

**State Employee Benefits Committee
Friday, January 9, 2015 at 2:00 p.m.
Tatnall Building, Room 112
Dover, Delaware**

The State Employee Benefits Committee met on January 9, 2015, at the Tatnall Building, Room 112, Dover, Delaware. The following Committee members and guests were present:

Ann Visalli, Director, OMB	Casey Oravez, OMB
Brenda Lakeman, Director, OMB, SBO	Karol Powers-Case, DRSPA
Howard Atkinson Segal	Rebecca Reichardt, OMB
Alexis Bryan-Dorsey, OMB	Kimberly Reinagel-Nietubicz, CGO
Alfreda Fisher-Dean, DSEA-R	Jackie Rhoads, Highmark
Judy Grant, HMS	Paula Roy, Roy Associates
Pat Griffin, AOC	Ken Simpler, State Treasurer
Jim Harrison, DSEA-R	Henry Smith, DHSS
Andrew Kerber, DOJ	Jim Testerman, DSEA-R
Kathy Kunkle, OMB, Pensions	Everett Toomey, DRSPA
Dave Leiter, DHSS	Jennifer Vaughn, DOI
Omar Masood, Office of the Treasury	Valerie Watson, Finance
Mike Morton, Controller General	Stuart Wohl, Segal
Jennifer Mossman, Highmark DE	Debra Yoder, Aetna
Mike Norris, Aetna	Rebecca Zink, Office of the Treasury

Introductions/Sign In

Director Ann Visalli called the meeting to order at 2:00 p.m. Anyone who had public comment was invited to sign-in and any others wishing to comment would be given the opportunity at the end of the meeting. Introductions were made and a welcome to the new State Treasurer, Ken Simpler.

Approval of Minutes (handout) – Director Visalli

Director Visalli requested a motion to approve the minutes from the December 19, 2014 SEBC meeting. Controller General Morton made the motion and Ms. Watson seconded the motion. Upon unanimous voice vote the minutes were approved.

Director's Report – Brenda Lakeman

On December 16, 2014, the Tax Increase Prevention Act of 2014 was approved by Congress., This resulted in a retroactive increase to the Pre-tax Commuter Benefit from \$130 per month to \$250. Statewide Benefits Office (SBO) took quick action and identified 183 members affected that had an after tax deduction from \$130 up to \$250 and adjusted it on last paycheck of 2014. This has not been changed for 2015 as the limit went back to \$130 for 2015. We will watch for any changes through the end of CY2015.

The Flexible Spending Account (FSA) for the dependent care benefit has to perform non-discrimination tests annually. These tests compare deductions for dependent care of the highly compensated employees and elected officials to non-highly compensated employees as directed by the federal government. Testing is done initially in January after everybody makes their elections for the new plan year. The last problem dates back to 2007 and SBO made adjustments to the highly compensated employees' elections to reduce them and has not had any problems till this year. The test is run in the beginning of the year and again in July. We failed the test in July and SBO made adjustments to some highly compensated employees' elections to their dependent care accounts. We ran the test again in October and November 2014 and passed. Unfortunately after the last paycheck of the year, this test was performed and failed. There were 43 members in the highly compensated and elected official category that will have their taxable income increased by \$294 on their W-2. We were able to adjust the year end balances so the W-2's were corrected and all 43 people will be notified before they receive their W-2.

Director Visalli commented that this test applies to a narrowly defined group of people that participate in FSA for daycare/dependent care and the federal government says that elected officials shall be deemed highly compensated upon election. A variety of factors triggered the failing of this test but these have been resolved. We had a choice to either tax the \$294 or the entire amount up to \$5,000 would be taxable so we chose to tax the \$294.

The Employee Assistance Program (EAP) finalists and the PRC will meet January 15, 2015 and we expect to have a recommendation at the next SEBC meeting. That vendor will be for a contract effective date of July 1, 2015.

Group Health Financials

November 2014 Fund & Equity Report (handout) - Casey Oravez

Note for November in revenues, there is a \$3.4M in Medicare Retiree program and we did receive \$2.8M for the Medicare Part D coverage gap discount received in November. There were no other unusual revenues or expenses for the month of November. The other thing to note at bottom is the Outstanding Medicare Part D payments owed that was also updated in November so for CY13 is \$8.3M and CY14 is \$11.7M. Ending balance is negative \$44.8M. Director Visalli pointed out that this number is being watched. This number has been positive and we were generating significant surplus and there is a difference between surplus and reserve. Reserve is the \$71M held for the potential of unforeseen claims. We've used the surplus to pay the claims versus raising the premiums and passing the cost onto the State and State employees. Now we're facing a gap that the Committee will have to make decisions about closing. We will be presented with some choices and options to close the gap.

FY15 Quarter 1 Financial Reporting (handout) – Howard Atkinson, Segal

Mr. Atkinson presented the analysis of the financials for the plan by vendor, type of service, medical versus prescription drug and the total. First page is the summary for the 1Q (July 1 through September 30, 2014) shows Highmark currently running a \$22M deficit. We expect to break even with Aetna with a grand total of \$22M, 14% loss for this 3 month period of time. The general trend shows a number of high cost claims (over \$1M claims) contributing to the deficit.

Ms. Griffin asked if this trend could be checked historically. Director Visalli asked a similar request to isolate the prescription drug costs. For instance there is new drug for Hepatitis C which is very expensive but with long term benefits.

