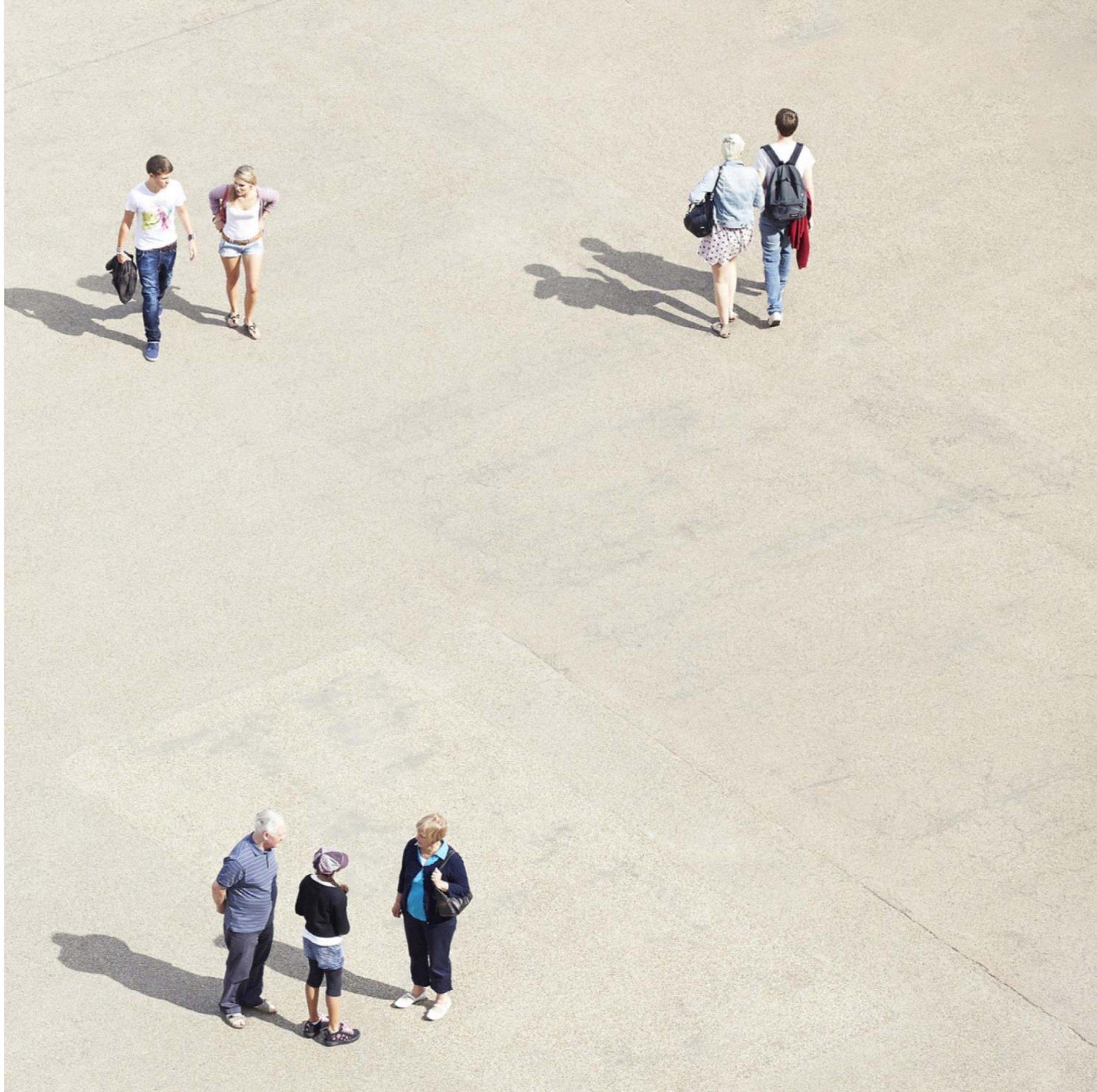
State of NJ
SEHBP Mid-Year Analysis
PDC Meeting

March 17, 2025



Aon Health Solution

Today's Discussion

Meeting Objectives

- Provide a summary of the results of the Mid-Year Analysis
- Discuss 2026 Rate Setting Expectations
- Explore Potential Cost Savings Initiatives

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 2025. The expected costs increases have more than offset the 2.0% margin in the Active premium rates.

