



New Jersey
State Health Benefits Program

Local Employer Group

4/1/08 Rate Recommendation Report

Prepared by Aon Consulting

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***Local Employer Group
Rate Recommendation Report for April 1, 2008***

Executive Summary

The purpose of this report is to recommend premium levels for April 1 through December 31, 2008 for the new plans that will be effective April 1, 2008 under the SHBP. The State Group renewal recommendation is addressed in a separate report.

Benefit Plans Maintained by the SHBP

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

- Traditional Plan – A self-insured, integrated hospital/medical-surgical/major medical plan administered by Horizon Blue Cross Blue Shield of New Jersey (Horizon).
- NJ PLUS – A self-insured Point-of-Service (POS) plan administered by Horizon.
- Five self-insured HMOs, administered by Aetna, CIGNA, Oxford, AmeriHealth, and Health Net.
- Local Employer Active Employees may sign up for prescription drug coverage under the medical plan, purchase prescription drug coverage from an outside vendor, or offer the self-insured

Employee Prescription Drug Plan available under the SHBP, which is administered by Caremark, the Pharmacy Benefit Manager (PBM) used by Horizon.

- Local Employer Retired Employees are provided with retiree prescription drug coverage administered by the same health plan administrator as the retiree's medical plan.

Effective 4/1/2008 there will be the following benefit options:

- NJ DIRECT10 and NJ DIRECT15 – Two new self-insured PPO benefit plans which will be administered by Horizon, that have physician copays of \$10 and \$15, respectively.
- Two self-insured HMOs, administered by Aetna and CIGNA. The HMO plan has a \$10 physician copay.

Financial Results

The Plan Year 2006 loss ratio is 91%, which produces an aggregate gain of \$195 million.

The Plan Year 2007 projected loss ratio is projected at 92% which produces an aggregate gain of \$175 million.

The First Quarter Plan Year 2008 projected loss ratio is 96%, which produces an aggregate gain of \$21 million.

The 2nd-4th Quarter Plan Year 2008 projected loss ratio is 106%, which produces an aggregate loss of \$90 million.

Recommended Premium Changes for 4/1/2008

Aon is recommending an overall decrease of 10% for Local Education and 5% for Local Government. These premium levels were set so that the NJ DIRECT15 premium rates for Employees with a prescription drug card are at the same level as the First Quarter Plan Year 2008 NJ PLUS premiums. This premium level was set with the goal of minimizing Local Employer terminations during this transition to new benefit plans.

The premium decreases are projected to produce an aggregate loss of \$90 million between 4/1/2008 and 12/31/2008; however, the Local Employer Group surplus has sufficient funds to cover this loss. The table below shows the expected changes in the projected surplus for the Local Employer Group:

SHBP Local Employer Group Projected Surplus

(in \$ millions)

Surplus on 12/31/2005	\$275
Plan Year 2006 Change	\$195
Plan Year 2007 Change	\$175
Jan-Mar 2008 Change	\$21
Apr- Dec 2008 Change	-\$90
Surplus on 12/31/2008	\$576

The projected \$576 million accumulated surplus at the end of Plan Year 2008 is equal to 3.2 months of claims, an adequate surplus level to protect against adverse claim fluctuations, considering the significant benefit changes in Plan Year 2008.

The average premium change by plan is presented in the table below. The renewal increases are different for different coverage tiers (i.e., single versus family). This is because the current rates have been developed over time and are inconsistent in the premium differentials between coverage tiers. For example, the ratio of the Family Rate to the Single Rate ranges from 2.40 to 2.64. The new rates all use the same ratios for all benefit plans. The ratios were developed from the average values for the entire SHBP population. The change for each premium rate (single, family, etc.) is presented in Exhibit 1 (pages 18-21), and the average premium change weighted by current enrollment is as follows:

	Local Education			Local Government		
	Employee		Retirees	Employee		Retiree
	with Rx Card	No Rx Card		with Rx Card	No Rx Card	
NJ PLUS to NJ DIRECT10	4%	12%	1%	4%	11%	10%
NJ PLUS to NJ DIRECT15	-1%	7%	-4%	-1%	5%	5%
Traditional Plan to NJ DIRECT10	-32%	-32%	-7%	-31%	-29%	-7%
Traditional Plan to NJ DIRECT15	-36%	-35%	-11%	-34%	-32%	-12%
Aetna HMO to Aetna HMO	-6%	-10%	-18%	8%	4%	-5%
CIGNA HMO to CIGNA HMO	-22%	-22%	-24%	-10%	-10%	-12%
Oxford HMO to Aetna HMO	-12%	-7%	-14%	2%	7%	-1%
Oxford HMO to CIGNA HMO	-11%	-6%	-14%	3%	8%	0%
AmeriHealth HMO to Aetna HMO	-20%	-21%	-24%	-7%	-9%	-12%
AmeriHealth HMO to CIGNA HMO	-19%	-20%	-23%	-6%	-8%	-11%
Health Net HMO to Aetna HMO	-18%	-20%	-17%	-5%	-8%	-5%
Health Net HMO to CIGNA HMO	-17%	-19%	-16%	-4%	-7%	-4%
Rx Card Plan	0%	NA	NA	10%	NA	NA
Average Change	-12%	-12%	-8%	-5%	-5%	-5%

Local Education decreases are larger than Local Government decreases because the 4/1/2008 premium tables will have different rates for Local Education and Local Government for all benefit plans. Currently, Local Education and Local Government have the same premiums for HMOs and for the Employee Prescription Drug Plan and different premiums for NJ PLUS and the Traditional Plan. However, the average claim cost for Local Government is higher than Local Education for all benefit plans.

Historical Overview

Benefit Changes

Prior to Plan Year 2007, there were no Local Employer benefit changes for a number of years. In Plan Year 2007, Active and Retiree office visit copays increased from \$5 to \$10, and the Active Employee prescription drug copays under the Employee Prescription Drug Plan 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.

For Retirees enrolled in NJ PLUS and the Traditional Plan, the SHBP has increased the prescription drug copays and out-of-pocket maximums each year, based on actual trends from the prior years. In Plan Year 2008, due to the provisions of Chapter 103, PL 2007 the Local Education Retiree cost-sharing will not increase, but the Local Government Retiree cost-sharing will receive the formula increases.

Effective 4/1/2008, the following changes will be effective for all Employees and Retirees:

- NJ PLUS and the Traditional Plan will be replaced by a PPO, administered by Horizon. Two different benefit options will be offered: 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 will be reduced from five to two (Aetna and CIGNA).

Enrollment Changes

Exhibit 2 reflects historical enrollment patterns among the SHBP benefit offerings during Plan Years 2002 through 2007 and includes Aon's projection of Plan Year 2008 enrollment.

Based on revised historical growth patterns, Aon's enrollment projections for Plan Year 2008 assume that average number of Local Employer Group Employees will decrease 2%. This is a lower rate of decrease than in Plan Years 2006 and 2007, and is based on the assumption that the new benefits and increased flexibility in setting employee contributions will have a favorable impact on Local Employer enrollment. Retiree projections for Plan Year 2008 assume that enrollment will increase 4% (similar to prior years).

On 4/1/2008, employee and retiree projections assume that all of the Traditional Plan and NJ PLUS subscribers will migrate to NJ DIRECT, and all of the HMO subscribers will stay in HMOs, with the subscribers from the terminated HMOs split evenly between Aetna and CIGNA. Projections assume that 95% of Education Employees and Retirees in NJ DIRECT select NJ DIRECT10 and that 80% of Government Employees and Retirees are in NJ DIRECT10.

