pennsylvania
OFFICE OF ADMINISTRATION

PA Retired Employees Health Program
2009 Rooney Award Nomination

Cover Sheet: **PA Retired Employees Health Program**

Category: Nomination for NASPE's Eugene H. Rooney, Jr. Award - Innovative State Human Resource Management Program

Program Title:	Retired Employees Health Program
State:	Pennsylvania
Contact Person:	Matt Waneck
Title:	Director, Bureau of Employee Benefits and Services
Agency:	Office of Administration
Mailing Address:	Room 517 Finance Building 613 North Street Harrisburg, PA 17120–0400
Telephone:	717-705-5600
Fax:	717-787-7763
Email:	mwaneck@state.pa.us

Summary: PA Retired Employees Health Program

Rising health care costs is one of the greatest challenges facing public and private employers nationwide, and the Commonwealth of Pennsylvania is no exception. In the last four years, costs to the commonwealth's Retired Employees Health Program (REHP) increased 63 percent. Actuarial estimates projected little relief. In fact, Governmental Accounting Standards Board (GASB) provisions now require all public entities to disclose the unfunded liabilities for Other Post Employment Benefits (OPEB), further emphasizing the need for prudent management.

To address these issues, the commonwealth engaged in major restructuring of coverage for Medicare eligible retirees and aggressive contracting with vendors to reduce costs to taxpayers, while preserving the level of coverage under one of the best health care plans in the country.

The commonwealth provides retirees and eligible dependents with financial protection in the case of illness or injury through health care under the Retired Employees Health Program (REHP). The REHP covers members who are not yet eligible for Medicare under a variety of health plans, and traditionally provided retirees who were eligible for Medicare with Medicare Supplemental and Major Medical coverage.

Effective May 1, 2008, the medical program for Medicare eligible retirees was put out for competitive bid, and the Medicare Supplemental/Major Medical plan was replaced by a Medicare Private Fee for Service (PFFS) plan. Additional Medicare Advantage plans, including Medicare Health Maintenance Organization (MHMO) and Preferred Provider Organization (MPPO) plans, were added as alternative coverages.

This approach maintained the same level of benefit while taking advantage of the lower costs to employers of the Medicare Advantage plans when compared to traditional Medicare Supplemental and Major Medical coverage. In addition, the MHMO and MPPO plans offered lower prescription co-payments than the PPFS option. Total estimated annual savings for the changes to the medical program amounted to $41.8 million.

In February 2008, the commonwealth also made modest changes to the prescription drug program to return retiree co-payments to approximately 20 percent of the cost of coverage, the level originally put in place when the first prescription card program was put in place in the 1990's. Utilization controls – such as step therapy, quantity limits and mail-order day supply limits (90 versus previous 100) also were implemented. Retirees who enrolled in the MHMO or MPPO options continued to have the benefit of much lower co-payments that are closer to ten percent of the cost of the prescriptions. Total estimated annual savings for the changes to the prescription drug program amounted to $36.5 million.

Narrative: PA Retired Employees Health Program

1. Please provide a brief description of this program. In February 2008, the commonwealth made modest changes to the prescription program to return retiree co-payments to approximately 20 percent of the cost of coverage. This restored the commonwealth's intent when the prescription program was implemented in the 1990's. Utilization controls – such as step therapy, quantity limits and mail-order day supply limits (90 versus previous 100) also were implemented. Total estimated annual savings for the changes to the prescription drug program amounted to $36.5 million.

Effective May 1, 2008, the medical program made changes to conform the retiree plan offered to annuitants to more closely resemble the benefits offered to active commonwealth employees. The primary change was the replacement of the Medicare Supplemental/Major Medical program with Medicare Advantage plans, include Medicare Health Maintenance Organization (HMO), Preferred Provider Organization (PPO), and Private Fee-For-Service (PFFS) plans. While Medicare HMO and PPO plans had been offered for more than 10 years, few retirees took advantage of these plans. However, the new PFFS plan was designed to not only replicate the existing benefit levels, but add additional benefits such as disease management. This plan offers retirees the benefit of full coverage up front, minimal out-of-pocket expenses, and the elimination of paper forms. Retirees keep the option of enrolling in a Medicare HMO or PPO, with the only change being a modest $10 co-payment increase for specialist visits (estimated annual savings of $34 million). Total estimated annual savings for the changes to the medical program amounted to $41.8 million.

