

PUBLIC EMPLOYEES' BENEFITS PROGRAM BOARD

TRANSCRIPT OF PROCEEDINGS

VIDEOCONFERENCED OPEN MEETING

THURSDAY, FEBRUARY 5, 2009

CARSON CITY AND LAS VEGAS, NEVADA

The Board: RANDALL KIRNER, Chairman
JACQUE EWING-TAYLOR, Vice Chair
JULIA TESKA, Member
J. ANGUS MacEACHERN, Member
VAN MOURADIAN, Member
GEORGE CAMPBELL, Member
LEO DROZDOFF, Member
TERESA J. THIENHAUS, Member

For the Board: MICHAEL E. WILSON, Chief
Deputy Attorney General

For Staff: LESLIE JOHNSTONE
Executive Officer
TIMOTHY NIMMER
Actuarial Consultant
JON HAGER
Chief Financial Officer
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1 CARSON CITY, NEVADA, THURSDAY, FEBRUARY 5, 2009, 9:00 A.M.

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4 CHAIRMAN KIRNER: Good morning everybody and
5 welcome to the Public Employees' Benefits Program Board
6 meeting. It should be an interesting meeting today. It
7 looks like we have a good crowd. The first thing I'm going
8 to do since I forget to do this most of the time is to
9 establish a quorum.

10 We'll do a roll call starting with you over
11 there, George.

12 (Roll call was taken.)

13 CHAIRMAN KIRNER: We do have a quorum. Before I
14 get too far into the meeting, I'd like to present our new
15 Board Member, Teresa Thienhaus. Teresa is the new Director
16 of Personnel. How long have you been the State now?

17 MEMBER THIENHAUS: I've been with the State about
18 nine and a half years.

19 CHAIRMAN KIRNER: So she's an experienced pro and
20 we're glad to have her on the Board. Everybody please
21 welcome Teresa.

22 (Applause.)

23 CHAIRMAN KIRNER: Let's move right into our
24 agenda. The second agenda item is to approve the minutes
25 from our last meeting.

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1 MEMBER EWING-TAYLOR: Mr. Chair, I have one
2 correction. Under item A, public comment, Mr. Kent Erwin,
3 the spelling of his name is E-R-W-I-N.

4 CHAIRMAN KIRNER: Any other corrections or
5 additions to the minutes? Then I'll accept a motion to
6 approve the minutes as amended.

7 MEMBER EWING-TAYLOR: So moved.

8 MEMBER TESKA: Second.

9 CHAIRMAN KIRNER: All in favor? Any opposed?

10 (The vote was unanimously in favor of motion.)

11 CHAIRMAN KIRNER: That motion passes. Let's move
12 on to the meat of our agenda, the presentation the state of
13 the business report, and I'll turn it over to our Executive
14 Officer.

15 MS. JOHNSTONE: Thank you, Mr. Chairman. Leslie
16 Johnstone for the record, and I would just like to briefly
17 read the state of the business report. It is in recognition
18 of PEBP's ten-year anniversary of existence.

19 To begin this year's state of the business report
20 it is to important to recognize that 2009 is the ten-year
21 anniversary of PEBP. In 1999 the Committee on Benefits was
22 dealing with the aftermath of a troublesome third-party
23 administrator and required bailout from the legislature of
24 \$26 million in that fiscal year.

25 The Committee also headed into a legislative

1 session that would eventually disband the Committee and
2 restructure the agency into its current structure as the
3 Public Employees' Benefits Program. After 1999 it required
4 about four years to stabilize the finances of the plan and
5 that stability began in earnest with plan year 2004.

6 Several actions contributed to that stability and
7 I'd just like to highlight the most significant ones. With
8 the establishment of PEBP, the management positions were
9 upgraded which allowed for a more comprehensive team to be
10 brought together to run the program. There's been some
11 turnover in those positions since 1999, but the current team
12 has been in place since 2006, and over half of the management
13 employees have been with the program since 2001, at least
14 2001.

15 The Board implemented a fully transparent vendor
16 procurement process. Since 2001 new and highly qualified
17 vendors have been selected to partner with PEBP in every
18 aspect of the operation. PEBP is very proud of the
19 partnership relationships that exist with each of those
20 vendors, and believes that each of them are committed to
21 doing what is best for the program.

22 Operating in a public setting each PEBP vendor is
23 forced to perform at their best. This situation has in no
24 small part contributed to PEBP's stability by insisting on
25 access to consistent, reliable customer service and program

1 data from which decisions are made.

2 Another item was Board policy discussions and
3 decisions have also been conducted in a very public and
4 transparent manner, and while we've had some controversial
5 issues debated, such as commingling, over the years, the
6 final decisions have always been made through a very thorough
7 public process, exactly what was envisioned in 1999 with
8 PEBP's creation.

9 PEBP has been responsive to many policy decisions
10 resulting from the legislative process, most significant of
11 which has been the effect on the non-state retiree pool.
12 Responding to rapid rises in contribution rates in 2003, new
13 requirements for employers to subsidize these participants
14 were put in place effective October 2003.

15 Then reflecting the outcome of a four-year
16 legislative interim study of PEBP, the eligibility of new
17 non-state retirees was significantly curtailed as of November
18 2008. In both cases extensive work was required by PEBP
19 staff to implement these policy changes. With some limited
20 issues, both policy changes were successfully implemented
21 while maintaining PEBP's credibility with the participants.

22 To many, the ultimate evaluation of a program is
23 its financial stability. With the closing of last fiscal
24 year on June 30th, PEBP completed its fifth consecutive year
25 with fully funded reserves for claim liability. In fact, in

1 2006, fiscal year 2006, the Board formally established a
2 second reserve to be used for rate stabilization and began to
3 deal with the problem, so to speak, of excess reserves.

4 The ability to accumulate these reserves resulted
5 from a relative stabilization of medical trends on a national
6 basis as well as being able to have more reliable
7 contribution rates, conservative financial policies adopted
8 by the Board containing the temptation to expand benefits
9 after we made some painful reduction in those benefits in
10 2003, and responsible funding of any benefit enhancements
11 that did receive approval.

12 So looking forward, at the start of this
13 legislative session, Nevada is facing one of its worst
14 financial projections ever. While the PEBP Board was asked
15 to contain its costs for the next two years at the current
16 level, the Governor has recommended even deeper reductions in
17 the state's funding of health benefits for active employees
18 and retirees.

19 It is likely that the proposed changes will be
20 extensively debated during the legislative session. All of
21 this leaves the program's day-to-day business in a precarious
22 situation. Participants look to PEBP staff for direction on
23 their benefits and the costs of those benefits, and we expect
24 that it will be sometime before we are able to do that with
25 any clarity.

1 Meanwhile, we continue to carry on the business
2 of running the benefits program that is responsible to the
3 participants and responsible to the taxpayers. Vendors are
4 still heavily scrutinized for the quality they bring to the
5 participants and the accuracy they bring to PEBP
6 administration. PEBP staff continues to look for reasonable
7 ways to limit the plan's exposure to unnecessary expenses and
8 to maximizing access to quality provider services.

9 A second group of participants in the cardiac
10 wellness project are getting ready to begin their road to
11 better and sustained good health, and PEBP continues to work
12 toward better communications with its participants. We'll be
13 emphasizing more frequent electronic communication and
14 distribution of plan information via electronic media.

15 In closing, I'm very proud as PEBP's Executive
16 Officer and even prouder of each and every member of the PEBP
17 staff for the work that they do in serving the plan's
18 participants. This will be one of PEBP's most challenging
19 years, but I'm sure like all other challenges it will be met
20 and none of this is possible without the Board's continued
21 support and professionalism. Thank you, Mr. Chair.

22 CHAIRMAN KIRNER: Thank you, Leslie. Board
23 Members, any comments you'd like to make? The only comment
24 that I would make is having been here all those ten years, I
25 do fully agree with the successes that we've had, but most

1 importantly I want to focus on the challenges that are before
2 us.

3 Most of the people in this room, certainly this
4 Board, is keenly aware of the pending recommendations from
5 our Governor to our legislature and the discussions that are
6 going to be taking place.

7 So without much further than that, I'd like to
8 move right into agenda item number IV which is discussion and
9 possible action regarding plan year 2010 which currently runs
10 from July 1st, 2009 to June 30th, 2010, including but not
11 limited to, A, the Governor's executive budget, projected
12 self-funded claim trends, and the extension of plan year 2009
13 from June 30th, 2009, moving it to September 30th, 2009.

14 With that in mind, it looks like, Jon, you're
15 getting ready to load up some stuff. Let me know when you're
16 ready to go and I'll turn it over to you, Leslie, to review
17 the Governor's executive budget.

18 MS. JOHNSTONE: Thank you, Mr. Chair. I think
19 the point I would like to make before we start the power
20 point presentation that goes over the impact of the budget is
21 that we really need to look at the budget in two components
22 and the cumulative results of the decisions that have been
23 made.

24 In the state of the business report I indicated
25 that the PEBP Board was asked to meet a budget target through

1 the agency request process. That was included in the
2 Governor's recommendation and the Governor then went a step
3 further with additional reductions.

4 So in the state nomenclature, each of those are
5 in what's called separate decision units, and it's important
6 that everybody understand the impact of both of those
7 decision units taken together.

8 A lot of what's been reported so far through the
9 media has been just on the Governor's decisions and it has
10 not emphasized the starting point which included reductions
11 that the PEBP Board responded to as part of its agency
12 request.

13 So with that, we'll go through a power point
14 presentation that is a slightly shorter version of what we
15 gave to the legislature last week, on the 27th, in their
16 pre-session budget considerations.

17 We'll focus on just the Governor's recommended
18 budget starting at a summary level, and you can see these
19 will be the numbers with those budget reductions
20 incorporated, and then we will talk a bit about the PEBP
21 Board proposal that's in decision unit, and they're all given
22 separate numbers, so this is decision unit E660, and then
23 we'll talk about the recommendations from the SAGE Commission
24 as they were modified in the Governor's recommended budget in
25 E661.

1 So with that, we'll look at the operating budget
2 which is account 1338, and this chart simply shows how the
3 overall budget, including reserves, compares to what we have
4 in the current biennium.

5 There isn't much to be inferred from these
6 numbers frankly because the enrollment numbers influence the
7 calculation of the budget dramatically, and much more so than
8 the very minor plan changes that we have had. So overall
9 there has been growth responding to the enrollment in the
10 plan as well as the medical trend.

11 The next slide shows the information for the
12 upcoming budget in the Governor's recommended numbers
13 combined for the two years, so this is a biennial total of
14 \$914 million and broken out between sources and uses.
15 Obviously I think most people understand that most of our
16 funding comes from either contributions from the participants
17 or the state subsidy for the actives and the retirees.

18 Subsidies from non-state jurisdictions for their
19 retirees are included in that contribution. On the uses
20 side, we particularly like to make sure people understand the
21 operating costs of this program are one percent of the total
22 budget, and in that slice that the cost of PEBP and its
23 consultants are the biggest areas. So any idea that this is
24 an overly inflated budget for administration, I'd like to
25 clarify that that is one percent of the total.

1 The self-funded administration which is made up
2 of the network expenses as well as the third-party
3 administrator is still only three percent, so the self-funded
4 and the fully-insured products is where most of our expenses
5 are incurred, and in this context fully insured are the HMO
6 products, as well as the life insurance, and of all of those
7 slices self-funded is the most volatile, so we watch that
8 very closely.

9 This plan's finances ebb and flow based upon what
10 happens with those self-funded claims because it does bear
11 all of the risk of the self-funded program.

12 On the next slide we've got the same information
13 broken out by decision unit for the funding sources and I'll
14 describe the State nomenclature for each of those categories.
15 The base budget is basically what we spent or what we brought
16 in in fiscal year 2008, and then the maintenance categories
17 are adjustments that are recognized for inflation and
18 enrollment changes that are necessary in order to maintain
19 the program at its current subsidy structure and benefit
20 design.

21 Then we get into the reductions, and on the
22 funding side, you see the state subsidy going down from a
23 maintenance level, it's going down 143.6 million. Of that,
24 102.6 million would be shifted to the participants through
25 contributions.

1 And then the equipment replacement is very minor
2 in the whole scheme of things, but the funding slice here I
3 think shows clearly where most of the cost shifting would
4 occur from the State to the participants.

5 So the next slide breaks out the information by
6 expense and we have a couple little corrections from when
7 this was originally printed. It doesn't change the bottom
8 line or the message that we want to give in presenting this
9 information, but on the expense side through the plan changes
10 that the Board has proposed, we would have an overall
11 reduction of about \$39 million in plan expenses from the
12 maintenance side.

13 The only reason there's an increase in fully
14 insured is some assumption of migration from the self-funded
15 to the HMO products. So overall the expenses go down about
16 \$42 million, part of the reductions that have been approved,
17 and this is, just to be clear, this is just another form of
18 cost shifting to the participants because the services would
19 still be required, they would just not be covered under the
20 plan.

21 The next slide shows the information of what's
22 included in the budget for the reserves and this is the only
23 positive message that we have today, that so far the reserves
24 that the Board has requested based upon information we have
25 from our actuaries, that the funding for the reserves is

1 still included in the budget, and I think that a lot of the
2 parties have some appreciation for the volatility of the
3 plan's finances.

4 It's not so far distant in the past that we've
5 forgotten about those tough years and we've been able to
6 convince people so far to leave the reserves intact.

7 Then in terms of some of the assumptions that go
8 into the budget, the enrollment numbers are shown here and
9 this is for the maintenance budget. This likely would have
10 to get revisited if all of the proposals go through in any
11 fashion close to what's currently on the table.

