

**New Jersey State Health Benefits Commission**  
**State Health Benefits Program (SHBP) – Local Government Group**  
**Plan Year 2019 Medical/Rx Rate Renewal Recommendation**

July 11, 2018

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- For the Local Government Group in Plan Year 2019, Aon is recommending an 8.2% increase for Active Employees, no increase or decrease for Early Retirees and a 12.7% decrease for Medicare Retirees.
  - In aggregate, the recommended rate actions represent an overall rate increase for the Local Government Group of 4.0%, approximately 5 percentage points higher than the Plan Year 2018 Renewal rate decrease of 1.3%.
  - The following chart provides the recommended premium rates changes by plan type:

|                       | <b><u>Active</u></b>    | <b><u>Early</u></b>    | <b><u>Medicare</u></b> |
|-----------------------|-------------------------|------------------------|------------------------|
|                       | <b><u>Employees</u></b> | <b><u>Retirees</u></b> | <b><u>Retirees</u></b> |
| Medical PPO           | 6.7%                    | 0.0%                   | (9.9%)                 |
| Medical HMO           | 6.7%                    | 0.0%                   | 5.2%                   |
| Prescription Drug PPO | 13.7%                   | 0.0%                   | (15.3%)                |
| Prescription Drug HMO | 13.7%                   | 0.0%                   | (15.3%)                |
| <b>Total</b>          | <b>8.2%</b>             | <b>0.0%</b>            | <b>(12.7%)</b>         |

Attachment A provides additional details on the components of these increases.

- The premium increases for Plan Year 2019 are projected to produce a \$24 million loss for Local Government Actives and a \$12 million loss for Local Government Retirees. The Active and Retiree Claim Stabilization reserves are expected to reduce by approximately \$24 million and \$12 million in Plan Year 2019, respectively, to achieve the recommended rate increases for Active Employees and Retirees. Including the projected reduction in the reserves, the total Active and Retiree aggregate Claim Stabilization Reserve is projected to be 2.4 months of plan costs as of December 31, 2019, which is above the target level of 2.0 months of plan costs as of December 31, 2019.
- The projected Claim Stabilization Reserve as of December 31, 2019 is 1.2 months of plan costs for Actives and 4.9 months of plan costs for Retirees.

The Plan Year 2019 Renewal assumes the following:

- Active Employee enrollment is projected to increase 3.1% in Plan Year 2018 and 3.0% in Plan Year 2019. Early Retiree enrollment is projected to increase 3.0% in Plan Year 2018 and Plan Year 2019. Medicare Retiree enrollment is projected to increase 4.1% in Plan Year 2018 and 5.0% in Plan Year 2019.

- Plan Year 2019 enrollment projections assume that 0.5% of the enrollment in the NJ DIRECT10 plan will migrate to lower-cost plans.
- The impacts of the following benefit and plan design changes are reflected in the Plan Year 2019 Renewal:
  - Effective January 1, 2019, a State mandate will remove member cost-sharing for 3-D mammography screenings when the screening is routine for members ages 40 years or older. This mandate is estimated to increase non-Medicare medical claims by approximately 0.1% annually.
  - Effective March 15, 2018, existing State legislation was amended to require all health insurance/medical providers to cover female contraceptive drugs and devices in the same way other prescription drugs are covered. This legislation is not expected to materially impact the SHBP.
  - The SHBP Plan Design Committee approved several plan changes for Plan Year 2017 that were reaffirmed for both Plan Year 2018 and Plan Year 2019. These changes include an out-of-network reimbursement change for physical therapy services in the PPO plans, mandatory generic for prescription drugs, and a prescription drug copay change.
  - The Plan Design Committee has not yet reaffirmed the alternative prescription drug formulary for Plan Year 2019. The Plan Year 2019 Renewal projections assume that the prescription drug formulary currently in place for Plan Year 2018 will continue for Plan Year 2019.
  - No changes to the current self-insured or fully-insured medical and prescription drug vendor contracts is assumed.
  - Section 9010 of the ACA imposes a Health Insurer Fee (HIF) on each covered entity engaged in the business of providing health insurance for United States health risks. On January 22, 2018, Congress passed and the President signed a spending bill which places a moratorium on this tax for Plan Year 2019. Aon's projections assume that the HIF will not be reinstated for Plan Year 2019 for the SHBP's fully-insured plans.
  - In-network out-of-pocket maximums for medical and prescription drug benefits combined will be no greater than \$7,900 Single / \$15,800 Family combined. The SHBP will have separate medical and prescription drug out-of-pocket maximums, except for the high-deductible plans which have integrated medical and prescription drug out-of-pocket maximums. This is projected to have an insignificant cost impact on the SHBP.
- Differences in the rate changes among Actives and Retirees, benefit plans and coverage tiers reflect the impact of the following:
  - Recommended trends are developed by incorporating actual SHBP plan experience (adjusted for expectations of future cost increases) along with medical and prescription drug vendor trend recommendations, Aon's national trend guidance (which is reflective of Pharmacy Benefit Manager (PBM) surveys), national benchmarking data and other external sources.

