
FEHB Program Carrier Letter

All Carriers

U.S. Office of Personnel Management
Insurance Services Program

Letter No. 2004-04

Date: April 19, 2004

Fee-for-service [03] Experience-rated HMO [04] Community-rated HMO [03]

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, 2005, is due by Tuesday **June 1, 2004**, since Monday is a national holiday. 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 proposals to your contract specialist.

We will send you specific instructions for your rate proposals in the near future and will begin negotiations when we receive your proposals for benefit and rate changes. We expect to complete benefit and rate negotiations by **August 16, 2004**, to ensure a timely Open Season.

II. OVERVIEW

OPM was very pleased that so many of you attended the March 2004 FEHB carrier conference. OPM appreciates your interest and the efforts you have made to offer innovative, quality products to Federal consumers. As Director Kay James discussed, we encourage you to continue to explore new options to meet the market demand for the best possible FEHB benefit package at an affordable cost. In discussions on Medicare modernization, the FEHB Program, operating under the principles of consumer choice and competition, has been held up as a model health benefits program, available to Legislative branch, including Members of Congress, their staff and Judicial and Executive branch employees, as well as U.S. Postal Service employees. Consistent with these principles, for the third consecutive year, there are no benefit mandates in this letter. Now that the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (MMA) has been signed, we are exploring new opportunities to enhance consumer choice. As you have come to know, Director James is a strong advocate for Federal employees and their families. The Director trusts both the intelligence and the decision-making abilities of Federal employees and understands that when they are appropriately informed, Federal employees are among the wisest consumers of healthcare in the Nation. For 2005, Federal employees will have more options that empower personal decision-making and maximize their ability to put more of their hard-

earned dollars to work for their needs and those of their families – a cornerstone of the Administration’s health care policies.

OPM wants you to know we sincerely appreciate the tremendous efforts you have made to build in flexibilities for Reservists and National Guard members. These heroes and their families continue to need our support and we thank you for your responsiveness. At the same time, we ask you to remember the necessity for ongoing flexibility in administering benefits and services in the event of terrorist activities.

Now again, we look to you to bring us your most creative ideas for a comprehensive benefits package that will keep health care affordable for the Federal team. As we conduct this year’s negotiations, we will strive to keep the FEHB Program a model of quality, competition and consumer choice.

III. FEHB BENEFITS

High Deductible Health Plans

Last December 8, President George W. Bush signed the MMA. At that time, Director James made a commitment to identify ways to provide access to Health Savings Accounts (HSA) and expand the options available to Federal enrollees under the FEHB Program. Director James said, "Money that individuals put into HSAs is not taxable and individuals can sock away the amount of the deductibles on their health plans up to \$2,600 for individuals or up to \$5,150 for families. And just as important, these HSAs are portable, owned by the employee, so if the employee changes jobs, the HSA goes with them. HSAs would offer greater flexibility for the Federal team members and their families to make decisions on how to spend their hard-earned dollars on health care. The Bush Administration supports competition and consumer choice, and we will lead the charge by finding ways to provide HSAs in the largest insurance program in the world."

The introduction of HSAs to the Federal team has been the source of both great excitement and significant concern among both employees and stakeholders. The Director has met with the presidents of the American Federation of Government Employees, the National Treasury Employees Union, the National Association of Retired Federal Employees, manager associations and numerous other stakeholders over the past month. As you prepare to develop products and plans which will operate within an environment marked by HSAs, understand the Director will be working closely and on an ongoing basis with stakeholders to continue listening to their concerns and seeking opportunities to address issues such as potential adverse selection. As this process continues, the Director is looking forward to an open season in which employees can choose not only their preferred plan, but also the vehicles through which they will be able to pay health costs for themselves and families – FSAs and/or HSAs.

By law, tax-favored HSAs are available for people who are not eligible for Medicare and who have a qualifying High Deductible Health Plan (HDHP). We

estimate there are about 3.1 million individuals covered by FEHB who would be eligible to have an HSA if they were enrolled in an HDHP. According to Internal Revenue Service (IRS) guidance, an HDHP must have an annual deductible indexed each year of at least \$1,000 for self only coverage and annual out-of-pocket expenses (deductibles, co-payments, etc.) that do not exceed \$5,000. For family coverage, an HDHP must have an annual deductible of at least \$2,000 and annual out-of-pocket expenses that do not exceed \$10,000. An exception is available for preventive care services since a plan may offer first-dollar coverage for preventive care (or have only a small deductible) and still be considered an HDHP. However, generally, an HDHP may not provide benefits for any year until the deductible for that year is met. More specifics will become available through IRS rule-making.

