



New Jersey
State Health Benefits Program

Dental Plans

Plan Year 2009 Rate Renewal Recommendation Report

January 1, 2009 – December 31, 2009

Prepared by Aon Consulting

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Executive Summary

The purpose of this report is to review the experience of the Dental Plans offered through the New Jersey State Health Benefits Program (SHBP) to State Employees and Retirees, as well as Employees and Retirees of participating Local Employers, and recommend premium levels to support the Dental Plans for Plan Year 2009. Rate renewal recommendation reports on the SHBP Medical Plans have been submitted to the Division of Pensions and Benefits under separate cover.

The SHBP Dental Program includes the following options:

- The self-insured Employee Dental Expense Plan, administered by Aetna, which covers State Active Employees and participating Active Employees of participating Local Employers;
- The self-insured Retiree Dental Expense Plan, administered by Aetna, which covers State Retirees and Retirees of participating Local Employers; and
- The six fully-insured Dental Plan Organizations (DPOs), which cover State Active Employees and Active Employees of participating Local Employers.

Recommended Renewal Increases

For the past several years, the SHBP Dental Expense Plan has had claim trends which are lower than industry norms (as compiled through Aon's semi-annual survey of trends among major insurance carriers, managed-

care vendors, and dental plans). As a result of the continuing favorable claim experience, we are recommending no increase for the Dental Expense Plans for Plan Year 2009.

The DPO plans requested renewal increases ranging from 0% to 16.5%. We are recommending DPO increases that average 2.4% and range from 0% to 3.5%. The size of the renewal increase for each DPO is dependent upon their Value Ratio as of 12/31/2007. The recommended renewal increases by DPO are listed in Exhibit 1.

Benefit Changes

In Plan Years 2007 and 2008, there were no benefit changes under the Employee Dental Expense Plan, the Retiree Dental Expense Plan, or the DPOs, nor are any benefit changes contemplated for Plan Year 2009.

Financial Results

For Plan Year 2007, favorable experience for the Employee Dental Expense Plan resulted in a total gain of \$3.6 million. Plan Year 2008 projections are also favorable, with a projected gain of \$1.7 million if the premiums are fully funded. Freezing the premiums for Plan Year 2009 is projected to result in a loss of \$0.2 million, which is more than offset by gains from prior years.

For Plan Year 2007, favorable experience for the Retiree Dental Expense Plan results in a total gain of \$3.4 million. Plan Year 2008 projections are also favorable, with a projected gain of \$1.9 million. Freezing the premiums for Plan Year 2009 is projected to result in a gain of \$0.8 million.

The DPOs are fully-insured, so they are on a no-loss, no-gain basis.

The table below summarizes the projected gains/losses (in \$ millions) for Plan Years 2007, 2008, and 2009. These gains assume that premiums are fully funded each year:

	<u>\$ in Millions</u>		
	<u>2007</u>	<u>2008</u>	<u>2009</u>
Employee Dental Expense	\$3.6	\$1.7	(\$0.2)
DPOs	n/a	n/a	n/a
Retiree Dental Expense	\$3.4	\$1.9	\$0.8
Total	\$7.0	\$3.6	\$0.6

Administrative Changes

There are no administrative changes anticipated for the Dental Expense Plans in Plan Year 2009.

Dental Program Strategic Planning

The SHBP Dental Program provides a very comprehensive plan of benefits at a reasonable cost to their employees and retirees. However, there are a number of areas that are causes of concern:

- Over the past four years, the percentage of State employees enrolled in the DPO plan has decreased from 47% to 40%. This is a significant cost driver for the SHBP since the average DPO cost per member is half that of the Dental Expense Plan.

- Local Employer enrollment in the DPOs is only a third of their total dental enrollment.
- Total Local Employer enrollment in the SHBP dental plans is only 2% of their medical enrollment. Larger Local Employer enrollment would provide SHBP dental vendors with a larger base for negotiating discounts with their providers, which may reduce costs for both the SHBP and Local Employers.

Exhibit 9 presents a number of ideas that could be implemented to help address these concerns and help maintain the financial strength of the SHBP dental program. Aon's comments/observations in this exhibit primarily address the cost aspects of the SHBP Dental Plans. We expect to more closely examine the clinical/quality issues as a function of the upcoming DPO audits.

Historical Overview

Benefit Changes

There were no Dental Expense Plan benefit changes for Active Employees or Retirees for Plan Year 2008, and no changes are anticipated for Plan Year 2009.

The number of DPO offerings was reduced from 10 in Plan Year 2007 to 6 in Plan Year 2008. The purpose of this reduction was to eliminate the less efficient DPOs and retain the higher value DPOs. No further reductions in DPOs are anticipated for Plan Year 2009.

The Retiree Dental Expense Plan was offered for the first time on January 1, 2005 and it offers three tiers of dental coverage. Tier One, the lowest level of benefits, applies to Retirees who enroll in the Plan without prior Dental Coverage. Tier Three, the highest level of benefits, applies to Retirees who have been in the Retiree Dental Plan for two years or who had Dental coverage prior to enrolling in the Retiree Dental Expense Plan. Initially, 60% of retirees were covered under Tier One. However, by Plan Year 2007, 89% of retirees were in Tier Three. Plan Year 2009 Tier Three coverage is projected to be about 95%.

The Retiree Dental Expense Plan benefits are not as comprehensive as the Employee Dental Expense Plan - Tier Three, the most comprehensive of the three tiers, has lower coinsurance paid by the Plan than the Employee Dental Expense Plan for both Basic and Major Restorative Services and the annual benefit maximum is \$1,500, half of the Employee Dental Expense Plan maximum.

Eligibility Changes

Employee Dental Expense Plan and DPO participation was expanded on January 1, 2005 to include Active Employees of the Local Employer Group. Also on January 1, 2005, Retirees of the State and Local Employer Groups were offered participation in a new Retiree Dental Expense Plan.

Enrollment Changes

Exhibit 2 shows historical enrollment patterns among the SHBP Dental Plan offerings for Plan Years 2003 through 2008 and includes Aon's projection of Plan Year 2009 enrollment.

