



New Jersey
State Health Benefits Program

State Employee Group

4/1/08 Rate Recommendation Report

Prepared by Aon Consulting

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***State Employee 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 Local Employer 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 State Active 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.
- The Employee Prescription Drug Plan which covers State Active Employees, and is administered by Horizon and 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.

Effective 4/1/2008 for all SHBP members, except the State Police and select Correction and Judiciary unions (who will retain coverage under the NJ PLUS and the Traditional Plan), there will be the following benefit options:

- NJ DIRECT10 and NJ DIRECT15 – New self-insured PPO plans which will be 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 HMOs have a \$10 physician copay.

Financial Results

Plan Year 2006 total projected costs have not changed from the previously projected costs in the Plan Year 2008 Renewal Report. If the premiums were fully funded, the total gain for the State program would be \$117 million for Plan Year 2006.

Plan Year 2007 projected costs and premiums decreased 0.4% from the previous projection due to lower enrollment. If the premiums were fully funded, the total projected gain for the State program would be \$83 million for Plan Year 2007.

First Quarter Plan Year 2008 projected costs and premiums decreased 1.5% from the previous projection due to lower enrollment. This is projected to result in a gain of \$5 million for the State Program.

2nd-4th Quarter Plan Year 2008 premiums are set to match projected costs, so no loss or gain is projected for this period.

Recommended Premium Changes for 4/1/2008

Aon is recommending an overall increase of 3% for State Active Employees and a decrease of 11% for Retirees. 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 (page 19), and the average premium change weighted by current enrollment is as follows:

	Active Employees	Retirees
NJ PLUS to NJ DIRECT10	NA	-11%
NJ PLUS to NJ DIRECT15	16%	-15%
Traditional Plan to NJ DIRECT10	NA	-12%
Traditional Plan to NJ DIRECT15	-42%	-16%
Aetna HMO to Aetna HMO	0%	-10%
CIGNA HMO to CIGNA HMO	-12%	-10%
Oxford HMO to Aetna HMO	4%	0%
Oxford HMO to CIGNA HMO	5%	1%
AmeriHealth HMO to Aetna HMO	-4%	-15%
AmeriHealth HMO to CIGNA HMO	-3%	-14%
Health Net HMO to Aetna HMO	-2%	-2%
Health Net HMO to CIGNA HMO	-1%	-1%
Rx Card Plan	8%	NA
Average Change	3%	-11%

The aggregate difference in the rate change between the two groups reflects the following:

- Retirees have 38% of their claims in the Traditional Plan where the largest savings will be achieved from the change to a PPO plan; Active Employee Traditional Plan claims are only 10% of the total.
- Retiree trends are lower than those for Actives; this produced lower loss ratios in the experience base and resulted in lower trend assumptions used to project renewal increases.

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 premium increases for these groups are:

NJ PLUS	6%
Traditional Plan	4%
Aetna	8%
CIGNA	-3%
Rx Card Plan	11%

Historical Overview

Benefit Changes

In Plan Year 2005, State Active Employee 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 Employee 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. Additionally, on July 1, 2007, employees began contributing 1.5% of salary as a health contribution, regardless of plan or coverage tier selection. These changes applied to about 85% of the State Active population, since the State Police and select Correction and Judiciary unions have not agreed to any benefit/contribution changes.

State Retiree NJ PLUS and HMO physician copays increased from \$5 to \$10 in Plan Year 2007. Non-HMO Prescription drug plan copays and out-of-pocket maximums increase each year based on actual prescription drug trends from prior years.

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

- NJ PLUS and the Traditional Plan will be replaced by two PPO plans which will be 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 will not be offered to State Actives or certain State Retirees. NJ DIRECT15 will be offered to State Actives and Retirees.

- The number of HMO vendors will be 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.

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 Active State enrollment will be 2.9% lower than Plan Year 2007 enrollment, as a result of employees dropping coverage due to the new contribution formula. Retiree projections for Plan Year 2008 assume that enrollment will increase 3.5% (similar to prior years). Employee projections assume that 5% of NJ PLUS and 5% of HMO subscribers will migrate to the Traditional Plan at the 1/1/2008 enrollment. Retiree projections assume that Traditional Plan enrollment will decrease 2% on 1/1/2008, with NJ PLUS and HMO enrollment each increasing 1%.

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 all State Actives NJ DIRECT subscribers enroll in NJ DIRECT15, and that Retiree NJ DIRECT enrollment is split 30% in NJ DIRECT15 and 70% 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 member selection.

