

**Analysis of the Functions and Benefits Offered by the
Employees Benefits Council (EBC)
and
Oklahoma State Education and Employees Group Insurance Board (OSEEGIB)**

Prepared for:

**Oklahoma State Employee
Health Insurance Review Working Group**

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I. INTRODUCTION

Milliman, Inc. (Milliman) was retained by the Oklahoma State Employee Health Insurance Review Working Group (Working Group) to assist in the study of the state's employee health benefit plans. House Bill 1055 of the Oklahoma legislature created the Working Group with the following goal:

To study, examine and make recommendations for the most cost efficient and cost effective way to leverage state dollars to ensure the highest level of health care for state and education employees at a competitive price.

To meet this goal, Milliman has been asked to complete the following tasks:

1. Conduct a thorough analysis of the current, unique functions being performed, and benefits being offered, by the Employees Benefits Council (EBC) and Oklahoma State Education and Employees Group Insurance Board (OSEEGIB). This would include not only a thorough analysis of all functions currently being performed by OSEEGIB and EBC, but also the organizational structure of each agency, identification of functions that are being done well and those that could be improved for greater efficiency and cost savings;
2. Evaluate and make recommendations as to the governance structure of the board and council of OSEEGIB and EBC. Describe any alternative structures that would improve interaction between the organizations to enhance overall functionality and accountability;
3. Review plan's eligibility requirements for each employment group (educators, support personnel, public employees, etc.) and make recommendations for equity and possible savings. Consider the benefit allowance formula for each population and identify variables and make recommendations to improve costs;
4. Evaluate and make recommendations for improving the state's procurement of employee benefit vendors to enhance competition and improve pricing; and
5. Perform a statutory review of all Oklahoma statutes applicable to the delivery of benefits to state and education employees to identify any statutes that may be impeding the efficient delivery of health care, requiring the state to unnecessarily provide coverage where it is not needed.

The next section of our report presents an Executive Summary, which is followed by background information on the two state agencies that provide benefits. The fourth section provides detail on each of the project tasks. The final section summarizes our findings and provides recommendations.

Distribution

The information contained in this report is provided solely for the use and benefit of the Working Group, EBC, and OSEEGIB. Milliman recognizes that materials it delivers to the Working Group may be public record and subject to disclosure to third parties; however, Milliman does not intend to benefit and assumes no duty or liability to any third party recipient of its work product, even if Milliman consents to the release of its work product to such third party. Any distribution of this report must be in its entirety.

Data Reliance

When completing the tasks described above, we relied upon information provided to us by the Working Group, EBC, and OSEEGIB. This information was supplemented with internal proprietary information as well as publicly available information.

Although the data and information provided were reviewed for reasonableness, Milliman has not audited the data and information. If the data and information provided are inaccurate or incomplete, the conclusions in this report may need to be revised.

Variability of Results

The results and recommendations presented in this report are based upon data provided by the Working Group, EBC, and OSEEGIB, Milliman research, and our professional actuarial judgment. Because the results are dependent on historical data and the actuarial assumptions chosen, actual results will differ from the estimated results in this report to the extent that future experience differs from the assumptions used. Results in this report are estimates but not predictions.

II. EXECUTIVE SUMMARY

We started by preparing and submitting data requests to EBC and OSEEGIB in order to gather the information needed to complete our review for these organizations as requested by the Working Group. Initial information was gathered from these organizations and follow-up meetings were held with each group in order to obtain any information requested but not yet received and to discuss the information that had already been received. Both organizations were extremely helpful in providing information and answering any questions.

Our findings, which are described in more detail in this report, are summarized here.

OSEEGIB functions as an insurer of state employee life, health, dental, and disability benefits. They also insure the same benefits, except for disability, for many education and local government employees. OSEEGIB sees themselves as an insurer and sees EBC as an extension of the Human Resources operation of the state. In their role as insurer, OSEEGIB has developed an extensive network of providers that provide medical services at discounted prices. The operations of OSEEGIB have been smoothly and efficiently run until recently when difficulties were encountered with a new vendor for third party administration (TPA) of claim payments. These problems are in the process of being resolved but still continue in some areas including, as we discovered, in the area of the medical management of claims. OSEEGIB does not deal directly with the enrollment of employees in the benefit programs. OSEEGIB is a non-appropriated agency and receives revenue to cover their operating expenses from several sources including investment income and a portion of the premiums collected. OSEEGIB has accumulated a surplus over the years comparable to that which would be held by an insurance company. During the recent economic decline this surplus took a material hit.

EBC maintains the enrollment system for state employees and the cafeteria plan software including the flexible spending account. The software used by EBC, the Benefits Administration System (BAS), is maintained at some expense by an outside vendor and may duplicate the capabilities of other software currently owned by the state as part of the PeopleSoft system. EBC also manages the state's wellness program (OK Health), which, although it has shown material improvements in the health parameters of the participants, has experienced difficulty in enrolling participants. EBC has recently started going on-site to state agencies to improve participation, had recently worked with the Office of Personnel Management (OPM) to hire an epidemiologist, and is presently looking at improved program design and incentives for OK Health. Note that this wellness program is currently limited to state employees, not their dependents, and to only those state employees who are enrolled in the OSEEGIB HealthChoice Preferred Provider Organization (PPO) plans. EBC is responsible for procuring certain vendors of health insurance for state, education, and local government employees. Part of this procurement process, the procurement of Health Maintenance Organizations (HMO) for covered individuals, is an area that has come under scrutiny. The

level of “standardized” plan HMO premiums impacts the state's benefit allowance, the amount that the state contributes toward state employee and dependent premiums. EBC is also a non-appropriated agency that funds its operations through a percentage of premiums. EBC has accumulated a surplus that is deposited with the state treasurer's office.

Both organizations are established by and restricted by state statutes, which are discussed in more detail later in this report. These statutes impact the structure of the organizations, their management boards, the number of their employees, the calculation of the state employee benefit allowance, and the methodology used in procuring HMOs and other vendors by EBC and OSEEGIB.

Based on our review of the above and the additional details included later in this report, we have made the following observations and recommendations.

- It is apparent to us, to the people that we spoke with at EBC and OSEEGIB, and to others within the state that the combination of the current HMO competitive bidding process and the calculation of the state employee benefit allowance are not working as intended. The current process results in a benefit allowance amount that is higher than what is seen in other states and in private employer plans. The statute relating to HMO procurement essentially requires that EBC accept all bidders on the “standardized” HMO plan unless their premiums are determined to be excessive. However, the statute provides no guidance on what is an excessive premium and does not define how the competition should take place. EBC currently requests bids from the HMOs on the standardized plan and then negotiates the structure of the standardized plan and the rates with the HMOs. The statute that defines the state employee benefit allowance requires the use of an arithmetic average of these standardized HMO premiums and the OSEEGIB high option PPO premium plus other premiums related to required core benefits, such as dental, disability, and basic life insurance. This allowance can then be driven higher by highly priced standardized HMO premiums regardless of the number of state employees that select these plans. The solutions to this dilemma include either rewriting the statute that defines the calculation of the state employee benefit allowance or providing guidance on the competitive bidding and excessive premium language requirements in the related statute. We are proposing that both related statutes be modified and suggest a winner take all process for awarding HMO coverage. This winner take all process can be expected to result in a considerable reduction in the benefit allowance calculation. We have shown what this process would have looked like if it had been used for 2009 later in this report. We suggest that the statute relating to the calculation of the benefit allowance be modified such that the employee only benefit allowance not be allowed to fall below the HealthChoice high option PPO employee only premium plus other core benefit premiums, which would actually have happened for 2009 using the approach we propose. Note that the benefit allowance paid by the state for education employees is defined by a separate statute and is based on the employee only

premium under the OSEEGIB high option PPO plan. Also note that teachers are permitted to retain approximately \$65/mo of their benefit allowance as salary in lieu of benefits, if they choose not to enroll. However, it has been found that a strong majority of teachers enroll for coverage. Support employees are permitted to retain approximately \$185/mo of their benefit allowance if they choose not to enroll; however, 2009 enrollment counts for this population show that less than 50% of this group takes up coverage. In addition, education employees are not required to demonstrate other coverage to waive enrollment in the state's plan. We cite later in the report a statement from EBC that "other" than active state employee members premium costs would be 22.5% higher, if priced separately. The state should examine the claims experience of education groups to determine whether the higher costs of this population are due to adverse selection.

- In order to improve communications and the sharing of information on employee benefit topics and to maximize efforts to cost-effectively improve the health of covered individuals, we recommend that EBC and OSEEGIB be merged to form a new organization focused not only on the payment of health and other insurance claims but also on the wellness of the covered individuals. This proposed restructuring will align all organizational functions and allow the tight integration required to achieve best practice population health management. We have used the name Oklahoma Health and Wellness (OK H&W) for this new organization in our report. We define this combination in more detail in our conclusion section. The merger process that we propose will reduce overhead and the cost of external consultants. The combination of these two agencies would allow for targeted staff reductions, should the legislature need to reduce the costs of all agencies. The combined budget for OK H&W including these reductions will be slightly lower than the sum of the two current budgets and is shown later. We also propose the expansion of the wellness program to include dependents of state employees insured under the HealthChoice PPO plans immediately and to later add HealthChoice's education and local government insureds followed by HMO insureds. The current wellness operations of EBC are proposed to be combined and integrated with the medical management operations of OSEEGIB and we suggest that this combined entity coordinate efforts with the Employee Assistance (EA) program being managed by the OPM, the short-term and long-term disability insurance programs being managed by an outside vendor, and the Workers' Compensation program being administered by an outside insurer. We propose that both of the existing organizations release a portion of their accumulated surplus back to the state since the state is the ultimate source of funding and this surplus is an accumulation of past excess funding from the state. As a non-risk bearing entity, the surplus held by EBC should be released in its entirety while we suggest that OSEEGIB maintain only 100% of the Experience Fluctuation component of the National Association of Insurance Commissioners (NAIC) Health Risk-Based Capital (RBC) calculation. This is in lieu of 200% of the entire RBC calculation since OSEEGIB is not subject to other risks that apply to a stand-alone health insurance company. Also, the surplus of all plans – health, dental, life, and disability – should be considered when determining the appropriate risk surplus. This new surplus, along with the claim

reserves, should be deposited with the state treasurer so that the new organization can focus on the business of health and wellness. In addition, we recommend that the state explore alternative funding options for the proposed new organization, which should include legislative oversight of the budget and surplus. The new organization's board should be defined to include individuals with specific backgrounds.

- Both of the above recommendations require modifications of existing statutes, which are described in more detail later in this document.
- We also recommend additional evaluation of the efficiency, effectiveness, and appropriateness of various aspects of these combined operations including:
 - We suggest that the state review its ability to expand enrollment and Section 125 administration services to include education/local government entities for a fee. Note, however, that currently most public school districts and universities are provided this service at no cost by another vendor as part of their voluntary benefit offerings.
 - That the state evaluate BAS, PeopleSoft, and alternative enrollment and benefit systems.
 - That the state review the standardized plan design to ensure that it meets the requirement of Title 74, Section 1302 that the benefits be comparable to private enterprise.
 - That the state evaluate the HealthChoice network to ensure the state is receiving appropriate discounts and is providing adequate access to health care.
 - That the state conduct an evaluation of the efficiency and effectiveness of medical management functions of OSEEGIB.
 - That the state conduct a feasibility analysis of implementing a Medical Home model into the HealthChoice provider network.
 - That the state explore the most efficient means of integrating the OK Health program with other programs as recommended.
 - That the state analyze the potential anti-selection coming from education groups.
 - That the state explore the possibility of acquiring stop loss reinsurance coverage, which will decrease exposure to catastrophic losses.

III. BACKGROUND

To study, examine and make recommendations for the most cost efficient and cost effective way to leverage state dollars to ensure the highest level of health care for state and education employees at a competitive price.

The economy has impacted public and private entities alike. Per Arturo Perez, a fiscal expert with the National Conference of State Legislature (NCSL), “as of July 2009, more than 45 states face revenue shortfalls as a result of problems associated with the economic shortfall.”¹ With tax revenues down and health care costs up, state employee benefit plans are often a target of reduction. Cost control measures are not uncommon in any health plan; however, state plans have special considerations to consider. First, any changes made to the plans are done in the public eye. Second, changes are subject to significant regulatory restrictions.

The State of Oklahoma offers a variety of benefit options to its employees including medical, dental, vision, disability, and life insurance. The state also offers reimbursement accounts under Section 125 of the Internal Revenue Code. Active state employees are provided a benefit allowance from which they can purchase coverage. Education employees are provided a lower benefit allowance by the state. Amounts not spent on benefits are paid to the employees as taxable income.

Retirees and other eligible groups (education/local government entities) have the option of participating in the state employee benefit program. Table 1 provides the options available to each group.

Table 1							
Available Coverage by Participant Group							
	State Employees	Education Employees	Local Government Employees	OK Public Retirement System	Teachers' Retirement System	Survivors	COBRA
Health	√	√	√	√	√	√	√
Dental	√	√	√	√	√	√	√
Life	√	√	√	√	√		
Disability	√		√				
Medicare Supplement				√	√	√	√

Source: OSEEGIB HealthChoice Comprehensive Annual Financial Report, Year Ended December 31, 2008.

¹ www.ncsl.org

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Active state employees and other participating members have a choice of the state's self-funded health and dental plans or plans offered by commercial HMOs. The state's self-funded plan, HealthChoice, is a PPO plan that is offered statewide. Commercial HMO plans are also offered but recently have been limited to certain areas of the state, primarily Oklahoma City and Tulsa.

EBC

Created by statute, EBC is a non-appropriated state agency that acts as part of the state's human resources department. EBC designs, procures, and administers employee benefits for active state employees. The agency provides communication, marketing, and benefit enrollment assistance. EBC collects premium payments and remits them to the chosen carrier net of a 1.25% fee. This administration fee funds the costs of operating EBC. Any surplus in the fund remains with EBC and the fund rolls over from year to year but is invested with the state treasurer's office. EBC also manages the state employees' OK Health program and flexible spending Section 125 plans.

OSEEGIB

OSEEGIB is a non-appropriated government entity that designs, manages, and administers the self-funded health, dental, life, and disability benefit plans for active state employees and retirees as well as participating education/local government entities. As administrator of the self-funded plans, OSEEGIB acts as an insurer with the state and education/local government entities being its customers.

As of June 30, 2009, OSEEGIB served approximately 1,000 employer groups including all state agencies, a number of public school districts, colleges and universities, local governments, and other eligible groups. As of December 31, 2008, HealthChoice provided coverage to 181,277 (77.5%) of the 233,839 covered lives.² However, OSEEGIB is expecting several universities to discontinue participation at the end of calendar year 2009 and has been losing public school districts to Oklahoma Public Employees' Health and Welfare (OPEH&W), a consortium formed to insure public employers. Since OPEH&W has the capability to underwrite groups, they can potentially attract the younger and/or healthier groups from OSEEGIB and leave the less healthy groups with OSEEGIB. This would have a negative impact on the average cost of those remaining with OSEEGIB.

OSEEGIB collects premium payments from participating education/local government entities and retirees and remits them to the chosen carrier. If the member has chosen HealthChoice, the payment stays with OSEEGIB with approximately 5% of the self-insured premium revenues being spent on administration. If the member has chosen an HMO plan, OSEEGIB submits the premium payment to the HMO net of a 1% fee. Any surplus in the administration fund remains with OSEEGIB including any investment income earned on the fund. The fund is carried over from year to year.

² OSEEGIB Health, Dental, Life, and Disability Insurance Experience Report for Calendar Year 2008, Aon Consulting.

IV. PROJECT TASKS

The specific project tasks and our findings are described below.

- 1. Conduct a thorough analysis of the current, unique functions being performed, and benefits being offered, by EBC and OSEEGIB. This would include not only a thorough analysis of all functions currently being performed by OSEEGIB and EBC, but also the organizational structure of each agency, identification of functions that are being done well and those that could be improved for greater efficiency and cost savings;**

EBC

Mission: To provide state employees flexible benefits designed for choice and cost effectiveness, superior administration, and promotion of healthy lifestyles.

EBC is a state government entity that develops and oversees the offering of a choice of benefit plans to active state employees. EBC conducts enrollment of active state employees and provides communication material to state agencies and employees. Allowed by statute, EBC procures medical benefit options from commercial carriers (excluding PPOs so as not to directly compete with the HealthChoice PPO plans) and offers those along side OSEEGIB's HealthChoice plans.³ In this procurement, EBC is given the responsibility to ensure that sensitive data is kept confidential.⁴ EBC also administers the state's OK Health program and Flex Benefits plan (IRC Section 125).

