

Self-Insurance Estimating Conference
State Employees' Health Insurance Trust Fund
Last conference held: March 2, 2006

Executive Summary

The outlook for the State Employees' Health Insurance Trust Fund has improved slightly from the December forecast. The projected 2005-06 ending balance of the fund gained from \$157.4 million to \$159.7 million, the 2006-07 ending balance changed from \$116.0 million to \$121.4 million, while the first estimate for 2007-08 projects an ending balance for the fund of -\$95.1 million.

The enrollment projections were changed only slightly due to recent experience and further study of the open enrollment results. The employee enrollment base is expected to remain fairly stable, with only slight increases, while growth continues in both the pre-Medicare and Medicare eligible retiree population. Overall enrollment is expected to experience an average increase of .8% over the three year period.

Changes in the projections for revenues were minor. The adjustments to premium revenue were due only to the changes in the enrollment projections. There was an increase to the TRICARE premium surplus due to confirmation of preliminary open enrollment figures.

There are no significant adjustments to the expense forecasts. Assumptions concerning cost trends were unchanged at 11.0% for Medical claims, 12.5% for prescription drugs, and 12.0% for HMO premiums. Forecasts were adjusted only for changes in the enrollment forecast and the most recent monthly experience.

The first look at 2007-08 reveals a sizable year-end deficit, due to stable premium levels and a continued increase in costs per enrollee. An operating deficit first appears in 2006-07, but doesn't take the trust fund into a deficit position until 2007-08. The operating deficit of \$216.5 million in 2007-08 represents 16.4% of premium income, while the ending trust fund deficit represents 7.2% of premium income.

State Employees' Group Health Self-Insurance Trust Fund

Report on the Financial Outlook

For the Fiscal Years Ending June 30, 2006, 2007 and 2008

Presented March 2, 2006

EXECUTIVE SUMMARY

The Florida Department of Management Services has prepared a financial outlook for the State Employees' Group Health Self-Insurance Trust Fund for the Fiscal Years Ending June 30, 2006, 2007 and 2008 to aid in state planning and budgeting in accordance with sec. 216.136(11), *Florida Statutes*. The outlook has been prepared using cash basis modeling and is based on the healthcare benefit and funding redesigns effective January 1, 2006. Actual enrollment and cash flow experience through December 31, 2005 has been taken into consideration for the current fiscal year forecast.

The cash position of the Trust Fund has improved marginally from the previous outlook and it is expected that the Trust Fund will remain solvent through Fiscal Year 2006-07. The projected ending cash balance for Fiscal Year 2005-06 is increased from \$157.4 million to \$159.7 million, up \$2.3 million. An operating gain of \$43.8 million is estimated, an improvement of \$2.3 million. The projected ending cash balance for Fiscal Year 2006-07 is increased from \$116.0 million to \$121.4 million, up \$5.4 million. An operating loss of \$38.3 million is estimated, down \$3.1 million from \$41.4 million.

Refinement to previous enrollment projections to recognize 2005 Open Enrollment adjustments and enrollment activity for the health plans and the TRICARE supplemental health plan subsequent to the previous outlook suggests minor increases in premium revenue due to slight enrollment growth and plan/category migration with some offsetting adjustments to healthcare costs. Stabilization of premium revenue is expected upon maturity of the health plan funding redesign. Growth rates for medical and prescription drug spend in the self-insured PPO health plans and the weighted-average increase in premiums for the fully insured State-contracted HMO plans are expected to continue to be within industry expectations through the forecast period.

With no change to benefit attributes, covered services, premium rates, or other plan factors, the Trust Fund is projected to go from a cash surplus of \$121.4 million to a projected ending cash deficit of \$95.1 million for Fiscal Year 2007-08. Projected revenue will fall short in meeting health plan cost growth by \$216.5 million. The projected cash balance shortfall of \$95.1 million represents approximately 7.5% of premium revenue and the projected operating loss of \$216.5 million represents approximately 16.5% of premium revenue.

Following is a summary of the outlook by fiscal year.

