



New Jersey  
State Health Benefits Program

Plan Year 2009 Rate Renewal Recommendation Report

State Employee Group

January 1, 2009 – December 31, 2009

Prepared by Aon Consulting

August 2008

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***State Employee Group  
Rate Renewal Recommendation Report  
For Plan Year 2009***

***Executive Summary***

The purpose of this report is to recommend premium levels for the State Employee Group of the State Health Benefits Program (SHBP) for January 1, 2009 through December 31, 2009. The Local Employer Government 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 State Active 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 (with a \$10 physician copay) is not available to State Actives and to certain State Retirees. NJ DIRECT15 (with a \$15 physician copay) is available to State Actives and Retirees.
- Two self-insured HMOs administered by Aetna and CIGNA. The Active HMO plans have a \$15 physician copay and the Retiree HMO plans have a \$10 physician copay.
- The Traditional Plan is a self-insured, integrated hospital/medical-surgical/major medical plan administered by Horizon Blue Cross Blue Shield of New Jersey (Horizon). This plan is only offered to certain select unions who have not finalized their collective bargaining agreements.

- NJ PLUS is a self-insured Point-of-Service (POS) plan administered by Horizon. This plan is only offered to certain select unions who have not yet finalized their collective bargaining agreements.
- The Employee Prescription Drug Plan which covers State Active Employees, and is administered by Horizon and CVS/Caremark, the Pharmacy Benefit Manager (PBM) used by Horizon.
- Retiree prescription drugs are administered by the same health plan administrator as the retiree's medical plan.

### **Recommended Renewal Increases**

Aon is recommending an overall increase of 3% for State Active Employees, 10% increase for State Early Retirees, and 2% for Medicare Retirees. For all groups combined, the recommended increase is 4%. The recommended renewal increases by benefit plan are listed below:

	<b>Active Employees</b>	<b>Early Retirees</b>	<b>Medicare Retirees</b>
NJ DIRECT10	NA	9%	0%
NJ DIRECT15	2%	9%	0%
Aetna HMO	8%	12%	10%
CIGNA HMO	8%	12%	10%
Rx Card Plan	2%	NA	NA
<b>Average Change</b>	<b>3%</b>	<b>10%</b>	<b>2%</b>

The State Police and select Correction and Judiciary unions have not yet agreed to any benefit changes, so they will continue in the current NJ PLUS and Traditional Plans, if eligible. The recommended premium increases for these groups are:

	<b>Active Employees</b>
NJ PLUS	7%
Traditional Plan	7%
Aetna HMO	8%
CIGNA HMO	8%
Rx Card Plan	2%
Average Change	6%

### **Financial Results**

Plan Year 2007 projected costs decreased 0.7% (or \$9 million) from the previous projection due to lower than expected run-out claims. If the premiums were fully funded, the total projected gain for the State program would be \$92 million for Plan Year 2007.

First Quarter Plan Year 2008 projected premiums and costs have changed very little from the previous projection, with a total projected gain for the State of \$4 million, if the premiums are fully funded.

Projected costs for April 1, 2008 through December 31, 2008 have been updated based on the revised Plan Year 2007 experience as well as the actual enrollment selections of the State Employees and Retirees. Projected premiums for April 1, 2008 through December 31, 2008 have been updated based on actual enrollment selections of State Employees and Retirees. The combined net impact of these revisions is a gain of \$29 million (or 2% of premium) if the premiums are fully funded.

Plan Year 2009 projected costs are \$1.63 billion, \$1.25 billion for State Actives and \$0.38 billion for State Retirees. Plan Year 2009 renewal premiums were set to match the \$1.63 billion cost projection, so there is no loss or gain projected for Plan Year 2009.

## Historical Overview

### Benefit Changes

In Plan Year 2005, State Active NJ PLUS and HMO copays increased from \$5 to \$10 and prescription drug 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. In July of Plan Year 2007, State Active NJ PLUS and HMO physician copays increased from \$10 to \$15, emergency room copays increased to \$50, and the Prescription Drug card program added a third tier copay (of \$25 at Retail and \$40 at Mail) which applies to Brand drugs when a Generic is available.

State Retiree NJ PLUS and HMO physician copays increased from \$5 to \$10 in Plan Year 2007. Non-HMO Prescription Drug 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:

### Plan Year 2009 Recommended 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

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Effective 4/1/2008, the following changes affected all State Actives (except the State Police and select Correction and Judiciary unions) and all State Retirees:

- 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. NJ DIRECT10 is not offered to State Actives or certain State Retirees. NJ DIRECT15 is offered to State Actives and Retirees.
- The number of HMO vendors was reduced from five to two (Aetna and CIGNA). State Actives will continue with the \$15 HMO copay, and State Retirees will continue with the \$10 HMO copay.

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.

### **Employee/Retiree Contribution Changes**

Prior to 7/1/2007, State Actives contributed 25% of the cost of the Traditional Plan, 5% for HMOs, and 0% for NJ PLUS. Effective 7/1/2007, State Actives (except the State Police and select Correction and Judiciary unions) contribute 1.5% of salary regardless of benefit plan or family status. Employees who do not have medical or prescription drug coverage have no contributions. Individuals retiring who have obtained 25 years of service after July 1, 2007 or are retiring on a disability retirement are also required to contribute 1.5% of

their pension for medical and prescription drug coverage unless they participate in the new SHBP Wellness Program.

### **Eligibility Changes**

Part-time Coverage - Effective for the Plan Year 2004, part-time employees were permitted to enroll in NJ PLUS and the 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 200 State part-timers are participating, so the experience is not very credible. However, since the State loss ratio is 118% for Plan Year 2007, Aon recommends that the current 10% rate load be continued for Plan Year 2009.

Coverage of Adult Children Under Age 30 - Effective 1/1/2007 adult children under age 30 were allowed to enroll with the SHBP for medical and prescription drug coverage on a fully contributory basis. 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 children under 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 2002 through 2007 and includes Aon's projection of Plan Years 2008 and 2009 enrollment.

Based on revised historical growth patterns, Aon's enrollment projections assume that State Active enrollment will decrease 2.2% in Plan Year 2008 and 1.8% in Plan Year 2009. The decreasing Active enrollment is a result of:

- Decreasing numbers of State employees, due to normal attrition,
- Decrease in the percentage of State Employees who enroll in the SHBP because of the change in employee contribution formulas, and
- Approximately 1,500 early retirees anticipated in the second half of Plan Year 2008 as a result of the early retirement initiative.

Retiree projections for Plan Years 2008 and 2009 assume that Retiree enrollment will increase 5.4% in Plan Year 2008 and 6.6% in Plan Year 2009. The increasing Retiree enrollment is the result of:

- Historical pattern of increasing retiree enrollment, and
- 1,500 early retirees anticipated in the second half of Plan Year 2008 as a result of the early retirement initiative.

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 Active Employee average age did not change between First Quarter 2007 and Second Quarter 2008, as compared to a 1.0 year increase from 2006

to 2007. This reflects the impact of the change in contribution methodology which reduced the number of covered SHBP employees.

The change in contribution methodology, combined with the benefit plan changes, resulted in some minor changes in the average age by benefit plan. HMO average age decreased 0.3 years and Horizon average age increased 0.2 years. The average ages by benefit plan for the non-legacy employees varies by less than 1 year, with a range of 45.2 (CIGNA) to 46.0 (Aetna).

The changes in NJ PLUS and the Traditional Plan reflect the shift from the total SHBP population to the Legacy group only. The Legacy average ages are lower than the total SHBP ages, but they continue to show a large difference in age between the Traditional Plan (55.4) and NJ PLUS (40.8). It is important to note that the group remaining in the Traditional Plan is small (less than 350 employees).

The impact of these age changes will be decreased HMO claims costs and increased NJ DIRECT costs. Plan Years 2008 and 2009 costs have been adjusted for the age changes via the use of the Plan/Migration factor detailed in Exhibit 6 under "Adjustment for 4/1/2008 Benefit Changes" section.

