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AGENDA ITEM

Action Item

Information Only

Date: December 3, 2008

Item Number: VIII

Title: 2009-11 Budget Reduction Decision Unit

Summary

This report presents additional options to the Board regarding changes in the subsidization levels that would be used in calculating next year's contribution rates. Staff will also provide any update regarding the budget process as it might impact PEBP.

Report

PEBP has been instructed by the Budget Office to submit its Agency Budget Request for the next biennium with specific limits in the amount of State subsidy. After accounting for projected cost trends and enrollment growth, the amount by which the State subsidy must be reduced, compared to what is required to sustain current benefits and cost sharing policies, is **\$50.8 million**.

The November Board actions brought together the overall package that included benefit reductions and subsidy shifts that will be presented to the Budget Office for consideration. However, the Board deferred the decision that set the detailed subsidization percentages in each tier.

The current cost sharing policy is contained in the Board Duties, Policies and Procedures document. This cost sharing policy was implemented effective July 2005. An excerpt of that policy is provided on the following page.

Excerpt from Board Duties, Policies and Procedures

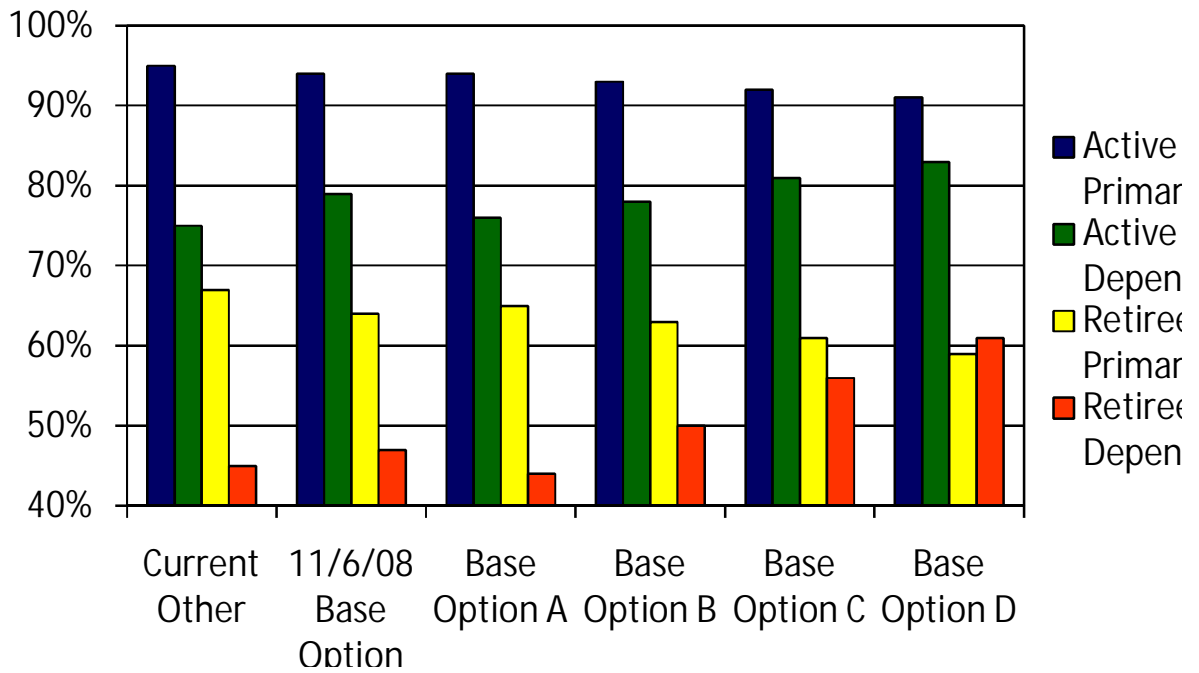
- *Subsidy allocation*
 - √ *State subsidy tiers: two*
 - *Base Plan (self-funded PPO, high deductible)*
 - *All other plans*
 - √ *State subsidy percentages for the participant and dependents are applied uniformly to the rates in all tiers.*
 - *Active Primary*
 - *Base Plan – 100%*
 - *All other Plans – 95%*
 - *Active Dependent*
 - *Base Plan – 85%*
 - *All other Plans – 75%*
 - *Retiree Primary (with 15 Years of Service)*
 - *Base Plan – 73%*
 - *All other Plans – 67%*
 - *Retiree Dependent (with 15 Years of Service)*
 - *Base Plan – 51%*
 - *All other Plans – 45%*
 - *Retiree subsidy adjusted for years of service less or greater than 15 for those who retired after January 1, 1994 (NRS 287.046)*
 - *Non-State Active: Determined by employer*
 - *Non-State Retiree: Determined by State Retiree amount (NRS 287.023(4)(b)) and is flat amount based upon years of service, regardless of plan selection or participant tier*
-