Financial Outlook

	FY 2005-06	FY 2006-07	FY 2007-08
BEGINNING CASH BALANCE	115.9	159.7	121.4
REVENUES	1,308.0	1,371.3	1,370.7
EXPENSES	(1,264.2)	(1,409.6)	(1,587.5)
OPERATING GAIN/(LOSS)	<u>43.8</u>	<u>(38.3)</u>	<u>(216.5)</u>
ENDING CASH BALANCE	<u>159.7</u>	<u>121.4</u>	<u>(95.1)</u>

Dollars in Millions

Market pressures, benefit design changes, new cost control mechanisms, provider contract renegotiations, TPA contractual performance measures, etc. are some of the factors influencing favorable impact to medical spend in a self-insured PPO health care environment. However, competing forces such as enrollment demographics, member health risks, types and frequency of services rendered, price inflation, technology, etc. continue to prevent a sharp curbing of cost and utilization growth. Using a per

member per year method of measurement, medical spend growth has leveled at approximately 11.0% over the last 18-months. Using the same method of measurement, medical spend growth of 11.0% is assumed for the forecast period. The assumed growth rate falls within the expected industry range of 9.0 – 11.0%.

Key indicators used to measure prescription drug cost and utilization continues to indicate favorable outcomes resulting from the price reductions negotiated with the contracted Pharmacy Benefits Manager effective January 2005. Reduction in utilization, increased utilization of lower cost alternatives inclusive of increases in generic dispensing rates, and savings from increased co-payments continues to be apparent. These factors, combined with the expiring patents of a number of heavily utilized Brand Drugs in Plan Years 2005 and 2006 collectively support a sustaining growth rate of 12.5% for the forecast period. However, the Trust Fund cost share increases over time at rates above 12.5% due to employee co-payments remaining fixed without adjusting for inflation trend. The projected growth rate falls within the expected industry range of 12.0 – 14.0%.

It is noteworthy that the contractual agreements for Third-Party Administration and Pharmacy Benefits Management for the self-insured PPO health plans are scheduled to expire during the forecast period. Projected enrollment migration and growth rates used for the forecast could be directly impacted by the results of the procurements and contractual arrangements.

HMO premium payments are projected to be slightly higher than previously projected due to refinement to previous enrollment projections to recognize 2005 Open Enrollment adjustments and enrollment activity for the health plans subsequent to the previous outlook. The weighted-average increase in premium rates is projected to be 12.0% for Plan Years 2007 and 2008. The rate increase assumption falls within the expected industry range of 10.0 – 13.0%, and is consistent with the previous forecast. The outcome of the annual HMO premium renewal process determines the actual increase.

In Plan Year 2006, there is a State-contracted HMO plan in 15 counties where one did not exist before, and an additional 25 counties have increased plan options over the previous year. There are 54 counties with at least one State-contracted HMO plan offering. The self-insured PPO health plan is available statewide.

Enrollment patterns continue to suggest a rather stabilized employee enrollment base, but increased growth continues to occur in both the pre-Medicare and Medicare eligible retiree populations (3.7% during the forecast period). As a result, a three-year average increase of .8% is projected to occur in total subscriber enrollment. Total average enrollment is projected to be 169,935 for Fiscal Year 2005-06, 171,634 by Fiscal Year 2006-07, and 173,019 by Fiscal Year 2007-08 – inclusive of the enrollment in a High Deductible Health Plan. Growth in annual subscriber enrollment has continued to be below one-percent since Fiscal Year 2000-01, and is being driven by a sustaining increase in pre-Medicare and Medicare enrollment. Enrollment patterns also suggest that plan distribution by subscriber will approximate 62% enrollment in a State self-insured PPO plan and 38% in a State-contracted HMO plan during the forecast period.

The exhibits that follow provide more in-depth information about projected enrollment, cash positions, and comparisons to the previous outlook.

