Subject: Federal Employees Health Benefits Program Call Letter

Executive Summary

This letter provides our annual call for benefit and rate proposals from Federal Employees Health Benefits (FEHB) Program carriers and outlines our policy goals for 2007. Our key initiatives this year are:

1. We have instituted guiding principles that we expect FEHB carriers to follow.

2. We are encouraging proposals for High Deductible Health Plans (HDHP) with Health Savings Accounts (HSA) or Health Reimbursement Arrangements (HRA).

3. We are seeking proposals that promote healthcare cost and quality transparency. We expect carriers to provide more information on provider costs through their web sites. We are also requiring fee-for-service plans to collect quality performance measures comparable to those currently required of health maintenance organizations.

4. To promote the use of health information technology (HIT), we expect carriers to work toward enhancing consumer education, offering personal health records, encouraging e-Prescribing, linking disease management to HIT and ensuring compliance with Federal privacy requirements.

5. We are soliciting proposals on enhanced prescription drug management, including high-cost specialty pharmaceuticals such as infusion therapy and injectable medications.

6. We have included recommendations on preventive care for adults and children. We expect carriers to consider adult preventive care recommendations in their proposals. We have also included recent updates to the preventive care services recommended by the American Academy of Pediatrics (AAP).

7. We are implementing the Federal Employee Dental and Vision Benefits Enhancement Program in December 2006. The dental and vision benefits in this program will supplement FEHB benefits. We are informing carriers we do not expect them to propose changes to their 2007 benefits in advance of this new program.

8. We have included Program integrity requirements for FEHB carriers.
I.  RESPONSE PROCESS

This letter provides our annual call for benefit and rate proposals from Federal Employees Health Benefits (FEHB) Program carriers and outlines our policy goals for 2007. Benefit and rate proposals for the contract term beginning January 1, 2007 are due by Wednesday May 31, 2006. We will send specific instructions for rate proposals by April 30, and will begin negotiations when we receive your proposals. Please discuss changes with your contract specialist before you submit your proposals.

Regular mail to Federal offices is irradiated, which may delay mail delivery. Therefore, we encourage you to use overnight mail, FAX, or e-mail to your contract specialist to guarantee timely delivery. We expect to complete benefit and rate negotiations by August 15, 2006 to ensure a timely Open Season.

II.  INTRODUCTION

The Office of Personnel Management (OPM) is committed to confronting the rising cost of healthcare to help members of the Federal family afford the insurance coverage they need. This commitment is reflected in our goals to strengthen the patient-physician relationship through cost and quality transparency, strengthen health savings accounts, and promote wider use of health information technology to help control costs and reduce medical errors.

We believe Federal enrollees are smart consumers, capable of making wise healthcare decisions provided they receive adequate information to make informed choices. We will continue to emphasize market competition and consumer choice in the FEHB Program. We will be looking to FEHB plans to strengthen the information they provide so that FEHB enrollees can be more involved and responsible for their healthcare decisions. This is particularly important for enrollees who have already assumed greater responsibility for their own healthcare costs by enrolling in consumer driven plans.

Consistent with our market-based approach, we will not direct FEHB plans to make specific benefit changes for 2007. However, we expect you to make innovative benefit proposals consistent with the policies outlined in this letter to promote choice, accountability and personal responsibility.

III.  GUIDING PRINCIPLES

OPM has established the following ten principles for the FEHB Program. All FEHB carriers must be committed to:

1.  Ensuring enrollees have access to good healthcare benefits;
2.  Striving to keep FEHB premiums affordable;
3.  Ensuring enrollees have access to quality provider networks;
4. Providing competitive healthcare choices for consumers;
5. Strengthening information for consumers so they can be more involved and responsible for their own healthcare decisions;
6. Being well managed and financially secure;
7. Providing efficient and effective contract administration;
8. Ensuring the timely and accurate submission of actuarial data and financial accounting information;
9. Maintaining compliance with FEHB laws, regulations, contract requirements and administrative guidance at all times; and
10. Guaranteeing that enrollee and Government resources are protected.

