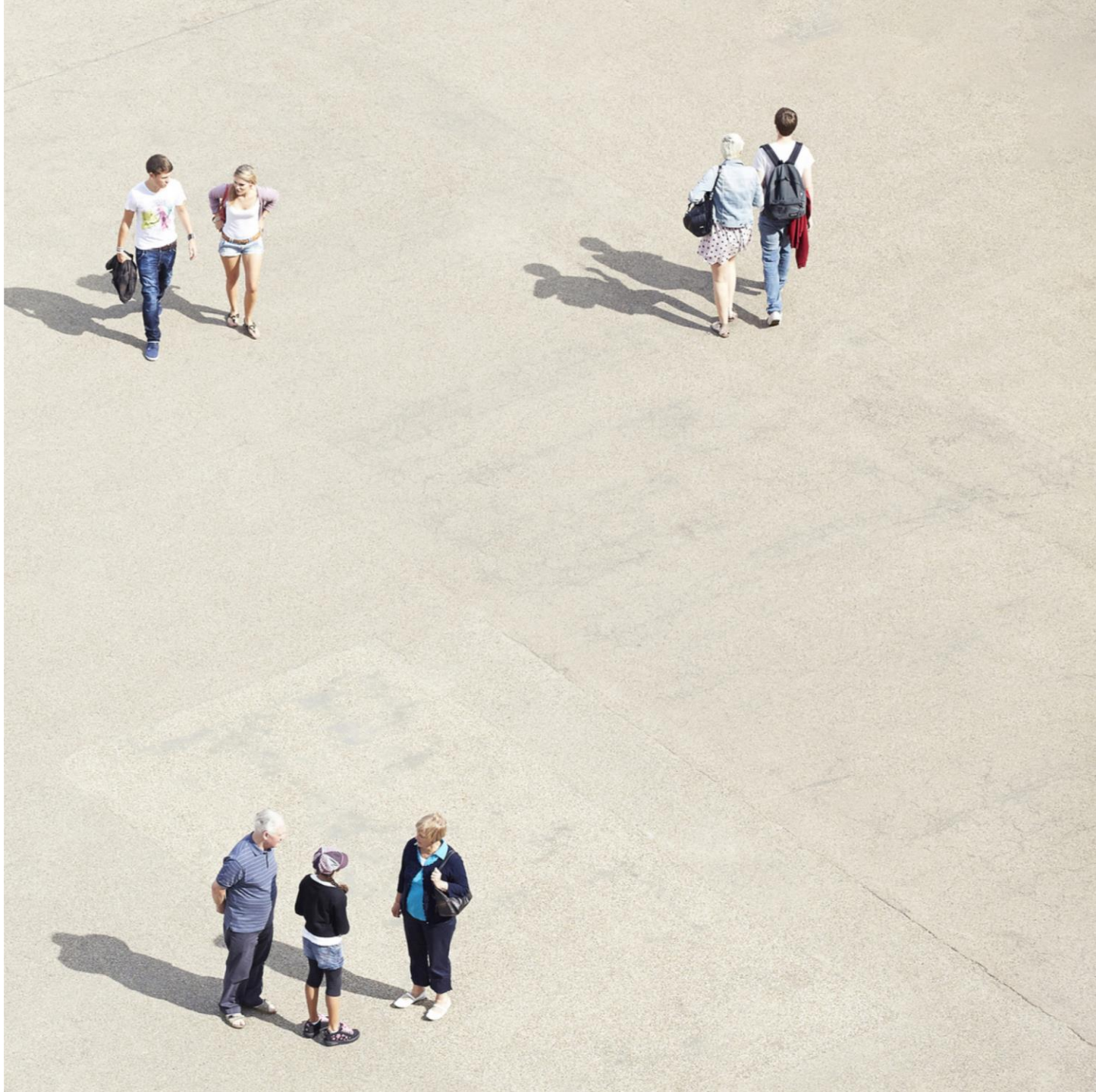
State of NJ

SEHBP Mid-Year Analysis

PDC Presentation

April 15, 2024



Today's Discussion

Meeting Objectives

- Provide a summary of the results of the Mid-Year Analysis
- Discuss Local Education Active Results and Cost Drivers
- Discuss 2025 Rate Setting expectations
- Previously Explored Plan Design Changes

1
Mid-Year Results Overview

2
Local Education Active Results

3
2025 Rate Setting Expectations

4
Review Previously Explored Changes

5
Appendix

AON

1

Mid-Year Overview

Mid-Year Results Overview

Based on updated experience, Local Education Actives and Local Education Retirees are each projected at an overall loss in 2024

The Local Education Claim Stabilization Reserve (CSR) balance as of 12/31/2024 is projected to be $144M or 1.0 months of plan cost, below the recommended level 2.0 months of plan cost

Based on these projected losses and building in future trends, premium rate increases for 2025 are likely to be in the double digits for both groups

	Local Education	
Plan Year 2024 ($ Millions)	**2024 Rate Setting Analysis***	**Updated Mid-Year Analysis**
Actives		
Total Premium	$1,608.0	$1,618.8
Total Claims and non-Fee Expenses	$1,559.7	$1,630.1
Total Admin Fees	$38.8	$35.2
Total Cost	$1,598.5	$1,665.2
*$ Gain/(Loss)***	*$9.6*	*($46.4)*
*% Gain/(Loss)***	*0.6%*	*(2.9%)*
Retirees		
Total Premium	$1,074.8	$1,076.8
Total Claims and non-Fee Expenses	$1,038.2	$1,067.8
Total Admin Fees	$36.5	$33.4
Total Cost	$1,074.7	$1,101.2
*$ Gain/(Loss)***	*$0.1*	*($24.3)*
*% Gain/(Loss)***	*0.0%*	*(2.3%)*

