

**State and Public School Life
And Health Insurance Board
Minutes
May 10, 2011**

The 116th meeting of the State and Public School Life and Health Insurance Board (hereinafter called the Board), met on May 10, 2011 at 1:00 p.m. in the EBD Board Room, 501 Woodlane, Suite 500, Little Rock, AR 72201.

MEMBERS PRESENT

Janis Harrison
Lloyd Black
William Goff
Shelby McCook
Renee Mallory
Bob Alexander
Kelly Chaney
Coby Logan

MEMBERS ABSENT

Dr. Joseph Thompson
John Kirtley
Dr. Andrew Kumpuris

Jason Lee, Executive Director, Employee Benefits Division.

OTHERS PRESENT:

George Platt, Leigh Ann Chrouch, Michelle Hazelett, Doug Shackelford, Stella Greene, Paige Harrington, Shannon Roberts, Amy Redd, Pamela Lawrence, Sherry Bryant, Sherri Saxby, Melissa Fox, Cathy Harris, EBD; Rhonda Hill, EBD-ACHI; Barbara Melugin, Ron Deberry, David Bridges, ABCBS/Health Advantage; Sarah Sanders, AR Highway & Transportation Dept, Shonda Rocke, Connie Bennett, Mike Shepard, Informed Rx; Bryan Meldrum, Dwane Tankersley; NovaSys; Marc Watts, AR State Employee Association; Vicki Fleming, Health Department; Mike Moratz, EES; Warren Tayes, Merck; Joseph Chang, MN Life; Bridget Johnson, Pfizer; Susan Walker, Data Path Administrative Services; George Burks, USAble Life; Sharon Marcum, LifeSynch; Jill Johnson, UAMS College of Pharmacy; Karen Henson, Wanda Henry, AR Games & Fish Commission; Peggy Roberts, AR Education Association

CALL TO ORDER

Meeting was called to order by Janis Harrison, Chairman.

APPROVAL OF MINUTES

The request was made by Harrison to approve the April 12, 2011 minutes. Goff made the motion to approve minutes. Mallory seconded. All were in favor. Minutes approved.

FINANCIALS by Leigh Ann Chrouch, CFO

Chrouch presented detailed financial statements for the Arkansas State Employees (ASE) and the Public School Employees (PSE) and the penalties assessed by state agencies and school districts for March 2011.

BENEFITS SUBCOMMITTEE REPORT by Jason Lee

Lee reported the committee met on May 6, 2011 and then presented the following recommendation for the Board's consideration.

1. AR State Employee Group

Lee explained the Board adopted changes to the MN Life Insurance coverage policy for Legislators & Constitutional Officers and State Employees based on \$10,000 increments. Lee said three quarters of the membership will have to increase their coverage with an increase in premiums due to this change.

Recommendation: Rescind the part of the previous motion to allow Legislators & Constitutional Officers and State Employees to elect supplemental life insurance in increments of \$10,000. Both groups will be able to elect supplemental life insurance in increments of \$1,000.

McCook made the motion to adopt. Black seconded. All were in favor. Motion carried.

2. 2012 Plan Year Rating

Colberg provided an overview of the ASE & PSE Actives and Retires preliminary rates for Plan Year 2012. The Board reviewed benefit options for the Gold, Silver (Tentative), and Bronze (Tentative) plans, rate development and the final rate details.

“SPECIALITY” PHARMACY by Michael Shephard, InformedRx

Shepard explained specialty drugs are:

- Self injectable medications
- Expensive with high medical cost potential
- Produced through biotechnology mechanism
- Associated with complex clinical management
- Require close patient monitoring including REMS program compliance
- Distributed through restricted pharmacy network
- Require special handling – like refrigeration

Shepard provided some examples of specialty drugs and then answered questions from Board members.

No action taken by the Board.

DIRECTOR'S REPORT *by Jason Lee*

Lee reported the scoring for the Bronze plan is complete, but the Silver plan is still in the process of being scored. Lee said state procurement will soon provide the Request for Proposal (RFP) for the Pharmacy Benefit Manager (PBM).

The Board agreed to delay the June meeting until the scoring processes are complete. The Board meeting was rescheduled for June 14th.

Meeting adjourned.

AGENDA

State and Public School Life and Health Insurance Board

EBD Board Room - 501 Building - 5th Floor

May 10, 2011 1:00 p.m.

1. Call to Order*Janis Harrison, Chair*
2. Approval of Minutes*Janis Harrison, Chair*
3. Financials (March 2011)..... *Leigh Ann Chrouch, Chief Fiscal Officer*
4. Benefits Sub-Committee Report*Jason Lee Executive Director*
 - a. Life Insurance
 - b. 2012 Plan Year Rates
5. “Specialty” Pharmacy*Jason Lee, Executive Director*
6. Director’s Report*Jason Lee, Executive Director*

Upcoming Meetings

June 7 (Tentative)

July 19

Public School Employees (PSE) Financials - October 1, 2010 through March 31, 2011

| | ARHealth | Health Adv | NovaSys | Total |
|--------------|----------|------------|---------|--------|
| Actives | | 37,499 | 2,927 | 40,426 |
| Actives HD | | | 4,733 | 4,733 |
| Retirees | 8,014 | | | 8,014 |
| COBRA | | 739 | 84 | 823 |
| Total | 8,014 | 38,238 | 7,744 | 53,996 |

Operations as of 03/31/11

| Funding | Current Month | Year to Date (6 months) |
|--|----------------------|--------------------------------|
| District Contribution | \$ 5,919,366 | \$ 35,460,259 |
| Employee Contribution, Rebates, and ERRP | \$ 13,229,461 | \$ 78,849,079 |
| Dept of Ed \$35,000,000 & \$15,000,000 | \$ 3,181,818 | \$ 26,590,909 |
| Total Funding | \$ 22,330,645 | \$ 140,900,248 |
| Expenses | | |
| Medical Expenses: | | |
| Claims Expense | \$ 19,431,973 | \$ 93,117,499 |
| Claims IBNR | \$ - | \$ - |
| Medical Admin Fees | \$ 1,395,805 | \$ 8,170,165 |
| Refunds | \$ 284 | \$ (7,541) |
| Behavioral Health | \$ 341,219 | \$ 2,354,531 |
| Pharmacy Expenses: | | |
| RX Claims | \$ 4,489,954 | \$ 27,134,183 |
| RX IBNR | \$ - | \$ - |
| RX Admin | \$ 65,140 | \$ 398,035 |
| Plan Administration | \$ 257,558 | \$ 1,585,527 |
| Total Expenses | \$ 25,981,932 | \$ 132,752,398 |
| Net Income/(Loss) | \$ (3,651,287) | \$ 8,147,849 |
| Reserve Activity: | | |
| Allocation for Active Premiums for Plan Yr 10/01/10-12/31/11 | \$ 789,333 | \$ 4,736,000 |
| Retiree Premiums for Plan Year 01/01/11-12/31/11 | \$ 63,333 | \$ 190,000 |
| Net Income/(Loss) After Reserves | \$ (2,798,620) | \$ 13,073,849 |

Balance Sheet as of 03/31/11

| | |
|--|-----------------|
| Assets | |
| Bank Account | \$ 11,995,357 |
| State Treasury | \$ 68,818,957 |
| Receivable from Provider | \$ 944,661 |
| Accounts Receivable | \$ 493,126 |
| Due from ASE | \$ - |
| Total Assets | \$ 82,252,102 |
| Liabilities | |
| Accounts Payable | \$ 3,937,184 |
| Due to ASE | \$ - |
| Deferred Revenues | \$ 1,404,181 |
| Health IBNR | \$ 25,500,000 |
| RX IBNR | \$ 2,340,000 |
| Total Liabilities | \$ 33,181,365 |
| Net Assets | \$ 49,070,737 |
| Less Reserves Allocated: | |
| Active Premiums for Plan Year 10/01/10-12/31/11 (\$11,840,000) | \$ (7,104,000) |
| Retiree Premiums for Plan Year 01/01/11-12/31/11 (\$760,000) | \$ (570,000) |
| Active Premiums for Plan Years 1/01/12-12/31/13 (\$7,344,000 + \$3,296,000 = \$10,640,000) | \$ (10,640,000) |
| Retiree Premiums for Plan Years 01/01/12-12/31/13 (\$456,000 + \$304,000 = \$760,000) | \$ (760,000) |
| Catastrophic Reserve | \$ (10,000,000) |
| Pharmacy Reward Program (2010-\$1,500,000) | \$ (1,500,000) |
| Net Assets Available | \$ 18,496,737 |

Arkansas State Employees (ASE) Financials - January 1, 2011 through March 31, 2011

| | ARHealth | Health Adv | NovaSys | Total |
|--------------|----------|------------|---------|--------|
| Actives | | 25,724 | 921 | 26,645 |
| Actives HD | | | 1,040 | 1,040 |
| Retirees | 9,031 | | | 9,031 |
| COBRA | | 113 | 8 | 121 |
| Total | 9,031 | 25,837 | 1,969 | 36,837 |

Operations as of 03/31/11

| | Current Month | Year to Date (3 months) |
|--|--------------------------|------------------------------------|
| Funding | | |
| State Contribution | \$ 13,603,722 | \$ 40,861,032 |
| Employee Contribution, Rebates, Medicare Subsidy, and ERRP | \$ 8,444,554 | \$ 22,929,044 |
| Total Funding | \$ 22,048,276 | \$ 63,790,076 |
| Expenses | | |
| Medical Expenses | | |
| Claims Expense | \$ 17,429,957 | \$ 39,328,817 |
| Claims IBNR | \$ - | \$ - |
| Medical Admin Fees | \$ 941,094 | \$ 2,775,157 |
| Refunds | \$ 2,005 | \$ 12,994 |
| Behavioral Health | \$ 329,528 | \$ 988,889 |
| Life Insurance | \$ 101,828 | \$ 305,576 |
| Pharmacy Expenses | | |
| RX Claims | \$ 5,343,492 | \$ 16,269,399 |
| RX IBNR | \$ - | \$ - |
| RX Admin | \$ 72,009 | \$ 222,378 |
| Plan Administration | \$ 204,416 | \$ 597,485 |
| Total Expenses | \$ 24,424,329 | \$ 60,500,695 |
| Net Income/(Loss) | \$ (2,376,052) | \$ 3,289,381 |

Balance Sheet as of 03/31/11

| | |
|--|-----------------------|
| Assets | |
| Bank Account | \$ 11,182,891 |
| State Treasury | \$ 105,590,160 |
| Due from Cafeteria Plan | \$ 577,658 |
| Due from PSE | \$ - |
| Receivable from Provider | \$ 1,031,915 |
| Accounts Receivable | \$ 960,144 |
| Total Assets | \$ 119,342,768 |
| Liabilities | |
| Accounts Payable | \$ 3,551,433 |
| Deferred Revenues | \$ 4,259,737 |
| Due to Cafeteria | \$ - |
| Due to PSE | \$ - |
| Health IBNR | \$ 21,570,000 |
| RX IBNR | \$ 2,680,000 |
| Total Liabilities | \$ 32,061,170 |
| Net Assets | \$ 87,281,598 |
| Less Reserves Allocated: | |
| Catastrophic Reserve | \$ (8,900,000) |
| Pharmacy Reward Program (2010-\$1,500,000) | \$ (1,500,000) |
| Net Assets Available | \$ 76,881,598 |

ASE Cafeteria Plan Financials 2011- January 1, 2011 through March 31, 2011

Cafeteria Plan Operations as of 03/31/11

| <u>Funding</u> | <u>Current Month</u> | <u>Year to Date (3 months)</u> |
|--|--------------------------|------------------------------------|
| FICA Savings | \$ 363,640 | \$ 1,075,610 |
| Interest, Penalties, Tax Set Off | \$ 3,551 | \$ 15,521 |
| Total Funding | \$ 367,192 | \$ 1,091,131 |
| | | |
| <u>Expenses</u> | | |
| Plan Administration | \$ 26,194 | \$ 40,894 |
| Forfeited Benefits (Annual Expense) | \$ - | \$ - |
| FICA Savings Transfer (Annual Expense) | \$ - | \$ - |
| Total Expenses | \$ 26,194 | \$ 40,894 |
| | | |
| Net Income/(Loss) | \$ 340,997 | \$ 1,050,238 |

Balance Sheet as of 03/31/11

| <u>Assets</u> | |
|--|---------------------|
| State Cafeteria (Flexible Benefits) | \$ 647,015 |
| Admin Acct (FICA Savings) | \$ 53,298 |
| State Treasury | \$ 3,163,191 |
| Due from Health Plan | \$ - |
| Due from State Employee Fund | \$ - |
| Accounts Receivable | \$ 13,868 |
| Total Assets | \$ 3,877,372 |
| | |
| <u>Liabilities</u> | |
| Accounts Payable | \$ 20,339 |
| Due to Health Plan (FICA Savings Annual) | \$ 9 |
| Due to Health Plan (Forfeited Benefits Annual) | \$ 577,649 |
| Total Liabilities | \$ 597,997 |
| | |
| Net Assets | \$ 3,279,375 |

Arkansas State Employees Health Benefits Program

Preliminary Rates for CY 2012

John Colberg, FSA, MAAA

May 6, 2011





Topics

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PSE Actives

PSE ACTIVE RATE DEVELOPMENT for CY2012

| Plan: Benefit: Experience Period - Service (Incurred) Dates Experience Period - Processed (Paid) Dates | Gold | | | Silver (based on Gold Actives) | | | Bronze | | |
|---|----------------------|---------------------|----------------------|--------------------------------|---------------------|----------------------|---------------------|--------------------|---------------------|
| | Medical | Pharmacy | Total | Medical | Pharmacy | Total | Medical | Pharmacy | Total |
| | 2/10 - 1/11 | 2/10 - 1/11 | | 2/10 - 1/11 | 2/10 - 1/11 | | 2/10 - 1/11 | 2/10 - 1/11 | |
| | 2/10 - 2/11 | 2/10 - 2/11 | | 2/10 - 2/11 | 2/10 - 2/11 | | 2/10 - 2/11 | 2/10 - 2/11 | |
| | A | B | C | D | E | F | G | H | I |
| 1 Total Incurred Medical & Rx Claims (Experience Period) | \$179,025,721 | \$52,902,002 | \$231,927,723 | \$167,967,091 | \$48,253,901 | \$216,220,991 | \$6,214,080 | \$414,886 | \$6,628,966 |
| 2 <u>Less High Cost Claims Above (Med/Rx)</u> | \$100,000 | \$20,000 | | \$11,434,026 | \$3,248,325 | \$14,682,351 | \$10,301,814 | \$2,910,729 | \$13,212,542 |
| 3 Net Incurred Claims below Pooling Point [1 - 2] | \$167,591,695 | \$49,653,677 | \$217,245,372 | \$157,665,277 | \$45,343,172 | \$203,008,449 | \$5,544,351 | \$414,886 | \$5,959,238 |
| 4 <u>Person Months for Experience Period</u> | 742,518 | 742,518 | 742,518 | 714,212 | 714,212 | 714,212 | 62,191 | 62,191 | 62,191 |
| 5 Net Incurred Claims Per Person Per Month (PPPM) [3 / 4] | \$225.71 | \$66.87 | \$292.58 | \$220.75 | \$63.49 | \$284.24 | \$89.15 | \$6.67 | \$95.82 |
| 6 Change in Benefits During Experience Period | 1.0000 | 1.0000 | | 1.0000 | 1.0000 | | 1.0000 | 1.0000 | |
| 7 Change in Demographics or Risk During Experience Period | 1.0009 | 1.0005 | | 1.0009 | 1.0005 | | 0.9869 | 0.9860 | |
| 8 Change in Geographic During Experience Period | 0.9991 | 0.9991 | | 0.9991 | 0.9991 | | 1.0003 | 1.0003 | |
| 9 a) Annual Trend Rate | 7.5% | 5.0% | | 7.5% | 5.0% | | 7.5% | 5.0% | |
| b) Months to Trend | 23 | 23 | | 23 | 23 | | 23 | 23 | |
| c) <u>Trend Adjustment</u> | 1.1487 | 1.0980 | | 1.1487 | 1.0980 | | 1.1487 | 1.0980 | |
| 10 Adjusted Claims Charged PPPM [5 x 6 x 7 x 8 x 9c] | \$259.25 | \$73.39 | \$332.65 | \$253.56 | \$69.68 | \$323.24 | \$101.10 | \$7.22 | \$108.32 |
| 11 <u>Charge for Claims above Pooling Point PPPM</u> | \$15.40 | \$4.37 | \$19.77 | \$14.42 | \$4.08 | \$18.50 | \$10.77 | \$0.00 | \$10.77 |
| 12 Total Claims Charged PPPM [9 + 10] | \$274.65 | \$77.77 | \$352.42 | \$267.98 | \$73.76 | \$341.74 | \$111.86 | \$7.22 | \$119.09 |
| 13 Change in Future Benefits | 1.0320 | 1.0100 | | 0.9767 | 0.9096 | | 1.0320 | 1.0000 | |
| 14 Change in Future Demographics (Age/Gender/Family) or Risk | 1.1088 | 1.1088 | | 0.7962 | 0.7962 | | 1.1094 | 1.1094 | |
| 15 Change in Future Geographic | 1.0000 | 1.0000 | | 1.0000 | 1.0000 | | 1.0000 | 1.0000 | |
| 16 <u>Change in Future Network</u> | 0.9734 | 1.0000 | | 1.0688 | 1.0000 | | 1.0000 | 1.0000 | |
| 17 Projected Incurred Claim PPPM [13x 14 x15x16] | \$305.92 | \$87.09 | \$393.01 | \$222.75 | \$53.42 | \$276.17 | \$128.07 | \$8.01 | \$136.09 |
| 18 Projected Blended Incurred Claim PPPM | n/a | \$75.13 | | n/a | \$67.66 | | n/a | \$56.23 | |
| 19 Percent to Use Blended Experience | | 0% | | | 0% | | | 0% | |
| 20 Rating Incurred Claim PPPM [17 blended with 18] | \$305.92 | \$87.09 | \$393.01 | \$222.75 | \$53.42 | \$276.17 | \$128.07 | \$8.01 | \$136.09 |
| 21 <u>Projected Persons Months</u> | 603,355 | 603,355 | 603,355 | 96,437 | 96,437 | 96,437 | 149,733 | 149,733 | 149,733 |
| 22 Projected Total Incurred Claims [20 x 21] | \$184,578,067 | \$52,547,391 | \$237,125,459 | \$21,481,416 | \$5,151,736 | \$26,633,152 | \$19,176,960 | \$1,200,007 | \$20,376,967 |
| 23 Conversion to Rating Tiers [20 x rating tier x counts] | | x tier | Projected | | x tier | Projected | | x tier | Projected |
| Method: <input type="text" value="Historical"/> | | factor | Ee Months | PEPM | | factor | Ee Months | PEPM | |
| a) Employee Only | | 1.11 | 336,619 | \$435.67 | | 1.13 | 51,265 | \$310.70 | |
| b) Employee & Spouse | | 3.26 | 15,305 | \$1,282.68 | | 3.31 | 2,392 | \$914.73 | |
| c) Employee & Child(ren) | | 2.07 | 55,781 | \$814.30 | | 2.10 | 10,006 | \$580.71 | |
| d) Family | | 3.29 | 19,603 | \$1,292.16 | | 3.34 | 2,938 | \$921.49 | |
| e) Child(ren) of Medicare Retirees | | 0.96 | 224 | \$378.63 | | | | | |
| 24 Rates Balance Confirmation | | 427,533 | \$237,125,459 | | 66,600 | \$26,633,152 | | 99,000 | \$20,376,967 |

