



New Jersey  
School Employees' Health Benefits Program

Plan Year 2010 Rate Renewal Recommendation Report

January 1, 2010 – December 31, 2010

Prepared by Aon Consulting

June 2009

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**TABLE OF CONTENTS**

<b>Section</b>	<b>Subject</b>	<b>Page</b>
Section 1	Executive Summary	1
Section 2	Historical Overview	9
Section 3	Trend Analysis	14
Section 4	Financial Projections	15
Section 5	Renewal Rate Development	18
Section 6	Exhibits	22
	1 – Enrollment Projections	
	2 – Trend Analysis	
	3 – Large Claim Analysis	
	4 – Aggregate Costs	
	5 – Plan Year 2009 Premiums	
	6 – Projection Assumptions	

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***School Employees' Health Benefits Program  
Rate Renewal Recommendation Report  
For Plan Year 2010***

***Executive Summary***

The purpose of this report is to recommend premium levels for the School Employees' Health Benefits Program (SEHBP) for January 1, 2010 through December 31, 2010.

***Benefit Plans Maintained by the SEHBP***

The State of New Jersey operates the SEHBP as a multiple-option program for School 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 has a \$10 physician copay for in-network physician office visits and 80% coinsurance for out-of-network services. NJ DIRECT15 has a \$15 physician copay for in-network physician office visits and 70% coinsurance for out-of-network services.
- Two self-insured HMOs administered by Aetna and CIGNA. Both HMOs have a \$10 physician copay.
- Active School Employees also have a Prescription Drug Plan available under the SEHBP, which is administered by CVS/Caremark, the Pharmacy Benefit Manager (PBM) used by Horizon. SEHBP employers may select this plan, sign up for prescription drug coverage under the medical plan, or purchase prescription drug coverage from an outside vendor.

- SEHBP Retirees also have a Prescription Drug Plan, which is administered by the same health plan administrator as their medical plan.

### **Recommended Renewal Increases**

Aon is recommending an overall increase of 23% for Active Employees, 12% increase for Early Retirees, and 1% for Medicare Retirees. For all groups combined, the recommended increase is 15%. The recommended renewal increases by benefit plan are listed below:

	<b>Actives</b>	<b>Early Retirees</b>	<b>Medicare Retirees</b>
NJ DIRECT10	25%	11%	1%
NJ DIRECT15	25%	11%	1%
Aetna HMO	24%	19%	6%
CIGNA HMO	24%	19%	6%
Rx Card Plan	7%	NA	NA
<b>Average Change</b>	<b>23%</b>	<b>12%</b>	<b>1%</b>

These premium increases are projected to produce an aggregate gain of \$18 million (or 2% of premium) in Plan Year 2010 for Active Education and an aggregate loss of \$15 million (or 2% of premium) for Retiree Education. The reasons for the large Active Education renewal increases are:

- 9% Trend increase from Plan Year 2009 to Plan Year 2010,
- 1% Plan Year 2008 actual trend experience is 1% higher than previously projected,
- 1% Increase in the trend assumption from Plan Year 2008 to Plan Year 2009,
- 2% NJ DIRECT benefit changes approved after the Plan Year 2009 renewal (detailed under "Benefit Changes" in the Historical Overview section of this document),

- 1% Mandated benefit enhancements (detailed under “Benefit Changes” in the Historical Overview section of this document),
- 6% Plan Year 2009 premium rates that were set lower than projected costs in order to spend down the accumulated claim stabilization reserve,
- 2% Margin added to Plan Year 2010 premium rates in order to build up the claim stabilization reserve, and
- 1% Decrease in Education Surcharge credits per member due to the growth of enrollment in the SEHBP.

The table below shows the expected changes in the projected claim stabilization reserve. The recommended level for the claim stabilization reserve is 2 months of plan costs, in order to protect against adverse claim fluctuations. The reserve at the end of Plan Year 2010 is projected to be equivalent to 1.2 months of plan costs for Actives and 3.4 months of plan costs for Retirees. The Active reserve has decreased to an inadequate level, so we included a 2% margin in the Active renewal rates to start building the reserve. The Retiree reserve is higher than the required level, so their renewal rates are 2% lower than the projected costs.

### **SEHBP Projected Claim Stabilization Reserve**

(in \$millions)

	Total	Actives	Retirees
6/30/2008	\$439	\$233	\$206
12/31/2008	\$426	\$189	\$237
12/31/2009	\$313	\$90	\$223
12/31/2010	\$316	\$108	\$208

**Benefit Changes****Retiree Prescription Drug Copays**

The prescription drug renewals for NJ DIRECT and for the HMOs assume that the brand copays and out-of-pocket maximums will receive the formula increase based on retiree prescription drug experience. The table below compares Plan Year 2009 copays and out-of-pocket maximums with the formula increases for Plan Year 2010:

	<b>NJ Direct Copays</b>		<b>HMO Copays</b>	
	2009	2010	2009	2010
Retail Generic Copay	\$8	\$8	\$5	\$5
Retail Preferred Brand Copay	\$17	\$18	\$10	\$11
Retail Non-Preferred Brand Copay	\$34	\$37	\$20	\$22
Mail Generic Copay	\$8	\$9	\$5	\$6
Mail Preferred Brand Copay	\$25	\$27	\$15	\$16
Mail Non-Preferred Brand Copay	\$42	\$45	\$25	\$27
Out-of-Pocket Maximum	\$1,130	\$1,191	\$1,130	\$1,191

**Other Possible Benefit Changes**

The large renewal increases for Active Employees could be reduced through benefit changes. The list below includes benefit changes which would reduce projected costs for Plan Year 2010 and also decrease future trends. Each of these changes would reduce projected costs about 1%:

- Increase Emergency Room copays to \$100 – Emergency Room copays were not increased when the physician office visit copays increased in Plan Year 2007. As a result, the SEHBP has seen significant increases in emergency room utilization, and many emergency room visits could have been handled in a physician's office at a fraction of the cost.

- Implement a higher copay for Specialist office visits (of \$10 to \$15 more than the existing physician office-visit copay) – This would decrease the number of visits to Specialists for services which could be provided by a PCP at a lower cost.
- Increase the physician office visit copays by \$5 – This would discourage unnecessary office visits and reduce plan costs.
- Change the coordination-of-benefits provision so that the benefits in total between the primary and secondary coverage only provide up to what the SEHBP would have paid had it been primary.
- Increase the NJ DIRECT in-network out-of-pocket maximum from \$400 to \$800 (This would require a legislative amendment, since the limit is in statute.) – When members reach their out-of-pocket maximum, their demand for services increases significantly. This is especially a problem with employees who have prescription drugs through their medical plan and reach the out-of-pocket with both medical and prescription drug claims.
- Increase the NJ DIRECT out-of-network out-of-pocket maximum from \$2,000 to \$5,000 (This would require a legislative amendment, since the limit is in statute.) – This would encourage greater in-network utilization, which reduces plan costs (since in-network discounts reduce costs by more than 50%).
- Increase the Employee Prescription Drug copays to match Retiree copays – Employee copays are much lower than Retiree copays (\$3/10 Retail Rx Card compared to \$8/18/37 for Retiree Retail).

The low copays do not incent employees to utilize generic drugs, which are significantly lower cost than retail drugs.

- Institute Mandatory Generic Prescription Drug coverage – The average Generic prescription is 20% of the cost of a Brand prescription. Mandatory Generic requires the employee to pay the difference in cost between the Brand and Generic prescription, unless the physicians requires the Brand drug.

### Wellness Initiative

In addition to the benefit changes noted above, the SEHBP must consider programs that over time have the ability to improve the health and productivity of plan participants. Research has demonstrated that typically two-thirds of a health benefits plan's costs are produced by one-third of the population who have either lifestyle risks (e.g., smoking, obesity, and lack of exercise) or chronic health conditions (e.g., diabetes, heart disease, and back pain). These same chronic conditions are among the top ten conditions driving costs related to absenteeism and disability.

As a result, a long-term strategy that addresses the underlying causes of the cost of health care, absenteeism, and disability is critical to the successful long-term management of the SEHBP. An effective wellness/health-management program can:

- Reduce hospitalizations related to chronic illness by 10%;
- Reduce emergency room visits related to chronic illness by 15%;
- Reduce days of absence by 10%, and
- Reduce annual health care trend increases by 3% or more. For example, Aon has worked with another large Northeastern State Health Benefits Program to develop a wellness/health-management

program that has resulted in annual medical cost increases that are averaging at least 4% less than the national average.

Horizon, Aetna, and CIGNA already have a number of health management and wellness programs in place; however, the SEHBP does not have a coordinated approach that includes member incentives to participate in such programs. Aon looks forward to working with the Division and the Commission in the months ahead in developing a game plan for expanding and extending wellness/health-management for the SEHBP population.

### **Prescription Drug Request For Proposal**

The Division of Pensions and Benefits is currently analyzing the responses from a Request For Proposal (RFP) to administer the SEHBP prescription drug program. It is anticipated that this contract will be effective 1/1/2010 and will reduce prescription drug costs 2% to 5%. The renewal projections in this report assume a 2% reduction in prescription drug card costs as a result of the RFP.

### **Financial Results**

As detailed in the Renewal Increase section, recent experience for the SEHBP Employees has been worse than originally projected due to increasing trends, benefit enhancements, decreasing investment income and decreasing Education Surcharge credits. In addition, the SEHBP has experienced significant growth in enrollment: Plan Year 2009 has been averaging 89,874 employees, which is a 33% increase since the beginning of Plan Year 2008. The higher enrollment has also contributed to the Active aggregate losses for the SEHBP.

As a result of all these factors, losses for 4/1/2008 through 12/31/2008 are now estimated at \$12 million, up from an \$8 million loss projected in the Plan Year 2009 Renewal Report. Losses for Plan Year 2009 are now projected at \$113 million, up from \$45 million projected in the Plan Year 2009 Renewal Report.

