Newsletter

Vol. 9, Number 1 **www.MyGSRA.com** **January 2015**

GSRA Welcomes New Legislative Affairs Team!

As members were notified at the Annual Meeting in October, the GSRA Board of Directors conducted a search and recently approved the hiring of a professional legislative affairs team to handle the day-to-day work of monitoring – and representing – Georgia state retirees and educators at the State Capitol. The team is led by Chuck Clay of Nelson Mullins Riley and Scarborough LLP.

Russell Hinton, GSRA President, noting this new direction for the association commented, "We've worked hard to make this happen, and we're delighted at the team who'll represent us and keep us abreast of what's going on at the Capitol, gather information on our behalf, and most importantly speak on our behalf and call on us to be there at critical moments during the Session. We'll keep doing our work as in the past through GSRA volunteers, but we'll be more effective by having a seasoned team working on our behalf every day and calling on us when we're needed to activate legislative actions. We'll be much stronger and more visible every day, and more effective as an organization. GSRA, through its Legislative volunteers and Chuck Clay's team, plus our grassroots local chapter organizations, will be in a much better position to achieve our goals and grow our statewide membership as well!"

Following the 2014 Session, the board realized that GSRA couldn't continue to rely solely on volunteer efforts to push its goals through the legislative process. It established a search committee, chaired by John Keys and including seven other board members, to operate during the summer and fall to solicit proposals, interview candidate firms, and recommend a selection. The Board formally approved Charles C. (Chuck) Clay as leader of our Legislative Affairs team in December.

Who is Chuck Clay? Chuck Clay is a graduate of the University of North Carolina and earned his law degree from the University of Georgia. He is with the Atlanta law firm Nelson Mullins Riley & Scarborough LLP, specializing in corporate law, governmental affairs, education, and healthcare matters. He brings with him a team of seasoned State Capitol veterans, including Stan Jones, Helen Sloat and Elizabeth Newcomb.

He is a former Assistant District Attorney for Cobb County, and in 1986 he became the first Republican ever elected to the Cobb Board of Commissioners from the Western District. He was elected to the State Senate from the 37th District in 1988 and completed six terms, serving as Senate Republican Leader, and receiving numerous awards from a wide array of organizations.

Calling All GSRA Members!

GSRA Day at the Capitol and Legislative Reception

February 4, 2015

Details and Registration

GSRA Day at the Capitol and Legislative Reception events are coming up soon! As in recent years, state employee and educator retiree concerns are not a priority for most state legislators. In fact, more and more legislators have no history or context for the contractual promises the State of Georgia made to all of us during our careers. It's up to us to take every opportunity to educate and remind our elected officials of the retiree benefits we were promised and around which we planned our retirements and security for our families.

If you are willing to see your SHBP health benefits continue to erode even as they cost you more and if you're willing to take a chance that your ERS and other state pension benefits are not squarely in the sights of some in state leadership as a potential source of additional funding for other budgetary items, then by all means ignore these events. If, however, you care about your retirement benefits, you can't afford to hope that other retirees will represent your interests. You owe it to yourself and your loved ones to show up and make your voice heard.

Be there!

In 1999, Clay was elected Chairman of the Republican Party of Georgia. In this capacity, he oversaw Georgia's GOP operations through the 2000 election cycle, resulting in an overwhelming victory by George Bush in Georgia. In 2002, Clay was again elected, without opposition, to the Georgia State Senate, retiring in 2004.

Chuck is the son of a U.S. Air Force General and the grandson of Gen. Lucius D. Clay, who served as Military Governor of Germany and is best known for engineering the Berlin Airlift, which broke the Soviet blockade of Berlin in 1948-1949. He is the great grandson of U.S. Senator A. S. Clay, whose statue stands in the Marietta City Square. Clay's wife, Sara, is also an attorney, and they have five children.

Since leaving political office, Clay has remained active in both his legal and government affairs practices. Clay's broad experience in law, lobbying, local and state government, and national party politics gives him a unique insight into politics, government, and how to make things happen. GSRA is delighted to have Chuck and his team representing us at the Capitol!

