SUBJECT: Federal Employees Health Benefits Program Annual Call Letter

I. RESPONSE PROCESS

This letter provides our annual guidance and negotiation objectives for benefit and rate proposals from Federal Employees Health Benefits (FEHB) plans. Your proposal for the contract term beginning January 1, 2004 is due by Monday June 2, 2003, since our May 31 regulatory deadline is on Saturday. Please discuss any changes you are considering with your contract specialist ahead of time. Also, because of requirements that regular mail to Federal offices be irradiated, I strongly encourage you to use overnight mail delivery or FAX as a backup to ensure timely delivery. You may also e-mail your proposal to your contract specialist.

We will begin negotiations when we receive your proposals for benefit and rate changes. We will send you specific instructions for your rate proposals in the near future. We expect to complete benefit and rate negotiations by August 15, 2003, to ensure a timely Open Season.

II. OVERVIEW

During her first full year as the Director of the U.S. Office of Personnel Management (OPM), Kay Coles James took aggressive action to keep the program on the cutting edge of employer-sponsored health benefits. The Director recognizes the unique nature of the FEHB Program and has highlighted its nationwide accessibility and competitive dynamic as key distinctions which underpin its reputation as a model of excellence for employee health care.

At the 2002 FEHB carrier conference, you were encouraged to bring us your best ideas to hold down premiums and promote quality. Fundamentally, the Director firmly believes that consumers, provided with clear information upon which to base an educated opinion, are the best qualified decision makers for their health care needs and that of their families. We appreciate the efforts you made. As a result, when OPM announced our 11.1% average premium increase for 2003 last September, she said, "We have worked very hard this year to provide health plan choices that maintain competitive benefit packages, yet keep health care affordable. We will continue on this path."
At this year’s conference, Dr. Ronald Sanders, Associate Director for the Division for Strategic Human Resources Policy, thanked FEHB carriers for their efforts to improve services and lower costs and again challenged the carrier community to do its part to keep the FEHB a model program. He further challenged them to develop creative and innovative options to maintain quality healthcare and help contain costs.

Director James appreciates that the cost of health care is a shared responsibility and that carriers, providers, and consumers each play a critical role. As the head of the nation’s largest civilian workforce, she has actively sought to educate Federal employees on the unique role they play in containing health care costs. Through interviews, op-ed columns, and speeches, employees were asked to take advantage of preventive health benefits, screenings, and lifestyle changes such as diet and exercise. Further, both carriers and employees have been asked to work together to better understand the responsibility patients bear for following prescription drug regimen and seeking answers to prescription concerns.

Recognizing that national concerns and terrorist threats have a potential impact on America’s frontline workforce, OPM sent a special message to FEHB plans regarding the need to make certain that our members can get additional supplies of medications as backup for emergency situations in these uncertain times. The need to build in flexibility so that Reservists and National Guard members can meet their medium-term drug supply needs was also emphasized. We thank you for your responsiveness to this request and your ongoing respect for America’s civil servants. We also want to remind you of the continuing need for flexibility in administering benefits and services in the event of a future terrorist attack.

Last year, our aggressive joint effort helped us to hold the line on premium increases. Now, we must continue and strengthen our efforts. Health care consultants are again predicting significant health care cost increases next year. Faced with these projections, we ask you again to bring us your most creative ideas to provide a comprehensive benefits package and keep health care affordable. As our business partners, we need your best ideas. We will negotiate with the goal of keeping the FEHB Program a model of quality, competition and consumer choice.

III. FEHB BENEFITS

Pharmacy Programs

We encourage you to continue to find ways to promote cost-effective use of prescription drugs. Benefit incentives should support members who use their benefits wisely, rather than simply shift costs. If you haven’t done so already, you should consider mechanisms for restraining cost increases such as promoting generic drug programs, use of less costly brand-name drugs, mail-order drug programs, and tiered co-payment systems that promote appropriate prescription drug use. Any mechanism considered should have a clear and concurrent educational element for customers.

As with every element of our FEHB Program we have a very high standard for the manner in which your prescription drug program is administered. In light of the
considerable customer interest in Pharmacy Benefits Manager (PBM) operations, and
given that $6 billion in FEHB prescription drug costs go through PBMs, we will pay
particular attention to the operations of those providers. We are particularly concerned
that your contracts with PBMs provide maximum savings to the Program and our
members. As you renegotiate your contract with your PBM, we trust that you are aware
of their cost structure and how it can best serve our mutual interest. We will look to you
to require annual IPA audits of your PBM and to submit copies of pertinent documents
to us. In addition, we are expanding our oversight role to ensure that the OPM Inspector
General can perform independent audits of your PBMs.

