GSRA Newsletter

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CUTS LIKELY FOR FY 2009 STATE EMPLOYEE SALARY INCREASES AND STATE HEALTH PLAN

Governor Perdue recently announced that Georgia faces a potential budget deficit of $1.6 billion in FY 2009. Included in the Governor's deficit reduction plan is the delay or elimination of state employee salary increases that are planned for January 1st, reduction of the State Health Benefit Plan (SHBP) Reserves, and suspension of the OPEB contributions. The table[1] below lists the dollar value of the reduction items:

Reduction Item	Savings
6% Reduction – Non-Exempt State Agencies	$443 million
2% Reduction – Board of Education	164 million
5% Reduction – Medicaid/PeachCare	108 million
State Employee Salary Increase	73 million
Reduce SHBP Reserves	225 million
Suspend OPEB Contributions	100 million
Homeowners Tax Relief Grant	429 million
One-Georgia Authority (Tobacco Reserves)	47 million
FY 2008 Amended Budget Unexpended Reservoir Funds	40 million
Total Deficit Reduction Plan	$1.63 billion

The Governor also asked state agencies to develop proposals for the amended FY 2009 and the FY 2010 budgets that will include options for cuts of 5%, 8% and 10%.

The "rainy day" reserve of $1.5 billion at the beginning of FY 2008 is expected to shrink further, to approximately $687-$787 million by the end of FY 2009.[2]

Tax revenues for July 2008 fell by 6.6% over July 2007. Therefore, in order to meet previous 2009 revenue projections, general tax revenues must grow by $1.57 billion between August 2008 and June 2009[3].

[1] Deficit Reduction Step Two. Georgia Budget and Policy Institute.
[2] Ibid.
[3] Ibid.

GSRA Meeting Reminder

The Annual GSRA Meeting is scheduled for October 15, 2008 at the Central Georgia Technical College at Macon. The new ERS Executive Director, Pamela Pharris, Representative Debbie Buckner, and SHBP Division Director Nancy Goldstein will be presenting.

COLA Committee Meeting

The House COLA Study Committee will meet on October 1 & 2 at 10:00 a.m. and November 17, 2008. The meetings will be held at the Capitol in Atlanta. More information will follow.

STATE HEALTH BENEFIT PLAN FINANCIAL INFORMATION

Several articles have been included in previous GSRA Newsletters relative to the funding and financial status of the SHBP. The financial position as shown in this article has been compiled by GSRA from DCH budget presentations made to the Legislative Appropriations Committees and the Board of Community Health (BCH) and BCH resolutions implementing employer contribution rates. In order to understand the financial position, a few of the financial terms are defined:

- **Revenue**: Monies received from the state departments and school systems as the employer contributions and members' premiums plus interest on short-term investments.
- **Expenses**: Monies paid out by the SHBP for administering the program, HMO premiums, and claims.

- **Fund Balance Reserves**: Any amount of revenue that exceeds expenses.
- **OPEB Trust Fund Reserves**: Any funds placed in the Other Post Employment Benefits Trust Fund for the cost of retiree health insurance. Once funds are placed in the Trust Fund, only administrative expense and benefit expense for retirees can be charged against the Trust (see the article OPEB Trust Fund-Investment Report for more information).
- **Employer Contribution Rate**: The percentage of total salary costs paid to the SHBP by state departments or school systems.

SHBP Financial Projections (Stated in Millions)			
	FY 2009 Activity Projections	Fund Balance Reserves	OPEB Trust Reserves
FY 2008 Reserve Balance		$ 405.4	$122.1
Projected Revenue (FY 2009)	$ 2,737.1		122.1
Projected Expense	2,814.8		
Deficit for FY 2009	(77.7)	(77.7)	
Transfer Retiree portion of Fund Reserves		(57.3)	57.3
Projected on June 30, 2009	0	$270.4	$301.9
Governor's Proposed Reduction	--	(225.0)	100.0
Balance after reduction 6/30/09		$ 45.4	$ 201.9

Although the revenue and expense projections were produced almost one year past, the reduction of reserves by $225 million places the Fund Balance Reserve funds at risk since a reserve of $45 million is only 1.6% of expense. DCH staff announced that the SHBP financials would be updated and discussed with the Board of Community Health on September 11, 2008. Therefore, the Fund Balance Reserve may be understated or overstated.

