

2/8/05

OVERVIEW:

AETNA

PREMIUM

**HFIN**

**FILE**

2-8-05

STATE OF ALASKA

AMENDMENT TO PROFESSIONAL SERVICES CONTRACT

1. Agency Contact Number
2. ASPS Number 2001-0200-2140
3. Optional Renewal? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No Years remaining <u>1</u>
4. Financial Coding 02800535/537/538/539
5. Agency Assigned Encumbrance Number
5. Amendment No. 05

This agreement is between the State of Alaska,

7. Department of  
Administration, Division of Retirement & Benefits (DRB) hereafter the State, and

8. Contractor  
Aetna Life Insurance Company hereafter the Contractor

Mailing Address Street or P.O. Box City State ZIP Code  
2409 Camino Ranon San Ramon CA 94583

9. Original period of performance FROM: 7/1/2001 TO: 6/30/2004 10. Amended period of performance FROM: 7/1/2001 TO: 6/30/2005

11. Previous amount of contract to date: \$ 40,000,000 12. Amount of this amendment: \$ 7,000,000 13. This amended contract shall not exceed a total of \$ 47,000,000

In accordance with the provisions of the above referenced contract, the parties to that contract agree that the services to be performed by the contractor under the contract are amended as follows: All other terms and conditions of the contract remain in effect. (Use reverse for continuation of amended provisions if necessary.)

Amendment is to continue work as the Third Party Administrator as outlined in the original contract, any previous amendments thereto, and the attached 18 pages dated August 24, 2004 that reflect this amendment. All other terms and conditions remain the same.

In full consideration of the contractor's performance under and including this amendment, the State shall pay the contractor a new total not to exceed \$ \$ 47,000,000.

The period of performance under this contract is increased/decreased by 10 Months to 6/30/2005.

IN WITNESS WHEREOF the parties hereto have executed this amendment.

NOTICE! This amendment has no effect until signed by the head of the contracting agency, procurement officer or designee.

15. CONTRACTOR		17. CERTIFICATION: I certify that the facts herein and on supporting documents are correct, that this voucher constitutes a legal charge against funds and appropriations cited, that sufficient funds are encumbered to pay this obligation, or that there is a sufficient balance in the appropriation cited to cover this obligation. I am aware that to knowingly make or allow false entries or alterations on a public record, or knowingly destroy, mutilate, suppress, conceal, remove or otherwise impair the verity, legibility or availability of a public record constitutes tampering with public records punishable under AS 11.56.815 - .820. Other disciplinary action may be taken up to and including dismissal.	
Name of Firm Aetna Life Insurance Company		Signature of Head Contracting Agency or Designee <i>Kevin Brooks</i> Date 8-30-04	
Signature of Authorized Representative <i>Richard Salow</i>	Date 8/25/04		
Typed or Printed Name of Authorized Representative Rick Salow			
Title Underwriting Manager			
16. CONTRACTING AGENCY			
Department/Division Administration, Division of Retirement & Benefits		Typed or Printed Name of Authorizing Official Kevin Brooks	
Signature of Project Director <i>Melanie Millhorn</i>	Date 8-26-04	Title Deputy Commissioner	
Typed or Printed Name of Project Director Melanie Millhorn			
Title Director			

# STATE OF ALASKA

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<p>15. <b>CONTRACTOR</b></p> <p>Name of Firm Aetna Life Insurance Company</p> <p>Signature of Authorized Representative _____ Date _____</p> <p>Typed or Printed Name of Authorized Representative Rick Salow</p> <p>Title Underwriting Manager</p>	<p>17. <b>CERTIFICATION:</b> I certify that the facts herein and on supporting documents are correct, that this voucher constitutes a legal charge against funds and appropriations cited, that sufficient funds are encumbered to pay this obligation, or that there is a sufficient balance in the appropriation cited to cover this obligation. I am aware that to knowingly make or allow false entries or alterations on a public record, or knowingly destroy, mutilate, suppress, conceal, remove or otherwise impair the verity, legibility or availability of a public record constitutes tampering with public records punishable under AS 11 56 815 - 820. Other disciplinary action may be taken up to and including dismissal.</p>
<p>16. <b>CONTRACTING AGENCY</b></p> <p>Department/Division Administration, Division of Retirement &amp; Benefits</p> <p>Signature of Project Director _____ Date _____</p> <p>Typed or Printed Name of Project Director Janie Millhorn</p> <p>Director</p>	<p>Signature of Head Contracting Agency or Designee _____ Date _____</p> <p>Typed or Printed Name of Authorizing Official</p> <p>Title</p>