Plan Year 2010 projected costs for the SEHBP are \$1.84 billion, \$1.10 billion for Actives and \$0.74 billion for Retirees. Plan Year 2010 renewal premiums are set 2% higher than projected costs for Actives and 2% lower than projected costs for Retirees, which results in a projected gain of \$18 million for Actives and a \$15 million loss for Retirees in Plan Year 2010. These gains/losses will be added to the claim stabilization reserves for Actives and Retirees.

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## **Historical Overview**

### **Benefit Changes**

In January 2007, Active and Retiree office visit copays increased from \$5 to \$10, and the Active Employee Prescription Drug Plan copays increased from \$1 Generic and \$5 Brand for both Retail and Mail-Order to \$3 Generic and \$10 Brand for Retail and \$5 Generic and \$15 Brand for Mail-Order.

The following changes applied to all Actives and Retirees on 4/1/2008:

- NJ PLUS and the Traditional Plan were replaced by two PPO plans which are administered by Horizon: NJ DIRECT10, which has a \$10 physician office visit copay and an 80% out-of-network benefit, and NJ DIRECT15, which has a \$15 physician office visit copay and a 70% out-of-network benefit.
- The number of HMO vendors was reduced from five to two (Aetna and CIGNA).

In December 2008, NJ DIRECT benefits were expanded (retroactive to 4/1/2008) to include:

- Coordination of benefits between NJ DIRECT10 and NJ DIRECT15,
- NJ DIRECT10 copays counting toward the in-network out-of-pocket maximum, and
- A transition benefit for members who use providers who contract with Horizon but are not in the NJ DIRECT network. This transition benefit expires 12/31/2009.

Effective 1/1/2009, Aetna Medicare Retiree medical coverage changed from a self-insured Medicare Supplement plan to a fully-insured Medicare Advantage

Private Fee For Service (PFFS) medical plan. Retiree copays did not change and the prescription drug plan did not change. However, the new Aetna Medicare Advantage program covers some additional preventive benefits and provides additional care management for Retirees.

Also effective 1/1/2009, the NJ DIRECT Retiree prescription drug out-of-pocket maximum increased from \$1,082 to \$1,130 and the HMO Retiree prescription drugs plan added an out-of-pocket maximum of \$1,130.

Effective 1/1/2010, Retiree prescription drug copays and out-of-pocket maximums are assumed to increase based on Retiree Prescription drug experience. The assumed changes are detailed on page 4 of this report.

SEHBP benefits are subject to many of the New Jersey and Federal benefit mandates. Recent benefit mandates which impact SEHBP benefit costs are:

- COBRA: The American Recovery and Reinvestment Tax Act provides for a 65% federal government subsidy of COBRA premiums for employees terminated between 9/1/2008 and 12/31/2009 and is effective 3/1/2009. The federal subsidy is available for up to 9 months. May 2009 COBRA enrollment increased 4% as a result of this mandate. COBRA premiums only cover half of COBRA claims and the excess costs are covered by Active and Retiree premiums. The 4% increase in COBRA enrollment increased SEHBP overall loss ratios by 0.1%.
- Autism: This proposed New Jersey state mandate, effective 1/1/2010, expands coverage for children with autism and other developmental disabilities. The anticipated impact is 0.4% of costs.
- Grace's Law: This New Jersey state mandate requires coverage for hearing aids. The anticipated impact is 0.1% of costs.

- Mental Health Parity: The Plan Year 2010 renewal assumes that the State will continue to apply for the Mental Health Parity waiver. If not waived, the projected impact of this benefit is a 0.5% increase in overall plan costs.

### **Eligibility Changes**

Dependent Eligibility Verification Audit (DEVA) – Work began on this audit during Plan Year 2009 and is expected to continue into Plan Year 2010. Based on the current timetable for this project, this is expected to produce SEHBP savings of \$9 million in Plan Year 2010 through the elimination of coverage for ineligible dependents.

Part-time Coverage - Effective for the Plan Year 2004, part-time employees of county colleges were permitted to enroll in NJ PLUS and the Employee 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 100 School Employee part-timers are currently participating, so the experience is not very credible. However, since the three year average loss ratio for this group is 8% higher than the full-time employee loss ratio, Aon recommends that the 10% current rate load be continued for Plan Year 2010.

Coverage of Adult Children - Effective 1/1/2007, adult children under age 30 were allowed to enroll for medical and prescription drug coverage. The premium for this coverage in Plan Years 2007 and 2008 was the Single Employee rate increased 10%. Effective 1/1/2009, Chapter 38, P.L. 2008 extended eligibility to adult children under age 31 and required that the rate cannot exceed 102% of the dependent portion of the SEHBP premium rates. Based on this requirement, the Plan Year 2010 Adult Children rate is 40.8% of the Single Premium for each benefit plan.

The Plan Year 2009 premium decrease for adult children resulted in a large increase in enrollment from 160 in Plan Year 2008 to 1,600 in May 2009. The reduced Plan Year 2009 Adult Children premium rates only cover 35% of Adult Children claims (based on Plan Year 2008 experience). Consequently, 65% of Adult Children claim costs must be covered by the Active and Retiree premiums. The large increase in enrollment means that premiums must be increased 0.4% for Actives and 0.1% for Retirees to cover the excess Adult Children claim costs.

### **Enrollment Changes**

Exhibit 1 reflects historical enrollment patterns among the benefit offerings from January 2007 through July 2009 and includes Aon's projection of enrollment from August 2009 through December 2010.

Aon's enrollment projections assume that Active enrollment will increase in August 2009 at half the rate of the July 2009 increase and then remain level from September 2009 through December 2010. Retiree enrollment assumes that the growth patterns in prior years will continue into Plan Year 2010 with a 3% increase in total retirees, the result of a 6% increase for Medicare Retirees and a 3% decrease for Early Retirees.

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 Plan Year 2009 enrollment selections.

### **Demographic Changes**

The Active Employee average age decreased 0.1 years from Plan Year 2008 to Plan Year 2009, which will have minimal impact on claim projections. However, the differences in ages between benefit plans have decreased from Plan Year 2008 to Plan Year 2009. HMO plans are now only 1 year younger than NJ DIRECT (compared to 2 years in Plan Year 2008) and NJ DIRECT15 is now 3 years younger than NJ DIRECT10 (compared to 5 years in Plan Year 2008).

**Average Employee Age**

	4/1/2008	4/1/2009	Change
NJ DIRECT10	47.1	46.3	-0.8
NJ DIRECT15	42.2	43.6	1.4
NJ DIRECT Total	46.3	46.0	-0.3
Aetna HMO	44.8	45.3	0.5
CIGNA HMO	44.1	44.3	0.2
HMO Total	44.6	45.1	0.5
Grand Total	46.0	45.9	-0.1

**Trend Analysis**

The claim trends that we are recommending for the Plan Year 2010 renewal are:

	Medical	Prescription Drugs
NJ DIRECT Employee	8.0%	10.0%
NJ DIRECT Early Retiree	8.0%	8.5%
NJ DIRECT Medicare Retiree	7.0%	8.5%
Aetna HMO	11.5%	9.0%
CIGNA HMO	11.5%	9.0%
Employee Prescription Drug Card	NA	10.0%

Aon's Semi-Annual Health Care Trend Survey shows almost no change in medical trend expectations over the past few years, but the Spring 2009 Trend Survey shows that the prescription drug trend expectation has increased 1% from 6 months ago. The Aon trend assumptions reflect these patterns. Medical trends are based on normalized SHBP/SEHBP trend experience. Prescription Drug trends are based on normalized SHBP/SEHBP trend experience increased 1%.

Exhibit 2 shows the actual SEHBP claim costs increases and then adjusts them for benefit changes to calculate the underlying claim trend in the SEHBP experience. This calculation was done separately for medical versus prescription drugs and for NJ DIRECT versus the HMOs.

## Financial Projections

### Aggregate Financial Projections

Using the assumptions detailed in Exhibit 6 and the methodology described in the next section (Renewal Rate Development), Aon updated estimated costs for Plan Years 2008, 2009 and 2010. Plan Year 2008 projections are split into two sections to show costs before and after the benefit changes which occurred on 4/1/2008:

### Projected Financial Results

(in \$ millions)

	NJ PLUS	Trad.Plan	HMOs	Rx Plan	Total
<b>First Quarter 2008</b>					
Premium Rates x Enrollment	\$91.2	\$189.5	\$52.4	\$9.1	\$342.2
Incurred Claims	\$88.4	\$166.5	\$49.1	\$8.9	\$312.9
Administrative Charges	\$2.0	\$6.5	\$2.9	\$0.0	\$11.4
Net Gain (Loss)	\$0.8	\$16.5	\$0.4	\$0.2	\$17.9

	DIR10	DIR15	HMOs	Rx Plan	Total
<b>2nd-4th Quarter 2008</b>					
Premium Rates x Enrollment	\$711.4	\$107.5	\$113.5	\$35.0	\$967.4
Incurred Claims	\$709.3	\$97.6	\$115.7	\$30.9	\$953.5
Administrative Charges	\$16.4	\$2.6	\$6.3	\$0.6	\$25.9
Net Gain (Loss)	-\$14.3	\$7.3	-\$8.5	\$3.5	-\$12.0
<b>Plan Year 2009</b>					
Premium Rates x Enrollment	\$1,125.1	\$138.6	\$180.3	\$61.4	\$1,505.4
Incurred Claims	\$1,188.0	\$131.8	\$189.4	\$58.9	\$1,568.1
Administrative Charges	\$35.9	\$4.8	\$8.9	\$1.1	\$50.7
Net Gain (Loss)	-\$98.8	\$2.0	-\$18.0	\$1.4	-\$113.4
<b>Plan Year 2010</b>					
Premium Rates x Enrollment	\$1,371.5	\$166.1	\$230.0	\$71.4	\$1,839.0
Incurred Claims	\$1,342.3	\$147.2	\$221.2	\$68.9	\$1,779.6
Administrative Charges	\$40.1	\$5.3	\$9.7	\$1.2	\$56.3
Net Gain (Loss)	-\$10.9	\$13.6	-\$0.9	\$1.3	\$3.1

The Plan Year 2010 projected costs were developed from 4/1/2008-12/31/2008 costs trended to Plan Year 2009 and annualized. Claim costs were adjusted to reflect the changes detailed in the next section (Renewal Rate Development).

