

KANSAS STATE EMPLOYEES  
HEALTH CARE COMMISSION



ANNUAL  
REPORT



**2011**  
PLAN YEAR

Kansas State Employees Health Care Commission  
2011 Annual Report

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## EXECUTIVE SUMMARY

- Effective July 1, 2011, the administration of the State Employee Health Plan (SEHP) moved from the Kansas Health Policy Authority to the Kansas Department of Health and Environment (KDHE). The Director of the State Employee Health Benefits Program (SEHBP) now reports to the Director of the Division of Health Care Finance within KDHE.
- Based upon staff projections and the opinion of the SEHP actuaries, the SEHP fund should have sufficient funds to pay the health care expenses for a self-funded plan covering approximately 99,000 lives for 2012.
- Active employee open enrollment was held from October 1 through October 31. Approximately 33,139 employees utilized the web-based open enrollment system to make their elections for PY 2012. One hundred and eight open enrollment meetings were held for employees in thirty-three (33) cities. Staff estimates that approximately 6,368 employees attended these meetings.
- This was the first year for Non State Public Employer Groups to use an online open enrollment portal for enrollment, and 7,420 Non State employees made their health care elections. Future enhancements of the enrollment portal will add the ability for the Non State groups to provide online enrollment for newly hired members as well as to make changes in eligibility for enrolled members. In addition, new groups joining the SEHP will be able to enroll online for the initial enrollment.
- The Patient Protection and Affordable Care Act (PPACA) created a new program called the Early Retiree Reinsurance Program (ERRP) to help address the challenges that employers and retirees not eligible for Medicare are facing. The ERRP provided a pool of \$5 billion to be used as reinsurance for employer groups covering the claims of high-cost retirees and their families. ERRP funds can be used to provide premium relief and other health care cost relief to retirees, to offset increases in retiree health care premiums or costs, or for a combination of these purposes. The SEHP submitted a claims file for consideration and received reimbursement of \$2.8 million from the program in Plan Year (PY) 2011.
- In August 2011, the Governor announced a voluntary retirement incentive program (VRIP) for state employees who were retirement eligible. Under the VRIP, employees could select either a cash option or to have their post-retirement SEHP coverage paid for by the State for up to 60 months for member-only coverage or up to 42 months for member-plus-dependent coverage or until the employee reached age 65, whichever comes first. There were 594 employees who elected to take the health plan option for single coverage and 218 who elected the member and dependent coverage option.
- The SEHP engaged in a dependent eligibility audit to ensure that all dependents currently enrolled in the SEHP meet the eligibility requirements. This project is expected to be completed during the first quarter of 2012.
- The Health Care Commission (HCC) voted to replace the tobacco discount with the new HealthQuest Rewards Program beginning with PY 2013. Employees will need to earn 20 credits by participating in the wellness program by July 31, 2012, in order to qualify for the premium discount for PY 2013. Employees are required to complete the online health assessment worth 10 credits and earn 10 credits for wellness activities, such as being a non tobacco user or completing the tobacco cessation program.

## BACKGROUND

The Kansas State Employees Health Care Commission (HCC) was created by the 1984 Legislature through the enactment of K.S.A. 75-6501 et seq. to “develop and provide for the implementation and administration of a state health care benefits program. . . . [It] may provide benefits for persons qualified to participate in the program for hospitalization, medical services, surgical services, nonmedical remedial care and treatment rendered in accordance with a religious method of healing and other health services.” Under K.S.A. 75-6504(b), the HCC is authorized to “negotiate and enter into contracts with qualified insurers, health maintenance organizations and other contracting parties for the purpose of establishing the state health care benefits program.”

The HCC is composed of five (5) members and met six (6) times during 2011. The Secretary of Administration and the Commissioner of Insurance serve as members of the HCC as mandated by statute, while the Governor appoints the other three members. K.S.A. 75-6502 requires one member to be a representative of the general public, one member to be a current state employee in the classified service, and one member to be a retired state employee from the classified service. The Secretary of Administration, Dennis Taylor, serves as the Health Care Commission chair. The 2011 HCC members were:

**Dennis Taylor**, Chair and Secretary of Administration  
**Sandy Praeger**, Commissioner of Insurance  
**Steve Dechant**, retired employee from the classified service  
**Nancy Ruoff**, active employee from the classified service  
**John Staton**, representative from the general public until August 2011  
**J. Scott Day**, representative from the general public beginning August 2011

Aon Consulting provides the actuarial and consulting services for the health plan.

An Employee Advisory Committee (EAC) assists the HCC. It is composed of 21 members, 18 of whom are active employees and 3 who participate through Direct Bill. Members are selected on the basis of geographic location, agency, gender, age, and plan participation in order to ensure a balanced membership representing a broad range of employee and Direct Bill member interests. Each member serves a three (3) year term. (See Exhibit A.) The EAC met five (5) times during 2011.

Effective July 1, 2011, the administration of the State Employee Health Plan (SEHP) moved from the Kansas Health Policy Authority to the Kansas Department of Health and Environment (KDHE). The Director of the State Employee Health Benefits Program (SEHBP) now reports to the Director of the Division of Health Care Finance within KDHE. The SEHP is responsible for bringing recommendations to the HCC and with carrying out the operation of the SEHP according to HCC policy. SEHP staff prepared this report.

## I. SUMMARY OF CHANGES AND OTHER ACTIVITIES IN PLAN YEAR 2011

This section provides a summary of improvements, changes, and other activities in the State Employee Health Plan (SEHP) that occurred or took effect in the 2011 plan year (i.e., calendar year 2011). The summary includes a record of the HCC's contracting activities during the year and an overview of the enrollment trends during 2011.

As a package, there were minimal changes in the benefits offering in 2011 with specific changes highlighted below. Enhancements to the HealthQuest program are highlighted separately in Section III of this report. The impact of these plan changes on SEHP finances in 2011 and in future years is summarized in Section IV.

### HEALTH PLAN ADMINISTRATION

Beginning with Plan Year (PY) 2008, the SEHP self-insures all of the active employee medical products. PY 2011 represents the fourth full plan year of self-funding all the health plans. This was the final year of the HCC's three-year contract with each vendor for administrative services. A Request for Proposal for the administration of medical plans was released in 2011 for Plan Years 2012 – 2014.