2. How long has this program been operational? This program has been in effect for about one year.

3. Why was this program created? The rising cost of health care is one of the greatest challenges facing public and private employers nationwide and the Commonwealth of Pennsylvania is no exception. In just the last four years, costs to the commonwealth's Retired Employees Health Program (REHP) increased 63 percent. Actuarial estimates projected little relief from these escalating costs. Additionally, the commonwealth faced pressure from the Government Accounting Standards Board (GASB) Rule 45 on accounting for retiree health care, or Other Post-Employment Benefits (OPEB), effective July 1, 2008. GASB-45 requires the commonwealth to report their unfunded actuarial accrued liability (UAAL) for benefits. This means that the commonwealth must account for the value of all benefits that will be paid to a retiree throughout their lifetime as they are earned, rather than on a pay-as-you-go basis as before. The size of the unfunded liability must be reported on the commonwealth's financial statements and it affects the interest rate that the commonwealth is charged for borrowing; it therefore plays a large role in fiscal planning. The commonwealth's initial GASB analysis projected a $14 billion UAAL.

Beginning in 2006, the commonwealth began an extensive review of its benefit plan design, retiree cost sharing, and administrative practices. Administrative practices were the first attempts to curtail costs because there was no negative impact on retirees. These measures included competitively bidding the prescription and medical programs; selecting specialty vendors to administer durable medical equipment and mental health services; enhancing disease management programs; and implementing clinical monitoring and utilization control programs in place for the prescription plan. These administrative actions saved the commonwealth over $50 million per year, while having no direct impact on retirees. While the savings were significant, the commonwealth recognized that the minimal retiree cost sharing ($0 for anyone retiring prior to 7/1/04 and merely $450 per year for single or family coverage for post 7/1/04 retirees) continued to be among the best in the country and inconsistent with other public and private employers. In addition the majority of retirees remain enrolled in a traditional Major Medical/Medicare Supplemental plan and a comprehensive prescription program that required only a $7 co-payment for retail prescriptions. In 2007, the commonwealth successfully renegotiated its collective bargaining agreement to include escalating retiree contributions for anyone retiring after 7/1/08. Retirees will be required to pay 3 percent of their final annual salary (~ $1,500 per year) towards the cost of their health coverage by October 1, 2010. This retiree contribution rate is consistent with the active employees and will continue to change as active employee contributions change.

4. Why is this program a new and creative method? The commonwealth was one of the first large state employers to offer only Medicare Advantage plans to its retirees. This program utilizes current federal funding for Medicare Advantage plans to offset employer costs, while maintaining an excellent benefits package with minimal out-of-pocket expenses.

5. What was the program's startup cost? The only start up cost required was a temporary employee who was hired for four months to assist with implementation.

6. What are the program's operational costs? There were no increased operational costs associated with this program. Because the commonwealth's administrator processed all Medicare Supplemental and Major Medical claims in-house, operational costs are expected to decrease over time.

7. How is this program funded? This program is funded through contributions from the commonwealth and contributions from retirees. Current retirees fund less than 10% of the cost of coverage.

8. Did this program originate in your state? No.

9. Are you aware of similar programs in other states? If yes, how does this program differ*?* Several states, notably, West Virginia have implemented a Medicare PFFS plan. However, the commonwealth is different because the benefit level to Medicare retirees was not decreased.

10. How do you measure the success of the program? The success of the program is measured in dollars saved, the reduction in GASB liability, and the maintenance of a rich level of benefits. Through benefit design changes and minimal retiree contributions, the commonwealth's GASB liability was reduced from $14 billion to $8.7 billion, allowing the program to be fully funded in the first year.

11. How has the program grown and/or changed since its inception? There were no changes to the program since its inception.