### **Average Employee Age – State Actives**

	1/1/2007	4/1/2008	Change
NJ PLUS	43.8	40.8	-3.0
Traditional Plan	56.8	55.4	-1.4
NJ DIRECT15		45.7	
Total Horizon	44.8	45.0	0.2
Aetna	46.2	46.0	-0.2
CIGNA	45.8	45.2	-0.6
Total HMO	46.2	45.9	-0.3
Grand Total	45.2	45.2	0.0

**Trend Analysis**

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

	Medical	Prescription Drugs
NJ DIRECT Employee	7.5%	NA
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 State 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 State 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 State Projected Financial Results

(in \$ millions)

	NJ PLUS	Trad.Plan	HMOs	Rx Plan	Total
<b>Plan Year 2007</b>					
Premium Rates x Enrollment	\$718.2	\$246.1	\$309.3	\$266.4	\$1,540.0
Incurred Claims	\$646.5	\$201.2	\$275.8	\$256.9	\$1,380.4
Administrative Charges	\$33.3	\$11.7	\$22.7	\$0.0	\$67.7
Net Gain (Loss)	\$38.4	\$33.2	\$10.8	\$9.5	\$91.9
<b>First Quarter 2008</b>					
Premium Rates x Enrollment	\$177.9	\$59.4	\$83.1	\$65.7	\$386.1
Incurred Claims	\$173.5	\$47.7	\$78.2	\$66.0	\$365.4
Administrative Charges	\$7.5	\$2.9	\$5.9	\$0.0	\$16.3
Net Gain (Loss)	-\$3.1	\$8.8	-\$1.0	-\$0.3	\$4.4

	NJ DIRECT10	NJ DIRECT15	Legacy	HMOs	Rx Plan	Total
<b>2nd-4th Quarter 2008</b>						
Premium Rates x Enrollment	\$105.3	\$562.6	\$83.9	\$213.1	\$210.8	\$1,175.7
Incurred Claims	\$97.2	\$521.0	\$80.3	\$210.0	\$196.4	\$1,104.9
Administrative Charges	\$3.8	\$17.7	\$3.7	\$13.1	\$3.9	\$42.2
Net Gain (Loss)	\$4.3	\$23.9	-\$0.1	-\$10.0	\$10.5	\$28.6
<b>Plan Year 2009</b>						
Premium Rates x Enrollment	\$152.0	\$767.9	\$118.3	\$310.7	\$283.2	\$1,632.1
Incurred Claims	\$142.5	\$737.8	\$112.8	\$304.7	\$276.5	\$1,574.3
Administrative Charges	\$5.7	\$25.0	\$5.1	\$16.7	\$5.3	\$57.8
Net Gain (Loss)	\$3.8	\$5.1	\$0.4	-\$10.7	\$1.4	\$0.0

The Plan Year 2009 premiums are set to achieve no loss or gain in total, although there are losses and gains by plan type. The expected 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 2% for Actives and Early Retirees and 0% for Medicare Retirees, and a maximum renewal increase of 12%. This has resulted in projected losses for HMOs and projected gains for all other plans.

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%
NJ PLUS	\$ 29.00	\$ 29.00	0.0%
Traditional Plan	\$ 39.50	\$ 39.50	0.0%
Aetna	\$ 44.52	\$ 45.94	3.2%
CIGNA	\$ 39.27	\$ 40.45	3.0%
<u>Rx Fee</u>			
NJ DIRECT (Retiree)	\$ 4.95	\$ 5.12	3.5%
NJ PLUS	\$ -	\$ -	
Traditional Plan	\$ -	\$ -	
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 2% for Actives and Early retirees and 0% for Medicare Retirees. For the State Group in total, the recommended renewal increases are projected to produce premium income equal to 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 \$24 million for the projected value of Plan Year 2007 manufacturers' rebates.
5. Prescription Drug claims were reduced \$19 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 9 of this document. Projections for 4/1/2008 through 12/31/2008 were pro-rated to reflect 9 months of claims.
8. Active claims for 4/1/2008 through 12/31/2008 were increased 2.0% to reflect a continuation of the increase in utilization as a result of the new contribution formula.
9. Aetna Medicare Retiree Plan Year 2009 medical costs were adjusted to reflect the anticipated savings from the Aetna Medicare Advantage program.

10. Retiree NJ DIRECT prescription drug claims were reduced 2% per year to reflect the annual increase in copays and out-of-pocket maximum.
11. 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.
12. 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.
13. 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**

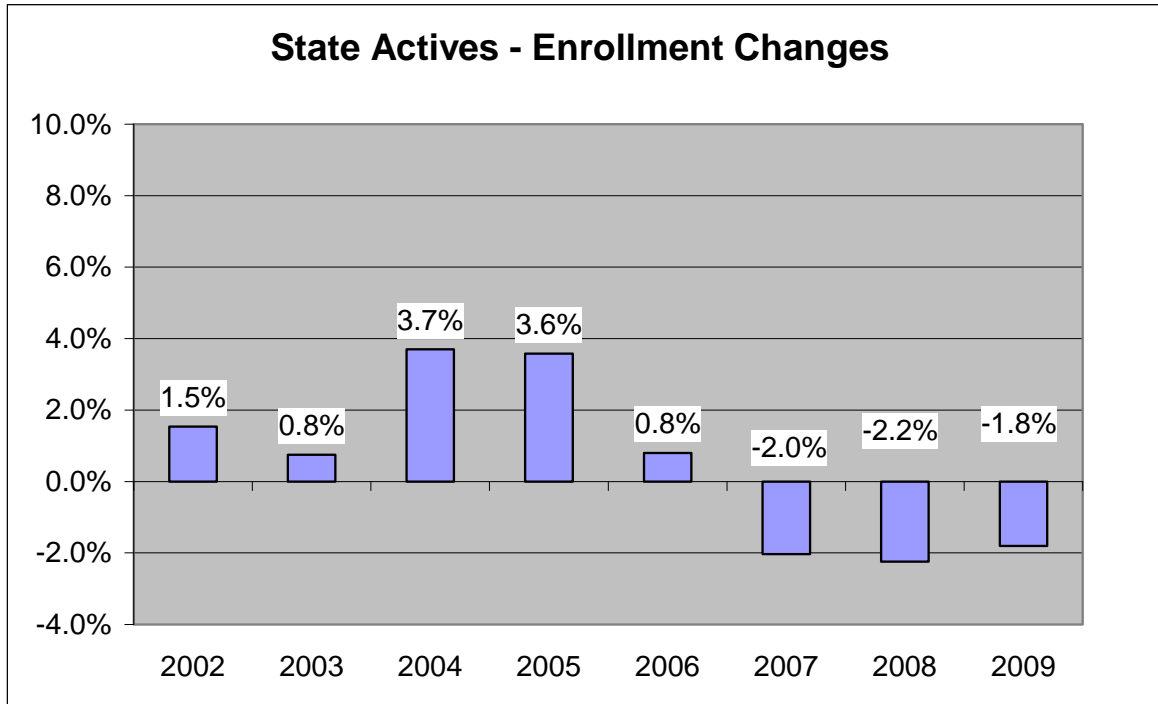
The administrative cost projection includes administrative charges, as well as some miscellaneous cost items:

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 \$4.8 million for the State Group.

**Projected Premiums**

1. Plan Year 2009 premiums were developed by applying the premium increase percentages listed on pages 2 and 3 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:**

