

**State Health Benefits Commission**  
**Minutes, Meeting No 566**  
**September 8, 2016; 2:06 PM**

Adequate notice of this meeting was provided through a special meeting notice was mailed to the Secretary of State, Star Ledger and the Trenton Times on September 6, 2016.

The meeting of the State Health Benefits Commission of New Jersey was called to order on Thursday, September 8, 2016 at 2:06 pm. The meeting was held at Thomas Edison State University, 101 West State Street, in Trenton.

The text of Resolution B (Executive Session) – was read in its entirety in the event that the Commission desires, at any point in the meeting, to approve a motion to go into closed session to request attorney-client advice.

Acting Secretary Kierney Corliss took Roll Call and established that a quorum was present.

**Roll Call**

**Commissioners:**

**John Megariotis**, Chairperson, representing State Treasurer Ford M. Scudder  
**Dudley Burdge**, Representative for Local Government Employees  
**Debra Davis**, Representative for State Government Employees  
**Robert M. Czech**, Chairman/CEO, Civil Service Commission  
**Felix Schirripa**, Representing Department of Banking and Insurance Commissioner Richard J. Badolato

**Also Present:**

**Christin Deacon**, Deputy Attorney General  
**Danielle Schimmel**, Deputy Attorney General  
**Kierney Corliss**, Acting Secretary  
**Joseph Palladino**, Division of Pensions and Benefits  
**Mark Cipriano**, Division of Pensions and Benefits  
**Florence Sheppard**, Acting Director, Division of Pensions and Benefits  
**Jim Christ**, Aon Hewitt  
**Mary Reilly**, Aon Hewitt  
**Barry Shane**, Aon Hewitt  
**Alex Jaloway**, Aon Hewitt  
**Erik Rubenacker**, Express Scripts

## **Issues**

**Rate Renewals for SHBP Plan Year 2017:** Acting Secretary Corliss noted that James Christ, Barry Shane, and Alex Jaloway from Aon Hewitt were present to discuss the proposed rate renewal with the Commission. Mr. Christ gave an overview of the proposed rates. Mr. Jaloway reviewed the 2017 rate renewal recommendations for Medical/Rx for the Active Employees and Retirees of the State Group, Tiered Network plans for Active Employees, and Active Employees of the Local Government Group. The following is a summary of the presentation.

### **State Group Plan Year 2017 Medical/Rx Rate Renewal Recommendation**

- For Plan Year 2017, Aon is recommending State Group overall premium rate changes of 3.4% for Active Employees, 6.9% for Early Retirees, and 3.2% for Medicare Retirees.
  - In aggregate, the recommended rate actions represent an overall increase for the State Group of 3.8%, approximately two percentage points lower than the Plan Year 2016 recommended renewal action of 5.9%.
  - Following are the recommended premium rates changes by plan type:

	Active Employees	Early Retirees	Medicare Retirees
Medical PPO	3.0%	6.9%	-5.8%
Medical HMO	3.1%	6.9%	-5.9%
Prescription Drug PPO	4.8%	7.2%	9.7%
Prescription Drug HMO	4.8%	7.2%	9.7%
Total	3.4%	6.9%	3.2%

The Plan Year 2017 Renewal assumes the following:

- The Retiree Rx copays and Out-of-Pocket Maximum limits for SHBP PPOs and HMOs will remain unchanged at the Plan Year 2016 levels.
- No change in the benefit landscape for Plan Year 2017, with Aetna and Horizon both offering PPO, HMO, and HDHP options, and Express Scripts continuing as the State's PBM.
- The following changes will occur for Plan Year 2017:
  - All Medicare-eligible members currently enrolled in the PPO10 or PPO15 plans through Horizon will now be enrolled in a Medicare Advantage plan in Plan Year 2017. The Medicare Advantage plans are fully-insured, rather than the current self-insured Medicare supplement plans offered by Horizon in Plan Year 2016. All Aetna Medicare-eligible members were already previously enrolled in Medicare Advantage plans. Medicare-eligible members currently enrolled in Horizon's PPO1525, PPO2030 or HMO plans will continue to be covered under Horizon's self-insured Medicare Supplement plans. The Medicare Advantage replacement change is estimated to reduce Medicare Retiree medical costs by approximately 11%.
  - The State will provide an incentive in the form of a gift card per Active Employee who enrolls in the Tiered Network plan for Plan Year 2017 with a two-year commitment. The incentive is equal to \$1,000 for Single coverage, \$1,250 for Employee+Spouse or Employee+Child(ren) coverages and \$2,000 for Family coverage. This change is estimated to reduce projected Plan Year 2017 costs by approximately 0.6%.