For Active Employees, the projections assume very little change in enrollment between Plan Year 2008 and Plan Year 2009. Retiree dental enrollment is projected to increase 9% in Plan Year 2009 which is consistent with prior years.

Aon's Plan Year 2009 Dental Program enrollment projections are:

- Employee Dental Expense Plan
 - 60,698 Active Employees of the State Employee Group
 - 1,360 Active Employees of the Local Employer Group
- DPOs
 - 41,212 Active Employees of the State Employee Group
 - 658 Active Employees of the Local Employer Group
- Retiree Dental Expense Plan
 - 14,117 Retired Employees of the State Retiree Group
 - 36,120 Retired Employees of the Local Employer Group

Trend Analysis

Exhibit 3 presents Aon's trend assumptions for Plan Year 2009 for the Dental Expense Plans. This exhibit compares the actual increase in SHBP Employee Dental Expense Plan average claims with industry norms (based on Aon's Trend Survey) for the same period, separately for Employees and for Retirees.

SHBP Employee Dental Expense Plan trend varies from 1% to 6% lower than the industry norms, with trends for the most recent two years very consistent: 3.6% for Plan Years 2006 and 3.5% for Plan Year 2007, both about 4% below industry norms. Aon is recommending that the Plan Year 2007 experience trend of 3.5% be used to project claims into Plan Years 2008 and 2009. This is based on the expectation that dental trends will remain at their current levels and on favorable experience for first quarter 2008.

SHBP Retiree Dental trends are calculated on claims that have been adjusted to the Tier Three level of benefit payments. Retiree Dental trend was -2% from Plan Year 2005 to Plan Year 2006; however, this is probably not representative of future trends. Since Plan Year 2005 was the first year that Dental coverage was offered to Retirees, the initial claim utilization was very high, with reductions in utilization in Plan Year 2006. SHBP Retiree Dental trend from Plan Year 2006 to Plan Year 2007 is 3.0% and probably more representative of future trends. Aon is recommending trend of 3.5% be used to project claims into Plan Years 2008 and 2009. Although this is slightly higher than the prior year's trend, it is consistent with the Retiree Dental claim increase for first

quarter of Plan Year 2008 as well as with the Employee Dental experience.

Dental Expense Plan Financial Projections

Rating Methodology

Exhibit 4 shows the aggregate costs for Plan Years 2007, 2008, and 2009, separately for Active versus Retiree and for State versus Local Employers. Costs were projected separately for dental claims, administrative costs, investment income, and aggregate premiums. Exhibit 5 lists the assumptions used in projecting dental costs.

Dental Claim Projection

- 1) Using claim data (and claim triangles) supplied by Aetna, we estimated completed incurred claims for Plan Year 2007 and for the first three months of Plan Year 2008.
- 2) Aggregate dental claims for each Plan Year were divided by the average subscribers for that Plan Year to get claims per subscriber. To get average subscribers, we used historical billing enrollment.
- 3) Claims per Subscriber were annualized and then projected to Plan Years 2008 and 2009 using the trends listed in Exhibit 3.
- 4) Aggregate Plan Year 2009 claims are the product of the projected Plan Year 2009 enrollment and the projected Plan Year 2009 claims per subscriber.

Administrative Cost Projection

Aetna has agreed to continue the current ASO fees for Plan Year 2009. The Administrative Costs shown in Exhibit 4 are the actual Aetna ASO fees multiplied by the projected enrollment for each year:

Dental Expense Plan ASO Fees PEPM

	<u>Actives</u>	<u>Retirees</u>
1/2007–12/2007	\$2.01	\$1.85
1/2008–12/2008	\$2.01	\$1.85
1/2009–12/2009	\$2.01	\$1.85

Investment Income

Investment Income for Plan Year 2007 reflects actual amounts credited to the Dental Plan. Investment Income for Plan Years 2008 and 2009 are projections based on Plan Year 2007 investment income per subscriber increased 3% per year.

Rate Renewal Development

Dental Expense Plan Projected Premiums

- 1) Dental Expense Plan enrollment was applied to the actual premium tables for Plan Years 2007 and 2008 to develop the anticipated gain or loss in each of those years.
- 2) To calculate the required premium increase for Plan Year 2009, projected enrollment for Plan Year 2009 was applied to Plan Year 2008 premiums.

Dental Expense Plan Rate Change Recommendation

- 1) Plan Year 2009 aggregate costs were calculated by summing projected costs for dental claims and administrative charges, reduced by investment income.
- 2) A comparison of Plan Year 2009 aggregate costs with Plan Year 2008 premiums resulted in a 0.3% loss for Active Employees and 2.2% gain for Retirees. Since the Dental Expense plan has had gains in each of the past two years, Aon is recommending no rate change for Plan Year 2009.

DPO Renewal Rate Development

The essentially fully-capitated reimbursement arrangements under the DPOs present a unique challenge for underwriting an annual renewal analysis, in that the traditional yardstick of claims and expenses versus premium is not available. However, the DPOs received no renewal increase last year, and a number of the DPO plans expressed concern regarding provider retention if there were no increase in premiums for Plan Year 2009. Aon is recommending renewal increases of up to 3.5% which is the Plan Year 2007 increase in the Employee Dental Expense Plan claims per employee and the Plan Year 2009 trend assumption. The actual increase by plan varies based upon the Value Ratio as of 12/31/2007:

Value Ratio less than 0.90	No renewal increase
Value ratio 0.90 – 0.99	2.0% renewal increase
Value ratio greater than 1.00	3.5% renewal increase

Exhibit 6 shows the components of the calculation of the Value Ratio. The Value Ratio is the ratio of DPO Expenses to DPO income. A Value Ratio greater than 1.00 means that the DPO delivers more services than would be expected based on the premium level. A Value Ratio less than 1.00 means that the DPO delivers fewer services than would be expected based on the premium level.

The DPO Income used to calculation the Value Ratio is the sum of DPO premiums and DPO copays:

- To calculate premium, we used the DPO enrollment for 1/1/2007-12/31/2007 multiplied by DPO premiums.
- To calculate the DPO copays, we matched DPO procedure codes from Plan Year 2007 encounter data submitted by the DPO vendors with the procedure codes in the DPO schedule of copayments. For Orthodontia, we assumed that the copay is paid when the comprehensive treatment encounter is submitted and that there are no copays for the subsequent orthodontia treatments. The vendor coding of Orthodontia is not consistent, so the Orthodontia encounters were adjusted based on additional information received from the vendors as to how they code Orthodontia.