12 We have the state enrollment relatively flat,
13 normal growth in state retirees and a flat number for the
14 non-state retirees, given that the eligibility to join the
15 plan has been curtailed.

16 On the next slide we've got assumptions for the
17 expenses based upon a maintenance budget, so this went into
18 the creation of what it would take to continue the plan with
19 its current design.

20 In that was a nine and a half to nine percent
21 trend for medical and prescription costs on the self-funded
22 side, relatively constant six and a half percent for dental
23 claims growth, and what it was recommended from the actuaries
24 for the incurred but not reported and rate stabilization
25 reserves, and an assumption of about ten percent growth on

1 the fully-insured products. So this is what went into
2 building that continuation of the maintenance budget.

3 The next two slides I won't spend any time on.
4 They just show the different decision units that went into
5 building the budget and the maintenance decision units are
6 relatively standard across the State agencies. We have
7 inflation and enrollment growth recognized in these
8 maintenance decision units and any statewide adjustments in
9 inflation.

10 The next slide shows enhancement decision units.
11 The first two are the ones that we'll focus on in this
12 presentation, and when you look on the bottom line of these
13 decision units it doesn't tell a very good story, so I'll
14 save that for the next part of the presentation.

15 To be sure, PEBP is being treated the same as any
16 other department with the Governor's recommendation on salary
17 reduction, suspension of the merit and longevity pay.

18 So with that, we'll go over in pretty much a
19 summary fashion the PEBP Board proposal. We spent the months
20 of August, September, October and November coming to
21 resolution on what these proposals would be and when we had
22 the original target from the Budget Office, it meant about a
23 \$55 million reduction in the state subsidy.

24 The Board chose to split the impact of this
25 between cost shift and plan design changes. The cost shift

1 is a straight reduce the State subsidy and increase the
2 participants' contribution, so it's a dollar-for-dollar cost
3 shift.

4 The plan design changes impact the users of the
5 plan and is not nearly as an across-the-board approach as the
6 change in contribution structure. So with that, we'll go
7 through the cost shift quickly.

8 Let me talk about the long-term liability and the
9 impact on this. The GASB which is the Governmental
10 Accounting Standards Board, statements 43 and 45 require
11 governmental entities to recognize the long-term liability
12 for retiree benefits other than pension, and the actuaries
13 have been asked to develop the impact of the PEBP Board
14 proposal on this liability and they have come up with a
15 tentative number of about 3.6 billion for the present value
16 of benefits. So that's the total value as it stands
17 currently.

18 If we went out of business today, that's what it
19 would take to continue, and we did not change the benefit for
20 the subsidy structure. That's what it would take. That is
21 about ten percent less than the June 30th, 2008 valuation.
22 They say that about two percent of that change is due to
23 change in assumptions. The rest of it is due to the changes
24 that the Board made or proposed.

25 The annual required contribution which is more

1 the impact on the notes in the financial statement would be
2 about \$241 million, and that's about 16 percent less than the
3 June valuation, and about eight percent of that, almost half
4 of that is due to the changes in assumptions.

5 This is I think to be expected that it would have
6 a reduction in the GASB, but not a terribly significant one.
7 We have learned through the scenarios that we've run for the
8 legislature in 2005 and then again in 2007 that in order to
9 substantially impact this liability, you have to make rather
10 Draconian cuts to the plan or the subsidy structure.

11 So this is along the lines of what we were
12 expecting. We've asked the actuaries to put together a
13 tentative valuation of what these numbers would be based upon
14 the Governor's recommended budget and we're on track I think
15 to have that by mid February and we'll be distributing that
16 information to the Board as soon as it's available.

17 We targeted mid February because we think we have
18 the subcommittee hearing on the 18th with the joint money
19 committee representatives. We go to the general government
20 subcommittee and tentatively we're scheduled for the 18th, so
21 we're gearing around that date.

22 I'll talk from this slide about the changes that
23 the PEBP Board included in the modified agency request that
24 we turned in in November, and that was to reduce the subsidy
25 percentage and it was proportionate across state actives,

1 their dependents, state retirees and their dependents.

2 Now, to be clear, that would have the same impact
3 on non-state retirees. Overall the reductions were about
4 five percent. If you look at it on a composite level, that
5 generated about \$23 million in savings, state subsidy
6 savings, and all of the numbers that I'll quote are two-year
7 numbers.

8 So about \$23 million in state subsidy over two
9 years. Then allocating the Medicare Part D subsidy between
10 the plan and the retiree saves about a million dollars and
11 that was aligning that revenue source in a similar fashion to
12 how we commingled the prescription costs for Medicare
13 retirees.

14 Heretofore we had passed that subsidy directly
15 through to the Medicare retirees, but with the change in
16 policy on commingling, we aligned everything in a similar
17 fashion. Because the prescription drugs are commingled
18 across the population, we'll do the same thing with this
19 revenue source.

20 Then the Board went along with proposing a
21 limitation to future retiree subsidy, trying to take a
22 reasonable approach in how to limit that GASB liability, and
23 one way to do that in the long-term was to limit the
24 eligibility for the subsidy to new retirees with less than
25 15 years of service. So all the existing retirees would be

1 grandfathered into the current rules but we would move the
2 minimum years of service from its current five years to
3 15 years of service.

4 And on the cost shift side, every one of these
5 have been overridden, if you will, by the Governor's
6 recommended budget, so when I get to that part I'll try to
7 describe the difference.

8 The plan design changes, they are all included in
9 the Governor's budget, so in addition to the revenue changes
10 made in the Governor's decision unit we have these plan
11 changes which are very significant in their own right.

12 Removal of the health assessment questionnaire
13 and the incentives, I think most people understand that the
14 completion of that health assessment questionnaire was
15 incentivized through a 50 percent reduction in the deductible
16 if you were in the self-funded plan and an increase in the
17 dental annual maximum and that was a very costly incentive,
18 so we have included removal of the completion of the
19 questionnaire as well as that incentive.

20 Then the other large item was what to do with the
21 deductible in the self-funded plan. I think the actuaries
22 made it very clear that you needed to come up with
23 \$50 million in this time frame. You're pretty much limited
24 to cost shifting on the premiums and major changes on the
25 deductible.

1 So the Board looked at adjusting the deductible
2 in the two-option structure that we currently have. Because
3 the amount that we needed to move the low deductible up
4 started to merge with our high deductible level, then the
5 decision was made to propose eliminating the option and
6 collapsing it into a single deductible level, and this kind
7 of became our balancing number and it came out at \$725 for
8 the individual, 1450 for the family in this structure. So
9 this is included in the Governor's recommended budget.

10 Then the Board went along with some long-term
11 policy changes. One was to index the annual out-of-pocket
12 maximum which is currently 3500 for the individual and 7,000
13 for the family, and to index that which means just inflate it
14 with medical trends, half of that medical trend each year.

15 So if the medical trend goes up ten percent, we
16 would increase the annual out-of-pocket maximum by five
17 percent. Also to increase the annual deductible at the same
18 level as medical trend. So if medical trend goes up ten
19 percent, the deductibles would go up ten percent and that's
20 across-the-board medical, dental and prescription.

21 Another change that was made was to pull back the
22 recent enhancement for neurotherapy and psychotherapy on ADD
23 and ADHD services. That was a benefit that was enhanced July
24 1st of 2008, so we would revert to not having that benefit
25 covered.

1 Then it was also to hold the HMO plans at a five
2 percent increase, so half of what probably would have
3 normally occurred, and we are still working with the HMOs to
4 determine exactly what the plan impact of that might be.
5 We've also adjusted the reserves accordingly, which meant
6 about a \$2 million reduction from the original level on the
7 reserves.

8 So with that, I will now talk about the
9 Governor's recommendation. First we'll talk about actives.
10 The SAGE Commission recommended that a survey of private
11 employers in Nevada be done, employers that had at least 100
12 employees, and to base line the state subsidy against what
13 the private sector employer provided to their employees.

14 The Governor went ahead and adjusted the subsidy
15 for employees and their dependents at 75 percent. Currently
16 employees are subsidized in the low deductible at 95 percent
17 and their dependents are subsidized at 75 percent, so there
18 would be no change for the dependent, but the subsidy for the
19 employees would go down 75 percent.

20 It's about a \$50 million savings on the active
21 side to the State over a two-year period for this proposal.
22 So taken together on the active side, we have the maintenance
23 of what it would take in state subsidy to fund the current
24 program at the current subsidy level would be \$455 million
25 for the biennium.

1 The PEBP Board proposals, that five percent
2 reduction in the composite on the subsidy as well as the plan
3 changes on the active side saved about \$45 million, and then
4 the Governor's further changes would reduce it another
5 \$50 million. So that the funded level for state actives is
6 at 359 million. So just about \$100 million below what it
7 would take to maintain the current benefits for the actives.

8 The next slide just shows the composite numbers
9 for the assessment that would be charged to the different
10 departments and the changes in the overall. The simplest way
11 for us to express this is the composite percentage. So on
12 average now actives and there are dependents are subsidized
13 95 percent of the costs.

14 The PEBP Board proposal would have reduced that
15 to 85 percent and the Governor's recommended budget which is
16 what we're addressing now at the legislature reduces that to
17 75 percent.

18 These percentages I appreciate don't mean much to
19 individuals about what would come out of their paycheck and
20 we are having the actuaries develop the costs based upon the
21 Governor's budget so that then our staff can turn that into
22 rate schedules. We should have that again by the middle of
23 February so that we can present that to the Board and to the
24 legislature.

25 In the meantime, we've been trying to describe

1 the impact of this by using the current rates, and this whole
2 process makes me very nervous because these are not the
3 numbers that it's going to turn out to be, this is just a for
4 instance.

5 If we had subsidized the employees and their
6 dependents at 75 percent in the current year and we had kept
7 the same plan design, it would have meant about a \$112
8 increase for the individual on the low deductible self-funded
9 plan, and I use that in these examples because most people
10 are in the low deductible self-funded plan, and it's for all
11 tiers because the subsidy level for the dependents does not
12 change. It's only for the employees that it's being reduced.
13 So it's about \$112 for everybody.

14 Now, the retirees are more difficult to explain
15 because there's more parts to it. On this one, the
16 Governor's recommendation does match the SAGE Commission's
17 recommendation. So it would be to eliminate the state
18 subsidy for all Medicare retirees regardless of their
19 retirement dates.

20 It would be to reduce the state subsidy for
21 current non-Medicare retirees by 25 percent in the first year
22 and then another 25 percent in the second year, so a total of
23 50 percent over two years, and by current that is anybody
24 that retired before July 1st of 2009.

25 There would be no state subsidy for anyone

1 retiring on or after July 1st of 2009 regardless of whether
2 they're non-Medicare or Medicare. So the non-state retirees
3 because their subsidy mirrors the state subsidy would also be
4 impacted in the same fashion, and the two-year savings in
5 state subsidy is 39.7 million, and that's on top of the
6 savings that are included in the PEBP budget proposal.

7 Looking at this graphically, what it would take
8 to maintain the current plan design and subsidy structure for
9 retirees would be about 78.4 million. The PEBP Board
10 proposal, the five percent reduction in subsidy and the plan
11 design changes would save seven and a half million in retiree
12 subsidy, and then there's an additional 39.7 million in the
13 Governor's recommended changes. So the funded level would be
14 at 31.2 million compared to 78 that it would take to maintain
15 the current structure.

16 Similar information on the assessment that would
17 be used for the retirees, those asterisks are very important
18 because there would only be a subsidy for non-Medicare
19 retirees that retired before July 1st of 2009, and it's zero
20 for all other categories of retirees.

21 So the impact on contribution rates, we are also
22 asking the actuaries to come up with rate tables for this and
23 this will be more difficult to communicate because we're
24 going to end up with about five rate tables for retirees. We
25 will have pre-July 1st, 2009 rate tables for non-Medicare

1 retirees, and we are going to have to break out the
2 classification, if you will, of what it means to be a
3 Medicare retiree because the intent behind the Governor's
4 budget we believe was no subsidy for people with both Part A
5 and Part B.

6 So we have a couple hundred people that are Part
7 B only Medicare, so the way that I would suggest is if this
8 goes forward, and this is how I will present it to the
9 legislature, is if you are Medicare Part B only, that we
10 continue to rate you with the Medicare retirees, but for
11 purposes of subsidy we subsidize you like the non-Medicare
12 retirees.

13 It's a small group and I don't think that got
14 truly thought through in how this proposal has been
15 described. So that's our interpretation of the intent. That
16 would mean again just the non-Medicare retirees that retire
17 before July 1st of 2009.

18 So they'd have the benefit of being rated as they
19 currently are with the Medicare retirees that have both Part
20 A and Part B, but they would have the benefit of continuing a
21 subsidy, albeit a reduced subsidy, as the non-Medicare
22 retirees.

23 So, Jon, if you can go to the next slide? Then
24 we also have the post-July 1st, 2009 rate tables for
25 non-Medicare retirees and the Part B Medicare retirees.

1 Parts A and B will have a rate table but there won't be any
2 subsidy. So it will be five rate tables instead of two for
3 the retirees if this goes forward.

4 So trying to describe the impact on the
5 non-Medicare retirees is a little more complicated because
6 it's tiered over two years, reduced over two years, and we'll
7 start with the ones who retire July 1st, 2009 or later would
8 pay 100 percent of the cost, and in the current plan year
9 that would mean about \$546 for the single to a high of 1280
10 for those with a spouse if they're on the low deductible
11 plan.

12 Then the next group I want to talk about would be
13 the existing non-Medicare retirees, so those are the people
14 that retired before July 1st of 2009 that do not have Parts A
15 and B, and right now the total cost is the \$546. They are
16 subsidized, the retiree only, with 15 years of service,
17 subsidized at 67 percent, so they're paying \$180.