AMENDMENT TO PROFESSIONAL SERVICE CONTRACT FOR  
ENTRY DEFINITIONS

- 1 Agency assigned contract number for tracking, reference, and billing
- 2 Authority to Seek Professional Services (ASPS) number assigned by Department of Administration (DOA)
- 3 Optional renewal? Yes or no Years remaining not including this renewal
- 4 Financial coding assigned by the agency for billing purposes
- 5 Encumbrance number assigned to this contract by the agency
- 6 Amendment number. How many to date for this contract including this one?
- 7 Department
- 8 Contractor's name and address
- 9 Original period of performance including previous amendments
- 10 Amended period of performance of this document
- 11 Total date not including this amendment
- 12 Amount of this amendment
- 13 New total not to exceed including this amendment
- 14 This section must contain all material changes from the contract such as the new total not to exceed amount and the new period of performance. If no change is being made, write "same". This section also requests the number of years, months and days this contract is either increased or decreased by.
- 16 Contractor's name, signature, and address
- 17 Your division project director's name and signature

**APPENDIX C**  
**Administrative Services Contract**

Section III. Obligations of the State, subsection H. 4. is amended to read:

4. Effective July 1, 2004, AETNA may adjust the Administrative Fees effective as of the date on which any of the following occurs.

If, for any product, there is a:

- 15% decrease in the average enrolled medical, pharmacy or dental lives from the Administrative Fee Assumptions below or from any subsequently reset Assumptions (reset if a new fee is established);
- 15% increase in the member to employee ratio from the Administrative Fee Assumptions below or from any subsequently reset Assumptions (reset if a new fee is established);
- 15% increase in the retiree percentage from the Administrative Fee Assumptions below or from any subsequently reset Assumptions (reset if a new fee is established);
- 15% increase in the processed claim transactions (PCTs) per employee from the Administrative Fee Assumptions below or from any subsequently reset Assumptions (reset if a new fee is established);

if a material change in the plan of benefits is initiated by the State or by legislative or regulatory action;

If a material change initiated by the State or by legislative or regulatory action in the claim payment requirements or procedures, claim fiduciary option, account structure, or any other change materially affecting the manner or cost of paying benefits and/or administering the plan;

If the Contract is terminated by the State requiring Aetna to incur charges for maintaining plan structure to report and/or process runoff claims.

If the National Advantage Program (NAP) is terminated by the State.

If the Aetna Pharmacy Management Program (APM) is terminated by the State.

Administrative Fee Assumptions (7/1/2004 - 6/30/2005):

	Active Medical	Active Rx	Active DVA	Retiree Medical	Retiree Rx	Retiree DVA
7/04-7/05 Enrolled Lives	5,266	5,266	5,266	27,781	27,781	18,024
Member to Employee Ratio	2.65	n/a	n/a	1.91	n/a	n/a
Retiree Percentage	0.0%	n/a	n/a	100.0%	n/a	n/a
PCTs per Employee	26.37	17.50	5.32	35.36	31.93	4.15

Section VI. General Provisions, E. Notice is amended to read:

E. Notice. All written notice required under this Agreement will be deemed to have been given to a party if sent to the party at the addresses appearing below by any means, including facsimile, which leaves a hard copy in such party's hands.

If to AETNA: Riek Salow  
Underwriting Manager  
2409 Camino Ramon  
San Ramon, CA 94583

If to State: Ray Matiashowski  
Department of Administration  
P.O. Box 110203  
Juneau, AK 99811-0203

Exhibit B, Administrative Fees is amended as follows:

To add the following to Section 1.(a):

For the Contract Year beginning July 1, 2004, the Administrative Fees will be set forth in Exhibit B-1.

To add the following to Section 1.(c):

The Late Payment charge for the Contract Year beginning July 1, 2004 will be communicated prior to the start of the Contract Year.

Exhibit B-1 is amended to add the following:

Exhibit B-1, Administrative Rates: 7/1/2004 - 6/30/2005

Active Health Plan "Applies to all enrolled active employees"

Medical, Vision, and Dental - includes network access fees, Informed Healthline, VSP and Magellan Behavioral Health

\$2.09 Per Employee Per Month

Retiree Health Medical Plan "Applies only to those retirees enrolled in a medical plan"

Medical - includes Informed Healthline and Magellan Behavioral Health

\$28.51 Per Retiree Per Month

Retiree DVA - Dental/Vision/Audio "Applies only to those retirees enrolled in this coverage"

\$4.22 Per Retiree Per Month

Long Term Care Claim Processing "Applies only to those enrolled in this coverage"

\$0.43 Per Participant per month

Health Care Reimbursement Account "HCRA"

\$3.75 per participant per month for semi-monthly checks and one primary wire line.

Premium Collection Fee - For continuees and plan participants enrolled in "self-pay" status.

\$14.00 Per Participant per month

\$4.60 Per HIPAA Certificate mailed

Other Fees: 7/1/2004- 6/30/2005

- (1) Banking wire line in addition to (4) contained in pricing for Active Medical, Retiree Medical, DVA, and HCRA.

LTC Claim Wire - \$2,285 Annually.

- Two additional suffix/accounts for HCRA @ \$485 annually = \$970 annually

Exhibit C, A. Affiliates is amended to read:

A. Affiliates.

**AETNA Life Insurance Company**

Payment of medical and dental claims (Active and Retiree Plans). Customer service at the AlaskaCare Service Centers, Utilization review for medical claims under the Active and Retiree Plans, and the Custom AETNA Provider Network.

