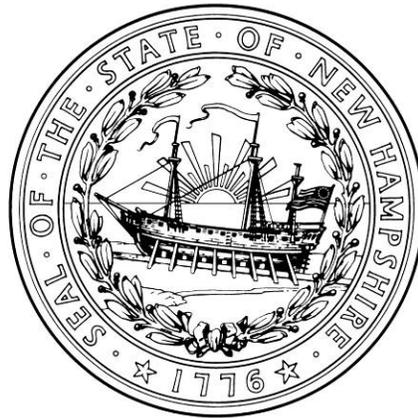


STATE OF NEW HAMPSHIRE

**SELF-FUNDED EMPLOYEE
AND RETIREE
HEALTH BENEFIT PROGRAM ANNUAL REPORT**

For the Fiscal Year Ended
June 30, 2009



Prepared by Risk Management Unit

Monica A. Ciolfi, Administrator of Risk and Benefits

Department of Administrative Services

Linda M. Hodgdon, Commissioner

This document and related information can be accessed at

<http://www.sunspot.admin.state.nh.us/sec/RiskManagement/index.asp>

TABLE OF CONTENTS

Chapter 1. Management’s Discussion and Analysis.....	3
Chapter 2. Program Finances and Fiscal Information.....	6
Chapter 3. Plan Cost Information.....	17
Chapter 4. Recent Program Accomplishments.....	22
Chapter 5. FY2010 Program Goals.....	26
Chapter 6. Health Benefit Program Staff.....	28

1. MANAGEMENT'S DISCUSSION AND ANALYSIS

PROGRAM OVERVIEW

The Employee and Retiree Health Benefit Program (the "Program") had another successful year in FY 2009. The Program operated through a collaborative partnership of several areas within the Department of Administrative Services (the "Department") under the direction of the Risk Management Unit (the "RMU"). It completed the year with a small surplus representing approximately .5% of Program expenses.

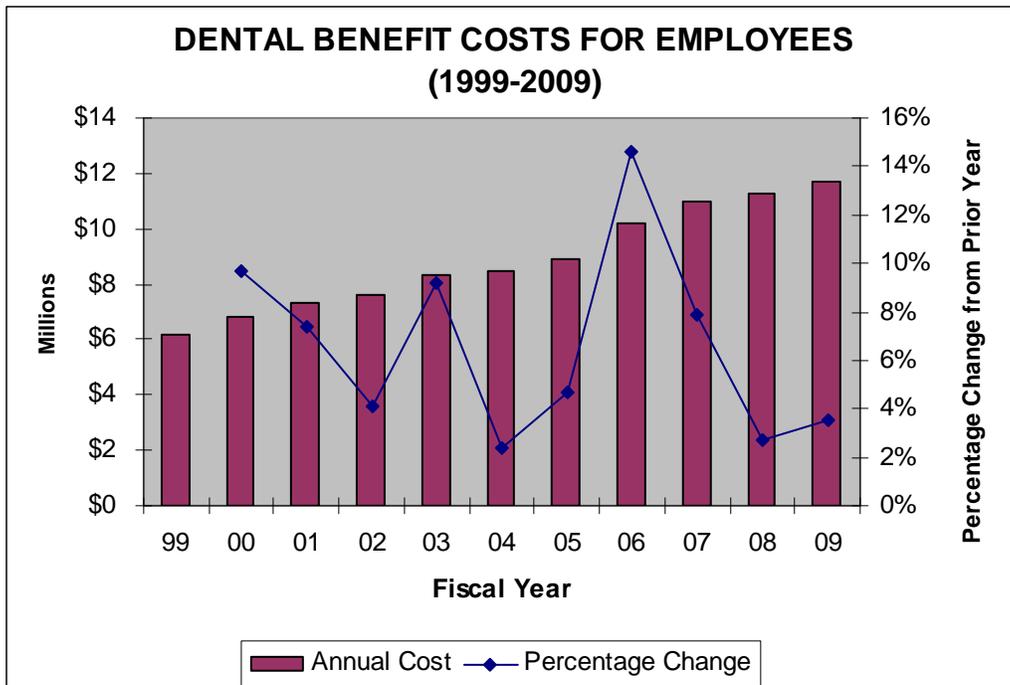
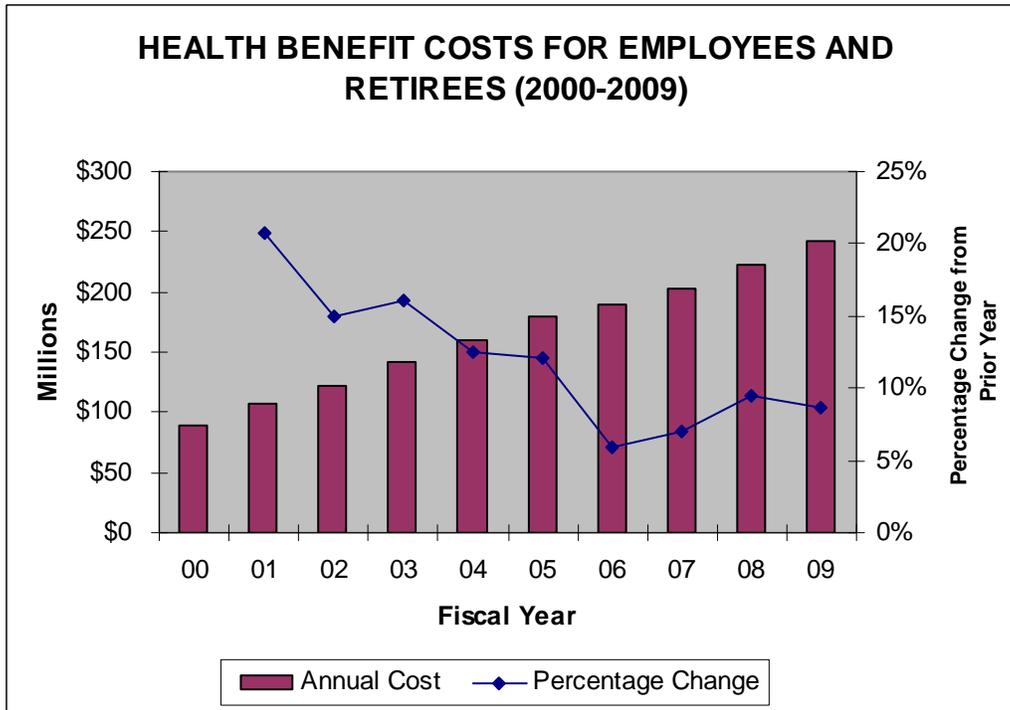
Now in its fifth full year of self-funding, the Program has achieved significant cost savings for the State and has effectively managed the added risk related to choosing not to purchase traditional insurance. These savings have been realized through retaining responsibility for enrollment and the many administrative functions associated with management of eligibility data and processes. Savings have also been achieved through aggressive service procurements as well as active vendor management. In addition, the Program saves money for the State by managing responsibility for compliance with federal group health plan requirements, implementation of plan design changes, fiscal management (including Government Accounting Standards "GASB" and other post-employment benefits "OPEB" liabilities) and acting as a resource to policymakers working to ensure the Program's sustainability into the future. Finally, some savings have undoubtedly been realized through the Program's leadership and coordination of the State's employee wellness program. In the last four years, Program efforts have reduced the trend rate by an average 2.8% per year, effectively saving the State approximately \$59 million in medical and prescription drug paid claims over the four years (see *Trend* in Section 3, Plan Cost Information, p.18).