The following vendors provided administrative and network services for the SEHP in 2011:

- Blue Cross and Blue Shield of Kansas (Plan A and Plan B)
- Coventry Health Care of Kansas (Plan A, Plan B and Plan C)
- Preferred Health Systems (Plan A, Plan B and Plan C)
- UMR a UnitedHealthcare Company (Plan A, Plan B and Plan C)

### HEALTH PLAN DESIGN

The SEHP offered members a choice of three (3) health plan designs. Plans A and B were available from all four (4) vendors and Plan C was available from Coventry, Preferred Health Systems, and UMR. All plans reflected value-based plan designs which emphasize the use of preventive care. Changes made to the SEHP for 2011 centered on modifying the benefits to meet the State's funding objectives. The following benefit changes were implemented in 2011:

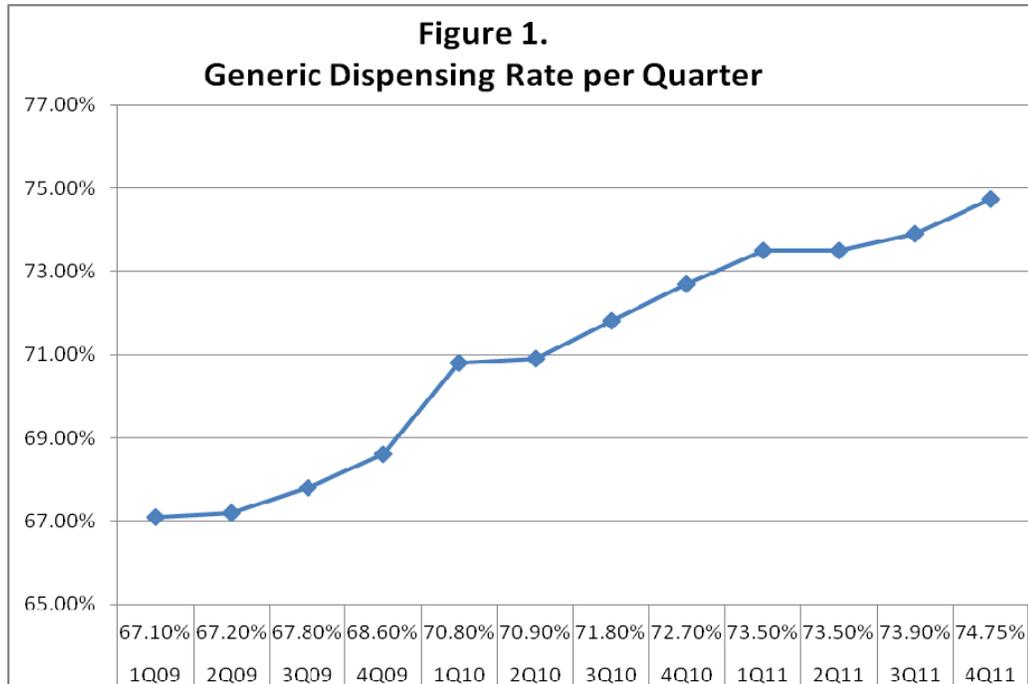
- **Plan A** was modified as follows:
  - Increased the deductible from \$150 to \$300 for member only and from \$300 to \$600 for member plus dependent contracts.
  - Increased the annual coinsurance maximums by \$200 (from \$1,200 to \$1,400) for member only and by \$400 (from \$2,400 to \$2,800) for member plus dependent contracts.
  - Increased office visit copays by \$5 to:
    - \$25 for a primary care provider
    - \$45 for a specialist
- **Plan B** was modified as follows:
  - Added a deductible of \$150 for member only and \$300 for member plus dependent contracts.
  - Increased member coinsurance from 30 percent to 35 percent.
  - Increased the annual coinsurance maximums by \$800 (from \$2,200 to \$3,000) for member only and by \$1,600 (from \$4,400 to \$6,000) for member plus dependent contracts.
- **Plan C** - No plan design changes were made in 2011.

### **Dental Coverage**

No changes were made in the value-based dental plan design that encourages members to use preventive care services. This plan design has resulted in the plan experiencing a positive trend of increased usage of preventive office visits and cleanings. Members who have their routine exams and cleanings are rewarded with less out-of-pocket cost if they need basic restorative services.

## Prescription Drug Coverage

The HCC continued its multi-tiered coinsurance plan design that encourages and rewards cost-effective consumer purchasing. Through proactive plan management, increased consumer awareness, and the introduction of several new generic products, the generic dispensing rate increased from 67.1 percent in the first quarter of 2009 to 74.75 percent for the fourth quarter of 2011 (see Figure 1).



## Medicare Plans

Direct Bill members with Medicare had the option of two fully insured Medicare Part C Advantage plans, or the Blue Cross and Blue Shield Medicare Supplement Plan C insured product, Kansas Senior Plan C. The medical plans were available with or without the fully insured SilverScript Medicare Part D prescription drug plan.

Premium billing for the Non State and Direct Bill members is done through a jointly administered contract with Medicaid for third-party billing services. During 2011, premium billing for the Medicare Part D plan administered by SilverScript was transitioned to SilverScript in order to comply with Medicare billing requirements.

## Section 125 Plan

The State implemented a Section 125 Pre-Tax Premium Option in July 1986. Employees have the option to have their health care premiums deducted from their paycheck using a pre-tax option. This pre-tax deduction reduces the employee's taxable income and reduces the amount of FICA tax owed by the State. Over 90 percent of active participants with group health insurance participate in this option.

The State established Health Care Flexible Spending Accounts (HCFSA) and Dependent Care Flexible Spending Accounts (DCFSA) effective February 1, 1991. The Cafeteria Benefits Plan is managed by a third-party administrator, Applications Software, Inc. (ASI). For PY 2011, a limited purpose Flexible Spending Account (FSA) program was added for employees enrolled in Plan C. As Plan C has a Health Savings Account (HSA), the limited purpose FSA provides members the ability to set aside money on a pre-tax basis for eligible anticipated out-of-pocket expenses for dental and vision claims.

## Long Term Care Insurance

The SEHP offers a Voluntary Group Long Term Care Insurance Program through Genworth Life Insurance Company. The program is offered to State of Kansas benefits eligible active employees, retired employees, and their family members. The long term care insurance is entirely employee-paid coverage and is not available through payroll deduction.

### LEGISLATIVE PILOT PROGRAMS

K.S.A. 40-2249a requires any new mandated health insurance coverage for specific health services, diseases or providers of health care services to be tested in SEHP for a period of at least one year. Senate Substitute for House Bill No. 2160 established two such pilot programs for PY 2011. No funding was provided to cover the cost of these pilot programs and costs will be paid out of the employee and agency/employer contributions and the plan reserves.

Beginning January 1, 2011, the SEHP began a pilot program that provides coverage for Autism Spectrum Disorder. Benefits for diagnosis and treatment of Autism Spectrum Disorder are limited to \$36,000 a year for children from birth to age 7. For children from age 7 to less than age 19, the benefit cannot exceed \$27,000 a year. A report on the cost of providing this pilot is due to the legislature in March of 2012.