Note: The figures presented are preliminary and subject to change.



PSE Actives (Cont.)



PSE Detailed Financials



Premium Rates

Tier Factor Method **Historical**
 Historical = from prior years
 Relation = rates by Ee/Sp/Ch(n)
 tiers become additive

[Go to Enrollment Changes](#)

Retiree Subsidy from Actives

| | 2011 | 2012 |
|-----------------------|---------|---------|
| PSE - PEPM | \$11.20 | \$11.20 |
| Apply to NME Retirees | N | Y |
| NME Ret Holdback | \$63.55 | \$0.00 |

[Go to NME Ret](#)

[Go to ME Ret](#)

[Go to ASE](#)

State/Reserve Contributions

| | |
|---|---------------|
| Addl Reserves for Actives (\$ mil) | \$0.0 |
| Addl Reserves for NME Retirees (\$ mil) | \$0.0 |
| Addl Reserves for ME Retirees (\$ mil) | \$2.9 |
| Method for allocating to rating tiers | Same as 2011 |
| For each Rating Tier, e.g. Employee | Silver Bronze |
| Amount should be what % of Gold | 100% 66% |

| Total Active & Ret (\$ mil) | \$295.5 | \$23.5 | \$6.6 | \$325.6 | \$56.6 | \$9.3 | \$73.9 | \$132.3 | \$146.5 | \$39.4 | | 55,400 |
|-----------------------------|-----------------------|----------|--------------------|-----------------------|-----------------------------|-------------|--------------------------|--------------------|--------------------|---------------------------|------|--------------------|
| Actives | Medical and Pharmacy* | Expenses | Retirement Subsidy | Total Monthly Premium | State Cont. (Act 1842/1421) | Res. Alloc. | School District Contrib. | 2012 Total EE Cost | 2011 Total EE Cost | Change in Premiums (\$/%) | | Assumed Enrollment |
| Gold | | | | | | | | | | | | |
| Employee Only | \$435.67 | \$37.52 | \$11.20 | \$484.39 | \$83.91 | \$12.30 | \$131.00 | \$257.18 | \$170.34 | \$86.84 | 51% | 26,588 |
| Employee & Spouse | 1,282.68 | 37.52 | 11.20 | 1,331.40 | 149.17 | 21.87 | 131.00 | 1,029.36 | 771.74 | 257.62 | 33% | 1,143 |
| Employee & Child(ren) | 814.30 | 37.52 | 11.20 | 863.02 | 114.29 | 16.75 | 131.00 | 600.98 | 436.87 | 164.11 | 38% | 4,640 |
| Family | 1,292.16 | 37.52 | 11.20 | 1,340.88 | 154.48 | 22.65 | 131.00 | 1,032.75 | 773.82 | 258.93 | 33% | 1,629 |
| Est. Monthly Total (\$mil) | \$18.9 | \$1.3 | \$0.4 | \$20.6 | \$3.2 | \$0.5 | \$4.5 | \$8.1 | \$8.7 | \$3.8 | | 34,000 |
| Silver | | | | | | | | | (2011 HA) | | | |
| Employee Only | \$310.70 | \$34.82 | \$11.20 | \$356.72 | \$83.91 | \$12.30 | \$131.00 | \$129.51 | \$170.34 | (\$40.83) | -24% | 3,800 |
| Employee & Spouse | 914.73 | 34.82 | 11.20 | 960.75 | 149.17 | 21.87 | 131.00 | 658.71 | 771.74 | (113.03) | -15% | 151 |
| Employee & Child(ren) | 580.71 | 34.82 | 11.20 | 626.73 | 114.29 | 16.75 | 131.00 | 364.69 | 436.87 | (72.18) | -17% | 806 |
| Family | 921.49 | 34.82 | 11.20 | 967.51 | 154.48 | 22.65 | 131.00 | 659.38 | 773.82 | (114.44) | -15% | 243 |
| Est. Monthly Total (\$mil) | \$2.0 | \$0.2 | \$0.1 | \$2.2 | \$0.5 | \$0.1 | \$0.7 | \$1.2 | \$1.3 | -\$0.3 | | 5,000 |
| Bronze | | | | | | | | | | | | |
| Employee Only | \$151.03 | \$32.38 | \$11.20 | \$194.61 | \$55.38 | \$8.12 | \$131.00 | \$0.11 | \$15.10 | (\$14.99) | -99% | 6,073 |
| Employee & Spouse | 438.84 | 32.38 | 11.20 | 482.42 | 98.45 | 14.43 | 131.00 | 238.54 | 333.10 | (94.56) | -28% | 388 |
| Employee & Child(ren) | 279.98 | 32.38 | 11.20 | 323.56 | 75.43 | 11.06 | 131.00 | 106.07 | 155.36 | (49.29) | -32% | 720 |
| Family | 443.26 | 32.38 | 11.20 | 486.84 | 101.96 | 14.95 | 131.00 | 238.93 | 333.70 | (94.77) | -28% | 820 |
| Est. Monthly Total (\$mil) | \$1.7 | \$0.3 | \$0.1 | \$2.0 | \$0.5 | \$0.1 | \$1.0 | \$0.4 | \$0.6 | -\$0.2 | | 8,000 |
| Total (Monthly) (\$ mil) | \$22.6 | \$1.7 | \$0.5 | \$24.8 | \$4.2 | \$0.6 | \$6.2 | \$9.7 | \$10.6 | \$3.3 | | 47,000 |
| Est Annual Total (\$ mil) | \$271.2 | \$20.5 | \$6.3 | \$298.0 | \$50.0 | \$7.3 | \$73.9 | \$116.0 | \$127.3 | \$39.5 | | |

Note: The figures presented are preliminary and subject to change.



PSE Retirees

PSE RETIREE RATE DEVELOPMENT for CY2012

Plan:

Benefit:

Experience Period - Service (Incurred) Dates

Experience Period - Processed (Paid) Dates

| | Non-Medicare (combined with Act; Gold) | | | Medicare | |
|--|--|---------------------|----------------------|---------------------|---------------------|
| | Medical | Pharmacy | Total | Medical | Total |
| | 2/10 - 1/11 | 2/10 - 1/11 | | 2/10 - 1/11 | |
| | 2/10 - 2/11 | 2/10 - 2/11 | | 2/10 - 2/11 | |
| 1 Total Incurred Medical & Rx Claims (Experience Period) | \$179,025,721 | \$52,902,002 | \$231,927,723 | \$9,140,621 | \$9,140,621 |
| 2 <u>Less High Cost Claims Above (Med/Rx)</u> \$100,000 \$20,000 | <u>\$11,434,026</u> | <u>\$3,248,325</u> | <u>\$14,682,351</u> | <u>\$143,707</u> | <u>\$143,707</u> |
| 3 Net Incurred Claims below Pooling Point [1 - 2] | \$167,591,695 | \$49,653,677 | \$217,245,372 | \$8,996,914 | \$8,996,914 |
| 4 <u>Person Months for Experience Period</u> | 742,518 | 742,518 | 742,518 | <u>\$72,446</u> | 72,446 |
| 5 Net Incurred Claims Per Person Per Month (PPPM) [3 / 4] | \$225.71 | \$66.87 | \$292.58 | \$124.19 | \$124.19 |
| 6 Change in Benefits During Experience Period | 1.0000 | 1.0000 | | 1.0000 | |
| 7 Change in Demographics or Risk During Experience Period | 1.0009 | 1.0005 | | 0.9993 | |
| 8 Change in Geographic During Experience Period | 0.9991 | 0.9991 | | 1.0000 | |
| 9 a) Annual Trend Rate | 7.5% | 5.0% | | 7.0% | |
| b) Months to Trend | 23 | 23 | | 23 | |
| c) <u>Trend Adjustment</u> | <u>1.1487</u> | <u>1.0980</u> | | <u>1.1385</u> | |
| 10 Adjusted Claims Charged PPPM [5 x 6 x 7 x 8 x 9c] | \$259.25 | \$73.39 | \$332.65 | \$141.29 | \$141.29 |
| 11 <u>Charge for Claims above Pooling Point PPPM</u> | <u>\$15.40</u> | <u>\$4.37</u> | <u>\$19.77</u> | <u>\$1.98</u> | <u>\$1.98</u> |
| 12 Total Claims Charged PPPM [9 + 10] | \$274.65 | \$77.77 | \$352.42 | \$143.28 | \$143.28 |
| 13 Change in Future Benefits | 1.0320 | 1.0100 | | 1.0000 | |
| 14 Change in Future Demographics (Age/Gender/Family) or Risk | 1.1088 | 1.1088 | | 1.0000 | |
| 15 Change in Future Geographic | 1.0000 | 1.0000 | | 1.0000 | |
| 16 <u>Change in Future Network</u> | <u>0.9734</u> | <u>1.0000</u> | | <u>1.0000</u> | |
| 17 Projected Incurred Claim PPPM [13x 14 x15x16] | \$305.92 | \$87.09 | \$393.01 | \$143.28 | \$143.28 |
| 18 <u>Projected Persons Months</u> | 603,355 | 603,355 | 603,355 | 79,607 | 79,607 |
| 19 Projected Total Incurred Claims [17 x 18] | \$184,578,067 | \$52,547,391 | \$237,125,459 | \$11,405,755 | \$11,405,755 |

Note: The figures presented are preliminary and subject to change.



PSE Retirees

PSE RETIREE RATE DEVELOPMENT for CY2012

20 Conversion to Rating Tiers

Method:

Historical

PPPM [17]

| | <u>x Non-Med.</u> | <u>Non-Med.</u> | <u>x Medicare</u> | <u>Medicare</u> | <u>Projected</u> | <u>TOTAL</u> |
|--|--------------------|--------------------|--------------------|---------------------|-------------------|---------------------|
| | <u>tier factor</u> | <u>PEPM</u> | <u>tier factor</u> | <u>PEPM</u> | <u>Ret Months</u> | <u>PEPM</u> |
| a) NME Retiree | 1.11 | \$435.67 | - | \$0.00 | 15,450 | \$435.67 |
| b) NME Retiree & NME Spouse | 3.26 | \$1,282.68 | - | \$0.00 | 1,590 | \$1,282.68 |
| c) NME Retiree & Child(ren) | 2.07 | \$814.30 | - | \$0.00 | 59 | \$814.30 |
| d) NME Retiree & NME Spouse & Child(ren) | 3.29 | \$1,292.16 | - | \$0.00 | 50 | \$1,292.16 |
| e) NME Retiree & ME Spouse | 1.11 | \$435.67 | 1.00 | \$143.28 | 842 | \$578.95 |
| f) NME Retiree & ME Spouse & Child(ren) | 2.07 | \$814.30 | 1.00 | \$143.28 | 8 | \$957.58 |
| g) ME Retiree | - | \$0.00 | 1.00 | \$143.28 | 66,160 | \$143.28 |
| h) ME Retiree & NME Spouse | 1.11 | \$435.67 | 1.00 | \$143.28 | 1,271 | \$578.95 |
| i) ME Retiree & Child(ren) | 0.96 | \$378.63 | 1.00 | \$143.28 | 174 | \$521.90 |
| j) ME Retiree & NME Spouse & Child(ren) | 2.07 | \$856.48 | 1.00 | \$143.28 | 37 | \$999.76 |
| k) ME Retiree & ME Spouse | - | \$0.00 | 2.00 | \$286.55 | 5,545 | \$286.55 |
| l) ME Retiree & ME Spouse & Child(ren) | 0.96 | \$378.63 | 2.00 | \$286.55 | 12 | \$665.18 |
| 20 Rates Balance Confirmation | | \$9,914,451 | | \$11,405,755 | | \$21,320,206 |

Note: The figures presented are preliminary and subject to change.