Despite these savings, health and dental costs continue to rise each year. The effect of the savings has been to lower the rate of increase, which has leveled since the State moved from a fully insured arrangement to the self-funded Program. For health, the annual increases have been relatively consistent since FY 2004, in contrast to the prior fully insured years. Program increases for the past four years have remained below 10% each year. During the period of Fiscal Years 1999 through 2003, the State experienced annual increases of 15% or greater as it provided these benefits. For Fiscal Years 2004 and 2005 the increase was 13% and 12%, respectively, as the State transitioned from fully insured to self-funded and built the necessary Fund reserve.

For dental, costs varied significantly over the years while fully insured. However, since moving the financing of this benefit from a fully insured to a self-funded arrangement in FY 2008, costs increases have become stable and more predictable.

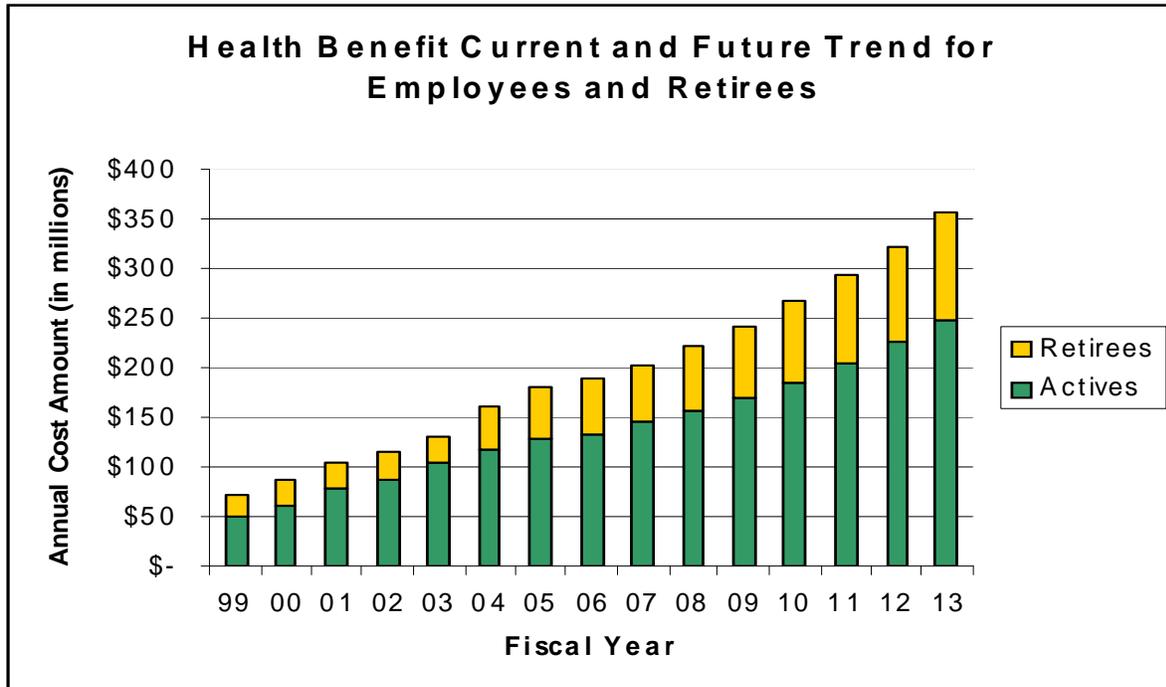
In FY 2009, the Program administered a rate holiday to state agencies, with respect to the FY 2008 Fund operating surplus of \$12.6 million. Of that "holidayed" amount, \$440,000 was credited to state employees in recognition of the contribution that they began making in FY 2008 towards the cost of health coverage. FY 2009 ended with a \$1.3 million surplus, beyond the Program's required statutory reserves.

The following charts illustrate the fully insured and self-funded expense history for health and dental benefits.



PROGRAM OUTLOOK

The Program faces very real challenges if it is to continue to offer high quality health coverage over the long term. Although we have brought down overall annual rate increases into the single digits, still the size of those increases and the base upon which they are applied are not sustainable. If we assume a 10% growth of the Program over the next 4 years, total annual costs will exceed \$350 million in FY 2013.



1999-2003 Represents insurance premiums paid to carrier

2004-2009 Represents claims and administrative costs paid to third party administrators ("TPA") under self-funded program

2010-2013 Represents an assumed 10% yearly increase in costs under self-funded program.

Note: The bars represent the total annual amounts for employee and retiree health coverage, based upon agency expenditures.

One challenge is that state employees underutilize preventive services. As a result, the Program needs to more aggressively promote wellness and disease prevention. We also know the New Hampshire Retirement System ("NHRS") medical subsidy will remain relatively flat in the years ahead, while medical trend increases. In order to close the retiree GASB OBEP funding gap, we need to continue to analyze both eligibility rules and benefit design, as well as seriously consider beginning to pre-fund this benefit.

We also need to address what underlies medical trend, by encouraging employees and retirees to use efficient health care providers and by assisting them in their own health improvement efforts. Without significant changes in benefit plan design and provider reimbursement strategies, it will be difficult to assure the Program's sustainability over time. However, we believe that even modest investments in internal and external resources can result in substantial improvements to the Program, improved health of the State's employees, retirees, and their families, as well as significant cost savings for the State and taxpayers.

In FY 2010, the Program looks to build upon the strong foundation it has developed since the transition to self-funding in October 2003. The Program's overall goal is to effectively manage its fiscal and operational responsibilities over the long term. To accomplish its goal the Program seeks to leverage technology to educate employees and retirees about their health benefits and provide tools to help them make informed decisions about their personal health and health care decisions.