The second pilot program provides coverage for orally administered anti-cancer drugs that is the same as the coverage provided for intravenously administered or injected cancer medications. The pilot began on January 1, 2011, and the report on the cost of providing this pilot was due by March 1, 2011. The report was provided and, as no other action was taken, this requirement now applies to all health insurance plans offered in Kansas effective July 1, 2011.

### NON STATE PUBLIC EMPLOYERS

K.S.A. 75-6506(c) authorizes the Kansas State Employees Health Care Commission to designate by rules and regulations the inclusion of public schools and certain local governmental entities into the SEHP. The following chart shows the enrollment by type of eligible group as of January 1, 2012:

Summary	Number of Groups	Covered Employees
Public Schools	33	3,512
Cities	50	586
Counties	28	2,465
Townships	2	19
Public Hospitals & Community Mental Health Centers	17	1,022
Misc. Local Governmental Entities	38	158
<b>Total</b>	<b>168</b>	<b>7,762</b>

Eighteen (18) new groups were added to the SEHP during 2011 and six (6) new groups joined effective January 1, 2012. Three (3) groups will be leaving the plan as of January 1, 2011, as their contracts have expired and they have elected to seek coverage elsewhere.

### OPEN ENROLLMENT FOR PLAN YEAR 2011

Active employee open enrollment was held from October 1 through October 31, 2011. Approximately 33,637 employees utilized the online website open enrollment system to make their elections for PY 2011. One hundred open enrollment meetings were held for employees in thirty-two (32) cities. Staff estimates that approximately 5,956 employees attended these meetings. Non State public employers do not have access to the online web-based enrollment system and must complete paper applications.

Enrollment numbers as of November 30, 2011, for State and Non State active employees were as follows:

Vendor	Plan A	Plan B	Plan C	Waived
Blue Cross and Blue Shield of Kansas	37,656	2,655	n/a	
Coventry Health Care of Kansas	1,061	141	215	
Preferred Health Systems	1,931	180	173	
UMR	493	131	111	
Elected not to participate				2,641
Total	41,141	3,109	499	2,641

Total Active State and Non State Plan Enrollment for 2011: 44,749

Vision Coverage	Enrolled
Basic Plan	10,953
Enhanced Plan	27,104
<b>Total Enrolled</b>	<b>38,057</b>

### Direct Bill Open Enrollment

Direct Bill open enrollment for retirees began November 15 and continued through December 15. Enrollment numbers for the Direct Bill program are not available at this time. The Direct Bill call center staff conducted twenty-seven (27) Direct Bill open enrollment meetings between November 1 and November 12, 2011, in fourteen (14) locations throughout the state.

### RE-CONTRACTING FOR HEALTH PLAN VENDORS AND SERVICES

The following Requests for Proposals were released during 2011:

- EVT0000348 – Preferred Lab Vendor Services was released December 27, 2010, and closed February 1, 2011. Proposals were received from two companies, Quest Diagnostics and Stormont-Vail HealthCare. Both vendors offered excellent pricing on lab services and each provided unique access points for SEHP plan members. Following negotiations, both bids were accepted and, beginning January 1, 2012, SEHP plan members will have access to quality, cost effective lab services from two preferred lab vendors.
- EVT0000372 – Web Hosting was released January 14, 2011, and closed February 23, 2011. Proposals were received from three vendors and, following negotiations, a contract was awarded to COBRAGuard to develop and maintain a web-based enrollment portal for Non State public employers and Direct Bill members participating in the SEHP. Initial focus was the development of an open enrollment portal for Non State and Direct Bill members along with an interface process to migrate data into the SHaRP payroll system. Systems are now being developed to enroll new Non State groups online and allow Non State groups to update their employees' eligibility online. The new system and the anticipated enhancements will reduce the need for staff to process and enter paper enrollment forms, increasing efficiency and timeliness in servicing our Non State partners.
- EVT0000417 – Administrative Services for the medical plans was released on February 4, 2011, and closed March 23, 2011. Proposals were received from four companies. Following negotiations, contracts for the 2012 plan year were awarded to Blue Cross and Blue Shield of Kansas (BCBS), Coventry Health Care of Kansas/PHS and UnitedHealthcare (UHC). All three vendors will administer all three SEHP plan designs (Plans A, B and C).

## II. SUMMARY OF CHANGES IN PLAN YEAR 2012

This section includes a summary of health plan improvements developed and approved in 2011 for implementation in Plan Year (PY) 2012, which began January 1, 2012.

### HEALTH PLAN DESIGN

The prescription drug plan provides all members participating in Plan A and Plan B medical coverage with automatic enrollment in the SEHP standard prescription drug coverage administered by Caremark. Plan C has a separate drug plan administered by Caremark. For Plan C, prescription drugs and medical benefits are integrated and subject to the plan's overall deductible, copay and coinsurance requirements. On Plan C for PY 2011, after the member had satisfied the deductible, prescription drugs were subject to a copay for each thirty (30) day supply. Beginning with PY 2012, the copay will be replaced by tiered coinsurance. The coinsurance tiers are identical to those in the standard drug plan available on Plans A and B.

For PY 2012, the SEHP will offer members in Plans A and B two preferred lab vendors offering discount lab services for SEHP members. When a member uses a preferred lab vendor, covered lab services are reimbursed at 100 percent of the negotiated discount rate and the member has no out-of-pocket expense for covered lab services. Quest will continue to offer the SEHP's statewide and nationwide preferred lab benefit and Stormont-Vail HealthCare will be added as a regional preferred lab vendor in the northeast Kansas area. The preferred lab benefit is optional and members have coverage for lab services provided by other lab providers; however, those services are subject to the plan deductible and coinsurance.

For plan design and benefit information, the health plan comparison chart is located on the web at: <http://www.kdheks.gov/hcf/sehp/default.htm>

### III. PROGRAM HIGHLIGHT: SEHP HEALTHQUEST PROGRAM

#### PROGRAM HIGHLIGHTS

The SEHP's HealthQuest program goal continues to be improving the health of members and decreasing overall health costs. The non tobacco user discount instituted in 2009 continues to be offered to all employees for PY 2012. Those using tobacco cessation products are offered an opportunity to participate in a tobacco cessation program in order to receive a \$40 per month premium discount.

For PY 2012, a total of 32,177 state employees enrolled as non tobacco users, and 2,222 agreed to complete the tobacco cessation program to receive the non tobacco user discount. A total of 3,331 state employees indicated that they were tobacco users, chose not to disclose their tobacco status, or did not elect a tobacco status during open enrollment and will pay the base rates for 2012.

