

# The State of Wisconsin Wisconsin Retirement System Group Insurance Board



Medicare Part D Subsidy  
Actuarial Report  
Plan Year Beginning  
January 1, 2007

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# I. Attestation

## **State of Wisconsin Department of Employee Trust Funds Actuarial Equivalence Attestation of Prescription Drug Plan**

This analysis has been prepared to demonstrate the actuarial equivalence of the State of Wisconsin Department of Employee Trust Funds prescription drug program with the benefits provided by Medicare Part D. Such demonstration is required by the Medicare program to qualify the State of Wisconsin Department of Employee Trust Funds' programs for the 28 percent prescription drug subsidy provided under the Medicare Modernization Act of 2003 for plan years beginning January 1, 2007.

In conducting our analysis, we have relied on personnel, plan design, and prescription drug claim cost information supplied by the State of Wisconsin Department of Employee Trust Funds and Navitus, its pharmacy benefit manager. We have accepted the data without audit and have relied upon the sources for the accuracy of the data.

The analysis was developed using generally accepted actuarial principles and practices and is considered to reflect reasonable expectations of anticipated plan experience. This analysis demonstrates actuarial equivalence in compliance with the CMS requirements under 42 CFF 423.884 and is in accordance with applicable laws and regulations. This analysis may not be appropriate for any other purpose. The documentation of the methods and assumptions used in the development of the actuarial equivalence has been provided in this report. The actuarial equivalence certification that is associated with this attestation is for the plan year beginning January 1, 2007.

The undersigned is a qualified actuary of Deloitte Consulting LLP, a Member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. I certify that I meet the qualification standards established by the American Academy of Actuaries and have followed the practice standards established from time-to-time by the Actuarial Standards Board. I acknowledge that the information contained in this document is being used to obtain federal funds. All of the sections of the report are considered an integral part of the actuarial opinion.



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## II. Overview

The purpose of this report is to summarize our review of section 1860D-22 of the Social Security Act, effective January 1, 2007, that allows sponsors of qualified retiree prescription drug plans to become eligible for subsidy payments for each qualifying covered retiree under the plan.

Subsidy payments are equal to 28 percent of each qualifying retiree's allowable prescription drug costs attributable to gross prescription drug costs between the applicable cost threshold and cost limit (that is, in 2007, drug spending between \$265 and \$5,350). Gross costs are costs incurred for Part D, which are any drugs that can be covered under Medicare Prescription Drug benefit. Gross costs include dispensing fees, but exclude administrative costs. Allowable costs are actual incurred costs (i.e., net of discounts, rebates, and similar price concessions). Subsidy payments are tax exempt.

To qualify for the subsidy, a plan sponsor must show that its coverage is "actuarially equivalent" to (i.e., at least as generous as) defined standard coverage under the new Medicare prescription drug benefit. The final regulation includes a two-part test for plan sponsors to determine whether this standard has been met.

In preparing this report, we have relied on the claim information provided by the State of Wisconsin Department of Employee Trust Funds (WETF) contracted Pharmacy Benefit Manager, Navitus. We have not audited this information, but have relied on it as submitted after making reasonableness checks, as we deemed appropriate under the circumstances.

The results of this review indicate that the State of Wisconsin Department of Employee Trust Funds qualifies for the federal subsidy for specific groups in the state annuitant population.

## III. Data Selection

In general, 42 CFR 423.882 defines a qualifying covered retiree as a Part D eligible individual who is not enrolled in a Medicare Part D plan but who is covered (as the participant, or as the participant's spouse or dependent) by employment-based retiree health coverage that meets the standards in 42 CFR 423.884 to be considered a qualified retiree prescription drug plan.

A Part D eligible individual is an individual who meets standards in 42 CFR 423.30(a). Generally, they require that the individual be entitled to Medicare benefits under Medicare Part A or enrolled in Medicare Part B, and live in the service area of a Medicare Part D plan.