The DPO Expenses used in the Value Ratio are the sum of dental charges and administrative fees required to maintain the DPO program:

- To calculate the Dental charges, we matched DPO procedure codes from the Plan Year 2007 encounter data submitted by the DPO vendors with the procedure codes in a table of dental relative values. As with the copays, Orthodontia procedures were adjusted to reflect the coding practices of the different DPO vendors. We then matched experience from the SHBP Dental Expense Plan against the table of dental relative values and compared the result to the actual dollars paid in claims. The DPO charge level was then set at 75% of the Dental Expense claim level, since it is expected that the DPO networks should be able to achieve deeper discounts than the more loosely-managed Dental Expense Plan.

- Procedures which are not covered by the DPO plan are excluded from the DPO Value Ratio calculation.
- To calculate the administrative costs of the DPO program, we use the Plan Year 2007 Employee Dental Expense Plan fee of \$2.01 per employee per month.

Plan Year 2009 Premium Rates

Exhibit 7 contains the premium tables for the Plan Year 2009 Dental Plan renewal. The premiums were calculated by applying the percentage changes in Exhibit 1 to the Plan Year 2008 premium tables.

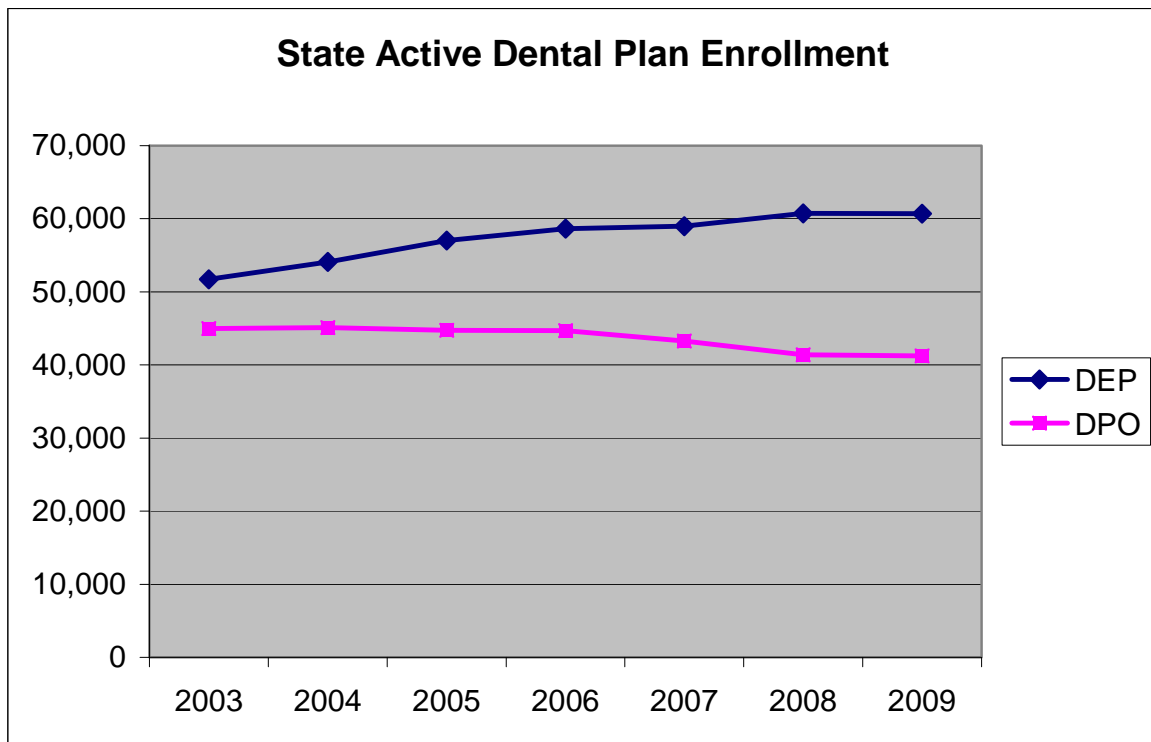
SHBP Plan Year 2009 Renewal Report

Exhibit 1 - Recommended Renewal Increases

	Actives	Retirees
Dental Expense Plan	0.0%	0.0%
DPO Plans:		
Aetna	3.5%	NA
Benecare	3.5%	NA
CIGNA	2.0%	NA
Community Dental	3.5%	NA
Healthplex	3.5%	NA
Horizon	0.0%	NA

SHBP Plan Year 2009 Renewal Report

Exhibit 2A - Enrollment Projections



Observations:

Total Active enrollment changed very little between Plan Years 2005 through 2008, and it is projected to continue at about 102,000 employees in Plan Year 2009.

The Dental Expense Plan enrollment is increasing each year and DPO enrollment is decreasing. DPO enrollment has decreased from 47% of total enrollment in Plan Year 2003 to 40% in Plan Year 2008.