SHBP Comparisons Show Cost Shifting to Members

Comparative information obtained from different sources has been accumulated to tell a story about future and past finances of the State Health Benefit Plan and how much has been required of SHBP members over the last several years. The story is one of continuously increasing financial hardship to SHBP members, particularly with those of average and below incomes or retirement benefits. The story reveals that:

- How the decrease in benefits has generally shifted additional medical expense to members, as members have borne the brunt of increased medical expenses;
- Benefit changes have obviously not always accomplished the stated goals for reducing members' medical costs – but just reducing costs that the SHBP pays;
- For the Medicare Advantage (MA) Plan, State "savings" for FY 2015 – FY 2017 are a partial reduction of exorbitant increases in contract payments to BCBSGA in CY 2014;
- Members have been caught in a "double-whammy" by having substantial increases in premiums, deductibles and maximum out-of-pocket provisions that have increased SHBP revenue while decreasing plan benefit expense;
- SHBP's financial health has improved over the last several years as indicated by the audit reports' "Net Positions"; and
- The unfunded liabilities for "Other Post-Employment Benefits (OPEB)" have been decreased by reducing benefits for all retirees, moving over age 65 retirees to Medicare Advantage, and modifying the subsidy policy for retirees who have fewer than 30 years of service.

GSRA expended considerable effort in analyzing various state reports that reveal this story. The primary reports accumulated are the FY 2016 budget request to the Governor, Department of Community Health Audit Reports for FY 2008 through FY 2014, DCH prepared FY 2014 Financial statement, Open Records response for Medicare Advantage monthly payments for FY 2014 and the 2013 Other Post Employment Benefit (OPEB) actuarial report. These various reports have been prepared for different purposes; therefore choosing information from all gives you essentially the same values but may vary by a small percentage in report from a different source.

The bottom-line from these reports is that although benefit costs have probably been somewhat reduced through provider network payments, members have borne the brunt of increased costs for medical expenses. Over the years, DCH has proposed a myriad of benefit changes to accomplish specific goals; however the financial information shows that during some of these years the changes have obviously not always accomplished the stated goals for reducing medical costs – but just reduced costs that the SHBP pays.

FY 2015 Amended and FY 2016 SHPB Budgets

The Department of Community Health presented to and the Board of Community Health approved the FY 2016 SHBP budget request in August. The DCH presentation shows actual[1] Revenue and Expense for FY 2014, revised

[1] The actual FY 2014 Revenue and Expense numbers differ from those reported in the State Audit report. The difference is primarily a result of the methodology for reporting "unearned revenue", payables, and a few adjustments in expenses.

Revenue and Expense for FY 2015, and projections for FY 2016 and FY 2017. There are no indications of anticipated benefit changes, employer contribution changes or member premium increases. Although the budget does not indicate planned increases, it does not rule out member increases in cost.

SHBP Financial Status (Budget Information) for FY 2014 – FY 2017[2]				
	FY 2014	**FY 2015**	**FY 2016**	**FY 2017**
Revenue	**$3,152,162,311**	**$ 3,091,230,681**	**$3,116,097,699**	**$ 3,108,304,135**
Expense	2,780,972,600	2,882,753,000	2,998,574,000	3,298,009,000
Net Surplus/Deficit)	**371,189,711**	**208,477,681**	**119,523,699**	**(189,704,865)**
Explanation of Some of the Changes that Result in DCH Projected Fund Improvements				
2015 Medicare Advantage Procurement Savings		(108,859,000)	(230,567,000)	(244,096,000)
2014/2015 Plan Design Changes	(29,022,000)	(99,494,000)	(142,031,000)	(154,813,000)
Additional HRA Incentives	22,000,000	68,396,000	57,278,000	59,874,000
ACA mandates (Additional Preventive)	17,557,000	17,523,000	17,668,000	17,924,000
ACA Reinsurance Fee		22,659,000	18,764,000	17,924,000
Effects of ACA Individual Mandate	25,797,000	53,866,000	64,346,000	77,754,000
Limit on Out-of-pocket Maximum		31,712,000	72,236,000	78,737,000
Net Change to Expense	$ 36,332,000	$ (14,197,000)	$ (142,306,000)	$ (154,242,000)

One should reflect on the above mentioned cost changes for the SHBP. DCH projects that the Medicare Advantage 2014 procurement will save $108.9 million in FY 2015 ($244.1 million in FY 2017). Remember that the August 2014 released premium rates to begin on January 1, 2015 for over age 65 retirees were increased by 771% (Standard) and by 312% (Premium) for the BCBSGA Medicare Advantage options. However the rates for UnitedHealthcare did not increase for the Standard option and increased by 3.6% for the Premium option. BCBSGA subsequently declined to offer MAP options. The projected "Savings" in 2015 Medicare Advantage procurement of $109 million, $231 million, and $244.1 million reflects the change to UHC as the only MAP vendor for the SHBP. GSRA appreciates that DCH finalized a new contract with decreased rates; *however, these savings are a result of BCBSGA (DCH's procurement in 2013) charging a much higher fee in CY 2014 than UHC was charging in CY 2013*.

