



New Jersey
State Health Benefits Program

Plan Year 2009 Rate Renewal Recommendation Report

Local Government Employer Group

January 1, 2009 – December 31, 2009

Prepared by Aon Consulting

August 2008

TABLE OF CONTENTS

Section	Subject	Page
Section 1	Executive Summary	1
Section 2	Historical Overview	4
Section 3	Trend Analysis	8
Section 4	Financial Projections	9
Section 5	Renewal Rate Development	11
Section 6	Exhibits	15
	1 – Enrollment Projections	
	2 – Trend Analysis	
	3 – Large Claim Analysis	
	4 – Aggregate Costs	
	5 – Plan Year 2009 Premiums	
	6 – Projection Assumptions	

***Local Government Employer Group
Rate Renewal Recommendation Report
For Plan Year 2009***

Executive Summary

The purpose of this report is to recommend premium levels for the Local Government Employer Group of the State Health Benefits Program (SHBP) for January 1, 2009 through December 31, 2009. The State Group and the Dental Plans renewal recommendations are addressed in separate reports.

Benefit Plans Maintained by the SHBP

The State of New Jersey operates the SHBP as a multiple-option program for Employees and Retirees of the State and Local Government Groups, with the following medical plan options currently available to Employees and Retirees of the Local Government Employer Group (aka Local Government Group):

- 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.
- Local Government Active Employees also have a Prescription Drug Plan available under the SHBP, which is administered by CVS/Caremark, the Pharmacy Benefit Manager (PBM) used by Horizon. Local Government Employers may select this plan, sign up for prescription drug coverage

under the medical plan, or purchase prescription drug coverage from an outside vendor.

- Local Government 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 4% for Active Employees, 9% 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	3%	8%	0%
NJ DIRECT15	3%	8%	0%
Aetna HMO	6%	12%	10%
CIGNA HMO	6%	12%	10%
Rx Card Plan	2%	NA	NA
Average Change	4%	9%	1%

These premium increases are projected to produce an aggregate loss of \$28 million (4% of premium) in Plan Year 2009. However, the Local Government Group claim stabilization reserve has sufficient funds to cover this loss. The table below shows the expected changes in the claim stabilization reserve for the Local Government Group:

SHBP Local Government Employer Projected Stabilization Reserve
(in \$millions)

6/30/2008	\$217
12/31/2008	\$209
12/31/2009	\$181

The projected \$181 million claim stabilization reserve at the end of Plan Year 2009 is equal to 3.3 months of claims, an adequate reserve level to protect against adverse claim fluctuations, considering the significant benefit changes which occurred on 4/1/2008.

Financial Results

Plan Year 2007 incurred costs were 6% lower than premium, resulting in a gain of \$39 million. The first quarter of Plan Year 2008 incurred costs are projected to be 1% higher than premium, which will result in a loss of \$1 million.

Premiums for April 1, 2008 through December 31, 2008 were originally projected to be 6% (or \$28 million) greater than incurred costs. However this projection has been updated based on updated Plan Year 2007 experience as well as the actual enrollment selections of the SHBP members. The current projection is that the loss ratio for April 1, 2008 through December 31, 2008 will be 102%, resulting in a loss of \$11 million.

Plan Year 2009 projected costs are \$658 million, \$473 million for Actives and \$185 million for Retirees. Plan Year 2009 renewal premiums were set 4% lower than projected costs, which results in a projected loss of \$28 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).

Non-HMO Prescription Drug Retiree copays and out-of-pocket maximums increase each year based on actual Prescription Drug trends from prior years. However, we are recommending that Generic Prescription Drug copays be frozen at the Plan Year 2008 level of \$9 in order to encourage Generic utilization. In addition, we are recommending that HMO Prescription Drug copays increase each year based on actual prescription drug trends and that Retiree HMO Prescription Drug copays be subject to the same out-of-pocket limit as the NJ DIRECT Prescription Drug copays:

Retiree Copay Changes

	<u>NJ Direct Copays</u>		<u>HMO Copays</u>	
	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>
Retail Generic Copay	\$9	\$9	\$5	\$5
Retail Preferred Brand Copay	\$18	\$19	\$10	\$11
Retail Non-Preferred Brand Copay	\$36	\$38	\$20	\$21
Mail Generic Copay	\$9	\$9	\$5	\$5
Mail Preferred Brand Copay	\$27	\$29	\$15	\$16
Mail Non-Preferred Brand Copay	\$45	\$48	\$25	\$26
Out-of-Pocket Maximum	\$1,092	\$1,160	NA	\$1,160

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. 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.

Eligibility Changes

Coverage of Adult Children Under Age 30 - Effective 1/1/2007 adult children under age 30 may enroll with the SHBP 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 age 31 and requires that the rate cannot exceed 102% of the dependent portion of the SHBP 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 SHBP 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 Local Government Active enrollment will decrease 6% in Plan Year 2008, primarily because of the termination of one large employer on 1/1/2008. Future projections assume that there will be a small growth in enrollment, so that the average change for Plan Year 2009 is a 1% increase.

Local Government Retiree projections are consistent with Employee projections, with a large decrease (9%) in Plan Year 2008 as a result of one large Local Government employer termination on 1/1/2008, and a small increase in Plan Year 2009 (1%).

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 SHBP Local Government 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 2.5 years older than NJ

DIRECT15 and this will increase the cost differential between the two plans by 5-8%. HMO average age falls mid-way between NJ DIRECT10 and NJDIRECT15.

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 – Local Government Actives

	1/1/2007	4/1/2008	Change
NJ PLUS	43.6		
Traditional Plan	50.6		
NJ DIRECT10		46.4	
NJ DIRECT15		43.9	
Total Horizon	45.8	45.8	0.0
Aetna	44.0	44.3	0.3
CIGNA	44.2	44.5	0.3
Total HMO	43.9	44.3	0.4
Grand Total	45.2	45.4	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 SHBP Local Government Group 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. SHBP experience trends are generally less than 10% and both Horizon and CIGNA recommended renewal trends that were below 10%. Exhibit 2 includes SHBP Local Government Group 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 SHBP's 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:

SHBP Local Government Projected Financial Results

(in \$ millions)

	NJ PLUS	Trad.Plan	HMOs	Rx Plan	Total
Plan Year 2007					
Premium Rates x Enrollment	\$238.7	\$250.1	\$149.7	\$44.9	\$683.4
Incurred Claims	\$221.7	\$216.7	\$145.2	\$44.5	\$628.1
Administrative Charges	\$4.3	\$5.6	\$6.7	\$0.0	\$16.6
Net Gain (Loss)	\$12.7	\$27.8	-\$2.2	\$0.4	\$38.7
First Quarter 2008					
Premium Rates x Enrollment	\$58.3	\$51.1	\$36.6	\$11.0	\$157.0
Incurred Claims	\$57.4	\$45.9	\$38.8	\$12.0	\$154.1
Administrative Charges	\$1.0	\$1.3	\$1.7	\$0.0	\$4.0
Net Gain (Loss)	-\$0.1	\$3.9	-\$3.9	-\$1.0	-\$1.1
	NJ DIRECT10	NJ DIRECT15	HMOs	Rx Plan	Total
2nd-4th Quarter 2008					
Premium Rates x Enrollment	\$240.4	\$80.3	\$93.3	\$38.1	\$452.1
Incurred Claims	\$242.6	\$80.9	\$95.3	\$35.2	\$454.0
Administrative Charges	\$3.5	\$1.3	\$3.7	\$0.6	\$9.1
Net Gain (Loss)	-\$5.7	-\$1.9	-\$5.7	\$2.3	-\$11.0
Plan Year 2009					
Premium Rates x Enrollment	\$334.7	\$110.0	\$134.2	\$51.3	\$630.2
Incurred Claims	\$347.3	\$113.6	\$136.9	\$49.5	\$647.3
Administrative Charges	\$4.3	\$1.6	\$4.3	\$0.8	\$11.0
Net Gain (Loss)	-\$16.9	-\$5.2	-\$7.0	\$1.0	-\$28.1

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 NJ DIRECT premiums for Active Employees, the NJ DIRECT premiums for Early Retirees, and the total HMO premiums are each set to produce a loss ratio of 107%. The Medicare Retiree Plan Year 2009 NJ DIRECT premiums increase is 0%, due to favorable experience. The overall projected loss ratio for Plan Year 2009 is 104% which is projected to result in a \$28 million loss. This will reduce projected claim stabilization reserve to \$181 million, equivalent to 3.3 months of projected costs.