Active :

Medical Trend – Actual Increases for State Actives have ranged from 5.8% in Plan Year 2005 to 10.2% in Plan Year 2007. The low increase in Plan Year 2005 was the result of the increase in copays and deductibles that reduced total cost 2.5%, so the underlying **Claim Trend** in Plan Year 2005 was actually 8.3%. The high increase in Plan Year 2007 is the result of the change in contribution methodology. Prior to July 2007, the NJ PLUS plan was available to SHBP employees at no cost. Since July 2007 most SHBP employees are required to contribute 1.5% of their salary for their health coverage. This has resulted in a 2.5% increase in claimants per subscriber, because some SHBP employees have either dropped coverage or dropped their dependents when health coverage was available for them elsewhere. The projected Plan Year 2008 Medical **Claim Trend** is 7.9% which is the average of the **Claim Trend** for Plan Years 2006 and 2007 (of 7.4% and 8.5% respectively).

Prescription Drug Trend - Actual Increases for State Actives have ranged from -2.7% in Plan Year 2005 to 9.8% in Plan Year 2007. The decrease in Plan Year 2005 was the result of the increase in copays that reduced costs 14%, so the underlying **Claim Trend** in Plan Year 2005 was actually 11.3%. The Plan Year 2007 **Actual Increase** is close to the underlying claim trend, since the 2.5% increase in claims per member is partially offset by the addition of a third copay tier which is projected to reduce prescription drug costs 1.7%. The projected Plan Year 2008 Prescription Drug Claim Trend is 8.6% which is the average of the **Claim Trend** for Plan Years 2006 and 2007 (of 8.2% and 9.0% respectively).

The 2.5% **selection** is projected to continue in Plan Year 2008, since it is expected that additional SHBP members will drop their coverage as a result of the 1/1/2008 Open Enrollment.

Retiree:

Medical Trend - **Actual Increases** for Retirees have decreased from 6.5% in Plan Year 2005 to 3.9% in Plan Year 2007. The low increase in Plan Year 2007 is the result of the increase in copays that reduced total costs 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 5.5%. 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 5.5% 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 a larger than usual 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), Aon updated estimated costs for Plan Years 2006, 2007 and First Quarter 2008:

SHBP State Projected Financial Results

(in \$ millions)

	NJ PLUS	Trad.Plan	HMOs	Rx Plan	Total
Plan Year 2006					
Premium Rates x Enrollment	\$672	\$244	\$280	\$284	\$1,480
Incurred Claims	\$593	\$205	\$255	\$241	\$1,294
Administrative Charges	\$33	\$13	\$23	\$0	\$69
Net Gain (Loss)	\$46	\$26	\$2	\$43	\$117
Plan Year 2007					
Premium Rates x Enrollment	\$719	\$246	\$309	\$266	\$1,540
Incurred Claims	\$650	\$202	\$278	\$260	\$1,390
Administrative Charges	\$33	\$12	\$22	\$0	\$67
Net Gain (Loss)	\$36	\$32	\$9	\$6	\$83
First Quarter 2008					
Premium Rates x Enrollment	\$167	\$78	\$78	\$64	\$387
Incurred Claims	\$162	\$69	\$72	\$64	\$367
Administrative Charges	\$7	\$3	\$5	\$0	\$15
Net Gain (Loss)	-\$2	\$6	\$1	\$0	\$5

The total updated projected gains have had minimal changes from the projections included in Aon's 1st Quarter 2008 Rate Renewal Recommendation. Plan Year 2006 Net Gain increased \$1 million and Plan Year 2007 and First Quarter Plan Year 2008 Net Gains did not change.

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

SHBP State Projected Financial Results

(in \$ millions)

	NJ DIRECT10	NJ DIRECT15	HMOs	Rx Plan	Total
2nd-4th Quarter 2008					
Premium Rates x Enrollment	\$179	\$557	\$228	\$209	\$1,173
Incurred Claims	\$180	\$531	\$221	\$209	\$1,141
Administrative Charges	\$2	\$19	\$11	\$0	\$32
Net Gain (Loss)	-\$3	\$7	-\$4	\$0	\$0

The total projected premiums are set to achieve no loss or gain. Expected costs are based on current SHBP experience of the members who are projected to enroll in each plan. Premiums are based on total SHBP costs adjusted for plan relativities. This has resulted in a small projected gain for NJ DIRECT15 and a small projected loss for the HMOs and NJ DIRECT10.

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) 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.
- 4) Claims per Subscriber were projected from Plan Year 2007 to First Quarter Plan Year 2008, using the trends listed in Exhibit 3 and pro-rated to reflect quarterly claim levels.
- 5) Active claims were increased 2.5% to reflect a continuation of the increase in utilization as a result of the new contribution formula.
- 6) Active NJ PLUS and HMO claims were reduced 1.7% to reflect the fact that the copay increase was effective July 2007 and so is only partially reflected in the Plan Year 2007 experience.
- 7) 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 NJ DIRECT. 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>
Actives	0%	100%
Retirees	70%	30%

- 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 members would stay with Aetna and 100% of CIGNA members would stay with CIGNA. Members 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. Active Claims

were adjusted to reflect the addition of the third copay tier for most of the population in July 2007. 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. 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 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 2007, this amount is projected as \$3.0 million for the State Group. For Plan Year 2008, Plan Year 2007 overhead charges per subscriber were increased 3%.