**AETNA Pharmacy Management**

Drug card and mail order prescription drug programs for Active and Retiree Plans.

**Aetna Integrated Informatics**

Claim and utilization reporting for Active and Retiree Plans.

B. Subcontractors.

**Vision Services Plan**

Vision and optical services network (Active Plan only).

**Magellan Behavioral Health**

For the Active Plan, EAP and managed mental health and substance abuse services and utilization review; For the Retiree Plan, managed mental health and substance abuse services and utilization review.

**Aetna Rx Home Delivery**

Mail order prescription drug program for Active and Retiree Plans.

Exhibit F, Banking is amended to add the following:

The Late Wire charge for the Contract Year beginning July 1, 2004 will be communicated prior to the start of the Contract Year.

The following Exhibit G, Performance Guarantees, replaces any previous performance guarantees under the Administrative Services Contract:

## EXHIBIT G PERFORMANCE GUARANTEES

### General Performance Guarantee Provisions

Aetna Life Insurance Company (ALIC) provides health benefits administration and other services for the self-funded Preferred Provider Organization (PPO) Medical plan. The services set forth in this document will be provided by ALIC (hereinafter "AETNA").

#### **Performance Objectives**

AETNA believes that measuring the activities described below are important indicators of how well it services the State of Alaska. Aetna is confident that the Plan Administration, Claim Administration and Member Services provided to the State will meet their high standards of performance. To reinforce the State's confidence in AETNA's ability to administer their program, AETNA is offering guarantees in the following areas:

Account Management  
Management Reports

Claim Administration  
Turnaround Time  
Financial Accuracy  
Payment Incidence Accuracy  
Total Claim Accuracy

Member Satisfaction

Member Services  
Telephone Service Factor (TSF)  
Abandonment Rate

#### **Guarantee Period**

The guarantees described herein will be effective for a period of 12 months and will run from July 1, 2004 through June 30, 2005 (hereinafter "guarantee period").

The performance guarantees shown below will apply to the self-funded Preferred Provider Organization (PPO) Medical plan administered under the Administrative Services Contract ("Contract"). These guarantees **do not** apply to non-AETNA benefits or networks.

If AETNA processes runoff claims upon termination of the Contract, performance guarantees of Turnaround Time, Financial Accuracy, Payment Incidence Accuracy and Total Claim Accuracy will not apply to such claims. Further, performance guarantees described herein will not apply to the guarantee period claims if termination is prior to the end of the guarantee period.

#### Aggregate Maximum

AETNA agrees to place \$1,028,000 of its applicable guarantee period administrative service fees at risk through the Performance Guarantees outlined in this document. The maximum consists of the following amounts by performance category:

1. Management Reporting	\$ 30,000
2. Claims Turnaround Time/12 days	\$360,000
3. Claims Turnaround Time/30 days	\$120,000
4. Financial Accuracy	\$122,000
5. Payment Incidence Accuracy	\$ 72,000
6. Total Claim Accuracy	\$120,000
7. Member Satisfaction	\$ 60,000
8. Abandonment Rate	\$ 60,000
9. Telephone Service Factor	\$ 84,000
Total	\$1,028,000

#### Termination Provisions

Termination of the guarantee obligations shall become effective upon written notice by AETNA in the event of the occurrence of (i), (ii) or (iii) below:

- (i) a material change in the plan initiated by the State or by legislative action that impacts the claim adjudication process, member service functions or network management; An example of a material change is a significant decline in membership so that the majority of claims for the unit are not the State's claims or a transfer of a large portion of the membership to an insured plan.
- (ii) failure of the State to meet its obligations to pay administrative service fees or to fund their bank account as stated in the Administrative Services Contract.
- (iii) the results were significantly impacted by reasonable reliance by AETNA on the State's responsibilities (e.g., incorrect or incomplete eligibility information was provided by the State, etc.). A significant impact refers to an impact such that AETNA's ability to service and meet timely and accurate administration would be seriously impaired.

Further, performance guarantees described herein will only apply to the period in a contract year preceding termination, by the State or by AETNA, if termination is prior to the contract renewal. Upon termination of the contract, the State would have the right to

negotiate continuance of the guarantees for a to be determined period, at a mutually agreeable fee.

#### **Refund Process**

At the end of each guarantee period, AETNA will compile its Performance Guarantees results. If necessary, AETNA will offset administrative service fees by an amount equal to any penalties incurred by AETNA or AETNA will provide a "lump sum" refund. At the State's request, AETNA will provide the performance results and worksheets used to calculate the penalty, if any, for the State's verification of the calculation.

#### **Measurement Criteria**

AETNA's internal quality results for all AETNA unit(s), affiliates, and subcontractors processing the State's claims will be used to determine guarantee compliance for any Financial Accuracy, Payment Incidence Accuracy and Total Claim Accuracy Guarantees. However, if the State prefers to use the results of an independent audit (performed at its own expense) to determine compliance with the performance guarantees, the results from the independent audit performed will be incorporated on a weighted basis with AETNA's internal quality results. The audit handled by the State or its representatives will be conducted in accordance with the audit policy and guidelines mentioned later in this agreement. Each claim transaction audited by the State's auditors will have the same impact on the final results as each claim audited by AETNA.