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According to Former Merit System Commissioner BJ Bennett, the employer contribution rate must be reduced to recoup the reserves rather than making a direct transfer of the $225 million to the State Treasury. Therefore, the reduction to the SHBP Fund to recoup $225 million will result in loss of revenue to the SHBP of between $250 million and $275 million since the revenue is composed of state, federal, and member contributions.

As a practical matter, the Attorney General of Georgia has previously opined that the SHBP reserves can be used only to pay benefits and administrative costs. Therefore, in order to reduce the reserves, it has historically been accomplished by reducing the employer contribution rate. A direct transfer of the Reserves to the State Treasury would mean that the State is taking federal dollars and a portion of member contributed funds, since approximately 25% of the funds paid into the SHBP is member premiums.

Remember that in 2001, the Administration reduced the ERS contribution rate by one-third (from 14.50% to 10.41%) with the promise to restore the rate when needed. Is this another reduction where members will suffer major premium increases in order for the State to provide tax breaks as reported by James Salzer in the August 18, 2008 edition of the Atlanta Journal Constitution?

OPEB Trust Fund – Investment Report

Other Post-Employment Benefits (OPEB) is a term used by the Governmental Accounting Standards Board (GASB) to categorize benefits—other than retirement—that are promised to employees after retirement. In brief, GASB (Statement 43) requires public employers to actuarially determine the cost of such promises to employees in much the same way that is required for pensions. GASB statement 45 requires public employers, if they do not fund the Annual Required Contribution (ARC), to begin reflecting a portion of the future costs as a liability on their financial statements.

State employees have two benefits—health insurance and life insurance—that are defined as OPEB. This article discusses only the health insurance trust fund, which is referred to as the Georgia Retiree Health Benefit Fund (GRHBF).

The Governor and General Assembly approved for FY 2008 a portion of the employer contribution (4.309% of salaries) to be transferred to the GRHBF, which was established by law in 2006. The estimated amount to be generated by the 4.309% was $100 million. The Department of Community Health (DCH) has subsequently updated the projection to $122.1 million[4].

DCH contracted with the Division of Investment Services of the Retirement Systems to invest the long-term GRHBF funds. During FY 2008, DCH transferred $183,155,199 to the Investment Services for investment. The Division of Investment Services reports the "net earned" income at $2,038,820 and a balance as of June 30, 2008 in the GRHBF Investment account of $185,194,020.

On November 7, 2007, the actuarial firm of Cavanaugh Macdonald reported to the DCH that the 2009 "Unfunded Actuarial Accrued Liability" for the SHBP is $19.2 billion. With amortizing the $19 billion over 30 years and adding the additional accrual for 2009, the Annual Required Contribution (ARC) for FY 2009 should be $1.7 billion. Suspending the $100 million for OPEB in the Governor's Reduction Plan leaves the GRHBF with only the balance as of June 30, 2008 plus any funds transferred during the first few months of FY 2009 and cash flow amounts. The $185 million is far short of the $1.7 billion needed, and the longer the OPEB funding is not addressed, the greater the ultimate cost.

In addition to the OPEB funding for retirees, the State continues to contribute to retiree medical benefit cost on what is referred to as a "pay-as-you-go" basis. Therefore, the **suspension of the $100 million of OPEB funding does not impact retirees' funding on an on-going and current basis.**

[4] FY 2009 DCH budget presentation to the Legislative Appropriations Committees.

STATE HEALTH BENEFIT PLAN CHOICES 2009

DCH has approved two vendors—United Healthcare and CIGNA—and streamlined benefit options that are offered under the SHBP effective January 1, 2009. Actions taken by DCH are designed to incentivize members to select options to further the objective of increasing consumerism. DCH estimates that the change in vendors and options will save $754 million over the next five years.

Options Defined

A brief description follows for the four options offered to all SHBP members and the Medicare Advantage option offered to retirees who have Medicare (Parts A and B).