Trend Analysis

Exhibit 3 compares SHBP claim increases for Plan Years 2005, 2006, 2007, and projected 2008. Plan Years 2005 and 2006 are actual SHBP experience. Plan Year 2007 increases are a preliminary estimate of actual SHBP experience based on claims paid through 9/30/2007, completed for claims incurred but not reported, and then projected to 12/31/2007.

The cost increases are split into components:

- **Actual Increase** is the actual increase in incurred cost per member.
- **Benefit Changes** are the value of changes to copays or deductibles.
- **Selection** is the impact of changes in member enrollment that have an adverse effect on claim levels.
- **Claim Trend** is the underlying trend value and is calculated as the **Actual Increase** reduced for **Benefit Changes** and **Selection**. Projected Plan Year 2008 **Claim Trend** is the average of Plan Years 2006 and 2007 **Claim Trend**.

Since new SHBP benefit plans will be implemented for April 1, 2008, this analysis reviews claim trends for all benefit plans combined, rather than separate trends by benefit plans. The trends developed in this exhibit will be used to project SHBP costs through the end of Plan Year 2008. Separate factors have been developed to adjust for benefit changes, vendor changes, and subscriber selection.

Employee:

Medical Trend – **Actual Increases** for Local Employer Actives have ranged from a high of 10.4% in Plan Year 2006 to a low of 4.9% in Plan Year 2007. The low increase in Plan Year 2007 is the result of the increase in copays that reduced costs 1.6% (2.5% for NJ PLUS and HMO cost and 0% for the Traditional Plan), so the underlying **Claim Trend** in Plan Year 2007 is actually 6.5%. The high increase in Plan Year 2006 is the result of the Local Employer terminations – in Plan Year 2006 the loss ratios for Local Employers leaving the SHBP was lower than the loss ratio for Local Employers who stayed in the SHBP. Plan Year 2007 loss ratios are about the same for terminated and active Local Employers, so no Selection adjustment is needed for Plan Year 2007 and none is projected for Plan Year 2008. The projected Plan Year 2008 Medical **Claim Trend** is 7.7%, which is the average of the **Claim Trend** for Plan Years 2006 and 2007 (of 8.9% and 6.5%, respectively).

Prescription Drug Trend - **Actual Increases** for Local Employer Actives have decreased from 9.9% in Plan Year 2005 to 0.1% in Plan Year 2007. The values in this exhibit are the combined trend of Local Employers who purchase the Employee Prescription Drug Plan and Local Employers who have selected prescription drug coverage through their medical plan. **Claim Trend** dropped in Plan Year 2006 to 8.4% and appears to have remained constant through Plan Year 2007. The low **Actual Increase** in Plan Year 2007 is the result of the increase in copays that reduced total costs 8.4% (14% for Employee Prescription Drug Plan and 0% for the MM Rx), so the underlying **Claim Trend** in Plan Year 2007 is actually 8.5%. The projected Plan Year 2008 Prescription Drug **Claim Trend** is 8.5%

which is the average of the **Claim Trend** for Plan Years 2006 and 2007 (of 8.4% and 8.5%, respectively).

Retiree:

Medical Trend - **Actual Increases** for Retirees have decreased from 6.5% in Plan Year 2005 to 4.0% in Plan Year 2007. The low increase in Plan Year 2007 is the result of the increase in copays that reduced total cost 1.6% (2.5% for NJ PLUS and HMO and 0% for the Traditional Plan), so the underlying **Claim Trend** in Plan Year 2007 is actually 5.6%. The **Actual Increases** in Plan Years 2005 and 2006 represent **Claim Trend** since there were no benefit changes or selection issues. The projected Plan Year 2008 Medical **Claim Trend** is 5.4%, which is the average of the **Claim Trend** for Plan Years 2006 and 2007 (of 5.3% and 5.6%, respectively).

Prescription Drug Trend - **Actual Increases** for Retirees ranged from 7.4% in Plan Year 2005 to 2.3% in Plan Year 2006. **Actual Increases** for retirees reflect the formula increase to copays and out-of-pocket maximums that reduce costs about 1.5%. The low **Actual Increase** in Plan Year 2006 is the result of an increase in the out-of-pocket maximum that reduced claim costs an additional 3.5%, so the underlying **Claim Trend** in Plan Year 2006 is actually 7.3%. The projected Plan Year 2008 Prescription Drug **Claim Trend** is 7.4%, which is the average of the **Claim Trend** for Plan Years 2006 and 2007 (of 7.3% and 7.6%, respectively).

Financial Projections

Aggregate Financial Projections

Using the assumptions detailed in Exhibit 6 and the methodology described in Section 5 (Cost Projection Methodology), we estimated costs for Plan Years 2006, 2007 and First Quarter 2008. For Local Employers, aggregate premiums exceed actual costs, with total projected gains of \$195 million for Plan Year 2006, \$175 million for Plan Year 2007, and \$21 million for First Quarter Plan Year 2008:

SHBP Local Employer Projected Financial Results

(in \$ millions)

	NJ PLUS	Trad.Plan	HMOs	Rx Plan	Total
Plan Year 2006					
Premium Rates x Enrollment	\$601	\$1,032	\$349	\$102	\$2,084
Incurred Claims	\$537	\$876	\$309	\$92	\$1,814
Administrative Charges	\$18	\$37	\$20	\$0	\$75
Net Gain (Loss)	\$46	\$119	\$20	\$10	\$195
Plan Year 2007					
Premium Rates x Enrollment	\$601	\$1,023	\$358	\$83	\$2,065
Incurred Claims	\$553	\$867	\$327	\$80	\$1,827
Administrative Charges	\$14	\$31	\$18	\$0	\$63
Net Gain (Loss)	\$34	\$125	\$13	\$3	\$175
First Quarter 2008					
Premium Rates x Enrollment	\$151	\$252	\$90	\$20	\$513
Incurred Claims	\$147	\$221	\$87	\$20	\$475
Administrative Charges	\$3	\$9	\$5	\$0	\$17
Net Gain (Loss)	\$1	\$22	-\$2	\$0	\$21

The table below shows Local Employer projected costs for 4/1/2008 through 12/31/2008:

SHBP Local Employer Projected Financial Results

(in \$ millions)

	NJ DIRECT10	NJ DIRECT15	HMOs	Rx Plan	Total
2nd-4th Quarter 2008					
Premium Rates x Enrollment	\$1,007	\$96	\$251	\$64	\$1,418
Incurred Claims	\$1,064	\$102	\$265	\$64	\$1,495
Administrative Charges	\$8	\$1	\$4	\$0	\$13
Net Gain (Loss)	-\$65	-\$7	-\$18	\$0	-\$90

The 4/1/2008 renewal premiums were set so that NJ DIRECT15 premiums are equal to the 1/1/2008 NJ PLUS premiums. This produces a projected loss of \$90 million for the Local Employer Group for the period 4/1/08 through 12/31/08, creating a surplus at 12/31/08 of \$576 million

More detailed aggregate projections are attached in Exhibit 4.

Cost Projection Methodology

Rating Methodology

Exhibit 4 shows the aggregate projected costs for Plan Years 2006, 2007 and 2008, separately for NJ DIRECT10, NJ DIRECT15, NJ PLUS, the Traditional Plan, prescription drugs, and each HMO. Costs were projected separately for Actives versus Retirees, and for medical claims, Rx claims, administrative costs, and aggregate premiums.

