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**STATE OF MISSISSIPPI'S**

**STATE & SCHOOL EMPLOYEES'**

**LIFE & HEALTH INSURANCE PLAN**

**ACTUARIAL REPORT**

**FISCAL YEAR 2016**

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**PREPARED BY:**  
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September 1, 2016

Mr. Richard Self  
State Insurance Administrator  
Department of Finance and Administration  
State of Mississippi  
P. O. Box 24208  
Jackson, Mississippi 39225

Dear Mr. Self:

This Actuarial Report is based on a review of the experience through June 30, 2016, of the State and School Employees' Life and Health Insurance Plan ("Plan").

In performing my review and preparing my report, I relied on certain information and data provided by DFA, Blue Cross/Blue Shield of Mississippi ("BCBS"), OPTUMRx, Prime Therapeutics, Truven Health Analytics, and Minnesota Life Insurance Company.

To the best of my knowledge and belief:

- 1.) All material aspects of my review have been communicated to DFA in this report.
- 2.) The calculations of the current claim liabilities of the Plan are in accordance with currently applicable Actuarial Standards of Practice.
- 3.) The projections of future cash flows and balance sheet items are based on future assumptions which, in the aggregate, appear to me to be fair and reasonable.

Sincerely,



Wm. Lynn Townsend, FSA, MAAA



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## EXECUTIVE SUMMARY

Compared to prior projections, the Plan continues to exhibit favorable overall experience. The recent improvement in overall Plan performance began in CY14, primarily from enhancements in the Plan's network arrangements for medical claims. Although pre-rebate drug trends have remained high, a recent significant increase in drug rebates has helped to mitigate those trends.

### FY16 Financial Summary

Using current claims liability estimates, claims and expenses exceeded Plan revenue in FY16 by about \$15.0 million.

<b>Financial Summary for FY16</b>		
Health Premiums	\$ 718.4	
Health Claims Incurred	(696.6)	
Administrative & Cost Containment Expenses	(34.1)	
ACA Imposed Fees - Incurred	<u>(6.3)</u>	
Subtotal Health Insurance		\$ (18.6)
Life Premiums	\$ 16.9	
Life Claims Incurred	(15.4)	
Life Insurance Contract Expense	<u>(0.8)</u>	
Subtotal Life Insurance		0.7
Interest and Other Revenue		<u>2.6</u>
Total Gain (Loss)		<u><u>\$ (15.0)</u></u>
Plan Surplus, 6/30/15 <sup>(1), (2), (3)</sup>		\$ 306.7
Plan Surplus, 6/30/16 <sup>(1), (3)</sup>		<u><u>\$ 291.7</u></u>
		<i>In millions</i>
 (1) Prior to any applicable premium deficiency reserve.		

### Historical Financial Summary

The following historical financial summary is based upon a retroactive review of the life and health insurance claims liabilities based on actual incurred claims and incurred drug rebates.

<b>Historical Financial Summary</b>					
	FY12	FY13	FY14	FY15	FY16
Health Insurance Gain (Loss)	\$40.3	\$7.3	(\$6.6)	\$16.0	(\$18.6)
Life Insurance Gain	4.3	6.6	3.4	0.9	0.7
Interest Income	2.7	2.9	2.5	2.3	2.8
Early Retiree Reinsurance Program	8.1	0.0	0.0	0.0	0.0
Drug Company Settlements	1.0	2.7	11.2	0.0	0.0
Total Gain (Loss)	<u>\$56.4</u>	<u>\$19.5</u>	<u>\$10.5</u>	<u>\$19.3</u>	<u>(\$15.0)</u>
<i>In Millions</i>					

## EXECUTIVE SUMMARY (Continued)

### Premiums versus Claims (Excluding Plan Expenses)

Based on current claim liability estimates, incurred claims (net of subrogation receipts, claim refunds, and pharmacy rebates) increased from \$661.4 million in FY15 to \$696.6 million in FY16, an increase of 5.3%.

Premium versus Claims Incurred (in Millions)					
	FY12	FY13	FY14	FY15	FY16
Health Premiums	\$737.6	\$727.2	\$720.7	\$718.8	\$718.4
Health Claims Incurred	\$660.6	\$685.8	\$688.5	\$661.4	\$696.6
Loss Ratio (Claims/Premium)	89.6%	94.3%	95.5%	92.0%	97.0%

### Drug Claims

Gross drug claims incurred, prior to estimated rebates, increased from \$166.4 million in FY15 to \$183.5 million in FY16, an increase of 10%. After estimated incurred rebates, net drug claims increased from \$152.6 million in FY15 to \$159.7 million in FY16, an increase of 5%.

The Plan receives rebate payments as a result of contracts in place between the pharmacy benefit managers and various drug manufacturers. On January 1, 2016, the Plan changed pharmacy benefit managers from OPTUMRx (formerly Catamaran) to Prime Therapeutics. Under the Prime contract, rebate amounts have been much greater. Rebates under the Prime contract incurred in the first 6 months of CY16 are estimated to be about \$16.4 million compared to about \$14.2 million for all of CY15.

### Primary Care Physician (PCP) Copay Feature for Select Coverage (Effective 1/1/16)

Effective January 1, 2016, Select coverage includes a copay feature applicable to office visits to an In-Network Primary Care Physician (PCP). Previously, all office visits were subject to the calendar year deductible and applicable coinsurance.

A study of Select coverage experience in the first 6 months of 2016, with a focus on the effect of the new PCP copay feature added January 1, 2016, was prepared using the Advantage Suite system from Truven Data Analytics, and a separate report has been provided to the Office of Insurance. A summary of the findings in that report are included in this Report.

Comparing the stats on Select coverage for non-wellness claims for the first 6 months of 2016 versus the first 6 months of 2015:

- Non-wellness visits per member to PCP's increased by an estimated 7.4%.
- Allowed amounts per PCP visit on non-wellness claims declined by an estimated 1.8%.
- Allowed amounts per member for non-wellness PCP visits increased by 5.4% and allowed amounts per member for other non-wellness medical claims increased by 3.2%.
- Net payments per member for non-wellness claims increased by 202.9% for PCP office visits and by 0.9% for other non-wellness medical claims.
- Overall, total Select coverage net payments per member increased by 6.9% in the first 6 months and are projected to increase by 3.9-4.5% in the second 6 months and by 5.2-5.6% for all of 2016. (The Non-Medicare medical trend rate for CY16 in the CY15 Actuarial Report was 5.5%.)



## EXECUTIVE SUMMARY (Continued)

### Plan Projections

Plan projections were prepared for the next 4 fiscal years. Using the current trend assumptions for medical claims and drug claims, and assuming no significant benefit design or other fundamental changes that affect costs, health insurance claims and expenses per non-Medicare member are expected to grow about 3.7% in the remainder of CY16, about 4.5% in CY17, about 5.4% in CY18, and about 5.2% in CY19.

The detailed Plan projections included in this Report include the following premium rate increase assumptions:

- A rate increase of 9.5% as of 1/1/19 for non-Medicare premium rate classes.
- A rate increase of 13.5% as of 1/1/20 for non-Medicare premium rate classes.
- Annual rate increases of 2% beginning 1/1/17 for Medicare primary premium rate classes.

Currently, the Plan's stated funding objective is to have surplus at least equal to ½ of one month's incurred expenses in the last year. Based on current claims cost trend assumptions, these rate increases are expected to reduce Plan surplus from its current level down to the Plan's stated funding objective at the end of CY19. However, CY19 is expected to be a significant loss year and – in the absence of other Plan changes to reduce costs – the premium rates in CY20 will have to be increased to breakeven level rates in order for the Plan to continue to maintain Plan surplus at least equal to the Plan's stated funding objective.

Summary Plan projections appear in the Table below. Detailed Plan projection appear in the body of this Report.

### SUMMARY PROJECTIONS (in Millions) Based on Board Approved Benefit Changes for CY17 Based on Rate Increases Indicated Below

	Health Premium	Health Claims	Health Expense	Health Gain (Loss)	ACA Fees	Life Ins Gain & Interest	Total Gain (Loss)	Gain (Loss) as a % of Premium	Year End Projected Surplus	Year End Surplus Objective	Change in Surplus
FY16									\$292		
FY17	\$722	(\$725)	(\$36)	(\$39)	(\$3)	\$4	(\$38)	-5.3%	\$254	\$32	(\$38)
FY18	\$725	(\$762)	(\$37)	(\$74)	(\$0)	\$3	(\$71)	-9.9%	\$182	\$34	(\$71)
FY19	\$760	(\$803)	(\$38)	(\$81)	(\$0)	\$3	(\$78)	-10.3%	\$104	\$36	(\$78)
FY20	\$846	(\$844)	(\$39)	(\$37)	\$0	\$2	(\$35)	-4.1%	\$69	\$37	(\$35)
CY16									\$249		
CY17	\$723	(\$743)	(\$37)	(\$56)	(\$0)	\$4	(\$53)	-7.3%	\$196	\$33	(\$53)
CY18	\$726	(\$783)	(\$38)	(\$94)	(\$0)	\$3	(\$92)	-12.6%	\$104	\$35	(\$92)
CY19	\$794	(\$824)	(\$39)	(\$69)	\$0	\$3	(\$66)	-8.3%	\$38	\$37	(\$66)

	TREND ASSUMPTIONS, NON-MEDICARE					RATE INCREASE ASSUMPTIONS		
	Medical	Drugs Prior to Rebates	Drug Rebates	Drugs After Rebates	Total*		Plan Primary	Medicare Primary
CY16, 2ND HALF	4.50%	7.7%	116.1%	-1.8%	3.7%	01/01/16		-5.3%
CY17	2.94%	8.5%	2.2%	9.8%	4.5%	01/01/17		2.0%
CY18	3.25%	10.5%	2.2%	12.1%	5.4%	01/01/18		2.0%
CY19	3.25%	9.5%	2.1%	10.8%	5.2%	01/01/19	9.5%	2.0%
						01/01/20	13.5%	2.0%

\* Total including medical, drugs, and drug rebates.

## **EXECUTIVE SUMMARY (Continued)**

### **Medicare Retiree Rates and Horizon Non-Medicare Retiree Rates**

The rate increases for Medicare primary premium classes are the current projected rate increases necessary to keep these premium classes on a breakeven basis. Horizon retiree rates also need to be increased in CY17 to keep their rates close to breakeven rates. Horizon non-Medicare retiree rates need to be increased about 9% for retired employees and about 3% for spouses. Very few Horizon retirees currently have coverage, and the effect of those rate increases have been disregarded in the projections in this Report.

### **Discussion of Assumptions and their Effect on the Projections**

These projections are based on cost trends and other assumptions that are difficult to predict and are subject to change due to unanticipated benefit changes or other fundamental changes that affect future costs. The annual cost trend assumptions being used are consistent with the cost trends experienced in those recent years in which significant operational or benefit changes did not occur. To that extent, these assumptions appear to me to be reasonable. It is also noted, however, that the Plan has periodically taken other actions to reduce costs.

Future operating results could be worse – or better – than projected. If experience worsens, rate increases higher than those shown in future years, or other Plan changes, could be required. If these projections prove to be conservative, future rate increases could perhaps be reduced, or Plan surplus in excess of that projected could still exist at the end of any of the projection periods shown.

### **Postemployment Benefits**

The FY16 Actuarial Report being provided herein does not separately identify and quantify the liabilities and costs that must be reported and recognized by the State, as an employer, under accounting rules established by the Governmental Accounting Standards Board for post-employment benefits. Therefore, Plan surplus – as defined in this Report – does not take into account the liabilities of the State, as an employer, associated with retiree health and life insurance.

Although there are significant surplus funds that exist in the Plan, there are much higher liabilities for the State – as an employer – for future retiree benefits that have not been funded. For example, based on current claims liability estimates, the Plan surplus was about \$292 million as of 6/30/16. Based on the most recent valuation prepared by Cavanaugh Macdonald, the State's unfunded actuarial accrued liability associated with retiree benefits provided through the Plan were about \$732 million as of 6/30/15.

In evaluating the extent to which existing or projected surplus of the Plan is necessary or even sufficient, this Report should be reviewed in conjunction with the most recent version of the "Report of the Actuary on the Other Postemployment Benefits Valuation" that has been submitted by Cavanaugh Macdonald.

### **ACA Imposed Fees**

Two programs created by ACA (the Patient-Centered Outcomes Research Institute (PCORI) and Three-Year Transitional Reinsurance Program) will result in annual fees payable by the Plan for the next several years. Assuming constant enrollment and a 4% annual increase in National Health Expenditures, the Plan is expected to pay in 2013 to 2019 almost \$25 million in fees imposed by ACA. Approximately \$16.8 million has already been paid. Additional expected fee payments are \$5.6 million in FY17, \$1.5 million in FY18, and about \$400,000 in each of FY19 and FY20. The vast majority of these fees relate to the Three-Year Transitional Reinsurance Program.

## FEDERAL HEALTH CARE REFORM

Federal health care reform was enacted into law by the passage of the Patient Protection and Affordable Care Act on March 23, 2010 and its companion legislation, the Health Care Reconciliation Act on March 30, 2010 ("ACA"). This section includes a discussion of certain items that affect benefits and funding that have already been implemented.

### Grandfathered Plans

Certain of the requirements of ACA do not apply to plans referred to in ACA as grandfathered plans. Under the rules related to grandfathered plans, there are limits on the changes that a plan can make – relative to its status as of March 23, 2010 – and still remain a grandfathered plan. In general, in order to remain a grandfathered plan, the following requirements must be met: 1.) Plan coinsurance rates may not be reduced; 2.) Plan deductibles may not be increased by more than the sum of 15% plus the medical care component of the CPI; 3.) Plan copays may not be increased by more than the greater of \$5, or 15% plus the medical care component of the CPI; and 4.) The portion of the costs, by tier, paid for by the plan sponsor may not be reduced by more than 5%. Plan benefit changes implemented by the Plan as of January 1, 2011 prevent the Plan from being considered a grandfathered plan under ACA.

### Benefit and Other Changes Required Under ACA for CY11

The following requirements of ACA were addressed in CY10 or CY11 as a result of health care reform.

- ACA required that the Plan make coverage available to dependent children up to age 26 regardless of student or marital status, effective January 1, 2011, and encouraged early implementation of this requirement.
- ACA does not allow a plan to exclude coverage for participants under age 19 due to pre-existing conditions.
- ACA does not allow a plan to have a lifetime maximum limit on benefits.
- ACA requires qualified health plans to include "essential" benefits, and may not allow annual maximums on certain benefits deemed to be essential benefits. The Plan made changes consistent with those benefit requirements for qualified health plans.

### Benefit Changes Required Under ACA for CY13

The following expansion of preventive services for adult women was required by ACA, effective January 1, 2013:

- Well-woman visits for preconception and prenatal care for all female participants.
- Human papillomavirus testing.
- Screening for gestational diabetes in pregnant women between 24 and 28 weeks of gestation (and at the first prenatal visit for women at high risk for diabetes).
- Contraceptive methods and counseling, including FDA-approved contraceptive methods, sterilization procedures, and patient education/counseling for all women with reproductive capacity.
- Breastfeeding support, supplies and counseling in conjunction with each childbirth including comprehensive lactation support and counseling by a trained provider during pregnancy and/or postpartum, and coverage of the costs of renting breastfeeding equipment.
- Annual screening and counseling for interpersonal and domestic violence.

## FEDERAL HEALTH CARE REFORM (Continued)

### Benefit Changes Required Under ACA for CY14

The following benefit changes were required by ACA in CY14:

- The Plan will no longer be able to exclude benefits resulting from preexisting conditions.
- The Plan must provide coverage for Vitamin D for adult participants aged 65 years or older.
- The Plan must provide coverage (as a wellness/preventive benefit with no cost-sharing) for one-time screening for hepatitis C virus infection for participants at higher risk for infection and for adult participants born between 1945 and 1965.
- The Plan must limit employee in Network out-of-pocket costs (defined as the sum of all in Network deductibles, coinsurance, and copays) to no more than \$6,350 for self only coverage and \$12,700 for family coverage. Those limits are subject to change annually.

**Minimum Value** – IRS Notice 2012-31 provides as follows: “Beginning in 2014, eligible individuals who purchase coverage under a qualified health plan through an Affordable Insurance Exchange may receive a premium tax credit under § 36B unless they are eligible for other minimum essential coverage, including coverage under an employer-sponsored plan that is affordable to the employee and provides minimum value. Under § 36B(c)(2)(C)(ii), a plan fails to provide minimum value if “the plan’s share of the total allowed costs of benefits provided under the plan is less than 60 percent of such costs.” If the coverage offered by the employer fails to provide minimum value, an employee may be eligible to receive a premium tax credit. An applicable large employer (as defined in § 4980H(c)(2)) may be liable for an assessable payment under § 4980H if any full-time employee receives a premium tax credit.” A separate Actuarial Opinion (and an accompanying Actuarial Memorandum) has been provided that both the Plan’s Select Coverage and Base Coverage options meet the minimum value requirements under IRS Notice 2012-31.

### Benefit Changes Required Under ACA for CY15

The following benefit changes are required by ACA in CY15:

- Beginning 1/1/15, the Plan was required to provide 100% benefits for annual screening for lung cancer with low-dose computed tomography in adults ages 55 to 80.
- Beginning 1/1/15, the Plan was required to provide 100% benefits for risk reducing drugs, such as Tamoxifen or Raloxifene, for women who are at increased risk for breast cancer and at low risk for adverse medication effects.
- Based on clarifying guidance under ACA, preventive benefits – paid at 100% without cost sharing – for contraceptive drugs are limited in 2015 to generic drugs only. Non-generic contraceptive drugs are still covered, but currently are subject to normal Plan deductibles and copays.
- Based on a revision in the recommendations of the United States Preventive Services Task Force, preventive services (payable at 100% without cost sharing) for screening for gestational diabetes mellitus in pregnant women are limited in 2015 to one screening in asymptomatic women after 24 weeks of gestation. Prior to 2015, the Plan covered two such screenings per pregnancy (one at the first prenatal visit and one between 24-28 weeks).

### Early Retiree Reinsurance Program (ERRP)

ACA included a temporary reinsurance program for early retirees (eligible retirees age 55 and over who are not eligible for Medicare and includes their spouses and dependents). This program reimbursed participating plans 80% of a qualified retiree’s allowed medical and pharmacy costs between \$15,000 and \$90,000. Funding for this program was limited to \$5 billion and began June 1, 2010. The Plan applied and was approved to participate in the program. The Plan received ERRP payments totaling \$19.9 million (\$5.5 million in December 2010, \$6.3 million in April 2011, and \$8.1 million in October 2011).

## FEDERAL HEALTH CARE REFORM (Continued)

### Fees Imposed by ACA

**Patient-Centered Outcomes Research Institute** – ACA created the Patient-Centered Outcomes Research Institute (PCORI), which according to the PCORI website, “is authorized by Congress to conduct research to provide information about the best available evidence to help patients and their health care providers make more informed decisions. PCORI’s research is intended to give patients a better understanding of the prevention, treatment and care options available, and the science that supports those options.”

Provisions of ACA specify that the PCORI shall be funded, in part, by fees payable by all insured and self-insured plans, including governmental plans. Those fees are based on total Plan enrollment and are payable for Plan years 2012-2018 (payable the following July). The annual fee per member was \$1 for the 2012 Plan year and \$2 for the 2013 Plan year. After the first two years, the annual fee will be indexed to increases in National Health Expenditures. During July 2013, the Plan paid \$176,666 for the PCORI fee for the 2012 Plan year. The PCORI fee for the 2013 Plan year was \$349,992 and was paid in July 2014. The PCORI fee for the 2014 Plan year was \$363,479 and was paid in July 2015.

**Three-year Transitional Reinsurance Program** – ACA created a three-year transitional reinsurance program to help stabilize premiums in the individual health insurance market from 2014 to 2016. Provisions of ACA specify that this program shall be funded by fees payable by all insured and self-insured plans, including governmental plans. Those fees are based on Plan primary enrollment and are payable for Plan years 2014 to 2016.

In regulations issued by the Department of Health and Human Services (HHS), HHS established a fee of \$63 per covered life for 2014, with 83.33% of the 2014 fee payable in January 2015 and the remainder payable in the 4<sup>th</sup> quarter of 2015.

For 2015, HHS established a fee of \$44 per covered life, with 75% of the 2015 fee payable in January 2016 and the remainder payable in the 4<sup>th</sup> quarter of 2016. For 2016, HHS has proposed a fee of \$27 per covered life, with 75% of the 2016 fee payable in January 2017 and the remainder payable in the 4<sup>th</sup> quarter of 2017.

**Projected Fees Imposed by ACA** – Assuming constant enrollment and a 4% annual increase in National Health Expenditures, the Plan is expected to pay in 2013 to 2019 about \$25 million in fees imposed by ACA. As shown below, the majority of these fees are payable in 2015 to 2017.

### Projected ACA Imposed Fees (in Millions)

Plan Year	Incurred Fees			Cash Payments By the Plan		
	PCORI	Transitional Reinsurance	Total	PCORI	Transitional Reinsurance	Total
2012	\$0.177		\$0.177			\$0.000
2013	\$0.350		\$0.350	\$0.177		\$0.177
2014	\$0.363	\$10.589	\$10.953	\$0.350		\$0.350
2015	\$0.378	\$7.371	\$7.749	\$0.363	\$10.589	\$10.953
2016	\$0.393	\$4.523	\$4.916	\$0.378	\$7.371	\$7.749
2017	\$0.409		\$0.409	\$0.393	\$4.523	\$4.916
2018	\$0.425		\$0.425	\$0.409		\$0.409
2019				\$0.425		\$0.425
Total	\$2.495	\$22.483	\$24.978	\$2.495	\$22.483	\$24.978

## **CY16 PLAN CHANGES**

### **Primary Care Physician (PCP) Copay Feature for Select Coverage (Effective 1/1/16)**

Previously, all office visits were subject to the calendar year deductible and applicable coinsurance. Effective January 1, 2016, Select coverage includes a copay feature applicable to office visits to an In-Network Primary Care Physician (PCP).

Details of the new PCP copay feature are as follows:

- Primary Care Physician (PCP) includes: Family Practice, General Practice, Gynecology, Internal Medicine, Pediatrics, Registered Dietitians, and Nurse Practitioners.
- Visits to an In-Network PCP are not subject to the calendar year deductible.
- An office visit copay applies to the In-Network PCP's charge for evaluation and management, and applicable coinsurance applies to any additional charges for other services provided in the PCP's office.
- PCP Office Visit Copay, In-Network: \$25
- Out-of-Network: Office visits to an Out-of-Network primary care physician will continue to be subject to normal Out-of-Network deductibles and coinsurance.

### **Maternity Management Program**

In an effort to increase engagement and help improve maternity outcomes, the Plan has changed the previous benefit of 100% coverage for physician maternity services to be limited to only those participants who participate in the maternity management program. For any participant choosing to not engage in the program, regular Plan benefits will apply.

### **Contraceptive Coverage**

During CY16, the Plan is providing 100% coverage without cost-sharing for certain brand contraceptives when a generic is not available or when not medically appropriate. During CY15, 100% coverage applied only to generic drugs.

### **Pre-certification Requirements for Outpatient MRI's and CT Scans**

Pre-certification for outpatient MRI's and CT scans are no longer required. Instead, the Plan's medical policy will apply.

### **Chiropractic Benefit**

The calendar year limit for chiropractic services has been removed and replaced with a 30 visit per calendar year limit.

