

STATE OF NEW HAMPSHIRE

SELF-FUNDED EMPLOYEE

AND RETIREE

HEALTH BENEFIT PROGRAM ANNUAL REPORT

For the Fiscal Year Ended
June 30, 2010



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1. MANAGEMENT'S DISCUSSION AND ANALYSIS

PROGRAM OVERVIEW

In FY 2010, the Employee and Retiree Health Benefit Program (the "Program") continued to effectively manage the State's self-funded benefits responsibility. Rates have been adequate, but not excessive, and medical trend has been contained. With support from the Governor and Council and the legislative Fiscal Committee, the Program was able to implement benefit plan design and vendor terms that will lead to further cost reductions in the near and longer term. The Program continues to successfully administer the added risks and tasks related to choosing not to purchase traditional insurance. Before reserve adjustments, the Program Fund completed the year with a surplus representing approximately 3.6% of Program expenses.¹

Now in its sixth full year of self-funding, the State has realized savings through retaining responsibility for member enrollment and the functions associated with eligibility data and processes among the Program's administrative partners. Continued savings have also been achieved through aggressive service procurements as well as active vendor management. In addition, the Program saves money by managing responsibility for compliance with federal group health plan requirements, implementation of plan design changes, fiscal management and participation in federal retiree subsidy programs. Finally, some savings are surely being realized through the Program's leadership and coordination of the State's employee wellness program. Over the last five years, Program efforts, in the aggregate, have reduced the trend rate by an average 2.5% per year, effectively saving the State tens of millions in medical and prescription drug paid claims over what would have been paid in insurance premiums (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 five 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 remained below 5% each year.

The Program was able to generate additional budgetary savings by recommending a reserve reduction to the Legislature. As a result, in FY 2010, the Legislature reduced what was a one-month claim and administrative cost reserve to 5% of those costs. This change lowered the Fund 060 reserve requirement from \$18.4 million to \$12.7 million, thus generating \$5.7 million in total funds, or approximately \$2.3 million in general funds.² Lowering the statutory reserve was a prudent step in light of the continued successful management of the Program. As rates continue to be set appropriately and overall costs are managed, stable claims experience supported the reduction. To release the general funds from the Fund 060 reserve, the Program conducted a working rate holiday in March 2010, which partially fulfilled the targeted "budget requirement".³

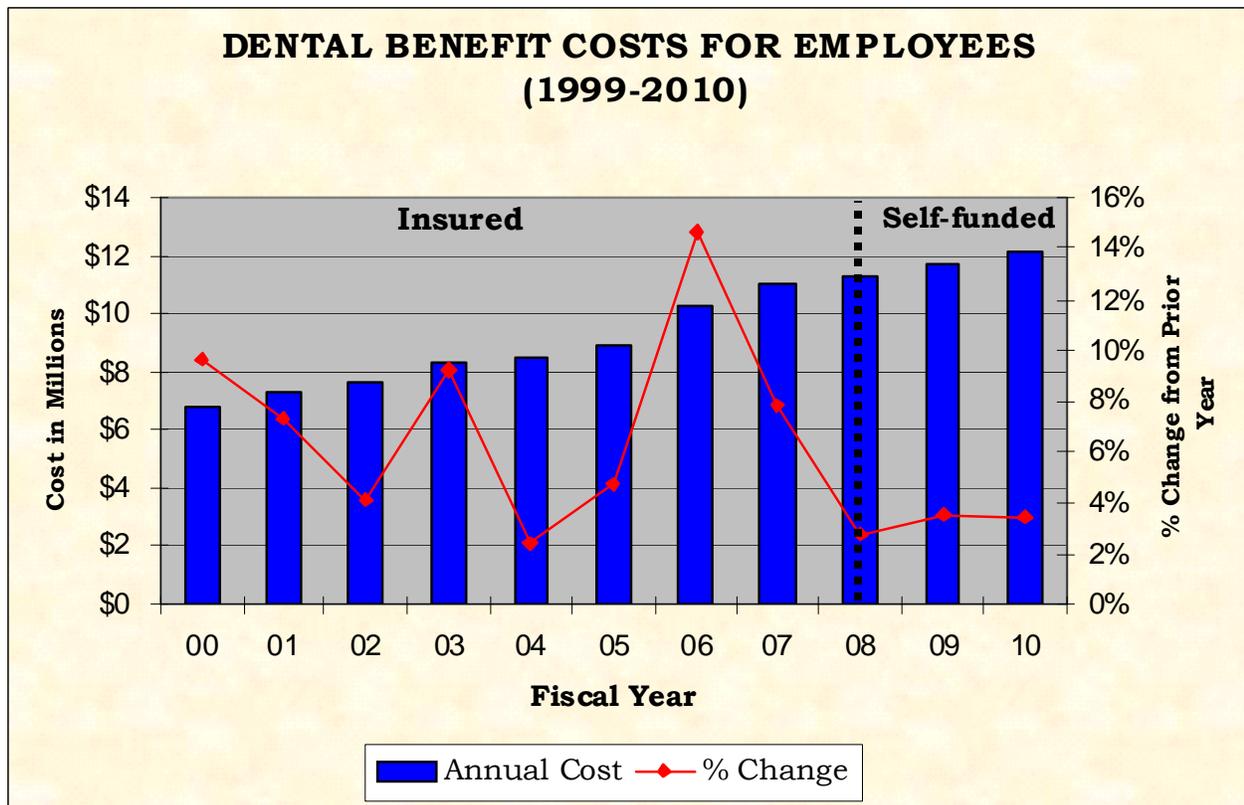
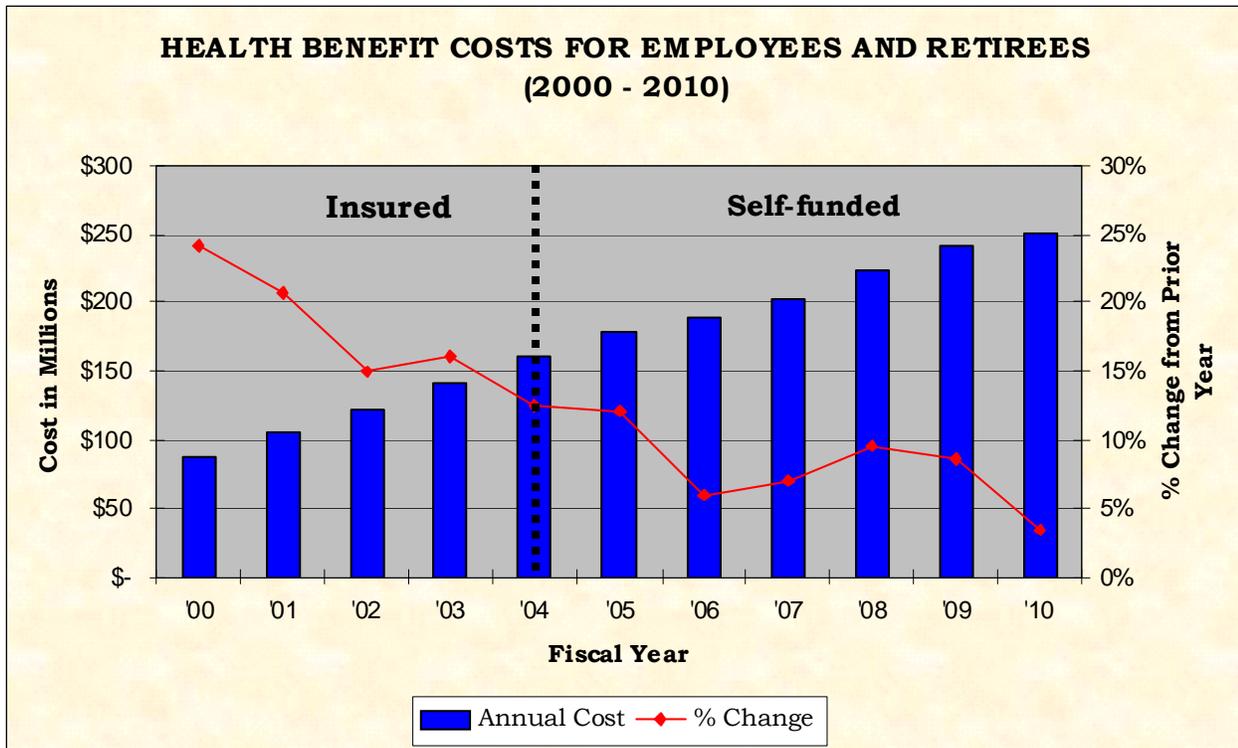
As of June 30, 2010, the Program ended with a \$10.7 million surplus, beyond the required reserves. A portion of the surplus was a result of the reduction of \$1.6 million in the Incurred But Not Reported (IBNR) reserve. After the two reserve adjustments, the final surplus represents approximately 4.3% of annual Program expenses.