2. PROGRAM FINANCES AND FISCAL INFORMATION

STATE OF NEW HAMPSHIRE
 COMBINING SCHEDULE OF BALANCE SHEET ACCOUNTS
 EMPLOYEE AND BENEFIT RISK MANAGEMENT FUND (Unaudited)
 FOR THE FISCAL YEAR ENDED JUNE 30, 2009
 (expressed in thousands)

	Health				Dental	Total
	Active	Retirees	Troopers	Total		
ASSETS						
Current Assets:						
Cash and Cash Equivalents.....	\$ 18,078	\$ 12,618	\$ 3,582	\$ 34,278	\$ 1,529	\$ 35,807
Total Assets.....	\$ 18,078	\$ 12,618	\$ 3,582	\$ 34,278	\$ 1,529	\$ 35,807
LIABILITIES						
Current Liabilities:						
Incurred But Not Reported (IBNR).....	\$9,891	\$4,517	\$202	\$14,610	\$ 570	\$ 15,180
Total Liabilities.....	9,891	4,517	202	14,610	570	15,180
FUND BALANCES						
Reserved per RSA 21-I:30-b.....	10,035	8,144	221	18,400	-	18,400
Unreserved, Undesignated Surplus (Deficit)	(1,848)	(43)	3,159	1,268	959	2,227
Total Fund Balances.....	8,187	8,101	3,380	19,668	959	20,627
Total Liabilities and Fund Balances.....	\$ 18,078	\$ 12,618	\$ 3,582	\$ 34,278	\$ 1,529	\$ 35,807

At the beginning of FY 2009, the Program (excluding dental) had a Fund balance of approximately \$45 million. During the 4th quarter of the year, \$11.6 million was lapsed to the general fund and other funds as a rate holiday to satisfy Executive Orders 2008-9 and 2008-10. Following the rate holiday, the Fund had an unreserved, undesignated surplus of \$1.3 million at the end of FY 2009. This surplus represents additional funds over and above IBNR and statutory reserves.

2. PROGRAM FINANCES AND FISCAL INFORMATION

**STATE OF NEW HAMPSHIRE
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE ACCOUNTS EMPLOYEE AND BENEFIT RISK MANAGEMENT FUND (Unaudited)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009 (expressed in thousands)**

	Health			Dental	Total	
	Active	Retirees	Troopers			
<u>OPERATING REVENUES</u>						
Contributions For Health & Dental Benefits						
State Contributions ¹ :						
Active Employee.....	\$ 153,200	\$ -	\$ 3,438	\$ 156,638	\$ 11,985	\$ 168,623
Retired Judges & Constitutional Officers	-	571	-	571	-	571
Retired Employees.....	-	50,916	-	50,916	-	50,916
Non-State Contributions:				-	-	-
Other Employers.....	1,118	-	-	1,118	87	1,205
COBRA Participants.....	491	-	-	491	96	587
Legislator Participants.....	622	144	-	766	69	835
Retirement Subsidies & Deductions	-	15,023	-	15,023	-	15,023
Recoveries.....	1,957	1,575	45	3,577	-	3,577
Total Contributions for Health & Dental Benefits.....	157,388	68,229	3,483	229,100	12,237	241,337
<u>OPERATING EXPENSES</u>						
Health Care Expenses						
Medical Payments.....	126,379	37,923	2,292	166,594	10,970	177,564
Pharmaceuticals.....	33,523	31,080	277	64,880	-	64,880
Ancillary Benefits.....	790	-	52	842	-	842
Total Health Care Expenses.....	160,692	69,003	2,621	232,316	10,970	243,286
Administrative Expenses ²	5,383	3,482	123	8,988	734	9,722
Salary & Benefits.....	281	222	6	509	-	509
Enrollment.....	183	144	4	331	-	331
Total Operating Expenses.....	166,539	72,851	2,754	242,144	11,704	253,848
Operating Income (Loss).....	(9,151)	(4,622)	729	(13,044)	533	(12,511)
Investment Income.....	665	465	37	1,167	15	1,182
Change in Net Assets.....	(8,486)	(4,157)	766	(11,877)	547	(11,329)
Net Assets - July 1.....	26,564	16,775	2,816	46,155	982	47,137
Net Assets - June 30.....	\$ 18,078	\$ 12,618	\$ 3,582	\$ 34,278	\$ 1,529	\$ 35,808
PMPM³.....	\$ 484.19	\$ 571.81	\$ 296.54	\$ 503.79	\$ 32.74	\$ 536.53

¹ State Contributions include employee, Trooper and retiree premium-share contributions. See Note 5, at Notes to Financial Statements on page 14 for breakout.

² For a detailed itemization of Administrative Expenses, see Note 3, at Notes to Financial Statements.

³ PMPM = Per member per month. It is calculated by deriving the average of total healthcare costs for a single member in a month.

STATE OF NEW HAMPSHIRE
 SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES
 IN FUND BALANCE ACCOUNTS FOR ACTIVE HEALTH PLAN (Unaudited)
 FOR FISCAL YEARS ENDED JUNE 30, 2005 THROUGH JUNE 30, 2008
 (expressed in thousands)

	FY2008	FY2007	FY2006	FY2005*
<u>OPERATING REVENUES</u>				
Contributions For Health Benefits				
State Contributions:				
Active Employees.....	\$ 141,649	\$ 145,002	\$ 145,353	\$ 133,040
Non-State Contributions:				
Other Employers.....	1,054	1,007	1,091	974
COBRA Participants.....	615	620	629	830
Legislator Participants.....	559	510	504	440
Recoveries.....	3,363	1,254	481	779
Total Contributions for Health Benefits.....	\$ 147,240	\$ 148,393	\$ 148,058	\$ 136,063
<u>OPERATING EXPENSES</u>				
Health Care Expenses				
Medical Payments.....	117,835	106,970	105,489	121,775
Pharmaceuticals.....	29,909	29,232	20,411	-
Ancillary Benefits.....	589	864	730	566
Total Health Care Expenses.....	148,333	137,066	126,630	122,341
Administrative Expenses.....	4,812	4,521	4,492	4,851
Enrollment.....	222	282	357	362
Total Operating Expenses.....	153,367	141,869	131,479	127,554
Operating Income (Loss).....	(6,127)	6,524	16,579	8,509
Investment Income.....	1,205	-	-	-
Change in Net Assets.....	(4,922)	6,524	16,579	8,509
Net Assets - July 1.....	31,486	24,962	8,383	(126)
Net Assets - June 30.....	\$ 26,564	\$ 31,486	\$ 24,962	\$ 8,383
<u>PMPM</u>	\$ 440.82	\$ 421.21	\$ 400.95	\$ 398.86

*During FY 2005, and in prior years, the separate Trooper health plan group did not exist.

