GSRA Newsletter

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STATE HEALTH BENEFIT PLAN NEWS

GSRA's October Newsletter contained articles regarding the DCH announcement of two policy changes—increasing premiums for retirees age 65 and older unless they are enrolled in Medicare Part B (effective July 1, 2009), and requiring all retirees age 65 and older to enroll in a SHBP-offered Medicare Advantage Plan or lose their 75% State-funded premium subsidy. The second policy change effective January 1, 2010 will result in cost shifting to retirees who are covered by the State Health Benefit Plan.

Upon review of the GSRA articles, the Department of Community Health took exception to our statements and issued a November 25 press release, reprinted in totality below. This GSRA newsletter clarifies statements, regarding increased premiums and demonstrates how the DCH policy change will increase your out-of-pocket costs by up to $1,000 when you receive medical services although the MAP decreased premiums offset some of the OOP cost.

DCH Press Release 11/25/08:

Department [of Community Health] Statement Regarding Errors in Recent Georgia State Retiree Association Release

ATLANTA *– The State Health Benefit Plan (SHBP) announced two policy changes to health benefit options for retirees aged 65+ at the October 30, 2008 Board of Community Health meeting. The new strategy will enable the SHBP to continue offer[ing] comparable health care benefits to our retiree population, while allowing SHBP to leverage additional health care services offered through Medicare.*

According to the Center for State and Local Government Excellence's Retiree Health Plans National Assessment, Georgia is one of only two states that does not currently require retirees to enroll in Medicare Part B. By moving to this benefit change, SHBP will be in line with other state retiree health plans.

The first change, effective July 1, 2009, requires retires (sic) that choose not to enroll in Medicare Part B to pay higher premiums. Retirees can avoid the higher premiums by enrolling in Medicare Part B between January 1 and March 31, 2009. The SHBP premium will decline to offset the Medicare premium cost. SHBP will absorb the cost of late enrollment penalties associated with those retirees that have not previously enrolled in Medicare Part B. SHBP will be providing materials to retiree members to assist them in this process. Retirees ineligible to participate in Medicare Part A will not be required to purchase Part A and will continue to receive SHBP coverage similar to those with Part A.

The second change, effective January 1, 2010 requires retirees to enroll in one of the Medicare Advantage Plan options in order to continue to receive the 75 percent state subsidy. Enrollees in the Medicare Advantage will benefit from the following:

- *Lower monthly premiums*
- *Lower cap on out-of-pocket expenses*
- *Enriched health care services over standard Medicare services.*

# # #

Various Medicare and SHBP Facts

The following facts are familiar to most retirees, especially those who are 65 or older, but are stated here for ease in understanding premium and cost-shifting issues.

- Medicare Part A primarily covers hospital services only, Medicare Part B covers medical services other than hospital and prescription drugs, and Medicare Part D covers prescription drugs only.
- Medicare Part A is provided at no cost for those members who paid Social Security (Medicare) Tax for at least 10 years during their working careers.
- The Medicare Part B premium is income-based, with the 2009 base monthly premium amount of $96.40 per person. Most retirees in the SHBP will pay the base amount only.
- Medicare Part D premiums vary based upon the plan chosen, but a good prescription drug plan can be purchased for a monthly premium of about $30 per person.
- The SHBP options for PPO, HMO, HRA, and HDHP provide for secondary coverage that "wraps around" Medicare Parts A and B payments, meaning that the SHBP will usually pay most or all the costs not covered by Medicare, leaving the SHBP member with very little if any medical costs during the year.
- The SHBP Medicare Advantage Plan, however, is not a "wrap-around" plan. Rather, it is "integrated" with Medicare, which means the SHBP will not pay any costs not already covered by Medicare.
- ***Any retirees age 65 and over who wish to continue coverage under any SHBP option other than the MAP after January 1, 2010 will be required to pay both the retiree (25%) share and the State (75%) share of the premium.***
- Some SHBP members are not eligible to participate in Medicare Part A because they have not paid the required number of years of Social Security (Medicare) Tax.
- Some SHBP members have chosen not to enroll in Medicare Part A, Part B, or Part D either because of ineligibility for Part A or simply a choice.
- Persons who have retired and choose not to enroll in Medicare Part B when first eligible and then later decide to enroll must pay a 10% premium penalty for each year that they have been eligible and have not participated in Part B, i.e. a person who waits 3 years will have a penalty of 30% of the premium.
- A penalty for late enrollment into Medicare Part D for SHBP members with PPO, HMO, or HRA is not applicable because these SHBP options (but not the HDHP option) are considered by Medicare to be creditable plans.

