

HEALTH CARE REPORT 2004

HIGHWAY PATROL RETIREMENT SYSTEM

R. A. CURTIS – EXECUTIVE DIRECTOR



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TO: Ohio Retirement Study Council  
Ohio House Banking, Pensions & Securities Committee  
Ohio Senate Health, Human Services and Aging Committee

FROM: Richard A. Curtis, Executive Director

RE: Reporting requirements under ORC Section 5505.12 (E)

DATE: For the year 2004

The following document fulfills the requirements of the Ohio State Highway Patrol Retirement System (HPRS) as outlined in Ohio Revised Code Section 5505.12, Section E. The section and the System's responses follows:

"(E) The board shall have prepared annually a report giving a full accounting of the revenues and costs relating to the provision of benefits under section 5505.28 of the Revised Code. The report shall be made as of December 31, 1997, and the thirty-first day of December of each year thereafter. The report shall include the following:

(1) A description of the statutory authority for the benefits provided;"

Attachment A is a copy of ORC Sections 5505.28 (Medical benefits and Medicare B reimbursement) and 5505.33 (Long-term care).

"(2) A summary of benefits;"

Attachment B is the plan design for non-Medicare enrollees and Attachment C is the plan design for Medicare enrollees. These plan designs include both medical and prescription drug coverage. The prescription drug coverage is included for those enrolled under the HPRS medical plan. The medical and prescription drug programs are self-funded by HPRS and premiums and plan designs are evaluated each year.

In 2004 the prescription drug plan design was reviewed and the drug class of non-sedating antihistamines was eliminated as a covered class. HPRS made no changes to the co-payments or the day supply limits for the year 2004. HPRS has worked with PBM (Pharmacy Benefit Manager) to utilize their programs such as Smart and Traditional Prior Authorization and Rational Med to help with drug safety issues.

The medical plan design was reviewed in late 2003 benefit recipients were notified that effective in 2004 working retirees who had medical coverage available through their employer were required to enroll under

their employer's medical plan as primary coverage. Approximately 260 retirees enrolled under their employer's medical insurance with HPRS now being secondary coverage. HPRS had implemented a similar policy effective January 2003 that a working spouse of a retiree who had medical coverage available through their employer must enroll under their employer's policy and HPRS would become secondary if they elected to continue their coverage under HPRS. About sixty dependent spouses discontinued their coverage under HPRS and approximately fifty spouses continued their medical coverage through HPRS but now HPRS was a secondary payer.

The HPRS health care plan benefits include preferred provider organizations that make up a network. Those enrolled can utilize any provider, but if they use a preferred provider, they receive the optimum coverage. When an enrollee becomes eligible for Medicare, the HPRS health care plan becomes secondary to their Medicare coverage and the network provision will not apply. If an enrollee is not eligible for Medicare Part A (hospital insurance) then the HPRS plan will be primary. Every enrollee ages 65 and over must enroll under Medicare Part B (medical insurance). The HPRS medical plan does not pay for any claims that would have been eligible under Medicare Part B.

If a benefit recipient is not being reimbursed for Medicare Part B from another source, HPRS will reimburse the benefit recipient monthly upon proof of coverage. The basic premium increased from \$58.70 in 2003 to \$66.60 for 2004 with an average of 438 benefit recipients being reimbursed monthly. Proof of coverage is a copy of the benefit recipient's Medicare card.

Currently HPRS does not offer HMO's.

A plan for dental and vision coverage is provided to all HPRS benefit recipients. Benefit recipients can enroll eligible dependents for a monthly premium. There is an open enrollment period each year to add or drop coverage for dependents. They must be covered for a year unless they no longer meet eligibility requirements. These plans are intended to help with the cost of dental and vision expenses. Dental coverage is intended to cover a percentage of the cost of oral examinations, diagnostic services, extractions, crowns, bridges and dentures. The percentage of coverage is based upon service and if a preferred provider is utilized. Vision coverage includes covered amounts for services provided by an ophthalmologist, optometrist or optician for examinations, frames and lenses. HPRS is only liable for the monthly premiums. Premiums and plan designs are evaluated and adjusted by the insurer annually based upon the previous year's claims.