By law, HSAs are not available to people who are eligible for Medicare (generally age 65 and over). Our statute prohibits exclusions based on age. Therefore, in keeping with the spirit of our underlying legislation, and to help ensure there are no perceptions of exclusion based on age, we will require carriers who are proposing an HDHP and an HSA to also offer a health reimbursement arrangement (HRA) of equivalent value or other alternative benefits for those ineligible for an HSA. The HRA would be used for medical expenses, which may include Medicare premiums.

For FEHB carriers that make a proposal for a combined HDHP and HSA/HRA, there are two alternatives for implementation. Carriers or underwriters that meet IRS fiduciary requirements may manage the HSA and HRA accounts themselves, or they may enter into partnership arrangements with fiduciary institutions or approved non-bank trustees or custodians. (IRS Bulletin 2003-40, dated October 6, 2003, http://www.irs.gov/irb/2003-40_IRB/ar21.html provides a comprehensive list of approved non-bank trustees and custodians.)

All proposals should clearly state how you intend to meet IRS requirements pertaining to HSA and HRA fiduciary responsibilities. In addition, we require that at a minimum, the trustee/fiduciary be rated by a major financial rating service in one of its two highest categories for the most recent available rating period. This also applies if a carrier is acting as a fiduciary. Please see Appendix B for information on FEHB criteria.

For IRS guidance on HSAs, carriers may refer to IRS Notice 2004-2 at: <http://www.ustreas.gov/press/releases/reports/1061notice20042.pdf>. For information on health reimbursement arrangements, please see IRS Notice 2002-45.

Your proposal should specify a deposit from premium, not to exceed the maximum Government contribution in 2004, to be deposited into the HSA or HRA of the enrollee. It should also include a description of your proposed deductibles, and the benefit design after deductibles, and include any preventive services. The rates you propose should include an amount sufficient to cover the

designated amount to be deposited/credited to the HSA/HRA, as well as the cost of your high deductible plan. We would expect any proposal for an HDHP to provide for sufficient access to in-network providers. We also expect the proposal will include sophisticated health education and consumer education components. We will provide additional guidance in the 2005 Technical Guidance and Instructions for carriers.

Once again, please bear in mind that OPM will be working closely with stakeholders, including unions, retirees, and managers to address issues related to OPM's institutional role in overseeing the impact of HSAs within the FEHB Program.

Pharmacy Benefit Management Arrangements

For several years, FEHB carriers have had contractual arrangements with large providers, including Pharmacy Benefit Management arrangements (PBMs). A recent General Accounting Office (GAO) report stated that PBMs produce savings for FEHB health plans by obtaining drug price discounts from retail pharmacies and dispensing drugs at lower costs through mail-order pharmacies, passing on certain manufacturer rebates to the plans, as well as operating drug utilization control activities.

Prescription drug costs represent an increasing percentage of total FEHB costs. Therefore, to increase our oversight of FEHB carriers' large provider agreements, we published a proposed regulation on August 15, 2003. This regulation would bring large provider agreements under the umbrella of the FEHBAR and subject them to audit requirements, currently applicable to carriers and their subcontractors. We are reviewing the comments we received on this proposed rulemaking and expect to publish the final regulation later this year.

We also plan to explore additional measures for the future, including FEHB carrier contract standards for PBM contracts, requiring FEHB carriers to provide for more transparency in their PBM contracts, and to obtain expert reviews of their PBM contracts. In the meantime, we strongly encourage FEHB carriers to strengthen their own oversight of their PBM arrangements. It is important that you inform us now of the steps you are taking to strengthen your PBM arrangements.

Director James believes that, fundamentally, carriers must take a leadership role in providing more vigorous oversight of PBM's. The Director, working closely with the Inspector General of OPM, will do everything within her authority to make certain that Federal employees, their families, and Federal retirees are protected from price increases that result from inadequate administrative oversight.

Care Management

We encourage you to continue your emphasis on care management for members with chronic conditions, including flexible benefit options and diagnosis-based programs. Care management programs help educate affected members about their chronic conditions and help ensure that they are getting appropriate services. It is generally

accepted 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, your results will help to improve the quality of care and promote the effective use of benefit dollars.

It is important that care management programs show a reasonable return on your Plan's investment. We expect you to periodically evaluate the cost and benefits of your programs and share your findings with us.

We also believe that your care management program should establish a relationship with Federal Long Term Care Insurance Program (FLTCIP), so that enrollees with FLTCIP coverage can experience a smooth transition to long term care when necessary. Please contact Mary Lou McGuinness at mmcguinness@ltpartners.com. We will continue to feature the FLTCIP in FEHB brochures.