## FY16 FINANCIAL SUMMARY

The monthly financial statements prepared by DFA were adjusted to reflect the updated estimates of Plan liabilities and certain items of a similar nature were combined, as follows. Note that the amount shown for Plan surplus as of 6/30/15 is based upon a retroactive review of the life and health insurance claims liabilities based on actual incurred claims and incurred drug rebates.

<b>Financial Summary for Fiscal Year 2016</b>		
Health Premiums	\$ 718.4	
Health Claims Incurred	(696.6)	
Administrative & Cost Containment Expenses	(34.1)	
ACA Imposed Fees - Incurred	<u>(6.3)</u>	
Subtotal Health Insurance		\$ (18.6)
Life Premiums	\$ 16.9	
Life Claims Incurred	(15.4)	
Life Insurance Contract Expense	<u>(0.8)</u>	
Subtotal Life Insurance		0.7
Interest and Other Revenue		<u>2.6</u>
Total Gain (Loss)		<u><u>\$ (15.0)</u></u>
Plan Surplus, 6/30/15 <sup>(1), (2), (3)</sup>		\$ 306.7
Plan Surplus, 6/30/16 <sup>(1), (3)</sup>		<u><u>\$ 291.7</u></u>
		<i>In millions</i>
<p>(1) Prior to any applicable premium deficiency reserve.</p> <p>(2) Based on a retroactive evaluation of claims liabilities using actual paid claims.</p> <p>(3) Plan Surplus, as shown above, does not take into account the liabilities of the State, as an employer, for post-retirement benefits. According to the most recent valuation prepared by Cavanaugh Macdonald, the State's unfunded actuarial accrued liability associated with retiree benefits provided through the State and School Employees' Life and Health Insurance Plan was about \$732 million as of 6/30/15.</p>		

### Historical Financial Summary

The following historical financial summary is based upon a retroactive review of the life and health insurance claims liabilities based on actual incurred claims and incurred drug rebates.

<b>Historical Financial Summary</b>					
	FY12	FY13	FY14	FY15	FY16
Health Insurance Gain (Loss)	\$40.3	\$7.3	(\$6.6)	\$16.0	(\$18.6)
Life Insurance Gain	4.3	6.6	3.4	0.9	0.7
Interest Income	2.7	2.9	2.5	2.3	2.8
Early Retiree Reinsurance Program	8.1	0.0	0.0	0.0	0.0
Drug Company Settlements	1.0	2.7	11.2	0.0	0.0
Total Gain (Loss)	<u>\$56.4</u>	<u>\$19.5</u>	<u>\$10.5</u>	<u>\$19.3</u>	<u>(\$15.0)</u>
	<i>In Millions</i>				

## CURRENT FUNDING STATUS

### Plan Balance Sheet

As of 6/30/16, the Plan had an estimated funding surplus – prior to any applicable premium deficiency reserve – of \$291.7 million, derived as follows:

<b>BALANCE SHEET AS OF 6/30/16</b>	
<b>ASSETS</b>	
Cash and Invested Assets	\$ 374,306,664
Accrued Investment Income (Estimated)	-
Total Assets	\$ 374,306,664
<b>LIABILITIES</b>	
Estimated Medical & Drug Claims Incurred But Not Reported	\$ 63,254,904
Estimated Drug Card Rebates Receivable	(20,400,000)
Estimated Life Claims Incurred But Not Reported	4,604,893
Medical Claims Paid in June 16 by BCBS & in July 16 by the Plan	7,169,838
Drug Card Claims Paid in June 16 by Prime & in July 16 by the Plan	8,361,812
Life Claims Paid in June 16 by Minnesota Life & in July 16 by the Plan	1,102,472
Premium Contributions Received in Advance (less Arrears)	10,323,997
Prior Period Expenses	
BCBS (Plan Administration)	1,376,000
AHS Network	211,270
Active Health	625,000
Prime Therapeutics	1,200,000
Truven Health Analytics	30,000
Minnesota Life	63,198
Miscellaneous Expenses	47,110
ACA Imposed Fees Incurred but Unpaid	4,678,681
Total Claim Liabilities and Accrued Expenses	\$ 82,649,175
<b>PLAN SURPLUS (Prior to Any Applicable Premium Deficiency Reserve) <sup>(1)</sup></b>	<b>\$ 291,657,489</b>
<p><i>(1) Plan Surplus, as shown above, does not take into account the liabilities of the State, as an employer, for post-retirement benefits. According to the most recent valuation prepared by Cavanaugh Macdonald, the State's unfunded actuarial accrued liability associated with retiree benefits provided through the State and School Employees' Life and Health Insurance Plan was about \$732 million as of 6/30/15.</i></p>	



## CURRENT FUNDING STATUS (Continued)

### Comparison of Funding Status

Following is a comparison of the Plan's funding status for the last 5 fiscal years. Note that the amounts shown for Plan liabilities for prior years are based upon a retroactive review of the life and health insurance claims liabilities based on actual incurred claims. Plan liabilities also include an offset based on an evaluation of drug rebates receivable as of the end of each year.

Comparison of Funding Status (in Millions)					
	6/30/12	6/30/13	6/30/14	6/30/15	6/30/16
Plan Assets	\$344.0	\$370.2	\$377.6	\$393.0	\$374.3
less Plan Liabilities	86.6	93.4	90.2	86.3	82.6
Plan Surplus (Prior to Any Applicable Premium Deficiency Reserve) *	\$257.3	\$276.8	\$287.4	\$306.7	\$291.7
Annual Change in Funding Status	\$56.4	\$19.5	\$10.5	\$19.3	(\$15.0)
<p><i>* Plan Surplus, as shown above, does not take into account the liabilities of the State, as an employer, for post-retirement benefits.</i></p>					

### Claims Liability for Incurred but Not Reported Medical Claims

The evaluation of the claims liability for claims paid by Blue Cross/Blue Shield of Mississippi ("BCBS" or "BCBS of MS") was completed following an extensive review of claims lag reports that BCBS provided for claims paid through July 2016. In general, claims liability estimates for the current period were determined by applying historical claims lag statistics to incomplete claims. These lag statistics were developed using system reports that summarize claims paid each month by the month in which the claim was incurred. Based on that analysis, I have evaluated the regular health insurance claims liability as of 6/30/16 to be about \$55.3 million. About \$29.0 million of this was paid in July 2016, leaving an estimated \$26.3 million left to be paid after July 2016. The \$55.3 million liability represents about 1.31 months of estimated average medical claims (excluding drug claims) incurred in the last 6 months.

### Claims Liability for Incurred but Not Reported Drug Claims

During the vast majority of periods for which this liability has been evaluated, incurred drug claims have generally been paid by the pharmacy benefit manager within the month in which the drug claim was incurred, with negative adjustments perhaps more likely than future payments. As of 6/30/16, the drug claims liability, net of estimated negative adjustments, was initially estimated to be about negative \$13,000, but was held as \$0.

### Combined Claims Liability for Incurred but Not Reported Non-Drug Claims and Drug Claims, Including Provision for Claims Settlement Expenses

Including a provision of \$8.0 million for future expenses allocated to claims incurred prior to the evaluation date, the total incurred health insurance claim liability for incurred but not reported non-drug claims and drug claims was estimated to be \$63.3 million as of 6/30/16.

## CURRENT FUNDING STATUS (Continued)

### Offset to Claims Liability – Drug Rebates

The Plan receives rebate payments as a result of contracts in place between the pharmacy benefit manager and various drug manufacturers. In the past, there has been a 3 quarter lag between the date the drug claim was incurred and when the associated rebate is received. That lag has been considerably shortened under the contract with Prime that was effective 1/1/16.

The pharmacy benefit managers (OPTUMRx thru 2015 and Prime since 1/1/16) provided estimates of incurred rebates for the 3 most recent quarters, as follows:

	Estimate		
2015 Q4	\$4.2 million	OPTUMRx	Received \$4,139,382 in August 2016
2016 Q1	\$7.9 million	Prime	Received 1 <sup>st</sup> payment of \$7,600,591 in July 2016
2016 Q2	\$8.5 million	Prime	Not yet received

As of 6/30/16, the estimate of the rebates receivable for the last 3 quarters of FY16 is \$20.4 million.

### Claims Liability for Incurred but not Reported Life Insurance Claims

The liability for life insurance claims incurred as of 6/30/16 but not reported to the Plan was estimated to be about \$4.6 million.

### Liability for Claims Paid by BCBS in June 2016 but Not Reimbursed until July 2016

In general, medical claims paid by BCBS of MS to in-state providers are immediately reflected by the Plan as paid claims because those claims are paid by BCBS of MS from the Plan's bank account. However, beginning in January 2014, medical claims paid by BCBS of MS to out-of-state providers are now administered in conjunction with other states' Blue Cross plans in order to obtain network pricing under the Blue Card program, and BCBS of MS bills the Plan after the fact for those claims payments. In July of 2016, the Plan was billed by BCBS of MS \$7.2 million for medical claims paid to out-of-state providers thru June 30, 2016. This amount has been handled as a separate claims liability.

### Liability for Claims Incurred by Prime in June 2016 but Not Reimbursed until July 2016

Claims incurred by Prime during June 2016 that were not reimbursed by the Plan until July 2016 totaled \$8.4 million. This amount has been handled as a separate claims liability.

### Liability for Claims Paid by Minnesota Life in June 2016 but Not Reimbursed until July 2016

Life insurance claims are paid by Minnesota Life out of their funds. At the end of each month, the Plan is billed for claims paid during the prior month. During July 2016, the Plan was billed approximately \$1.1 million for claims paid by Minnesota Life in June 2016.

### Accrued Interest

No accrued interest was estimated as an asset of the Plan as of June 30, 2016.

### Actuarial Opinion and Actuarial Opinion Memorandum

For additional details, see the separate Actuarial Opinion and Actuarial Opinion Memorandum that is being provided but has not been included in this Report.

## HEALTH PLAN ENROLLMENT

### Total Plan Enrollment

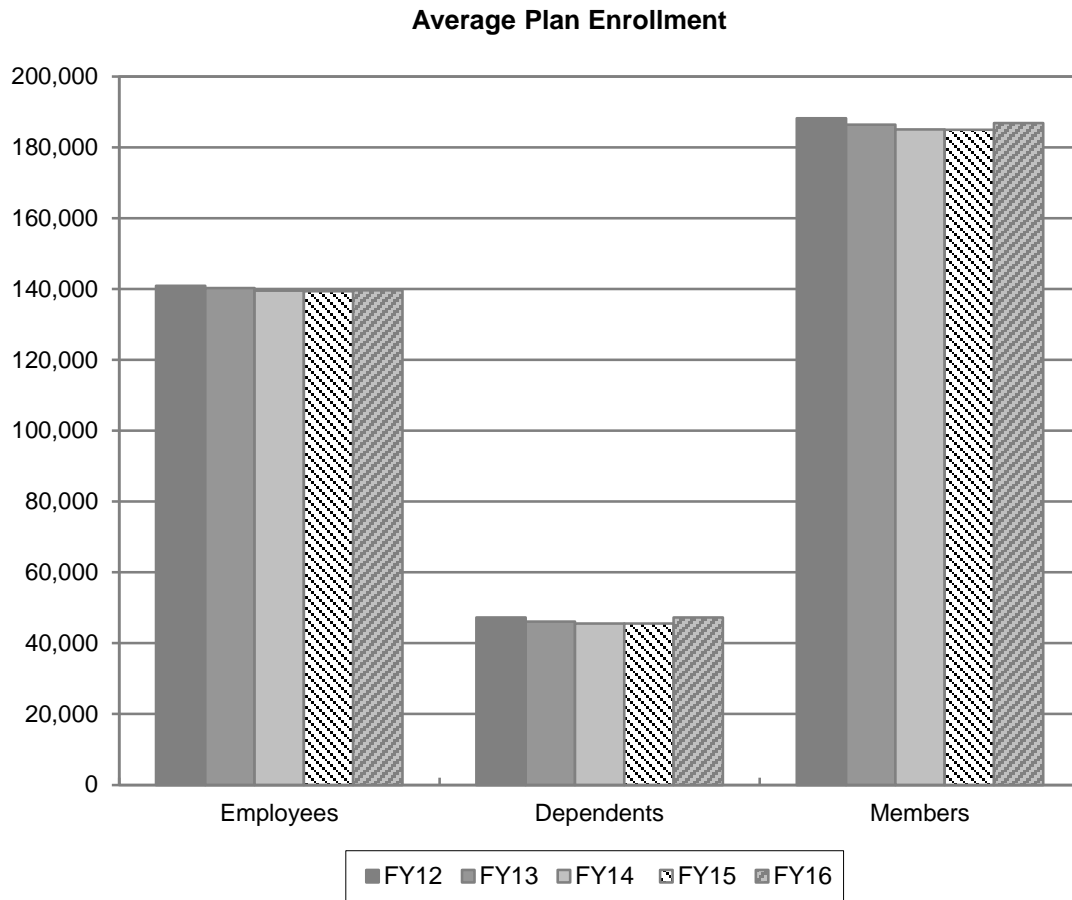
The average number of participating employees, dependents, and total members, by employee subgroup, were derived using the enrollment reports supplied by BCBS.

### Average Fiscal Year Enrollment

Participant	FY14		FY15		FY16	
	Count	%	Count	%	Count	%
<b>Employees</b>						
Active	115,390	82.7%	114,922	82.5%	114,964	82.4%
COBRA	673	0.5%	605	0.4%	592	0.4%
Early Retirees	9,389	6.7%	9,186	6.6%	8,778	6.3%
Disabled Retiree (Non-Medicare)	204	0.1%	182	0.1%	176	0.1%
Disabled Retiree (Medicare)	1,036	0.7%	1,007	0.7%	1,000	0.7%
Medicare Retirees	12,839	9.2%	13,481	9.7%	14,083	10.1%
Total	139,531	100.0%	139,383	100.0%	139,594	100.0%
Total Retirees	23,468	16.8%	23,856	17.1%	24,037	17.2%
<b>Dependents</b>						
Active	40,116	88.1%	40,195	88.2%	41,963	88.7%
COBRA	214	0.5%	225	0.5%	226	0.5%
Early Retirees	2,118	4.7%	2,070	4.5%	1,990	4.2%
Disabled Retiree (Non-Medicare)	28	0.1%	30	0.1%	27	0.1%
Disabled Retiree (Medicare)	190	0.4%	180	0.4%	172	0.4%
Medicare Retirees	2,876	6.3%	2,896	6.4%	2,925	6.2%
Total	45,542	100.0%	45,596	100.0%	47,301	100.0%
Total Retirees	5,212	11.4%	5,176	11.4%	5,113	10.8%
<b>Members</b>						
Active	155,506	84.0%	155,117	83.9%	156,927	84.0%
COBRA	887	0.5%	830	0.4%	818	0.4%
Early Retirees	11,507	6.2%	11,256	6.1%	10,768	5.8%
Disabled Retiree (Non-Medicare)	232	0.1%	212	0.1%	202	0.1%
Disabled Retiree (Medicare)	1,226	0.7%	1,187	0.6%	1,172	0.6%
Medicare Retirees	15,714	8.5%	16,377	8.9%	17,008	9.1%
Total	185,073	100.0%	184,979	100.0%	186,895	100.0%
Total Retirees	28,680	15.5%	29,032	15.7%	29,150	15.6%

## HEALTH PLAN ENROLLMENT (Continued)

### Total Plan Enrollment Growth



<b>Annual Enrollment Growth Rates in FY16</b>			
	Active	Retirees	Total
Employees	0.0%	0.8%	0.2%
Dependents			
Spouse	1.4%	-0.8%	0.8%
Children	5.2%	-3.3%	4.9%
Total Dependents	4.4%	-1.2%	3.7%
Employees & Dependents	1.2%	0.4%	1.0%

## HEALTH PLAN ENROLLMENT (Continued)

### Active Employee Enrollment – Legacy & Horizon Employees – Base & Select Coverage

House Bill 26, as enacted by the Legislature during 2005, included several provisions that affected the Plan beginning in CY06.

“Horizon” refers to an employee or retiree who was initially hired on or after January 1, 2006. “Legacy” refers to an employee or retiree who was initially hired prior to January 1, 2006.

The Plan has two coverage options that are available to all employees:

1. “Base” coverage is a High Deductible Health Plan designed to meet the federal requirements for use with Health Savings Accounts.
2. “Select” coverage is a traditional health insurance plan that has a separate deductible applicable to prescription drug benefits.

The State pays 100% of the premium for Base coverage.

Prior to January 1, 2011, the State also paid 100% of the premium for a Legacy employee who chose Select coverage. Beginning January 1, 2011, Legacy employees must pay a monthly premium of \$20 for Select coverage.

Horizon employees have always had to pay a portion of the premium for Select coverage. Beginning January 1, 2011, and continuing thru 2016, Horizon employees must pay a monthly premium of \$38 for Select coverage. During CY10, the active employee monthly premium differential between Select and Base coverage was \$18.

As of January 1, 2011 and continuing thru 2015, the monthly premium paid for by the State is \$356 for each active employee. The State makes the same contribution for all employees for either Base or Select coverage.

### Analysis of Active Employee Enrollment – Legacy & Horizon Employees – Base & Select Coverage

Historically, very few Legacy employees have chosen Base coverage (High Deductible Health Plan). However, Base coverage is selected by a significantly higher proportion of Horizon employees.

#### % of Active Employees Choosing Base Coverage (HDHP)

	Legacy Employees	Horizon Employees
CY05	0.1%	N/A
CY06	0.3%	20.0%
CY07	0.5%	18.4%
CY08	0.6%	15.4%
CY09	0.6%	13.2%
CY10	0.6%	11.8%
CY11	1.9%	14.7%
CY12	2.5%	16.9%
CY13	3.2%	18.8%
CY14	3.8%	20.5%
CY15	4.4%	22.0%
CY16 YTD	4.3%	21.0%

## HEALTH PLAN ENROLLMENT (Continued)

		<b>Analysis of Average Active Employee Enrollment</b>								
Year	Months	Legacy Employees			Horizon Employees			Percent of Total		
		Select	Base	Total	Select	Base	Total	Legacy	Horizon	
CY06	1-12	112,298 99.7%	365 0.3%	112,663 100.0%	3,927 80.0%	981 20.0%	4,908 100.0%	95.8%	4.2%	
CY07	1-12	104,627 99.5%	561 0.5%	105,188 100.0%	11,730 81.6%	2,646 18.4%	14,376 100.0%	88.0%	12.0%	
CY08	1-12	98,928 99.4%	627 0.6%	99,555 100.0%	18,849 84.6%	3,423 15.4%	22,272 100.0%	81.7%	18.3%	
CY09	1-12	94,170 99.4%	600 0.6%	94,770 100.0%	24,740 86.8%	3,762 13.2%	28,501 100.0%	76.9%	23.1%	
CY10	1-12	88,510 99.4%	570 0.6%	89,080 100.0%	28,531 88.2%	3,821 11.8%	32,352 100.0%	73.4%	26.6%	
CY11	1-12	81,000 98.1%	1,544 1.9%	82,544 100.0%	30,182 85.3%	5,208 14.7%	35,390 100.0%	70.0%	30.0%	
CY12	1-12	75,430 97.5%	1,900 2.5%	77,329 100.0%	32,938 83.1%	6,676 16.9%	39,613 100.0%	66.1%	33.9%	
CY13	1-12	70,029 96.8%	2,289 3.2%	72,318 100.0%	35,373 81.2%	8,183 18.8%	43,556 100.0%	62.4%	37.6%	
CY14	1-12	64,940 96.2%	2,530 3.8%	67,471 100.0%	37,887 79.5%	9,799 20.5%	47,686 100.0%	58.6%	41.4%	
CY15	1-12	60,401 95.6%	2,755 4.4%	63,156 100.0%	40,348 78.0%	11,375 22.0%	51,722 100.0%	55.0%	45.0%	
CY16	1-6	57,965 95.7%	2,612 4.3%	60,576 100.0%	43,308 79.0%	11,478 21.0%	54,786 100.0%	52.5%	47.5%	

### Expected Growth in Horizon Employees as a % of Total Employees

As older employees retire or otherwise leave employment, and they are replaced by employees who were first hired by the State on or after January 1, 2006, the proportion of employees who are Horizon employees grows. Over the last 12 months, the percentage of employees who were Horizon employees grew from 44.5% on 6/30/15 to 48.0% on 6/30/16, which is an average monthly increase of about 0.30%.

It is difficult to use a basic trend analysis to predict the extent to which the Horizon proportion will grow, since employee turnover rates are higher for newly hired employees. However, it is safe to assume that the Horizon proportion will grow considerably as time goes by.

If the percentage of employees who are Horizon employees were to continue to grow by an average of 0.30% per month, the Horizon proportion would grow to about 51.6% on 6/30/17, to 55.1% on 6/30/18, and to 58.7% on 6/30/19. Under that assumption, the average fiscal year Horizon enrollment proportion would grow from 46.8% in FY16 to 50.0% in FY17, 53.5% in FY18, and 57.1% in FY19.

## HEALTH PLAN ENROLLMENT (Continued)

### Historical Enrollment Growth by Premium Class

Following is a summary of the average enrollment, by premium class, for FY16 together with the enrollment growth rates within each class for the last 5 years.

Employee Enrollment Growth by Premium Class						
	Enrollment Growth Rates					Average Employee Enrollment
	FY12	FY13	FY14	FY15	FY16	FY16
Employee (Active & COBRA)	-1%	-1%	-1%	0%	0%	115,708
Spouse Only (Active & COBRA)	-11%	-9%	-6%	-5%	0%	3,911
Full Family (Active & COBRA)	-8%	-7%	-3%	-1%	3%	4,484
Children Only (All Classes)	-1%	2%	1%	2%	6%	6,344
Child Only (All classes)	-3%	-1%	0%	0%	4%	9,495
Disabled Retiree - Non Medicare	-3%	1%	-4%	-11%	-3%	176
Retired Employee - Non Medicare	0%	-3%	-2%	-2%	-5%	8,772
Retiree Spouse Only - Non Medicare	-4%	-7%	-8%	-3%	-4%	1,263
Retiree Family - Non Medicare	7%	-2%	-5%	1%	-1%	192
Retiree Family - 1 on Medicare	0%	7%	-6%	3%	2%	53
Retiree Spouse Only - Medicare	2%	2%	1%	1%	1%	2,690
Retired Employee - Medicare*	4%	5%	4%	4%	4%	15,075

\* Includes disabled retirees eligible for Medicare.

## HEALTH INSURANCE EXPERIENCE

### Premiums versus Claims

Incurred health insurance premiums are estimated to have exceeded claims (prior to administrative expenses and drug company settlements, but after drug rebates) by about \$21.8 million during FY16. Following is a summary comparison for the last several years. Note that the amounts shown for incurred claims for prior years are based upon a retroactive review of health insurance claims liabilities based on actual incurred claims.

<b>Premium versus Claims Incurred (in Millions)</b>					
	FY12	FY13	FY14	FY15	FY16
Health Premiums	\$737.6	\$727.2	\$720.7	\$718.8	\$718.4
Health Claims Incurred	\$660.6	\$685.8	\$688.5	\$661.4	\$696.6
Loss Ratio (Claims/Premium)	89.6%	94.3%	95.5%	92.0%	97.0%

Based on current claim liability estimates, incurred claims (net of subrogation receipts, claim refunds, and pharmacy rebates) increased from \$661.4 million in FY15 to \$696.6 million in FY16, an increase of 5.3%.

