



ARIZONA STATE RETIREMENT SYSTEM

3300 NORTH CENTRAL AVENUE • PO BOX 33910 • PHOENIX, AZ 85067-3910 • PHONE (602) 240-2000
7660 EAST BROADWAY BOULEVARD • SUITE 108 • TUCSON, AZ 85710-3776 • PHONE (520) 239-3100
TOLL FREE OUTSIDE METRO PHOENIX AND TUCSON 1 (800) 621-3778
EMAIL ADDRESS: ASKMAC@AZASRS.GOV • WEB ADDRESS: WWW.AZASRS.GOV

*Paul Matson
Director*

AGENDA

NOTICE OF A PUBLIC MEETING OF THE ARIZONA STATE RETIREMENT SYSTEM OPERATIONS AND AUDIT COMMITTEE

14th Floor Conference Room
3300 North Central Avenue
Phoenix, AZ 85012

June 9, 2015
11:00 a.m. Arizona Time

Pursuant to A.R.S. § 38-431.02, notice is hereby given to the Trustees of the Arizona State Retirement System (ASRS) Operations and Audit Committee (OAC) and to the general public that the ASRS OAC will hold a meeting open to the public on Tuesday, June 9, 2015, beginning at 11:00 a.m. Arizona Time in the 14th Floor Conference Room of the ASRS office, 3300 North Central Avenue, Phoenix, AZ 85012. Trustees of the Committee may attend either in person or by telephone conference call.

This is a meeting of the OAC; however, due to possible attendance by other ASRS Board Trustees, this meeting may technically become a meeting of the Board or one of its committees. Actions taken will be consistent with OAC governance procedures. Actions requiring Board authority will be presented to the full Board for final decision.

The Chair may take public comment during any agenda item. If any member of the public wishes to speak to a particular agenda item, they should complete a request to speak form indicating the item and provide it to the Committee Administrator.

This meeting will be teleconferenced to the ASRS Tucson office conference room at 7660 E. Broadway Boulevard, Suite 108, Tucson, Arizona 85710.

The Agenda for the meeting is as follows:

1. Call to Order; Roll Call; Opening Remarks Mr. Jeff Tyne
Operations and Audit Committee Chair
2. Presentation, Discussion and Appropriate Action Regarding the ASRS Retiree Health Insurance Programs, the Health Benefit Supplement Program and the Retrospective Rate Adjustment Agreement Funds Mr. Paul Matson
Director
..... Mr. Anthony Guarino
Deputy Director and Chief Operations Officer
..... Mr. Patrick Klein
Assistant Director, External Affairs Division
..... Mr. Edward Rapoport
Benefits Administrator
3. Requests for Future Agenda Items Mr. Jeff Tyne
..... Mr. Anthony Guarino

4. Call to the Public Mr. Jeff Tyne

Those wishing to address the ASRS Committee are required to complete a Request to Speak form before the meeting indicating their desire to speak. Request to Speak forms are available at the sign-in desk and should be given to the Committee Administrator. Trustees of the Committee are prohibited by A.R.S. § 38-431.01(H) from discussing or taking legal action on matters raised during an open call to the public unless the matters are properly noticed for discussion and legal action. As a result of public comment, the Committee Chair may direct staff to study and/or reschedule the matter for discussion and decision at a later date.

5. Adjournment of the OAC

A copy of the agenda background material provided to the OAC Trustees (with the exception of material relating to possible executive sessions) is available for public inspection at the ASRS offices located at 3300 North Central Avenue, 14th Floor, Phoenix, Arizona and 7660 East Broadway Boulevard, Suite 108, Tucson, Arizona. The agenda is subject to revision up to 24 hours prior to meeting. These materials are also available on the ASRS website (<https://www.azasrs.gov/web/BoardCommittees.do>) approximately 48 hours prior to the meeting.

Persons(s) with disabilities may request a reasonable accommodation such as a sign language interpreter or alternate formats of this document by contacting Tracy Darmer, ADA Coordinator at (602) 240-5378 in Phoenix, at (520) 239-3100, ext. 5378 in Tucson or 1-800-621-3778, ext. 5378 outside metro Phoenix or Tucson. Requests should be made as early as possible to allow time to arrange the accommodations.

Dated June 2, 2015

ARIZONA STATE RETIREMENT SYSTEM

Melanie Alexander
Committee Administrator

Anthony Guarino
Deputy Director and Chief Operations Officer



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Paul Matson
Director

MEMORANDUM

TO: Mr. Jeff Tyne, Chair, ASRS Operations and Audit Committee (OAC)

FROM: Mr. Paul Matson, Director
Mr. Anthony Guarino, Deputy Director and Chief Operations Officer
Mr. Patrick M. Klein, Assistant Director, External Affairs Division (EAD)

DATE: June 2, 2015

RE: **Agenda Item #2:** Presentation, Discussion and Appropriate Action Regarding the ASRS Retiree Health Insurance Programs, the Health Benefit Supplement Program, and the Retrospective Rate Adjustment Agreement Funds

Purpose

Continue discussion of ASRS retiree health insurance programs, the health benefit supplement program, and the retrospective rate adjustment program, their histories, and current statuses, in order to:

1. **Determine the optimal Strategic Plan goals for the ASRS Health Insurance programs;**
2. **Determine the optimal application of whole case underwriting and cross-subsidization in setting premiums;**
3. **Determine the optimal utilization and allocation options of the Retrospective Rate Adjustment Agreement Fund;**
4. **Determine the future direction of Medicare and non-Medicare coverages.**

Recommendation

Information, discussion, and possible action.

