

TENNESSEE STATE GROUP INSURANCE PROGRAM



ANNUAL REPORT
2016



Tennessee Department of Finance and Administration.
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STATE OF TENNESSEE
DEPARTMENT OF FINANCE AND ADMINISTRATION
BENEFITS ADMINISTRATION
1900 William R. Snodgrass Tennessee Tower
312 Rosa L. Parks Avenue
Nashville, TN 37243

Larry B. Martin
COMMISSIONER

Laurie Lee
EXECUTIVE DIRECTOR

December 31, 2017

Ladies and Gentlemen:

We are pleased to submit the 2016 Annual Program and Financial Report for Benefits Administration. Under the direction of the State, Local Education and Local Government Insurance Committees, this division of the Department of Finance and Administration manages insurance benefits for more than 140,000 employees and 32,740 Medicare-eligible retirees and their families from public sector organizations in Tennessee. At the end of 2016, the state-sponsored plans provided health insurance coverage to more than 312,000 individuals.

The data presented here demonstrate program, statistical and financial trends for the plans. The financial statements reflect the fiscal year ended June 30, 2016.

While the State Group Insurance Program sponsors the coverages and programs reviewed in this report, we work in partnership with 14 contractors and a number of other state agencies to deliver services to program members. The results reported here reflect their contributions and the leadership of the Insurance Committees.

Sincerely,

Laurie S. Lee, Executive Director

Larry B. Martin, Commissioner

Overview

Benefits Administration operates within the State of Tennessee's Department of Finance and Administration. The division administers health, dental, vision, life and long-term care insurance coverages for more than 312,000 public sector employees, retirees and their eligible dependents.

In addition to insurance coverages, the Division also administers an employee assistance program (EAP) and integrated disease management and wellness programs. These related programs complement insurance programs by educating employees and their families about prevention and behaviors that can affect their mental and physical health.

State Group Insurance Program participants include state government and higher education employees, as well as employees of local school systems and local government agencies who choose to participate in one of the state-sponsored plans. Various quasi-governmental and eligible non-profit agencies receiving state support may also elect to participate in the Local Government plan.

In 2016, the state offered all members three health insurance options — the Partnership PPO, Standard PPO and HealthSavings Consumer-driven Health Plan or CDHP. Members have the choice of two medical insurance carriers — BlueCross BlueShield of Tennessee (BCBST) or Cigna.

A fourth option was available to participants in the Local Education and Local Government plans. The Limited PPO is a high-deductible plan available statewide with claims and networks administered by BCBST or Cigna.

The Division contracts separately with CVS/caremark for prescription drug coverage and Magellan Health for behavioral health services for all plan options.

The PPOs cover the same services, treatments and products with one important difference — members who choose the Partnership PPO must agree to a partnership promise. The promise requires members to take certain steps to maintain or improve their health. In return, these members pay lower premiums, copays, coinsurance and deductibles and have lower out-of-pocket maximums than those choosing the Standard PPO.

In addition to health insurance, participants in all three plans may enroll in voluntary dental coverage, choosing either the preferred dental plan administered by MetLife or the prepaid plan administered by Cigna.

Voluntary vision coverage is available to all State Plan members. Members in the Local Education and Local Government Plans are also eligible, if coverage is offered by the employing agency. Vision coverage is administered by EyeMed.

The Tennessee Plan, supplemental medical insurance for retirees with Medicare, is available to Medicare-eligible retirees who participate in the Tennessee Consolidated Retirement System (TCRS) and certain higher education retirees who participate in a higher education optional retirement plan. Coverage is administered by POMCO.

State employees are provided with basic term life and accidental death and dismemberment (AD&D) coverage, in addition to voluntary term life and accidental death, underwritten by Minnesota Life (Securian).

Voluntary long-term care insurance is available to all State Plan employees, retirees and eligible family members through MedAmerica Insurance Company. This coverage is also available to Local Education and Local Government Plan members, if offered by the employing agency.

Enrollment Highlights

Total Group Health Lives	279,932
Employees and Retirees:	
State Partnership PPO	46,577
State Standard PPO	19,565
State Wellness HealthSavings CDHP	3,079
State HealthSavings CDHP	338
Local Education Partnership PPO	29,429
Local Education Standard PPO	12,481
Local Education Limited PPO	13,024
Local Education HealthSavings CDHP	735
Local Government Partnership PPO	4,701
Local Government Standard PPO	3,707
Local Government Limited PPO	6,213
Local Government HealthSavings CDHP	387
Total Group Health Contracts	140,236
Voluntary Dental Coverage	84,229
Voluntary Life Insurance Products	75,642
Voluntary Long-term Care Coverage	3,026
Voluntary Vision Coverage	54,383
Retiree Supplemental Medical Insurance	32,740

Source: State of Tennessee and Partner Vendors

Governance

The authorization for providing group insurance benefits for public officers, state, local education and local government employees and retirees is found in Chapter 27 of Title 8, Tennessee Code Annotated.

The benefit plans authorized by this legislation are governed separately by three committees identified as the State, Local Education and Local Government Insurance Committees. Members for 2016 are listed at the right.

Each committee represents the interests of the employer(s) and their employees and retirees in financially separate benefit plans.

The responsibilities of each committee can be summarized under four broad areas:

1. To establish the benefit plans offered.
2. To approve premiums necessary to fund plan operations.
3. To provide for the administration of certain plan functions through the selection of contractors and monitoring of vendor performance.
4. To establish and review policy related to eligibility and benefits.

2016 Insurance Committee

Larry B. Martin, Chairman — S, E, G
Commissioner, Department of Finance and Administration

Justin Wilson — S, E, G
Comptroller of the Treasury

David Lillard — S, E, G
State Treasurer

Julie Mix McPeak — S, E
Commissioner, Department of Commerce and Insurance

Rebecca Hunter — S
Commissioner, Department of Human Resources

Todd Campbell — S
Employee Representative

Laura Henderson — S
Employee Representative

April Preston — S
Higher Education Representative

Randy Stamps — S
Tennessee State Employee Association

Senator Randy McNally — S
Chair, Senate Finance, Ways and Means Committee

Representative Charles Sargent — S
Chair, House Finance, Ways and Means Committee

Maryanne Durski — E
Designee, Department of Education

Rebecca Jackman — E
Middle Tennessee Teacher Representative

Janie Holland — E
East Tennessee Teacher Representative

Dane Weaver — E
West Tennessee Teacher Representative

Leigh Mills — E
Tennessee School Boards Association

Kevin Krushenski — G
Tennessee Municipal League

Nathan Brock — G
Tennessee County Services Association

S — State Insurance Committee
E — Local Education Insurance Committee
G — Local Government Insurance Committee

Contract Partners

The division works in partnership with the following entities in the administration of insurance benefits and related administrative functions:

Aon Hewitt

Providing benefits and actuarial consultant services to the division.

BlueCross BlueShield of Tennessee

Providing administration of healthcare coverage for plan members in the Partnership, Standard and Limited Preferred Provider Organizations (PPOs) and the HealthSavings Consumer-driven Health Plan (CDHP).

Cigna

Providing administration of healthcare coverage for plan members in the Partnership, Standard and Limited Preferred Provider Organizations (PPOs) and the HealthSavings Consumer-driven Health Plan (CDHP).

Also providing voluntary prepaid dental insurance to participating plan members statewide.

CVS/caremark

Providing pharmacy benefits for all members enrolled in health coverage.

EyeMed Vision Care

Providing voluntary vision insurance to plan members and their eligible family members.

Healthways

Providing disease management, lifestyle management and wellness program services for all plan members enrolled in health coverage.

Jellyvision Lab

Providing online benefits decision support for members.

Magellan Health

Providing employee assistance program (EAP) services and administration of behavioral health and substance abuse coverage for plan members.

MedAmerica Insurance Company

Providing voluntary long-term care coverage to plan members and their eligible family members who choose to enroll in this coverage.

MetLife

Providing voluntary preferred dental organization insurance to participating plan members statewide.

Minnesota Life (Securian)

Providing basic term life and accidental death and dismemberment (AD&D) insurance, basic dependent life insurance, voluntary term life and AD&D insurance to state plan members.

PayFlex

Providing health savings accounts (HSAs) to members enrolled in the HealthSavings Consumer-driven Health Plan (CDHP).

POMCO

Providing administration of retiree Medicare supplement coverage.

Truven Health Analytics

Providing data warehousing and analytical services to assess healthcare utilization and claims-based costs for our population.

Looking Back

Mission and vision

Benefits Administration provides health insurance benefits to State of Tennessee employees, retirees and dependents as well as certain employees, retirees and dependents from local education agencies, local governments and grantees of the state.

Our Mission:
**Deliver comprehensive,
affordable, dependable and
sustainable benefits**

Our Vision:
Healthy members; peace of mind

Overview

Benefits Administration delivers value to members by implementing conservative and accountable plan design and fiscal policy to sustain a market-competitive benefit. Specifically, the division has a consistent focus on four key levers to deliver value:

1. **Purchasing**— Obtain best pricing through competitive procurements that leverage the state's purchasing power and vendor core competencies
2. **Plan design**— Balance plan target actuarial value and cost with incentives for management of chronic disease
3. **Population health**— Build data-driven health management and wellness supports into the plan design to raise member accountability for health behaviors and improve health outcomes
4. **Pay for value**— Increase the accountability of contractors and providers so that we pay for improved quality and competitive cost, not volume

The year-over-year aggregate premium increases for the State, Local Education and Local Government plans from 2012–2016 have averaged 3.0 percent, 3.0 percent and 3.1 percent, respectively, well below the industry average.

The plans reap the benefits of the integrated population health strategy introduced with the Partnership PPO through consolidated disease management, lifestyle

management and wellness services. We evaluated the impact of the Partnership PPO incentives and population health contract to determine the overall value of this investment to our plans and members. In December 2016, Benefits Administration reported to the Tennessee General Assembly's Joint Government Operations Committee that the population health vendor exceeded return on investment (ROI) targets, as validated by our independent actuary.

Procurements in 2016

In 2016, Benefits Administration conducted the following competitive procurements. The broad statewide network and short and long term disability insurance products are new services for Benefits Administration. All other procurements replaced current contracts that were at the completion of their terms.

Statewide Network— Since 2011, Benefits Administration moved to offer more narrow medical provider networks in exchange for lower cost. In recognition of some members' willingness to pay a higher premium for more choice, the Insurance Committees permitted procurement of a broader statewide network. The committees awarded this contract to Cigna.

The Tennessee Plan — Supplemental medical insurance for retirees with Medicare is available to Medicare recipients who also participate in the Tennessee Consolidated Retirement System (TCRS). The current plan design is a mid-level Part D supplement, and members' premiums are subsidized based on their years of service. The committees awarded this contract to incumbent vendor POMCO.