- **Health Reimbursement Arrangement (HRA):** An option that uses the provider network of the respective vendor (UHC or CIGNA). The SHBP will establish an account for the member totaling $500 (single) or $1,500 (family) for use "up front" before having to pay out-of-pocket, thereby reducing the deductible amount. There are no copayments for office visits or prescription drugs, but the services are subject to a deductible that can be offset by the HRA account. If you do not use the entire HRA amount during the year, the HRA balance will roll to the following year and will reduce that year's deductible out-of-pocket amount even further. The option also provides for a maximum out-of-pocket (OOP) amount.
- **High Deductible Health Plan (HDHP):** An option that uses the provider network of the respective vendor (UHC or CIGNA). There are no copayments for office visits, prescription drugs, etc., but all up-front allowable expenses accumulate until the deductible amount is reached prior to the HDHP paying toward the medical services. The option provides for a maximum out-of-pocket amount. The HDHP option allows the member—other than retirees who are enrolled in Medicare—to establish a Health Savings Account (HSA) with a financial institution. When properly established, the member can reduce taxable income by the amount contributed (up to $3,000 for individuals and $5,950 for families) to the HSA. A member should contact the vendor (UHC or CIGNA) about the specifics of an HSA.
- **Preferred Provider Organization (PPO):** An option where the vendor (UHC or CIGNA) has contracted with providers who agree to the vendor's medical protocols and payment amounts. The option includes copayments for office visits, prescription drugs, etc., a deductible amount and OOP limits, excluding copayments.
- **Health Maintenance Organization (HMO):** An option where the vendor (UHC or CIGNA) has

contracted with a limited number of providers who agree to the vendor's medical protocols and payment amounts. The number of providers is usually fewer than in the other options and may require referral to specialists. The option does not provide for payment for services to non-network providers—other than for emergencies. There are copayments for office visits, prescription drugs, etc., deductible amounts for services and a maximum OOP, excluding copayments.

- **Medicare Advantage Private Fee-for-Service**: An option for hospital, medical and prescription drugs offered to retirees and their spouses who are over age 64 and are enrolled in Medicare Parts A and B, but not enrolled in Part D. (*Note: The member must continue paying the Part B Medicare Premium.)* A member in this option is treated much like a pre-Medicare member. Providers will bill the vendor who will bill Medicare for the services. Although the Medicare Advantage is much like an HMO, the provider network generally includes all providers who accept Medicare assignment and who agree to accept Medicare allowable amount as payment in full and who agree to a few other vendor requirements. The provider must agree to bill the vendor—not Medicare. The provider is then categorized as a "deemed provider." There are copayments for many services, i.e. inpatient care, office visits, prescription drugs, etc. (see the specific benefit listing). The option also includes an OOP maximum

Option Premium Rates and Premium Savings

Below are the primary retiree premium rates for each of the options for both 2008 and 2009. Premium rates for retirees over age 64 with less than full Medicare or for members who have family coverage and one is under age 65 will be provided on your individualized enrollment form.

Calendar 2009 Primary Retiree Premiums Monthly

Premium Tier	HMO (*UHC & CIGNA*)		PPO *(UHC & CIGNA*)		HRA (*UHC & CIGNA*)		HDHP (*UHC & CIGNA*)		Med. Advantage (*UHC&CIGNA)*	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
Single Under age 65	91.10	82.84	86.10	78.26	58.60	56.95	51.00	49.50	NA	NA
Single (Full Medicare)	37.80	35.02	32.90	30.46	13.90	13.46	1.70	1.70	17.50	NA
Family Under age 65	218.20	202.84	256.90	238.88	180.80	173.74	166.60	160.60	NA	NA
Family (Full Medicare)	103.50	95.80	142.40	131.82	78.70	76.42	55.20	53.56	35.00	NA

Making a Choice If You are Under Age 65

Cost is always a major factor in making a decision about medical coverage. However, before you consider cost, you should make sure that you and your family can receive quality medical services that you need. This evaluation has two prongs—medical network and covered services. One should:

- Determine that the desired providers (hospitals, physicians, therapies, etc.) within a reasonable traveling distance are included in the network,
- Determine from the schedule of benefits that the services you need are covered under the plan, and
- Determine from the vendor's drug formulary that your prescribed drugs are on the preferred generic or preferred brand lists.