STATE OF NEW HAMPSHIRE
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES
IN FUND BALANCE ACCOUNTS FOR RETIREE HEALTH PLAN (Unaudited)
FOR FISCAL YEARS ENDED JUNE 30, 2005 THROUGH JUNE 30, 2008
(expressed in thousands)

	FY2008	FY2007	FY2006	FY2005
<u>OPERATING REVENUES</u>				
Contributions For Health Benefits				
State Contributions:				
Retired Judges & Constitutional Officers.....	\$ 435	\$ 508	\$ 484	\$ 458
Retired Employees.....	41,077	51,605	45,534	42,891
Non-State Contributions:				
Legislator Participants.....	126	151	154	184
Retirement Subsidies & Deductions.....	15,545	15,062	15,717	13,026
Recoveries.....	2,095	1,116	-	220
Total Contributions for Health Benefits.....	59,278	68,442	61,889	56,779
<u>OPERATING EXPENSES</u>				
Health Care Expenses				
Medical Payments.....	35,576	30,126	35,333	48,482
Pharmaceuticals.....	27,243	25,011	18,152	-
Total Health Care Expenses.....	62,819	55,137	53,485	48,482
Administrative Expenses.....	3,703	3,368	3,185	3,222
Enrollment.....	164	75	-	-
Total Operating Expenses.....	66,686	58,580	56,670	51,704
Operating Income (Loss).....	(7,408)	9,862	5,219	5,075
Investment Income.....	662	-	-	-
Change in Net Assets.....	(6,746)	9,862	5,219	5,075
Net Assets - July 1.....	23,520	13,658	8,439	3,363
Net Assets - June 30.....	\$ 16,774	\$ 23,520	\$ 13,658	\$ 8,438
<u>PMPM</u>	\$ 533.27	\$ 473.63	\$ 464.82	\$ 461.76

STATE OF NEW HAMPSHIRE
 SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES
 IN FUND BALANCE ACCOUNTS FOR TROOPER HEALTH PLAN (Unaudited)
 FOR FISCAL YEARS ENDED IN JUNE 30, 2005 THROUGH JUNE 30, 2008
 (expressed in thousands)

	FY2008	FY2007	FY2006	FY2005*
<u>OPERATING REVENUES</u>				
Contributions For Health Benefits				
State Contributions:				
Active Employees.....	\$ 3,452	\$ 3,576	\$ 3,000	-
Non-State Contributions:				
Recoveries.....	77	10	-	-
Total Contributions for Health Benefits.....	3,529	3,586	3,000	-
<u>OPERATING EXPENSES</u>				
Health Care Expenses				
Medical Payments.....	2,296	2,494	1,501	-
Pharmaceuticals.....	294	295	184	-
Ancillary Benefits.....	14	17	12	-
Total Health Care Expenses.....	2,604	2,806	1,697	-
Administrative Expenses.....	104	108	80	-
Enrollment.....	5	6	5	-
Total Operating Expenses.....	2,713	2,920	1,782	-
Operating Income (Loss).....	816	666	1,218	-
Investment Income.....	117	-	-	-
Change in Net Assets.....	932	666	1,218	-
Net Assets - July 1.....	1,884	1,218	-	-
Net Assets - June 30.....	\$ 2,816	\$ 1,884	\$ 1,218	-
PMPM.....	\$ 281.58	\$ 310.42	\$ 200.97	\$ -

* During FY 2005, and in prior years, the separate Trooper health plan did not exist.

NOTES TO FINANCIAL STATEMENTS

1. Accounting Practices and Presentation

In October 2003, the Employee Benefit Risk Management Fund (the “Fund”) was established by the Department to account for the financial activity of the Program. 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, including enrollment services, as well as ancillary benefits such as health club membership, exercise equipment and health education classes. The Department contracts with administrators, which receive, accumulate and process the claims for the various healthcare services, and are thereafter reimbursed.

Fund revenues include agency contributions for their active employees and retirees as well as retired judges and constitutional officers. The statutory medical subsidy of the NHRS and the federal Medicare Part D subsidy also contribute revenue to the Fund (except for the period July 1, 2007 through June 30, 2009 when the latter payments were deposited into the State’s general fund). Certain non-governmental and quasi-governmental employers, such as the State Employees’ Association (“SEA”), and the Pease Development Authority (“PDA”), respectively, also participate in the Program and contribute to the Fund, as do legislators. Rebates from prescription drugs are paid on a quarterly basis into the Fund, and are allocated on a per capita basis to the respective benefit plan. Finally, former employees who are eligible to participate under the federal Consolidated Omnibus Budget Reconciliation Act (“COBRA”) contribute monthly payments as revenue to the Fund.

In the FY 2008/2009 state operating budget, active employee benefit costs were budgeted in the State’s various Class 060 benefits accounts based upon an overall percentage of payroll. This was 48.3% by annum. The Program charges agency benefits accounts on the bi-weekly pay schedules at a contribution rate (i.e. based on the plan working rates) intended to cover all of the costs associated with the Program.

For FY 2009, total revenue into the Fund and expenses paid from it were \$231.4 million and \$242.1 million, respectively. Expenses exceeded revenues by approximately \$10.7 million and the total cumulative Fund balance as of June 30, 2009 was \$34.3 million. Revenue collected was less than expenses due to the rate holiday to spend down a portion of the Fiscal Year End (“FYE”) 2008 cumulative Fund surplus of \$12.6 million.

2. Schedule of Revenue, Expenditures and Changes in Fund Balance

In previous years, the annual Fund activity was presented only in a Schedule of Revenue and Expense (the "Schedule") format which did not depict the change in Net Assets and thus the Fund balance. For FY 2009, the Schedule was modified to include this format for purposes of matching the corresponding Schedule in the State of New Hampshire Comprehensive Annual Financial Report ("CAFR") for the Fiscal Year Ended June 30, 2009. Other changes to the Schedule required combining certain Revenue and Expenditure line items with new descriptions. The table below maps previous Annual Report Revenue and Expenditures line items to the new descriptions.

Description from previous Annual Reports	New Descriptions
<i>Revenue:</i>	<i>Revenue:</i>
Agency	Active Employees
Employee/Trooper Contributions	
Agency - DAS	Retired Employees
Specials	Other Employers
NHRS Subsidy	Retirement Subsidies & Deductions
Medicare Part D Subsidy	
Retiree Contributions	
Rx Rebate	Recoveries
<i>Expenditures:</i>	<i>Expenditures:</i>
Exercise Incentive	Ancillary Benefits
Medical Administration	Administrative Expenses
Pharmacy Administration	
Consulting	
Other Plan Expenditures (Misc.)	

3. Administrative and Other Expenses

A. Administrative Expenses

The administrative expenses for the health plans largely comprise medical and pharmacy administration charges from Program vendors. The medical administration charge is based on the number of subscribers, while the pharmacy administration charges are based on a fee per claim processed. The remainder of the administrative expenses are associated with the health reimbursement arrangement (“HRA”), consulting and miscellaneous expenses. Except for the medical, pharmacy and HRA administration costs, all other costs are allocated to each of the plans on a per capita basis. Below is a breakout of FY 2009 administrative expenses.

	Actives	Retirees	Troopers
Medical	4,889,761	3,198,670	114,746
Pharmacy	43,714	30,311	476
HRA	128,253	0	0
Consulting	290,980	239,647	6,754
Miscellaneous	16,733	13,185	385
Total	\$5,369,441	\$3,481,813	\$122,361

B. Salary and Wages

Pursuant to Ch. 1:9, Laws of 2009, salary and benefit expenses for employees assigned to the day-to-day administration of the Program are charged directly to the Fund. For FY 2009, the salary and benefit expense totaled \$509,000. This amount was allocated on a per capita basis to the several benefit plans.