Employee Assistance Program and Behavioral Health Organization— This contractor manages the mental health benefit offered as a part of a member's medical plan package. The EAP, in addition, provides counseling, financial advice and other lifestyle support benefits. The committees awarded this contract to Optum for a Jan. 1, 2017 start date.

Disability— The State Insurance Committee procured a short and long term disability contract for state and higher education (short term disability only for higher ed) members. This contract represents the first time the state has offered this income protection benefit. Implementation was deferred until 2017 with benefits effective in 2018.

Plan design

Benefit Changes— In 2015, the Insurance Committees approved establishing a Consumer-driven Health Plan or CDHP that went live as the HealthSavings CDHP in 2016. While the plan has higher deductibles and no copays, it features a lower employee premium. The CDHP is designed to give employees more ownership over their healthcare decisions and establishes a pre-tax health savings vehicle.

While the state established a health savings account (HSA) for every HealthSavings CDHP member, the Wellness HealthSavings CDHP allowed members of the State Plan that met and kept their Partnership Promise to take advantage of a \$500 employee only or \$1,000 family contribution made by the state to the member's HSA. HSA funds are portable and remain with the employee should they leave public employment.

The Insurance Committees approved several benefit changes for the Partnership, Standard and Limited PPOs for 2016, including elimination of the network surcharges, expansion of the pharmacy maintenance tier, copay changes for convenience care and urgent care and limits on chiropractic visits.

Partnership Promise— The overall goal of the Partnership Promise is for healthy members to stay healthy and to slow or stop progression of chronic disease in our population. In 2016, members receiving the wellness incentive agreed to:

- Complete the Well-being Assessment (WBA)
- Complete a physician screening form and participate in coaching, if identified for coaching
- Keep contact information updated
- Complete the WBA and biometric screening within 120 days of insurance coverage effective, if a new employee

The Partnership Promise has met or exceeded most metrics for improving population health.

In 2016, members gained access to specific telemedicine services provided through both medical third-party administrators. Telehealth allows members to access healthcare providers remotely for appropriate care and represents an increasingly efficient source for healthcare as technology evolves.

Depression management

The state launched a depression management pilot program, Be Well at Work, in September 2015. Our data indicate that the plans' chronic disease burden places our population at greater risk for depression and for undiagnosed and untreated depression. This

program is expected to improve the appropriate utilization of behavioral healthcare as well as improve the appropriate utilization of medical healthcare in relation to individuals with high healthcare costs.

The Be Well at Work program supplements primary care services for depression with a brief web-based depression screening and, for employees who qualify for the program, provides a specialized evidenced-based telephonic coaching program and primary care collaboration.

Enrollment and services in the pilot program have ended. Final analysis and outcome data will be provided in the fourth quarter of 2017.

Plan funding

Each year staff recommends to the Insurance Committees what the division believes are appropriate insurance premiums to sufficiently fund the plans. Sufficient funding is required to pay claims expenses, pay administrative and program fees to various contractors and establish sufficient reserves to account for claims incurred but not yet reported and claims fluctuation. The premium rate increases implemented in 2016 were recommended by the consulting actuary, Aon Hewitt, and are based on historical costs per contract, assumptions about expected future cost increases, regulatory requirements and salary increases.

For 2016, the Insurance Committees approved a 3.5 percent, 0 percent and 0 percent increase in premiums, for State, Local Education and Local Government respectively. For the period July 1, 2015, to June 2016, the State and Local Government Plans performed better than projected and have an estimated total available solvency reserve above the target solvency reserve set for calendar year 2016. The medical trend was forecast at 6.5 percent for the projections, reflecting the continued cost pressures for health plans.

While the Local Education Plan also maintains a healthy solvency reserve, 2016 saw unprecedented over utilization of the Limited PPO due to some agencies coupling the product with unauthorized "gap" supplemental plans. This caused a draw down in the reserve fund \$30 million in excess of projections.

In 2011, we introduced the concept of premium incentives to engage members in both personal health choices and health purchasing decisions. The surcharge for the Standard PPO incents selection of the Partnership PPO, which is designed to improve member health status. The network surcharges reflect the price variation among provider networks and encourage members to consider less costly providers. For 2016,

there were no changes to the premium surcharges for the Standard PPO. The network surcharges were eliminated for 2016, as carrier discount levels did not reflect clear, significant differences.

Operations

In 2015, our operations team worked closely with member agencies to ensure they had necessary information for the significant reporting requirements under the Patient Protection and Affordable Care Act or PPACA. We continue to identify and manage PPACA-related changes to ensure compliance.

Our service center and communications teams received high scores on our annual agency customer satisfaction survey, even improving slightly over last year's excellent results. And these two teams collaborated to provide in-person agency benefits coordinator (ABC) trainings about our CDHP/HSA product as well as other benefits updates in Nashville, Kingsport, Chattanooga, Knoxville, Dickson Murfreesboro, Jackson and Memphis. This was a significant effort to help agencies understand the benefits options their employees have through the state programs.

Program integrity

In 2016, Benefits Administration restructured the Financial Management and Program Integrity area to enhance its ability to promote compliance, transparency and accountability throughout the Division. In order to accomplish this goal, Benefits Administration reclassified three positions to support financial and member accountability, analytics and vendor accountability.

Financial and Member Accountability develops and implements financial management, appeals processes, member eligibility reviews and recoupment of debts owed to the Division. Analytics and Vendor Accountability develops, organizes and schedules the analysis of claims data and financial information submitted by the third party administrators and ensures that management has the necessary data to make informed decisions.

Ongoing challenges

General medical inflation coupled with the costs associated with high rates of chronic disease in the public sector plans challenge our mission to provide comprehensive and affordable health coverage. This mission is advanced by our goal to keep all stakeholders accountable in this complex equation, which drives the strategies we are implementing.

Our participation in the Governor's Health Care Innovative Initiative represents a new lever to help contain costs. Payment reform's goal is to ultimately revolutionize the healthcare delivery system to focus on paying for value instead of volume, which will benefit provider, patient and payer.

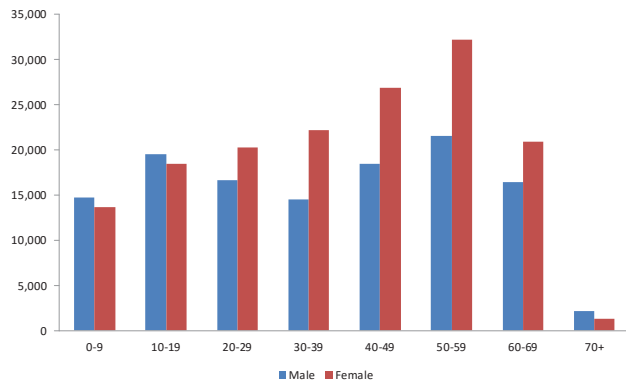
In 2016, Benefits Administration implemented the first stages of the payment-reform program focused on acute care episodes. The program offers incentives for providers to practice high quality, efficient care. In addition, Benefits Administration participates in our Third Party Administrator's primary care initiatives.

In 2016, five local education agencies chose to leave the Local Education Plan, starting in plan year 2017. They will not be eligible to return until the 2019 plan year. This remains an open challenge for Benefits Administration.

Combined Plans

Enrollment Demographics

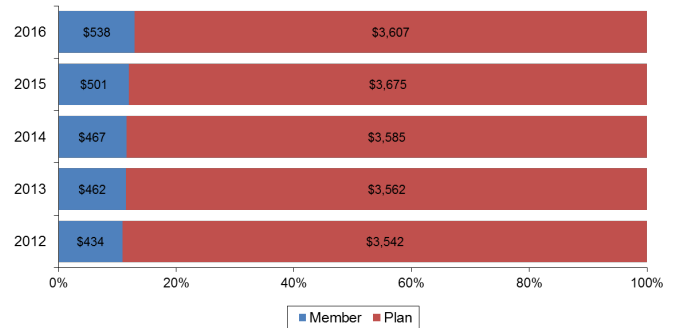
Source: Truven



The largest age group was persons between the ages of 50 and 59 — 53,783 persons or 19 percent.

Per Capita Medical Payments

Source: Truven

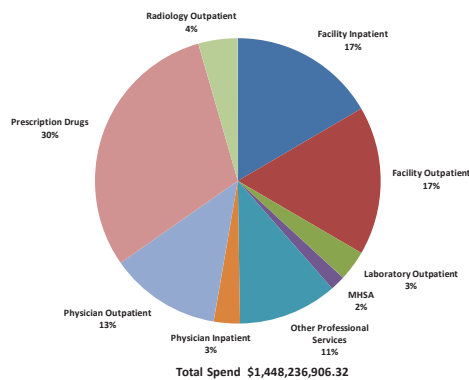


NOTE: Employee portion represents deductibles and coinsurance/copays; percentages indicate portion of medical expenses paid by employee or plan

Member share for medical care increased to 13 percent, with the plan paying the remaining 87 percent.

Payments by Service Category

Source: Truven

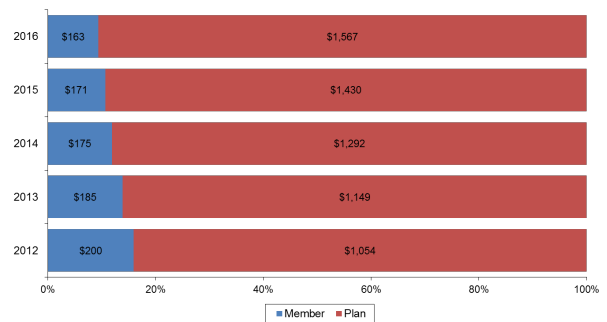


Total payments were more than \$1.44 billion. When broken into service category groups, prescription drugs accounted for the largest amount followed by outpatient facility, inpatient facility and outpatient physician. Prescription drugs' share of total payments has increased from 22 percent in 2011 to 30 percent in 2016.

Service category groups making up the remaining 23 percent of total payments included radiology, laboratory, inpatient physician, mental health services and other professional services.

Per Capita Drug Payments

Source: Truven



NOTE: Percentages indicate portion of pharmacy expense paid by employee and plan

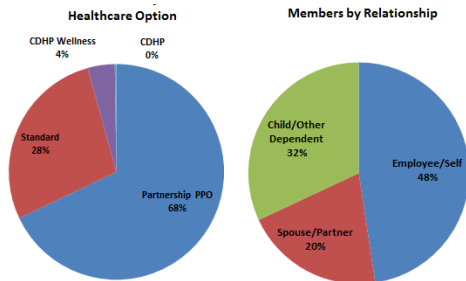
Member out-of-pocket costs for drugs decreased five points to 9 percent in 2016 compared to 16 percent in 2012. The plan paid the remaining 91 percent. Meanwhile, total spending on drug claims has increased 30 percent over the same time period.

