



New Jersey
School Employees' Health Benefits Program

Plan Year 2009 Rate Renewal Recommendation Report

January 1, 2009 – December 31, 2009

Prepared by Aon Consulting

August 2008

***(Revised 9/25/08 as a result of the 9/23/08
SEHBC meeting; revised text in bold italics)***

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School Employees' Health Benefits Program Rate Renewal Recommendation Report For Plan Year 2009

Executive Summary

The purpose of this report is to recommend premium levels for the School Employees' Health Benefits Program (SEHBP) for January 1, 2009 through December 31, 2009.

Benefit Plans Maintained by the SEHBP

The State of New Jersey operates the SEHBP as a multiple-option program for School Employees and Retirees, with the following medical plan options currently available:

- NJ DIRECT10 and NJ DIRECT15 are self-insured Preferred Provider Organization (PPO) plans which are administered by Horizon. NJ DIRECT10 has a \$10 physician copay for in-network physician office visits and 80% coinsurance on out-of-network services. NJ DIRECT15 has a \$15 physician copay for in-network physician office visits and 70% coinsurance on out-of-network services.
- Two self-insured HMOs administered by Aetna and CIGNA. Both HMOs have a \$10 physician copay.
- Active School Employees also have a Prescription Drug Plan available under the SEHBP, which is administered by CVS/Caremark, the Pharmacy Benefit Manager (PBM) used by Horizon. SEHBP employers may select this plan, sign up for prescription drug coverage under the medical plan, or purchase prescription drug coverage from an outside vendor.

- SEHBP Retirees also have a Prescription Drug Plan, which is administered by the same health plan administrator as their medical plan.

Recommended Renewal Increases

Aon is recommending an overall increase of 7% for Active Employees, 1% increase for Early Retirees, and 1% for Medicare Retirees. For all groups combined, the recommended increase is 4%. The recommended renewal increases by benefit plan are listed below:

	Employees	Early Retirees	Medicare Retirees
NJ DIRECT10	7%	0%	0%
NJ DIRECT15	7%	0%	0%
Aetna HMO	9%	12%	10%
CIGNA HMO	9%	12%	10%
Rx Card Plan	2%	NA	NA
Average Change	7%	1%	1%

These premium increases are projected to produce an aggregate loss of \$45 million (or 3% of premium) in Plan Year 2009. However, the SEHBP claim stabilization reserve has sufficient funds to cover this loss. The table below shows the expected changes in the projected claim stabilization reserve:

SEHBP Projected Claim Stabilization Reserve

(in \$millions)

	Total	Benefit paid by the State of NJ	Benefit Paid by Members or Local Employers
6/30/2008	\$439	\$201	\$238
12/31/2008	\$434	\$211	\$223
12/31/2009	\$389	\$200	\$189

The projected \$389 million reserve at the end of Plan Year 2009 is equal to 3.4 months of claims (3.7 months of claims for State paid SEHBP members and 3.1 months of claims for the non-State Paid members), an adequate claim stabilization reserve level to protect against adverse claim fluctuations, considering the significant benefit changes which occurred on 4/1/2008.

Retiree Prescription Drug Copays

The NJ DIRECT prescription drug renewal increases assume no change in copays and a \$48 increase (i.e., to \$1,130) in the NJ DIRECT prescription drug out-of-pocket maximum between Plan Years 2008 and 2009. The HMO prescription drug renewal increases assume no change in copays and the addition of a prescription drug out-of-pocket maximum of \$1,130 for Plan Year 2009.

The table below compares Local Education prescription drug trends where the drug trends have been adjusted to back-out the impact of copay and out-of-pocket changes. However, even after adjustment the trends are significantly different for groups that have had copay increases as compared to groups that did not have copay increases (see Exhibit 2 for the actual benefit change adjustments):

Normalized Prescription Drug Trends

	2007	2006
Horizon Ees	6.8%	9.6%
Horizon Retirees	7.0%	7.9%
HMO Ees+Retirees	11.9%	12.3%

HMOs, which had no copay changes, have trends that are 3-5% higher than Horizon prescription drug trends which did have copay changes. Horizon trends for Retirees and Employees are very close in Plan Year 2007 when both groups

had copay increases. In Plan Year 2006, Employee trends are 1.7% higher than Retiree trends, because the Employees had no change in copays while the Retirees had the formula copay increase.

The table below lists the Plan Year 2009 Retiree prescription drug copays and out-of-pocket changes¹:

	<u>NJ Direct Copays</u>		<u>HMO Copays</u>	
	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>
<i>Retail Generic Copay</i>	\$8	\$8	\$5	\$5
<i>Retail Preferred Brand Copay</i>	\$17	\$17	\$10	\$10
<i>Retail Non-Preferred Brand Copay</i>	\$34	\$34	\$20	\$20
<i>Mail Generic Copay</i>	\$8	\$8	\$5	\$5
<i>Mail Preferred Brand Copay</i>	\$25	\$25	\$15	\$15
<i>Mail Non-Preferred Brand Copay</i>	\$42	\$42	\$25	\$25
<i>Out-of-Pocket Maximum</i>	\$1,082	\$1,130	NA	\$1,130

Financial Results

Plan Year 2007 incurred costs were 10% lower than premium, resulting in a gain of \$139 million. The first quarter of Plan Year 2008 incurred costs are projected to be 6% lower than premium, which will result in a gain of \$21 million.

Premiums for April 1, 2008 through December 31, 2008 were originally projected to be 6% (or \$53 million) greater than incurred costs. However, this

¹ Revised as a result of the 9/23/08 SEHBC meeting. Original Plan Year 2009 Renewal Report recommended the following:

	<u>NJ Direct Copays</u>		<u>HMO Copays</u>	
	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>
<i>Retail Generic Copay</i>	\$8	\$9	\$5	\$5
<i>Retail Preferred Brand Copay</i>	\$17	\$18	\$10	\$11
<i>Retail Non-Preferred Brand Copay</i>	\$34	\$36	\$20	\$21
<i>Mail Generic Copay</i>	\$8	\$9	\$5	\$5
<i>Mail Preferred Brand Copay</i>	\$25	\$27	\$15	\$16
<i>Mail Non-Preferred Brand Copay</i>	\$42	\$45	\$25	\$26
<i>Out-of-Pocket Maximum</i>	\$1,082	\$1,092	NA	\$1,092

projection has been updated based on updated Plan Year 2007 experience as well as the actual enrollment selections of the members. The current projection is that the loss ratio for April 1, 2008 through December 31, 2008 will be 101%, resulting in a loss of \$8 million.

Plan Year 2009 projected costs are \$1.38 billion, \$0.66 billion for Actives and \$0.72 billion for Retirees. Plan Year 2009 renewal premiums were set 3% lower than projected costs, which results in a projected loss of \$45 million for Plan Year 2009.

Historical Overview

Benefit Changes

In January 2007, Active and Retiree office visit copays increased from \$5 to \$10, and the Active Employee Prescription Drug Plan copays increased from \$1 Generic and \$5 Brand for both Retail and Mail-Order to \$3 Generic and \$10 Brand for Retail and \$5 Generic and \$15 Brand for Mail-Order.

The following changes applied to all Actives and Retirees on 4/1/2008:

- NJ PLUS and the Traditional Plan were replaced by two PPO plans which are administered by Horizon: NJ DIRECT10 which has a \$10 physician office visit copay and an 80% out-of-network benefit and NJ DIRECT15 which has a \$15 physician office visit copay and a 70% out-of-network benefit.
- The number of HMO vendors was reduced from five to two (Aetna and CIGNA).

Effective 1/1/2009, Aetna Medicare Retiree medical coverage will change from the current Medicare supplement plan to a fully-insured, Medicare Advantage Private Fee For Service (PFFS) medical plan. Retiree copays will not change and the prescription drug plan will not change. However, the new Aetna Medicare Advantage program will cover some additional preventive benefits and provide additional care management for Retirees. It is anticipated that this program will reduce medical expenses for the Aetna Medicare population by 8%-10% during Plan Year 2009.

Also effective 1/1/2009, the NJ DIRECT prescription drug out-of-pocket maximum will increase from \$1,082 to \$1,130 and the HMO prescription

drugs copays will also have an out-of-pocket maximum of \$1,130. The Plan Year 2009 renewal projections assume no other benefit changes.

Eligibility Changes

Part-time Coverage - Effective for the Plan Year 2004, part-time employees were permitted to enroll in NJ PLUS and the Employee Prescription Drug Card Plan. As of 4/1/2008, part-time employees may enroll in NJ DIRECT15 and the Active Employee Prescription Drug Card Plan. Only about 100 School Employee part-timers are participating, so the experience is not very credible. However, since the loss ratio of this group is 12% higher than the full-time employees in Plan Year 2007, Aon recommends that the 10% current rate load be continued for Plan Year 2009. This will result in a 7% premium increase for part-time medical coverage and a 2% premium increase for part-time prescription drug card coverage.

Coverage of Adult Children Under Age 30 - Effective 1/1/2007, adult children under age 30 were allowed to enroll for medical and prescription drug coverage. The premium for this coverage in Plan Years 2007 and 2008 is the Single Employee rate increased 10%. Effective 1/1/2009, Chapter 38, P.L.2008 extends eligibility to adult children under age 31 and requires that the rate cannot exceed 102% of the dependent child portion of the SEHBP premium rates. Based on this requirement, the Plan Year 2009 Adult Children rate will be 40.8% of the Single Premium for each benefit plan.

Plan Year 2007 average enrollment for this benefit was less than 200 adult children. The Plan Year 2007 loss ratio for Horizon and Aetna combined was 134%. This group is too small to be very credible; however, the experience is consistent with our expectation that optional coverage results in high loss ratios. In 2007, the aggregate losses under this program were almost \$200,000. If the

2009 premium formula had applied in Plan Year 2007, the losses would have been \$700,000.