¹ At the end of FY 2010, an adjustment to both IBNR and statutory reserves was made that is not reflected in this figure.

² Since the reserve reduction was originally expected to generate \$4.5 million in general funds, an additional \$2.2 million was removed from the Program's surplus to satisfy the budget target. (House Bill 2 – Ch. 144, Laws of 2009).

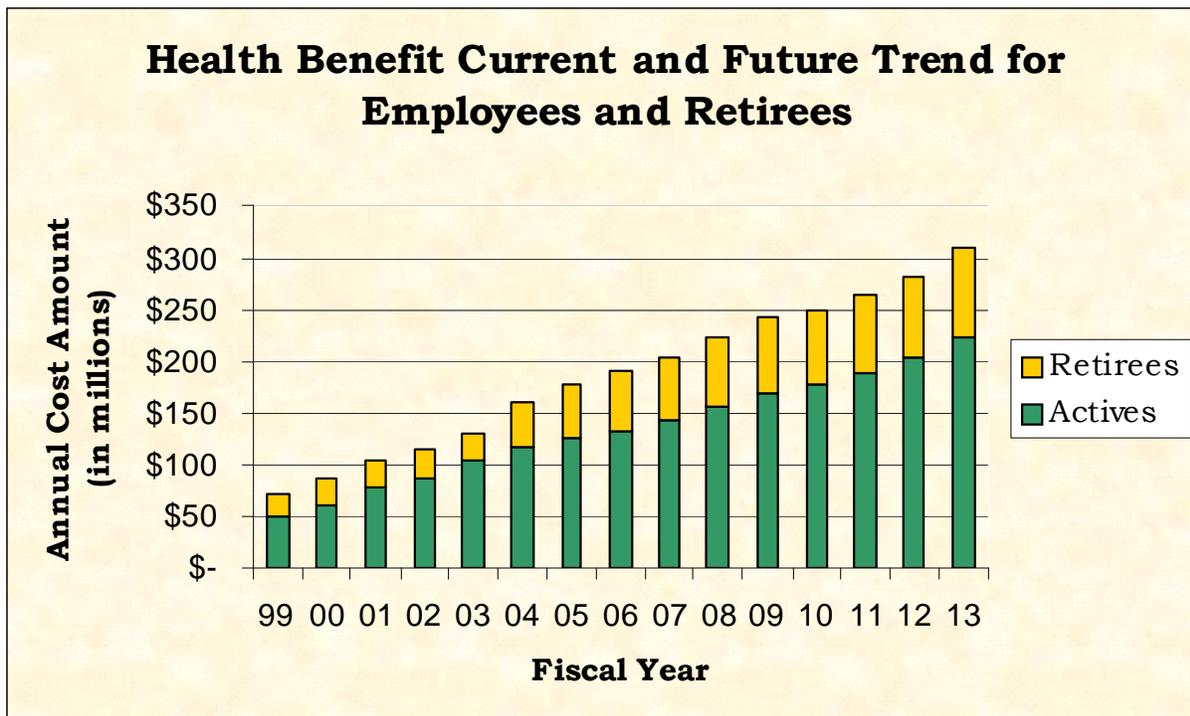
³ The working rate holiday in the amount of \$9 million generated only \$3.7 million in general funds. To comply with House Bill 2 and collect the remaining \$0.8 million in general funds, the Program will do an additional working rate holiday in FY11 in the amount of \$1.9 million (all funds).

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. Even though the Program has brought down overall annual rate increases to single digits, the size of those increases and the base upon which they are applied are not sustainable. Assuming an annual 8% average growth rate over the next three years for active employees, and 6.0% for retirees, the Program's total annual costs will exceed \$300 million in the second year of the upcoming state Fiscal Years 2012 and 2013. These challenges are compounded in the near term with the enactment of the Affordable Care Act (the "ACA") (see *Impact of Health Care Reform* p.26 in Section 5). Following ACA enactment, the Program can expect to see an increase in members and utilization, along with the prospect of a significant future tax liability.⁴



FY1999-FY2003- Represents insurance premiums paid to carrier

FY2004-FY2010- Represents claims and administrative costs paid to third party administrators ("TPA") under self-funded Program

FY2011 - FY2013- Projected costs for Active Plans will increase 5%, 8% and 10%, respectively. Retiree Plans will increase 4%, 6% and 8% for the same period.

Another challenge facing the Program is state employees' continued underutilization of preventive care services. According to an analysis of CY 2009 medical claims, only 63.7% of women for whom it was indicated, received a mammogram and only 13.4% eligible members obtained a colonoscopy. Cancer remains one of the State's top cost drivers, and these tests can result in early detection and more favorable treatment outcomes. Therefore, the Program needs to more aggressively promote wellness, self-care and disease prevention.

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. Besides aggressive service procurements and significant changes in benefit plan design, other provider reimbursement strategies must be considered to ensure the Program's sustainability over time. These strategies can include steering members to cost-effective providers, or procuring for administrative services from vendors that consistently

⁴. The ACA mandates coverage of dependents to age 26. In addition, the cost of the employee and retiree health plans will far exceed the limits under the new "Cadillac tax" which goes into effect in 2018. See p. 27.

encourage care coordination and evidence-based medicine on the part of hospital systems. We believe any modest investment in internal and external resources to support these strategies 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.

Finally, in order to reduce the State's liability for future retiree health costs, the State should consider pre-funding a portion of those expected expenses. Under the Government Accounting Standards Board (GASB) standards for Other Post-Employment Benefits (OPEB), the State must disclose the estimated liability for retiree health coverage of its employees and retirees. That liability is reduced in relation to amount of funding that is set aside for those purposes. While the current economic and budgetary environment may make such pre-funding unrealistic, it is important to keep this objective in mind.

For FY 2011, the Program looks to benefit from a recent extension of its medical administrative contract, and a pharmacy benefit manager (the "PBM") procurement, which together will likely save the Program millions through better financial terms, cost-saving programs and wellness initiatives. As the Program seeks to build upon the strong foundation it has developed since transitioning to self-funding, its overall goal is to effectively manage its fiscal and operational responsibilities over the long term. To accomplish its goal the Program seeks to inform policy makers about the challenges and opportunities facing this benefit and to educate employees and retirees about their healthcare choices and provide tools to help them make informed decisions about their personal health as well as their 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, 2010
 (expressed in thousands)

	Health			Total	Dental	Total
	Active	Retirees	Troopers			
ASSETS						
Current Assets:						
Cash and Cash Equivalents	\$17,390	\$ 14,979	\$ 4,434	\$ 36,803	\$ 1,767	\$ 38,570
Total Assets	\$17,390	\$ 14,979	\$ 4,434	\$ 36,803	\$ 1,767	\$ 38,570
LIABILITIES						
Current Liabilities:						
Incurring But Not Reported (IBNR)	\$ 8,875	\$ 4,328	\$ 181	\$ 13,384	\$ 407	\$ 13,791
Total Liabilities	\$ 8,875	\$ 4,328	\$ 181	\$ 13,384	\$ 407	\$ 13,791
FUND BALANCES						
Reserved per RSA21-I:30-b	8,422	4,106	172	12,700	-	12,700
Unreserved, Undesignated Surplus/(Deficit)	93	6,546	4,081	10,719	1,360	12,079
Total Fund Balances	8,515	10,651	4,253	23,419	1,360	24,779
Total Liabilities and Fund Balances	\$17,390	\$ 14,979	\$ 4,434	\$ 36,803	\$ 1,767	\$ 38,570

At the beginning of FY 2010, the Program (excluding dental) had a Fund balance of approximately \$34.3 million including required reserves. During the 3rd quarter of the year, a working rate holiday in the amount of \$9 million was performed, which lapsed \$3.7 million to the General Fund. Following the working rate holiday, the Fund (excluding Dental) had an unreserved, undesignated surplus of \$10.7 million at the end of FY 2010. This surplus represents additional funds over and above IBNR and the statutory reserve. Working rates are set on a calendar year basis and generally generate surpluses in the first six months, which are used up in the last six months due to rates being averaged over the year.