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 \$8 million for the projected value of Plan Year 2007 manufacturers' rebates.
5. Prescription Drug claims were reduced \$9 million for Medicare Part D subsidy payments.
6. 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.
7. 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.
8. Retiree NJ DIRECT prescription drug claims were reduced 2% per year to reflect the annual increase in copays and out-of-pocket maximum.
9. Retiree HMO Plan Year 2009 prescription drug claims were reduced 1% to reflect the increase in copays and the implementation of an out-of-pocket maximum.
10. Aetna Medicare Retiree Plan Year 2009 medical costs were adjusted to reflect the anticipated savings from the Aetna Medicare Advantage program.

11. A plan change/migration factor was calculated for SHBP subscribers who had claims in Plan Year 2007 and were enrolled in the SHBP 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.
12. 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:

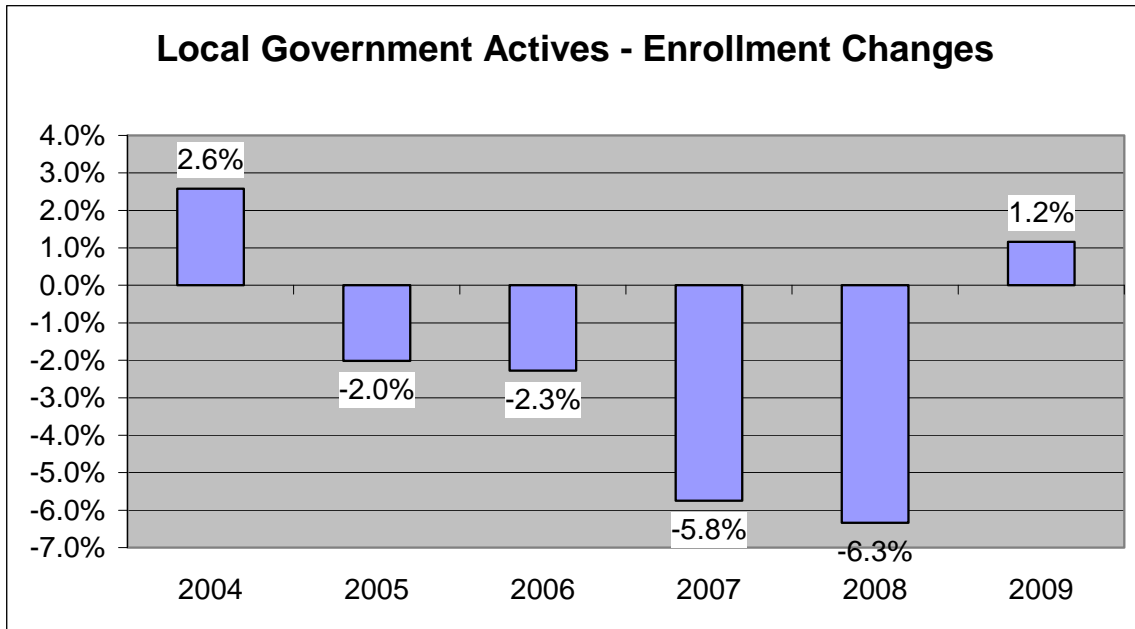
1. Administrative fees are the ASO fees per member per year multiplied by the average enrollment for that year.
2. Overhead charges are the SHBP administrative costs charged against the plans. For Plan Year 2009, this amount is projected as \$1.9 million for the Local Government Group.
3. Investment income is credited against administrative charges. For Plan Year 2009, this amount is projected as \$12.0 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.

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



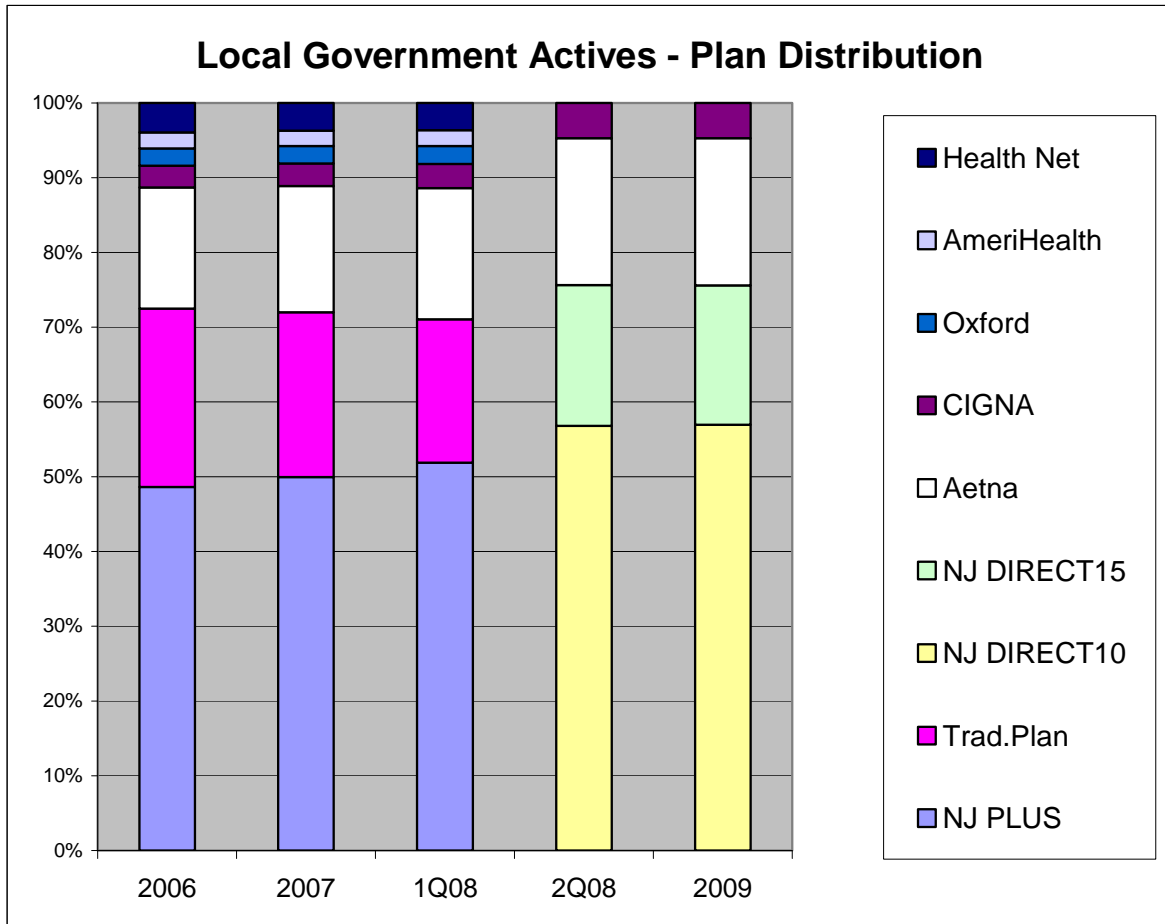
Observations:

Plan Years 2005 through 2007 - Local Government enrollment decreases get larger each year.