18 In the first year they would go down to 55
19 percent subsidy, so they would pay \$245 or a \$65 increase.
20 In the second year they would go down to 37 percent subsidy,
21 so they would pay \$343, which would be a \$163 increase over
22 what they're currently subsidized, and so forth for the
23 retiree plus spouse.

24 I used the retiree only and the spouse because
25 that's the high and the low on the rate schedule. So the

1 retiree with spouse over two years would go up about \$300 per
2 month. Once these non-Medicare retirees became eligible for
3 Parts A and B, then their subsidy would go to zero. So they
4 only are subsidized while they were not eligible for Parts A
5 and B.

6 On Medicare retirees it's just a straight
7 across-the-board no subsidy, so they would pay 100 percent of
8 the costs which in the current year would be \$314 for the
9 single, and \$724 for the retiree plus spouse, again on the
10 low deductible plan. One more time for the record, those are
11 not the final numbers.

12 This chart is a way of summarizing the
13 percentages which tend to not mean much to people, but you
14 can see the change from the current policy, what was included
15 in the agency request or in that decision unit E660, and then
16 what's included in the Governor's recommended budget.

17 And shown another way, the two decision units
18 together and the impact on the actives and the retirees.
19 There would be a total of \$96 million reduction in actives,
20 so the cost shift of \$96 million over two years or 21 percent
21 for the actives, and on the retirees it would be a reduction
22 over two years of 47 million, or a reduction of 60 percent.

23 This is leading up to an item that I'll talk
24 about after Aon goes over the medical trend that we're
25 experiencing, but we will be asking the Board, because of the

1 major change that this budget would represent, staff thinks
2 it's prudent to extend the current plan year so that we are
3 going into a rating structure and an open enrollment that we
4 have better information than what we have right now.

5 And by right now, what would normally happen, in
6 order to have a July 1st start date for the plan year, we
7 would be using this meeting to finalize with the Board plan
8 design changes and any policy changes on the subsidy, and
9 then we would be bringing rates back to the Board in March in
10 order to get ready for open enrollment in the month of May.

11 So because it's highly unlikely that we would
12 have any firm direction from the legislature about what the
13 final product will be until probably late April or early May,
14 if we're lucky, we're asking for an extension in the current
15 plan year.

16 With that, we'll pretend for a minute that we're
17 doing the normal thing and we will have Aon talk about the
18 what they're seeing in our self-funded trend for medical,
19 dental and prescription compared to the budget, and you'll
20 see that once again we've had favorable experience, and then
21 they'll talk about what they're seeing in the trend moving
22 forward. Then we will come back and talk about extension in
23 the plan year in our rationale.

24 So with that, I'll turn it over to Tim Nimmer and
25 Justin Kindy from Aon Consulting.

1 MR. NIMMER: Thank you, Mr. Chairman, Members of
2 the Board. Today we'll discuss the trends that we are
3 observing within the plan. For some of the Board Members who
4 may not have been on the Board this time last year, this is
5 the opportunity we have to show you what we are seeing within
6 the plan and give you a directional assessment on where we
7 believe the rates will be over the next couple of months.

8 The objective of this particular presentation is
9 to prepare you for the rate setting process which will take
10 place over, if we do extend the plan year, later this spring.

11 With that, Justin Kindy will review the
12 presentation with you today.

13 MR. KINDY: Thank you. For the record, my name
14 is Justin Kindy. As Tim was stating, the purpose of this
15 presentation is to provide some insight into how the plan ran
16 and how it's going the impact the rate setting.

17 So on the first slide here, Aon utilizes three
18 different methods and we blend those methods to develop a
19 trend that we believe PEBP will experience moving forward.
20 The first of those is our national trend levels. This is
21 from organizations, insurance organizations throughout the
22 country, what they're anticipating trends to increase and we
23 blend that with PEBP's own experience.

24 So the next two methods of trend measurement are
25 based on PEBP-only experience. The first of those is what we

1 refer to as 12 over 12. This measures from a gross
2 perspective how much your medical costs have increased in the
3 most recent 12 months over the previous 12 months. So it's a
4 historical look at your trend. One disadvantage is prior
5 experience is not necessarily indicative of future
6 experience. It just tells us where you have gone as a plan.

7 The third method is a lognormal method which is a
8 bit more complex. It uses some directional techniques, it's
9 more of a predictive type of trend analysis and it uses
10 smoothing over time.

11 In general, medical trends continue to outpace
12 general inflation, and just to clarify what Aon is reporting
13 as trend versus some other reports you may see, Aon here and
14 in our trend survey, we are reporting from our perspective
15 what is a gross trend. So this is prior to plan design
16 changes an organization may make. It's the true underlying
17 growth both in costs for service and in increased utilization
18 the plan is experiencing.

19 The national trends after benefit changes are in
20 the five to eight percent range. What we are reporting on,
21 though, is a ten to 12 percent range prior to those benefit
22 changes.

23 Moving to the next slide, this is a historical
24 look both on a 12-over-12 basis and a lognormal basis of
25 PEBP's specific experience on medical trends for actives and

1 pre-Medicare retirees. You can see that historically PEBP
2 has run just under national trend and continues to run under
3 national trend, so a small positive of what the Board is
4 needing to decide is over the coming months as these trends
5 are coming in slightly below national averages, so you won't
6 have to contend with that as well.

7 Moving to the next slide, prescription drug
8 trend, this is the one area that PEBP experienced higher
9 trends than the national average. We will go into a little
10 more detail later, but we are working with Catalyst and PEBP
11 staff to get to the bottom of what is driving this
12 prescription drug trend.

13 The next slide shows historical dental trend.
14 This has certainly been much more volatile than the majority
15 of our other clients. We anticipate that over time and into
16 the future it should start to stabilize and should follow
17 very closely to national averages.

18 This is a historical look at what Aon has used
19 for medical trend in the rate setting process and then what
20 the PEBP plan actually experienced in trend for that given
21 fiscal year. This is medical, Rx and dental trends combined,
22 and you can see looking back there has been a bit of
23 conservatism in the numbers that Aon has used with actual
24 trends coming in slightly below what was projected or what
25 was used in the rate setting process three years in a row.

1 You can see that the gap between what was assumed
2 and what actually came in is starting to shrink and starting
3 to get closer to the projected and we are more comfortable
4 with the PEBP plan.

5 To the right there, this is something that we
6 showed last year. Based on simulation techniques, basically
7 running your plan's population through a simulation,
8 21 percent of our outputs show in fiscal year '06-07 we would
9 have only expected 21 percent of the time to run that
10 favorably, the actual trend relative to what we projected.

11 For fiscal year '07-08 that probability rose a
12 bit to about 40 percent, and for '08-09 we're projecting that
13 to be approximately a 46 percent probability. So combining
14 those, approximately 18 percent, so you're still running
15 favorably, but the probability of that continuing is
16 diminishing.

17 The next few slides show prescription drugs and
18 dental trends, a historical comparison. We just went through
19 those individually. The medical shows a very similar pattern
20 as to the overall, that is the majority of the costs of the
21 plan.

22 Moving to slide eight, the prescription drug
23 experience for fiscal year '06-07 and '07-08, we saw a very
24 similar pattern to the overall plan. What is of concern a
25 bit to us is that in '08-09 we would have seen a spike in

1 trend, and as I mentioned, Aon is working with PEBP staff and
2 Catalyst Rx staff to get to the bottom of what is driving
3 this. We're making progress but we're not completely there.

4 And then the last slide shows the dental trend in
5 a similar pattern as we discussed with medical and
6 prescription drug. Again, dental has been favorable relative
7 to expected.

8 So in conclusion, from a medical perspective,
9 we're seeing PEBP trend experience roughly at the national
10 average. We're showing a slight decrease, we're expecting a
11 slight decrease in trend for fiscal year '09-10.

12 Prescription drug trend, again PEBP's experience
13 is significantly higher than the national average which has
14 given us an indication that for the rate setting season in
15 2010 we'll be using a slightly higher prescription drug
16 trend, and on the dental trend, it's more volatile than we
17 expected, but we expect it to neutralize a bit and move
18 closer to the national average moving forward.

19 So with that, we're open to any questions.

20 CHAIRMAN KIRNER: Any questions of Aon on this
21 point? Thank you.

22 We're at agenda IV-C, extension of plan year.
23 Leslie, you had some discussion on that, so I'll pass it back
24 to you.

25 MS. JOHNSTONE: Thank you, Mr. Chairman. Just to

1 summarize what we have in the written agenda item, the
2 thinking behind this request is that if we were to move
3 forward now with our rate setting process we would use the
4 Governor's recommended subsidy levels and prepare for a May
5 open enrollment.

6 If the legislature deviates in any material way
7 from that recommendation, it would require going back out and
8 having a second open enrollment with the participants. So
9 the concern is that because of the severity of the changes
10 that we would be communicating if we went out now and then if
11 we had to make any changes, it just seems like it would be
12 very confusing and frustrating for the participants to go to
13 two open enrollments.

14 That really is the core of the rationale. We
15 asked Aon to look at the financial impact of extending the
16 plan year and there is a financial impact in the first year
17 because we would be delaying the start of a new plan year
18 where the plan frankly gets the benefit out of people using
19 up their deductible, especially on the self-funded side. So
20 the plan would be incurring a higher percentage of the cost
21 during the months that we extend.

22 Now, we're recommending that the following year
23 be a short plan year so that we make up that cost. Over the
24 two plan year period it evens out to the same cost for the
25 plan materially, if you look at it materially.

1 They've estimated that if we extend it three
2 months it would cost between five and \$7 million. The net
3 revenue needs would be about 3.5 million and right now we are
4 projecting that our excess reserves -- keep in mind that we
5 always have a conservative estimate on our projections --
6 that that excess reserve will be about \$5 million more than
7 what we have committed to in the budget to give back to the
8 budget process.

9 So we do not have a cash flow impact compared to
10 the budget in any way, and it would be I think material as
11 part of your decision about whether to extend, how long to
12 extend. We also incorporate the decision on whether the next
13 year is a short plan year.

14 So in the current year people benefit, users of
15 the plan benefit if they're in the self-funded plan because
16 they wouldn't be subject to their deductible until the start
17 the new plan year. The people that would be negatively
18 impacted through plan extension would be those that have
19 reached their dental maximum, plan benefit maximum and are in
20 need of services can't defer it by the additional three
21 months.

22 People that have reached the maximum on their
23 wellness benefit and for some reason can't defer those
24 benefits until the next plan year starts, and people that
25 have maxed out on their flexible spending account and cannot

1 take advantage of the grace period provisions that we have in
2 the flexible spending account. In the current year those are
3 the people that would be impacted.

4 On the new plan year, I don't know that there are
5 negatives per se, there might be a perception that there are
6 negatives in that a higher percentage of the cost for the
7 users might be subject to a deductible in that plan year than
8 what would otherwise have occurred, but it's all very
9 personal and individualized depending on the need for
10 services and which plan they locked it into.

11 Looking at the impact on the different vendors,
12 the health maintenance organizations have both indicated that
13 they could accommodate us on this plan year extension with
14 the understanding that it may impact, likely would impact how
15 they address the rate structure for the next year because
16 they would be deferring any adjustment in their premium.

17 So it could have a larger spike, if you will, in
18 the premiums for next year, but we would work with them to
19 still contain those cost increases to the five percent for
20 budgetary reasons.

21 Then the impact on the participants I've tried to
22 describe. I'm sure there are some individual situations that
23 I didn't cover in those categories. The impact on the other
24 vendors, we have the third-party administrator and the
25 pharmacy benefit administrator that would have to adjust the

1 dates that they use for their annual accumulators. Each of
2 those vendors have told us that they could accommodate this
3 change with this kind of notice.

4 For the third-party administrator, for the
5 medical claims payer, we had an issue about the use of the
6 Fiserv Health plan administrator's name. They have been
7 rebranded to UMR and they have also been accommodating to us
8 and agreed that we can continue to use the Fiserv name. That
9 gets to be an issue for us in terms of our identification
10 cards for the self-funded participants. It says who your
11 third-party administrator is and right now it says Fiserv and
12 we would be able to continue that name.

13 Then we would have a change with the dental
14 network provider July 1st and right now that dental network
15 is also on the identification cards and that impacts all
16 participants because HMO or self-funded, they all use the
17 same self-funded dental benefit.

18 So the choices there are when we communicate to
19 the participants about a plan change, to tell them in the
20 communication about the change in dental network and we can
21 either issue new cards at a cost of about \$68,000, or we can
22 give them stickers to put on their identification cards.

23 We've used the sticker mechanism with the out-of-
24 state medical network and it's a little bit clunky, but it
25 works. And the enrollment and eligibility system, because

1 the rate structure changes each year, we asked them about any
2 impact. That seems to be the easiest one because if they do
3 nothing, it stays as it currently is, so that does not appear
4 to be an issue.

5 Then we have the matter of the participants in
6 the second 125 flexible spending account and there are about
7 1268 people enrolled in the medical reimbursement plan and
8 751 people enrolled in the dependent reimbursement plan.
9 Some of those are the same people, but if you look at it
10 benefit by benefit, those are the enrollment counts, and
11 currently we have that flexible spending account on the same
12 cycle as the benefits, so it's July through June.

13 My understanding is that a plan year for flexible
14 spending accounts can be shorter than 12 months but it cannot
15 be longer than 12 months, so the issue here is people that
16 have maxed out on the use of their flexible spending account
17 by June 30th would be negatively impacted unless we had a
18 short plan year for the flexible spending account or started
19 a new one and then we're out of cycle with the benefits, the
20 plan year.

