



# COMMONWEALTH of VIRGINIA

## *Department of Human Resource Management*

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The Honorable Robert F. McDonnell, Governor, Commonwealth of Virginia  
The Honorable Lacey E. Putney, Chairman, House Appropriations Committee  
The Honorable Walter A. Stosch, Chairman, Senate Finance Committee

Subject: Report on the Impact of Renewal Cost of the State Employee Health Plan Premiums

Gentlemen:

The attached report is pursuant to Chapter 806, Item 83.G. of the 2013 Virginia Acts of the General Assembly.

Please contact me if there are any questions.

Sincerely,

Sara Redding Wilson

cc: The Honorable Lisa Hicks-Thomas  
Secretary of Administration

## **Report on the Impact of Renewal Cost of the State Employee Health Plan Premiums**

This report is submitted as required by Item 83.G. of Chapter 806, 2013 Virginia Acts of Assembly which states:

*The Department of Human Resource Management shall report to the Governor and Chairmen of the House Appropriations and Senate Finance Committees, by October 15 of each year, on the renewal cost of the state employee health insurance program premiums that will go into effect on July 1 of the following year. This report shall include the impact of the renewal cost on employee and employer premiums and a valuation of liabilities as required by Other Post Employment Benefits reporting standards.*

The following information summarizes the renewal cost of the state employee premiums for Fiscal Year (FY) 2015 that will go into effect on July 1, 2014, and the key drivers of FY 2015 projections compared to the FY 2014 rates.

The next three charts provide summaries of rating projections for FY 2014 through 2016.

The first chart shows FY 2014, and provides an early estimate of how actual costs will compare to projected costs.

**Commonwealth of VA  
Summary of FY2014 Rating Projections  
Actives, COBRAs, and Retirees without Medicare**

FY2014 COVA Rates	87,375	\$417.14	\$14.94	\$107.57	\$539.64	\$8.08	\$547.72
FY2014 Projected Cost per Contract Unit		<hr/>					
COVA Care	87,375	\$407.68	\$16.78	\$103.50	\$527.97	\$7.73	\$535.70
<b>% Increase</b>		<b>-2.3%</b>	<b>12.3%</b>	<b>-3.8%</b>	<b>-2.2%</b>	<b>-4.3%</b>	<b>-2.2%</b>

		Trend Assumptions					
		<u>Medical</u>	<u>Dental</u>	<u>Rx Drugs</u>	<u>Subtotal</u>	<u>MISA</u>	<u>Total</u>
COVA Care		6.5%	3.0%	10.0%	7.1%	6.5%	7.1%

The following chart contains the rating projections for FY 2015, which will be effective on July 1, 2014, for COVA Care under its current plan design. The COVA Care plan is shown because employer contributions are based on it. This chart shows rating projections and percentage increases or decreases from FY 2014 premium rates per contract unit.

**Commonwealth of VA  
Summary of FY2015 Rating Projections  
Actives, COBRAs, and Retirees without Medicare**

	<u>Enrollees(@July13)</u>	<u>Medical</u>	<u>Dental</u>	<u>Rx Drugs</u>	<u>Subtotal</u>	<u>MISA</u>	<u>Total</u>
FY2014 COVA Rates	87,375	\$417.14	\$14.94	\$107.57	\$539.64	\$8.08	\$547.72

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COVA Care	87,375	\$435.05	\$17.28	\$115.11	\$567.43	\$8.18	\$575.61
<b>% Increase</b>		<b>4.3%</b>	<b>15.7%</b>	<b>7.0%</b>	<b>5.2%</b>	<b>1.2%</b>	<b>5.1%</b>

Trend Assumptions

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	<u>Medical</u>	<u>Dental</u>	<u>Rx Drugs</u>	<u>Subtotal</u>	<u>MISA</u>	<u>Total</u>
COVA Care	6.5%	3.0%	10.0%	7.1%	6.5%	7.1%

The following chart depicts an early estimate of FY 2016 rating projections.