IV. FEHB BENEFITS

A. Healthcare Cost and Quality Transparency for Informed Consumers

We believe transparency in healthcare costs and quality can help patients control their medical expenses. Therefore, we are taking steps in the FEHB Program to raise the level of transparency that is available to enrollees for both provider cost and health plan quality.

We are seeking proposals from all FEHB plans on ways in which to make pricing information available to enrollees. In this dynamic healthcare environment, it is important that enrollees become more aware of the overall cost of the care that they receive. By choosing efficient providers, enrollees can lower their own out-of-pocket costs and help lower overall healthcare costs. Your proposals should be specific and should identify a sample of the individual pricing data information that will be available to enrollees. A representative dataset for selected procedures that displays this type of web site information is presented below.

<table>
<thead>
<tr>
<th>Procedure</th>
<th>Network</th>
<th>Non-network</th>
<th>Inpatient/Outpatient</th>
</tr>
</thead>
<tbody>
<tr>
<td>Breast biopsy</td>
<td>$2,000</td>
<td>$3,400</td>
<td>OP</td>
</tr>
<tr>
<td>Colonoscopy</td>
<td>$1,500</td>
<td>$2,500</td>
<td>OP</td>
</tr>
<tr>
<td>Inguinal hernia repair</td>
<td>$3,800</td>
<td>$7,900</td>
<td>OP</td>
</tr>
<tr>
<td>Hysterectomy</td>
<td>$8,300</td>
<td>$21,200</td>
<td>IP</td>
</tr>
<tr>
<td>Arthroscopy knee/shoulder</td>
<td>$4,200</td>
<td>$9,700</td>
<td>OP</td>
</tr>
<tr>
<td>Tonsillectomy</td>
<td>$2,500</td>
<td>$4,900</td>
<td>OP</td>
</tr>
<tr>
<td>Heart catheterization</td>
<td>$3,700</td>
<td>$9,700</td>
<td>OP</td>
</tr>
<tr>
<td>Cataract repair</td>
<td>$2,600</td>
<td>$5,000</td>
<td>OP</td>
</tr>
<tr>
<td>Gall Bladder removal</td>
<td>$5,800</td>
<td>$10,400</td>
<td>OP</td>
</tr>
<tr>
<td>Cesarean delivery</td>
<td>$7,100</td>
<td>$12,100</td>
<td>IP</td>
</tr>
<tr>
<td>Knee replacement</td>
<td>$23,100</td>
<td>$39,300</td>
<td>IP</td>
</tr>
<tr>
<td>Corneal surgery</td>
<td>$600</td>
<td>$1,200</td>
<td>OP</td>
</tr>
</tbody>
</table>
We also expect you to work with your Prescription Benefit Managers to offer a similar set of prescription drug costs on your web sites. We recognize and appreciate that some FEHB plans have already taken steps to provide these datasets.

Similarly, if enrollees have more information on provider quality, they can choose to receive services from those providers and help to influence the overall quality of healthcare. OPM has long required contracting HMOs to submit HEDIS measures as evidence of high quality performance. For 2007, we will require fee-for-service plans to collect data on certain HEDIS administrative measures that have already been tested and determined to be feasible for PPO reporting. We will provide you with additional information on this administrative requirement under separate cover.

B. Health Information Technology

OPM fully supports initiatives to promote the adoption of health information technology (HIT) in the healthcare industry. Director Springer is a member of the American Health Information Community which is a Federally chartered commission formed to advance public/private partnership efforts to reach the Administration’s long-term goal for Americans to have access to their own electronic health records.

We expect FEHB plans to work toward the following short-term objectives:
1) enhance your education efforts to make plan members more aware of how HIT can help to achieve improvement in quality and control costs over the long term;
2) offer personal health records to enrollees based on their claims, medications and medical history information currently available in your healthcare systems;
3) encourage pharmacy benefit managers to provide incentives for ePrescribing;
4) link your disease management programs to HIT; and 5) ensure compliance with Federal requirements to protect the privacy of individually identifiable health information. Adoption of HIT requirements will be an element of our plan performance review within the next two to four years.