The Plan Year 2010 premiums for Active Employees are set to result in a small gain in order to start restoring the claim stabilization reserve to adequate levels. It is projected that the 12/31/2010 claim stabilization reserve will be equivalent to 1.2 months of projected plan costs. This is significantly below the recommended level of 2.0 months.

The Plan Year 2010 premiums for Retirees are set to result in a 2% loss, since the Retiree claim stabilization reserve is projected to be equivalent to 3.4 months of plan costs at 12/31/2010.

More detailed aggregate projections are attached in Exhibit 4.

### **Administrative Fees**

The initial average request for administrative fee increases from the SEHBP vendors was 3.7% over the 4/1/2009 fees (Horizon increased NJ DIRECT fees 2.3% on 4/1/2009 in response to the additional work associated with the NJ DIRECT benefit changes). However, the State of New Jersey has requested that all vendors work with them to reduce plan costs. As a result, some of the SEHBP vendors reduced fees effective 7/1/2009 and all SEHBP vendors reduced their Plan Year 2010 administrative fee increases. The combined impact of these changes is a 2.9% increase over 4/1/2009 administrative fees (0.7% decrease on 7/1/2009 and a 3.6% increase on 1/1/2010.) The table below compares Plan Year 2010 ASO fees per subscriber per month with Plan Year 2009 fees:

	Plan Year 2009 Fees			Plan Year 2010	7/1/2009 Change	1/1/2010 Change
	1/1/2009	4/1/2009	7/1/2009			
<u>Medical Fee</u>						
NJ DIRECT	\$ 22.20	\$ 22.72	\$ 22.72	<b>\$ 23.52</b>	0.0%	3.5%
Aetna	\$ 45.94	\$ 45.94	\$ 43.64	<b>\$ 45.94</b>	-5.0%	5.3%
CIGNA	\$ 40.28	\$ 40.28	\$ 39.64	<b>\$ 40.41</b>	-1.6%	1.9%
<u>Rx Fee</u>						
NJ DIRECT	\$ 5.12	\$ 5.12	\$ 5.12	<b>\$ 5.30</b>	0.0%	3.5%
Aetna	\$ -	\$ -	\$ -	<b>\$ -</b>	NA	NA
CIGNA	\$ 2.83	\$ 2.83	\$ 2.80	<b>\$ 2.86</b>	-1.1%	2.1%
Ee Rx Plan	\$ 3.95	\$ 3.95	\$ 3.95	<b>\$ 3.95</b>	0.0%	0.0%

## **Renewal Rate Development**

### **Rating Methodology**

Exhibit 4 shows the aggregate projected costs for Plan Years 2008, 2009, and 2010, 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 NJ DIRECT, HMO, and Prescription Drug Card, and for Actives, Early Retirees, and Medicare Retirees. Active premiums were set to result in a 2% gain in order to start restoring the claim stabilization reserve. Retiree premiums were set to achieve a 2% loss, since their claim stabilization is greater than required. In addition, the Retiree premiums reflect a partial blending of Early and Medicare Retiree experience that reduced the Early Retiree required increase by 3% (from 15% to 12%) and increased the Medicare Retiree required increase by 1% (from 1% to 2%).

### **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 2008 and for the first quarter of Plan Year 2009, separately for each benefit plan.
2. Plan Year 2008 incurred claims were adjusted for the impact of large claims. Claim amounts in excess of \$50,000 (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 2009 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. Plan Year 2008 claim costs were increased \$3.4 million to adjust for the NJ DIRECT benefit changes approved in December 2008 which were retroactive to 4/1/2008 (as detailed in the Historical Overview section of this report).
5. Aggregate incurred claims for 4/1/2008 through 12/31/2008 were divided by the sum of covered members for 4/1/2008 through 12/31/2008 to get average claims per member per month. Covered members is based on historical billing enrollment data.
6. Claims per member per month were multiplied by 12 to produce annual claims per member.
7. Claims per member were projected from 4/1/2008 through 12/31/2008 and to Plan Year 2010 using the annual trend rates listed in the Trend Analysis section of this document.
8. Aetna Medicare Retiree Plan Year 2010 medical costs were increased 9.4% from the Plan Year 2009 costs which is the renewal increase for this program.
9. Aggregate claims for Plan Year 2010 are the product of projected enrollment and the projected claims per member.

10. The Education Surcharge credit for Plan Year 2010 was developed by assuming that trends for all New Jersey education groups would be the same as the SEHBP, and assuming that the number of employees subject to the surcharge would decrease by the same amount of enrollment increase in the SEHBP. The combined impact of trend and reduced members subject to the SEHBP resulted in a projected surcharge for Plan Year 2010 of \$31 million.
11. Prescription Drug manufacturers' rebates were projected using an assumed percentage of the projected prescription drug claims. The percentage was developed by averaging the Plan Year 2008 rebate percentage in the SEHBP experience with the rebate percentages projected by the SEHBP vendors.
12. The Medicare Part D prescription drug subsidy per Medicare member was projected from Plan Year 2008 to Plan Year 2010 using 8% annual trend. Aggregate Medicare Part D prescription drug subsidies are the product of the projected subsidy per Medicare member and the Plan Year 2010 projected Medicare enrollment.
13. Total SEHBP projected claim costs are the sum of projected medical and prescription drug claims reduced for Medicare Part D subsidies, prescription drug rebates, and Education surcharge credits.

### **Administrative Cost Projection**

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

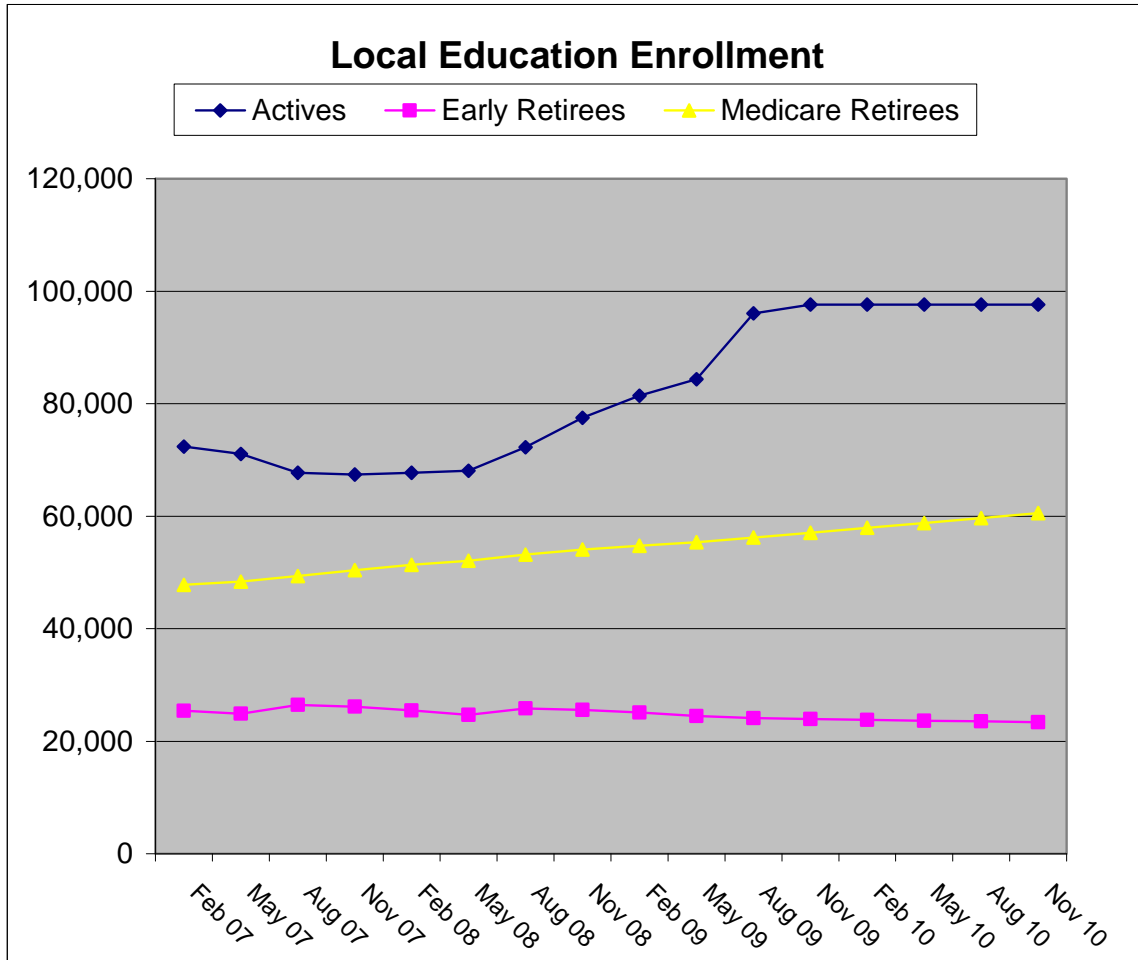
1. Administrative fees are the ASO fees per employee per year multiplied by the average enrollment for that year.

2. Overhead charges which are the State of New Jersey administrative costs charged against the plans.
3. Investment income is credited against administrative charges.