Beginning with PY 2013, the tobacco discount program will be replaced by the HealthQuest Rewards Program. The new rewards program encompasses a wide variety of health improvement programs. The SEHP wants to engage a broader number of employees in the discussion about their health and wellness. Improving the health of the plan members will help to reduce the number and severity of claims and will save the plan and employees money in the long run. As with the current non tobacco use discount program, participation in the new rewards program is optional. Employees who elect not to participate in the rewards program will still be eligible for coverage under the SEHP but will pay the standard or base premium rate.

Beginning October 1, 2011, through July 31, 2012, employees enrolled in the SEHP will have an opportunity to earn credits by participating in wellness activities. Ten credits must be earned by completing the online health assessment. Employees may select from a wide variety of online, telephonic and in-person programs to earn credits. Credits are tracked on the member portal at <http://www.kansashealthquest.com>. Those who complete the online health assessment and earn at least 20 credits by July 31, 2012, will receive a health insurance premium discount of \$40 per month toward their PY 2013 premium.

The HealthQuest wellness program also offers members access to a 24-hour-a-day nurse line for health questions. Health coaches are available to provide information and support to help members manage their health. Condition management coaching programs are offered to those who have been diagnosed with or receive treatment for asthma, chronic obstructive pulmonary disease (COPD), coronary artery disease, diabetes and heart failure. Each participant receives guidance and encouragement to support his or her doctor's plan of care from a specially trained team, including nurses, health educators, and dieticians.

HealthQuest continues to offer the Employee Assistance Program, which provides members and their family access to mental health support, short-term personal counseling, legal advice and discounts, personal money management assistance, eldercare and childcare information and referral, and life coaching. Confidential services are available to employees and their dependents 24 hours a day, 7 days a week.

## IV. FINANCING

In 2011, the HCC continued to receive periodic financial reports summarizing plan revenues, expenditures, and both current and projected balances in SEHP funds. This section summarizes the financial status of the SEHP, including a discussion of funding balances, revenue, and expenses.

### BEGINNING BALANCE

The beginning balances shown at the top of **Table 1** and **Table 2** indicate the total amounts of cash in the various funds available to the SEHP. Funds available to the SEHP are referred to as the "**Plan Reserve**," and the beginning balance of the Plan Reserve represents the funds available at the beginning of each year. The beginning balances in these funds totaled \$50.2 million in FY 2001 (**Table 1**).

Available monies for plan expenses are managed in two funds. One fund is a dedicated, interest-bearing reserve that totals approximately \$12.0 million called "**Reserve Fund**." This fund was created by the 1993 contract with Blue Cross and Blue Shield of Kansas to provide a reserve for self-funded claims payments. The fund has continued to exist and grows by interest compounded monthly within the Pooled Money Investment Board. Since PY 2009, the fund experienced falling interest rates. Based on past experience, it is estimated that the interest earned on the Reserve Fund will be 3.1 percent over the long-term even though the FY 2011 rate is about 0.5 percent. The fund balances include the presumption that the plan will be able to begin receiving the earned interest on all the Plan Reserves beginning in 2015.

The second fund, called "**Remittance to Providers**," on **Table 1** and called "**Beginning Reserve not Earning Interest**" on **Table 2**, represents monies remaining from payroll collections (employees and state agencies), direct-billed contributions from retirees and COBRA continuers, and Non State public employer contributions after all expenses have been paid.

### PLAN REVENUES

Plan revenues are the sums received from contributions by State agencies, Non State public employers, employees, and retirees, plus interest earned by the plan. Past experience with fund balances, revenues, and expenses are represented in a historical chart (**Figure 2**) based upon fiscal years running from July 1 to June 30. Projected balances, revenues, and expenses are based upon plan years running from January 1 to December 31.

The "**Total Contributions**" figure on **Table 2** for PY 2012 is based upon a 7.5 percent increase in the contributions of agencies and Non State public employers and a 44 percent increase in employee contributions for members selecting employee only coverage. Member cost for covering dependents saw approximately a 7.4 percent decrease in contributions. This was done to reduce the employer contribution to 95 percent for employees and to maintain the 55 percent contribution toward dependent coverage per the Healthcare Commission's direction. The agency and Non State public employer contributions are adjusted on the first of July each year. The employee contributions are adjusted January 1 of each year. The projections shown in **Table 2** incorporate the estimated impacts of contribution rates in effect for PY 2012, as described above, including the decreased employee contribution for dependents.

### PLAN EXPENSES

Plan expenses are payments for medical, dental, and drug claims, plus related contract administration fees that are paid by the plan. The historical plan expenses (**Table 1**) represent actual experience, whereas projected plan expenses (**Table 2**) are estimates reflecting a long-term 9.5 percent managed health care cost trend. The total annualized cost of the SEHP for PY 2011 is estimated to be approximately \$427,808,000 per Exhibit D.

### CONTRIBUTIONS AND RATES

Beginning in PY 2009, the HCC voted to implement a base rate contribution strategy for active employee coverage. Employees who are tobacco users or those who choose not to disclose their tobacco status pay the base rates for health coverage. Non tobacco users and those who are tobacco users but who agree to complete a tobacco cessation course through HealthQuest receive a discount of \$20 per pay period or \$40 per month off the base rate. In compliance with the Health Insurance Portability and Accountability Act (HIPAA), tobacco users will be able to elect to participate in the tobacco control program on an annual basis to receive the discount regardless of whether they cease tobacco use.

During open enrollment each year, active employees are asked to disclose their tobacco status. Employees who took no action during open enrollment were defaulted as not disclosing their tobacco status and will pay the base rates for PY 2012. Because of potential conflict with federal requirements, the discount was not available to those enrolling in the Medicare specialty products. The following is a summary of the tobacco use disclosures made for PY 2012 as of December 19, 2011.

Tobacco Status	State	Non State
Non Tobacco User	32,177	6,607
Tobacco User with cessation course	2,222	678
Tobacco User (no discount)	630	279
Do not wish to disclose (no discount)	2,701	233

In PY 2011, the plan received a one-time contribution of \$2.8 million from the Early Retiree Reinsurance Program (ERRP) and \$188,000 from the settlement of a pharmaceutical class action lawsuit.

**ADMINISTRATION**

Administration is the cost to maintain the program, including employee salaries, consulting fees, the wellness programs and other expenses. It is assumed in the projections that costs will grow 2.7 percent annually. SEHP administrative costs represent less than 1 percent of health plan expenditures.

