



COMMONWEALTH OF PENNSYLVANIA
 PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
 HEALTH INSURANCE DIVISION
 TELEPHONE (888) 773-7748; EXT. 4859
 LOCAL (717) 720-4859
 FAX (717) 783-8760
 E-MAIL: MSCHAFFER@STATE.PA.US

To: Health Care Committee
 From: Mark F. Schafer, Health Insurance Administrator
 RE: Health Options Program Rates for 2007
 Date: September 5, 2006

Enhanced and Basic Medicare Rx Options

The Segal Company developed contribution rates for the Enhanced and Basic Medicare Rx Options for the 65 Special Program for the 2007 Plan Year. These contribution rates are subject to approval by the Centers for Medicare and Medicaid Services (CMS). We do not have all the contribution rates for the managed care Options at this time.

As adopted by the Retirement Board the benefits of the Enhanced and Basic Medicare Rx Options will change effective January 1, 2007. The changes include:

- Removal of the annual deductible,
- Replacing the 25% co-pay with fixed co-pays for generic and preferred brand prescription drugs until a member reaches Medicare's coverage gap, and
- Capping the member's 5% co-pay for catastrophic coverage at \$100.00 for a 30-day supply.

The removal of the annual deductible and adoption of fixed co-pays for most prescription drugs has no effect on the cost of the Options as the benefits before and after the changes are deemed to be actuarially equivalent. The capping of member's catastrophic co-pay at \$100.00 for a 30-day supply has a minimal impact on the cost.

A comparison of the 2006 and 2007 member contribution rates for single coverage for the Medicare Rx Options is as follows:

	2006	2007	Change
Enhanced Medicare Rx Option	\$49.00	\$50.00	2%
Basic Medicare Rx Option	\$19.00	\$20.00	5%

The differences between the benefits of the Enhanced and Basic Medicare Rx Options are noted in Attachment 1. The Enhanced Option also covers a number of prescription drugs that were covered prior to 2006 but excluded by Medicare. These Medicare-excluded drugs are not covered under the Basic Option.

HOP Administrative Expenses

The HOP adds \$6.00 per member per month to the monthly premium rates of the managed care Options (HMO, POS and PPO) to cover the administrative expenses. This fee has been in effect for several years and needs to be increased to cover enrollment, non-reimbursed communications, customer service, and PSERS expenses. For 2007, the Segal Company recommends that this fee be increased from \$6.00 to \$8.00 per member per month.

Combined Rates for Fee-for-Service Options – 65 Special Program

At the last meeting, we presented to the Board the rates for the HOP Medical Plan of the 65 Special Program and the High and Standard Options of the Traditional Program. A majority of our members are enrolled in the HOP Medical Plan and either the Enhanced or Basic Medicare Rx Option. Attachment 2 shows the combined monthly contribution rates.

ATTACHMENT 1

2007 PDP Plan Designs

	Member Pays for the	New Basic Option	New Enhanced Option
	Premium	\$20	\$50
	Annual Deductible	\$0	\$0
	Up to \$2,400*	Fixed Co-pays	Fixed Co-pays
	Generic	\$7.00	\$7.00
	Brand	\$25.00	\$25.00
	Brand when a generic is available	Generic Co-pay + Cost Difference [¶]	Generic Co-pay + Cost Difference [¶]
	Specialty	25%	25%
Medicare Coverage Gap	\$2,400 to Max TrOOP**	Coinsurance	Coinsurance
	Generic	100%	50%
	Brand	100%	50%
	Brand when a generic is available	100%	Generic Co-insurance + Cost Difference
	Specialty [‡]	100%	25%
	After Max TrOOP*	5% (Specialty drugs not to exceed \$100)	5% (Specialty drugs not to exceed \$100)
	Mail Order		
	0-33 Day Supply	\$7/\$25 [‡]	\$7/\$25 [‡]
	34-60 Day Supply	\$14/\$50 [‡]	\$14/\$50 [‡]
	61-90 Day Supply	\$21/\$75 [‡]	\$21/\$75 [‡]

* Total drug spend by the plan and participant (2006 limit is \$2,250)

** \$3,850 of True Out-of-Pocket expenses. Under the standard Part D Plan, this is incurred as follows: \$265 deductible + \$533.75 in first tier of coverage + \$3,051.25 in coverage gap = \$3,850. Under the proposed new Basic and Enhanced Options, TROOP will be a combination of participant co-payments and percentage payments, depending on usage that equals \$3,850. (2006 Deductible is \$250 and TrOOP limit is \$3,600)

[¶] These amounts would count towards TrOOP.