### Premiums versus Claims by Premium Class (Select & Base Coverage Combined)

Fiscal year 2016 paid loss ratios for the Plan as a whole appear in the Table on the following page and are summarized for the major premium classes in the table below:

<b>FY16 PAID LOSS RATIOS</b>			
<b>SELECT AND BASE COVERAGE COMBINED: LEGACY AND HORIZON EMPLOYEES</b>			
<b>Prior to Plan Expenses &amp; Drug Rebates</b>			
	<b>FY16 Monthly Average Premium</b>	<b>FY16 Monthly Paid Losses</b>	<b>FY16 Paid Loss Ratio</b>
Active (& COBRA) Employees	\$380	\$342	90%
Active (& COBRA) Dependents			
Spouse Only	\$438	\$728	166%
Full Family	\$641	\$758	118%
Child Only *	\$148	\$186	125%
Children Only *	\$307	\$343	112%
Early Retiree (Disabled)	\$433	\$2,790	645%
Early Retiree (Non-Disabled)	\$432	\$654	151%
Spouse Only	\$509	\$696	137%
Full Family	\$743	\$1,306	176%
Medicare Retirees & Spouse Only (Medicare)**	\$185	\$155	84%
* The children and child only premium classes are available to all employees.			
** Includes disabled retirees eligible for Medicare.			



## HEALTH INSURANCE EXPERIENCE (Continued)

<b>ACTUAL FISCAL YEAR 2016 PAID LOSS RATIOS BY PREMIUM CLASS</b>						
<b>SELECT AND BASE COVERAGE COMBINED: LEGACY AND HORIZON EMPLOYEES</b>						
	Active Employee	COBRA Employee	Early Retiree	Early Retiree Disabled	Medicare Retiree	Total*
<b>AVERAGE COUNT</b>						
Employee	115,120	588	8,772	176	15,075	139,731
Spouse (Regular)	3,873	38	860	12	391	5,174
Spouse (Medicare)	0	0	260	0	2,430	2,690
Family (Regular)	4,445	40	159	2	30	4,676
Child Only	9,058	32	295	4	105	9,495
Children Only	6,256	14	57	1	16	6,344
Family (1 on Medicare)	0	0	24	1	29	53
<b>PREMIUM (in millions)</b>						
Employee	525.1	2.8	45.5	0.9	33.5	607.8
Spouse (Regular)	20.3	0.2	5.2	0.1	2.4	28.2
Spouse (Medicare)	0.0	0.0	0.6	0.0	5.4	6.0
Family (Regular)	34.2	0.3	1.4	0.0	0.3	36.2
Child Only	16.1	0.1	0.5	0.0	0.2	16.9
Children Only	23.0	0.1	0.2	0.0	0.1	23.4
Family (1 on Medicare)	0.0	0.0	0.1	0.0	0.1	0.2
Total	618.8	3.4	53.6	1.0	41.9	718.7
<b>CLAIMS (in millions)</b>						
Employee	460.7	14.4	68.8	5.9	28.3	578.1
Spouse (Regular)	33.9	0.3	6.8	0.1	3.6	44.7
Spouse (Medicare)	0.0	0.0	0.5	0.0	4.1	4.7
Family (Regular)	40.4	0.5	2.8	0.0	0.2	43.8
Child Only	20.2	0.1	0.8	0.0	0.2	21.2
Children Only	25.5	0.1	0.4	0.0	0.0	26.1
Family (1 on Medicare)	0.0	0.0	0.4	0.0	0.1	0.5
Total	580.6	15.3	80.6	6.0	36.6	719.1
<b>AVERAGE PREMIUM RATE, FY16</b>						
Employee	380.11	394.31	432.36	432.53	184.96	
Spouse (Regular)	437.46	448.69	507.97	509.00	510.00	
Spouse (Medicare)	N/A	N/A	185.11	188.00	184.99	
Family (Regular)	641.25	661.56	743.09	744.00	744.00	
Child Only	148.07	153.01	154.94	155.00	155.00	
Children Only	306.78	313.06	311.74	312.00	312.00	
Family (1 on Medicare)	N/A	N/A	340.54	340.00	340.15	
<b>LOSS RATIO</b>						
Employee	88%	517%	151%	645%	85%	95%
Spouse (Regular)	167%	133%	131%	140%	150%	158%
Spouse (Medicare)	N/A	N/A	93%	136%	76%	78%
Family (Regular)	118%	145%	195%	52%	83%	121%
Child Only	125%	102%	144%	194%	81%	125%
Children Only	111%	245%	185%	37%	62%	112%
Family (1 on Medicare)	N/A	N/A	405%	92%	112%	243%
Total	94%	449%	150%	589%	87%	100%
* Totals may not agree due to rounding.			Does not include drug rebates.			

## HEALTH INSURANCE EXPERIENCE (Continued)

### Premiums versus Claims by Premium Class (Select versus Base Coverage)

Paid loss ratios for the following subsets appear in the Tables on the next 4 pages for the following premium classes and are summarized in the table below for active employees only:

1. Legacy Employees      Select Coverage
2. Legacy Employees      Base Coverage
3. Horizon Employees     Select Coverage
4. Horizon Employees     Base Coverage

<b>FY16 PAID LOSS RATIOS ACTIVE EMPLOYEES ONLY Prior to Plan Expenses &amp; Drug Rebates</b>						
	Average Number of Employees	Monthly Average Premium	Monthly Paid Losses	Paid Loss Ratio	CY15 Average Age	CY15 Average Months
<b>Legacy Employees</b>						
Select	58,510	\$376	\$402	107%	49.4	11.2
Base (HDHP)	2,692	\$356	\$196	55%	45.7	9.6
<b>Horizon Employees</b>						
Select	42,256	\$394	\$304	77%	38.1	9.8
Base (HDHP)	11,662	\$356	\$128	36%	35.6	9.0
<b>All Employees</b>						
Base & Select	115,120	\$380	\$333	88%	44.0	10.6

There are several important points to consider when reviewing and comparing the loss ratios for these separate subsets:

- The average age of Legacy employees is significantly higher than that for Horizon employees.
- All Horizon employees, and Legacy employees who chose Base coverage, are covered for well less than a full year, on average. On average, those employees have less time to meet the calendar year deductible, and therefore have fewer claims.
- These loss ratios are on a paid basis, not an incurred basis. Employee growth within a premium class automatically means that there will be a significant upward adjustment once claims are complete and loss ratios can be stated on an incurred basis. Similarly, subsets that are declining in size (e.g., Select coverage for Legacy Employees) likely will have a significant downward adjustment once claims are complete.
- Small subsets, such as Base coverage for Legacy Employees, could differ significantly from expectations simply due to random fluctuation.

Once claims are complete and once more mature experience is available, additional incurred basis loss ratio analyses need to be periodically performed. Since actual experience has not yet developed and is not mature, premium rate differentials are currently being based on analyses that do not take into account actual experience. However, once actual experience has developed over time, and analyses have been performed to eliminate the possible biases implicit in other factors (e.g., the differing age/sex characteristics of the underlying groups), that experience could serve as the basis for future premium rate differentials between premium classes.

## HEALTH INSURANCE EXPERIENCE (Continued)

<b>ACTUAL FISCAL YEAR 2016 PAID LOSS RATIOS BY PREMIUM CLASS</b>						
<b>SELECT COVERAGE: LEGACY EMPLOYEES</b>						
	Active Employee	COBRA Employee	Early Retiree	Early Retiree Disabled	Medicare Retiree	Total*
<b>AVERAGE COUNT</b>						
Employee	58,510	290	8,682	176	15,049	82,707
Spouse (Regular)	2,459	19	835	12	389	3,714
Spouse (Medicare)	0	0	260	0	2,428	2,688
Family (Regular)	2,609	23	157	2	30	2,821
Child Only	4,539	16	293	4	104	4,956
Children Only	3,756	7	56	1	16	3,836
Family (1 on Medicare)	0	0	24	1	29	53
<b>PREMIUM (in millions)</b>						
Employee	264.0	1.4	45.0	0.9	33.4	344.7
Spouse (Regular)	13.1	0.1	5.1	0.1	2.4	20.7
Spouse (Medicare)	0.0	0.0	0.6	0.0	5.4	6.0
Family (Regular)	20.3	0.2	1.4	0.0	0.3	22.1
Child Only	8.4	0.0	0.5	0.0	0.2	9.2
Children Only	14.1	0.0	0.2	0.0	0.1	14.4
Family (1 on Medicare)	0.0	0.0	0.1	0.0	0.1	0.2
Total	319.8	1.7	52.9	1.0	41.8	417.3
<b>CLAIMS (in millions)</b>						
Employee	282.1	8.2	68.0	5.9	28.3	392.5
Spouse (Regular)	25.1	0.2	6.8	0.1	3.6	35.7
Spouse (Medicare)	0.0	0.0	0.5	0.0	4.1	4.7
Family (Regular)	26.3	0.3	2.8	0.0	0.2	29.6
Child Only	9.9	0.0	0.8	0.0	0.2	10.9
Children Only	15.7	0.0	0.4	0.0	0.0	16.2
Family (1 on Medicare)	0.0	0.0	0.4	0.0	0.1	0.5
Total	359.2	8.7	79.7	6.0	36.5	490.1
<b>AVERAGE PREMIUM RATE, FY16</b>						
Employee	376.00	391.28	432.00	432.00	184.96	
Spouse (Regular)	443.00	460.33	509.00	509.00	509.00	
Spouse (Medicare)	N/A	N/A	185.11	190.00	184.99	
Family (Regular)	647.00	666.89	744.00	744.00	744.00	
Child Only	155.00	161.13	155.00	155.00	155.00	
Children Only	312.00	318.00	312.00	312.00	312.00	
Family (1 on Medicare)	N/A	N/A	340.54	340.00	340.15	
<b>LOSS RATIO</b>						
Employee	107%	601%	151%	644%	85%	114%
Spouse (Regular)	192%	171%	133%	140%	151%	172%
Spouse (Medicare)	N/A	N/A	93%	168%	76%	78%
Family (Regular)	130%	175%	197%	52%	83%	134%
Child Only	118%	73%	144%	194%	82%	118%
Children Only	112%	133%	188%	37%	62%	113%
Family (1 on Medicare)	N/A	N/A	405%	92%	112%	243%
Total	112%	513%	151%	588%	87%	117%
* Totals may not agree due to rounding.			Does not include drug rebates.			

## HEALTH INSURANCE EXPERIENCE (Continued)

<b>ACTUAL FISCAL YEAR 2016 PAID LOSS RATIOS BY PREMIUM CLASS</b>						
<b>BASE COVERAGE: LEGACY EMPLOYEES</b>						
	Active Employee	COBRA Employee	Early Retiree	Early Retiree Disabled	Medicare Retiree	Total*
<b>AVERAGE COUNT</b>						
Employee	2,692	11	63	0	0	2,766
Spouse (Regular)	104	4	22	0	0	130
Spouse (Medicare)	0	0	0	0	0	0
Family (Regular)	139	1	2	0	0	142
Child Only	305	0	0	0	0	306
Children Only	210	1	1	0	0	212
Family (1 on Medicare)	0	0	0	0	0	0
<b>PREMIUM (in millions)</b>						
Employee	11.5	0.0	0.3	0.0	0.0	11.9
Spouse (Regular)	0.5	0.0	0.1	0.0	0.0	0.6
Spouse (Medicare)	0.0	0.0	0.0	0.0	0.0	0.0
Family (Regular)	1.0	0.0	0.0	0.0	0.0	1.0
Child Only	0.4	0.0	0.0	0.0	0.0	0.4
Children Only	0.6	0.0	0.0	0.0	0.0	0.7
Family (1 on Medicare)	0.0	0.0	0.0	0.0	0.0	0.0
Total	14.0	0.1	0.4	0.0	0.0	14.5
<b>CLAIMS (in millions)</b>						
Employee	6.3	0.2	0.6	0.0	0.0	7.1
Spouse (Regular)	0.6	0.0	0.0	0.0	0.0	0.7
Spouse (Medicare)	0.0	0.0	0.0	0.0	0.0	0.0
Family (Regular)	0.6	0.0	0.0	0.0	0.0	0.6
Child Only	0.2	0.0	0.0	0.0	0.0	0.2
Children Only	0.3	0.0	0.0	0.0	0.0	0.3
Family (1 on Medicare)	0.0	0.0	0.0	0.0	0.0	0.0
Total	8.1	0.2	0.6	0.0	0.0	8.9
<b>AVERAGE PREMIUM RATE, FY16</b>						
Employee	356.00	363.00	409.00	N/A	N/A	
Spouse (Regular)	389.00	396.00	447.00	N/A	N/A	
Spouse (Medicare)	N/A	N/A	N/A	N/A	N/A	
Family (Regular)	593.00	604.00	682.00	N/A	N/A	
Child Only	101.00	103.00	116.00	N/A	N/A	
Children Only	258.00	263.00	297.00	N/A	N/A	
Family (1 on Medicare)	N/A	N/A	N/A	N/A	N/A	
<b>LOSS RATIO</b>						
Employee	55%	426%	185%	N/A	N/A	60%
Spouse (Regular)	120%	166%	34%	N/A	N/A	105%
Spouse (Medicare)	N/A	N/A	N/A	N/A	N/A	N/A
Family (Regular)	56%	35%	41%	N/A	N/A	55%
Child Only	65%	0%	0%	N/A	N/A	64%
Children Only	51%	136%	3%	N/A	N/A	51%
Family (1 on Medicare)	N/A	N/A	N/A	N/A	N/A	N/A
Total	58%	313%	138%	N/A	N/A	61%
* Totals may not agree due to rounding.			Does not include drug rebates.			

## HEALTH INSURANCE EXPERIENCE (Continued)

<b>ACTUAL FISCAL YEAR 2016 PAID LOSS RATIOS BY PREMIUM CLASS</b>						
<b>SELECT COVERAGE: HORIZON EMPLOYEES</b>						
	Active Employee	COBRA Employee	Early Retiree	Early Retiree Disabled	Medicare Retiree	Total*
<b>AVERAGE COUNT</b>						
Employee	42,256	254	24	1	26	42,560
Spouse (Regular)	1,017	14	3	0	2	1,035
Spouse (Medicare)	0	0	0	0	2	2
Family (Regular)	1,362	15	0	0	0	1,378
Child Only	3,358	13	1	0	1	3,373
Children Only	1,896	6	0	0	0	1,901
Family (1 on Medicare)	0	0	0	0	0	0
<b>PREMIUM (in millions)</b>						
Employee	199.8	1.2	0.2	0.0	0.1	201.3
Spouse (Regular)	5.4	0.1	0.0	0.0	0.0	5.5
Spouse (Medicare)	0.0	0.0	0.0	0.0	0.0	0.0
Family (Regular)	10.6	0.1	0.0	0.0	0.0	10.7
Child Only	6.2	0.0	0.0	0.0	0.0	6.3
Children Only	7.1	0.0	0.0	0.0	0.0	7.1
Family (1 on Medicare)	0.0	0.0	0.0	0.0	0.0	0.0
Total	229.1	1.5	0.2	0.0	0.1	230.9
<b>CLAIMS (in millions)</b>						
Employee	154.2	5.5	0.2	0.0	0.0	160.0
Spouse (Regular)	7.5	0.1	0.0	0.0	0.0	7.6
Spouse (Medicare)	0.0	0.0	0.0	0.0	0.0	0.0
Family (Regular)	11.5	0.1	0.0	0.0	0.0	11.7
Child Only	8.6	0.0	0.0	0.0	0.0	8.6
Children Only	8.4	0.1	0.0	0.0	0.0	8.5
Family (1 on Medicare)	0.0	0.0	0.0	0.0	0.0	0.0
Total	190.3	5.8	0.2	0.0	0.0	196.4
<b>AVERAGE PREMIUM RATE, FY16</b>						
Employee	394.00	403.00	610.96	620.00	184.34	
Spouse (Regular)	443.00	452.00	697.00	N/A	697.00	
Spouse (Medicare)	N/A	N/A	N/A	180.00	185.00	
Family (Regular)	647.00	660.00	N/A	N/A	N/A	
Child Only	155.00	158.00	155.00	N/A	155.00	
Children Only	312.00	319.00	N/A	N/A	N/A	
Family (1 on Medicare)	N/A	N/A	N/A	N/A	N/A	
<b>LOSS RATIO</b>						
Employee	77%	449%	134%	818%	51%	80%
Spouse (Regular)	139%	85%	8%	N/A	88%	138%
Spouse (Medicare)	N/A	N/A	N/A	0%	17%	17%
Family (Regular)	109%	101%	N/A	N/A	N/A	109%
Child Only	137%	97%	216%	N/A	0%	137%
Children Only	119%	396%	N/A	N/A	N/A	120%
Family (1 on Medicare)	N/A	N/A	N/A	N/A	N/A	N/A
Total	83%	395%	122%	781%	56%	85%
* Totals may not agree due to rounding.			Does not include drug rebates.			

## HEALTH INSURANCE EXPERIENCE (Continued)

<b>ACTUAL FISCAL YEAR 2016 PAID LOSS RATIOS BY PREMIUM CLASS</b>						
<b>BASE COVERAGE: HORIZON EMPLOYEES</b>						
	Active Employee	COBRA Employee	Early Retiree	Early Retiree Disabled	Medicare Retiree	Total*
<b>AVERAGE COUNT</b>						
Employee	11,662	33	3	0	0	11,698
Spouse (Regular)	293	1	0	0	0	294
Spouse (Medicare)	0	0	0	0	0	0
Family (Regular)	334	1	0	0	0	335
Child Only	857	3	0	0	0	861
Children Only	394	0	0	0	0	395
Family (1 on Medicare)	0	0	0	0	0	0
<b>PREMIUM (in millions)</b>						
Employee	49.8	0.1	0.0	0.0	0.0	50.0
Spouse (Regular)	1.4	0.0	0.0	0.0	0.0	1.4
Spouse (Medicare)	0.0	0.0	0.0	0.0	0.0	0.0
Family (Regular)	2.4	0.0	0.0	0.0	0.0	2.4
Child Only	1.0	0.0	0.0	0.0	0.0	1.0
Children Only	1.2	0.0	0.0	0.0	0.0	1.2
Family (1 on Medicare)	0.0	0.0	0.0	0.0	0.0	0.0
Total	55.8	0.2	0.0	0.0	0.0	56.0
<b>CLAIMS (in millions)</b>						
Employee	18.0	0.5	0.0	0.0	0.0	18.5
Spouse (Regular)	0.8	0.0	0.0	0.0	0.0	0.8
Spouse (Medicare)	0.0	0.0	0.0	0.0	0.0	0.0
Family (Regular)	2.0	0.0	0.0	0.0	0.0	2.0
Child Only	1.4	0.0	0.0	0.0	0.0	1.5
Children Only	1.0	0.0	0.0	0.0	0.0	1.0
Family (1 on Medicare)	0.0	0.0	0.0	0.0	0.0	0.0
Total	23.2	0.5	0.0	0.0	0.0	23.7
<b>AVERAGE PREMIUM RATE, FY16</b>						
Employee	356.00	364.71	534.33	N/A	N/A	
Spouse (Regular)	389.00	396.00	N/A	N/A	N/A	
Spouse (Medicare)	N/A	N/A	N/A	N/A	N/A	
Family (Regular)	593.00	604.00	N/A	N/A	N/A	
Child Only	101.00	103.00	N/A	N/A	N/A	
Children Only	258.00	263.00	N/A	N/A	N/A	
Family (1 on Medicare)	N/A	N/A	N/A	N/A	N/A	
<b>LOSS RATIO</b>						
Employee	36%	342%	11%	N/A	N/A	37%
Spouse (Regular)	55%	6%	N/A	N/A	N/A	55%
Spouse (Medicare)	N/A	N/A	N/A	N/A	N/A	N/A
Family (Regular)	83%	298%	N/A	N/A	N/A	84%
Child Only	139%	346%	N/A	N/A	N/A	140%
Children Only	84%	72%	N/A	N/A	N/A	84%
Family (1 on Medicare)	N/A	N/A	N/A	N/A	N/A	N/A
Total	41%	325%	11%	N/A	N/A	42%
* Totals may not agree due to rounding.			Does not include drug rebates.			

## HEALTH INSURANCE EXPERIENCE (Continued)

### Adult Wellness Benefits

The Plan has provided benefits for wellness/preventive services for participants who are age 18 and older since January 1, 2000. Adult wellness benefits are based on 100% of the allowable charge, require the use of network providers, and are limited to listed services that vary based on the age and sex of the member. Effective January 1, 2010, adult wellness services were not subject to an annual maximum and coverage was provided for one additional office visit. Effective January 1, 2012, participants no longer were required to complete a Health Risk Assessment to receive wellness benefits.

Following is a summary of how those benefits have changed since the inception of adult wellness benefits in CY2000.

#### Summary of In Network Adult Wellness Benefits

Years	Annual Maximum	Subject to Deductible	Other Requirements or Conditions
2000-01	\$150	Yes	For ages 18-44 benefit was for every 2 years
2002-04	\$200	Yes	
2005	\$250	Yes	
2006	\$250	No	Limited to \$250 without an HRA
2007	\$300	No	
2008-09	\$1,000	No	Required completion of a Health Risk Assessment (HRA)
2010-11	No Max	No	Required completion of a Health Risk Assessment (HRA)
2012-16	No Max	No	A Health Risk Assessment is no longer required

### Wellness/Preventive Benefit Costs

Following is a summary of the adult and child wellness benefits (medical benefits only) incurred in CY07 thru CY15:

#### Wellness Benefits Incurred (in Millions) Medical Benefits Only (i.e., not Including Drugs)

	Adults	% Change	Children	% Change	Total	% Change
<b>CY07</b>	\$11.6		\$2.8		\$14.3	
<b>CY08</b>	\$18.6	61%	\$4.6	66%	\$23.2	62%
<b>CY09</b>	\$17.1	-8%	\$5.9	27%	\$23.0	-1%
<b>CY10</b>	\$25.4	49%	\$6.7	15%	\$32.2	40%
<b>CY11</b>	\$27.1	7%	\$6.7	0%	\$33.8	5%
<b>CY12</b>	\$29.7	10%	\$7.7	14%	\$37.4	10%
<b>CY13</b>	\$32.1	8%	\$7.7	1%	\$39.8	7%
<b>CY14</b>	\$33.0	3%	\$8.3	7%	\$41.2	4%
<b>CY15</b>	\$33.4	1%	\$8.4	1%	\$41.8	1%

## HEALTH INSURANCE EXPERIENCE (Continued)

### Evaluation of Select Coverage's PCP Copay Feature

A study of Select coverage experience in the first 6 months of 2016, with a focus on the effect of the new PCP copay feature added January 1, 2016, was prepared using the Advantage Suite system from Truven Data Analytics, and a separate report has been provided to the Office of Insurance. A summary of the findings in that report are included in this Report.

Comparing the stats on Select coverage for non-wellness claims for the first 6 months of 2016 versus the first 6 months of 2015:

- Non-wellness visits per member to PCP's increased by an estimated 7.4%.
- Allowed amounts per PCP visit on non-wellness claims declined by an estimated 1.8%.
- Allowed amounts per member for non-wellness PCP visits increased by 5.4% and allowed amounts per member for other non-wellness medical claims increased by 3.2%.
- Net payments per member for non-wellness claims increased by 202.9% for PCP office visits and by 0.9% for other non-wellness medical claims.
- Overall, total Select coverage net payments per member increased by 6.9% in the first 6 months and are projected to increase by 3.9-4.5% in the second 6 months and by 5.2-5.6% for all of 2016. (The Non-Medicare medical trend rate for CY16 in the CY15 Actuarial Report was 5.5%.)