**PLAN RESERVES**

The HCC's funding objective in managing the SEHP over the long term is to have a target reserve equal to the actuarially-calculated claims Incurred But Not Reported (IBNR), plus a reasonable contingency to account for unforeseen and unexpected growth in health costs that could arrive before plan revenue can be adjusted. The target reserve will be adjusted for health cost trend over time. **Table 2** shows the projected target reserve for each year based upon a function of Plan Contributions, Plan Expenses, and health care cost trend. The estimated target reserve for health claims in PY 2011 was \$53.4 million (**Table 2**). Target reserves are projected to rise over time based upon health cost trend.

**Table 1** and **Figure 2** show SEHP balances, revenues, and expenditures from state Fiscal Year (FY) 2001 through 2011. These reserves reflect actual historical experience as reported in the Statewide Cost Allocation Plan documents for each state fiscal year and the single state financial audit reports for those years. During fiscal years 2004 and 2005, agency and employee contributions were increased. In FY 2005 alone, the SEHP collected \$76 million more than needed to fund expenditures. That amount was added to the beginning balance of \$50.4 million. In PY 2009, legislative action resulted in state agencies not contributing the employer contribution for seven pay periods in FY 2009, resulting in a \$64 million decrease in the fund balance. In FY 2010, legislative action reduced the fund by \$9.675 million in anticipation of future audit findings.

**SUMMARY**

In Plan Year 2011, healthcare costs increased less than what was originally expected. Based upon staff projections and the opinion of the SEHP actuaries, the SEHP fund should have sufficient funds to pay the health care expenses for a self-funded plan covering approximately 99,000 lives for 2012.

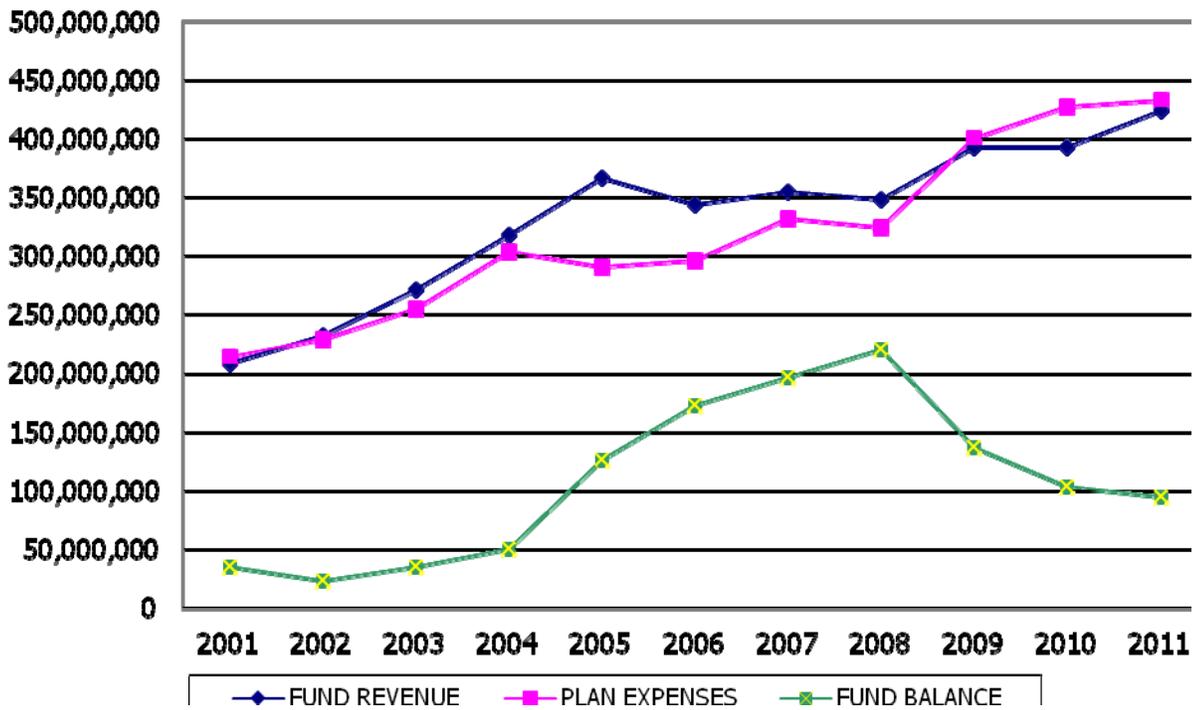
### State Employees' Health Benefits Plan