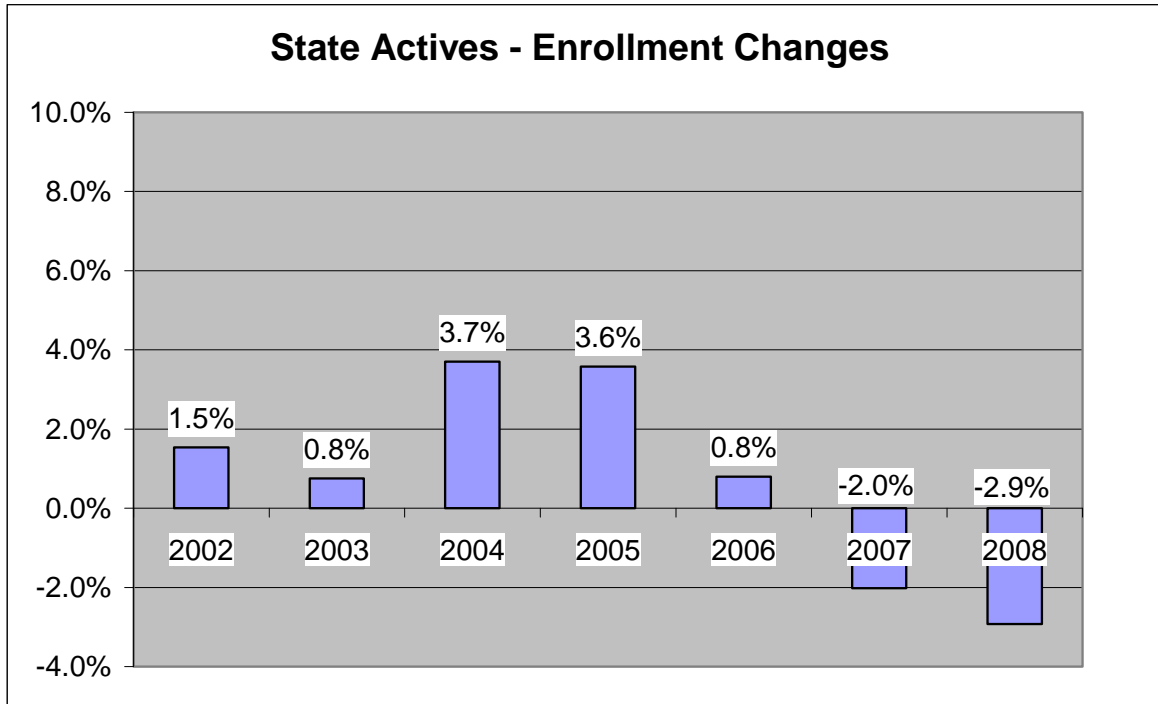
Projected Premiums

- 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 current premium tables have different relativities among coverage tiers (single, family, etc). The premium tables for 2nd-4th Quarter Plan Year 2008 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. The premium levels for 2nd-4th Quarter Plan Year 2008 were set to achieve an overall income level equal to projected costs.

SHBP 4/1/08 Rate Recommendation Report
Exhibit 1 – 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</u>													
Single	NA	NA	18%	-42%	1%	-11%	6%	7%	-3%	-2%	1%	2%	7%
Member+Spouse	NA	NA	22%	-39%	3%	-8%	8%	9%	-2%	-1%	4%	5%	5%
Family	NA	NA	13%	-43%	-2%	-14%	2%	3%	-6%	-5%	-5%	-4%	11%
Parent+Child(ren)	NA	NA	10%	-45%	-4%	-17%	-1%	0%	-8%	-7%	-8%	-7%	12%
Total	NA	NA	16%	-42%	0%	-12%	4%	5%	-4%	-3%	-2%	-1%	8%
<u>Retirees</u>													
Single - 0 Medicare	-3%	-22%	-8%	-26%	-8%	-16%	9%	10%	-16%	-15%	-4%	-4%	
Single - 1 Medicare	-14%	-5%	-18%	-10%	-11%	-8%	-5%	-4%	-13%	-12%	1%	2%	
Mem+Spouse - 0 Medicare	-3%	-21%	-8%	-24%	-8%	-14%	8%	9%	-17%	-16%	-4%	-3%	
Mem+Spouse - 1 Medicare	-8%	-16%	-12%	-20%	-7%	-9%	6%	7%	-14%	-14%	-2%	-1%	
Mem+Spouse - 2 Medicare	-14%	-5%	-18%	-10%	-11%	-8%	-5%	-4%	-13%	-12%	1%	2%	
Family - 0 Medicare	-7%	-24%	-12%	-28%	-7%	-15%	4%	5%	-19%	-18%	-10%	-10%	
Family - 1 Medicare	-12%	-22%	-16%	-26%	-5%	-11%	2%	3%	-17%	-16%	-10%	-9%	
Family - 2 Medicare	-18%	-12%	-22%	-16%	-10%	-10%	-11%	-10%	-18%	-17%	-7%	-6%	
Parent+Ch - 0 Medicare	-10%	-26%	-14%	-30%	-6%	-16%	1%	2%	-20%	-19%	-13%	-12%	
Parent+Ch - 1 Medicare	-22%	-22%	-26%	-26%	-10%	-15%	-10%	-9%	-19%	-18%	-15%	-15%	
Total	-11%	-12%	-15%	-16%	-10%	-10%	0%	1%	-15%	-14%	-2%	-1%	