**STATE OF NEW HAMPSHIRE
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE ACCOUNTS EMPLOYEE & BENEFIT RISK MANAGEMENT FUND (Unaudited)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010 (expressed in thousands)**

	Health				Dental	Total
	Active	Retirees	Troopers	Total		
<u>OPERATING REVENUES</u>						
State Contributions:						
Active Employees	\$ 159,306	\$ -	\$ 3,753	\$ 163,059	\$11,991	\$175,051
Retired Judges & Constitutional Officers	-	554	-	554	-	554
Retired Employees	-	49,914	-	49,914	-	49,914
Non-State Contributions:						
Employee/Retiree Premium Share	8,964	2,544	22	11,530	-	11,530
Other Employers ¹	1,252	-	-	1,252	90	1,342
COBRA Participants	821	-	-	821	131	953
Legislator Participants	694	161	-	855	130	985
Retirement Subsidies & Deductions ²	-	14,442	-	14,442	-	14,442
Part D Subsidy	-	4,073	-	4,073	-	4,073
Recoveries ³	3,359	3,046	62	6,467	-	6,467
Total Contributions	174,397	74,734	3,837	252,969	12,342	265,311
<u>OPERATING EXPENSES</u>						
Health Care Expenses						
Medical Payments	133,223	37,683	2,471	173,377	11,384	184,761
Pharmaceuticals	35,024	30,084	347	65,455	-	65,455
Ancillary Benefits	856	-	33	889	-	889
Total Health Care Expenses	169,103	67,767	2,851	239,721	11,384	251,105
Administrative Expenses ⁴	4,742	4,061	104	8,907	720	9,627
Salary & Benefits	364	291	8	663	-	663
Assessments	661	81	18	760	-	760
Enrollment	216	173	5	394	-	394
Total Operating Expenses	175,086	72,373	2,986	250,445	12,104	262,549
Operating Income (Loss)	(689)	2,361	852	2,524	238	2,762
Investment Income	-	-	-	-	-	-
Change in Net Assets	(688)	2,361	852	2,524	238	2,762
Net Assets - July 1	18,078	12,618	3,582	34,278	1,529	35,807
Net Assets - June 30	\$ 17,390	\$ 14,979	\$ 4,434	\$ 36,803	\$ 1,767	\$ 38,570
<u>PMPM</u> ⁵	\$ 525.16	\$ 553.51	\$ 260.53	\$ 526.58	\$ 34.75	\$ 561.33

¹ Other Employers include non-governmental and quasi-governmental employers, such as Pease Development Authority, State Employees' Association, etc.

² Retirement Subsidies and Deductions is the medical subsidy amount received from the NH Retirement System.

³ Recoveries comprise Rx rebates and recoverables associated with claim adjudications.

⁴ See Note 3.A. Notes to Financial Statements (p. 14), for a full description and breakout of Administrative Expenses by plan.

⁵ Cost Per Member Per 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, 2010
(Expressed in thousands)

	FY2010	FY2009	FY2008	FY2007	FY2006	FY2005
<u>OPERATING REVENUES</u>						
State Contributions:						
Active Employees	\$168,270	\$153,200	\$141,649	\$145,002	\$145,353	\$133,040
Other Employers	1,252	1,118	1,054	1,007	1,091	974
Non-State Contributions:						
COBRA Participants	821	491	615	620	629	830
Legislator Participants	694	622	559	510	504	440
Recoveries	3,359	1,957	3,363	1,254	481	779
Total Contributions for Health Benefits	174,397	157,388	147,240	148,393	148,058	136,063
<u>OPERATING EXPENSES</u>						
Health Care Expenses						
Medical Payments	133,223	126,379	117,835	106,970	105,489	121,775
Pharmaceuticals	35,024	33,523	29,909	29,232	20,411	-
Ancillary Benefits	856	790	589	864	730	566
Total Health Care Expenses	169,103	160,692	148,333	137,066	126,630	122,341
Administrative Expenses	5,403	5,383	4,812	4,521	4,492	4,851
Salary & Benefits	364	281	-	-	-	-
Enrollment	216	183	222	282	357	362
Total Operating Expenses	175,086	166,539	153,367	141,869	131,479	127,554
Operating Income (Loss) ¹	(689)	(9,151)	(6,127)	6,524	16,579	8,509
Investment Income	-	665	1,205	-	-	-
Change in Net Assets	(688)	(8,486)	(4,922)	6,524	16,579	8,509
Net Assets - July 1	18,078	26,564	31,486	24,962	8,383	(126)
Net Assets – June 30	\$17,390	\$ 18,078	\$ 26,564	\$ 31,486	\$ 24,962	\$ 8,383
PMPM	\$525.16	\$ 484.19	\$ 440.82	\$ 421.21	\$400.95	\$ 398.86
Percentage Change	8.5%	9.8%	4.7%	5.1%	.5%	-

¹The Operating Losses for FY2008 through FY2010 are attributable to working rate holidays which reduced the revenue collected.

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, 2010
(Expressed in thousands)

	FY2010	FY2009	FY2008	FY2007	FY2006	FY2005
<u>OPERATING REVENUES</u>						
State Contributions:						
Retired Judges & Constitutional Officers	\$ 554	\$ 571	\$ 435	\$ 508	\$ 484	\$ 458
Retired Employees	52,458	50,916	41,077	51,605	45,534	42,891
Non-State Contributions:						
Legislator Participants	161	144	126	151	154	184
Retirement Subsidies & Deductions	14,442	15,023	15,545	15,062	15,717	13,026
Recoveries	7,119	1,575	2,095	1,116	-	220
Total Contributions for Health Benefits	74,734	68,229	59,278	68,442	61,889	56,779
<u>OPERATING EXPENSES</u>						
Health Care Expenses						
Medical Payments	37,683	37,923	35,576	30,126	35,333	48,482
Pharmaceuticals	30,084	31,080	27,243	25,011	18,152	-
Ancillary Benefits	-	-	-	-	-	-
Total Health Care Expenses	67,767	69,003	62,819	55,137	53,485	48,482
Administrative Expenses	4,142	3,482	3,703	3,368	3,185	3,222
Salary & Benefits	291	222	-	-	-	-
Enrollment	173	144	164	75	-	-
Total Operating Expenses	72,373	72,851	66,686	58,580	56,670	51,704
Operating Income (Loss) ¹	2,361	(4,622)	(7,408)	9,862	5,219	5,075
Investment Income	-	465	662	-	-	-
Change in Net Assets	2,361	(4,157)	(6,746)	9,862	5,219	5,075
Net Assets - July 1	12,618	16,775	23,520	13,658	8,439	3,363
Net Assets - June 30	\$ 14,979	\$ 12,618	\$ 16,774	\$ 23,520	\$ 13,658	\$ 8,438
<u>PMPM</u>	\$ 553.51	\$ 571.81	\$ 533.27	\$ 473.63	\$ 464.82	\$ 461.76
Percentage Change	(3.3%)	7.2%	12.6%	1.9%	.7%	-

¹The Operating Losses for FY2008 and FY2009 are attributable to working rate holidays which reduced the revenue collected.