Provider Networks

The strong provider networks that FEHB plans have in place are a great value to our
customers. We encourage you to consider additional ways to promote the use of cost-
effective quality provider networks for both medical and mental health services.

We also want to make you aware of a recent industry initiative sponsored by the Council
for Affordable Quality Health Care (CAQH) that will lessen the burden of credentialing on
physicians and allied professionals. Instead of completing multiple credentialing and
recredentialing applications, providers can simply supply their information to the Universal
Credentialing DataSource once and then periodically review it for updates or other changes
as needed. Participating health plans and other organizations can access the system to
obtain self-reported provider data electronically to perform their respective credentialing
processes. We encourage all health plans to participate in initiatives like this, which help
our nation’s health care providers by lessening their administrative burden. More
information on this initiative is available at www.caqh.org.

Care Management Programs

We encourage you to put more emphasis on care management for members with chronic
conditions, including flexible benefit options and diagnosis-based programs. Care
management programs provide information and education to affected members about
their conditions and about appropriate treatment options and lifestyle changes that can
significantly improve their health status and help prevent costly and life-threatening
episodes. We know that a relatively small percentage of members - primarily those with
chronic conditions - use the greatest percentage of benefits. By addressing the needs of
your chronically ill population, you can improve the quality of care and promote the
effective use of benefit dollars. Well executed care management recognizes the dual
responsibility of carriers and consumers to provide and utilize information on how best
to manage their care.

Please provide detailed descriptions of the different types of care management programs
you offer your members and aggregate program results to date, including return on
investment data where available. Also, please describe any proposals to enhance and
expand on your care management programs for next year.
Preventive Care

We have reviewed our guidelines on preventive care benefits and have determined that some practice norms have changed. We wanted to be sure that you were aware of them as you formulate your benefits proposals for 2004. Consistent with our approach last year, this information on osteoporosis screening and adult immunizations is provided as a heads up on current trends and not as an explicit mandate for new services. Since our workforce is well informed, we fully expect they would be aware of the positive impact of these services.

1. Osteoporosis Screening. Currently, FEHB preventive care services do not include osteoporosis screening. In September 2002, the United States Preventive Services Task Force (USPSTF) revised its recommendation on screening for osteoporosis to endorse 1) routine screening for women 65 and older and 2) routine screening beginning at age 60 for women at increased risk.

2. Adult Immunizations. Currently, under preventive care services, FEHB plans provide influenza vaccine on an annual basis. While the majority of plans do not specify an age limitation, some plans limit coverage for the vaccine to a certain age group, i.e., age 60 and older. In October 2002, the Centers for Disease Control and Prevention (CDC) recommended annual influenza vaccine for persons aged 50 and older. The CDC identifies persons aged 50 – 64 years as a target group for annual influenza immunization because this group has an increased prevalence of certain chronic medical conditions.

In last year’s Call Letter, we addressed changes in recommended guidelines for colorectal cancer screenings. In 2002, OPM asked plans to consider expanding their preventive care benefits to include colonoscopy and double contrast barium enemas (DCBE). We also addressed changes in cholesterol screenings to include fasting lipoprotein profile for cholesterol/lipid screening. Last, we also informed plans last year that the National Cancer Institute (NCI) recommended we include autologous tandem transplants as accepted treatment for testicular and other germ cell tumors. If you did not adopt these changes for 2003, we would appreciate your taking them into consideration for CY 2004.

We will send specific requirements for submitting your benefit and rate proposals in the next several days. In May, we will provide you with information on how to prepare your brochure. As a reminder, only your brochure, provider directories or lists, and any other marketing materials or other supplemental literature which were prepared in accordance with FEHBAR 1652.203-70 may be distributed at or through Federal facilities.

As in the past, we will not accept proposals for benefit increases unless they are cost-neutral through offsetting benefit reductions. And, any savings from managed care initiatives must accrue to the FEHB. Also, when you prepare your benefit proposal,
please review the effect of any proposed benefit changes on language throughout your brochure (e.g., cost sharing, catastrophic protection and lifetime maximums).

IV. KEY FEHB INITIATIVES

Consumer Education

At the FEHB carrier conference this year, attendees were encouraged to embrace prevention and work closely with OPM in the HealthierFeds campaign to provide education on fitness, healthy lifestyles, care management, and prevention strategies.

Director James sent the following message to conference participants:

"This new campaign places emphasis on educating Federal employees and retirees on healthy living and best-treatment strategies. It is well established that physical activity, nutrition, preventive screenings and healthy lifestyle choices all reduce demand on the health care system. We want it to be a model. We kicked it off with a health fair at OPM in January, and we will be holding monthly events to educate our workforce on how they can take greater responsibility for their personal health. However, we envision this as a collaborative effort. It is a win-win situation for everyone."