*2024 Local Education Active premiums include 0.6% margin

**A gain indicates that plan costs are projected to be lower than aggregate premiums (premium rates x heads) and a loss indicates the opposite

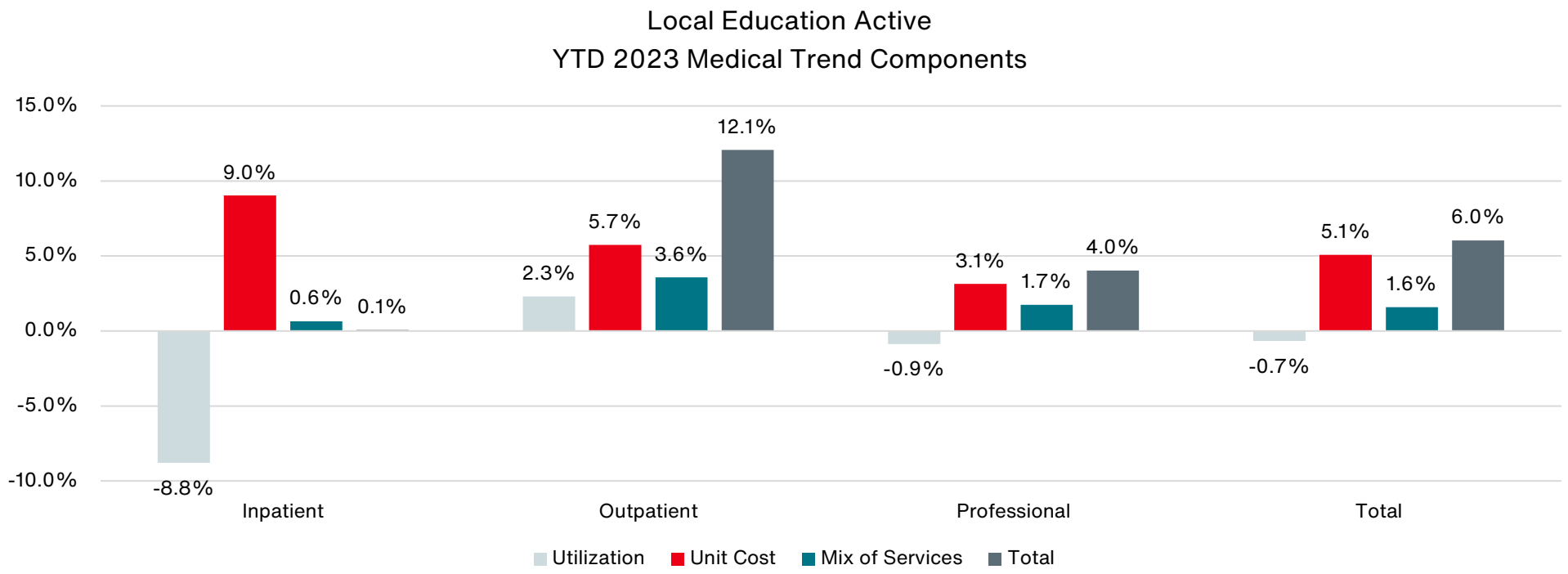
Mid-Year Results Overview: Cost Drivers

- Medical inflation and increases in utilization of higher-cost-services, particularly for outpatient, are contributing to medical cost increases for both Actives and Early Retirees
    - For Local Education Actives, there was an increase in utilization of outpatient surgeries (+13%), emergency visits (+7%), and specialist physicians (+5%)
    - For Local Education Retirees, there was an increase in utilization of outpatient surgeries (+7%) and specialist physicians (+3%)
- PMPM Rx trends for Local Education Actives (+19%) and Early Retirees (+12%) are significantly higher than expected, partially the result of high utilization of GLP-1 drugs for diabetes and weight loss

2

Local Education Active Results

Local Education Active Medical Claim Trends



- The chart above shows increases in the different components of medical cost separately for inpatient, outpatient, and professional services
  - Utilization represents change in cost due to the year-over-year changes in the number of visits per member
  - Unit Cost represents change in cost due to the year-over-year change in the average cost of each services
  - Mix of Services represents the change in costs due to the change in the types of services members are utilizing; a higher number generally indicates that members are utilizing more expensive services compared to the prior year
- While total utilization has slightly decreased overall, medical costs have increased as a result of higher inflation across all three major categories as well as an increase in the utilization of higher cost services within these categories
- Normalized to remove the impact of migration to the lower cost NJEHP, overall trend might have been 1% - 2% higher
- Horizon reports BOB trends for 2023 of 7.9% (7.1% cost and 0.8% utilization)

Medical claim drivers are based on Horizon reporting that reflects YTD claims incurred through August 2023 and paid through September 2023