**STATE OF NEW HAMPSHIRE
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES
IN FUND BALANCE ACCOUNTS FOR TROOPER HEALTH PLAN (Unaudited)
FOR FISCAL YEARS ENDED JUNE 30, 2005 THROUGH JUNE 30, 2010
(expressed in thousands)**

	FY2010	FY2009	FY2008	FY2007	FY2006*
<u>OPERATING REVENUES</u>					
State Contributions:					
Active Employees	\$ 3,775	\$ 3,421	\$ 3,452	\$ 3,576	\$ 3,000
Non-State Contributions:					
Other Employers	-	17	-	-	-
Recoveries	62	45	77	10	-
Total Contributions for Health Benefits	<u>3,837</u>	<u>3,483</u>	<u>3,529</u>	<u>3,586</u>	<u>3,000</u>
<u>OPERATING EXPENSES</u>					
Health Care Expenses					
Medical Payments	2,471	2,292	2,296	2,494	1,501
Pharmaceuticals	347	277	294	295	184
Ancillary Benefits	33	52	14	17	12
Total Health Care Expenses	<u>2,851</u>	<u>2,621</u>	<u>2,604</u>	<u>2,806</u>	<u>1,697</u>
Administrative Expenses	122	123	104	108	80
Salary & Benefits	8	6	-	-	-
Enrollment	5	4	5	6	5
Total Operating Expenses	<u>2,986</u>	<u>2,754</u>	<u>2,713</u>	<u>2,920</u>	<u>1,782</u>
Operating Income (Loss)	852	729	816	666	1,218
Investment Income	-	37	117	-	-
Change in Net Assets	852	766	932	666	1,218
Net Assets – July 1	<u>3,582</u>	<u>2,816</u>	<u>1,884</u>	<u>1,218</u>	<u>-</u>
Net Assets – June 30	<u>\$ 4,434</u>	<u>\$ 3,582</u>	<u>\$ 2,816</u>	<u>\$ 1,884</u>	<u>\$ 1,218</u>
<u>PMPM</u>	<u>\$ 260.53</u>	<u>\$ 296.54</u>	<u>\$ 281.58</u>	<u>\$ 310.42</u>	<u>\$ 200.97</u>
Percentage Change	(12.2%)	5.3%	(9.3%)	54.5%	-

**The Trooper Plan was established September 1, 2005, therefore FY2006 does not represent a full year of claims and administrative costs.*

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 benefits accounts based upon an overall percentage of payroll. This was 48.3% by annum. For FY 2010/2011, this approach was changed by using actuarial "premium" rates that were developed and inputted into the State's budget system. This approach allowed for the budget-writers to project benefit costs by using the rates with current and anticipated enrollment. 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 active benefit plans. The retiree plans are funded through monthly expense entries charged to agencies and through invoicing and collecting of premium from non-governmental employers.

For FY 2010, the total cumulative fund balance was \$36.8 million, which represents a \$2.5 million increase from prior fiscal year. After subtracting the required reserves, and conducting a \$9 million rate holiday, a surplus remained equal to \$10.7 million.

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

For FY 2010, additional expenditure lines were added and reclassified in the Combining Schedule of Revenues, Expenditures and Changes in Fund Balance Accounts. Although the format will differ from the State of New Hampshire Comprehensive Annual Financial Report ("CAFR") for the Fiscal Year Ended June 30, 2010, the reported figures will provide the reader with additional information.

First, under revenue for "Non-State Contributions", an item was added, called "Employee/Retiree Premium Share". This revenue is comprised of employee and retiree contributions that were originally combined with the Active Employees and Retired Employees revenue lines respectively, under "State Contributions". Also, under "Non-State Contributions" a revenue line was created for Part D Subsidy.

Under "Health Care Expenses", an expense line was added, called Assessments. Assessments are fees assigned to the Program (see Note 3.D. for more information, p.14).

3. Administrative and Other Expenses

A. Administrative Expenses

The administrative expenses for the health plans largely comprise medical and pharmacy administration charges from those 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 2010 administrative expenses.

	Actives	Retirees	Troopers	TOTAL
Medical	4,360,281	3,818,682	98,461	8,277,424
Pharmacy	42,676	68,724	515	111,915
HRA	128,576	0	0	128,576
Consulting	203,479	165,803	4,573	373,855
Miscellaneous*	6,856	7,535	154	14,545
TOTAL	\$4,741,868	\$4,060,744	\$103,703	\$8,906,315

**Miscellaneous expenses include mailers, and fees paid to NH Purchaser’s Group*

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 2010, the salary and benefit expense totaled \$663,136. 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. For FY 2010, the State paid \$394,035 to its enrollment administrator.

D. Assessments

During FY 2010, the Program was assessed a fee for vaccinations by the New Hampshire Health Plans organization. The amount of the fee is determined on the average number of members for all non-Medicare plans. The Program fee was \$760,127 for Fiscal Year ended as of June 30, 2010.

E. Total of Administrative and Other Expenses

For FY 2010, the total amount paid for administrative and other expenses was \$10.7 million, or approximately 4.3% of the total Program expenses. Based on the total FY 2010 Program enrollment, this amount represents an administrative PMPM of \$22.55.

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, to account for prescription drug rebates owed to the Program. 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 credit was distributed to each plan based on a per capita basis of enrollment, 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 comprise payments made by the NHRS that are attributable to the cost of dependent coverage for those retirees electing such coverage. In addition, non-Medicare eligible retirees and their spouses pay a monthly contribution.

Beginning in July 2007, employees began contributing toward the cost of health coverage. The SEA collective bargaining agreement requires 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.

Effective July 1, 2009, those retirees in the Under Age 65 plan are required to pay a premium contribution in the amount of \$65 per month for each retiree, and \$65 per month for each applicable spouse under age 65 (not to exceed \$130 per month per household).

For FY 2010, the total amount of employee and retiree contributions received for the Program was \$11.5 million. The contributions were collected as follows:

PLANS	FY 2010
Actives	\$ 8,963,800
Retirees	2,543,803
Troopers	<u>22,593</u>
	\$ 11,530,196

6. Claims Reserve

Per RSA 21-I:30-b, the Program must maintain two claim reserves. Under the law, one reserve must be maintained equal to the sum of five percent (5%) of estimated annual claims and administrative costs of the health plan, and the second must equal an amount to pay the actuarially determined incurred but not reported (“IBNR”) liability.

For FY 2010, the five percent of estimated annual claim and administrative costs reserve was \$12.7 million. This amount was a decrease of \$5.7 million from the prior fiscal year, when the required reserve was equal to the sum of one month of estimated annual claims and administrative costs. The IBNR liability, as calculated by the Department’s actuarial consultant, was \$13.4 million, representing a decrease of \$1.6 million. Together, the Fund continually met those reserve requirements, and the cash surplus in excess of these statutorily required reserve amounts was \$10.7 million as of June 30, 2010. A portion of the cash surplus is attributable to the decrease in IBNR liability of \$1.6 million.

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 2010, due to underperforming investment portfolios and high financial advisor fees, the Fund received only \$404 in interest earnings, as compared to FY 2009 when the fund received \$1.2 million.

9. Medicare Part D Subsidy

Since July 1, 2009, all Medicare Part D subsidy payments have been deposited into the Fund. It was determined the fund should reflect those cost reductions, as it more accurately represents the overall cost of the prescription drug costs to the Program.

For FY 2010, the Fund received \$4.1 million in subsidy payments. Historically, Medicare Part D payments received from the Retiree Drug Subsidy ("RDS") Program were deposited into the general fund as unrestricted revenue.

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

For FY 2011, the Program will be implementing employee and retiree prescription drug plan design changes negotiated through collective bargaining and approved by the Fiscal Committee, respectively. These changes, along with the new PBM financial terms, will affect claims experiences and provide favorable cost savings. Members will be required to use generics and mail order for maintenance drugs; at the same time, they will pay only \$1 co-pay for generic drugs at mail-order for a 90-day supply. Under the new PBM financial contract, the prescription drug plan is expected to save between \$16 and \$18 million over a three-year period.

Under the medical plan, members in the active and the early retiree plans may participate in the Compass SmartShopper® and Anthem BetterHealth® programs. The Compass program is designed to incentivize members, through cash payments, to use cost-effective facilities for common outpatient procedures. The resulting claim savings accrue to the Program. The Anthem BetterHealth program provides incentives too, through an individualized wellness program. Through BetterHealth, the goal is for members to become engaged with their health status, utilize preventive care and adopt healthy lifestyles.

Finally, the ACA will have significant impact on the Program's revenue and expenses alike. ACA provides a subsidy to employers that cover early retirees. Under the Early Retiree Reinsurance Program (ERP), subsidy dollars are expected in FY 2011. At the same time, the Program is expecting additional costs on the active plans as a result of expanded eligibility to young adult dependents. And, perhaps the most significant challenge is the looming "Cadillac tax", which will potentially subject the State to a tax on the health plan expenditures which exceed established limits.

3. PLAN INFORMATION

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.

