2,700,351	\$32,404,209
Employee + 1	1	\$855.79	\$3.24	\$859.03	Other Expense	\$20,449	\$245,383
Family	-	\$1,369.25	\$3.24	\$1,372.49	Total	\$2,720,799	\$32,649,592
Total	6,310						
Total All	20,408						

Total Expense		
Medical & Prescription	\$17,739,264	\$212,871,169
Other Expense	\$65,292	\$783,500
Total	\$17,804,556	\$213,654,669

Note: "Medical & Prescription Base Rate" established by consultant, includes estimated paid claims (less rebates), +ASO admn, +stop loss, and IBNR Differential increase.

CALCULATION of OTHER COSTS

SUMMARY SUBSCRIBER COUNTS				
Tier	Active	Retirees	Trooper	Total
Employee	3,020	7,548	58	10,626
Employee + 1	4,027	890	35	4,952
Family	4,635	24	171	4,830
Total	11,682	8,462	264	20,408
% of Total	57%	42%	1%	
OTHER COSTS (as % of Subscriber Counts)		Active 57%	Retiree 42%	Trooper 1%
Enrollment (2nd Yr of Contract)	\$365,000	\$208,050	\$153,300	\$3,650
Consultant (2nd Yr of Contract)	\$293,500	\$167,295	\$123,270	\$2,935
Other Expense (Estimate)	\$125,000	\$71,250	\$52,500	\$1,250
Total Other Costs	\$783,500	\$ 446,595	\$ 329,070	\$7,835
Subscribers Counts		11,682	8,462	264
Total Other Costs / Subscribers Counts		\$3.19	\$3.24	\$2.47

EFFECTIVE FY 2007

SELF-FUNDED HEALTH BENEFITS PROGRAM

WORKING RATES PRIOR YEARS COMPARATIVE										
Medical & Prescription										
Tier	Working Rate 7/1/03- 6/30/04	Working Rate 7/1/04- 6/30/05	Monthly \$\$ Amount Increase	Percent Change	Working Rate 7/1/05- 6/30/06	Monthly \$\$ Amount Increase	Percent Change	FY 2007 Working Rate	Monthly \$\$ Amount Increase	Percent Change
ACTIVE EMPLOYEES (POS 1)										
Employee	\$409.30	\$527.86	\$118.56	29.0%	\$547.13	\$19.27	3.7%	\$520.71	-\$26.42	-4.8%
Employee + 1	\$816.45	\$1,052.74	\$236.29	28.9%	\$1,089.84	\$37.10	3.5%	\$1,038.21	-\$51.63	-4.7%
Family	\$1,304.37	\$1,682.62	\$378.25	29.0%	\$1,741.11	\$58.49	3.5%	\$1,659.23	-\$81.88	-4.7%
ACTIVE EMPLOYEES (HMO)										
Employee	\$326.48	\$420.75	\$94.27	28.9%	\$473.78	\$53.03	12.6%	\$465.50	-\$8.28	-1.7%
Employee + 1	\$650.50	\$838.52	\$188.02	28.9%	\$943.12	\$104.60	12.5%	\$927.77	-\$15.35	-1.6%
Family	\$1,039.33	\$1,339.86	\$300.53	28.9%	\$1,506.37	\$166.51	12.4%	\$1,482.52	-\$23.85	-1.6%
TROOPER (POS 3)										
Employee					\$524.04	\$524.04		\$497.98	-\$26.06	-5.0%
Employee + 1					\$1,043.68	\$1,043.68		\$993.47	-\$50.21	-4.8%
Family					\$1,667.25	\$1,667.25		\$1,588.08	-\$79.17	-4.7%
TROOPER (HMO) NETWK3										
Employee					\$450.76	\$450.76		\$442.10	-\$8.66	-1.9%
Employee + 1					\$897.08	\$897.08		\$881.70	-\$15.38	-1.7%
Family					\$1,432.69	\$1,432.69		\$1,409.24	-\$23.45	-1.6%
RETIRED < 65 (POS 2)										
Employee	\$577.28	\$744.69	\$167.41	29.0%	\$809.63	\$64.94	8.7%	\$857.86	\$48.23	6.0%
Employee + 1	\$1,154.56	\$1,489.38	\$334.82	29.0%	\$1,620.10	\$130.72	8.8%	\$1,715.29	\$95.19	5.9%
Family	\$1,558.66	\$2,010.67	\$452.01	29.0%	\$2,188.06	\$177.39	8.8%	\$2,316.14	\$128.08	5.9%
RETIRED 65+ (COMP 1)										
Employee	\$329.39	\$408.53	\$79.14	24.0%	\$412.58	\$4.05	1.0%	\$431.12	\$18.54	4.5%
Employee + 1	\$658.78	\$814.65	\$155.87	23.7%	\$823.39	\$8.74	1.1%	\$859.03	\$35.64	4.3%
Family	\$1,049.87	\$1,301.97	\$252.10	24.0%	\$1,110.93	-\$191.04	-14.7%	\$1,372.49	\$261.56	23.5%
Dental										
	Premium Rate 10/1/03- 6/30/04	Premium Rate 7/1/04- 6/30/05	Monthly \$\$ Amount Increase	Percent Change	Premium Rate 7/1/05- 6/30/06	Monthly \$\$ Amount Increase	Percent Change	FY 2007 Premium Rate	Monthly \$\$ Amount Increase	Percent Change
Active Employees										
Employee	\$27.83	\$29.92	\$2.09	7.5%	32.25	\$2.33	7.8%	34.12	\$1.87	5.8%
Employee + 1	\$52.46	\$56.39	\$3.93	7.5%	61.45	\$5.06	9.0%	65.01	\$3.56	5.8%
Family	\$88.22	\$94.84	\$6.62	7.5%	110.16	\$15.32	16.2%	116.54	\$6.38	5.8%
Retirees (Not a State Benefit)										
Employee	50.16	\$50.16	\$0.00	0.0%	50.16	\$0.00	0.0%	51.17	\$1.01	2.0%
Employee + 1	\$94.28	\$94.28	\$0.00	0.0%	94.28	\$0.00	0.0%	96.18	\$1.90	2.0%
Family	\$126.80	\$126.80	\$0.00	0.0%	126.80	\$0.00	0.0%	129.36	\$2.56	2.0%
Note: Retirees pay COBRA rates for dental (Active Rate +2%) for first 18 months. This schedule represents Retiree dental premium after 18 months.										

II. Program Financial Activity

Program Funding Sources

In 2003, the employee benefit fund was established by the Department as an internal service fund to account for the financial activity of the Program. RSA 21-I:30-c requires the Commissioner to establish a non-lapsing reserve fund to protect the State from unexpected losses incurred in its provision of employee and retiree health benefits. The fund supports the expenses of the Program, including payments for medical and pharmacy services provided to eligible employees, retirees, and their dependents; administrative costs, enrollment costs and ancillary benefits such as health club memberships and health-related education classes. The Department contracts with a medical administrator, which receives, accumulates and processes claims for healthcare services. The State makes payment after provider checks are disbursed by the administrator. The Department similarly contracts with a pharmacy administrator, which is paid on a bi-weekly basis.