State Plan

State employees, University of Tennessee and Board of Regents employees comprise the state plan. As measured by contracts, this plan provided coverage for 69,559 active employees, COBRA participants and qualified retirees — 49.6 percent of total plan membership.

Enrollment Demographics

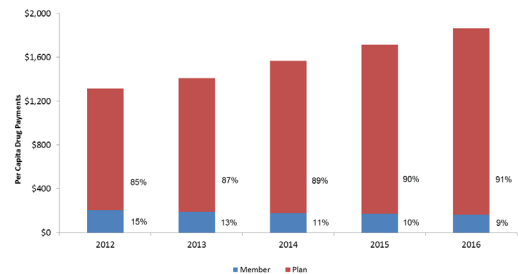
Source: Truven



The majority of state plan members enrolled in the Partnership PPO. To participate, members must agree to take responsibility to engage in maintaining or improving their health. In return, they pay lower premiums and enjoy lower deductibles, copays and coinsurance. Four percent of members enrolled in the Wellness CDHP plan, which provides for a deposit into the members's HSA if they meet the Partnership requirements. 357 members enrolled in the CDHP without the wellness option.

Per Capita Drug Payments

Source: Truven

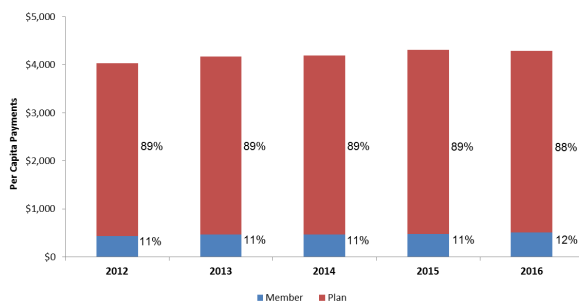


NOTE: Percentages indicate portion of pharmacy expense paid by employee and plan

Per capita payments for drug claims increased 8.7 percent from 2015 and have increased 42 percent since 2012. The plan paid 91 percent of eligible expenses with the remaining 9 percent paid by the member. This is a decrease from the percentage that members paid in 2012 (15 percent paid by the member).

Per Capita Medical Payments

Source: Truven

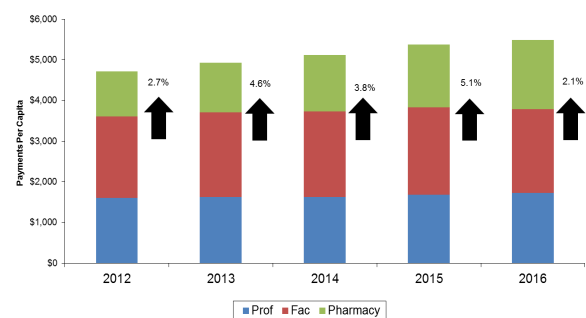


NOTE: Employee portion represents deductibles and coinsurance/copays; percentages indicate portion of medical expenses paid by employee or plan

Total per capita payments for medical claims decreased .5 since 2015 and increased 6.4 percent since 2012. The plan has been able to keep the annual medical cost increase low due to aggressive purchasing and care-management strategies. 2016 is the first year since 2012 that the state plan paid less than 89 percent of eligible expenses.

Total Plan Payments Per Capita by Service Type

Source: Truven



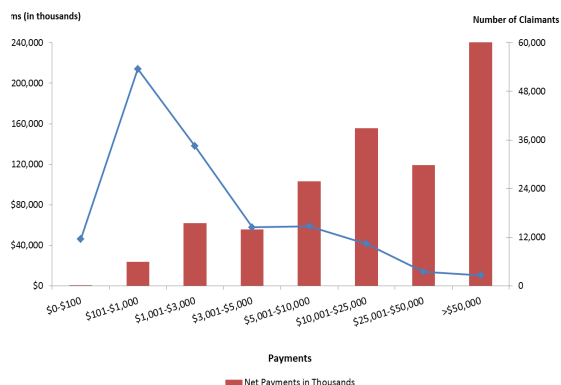
Plan payments for facility services represented 37.5 percent of total claims while payments for professional services made up 31.5 percent. Pharmacy payments accounted for the remaining 31 percent.

There was an increase of 2.1 percent in total benefit payments. Plan payments for facility services decreased by 4.3 percent and payments for professional services and pharmacy increased by 2.6 percent and 10.3 percent, respectively.

The five year increase in plan payments between 2012 and 2016 (16.4 percent) was largely driven by pharmacy increases (53.4% increase) followed by professional services (8%) and facility services (3%).

Paid Claims Distribution by Individual

Source: Truven



In 2016, 16,508 or 11.4 percent of plan members had claims exceeding \$10,000. The average net payment for this group was \$33,832.

There were 2,654 members or 1.8 percent with claims exceeding \$50,000. These members used 35.3 percent of plan benefits at an average net payment of \$106,907 with the other 142,600 members using the remaining 64.7 percent of plan benefits with an average net payment of \$3,645.

Onsite clinic

In 2010, the Department of Finance and Administration assumed responsibility for the employee health clinic from the Department of Health. Benefits Administration rebranded the clinic as the ParTNers for Health and Wellness Center in 2014. The health and wellness center is available to all central state employee plan members. As with the wellness plans, Benefits Administration's contract with the vendor that operates the clinic includes ROI measures. Benefits Administration determined that the health and wellness center's ROI is 2.61.

Voluntary products

Members may choose to participate in voluntary dental insurance. One prepaid dental plan and one preferred dental plan are available. State employees electing dental coverage totaled 58,146 at year end, an increase of 1 percent over 2015.

Voluntary vision coverage is also available to all state plan members — one basic plan and one expanded plan. A total of 38,100 members enrolled in coverage.

During 2016, Minnesota Life received more than \$7.205 million in premiums for employee basic term life, basic dependent term life and basic accidental death and dismemberment coverages for both employees and any covered dependents. Expenses reported for 2016 included more than \$7 million in basic term, basic dependent and basic accidental death and dismemberment claims. Administrative fees were \$108,843. Incurred But Not Reported (IBNR) reserve increases were \$40,306. Conversion charges were \$68,839. Adjusted premium for both interest and tax reconciliation was \$96,162.

At 2016 year end, 69,431 employees were covered under the basic term life insurance plan. Spouse and child dependent life covered lives totaled 26,512, and child life only dependent term lives covered 8,966 for a grand total of 104,909 covered lives. There was more than \$2.953 billion in covered life volume. The basic accidental death and dismemberment insurance covered 69,431 employees, with a total of more than \$5.906 billion in covered volume. Dependent basic accidental death and dismemberment covered 35,478, with a total of more than \$1.633 billion in covered volume. The grand total basic accidental death and dismemberment insurance for employees and dependents was more than \$7.539 billion in combined covered volume.

At 2016 year end, 18,556 employees were covered under the voluntary accidental death and dismemberment insurance plan, totaling more than \$1.504 billion in covered volume. Family voluntary accidental death and dismemberment insurance plan covered an additional 6,520 lives, totaling more than \$528.6 million in covered volume. The grand total voluntary accidental death and dismemberment insurance for employees and family was 25,076 lives, with more than \$2.033 billion in combined covered volume.

Employee basic term life benefits exceeded \$5.3 million and were paid on behalf of 136 employees who died during 2016. An additional 11 claims totaling \$902,001 in employee accidental death and dismemberment benefits were provided by the plan.

At 2016 year end, 19,336 employees were covered under the voluntary term life insurance plan, in addition to 8,470 spouses. There were also 12,636 child term riders in effect. The coverage for employees exceeded \$2.459 billion, spouse coverage was more than \$204.8 million, and the child term rider amount was more than \$98.9 million in coverage. Combined premiums for 2016 were more than \$9.7 million, while claims totaled more than \$9.5 million.

The voluntary universal life covered 8,463 current and former employees and 1,608 spouses who maintained \$425 million in coverage. Premiums were \$3.1 million, gross claims payments were \$4.68 million and net claims payments were \$2.5 million. At the end of December, the employee cash value had grown to more than \$75.6 million and spouse cash value to \$3.5 million. Enrollment closed to new members at the end of 2012.

Voluntary long-term care insurance covered 2,359 individuals at year end. Total premium payments exceeded \$2.79 million while claims payments totaled almost \$1.16 million.

Voluntary Insurance Contracts		
	DEC. 31, 2016	DEC. 31, 2015
Dental Insurance		
Prepaid Plan	20,190	19,081
Preferred Dental Plan	37,956	38,030
Total Dental	58,146	57,111
Vision Insurance		
Basic Plan	10,254	8,575
Expanded Plan	27,846	25,283
Total Vision	38,100	33,858
Life Insurance		
Term Life	40,442	42,903
Universal Life	10,071	10,640
Accidental Death	25,076	25,067
Perma Plan	53	62
Total Life	75,642	78,672
Long-term Care		
Employees	1,761	1,726
Retirees	80	80
Eligible Family Members	518	505
Total Long-term Care	2,359	2,311

Source: State of Tennessee and Partner Vendors

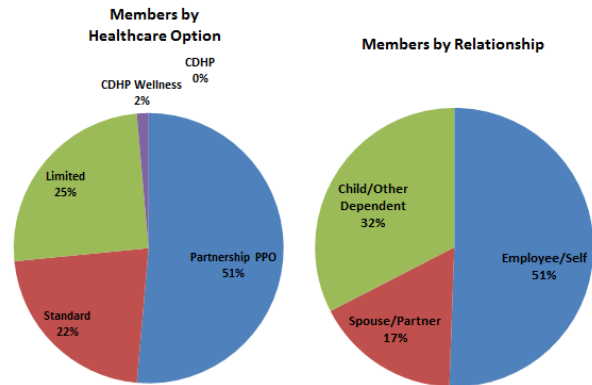
Local Education Plan

School systems within the state may join the local education plan or must provide alternative coverage that is equal or superior to the state-sponsored program. At 2016 year end, 128 school systems and educational co-ops were participating in the local education plan. Plan enrollment was 55,669 — an increase from 55,347 in 2015.

The majority of members enrolled in the Partnership PPO. To participate, members must agree to take responsibility to engage in maintaining or improving their health. In return, they pay lower premiums and enjoy lower deductibles, copays and coinsurance. Two percent of members enrolled in the Wellness CDHP plan. No members enrolled in the CDHP without the wellness option. Limited PPO in 2016 contributed to the increase in member cost share. The plan has been able to keep the annual cost increase low due to aggressive purchasing and care-management strategies.