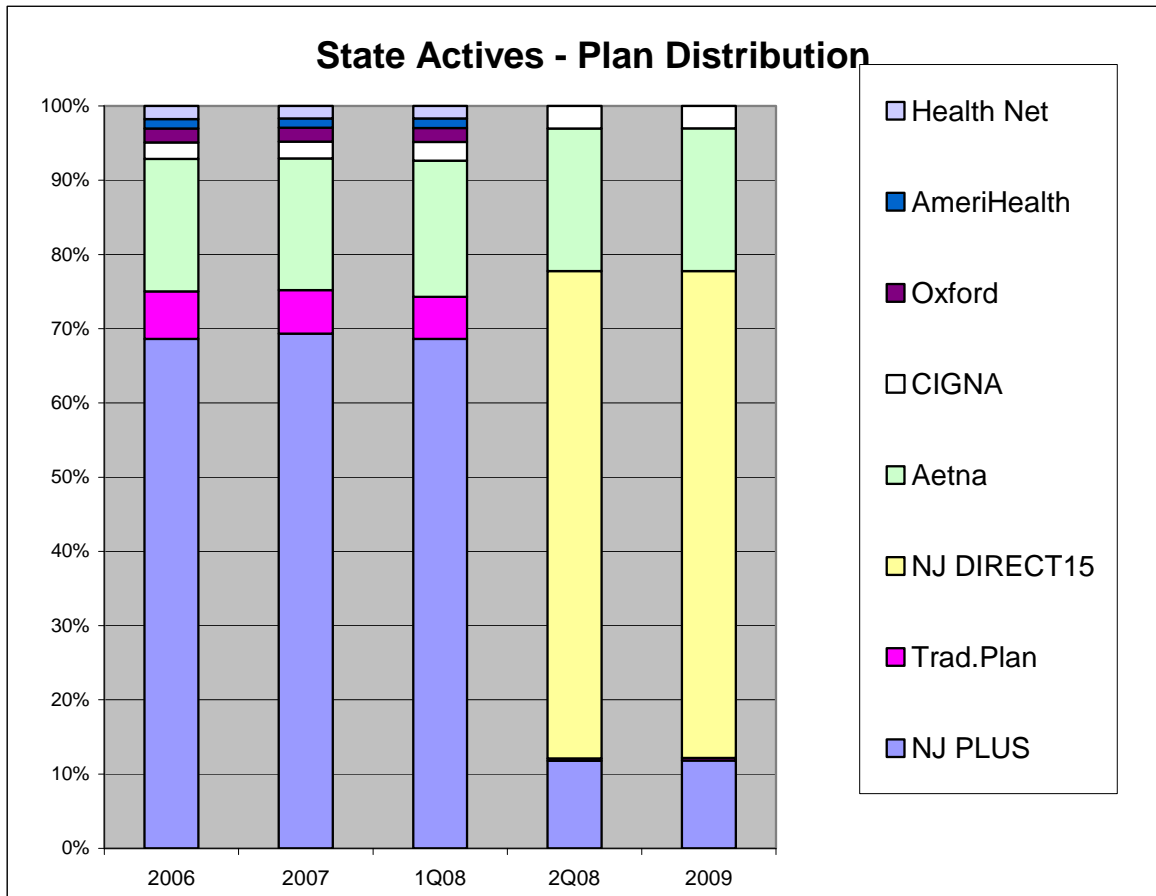
Plan Year 2007 - Enrollment decreased 2% as a result of the change in employee contribution requirements and decreases in eligible State employees.

Plan Year 2008 - Enrollment is projected to decrease 2.2% as a result of the change in employee contribution requirements, and decreases in eligible State employees due to normal attrition and the August 2008 early retirement initiative.

Plan Year 2009 - Enrollment is projected to decrease 1.8% as a result of decreases in eligible State employees due to normal attrition and the August 2008 early retirement initiative.

## SHBP Plan Year 2009 Renewal Recommendation

### Exhibit 1B – Enrollment Projections



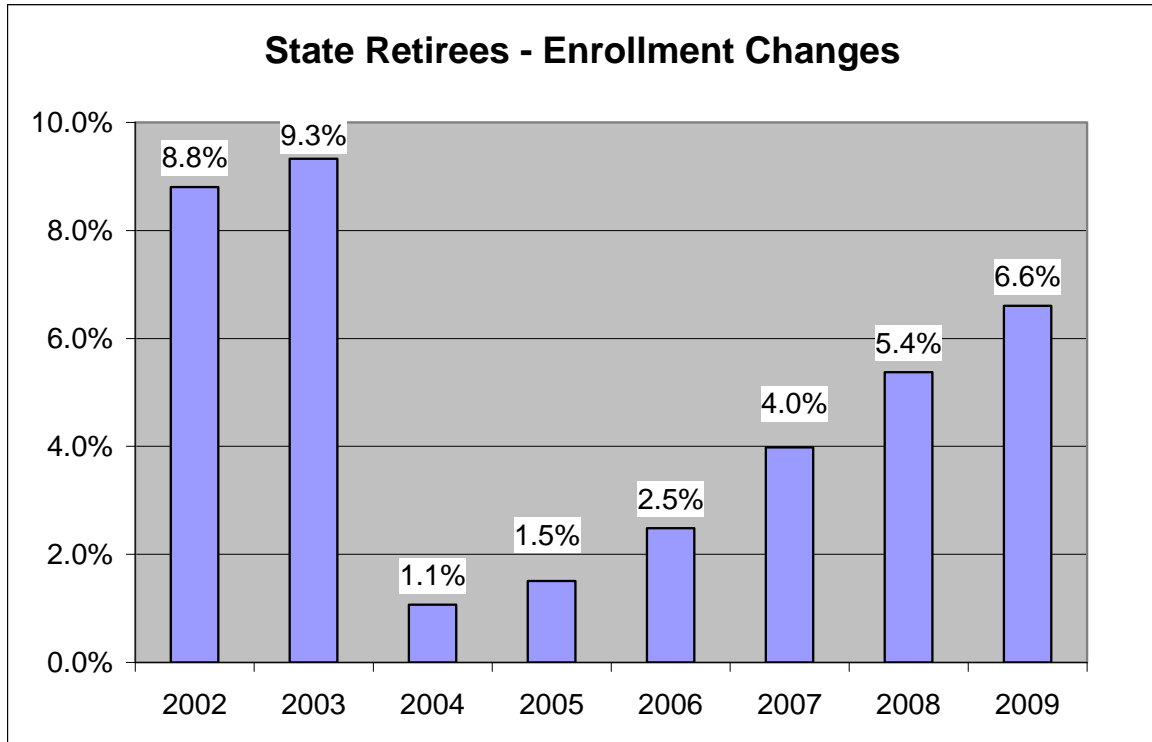
#### Observations:

Plan Year 2006 through first quarter Plan Year 2008 - Very little change in the distribution of employees among plan options.

Second Quarter Plan Year 2008 - The termination of 3 HMOs reduced HMO enrollment from 25% to 22% of total employees. In addition, NJ PLUS and the Traditional Plan were replaced by NJ DIRECT15 (PPO plan) for most employees.

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**



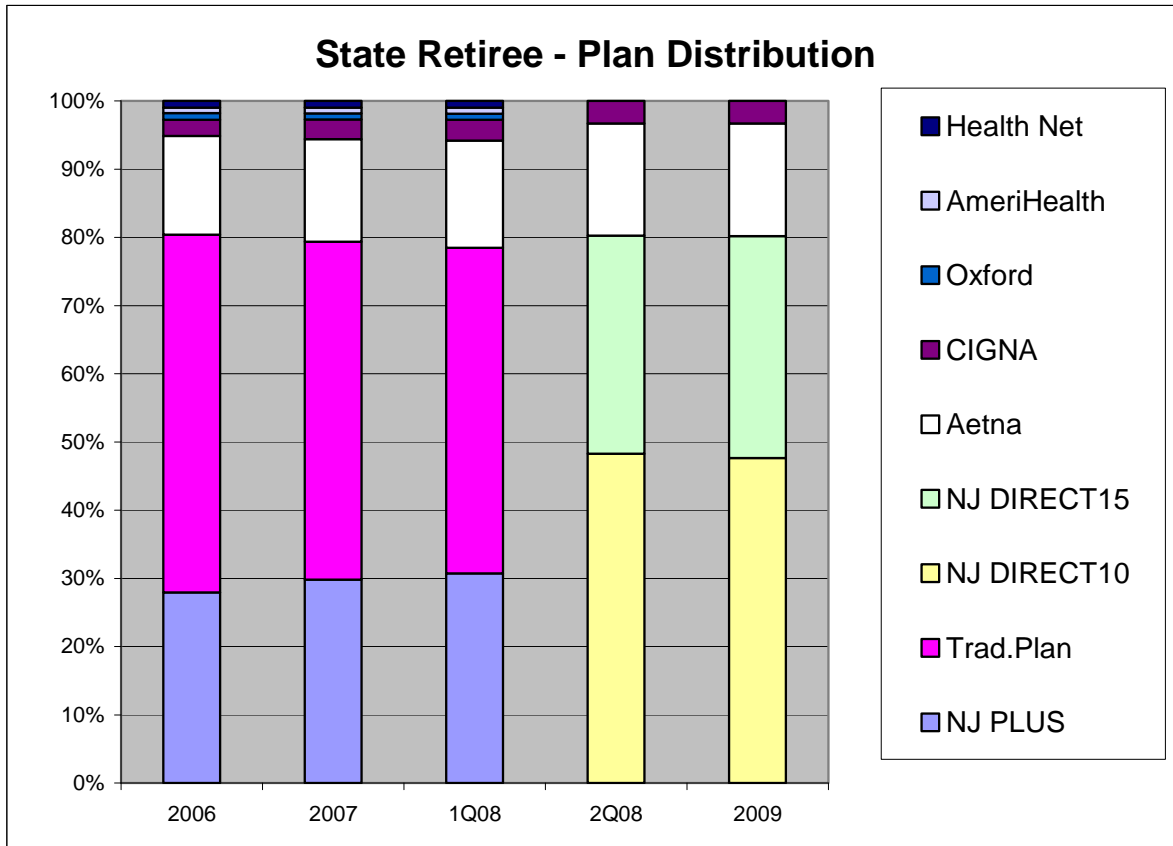
**Observations:**

Plan Years 2006 and 2007 - Enrollment continued to grow, a continuation of the pattern in Plan Years 2004 and 2005.