Fund revenues include state agency contributions for active employees and retirees as well as retired judges, and constitutional officers. In addition to the state general fund, the statutory subsidy of the New Hampshire Retirement System contributes revenue to the fund. Certain special participating employers, such as the State Employees Association, and legislators, also contribute to the fund. Finally, former employees are eligible to participate under the federal COBRA law and their contributions are recorded as revenue to the fund.

Active employee benefit costs are budgeted in the State's various class 060 Benefits accounts based upon overall percentage of payroll. This was forty-four percent (44%) for FY 2006 and FY 2007. Agencies Benefits accounts are charged on the bi-weekly pay schedules at a contribution rate (i.e.; based on the working rate) intended to cover all of the costs, including administrative costs, associated with the Program.

For FY 2006, total revenue and expense were \$213 million and \$190 million, respectively. Revenue exceeded expenses by \$23 million and the total cumulative fund balance as of June 30, 2006 was approximately \$40 million. This figure has been reported under the *cash basis method* without consideration for reserves, payables, or receivables.

II. Program Financial Activity

Establishment of Claims Reserves

RSA 21-I:30-b requires the establishment of a claims reserve for the self-funded health benefits. Under the law, the reserve must be at least equal to the sum of one month of healthcare claims and an amount to pay the actuarially determined IBNR liability. For FY 2007, the amount estimated as necessary to pay healthcare claims and administrative costs for one month is approximately \$15.8 million. The current IBNR liability, as calculated by the Department's actuary, is \$13.9 million. The Department accumulated the reserves by including these amounts in its calculation of the working rates. As indicated above, beginning July 1, 2006, these reserve requirements have been met and the additional charge to the working rate is no longer necessary.

State's Stop-loss Insurance Coverage

The Department maintains specific and aggregate stop loss insurance protection for the State. Specific stop loss insurance coverage becomes available when Program costs exceed \$500,000 per enrollee per contract year. Aggregate insurance coverage is triggered should the Program expend 125% of its anticipated medical and pharmacy claims costs. For FY 2006, the State recovered approximately \$411,000 in individual stop loss payments. State expenses for medical and pharmacy did not exceed 125% of anticipated claims estimates.

Self-funded Health Benefit Program Activity (Cash Basis)

	FY 2006	FY 2005	FY 2004
NHIFS ACTIVE DETAIL			
<i>Revenue: 060-014-6600-</i>			
6666 Active	\$145,103,903	\$133,040,185	\$79,255,273
6668 COBRA	629,315	830,405	449,227
6669 Special	1,091,315	973,576	501,819
6681 Legislators	503,809	439,789	263,288
6682 One-time Credit	2,793	280,000	
6697 POS Buy-up	248,775		
Total Active Revenue	\$147,579,910	\$135,563,955	\$80,469,607
<i>Expenditures: 060-014-6600-</i>			
090 Medical Claims	\$105,489,019	\$121,774,791	\$75,989,439
091 Medical Administration	4,251,502	4,559,343	3,944,139
092 Enrollment Services	357,684	362,381	365,415
093 Exercise Incentive	729,990	566,087	296,693
094 Consulting Services	168,985	291,357	
095 Pharmacy Claims	20,410,645		
096 Pharmacy Administration	63,454		
099 Other Plan Expenditures	8,403		
Total Active Expenditures	\$131,479,683	\$127,553,959	\$80,595,686
Active Revenue Over/(Under)	\$16,100,227	\$ 8,009,996	\$(126,079)
NHIFS RETIREE DETAIL			
<i>Revenue: 060-014-6650-</i>			
6670 Special Retired	\$28,003	\$24,498	\$16,320
6671 Retiree	45,506,294	42,867,084	22,530,699
6675 Retire Subsidy	14,185,005	13,522,645	9,003,088
6678 Retiree Contributions	187,405		60,801
6679 Legislators	154,377	184,151	307,358
6680 Judges	483,797	458,434	
6685 One-time Credit		220,000	
Total Retiree Revenue	\$60,544,880	\$52, 276,810	\$31,918,266
<i>Expenditures: 060-014-6650-</i>			
090 Medical Claims	\$ 35,332,890	\$48,482,428	\$26,818,287
091 Medical Administration	3,025,046	3,015,078	1,736,677
092 Enrollment Services	-		
094 Consulting Services	110,852	207,121	
095 Pharmacy Claims	18,152,706		
096 Pharmacy Administration	43,249		
099 Other Plan Expenditures	5,771		
Total Retiree Expenditures	\$ 56,670,513	\$51,704,627	\$28,554,964
Retiree Revenue Over/(Under)	\$3,874,367	\$5,572,182	\$3,363,302

	FY 2006	FY 2005	FY 2004
NHIFS TROOPER DETAIL			
<i>Revenue: 060-014-6660-</i>			
6686 Troopers	\$2,996,708		
6695 Troopers POS Buy-up (9/01New Hires)	1,750		
Total Trooper Revenue	\$2,998,458		
<i>Expenditures: 060-014-6660-</i>			
090 Medical Claims	\$1,501,059		
091 Medical Administration	77,766		
092 Enrollment Services	4,924		
093 Exercise Incentive	12,036		
094 Consulting Services	1,850		
095 Pharmacy Claims	184,682		
096 Pharmacy Administration	861		
099 Other Plan Expenditures	-		
Total Trooper Expenditures	\$ 1,783,178		
Trooper Revenue Over/(Under)	\$1,215,281		
NHIFS COMBINED SUMMARY DETAIL			
Total Combined Revenue	\$211,123,248	\$192,840,766	\$112,387,873
Expenditures:			
090 Paid Claims	\$142,322,967	\$170,257,219	\$102,807,726
091 CIGNA Administration	7,354,314	7,574,421	5,680,816
092 Choicelinx	362,608	362,381	365,415
093 Exercise Incentive	742,026	566,087	296,693
094 Consulting Services	281,687	498,478	-
095 Pharmacy Claims	38,748,033	-	-
096 Pharmacy Administration	107,564	-	-
099 Other Plan Expenditures	14,174	-	-
Total Combined Expenditures	\$189,933,373	\$179,258,586	\$109,150,650
% Increase over prior year	6%		
Combined Revenue Over/(Under)	\$21,189,875	\$13,582,180	\$3,237,223
Cumulative Cash Fund Balance Over/(Under)	\$38,009,278	\$16,819,403	\$3,237,223