Enrollment Changes

Exhibit 1 reflects historical enrollment patterns among the benefit offerings during Plan Years 2004 through 2007 and includes Aon's projection of Plan Years 2008 and 2009 enrollment.

Aon's enrollment projections assume that Active enrollment will decrease 2.0% in Plan Year 2008 and increase 1.1% in Plan Year 2009. This follows several years of decreasing enrollment. However, in response to the PPO benefit change and decreases in premium rates, enrollment started to grow at the beginning of Plan Year 2008 and we are projecting that this will continue into Plan Year 2009.

Retiree projections for Plan Years 2008 and 2009 assume that enrollment will increase 5.0% in Plan Year 2008 and 5.5% in Plan Year 2009. This is a continuation of the historical pattern of increases of 5-6% in Retiree enrollment each year.

Enrollment projections for both Employees and Retirees assume that the distribution of employees and retirees among the current benefit options will not change from the April 2008 enrollment selections.

Demographic Changes

The Active Employee average age increased 0.2 years from First Quarter 2007 to Second Quarter 2008, which will have minimal impact on claim projections. However, the differences by benefit plan are more significant: NJ DIRECT10 has an average age which is 5 years older than NJ DIRECT15 and this will increase the cost differential between the two plans by 10-15%. HMO average age falls mid-way between NJ DIRECT10 and NJ DIRECT15.

The impact of the age difference by benefit plan has been adjusted for via the use of the Plan/Migration factor detailed in Exhibit 6 under "Adjustment for 4/1/2008 Benefit Changes" section.

Average Employee Age

	1/1/2007	4/1/2008	Change
NJ PLUS	42.9		
Traditional Plan	51.7		
NJ DIRECT10		47.1	
NJ DIRECT15		42.2	
Total Horizon	46.5	46.3	-0.2
Aetna	44.4	44.8	0.4
CIGNA	43.9	44.1	0.2
Total HMO	43.8	44.6	0.8
Grand Total	45.8	46.0	0.2

Trend Analysis

The claim trends that we are recommending for the Plan Year 2009 renewal are:

	Medical	Prescription Drugs
NJ DIRECT Employee	7.5%	9.0%
NJ DIRECT Early Retiree	6.5%	7.5%
NJ DIRECT Medicare Retiree	5.0%	7.5%
Aetna HMO	9.5%	9.0%
CIGNA HMO	8.0%	9.0%
Employee Prescription Drug card	NA	7.5%

The recommended trends were developed from the Local Education Employer experience for Plan Years 2006 and 2007. Industry trends (based on the Aon Trend Survey) average 10-12% and have decreased about 0.5% over the past year. Local Education Employer experience trends are generally less than 10% and both Horizon and CIGNA recommended renewal trends that were below 10%. Exhibit 2 includes Local Education Employer experience trend for Plan Years 2006 and 2007, and compares these trends to Aon's recommended renewal trends. Exhibit 6 (Renewal Assumptions) provides additional information on the development of the trend assumptions.

The trend assumptions do not include any specific adjustments for prescription drugs which are coming off patent in Plan Years 2008 and 2009. About 4% of the Local Education Employer drug spend is on drugs which are scheduled to come off patent in the next two years; however, the generic savings are usually not immediate and many drugs are replaced by brand variations. Further, the introduction of new brand drugs tends to offset the savings from brand drug expirations.

Financial Projections

Aggregate Financial Projections

Using the assumptions detailed in Exhibit 6 and the methodology described in Section 5 (Cost Projection Methodology), Aon updated estimated costs for Plan Years 2007, 2008 and 2009. Plan Year 2008 projections are split into two sections to show costs before and after the benefit changes which occurred on 4/1/2008:

Projected Financial Results

(in \$ millions)

	NJ PLUS	Trad.Plan	HMOs	Rx Plan	Total
Plan Year 2007					
Premium Rates x Enrollment	\$362.0	\$773.6	\$208.6	\$38.0	\$1,382.2
Incurred Claims	\$328.0	\$658.6	\$178.7	\$34.3	\$1,199.6
Administrative Charges	\$8.6	\$24.3	\$11.1	\$0.0	\$44.0
Net Gain (Loss)	\$25.4	\$90.7	\$18.8	\$3.7	\$138.6
First Quarter 2008					
Premium Rates x Enrollment	\$91.2	\$189.5	\$52.4	\$9.1	\$342.2
Incurred Claims	\$87.3	\$164.8	\$48.8	\$8.9	\$309.8
Administrative Charges	\$2.1	\$6.6	\$3.0	\$0.0	\$11.7
Net Gain (Loss)	\$1.8	\$18.1	\$0.6	\$0.2	\$20.7

	NJ DIRECT10	NJ DIRECT15	HMOs	Rx Plan	Total
2nd-4th Quarter 2008					
Premium Rates x Enrollment	\$684.9	\$113.7	\$112.8	\$27.5	\$938.9
Incurred Claims	\$667.6	\$109.9	\$121.2	\$25.5	\$924.2
Administrative Charges	\$14.0	\$2.4	\$6.0	\$0.5	\$22.9
Net Gain (Loss)	\$3.3	\$1.4	-\$14.4	\$1.5	-\$8.2
Plan Year 2009					
Premium Rates x Enrollment	\$967.4	\$159.7	\$168.7	\$44.1	\$1,339.9
Incurred Claims	\$971.5	\$159.1	\$178.9	\$42.8	\$1,352.3
Administrative Charges	\$21.6	\$3.7	\$6.4	\$0.8	\$32.5
Net Gain (Loss)	-\$25.7	-\$3.1	-\$16.6	\$0.5	-\$44.9

The Plan Year 2009 projected costs were developed from Plan Year 2007 costs trended two years and adjusted for the 4/1/2008 benefit changes. Claim costs by plan were further adjusted to reflect the actual experience of the members who enrolled in those plans. Because of the many assumptions included in these projections, we set a minimum renewal increase of 0% and a maximum renewal increase of 12%.

The Plan Year 2009 premiums for Active Employees are set to result in a claim stabilization reserve as of 12/31/2009 of 3.1 months of claim costs in order to maintain an adequate margin, given the number of assumptions necessary for this renewal. The Retiree Plan Year 2009 NJ DIRECT premiums increase is 0%, due to favorable experience. Early Retiree Plan Year 2009 HMO premiums were given a maximum increase of 12% which will result in a small projected loss, but still leave the SEHBP Retirees with a claim stabilization reserve over all plans combined equivalent to 3.7 months of projected costs. The Medicare Retiree Plan Year 2009 HMO premiums increase is 2% less than the Early Retiree increase, due to favorable experience.

More detailed aggregate projections are attached in Exhibit 4.

Administrative Fees

The average increase for administrative fees from 4/1/2008 through 12/31/2008 to Plan Year 2009 is 3.4%. The increases in fees are consistent with the agreements that came out of the recent RFP process. The table below compares Plan Year 2009 ASO fees per subscriber per month with 4/1/2008 fees:

	PY2008	PY2009	Increase
<u>Medical Fee</u>			
NJ DIRECT	\$ 21.45	\$ 22.20	3.5%
Aetna	\$ 44.52	\$ 45.94	3.2%
CIGNA	\$ 39.27	\$ 40.45	3.0%
<u>Rx Fee</u>			
NJ DIRECT	\$ 4.95	\$ 5.12	3.5%
Aetna	\$ -	\$ -	
CIGNA	\$ 1.04	\$ 1.07	3.0%
Ee Rx Plan	\$ 3.95	\$ 4.09	3.5%

Renewal Rate Development

Rating Methodology

Exhibit 4 shows the aggregate projected costs for Plan Years 2007, 2008, and 2009, separately for NJ DIRECT10, NJ DIRECT15, NJ PLUS, the Traditional Plan, prescription drugs, and each HMO. Costs were projected separately for Actives, Early Retirees, and Medicare Retirees, and for medical claims, prescription drug claims, administrative costs, and aggregate premiums.

Premium increases were calculated separately for each benefit plan and for Actives, Early Retirees, and Medicare Retirees. Preliminary increases were calculated to achieve projected premium income equal to projected costs. However, the actual premium increases were modified so that the maximum increase for any group is 12% and the minimum increase is 0%. In addition, the recommended renewal increases were modified to achieve a projected claim stabilization reserve equivalent to at least 3.0 months of projected costs.

Medical and Prescription Drug Claim Projections

1. Using claim data and claim triangles supplied by Horizon and the HMOs, Aon estimated completed incurred claims for Plan Year 2007 and for the first quarter of Plan Year 2008, separately for each benefit plan.
2. Plan Year 2007 incurred claims were adjusted for the impact of large claims. Claim amounts in excess of \$100,000 (i.e., catastrophic or shock claims) were subtracted from the aggregate claims and pooling charges were allocated across plans. By implementing a pooling charge, we ensure that one claim does not distort the renewal for a specific plan, but that there will be sufficient dollars to cover all incurred claims. First Quarter Plan Year 2008 incurred claims were not adjusted for large

claims, since we only have a partial year of experience. Large claim experience is detailed in Exhibit 3.