Medical/RX Combined	Total Health Plans		
	% Change in	Base 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%	3.7%
FY 2008 to 2009	8.6%	11.6%	3.0%
FY 2009 to 2010	2.0%	3.4%	1.4%
5-Year Average	6.1%	8.6%	2.5%

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

Notes:

1. Medical and Rx experience based on the Program’s claims and enrollment from July 1, 2004 to June 30, 2010.
2. Rx experience and trends reflect claim cost only and do not reflect prescription drug rebates or the Medicare Part D subsidy.
3. Base Trend is an actuarial derived estimate representing the year to year trend increase for the Program, absent of plan design changes. The base trend above reflects trend increases absent the following:
 - a. September 1, 2005 Active HMO and POS medical and prescription drug 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.
 - f. July 1, 2009 Retiree <65 and Retiree 65+ Rx benefit design changes.
 - g. January 1, 2010 improved prescription drug financial terms resulting from LGC/Caremark one-year extension.
4. "Trend Savings" represents this difference between the Program’s actual change in claims cost and the estimated change the Program would have experienced in the absence of the benefit design changes, medical network discount variances, and PBM financial term variances.

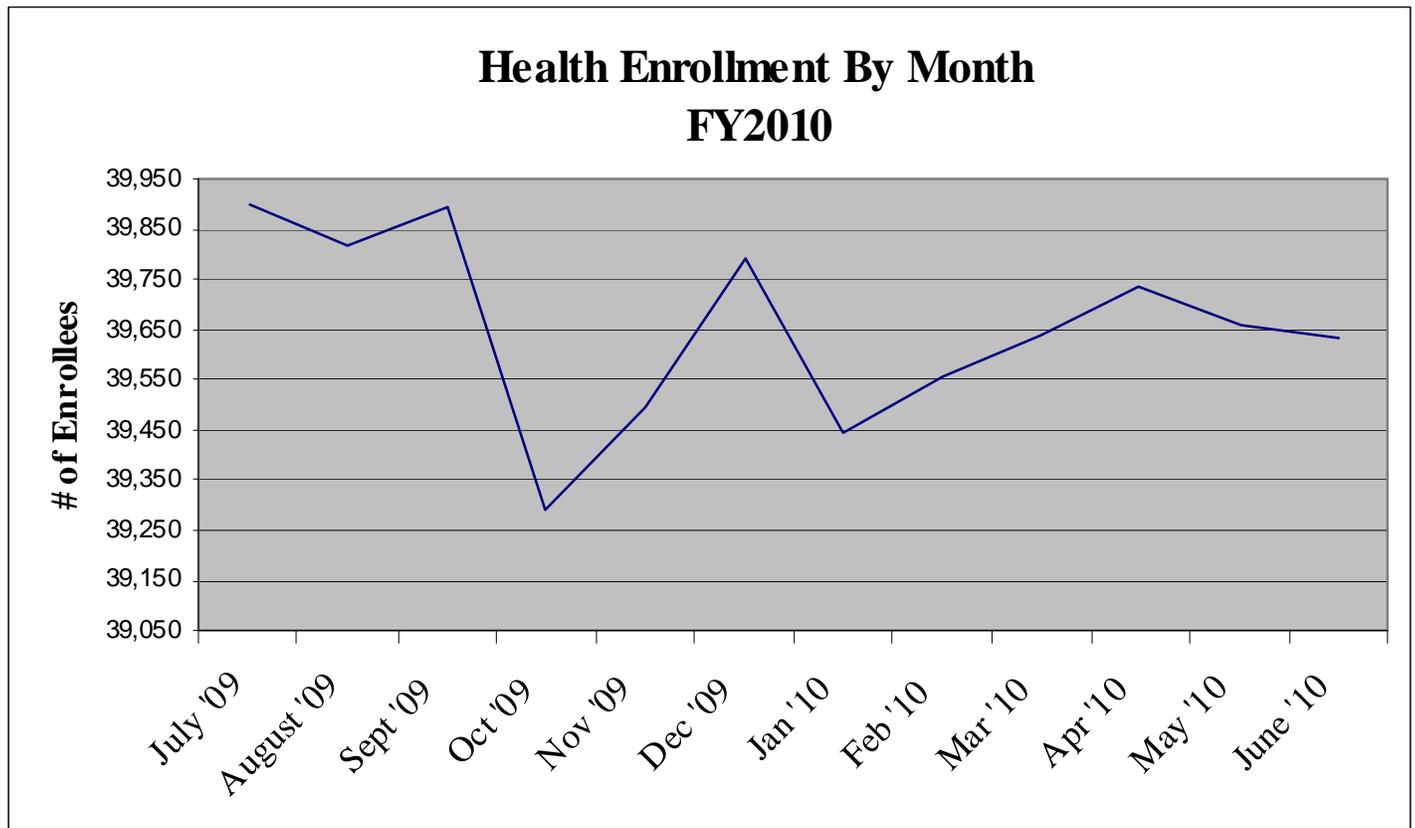
The Program’s five-year average trend savings was 2.5%, representing millions in avoided costs during this period. The savings are derived from plan design changes and procurements results. Plan design and contract changes generate savings for the year in which they occurred. Those annual savings may be viewed two ways: as re-setting the base for future experience, or cumulatively. When viewed the first way, the generated claims cost establishes a base and the subsequent year is measured off the adjusted claims base. Under this approach, the Program has saved the State \$25.4 million over five years.

When the savings are considered on a cumulative basis, the Program’s actual claims cost is compared to the estimated claims cost that would have occurred with no plan changes and without improved contractual terms. Under this approach, the savings are approximately \$89.3 million for the same five-year period. With this approach, the plan-change savings accumulate year-after-year because the claims base is not reset.

DEMOGRAPHICS

ENROLLMENT

Beginning in FY 2010, the health plan total enrollment was a high of 39,901 lives and fluctuated to its lowest point in October at 39,289 lives, or a 1.6% spread. Overall, the ending FY 2010 enrollment was down 1.05% from the ending FY 2009 enrollment figures.



As of June 30, 2010, the Program enrollment by groups was as follows:

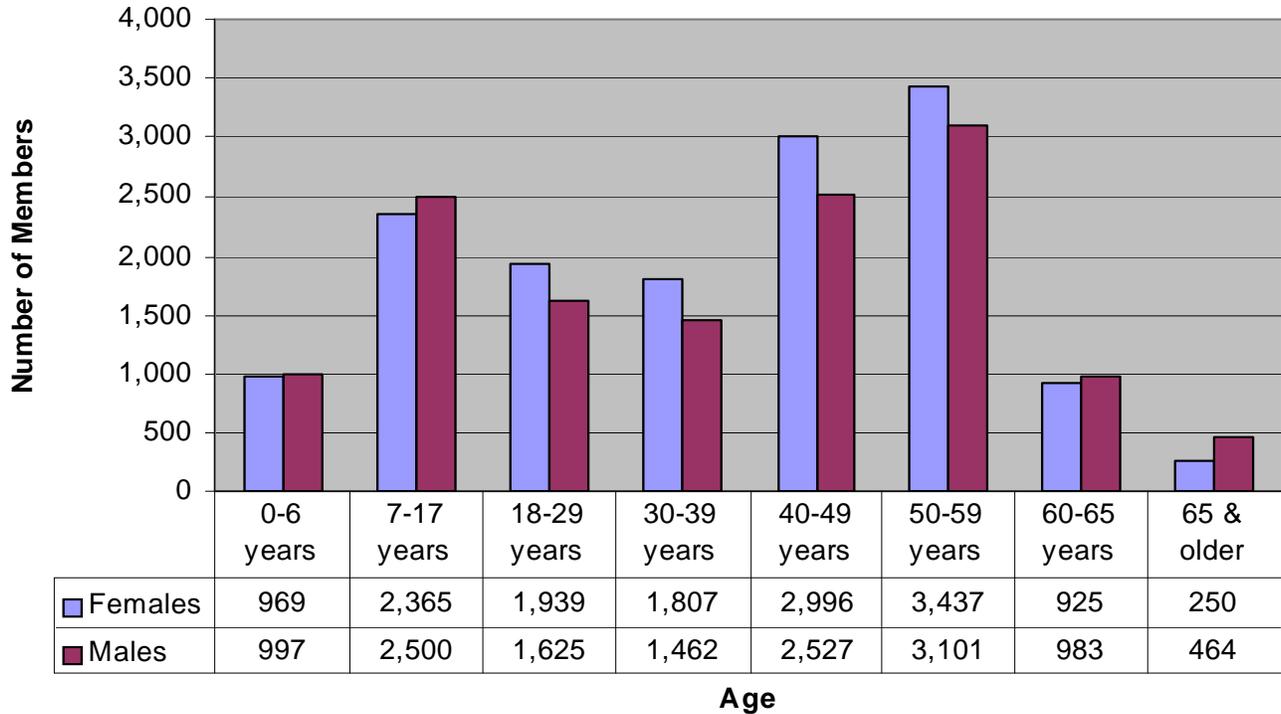
	Health				Dental
	Actives	Retirees	Troopers	Total	
Employee	11,388	9,844	313	21,545	11,812
Dependents	16,395	1,052	642	18,089	17,217
Total	27,783	10,896	955	39,634	29,029

Note: Retirees are not included in the Dental Program.