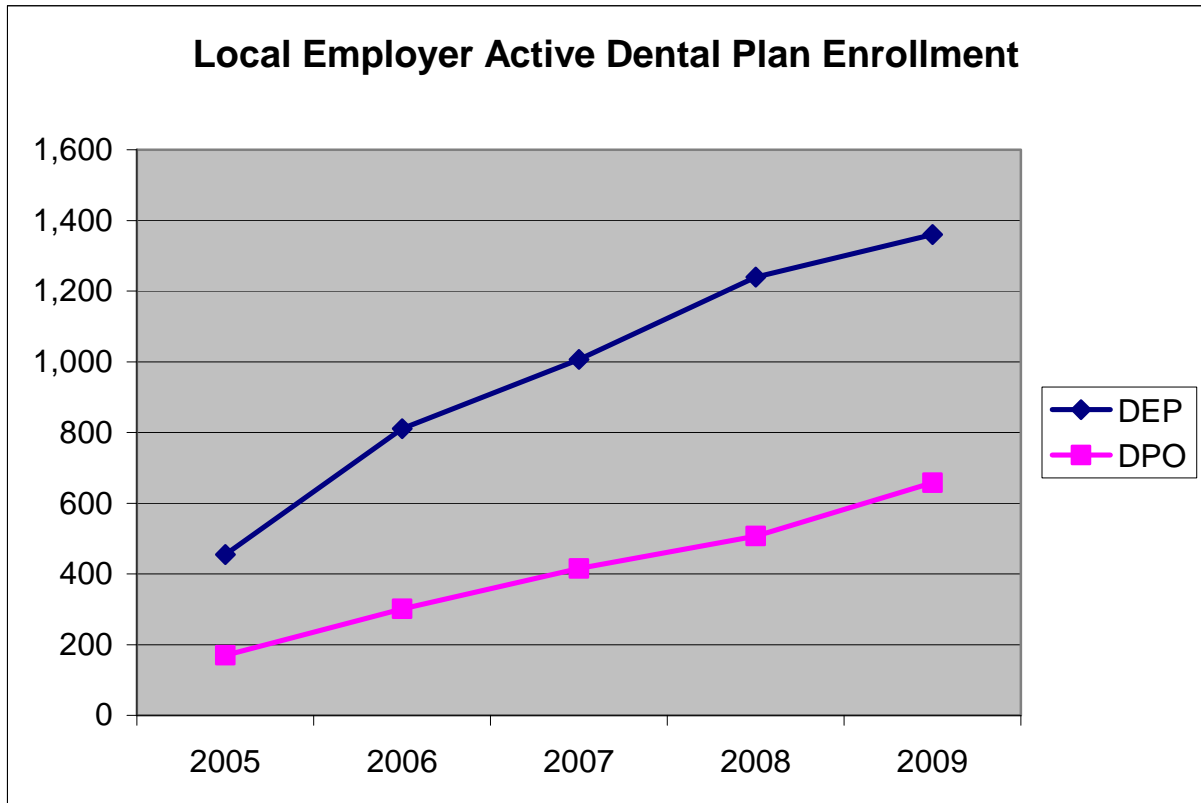
Plan Year 2009 assumes that enrollment will change very little from Plan Year 2008. Projected Plan Year 2009 Dental enrollment is 93% of projected Medical enrollment.

Projected Plan Year 2009 State Active Employee Enrollment

Dental Expense Plan	60,698
DPOs	41,212
Total Dental	101,910

SHBP Plan Year 2009 Renewal Report

Exhibit 2B - Enrollment Projections



Observations:

Dental was first offered to Local Active Employees in Plan Year 2005. Initial enrollment was quite low and it has grown very little.

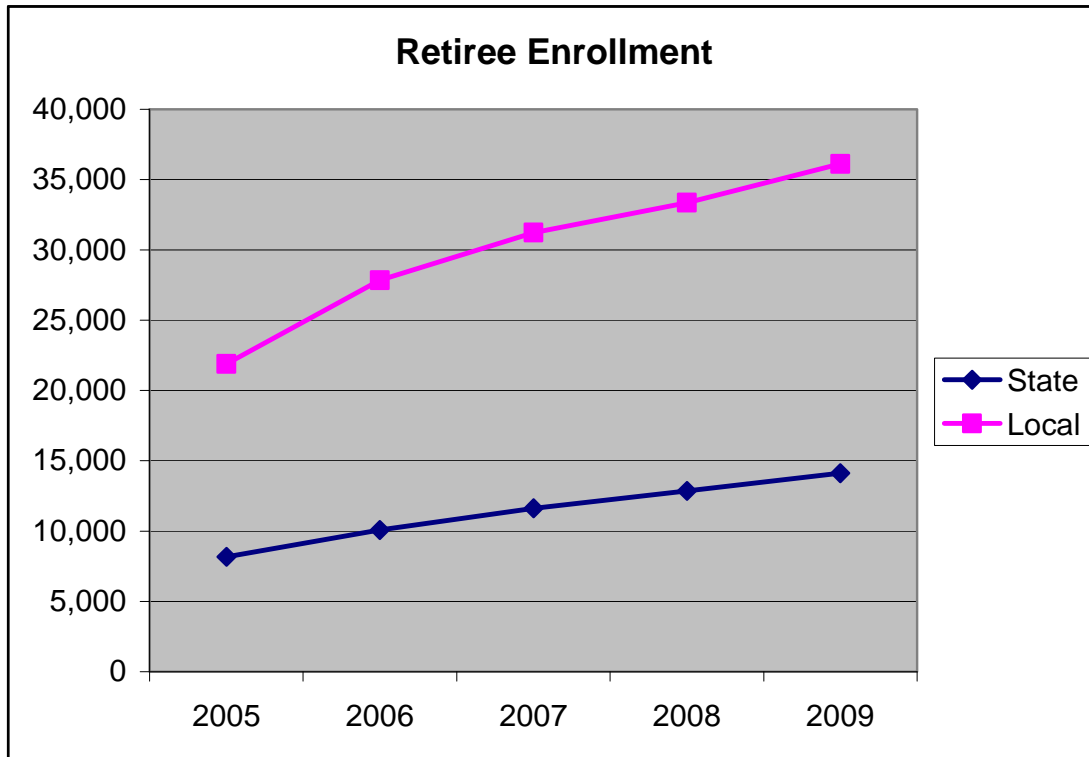
Dental enrollment is projected to continue increasing in Plan Year 2009. Projected Plan Year 2009 Dental enrollment is 2% of projected Medical enrollment.

Projected Plan Year 2009 Local Employer Active Employee Enrollment

Dental Expense Plan	1,360
DPOs	658
Total Dental	2,018

SHBP Plan Year 2009 Renewal Report

Exhibit 2C - Enrollment Projections



Observations:

Dental was first offered to Retirees in Plan Year 2005. Initially, the plan was offered to all retirees, but from Plan Year 2006 onward, it is only open to new retirees.

Plan Year 2009 Retiree Dental enrollment is projected to grow at the same rate as the Plan Year 2008.

Plan Year 2009 Retiree Dental enrollment is projected to be 35% of State Retiree Medical enrollment and 36% of Local Employer Retiree Medical enrollment.