First Quarter Plan Year 2008 Medical Claim Projection

- 1) Using claim data and claim triangles supplied by Horizon and the HMOs, Aon estimated completed incurred claims for Plan Years 2006 and 2007, separately for each benefit plan.

Plan Year 2006 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. Plan Year 2007 incurred claims were not adjusted for large claims, since we only have a partial year of experience.

- 2) Capitation and other similar fixed claim charges were added to the incurred claims to arrive at projected incurred claims.

- 3) Local Education claims were reduced for the Education Surcharge of \$24.3 million in Plan Year 2007.
- 4) 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 through September 2007 and projected enrollment to December 2008.
- 5) Claims per Subscriber were projected from Plan Year 2007 to First Quarter Plan Year 2008, using the trends listed in Exhibit 3 and prorated to reflect quarterly claim levels.
- 6) Aggregate First Quarter Plan Year 2008 claims are the product of the projected enrollment and the projected First Quarter Plan Year 2008 claims per subscriber.

2nd-4th Quarter Plan Year 2008 Medical Claim Projection

- 1) Claims per Subscriber were projected from First Quarter Plan Year 2008 to 2nd-4th Quarter Plan Year 2008, using the trends listed in Exhibit 3 and multiplied by three to reflect claim levels for nine months.
- 2) Aggregate Claims are the product of the projected Claims per Subscriber and the projected average enrollment for 2nd-4th Quarter Plan Year 2008.

- 3) NJ DIRECT claims were developed by assuming that all of those currently enrolled in NJ PLUS or the Traditional Plan would enroll in the new NJ DIRECT plan. NJ PLUS and Traditional Plan claims were adjusted to reflect the change in benefits/networks to the new NJ DIRECT plans. The assumed NJ DIRECT plan distribution is:

	<u>NJ DIRECT10</u>	<u>NJ DIRECT15</u>
Education	95%	5%
Government	80%	20%

- 4) HMO claims were developed by assuming that all of those currently enrolled in HMO plans would stay in HMO plans. It was assumed that 100% of Aetna subscribers would stay with Aetna and 100% of CIGNA subscribers would stay with CIGNA. Subscribers in the terminated HMOs are assumed to be split evenly between Aetna and CIGNA.

Prescription Drug Claim Projection

- 1) We used actual incurred prescription drug claims supplied by Horizon/Caremark for claims incurred through September 2007. Claims incurred in October – December 2007 were projected based on average claims per Subscriber for January – September 2007 and the trend assumptions listed in Exhibit 3. Aggregate Claims for October – December 2007 are the product of per Subscriber claims and October – December 2007 enrollment.
- 2) Claims were reduced for the projected manufacturers' rebates.

- 3) Medicare Retiree claims were reduced for projected Medicare Part D subsidies.
- 4) It was assumed that Horizon will negotiate with Caremark when the definition of AWP is modified, so that prescription drug discounts will be maintained.
- 5) Aggregate Plan Year 2007 prescription drug claims were divided by Plan Year 2007 average enrollment to get average claims per subscriber.
- 6) Average claims per subscriber were projected from Plan Year 2007 to Plan Year 2008 using the trends listed in Exhibit 3. Local Government Retiree claims were adjusted to reflect the increase in copays and out-of-pocket maximum effective 1/1/2008.
- 7) Aggregate Plan Year 2008 claims are the product of the projected Plan Year 2008 average enrollment and the projected Plan Year 2008 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 subscriber 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 2007, this amount is projected as \$4.4 million for the Local Employer Group. For Plan Year 2008, Plan Year 2007 overhead charges per subscriber were increased 3%.
- 3) Investment income was credited against administrative charges. For Plan Year 2007, this amount is projected as \$27.7 million for the Local Employer Group.

Projected Premiums

- 1) Projected enrollment was applied to the actual premium tables for Plan Years 2006, 2007 and First Quarter Plan Year 2008 and compared to projected total costs to develop the anticipated gain or loss in each of those years.
- 2) The premium tables for 2nd-4th Quarter Plan Year 2008 were developed so that the average NJ DIRECT15 premium is equal to the 1/1/2008 NJ PLUS premium. Premiums for other benefit plans were developed based on the relative values of the other benefit plans to NJ DIRECT15. The premiums for different coverage tiers (single, family, etc.) were developed using standardized coverage tier relativities for all benefit plans. The standardized tier relativities were developed by calculating a weighted average of the current values over all benefit plans.

SHBP 4/1/08 Rate Recommendation Report

Exhibit 1 – Local Education Employee Premium Increases

	NJ PLUS to NJ DIRECT 10	Tradition al to NJ DIRECT 10	NJ PLUS to NJ DIRECT 15	Trad. Plan to NJ DIRECT 15	Aetna HMO to Aetna HMO	CIGNA HMO to CIGNA HMO	Oxford HMO to Aetna HMO	Oxford HMO to CIGNA HMO	Ameri Health HMO to Aetna HMO	Ameri Health HMO to CIGNA HMO	Health Net HMO to Aetna HMO	Health Net HMO to CIGNA HMO	Rx Card
Employees Medical Only													
Single	6%	-32%	1%	-35%	-5%	-20%	-10%	-9%	-18%	-18%	-16%	-15%	NA
Member+Spouse	7%	-30%	2%	-33%	-3%	-18%	-8%	-7%	-17%	-17%	-13%	-12%	NA
Family	2%	-33%	-3%	-37%	-7%	-24%	-14%	-13%	-21%	-20%	-20%	-19%	NA
Parent+Child(ren)	1%	-35%	-4%	-38%	-10%	-26%	-16%	-15%	-23%	-22%	-23%	-22%	NA
Total	4%	-32%	-1%	-36%	-6%	-22%	-12%	-11%	-20%	-19%	-18%	-17%	NA
Employees Medical and Rx													
Single	14%	-32%	9%	-35%	-12%	-23%	-5%	-4%	-20%	-19%	-18%	-17%	NA
Member+Spouse	15%	-29%	10%	-33%	-8%	-19%	-3%	-2%	-19%	-18%	-15%	-15%	NA
Family	10%	-33%	5%	-36%	-9%	-22%	-9%	-8%	-22%	-22%	-23%	-22%	NA
Parent+Child(ren)	8%	-34%	3%	-38%	-10%	-23%	-12%	-11%	-24%	-23%	-25%	-25%	NA
Total	12%	-32%	7%	-35%	-10%	-22%	-7%	-6%	-21%	-20%	-20%	-19%	NA
Employees Rx Card													
Single													-2%
Member+Spouse													-3%
Family													2%
Parent+Child(ren)													3%
Total													0%

SHBP 4/1/08 Rate Recommendation Report
Exhibit 1 – Local Education Retiree Premium Increases