21 We do utilize the allowed grace period
22 provisions, that if one has money left over in their flexible
23 spending account at the end of the plan year, they can still
24 claim that withholding for the next two and a half months to
25 the degree that they have any excess. So that would be part

1 of the discussion here about what to do.

2 Then there's also the matter about whether or not
3 would this be a temporary or a permanent change. I will
4 recommend that this be a temporary change. I know it might
5 be a long time before we are back in fiscal health, but as an
6 old budget person it just makes sense to me that our plan and
7 our state subsidy are on the same cycle as the State budget.

8 It has tended to work well to have a little bit
9 of focus on PEBP in the legislative session early on so that
10 they can get our subsidy settled and then we move on with our
11 open enrollment.

12 So it would be my recommendation that we make
13 this a temporary change for the financial reasons I described
14 before, but also because I just think it makes more sense to
15 have the funding that we get and are reliant on to match our
16 plan year. It can work either way, but that's my
17 recommendation.

18 And then based upon the Board's discussion here,
19 then the next agenda item would be a workshop to consider a
20 temporary change to our regulation because it is in the
21 Nevada Administrative Code what dates constitute the plan
22 year for us.

23 So with that, I'll turn it over to questions and
24 Board discussion.

25 CHAIRMAN KIRNER: Just for some clarification on

1 this thing, our next agenda item is a workshop where we will
2 seek obviously public comment and input. So at this point,
3 our discussion from the Board really relates to the idea of
4 whether we should extend or not extend, so on and so forth,
5 but I don't anticipate that we'll reach that decision today.

6 We may reach a decision that says we don't want
7 to extend and that's fine, or we may reach a decision that
8 says to take the necessary steps to move forward. Among
9 that, the first step is a workshop. I don't know if I've
10 clarified that or not.

11 MS. JOHNSTONE: Mr. Chairman, we do need a
12 decision today.

13 CHAIRMAN KIRNER: To move forward or whether or
14 not we want to extend the year?

15 MS. JOHNSTONE: If we're going to extend or not
16 needs to be decided today because if we don't extend we have
17 to hustle up and get rates to you at the March meeting.

18 CHAIRMAN KIRNER: So I stand corrected. With
19 that in mind, at this point anyway, I want to keep it at the
20 Board level for possible discussion. So I'll open it up to
21 Members of the Board for discussion. Jacque.

22 MEMBER EWING-TAYLOR: Thank you, Mr. Chairman.
23 Leslie, you partially answered one of my questions just a
24 second ago. In addition to the issue of whether or not we
25 extend the plan year, there is some question in my mind as to

1 how long it should be extended, and within that what
2 flexibility we have for extending the open enrollment period.

3 We've always had it at a month. Is there any
4 reason it couldn't be longer?

5 MS. JOHNSTONE: No. It has to be at least
6 30 days but it can't be more.

7 CHAIRMAN KIRNER: What is your thinking about
8 making it longer?

9 MEMBER EWING-TAYLOR: Well, this goes to the
10 problem that this particular timing creates for NSHE. A
11 great number of our faculty are off contract from May through
12 the end of August. As such, they are scattered all over the
13 world doing their research. Many of them are out of contact.

14 If we're going to have an open enrollment period
15 in August we are going to exclude from any consideration of
16 that a significant number of our employees and I have some
17 serious problems with that.

18 So what I would like to at least consider is
19 whether or not we can extend at least the open enrollment
20 period to the middle of September to accommodate the faculty
21 who are not around to get the packets and make informed
22 decisions in time for an August 31st or September 1st ending.

23 CHAIRMAN KIRNER: So you're saying if we were to
24 extend this thing, due to the fact that many of the faculty
25 are off during the summertime or doing research or on

1 sabbatical or whatever they may be doing, you're saying we
2 need to accommodate them for open enrollment?

3 MEMBER EWING-TAYLOR: Correct.

4 MS. JOHNSTONE: I would suggest it's not so much
5 to accommodate that to extend the open enrollment, but it
6 would be moving it a month because they are around the state
7 and much of our open enrollment activity is doing the site
8 presentations, that we wouldn't have to come around twice in
9 order to cover everybody. So it would just I think be much
10 cleaner to move it to the month of September instead of the
11 month of August.

12 MEMBER EWING-TAYLOR: How would that affect the
13 start date of the plan year?

14 MS. JOHNSTONE: Either way it would need to be,
15 instead of October 1st, it would need to be November 1st
16 because it takes us a good month to get all of the enrollment
17 forms in and out to the different vendors, ID cards produced,
18 whatnot.

19 Because we don't start enrollment changes mid
20 month, it would move it to November 1st and Aon is prepared
21 to address the cost impact, but if I were to summarize, it's
22 an additional cost in the current year, but as long as the
23 next year is kept to a short plan year, the two wash out in
24 that scenario as well.

25 MEMBER EWING-TAYLOR: Again, this is a big

1 problem for NSHE and I don't have the exact number of total
2 faculty, what we call B contract faculty, the faculty that
3 are not on contract from May through August. I don't know,
4 Michelle, do you happen to have a number?

5 MS. KELLEY: 2300, thereabouts.

6 MEMBER EWING-TAYLOR: Thank you. About 2300 of
7 our employees would have a difficult time with the current
8 scenario.

9 MS. JOHNSTONE: Mr. Chair, part of that
10 discussion is in order to have the best rates possible,
11 instead of setting the rates in June, whether to set the
12 rates in July which would be my recommendation so that
13 they're not more outdated than they need to be. That would
14 mean adding a Board meeting, but I think we'd have the best
15 rates if we did it then.

16 CHAIRMAN KIRNER: So based upon Jacque's input
17 you're now thinking that the year would be extended through
18 October?

19 MS. JOHNSTONE: So it would extend it through
20 October 31st and we would have open enrollment in September
21 and set the rates in July.

22 CHAIRMAN KIRNER: So the next plan year would be
23 eight months?

24 MS. JOHNSTONE: Correct.

25 CHAIRMAN KIRNER: If we followed the original

1 recommendation?

2 MS. JOHNSTONE: Correct.

3 CHAIRMAN KIRNER: And the financial impact of
4 that, you would be working with Aon on any, I would have said
5 swag, any guess in terms of financial impact?

6 MS. JOHNSTONE: It was an additional two to three
7 million for the additional month, but again, that's offset
8 through a savings in the short claim year.

9 CHAIRMAN KIRNER: How about cash flow?

10 MS. JOHNSTONE: Cash flow we're fine.

11 CHAIRMAN KIRNER: Any other comments? Julia.

12 MEMBER TESKA: You mentioned in your presentation
13 that this has an impact on the 125 participants because you
14 can't have a plan year that's longer than 12 months.

15 Would we be proposing continuing that at the
16 current plan year just for this one time; we don't have the
17 two years match, the plan year, for the plan and the plan
18 year for the 125 would be separate?

19 MS. JOHNSTONE: It was my original recommendation
20 because of the relatively low number, if you're in it and
21 you're a user of the Section 125 plan, from an overall
22 perspective it's a relatively small number. It was my
23 original recommendation that we just have a gap and we start,
24 the next Section 125 plan would start the plan year.

25 This might push it over the edge and maybe then

1 the choice is whether to have them off cycle and you start a
2 new Section 125 in July. That means we go back out -- I
3 think we go back out anyway if we're going to cover that gap
4 period with the enrollment.

5 So we could either have a four-month Section 125
6 plan year, followed by an eight-month, so we could have a
7 12-month off cycle with the plan year.

8 CHAIRMAN KIRNER: I understand the logistics of
9 not wanting to go out for two open enrollments and have an
10 open enrollment with the flexible spending accounts involving
11 travel and everything would be problematic, but could you do
12 a mailing on open enrollment?

13 Obviously those people currently participating
14 would be watching for those and those others who might want
15 to join, you make it available to them without have to do the
16 road show?

17 MEMBER MacEACHERN: Would you turn your
18 microphone on, please?

19 CHAIRMAN KIRNER: Sorry about that. My question
20 was if we did a mailing type open enrollment for the flexible
21 spending account beginning July 1st, would that be possible
22 without having to do a road show, and would that then
23 mitigate the issues around the current participants and
24 possibly those wanting to enter the program?

25 MS. JOHNSTONE: I would say that that's an

1 acceptable approach. To put it in perspective, the open
2 enrollment meeting brings about ten percent of the people in
3 anyway. I would venture a guess that most of the enrollees
4 in the flexible spending account are the ones that tend to
5 reenroll each year, so they would be more alert to a mailing.

6 Then the issue is whether to do a short plan
7 year, two short plan years which probably in that scenario
8 would be best because then it gets back on cycle, if you
9 will, and handled in the same way during that open enrollment
10 that we would conduct in September.

11 CHAIRMAN KIRNER: Jacque, I'm correct in my
12 assumption that the university provides its own flexible
13 spending enrollment program, so we're really not talking
14 about that group of people; is that right?

15 MEMBER EWING-TAYLOR: That's correct. I don't
16 know whether there's been any conversation about changing
17 that plan year or not to keep the thing.

18 MS. KELLEY: We are considering the same things
19 that Leslie just spoke about, whether to have one or two.

20 MEMBER EWING-TAYLOR: We also have about 1,000
21 people in that plan.

22 CHAIRMAN KIRNER: Any other questions? There's
23 been a lot of information that's been passed out here with
24 regard to the Governor's budget. Our sense is that there
25 will be a lot of discussion about this in the legislature.

1 We don't know if it will come out as it went in. Chances are
2 that it will probably differ.

3 So I think it would be not a good idea to keep
4 the current plan year, although that is one of our choices.
5 I think it would be probably prudent to take the next steps
6 to extend the plan year and it seems to me those are the two
7 choices at this moment.

8 We do have the workshop planned and that would
9 actually be the first step, if I say this right, the first
10 step if the Board decides to extend the plan year to solicit
11 public comment; is that right? Have I got that right?

12 MS. JOHNSTONE: That's right. What I would ask
13 for out of this agenda item, if you want to direct staff to
14 move forward with the steps to implement the plan year
15 extension, extend it to what date and what you want us to do
16 with the flexible spending accounts. Then the workshop would
17 be the first step conveniently also on the agenda.

18 CHAIRMAN KIRNER: And we had to schedule that
19 workshop because of the requirements in terms of time tables;
20 is that right?

21 MS. JOHNSTONE: That's right. For example, if
22 the Board decided to not extend the plan year we simply would
23 not hold the workshop.

24 CHAIRMAN KIRNER: So with those thoughts in mind,
25 what is the pleasure of the Board? Jacque.

1 MEMBER EWING-TAYLOR: Mr. Chairman, I would make
2 a motion that we direct staff to move forward with the
3 proceedings for extending the plan year an additional four
4 months so that open enrollment would be held in September,
5 the plan year would begin November 1st of 2009.

6 MS. JOHNSTONE: Short plan year?

7 MEMBER EWING-TAYLOR: Do you want to combine that
8 into one motion?

9 MS. JOHNSTONE: Whatever is the pleasure of the
10 Board.

11 CHAIRMAN KIRNER: Why don't we just keep it
12 simple for the moment.

13 MEMBER EWING-TAYLOR: That's what I was going to
14 do.

15 CHAIRMAN KIRNER: So the motion has been made but
16 not seconded to direct staff to move forward with the
17 necessary steps to extend the plan year through October.

18 MEMBER DROZDOFF: I'll second that.

19 CHAIRMAN KIRNER: The motion has been made and
20 seconded. Any discussion on that motion? Shall we take a
21 vote, then? All in favor? Any opposed?

22 (The vote was unanimously in favor of motion.)

23 CHAIRMAN KIRNER: That passes unanimously. I
24 think there's room enough for a second motion here with
25 regards to the flexible spending account.

1 MS. JOHNSTONE: The flexible spending account is
2 one piece and also whether or not the plan year 2011 is an
3 eight-month plan year.

4 CHAIRMAN KIRNER: Do we do an open enrollment via
5 mail for a year or do we do an open enrollment for four
6 months and then another eight-month program, or do we not do
7 it at all?

8 MEMBER EWING-TAYLOR: Mr. Chairman, I would move
9 that we have a short plan year in year 2010, and go back,
10 therefore, to the July 1st through June 30th period for plan
11 years.

12 CHAIRMAN KIRNER: Is your motion to have two
13 flexible spendings, a 4-month one --

14 MEMBER EWING-TAYLOR: I was just giving you the
15 plan year at Leslie's request so we have a long plan year for
16 this plan year, we extend that one by four months. The plan
17 year following that, then, my motion then is to make that a
18 short plan year of eight months.

19 CHAIRMAN KIRNER: But not to have the open
20 enrollment --

21 MEMBER EWING-TAYLOR: I'm not talking about 125
22 plan at all. We need a motion that deals with the next plan
23 year, whether or not to make that a short plan year or a
24 12-month plan year.

25 CHAIRMAN KIRNER: I understand what you're

1 talking about. I was dealing with flexible spending
2 accounts. Let's deal with your motion first. That's fine.

3 You made a motion to stay on the cycle of July to
4 June time frame, so we would extend this year and then have a
5 short one next year; is that correct?

6 MEMBER EWING-TAYLOR: That is correct.

7 CHAIRMAN KIRNER: Do I have a second to that
8 motion?

9 MEMBER DROZDOFF: I'll second that.

10 CHAIRMAN KIRNER: Motion has been made and
11 seconded. Discussion? All in favor? Any opposed?

12 (The vote was unanimously in favor of motion.)

13 CHAIRMAN KIRNER: That motion carries.

14 Now let's go to the flexible spending account.
15 The question that is before us for the flexible spending
16 account is whether or not we do an open enrollment in the
17 spring for the year July through June 2009-2010, or simply
18 not do one, basically extending this year's flexible spending
19 account and do one with a normal enrollment, open enrollment
20 for eight months.

