



SOCIETY OF ACTUARIES

Article from:

Health Watch

January 2011 – Issue 65

Cost and Benefit Trends Observed in Jan. 1, 2011 Renewals for State Employers

By Bob Cosway and Barbara Abbott



Bob Cosway, FSA, MAAA, is a consulting actuary with Milliman in San Diego, Calif. He can be reached at bob.cosway@milliman.com.



Barbara Abbott is an actuarial analyst with Milliman, in San Diego, Calif. She can be reached at 858.202.5010 or barbara.abbott@milliman.com.

State employer health plans face complex cost dynamics as they plan for 2011. This article examines these dynamics and the plan changes that state employers are implementing as they look toward 2011.

Each of the 50 states sponsors a health plan for its employees. Some states cover other public employees in the same plan. For example, some states either require or allow counties, cities and school districts to participate in the plan for state employees. In other states these local public employers are either in a separate statewide plan or sponsor their own plans. In this article we look only at the 50 plans covering state employees, recognizing that some of those plans also cover other public employees.

Of the 50 states, 26 renew their employee health plans on Jan. 1. Other renewal dates are July 1 (22 states), Sept. 1 (one state) and Oct. 1 (one state). The appendix shows the 26 states that renew their employee health plans on Jan. 1. For each state we summarize their 2010 plan offerings, their observed premium trends for 2011 and their benefit changes implemented on Jan. 1, 2011.

Observations on Premium Trends

Figure 1 summarizes the trend data for the states in the appendix, and estimates the impact of benefit changes on observed trends.

**Figure 1: Premium Trend, State Employee Plans
Jan. 1, 2011 Renewals**

Plan Type	2010–11 Premium Trend	2010–11 Benefit Change	2010–11 Benefit-Adjusted Premium Trend
HMO	8.2%	-0.2%	8.4%
PPO	8.7%	-0.9%	9.7%
HDHP	8.3%	-1.4%	9.8%

We looked at trend separately for three plan types—HMO, PPO and high-deductible health plan (HDHP). Because the differences between HMOs

and PPOs are becoming less distinct, and point-of-service (POS) plans fall somewhere in between, we defined an HMO plan to be a plan with an in-network deductible less than \$100. HDHP plans were defined to be plans with in-network deductibles of \$1,500 or higher.

The 2010–11 Premium Trend values in Figure 1 are the averages for the plans summarized in the appendix. We applied equal weight to each state, and did not weight plans by their membership.

The 2010–11 Benefit Change values are the average amounts that the premiums were reduced because of benefit changes such as increases in deductibles and copays. For each plan, the percentage premium reduction was estimated by pricing both the 2010 and 2011 benefits using the Milliman Health Cost Guidelines™.

The 2010–11 Benefit-Adjusted Premium Trend values are the estimated average premium trend rates that would have occurred if no benefit changes had occurred. These represent a better estimate of the underlying utilization and cost trends for these plans.

The benefit-adjusted premium trends are generally consistent with the typical trend estimates projected for 2011. The pattern of the three trends—HDHP higher than PPO, PPO higher than HMO—is not surprising, because even if every plan in the United States was subject to the same underlying trend, plans with higher deductibles would see higher premium trends due to deductible leveraging.

Observations on Benefit Trends

Tennessee probably made the most significant benefit changes, by replacing statewide PPO and POS plans, and local HMOs, with statewide PPO options. There were no other introductions of significantly different plan designs in 2011. Twelve of the states feature HDHPs with associated health savings accounts (HSAs) or health reimbursement arrangements (HRAs), although only six of the states contribute to these accounts.

Six states dropped one or more existing options. Missouri dropped its only plan that did not feature a deductible. Some, but not all, of these dropped options were the most expensive options in that state in 2010, suggesting that states may be less willing to offer more expensive options even if the members pay all or part of the premium difference. No states added new options, other than as replacements for dropped options.

The only state to make an option richer through benefit changes was Missouri, by raising the state's contribution to the HRA. Other than this change, no other states made specific options richer through benefit changes. All other changes were net reductions, such as raising a copay from \$15 to \$20 or a deductible from \$500 to \$750. These types of increases represent large percentage changes, and so are often only done every few years. Kentucky made more incremental benefit changes. It raised deductibles for three PPOs from \$300, \$500 and \$2,000 to \$345, \$575 and \$2,300, respectively. These smaller changes to less common amounts may become more common as a way to keep plan designs more in line with inflation, and to avoid large changes that would cause an option to lose grandfather status under the new health care reform laws.

Summary

The forces affecting large public sector plans are similar to those facing all large employers. Analyzing the premium and benefit trends reported by states provides useful data for carriers and large employers.

We intend to update this analysis for the 22 states that renew their plan options on July 1, 2011. If interested, please contact the authors to receive a copy when this becomes available in May 2011. The information on 2010 and 2011 plan designs and premiums summarized in this report was obtained from public sources. All data is believed to be accurate, but we suggest that specific details be confirmed by the reader before acting on this information. This article is intended to be illustrative



of the medical trend increases facing large employers, both public and non-public, around the United States, and the ways in which large public employers are responding to these trends.