Plan Years 2008 and 2009 - Retiree enrollment has been almost flat since October 2007, probably due to the August 2008 early retirement initiative. We are projecting that retirements will increase later in Plan Year 2008 and continue through Plan Year 2009.

## SHBP Plan Year 2009 Renewal Recommendation

## Exhibit 1D – 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 22% to 20% of total retirees. In addition, NJ PLUS and the Traditional Plan were replaced by NJ DIRECT10 and NJ DIRECT15 (PPO plans). 60% 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**

**State Group**

	Increase in Claims/Ee	Benefit Changes	Selection	Claim Trend
<b><u>Medical</u></b>				
Plan Year 2006	5.7%	0.0%	0.0%	5.7%
Plan Year 2007	9.7%	-0.9%	2.0%	8.6%
Aon Trend Assumption				<b>7.5%</b>
<b><u>Rx Card</u></b>				
Plan Year 2006	7.6%	0.0%	0.0%	7.6%
Plan Year 2007	8.7%	-0.4%	2.0%	7.1%
Aon Trend Assumption				<b>7.5%</b>

**Benefit Changes:**

NJ PLUS physician/ER copays increased on 7/1/2007.

Rx Copays added a third tier on 7/1/2007 for State.

**Selection**

Contribution change for State increased claimants per employee

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

**State Group**

	Increase in Claims/Ee	Benefit Changes	Selection	Claim Trend
<b><u>Early Retiree Medical</u></b>				
Plan Year 2006	7.6%	0.0%	0.0%	7.6%
Plan Year 2007	-3.9%	-1.6%	0.0%	-2.3%
Aon Trend Assumption				<b>6.5%</b>

<b><u>Medicare Retiree Medical</u></b>				
Plan Year 2006	3.7%	0.0%	0.0%	3.7%
Plan Year 2007	1.8%	-2.9%	0.0%	4.7%
Aon Trend Assumption				<b>5.0%</b>

<b><u>Retiree Rx</u></b>				
Plan Year 2006	0.8%	-7.0%	0.0%	7.8%
Plan Year 2007	3.6%	-2.0%	0.0%	5.6%
Aon Trend Assumption				<b>7.5%</b>

**Benefit Changes:**

NJ PLUS physician/ER copays increased on 1/1/2007 for all Retirees.

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

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

**State Group**

	Increase in Claims/Ee	Benefit Changes	Selection	Claim Trend
<b><u>Aetna Medical</u></b>				
Plan Year 2006	11.9%	0.0%	0.0%	11.9%
Plan Year 2007	8.5%	-1.1%	1.5%	8.1%
Aon Trend Assumption				<b>9.5%</b>

<b><u>CIGNA Medical</u></b>				
Plan Year 2006	9.7%	0.0%	0.0%	9.7%
Plan Year 2007	7.4%	-1.1%	1.6%	6.9%
Aon Trend Assumption				<b>8.0%</b>

<b><u>HMO Rx</u></b>				
Plan Year 2006	12.6%	0.0%	0.0%	12.6%
Plan Year 2007	6.2%	0.0%	0.0%	6.2%
Aon Trend Assumption				<b>9.0%</b>

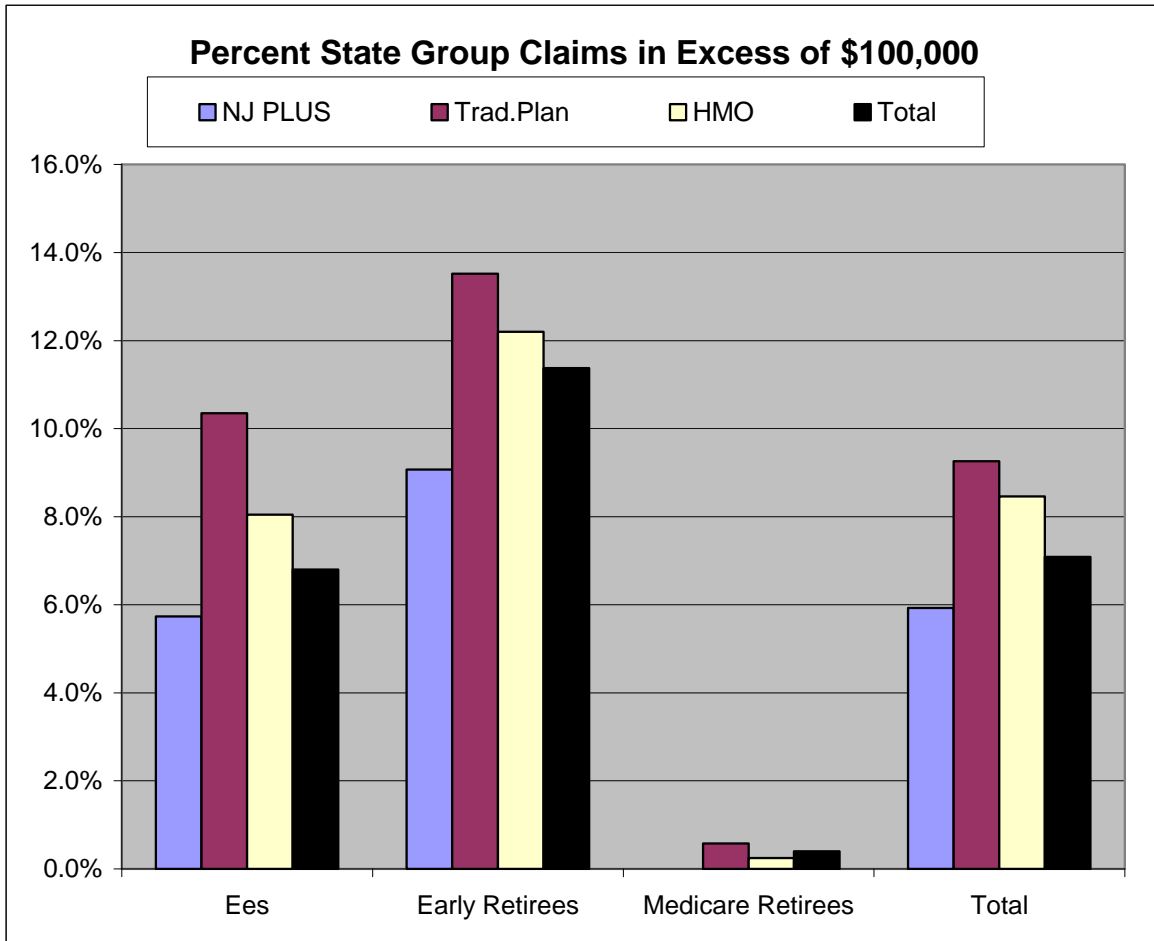
**Benefit Changes:**

Physician/ER copays increased on 7/1/2007 for State.