Plan History FY 2001 to FY 2011

		FISCAL YEAR										
		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Table 1</b>												
<b>REMITTANCE &amp; RESERVE FUND</b>												
Begin Balance:												
Reserve Fund		39,050,785	29,254,282	14,559,934	9,746,634	9,855,595	10,052,400	10,448,122	10,989,553	11,487,866	11,796,538	11,949,080
Remittance to Providers		11,164,815	5,918,447	9,339,489	26,024,764	40,544,796	116,122,477	162,849,763	185,410,396	209,178,243	125,842,927	91,658,396
<b>Total Beginning Balance</b>		<b>50,215,599</b>	<b>35,172,728</b>	<b>23,899,423</b>	<b>35,771,399</b>	<b>50,400,391</b>	<b>126,174,877</b>	<b>173,297,884</b>	<b>196,399,949</b>	<b>220,666,109</b>	<b>137,639,465</b>	<b>103,607,476</b>
Revenue:												
Agency Contributions		108,589,670	120,510,567	149,576,276	163,216,145	198,132,780	197,551,160	200,451,184	204,132,341	164,516,992	218,025,097	246,600,962
Participant Contributions		88,787,339	94,488,623	114,184,273	152,728,660	166,020,286	163,486,857	152,788,942	144,255,736	152,987,257	170,670,415	185,359,414
Other - rebates, penalties, etc.		11,200,121	17,348,028	8,052,414	2,696,776	2,925,131	-17,344,739	1,925,082	473,526	1,594	4,828,840	-7,735,317
<b>Total Revenue</b>		<b>208,577,130</b>	<b>232,347,217</b>	<b>271,812,963</b>	<b>318,641,581</b>	<b>367,078,197</b>	<b>343,693,278</b>	<b>355,165,209</b>	<b>348,861,604</b>	<b>317,505,843</b>	<b>393,524,353</b>	<b>424,225,059</b>
Reserve Fund Interest/Transfers		-9,796,503	-14,694,348	-4,813,299	108,960	196,805	395,722	541,431	498,312	308,672	152,542	64,534
Expenses:												
Premiums, Claims & ASO Payments		213,380,345	228,294,048	254,739,933	303,875,532	291,260,896	296,727,542	332,269,889	322,992,585	393,735,340	422,596,040	428,549,302
Other Payments		443,153	632,127	387,755	246,017	239,621	238,450	334,686	2,101,171	7,105,820	5,112,843	4,646,866
<b>Total Expenses</b>		<b>213,823,498</b>	<b>228,926,175</b>	<b>255,127,688</b>	<b>304,121,549</b>	<b>291,500,517</b>	<b>296,965,992</b>	<b>332,604,575</b>	<b>325,093,756</b>	<b>400,841,160</b>	<b>427,708,883</b>	<b>433,196,168</b>
End Balance:												
Reserve Fund		29,254,282	14,559,934	9,746,634	9,855,595	10,052,400	10,448,122	10,989,553	11,487,866	11,796,538	11,949,080	12,013,614
Remittance to Providers		5,918,447	9,339,489	26,024,764	40,544,796	116,122,477	162,849,763	185,410,396	209,178,243	125,842,927	91,658,396	82,687,287
<b>End Balance</b>		<b>35,172,728</b>	<b>23,899,423</b>	<b>35,771,399</b>	<b>50,400,391</b>	<b>126,174,877</b>	<b>173,297,884</b>	<b>196,399,949</b>	<b>220,666,109</b>	<b>137,639,465</b>	<b>103,607,476</b>	<b>94,700,901</b>
		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>ADMINISTRATION</b>												
Begin Balance:												
Revenues:												
Cafeteria Fund		2,155,550	1,944,921	168,534	2,010,441	2,016,100	2,010,918	2,035,464	2,490,006	2,179,871	3,171,868	3,167,405
Wellness Fund		617,149	579,952	-253	528,004	576,924	605,259	645,828	781,433	686,226	798,133	788,135
<b>Total Revenues</b>		<b>2,772,699</b>	<b>2,524,873</b>	<b>168,281</b>	<b>2,538,446</b>	<b>2,593,024</b>	<b>2,616,178</b>	<b>2,681,292</b>	<b>3,271,439</b>	<b>2,866,097</b>	<b>3,970,001</b>	<b>3,955,540</b>
Expenses:												
Admin Expenses		2,040,150	2,222,192	2,664,746	2,897,189	2,133,582	1,864,679	1,694,631	2,252,806	3,296,439	3,456,015	2,648,432
Other Payments		2,040,150	2,222,192	2,664,746	2,897,189	2,133,582	1,864,679	1,694,631	2,252,806	3,296,439	3,456,015	-15,135
<b>Total Admn Expenses</b>		<b>2,040,150</b>	<b>2,222,192</b>	<b>2,664,746</b>	<b>2,897,189</b>	<b>2,133,582</b>	<b>1,864,679</b>	<b>1,694,631</b>	<b>2,252,806</b>	<b>3,296,439</b>	<b>3,456,015</b>	<b>2,633,297</b>
<b>Ending Balance</b>		<b>2,934,085</b>	<b>3,238,736</b>	<b>740,874</b>	<b>397,533</b>	<b>864,904</b>	<b>1,609,952</b>	<b>2,598,534</b>	<b>3,617,167</b>	<b>3,186,826</b>	<b>3,700,812</b>	<b>5,023,055</b>

Information for FY2001-FY2010 was obtained from the Statewide Cost Allocation Plan (SWCAP) documents.  
Information for FY 2011 is preliminary information from SMARR until the SWCAP is completed in March 2012.

**Figure 2  
History of State Employee Health Plan**

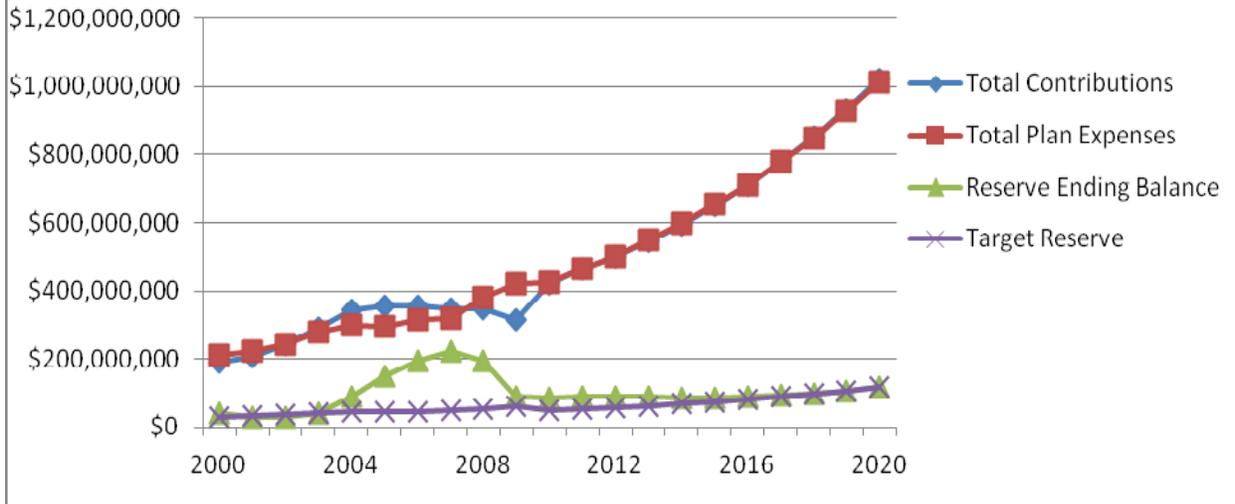


Notes:

1. Legislative action resulted in state agencies not contributing the employer contribution for seven pay periods in FY 2009, resulting in a \$64 million decrease in the fund balance.
2. In FY 2010, legislative action reduced the fund by \$9.675 million.