PSE Retirees (Not Medicare Eligible)



PSE Detailed Financials



[Go to Enrollment Changes](#)

Retiree Subsidy from Actives

State/Reserve Contributions

Add Reserves for NME Retirees (\$ mil) **\$0.0**

[Go to Actives](#)

PSE - PEPM

| | 2011 | 2012 |
|-----------------------|---------|---------|
| PSE - PEPM | \$11.20 | \$11.20 |
| Apply to NME Retirees | N | Y |
| NME Ret Holdback | \$63.55 | \$0.00 |

For each Rating Tier, e.g. Employee

Silver Bronze

Amount should be what % of Gold

100% **100%**

[Go to ME Ret](#)

[Go to ASE](#)

NME Ret Holdback

| Total Active & Ret (\$ mil) | \$295.5 | \$23.5 | \$6.6 | \$325.6 | \$56.6 | \$9.3 | \$73.9 | \$126.3 | \$146.5 | \$39.4 | | 55,400 |
|-----------------------------|-----------------------|----------|--------------------|-----------------------|--------|-------------|--------|----------------------|----------------------|---------------------------|------|--------------------|
| NME Retirees | Medical and Pharmacy* | Expenses | Retirement Subsidy | Total Monthly Premium | | Res. Alloc. | | 2012 Total Ret. Cost | 2011 Total Ret. Cost | Change in Premiums (\$/%) | | Assumed Enrollment |
| Gold | | | | | | | | | | | | |
| Retiree Only | \$435.67 | \$37.52 | \$11.20 | \$484.39 | | \$0.00 | | \$484.39 | \$457.42 | \$26.97 | 6% | 1,288 |
| Retiree & NME SP | 1,282.68 | 37.52 | 11.20 | 1,331.40 | | 0.00 | | 1,331.40 | 1,152.01 | \$179.39 | 16% | 133 |
| Retiree & Child(ren) | 814.30 | 37.52 | 11.20 | 863.02 | | 0.00 | | 863.02 | 768.28 | \$94.74 | 12% | 5 |
| Retiree & NME SP&CH | 1,292.16 | 37.52 | 11.20 | 1,340.88 | | 0.00 | | 1,340.88 | 1,159.82 | \$181.06 | 16% | 4 |
| Retiree & ME SP | 578.95 | 37.52 | 11.20 | 627.67 | | 0.00 | | 627.67 | 596.82 | \$30.85 | 5% | 70 |
| Retiree & ME SP & CH | 957.58 | 37.52 | 11.20 | 1,006.30 | | 0.00 | | 1,006.30 | 907.71 | \$98.59 | 11% | 1 |
| Est. Monthly Total (\$mil) | \$0.8 | \$0.1 | \$0.0 | \$0.9 | | \$0.0 | | \$0.9 | \$0.8 | \$0.1 | | 1,500 |
| Silver | | | | | | | | | | | | |
| Employee Only | \$310.70 | \$34.82 | \$11.20 | \$356.72 | | \$0.00 | | \$356.72 | \$457.42 | (\$100.70) | -22% | 472 |
| Employee & Spouse | 914.73 | 34.82 | 11.20 | 960.75 | | 0.00 | | 960.75 | 1,152.01 | (191.26) | -17% | 49 |
| Employee & Child(ren) | 580.71 | 34.82 | 11.20 | 626.73 | | 0.00 | | 626.73 | 768.28 | (141.55) | -18% | 28 |
| Family | 921.49 | 34.82 | 11.20 | 967.51 | | 0.00 | | 967.51 | 1,159.82 | (192.31) | -17% | 2 |
| Est. Monthly Total (\$mil) | \$0.2 | \$0.0 | \$0.0 | \$0.2 | | \$0.0 | | \$0.0 | \$0.3 | -\$0.1 | | 550 |
| Bronze | | | | | | | | | | | | |
| Employee Only | \$151.03 | \$32.38 | \$11.20 | \$194.61 | | \$0.00 | | \$194.61 | \$457.42 | (\$262.81) | -57% | 215 |
| Employee & Spouse | 438.84 | 32.38 | 11.20 | 482.42 | | 0.00 | | 482.42 | 1,152.01 | (669.59) | -58% | 22 |
| Employee & Child(ren) | 279.98 | 32.38 | 11.20 | 323.56 | | 0.00 | | 323.56 | 768.28 | (444.72) | -58% | 13 |
| Family | 443.26 | 32.38 | 11.20 | 486.84 | | 0.00 | | 486.84 | 1,159.82 | (672.98) | -58% | 1 |
| Est. Monthly Total (\$mil) | \$0.0 | \$0.0 | \$0.0 | \$0.1 | | \$0.0 | | \$0.1 | \$0.1 | -\$0.1 | | 250 |
| Total (Monthly) (\$ mil) | \$1.0 | \$0.1 | \$0.0 | \$1.1 | | \$0.0 | | \$0.9 | \$1.2 | (\$0.1) | | 2,300 |
| Est Annual Total (\$ mil) | \$12.4 | \$1.0 | \$0.3 | \$13.7 | | \$0.0 | | \$10.9 | \$14.7 | -\$0.9 | | |

Note: The figures presented are preliminary and subject to change.



PSE Retirees – Medicare Eligible

CHEIRON

PSE Detailed Financials

H-scan

Go to Enrollment Changes

Retiree Contributions

| | |
|--------------------------------------|---------|
| Increase per Medicare Person | \$10.00 |
| Additional increase if have children | \$10.00 |

State/Reserve Contributions

| | |
|--|-------|
| Addl Reserves for ME Retirees (\$ mil) | \$2.9 |
|--|-------|

Go to Actives

Go to NME Ret

Go to ASE

| Total Active & Ret (\$ mil) | \$295.5 | \$23.5 | \$6.6 | \$325.6 | \$56.6 | \$9.3 | \$73.9 | \$126.3 | \$146.5 | \$39.4 | | 55,400 |
|-----------------------------|-----------------------|----------|--------------------|-----------------------|----------------------|-------------|--------|----------------------|----------------------|---------------------------|-----|--------------------|
| ME Retirees | Medical and Pharmacy* | Expenses | Retirement Subsidy | Total Monthly Premium | Subsidy from Actives | Res. Alloc. | | 2012 Total Ret. Cost | 2011 Total Ret. Cost | Change in Premiums (\$/%) | | Assumed Enrollment |
| Medicare Eligible | | | | | | | | | | | | |
| Retiree Only | \$143.28 | \$27.04 | | \$170.32 | \$91.94 | \$26.94 | | \$51.44 | \$41.44 | \$10.00 | 24% | 5,513 |
| Retiree & NME SP | 578.95 | 27.04 | | 605.99 | 0.00 | 0.00 | | 605.99 | 568.37 | \$37.62 | 7% | 106 |
| Retiree & Child(ren) | 521.90 | 27.04 | | 548.94 | 83.35 | 24.42 | | 441.17 | 421.17 | \$20.00 | 5% | 15 |
| Retiree & NME SP&CH | 999.76 | 27.04 | | 1,026.80 | 0.00 | 0.00 | | 1,026.80 | 877.42 | \$149.38 | 17% | 3 |
| Retiree & ME SP | 286.55 | 27.04 | | 313.59 | 95.13 | 27.87 | | 190.59 | 170.59 | \$20.00 | 12% | 462 |
| Retiree & ME SP & CH | 665.18 | 27.04 | | 692.22 | 86.54 | 25.36 | | 580.32 | 550.32 | \$30.00 | 5% | 1 |
| Est. Monthly Total (\$mil) | \$1.0 | \$0.2 | \$0.0 | \$1.2 | \$0.6 | \$0.2 | | \$0.4 | \$0.4 | \$0.1 | | 6,100 |
| Total (Est. Annual) | \$11.9 | \$2.0 | \$0.0 | \$13.9 | \$6.6 | \$1.9 | | \$5.4 | \$4.5 | \$0.8 | | |

Note: The figures presented are preliminary and subject to change.



ASE Actives

ASE ACTIVE RATE DEVELOPMENT for CY2012

| Plan: Benefit: Experience Period - Service (Incurred) Dates Experience Period - Processed (Paid) Dates | Gold | | | Silver (based on Gold Actives) | | | Bronze | | |
|---|---------------|--------------|---------------|--------------------------------|--------------|---------------|-------------|-------------|-------------|
| | Medical | Pharmacy | Total | Medical | Pharmacy | Total | Medical | Pharmacy | Total |
| | 2/10 - 1/11 | 2/10 - 1/11 | | 2/10 - 1/11 | 2/10 - 1/11 | | 2/10 - 1/11 | 2/10 - 1/11 | |
| | 2/10 - 2/11 | 2/10 - 2/11 | | 2/10 - 2/11 | 2/10 - 2/11 | | 2/10 - 2/11 | 2/10 - 2/11 | |
| | A | B | C | D | E | F | G | H | I |
| 1 Total Incurred Medical & Rx Claims (Experience Period) | \$143,177,761 | \$41,753,311 | \$184,931,071 | \$128,283,829 | \$37,205,186 | \$165,489,015 | \$1,595,219 | \$137,985 | \$1,733,204 |
| 2 Less High Cost Claims Above (Med/Rx) | \$7,046,324 | \$3,158,356 | \$10,204,680 | \$5,952,884 | \$2,790,131 | \$8,743,015 | \$96,970 | \$8,333 | \$105,303 |
| 3 Net Incurred Claims below Pooling Point [1 - 2] | \$136,131,436 | \$38,594,955 | \$174,726,391 | \$122,330,945 | \$34,415,055 | \$156,746,000 | \$1,498,249 | \$129,652 | \$1,627,901 |
| 4 Person Months for Experience Period | 599,304 | 599,304 | 599,304 | 560,384 | 560,384 | 560,384 | 19,156 | 19,156 | 19,156 |
| 5 Net Incurred Claims Per Person Per Month (PPPM) [3 / 4] | \$227.15 | \$64.40 | \$291.55 | \$218.30 | \$61.41 | \$279.71 | \$78.21 | \$6.77 | \$84.98 |
| 6 Change in Benefits During Experience Period | 1.0000 | 1.0000 | | 1.0000 | 1.0000 | | 1.0000 | 1.0000 | |
| 7 Change in Demographics or Risk During Experience Period | 0.9943 | 0.9945 | | 0.9943 | 0.9945 | | 0.9964 | 1.0342 | |
| 8 Change in Geographic During Experience Period | 1.0000 | 1.0000 | | 1.0000 | 1.0000 | | 0.9982 | 0.9982 | |
| 9 a) Annual Trend Rate | 7.5% | 5.0% | | 7.5% | 5.0% | | 7.5% | 5.0% | |
| b) Months to Trend | 23 | 23 | | 23 | 23 | | 23 | 23 | |
| c) Trend Adjustment | 1.1487 | 1.0980 | | 1.1487 | 1.0980 | | 1.1487 | 1.0980 | |
| 10 Adjusted Claims Charged PPPM [5 x 6 x 7 x 8 x 9c] | \$259.44 | \$70.32 | \$329.76 | \$249.33 | \$67.06 | \$316.39 | \$89.36 | \$7.67 | \$97.03 |
| 11 Charge for Claims above Pooling Point PPPM | \$11.76 | \$5.27 | \$17.03 | \$10.62 | \$4.98 | \$15.60 | \$5.06 | \$0.44 | \$5.50 |
| 12 Total Claims Charged PPPM [10 + 11] | \$271.19 | \$75.59 | \$346.79 | \$259.95 | \$72.04 | \$331.99 | \$94.42 | \$8.11 | \$102.53 |
| 13 Change in Future Benefits | 1.0310 | 1.0100 | | 0.9580 | 0.9110 | | 1.0310 | 1.0100 | |
| 14 Change in Future Demographics (Age/Gender/Family) or Risk | 1.0353 | 1.0353 | | 0.7840 | 0.7840 | | 1.1129 | 1.1129 | |
| 15 Change in Future Geographic | 1.0000 | 1.0000 | | 1.0000 | 1.0000 | | 1.0000 | 1.0000 | |
| 16 Change in Future Network | 0.9857 | 1.0000 | | 1.0825 | 1.0000 | | 1.0000 | 1.0000 | |
| 17 Projected Incurred Claim PPPM [13x 14 x15x16] | \$285.33 | \$79.04 | \$364.37 | \$211.34 | \$51.45 | \$262.79 | \$108.33 | \$9.11 | \$117.45 |
| 18 Projected Blended Incurred Claim PPPM | n/a | \$76.75 | n/a | n/a | \$69.92 | n/a | n/a | \$57.44 | n/a |
| 19 Percent to Use Blended Experience | | 0% | | | 0% | | | 0% | |
| 20 Rating Incurred Claim PPPM [17 blended with 18] | \$285.33 | \$79.04 | \$364.37 | \$211.34 | \$51.45 | \$262.79 | \$108.33 | \$9.11 | \$117.45 |
| 21 Projected Persons Months | 551,052 | 551,052 | 551,052 | 59,553 | 59,553 | 59,553 | 26,076 | 26,076 | 26,076 |
| 22 Projected Total Incurred Claims [20 x 21] | \$157,228,939 | \$43,555,639 | \$200,784,578 | \$12,585,750 | \$3,063,873 | \$15,649,623 | \$2,824,894 | \$237,667 | \$3,062,561 |
| 23 Conversion to Rating Tiers [20 x rating tier x counts] | | | | | | | | | |
| Method: <input type="text" value="Historical"/> | | | | | | | | | |
| | x tier | Projected | | x tier | Projected | | x tier | Projected | |
| | factor | Ee Months | PEPM | factor | Ee Months | PEPM | factor | Ee Months | PEPM |
| a) Employee Only | 1.15 | 187,782 | \$419.46 | 1.14 | 22,133 | \$299.94 | 1.11 | 10,727 | \$130.89 |
| b) Employee & Spouse | 2.91 | 42,426 | \$1,061.99 | 2.89 | 4,754 | \$759.37 | 2.78 | 2,016 | \$326.78 |
| c) Employee & Child(ren) | 1.79 | 51,780 | \$650.63 | 1.77 | 6,070 | \$465.23 | 1.72 | 1,601 | \$201.51 |
| d) Family | 3.25 | 36,377 | \$1,184.47 | 3.22 | 3,043 | \$846.95 | 3.11 | 1,856 | \$364.79 |
| e) Child(ren) of Medicare Retirees | 0.63 | 792 | \$231.16 | | | | - | | |
| 24 Rates Balance Confirmation | | 319,157 | \$200,784,578 | | 36,000 | \$15,649,623 | | 16,200 | \$3,062,561 |

Note: The figures presented are preliminary and subject to change.



ASE Actives



ASE Detailed Financials



Premium Rates

Tiering Factor Option **Historical**
 Historical = from prior years
 Relation = rates by Ee/Sp/Ch(n)
 tiers become additive

Go to Enrollment Changes

Go to NME Ret

Go to ME Ret

Go to PSE

State / Reserve Contributions

| | | |
|------------------------------------|---------------|------------|
| Contribution per Budgeted Position | \$390 | |
| | Employees | Dependents |
| Contrib. for Gold Plan | 75% | 50% |
| Contrib. for Silver Plan | 75% | 50% |
| Contrib. for Bronze Plan | 100% | 50% |
| Reserve alloc. needed (\$ mil) | \$30.2 | |

| Total Active & Ret (\$ mil) | \$256.7 | \$16.9 | \$273.6 | \$164.1 | \$15.1 | \$94.4 | \$85.3 | \$9.1 | | 37,500 |
|-----------------------------|----------------------|---------------|-----------------------|---------------------|--------------------|--------------------|--------------------|-----------------------------|-------|--------------------|
| Actives | Medical and Pharmacy | Expenses | Total Monthly Premium | State Contributions | Reserve Allocation | 2012 EE Total Cost | 2011 EE Total Cost | Change in Premiums (\$ / %) | | Assumed Enrollment |
| Gold | | | | | | | | | | |
| Employee Only | \$419.46 | \$40.05 | \$459.51 | \$315.56 | \$29.08 | \$114.88 | \$95.78 | \$19.10 | 20% | 14,059 |
| Employee & Spouse | 1,061.99 | 40.05 | 1,102.04 | 609.72 | 56.18 | 436.14 | 367.74 | 68.40 | 19% | 3,151 |
| Employee & Child(ren) | 650.63 | 40.05 | 690.68 | 421.39 | 38.83 | 230.46 | 193.64 | 36.82 | 19% | 4,238 |
| Family | 1,184.47 | 40.05 | 1,224.52 | 665.80 | 61.34 | 497.38 | 419.62 | 77.76 | 19% | 3,002 |
| Est. Monthly Total (\$mil) | \$15.6 | \$1.0 | \$16.5 | \$10.1 | \$0.9 | \$5.5 | \$4.6 | \$0.9 | | 24,450 |
| Silver | | | | | | | (2011 HA) | | | |
| Employee Only | \$299.94 | \$37.35 | \$337.29 | \$231.62 | \$21.34 | \$84.32 | \$95.78 | (\$11.46) | -12% | 1,525 |
| Employee & Spouse | 759.37 | 37.35 | 796.72 | 441.96 | 40.72 | 314.04 | 367.74 | (53.70) | -15% | 283 |
| Employee & Child(ren) | 465.23 | 37.35 | 502.58 | 307.30 | 28.31 | 166.97 | 193.64 | (26.67) | -14% | 449 |
| Family | 846.95 | 37.35 | 884.30 | 482.06 | 44.41 | 357.83 | 419.62 | (61.79) | -15% | 242 |
| Est. Monthly Total (\$mil) | \$1.1 | \$0.1 | \$1.2 | \$0.7 | \$0.1 | \$0.4 | \$0.4 | (\$0.1) | | 2,500 |
| Bronze | | | | | | | | | | |
| Employee Only | \$130.89 | \$34.91 | \$165.80 | \$151.81 | \$13.99 | \$0.00 | \$7.16 | (\$7.16) | -100% | 830 |
| Employee & Spouse | 326.78 | 34.91 | 361.69 | 241.50 | 22.25 | 97.94 | 154.02 | (56.08) | -36% | 145 |
| Employee & Child(ren) | 201.51 | 34.91 | 236.42 | 184.14 | 16.97 | 35.31 | 60.33 | (25.02) | -41% | 122 |
| Family | 364.79 | 34.91 | 399.70 | 258.90 | 23.85 | 116.95 | 183.54 | (66.59) | -36% | 152 |
| Est. Monthly Total (\$mil) | \$0.2 | \$0.0 | \$0.3 | \$0.2 | \$0.0 | \$0.0 | \$0.1 | (\$0.0) | | 1,250 |
| Total (Monthly) (\$ mil) | \$16.9 | \$1.1 | \$18.0 | \$11.1 | \$1.0 | \$5.9 | \$5.1 | \$0.8 | | 28,200 |
| Est Annual Total (\$ mil) | \$202.6 | \$13.4 | \$216.0 | \$133.2 | \$12.3 | \$70.5 | \$61.1 | \$9.4 | | |