HPRS offers a long-term care policy to provide coverage for nursing home care not covered by Medicare or HPRS's medical coverage. Coverage is initially offered to all HPRS retirees upon retirement without medical underwriting if enrollment takes place within 90 days of retirement. Retirees who have been retired more than 90 days, eligible dependents, or parents can also enroll provided they meet certain medical requirements. This optional program provides a daily cash benefit, an amount selected by the insurer, when the insurer is no longer able to independently perform the activities of daily living. Premiums are deducted from the benefit recipient's monthly benefit check.

"(3) A summary of the eligibility requirements for the benefits;"

All benefit recipients and their eligible dependents are eligible for coverage unless they are covered under another retirement system. Eligible dependents includes the spouse; unmarried child(ren) under age 19, or age 23 if attending school and dependent on the benefit recipient's support; and a dependent child, regardless of age, who has a physical or mental handicap, is unable to earn a living, and became incapacitated prior to age 19 (or 23 if attending school).

"(4) A statement of the number of participants eligible for the benefits;"

As of December 31, 2004, there were 1,249 benefit recipients enrolled under the HPRS health care plan. HPRS has 33 benefit recipients that have health care coverage by another public retirement system. The number of eligible dependents cannot be determined, but as of December 31, 2004, 709 dependents were enrolled under the HPRS health care plan.

"(5) A description of the accounting, asset valuation, and funding method used to provide the benefits;"

HPRS' financial statements are prepared using the accrual basis of accounting, under which expenses are recorded when the liability is incurred and revenues are recorded when they are earned and become measurable. Investment purchases and sales are substantially recorded as of their trade date. HPRS' funding is determined on an actuarial basis using the entry age normal cost method. Accrued year-end health care benefits are based upon estimates furnished by each of the claims administrators.

All investments are reported at fair value. Fair value is, "the amount that the plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller-that is, other than in a forced or liquidation sale." Short-term investments are reported at cost, which approximates fair value. Corporate bonds are valued at the median price by the brokerage firms. Securities traded on a national exchange are valued at the last reported sales price at current exchange rate. The fair value of real estate is based on independent appraisals.

Health care benefits are funded on an actuarial basis. Under this method, a portion of the employer contributions, currently 3.50%, are used to fund health care costs. These contributions along with investment income on allocated assets and periodic adjustments in health care provisions are expected to be sufficient to sustain the program indefinitely. This contribution rate is evaluated periodically to see if this amount is relevant.

"(6) A statement of the net assets available for the provision of the benefits as of the last day of the fiscal year;"

See Attachment D, "Statements of Plan Net Assets - Health Care".

"(7) A statement of any changes in the net assets available for the provision of benefits, including participant and employer contributions, net investment income, administrative expenses, and benefits provided to participants, as of the last day of the fiscal year;"

See Attachment E, "Statements of Changes in Plan Net Assets - Health Care".

"(8) For the last six consecutive fiscal years, a schedule of the net assets available for the benefits, the annual cost of benefits, administrative expenses incurred, and annual employer contributions allocated for the provision of benefits;"

See Attachment D, "Statements of Plan Net Assets - Health Care".

"(9) A description of any significant changes that affect the comparability of the report required under this division."

No significant changes affect these reports.

**§ 5505.28. Health insurance.**

(A) The state highway patrol retirement board may enter into an agreement with insurance companies, health insuring corporations, or government agencies authorized to do business in the state for issuance of a policy or contract of health, medical, hospital, or surgical benefits, or any combination thereof, for those persons receiving pensions and subscribing to the plan. Notwithstanding any other provision of this chapter, the policy or contract may also include coverage for any eligible individual's spouse and dependent children and for any of the individual's sponsored dependents as the board considers appropriate.

If all or any portion of the policy or contract premium is to be paid by any individual receiving a service, disability, or survivor pension or benefit, the individual shall, by written authorization, instruct the board to deduct from the individual's pension or benefit the premium agreed to be paid by the individual to the company, corporation, or agency.