Background

Four issues have been identified

1. **Reaffirm or not the ASRS Strategic Plan goals of “Accessible, Affordable, Reliable, and Efficiently Run”**

One stated objective of these goals is to annually review the affordability, competitiveness and accessibility of ASRS plans through comparative analysis with other plans. Accessibility is viewed in two ways: the choice members have in plan selection, when available, and the

availability of health care providers where members live. Affordability is determined by the level of premium and other plan costs (deductibles, copayments and coinsurance amounts) enrolled members must pay for the plan selected. Reliability means having health care plans that stand the test of time; meaning, having plans that offer consistent benefits and provider networks year after year. Efficiently run refers to how a health care plan is communicated and managed to ensure members know what their plan offers, know how to access care, and have an expectation that the plan's claims administration is consistent, accurate, and timely. .

2. Discuss Future Direction of Whole Case Underwriting and Cross-Subsidization Approach to Setting Premiums

Whole case underwriting refers to the method calculating premiums based upon the aggregation of individuals rather than separating individuals into multiple groups. At the ASRS, Medicare and non-Medicare plans are not fully subject to their own underwriting (costing), which would set premiums based upon their own plan membership, design, utilization, and cost trends. Rather, the revenues generated from the Senior Supplement plan (which includes member premiums and reimbursements from Medicare) are used to mitigate the non-Medicare Choice and Choice Plus plans' premiums. In other words, in the absence of whole case underwriting, non-Medicare premiums would be significantly higher than they currently are for these two plans.

3. Discuss the ASRS Retrospective Rate Adjustment Agreement Fund: Current Balance; Utilization Options; and, Allocation Options

From 2011 forward the ASRS negotiated an annual "medical loss ratio" agreement with UnitedHealthcare (UHC), our retiree medical and prescription drug plans' provider. This agreement provides a maximum level of retention by UHC of 7% of total plan revenues. From this retention, UHC pays all administrative, legal, and marketing expenses, staff salaries, and other company expenses. Remaining revenues from the 7% are deemed to be profit for UHC.

This agreement stipulates that 93% of plan revenues be used for plan expenses associated with medical, hospital, prescription medications, and ancillary medical expenses. If these plan expenses do not result in the agreed-to 93% medical loss ratio (plan expenses/total revenues), then the ASRS receives a reimbursement of unused revenue up to the 93% level. If plan expenses exceed the 93% loss ratio, UHC's 7% is decreased until all plan expenses are paid.

Since the 2011 plan year, the ASRS has received reimbursements totaling \$71,177,607. The 2014 reimbursement from UHC is estimated to be \$28,208,531 (to be received by September, 2015) for a total account value of approximately \$99,386,137. Favorable medical loss ratios in the Medicare Advantage HMO and Senior Supplement plans have significantly contributed to the reimbursements the ASRS has received.

[In addition, the ASRS received approximately \$19.9 M from its participation in the Affordable Care Act's Early Retiree Reinsurance Program (ERRP). These funds were the direct result of claims costs that exceeded certain limits incurred by our enrolled non-Medicare retirees for which the ASRS received reimbursement. The proceeds from this program have been used only to mitigate non-Medicare plan premiums since 2013. These funds will be exhausted by the end of calendar year 2015.]

At the October, 2014 OAC meeting, we discussed some utilization options regarding the funds generated by the Retrospective Agreement: add benefits; reduce premiums; implement premium holidays; introduce wellness initiatives; embark on self-funding; and, upgrade systems dealing with internal-agency administration and services..

4. Discuss the future of non-Medicare and Medicare coverages

It may be that the marketplace, whether it is a public marketplace or emergent private marketplaces, is becoming an acceptable alternative to an employer's standalone health care program in which one or two plans are offered to non-Medicare employees and/or retirees.

Additionally, with the implementation of certain provisions of the Affordable Care Act, an employer's health care plan covering non-Medicare members must now provide enumerated essential health benefits as well as a premium structure that may not exceed certain limits, otherwise penalties are imposed. These constraints may impact program design and how the plan is funded (i.e., premiums plus deductibles, copayments and coinsurance levels).

As a result, health care plans, regardless of how they are obtained, are beginning to look similar: increased deductibles; higher copayments; standardized annual out-of-pocket limits; narrow provider networks; and, significant penalties to the member for using out-of-network providers.

Moreover, upon the enrolled member's attainment of age 65, most employer programs have now removed the opportunity to continue with the employer's program because there are Medicare plans available in a variety of forms from which the aged-in retiree may select. For many years, Medicare eligible members have had the benefit of approximately 15 different standardized Medicare supplement plans from which to choose as well as other "street" plans offering Medicare Advantage HMO plans, some with "zero" premium. There is no anticipated change in the provision of Medicare plans either from the federal government or the "street."

In short, there may be little need for employers to provide Medicare-type coverage to aged-in retirees when the marketplace offers many plans including Medicare supplement plans.