AGE AND GENDER

For FY 2010, the age and gender distribution of the Active and Trooper plans have remained relatively consistent from prior years. The female members amounted to 51.8% of the total membership, with most (23.4%) falling in the 50-59 years of age band. The males members amounted to 48.2% of total membership with most (22.7%) falling into the same age band as females.

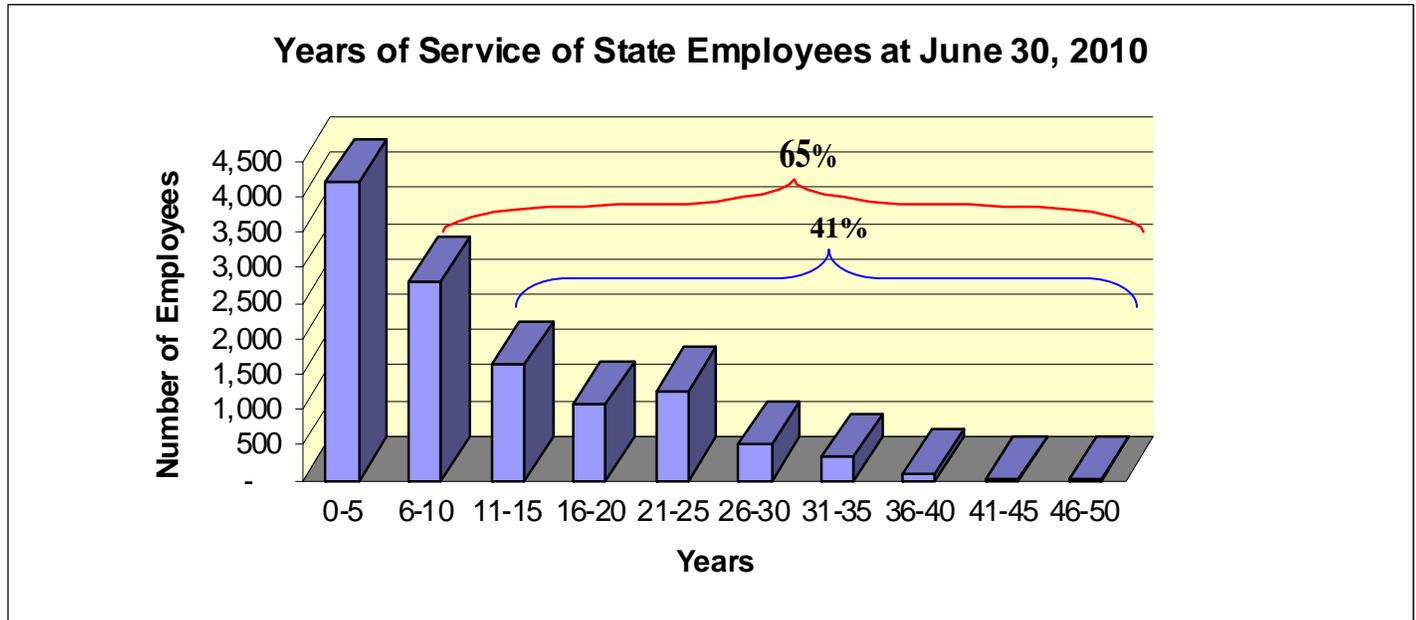
**MEMBERSHIP SUMMARY:
AGE BAND AND GENDER
FY2010**



Note: Retiree Plans excluded from Membership Summary. Data provided by Anthem.

YEARS OF SERVICE

It is important for the Program to consider the Years of Service with state employees when promoting wellness. Wellness programs are a long-term investment because it takes time to change employee behavior as lifestyle modifications will ultimately create better health and lower costs. With approximately 65% of the state employees having six or more years of service, the Program serves an opportune population for a robust wellness program.



HEALTH ASSESSMENTS AND FITNESS REIMBURSEMENTS

For employees in the Active HMO and POS health plans, the Program encourages completion of a Health Assessment, which determines a personal health score. The assessment also identifies ways to lower health risks and track progress over time with a personalized health improvement program. As an incentive to take the assessment, individuals receive \$200 through a Health Reimbursement Arrangement (HRA), to be used toward their health plan medical and prescription drug copayments, deductibles and POS “co-insurance”.

For CY2009, 6,040 employees, or 52% of the eligible population, took the Health Assessment, an increase of 5.6% from CY2008.

For those in the HMO and POS health plans, the Community Health Education Reimbursement Program provides a reimbursement incentive to employees that participate in an Anthem approved class up to \$150, per family per calendar year.

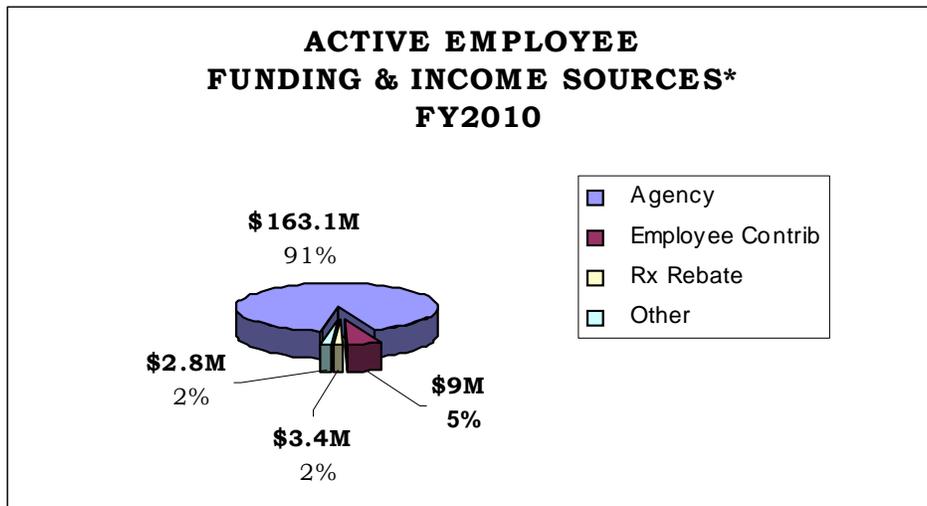
Employees in the HMO health plan, are eligible to receive reimbursement for up to \$200 per subscriber per calendar year for the purchase of one piece of home exercise equipment that provides a cardiovascular/muscular total body workout. State HMO members are also eligible for up to \$450 in gym/fitness facility reimbursement per subscriber contract per calendar year. An employee can seek reimbursement for only one of these programs, in any given year.

In FY 2010, the Program paid a combined \$889,000 in incentives for its employees in these programs, which is a 5.7% increase in cost from FY 2009.