STATE EMPLOYEES' GROUP HEALTH SELF-INSURANCE TRUST FUND

**Exhibit I
Financial Outlook
By Fiscal Year
(In Millions)**

	FY 04-05	FY 05-06	FY 06-07	FY 07-08
	Actual	Estimate	Estimate	Estimate
BEGINNING CASH BALANCE	\$ 58.3	\$ 115.9	\$ 159.7	\$ 121.4
REVENUES:				
Insurance Premiums:				
Employer - Plan	\$ 888.3	\$ 961.8	\$ 995.5	\$ 996.4
Employer - HSA	0.0	0.3	0.6	0.6
Employee	154.7	155.1	157.1	156.7
COBRA	7.3	8.3	8.4	8.4
Early Retiree	45.4	48.3	52.2	54.1
Medicare	77.6	87.1	94.3	98.1
TRICARE Premium Surplus	0.0	5.3	4.6	4.6
Interest on Investments	2.6	3.8	4.3	1.8
TPA Refunds/PBM Rebates	15.1	20.0	20.0	20.0
Pretax Trust Fund Transfer	13.0	18.0	17.0	17.0
Medicare Part D Subsidy ⁽¹⁾	0.0	0.0	17.3	13.0
TOTAL REVENUES	\$ 1,204.0	\$ 1,308.0	\$ 1,371.3	\$ 1,370.7
TOTAL CASH AVAILABLE	\$ 1,262.3	\$ 1,423.9	\$ 1,531.0	\$ 1,492.1
EXPENSES:				
PPO Plan - Medical Claims	\$ 464.2	\$ 504.8	\$ 551.8	\$ 610.8
PPO Plan - Prescription Drug Claims	187.2	202.3	223.2	254.7
HMO Premiums	451.1	513.4	594.7	681.9
Employer HSA Contributions	0.0	0.3	0.6	0.6
ASO Fee - TPA	37.9	35.6	32.5	32.4
DSGI Administrative Costs	3.8	4.7	3.7	3.7
Premium Refunds	2.2	3.0	3.0	3.0
Other Expenses	0.0	0.1	0.1	0.1
TOTAL EXPENSES	\$ 1,146.4	\$ 1,264.2	\$ 1,409.6	\$ 1,587.2
EXCESS OF REVENUES OVER EXPENSES	\$ 57.6	\$ 43.8	\$ (38.3)	\$ (216.5)
ENDING CASH BALANCE	\$ 115.9	\$ 159.7	\$ 121.4	\$ (95.1)
Average Enrollment by Plan				
PPO Standard	108,475	106,312	104,699	104,394
PPO HIHP	0	599	599	599
HMO Standard	60,400	62,776	66,088	67,778
HMO HIHP	0	248	248	248
Total	168,875	169,935	171,634	173,019
Average Enrollment by Coverage Type				
Active Standard	135,796	134,937	135,431	135,513
Active HIHP	0	780	780	780
Cobra	1,251	1,274	1,249	1,249
Early Retiree	8,262	8,454	8,685	8,965
Medicare	23,566	24,490	25,489	26,512
Total	168,875	169,935	171,634	173,019
Average TRICARE Enrollment				
Active	554	593	708	708
Retiree	84	118	151	151
Total	470	711	859	859

⁽¹⁾ Actuarial estimate per participation in the Prescription Drug subsidy arrangement resulting from the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (MMA), effective January 1, 2006. The subsidy collection estimation is \$550 to \$600 per eligible member not enrolled in Medicare Part D, or \$13M per year, \$1.08M per month. Subsidy amounts accrued in FY 2005-06 are assumed to be collected in FY 2006-07.

Exhibit II
Financial Outlook
Fiscal Year 2005-06
(In Millions)