The increased cost of the PCP copay feature is felt more in the first part of the year, as illustrated by the following chart.

### Ratio of Non-Wellness Net Payments to Allowed Amounts

Month		PCP Office Vistis			Other Non-Wellness Medical Claims		
		2016	2015	Change	2016	2015	Change
1	Projected complete	77%	13%	65%	60%	62%	-1.3%
2	Projected complete	77%	17%	60%	66%	68%	-1.3%
3	Projected complete	76%	24%	52%	70%	71%	-1.7%
4	Projected complete	75%	31%	44%	73%	73%	-0.1%
5	Projected complete	75%	35%	40%	74%	76%	-2.3%
6	Projected complete	75%	41%	34%	74%	77%	-2.9%
7	Projected	76%	45%	31%	77%	78%	-1.5%
8	Projected	76%	47%	29%	77%	79%	-1.5%
9	Projected	76%	49%	27%	79%	80%	-1.5%
10	Projected	76%	51%	25%	80%	81%	-1.5%
11	Projected	76%	52%	24%	81%	82%	-1.5%
12	Projected	76%	56%	20%	82%	83%	-1.5%
Mos 1-6		76%	26%	49%	70%	71%	-1.6%
Mos 7-12		76%	50%	26%	79%	81%	-1.5%
Mos 1-12		76%	38%	38%	75%	76%	-1.6%



## HEALTH INSURANCE EXPERIENCE (Continued)

### Claims Cost per Member and Trend Rates for Non-Drug Claims

The table below shows – for non-drug claims – average costs per member per month for medical claims, as well as the resulting trend rates. Results are separated for members who have regular coverage, i.e., for whom the Plan is primary, versus those who have Medicare as primary coverage. Costs and trends are shown on both a calendar year and fiscal year basis.

The Table below also shows the extent to which claims costs are complete, by period. For periods which have completion factors well less than 100%, the claims costs shown are heavily dependent on current estimates of the liability for outstanding claims. Therefore, the claims costs and trend rates for those periods should be considered as estimates.

It is useful to review the trends from year-to-year on a calendar year basis because most major Plan benefit and operational changes occur on a calendar year basis. For example, the negative trend rates in CY11 were the result of the significant benefit changes in CY11 – primarily the increase in the Plan's deductibles. The significant negative trend rate in CY14 was primarily the result of the improvements in network pricing and participation, particularly with respect to out-of-state claims. As of January 1, 2014, the Plan began participation in the Blue Card Network on out-of-state claims,

#### Growth in Incurred Claims per Member - NON DRUG

	Plan Primary			Medicare Primary		
	Percent Complete	PMPM	Trend	Percent Complete	PMPM	Trend
CY11	100.0%	\$249.12	-6.0%	100.0%	\$147.50	-1.7%
CY12	100.0%	\$256.90	3.1%	100.0%	\$147.50	0.0%
CY13	100.0%	\$268.02	4.3%	100.0%	\$151.59	2.8%
CY14	100.0%	\$239.24	-10.7%	100.2%	\$146.10	-3.6%
CY15*	99.3%	\$239.99	0.3%	98.6%	\$158.09	8.2%
FY11	100.0%	\$259.91	1.9%	100.0%	\$149.53	0.6%
FY12	100.0%	\$251.69	-3.2%	100.0%	\$147.07	-1.6%
FY13	100.0%	\$261.09	3.7%	100.0%	\$151.33	2.9%
FY14	100.0%	\$256.30	-1.8%	100.1%	\$147.04	-2.8%
FY15	99.9%	\$237.13	-7.5%	99.7%	\$149.24	1.5%
FY16*	90.2%	\$248.80	4.9%	84.8%	\$157.54	5.6%

\* Estimates

## HEALTH INSURANCE EXPERIENCE (Continued)

### Prescription Drug Costs

**Description of Plan Benefits for Prescription Drugs** – Following is a summary of the drug benefits applicable to Select coverage for the last several years:

Description of Prescription Drug Benefits							
CALENDAR YEARS:	2002	2003	2005	2007	2009	2010	2014
		2004	2006	2008		2013	2016
<b>DEDUCTIBLE</b>	\$50	\$50	\$50	\$50	\$50	\$75	\$75
<b>COPAYS</b>							
Generic	\$10	\$11	\$12	\$13	\$12	\$12	\$12
Single Source - Preferred	\$25	\$27	\$30	\$33	\$36	\$40	\$45
Single Source - Non Preferred	\$35	\$42	\$50	\$55	\$60	\$65	\$70
Multi-Source with Generic Equiv	*	*	*	*	*	*	*

\* Copay equals the generic copay, plus the excess of the brand cost over generic cost.

Drug benefits under Base coverage (High Deductible Health Plan) are also subject to the above copays, but there is no separate drug deductible under that coverage. Effective January 1, 2006, Medicare eligible retirees no longer were eligible for drug benefits under the Plan since they were eligible for Medicare Part D drug coverage.

**Drug Claims Incurred** – Gross drug claims incurred, prior to estimated rebates, increased from \$166.4 million in FY15 to \$183.5 million in FY16, an increase of 10%. After estimated incurred rebates, net drug claims increased from \$152.6 million in FY15 to \$159.7 million in FY16, an increase of 5%.

### Estimated Drug Benefit Costs In Millions

	Drug Benefits	Drug Rebates	Net Drug Costs	Drug Company Settlements		Increase Rates prior to Drug Company Settlements		
				Amount	Net Costs	Drug Benefits	Drug Rebates	Net Drug Costs
FY12	\$121.3	-\$10.2	\$111.1	-\$1.0	\$110.1	5%	4%	5%
FY13	\$132.5	-\$9.3	\$123.2	-\$2.7	\$120.5	9%	-8%	11%
FY14	\$151.0	-\$10.6	\$140.5	-\$11.2	\$129.3	14%	13%	14%
FY15	\$166.4	-\$13.8	\$152.6	\$0.0	\$152.6	10%	31%	9%
FY16	\$183.5	-\$23.8	\$159.7	\$0.0	\$159.7	10%	72%	5%

### Drug Rebates

The Plan receives rebate payments as a result of contracts in place between the pharmacy benefit managers and various drug manufacturers. On January 1, 2016, the Plan changed pharmacy benefit managers from OPTUMRx (formerly Catamaran) to Prime Therapeutics. Under the Prime contract, not only are rebate amounts much greater, but they are received much more quickly.

## HEALTH INSURANCE EXPERIENCE (Continued)

### Prescription Drug Costs (Continued)

#### Drug Rebates (Continued)

**OPTUMRx** – Following is an analysis of the rebates incurred for the last 3 calendar years with OPTUMRx. Under the OPTUMRx contract, the 1<sup>st</sup> rebate payment for a quarter is received by the end of the 8<sup>th</sup> month following that quarter. Sometimes all rebates for a quarter are received with the first payment for that quarter, and sometimes there is an additional lag.

#### INCURRED QUATERLY REBATES - OPTUMRx

Calendar Quarter	Incurring & Received Rebate	Received Within 8 Months	Received After 8 Months	OPTUMRx Estimate
2013 Q1	2,486,548	2,352,143	134,405	
2013 Q2	2,232,970	2,232,970		
2013 Q3	2,261,242	2,261,242		
2013 Q4	2,674,666	2,674,666		
2014 Q1	2,662,566	2,221,603	440,963	
2014 Q2	2,955,414	2,955,414		
2014 Q3	3,369,347	3,369,347		
2014 Q4	3,810,726	3,216,201	594,525	
2015 Q1	3,009,666	2,431,437	578,229	
2015 Q2	3,613,391	2,918,606	694,786	
2015 Q3	3,379,037	3,379,037		
2015 Q4	4,139,382	4,139,382	Unknown	4,198,773

In April of this year, the Plan received a summary estimate from OPTUMRx which stated that the estimated rebates for 2015 Q4 were approximately \$4.2 million. The Plan received \$4,139,382 in August.

**Prime Therapeutics** – Under the Prime contract, the 1<sup>st</sup> rebate payment for a quarter is to be received within 4 months of the end of the quarter, with a 2<sup>nd</sup> payment within 6 months of the end of the quarter, and a final payment within one year of the end of the quarter. Prime provided a detailed estimate of the rebates for each quarter within 2 months following the end of the quarter.

#### INCURRED QUATERLY REBATES - PRIME THERAPEUTICS

Calendar Quarter	Incurring & Received Rebate	Received Within 4 Months	Received After 4 Months	Prime Estimate
2016 Q1	7,600,591	7,600,591	Unknown	7,866,075
2016 Q2	Unknown	Unknown	Unknown	8,528,890

## HEALTH INSURANCE EXPERIENCE (Continued)

### Prescription Drug Costs (Continued)

**Increase in Generic Drug Utilization** – As illustrated in the table below, the use of generic drugs has increased significantly over the last 5½ years.

Year	Scripts per Member Per Month*			Generic Utilization
	Total	Brand	Generic	
CY11	1.149	0.309	0.840	73.1%
CY12	1.154	0.275	0.879	76.2%
CY13	1.177	0.258	0.919	78.1%
CY14	1.182	0.234	0.948	80.2%
CY15	1.212	0.204	1.008	83.2%
CY16 YTD	1.268	0.197	1.071	84.5%

**Analysis of Prescription Drug Trends** – Following is a review of trends, by quarter, over the last 2½ years. All trends shown are annual trends; for example, 2014 Q1 is compared to 2013 Q1.

### Annual Trends in Net Pay Per Member, By Quarter

	Increase in Membership			Pre-Rebate Annual Trends			
	Emp	Spouse	Child	Emp	Spouse	Child	All
<b>2014 Q1</b>	0%	-2%	2%	10%	12%	17%	10%
<b>2014 Q2</b>	-1%	-4%	1%	10%	13%	13%	10%
<b>2014 Q3</b>	-1%	-3%	0%	10%	11%	23%	11%
<b>2014 Q4</b>	0%	-3%	1%	9%	9%	11%	9%
<b>2015 Q1</b>	-2%	-4%	-1%	11%	13%	5%	11%
<b>2015 Q2</b>	-1%	-2%	1%	13%	16%	20%	14%
<b>2015 Q3</b>	-1%	-2%	2%	10%	6%	11%	9%
<b>2015 Q4</b>	-1%	-1%	3%	12%	14%	13%	12%
<b>2016 Q1</b>	-1%	1%	6%	15%	3%	3%	11%
<b>2016 Q2</b>	0%	3%	7%	10%	-6%	3%	6%

There has been a recent increase in child and spouse enrollment versus the same period one year earlier, and recent net pay trends for children and spouses have been much lower than recent net pay trends for employees. It is believed that recent trends in costs for employees is a better indicator of future trends.

Part of the reduction in net pay trends in 2016 Q2 is believed to be due to a more complete implementation of the Prime formulary on April 1. During the implementation of the Prime formulary, preferred drugs under OPTUMRx that were non-preferred under Prime were given a 3 month “grace period” during which they were subject to the lower preferred brand copays.

	Number of Scripts		
	2016 Q1	2016 Q2	Change
<b>Generic</b>	535,842	543,319	7,477
<b>Preferred</b>	68,139	57,768	-10,371
<b>Non-Preferred &amp; Specialty</b>	30,681	41,849	11,168
<b>Total</b>	634,662	642,936	8,274

## HEALTH INSURANCE EXPERIENCE (Continued)

### Analysis of Incurred Medical and Drug Claims Costs by Premium Class

Following is an analysis of incurred claims for the last 5 fiscal years. This analysis includes both drug and non-drug claims, including an allocation of drug rebates to each class in proportion to incurred drug claims.

For non-Medicare classes, this analysis is based on an allocation of estimated incurred non-Medicare claims, retroactively stated, in proportion to paid claims by premium class. For Medicare classes, this analysis relied on paid data by incurred month using the Truven Health Analytics database, and the application of completion factors. This analysis does not include Plan expenses.

As indicated by the ratios of costs by premium class to the active employee cost, the costs by premium class bear a reasonably close relationship from year-to-year.

<b>Analysis of Incurred Claims Costs by Premium Class</b>					
	<b>FY12</b>	<b>FY13</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16*</b>
<b>Monthly Cost</b>					
Employee	\$299	\$317	\$322	\$310	\$335
Spouse Only	\$669	\$741	\$759	\$711	\$712
Full Family	\$779	\$746	\$732	\$735	\$711
Children Only	\$276	\$319	\$318	\$302	\$321
Child Only	\$171	\$206	\$223	\$166	\$171
Disabled Retiree	\$3,488	\$2,969	\$3,133	\$2,773	\$2,660
Early Retiree	\$560	\$596	\$594	\$613	\$618
Retiree Spouse (Non-Medicare)	\$600	\$540	\$625	\$685	\$656
Retiree/Spouse Combined (Medicare)	\$146	\$150	\$147	\$149	\$157
<b>Annual Rate of Increase</b>					
Employee		6.0%	1.7%	-3.6%	8.0%
Spouse Only		10.6%	2.5%	-6.3%	0.1%
Full Family		-4.2%	-1.9%	0.4%	-3.3%
Children Only		15.7%	-0.5%	-4.8%	6.1%
Child Only		20.2%	8.2%	-25.4%	2.9%
Disabled Retiree		-14.9%	5.5%	-11.5%	-4.1%
Early Retiree		6.5%	-0.3%	3.3%	0.8%
Retiree Spouse (Non-Medicare)		-9.9%	15.8%	9.6%	-4.2%
Retiree/Spouse Combined (Medicare)		2.8%	-2.4%	1.3%	6.0%
<b>Ratio to Employee Cost</b>					
Employee	1.00	1.00	1.00	1.00	1.00
Spouse Only	2.24	2.34	2.36	2.29	2.13
Full Family	2.61	2.36	2.27	2.37	2.12
Children Only	0.92	1.01	0.99	0.97	0.96
Child Only	0.57	0.65	0.69	0.54	0.51
Disabled Retiree	11.68	9.38	9.73	8.94	7.94
Early Retiree	1.87	1.88	1.84	1.98	1.84
Retiree Spouse (Non-Medicare)	2.01	1.71	1.94	2.21	1.96
Retiree/Spouse Combined (Medicare)	0.49	0.47	0.46	0.48	0.47
* Based on estimates of outstanding claims as of 6/30/16.					

## HEALTH INSURANCE EXPERIENCE (Continued)

### Retiree & Dependent Rate Subsidies

Historically, premium rates for retirees - and for most active dependent premium classes - have been set below true actuarial cost. In effect, the State subsidizes those premium classes. The experience of the Plan in FY16 was separated by premium class in order to evaluate the amount of those subsidies. In the tables below, Plan expenses were allocated in proportion to the number of employees and retirees; retiree life insurance gains were allocated to early retirees, i.e., for retirees for whom the Plan is Primary; and all interest income was allocated to active employees.

<b>FY16 Plan Subsidy Costs</b>				
	<u>Premiums</u>	<u>Claims</u>	<u>Expenses less Other Income</u>	<u>Gain (Loss)</u>
Active Dependents	\$93,620,152	(\$116,014,385)	(\$5,034,249)	(\$27,428,482)
COBRA Employees	3,407,493	(14,898,740)	(169,738)	(11,660,985)
Disabled Retirees - Plan Primary	1,025,018	(5,830,555)	(50,966)	(4,856,503)
Retirees - Plan Primary	53,582,271	(77,491,459)	(2,020,687)	(25,929,876)
Retirees - Medicare Primary	41,868,402	(36,664,834)	(4,355,153)	848,415
Disabled Retirees - Life Insurance	-	(1,484,328)	-	(1,484,328)
Subtotal - Subsidized Classes	\$193,503,336	(\$252,384,301)	(\$11,630,794)	(\$70,511,760)
Active Employees	\$524,862,885	(\$445,695,505)	(\$23,698,263)	\$55,469,118
Total Plan	\$718,366,220	(\$698,079,806)	(\$35,329,056)	(\$15,042,642)

The table below shows the average monthly subsidy cost (a) per active employee for each active employee who purchases dependent coverage and (b) per retiree for each retiree who purchases either retired employee only coverage or both retired employee and dependent coverage. This table illustrates the extent to which monthly premium rates would have to be increased for those employee subgroups in order to eliminate the Plan's subsidy cost. For example, during FY16 an average of 23,633 active employees (or 20.5% of active employees) covered one or more of their dependents. The State incurred an average monthly subsidy cost of \$96.72 for each of those active employees. Similarly, the State incurred an average monthly subsidy cost of \$246.34 for each early retiree who was not disabled.

<b>FY16 Plan Subsidy Costs per Active or Retired Employee</b>			
<u>Employee Subgroup</u>	<u>Average Employee Count</u>	<u>Total Plan Subsidy</u>	<u>Monthly Subsidy per Employee or Retiree</u>
Active Employees with Dependent Coverage	23,633	\$27,428,482	\$96.72
COBRA Employees	588	\$11,660,985	\$1,653.92
Disabled Retiree - Plan Primary	176	\$4,856,503	\$2,294.05
Retirees - Plan Primary	8,772	\$25,929,876	\$246.34
Retirees - Medicare Primary	15,075	(\$848,415)	(\$4.69)

## HEALTH INSURANCE EXPERIENCE (Continued)

### Retiree & Dependent Rate Subsidies (Continued)

The table that follows represents the FY16 subsidy costs as a *cost per active employee*. This table shows that monthly subsidy costs increased the Plan's monthly cost per active employee by \$51.04 in FY16.

Effect of Plan Subsidy Costs on Active Employee Premium Rate		
	FY16	
	Annual Costs	Monthly Cost per Active Employee
Total Active Employee Costs	\$469,393,767	\$339.78
Subsidy Costs for:		
COBRA Employees	11,660,985	8.44
Dependents of Active Employees	27,428,482	19.85
Disabled Retirees - Plan Primary	4,856,503	3.52
Retirees - Plan Primary	25,929,876	18.77
Retirees - Medicare Primary	(848,415)	(0.61)
Disabled Retirees - Life Insurance	1,484,328	1.07
Subtotal - Subsidy Costs	\$70,511,760	\$51.04
Total Current Year's Costs	\$539,905,527	\$390.83
plus Future Costs Funded by Current Year's Premium	(15,042,642)	(10.89)
Total Active Employee Premium Current Year	\$524,862,885	\$379.94

## CY17 PLAN CHANGES

### Select & Base Coverage Out-of-Pocket Limits

Effective January 1, 2017, Base Coverage and Select Coverage are being modified as generally described in the charts below. Both coverage options will now have a \$2,500 in-network medical coinsurance maximum and a \$6,500 combined in-network out-of-pocket limit (deductible(s), coinsurance, and copays).

<b>CY17 BASE COVERAGE</b>						
	Combined Deductible*	Medical Coinsurance	Medical Coinsurance Maximum	Drug Copays	Combined Out-of- Pocket Limit	
<b><u>Self Only Coverage</u></b>						
In Network	\$1,800	20%	\$2,500	\$12/\$45/\$70	\$6,500	
Out-of-Network	\$1,800	40%	\$3,500	\$12/\$45/\$70		
<b><u>Family Coverage</u></b>						
					Per Family	Each Person
In Network	\$3,000	20%	\$5,000	\$12/\$45/\$70	\$13,000	\$6,500
Out-of-Network	\$3,000	40%	\$7,000	\$12/\$45/\$70		
* Drugs on the HSA Preventive Drug list are subject only to a separate \$75 deductible.						

<b>CY17 SELECT COVERAGE</b>						
	Separate Medical Plan			Separate Drug Plan		Combined
	*Individual Medical Deductible	*Medical Coinsurance	Individual Coinsurance Maximum	Individual Drug Deductible	Drug Copays	Individual Out of Pocket Limit
				\$75	\$12/\$45/\$70	
In Network	\$1,000	20%	\$2,500			\$6,500
Out-of-Network	\$2,000	40%	\$3,500			
* PCP Copay Feature (In-Network Only)						
PCP office visit charges are not subject to the deductible.						
PCP office visit copay: \$25 (applies to the evaluation & management charge)						
PCP office visits charges other than the evaluation & management charge: 20% coinsurance						
Family Medical Deductibles are limited to 2 times the Individual Medical Deductibles.						
Family OOP Limits are limited to 2 times the Individual OOP Limits.						

### Base Coverage Preventive Drugs

Except for those drugs that are classified as preventive under ACA and are therefore covered at 100%, all other drugs under Base Coverage are currently subject to the combined medical and drug deductible of \$1,800 for Self Only Coverage and \$3,000 for Family Coverage. Effective January 1, 2017, drugs that appear on the Prime Therapeutics "HSA Preventive Drug" list (that do not also appear on the ACA Preventive Drug list) will not be subject to the full combined medical and drug deductible. Rather, they will be subject to a separate \$75 preventive drug deductible and normal drug copays. In 2017, Base and Select drug coverage will be the same for these preventive drugs.



## **CY17 PLAN CHANGES (Continued)**

### **Preventive Wellness Services**

The Plan is required by ACA to cover all preventive services recommended by the United States Preventive Services Task Force (USPSTF), at no member cost sharing. Recently, the USPSTF has removed or modified their recommended services, and the Board voted to change the list of preventive services that the Plan covers, at no member cost sharing, to conform with the recommended list (to the extent that the recommended changes are not inconsistent with other State law). The services removed or modified will still be eligible for benefits, subject to the same rules and benefit provisions as other services. The Plan anticipates a savings of approximately \$1.6 million as a result of these changes.

### **Telemedicine**

The Plan intends to begin covering Telemedicine services beginning January 1, 2017. Basic Telemedicine services will be subject to a \$10 copayment. Telemedicine will not be subject to the deductible on Select coverage, but will be subject to the deductible on Base coverage, as required by IRS rules for a qualified high deductible health plan.

## HISTORICAL HEALTH INSURANCE RATE INCREASES

### Summary of Active Employee Rate Increases from 1986 through January 2016

Year	Increase	Effective Date
1986	0%	
1987	0%	
1988	0%	
1989	6%	July 1, 1989
1990	10%	July 1, 1990
1991	20%	July 1, 1991
1992	25%	February 1, 1992
1993	5%	July 1, 1993
1994	0%	
1995	0%	
1996	0%	
1997	10%	July 1, 1997
1998	4.5%	July 1, 1998 (10% State Plan, 0% School Plan)
1999	9%	July 1, 1999 (3% State Plan, 14% School Plan)
2000	3%	January 1, 2000
	12%	July 1, 2000
2001	6%	July 1, 2001
2002	7%	July 1, 2002
2003	4%	July 1, 2003
2004	23%	July 1, 2004
2005	9%	July 1, 2005
2006	11%	July 1, 2006
2007	5%	July 1, 2007
2008	1.5%	July 1, 2008
2009	0%	
2010	0%	
2011	4.2%	January 1, 2011
2012	0%	
2013	0%	
2014	0%	
2015	0%	
2016	0%	

As of July 1, 2016, the above rate increase history is equivalent to a compound annual rate of:

- 5.3% for the last 20 years
- 1.0% for the last 10 years
- 0.0% for the last 5 years

### Dependent and Retiree Rate Increases

Rate increases for the last 6 years for dependents and retirees are illustrated in the Table below:

Average Dependent & Retiree Rate Increases						
	1/1/11	1/1/12	1/1/13	1/1/14	1/1/15	1/1/16
Dependents of Active Employees	15%	0%	0%	0%	0%	0%
Non-Medicare Retirees	4%	0%	0%	0%	0%	0%
Dependents of Retired Employees	15%	0%	0%	0%	0%	0%
Medicare Retirees	15%	2%	0%	0%	0%	-5%

## **LIFE INSURANCE**

### **Current Life Insurance Contract**

The life insurance plan of the State has been insured with Minnesota Life Insurance Company since January 1, 2009. The life insurance policy with Minnesota Life limits the amount of life insurance premiums to the amount of claims actually paid, plus contractual administration charges, up to a stated premium maximum.