4. PLAN FUNDING AND COSTS

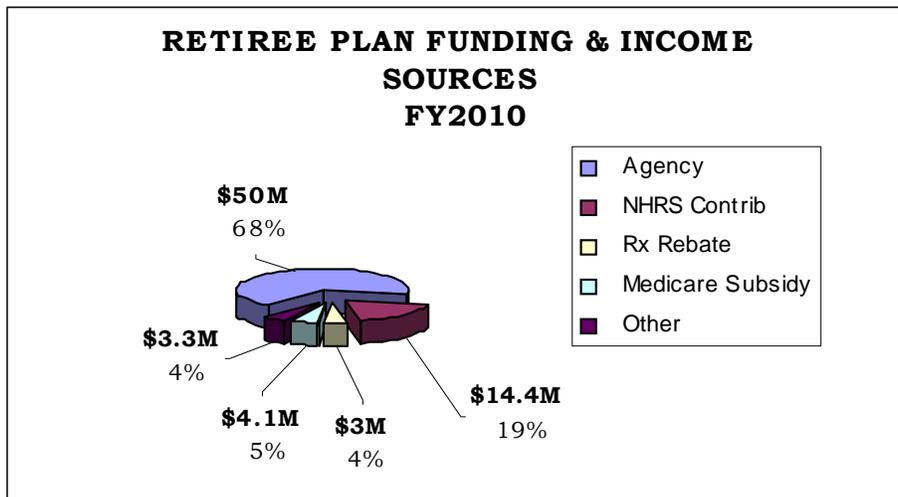
PROGRAM FUNDING AND INCOME SOURCES

Funding for the Program comes from various sources, and further varies by group (for details, see *Schedule of Revenues, Expenditures and Changes in Fund Balance, p. 9*). For the active health plan group, the State paid approximately 91% of the total premium (i.e. working rate) which was collected, while employees paid 5%. The remainder of the premium collected was from “Specials” (i.e. Pease Development Authority, State Employees’ Association, etc) and legislators. As for the trooper health plan group, the State paid 98% of the total premium, Trooper employees paid approximately 1% and the remainder was received from Rx rebates. Active employee and Trooper premium contribution amounts are detailed in Note 5, *Notes To Financial Statements* on page 15.



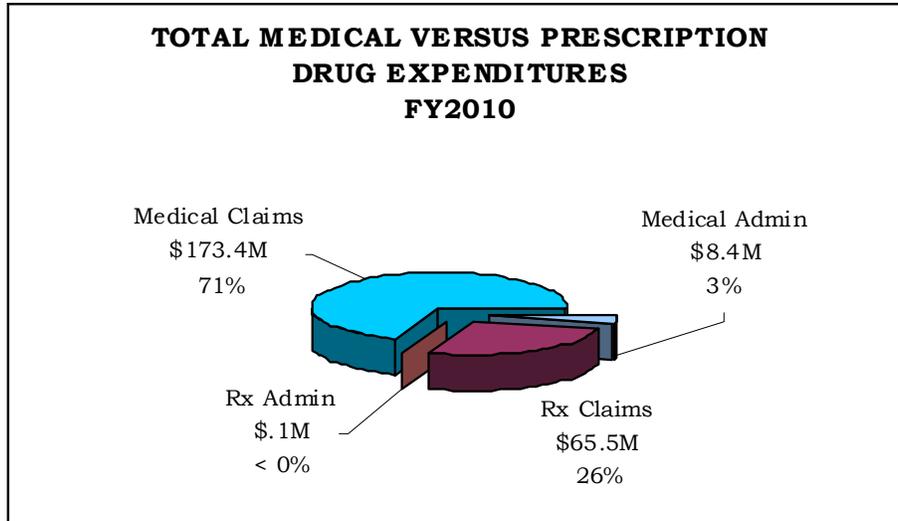
*For purposes of this chart, the Active and Trooper health plans were combined.

For the retiree health plan group, the State paid approximately 68% of the aggregate working rate, while the NHRS medical subsidy contributed 19%. The State is ultimately responsible for the medical subsidy, in that it contributes 100% of the medical subsidy to NHRS. The remainder of the premium equivalent came from retiree contributions (1.4%) and legislators and judges (.4%).

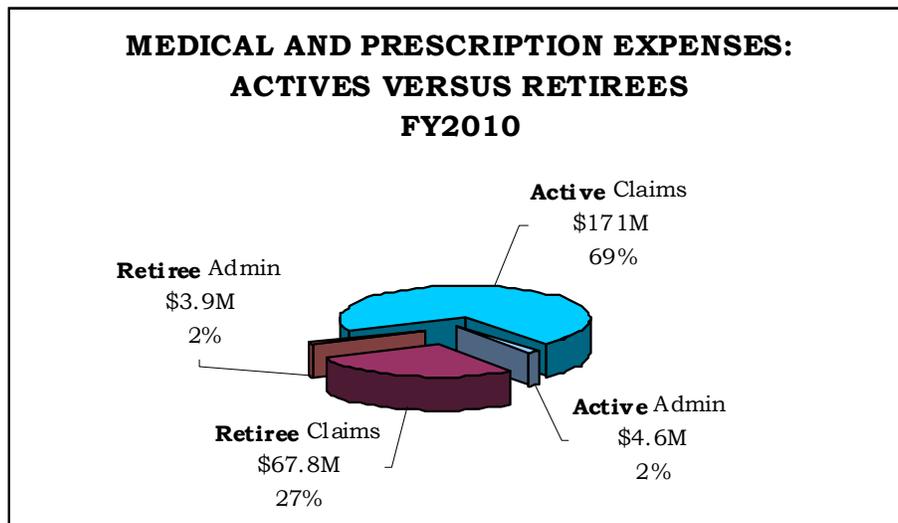


Other income to the three plans includes prescription drug rebates and the Medicare Part D drug subsidy for the retiree plan only.

PROGRAM EXPENDITURES: BY BENEFIT AND GROUP



Note: For FY 2010, when the total medical and prescription drug claim and administration costs are isolated from other expenses, the cost equals \$247.3 million.



Note: When comparing the overall medical and prescription expenses for state employees (Active and Trooper health plans) versus retirees, 71% 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. At the time, the decision saved \$2.7 million in annual premium and assessments. 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 this coverage.

During FY 2010, there were 332 HDCs above the \$50,000 threshold, of which 2 exceeded \$500,000 (see chart below). The total claim expense for those 2 HDCs was \$1,239,293. Had the Program retained stop-loss, it would have only paid up to \$1 million and the insurance would have paid the difference of \$239,293. Although the Program would have saved \$239,293 by having stop-loss, the premium for this coverage would have cost approximately \$1.7 million for CY 2010. In addition, by purchasing stop-loss premium, the Program would have been subjected to other assessments.

The Program will continue to monitor HDCs, and determine whether foregoing stop-loss coverage continues to be fiscally responsible.

	<i>\$50,000-\$99,999</i>	<i>\$100,000-\$249,999</i>	<i>\$250,000-\$499,999</i>	<i>\$500,000+</i>
Actives	178	56	6	2
Troopers	2	0	0	0
Retirees	61	20	7	0
TOTAL	241	76	13	2

COST DRIVERS

From analyzing utilization reports, the Program can determine the cost drivers for medical and prescription drug claims. Identifying the major cost drivers can assist Program management in planning effective wellness initiatives and working with vendors to inform enrollees of the importance of preventive care.

For medical in FY 2010, the five top Major Practice Categories (MPC), out of twenty-three categories, amounted to approximately 48% of the total medical claims paid. The chart below lists the top five MPCs with the associated costs. For comparison, the "Preventive Care" category, not listed below, ranked eighth and amounted to 4.3% of total medical claims paid.

RANK	MAJOR PRACTICE CATEGORIES (MPC)	TOTAL GROSS COST	% OF TOTAL MEDICAL COSTS	UTILIZING MEMBERS	PMPM
1	Orthopedics	\$ 28,394,028	17.71%	13,429	\$72.75
2	Cardiology	\$ 14,791,693	9.22%	8,009	\$37.90
3	Malignant Neoplasm	\$ 14,641,164	9.13%	1,443	\$37.51
4	Gastroenterology	\$ 9,914,107	6.18%	5,257	\$25.40
5	Endocrinology	\$ 9,141,736	5.70%	9,612	\$23.42
TOTAL COSTS OF TOP 5 MPCS		\$ 76,882,728	47.94%		

NOTE: The Medicare eligible enrollees were not included.

For the prescription drugs, the Program tracks claims by Therapeutic classes. The top five therapeutic classes amounted to approximately 43% of the total prescription drug claims paid.