3. Capitation and other similar fixed claim charges were added to the incurred claims to arrive at projected incurred claims.
4. Prescription Drug claims were reduced \$20 million for the projected value of Plan Year 2007 manufacturers' rebates.
5. Prescription Drug claims were reduced \$41 million for Medicare Part D subsidy payments.
6. Medical Claims costs were reduced \$23 million for payments from the Educators Surcharge.
7. Aggregate Plan Year 2007 incurred claims were divided by Plan Year 2007 average covered subscribers to get average claims per subscriber. To get average subscribers, we used historical billing enrollment data.
8. Claims per Subscriber were projected from Plan Year 2007 to 4/1/2008 through 12/31/2008 and to Plan Year 2009 using the annual trend rates listed on page 8 of this document. Projections for 4/1/2008 through 12/31/2008 were pro-rated to reflect 9 months of claims.
9. Aetna Medicare Retiree Plan Year 2009 medical costs were adjusted to reflect the anticipated savings from the Aetna Medicare Advantage program.
10. A plan change/migration factor was calculated for subscribers who had claims in Plan Year 2007 and were enrolled in the SEHBP on 4/1/2008. The factor adjusts for benefit changes, discount changes, and actual member migration. The components and values of this factor are listed

in Exhibit 6 under the "Adjustment for 4/1/2008 Benefit Changes" section.

11. Aggregate claims for 4/1/2008 through 12/31/2008 and Plan Year 2009 are the product of projected enrollment and the projected claims per subscriber.

Administrative Cost Projection

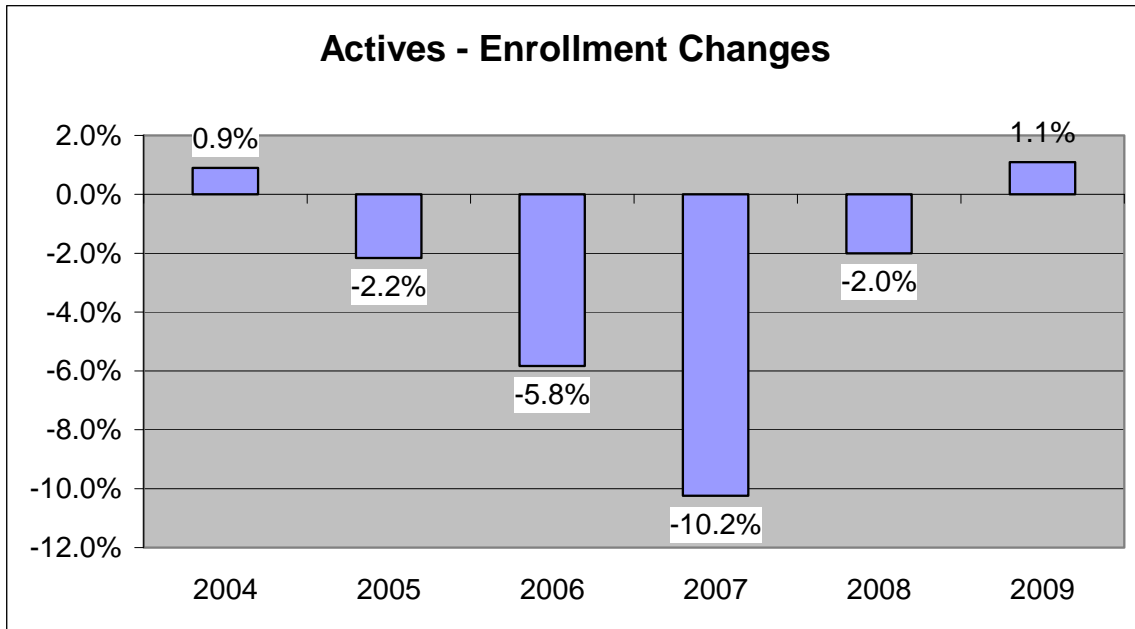
The administrative cost projection includes administrative charges, as well as some miscellaneous cost items:

1. Administrative fees are the ASO fees per member per year multiplied by the average enrollment for that year.
2. Overhead charges are the administrative costs charged against the plans. For Plan Year 2009, this amount is projected as \$4.9 million
3. Investment income was credited against administrative charges. For Plan Year 2009, this amount is projected as \$23.3 million.

Projected Premiums

1. Plan Year 2009 premiums were developed by applying the premium increase percentages listed on page 2 of the Executive Summary.
2. Aggregate Plan Year premium is calculated by multiplying Plan Year enrollment and Plan Year premiums.

SEHBP Plan Year 2009 Renewal Recommendation
Exhibit 1A – Enrollment Projections



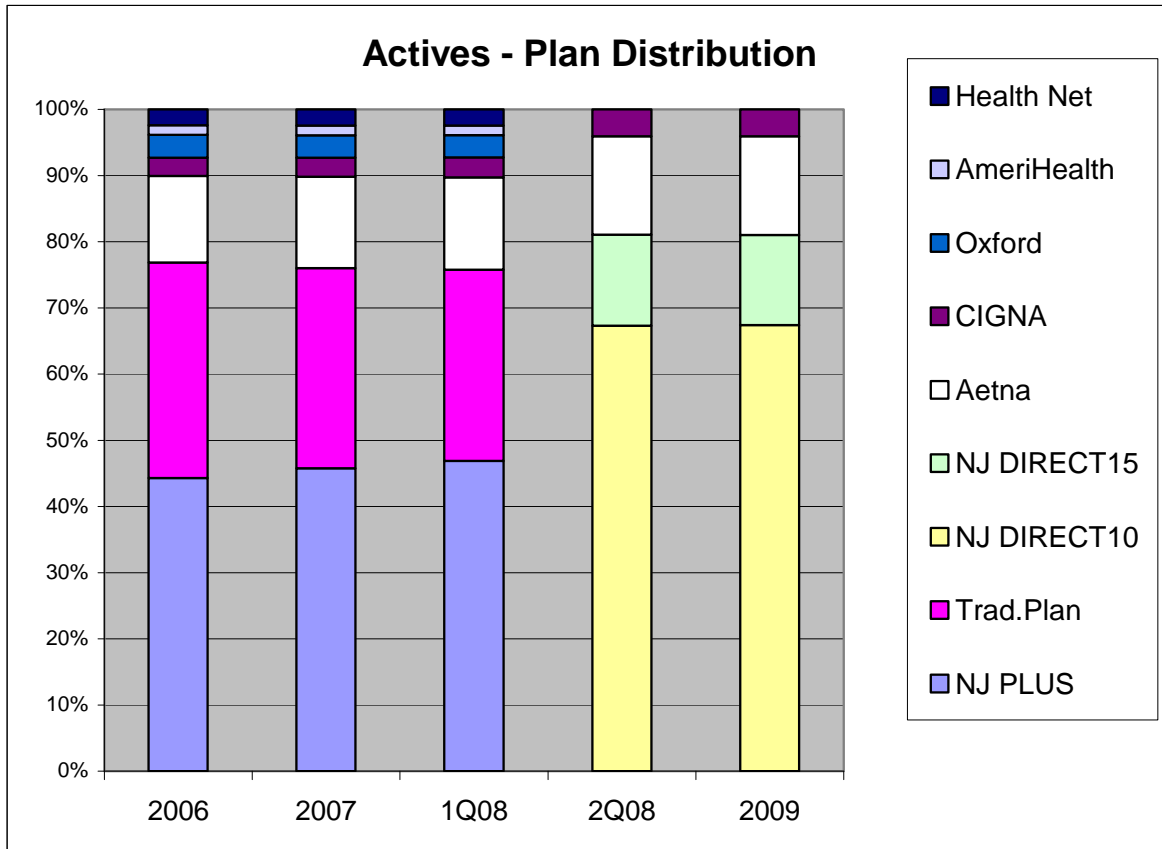
Observations:

Plan Years 2005 through 2007 - Enrollment decreases get larger each year.

Plan Year 2008 reflects no change in enrollment in first quarter of 2008 with increasing enrollment for the remainder of the year.

Plan Year 2009 assumes that enrollment will continue to increase.

SEHBP Plan Year 2009 Renewal Recommendation
Exhibit 1B – Enrollment Projections



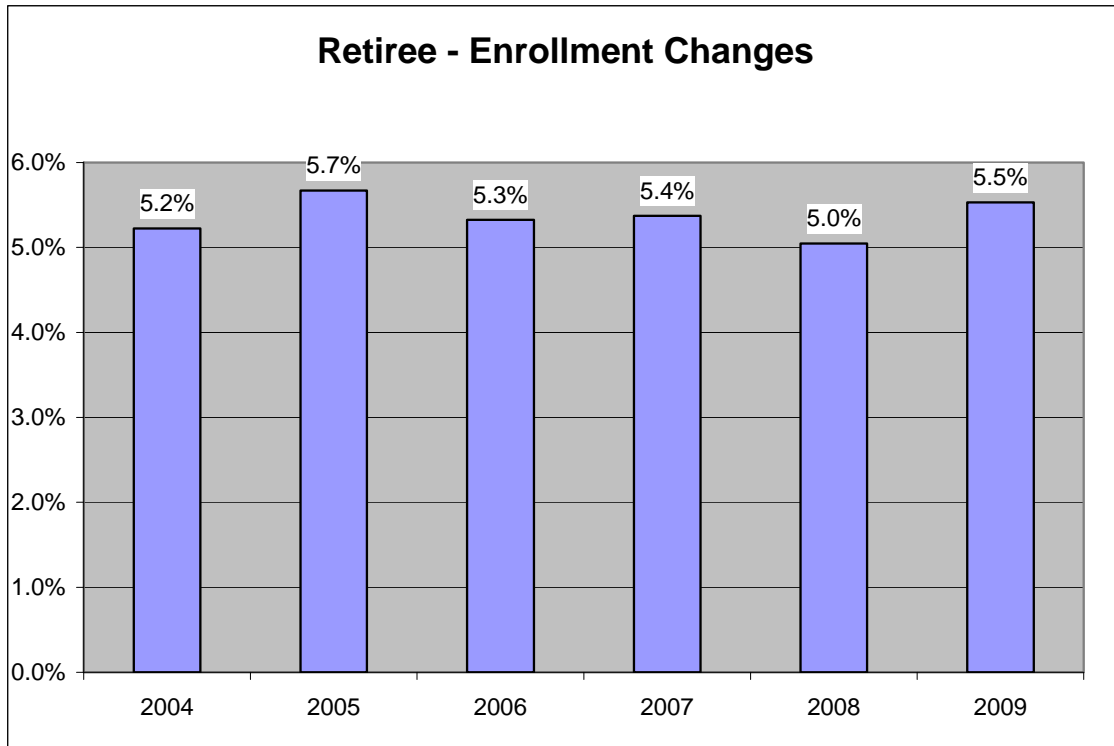
Observations:

Plan Year 2006 through first quarter 2008 - The Traditional Plan reduced its share of enrollment about 2% per year, the result of a 1% increase for NJ PLUS and a 1% increase for total HMO.