We ask that you provide detailed descriptions of the different types of care management programs you offer your members and aggregate program results to date. Please also describe any proposals to enhance and expand on your care management programs for the 2005 contract year.

We will send specific requirements for submitting your benefit and rate proposals later in April. 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 Program. 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

HealthierFeds

The *HealthierFeds* 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. In January last year, OPM kicked off the campaign with a health fair at the Theodore Roosevelt Building. OPM held monthly *HealthierFeds* events throughout the year to educate our workforce on how to take greater responsibility for their personal health. The 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
- Follow a Nutritious Diet
- Get Preventive Screenings
- Make Healthy Choices

We appreciate your efforts to promote the goals of the *HealthierFeds* initiative to encourage the Federal population to adopt healthier lifestyles. The Director has tremendous confidence in Federal employees and their interest in working hard to stay informed and to change behavior based on sound preventative strategies. Educating your members may lead to more patient involvement in health care decision-making and, subsequently, more consumer responsibility. You can learn more about this initiative at our new website <http://www.opm.gov/healthierfeds/> and more about the President's *HealthierUS* program at www.healthierus.gov or by going to the *HealthierUS* link on OPM's website.

HealthierFeds also supports the Steps to a *HealthierUS*, led by Secretary Tommy G. Thompson of the Department of Health and Human Services (HHS) that advances the *HealthierUS* goal of helping Americans live longer, better, and healthier lives. The Steps may be found at <http://www.healthierus.gov/steps/>. An aggressive kickoff of *HealthierUS* will be announced later this spring by both Secretary Thompson and Director James.

Fraud and Abuse

The Director is continuing OPM's work with our Inspector General to prevent fraud and abuse in the FEHB Program and are addressing this issue through a three-pronged approach:

- 1) 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!" This message is being provided to consumers in FEHB health plan brochures, the FEHB Guide used by enrollees to choose plans during open season, and on the FEHB website.
- 2) Raising health plan awareness. We have developed a list of *Industry Standards* for health plan fraud and abuse prevention and detection programs at http://www.opm.gov/carrier/carrier_letters/2003/2003-23.pdf. We will continue our work 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.
- 3) Enhancing systematic reporting requirements. We have updated our FEHB health plan fraud and abuse reports to better identify and prevent fraud and abuse based on current industry practices. We will continue our discussions with you as we enhance our focus on this important topic.

Quality Initiatives

We are continuing our work to provide FEHB members with the information and resources that will help them to choose high quality health plans. Our work includes 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

We continue to expand our use of the Internet as a communications and resource tool. During the 2004 Open Season, 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 website 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. FEHB consumers also have access to an OPM health plan-comparison tool. Our *HealthierFeds* website also provides information consumers can use for healthier lifestyles.

Beginning with the 2003 Open Season, the U.S. Postal Service automated their enrollment process, and we appreciate the efforts you have made to coordinate with this important segment of the FEHB population. Also, Employee Express is planning for year round enrollments and changes based on qualifying life events. We will let you know more on this initiative as it evolves. E-payroll is going strong. There are about 20 agencies still doing their own payroll. Under E-Payroll, these agencies are expected to move their payroll functions to one of the four E-Payroll providers by the end of this year. This means you will need to plan for changing payroll office numbers in your enrollment systems. Again, we will keep you informed on this important initiative.

Flexible Spending Accounts

Last year, OPM made available Flexible Spending Accounts (FSAs) to employees of the Executive Branch and other agencies that chose to adopt our program. The Federal FSA program, known as FSAFEDS, has been very well received by Federal employees.

SHPS, a major FSA vendor, is the contractor administering FSAFEDS for the Federal Government.

Director James was an advocate for the creation of the FSA benefit for Federal employees. FSAs allow 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 may only be offered to *active civilian Federal employees* because Internal Revenue Service rules currently require that qualified pre-tax benefits come from salary. With the exception of insurance premiums, employees can use the Health Care FSA for 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. Examples include many over-the-counter medicines (but not vitamins) and products, non-covered dental services, vision services, including routine exams, eyeglasses, lasik surgery, and hearing aids, health plan deductibles, and co-payments and coinsurance. (An FSA for dependent care is also available for employees with dependent children or qualifying dependent adults when the care is necessary to allow the employee to work, look for work, or attend school full time.) The FSA Open Season for the 2004 tax year was held in conjunction with the FEHB Open Season for CY 2004. We will continue to work with you this year on your health plan brochures to help employees understand FSAs and how they complement your benefit packages. We will also highlight the convenience of paperless reimbursement, a program that allows carriers to interface their claims systems with SHPS, our FSA administrator, so that FSA participants can be reimbursed without filing claims. Contact Wendy.Warren@SHPS.net for information about participating in the paperless reimbursement program in 2005.