EBC uses its internally developed BAS to provide services to approximately 37,000 active state employees. BAS is an internet-based benefits system that offers enrollment, access to benefits-related information, and reporting capabilities. The system interfaces with the state's PeopleSoft computer network (CORE).

EBC is governed by a five-member council. Statutes include requirements of the members but do not specify experience.⁵ Statutes allow EBC to have 38 full-time employee (FTE) positions.⁶

EBC is funded by a 1.25% administrative fee applied to all active state employee premiums. Any surplus to this fee is retained in a fund and the fund carries over from year to year.

A copy of EBC's current organizational chart is provided as Appendix A. Table 2 describes EBC's divisions and functions.

³ §74-1362

⁴ §74-1365

⁵ §74-1364 B

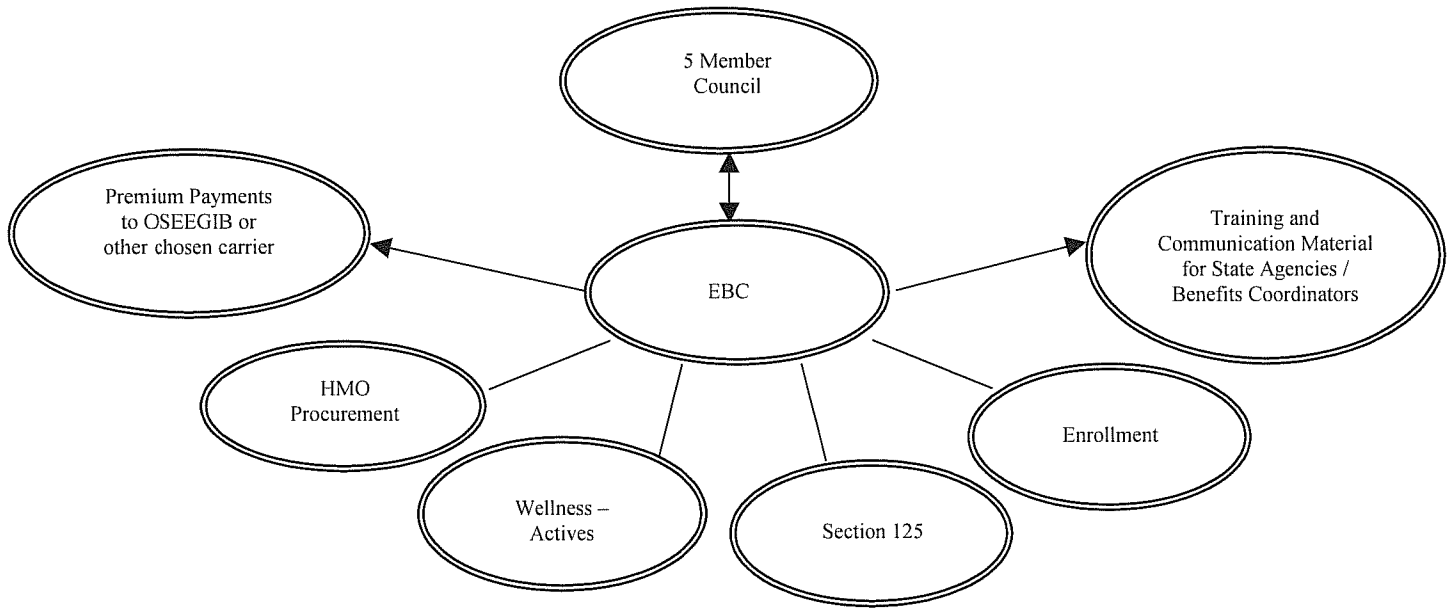
⁶ §74-3601.1

Table 2
EBC Divisions and Functions

Division	Functions
Executive	Oversight.
Benefits and Contracts	Plan eligibility, contracting, enrollment, and Benefits Coordinators training and support.
Agency and Regulatory Affairs	Legislative matters, interagency relations, affirmative action, administrative rules, strategic planning, open records and meetings compliance, and special projects.
Administrative	Administrative support.
Marketing and Communications	Publications such as the annual option period enrollment guide and video, public information, and media relations.
Information Services	Network and applications architecture, information infrastructure, email systems, and BAS.
Human Resources	Developing and implementing agency policies, providing recruitment and selection services, and administering staff training and development programs.
Finance & Accounting	Manages areas of accounting, payroll, and flexible spending accounts.
State Wellness Program/OK Health	Coordinates and develops wellness activities in state government to encourage participation by employees in health promotion programs.

Sources: EBC Fiscal Year 2010 Organizational Chart, EBC 2009 Performance Review.

The following illustrates the current structure and functions of EBC.



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OSEEGIB

Mission: In an ever changing environment, the board is committed to serving Oklahoma by providing, with the highest degree of efficiency, a wide range of quality insurance benefits that are competitively priced and uniquely designed to meet the needs of participants.

OSEEGIB is a government entity that designs, manages, and administers health, pharmacy, dental, life, and disability insurance for active employees and retirees of state agencies, school districts, and other eligible governmental entities in Oklahoma. OSEEGIB is overseen by an eight-member board whose members are defined in terms of number and experience by statute.⁷ Also by statute, OSEEGIB is allowed a maximum of 178 FTE positions.⁸

Primary functions of OSEEGIB include plan development, premium determination, and administration of the state's indemnity/PPO health plan (HealthChoice), dental plan, life plan, and disability plan. Using the state's Central Purchasing Department, the group is responsible for the procurement of a claims administrator for the medical and pharmacy claims.⁹ OSEEGIB provides medical management for the HealthChoice plans. A third party provides disability management.

OSEEGIB has an accounting system that maintains current and historical eligibility and premium data for OSEEGIB members. However, it does not have a specific enrollment system. OSEEGIB obtains eligibility data through electronic feeds from education/local government employers and EBC. Retired state employees submit enrollment forms on paper.

A copy of OSEEGIB's current organizational chart is provided in Appendix A. Table 3 describes OSEEGIB's current divisions and functions.

⁷ §74-1304

⁸ §74-3601.1

⁹ §74-1306

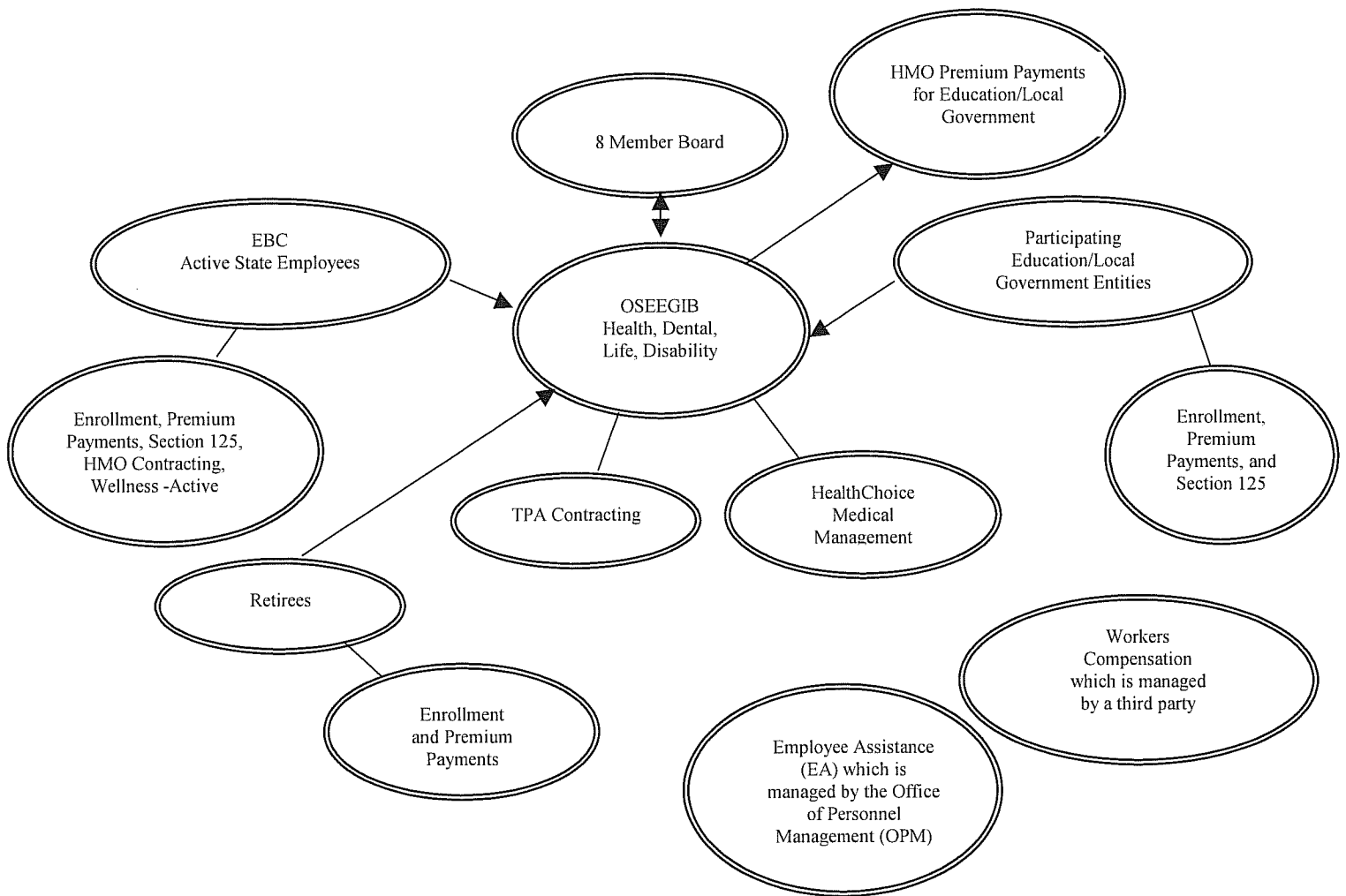
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Table 3	
OSEEGIB Divisions and Functions	
Division	Functions
Accounting	Accounting, finance, and eligibility issues including billing, collection, and reconciliation of monthly premiums. Eligibility activities, including compliance with all Board rules and regulations relating to eligibility. Preparation of monthly, quarterly, and annual financial reports. Provision of information to contracted actuarial consultants.
Budget, Payroll, and Accounts Payable	Allocation of funds to the activities and sub-activities, encumbrance of funds for contracts and purchases, processing of claims for travel and accounts payable, and processing of agency payroll.
Health Care Management	Medical reviews in conjunction with contracted medical, dental, chiropractic, physical therapy, and speech therapy consultants. Medical reviews for additional life insurance and medical case management.
Human Resources	Ensures compliance with Oklahoma Statutes and State Rules and Regulations related to personnel activities. Responsible for hiring and maintaining staff, training and new employee orientation, as well as supervision of the Imaging Department.
Information Technology	Responsible for the agency's data center and telecommunications systems. Key responsibilities include the support and maintenance of the agency's eligibility and premium accounting system. Additional functions include database administration and support, application and report development, network administration, general technical support, project management and long-range planning to meet operational and business needs of each agency division as well as participating entities and members.
Legal	Managing litigation matters, legal research, grievance panel hearings, subrogation, and the promulgation of the agency's official Rules pursuant to the Administrative Procedures Act. Overall responsibility for contract administration. Provides oversight of HIPAA compliance, communicating with CMS for Medicare Part D coverage, and ensuring compliance with Fraud, Waste, and Abuse laws.
Member Services	Directing the marketing, customer service (phone and field representatives), establishing eligibility, and the informational service programs of the plan and agency.
Policy Research and TPA Management	Conducts policy analysis, creates informational reports, and makes recommendations based on research of insurance standards and practices. The Division Director is charged with conducting in-depth research projects to support legislative inquiries and senior administration's review of benefit trends and plan changes. The Division Director has administrative oversight of TPA management as well as direct responsibility for the agency's Strategic Plan and research activities on issues submitted to the Executive Committee for review and resolution.
Provider Relations	Oversees the HealthChoice provider network. Manages the provider networks for the Department of Rehabilitation and the Department of Corrections.
Public Information/Wellness	Responsible for all member, provider, and media communications as well as the wellness opportunities offered by the plan.
Purchasing	Procures all the goods and services needed for this agency in accordance to the purchasing statutes of the State of Oklahoma, the agency's Rules and Regulations, and internal procedures.

Sources: OSEEGIB, HealthChoice Briefing Paper, July 2009. OSEEGIB Organizational Chart, November 2009.

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The following illustrates the current structure and functions of OSEEGIB.



OSEEGIB functions as an insurer. Plan costs include claim payments and administrative expenses. Funding is not appropriated and any surplus or deficit to the administration fund is carried over from year to year. Revenues include premiums, Medicare Part D payments from CMS, prescription drug rebates, a risk adjustment fee paid by participating HMOs, and investment income. OSEEGIB also retains 1% of any HMO premium paid by education/local government entities. Claim expenses are approximately 97% of premium. Administrative expenses account for the remaining 3% with investment income and other revenue bringing total administrative expenses to about 5% of self-insured premium revenues. Over half of the administration costs are attributed to the outsourcing of claims processing, actuarial and auditing services, investment services, and health care consultants (54%). Agency personnel costs (30%), general agency administration (11%), and payment to the state's High Risk Pool (5%) account for the remaining expenses.¹⁰

¹⁰ OSEEGIB HealthChoice Briefing Paper, July 2009.

OSEEGIB's actuarial consultant has performed a comparison of the 5% administrative cost ratio to other insurance companies and has found it to be favorable.¹¹

We have also reviewed the expense levels of OSEEGIB as compared to surveys of Group Health Insurers' expenses. Highlights from two of these surveys, one by Milliman¹² and the other by the Sherlock Company¹³, are summarized below.

In the Milliman report, data from fiscal year 2003 indicated that private market administrative expenses, excluding commissions, premium taxes, or profit, were approximately 8.9% of premiums. In particular, for large groups the administrative expenses were approximately 8.0% of premiums. The report also provided a breakdown of the large group expenses as shown in Table 4 below.

Overhead, Miscellaneous	1.0%
Issue Underwriting	1.0%
Actuarial	0.5%
Record Keeping, Policy Service, Compliance	1.0%
Claims	3.5%
Marketing (non-commission)	1.0%
Total	8.0%

When we remove underwriting and marketing expenses from the above results, we get expenses equal to 6.0% of premium.

The Sherlock survey was based on 2007 data and concluded that administrative expenses for all commercial products represented 9.2% of premiums. Although this study did not segment costs by large group, it did use Administrative Services Only (ASO) costs as a proxy, which were approximately 7.0% of premiums. The Sherlock study's definition of administrative costs was consistent with NAIC definitions, which include claims adjustment expenses and general administrative expenses. The Sherlock study also looked at data from a previous study done by The Lewin Group, adjusted this data and developed estimates of claims administration and general administration expenses as a percentage of premiums for various group sizes.

These estimates are illustrated in Table 5 below.

¹¹ Aon's Administrative Cost Comparison

¹² "Medicare versus Private Insurance: The Cost of Administration", Milliman, January 2006

¹³ "Administrative Expenses of Health Plans", Sherlock Company, 2009

Group Size	Claims Admin	General Admin
100 to 499	3.7%	4.1%
500 to 2,499	3.6%	4.2%
2,500 to 9,999	3.7%	1.9%
10,000+	3.0%	0.9%
Total (Incl. Individual, Small & Large Groups)	4.3%	4.4%

Our review of OSEEGIB found that their expenses of operation are within the ranges found for other large groups and large commercial group insurance operations after we remove the underwriting and sales components of the insurance companies.

Based on our limited review, we believe that with the exception of recent delays in the payment of claims to providers and covered individuals, the organization functions as would be expected for an entity providing benefits to the groups covered. We would like to note that a brief review of OSEEGIB's medical management found that manual systems were being used to monitor past and ongoing claims until such time as the EDS system could be modified to automate this process. OSEEGIB performs the standard utilization and case management functions we would expect to find in a health insurer. Many utilization management services are contracted out to APS Healthcare while all case management services are done internally by a staff of eight RN case managers. Our very high level review did not include evaluating the efficiency or effectiveness of utilization management or case management.

We do, however, propose follow-up reviews of OSEEGIB's Medical Management, the HealthChoice network's discounts and coverage, and the HealthChoice benefits being offered. We also propose centralized control and expansion of the OK Health program along with research into the integration of the program into the HealthChoice network and the Medical Home networks currently being used by the Oklahoma Medicaid program.

Table 6 provides a sample of specific functions performed by OSEEGIB and EBC. As illustrated in the table, certain functions are performed by both agencies. Although these services are duplicative in nature, they are not provided for the same populations.