- All PPO plans will now limit the plan payments for out-of-network physical therapy services to the average of the in-network rate for physical therapy services. Projected Plan Year 2017 medical costs are expected to reduce by about 1.7%.
  - The SHBP will pay for the cost of the generic equivalent for all multi-source drugs (brand drugs with generic equivalents available). Members who choose to fill the prescription with the brand name drug will need to pay the difference in cost. This change will reduce Plan Year 2017 prescription drug costs by approximately 3.6%.
  - All Active and Early Retiree prescription drug plans will move to ESI's National Preferred Formulary, which directs prescriptions to more cost-effective, clinically-equivalent medications. A reduction of about 4.3% of the projected Plan Year 2017 prescription drug costs is expected to be realized.
  - Step Therapy was adopted and will now apply to all State Actives, where members will be required to try a more cost-effective, clinically-equivalent drug before certain drugs will be covered. Active Plan Year 2017 prescription drug costs are expected to reduce by about 0.5% due to this change.
- Additionally, emergency room copays will increase by \$25 for all current plans where the copay is lower than \$100, where permitted by federal regulations. This change is expected to reduce projected Plan Year 2017 medical costs by about 0.1%.
- In February 2016, The SHBP Plan Design Committee adopted the full Express Scripts Compound Management solution. This solution excludes all compound ingredients that lack clinical evidence. Prescription drug trends were adjusted lower to incorporate this change.
- SHBP Medicare Prescription Drug Integration will continue as EGWP Plus Wrap.
- State Active Employees are fully-phased into the Chapter 78 contribution schedule. Plan Year 2017 enrollment projections assume that 0.5% of the Active enrollment and 0.5% of the Retiree enrollment in NJ DIRECT15 will migrate to lower-cost plans as a result of these contribution changes. While Chapter 78 does not apply to most current Retirees, migration projections are mostly due to self-pay Retirees (about 10% of the population).
- The two year contract extension with Express Scripts is projected to reduce overall Plan Year 2017 prescription drug costs by about 2.5%.
- Overall, State Active Employee enrollment is projected to decrease approximately 1.0% in Plan Year 2016 and 0.5% in Plan Year 2017, while State Early Retiree enrollment is projected to decrease approximately 3.0% in Plan Years 2016 and 2017. Finally, Medicare Retiree enrollment is projected to increase approximately 4.5% in Plan Year 2016 and 4.0% in Plan Year 2017.
- The following components of Federal Health Care Reform impact the SHBP in Plan Year 2017:
  - In-Network Out-of-Pocket Maximum for medical and prescription drug benefits combined will be no greater than \$7,150 Single / \$14,300 Family combined. The SHBP will have separate medical and prescription drug Out-of-Pocket Maximums. This is projected to have an insignificant cost impact on the SHBP.
  - There is no Transitional Reinsurance Fee in Plan Year 2017.
- Differences in the rate changes among Actives and Retirees, benefit plans and coverage tiers reflect the impact of:
  - Plan Year 2016 prescription drug trends were expected to increase to 12% for Actives and for Retirees. These higher trends were initially recommended due to the increasing frequency of high-cost compound drugs and new high-cost specialty drugs. The prescription drug trends have been lowered due to the Compound Drug change adopted by the SHBP Plan Design Committee in February 2016. Plan Year 2016 prescription drug trends were reduced to 11.25% for Actives and Retirees. The prescription drug trend for Actives and Retirees in Plan Year 2017 is 11.00%. The trends represent the expected increases in costs due to specialty drugs.
  - Emerging Plan Year 2016 medical PPO experience for Early Retirees shows increases in trends mainly due to higher incidence and increased cost of high cost

claims. Plan Year 2016 medical PPO trends for Early Retirees have increased 100 basis points to 8.00%. The recommended medical PPO trend for Actives is 7.50% for Plan Year 2016. Plan Year 2017 medical PPO trends are recommended to be consistent with long-term assumptions and historical experience (6.50% for Actives and 6.00% Early Retirees).