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



Observations:

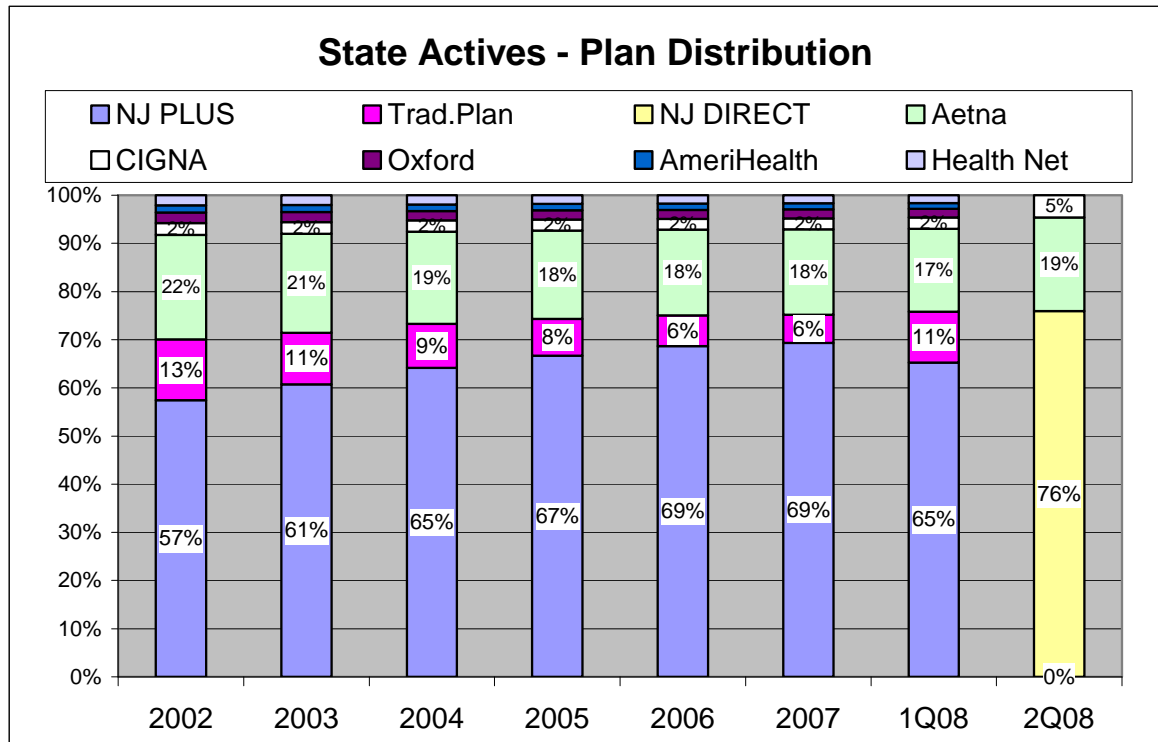
Plan Year 2006 - Enrollment increased 1%, 3% lower than in the prior two years.

Plan Year 2007 - Enrollment decreased 2%, 3% lower than in the prior year.

First Quarter Plan Year 2008 - Enrollment is projected to decrease 3%. This assumes no change in the number of employees, but reflects the combined impact of decreases in covered employees in Plan Year 2007 and an additional 1.7% decrease in covered employees on 1/1/2008. In addition, it is assumed that 3% of Family coverage employees switch to Employee+Child(ren).

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Exhibit 2 – Enrollment Projections



Observations:

Plan Years 2004 through 2006 - NJ PLUS increased its share of enrollment 2% per year, the result of a 1% decrease for the Traditional Plan and a 1% decrease for total HMO.