Function	OSEEGIB	EBC
Federal and state regulatory compliance	√	√
Financial management	√	√
Member support	√	√
Processing billings and payments to providers	√	√
Management of medical, dental, life, and disability plans	√	
Administration of Section 125 plans		√
Human resource services	√	√
Public budget development and management	√	√
Statutory reporting	√	√
Technical support including network administration	√	√
Purchasing and Contracting	√	√

As described in the Executive Summary and expanded upon in the Conclusions and Recommendations section of this report, we propose that these two organizations work together to improve the health of the covered population through an expanded OK Health program and the addition of Medical Home provider groups to the provider network.

2. Evaluate and make recommendations as to the governance structure of the board and council of OSEEGIB and EBC. Describe any alternative structures that would improve interaction between the organizations to enhance overall functionality and accountability;

Oklahoma uses two separate governing structures.

By statute, EBC is governed by a five-member council consisting of the Administrator of OPM, two members appointed by the Governor, one member appointed by the Speaker of the House of Representatives, and one member appointed by the Pro Tempore of the Senate. Experience requirements are not specified.¹⁴

EBC’s current Council includes members representing the Oklahoma State Regents for Higher Education, the Oklahoma Public School System, the OPM, and an independent agent with group health employee benefit experience.¹⁵

¹⁴ §74-1364 B

¹⁵ www.ebc.state.ok.us

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Statutes require that OSEEGIB be governed by an eight-member board that includes the State Insurance Commissioner (or designated employee of the Insurance Department), the Director of the Office of State Finance, two members appointed by the Governor, two members appointed by the Speaker of the House of Representatives, and two members appointed by the President Pro Tempore of the Senate. Experience requirements of the appointed members include public accounting, law, investment, and health insurance management. The statutes specify that at least one but not more than three members shall have public accounting and law backgrounds.¹⁶

OSEEGIB's current Board consists of two CPAs, an attorney, an attorney/businessman, the Director of Cross Telephone Co, the Oklahoma Insurance Commissioner, the Director of the Office of State Finance (appointed to this position by the Governor and recently served as Secretary of the Oklahoma State Election Board), and a full-time faculty member (Attorney, CPA, and Fellow in the Healthcare Financial Management Association).¹⁷

OSEEGIB also has an Advisory Committee representing retired educators, plan providers, active educators, and state employees.¹⁸

As described in the Executive Summary and expanded upon in the Conclusions and Recommendations section of this report, we propose merging the two organizations.

3. Review plan eligibility requirements for each employment group (educators, support personnel, public employees, etc.) and make recommendations for equity and possible savings. Consider the benefit allowance formula for each population and identify variables and make recommendations to improve costs;

Per state statute, all groups must have the same benefit options and education employees must be charged the same premium as state employees.¹⁹ Therefore, premiums are based on providing coverage to all groups. However, the amount of employer contribution can differ between the groups.

Per EBC, when asked to provide premiums separately for the active state members and "other" members, HMOs quoted the "other" members at 22.5% higher than the active state members.²⁰

Active state employees are provided a benefit allowance. At a minimum, employees must use this allowance to purchase individual medical, dental, life, and disability coverage. Per state statute, any

¹⁶ §74-1304

¹⁷ www.sib.ok.gov

¹⁸ §74-1304(15)

¹⁹ §74-1310.1 and §74-1308.1

²⁰ November 13, 2009 letter from Don Heilman of Gallagher Benefit Services, Inc. to Phil Kraft of EBC

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benefit allowance dollars not spent on benefits are paid to the employee as taxable income. If benefit costs exceed the benefit allowance, the employee can purchase the coverage with pre-tax dollars.²¹

The state employee only benefit allowance is calculated as the average of the standard/high option health premiums plus the average of the dental premiums plus the basic life premium plus the basic disability premium. Dependents are covered at 75% of the average monthly premium of the standard/high option health insurance plans.²²

Information provided by EBC states "Taken as a whole, the amount of benefit allowance exceeding the cost of the core benefits (medical, dental, life, and disability insurance) for these employees is estimated to be \$63.9 million for Plan Year 2009." For all tiers combined, "92.87% of all employees in this tier have 100% of their benefits paid by the benefit allowance and have an additional amount of \$154.58 to purchase other options or add to net pay."²³

Per the NCSL, in 2009, only twelve states paid 100% of the basic plan premium for individual coverage and six states for family coverage.²⁴

Eligible school district employees are provided a minimum flexible benefit allowance equal to the HealthChoice high option premium.²⁵ In 2009, the individual premium for the HealthChoice high option plan was the second lowest in cost when compared to the HMO standard plans.

All state agencies must participate in the program. The education/local government entities have the option of participating in the state program. Other options commonly available to this group include OPEH&W and establishing their own self-insured plans.

The benefit allowance for education employees is established to cover the costs of benefits obtained from OSEEGIB or through a self-insured plan.²⁶ State statute defines self-insured as "a health care program in which the school district funds the benefit plans from its own resources without purchasing insurance and which may be administered by the school district or by an outside administrator under contract with the school district for administrative services."²⁷ It is our understanding that the schools that have obtained coverage through OPEH&W have claimed to do so as a self-insured plan. The state should review the status of these groups to determine if, in fact, under the statutes, they meet the criteria for being self-insured groups.

²¹ §74-1370 F

²² §74-1370

²³ EBC Benefit Allowance Utilization Analysis provided to us on November 6, 2009.

²⁴ www.ncsl.org

²⁵ §74-1310.1 A; §70-26-105

²⁶ §70-26-104

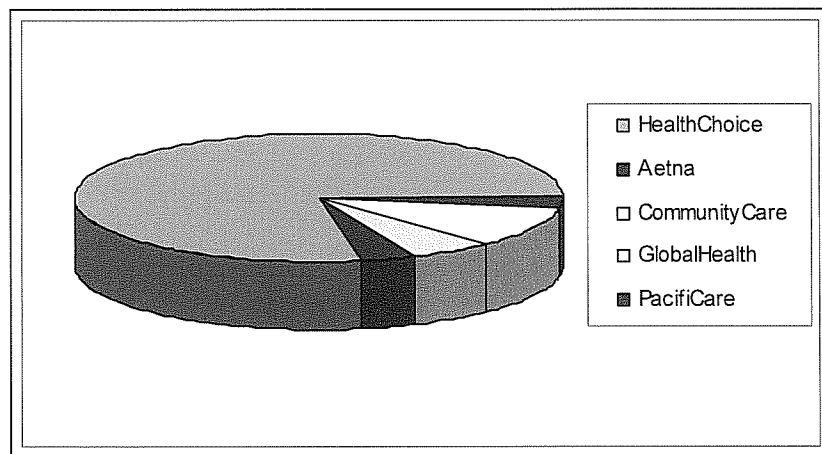
²⁷ §70-26-103

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Table 7 provides a summary of covered lives by plan type, employer group, and eligibility category.

Table 7 Summary of Covered Lives								
12/31/2007	State		Education		Local Government		Total	
	HealthChoice	HMO	HealthChoice	HMO	HealthChoice	HMO	HealthChoice	HMO
Active	47,918	28,702	79,213	19,211	11,389	1,372	138,520	49,285
Pre-Medicare	3,634	894	7,788	1,035	45	5	11,467	1,934
Medicare	13,777	1,021	21,120	1,412	89	3	34,986	2,436
Total	65,329	30,617	108,121	21,658	11,523	1,380	184,973	53,655
12/31/2008	State		Education		Local Government		Total	
	HealthChoice	HMO	HealthChoice	HMO	HealthChoice	HMO	HealthChoice	HMO
Active	50,870	29,623	72,978	17,015	11,596	1,359	135,444	47,997
Pre-Medicare	3,635	917	7,461	1,047	56	5	11,152	1,969
Medicare	13,913	1,101	20,661	1,493	107	2	34,681	2,596
Total	68,418	31,641	101,100	19,555	11,759	1,366	181,277	52,562

Source: OSEEGIB Experience Report for CY 08



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For 2009, the following health plans were offered at the following premiums. The percent of employees (not covered lives) enrolled in each of the plans is also provided.

Plan	2009 Monthly Premium	% Employees
Aetna Standard HMO	\$668.30	0.5%
Aetna Alternative HMO	431.16	4.4%
CommunityCare Standard HMO	715.76	0.7%
CommunityCare Alternative HMO	484.72	11.5%
GlobalHealth Standard HMO	333.78	6.1%
GlobalHealth Alternative HMO	303.44	4.5%
HealthChoice Standard	409.12	55.5%
HealthChoice Basic	347.96	7.9%
HealthChoice USA	626.96	0.0%
HealthChoice High Deductible	322.68	0.1%
PacifiCare Standard HMO	600.46	0.9%
PacifiCare Alternative HMO	388.70	8.0%

Source: 2009 State Employee Benefits Allowance (Medical Only)

As described in the Executive Summary and expanded upon in the Conclusions and Recommendations section of this report, we propose modifying the HMO procurement process leading to lower benefit allowances for state employees and dependents.

4. Evaluate and make recommendations for improving the state's procurement of employee benefit vendors to enhance competition and improve pricing;

Per state statutes, state employees should be offered a choice of benefits,²⁸ employees served by OSEEGIB and EBC must be offered the same plan options, and these plans should be similar to plans offered to employees in private industry.²⁹ The OSEEGIB HealthChoice PPO is the only PPO plan allowed to be offered.³⁰

EBC must contract with any HMO willing to participate – if they meet the requirements and do not have “excessive pricing”.³¹ HMOs at the present time are primarily in Oklahoma City and Tulsa but they have in

²⁸ §74-1362

²⁹ §74-1302

³⁰ §74-1365(14)

³¹ §74-1371(C)

the past been and are again beginning to expand to other areas. Per statute, the HMOs do not have to be in all regions to participate in the program.³²

All HMOs must provide a standardized plan defined by EBC. They may also offer an alternative plan. The primary difference between the standardized plans of each HMO is the premium, the area where it is available, and the choice of providers. The alternative plans are typically less expensive with additional differences in cost sharing and coverage of services.

The competitive bidding process, as applied by EBC, is to request quotes from the HMOs on the standardized and alternate plans and then to work with their outside employee benefits consultants to analyze the quotes for competitiveness and to negotiate final rates and terms with the HMOs.

As described in the Executive Summary and expanded upon in the Conclusions and Recommendations section of this report, we propose modifying the HMO procurement process to use a winner take all approach which can be expected to increase HMO coverage at a lower cost.

- 5. Perform a statutory review of all Oklahoma statutes applicable to the delivery of benefits to state and education employees to identify any statutes that may be impeding the efficient delivery of health care, requiring the state to unnecessarily provide coverage where it is not needed.**

We have performed a review of the Oklahoma statutes applicable to the delivery of benefits to state and education/local government employees. Appendix B highlights the key statutes that are involved. In addition we have indicated in the report where the structure and operations of EBC and OSEEGIB are regulated by statute and where statutes will have to be changed to achieve our recommendations.

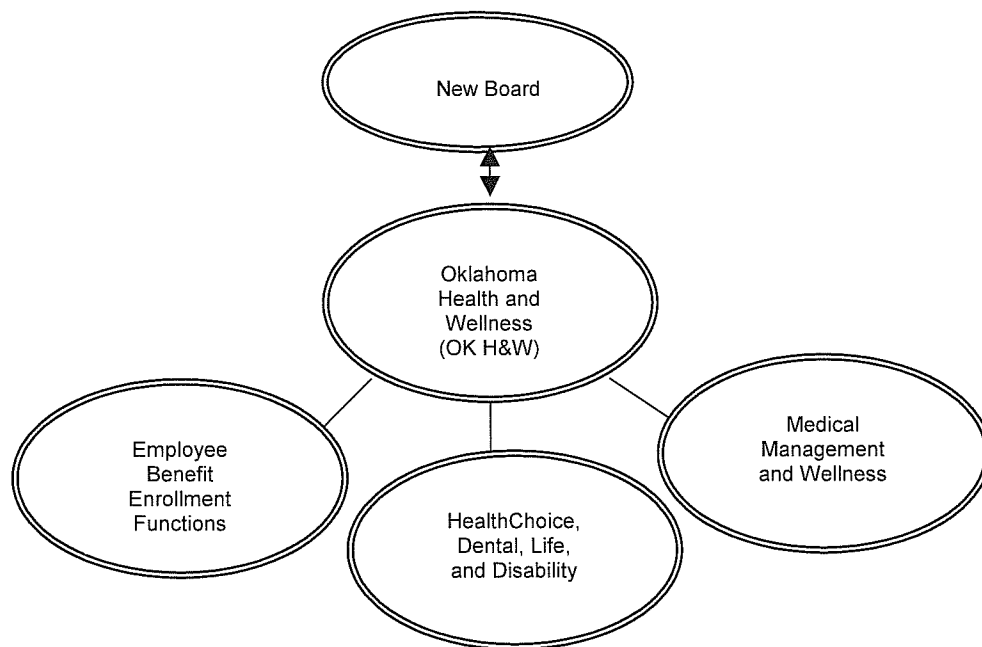
³² §74-1366.2.a

V. CONCLUSIONS AND RECOMMENDATIONS

In their role as employers, states are responsible for containing costs, promoting quality, and assuring that employees receive appropriate care and services.

Recommendation #1 – Combine the Two Organizations

We are recommending that the two agencies, EBC and OSEEGIB, be integrated into one agency. The new agency we propose is referred to here as OK H&W, with the emphasis on medical management and wellness. This emphasis on wellness will be achieved through a focus on the OK Health program including the expansion of the program to cover dependents of state employees and members of the other groups currently insured. OK Health is proposed to be extended to even those individuals that elect the HMO option. In doing so, the HMOs will be required to cooperate with OK Health and will be expected to consider the savings associated with the wellness program in their competitive bidding.



A. Implement Common Oversight

We are recommending one oversight board. Existing statutes should be modified to ensure that leadership has the necessary experience and resources. The new oversight board should include at least one member in each of the following areas of expertise: finance, legal, actuarial, medical, and employee benefits. Initially, we would recommend that the two boards be merged into one and that as members

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resign or rotate off the board, new members be appointed to meet the experience requirements and to achieve the desired size of the reconstructed board.

B. Eliminate Excess Overhead

Total state expenditures for benefits include administrative costs as well as claims. By integrating the services provided by EBC and OSEEGIB into one organization, savings in overhead and external consultants can be realized. In addition, activities such as human resource management, performance of regulatory reporting and monitoring requirements, monitoring of changes in the health care industry, and evaluating the impact of regulatory changes can be performed by one agency. Consolidating contracting and contract management for such services as employee benefits consulting and actuarial services can reduce solicitation costs. Having one agency submit enrollment and premium payments to the HMOs can minimize costs and confusion. Utilizing outside consultants and limiting internal sharing of information, when necessary, can prevent any perceived conflict of interest in the HMO bidding process and the HealthChoice rate setting.

OSEEGIB, EBC, and the Office of State Finance maintain databases of employee information. By combining the information into one system, monetary savings can be found by reducing duplication, minimizing confusion and potential error, and improving workflow. Improvement in communication and data sharing, especially with respect to the OK Health program, can result in a better overall management of health care services. We are recommending that the state maintain EBC's BAS until further review of the alternatives to this system can be conducted. However, we would like to note that the PeopleSoft system currently used by OPM includes subsystems which may be used to replace BAS.

Additionally, should the legislature need to reduce the costs of all agencies, the combination of these two agencies would allow for targeted staff reductions in the areas of human resources, regulatory reporting and monitoring requirements, monitoring changes in the health care industry, and evaluating regulatory changes all of which, as mentioned above, can be performed by one agency.

Milliman reviewed the budget data and organization charts that were provided by OSEEGIB and EBC. Using this information, an estimate of the consolidated budget of the new OK H&W entity was developed. No positions have been eliminated in the proposed budget. The main focus in reducing the consolidated budget was the reduction of overhead expenses and the centralization of management of the two entities.

Based on data provided by OSEEGIB and EBC, the total budgets for fiscal year 2010 were \$42.15 million and \$5.25 million for OSEEGIB and EBC, respectively.

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In combining the two entities, we identified areas from both entities where expenses could be reduced. For OSEEGIB, more than \$911,000 could be eliminated with reductions related to investment operations. For EBC, more than \$1.14 million in expenses could be eliminated due to reductions in IT related and general professional services, overhead, and some general administrative expenses. By consolidating the two entities, an estimated reduction of approximately \$2.05 million in 2010 expenses could be realized.

The current budgets for OSEEGIB and EBC are provided in Appendix C. The proposed budget for OK H&W is provided in Appendix D.