**Selection**

Contribution change for State increased claimants per employee

**SHBP Plan Year 2009 Renewal Recommendation**  
**Exhibit 3A – Plan Year 2007 Large Claim Analysis**

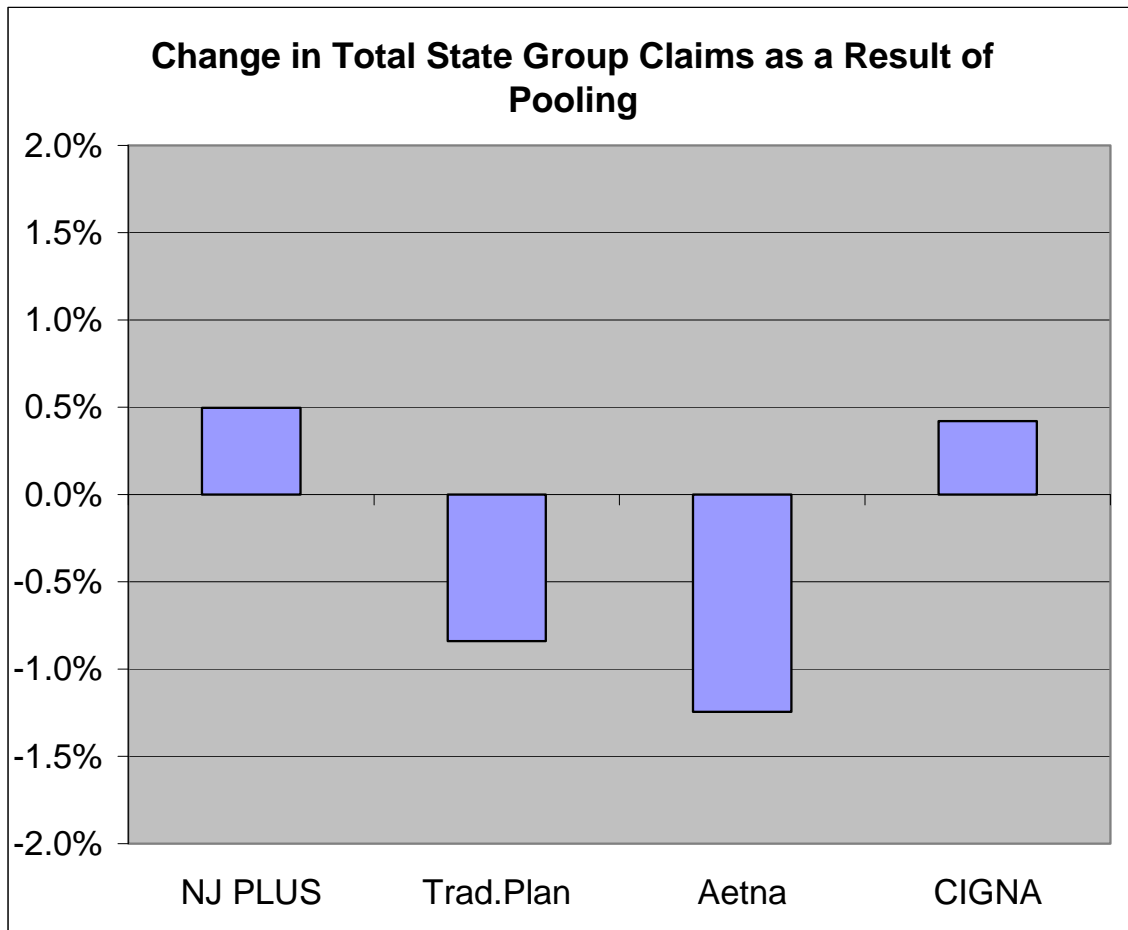


**Observations:**

Traditional Plan has the highest percentages of shock claims, and NJ PLUS has the lowest level.

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 – Plan Year 2007 Large Claim Analysis



**Observations:**

Pooling decreases Traditional Plan and Aetna claims by about 1%

Pooling increases NJ PLUS and CIGNA claims by about 0.5%

**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
<b>Employees and Retirees</b>									
Average Medical Subscribers	147,889	88,656	24,127	25,215	3,560	2,402	1,713	2,217	112,378
Incurred Medical claims	\$ 935,300,000	\$ 556,300,000	\$ 148,200,000	\$ 163,100,000	\$ 24,500,000	\$ 17,500,000	\$ 11,300,000	\$ 14,400,000	
Capitation	\$ 77,300,000	\$ 54,700,000	\$ 500,000	\$ 16,600,000	\$ 2,400,000	\$ 300,000	\$ 1,200,000	\$ 1,600,000	
Incurred Prescription Drug Claims	\$ 411,500,000	\$ 42,600,000	\$ 68,300,000	\$ 19,900,000	\$ 3,800,000	\$ 1,100,000	\$ 1,200,000	\$ 1,900,000	\$ 272,700,000
Prescription Drug Rebates	\$ (24,300,000)	\$ (2,500,000)	\$ (4,000,000)	\$ (1,600,000)	\$ (100,000)	\$ (100,000)	\$ (100,000)	\$ (100,000)	\$ (15,800,000)
Medicare Part D Subsidies	\$ (19,400,000)	\$ (4,600,000)	\$ (11,800,000)	\$ (2,000,000)	\$ (500,000)	\$ (100,000)	\$ (200,000)	\$ (200,000)	
Administrative Fees	\$ 67,700,000	\$ 33,300,000	\$ 11,700,000	\$ 16,600,000	\$ 2,200,000	\$ 1,400,000	\$ 1,100,000	\$ 1,400,000	\$ -
Total Cost	\$ 1,448,100,000	\$ 679,800,000	\$ 212,900,000	\$ 212,600,000	\$ 32,300,000	\$ 20,100,000	\$ 14,500,000	\$ 19,000,000	\$ 256,900,000
Total Premium	\$ 1,540,000,000	\$ 718,200,000	\$ 246,100,000	\$ 217,700,000	\$ 35,000,000	\$ 20,000,000	\$ 16,600,000	\$ 20,000,000	\$ 266,400,000
Gain (Loss)	\$ 91,900,000	\$ 38,400,000	\$ 33,200,000	\$ 5,100,000	\$ 2,700,000	\$ (100,000)	\$ 2,100,000	\$ 1,000,000	\$ 9,500,000
<b>Employees</b>									
Average Medical Subscribers	112,378	78,078	6,542	19,852	2,546	2,084	1,412	1,865	112,378
Incurred Medical claims	\$ 762,200,000	\$ 494,900,000	\$ 81,100,000	\$ 131,000,000	\$ 16,600,000	\$ 16,100,000	\$ 9,700,000	\$ 12,800,000	\$ -
Capitation	\$ 68,500,000	\$ 48,500,000	\$ 300,000	\$ 14,900,000	\$ 1,900,000	\$ 300,000	\$ 1,100,000	\$ 1,500,000	\$ -
Incurred Prescription Drug Claims	\$ 272,700,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 272,700,000
Prescription Drug Rebates	\$ (15,800,000)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (15,800,000)
Medicare Part D Subsidies	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Administrative Fees	\$ 50,500,000	\$ 29,400,000	\$ 3,200,000	\$ 13,000,000	\$ 1,600,000	\$ 1,200,000	\$ 900,000	\$ 1,200,000	\$ -
Total Cost	\$ 1,138,100,000	\$ 572,800,000	\$ 84,600,000	\$ 158,900,000	\$ 20,100,000	\$ 17,600,000	\$ 11,700,000	\$ 15,500,000	\$ 256,900,000
Total Premium	\$ 1,196,500,000	\$ 600,100,000	\$ 90,800,000	\$ 167,300,000	\$ 24,200,000	\$ 17,400,000	\$ 13,500,000	\$ 16,800,000	\$ 266,400,000
Gain (Loss)	\$ 58,400,000	\$ 27,300,000	\$ 6,200,000	\$ 8,400,000	\$ 4,100,000	\$ (200,000)	\$ 1,800,000	\$ 1,300,000	\$ 9,500,000
<b>Retirees</b>									
Average Medical Subscribers	35,511	10,578	17,585	5,363	1,014	318	301	352	
Incurred Medical claims	\$ 173,100,000	\$ 61,400,000	\$ 67,100,000	\$ 32,100,000	\$ 7,900,000	\$ 1,400,000	\$ 1,600,000	\$ 1,600,000	
Capitation	\$ 8,800,000	\$ 6,200,000	\$ 200,000	\$ 1,700,000	\$ 500,000	\$ -	\$ 100,000	\$ 100,000	
Incurred Prescription Drug Claims	\$ 138,800,000	\$ 42,600,000	\$ 68,300,000	\$ 19,900,000	\$ 3,800,000	\$ 1,100,000	\$ 1,200,000	\$ 1,900,000	
Prescription Drug Rebates	\$ (8,500,000)	\$ (2,500,000)	\$ (4,000,000)	\$ (1,600,000)	\$ (100,000)	\$ (100,000)	\$ (100,000)	\$ (100,000)	
Medicare Part D Subsidies	\$ (19,400,000)	\$ (4,600,000)	\$ (11,800,000)	\$ (2,000,000)	\$ (500,000)	\$ (100,000)	\$ (200,000)	\$ (200,000)	
Administrative Fees	\$ 17,200,000	\$ 3,900,000	\$ 8,500,000	\$ 3,600,000	\$ 600,000	\$ 200,000	\$ 200,000	\$ 200,000	
Total Cost	\$ 310,000,000	\$ 107,000,000	\$ 128,300,000	\$ 53,700,000	\$ 12,200,000	\$ 2,500,000	\$ 2,800,000	\$ 3,500,000	
Total Premium	\$ 343,500,000	\$ 118,100,000	\$ 155,300,000	\$ 50,400,000	\$ 10,800,000	\$ 2,600,000	\$ 3,100,000	\$ 3,200,000	
Gain (Loss)	\$ 33,500,000	\$ 11,100,000	\$ 27,000,000	\$ (3,300,000)	\$ (1,400,000)	\$ 100,000	\$ 300,000	\$ (300,000)	