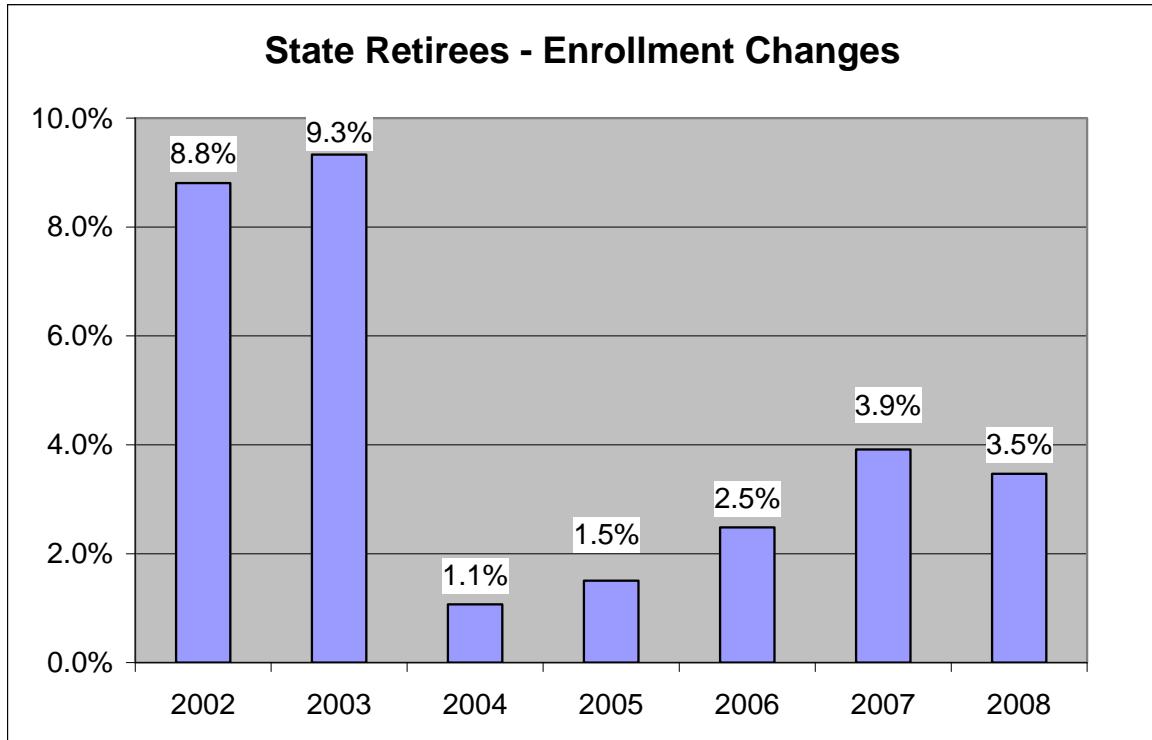
Plan Year 2007 - The distribution of enrollment is very close to Plan Year 2006. This is the result of an increase in NJ PLUS' enrollment share on January 1, offset by a decrease in their enrollment after July 1 when employees began to contribute for this previously-free benefit plan.

First Quarter Plan Year 2008 - The new contribution formula charges 1.5% of salary for all benefit plans regardless of benefit option. Thus it is projected that NJ PLUS and the HMOs will lose 5% of their enrollment to the Traditional Plan on 1/1/2008.

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.

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Exhibit 2 – Enrollment Projections