Consolidation of OSEEGIB and EBC would require changes to the following statutes:

- A. References to OSEEGIB (Board) and EBC (Council) within, but not limited to, the following:
 - o Title 36. Insurance
 - o Title 57. Prisons and Reformatories
 - o Title 62. Public Finance
 - o Title 63. Public Health and Safety
 - o Title 70. Schools
 - o Title 74. State Government

- B. The defining number and experience of board/council members included in Title 74. State Government:
 - o Section 1304 – State and Education Employees Group Insurance Board
 - o Section 1364 – Creation of Oklahoma State Employees Benefits Council – Composition – Members – Administration – Meetings

- C. Employment references in the following sections of Title 74. State Government:
 - o Section 3601.1 – Employee Defined – Maximum Number of Full-Time Equivalent Employees
 - o Section 1320 – Employment of Administrator, Director of Internal Audit, Attorneys, and Other Personnel – Service Contracts

- D. References to EBC's service to active state employees and dependents within Chapter 38A – Oklahoma State Employees Benefits Act and Chapter 38B -Wellness Program Act

- E. Duties of EBC and OSEEGIB to reflect the integration of services to reduce overhead costs:
 - o Section 1306 – Powers and Duties of the Board
 - o Section 1365 – Duties, Responsibilities and Authority of Oklahoma Employees Council

Recommendation #2 – Explore Alternative Funding Options for the New Proposed Entity and Release Most of the Current Surplus to the State

EBC and OSEEGIB do not have appropriated operational funds. Instead they are funded by a percentage of premiums and, in the case of OSEEGIB, other revenue sources. Excess funds have remained with the agencies and rolled over from year to year. Currently, the two agencies have combined surplus in excess of \$113 million.

We suggest that the state explore alternative options for funding the proposed new organization which should include legislative oversight of the budget and surplus. We also suggest that over half of the current surplus be returned to the state. We suggest that the new organization maintain 100% of only the Experience Fluctuation component of the NAIC Health RBC formula since other health insurance company risks do not apply to the new entity and that the surplus of all plans; health, dental, life, and disability be considered when determining the appropriate risk surplus.

In addition, we propose that the assets backing the new organization's claim reserves and reduced risk capital be held by the state treasurer's office to allow OK H&W to focus on the business of health and wellness.

Premiums in the future should be set to cover the cost of all claims, administrative expenses, and any change in reserve and risk capital estimates.

The following sections within Title 74. State Government will require changes to reflect alternative funding approaches of funds and release of surplus.

- o Section 1310 – Payment to Funds
- o Section 1312 – Health and Dental Insurance Reserve Fund
- o Section 1312.1 – Revolving Fund
- o Section 1312.2 – Creation of Life Insurance Reserve Fund – Investment of Funds – Payments to Reserve Fund
- o Section 1332.1 – Collections from State Agencies – Deposits – Monthly Statements – Reports – Deduction of Premiums
- o Section 1333 – Creation of State Employees Disability Insurance Reserve Fund – Investments
- o Section 1346 – Creation of Flexible Benefit Revolving Fund
- o Section 1348 – Creation of Flexible Benefits Plan Available to State Regents for Higher Education
- o Section 1384 – Wellness Program Fund

Recommendation #3 – Maximize Benefits of Competitive Bidding

The state conducts HMO negotiations but we believe they could be using competitive bidding to achieve lower costs. The state offers several HMOs with similar benefits in similar areas. Limiting the number of HMO plans can be expected to decrease costs through volume purchasing as well as decreasing administrative costs. The related statute currently requires competitive bidding and allows for the rejection of HMO bids due to excessive pricing but doesn't provide sufficient guidance on either point.

We are recommending a winner takes all bidding process. However, the related state statute provides that all HMOs meeting bid requirements must be allowed to participate unless their pricing is considered to be excessive.

In order to minimize contracting issues for the new organization, we recommend that the actuaries responsible for reviewing the HMO bids attest that the rates have been reviewed for actuarial soundness. We also propose that rates be approved by the State Insurance Department. The Insurance Department would then certify the rates, report the outcome to the Governing Board and/or Administrator who would make the award. This will prevent the inclusion of vendors that have priced their product too high or too low or vendors who are not financially sound. There would also have to be barriers put in place to ensure that HMO pricing data is kept confidential and that the HealthChoice premiums are not established to intentionally undercut the HMO premiums. To accomplish this, we propose that the actuaries completing the HealthChoice premium calculations also attest that premiums were developed on an actuarially sound basis.

Title 74, Section 1371 – Purchase of Basic Plan – Benefit Plans will need to be revised to allow for the state to choose only one bidder. Title 74, Section 1371 should also be revised to define excessive pricing and to include the need for the rates to be actuarially sound.

Depending on the procurement process, including the use of the state's Central Purchasing department, the following statutes may need to be revised:

- o Section 1306 – Powers and Duties of Board
- o Section 1365 – Duties, Responsibilities and Authority of Oklahoma State Employees Benefits Council
- o Section 1366 – Establishment of Flexible Benefits Plan

Recommendation #4 – Modify the Current Benefit Allowance

Once a winner takes all approach is undertaken, the calculated benefit allowance can be expected to be lower than what would result from the current bidding process. For instance, if the state had used the winner takes all approach in Oklahoma City and Tulsa, the benefit allowance for 2009 for state employee only coverage would have been \$438.01 (a 23.7% decrease from \$574.37). We propose that the statute describing the current benefit allowance formula be modified such that the employee only benefit allowance is not allowed to fall below the HealthChoice employee only premium plus other core benefit premiums.

The benefit allowance stated in Section 1370 – Flexible Benefit Dollars – Flexible Benefit Allowance will need to be revised to allow for the minimum allowance to be the HealthChoice employee only premium plus other core benefits.

Recommendation #5 – Expand OK Health

First of all, the wellness program should be expanded to cover dependents of state employees. Then, we recommend that OK H&W begin expanding the wellness program to include education/local government members and HMO enrollees. This will require adequate systems for confidentiality and security of Protected Health Information (PHI). In addition, HMOs should be advised to take into account the lower claims resulting from the integration of its members in OK Health in their future pricing.

The operation of the wellness program is proposed to be placed under the current medical management of OSEEGIB. Within this new department (Medical Management/OK Health), the wellness program is to be integrated with the current medical management operation. In addition, this combined operation should implement a program of communication and coordination with the existing EA program managed by OPM, the short-term and long-term disability programs managed by Oklahoma Blue Cross Blue Shield, and the Workers' Compensation program administered by an outside insurer. Finally, following the integration of Medical Home providers into the HealthChoice network (discussed below), the Medical Management/OK Health operation should communicate and coordinate with the Medical Home providers.

We believe the Medical Home model of health care delivery, if implemented appropriately, is an ideal option for improving the quality and cost effectiveness of health care provided to state employees and their dependents. By appropriate implementation, we are referring to the following items.

Medical Home providers and patients are,

- Given the necessary tools (infrastructure and technology)
- Provided with timely and actionable information

Medical Home Providers are,

- Held accountable for providing patients with reliable and ready access to services
- Held accountable for following evidence based medicine
- Held accountable for achieving the best possible clinical quality outcomes
- Held accountable for appropriate utilization of clinical services and resources

Medical Home Patients are,

- Intended to adopt and maintain validated health and lifestyle improvement practices

Oklahoma with its tradition of strong primary care and the presence of organized Medical Homes in both Tulsa and Oklahoma City can build on this existing infrastructure and expertise to develop a truly remarkable health care system. Expanding the existing Medical Home infrastructure and providers into a statewide multi-payer delivery system will require the addition of new infrastructure as well as flexibility in order to cover both urban and rural regions. Neither OSEEGIB medical management nor the EBC wellness program alone or combined have the necessary infrastructure or expertise required to successfully implement a Medical Home delivery system. This infrastructure would include but not be limited to an electronic medical records system with the capability to allow connectivity between medical home providers, a referral management process that emphasizes the full scope of practice by primary care doctors with appropriate input by specialists, and a robust clinical process and outcomes reporting package.

Chapter 38B – Wellness Program Act will need to be revised to allow for education/local government participation and to allow for the wellness program to move to the Medical Management/Wellness division.

Recommendation #6 – Maintain Risk Adjustment – Temporarily

The risk adjustment process should stay in place for the first iteration of the winner takes all procurement, however, this process should be reexamined with the intention of eliminating it after that first period. Once the plans know their demographics, the rates should implicitly include this demographic adjustment.

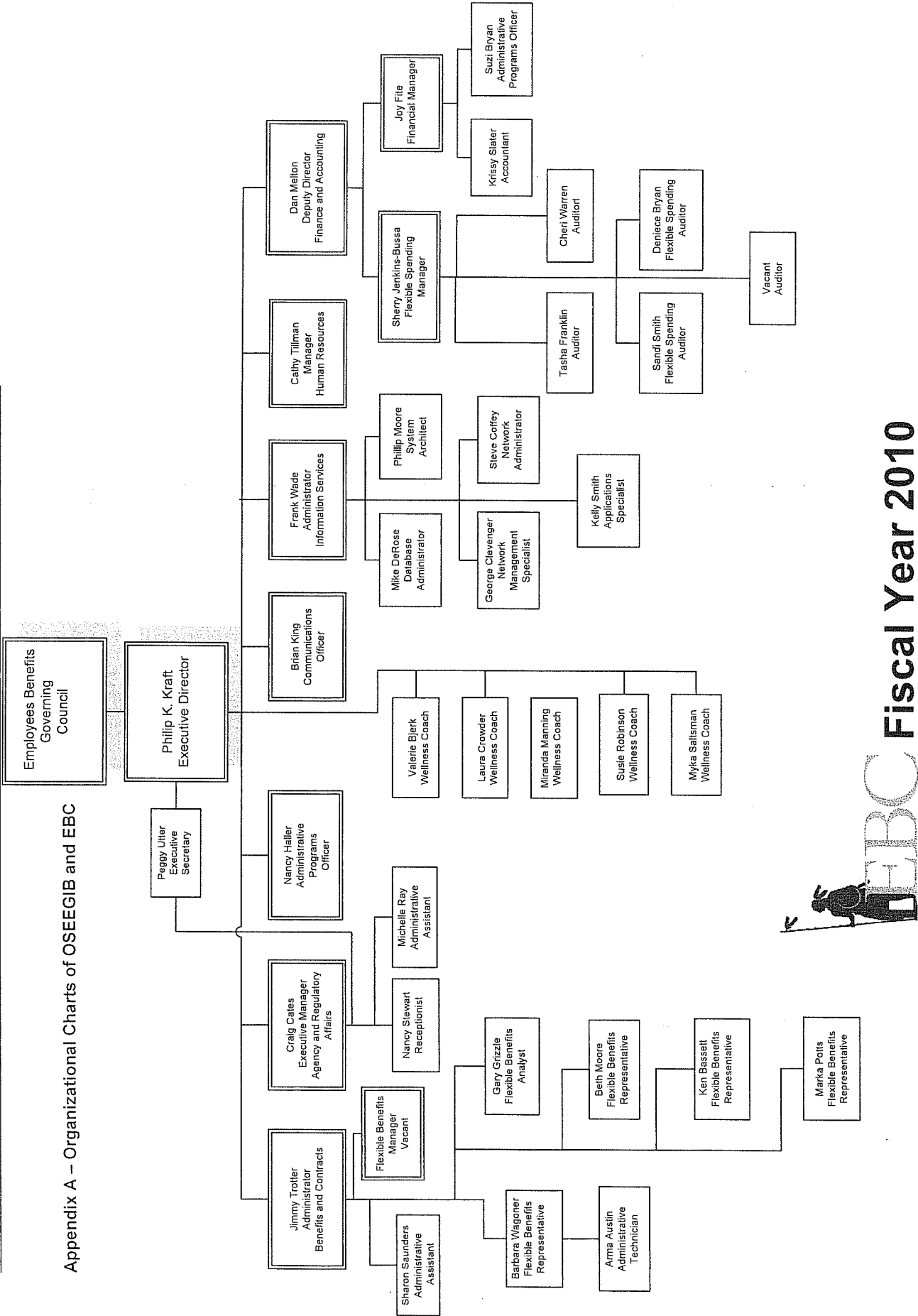
Recommendation #7 – Recommended Follow-up

In addition to the proposed consolidation of the two organizations we suggest the following actions be taken to achieve the best health care outcomes at the lowest cost for the new organization.

- a. We suggest that the state review its ability to expand enrollment and Section 125 administration services to include education/local government entities for a fee. Note, however, that currently most public school districts and universities are provided this service at no cost by another vendor as part of their voluntary benefit offerings.
- b. That the state evaluate BAS, PeopleSoft, and alternative enrollment and benefit systems.
- c. That the state review the standardized plan design to ensure that it meets the requirement of Title 74, Section 1302 that the benefits be comparable to private enterprise.
- d. That the state evaluate the HealthChoice network to ensure the state is receiving appropriate discounts and is providing adequate access to health care.
- e. That the state conduct an evaluation of the efficiency and effectiveness of the medical management functions of OSEEGIB.
- f. That the state conduct feasibility analysis of implementing a Medical Home model into the HealthChoice provider network.
- g. That the state explore the most efficient means of integrating the OK Health program with other programs as recommended above.
- h. That the state analyze the potential anti-selection coming from education groups.
- i. That the state explore the possibility of acquiring stop loss reinsurance coverage, which will decrease exposure to catastrophic losses.

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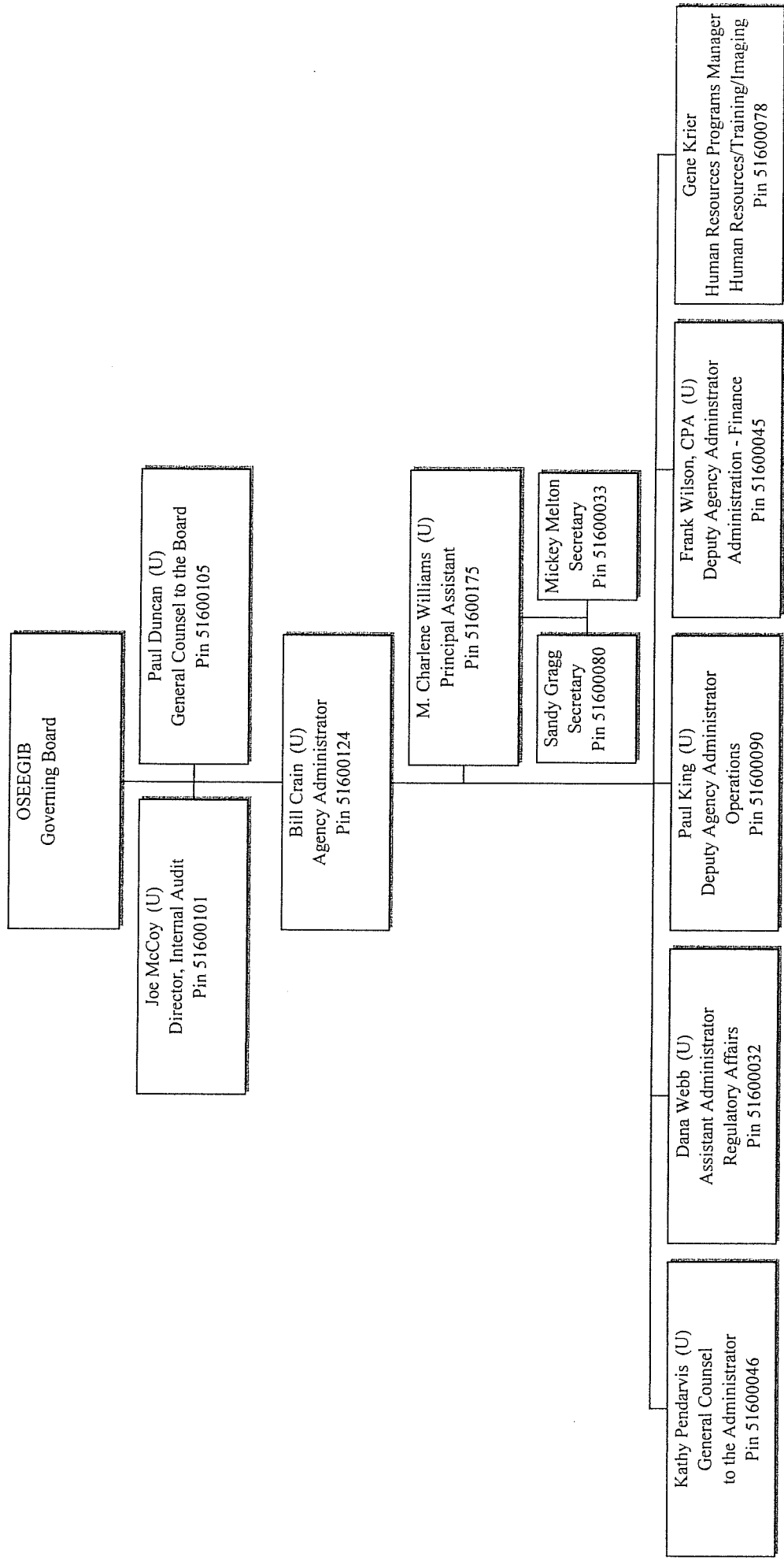
Appendix A – Organizational Charts of OSEEGIB and EBC



This work product was prepared solely to provide assistance to the Working Group. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work. Milliman recommends Recipient be aided by its own actuary or other qualified professional when reviewing the Milliman work product.