Note: *FY 2004 Activity Beginning October 2003

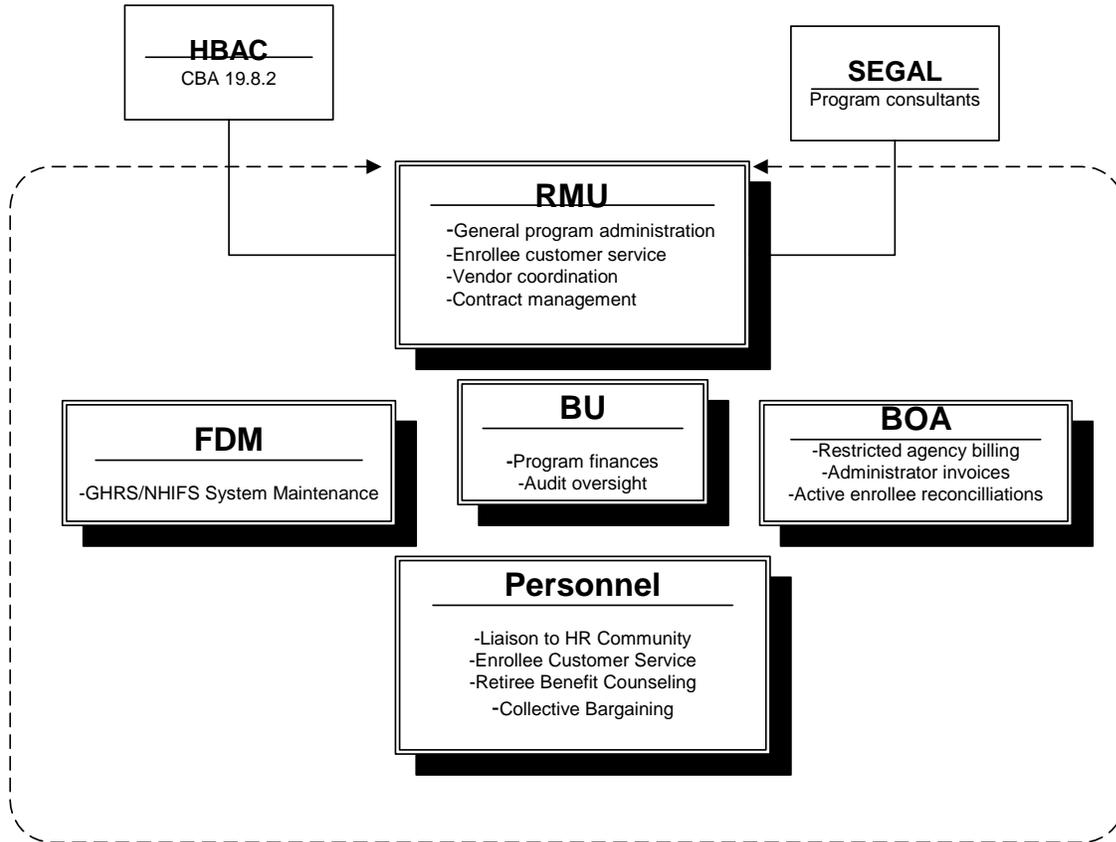
**FY 2004 & 2005 Paid Claims includes both medical & prescription expense.

***FY 2004 & 2005 Paid claims includes both Active & Trooper expense.

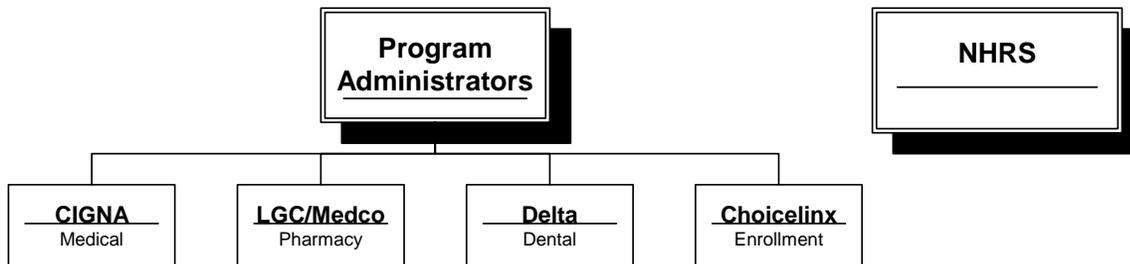
Source: NHIFS

Department Program Overview

07/01/2006

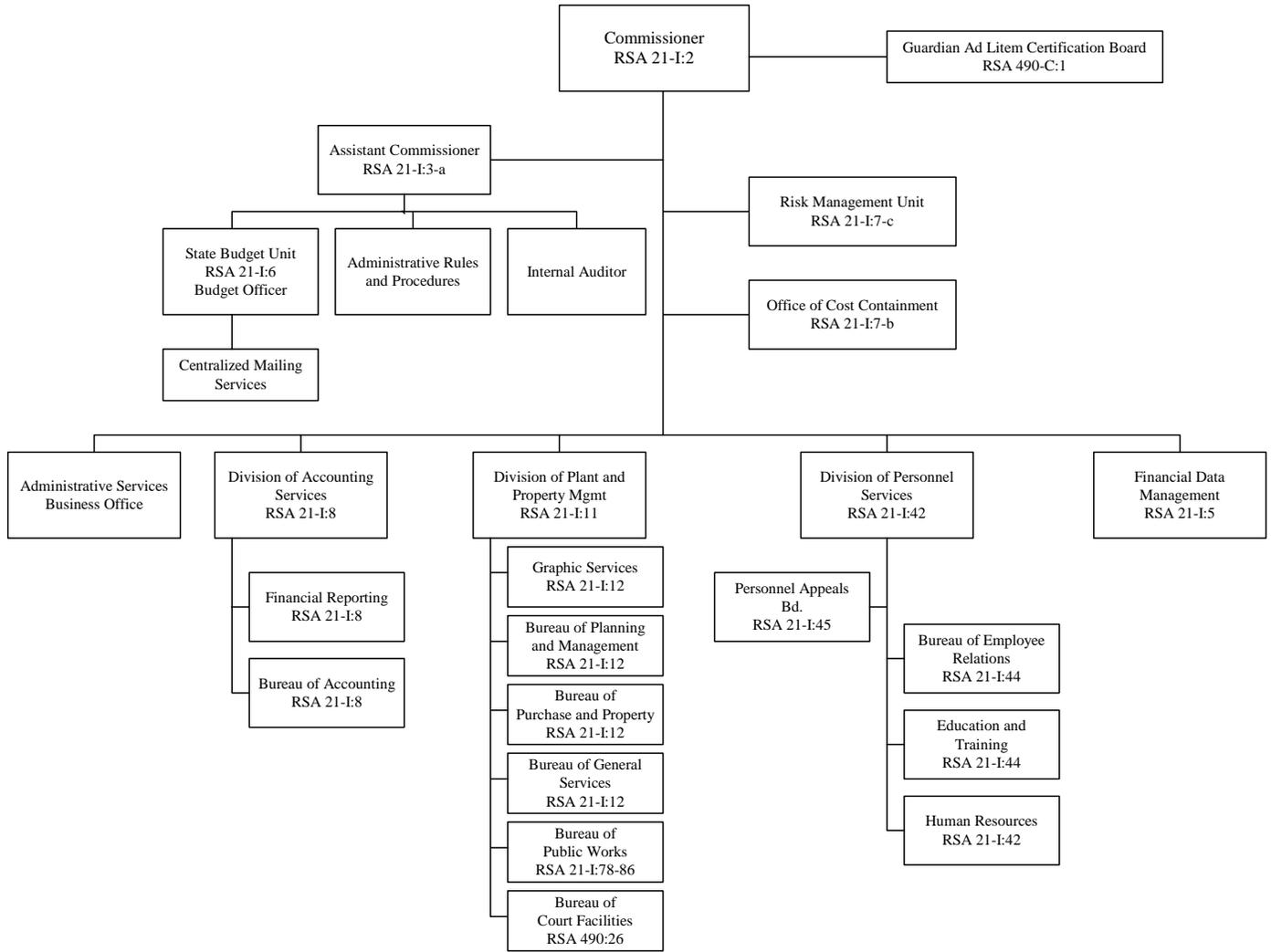


Department of Administrative Services Team



Legend
HBAC Health Benefits Advisory Committee
RMU Risk Management Unit
FDM Financial Data Management
BU DAS-Budget Unit
BOA Bureau of Accounting
NHRs New Hampshire Retirement System