Second Quarter Plan Year 2008 - The termination of 3 HMOs reduced HMO enrollment from 24% to 19% of total employees. In addition, NJ PLUS and the Traditional Plan were replaced by NJ DIRECT15 and NJ DIRECT10 (PPO plans). 80% of NJ DIRECT enrollment is in the richer plan, NJ DIRECT10.

Plan Year 2009 - It is assumed that there will be no change in the distribution of enrollment among benefit options.

SEHBP Plan Year 2009 Renewal Recommendation
Exhibit 1C – Enrollment Projections

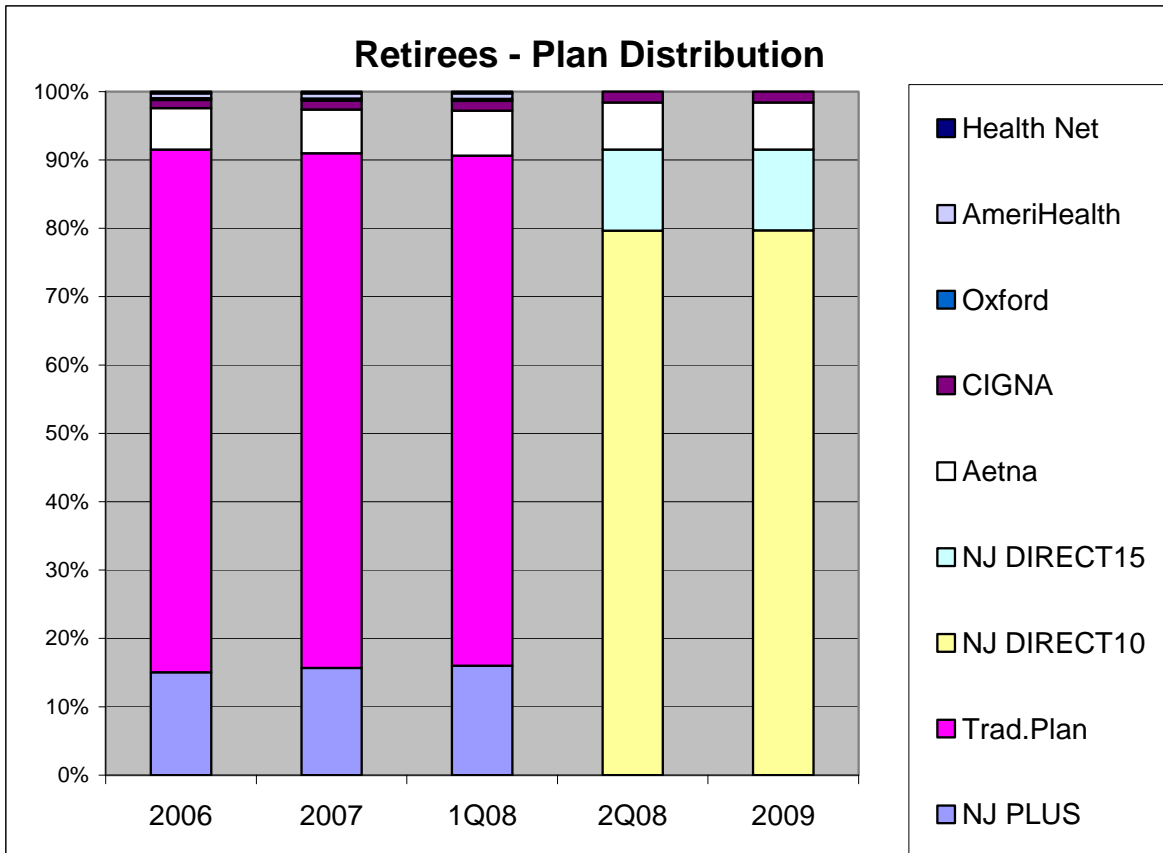


Observations:

Plan Years 2003 through 2007 - Enrollment increased 5%-6%.

Plan Years 2008 and 2009 enrollment increases are projected to be consistent with prior years.

SEHBP Plan Year 2009 Renewal Recommendation
Exhibit 1D – Enrollment Projections



Observations:

Plan Years 2006 through first quarter Plan Year 2008 - The Traditional Plan reduced its share of enrollment about 1% per year, the result of a 0.5% increase for NJ PLUS and a 0.5% increase for total HMO.

Second Quarter Plan Year 2008 - The termination of 3 HMOs reduced HMO enrollment from 9% to 8% of total retirees. In addition, NJ PLUS and the Traditional Plan were replaced by NJ DIRECT10 and NJ DIRECT15 (PPO plans). 85% of NJ DIRECT enrollment is in the richer plan, NJ DIRECT10.

Plan Year 2009 - It is assumed that there will be no change in the distribution of enrollment among benefit options.

SEHBP Plan Year 2009 Renewal Recommendation
Exhibit 2A - Horizon Employee Trend

	Increase in Claims/Ee	Benefit Changes	Claim Trend
<u>Medical</u>			
Plan Year 2006	10.2%	0.0%	10.2%
Plan Year 2007	5.1%	-1.4%	6.5%
Aon Trend Assumption			7.5%
<u>Rx Card</u>			
Plan Year 2006	9.6%	0.0%	9.6%
Plan Year 2007	-4.2%	-11.0%	6.8%
Aon Trend Assumption			7.5%
<u>MM Rx</u>			
Plan Year 2006	8.4%	0.0%	8.4%
Plan Year 2007	12.9%	0.0%	12.9%
Aon Trend Assumption			9.0%

Benefit Changes:

NJ PLUS physcian/ER copays increased on 1/1/2007.

Rx Copays increased on 1/1/2007.

SEHBP Plan Year 2009 Renewal Recommendation
Exhibit 2B - Horizon Retiree Trend

	Increase in Claims/Ee	Benefit Changes	Claim Trend
<u>Early Retiree Medical</u>			
Plan Year 2006	4.3%	0.0%	4.3%
Plan Year 2007	7.8%	-0.6%	8.4%
Aon Trend Assumption			6.5%

<u>Medicare Retiree Medical</u>			
Plan Year 2006	2.6%	0.0%	2.6%
Plan Year 2007	2.5%	-1.5%	4.0%
Aon Trend Assumption			5.0%

<u>Retiree Rx</u>			
Plan Year 2006	0.9%	-7.0%	7.9%
Plan Year 2007	5.0%	-2.0%	7.0%
Aon Trend Assumption			7.5%

Benefit Changes:

NJ PLUS physician/ER copays increased on 1/1/2007.

Rx Copays and OOP maximum increased on 1/1/2006 and 1/1/2007.

SEHBP Plan Year 2009 Renewal Recommendation
Exhibit 2C - HMO Trends

	Increase in Claims/Ee	Benefit Changes	Claim Trend
<u>Aetna Medical</u>			
Plan Year 2006	15.6%	0.0%	15.6%
Plan Year 2007	5.8%	-3.0%	8.8%
Aon Trend Assumption			9.5%

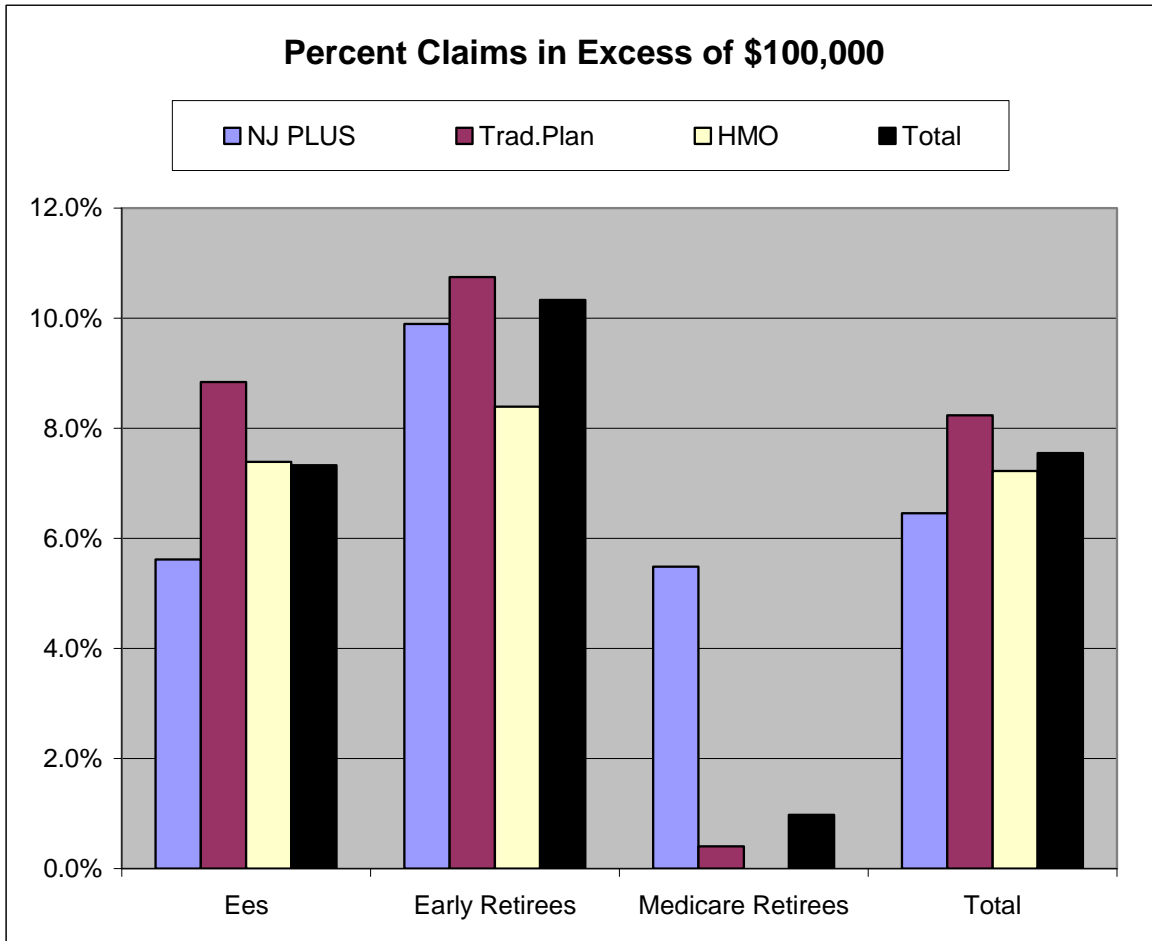
<u>CIGNA Medical</u>			
Plan Year 2006	14.1%	0.0%	14.1%
Plan Year 2007	2.6%	-3.0%	5.6%
Aon Trend Assumption			8.0%