The board may contract for coverage on the basis of part or all of the cost of the coverage to be paid from appropriate funds of the state highway patrol retirement system. The cost paid from the funds of the system shall be included in the employer's contribution rate as provided by section 5505.15 of the Revised Code.

(B) The board shall, beginning the month following receipt of satisfactory evidence of the payment for coverage, pay monthly to each recipient of a pension under the state highway patrol retirement system who is eligible for medical insurance coverage under part B of "The Social Security Amendments of 1965," 79 Stat. 301, 42 U.S.C.A. 1395j, as amended, an amount established by board rule not exceeding the basic premium for such coverage.

(C) The board shall establish by rule requirements for the coordination of any coverage, payment, or benefit provided under this section with any similar coverage, payment, or benefit made available to the same individual by the public employees retirement system, Ohio police and fire pension fund, state teachers retirement system, or school employees retirement system.

(D) The board shall make all other necessary rules pursuant to the purpose and intent of this section.

**HISTORY:** RC § 5505.20.2, 135 v H 430 (Eff 11-20-73); 136 v H 269 (Eff 8-20-76); 139 v H 236 (Eff 2-2-82); 140 v H 631 (Eff 3-28-85); 142 v S 124 (Eff 10-1-87); RC § 5505.28, 142 v H 54 (Eff 10-20-87); 142 v H 708 (Eff 4-19-88); 144 v H 382 (Eff 6-30-91); 145 v S 306 (Eff 9-21-94); 146 v S 82 (Eff 3-7-97); 147 v S 67 (Eff 6-4-97); 147 v H 648 (Eff 9-16-98); 148 v H 222 (Eff 11-2-99); 149 v S 247. Eff 10-1-2002.

HPRS SUMMARY OF HEALTH CARE BENEFITS  
 (Effective January 1, 2004)  
 Non-Medicare Eligible

ATTACHMENT B

BENEFIT COVERAGE	OUT-OF-AREA BASIC PLAN	NETWORK BENEFITS	OUT-OF-NETWORK BENEFITS
<b>MAJOR PLAN FEATURES</b>			
Health Providers	Use any Provider	Use Network Provider	Use any Provider
Deductible (Per Plan Year)	\$100 per person	\$100 per person	\$1,000 per person
Out of Pocket (Per Plan Year)	\$ 750 Single \$1,500 Family	\$ 750 Single \$1,500 Family	\$5,000 Single \$10,000 Family
LifeTime Maximum	\$2,000,000	\$2,000,000	\$2,000,000
Claim Forms	Yes	No	Yes
Pre-Certification/ Utilization Review	Patients Responsibility	Provider (Automatic)	Patients Responsibility
Pre-Certification Penalty			
*Inpatient	\$200 per admission (no coverage if not medically necessary)	None	\$300 per admission (no coverage if not medically necessary)
*Outpatient	\$100 (no coverage if not medically necessary)	None	\$100 (no coverage if not medically necessary)
*Managed Second Opinion Selected Procedures	\$100	None	\$100
<b>PLAN BENEFITS</b>			
<b>Physicians Services</b>			
*Office Visits	80% UCR	100% after \$15 Co-pay	60% UCR
Primary Care		\$25 Co-pay	
Specialist Physician			
*Diagnostic x-ray/lab	80% UCR	80%	60% UCR
*Surgeon/Consultation	80% UCR	80%	60% UCR
*Specialist not Generally Available in Network	80% UCR	80%	80% UCR
*Surgeons/Surgery Fees	80% UCR	80%	60% UCR
*OB/Maternity Visits & Delivery	80% UCR	80%	60% UCR
<b>Hospital Services</b>			
*Admission Deductible	\$100	\$100	\$100 Co-pay
*Inpatient Coinsurance	100%	100%	60%
*Outpatient Coinsurance			
Pre-Admission Testing	100%	100%	60%
Surgery	100%	100%	60%
All Other Medical Services	80%	80%	60%
<b>Emergency Room</b>			
Emergency Room Use (Co-pay waived if admitted to hospital)	\$50 Co-Pay Facility 80% for remaining charges	\$50 Co-Pay Facility 80% for remaining charges	\$50 Co-Pay Facility 80% remaining charges
<b>Mental Health</b>			
<b>Inpatient</b>			
Mental/Nervous	100%	100%	60%
Alcoholism	100%	100%	60%
<b>Outpatient</b>			
Mental/Nervous	80%	80%	60%
Alcoholism	80% annual maximum \$550	80% annual maximum \$550	60% annual maximum \$550