Plan Year 2008 reflects actual changes in enrollment through May 2008, with increasing enrollment assumed for the remainder of the year. The decrease in Plan Year 2008 is due to the termination of one large Local Government Employer on 1/1/2008.

Plan Year 2009 assumes that enrollment will continue to increase.

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



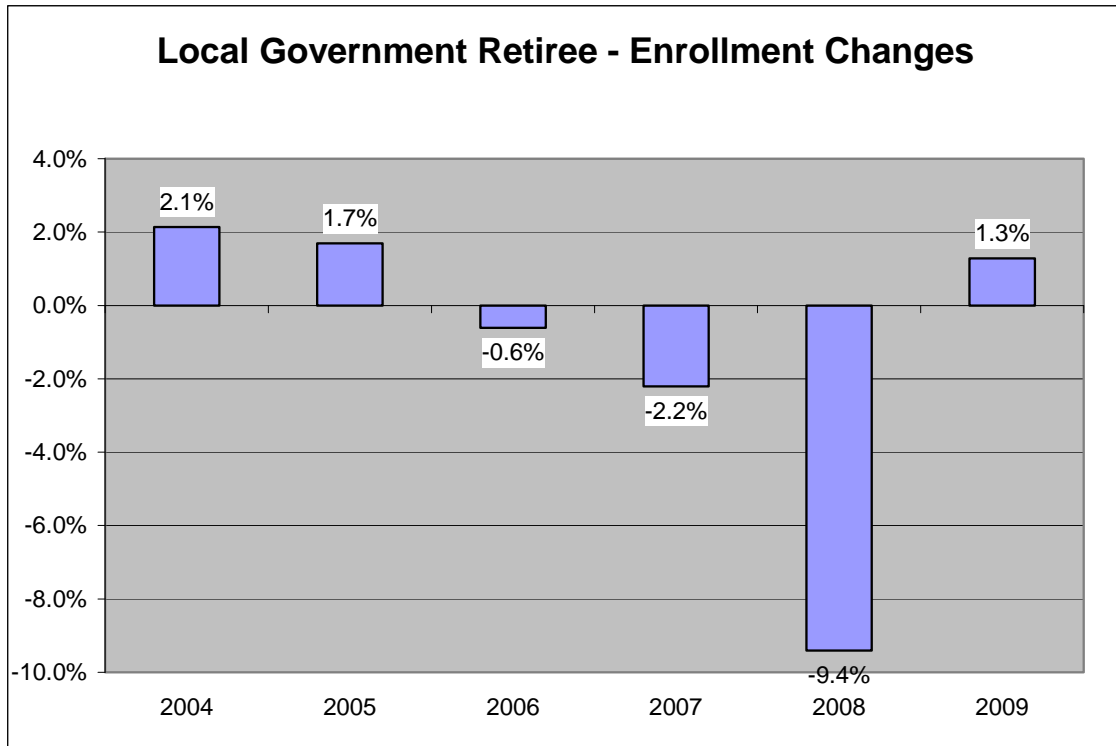
Observations:

Plan Year 2006 through first quarter Plan Year 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 29% to 24% of total employees. In addition, NJ PLUS and the Traditional Plan were replaced by NJ DIRECT15 and NJ DIRECT10 (PPO plans). 75% 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.

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



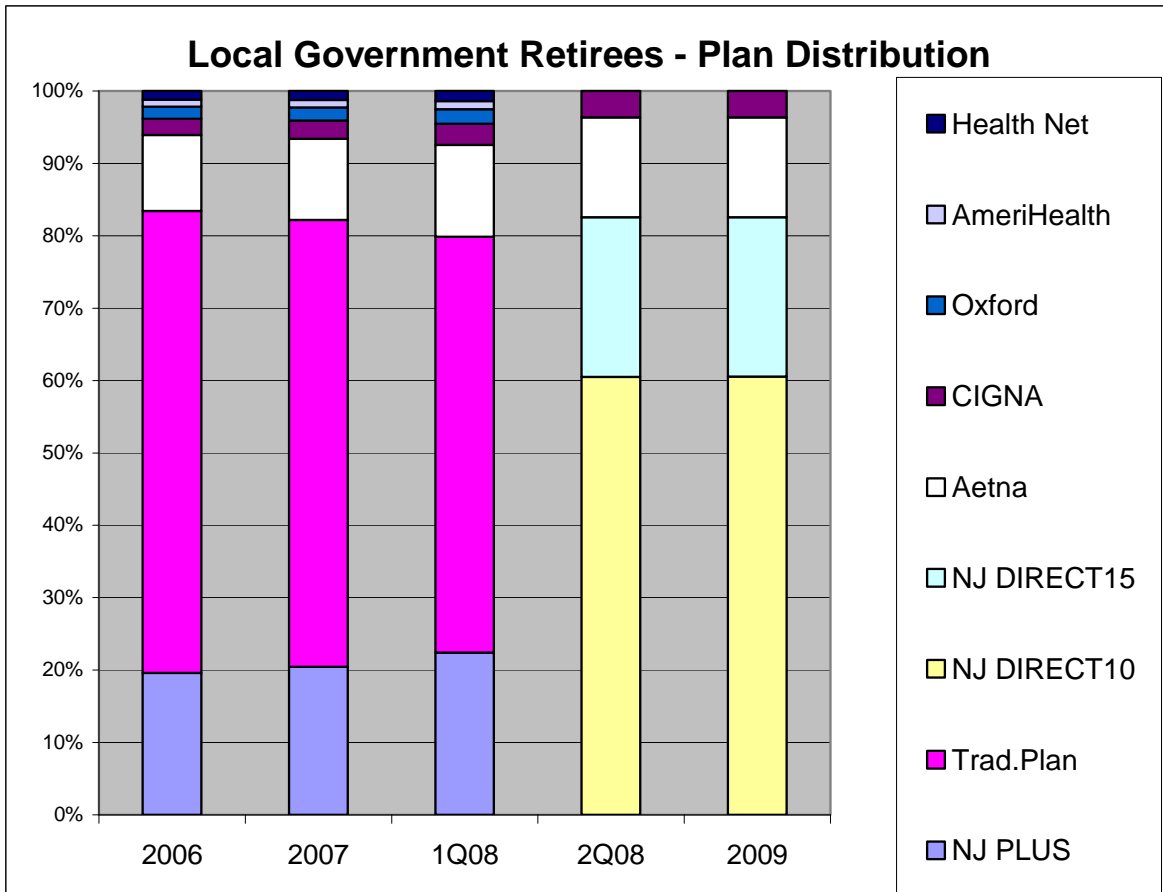
Observations:

Plan Years 2006 and 2007 - Enrollment decreases 0-2%.