DEPARTMENT OF ADMINISTRATIVE SERVICES ORGANIZATIONAL CHART



III. Health Benefit Program

Health Benefit Program Responsibilities

PLAN ADMINISTRATION	Task Assignment				
	<u>RMU</u>	<u>FDM</u>	<u>BOA</u>	<u>BU</u>	<u>Personnel</u>
Contract analysis/monitoring	X				
Vendor performance review	X				X
Rate-setting				X	
Medicare Part D subsidy application	X			X	
Monthly review of enrollment and claims	X				X
Bid/negotiation of administrative (TPA), dental and stop-loss arrangements	X				X
HIPAA Privacy and Security compliance	X				X
Migrate legislators and retirees into Choicelinx	X				X
Recommendation of program changes	X				X
Right-to-Know requests	X				

BENEFITS OPERATIONS	<u>RMU</u>	<u>FDM</u>	<u>BOA</u>	<u>BU</u>	<u>Personnel</u>
Benefit design negotiations with SEA					X
Enrollment of new hires					X
Enrollment of retirees					X
Life event and address changes for actives and retirees	X				X
Enrollee inquiries and complaints	X				X
Retiree enrollment/benefits counseling					X
Agency human resources communications					X
Training for HR explanation of benefits and benefit changes					X

ACCOUNTING OPERATIONS	Task Assignment				
	<u>RMU</u>	<u>FDM</u>	<u>BOA</u>	<u>BU</u>	<u>Personnel</u>
Reconcile GHRS DEDS file with Choicelinx			X		
Reconcile Choicelinx/GHRS sync process			X		
Reconcile GHRS employee medical coverage eligibility			X		
Process Delta Dental invoices for PT judges			X		
Process Delta Dental invoices for actives			X		
Review retiree insurance premium file and subsidy CR			X		
Prepare inter-govt PV for retired judges			X		
Special participants billing			X		
Prepare inter-govt PV for self-sustaining agencies			X		
Prepare cash receipts for specials, legislators and COBRA			X		
Process special participants billing			X		
Revenue source reconciliation			X		
Process manual warrants for claims/adjust NHIFS by class			X		
Update monthly Fund 60 NHIFS activity			X		
Update monthly Fund 60 financial statement/balance sheet			X		
Process CIGNA administration invoice payment voucher and allocation			X		
Maintain claims register			X		
Monitor COBRA and special group billings			X		
Review year-end closing of accounts			X		

REPORTING OPERATIONS

Task Assignment				
RMU	FDM	BOA	BU	Personnel
			X	
		X		
X				
		X		
X				X
X				X
	X			
	X			
				X
	X			
	X			
X				

Ch. 319:32 Report to Fiscal Committee
 Chart of Accounts Update
 Segal IBNR Computation
 Financial Statement-Statewide (Profit & Loss Statement)
 Reports to Insurance Advisory Committee (SEA) ~ HBAC
 Ad hoc legislative and Governor reports
 Provide standard/ad hoc reports from e-info warehouse for benefit deduct's
 Provide standard/ad hoc reports from e-info warehouse re: accounting trans
 Support web info distribution/links to vendors on Sunspot/NH.GOV
 Create, accept, coordinate file exchanges with vendors
 Configure/program GHRS/IFS for benefit deduct's, vendor data, accounting
 Fund 60 Annual Report to Governor, Legislature and agencies

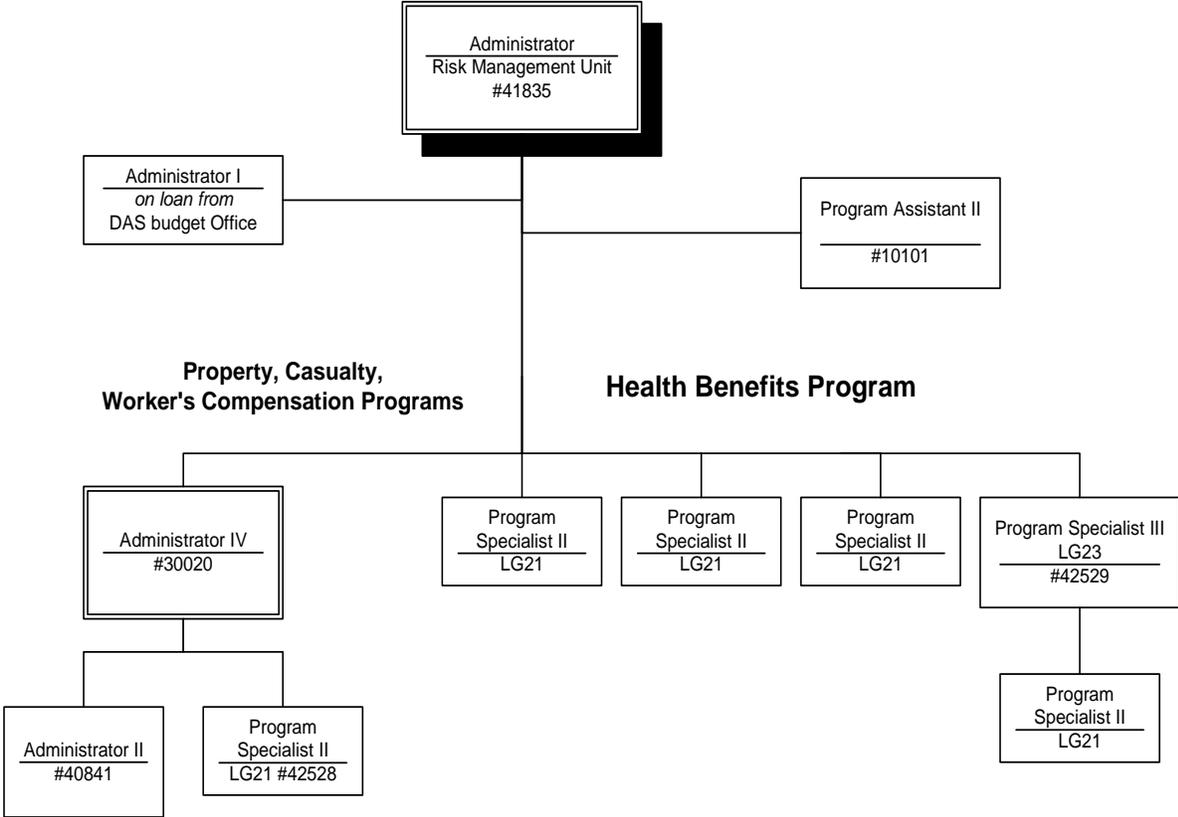
PLAN AUDITS

RMU	FDM	BOA	BU	Personnel
X		X		
			X	
X				
X				
X				
X				

KPMG Checklist - CAFR Segment Reporting
 LBA Health Program Financial Audit - Fiscal Committee Presentation
 Financial Audit Follow-up
 Segal Claims Audit / Vendor Observation Follow-up
 Vendor Observation Follow-up
 LBA Insurance Procurement Practices Performance Audit / Post follow-up

Risk Management Unit Organization Chart

07/01/2006



Statutory Basis of the Program

CHAPTER 21-I Department of Administrative Services

State Employees Group Insurance

Section 21-I:26

21-I:26 Purpose and Policy. This subdivision is to provide permanent group life insurance and group hospitalization, hospital medical care, surgical care and other medical and surgical benefits for New Hampshire state employees and their families, and retired state employees and their spouses. In view of the accepted value of group insurance to the well-being and efficiency of employees on the part of small and large private employers and the other 5 New England states in obtaining benefits of this type of insurance for their employees, the state of New Hampshire implements this subdivision in order that the state shall compare favorably to the standards now commonly accepted by private employers and the state employees in the other 5 New England states by making available to state employees and their families and retired state employees and their spouses permanent group life insurance and group hospitalization, hospital medical care, surgical care and other medical and surgical insurance benefits.