Local Education Active Medical Claim Drivers

Emerging 2023 Medical Trends

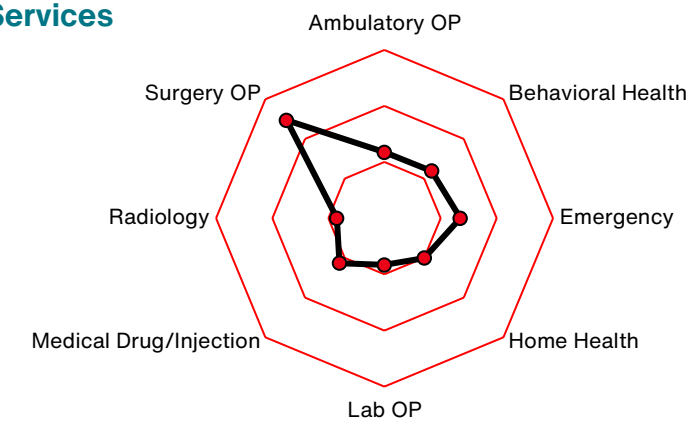
Service Category	Visits / 1,000	$ / Visit	Total Trend	Total Cost PMPM
Inpatient				
Inpatient Facility Acute	(8%)	7%	(2%)	$100.64
Behavioral Health	(16%)	51%	27%	$6.99
Inpatient Other	1%	20%	21%	$2.73
Outpatient				
Surgery OP	13%	14%	28%	$84.15
Medical Drug/Injection	2%	2%	4%	$40.25
Emergency	7%	6%	13%	$37.46
Ambulatory OP	3%	5%	8%	$28.58
Radiology	(3%)	(6%)	(9%)	$20.13
Behavioral Health	11%	9%	20%	$14.02
Lab OP	(16%)	(8%)	(23%)	$7.10
Home Health	(1%)	6%	5%	$0.79
Professional				
Specialist Physician	5%	3%	8%	$153.96
Primary Physician	(5%)	8%	3%	$42.17
Behavioral Health	10%	0%	10%	$35.20
Medical Drug/Injection	6%	(3%)	3%	$26.57
Ancillary	11%	(1%)	11%	$13.80
Radiology	3%	4%	8%	$13.68
Lab PF	(43%)	4%	(41%)	$10.31
Urgent Care	(2%)	4%	1%	$9.67
Home Health	(7%)	16%	8%	$2.90

The chart above shows the year-over-year change in member utilization (visits / 1,000), change in average cost of services ($ / visit), and change in the PMPM cost (Total Trend). Total Cost PMPM captures both the average cost per service as well as the average utilization.

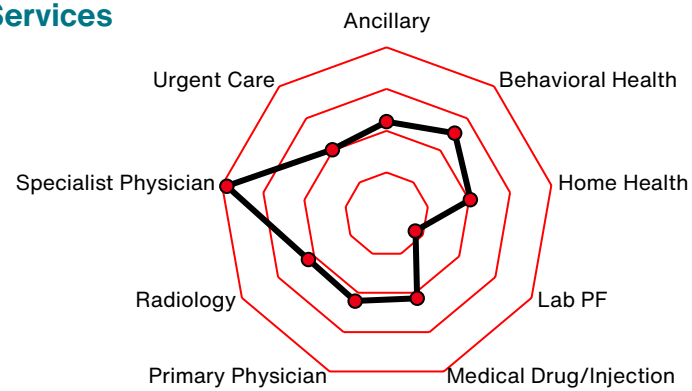
Cost increases are driven by high increases in the $ / visit for almost all services as well as increases in utilization for high-cost services like OP Surgery and Emergency Room.

Relative Medical PMPM Claim Impact

Outpatient Services



Professional Services

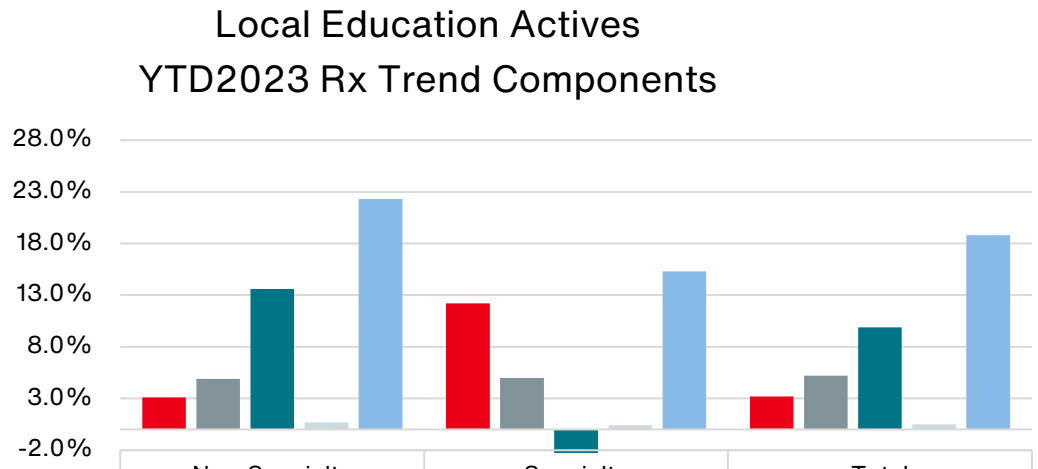


The graphs above show the relative cost impact for each given service category. The further from the center of the graph, the greater the overall increase to cost due to that factor.

While some services may have high trends, they may not be as significant contributors to cost increases if the cost of unit cost is smaller than other services. As an example, while professional ancillary had a 11% trend, the impact to total cost is less than specialist physician, which had an 8% trend but is a more expensive category.