- The HMO medical trend for Actives has been lowered to 5.50% in Plan Year 2016 and 5.00% in Plan Year 2017 from 7.00% in the Plan Year 2016 Renewal Report.
- The HMO medical trend for Early Retirees has been reduced 100 basis points from 7.0% to 6.0% in Plan Year 2016. The recommendation for Plan Year 2017 is 5.50%.
- Fully insured Aetna Medicare Advantage premium increases showed no change for the PPO plans and a 3% reduction for the HMO.
- Rx Rebates were higher than projected in Plan Year 2015 and are expected to be higher in Plan Year 2016 than projected in the Plan Year 2016 renewal. Plan Year 2017 Rx rebates are projected to increase to \$135 million, from \$128 million projected in Plan Year 2016.
- 2017 EGWP credits are projected to increase from \$75 million for Plan Year 2016 to \$85 million for Plan Year 2017.
- For Active premiums, increases vary by coverage tier because the differences in costs by coverage tier have been revised based on actual SHBP experience. Specifically, the load for Child(ren) coverage is recommended to increase from 79% to 86% of the Single coverage. This increase represents approximately 50% of the rate increase for these tiers in prior years. With this premium increase, the cost of Child(ren) coverage will be approximately equal to the actual cost.
- Plan Year 2017 projected costs for the State Group are \$2.5 billion (\$1.8 billion for Actives and \$0.7 billion for Retirees). Plan Year 2017 renewal premiums are set to match the projected costs, so there is no loss or gain projected for the State Group for Plan Year 2017.

#### **Local Government Group Plan Year 2017 Medical/Rx Rate Renewal Recommendation**

- For Plan Year 2017, Aon is recommending Local Government Group overall premium rate changes of a 0.1% decrease for Active Employees, an 8.6% increase for Early Retirees, and a 4.6% increase for Medicare Retirees.
  - In aggregate, the recommended rate actions represent an overall increase for the Local Government Group of 2.4%, several percentage points below the Plan Year 2015 recommended renewal action of 5.8%.
  - Following are the recommended premium rates changes by plan type:

	Active Employees	Early Retirees	Medicare Retirees
Medical PPO	(0.1%)	8.9%	-8.1%
Medical HMO	(0.1%)	8.9%	-8.2%
Prescription Drug PPO	(0.1%)	7.6%	14.7%
Prescription Drug HMO	(0.1%)	7.6%	14.7%
Total	(0.1%)	8.6%	4.6%

- The Plan Year 2017 Renewal assumes the following:
  - The Retiree Rx copays and Out-of-Pocket Maximum limits for SHBP PPOs and HMOs will remain unchanged at the Plan Year 2016 levels.
  - No change in the benefit landscape for Plan Year 2017, with Aetna and Horizon both offering PPO, HMO, and HDHP options, and Express Scripts continuing as the State's PBM.
- The following changes will occur for Plan Year 2017:
  - All Medicare-eligible members currently enrolled in the PPO10 or PPO15 plans through Horizon will now be enrolled in a Medicare Advantage plan in Plan Year

2017. The Medicare Advantage plans are insured, rather than the current self-insured Medicare supplement plans offered by Horizon in Plan Year 2016. All Aetna Medicare-eligible members were already previously enrolled in Medicare Advantage plans. Medicare-eligible members currently enrolled in Horizon's PPO1525, PPO2030 or HMO plans will continue to be covered under Horizon's self-insured Medicare Supplement plans. This Medicare Advantage change is estimated to result in a 12% reduction in Medicare Retiree medical cost.