9 **Note: The figures presented are preliminary and subject to change.**





ASE Retirees

ASE RETIREE RATE DEVELOPMENT for CY2012

| Plan: Benefit: Experience Period - Service (Incurred) Dates Experience Period - Processed (Paid) Dates | Non-Medicare (combined with Act; Gold) | | | Medicare | | |
|---|--|---------------------|----------------------|---------------------|---------------------|---------------------|
| | Medical | Pharmacy | Total | Medical | Pharmacy | Total |
| | 2/10 - 1/11 | 2/10 - 1/11 | | 2/10 - 1/11 | 2/10 - 1/11 | |
| | 2/10 - 2/11 | 2/10 - 2/11 | | 2/10 - 2/11 | 2/10 - 2/11 | |
| 1 Total Incurred Medical & Rx Claims (Experience Period)* | \$143,177,761 | \$41,753,311 | \$184,931,071 | \$14,698,277 | \$17,325,796 | \$32,024,073 |
| 2 <u>Less High Cost Claims Above (Med/Rx)*</u> \$100,000 \$20,000 | <u>\$7,046,324</u> | <u>\$3,158,356</u> | <u>\$10,204,680</u> | \$187,985 | \$1,456,805 | <u>\$1,644,789</u> |
| 3 Net Incurred Claims below Pooling Point [1 - 2] | \$136,131,436 | \$38,594,955 | \$174,726,391 | \$14,510,293 | \$15,868,991 | \$30,379,284 |
| 4 <u>Person Months for Experience Period</u> | 599,304 | 599,304 | 599,304 | 102,554 | 102,554 | 102,554 |
| 5 Net Incurred Claims Per Person Per Month (PPPM) [3 / 4] | \$227.15 | \$64.40 | \$291.55 | \$141.49 | \$154.74 | \$296.23 |
| 6 Change in Benefits During Experience Period | 1.0000 | 1.0000 | | 1.0000 | 1.0000 | |
| 7 Change in Demographics or Risk During Experience Period | 0.9943 | 0.9945 | | 0.9997 | 1.0000 | |
| 8 Change in Geographic During Experience Period | 1.0000 | 1.0000 | | 1.0000 | 1.0000 | |
| 9 a) Annual Trend Rate | 7.5% | 5.0% | | 7.0% | 5.0% | |
| b) Months to Trend | 23 | 23 | | 23 | 23 | |
| c) <u>Trend Adjustment</u> | <u>1.1487</u> | <u>1.0980</u> | | <u>1.1385</u> | <u>1.0980</u> | |
| 10 Adjusted Claims Charged PPPM [5 x 6 x 7 x 8 x 9c] | \$259.44 | \$70.32 | \$329.76 | \$161.03 | \$169.91 | \$330.94 |
| 11 <u>Charge for Claims above Pooling Point PPPM</u> | <u>\$11.76</u> | <u>\$5.27</u> | <u>\$17.03</u> | <u>\$1.83</u> | <u>\$14.21</u> | <u>\$16.04</u> |
| 12 Total Claims Charged PPPM [10 + 11] | \$271.19 | \$75.59 | \$346.79 | \$162.86 | \$184.11 | \$346.97 |
| 13 Change in Future Benefits (Level/Mgt/Discounts) | 1.0310 | 1.0100 | | 1.0000 | 1.0000 | |
| 14 Change in Future Demographics (Age/Gender/Family) or Risk | 1.0353 | 1.0353 | | 1.0000 | 1.0000 | |
| 15 Change in Future Geographic | 1.0000 | 1.0000 | | 1.0000 | 1.0000 | |
| 16 <u>Change in Future Network</u> | <u>0.9857</u> | <u>1.0000</u> | | <u>1.0000</u> | <u>1.0000</u> | |
| 17 Projected Incurred Claim PPPM [13x 14 x15x16] | \$285.33 | \$79.04 | \$364.37 | \$162.86 | \$184.11 | \$346.97 |
| 18 <u>Projected Persons Months</u> | 551,052 | 551,052 | 551,052 | 107,714 | 107,714 | 107,714 |
| 19 Projected Total Incurred Claims [17 x 18] | \$157,228,939 | \$43,556,137 | \$200,785,076 | \$17,542,355 | \$19,831,703 | \$37,374,058 |

Note: The figures presented are preliminary and subject to change.



ASE Retirees

ASE RETIREE RATE DEVELOPMENT for CY2012

| 20 Conversion to Rating Tiers | PPPM [17] | <u>x Non-Med.</u> | <u>Non-Med.</u> | <u>x Medicare</u> | <u>Medicare</u> | <u>Projected</u> | <u>TOTAL</u> |
|--|-----------|--------------------|---------------------|--------------------|---------------------|------------------|---------------------|
| Method: Historical | | <u>tier factor</u> | <u>PEPM</u> | <u>tier factor</u> | <u>PEPM</u> | <u>Ee Months</u> | <u>PEPM</u> |
| a) NME Retiree | | 1.15 | \$419.47 | - | \$0.00 | 13,032 | \$419.47 |
| b) NME Retiree & NME Spouse | | 2.91 | \$1,061.99 | - | \$0.00 | 4,608 | \$1,061.99 |
| c) NME Retiree & Child(ren) | | 1.79 | \$650.63 | - | \$0.00 | 528 | \$650.63 |
| d) NME Retiree & NME Spouse & Child(ren) | | 3.25 | \$1,184.48 | - | \$0.00 | 355 | \$1,184.48 |
| e) NME Retiree & ME Spouse | | 1.15 | \$419.47 | 1.00 | \$346.97 | 1,776 | \$766.44 |
| f) NME Retiree & ME Spouse & Child(ren) | | 1.79 | \$650.63 | 1.00 | \$346.97 | 100 | \$997.60 |
| g) ME Retiree | | - | \$0.00 | 1.00 | \$346.97 | 56,953 | \$346.97 |
| h) ME Retiree & NME Spouse | | 1.15 | \$419.47 | 1.00 | \$346.97 | 4,269 | \$766.44 |
| i) ME Retiree & Child(ren) | 0.63 | 0.63 | \$231.16 | 1.00 | \$346.97 | 643 | \$578.14 |
| j) ME Retiree & NME Spouse & Child(ren) | | 1.79 | \$765.01 | 1.00 | \$346.97 | 297 | \$1,111.99 |
| k) ME Retiree & ME Spouse | | - | \$0.00 | 2.00 | \$693.95 | 21,690 | \$693.95 |
| l) ME Retiree & ME Spouse & Child(ren) | | 0.63 | \$231.16 | 2.00 | \$693.95 | 148 | \$925.11 |
| 20 Rates Balance Confirmation | | | \$14,135,752 | | \$37,374,058 | | \$51,509,810 |

* Pharmacy Cost for Medicare has subtracted the RDS Subsidy.

Note: The figures presented are preliminary and subject to change.

ASE Retirees – Not Medicare Eligible

CHEIRON

ASE Detailed Financials

H-scan

Go to Enrollment Changes

State / Reserve Contributions

Go to Actives

Go to ME Ret

Go to PSE

| | Retiree | Dependents |
|--------------------------|---------|------------|
| Contrib. for Gold Plan | P | 30% |
| Contrib. for Silver Plan | S | 30% |
| Contrib. for Bronze Plan | 0% | 0% |

| Total Active & Ret (\$ mil) | \$256.7 | \$16.9 | \$273.6 | \$164.1 | \$15.1 | \$94.4 | \$85.3 | \$9.1 | | 37,500 |
|-----------------------------|-----------------------|----------|-----------------------|---------------------|--------------------|----------------------|----------------------|-------------------------|------|--------------------|
| NME Retirees | Medical and Pharmacy* | Expenses | Total Monthly Premium | State Contributions | Reserve Allocation | 2012 Ret. Total Cost | 2011 Ret. Total Cost | Change in Premiums / %) | (\$ | Assumed Enrollment |
| Gold | | | | | | | | | | |
| Retiree Only | \$419.47 | \$40.05 | \$459.52 | \$204.90 | \$18.88 | \$235.74 | \$235.74 | \$0.00 | 0% | 1,086 |
| Retiree & NME SP | 1,061.99 | 40.05 | 1,102.04 | 481.77 | 44.39 | 575.88 | 575.88 | 0.00 | 0% | 384 |
| Retiree & Child(ren) | 650.63 | 40.05 | 690.68 | 229.68 | 21.16 | 439.84 | 439.84 | 0.00 | 0% | 44 |
| Retiree & NME SP&CH | 1,184.48 | 40.05 | 1,224.53 | 281.84 | 25.97 | 916.72 | 916.72 | 0.00 | 0% | 30 |
| Retiree & ME SP | 766.44 | 40.05 | 806.49 | 370.79 | 34.16 | 401.54 | 401.54 | 0.00 | 0% | 148 |
| Retiree & ME SP & CH | 997.60 | 40.05 | 1,037.65 | 394.53 | 36.35 | 606.77 | 606.77 | 0.00 | 0% | 8 |
| Est. Monthly Total (\$mil) | \$1.0 | \$0.1 | \$1.1 | \$0.5 | \$0.0 | \$0.6 | \$0.6 | \$0.0 | | 1,700 |
| Silver | | | | | | | | | | |
| Employee Only | \$299.94 | \$37.35 | \$337.29 | \$125.00 | \$11.52 | \$200.77 | \$235.74 | (\$34.97) | -15% | 319 |
| Employee & Spouse | 759.37 | 37.35 | 796.72 | 300.27 | 27.66 | 468.78 | 575.88 | (107.10) | -19% | 113 |
| Employee & Child(ren) | 465.23 | 37.35 | 502.58 | 150.57 | 13.87 | 338.13 | 439.84 | (101.71) | -23% | 56 |
| Family | 846.95 | 37.35 | 884.30 | 207.02 | 19.07 | 658.21 | 916.72 | (258.51) | -28% | 11 |
| Est. Monthly Total (\$mil) | \$0.2 | \$0.0 | \$0.2 | \$0.1 | \$0.0 | \$0.1 | \$0.2 | (\$0.0) | | 500 |
| Bronze | | | | | | | | | | |
| Employee Only | \$130.89 | \$34.91 | \$165.80 | \$0.00 | \$0.00 | \$165.80 | \$235.74 | (\$69.94) | -30% | 64 |
| Employee & Spouse | 326.78 | 34.91 | 361.69 | 0.00 | 0.00 | 361.69 | 575.88 | (214.19) | -37% | 23 |
| Employee & Child(ren) | 201.51 | 34.91 | 236.42 | 0.00 | 0.00 | 236.42 | 439.84 | (203.42) | -46% | 11 |
| Family | 364.79 | 34.91 | 399.70 | 0.00 | 0.00 | 399.70 | 916.72 | (517.02) | -56% | 2 |
| Est. Monthly Total (\$mil) | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | | 100 |
| Total (Monthly) (\$ mil) | \$1.3 | \$0.1 | \$1.4 | \$0.6 | \$0.1 | \$0.7 | \$0.8 | (\$0.0) | | 2,300 |
| Est Annual Total (\$ mil) | \$15.2 | \$1.0 | \$16.2 | \$6.8 | \$0.6 | \$8.8 | \$9.2 | (\$0.4) | | |

Note: The figures presented are preliminary and subject to change.



ASE Retirees – Medicare Eligible

CHEIRON

ASE Detailed Financials

H-scan

Go to Enrollment Changes

State / Reserve Contributions

Go to Actives

Go to NME Ret

Go to PSE

Contrib. for Gold Plan

Retiree Dependents

P

40%

| Total Active & Ret (\$ mil) | \$256.7 | \$16.9 | \$273.6 | \$164.1 | \$15.1 | \$94.4 | \$85.3 | \$9.1 | | 37,500 |
|-----------------------------|-----------------------|----------|-----------------------|---------------------|--------------------|----------------------|----------------------|-------------------------|-----|--------------------|
| ME Retirees | Medical and Pharmacy* | Expenses | Total Monthly Premium | State Contributions | Reserve Allocation | 2012 Ret. Total Cost | 2011 Ret. Total Cost | Change in Premiums / %) | (\$ | Assumed Enrollment |
| Medicare Eligible | | | | | | | | | | |
| Retiree Only | \$346.97 | \$29.54 | \$376.51 | \$237.51 | \$21.88 | \$117.12 | \$117.12 | \$0.00 | 0% | 4,746 |
| Retiree & NME SP | 766.44 | 29.54 | 795.98 | 319.80 | 29.46 | 446.72 | 446.72 | 0.00 | 0% | 356 |
| Retiree & Child(ren) | 578.14 | 29.54 | 607.68 | 268.11 | 24.71 | 314.86 | 314.86 | 0.00 | 0% | 54 |
| Retiree & NME SP&CH | 1,111.99 | 29.54 | 1,141.53 | 455.11 | 41.94 | 644.48 | 644.48 | 0.00 | 0% | 25 |
| Retiree & ME SP | 693.95 | 29.54 | 723.49 | 407.46 | 37.54 | 278.49 | 278.49 | 0.00 | 0% | 1,807 |
| Retiree & ME SP & CH | 925.11 | 29.54 | 954.65 | 438.05 | 40.36 | 476.24 | 476.24 | 0.00 | 0% | 12 |
| Est. Monthly Total (\$ mil) | \$3.2 | \$0.2 | \$3.5 | \$2.0 | \$0.2 | \$1.3 | \$1.3 | \$0.0 | | 7,000 |
| Total (Est. Annual) | \$38.9 | \$2.5 | \$41.4 | \$24.1 | \$2.2 | \$15.1 | \$15.1 | \$0.0 | | |

Note: The figures presented are preliminary and subject to change.



Stress-Testing

- State/Reserve Contributions
- Enrollment
 - Migration to silver/bronze
 - Addition of employees waiving coverage
- Health Risks



Appendices



Appendix A – PSE Actives

10/1/10-12/31/12 Final Rate Details

| Actives | Medical and Pharmacy* | Expenses | Corp Health | Retirement Subsidy | Base Monthly Premium | Act 1842 Contrib. | Act 1421 Contrib. | Res. Alloc. | School District Contrib. | 2011 EE Total Cost | 2010 EE Total Cost | Change in Premiums (\$ / %) | Assumed Enrollment |
|-----------------------------|-----------------------|----------|-------------|--------------------|----------------------|-------------------|-------------------|-------------|--------------------------|--------------------|--------------------|-----------------------------|--------------------|
| Health Advantage | | | | | | | | | | | | | |
| Employee Only | \$347.70 | \$37.84 | \$6.04 | \$11.20 | \$402.78 | \$57.97 | \$24.94 | \$18.53 | \$131.00 | \$170.34 | \$152.69 | \$17.65 12% | 30,042 |
| Employee & Spouse | 1,032.36 | 37.84 | 9.08 | 11.20 | 1,090.48 | 103.06 | 44.17 | 40.51 | 131.00 | 771.74 | 721.45 | 50.29 7% | 1,557 |
| Employee & Child(ren) | 653.29 | 37.84 | 7.86 | 11.20 | 710.19 | 78.96 | 33.84 | 29.52 | 131.00 | 436.87 | 406.05 | 30.82 8% | 5,134 |
| Family | 1,036.06 | 37.84 | 13.08 | 11.20 | 1,098.18 | 106.73 | 45.75 | 40.88 | 131.00 | 773.82 | 723.40 | 50.42 7% | 1,795 |
| Est. Monthly Total (mil \$) | \$17.3 | \$1.5 | \$0.3 | \$0.4 | \$19.4 | \$2.5 | \$1.1 | \$0.8 | \$5.0 | \$10.0 | \$9.1 | \$0.9 | 38,528 |
| NovaSys | | | | | | | | | | | | | |
| Employee Only | \$385.00 | \$24.21 | \$6.04 | \$11.20 | \$426.44 | \$57.97 | \$24.94 | \$18.53 | \$131.00 | \$194.00 | \$173.33 | \$20.67 12% | 2,962 |
| Employee & Spouse | 1,113.21 | 24.21 | 9.08 | 11.20 | 1,157.70 | 103.06 | 44.17 | 40.51 | 131.00 | 838.96 | 779.05 | 59.91 8% | 116 |
| Employee & Child(ren) | 710.43 | 24.21 | 7.86 | 11.20 | 753.70 | 78.96 | 33.84 | 29.52 | 131.00 | 480.38 | 443.21 | 37.17 8% | 520 |
| Family | 1,117.23 | 24.21 | 13.08 | 11.20 | 1,165.72 | 106.73 | 45.75 | 40.88 | 131.00 | 841.36 | 781.20 | 60.16 8% | 182 |
| Est. Monthly Total (mil \$) | \$1.8 | \$0.1 | \$0.0 | \$0.0 | \$2.0 | \$0.2 | \$0.1 | \$0.1 | \$0.5 | \$1.1 | \$1.0 | \$0.1 | 3,780 |
| NovaSys HD PPO | | | | | | | | | | | | | |
| Employee Only | \$206.10 | \$24.21 | \$6.04 | \$11.20 | \$247.54 | \$57.97 | \$24.94 | \$18.53 | \$131.00 | \$15.10 | \$48.19 | (\$33.09) -69% | 1,855 |
| Employee & Spouse | 607.35 | 24.21 | 9.08 | 11.20 | 651.84 | 103.06 | 44.17 | 40.51 | 131.00 | 333.10 | 429.93 | (96.83) -23% | 154 |
| Employee & Child(ren) | 385.42 | 24.21 | 7.86 | 11.20 | 428.68 | 78.96 | 33.84 | 29.52 | 131.00 | 155.36 | 217.98 | (62.62) -29% | 241 |
| Family | 609.56 | 24.21 | 13.08 | 11.20 | 658.06 | 106.73 | 45.75 | 40.88 | 131.00 | 333.70 | 430.84 | (97.14) -23% | 293 |
| Est. Monthly Total (mil \$) | \$0.7 | \$0.1 | \$0.0 | \$0.0 | \$0.9 | \$0.2 | \$0.1 | \$0.1 | \$0.3 | \$0.2 | \$0.3 | -\$0.1 | 2,543 |
| Total (Monthly) (mil \$) | \$19.9 | \$1.6 | \$0.3 | \$0.5 | \$22.3 | \$2.9 | \$1.3 | \$1.0 | \$5.9 | \$11.2 | \$10.4 | \$0.8 | 44,851 |
| Est. Annual Total (mil \$) | \$238.3 | \$19.3 | \$3.6 | \$6.0 | \$267.3 | \$35.0 | \$15.0 | \$11.8 | \$70.5 | \$134.9 | \$124.9 | \$10.0 | |



