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AGENDA ITEM

Action Item

Information Only

Date: February 5, 2009
Item Number: III
Title: State of the Business Report

Historical Summary

To begin this year's State of the Business report, it is appropriate to recognize that 2009 is the ten-year anniversary of PEBP. In 1999, the Committee on Benefits was dealing with the aftermath of a troublesome third party administrator and a required "bail out" from the Legislature of \$26 million during Fiscal Year 1999. The Committee was also headed into a legislative session that would eventually disband the Committee and restructure the Agency into the current Public Employees' Benefits Program structure.

After 1999, it required about four more years to stabilize the finances of the plan. That stability began in earnest with Plan Year 2004. Several actions contributed to this stability, but the following were among the most significant:

- ✓ With the establishment of PEBP, the management positions were upgraded which allowed for a more comprehensive team to be brought together to run the Program. While there has been some turnover of these positions since 1999, the current team has been in place since 2006 and more than half of the management employees have been with the Program since at least 2001.
- ✓ The Board implemented a fully transparent vendor procurement process. Since 2001, new and highly qualified vendors have been selected to partner with PEBP in every aspect of the business. PEBP is very proud of the partnership relationships that exist with each vendor and believe that all parties are committed to doing what is best for the Program. Operating in a public setting, each PEBP vendor is forced to perform at their best. This situation has, in no small part, contributed to PEBP's stability by insisting on access to consistent, reliable customer service and program data from which decisions are made.

- ✓ Board policy discussions and decisions have also been conducted in a very public and transparent manner. While controversial issues have been addressed, such as commingling, the final product has been made using a thorough public process, exactly as envisioned in 1999.
- ✓ PEBP has been responsive to many policy decisions resulting from the legislative process. Most significant in this regard has been the changes affecting non-state retirees. Responding to a rapid rise in contribution rates in 2003, new requirements for employers to subsidize these participants was put in place effective October 2003. Then, reflecting the outcome of a four-year legislative interim study of PEBP, the eligibility of new non-state retirees was significantly curtailed as of November 2008. In both cases, extensive work was required by PEBP staff to implement these policy changes. With some limited issues, both policy changes were successfully implemented while maintaining PEBP's creditability.
- ✓ To many, the ultimate evaluation of the Program is its financial stability. With the closing of last fiscal year on June 30, 2008, PEBP completed its fifth consecutive year with fully funded reserves for claim liabilities. In fact, in Fiscal Year 2006, the Board formally established a second reserve to be used for rate stabilization and began to deal with the "problem" of excess reserves. The ability to accumulate these reserves resulted from a relative stabilization of national medical trends, being able set more reliable contribution rates, conservative financial policies adopted by the Board, containing the temptation to expand benefits after painful reductions were made in 2003 and responsible funding of any benefit enhancements.

Looking Forward

At the start of this year's legislative session, Nevada is facing one of the worst financial projections ever. While the PEBP Board was asked to contain its cost for the next two years at the current level, the Governor has recommended even deeper reductions in the State's funding of health benefits for active State employees and retirees. It is likely that the proposed changes will be extensively debated during the legislative session. All of this leaves the Program's day-to-day business in a precarious situation. Participants look to PEBP staff for direction on their benefits and the cost of those benefits. We expect that it will be some time before we will be able to do that with any clarity.

Meanwhile, we continue to carry on the business of running a benefits program that is responsive to the participants and responsible to the taxpayers.

- ✓ Vendors are still heavily scrutinized for the quality they bring to the participants and accuracy they bring to PEBP administration.
- ✓ PEBP staff continues to look for reasonable ways to limit the plan's exposure to unnecessary expenses and to maximizing access to quality provider services.
- ✓ A second group of participants in the Cardiac Wellness Pilot project are getting ready to begin their road to better and sustained good health.

- ✓ PEBP continues to work towards better communications with its participants. Emphasis is being placed on more frequent electronic communications and the distribution of plan information via electronic media.

In closing, I am proud to serve as PEBP's Executive Officer and even prouder of each and every member of the PEBP staff for the work that they do in serving the plan participants. This will be one of PEBP's most challenging years but I am sure, this, like all other challenges will be met. None of this would be possible of course without the PEBP Board's continued support and professionalism.