	NJ PLUS to NJ DIRECT 10	Tradition al to NJ DIRECT 10	NJ PLUS to NJ DIRECT 15	Trad. Plan to NJ DIRECT 15	Aetna HMO to Aetna HMO	CIGNA HMO to CIGNA HMO	Oxford HMO to Aetna HMO	Oxford HMO to CIGNA HMO	Ameri Health HMO to Aetna HMO	Ameri Health HMO to CIGNA HMO	Health Net HMO to Aetna HMO	Health Net HMO to CIGNA HMO
Retirees												
Single - 0 Medicare	6%	-17%	1%	-21%	-12%	-23%	-5%	-4%	-20%	-19%	-18%	-17%
Single - 1 Medicare	-1%	-1%	-6%	-5%	-22%	-25%	-19%	-18%	-25%	-25%	-16%	-15%
Mem+Spouse - 0 Medicare	3%	-17%	-1%	-21%	-11%	-22%	-6%	-5%	-21%	-20%	-18%	-17%
Mem+Spouse - 1 Medicare	3%	-12%	-2%	-16%	-16%	-24%	-11%	-11%	-22%	-21%	-17%	-16%
Mem+Spouse - 2 Medicare	-1%	-1%	-6%	-5%	-22%	-25%	-19%	-18%	-25%	-25%	-16%	-15%
Family - 0 Medicare	1%	-19%	-4%	-23%	-10%	-23%	-10%	-9%	-23%	-22%	-23%	-22%
Family - 1 Medicare	0%	-16%	-5%	-20%	-15%	-25%	-15%	-14%	-24%	-23%	-24%	-23%
Family - 2 Medicare	-4%	-5%	-8%	-9%	-21%	-26%	-24%	-23%	-29%	-29%	-23%	-22%
Parent+Ch - 0 Medicare	0%	-20%	-5%	-24%	-10%	-23%	-12%	-11%	-24%	-23%	-25%	-25%
Parent+Ch - 1 Medicare	-10%	-13%	-14%	-18%	-20%	-27%	-24%	-23%	-31%	-30%	-29%	-28%
Total	1%	-7%	-4%	-11%	-18%	-24%	-14%	-14%	-24%	-23%	-17%	-16%

SHBP 4/1/08 Rate Recommendation Report**Exhibit 1 – Local Government Employee Premium Increases**

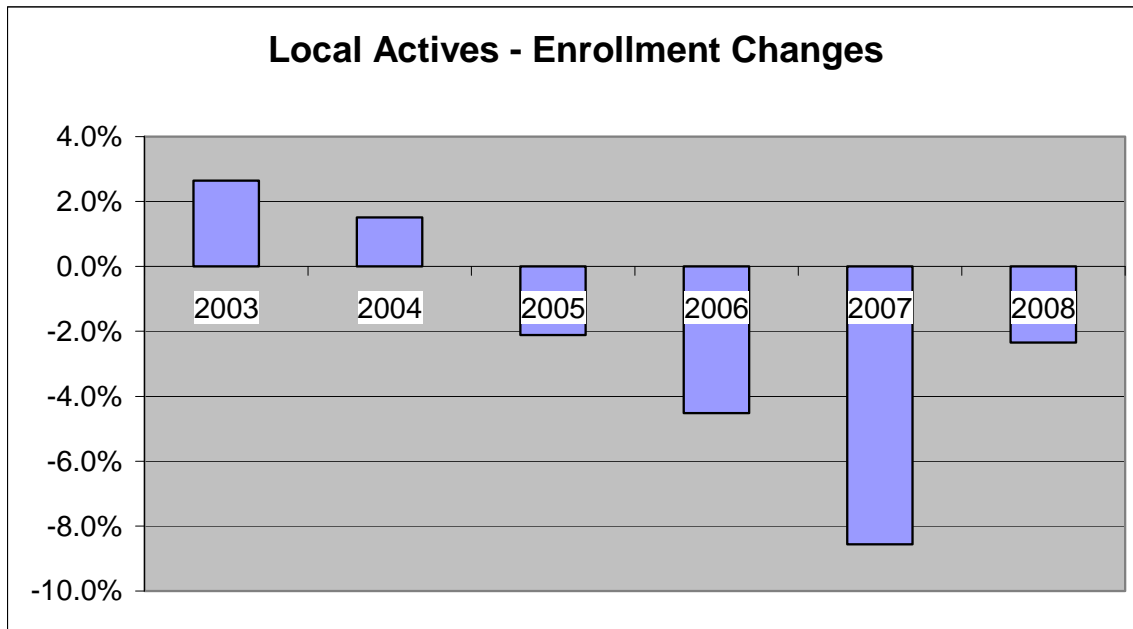
	NJ PLUS to NJ DIRECT 10	Tradition al to NJ DIRECT 10	NJ PLUS to NJ DIRECT 15	Trad. Plan to NJ DIRECT 15	Aetna HMO to Aetna HMO	CIGNA HMO to CIGNA HMO	Oxford HMO to Aetna HMO	Oxford HMO to CIGNA HMO	Ameri Health HMO to Aetna HMO	Ameri Health HMO to CIGNA HMO	Health Net HMO to Aetna HMO	Health Net HMO to CIGNA HMO	Rx Card
<u>Employees Medical Only</u>													
Single	6%	-30%	1%	-34%	10%	-8%	4%	5%	-6%	-5%	-3%	-2%	NA
Member+Spouse	7%	-28%	2%	-32%	12%	-5%	6%	7%	-5%	-4%	1%	2%	NA
Family	2%	-32%	-3%	-35%	7%	-12%	0%	1%	-9%	-8%	-8%	-7%	NA
Parent+Child(ren)	0%	-33%	-5%	-36%	4%	-14%	-3%	-2%	-11%	-10%	-11%	-10%	NA
Total	4%	-31%	-1%	-34%	8%	-10%	2%	3%	-7%	-6%	-5%	-4%	NA
<u>Employees Medical and Rx</u>													
Single	13%	-28%	7%	-32%	2%	-11%	9%	10%	-7%	-6%	-5%	-4%	NA
Member+Spouse	14%	-26%	9%	-29%	6%	-7%	12%	13%	-6%	-5%	-2%	-1%	NA
Family	9%	-30%	4%	-33%	5%	-10%	5%	6%	-10%	-10%	-11%	-10%	NA
Parent+Child(ren)	7%	-31%	2%	-34%	4%	-11%	2%	3%	-12%	-11%	-14%	-13%	NA
Total	11%	-29%	5%	-32%	4%	-10%	7%	8%	-9%	-8%	-8%	-7%	NA
<u>Employees Rx Card</u>													
Single													8%
Member+Spouse													7%
Family													13%
Parent+Child(ren)													14%
Total													10%

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Exhibit 1 – Local Government Retiree Premium Increases

	NJ PLUS to NJ DIRECT 10	Tradition al to NJ DIRECT 10	NJ PLUS to NJ DIRECT 15	Trad. Plan to NJ DIRECT 15	Aetna HMO to Aetna HMO	CIGNA HMO to CIGNA HMO	Oxford HMO to Aetna HMO	Oxford HMO to CIGNA HMO	Ameri Health HMO to Aetna HMO	Ameri Health HMO to CIGNA HMO	Health Net HMO to Aetna HMO	Health Net HMO to CIGNA HMO
Retirees												
Single - 0 Medicare	16%	-21%	11%	-24%	2%	-11%	9%	10%	-7%	-6%	-5%	-4%
Single - 1 Medicare	8%	3%	3%	-2%	-10%	-13%	-6%	-5%	-14%	-13%	-3%	-2%
Mem+Spouse - 0 Medicare	14%	-21%	8%	-24%	3%	-10%	8%	9%	-9%	-8%	-5%	-4%
Mem+Spouse - 1 Medicare	13%	-13%	8%	-17%	-3%	-12%	2%	3%	-10%	-9%	-4%	-3%
Mem+Spouse - 2 Medicare	8%	3%	3%	-2%	-10%	-13%	-6%	-5%	-14%	-13%	-3%	-2%
Family - 0 Medicare	11%	-23%	6%	-26%	4%	-11%	4%	5%	-11%	-10%	-11%	-10%
Family - 1 Medicare	10%	-18%	5%	-22%	-1%	-13%	-1%	0%	-12%	-12%	-12%	-11%
Family - 2 Medicare	5%	-3%	0%	-8%	-8%	-15%	-12%	-11%	-18%	-18%	-10%	-10%
Parent+Ch - 0 Medicare	10%	-24%	5%	-27%	4%	-11%	2%	3%	-12%	-11%	-14%	-13%
Parent+Ch - 1 Medicare	-2%	-13%	-6%	-17%	-8%	-16%	-12%	-11%	-20%	-20%	-18%	-17%
Total	10%	-7%	5%	-12%	-5%	-12%	-1%	0%	-12%	-11%	-5%	-4%