C. Enrollment

The enrollment expense charged by the vendor is a fixed monthly amount, which is allocated on a per capita basis to each benefit plan.

D. Total of Administrative and Other Expenses

For FY 2009, the total amount paid for administrative and other expenses was \$9.8 million, or approximately 4% of the total Program expenses. Based on the total FY 2009 Program enrollment, this amount represents an administrative PMPM of \$20.44.

4. One-time Credit

During FY 2005, the Attorney General's office determined that the Fund was eligible for a credit from the Program's then current medical and prescription drug administrator in the amount of \$500,000. The one-time credit was received and allocated to the Fund plan proportionally by enrollees in the active and retiree health plans. The credit was reflected in the "Recoveries" line item of the Statement of Revenue, Expenditures and changes in Fund Balance respectively. The distribution is as follows:

PLAN	FY 2005
Actives	\$ 280,000
Retirees	<u>220,000</u>
	\$ 500,000

5. Contributions

Employee contributions vary depending on the group under which the employee is categorized. Active and Trooper employees have negotiated distinct contributions under their respective collective bargaining agreements ("CBA"). Retiree contributions represent payments made by the NHRS that are attributable to the cost of dependent coverage for those retirees electing such coverage.

Beginning in July 2007, employees began contributing toward the cost of health coverage. The SEA collective bargaining agreements required employees to contribute \$25 per pay period. In January 2009, this amount increased to \$30 per pay period.

Under the Troopers' CBA, new hires after September 1, 2005 are required to contribute only on multi-person plans. The contribution is limited to 10% of the difference between an employee-only coverage plan and a multi-person plan.

For FY 2009, the total amount of employee and retiree (dependents) contributions received for the Program was \$8 million. The contributions were collected as follows:

PLANS	FY 2009
Actives	\$ 7,845,577
Retirees	180,448
Troopers	<u>16,867</u>
	\$ 8,042,892

6. Claims Reserve

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 administrative costs, and an amount to pay the actuarially determined incurred but not reported (“IBNR”) liability. For FY 2009, the amount estimated as necessary to pay healthcare claims and administrative costs for one month was approximately \$18.4 million. The IBNR liability, as calculated by the Department’s actuarial consultant, was \$14.6 million. Together, the Fund continually met these reserve requirements, and the cash surplus in excess of these statutorily required reserve amounts decreased from \$12.6 million as of July 1, 2008 to \$1.3 million as of June 30, 2009.

7. Prior-Period Adjustment

A prior-period adjustment in the Program’s cumulative cash Fund balance for FY 2006 was deemed necessary due to year-end closing entries (“13-month”) that were not originally included. The adjustment comprises approximately \$1 million in Medicare Part D subsidy payments and approximately \$700,000 in prescription drug rebates attributable to FY 2006. The total amount of the one-time adjustment resulted in an overall \$1.8 million increase in the Fund balance, which was carried forward into the FYE 2008 Fund balance. The active and retiree health plans benefited from this adjustment approximately \$481,000 and \$1.3 million, respectively.

8. Interest Earned

Per RSA 21-I:30-e IV, at the end of each fiscal year, the state treasurer shall credit the Fund with interest and any other income earned. For FY 2009, the Fund accumulated earnings in the amount of \$1,167,604. The interest earnings were allocated proportionally based on plan balances.

9. Medicare Part D Subsidy

The Medicare Part D subsidy was originally allocated between the Fund and the general fund. However, effective July 1, 2007, all Medicare Part D payments received from the Retiree Drug Subsidy (“RDS”) Program were deposited into the general fund as unrestricted revenue. Under the FY 2010/2011 state operating budget, all subsidy payments will be fully allocated to the Fund.

10. Prescription Drug Carve-out

As of September 1, 2005, prescription drug coverage has been provided under a separate administrative contract. Prescription claims are thereafter reported separately from medical claims.

11. Subsequent Events

The Program will experience further change in FY 2010. First, effective July 1, 2009, the Program will collect a monthly retiree contribution for those retirees under the age of 65. Per Ch. 144:54, Laws of 2009, the NHRS is directed to charge those retirees, and their spouse, a \$65 a month contribution for each person, not to exceed \$130 a month. The Program is expected to receive approximately \$2.5 million a year through the collection of this contribution.

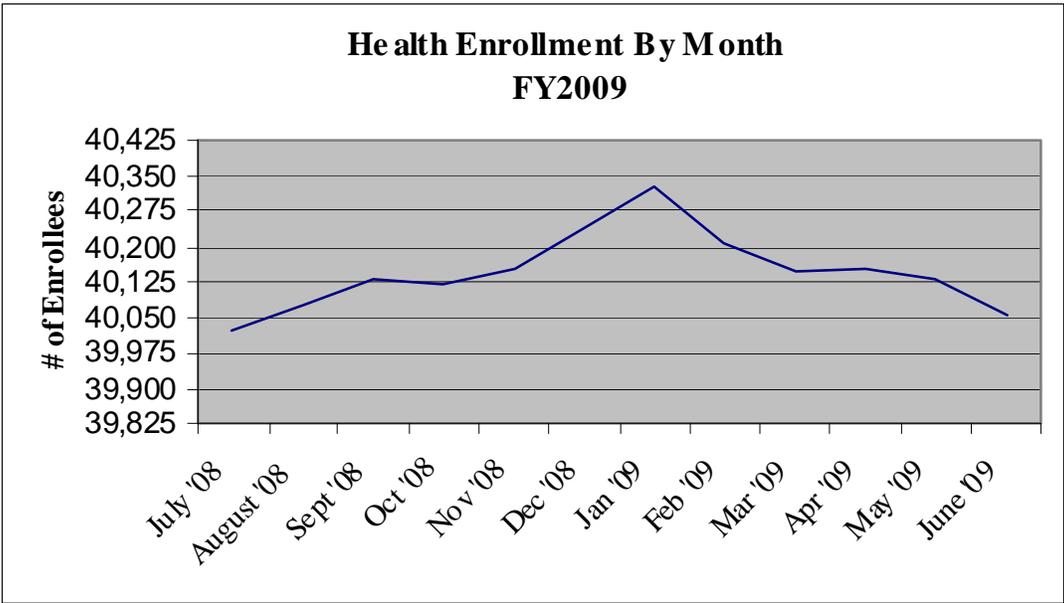
Pursuant to Ch. 144:66, Laws of 2009, the legislature also mandated the Program change its statutory reserve, which currently is one month estimated annual health claims and administrative costs. Effective July 1, 2009, the reserve is 5% of those costs. The reduction in the reserve will “unrestrict” approximately \$5.7 million. The reduction amount is “all funds”, and a portion of this amount will be lapsed to the general fund, as provided in the operating budget.

Lastly, as noted above, the Medicare Part D subsidy will no longer be deposited into the general fund, but instead be deposited into the Program Fund. The estimated subsidy to be received in FY 2010 is \$4.5 million.

