



Memorandum

To: Sheldon Fisher
Commissioner
Department of Administration

Date: May 19, 2016

Phone: 465-3225

From: Michele Michaud
Chief Health Official
Division of Retirement and Benefits

Subject: Recommendation for Adoption of a
Defined Contribution Retiree Medical Plan

Please find within the Division of Retirement and Benefits (DRB) recommendation for the adoption of a Defined Contribution Retiree Medical (DCR) plan which meets the requirements set forth in AS 39.30.090. This plan provides health benefits to eligible Public Employees' Retirement System Tier IV and Teachers' Retirement System Tier III beneficiaries. As a result of the information provided by Buck Consultants, and consideration of the administrative, legal, and statutory considerations, DRB recommends the adoption of the proposed DCR medical plan outlined below:

Table 1. Proposed DCR Medical Plan Design Elements

Medical*	Member Cost Share
Deductible (single/family)	\$300/\$600
In Network Coinsurance	80%
Out-of-Network Coinsurance	60%
In-Network Max Out-of-Pocket (single/family)	\$1,200/\$2,400
Out-of-Network Max Out-of-Pocket (single/family)	\$2,400/\$4,800
Emergency Room Copay	\$100
Lifetime Maximum	Unlimited
Wellness/ACA Preventive Care In-Network	100% No Deductible
Wellness/ACA Preventive Care Out-of-Network	80%
*The cost share provisions of the plan would be indexed periodically to reflect health care cost trend increases.	

Pharmacy*	Coinsurance	Min	Max
Retail 30 Day -Generic	20%	\$10	\$50

-Preferred Brand	25%	\$25	\$75
-Non-Preferred Brand	35%	\$80	\$150
Retail 31-90 Day	Coinsurance	Min	Max
-Generic	20%	\$20	\$100
-Preferred Brand	25%	\$50	\$150
-Non-Preferred Brand	35%	\$160	\$300
Mail Order	Copay		
-Generic	\$20		
-Preferred Brand	\$50		
-Non-Preferred Brand	\$100		
Out-of-Pocket Maximum	\$1,000 (individual)/ \$2,000 (family)		
*The plan will, at some point in the future, participate in the Employer Group Waiver Plan for Medicare-pharmacy reimbursement for eligible members. As with medical, the cost share provisions of the pharmacy component would be indexed periodically to reflect health care cost trend increases.			

DRB's recommendation is based on consideration of the following factors:

1) Plan Design

The proposed DCR medical plan design reflects the current cost share requirements of the standard plan available to members of the AlaskaCare Employee plan. This plan would also fund ACA preventive services at 100%, not subject to deductible for in-network providers.

The pharmacy benefit reflects a traditional mainstream three-tier structure, helping steer members to using the lowest cost medication when multiple versions with the same ingredients are available. A separate pharmacy out of pocket maximum provides protection for members who incur high pharmacy costs.

The proposed DCR medical plan also includes Exclusion Coordination of Benefits. This means the deductible and coinsurance amounts are applied to the balance of the allowed charges less the primary payer's payment.

In general, we believe this plan design provides a valuable benefit to members, incorporating mainstream plan design elements found in the commercial market, while imposing reasonable cost controls through the adoption of three-tier formulary, and through the eventual participation in the Employer Group Waiver Plan (EGWP) for Medicare-eligible members. The process for implementing the EGWP program is quite complex from an administrative standpoint and ultimately invisible to the member, so the recommendation contemplates moving forward to select and implement the proposed DCR medical plan with the clear expectation that EGWP will be implemented at a future point in time. Upon adoption of the EGWP, for those members who are Medicare eligible, this plan will act as secondary coverage while Medicare remains the primary payer. Additionally, cost-sharing provisions will increase occasionally to reflect a health care cost trend index, supporting the statutory intent expressed in designing a plan that was budget neutral.

2) Premiums

The relationship between anticipated premiums and plan design is an especially important consideration in the DCR context as employees will be responsible for paying the full premium prior to reaching Medicare age, and a portion of the premium after reaching Medicare age. This is different than the defined benefit medical plan which provides premium free medical and pharmacy benefits for Public Employees' Retirement System Tier I, II, III and Teachers' Retirement System Tier I, II beneficiaries. The estimated annual premiums for analytical purposes for the proposed DCR medical plan are below: (Source: Buck Consultants.)

Pre-Medicare: \$11,830

Post - Medicare: \$4,190

The actual 2016 premiums have not been finalized, but will be determined in consultation with Buck Consultants following adoption of the plan.

3) Health Reimbursement Account (HRA)

The duration of the HRA is expected to last 30+ years if members use their HRAs to pay for their premiums, and not for any additional cost share aspects of the health plan beginning at age 65. Projections will differ for individuals based upon their circumstances and how they use the HRA. (Source: Buck Consultants.)

4) Employer Contribution Rates

Based on actuarial analysis provided by Buck Consultants, the proposed DCR medical plan will require employer contribution rates for both the TRS and PERS systems, consistent with historical averages, without creating an expected unfunded liability.

Additionally, in the course of this analysis Buck Consultants provided an actuarial review of the proposed DCR medical plan using more conservative parameters. In these scenarios the PERS employer contribution rate for the medical plan will increase, but will remain on par with contribution rates established in FY 15 and FY 16.¹

5) Unfunded Liability

The actuarial analysis performed by Buck Consultants does not anticipate an unfunded liability with the adoption of the proposed DCR medical plan design based on current assumptions as approved by the Alaska Retirement Management Board. Additionally, during the course of the design process, a "stress test" of the proposed DCR medical plan was conducted by the actuary, which included a set of less favorable future assumptions to gauge the potential for creating future unfunded liabilities. The plan remains solvent under those scenarios. This analysis is currently in draft form, and will be provided as an addendum to this memo once finalized.

6) Administrative Concerns

The proposed DCR medical plan will require some customization of Aetna's system, however this is within their ability to administer and they will likely approach this plan the way they have done so for the existing legacy plan. One benefit to adopting 100% coverage of ACA preventive

¹ State of Alaska Teacher's Retirement System Defined Contribution Retirement Plan for Occupational Death and Disability and Medical Benefits. October 2015. Buck Consultants.

services is that it will simplify claims processing for Aetna and any future Third-Party Administrator because of their prevalence in the marketplace.

7) Frequency of Design change

The proposed DCR medical plan contains specific provisions that maintain the Plan Administrator's ability to make changes to the plan benefits. A policy statement is being developed to guide the Plan Administrator's effort to balance the need to ensure the plan design provides health care services at reasonable and sustainable costs, including the need to manage cost and utilization so that retirees will not be unduly faced with premium increases and prevent the development of a future unfunded liability. The plan language provisions are essential in maintaining the state's ability to effectively manage the health plan in the event of sustained increases in health care costs. Under the policy, future plan changes are expected to be limited to changes deemed necessary to maintain the solvency of the health trust or to reflect advances in the health care industry.

In conclusion, given the factors listed above, we recommend the Commissioner put forward the proposed DCR medical plan to stakeholder groups and the public at-large for further consideration and vetting.

cc: John Boucher, Deputy Commissioner, Department of Administration