The only dental option available to Retirees is the Dental Expense Plan.

Projected Plan Year 2009 Retiree Enrollment

State	14,117
Local Employer	36,120
Total Dental	50,237

SHBP Plan Year 2009 Renewal Report

Exhibit 3 - Trend Analysis

State Active Ees	SHBP Employee Claim Increases	SHBP Retiree Claim Increases	Aon Survey	SHBP Employee - Aon Survey	SHBP Retiree - Aon Survey
2002 to 2003 actual	7.2%		8.4%	-1.2%	
2003 to 2004 actual	2.4%		7.7%	-5.3%	
2004 to 2005 actual	1.4%		7.6%	-6.2%	
2005 to 2006 actual	3.4%	-2.0%	7.1%	-3.7%	-9.1%
2006 to 2007 actual	3.5%	3.0%	7.1%	-3.6%	-4.1%
Projection Trend	3.5%	3.5%	7.0%	-3.5%	-3.5%

SHBP Plan Year 2009 Renewal

Exhibit 4 - Dental Expense Plan Projected Costs

	Total Actives	State Actives	Local Actives	Total Retirees
Plan Year 2007				
Average Dental Subscribers	59,998	58,991	1,007	42,827
Incurred Claims	\$ 51,268,000	\$ 50,320,000	\$ 948,000	\$ 27,965,000
Administrative Fees	\$ 1,447,000	\$ 1,423,000	\$ 24,000	\$ 951,000
Investment Income	\$ (673,000)	\$ (662,000)	\$ (11,000)	\$ (481,000)
Total Cost	\$ 52,042,000	\$ 51,081,000	\$ 961,000	\$ 28,435,000
Premium	\$ 55,601,000	\$ 54,615,000	\$ 986,000	\$ 31,851,000
Gain	\$ 3,559,000	\$ 3,534,000	\$ 25,000	\$ 3,416,000
Plan Year 2008				
Average Dental Subscribers	61,968	60,729	1,239	46,206
Incurred Claims	\$ 54,822,000	\$ 53,615,000	\$ 1,207,000	\$ 32,063,000
Administrative Fees	\$ 1,494,000	\$ 1,465,000	\$ 29,000	\$ 1,025,000
Investment Income	\$ (716,000)	\$ (702,000)	\$ (14,000)	\$ (535,000)
Total Cost	\$ 55,600,000	\$ 54,378,000	\$ 1,222,000	\$ 32,553,000
Premium	\$ 57,313,000	\$ 56,101,000	\$ 1,212,000	\$ 34,427,000
Gain	\$ 1,713,000	\$ 1,723,000	\$ (10,000)	\$ 1,874,000
Plan Year 2009				
Average Dental Subscribers	62,058	60,698	1,360	50,237
Incurred Claims	\$ 56,835,000	\$ 55,464,000	\$ 1,371,000	\$ 36,067,000
Administrative Fees	\$ 1,496,000	\$ 1,464,000	\$ 32,000	\$ 1,115,000
Investment Income	\$ (738,000)	\$ (723,000)	\$ (15,000)	\$ (550,000)
Total Cost	\$ 57,593,000	\$ 56,205,000	\$ 1,388,000	\$ 36,632,000
Premium	\$ 57,416,000	\$ 56,088,000	\$ 1,328,000	\$ 37,441,000
Gain	\$ (177,000)	\$ (117,000)	\$ (60,000)	\$ 809,000

SHBP Plan Year 2009 Dental Plan Renewal Report

Exhibit 5 – Projection Assumptions

Benefit Design Changes

We are assuming that there will be no plan design changes for Plan Year 2009.

Vendor Changes

We are assuming no changes to vendors in Plan Year 2009.

Member Contributions

State Active Plans: There will be no change to the current requirements: Employees pay 50% of the Dental Expense plan premium, and 50% of the average DPO premium (same DPO contribution for all DPO vendors).

Local Employer Active Plans: There will be no change to the current requirements: Employees pay a maximum of 50% of premium for the Dental Expense Plan and for each DPO vendor. Actual contributions vary by Local Employer.

State and Local Employer Retiree Plans: There will be no change to current requirements: Retirees pay 100% of the premium.

Incurred Basis

Plan Year 2009 projections are based on expected incurred claims and expenses for Plan Year 2009.

Margin

Employee Dental Expense Plan: Active Employees pay half the projected cost of the Dental Plan with no deficit recovery. However, the Employee Dental Expense Plan claim stabilization reserve is projected at \$14 million or 3.0 months of claim costs on 12/31/2009 if there is no renewal increase, so no margin was included in their renewal rates.

DPO Plans: DPO rates have no margin, since there is no risk to the State in these programs.

Retiree Dental Expense Plan: Retirees pay 100% of the premium with no deficit recovery. At this point, we are projecting a claim stabilization reserve of \$5.7 million at the end of Plan Year 2009 if there is no renewal increase. This is equivalent to 1.9 months of claims which is close to our target reserve of 2 months. For this reason, no margin is included in the Plan Year 2009 Retiree premiums.

Administrative Expenses

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

- Aetna ASO fees,
- Investment income credit.

Enrollment Projections

Based on historical enrollment patterns and discussions with the State, we are projecting the following enrollment for Plan Year 2009:

-
- Employee Dental Expense Plan
 - 60,698 Active Employees of the State Employee Group
 - 1,360 Active Employees of the Local Employer Group
 - DPOs
 - 41,212 Active Employees of the State Employee Group
 - 658 Active Employees of the Local Employer Group
 - Retiree Dental Expense Plan
 - 14,117 Retired Employees of the State Retiree Group
 - 36,120 Retired Employees of the Local Employer Group

Trend Rates

Trend assumptions were developed by comparing the SHBP historical trend with industry norms. We assumed that the SHBP trends would continue at levels lower than the industry norms for the Plan Year 2008 renewal. The trend assumption for Plan Year 2009 is 3.5% for both Employees and Retirees.

Data Assumptions

Claims: We received a claim file from Aetna, which appears to be consistent with their Renewal reports, and we used this information in our renewal analysis.