3. PLAN COST INFORMATION

ENROLLMENT

During FY 2009, the health plan enrollment fluctuated to a high of 40,329 lives in January, from a low of 40,024 in July, or a .8% spread. Overall, the ending FY 2009 enrollment was down .3% from the ending FY 2008 enrollment figures.



As of June 30, 2009, the Program enrollment by groups was as follows:

	FY 2009 ENROLLMENT				Dental
	Health				
	Actives	Retirees	Troopers	Total	
Employee	11,710	9,505	258	21,473	12,132
Dependents	16,953	1,112	516	18,581	17,656
Total	28,663	10,617	774	40,054	29,788

TREND

The following chart displays the impact of the Program's efforts to manage costs over time. These efforts comprise the procurement and negotiation of favorable contract terms as well as plan design changes negotiated through the collective bargaining process. In order for a self-funded benefit program to realize savings, it must dedicate staff and technical resources to these kinds of activities.

The trend associated with the various plans, on an aggregate basis, is set forth below:

Medical/Rx Combined	Total Health Plans		
	% Change in	Actual Trend	"Trend Savings"
FY 2005 to 2006	6.5%	10.1%	3.6%
FY 2006 to 2007	5.9%	6.9%	1.0%
FY 2007 to 2008	7.2%	10.9%	3.6%
FY 2008 to 2009	8.7%	11.8%	3.1%
4-Year Average	7.1%	9.9%	2.8%

Notes:

1. Medical and Rx experience based on the State's claims and enrollment from July 1, 2004 to June 30, 2009.
2. Rx experience and trends reflect claim cost only and do not reflect prescription drug rebates or the Medicare Part D subsidy.
3. Actual Trend reflects estimated adjustments for the following benefit design changes, medical network discount variances, and PBM financial term variances:
 - a. September 1, 2005 medical and prescription drug active plan benefit design changes.
 - b. September 1, 2005 improved prescription drug financial terms resulting from the move from CIGNA to LGC/Medco.
 - c. July 1, 2007 improved prescription drug financial terms resulting from the move from LGC/Medco to LGC/Caremark.
 - d. January 1, 2008 greater medical network discounts resulting from the move from CIGNA to Anthem.
 - e. January 1, 2009 SEA active HMO medical plan benefit design changes.
4. "Trend Savings" represents this difference between the State's actual change in claims cost and the estimated change the State would have experienced in the absence of the benefit design changes, medical network discount variances, and PBM financial term variances.

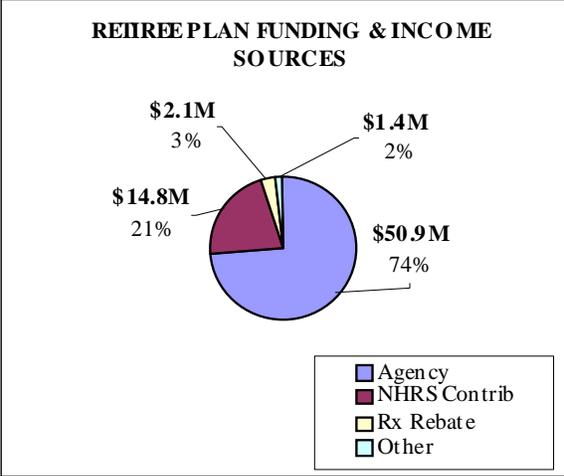
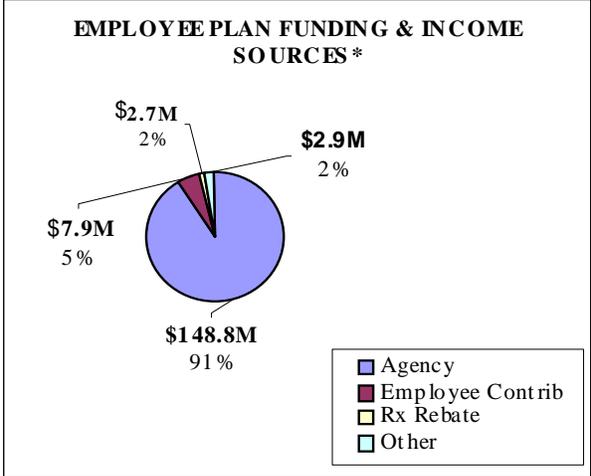
In the past four years, the Program has generated savings, which in the aggregate amount to \$59 million. By reducing the trend rate by an average of 2.8% per year, the Program's procurements, vendor management and plan changes have had a significant reduction on what the medical and prescription drug claims otherwise would have been over this period. That is, had the favorable contract terms not been achieved, or the plan changes not negotiated, the plan spending levels would have been \$59 million higher, based upon historical trend.

PROGRAM FUNDING AND INCOME SOURCES

Funding for the Program comes from various sources, and further varies by group. For the active health plan group, the State paid approximately 93.5% of the total premium (i.e. working rate) collected, while employees paid 5.1%. The remainder of the premium collected was from “specials” (i.e. PDA, SEA) and legislators. As for the Trooper health plan group, the State paid 99.5% of the total premium, and the Trooper employees paid the remainder. Active employee and Trooper premium contribution amounts are detailed in Note 5, Notes to Financial Statements on page 14.

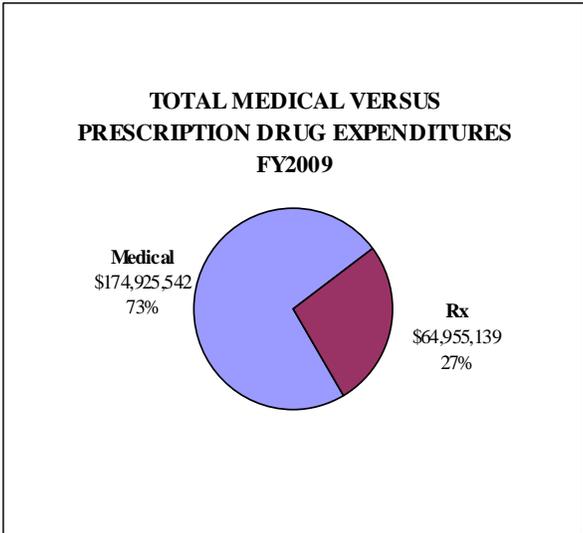
For the retiree health plan group, the State paid approximately 76.4% of the aggregate working rate. The NHRS medical subsidy contributed 22%. The remainder of the premium equivalent came from retirees with dependent coverage (.3%) and legislators and judges (1.1%).

Other income to the three plans includes the prescription drug rebates and investment income.