Plan Year 2008 reflects actual changes in enrollment through May 2008, with increasing enrollment assumed for the remainder of the year.

Plan Year 2009 assumes that enrollment will start to increase.

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



Observations:

Plan Years 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 20% to 17% of total retirees. In addition, NJ PLUS and the Traditional Plan were replaced by NJ DIRECT10 and NJ DIRECT15 (PPO plans). 75% 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.

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

Local Government Group

	Increase in Claims/Ee	Benefit Changes	Claim Trend
<u>Medical</u>			
Plan Year 2006	7.5%	0.0%	7.5%
Plan Year 2007	5.1%	-1.8%	6.9%
Aon Trend Assumption			7.5%

<u>Rx Card</u>			
Plan Year 2006	10.3%	0.0%	10.3%
Plan Year 2007	-3.6%	-11.0%	7.4%
Aon Trend Assumption			7.5%

<u>MM Rx</u>			
Plan Year 2006	14.8%	0.0%	14.8%
Plan Year 2007	4.4%	0.0%	4.4%
Aon Trend Assumption			9.0%

Benefit Changes:

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

Rx Copays increased on 1/1/2007.

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

Local Government Group

	Increase in Claims/Ee	Benefit Changes	Claim Trend
<u>Early Retiree Medical</u>			
Plan Year 2006	4.4%	0.0%	4.4%
Plan Year 2007	3.6%	-1.0%	4.6%
Aon Trend Assumption			6.5%

<u>Medicare Retiree Medical</u>			
Plan Year 2006	6.2%	0.0%	6.2%
Plan Year 2007	0.0%	-1.6%	1.6%
Aon Trend Assumption			5.0%

<u>Retiree Rx</u>			
Plan Year 2006	-3.8%	-7.0%	3.2%
Plan Year 2007	11.1%	-2.0%	13.1%
Aon Trend Assumption			7.5%

Benefit Changes:

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

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

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

Local Government Group

	Increase in Claims/Ee	Benefit Changes	Claim Trend
<u>Aetna Medical</u>			
Plan Year 2006	17.4%	0.0%	17.4%
Plan Year 2007	7.3%	-3.0%	10.3%
Aon Trend Assumption			9.5%

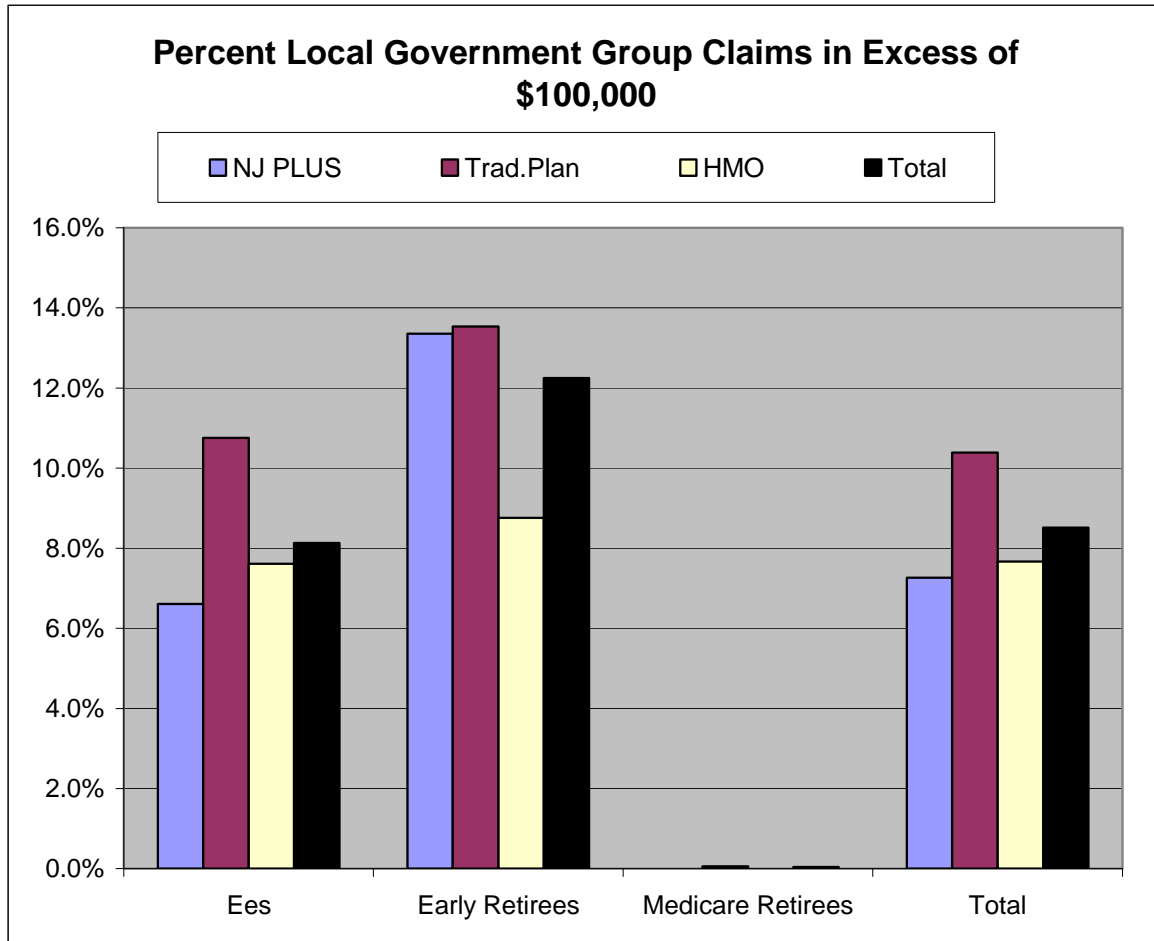
<u>CIGNA Medical</u>			
Plan Year 2006	6.6%	0.0%	6.6%
Plan Year 2007	7.3%	-3.0%	10.3%
Aon Trend Assumption			8.0%

<u>HMO Rx</u>			
Plan Year 2006	15.8%	0.0%	15.8%
Plan Year 2007	6.5%	0.0%	6.5%
Aon Trend Assumption			9.0%

Benefit Changes:

