



STATE OF NEVADA  
**PUBLIC EMPLOYEES' BENEFITS PROGRAM**

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**AGENDA ITEM**



Action Item



Information Only

**Date:** November 6, 2008

**Item Number:** IV

**Title:** 2009-11 Budget Reduction Decision Unit

**Summary**

As discussed during recent PEBP Board meetings, the Program 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, was estimated to be approximately **\$55.0 million**. The purpose of this report is to provide an updated projection and the necessary reductions based upon the Board's actions taken in September and October.

**Report**

***Updated Enrollment and Budget Projections***

Enrollment projections have been updated based upon the actual October 2008 enrollment. In addition, the most current information from the Budget Office regarding State active employees has been incorporated for FY 2010 and FY 2011. The result is a slight decrease in State active employees from FY 2009 to FY 2010 and then no change for FY 2011. Projections for all other participant groups have only been updated based upon the actual October 2008 enrollment. The chart below summarizes the projections:

	FY 2008 Actual	FY 2009 Projection		FY 2010 Projection		FY 2011 Projection	
		Original	Revised	Original	Revised	Original	Revised
<b>State</b>							
Actives	26,244	26,987	26,565	27,439	26,317	27,439	26,261
Early Retirees	2,931	3,016	3,059	3,201	3,252	3,301	3,372
Medicare Retirees	4,125	4,389	4,417	4,556	4,586	4,798	4,844
Total	33,300	34,392	34,041	35,196	34,155	35,538	34,477
<b>Non-State</b>							
Actives	802	814	943	822	964	822	964
Early Retirees	3,641	5,245	5,406	5,537	5,740	5,537	5,740
Medicare Retirees	2,455	3,193	3,315	3,307	3,452	3,307	3,452
Total	6,896	9,252	9,664	9,666	10,156	9,666	10,156

### *Updated State Subsidy, Subsidy Target and Funding Gap*

The Agency Request Budget was re-projected using updated claims estimates from Aon Consulting. These estimates were based on actual experience through August 2008.

Cost trend increases remained the same as used in the original Agency Request of:

- Medical and prescription claims 9.5% in FY 2010 and 9.0% in FY 2011
- Dental claims 6.5% in both years
- Insured product inflation 10% in both years

Using the **current plan design and cost sharing policy**, the State subsidy was recalculated as follows:

Base Subsidy Per Month	FY 2008	FY 2009	FY 2010 Projection		FY 2011 Projection	
			Original	Revised	Original	Revised
Actives	\$557.30	\$626.16	\$697.10	\$679.22	\$759.16	\$739.80
Retirees	\$365.34	\$410.48	\$356.71	\$346.38	\$387.14	\$376.57

The targeted subsidy was recalculated using the revised enrollment projection and newly estimated rate stabilization reserve at a total of \$480.2 million. Therefore, the “funding gap” for the State subsidy is now projected to be **\$50.8 million**. This represents a \$4.2 million (7.2%) decrease from staff’s original projection.

***Approach to Meeting Subsidy Target – Cost Shift and Plan Design Changes***

**Background**

At the **August** meeting, the PEBP Board reached a general consensus on three significant points:

1. That focus be maintained on providing financial protection to the participants against catastrophic health conditions;
2. That focus be maintained on encouraging participants, through the provision of “wellness benefits”, to achieve a healthy lifestyle; and
3. That budget reductions to meet the target be considered evenly between cost shifting the contributions/premiums and reducing benefits paid by the plan.

At the **September** meeting, the Board considered various options to shift funding from the State subsidy to the employee/retiree. To be clear, the impact of shifting the share of cost from the State subsidy to the contribution/premium means increased costs to the participants, above and beyond what would otherwise occur. Each of the cost shifting options considered by the Board was projected to save \$27.5 million over the next biennium in State subsidy (using the current plan design). The following cost shift approaches were approved by the Board:

1. Continue the Board’s current policy regarding use of Reserve for Rate Stabilization.
2. Reduce the percentage of cost paid by the State subsidy in all tiers in the non-base plans only. The final change in subsidy percentage was to be calculated once plan change decisions were made and brought back to the Board in November.
3. Allocate the Medicare Part D subsidy revenue between the plan and the Medicare retirees.
4. Propose a legislative change regarding the State subsidy for retirees that eliminates State subsidy for individuals who retire after June 30, 2010 with less than 15 years of service.

At the **October** meeting the Board was presented with several benefit reduction “approaches” that would make up the remaining 50% of the budget reduction. The Board made a unanimous decision to proceed with the following plan changes. Unless otherwise noted, the changes would be effective July 1, 2009.

1. Remove the Health Assessment Questionnaire and its plan incentives.
2. Implement a single deductible level for the self-funded plan. There would no longer be a high and low deductible level. The plan would be structured in a similar manner to the current low deductible option. The final deductible level was to be calculated using revised projections and incorporation of the cost shifting decisions made by the Board in September.
3. Implement a new policy to index (i.e. inflate) the annual out-of-pocket maximum at 50% the rate of medical trend each year. The annual deductible level would be

indexed at 100% the rate of medical trend each year. The indexing would begin July 1, 2010 and would be in increments of \$25.

