

**COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM**
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DATE: July 21, 2006
SUBJECT: Plan Year 2007 Enhanced Rx Plan Design Change
TO: Health Care Committee
FROM: Jeffrey B. Clay, Executive Director JBC

At the next Health Care Committee on August 3, 2006 a presentation will be made leading to a recommendation that the design of the Health Option Program's (HOP) Medicare Part D Enhanced Rx option for Plan Year 2007 be changed to a fixed co-pay design instead of the current percentage co-pay design.

The Board approved a similar change to the HOP's Medicare Part D Basic Rx option earlier this year. (See Exhibit A for a comparison of the current (PY 2006) and proposed (PY 2007) HOP Basic Rx option.) At that time, PSERS' staff and healthcare consultants were not prepared to make the same recommendation. (See the attached excerpt from the April 2007 Plan Design Recommendations for 2007 presented to the Board at its April 28, 2006 meeting.)

Subsequently, however, staff has reconsidered its position. This decision has been driven by competitive and communication issues for the upcoming option selection period. Specifically, we believe it will be difficult to provide an effective means for the members to evaluate which Rx option is best for them given the plan design differences in the Basic and Enhanced Rx options. We have also received information that many of the commercial PDP's have or are moving to fixed Rx co-pays as it is easier for the members to understand. By doing the same for PSERS' Enhanced Rx option, our members can make an easier "apples-to-apples" comparison with the HOP's competition.

As a consequence, staff is recommending that the HOP's Medicare Part D Enhanced Rx option plan percentage co-pay design be changed to a fixed co-pay design, effective with Plan Year 2007, as follows:

Member Pays	Current Enhanced Option	New Enhanced Option for 2007
Premium	\$ 49.00	TBD
Annual Deductible	\$250.00	0
Deductible to \$2,250**	25%	Fixed Co-pays
Generic	25%	\$ 7.00†
Preferred Brand	25%	\$25.00 †
Specialty	25%	25%
\$2,250 to Max TrOOP*	50%	50%
Generic	50%	50%
Preferred Brand	50%	50%
Non-Preferred	50%	50%
Specialty	50%	50%
After Max TrOOP*	5%	5% (Not to exceed \$100)

* \$3,600 of True Out-of-Pocket expenses. Under the current Basic Option this is incurred as follows: \$250 deductible + \$500 in 1st tier of coverage + \$2,850 in coverage gap = \$3,600. Under the proposed new Enhanced Option TROOP will be a combination of participant co-payments and percentage payments, depending on usage, that equal \$3,600.

** Total drug spend by the plan and participant

† Actual Co-pays may vary to insure that premiums are competitive and that the plan is actuarially equivalent with the Standard Part D plan, as required by CMS rules to receive the government payment.

At the Health Care Committee meeting, representatives from Segal, PSERS' healthcare consultant will make a presentation in support of this recommendation and be prepared to answer any questions the Committee may have.

In the meantime, if you have any questions concerning the above, please feel free to contact me.

cc: All Board Members

Exhibit A

Member Pays	Current Basic Option	New Basic Option for 2007
Premium	\$ 19.00	TBD
Annual Deductible	\$250.00	0
Deductible to \$2,250**	25%	Fixed Co-pays
Generic	25%	\$ 7.00†
Preferred Brand	25%	\$25.00 †
Specialty	25%	25%
\$2,250 to Max TrOOP*	100%	100%
Generic	100%	100%
Preferred Brand	100%	100%
Non-Preferred	100%	100%
Specialty	100%	100%
After Max TrOOP*	5%	5% (Not to exceed \$100)

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**Excerpt from the April 2007 Plan Design Recommendations for 2007
presented to the Board at its April 28, 2006 meeting**

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2007 Plan Year

Going forward, we view the Basic Medicare Rx Option as one of the main entry points for new members into the HOP. We believe the current percentage of cost design of the Basic Medicare Rx Option, in light of the Part D marketplace, will not be attractive to potential new members. Accordingly, we recommend redesigning the Basic Medicare Rx Option to eliminate the annual deductible and set fixed dollar per prescription co-payments to replace the percentage co-pay. This redesign, however, will have to be accomplished without jeopardizing the cost competitiveness of the Basic Plan. It should also be noted that switching from percentage co-pay to fixed dollar co-pays would create situations where the member is paying greater than the current 25% of the cost of the prescription drug with the fixed dollar co-pay. Attachment 2 sets forth the costs of fifteen (15) commonly used prescription drugs to illustrate how the percentage co-pay of the HOP plans compare with the fixed co-pay's of the sample group of competing plans. Removing the annual deductible, however, would minimize the perceived inequities of a fixed co-pay benefit design.

We are not, however, recommending changing the Enhanced Medicare Rx Option to a fixed co-pay benefit. To support this position:

- Most Enhanced Medicare Rx Option participants were enrolled in the High Option with a deductible and percentage co-pays.
- The percentage co-pay design does encourage members to shop for the best prescription drug price and automatically adjusts for drug cost inflation.
- The percentage co-pay avoids situations where the fixed co-pay will represent significantly more than 25% co-pay.
- The fixed co-pay design, once a member has reached \$2,250 in 2006, or \$2,400 in 2007, in total drug spend for the year, negates the reinsurance component of the federal government's funding of Medicare Part D plans. Accordingly, to adapt the fixed co-pay benefit to the Enhanced Medicare Rx Option would require either (i) a significant increase in premium or (ii) using the fixed co-pay design for the first \$2,400 (2007) in drug spend and the 50% co-pay design thereafter.