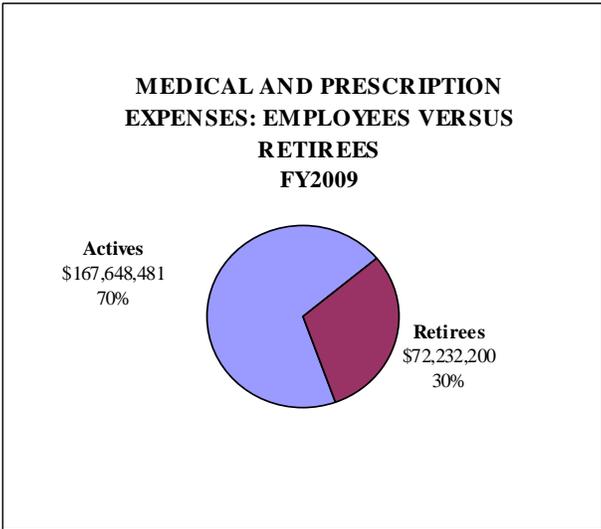


*For purposes of this chart, the active and Trooper health plans were combined.

PROGRAM EXPENDITURES: BY BENEFIT AND GROUP



NOTE: For FY 2009, when the total medical and prescription drug costs, including claims and administration costs are isolated from other expenses, the cost equals \$239.9 million.



Actives include Trooper health plans.

NOTE: When comparing the overall medical and prescription expenses for state “Employees” (active and Trooper health plans) versus the retiree health plan, 70% of the expenditures were incurred by the Employees’ health plans.

HIGH DOLLAR CLAIMANTS

As of January 1, 2009, the Program elected to discontinue its stop-loss coverage, and the associated state assessments. This decision saved \$2.7 million in annual premiums. The purpose of stop-loss insurance is to back-stop high dollar claims (“HDC”) that exceed \$500,000. Since the Program’s claim history showed minimal HDCs above this threshold, a financial decision was made to suspend the coverage.

During FY 2009, there were 393 HDCs above the \$50,000 threshold, of which four exceeded \$500,000 (see chart below). The total claim expense for those four HDCs was \$2,384,030. Had the Program retained stop-loss, it would have only paid up to \$2 million and the insurance would have paid the difference of \$384,030. Although the Program would have saved the \$384,040 by having stop-loss coverage, it would have come at a cost of \$2.7 million in premiums.

	<i>\$50,000-\$99,999</i>	<i>\$100,000-\$249,999</i>	<i>\$250,000-\$499,999</i>	<i>\$500,000+</i>
Actives	223	57	15	4
Troopers	3	0	0	0
Retirees	62	23	6	0
TOTAL	288	80	21	4

4. RECENT PROGRAM ACCOMPLISHMENTS

Activity	Summary
Retiree Benefit Modifications	Several significant changes to the retiree health plans were undertaken in FY 2009, with an effective date of July 1, 2009. After much modeling and analysis by the Program, medical and prescription drug plan changes were presented to the legislative Fiscal Committee, which approved all of the requested changes. Informational sessions were conducted throughout the State to educate retirees about the changes prior to their implementation. In addition, the Legislature enacted a \$65/month premium contribution by early retirees. Ch. 144:54, Law of 2009. The total savings to the State as a result of the plan design and premium contribution modifications is \$3.8 million in FY 2010.
Technical Support and Assistance to State Collective Bargaining Committee	The State Collective Bargaining Committee presented several significant health benefit reform proposals to the unions during negotiations of the 2009 collective bargaining agreements. The proposals were based on plan experience data as well as comparative information from other States, and would have saved the State approximately \$18 million over the FY 2010/2011 biennium. The Program provided financial modeling and data analysis to the Committee throughout the collective bargaining process, which began in December 2008. As of the issuance of this Report in December 2009, negotiations are on-going.
State Operating Budget Support	The Program supported the Department's budget unit in two primary areas. First, the Program staff generated budget figures for retiree health coverage, funding for which is reflected in various agency budgets for non-general fund agencies and in the Department budget for general fund agencies. In addition, the staff assisted in incorporating benefit plan rates to build the health and dental portions of the biennial Class 060 budget for the first time.

Activity	Summary
Service Procurement	<p>Dental: Through collaboration with the Division of Plant and Property, the Program released a request for proposal (“RFP”) for dental plan administration in June of 2009. Results of the procurement are pending. The RFP design delegated greater scoring responsibility to the Department and less to that of its health benefit consultants than has been previously undertaken for a benefit service procurement. The Program will continue to assume a greater role in procurements.</p> <p>Medical: The Program procured and implemented Anthem as the State’s third party administrator effective January 1, 2008. The achieved provider network discount for CY 2008 was 43.89%, a rate that exceeded the guarantee of 43% and represented approximately \$2.3 million in additional savings to the State above the guaranteed discount. The Program negotiated a one year extension with Anthem with a 42% discount guarantee for CY 2010 with the proviso that such rate will increase by the same basis points by which the CY 2009 achieved discount exceeded 43%. The extension also added clarifying and new language with respect to performance guarantees.</p> <p>Flexible Spending: The Program negotiated a two year extension with Employee Benefits Management for flexible spending, the HRA and other voluntary benefits with only a projected 3% increase in administrative costs from FY 2009. Total administrative costs for the FSA and HRA plans were \$193,924.</p> <p>Prescription Drug: In FY 2009, the Program saved an estimated \$4.4 million through the renegotiation of its pharmacy benefits manager pricing in a one year extension with Local Government Center HealthTrust and Caremark. The savings, which represent approximately 6.5% of the projected prescription drug costs in CY 2010, are based on anticipated costs under the then current pricing.</p> <p>Enrollment Administration: The Program negotiated a two year extension of its enrollment and eligibility contract with Choicelinx, effective July 1, 2008. The cost of this service has increased less than 1.5% annually since the inception of self-funding, despite greatly expanded administrative services since 2003.</p>

Activity	Summary
Health Insurance Portability and Accountability Act Privacy and Security Rule Compliance	<p>In FY 2009, the Program underwent an initial Health Insurance Portability and Accountability Act (“HIPAA”) Privacy and Security Compliance Review, after procuring for and engaging a consulting firm. The result of that initial review provided a rough roadmap that the Program must follow in order to comply with federal HIPAA rules. After the review, a staff member in RMU was made accountable for HIPAA compliance through a position reclassification and an enhanced Supplementary Job Description. The Deputy Director of Personnel was also designated a privacy official. A compliance project plan was prepared and activities have been initiated.</p>
Office of Inspector General Retiree Drug Subsidy Audit	<p>The Program staff worked with the Office of the Inspector General (“OIG”), which audited the State’s participation in the Medicare RDS program. The audit required the Program to revisit the integrity of data sets and business processes associated with the administration of prescription drug coverage for Medicare-eligible retirees. The OIG audited four “objective attributes” of the State’s participation in the RDS program. Of the four, the State was compliant with three. OIG recommended that the State strengthen its controls to ensure that claims data included in its interim cost reports were accurate. Over the next several months, the Department will develop more efficient controls with respect to managing the submission of cost reports to RDS.</p>
Government Accounting Standards Board and Other Post-Employment Benefits	<p>The Program oversaw the process to comply with the GASB requirement that public employers calculate and disclose their obligation to provide other (i.e. non-pension) post-employment benefits, or OPEB. The State provides health coverage to certain, eligible retirees. Therefore, under GASB OPEB Statements 43 and 45, the State must, on a biannual basis, establish the actuarial value of that obligation, and disclose the discounted liability annually on its financial reports. So as to enable The Segal Company to prepare the required valuation, as of June 30, 2009, the Program provided employee and retiree enrollment data at the end of the last fiscal year, as well as all plan design and premium contribution information as it existed on July 1, 2009. The final valuation report will be provided to the state retiree health plan commission, consistent with RSA 100-A: 56.</p>