### **Projected Premiums**

1. Plan Year 2010 premiums were developed by applying the premium increase percentages listed in the Executive Summary section of this document.
2. Aggregate Plan Year premium is calculated by multiplying Plan Year enrollment and Plan Year premiums.

**SEHBP Plan Year 2010 Renewal Recommendation**  
**Exhibit 1A – Enrollment Projections**



**Actives**

Assumes all new July groups are in May enrollment report.  
 Assumes August new enrollment will be half of July new enrollment.  
 Assumes no new groups after August 2009.

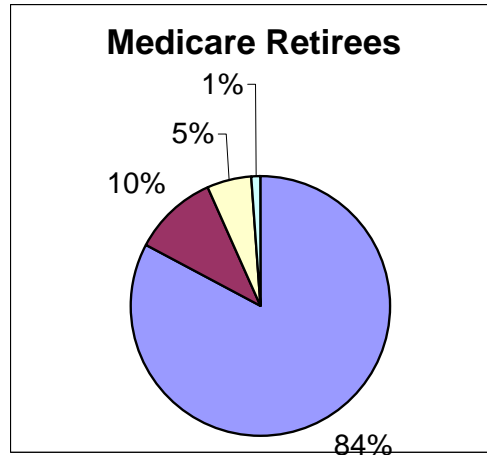
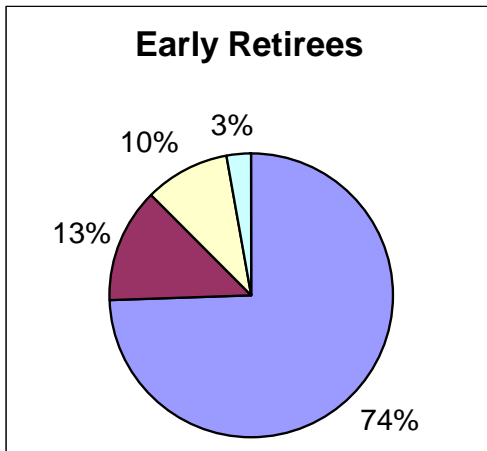
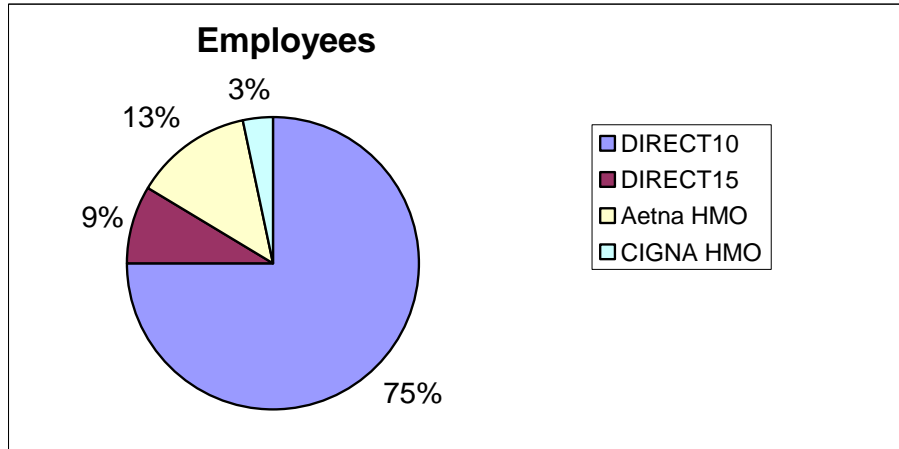
**Early Retirees**

Assumes enrollment will continue to decrease at about 3% per year.

**Medicare Retirees**

Assumes enrollment will continue to increase at about 6% per year.

**SEHBP Plan Year 2010 Renewal Recommendation**  
**Exhibit 1B – Plan Year 2009 Plan Distribution**



**SEHBP Plan Year 2010 Renewal Recommendation**  
**Exhibit 1C – May 2009 Enrollment**

	Number of Contracts				
	Single	Member&Spouse /Partner	Family	Parent + Child(ren)	Total
<b>EDUCATION ACTIVES</b>					
<b>Medical Plans</b>					
<i>NJ Direct 10 #050</i>	20,800	14,862	22,079	5,809	63,550
No Card	5,907	4,683	6,477	1,168	18,235
Private Card	9,086	6,010	9,405	2,866	27,367
State Card	5,807	4,170	6,198	1,775	17,949
<i>NJ Direct 15 #150</i>	2,683	1,191	2,345	969	7,188
No Card	742	359	695	184	1,979
Private Card	1,318	616	1,224	585	3,744
State Card	623	216	426	200	1,465
<b>Horizon Total</b>	<b>23,483</b>	<b>16,053</b>	<b>24,424</b>	<b>6,778</b>	<b>70,738</b>
Aetna #019	1,885	557	370	732	3,544
CIGNA #020	279	76	53	116	524
<b>HMO Total</b>	<b>2,165</b>	<b>633</b>	<b>423</b>	<b>848</b>	<b>4,068</b>
<b>Total</b>	<b>25,648</b>	<b>16,686</b>	<b>24,847</b>	<b>7,626</b>	<b>74,806</b>

	EDUCATION RETIREES				
	Single	Member&Spouse /Partner	Family	Parent + Child(ren)	Total
<b>Medical Plans</b>					
<i>NJ Direct 10 #050</i>	27,881	33,316	2,221	590	64,008
<i>NJ Direct 15 #150</i>	3,493	4,883	550	153	9,079
<b>Horizon Total</b>	<b>31,374</b>	<b>38,199</b>	<b>2,771</b>	<b>743</b>	<b>73,087</b>
Aetna #019	2,073	2,845	361	109	5,388
CIGNA #020	356	848	120	25	1,349
<b>HMO Total</b>	<b>2,429</b>	<b>3,693</b>	<b>481</b>	<b>134</b>	<b>6,737</b>
<b>Total</b>	<b>33,803</b>	<b>41,892</b>	<b>3,252</b>	<b>877</b>	<b>79,824</b>

## SEHBP Plan Year 2010 Renewal Recommendation

### Exhibit 2A – Medical Trend

	Increase in Claims/Ee	Benefit + RFP Changes	Claim Trend
<b>Horizon Active</b>			
4/1/2007-3/31/2008	6.8%	-1.8%	8.6%
4/1/2008-3/31/2009	0.3%	-7.7%	8.0%
Average			8.3%
Aon Trend Assumption			<b>8.0%</b>

<b>Horizon Early Retiree</b>			
4/1/2007-3/31/2008	6.0%	-0.6%	6.6%
4/1/2008-3/31/2009	-8.6%	-16.8%	8.2%
Average			7.4%
Aon Trend Assumption			<b>8.0%</b>

<b>Horizon Medicare Retiree</b>			
4/1/2007-3/31/2008	6.8%	-0.1%	6.9%
4/1/2008-3/31/2009	9.7%	2.5%	7.2%
Average			7.1%
Aon Trend Assumption			<b>7.0%</b>

<b>HMO</b>			
4/1/2007-3/31/2008	8.7%	-2.5%	11.2%
4/1/2008-3/31/2009	11.2%	0.0%	11.2%
Average			11.2%
Aon Trend Assumption			<b>11.5%</b>

Benefit Changes:

NJ PLUS and HMO copays increased on 1/1/2007.

NJ PLUS and Traditional plans replaced by NJ DIRECT 4/1/2008.

## SEHBP Plan Year 2010 Renewal Recommendation

### Exhibit 2B – Prescription Drug Trend

	Increase in Claims/Ee	Benefit Changes	Claim Trend
<b><u>Horizon Active</u></b>			
4/1/2007-3/31/2008	7.2%	-5.9%	13.1%
4/1/2008-3/31/2009	3.6%	-1.4%	5.0%
Average			9.1%
Aon Trend Assumption			<b>10.0%</b>

<b><u>Horizon Retiree</u></b>			
4/1/2007-3/31/2008	5.4%	-2.1%	7.5%
4/1/2008-3/31/2009	5.1%	-2.9%	8.0%
Average			7.8%
Aon Trend Assumption			<b>8.5%</b>

<b><u>HMO</u></b>			
4/1/2007-3/31/2008	9.4%	0.0%	9.4%
4/1/2008-3/31/2009	6.8%	0.2%	6.6%
Average			8.0%
Aon Trend Assumption			<b>9.0%</b>