Source. 1985, 399:1, eff. July 1, 1985.

21-I:27 Administration. Administration of the state employees permanent group life and group hospitalization, hospital medical care, surgical care and other medical and surgical insurance benefits shall be the responsibility of the commissioner of administrative services.

Source. 1985, 399:1, eff. July 1, 1985.

21-I:28 Contract. – The commissioner of administrative services shall be authorized to enter into permanent group life insurance contracts with an insurance company or companies, or other group licensed to do business in the state of New Hampshire. The commissioner of administrative services shall be authorized to enter into group hospitalization, hospital medical care, surgical care, and other medical and surgical benefits contracts with an insurance company or companies, third party administrators, or any organization necessary to administer and provide a health plan under the provisions of this subdivision. The commissioner of administrative services, in consultation with the fiscal committee of the general court, shall from time to time assess the medical insurance coverage given by its present insurer and by others in order to determine which of various contracts would best serve the interests of the state employees.

Source. 1985, 399:1, eff. July 1, 1985. 2001, 251:1, eff. Sept. 11, 2001.

21-I:30 Medical and Surgical Benefits-

I. The state shall pay a premium for each state employee and permanent temporary or permanent seasonal employee as defined in RSA 98-A:3 including spouse and minor, fully dependent children, if any, and each retired employee, as defined in paragraph II of this section, and his or her spouse, or retired employee's beneficiary, only if an option was taken at the time of retirement and the employee is not now living, toward group hospitalization, hospital medical care, surgical care and other medical benefits plan or a self-funded alternative within the limits of the funds appropriated at each legislative session and providing any change in plan or vendor is approved by the fiscal committee of the general court prior to its adoption. Funds appropriated for this purpose shall not be transferred or used for any other purpose.

II. For the purposes of this section, "retired employee" means each group II state employee who retires. "Retired employee" also means each group I state employee who:

- (a) Has at least 10 years of creditable service for the state if the employee's service began prior to July 1, 2003 or 20 years of creditable service if the employee's service began on or after July 1, 2003, and who also is at least 60 years of age at the time of retirement; or
- (b) Has at least 30 years of creditable service for the state at the time of retirement, regardless of the employee's age; or
- (c) Is but for the provisions of 1989, 376:10, otherwise eligible to receive medical and surgical benefits under this section notwithstanding subparagraphs (a) and (b), and paragraph IV, on June 30, 1989, and who retires between July 1, 1989, and June 30, 1994; or
- (d) Dies or retires and is eligible for accidental death or accidental disability retirement benefits, regardless of the state employee's age or number of years of creditable service; or
- (e) Retires and is eligible for ordinary disability retirement benefits, regardless of the state employee's age; or
- (f) Dies and is eligible for ordinary death retirement benefits, if the state employee was eligible for service retirement at the time of his death, if the state employee had at least 10 years of creditable service for the state if the employee's service began prior to July 1, 2003 or 20 years of creditable service if the employee's service began on or after July 1, 2003.

III. Any vested deferred state retiree may receive medical and surgical benefits under this section if the vested deferred state retiree is eligible. To be eligible, a vested deferred state retiree shall have at least 10 years of creditable service with the state if the employee's service began prior to July 1, 2003 or 20 years of creditable service if the employee's service began on or after July 1, 2003. In addition, if the vested deferred state retiree is a member of group I, such retiree shall be at least 60 years of age to be eligible. If the vested deferred state retiree is a member of group II, such retiree shall not be eligible until 20 years from the date of becoming a member of group II and shall be at least 45 years of age.

IV. Each state employee who has at least 10 years of creditable service for the state if the employee's service began prior to July 1, 2003 or 20 years of creditable service if the employee's service began on or after July 1, 2003, and who elects to take a reduced service retirement allowance shall be defined as a "retired employee" for the purposes of being eligible to receive medical and surgical benefits under this section when the state employee reaches age 60.

V. No state employee who terminates his or her state service before he or she becomes eligible for retirement benefits as a "retired employee" as defined under paragraphs II-IV shall be eligible for medical and surgical benefits under this section.

Source. 1985, 399:1. 1990, 209:1. 1991, 355:4. 1993, 276:1, 2, eff. July 1, 1993; 358:86, eff. at 12:01 a.m., July 1, 1993. 2001, 251:2, eff. Sept. 11, 2001. 2003, 291:1, eff. July 1, 2003.

Health Benefit Program Administrators

<u>G&C Approval</u>	<u>Vendor</u>	<u>Contract Term</u>
10/06/2004, #11	The Segal Company Provides actuarial, claims audit and employee health benefit consulting services.	10/7/2004-9/30/2006
6/22/2005, #28	Delta Dental Provides fully-insured dental coverage for active state employees.	7/1/2005-6/30/2007
6/22/20056, #29	Choicelinx Corporation Provides an internet-based benefit enrollment process and related services for state employees and retirees.	7/1/2005-6/30/2006
7/13/2005, #33A	LGC HealthTrust Administers a prescription drug benefit program for state employees and retirees.	7/13/2005-6/30/2007
8/3/2005, #28	CIGNA HealthCare Administers medical benefits for state employees and retirees.	9/1/2005-6/30/2007
3/22/2006, #19A	LGC HealthTrust Provides administrative services incident to the State's participation in the Medicare Part D Prescription Drug Subsidy Program.	6/21/2006—6/30/2007

IV. Historical Perspective of the State's Health Benefit Program

Transition to Self-Funding

Ch. 319: 31, Laws of 2003 directed the Commissioner to “implement a self-funded health plan” for employees and retirees for the first time in the State’s history. Prior to 2003, the Department had utilized insurance companies to manage both the administration and financial risk of the Program. While assuming greater administrative responsibilities and financial risk, the benefits to the State of self-funding include:

- Cost savings (the State no longer pays an insurance company to assume the risk).

Annual savings in FY 2006 and FY 2007 of \$6,621,000 as estimated by State’s benefits consultant:

Event	Estimated Savings
Change to Self-Funded Funding	\$1,535,000
Results of Competitive Bid-Medical	\$1,080,000
Results of Competitive Bid-Rx	\$3,822,000
Results of Competitive Bid-Dental	\$184,000

- Better control over plan design (e.g.state mandates not automatically applied as with insured plans).
- Better data about the Program, including eligibility, cost and utilization, etc.