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

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

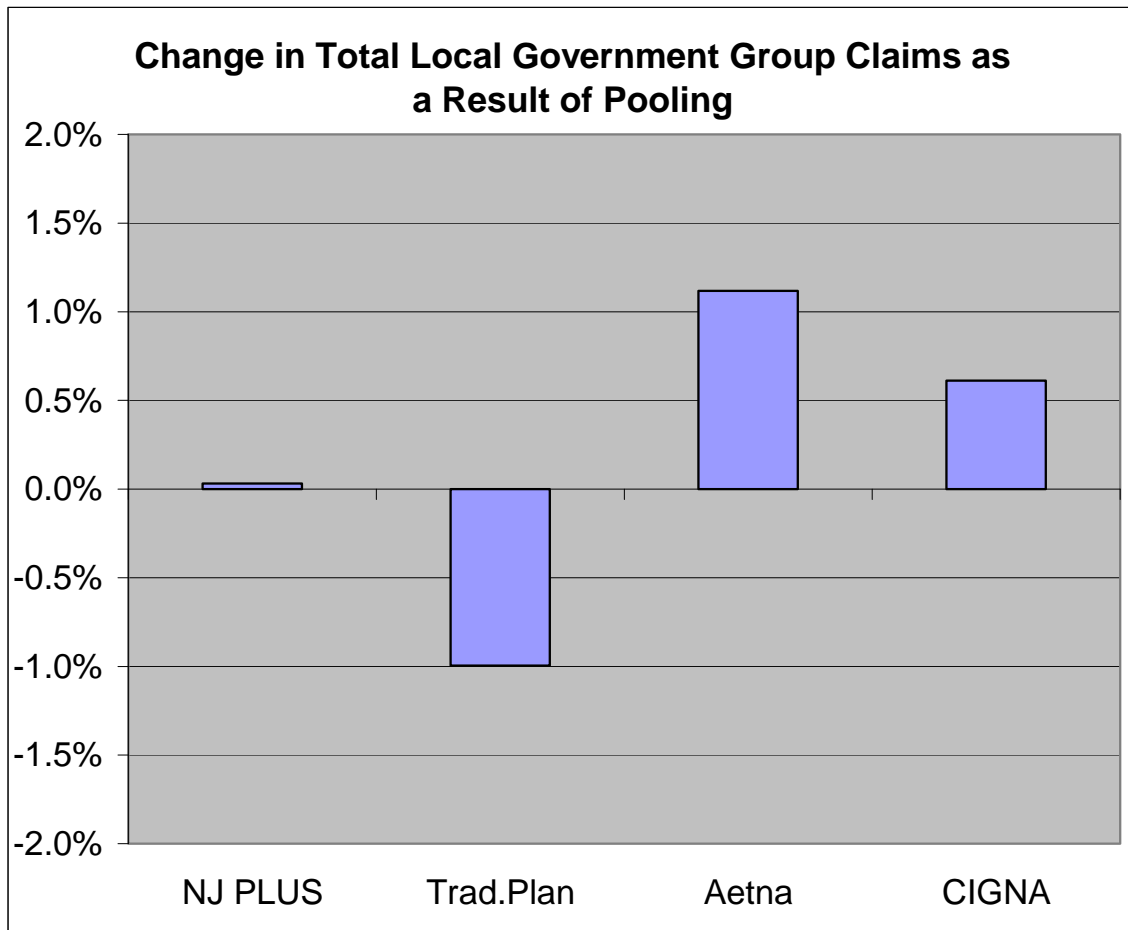


Observations:

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.

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



Observations:

NJ PLUS has minimal change as a result of pooling.

Traditional claims decrease about 1% as a result of pooling.

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

SHBP 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	63,390	26,104	21,451	9,635	1,822	1,371	1,115	1,892	16,815
Incurred Medical claims	\$ 478,300,000	\$ 186,700,000	\$ 176,200,000	\$ 67,800,000	\$ 14,600,000	\$ 10,700,000	\$ 8,200,000	\$ 14,100,000	
Capitation	\$ 28,000,000	\$ 16,500,000	\$ 600,000	\$ 7,000,000	\$ 1,500,000	\$ 200,000	\$ 800,000	\$ 1,400,000	
Incurred Prescription Drug Claims	\$ 138,800,000	\$ 21,300,000	\$ 49,000,000	\$ 11,000,000	\$ 3,900,000	\$ 2,000,000	\$ 1,500,000	\$ 2,900,000	\$ 47,200,000
Prescription Drug Rebates	\$ (8,000,000)	\$ (1,200,000)	\$ (2,800,000)	\$ (900,000)	\$ (100,000)	\$ (100,000)	\$ (100,000)	\$ (100,000)	\$ (2,700,000)
Medicare Part D Subsidies	\$ (9,000,000)	\$ (1,600,000)	\$ (6,300,000)	\$ (600,000)	\$ (200,000)	\$ (100,000)	\$ (100,000)	\$ (100,000)	
Administrative Fees	\$ 16,600,000	\$ 4,300,000	\$ 5,600,000	\$ 4,300,000	\$ 700,000	\$ 500,000	\$ 400,000	\$ 800,000	\$ -
Total Cost	\$ 644,700,000	\$ 226,000,000	\$ 222,300,000	\$ 88,600,000	\$ 20,400,000	\$ 13,200,000	\$ 10,700,000	\$ 19,000,000	\$ 44,500,000
Total Premium	\$ 683,400,000	\$ 238,700,000	\$ 250,100,000	\$ 84,100,000	\$ 20,900,000	\$ 13,300,000	\$ 11,300,000	\$ 20,100,000	\$ 44,900,000
Gain (Loss)	\$ 38,700,000	\$ 12,700,000	\$ 27,800,000	\$ (4,500,000)	\$ 500,000	\$ 100,000	\$ 600,000	\$ 1,100,000	\$ 400,000
Employees									
Average Medical Subscribers	44,545	22,250	9,812	7,526	1,344	1,034	923	1,655	16,815
Incurred Medical claims	\$ 359,500,000	\$ 161,200,000	\$ 110,700,000	\$ 50,400,000	\$ 9,500,000	\$ 8,600,000	\$ 6,700,000	\$ 12,400,000	\$ -
Capitation	\$ 24,100,000	\$ 14,300,000	\$ 400,000	\$ 6,100,000	\$ 1,200,000	\$ 100,000	\$ 700,000	\$ 1,300,000	\$ -
Incurred Prescription Drug Claims	\$ 67,800,000	\$ 6,700,000	\$ 4,800,000	\$ 3,800,000	\$ 1,900,000	\$ 1,000,000	\$ 700,000	\$ 1,700,000	\$ 47,200,000
Prescription Drug Rebates	\$ (3,900,000)	\$ (400,000)	\$ (300,000)	\$ (300,000)	\$ -	\$ (100,000)	\$ -	\$ (100,000)	\$ (2,700,000)
Medicare Part D Subsidies	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Administrative Fees	\$ 10,700,000	\$ 3,600,000	\$ 1,700,000	\$ 3,400,000	\$ 500,000	\$ 400,000	\$ 400,000	\$ 700,000	\$ -
Total Cost	\$ 458,200,000	\$ 185,400,000	\$ 117,300,000	\$ 63,400,000	\$ 13,100,000	\$ 10,000,000	\$ 8,500,000	\$ 16,000,000	\$ 44,500,000
Total Premium	\$ 493,500,000	\$ 200,000,000	\$ 131,800,000	\$ 64,100,000	\$ 15,500,000	\$ 10,200,000	\$ 9,300,000	\$ 17,700,000	\$ 44,900,000
Gain (Loss)	\$ 35,300,000	\$ 14,600,000	\$ 14,500,000	\$ 700,000	\$ 2,400,000	\$ 200,000	\$ 800,000	\$ 1,700,000	\$ 400,000
Retirees									
Average Medical Subscribers	18,846	3,854	11,639	2,109	478	337	192	237	
Incurred Medical claims	\$ 118,800,000	\$ 25,500,000	\$ 65,500,000	\$ 17,400,000	\$ 5,100,000	\$ 2,100,000	\$ 1,500,000	\$ 1,700,000	
Capitation	\$ 3,900,000	\$ 2,200,000	\$ 200,000	\$ 900,000	\$ 300,000	\$ 100,000	\$ 100,000	\$ 100,000	
Incurred Prescription Drug Claims	\$ 71,000,000	\$ 14,600,000	\$ 44,200,000	\$ 7,200,000	\$ 2,000,000	\$ 1,000,000	\$ 800,000	\$ 1,200,000	
Prescription Drug Rebates	\$ (4,100,000)	\$ (800,000)	\$ (2,500,000)	\$ (600,000)	\$ (100,000)	\$ -	\$ (100,000)	\$ -	
Medicare Part D Subsidies	\$ (9,000,000)	\$ (1,600,000)	\$ (6,300,000)	\$ (600,000)	\$ (200,000)	\$ (100,000)	\$ (100,000)	\$ (100,000)	
Administrative Fees	\$ 5,900,000	\$ 700,000	\$ 3,900,000	\$ 900,000	\$ 200,000	\$ 100,000	\$ -	\$ 100,000	
Total Cost	\$ 186,500,000	\$ 40,600,000	\$ 105,000,000	\$ 25,200,000	\$ 7,300,000	\$ 3,200,000	\$ 2,200,000	\$ 3,000,000	
Total Premium	\$ 189,900,000	\$ 38,700,000	\$ 118,300,000	\$ 20,000,000	\$ 5,400,000	\$ 3,100,000	\$ 2,000,000	\$ 2,400,000	
Gain (Loss)	\$ 3,400,000	\$ (1,900,000)	\$ 13,300,000	\$ (5,200,000)	\$ (1,900,000)	\$ (100,000)	\$ (200,000)	\$ (600,000)	