HPRS SUMMARY OF HEALTH CARE BENEFITS

EFFECTIVE January 1, 2004

ATTACHMENT C

Medicare Eligible (A & B)

(All percentages apply after Medicare and Deductible)

BENEFIT COVERAGE

BASIC PLAN

MAJOR PLAN FEATURES

Health Providers	Use any Provider
Deductible (Per Plan Year)	\$25 per person
Out of Pocket (Per Plan Year)	\$ 750 Single \$1,500 Family
LifeTime Maximum	\$2,000,000
Claim Forms	Yes
Pre-Certification/ Utilization Review	None

PLAN BENEFITS

Physicians Services

Office Visits	80% UCR
Diagnostic x-ray/lab	80% UCR
Surgeon/Consultation	80% UCR
Specialist	80% UCR
Surgeons/Surgery Fees	80% UCR

Hospital Services

Admission Deductible	None
Inpatient Coinsurance	100%
Outpatient Coinsurance	
Pre-Admission Testing	100%
Surgery	100%
All Other Medical Services	80%

Emergency Room

Emergency Room Use	80%
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Mental Health

Inpatient Mental/Nervous	100%
Alcoholism	100%
Outpatient Mental/Nervous	80%
Alcoholism	80% annual maximum \$550



**COMBINING STATEMENTS OF PLAN NET ASSETS**  
**HEALTH CARE**  
**1999 - 2004**

**ATTACHMENT D**

	2004	2003	2002	2001	2000	1999
<b>ASSETS</b>						
Cash and Short-Term Investments	\$1,541,368	\$1,846,137	\$1,860,161	\$4,534,084	\$12,290,858	\$5,456,392
Receivables						
Contributions						
Employer	110,873	266,648	303,696	423,357	390,547	0
Employee	0	0	0	0	0	0
Accrued Investment Income	398,050	197,813	174,364	245,208	287,729	280,491
Tenant Rent Receivable	9,393	10,166	13,281	5,976	779	1,844
<b>TOTAL RECEIVABLES</b>	<b>518,316</b>	<b>474,627</b>	<b>491,341</b>	<b>674,541</b>	<b>679,055</b>	<b>282,335</b>
Investments, at Fair Value						
Domestic Equity	53,103,188	47,005,444	34,657,036	41,598,598	34,507,863	34,162,999
Fixed Income	20,394,968	18,538,426	18,109,235	17,486,844	17,154,031	17,297,585
International Equity	14,414,449	12,733,103	8,189,885	8,306,207	14,964,311	26,239,638
Real Estate	7,551,209	9,176,171	11,518,800	12,173,481	10,561,036	11,628,281
Collateral on Loaned Securities	29,443,877	23,973,979	16,020,976	2,509,938	1,447,002	2,436,964
<b>TOTAL INVESTMENTS</b>	<b>124,907,691</b>	<b>111,427,123</b>	<b>88,495,932</b>	<b>82,075,068</b>	<b>78,634,243</b>	<b>91,765,467</b>
Prepaid Expense	821	9,698	6,239	6,729	2,660	3,729
Property and Equipment, Net	4,370	5,944	19,603	27,439	25,271	26,601
<b>TOTAL ASSETS</b>	<b>126,972,566</b>	<b>113,763,529</b>	<b>90,873,276</b>	<b>87,317,861</b>	<b>91,632,087</b>	<b>97,534,524</b>
<b>LIABILITIES</b>						
Accrued Health Care Benefits	698,681	823,684	914,094	881,217	676,166	972,010
Accounts Payable	166,077	183,494	168,062	166,718	99,553	139,055
Other Liabilities	6,694	10,064	7,331	5,339	6,890	6,493
Accrued Payroll and Withholdings	20,232	20,185	17,263	12,753	12,544	10,542
Obligations under Securities Lending	29,443,877	23,973,979	16,020,976	2,509,938	1,447,002	2,436,964
<b>TOTAL LIABILITIES</b>	<b>30,335,561</b>	<b>25,011,406</b>	<b>17,127,726</b>	<b>3,575,965</b>	<b>2,242,155</b>	<b>3,565,064</b>
<b>NET ASSETS HELD IN TRUST FOR PENSION AND POSTEMPLOYMENT HEALTH CARE BENEFITS</b>	<b>\$96,637,005</b>	<b>\$88,752,123</b>	<b>\$73,745,550</b>	<b>\$83,741,896</b>	<b>\$89,389,932</b>	<b>\$93,969,460</b>

