ARIZONA STATE RETIREMENT SYSTEM

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Paul Matson
Director

MEMORANDUM

TO: The Arizona State Retirement System (ASRS) Operations Committee (OC)

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

DATE: August 19, 2010

RE: **Agenda Item #10**: Presentation, Discussion and Appropriate Action Regarding the Retiree Health Insurance Contract Renewal

Purpose
To review UnitedHealthcare's proposal for 2011 plan year health insurance premiums and plan provision changes.

Recommendation
Informational only, no action required.

Background
ASRS staff and representatives from Buck Consultants have been negotiating with UnitedHealthcare since April, 2010, regarding their 2011 health insurance plans renewal. Exhibits B through F outline United's last proposal and recommended plan provision changes.

At the direction of ASRS executive management, an analysis was performed (Exhibit A) to determine each medical plan's cost, trend, revenue, and exact medical loss ratio (i.e., the percentage of total claims expense to revenues). Knowing what our retiree health insurance plans cost was deemed to be the best starting point in analyzing what changes could and should be made and why.

Several overarching factors presented themselves during these negotiations:

- For Medicare Advantage plans (i.e., United's MedicareComplete plan), Centers for Medicare and Medicaid Services decreased revenue to United by 15%.
- The Senior Supplement plan experienced professional fee increases of 5%.
- PacifiCare HMO provider network is being replaced by the UnitedHealthcare Choice network.
- Health care expense trends:
  - Medicare population +3.5%
  - Non-Medicare population +13.2%
- Non-Medicare enrollees increased (retiree/member):
  - HMO plan +6.1% / +6.4%
  - PPO plan +19.8% / +21.1%
- Prescription drug expense trend:
  - Generic 0.0%
  - Brand +9.3%
  - Injectible Drugs +29.7%