21 MEMBER DROZDOFF: I thought you had to extend it.
22 It's just whether we have two; a four-month and an
23 eight-month.

24 MS. JOHNSTONE: Mr. Chair?

25 CHAIRMAN KIRNER: Do you want to explain that a

1 little bit better?

2 MS. JOHNSTONE: I would summarize it as you can
3 either have a July through June flexible spending account
4 year, you can have a July through October followed by a
5 November through June plan year, or have nothing between July
6 and October and start the new plan year November and go
7 through June.

8 CHAIRMAN KIRNER: I think those are the three
9 options. The question has been asked what is your
10 preference?

11 MS. JOHNSTONE: This kind of moved it over the
12 edge for me about the recommendation. So at this point I
13 would say to hold a mailing open enrollment for July through
14 October and then have a normal open enrollment process for an
15 eight-month year November through June.

16 MEMBER CAMPBELL: I'll make a motion to that
17 effect.

18 MEMBER EWING-TAYLOR: Second.

19 CHAIRMAN KIRNER: Motion has been made and
20 seconded to do a mailing open enrollment which would cover
21 flexible spending accounts from July through October, and
22 then as part of the normal enrollment process as a second
23 one, include it with the medical/dental open enrollment which
24 would carry us back through June. Any discussion?

25 MEMBER THIENHAUS: I just have a question. How

1 does that affect the flexible spending account plan year?

2 MS. JOHNSTONE: Those technically would be two
3 short plan years. The administrator said you can have plan
4 years less than 12 months, so we would have a four-month plan
5 year and an eight-month plan year.

6 The maximum, I will work with them on what they
7 can do. Right now the Board has gone along with the maximum,
8 federal maximum for dependents and 6,000 on medical, so we
9 would just adjust those proportionately.

10 I would say if we can do a grace period with the
11 short plan years, we'd go ahead and keep the grace period so
12 we don't change any of the normal rules of the plan.

13 MEMBER THIENHAUS: Thanks.

14 CHAIRMAN KIRNER: Any other discussion or
15 questions?

16 MEMBER TESKA: I know that this is going to create
17 a little extra work and cost, but I think it's going to be
18 really important that if we go forward with this piece, that
19 all those provisions are made clear particularly to the
20 people who are currently participating because I know that
21 people who participate in this -- the IRS side of this is
22 very inflexible.

23 So anytime someone doesn't quite fill their paper
24 work out the right way it can have disastrous consequences,
25 so just make sure that we really communicate this very

1 clearly to our participants.

2 MS. JOHNSTONE: Understood.

3 CHAIRMAN KIRNER: Just to be clear from my
4 perspective, in your mind I think that's a better process
5 than just having one open enrollment via mail for the normal
6 year?

7 MS. JOHNSTONE: Given the feedback that we had
8 before when our plan year did not align with the flexible
9 spending account year, I think that they need to be as in
10 sync as possible.

11 MEMBER TESKA: And one other thing is the way our
12 plan is going forward, the way it looks right now, we're
13 going to have a significant increase in deductibles for
14 people which will significantly increase how much money
15 people are spending out of pocket and it's probably going to
16 make people view a medical flexible spending account
17 differently.

18 CHAIRMAN KIRNER: Got it. That makes sense. Any
19 other discussion? The vote, then. All in favor? Any
20 opposed?

21 (The vote was unanimously in favor of motion.)

22 CHAIRMAN KIRNER: Motion carries. It's 10:30
23 now. What I'd like to do next is go to agenda item V which
24 is a public workshop. However, before we open it up for
25 public comment and begin the workshop, I think we should take

1 about a ten-minute break. Let's be back by a quarter of and
2 go from there.

3 (A short recess was taken.)

4 CHAIRMAN KIRNER: Just an administrative thing
5 here. If you look at your published meeting notice and
6 agenda, you'll notice that we go from V to VI and back to V,
7 so when we get to those sections of the agenda, work with us
8 as we go through the agenda and we'll keep it straight.

9 I'd like to move into the public workshop, agenda
10 item number V. This is a public workshop to receive comment
11 and take possible action on the proposed adoption amendment
12 and the repeal of regulations pertaining to Chapter 287 to
13 the Nevada Administrative Code, including but not limited to,
14 a temporary change to extend plan year 2009 from June 30,
15 2009 to September 30th, I'm going to amend that to say
16 October 30th, and a temporary change to the plan year 2010 on
17 October 1, 2009, rather than July 1st.

18 With that in mind, do you have anything you want
19 to say before we open it up to public comment, Leslie?

20 MS. JOHNSTONE: Mr. Chair, the only thing I want
21 to go through is just a summary of what the options are and
22 we tried to describe them in the written items. What we're
23 recommending is that this be a new section that we add that
24 would describe the plan year 2010, 2009-2010, and then by the
25 nature of how temporary regulations work, it would

1 automatically expire November 1st anyway.

2 So we would not have to go back through and
3 change it back to the new plan year. So that's our
4 recommendation.

5 The options that are available other than that
6 one would be, and I think the Board talked about this in the
7 earlier item, would be to make this an ongoing change in the
8 plan year. Again, I think the Board has addressed that.

9 A second option would be to remove the date from
10 the Administrative Code altogether and just leave it up to
11 the Board to decide what to do with the plan year. The only
12 benefit to that is if this happens again we won't have to go
13 back through the regulation process.

14 It would make it a little bit harder for the
15 public to find maybe what our plan year is, but I would hope
16 that our communications through the open enrollment cycle
17 take care of that.

18 CHAIRMAN KIRNER: Any other introductory
19 comments?

20 MS. JOHNSTONE: No, Mr. Chair.

21 CHAIRMAN KIRNER: At this point I would invite
22 the public who may have a comment on the changes that we're
23 looking at to the regulations to please step forward. Please
24 come forward to the microphone. Do we have any in Las Vegas?
25 We'll start there.

1 MEMBER MacEACHERN: None in Las Vegas to start.

2 CHAIRMAN KIRNER: This looks like a quick
3 workshop. Does anyone want to comment on this change or have
4 some input to it?

5 We have nobody coming forward here. Does the
6 Board have any thoughts with regard to the options that
7 Leslie laid out, i.e., to simply change the year or to change
8 the year without being specific as to when the year begins
9 and ends? Jacque.

10 MEMBER EWING-TAYLOR: I do kind of like the idea
11 of number two, just leaving it open in the administrative
12 manual because this could come up again. In the eight years
13 I've been on the Board it's come up once and it would make
14 our lives a little bit easier and the difficulty for
15 planning, finding out what the plan year is, how many people
16 really go to the Administrative Code? They look on the PEBP
17 web site, so I don't think that's a problem frankly.

18 So I would prefer option number two.

19 CHAIRMAN KIRNER: With all our attorneys in the
20 room, is there a legal issue on this? We've got several on
21 the Board here.

22 MR. WILSON: Good morning, Mr. Chairman, Members
23 of the Board, Madam Executive Officer. My name is Michael
24 Wilson. I'm a Chief Deputy Attorney General with the Gaming
25 Division of the Attorney General's office and I've been your

1 chief counsel for the last two and a half months, and it's
2 been my pleasure to do so.

3 This proposal has caught me a little bit unaware.
4 I wasn't aware this was going to be part of the proposal, and
5 I would simply ask is there an interrelation between the NAC
6 statutory statement of plan year that requires it to be set
7 forth?

8 MS. JOHNSTONE: No, not to my knowledge.

9 MS. WILSON: Other than that, I don't see any
10 legal impediment to you moving forward on the second
11 proposal.

12 CHAIRMAN KIRNER: Thank you. I don't think
13 there's a need for us to take any action on this workshop.
14 It was just an opportunity for people to comment. I think
15 we've laid out the case pretty well prior to this. It seems
16 like at least Ms. Kelley here thinks that it's not an issue.

17 Do you think we need to take action with regard
18 to the year?

19 MS. JOHNSTONE: No. I think that we can bring it
20 back both ways. The workshop is really just intended to get
21 comments, it's not intended to have Board action. Normally
22 staff conducts the workshop, so we can bring it back, if I
23 hear a consensus kind of from the comments of the Board, we
24 can bring it back under option two at the March meeting for
25 the adoption hearing.

1 MEMBER TESKA: I would agree with Jacque. If
2 nobody has an objection to removing the dates, just have it
3 be whatever is specified in the PEBP plan. That way if we do
4 find ourselves in this position again, if we do, we're going
5 to be acting on it in a Board meeting, so it still will be a
6 public action. This would just expedite things.

7 MS. JOHNSTONE: I think the only administrative
8 step we have to go through is we would actually do a
9 permanent regulation because we wouldn't want that to expire.
10 Under the option of adding a new section, we wouldn't have to
11 come back, it would just revert back to the way it is. If we
12 change it, then we'll come back with the adoption, permanent
13 adoption process in the fall.

14 CHAIRMAN KIRNER: Any other Board comments? I
15 don't think there's a need for any action at this point.

16 Let's move on to agenda item VI, discussion and
17 possible action regarding 2009 legislative proposals
18 affecting Chapter 287 of the Nevada Revised Statutes,
19 including but not limited to Assembly Bill 87, Senate Bill 87
20 and Senate Bill 103. Leslie, I'm going to turn that over to
21 you.

22 MS. JOHNSTONE: Thank you, Mr. Chairman. Since
23 this is our first meeting to talk about legislative
24 proposals, I wanted to let the Board know what I thought the
25 criteria should be for bringing legislation before you and if

1 there's any feedback from the Board Members, and the criteria
2 that I thought would make it most succinct for these meetings
3 is, one, if there is a fiscal note that PEBP has submitted
4 for the bill, and two, if it impacts Chapter 287 touching
5 where our regulations are, whether it impacts PEBP directly
6 or not.

7 Other items that we would be following wouldn't
8 necessarily be brought to the Board. Examples might be the
9 Open Meeting Law or other such changes that impact us from an
10 administrative standpoint, but not the Board's authority or
11 the costs to this program.

12 So that being said, we have three bills so far
13 that have been filed. The first one is Assembly Bill 87
14 which would require the Department to use the State
15 Controller's Office for any debt collection of debts owed
16 that are 60 days in arrears.

17 There would be an administrative fee, I think \$10
18 each for what accounts we bring to the State Controller's
19 Office for their mailing. The participant would have the
20 right to an administrative hearing which we would need to
21 staff that hearing and that was the main reason for the
22 fiscal note that we submitted, and it would be mandatory. So
23 we would not have any choice about this.

24 I think that it would be -- I don't know what the
25 benefit to PEBP would be for this. We have quite a process

1 now to identify accounts in arrears and working with the
2 participants, accommodating them as much as possible for
3 catching their accounts up or terminating them with adequate
4 notice, and I don't believe that this would necessarily
5 improve the process for us.

6 The Board doesn't need to take a position, but we
7 will be there representing additional costs to the program to
8 comply with this if it would be approved. It has not been
9 scheduled for a hearing so far.

10 The next two bills have been scheduled for a
11 hearing before Senate Legislative Operations and Elections on
12 the 17th, and the first one is Senate Bill 87 which does not
13 have a fiscal impact on PEBP. It doesn't particularly impact
14 PEBP directly, it just amends a section in Chapter 287 of the
15 statute that would allow local plans to uncommingle their
16 actives and retirees.

17 PEBP would still be required to commingle actives
18 and retirees with the provision that was approved last year
19 about how we deal with medical costs where we're secondary,
20 but it would make a rather significant difference in policy
21 between local plans and the PEBP plan.

22 Retirees that are currently on the plan in PEBP
23 would not be impacted. Future retirees that are with local
24 jurisdictions, because of their restrictions to join PEBP,
25 would be impacted by the uncommingling, and because of the

1 limitations already put in for their eligibility to PEBP,
2 their choices would be limited as a result of this.

3 So this one truly is informational for the Board
4 just to know that normally the local rules and PEBP rules
5 have been kept in sync and this would be a major policy shift
6 if it was approved.

7 And Senate Bill 103 is PEBP's housekeeping bill
8 and we started in May when we submitted this to the
9 Governor's Office with clarifying language about how we
10 implemented Senate Bill 544 and Senate Bill 547 from the 2007
11 session.

12 In November we worked with the LCB legal staff to
13 also add some stronger language, if you will, to address
14 delinquent payments from non-state jurisdictions for the
15 retiree subsidy, and the impetus for this really was the Las
16 Vegas Metropolitan Police Department dispute that we've had
17 since the beginning of the subsidy being applied in 2003.

18 So there is a fiscal note that we submitted in
19 that with the current statute that the Department is arguing
20 on legal grounds that they do not owe this money, and we are
21 at about 642,000 outstanding still from the Police
22 Department, that if they were to succeed we might be subject
23 to having to write off that amount. We think that this
24 stronger language -- I should back up.

25 We think we're on good legal ground now with the

1 Las Vegas Metropolitan Police Department. We think this
2 language would strengthen our position. We're not saying
3 that they don't owe it now and this would make it right,
4 we're just asking for some stronger language in our ability
5 to enforce what we think is already a responsibility of the
6 agency. So that's the reason for this fiscal note.

7 There is one rather significant policy issue
8 that's in here and it gives PEBP the authority to terminate
9 the participation of a retiree if their employer does not pay
10 their subsidy, and there's disagreement amongst the lawyers
11 about whether or not this is a correct approach, but without
12 this PEBP does not have the authority to charge the
13 participate for the employer's share and PEBP does not have
14 the authority to terminate the retiree's participation.

15 So we are left with no recourse when a retiree's
16 bill is not paid in full. And again, both of those Senate
17 bills will be heard on the 17th.

