To: SmartValue Members of the University System Retiree Health Plan

From: UMS System Office of Human Resources

Subject: Increase in Cost for Dependent Coverage

Medicare Eligible Retirees/Dependents

University retirees in our health plan who are Medicare eligible will see some changes beginning in January, 2010.

The University’s SmartValue group health plan (provided through Anthem BCBS) covers prescription drugs and a series of preventative and clinical services not covered by Medicare. The University currently pays the SmartValue premium in full for most Medicare-eligible retirees. Retirees pay 50% of the cost of the premiums paid for their dependents.

The premium for the SmartValue plan has been unusually low during the last two years thanks to the introduction of the SmartValue Medicare Advantage plan in 2008. Rates paid by retirees for dependent coverage dropped from $183 per month in 2007 to $62 in 2008 and rose only to $77 in 2009.

Unfortunately, we have learned from our insurance carrier that in calendar 2010 the premium the University will have to pay for those in the retiree health plan will rise by 79%. The cause is not simply sharply rising health costs, but also the anticipated loss of most of the substantial federal subsidy paid to Medicare Advantage insurers for taking on certain administrative and accounting tasks formerly handled by Medicare.

Under the University’s long-standing policy, most retirees will still contribute only for their dependents’ coverage, at the same 50% level. Under that formula the new monthly cost is $138 for Medicare-eligible dependents, effective in January, 2010. While this is a significant percentage increase, it is still lower than the $183 paid for such coverage in 2007, and approximates the rate charged in 2003, as shown in the chart below.
The premium increase would have been even higher were it not for several co-pay and co-insurance changes in the plan which also become effective in January, 2010. They are detailed in the attachment and involve $10 co-pays and 10% co-insurance for certain services now covered in full by the plan.

Please note these important points:

- There is no change in the cost of pharmaceuticals under the plan. The recently introduced ‘zero co-pay’ for selected generic medications will continue. (Anthem will be sending you the most current list of ‘Select Generic’ drugs in early November, 2009.)
- There is no change in the $1,100 calendar year maximum out-of-pocket expense per person for covered services, which includes the deductible.
- There is no change in the annual deductible – which is still $300 per person.
- Many services will continue to be provided with no co-pay or co-insurance after the deductible has been reached.

Nonetheless, the small co-pay and co-insurance changes – which apply to all members, not just dependents - have brought the 2010 premium well below what it would have been without these changes.
Medicare-eligible retirees pay 50% of the dependent premium with the remaining 50% paid by the University. In 2009, their cost was $77.00 and will rise to $138.00 effective January 1, 2010, 79% increase.

Some Medicare-eligible University retirees are required to pay 100% of their premium and any Medicare-eligible dependent premium. That cost will increase by 79% effective January 1, 2010 to $275.00 per month for individuals and $550.00 for couples.

We are following the changes being considered nationally under Health Reform and will attempt to integrate our plan with those changes for the maximum benefit to our plan participants.

The University System is also conducting a general review of its retiree health plan, and will be considering further changes to reduce its long-term impact on the University budget, while protecting this important program recognized by all as a vital part of our continuing human resources strategy.