For the most part, the SHBP has made the decision about services easy because the covered medical services—not cost—for the PPO, PPO, HRA and HDHP are generally the same regardless of the vendor (UHC and CIGNA). For example, Chiropractic (20 visits) is covered under all options, but the PPO pays 90% after a $30 copay, the HMO pays 100% after a $30 copay, and the HRA & HDHP pays 90% after the deductible. The vendors may, however, interpret some of the benefits differently; therefore limitations and exclusions and drug formularies for each vendor are important. The drug formulary should be the same for each vendor's PPO, HRA, and HDHP, but probably different for the HMO.

If after reading the SHBP material and viewing the various websites, you are satisfied with your evaluation of the network and covered services, you are ready to move to cost comparisons. DCH's actuaries state that the HRA option has a favorable out-of-pocket cost for 75% of the HMO participants and 95% of PPO participants. The **maximum out-of-pocket cost components** plus the annual premium are shown on the following table. Remember that the benefit Out-of-Pocket cost consists of the deductible and co-insurance—(the 10%)—amounts, but not copays (dollar amounts).

Single Covered Retiree (Under Age 65) Benefit and Premium Costs					
Option	Deductible	Benefit Out of Pocket (OOP) In-Network Maximum	Actual Benefit (In-Network) OOP Maximum	Annual Premium	Premium and Maximum Benefit Annual Cost
HMO	$ 400	$ 1,500 Plus copays	$1,500 Plus copays	$1,093	$2,593 Plus copays
PPO	500	1,500 Plus copays	1,500 Plus copays	$1,033	$2,533 Plus copays
HRA	1,000 Credit -500 Total 500	2,000	2,000 Credit -500 Total 1,500	$ 703	$2,203
HDHP	$1,150	$1,700	$1,700	$ 612	$2,312

Family Covered Retiree (Under Age 65) Benefit and Premium Costs					
Option	Deductible	Benefit Out of Pocket (OOP) In-Network Maximum	Actual Benefit (In-Network) OOP Maximum	Annual Premium	Premium and Maximum Benefit Annual Cost
HMO	$ 800	$ 3,000 Plus copays	$3,000 Plus copays	$2,618	$5,618 Plus copays
PPO	1,500	3,000 Plus copays	3,000 Plus copays	$3,083	$6,083 Plus Copays
HRA	2,500 Credit -1,500 Total 1,000	4,500	4,500 Credit -1,500 Total 3,000	$2,169	$5,169
HDHP	$ 2,300	$ 2,900	$ 2,900	$1,999	$4,899

As shown above, the least costly (on a maximum annual cost basis) for an Under Age 65 Single member is the HRA plan and for the Under Age 65 Family member is the HDHP. Hopefully, most of the members do not reach the benefit maximum out-of-pocket every year. Therefore, in order to evaluate the most cost-effective option for you (and your family), you should review your last year's cost: Number of doctor's visits, therapy visits, emergency room visits, prescriptions (and which tier), inpatient stays, out-patient surgery, etc. Assign a dollar value to the copayment and coinsurance for the services according to the options that you are costing. Then compare the total according to your calculations.

Remember, the DCH actuary has evaluated the options and determined that 95% of PPO members will have less out-of-pocket cost under the HRA than the PPO and 75% of the HMO members will have less out-of-pocket cost under the HRA than the HMO. SHBP enrollment materials indicate that retirees under age 65 will receive individualized information in their enrollment package from Thomson Reuters to indicate the least costly option for the under age 65 retirees.

DCH actuaries say that 75% of the current HMO members and 95% of the current PPO members will have less out-of-pocket cost with the HRA product.

The HRA credit is increased for family covered members from $1,000 in 2008 to $1,500 in 2009.

HMO deductibles, office co-pay, and Rx copay are increased for 2009

Making A Choice If You are Over Age 64

If you are age 65 or older and enrolled in Medicare, your network comparisons become easier among the PPO, HRA, HMO and HDHP (not the Medicare Advantage Plan) because Medicare becomes the primary payer for your medical services. The network comparison becomes whether your providers accept Medicare Assignment or that they will file Medicare claims for you. If a physician will not accept Medicare patients and file his/her claims, as a general rule, their services are not covered under the SHBP.