OPM will continue to communicate to the Federal community and the public to call attention to ways in which we can improve our health care and lifestyle choices. We appreciate the enthusiasm with which you have chosen to include our messages on your websites and in your publications.

This OPM initiative supports the President’s HealthierUS Initiative which follows a simple formula: *every little bit of effort counts*. The Administration’s initiative has identified four keys for a healthier America:

- Be Physically Active Every Day
- Eat a Nutritious Diet
- Get Preventive Screenings
- Make Healthy Choices

We would like your support to promote the goals of the HealthierFeds initiative to encourage the Federal population to adopt healthier lifestyles. You can learn more about this important initiative at [www.healthierus.gov](http://www.healthierus.gov) or by going to the link on our FEHB Carrier webpage.

Please describe your efforts to promote healthy lifestyles for your members, including programs you offer to your membership, your health promotion materials, and information on your websites. Once again, we believe that Federal employees and their families are intelligent health care consumers, and it is to everyone’s benefit to provide them with sound information. Educating your members may lead to more patient involvement in health care decision-making and, subsequently, more consumer responsibility and awareness of costs.
Fraud and Abuse

OPM staff are working very closely with the OPM Office of the Inspector General to continue to find ways to prevent fraud and abuse in the FEHB Program. Director James views the Inspector General as a central partner in our ongoing efforts to maintain credibility and consumer confidence and contain costs in the FEHB Program. In consultation with our Inspector General, we are addressing this important initiative through a three-pronged approach:

- **Raising consumer awareness.** To increase enrollee awareness of fraud and to help enrollees better prevent, identify, and report fraud, OPM has developed a revised consumer information piece, "Stop Health Care Fraud!" We are sending this message to consumers in our health plan brochures, the FEHB Guide used by enrollees to choose plans during Open Season, and the FEHB web site.

- **Raising health plan awareness.** We have developed a list of *Best Practices* for health plan fraud and abuse prevention and detection programs. We will be working with FEHB plans to ensure that these essential program components are in place. We will also highlight other features that plans may implement to further enhance their fraud prevention and detection programs.

- **Enhancing systematic reporting requirements.** We are updating our FEHB health plan fraud and abuse reports to better identify and prevent fraud and abuse based on current industry practices.

You will be hearing more from us as we continue our focus on this important topic.

Patient Safety

Consistent with the philosophy that Federal consumers are at the center of health care decisions, efforts to improve patient safety must be highlighted. During the past two years, we have asked you to describe your patient safety initiatives. Increasingly, the health plan community has come to embrace a culture of patient safety. More importantly, its role can have a salient effect even when not directly involved at the point of intervention.

Maintaining our resolve to reduce the incidence of errors and ensure safe practices and environments is imperative for both medical and economic reasons. Further, it helps maintain and advance consumer confidence in the treatment options available nationally through the FEHB Program.

This year we want to bring the patient safety message directly to consumers. We are asking you to report on your patient safety initiatives and programs, and we will add them to the FEHB web site. Since we need a consistent format in order to compare the patient safety efforts of different plans, we are asking you to use the following framework:

1. Describe the activity you want FEHB consumers to know about.
2. Explain the goal or expected outcome you anticipate from this activity.
3. Describe the specific tools you will use to evaluate the results of this activity.
Please include the description of your patient safety activities with your benefit and rate proposals.

Quality Initiatives

We are continuing our efforts to provide FEHB members and their families with the information and resources that will help them to choose high quality health plans. Our efforts include the following:

Health Plan Accreditation Ratings. We provide FEHB members with the accreditation status of participating health plans in our annual Guide to FEHB Plans. Accreditation demonstrates an organization’s commitment to providing quality, cost-effective health care. Providing FEHB members with accreditation information allows consumers to choose a high quality health plan.

Health Plan Satisfaction Ratings. We provide Federal employees and retirees with individual health plan ratings based on the results of our annual Consumers Assessment of Health Plans Survey. This Consumer Survey allows current plan members to rate their health plans and providers in several key areas, including overall satisfaction, satisfaction with their providers, access to care, customer service, and claims processing. Providing FEHB members with this Consumer Survey information allows them to consider the feedback of other consumers when choosing a health plan.

E-Initiatives

Use of Internet and Interactive Health Plan Selector Tool. We continue to expand our use of the Internet as a communications and resource tool. We will continue to provide comprehensive Program information, including health plan brochures, FEHB Guides, premiums and other useful information our customers need to choose a quality health plan.

The FEHB web site links to a report card designed by the National Committee for Quality Assurance (NCQA). This report card helps users learn more about the quality of care and service provided by HMOs.

During the Open Season for CY 2003, members had access to a new plan-comparison tool developed by OPM. In addition, retirees had access to customized web-based decision-support tools.