A person is covered under employment-based retiree health coverage if the coverage is under a group health plan and based on an individual's status as a retired participant or as the spouse or dependent of a retired participant. In general, sponsors have flexibility to determine whether an individual is a retiree, and to determine who are spouses and dependents of retirees, based on the coverage rules under the plan. However, a participant is presumed not to be covered under retiree health coverage from a sponsor if, under the Medicare Secondary Payer (MSP) rules in 411.104 and related CMS guidance, the participant is receiving health coverage based on "current employment status" from that sponsor.

The WETF has cited 6 sub-sections of the retiree population that may qualify for "actuarial equivalence" and therefore the federal subsidy payment. The groups are as follows:

- Group No: 83486 - State Annuitant Sick Leave
- Group No: 83459 - State Annuitant Annuity Deduction
- Group No: 83555 - State Annuitant Direct Pay
- Group No: 83888 - State Annuitant Life Conversion
- Group No: 84888 - State Annuitant Sick Leave to Life
- Group No: 83508 - EFT Continuation

We divided these groups into 3 subgroups, groups A, B, and C. Group A consisted of group number 83486 and for these members the WETF pays 100% of the premium via the sick leave program. Group B consisted of group numbers 83555, 83888, 84888, and 83508 and members in these groups pay 100% of the premium for health care coverage. Group C consisted of group number 83459 and members in this group have premium for health care coverage withheld from their pension check.

Average 2005 annual member months for these groups are as follows:

	<b>Average 2005 Annual Member Months</b>
Group A	107,604
Group B	29,448
Group C	154,320
Total	291,372

Claims experience supplied by the WETF contracted PBM was available for incurred period 1/1/2005 – 12/31/2005 and paid period 1/1/2005 – 6/30/2006. This experience includes membership information, prescription drug detailed claim information including paid claims, subscriber liability, and utilization.

We reviewed 1/1/2006 – 6/30/2006 membership information and found it to be stable and consistent with the 2005 annual membership and expect no significant changes in the remaining 2006 period. We will continue to validate this expectation and provide an amended report if necessary.

The prescription drug claims experience was projected for 2 years to 2007 using the inherent trend found in the claims and appropriate trending techniques.

## IV. Model Analysis

To qualify for the subsidy, a plan sponsor must show that its coverage is “actuarially equivalent” to (i.e., at least as generous as) defined standard coverage under the new Medicare prescription drug benefit. The final regulation includes a two-part test for plan sponsors to determine whether this standard has been met.

### Gross Value Test

The first part of this test is the total or “gross” value test. To meet this requirement, the expected amount of paid claims for Medicare beneficiaries in the retiree drug coverage offered by the sponsor must be at least equal to the expected amount of paid claims for the same beneficiaries under the defined standard coverage.

Using the data provided by Navitus we estimated the 2007 plan paid value of the current prescription drug plan for groups A, B, and C to be approximately \$205 PMPM which is net of discounts and rebates. We also valued the Medicare Part D standard plan including catastrophic coverage to be approximately \$121 PMPM. Since WETF contributes to the prescription drug plan more than the expected amount of paid claims for the same beneficiaries under the Medicare Part D standard plan, this shows that WETF passes the gross value test.

### Net Value Test

The second part of this test is the “net” value test, which takes into account the sponsor’s contribution toward the financing of the retiree drug coverage. The net value of the sponsor’s retiree plan, which is calculated by subtracting the expected retiree premium from the expected amount of paid claims under the sponsor’s drug program, must be at least equal to the net value of the Part D standard drug benefit.

# State of Wisconsin Department of Employee Trust Funds Benefit Plan

## Net Claims

Using the data provided by Navitus we estimated the 2007 net claims for use in the net value test. We calculated total plan paid value of the current WETF prescription drug plan net of discounts and rebates for groups A, B and C.

## Retiree Contributions

Using the data provided by Navitus we estimated the 2007 retiree contributions for use in the net value test. We calculated the total retiree contribution of the current WETF prescription drug plan for groups B and C since retirees in these groups contribute via a premium to the financing of their prescription drug plan.