In early 2014 and as soon as GSRA learned of DCH's budget presentation showing that the Medicare Advantage options would result in cost increases in FY 2015 of $114.8 million and in FY 2016 by $154 million, information about the costs was requested under "open records." DCH and BCBSGA *repeatedly* refused to provide the information under the legal theory that the MA rates were "proprietary information." DCH Commissioner finally released the aggregate monthly amounts that were paid to BCBSGA for MA. These monthly payments showed that the aggregate amounts to BCBSGA jumped in January 2014 (and subsequent months) 45% over what was paid to UHC for the previous six months.

Continuing to pursue the actual monthly rates paid to BCBSGA for MA options, GSRA consulted the OPEB actuarial report. MA total rates as shown in the OPEB report beginning January 1, 2014 (to BCBSGA) is $168.35 (Standard) and $241.40 (Premium)—increases of 14% and 17%, respectively over CY 2013. The 45% increase in total payments for CY 2014 is not explained by the rates listed in the OPEB report. GSRA is not reporting that DCH is falsifying information about MAP cost – just that the CY 2014 payments to *BCBSGA was apparently exorbitant and was not adequately negotiated in 2013 for 2014. Problems in responding to requests for information shows insufficient transparency in decisions affecting members.*

Other items shown in the FY 2016 budget presentation are discussed below:

- ***Plan Design savings ($29 million to $154.8 million)*** *is primarily a result of the members' increased out-of-*

[2] DCH presentation – (SHBP budget to be presented to the Governor)

pocket cost at the point of receiving medical services. However, some of the savings may be a result of a different (smaller) provider network that has a lesser provider network payment fee than is required in a larger provider network.

- ***ACA Preventive mandates*** *(additional cost) includes provisions such as no copay for birth control prescriptions.*
- ***ACA Reinsurance fee*** *is a required $63 fee per life (except for Medicare participants) to be paid to the federal government to stabilize premiums in the individual health insurance market. This fee is scheduled to be less in FY 2016 and FY 2017.*
- ***Effects of ACA Individual Mandate*** *is a requirement that all persons enroll in a health insurance plan or pay a penalty. The increased cost of between $25.8 million to $77.8 million is for additional enrollments. A part of this requirement is that the SHBP is required to provide an option that pays an actuarial value[3] of 60% with a premium not greater than 10% of the lowest salary paid to an employee.*
- ***Limit on Out-of-Pocket Maximum*** *is additional claim cost as a result of including all copays (including prescription drug copays) deductibles, and coinsurance in the Maximum Out-of-Pocket limitation.*

Although not specifically mentioned in the budget display, DCH highlighted a change in investment procedures that with the help of the State Treasurer will increase short-term investment interest by $640,200. DCH transferred $388 million to the State Treasurer's office in July 2014 to increase FY 2015 interest income.

State Audit Report Information—Net Position & Revenue/Expenses

The DCH independent financial auditors attest that the financial records present fairly the respective financial position of DCH and are in accordance with accounting principles that are generally accepted in the United States. The independent Audit Reports will vary from the financial information reported by DCH, primarily because of the adjustments made for cash that was received in one fiscal year but purchased medical benefits in a new fiscal year. The auditors also make adjustments for risk and payables that are not reflected in the department's financial records for the year.

One should recall that in FYs 2009 and 2010, the State's leaders decided to reduce the funds being paid into the SHBP so that those funds could be used to help fund other priorities during the recession of FYs 2008-2009. To illustrate the degree of the reduced funding, the SHBP "Net Positions" (balance of assets after all accounts payable) as shown by the audit reports are shown for 2008 through 2014.

SHBP Net Position – ($ in Thousands)							
Fiscal Year	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Net Position	$649,135	$ 199,267	$(233,812)	$(183,361)	$(272,491)	$(129,738)	$266,430

The minimum amount of underfunding for the SHBP in FY 2009 and FY 2010 can be ascertained by summing the Net Positions for 2008 ($649 million) and the 2010 negative Net Position ($233.8 million), which is $882.9 million. Therefore, the SHBP's funds of almost $900 million were used to pay medical claims so that other State priorities could be funded. You may ask, "How did the SHBP continue to pay claims?" An insurance plan—in order to be considered adequately reserved—must have reserves to cover the "Incurred But Not Reported (IBNR)" claims. In 2008, the IBNR was fully funded, but by FY 2010, almost none of the IBNR ($240.7 million) was funded. In effect the SHBP was broke. You can see that in FY 2012, the SHBP fund had a bad year when expenses were greater than revenue, and the negative Net Position again increased from $(183.4million) to ($272.5 million).