Enrollment: We used billing counts for our exposure units in our renewal calculations.

SHBP Plan Year 2009 Renewal

Exhibit 6 - Value Ratio

1/1/2007 - 12/31/2007 SHBP DPO Experience

	Average Ees	Aggregate Copays	Aggregate Premiums	DPO Income	Dental Charges	Administrative Expenses	DPO Expenses	Value Ratio Expenses / Income	Recommended Renewal Increase
Aetna	14,064	\$ 2,538,420	\$ 6,512,797	\$ 9,051,217	\$ 9,870,178	\$ 339,224	\$ 10,209,401	1.13	3.5%
Benecare	5,927	\$ 862,683	\$ 3,480,862	\$ 4,343,545	\$ 4,469,691	\$ 142,959	\$ 4,612,650	1.06	3.5%
CIGNA	6,972	\$ 748,708	\$ 3,289,534	\$ 4,038,242	\$ 3,555,680	\$ 168,165	\$ 3,723,845	0.92	2.0%
Community	1,742	\$ 246,976	\$ 997,543	\$ 1,244,519	\$ 1,339,189	\$ 42,017	\$ 1,381,206	1.11	3.5%
Healthplex	3,671	\$ 431,573	\$ 1,686,828	\$ 2,118,401	\$ 2,161,493	\$ 88,545	\$ 2,250,037	1.06	3.5%
Horizon	6,239	\$ 505,363	\$ 2,691,356	\$ 3,196,718	\$ 2,527,347	\$ 150,485	\$ 2,677,832	0.84	0.0%
Total DPO*	43,676	\$ 5,970,773	\$ 21,035,794	\$ 27,006,567	\$ 26,679,625	\$ 1,053,465	\$ 27,733,091	1.03	2.4%

*Total DPO includes values for the terminated DPOs.

**SHBP Plan Year 2009 Dental Plan Renewal
Exhibit 7A - Plan Year 2009 Monthly Premiums**

DENTAL PROVIDER ORGANIZATIONS (DPO)

BENECARE (DPO #301)

SINGLE	\$25.18
Member & Spouse/Partner	\$43.74
FAMILY	\$71.58
PARENT & CHILD	\$53.02

COMMUNITY DENTAL (DPO #302)

SINGLE	\$24.02
Member & Spouse/Partner	\$41.77
FAMILY	\$68.32
PARENT & CHILD	\$50.60

CIGNA (DPO #305)

SINGLE	\$21.59
Member & Spouse/Partner	\$37.55
FAMILY	\$61.41
PARENT & CHILD	\$45.51

HEALTHPLEX (DPO #307)

SINGLE	\$21.39
Member & Spouse/Partner	\$37.17
FAMILY	\$60.81
PARENT & CHILD	\$45.04

HORIZON DENTAL CHOICE (DPO #317)

SINGLE	\$19.57
Member & Spouse/Partner	\$34.00
FAMILY	\$55.63
PARENT & CHILD	\$41.21

AETNA (DPO #319)

SINGLE	\$21.36
Member & Spouse/Partner	\$37.17
FAMILY	\$60.80
PARENT & CHILD	\$45.05

**SHBP Plan Year 2009 Dental Plan Renewal
Exhibit 7B - Plan Year 2009 Monthly Premiums**

RETIREE DENTAL EXPENSE PLAN - #398

SINGLE	\$41.57
Member & Spouse/Partner	\$82.02
FAMILY	\$106.87
PARENT & CHILD	\$61.81

EMPLOYEE DENTAL EXPENSE PLAN - #399

SINGLE	\$41.34
Member & Spouse/Partner	\$71.83
FAMILY	\$117.53
PARENT & CHILD	\$87.06

STATE EMPLOYEE CONTRIBUTIONS FOR DENTAL EXPENSE PLAN

SINGLE	\$20.67
Member & Spouse/Partner	\$35.92
FAMILY	\$58.77
PARENT & CHILD	\$43.53

STATE EMPLOYEE CONTRIBUTIONS FOR DPO PLANS

SINGLE	\$10.58
Member & Spouse/Partner	\$18.51
FAMILY	\$30.15
PARENT & CHILD	\$22.17

**SHBP Plan Year 2009 Dental Plan Renewal
Exhibit 8 - April 2008 SHBP Enrollment**

	Number of Contracts				
	Single	Member&Spouse /Partner	Family	Parent + Child(ren)	Total
Dental Expense #399	21,459	13,786	18,965	6,618	60,828
STATE ACTIVES					
DPO Plans					
Benecare #301	1,674	1,062	2,213	1,144	6,093
Community Dental #302	409	278	626	453	1,766
CIGNA #305	2,547	1,105	2,246	1,272	7,170
HealthPlex #307	1,213	603	895	779	3,490
Horizon #317	2,539	1,007	2,030	1,338	6,914
Aetna #319	5,832	2,298	4,862	3,072	16,064
Total DPOs	14,214	6,353	12,872	8,058	41,497
Total	35,673	20,139	31,837	14,676	102,325
LOCAL EMPLOYER ACTIVES					
Dental Expense #399	366	294	474	88	1,222
DPO Plans					
Benecare #301	16	7	16	8	47
Community Dental #302	4	1	1	0	6
CIGNA #305	39	13	21	13	86
HealthPlex #307	4	1	1	1	7
Horizon #317	51	14	31	18	114
Aetna #319	92	36	67	29	224
Total DPOs	206	72	137	69	484
Total	572	366	611	157	1,706
RETIREE DENTAL EXPENSE					
Total	23,425	17,812	2,807	1,353	45,397

SHBP Plan Year 2009 Dental Plan Renewal Report

Exhibit 9 – SHBP Dental Strategic Review

Purpose

The purpose of this exhibit is to review the current status of the SHBP Dental Program and discuss strategies that would:

- Increase member satisfaction with the Program;
- Help control the rising costs of the Program, and
- Potentially increase enrollment in the lower-cost DPO component of the Program.