Medical claim drivers are based on Horizon reporting that reflects YTD claims incurred through August 2023 and paid through September 2023

Local Education Active Rx Claim Drivers



	Non-Specialty	Specialty	Total
Utilization	3.1%	12.2%	3.2%
Cost	4.9%	5.0%	5.2%
Drug Mix	13.6%	-2.4%	9.9%
Member Contribution	0.7%	0.4%	0.5%
Total	22.3%	15.3%	18.8%

Increase in Drug mix, which represents higher cost drugs being utilized compared to last year, is where the high utilization of GLP-1 brand drugs is showing up in the analysis.

12% increase in specialty drug utilization, which represents the change in the number of specialty scripts per member, is driving a 15% overall increase in specialty drug PMPM amounts.

The average plan paid PMPM amount has increased 19% over the prior period driven by high utilization of both GLP-1 drugs and specialty drugs.

Non-Specialty

- Brand drugs account for 16% of non-specialty scripts and 84% of non-specialty claims spend
- PMPM spend for Diabetes related drugs increased 30% and accounts for 13% of total plan paid (Ozempic was top drug in category)
- PMPM spend for weight loss related drugs increased 190% and accounts for 7% of total plan paid

Specialty

- Specialty Drug PMPM spend for inflammatory conditions (such as Humira and Stelara) increased 23% and accounts for 24% of total plan paid
- PMPM spend for Oncology specialty drugs increased 10%

Top Drugs of Note

- Inflammatory conditions, Diabetes, and Weight Loss drugs are the main drivers of Rx claim costs
  - Wegovy is the top drug spend and the PMPM spend is 975% above Optum's benchmark
  - Humira and Stelara (anti-inflammatory drugs) rank second and third and PMPM spend is 46% and 142% higher than Optum's benchmark
  - Wegovy, Ozempic, and Mounjaro are all GLP-1 drugs that ranked in the top-10 of total drug spend

AON

Based on YTD September 2023 paid claims reporting provided by Optum which may differ slightly from Aon's incurred analysis.

3

Rate Setting Expectations

Expectations for Upcoming Rate Setting

Plan Year 2025 Rate Setting Updates

- The PY2025 Rate Setting Analysis will reflect full Calendar Year 2023 claims experience with runout through March 2024 and updated enrollment

- Results will reflect updated Medical and Prescription Drug trend assumptions based on actual experience, vendor recommendations, and the latest Aon trend guidance
    - Anticipate that trends will be equal to or higher than current trend assumptions

- Based on the Mid-Year results, which show losses on both medical and prescription drugs, combined with expected future trend increase, premium increases likely to be in the double digits for 2025

- For Local Education, additional margin will be required on top of rate increase to increase the balance of the CSR (last year's premium rates included 0.6% margin).

- There may be some potential relief on NJEHP increases as rates move closer toward fully separate experience pools

4

Review Cost Impact of Previously Explored Changes

Incent Utilization of Cost-Effective Providers

	Visits / 1,000		
Professional Service	**SEHBP Active**	**Horizon Large BOB**	**% Difference**
PCP			
Prof E&M PCP	2,495.1	2,044.7	22.0%
Prof Tele Health Med	678.1	409.8	65.5%
Specialist			
Prof E&M Specialist	3,366.3	2,706.7	24.4%
Prof Phys Med & Rehab	2,374.0	1,302.2	82.3%
Prof Chiropractic	1,249.7	631.0	98.1%
Prof Ophthalmology	383.3	243.0	57.7%
Prof Acupuncture	479.6	108.6	341.7%
Urgent Care / Ancillary			
Prof Urgent Care	759.6	318.6	138.4%
Prof BH Telehealth	1,399.2	619.8	125.7%
Prof BH Mental Health	1,555.7	682.4	128.0%
Total	**14,740.7**	**9,066.8**	**62.6%**

The table above the average 2023 utilization (visits / 1,000) for SEHBP Actives compared to Horizon's Large Group book-of-business. The utilization is shown for several PCP, Specialist, and Urgent Care/Ancillary services.

Overall, the SEHBP population utilization for these services is 62% higher compared to Horizon's book-of-business. This is based CY2023 data from Horizon with runout through January 2024.

Specialist / Urgent Care Copay Changes

- SEHBP Active utilization for specialist and urgent care services is significantly higher than Horizon's BOB.
- In 2023 certain State Active plans implemented a copay increase for specialist and urgent care visits
  - This included the HMO, Tiered Network, and CWA Unity/NJDIRECT plans
  - Specialist copays were increased to be $15 higher than the PCP copay
  - Urgent Care copays were increased to be $30 higher than the PCP copay
  - Saw reductions in both specialist and urgent care utilization in 2023 for these plan options which is likely due in part to these changes
- Consider implementing similar copay changes for the SEHBP plans as well

Aon Health Solutions | Proprietary & Confidential

Other Previously Explored Changes

Implement $50 monthly Spousal Surcharge

- Premium surcharge for spouses with access coverage through their own employer. This would be a monthly charge in addition to regular medical coverage contribution/premium for a spouse.

- Since SEHBP medical plans are self-insured and pay a portion of the cost of the member's medical coverage and actual claims, if the spouse moves to her/his employer's plan and utilizes that benefit instead, it saves the SEHBP on future plan costs. If the spouse decides to elect the SEHBP plan coverage rather than her/his employer plan, funds available through member contributions will increase.

Eliminate the Medicare Supplement Plans

- Elimination of all Medicare Supplement plans offered to Medicare employees, which require retirees to elect one of the four Medicare Advantage options.

