



STATE OF TENNESSEE  
DEPARTMENT OF FINANCE AND ADMINISTRATION  
BENEFITS ADMINISTRATION

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**TO: Central State and UT/TBR State Insurance Plan Members**

I have important news to share with you about your health insurance premiums. At their last meeting, the State Insurance Committee approved a **6 percent premium increase** for 2010. At the same time, the Committee approved **two premium holidays**, which means that no premiums will be deducted from your December 2009 and January 2010 paychecks. In other words, you'll have more money in your pocket. What's more, the amount will be greater than the additional amount you will pay as a result of the premium increase.

For example, if your monthly premium is \$100, it would be \$106 in 2010. The increase of \$6 a month equals \$72 for the year (twelve months x \$6). The two premium holidays, however, will save you \$212 (two months x \$106), or \$140 more than the amount of your premium increase.

**Why Both at the Same Time?**

*You may wonder why both an increase and two premium-free months were approved at the same time. The simple answer is because each action responds to a different situation.*

- First, as with all health plans across the country, our costs continue to rise. In Tennessee, we have the added challenge of covering an aging population with an increasing number of cases of high-cost diseases such as diabetes, hypertension and heart disease. As a result, our costs have increased an average of 7 to 8 percent each year. The health insurance plans must prepare for the increase in costs we expect to see next year, which is why we have a premium increase. In a tight budget year we are able to increase premiums less than our expected medical expenses due to cost-saving changes we made in the plan. Even with this premium increase, the State will continue to pay the majority of the cost (80 percent) of the new premium.
- Second, the State's insurance plans are self-funded, and the funding comes from both you, through your premiums, and the State. **This money is put into a reserve fund, which is essentially a "bank account" for the insurance plan.** When you or a dependent has a medical expense, we pay your insurance carrier -- BlueCross, CIGNA or United -- from this account. One of our jobs is to estimate 18 months in advance how much money we will need to cover these medical claims. We are also required to maintain a cash surplus in our insurance fund "bank account" that exceeds the estimated cost of the plan by 5 to 10 percent to cover unexpected expenses. On those rare occasions when we have more money than is required, we give it back to our plan members. In 2009, we returned the excess by not increasing premiums.

The premium holidays, combined with a premium increase, give you more money now while making sure our premiums match next year's costs.

### **How We Continue to Manage Costs**

This year, the State took several steps to efficiently and responsibly manage the plan's finances, which have contributed to the less-than-expected 6 percent premium increase as well as the premium holidays in December and January. These include:

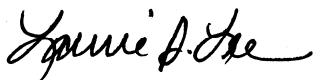
- Increased *co-pays* for the most expensive brand-name drugs to encourage the use of generic medications. Even with these new co-pays, members pay only a fraction of the actual costs for their prescriptions.
- Plan coverage for *generic proton pump inhibitors only* for the treatment acid reflux.
- A Dependent Eligibility Verification that will result in savings to the state of more than \$10 million annually through the voluntary drop of 4,700 ineligible dependents.

### **What's Coming**

This spring we will introduce a single pharmacy benefits manager, which will strengthen our buying power. This will provide the State with better pricing for medications and will save money for members and the plan.

We continue to explore new ways to preserve our comprehensive and affordable health benefits. In the future we want to offer health plans that will reward smart choices and offer a broader range of price points. You will be hearing more about these ideas in the months ahead. Meanwhile, if you have questions, please feel free to call the Benefits Administration Service Center at 615-741-3590 or toll-free at 1-800-253-9981.

Sincerely,



Laurie Lee  
Executive Director  
Benefits Administration