SHBP 4/1/08 Rate Recommendation Report

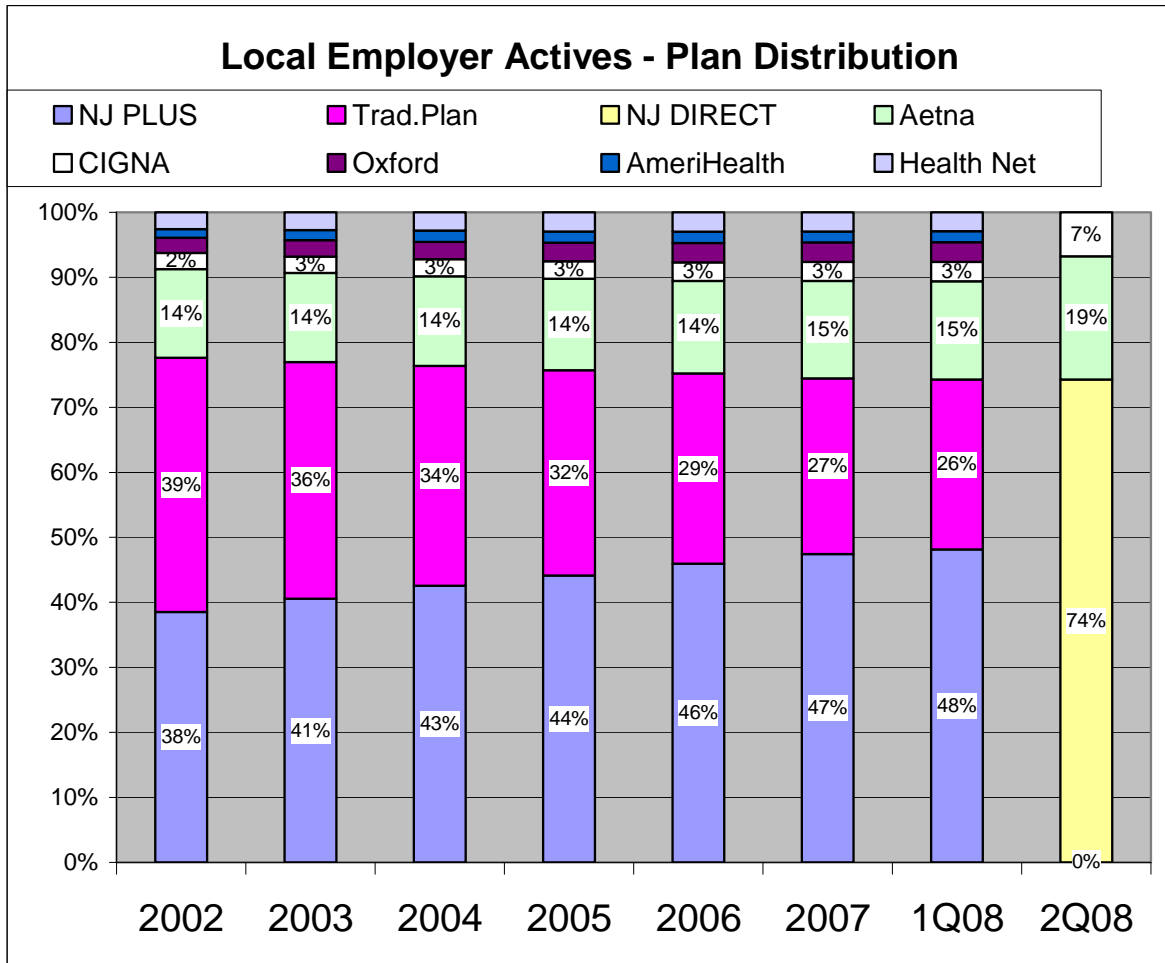
Exhibit 2 – Enrollment Projections

**Observations:**

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

Plan Year 2008 assumes that Local terminations will cease due to no rate increase on 1/1/2008 and increased flexibility in setting employee contributions.

SHBP 4/1/08 Rate Recommendation Report
Exhibit 2 – Enrollment Projections



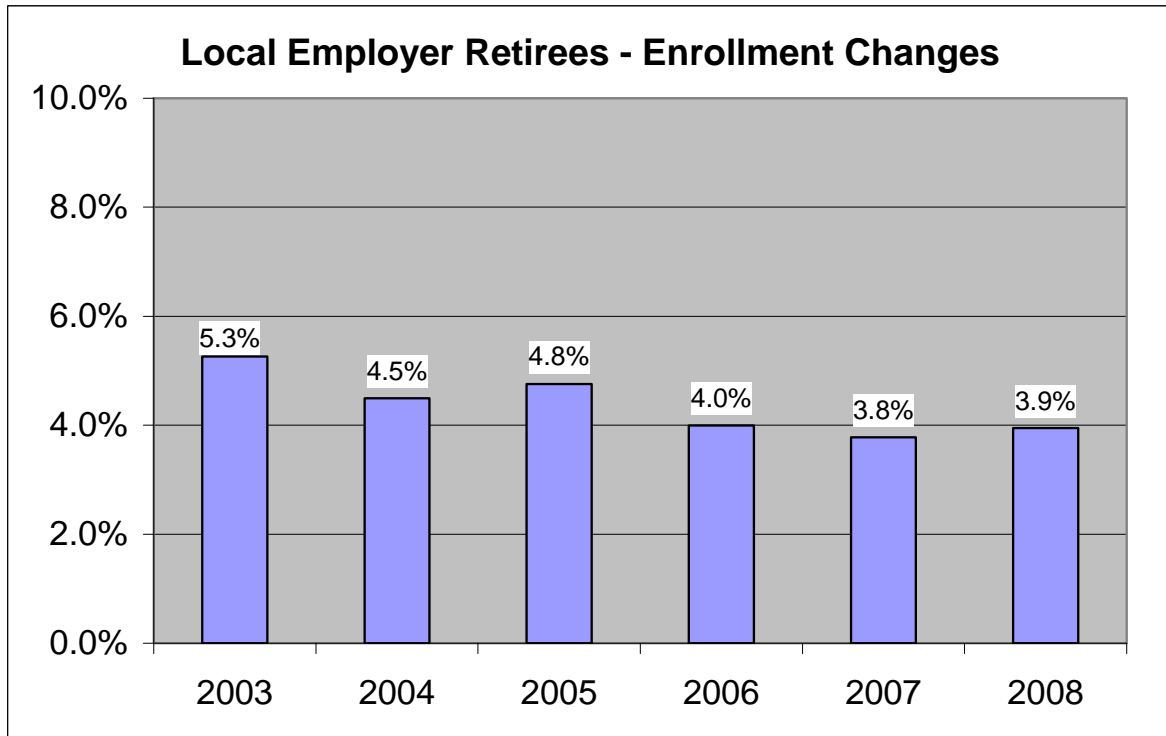
Observations:

Plan Years 2004 through 2007 - The Traditional Plan decreased its share of enrollment about 2% per year, the result of a 1% increase for NJ PLUS and a 1% increase for total HMO.