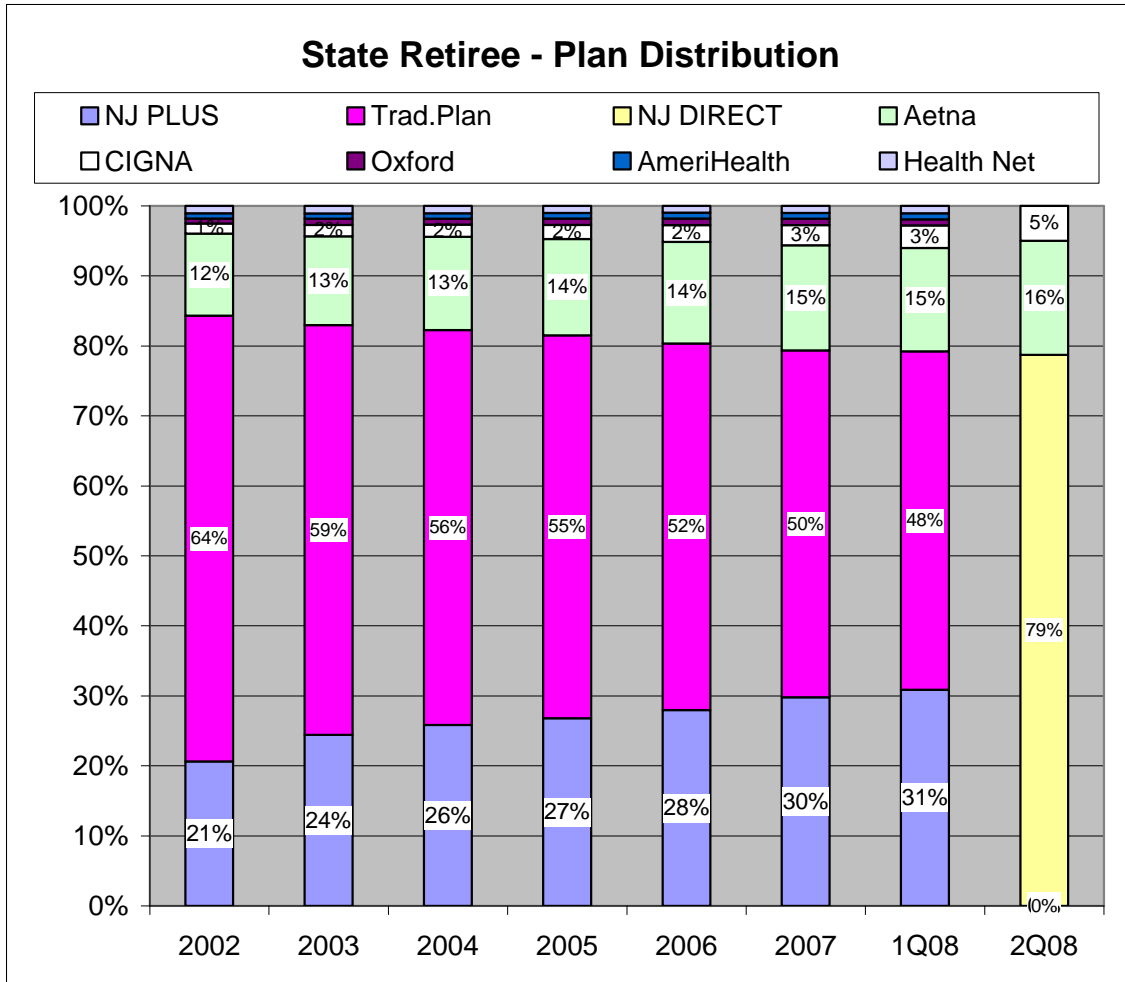


Observations:

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

Plan Year 2008 - The projected 3.5% increase is consistent with the previous two Plan 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 2% per year, the result of a 1% increase for NJ PLUS and a 1% increase for total HMO.

First Quarter Plan Years 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 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 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
State Actives												
PY2005	9.0%	-5.2%		3.8%	8.3%	-2.5%		5.8%	11.3%	-14.0%		-2.7%
PY2006	7.6%			7.6%	7.4%			7.4%	8.2%			8.2%
PY2007	8.6%	-1.0%	2.5%	10.1%	8.5%	-0.8%	2.5%	10.2%	9.0%	-1.7%	2.5%	9.8%
PY2008	8.1%				7.9%				8.6%			
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%	5.5%	-1.6%		3.9%	7.6%	-1.5%		6.1%
PY2008	6.2%				5.4%				7.4%			
Grand Total												
PY2005	8.7%	-4.2%	0.0%	4.5%	8.0%	-2.0%	0.0%	6.0%	10.6%	-10.2%	0.0%	0.4%
PY2006	7.2%	-0.4%	0.0%	6.8%	7.0%	0.0%	0.0%	7.0%	7.9%	-1.5%	0.0%	6.4%
PY2007	8.1%	-1.2%	2.0%	8.9%	8.0%	-1.0%	2.0%	9.0%	8.6%	-1.7%	1.8%	8.7%
PY2008	7.7%				7.4%				8.2%			

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:

1/1/2005 State Active medical and Rx copays and deductibles increased for all plans.

July 2007 State Active NJ PLUS and HMO copays increased and Rx copays added a third tier copay.

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:

July 2007 State Actives are required to contribute for all benefit plans, this has led to an increase in claimants per covered member.