4. Eliminate the neurotherapy and psychotherapy benefits for ADD/ADHD that were added as of July 1, 2008.
5. Hold HMO premium increases to a maximum of 5% for FY 2010.

Reconciliation of Updates and Budget Target Approaches

Given the cost shifting and plan design decisions made in the prior months, two elements of the overall approach were to be recalculated and returned to the Board in November. The first element was the State subsidy cost shift and the second element was the self-funded plan deductible levels for individuals and families. Remaining consistent with the Board’s overall desire to distribute approximately 50% of the budget gap through a shift in premium/contribution, the revised State subsidization percentages beginning July 1, 2009 would be as follows:

State Subsidy as Percent of Premium/Contribution						
	Base Plan			Other Plans		
	Current	Proposed to Meet Target		Current	Proposed to Meet Target	
			Change			Change
<b>Employee</b>	100	94	-6.0	95	82	-13.7
Dependent	85	79	-7.1	75	66	-12.0
<b>Retiree</b>	73	64	-12.3	67	57	-14.9
Dependent	51	47	-7.8	45	40	-11.1

There were two goals when developing these recommended percentages. The **first** was to end with the same overall composite subsidization for actives and retirees as presented to the Board in September. The **second** was to have the same proportionate reduction in subsidization for actives as for retirees. In order to meet these goals, adjustments were made to both the Base Plan as well as the non-Base Plan percentages. The high deductible option was previously identified as the “Base Plan” and had a relatively small enrollment. The Board’s decisions in October will now designate the single self-funded plan option as the “Base Plan” and that plan is expected to have a materially higher enrollment than the current high deductible option.

Currently, the composite subsidy percentage for actives is 90.0%. That is projected to change to 85.4% if these budget reductions are implemented. The current composite

subsidy for retirees is 60.7% (a 5.2% reduction overall). Staff projections are that this would change to 57.6% with these budget reductions (a 5.1% reduction overall).

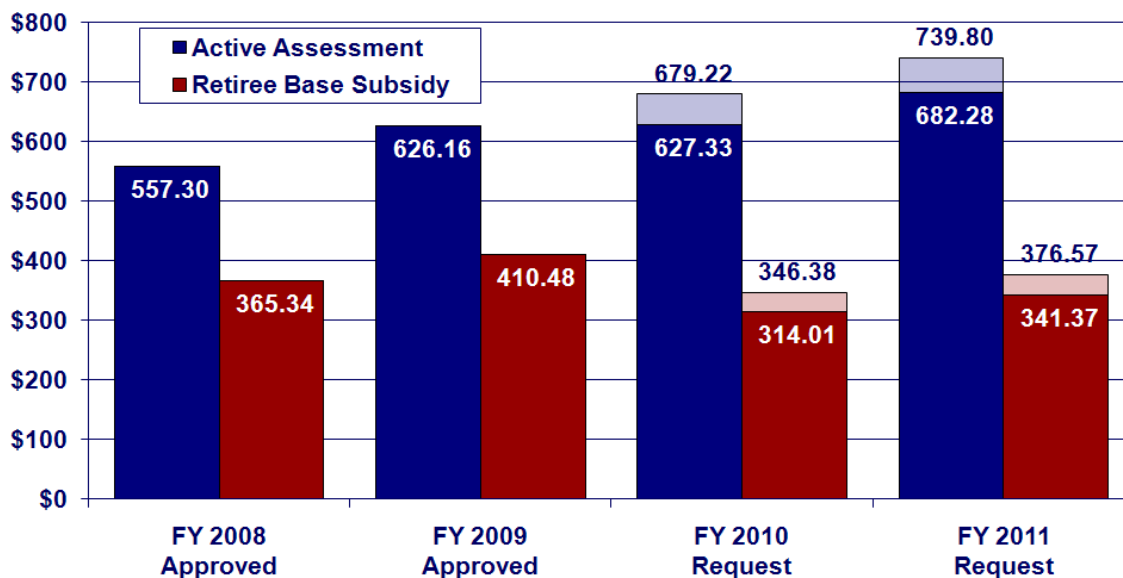
Regarding the self-funded plan deductible levels for individuals and families, Aon has determined that in order to achieve the targeted budget reductions, the self-funded individual deductible would need to be **\$725** and the family deductible would need to be **\$1,450**.

As of October, 2008, 71% of the total PEBP population was in the self-funded plans, 11% was in the Northern HMO and 17% was in the Southern HMO. Because of the increased cost and decreased benefits in the self-funded plan, Aon estimated that approximately 6.7% of self-funded active employee and non-Medicare participants would migrate to the Southern HMO for FY 2010. Aon estimated that any migration to the Northern HMO would be negligible due to its relatively higher costs.

Based upon the Board's approach to meeting the budget target, the following subsidy levels would be funded by the State:

Base Subsidy Per Month	FY 2010	FY 2011
Actives	\$627.33	\$682.28
Retirees	\$314.01	\$341.37

The chart below displays the subsidy levels for actives and retirees. Legislatively approved levels for the current biennium are shown, along with those projected for FY 2010 and FY 2011 (with and without budget reductions).



**Recommendation**

1. Approve consolidated approach to meet budget reduction targets and direct staff to provide an updated Agency Request to the Budget Office.
2. Provide direction regarding staff response to any possible changes in the budget target.