Activity	Summary
Incurred but Not Reported	As it does each year, the Program incorporated a new IBNR reserve in Fund 60. The reserve is calculated by the Department's actuarial consultant and reviewed by Program staff. In FY 2009, the required reserve was reduced as a result of prompter claims adjudication by the medical administrator that was installed January 2008. The FY 2009 reserve for medical and prescription drug claims was \$14.6 million.
Vendor Management	Vendor performance issues that impact service levels experienced by the State are handled in a centralized manner, by the same individual who oversees performance guarantees. This approach has allowed for much more vendor accountability and improved service levels. In CY 2008, \$70,125 in penalties was collected from our vendors for failing to meet performance guarantees.
Employee Wellness	<p>In FY 2009, the Program solidified its use of Anthem's dedicated wellness nurse. Half day training sessions for the State's 40 agency wellness coordinators were held quarterly throughout the year, and robust monthly newsletters were provided through the coordinators to all state employees.</p> <p>The coordinators helped promote greater participation in the Program's Health Assessment Tool. This, in turn, resulted in an increase in utilization of the HRA, as well as flexible spending accounts ("FSA"). In addition, in FY 2009, the wellness program delivered an improved wellness website with more useful content and fostered relationships with many community and statewide health promotion organizations.</p> <p>Across state agencies, wellness coordinators were encouraged to promote and engage in physical activities that mirrored monthly health observances to increase awareness of health issues that are affecting our population in the State. These observances include National Walk at Lunch Day, Walk NH, American Heart Association's Start Walking Day and several 5K races. The coordinators also arranged many "Biggest Loser" competitions throughout state government. As a result of the steady progress of the Program, agencies are beginning to embrace the potential of wellness. In addition, by creating a new Wellness Specialist position in the Department, the Legislature has also recognized the importance of health promotion for state employees.</p>
New Hampshire Purchasers Group on Health	Through its relationship with the New Hampshire Purchasers Group on Health ("NHPGH"), the Program has analyzed three years worth of claims data, using other public sector purchasers as benchmarks. This analysis and comparison has provided the State with some valuable insights into our population, enabling us to more effectively focus the efforts of our wellness program, as well as the utilization management and other activities of our medical and prescription drug administrators. The Program has been able to analyze our population, especially with regard to chronic disease, and ensure our vendor's condition care management programs are reaching the appropriate individuals. In addition, the State, together with NHPGH launched the New Hampshire Hospital Scorecard, providing the public with cost and quality metrics for all 26 of the State's acute care hospitals.

5. FY 2010 PROGRAM GOALS

Activity	Goal
Evaluating Program Data: Maine Health Information Center and New Hampshire Purchasers Group on Health	<p>The State receives aggregated cost and utilization reports, which allow the Program to compare itself to other benchmark populations, namely other public sector purchasers. Currently, there is no ability to drill down into and around the data. Only set static reports are provided. The goal for FY 2010 is to work with Maine Health Information Center (“MHIC”) (now called OnPoint Health) in order to make our access to this data dynamic.</p>
Dependent Eligibility Audit	<p>Develop a process for all state agencies to perform standardized eligibility audits with periodic verifications. The process shall include establishment of required documentation upon enrollment as well as periodic verification of documents and processes.</p>
Health Insurance Portability and Accountability Act Privacy and Security Rule Compliance	<p>Under federal law, the Program is a “covered entity” and must comply with the HIPAA rules. The goal for FY 2010 is to work from the project plan and make incremental progress in these areas:</p> <ul style="list-style-type: none"> • Privacy Notice • Training/education • Procedures • Policies • Audit <p>The Program will continue its progress towards full compliance. Our goal is to make measurable progress toward overall compliance and to instill into the Program a “HIPAA Mindset” that will ensure all involved are educated in these important requirements.</p>
Robust Wellness Program: Health Assessment Tool and Wellness Website	<p>At the end of FY 2009, approximately 5,600 employees had taken the online HAT. The Program through its collaboration with the Health Benefits Advisory Committee (“HBAC”) and the wellness coordinators assigned to each agency continuously update the State’s wellness website as new initiatives are implemented. The Program looks to make further improvements in both areas in FY 2010.</p>

Activity	Goal
Customer Service Issues	Human resources employees in state agencies and in the Division of Personnel act in a customer service capacity, advocating for and/or assisting employees with issues related to their health benefits. These issues and interactions are not tracked or accounted for centrally. The State needs to identify ways to improve in this area.
Technology: Claims Reporting	The Program seeks to develop capacity to collect and report data through its eligibility administration. The Program is currently working with its eligibility and health benefits vendors to implement the collection and distribution of agency level data to allow quarterly reporting of cost and utilization, as well as in aggregate based on employee status or groupings.
Technology: Retiree Data	The Program seeks to develop a repository for retiree health benefit eligibility data for use in retiree benefits budgeting, the bi-annual GASB OPEB valuation, RDS procedures and retiree premium contribution accounting.
State Employees' Association of New Hampshire Collaboration	The unsustainable growth in health program costs requires all parties to be engaged in finding solutions. The Program seeks further collaborative participation in the management of the Program through the HBAC activities and other initiatives. Focusing on efforts to build a solid partnership with the SEA so as to present a unified message of employee wellness and cost awareness will help us attain those solutions.
Employee and Agency Communications: Newsletter	The Program lacks opportunities to educate policy-makers and employees about how it is performing. We also lack a vehicle to inform employees about the benefit. The RMU has developed a Health Benefit Program newsletter to share information about the status of the Program and related health issues. In FY 2010 the Program looks to establish the newsletter as a recognizable and useful educational tool for state employees.

6. HEALTH BENEFIT PROGRAM STAFF

- Diane Caldon, Department Wellness Coordinator, Program Assistant
- Monica Cioffi, Administrator of Risk and Benefits
- Jason Dexter, Procedure Specialist
- Tina Hussey, Health Program Specialist
- Tammy Nelson, Procurement Liaison for Bureau of Purchase and Property
- Michael O'Mahony, Manager, Privacy and Program Vendors
- Eric Remillard IV, Program Finance Director
- Judy Shevlin, Retiree Health Program Specialist
- Christine Williams, Health Operations Specialist

Phone: 603-271-3180

Fax: 603-271-7049

Email: ContactRMU@nh.gov

For a complete list of all Department staff associated with the Program, as well as an outline of all Program vendors and internal operations, please see the FY 2008 Health Benefit Program Annual Report at the following link: http://admin.state.nh.us/hr/documents/fund_08.pdf