Each year's audit report also shows the Revenue and Expense amounts for the SHBP. "Net Revenue over Expense" is different from the overall "Net Position" increases (decreases), because the Net Position reflects non-operational changes in reserves for such items as the IBNR, deferred revenue and other items that compensate for "risk." The "Net Revenue Over Expense" is the operational accrued revenue and expense for the year.

[3] The actuarial value (AV) of an option is the average percentage that the plan option pays of the allowed medical expenses on behalf of a predefined statistical group of members. The AVs for the SHBP options are: High Deductible Health Plan at 60%, the Bronze option at 68%, Silver option at 73%, Gold option at 79%, both HMO options at 74%, and Kaiser at 88%.

Audit Reports - Revenue & Expense ($ in Thousands)						
	FY 2009	**FY 2010**	**FY 2011**	**FY 2012**	**FY 2013**	**FY 2014**
Revenue	***$2,363,500***	***$2,480,084***	***$2,887,186***	***$3,051,633***	***$ 3,026,585***	***$3,167,972***
Percent Change		4.9%	16.4%	5.7%	(.1)%	4.7%
Expense						
Benefits	2,650,274	2,766,937	2,718,363	2,906,647	2,718,392	2,634,034
Vendors & Salaries	150,869	139,627	128,654	149,316	125,476	183,717
Total Expense	***2,801,143***	***2,906,564***	***2,847,017***	***3,055,963***	***2,843,868***	***2,817,751***
Percent Change (Benefits) (Total Expense)		4.4% 3.8%	(2%) (2%)	6.9% 7.3%	(6.4%) (6.9%)	(3%) (.1%)
Net Revenue over Expense	***$(437,643)***	***$(426,480)***	***$40,169***	***$(4,330)***	***$182,717***	***$350,221***

The above table is another way of showing that the member premium increases have provided a substantial increase in revenue and that the increased deductibles/maximum out-of-pocket has decreased the benefit expense. The result, of course, is that when revenues exceed expenses Net Position/Fund Balance is increased. Some of the increased revenue during 2010-2012 years was generated by ACA provided funds for pre-65 retirees and subsidizing COBRA members' premiums. You should note the substantial decrease in benefit payments between FY 2012 and FY 2014--$272.6 million ($2,906,647,000 less $2,634,034,000) in two years. The decrease in benefits tends to show how much medical cost was shifted to the members at the point of medical service. However, during years 2012 and 2014, payments to Vendors and Salaries increased substantially. The types of expenses in this category includes expenses for consulting and audit services and for payments to BCBSGA, UHC, Express Scripts, ADP and Healthways to administer the various plan options, customer service, member eligibility system, and wellness provisions.

OPEB Actuarial Calculations

Each year, DCH contracts with an actuarial firm to calculate the liability for "Other Post-Employment Benefits (OPEB)"—medical insurance for retirees. The actuaries calculate the liability in much the same manner as calculating the liability for pension plans. The actuarial report shows the liability separately for State Employees and Public School Systems, but is combined below.

OPEB Liability (State and Public School Trust Funds) – ($ in Thousands)						
	2009	**2010**	**2011**	**2012**	**2013**	**2014**
Liability	$ 16,624,849	$16,421,459	$15,728,994	$15,454,760	$14,737,856	$14,376,708

You will note that the actuaries have reduced the unfunded liability by 13% or $2.2 billion over the last five years although the number of retirees (plus spouses) has increased by 23.4% (from 117,438 as of June 2008 to 144,861 in June 2013). Over the years, the actuaries have refined the calculations, but the reports state that the primary reasons for reduced liability are the reduced benefits for retirees under age 65, moving over age 65 retirees to Medicare Advantage, and modifying the subsidy policy for retirees who have fewer than 30 years of service.

Member Premium and Out-of-Pocket Cost Comparison

Many financial comparisons are included in this report to show how the aggregate contributions and expenses have increased/been modified over years between 2008 and 2014. However, the bottom line objective of these comparisons is

to illustrate how the member has been affected. A standard percentage impact cannot be determined since persons with "individual" coverage are affected to a different degree than members who have family coverage. In addition, members who have many medical issues pay more out of pocket than members who have been healthy. Given that a universal percentage of the impact on the members is not appropriate, the table below shows the major cost components of the cost shifting.