Please describe how you have already expanded on HIT initiatives during 2005. In addition, please provide a business plan for accelerating HIT at your plan in 2006 and 2007, including action items and milestones. Please also include information that you would like enrollees to know as they consider your health plan for 2007. During the 2006 Open Season, OPM will expand its website to provide additional information regarding the HIT capabilities of participating plans so that prospective enrollees can review this information in making their health plan choices for 2007.

OPM will highlight plans that are able to provide evidence of state-of-the-art HIT capabilities.

C. Health Savings Accounts

Health Savings Accounts (HSA) represent a key element of our healthcare agenda. We expect the popularity of this plan option to grow as Federal employees
recognize that they actually own their HSA funds, and as they find their HSA balances increase while their high deductible health plan meets their insurance needs.

We encourage you to submit proposals that expand the availability of this consumer option. Proposals should include a premium amount sufficient to cover the cost of your high deductible health plan as well as the designated amount to be deposited/credited to the HSA, or health reimbursement account (HRA) for those enrollees not eligible for an HSA. Your proposal should include a description of deductibles, the benefit design after deductibles, and preventive services. High deductible health plans must be open to everyone eligible to enroll in the FEHB Program.

OPM is taking steps to enable enrollees to make pre-tax contributions to their HSAs via payroll allotments as early as 2007. We believe this initiative will help to promote more interest among those who are committed to saving for their future medical expenses. FEHB plans that currently offer high deductible health plan options with health savings accounts should ensure their HSA fiduciary institutions are aware of this initiative so that they can be prepared to receive additional enrollee HSA contributions directly from Federal payroll providers.

D. Prescription Medications

Prescription medications continue to be a major cost driver. Brand-name pharmaceutical costs have escalated quickly, while generic drug prices have not moved as rapidly. Promoting generic drug use has proven an effective method of lowering overall prescription cost increases and we urge you to continue to explore offering appropriate substitution of higher-cost drugs with lower cost clinically effective therapeutic alternatives. We also encourage you to pursue the advantages of specialty pharmacy programs aimed at reducing the high costs of infused and intravenously administered drugs.

We encourage innovative proposals including those for tiered formularies or prescription drug lists. However, you should not move medications to higher levels of cost sharing when no other therapeutic alternative is available. If you use a formulary or prescription drug list, please provide us with a description of the methodology used to classify medications and update your formulary or prescription drug lists. We also expect you to inform enrollees about material changes in your formulary policy, especially when the change is effective after January 1. This means you need to inform enrollees about drugs that are no longer preferred, describe the potential dollar consequence, and identify lower cost therapeutic alternatives for affected enrollees.

E. Preventive Care

We have reviewed our guidelines on preventive care benefits. We want to be sure that you are aware of recent changes as you formulate your benefit proposals.
The Centers for Disease Control and Prevention (CDC) have endorsed the following vaccine changes for the 2005 – 2006 Adult Immunization Schedule, as issued by their Advisory Committee on Immunization Practices (ACIP):

**Varicella (Chickenpox)** – recommended for all persons age 19 to 49 years;

**Tetanus, Diphtheria and Pertussis (Tdap)** – recommended for persons age 19 to 64 years of age, with booster every ten years. The CDC did not previously recommend pertussis vaccination in this age group. The Tdap vaccine replaces the tetanus-diphtheria vaccine for those under the age of 64. For 65 and above, a tetanus-diphtheria booster is still recommended every ten years.

As a reminder, the American Academy of Pediatrics (AAP) approved the following additional vaccine recommendations issued by ACIP to the *Recommended Childhood and Adolescent Immunization Schedule – U.S., 2006*:

**Hepatitis A** – recommended for all infants 12 to 23 months of age;

**Meningococcal** – recommended at 11 to 12 years of age, entry to high school or 15 years of age, and for college freshmen to live in a dormitory;

**Tetanus, Diphtheria and Pertussis (Tdap)** – recommended for 11 to 12 years of age or for 13 to 18 years of age for those who did not previously receive the vaccination.