	(A) Outlook December '05	(B) Outlook March '06	(B) - (A) Difference
BEGINNING CASH BALANCE	\$ 115.9	\$ 115.9	\$ 0.0
REVENUES:			
Insurance Premiums:			
Employer - Plan	\$ 960.2	\$ 961.8	\$ 1.6
Employer - HSA	0.3	0.3	0.0
Employee	154.7	155.1	0.4
COBRA	8.3	8.3	0.0
Early Retiree	47.6	48.3	0.7
Medicare	87.7	87.1	(0.6)
TRICARE Premium Surplus	4.3	5.3	1.0
Interest on Investments	3.8	3.8	0.0
TPA Refunds/PBM Rebates	20.0	20.0	0.0
Pretax Trust Fund Transfer	18.0	18.0	0.0
Medicare Part D Subsidy ⁽¹⁾	0.0	0.0	0.0
TOTAL REVENUES	\$ 1,304.9	\$ 1,308.0	\$ 3.1
TOTAL CASH AVAILABLE	\$ 1,420.8	\$ 1,423.9	\$ 3.1
EXPENSES:			
PPO Plan - Medical Claims	\$ 509.3	\$ 504.8	\$ (4.5)
PPO Plan - Prescription Drug Claims	200.8	202.3	1.5
HMO Premiums	509.5	513.4	3.9
Employer HSA Contributions	0.3	0.3	0.0
ASO Fee - TPA	35.7	35.6	(0.1)
DSGI Administrative Costs	4.7	4.7	0.0
Premium Refunds	3.0	3.0	0.0
Other Expenses	0.1	0.1	0.0
TOTAL EXPENSES	\$ 1,263.4	\$ 1,264.2	\$ 0.8
EXCESS OF REVENUES OVER EXPENSES	\$ 41.5	\$ 43.8	\$ 2.3
ENDING CASH BALANCE	\$ 157.4	\$ 159.7	\$ 2.3
Average Enrollment by Plan			
PPO Standard	106,574	106,312	(262)
PPO HIHP	578	599	21
HMO Standard	62,353	62,776	423
HMO HIHP	236	248	12
Total	169,741	169,935	194
Average Enrollment by Coverage Type			
Active	135,473	135,717	244
Cobra	1,275	1,274	(1)
Early Retiree	8,414	8,454	40
Medicare	24,579	24,490	(89)
Total	169,741	169,935	194
Average TRICARE Enrollment			
Active	474	593	119
Retiree	85	118	33
Total	559	711	152

⁽¹⁾ Actuarial estimate per participation in the Prescription Drug subsidy arrangement resulting from the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (MMA), effective January 1, 2006. The subsidy collection estimation is \$550 to \$600 per eligible member not enrolled in Medicare Part D, or \$13M per year, \$1.08M per month. Subsidy amounts accrued in FY 2005-06 are assumed to be collected in FY 2006-07.

Exhibit III
Comparison of Financial Outlooks
Fiscal Year 2005-06
(In Millions)

\$ 157.4 Previous Ending Cash Balance Forecast ⁽¹⁾

3.1 Increase in Revenue Forecast

- 2.1 - Increase in Insurance Premiums due to a slight increase in projected enrollment
(Projected enrollment from 169,741 to 169,935)
- 1.0 - Increase in the TRICARE Premium Surplus due to an increase in enrollment in the TRICARE supplemental health plan resulting from the 2005 Open Enrollment

(0.8) Increase in Expense Forecast

- 4.5 - Decrease in PPO Plan Medical Spend
 - 1.4 - Decrease due to a decrease in projected enrollment
(Projected enrollment from 107,152 to 106,911)
 - 3.1 - Decrease to adjust for lower costs than projected through January 2006

(1.5) - Increase in PPO Plan Prescription Drug Spend

- 0.5 - Decrease due to a decrease in projected enrollment
(Projected enrollment from 107,152 to 106,911)
- (2.0) - Increase to adjust for higher costs than projected through January 2006

(3.9) - Increase in HMO Premium Payments due to an increase in projected enrollment
(Projected enrollment from 62,589 to 63,024)

- 0.1 - Decrease in ASO Fees due to a decrease in projected enrollment
(Projected enrollment from 107,152 to 106,911)

\$ 159.7 Current Ending Cash Balance Forecast

⁽¹⁾ December 2005 Estimating Conference

Exhibit IV
Financial Outlook
Fiscal Year 2006-07
(In Millions)