Medicare Part D Prescription Coverage: Although you may deselect Medicare Part D on an annual basis by paying a higher SHBP premium, it is to your financial advantage to enroll in or continue your Part D coverage. The Medicare website (www.medicare.gov) is thorough in helping you select companies that meet your objectives. You may minimize your total premium cost by selecting a reputable Part D plan that includes the Medicare drug deductible ($275 for 2008) and "no gap" coverage—the "donut" hole." The premium is lower for a Part D plan that includes the deductible and excludes "gap" coverage and you qualify for the reduced SHBP premium amount. This means that while you are accumulating the allowable costs to meet your Part D deductible, you are purchasing your prescriptions by using your SHBP copayment.

HRA Coverage: A retiree who has full Medicare will most likely have "zero" out-of-pocket" benefit costs. Factors that make this statement true are: (a) Medicare is primary payor and SHBP is secondary, (b) Medicare Part B (medical services other than hospital and drugs) has a $135 deductible (for 2008) after which Medicare pays 80% of allowable charges, (c) Medicare Part D (prescription drugs) has a $275 (2008) deductible. Without displaying individual medical services, the coordination between Medicare and the SHBP should follow guidelines that are reflected in the table.

Example of Medicare/SHBP Coordination

Explanation	Medicare	SHBP HRA PAY	SHBP HRA Credit	Member pay
HRA Credit Established by SHBP.			**$500**	
Purchase of 4 Rx's at an allowable cost of $70 each ($70 X 4) = $280, which satisfied Part D deductible; under the PPO, the member would pay SHBP 4 $20 copays , but under the HRA the allowable cost would accumulate toward the deductible and can be paid from the credit.	0	0	-280	0
Physician's visits, therapy, surgery or other Non-Hospital services (Part B services) totaling Medicare allowed amount of $635. Part B has a deductible of $135 (2008); and Medicare will pay @ 80% after the deductible. SHBP HRA deductible of $1,000 not met yet. Pay from Credit.	$635 - 135 500 x .8 **Pay $400**	0	-135 -85	15
Physicians, surgery and other Part B medical services will be paid by Medicare @ 80%. Rx and Part B allowable charges are accumulated toward the $1,000 SHBP deductible ($280+635+85) and then payment by SHBP.	600 x .8 **Pay $480**	**Pay $120**		0
Totals (Medicare paid $880, SHBP paid $120 and the HRA paid $500 from your credit)	**Pay $880**	**Pay $120**	Bal 0	$ 15

In this example, future medical services covered under Parts A and B should, in all probability, be paid @ 100% by the combination of Medicare and SHBP.

In this example future Rx's will have a Part D copay or coinsurance amount that you pay.

Under this HRA example, you will pay "$15" for services and use your entire $500 credit. You would have also paid monthly premiums to SHBP of $13.90, to Medicare for Part B of $96.40 (2008, depends on the AG income), and Part D at approximately $26 (2008, depending upon the option). All annual out-of-pocket costs of $1,650.60 ($136.30 premiums X 12 plus $15).

If these same services were incurred with the PPO, the member would pay Rx copay of $80, $114 on the $635 charges—a total service OOP of $194. When added to the premiums paid, the total out-of-pocket under the PPO would be $2,057.60 ($32.90 to SHBP, $96.40 to Part B, $26 to Part D times 12 plus $194 for services). The member would have OOP costs of $407 more in the PPO than in the HRA.

A member should analyze his/her medical expenses to determine the least costly option that meets his/her needs for network and services. Remember that the network and services covered are the same under the PPO, HRA, and HDHP options, regardless of the vendor (UHC or CIGNA).

Medicare Advantage Option: The Medicare Advantage Option is an expansion of the HMO managed care concept to incorporate Medicare coverages. A member must be enrolled in Medicare Part A and Part B to be eligible for the Medicare Advantage option, but will not be enrolled in Medicare Part D.