SHBP Plan Year 2009 Renewal Recommendation
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	58,617	25,411	17,730	9,461	1,839	1,337	1,093	1,745	16,350
Incurred Medical claims	\$ 124,100,000	\$ 52,800,000	\$ 37,800,000	\$ 19,900,000	\$ 4,400,000	\$ 2,800,000	\$ 2,700,000	\$ 3,700,000	
Incurred Prescription Drug Claims	\$ 30,000,000	\$ 4,600,000	\$ 8,100,000	\$ 2,700,000	\$ 1,000,000	\$ 500,000	\$ 400,000	\$ 700,000	\$ 12,000,000
Administrative Fees	\$ 4,000,000	\$ 1,000,000	\$ 1,300,000	\$ 1,100,000	\$ 200,000	\$ 100,000	\$ 100,000	\$ 200,000	
Total Cost	\$ 158,100,000	\$ 58,400,000	\$ 47,200,000	\$ 23,700,000	\$ 5,600,000	\$ 3,400,000	\$ 3,200,000	\$ 4,600,000	\$ 12,000,000
Total Premium	\$ 157,000,000	\$ 58,300,000	\$ 51,100,000	\$ 20,700,000	\$ 5,300,000	\$ 3,200,000	\$ 2,800,000	\$ 4,600,000	\$ 11,000,000
Gain (Loss)	\$ (1,100,000)	\$ (100,000)	\$ 3,900,000	\$ (3,000,000)	\$ (300,000)	\$ (200,000)	\$ (400,000)	\$ -	\$ (1,000,000)
Employees									
Average Medical Subscribers	41,644	21,608	7,978	7,310	1,339	1,001	900	1,509	16,350
Incurred Medical claims	\$ 95,000,000	\$ 45,400,000	\$ 23,900,000	\$ 15,400,000	\$ 3,000,000	\$ 2,100,000	\$ 2,000,000	\$ 3,200,000	
Incurred Prescription Drug Claims	\$ 17,000,000	\$ 1,700,000	\$ 1,000,000	\$ 900,000	\$ 500,000	\$ 300,000	\$ 200,000	\$ 400,000	\$ 12,000,000
Administrative Fees	\$ 2,600,000	\$ 800,000	\$ 400,000	\$ 900,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 200,000	
Total Cost	\$ 114,600,000	\$ 47,900,000	\$ 25,300,000	\$ 17,200,000	\$ 3,600,000	\$ 2,500,000	\$ 2,300,000	\$ 3,800,000	\$ 12,000,000
Total Premium	\$ 115,300,000	\$ 48,900,000	\$ 27,100,000	\$ 15,600,000	\$ 3,900,000	\$ 2,500,000	\$ 2,300,000	\$ 4,000,000	\$ 11,000,000
Gain (Loss)	\$ 700,000	\$ 1,000,000	\$ 1,800,000	\$ (1,600,000)	\$ 300,000	\$ -	\$ -	\$ 200,000	\$ (1,000,000)
Retirees									
Average Medical Subscribers	16,971	3,803	9,752	2,151	500	336	193	236	
Incurred Medical claims	\$ 29,100,000	\$ 7,400,000	\$ 13,900,000	\$ 4,500,000	\$ 1,400,000	\$ 700,000	\$ 700,000	\$ 500,000	
Incurred Prescription Drug Claims	\$ 13,000,000	\$ 2,900,000	\$ 7,100,000	\$ 1,800,000	\$ 500,000	\$ 200,000	\$ 200,000	\$ 300,000	
Administrative Fees	\$ 1,400,000	\$ 200,000	\$ 900,000	\$ 200,000	\$ 100,000	\$ -	\$ -	\$ -	
Total Cost	\$ 43,500,000	\$ 10,500,000	\$ 21,900,000	\$ 6,500,000	\$ 2,000,000	\$ 900,000	\$ 900,000	\$ 800,000	
Total Premium	\$ 41,700,000	\$ 9,400,000	\$ 24,000,000	\$ 5,100,000	\$ 1,400,000	\$ 700,000	\$ 500,000	\$ 600,000	
Gain (Loss)	\$ (1,800,000)	\$ (1,100,000)	\$ 2,100,000	\$ (1,400,000)	\$ (600,000)	\$ (200,000)	\$ (400,000)	\$ (200,000)	

SHBP Plan Year 2009 Renewal Recommendation
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	58,853	34,067	11,626	10,563	2,598	17,346
Incurring Medical claims	\$ 368,000,000	\$ 213,000,000	\$ 69,500,000	\$ 67,100,000	\$ 18,400,000	\$ -
Incurring Prescription Drug Claims	\$ 86,000,000	\$ 29,600,000	\$ 11,400,000	\$ 6,600,000	\$ 3,200,000	\$ 35,200,000
Administrative Fees	\$ 9,100,000	\$ 3,500,000	\$ 1,300,000	\$ 3,100,000	\$ 600,000	\$ 600,000
Total Cost	\$ 463,100,000	\$ 246,100,000	\$ 82,200,000	\$ 76,800,000	\$ 22,200,000	\$ 35,800,000
Total Premium	\$ 452,100,000	\$ 240,400,000	\$ 80,300,000	\$ 73,100,000	\$ 20,200,000	\$ 38,100,000
Gain (Loss)	\$ (11,000,000)	\$ (5,700,000)	\$ (1,900,000)	\$ (3,700,000)	\$ (2,000,000)	\$ 2,300,000
Employees						
Average Medical Subscribers	41,748	23,716	7,853	8,203	1,976	17,346
Incurring Medical claims	\$ 280,600,000	\$ 169,100,000	\$ 49,000,000	\$ 49,800,000	\$ 12,700,000	\$ -
Incurring Prescription Drug Claims	\$ 45,800,000	\$ 5,700,000	\$ 2,600,000	\$ 1,000,000	\$ 1,300,000	\$ 35,200,000
Administrative Fees	\$ 6,400,000	\$ 2,100,000	\$ 800,000	\$ 2,400,000	\$ 500,000	\$ 600,000
Total Cost	\$ 332,800,000	\$ 176,900,000	\$ 52,400,000	\$ 53,200,000	\$ 14,500,000	\$ 35,800,000
Total Premium	\$ 330,800,000	\$ 169,300,000	\$ 51,500,000	\$ 56,300,000	\$ 15,600,000	\$ 38,100,000
Gain (Loss)	\$ (2,000,000)	\$ (7,600,000)	\$ (900,000)	\$ 3,100,000	\$ 1,100,000	\$ 2,300,000
Retirees						
Average Medical Subscribers	17,106	10,351	3,773	2,360	622	
Incurring Medical claims	\$ 87,400,000	\$ 43,900,000	\$ 20,500,000	\$ 17,300,000	\$ 5,700,000	
Incurring Prescription Drug Claims	\$ 40,200,000	\$ 23,900,000	\$ 8,800,000	\$ 5,600,000	\$ 1,900,000	
Administrative Fees	\$ 2,700,000	\$ 1,400,000	\$ 500,000	\$ 700,000	\$ 100,000	
Total Cost	\$ 130,300,000	\$ 69,200,000	\$ 29,800,000	\$ 23,600,000	\$ 7,700,000	
Total Premium	\$ 121,300,000	\$ 71,100,000	\$ 28,800,000	\$ 16,800,000	\$ 4,600,000	
Gain (Loss)	\$ (9,000,000)	\$ 1,900,000	\$ (1,000,000)	\$ (6,800,000)	\$ (3,100,000)	