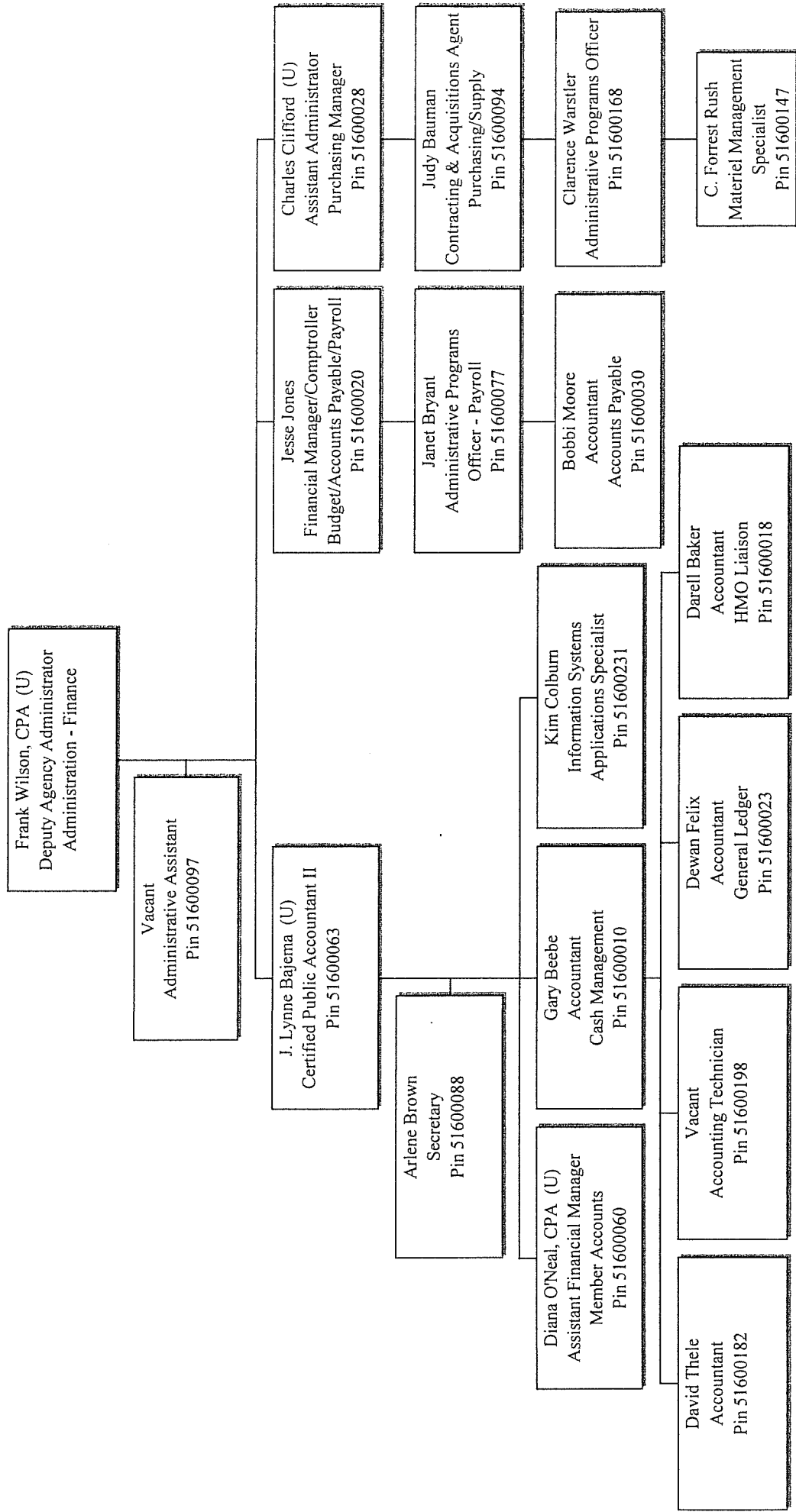
OSEEGIB Administration

Organizational Chart November 2009

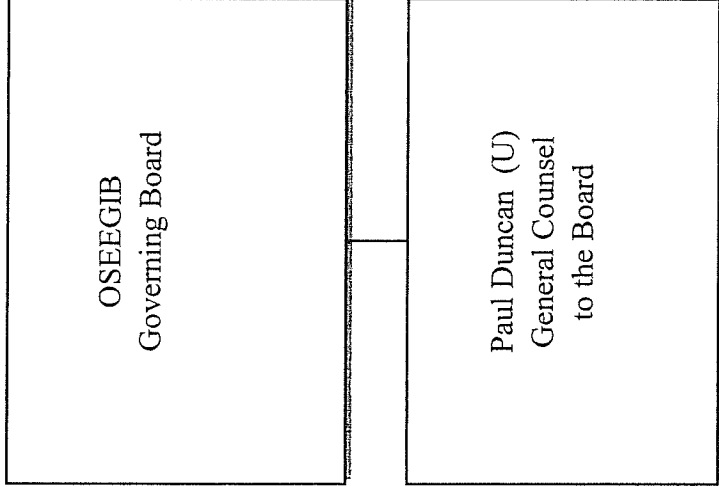


OSEEGIB Finance

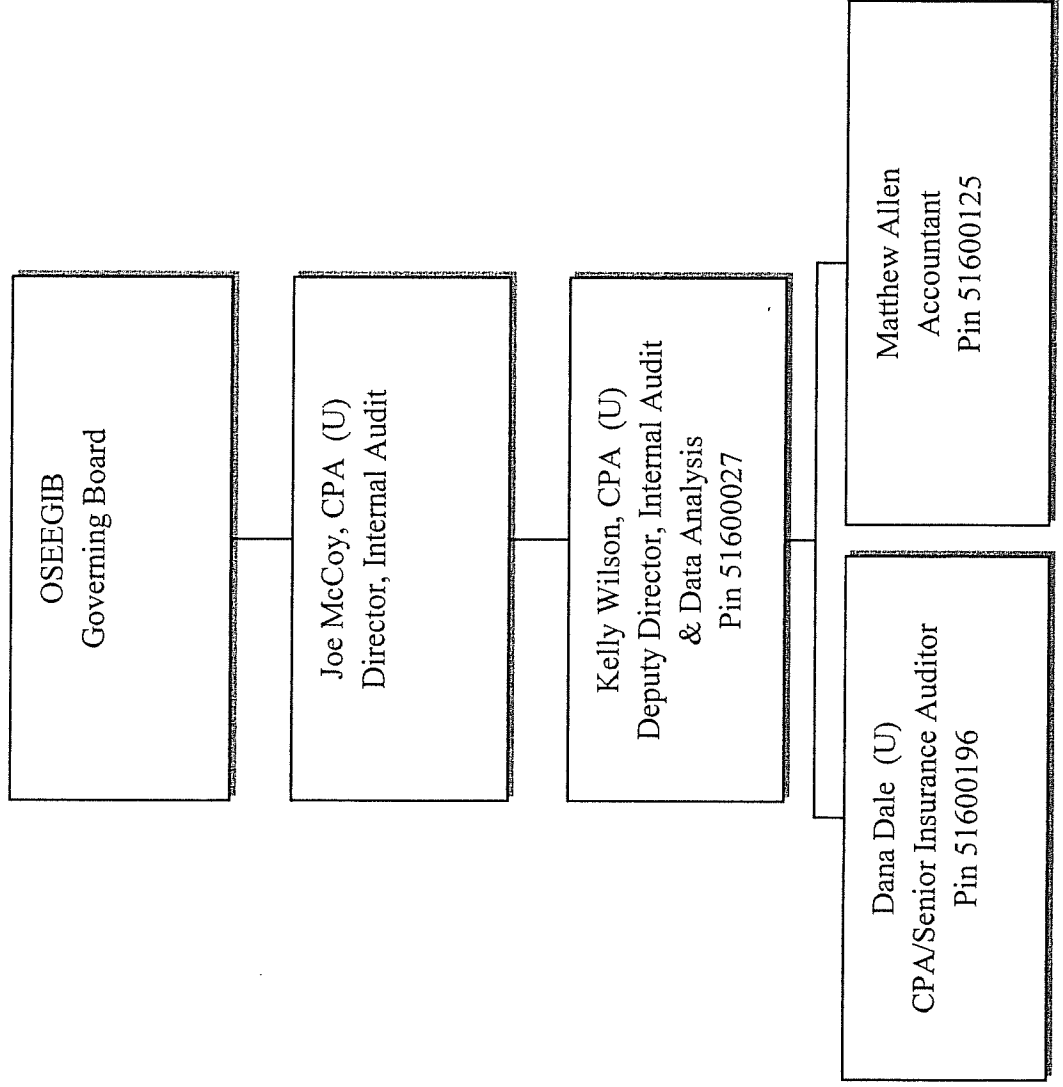
Organizational Chart November 2009



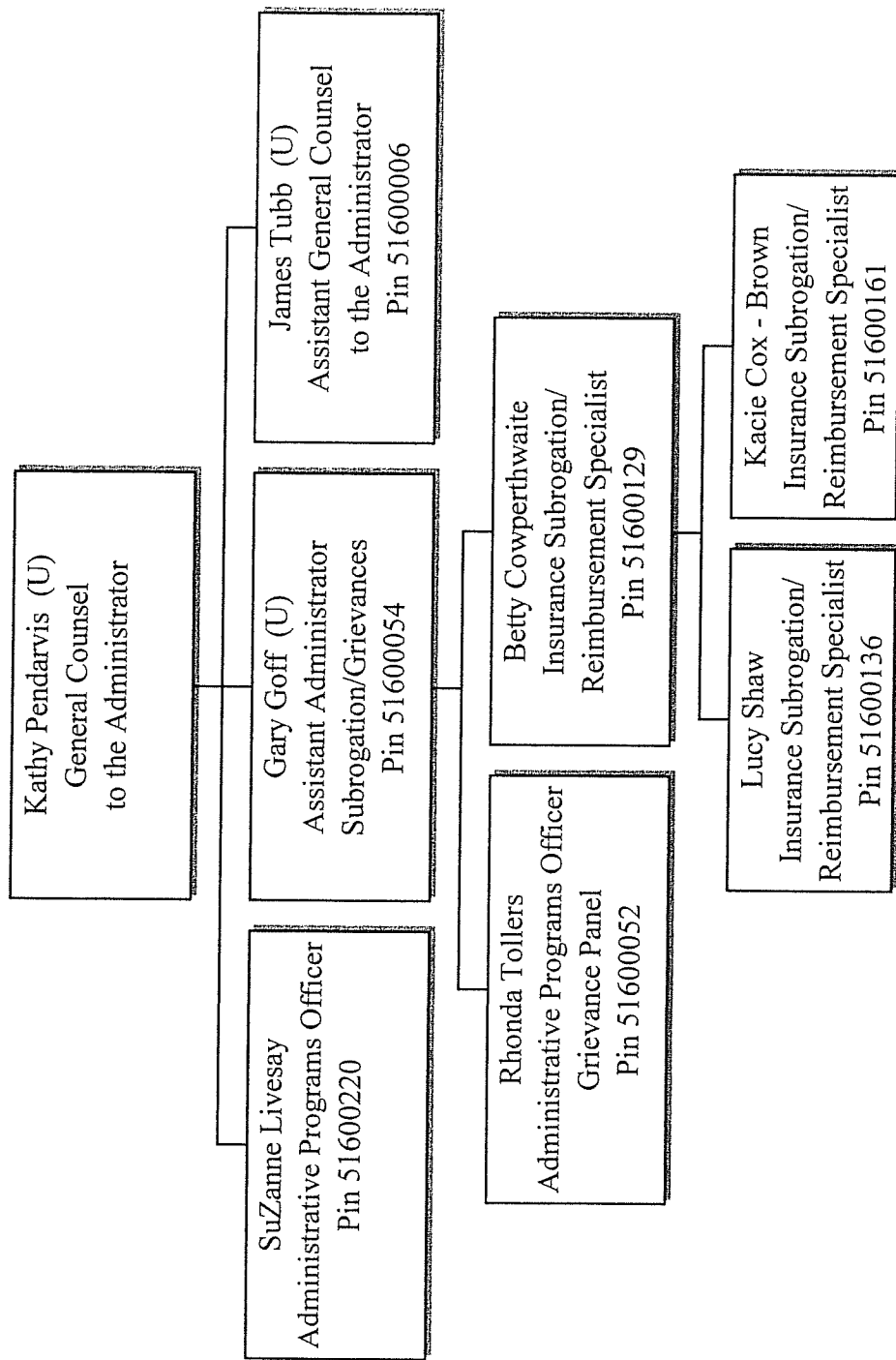
OSEEGIB Legal Organizational Chart November 2009



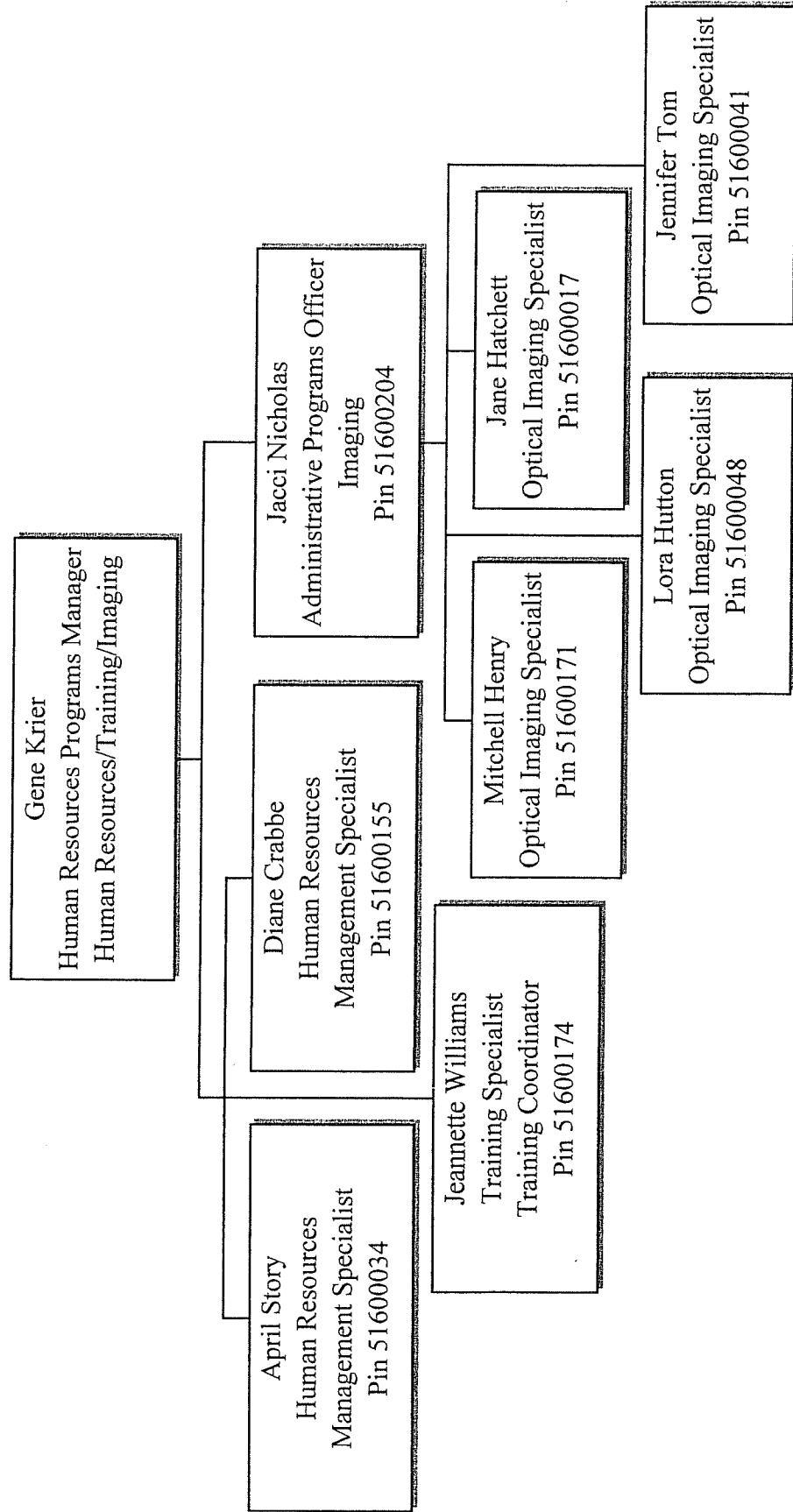
OSEEGIB Internal Auditing Organizational Chart November 2009