Patient Safety

During the past few years, the healthcare community has stressed the importance of a culture of patient safety. While there have been mixed results in implementing effective strategies in dealing with safety, we believe it is an important topic for FEHB consumers. Therefore, we are asking that you provide an update on your patient safety initiatives and programs, and we will add them to the FEHB website. Since we need a consistent format in order to compare the patient safety efforts of different plans, we are asking you to use our framework:

1. Describe, in plain language, suitable for web posting, 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.

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.

HHS has now published several final HIPAA regulations. The compliance deadline for electronic transactions was October 2003. We would like to express our appreciation for all your efforts in ensuring a smooth transition from our proprietary enrollment transaction format to the HIPAA standard format.

The final HIPAA Privacy regulations were effective in April 2003. The Security regulations will become effective in April 2005 for most plans and in April 2006 for small plans. The National Provider Identifier regulations will become effective in May 2007 for most plans and May 2008 for small plans. All of our contracts require HIPAA compliance.

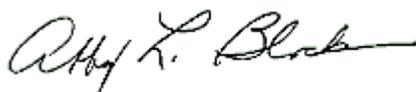
V. CONCLUSION

In keeping with the President's health care agenda, the Director remains committed to providing FEHB members with affordable, quality health care choices. The President has made high quality, affordable health care for all Americans a national goal. Within the FEHB Program, the Director believes this can continue to be accomplished through principled and tough negotiations that keep cost increases low and avoid mandates in the program. We look forward to receiving your rate and benefit proposals. Again, please discuss any changes you are considering with your contract specialist as soon as possible.

Enclosed, for your convenience, is a checklist (Appendix A) with the information we need you to provide. Please return the completed checklist along with your benefit and rate proposals. Appendix B (FEHB High Deductible Health Plans Criteria) is also enclosed.

Thank you for your continued cooperation.

Sincerely,



Abby L. Block
Deputy Associate Director
for Employee & Family
Support Policy



Frank D. Titus
Assistant Director
for Insurance Services

Enclosures

APPENDIX A

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

<i>Topic</i>	<i>Included in Proposal</i>
• High Deductible Health Plan	_____
• PBM Initiatives	_____
• Care Management Initiatives	_____
• Patient Safety Initiatives	_____

Please return this checklist with your CY 2005 benefit and rate proposals.

APPENDIX B

FEHB High Deductible Health Plans Criteria

High Deductible Health Plans

- High Deductible Health Plans (HDHP) must meet the requirements of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (MMA).
- HDHP proposals must be rated in accordance with OPM guidelines. OPM's 2004 rating policies may be used as guidance until the 2005 policies are determined. Significant changes are not contemplated. Proposals should reflect costs only, including the amount to be deposited in the enrollee's HSA/HRA.
- HDHP proposals should reflect that these choices will be open to everyone eligible to enroll in the FEHB Program.
- Employees remain eligible for premium conversion (pre-tax funding of premiums).

Health Savings Accounts (HSA) and Health Reimbursement Accounts (HRA)

- Health Savings Accounts (HSA) must meet, at a minimum, the requirements specified in Internal Revenue Service (IRS) Guidance Notice 2004-2 <http://www.ustreas.gov/press/releases/reports/1061notice20042.pdf>.
- Fiduciary institutions for HSAs and HRAs must be banks or other non-bank trustees or custodians approved by the IRS. (See Internal Revenue Bulletin (IRB) 2003-40, dated October 6, 2003 for further reference- http://www.irs.gov/irb/2003-40_IRB/ar21.html.)
- FEHB carriers' proposals must include assurances the trustee is financially stable. At a minimum, the trustee/custodian must be rated by a major financial rating service in one of its two highest categories for the most recent available rating period.
- FEHB carriers that offer HDHP and HSA/HRA proposals must describe, in detail, the flow of funds from receipt to disbursement to the designated fiduciary, and must also provide a detailed description from the fiduciary on how the HSAs and HRAs will be established and monitored, including earnings for individual accounts.
- HDHP and HSA/HRA proposals that include the use of debit or credit cards should describe in detail how these would be managed and monitored, including accounting for earned interest.
- IRS has issued guidance that addressed the issue of employer enrollment and disenrollment changes that are not effective on first day of a calendar year and the corresponding effect on contributions to HSAs. For information on this and other recent guidance, see <http://www.irs.gov/newsroom/article/0,,id=97322,00.html>