Update Out-of-Network (OON) reimbursement to 175% of CMS

- Change is intended to improve provider accountability, pricing transparency, and more tightly manage plan cost over a longer period-of-time. While this would not impact network access for members as the change in strategy is tied to the financial reimbursement the State is willing to pay for certain services, reducing the OON reimbursement may result in a higher percentage of members receiving bills from providers for the additional cost of services, also known as balance billing.

- This change is expected to yield savings both through limiting the allowed amount the State is willing to pay for these procedures and through a long-term effect of steering participants towards in-network (INN) providers, which could reduce costs further due to competitive negotiated rates.

Other Previously Explored Changes cont.

Additional Specialty Rx Fourth Tier

- An additional prescription drug tier for specialty drugs could impact utilization, which may result in a positive impact to total health care costs. The increase of copays could impact utilization by encouraging change in member behavior with more Actives and Early Retirees seeking non-specialty drugs where available.

- This change would result in a financial impact to members due to cost shifting from plan to member based on the differential from current to proposed copays.

Eliminate GLP-1 Coverage for Weight Loss

- Elimination of GLP-1 Prescription drug coverage related to weight loss such as Wegovy, Saxenda and Zepbound.

- The impact to members in this scenario would be at the service level since they may need to change prescriptions compared to what is currently prescribed for them today.

Aon Health Solutions | Proprietary & Confidential

Estimated Plan Change Savings Impacts

PY2024 Plan Change Savings ($millions)	Local Education		
	Active	Early Retiree	Medicare Retiree
Specialist Copay Change			
$ impact	$6.7	N/A	N/A
% impact	0.4%	N/A	N/A
Urgent Care Copay Change			
$ impact	$1.8	N/A	N/A
% impact	0.1%	N/A	N/A
Spousal Surcharge			
$ impact	$8.8	$1.9	N/A
% impact	0.5%	0.5%	N/A
Surcharge	$9.6	$1.7	N/A
Total $ Impact	$18.4	$3.6	N/A
Elimination of Medicare Supplement			
$ impact	N/A	N/A	$42.7
% impact	N/A	N/A	6.2%
OON Reimbursement to 175% of CMS			
$ impact	$52.4	N/A	N/A
% impact	3.1%	N/A	N/A
Additional Fourth Rx Tier - $100 Copay			
$ impact	$0.6	$0.4	N/A
% impact	0.0%	0.1%	N/A
Additional Fourth Rx Tier - $200 Copay			
$ impact	$1.3	$0.9	N/A
% impact	0.1%	0.2%	N/A
Removal of GLP-1 for Weight Loss			
$ impact	$16.6	$4.1	N/A
% impact	1.0%	1.0%	N/A

Notes and Assumptions

- Savings are shown for 2024 and are based on the results of the Mid-Year analysis
- **Spousal Surcharge**: impact reflects a $50 monthly surcharge and assumes 50% of covered spouses are eligible for coverage through a separate employer and 5% of these spouses will drop coverage because of the surcharge (95% will elect to remain in the plans and pay the surcharge).
- **Eliminate Medicare Supplement**: Assumes all Local Education Medicare Retirees enrolled in a Medicare Supplement plan will elect the MA PPO10 plan option.
- **OON Reimbursement to 175% of CMS**: Savings are based on claim impacts provided by Horizon
- **Additional 4th Specialty Rx Tier**: Savings are based on impacts provided by Optum
- **Elimination of GLP-1 for Weight Loss**: Savings are based on claim impacts provided by Optum
- **Specialist Copay Change**: Increase copay $15 higher than current PCP copay. Savings are based on Aon's Actuarial Value Model.
- **Urgent Care Copay Change**: Increase copay $30 higher than current PCP copay. Savings are based on Aon's Actuarial Value Model.

Aon Health Solutions | Proprietary & Confidential

5

Appendix

Local Education Claim Stabilization Reserve

Claim Stabilization Reserve Balance (in $ millions)	Active
12/31/2022*	$240
12/31/2023	$191
12/31/2024	$144
Months of Plan Cost as of 12/31/2024	1.0

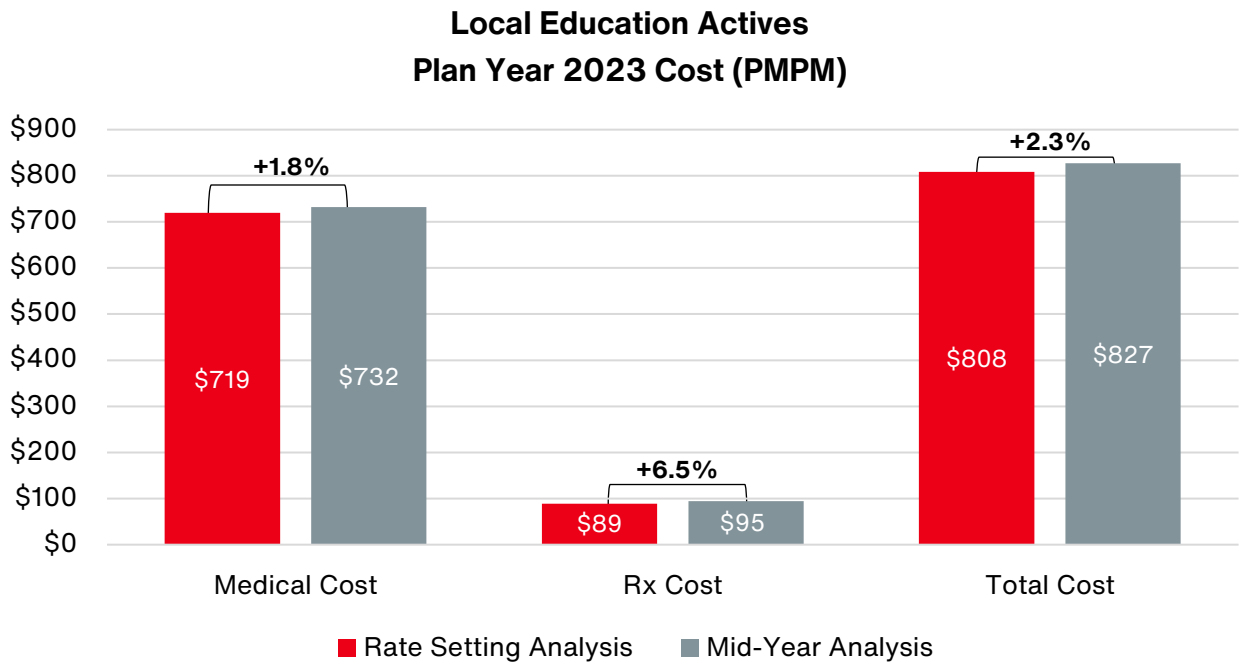
*2022 included a one-month premium holiday