<u>HMO Rx</u>			
Plan Year 2006	12.3%	0.0%	12.3%
Plan Year 2007	11.9%	0.0%	11.9%
Aon Trend Assumption			9.0%

Benefit Changes:

Physician/ER copays increased on 1/1/2007.

SEHBP Plan Year 2009 Renewal Recommendation
Exhibit 3A – Large Claim Analysis

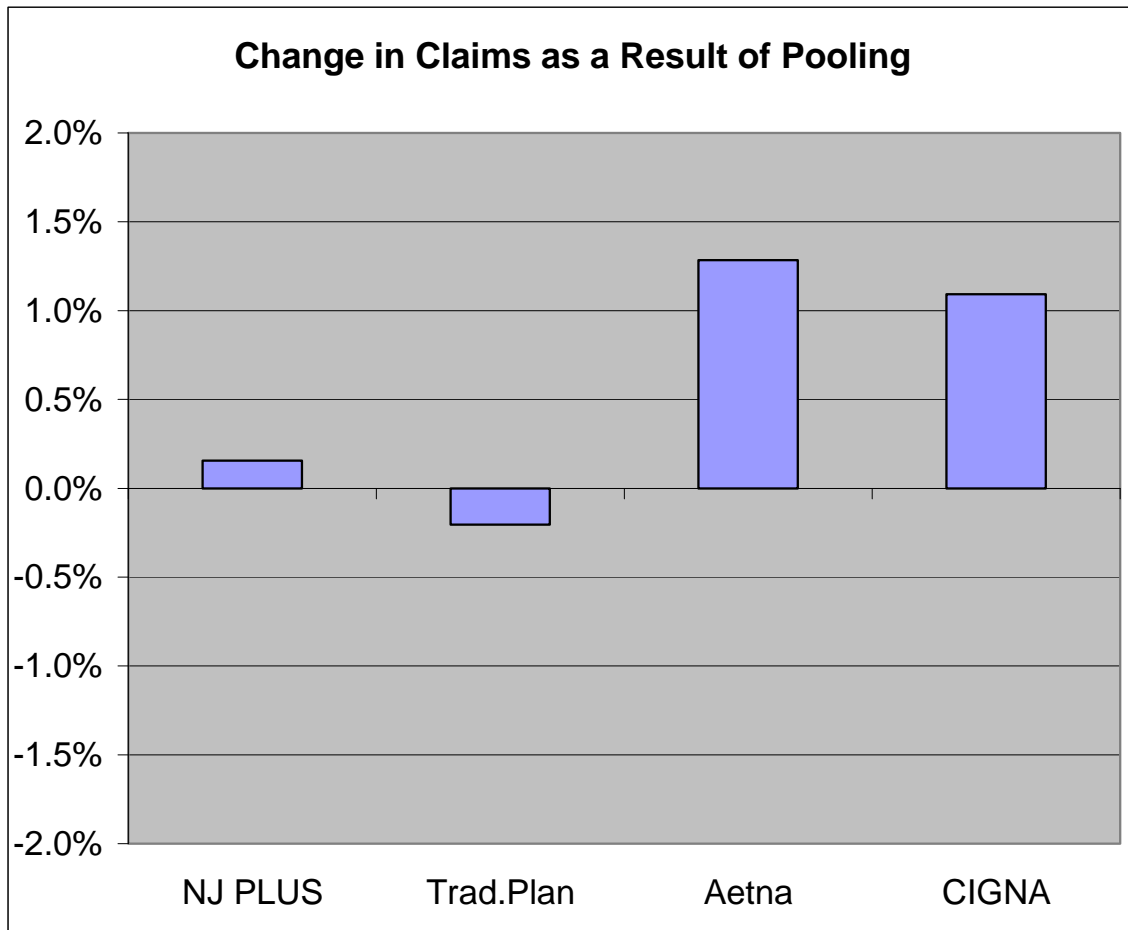


Observations:

Traditional Plan has the highest percentages of shock claims.

Medicare Retiree shock claims are very low, since Medicare covers hospital charges and most of the physician charges.

SEHBP Plan Year 2009 Renewal Recommendation Exhibit 3B – Large Claim Analysis



Observations:

NJ PLUS and the Traditional plan have minimal changes as a result of pooling.

Aetna and CIGNA claims increase about 1% as a result of pooling.

SEHBP Plan Year 2009 Renewal Recommendation
Exhibit 4A – Plan Year 2007 Aggregate Costs

	Total	NJ PLUS	Trad.Plan	Aetna	CIGNA	Oxford	AmeriHealth	Health Net	Ee Rx Card
Employees and Retirees									
Average Medical Subscribers	144,372	43,597	77,349	14,354	2,990	2,579	1,591	1,912	14,477
Incurred Medical claims	\$ 897,200,000	\$ 264,300,000	\$ 491,400,000	\$ 82,000,000	\$ 20,500,000	\$ 17,400,000	\$ 9,400,000	\$ 12,200,000	
Capitation	\$ 42,500,000	\$ 27,200,000	\$ 1,600,000	\$ 8,700,000	\$ 2,100,000	\$ 400,000	\$ 1,100,000	\$ 1,400,000	
Incurred Prescription Drug Claims	\$ 344,000,000	\$ 52,800,000	\$ 220,800,000	\$ 20,600,000	\$ 5,100,000	\$ 2,200,000	\$ 3,300,000	\$ 2,800,000	\$ 36,400,000
Prescription Drug Rebates	\$ (20,100,000)	\$ (3,100,000)	\$ (12,800,000)	\$ (1,600,000)	\$ (100,000)	\$ (100,000)	\$ (200,000)	\$ (100,000)	\$ (2,100,000)
Medicare Part D Subsidies	\$ (40,700,000)	\$ (4,800,000)	\$ (33,100,000)	\$ (1,900,000)	\$ (500,000)	\$ (100,000)	\$ (200,000)	\$ (100,000)	
Education Surcharge	\$ (23,300,000)	\$ (8,400,000)	\$ (9,300,000)	\$ (3,200,000)	\$ (800,000)	\$ (700,000)	\$ (400,000)	\$ (500,000)	
Administrative Fees	\$ 44,000,000	\$ 8,600,000	\$ 24,300,000	\$ 7,100,000	\$ 1,300,000	\$ 1,100,000	\$ 700,000	\$ 900,000	\$ -
Total Cost	\$ 1,243,600,000	\$ 336,600,000	\$ 682,900,000	\$ 111,700,000	\$ 27,600,000	\$ 20,200,000	\$ 13,700,000	\$ 16,600,000	\$ 34,300,000
Total Premium	\$ 1,382,200,000	\$ 362,000,000	\$ 773,600,000	\$ 118,900,000	\$ 31,600,000	\$ 23,000,000	\$ 16,000,000	\$ 19,100,000	\$ 38,000,000
Gain (Loss)	\$ 138,600,000	\$ 25,400,000	\$ 90,700,000	\$ 7,200,000	\$ 4,000,000	\$ 2,800,000	\$ 2,300,000	\$ 2,500,000	\$ 3,700,000
Employees									
Average Medical Subscribers	69,645	31,879	21,075	9,593	2,001	2,363	1,019	1,716	14,477
Incurred Medical claims	\$ 528,700,000	\$ 200,600,000	\$ 222,900,000	\$ 57,600,000	\$ 13,800,000	\$ 16,500,000	\$ 5,900,000	\$ 11,400,000	
Capitation	\$ 32,600,000	\$ 20,500,000	\$ 700,000	\$ 7,400,000	\$ 1,600,000	\$ 300,000	\$ 700,000	\$ 1,400,000	
Incurred Prescription Drug Claims	\$ 70,200,000	\$ 12,300,000	\$ 12,600,000	\$ 3,400,000	\$ 1,400,000	\$ 1,600,000	\$ 800,000	\$ 1,700,000	\$ 36,400,000
Prescription Drug Rebates	\$ (4,000,000)	\$ (700,000)	\$ (700,000)	\$ (300,000)	\$ -	\$ (100,000)	\$ -	\$ (100,000)	\$ (2,100,000)
Medicare Part D Subsidies	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Education Surcharge	\$ (22,200,000)	\$ (8,400,000)	\$ (9,300,000)	\$ (2,400,000)	\$ (600,000)	\$ (700,000)	\$ (300,000)	\$ (500,000)	
Administrative Fees	\$ 18,300,000	\$ 6,200,000	\$ 4,400,000	\$ 4,600,000	\$ 800,000	\$ 1,000,000	\$ 500,000	\$ 800,000	
Total Cost	\$ 623,600,000	\$ 230,500,000	\$ 230,600,000	\$ 70,300,000	\$ 17,000,000	\$ 18,600,000	\$ 7,600,000	\$ 14,700,000	\$ 34,300,000
Total Premium	\$ 682,100,000	\$ 244,000,000	\$ 252,300,000	\$ 77,500,000	\$ 21,200,000	\$ 21,400,000	\$ 10,200,000	\$ 17,500,000	\$ 38,000,000
Gain (Loss)	\$ 58,500,000	\$ 13,500,000	\$ 21,700,000	\$ 7,200,000	\$ 4,200,000	\$ 2,800,000	\$ 2,600,000	\$ 2,800,000	\$ 3,700,000
Retirees									
Average Medical Subscribers	74,726	11,718	56,274	4,761	989	216	572	196	
Incurred Medical claims	\$ 368,500,000	\$ 63,700,000	\$ 268,500,000	\$ 24,400,000	\$ 6,700,000	\$ 900,000	\$ 3,500,000	\$ 800,000	
Capitation	\$ 9,900,000	\$ 6,700,000	\$ 900,000	\$ 1,300,000	\$ 500,000	\$ 100,000	\$ 400,000	\$ -	
Incurred Prescription Drug Claims	\$ 273,800,000	\$ 40,500,000	\$ 208,200,000	\$ 17,200,000	\$ 3,700,000	\$ 600,000	\$ 2,500,000	\$ 1,100,000	
Prescription Drug Rebates	\$ (16,100,000)	\$ (2,400,000)	\$ (12,100,000)	\$ (1,300,000)	\$ (100,000)	\$ -	\$ (200,000)	\$ -	
Medicare Part D Subsidies	\$ (40,700,000)	\$ (4,800,000)	\$ (33,100,000)	\$ (1,900,000)	\$ (500,000)	\$ (100,000)	\$ (200,000)	\$ (100,000)	
Education Surcharge	\$ (1,100,000)	\$ -	\$ -	\$ (800,000)	\$ (200,000)	\$ -	\$ (100,000)	\$ -	
Administrative Fees	\$ 25,700,000	\$ 2,400,000	\$ 19,900,000	\$ 2,500,000	\$ 500,000	\$ 100,000	\$ 200,000	\$ 100,000	
Total Cost	\$ 620,000,000	\$ 106,100,000	\$ 452,300,000	\$ 41,400,000	\$ 10,600,000	\$ 1,600,000	\$ 6,100,000	\$ 1,900,000	
Total Premium	\$ 700,100,000	\$ 118,000,000	\$ 521,300,000	\$ 41,400,000	\$ 10,400,000	\$ 1,600,000	\$ 5,800,000	\$ 1,600,000	
Gain (Loss)	\$ 80,100,000	\$ 11,900,000	\$ 69,000,000	\$ -	\$ (200,000)	\$ -	\$ (300,000)	\$ (300,000)	