Table 2 Kansas Department of Health and Environment Reserve Calculation Medical, Pharmacy, Dental and Vision												
Plan Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	
Actual Factors and Assumptions In PY2010	Projected Factors and Assumptions.....											
Interest Rate on Reserves	0.9%	3.1%	3.1%	3.1%	3.1%	3.1%	3.1%	3.1%	3.1%	3.1%	3.1%	
Admin/Contract Fee Trend	3.2%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	
Healthcare cost trend rate	2.8%	8.5%	9.0%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	
	HCC Policy Choices in May 2009	HCC Policy Choices in May 2010	HCC Policy Choices by May 2011	Future Policy Choices.....								
<b>Policy Choices</b>												
Employer Contr. % incr. (eff. July 1)	12.5%	15.0%	7.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	
Employee Contr. % incr. (eff. Jan 1)	7.5%	8.0%	44.0%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	
Dependent Contr. % incr. (eff. Jan 1)	7.5%	8.0%	-7.4%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	
Direct Bill Contr. % incr. (eff. Jan 1)	12.4%	14.7%	9.3%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	
Plan design changes % impact on expenses	-1.1%	-1.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
<b>Reserves</b>												
Beginning reserve earning interest	11,880,073	11,991,989	12,363,741	12,747,017	13,142,174	85,873,989	86,818,674	89,179,760	93,167,801	99,015,986	106,982,321	
Beginning reserve not earning interest	78,295,832	74,866,652	76,803,404	77,031,540	75,277,046	0	0	0	0	0	0	
<b>Beginning Total Reserve Balance</b>	<b>90,175,905</b>	<b>86,858,641</b>	<b>89,167,145</b>	<b>89,778,557</b>	<b>88,419,220</b>	<b>85,873,989</b>	<b>86,818,674</b>	<b>89,179,760</b>	<b>93,167,801</b>	<b>99,015,986</b>	<b>106,982,321</b>	
<b>Projected Cash Flow</b>												
Total Employer Contributions	293,900,171	335,446,964	370,242,339	401,860,486	438,775,637	480,384,974	525,940,148	575,815,344	630,420,232	690,203,333	755,655,698	
Total Participant Contributions	127,392,488	127,412,785	131,159,248	143,160,517	156,223,580	170,576,427	186,278,268	203,456,737	222,251,569	242,815,745	265,316,750	
Total Contributions	421,292,659	465,917,889	502,414,088	546,168,503	594,999,216	650,961,401	712,218,415	779,272,081	852,671,801	933,019,078	1,020,972,448	
Total Plan Expenses (Claims, ASO Fees & contracted expenses)	424,721,839	463,981,136	502,185,952	547,922,997	597,951,855	652,678,810	712,548,708	778,048,612	849,711,817	928,122,239	1,013,919,221	
Interest on Reserves	111,916	371,752	383,276	395,158	407,407	2,662,094	2,691,379	2,764,573	2,888,202	3,069,496	3,316,452	
<b>Net Cash Flow</b>	<b>(3,317,264)</b>	<b>2,308,504</b>	<b>611,412</b>	<b>(1,359,337)</b>	<b>(2,545,231)</b>	<b>944,684</b>	<b>2,361,086</b>	<b>3,988,041</b>	<b>5,848,186</b>	<b>7,966,335</b>	<b>10,369,679</b>	
<b>Projected Reserve Balance</b>												
Reserve Ending Balance	<b>86,858,641</b>	<b>89,167,145</b>	<b>89,778,557</b>	<b>88,419,220</b>	<b>85,873,989</b>	<b>86,818,674</b>	<b>89,179,760</b>	<b>93,167,801</b>	<b>99,015,986</b>	<b>106,982,321</b>	<b>117,352,000</b>	
Target Reserve	48,651,000	53,444,000	57,875,000	63,187,000	68,999,000	75,357,000	82,315,000	89,927,000	98,259,000	107,375,000	117,352,000	
Difference between the Reserve Ending Balance and Target Reserve	38,207,641	35,723,145	31,903,557	25,232,220	16,874,989	11,461,674	6,864,760	3,240,801	756,986	(392,679)	(0)	
Reserve Ending Balance as a Percent of Claims	20.5%	19.2%	17.9%	16.1%	14.4%	13.3%	12.5%	12.0%	11.7%	11.5%	11.6%	

**Figure 3**  
**Projected Reserve Balance**  
**Annual Contributions, Expenses and Fund Balances**



**Exhibit A**  
**2012 Employee Advisory Committee**

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**Exhibit A**  
**2012 Employee Advisory Committee**

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Department of Revenue  
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Term expires: 12/31/12

Exhibit B

**STATE OF KANSAS QUARTERLY REPORT**

**2011 GROUP HEALTH INSURANCE ENROLLMENT  
MEDICAL PARTICIPANT BY QUARTER**

**Grand Total Covered Lives (State & Non-State Active, Direct Bill & COBRA)**

Type of Participant		Jan-11	Apr-11	Jul-11	Oct-11	Average	
<b>STATE OF KANSAS</b>	<b>Active</b>	Employees	36,449	36,511	35,649	34,892	<b>35,875</b>
		Dependents	36,743	37,047	36,530	36,267	<b>36,647</b>
		<b>Total Covered Lives</b>	<b>73,192</b>	<b>73,558</b>	<b>72,179</b>	<b>71,159</b>	<b>72,522</b>
	<b>Direct Bill</b>	Participants	10,350	10,350	10,445	11,124	<b>10,567</b>
		Dependents	384	405	429	645	<b>466</b>
		<b>Total Covered Lives</b>	<b>10,734</b>	<b>10,755</b>	<b>10,874</b>	<b>11,769</b>	<b>11,033</b>
	<b>COBRA</b>	Participants	167	133	127	163	<b>148</b>
		Dependents	90	82	69	81	<b>81</b>
		<b>Total Covered Lives</b>	<b>257</b>	<b>215</b>	<b>196</b>	<b>244</b>	<b>228</b>

<b>NON STATE USD</b>	<b>Active</b>	Employees	3,100	3,083	3,110	3,060	<b>3,088</b>
		Dependents	3,037	3,047	3,069	2,987	<b>3,035</b>
		<b>Total Covered Lives</b>	<b>6,137</b>	<b>6,130</b>	<b>6,179</b>	<b>6,047</b>	<b>6,123</b>
	<b>Direct Bill</b>	Participants	397	392	395	421	<b>401</b>
		Dependents	62	57	54	61	<b>59</b>
		<b>Total Covered Lives</b>	<b>459</b>	<b>449</b>	<b>449</b>	<b>482</b>	<b>460</b>
	<b>COBRA</b>	Participants	18	12	10	15	<b>14</b>
		Dependents	12	8	7	13	<b>10</b>
		<b>Total Covered Lives</b>	<b>30</b>	<b>20</b>	<b>17</b>	<b>28</b>	<b>24</b>

<b>NON STATE CITY/COUNTY/TOWNSHIP</b>	<b>Active</b>	Employees	2,815	2,831	2,953	2,949	<b>2,887</b>
		Dependents	3,471	3,539	3,715	3,756	<b>3,620</b>
		<b>Total Covered Lives</b>	<b>6,286</b>	<b>6,370</b>	<b>6,668</b>	<b>6,705</b>	<b>6,507</b>
	<b>Direct Bill</b>	Participants	86	85	97	101	<b>92</b>
		Dependents	19	16	13	15	<b>16</b>
		<b>Total Covered Lives</b>	<b>105</b>	<b>101</b>	<b>110</b>	<b>116</b>	<b>108</b>
	<b>COBRA</b>	Participants	12	12	18	21	<b>16</b>
		Dependents	5	2	10	16	<b>8</b>
		<b>Total Covered Lives</b>	<b>17</b>	<b>14</b>	<b>28</b>	<b>37</b>	<b>24</b>

