

The State of Wisconsin Wisconsin Retirement System Group Insurance Board



Medicare Part D Subsidy
Actuarial Report
Plan Year Beginning
January 1, 2008

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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, 2008.

In conducting our analysis, we have relied on membership, 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, but have relied on it as submitted after making reasonableness checks, as we deemed appropriate under the circumstances and keeping with standard actuarial guidelines.

The analysis was developed using generally accepted actuarial principles and practices and reflects 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, 2008.

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 the State of Wisconsin Department of Employee Trust Funds prescription drug benefits in relation to section 1860D-22 of the Social Security Act. The provisions of the Act allow sponsors of qualified retiree prescription drug plans to become eligible for subsidy payments for each qualifying covered retiree under the plan, provided the benefits meet certain equivalency requirements.

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 2008, drug spending between \$275 and \$5,600). 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 (ETF) contracted pharmacy benefit manager, Navitus. We have accepted the data without audit, but have relied on it as submitted after making reasonableness checks, as we deemed appropriate under the circumstances and keeping with standard actuarial guidelines.

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 qualifies as 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 State of Wisconsin Department of Employee Trust Funds has cited 6 sub-sections of the retiree population that may qualify for 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 - ETF Continuation

We combined these groups into 3 categories; A, B, and C. Category A consisted of group number 83486. For these members the State of Wisconsin Department of Employee Trust Funds pays 100% of the premium via funds from the accumulated sick leave conversion credit (ASLCC) programs. Category B consisted of group numbers 83555, 83888, 84888, and 83508. Members in these groups pay 100% of the premium for health care coverage. Category C consisted of group number 83459. Members in this group have premium for health care coverage withheld from their pension check.

2006 annual member months for these groups are as follows:

Category	2006 Annual Member Months
Category A	110,652
Category B	28,116
Category C	152,940

Claims experience supplied by Navitus was available for incurred period 1/1/2006 – 12/31/2006 and paid period 1/1/2006 – 6/30/2007. This experience includes membership information, detailed prescription drug claim information including paid claims, subscriber liability, and utilization.

We reviewed 1/1/2006 – 6/30/2007 membership information and found it to be stable and consistent with the 2006 annual membership and expect no significant changes in the remaining 2007 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 2008 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 2008 plan paid value of the current prescription drug plan for groups included in categories A, B, and C to be approximately \$186 PMPM which is net of discounts and rebates. Using the same claims set we also valued the Medicare Part D standard plan benefits including catastrophic coverage to be worth approximately \$119 PMPM. In other words, the beneficiary receives \$186 PMPM worth of benefits under the State of Wisconsin Department of Employee Trust Funds coverage, compared to only \$119 PMPM from the Part D standard coverage. Since the State of Wisconsin Department of Employee Trust Funds 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, the State of Wisconsin Department of Employee Trust Funds 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 paid portion of the 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 (part D coverage less beneficiary contribution).

State of Wisconsin Department of Employee Trust Funds Benefit Plan

Net Claims

Using the claims data provided by Navitus we estimated the 2008 paid claims (allowed claims less member cost sharing) for use in the net value test. We calculated total plan paid value of the current State of Wisconsin Department of Employee Trust Funds prescription drug plan net of discounts and rebates for groups included in categories A, B and C.

Retiree Contributions

Using the contribution information provided by the State of Wisconsin Department of Employee Trust Funds we estimated the 2008 retiree contributions for use in the net value test. We calculated the total retiree contribution of the current State of Wisconsin Department of Employee Trust Funds prescription drug plan for groups included in categories B and C. Retirees in these groups contribute via a premium to the financing of their prescription drug plan. For Category A, the premium is paid by the State of Wisconsin Department of Employee Trust Funds through funds in the employee's ASLCC bank.

Projected 2008	Category A	Category B	Category C	Grand Total	
Wisconsin Employee Trust Fund					
Annual Member Months	110,652	28,116	152,940	291,708	A
ETF RX Benefit Allowed Costs	25,331,781	6,436,651	35,012,856	66,781,289	B
ETF RX Benefit Member Cost Sharing	2,891,392	734,685	3,996,399	7,622,477	C
ETF RX Benefit Plan Costs	22,440,389	5,701,966	31,016,457	59,158,812	D = B - C
Rebates Value (8.3% of Benefit Plan Costs)	1,862,552	473,263	2,574,366	4,910,181	E = D x 8.3%
ETF Net Plan Costs	20,577,836	5,228,703	28,442,091	54,248,631	F = D - E
ETF Member Premium	0	5,228,703	28,442,091	33,670,794	G
ETF Net Value	20,577,836	0	0	20,577,836	H = F - G

Medicare Part D Standard Benefit Plan

Net Claims

We also valued the net claims paid under the Medicare Part D standard plan by subtracting projected member cost share from allowed claims. In addition we subtracted the value of catastrophic coverage pursuant to 423.884(d)(5)(ii)(B)(2) since Medicare Part D wrap-around coverage is purchased for State of Wisconsin Department of Employee Trust Funds Medicare Part D eligible members to cover any claims over the catastrophic coverage limit.