The Local Education Claim Stabilization Reserve (CSR) balance as of 12/31/2025 is projected to be $80M or 0.6 months of plan cost, below the target level 2.0 months of plan cost

Based on these projected losses and building in future trends, premium rate increases for 2026 are likely to be in the double digits for both groups

	Local Education	
Plan Year 2025 ($ Millions)	**2025 Rate Setting Analysis***	**Updated Mid-Year Analysis**
Actives		
Total Premium	$1,769.0	$1,566.6
Total Claims and non-Fee Expenses	$1,700.2	$1,570.2
Total Admin Fees	$33.5	$37.2
Total Cost	$1,733.7	$1,607.4
*$ Gain/(Loss)***	*$35.3*	*($40.8)*
*% Gain/(Loss)***	*2.0%*	*(2.6%)*
Claim Stabilization Reserve	$184.7	$80.1
Months of Plan Cost	1.3	0.6
Retirees		
Total Premium	$1,160.6	$1,182.3
Total Claims and non-Fee Expenses	$1,126.9	$1,168.4
Total Admin Fees	$33.9	$35.9
Total Cost	$1,160.8	$1,204.3
*$ Gain/(Loss)***	*($0.2)*	*($22.0)*
*% Gain/(Loss)***	*(0.0%)*	*(1.9%)*

Local Education Actives:

- Experience has continued to deteriorate since the 2025 Rate Setting Analysis. Aggregate 2025 costs are now projected to be 7.3% lower than the previous analysis driven by a 10.7% reduction in membership offset by a **3.8% increase in per member per month costs**.

Local Education Retirees:

- Aggregate 2025 costs are now projected to be 3.7% higher than the previous analysis driven by a 0.5% increase in membership and a **3.2% increase in per member per month costs**.

Local Education Active CSR:

- The premiums set in the Rate Setting Analysis included 2% margin to increase the CSR balance. Even with margin, the total CSR was projected to be below the target level of 2.0 months of plan costs as of 12/31/2025.
- The Local Education CSR is estimated using actual balances provided by the State and projected differences in premiums vs costs. If premiums are greater than costs, the CSR will increase.
- Based on updated estimates, the CSR is projected to decrease compared to the prior Rate Setting Analysis. **2025 Active premiums would need to be 12.0% higher to increase the CSR to the target level of 2.0 months** of plan costs as of 12/31/2025.

*2025 Local Education Active premiums include 2.0% 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

- Increases in the cost of medical services and increases in utilization 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 ambulatory (+10%), outpatient surgeries (+4%), outpatient medical pharmacy (+10%), and specialist physicians (+3%)
  - Additionally, large reductions in SEHBP active enrollment in 2024 appears to have resulting in higher average costs as favorable risks have left the plan
  - For Local Education Early Retirees, there was an increase in utilization of outpatient surgeries (+6%), outpatient ambulatory (+8%), and specialist physicians (+3%)
- PMPM Rx increases for Local Education Actives (+19%) are significantly higher than expected, partially the result of high utilization of GLP-1 drugs for diabetes and weight loss

Expectations for Upcoming Rate Setting

Plan Year 2026 Rate Setting Updates

- The PY2026 Rate Setting Analysis will reflect full Calendar Year 2024 claims experience with runout through March 2025 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 2026

- 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 2.0% margin).
  - Based on updated estimates, the 2025 Active CSR is projected to be negative, and 2025 Active premiums would need to be 12.0% higher to increase the CSR to the target level of 2.0 months of plan costs.

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

2

Cost Savings Initiatives

Potential Plan Changes to Drive Savings

Increase Emergency Room Copays to $150 and Urgent Care Copays to $50

- In addition to plan savings through higher member cost sharing, increasing these copays could steer members toward more appropriate use of care resulting in additional savings.

Eliminate Active PPO10 and PPO15

- Eliminating the Active PPO10 and PPO15 plan options would require members to enroll in the NJEHP or GSHP options. The NJEHP and GSHP have higher copays, more highly managed networks, and a more restrictive formulary compared to the PPO10 and PPO15, which would result in gross plan cost savings.

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

- 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 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.

Increase In-Network Deductible and Out-of-Network (OON) Out-of-Pocket Amounts

- Increase the plan in-network medical deductibles to $1,000/$2,000 and increase the current OON out-of-pocket maximums. This provides savings through higher member cost sharing while also promoting in-network utilization.

Add Physical Therapy Visit Limits Across All Plans

- Limit the number of in-network and out-of-network visits to 30 per year. This cap will not only limit visits for high utilizers, providing savings, but may also promote more appropriate use of care.

Eliminate the Medicare Supplement Plans

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

Potential Plan Changes to Drive Savings (Cont.)

Implement $50 monthly Spousal Surcharge

- Premium surcharge for spouses with access to 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.

Increase Rx Copays for Non-Preferred Brand and Specialty Drug

- In addition to plan savings through higher member cost sharing, increasing these copays could promote more appropriate use of care resulting in additional savings.

Other Considerations:

Local Employer Opt-In and Opt-Out Strategy

- Each year, Local Education employers have the option to shop for lower cost premiums and opt-out of the SEHBP. As a result, employers with lower cost workers are more likely to opt-out leaving a riskier employer pool for the SEHBP, resulting in higher plan costs and trends. Similarly, employers entering or returning to the program tend to be riskier compared to the existing pool of participants, further increasing plan costs.