Appendix: Details on State Health Plans Renewing Jan. 1

These states represent a variety of plan types and geographic areas. They all share difficult budget situations and the need to minimize the growth of health costs. The premiums they negotiated and the program changes they initiated may be indicators of what to expect for the large group market in general. We present the details to illustrate that underlying the typical 8 percent to 12 percent trend rate estimates for commercial health plans in the United States, plans experience a variety of actual trends, and use a wide variety of strategies to manage those trends.

The premium trends in the following table are based on the total premiums as reported by the states, not just the portion of the premium paid by the employee. Also, these trends are based on the reported premiums, and are not adjusted to remove the impact of benefit changes. Earlier in this article we estimated the impact of benefit changes on the average reported trends for all of these states.

CONTINUED ON PAGE 40

State	2010 Plan Offerings	Premium Trends for 2011	Benefit Changes for 2011
Alabama	Alabama offers one option, a PPO with a \$100 deductible and dollar copays.	The premiums decreased by about 5% for single coverage and 1% for family coverage.	Only minor changes, including increasing office visit copays from \$30 to \$35, and increasing brand prescription copays by \$5.
Arizona	Arizona offers three option types: exclusive provider organization (EPO), PPO and HSA. The EPO is available through four networks, the PPO three and the HSA one, for a total of eight options.	All premiums increased by an annualized rate of about 16%.	There were no material changes to any of the plan provisions.
Arkansas	Arkansas offers three options to state employees. Two options feature copays/coinsurance, but no deductible, and the third is an HDHP.	The two copay/coinsurance plans saw premium increases of about 2% and 8.5%, while the HDHP premium dropped by about 2%.	There were no material changes to any of the plan provisions.
California	California's CALPERS offers HMOs through two carriers, plus a PPO with several options.	The premiums for the two HMOs increased about 16% for one carrier and 6% for the other, and the PPO premiums went up about 10% for the option with the largest membership.	There were no material changes to any of the plan provisions.
Florida	Florida offers four options: a standard HMO and PPO, and "Health Investor" versions of each that feature higher deductibles and an employer HSA contribution.	Multiple rate changes during the year complicate any analysis of annualized premium increases.	No change to "Health Investor" options. For the standard options, the emergency room copay was raised from \$50 to \$100; the generic drug copay was lowered from \$10 to \$7; and the brand drug copay was raised from \$25 to \$30. The standard HMO also raised physician copays from \$15/\$25 to \$20/\$30.
Georgia	Georgia offers four options, each of which could be elected from either of two carriers, for a total of eight options. The four options are an HMO, a PPO, an HDHP and an HRA. Both the HMO and PPO had in-network deductibles of \$600, whereas the HDHP and HRA plans had \$1,200 and \$1,100 deductibles, respectively. The HRA plan features a state contribution toward the costs subject to the deductible.	The observed premium trends for the three remaining plans after the PPO is dropped in 2011 are 9% for the HMO, 6% for the HDHP and 4% for the HRA. Trends for family coverage were about 6% higher than these single coverage increases. Georgia made significant plan design changes, which resulted in these premium increases not being as high as they would have been absent any benefit change.	In 2011, Georgia is dropping the two PPO options. The HMO deductible is increasing from \$600 to \$1,000 and the prescription drug copays are increasing from \$15/\$40/\$75 to \$20/\$50/\$90. The HDHP deductible is increasing from \$1,200 to \$1,500 and the HRA deductible is increasing from \$1,100 to \$1,300.
Indiana	Indiana offers four options: an HMO and three PPOs with deductibles of \$500, \$1,500 and \$2,500.	Indiana is dropping the HMO option for 2011. The \$500 PPO plan saw a premium increase of about 13%, while the two higher-deductible plan premiums increased by about 6.5%.	The \$500 PPO plan deductible is increasing from \$500 to \$750. Employer HSA contributions for the two higher-deductible plans are being reduced.