**Commonwealth of VA  
Summary of FY2016 Rating Projections  
Actives, COBRAs, and Retirees without Medicare**

	<u>Enrollees(@July13)</u>	<u>Medical</u>	<u>Dental</u>	<u>Rx Drugs</u>	<u>Subtotal</u>	<u>MISA</u>	<u>Total</u>
Estimated FY2015 COVA Rates	87,375	\$435.05	\$17.28	\$115.11	\$567.43	\$8.18	\$575.61
FY2016 Projected Cost per Contract Unit							
COVA Care	87,375	\$460.39	\$17.79	\$128.71	\$606.88	\$8.65	\$615.54
<b>% Increase from FY15</b>		<b>5.8%</b>	<b>3.0%</b>	<b>11.8%</b>	<b>7.0%</b>	<b>5.9%</b>	<b>6.9%</b>
Trend Assumptions							
COVA Care		<u>Medical</u> 6.5%	<u>Dental</u> 3.0%	<u>Rx Drugs</u> 10.3%	<u>Subtotal</u> 7.2%	<u>MISA</u> 6.5%	<u>Total</u> 7.2%

The following Roll Forward chart is a supplement to the projection summary charts above, and shows the key component drivers of the FY 2015 projections in per contract unit, percentage, and total dollar detail.

**Commonwealth of VA  
Drivers of FY2015 Rating Projections  
Actives, COBRAs, and Retirees without Medicare**

		Estimated % Increase			Financial Impact		
		Total Cost per CU	% Increase vs. Budget - Actuarial Rate	% Increase vs. Budget - Total Rate	Aggregate Cost	Increase vs. Budget - Actuarial Rate	Increase vs. Budget - Total Rate
	FY2014 COVA Actuarial Rates (w/o IBNR Funding \$)	\$547.72			\$1,005,305,217		
	FY2014 COVA Total Rates (w/IBNR Funding \$)	\$557.28			\$1,022,851,563		
	FY 2014 Actuarial Rates - Update	\$535.70	-2.2%		\$983,242,137	(\$22,063,081)	
	FY 2015 Actuarial Rates	\$575.61	5.1%		\$1,056,495,777	\$51,190,560	
	FY 2015 Total Rates (w/IBNR Funding \$)	\$586.50		5.2%	\$1,076,475,961		\$53,624,399
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A	FY 2014 vs. FY 2014 Budget						
		FY 2013 Base Claims Experience (Actual vs. Expected)	-2.2%				
		HCR Fees (CER, Reinsurance) <sup>1</sup>	-0.04%				
		<b>Total % Increase vs. 2014 Budget - Actuarial Rate</b>	<b>-2.2%</b>		\$535.70	\$983,242,137	(\$22,063,081)
		FY 2015 vs. FY 2014					
	HCR Fees (CER, Reinsurance)	0.4%					
	Trend	6.9%					
	<b>Total % Increase (Incremental) vs. 2014 Budget - Actuarial Rate</b>	<b>7.3%</b>		\$575.61	\$1,056,495,777	\$51,190,560	
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B	Additional / Catch-Up Liability Funding Impacts <sup>2</sup>						
		1 Week of Active IBNR Funding (Incl. Margin and Claim Settlement Expenses) as of 6/30/13	2.0%				
		Active Contingency Reserve Funding (not built into rates; letter of credit used for this reserve)	0.0%				
	<b>Total % Increase (Incremental) vs. 2014 Budget - Actuarial Rate</b>	<b>2.0%</b>		\$586.50	\$19,980,184	\$19,980,184	\$2,453,885
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= A	FY 2015 Plan Cost excluding Liability Funding Change Impacts				\$1,056,495,777		
	Total \$ Increase vs. 2014 Budget - Actuarial Rate					\$51,190,560	
	Total % Increase vs. 2014 Budget - Actuarial Rate					5.1%	
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= A + B	FY 2014 Plan Cost including Liability Funding Change Impacts (One Week of IBNR; nothing additional for Contingency Reserve)				\$1,076,475,961		
	Total \$ Increase vs. 2014 Total Rate						\$53,624,399
	Total % Increase vs. 2014 Total Rate						5.2%

Notes:

1. FY 2015 rates exclude the Comparative Effectiveness (PCORI) fees estimated to be approximately \$355K. Based on most recent guidance, PCORI fees may not be passed on to participants / paid from plan assets.
2. Two weeks of IBNR (as of 6/30/13) is estimated to be \$37.5 million. FY14 rates included funding for one week of IBNR which was estimated to be \$17.5 million as of 6/30/12. Therefore, if the intent is to build to two weeks of IBNR through FY15, the FY15 rates need to include a provision for the incremental \$20 million.

## **Other Post Employment Benefits**

Regarding a valuation of liabilities as required by Other Post Employment Benefits reporting standards, Other Post Employment Benefits (OPEB) valuation reports are due every other year unless there have been material changes in underlying assumptions. Our last report was provided August 17, 2012. The next will be prepared mid-2014.