In addition, the ACIP has recommended flu vaccination for all children under five and older than six months. The previous recommendation was for children six to 24 months. The ACIP has also recommended a new vaccine to prevent Rotavirus for infants between eight to thirty-two weeks of age. We expect the AAP will adopt these recommendations shortly.

In February 2006, the AAP issued a Policy Statement on *Screening Examination of Premature Infants for Retinopathy of Prematurity*. The AAP recommends a retinal screening exam performed by an ophthalmologist for infants with low birth weight (<1500g) or gestational age of 32 weeks or less and infants weighing between 1500 and 2000g or gestational age of more than 32 weeks with an unstable clinical course.

**F. Organ/Tissue Transplants**

This year, we will provide a specific list of covered organ/tissue transplants for carriers to include in your brochures in our technical guidance. The list will be based on current accepted medical policies and practices. As investigational procedures are adopted as generally accepted medical practice, we will update the list of covered transplants for the next contract term. We believe this will allow for more clarity and certainty on the benefits offered by FEHB plans.

**G. Benefit Proposals**

We will send specific requirements for submitting your benefit and rate proposals by April 30. We will provide you with information on how to prepare your
As a reminder, you may only distribute brochures, provider directories or lists, and any other marketing materials or other supplemental literature that were prepared in accordance with FEHBP 1652.203-70.

As in the past, we will not accept proposals for benefit increases unless they are cost-neutral through offsetting benefit reductions. Also, note that any savings from managed care initiatives must accrue to the FEHB Program.

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), and propose appropriate language changes.

**H. Value of Plan Options**

FEHB policy provides there be meaningful differential in the separate benefit options administered by a health plan (e.g. between high and standard options) that is easily perceived by prospective enrollees. Among other considerations, we will continue to assess the difference in the actuarial value of the options you offer for similar product types. Enrollees also should be able to distinguish clearly among different products such as fee-for-service plans, HMOs and consumer-directed products in their purchasing decisions.

**I. Program Integrity**

OPM intends to offer only high quality, efficient and effective health plans in the FEHB Program. We expect all FEHB carriers to maintain compliance with FEHB laws, regulations, contract requirements and OPM’s administrative guidance at all times, including the timely and accurate submission of actuarial data and financial accounting information. Additionally, the Office of Management and Budget (OMB) has revised Circular A-123, *Management’s Responsibility for Internal Control*. The revised Circular places an increased emphasis on agencies’ internal controls, thereby increasing the importance of your prompt and accurate reporting of program and financial conditions under the contract. As a reminder, your contract requires you to notify your contracting officer of any significant event within ten (10) working days. A significant event is any occurrence or anticipated occurrence that may reasonably be expected to have a material effect upon the carrier's ability to meet its obligations under the contract.

In accordance with the Office of Inspector General’s (OIG) audit responsibilities, the OIG is developing a data warehouse for all experience rated carriers that will include at least three years of paid claim information. In order to maintain current data for all carriers, routine updates will be required. At some point in the future, a representative from the OIG will be contacting you to discuss the requirements for obtaining this data. The information will be used for future audit and investigative activities.
V. OTHER BENEFIT INITIATIVES

Supplemental Dental and Vision Programs

During the 2006 Open Season, OPM will offer new supplemental dental and vision products to FEHB eligible individuals for the first time on an enrollee pay all basis. We will announce the benefits and rates for these new products in the fall. While we recognize that some FEHB plans may be considering whether to make adjustments to their current dental and vision benefits in anticipation of this new product offering, we do not expect plans to make significant changes to their dental or vision benefits until we gain at least preliminary experience with this new program.

VI. CONCLUSION

We look forward to receiving your timely benefit and rate proposals for the 2007 contract term. We appreciate your commitment to the FEHB Program and to the almost eight million participants who depend on you to meet their healthcare expectations and needs.

Sincerely,

Nancy H. Kichak
Associate Director
Strategic Human Resources Policy

Robert F. Danbeck
Associate Director
Human Resources Products and Services