RANK	THERAPEUTIC CLASS	TOTAL GROSS COST	% OF TOTAL RX COSTS	UTILIZING MEMBERS	PMPM
1	Antihyperlipidemic	\$ 7,605,609	11.62%	9,793	\$15.99
2	Ulcer Drug	\$ 6,289,117	9.61%	7,261	\$13.22
3	Antidepressants	\$ 5,046,504	7.71%	8,253	\$10.61
4	Antiasthmatic and Bronchodilator Agents	\$ 4,632,410	7.08%	5,925	\$9.74
5	Antidiabetics	\$ 4,371,273	6.68%	3,216	\$9.19
TOTAL COSTS OF TOP TEN DRUG CLASSES		\$ 27,944,913	42.69%		

5. IMPACT OF NATIONAL HEALTHCARE REFORM

In March 2010, the federal Affordable Care Act (ACA) was enacted to ensure all Americans have access to quality, affordable health care and create the transformation within the health care system necessary to contain costs. Portions of ACA will apply to, and have fiscal impact upon the State's Program as it is implemented over the next several years. These mandates create challenges as well as opportunities for the Program as it continues to pursue cost containment and maintain superior coverage.

The following table is a timeline illustrating the implementation of mandates and obligations that will impact the Program.

YEAR	Provisions Directly Affecting the State*
2011	Dependent coverage for adult children up to age twenty-six No annual limits on certain types of benefits FSA and HRA accounts must exclude reimbursements for OTC medications not prescribed by a doctor Prohibition on rescissions of coverage Required uniform explanation of coverage documents and standardized definitions Additional W-2 reporting**
2012	Fee to fund comparative effectiveness research study
2013	Contributions to FSAs for medical expenses must be limited to \$2,500 December 31st : Certify compliance with certain HIPAA electronic data interchange (EDI) standards
2014	Automatically enroll existing and new employees into health plan
2018	40% excise tax on employer-sponsored health plans with aggregate expenses exceeding \$10,200 for individual coverage to \$27,500 for family coverage (i.e. "Cadillac-tax")***

* The State sponsors a grandfathered health plan that is not subject to additional mandates applicable to non-grandfathered health plans. The loss of the State's status as a grandfathered health plan would result in additional costs to the State.

** The IRS has issued guidance indicating compliance is not mandatory until tax year 2012 reporting.

*** These thresholds are linked to the cost of the federal employee health plan and may be adjusted after December 31, 2017. For early retiree health plans, the thresholds are \$11,850 and \$30,950 respectively.

Early Retiree Reinsurance Program

Under ACA, the Early Retiree Reinsurance Program (ERRP) was created to provide a subsidy to employer health plans that offer coverage to non-Medicare eligible retirees under the age of sixty-five. The ERRP subsidy reimburses eighty percent (80%) of claim costs that fall between its \$15,000 and \$90,000 thresholds. Through ERRP, the Program expects to recover millions of dollars in medical and prescription drug claims costs that can be used to offset future cost increases of the several benefit plans.

In the 2010 Special Session law, which amended the FY 2011 budget, the legislature estimated \$5 million in general funds would be received as revenue under the first year of ERRP. The Program has in place a vendor to submit retiree lists and cost reports to the federal government. Subsidy payments will be reported in the bi-monthly letters to Fiscal Committee as soon as they are received and recorded.

Dependent Coverage to age 26

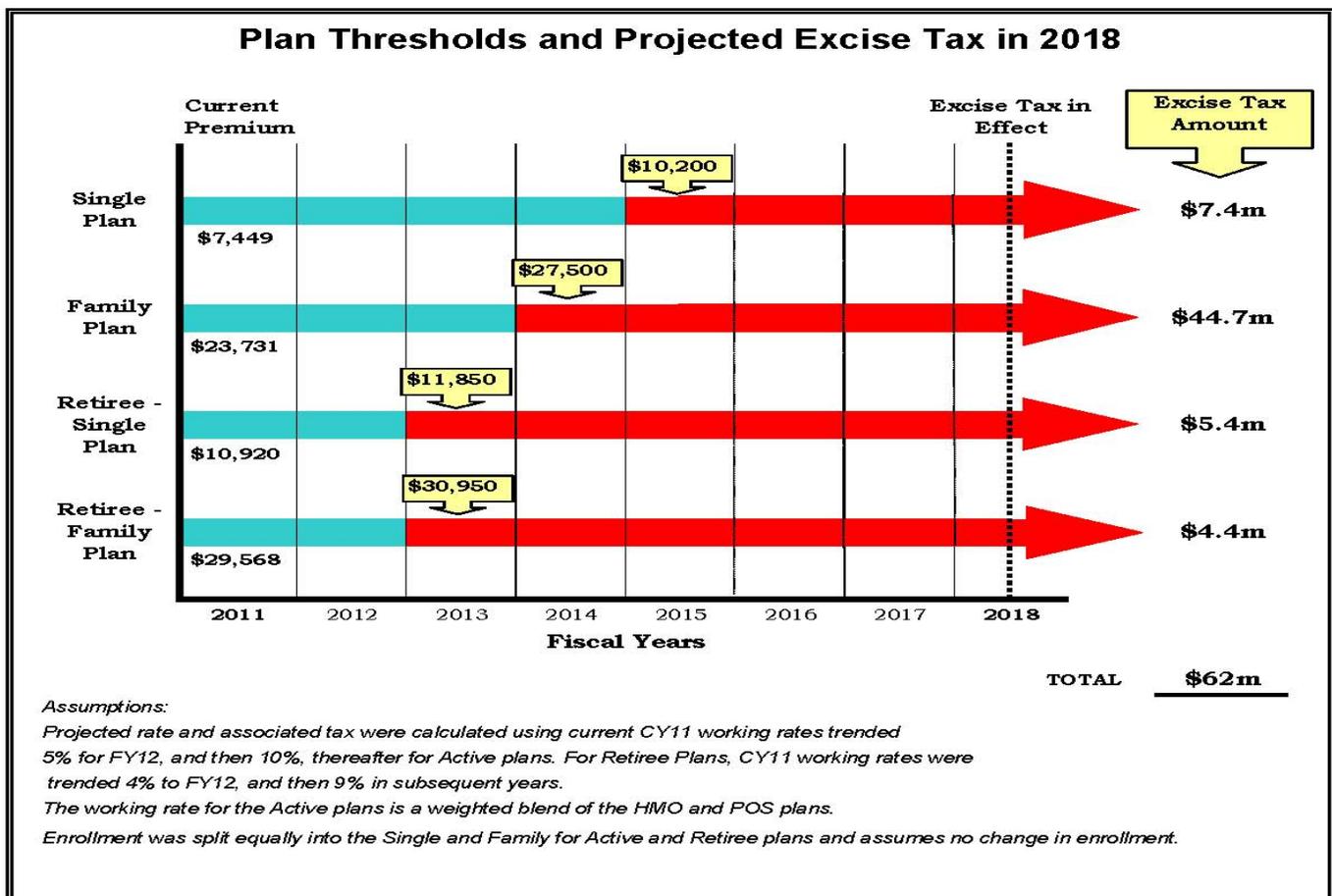
Another provision of ACA requires group health plans to extend coverage to dependents to age twenty-six, regardless of the dependents access to coverage elsewhere. Until 2014, there is an exception to this requirement for grandfathered plans, which can exclude adult child dependents that have access to other employer-sponsored health coverage, other than a group health plan of their parent.

Since the Program is a grandfathered plan, it has chosen to exclude those dependents with access to other employer-sponsored health coverage, at a yearly savings of more than \$2.8 million. However, the anticipated cost to the Program of providing coverage to those dependents to age twenty-six, who do not have access to other employer-sponsored health coverage, will be approximately \$2.6 million a year starting in 2011. In 2014, the Program will be required to extend coverage to all dependents to age twenty-six, regardless of access to other employer-sponsored health coverage. This requirement will apply sooner if the Program loses grandfathered status.

Excise Tax

Beginning in 2018, an excise tax will be levied on both insured and self-funded employer-sponsored health plans exceeding coverage value thresholds established by ACA. The non-deductible 40% excise tax will be imposed on the balance of the value of coverage exceeding the thresholds for health plans to the employer.

For the Program, the impact of the excise tax in 2018 could amount to more than \$60 million a year. To reduce this future tax liability, the Program must find ways to lower its overall costs, but within the constraints of ACA. This may include changing plan design by separating premium contributions by employee, spouse and children, or increasing co-pays or deductibles. The following illustration depicts the Program’s current premium and the fiscal year when the threshold will be met.



6. HEALTH BENEFIT STAFF

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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/riskmanagement/Newsletters.asp>