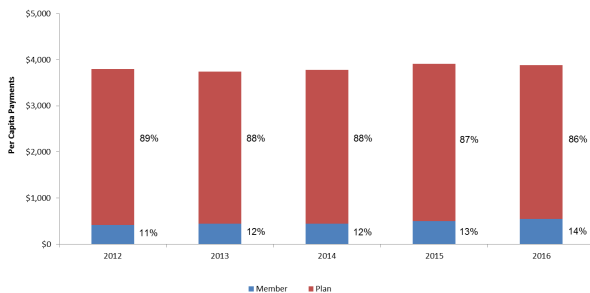
Enrollment Demographics

Source: Truven



Per Capita Medical Payments

Source: Truven

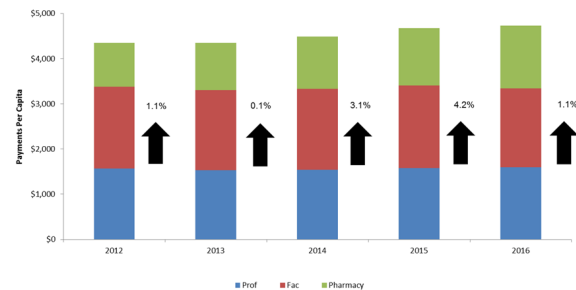


NOTE: Employee portion represents deductibles and coinsurance/copays; percentages indicate portion of medical expenses paid by employee or plan

Total per capita payments for medical claims decreased 0.8 percent since 2015 and increased 2 percent since 2012. During this period, the members' share of eligible expenses increased three points from 11 percent to 14 percent. Increased enrollment in the higher-deductible Limited PPO in 2016 contributed to the increase in member cost share. The plan has been able to keep the annual cost increase low due to aggressive purchasing and care-management strategies.

Plan Payments Per Capita by Service Type

Source: Truven



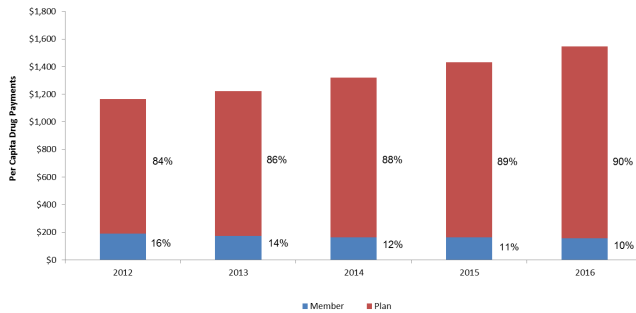
Plan payments for facility services represented 33.8 percent of total claims while payments for professional services made up 36.8 percent. Pharmacy payments accounted for the remaining 29.4 percent.

There was an increase of 1.1 percent in spending on total benefit payments between 2015 and 2016. Plan payments for facility services increased 1.6 percent and payments for professional services decreased 5.24 percent. Payments for pharmacy increased by 9.8 percent.

The five year change in plan payments between 2012 and 2016 showed a total increase of 8.7 percent, with payments for facility services decreasing by 3.8 percent, professional services increasing by 1.9 percent and pharmacy services increasing by 42.7 percent.

Per Capita Drug Payments

Source: Truven

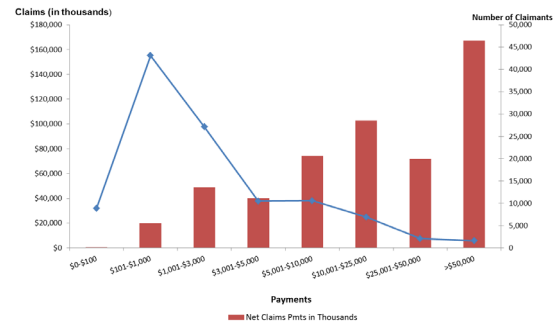


NOTE: Percentages indicate portion of pharmacy expense paid by employee and plan

Total per capita payments for drug claims increased 8.1 percent from 2015 and increased 18 percent since 2012. The plan paid 90 percent of eligible expenses with the remaining 10 percent paid by the member. This compares with 11 percent paid by the member in 2015 and 16 percent paid by the member in 2012.

Paid Claims Distribution by Individual

Source: Truven



In 2016, 10,537 or 9.5 percent of plan members had claims exceeding \$10,000. The average net payment for this group was \$32,477. There were 1,584 or 1.4 percent of total plan members with claims exceeding \$50,000. These members used 31.9 percent of plan benefits at an average net payment of \$105,649 with the other 108,932 members using the remaining 68.1 percent of plan benefits at an average net payment of \$3,281.

Voluntary Insurance Contracts

	DEC. 31, 2016	DEC. 31, 2015
Dental Insurance		
Prepaid Plan	3,033	3,220
Preferred Dental Plan	16,738	17,490
Total Dental	20,041	20,710
Vision Insurance		
Basic Plan	2,599	2,383
Expanded Plan	8,585	7,783
Total Vision	11,184	10,166
Long-term Care		
Employees	466	452
Retirees	28	26
Eligible Family Members	85	62
Total Long-term Care	579	540

Source: State of Tennessee and Partner Vendors

Voluntary products

Dental insurance is available as an option to participants in the local education plan, if offered by their agency. Participation in dental coverage decreased slightly, totaling 20,041. Vision insurance is also available to local education plan members, if their agency chose to participate. A total of 11,184 individuals enrolled in coverage. There were 579 individuals enrolled in voluntary long-term care coverage. Total premium payments were \$722,025 and paid claims were \$15,628.50. Life insurance through the state is not an available option to members in the local education plan.

Local Education Participants

Achievement School District
Alamo City Schools
Alcoa City Schools
Anderson County Schools
Athens City Schools
Bedford County Board of Education
Bells City Schools
Benton County Schools
Bledsoe County Schools
Bradford Special School District
Bradley County Board of Education
Bristol City Schools
Campbell County Schools
Cannon County Schools
Carroll County Schools
Carter County Schools
Cheatham County Schools
Chester County Schools
Clay County Schools
Cleveland City Schools
Clinton City Schools
Cocke County Schools
Coffee County Schools
Crockett County Schools
Cumberland County Schools
Dayton City Schools
Decatur County Schools
DeKalb County Schools
Dickson County Board of Education
Dyer County Schools
Dyersburg City Schools

Elizabethton City Schools
Etowah City Schools
Fayette County Schools
Fayetteville City Schools
Fentress County Schools
Franklin County Schools
Franklin Special School District
Frayser Community Schools
Gibson County Schools
Giles County Schools
GRAD Restart Academies
Grainger County Schools
Greene County Schools
Greenville City Schools
Grundy County Schools
Hamblen County Schools
Hancock County Schools
Hardeman County Schools
Hardin County Schools
Hawkins County Schools
Haywood County Schools
Henderson County Schools
Henry County Board of Education
Hickman County Schools
Hollow Rock – Bruceton Special School District
Houston County Schools
Humboldt City Schools
Humphreys County Schools
Huntingdon Special Schools
Jackson County Schools
Jackson-Madison County Board of Education
Jefferson County Schools
Johnson County Board of Education

KIPP Memphis Collegiate Schools
Knox County Schools
Lake County Schools
Lauderdale County Schools
Lawrence County Schools
LEAD Public Schools
Lebanon – Special School District
Lenoir City Schools
Lewis County Schools
Lexington City Schools
Lincoln County Schools
Little TN Valley Education Co-op
Loudon County Schools
Macon County Schools
Manchester City Schools
Marion County Schools
Marshall County Board of Education
Maury County Schools
McKenzie Special School District
McMinn County Schools
McNairy County School System
Meigs County Board of Education
Milan Special School District
Monroe County Board of Education
Moore County Schools
Morgan County Schools
Murfreesboro City Schools
Newport City Schools
Oak Ridge City Schools
Obion County Schools
Oneida Special School District
Overton County Schools

Paris Special School District
Perry County Schools
Pickett County Schools
Polk County Board of Education
Putnam County Schools
Rhea County Schools
Richard Hardy Memorial School
Roane County Schools
Robertson County Schools
Rogersville City Schools
Scott County Schools
Sequatchie County Schools
Sevier County Schools
Smith County Schools
South Carroll Special School District
Stewart County Schools
Sullivan County Board of Education
Sweetwater City Schools
Tipton County Schools
Trenton Special School District
Trousdale County Schools
Tullahoma City Schools
Unicoi County Schools
Union City Schools
Union County Schools
Van Buren County Schools
Warren County Schools
Washington County Schools
Wayne County Schools
Weakley County Schools
West Carroll Special School District
White County Schools

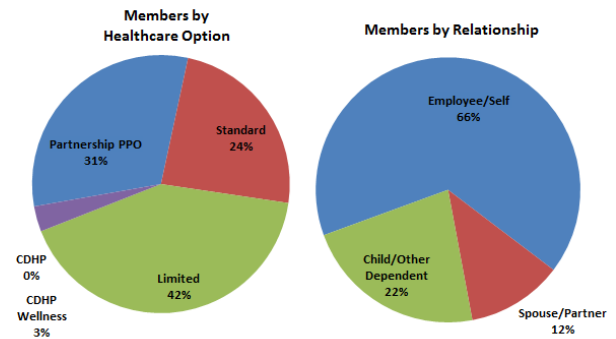
Local Government Plan

In 1989, the Tennessee General Assembly authorized creation of an insurance plan for local government agency and quasi-governmental agency employees. At 2016 year end, 359 counties, cities and quasi-governmental agencies were participating in the local government plan. Plan enrollment as measured by contracts was 15,008 at year end — an increase from 12,858 in 2015.

The majority of members enrolled in the Partnership PPO. To participate, members must agree to engage in maintaining or improving their health. In return, they pay lower premiums and enjoy lower deductibles, copays and coinsurance. The percent of members enrolled in the Limited PPO increased from 34 percent in 2015 to 42 percent in 2016. Three percent of members enrolled in the Wellness CDHP plan. No members enrolled in the CDHP without the wellness option.

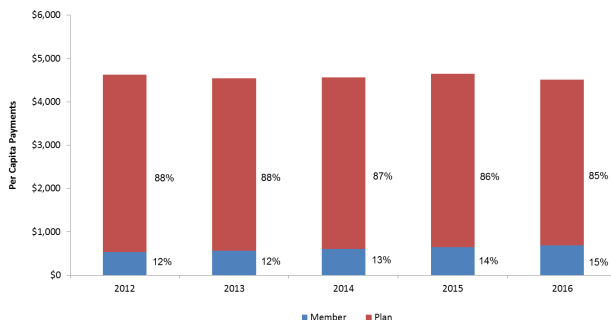
Enrollment Demographics

Source: Truven



Per Capita Medical Payments

Source: Truven

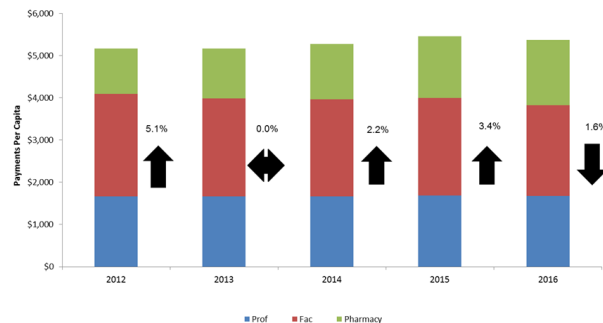


NOTE: Employee portion represents deductibles and coinsurance/copays; percentages indicate portion of medical expenses paid by employee or plan

Total per capita payments for medical claims decreased 1.3 percent from 2015 and 2.4 percent from 2012. In 2016, the plan paid 85 percent of eligible expenses and the member paid 15 percent. The plan has been able to keep the annual medical cost increase low due to aggressive purchasing and care-management strategies.