**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
<b>Employees and Retirees</b>									
Average Medical Subscribers	147,416	87,692	23,599	25,901	3,907	2,379	1,734	2,204	111,015
Incurred Medical claims	\$ 271,400,000	\$ 164,500,000	\$ 35,300,000	\$ 51,000,000	\$ 8,100,000	\$ 4,600,000	\$ 3,600,000	\$ 4,300,000	
Incurred Prescription Drug Claims	\$ 94,000,000	\$ 9,000,000	\$ 12,400,000	\$ 4,600,000	\$ 1,000,000	\$ 200,000	\$ 300,000	\$ 500,000	\$ 66,000,000
Administrative Fees	\$ 16,300,000	\$ 7,500,000	\$ 2,900,000	\$ 4,300,000	\$ 600,000	\$ 400,000	\$ 300,000	\$ 300,000	
Total Cost	\$ 381,700,000	\$ 181,000,000	\$ 50,600,000	\$ 59,900,000	\$ 9,700,000	\$ 5,200,000	\$ 4,200,000	\$ 5,100,000	\$ 66,000,000
Total Premium	\$ 386,100,000	\$ 177,900,000	\$ 59,400,000	\$ 58,700,000	\$ 10,000,000	\$ 5,200,000	\$ 4,200,000	\$ 5,000,000	\$ 65,700,000
Gain (Loss)	\$ 4,400,000	\$ (3,100,000)	\$ 8,800,000	\$ (1,200,000)	\$ 300,000	\$ -	\$ -	\$ (100,000)	\$ (300,000)
<b>Employees</b>									
Average Medical Subscribers	111,015	76,504	6,227	20,184	2,779	2,055	1,422	1,843	111,015
Incurred Medical claims	\$ 221,400,000	\$ 144,800,000	\$ 18,500,000	\$ 41,300,000	\$ 5,800,000	\$ 4,200,000	\$ 3,200,000	\$ 3,600,000	
Incurred Prescription Drug Claims	\$ 66,000,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 66,000,000
Administrative Fees	\$ 11,900,000	\$ 6,500,000	\$ 800,000	\$ 3,400,000	\$ 400,000	\$ 300,000	\$ 200,000	\$ 300,000	
Total Cost	\$ 299,300,000	\$ 151,300,000	\$ 19,300,000	\$ 44,700,000	\$ 6,200,000	\$ 4,500,000	\$ 3,400,000	\$ 3,900,000	\$ 66,000,000
Total Premium	\$ 298,000,000	\$ 146,800,000	\$ 21,600,000	\$ 44,800,000	\$ 7,000,000	\$ 4,500,000	\$ 3,400,000	\$ 4,200,000	\$ 65,700,000
Gain (Loss)	\$ (1,300,000)	\$ (4,500,000)	\$ 2,300,000	\$ 100,000	\$ 800,000	\$ -	\$ -	\$ 300,000	\$ (300,000)
<b>Retirees</b>									
Average Medical Subscribers	36,402	11,188	17,372	5,717	1,128	324	312	361	
Incurred Medical claims	\$ 50,000,000	\$ 19,700,000	\$ 16,800,000	\$ 9,700,000	\$ 2,300,000	\$ 400,000	\$ 400,000	\$ 700,000	
Incurred Prescription Drug Claims	\$ 28,000,000	\$ 9,000,000	\$ 12,400,000	\$ 4,600,000	\$ 1,000,000	\$ 200,000	\$ 300,000	\$ 500,000	
Administrative Fees	\$ 4,400,000	\$ 1,000,000	\$ 2,100,000	\$ 900,000	\$ 200,000	\$ 100,000	\$ 100,000	\$ -	
Total Cost	\$ 82,400,000	\$ 29,700,000	\$ 31,300,000	\$ 15,200,000	\$ 3,500,000	\$ 700,000	\$ 800,000	\$ 1,200,000	
Total Premium	\$ 88,100,000	\$ 31,100,000	\$ 37,800,000	\$ 13,900,000	\$ 3,000,000	\$ 700,000	\$ 800,000	\$ 800,000	
Gain (Loss)	\$ 5,700,000	\$ 1,400,000	\$ 6,500,000	\$ (1,300,000)	\$ (500,000)	\$ -	\$ -	\$ (400,000)	

**SHBP Plan Year 2009 Renewal Recommendation**  
**Exhibit 4C – 4/1/2008 through 12/31/2008 Aggregate Costs**

	Total	NJ DIRECT10	NJ DIRECT15	Aetna	CIGNA	NJ PLUS	Trad.Plan	Ee Rx Card
<b>Employees and Retirees</b>								
Average Medical Subscribers	146,980	18,111	83,848	27,205	4,558	12,905	353	108,865
Incurred Medical claims	\$ 816,700,000	\$ 55,000,000	\$ 490,700,000	\$ 162,600,000	\$ 28,100,000	\$ 77,400,000	\$ 2,900,000	\$ -
Incurred Prescription Drug Claims	\$ 288,200,000	\$ 42,200,000	\$ 30,300,000	\$ 16,000,000	\$ 3,300,000	\$ -	\$ -	\$ 196,400,000
Administrative Fees	\$ 42,200,000	\$ 3,800,000	\$ 17,700,000	\$ 11,400,000	\$ 1,700,000	\$ 3,600,000	\$ 100,000	\$ 3,900,000
Total Cost	\$ 1,147,100,000	\$ 101,000,000	\$ 538,700,000	\$ 190,000,000	\$ 33,100,000	\$ 81,000,000	\$ 3,000,000	\$ 200,300,000
Total Premium	\$ 1,175,700,000	\$ 105,300,000	\$ 562,600,000	\$ 181,900,000	\$ 31,200,000	\$ 80,500,000	\$ 3,400,000	\$ 210,800,000
Gain (Loss)	\$ 28,600,000	\$ 4,300,000	\$ 23,900,000	\$ (8,100,000)	\$ (1,900,000)	\$ (500,000)	\$ 400,000	\$ 10,500,000
<b>Employees</b>								
Average Medical Subscribers	108,865	-	71,402	20,913	3,292	12,905	353	108,865
Incurred Medical claims	\$ 655,300,000	\$ -	\$ 427,300,000	\$ 128,100,000	\$ 19,600,000	\$ 77,400,000	\$ 2,900,000	\$ -
Incurred Prescription Drug Claims	\$ 196,400,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 196,400,000
Administrative Fees	\$ 32,700,000	\$ -	\$ 15,100,000	\$ 8,800,000	\$ 1,200,000	\$ 3,600,000	\$ 100,000	\$ 3,900,000
Total Cost	\$ 884,400,000	\$ -	\$ 442,400,000	\$ 136,900,000	\$ 20,800,000	\$ 81,000,000	\$ 3,000,000	\$ 200,300,000
Total Premium	\$ 927,500,000	\$ -	\$ 471,400,000	\$ 139,300,000	\$ 22,100,000	\$ 80,500,000	\$ 3,400,000	\$ 210,800,000
Gain (Loss)	\$ 43,100,000	\$ -	\$ 29,000,000	\$ 2,400,000	\$ 1,300,000	\$ (500,000)	\$ 400,000	\$ 10,500,000
<b>Retirees</b>								
Average Medical Subscribers	38,115	18,111	12,446	6,292	1,266			
Incurred Medical claims	\$ 161,400,000	\$ 55,000,000	\$ 63,400,000	\$ 34,500,000	\$ 8,500,000			
Incurred Prescription Drug Claims	\$ 91,800,000	\$ 42,200,000	\$ 30,300,000	\$ 16,000,000	\$ 3,300,000			
Administrative Fees	\$ 9,500,000	\$ 3,800,000	\$ 2,600,000	\$ 2,600,000	\$ 500,000			
Total Cost	\$ 262,700,000	\$ 101,000,000	\$ 96,300,000	\$ 53,100,000	\$ 12,300,000			
Total Premium	\$ 248,200,000	\$ 105,300,000	\$ 91,200,000	\$ 42,600,000	\$ 9,100,000			
Gain (Loss)	\$ (14,500,000)	\$ 4,300,000	\$ (5,100,000)	\$ (10,500,000)	\$ (3,200,000)			