### **Life Insurance Benefits For Active Employees**

The amount of life insurance and accidental death benefit insurance currently available to active employees is equal to 2 times the employee's annual wage rounded to the next highest \$1,000, subject to a minimum of \$30,000 and a maximum of \$100,000. The current benefit level has been in effect since April 10, 1995.

### **Life Insurance Benefits - Employees of Public School Districts, Community/Junior Colleges, and Public Libraries**

Employees of public school districts, community/junior colleges, and public libraries were first eligible for life insurance benefits on the same basis as State employees, effective October 1, 1999. On October 1, 1999, any public school district, community/junior college, or public library could also elect to remain with an existing policy or policies of group life insurance approved by the Health Insurance Management Board. Legislation passed in 2004 gave those school districts, community/junior colleges and public libraries that previously elected to join the Plan the one-time right to secure life insurance on the same basis as those who opted out of the Plan on October 1, 1999. As a result of the 2004 legislation, life insurance premiums paid to the Plan reduced by about 15% in November 2004 for active employees and by about 13% for active and retired employees combined.

### **Life Insurance Benefits For Disabled Employees**

Employees who participate in the life insurance plan are covered by a waiver of contribution provision in the event of a covered disability. The life insurance benefit provided to disabled employees is equal to the amount of life insurance in effect at disability. The 50% contribution previously payable by the disabled employee is waived after a 9-month waiting period.

### **Life Insurance Benefits For Retired Employees**

Employees who retire under the State's Public Employees Retirement System are allowed to continue to participate in the life insurance plan after retirement. Since July 1, 1999, retirees have been allowed to select a benefit at retirement of \$5,000; \$10,000; or \$20,000. Retirees who retired between May 1, 1987, and June 30, 1999, were allowed to select a benefit at retirement of \$2,000; \$4,000; or \$10,000. Prior to May 1, 1987, retirees were limited to a \$2,000 benefit.

### **Life Insurance Premiums**

The premium contribution for active employees is paid 50% each by the employee and the State. Effective January 1, 2014, the premium rate was reduced by 25% from \$0.24 to \$0.18 per \$1,000 benefit. The \$0.24 premium rate had been in effect since October 1, 2004. Retired employees pay for 100% of the cost of life insurance and are charged a rate per \$1,000 that varies by attained age until age 70. (See the Table in the Appendix.) Retiree life insurance premium rates were also reduced as of January 1, 2014 for ages below attained age 70. Based on CY13 retiree enrollment, the new rates represented about a 7.6% reduction in retiree life insurance premiums.

## LIFE INSURANCE (Continued)

### Life Insurance Experience

Historical incurred life insurance experience, separated between active employees and retirees, appears in the table below. This analysis is based on calendar year results, since the experience for FY16 is significantly incomplete. Claims paid thru June 2016 are allocated to the year in which the claim was incurred. Incurred death benefits shown below include an estimated residual claim liability of about \$84,000 for claims incurred in CY14, \$242,000 for claims incurred in CY14, and \$649,000 for claims incurred in CY15; those amounts are allocated between active employees, disabled employees, and retirees in proportion to known claims. Administrative charges were allocated in proportion to premium contributions.

<b>Comparison of "Premium" Contributions to Actual Insured Plan Costs</b>				
	<b>CY12</b>	<b>CY13</b>	<b>CY14</b>	<b>CY15</b>
<b>Active Employees</b>				
Actual "Premium" Contributions	15,350,779	15,391,124	11,699,128	11,856,128
less Premiums to Insurer				
Death Benefits on Active Employees	7,745,195	9,188,253	9,420,029	9,859,519
Death Benefits on Disabled Employees	1,524,936	1,365,750	1,393,619	996,191
Administrative Charges	<u>565,964</u>	<u>790,049</u>	<u>560,280</u>	<u>563,347</u>
Total Premiums to Insurer	9,836,096	11,344,052	11,373,928	11,419,057
Net Addition to Plan Surplus	<u>5,514,683</u>	<u>4,047,073</u>	<u>325,199</u>	<u>437,071</u>
Gain (Loss) Percent	35.9%	26.3%	2.8%	3.7%
<b>Retired Employees</b>				
"Premium" Contributions	4,313,077	4,595,443	4,539,666	4,842,076
less Premiums to Insurer				
Death Benefits	3,179,848	3,170,986	3,215,216	3,845,542
Administration Charges	<u>159,018</u>	<u>235,891</u>	<u>217,408</u>	<u>230,072</u>
Total Premiums to Insurer	3,338,866	3,406,877	3,432,624	4,075,614
Net Addition to Plan Surplus	<u>974,211</u>	<u>1,188,567</u>	<u>1,107,041</u>	<u>766,462</u>
Gain (Loss) Percent	22.6%	25.9%	24.4%	15.8%
<b>Total Active &amp; Retired</b>				
"Premium" Contributions	19,663,856	19,986,568	16,238,794	16,698,204
Premiums to Insurer				
Death Benefits	12,449,980	13,724,988	14,028,865	14,701,252
Administration Charges	<u>724,982</u>	<u>1,025,940</u>	<u>777,688</u>	<u>793,419</u>
Total Premiums to Insurer	13,174,962	14,750,928	14,806,553	15,494,671
Net Addition to Plan Surplus	<u>6,488,894</u>	<u>5,235,639</u>	<u>1,432,241</u>	<u>1,203,533</u>
Gain (Loss) Percent	33.0%	26.2%	8.8%	7.2%

## FUNDING POLICY

At the November 30, 2010 meeting of the Health Insurance Management Board, a formal funding policy for the Plan was adopted by the Board, as follows:

### Funding Policy

The State and School Employees Health Insurance Management Board shall endeavor to always hold assets sufficient to fully fund all liabilities for incurred administrative expenses, health insurance claims, and life insurance claims of the State and School Employees' Life and Health Insurance Plan. Incurred life and health insurance claims liabilities will include provision both for claims that have been reported and for claims that have not been reported. Claim liability estimates are recomputed on a periodic basis and are based on historical statistics related to the time it takes to fully adjudicate claims, and may be based, in part, on other factors such as inflation and participant counts. Due to the complex nature of the factors involved in the claims liability calculations, actual results may be more or less than the estimate.

Except to the extent that prior accumulated Plan surplus can perhaps be used to offset a portion of current or future costs, the Board shall endeavor to set, for any current or future period, premium rates and benefit structures such that Plan revenues and expenditures are essentially in actuarial balance for such current or future period. To the extent that benefit costs and expenses are in fact being funded by previously accumulated assets and not by premium rates that are sufficient for the remainder of the period to which the premium rates apply, the Plan shall establish a reserve based on actuarial projections for the amount of the premium deficiency.

Recognizing that claims cost estimates for past and future periods are subject to a degree of uncertainty, and therefore may exceed prior estimates, and recognizing that future Plan premium rate and benefit changes may not be able to be implemented on a schedule entirely consistent with the preceding funding objectives, the Board shall endeavor to always hold a reasonable amount of Plan surplus, with Plan surplus measured as the difference in Plan assets and Plan liabilities and reserves. For this purpose, the Board shall endeavor to hold Plan surplus in an amount at least equal to approximately one half ( $\frac{1}{2}$ ) of one month's Plan expenditures (based upon the average monthly expenditures for the last twelve months).

It should be pointed out that the funding policy described above does not address the issues raised by the implementation of GASB 45. In evaluating the extent to which existing or projected surplus of the Plan is necessary or sufficient, the funding policy should be periodically reviewed in conjunction with the most recent version of the "Report of the Actuary on the Other Postemployment Benefits Valuation" that has been submitted to the Board.

## PLAN PROJECTIONS

### Basic Projection Approach

Incurred medical and drug claims rates were projected forward on a semi-annual basis – by premium class – using assumptions for annual non-drug benefit trend and annual drug benefit trend. See the Appendix of this Report for a detailed description of those and other assumptions used in these projections.

### Non-Drug Benefit Trend

The basic annual trend assumption for non-drug benefits used in the following projections was 3.25%. This trend assumption was increased to 4.5% for the remainder of CY16 for the PCP Copay feature added to Select coverage in CY16, and reduced to 2.94% for CY17 as a result of modifications to preventive services required by ACA.

### Drug Benefit Trend

Net drug benefit trend, after rebates, was assumed to be negative 1.8% for the remainder of CY16, 9.8% in CY17, 12.1% in CY18, and 10.8% in CY19. The derivation of these assumptions appears in the Assumptions section in the Appendix of this Report.

### Plan Projections

Plan projections were prepared for the next 4 fiscal years. Using the current trend assumptions for medical claims and drug claims, and assuming no significant benefit design or other fundamental changes that affect costs, health insurance claims and expenses per non-Medicare member are expected to grow about 3.7% in the remainder of CY16, about 4.5% in CY17, about 5.4% in CY18, and about 5.2% in CY19.

The detailed Plan projections included in this Report include the following premium rate increase assumptions:

- A rate increase of 9.5% as of 1/1/19 for non-Medicare premium rate classes.
- A rate increase of 13.5% as of 1/1/20 for non-Medicare premium rate classes.
- Annual rate increases of 2% beginning 1/1/17 for Medicare primary premium rate classes.

Currently, the Plan's stated funding objective is to have surplus at least equal to ½ of one month's incurred expenses in the last year. Based on current claims cost trend assumptions, these rate increases are expected to reduce Plan surplus from its current level down to the Plan's stated funding objective at the end of CY19. However, CY19 is expected to be a significant loss year and – in the absence of other Plan changes to reduce costs – the premium rates in CY20 will have to be increased to breakeven level rates in order for the Plan to continue to maintain Plan surplus at least equal to the Plan's stated funding objective.

### Medicare Retiree Rates and Horizon Non-Medicare Retiree Rates

The rate increases for Medicare primary premium classes are the current projected rate increases necessary to keep these premium classes on a breakeven basis.

Horizon retiree rates also need to be increased in CY17 to keep their rates close to breakeven rates. Horizon non-Medicare retiree rates need to be increased about 9% for retired employees and about 3% for spouses. Very few Horizon retirees currently have coverage, and the effect of those rate increases have been disregarded in these projections.

## PLAN PROJECTIONS (Continued)

Summary Plan projections appear in the Table below. Detailed Plan projection appear on the pages that follow.

### SUMMARY PROJECTIONS (in Millions) Based on Board Approved Benefit Changes for CY17 Based on Rate Increases Indicated Below

	Health Premium	Health Claims	Health Expense	Health Gain (Loss)	ACA Fees	Life Ins Gain & Interest	Total Gain (Loss)	Gain (Loss) as a % of Premium	Year End Projected Surplus	Year End Surplus Objective	Change in Surplus
FY16									\$292		
FY17	\$722	(\$725)	(\$36)	(\$39)	(\$3)	\$4	(\$38)	-5.3%	\$254	\$32	(\$38)
FY18	\$725	(\$762)	(\$37)	(\$74)	(\$0)	\$3	(\$71)	-9.9%	\$182	\$34	(\$71)
FY19	\$760	(\$803)	(\$38)	(\$81)	(\$0)	\$3	(\$78)	-10.3%	\$104	\$36	(\$78)
FY20	\$846	(\$844)	(\$39)	(\$37)	\$0	\$2	(\$35)	-4.1%	\$69	\$37	(\$35)
CY16									\$249		
CY17	\$723	(\$743)	(\$37)	(\$56)	(\$0)	\$4	(\$53)	-7.3%	\$196	\$33	(\$53)
CY18	\$726	(\$783)	(\$38)	(\$94)	(\$0)	\$3	(\$92)	-12.6%	\$104	\$35	(\$92)
CY19	\$794	(\$824)	(\$39)	(\$69)	\$0	\$3	(\$66)	-8.3%	\$38	\$37	(\$66)

#### TREND ASSUMPTIONS, NON-MEDICARE

	Medical	Drugs Prior to Rebates	Drug Rebates	Drugs After Rebates	Total*
CY16, 2ND HALF	4.50%	7.7%	116.1%	-1.8%	3.7%
CY17	2.94%	8.5%	2.2%	9.8%	4.5%
CY18	3.25%	10.5%	2.2%	12.1%	5.4%
CY19	3.25%	9.5%	2.1%	10.8%	5.2%

#### RATE INCREASE ASSUMPTIONS

	Plan Primary	Medicare Primary
01/01/16		-5.3%
01/01/17		2.0%
01/01/18		2.0%
01/01/19	9.5%	2.0%
01/01/20	13.5%	2.0%

\* Total including medical, drugs, and drug rebates.

### Discussion of Assumptions and their Effect on the Projections

These projections are based on cost trends and other assumptions that are difficult to predict and are subject to change due to unanticipated benefit changes or other fundamental changes that affect future costs. The annual cost trend assumptions being used are consistent with the cost trends experienced in those recent years in which significant operational or benefit changes did not occur. To that extent, these assumptions appear to me to be reasonable. It is also noted, however, that the Plan has periodically taken action to reduce costs. For example, in CY11 deductible and other benefit changes were implemented to reduce Plan costs. In CY14, significant cost reductions were achieved thru the introduction of the Blue Card network for out-of-state claims and enhancements in the AHS network for in-state claims.

Future operating results could be worse – or better – than projected. If experience worsens, rate increases higher than those shown in future years, or other Plan changes, could be required. If these projections prove to be conservative, future rate increases could perhaps be reduced, or Plan surplus in excess of that projected could still exist at the end of any of the projection periods shown.

**PROJECTED ASSETS, LIABILITIES, & FUNDING STATUS \***

Based on Non-Medicare Rate Increases of 9.5% on 1/1/19 and 13.5% on 1/1/20  
Based on Medicare Rate Increases of 2% on January 1 of Each Year

Mo	Yr	Total Plan Assets	Total Plan Liabilities	Assets less Liabilities
6	16	374,306,664	82,649,175	291,657,489
7	16	374,130,227	91,184,219	282,946,009
8	16	372,821,394	89,471,128	283,350,266
9	16	369,124,718	86,389,838	282,734,879
10	16	371,288,651	95,059,986	276,228,666
11	16	361,481,835	92,967,719	268,514,117
12	16	345,917,987	97,247,491	248,670,496
1	17	348,127,401	87,352,505	260,774,897
2	17	347,960,275	82,907,818	265,052,457
3	17	345,258,186	83,248,045	262,010,141
4	17	350,406,731	87,321,922	263,084,809
5	17	346,348,235	86,079,159	260,269,076
6	17	338,870,012	85,369,813	253,500,199
7	17	336,347,769	94,027,812	242,319,957
8	17	328,097,515	87,554,124	240,543,391
9	17	321,669,458	83,955,487	237,713,971
10	17	320,891,960	92,145,619	228,746,341
11	17	308,938,038	90,381,615	218,556,424
12	17	290,129,222	94,418,706	195,710,516
1	18	293,119,029	87,742,156	205,376,873
2	18	289,966,103	83,215,270	206,750,833
3	18	284,055,749	83,618,388	200,437,361
4	18	286,203,298	87,784,976	198,418,322
5	18	278,881,430	86,540,437	192,340,994
6	18	267,945,389	85,847,137	182,098,252
7	18	262,259,382	94,731,165	167,528,216
8	18	250,760,291	88,070,565	162,689,726
9	18	241,142,049	84,379,624	156,762,426
10	18	237,191,473	92,783,278	144,408,196
11	18	222,979,289	92,159,649	130,819,640
12	18	200,324,413	96,366,527	103,957,885
1	19	205,927,930	89,375,279	116,552,651
2	19	205,083,580	84,700,990	120,382,589
3	19	201,270,391	85,118,281	116,152,110
4	19	205,726,543	89,324,783	116,401,759
5	19	200,463,667	88,039,873	112,423,794
6	19	191,388,333	87,321,558	104,066,775
7	19	187,848,988	96,389,418	91,459,569
8	19	178,423,331	89,497,401	88,925,931
9	19	170,946,331	85,676,823	85,269,507
10	19	169,154,434	94,258,451	74,895,983
11	19	156,889,742	93,613,182	63,276,560
12	19	135,718,943	97,958,241	37,760,703
1	20	146,921,148	90,674,158	56,246,990
2	20	151,377,239	85,883,239	65,494,000
3	20	152,657,712	86,354,052	66,303,660
4	20	162,419,487	90,634,406	71,785,081
5	20	162,213,123	89,345,692	72,867,431
6	20	157,996,996	88,640,779	69,356,217

\* Prior to Applicable Premium Deficiency Reserves, if Any



**PROJECTED PLAN LIABILITIES \***

Based on Non-Medicare Rate Increases of 9.5% on 1/1/19 and 13.5% on 1/1/20

Based on Medicare Rate Increases of 2% on January 1 of Each Year

Mo	Yr	Health Clms Incurred But Not Reported	Drug Rebates Receivable	Health Claims Payable	Life Claims Incurred But Not Reported	Life Claims Payable	Advance less Due Premium	Expenses Payable	Accrued ACA Fees
6	16	63,254,904	-20,400,000	15,531,651	4,604,893	1,102,472	10,323,997	3,552,578	4,678,681
7	16	66,887,707	-15,529,409	15,531,651	4,604,893	1,102,472	10,323,997	3,552,578	4,710,331
8	16	63,294,948	-14,059,409	15,531,651	4,604,893	1,102,472	10,323,997	3,552,578	5,119,999
9	16	62,334,581	-16,590,000	15,531,651	4,604,893	1,102,472	10,323,997	3,552,578	5,529,667
10	16	65,093,061	-11,088,000	15,531,651	4,604,893	1,102,472	10,323,997	3,552,578	5,939,335
11	16	67,163,780	-13,818,000	15,531,651	4,604,893	1,102,472	10,323,997	3,552,578	4,506,349
12	16	73,595,884	-16,380,000	15,531,651	4,604,893	1,102,472	10,323,997	3,552,578	4,916,017
1	17	61,792,784	-11,113,800	15,531,651	4,604,893	1,102,472	10,323,997	3,552,578	1,557,930
2	17	60,074,025	-13,873,800	15,531,651	4,604,893	1,102,472	10,323,997	3,552,578	1,592,002
3	17	62,976,380	-16,470,000	15,531,651	4,604,893	1,102,472	10,323,997	3,552,578	1,626,074
4	17	61,749,985	-11,203,800	15,531,651	4,604,893	1,102,472	10,323,997	3,552,578	1,660,147
5	17	63,233,150	-13,963,800	15,531,651	4,604,893	1,102,472	10,323,997	3,552,578	1,694,219
6	17	65,085,933	-16,560,000	15,531,651	4,604,893	1,102,472	10,323,997	3,552,578	1,728,291
7	17	68,778,598	-11,235,600	15,531,651	4,604,893	1,102,472	10,323,997	3,552,578	1,369,224
8	17	65,060,838	-14,025,600	15,531,651	4,604,893	1,102,472	10,323,997	3,552,578	1,403,296
9	17	64,052,529	-16,650,000	15,531,651	4,604,893	1,102,472	10,323,997	3,552,578	1,437,368
10	17	66,884,189	-11,325,600	15,531,651	4,604,893	1,102,472	10,323,997	3,552,578	1,471,440
11	17	69,006,832	-14,115,600	15,531,651	4,604,893	1,102,472	10,323,997	3,552,578	374,792
12	17	75,634,251	-16,740,000	15,531,651	4,604,893	1,102,472	10,323,997	3,552,578	408,864
1	18	63,539,666	-11,357,400	15,531,651	4,604,893	1,102,472	10,323,997	3,552,578	444,299
2	18	61,797,345	-14,177,400	15,531,651	4,604,893	1,102,472	10,323,997	3,552,578	479,734
3	18	64,817,629	-16,830,000	15,531,651	4,604,893	1,102,472	10,323,997	3,552,578	515,169
4	18	63,566,181	-11,447,400	15,531,651	4,604,893	1,102,472	10,323,997	3,552,578	550,604
5	18	65,106,207	-14,267,400	15,531,651	4,604,893	1,102,472	10,323,997	3,552,578	586,039
6	18	67,030,072	-16,920,000	15,531,651	4,604,893	1,102,472	10,323,997	3,552,578	621,474
7	18	70,846,730	-11,479,200	15,531,651	4,604,893	1,102,472	10,323,997	3,552,578	248,044
8	18	67,000,695	-14,329,200	15,531,651	4,604,893	1,102,472	10,323,997	3,552,578	283,479
9	18	65,955,119	-17,010,000	15,531,651	4,604,893	1,102,472	10,323,997	3,552,578	318,914
10	18	68,882,538	-11,569,200	15,531,651	4,604,893	1,102,472	10,323,997	3,552,578	354,349
11	18	71,073,475	-14,419,200	15,531,651	4,604,893	1,102,472	10,323,997	3,552,578	389,784
12	18	77,925,718	-17,100,000	15,531,651	4,604,893	1,102,472	10,323,997	3,552,578	425,219
1	19	65,435,470	-11,601,000	15,531,651	4,604,893	1,102,472	10,323,997	3,552,578	425,219
2	19	63,641,181	-14,481,000	15,531,651	4,604,893	1,102,472	10,323,997	3,552,578	425,219
3	19	66,767,472	-17,190,000	15,531,651	4,604,893	1,102,472	10,323,997	3,552,578	425,219
4	19	65,474,974	-11,691,000	15,531,651	4,604,893	1,102,472	10,323,997	3,552,578	425,219
5	19	67,070,064	-14,571,000	15,531,651	4,604,893	1,102,472	10,323,997	3,552,578	425,219
6	19	69,060,749	-17,280,000	15,531,651	4,604,893	1,102,472	10,323,997	3,552,578	425,219
7	19	72,996,628	-11,722,800	15,531,651	4,604,893	1,102,472	10,323,997	3,552,578	0
8	19	69,014,610	-14,632,800	15,531,651	4,604,893	1,102,472	10,323,997	3,552,578	0
9	19	67,931,233	-17,370,000	15,531,651	4,604,893	1,102,472	10,323,997	3,552,578	0
10	19	70,955,661	-11,812,800	15,531,651	4,604,893	1,102,472	10,323,997	3,552,578	0
11	19	73,220,391	-14,722,800	15,531,651	4,604,893	1,102,472	10,323,997	3,552,578	0
12	19	80,302,651	-17,460,000	15,531,651	4,604,893	1,102,472	10,323,997	3,552,578	0
1	20	67,403,168	-11,844,600	15,531,651	4,604,893	1,102,472	10,323,997	3,552,578	0
2	20	65,552,249	-14,784,600	15,531,651	4,604,893	1,102,472	10,323,997	3,552,578	0
3	20	68,788,462	-17,550,000	15,531,651	4,604,893	1,102,472	10,323,997	3,552,578	0
4	20	67,453,416	-11,934,600	15,531,651	4,604,893	1,102,472	10,323,997	3,552,578	0
5	20	69,104,702	-14,874,600	15,531,651	4,604,893	1,102,472	10,323,997	3,552,578	0
6	20	71,165,189	-17,640,000	15,531,651	4,604,893	1,102,472	10,323,997	3,552,578	0