Appendix A – PSE Retirees 2011 Final Rate Details

| Retirees | Medical | Prescription Drug | Corp Health | | Total Monthly Premium | Subsidy from Active Employees | Reserve Allocation | | | 2010 Total Cost | 2009 Total Cost | Change in Retiree Premiums (\$ / %) | Assumed Enrollment |
|------------------------------|----------|-------------------|-------------|--|-----------------------|-------------------------------|--------------------|--|--|-----------------|-----------------|-------------------------------------|--------------------|
| Non-Medicare Eligible | | | | | | | | | | | | | |
| Retiree Only | \$413.54 | \$37.84 | \$6.04 | | \$457.42 | \$0.00 | | | | \$457.42 | \$527.62 | (\$70.20) -13% | 1,818 |
| Retiree & NME SP | 1,105.09 | 37.84 | 9.08 | | 1,152.01 | 0.00 | | | | 1,152.01 | 1,213.72 | (\$61.71) -5% | 204 |
| Retiree & Child(ren) | 722.58 | 37.84 | 7.86 | | 768.28 | 0.00 | | | | 768.28 | 939.28 | (\$171.00) -18% | 11 |
| Retiree & NME SP&CH | 1,108.90 | 37.84 | 13.08 | | 1,159.82 | 0.00 | | | | 1,159.82 | 1,900.80 | (\$740.98) -39% | 2 |
| Retiree & ME SP | 552.96 | 37.84 | 6.04 | | 596.82 | 0.00 | | | | 596.82 | 609.70 | (\$12.88) -2% | - |
| Retiree & ME SP & CH | 862.01 | 37.84 | 7.86 | | 907.71 | 0.00 | | | | 907.71 | 1,004.01 | (\$96.30) -10% | - |
| Est. Monthly Total (mil \$) | \$1.0 | \$0.1 | \$0.0 | | \$1.1 | \$0.0 | | | | \$1.1 | \$1.2 | -\$0.1 | 2,035 |
| Medicare Eligible | | | | | | | | | | | | | |
| Retiree Only | \$134.75 | \$15.41 | Not Offered | | \$150.16 | \$108.72 | | | | \$41.44 | \$41.44 | \$0.00 0% | 4,739 |
| Retiree & NME SP | 552.96 | 15.41 | Not Offered | | 568.37 | - | | | | 568.37 | 674.34 | (\$105.97) -16% | 136 |
| Retiree & Child(ren) | 443.79 | 15.41 | Not Offered | | 459.20 | 38.03 | | | | 421.17 | 421.17 | \$0.00 0% | 12 |
| Retiree & NME SP&CH | 862.01 | 15.41 | Not Offered | | 877.42 | - | | | | 877.42 | 1,054.07 | (\$176.65) -17% | 3 |
| Retiree & ME SP | 269.50 | 15.41 | Not Offered | | 284.91 | 114.32 | | | | 170.59 | 170.59 | \$0.00 0% | 440 |
| Retiree & ME SP & CH | 578.55 | 15.41 | Not Offered | | 593.96 | 43.64 | | | | 550.32 | 550.32 | \$0.00 0% | 2 |
| Est. Monthly Total (mil \$) | \$0.8 | \$0.1 | \$0.0 | | \$0.9 | \$0.6 | | | | \$0.4 | \$0.4 | \$0.0 | 5,332 |
| Total (Est. Monthly) | \$1.8 | \$0.2 | \$0.0 | | \$2.0 | \$0.6 | | | | \$1.4 | \$1.6 | (\$0.2) | 7,367 |
| Est. Annual Total (mil \$) | \$21.9 | \$1.9 | \$0.2 | | \$24.0 | \$6.8 | | | | \$17.2 | \$19.1 | -\$1.9 | |



Appendix A – ASE Actives 2011 Final Rate Details

| Actives | Medical and Pharmacy | Expenses | Corp Health | Total Monthly Premium | State Contributions | Reserve Allocation | 2011 EE Total Cost | 2010 EE Total Cost | Change in Premiums (\$ / %) | Assumed Enrollment |
|-----------------------------|----------------------|----------|-------------|-----------------------|---------------------|--------------------|--------------------|--------------------|-----------------------------|--------------------|
| Health Advantage | | | | | | | | | | |
| Employee Only | \$359.09 | \$36.47 | \$6.00 | \$401.56 | \$305.78 | \$0.00 | \$95.78 | \$95.78 | \$0.00 0% | 14,614 |
| Employee & Spouse | 912.33 | 36.47 | 12.00 | 960.80 | 593.06 | 0.00 | 367.74 | 367.74 | 0.00 0% | 3,563 |
| Employee & Child(ren) | 556.69 | 36.47 | 9.60 | 602.76 | 409.12 | 0.00 | 193.64 | 193.64 | 0.00 0% | 4,217 |
| Family | 1,011.13 | 36.47 | 19.80 | 1,067.40 | 647.78 | 0.00 | 419.62 | 419.62 | 0.00 0% | 3,134 |
| Est. Monthly Total (\$ mil) | \$14.0 | \$0.9 | \$0.2 | \$15.2 | \$10.3 | \$0.0 | \$4.8 | \$4.8 | \$0.0 | 25,528 |
| NovaSys | | | | | | | | | | |
| Employee Only | \$399.13 | \$22.84 | \$6.00 | \$427.97 | \$305.78 | \$0.00 | \$122.19 | \$96.36 | \$25.83 27% | 756 |
| Employee & Spouse | 991.81 | 22.84 | 12.00 | 1,026.65 | 593.06 | 0.00 | 433.59 | 369.18 | 64.41 17% | 141 |
| Employee & Child(ren) | 610.82 | 22.84 | 9.60 | 643.26 | 409.12 | 0.00 | 234.14 | 194.54 | 39.60 20% | 209 |
| Family | 1,097.65 | 22.84 | 19.80 | 1,140.29 | 647.78 | 0.00 | 492.50 | 421.22 | 71.28 17% | 121 |
| Est. Monthly Total (\$ mil) | \$0.7 | \$0.0 | \$0.0 | \$0.7 | \$0.5 | \$0.0 | \$0.3 | \$0.2 | \$0.0 | 1,227 |
| NovaSys HD PPO | | | | | | | | | | |
| Employee Only | \$284.10 | \$22.84 | \$6.00 | \$312.94 | \$305.78 | \$0.00 | \$7.16 | \$20.60 | (\$13.44) -65% | 578 |
| Employee & Spouse | 712.24 | 22.84 | 12.00 | 747.08 | 593.06 | 0.00 | 154.02 | 187.34 | (33.32) -18% | 127 |
| Employee & Child(ren) | 437.01 | 22.84 | 9.60 | 469.45 | 409.12 | 0.00 | 60.33 | 80.86 | (20.53) -25% | 103 |
| Family | 788.69 | 22.84 | 19.80 | 831.33 | 647.78 | 0.00 | 183.54 | 220.42 | (36.88) -17% | 120 |
| Est. Monthly Total (\$ mil) | \$0.4 | \$0.0 | \$0.0 | \$0.4 | \$0.4 | \$0.0 | \$0.1 | \$0.1 | (\$0.0) | 928 |
| Total (Monthly) (\$ mil) | \$15.1 | \$1.0 | \$0.3 | \$16.3 | \$11.2 | \$0.0 | \$5.2 | \$5.1 | \$0.0 | 27,683 |
| Est Annual Total (\$ mil) | \$181.3 | \$11.8 | \$3.0 | \$196.1 | \$134.3 | \$0.0 | \$61.9 | \$61.5 | \$0.3 | |



Appendix A – ASE Retirees 2011 Final Rate Details

| Retirees | Medical and Pharmacy Expenses | Corp Health | Total Monthly Premium | State Contributions | Reserve Allocation | 2011 Ret. Total Cost | 2010 Ret. Total Cost | Change in Premiums (\$ / %) | Assumed Enrollment | |
|------------------------------|-------------------------------|-------------|-----------------------|---------------------|--------------------|----------------------|----------------------|-----------------------------|--------------------|-------|
| Non-Medicare Eligible | | | | | | | | | | |
| Retiree Only | \$359.09 | \$36.47 | \$6.00 | \$401.56 | \$165.82 | \$0.00 | \$235.74 | \$235.74 | \$0.00 0% | 1,360 |
| Retiree & NME SP | 912.33 | 36.47 | 12.00 | 960.80 | 384.92 | 0.00 | 575.88 | 575.88 | 0.00 0% | 488 |
| Retiree & Child(ren) | 556.69 | 36.47 | 9.60 | 602.76 | 162.92 | 0.00 | 439.84 | 439.84 | 0.00 0% | 57 |
| Retiree & NME SP&CH | 1,011.13 | 36.47 | 19.80 | 1,067.40 | 150.68 | 0.00 | 916.72 | 916.72 | 0.00 0% | 33 |
| Retiree & ME SP | 696.35 | 36.47 | 6.00 | 738.82 | 337.28 | 0.00 | 401.54 | 401.54 | 0.00 0% | - |
| Retiree & ME SP & CH | 893.94 | 36.47 | 9.60 | 940.01 | 333.24 | 0.00 | 606.77 | 606.77 | 0.00 0% | - |
| Est. Monthly Total (\$ mil) | \$1.0 | \$0.1 | \$0.0 | \$1.1 | \$0.4 | \$0.0 | \$0.7 | \$0.7 | \$0.0 | 1,938 |
| Medicare Eligible | | | | | | | | | | |
| Retiree Only | \$332.33 | \$15.41 | Not Offered | \$347.74 | \$230.62 | \$0.00 | \$117.12 | \$117.12 | \$0.00 0% | 4,641 |
| Retiree & NME SP | 696.35 | 15.41 | Not Offered | 711.76 | 265.04 | 0.00 | 446.72 | 446.72 | 0.00 0% | 533 |
| Retiree & Child(ren) | 529.93 | 15.41 | Not Offered | 545.34 | 230.48 | 0.00 | 314.86 | 314.86 | 0.00 0% | 44 |
| Retiree & NME SP&CH | 893.94 | 15.41 | Not Offered | 909.35 | 264.87 | 0.00 | 644.48 | 644.48 | 0.00 0% | 27 |
| Retiree & ME SP | 664.67 | 15.41 | Not Offered | 680.08 | 401.59 | 0.00 | 278.49 | 278.49 | 0.00 0% | 1,785 |
| Retiree & ME SP & CH | 862.27 | 15.41 | Not Offered | 877.68 | 401.44 | 0.00 | 476.24 | 476.24 | 0.00 0% | 16 |
| Est. Monthly Total (\$ mil) | \$3.2 | \$0.1 | \$0.0 | \$3.3 | \$2.0 | \$0.0 | \$1.3 | \$1.3 | \$0.0 | 7,045 |
| Total (Est. Monthly) | \$4.2 | \$0.2 | \$0.0 | \$4.4 | \$2.4 | \$0.0 | \$2.0 | \$2.0 | \$0.0 | 8,983 |
| Total (Est. Annual) | \$49.9 | \$2.2 | \$0.2 | \$52.2 | \$28.6 | \$0.0 | \$23.7 | \$23.7 | \$0.0 | |

Appendix B - Benefit Options

| Benefit Option Name: | Gold | Silver (Tentative) | Bronze (Tentative) |
|--|---|---|---|
| Last Modified: | 1/1/2012 | 1/1/2012 | 1/1/2012 |
| Plan Coverage Relative Value: | 1.00 | 0.92 | 0.82 |
| Provider Network: | Health Advantage | TBD | TBD |
| <u>In-Network (INN) Benefits</u> | | | |
| Deductible (Individual / Family) | None / None | \$500 / \$1000 | \$1500 / \$3000 |
| Coinsurance | 20% | 20% | 20% |
| Copays | | | |
| Office Visit (OV)-Primary Care (PCP) | \$25 | \$35 | Ded. & Coins. |
| OV - Specialist Care Provider (SCP) | \$35 | \$50 | Ded. & Coins. |
| Urgent Care (UC) | \$100 | \$150 | Ded. & Coins. |
| Hospital Emergency Room (ER) Non-admitted | \$100 | \$150 | Ded. & Coins. |
| Outpatient Surgery | \$100 then Ded. & Coins. | \$100 then Ded. & Coins. | Ded. & Coins. |
| Hospital Inpatient | \$250 then Ded. & Coins. | \$250 then Ded. & Coins. | Ded. & Coins. |
| Out-of-Pocket Max (Individual / Family) | \$1500 / \$3000 | \$2000 / \$4000 | \$2500 / \$5000 |
| <u>Out-of-Network (OON) Benefits ¹</u> | | | |
| Deductible (Individual / Family) | \$1000 / \$2000 | \$1000 / \$2000 | \$3000 / \$6000 |
| Coinsurance | 40% | 40% | 40% |
| Out-of-Pocket (OOP) Max (Individual / Family) | \$5000 / \$10000 | \$5000 / \$10000 | \$5000 / \$10000 |
| Annual Maximum INN / OON | Unlimited / \$1,000,000 | Unlimited / \$1,000,000 | Unlimited / \$1,000,000 |
| <u>Prescription Drugs</u> | | | |
| Separate Deductible then the following Copays: | | | |
| Retail (30 Days) - Generic/Formulary /Non-Form. | \$10 / \$30 / \$60 | \$15 / \$35 / \$70 | Ded. & Coins. |
| Mail Order (90 Days) - Generic/Form. /Non-Form. | \$10 / \$30 | \$15 / \$35 | Ded. & Coins. |
| <u>Selected Detail Benefits</u> | | | |
| Mental Health (MH) / Substance Abuse (SA): | IP: \$250 then Ded & Coins; OP: Ded & Coins | IP: \$250 then Ded & Coins; OP: Ded & Coins | Ded. & Coins. |
| Psychiatry | INN: \$25 Copay; OON: Ded & Coins. | INN: \$35 Copay; OON: Ded & Coins. | Ded. & Coins. |
| Rehabilitation (i.e., speech, occup. physical): | Ded & Coins. | Ded & Coins. | Ded. & Coins. |
| Chiropractors: | \$35 then Ded & Coins | \$35 then Ded & Coins | Ded. & Coins. |
| Hearing Aids: | No Cost; Limit of \$1400 per ear every 3 years | No Cost; Limit of \$1400 per ear every 3 years | Ded. & Coins. |
| Preventive Care: | INN: No Cost; OON: Coins. except immun. no cost | INN: No Cost; OON: Coins. except immun. no cost | INN: No Cost; OON: Coins. except immun. no cost |



Appendix B - Benefit Options (Cont.)

| | | | |
|---|---|------------------------|------------------------|
| Medical Management | | | |
| PCP referral to specialists required: | No | No | No |
| Inpatient: | Health Advantage (HA) - Patient Responsible | TBD | TBD |
| Outpatient: | Selected | Selected | Selected |
| Case Management: | Yes | Yes | Yes |
| Disease Management: | Yes, select conditions | Yes, select conditions | Yes, select conditions |
| Wellness | Yes | Yes | Yes |
| Nurse-Line / Informed Decision Support: | Yes | Yes | Yes |
| Medicare Integration: | | | |
| Coordination of Benefits | Yes, same as NME | Not Available | Not Available |
| Non- Medicare Benefits Covered: | Non-Par & Non-Accepting | | |
| Non- Medicare Providers Covered: | Non-Par & Non-Accepting | | |
| Pharmacy Covered: | | | |
| Vision Care Services | | | |
| Exam every 24 months - INN | \$35 Copay | \$35 Copay | \$35 Copay |
| Flexible Spending Account Offered: | | | |
| | Yes | Yes | Yes |
| Health Savings Account Offered: | | | |
| | No | No | Yes |
| Life Insurance (ASE Only) | | | |
| Prior to Age 65 | \$10,000 | \$10,000 | \$10,000 |
| From Age 65 to Age 69 | \$5,000 | \$5,000 | \$5,000 |
| From Age 70 on | \$4,000 | \$4,000 | \$4,000 |

¹When an in-network provider is not available within 50 miles for a hospital and 25 miles for all other providers, then in-network



Appendix C

Assumptions & Methods

Total Rate Projection Methodology:

The H-Scan model methodology includes several options when projecting rates. First, choose a period for the per person per month (PPM) experience period. These claims are trended to the projection period, starting from 1/1/2012 using the trend factors below (or those input by the user of H-scan). Next, decide which groups to combine for rating. This includes the options of whether or not to blend ASE and PSE, Actives and Non-Medicare Eligible (NME) Retirees, and NovaSys and NovaSys HD. Once the rating groups are set, decide on the appropriate tiering factors, primarily deciding whether or not to use the current tiering factors. The resulting rates will reflect the decisions displayed in the Rating Options. For expenses, we relied on actual and expected vendor fees plus estimated EBD expenses.