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 – Aggregate Costs

	Total	NJ PLUS	Trad.Plan	Aetna	CIGNA	Oxford	AmeriHealth	Health Net	Rx Plan*
Average Medical Subscribers									
CY2006		88,108	25,270	25,482	3,385	2,503	1,771	2,343	114,710
CY2007		88,675	24,131	25,188	3,559	2,402	1,713	2,217	112,397
1Q 2008		82,514	29,003	24,066	3,657	2,305	1,646	2,124	109,108
Incurring Medical claims									
CY2006	\$ 950,200,000	\$ 561,500,000	\$ 153,800,000	\$ 166,500,000	\$ 24,200,000	\$ 18,600,000	\$ 11,200,000	\$ 14,400,000	
CY2007	\$ 1,018,900,000	\$ 613,700,000	\$ 149,700,000	\$ 182,800,000	\$ 27,300,000	\$ 18,200,000	\$ 11,700,000	\$ 15,500,000	
1Q 2008	\$ 272,500,000	\$ 151,800,000	\$ 54,900,000	\$ 46,800,000	\$ 7,400,000	\$ 4,700,000	\$ 3,000,000	\$ 3,900,000	
Incurring Prescription Drug Claims									
CY2006	\$ 343,900,000	\$ 31,200,000	\$ 51,700,000	\$ 13,900,000	\$ 2,700,000	\$ 700,000	\$ 900,000	\$ 1,500,000	\$ 241,300,000
CY2007	\$ 371,100,000	\$ 35,900,000	\$ 53,100,000	\$ 15,900,000	\$ 3,300,000	\$ 900,000	\$ 1,200,000	\$ 900,000	\$ 259,900,000
1Q 2008	\$ 93,500,000	\$ 9,800,000	\$ 13,600,000	\$ 4,200,000	\$ 1,000,000	\$ 200,000	\$ 300,000	\$ 300,000	\$ 64,100,000
Administrative Fees									
CY2006	\$ 68,800,000	\$ 33,600,000	\$ 12,500,000	\$ 16,700,000	\$ 2,100,000	\$ 1,500,000	\$ 900,000	\$ 1,500,000	
CY2007	\$ 67,400,000	\$ 33,200,000	\$ 11,600,000	\$ 16,500,000	\$ 2,200,000	\$ 1,400,000	\$ 1,100,000	\$ 1,400,000	
1Q 2008	\$ 16,000,000	\$ 7,000,000	\$ 3,500,000	\$ 4,000,000	\$ 600,000	\$ 400,000	\$ 200,000	\$ 300,000	
Total Cost = Medical Claims + Prescription Drug Claims + Fees									
CY2006	\$ 1,362,900,000	\$ 626,300,000	\$ 218,000,000	\$ 197,100,000	\$ 29,000,000	\$ 20,800,000	\$ 13,000,000	\$ 17,400,000	\$ 241,300,000
CY2007	\$ 1,457,400,000	\$ 682,800,000	\$ 214,400,000	\$ 215,200,000	\$ 32,800,000	\$ 20,500,000	\$ 14,000,000	\$ 17,800,000	\$ 259,900,000
1Q 2008	\$ 382,000,000	\$ 168,600,000	\$ 72,000,000	\$ 55,000,000	\$ 9,000,000	\$ 5,300,000	\$ 3,500,000	\$ 4,500,000	\$ 64,100,000
Total Premium									
CY2006	\$ 1,479,900,000	\$ 672,000,000	\$ 244,100,000	\$ 194,400,000	\$ 29,900,000	\$ 19,900,000	\$ 15,500,000	\$ 20,200,000	\$ 283,900,000
CY2007	\$ 1,540,200,000	\$ 718,400,000	\$ 246,200,000	\$ 217,600,000	\$ 35,000,000	\$ 20,000,000	\$ 16,600,000	\$ 20,000,000	\$ 266,400,000
1Q 2008	\$ 387,500,000	\$ 167,300,000	\$ 78,200,000	\$ 54,800,000	\$ 9,400,000	\$ 5,000,000	\$ 4,000,000	\$ 4,800,000	\$ 64,000,000
Gain (Loss)									
CY2006	\$ 117,000,000	\$ 45,700,000	\$ 26,100,000	\$ (2,700,000)	\$ 900,000	\$ (900,000)	\$ 2,500,000	\$ 2,800,000	\$ 42,600,000
CY2007	\$ 82,800,000	\$ 35,600,000	\$ 31,800,000	\$ 2,400,000	\$ 2,200,000	\$ (500,000)	\$ 2,600,000	\$ 2,200,000	\$ 6,500,000
1Q 2008	\$ 5,500,000	\$ (1,300,000)	\$ 6,200,000	\$ (200,000)	\$ 400,000	\$ (300,000)	\$ 500,000	\$ 300,000	\$ (100,000)