\* Prior to Applicable Premium Deficiency Reserves, if Any

**PROJECTED INCURRED HEALTH INSURANCE COSTS**

Based on Non-Medicare Rate Increases of 9.5% on 1/1/19 and 13.5% on 1/1/20

Based on Medicare Rate Increases of 2% on January 1 of Each Year

Mo	Yr	Health Premiums Incurred	Health Claims Incurred	Drug Rebates Incurred	Health Plan Expenses	ACA Fees Incurred	Health Gain (Loss) Incurred
7	16	59,858,792	-68,222,250	2,730,000	-2,999,051	-409,668	-9,042,177
8	16	59,858,792	-59,106,055	2,730,000	-2,999,051	-409,668	74,018
9	16	59,858,792	-60,124,156	2,730,000	-2,999,051	-409,668	-944,083
10	16	59,858,792	-66,014,510	2,730,000	-2,999,051	-409,668	-6,834,438
11	16	59,858,792	-67,220,490	2,730,000	-2,999,051	-409,668	-8,040,417
12	16	59,858,792	-79,341,742	2,730,000	-2,999,051	-409,668	-20,161,669
1	17	60,431,286	-48,297,752	2,760,000	-3,068,992	-34,072	11,790,470
2	17	60,431,286	-56,125,222	2,760,000	-3,068,992	-34,072	3,963,000
3	17	60,431,286	-63,444,214	2,760,000	-3,068,992	-34,072	-3,355,992
4	17	60,431,286	-59,327,985	2,760,000	-3,068,992	-34,072	760,237
5	17	60,431,286	-63,218,721	2,760,000	-3,068,992	-34,072	-3,130,499
6	17	60,431,286	-67,168,310	2,760,000	-3,068,992	-34,072	-7,080,088
7	17	60,101,386	-71,272,082	2,790,000	-3,073,602	-34,072	-11,488,370
8	17	60,101,386	-61,865,085	2,790,000	-3,073,602	-34,072	-2,081,373
9	17	60,101,386	-62,913,415	2,790,000	-3,073,602	-34,072	-3,129,703
10	17	60,101,386	-69,049,404	2,790,000	-3,073,602	-34,072	-9,265,693
11	17	60,101,386	-70,267,767	2,790,000	-3,073,602	-34,072	-10,484,055
12	17	60,101,386	-82,914,275	2,790,000	-3,073,602	-34,072	-23,130,563
1	18	60,681,010	-50,934,753	2,820,000	-3,144,245	-35,435	9,386,577
2	18	60,681,010	-59,227,099	2,820,000	-3,144,245	-35,435	1,094,231
3	18	60,681,010	-66,911,738	2,820,000	-3,144,245	-35,435	-6,590,408
4	18	60,681,010	-62,616,144	2,820,000	-3,144,245	-35,435	-2,294,814
5	18	60,681,010	-66,672,839	2,820,000	-3,144,245	-35,435	-6,351,509
6	18	60,681,010	-70,832,624	2,820,000	-3,144,245	-35,435	-10,511,294
7	18	60,355,903	-74,854,605	2,850,000	-3,149,329	-35,435	-14,833,465
8	18	60,355,903	-65,117,763	2,850,000	-3,149,329	-35,435	-5,096,623
9	18	60,355,903	-66,200,063	2,850,000	-3,149,329	-35,435	-6,178,923
10	18	60,355,903	-72,622,810	2,850,000	-3,149,329	-35,435	-12,601,671
11	18	60,355,903	-73,851,538	2,850,000	-3,149,329	-35,435	-13,830,398
12	18	60,355,903	-87,113,372	2,850,000	-3,149,329	-35,435	-27,092,233
1	19	66,341,533	-53,628,448	2,880,000	-3,223,541	0	12,369,543
2	19	66,341,533	-62,394,742	2,880,000	-3,223,541	0	3,603,249
3	19	66,341,533	-70,453,724	2,880,000	-3,223,541	0	-4,455,733
4	19	66,341,533	-65,973,794	2,880,000	-3,223,541	0	24,198
5	19	66,341,533	-70,201,160	2,880,000	-3,223,541	0	-4,203,169
6	19	66,341,533	-74,575,793	2,880,000	-3,223,541	0	-8,577,802
7	19	65,978,927	-78,483,892	2,910,000	-3,229,136	0	-12,824,101
8	19	65,978,927	-68,406,329	2,910,000	-3,229,136	0	-2,746,538
9	19	65,978,927	-69,523,904	2,910,000	-3,229,136	0	-3,864,112
10	19	65,978,927	-76,238,147	2,910,000	-3,229,136	0	-10,578,356
11	19	65,978,927	-77,479,713	2,910,000	-3,229,136	0	-11,819,922
12	19	65,978,927	-91,365,842	2,910,000	-3,229,136	0	-25,706,051
1	20	75,016,586	-56,353,284	2,940,000	-3,304,135	0	18,299,167
2	20	75,016,586	-65,597,387	2,940,000	-3,304,135	0	9,055,064
3	20	75,016,586	-74,036,506	2,940,000	-3,304,135	0	615,944
4	20	75,016,586	-69,368,148	2,940,000	-3,304,135	0	5,284,302
5	20	75,016,586	-73,770,165	2,940,000	-3,304,135	0	882,286
6	20	75,016,586	-78,362,365	2,940,000	-3,304,135	0	-3,709,915

### PROJECTED PLAN CASH FLOWS

Based on Non-Medicare Rate Increases of 9.5% on 1/1/19 and 13.5% on 1/1/20

Based on Medicare Rate Increases of 2% on January 1 of Each Year

Mo	Yr	Premiums Less Expenses	Health Claims Paid, Net	Drug Rebates Received	ACA Imposed Fees Paid	Cash Flow Life	Interest Income	Net Cash Flow
7	16	56,859,741	-64,589,447	7,600,591	-378,018	100,000	230,697	-176,437
8	16	56,859,741	-62,698,814	4,200,000	0	100,000	230,239	-1,308,834
9	16	56,859,741	-61,084,522	199,409	0	100,000	228,696	-3,696,676
10	16	56,859,741	-63,256,031	8,232,000	0	100,000	228,224	2,163,933
11	16	56,859,741	-65,149,771	0	-1,842,654	100,000	225,868	-9,806,816
12	16	56,859,741	-72,909,638	168,000	0	100,000	218,048	-15,563,849
1	17	57,362,294	-60,100,852	8,026,200	-3,392,159	100,000	213,931	2,209,415
2	17	57,362,294	-57,843,981	0	0	100,000	214,561	-167,126
3	17	57,362,294	-60,541,859	163,800	0	100,000	213,676	-2,702,088
4	17	57,362,294	-60,554,380	8,026,200	0	100,000	214,431	5,148,545
5	17	57,362,294	-61,735,556	0	0	100,000	214,767	-4,058,496
6	17	57,362,294	-65,315,527	163,800	0	100,000	211,211	-7,478,223
7	17	57,027,784	-67,579,416	8,114,400	-393,139	100,000	208,128	-2,522,244
8	17	57,027,784	-65,582,845	0	0	100,000	204,807	-8,250,254
9	17	57,027,784	-63,921,724	165,600	0	100,000	200,283	-6,428,057
10	17	57,027,784	-66,217,744	8,114,400	0	100,000	198,062	-777,498
11	17	57,027,784	-68,145,123	0	-1,130,720	100,000	194,138	-11,953,921
12	17	57,027,784	-76,286,856	165,600	0	100,000	184,655	-18,808,816
1	18	57,536,765	-63,029,338	8,202,600	0	100,000	179,779	2,989,806
2	18	57,536,765	-60,969,420	0	0	100,000	179,729	-3,152,926
3	18	57,536,765	-63,891,454	167,400	0	100,000	176,936	-5,910,354
4	18	57,536,765	-63,867,592	8,202,600	0	100,000	175,776	2,147,549
5	18	57,536,765	-65,132,813	0	0	100,000	174,181	-7,321,868
6	18	57,536,765	-68,908,759	167,400	0	100,000	168,553	-10,936,041
7	18	57,206,575	-71,037,947	8,290,800	-408,864	100,000	163,429	-5,686,007
8	18	57,206,575	-68,963,798	0	0	100,000	158,132	-11,499,091
9	18	57,206,575	-67,245,639	169,200	0	100,000	151,623	-9,618,242
10	18	57,206,575	-69,695,391	8,290,800	0	100,000	147,441	-3,950,576
11	18	57,206,575	-71,660,601	0	0	100,000	141,842	-14,212,184
12	18	57,206,575	-80,261,129	169,200	0	100,000	130,478	-22,654,876
1	19	63,117,991	-66,118,696	8,379,000	0	100,000	125,223	5,603,517
2	19	63,117,991	-64,189,031	0	0	100,000	126,689	-844,350
3	19	63,117,991	-67,327,434	171,000	0	100,000	125,254	-3,813,189
4	19	63,117,991	-67,266,291	8,379,000	0	100,000	125,452	4,456,152
5	19	63,117,991	-68,606,070	0	0	100,000	125,203	-5,262,876
6	19	63,117,991	-72,585,109	171,000	0	100,000	120,784	-9,075,334
7	19	62,749,791	-74,548,013	8,467,200	-425,219	100,000	116,895	-3,539,345
8	19	62,749,791	-72,388,347	0	0	100,000	112,899	-9,425,657
9	19	62,749,791	-70,607,281	172,800	0	100,000	107,689	-7,477,001
10	19	62,749,791	-73,213,720	8,467,200	0	100,000	104,832	-1,791,897
11	19	62,749,791	-75,214,983	0	0	100,000	100,499	-12,264,692
12	19	62,749,791	-84,283,583	172,800	0	100,000	90,193	-21,170,798
1	20	71,712,450	-69,252,766	8,555,400	0	100,000	87,120	11,202,205
2	20	71,712,450	-67,448,306	0	0	100,000	91,947	4,456,091
3	20	71,712,450	-70,800,292	174,600	0	100,000	93,715	1,280,473
4	20	71,712,450	-70,703,194	8,555,400	0	100,000	97,119	9,761,775
5	20	71,712,450	-72,118,879	0	0	100,000	100,064	-206,365
6	20	71,712,450	-76,301,878	174,600	0	100,000	98,701	-4,216,127

**FY17 PROJECTED PLAN EXPERIENCE**  
**Based on Non-Medicare Rate Increases of 9.5% on 1/1/19 and 13.5% on 1/1/20**  
**Based on Medicare Rate Increases of 2% on January 1 of Each Year**

CLASS	Active/ Retired	Avg Count	Prem	Rate	Prem	Rate	Premiums	Claims	Plan Expenses	Gain (Loss)	Gain (Loss) Rate
		07/01/16	Rate*	Incr	Rate*	Incr					
		06/30/17	07/01/16	07/01/16	01/01/17	01/01/17					
Employee	Active	115,708	\$376	0.0%	\$376	0.0%	528,450,066	-482,184,191	-25,357,721	20,908,154	4%
Spouse Only	Active	3,911	\$443	0.0%	\$443	0.0%	20,791,984	-34,640,566	-997,705	-14,846,288	-71%
Full Family	Active	4,484	\$647	0.0%	\$647	0.0%	34,816,688	-39,645,591	-1,670,682	-6,499,586	-19%
Children Only	Act/Ret	6,344	\$312	0.0%	\$312	0.0%	23,750,844	-25,307,603	-1,139,686	-2,696,445	-11%
Child Only	Act/Ret	9,495	\$155	0.0%	\$155	0.0%	17,660,003	-20,214,099	-847,417	-3,401,513	-19%
Disabled Employee	Retired	176	\$432	0.0%	\$432	0.0%	914,544	-5,838,822	-45,749	-4,970,027	-543%
Employee	Retired	8,772	\$432	0.0%	\$432	0.0%	45,472,536	-67,413,029	-1,886,274	-23,826,768	-52%
Spouse Only	Retired	1,263	\$509	0.0%	\$509	0.0%	7,713,132	-10,299,428	-288,187	-2,874,483	-37%
Full Family	Retired	192	\$744	0.0%	\$744	0.0%	1,711,200	-3,064,463	-85,746	-1,439,009	-84%
Family (1 On Medicare)	Retired	53	\$335	0.0%	\$339	1.2%	215,261	-512,931	-14,352	-312,022	-145%
Spouse Only (Medicare)	Retired	2,717	\$180	0.0%	\$184	2.2%	5,934,299	-5,096,654	-600,850	236,796	4%
Employee (Medicare)	Retired	15,708	\$180	0.0%	\$184	2.2%	34,309,913	-30,454,030	-3,473,891	381,993	1%
Total Health Insurance							721,740,469	-724,671,407	-36,408,260	-39,339,197	-5.5%
<b>RECAP BY SUBGROUP</b>											
Active Employees							528,450,066	-482,184,191	-25,357,721	20,908,154	4%
Dependents Of Active Employees							97,019,518	-119,807,860	-4,655,490	-27,443,832	-28%
Disabled Retirees (Regular)							914,544	-5,838,822	-45,749	-4,970,027	-543%
Retirees & Dependents (Regular)							55,112,129	-81,289,851	-2,274,560	-28,452,282	-52%
Retirees & Spouse Only (Medicare)							40,244,213	-35,550,683	-4,074,740	618,789	2%
Total Health Insurance							721,740,469	-724,671,407	-36,408,260	-39,339,197	-5.5%
Life Insurance Gain										1,200,000	
Interest Income										2,644,348	
ACA Imposed Fees										-2,662,441	
Total Gain (Loss)										-38,157,290	-5.3%
Beginning Surplus (Prior to Any Applicable Premium Deficiency Reserve)										291,657,489	
Change In Surplus										-38,157,290	
Ending Surplus (Prior to Any Applicable Premium Deficiency Reserve)										253,500,199	
<b>Active Employee Premium Summary</b>											
Employer Contributions							491,793,886				
Employee Contributions							33,948,788				
COBRA Premiums							2,707,392				
Total Active Employee Premium							528,450,066				

\* The active employee premium rate shown is for Legacy employees who choose Select coverage.

**FY18 PROJECTED PLAN EXPERIENCE**  
**Based on Non-Medicare Rate Increases of 9.5% on 1/1/19 and 13.5% on 1/1/20**  
**Based on Medicare Rate Increases of 2% on January 1 of Each Year**

CLASS	Active/ Retired	Avg Count	Prem	Rate	Prem	Rate	Premiums	Claims	Plan Expenses	Gain (Loss)	Gain (Loss) Rate
		07/01/17	Rate*	Rate*	Rate*						
		06/30/18	07/01/17	07/01/17	01/01/18	01/01/18					
Employee	Active	115,708	\$376	0.0%	\$376	0.0%	528,983,660	-506,334,002	-25,866,209	-3,216,551	-1%
Spouse Only	Active	3,911	\$443	0.0%	\$443	0.0%	20,791,984	-36,440,348	-1,016,685	-16,665,049	-80%
Full Family	Active	4,484	\$647	0.0%	\$647	0.0%	34,816,688	-41,796,744	-1,702,464	-8,682,520	-25%
Children Only	Act/Ret	6,344	\$312	0.0%	\$312	0.0%	23,750,844	-26,535,220	-1,161,367	-3,945,743	-17%
Child Only	Act/Ret	9,495	\$155	0.0%	\$155	0.0%	17,660,003	-21,169,599	-863,538	-4,373,134	-25%
Disabled Employee	Retired	176	\$432	0.0%	\$432	0.0%	914,544	-6,144,708	-46,660	-5,276,823	-577%
Employee	Retired	8,772	\$432	0.0%	\$432	0.0%	45,472,536	-71,084,845	-1,922,912	-27,535,221	-61%
Spouse Only	Retired	1,263	\$509	0.0%	\$509	0.0%	7,713,132	-10,871,195	-294,076	-3,452,140	-45%
Full Family	Retired	192	\$744	0.0%	\$744	0.0%	1,711,200	-3,248,398	-87,872	-1,625,070	-95%
Family (1 On Medicare)	Retired	53	\$339	0.0%	\$343	1.2%	217,817	-553,090	-14,962	-350,235	-161%
Spouse Only (Medicare)	Retired	2,744	\$184	0.0%	\$188	2.2%	6,125,372	-5,259,966	-621,747	243,659	4%
Employee (Medicare)	Retired	16,368	\$184	0.0%	\$188	2.2%	36,536,597	-32,379,109	-3,708,592	448,896	1%
Total Health Insurance							724,694,375	-761,817,224	-37,307,083	-74,429,932	-10.3%
<b>RECAP BY SUBGROUP</b>											
Active Employees							528,983,660	-506,334,002	-25,866,209	-3,216,551	-1%
Dependents Of Active Employees							97,019,518	-125,941,911	-4,744,054	-33,666,447	-35%
Disabled Retirees (Regular)							914,544	-6,144,708	-46,660	-5,276,823	-577%
Retirees & Dependents (Regular)							55,114,685	-85,757,528	-2,319,822	-32,962,665	-60%
Retirees & Spouse Only (Medicare)							42,661,969	-37,639,075	-4,330,339	692,555	2%
Total Health Insurance							724,694,375	-761,817,224	-37,307,083	-74,429,932	-10.3%
Life Insurance Gain										1,200,000	
Interest Income										2,245,027	
ACA Imposed Fees										-417,042	
Total Gain (Loss)										-71,401,946	-9.9%
Beginning Surplus (Prior to Any Applicable Premium Deficiency Reserve)										253,500,199	
Change In Surplus										-71,401,946	
Ending Surplus (Prior to Any Applicable Premium Deficiency Reserve)										182,098,252	
<b>Active Employee Premium Summary</b>											
Employer Contributions							491,793,886				
Employee Contributions							34,482,382				
COBRA Premiums							2,707,392				
Total Active Employee Premium							528,983,660				

\* The active employee premium rate shown is for Legacy employees who choose Select coverage.

**FY19 PROJECTED PLAN EXPERIENCE**  
**Based on Non-Medicare Rate Increases of 9.5% on 1/1/19 and 13.5% on 1/1/20**  
**Based on Medicare Rate Increases of 2% on January 1 of Each Year**

CLASS	Active/ Retired	Avg Count 07/01/18 06/30/19	Prem Rate* 07/01/18	Rate Incr 07/01/18	Prem Rate* 01/01/19	Rate Incr 01/01/19	Premiums	Claims	Plan Expenses	Gain (Loss)	Gain (Loss) Rate
Employee	Active	115,708	\$376	0.0%	\$412	9.6%	554,594,028	-532,872,850	-26,380,531	-4,659,354	-1%
Spouse Only	Active	3,911	\$443	0.0%	\$485	9.5%	21,804,709	-38,422,031	-1,037,191	-17,654,513	-81%
Full Family	Active	4,484	\$647	0.0%	\$708	9.4%	36,499,922	-44,171,424	-1,736,202	-9,407,705	-26%
Children Only	Act/Ret	6,344	\$312	0.0%	\$342	9.6%	24,923,529	-27,888,019	-1,185,545	-4,150,035	-17%
Child Only	Act/Ret	9,495	\$155	0.0%	\$170	9.7%	18,537,405	-22,216,968	-881,774	-4,561,337	-25%
Disabled Employee	Retired	176	\$432	0.0%	\$473	9.5%	957,020	-6,480,263	-47,591	-5,570,833	-582%
Employee	Retired	8,772	\$432	0.0%	\$473	9.5%	47,568,764	-75,144,587	-1,960,356	-29,536,179	-62%
Spouse Only	Retired	1,263	\$509	0.0%	\$558	9.6%	8,073,551	-11,504,288	-300,121	-3,730,858	-46%
Full Family	Retired	192	\$744	0.0%	\$815	9.5%	1,791,359	-3,451,628	-90,045	-1,750,314	-98%
Family (1 On Medicare)	Retired	53	\$343	0.0%	\$362	5.5%	224,858	-597,353	-15,584	-388,079	-173%
Spouse Only (Medicare)	Retired	2,772	\$188	0.0%	\$192	2.1%	6,319,673	-5,429,820	-643,337	246,516	4%
Employee (Medicare)	Retired	17,056	\$188	0.0%	\$192	2.1%	38,889,800	-34,428,582	-3,958,945	502,272	1%
Total Health Insurance							760,184,615	-802,607,813	-38,237,221	-80,660,419	-10.6%
<b>RECAP BY SUBGROUP</b>											
Active Employees							554,594,028	-532,872,850	-26,380,531	-4,659,354	-1%
Dependents Of Active Employees							101,765,564	-132,698,442	-4,840,711	-35,773,589	-35%
Disabled Retirees (Regular)							957,020	-6,480,263	-47,591	-5,570,833	-582%
Retirees & Dependents (Regular)							57,658,532	-90,697,856	-2,366,106	-35,405,430	-61%
Retirees & Spouse Only (Medicare)							45,209,472	-39,858,403	-4,602,282	748,788	2%
Total Health Insurance							760,184,615	-802,607,813	-38,237,221	-80,660,419	-10.6%
Life Insurance Gain										1,200,000	
Interest Income										1,641,551	
ACA Imposed Fees										-212,610	
Total Gain (Loss)										-78,031,477	-10.3%
Beginning Surplus (Prior to Any Applicable Premium Deficiency Reserve)										182,098,252	
Change In Surplus										-78,031,477	
Ending Surplus (Prior to Any Applicable Premium Deficiency Reserve)										104,066,775	
<b>Active Employee Premium Summary</b>											
Employer Contributions							516,742,030				
Employee Contributions							35,023,466				
COBRA Premiums							2,828,532				
Total Active Employee Premium							554,594,028				

\* The active employee premium rate shown is for Legacy employees who choose Select coverage.

**FY20 PROJECTED PLAN EXPERIENCE**  
**Based on Non-Medicare Rate Increases of 9.5% on 1/1/19 and 13.5% on 1/1/20**  
**Based on Medicare Rate Increases of 2% on January 1 of Each Year**

CLASS	Active/ Retired	Avg Count	Prem	Rate	Prem	Rate	Premiums	Claims	Plan Expenses	Gain (Loss)	Gain (Loss) Rate
		07/01/19	Rate*	Rate	Rate*	Rate					
		06/30/20	07/01/19	07/01/19	01/01/20	01/01/20					
Employee	Active	115,708	\$412	0.0%	\$468	13.6%	619,036,610	-559,670,839	-26,907,177	32,458,594	5%
Spouse Only	Active	3,911	\$485	0.0%	\$550	13.4%	24,330,545	-40,420,403	-1,057,557	-17,147,415	-70%
Full Family	Active	4,484	\$708	0.0%	\$804	13.6%	40,748,274	-46,562,464	-1,771,173	-7,585,363	-19%
Children Only	Act/Ret	6,344	\$342	0.0%	\$388	13.5%	27,832,696	-29,255,436	-1,209,782	-2,632,522	-9%
Child Only	Act/Ret	9,495	\$170	0.0%	\$193	13.5%	20,714,386	-23,276,872	-900,376	-3,462,862	-17%
Disabled Employee	Retired	176	\$473	0.0%	\$538	13.7%	1,068,681	-6,818,594	-48,543	-5,798,456	-543%
Employee	Retired	8,772	\$473	0.0%	\$538	13.7%	53,111,504	-79,231,575	-1,998,787	-28,118,858	-53%
Spouse Only	Retired	1,263	\$558	0.0%	\$632	13.3%	8,999,960	-12,141,213	-306,288	-3,447,541	-38%
Full Family	Retired	192	\$815	0.0%	\$924	13.4%	1,997,561	-3,655,619	-92,221	-1,750,279	-88%
Family (1 On Medicare)	Retired	53	\$362	0.0%	\$389	7.5%	239,391	-641,281	-16,178	-418,068	-175%
Spouse Only (Medicare)	Retired	2,800	\$192	0.0%	\$196	2.1%	6,517,247	-5,604,497	-665,632	247,118	4%
Employee (Medicare)	Retired	17,772	\$192	0.0%	\$196	2.1%	41,376,221	-36,606,888	-4,225,914	543,419	1%
Total Health Insurance							845,973,075	-843,885,681	-39,199,627	-37,112,234	-4.4%
<b>RECAP BY SUBGROUP</b>											
Active Employees							619,036,610	-559,670,839	-26,907,177	32,458,594	5%
Dependents Of Active Employees							113,625,901	-139,515,175	-4,938,888	-30,828,162	-27%
Disabled Retirees (Regular)							1,068,681	-6,818,594	-48,543	-5,798,456	-543%
Retirees & Dependents (Regular)							64,348,416	-95,669,688	-2,413,473	-33,734,745	-52%
Retirees & Spouse Only (Medicare)							47,893,467	-42,211,385	-4,891,546	790,536	2%
Total Health Insurance							845,973,075	-843,885,681	-39,199,627	-37,112,234	-4.4%
Life Insurance Gain										1,200,000	
Interest Income										1,201,675	
ACA Imposed Fees										0	
Total Gain (Loss)										-34,710,558	-4.1%
Beginning Surplus (Prior to Any Applicable Premium Deficiency Reserve)										104,066,775	
Change In Surplus										-34,710,558	
Ending Surplus (Prior to Any Applicable Premium Deficiency Reserve)										69,356,217	
<b>Active Employee Premium Summary</b>											
Employer Contributions							580,334,076				
Employee Contributions							35,549,519				
COBRA Premiums							3,153,015				
Total Active Employee Premium							619,036,610				

\* The active employee premium rate shown is for Legacy employees who choose Select coverage.