Total Rate Projection Assumptions:

Population Projection: As shown in the detailed financials

Investment return*: 0%

| ASE / PSE Annual Trend*: | Medical | Behavioral Health | Pharmacy | Life | Expenses |
|--------------------------|---------|-------------------|----------|-------|----------|
| non-Medicare: | 7.50% | 0.00% | 5.00% | 0.00% | 0.00% |
| Medicare: | 7.00% | 0.00% | 5.00% | 0.00% | 0.00% |

* Unless otherwise shown in the screen capture. Please see additional analyses on following page.

ASE / PSE Benefit Ratio: As Shown on Rating Worksheet

ASE / PSE Change in Geo Factors: As Shown on Rating Worksheet

ASE / PSE Change in Demo Factors: As Shown on Rating Worksheet

ASE / PSE Change in Network: As Shown on Rating Worksheet

| Expenses: | Per Subscriber Per Month | Actives | Actives | Actives | Retirees | Retirees | EBD* | Rx |
|-----------|--------------------------|-----------------|----------------|-----------|--------------|----------|---------|--------|
| | | Health Adv/Gold | NovaSys/Silver | HD/Bronze | Non-Medicare | Medicare | | |
| | ASE 2010 | \$27.13 | \$13.90 | \$13.90 | \$20.74 | \$15.41 | \$8.34 | \$1.15 |
| | ASE 2011 | \$27.53 | \$13.90 | \$13.90 | \$20.74 | \$15.41 | \$7.80 | \$1.15 |
| | ASE 2012 | \$27.04 | \$24.34 | \$21.90 | \$29.70 | \$29.70 | \$16.72 | \$2.50 |
| | PSE 2010 | \$27.13 | \$13.90 | \$13.90 | \$20.74 | \$15.41 | \$6.21 | \$0.91 |
| | PSE 2011 | \$27.53 | \$13.90 | \$13.90 | \$20.74 | \$15.41 | \$9.26 | \$1.45 |
| | PSE 2012 | \$27.04 | \$24.34 | \$21.90 | \$27.04 | \$27.04 | \$8.18 | \$2.30 |

* Assumed to include UAM expenses (both Rx and Medical), EAP, weight management, smoking cessation, and Integrail cost. This applies to Actives for 2010, and for Actives & NME retirees thereafter.

Rx Rebates: None Assumed

Part D Subsidy: The Part D Subsidy is assumed to be approximately 15.5% of Incurred Rx Claims

Seasonality: We have not used seasonality factors, instead we are requiring that the base and projected period be for an annual period.



Appendix C

Assumptions & Methods (Cont.)

Used for Incurred Claims Development:

Method: We calculated the Paid-to-Date claims by network provider and major rate structure (Actives, Non-Medicare Retirees v. Medicare Retirees) by using the claims triangles for Health Advantage and the individual claims and eligibility databases for NovaSys and InformedRx. To determine the relationship and family tiers, we link each claim to the eligibility database. Also, we use the Plan ID in the eligibility data for each month to determine whether a member should be considered as part of the Active, Non-Medicare Retiree or Medicare Retiree Plan. Finally, we applied the below completion factors to the Paid-to-Date claims to calculate the Incurred claims.

ASE / PSE Paid-to-Date Claims:

Health Advantage: Service dates from January 1, 2010 to December 31, 2010 and process dates from January 1, 2009 to February 28, 2011.
 NovaSys: Service dates from January 1, 2010 to February 28, 2011 and process dates from January 1, 2009 to February 28, 2011.
 Pharmacy: Service dates from January 1, 2010 to February 28, 2011 and process dates from January 1, 2009 to February 28, 2011.

ASE / PSE Completion Factors:

Health Advantage: We used the data from lag reports with service dates from January 1, 2008 to February 28, 2011 and process dates from January 1, 2008 to February 28, 2011 to develop the completion factors.
 NovaSys: We used the individual claims database with service dates from January 1, 2008 to February 28, 2011 and process dates from January 1, 2008 to February 28, 2011 to develop the completion factors. We aggregated the data by network provider and major rate structure (Actives, Non-Medicare Retirees v. Medicare Retirees)
 Pharmacy: We used the individual claims database with service dates from January 1, 2008 to February 28, 2011 and process dates from January 1, 2008 to February 28, 2011 to develop the completion factors. We aggregated the data by network provider and major rate structure (Actives, Non-Medicare Retirees v. Medicare Retirees)

| ASE | | <u>Health Advantage</u> | <u>NovaSys</u> | <u>HD PPO</u> | <u>Pharmacy</u> | <u>ARHealth Non-</u> | <u>Pharmacy Non-</u> | <u>ARHealth Medicare</u> | <u>Pharmacy</u> |
|-----|--------------|-------------------------|----------------|---------------|-----------------|--------------------------|--------------------------|--------------------------|--------------------------|
| | | | | | | <u>Medicare Retirees</u> | <u>Medicare Retirees</u> | <u>Retirees</u> | <u>Medicare Retirees</u> |
| | January-10 | 0.999 | 0.994 | 0.978 | 1.000 | 1.000 | 1.000 | 0.997 | 1.000 |
| | February-10 | 0.999 | 0.992 | 0.977 | 1.000 | 0.999 | 1.000 | 0.996 | 1.000 |
| | March-10 | 0.998 | 0.991 | 0.973 | 1.000 | 0.998 | 0.999 | 0.996 | 1.000 |
| | April-10 | 0.998 | 0.990 | 0.973 | 1.000 | 0.998 | 0.999 | 0.995 | 1.000 |
| | May-10 | 0.996 | 0.988 | 0.969 | 1.000 | 0.997 | 0.998 | 0.993 | 1.000 |
| | June-10 | 0.995 | 0.984 | 0.967 | 1.000 | 0.997 | 0.997 | 0.990 | 1.000 |
| | July-10 | 0.995 | 0.982 | 0.963 | 1.000 | 0.986 | 0.996 | 0.988 | 1.000 |
| | August-10 | 0.993 | 0.976 | 0.951 | 0.999 | 0.986 | 0.996 | 0.984 | 0.999 |
| | September-10 | 0.988 | 0.967 | 0.920 | 0.999 | 0.980 | 0.995 | 0.972 | 0.999 |
| | October-10 | 0.978 | 0.956 | 0.898 | 0.999 | 0.972 | 0.994 | 0.962 | 0.999 |
| | November-10 | 0.946 | 0.906 | 0.854 | 0.999 | 0.959 | 0.993 | 0.941 | 0.998 |
| | December-10 | 0.896 | 0.865 | 0.821 | 0.999 | 0.912 | 0.992 | 0.894 | 0.998 |
| | January-11 | 0.755 | 0.686 | 0.658 | 0.999 | 0.763 | 0.991 | 0.661 | 0.997 |
| | February-11 | 0.252 | 0.191 | 0.162 | 0.999 | 0.237 | 0.991 | 0.048 | 0.997 |

| PSE | | <u>Health Advantage</u> | <u>NovaSys</u> | <u>HD PPO</u> | <u>Pharmacy</u> | <u>ARHealth Non-</u> | <u>Pharmacy Non-</u> | <u>ARHealth Medicare</u> | <u>Pharmacy</u> |
|-----|--------------|-------------------------|----------------|---------------|-----------------|--------------------------|--------------------------|--------------------------|--------------------------|
| | | | | | | <u>Medicare Retirees</u> | <u>Medicare Retirees</u> | <u>Retirees</u> | <u>Medicare Retirees</u> |
| | January-10 | 0.998 | 0.999 | 0.994 | 1.000 | 0.996 | 1.000 | 0.999 | 1.000 |
| | February-10 | 0.998 | 0.999 | 0.994 | 1.000 | 0.995 | 1.000 | 0.998 | 1.000 |
| | March-10 | 0.998 | 0.997 | 0.992 | 1.000 | 0.995 | 1.000 | 0.984 | 1.000 |
| | April-10 | 0.997 | 0.996 | 0.992 | 1.000 | 0.991 | 1.000 | 0.982 | 1.000 |
| | May-10 | 0.996 | 0.995 | 0.991 | 1.000 | 0.990 | 1.000 | 0.981 | 1.000 |
| | June-10 | 0.993 | 0.993 | 0.989 | 1.000 | 0.989 | 1.000 | 0.979 | 1.000 |
| | July-10 | 0.992 | 0.992 | 0.986 | 1.000 | 0.985 | 1.000 | 0.972 | 1.000 |
| | August-10 | 0.990 | 0.988 | 0.978 | 1.000 | 0.982 | 1.000 | 0.967 | 1.000 |
| | September-10 | 0.984 | 0.984 | 0.965 | 0.999 | 0.970 | 1.000 | 0.959 | 1.000 |
| | October-10 | 0.972 | 0.977 | 0.919 | 0.999 | 0.955 | 1.000 | 0.949 | 1.000 |
| | November-10 | 0.951 | 0.964 | 0.893 | 0.999 | 0.940 | 1.000 | 0.928 | 1.000 |
| | December-10 | 0.889 | 0.928 | 0.811 | 0.999 | 0.894 | 1.000 | 0.882 | 1.000 |
| | January-11 | 0.743 | 0.774 | 0.645 | 0.999 | 0.745 | 1.000 | 0.670 | 1.000 |
| | February-11 | 0.244 | 0.228 | 0.166 | 0.999 | 0.250 | 1.000 | 0.049 | 1.000 |

Note that Life and Behavioral health are insured. Therefore, no completion factors are needed. Actual premium was used and trended.



Appendix C

Assumptions & Methods (Cont.)

Rating Tier Methodology:

To develop the rates by family status, we take the prior approved rating tier factors and multiply them by a factor to adjust for the current enrollment selection for each of the major groupings: Active - Health Advantage, Actives: NovaSys, Actives - HD PPO, Non-Medicare Retirees, and Medicare Retirees. We further adjusted the mixed split with a Medicare and Non-Medicare covered adult to be the same.

Allocation of Rate Methodology:

Once the total rates are developed, we split the contributions to cover the rates first by removing the costs that have already been legislated to be covered from reserves. We then allow the user to select the methodology for allocating the remainder of the rates. The total actual cost may be somewhat impacted by the desired allocation as participant selection of Plan option and coverage could be impacted.

Rate Allocation Assumptions:

| | <u>Actives</u> | <u>Retirees</u> | | |
|---|----------------|-----------------|---|-------|
| Previously adopted reserves allocations: | | | | |
| ASE / PSE 2010: | \$0.00 | \$0.00 | | |
| ASE / PSE 2011: | \$0.00 | \$0.00 | | |
| ASE / PSE 2012: | \$0.00 | \$0.00 | | |
| <u>ASE</u> | | | | |
| State Contribution per Budget Position per Month: | \$390 | | <u>PSE</u> | |
| Interest Income: | \$0 | | District Contribution per Enrolled per Month: | \$131 |
| | | | Additional State Contributions (in Millions): | \$50 |
| | | | Interest Income: | \$0 |

* Unless otherwise shown in the screen capture.

Standard Statements:

Reliance Statement: In preparing our report, we relied without audit, on information (some oral and some written) supplied by the Employee Benefits Division and the Plan's vendors. This information includes, but is not limited to, the plan provisions, employee data, and financial information.

Results presented in this presentation are preliminary and should not be used for final rates.

Our Definition of a Specialty Medication

- »» A subset of drugs that have some or all of the following characteristics:
 - Self injectable medications
 - Expensive with high medical cost potential
 - Produced through biotechnology mechanism
 - Associated with complex clinical management
 - Require close patient monitoring including REMS program compliance
 - Distributed through restricted pharmacy network
 - Require special handling – like refrigeration

Primer on Specialty Pharmacy



PHARMACY BENEFIT MANAGEMENT INSTITUTE, LP

What is Specialty Pharmacy?

Specialty pharmacy medications are high-cost injectable, infusible, and oral drugs used to treat complex, chronic or life-threatening conditions. Some of these drugs can decrease or reverse the progression of disease in a way never before possible. Conditions now managed with specialty drugs include blood disorders, cancer, growth hormone deficiency, hepatitis, multiple sclerosis, rheumatoid arthritis, and other autoimmune disorders.

Specialty medications typically have a targeted treatment focus and may require patient-specific dosing. The method of administration is a common way of classifying specialty drugs as shown in Figure 1. Special transportation and storage often are required for refrigeration and timely delivery. Infusible drugs must be administered by physicians or other medical professionals. Injectables can be administered by clinicians or by patients who have been trained to self-inject. Monitoring for adherence, case management, and patient education are critical, as indicated in Table 1. Periodic lab work and diagnostic testing are necessary to monitor patient response to therapy and potentially serious side effects. Because of the complex manufacturing, handling and administration, specialty drugs are costly – usually more than \$1,300 for a 30-day supply.

Figure 1: Classifying Specialty Drugs

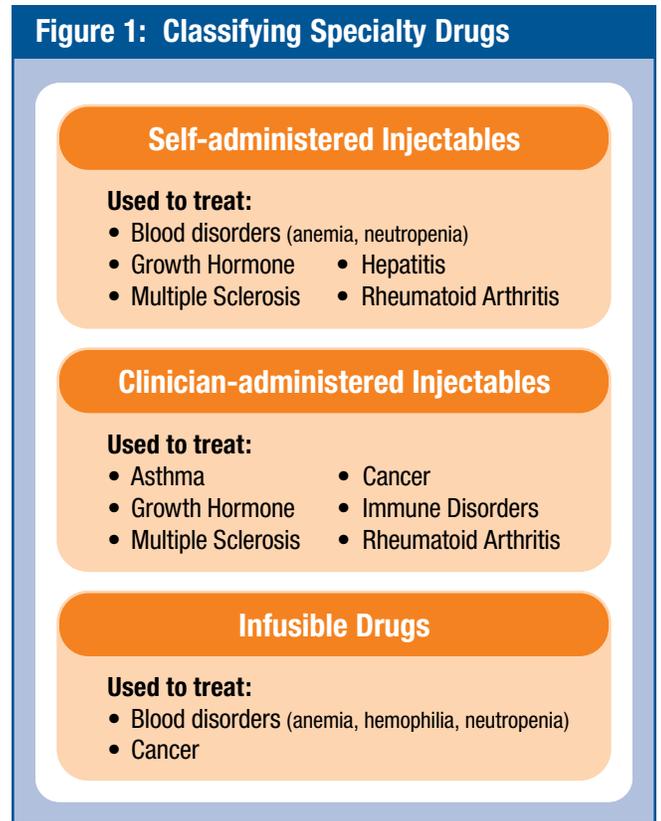


Table 1: Comparing Traditional Oral Medications to Specialty Drug Therapy

| | Traditional Oral Therapy | Specialty Drug Therapy |
|--|--|---|
| Level of Patient Effort Required for Compliance | Low to medium | High |
| Impact of Failure to Comply with Therapy | May lead to adverse outcomes and increased health care costs over time | May lead to adverse outcomes including premature mortality and increased health care costs more quickly |
| Side Effect Profile | Fewer and less severe | More frequent and typically serious |
| Patient Education | Less education needed about use and storage of drugs | Significant education needed about use and storage of drugs |
| Case Management | Rarely needed. Physician oversight sufficient | Typically requires ongoing case management |

Major Driver of Drug Trend

In 1990, there were ten specialty drugs on the market. In 2000, there were 92.¹ Today, there are more than 250.² Annual costs per patient for these specialty medications can range from \$6,000 to \$400,000, which is significantly greater than the per patient cost of conventional medications.