Plan Payments Per Capita by Service Type

Source: Truven



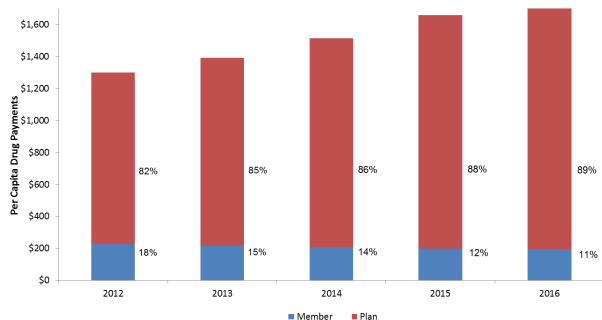
Plan payments for facility services represented 31.2 percent of total claims while payments for professional services made up 40 percent. Pharmacy payments accounted for the remaining 28.8 percent.

There was a decrease of 1.6 percent in total benefit payments. Plan payments for facility services decreased by 0.9 percent and payments for professional services decreased by 6.7 percent. Payments for pharmacy increased by 5.7 percent.

The five year change in plan payments between 2012 and 2016 showed a total increase of 4.0 percent, with payments for facility services decreasing by 11.46 percent, professional services increasing by .8 percent and pharmacy increasing by 46 percent.

Per Capita Drug Payments

Source: Truven

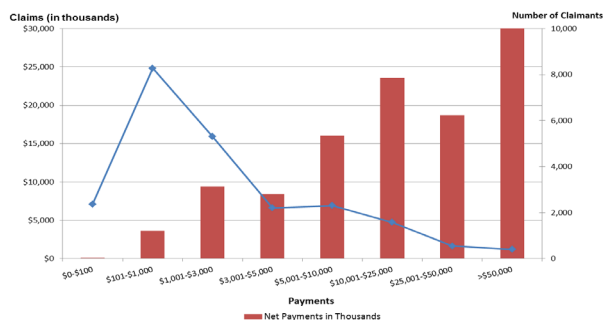


NOTE: Percentages indicate portion of pharmacy expense paid by employee and plan

Total per capita payments for drug claims increased 4.8 percent since 2015 and increased 33.9 percent since 2012. The plan paid 89 percent of eligible expenses with the remaining 11 percent paid by the member as compared with 82 percent paid by the plan and 18 percent paid by the member in 2012.

Paid Claims Distribution by Individual

Source: Truven



In 2016, 2,526 or 11 percent of total plan members had claims exceeding \$10,000. The average net payment for this group was \$32,613.

There were 397 members or 1.7 percent with claims exceeding \$50,000. These members used 33.4 percent of plan benefits at an average net payment of \$101,011, with 22,575 members using the remaining 66.6 percent of plan benefits at an average net payment of \$3,537.

Voluntary Insurance Contracts

	DEC. 31, 2016	DEC. 31, 2015
Dental Insurance		
Prepaid Plan	1,475	1,226
Preferred Dental Plan	4,567	4,474
Total Dental	6,042	5,700
Vision Insurance		
Basic Plan	993	852
Expanded Plan	4,106	3,537
Total Vision	5,099	4,389
Long-term Care		
Employees	76	75
Retirees	0	0
Eligible Family Members	12	12
Total Long-term Care	88	87

Source: State of Tennessee and Partner Vendors

Voluntary products

Dental insurance is available as an option to participants in the local government plan, if offered by their agency. Participation in dental coverage increased from 5,700 in 2015 to 6,042 in 2016. Vision insurance is also available to local government plan members, if their agency chose to participate. A total of 5,099 individuals enrolled in coverage. There were 88 individuals enrolled in voluntary long-term care coverage. Total premium payments were \$104,363 and paid claims were \$13,350. Life insurance is not an available option through the state to members in the local government plan.

Local Government Participants

Aging Services of the Upper Cumberland
Aid to Distressed Families of Appalachian Counties
AIM Center, Inc.
Alamo, City of
Alpha-Talbot Utility District
Anderson County CAC
Appalachian Education Community Corp.
ARC of Davidson County
ARC of Washington County
ARC of Williamson County
Atoka, Town of
Atwood, Town of
Avalon Center
Bangham Utility District of Putnam and Jackson Counties
Bedford County
Behavioral Health Initiatives
Belle Meade, City of
Bells, City of
Benton County Highway
Bethlehem Centers of Nashville
Better Decisions
Big Creek Utility District
Big Sandy, City of
Blaine, City of
Blakemore United Methodist Childrens Center
Bledsoe County
Blount Partnership
Blountville Utility District
Bondecroft Utility
Bountiful Basket Nutrition Program
Bradley/Cleveland Services
Bridges of Williamson County
Bruceton, Town of
Burns, City of
Cagle-Fredonia Utility District
Camden, City of
Campbell County 911
Care of Savannah, Inc.
Carey Counseling Center
Carroll County
Carroll County Highway
Carthage, Town of
Caryville – Jacksboro Utility
Caryville, Town of
CASA, Inc.

Castalian Springs – Bethpage Utility District
CEASE, Inc.
Center for Independent Living of Middle TN
Center for Living and Learning
Cerebral Palsy Center
Chattanooga Housing Authority
Chester County
Chester County Highway
Children's Advocacy Center
Children's Advocacy Center, 31st JD
City of Michie Water Systems
Clarksville Housing Authority
Clarksville/Montgomery County CAA
Clearfork Utility District
Clifton, City of
Clinchfield Senior Adult Center
Clinch-Powell Educational Cooperative
Cocaine Alcohol Awareness Program
Cocke County
Cocke County 911
Cocke County Highway
Coffee County
Community Development Center
Community Foundation of Middle TN
Cookeville Boat Dock Utility
Coopertown, Town of
Cordell Hull Utility District
Core Services of Northeast TN
Cornerstone
County Officials Association of TN
Crab Orchard Utility District
Crockett County
Crockett County Highway
Crockett County Public Utility District
Cross Plains, City of
Cumberland Community Options, Inc.
Cumberland County
Cumberland Utility District
Dandridge, Town of
Dayton, City of
Decatur County
Decatur County Highway
Decherd, City of

Dekalb County
Dekalb County 911
DeWhite Utility District
Disability Resource Center
Dismas, Inc.
Dover, Town of
Duck River Utility Commission
Dyersburg Housing Authority
Dyersburg Suburban Consolidated Utility District
Eagleville, City of
East TN Development District
Easter Seals of TN
Eastside Utility District
Empower TN
Engstrom Services, Inc.
Erin, City of
Erin Housing Authority
Estill Springs, Town of
Etheridge, City of
Fairview Utility District
Fayette County
Fayette County 911
Fayette County Public Works
Fayetteville Housing Authority
Fentress County
Fentress County Emergency Communications District
Fifty Forward
First Utility District of Hardin County
First Utility District of Hawkins County
First Utility District of Tipton County
Forest Hills, City of
Franklin County
Franklin County Adult Activity Center
Franklin County Consolidated Housing Authority
Franklin County Highway
Friendship, City of
Gainesboro, Town of
Gibson County Municipal Water District
Giles County
Giles County 911
Gladeville Utility District
Gleason, City of
Good Neighbor Mission and Crisis Center
Goodwill Industries Knoxville, Inc.
Gordonsville, Town of

Gorham MacBane Library
Grundy County Highway
Grundy Housing Authority
Habilitation and Training Services
Hancock County
Hardeman – Fayette Utility District
Hardin County
Hardin County 911
Hardin County Skills, Inc.
Hartsville/Trousdale County
Hartsville/Trousdale Water and Sewer Utility
Henderson, City of
Henderson County
Henderson County Highway
Highland Rim Economic Corporation
Hixson Utility District
Hohenwald, City of
Hohenwald Housing Authority
Homesafe of Sumner, Wilson and Robertson County
Hope of East TN
Houston County Highway
Humboldt, City of
Humboldt Housing Authority
Humphreys County 911
Huntingdon, Town of
Impact Center, Inc.
Jacksboro, Town of
Jackson Area Council on Alcohol and Drug Dependence
Jackson Center for Independent Living
Jamestown, City of
Jason Foundation
Jasper, Town of
Jefferson City Housing
Jefferson County
Jefferson County 911
Johnson County
Johnson County 911
Journeys in Community Living
Jubilee Community Arts
Kimball, Town of
Kings Daughters Day Home
Kingston, City of
Kingston Springs, Town of
Knoxville-Knox County CAC
Lafayette, City of
Lakesite, City of
Launch Tennessee
Lawrence County