Exhibit B

STATE OF KANSAS QUARTERLY REPORT

2011 GROUP HEALTH INSURANCE ENROLLMENT  
MEDICAL PARTICIPANT BY QUARTER

**Grand Total Covered Lives (State & Non-State Active, Direct Bill & COBRA)**

Type of Participant		Jan-11	Apr-11	Jul-11	Oct-11	Average
---------------------	--	--------	--------	--------	--------	---------

<b>NON STATE HOSPITAL / MENTAL HEALTH CENTER</b>	<b>Active</b>	Employees	1,241	1,137	1,130	1,123	1,158
		Dependents	1,156	1,054	1,048	1,030	1,072
		<b>Total Covered Lives</b>	<b>2,397</b>	<b>2,191</b>	<b>2,178</b>	<b>2,153</b>	<b>2,230</b>
	<b>Direct Bill</b>	Participants	12	9	12	14	12
		Dependents	0	0	3	3	2
		<b>Total Covered Lives</b>	<b>12</b>	<b>9</b>	<b>15</b>	<b>17</b>	<b>13</b>
	<b>COBRA</b>	Participants	11	12	13	13	12
		Dependents	8	9	11	9	9
		<b>Total Covered Lives</b>	<b>19</b>	<b>21</b>	<b>24</b>	<b>22</b>	<b>22</b>

<b>NON STATE ALL OTHER (MISC)</b>	<b>Active</b>	Employees	149	147	154	149	150
		Dependents	126	132	139	127	131
		<b>Total Covered Lives</b>	<b>275</b>	<b>279</b>	<b>293</b>	<b>276</b>	<b>281</b>
	<b>Direct Bill</b>	Participants	5	7	7	7	7
		Dependents	1	2	2	2	2
		<b>Total Covered Lives</b>	<b>6</b>	<b>9</b>	<b>9</b>	<b>9</b>	<b>8</b>
	<b>COBRA</b>	Participants	1	1	1	1	1
		Dependents	4	4	4	4	4
		<b>Total Covered Lives</b>	<b>5</b>	<b>5</b>	<b>5</b>	<b>5</b>	<b>5</b>

<b>TOTALS FOR ALL GROUPS</b>	<b>Active</b>	Employees/Participants	43,754	43,709	42,996	42,173	43,158
		Dependents	44,533	44,819	44,501	44,167	44,505
		<b>Total Covered Lives</b>	<b>88,287</b>	<b>88,528</b>	<b>87,497</b>	<b>86,340</b>	<b>87,663</b>
	<b>Direct Bill</b>	Employees/Participants	10,850	10,843	10,956	11,667	11,079
		Dependents	466	480	501	726	543
		<b>Total Covered Lives</b>	<b>11,316</b>	<b>11,323</b>	<b>11,457</b>	<b>12,393</b>	<b>11,622</b>
	<b>COBRA</b>	Employees/Participants	209	170	169	213	190
		Dependents	119	105	101	123	112
		<b>Total Covered Lives</b>	<b>328</b>	<b>275</b>	<b>270</b>	<b>336</b>	<b>302</b>

<b>TOTAL CONTRACTS</b>	<b>54,813</b>	<b>54,722</b>	<b>54,121</b>	<b>54,053</b>	<b>54,427</b>
<b>TOTAL COVERED LIVES</b>	<b>99,931</b>	<b>100,126</b>	<b>99,224</b>	<b>99,069</b>	<b>99,588</b>

\*All counts are based on medical coverage only.

Exhibit C  
2011 Non State Entities Enrollment

<b>Effective Date</b>	<b>Dept name</b>	<b>Type</b>
1/1/2011	City of Russell	City
1/1/2011	City of Chapman	City
3/1/2011	City of Udall	City
3/1/2011	City of Lucas	City
3/1/2011	City of Lakin	City
10/1/2011	City of Peabody	City
1/1/2011	Haskell County	County
7/1/2011	Stevens County	County
7/1/2011	Morton County	County
6/1/2011	USD 377 - Atchison	School
1/1/2011	High Plains Mental Health Center	Hospital/Mental Health
12/1/2011	COF Training Services	Hospital/Mental Health
5/1/2011	Consolidated Rural Water District #4	Rural Water Districts
1/1/2011	Hamilton County Library	Library
1/1/2011	Housing Authority of the City of Colby	Housing Authorities
1/1/2011	Wet Walnut Creek Watershed, JD 58	Local Governmental Entity
1/1/2011	Highland Cemetery Dist 1	Local Governmental Entity
4/1/2011	Pottawatomie Creek Watershed JD 90	Local Governmental Entity

**Exhibit D**  
**Kansas State Employees Health Care Commission**  
**Plan Year 2011 Estimated Annualized Costs (Unaudited)**

		<u>Estimated</u> <u>2011 Costs</u> <u>Annualized</u>
1.	<b>2011 Projected Total Cost<sup>1</sup></b>	\$ 463,981,136
2.	<b>2011 Estimated Total Cost<sup>2</sup></b>	
	a. Blue Cross/Blue Shield	\$ 261,046,000
	b. Coventry	\$ 7,816,000
	c. Preferred Health	\$ 14,051,000
	d. UMR	\$ 5,202,000
	e. Humana	\$ 156,000
	f. Kansas Senior Plan C	\$ 17,116,000
	g. Coventry Advantra PPO	\$ 927,000
	h. Delta Dental	\$ 25,271,000
	i. Caremark/SilverScript Rx Claims	\$ 71,662,000
	j. Superior Vision Premiums	\$ 4,606,000
	k. ASO/Administrative Fees	\$ 15,099,000
	l. Contract Fees	\$ 4,856,000
	<b>TOTAL</b>	<b>\$ 427,808,000</b>
3.	<b>2011 State and Non State Employee, COBRA, Direct Bill Contributions<sup>2</sup></b>	\$ 127,280,000
4.	<b>2011 State of Kansas and Non State Employer Contributions<sup>1</sup></b>	
	a. Projected	\$ 335,446,964
	b. Actual	\$ 332,720,000
	c. Percent Difference	2.26%

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<sup>1</sup> 2011 Projected Totals come from the 10 year projection sheet presented and approved on the June 15, 2011 Healthcare Commission Meeting.

<sup>2</sup> These values were developed by annualizing data received through November 2011. Intra-year trend, deductible leveraging, and migration were not considered. Data has not been audited further.