**Benefit Changes:**

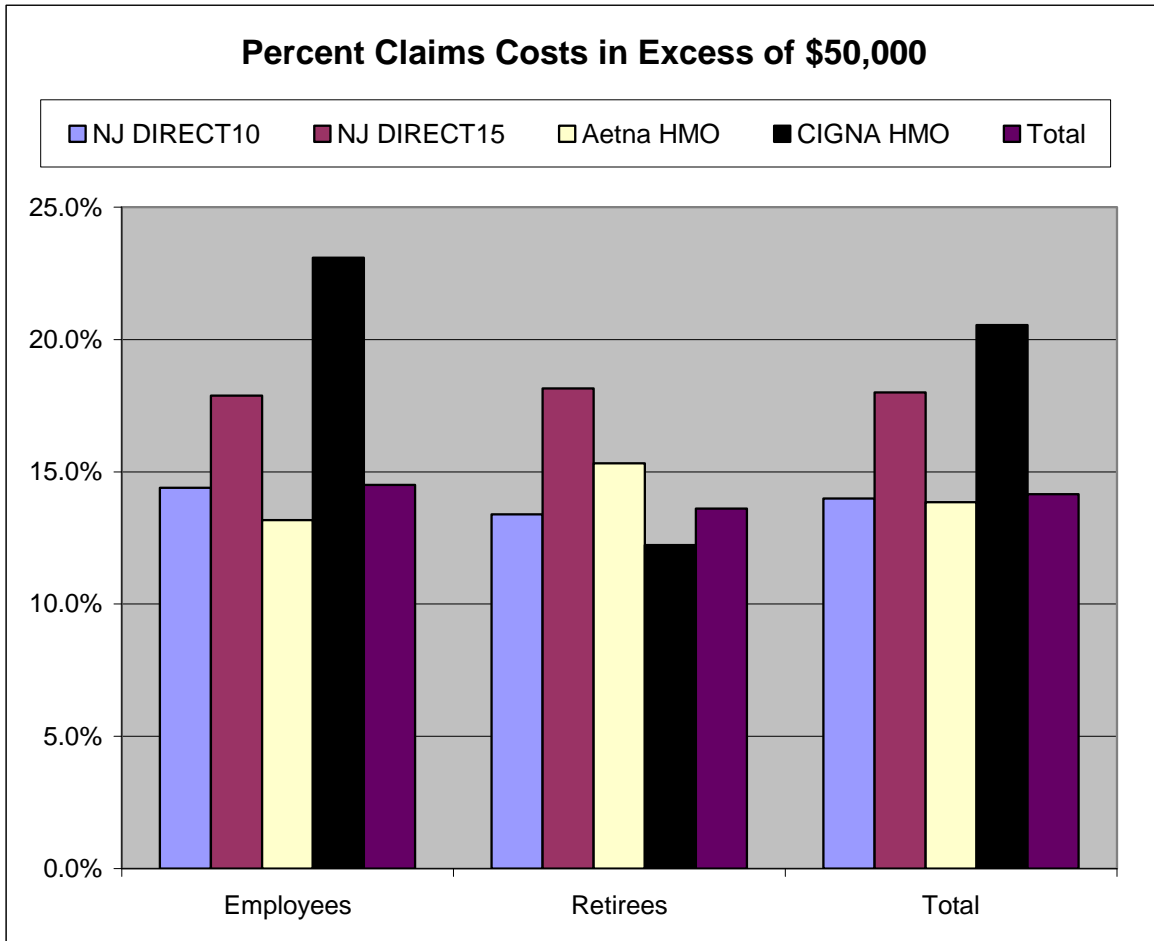
Horizon Retiree Rx Copays and OOP maximum increased on 1/1/2007.

Horizon Retiree OOP maximum increased on 1/1/2009.

Horizon Rx discount increased due to RFP on 4/1/2008.

HMO Rx out-of-pocket maximum for Retirees added on 1/1/2009.

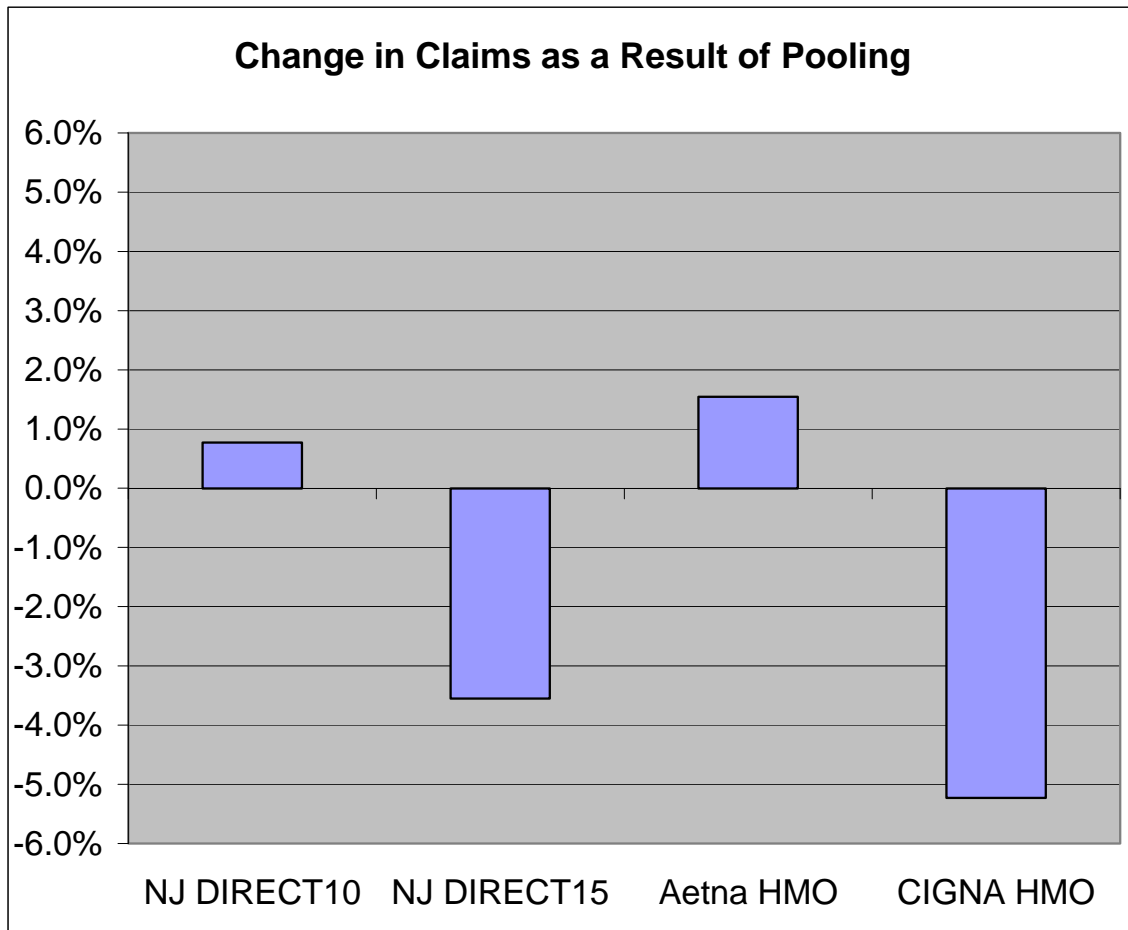
**SEHBP Plan Year 2010 Renewal Recommendation**  
**Exhibit 3A – Large Claim Analysis**



**Observations:**

CIGNA HMO has the highest percentage of shock claim costs at 21%.

Average shock claims over all benefit plans are about 14% for both employees and retirees.

**SEHBP Plan Year 2010 Renewal Recommendation  
Exhibit 3B – Large Claim Analysis****Observations:**

NJ DIRECT10 and Aetna have small increases in costs as a result of pooling (0.8% and 1.6%, respectively).

NJ DIRECT15 and CIGNA HMO have significant reductions in costs (3.6% and 5.1%, respectively).

## SEHBP Plan Year 2010 Renewal Recommendation

### Exhibit 4A – 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	144,533	44,041	76,888	14,507	3,139	2,526	1,584	1,848	13,881
Incurred Medical claims	\$ 234,100,000	\$ 72,000,000	\$ 122,100,000	\$ 24,700,000	\$ 5,700,000	\$ 4,200,000	\$ 2,400,000	\$ 3,000,000	
Capitation	\$ 10,400,000	\$ 6,700,000	\$ 400,000	\$ 2,100,000	\$ 500,000	\$ 100,000	\$ 200,000	\$ 400,000	
Incurred Prescription Drug Claims	\$ 87,300,000	\$ 13,800,000	\$ 54,700,000	\$ 5,800,000	\$ 1,400,000	\$ 600,000	\$ 800,000	\$ 700,000	\$ 9,500,000
Prescription Drug Rebates	\$ (5,500,000)	\$ (800,000)	\$ (3,300,000)	\$ (700,000)	\$ (100,000)	\$ -	\$ -	\$ -	\$ (600,000)
Medicare Part D Subsidies	\$ (5,900,000)	\$ (500,000)	\$ (4,600,000)	\$ (600,000)	\$ (100,000)	\$ -	\$ (100,000)	\$ -	
Education Surcharge	\$ (7,500,000)	\$ (2,800,000)	\$ (2,800,000)	\$ (1,100,000)	\$ (300,000)	\$ (200,000)	\$ (100,000)	\$ (200,000)	
Administrative Fees	\$ 11,400,000	\$ 2,000,000	\$ 6,500,000	\$ 1,800,000	\$ 400,000	\$ 300,000	\$ 200,000	\$ 200,000	\$ -
Total Cost	\$ 324,300,000	\$ 90,400,000	\$ 173,000,000	\$ 32,000,000	\$ 7,500,000	\$ 5,000,000	\$ 3,400,000	\$ 4,100,000	\$ 8,900,000
Total Premium	\$ 342,200,000	\$ 91,200,000	\$ 189,500,000	\$ 30,000,000	\$ 8,200,000	\$ 5,600,000	\$ 4,000,000	\$ 4,600,000	\$ 9,100,000
Gain (Loss)	\$ 17,900,000	\$ 800,000	\$ 16,500,000	\$ (2,000,000)	\$ 700,000	\$ 600,000	\$ 600,000	\$ 500,000	\$ 200,000
<b>Employees</b>									
Average Medical Subscribers	67,738	31,736	19,580	9,458	2,040	2,298	975	1,651	13,881
Incurred Medical claims	\$ 137,500,000	\$ 55,400,000	\$ 52,800,000	\$ 17,000,000	\$ 4,000,000	\$ 3,800,000	\$ 1,700,000	\$ 2,800,000	
Capitation	\$ 8,100,000	\$ 5,000,000	\$ 200,000	\$ 1,800,000	\$ 400,000	\$ 100,000	\$ 200,000	\$ 400,000	
Incurred Prescription Drug Claims	\$ 17,600,000	\$ 3,200,000	\$ 2,600,000	\$ 900,000	\$ 400,000	\$ 400,000	\$ 200,000	\$ 400,000	\$ 9,500,000
Prescription Drug Rebates	\$ (1,100,000)	\$ (200,000)	\$ (200,000)	\$ (100,000)	\$ -	\$ -	\$ -	\$ -	\$ (600,000)
Medicare Part D Subsidies	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Education Surcharge	\$ (7,000,000)	\$ (2,800,000)	\$ (2,800,000)	\$ (800,000)	\$ (200,000)	\$ (200,000)	\$ (100,000)	\$ (100,000)	
Administrative Fees	\$ 4,500,000	\$ 1,300,000	\$ 1,200,000	\$ 1,200,000	\$ 200,000	\$ 300,000	\$ 100,000	\$ 200,000	
Total Cost	\$ 159,600,000	\$ 61,900,000	\$ 53,800,000	\$ 20,000,000	\$ 4,800,000	\$ 4,400,000	\$ 2,100,000	\$ 3,700,000	\$ 8,900,000
Total Premium	\$ 164,300,000	\$ 60,700,000	\$ 58,300,000	\$ 19,100,000	\$ 5,300,000	\$ 5,200,000	\$ 2,400,000	\$ 4,200,000	\$ 9,100,000
Gain (Loss)	\$ 4,700,000	\$ (1,200,000)	\$ 4,500,000	\$ (900,000)	\$ 500,000	\$ 800,000	\$ 300,000	\$ 500,000	\$ 200,000
<b>Retirees</b>									
Average Medical Subscribers	76,795	12,305	57,308	5,049	1,099	228	609	197	
Incurred Medical claims	\$ 96,600,000	\$ 16,600,000	\$ 69,300,000	\$ 7,700,000	\$ 1,700,000	\$ 400,000	\$ 700,000	\$ 200,000	
Capitation	\$ 2,300,000	\$ 1,700,000	\$ 200,000	\$ 300,000	\$ 100,000	\$ -	\$ -	\$ -	
Incurred Prescription Drug Claims	\$ 69,700,000	\$ 10,600,000	\$ 52,100,000	\$ 4,900,000	\$ 1,000,000	\$ 200,000	\$ 600,000	\$ 300,000	
Prescription Drug Rebates	\$ (4,400,000)	\$ (600,000)	\$ (3,100,000)	\$ (600,000)	\$ (100,000)	\$ -	\$ -	\$ -	
Medicare Part D Subsidies	\$ (5,900,000)	\$ (500,000)	\$ (4,600,000)	\$ (600,000)	\$ (100,000)	\$ -	\$ (100,000)	\$ -	
Education Surcharge	\$ (500,000)	\$ -	\$ -	\$ (300,000)	\$ (100,000)	\$ -	\$ -	\$ (100,000)	
Administrative Fees	\$ 6,900,000	\$ 700,000	\$ 5,300,000	\$ 600,000	\$ 200,000	\$ -	\$ 100,000	\$ -	
Total Cost	\$ 164,700,000	\$ 28,500,000	\$ 119,200,000	\$ 12,000,000	\$ 2,700,000	\$ 600,000	\$ 1,300,000	\$ 400,000	
Total Premium	\$ 177,900,000	\$ 30,500,000	\$ 131,200,000	\$ 10,900,000	\$ 2,900,000	\$ 400,000	\$ 1,600,000	\$ 400,000	
Gain (Loss)	\$ 13,200,000	\$ 2,000,000	\$ 12,000,000	\$ (1,100,000)	\$ 200,000	\$ (200,000)	\$ 300,000	\$ -	