This Option has no deductibles, but most services have copays. For example, an inpatient hospital stay has a $190 per day copay for the first 4 days; primary care physician copays are $20 per visit and physician specialist copays are $25 per visit.

The premium costs are: SHBP $17.50 and Medicare Part B $96.40 (base for 2008, but may be greater based on the "Adjusted Gross Income." Therefore, the annual premium cost at the above rates is $1,366.80. In analyzing your cost, you should add to this amount what you think your copays and coinsurance will be. You should be aware, however, that services not frequently covered under the options may be covered services. These include routine podiatry, routine eye exams, glasses or contact lenses (every 2 years), hearing exams and hearing aids ($1,000 every 4 years).

Annual Premium Cost Summary (Single)	
Medicare Advantage	$1,366.80
HRA (Including Medicare)	1,635.60
PPO (Including Medicare)	1,863.50
Annual OOP-Example Previous Page (Single)	
Medicare Advantage	$1,366.80 plus copays
HRA Example (Table notes)	$1,650.60
PPO Example (Table notes)	$2,057.60

Examples of medical services that are used in the table on the previous page are hypothetical and are intended to illustrate how you should analyze your cost under the various options. This information does not substitute but is intended to supplement the information provided by SHBP.

Options and Vendors Eliminated from SHBP Offering for 2009

Indemnity: The Indemnity Option is being eliminated on January 1, 2009. If you are in the Indemnity Option, be sure to select a new option on-line or complete your form. If you do not make a new selection, you will be automatically placed in the UHC HRA option and you will not be allowed to change until NEXT RETIREE OPTION CHANGE PERIOD IN LATE 2009.

BlueCross BlueShield: The BlueCross BlueShield HRA and HMO options are being eliminated on January 1, 2009. If you are in one of these options, be sure to select a new option on-line or complete the individualized form that will be mailed to you by SHBP. If you do not make a new selection, you will be automatically placed in the UHC HRA option and you will not be allowed to change until NEXT RETIREE OPTON CHANGE PERIOD IN LATE 2009.

Kaiser Permanente: The Kaiser Option will be retained in the SHBP for calendar 2009 for current members. However, non-Kaiser members will not be allowed to select the Kaiser Option.

Kaiser has asked its current members to continue the option while the vendor works with the State administration to reverse the de-selection. Kaiser has prepared a report that outlines the impact of terminating the contract. The report states that:

- Termination will disrupt continuity of care for more than 40,000 members,
- Termination will lead to lower quality of care for SHBP participants,
- Termination will increase direct costs to the State and could increase costs to the State by $18 to $38 million in the first year after implementation,
- Termination will have an economic impact on Georgia.

Hopefully, the DCH will resolve this issue to the benefit of SHBP participants in the near future.

Fire Safety At Home

Did you know that older individuals are in a high-risk group for death or injury resulting from residential fires? Residential fires kill more than 1,300 senior citizens per year. It is sad that 75% of older people who perish in residential fires had no working smoke alarm in the home. To increase your home fire safety, follow these safety tips from the National SAFE Home Foundation to help you protect yourself from becoming a fire victim:

- Make sure you have at least one working smoke alarm on each level of your home. The smoke alarm should be tested once a month and the batteries changed once a year.
- Have an escape plan. Know two ways out of each room, in case a fire or smoke blocks one way out.
- Never smoke in bed or while lying down, especially if you are on medication that increases drowsiness.
- Make sure your stove is clean and free of grease build-up.
- Keep flammables, such as towels, pot holders, and loose clothing away from the stove.
- Turn pot handles away from the front of the stove so they won't be knocked off or pulled down.
- If you are called away from the kitchen during food preparation, turn all burners off.
- Have your home heating system checked annually by a qualified professional.
- If you use portable electric or kerosene heaters, make sure they have at least 3 feet of clearance around them while in operation.

The National SAFE Home Foundation helps to implement fire prevention around the country. If you are a member of a senior club, church organization, neighborhood association, meals on wheels, etc., your organization can contact the foundation to establish a smoke alarm giveaway program for your organization. If you are interested in this program, contact the foundation at 1-800-877-1250 or e-mail at safehome@buffnet.net.