**CY17 PROJECTED PLAN EXPERIENCE**  
**Based on Non-Medicare Rate Increases of 9.5% on 1/1/19 and 13.5% on 1/1/20**  
**Based on Medicare Rate Increases of 2% on January 1 of Each Year**

CLASS	Active/ Retired	Avg Count 01/01/17 12/31/17	Prem	Rate	Prem	Rate	Premiums	Claims	Plan Expenses	Gain (Loss)	Gain (Loss) Rate
			Rate*	Rate*	Rate*	Rate*					
			01/01/17	01/01/17	07/01/17	07/01/17					
Employee	Active	115,708	\$376	0.0%	\$376	0.0%	528,712,224	-493,718,654	-25,611,140	9,382,431	2%
Spouse Only	Active	3,911	\$443	0.0%	\$443	0.0%	20,791,984	-35,515,992	-1,007,176	-15,731,185	-76%
Full Family	Active	4,484	\$647	0.0%	\$647	0.0%	34,816,688	-40,709,645	-1,686,541	-7,579,499	-22%
Children Only	Act/Ret	6,344	\$312	0.0%	\$312	0.0%	23,750,844	-25,917,848	-1,150,505	-3,317,510	-14%
Child Only	Act/Ret	9,495	\$155	0.0%	\$155	0.0%	17,660,003	-20,654,611	-855,461	-3,850,070	-22%
Disabled Employee	Retired	176	\$432	0.0%	\$432	0.0%	914,544	-5,980,105	-46,214	-5,111,775	-559%
Employee	Retired	8,772	\$432	0.0%	\$432	0.0%	45,472,536	-69,273,446	-1,905,221	-25,706,131	-57%
Spouse Only	Retired	1,263	\$509	0.0%	\$509	0.0%	7,713,132	-10,589,059	-291,230	-3,167,158	-41%
Full Family	Retired	192	\$744	0.0%	\$744	0.0%	1,711,200	-3,154,804	-86,766	-1,530,370	-89%
Family (1 On Medicare)	Retired	53	\$339	1.2%	\$339	0.0%	216,621	-531,559	-14,619	-329,558	-152%
Spouse Only (Medicare)	Retired	2,731	\$184	2.2%	\$184	0.0%	6,029,588	-5,172,430	-611,263	245,896	4%
Employee (Medicare)	Retired	16,036	\$184	2.2%	\$184	0.0%	35,406,673	-31,346,079	-3,589,431	471,163	1%
Total Health Insurance							723,196,035	-742,564,231	-36,855,569	-56,223,765	-7.8%
<b>RECAP BY SUBGROUP</b>											
Active Employees							528,712,224	-493,718,654	-25,611,140	9,382,431	2%
Dependents Of Active Employees							97,019,518	-122,798,096	-4,699,684	-30,478,263	-31%
Disabled Retirees (Regular)							914,544	-5,980,105	-46,214	-5,111,775	-559%
Retirees & Dependents (Regular)							55,113,489	-83,548,868	-2,297,837	-30,733,216	-56%
Retirees & Spouse Only (Medicare)							41,436,261	-36,518,509	-4,200,694	717,058	2%
Total Health Insurance							723,196,035	-742,564,231	-36,855,569	-56,223,765	-7.8%
Life Insurance Gain										1,200,000	
Interest Income										2,472,650	
ACA Imposed Fees										-408,864	
Total Gain (Loss)										-52,959,979	-7.3%
Beginning Surplus (Prior to Any Applicable Premium Deficiency Reserve)										248,670,496	
Change In Surplus										-52,959,979	
Ending Surplus (Prior to Any Applicable Premium Deficiency Reserve)										195,710,516	
<b>Active Employee Premium Summary</b>											
Employer Contributions							491,793,886				
Employee Contributions							34,210,946				
COBRA Premiums							2,707,392				
Total Active Employee Premium							528,712,224				

\* The active employee premium rate shown is for Legacy employees who choose Select coverage.



**CY18 PROJECTED PLAN EXPERIENCE**  
**Based on Non-Medicare Rate Increases of 9.5% on 1/1/19 and 13.5% on 1/1/20**  
**Based on Medicare Rate Increases of 2% on January 1 of Each Year**

CLASS	Active/ Retired	Avg Count	Prem	Rate	Prem	Rate	Premiums	Claims	Plan Expenses	Gain (Loss)	Gain (Loss) Rate
		01/01/18	Rate*	Rate	Rate*	Rate					
		12/31/18	01/01/18	01/01/18	07/01/18	07/01/18					
Employee	Active	115,708	\$376	0.0%	\$376	0.0%	529,253,308	-520,008,412	-26,119,760	-16,874,864	-3%
Spouse Only	Active	3,911	\$443	0.0%	\$443	0.0%	20,791,984	-37,480,264	-1,026,128	-17,714,408	-85%
Full Family	Active	4,484	\$647	0.0%	\$647	0.0%	34,816,688	-43,064,691	-1,718,276	-9,966,280	-29%
Children Only	Act/Ret	6,344	\$312	0.0%	\$312	0.0%	23,750,844	-27,257,939	-1,172,154	-4,679,249	-20%
Child Only	Act/Ret	9,495	\$155	0.0%	\$155	0.0%	17,660,003	-21,690,855	-871,558	-4,902,410	-28%
Disabled Employee	Retired	176	\$432	0.0%	\$432	0.0%	914,544	-6,312,568	-47,124	-5,445,149	-595%
Employee	Retired	8,772	\$432	0.0%	\$432	0.0%	45,472,536	-73,301,081	-1,941,786	-29,770,331	-65%
Spouse Only	Retired	1,263	\$509	0.0%	\$509	0.0%	7,713,132	-11,217,123	-297,148	-3,801,139	-49%
Full Family	Retired	192	\$744	0.0%	\$744	0.0%	1,711,200	-3,356,543	-88,917	-1,734,260	-101%
Family (1 On Medicare)	Retired	53	\$343	1.2%	\$343	0.0%	219,177	-575,602	-15,248	-371,673	-170%
Spouse Only (Medicare)	Retired	2,758	\$188	2.2%	\$188	0.0%	6,222,273	-5,339,652	-632,362	250,258	4%
Employee (Medicare)	Retired	16,709	\$188	2.2%	\$188	0.0%	37,695,792	-33,330,620	-3,830,980	534,192	1%
Total Health Insurance							726,221,478	-782,935,349	-37,761,442	-94,475,312	-13%
<b>RECAP BY SUBGROUP</b>											
Active Employees							529,253,308	-520,008,412	-26,119,760	-16,874,864	-3%
Dependents Of Active Employees							97,019,518	-129,493,748	-4,788,117	-37,262,347	-38%
Disabled Retirees (Regular)							914,544	-6,312,568	-47,124	-5,445,149	-595%
Retirees & Dependents (Regular)							55,116,045	-88,450,348	-2,343,099	-35,677,403	-65%
Retirees & Spouse Only (Medicare)							43,918,064	-38,670,272	-4,463,342	784,450	2%
Total Health Insurance							726,221,478	-782,935,349	-37,761,442	-94,475,312	-13.0%
Life Insurance Gain										1,200,000	
Interest Income										1,947,900	
ACA Imposed Fees										-425,219	
Total Gain (Loss)										-91,752,631	-12.6%
Beginning Surplus (Prior to Any Applicable Premium Deficiency Reserve)										195,710,516	
Change In Surplus										-91,752,631	
Ending Surplus (Prior to Any Applicable Premium Deficiency Reserve)										103,957,885	
<b>Active Employee Premium Summary</b>											
Employer Contributions							491,793,886				
Employee Contributions							34,752,030				
COBRA Premiums							2,707,392				
Total Active Employee Premium							529,253,308				

\* The active employee premium rate shown is for Legacy employees who choose Select coverage.

**CY19 PROJECTED PLAN EXPERIENCE**  
**Based on Non-Medicare Rate Increases of 9.5% on 1/1/19 and 13.5% on 1/1/20**  
**Based on Medicare Rate Increases of 2% on January 1 of Each Year**

CLASS	Active/ Retired	Avg Count	Prem	Rate	Prem	Rate	Premiums	Claims	Plan Expenses	Gain (Loss)	Gain (Loss) Rate
		01/01/19	Rate*	Rate	Rate*	Rate					
		12/31/19	01/01/19	01/01/19	07/01/19	07/01/19					
Employee	Active	115,708	\$412	9.6%	\$412	0.0%	579,772,685	-546,689,697	-26,648,344	6,434,645	1%
Spouse Only	Active	3,911	\$485	9.5%	\$485	0.0%	22,763,233	-39,471,685	-1,046,276	-17,754,729	-78%
Full Family	Active	4,484	\$708	9.4%	\$708	0.0%	38,099,250	-45,449,161	-1,751,172	-9,101,084	-24%
Children Only	Act/Ret	6,344	\$342	9.6%	\$342	0.0%	26,034,579	-28,618,658	-1,196,639	-3,780,717	-15%
Child Only	Act/Ret	9,495	\$170	9.7%	\$170	0.0%	19,369,035	-22,744,171	-890,267	-4,265,404	-22%
Disabled Employee	Retired	176	\$473	9.5%	\$473	0.0%	1,001,341	-6,649,679	-48,077	-5,696,415	-569%
Employee	Retired	8,772	\$473	9.5%	\$473	0.0%	49,788,217	-77,378,288	-1,980,179	-29,570,250	-59%
Spouse Only	Retired	1,263	\$558	9.6%	\$558	0.0%	8,455,653	-11,852,469	-303,315	-3,700,131	-44%
Full Family	Retired	192	\$815	9.5%	\$815	0.0%	1,874,500	-3,560,350	-91,113	-1,776,962	-95%
Family (1 On Medicare)	Retired	53	\$362	5.5%	\$362	0.0%	231,318	-619,701	-15,859	-404,242	-175%
Spouse Only (Medicare)	Retired	2,786	\$192	2.1%	\$192	0.0%	6,418,208	-5,511,704	-654,445	252,059	4%
Employee (Medicare)	Retired	17,411	\$192	2.1%	\$192	0.0%	40,114,739	-35,439,927	-4,090,376	584,435	1%
Total Health Insurance							793,922,757	-823,985,490	-38,716,063	-68,778,796	-9%
<b>RECAP BY SUBGROUP</b>											
Active Employees							579,772,685	-546,689,697	-26,648,344	6,434,645	1%
Dependents Of Active Employees							106,266,097	-136,283,675	-4,884,355	-34,901,933	-33%
Disabled Retirees (Regular)							1,001,341	-6,649,679	-48,077	-5,696,415	-569%
Retirees & Dependents (Regular)							60,349,688	-93,410,807	-2,390,466	-35,451,585	-59%
Retirees & Spouse Only (Medicare)							46,532,947	-40,951,632	-4,744,821	836,493	2%
Total Health Insurance							793,922,757	-823,985,490	-38,716,063	-68,778,796	-8.7%
Life Insurance Gain										1,200,000	
Interest Income										1,381,613	
ACA Imposed Fees										0	
Total Gain (Loss)										-66,197,182	-8.3%
Beginning Surplus (Prior to Any Applicable Premium Deficiency Reserve)										103,957,885	
Change In Surplus										-66,197,182	
Ending Surplus (Prior to Any Applicable Premium Deficiency Reserve)										37,760,703	
<b>Active Employee Premium Summary</b>											
Employer Contributions							541,525,852				
Employee Contributions							35,285,623				
COBRA Premiums							2,961,210				
Total Active Employee Premium							579,772,685				

\* The active employee premium rate shown is for Legacy employees who choose Select coverage.

## PLAN PROJECTIONS (Continued)

### Premium Deficiency Reserves

Currently, the Plan has surplus funds (the excess of Plan assets over Plan liabilities) that are significantly higher than the Plan's stated funding objective. At its August 2017 meeting, the Board voted for no rate increases for non-Medicare premium classes in 2017. The rates for CY16 and CY17 are expected to be deficient, with a significant amount of costs in CY16 and CY17 expected to be paid from previously accumulated Plan surplus. To that extent, it is appropriate for the Plan to recognize a reserve to reflect that premium deficiency.

### Projected Premium Deficiency Reserves Based on Board Approved Rates thru CY17 In Millions

Mo	Yr	Assets less Liabilities	Premium Deficiency Reserve			Projected Surplus After PD Reserve
			CY16 Rates	CY17 Rates	Total	
7	16	\$271.2	\$45.7	\$79.6	\$125.2	\$146.0
2	16	\$283.0	\$57.5	\$79.6	\$137.1	\$146.0
3	16	\$292.0	\$66.5	\$79.6	\$146.1	\$146.0
4	16	\$292.8	\$67.3	\$79.6	\$146.8	\$146.0
5	16	\$294.3	\$68.7	\$79.6	\$148.3	\$146.0
6	16	\$293.8	\$68.3	\$79.6	\$147.9	\$146.0
7	16	\$284.3	\$58.8	\$79.6	\$138.4	\$146.0
8	16	\$273.4	\$47.8	\$79.6	\$127.4	\$146.0
9	16	\$271.0	\$45.4	\$79.6	\$125.0	\$146.0
10	16	\$266.7	\$41.1	\$79.6	\$120.7	\$146.0
11	16	\$257.3	\$31.7	\$79.6	\$111.3	\$146.0
12	16	\$246.8	\$21.3	\$79.6	\$100.8	\$146.0
1	17	\$225.5	\$0.0	\$79.6	\$79.6	\$146.0
2	17	\$235.4	\$0.0	\$89.4	\$89.4	\$146.0
3	17	\$242.2	\$0.0	\$96.2	\$96.2	\$146.0
4	17	\$240.3	\$0.0	\$94.3	\$94.3	\$146.0
5	17	\$239.1	\$0.0	\$93.1	\$93.1	\$146.0
6	17	\$236.0	\$0.0	\$90.0	\$90.0	\$146.0
7	17	\$223.4	\$0.0	\$77.4	\$77.4	\$146.0
8	17	\$209.3	\$0.0	\$63.4	\$63.4	\$146.0
9	17	\$204.1	\$0.0	\$58.2	\$58.2	\$146.0
10	17	\$197.0	\$0.0	\$51.0	\$51.0	\$146.0
11	17	\$184.5	\$0.0	\$38.5	\$38.5	\$146.0
12	17	\$170.9	\$0.0	\$24.9	\$24.9	\$146.0

## PLAN PROJECTIONS (Continued)

### Analysis of Projected and Incurred Claims Costs by Premium Class

Following is an analysis of estimated incurred claims for FY16 versus those projected for FY17 thru FY20.

<b>Analysis of Projected Incurred Claims Costs by Premium Class</b>					
	<b>FY16*</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>
<b>Monthly Cost</b>					
Employee	\$335	\$347	\$365	\$384	\$403
Spouse Only	\$712	\$738	\$776	\$819	\$861
Full Family	\$711	\$737	\$777	\$821	\$865
Children Only	\$321	\$332	\$349	\$366	\$384
Child Only	\$171	\$177	\$186	\$195	\$204
Disabled Retiree	\$2,660	\$2,758	\$2,903	\$3,061	\$3,221
Early Retiree	\$618	\$640	\$675	\$714	\$753
Retiree/Spouse Combined (Medicare)	\$157	\$161	\$164	\$168	\$171
<b>Annual Rate of Increase</b>					
Employee		3.7%	5.0%	5.2%	5.0%
Spouse Only		3.7%	5.2%	5.4%	5.2%
Full Family		3.6%	5.4%	5.7%	5.4%
Children Only		3.6%	4.9%	5.1%	4.9%
Child Only		3.6%	4.7%	4.9%	4.8%
Disabled Retiree		3.7%	5.2%	5.5%	5.2%
Early Retiree		3.6%	5.4%	5.7%	5.4%
Retiree/Spouse Combined (Medicare)		2.1%	2.1%	2.1%	2.1%
<b>Ratio to Employee Cost</b>					
Employee	1.00	1.00	1.00	1.00	1.00
Spouse Only	2.13	2.13	2.13	2.13	2.14
Full Family	2.12	2.12	2.13	2.14	2.15
Children Only	0.96	0.96	0.96	0.95	0.95
Child Only	0.51	0.51	0.51	0.51	0.51
Disabled Retiree	7.94	7.94	7.96	7.98	7.99
Early Retiree	1.84	1.84	1.85	1.86	1.87
Retiree/Spouse Combined (Medicare)	0.47	0.46	0.45	0.44	0.42
* Based on estimates of outstanding claims as of 6/30/16.					

## POSTEMPLOYMENT BENEFITS

### **Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions**

Under the present State law that governs the Plan, all retirees are required to pay 100% of their premiums.

The premium rates and benefit costs for Medicare eligible retiree coverage are essentially in actuarial balance. There is no provision in the present law, as it relates to Medicare eligible retirees, which results in future expected costs to the State for retiree life and health insurance.

However, the premium rates applicable to most retirees who are not yet eligible for Medicare are not high enough to pay for their expected claims costs. For non-Medicare eligible retirees who were initially hired prior to January 1, 2006 (referred to by the Plan as “Legacy” employees), the premium rates for their coverage are currently limited by State law to 115% of the premium rates for active employee coverage. Note that the 115% limitation does not apply to retirees who are Horizon employees, i.e., to those employees who are initially hired on or after January 1, 2006.

Since early retiree benefit costs greatly exceed 115% of the active employee premiums, an implicit cost subsidy exists with respect to early retiree coverage. The Plan currently covers the current year retiree subsidy cost by increasing the premium rate applicable to active employees.

The FY16 Actuarial Report being provided herein does not separately identify and quantify the liabilities and costs that must be reported and recognized by the State, as an employer, under accounting rules established for postemployment benefits by the Governmental Accounting Standards Board. Therefore, Plan surplus – as defined in this Report – does not take into account the liabilities of the State, as an employer, associated with retiree health and life insurance.

The State and School Employees Health Insurance Management Board has retained Cavanaugh Macdonald Consulting, LLC (“Cavanaugh Macdonald”) to prepare annual actuarial valuations of the postemployment life and health insurance benefits provided through the State and School Employees’ Life and Health Insurance Plan. The most recent valuation prepared by Cavanaugh Macdonald was as of June 30, 2015.

Although there are significant surplus funds that exist in the Plan, there are much higher liabilities for the State, as an employer, for future retiree benefits that have not been funded. For example, based on current claims liability estimates and prior to recognizing any premium deficiency reserve, the Plan ended FY16 with a Plan surplus of about \$292 million. Based on results contained in the “Report of the Actuary on the Other Postemployment Benefits Valuation, Prepared as of June 30, 2015” by Cavanaugh Macdonald, the State’s unfunded actuarial accrued liability associated with retiree benefits provided through the State and School Employees’ Life and Health Insurance Plan were about \$732 million as of June 30, 2015.

In evaluating the extent to which existing or projected surplus of the Plan is necessary or even sufficient, this Report should be reviewed in conjunction with the most recent version of the “Report of the Actuary on the Other Postemployment Benefits Valuation” that has been submitted to the Health Insurance Management Board by Cavanaugh Macdonald.

## ASSUMPTIONS

### Basic Projection Approach

Incurred medical and drug claims rates were projected forward on a semi-annual basis - by premium class - using assumptions for annual non-drug benefit trend and annual drug benefit trend.

### Non-Drug Benefit Trend

	CY16 2H	CY17	CY18	CY19	CY20
Basic Trend, Non-Medicare	3.25%	3.25%	3.25%	3.25%	3.25%
PCP Copay Plan	1.25%				
Adjustments to ACA Wellness		-0.31%			
Medical Trend, Non-Medicare	4.50%	2.94%	3.25%	3.25%	3.25%
Medical Trend, Medicare Classes	2.00%	2.00%	2.00%	2.00%	2.00%

### Drug Benefit Trend

	CY16 2H	CY17	CY18	CY19	CY20
Drug Trend, Prior to Utilization Management Initiatives	9.5%	11.5%	10.5%	9.5%	9.0%
Drug Trend, After Utilization Management Initiatives	7.7%	8.5%	10.5%	9.5%	9.0%
Rebate Trend	116.1%	2.2%	2.2%	2.1%	2.1%
Drug Benefit Trend, After Rebates	-1.8%	9.8%	12.1%	10.8%	10.2%

### Enrollment Growth

The projections are based on the following annual enrollment growth assumptions by premium class: 0% for active employee and dependent classes; 0% for non-Medicare eligible retiree classes; 1.0% for Medicare eligible dependents of retirees; and 4.2% for Medicare eligible retirees.

### Interest

Interest income was assumed to be earned and received at an annual rate of 0.74% and was based on the sum of the prior month's cash assets and one-half of the net cash flow for the month.

### Net Cash Flow from Life Insurance

Life insurance coverage was assumed to produce net additions to the Plan's funds of approximately 7% of premium. There was no assumed growth in the life insurance program in the current projections.

## ASSUMPTIONS (Continued)

### Administrative Expenses

Excluding life insurance contractual expenses and fees associated with ACA, Plan expenses were \$34.1 million in FY16 and for the last 6 fiscal years were as follows:

FY10	\$53.4	
FY11	\$46.0	
FY12	\$36.7	
FY13	\$33.7	
FY14	\$33.1	
FY15	\$32.0	
FY16	\$34.1	<i>In Millions</i>

The reductions in FY11 and FY12 were primarily due to new contracts or other changes with the disease management vendor, the wellness vendor, and the Plan administration vendor. The increase in costs in FY16 versus FY15 relates primarily to the increased fees paid to Prime Therapeutics.

The projected, allocated expense rates per employee are as follows:

CY16	\$21.40
CY17	\$21.83
CY18	\$22.26
CY19	\$22.71
CY20	\$23.16

FY17 health insurance administrative and cost containment program expenses are projected to be approximately 5.0% of projected FY17 premium.