Lawrence County 911	Northeast Henry County Utility	South Central TN Workforce Alliance	TN State Employees Association
Lawrenceburg Housing Authority	Northwest Dyersburg Utility	South Pittsburg, City of	TN State Museum
Lewis County Government	Northwest TN Economic Development Council	South Pittsburg Housing Authority	TN State Veterans Home – Clarksville
Lewis County Highway	Northwest TN Head Start	Southeast Mental Health Center	TN State Veterans Home – Executive Office
Lewisburg Housing Authority	Oak Hill, City of	Southeast TN Development District	TN State Veterans Home – Humboldt
Lexington Electric System	Oak Ridge, City of	Southwest Human Resource Agency	TN State Veterans Home – Knoxville
Lincoln County	Oak Ridge Housing Authority	Southwest TN Development District	TN State Veterans Home – Murfreesboro
Loretto, City of	Obion County	St. Joseph, City of	TN Voices for Children
Loudon County Economic Development Agency	Orange Grove Center	Statewide Independent Living Council of TN	Tracy City Public Utility
Manchester, City of	Overton County	Stewart County	Troy, Town of
Manchester Housing Authority	Overton County Highway	Sullivan County Highway	Tuckaleechee Utility District
Marion County	Overton County Nursing Home	Sullivan County 911	Tullahoma Housing Authority
Marion County Highway	Pegram, Town of	Sullivan County Government	Tullahoma Utilities Board
Marion County 911	Perry County	Surgoinsville Utility District	Unicoi, Town of
Marion Natural Gas	Perry County Highway	TARP, Inc.	United Neighborhood Health Services
Marshall County	Perry County Medical Center	Technology Access Center	Upper Cumberland CSA
McKenzie, City of	Petersburg, Town of	The Development Corp of Knox County	Upper Cumberland Development District
McMinn County Economic Development Authority	Pleasant View, Town of	Tipton County	Upper East TN Human Development Agency
McNairy County Development Services	Portland, City of	Tipton County 911 District	Urban Housing Solutions
McNairy County Highway	Prevent Child Abuse TN	Tiptonville, City of	Vision Coordination
McNeilly Center for Children	Professional Care Services of West TN	TN Alliance for Legal Services	Walden, Town of
Meigs County	Progress, Inc.	TN Association of Alcohol, Drug Addiction Services	Warren County
Memphis Area Association of Governments	Project Return	TN Association of Assessing Officers	Wartrace, Town of
Memphis Area Legal Services	Puryear, City of	TN Association of County Executives	Watertown, City of
Memphis Center for Independent Living	Reelfoot Lake Regional Utility and Planning District	TN Association of Craft Artists	Watertown Sewer Operative and Maintenance, City of
Mental Health Association of Middle TN	Renewal House	TN Association of Rescue Squads	WDVX Cumberland Communications
Meritan, Inc.	Rhea County	TN Association of Utility Districts	Weakley County
Michie, City of	Rhea Medical Center	TN Business Enterprises	Weakley County 911
Mid-Cumberland CAA	Riceville Utility District	TN Central Economic Authority	West Overton Utility
Mid-Cumberland HRA	Roane County	TN Community Services Agency	West TN Forensic Services
Mid-East CAA	Roane County 911	TN County Highway Officials	West TN Legal Services, Inc.
Minor Hill Water Utility District	Samaritan Recovery Community, Inc.	TN County Services Association	West TN Regional Art Center
Monteagle, Town of	Savannah, City of	TN Education Association	West Warren-Viola Utility
Mosheim, Town of	Scotts Hill, Town of	TN Historical Society	Westmoreland, Town of
Murfreesboro Electric Department	Second South Cheatham Utility District	TN Municipal Bond Fund	White Bluff, City of
My Friend's House Family and Children's Services	Sequatchie County	TN Municipal League	Whitwell, City of
NAMI Davidson County	Sequatchie County Highway	TN Municipal League Risk Management Pool	Williamson County Child Advocacy Center
NAMI TN	Sequatchie Valley Planning	TN Organization of School Superintendents	Wilson County ECD 911
Nashville Cares	Serenity Recovery Center	TN Primary Care Association	Witt Utility District
National Healthcare for the Homeless Council	Sexual Assault Center	TN School Boards Association	Woodbury Housing Authority
New Horizons Corporation	Sharon, City of	TN Secondary School Athletic Association	Workforce Solutions
New Johnsonville, City of	Shelby County 911	TN Sports Hall of Fame	
Newbern, City of	Shelby Residential and Vocational Services, Inc.		
Nolensville, Town of	Signal Mountain, Town of		
North Overton Utility District	Skills Development Services, Inc.		
North Utility District of Rhea County	Smith County		
	Smith County Highway		
	South Carthage, Town of		
	South Central TN Development District		

EAP, Behavioral Health & Substance Abuse

The Employee Assistance Program (EAP) provides counseling and referral services for personal and workplace situations, as well as legal and financial counseling. Eligible employees and their dependents may receive up to five counseling sessions per problem episode at no cost to them. The program is available to all state and higher education employees and dependents who are eligible to participate in the state group insurance program. Local education and local government employees and their dependents who participate in a state-sponsored health plan are also eligible.

If more intensive treatment is needed, individuals may receive care through their insurance plan's behavioral health or substance abuse coverage. Magellan provides EAP and Behavioral Health for the state group insurance program.

Summary of EAP services utilization:

- Overall utilization for all EAP services in 2016 increased 10 percent over 2015 - 196.4 per 1,000 compared to 177.2 per 1,000 members. Depression, anxiety, marital, family and interpersonal issues comprise the top reasons for seeking EAP services
- Member satisfaction with the program remained high.
- There were 6,649 unique counseling and consultation users in 2016, slightly above 2015 utilization.
- The website recorded a total of 14,712 user sessions in 2016.
- Management EAP consultations and referrals totaled 44, down 23 percent from 2015.
- There were 10,290 counseling and consultation cases — an increase from 9,381 in 2015.
- There were 111 training programs attended by 2,321 employees. Training programs included employee orientations, supervisory training classes and benefit fairs.

Summary of behavioral health services utilization:

- Outpatient sessions were 113,991 with just over \$4.9 million in claims payments. Sessions of care per 1,000 covered lives were 410.40 up from 403.04 in 2015.
- Intensive outpatient services units were 4,738 with more than \$696,000 in claims payments. Units of care per 1,000 covered lives were 17.06 down from 18.47 in 2015.
- Higher levels of care for behavioral health and substance abuse utilization included a total of 1,244 admissions or 4.48 per 1,000 covered lives, no change from 2015.
- Inpatient acute days were 4,536 with more than \$4.6 million in claims payments. Days of care per 1,000 covered lives were 16.33 up from 15.52 in 2015.
- Residential treatment days were 4,119 with more than \$1.7 million in claims payments. Days of care per 1,000 covered lives were 14.83 down from 16.63 in 2015.
- Partial hospitalization days were 2,289 with more than \$642,000 in claims payments. Days of care per 1,000 covered lives were 8.24 up from 7.8 in 2015.
- Outpatient services requiring authorization included Applied Behavioral Analysis (ABA) and Transcranial Magnetic Stimulation (TMS). Members received over 1,000 ABA treatments for a total of \$201,250. Members received over 750 TMS treatments for a total of \$175,424.

ParTNers for Health Wellness Program

The ParTNers for Health Wellness Program is available at no cost to all state group insurance program members, eligible spouses and dependents age 18 and over. Members and their dependents have access to a wide variety of tools and resources to take charge of their health and feel their best.

Healthways administers the wellness program. Members enrolled in the Partnership PPO and Wellness CDHP are required to complete certain wellness activities as part of the Partnership Promise. Wellness participation is an optional benefit for Standard and Limited PPO, as well as Health Savings CDHP members.

Since the ParTNers for Health Wellness Program began in 2011, member participation has been very strong. An average of 86 percent of plan members who agreed to the Partnership Promise consistently completed all requirements from 2011-2016. In 2016, 92 percent of Partnership PPO members completed the Healthways well-being assessment® (online health questionnaire) taking the first step toward improved well-being. Each year, Healthways summarizes members' Well-Being Assessment results in aggregate form to help determine the key drivers of our population's health. Here are some of the 2016 findings:

- 27.2 percent of plan members have three or more health risks (e.g., Body Mass Index (BMI) 30 or greater, tobacco user, no exercise, stress, unhealthy eating, high cholesterol, high blood pressure, etc.)
- 41.4 percent of active plan members have a BMI classified as 30 or greater, which is considered obese
- 42.3 percent of pre-65 retiree plan members have a BMI classified as 30 or greater, which is considered obese
- 70 percent said they want to lose weight
- 73.2 percent want to focus on eating more fruits and vegetables
- 46.8 percent want to work on coping better with stress
- 5.3 percent self-reported they are smokers — other national data sources indicate the smoking rate in Tennessee is 22 percent, suggesting that our membership smoking rate is underreported

- 41.7 percent of members feel that personal problems or financial stress interfere with their ability to concentrate at work
- Some of our most prevalent self-reported conditions are: depression, diabetes, asthma, high cholesterol, migraines, acid reflux/heartburn and chronic back pain
- Only 59.7 percent get the recommended exercise of 30 minutes or more, 3 days a week

ParTNers for Health Wellness Program in Action

In 2016, a total of 71,367 plan members participated in a health coaching program. All health plan members can utilize a coach but members enrolled in a plan with the Partnership Promise must actively participate in either disease management or lifestyle management coaching, if they are called. Coaches give members one-on-one support and encouragement over the phone. They help members create a custom plan to address their health needs, reach their goals, better understand their health condition(s) and learn to manage their overall health and well-being.

Wellness Challenges

To support and encourage healthy behaviors, members can participate in online wellness challenges. Challenges create friendly competition among coworkers while boosting morale and teamwork. In 2016, more than 3,000 people participated in one of the quarterly or mini challenges: Mission Nutrition, 10K-A Day, Head to Tone, and Add On. Each challenge included a chatter board where participants could offer support and encouragement to one another as well as share tips and ideas. Some used the chatter board to share successes and post comments about their experiences.

Wellness Plans

The state group insurance program has been facing unparalleled financial challenges, even as we worked to provide comprehensive, affordable, dependable and sustainable health benefits for all of our plan members. The three insurance plans paid out more than \$1.44 billion in healthcare claims in 2016.

Excess disease burden is one of the principle drivers of the growth in costs in the public-sector plans. Plan members' prevalence of chronic conditions such as coronary artery disease, congestive heart failure, chronic obstructive pulmonary disease, diabetes, hypertension and osteoarthritis is higher than the national and state averages for individuals with insurance. Members also have a higher utilization than other comparable populations, such as the insured residents of the nation's southern region as a whole.

To address this issue, we developed the Partnership PPO in 2011, which rewards members who agree to take responsibility to engage in maintaining or improving their health with lower costs. To further address cost concerns, we introduced a Consumer-driven Health Plan (CDHP) for the first time in 2016. This plan featured higher deductibles and lower premiums. CDHPs were paired with health savings accounts (HSAs). State Plan members of the CDHP that made and kept the Partnership Promise received payments of \$500 or \$1,000 to their HSAs as their wellness incentive.

A total of 163,503 or 58 percent of members enrolled in the Partnership PPO, 70,463 or 25.2 percent enrolled in the Standard PPO, 37,233 or 13.3 percent in the Limited PPO and 8,590 or 3 percent in one of the new Consumer-driven Health Plans.

Wellness plan members engaged in preventive health activities such as cancer screening more often than members in the Standard and Limited PPOs.

Wellness plan members have been proactive about receiving regular screenings to detect and prevent chronic disease. For plan year 2016, wellness plan members' screening rates met or exceeded rates observed in the Healthcare Effectiveness Data and Information Set (HEDIS) for breast cancer, cervical cancer and diabetes HbA1c. The screening rate for colon cancer was below the HEDIS rate but has improved since 2011. HEDIS results are gathered from health plans nationally and are widely accepted benchmarks.