Background

Benefit Plans

The SHBP Dental Program offers State Active Employees a choice of dental coverage between a Dental Expense Plan (DEP) and six Dental Plan Organizations (DPOs). Both plans provide coverage for Dental expenses, with the employee paying a share of the incurred expenses. Under the DEP, employees pay an annual deductible of \$50 (except for Diagnostic/Preventive and Orthodontic services) and coinsurance (except for Diagnostic/Preventive services) which varies based on the type of service provided. Under the DPO plan, employees pay a copay per service based on the procedure code of the service provided. The table below compares the DEP coinsurance with the ratio of the average DPO copay to the average DPO covered charge. As you can see from the table

below, both plans require employees to pay a similar share of dental charges:

	<u>Employee Share of Expenses</u>	
	<u>DPO</u>	<u>DEP</u>
Diagnostic and Preventive	0%	0%
Basic Restorative	18%	20%
Major Restorative	30%	35%
Prosthodontic and Periodontic	30%	50%
Orthodontia	53%	50%

However, the actual employee expenses (exclusive of employee premium contributions) are generally higher under the DEP plan, since the cost levels for DEP procedures are typically 20-30% more than the DPO fee schedule. For example, a DPO member has a \$225 copay for a crown. The cost for a crown under the DEP would be an average of \$306 in coinsurance plus up to \$50 for the annual deductible.

Dental Utilization

DEP members use more dental services than DPO members, even though employees pay more for dental care under the DEP than under the DPO. The table below compares dental encounters per member per year for the DPO versus the Employee DEP:

	<u>DPO</u>	<u>DEP</u>
Diagnostic and Preventive	2.0	3.2
Basic Restorative	0.6	1.0
Major Restorative	0.1	0.2
Prosthodontic and Periodontic	0.2	0.3
Orthodontia	0.3	0.2

The reasons for the higher services under the DEP are:

- Members with ongoing dental problems are more likely to select the DEP plan since it does not limit their choice of provider and covers a wider range of dental procedures.
- Dental providers are paid on a fee-for-service basis under the DEP, but most of the DPO services are covered by capitation so the DPO provider has no incentive to provide additional services.
- Since most of the DPO services are paid for via capitation, the dental provider may not be reporting 100% of DPO encounters. While this would result in understating DPO utilization, Aon still feels confident that DPO utilization is measurably below the DEP's, for the reasons stated above.

Provider Network

DPO benefits are only covered if the member receives the services from a participating Dental Provider. Members can choose among six different DPO networks (which have a significant amount of overlap). The providers' fee is set by the DPO and the member never pays more than the DPO copay for covered services rendered. DEP benefits are covered with any dental provider, but are subject to Reasonable and Customary maximums. If a dental provider charges amounts in excess of the R&C limits, the employee may be responsible for the excess charges.

Covered Procedures

Only DPO procedures included in the DPO copayment schedule are covered under the DPO benefit plan. These procedures cover a wide

array of dental services and there is no maximum benefit limit. All dental benefits are covered under the DEP; however, annual benefits are subject to a \$3,000 maximum per member (which is considerably higher than most employer group dental programs).

Employee Contributions

Employees contribute 50% of the cost for both the DEP and the DPOs. However, the premiums for the DEP are twice as large as the DPO premiums, so the employee DEP contributions are also twice as large as the DPO contributions. The DPO contribution is the same for all DPOs and is based on the average DPO premium, not the premium for each DPO. The Plan Year 2008 monthly employee contributions for the SHBP Dental Program are:

	<u>DPO</u>	<u>DEP</u>
Single	\$10.33	\$20.67
Employee + Spouse	\$18.07	\$35.92
Employee + Family	\$29.44	\$58.77
Employee + Child(ren)	\$21.65	\$43.53

Problems

Employee Cost Sharing

When employees make their benefit elections during Open Enrollment, they do not have enough information to understand the differences in cost sharing between the DPO and the DEP. Most employees do not know what the cost of a dental procedure is, nor will they know whether the procedure is classified as Basic Restorative (with 20% coinsurance),

Major Restorative (with 35% coinsurance) or Periodontic (with 50% coinsurance). In addition, since the DEP is a passive PPO, Employees may not understand that an in-network dentist will have a significantly lower charge than an out-of-network dentist, and they may not realize that if an out-of-network dentist has charges which are higher than the Reasonable and Customary limit, the Employee may be responsible for the overage.

Strategic Initiative – Aon recommends that the SHBP provide more information at Open Enrollment regarding employee costs by including examples in the Open Enrollment material that demonstrate the differences in cost between the DEP and DPO. The employee communication should include a sample array of services that would apply to an entire family, so that both simple and more complex procedures could be included. Using a crown as an example, here is a sample of the kind of information that would be helpful to present to employees:

Employee share of expenses for a crown

<u>DPO</u> Copay	\$225
 <u>DEP in-network provider</u>	
Employee Dental deductible	\$50
Average Provider charge	\$670
Employee coinsurance	35%
Employee coinsurance payment	\$234
Total Employee cost	\$284

DEP out-of-network charge

Employee deductible	\$50
Average provider submitted charge	\$1,033
Reasonable and Customary limit	\$961
Amount over R&C	\$72
Average Provider covered charge	\$961
Employee coinsurance	35%
Employee coinsurance payment	\$336
Total Employee cost	\$458

This example provides an order of magnitude of the savings for a single procedure. Generally, families have multiple procedures over the course of a year, so a more meaningful reflection of the potential savings available to employees through DPO enrollment might be to present a series of "claim examples" covering different family situations for low-cost, moderate-cost, and high-cost dental expenses, similar to the claim examples prepared during the discussions leading up to the decision to introduce a PPO into the SHBP medical plan landscape.

Further, additional information could be provided by creating an on-line tool that permits employees to enter dental procedures and have the tool produce the information included in the crown example or the family dental care situations discussed above.

Employee Contributions

As detailed in the background section of this memo, employee contributions are the same for all DPOs, and DPO contributions are half the DEP contributions.

Strategic initiative - Aon recommends the the Dental Program contribution formula be revised to encourage higher enrollment in the DPO plans.

- For example, the current contribution for a single employee is \$10.33 per month for the DPO and \$20.67 per month for the DEP. If the DPO contribution were *decreased* by \$5 per month and the DEP contribution were *increased* by approximately \$6 per month, the greater differential in employee cost between the DEP and the DPOs would encourage employees to look at the DPO plan more seriously.