Mr. Atkinson stated Segal will analyze the trend and look specifically to the medical and prescription drugs to examine the root causes and what needs to be done. We do set premiums by one overall flat rate increase. We do know that various categories of claimants, categories of beneficiaries have higher or lower claims costs. We have an average premium and this is why there are some fluctuations in claim costs as non-Medicare retirees generate more of a loss than active employees. Page 2 shows more detail with same categories broken out by category for Highmark and Express Scripts. Page 3 has same information for those covered by Aetna and Express Scripts showing a total of almost breaking even. Page 4 shows the in-depth breakdown detail. Page 5 displays graphs and the top graph is for active employees and bottom graph for Non-Medicare eligibles. This shows graphically claims expenses with premium numbers on right and claims on the left. For example, the Highmark POS plan claims are running much higher than premium. Mr. Atkinson stated that in the next month or so they will be updating the numbers so that we will be able to give a better estimate of what they anticipate the premiums to be for the July 1, 2015 fiscal year.

Medicare Part D Prescription Drug Compound Drug Management Program (handout) – Brenda Lakeman

Last year we brought to SEBC a compound drug program for the non-Medicare retirees and active employees known as the commercial side. We did not put this program into effect for our Medicare or EGWP population as it was not approved for that population due to the fact that it is a federally overseen program. Now there is an opportunity to make a change on the Medicare side and SBO is presenting this for approval. Express Scripts recommends the use of the Medicare Compound Inclusion and Exclusion list. The targeted compound prescription Costs (Jan-Oct 2014) is \$400,640. A compound will reject if any of the ingredients are on the exclusion list or are not covered by the plan. Members have the ability to call in and request an appeal. Members will receive 30-days advance notice for this mid-year change.

Targeted mailing will be directed to members who filled a compound medication in 2014. Express Scripts will perform the member mailing with an estimated member impact of 172 members. Annual savings for excluding the targeted compounds is \$480,768.00 with a targeted effective date of April 1, 2015. On the commercial side, the average monthly plan cost on compounds from April to August 2014 was \$510,000 and from November to December 2014, the costs decreased to \$22,000.00.

Treasurer Simpler asked if this is a calendar year or does it run on a fiscal year or to what period does the savings correspond. Ms. Lakeman stated the savings are for the period of April 1 to March 31 with this plan running on a calendar year to coincide with the federal government. This is a twelve month program.

Public Comment

Mr. Leiter asked if the five drugs are the same ones listed last year on the compound list?

Ms. Lakeman stated yes, these are the same five particular drugs causing the increase in costs.

Mr. Leiter stated if we are going to see an increase in the rates, is there some way we could lessen the increase for lower paid grades 1 through 7 and the retirees as these people are already at a loss. Mr. Leiter also asked if possible to get the financials displayed during the meeting?

Ms. Lakeman said that when we start doing the budget numbers in February and March, we always put them in a power point to display during the meeting.

Mr. Leiter commented he would like to see SEBAC come back.

Ms. Powers-Case asked if there was an example of a medication that has a compound ingredient.

Ms. Lakeman stated it is not just one medication. It is multiple medications that go into a compound. A lot of these medications are topical and some may be hormonal.

Director Visalli asked if anyone else had any public comments and reiterated that this is not an opportunity to get into a dialog with one of the committee members which can be handled or follow up on after the meeting.

Ms. Roy said two things were unclear. She said during the discussion, the tension between leaving the surplus intact versus raising the premiums versus the reserve was unclear. It was not clear whether it was stated what the issue was to be faced in the spring.

The second item not clear is the compound issue and what population it will apply to?

Ms. Lakeman stated that what we are addressing today is for the Medicare retirees. We already made the change for the remainder of the population.

Director Visalli addressed Ms. Roy's former point and wanted to point out to everyone that the \$71M was defined by the insurance industry given the size of our plan and the appropriate amount of money that should be held in reserve to pay unanticipated claims. That reserve is an operational reserve for claims payment. The surplus was significantly positive over the past few years and had accrued due to wellness, prescription drug changes, rebates and positive claims experience. When faced with the surplus, the committee's desire was to only increase premiums to cover the gap that could not be covered by the claims surplus. And we would pay claims out of the surplus in lieu of higher increases to the monthly premiums at that time. The surplus is gone as of today and we are running a negative balance. We don't go through the rate setting process until the spring when we will look at the three variables: 1. What is happening with our claims experience? 2. What is the gap we are facing? and 3. What is the revenue projection? The revenue gap can be approached in three ways: 1. Bring in more revenue which is premiums, 2. Have healthier people and lower your claims or 3. Look at our plan design.

Ms. Griffin stated that when looking at the fund equity from November of last year, it was projected at \$142M and now we're down to \$107M. It's helpful to see how the projections continue to reduce.

Other Business

None.

Director Visalli asked for a motion to approve the recommendation for Medicare Part D Prescription Drug Compound Drug Management Program. Controller General Morton made the motion and Mr. Smith seconded. With unanimous voice approval the motion was carried.

Director Visalli requested a motion to adjourn the meeting. Ms. Griffin made the motion and Controller General Morton seconded. With unanimous voice approval the motion was carried and the meeting adjourned at 2:46 p.m.

The next SEBC Meeting is scheduled for Monday, January 26, 2015 which may be cancelled then followed by the next scheduled SEBC meeting on Friday, February 6, 2015 at 2:00 p.m. at the Tatnall Building - Room 112.

Respectfully submitted,

Lisa Porter
Executive Secretary
Statewide Benefits Office, OMB