- The claim stabilization reserve as of December 31, 2022 is based on actual balances provided by the Division. The projected reserves as of December 31, 2023 and 2024 are based on the reserve balance as of June 30, 2023 provided by the Division. The claims stabilization reserve as of December 31, 2024 is estimated based off projected gains and losses in the active and retiree plans.

Cost Projection Methodology and Assumptions

	2024 Cost Projections
Claims Experience	12 months of incurred claims data paid through September 2023 provided by Horizon, Aetna, and Optum
Enrollment Distribution	2024 Open Enrollment data provided by the State
2024 Self-Insured Claims Trend (Excluding Anti-Selection)	Active PPO: 6.50% Medical / 10.50% Rx Active HMO: 6.50% Medical / 10.50% Rx Early Retiree PPO & HMO: 6.50% Medical / 10.50% Rx Self-Insured Medicare: 5.50% Medical / 9.25% Rx
Anti-Selection	Local Education Active medical and prescription drug trends have been increased by 75 basis points for Plan Year 2024
Rx Rebates / EGWP	Projected Rx Rebates and EGWP credits were provided by Optum
High-Cost Claimants	Aon has not made any adjustments for high-cost claimants

Emerging 2023 Actual Costs vs. Rate Setting Estimates



- Cost includes projected claims, administrative fees, rebates, and other expenses

The chart above shows the change in projected 2023 per member, per month (PMPM) costs between the Rate Setting Analysis (red bars) and the Mid-Year analysis (gray bars). The chart is shown on a PMPM basis to normalize for the change in headcounts between the two periods which better isolates the impact of changes in average costs.

The Rate Setting Analysis was based on a projection of 2023 claims using 2022 data. Actual emerging 2023 medical and Rx claims data is reflected in the Mid-Year analysis. The updated data shows that actual 2023 costs are higher than previously estimated, which is contributing to future projected losses.

Observations

Updated 2023 PMPM Medical costs are 1.8% higher than projected due to higher-than-expected medical claims trends

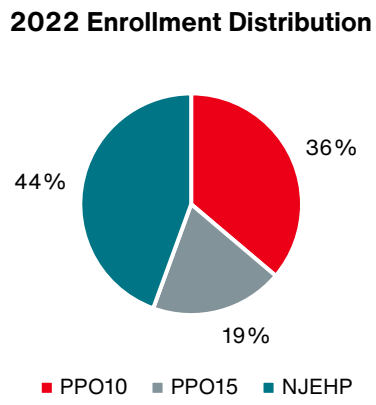
- Projected 2023 medical claims are 6.5% higher than 2022, which is greater than expected when accounting for the actual migration to lower cost plan options

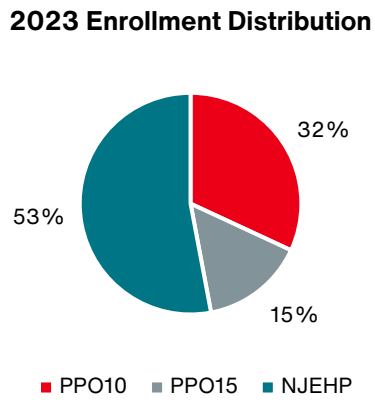
Updated 2023 PMPM Rx costs are 6.5% higher than projected due to higher-than-expected Rx claims trends