Although specialty drugs account for a relatively small percentage of total prescription volume, they represent a significant component of pharmacy spending and a major driver of spending growth. In the *EMD Serono Injectables Digest™ 5th Edition*, commercial health plans reported a 14% increase in spending from 2007 to 2008 for specialty drugs covered under the pharmacy benefit.³ PBMs report similar double-digit specialty drug cost trends for their clients. In contrast, PBMs and employers report overall drug spending increases in the low single digits.

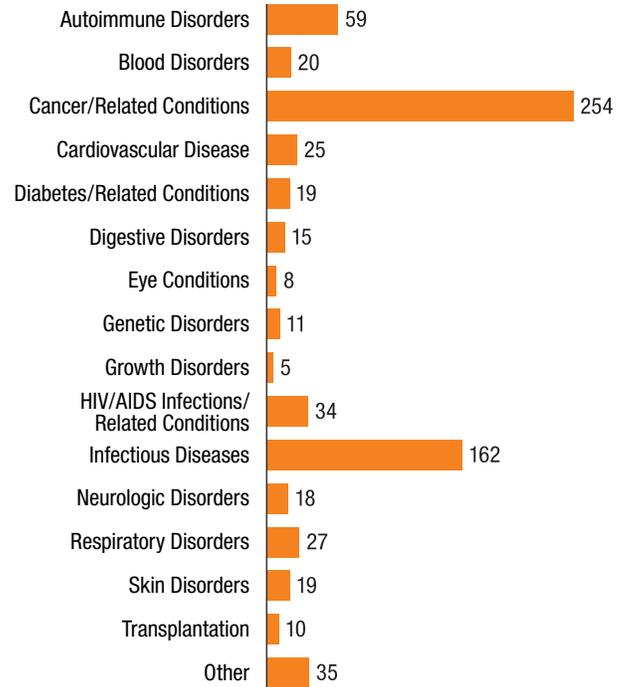
Trend figures for specialty drugs purchased through the pharmacy benefit tell only part of the story. An estimated 40% to 70% of specialty drugs are purchased under the medical benefit where drug costs are more difficult to track.

Factors driving the increase in specialty drug spend are:

- Price increases for existing specialty drugs
- Introduction of new specialty medications
- FDA approval to use existing specialty drugs for additional indications
- Increased utilization of existing specialty medications, partly from initiating therapy earlier in the disease treatment cycle

Specialty medications continue to dominate the new product development pipeline. There are 633 biotechnology products in development for more than 100 diseases according to a 2008 Pharmaceutical Research and Manufacturers of America (PhRMA) report.⁴ This is a 51% increase from 2006 when PhRMA reported 418 biotech products in development.⁵

Figure 2: Biotechnology Medications in Development by Therapeutic Category*



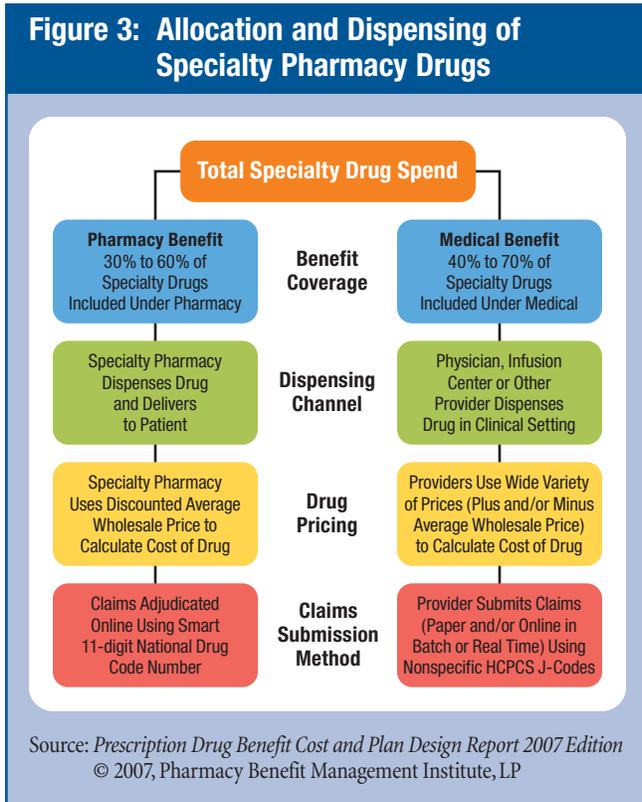
* Some medications are listed in more than one category.

Strategies for Managing Specialty Pharmacy

Enormous increases in availability and use, coupled with drug cost inflation, have made specialty drugs the fastest growing component of the prescription drug spend. Yet, when these expensive therapies are used appropriately, they can significantly improve employee health, prevent costly medical claims, and increase productivity.

Strategies used to manage traditional oral medications can be applied successfully to control specialty drug expenditures and maximize the value of these therapies. Specialty pharmacy does pose additional challenges. Unlike traditional oral pharmaceuticals, specialty drugs are dispensed, adjudicated and reimbursed through the medical benefit as well as the pharmacy benefit, as shown in Figure 3.

Figure 3: Allocation and Dispensing of Specialty Pharmacy Drugs



To get the right drug in the right amount at the right time to the patient in the most cost-effective manner, the following overall strategies apply:

- Optimize cost management
- Ensure appropriate use
- Establish reasonable member cost share
- Improve clinical management

Cost Management

Cost management strategies focus on getting the best drug prices and using the most cost-effective distribution channel consistent with patient care requirements.

Analyze Medical, Pharmacy Claims

Many payers don't realize how much they're spending for specialty drugs because much is hidden in the medical benefit. For a total picture of expenditures, payers need to work with their pharmacy benefit managers (PBMs) and medical providers to analyze both pharmacy and medical claims. The analysis should identify top therapeutic classes by cost and utilization.

Pharmacy claims are adjudicated online using National Drug Codes (NDCs) that provide detailed information on dispensed drugs. As a result, reports on drug utilization and costs are readily available. On the medical side, providers submit claims using nonspecific Healthcare Common Procedure Coding System (HCPCS) J-codes without detailed drug information. J-codes must be mined for billing of specialty drugs and converted to corresponding NDCs through a J-code crosswalk. If J-code data are not available or too expensive to obtain, predictive modeling can provide a picture of what the payer may be spending for specialty drugs under the medical benefit. These baseline data and continued tracking are essential to effective cost management.

Negotiate Product-specific Pricing

Payers should negotiate pricing for specialty drugs through a specialty pharmacy provider (SPP) or PBM to take advantage of volume discounts. Negotiating discounts on a per-drug basis instead of agreeing to global discounts or blended rates will yield the best pricing. Reimbursement for specialty drugs covered under the pharmacy benefit is typically based on the price negotiated through the SPP or PBM as a percentage discount off Average Wholesale Price (AWP) plus a negotiated dispensing fee. Payers also should negotiate the ability to share in manufacturer rebates received by SPPs and PBMs for specialty pharmaceuticals.

Discourage "Buy and Bill"

Specialty drugs administered by physicians under the medical benefit are typically reimbursed through a process known as "buy and bill." Physician offices individually purchase drugs from the manufacturer or wholesaler at a percentage off of AWP (not a volume discount). When the drug is administered, the physician bills the payer for reimbursement of the drug cost plus a markup to cover administration and patient monitoring. The markup varies widely and may be significantly higher than the physician's acquisition cost. "Buy and bill" provides an attractive revenue stream for physicians, but is not cost-effective for payers.

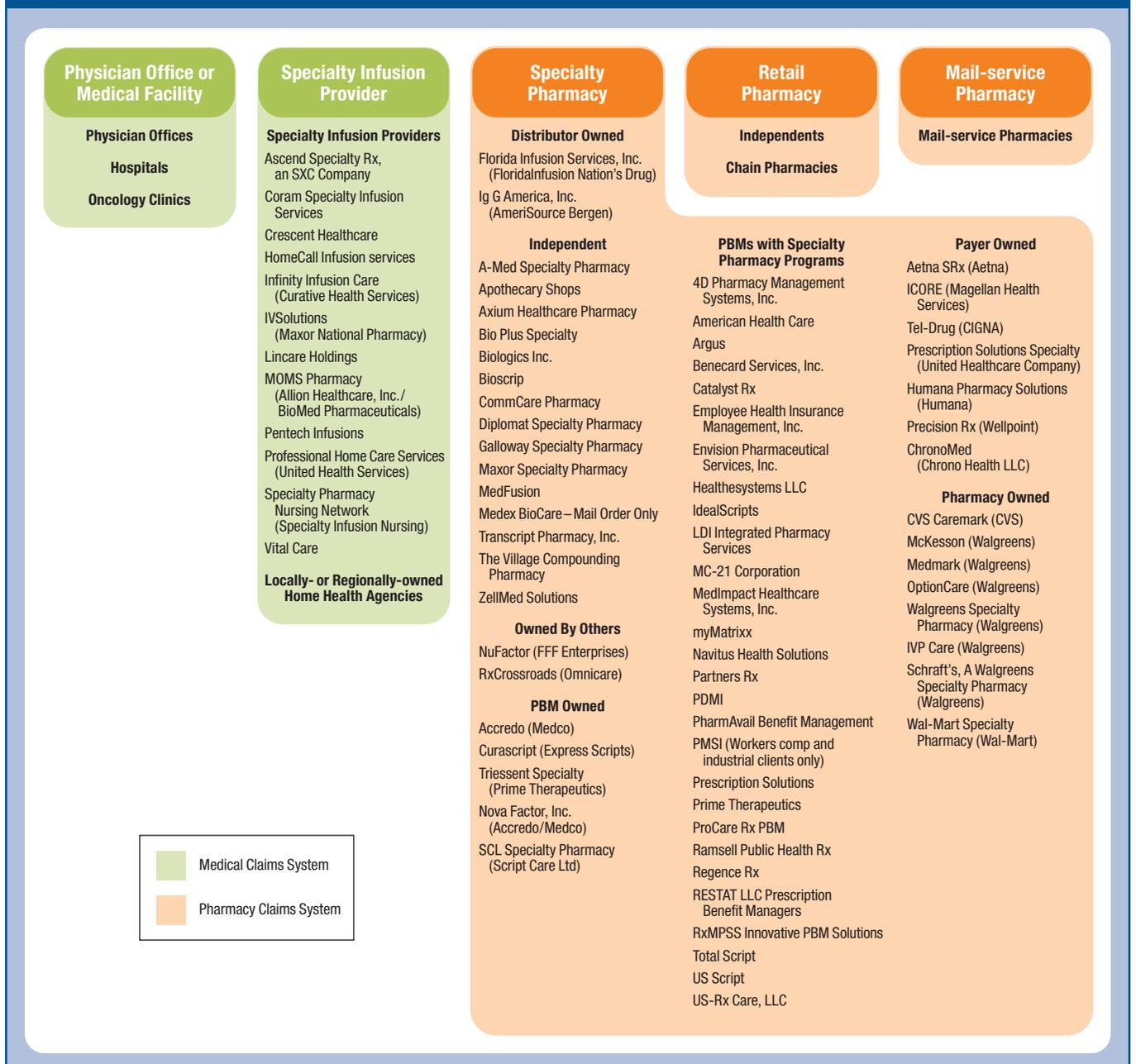
Health plans are changing their strategies to control costs for physician-supplied drugs. Some have negotiated with medical providers to separate the cost of medication from administration and monitoring fees. The health plan acquires the specialty products instead of the physician and arranges through an SPP to drop ship drugs to the physician's office on a "just-in-time"

basis. Many plans are following the lead of the Centers for Medicare and Medicaid Services (CMS) and recontracting with physicians to reimburse for specialty drugs using Average Sales Price (ASP) instead of AWP. Payers should be asking their medical carriers if they are implementing these or other measures to discourage the “buy and bill” practice.

Use Optimal Dispensing Channel

The number of ways for patients to access specialty medications has increased dramatically, making distribution channel management a priority as detailed in Figure 4. Channel selection not only affects the cost of medications, it also impacts care management. Ensuring that patients use the optimal channel is critical to managing cost and return on investment in high-dollar specialty therapies.

Figure 4: Ways for Patients to Access Specialty Pharmacy Therapy



Drug administration requirements, benefit design, provider service availability, and manufacturers' distribution requirements can influence channel selection. Dispensing channels for infusible drugs are limited by the need to be administered by physicians or other qualified medical professionals. Infusible drugs can be administered at infusion centers, which may offer lower treatment costs than physician offices. However, the centers may not be available in all markets, limiting that distribution option. Benefit plan design dictates whether oral and injectable medications can be dispensed through retail, mail-order and/or specialty pharmacies. Some plan designs require these drugs to be dispensed through just one specialty pharmacy, unless the drug is not available to that pharmacy. Manufacturers sometimes limit distribution to selected specialty pharmacies.

Payers should be knowledgeable about the available distribution channels when deciding which drugs to cover under the pharmacy benefit and which to cover under the medical benefit. Many payers are moving self-administered oral and injectable drugs under the pharmacy benefit where they cost less and can be tracked easily. Under the drug benefit, plan designs should encourage or require patients to obtain these oral and injectable medications through specialty pharmacies qualified to provide special handling and patient education. Not all retail pharmacies are equipped to handle the refrigeration, compounding and patient counseling often required with specialty products.

Payers are beginning to contract with a preferred SPP or SPPs to help facilitate the distribution of drugs through different channels. In addition to dispensing onsite, SPPs can deliver medications to patient homes, physician offices and infusion centers. They also can manage billing and reimbursement under the pharmacy and medical benefits. (See Choosing a Specialty Pharmacy Provider on page 9.)

Utilization Management

Utilization management strategies focus on the use of benefit design to optimize prescribing patterns, ensure affordability and use of the most appropriate drug, and prevent waste.

Employ Effective Clinical Tools

Payers should require prescriber use of evidence-based clinical guidelines to ensure appropriate use of specialty drugs and minimize the risk to patient safety. SPPs and PBMs provide technology-driven tools to help optimize the amount and type of medications prescribed for patients. Tools that should be implemented for specialty drugs adjudicated under the pharmacy benefit include prior authorization, quantity limits and, in some cases, step edits. Most are administered through the online, real-time drug claim adjudication systems. Prior authorization helps ensure that physicians follow evidence-based guidelines and minimizes off-label prescribing. Quantity limits help ensure proper dosing and prevent waste. Step therapy drives utilization to non-specialty first-line therapies before moving to preferred specialty products.

Establish Reasonable Member Cost Share

Member cost share for specialty drugs should reflect the increased cost of these therapies, without creating a barrier to access and adherence. Some payers are accomplishing this by expanding their benefit designs to include a specialty tier (usually a fourth tier) with fixed copayments or coinsurance coupled with minimum and maximum dollar amounts per script. With coinsurance, out-of-pocket maximums are especially important to ensure specialty therapies remain affordable for patients. Affordability impacts whether a patient refills the drug and persists with therapy. Figure 5 shows how member cost share for medication can escalate with coinsurance. Frequent and complete communication before and after implementing new cost and utilization management strategies is essential to minimize member disruption.

Figure 5: Implications of Specialty Drug Plan Design

| Specialty Drug | Estimated Cost/One Month Supply | Fixed Copayment | 25% Coinsurance One Month Supply | 35% Coinsurance One Month Supply | 50% Coinsurance One Month Supply |
|----------------------|---------------------------------|-----------------|----------------------------------|----------------------------------|----------------------------------|
| Hepatitis C | \$1,438.00 | \$50.00 | \$359.50 | \$503.30 | \$719.00 |
| Multiple Sclerosis | \$2,480.00 | \$50.00 | \$620.00 | \$868.00 | \$1,240.00 |
| Rheumatoid Arthritis | \$1,851.00 | \$50.00 | \$462.75 | \$647.85 | \$925.50 |

A detailed review of cost sharing data supplied by employers in PBM’s 2008 *Prescription Drug Benefit Cost and Plan Design Survey* indicates specialty cost share amounts still typically fall under the preferred or nonpreferred brand amounts in a three-tier plan design.⁶ Tables 2 and 3 show average copayments and coinsurance for specialty drugs in four-tier plan designs. Because of the small sample size for the four-tier plan designs, these figures should be used with caution.