#### **Customer Audit Guidelines**

##### General Guidelines

Audits of performance guarantees should be completed in the year following the completion of the guarantee period. The State's right to complete a performance guarantee audit is waived if the audit is not completed within the year following the completion of the guarantee period.

AETNA is not responsible for paying the State's audit fees. Any payment by AETNA resulting from the audit must be based upon documented findings agreed to by both parties, and must be solely due to AETNA's actions or inactions.

##### Auditor Qualifications

The State of Alaska will utilize individuals to conduct audits on their behalf who are qualified by appropriate training and experience for such work, will perform their review in accordance with published administrative safeguards or procedures against unauthorized disclosure, in the audit report or otherwise, of any individually identifiable information (including health care information) contained in the claim records to be audited and will not make or retain any record of provider negotiated rates included in the audited transactions, or patient identifying information concerning treatment of drug or alcohol abuse, mental/nervous or AIDS, in connection with any audit. There must be no conflict of interest which would prevent the auditor from performing an independent audit.

Audits of any services to which these guarantees apply are subject to any related proprietary and confidentiality requirements protecting the nature of the data.

#### Audit Coordination

The Service Center Manager(s) must be contacted to initiate an audit. The manager(s) will designate an audit coordinator who will have day-to-day responsibility for coordinating and facilitating the audit.

The State will provide reasonable advance notice of its intent to audit, and complete and sign the Customer Audit Request Form. Further, the State or their representative will provide the Service Center Manager(s), at least four weeks in advance of the audit, with a complete and accurate listing of the transactions to pull for audit. Notification requirements may exceed four weeks for unusually large sample sizes (i.e., greater than 250 transactions). AETNA will communicate these to the State upon receipt of the completed Customer Audit Request Form. AETNA agrees the State reserves the right to review the Customer Audit Request Form and AETNA will discuss any issues to reach a mutual agreement on terms.

#### Identification of Audit Sample

Prior to the audit, the auditors will provide a listing of the transactions selected for testing and the specific performance guarantee for which each item is being tested. The sample must be based on a statistical random sampling methodology [e.g. systematic random sampling, simple random sampling, stratified random sampling (*in determining the appropriateness of the stratification, each stratum should have a relatively small standard deviation, and the weighted sum of the standard deviation should be less than the standard deviation for the entire population*)].

AETNA reserves the right to review and approve the sample size and sampling methodology proposed by the State or their representatives. The State will be charged for any Service Center audit that cannot be completed within 5 days on site or for which the audit sample size exceeds 250 transactions. AETNA will communicate the basis of any charges to the State prior to the audit.

#### Closing Meeting

The auditors will identify, in writing, sample items which they believe to be in error and the nature of the error. This will provide the basis of the discussion to resolve disagreement and a summarization of the audit findings. Only in-sample claim transaction errors will be included in calculating audit results.

#### Account Management

##### Management Reports

Guarantee: AETNA will provide the State with ActInfo management reports within 45 days after the end of the reporting period.

**Penalty and Measurement Criteria:** If the State does not receive their management reports within 45 days after the end of the reporting period, AETNA will reduce its compensation by \$2,000 for each report which is not delivered according to the schedule specified above, to a maximum of \$30,000 annually. AETNA's records will be used to determine if the terms of this guarantee have been met. At the State's request, AETNA will provide those records for review.

#### Claim Administration

##### **Turnaround Time**

**Guarantee:** AETNA will guarantee that the claim turnaround time during the guarantee period will not exceed 12 calendar days for 80% of the processed claims in any month.

**Definition:** AETNA measures turnaround time from the claimant's viewpoint; that is, from the date the claim is received in the service center to the date that it is processed (paid, denied or pending). Weekends and holidays are included in turnaround time.

**Penalty and Measurement Criteria:** If the turnaround time (TAT) exceeds the day guarantee as stated above, AETNA will reduce its compensation by an amount equal to \$2,000 for each full day that Turnaround Time exceeds 12 calendar days for 80% of all claims. There will be a maximum reduction of \$30,000 in any month. Any penalties will be reconciled annually.

A computer generated turnaround time report for the State's specific claims will be provided on a monthly basis.

##### **Turnaround Time (Tier-2)**

**Guarantee:** AETNA will guarantee that the claim turnaround time during the guarantee period will not exceed 30 calendar days for more than 2.5% of the processed claims in any month.

**Definition:** AETNA measures turnaround time from the claimant's viewpoint; that is, from the date the claim is received in the service center to the date that it is processed (paid, denied or pending). Weekends and holidays are included in turnaround time.