SHBP Plan Year 2009 Renewal Recommendation

Exhibit 4D – Plan Year 2009 Aggregate Costs

	Total	NJ DIRECT10	NJ DIRECT15	Aetna	CIGNA	Rx Plan
Employees and Retirees						
Average Medical Subscribers	59,500	34,507	11,678	10,685	2,630	17,019
Incurred Medical claims	\$ 529,200,000	\$ 305,900,000	\$ 98,700,000	\$ 98,100,000	\$ 26,500,000	\$ -
Incurred Prescription Drug Claims	\$ 118,100,000	\$ 41,400,000	\$ 14,900,000	\$ 9,400,000	\$ 2,900,000	\$ 49,500,000
Administrative Fees	\$ 11,000,000	\$ 4,300,000	\$ 1,600,000	\$ 3,500,000	\$ 800,000	\$ 800,000
Total Cost	\$ 658,300,000	\$ 351,600,000	\$ 115,200,000	\$ 111,000,000	\$ 30,200,000	\$ 50,300,000
Total Premium	\$ 630,200,000	\$ 334,700,000	\$ 110,000,000	\$ 104,900,000	\$ 29,300,000	\$ 51,300,000
Gain (Loss)	\$ (28,100,000)	\$ (16,900,000)	\$ (5,200,000)	\$ (6,100,000)	\$ (900,000)	\$ 1,000,000
Employees						
Average Medical Subscribers	42,209	24,035	7,878	8,295	2,001	17,019
Incurred Medical claims	\$ 404,300,000	\$ 243,400,000	\$ 69,800,000	\$ 72,700,000	\$ 18,400,000	\$ -
Incurred Prescription Drug Claims	\$ 61,600,000	\$ 7,800,000	\$ 2,400,000	\$ 1,200,000	\$ 700,000	\$ 49,500,000
Administrative Fees	\$ 7,400,000	\$ 1,900,000	\$ 900,000	\$ 3,200,000	\$ 600,000	\$ 800,000
Total Cost	\$ 473,300,000	\$ 253,100,000	\$ 73,100,000	\$ 77,100,000	\$ 19,700,000	\$ 50,300,000
Total Premium	\$ 457,500,000	\$ 235,000,000	\$ 69,400,000	\$ 79,500,000	\$ 22,300,000	\$ 51,300,000
Gain (Loss)	\$ (15,800,000)	\$ (18,100,000)	\$ (3,700,000)	\$ 2,400,000	\$ 2,600,000	\$ 1,000,000
Retirees						
Average Medical Subscribers	17,291	10,472	3,800	2,390	629	
Incurred Medical claims	\$ 124,900,000	\$ 62,500,000	\$ 28,900,000	\$ 25,400,000	\$ 8,100,000	
Incurred Prescription Drug Claims	\$ 56,500,000	\$ 33,600,000	\$ 12,500,000	\$ 8,200,000	\$ 2,200,000	
Administrative Fees	\$ 3,600,000	\$ 2,400,000	\$ 700,000	\$ 300,000	\$ 200,000	
Total Cost	\$ 185,000,000	\$ 98,500,000	\$ 42,100,000	\$ 33,900,000	\$ 10,500,000	
Total Premium	\$ 172,700,000	\$ 99,700,000	\$ 40,600,000	\$ 25,400,000	\$ 7,000,000	
Gain (Loss)	\$ (12,300,000)	\$ 1,200,000	\$ (1,500,000)	\$ (8,500,000)	\$ (3,500,000)	

SHBP Plan Year 2009 Renewal Recommendation
Exhibit 5A – Plan Year 2009 Monthly Active Premiums

	NJ DIRECT10	NJ DIRECT15	Aetna	CIGNA
<u>Medical Coverage Only</u>				
Single	\$410.66	\$391.06	\$394.55	\$398.50
Member+Spouse	\$923.98	\$879.88	\$887.75	\$896.63
Family	\$1,026.64	\$977.65	\$986.39	\$996.25
Parent+Child(ren)	\$574.92	\$547.48	\$552.38	\$557.90
Adult Child Rate	\$167.55	\$159.55	\$160.98	\$162.59

	NJ DIRECT10	NJ DIRECT15	Aetna	CIGNA
<u>Medical and Rx</u>				
Single	\$492.79	\$469.27	\$501.08	\$506.10
Member+Spouse	\$1,108.77	\$1,055.85	\$1,127.45	\$1,138.72
Family	\$1,231.97	\$1,173.17	\$1,252.72	\$1,265.24
Parent+Child(ren)	\$689.90	\$656.98	\$701.52	\$708.54
Adult Child Rate	\$201.06	\$191.46	\$204.44	\$206.49

	Rx Card
<u>Rx Card</u>	
Single	\$133.51
Member+Spouse	\$300.39
Family	\$333.76
Parent+Child(ren)	\$186.90
Adult Child Rate	\$54.47

SHBP Plan Year 2009 Renewal Recommendation
Exhibit 5B – Plan Year 2009 Monthly Retiree Premiums