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Exhibit 4B – First Quarter Plan Year 2008 Aggregate Costs

	Total	NJ PLUS	Trad.Plan	Aetna	CIGNA	Oxford	AmeriHealth	Health Net	Ee Rx Card
Employees and Retirees									
Average Medical Subscribers	144,533	44,041	76,888	14,507	3,139	2,526	1,584	1,848	13,881
Incurred Medical claims	\$ 238,000,000	\$ 75,600,000	\$ 121,700,000	\$ 24,200,000	\$ 5,800,000	\$ 4,900,000	\$ 2,500,000	\$ 3,300,000	
Incurred Prescription Drug Claims	\$ 71,800,000	\$ 11,700,000	\$ 43,100,000	\$ 4,900,000	\$ 1,300,000	\$ 500,000	\$ 700,000	\$ 700,000	\$ 8,900,000
Administrative Fees	\$ 11,700,000	\$ 2,100,000	\$ 6,600,000	\$ 1,900,000	\$ 400,000	\$ 300,000	\$ 200,000	\$ 200,000	
Total Cost	\$ 321,500,000	\$ 89,400,000	\$ 171,400,000	\$ 31,000,000	\$ 7,500,000	\$ 5,700,000	\$ 3,400,000	\$ 4,200,000	\$ 8,900,000
Total Premium	\$ 342,200,000	\$ 91,200,000	\$ 189,500,000	\$ 30,000,000	\$ 8,200,000	\$ 5,600,000	\$ 4,000,000	\$ 4,600,000	\$ 9,100,000
Gain (Loss)	\$ 20,700,000	\$ 1,800,000	\$ 18,100,000	\$ (1,000,000)	\$ 700,000	\$ (100,000)	\$ 600,000	\$ 400,000	\$ 200,000
Employees									
Average Medical Subscribers	67,738	31,736	19,580	9,458	2,040	2,298	975	1,651	13,881
Incurred Medical claims	\$ 137,700,000	\$ 56,000,000	\$ 51,300,000	\$ 17,100,000	\$ 4,000,000	\$ 4,500,000	\$ 1,700,000	\$ 3,100,000	
Incurred Prescription Drug Claims	\$ 16,700,000	\$ 3,000,000	\$ 2,500,000	\$ 900,000	\$ 400,000	\$ 400,000	\$ 200,000	\$ 400,000	\$ 8,900,000
Administrative Fees	\$ 4,700,000	\$ 1,500,000	\$ 1,200,000	\$ 1,200,000	\$ 200,000	\$ 300,000	\$ 100,000	\$ 200,000	
Total Cost	\$ 159,100,000	\$ 60,500,000	\$ 55,000,000	\$ 19,200,000	\$ 4,600,000	\$ 5,200,000	\$ 2,000,000	\$ 3,700,000	\$ 8,900,000
Total Premium	\$ 164,300,000	\$ 60,700,000	\$ 58,300,000	\$ 19,100,000	\$ 5,300,000	\$ 5,200,000	\$ 2,400,000	\$ 4,200,000	\$ 9,100,000
Gain (Loss)	\$ 5,200,000	\$ 200,000	\$ 3,300,000	\$ (100,000)	\$ 700,000	\$ -	\$ 400,000	\$ 500,000	\$ 200,000
Retirees									
Average Medical Subscribers	76,795	12,305	57,308	5,049	1,099	228	609	197	
Incurred Medical claims	\$ 100,300,000	\$ 19,600,000	\$ 70,400,000	\$ 7,100,000	\$ 1,800,000	\$ 400,000	\$ 800,000	\$ 200,000	
Incurred Prescription Drug Claims	\$ 55,100,000	\$ 8,700,000	\$ 40,600,000	\$ 4,000,000	\$ 900,000	\$ 100,000	\$ 500,000	\$ 300,000	
Administrative Fees	\$ 7,000,000	\$ 600,000	\$ 5,400,000	\$ 700,000	\$ 200,000	\$ -	\$ 100,000	\$ -	
Total Cost	\$ 162,400,000	\$ 28,900,000	\$ 116,400,000	\$ 11,800,000	\$ 2,900,000	\$ 500,000	\$ 1,400,000	\$ 500,000	
Total Premium	\$ 177,900,000	\$ 30,500,000	\$ 131,200,000	\$ 10,900,000	\$ 2,900,000	\$ 400,000	\$ 1,600,000	\$ 400,000	
Gain (Loss)	\$ 15,500,000	\$ 1,600,000	\$ 14,800,000	\$ (900,000)	\$ -	\$ (100,000)	\$ 200,000	\$ (100,000)	

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Exhibit 4C– 4/1/2008 through 12/31/2008 Aggregate Costs

	Total	NJ DIRECT10	NJ DIRECT15	Aetna	CIGNA	Ee Rx Card
Employees and Retirees						
Average Medical Subscribers	147,486	109,037	18,802	15,589	4,058	14,020
Incurred Medical claims	\$ 700,200,000	\$ 511,100,000	\$ 85,700,000	\$ 79,000,000	\$ 24,400,000	\$ -
Incurred Prescription Drug Claims	\$ 224,000,000	\$ 156,500,000	\$ 24,200,000	\$ 14,000,000	\$ 3,800,000	\$ 25,500,000
Administrative Fees	\$ 22,900,000	\$ 14,000,000	\$ 2,400,000	\$ 4,900,000	\$ 1,100,000	\$ 500,000
Total Cost	\$ 947,100,000	\$ 681,600,000	\$ 112,300,000	\$ 97,900,000	\$ 29,300,000	\$ 26,000,000
Total Premium	\$ 938,900,000	\$ 684,900,000	\$ 113,700,000	\$ 87,500,000	\$ 25,300,000	\$ 27,500,000
Gain (Loss)	\$ (8,200,000)	\$ 3,300,000	\$ 1,400,000	\$ (10,400,000)	\$ (4,000,000)	\$ 1,500,000
Employees						
Average Medical Subscribers	68,422	46,059	9,404	10,165	2,794	14,020
Incurred Medical claims	\$ 404,900,000	\$ 284,800,000	\$ 47,400,000	\$ 55,700,000	\$ 17,000,000	\$ -
Incurred Prescription Drug Claims	\$ 45,800,000	\$ 16,500,000	\$ 2,700,000	\$ 700,000	\$ 400,000	\$ 25,500,000
Administrative Fees	\$ 10,800,000	\$ 5,200,000	\$ 1,200,000	\$ 3,200,000	\$ 700,000	\$ 500,000
Total Cost	\$ 461,500,000	\$ 306,500,000	\$ 51,300,000	\$ 59,600,000	\$ 18,100,000	\$ 26,000,000
Total Premium	\$ 436,300,000	\$ 283,200,000	\$ 50,300,000	\$ 57,700,000	\$ 17,600,000	\$ 27,500,000
Gain (Loss)	\$ (25,200,000)	\$ (23,300,000)	\$ (1,000,000)	\$ (1,900,000)	\$ (500,000)	\$ 1,500,000
Retirees						
Average Medical Subscribers	79,064	62,978	9,398	5,424	1,264	
Incurred Medical claims	\$ 295,300,000	\$ 226,300,000	\$ 38,300,000	\$ 23,300,000	\$ 7,400,000	
Incurred Prescription Drug Claims	\$ 178,200,000	\$ 140,000,000	\$ 21,500,000	\$ 13,300,000	\$ 3,400,000	
Administrative Fees	\$ 12,100,000	\$ 8,800,000	\$ 1,200,000	\$ 1,700,000	\$ 400,000	
Total Cost	\$ 485,600,000	\$ 375,100,000	\$ 61,000,000	\$ 38,300,000	\$ 11,200,000	
Total Premium	\$ 502,600,000	\$ 401,700,000	\$ 63,400,000	\$ 29,800,000	\$ 7,700,000	
Gain (Loss)	\$ 17,000,000	\$ 26,600,000	\$ 2,400,000	\$ (8,500,000)	\$ (3,500,000)	