2007	Group A	Group B	Group C	Grand Total
<b>Wisconsin Employee Trust Fund</b>				
Average Annual Member Months	107,604	29,448	154,320	291,372
WETF RX Benefit Plan Costs	18,978,378	6,892,752	34,889,180	60,760,310
Rebates Value (1.85% of Benefit Plan Costs)	351,297	127,587	645,812	1,124,696
WETF Net Plan Costs	18,627,081	6,765,164	34,243,369	59,635,614
WETF Member Premium	0	6,765,164	34,243,369	41,008,533
WETF Net Value	18,627,081	0	0	18,627,081

## Medicare Part D Standard Benefit Plan

### Net Claims

We also valued the Medicare Part D standard plan excluding catastrophic coverage pursuant to 423.884(d)(5)(ii)(B)(2) since Medicare Part D wrap-around coverage is available for State of Wisconsin Medicare Part D eligible members.

### Retiree Contributions

At the time of the RDS filing it was communicated from CMS that the average national benefit premium would be approximately \$27.35 PMPM. We used this value to estimate the total retiree contribution if all members elected Medicare Part D standard plan coverage.

2007	Group A	Group B	Group C	Grand Total
<b>Medicare Part D Standard Plan</b>				
Average Annual Member Months	107,604	29,448	154,320	291,372
Part D Benefit (w/o Catastrophic Coverage)	8,881,094	2,430,490	12,736,798	24,048,383
Rebates Value (1.85% of Benefit Plan Costs)	164,392	44,989	235,763	445,145
Part D Net Plan Costs	8,716,702	2,385,501	12,501,036	23,603,238
National Benefit Premium	2,942,969	805,403	4,220,652	7,969,024
Medicare Part D Standard Plan Net Value	5,773,732	1,580,098	8,280,384	15,634,214

### Net Value Test Results

The net value of WETF's retiree plan, which is calculated by subtracting the expected retiree premium from the expected amount of paid claims under the sponsor's drug program, is greater than the net value of the Part D standard drug benefit therefore this shows that WETF passes the net value test.

## IV. Results

In summary WETF passes both the gross value test and the net value test. Specifically, the estimated net value of WETF's retiree plan is \$18,627,081 which is greater than the estimated net value of the Part D standard drug benefit of \$15,634,214; therefore this shows that WETF passes the net value test.

The results of this review indicate that the State of Wisconsin Department of Employee Trust Funds qualifies for the federal subsidy for the specific groups outlined in the report.

# Appendix 1

## 2005 Summary for State of Wisconsin Medicare Eligibles Trended to 2007

### Part D plan design

Allowed Claim Interval	Premium Paid by State - A			Premium Paid by Member - B			Premium Withheld from Pension Ck - C		
	Member PMPM	Non-Member PMPM	Total PMPM	Member PMPM	Non-Member PMPM	Total PMPM	Member PMPM	Non-Member PMPM	Total PMPM
\$0	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
\$1-\$264	\$ 18.89	\$ -	\$ 18.89	\$ 19.99	\$ -	\$ 19.99	\$ 19.94	\$ -	\$ 19.94
\$265-\$2,399	\$ 24.56	\$ 73.67	\$ 98.23	\$ 29.50	\$ 88.49	\$ 117.99	\$ 29.19	\$ 87.58	\$ 116.77
\$2,400-\$5,349	\$ 49.23	\$ -	\$ 49.23	\$ 68.30	\$ -	\$ 68.30	\$ 69.23	\$ -	\$ 69.23
Subtotal less Deductible	\$ 73.79	\$ 73.67	\$ 147.46	\$ 97.79	\$ 88.49	\$ 186.29	\$ 98.43	\$ 87.58	\$ 186.01
\$5,350-\$5,451.24	\$ 1.90	\$ -	\$ 1.90	\$ 3.17	\$ -	\$ 3.17	\$ 2.77	\$ -	\$ 2.77
\$5,451.25+	\$ 1.49	\$ 28.39	\$ 29.88	\$ 2.53	\$ 48.00	\$ 50.53	\$ 2.15	\$ 40.94	\$ 43.09
Total	\$ 96.07	\$ 102.06	\$ 198.13	\$ 123.48	\$ 136.50	\$ 259.98	\$ 123.30	\$ 128.52	\$ 251.82
Total Members =			8,967			2,454			12,860



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