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

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

	Total	NJ DIRECT10	NJ DIRECT15	Aetna	CIGNA	Rx Plan*
Average Medical Subscribers 2Q to 4Q 2008		20,325	91,544	27,267	6,860	109,108
Incurred Medical claims 2Q to 4Q 2008	\$ 837,600,000	\$ 81,200,000	\$ 553,800,000	\$ 162,100,000	\$ 40,500,000	
Incurred Prescription Drug Claims 2Q to 4Q 2008	\$ 300,800,000	\$ 51,300,000	\$ 21,900,000	\$ 14,300,000	\$ 4,700,000	\$ 208,600,000
Administrative Fees 2Q to 4Q 2008	\$ 32,700,000	\$ 2,300,000	\$ 19,400,000	\$ 9,300,000	\$ 1,700,000	
Total Cost = Medical Claims + Prescription Drug Claims + Fees 2Q to 4Q 2008	\$ 1,171,100,000	\$ 134,800,000	\$ 595,100,000	\$ 185,700,000	\$ 46,900,000	\$ 208,600,000
Total Premium 2Q to 4Q 2008	\$ 1,171,100,000	\$ 132,200,000	\$ 602,000,000	\$ 182,000,000	\$ 46,300,000	\$ 208,600,000
Gain (Loss) 2Q to 4Q 2008	\$ -	\$ (2,600,000)	\$ 6,900,000	\$ (3,700,000)	\$ (600,000)	\$ -

*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 Premiums

Actives	NJ DIRECT 10	NJ DIRECT 15	Aetna \$15	CIGNA \$15	Rx Card
Single	NA	\$408.23	\$400.22	\$404.22	\$118.33
Member+Spouse	NA	\$918.51	\$900.50	\$909.51	\$266.25
Family	NA	\$1,020.57	\$1,000.56	\$1,010.56	\$295.83
Parent+Child(ren)	NA	\$571.52	\$560.31	\$565.91	\$165.67

Actives - Old Benefits	NJ PLUS	Trad.Plan	Aetna \$10	CIGNA \$10	Rx Card
Single	\$366.09	\$722.81	\$408.22	\$412.30	\$120.70
Member+Spouse	\$797.97	\$1,547.03	\$918.51	\$927.70	\$271.58
Family	\$949.78	\$1,841.22	\$1,020.57	\$1,030.77	\$301.75
Parent+Child(ren)	\$550.76	\$1,067.63	\$571.52	\$577.23	\$168.98

Retirees	NJ DIRECT 10	NJ DIRECT 15	Aetna \$10	CIGNA \$10
Single - 0 Medicare	\$617.54	\$588.22	\$508.28	\$513.37
Single - 1 Medicare	\$370.52	\$352.93	\$381.21	\$385.02
Mem+Spouse - 0 Medicare	\$1,346.23	\$1,282.32	\$1,108.06	\$1,119.14
Mem+Spouse - 1 Medicare	\$988.07	\$941.16	\$889.49	\$898.39
Mem+Spouse - 2 Medicare	\$741.05	\$705.87	\$762.42	\$770.05
Family - 0 Medicare	\$1,531.50	\$1,458.79	\$1,260.54	\$1,273.15
Family - 1 Medicare	\$1,173.32	\$1,117.62	\$1,041.98	\$1,052.40
Family - 2 Medicare	\$926.31	\$882.33	\$914.91	\$924.06
Parent+Ch - 0 Medicare	\$864.55	\$823.51	\$711.60	\$718.71
Parent+Ch - 1 Medicare	\$586.66	\$558.81	\$559.11	\$564.70

SHBP 4/1/08 Rate Recommendation Report

Exhibit 6 – Projection Assumptions

Benefit Design Changes

Medical Plans: Effective 4/1/2008, four 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 the current benefit plans: NJ PLUS, Traditional Plan, and an HMO with a \$10 copay.

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

Retiree Prescription Drug Plan: The 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.

Vendor Changes

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

Member Contributions

Active Plans: Approximately 85% 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. 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 2008 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 2008 premiums will include projected costs for the following administrative expenses:

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

Claim Costs

Plan Year 2008 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

Based on historical growth patterns, Aon's enrollment projections for Plan Year 2008 assume that Active State Employee enrollment will decrease 1.7% on 1/1/2008 as a result of the new contribution formula and then remain constant for the remainder of the year. In addition, it is assumed that the new contribution formula will result in 5% of HMO members and 5% of NJ PLUS members migrating to the Traditional Plan on 1/1/2008.

Aon's Retiree enrollment projections for Plan Year 2008 assume that State Retiree enrollment will grow 3.5%, with the Traditional Plan losing 2% of its share of enrollment to NJ PLUS and the HMOs on 1/1/2008.

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

Health Status Change

Prior to July 2007, State Employees enrolled in the NJ PLUS plan did not have to contribute towards their benefits. The new contribution formula requires contributions from all employees. As a result there has been a decrease in the number of SHBP members, since some of those with coverage elsewhere dropped their SHBP coverage. We project that this trend will continue in Plan Year 2008 and have adjusted State Active claims to reflect this.

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 Years 2005, 2006, and 2007. Projection trends are the average of Plan Years 2006 and 2007. Trend assumptions for the Plan Year 2008 rate setting are 7.9% for Employee Medical, 8.6% 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.