18 CHAIRMAN KIRNER: Jacque.

19 MEMBER EWING-TAYLOR: Leslie, let me ask you a
20 question about that. You say SB 103 gives us the ability to
21 terminate a retiree if their agency fails to pay. Does it
22 also give us the ability to bill the retiree for the full
23 amount?

24 MS. JOHNSTONE: No, it does not.

25 MEMBER EWING-TAYLOR: So the only choice in that

1 would be to terminate with PEBP?

2 MS. JOHNSTONE: Yes, and that's a judgment call.
3 The Board may direct otherwise. We're worried about
4 precedent setting. If we had the authority to charge the
5 retiree for the portion that the employer does not pay, some
6 agencies could take advantage of that and stop paying, and
7 then that would put the retiree in an unintended position as
8 well.

9 MEMBER EWING-TAYLOR: But they would still have a
10 legal obligation to pay given the rest of the statute,
11 wouldn't they?

12 MS. JOHNSTONE: Well, it would be contradictory
13 if the jurisdiction did not pay and then on the other hand
14 require the jurisdiction to pay.

15 MEMBER EWING-TAYLOR: I just have to think
16 there's some sort of legal mumbo-jumbo that could be done so
17 that our only option is not kick them out of the plan.

18 MS. JOHNSTONE: This whole issue has been about
19 legal mumbo-jumbo.

20 MEMBER EWING-TAYLOR: I understand that. Can you
21 guys do the voodoo that you do and make it clear?

22 MS. JOHNSTONE: I think the intent has been very
23 clear all along.

24 CHAIRMAN KIRNER: Leslie, I don't know that
25 there's any action that we need to take here on these things.

1 Basically what you've done is you've simply updated us at
2 this point and we're very early on in the legislative
3 process.

4 MS. JOHNSTONE: We are very early on and what we
5 have done on our web site, where we have the topic of budget
6 updates on our home pages, we have a link that will take you
7 to the bills that PEBP is following.

8 So that's what we will use to communicate to the
9 public as to what those bills are, and we know we have the
10 teleconference meeting, we have the agenda that's being
11 posted with these three bills on it because these will tend
12 to be repeats as they go through the process until one dies,
13 if they do die, that we would talk about during those
14 teleconference meetings and we'll amend that agenda if
15 additional bills are submitted.

16 There are about four other bill draft requests
17 that appear to involve this program, but it's not entirely
18 clear from their title what they are about, or in some cases,
19 even if they're about us or about the retirement system.

20 CHAIRMAN KIRNER: You bring up a good point here
21 and that's for the Board and public, there are a series of
22 teleconferences lined up as legislative updates, and I don't
23 have all the dates right in front of me, but it's been
24 published, so we'll be having teleconferences.

25 MS. JOHNSTONE: The way those meetings will work

1 is they will be in here, but the teleconference will be
2 streamed over our Internet site.

3 CHAIRMAN KIRNER: Any other discussion on item
4 number VI?

5 Let's move then to item V, revised to item number
6 VII, which is Health Claim Auditors' audit of Catalyst Rx for
7 the period of July 2007 through June of 2008. A would be the
8 Health Claim Auditors' report, part B is response from
9 Catalyst Rx, and discussion and possible action of the
10 results of those reports. With that, I'll turn it over to
11 you, Bob.

12 MR. CARR: Thank you, Mr. Chairman, Members of
13 the Board. For the record, my name is Robert Carr and I
14 represent Health Claim Auditors, Inc.

15 Let me start off by apologizing to those of you
16 that have reviewed this report that I've prepared today. It
17 contains a lot more research and audit data and if I may use
18 your terminology, mumbo-jumbo than previous audit reports.

19 As you're aware, PEBP changed to a transparency
20 contract with Catalyst Rx effective the 1st of January 2007.
21 This change has proved to produce better discounts and
22 financial rates for PEBP. However, many additional audit
23 procedures had to be initiated to ensure that the proper
24 activities to support this methodology were secure.

25 Previous audits measured the accuracy of the

1 discount rates and service levels provided by Catalyst Rx and
2 their network to PEBP. This audit includes those
3 measurements in addition to structures for measuring
4 proprietary contract rates and services between Catalyst Rx
5 and the pharmacy providers.

6 The audit also includes an audit of Catalyst Rx's
7 abilities, policies and procedures for providing the PEBP
8 plan with the most up-to-date and ongoing negotiations for
9 discounts, fees, rebates and services for the manufacturer
10 and pharmacy vendor communities.

11 This PBM audit included review of 100 percent of
12 claims provided by Catalyst Rx within the detail claim report
13 for appropriate compliance with PEBP's contract for services
14 during the 2008 fiscal year period of January 1st, 2007
15 through June 30, 2008.

16 The audit included but was not limited to the
17 following categories: Retail and mail order claim financial
18 discounting, dispensing and administration fees, benefit
19 applications and adjudications, application of maximum
20 allowable costs, including Catalyst's proprietary costing and
21 health care finance administration map.

22 Management and formularies, committees,
23 structures and communications, manufacturer rebates, customer
24 service levels, drug utilization review policies and
25 procedures, claim processing and procedures, eligibility,

1 quality assurance and internal audits and training, security
2 access and report capabilities.

3 The reason I outline that for you rather than go
4 through the detail of each one, we found that Catalyst Rx was
5 found to be in compliance in performing at a satisfactory
6 level or above in all categories with the contractual
7 performance standards guarantees applied with the following
8 exceptions: The first exception was in dispensing fees.

9 Per your agreement the dispensing fee for the
10 audited period was to be \$1.50 for retail generic
11 prescriptions. The dispensing fees ranged from zero to \$2.25
12 with an aggregate average dispensing fee of \$1.58 among all
13 claims. The audit results reflected the dispensing fees for
14 retail generic prescriptions was not in compliance with the
15 agreement and estimated as an overpayment by PEBP plan in the
16 amount of \$35,422.

17 The number two exception was in manufacturer
18 rebates. The audit reviewed the four payment types pertinent
19 to manufacturer rebates which are access, administration
20 cost, base and market share rebates.

21 We conducted a review of each step of the
22 manufacturer rebate reimbursement process by Catalyst Rx and
23 Health Extras, Atlanta, Georgia location. This portion of
24 the audit concluded that PEBP did not collect base and market
25 share rebates. However, did not receive the administration

1 of the access and administration fees as collected by
2 Catalyst Rx for the PEBP claims.

3 Based on the manufacturer buy-in and rebates
4 collected by PEBP utilization we estimate the total access
5 fees to the administration fees for fiscal year 2008 which is
6 the audited period to be approximately \$200,000. Due to the
7 language in the new contract, it is our opinion that PEBP
8 would not be entitled to the administration fees. However,
9 would be entitled to the access fees.

10 As a result of these findings and in further
11 negotiations by PEBP just as of this week, Ms. Johnstone has
12 issued an addendum to this report which reflects the amount
13 Catalyst Rx will reimburse PEBP. I believe Ms. Johnstone is
14 to present this issue next in the agenda.

15 With that, I'll go on to exception three, which
16 was under performance for customer service. In the contract
17 for services it stated that 95 percent of PEBP PPO plan
18 participants must have a network pharmacy within five miles
19 of their residence. We requested a report that reflected
20 this issue percentage, and in turn received an accessibility
21 summary report from Catalyst Rx. This report reflected that
22 93.5 percent of PEBP participants had at least one network
23 pharmacy within five miles of the residence.

24 After additional review of this issue, it was
25 revealed that the intent on both sides, both PEBP and

1 Catalyst Rx, was to ensure that -- it should have read that
2 95 percent or better of all pharmacies within a five-mile
3 radius be a Catalyst Rx network pharmacy. Under this new
4 methodology and also as reflected in Ms. Johnstone's addendum
5 letter Catalyst Rx would have met this guarantee performance
6 level.

7 As to the audit findings where performance
8 guarantees did not apply, I wish to report the following:
9 First of all, I want to take a brief moment and congratulate
10 PEBP for their 65.1 percent distribution of generic drug
11 utilization of all retail and mail order claims.

12 This distribution is among the highest in the
13 nation and drives an overall lower cost to PEBP participants
14 and the PEBP plan itself. HCA reviewed the top utilized 50
15 pharmacy contracts between Catalyst Rx and their network
16 providers. These 50 contracts represented over 95 percent of
17 PEBP's financial total dollar volume.

18 The audit found that Catalyst Rx has made a
19 noticeable improvement in the past year of renegotiating new
20 contracts with existing providers for the best and latest
21 possible discounts. Only 14 percent of the contracts audited
22 were greater than five years old. However, we do recommend
23 that Catalyst Rx routinely evaluate their pharmacy contracts,
24 especially those with an age of five years or more, to
25 maintain the most current and up-to-date trends for PEBP.

1 The audit included a review of Catalyst Rx's
2 contractual agreements between themselves and the pharmacy
3 providers as compared to the amounts that we saw that were
4 charged to PEBP on their individual prescription drug
5 billings.

6 Of the contracts investigated and audited against
7 PEBP claims for the audited time period, it is our opinion
8 that 17,229 of the retail name brand claims within eight
9 pharmacy chains and 115,947 retail generic claims within 38
10 pharmacy provider chains were paid at a lower discount than
11 in the Catalyst Rx contractual agreements as supplied to
12 ourselves.

13 No contract exceptions were detected within the
14 mail order claims. The detail of these exceptions were
15 provided to Catalyst Rx for their research. At this point,
16 it's still in research and we will provide you with the
17 result of any further findings upon receipt of their
18 verification of this issue.

19 The audit included an analysis of prescriptions
20 dispensed during the audited period to verify if health care
21 finance administration maximum allowable costs, which is HCFA
22 max, pricing was applied to claims that had HCFA max pricing
23 available to them. This portion of the audit concluded that
24 the numerous claims were paid more than HCFA max due to zero
25 balance claims.

1 Zero balance pricing is when the ingredient cost
2 plus a dispensing fee is less than the member's co-pay and
3 thereby the pharmacy collects a co-pay from the member.

4 In conclusion, it is HCA's unbiased opinion that
5 Catalyst Rx is providing the PEBP prescription drug plan at
6 an average to above-average performance level as compared to
7 audits conducted by HCA on a national basis.

8 HCA does agree with staff's recommendation to
9 collect the \$35,422 for the dispensing fee guarantee overage,
10 and the approximately \$200,000 for the manufacturer rebate
11 access fees collected for the period January 1st, 2007
12 through the 30th of June, 2008.

13 We also recommend that Catalyst Rx should further
14 review the exception claims listing that was supplied by HCA
15 for claims found to be less than the proprietary contract
16 rate between Catalyst Rx and specific pharmacy providers and
17 report back to PEBP.

18 Since the current agreement between PEBP and
19 Catalyst Rx displayed transparency and pass-through language,
20 Catalyst Rx should continue to negotiate pharmacy agreements
21 without zero balance language. This issue has an impact on
22 members' co-pays with no impact to PEBP's plan paid amounts.

23 We also recommend that PEBP review the possible
24 drug exceptions listed in section 9-D of our report for
25 verification and confirmation with Catalyst Rx for any plan

1 exclusions.

2 Finally, while not mentioned elsewhere in this
3 report, it is recommended that PEBP medical claims
4 administrator, utilization review firm and medical PPO
5 networks utilize Catalyst Rx's expertise to ensure the
6 maximum discounts and proper adjudication processes for many
7 of the claims that we're now seeing for infusion drugs with
8 AWP discounting versus the typical percentage off discounting
9 that we're seeing and detected in so many of your medical
10 side of your audit.

11 With this, Mr. Chairman, that concludes my
12 presentation.

13 CHAIRMAN KIRNER: One of the earlier reports we
14 got from Aon suggested that our pharmaceutical costs,
15 prescription costs are going up. Does anything in your audit
16 tie in with that?

17 MR. CARR: Yes. If you look at the average cost
18 per prescription you'll see that noticeable increase. The
19 average that you have now with the pass-through language is
20 that the percentage discount is actually greater at this
21 point. The aggregate average prescription continues to rise.

22 CHAIRMAN KIRNER: And my second question is you
23 mention the 180 to 200,000 in access and administrative
24 manufacturing fees. Was there a portion of that that belongs
25 to us but another portion that belongs to them?

1 MR. CARR: That is correct, Mr. Chairman. The
2 \$200,000 was based on the fiscal year 2008 which was the
3 audited period. So in that 12-month period of time we may
4 have estimated both access and administration fees to be
5 200,000 of which the access fee or the PEBP portion is
6 estimated to be two-thirds or 66 percent.

7 CHAIRMAN KIRNER: But this contract goes back
8 prior to January of '08?

9 MR. CARR: There's actually two. The language
10 for January 1st through the 30th of June, 2007 primarily
11 states that the sole income for Catalyst Rx would be their
12 administrative fees. Effective July 1st, the language did
13 differ a little bit with an exclusion of the admin fee
14 portion of the manufacturer rebate.

15 So there really are two different languages be
16 used; one from January 1st, 2007 through the end of
17 June 2007, and then the new addendum which took effect
18 July 1st, 2007 through the audit period, the end of
19 June 2008. So, they're very similar in nature but there is
20 just a one-sentence difference that does make them different.

21 CHAIRMAN KIRNER: My understanding is that you
22 have been in discussions, Leslie, and yourself, with Catalyst
23 Rx; is that correct?

24 MS. JOHNSTONE: Yes. On this issue in
25 particular, the recommendation is that we apply the same

1 language that's in the current contract that allows Catalyst
2 to keep the portion of the rebate that's intended to pay for
3 any administrative costs attached to distributing, collecting
4 and distributing the rebate, and that we apply that back to
5 that six-month period of January through June 2007 as well.

6 I don't think it was our intent to restrict the
7 revenue that we collected when we put the new contract
8 language in place. I have learned a lot about this and
9 transparency and how you make that clear in that contract and
10 that it was an oversight in that first six-month period.