With this move, the State joined the majority of states in self-funding these benefits. While current data is unavailable, a 2002 report by the Arizona Health Care Cost Containment System found in 2001 that thirty-four (or 68%) of the fifty states self-funded at least one of their employee health care plans. At that time, only 40% self-funded all of their employee health care plans, but the trend appeared to be moving towards greater self-funding.

In a period of three months, the Department prepared to migrate this major state program. Between July and October 2003, the Department assumed the responsibility for arranging and overseeing heretofore unfamiliar functions as diverse as Web-based on-line employee enrollment and stop-loss coverage, and as complex as the establishment of actuarially sound program rates and the development of an accounting system that accommodated an array of revenue sources, benefit plans, quasi-governmental entities, and reporting requirements.

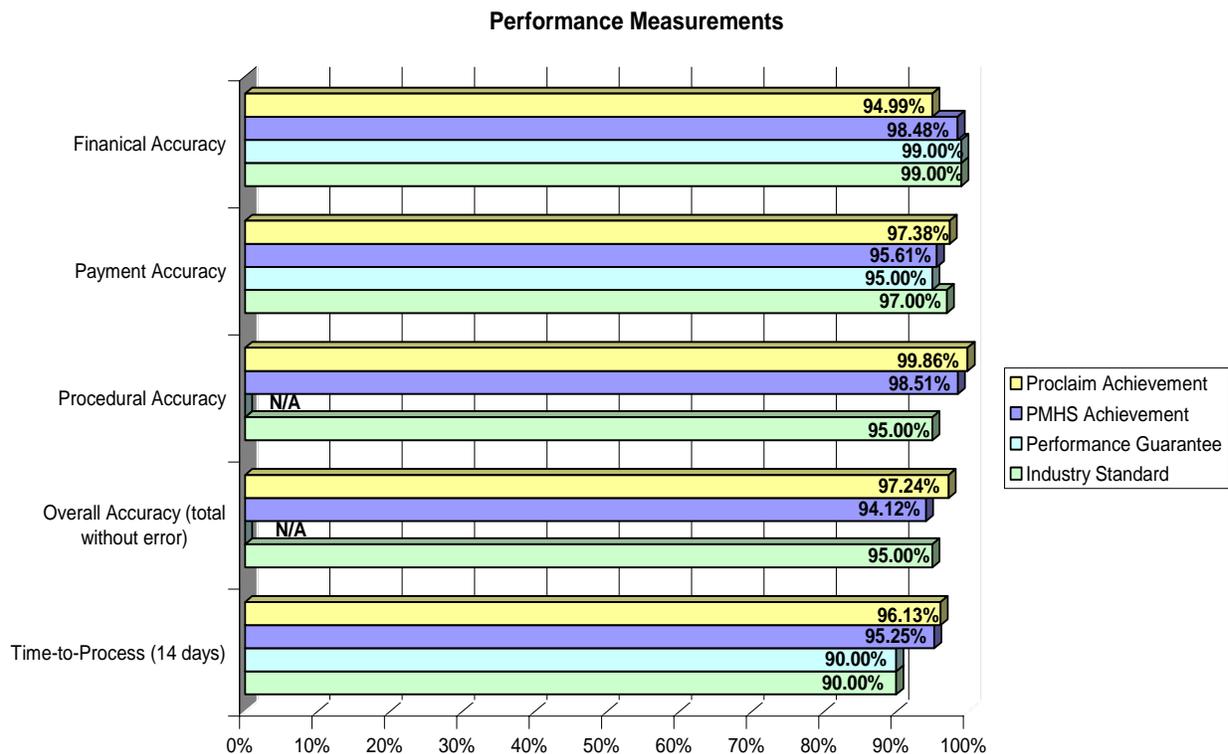
As is generally recognized, the administrative burdens upon an employer with a self-funded health benefit program exceed those of a fully insured program. The self-funded employer, in this case, the State, must concern itself with a variety of subjects such as plan design, stop-loss coverage, rate-setting, claims reserves, communications and vendor coordination that are generally undertaken by the insurance company and also perform audits of the various plan administrators. The Department team accomplished the changes necessary to effectuate the statutory mandate by October 1, 2003.

Medical Claims Audit of CIGNA

The Department's benefits consultant performed a claims audit on claims processing and payment procedures utilized by CIGNA HealthCare in the administration of the State's medical benefits covering a representative sampling of claims processed during the period July 1, 2004 through June 30, 2005. CIGNA was measured in five areas:

- Financial accuracy
- Payment accuracy
- Procedural accuracy
- Overall accuracy
- Time-to-process

CIGNA generally was found to meet or exceed performance guarantees and industry standards.



Results of Prescription Drug Plan Audit of CIGNA

In addition, the consultant performed a Prescription Drug Plan audit using October 1, 2004 to June 30, 2005 data. The objective of the audit was to identify areas where CIGNA is exceeding or falling short of expectations, identify areas of potential inefficiency, abuse and waste; and determine whether CIGNA is administering the plan design parameters as intended.

The findings included:

- **Retail and Mail Order Discounts**—CIGNA's achieved discounts at retail and mail-order pharmacies for brand name and generic drugs were within the consultant's benchmark ranges.
- **Plan Design Administration**—The active member co-payments were administered consistent with the design set forth in the plan provisions.
- **Utilization Management**—The State's potential oversupply claim paid amount is within observed tolerance levels; a certain level of oversupply is natural due to refill activity associated with vacation, emergency, and replacement supplies. Some oversupply may also have a clinical explanation.

V. Current Health Benefit Program (2005-2007)

Impact of September 1, 2005 Negotiated Plan Design Changes

In 2005, the state employee collective bargaining process resulted in a number of plan design changes. In addition, the Department negotiated several contractual changes with its administrators. Carving out prescription drugs from the medical contract was an area identified by the Department's consultant that could result in cost savings. The Choicelinx enrollment system provided the data flexibility to carve out and manage multiple vendors. On September 1, 2005, the State began using LGC/Medco to administer its prescription drug benefit. Other changes that were implemented for the active employee plans are as follows:

- **Prescription Drugs:** Increased retail co-payments to \$5 for generic drugs, \$10 for preferred drugs, \$15 for non-preferred drugs, and two times the applicable co-payment for a 90-day mail-order supply (from \$2 for generic, \$6 non-generic and \$2 for 90-day mail-order supply). Annual out-of-pocket maximums for prescription drug co-payments are \$500 per person, up to \$1,000 per family.
- **Emergency Room Visits:** Increased co-payment to \$50 per visit (from \$25); fee waived if admitted.
- **Office Visits:** Added new co-payment of \$5 per visit (no previous co-payment); no co-payments for prenatal, well baby, and annual visit (ob-gyn included).
- **Payment of Premiums:** For the POS plan, the State pays the full premium rates for single, two-person and family plans. Effective July 1, 2005 employees participating in a POS Plan pay 50% of the difference in cost (based on plan design) between the Network (HMO) and POS plans. Effective July 1, 2006 employees participating in a POS plan pay 100% of the difference in cost between the HMO and POS plans.