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Exhibit 4D – Plan Year 2009 Aggregate Costs

	Total	NJ DIRECT10	NJ DIRECT15	Aetna	CIGNA	Ee Rx Card
<u>Employees and Retirees</u>						
Average Medical Subscribers	151,839	112,532	19,183	15,967	4,157	16,584
Incurred Medical claims	\$ 1,015,200,000	\$ 739,700,000	\$ 123,000,000	\$ 117,000,000	\$ 35,500,000	\$ -
Incurred Prescription Drug Claims	\$ 337,100,000	\$ 231,800,000	\$ 36,100,000	\$ 21,000,000	\$ 5,400,000	\$ 42,800,000
Administrative Fees	\$ 32,500,000	\$ 21,600,000	\$ 3,700,000	\$ 5,000,000	\$ 1,400,000	\$ 800,000
Total Cost	\$ 1,384,800,000	\$ 993,100,000	\$ 162,800,000	\$ 143,000,000	\$ 42,300,000	\$ 43,600,000
Total Premium	\$ 1,339,900,000	\$ 967,400,000	\$ 159,700,000	\$ 130,600,000	\$ 38,100,000	\$ 44,100,000
Gain (Loss)	\$ (44,900,000)	\$ (25,700,000)	\$ (3,100,000)	\$ (12,400,000)	\$ (4,200,000)	\$ 500,000
<u>Employees</u>						
Average Medical Subscribers	69,001	46,511	9,400	10,270	2,821	16,584
Incurred Medical claims	\$ 581,800,000	\$ 408,600,000	\$ 67,300,000	\$ 81,300,000	\$ 24,600,000	\$ -
Incurred Prescription Drug Claims	\$ 72,100,000	\$ 23,400,000	\$ 4,400,000	\$ 1,000,000	\$ 500,000	\$ 42,800,000
Administrative Fees	\$ 12,600,000	\$ 5,400,000	\$ 1,400,000	\$ 4,100,000	\$ 900,000	\$ 800,000
Total Cost	\$ 666,500,000	\$ 437,400,000	\$ 73,100,000	\$ 86,400,000	\$ 26,000,000	\$ 43,600,000
Total Premium	\$ 634,100,000	\$ 407,500,000	\$ 72,100,000	\$ 84,300,000	\$ 26,100,000	\$ 44,100,000
Gain (Loss)	\$ (32,400,000)	\$ (29,900,000)	\$ (1,000,000)	\$ (2,100,000)	\$ 100,000	\$ 500,000
<u>Retirees</u>						
Average Medical Subscribers	82,837	66,021	9,783	5,697	1,336	
Incurred Medical claims	\$ 433,400,000	\$ 331,100,000	\$ 55,700,000	\$ 35,700,000	\$ 10,900,000	
Incurred Prescription Drug Claims	\$ 265,000,000	\$ 208,400,000	\$ 31,700,000	\$ 20,000,000	\$ 4,900,000	
Administrative Fees	\$ 19,900,000	\$ 16,200,000	\$ 2,300,000	\$ 900,000	\$ 500,000	
Total Cost	\$ 718,300,000	\$ 555,700,000	\$ 89,700,000	\$ 56,600,000	\$ 16,300,000	
Total Premium	\$ 705,800,000	\$ 559,900,000	\$ 87,600,000	\$ 46,300,000	\$ 12,000,000	
Gain (Loss)	\$ (12,500,000)	\$ 4,200,000	\$ (2,100,000)	\$ (10,300,000)	\$ (4,300,000)	

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Exhibit 5A – Plan Year 2009 Monthly Active Premiums

	NJ DIRECT10	NJ DIRECT15	Aetna	CIGNA
<u>Medical Coverage Only</u>				
Single	\$369.42	\$351.68	\$351.22	\$354.73
Member+Spouse	\$831.19	\$791.27	\$790.25	\$798.15
Family	\$923.55	\$879.19	\$878.06	\$886.83
Parent+Child(ren)	\$517.17	\$492.34	\$491.71	\$496.63
Adult Child Rate	\$150.72	\$143.49	\$143.30	\$144.73

	NJ DIRECT10	NJ DIRECT15	Aetna	CIGNA
<u>Medical and Rx</u>				
Single	\$443.30	\$422.01	\$446.05	\$450.51
Member+Spouse	\$997.42	\$949.52	\$1,003.62	\$1,013.66
Family	\$1,108.25	\$1,055.02	\$1,115.14	\$1,126.29
Parent+Child(ren)	\$620.62	\$590.81	\$624.47	\$630.72
Adult Child Rate	\$180.87	\$172.18	\$181.99	\$183.81

	Rx Card
<u>Rx Card</u>	
Single	\$121.38
Member+Spouse	\$273.11
Family	\$303.45
Parent+Child(ren)	\$169.93
Adult Child Rate	\$49.52

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Exhibit 5B – Plan Year 2009 Monthly Retiree Premiums

	NJ DIRECT10	NJ DIRECT15	Aetna	CIGNA
Total Premium				
Single - 0 Medicare	\$598.41	\$570.00	\$458.33	\$462.91
Single - 1 Medicare	\$359.05	\$342.00	\$337.61	\$340.99
Mem+Spouse - 0 Medicare	\$1,304.53	\$1,242.60	\$999.15	\$1,009.15
Mem+Spouse - 1 Medicare	\$957.46	\$912.00	\$795.94	\$803.90
Mem+Spouse - 2 Medicare	\$718.09	\$684.00	\$675.21	\$681.97
Family - 0 Medicare	\$1,484.05	\$1,413.60	\$1,136.65	\$1,148.02
Family - 1 Medicare	\$1,136.98	\$1,083.00	\$933.44	\$942.77
Family - 2 Medicare	\$897.61	\$855.00	\$812.72	\$818.37
Parent+Ch - 0 Medicare	\$837.77	\$798.00	\$641.66	\$648.08
Parent+Ch - 1 Medicare	\$568.49	\$541.50	\$495.15	\$500.12
Medical Premium				
Single - 0 Medicare	\$478.73	\$450.32	\$357.50	\$361.07
Single - 1 Medicare	\$154.39	\$137.34	\$148.55	\$150.04
Mem+Spouse - 0 Medicare	\$1,043.62	\$981.69	\$779.34	\$787.14
Mem+Spouse - 1 Medicare	\$633.12	\$587.66	\$506.05	\$511.11
Mem+Spouse - 2 Medicare	\$308.78	\$274.69	\$297.09	\$300.07
Family - 0 Medicare	\$1,187.24	\$1,116.79	\$886.59	\$895.46
Family - 1 Medicare	\$776.74	\$722.76	\$613.30	\$619.43
Family - 2 Medicare	\$385.97	\$343.36	\$357.60	\$360.08
Parent+Ch - 0 Medicare	\$670.22	\$630.45	\$500.49	\$505.50
Parent+Ch - 1 Medicare	\$244.45	\$217.46	\$217.87	\$220.05
Rx Premium				
Single - 0 Medicare	\$119.68	\$119.68	\$100.83	\$101.84
Single - 1 Medicare	\$204.66	\$204.66	\$189.06	\$190.95
Mem+Spouse - 0 Medicare	\$260.91	\$260.91	\$219.81	\$222.01
Mem+Spouse - 1 Medicare	\$324.34	\$324.34	\$289.89	\$292.79
Mem+Spouse - 2 Medicare	\$409.31	\$409.31	\$378.12	\$381.90
Family - 0 Medicare	\$296.81	\$296.81	\$250.06	\$252.56
Family - 1 Medicare	\$360.24	\$360.24	\$320.14	\$323.34
Family - 2 Medicare	\$511.64	\$511.64	\$455.12	\$458.29
Parent+Ch - 0 Medicare	\$167.55	\$167.55	\$141.17	\$142.58
Parent+Ch - 1 Medicare	\$324.04	\$324.04	\$277.28	\$280.07

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Exhibit 6 – Projection Assumptions

Benefit Design Changes

Medical Plans: The following benefit plans will be offered: NJ DIRECT10, NJ DIRECT15, and a \$10 HMO copay plan.

Employee Prescription Drug Plan: Active employees will continue with the Employee Prescription Drug Plan administered by Horizon (CVS/Caremark). Employers may select this plan, sign up for prescription drug coverage under the medical plan, or purchase prescription drug coverage from an outside vendor

Retiree Prescription Drug Plans: ***NJ DIRECT out-of-pocket maximum will increase from \$1,082 to \$1,130 and HMO copays will be subject to the same \$1,130 out-of-pocket maximum.²***

Vendor Changes

No changes in Plan Year 2009. Horizon will continue to administer the NJ DIRECT plans, and the Employee Prescription Drug plan. Aetna and CIGNA will be the only HMOs offered.