**Penalty and Measurement Criteria:** If the turnaround time (TAT) exceeds the day guarantee as stated above, AETNA will reduce its compensation by an amount equal to \$1,000 for each 0.1% that Turnaround Time exceeds 2.5% of all claims. There will be a maximum reduction of \$10,000 in any month. Any penalties incurred will be reconciled annually.

A computer generated turnaround time report for the State's specific claims will be provided on a monthly basis.

#### **Financial Accuracy**

**Guarantee:** AETNA will guarantee that the monthly dollar accuracy of the claim payment dollars will be 99.0% or higher.

**Definition:** Financial accuracy is measured by the dollar amount of claims paid accurately divided by the total dollars paid. AETNA considers each underpayment and overpayment an error; AETNA does not offset one by the other.

**Penalty and Measurement Criteria:** AETNA will reduce its compensation by an amount equal to \$4,000 for each 1.0% that financial accuracy drops below 99.0%. There will be a maximum reduction of \$12,000 in any month not to exceed a maximum of \$122,000 annually. Any penalties incurred will be reconciled annually.

AETNA's audit results for the unit(s), subcontractors and affiliates processing the State's claims will be used to determine guarantee compliance. However, if the State prefers to use the results of an independent audit (performed at its own expense) to determine compliance with the Performance Guarantees, the results from the audit performed by the State of Alaska or their representatives will be incorporated on an weighted basis with AETNA's internal quality results to determine guarantee compliance.

#### **Payment Incidence Accuracy**

**Guarantee:** We will guarantee the monthly payment incidence accuracy will be 97% or higher.

**Definition:** Payment incidence accuracy is measured by the number of correct payments divided by the total number of payments audited.

**Penalty and Measurement Criteria:** AETNA will reduce its compensation by \$2,000 for each 1.0% payment incidence accuracy drops below 97%. There will be a maximum reduction of \$6,000 in any month. Any penalties incurred will be reconciled annually.

AETNA's audit results for the unit(s), affiliates and subcontractors processing the State's claims will be used to determine guarantee compliance. However, if the State prefers to use the results of an independent audit (performed at its own expense) to determine compliance with the Performance Guarantees, the results from the audit performed by the State of Alaska or their representatives will be incorporated on an weighted basis with AETNA's internal quality results to determine guarantee compliance.

#### **Total Claim Accuracy**

**Guarantee:** Aetna will guarantee that the guarantee period overall accuracy of the claim payments will not be less than 90.0%.

**Definition:** Total claim accuracy is measured as the number of claims with no errors (financial and non-financial) divided by the total number of claims audited.

**Penalty and Measurement Criteria:** AETNA will reduce its compensation by \$2,000 for each 1.0% that total claim accuracy drops below 90.0%. There will be a maximum reduction of \$10,000 in any month. Any penalties incurred will be reconciled annually.

Aetna's audit results for the unit(s), affiliates and subcontractors processing the State's claims will be used to determine guarantee compliance. However, if the State prefers to use the results of an independent audit (performed at its own expense) to determine compliance with the Performance Guarantees, the results from the audit performed by the State of Alaska or their representatives will be incorporated on an weighted basis with AETNA's internal quality results to determine guarantee compliance.

### **Member Satisfaction**

**Guarantee:** AETNA will guarantee a positive response rate of 80% or better on the standard AETNA Performance Tracking Process. The survey is based on a randomly selected sample of actively enrolled members aged 18-64. Interviews are conducted on a continuous basis throughout the year.

**Penalty and Measurement Criteria:** AETNA will reduce its compensation by an amount equal to \$6,000 for each 1.0% that the positive response rate drops below 80%. There will be a maximum reduction of \$60,000 for the year. Results of the AETNA Performance Tracking Process will be used as the measurement criteria. These surveys are performed based on statistically valid samples of members, by product across all customers.

### **Member Services**

#### **Total Service Factor (TSF)**

**Guarantee:** AETNA will guarantee that, on a monthly basis, the telephone service factor for the skill providing the State's customer service will not fall below 80% of all calls responded to within 30 seconds.

**Definition:** On an ongoing basis, AETNA measures telephone response time through monitoring equipment which produces a report on the telephone service factor. Total Service Factor measures the speed in which calls are answered by a Customer Service Professionals (CSPs) after being placed in queue by the auto attendant. This does not include the time the caller spent navigating through any auto attendant menus. TSF includes total calls (answered and abandoned) that are offered to CSPs. Interactive Voice Response (IVR) system calls are not included in the measurement of TSF. The TSF measure is reported as a percentage of calls answered within 30 seconds.

**Penalty and Measurement Criteria:** AETNA will reduce its compensation by \$700 for each full percentage point that the cumulative telephone service factor falls below 80% for calls to be answered within 30 seconds, to a maximum reduction of \$7,000 in any month. AETNA's results for the skill providing member service for the State will be used. Any penalties incurred will be reconciled annually.

### **Abandonment Rate**

**Guarantee:** AETNA will guarantee that the monthly average rate of telephone abandonment for the unit(s) providing the State's member services will not exceed 3%.