Table 2: Four-tier Plan Designs with Dollar Copayments

| Drug Category | Average Copayment (Dollar Amount) |
|-------------------------------|-----------------------------------|
| Generics at Retail | \$10.50 |
| Generics at Mail | \$26.70 |
| Preferred at Retail | \$26.10 |
| Preferred at Mail | \$66.20 |
| Nonpreferred Brands at Retail | \$44.50 |
| Nonpreferred Brands at Mail | \$109.50 |
| Specialty at Retail | \$68.50 |
| Specialty at Mail | \$146.00 |

Source: *Prescription Drug Benefit Cost and Plan Design Report 2008-09 Edition* © 2008, Pharmacy Benefit Management Institute, LP

Table 3: Four-tier Plan Designs with Coinsurance

| Drug Category | Average Coinsurance Amount (Percentage) | Average Minimum (Dollar Amount) | Average Maximum (Dollar Amount) |
|-------------------------------|---|---------------------------------|---------------------------------|
| Generics at Retail | 17.5% | \$10.00 | \$75.00 |
| Generics at Mail | 17.5% | \$10.00 | \$200.00 |
| Preferred Brands at Retail | 32.5% | \$20.00 | \$75.00 |
| Preferred Brands at Mail | 32.5% | \$50.00 | \$200.00 |
| Nonpreferred Brands at Retail | 55.0% | \$40.00 | \$150.00 |
| Nonpreferred Brands at Mail | 55.0% | \$100.00 | \$400.00 |
| Specialty at Retail | 30.0% | \$20.00 | \$75.00 |
| Specialty at Mail | 30.0% | \$50.00 | \$137.50 |

Source: *Prescription Drug Benefit Cost and Plan Design Report 2008-09 Edition* © 2008, Pharmacy Benefit Management Institute, LP

Promote Preferred Products

There are enough specialty drugs now in various therapeutic classes to warrant preferred coverage to those that provide the best value. Some health plans already have selected preferred specialty products for their formularies, based on clinical and economic outcomes. PBMs are beginning to do so. When health plans have designated preferred products, they usually are in classes of drugs that treat growth hormone deficiency, multiple sclerosis, rheumatoid arthritis, anemia and Hepatitis C. There are challenges to selecting preferred specialty products, including a lack of data on comparative effectiveness and economic outcomes. Disease-based pharmacoeconomic models are being used to indicate how the cost of specialty therapies may be offset by reduced medical costs.

Both patients and payers benefit from an incented formulary that encourages the use of preferred specialty products. Payers who begin using incented formularies now will be better positioned to manage competing biosimilars when they become available. As of July 2009, there still is no regulatory process for review and approval of biogenerics, but change is on the horizon. There are two bills in Congress that would create a pathway for the U.S. Food and Drug Administration to approve biosimilar drugs that are highly similar in molecular structure to the brand-name specialty products. Similar bills have died in the previous Congress, but prospects may be better now.

Clinical Care Management

Clinical care management strategies focus on medication adherence and persistence, patient education, therapy management, and disease management.

Provide High-touch Patient Services

Specialty therapies require high-touch patient services. Adherence to prescribed medication regimens is critical, often with significant challenges. The side effects of specialty drugs can be severe and difficult to manage, often discouraging adherence and persistence. Additional medications may be needed to treat side effects. Managing specialty therapy, ambulatory or oral medication regimens, side effects, and disease-related lifestyle issues is extremely complex.

SPPs offer varied services to help patients manage these issues and remain compliant. Some employ outbound telephone calling, passing patients to a pharmacist if they're having problems with medications. Others provide more comprehensive medication therapy management (MTM) programs with collaboration of pharmacist, patient and physician. SPPs that offer a high level of care management may employ case managers. Patient education is an important part of overall case management. Specialty pharmacy patients need to understand their disease process, expectations for treatment, therapeutic options, coverage issues, appropriate use and administration of medications, side effects, and monitoring of results.

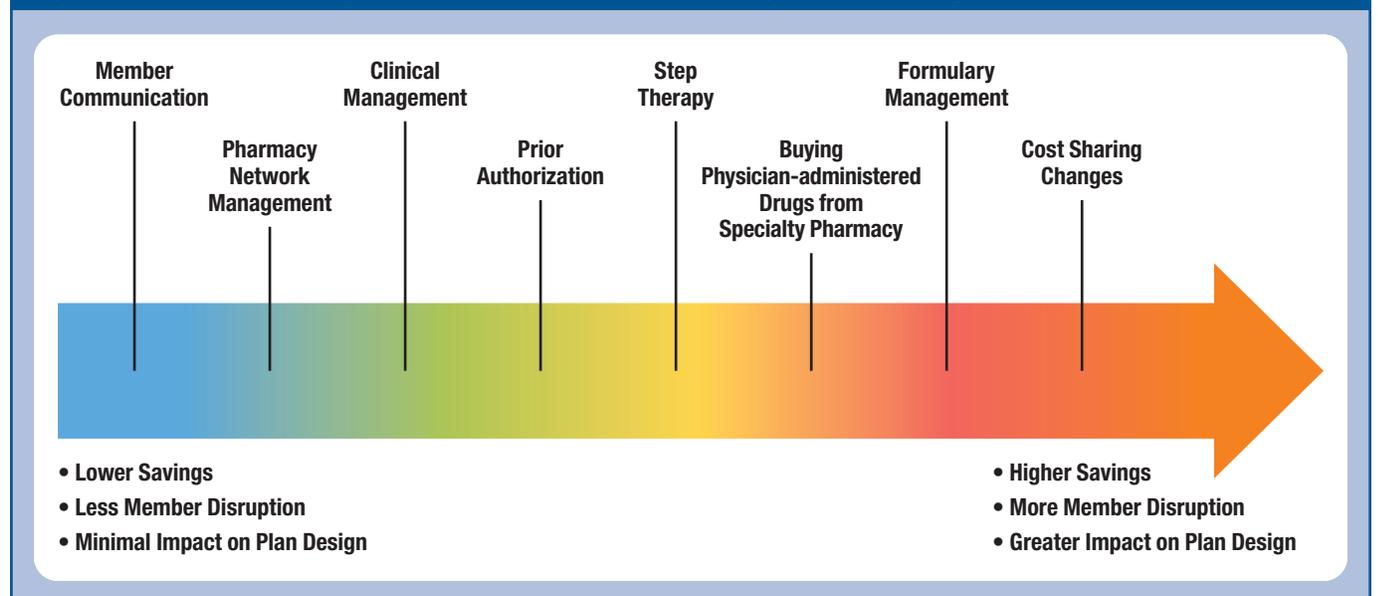
Monitoring Adherence

Through online, real-time claims adjudication systems, SPPs and PBMs can track medication refills for oral and injectable medications. They can measure and monitor medication possession ratio (MPR) and alert physicians when it appears patients may not be refilling their prescriptions. Payers should require MPR reports that monitor changes in medication adherence.

When specialty drugs are covered under the medical benefit, the physician or other clinician controls medication administration, thereby directly influencing compliance and persistence. The medical professional also provides patient education and monitors side effects, therapy changes and treatment outcomes.

When making decisions about whether to cover oral and injectable drugs under the medical or pharmacy benefit, it's important to evaluate which dispensing channel can best provide needed high-touch patient services. Integrating effective care management with utilization management strategies leads to the best outcomes and maximizes the payer's investment in specialty therapy.

Figure 6: Cumulative Impact of Utilization and Care Management Strategies



Choosing a Specialty Pharmacy Provider

SPPs offer a broad range of services to meet the billing, distribution and service challenges of specialty drugs. They work with manufacturers to obtain favorable pricing and drug rebates. They provide refrigeration and storage for biologics. They distribute drugs to both patients and physicians, while managing billing and reimbursement under both pharmacy and medical benefits. For drugs adjudicated through the pharmacy benefit, specialty pharmacy vendors can implement utilization management tools, monitor compliance, educate patients, provide therapy management, and monitor therapeutic outcomes.

When selecting a preferred SPP, there are many options to consider as shown in Figure 4 on page 4. Some SPPs are independent. Others are owned by PBMs, health plans, retail chains, or wholesalers. Services vary from one vendor to another. Factors to consider in evaluating an SPP include:

- Breadth of product line, including core products and access to limited distribution drugs
- Pricing, including product-specific discounts versus blended rates or global discounts
- Payer's ability to share in manufacturer rebates
- Clinical services, including disease-specific expertise, interventions, outcomes measurement

- Skill in communicating with physicians
- Reporting, including progress toward performance standards, patients meeting clinical guidelines, cost and utilization summaries, predictive modeling for future budgetary decisions
- Demonstrated results, including cost savings, improved compliance, and positive clinical outcomes

Nearly 47% of 223 U.S. employers responding to PBM's *Prescription Drug Benefit Cost and Plan Design Survey* in 2008 said they require all specialty drugs filled through their PBM contracts to be dispensed through designated specialty pharmacies. (See Table 4.) The *EMD Serono Injectables Digest™ 5th Edition* reports 96% of 69 health plans responding to its 2008 survey had already contracted with one or more SPPs or were in the process of contracting with them.⁷ In the EMD Serono, Inc. survey, health plans indicated they are most satisfied with their SPPs ability to manage the drug distribution process, coordinate eligibility and reimbursement, enforce plan's prior authorization guidelines, and provide dedicated account management. They are least satisfied with their SPPs ability to document cost savings and clinical outcomes, administer adherence and persistency programs, prevent drug waste, abuse and misuse, and provide performance guarantees.⁸

Table 4: Dispensing Arrangements for Specialty Pharmacy Benefit

| Specialty Pharmacy Dispensing Arrangements | Percentage of Total Employers | |
|---|-------------------------------|-------|
| | 2008 | 2007 |
| My PBM is Exclusive Supplier of Specialty Drugs | 36.1% | 30.8% |
| Our Plan Requires All Specialty Drugs (Filled Through Our PBM Contract) to be Dispensed From PBMs Designated Specialty Pharmacies | 46.9% | 51.5% |
| Our Plan Permits Dispensing of Specialty Drugs at Retail Pharmacies | 44.9% | 36.7% |
| Our Plan Has Established Quantity Limits For Specialty Drugs | 29.9% | 22.8% |
| We Have Restricted Coverage in Our Medical Plan to Channel Specialty Drugs to PBM | 18.4% | 13.9% |

Percentages total more than 100% because of multiple responses.

Source: *Prescription Drug Benefit Cost and Plan Design Report 2008-09 Edition* © 2008, Pharmacy Benefit Management Institute, LP

Measuring Success

There are many ways to measure the success of specialty pharmacy program management. Benefit plan sponsors should work with their health plans, pharmacy benefit managers, and specialty pharmacy vendors to develop metrics linked to the sponsor's benefit objectives. Areas to evaluate include:

- Transition of patients to the appropriate distribution channel
- Minimum patient and provider disruption
- Impact of specialty benefit on patient satisfaction
- Savings realized by the plan and the patient
- Ability to monitor trends and implement changes quickly
- Favorable clinical outcomes

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- ⁶ *Prescription Drug Benefit Cost and Plan Design Report 2008-09 Edition*. Scottsdale, AZ: Pharmacy Benefit Management Institute, LP; 2008:7.
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- ⁸ *EMD Serono Injectables Digest™, 5th Edition*. Rockland, MA. EMD Serono, Inc.; 2009:30.

Learn More About Specialty Pharmacy

Biotechnology Monitor & Survey™, Marketplace Policies, Practices & Perspectives

<http://www.biotechmonitor.com/publication/index.html>

Sponsored by Bristol-Meyers Squibb. Findings from a survey of health plans, pharmacy benefit management (PBM) organizations, specialty pharmacy organizations, large self-insured employers and employer purchasing coalitions, and physician specialists (oncologists and rheumatologists).

Biotechnology Healthcare

<http://www.biotechnologyhealthcare.com/>

Bi-monthly publication focused on the impact of biologics on health, business and benefits.

EMD Serono Injectables Digest™, Managed Care Strategies for Management of Specialty Pharmaceuticals

<https://olr.dwainc.com/2559Digest/default.aspx?SectionID=1>

Market data on the management of specialty pharmaceuticals by health plans.

Journal of Managed Care Pharmacy, May 2008 Supplement

http://www.amcp.org/data/jmcp/JMCPSupp_May08.pdf

Blurring Lines of Medical and Pharmacy Management: The New Role of Specialty Pharmaceuticals

2008 Report: Medicines in Development, Biotechnology

<http://www.phrma.org/files/Biotech%202008.pdf>

Report on the biotech pipeline from the Pharmaceutical Research Manufacturers of America (PhRMA).

Specialty Pharmacy News

<http://www.pbmi.com/product.asp?id=369>

Subscription-based monthly newsletter published by Atlantic Information Services. News and strategies for managing high-cost biotech, infusible and injectable products.

Specialty Pharmacy: Stakeholders, Strategies and Markets

<http://www.aishealth.com/Products/sprx.html>

Available for purchase from Atlantic Information Services.

Need-to-Know Terms

Adherence – Patient compliance to a prescribed medical treatment plan or drug regimen.

Average Sales Price (ASP) – Drug price benchmark used for Medicare Part B drugs, primarily injectable drugs administered by physician offices and infusion clinics, as part of the Medicare Modernization Act of 2003.

$$\text{ASP}^* = \frac{\text{Manufacturer's Unit Sales of a Drug to all U.S. Purchasers in Calendar Quarter}}{\text{Total Number of Units of the Drug Sold by Manufacturer in Same Quarter}}$$

*Net of any price concessions such as volume, prompt pay, and or cash discounts

Section 303(c) of the legislation established the ASP drug payment system. Beginning January 1, 2005, drugs and biologicals were paid based on the ASP methodology. The ASP methodology uses quarterly drug pricing data submitted to the CMS by drug manufacturers.

Average Wholesale Price (AWP) – The published or suggested cost of pharmaceuticals charged to a pharmacy by a large group of pharmaceutical wholesalers. The AWP is the basis for most third-party prescription reimbursement. It is analogous to a sticker price on a new automobile. Pharmacies do not pay for their drugs using the AWP. A markup of discount from Wholesale Acquisition Cost (WAC) is the current method.

AWP Discount – The negotiated amount a drug plan pays to pharmacies for the ingredient cost of a prescription and commonly expressed as a percentage off of Average Wholesale Price. It is expressed verbally as “AWP Minus 12%.”

Biotech Drugs – Drugs manufactured through biologic processes to treat chronic, complex or life-threatening conditions. Also called specialty drugs.

Brand-name Drug – Prescription drug covered by patent exclusivity.

Cost Sharing – Cost sharing refers to the amount beneficiaries contribute to the cost of each prescription covered by their drug benefit plan. A cost share amount is established in the plan design for major categories of drugs such as brand, generic, or formulary classification. The amount may be a flat-dollar amount (copayment) or a percentage of the total cost of the prescription (coinsurance).

Formulary – List of drugs used to treat patients in a drug benefit plan. Products listed on a formulary are covered for reimbursement at varying levels. The most common types of formulary are:

Closed formulary: Nonformulary products are not covered.

Incented formulary: Formulary products are classified for reimbursement by product type including brand, generic, specialty, lifestyle, preferred and nonpreferred. Incented formularies are increasingly popular because, when aligned with rational cost sharing levels, they help to drive utilization to the lowest net cost drug products.

Open formulary: Nonformulary products are covered at a defined level.

Injectables – Prescription drugs that are injected by patient or provider. Often used as a synonym for high cost specialty or biotech drugs because the majority of these drugs are administered via injection.

National Drug Code (NDC) – Numeric system to identify drug products in the United States. A drug's NDC number is often expressed using eleven digits in a 5-4-2 format (xxxxx-yyyy-zz) where the first five digits identify the manufacturer, the second four digits identify the product and strength, and the last two digits identify the package size and type.

Online Adjudication – Electronic process of prescription drug claims at the point of service to verify coverage and detect potential problems that should be addressed before drugs are dispensed to patients.

Outbound Telephone Calls – Telephone calls made to plan members as part of disease or care management programs to encourage compliance with treatment regimens.

Persistency – Obtaining prescribed refills of medication at regular, appropriate intervals.

Pharmacy Benefit Manager (PBM) – Organization dedicated to providing prescription benefit management services to employers, health plans, third-party administrators, union groups and other plan sponsors. A full-service PBM maintains eligibility, processes and adjudicates prescription claims, provides clinical services, contracts a pharmacy network, pays the pharmacy, and provides management reports. PBMI provides a PBM Directory at <http://www.pbmi.com/pbmdir.asp>.

Preferred Drug List – List of drugs available to plan members with a lower copayment than drugs not on list.

Prescriber – The licensed clinician — a physician, nurse practitioner, or physician assistant — who writes a prescription for a patient.

Prior Authorization – A process where the prescription claim is only covered via criteria established by the managed care organization (MCO) or the pharmacy benefit manager (PBM). This requires action from the physician, pharmacist, or patient to obtain coverage.

Quantity Limits – A limit on the number of pills or dosages of a prescription drug allowable on a per claim basis.

Specialty Drugs – High cost drugs, often injected and used to treat complex or rare conditions. They also can be called biotech drugs although the manufacturing of these drugs through biologically engineered processes is not necessary for the drug to be considered a specialty drug. If the drug is injected by the member, it is considered self-injectable and usually covered under the pharmacy benefit. If the physician must inject the drug, it usually is covered by the medical benefit.

Specialty Pharmacy Benefit – A separate pharmacy benefit for specialty drugs that includes a separate network of pharmacies for distribution of the drug product by mail, utilization controls, and patient-specific education.

Step Therapy – Treatment guidelines used to recommend drug therapy beginning with the least expensive therapy. More expensive therapies are only used when the patient fails to respond to the first-line drug.



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