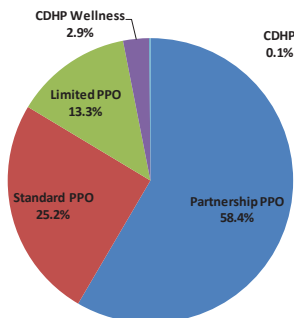
HEDIS Performance Measures

Time Period: Incurred Year	2011	2016	HEDIS (2016)
Breast Cancer Screen Rate {QM}	73%	83%	70%
Cervical Cancer Pap Rate {QM}	74%	74%	72%
Colon Cancer Screen Rate {QM}	48%	56%	89%
Diabetes HbA1c Test Rate {QM}	91%	93%	57%
MMR Vaccine Rate {QM}	88%	93%	90%
CAD Beta Blk 6 Mo Post MI {QM}	66%	87%	82%
Depression Continu Tx Rate {QM}	52%	60%	51%
URI Tx w/o Antibiotics Rate {QM}	65%	74%	85%
Acute Bronchitis Tx Rate {QM}	15%	22%	26%

Source: Truven. Measures are for Partnership PPO

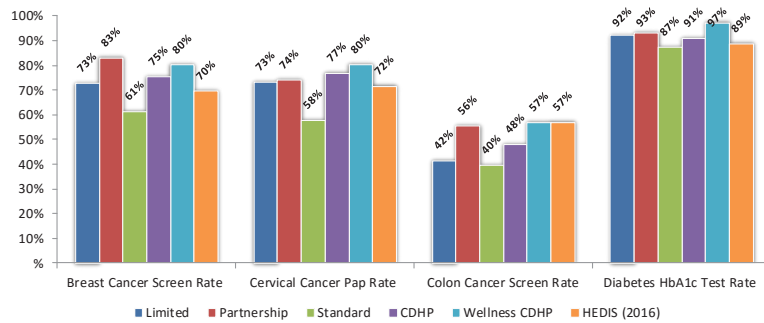
Enrollment by Plan

Source: Truven



Preventive Screening Rates

Source: Truven



Members in wellness plans experienced healthcare utilization rates in 2016 lower than those experienced by the public sector plans in 2011 across most indicators, with the exception of physician office visits and pharmaceutical use. The office visit increase, however, signals a more appropriate use of primary and preventive care, which helps with early disease detection. Appropriate pharmaceutical use can also

be attributed to awareness of health issues and taking appropriate action to avoid complications from chronic conditions.

These indicators are encouraging signs that the integrated wellness program is having a positive impact on healthcare utilization with fewer admission and ER visits from 2011 public sector plan utilization numbers.

Utilization Trends											
	All Plans	Partnership		Standard		Limited		Wellness CDHP		CDHP	
	2011	2016	% Chg	2016	% Chg	2016	% Chg	2016	% Chg	2016	% Chg
Admissions per 1,000	66	59	-10.4	68	2.4	49	-26.0	34	-48.1	42	-36
Outpatient Facility Visits Per 1,000	1,599	1,372	-14.2	1,402	-12.3	1,031	-36.0	682	-57.3	639	-60
Office Visits per 1,000	8,695	9,093	4.6	7,127	-18.0	6,514	-25.0	5,774	-33.6	4,405	-49
Days Supply PMPY Rx	537	601	12.0	576	7.2	398	-26.0	260	-51.6	221	-59
ER Visits per 1,000	244	210	-13.8	281	15.2	207	-15.0	138	-43.4	171	-30
Patients per 1,000 Complications	8	24	205.3	23	186.4	16	99.0	9	16.3	11	41
Readmissions per 1,000	4	3	-24.9	4	9.3	2	-38.0	2	-54.5	6	40

Source: Truven

Our contract with the wellness vendor included return-on-investment (ROI) measures to ensure that wellness plan members' healthy behaviors translated into cost savings for the plans. Our first year of measuring ROI found a 5.88 ROI for disease management programs

and a 1.24 ROI for lifestyle management programs. A 1.0 ROI means one dollar of savings per one dollar spent, so both programs saved money for the State Group Insurance Program.

Return on investment

Disease Management

Scenarios Using 2015 Costs and Savings	
Combine all DM Program Together	
Total Savings	\$21,123,957
Total Program Fees	\$3,593,708
Return on Investment	5.88

Lifestyle Management

Results	
Total Savings	\$10,418,085
Total Program Fees	\$8,382,973
Return on Investment	1.24

The Tennessee Plan

Since January 1989, the state has maintained a benefits program for Medicare-eligible retired teachers, state and local government employees who participate in the Tennessee Consolidated Retirement System or higher education optional retirement plans. The program involves two elements: the sponsorship of supplemental medical insurance for retirees with Medicare and the provision of financial support for eligible retirees.

The Division offers a single supplemental medical insurance for retirees with Medicare (The Tennessee Plan) that complies with standard plan requirements established by the National Association of Insurance Commissioners (NAIC). The Tennessee Plan matches the NAIC level D benefits.

The state's financial support is based on a retiree's length of service. Retired teachers and state employees received \$50 per month for 30 or more years of service;

\$37.50 for 20 to 29 years of service and \$25 per month for 15 to 19 years of service. This support is provided to The Tennessee Plan participants and to retired teachers in school districts which sponsor employee medical plans and permit Medicare-eligible retirees to continue coverage during retirement. The Tennessee Plan ended the year with 32,740 members.

The Tennessee Plan is self-insured. Claims are administered by the POMCO Group.

POMCO's customer service center received more than 14,000 calls in 2016. The customized web portal provides members access to claim information, copies of explanation of benefits forms and direct links to other helpful sites.

Financial Statements

The following unaudited financial statements for the state plan, local education plan, local government plan and retiree plan disclose the financial position and the results of operations for the year ended June 30, 2016. The state plan, local education plan and local government plan financial statements include only active employees — retirees are disclosed separately. The Department of Finance and Administration, Benefits Administration prepared these statements which summarize transactions for all coverages available through each plan. The complete financial statements, accompanying notes and supplemental schedules are included in the Comprehensive Annual Financial Report (CAFR) for the State of Tennessee. The CAFR was prepared by the Department of Finance and Administration, Division of Accounts and was audited by the Comptroller of the Treasury, Division of State Audit.

NOTE: Financial data in this section expressed in thousands

State Plan

Statements of Net Positions

	30-JUN-16	30-JUN-15
Assets		
Cash	\$ 301,082	\$ 303,941
Accounts receivable	7,569	6,960
Total assets	\$ 308,651	\$ 310,901
Liabilities		
Accounts payable	\$ 49,026	\$ 50,824
Unearned revenue	40,439	40,988
Total liabilities	\$ 89,465	\$ 91,812
Net position		
Unrestricted	\$ 219,186	\$ 219,089
Total net position	\$ 219,186	\$ 219,089

Statements of Revenues, Expenses and Changes in Fund Net Position

	30-JUN-16	30-JUN-15
Operating revenues		
Premiums	\$ 731,825	\$ 744,002
Other	1,000	1,000
Total operating revenues	\$ 732,825	\$ 745,002
Operating expenses		
Medical and mental health claims	\$ 685,050	\$ 663,872
Administrative services	8,854	10,269
Contractual services	39,441	37,872
Total operating expenses	\$ 733,345	\$ 712,013
Operating income (loss)	\$ (520)	\$ 32,989
Non-operating revenues		
Interest income	\$ 617	\$ 223
Total non-operating revenues	\$ 617	\$ 33,212
Change in net position	\$ 97	\$ 33,212
Net position, July 1	219,089	185,877
Net position, June 30	\$ 219,186	\$ 219,089

Statements of Cash Flows

	30-JUN-16	30-JUN-15
Cash flows from operating activities		
Receipts from interfund services provided	\$ 401,259	\$ 417,793
Receipts from fund members	366,592	361,551
Payments to suppliers	(769,260)	(748,951)
Payments for interfund services used	(2,067)	(1,832)
Net cash from operating activities	\$ (3,476)	\$ 28,561
Cash flows from investing activities		
Interest received	\$ 617	\$ 223
Net cash from investing activities	\$ 617	\$ 223
Net increase (decrease) in cash	\$ (2,859)	\$ 28,784
Cash, July 1	303,941	275,157
Cash, June 30	\$ 301,082	\$ 303,941

Reconciliation of operating income to net cash from operating activities

Operating income (loss)	\$ (520)	\$ 32,989
Adjustments to reconcile operating income to net cash from operating activities		
Changes in assets and liabilities:		
Change in accounts receivable	(609)	(1,623)
Change in accounts payable	(1,796)	(2,126)
Change in unearned revenue	(551)	(679)
Net cash from operating activities	\$ (3,476)	\$ 28,561

Local Education Plan

Statements of Net Positions

	30-JUN-16	30-JUN-15
Assets		
Cash	\$ 177,622	\$ 204,762
Accounts receivable	5,046	3,858
Total assets	\$ 182,668	\$ 208,620
Liabilities		
Accounts payable	\$ 30,479	\$ 30,962
Unearned revenue	68	103
Total liabilities	\$ 30,547	\$ 31,065
Net position		
Unrestricted	\$ 152,121	\$ 177,555
Total net position	\$ 152,121	\$ 177,555

Statements of Revenues, Expenses and Changes in Fund Net Position

	30-JUN-16	30-JUN-15
Operating revenues		
Premiums	\$ 449,572	\$ 471,207
Total operating revenues	\$ 449,572	\$ 471,207
Operating expenses		
Medical and mental health claims	\$ 440,987	\$ 419,325
Administrative services	6,776	7,572
Contractual services	27,637	26,765
Total operating expenses	\$ 475,400	\$ 453,662
Operating income	\$ (25,828)	\$ 17,545
Non-operating revenues		
Interest income	\$ 394	\$ 147
Total non-operating revenues	\$ 394	\$ 147
Change in net position	\$ (25,434)	\$ 17,692
Net position, July 1	177,555	159,863
Net position, June 30	\$ 152,121	\$ 177,555

Statements of Cash Flows

	30-JUN-16	30-JUN-15
Cash flows from operating activities		
Receipts from fund members	\$ 457,192	\$ 478,627
Payments to insurance companies and healthcare providers	(484,024)	(460,225)
Payments for state services	(702)	(533)
Net cash from (used for) operating activities	\$ (27,534)	\$ 17,869
Cash flows from investing activities		
Interest received	\$ 394	\$ 147
Net cash from investing activities	\$ 394	\$ 147
Net increase in cash	\$ (27,140)	\$ 18,016
Cash, July 1	204,762	186,746
Cash, June 30	\$ 177,622	\$ 204,762
Reconciliation of operating income to net cash from operating activities		
Operating income	\$ (25,828)	\$ 17,545
Adjustments to reconcile operating income to net cash from operating activities		
Changes in assets and liabilities:		
Change in accounts receivable	(1,188)	(59)
Change in accounts payable	(483)	335
Change in unearned revenue	(35)	48
Net cash from operating activities	\$ (27,534)	\$ 17,869

Supplementary Information — Active Employees

The table below illustrates how the local education group insurance fund's earned revenues and investment income compare to related costs of loss and other expenses assumed by the local education group insurance fund as of the end of each of the last ten years. The rows of the table are defined as follows: (1) This line shows the total of each fiscal year's earned contribution revenues and investment revenues. (2) This line shows each fiscal year's other operating costs of the fund including overhead and claims expense not allocable to individual claims. (3) This line shows the fund's incurred claims and allocated claim adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year); some of these amounts are unavailable. (4) This section shows the cumulative net amounts paid as of the end of successive years for each policy year; some of these amounts are unavailable. (5) This section shows how each policy year's incurred claims increased

or decreased as of the end of successive years; some of these amounts are unavailable. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known. (6) This line compares the latest reestimated net incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of net incurred claims currently recognized in less mature policy years. The columns of the table show data for successive fiscal and policy years. Beginning with fiscal year 2007, the plan is reported in accordance with the Governmental Accounting Standards Board's Statement No. 43. Therefore, for accounting and financial reporting purposes, the table below only includes active employees of the local education plan; retirees of the plan are no longer included in the 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014, 2015 and 2016 column disclosures below.