The table below shows the current subsidization rate, the option presented to the Board in November and four additional options to change the subsidization rates. The option presented in November and each of the new options have the following characteristics:

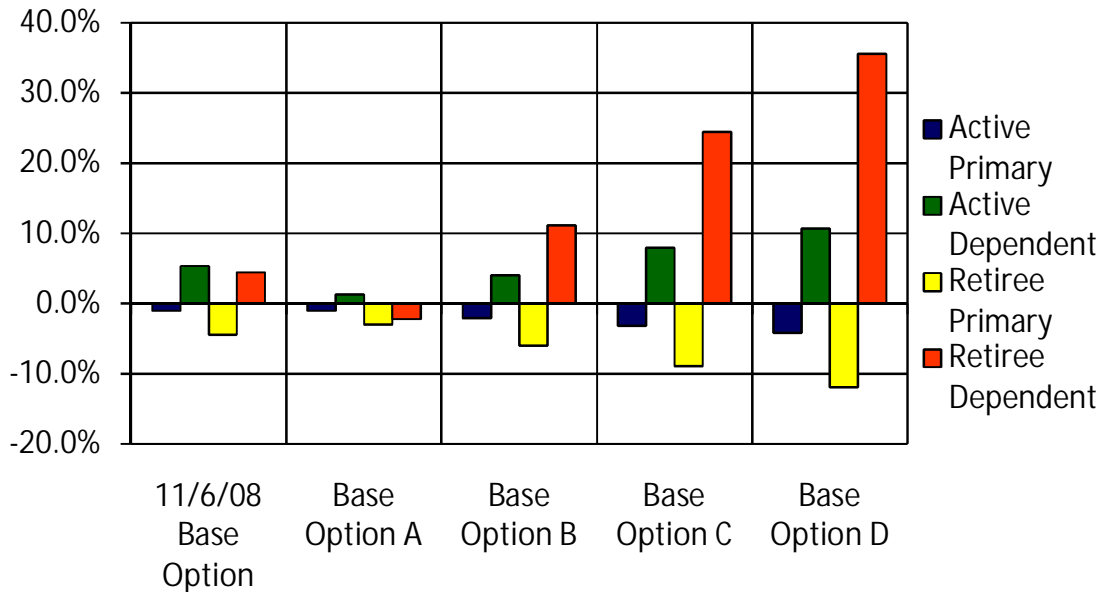
- Each cost shift option generates approximately \$23 million in State subsidy savings compared to the continuation of current policies.
- The subsidization level, on a composite basis, for actives and retirees is the approximately the same for each option (85.5% and 57.7% respectively).
- The overall reduction in subsidy for actives and retirees is proportionate at approximately 5.0% for each group, on a composite basis.

		Current	11/6/08 Option	New Options			
				A	B	C	D
Active Primary	Base Plan	100	94	94	93	92	91
	Other	95	82	85	84	83	82
Active Dependent	Base Plan	85	79	76	78	81	83
	Other	75	66	64	68	70	74
Retiree Primary	Base Plan	73	64	65	63	61	59
	Other	67	57	59	57	55	53
Retiree Dependent	Base Plan	51	47	44	50	56	61
	Other	45	40	39	44	46	56

Of the new options presented, the approach taken was to view the data from the perspective of the most participants. For example, most participants (64.6%) are currently enrolled in the low deductible plan. Assuming that a large percentage of those individuals would like to remain in the self-funded plan, the current “Other” subsidy rate is compared to the new “Base Plan” rate. That comparison is shown in the following chart:



Viewed from the perspective of the Base Plan vs. the Other Plan subsidy levels, the following chart shows the change under each option:



Also at the November meeting, the Board granted the Executive Officer administrative authority to address any further budget reductions in the following manner:

- Continue with the 50% cost shift / 50% plan design approach up to the following limits: Plan design changes are limited to increases in the self-funded deductible level up to \$900 individual / \$1,800 family deductible levels.
- Budget reductions that require further changes will require holding a PEBP Board meeting to address the issue.

Staff will be prepared to discuss the degree of State subsidy savings contained in this administrative authority and any other updates regarding the State budget development process as it pertains to PEBP.

Recommendations

Approve Option A subsidy percentages due to this option having the smallest variance from the current policy.