Retiree Contributions

At the time of the RDS filing it was communicated from CMS that the average national benefit premium would be approximately \$27.93 PMPM. We used this value to estimate the total retiree contribution if all members elected Medicare Part D standard plan coverage.

Projected 2008	Category A	Category B	Category C	Grand Total	
Medicare Part D Standard Plan					
Annual Member Months	110,652	28,116	152,940	291,708	A
Part D Benefit Allowed Costs	25,331,781	6,436,651	35,012,856	66,781,289	B
Part D Benefit Member Cost Sharing (Non Catastrophic)	12,158,056	3,089,288	16,804,514	32,051,858	C
Part D Catastrophic Wrap Coverage Wrap	3,943,994	1,002,145	5,451,274	10,397,413	D
Part D Benefit Plan Paid Cost (w/o Catastrophic Coverage)	9,229,731	2,345,219	12,757,068	24,332,018	E = B - C - D
Rebates Value (8.3% of Benefit Plan Costs)	766,068	194,653	1,058,837	2,019,557	F = E * 8.3%
Part D Net Plan Costs	8,463,664	2,150,565	11,698,231	22,312,460	G = E - F
National Benefit Premium	3,090,510	785,280	4,271,614	8,147,404	H = A * National Benefit Premium
Medicare Part D Standard Plan Net Value	5,373,153	1,365,286	7,426,617	14,165,056	I = G - H

Net Value Test Results

The net value of the State of Wisconsin Department of Employee Trust Funds retiree plan of \$20.6 million, 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 of \$14.2 million. Therefore the State of Wisconsin Department of Employee Trust Funds passes the net value test.

V. Results

In summary the State of Wisconsin Department of Employee Trust Funds passes both the gross value test and the net value test. Specifically, the estimated net value of the State of Wisconsin Department of Employee Trust Funds retiree plan is \$20.6 million which is greater than the estimated net value of the Part D standard drug benefit of \$14.2 million; therefore this shows that the State of Wisconsin Department of Employee Trust Funds 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

Summary for State of Wisconsin Department of Employee Trust Funds Medicare Eligibles 2006 Prescription Drug Costs Trended to 2008

Part D Plan Design

2008 Allowed Claim Interval	Category A			Category B			Category C		
	Member Paid PMPM	Non-Member Paid PMPM	Total Allowed PMPM	Member Paid PMPM	Non-Member Paid PMPM	Total Allowed PMPM	Member Paid PMPM	Non-Member Paid PMPM	Total Allowed PMPM
\$0	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
\$1-\$274	\$ 19.48	\$ -	\$ 19.48	\$ 20.42	\$ -	\$ 20.42	\$ 20.57	\$ -	\$ 20.57
\$275-\$2,509	\$ 24.89	\$ 74.66	\$ 99.54	\$ 29.47	\$ 88.42	\$ 117.89	\$ 29.61	\$ 88.83	\$ 118.44
\$2,510-\$5,599	\$ 46.43	\$ -	\$ 46.43	\$ 66.43	\$ -	\$ 66.43	\$ 66.99	\$ -	\$ 66.99
Subtotal less Deductible	\$ 71.32	\$ 74.66	\$ 145.98	\$ 95.91	\$ 88.42	\$ 184.32	\$ 96.60	\$ 88.83	\$ 185.43
\$5,600-\$5,726.24	\$ 2.00	\$ -	\$ 2.00	\$ 2.79	\$ -	\$ 2.79	\$ 3.36	\$ -	\$ 3.36
\$5,726.25+	\$ 1.31	\$ 24.94	\$ 26.25	\$ 2.56	\$ 48.65	\$ 51.22	\$ 1.98	\$ 37.60	\$ 39.58
Total	\$ 94.12	\$ 99.59	\$ 193.71	\$ 121.68	\$ 137.07	\$ 258.75	\$ 122.51	\$ 126.42	\$ 248.93
Average Monthly Members			9,221			2,343			12,745



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