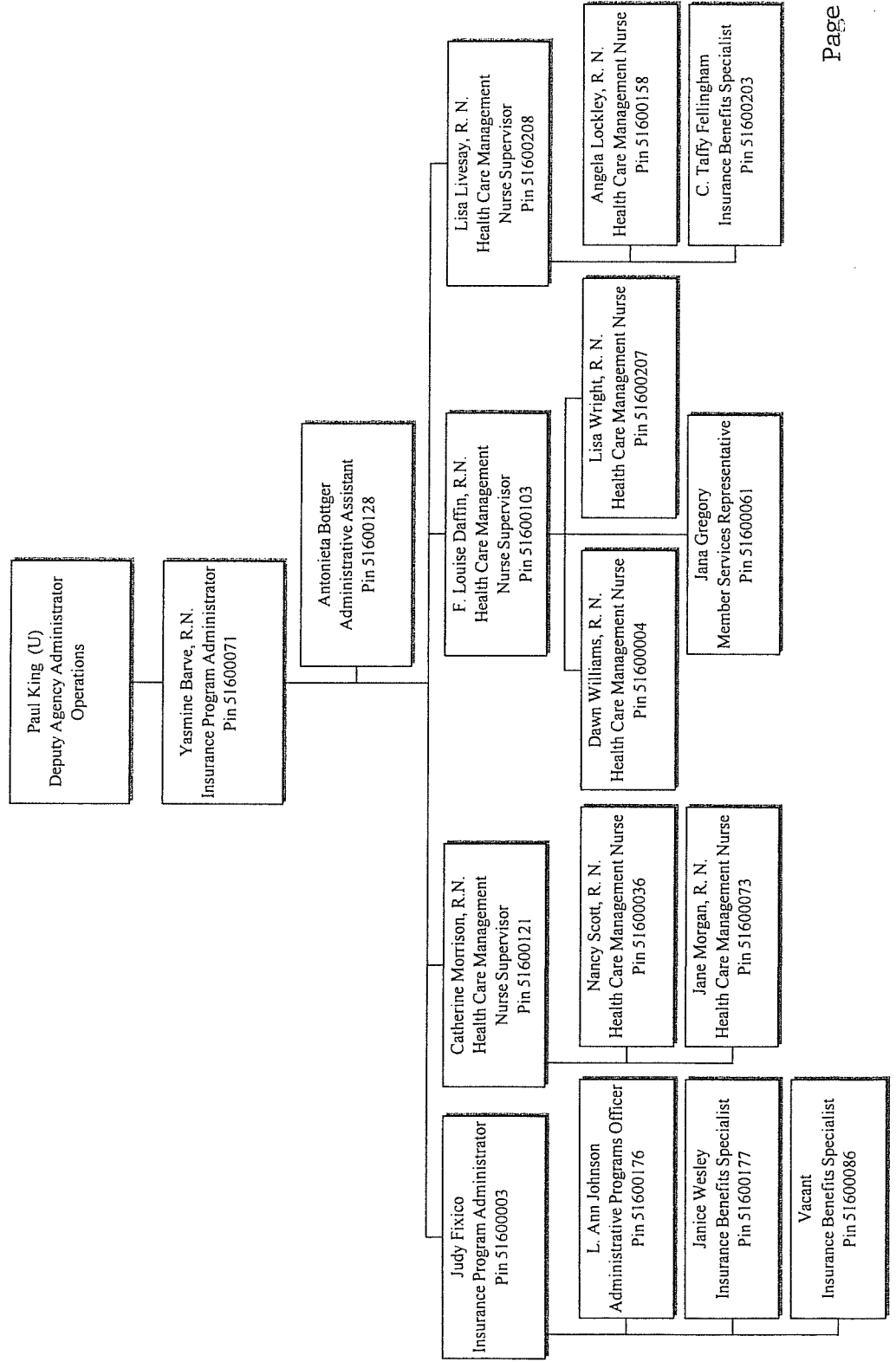
OSEEGIB General Counsel/Subrogation Organizational Chart November 2009



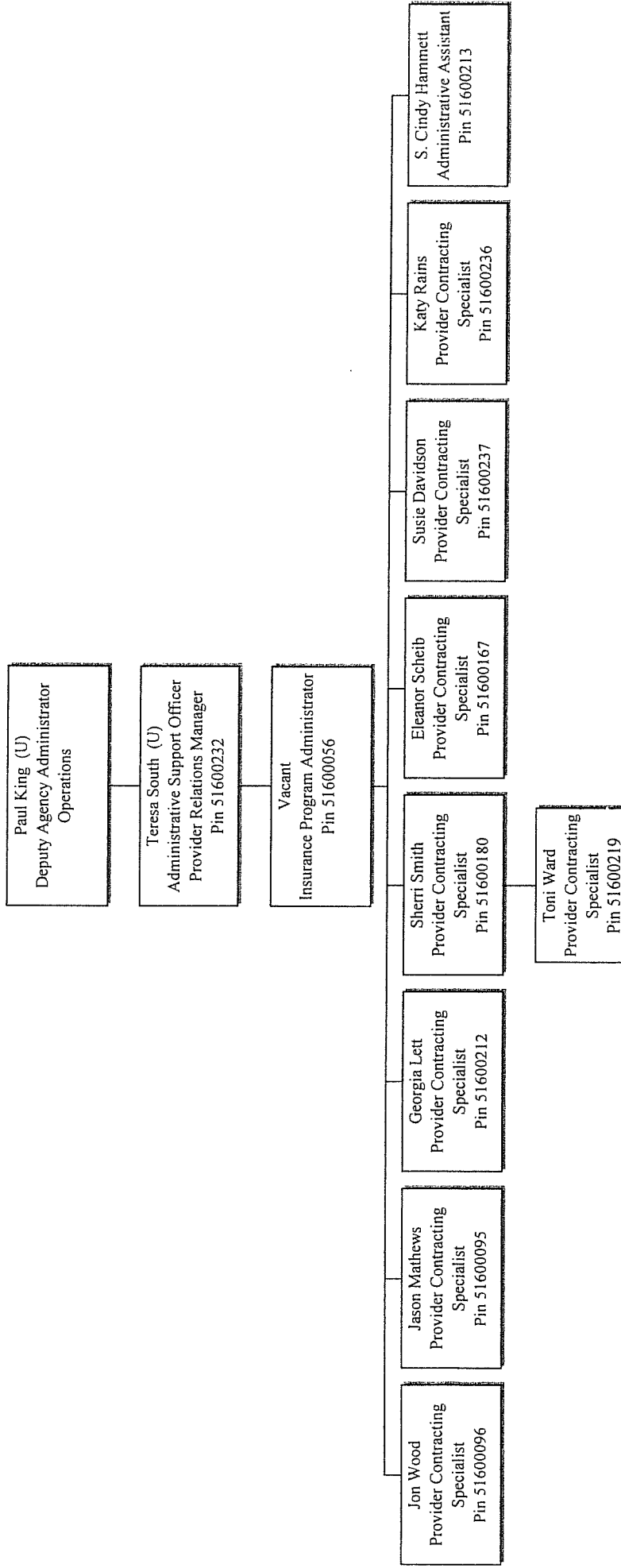
OSEEGIB Human Resources/Imaging Organizational Chart November 2009



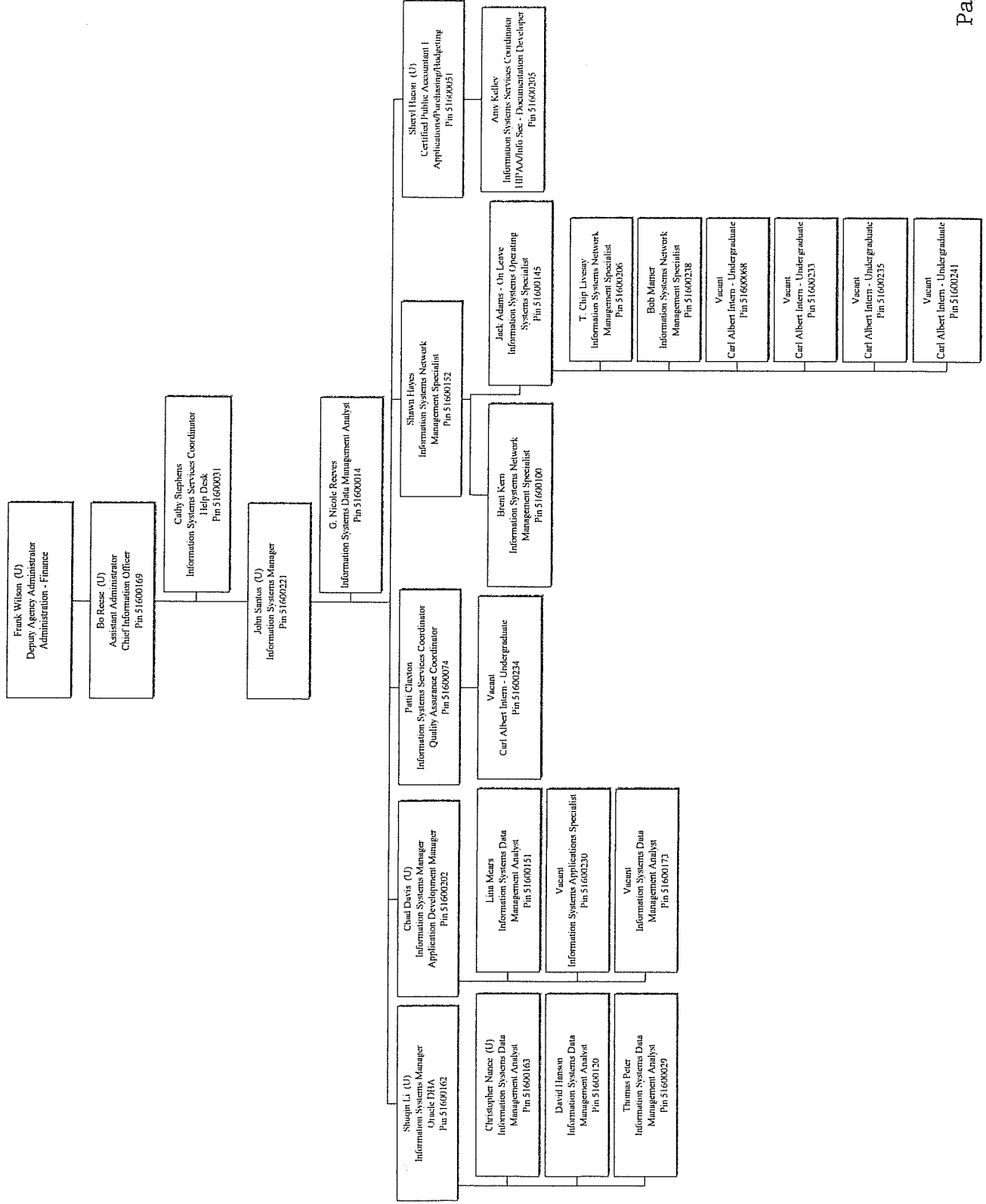
OSEEGIB Health Care Management Organizational Chart November 2009



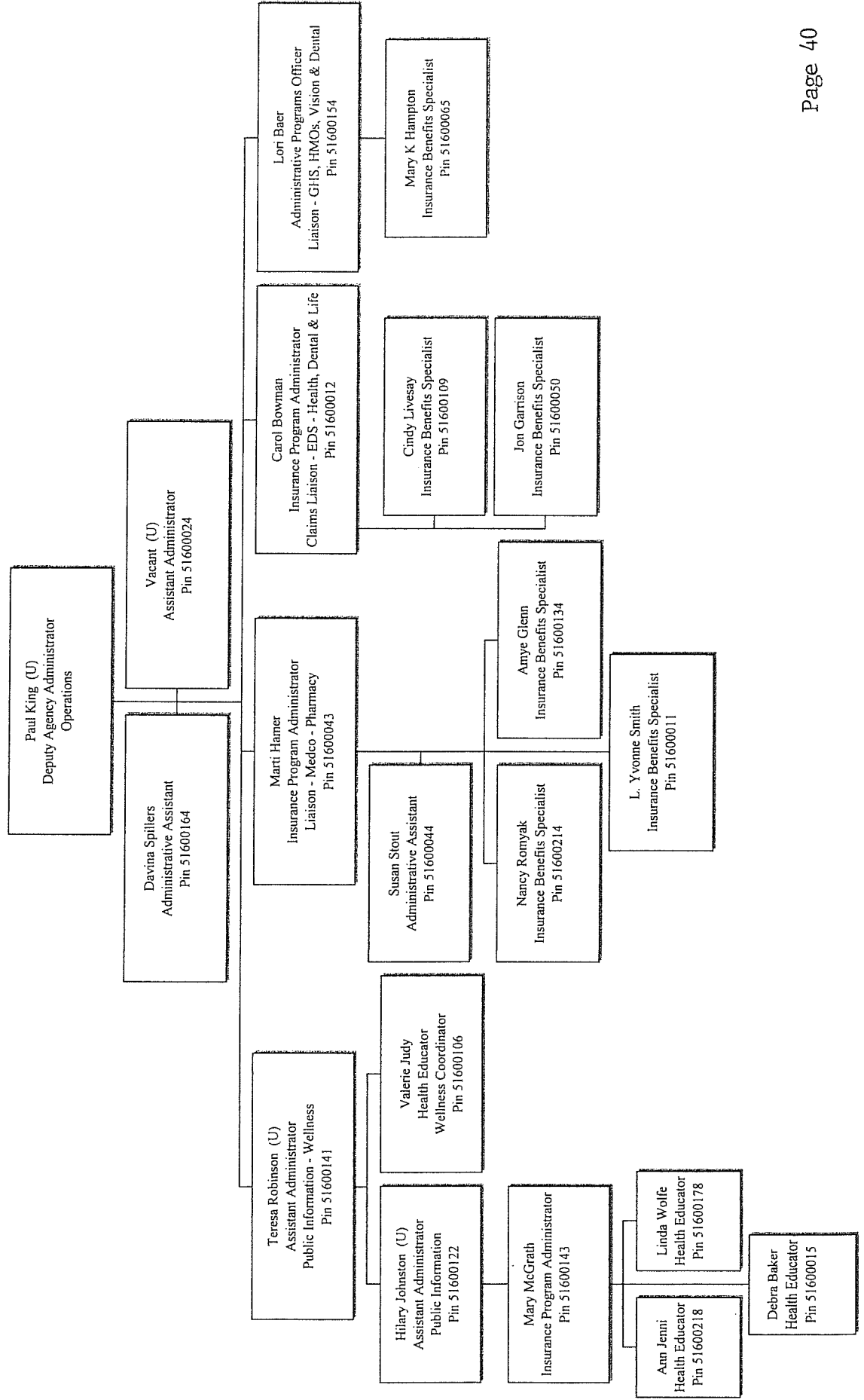
OSEEGIB Provider Relations Organizational Chart November 2009