State	2010 Plan Offerings	Premium Trends for 2011	Benefit Changes for 2011
Iowa	Iowa offers four options to non-contract and UE/IUP-covered employees: two HMOs with no deductibles and two PPOs with relatively low deductibles, \$250 and \$300.	All premiums increased by about 5.5% to 6.0%.	There were no material changes to any of the plan provisions.
Kansas	Kansas offers three plan design options. All feature coinsurance, and have deductibles of \$0, \$150 and \$1,500 respectively. The two low-deductible options can be elected from any of four carriers, and the high-deductible option can be elected from three of the same four carriers, for a total of 11 options.	Premium increases for the 11 options varied widely, from 6% to 30%. Increases for the two lower-deductible plans were about 6% to 18%, depending on the carrier, and for the \$1,500 plan an additional 10%.	Deductibles for the \$0 and \$150 deductible plan are increasing to \$150 and \$300, respectively. Also, copays and coinsurance for these plans are increasing.
Kentucky	Kentucky offers four plan design options: all PPOs with various levels of deductibles and coinsurance. Two plans have copays for specific services. Two of the plans feature a state contribution toward the costs subject to the deductible. The plans are all offered through the same carrier.	Premiums were unchanged for the standard PPO, and increased by about 4% for the other three plans.	All the plans except the standard PPO raised coinsurance, out-of-pocket maximums and copays. The coinsurance levels remained the same.
Minnesota	Minnesota offers one plan design, but members can choose from three provider networks.	Premiums for all three options increased by 6.7%.	There were no material changes to any of the plan provisions.
Mississippi	Mississippi offers two PPO plans, with \$500 and \$1,150 deductibles.	Premiums for the \$500 plan increased about 11%, and for the \$1,150 plan 7%.	The \$1,150 deductible is increasing to \$1,200. The brand prescription copay is increasing for both plans.
Missouri	Missouri offers a copay plan, a PPO with a low deductible and an HDHP. The plans are all offered through the same carrier.	Premiums for both of the remaining options after the copay plan is dropped increased by about 8.5%.	For 2011, Missouri is dropping the copay plan and replacing it with a PPO identical to the existing PPO except with a higher deductible. The employer contribution to the HDHP spending account is increasing slightly.
Montana	Montana offers three identical PPO plans, featuring some dollar copays. Members can choose from three networks. In addition, a traditional pure coinsurance PPO is available.	Premiums for the two network PPOs increased by about 7% and 11%. Premiums for the traditional PPO are increasing by about 10%.	One of the three networks was dropped. There were no material changes to any of the plan provisions.
New Hampshire	New Hampshire offers two options: an HMO and a POS plan. Both have the same in-network benefits.	Premiums for the HMO increased about 3% and for the POS are decreasing about 1%.	There were no material changes to any of the plan provisions.
New Jersey	New Jersey offers three HMOs—all with the same copays but different carriers.	Premiums for the three carriers increased by 6%-9%.	There were no material changes to any of the plan provisions.

CONTINUED ON PAGE 42

State	2010 Plan Offerings	Premium Trends for 2011	Benefit Changes for 2011
New York	New York offers 31 different plans—one statewide PPO and 30 regional HMOs.	As of late 2010, 2011 options were not available.	
Oklahoma	Oklahoma offers two HMO plan designs, each of which is available from four different carriers. Three self-administered PPO options are also offered.	Premiums increased for the three HMO carriers by about 0%, 6% and 13%. Premiums increased for the PPO options by 2% to 5%.	One of the HMO carriers is being dropped. There were no other material changes to any of the plan provisions.
Oregon	Oregon offers two HMOs and a PPO.	Premiums increased for the two HMO carriers by about 7% and 12%. Premiums increased for the PPO options by about 11%.	In 2011, the HMO primary care and specialist office visit copays are higher. One of the HMOs also increased its brand drug copay.
Pennsylvania	Pennsylvania offers 10 plans—one PPO, one HDHP and eight regional HMOs.	As of late 2010, 2011 premiums were not available.	No changes were made to the PPO, HMO or HDHP plan designs. The PPO was moved to a new carrier. Four of the eight HMO options were dropped, so that in most of the state only one HMO is available.
South Carolina	South Carolina offers one HDHP and three hybrid plans (deductible/coinsurance/copays).	Premiums increased for the three hybrid plans by about 4%, 9% and 17%. Premiums increased for the HDHP by about 8%.	There were no material changes to any of the plan provisions.
Tennessee	Tennessee offers statewide PPO and POS plans, and HMO options in select counties.	Because of significant changes in all existing options, it is difficult to assess the trend increases on specific options.	In 2011 all current options are being replaced by two PPO options, each of which is available from two carriers.
Vermont	Vermont offers a POS plan, two PPO plans and an HDHP plan, all through one carrier.	Premiums for all options increased about 6%.	Inpatient cost sharing changed for two options, but no other material changes.
Washington	Washington offers six options, with deductibles ranging from \$0 to \$350.	Premiums for the continuing options increased about 13% to 20%.	The Aetna Public Employees and Kaiser Permanente Value Plans will no longer be available in 2011.
Wisconsin	Wisconsin offers about 18 HMO-style plans, with identical benefits, through regional private carriers. Wisconsin also offers a statewide PPO option.	The state reported an average premium increase for 2011 of 5.2%. Premiums for individual carriers increased in a range from 2% to 11%.	There were no material changes to any of the plan provisions.
Wyoming	Wyoming offers four PPOs, all through the same carrier. The deductibles are \$350, \$750, \$1,500 and \$2,500.	Premiums for the four options increased about 20% to 23%, with the higher increased for the higher deductible options.	There were no material changes to any of the plan provisions.