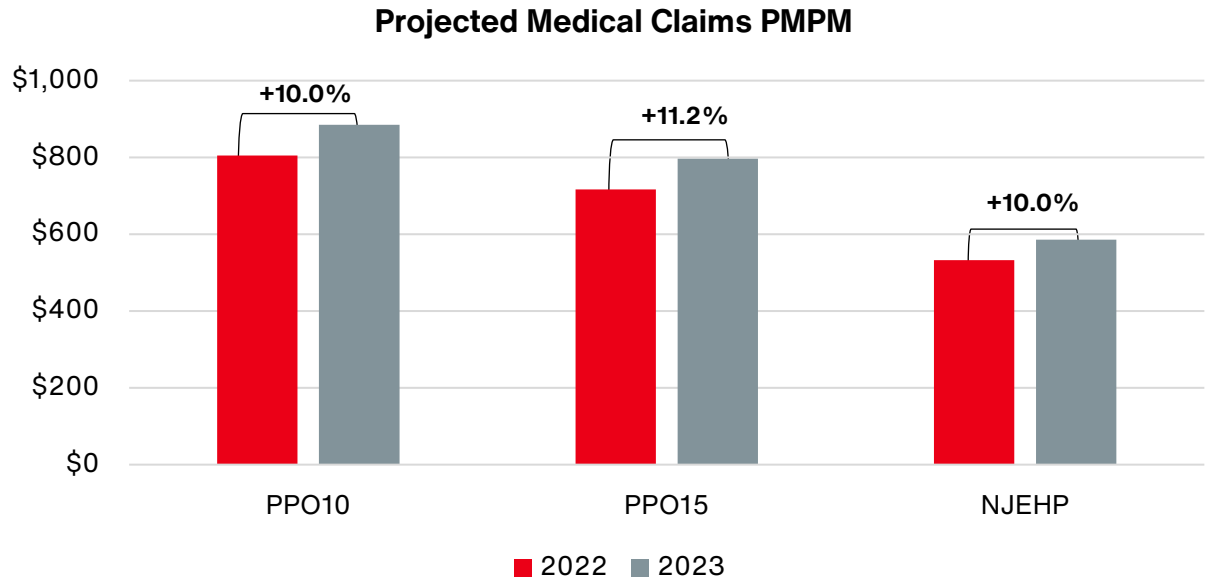
- 18.6% YTD September Rx trend is higher compared to the 10.0% combined trend & anti-selection assumptions reflected in the 2024 Rate Setting Analysis

The increase in prescription drug claims was partially offset by an increase in actual prescription drug rebates

Emerging 2023 Actual Costs vs. Rate Setting Estimates







Observations

The pie charts show the enrollment distribution by plan for 2022 and 2023, illustrating a significant shift into the lower cost NJEHP plan option

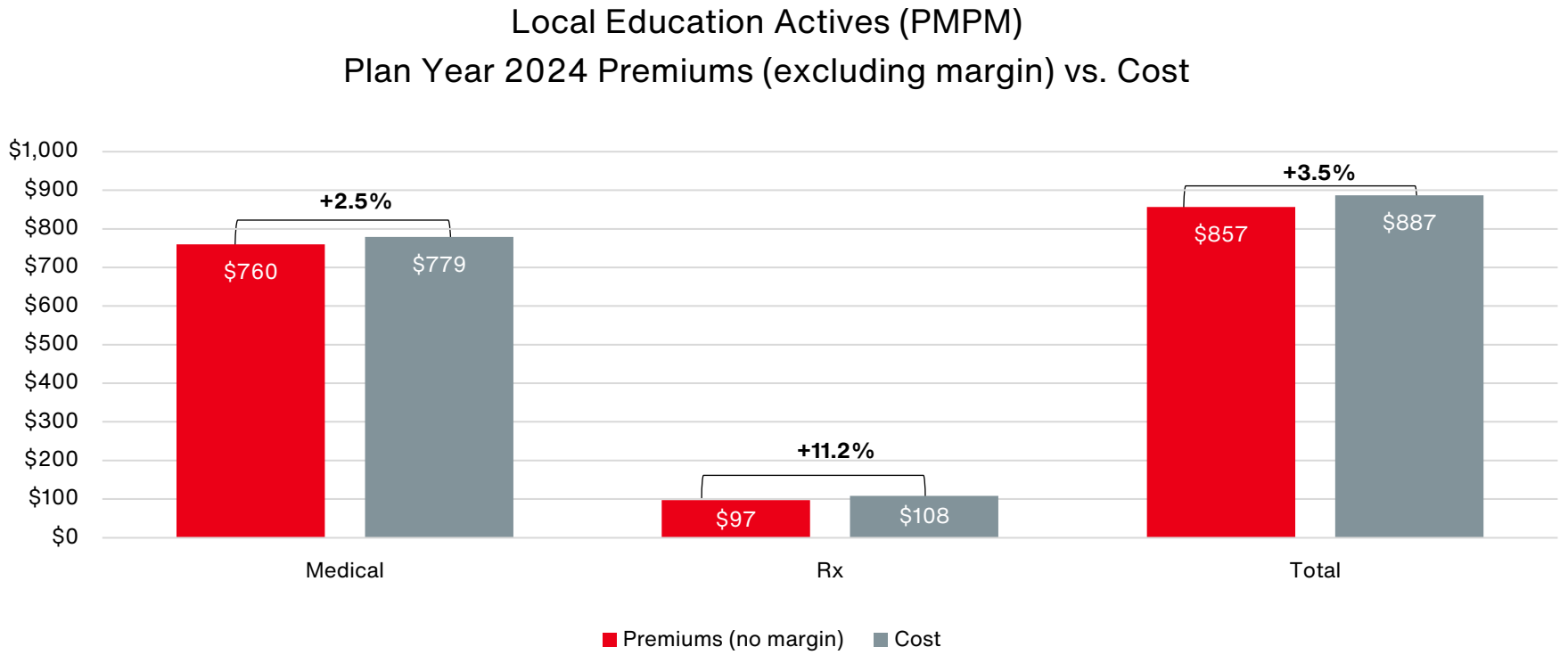
- The number of subscribers in the NJHEP option increased 16% in 2023 while enrollment the PPO10 and PPO15 plan options decreased 14% and 24%, respectively

The bar chart to the left shows updated 2022 and 2023 projected medical PMPM claims separately by Horizon plan option. Plan trends were significantly higher than expected.