OSEEGIB Information Technology Organizational Chart November 2009

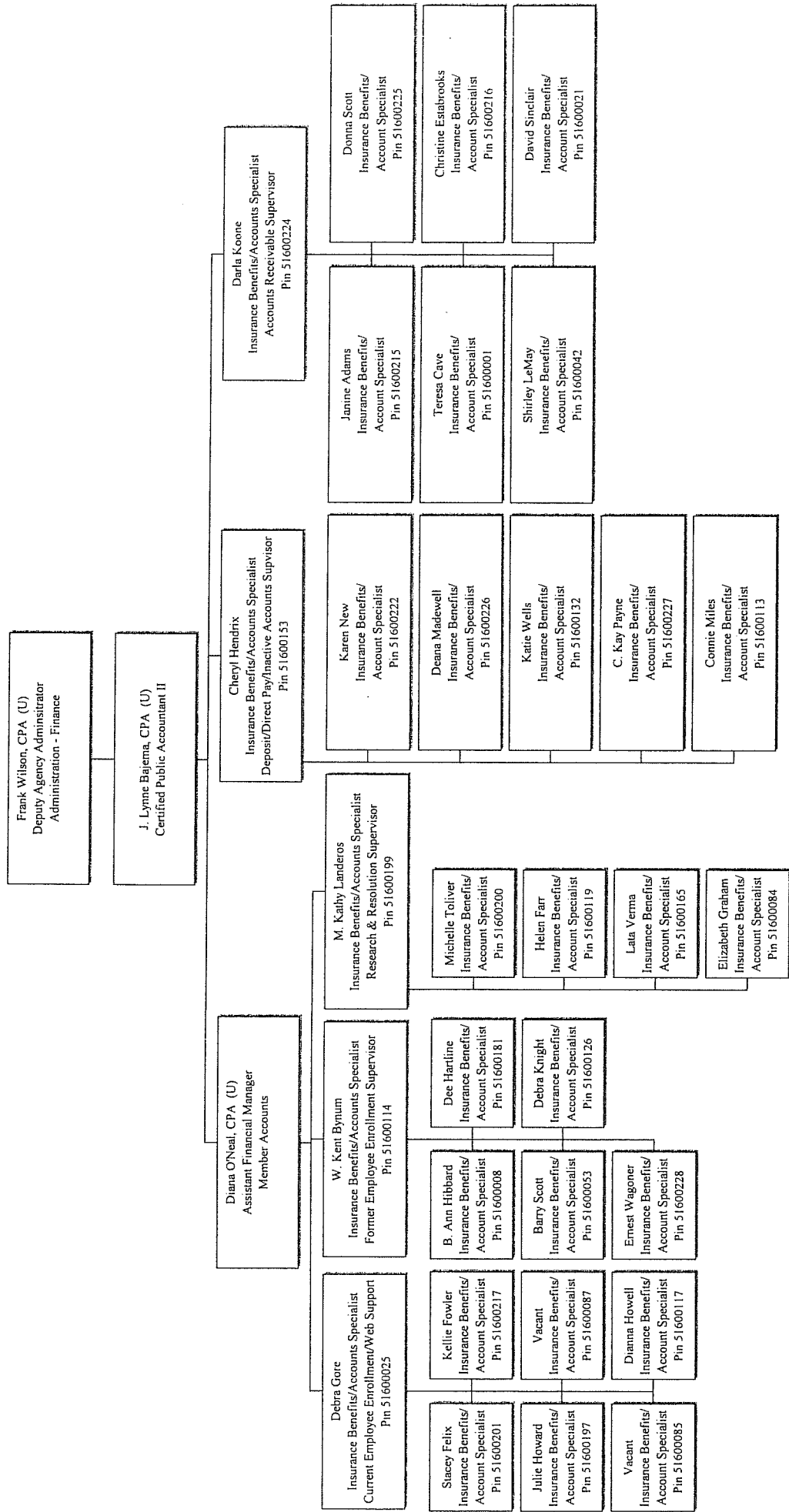


OSEEGIB Policy Research/TPA Management/Public Information Organizational Chart November 2009

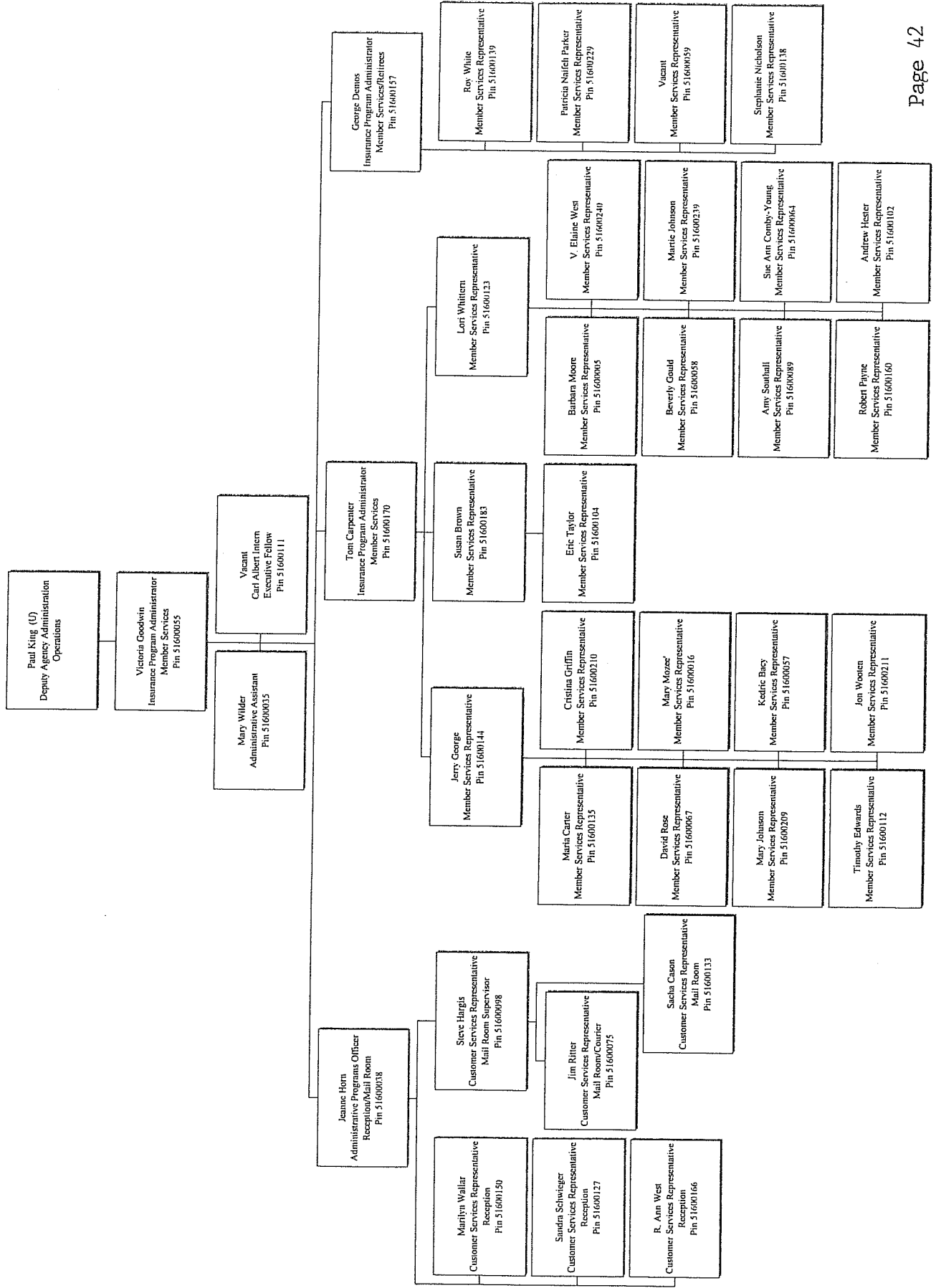


OSEEGIB Finance - Member Accounts

Organizational Chart November 2009



OSEEGIB Member Services Organizational Chart November 2009



Appendix B – State Statutes

The following summarizes the statutes reviewed. The application of these statutes to each of the project tasks has been mentioned in each section of the report.

Title 36. Insurance

Section 6553 – Private Review Agent Procedure – Applicability of Act – Exemptions

- o OSEEGIB except from provisions of the Hospital and Medical Services Utilization Review Act
- o If OSEEGIB contracts for review services, the contractor is subject to the Act

Article 12A-1 – Unfair Claims Settlement Practices Act

Section 1250.2 – Definitions (statute is effective 1/1/2010)

- o “Health benefit plan” includes the State and Education Employees Group Health Insurance Plan).

Section 6052 – Disclosure of Calculation for Copayment – Administrative Fines – Promulgation of Rules

- o Applies to any health insurance plan offered through the State and Education Employees Group Insurance Act

Section 6058A – Coverage of Child Under Parent's Health Plan

- o Insurer includes OSEEGIB

Section 6060 – 6060.9 Coverage of Specific Services

Section 6060.10 – Definitions

- o “Health benefit plan” includes OSEEGIB

Section 6060.11 – Insurance Plans to Include Treatment of Severe Mental Illness

Section 6060.12 – Exemption Following Excessive Increase in Premium Costs

Section 6060.13 – Commissioner to Analyze Impact on Premium Costs – Report

Section 6532 – Definitions for Health Insurance High Risk Pool Act

- o Insurer includes OSEEGIB plan

Section 6542 – Option to Annually Renew Policy – Termination of Health Insurance – Required Coverage – Costs, Premiums

Section 6934 – Health Maintenance Organizations May Provide Services Included in State or Federal Health Care Programs

- o Health maintenance organizations may provide any services included in state or federal health care programs, such as state employee benefits...

Title 57. Prisons and Reformatories

Section 38.3 – Medical, Dental, and Mental Health Care for Inmates

- o Network established by the Department of Corrections in conjunction with OSEEGIB

Section 627 – Responsibility for Medical and Surgical Inpatient and Outpatient Care of Inmates

- o Hospitals that are in the network are reimbursed according to the fee schedule

Title 62. Public Finance

Oklahoma State Finance Act

Section 34.56 – Special Agency Account Board

- o Monies used for investment purposes by OSEEGIB are exempt from the requirements of this section, and shall be placed with the respective custodian bank or trust company.

Section 34.57 – Agency Clearing Accounts – Deposits – Transfers – Exemptions

- o Monies used for investment purposes by OSEEGIB are exempt from the requirements of this section, and shall be placed with the respective custodian bank or trust company

Section 139.47 – Specified Emergencies – Expenditures Without Board Action

Title 63. Public Health and Safety

Section 2528.2 – Definitions for the Managed Care External Review Act

- o “Health benefit plan” includes the OSEEGIB plan

Section 2550.1 – Definitions for Managed Care Referral

- o “Managed care plan” includes plans operated by a managed care entity, including OSEEGIB

Section 2622 – Definitions for Medical Savings Account Act

- o "Medical savings account program" or "program" includes programs offered by OSEEGIB

Section 5003 – Policy of State to Provide Comprehensive Health Care – Purpose of Oklahoma Health Care Authority – Oklahoma Health Care Authority Act

- o The state is to provide comprehensive health care to state employees and officials and their dependents and to those who are dependent on the state for necessary medical care
- o The state is to develop effective and efficient health care delivery systems and strategies for procuring health care services in order for the state to continue to purchase the most comprehensive health care possible
- o Study all state-purchased and state-subsidized health care, alternative health care delivery systems and strategies for the procurement of health care services in order to maximize cost containment in these programs while ensuring access to quality health care
- o Make recommendations aimed at minimizing the financial burden which health care poses for the state, its employees and its charges, while at the same time allowing the state to provide the most comprehensive health care possible

Section 5005 – Definitions for the Oklahoma Health Care Authority Act

- o "Health services provider" means health insurance carriers, pre-paid health plans, hospitals, physicians and other health care professionals, and other entities who contract with the Authority for the delivery of health care services to state and education employees and persons covered by the state Medicaid program

Section 5011 – State and Education Employee Health Care Benefit Plans – Duties of Authority

- o Utilization and financial data reviews
- o Centralized enrollment files
- o Establishment of methods for collecting, analyzing, and disseminating information

Section 5015 – Review of State-Purchased and State-Subsidized Health Care Programs and Regulatory Agencies – Report

- o The Oklahoma Health Care Authority shall review state-purchased and state-subsidized health care programs and health care regulatory agencies, including OSEEGIB
- o Increase efficiency and coordination between programs
- o Analysis of the impact of cost shifting
- o Recommendations for structural changes

Section 5030.4A – Feasibility Study – Disease State Management Programs

- o Study of OSEEGIB's disease management pilot project

Title 70. Schools

Section 5-117.5 – Provision for Health Insurance Plan for School District Employees

- o State plan or obtain other coverage

Section 14-108.1 – Health Insurance Plan for Employees

- o State plan or obtain other coverage

Section 18-114.11 – Instruction Costs and Total Compensation to Certified Personnel – 2004-2005 School Year

Sections 26-101 through 26-105 of this title shall be known and may be cited as the "Larry Dickerson Education Flexible Benefits Allowance Act"

Section 26-102 – Purpose

- o To furnish school district employees with choices among various employee benefits or cash compensation.

Section 26-103 – Definitions

- o Self-insured

Section 26-104 – Funding to Provide Flexible Benefit Allowance – Cafeteria Plan

- o Funding is appropriated based on the number of eligible employees participating in the state plan or a self-insured plan
- o Every school district shall make available a cafeteria plan

Section 26-105 – Use of Flexible Benefit Allowance

- o Any excess can be used to purchase other coverage or taken as taxable income
- o Allowance is 100% the HealthChoice (Hi) option individual premium

Section 26-105.1 – Application to Certain School Districts

Title 74. State Government

Chapter 37 – State and Education Employees Group Insurance Act

Section 1301 – State and Education Employees Group Insurance Act

Section 1302 – Purpose

- o Provision of benefits that are competitive to private industry
- o Uniformity of benefits for all employees of the state
- o Promotion and preservation of good health

Section 1303 – Definitions

- o Board refers to OSEEGIB
- o Employee means state employees, education employees, and other participants

Section 1304 – State and Education Employees Group Insurance Board

- o Consists of eight (8) members as follows: The State Insurance Commissioner, or the Commissioner's designee who shall be an employee of the Insurance Department, the Director of the Office of State Finance, two members appointed by the Governor, two members appointed by the Speaker of the House of Representatives, and two members appointed by the President Pro Tempore of the Senate
- o The appointed members shall:
 - o professional experience in investment or funds management, public funds management, public or private group health or pension fund management, or group health insurance management; or
 - o be licensed to practice law in this state and have demonstrated professional experience in commercial matters; or
 - o be licensed by the Oklahoma Accountancy Board to practice in this state as a public accountant or a certified public accountant
- o At least 1 but not more than 3 members shall be appointed each from experience category
- o 7 member advisory Committee

Section 1305 – Meetings – Special Meetings – Quorum – Expenses – Gifts Or Gratuities

Section 1305.1 – State and Education Employees Group Insurance Board – Discharge of Duties – Investments – Insurance – Quarterly Financial Report

- o OSEEGIB will discharge their duties for the exclusive purpose of providing benefits to the participants and their dependents and defraying reasonable administration expenses
- o Investments only in assets eligible for the investment of funds of legal reserve life insurance companies in this state as provided for in Sections 1602 through 1611, 1613 through 1620, and 1622 through 1624 of Title 36 of the Oklahoma Statutes.