The other benefit of such a contribution change is that the State would then be financially indifferent to the employee benefit selection (i.e., the State’s cost would be the same regardless of which plan the employee selects). Under this revised scenario, the premium allocation for a single employee would be:

	<u>Average DPO</u>	<u>DEP</u>
Employee Contribution	\$ 5.33	\$26.00
State Contribution	\$15.34	\$15.34
Total Cost	\$20.67	\$41.34

- In addition to encouraging DPO enrollment over DEP enrollment, the State could adjust employee contributions for the different DPO plans so that employees had a financial incentive to enroll in one of the lower-cost DPO plans. Current premiums for the DPOs range from \$20 to \$25 for single coverage. If contributions for DPOs varied based on their cost, enrollment in the lower-cost DPOs

should increase, which would reduce costs for both employees and the State, assuming the State chooses to adjust its contributions accordingly. For a single employee, such a contribution formula might look like:

	<u>Most Expensive DPO</u>	<u>Least Expensive DPO</u>
Employee Contribution	\$ 9.00	\$ 4.23
State Contribution	\$15.34	\$15.34
Total Cost	\$24.33	\$19.57

- The other advantage of this contribution scenario is that it provides the DPOs with an additional incentive to keep their costs low – lower DPO costs lead to lower employee contributions which lead to greater employee enrollment. This strategy would need to be coupled with a minimum standard for the Value Ratio to ensure that the competition on cost does not impact the plan’s quality or accessibility.

Provider Networks

Employees are generally reluctant to change dental providers. However, our access review as part of the Plan Year 2008 Dental Program renewal indicated that there is a significant amount of overlap in providers among the DPO plans, and also that many of the providers used by members in the DEP are also in one or more of the DPO networks. Currently, if an Employee is interested in considering a change to a DPO, the Employee must check the provider list for each DPO to determine if his/her provider is in that network.

Strategic Initiative – The SHBP could establish a provider directory (like the Unified Provider Directory for medical) which lists all providers and identifies which networks include that provider. This would make it easier for employees to consider a change from the DEP to the DPO, since they could see which DPOs have their dentists in their provider networks.

Also, the SHBP could encourage the DPOs to send representative to Open Enrollment meetings with information about their DPO network and benefits.

Local Employer Dental Enrollment

Local Employers can enroll in the SHBP dental plan for both the DEP and the DPOs. While Dental Program enrollment was first offered to Local Employers for Plan Year 2005, Local Employer enrollment has remained very low – only 2% of the Medical plan enrollment. In addition, only 33% of Local Employer employees select the DPO plan with 67% selecting the more expensive DEP plan. This suggests that the either Local Employers are not aware of the SHBP Dental Program offerings or that the offerings are too expensive for the Local Employers. In comparison to the SHBP DEP, many dental plans have higher deductibles, lower maximum benefits, and include out-of-network penalties. Further, despite these more restrictive plan designs (which would tend to reduce plan costs), Aon suspects that the average Local Employer would be hard-pressed to find a dental plan (especially if fully insured) that would compete effectively with a large, self-insured plan like the DEP – and especially the lower-cost, fully-insured DPOs.

Strategic Initiative – Aon recommends that the SHBP provide Dental Plan information to their current medical plan participants in a number of ways:

- Improved information on the SHBP website about their benefit offerings, such as adding the Dental Plan benefit descriptions to the Summary Plan Descriptions which are currently on-line for Local Employer medical plans.
- Encourage Horizon to include dental marketing with their SHBP medical marketing,
- Encourage the DPOs and the DEP vendor to contact some of the larger Local Employers directly to advertise their Dental offerings in the SHBP dental program.
- Include information about the SHBP dental program with one or more communications to Local Employers about their SHBP medical plan.
- Create a survey for Local Employers to find out if they offer dental coverage, and if so, what sort of plan is offered. This could help with understanding if the SHBP dental program is too rich and expensive to attract Local Employers, and also help in identifying what information should be provided to Local Employers to encourage their participation in the Dental program.

Benefit Structure

A review of the current benefit structure and a comparison of benefits between the DEP and the DPO could help ensure the financial health of these plans and could serve as a basis for adjusting the benefit designs to make both plans more cost effective and more appealing to members.

Strategic initiatives – Aon recommends that the SHBP consider the following options:

- The current DEP is a passive PPO. The difference in cost between in-network and out-of-network providers is about 30%. If the employee coinsurance for out-of-network providers were higher than for in-network providers, it would encourage in-network utilization. The SHBP could reduce costs on the claims that moved from out-of-network to in-network due to the higher discounts that apply to in-network providers. The SHBP could reduce costs on the claims that stayed out-of-network because employees would be paying a larger percentage of the cost.
- Compare the current array of benefits, copays, and coinsurance for the DPOs and the DEP to make sure that they are consistent and that employees are not changing from DPO to DEP and back again based on their current benefit needs. Since dental care is somewhat discretionary, employees can postpone some of their dental care until after the next Open Enrollment in order to maximize their benefit coverage. For example, there is some evidence that employees enroll in the DPO plan in order to get the

orthodontia benefit, but then move back to the DEP once that orthodontia is completed.

- Retirees currently have the option to enroll in the DEP plan, but are not eligible for DPO benefits. Opening the DPO plan to retirees would offer them a lower cost dental plan alternative. However, since the Retiree DEP plan has a different benefit structure from the Employee DEP plan, the DPO copays and premiums would need review and revision before they could be offered to retirees.
- DPOs have been contending over the past few years that DPO copayments (which haven't changed in 9-10 years) should be increased, claiming that the cumulative effect of year after year of fixed copayments will be an eventual exodus of providers from the DPO networks. Based on DPO-reported network data, there doesn't appear to have been a measurable decrease in provider networks. In fact, most of the DPO renewal submissions for Plan Year 2009 reflected increases (and, in some cases, dramatic increases) in the DPO networks. However, recognizing that there is the possibility that this exodus might eventually occur, consideration should be given to adjusting DPO copays. A modest increase in DPO copays is unlikely to have an adverse impact on DPO enrollment, if communicated effectively during Open Enrollment.