- By placing limits on an employer's ability to leave and return to the plan, employers may be more hesitant to leave the plan, reducing the impact of this opt-out selection and providing savings to the plan.

3

Appendix

Local Education Claim Stabilization Reserve

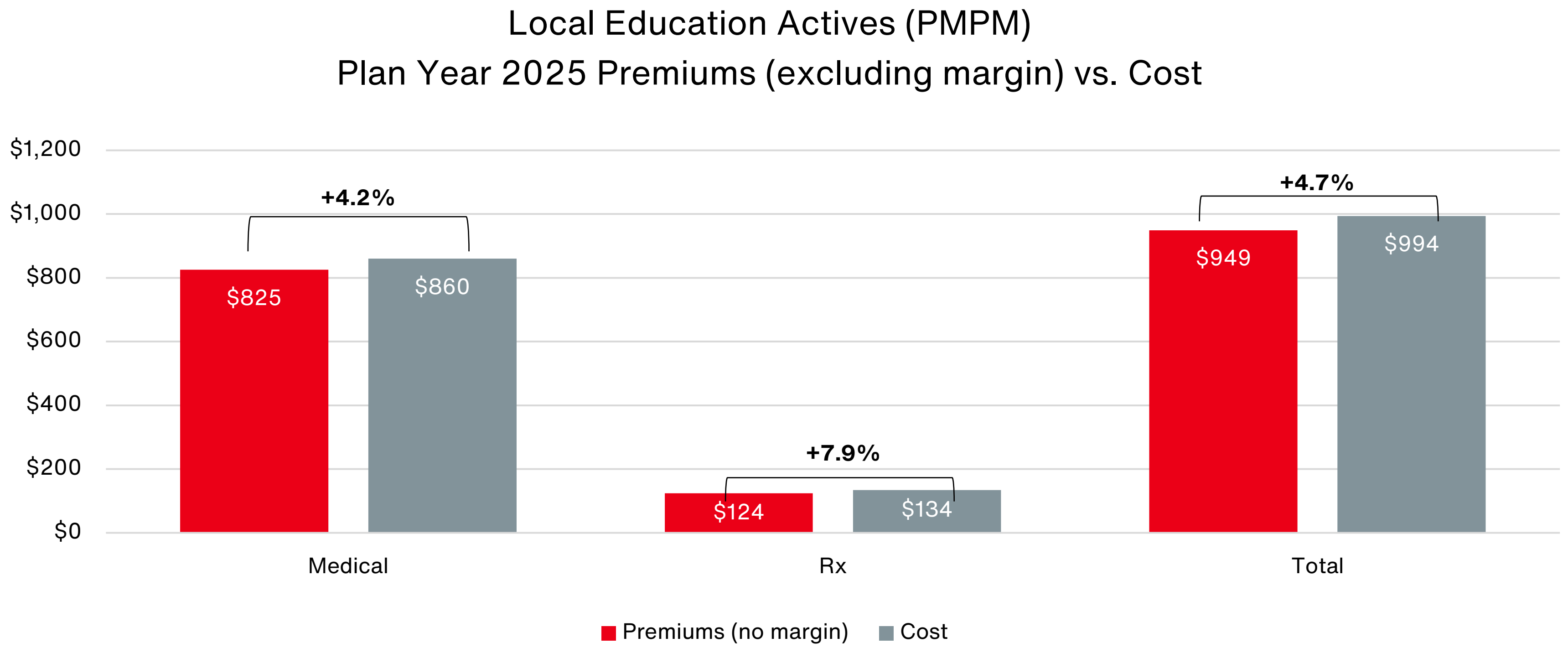
Claim Stabilization Reserve Balance (in $ millions)	Active
12/31/2023	$198
12/31/2024	$121
12/31/2025	$80
Months of Plan Cost as of 12/31/2025	0.6

- The claim stabilization reserve as of December 31, 2023 is based on balances provided by the Division as of June 30, 2023. The projected reserves as of December 31, 2024 and 2025 are based on the reserve balance as of June 30, 2024 provided by the Division. The claims stabilization reserve as of December 31, 2025 is estimated based off projected gains and losses in the active and retiree plans.