	(A) Outlook December '05	(B) Outlook March '06	(B) - (A) Difference
BEGINNING CASH BALANCE	\$ 157.4	\$ 159.7	\$ 2.3
REVENUES:			
Insurance Premiums:			
Employer - Plan	\$ 991.6	\$ 995.5	\$ 3.9
Employer - HSA	0.6	0.6	0.0
Employee	156.2	157.1	0.9
COBRA	8.4	8.4	0.0
Early Retiree	52.3	52.2	(0.1)
Medicare	95.2	94.3	(0.9)
TRICARE Premium Surplus	2.7	4.6	1.9
Interest on Investments	4.3	4.3	0.0
TPA Refunds/PBM Rebates	20.0	20.0	0.0
Pretax Trust Fund Transfer	17.0	17.0	0.0
Medicare Part D Subsidy ⁽¹⁾	17.3	17.3	0.0
TOTAL REVENUES	\$ 1,365.6	\$ 1,371.3	\$ 5.7
TOTAL CASH AVAILABLE	\$ 1,523.0	\$ 1,531.0	\$ 8.0
EXPENSES:			
PPO Plan - Medical Claims	\$ 559.0	\$ 551.8	\$ (7.2)
PPO Plan - Prescription Drug Claims	222.3	223.2	0.9
HMO Premiums	585.6	594.7	9.1
Employer HSA Contributions	0.6	0.6	0.0
ASO Fee - TPA	32.7	32.5	(0.2)
DSGI Administrative Costs	3.7	3.7	0.0
Premium Refunds	3.0	3.0	0.0
Other Expenses	0.1	0.1	0.0
TOTAL EXPENSES	\$ 1,407.0	\$ 1,409.6	\$ 2.6
EXCESS OF REVENUES OVER EXPENSES	\$ (41.4)	\$ (38.3)	\$ 3.1
ENDING CASH BALANCE	\$ 116.0	\$ 121.4	\$ 5.4
Average Enrollment by Plan			
PPO Standard	105,332	104,699	(633)
PPO HIHP	578	599	21
HMO Standard	65,069	66,088	1,019
HMO HIHP	236	248	12
Total	171,215	171,634	419
Average Enrollment by Coverage Type			
Active	135,626	136,211	585
Cobra	1,252	1,249	(3)
Early Retiree	8,643	8,685	42
Medicare	25,694	25,489	(205)
Total	171,215	171,634	419
Average TRICARE Enrollment			
Active	474	708	234
Retiree	85	151	66
Total	559	859	300

⁽¹⁾ Actuarial estimate per participation in the Prescription Drug subsidy arrangement resulting from the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (MMA), effective January 1, 2006. The subsidy collection estimation is \$550 to \$600 per eligible member not enrolled in Medicare Part D, or \$13M per year, \$1.08M per month. Subsidy amounts accrued in FY 2005-06 are assumed to be collected in FY 2006-07.

Exhibit V
Comparison of Financial Outlooks
Fiscal Year 2006-07
(In Millions)

\$ 116.0 Previous Ending Cash Balance Forecast ⁽¹⁾

2.3 Increase in Beginning Cash Balance Forecast

5.7 Increase in Revenue Forecast

3.8 - Increase in Insurance Premiums due to a slight increase in projected enrollment
(Projected enrollment from 171,215 to 171,634)

1.9 - Increase in the TRICARE Premium Surplus to adjust for higher enrollment in the
TRICARE supplemental health plan than projected for FY 05-06

(2.6) Increase in Expense Forecast

7.2 - Decrease in PPO Plan Medical Spend

2.9 - Decrease due to a decrease in projected enrollment
(Projected enrollment from 105,910 to 105,298)

4.3 - Decrease to adjust for lower claims paid base than
projected for FY 05-06

(0.9) - Increase in PPO Plan Prescription Drug Spend

1.1 - Decrease due to a decrease in projected enrollment
(Projected enrollment from 105,910 to 105,298)

(2.0) - Increase to adjust for higher claims paid base than
projected for FY 05-06

(9.1) - Increase in HMO Premium Payments

(7.9) - Increase due to an increase in projected enrollment
(Projected enrollment from 65,305 to 66,336)

(1.2) - Increase to adjust for higher premium paid base than
projected for FY 05-06

0.2 - Decrease in ASO Fees due to a decrease in projected enrollment
(Projected enrollment from 105,910 to 105,298)