## SIGNIFICANT HISTORICAL BENEFIT CHANGES

### January 1, 2015

**Annual Screening for Lung Cancer with Low-Dose Computed Tomography** – As required by ACA, beginning 1/1/15 the Plan provided 100% benefits for annual screening for lung cancer with low-dose computed tomography to members who are age 55 to 80.

**Preventive Services for Risk-Reducing Medications for Women with Increased Risk for Breast Cancer** – As required by ACA, beginning 1/1/15 the Plan provided 100% benefits for risk reducing drugs, such as Tamoxifen or Raloxifene, for women who are at increased risk for breast cancer and at low risk for adverse medication effects.

**Preventive Services for Contraceptive Drugs Limited to Generic Drugs Only** – During CY15, based on clarifying guidance under ACA, preventive benefits (i.e., paid at 100% without cost sharing) for contraceptive drugs were limited to generic drugs only. Non-generic contraceptive drugs were still covered, but were subject to normal Plan deductibles and copays. (This provision was again modified in CY16 based on updated guidance under ACA.)

**Preventive Services for Gestational Diabetes Mellitus Limited to One Screening Only** – Based on a revision in the recommendations of the United States Preventive Services Task Force, preventive services (payable at 100% without cost sharing) for screening for gestational diabetes mellitus in pregnant women are limited to one screening in asymptomatic women after 24 weeks of gestation. Prior to 1/1/15, the Plan covered two such screenings per pregnancy (one at the first prenatal visit and one between 24-28 weeks).

### January 1, 2014

**Emergency Room (ER) Copay** – Effective January 1, 2014, a \$50 copay applies to the 1st ER visit in a year and a \$200 copay applies for each additional ER visit. Previously, ER benefits were subject to a separate \$100 copay after the first ER visit.

**Elimination of Private Room Copay** – Previously, the Plan applied a \$20 per day copay for hospital stays in a private room. Effective January 1, 2014, this cost sharing feature has been eliminated.

**Annual Out-Of-Pocket Limits (Required by ACA)** – As required by ACA, annual out-of-pocket limits of \$6,350 for self only coverage, and \$12,700 for family coverage, began to apply beginning on January 1, 2014. Out-of-pocket costs subject to these maximums include deductibles, coinsurance, and copayments for in-network providers (including both emergency room and prescription drug copays). The annual limit does not include premiums, non-covered services, balance-billing amounts, or cost sharing for out-of-network providers.

**Prescription Drug Copays** – Effective January 1, 2014, drug copays were increased from \$40 to \$45 for preferred brand drugs and from \$65 to \$70 for non-preferred brand drugs. The generic drug copay remained at \$12.

**Elimination of Pre-Existing Exclusion Periods (Required by ACA)** – Effective January 1, 2011, the Plan's pre-existing condition exclusion was eliminated for participants under age 19, in accordance with ACA. Beginning January 1, 2014, ACA prohibits the Plan from imposing pre-existing condition exclusions for any participant regardless of age.

**Limited Coverage of Speech Therapy to Include Delayed Language Development** – Effective January 1, 2014, the Plan began to provide limited coverage of speech therapy to include delayed language development.



## SIGNIFICANT HISTORICAL BENEFIT CHANGES (Continued)

### January 1, 2014 (Continued)

**Prescription Drug Coverage for Vitamin D (Required by ACA)** – Effective January 1, 2014, ACA requires that the Plan provide coverage for Vitamin D for adult participants aged 65 years or older, due to their increased risk for falls. Coverage for Vitamin D is now provided as a wellness/preventive benefit with no cost-sharing, and must be purchased by prescription to qualify. Previously, the Plan did not provide prescription drug benefits for vitamins, with the exception of prenatal vitamins and folic acid for women up to age 55.

**Hepatitis C Virus Screening (Required by ACA)** – ACA requires that the Plan provide coverage for one-time screening for hepatitis C virus (HCV) infection for participants at higher risk for infection and for adult participants born between 1945 and 1965. Effective January 1, 2014, coverage for this screening has been provided as a wellness/preventive benefit with no cost-sharing.

**Wellness Benefits for Adults 18 and Older Will Allow One (1) A1C Test per Year** – Effective January 1, 2014, the Plan allows one A1C test per year under the adult wellness benefit.

**Amended BMI Requirement for Participation in the Weight Management Enhancement Program** – Effective January 1, 2014, the Weight Management Enhancement Program administered by ActiveHealth was made available to participants with a BMI  $\geq$  30. Previously, the program was available only to participants with a Body Mass Index (BMI)  $>$  35.

**Expanded Benefits for Dietician Counseling** – The Plan already provides coverage as a wellness/preventive benefit for one dietician visit per year. Effective January 1, 2014, coverage for counseling under regular Plan benefits was expanded to allow three additional visits per year, with the additional visits being subject to the calendar year deductible and applicable coinsurance.

**Increased Access to Vaccines through the Catamaran Vaccine Program** – During CY13 the Catamaran Vaccination Program included only flu, pneumonia, and zoster (shingles). Effective January 1, 2014, the program was changed to allow additional vaccines covered by the Plan to be included in the Catamaran program. Additions include vaccinations for Hepatitis A and B, HPV, Measles, Mumps, Rubella, Varicella, Meningococcal, Polio, Rabies, Rotovirus, Tetanus, Diphtheria, and Acellular Pertussis.

### January 1, 2013

**Prescription Drug Benefits for Over-the-counter Pseudoephedrine Medications.** Products that contain pseudoephedrine require a prescription under Mississippi law but, prior to January 1, 2013, were not covered by the Plan because the Plan only covered legend drugs – those that by the Federal Drug Administration's standards require a written prescription. Effective January 1, 2013, the Plan was amended to extend coverage to those drugs that contain pseudoephedrine that require a prescription under Mississippi law.

**Bariatric Surgery Procedures.** Except as provided by legislation passed in 2009 to fund bariatric surgery for a maximum of 200 Plan participants over two years, the Plan generally excluded, prior to January 1, 2013, all treatments for obesity and weight loss, including bariatric surgery procedures. Effective January 1, 2013, the Plan added bariatric surgery procedures as a covered benefit under the Plan.

**Maternity Benefits at 100% for 2 Additional Ultrasounds.** Benefits for certain prenatal laboratory and diagnostic procedures are provided at 100% (90% for non-network physicians), and are not subject to the calendar year deductible. Prior to January 1, 2013, the benefits payable at 100% were limited to 2 ultrasounds per pregnancy. Effective January 1, 2013, this limit on ultrasounds per pregnancy was increased from 2 to 4.

## SIGNIFICANT HISTORICAL BENEFIT CHANGES (Continued)

### January 1, 2013 (Continued)

**Expansion of Preventive Services for Women as Required by the Affordable Care Act.** The following expansion of preventive services for adult women was required by ACA and was effective January 1, 2013:

- Well-woman visits for preconception and prenatal care for all female participants.
- Human papillomavirus testing.
- Screening for gestational diabetes in pregnant women between 24 and 28 weeks of gestation (and at the first prenatal visit for women at high risk for diabetes).
- Contraceptive methods and counseling, including FDA-approved contraceptive methods, sterilization procedures, and patient education/counseling for all women with reproductive capacity.
- Breastfeeding support, supplies and counseling in conjunction with each childbirth including comprehensive lactation support and counseling by a trained provider during pregnancy and/or postpartum, and coverage of the costs of renting breastfeeding equipment.
- Annual screening and counseling for interpersonal and domestic violence.

**Coverage for Telemedicine Services.** As required by Senate Bill 2209, coverage by the Plan for telemedicine services became effective July 1, 2013. Telemedicine benefits are available only for in-network providers certified by the AHS State Network for telemedicine services.

### January 1, 2012

**Certification Requirement for CT's and MRI's in Emergency Room Setting.** Effective January 1, 2012, the Plan no longer required certification of outpatient CT Scans and Magnetic Resonance Imaging (MRI) services performed in an emergency room setting. Certification of these services is still required if they are performed in a physician's office, free standing facility, or outpatient hospital (other than emergency room).

**Certification Requirements for Transplant Evaluations.** Currently, all solid human organ and bone marrow/stem cell transplants must be certified as medically necessary by ActiveHealth. In an effort to identify transplant candidates prior to the actual transplant, certification requirements, effective January 1, 2012, were extended to the transplant evaluation process. Early identification of transplant cases allows ActiveHealth nurses to help members find the appropriate facility for their personal situation and guide them through the complexities of a transplant.

**Wellness Benefits – Prior Completion of a Health Risk Assessment Is No Longer Required.** Effective January 1, 2012, participants were no longer required to complete a health risk assessment each year in order to receive wellness benefits.

**Participating Pharmacies to Administer Certain Vaccines.** Effective January 1, 2012, the Plan provided benefits for annual influenza (flu) and pneumonia vaccines, and the shingles vaccine (Note: Shingles vaccine is only covered for participants age 60 or older) administered by an immunization-certified pharmacist. Claims associated with these services are filed by the pharmacy through Catamaran. In order to receive coverage for these vaccines at no cost, the participant must use a Catamaran participating pharmacy.

**Weight Management Program.** Effective January 1, 2012, the Plan implemented a weight management program through ActiveHealth for participants with a Body Mass Index of 40 or greater. This 12-month program provides participants with a personalized plan to not only lose weight but also to reduce health risks. This confidential program is available to participants at no cost.

## SIGNIFICANT HISTORICAL BENEFIT CHANGES (Continued)

January 1, 2011

**Increase in Select Coverage Deductible and Individual Coinsurance Maximum.** Select coverage individual non-drug deductibles were increased on January 1, 2011, from \$500 to \$1,000 for In Network claims and from \$1,000 to \$2,000 for Out-of-Network claims. The individual non-drug coinsurance maximums were increased from \$2,000 to \$2,500 for In Network claims and from \$3,000 to \$3,500 for Out-of-Network claims. Following is a summary of CY11 Select coverage:

CY11 SELECT COVERAGE					
	Separate Medical Plan			Separate Drug Plan	
	Individual Medical Deductible	Medical Coinsurance	Individual Coinsurance Maximum	Individual Drug Deductible	Drug Copays
In Network	\$1,000	20%	\$2,500	\$75	\$12/\$40/\$65
Out-of-Network	\$2,000	40%	\$3,500		
<b>Family Medical Deductibles are limited to 2 times the Individual Medical Deductibles.</b>					

**Increase in Base Coverage Deductible and Individual Coinsurance Maximum.** Base coverage individual deductibles were increased on January 1, 2011, from \$1,200 to \$1,800 for Self Only coverage and from \$2,400 to \$3,000 for Family coverage. The Self Only coverage coinsurance maximums were increased from \$2,450 to \$2,500 for In Network claims and from \$3,950 to \$4,000 for Out-of-Network claims. The Family coverage coinsurance maximums were increased from \$4,900 to \$5,000 for In Network claims and from \$7,900 to \$8,000 for Out-of-Network claims. Following is a summary of CY11 Base coverage:

CY11 BASE COVERAGE					
	Deductible	Medical Coinsurance	Drug Copays	Coinsurance & Co-payment Maximum	Out-of- Pocket Maximum
<b><u>Self Only Coverage</u></b>					
In Network	\$1,800	20%	\$12/\$40/\$65	\$2,500	\$4,300
Out-of-Network	\$1,800	40%	\$12/\$40/\$65	\$4,000	\$5,800
<b><u>Family Coverage</u></b>					
In Network	\$3,000	20%	\$12/\$40/\$65	\$5,000	\$8,000
Out-of-Network	\$3,000	40%	\$12/\$40/\$65	\$8,000	\$11,000

**Increase in Emergency Room Co-payment from \$50 to \$100.** Prior to January 1, 2011, a \$50 emergency room co-payment per visit was applied after the first emergency room visit in any calendar year. Effective January 1, 2011, a \$100 emergency room co-payment per visit is applied after the first emergency room visit in any calendar year.

**Generic Drug Only Coverage for Proton Pump Inhibitors.** Prior to January 1, 2011, the Plan provided prescription drug benefits for both generic and brand name proton pump Inhibitors (PPIs). Effective January 1, 2011, the Plan provides coverage for PPI medications in generic form only (with coverage of brand products provided only by prior authorization).

## SIGNIFICANT HISTORICAL BENEFIT CHANGES (Continued)

### January 1, 2011 (Continued)

**Change in Requirements to Receive Tobacco Cessation Prescription Products.** Prior to January 1, 2011, coverage for tobacco cessation prescription drugs was provided to participants enrolled in the telephonic tobacco cessation counseling program administered by the Plan's wellness and health promotion services vendor. Coverage for the approved tobacco cessation prescription drugs was subject to the participant's applicable deductible and the appropriate prescription drug co-payment amount, and was limited to a lifetime maximum of \$350. Over-the-counter tobacco cessation products were not covered. Recently the Plan partnered with the Mississippi Department of Health, Office of Tobacco Control to provide telephonic as well as face-to-face tobacco cessation treatment services through the Mississippi Tobacco Quitline and the ACT Center. Effective January 1, 2011, the Plan no longer offers telephonic coaching for tobacco cessation through its wellness and health promotion services vendor; however, the on-line tobacco cessation program is still be available, as well as the Quitline and the ACT Center. Effective January 1, 2011, coverage of tobacco cessation prescription drugs is provided subject to enrollment in the on-line tobacco cessation program.

**Change Medical Necessity Review of Pulmonary Rehabilitation Services.** Prior to January 1, 2011, benefits were provided for pulmonary rehabilitation services for participants if they were enrolled in the Chronic Obstructive Pulmonary Disease (COPD) management program. Effective January 1, 2011, the Plan no longer offers a disease management program for COPD. In lieu of requiring participation in a disease management program to qualify for this benefit, the Plan requires that such services receive prior approval beginning January 1, 2011.

**Eliminate Lifetime Maximum as Required by ACA.** Prior to January 1, 2011, the lifetime maximum amount of Plan benefits for each participant was \$2 million. ACA requires that all health insurance plans eliminate lifetime maximums. This change was effective as of January 1, 2011.

**Eliminate Pre-existing Exclusions for Children as Required by ACA.** Newborns or newly adopted children enrolled within 60 days of birth or adoption are not subject to pre-existing conditions exclusions. Prior to January 1, 2011, all other children added to the Plan were subject to either a 12-month or 18-month pre-existing condition exclusion period, dependent on when they were enrolled and any prior creditable coverage they may have had. ACA requires that all health insurance plans eliminate pre-existing exclusion periods for children under age 19. This change was effective as of January 1, 2011.

**Eliminate Limitation on Cardiac Rehabilitation Sessions.** Prior to January 1, 2011, benefits for cardiac rehabilitation services were limited to 36 sessions and subject to approval. ACA provides that a plan cannot impose annual limits on covered "essential benefits". Although cardiac rehabilitation services have not been specifically identified as essential benefits, the limitation on sessions was eliminated as of January 1, 2011. Approval of services continues to be a requirement for receiving these benefits.

**Eliminate Calendar Year Limit for Home Health and Private Duty Nursing Services.** Prior to January 1, 2011, benefits for home health and private duty nursing services were limited to \$10,000 per calendar year and subject to approval through the Plan's medical management vendor. ACA provides that a plan cannot impose annual dollar limits on covered "essential benefits". Although home health and private duty nursing services have not been specifically identified as essential benefits, the amount limitation was eliminated as of January 1, 2011. Approval of services through the Plan's medical management vendor continues to be a requirement for receiving these benefits.

## SIGNIFICANT HISTORICAL BENEFIT CHANGES (Continued)

### January 1, 2011 (Continued)

**Eliminate Calendar Year Limit for Diabetic Self-management Training and Education.** Prior to January 1, 2011, benefits were provided for diabetic self-management training and education for participants enrolled in the disease management program. Subject to prior approval, benefits were provided at 100% (not subject to the calendar year deductible) and limited to \$250 per calendar year. ACA provides that a plan cannot impose annual dollar limits on covered “essential benefits”. Although diabetic self-management training and education have not been specifically identified as essential benefits, the amount limitation was eliminated as of January 1, 2011. Participation in the disease management program continues to be a requirement for receiving this benefit.

### January 1, 2010

**Well-Child Benefits for Out-of-Area Participants.** Prior to January 1, 2010, well-child benefits were payable only if covered wellness services were provided by a network provider. Beginning on January 1, 2010, such wellness services provided by non-network providers began to be payable at 75% of the allowable charge (not subject to the deductible) for out-of-area participants.

**Drug Deductible and Drug Copays.** The drug deductible was increased from \$50 to \$75 on January 1, 2010.

Effective January 1, 2010, brand drug copays were increased from \$36 to \$40 for preferred brand drugs and from \$60 to \$65 for non-preferred brand drugs. For generic drugs, the copay remained at \$12.

Effective January 1, 2010, all specialty drugs must be obtained from the Specialty Central Fill program through Walgreen’s (which is the specialty drug management program offered by Catalyst Rx) and are subject to a \$65 copay. Previously, specialty drug copays were \$36 in network and \$60 out of network.

**Base Coverage (High Deductible Health Plan Option).** In order for Base coverage to continue to be a qualified HDHP under federal law, the calendar year deductible was increased for 2010. The Base coverage deductible was increased from \$1,150 to \$1,200 for Self Only coverage and from \$2,300 to \$2,400 for Family coverage.

CY10 Base Coverage					
	Deductible	Medical Coinsurance	Drug Copays	Stop Loss	Total Out-of-Pocket
<b>Self Only</b>					
In Network	\$1,200	20%	12/40/65	\$2,450	\$3,650
Out-of-Network	\$1,200	40%	12/40/65	\$3,950	\$5,150
<b>Family</b>					
In Network	\$2,400	20%	12/40/65	\$4,900	\$7,300
Out-of-Network	\$2,400	40%	12/40/65	\$7,900	\$10,300

**Removal of the Exclusion from Coverage of the First 3 Pints of Blood Used During Each Inpatient Admission or Outpatient Service.** Prior to January 1, 2010, the Plan excluded the “first three pints” of blood used during each inpatient hospital stay or for each outpatient hospital service. Effective January 1, 2010, that exclusion was eliminated.

## SIGNIFICANT HISTORICAL BENEFIT CHANGES (Continued)

### January 1, 2010 (Continued)

**Increase in the Annual Allowance for Adult Wellness/Preventive Care.** Prior to January 1, 2010, the Plan provided adult wellness benefits, including one office visit and certain diagnostic tests based on the participant's age and gender. Benefits are based on 100% of the allowable charge (not subject to the deductible or coinsurance) for in-area participants and, prior to January 1, 2010, were subject to a \$1,000 annual maximum and subject to the prior completion of a Health Risk Assessment. Effective January 1, 2010, the \$1,000 annual maximum was eliminated and coverage was provided for one additional office visit.

**Change in Dependent Eligibility.** Prior to this change, coverage was available to unmarried dependent children age 19-25 that were enrolled as a full-time student. ACA requires that the Plan make coverage available to dependent children up to age 26 regardless of student or marital status, effective January 1, 2011. ACA also encourages early implementation of this requirement. The Plan's eligibility requirements were modified to allow the dependent children of employees, retirees, and COBRA participants to be covered under the Plan until age 26 and special open enrollment periods were created to address this issue. See the Plan Document for further details and requirements.

**Adjust Mental Health/Substance Abuse benefits in accordance with the Mental Health Parity and Addiction Equity Act of 2008 (P.L. 110-343).** The Mental Health Parity and Addiction Equity Act of 2008 (P.L. 110-343) was enacted into law on October 3, 2008. Similar to other provisions under HIPAA, this law provides that a self-funded, non-governmental plan may elect to exempt itself from this requirement. However, the Plan has voluntarily elected to comply with this law effective January 1, 2010.

	Current Benefits				Benefits Effective January 1, 2010			
	In-Area Participants		Out-of-Area Participants		In-Area Participants		Out-of-Area Participants	
	In- Network	Out-of- Network	In- Network	Out-of- Network	In- Network	Out-of- Network	In- Network	Out-of- Network
<b>Substance Abuse</b>								
Inpatient	80%	75%	80%	75%	80%	60%	80%	75%
Outpatient	50%	50%	50%	50%	80%	60%	80%	75%
Intensified Outpatient Program	50%	50%	50%	50%	80%	60%	80%	75%
Residential Treatment*	None	None	None	None	80%	60%	80%	75%
<b>Mental Health</b>								
Inpatient	80%	75%	80%	75%	80%	60%	80%	75%
Outpatient	50%	50%	50%	50%	80%	60%	80%	75%
Day Treatment / Partial Hospitalization	80%	75%	80%	75%	80%	60%	80%	75%
Residential Treatment*	None	None	None	None	80%	60%	80%	75%

\* Services must be certified as medically necessary by CareAllies to be covered by the Plan.

In addition to the above coinsurance changes, the following benefit changes were also applicable:

- Benefits are subject to the applicable deductible and the coinsurance maximum.
- The prior substance abuse benefit limit of \$8,000 per calendar year and lifetime maximum of \$16,000 per participant was eliminated and benefits became subject to the participant's lifetime maximum of \$2 million.
- The current benefit limits of 52 outpatient visits, 30 inpatient days and 60 day treatment/partial hospitalization days per calendar year were eliminated.

## **SIGNIFICANT HISTORICAL BENEFIT CHANGES (Continued)**

### **January 1, 2010 (Continued)**

**Obesity Treatment Program.** In accordance with House Bill 1530, the Plan began to provide a two-year limited Obesity Treatment Program for the treatment and management of obesity and related conditions, beginning July 1, 2009. Under this Program, and subject to its requirements, the Plan provides benefits for medically necessary bariatric procedures for those Plan participants selected for inclusion in the Program. Participation in the Program is limited to no more than 100 individuals per year.

### **January 1, 2009 & Prior**

A detailed description of prior changes appears in the CY10 & prior Actuarial Reports.

**RETIREE LIFE RATES PER \$1,000 AS OF 1/1/2014**  
**Based on Attained Age of Retiree**

<b>Age</b>	<b>Prior</b>	<b>Revised</b>	<b>Age</b>	<b>Prior</b>	<b>Revised</b>	<b>Age</b>	<b>Prior</b>	<b>Revised</b>
40	0.25	0.20	60	1.63	1.50	80	3.00	3.00
41	0.28	0.22	61	1.76	1.65	81	3.00	3.00
42	0.30	0.24	62	1.91	1.80	82	3.00	3.00
43	0.33	0.26	63	2.08	1.95	83	3.00	3.00
44	0.36	0.28	64	2.25	2.10	84	3.00	3.00
45	0.40	0.31	65	3.00	2.25	85	3.00	3.00
46	0.43	0.34	66	3.00	2.40	86	3.00	3.00
47	0.47	0.38	67	3.00	2.55	87	3.00	3.00
48	0.53	0.42	68	3.00	2.70	88	3.00	3.00
49	0.54	0.47	69	3.00	2.85	89	3.00	3.00
50	0.65	0.52	70	3.00	3.00	90	3.00	3.00
51	0.71	0.57	71	3.00	3.00	91	3.00	3.00
52	0.79	0.63	72	3.00	3.00	92	3.00	3.00
53	0.86	0.69	73	3.00	3.00	93	3.00	3.00
54	0.95	0.76	74	3.00	3.00	94	3.00	3.00
55	1.06	0.85	75	3.00	3.00			
56	1.16	0.94	76	3.00	3.00			
57	1.25	1.05	77	3.00	3.00			
58	1.38	1.20	78	3.00	3.00			
59	1.50	1.35	79	3.00	3.00			