**Definition:** On an ongoing basis, AETNA measures telephone response time through monitoring equipment that produces a report on the average abandonment rate. The abandonment rate measures the total number of calls abandoned divided by the number of calls accepted into the skill.

**Penalty and Measurement Criteria:** AETNA will reduce its compensation by \$1,000 for each 1.0% that the average abandonment rate exceeds 3%. There will be a maximum reduction of \$5,000 in any month. AETNA's results for the skill(s) providing member services for the State will be used. Any penalties incurred will be reconciled annually.

The following Exhibit K, Network Savings Guarantee is added to the Administrative Services Contract.

#### **EXHIBIT K Network Savings Guarantee**

**Guarantee:** For the period July 1, 2004 through June 30, 2005, AETNA will guarantee the network savings that result from negotiated arrangements with providers participating in our Preferred Provider Organization (PPO) will be a minimum of \$73.37 per employee per month.

**Definition:** AETNA will calculate the actual Network Discount Savings by comparing the providers' billed fee to the negotiated fee within the PPO networks. This measurement will be reported in the Standard Report for Self Insured Medical Products Package entitled "Self Insured PPO with Pharmacy". We also have the option to create Network Savings reports on an ad hoc basis utilizing the allocated ActInfo Reporting hours each year. The reports will be generated on a calendar year basis.

The Network Savings per subscriber per month will be calculated as follows:

$$\frac{\text{[Total Network Discount Savings]}}{\text{[July 1, 2004 - June 30, 2005 Average Enrollment]}} / 12$$

The network savings will be calculated based on claims from participating providers and is based on allowed amounts. Claims where Medicare is primary or Coordination of Benefits (COB) is involved are excluded from the calculation. Reasonable & Customary savings and National Advantage Program savings for participating providers are included. The billed amount used in the calculation of network discount savings excludes ineligible charges, duplicate claims and pending claims, or subrogation amounts.

**Penalty:** If the actual network savings is below \$73.37 per employee (combined active employee and retiree) per month, AETNA will not collect the additional service fees due as a result of the difference between the Regular Monthly Billed Service Fees and the

Maximum Service Fees outlined below. If actual savings are \$73.37 per employee per month or more, the additional fees, based on the Service Fees outlined below, will be due AETNA.

Regular Monthly Billed Service Fees

Active Medical/Dental	\$42.09 per active employee per month
Retiree Medical	\$28.51 per retiree per month
Retiree DVA	\$ 4.22 per retiree per month

Maximum Service Fees if Network Savings are met

Active Medical	\$39.87 per active employee per month
Active DVA	\$ 2.92 per active employee per month
Retiree Medical	\$30.80 per retiree per month
Retiree DVA	\$ 2.67 per retiree per month

The Network Savings Guarantee applies only to the in-network claims and will remain in force during the period July 1, 2004 through June 30, 2005. A reconciliation of the guarantee will occur in conjunction with the annual State of Alaska Financial Accounting which occurs 90-120 days after the end of the July 1, 2004 through June 30, 2005 Contract Year.

Maximum Amount of AETNA Revenue Recovery

Should the Financial Accounting validate savings beyond \$73.37 per active and retired employee, the State shall pay Aetna additional funds not to exceed the difference between the Maximum Service Fees and the Regular Monthly Billed Service Fees calculated on a per employee per month basis and determined by actual enrollment for the July 1, 2004 through June 30, 2005 contract year.

All network savings achieved during July 1, 2004 through June 30, 2005 shall accrue to the State and shall not be limited in amount.

The following examples illustrate the maximum amount of additional fee revenue Aetna may receive.

Assumptions (Examples 1-5):

- 5,266 active employees enrolled in medical and DVA
- 27,781 retirees enrolled in medical
- 18,024 retirees enrolled in DVA

\$13,076,922 Regular Monthly Billed Service Fees July 1, 2004 through June 30, 2005  
\$13,549,332 Maximum Service Fees due July 1, 2004 through June 30, 2005  
\$472,410 Maximum additional Service Fees due

*Example 1:*

Amount of documented network savings:	\$31,000,000
Guaranteed network savings (33,047 employees x \$73.37 x 12 mos.):	\$29,095,901
Additional network savings available to fund service fees:	\$1,904,099
Additional service fees paid to Aetna:	\$472,410

*Example 2:*

Amount of documented network savings:	\$30,000,000
Guaranteed network savings (33,047 employees x \$73.37 x 12 mos.):	\$29,095,901
Additional network savings available to fund service fees:	\$904,099
Additional service fees paid to Aetna:	\$472,410

*Example 3:*

Amount of documented network savings:	\$29,300,000
Guaranteed network savings (33,047 employees x \$73.37 x 12 mos.):	\$29,095,901
Additional network savings available to fund service fees:	\$204,099
Additional service fees paid to Aetna:	\$204,099

*Example 4:*

Amount of documented network savings:	\$29,100,000
Guaranteed network savings (33,047 employees x \$73.37 x 12 mos.):	\$29,095,901
Additional network savings available to fund service fees:	\$4,099
Additional service fees paid to Aetna:	\$4,099