	NJ DIRECT10	NJ DIRECT15	Aetna	CIGNA
<u>Total Premium</u>				
Single - 0 Medicare	\$713.67	\$679.80	\$529.45	\$534.74
Single - 1 Medicare	\$396.49	\$377.67	\$389.99	\$393.90
Mem+Spouse - 0 Medicare	\$1,555.83	\$1,481.97	\$1,154.19	\$1,165.74
Mem+Spouse - 1 Medicare	\$1,110.16	\$1,057.47	\$919.44	\$928.64
Mem+Spouse - 2 Medicare	\$792.98	\$755.33	\$779.99	\$787.79
Family - 0 Medicare	\$1,769.93	\$1,685.90	\$1,313.03	\$1,326.16
Family - 1 Medicare	\$1,324.26	\$1,261.40	\$1,078.28	\$1,089.06
Family - 2 Medicare	\$1,007.08	\$959.27	\$938.83	\$945.35
Parent+Ch - 0 Medicare	\$999.15	\$951.72	\$741.23	\$748.64
Parent+Ch - 1 Medicare	\$627.77	\$597.97	\$571.99	\$577.71
<u>Medical Premium</u>				
Single - 0 Medicare	\$570.94	\$537.07	\$412.97	\$417.10
Single - 1 Medicare	\$170.49	\$151.67	\$171.60	\$173.32
Mem+Spouse - 0 Medicare	\$1,244.66	\$1,170.80	\$900.27	\$909.28
Mem+Spouse - 1 Medicare	\$741.43	\$688.74	\$584.57	\$590.42
Mem+Spouse - 2 Medicare	\$340.98	\$303.33	\$343.20	\$346.63
Family - 0 Medicare	\$1,415.94	\$1,331.91	\$1,024.16	\$1,034.40
Family - 1 Medicare	\$912.71	\$849.85	\$708.46	\$715.54
Family - 2 Medicare	\$433.04	\$385.23	\$413.09	\$415.95
Parent+Ch - 0 Medicare	\$799.32	\$751.89	\$578.16	\$583.94
Parent+Ch - 1 Medicare	\$269.94	\$240.14	\$251.68	\$254.19
<u>Rx Premium</u>				
Single - 0 Medicare	\$142.73	\$142.73	\$116.48	\$117.64
Single - 1 Medicare	\$226.00	\$226.00	\$218.39	\$220.58
Mem+Spouse - 0 Medicare	\$311.17	\$311.17	\$253.92	\$256.46
Mem+Spouse - 1 Medicare	\$368.73	\$368.73	\$334.87	\$338.22
Mem+Spouse - 2 Medicare	\$452.00	\$452.00	\$436.79	\$441.16
Family - 0 Medicare	\$353.99	\$353.99	\$288.87	\$291.76
Family - 1 Medicare	\$411.55	\$411.55	\$369.82	\$373.52
Family - 2 Medicare	\$574.04	\$574.04	\$525.74	\$529.40
Parent+Ch - 0 Medicare	\$199.83	\$199.83	\$163.07	\$164.70
Parent+Ch - 1 Medicare	\$357.83	\$357.83	\$320.31	\$323.52

SHBP Plan Year 2009 Renewal Recommendation

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

NJ DIRECT Retiree Prescription Drug Plan: The copays will increase on 1/1/2009 from \$9/\$18/\$36 Retail and \$9/\$27/\$45 Mail Order to \$9/\$19/\$38 Retail and \$9/\$29/\$48 Mail Order. In addition, the maximum out-of-pocket limit will be increased on 1/1/2009 from \$1,092 to \$1,160.

HMO Retiree Prescription Drug Plan: The copays will increase on 1/1/2009 from \$5/\$10/\$20 Retail and \$5/\$15/\$25 Mail Order to \$5/\$11/\$21 Retail and \$5/\$16/\$26 Mail Order. In addition, an \$1,160 maximum out-of-pocket limit will be added to the benefit design.

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.

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 claim stabilization reserve at 12/31/2008 is projected to be equivalent to 4.1 months of projected claim costs, the Plan Year 2009 renewal premiums were set to be 4% lower than projected costs and are projected to reduce the claim stabilization reserve by \$28 million and result in a reserve on 12/31/2009 equivalent to 3.3 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,
- SHBP overhead expenses, and
- SHBP 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,
- Prescription drug rebates, and
- Medicare Part D prescription drug subsidies.

Enrollment Projections

Exhibit 1 shows historical enrollment patterns among the SHBP 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 6%, mostly as a result of large premium increases in Plan Year 2006. Plan Year 2008 enrollment also decreased 6%, mostly due to the termination of one large Local Government Employer group. 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 increase of 1.2% in Plan Year 2009.

On 4/1/2008, 57% of employees enrolled in the new NJ DIRECT10 plan, 19% in NJ DIRECT15, and the remaining 24% in HMOs. We are projecting that this plan distribution will remain the same in Plan Year 2009.

Retiree Plans: Plan Year 2007 enrollment increased 2%. Plan Year 2008 enrollment decreased 9%, mostly due to the termination of one large Local Government Employer group. 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 increase of 1.3% in Plan Year 2009.

On 4/1/2008, 61% of retirees enrolled in the new NJ DIRECT10 plan, 22% in NJ DIRECT15, and the remaining 17% 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 with the SHBP 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	0.974	0.960	1.031
NJ DIRECT15	0.886	0.898	0.912
Aetna HMO	0.978	1.019	0.995
CIGNA HMO	0.988	0.989	0.997
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 Government Group. The impact of this adjustment was a 1% increase in HMO claims with minimal changes to NJ PLUS and a 1% decrease in Traditional Plan claims.

Trend Rates

Exhibit 2 (pages 19-21) presents SHBP 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 SHBP 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 Local Government Actives. The “Claim Trend” values are 7.5% and 6.9% for Plan Years 2006 and 2007, respectively. We are recommending an assumption of 7.5% for Plan Year 2009.

- The second section shows the Local Government Active experience under the employee Prescription Drug card. The “Claim Trend” values are 10.3% and 7.4% for Plan Years 2006 and 2007, respectively. We are recommending an assumption of 7.5% for Plan Year 2009.
- The third section shows the Local Government Active experience for prescription drugs that are covered under the medical plan. The “Claim Trend” values are 14.8% and 4.4% 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 Local Government Early Retirees. The “Claim Trend” values are 4.4% and 4.6% for Plan Years 2006 and 2007, respectively. The Early Retirement trends are 2-3% lower than Active Employee trends. However, Early Retiree experience is not as credible as the Active Employee experience, since there are about 5,000 Early Retirees with Horizon as compared to 20,000 Active Employees with Horizon. For this reason, 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 Local Government Medicare Retirees. The “Claim Trend” values are 6.2% and 1.6% 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 Local Government Retiree prescription drug experience. The “Claim Trend” values are 3.2% and 13.1% 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 Local Government Group Aetna Medical experience. The “Claim Trend” values are 17.4% and 10.3% for Plan Years 2006 and 2007, respectively. Active, Early Retiree, and Medicare Retiree are combined in the Aetna trend analysis, since Retirees are only 20% of the Aetna enrollment. Aetna trends are 7-10% higher than Horizon trends. However, Aetna experience is not as credible as the Horizon experience, since there are about 11,000 Aetna subscribers as compared to 46,000 Horizon subscribers. In addition, industry norms indicate that HMO trends are usually less than POS, PPO, or Indemnity trends. For this reason, we are recommending an assumption of 9.5% for Plan Year 2009, 2% higher than the recommended Active Employee Horizon trend, 3.0% higher than Early Retiree Horizon trend, and 4.5% higher than Medicare Retiree Horizon trend.
- The second section shows Local Government Group CIGNA Medical experience. The “Claim Trend” values are 6.6% and 10.3% for Plan Years 2006 and 2007, respectively. Active, Early Retiree, and Medicare Retiree are combined in the CIGNA trend analysis, since Retirees are only 20% of the CIGNA enrollment. CIGNA trends are 1-4% higher than Horizon trends. However, CIGNA experience is not as credible as the Horizon experience, since there are about 3,000 CIGNA subscribers as compared to 46,000 Horizon subscribers. In addition, industry norms indicate that HMO trends are usually less than POS, PPO, or Indemnity trends. For this

reason, we are recommending an assumption of 8.0% for Plan Year 2009, 0.5% higher than the recommended Active Employee Horizon trend, 1.5% higher than Early Retiree Horizon trend, and 3.0% higher than Medicare Retiree trend.

- The last section shows Local Government Group HMO prescription drug experience. The "Claim Trend" values are 15.8% and 6.5% 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 SHBP 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 SHBP which we use for the exposure units in our cost analysis.