First Quarter Plan Year 2008 - Projected enrollment assumes a continuation of increasing NJ PLUS and HMO and decreasing Traditional Plan enrollment. It is assumed that there will not be any significant plan changes until NJ DIRECT is available.

Second-Fourth Quarter Plan Year 2008 - Assumption is that all the NJ PLUS and Traditional Plan subscribers will enroll in the new NJ DIRECT plan and that the HMO subscribers will stay with HMO plans.

SHBP 4/1/08 Rate Recommendation Report
Exhibit 2 – Enrollment Projections

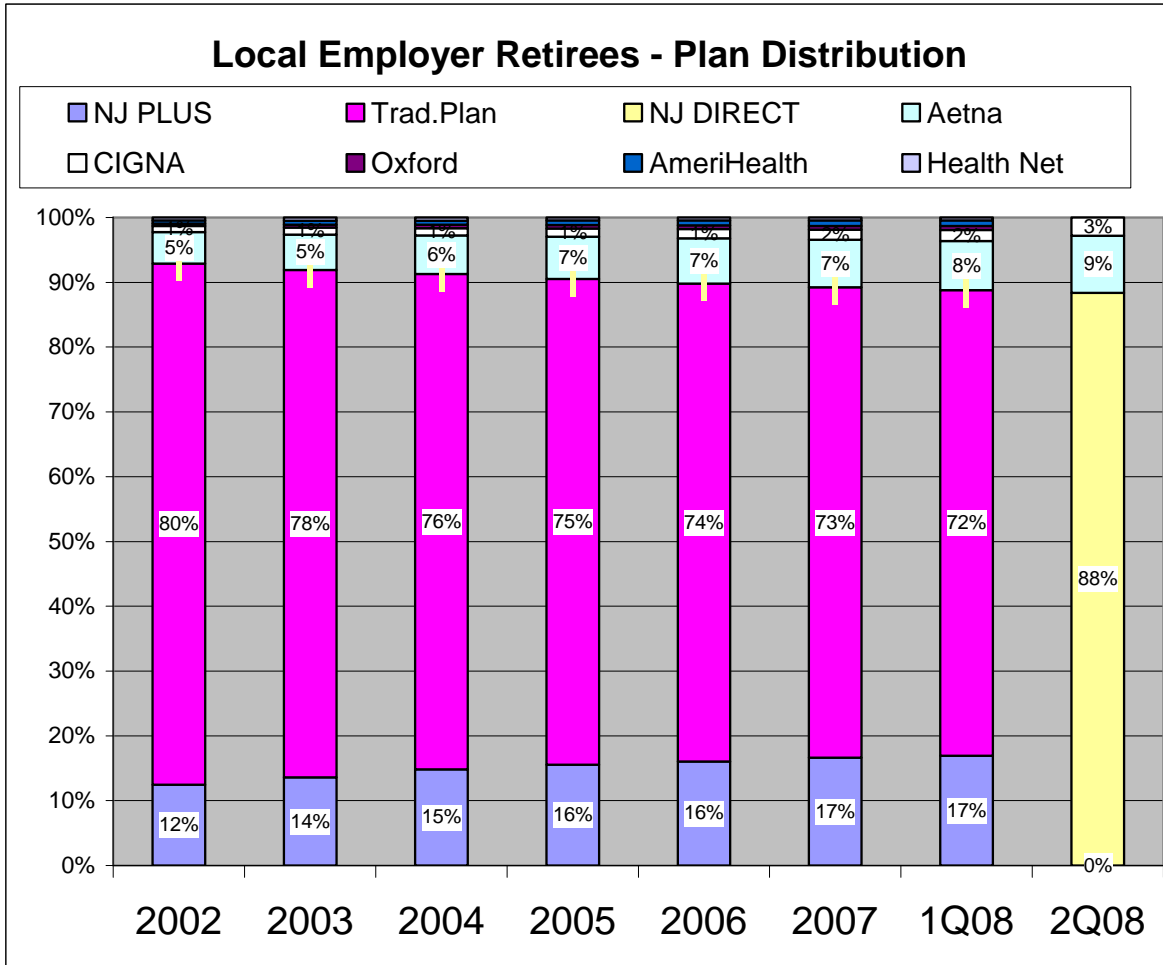


Observations:

Plan Years 2003 through 2007 - Enrollment increased 4%-5%.

Plan Year 2008 enrollment increase is consistent with prior years.

SHBP 4/1/08 Rate Recommendation Report
Exhibit 2 – Enrollment Projections



Observations:

Plan Years 2004 through 2007 - The Traditional Plan decreased its share of enrollment about 1% per year, the result of a 0.5% increase for NJ PLUS and a 0.5% increase for total HMO.

First Quarter Plan Year 2008 - Projected enrollment assumes a continuation of increasing NJ PLUS and HMO enrollment and decreasing Traditional Plan enrollment.

Second-Fourth Quarter Plan Year 2008 - Assumption is that all the NJ PLUS and Traditional subscribers will enroll in the new NJ DIRECT plan and that the HMO subscribers will stay with HMO plans.

SHBP 4/1/08 Rate Recommendation Report

Exhibit 3 – Trend Analysis

	Medical + Rx Increases				Medical Increases				Rx Increases			
	Claim Trend	Benefit Changes	Selection	Actual Increase	Claim Trend	Benefit Changes	Selection	Actual Increase	Claim Trend	Benefit Changes	Selection	Actual Increase
Local Actives												
PY2005	9.2%			9.2%	9.1%			9.1%	9.9%			9.9%
PY2006	8.8%		1.5%	10.3%	8.9%		1.5%	10.4%	8.4%		1.5%	9.9%
PY2007	6.8%	-2.5%		4.3%	6.5%	-1.6%		4.9%	8.5%	-8.4%		0.1%
PY2008	7.8%				7.7%				8.5%			
Total Retirees												
PY2005	7.4%	-0.6%		6.8%	6.5%			6.5%	8.9%	-1.5%		7.4%
PY2006	6.0%	-1.8%		4.2%	5.3%			5.3%	7.3%	-5.0%		2.3%
PY2007	6.3%	-1.6%		4.7%	5.6%	-1.6%		4.0%	7.6%	-1.5%		6.1%
PY2008	6.2%				5.4%				7.4%			
Grand Total												
PY2005	8.4%	-0.2%	0.0%	8.2%	8.2%	0.0%	0.0%	8.2%	9.2%	-1.0%	0.0%	8.2%
PY2006	7.6%	-0.8%	0.9%	7.7%	7.6%	0.0%	1.0%	8.6%	7.6%	-3.4%	0.5%	4.7%
PY2007	6.6%	-2.1%	0.0%	4.5%	6.2%	-1.6%	0.0%	4.6%	7.9%	-3.7%	0.0%	4.2%
PY2008	7.1%				6.9%				7.8%			

Claim Trend is the increase in claims per member if there are no changes in benefits or population.

Benefit Change is the value of changes in plan design:

1/1/2007 Local Active and all Retiree NJ PLUS and HMO medical copays increased.

1/1/2007 Local Active Rx Card copays increased.

Retiree Rx copays and OOP increase each year based on a formula.