## SEHBP Plan Year 2010 Renewal Recommendation

## Exhibit 4B – 4/1/2008 through 12/31/2008 Aggregate Costs

	Total	NJ DIRECT10	NJ DIRECT15	Aetna	CIGNA	Ee Rx Card
<b>Employees and Retirees</b>						
Average Medical Subscribers	151,090	113,449	17,908	15,688	4,045	17,759
Incurring Medical claims	\$ 701,100,000	\$ 531,100,000	\$ 74,100,000	\$ 74,200,000	\$ 21,700,000	
Capitation	\$ 39,600,000	\$ 26,100,000	\$ 4,000,000	\$ 7,400,000	\$ 2,100,000	
Incurring Prescription Drug Claims	\$ 295,100,000	\$ 208,100,000	\$ 27,300,000	\$ 19,800,000	\$ 5,600,000	\$ 34,300,000
Prescription Drug Rebates	\$ (29,400,000)	\$ (20,600,000)	\$ (2,700,000)	\$ (2,300,000)	\$ (400,000)	\$ (3,400,000)
Medicare Part D Subsidies	\$ (30,500,000)	\$ (24,700,000)	\$ (3,600,000)	\$ (1,900,000)	\$ (300,000)	
Education Surcharge	\$ (22,400,000)	\$ (10,700,000)	\$ (1,500,000)	\$ (8,100,000)	\$ (2,100,000)	
Administrative Fees	\$ 25,900,000	\$ 16,400,000	\$ 2,600,000	\$ 5,200,000	\$ 1,100,000	\$ 600,000
Total Cost	\$ 979,400,000	\$ 725,700,000	\$ 100,200,000	\$ 94,300,000	\$ 27,700,000	\$ 31,500,000
Total Premium	\$ 967,400,000	\$ 711,400,000	\$ 107,500,000	\$ 88,200,000	\$ 25,300,000	\$ 35,000,000
Gain (Loss)	\$ (12,000,000)	\$ (14,300,000)	\$ 7,300,000	\$ (6,100,000)	\$ (2,400,000)	\$ 3,500,000
<b>Employees</b>						
Average Medical Subscribers	72,617	50,599	8,932	10,303	2,783	17,759
Incurring Medical claims	\$ 428,600,000	\$ 318,200,000	\$ 42,700,000	\$ 51,300,000	\$ 16,400,000	
Capitation	\$ 30,500,000	\$ 19,500,000	\$ 3,000,000	\$ 6,300,000	\$ 1,700,000	
Incurring Prescription Drug Claims	\$ 62,900,000	\$ 21,000,000	\$ 1,900,000	\$ 3,700,000	\$ 2,000,000	\$ 34,300,000
Prescription Drug Rebates	\$ (6,200,000)	\$ (2,100,000)	\$ (200,000)	\$ (400,000)	\$ (100,000)	\$ (3,400,000)
Medicare Part D Subsidies	\$ -	\$ -	\$ -	\$ -	\$ -	
Education Surcharge	\$ (14,500,000)	\$ (10,700,000)	\$ (1,500,000)	\$ (1,700,000)	\$ (600,000)	
Administrative Fees	\$ 11,900,000	\$ 6,500,000	\$ 1,200,000	\$ 3,400,000	\$ 800,000	
Total Cost	\$ 513,200,000	\$ 352,400,000	\$ 47,100,000	\$ 62,600,000	\$ 20,200,000	\$ 30,900,000
Total Premium	\$ 470,600,000	\$ 311,200,000	\$ 48,000,000	\$ 58,800,000	\$ 17,600,000	\$ 35,000,000
Gain (Loss)	\$ (42,600,000)	\$ (41,200,000)	\$ 900,000	\$ (3,800,000)	\$ (2,600,000)	\$ 4,100,000
<b>Retirees</b>						
Average Medical Subscribers	78,473	62,850	8,976	5,385	1,262	
Incurring Medical claims	\$ 272,500,000	\$ 212,900,000	\$ 31,400,000	\$ 22,900,000	\$ 5,300,000	
Capitation	\$ 9,100,000	\$ 6,600,000	\$ 1,000,000	\$ 1,100,000	\$ 400,000	
Incurring Prescription Drug Claims	\$ 232,200,000	\$ 187,100,000	\$ 25,400,000	\$ 16,100,000	\$ 3,600,000	
Prescription Drug Rebates	\$ (23,200,000)	\$ (18,500,000)	\$ (2,500,000)	\$ (1,900,000)	\$ (300,000)	
Medicare Part D Subsidies	\$ (30,500,000)	\$ (24,700,000)	\$ (3,600,000)	\$ (1,900,000)	\$ (300,000)	
Education Surcharge	\$ (7,900,000)	\$ -	\$ -	\$ (6,400,000)	\$ (1,500,000)	
Administrative Fees	\$ 13,400,000	\$ 9,900,000	\$ 1,400,000	\$ 1,800,000	\$ 300,000	
Total Cost	\$ 465,600,000	\$ 373,300,000	\$ 53,100,000	\$ 31,700,000	\$ 7,500,000	
Total Premium	\$ 496,800,000	\$ 400,200,000	\$ 59,500,000	\$ 29,400,000	\$ 7,700,000	
Gain (Loss)	\$ 31,200,000	\$ 26,900,000	\$ 6,400,000	\$ (2,300,000)	\$ 200,000	