*Example 5:*

Amount of documented network savings:	\$29,000,000
Guaranteed network savings (33,047 employees x \$73.37 x 12 mos.):	\$29,095,901
Additional network savings available to fund service fees:	\$0
Additional service fees paid to Aetna:	\$0

Assumptions (Examples 6-10):

- 5,400 active employees enrolled in medical and DVA
- 28,500 retirees enrolled in medical
- 18,024 retirees enrolled in DVA

- \$13,390,587 Regular Monthly Billed Service Fees July 1, 2004 through June 30, 2005
- \$13,883,881 Maximum Service Fees due July 1, 2004 through June 30, 2005
- \$493,294 Maximum additional Service Fees due

*Example 6:*

Amount of documented network savings:	\$32,000,000
Guaranteed network savings (33,900 employees x \$73.37 x 12 mos.):	\$29,846,916
Additional network savings available to fund service fees:	\$2,153,084
Additional service fees paid to Aetna:	\$493,294

*Example 7:*

Amount of documented network savings:	\$31,000,000
Guaranteed network savings (33,900 employees x \$73.37 x 12 mos.):	\$29,846,916
Additional network savings available to fund service fees:	\$1,153,084
Additional service fees paid to Aetna:	\$493,294

*Example 8:*

Amount of documented network savings:	\$30,200,000
Guaranteed network savings (33,900 employees x \$73.37 x 12 mos.):	\$29,846,916
Additional network savings available to fund service fees:	\$353,084
Additional service fees paid to Aetna:	\$353,084

*Example 9:*

Amount of documented network savings:	\$30,000,000
Guaranteed network savings (33,900 employees x \$73.37 x 12 mos.):	\$29,846,916
Additional network savings available to fund service fees:	\$153,084
Additional service fees paid to Aetna:	\$153,084

*Example 10:*

Amount of documented network savings:	\$29,000,000
Guaranteed network savings (33,900 employees x \$73.37 x 12 mos.):	\$29,846,916
Additional network savings available to fund service fees:	\$0
Additional service fees paid to Aetna:	\$0

**Network Discount Savings – Verification and Reconciliation**

To assist the State of Alaska in the Network Saving Verification and reconciliation process, AETNA shall furnish to the State or others as designated by the State, a triangulation report of network savings by month for its combined Active and Retiree Plan Participants. The reporting time period of the triangulation report shall correspond to that used in the State's Annual Financial Accounting. The reporting definition of Network Discount Savings used in this triangulation report shall correspond to that contained in this exhibit. There shall be no charge for the triangulation report to the State provided the frequency of the report request is no greater than (3) times during the current Contract Year. Data needs beyond the triangulation report that may be deemed necessary by the State for the Network Savings Verification and Reconciliation will be addressed as agreed upon by both parties.

Attachment A, Custom Services and Additional Services (Direct Charges) is amended to read:

### *Custom Services*

- Claim fiduciary – this charge is for potential litigation related to non-ERISA groups and assumes there is a clear contractual distinction that the State is the claim fiduciary.
- Occupancy charge for Juneau and Anchorage offices.
- Medical Management, including Patient Management
- National Accounts Aetna Integrated Informatics program (50 hours of consulting time)
- Custom ID cards
- Welcome kits for new members only
- Website creation and maintenance
- Vendor fees for Magellan Behavioral Health and VSP
- Informed Health Line

### **Additional Services (Direct Charges)**

The Administrative Fees exclude provision for certain additional services which may be requested by the State and any non-recurring charges. These services include, but are not limited to:

- Printing expenses and postage
- Processing of additions/changes in benefit plans
- Plan revision activity and restructure charges
- Special claim analysis and financial experience monitoring reports
- Custom reports
- Aetna Integrated Informatics consulting time in excess of 50 hours
- Non-standard eligibility charges
- Customized claim and enrollment forms
- Medical conversion charges
- Late payment charges
- Late wire charges
- Aetna Pharmacy Management Direct Member Reimbursement (DMR surcharges)
- Informed Health Line Handbooks
- Claim payments submitted by VSP
- Individual Billing & Administration charges (installation or restructure fees, HIPAA Certification Notices, specialized services)
- Long Term Care medical underwriting charges

Charges for additional services anticipated to exceed \$3,000 per quarter (\$12,000 annually) will be directly billed as the services are rendered.

The guaranteed service fees exclude provision for non-standard/direct charges that may be requested by the State (other than specified above). To the extent the estimated cost of an additional service is greater than \$1,000, AETNA will provide the State with documentation of these non-standard service requests to apprise the State of the additional cost and obtain the State's approval to proceed with providing these services. The charge(s) for these additional services will be direct billed during the contract period.

Additional direct charges not collected during the year will be reconciled in conjunction with the year end accounting and may result in an adjustment to the final administration charge.

The following Exhibit L, Rebate Guarantee is added to the Administrative Services Contract.