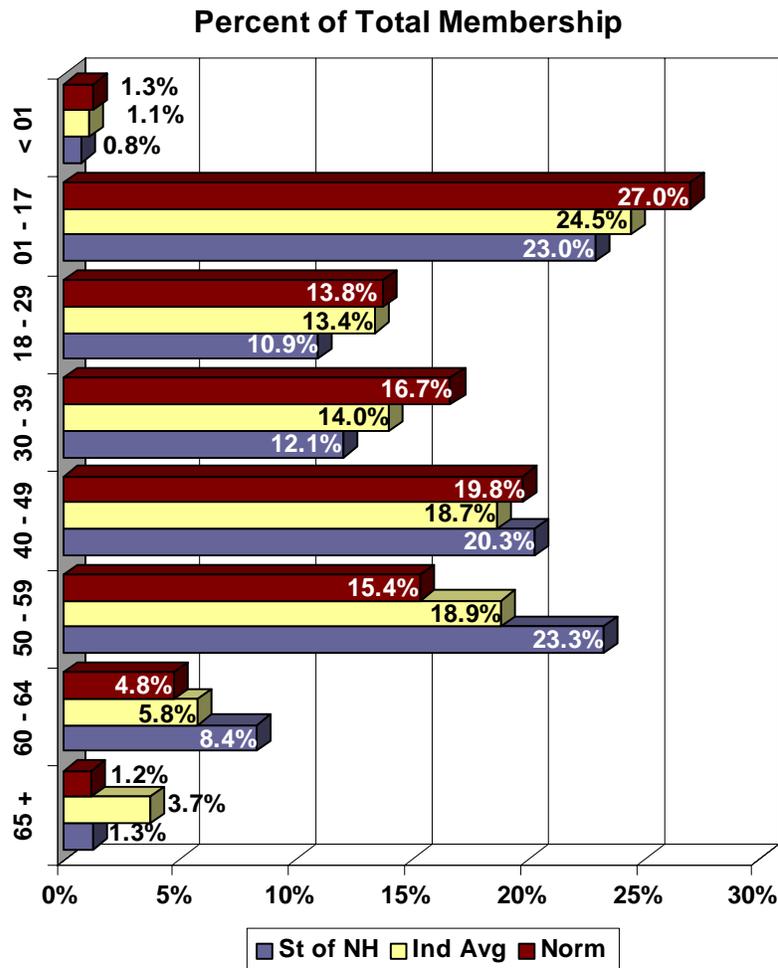
The State expects to see continued significant cost savings as a result of these changes. Based on data from September 2005 to February 2006, CIGNA estimates the medical plan co-payments (excluding prescriptions plan changes) will save the State approximately \$30 per member in 2006 for a total savings of approximately \$900,000. LGC/Medco estimates the annual savings from the prescription drug plan design changes and vendors change is approximately \$3.6 million.

Medical and Prescription Drug Claims Analysis for Active Employees

Medical Claims Analysis

Paid claims for calendar year 2005 were used to assess Program performance. The data points used to assess performance are from the State (“St of NH”) claim results; industry average (“Ind Avg”), which is an average of other municipalities in the Northeast area and overall average (“Norm”), which is the average of the CIGNA book of business for the applicable product.

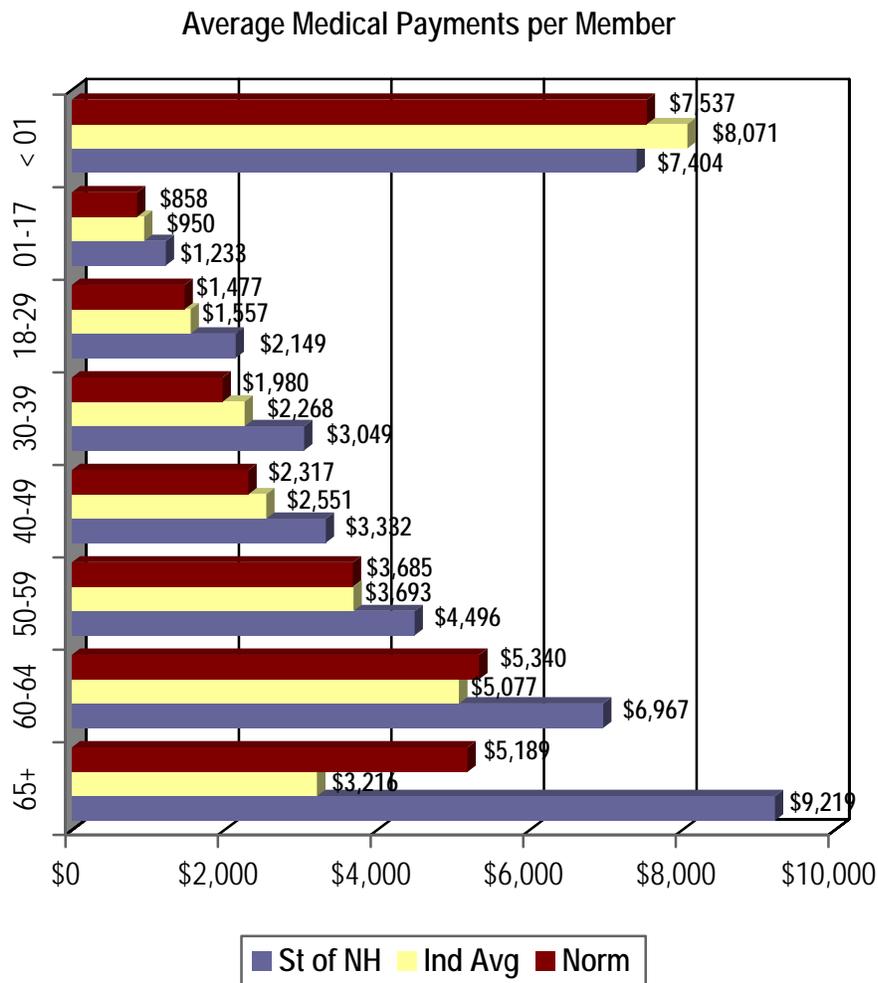
Enrollees in the State’s plans are older than CIGNA’s industry average and overall book of business.



- Due to the nature of state employment, the State has 53% of the covered population age 40 and above, while industry average has 47% and the CIGNA norm only 41%.

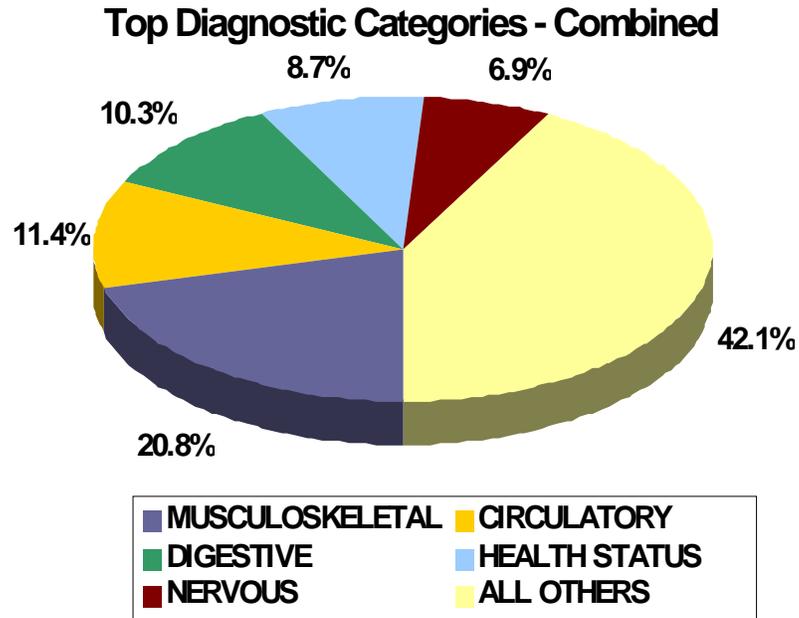
The State plans' per member cost is higher than CIGNA's industry average and overall book of business, which is largely attributable to its older population.