**SEHBP Plan Year 2010 Renewal Recommendation****Exhibit 4C– Plan Year 2009 Aggregate Costs**

	<b>Total</b>	<b>NJ DIRECT10</b>	<b>NJ DIRECT15</b>	<b>Aetna</b>	<b>CIGNA</b>	<b>Ee Rx Card</b>
<b>Employees and Retirees</b>						
Average Medical Subscribers	170,083	131,746	16,801	17,075	4,461	22,912
Incurred Medical claims+Capitation	\$ 1,219,000,000	\$ 949,300,000	\$ 101,000,000	\$ 130,600,000	\$ 38,100,000	
Incurred Prescription Drug Claims	\$ 456,500,000	\$ 314,400,000	\$ 39,600,000	\$ 29,500,000	\$ 9,000,000	\$ 64,000,000
Prescription Drug Rebates	\$ (37,100,000)	\$ (25,200,000)	\$ (3,200,000)	\$ (3,100,000)	\$ (500,000)	\$ (5,100,000)
Medicare Part D Subsidies	\$ (42,300,000)	\$ (35,100,000)	\$ (4,200,000)	\$ (2,400,000)	\$ (600,000)	
Education Surcharge	\$ (28,000,000)	\$ (15,400,000)	\$ (1,400,000)	\$ (8,800,000)	\$ (2,400,000)	
Administrative Fees	\$ 50,700,000	\$ 35,900,000	\$ 4,800,000	\$ 6,900,000	\$ 2,000,000	\$ 1,100,000
Total Cost	\$ 1,618,800,000	\$ 1,223,900,000	\$ 136,600,000	\$ 152,700,000	\$ 45,600,000	\$ 60,000,000
Total Premium	\$ 1,505,400,000	\$ 1,125,100,000	\$ 138,600,000	\$ 139,800,000	\$ 40,500,000	\$ 61,400,000
Gain (Loss)	\$ (113,400,000)	\$ (98,800,000)	\$ 2,000,000	\$ (12,900,000)	\$ (5,100,000)	\$ 1,400,000
<b>Employees</b>						
Average Medical Subscribers	89,852	67,330	7,749	11,663	3,110	22,912
Incurred Medical claims+Capitation	\$ 819,600,000	\$ 637,900,000	\$ 56,500,000	\$ 95,500,000	\$ 29,700,000	
Incurred Prescription Drug Claims	\$ 114,600,000	\$ 38,600,000	\$ 2,600,000	\$ 6,200,000	\$ 3,200,000	\$ 64,000,000
Prescription Drug Rebates	\$ (9,300,000)	\$ (3,100,000)	\$ (200,000)	\$ (700,000)	\$ (200,000)	\$ (5,100,000)
Medicare Part D Subsidies	\$ -	\$ -	\$ -	\$ -	\$ -	
Education Surcharge	\$ (19,800,000)	\$ (15,400,000)	\$ (1,400,000)	\$ (2,300,000)	\$ (700,000)	
Administrative Fees	\$ 25,800,000	\$ 15,700,000	\$ 1,900,000	\$ 5,700,000	\$ 1,400,000	\$ 1,100,000
Total Cost	\$ 930,900,000	\$ 673,700,000	\$ 59,400,000	\$ 104,400,000	\$ 33,400,000	\$ 60,000,000
Total Premium	\$ 831,900,000	\$ 585,000,000	\$ 60,200,000	\$ 96,800,000	\$ 28,500,000	\$ 61,400,000
Gain (Loss)	\$ (99,000,000)	\$ (88,700,000)	\$ 800,000	\$ (7,600,000)	\$ (4,900,000)	\$ 1,400,000
<b>Retirees</b>						
Average Medical Subscribers	80,231	64,416	9,052	5,412	1,351	
Incurred Medical claims+Capitation	\$ 399,400,000	\$ 311,400,000	\$ 44,500,000	\$ 35,100,000	\$ 8,400,000	
Incurred Prescription Drug Claims	\$ 341,900,000	\$ 275,800,000	\$ 37,000,000	\$ 23,300,000	\$ 5,800,000	
Prescription Drug Rebates	\$ (27,800,000)	\$ (22,100,000)	\$ (3,000,000)	\$ (2,400,000)	\$ (300,000)	
Medicare Part D Subsidies	\$ (42,300,000)	\$ (35,100,000)	\$ (4,200,000)	\$ (2,400,000)	\$ (600,000)	
Education Surcharge	\$ (8,200,000)	\$ -	\$ -	\$ (6,500,000)	\$ (1,700,000)	
Administrative Fees	\$ 24,900,000	\$ 20,200,000	\$ 2,900,000	\$ 1,200,000	\$ 600,000	
Total Cost	\$ 687,900,000	\$ 550,200,000	\$ 77,200,000	\$ 48,300,000	\$ 12,200,000	
Total Premium	\$ 673,500,000	\$ 540,100,000	\$ 78,400,000	\$ 43,000,000	\$ 12,000,000	
Gain (Loss)	\$ (14,400,000)	\$ (10,100,000)	\$ 1,200,000	\$ (5,300,000)	\$ (200,000)	

## SEHBP Plan Year 2010 Renewal Recommendation

### Exhibit 4D – Plan Year 2010 Aggregate Costs

	Total	NJ DIRECT10	NJ DIRECT15	Aetna	CIGNA	Ee Rx Card
<b>Employees and Retirees</b>						
Average Medical Subscribers	180,423	139,895	17,677	18,127	4,724	24,914
Incurred Medical claims+Capitation	\$ 1,396,900,000	\$ 1,084,500,000	\$ 113,900,000	\$ 153,900,000	\$ 44,600,000	
Incurred Prescription Drug Claims	\$ 503,000,000	\$ 342,800,000	\$ 43,200,000	\$ 32,100,000	\$ 10,000,000	\$ 74,900,000
Prescription Drug Rebates	\$ (40,900,000)	\$ (27,400,000)	\$ (3,500,000)	\$ (3,400,000)	\$ (600,000)	\$ (6,000,000)
Medicare Part D Subsidies	\$ (48,700,000)	\$ (40,300,000)	\$ (4,900,000)	\$ (2,800,000)	\$ (700,000)	
Education Surcharge	\$ (30,700,000)	\$ (17,300,000)	\$ (1,500,000)	\$ (9,400,000)	\$ (2,500,000)	
Administrative Fees	\$ 56,300,000	\$ 40,100,000	\$ 5,300,000	\$ 7,500,000	\$ 2,200,000	\$ 1,200,000
Total Cost	\$ 1,835,900,000	\$ 1,382,400,000	\$ 152,500,000	\$ 177,900,000	\$ 53,000,000	\$ 70,100,000
Total Premium	\$ 1,839,000,000	\$ 1,371,500,000	\$ 166,100,000	\$ 178,400,000	\$ 51,600,000	\$ 71,400,000
Gain (Loss)	\$ 3,100,000	\$ (10,900,000)	\$ 13,600,000	\$ 500,000	\$ (1,400,000)	\$ 1,300,000
<b>Employees</b>						
Average Medical Subscribers	97,610	73,385	8,287	12,603	3,334	24,914
Incurred Medical claims+Capitation	\$ 964,100,000	\$ 748,600,000	\$ 65,200,000	\$ 115,000,000	\$ 35,300,000	
Incurred Prescription Drug Claims	\$ 134,000,000	\$ 45,300,000	\$ 3,000,000	\$ 7,100,000	\$ 3,700,000	\$ 74,900,000
Prescription Drug Rebates	\$ (10,800,000)	\$ (3,600,000)	\$ (200,000)	\$ (800,000)	\$ (200,000)	\$ (6,000,000)
Medicare Part D Subsidies	\$ -	\$ -	\$ -	\$ -	\$ -	
Education Surcharge	\$ (22,300,000)	\$ (17,300,000)	\$ (1,500,000)	\$ (2,700,000)	\$ (800,000)	
Administrative Fees	\$ 29,500,000	\$ 18,200,000	\$ 2,200,000	\$ 6,400,000	\$ 1,500,000	\$ 1,200,000
Total Cost	\$ 1,094,500,000	\$ 791,200,000	\$ 68,700,000	\$ 125,000,000	\$ 39,500,000	\$ 70,100,000
Total Premium	\$ 1,112,300,000	\$ 793,300,000	\$ 80,500,000	\$ 129,300,000	\$ 37,800,000	\$ 71,400,000
Gain (Loss)	\$ 17,800,000	\$ 2,100,000	\$ 11,800,000	\$ 4,300,000	\$ (1,700,000)	\$ 1,300,000
<b>Retirees</b>						
Average Medical Subscribers	82,814	66,510	9,390	5,524	1,390	
Incurred Medical claims+Capitation	\$ 432,800,000	\$ 335,900,000	\$ 48,700,000	\$ 38,900,000	\$ 9,300,000	
Incurred Prescription Drug Claims	\$ 369,000,000	\$ 297,500,000	\$ 40,200,000	\$ 25,000,000	\$ 6,300,000	
Prescription Drug Rebates	\$ (30,100,000)	\$ (23,800,000)	\$ (3,300,000)	\$ (2,600,000)	\$ (400,000)	
Medicare Part D Subsidies	\$ (48,700,000)	\$ (40,300,000)	\$ (4,900,000)	\$ (2,800,000)	\$ (700,000)	
Education Surcharge	\$ (8,400,000)	\$ -	\$ -	\$ (6,700,000)	\$ (1,700,000)	
Administrative Fees	\$ 26,800,000	\$ 21,900,000	\$ 3,100,000	\$ 1,100,000	\$ 700,000	
Total Cost	\$ 741,400,000	\$ 591,200,000	\$ 83,800,000	\$ 52,900,000	\$ 13,500,000	
Total Premium	\$ 726,700,000	\$ 578,200,000	\$ 85,600,000	\$ 49,100,000	\$ 13,800,000	
Gain (Loss)	\$ (14,700,000)	\$ (13,000,000)	\$ 1,800,000	\$ (3,800,000)	\$ 300,000	

**SEHBP Plan Year 2010 Renewal Recommendation**  
**Exhibit 5A – Plan Year 2010 Monthly Active Premiums**

	<b>NJ DIRECT10</b>	<b>NJ DIRECT15</b>	<b>Aetna</b>	<b>CIGNA</b>
<b><u>Medical Coverage Only</u></b>				
Single	\$460.67	\$438.55	\$435.16	\$439.51
Member+Spouse	\$1,036.49	\$986.71	\$979.12	\$988.91
Family	\$1,151.67	\$1,096.35	\$1,087.92	\$1,098.78
Parent+Child(ren)	\$644.91	\$613.95	\$609.23	\$615.32
Adult Child Rate	\$187.95	\$178.93	\$177.55	\$179.32

	<b>NJ DIRECT10</b>	<b>NJ DIRECT15</b>	<b>Aetna</b>	<b>CIGNA</b>
<b><u>Medical and Rx</u></b>				
Single	\$552.80	\$526.25	\$552.66	\$558.18
Member+Spouse	\$1,243.78	\$1,184.05	\$1,243.49	\$1,255.93
Family	\$1,381.99	\$1,315.61	\$1,381.66	\$1,395.47
Parent+Child(ren)	\$773.91	\$736.74	\$773.72	\$781.46
Adult Child Rate	\$225.54	\$214.71	\$225.49	\$227.74