Selection reflects the impact of changes in the population that have an impact on claim costs:

Plan Year 2006 Local Employer terminations increased, with those who left having lower loss ratios than those who stayed.

Plan Year 2007 Local Employer terminations are still increasing, but the experience of those leaving is close to average.

Actual Increase is the increase reflected in claim data and is the sum of Claim Trend + Benefit Change + Selection.

SHBP 4/1/08 Rate Recommendation Report

Exhibit 4 – Local Employer Aggregate Costs

	Total	NJ PLUS	Trad.Plan	Aetna	CIGNA	Oxford	AmeriHealth	Health Net	Rx Plan*
Average Medical Subscribers									
CY2006		71,819	103,068	24,102	4,797	4,282	2,821	4,149	35,252
CY2007		69,689	98,804	23,988	4,810	3,948	2,707	3,804	31,080
1Q 2008		69,966	98,235	24,124	4,962	3,945	2,721	3,681	30,193
Incurred Medical claims									
CY2006	\$ 1,423,000,000	\$ 479,600,000	\$ 677,800,000	\$ 151,800,000	\$ 36,000,000	\$ 27,900,000	\$ 18,900,000	\$ 31,000,000	
CY2007	\$ 1,415,400,000	\$ 487,500,000	\$ 650,200,000	\$ 162,500,000	\$ 40,300,000	\$ 28,300,000	\$ 17,200,000	\$ 29,400,000	
1Q 2008	\$ 366,300,000	\$ 129,200,000	\$ 163,600,000	\$ 43,000,000	\$ 10,900,000	\$ 7,500,000	\$ 4,600,000	\$ 7,500,000	
Incurred Prescription Drug Claims									
CY2006	\$ 391,200,000	\$ 57,400,000	\$ 198,400,000	\$ 23,300,000	\$ 7,200,000	\$ 3,500,000	\$ 4,300,000	\$ 5,300,000	\$ 91,800,000
CY2007	\$ 411,400,000	\$ 65,200,000	\$ 217,200,000	\$ 26,500,000	\$ 8,300,000	\$ 3,900,000	\$ 4,700,000	\$ 6,000,000	\$ 79,600,000
1Q 2008	\$ 108,500,000	\$ 17,500,000	\$ 57,300,000	\$ 7,200,000	\$ 2,300,000	\$ 1,000,000	\$ 1,300,000	\$ 1,500,000	\$ 20,400,000
Administrative Fees									
CY2006	\$ 74,900,000	\$ 17,600,000	\$ 37,200,000	\$ 12,700,000	\$ 2,300,000	\$ 2,000,000	\$ 1,100,000	\$ 2,000,000	
CY2007	\$ 63,000,000	\$ 13,700,000	\$ 31,200,000	\$ 11,600,000	\$ 2,000,000	\$ 1,600,000	\$ 1,200,000	\$ 1,700,000	
1Q 2008	\$ 17,200,000	\$ 3,500,000	\$ 8,700,000	\$ 3,200,000	\$ 600,000	\$ 500,000	\$ 300,000	\$ 400,000	
Total Cost = Medical Claims + Prescription Drug Claims + Fees									
CY2006	\$ 1,889,100,000	\$ 554,600,000	\$ 913,400,000	\$ 187,800,000	\$ 45,500,000	\$ 33,400,000	\$ 24,300,000	\$ 38,300,000	\$ 91,800,000
CY2007	\$ 1,889,800,000	\$ 566,400,000	\$ 898,600,000	\$ 200,600,000	\$ 50,600,000	\$ 33,800,000	\$ 23,100,000	\$ 37,100,000	\$ 79,600,000
1Q 2008	\$ 492,000,000	\$ 150,200,000	\$ 229,600,000	\$ 53,400,000	\$ 13,800,000	\$ 9,000,000	\$ 6,200,000	\$ 9,400,000	\$ 20,400,000
Total Premium									
CY2006	\$ 2,084,700,000	\$ 601,200,000	\$ 1,032,300,000	\$ 193,700,000	\$ 50,500,000	\$ 36,500,000	\$ 27,400,000	\$ 41,000,000	\$ 102,100,000
CY2007	\$ 2,064,500,000	\$ 600,500,000	\$ 1,023,300,000	\$ 203,000,000	\$ 52,500,000	\$ 36,200,000	\$ 27,300,000	\$ 39,200,000	\$ 82,500,000
1Q 2008	\$ 513,300,000	\$ 151,000,000	\$ 252,400,000	\$ 51,000,000	\$ 13,500,000	\$ 9,000,000	\$ 6,900,000	\$ 9,500,000	\$ 20,000,000
Gain (Loss)									
CY2006	\$ 195,600,000	\$ 46,600,000	\$ 118,900,000	\$ 5,900,000	\$ 5,000,000	\$ 3,100,000	\$ 3,100,000	\$ 2,700,000	\$ 10,300,000
CY2007	\$ 174,700,000	\$ 34,100,000	\$ 124,700,000	\$ 2,400,000	\$ 1,900,000	\$ 2,400,000	\$ 4,200,000	\$ 2,100,000	\$ 2,900,000
1Q 2008	\$ 21,300,000	\$ 800,000	\$ 22,800,000	\$ (2,400,000)	\$ (300,000)	\$ -	\$ 700,000	\$ 100,000	\$ (400,000)

*Includes Active Employees from NJ PLUS, Traditional, and HMOs enrolled in the Prescription Drug Plan.

SHBP 4/1/08 Rate Recommendation Report
Exhibit 4 – Local Employer Aggregate Costs

	Total	NJ DIRECT10	NJ DIRECT15	Aetna	CIGNA	Rx Plan*
Average Medical Subscribers 2Q to 4Q 2008		153,645	15,491	29,672	10,335	30,193
Incurred Medical claims 2Q to 4Q 2008	\$ 1,159,000,000	\$ 851,200,000	\$ 84,500,000	\$ 160,800,000	\$ 62,500,000	
Incurred Prescription Drug Claims 2Q to 4Q 2008	\$ 336,900,000	\$ 212,800,000	\$ 18,400,000	\$ 28,700,000	\$ 13,300,000	\$ 63,700,000
Administrative Fees 2Q to 4Q 2008	\$ 12,100,000	\$ 7,500,000	\$ 800,000	\$ 3,100,000	\$ 700,000	
Total Cost = Medical Claims + Prescription Drug Claims + Fees 2Q to 4Q 2008	\$ 1,508,000,000	\$ 1,071,500,000	\$ 103,700,000	\$ 192,600,000	\$ 76,500,000	\$ 63,700,000
Total Premium 2Q to 4Q 2008	\$ 1,418,100,000	\$ 1,006,600,000	\$ 96,500,000	\$ 182,700,000	\$ 68,600,000	\$ 63,700,000
Gain (Loss) 2Q to 4Q 2008	\$ (89,900,000)	\$ (64,900,000)	\$ (7,200,000)	\$ (9,900,000)	\$ (7,900,000)	\$ -

*Includes Active Employees from NJ DIRECT and HMOs enrolled in the Prescription Drug Plan.