11 So it's my recommendation that Catalyst be able
12 to retain one-third of that admin and access fee for the
13 period January 2007 through June of 2008 and going forward.
14 The end result is that we would collect \$198,000 for that
15 18-month period.

16 So it's two-thirds of this 200,000 for a 12-month
17 period, or two-thirds of the first six-month period.

18 CHAIRMAN KIRNER: That other number, right?

19 MR. CARR: The dispensing fee?

20 CHAIRMAN KIRNER: The 35,000?

21 MS. JOHNSTONE: Plus the dispensing fee. We
22 concur with enforcing that penalty, and just so you know, we
23 had a discussion about this issue yesterday and we are going
24 to investigate where this dispensing fee does not meet the
25 performance guarantee and see if it's in rural pharmacies, in

1 the independent pharmacies, and it may be independent
2 pharmacies in an area where there are several chain options,
3 and we will in all likelihood bring that forward to the Board
4 to consider our options on what to do about that.

5 Frankly, it tends to be independent pharmacies
6 that are well used by our plan's members, so it would
7 represent some disruption if we modified those agreements.
8 So I want to bring that forward to the Board so you can see
9 where this added cost is coming from.

10 The other item that I'd like to bring up is on
11 customer service in terms of the network pharmacy access.
12 This would be clarifying language to what we have in the
13 contract about how we enforce the contract.

14 It's not our intent to penalize Catalyst when a
15 pharmacy just simply doesn't exist, so it would be our intent
16 to enforce this where it's 95 percent of all pharmacies that
17 do exist, with one of those being the network. So there are
18 three areas that we would clarify in the letter of
19 understanding between Catalyst and PEBP as to how we enforce
20 this contract.

21 CHAIRMAN KIRNER: Any other questions from the
22 Board? Jacques.

23 MEMBER EWING-TAYLOR: Thank you, Mr. Chairman.
24 On page ten, your recommendation number four, that PEBP
25 review the possible drug exceptions list that's in appendix

1 D, page 36.

2 The implication is that this rather lengthy list
3 of drugs is either currently on the okay list or not. I'm
4 not clear on what the status of this list is and exactly what
5 it is you're recommending and maybe what staff is thinking
6 about doing.

7 MR. CARR: First of all, thank you for bringing
8 that to my attention. The list looks worse than it is.

9 MEMBER EWING-TAYLOR: Well, vitamin D is on there
10 twice.

11 MR. CARR: And I need some right now. In all
12 seriousness, what we do is we look at the combination of
13 different things. We look at your benefits structure, we
14 look at the SPD, which in this case has little to do with
15 this, and then we match that to what we see coming through
16 what we call the protocol for Catalyst Rx.

17 Certain drugs require PAs from your benefit
18 structure. In certain cases it could be denied. When we see
19 an exception like that we bring it back to PEBP and say what
20 is your intent. Do you require PA? We go through and also
21 look at associated cosmetic type drugs.

22 We'll look at your exception that says you need a
23 PA after age 24. If it doesn't have a PA that triggers an
24 exception to us, we bring it back to PEBP and ask is it your
25 understanding that this should go through, we should get

1 tougher standards, it should not be allowed without your
2 approval or PA approval or the Pharm D, but what this
3 primarily does is bring a conclusion to each drug that we see
4 as a possible exception to the PEBP plan and says is it your
5 intent to cover, is it not.

6 Everything on there necessarily is not an
7 exception that we found, it's just that we're drawing
8 attention and we'd like PEBP to take a closer look and say we
9 don't think it's following your plan.

10 MEMBER EWING-TAYLOR: It's something that we need
11 to determine if these are exceptions and whether or not we
12 need to clarify the list.

13 MR. CARR: That's essentially what we're saying.

14 MEMBER EWING-TAYLOR: I assume, Donna, you have
15 something to say about this.

16 MS. LOPEZ: Thank you, Mr. Chair. For the
17 record, Donna Lopez. I did review this list and I'm going to
18 let the Board know that we contracted with Catalyst Rx to
19 provide their clinical expertise on the proper dispensing of
20 medications, of which I believe they have done with each of
21 those.

22 I went through every one of these with Catalyst.
23 The payment for these seems appropriate and are according to
24 the plan.

25 MEMBER EWING-TAYLOR: But on this list, does our

1 agreement with Catalyst or somewhere say that nicotine has to
2 have a prior authorization?

3 MS. LOPEZ: At one time the plan document did say
4 that and we eliminated that requirement probably a year and a
5 half ago because when we included nicotine or smoking
6 cessation products as part of the wellness benefit, we wanted
7 to remove that barrier for individuals that they needed a
8 prior authorization. That creates more paper work and more
9 headaches for them. We also removed the co-pay requirement
10 for them. So a year and a half ago we removed that
11 requirement.

12 MEMBER EWING-TAYLOR: But this list exists where?

13 MS. LOPEZ: It exists in our formulary.

14 MEMBER EWING-TAYLOR: It's not in the master plan
15 document, it's in the formulary?

16 MS. LOPEZ: Yes.

17 MEMBER EWING-TAYLOR: That's how I would as a
18 participant know if I wanted to get that, I would need to get
19 a prior authorization?

20 MS. LOPEZ: You would have to contact Catalyst Rx
21 to find out if you needed prior authorization or at the time
22 you picked up the medication the pharmacist would tell you it
23 was flagged in the computer at Wal-Mart, for example, that
24 requires a prior authorization.

25 At that point Catalyst Rx has the authority to

1 decide whether or not it really should need a prior
2 authorization based on what the milligrams are, what the
3 dosage is.

4 MEMBER EWING-TAYLOR: Thanks.

5 CHAIRMAN KIRNER: Any other questions of Health
6 Claim Auditors?

7 At this point Catalyst Rx is invited to comment
8 on the audit report.

9 MR. HOOKS: I'm Kevin Hooks with Catalyst Rx.

10 MR. ZONA: I'm Jamie Zona with Catalyst Rx.

11 MR. HOOKS: Not to respond to everything that
12 Mr. Carr went through on the audit, I'll talk a little bit
13 about the dispensing fees. We knew going into the contract,
14 and I don't know if the Board remembers a few years ago and
15 in the past some of the independents in Reno were pretty
16 strong.

17 In southern Nevada they've been purchased by a
18 lot of chains, so we knew that there were some buttons that
19 can be pressed as far as submitting better contracts with
20 those independents and we sort of left them alone because
21 several years ago it was a very strong voice in this
22 community and also the assembly that the independent
23 pharmacies had. So we left them alone with dispensing fees
24 and on the rates.

25 As it stands now, we never really knew what the

1 penalty was going to be. Now it's clear. So we are working
2 with staff to try to identify these pharmacies. Obviously if
3 you're a pharmacy in Winnemucca who is not within 50 miles,
4 60 miles, we don't want to push your button, there's only one
5 pharmacy, but in areas where you've got three and four
6 Walgreens or Long's along with an independent, it's sort of a
7 most favored nation type and we'll offer them the same rates
8 as the chains are getting.

9 We knew going in that that would show our
10 dispensing number as zero on the rebates. They're kind of
11 interesting. Drug manufacturers as a whole have always been
12 pegged as a shifty sort of group of organizations to put it
13 mildly, but from our perspective, to give Ms. Johnstone more
14 credit on the first six-month contract, every time we go to
15 negotiate it's a different world that we didn't know about
16 before.

17 It's kind of tough to put a contract together in
18 January, and in June when we renegotiate with manufacturers
19 they've called this term that term. The intent moving
20 forward has always been that work the Catalyst Rx does on the
21 collection of prescription data, the submission and the
22 aggregation, check and invoicing was always something that
23 the manufacturers were always expected to pay. That was
24 called an administration fee.

25 Now the administration fee, the word is now

1 access and admin. The client deserves the access, we deserve
2 the admin. The intent of moving forward is to clarify and do
3 a letter to further clarify what those terms are and next
4 year this time there may be a third word, but the intent will
5 always be to from our perspective collect the fees that the
6 manufacturers are meant to pay for that service and not bill
7 the State, and if there's any other fees paid, that goes to
8 the State as well.

9 We're hoping this clarification works for a few
10 years. That's our response related to the rebates.

11 I do agree with Bob on the contracting.
12 Pharmacies, you can let a contract get stale after five years
13 and obviously with the market that we're in now it's kind of
14 tough to go out to all these pharmacists and say we want
15 more, but one thing that we've always been able to do through
16 relationships in the north or the south that don't even
17 involve the State where all the major PBMs are bidding, we
18 feel pretty good.

19 Most recently the Culinary Union in southern
20 Nevada, a good-sized group that we won with the rates that we
21 have with the State, it's transparent as well. We feel good
22 about the rates and I agree with Mr. Carr that we can keep an
23 eye on that. You always know where you stand with our
24 system. I think the PBMs are getting closer, so we want to
25 stay ahead of the game.

1 That's our response to the audit. Any questions?

2 CHAIRMAN KIRNER: The amount of money that they
3 talk about, those are going to be reimbursed to the State and
4 in what time frame?

5 MR. HOOKS: That's correct. As far as the
6 dispensing fee, our admin fee is going to be credited next
7 month, so that will be an instantaneous way of fixing that
8 issue. The admin access fee is a bigger number and we didn't
9 want to put our organization in any kind of -- because we
10 could have sat here and argued the fact and in the interests
11 of moving forward we didn't.

12 So we make quarterly payments that come in.
13 There will be a separate line item that shows those access
14 fees coming in until such time as they are paid. We think
15 it's going to be seven months. We don't believe it will be a
16 year.

17 CHAIRMAN KIRNER: By the end of this plan year as
18 we've extended it?

19 MR. HOOKS: Right, it will be totally updated.

20 CHAIRMAN KIRNER: Any questions of Catalyst Rx?

21 MS. JOHNSTONE: Could I just ask the Chair's
22 indulgence to have formal Board concurrence of how we address
23 these three findings because they involve letters of
24 understanding between Catalyst and PEBP, and I'd feel better
25 if it had some Board action behind it.

1 CHAIRMAN KIRNER: Let's see if there's any other
2 comments or questions from the south. Do you have any
3 questions down there, Angus?

4 MEMBER MacEACHERN: No questions down here.

5 CHAIRMAN KIRNER: Let's get the Board's input.
6 The three points are?

7 MS. JOHNSTONE: I think we can take them all at
8 the same time. On the dispensing fee, the penalty was based
9 on the average aggregate amount. We didn't hold Catalyst
10 accountable pharmacy-by-pharmacy, so that would be clarified
11 in the letter of understanding.

12 On the manufacturer rebates, it would be that
13 Catalyst would be able to repay the administrative portion of
14 the admin and access fee for the period January 2007 going
15 forward, and on the customer service, the network calculation
16 of the participant access, it would be 95 percent of the time
17 where a pharmacy exists.

18 CHAIRMAN KIRNER: The Chair will entertain a
19 motion to that effect.

20 MEMBER MOURADIAN: So moved.

21 MEMBER TESKA: Second.

22 CHAIRMAN KIRNER: The motion has been made and
23 seconded with regards to what Leslie just mentioned and
24 outlined. All in favor? All opposed?

25 (The vote was unanimously in favor of motion.)

1 CHAIRMAN KIRNER: The motion passes. Thank you
2 very much.

3 We'll now move to agenda item VII which is now
4 VIII, presentation of the biennial legal compliance review
5 and I'm going to ask Donna to come up.

6 MS. JOHNSTONE: Mr. Chairman, you probably notice
7 that in the original packet that you received we had a draft
8 version of the compliance report from Aon which was several
9 pages longer than the modified version that was distributed
10 to you later, and I'd like to ask Mike Wilson to just explain
11 the discussion that we asked him to have with the Aon
12 attorneys and how one report was summarized into the
13 subsequent report.

14 CHAIRMAN KIRNER: To be clear, this report, the
15 biennium legal compliance review ends up going to whom?

16 MS. JOHNSTONE: We're required by statute to file
17 this with the Legislative Commission.

18 MS. WILLIAMS: Again, good morning Mr. Chairman,
19 Members of the Board, Madam Executive Officer. Again, my
20 name is Mike Wilson. I'm your Deputy Attorney General. This
21 particular item when it first came forward in first draft was
22 pretty detailed and in my view it was a bit confusing to
23 individuals reading it.

24 I thought that it may not be as clear as it could
25 be for legal purposes, so I got a hold of the counsel for Aon

1 and he agreed with me, we discussed it, that for legal
2 purposes to be more clear to provide a summarization of their
3 findings with a back-of-document review, and that's what you
4 see in your second draft. In my legal opinion, that meets
5 the requirements of 287.043 and that's why you have two
6 drafts.

7 It would be my recommendation that the second
8 draft go forward to the legislative Committee as required by
9 law.

10 CHAIRMAN KIRNER: Donna, do you want to speak to
11 this?

12 MS. LOPEZ: Thank you, Mr. Chair. As Mike
13 already said, in accordance with NRS 287.043, paragraph
14 (2)(j), PEBP is required to contract with an attorney to
15 perform a biennial legal compliance review of our program to
16 ensure that the program itself is in compliance with state
17 and federal law. That being said, I'd like to refer the
18 Board and start on page B-3 and I'll just go through each of
19 the areas that Aon identified that PEBP needs to make some
20 changes on.

21 The first one is in regards to -- this is page
22 B-3 of the revised version, the shorter version dated
23 January 30th. With HIPAA privacy regulations and all of the
24 items that are listed, specifically say in regards to some of
25 the areas within our contracts where we are required to have

1 business associate agreements and all other items that are
2 listed, PEBP is certainly going to make those changes and
3 update these to the current forms that we use and have our
4 vendors sign the new business associate agreements and get
5 those incorporated into our contracts as soon as possible.