	<b>Rx Card</b>
<b><u>Rx Card</u></b>	
Single	\$130.00
Member+Spouse	\$292.50
Family	\$325.00
Parent+Child(ren)	\$182.00
Adult Child Rate	\$53.04

**SEHBP Plan Year 2010 Renewal Recommendation**  
**Exhibit 5B – Plan Year 2010 Monthly Retiree Premiums**

	NJ DIRECT10	NJ DIRECT15	Aetna	CIGNA
<b><u>Total Premium</u></b>				
Single - 0 Medicare	\$664.24	\$632.70	\$545.41	\$550.86
Single - 1 Medicare	\$362.64	\$345.42	\$357.87	\$361.45
Mem+Spouse - 0 Medicare	\$1,448.03	\$1,379.29	\$1,188.99	\$1,200.89
Mem+Spouse - 1 Medicare	\$1,026.88	\$978.12	\$903.28	\$912.31
Mem+Spouse - 2 Medicare	\$725.27	\$690.84	\$715.72	\$722.89
Family - 0 Medicare	\$1,647.30	\$1,569.10	\$1,352.61	\$1,366.14
Family - 1 Medicare	\$1,226.14	\$1,167.93	\$1,066.90	\$1,077.57
Family - 2 Medicare	\$924.54	\$880.65	\$879.35	\$888.14
Parent+Ch - 0 Medicare	\$929.93	\$885.78	\$763.58	\$771.22
Parent+Ch - 1 Medicare	\$574.18	\$546.92	\$524.86	\$530.13
<b><u>Medical Premium</u></b>				
Single - 0 Medicare	\$531.39	\$499.85	\$425.42	\$429.67
Single - 1 Medicare	\$157.39	\$140.17	\$159.25	\$160.85
Mem+Spouse - 0 Medicare	\$1,158.42	\$1,089.68	\$927.41	\$936.69
Mem+Spouse - 1 Medicare	\$688.78	\$640.02	\$584.67	\$590.52
Mem+Spouse - 2 Medicare	\$314.77	\$280.34	\$318.50	\$321.69
Family - 0 Medicare	\$1,317.84	\$1,239.64	\$1,055.04	\$1,065.59
Family - 1 Medicare	\$848.19	\$789.98	\$712.30	\$719.43
Family - 2 Medicare	\$401.25	\$357.36	\$391.31	\$395.22
Parent+Ch - 0 Medicare	\$743.94	\$699.79	\$595.59	\$601.55
Parent+Ch - 1 Medicare	\$249.19	\$221.93	\$233.56	\$235.91
<b><u>Rx Premium</u></b>				
Single - 0 Medicare	\$132.85	\$132.85	\$119.99	\$121.19
Single - 1 Medicare	\$205.25	\$205.25	\$198.62	\$200.60
Mem+Spouse - 0 Medicare	\$289.61	\$289.61	\$261.58	\$264.20
Mem+Spouse - 1 Medicare	\$338.10	\$338.10	\$318.61	\$321.79
Mem+Spouse - 2 Medicare	\$410.50	\$410.50	\$397.22	\$401.20
Family - 0 Medicare	\$329.46	\$329.46	\$297.57	\$300.55
Family - 1 Medicare	\$377.95	\$377.95	\$354.60	\$358.14
Family - 2 Medicare	\$523.29	\$523.29	\$488.04	\$492.92
Parent+Ch - 0 Medicare	\$185.99	\$185.99	\$167.99	\$169.67
Parent+Ch - 1 Medicare	\$324.99	\$324.99	\$291.30	\$294.22

## SEHBP Plan Year 2010 Renewal Recommendation

### Exhibit 6 – Projection Assumptions

#### **Benefit Design Changes**

Medical Plans: The following benefit plans will be offered: NJ DIRECT10, NJ DIRECT15, and a \$10 HMO copay plan.

Employee Prescription Drug Plan: Active employees will continue with the Employee Prescription Drug Plan. Employers may select this plan, sign up for prescription drug coverage under the medical plan, or purchase prescription drug coverage from an outside vendor.

Retiree Prescription Drug Plans: Retiree copays and out-of-pocket maximums will change as follows:

	NJ Direct Copays		HMO Copays	
	2009	2010	2009	2010
Retail Generic Copay	\$8	\$8	\$5	\$5
Retail Preferred Brand Copay	\$17	\$18	\$10	\$11
Retail Non-Preferred Brand Copay	\$34	\$37	\$20	\$22
Mail Generic Copay	\$8	\$9	\$5	\$6
Mail Preferred Brand Copay	\$25	\$27	\$15	\$16
Mail Non-Preferred Brand Copay	\$42	\$45	\$25	\$27
Out-of-Pocket Maximum	\$1,130	\$1,191	\$1,130	\$1,191

#### **Prescription Drug Request For Proposal**

Prescription drug claims will be administered by a single prescription drug vendor. Responses from a Request For Proposal (RFP) are currently being reviewed to determine the Plan Year 2010 prescription drug vendor. It is assumed that the new contract will reduce prescription drug costs by 2%.

### **Incurred Basis**

Plan Year 2010 aggregate projected costs reflect incurred costs for claims and expenses.

### **Margin**

The Active Education claim stabilization reserve is projected to be equivalent to 1.2 months of projected plan costs at the end of Plan Year 2009. Since the recommended level is 2.0 months, the Active Education Plan Year 2010 premiums include a 2% margin to start rebuilding the claim stabilization reserve.

The Retiree claim stabilization reserve is projected to be equivalent to 3.4 months of projected plan costs at the end of Plan Year 2010. Since this greater than required, the Retiree Plan Year 2010 premiums are 2% lower than projected costs.

### **Administrative Expenses**

Plan Year 2010 premiums will include projected costs for the following administrative expenses:

- ASO fees for each vendor,
- Overhead charges which are the State of New Jersey administrative costs charged against the plans. For Plan Year 2010 overhead charges assume no increase over Plan Year 2009. The aggregate projected SEHBP charge is \$4.0 million, and
- Investment income which is credited against administrative charges. Plan Year 2010 investment income of \$10.3 million assumes that Plan Year 2010 investment income will not change from Plan Year 2009 annualized investment income.

### **Claim Costs**

Plan Year 2010 claim costs will include projected charges/credits for the following claim expenses:

- Medical and prescription drug claims,
- Capitation charges,
- \$31 million for Education Surcharges,
- \$41 million for Prescription drug rebates, and
- \$49 million for Medicare Part D prescription drug subsidies.

### **Enrollment Projections**

Exhibit 1 reflects historical enrollment patterns among the benefit offerings from January 2007 through July 2009 and includes Aon's projection of enrollment from August 2009 through December 2010.

Aon's enrollment projections assume that Active enrollment will increase in August 2009 at half the rate of the July 2009 increase and then remain level from September 2009 through December 2010. Retiree enrollment assumes that the growth patterns in prior years will continue into Plan Year 2010 with a 3% increase in total retirees, the result of a 6% increase for Medicare Retirees and a 3% decrease for Early Retirees.

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 Plan Year 2009 enrollment selections.

### **Health Status Change**

Local Education Active Plans: Plan Year 2009 average enrollment is projected to be 26% greater than Plan Year 2008 average enrollment. Preliminary analysis by Horizon of new group experience shows historical claim levels for new groups

which are consistent with existing groups. First quarter Plan Year 2009 claim costs for Local Education Employers shows increases which are at or below the increases for Local Government Employers and the State group. For these reasons, we are not including any adjustments for changes in health status due to the large increase in enrollment.

Local Education Retiree Plans: We are assuming no change to average health status, since total enrollment is growing at a consistent rate with prior years.

### ***Large Claims***

Plan Year 2008 large claim experience is detailed in Exhibit 3. Claims over \$50,000 were pooled over the entire Local Education Employer group. The impact of this adjustment was an increase of 1% for NJ DIRECT10 and 2% for Aetna HMO, offset by a 4% decrease for NJ DIRECT15 and a 5% decrease for CIGNA HMO.

### ***Trend Rates***

Exhibit 2 presents SEHBP trend experience and Aon's trend assumptions for Plan Year 2010. Since there was a significant benefit change on 4/1/2008, we calculated trends on 12 month periods beginning 4/1.

Aon's Semi-Annual Health Care Trend Survey shows almost no change in medical trend expectations over the past few years, but the Spring 2009 Trend Survey shows that prescription drug trend expectation has increased 1% from 6 months ago. The Aon trend assumptions reflect these patterns. Medical trends are based on normalized SHBP/SEHBP trend experience. Prescription Drug trends are based on normalized SHBP/SEHBP trend experience increased 1%.

Exhibit 2A presents medical experience and trend assumptions. It includes the following columns:

Increase in Claims/Ee – This is the actual increase in claims per subscriber from the prior period.

Benefit + RFP Changes – This shows the impact of benefit changes which occurred in Plan Years 2007 and 2008. It also adjusts for savings that resulted from the 2007 RFP negotiations for vendor changes effective 4/1/2008.

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. Claim trend is calculated by subtracting the value of benefit changes from the actual increase in claims per subscriber.

The claim trends that we are recommending for the Plan Year 2010 renewal are:

	Medical	Prescription Drugs
NJ DIRECT Employee	8.0%	10.0%
NJ DIRECT Early Retiree	8.0%	8.5%
NJ DIRECT Medicare Retiree	7.0%	8.5%
Aetna HMO	11.5%	9.0%
CIGNA HMO	11.5%	9.0%
Employee Prescription Drug Card	NA	10.0%

### **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, 2009.

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Enrollment: We receive quarterly census files from the Division of Pensions and Benefits 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 also receive billing counts from the Division of Pensions and Benefits which we use for the exposure units in our cost analysis. In addition, we use new business reports from Horizon to project enrollment from June 2009 through August 2009.