- 2023 NJEHP medical claims are projected to be 34% lower compared to the PPO10 plan option

- Medical claims shown above are on a PMPM basis and include medical claims, medical Rx rebates, and capitation payments

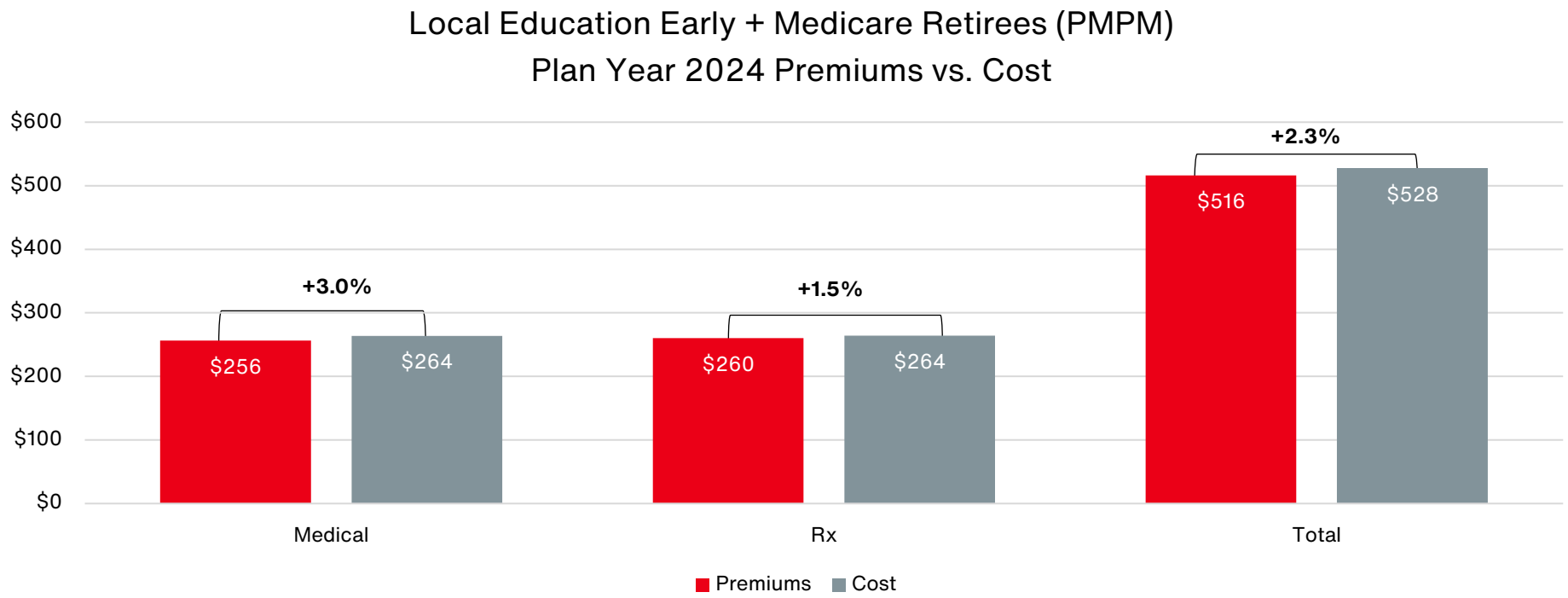
Local Education Active Plan Year 2024 Re-Projection



- For comparison purposes, the premiums shown above do not include the additional 0.6% margin reflected in the final Plan Year 2024 premium rates to illustrate the difference in actual vs expected experience
  - The Plan Year 2024 Local Education premiums included 0.6% premium margin to increase the claims stabilization reserve closer to the recommended 2.0 months of plan cost
- Based on Mid-Year projections, there is a 3.5% loss compared to the Rate Setting Analysis (2.9% loss with margin):

- Cost includes projected claims, administrative fees, rebates, and other expenses

Local Education Retiree Plan Year 2024 Re-Projection



- Based on the updated Mid-Year projections, the projected total loss is 2.3% compared to 2024 premiums

Disclaimers

The projections in this analysis are measured on an incurred basis and are consistent with the assumptions and methodology disclosed herein. Future projections may differ significantly from the current projections presented in this analysis due to (but not limited to) such factors as the following:

- Plan experience differing from what is anticipated by the economic or demographic assumptions;
- Changes in actuarial methods or in economic or demographic assumptions;
- Changes in plan provisions or applicable law.

This analysis contains the primary actuarial assumptions and methods used to develop the cost projections but may not include a comprehensive list of these methodologies and assumptions. Aon provided guidance with respect to these assumptions, and it is our belief that the assumptions represent reasonable expectations of anticipated plan experience.

Preparation of this Actuarial Analysis

This report has been prepared to present our analysis of the Plan Year 2023 Mid-Year Experience Analysis for the School Employee's Health Benefits Program (SEHBP). The purpose of this analysis is to re-projected the Plan Year 2023 and Plan Year 2024 costs based on more recent experience. The use of this report for purposes other than those expressed herein may not be appropriate.

It should be noted that Aon's conclusions are based on certain assumptions that appear reasonable at this time. Actual experience can vary from projected experience, and this difference may be material.

Source of Information

In conducting this analysis, we relied on census data provided by the State and claims data provided by carriers. We reviewed the data for reasonableness and consistency with prior data but have not audited it; as such, we are not certifying, herein, as to its accuracy.

Thank You