\$ 121.4 Current Ending Cash Balance Forecast

⁽¹⁾ December 2005 Estimating Conference

STATE EMPLOYEES' GROUP HEALTH SELF-INSURANCE TRUST FUND

**Exhibit VI
Premium Rate Table**

ALL ENROLLEES (Excluding TRICARE Supplemental Plan)							
Category	Coverage Type	PPO/HMO Standard			PPO/HMO HIHP ⁽⁴⁾		
		Employer	Enrollee	Total	Employer	Enrollee	Total
Full -Time Employees ⁽¹⁾ (Monthly)	Single	346.16	50.00	396.16	346.16	15.00	361.16
	Family	715.92	180.00	895.92	715.92	64.30	780.22
	Spouse	895.92	0.00	895.92	780.22	0.00	780.22
Full -Time Employees ⁽¹⁾ (Bi-Weekly)	Single	173.08	25.00	198.08	173.08	7.50	180.58
	Family	357.96	90.00	447.96	357.96	32.15	390.11
	Spouse	447.96	0.00	447.96	390.11	0.00	390.11
COBRA Participants ⁽²⁾ (Monthly)	Single	0.00	404.08	404.08	0.00	325.88	325.88
	Family	0.00	913.84	913.84	0.00	710.82	710.82
Early Retirees (Monthly)	Single	0.00	396.16	396.16	0.00	319.48	319.48
	Family	0.00	895.92	895.92	0.00	696.88	696.88
Medicare Participants ⁽³⁾ (Monthly)	(I) One Eligible	0.00	210.34	210.34	0.00	154.16	154.16
	(II) One Under/Over	0.00	606.50	606.50	0.00	515.32	515.32
	(III) Both Eligible	0.00	420.69	420.69	0.00	308.32	308.32

Notes:

- (1) Premium contribution for Part-Time Employees is to be calculated as follows:
 Step 1. State Contribution x FTE% = Calculated State Contribution
 Step 2. Total Contribution - Calculated State Contribution = Employee Contribution
- (2) Includes an additional 2% for administrative costs as permitted by federal regulations.
- (3) The actual premium rate for Medicare participants enrolled in an HMO plan may differ from what is presented.
- (4) The employer monthly HSA contribution of \$41.66/single (\$500 annually) and \$83.33/family (\$1,000 annually) is included in the listed employer rates.

TRICARE Supplemental Health Insurance Plan							
Category	Coverage Type	Biweekly Contribution			Monthly Contribution		
		Employer	Enrollee	Total	Employer	Enrollee	Total
Active Full-Time Employees ⁽¹⁾	Single	173.08	0.00	173.08	346.16	0.00	346.16
	Family	357.96	0.00	357.96	715.92	0.00	715.92
	Spouse ⁽³⁾	357.96	0.00	357.96	715.92	0.00	715.92
COBRA Participants	Single ⁽²⁾	N/A	N/A	N/A	0.00	61.20	61.20
	Family ⁽²⁾	N/A	N/A	N/A	0.00	163.20	163.20
Early Retirees ⁽⁴⁾	Single	N/A	N/A	N/A	0.00	60.00	60.00
	Family	N/A	N/A	N/A	0.00	160.00	160.00

Notes:

- (1) Premium contribution for a Part-Time Employee is to be calculated as follows:
 Employer Contribution x FTE% = Calculated Employer Contribution
- (2) Includes an additional 2% for administrative costs as permitted by federal regulations.
- (3) Premium is shared equally between respective agencies.
- (4) Medicare participants are ineligible for participation.

**Exhibit VII
Abbreviations**

ASO	.....	Administrative Services Only
CMS	.....	Centers for Medicare & Medicaid Services
COBRA	.....	Consolidated Omnibus Budget Reconciliation Act
DSGI	.....	Division of State Group Insurance
FTE	.....	Full Time Equivalency
FY	.....	Fiscal Year
HIHP	.....	Health Investor Health Plan (i.e., High Deductible Health Plan)
HMO	.....	Health Maintenance Organization
HSA	.....	Health Savings Account
PBM	.....	Pharmacy Benefits Manager
PCP	.....	Primary Care Physician
PPO	.....	Preferred Provider Organization
SCP	.....	Specialty Care Physician
TPA	.....	Third Party Administrator