Cost Projection Methodology and Assumptions

	2025 Cost Projections
Claims Experience	12 months of incurred claims data paid through September 2024 provided by Horizon, Aetna, and Optum
Enrollment Distribution	Snap-shot January 2025 census data provided by the State
2024 Self-Insured Claims Trend (Excluding Anti-Selection)	Active PPO: 7.50% Medical / 11.50% Rx Early Retiree PPO: 7.50% Medical / 12.00% Rx Self-Insured Medicare: 5.50% Medical / 13.00% Rx
Anti-Selection	Local Education Active medical and prescription drug trends have been increased by 75 basis points for Plan Year 2025
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

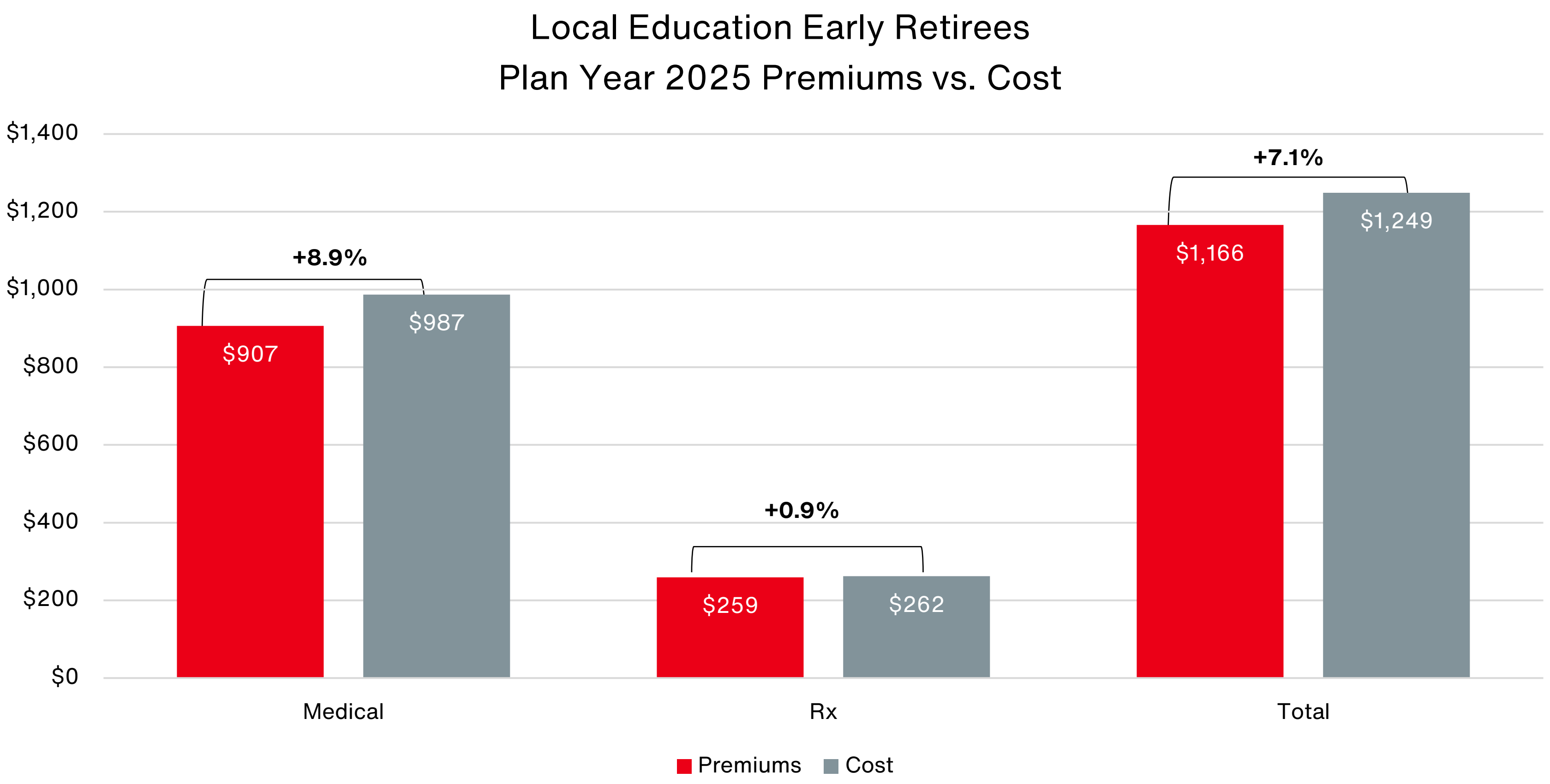
Local Education Active Plan Year 2025 Re-Projection



- For comparison purposes, the premiums shown above do not include the additional 2.0% margin reflected in the final Plan Year 2025 premium rates to illustrate the difference in actual vs expected experience
  - The Plan Year 2025 Local Education premiums included 2.0% 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 4.7% loss compared to the Rate Setting Analysis (2.7% loss with margin):

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

Local Education Retiree Plan Year 2025 Re-Projection



- Based on the updated Mid-Year projections, the projected total loss is 7.1% compared to 2025 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 2024 Mid-Year Experience Analysis for the School Employee's Health Benefits Program (SEHBP). The purpose of this analysis is to re-project the Plan Year 2024 and Plan Year 2025 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