- Incurred medical costs for the State during calendar year 2005 were approximately \$114.6 million for active employees.
- Based on CIGNA's actuarial factors for each age band, it is expected to see both the HMO and POS plans incur medical costs well above the norm and this is reflected in the data. While only 53% of the population, 72% of medical costs for the year were attributable to the 40+ age group, while industry average has 61% and the CIGNA norm only 65%. Other items related to the State's older population:
 - Medical payments are also higher due to a mix of illnesses of higher severity/with more expensive treatment compared to industry and national averages.
 - Outpatient claims are the largest component of the higher spending level, with surgeries, advanced diagnostic testing, emergency room and specialist physician services the major utilization areas.
 - Average cost per member by age group are as follows:



CIGNA notes that utilization of the plans by enrollees is slightly below their industry average and norm.

The State's Major Diagnostic Categories (MDC's), an industry standard method of grouping diagnoses by various body systems, are generally in line with national averages.

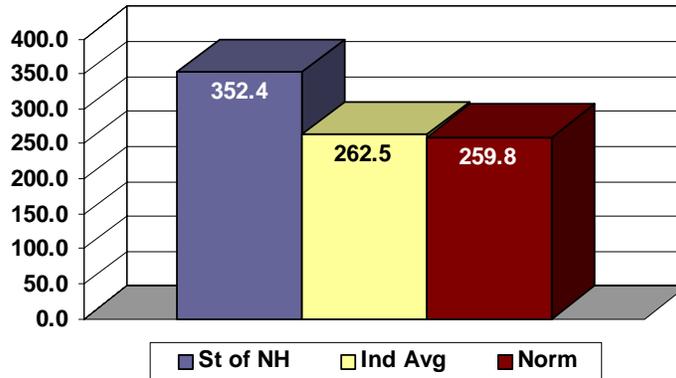


➤ The State's and CIGNA's Normative Top 5 MDC Categories:

- Musculoskeletal: 20.8% (16.7%)
- Circulatory: 11.4% (12.3%)
- Digestive: 10.3% (9.8%)
- Nervous System: 6.9% (7.0%)
- Health Status: 8.7% (6.7%)

Emergency Room (ER) usage is above industry average.

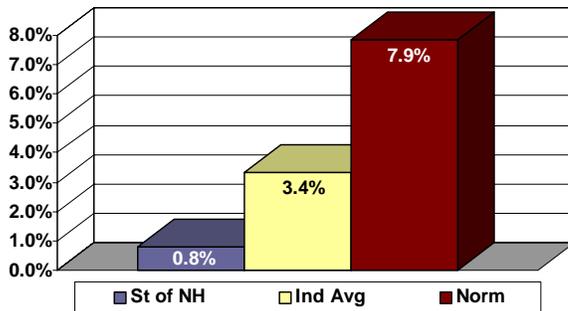
ER Visits per 1,000 Members



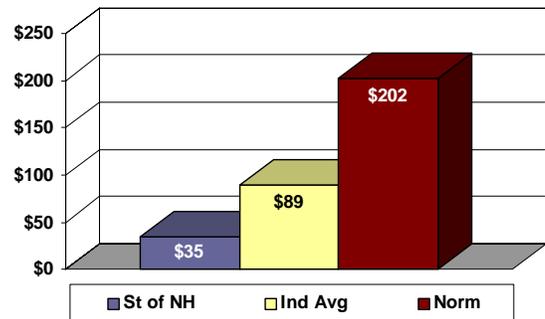
- ER usage exceeds industry average by 34% and norm by 36% in 2005.
- The average payment per ER visit (\$564) exceeded industry average by only 3%.
- Only 32% of visits for the year took place on weekends when alternatives to ER care typically do not exist.

Cost sharing measurements on the plans were below industry average and normative values.

Cost Sharing as Percent of Covered Charges



Cost Sharing per Member



- Differences exist between the employee cost sharing portion of the benefit plan designs (not coverage) for the State versus industry and national averages.
- On a per member basis, cost sharing totaled \$35, 61% below industry average (other municipalities in the Northeast area).
- While the \$54 difference in cost share per member between the State and industry average spending represents approximately \$1.7 million, it is less than 2% of plan cost.

Prescription Drug Coverage Analysis

LGC/Medco prepared a report detailing prescription drug coverage experience from September 2005 through April 2006. Key background items follow.

Highlights of Prescription Drug Coverage Statistics.

For the period of September 2005 through April 2006, active enrollees and their dependents only:

State of NH	Definition	Actives
Cost		
Plan Cost	Cost to the State after allowing for discounts and employee co-payments for the eight months (September 2005 through April 2006)	\$16,987,000
Plan Cost PMPM	Plan Cost on a per member per month basis	\$72.52
Gross Cost PMPM	Cost per member per month including employee co-payments	\$81.75
AWP	Average wholesale price of drugs from First Databank at the National Drug Code	\$26,103,000
AWP/Day	Average wholesale price per day of therapy	\$3.29
Plan Cost/Day	Plan cost for drugs per day of therapy	\$2.14
Plan Cost/Rx	The average cost to the plan after discounts and employee co-payments per script	\$69.85
Effective Discount	Discount from average wholesale price on negotiated discounts and dispensing fees	26.7%
Member Cost Share	Percentage of costs paid by employees	11.3%
Avg Retail Copay	Average co-payment for employees per script at retail	\$7.65
Avg Home Del. Copay	Average co-payment for employees per script via mail	\$16.23
Utilization		
Patients	Unique member filling at least one script	21,858
Total days of therapy	Total of all days of therapy dispensed for all scripts	7,942,428
Total Rxs	Total scripts	243,176
Days/Rx	Average number of days of therapy per script	32.7
Days/Member	Average prescribed days of therapy per member	271
Generic Dispensing Rate	Percent of scripts filled with generic drugs	52.9%
Generic Substitution Rate	Percent of scripts filled with generics, plus any multisource brand billed as generic	94.1%
Brand Formulary Compliance	Percentage showing the adherence to the use of brand drugs listed in the State's formulary	82.0%
Demographics		
Members	Employees and dependents	29,278
Average Patient Age	Average age of patients who fill at least one script	37.7

- The discount from AWP was 28.4% (overall including actives and retirees).

Enrollees are utilizing the Internet for mail-order refills and plan information (from 2/17/06 Report).

- Internet contact usage rate: 57%
- Internet Prescription order usage rate: 47%