Requirement to Enroll in Part B (or pay higher premium) – Effective July 1, 2009

DCH stated that members who are not enrolled in Medicare Part B will be required to enroll in Part B or begin paying a higher premium to offset higher costs to the SHBP. However, the recent GSRA article may have led members who are not eligible for Medicare Part A to conclude that they would be required to enroll in Part A at a monthly cost of $443. GSRA is pleased that DCH has clarified that those members not enrolled in Part A will not be required to enroll in Part A. DCH states that these members will receive primary coverage for inpatient hospital care similar to that provided to those enrolled in Medicare Part A.

DCH reports that approximately 550 retirees (and spouses)—age 65 or older—do not have Medicare Part B but are enrolled in Part A, and that another 2,300 retirees (and spouses) are not enrolled in Medicare Parts A, B, or D. Therefore, there are 2,850 retirees (and spouses) who will be affected by the requirement to enroll in Medicare Part B. DCH reports that the SHBP will pay any applicable Medicare premium penalty for these individuals. DCH plans to notify the affected retirees of the change in policy in mid to late January, 2009. Retirees will also be provided with instructions on any needed action.

DCH has not announced the July 2009 adjusted (higher) premium rates for the SHBP options that reflect the choices for retirees who choose not to enroll in Medicare Part B between January and March 2009—the Medicare open enrollment period. Current SHBP rates for all combinations of Medicare are posted on the DCH website (**http://dch.georgia.gov/00/channel_title/0,2094,31446711_32021041,00.html**).

Cost Issues (Premiums, Out-of-Pocket Costs, Enriched Services) — Effective January 1, 2010

The last paragraph of the DCH press release states that a member age 65 or older will be required on January 1, 2010 to enroll in a SHBP-offered Medicare Advantage Plan (MAP) in order to continue receiving the State's 75% premium subsidy. DCH also outlines three advantages (***Lower Monthly Premiums, Lower Cap on Maximum Out-of-Pocket Cost, and Enriched Services over Standard Medicare****)* of the MAP option. In July 2008, 74% of retirees were enrolled in the PPO and 19% of retirees were enrolled in the 3 HMOs. Comparisons of the most prevalent current SHBP options, the HRA, and MAP are shown below.

Advantage #1: "Lower Premiums"

Annual Premium Comparison for Most Prevalent Options – 2009 (Full Medicare)				
Single Coverage	**Annual PPO**	**Annual HMO**	**Annual HRA**	**Annual MAP**
SHBP Monthly Premiums ($32.90, $37.80, $13.46 & $17.50)	$ 394.80	$453.60	$ 161.52	$ 210.00
Medicare Part B[1]	1,156.80	1,156.80	1,156.80	1,156.80
Representative Part D[2]	360.00	360.00	360.00	
Total Annual Premium	$1,911.60	$1,970.40	$1,679.32	$1,366.80
Difference between Option and MAP	$544.80	$603.60	$312.52	NA

The above comparison demonstrates, just as previous GSRA newsletters have demonstrated, that the annual premium for the MAP option is less than other SHBP options. The premium difference ranges from $603.60 per year for the HMO to $312.52 for the HRA option.