Section 1305.2 – Fiduciaries – Duties, Powers, and Responsibilities

Section 1306 – Powers and Duties of Board

- o OSEEGIB will administer, manage, set premium rates for the benefit plans
- o Develop plan specifications
- o Utilize the state Purchasing Division to contract with claims administrator
- o Determination of eligibility and payroll deduction amounts
- o Study and monitor of the plans
- o Administration of the reserve funds
- o Auditing of claims
- o Selection and contracting with HMO
- o Payment/receipt of potential risk adjustment
- o Set premiums equal for active employees and retirees under 65
- o Contract for utilization review services

Section 1306.1 – Right of Subrogation

Section 1306.2 – Utilization Review Plan – Annual Fee

Section 1306.3 – Creation of Payment Rate Review Task Force

- o Recommends any reimbursement changes

Section 1306.4 – Implementation of a Pilot Disease Management Program

Section 1306.5 – Mutual Written Consent Required

- o Contracts with providers

Section 1306.6 – Employment of Necessary Personnel

Section 1307 – Specifications – Limitations On Benefits – Exceptions

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Section 1307.1 – Right to Change Primary Care Physician

Section 1307.2 – Coverage for Gestational Diabetes

Section 1307.3 – Out-of-State Hospitals – Payments for Medical Services

Section 1308 – Enrollment In Plan

- o OSSEEGIB will determine enrollment procedures

Section 1308.1 – Insurance Benefits to Education Employees

- o Benefits plans shall be same for education employees and state employees

Section 1308.2 – Preexisting Condition Exclusion

Section 1309 – Coverage of Dependents

Section 1309.1 – Coverage of Dependent up to Age Twenty-Five

Section 1310 – Payment To Funds

- o Each state agency will make payments to the reserve fund at the amounts set by OSEEGIB

Section 1310.1 – Premiums for Employees of Education Entity

- o No less than one hundred percent (100%) of the premium amount for the HealthChoice (HI) option plan for an individual
- o The amount a school district is required to pay pursuant to this subsection shall be reduced by the flexible benefit allowance provided for in Section 26-105 of Title 70 of the Oklahoma Statutes
- o Premium same for state agencies and education entities

Section 1310.2 – School District Health Care Premiums – Percentage Paid by District

- o School district is to pay 50% of individual coverage for employees not otherwise covered in section 1310.1 of Title 74

Section 1311 – Payroll Deductions

Section 1311.1 – Monthly Contributions from Persons Drawing Disability Benefits

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Section 1312 – Health And Dental Insurance Reserve Fund

- o Consists of contributions, appropriations, dividend payments, and investment income

Section 1312.1 – Revolving Fund

- o Consists of funds transferred from the Health and Dental Insurance Reserve Fund and the Life Insurance Reserve Fund for operational expenses and HMO fee
- o Revolving fund, not subject to fiscal year limitations

Section 1312.2 – Creation of Life Insurance Reserve Fund – Investment of Funds – Payments to Reserve Fund

- o Consists of contributions, appropriations, dividend payments, and investment income
- o OSEEGIB responsible for the management of the fund
- o Monies in said reserve fund shall be invested by the Board in the manner specified in Section 1305.1

Section 1312.3 – Creation of State Employees Group Insurance Clearing Fund

Section 1314 – Officers And Employees Exempt – Options

Section 1314.1 – Employment Security Commission – System Of Higher Education – Participation – Payroll Deductions

Section 1314.2 – Terms Defined for Security Commission

Section 1314.3 – Participation in State Plan – Supplemental Insurance Benefits – Payment of Premiums – Preexisting Condition Limitations

- o All otherwise eligible Oklahoma Employment Security Commission employees after the effective date of this act shall participate in the State Plan and shall not be entitled to the supplemental health insurance
- o Except as provided in this subsection, employees and retirees of the Commission, and their dependents, shall be covered under the dental and life insurance plans provided by the State and Education Employees Group Insurance Board pursuant to the same provisions and premiums as apply to the employees and retirees of other state agencies

Section 1314.4 – Provisions for Supplemental Health Insurance – Oklahoma Employment Security Commission

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Section 1314.5 – Supplemental Health Insurance – Competitive Procurement – Oklahoma Security Commission

Section 1315 – Participation by Political Subdivisions, Local Service Agencies and Public Trusts

- Includes counties, cities, towns, public trusts, conservation department, county hospitals, rural water districts, etc.
- Groups shall pay all costs
- Premium same as state and education employees

Section 1315.1 – Extension of Benefits to the Secretary of a County Election Board

Section 1316.1 – Retirement Benefits – Continuance

Section 1316.2 – Continuance of Health and Dental Insurance Benefits – Retired Employees – Dependents of Deceased Employee

- Public retirement systems contribute a monthly amount towards the health insurance premium of certain individuals

Section 1316.3 – Continuance of Health and Dental Insurance Benefits – Schedule of Maximum Benefits Payable on Behalf of Retired Person – Dependents of Deceased Employee

Section 1317 – Blind Vending Stand Operators And Managing Operators – Eligibility

Section 1318 – Maximum for Which Reemployed Ex-Employees May be Insured

Section 1320 – Employment of Administrator, Director of Internal Audit, Attorneys, Actuaries, Consultants and Other Personnel

- Administrator shall employ such persons as are necessary
 - Administrator or deputy administrator must have at least 7 years of group health insurance administration experience at managerial level
- One attorney who is licensed in the state with not less than 5 years of experience in insurance industry
- Director of internal audit is authorized to audit all records of health providers and pharmacists who enter into any contract with the Board in order to ensure compliance with said contract provisions
- Board may contract through competitive bid a consulting actuary, medical consultant, dental consultant

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- Board may request assistance of Attorney General and actuaries employed by the Insurance Commissioner

Section 1321 – Determination of rates, benefits, and premiums

- Rates determined by OSEEGIB for active employees and dependents is made no later than the HMO bid submissions

Section 1322 – Confidentiality of Information – Inspection of File

- Members information is confidential

Section 1323 – Penalties for Knowingly Making False Statements

Section 1324 – Coverage for Common Side Effects of Retropubic Prostatectomy Surgery.

Section 1325 – Changes in Reimbursement Rates or Methodology – Hearing

- Hearing before any major changes in reimbursement rates or methodology

Section 1326 – Fee Schedules

- Available upon request

Section 1327 – Optometrist's Services

- Optometrists shall provide vision care or medical diagnosis and treatment of the eye

Section 1328 – State and Education Employees Group Insurance Plan

- Claims administrator shall pay clean claims within 45 days

Title 74. State Government

Chapter 37A – State Employees Disability Program Act

Section 1332 – Establishment of Disability Insurance Program for State Employees

- OSEEGIB shall establish long-term and short-term disability program for state employees
- Funding is appropriated
- Employees do not contribute to the plan
- OSEEGIB may contract out for claims administration

Section 1332.1 – Collections from State Agencies – Deposits – Monthly Statements – Reports – Deduction of Premiums

- OSEEGIB collects premium each month from state agencies
- Funds are deposited into the State Employees Disability Reserve Fund
- Required reporting

Section 1332.2 – Participation in Disability Insurance Program – Retention of Disability Status

Section 1333 – Creation of State Employees Disability Insurance Reserve Fund – Investments

- Fund includes appropriations, dividend payments, and investment income
- OSEEGIB responsible for management and investment of funds
- Administrative expenses are paid from the reserve fund

Section 1335 – Participation in Disability Insurance Program

- Counties can participate

Title 74. State Government

Chapter 37B – State Employees Flexible Benefits Act

Section 1341 – State Employees Flexible Benefits Act

Section 1342 – Definitions

- Board refers to OSEEGIB
- Flexible benefit plan is a written plan which meets the requirements of Section 125
- Employee refers to any person eligible for participation in State and Education Employees Group Insurance Act (section 1301) or member of the state Employment Security Commission
- Employee does not include employee of State Regents for Higher Education or any institution under the Regent's authority, or any employee of a school district or political subdivision of the state, except as provided in section 1348

Section 1343 – State Employees Flexible Benefits Plan

- OSEEGIB shall retain necessary persons or entities to implement and administer the plan
- Must comply with Oklahoma Central Purchasing Act

Section 1344 – Establishment of Flexible Benefits Plan

- All state employers shall offer the plan

- OSEEGIB shall contract with claims administrator

Section 1346 – Creation of Flexible Benefit Revolving Fund

- Continuing, not subject to fiscal year limitations
- Consists of payroll deductions and contributions
- “All monies accruing to the credit of said fund are hereby appropriated and may be budgeted and expended” by OSEEGIB for expenses

Section 1348 – Development of Flexible Benefits Plan Available to State Regents for Higher Education

- Developed by OSEEGIB in accordance to section 1344

Title 74. State Government

Chapter 38A – Oklahoma State Employees Benefits Act

Section 1361 – Short Title of "Oklahoma State Employees Benefits Act".

Section 1362 – Purpose of Act

- Provision of choice of benefits that are competitive to private industry
- Provision of health insurance, term life insurance, and long-term disability to state employees and their dependents
- Provision of optional employee benefits
- Management, coordination, and design of benefits
- Uniformity of benefits between active state employees and other members eligible groups
- Promotion and preservation of good health

Section 1363 – Definitions

- Basic plan includes health, dental, disability, and life benefits
- Board refers to OSEEGIB
- Council refers to EBC
- Flexible benefit allowance
- Flexible benefit dollars

Section 1364 – Creation of Oklahoma State Employees Benefits Council – Composition – Members – Administration – Meetings

- The Administrator of the Office of Personnel Management;
- Two members appointed by the Governor;

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- One member appointed by the President Pro Tempore of the Senate; and
- One member appointed by the Speaker of the House of Representatives...

Section 1365 – Duties, Responsibilities and Authority of Oklahoma State Employees Benefits Council

- To interpret the plan, including eligibility
- To select the benefits
- To retain or employ necessary agencies, persons, or entities
- To prescribe enrollment and election procedures
- To prepare and distribute information subject to the following conditions
- To keep reports of benefit elections, claims and disbursements
- To conduct HMO negotiations
- To transfer funds to HMOs
- To retain confidential information
- To purchase insurance including dental – excludes any PPO plan other than HealthChoice
- To access and collect administrative fees

Section 1366 – Establishment of Flexible Benefits Plan

- Contracting is on a competitive basis and not subject to Oklahoma Central Purchasing Act

Section 1366.1 – Duties of Council and Board Regarding Contracts

- HMOs are not required to offer enrollment in every service area
- HMOs not required to offer a Medicare supplement plan unless currently offers such plan to other entities in the state
- HMOs must offer standardized plan

Section 1366.2 – Geographic Service Areas – Medicare Supplemental Plans -- Standardized Benefit Plan – Collection of Premiums

- HMOs are not required to offer enrollment in every service area
- HMOs not required to offer a Medicare supplement plan unless currently offers such plan to other entities in the state
- HMOs must offer standardized plan

Section 1368 – Creation of Benefits Council Administration Revolving Fund

- Continuing fund, not subject to fiscal year limitations
- Includes all monies paid to EBC other than flexible benefit dollars
- Use is limited to direct operation of EBC

Section 1369 – Participation in Plan – Eligibility

Section 1370 – Flexible Benefit Dollars – Flexible Benefit Allowance

- o Sum of the average monthly premiums of all high option health insurance plans, excluding the point-of-service plans, the average monthly premiums of the dental plans, the monthly premium of the disability plan, and the monthly premium of the basic life insurance plan offered to state employees
- o Dependents are covered at 75%

Section 1371 – Purchase of Basic Plan – Benefit Plans

- o All participants must choose at least the basic plan
- o EBC designs the basic plan (health, dental, disability, and life)
- o OSEEGIB is responsible for design and pricing of their plans
- o Premiums for active employees and retirees under 65 shall be equal
- o HMO plans
 - o Competitively bid
 - o Not subject to Oklahoma Central Purchasing Act
 - o All plans meeting requirements must be accepted unless pricing is excessive
- o Risk adjustment for adverse selection may occur

Section 1372 – Claims – Notice of Denial

- o EBC will make determinations

Section 1373 – Coverage for Side Effects of Radical Retropubic Prostatectomy Surgery

Section 1374 – Vision Plan Options

- o Offer all vision plans that notify EBC and OSEEGIB of their desire to participate given various requirements including statewide network of at least 150 providers, has operated in the state for over 5 years, and licensed in the state.
- o Any administrative fees imposed by the EBC or OSEEGIB must be applied equally to all qualified vision plans

Section 1375 – High Deductible Health Plan – Health Savings Account

- o OSEEGIB shall offer a high deductible plan

Title 74. State Government

Chapter 38B – Wellness Program Act

Section 1381 – Wellness Program Act

Section 1382 – Creation of Wellness Council

- o Created within EBC
- o Composed of one representative from every state agency

Section 1383 – Development of Wellness Programs – Encouragement to Participate – Wellness Coordinating Committee

- o Council shall work to encourage participation by state employees
- o Wellness Council shall be responsible for coordinating with OSEEGIB, EBC, EA, and the Oklahoma Health Care Authority

Section 1384 – Creation of Wellness Program Fund

- o Created within the State Treasury
- o Continuing fund, not subject to fiscal year limitations
- o Consists of all money received by the Wellness Council through grants, donations, fund transfer from EBC, etc.

Employee defined – Maximum number of full-time-equivalent employees

- o 178 OSEEGIB
- o 38 EBC

Appendix C – Budgets of OSEEGIB and EBC

OSEEGIB Fiscal Year 2010 Budget				
	Admin	IT	TPA Contracts	Total
Salaries/Personnel	\$ 11,481,873	\$ 1,933,378		\$ 13,415,250
Professional Services	2,782,736	211,000	19,553,880	22,547,616
Administrative Expenses	1,388,261	232,500		1,620,761
Travel	226,300	32,500		258,800
Rent	663,883			663,883
Office Supplies	4,750			4,750
Furniture & Equipment	124,425	486,700		611,125
Maintenance & Repair	54,300	531,404		585,704
Library Equip & Resources	40,588	5,000		45,588
Scholarships, Awards & Incentive Pmts	1,000			1,000
Employee Reimbursements	500			500
OK High Risk Pool	2,400,000			2,400,000
Total	\$ 19,168,616	\$ 3,432,482	\$19,553,880	\$ 42,154,977

EBC Fiscal Year 2010 Budget				
	Admin	Wellness	IT	Total
Salaries/Personnel	\$ 1,795,954	\$ 420,298	\$ 528,860	\$ 2,745,112
Professional Services	455,000	582,310	442,000	1,479,310
Administrative Expenses	309,000	12,500	15,900	337,400
Travel	55,000	5,000	5,000	65,000
Rent	131,000			131,000
Office Supplies	50,000	5,000	2,500	57,500
Furniture & Equipment	25,000	3,000	368,316	396,316
Interagency – Personal Svc	31,061			31,061
Interagency – Admin Expense	10,500			10,500
Total	\$ 2,862,515	\$1,028,108	\$ 1,362,576	\$ 5,253,199

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Appendix D – Proposed Budget of Oklahoma Health & Wellness (OK H&W)

Milliman reviewed the budget data that was provided by OSEEGIB and EBC. We developed an estimate of the budget for the new OK H&W entity. It should be made clear that no positions have been eliminated in this proposed budget. The main focus here was to reduce overhead expenses and to consolidate control.

Based on data provided by OSEEGIB and EBC, the total budgets for fiscal year 2010 were \$42.15 million and \$5.25 million for OSEEGIB and EBC, respectively.

In combining the two entities, Milliman identified areas from both entities where expenses could be reduced. For OSEEGIB, more than \$911,000 could be eliminated with reductions related to investment operations. For EBC, more than \$1.14 million in expenses could be eliminated from reductions in IT related and general professional services, overhead, and some general administrative expenses. By consolidating the two entities, an estimated reduction of approximately \$2.05 million in expenses could be saved.

Oklahoma Health & Wellness (OK H&W)					
	Admin	Wellness	IT	TPA Contracts	Total
Salaries/Personnel	\$13,277,827	\$420,298	\$2,462,238		\$16,160,362
Professional Services	2,141,636	560,310	391,000	19,553,880	22,646,826
Administrative Expenses	1,593,261	12,500	232,500		1,838,261
Travel	281,300	5,000	37,500		323,800
Rent	663,883				663,883
Office Supplies	54,750	5,000	2,500		62,250
Furniture & Equipment	124,425		486,700		611,125
Maintenance & Repair	54,300		531,404		585,704
Library Equip & Resources	40,588		5,000		45,588
Interagency – Personal Svc	6,000				6,000
Interagency – Admin Expense	10,500				10,500
Scholarships, Awards & Incentive Pmts	1,000				1,000
Employee Reimbursements	500				500
OK High Risk Pool	2,400,000				2,400,000
Total	\$20,649,970	\$1,003,108	\$4,148,842	\$19,553,880	\$45,355,799

Appendix E – Benefit Allowance Calculations

We reviewed the statutes that pertain to the Flexible Benefit Allowance that is offered to state employees.

It is our understanding that the total amount that the state contributes for a state employee for payment of insurance premiums or other benefits is based on the following formula:

$$\begin{aligned} \text{Total Benefit Allowance} = & \\ & \text{[The arithmetic average of the monthly premiums of all of the high option health benefit} \\ & \text{plans, excluding point-of-service plans]} \\ + & \text{[The arithmetic average of the monthly premiums of the dental plans]} \\ + & \text{[The monthly premium of the disability plan]} \\ + & \text{[The monthly premium of the basic life insurance plan]} \\ + & \text{[75\% of the arithmetic average of all high option health benefit plans, excluding point-of-} \\ & \text{service plans, for dependent(s) of the state employee]} \end{aligned}$$

Based on the information provided by the Working Group, we calculated the total benefit allowance for a state employee and covered dependent(s) for 2009. The total applicable allowance for 2009 is summarized below.

2009 State Employee Benefit Allowance	
Employee Only	\$ 574.37
Employee and Child	828.17
Employee and Children	924.83
Employee and Spouse	1,152.49
Employee, Spouse and Child	1,406.28
Employee, Spouse and Children	1,502.94

If the state were to adopt a winner take all approach to the HMO procurement process and award just one HMO, there would be potential for some significant savings. To illustrate this, we estimated the total benefit allowance assuming one standard HMO. In this example, we have assumed that GlobalHealth would have been awarded the HMO contract. Additionally, we assumed that the HealthChoice high option rates be used as a floor in determining the arithmetic average of the health plan premiums.

State Employee Benefit Allowance Based on 1 Standard HMO Plan Awarded		
Tier	Allowance	% Chg
Employee Only	\$ 438.01	-23.7%
Employee and Child	587.99	-29.0%
Employee and Children	695.33	-24.8%
Employee and Spouse	878.95	-23.7%
Employee, Spouse and Child	1,028.93	-26.8%
Employee, Spouse and Children	1,136.27	-24.4%

As seen in the example above, including one standard HMO has the potential of reducing the employee only benefit allowance by approximately 23.7%.