**SHBP Plan Year 2009 Renewal Recommendation**  
**Exhibit 4D – Plan Year 2009 Aggregate Costs**

	Total	NJ DIRECT10	NJ DIRECT15	Aetna	CIGNA	NJ PLUS	Trad.Plan	Ee Rx Card
<b>Employees and Retirees</b>								
Average Medical Subscribers	147,739	19,013	83,721	27,304	4,588	12,764	348	107,849
Incurred Medical claims	\$ 1,163,600,000	\$ 80,800,000	\$ 693,900,000	\$ 235,700,000	\$ 40,400,000	\$ 108,700,000	\$ 4,100,000	\$ -
Incurred Prescription Drug Claims	\$ 410,700,000	\$ 61,700,000	\$ 43,900,000	\$ 23,800,000	\$ 4,800,000	\$ -	\$ -	\$ 276,500,000
Administrative Fees	\$ 57,800,000	\$ 5,700,000	\$ 25,000,000	\$ 14,300,000	\$ 2,400,000	\$ 4,900,000	\$ 200,000	\$ 5,300,000
Total Cost	\$ 1,632,100,000	\$ 148,200,000	\$ 762,800,000	\$ 273,800,000	\$ 47,600,000	\$ 113,600,000	\$ 4,300,000	\$ 281,800,000
Total Premium	\$ 1,632,100,000	\$ 152,000,000	\$ 767,900,000	\$ 265,000,000	\$ 45,700,000	\$ 113,600,000	\$ 4,700,000	\$ 283,200,000
Gain (Loss)	\$ -	\$ 3,800,000	\$ 5,100,000	\$ (8,800,000)	\$ (1,900,000)	\$ -	\$ 400,000	\$ 1,400,000
<b>Employees</b>								
Average Medical Subscribers	107,849	-	70,752	20,727	3,259	12,764	348	107,849
Incurred Medical claims	\$ 925,400,000	\$ -	\$ 601,600,000	\$ 183,300,000	\$ 27,700,000	\$ 108,700,000	\$ 4,100,000	\$ -
Incurred Prescription Drug Claims	\$ 276,500,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 276,500,000
Administrative Fees	\$ 45,300,000	\$ -	\$ 21,100,000	\$ 12,100,000	\$ 1,700,000	\$ 4,900,000	\$ 200,000	\$ 5,300,000
Total Cost	\$ 1,247,200,000	\$ -	\$ 622,700,000	\$ 195,400,000	\$ 29,400,000	\$ 113,600,000	\$ 4,300,000	\$ 281,800,000
Total Premium	\$ 1,265,200,000	\$ -	\$ 633,400,000	\$ 198,800,000	\$ 31,500,000	\$ 113,600,000	\$ 4,700,000	\$ 283,200,000
Gain (Loss)	\$ 18,000,000	\$ -	\$ 10,700,000	\$ 3,400,000	\$ 2,100,000	\$ -	\$ 400,000	\$ 1,400,000
<b>Retirees</b>								
Average Medical Subscribers	39,888	19,013	12,969	6,577	1,329			
Incurred Medical claims	\$ 238,200,000	\$ 80,800,000	\$ 92,300,000	\$ 52,400,000	\$ 12,700,000			
Incurred Prescription Drug Claims	\$ 134,200,000	\$ 61,700,000	\$ 43,900,000	\$ 23,800,000	\$ 4,800,000			
Administrative Fees	\$ 12,500,000	\$ 5,700,000	\$ 3,900,000	\$ 2,200,000	\$ 700,000			
Total Cost	\$ 384,900,000	\$ 148,200,000	\$ 140,100,000	\$ 78,400,000	\$ 18,200,000			
Total Premium	\$ 366,900,000	\$ 152,000,000	\$ 134,500,000	\$ 66,200,000	\$ 14,200,000			
Gain (Loss)	\$ (18,000,000)	\$ 3,800,000	\$ (5,600,000)	\$ (12,200,000)	\$ (4,000,000)			

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

<b>Actives</b>	<b>NJ DIRECT10</b>	<b>NJ DIRECT15</b>	<b>Aetna \$15</b>	<b>CIGNA \$15</b>	<b>Rx Card 3 tier copays</b>
Single	NA	\$415.17	\$432.24	\$436.56	\$120.34
Member+Spouse	NA	\$934.12	\$972.54	\$982.27	\$270.78
Family	NA	\$1,037.92	\$1,080.60	\$1,091.40	\$300.86
Parent+Child(ren)	NA	\$581.24	\$605.13	\$611.18	\$168.49
Adult Child Rate	NA	\$169.39	\$176.35	\$178.12	\$49.10

<b>Legacy Actives</b>	<b>NJ PLUS</b>	<b>Trad.Plan</b>	<b>Aetna \$10</b>	<b>CIGNA \$10</b>	<b>Rx Card 2 tier copays</b>
Single	\$391.72	\$773.41	\$440.88	\$445.29	\$122.75
Member+Spouse	\$853.83	\$1,655.32	\$991.99	\$1,001.92	\$276.20
Family	\$1,016.26	\$1,970.11	\$1,102.21	\$1,113.23	\$306.88
Parent+Child(ren)	\$589.31	\$1,142.36	\$617.23	\$623.40	\$171.86
Adult Child Rate	\$159.82	\$315.55	\$179.88	\$181.68	\$50.08

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

	<b>NJ DIRECT10</b>	<b>NJ DIRECT15</b>	<b>Aetna</b>	<b>CIGNA</b>
<b><u>Total Premium</u></b>				
Single - 0 Medicare	\$673.12	\$641.16	\$569.27	\$574.97
Single - 1 Medicare	\$370.52	\$352.93	\$420.86	\$425.06
Mem+Spouse - 0 Medicare	\$1,467.39	\$1,397.73	\$1,241.03	\$1,253.44
Mem+Spouse - 1 Medicare	\$1,043.64	\$994.09	\$990.13	\$1,000.04
Mem+Spouse - 2 Medicare	\$741.05	\$705.87	\$841.72	\$850.14
Family - 0 Medicare	\$1,669.34	\$1,590.08	\$1,411.80	\$1,425.93
Family - 1 Medicare	\$1,245.58	\$1,186.44	\$1,160.91	\$1,172.53
Family - 2 Medicare	\$942.99	\$898.22	\$1,012.49	\$1,022.63
Parent+Ch - 0 Medicare	\$942.36	\$897.63	\$796.99	\$804.96
Parent+Ch - 1 Medicare	\$586.66	\$558.81	\$617.26	\$623.43
<b><u>Medical Premium</u></b>				
Single - 0 Medicare	\$538.50	\$506.54	\$444.03	\$448.48
Single - 1 Medicare	\$159.32	\$141.73	\$185.18	\$187.03
Mem+Spouse - 0 Medicare	\$1,173.91	\$1,104.25	\$968.00	\$977.68
Mem+Spouse - 1 Medicare	\$697.82	\$648.27	\$629.21	\$635.52
Mem+Spouse - 2 Medicare	\$318.65	\$283.47	\$370.36	\$374.06
Family - 0 Medicare	\$1,335.47	\$1,256.21	\$1,101.20	\$1,112.23
Family - 1 Medicare	\$859.37	\$800.23	\$762.42	\$770.07
Family - 2 Medicare	\$405.49	\$360.72	\$445.50	\$449.96
Parent+Ch - 0 Medicare	\$753.89	\$709.16	\$621.65	\$627.87
Parent+Ch - 1 Medicare	\$252.26	\$224.41	\$271.59	\$274.31
<b><u>Rx Premium</u></b>				
Single - 0 Medicare	\$134.62	\$134.62	\$125.24	\$126.49
Single - 1 Medicare	\$211.20	\$211.20	\$235.68	\$238.03
Mem+Spouse - 0 Medicare	\$293.48	\$293.48	\$273.03	\$275.76
Mem+Spouse - 1 Medicare	\$345.82	\$345.82	\$360.92	\$364.52
Mem+Spouse - 2 Medicare	\$422.40	\$422.40	\$471.36	\$476.08
Family - 0 Medicare	\$333.87	\$333.87	\$310.60	\$313.70
Family - 1 Medicare	\$386.21	\$386.21	\$398.49	\$402.46
Family - 2 Medicare	\$537.50	\$537.50	\$566.99	\$572.67
Parent+Ch - 0 Medicare	\$188.47	\$188.47	\$175.34	\$177.09
Parent+Ch - 1 Medicare	\$334.40	\$334.40	\$345.67	\$349.12

## 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, a \$10 HMO copay plan, and a \$15 HMO copay Plan. Active Employees will be offered NJ DIRECT15 and an HMO with a \$15 copay. Retirees will have NJ DIRECT10, NJ DIRECT15, and an HMO with a \$10 copay.