#### **EXHIBIT L Rebate Guarantee**

**Rebate Guarantee:** For the period from July 1, 2004 through June 30, 2005 ("guarantee period"), AETNA guarantees to the State of Alaska a return of \$2,000,000 subject to the terms and conditions of this document. The mature rebate payable to the State for purposes of this guarantee will be realized no later than 10 months following the end of the guarantee period. The State will make an adjustment to their service fee bill in the amount of \$166,666.67 each month.

**Conditions of Guarantee:** The following conditions apply to this guarantee:

- This guarantee only applies to the managed pharmacy claims dispensed during the guarantee period and will remain in force during the July 1, 2004 through June 30, 2005 Contract Year.
- AETNA reserves the right to make appropriate changes to this guarantee if there are any changes to the current or proposed benefit plans and plan design (we have assumed dual copay and coinsurance plan designs), if there are significant changes in the population (i.e. geographic, demographic, or eligible mix), if there exists movement of a significant drug from a brand to a generic status, or if there is a change in government laws or regulations which have a significant impact on pharmacy claim costs.
- A total of 33,047 employees are expected to be enrolled in the APM product. A change of greater than 15% of this enrollment may allow AETNA to revisit the structure or conditions of this guarantee. A change of greater than 50% of this enrollment may allow AETNA to revoke this guarantee.

- Scripts, excluding rejects/denials, of 29.4 per employee per year are projected for the guarantee period. Should actual scripts be +/- 15% from this assumption, this guarantee may be revised or adjusted.
- AETNA reserves the right to terminate this guarantee prior to the end of any Contract Year for which it is offered if (a) there is legal, legislative or regulatory action that materially affects or could affect the manner in which AETNA conducts its rebate program, (b) material manufacturer volume discount contracts with AETNA are terminated or modified in whole or in part, (c) the rebates actually received under material manufacturer volume discount contract is less than the level of rebates assumed in the contracts by AETNA for the applicable Contract Year.
- If (a) the State terminates the Agreement prior to the date the APM rebate check is issued, or (b) the Agreement is terminated by AETNA for State's failure to meet its obligations to fund benefits or pay medical or pharmacy administrative fees under the Agreement, AETNA will be entitled to deduct deferred administrative fees other plan expenses due to the termination date from any rebate check due State following the termination date.
- Validation of this guarantee will be on or after we have collected 90 percent of rebates for the guarantee period, expected within 10 months following the end of the guarantee period. This is necessary due to the time lag in the drug manufacturers' invoicing process.
- The script count used to validate this guarantee will be reported using pharmacy data from AETNA's Integrated Informatics database. Scripts will exclude rejected claims or reversals/denied claims.
- If there is any legal action, law or regulation which prohibits or could prohibit the continuance of the Rebate Program or an existing law is interpreted to prohibit the program, the program and guarantee shall terminate automatically as to the state or jurisdiction of such law or regulation on the effective date of such law, regulation or interpretation.

# Retiree Medical Insurance

2-8-05

The following table summarizes the monthly premium per benefit recipient since retiree medical benefits have been provided under PERS and TRS.

Time Period	Monthly Premium Per Retiree For Health Coverage	Annual Percentage Change	Average Compound Annual Increase Since FY78
2/1/76-1/31/77	\$ 34.75	--	--
2/1/77-1/31/78	57.64	66%	--
2/1/78-1/31/79	69.10	20%	20%
2/1/79-1/31/80	64.70	-6%	6%
2/1/80-1/31/81	96.34	49%	19%
2/1/81-1/31/82	96.34	0%	14%
2/1/82-1/31/83	115.61	20%	15%
2/1/83-1/31/84	156.07	35%	18%
2/1/84-1/31/85	191.85	23%	19%
2/1/85-1/31/86	168.25	-12%	14%
2/1/86-1/31/87	165.00	-2%	12%
2/1/87-1/31/88	140.25	-15%	9%
2/1/88-1/31/89	211.22	51%	13%
2/1/89-1/31/90	252.83	20%	13%
2/1/90-1/31/91	243.98	-4%	12%
2/1/91-1/31/92	243.98	0%	11%
2/1/92-1/31/93	226.90	-7%	10%
2/1/93-1/31/94	309.72	37%	11%
2/1/94-1/31/95	336.05	9%	11%
2/1/95-1/31/96	350.50	4%	11%
2/1/96-1/31/97	350.50	0%	10%
2/1/97-1/31/98	368.00	5%	10%
2/1/98-12/31/98	368.00	0%	9%
<u>1/1/99-12/31/99</u>	<u>442.00</u>	20%	10%
1/1/00-12/31/00	530.00	20%	10%
1/1/01-12/31/01	610.00	15%	10%
1/1/02-12/31/02	668.00	10%	10%
1/1/03-12/31/03	720.00	8%	10%
<u>1/1/04-12/31/04</u>	<u>806.00</u>	12%	10%

~~Handwritten notes and scribbles, including the name "Hester" and other illegible text.~~

Division of Retirement and Benefits

Merced Human Resource Consultants/Actuary