Member Percent Increases in cost					
	CY 2011	**CY 2012**	**CY 2013**	**CY 2014**	**CY 2015**
Premiums	10% to 16%[4]	11.2% to 17.2%[5]	15% to 33%[6]	8% to 75%[7]	16.9% to 66.9%[8]
Maximum Out-of- Pocket	50% increase in 3 yrs. (since 2008)	Wellness, but MOOP same as 2011	50% increase	25% increase	0% for metal options, copays removed. Include Rx copays in MOOP

Although premium rates are somewhat difficult to compare because of the many and varied changes, the rates for CY 2011 and CY 2015 are shown with the percentage increases *during the four years for the most popular options.*

Member Cost Rate Compare (Major Components)						
	CY 2011		**CY 2015**			
	HRA	**HMO**	**Silver HRA**	**UHC HMO**	**HRA % Increase**	**HMO % Increase**
Premium						
Individual	$ 68.75	$ 110.22	$ 108.64	$ 181.32	58%	64.5%
Family	228.28	284.94	379.00	584.80	66%	105%
Deductible[9]						
Individual	$1,300	$1,000	$2,000	$1,300	53%	30%
Family	2,600	2,000	4,000	2,600	55%	30%
Max Out-of-Pocket						
Individual	$3,000	$3,000 + copays	$ 5,000	$4,000	67%	33%
Family	6,000	6,000 + copays	10,000	9,000	67%	67%

Based upon these comparisons, members have lost substantial purchasing power with the increase in the member's share of medical cost – premiums, deductibles, out-of-pocket costs, changes in prescription drug formularies, etc. These increases have hit members hard since active members have received almost zero salary increases and many retirees have not received benefit adjustments over this same or longer time period.

[4] Difference based upon dependent coverage (up to age 26)
[5] Difference between Wellness and Standard Option
[6] Based on coverage tier
[7] Major change in SHBP options; premium change is compared with the Silver option (midrange option) and Gold Option which is equivalent to the Wellness options.
[8] Increase based upon eligibility tier and enrollment in an HMO – the HDHP option has a negative premium increase of 40%to 51%.
[9] The HRA credit reduces the absolute out-of-pocket cost for deductible and MOOP; the methodology for applying the HMO deductible resulted in normally less deductible and MOOP.

Endorsed GSRA Benefits
The Georgia State Retirees Association (GSRA) makes many member only benefits available to its members. GSRA endorses the following member benefits:
Long Term Care / Home Health Care Policy
Life Insurance
Medical Air Services Association (MASA)
Travel Discounts
Car Rental Discounts
Tax-Deferred Annuity
Cancer Treatment Policy
Medicare Supplement Insurance
Identity Theft Protection
Hotel Discounts
Computer Discounts
Review your benefits at: www.myAMBAbenefits.info/gsra
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We are honored and look forward to serving you in 2015!
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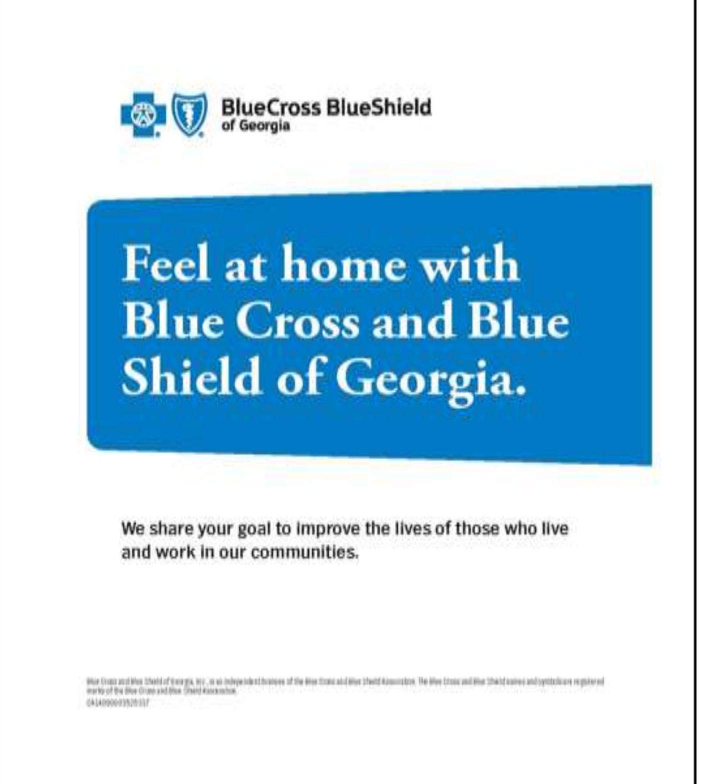
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