Active Employees in the State Police and select Correction and Judiciary unions will continue with their current benefit plans.

Employee Prescription Drug Plan: Active employees will continue with the Employee Prescription Drug Plan administered by Horizon (CVS/Caremark).

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 NJ DIRECT, NJ PLUS, the Traditional Plan, and the Employee Prescription Drug plan. Aetna and CIGNA will be the only HMOs offered.

## ***Member Contributions***

Active Plans: Approximately 88% of employees will contribute 1.5% of their salary as a health contribution. State Police and select Correction and Judiciary unions will continue with their current contribution levels.

Retiree Plans: Active Employees who attain 25 years of service on or after 7/1/2007 or retire on a disability retirement will contribute 1.5% of their pension allowance for health coverage in retirement (unless they enroll in the Retiree Wellness program). Active Employees or Retirees with more than 25 years of service on 6/30/2007 will contribute towards their health benefits in retirement according to the labor contracts in place at the time of their attainment of 25 years of service.

## ***Incurred Basis***

Plan Year 2009 aggregate projected premiums will be designed to cover aggregate projected incurred costs for claims and expenses.

## ***Margin***

Projected State Plan premiums will include NO margin, since this is a self-insured plan and any shortfall in premium is paid by the State and any gain reverts to the State.

## ***Administrative Expenses***

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

- ASO fees for each vendor, and
- SHBP overhead expenses.

## ***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 2002 through May 2008 and includes Aon's projection of enrollment from June 2008 through December 2009. The projections are based on enrollment patterns over the past two years and anticipated changes for Plan Year 2009.

There were a number of items which impacted enrollment in Plan Years 2007 and 2008:

- Effective 7/1/2007, the contribution formula changed for State employees, and future State retirees. Prior to 7/1/2007, State employees could enroll in the NJ PLUS plan at no charge, and paid 5% of premium for an HMO and 25% for the Traditional Plan. As of 7/1/2007, all employees are required to contribute 1.5% of salary to receive health benefits. Employees who drop their SHBP coverage are not required to contribute. Future retirees contribute 1.5% of their retirement allowance toward the cost of healthcare, except it is waived for those who participate in the Retiree Wellness program.

- Effective 4/1/2008, NJ PLUS and the Traditional Plan were replaced by a new PPO plan, NJ DIRECT. Two copay levels are offered: \$10 and \$15. About 12% of State Employees remain in NJ PLUS and the Traditional Plan, pending union negotiations.
- Also on 4/1/2008, three of the five HMOs were terminated.

Plan Year 2009 enrollment projections are:

State Active Plans: Plan Year 2007 enrollment decreased 2.0%, partly as a result of the change in contribution strategy effective 7/1/2007. We are projecting the State employees will have similar decreases in Plan Years 2008 and 2009 (2.2% and 1.8%, respectively).

On 4/1/2008, about 65% of employees enrolled in the new NJ DIRECT15 plan, with the remainder split between HMOs and the legacy plans (NJ PLUS and Traditional). State employees cannot enroll in NJ DIRECT10. We are projecting that this plan distribution will remain the same in Plan Year 2009.

State Retiree Plans: Plan Year 2007 enrollment increased 4%. However, Early Retiree enrollment has not changed since October 2007, probably as a result of the August 2008 early retirement incentive program. We are projecting that retiree enrollment will increase for the remainder of Plan Year 2008 and for Plan Year 2009, with a increase in average enrollment of 5.4% in Plan Year 2008 and an increase of 6.6% in Plan Year 2009.

On 4/1/2008, about 50% of retirees enrolled in the new NJ DIRECT10 plan, with the remainder split between NJ DIRECT15 and the 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,
  - Actual employee benefit elections for 4/1/2008 compared to Plan Year 2007 benefit elections, and
  - Active NJ PLUS and HMO claims copay increase that was effective July 2007, which is only partially reflected in the Plan Year 2007 experience (medical claims were reduced 1.2%).
  - The addition of a third copay tier for the Employee prescription drug card effective July 2007, which is only partially reflected in the Plan Year 2007 experience (prescription drug claims were reduced 0.4%).

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	NA	0.980	1.027
NJ DIRECT15	0.984	0.980	0.955
Aetna HMO	0.990	1.022	0.995
CIGNA HMO	0.976	0.983	0.983
Legacy NJ PLUS	0.986	NA	NA
Legacy Traditional	0.930	NA	NA
Rx Card Plan	0.952	NA	NA

***Health Status Change***

State Active Plans: The new contribution strategy, effective 7/1/2007, requires all employees to pay for their coverage, regardless of plan. Prior to 7/1/2007, no contribution was required for NJ PLUS. As a result of this change, there was a small (about 1%) decrease in enrollment, a 1% increase in members per subscriber, and a 2% increase in claimants per member. The increase in members per subscriber is adjusted for by the different levels of premium charged for single versus family coverage. However, the increase in claimants per member impacts the adequacy of the plan rates and inflates the trends experienced by the plan. We are projecting that this 2% selection increase will continue in Plan Year 2008, since the 1/1/2008 Open Enrollment would have given more employees the opportunity to adjust their coverage tier choices (single versus family). We are assuming that there will not be additional changes at the 1/1/2009 Open Enrollment that will impact claimants per member, and so there is no selection increase in the projection of State Active claims from Plan Year 2008 to Plan Year 2009.

State Retiree Plans: We are assuming no change to average health status, since total enrollment is growing and is expected to continue to grow (partially due to the August 2008 early retirement initiative) and Retiree contributions will have minimal changes in Plan Years 2008 and 2009, given that the contribution changes apply to very few current Retirees. The new Retiree Wellness program is expected to have a positive effect on future claim costs, although it affects a very small subset of the overall retiree group.

### ***Large Claims***

Plan Year 2007 large claim experience is detailed in Exhibit 3. Claims over \$100,000 were pooled over the entire State Group. The impact of this adjustment was a small increase in cost for NJ PLUS and CIGNA HMO, and a small decrease in cost for the Traditional Plan and Aetna HMO.

### ***Trend Rates***

Exhibit 2 (pages 20-22) 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%	NA
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 four 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.

Selection – This reflects the impact of employee enrollment decisions that impacted claim trend. Specifically, the impact of the change in contribution methodology for State Actives is included in this column.

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

Exhibit 2A presents Horizon trends for active employees:

- The first section shows Medical claim increases for State Actives. The “Claim Trend” values are 5.7% and 8.6% for Plan Years 2006 and 2007, respectively. We are recommending an assumption of 7.5% for Plan Year 2009.
- The second section shows the State Active experience under the employee Prescription Drug card. The “Claim Trend” values are 7.6% and 7.1% for Plan Years 2006 and 2007, respectively. We are recommending an assumption of 7.5% for Plan Year 2009.

Exhibit 2B presents Horizon trends for retirees:

- The first section shows Medical claim increases for State Early Retirees. The “Claim Trend” values are 7.6% and -2.3% 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 State Medicare Retirees. The “Claim Trend” values are 3.7% and 4.7% 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 State Retiree prescription drug experience. The “Claim Trend” values are 7.8% and 5.6% 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 State Group Aetna Medical experience. The “Claim Trend” values are 11.9% and 8.1% 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 State Group CIGNA Medical experience. The “Claim Trend” values are 9.7% and 6.9% 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 State Group HMO prescription drug experience. The “Claim Trend” values are 12.6% and 6.2% 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.