SHBP 4/1/08 Rate Recommendation Report
Exhibit 5 – 4/1/2008 Local Education Employee Premiums

	NJ DIRECT 10	NJ DIRECT 15	Aetna	CIGNA
<u>Medical Coverage Only</u>				
Single	\$345.25	\$328.67	\$322.22	\$325.44
Member+Spouse	\$776.81	\$739.50	\$725.00	\$732.25
Family	\$863.13	\$821.67	\$805.56	\$813.61
Parent+Child(ren)	\$483.34	\$460.13	\$451.11	\$455.62

	NJ DIRECT 10	NJ DIRECT 15	Aetna	CIGNA
<u>Medical and Rx</u>				
Single	\$414.30	\$394.40	\$409.22	\$413.31
Member+Spouse	\$932.17	\$887.40	\$920.75	\$929.96
Family	\$1,035.75	\$986.00	\$1,023.06	\$1,033.29
Parent+Child(ren)	\$580.02	\$552.16	\$572.91	\$578.64

	Rx Card
<u>Rx Card</u>	
Single	\$119.00
Member+Spouse	\$267.75
Family	\$297.50
Parent+Child(ren)	\$166.60

SHBP 4/1/08 Rate Recommendation Report
Exhibit 5 – 4/1/2008 Local Government Employee Premiums

	NJ DIRECT 10	NJ DIRECT 15	Aetna	CIGNA
<u>Medical Coverage Only</u>				
Single	\$398.70	\$379.67	\$372.22	\$375.94
Member+Spouse	\$897.07	\$854.25	\$837.50	\$845.88
Family	\$996.74	\$949.17	\$930.56	\$939.86
Parent+Child(ren)	\$558.17	\$531.53	\$521.11	\$526.32

	NJ DIRECT 10	NJ DIRECT 15	Aetna	CIGNA
<u>Medical and Rx</u>				
Single	\$478.44	\$455.60	\$472.72	\$477.45
Member+Spouse	\$1,076.48	\$1,025.10	\$1,063.63	\$1,074.26
Family	\$1,196.09	\$1,139.00	\$1,181.81	\$1,193.62
Parent+Child(ren)	\$669.81	\$637.84	\$661.81	\$668.43

	Rx Card
<u>Rx Card</u>	
Single	\$130.89
Member+Spouse	\$294.50
Family	\$327.22
Parent+Child(ren)	\$183.24

SHBP 4/1/08 Rate Recommendation Report**Exhibit 5 – 4/1/2008 Local Retiree Premiums**

	NJ DIRECT 10	NJ DIRECT 15	Aetna	CIGNA
<u>Local Education</u>				
Single - 0 Medicare	\$598.41	\$570.00	\$409.22	\$413.31
Single - 1 Medicare	\$359.05	\$342.00	\$306.92	\$309.99
Mem+Spouse - 0 Medicare	\$1,304.53	\$1,242.60	\$892.10	\$901.03
Mem+Spouse - 1 Medicare	\$957.45	\$912.00	\$716.14	\$723.30
Mem+Spouse - 2 Medicare	\$718.09	\$684.00	\$613.83	\$619.97
Family - 0 Medicare	\$1,484.05	\$1,413.60	\$1,014.87	\$1,025.02
Family - 1 Medicare	\$1,136.98	\$1,083.00	\$838.91	\$847.29
Family - 2 Medicare	\$897.61	\$855.00	\$736.60	\$743.97
Parent+Ch - 0 Medicare	\$837.77	\$798.00	\$572.91	\$578.64
Parent+Ch - 1 Medicare	\$568.49	\$541.50	\$450.14	\$454.65
<u>Local Government</u>				
Single - 0 Medicare	\$660.81	\$629.44	\$472.72	\$477.45
Single - 1 Medicare	\$396.49	\$377.67	\$354.54	\$358.09
Mem+Spouse - 0 Medicare	\$1,440.58	\$1,372.19	\$1,030.53	\$1,040.84
Mem+Spouse - 1 Medicare	\$1,057.30	\$1,007.11	\$827.26	\$835.54
Mem+Spouse - 2 Medicare	\$792.98	\$755.33	\$709.08	\$716.17
Family - 0 Medicare	\$1,638.82	\$1,561.02	\$1,172.35	\$1,184.07
Family - 1 Medicare	\$1,255.55	\$1,195.94	\$969.08	\$978.77
Family - 2 Medicare	\$991.23	\$944.17	\$850.90	\$859.41
Parent+Ch - 0 Medicare	\$925.14	\$881.22	\$661.81	\$668.43
Parent+Ch - 1 Medicare	\$627.77	\$597.97	\$519.99	\$525.19

SHBP 4/1/08 Rate Recommendation Report

Exhibit 6 – Projection Assumptions

Benefit Design Changes

Medical Plans: Effective 4/1/2008, three benefit plans will be offered: NJ DIRECT10, NJ DIRECT15, and a \$10 HMO copay plan.

Employee Prescription Drugs: Local Employers can offer their employees the State Employee Prescription Drug Plan, or sign up for prescription drug coverage under the medical plan, or purchase prescription drug coverage from an outside vendor.

Retiree Prescription Drug Plan: The Local Government copays will increase on 1/1/2008 from \$8/\$17/\$34 Retail and \$8/\$25/\$42 Mail Order to \$9/\$18/\$36 Retail and \$9/\$27/\$45 Mail Order. In addition, the Rx maximum out-of-pocket limit will be increased on 1/1/2008 from \$1,082 to \$1,092. Local Education copays and out-of-pocket maximum remain at the Plan Year 2007 level.

Vendor Changes

Effective 4/1/2008, Horizon will administer the new NJ DIRECT plans. Aetna and CIGNA will be the only HMOs offered.

Incurred Basis

Plan Year 2008 projected claims and administrative costs reflect projected incurred costs.

Margin

Renewal premiums are projected to result in an aggregate loss of \$90 million. This will be charged against the Local Employer group accumulated surplus, which will result in a projected surplus of \$576 million at the end of Plan Year 2008.

Administrative Expenses

Plan Year 2008 premiums will include projected costs for the following administrative expenses:

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

Claim Costs

Plan Year 2008 costs will include projected charges/credits for the following claim expenses:

- Medical and prescription drug claims,
- Capitation charges,
- Education Surcharge (for Local Education Group),
- Prescription drug rebates, and

- Medicare Part D prescription drug subsidies.

Enrollment Projections

Aon's enrollment projections for Plan Year 2008 assume that Local Employer Employee enrollment will decrease 2% in Plan Year 2008, and Local Employer Retiree enrollment will grow 4% in Plan Year 2008.

For 4/1/2008, it is assumed that 100% of NJ PLUS and Traditional Plan subscribers will enroll in the NJ DIRECT and 100% of HMO subscribers will enroll in the HMO plans. Subscribers from the terminating HMO plans are assumed to be split evenly between Aetna and CIGNA.

Health Status Change

Plan Year 2008 projections assume no change in the average health status of Local Employer members.

Trend Rates

Trend assumptions were developed from the SHBP historical experience normalized for benefit changes and selection issues. Exhibit 3 shows SHBP claim increases for Plan Year 2005, 2006, and 2007. Projection trends are the average of Plan Years 2006 and 2007. Trend assumptions for the April 1, 2008 rate setting are 7.7% for Employee Medical, 8.5% for Employee Prescription Drugs, 5.4% for Retiree Medical, and 7.4% for Retiree Prescription Drugs.

Data Assumptions

Claims: We are using data files from all vendors to develop incurred claim costs. Horizon, CIGNA, Oxford, and Health Net assumptions are based on

claims paid through September 30, 2007. Aetna assumptions are based on claims paid through October 31, 2007. AmeriHealth assumptions are based on claims paid through June 30, 2007.

Enrollment: We used quarterly SHBP census files to develop splits by coverage tier, by ZIP code, and by age/sex groups for our experience analysis. We used billing counts through November 2007 for our exposure units in our cost projection calculations.