6 So that being said, we'll comply with all of the
7 recommendations by Aon. The next item is in regards to
8 COBRA, specifically in regards to the flexible spending
9 summary plan description. We've already receive information
10 and that language will be incorporated into the flexible
11 spending summary plan description as soon as possible.

12 The next item located on page B-5 is the Internal
13 Revenue Code section 79, 105(h), 125(h) and 129, and PEBP
14 will certainly comply with that recommendation as far as our
15 plan for nondiscrimination.

16 The next item is the National Defense
17 Authorization Act of 2008 and this has to do with two state
18 agencies. PEBP's master plan document which PEBP manages and
19 then the manager's and employee's handbook which the
20 Department of Personnel manages, and PEBP will comply with
21 the recommendations as far as making sure that the PEBP
22 master plan document is in compliance, and PEBP will
23 communicate this information to the Department of Personnel
24 to make sure that they also are aware of this information.

25 On page B-6, there are a couple of other federal

1 laws that did affect PEBP. The HEART Act and the USERRA,
2 PEBP will certainly review these recommendations and make the
3 appropriate changes where necessary.

4 Then the Americans With Disabilities amendment,
5 we will make sure that we relay this information to the
6 Department of Personnel as it relates to the manager's and
7 employee's handbooks that PEBP does not manage, but we will
8 relay this information to the Department of Personnel.

9 On page B-7, the Genetic Information
10 Nondiscrimination Act of 2008, again this information
11 pertains to the manager's and employee's handbook which is
12 maintained and managed by the Department of Personnel and we
13 will relay this information to them as well.

14 Paul Wellstone and Pete Domenici, or the Mental
15 Health Parity Act, I do have some questions with regard to
16 this for AON. I am under the belief right now that the PPO
17 plan as well as the two HMO plans are in full compliance with
18 the Mental Health Parity Act, and I'm going to be asking them
19 to specify which areas they identified that we might not be
20 in compliance with, and if they are able to identify those
21 areas, we will certainly make sure that the PPO plan and the
22 HMO plans are in full compliance with the Mental Health
23 Parity Act.

24 That conclusions my section of this report.

25 CHAIRMAN KIRNER: Questions or comments from the

1 Board? It appears that most of these recommendations are not
2 difficult to correct.

3 MS. LOPEZ: I agree. There's one small sentence
4 in the report that says overall PEBP is doing a good job.
5 They did fit it in there. I'd like to bold and highlight
6 that if I could.

7 CHAIRMAN KIRNER: Thank you very much.

8 We will now move on to the public comment section
9 of our agenda. I invite the public if they wish to comment
10 both here and in Las Vegas to come forward. We'll start
11 here.

12 MR. MAILLARD: Roger Milliard. I am president of
13 the AFSCME Local 441 retirees and I'm coming forward really
14 to thank this Board for the hard work that they've put into
15 the cost shifting and the new plan design. Those of us who
16 attend Board meetings know that there was little alternative
17 to doing that. We're not happy with it.

18 In my September newsletter to my membership I
19 informed them that you should be angry about this but channel
20 your anger in the right direction. Don't channel it to the
21 Board or to Leslie and her staff, channel it to the Governor
22 and to the legislature. That's where it's got to be fixed.

23 So I encourage anybody that comments, certainly
24 if they want to come up here, I know there's a lot of seniors
25 in the audience who are as mad as I am to come up and express

1 their concerns, but do yourself and everybody a favor and
2 that is appear at the legislature and that's beginning to
3 start February 18th. There's a budget hearing for PEBP,
4 that's tentative and that's the place to go and start.

5 When you start there you figure you've got
6 another 110 days of fighting the legislature on this issue.

7 With that, again I want to thank the Board for
8 the due diligence and the fiduciary responsibility that
9 you've exercised in this program. Thank you very much.

10 CHAIRMAN KIRNER: Thank you for your comments.
11 Other public comment?

12 MR. HUBER: My name is Scott Huber. I'm a
13 faculty member at TMCC and also an officer of the Nevada
14 Faculty Alliance. I'd like to speak to a couple of issues.

15 I think retirees will be ably discussed in this
16 forum, but I would like to bring attention to your group and
17 also others in Las Vegas that the current faculty and
18 classified staff in our higher education system and colleges
19 and universities are going to severely feel the effects of
20 the six percent reduction in their salary, coupled with the
21 reduction in health benefits and programs. These individuals
22 are going to be severely impacted.

23 Specifically speaking, the junior faculty that
24 have recently come to the state of Nevada, they are here as
25 committed faculty. They will be working here for the next 20

1 to 30 years. Right now the way that the proposal is coming
2 through the budget of the Governor's Office, these
3 individuals are going to suffer severely trying to maintain
4 households.

5 As a faculty member walking down the halls I see
6 many classified people who are getting our students into the
7 classrooms. There's no student who gets into the classroom
8 in any our colleges or universities without a lot of
9 classified help. These individuals are living
10 month-to-month.

11 They are sometimes paying their mortgages with
12 one check and trying to survive on a second check. I think
13 they're extremely concerned about what is going to happen to
14 their health benefits. I think they're extremely concerned
15 about having their salaries reduced to an amount where they
16 cannot survive.

17 They contribute a lot to the colleges and I would
18 like everybody to be mindful of that fact when we discuss
19 this in front of the legislature and also in front of this
20 Board. Thank you.

21 CHAIRMAN KIRNER: Thank you, Scott. Any comments
22 down in Las Vegas?

23 MEMBER MacEACHERN: Strangely quiet today.

24 CHAIRMAN KIRNER: We all wait for our lawmakers
25 to do their thing. Marty?

1 MR. BIBB: Thank you, Mr. Chairman. For the
2 record, I'm Marty Bibb with the Retired Public Employees of
3 Nevada. I think Roger pretty much hit the thought on the
4 nose that we have and that is we think this Board has been
5 very dutiful and thoughtful in terms of proposing some
6 serious cuts, cost shifting and that sort of thing to this
7 plan in the range of \$50 million up to this point.

8 We know those were not easy decisions and we know
9 those are not decisions that put those people in this plan,
10 but we knew it was something that had to be considered in
11 these tough times.

12 At the same time we realize there is a huge gap
13 between the current administrative proposal that's going to
14 be considered by this legislature and those cuts that have
15 been implemented by this Board, and we will be involved in
16 the legislative process as those issues are debated.

17 In that sense I think very clearly you had to
18 deal with the thorny issue of how to cope with all this in
19 the immediate challenge of getting ready for a new plan year.
20 In that process it seems to us the prudent thing as the Board
21 did today, the prudent action is to try to do something with
22 a short year because who knows when the ultimate numbers will
23 be out there, and I think there are a lot of folks who don't
24 get involved with this plan on a monthly basis who may not
25 understand the time lags necessary to go out to open

1 enrollment.

2 We're sure there are going to be some costs
3 involved in that process. We know that those are going to
4 also put a little stress on the plan, but we think you did
5 the very best you could in that situation.

6 One other issue. There were a couple bills
7 mentioned in the informational item by the Executive Officer.
8 One of them deals with requesting of local government
9 commingling or uncommingling their retirees relative to how
10 they go about doing business, and we want to be involved in
11 that issue at the legislature because we think it was not an
12 easy matter to get the statutes changed in the past to
13 accomplish that. It's sometimes done by practice, not by
14 statute, and we don't think that's necessarily a good way to
15 do it.

16 We would like to believe that the best way is to
17 have those plan approaches be consistent between the local
18 entities and the State plan. We think it makes better sense.

19 Additionally, another item the Executive Officer
20 mentioned was the question of allowing PEBP to terminate
21 somebody's membership or ability to participate in this
22 program absent some more detail. That leaves us a little bit
23 nervous because we don't think that the situation created
24 this problem in the first blush had anything to do with any
25 action or inaction by this Board, we think it had to do with

1 an application of the law which seemed to us sometime back,
2 about a year ago, the Supreme Court made it fairly clear what
3 they thought the intent was.

4 So we know these are difficult issues, but I
5 wanted to simply weigh in a little on that and to also add
6 our thanks for the continued attention that you folks put in
7 on this plan. Thank you.

8 CHAIRMAN KIRNER: Thank you for your comments.

9 Any other comments from our public? Please step
10 forward.

11 MR. ERWIN: Kent Erwin, UNR active member. I'd
12 like to thank the Board for hearing my comments and receiving
13 my letter and Ms. Johnstone for her thoughtful response and
14 the work that you guys had to do to do that.

15 No matter what, we're going to have some
16 decreases in subsidies and I'd like to call your attention
17 again to some issues involving the way the subsidies are
18 allocated among different employee groups.

19 With the Governor's proposal of 75 percent for
20 both actives and their dependents or all participants and
21 their dependents, that magnifies the differences in
22 compensation, including subsidies between the new employees
23 and those who opt to cover their dependents. I think that's
24 something that needs to be addressed given the reduction in
25 the overall subsidies.

1 Further, because of the historical way that the
2 four tiers have been structured, Nevada PEBP seems to be
3 unique and charge more for an employee plus a spouse only
4 than for an employee, a spouse and children. For example,
5 when a married couple on the plan has their first child they
6 get a reduction in contributions of about \$70 a month if we
7 use the Governor's proposal in this year's rates.

8 Then when older children go off the plan,
9 suddenly that married couple has to pay more and neither of
10 that makes sense for the actual costs of the benefits for the
11 children. It's only because of the different proportions of
12 retiree demographics and age demographics and the way the
13 tiers are structured. That could be fixed by changing the
14 way the premiums are set.

15 Ms. Johnstone has indicated in her letter back to
16 me that the tier structure and the allocation of costs among
17 tiers are a policy of the Board, they aren't fixed by
18 statute. So that's you guys. So especially considering the
19 process this year is likely to be delayed until July and that
20 subsidies will go down and will magnify these disparities, I
21 would like to take this opportunity to encourage you to look
22 at the tier structure and the allocations fresh and make a
23 more equitable system.

24 I personally have no problem with combining
25 retirees and actives and the four-tier structure, but I think

1 the way the costs are allocated really needs to be looked at
2 by the Board. Thank you very much.

3 CHAIRMAN KIRNER: Thank you for your comments,
4 and to that, he had indicated that he'd like that letter put
5 into our record; is that right?

6 MS. JOHNSTONE: It will be part of the
7 supplemental material that is included with the transcript.

8 CHAIRMAN KIRNER: Further public comments?

9 MS. SWENSON: I'm Susan Swenson. I actually work
10 for the City and I'm the public guardian here in Carson City
11 so I'd like to contribute that even though you think I'm not
12 a state employee, which I'm not, I work with, I take care of
13 as a guardianship at least 40 seniors in Carson City within
14 the county lines, and at any given time, and I've been doing
15 this for seven years, I've probably had at least 300
16 guardianships.

17 What's happening with seniors and seeing the end
18 result of their life as they enter into nursing homes with
19 their health insurance is a big concern to me. It really
20 concerns me that we are changing the subsidy on their
21 premiums to a point where some of these seniors are going to
22 make choices as to whether or not they eat, take their
23 medicines, and one of the things that happens to seniors as
24 they age and they have to make those decisions, it
25 contributes to their health decline if they don't eat

1 properly or if they don't get the correct medicine and they
2 decline very fast which they cannot come out of it and it's
3 going to shorten these people's lives or put them into
4 nursing homes quicker.

5 I appreciate what's going on and I really would
6 like your support with the legislature to try not to have
7 such an impact on our senior population where they can't go
8 out and find a second job or create income for themselves
9 anymore, but I do appreciate all your work and I just wanted
10 to let you know I have this concern. Thank you.

11 CHAIRMAN KIRNER: Thank you very much. Other
12 comments?

13 I see no other comments. I would like to say for
14 the record that our Board is extremely sensitive to the
15 dynamics with what's happening right now with the Governor's
16 recommendation. We all work as a Board at the pleasure of
17 the Governor, so we want to support him but at the same time
18 we want to do, as we have constituencies, we want to do
19 what's right for them.

20 In that sense we'll be dialoguing and are
21 dialoguing with legislators now. They've asked for
22 information and we've provided that. They have asked for
23 clarification and we've done our best and we will continue to
24 do our best on the impact of the Governor's recommendation
25 and so forth.

1 Let it be said that from this Board's
2 perspective, we understand that this is very significant
3 recommendation that he's making and it will impact all of our
4 state employees and many of our non-state employees who are
5 participants in the plan. We're all trying to do the best we
6 can under the circumstances and let's hope at the end of the
7 tunnel we come out with something that works and fits
8 everybody's needs.

9 I'd like to thank you for your participation and
10 your comments. Also just to let everybody know, our next
11 meeting is in March, but it's not the first Thursday in
12 March. Some of you have got your clocks set to the first
13 Thursday in March. We will be meeting the second Thursday in
14 March, same place, same station, but different date.

15 With that said, I'll move to item number X
16 according to my refiguring. Anybody interested in
17 adjourning?

18 MEMBER TESKA: So moved.

19 MEMBER CAMPBELL: Second.

20 (The vote was unanimously in favor of motion.)

21 CHAIRMAN KIRNER: We'll see you next month.

22

23 (The proceedings concluded at 11:56 a.m.)

24

25

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4 STATE OF NEVADA

5 PUBLIC EMPLOYEES' BENEFITS PROGRAM

6
7 AFFIRMATION

8 Pursuant to NRS 239B.030

9
10 The undersigned does hereby affirm that the following
document DOES NOT contain the social security number of
any person:

11 1) Regular Open Meeting, 2/5/09
12
13
14
15
16

17 _____
MARY E. CAMERON

DATE