² Revised as a result of the 9/23/08 SEHBC meeting. Original Plan Year 2009 Renewal Report recommended the following:

	<u>NJ Direct Copays</u>		<u>HMO Copays</u>	
	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>
<i>Retail Generic Copay</i>	\$8	\$9	\$5	\$5
<i>Retail Preferred Brand Copay</i>	\$17	\$18	\$10	\$11
<i>Retail Non-Preferred Brand Copay</i>	\$34	\$36	\$20	\$21
<i>Mail Generic Copay</i>	\$8	\$9	\$5	\$5
<i>Mail Preferred Brand Copay</i>	\$25	\$27	\$15	\$16
<i>Mail Non-Preferred Brand Copay</i>	\$42	\$45	\$25	\$26
<i>Out-of-Pocket Maximum</i>	\$1,082	\$1,092	NA	\$1,092

Incurred Basis

Plan Year 2009 aggregate projected costs reflect incurred costs for claims and expenses.

Margin

Projected Plan Year 2009 premiums are set to maintain a claim stabilization reserve equivalent to at least 3.0 months of projected claim costs. Since the reserve at 12/31/2008 is projected to be equivalent to 4.2 months of projected claim costs, the Plan Year 2009 renewal premiums were set to be 3% lower than projected claim costs and are projected to reduce the claim stabilization reserve by \$45 million and result in a claim stabilization reserve as of 12/31/09 equivalent to 3.4 months of projected claim costs.

Administrative Expenses

Plan Year 2009 premiums will include projected costs for the following administrative expenses:

- ASO fees for each vendor,
- Overhead expenses, and
- Investment income.

Claim Costs

Plan Year 2009 claim costs will include projected charges/credits for the following claim expenses:

- Medical and prescription drug claims,
- Capitation charges,
- Education Surcharges,
- Prescription drug rebates, and

- Medicare Part D prescription drug subsidies.

Enrollment Projections

Exhibit 1 shows historical enrollment patterns among the benefit offerings for Plan Year 2004 through May 2008 and includes our projection of enrollment from June 2008 through December 2009. The projections are based on enrollment increases which started in Plan Year 2008 and are projected to continue into Plan Year 2009.

Active Plans: Plan Year 2007 enrollment decreased 10%, mostly as a result of large premium increases in Plan Year 2006. However, the rate freeze on 1/1/2008 followed by premium decreases for 4/1/2008 have resulted in increasing enrollment and we are projecting that it will continue with an average decrease of 2.0% in Plan Year 2008 and an increase of 1.1% in Plan Year 2009.

On 4/1/2008, 67% of employees enrolled in the new NJ DIRECT10 plan, 14% in NJ DIRECT15, and the remaining 19% in HMOs. We are projecting that this plan distribution will remain the same in Plan Year 2009.

Retiree Plans: Plan Year 2007 enrollment increased 5%. We are projecting that retiree enrollment will continue to increase at 5% per year for Plan Years 2008 and 2009.

On 4/1/2008, 80% of retirees enrolled in the new NJ DIRECT10 plan, 12% in NJ DIRECT15, and the remaining 8% in HMOs. We are projecting that this plan distribution will remain the same in Plan Year 2009.

Adjustment for 4/1/2008 Benefit Changes

The claim projections are based on Plan Year 2007 experience projected into Plan Years 2008 and 2009. In order to project claims under the benefit options

available on 4/1/2008, an extra adjustment was added to the calculations. This adjustment was calculated separately by plan (NJ DIRECT10, NJ DIRECT15, Aetna HMO and CIGNA HMO) and by Active versus Retiree. For subscribers who were enrolled in Plan Year 2007 and on 4/1/2008, the Plan Year 2007 Claim cost per subscriber was calculated on two bases:

- 1) Claim cost per subscriber based on the Plan Year 2007 benefit option, and
- 2) Claim cost per subscriber based on 4/1/2008 benefit option. This claim calculation includes a benefit/discount adjustment for those who changed plans between Plan Year 2007 and 4/1/2008, and adjusts for the following:
 - PPO benefit changes as of 4/1/2008,
 - Discount/rebates changes as a result of the RFP, and
 - Actual employee benefit elections for 4/1/2008 compared to Plan Year 2007 benefit elections.

Adjusted claims were then compared to unadjusted Plan Year 2007 claims to develop a Plan/Migration Factor for each rating group. These Plan/Migration Factors are listed below and were used to convert Plan Year 2007 claims per subscriber into claims per subscriber after 4/1/2008.

Plan/Migration Factor

	Active Employees	Early Retirees	Medicare Retirees
NJ DIRECT10	0.944	0.922	1.015
NJ DIRECT15	0.794	0.845	0.934
Aetna HMO	1.011	1.000	0.993
CIGNA HMO	0.989	1.026	0.996
Rx Card Plan	0.956	NA	NA

Health Status Change

We are assuming no change to average health status, since total enrollment is growing and is expected to continue to grow.

Large Claims

Plan Year 2007 large claim experience is detailed in Exhibit 3. Claims over \$100,000 were pooled over the entire Local Education Employer group. The impact of this adjustment was a 1% increase in HMO claims with minimal changes to NJ PLUS and the Traditional Plan.

Trend Rates

Exhibit 2 (pages 21-23) presents Local Education Employer trend experience and Aon's trend assumptions for Plan Year 2009. The claim trends that we are recommending for the Plan Year 2009 renewal are:

	Medical	Prescription Drugs
NJ DIRECT Employee	7.5%	9.0%
NJ DIRECT Early Retiree	6.5%	7.5%
NJ DIRECT Medicare Retiree	5.0%	7.5%
Aetna HMO	9.5%	9.0%
CIGNA HMO	8.0%	9.0%
Employee Prescription Drug card	NA	7.5%

There are three columns of percentages presented in Exhibit 2:

2007 Increase in Claims/Ee – This is the actual increase in claims per subscriber from Plan Year 2006 to Plan Year 2007.

Benefit Changes – This shows the impact of benefit changes which occurred in Plan Year 2007. For Horizon, the benefit changes impacted NJ

PLUS, but not the Traditional plan, so the benefit change values reflect the benefit change for NJ PLUS weighted by the percentage of claims attributable to NJ PLUS.

Claim Trend – This is the increase in claim cost that would have occurred if there had been no change in benefits. It is the basis for determining future claims increases, since we make separate adjustments to trend for benefit changes. Claim trend is calculated by subtracting the value of benefit changes from the actual increase in claims per subscriber.

Exhibit 2A presents Horizon trends for active employees:

- The first section shows Medical claim increases for Actives. The “Claim Trend” values are 10.2% and 6.5% for Plan Years 2006 and 2007, respectively. We are recommending an assumption of 7.5% for Plan Year 2009.
- The second section shows the Active experience under the employee Prescription Drug card. The “Claim Trend” values are 9.6% and 6.8% for Plan Years 2006 and 2007, respectively. We are recommending an assumption of 7.5% for Plan Year 2009.
- The third section shows the Active experience for prescription drugs that are covered under the medical plan. The “Claim Trend” values are 8.4% and 12.9% for Plan Years 2006 and 2007, respectively. We are recommending an assumption of 9.0% for Plan Year 2009.

Exhibit 2B presents Horizon trends for retirees:

- The first section shows Medical claim increases for Early Retirees. The “Claim Trend” values are 4.3% and 8.4% for Plan Years 2006 and 2007, respectively. We are recommending an assumption of 6.5% for Plan Year 2009, 1% lower than recommended the Active Employee trend.
- The second section shows Medical experience for Medicare Retirees. The “Claim Trend” values are 2.6% and 4.0% for Plan Years 2006 and 2007, respectively. We are recommending an assumption of 5.0% for Plan Year 2009, 2.5% lower than the recommended Active Employee trend.
- The last section shows Retiree prescription drug experience. The “Claim Trend” values are 7.9% and 7.0% for Plan Years 2006 and 2007, respectively. We are recommending an assumption of 7.5% for Plan Year 2009, the same as the recommended Active Employee trend.

Exhibit 2C presents HMO trends for actives and retirees combined:

- The first section shows Group Aetna Medical experience. The “Claim Trend” values are 15.6% and 8.8% for Plan Years 2006 and 2007, respectively. We are recommending an assumption of 9.5% for Plan Year 2009, 2% higher than the recommended Active Employee Horizon trend.
- The second section shows CIGNA Medical experience. The “Claim Trend” values are 14.1% and 5.6% for Plan Years 2006 and 2007, respectively. We are recommending an assumption of 8.0% for Plan Year 2009, 0.5% higher than the recommended Active Employee Horizon trend.
- The last section shows HMO prescription drug experience. The “Claim Trend” values are 12.3% and 11.9% for Plan Years 2006 and 2007, respectively. We are recommending an assumption of 9.0% for Plan Year 2009, which is 1.5% higher than Aon’s recommended prescription drug assumption for the Horizon Employee and Retiree prescription drug card plans.

Data Assumptions

Claims: For medical and prescription drug claims, we are using claim files from each of the vendors which have claims paid through March 31, 2008. For capitation, we have complete 2007 files from Horizon, Aetna, CIGNA, and AmeriHealth. We are using projected capitation values for Oxford. Health Net does not have capitation.

Enrollment: We receive quarterly census files from the Division of Pensions and Benefits and we are using this information to match against the claims tapes to determine enrollments for Active versus Retiree and State versus Local Employers. We are also receiving billing counts from the Division of Pensions and Benefits which we use for the exposure units in our cost analysis.