[‡] Specialty drugs would be defined as a covered drug appearing on a list of medications that are unique within a drug category and are reserved as a last option for patients with life-threatening conditions. Drugs on the List generally have few or no other medication alternatives for equivalent treatment, and no generic options. These medications are expensive and present the potential for severe financial hardship with expected costs averaging \$500 per claim or more for a 30-day supply. The Traditional plan would also use this Specialty definition rather than the current Critical Care list. No other changes to the Traditional Plan.

[‡] 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. Additionally, if the actual retail price or the pharmacy contracted price is less than the co-pay the member would only be charged the actual retail or the contract price.

ATTACHMENT 2

**2007 Rates for the HOP Medical Plan and in Combination with the
Enhanced and Basic Medicare Rx Options
Compared to 2006 Rates**

Southeastern Region

Bucks, Chester, Delaware, Montgomery, and Philadelphia County

HOP Medical Plan	2006	2007	Increase
Single	\$155.00	\$163.00	5.16%
2-Person and Family	305.00	320.00	4.92%
<i>HOP Medical Plan Age 65 Rates</i>			
<i>Single</i>	<i>\$147.00</i>	<i>\$155.00</i>	<i>5.44%</i>
<i>2-Person and Family</i>	<i>289.00</i>	<i>304.00</i>	<i>5.19%</i>

Combined Single Rates

HOP Medical Plan and	2006	2007	Increase
Enhanced Medicare Rx Option	\$204.00	\$213.00	4.41%
Basic Medicare Rx Option	174.00	183.00	5.17%
<i>HOP Medical Plan Age 65 Rates</i>			
<i>Enhanced Medicare Rx Option</i>	<i>\$196.00</i>	<i>\$205.00</i>	<i>4.59%</i>
<i>Basic Medicare Rx Option</i>	<i>166.00</i>	<i>175.00</i>	<i>5.42%</i>

Southwestern Region

Allegheny, Fayette, Greene, Indiana, Washington, and Westmoreland Counties

HOP Medical Plan	2006	2007	Increase
Single	\$145.00	\$152.00	4.83%
2-Person and Family	285.00	299.00	4.91%
<i>HOP Medical Plan Age 65 Rates</i>			
<i>Single</i>	<i>\$137.00</i>	<i>\$144.00</i>	<i>5.11%</i>
<i>2-Person and Family</i>	<i>270.00</i>	<i>284.00</i>	<i>5.19%</i>

Combined Single Rates

HOP Medical Plan and	2006	2007	Increase
Enhanced Medicare Rx Option	\$194.00	\$202.00	4.12%
Basic Medicare Rx Option	164.00	172.00	4.88%

Southwestern Region - Combined Single Rates (continued)

<i>HOP Medical Plan Age 65 Rates</i>	2006	2007	Increase
Enhanced Medicare Rx Option	\$186.00	\$194.00	4.30%
Basic Medicare Rx Option	156.00	164.00	5.13%

Northern & Central Region

(All other counties in Pennsylvania)

HOP Medical Plan	2006	2007	Increase
Single	\$135.00	\$135.00	0%
2-Person and Family	260.00	260.00	0%
<i>HOP Medical Plan Age 65 Rates</i>			
<i>Single</i>	\$128.00	\$128.00	0%
<i>2-Person and Family</i>	247.00	247.00	0%

Combined Single Rates

HOP Medical Plan	2006	2007	Increase
Enhanced Medicare Rx Option	\$184.00	\$185.00	0.54%
Basic Medicare Rx Option	154.00	155.00	0.65%
<i>HOP Medical Plan Age 65 Rates</i>			
Enhanced Medicare Rx Option	\$177.00	\$178.00	0.56%
Basic Medicare Rx Option	147.00	148.00	0.68%

Out of State Region

HOP Medical Plan	2006	2007	Increase
Single	\$155.00	\$163.00	5.16%
2-Person and Family	305.00	320.00	4.92%
<i>HOP Medical Plan Age 65 Rates</i>			
<i>Single</i>	\$147.00	\$155.00	5.44%
<i>2-Person and Family</i>	289.00	304.00	5.19%

Combined Single Rates

HOP Medical Plan and	2006	2007	Increase
Enhanced Medicare Rx Option	\$204.00	\$213.00	4.41%
Basic Medicare Rx Option	174.00	183.00	5.17%

Out of State Region - Combined Single Rates (continued)

<i>HOP Medical Plan Age 65 Rates</i>			
Enhanced Medicare Rx Option	\$196.00	\$205.00	4.59%
Basic Medicare Rx Option	166.00	175.00	5.42%