Advantage #2: "Lower Cap on Maximum Out-of-Pocket (OOP) Cost"

	PPO (In-Network & Medicare Assignment)	**HMO (In-Network & Medicare Assignment)**	**HRA (In-network & Medicare Assignment)**	**MAP (Designated Provider)**
OOP (Coinsurance & Deductible) & (MAP copays)	$1,500	$1,500	$2,000 less $500 credit = $1,500	$1,000
Are Copays included in OOP?	No, OOP is Plus Copays	No, OOP is Plus Copays	Deductible and coinsurance are included in the above amount -- no copays	Most are included in OOP, except for copay for office visit, Medicare Part B drugs and some Durable Medical Equipment[3]
Part D Copays included in OOP?	No, Plus copays. You pay PPO copay and PPO pays during Medicare Rx deductible and Gap	No, Plus copays. You pay HMO copay and HMO pays during Medicare Rx deductible and Gap	No, Plus copays. You pay coinsurance and HRA pays 90% during Medicare Rx deductible and Gap	No, Plus copays. No deductible or Gap.

[1] Medicare Part B premium is based on income; therefore, your premium for 2009 may be higher than shown in this example.
[2] Medicare Part D premiums vary by plan option. Your premium may be lower or higher, but the $30 per month is representative.
[3] See specific CIGNA or UHC material for further explanation.

As shown in the comparison on the previous page, the DCH statement that there is a "lower cap" on maximum out-of-pocket expenses is technically correct. However, the DCH statement does not consider the fact that the PPO, HMO, and HRA options—as secondary payor—pay most of the costs that Medicare does not pay. Therefore, there is very little (if any) of the $1,500 OOP in the PPO or HRA options that the retiree must pay. GSRA cannot determine the amount that is paid by the HMO, but the out-of-pocket costs at the point of service is greater than with the PPO or HRA.

In the MAP option, retirees will have additional out-of-pocket expense for covered services at the point of medical service. The amount of out-of-pocket cost exposure is $1,000 plus office copays. However, the amount of any individual retiree's out-of-pocket cost increase will be determined by the number and type of medical services that the retiree receives. Any copay required by the MAP option will be an out-of-pocket cost. The MAP option does not provide for paying what Medicare does not pay as secondary payor.

If the retiree is hospitalized for at least 4 days, under the MAP option the retiree will pay $760. Under the PPO, HMO, and HRA, the patient will pay $0 (zero). The following example illustrates how the difference in out-of-pocket expense under the PPO, HMO, & HRA and the MAP options is calculated.

PPO, HMO & HRA	MAP
Patient has hospital stay of 4 days – allowable charges $5,000. • Medicare reduces allowable charge by $1,068 deductible and pays $3,932. Medicare sends information to the SHBP PPO, HMO, or HRA vendor. • SHBP vendor determines payment by reducing the $5,000 by OOP ($1,500)[4] to $3,500, calculates 90% which is $3,150 (greater than the amount that Medicare did not pay) and then pays $1,068 (what Medicare does not pay). **The patient pays "0."**	Patient has hospital stay of 4 days – allowable charges $5,000 • MAP reduces allowable charge by $190 per day for up to 4 days and then pays the remainder. The MAP option integrates with Medicare, it does not coordinate. In this case**, the patient pays $760** (provided it was at least a 4-day stay).

The DCH proposal to require Medicare enrolled members to choose the MAP option under the UHC or CIGNA vendor in order to receive the State subsidy **will cost-shift up to $1,000 in out-of-pocket costs to the retiree**. However, the higher premiums for the PPO, HMO and HRA (including Medicare Part D) offsets some of the member's OOP cost.

Advantage #3: "Enriched Health Care Services over Standard Medicare Benefits"

The **Enriched Health Care Services over Standard Medicare Benefits** statement should be viewed primarily as a proposal to increase Standard Medicare benefits up to the SHBP PPO or HRA coverage level with a few added services. Two benefit increases over Standard Medicare are the partial coverages of eye glasses and hearing aides. Review the CIGNA and UHC material for other enhanced benefits over Standard Medicare and SHBP PPO or HRA options.

DCH Notification

Review the material that DCH provides to you in January, 2009. Only you—the Member—knows the number and type of medical services that you normally require. You can estimate your out-of-pocket cost for normal expenses by applying the copays listed in the MAP enrollment information. Under MAP, you will no longer receive 100% payment for services until you have paid $1,000 out-of-pocket, exclusive of office visit copays.