We are using an FEHB Internet Survey to collect immediate and ongoing feedback from members who use the services we offer on the Internet. Members are able to use this survey to offer their suggestions for improving health plan quality and the quality of the FEHB Program.
Flexible Spending Accounts

OPM is taking steps to ensure that the Federal Government is a competitive employer by offering employees the advantages of flexible spending accounts (FSAs). Employees of Executive Branch agencies, as well as non-Executive Branch agencies that choose to adopt our program will be eligible to participate. The U.S. Postal Service, the Judiciary, and some bank regulatory agencies already offer FSAs to their employees. We believe this new program will be well received by the Federal community.

Like the Long Term Care Program, no Government funds will be used to finance this program. We are contracting with SHPS a major FSA vendor with the resources for start up costs and ongoing maintenance of the program. FSAs will allow Federal employees to increase their disposable income because the amounts contributed by them are not subject to Federal income, FICA, State or local income taxes. FSAs will be offered only to active civilian Federal employees because Internal Revenue Service rules require that qualified pre-tax benefits come from salary. FSAs will allow employees to make pretax salary contributions to pay for qualified medical expenses and to pay for dependent care expenses. Employees can use the Health Care FSA for certain expenses that are tax-deductible, but not reimbursed by any other source, including out-of-pocket expenses and non-covered benefits under their FEHB plans. The final FSA plan document will be issued later this spring. Some examples are non-covered dental services, lasik surgery, health plan deductibles, and co-payments and coinsurance. An FSA for dependent care will also be available for employees with dependent children or qualifying dependent adults when the care is necessary to allow the employee to work.

This new program will be available to Federal employees this summer. The first open season for a full tax year will be held in conjunction with the FEHB open season for CY 2004. We will add a section in the plan brochures to help employees understand how FSAs work as well as the parameters of the Program. This is your opportunity to show how FSAs complement your benefit packages.

Health Insurance Portability and Accountability Act of 1996 (HIPAA)

The Health Insurance Portability and Accountability Act of 1996 (HIPAA) subtitle, Administrative Simplification, requires the Secretary of Health and Human Services (HHS) to adopt standards for:

- Ten electronic administrative and financial health care transactions
- Unique identifiers for individuals, employers, health plans, and health care providers
- Protecting the privacy of individually identifiable health information
- Providing security for individually identifiable health information and electronic signatures
As you know, HHS has now published three final HIPAA regulations. The compliance deadline for electronic transactions is October 2003. The final HIPAA Privacy regulations are effective in April 2003. The security regulations are effective in April 2005 for most plans and in April 2006 for small plans. All of our contracts require HIPAA compliance. We appreciate the collaboration with you over the past two years that will ensure that you and we will be ready when these regulations go into effect.

Emergency Preparedness – Bioterrorism and Smallpox Vaccinations

The Federal Government is not recommending that members of the general public be vaccinated against smallpox. At this time, vaccination is recommended only for certain Department of Defense military and civilian personnel and certain identified healthcare workers and first responders. For identified healthcare workers and first responders vaccination is voluntary, and is being administered through clinics established by State Health Departments. In late spring or early summer of 2003, the Federal Government will offer the unlicensed vaccine to adults in the general population, not at high risk for side effects, who demand it. As implementation would be administered through State Health Department clinics, at this point we do not expect that there will be any associated cost for the FEHB Program. Also, if a new smallpox vaccine, now being manufactured, passes licensing tests as expected in 2004, it may be provided free to Americans who want it. We will keep you informed of any new developments in this area.

We will continue to take the appropriate steps to ensure that Federal employees, retirees, and their family members have access to health benefits for medically necessary services. We expect that FEHB carriers will provide benefits for medically necessary services for any covered members who might develop side effects resulting from smallpox vaccinations or any other treatment relating to potential bioterrorist attacks.

V. CONCLUSION

In keeping with the President’s health care agenda, we remain committed to providing FEHB members with affordable, quality health care choices. We look forward to receiving your rate and benefit proposals. We also encourage you to take this opportunity to provide us with your best creative ideas to keep your FEHB health plan competitive and affordable. The President has made high quality, affordable health care for all Americans a national goal. Your challenge - and our goal - is to keep the FEHB Program a model of excellence and continuing source of pride for our Federal teammates. Be creative, think long-term, help us in our efforts to make the Federal population healthier, and we will achieve the goal together. Again, please discuss any changes you are considering with your contract specialist as soon as possible.
Enclosed, for your convenience, is a checklist of information we need you to provide. Please return the completed checklist along with your benefit and rate proposals.

Thank you for your continued cooperation.

Sincerely,

Frank D. Titus
Assistant Director
for Insurance Services

Enclosure
Federal Employees Health Benefits Program Annual Call Letter --- Checklist

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Please return this checklist with your CY 2004 benefit and rate proposals.