- Local Government employers have the option to provide an incentive in the form of a gift card per Active Employee who enrolls in the Tiered Network plan for Plan Year 2017 with a two-year commitment. The incentive is equal to \$1,000 for Single coverage, \$1,250 for Employee+Spouse or Employee+Child(ren) coverages and \$2,000 for Family coverage. The renewal does not reflect any cost or savings associated with this change as it is optional for Local Government employers.
- All PPO plans will now limit the plan payments for out-of-network physical therapy services to the average of the in-network rate for physical therapy services. Projected Plan Year 2017 medical costs are expected to reduce by about 1.7%.
- The SHBP will pay for the cost of the generic equivalent for all multi-source drugs (brand drugs with generic equivalents available). Members who choose to fill the prescription with the brand name drug will need to pay the difference in cost. This change will reduce Plan Year 2017 prescription drug costs by approximately 3.6%.
- All Active and Early Retiree prescription drug plans will move to ESI's National Preferred Formulary, which directs prescriptions to more cost-effective, clinically-equivalent medications. A reduction of about 4.3% of the projected Plan Year 2017 prescription drug costs is expected to be realized.
- Additionally, emergency room copays will increase by \$25 for all current plans where the copay is lower than \$100, where permitted by federal regulations. This change is expected to reduce projected Plan Year 2017 medical costs by about 0.1%.
- In February 2016, The SHBP Plan Design Committee adopted the full Express Scripts Compound Management solution. This solution excludes all compound ingredients that lack clinical evidence. Prescription drug trends were adjusted lower to incorporate this change.
- SHBP Medicare Prescription Drug Integration will continue as EGWP Plus Wrap.
- Local Government Active Employees are fully-phased into the Chapter 78 contribution schedule. Plan Year 2017 enrollment projections assume that 0.5% of the Active enrollment and 0.5% of the Retiree enrollment in DIRECT10 will migrate to lower-cost plans as a result of these contribution changes. While Chapter 78 does not apply to most current Retirees, migration projections are mostly due to self-pay Retirees (about 10% of the population).
- The two year contract extension with Express Scripts is projected to reduce overall Plan Year 2017 prescription drug costs by about 2.5%.
- Overall, Local Government Active Employee enrollment is projected to decrease approximately 6.5% in Plan Year 2016 and 5.0% in Plan Year 2017, while Local Government Early Retiree enrollment is projected to decrease approximately 1.5% in Plan Years 2016 and 2017. Finally, Medicare Retiree enrollment is projected to increase approximately 4.5% in Plan Year 2016 and 4.0% in Plan Year 2017.
- The following components of Federal Health Care Reform impact the SHBP in Plan Year 2017:
  - In-Network Out-of-Pocket Maximum for medical and prescription drug benefits combined will be no greater than \$7,150 Single / \$14,300 Family combined. The SHBP will have separate medical and prescription drug Out-of-Pocket Maximums. This is projected to have an insignificant cost impact on the SHBP.
  - There is no Transitional Reinsurance Fee in Plan Year 2017.
- Differences in the rate changes among Actives and Retirees, benefit plans and coverage tiers reflect the impact of:

- Plan Year 2016 prescription drug trends were expected to increase to 12% for Actives and for Retirees (prior to the antiselection load). These higher trends were recommended due to the increasing frequency of high-cost compound drugs and new high-cost specialty drugs. The prescription drug trends have been lowered due to the Compound Drug change adopted by the SHBP Plan Design Committee in February 2016. Plan Year 2016 prescription drug trends were reduced to 11.50% for Actives and to 11.25% for Retirees. Active and retiree prescription drug trends for Plan Year 2017 are 11.25% and 11.00%, respectively. The trends represent the expected increases in costs due to specialty drugs.
- Emerging Plan Year 2016 medical PPO experience for Early Retirees shows a slight increase in trends mainly due to higher incidence and increased cost of high cost claims. Plan Year 2016 medical PPO trends for Early Retirees have increased 50 basis points to 7.50%. The medical PPO trend for Actives have reduced 1 percentage point to 7.25% for Plan Year 2016. Plan Year 2017 medical PPO trends are recommended to be consistent with long-term assumptions and historical experience (7.25% for both Actives and 6.00% Early Retirees).
- The HMO medical trend for Actives has been lowered to 6.25% in Plan Year 2016 and 5.75% in Plan Year 2017 from 7.75% in the Plan Year 2016 Renewal Report.
- The HMO medical trend for Early Retirees has been reduced 100 basis points from 7.0% to 6.0% in Plan Year 2016. The recommendation for Plan Year 2017 is 5.5%.
- Based on long term potential expected future terminations of Local Government Active Employers from the SHBP, the Active medical and prescription drug trends have been increased by 25 basis points for Plan Year 2016. This anti-selection load has been reduced from 75 basis points in Plan Year 2017.
- Fully insured Aetna Medicare Advantage premium increases showed no change for the PPO plans and a 3% reduction for the HMO.
- Rx Rebates were higher than projected in Plan Year 2015 and are expected to be higher in Plan Year 2016 than projected in the Plan Year 2016 renewal. Plan Year 2017 Rx rebates are projected to increase to \$61 million, from \$58 million projected in Plan Year 2016.
- 2017 EGWP credits are projected to increase from \$41 million for Plan Year 2016 to \$46 million for Plan Year 2017.
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- Plan Year 2017 projected costs for the Local Government Group are \$1.4 billion (\$0.9 billion for Actives and \$0.5 billion for Retirees). The Plan Year 2017 renewal premiums project a \$20 million loss for Actives, and no gain or loss for Retirees.
- The Claim Stabilization reserve is expected to reduce by approximately \$20 million in Plan Year 2017 so that Active premium rates reduce by 0.1%. With the reduction in the reserve, the 12/31/17 Claim Stabilization Reserve is projected at 2.5 months of projected Plan costs. The active and retiree premium rates do not include margin as the projected reserve level is higher than the target level of 2.0.

### **Plan Year 2017 Dental Rate Renewal Recommendation**

- For the SHBP Dental Plans (Dental Expense Plan and Dental Provider Organizations), Aon recommends the following premium rate adjustments:

	<b>Actives</b>	<b>Retirees</b>
<b>Dental Expense Plan</b>	2.8%	%.1%
DPOS-Overall	-1.0%	-1.1%
Aetna	0.0%	0.0%
Cigna	2.0%	2.0%
Healthplex	0.0%	0.0%
Horizon	-5.1%	-5.1%
MetLife	-5.0%	-5.0%

- This vendor landscape reflects no changes from Dental RFP effective January 1, 2015:
  - DEP – Continued with Aetna as the administrator for the self-insured DEP program for both Actives and Retirees.
  - DPOs – Continued with Aetna, Cigna, Horizon, and Healthplex and the recently added MetLife as fully-insured DPOs. DPO coverage includes Retirees as well as Actives.
- This renewal assumes no changes in benefit levels.
- Aon is projecting that Total State Active Dental enrollment will remain stable in Plan Year 2017, consistent with projected medical enrollment changes and historical projection trend. Local Active Employee Enrollment is projected to also remain stable in Plan Year 2017. Retiree enrollment is projected to increase 2.5% in Plan Year 2017.
- Plan Year 2017 projected costs for the SHBP Dental Plans are \$142 million, broken down as follows:
  - Active DEP: \$59 million
  - Retiree DEP: \$67 million
  - Active DPOs: \$14 million
  - Retiree DPOs: \$2 million

Acting Director Sheppard clarified that the savings discussed in the rate renewal recommendations are plan cost savings, not savings in the State Budget.

Acting Secretary Corliss noted that the rates would be voted on at the Commission's next meeting, scheduled for September 14, 2016.

There being no further business to discuss, Commissioner Megariotis made a motion to adjourn. Commissioner Schirripa seconded. All voted in favor and the meeting was adjourned at 3:19 PM.

Respectfully Submitted,

Kierney Corliss  
Acting Secretary  
State Health Benefits Commission