DCH anticipates mailing information to retirees in mid to late January 2009. Instructions will be included for the new July 2009 and January 2010 policies.

DCH has not announced the premiums for Calendar 2010. Without the State subsidy, retirees who choose not to enroll in MAP will be paying the total cost for wrapping around Medicare Part A, B, and D. GSRA will provide information about the cost savings to the SHBP for the policy change when the information is available.

[4] If allowable charge is less than $1,500, the payment would be calculated differently, depending on other expenses already incurred.

WILLIS, ET AL., V EMPLOYEES RETIREMENT SYSTEM OF GEORGIA, ET AL.[5]

In January 2007, multiple retirees filed a civil action in Fulton County Superior Court (the Court) against ERS seeking additional benefits retroactive to the time of their retirement dates for a class of those retirees ho elected survivorship options and who retired during the preceding 20-year period. Plaintiffs alleged that ERS did not use updated mortality tables in the calculation of their benefits. These claims are identical to those brought against the Teachers Retirement System of Georgia (TRS) under class action, by the same attorneys, in 2004.

In the TRS case, the Court granted summary judgment for TRS. However, this was reversed by the Georgia Supreme Court and remanded back to the Court to determine the applicable statute of limitations. On February 29, 2008, the Court ruled for the plaintiffs using a 20-year statute of limitations. This judgment is being appealed by both TRS and plaintiffs. TRS is appealing the 20-year statute of limitations and related attorney fees. The plaintiffs are appealing the interest rate granted. On February 29, 2008, the Court issued an uncontested claims order against TRS using the minimum statute of limitations of six years. Because of the above decisions against TRS, ERS has conceded liability on the breach of contract claim.

The ultimate liability to the System is impacted by certain variables that are uncertain until the final decision by the Court, most notably the applicable statute of limitations and any applicable interest rates on such liability. The System anticipates a decision from the Court within the fiscal year 2009. At June 30, 2008, management recorded an estimate of the potential liability of approximately $17.5 million using the six-year statute of limitations and the interest rates used during that period. This amount is recorded in accounts payable and other liabilities in the accompanying statement of plan net assets.

Management's assessment of the potential liability on the 20-year statute of limitations cannot be reasonably estimated at June 30, 2008. Although the ultimate liability may exceed the amount recorded for the six-year statute of limitations, management believes that it will not have a material adverse impact on the financial condition of the System.

The System is subject to legal actions in the ordinary course of its business. There may be other cases involving similar claims which may impact other retirement systems currently being administered by the System. In the opinion of management, the System has adequate legal defenses with respect to such actions and their final outcome will not have a material adverse effect upon the financial condition of the System. [5]

WHAT IS THIS CASE ABOUT? Plaintiffs contend in the lawsuit that ERS miscalculated payments to retirees who decided to take an option-plan retirement, to persons the retirees named as their beneficiaries, and to persons who received benefits after a member died in service before retiring. ERS has agreed and the Court has ruled that ERS miscalculated and underpaid these benefits by failing to use the correct mortality tables when calculating option plan retirement benefits. As a result, a number of retirees and beneficiaries have received lesser benefits since 1992 than they are and were entitled to receive. The Court may restrict some of the money ERS would otherwise owe some Class Members based upon laws called statutes of limitations. The Court will soon rule on this issue.

Persons who retired as members of ERS and who decided to take a reduced benefit when they retired so that someone else could also receive a benefit after their death (an "option-plan retirement") have sued ERS for miscalculation of retirement benefits. The Court has already applied rulings from another case involving another state retirement system to conclude that ERS miscalculated and underpaid these benefits. If you are a class member, you may be entitled to receive both under-calculated past benefits and upward adjustments in the future unless your claims are restricted based upon a statute of limitations. The Court will be ruling soon about whether any statute of limitations restricts payments.[6]

[5] KPMG Independent Auditor's Report. Employees Retirement System. June 30, 2008.
[6] For more information call 1-800-893-4364 or visit the website at www.ERSsuit.com.