**COMBINING STATEMENTS OF CHANGES IN PLAN NET ASSETS**  
**HEALTH CARE**  
**1999 - 2004**      **ATTACHMENT E**

	2004	2003	2002	2001	2000	1999
<b>ADDITIONS</b>						
Contributions:						
Employer	\$2,867,602	\$3,395,749	\$3,780,715	\$3,521,665	\$3,346,581	\$2,783,534
Employee	0	0	0	0	0	0
State of Ohio	0	0	0	0	4,554	4,346
Transfer from Other Systems	0	0	0	0	0	0
<b>TOTAL CONTRIBUTIONS</b>	<b>2,867,602</b>	<b>3,395,749</b>	<b>3,780,715</b>	<b>3,521,665</b>	<b>3,351,135</b>	<b>2,787,880</b>
Investment income:						
Net Appreciation in Fair Value of Investments	10,114,097	17,291,445	(4,601,560)	(1,916,062)	(4,381,349)	4,842,495
Interest & Dividend Income	2,376,002	1,931,465	2,196,103	2,205,112	1,807,052	2,257,267
Security Lending Income	27,477	27,466	10,692	4,660	6,336	8,036
Real Estate Operating Income, Net	27,296	32,981	55,095	46,893	63,234	109,630
	12,544,872	19,283,357	(6,312,670)	(2,539,397)	(1,891,729)	7,217,428
Less Investment Expense	492,911	397,635	330,713	340,786	209,742	338,538
<b>NET INVESTMENT INCOME</b>	<b>12,051,961</b>	<b>18,885,722</b>	<b>(6,622,281)</b>	<b>(2,200,183)</b>	<b>(1,114,090)</b>	<b>6,878,890</b>
<b>TOTAL ADDITIONS</b>	<b>14,919,563</b>	<b>22,281,471</b>	<b>(1,892,666)</b>	<b>621,482</b>	<b>236,155</b>	<b>9,666,770</b>
<b>DEDUCTIONS</b>						
Benefits Paid Directly to Participants	6,948,650	7,181,129	7,025,043	6,179,096	4,720,260	5,498,402
Refunds of Employee Contributions	0	0	0	0	0	0
Administrative Expenses	86,031	93,769	78,635	90,422	95,423	78,854
Transfers to Other Systems	0	0	0	0	0	0
<b>TOTAL DEDUCTIONS</b>	<b>7,034,681</b>	<b>7,274,898</b>	<b>7,103,678</b>	<b>6,269,518</b>	<b>4,815,683</b>	<b>5,577,256</b>
<b>NET INCREASE</b>	<b>7,884,882</b>	<b>15,006,573</b>	<b>(1,996,116)</b>	<b>(5,648,036)</b>	<b>(1,179,528)</b>	<b>4,089,514</b>
Prior Period Adjustment					262,497	
<b>BALANCE, AT END OF YEAR</b>	<b>\$96,637,005</b>	<b>\$88,752,123</b>	<b>\$73,745,550</b>	<b>\$83,741,896</b>	<b>\$89,389,932</b>	<b>\$93,706,963</b>