Ten-Year Claims Development Information

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
(1) Required contribution and investment revenue earned (fiscal year)	356,328	390,835	403,627	421,242	444,773	439,640	463,986	488,113	471,353	449,965
(2) Unallocated expenses (fiscal year)	17,152	16,366	21,019	23,195	26,767	26,473	27,384	29,831	34,261	35,026
(3) Estimated claims and expenses, end of policy year, net incurred	342,692	389,270	373,682	441,168	413,568	429,252	432,425	435,832	456,600	*
(4) Net paid (cumulative) as of:										
End of policy year	313,376	359,949	347,060	408,968	383,440	401,000	404,145	408,147	426,939	*
One year later	342,800	389,645	407,483	441,224	415,724	428,201	432,124	435,790	*	
Two years later	342,952	391,632	407,504	441,773	415,240	427,657	431,697	*		
Three years later	347,276	391,511	407,379	441,596	415,215	427,597	*			
Four years later	347,253	391,490	407,330	441,568	415,121	*				
Five years later	347,253	391,490	407,330	441,568	*					
Six years later	347,253	391,490	407,330	*						
Seven years later	347,253	391,490	*							
Eight years later	347,253	*								
Nine years later	*									
(5) Reestimated net incurred claims and expenses:										
End of policy year	342,692	389,270	373,682	441,168	413,568	429,252	432,425	435,832	456,600	*
One year later	342,865	389,163	407,718	441,247	415,256	427,805	431,846	435,706	*	
Two years later	342,969	391,531	407,507	440,529	415,207	427,624	431,469	*		
Three years later	347,276	391,511	407,364	440,485	415,110	427,582	*			
Four years later	347,276	391,511	407,364	440,485	415,110	*				
Five years later	347,276	391,511	407,364	440,485	*					
Six years later	347,276	391,511	407,364	*						
Seven years later	347,276	391,511	*							
Eight years later	347,276	*								
Nine years later	*									
(6) Increase (decrease) in estimated net incurred claims and expenses from end of policy year	4,584	2,241	33,682	(683)	1,542	(1,670)	(956)	(126)	0	*

* Data not available

Local Government Plan

Statements of Net Position

	30-JUN-16	30-JUN-15
Assets		
Cash	\$ 43,794	\$ 40,446
Accounts receivable, net	1,863	874
Total assets	\$ 45,657	\$ 41,320
Liabilities		
Accounts payable	\$ 6,701	\$ 6,502
Unearned revenue	37	28
Total liabilities	\$ 6,738	\$ 6,530
Net position		
Unrestricted	\$ 39,919	\$ 34,790
Total net position	\$ 38,919	\$ 34,790

Statements of Revenues, Expenses and Changes in Fund Net Position

	30-JUN-16	30-JUN-15
Operating revenues		
Premiums	\$ 114,287	\$ 108,830
Total operating revenues	\$ 114,287	\$ 108,830
Operating expenses		
Benefits	\$ 102,326	\$ 95,261
Administrative services	1,347	1,484
Contractual services	6,572	6,071
Total operating expenses	\$ 110,245	\$ 102,816
Operating income (loss)	\$ 4,042	\$ 6,014
Non-operating revenues		
Interest income	\$ 87	\$ 29
Total non-operating revenues	\$ 87	\$ 29
Change in net position	\$ 4,129	\$ 6,043
Net position, July 1	34,790	28,747
Net position, June 30	\$ 38,919	\$ 34,790

Statements of Cash Flows

	30-JUN-16	30-JUN-15
Cash flows from operating activities		
Receipts from fund members	\$ 116,583	\$ 110,986
Payments to insurance companies and healthcare providers	(113,190)	(105,263)
Payments for state services	(132)	(100)
Net cash from (used for) operating activities	\$ 3,261	\$ 5,623
Cash flows from investing activities		
Interest received	\$ 87	\$ 29
Net cash from (used for) investing activities	\$ 87	\$ 29
Net increase in cash	\$ 3,348	\$ 5,652
Cash, July 1	40,446	34,794
Cash, June 30	\$ 43,794	\$ 40,446
Reconciliation of operating income to net cash from operating activities		
Operating income (loss)	\$ 4,042	\$ 6,014
Adjustments to reconcile operating income to net cash from operating activities		
Changes in assets and liabilities:		
Change in accounts receivable	(989)	(166)
Change in accounts payable	199	(237)
Change in unearned revenue	9	12
Net cash from operating activities	\$ 3,261	\$ 5,623

Supplementary Information — Active Employees

The table below illustrates how the local government group insurance fund's earned revenues and investment income compare to related costs of loss and other expenses assumed by the local government group insurance fund as of the end of each of the last ten years. The rows of the table are defined as follows: (1) This line shows the total of each fiscal year's earned contribution revenues and investment revenues. (2) This line shows each fiscal year's other operating costs of the fund including overhead and claims expense not allocable to individual claims. (3) This line shows the fund's incurred claims and allocated claim adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year); some of these amounts are unavailable. (4) This section shows the cumulative net amounts paid as of the end of successive years for each policy year; some of these amounts are unavailable. (5) This section shows how each policy year's net incurred claims increased

or decreased as of the end of successive years; some of these amounts are unavailable. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known. (6) This line compares the latest reestimated net incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of net incurred claims currently recognized in less mature policy years. The columns of the table show data for successive fiscal and policy years. Beginning with fiscal year 2007, the plan is reported in accordance with the Governmental Accounting Standards Board's Statement No. 43. Therefore, for accounting and financial reporting purposes, the table below only includes active employees of the local government insurance plan; retirees of the plan are no longer included in the 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014 and 2015 column disclosures below.

Ten-Year Claims Development Information

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
(1) Required contribution and investment revenue earned (fiscal year)	89,240	96,558	103,157	104,810	102,710	103,278	105,973	108,834	108,860	114,373
(2) Unallocated expenses (fiscal year)	3,398	3,500	4,348	5,921	5,473	6,010	6,135	6,645	7,535	8,012
(3) Estimated claims and expenses, end of policy year, net incurred	91,622	94,655	100,350	107,083	91,699	94,738	96,152	99,097	103,694	*
(4) Net paid (cumulative) as of:										
End of policy year	84,836	88,265	93,456	98,709	89,231	88,026	89,634	92,792	97,837	*
One year later	91,791	94,820	100,916	105,833	91,703	94,277	96,101	98,622	*	
Two years later	91,793	95,029	101,895	107,170	91,618	94,205	95,919	*		
Three years later	93,594	94,993	100,533	107,103	91,578	94,183	*			
Four years later	93,594	94,991	100,494	107,101	91,669	*				
Five years later	93,591	94,991	100,494	107,101	*					
Six years later	93,591	94,991	100,494	*						
Seven years later	93,591	94,991	*							
Eight years later	93,591	*								
Nine years later	*									
(5) Reestimated net incurred claims and expenses:										
End of policy year	91,622	94,655	100,350	107,083	91,699	94,738	96,152	99,097	103,694	*
One year later	91,801	94,749	100,803	106,870	91,640	94,248	96,022	98,653	*	
Two years later	91,788	94,999	101,895	106,720	91,558	94,192	95,895	*		
Three years later	93,594	94,993	100,492	106,697	91,669	94,182	*			
Four years later	93,594	94,993	100,492	106,697	91,669	*				
Five years later	93,594	94,993	100,492	106,697	*					
Six years later	93,594	94,993	100,492	*						
Seven years later	93,594	94,993	*							
Eight years later	93,594	*								
Nine years later	*									
(6) Increase (decrease) in estimated net incurred claims and expenses from end of policy year	1,971	338	142	(386)	(30)	(556)	(257)	(444)	0	*

* Data not available

Retiree Plans

Statements of Fiduciary Assets and Liabilities — June 30, 2016, and June 30, 2015

	30-JUN-16	30-JUN-15
Assets		
Current assets:		
Cash	\$ 34,994	\$ 30,646
Accounts receivable	3,467	2,696
Total assets	\$ 38,461	\$ 33,342
Liabilities		
Current liabilities:		
Accounts payable and accruals	\$ 16,996	\$ 17,230
Amounts held in custody for others	21,465	16,112
Total liabilities	\$ 38,461	\$ 33,342

Statements of Changes in Fiduciary Assets and Liabilities for the year ended June 30, 2016

	BALANCE 01-JUL-15	ADDITIONS	DEDUCTIONS	BALANCE 30-JUN-16
Assets				
Current assets:				
Cash	\$ 30,646	\$ 254,440	\$ 250,092	\$ 34,994
Accounts receivable	2,696	14,433	13,662	3,467
Total assets	\$ 33,342	\$ 268,873	\$ 263,754	\$ 38,461
Liabilities				
Current liabilities:				
Accounts payable and accruals	\$ 17,230	\$ 30,191	\$ 30,425	\$ 16,996
Amounts held in custody for others	16,112	257,997	252,644	21,465
Total liabilities	\$ 33,342	\$ 288,188	\$ 283,069	\$ 38,461

Statements of Changes in Fiduciary Assets and Liabilities for the year ended June 30, 2015

	BALANCE 01-JUL-14	ADDITIONS	DEDUCTIONS	BALANCE 30-JUN-15
Assets				
Current assets:				
Cash	\$ 28,753	\$ 241,312	\$ 239,419	\$ 30,646
Accounts receivable	1,442	12,505	11,251	2,696
Total assets	\$ 30,195	\$ 253,817	\$ 250,670	\$ 33,342
Liabilities				
Current liabilities:				
Accounts payable and accruals	\$ 17,791	\$ 26,518	\$ 27,079	\$ 17,230
Amounts held in custody for others	12,404	244,283	240,575	16,112
Total liabilities	\$ 30,195	\$ 270,801	\$ 267,654	\$ 33,342