- Prescription drug trend for Plan Year 2018 and Plan Year 2019 is recommended to be 8.50% for Actives and Retirees, a reduction from 11.00% as stated in the Plan Year 2018 Renewal. Expectations of prescription drug trend for specialty drugs have reduced from 25% to 15%, which is the main driver for the reduction in the overall prescription drug trend.
- The PPO Active medical trend of 6.0% in Plan Year 2018 has remained unchanged from the Plan Year 2018 Renewal Report. The Plan Year 2019 Active PPO medical trend is recommended to be 5.5%. Plan Year 2017 medical PPO experience for Local Government Actives was unfavorable due to high cost claimants. The first quarter Plan Year 2018 experience is lower than expectations.
- The Plan Year 2018 PPO medical trend of 6.0% for Early Retirees remains unchanged from the Plan Year 2018 Renewal Report. The Plan Year 2019 medical trend is recommended to be 5.5%.
- The self-insured Medicare Retiree medical trend is 4.5% in Plan Year 2018 and 4.0% in Plan Year 2019, as compared to the Plan Year 2018 Medicare Retiree medical trend of 3.5% in the Plan Year 2018 Renewal Report.
- The medical trend assumption for HMO Actives is 6.0% in Plan Year 2018, a 50 basis point increase from the Plan Year 2018 Renewal Report trend of 5.5%. The HMO trend assumption in Plan Year 2019 is 6.0%.
- The medical trend assumption for HMO Early Retirees is 6.0% in Plan Years 2018 and 2019, which represents a 50 basis point increase as compared to the Plan Year 2018 trend assumption of 5.5% shown in the Plan Year 2018 Renewal Report.
- Based on expected entrants and terminations of Local Government employers from the SHBP, the medical and prescription drug trends have been increased by 25 basis points. This adjustment is consistent with long-term expectations and reflects anti-selection risk (employers with good experience are terminating or those with poor experience are joining which will affect the SHBP's overall loss ratio).
- The Plan Year 2019 Medicare Advantage rates were provided by Aetna and Horizon and these rates do not include the Health Insurer Fee. Aetna PPO Medicare Advantage premium rates decreased approximately 10%, while Horizon PPO Medicare Advantage premium rates decreased approximately 10% to 11%. Aetna HMO Medicare Advantage premium rates increased approximately 5%.
- Prescription drug rebates for Plan Years 2016 and 2017 are based on actual rebate payment data. Rebates for Plan Years 2018 and 2019 are based on projected amounts provided by Optum.
- Prescription drug rebates paid through the medical plan for Plan Years 2016 and 2017 are based on actual rebate payment data. Prescription Drug Rebates paid through the medical plan for Plan Years 2018 and 2019 are incorporated in the medical claim projections.



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- EGWP projections include monthly CMS capitation payments, an annual CMS payment for reinsurance on catastrophic claims, prescription drug manufacturers' coverage gap reimbursement payments and CMS Low Income Cost Sharing (LICS) payments. These amounts are equal to recommendations from Express Scripts for Plan Year 2017 and from Optum for Plan Years 2018 and 2019. EGWP credits are projected to increase from approximately \$42 million in Plan Year 2017 to approximately \$53 million for Plan Year 2018 and \$73 million for Plan Year 2019.
- For Active premiums, increases vary by coverage tier because the differences in costs by coverage tier have been updated to be more consistent with actual SHBP experience. Specifically, the load for Child(ren) coverage is recommended to increase from 79% to 82.5% of the Single Coverage. A two year phase-in approach is recommended to increase Child(ren) premiums so that they are consistent with actual experience.
- Plan Year 2019 projected cost for the Local Government Group is approximately \$1.66 billion (\$1.12 billion for Actives and \$540 million for Retirees).

**Attachment A**  
**SHBP – Local Government Group**  
**Plan Year 2019 Rate Renewal Recommendations**

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|                          | Total          | Single         | EE + Spouse    | Family         | EE + Child(ren) |
|--------------------------|----------------|----------------|----------------|----------------|-----------------|
| <b>Actives</b>           |                |                |                |                |                 |
| PPO Medical              | 6.7%           | 6.0%           | 6.0%           | 7.3%           | 8.0%            |
| HMO Medical              | 6.7%           | 6.0%           | 6.0%           | 7.3%           | 8.0%            |
| PPO Rx                   | 13.7%          | 12.9%          | 12.9%          | 14.3%          | 15.1%           |
| HMO Rx                   | 13.7%          | 12.9%          | 12.9%          | 14.3%          | 15.1%           |
| <b>Total</b>             | <b>8.2%</b>    | <b>7.4%</b>    | <b>7.4%</b>    | <b>8.7%</b>    | <b>9.5%</b>     |
| <b>Early Retirees</b>    |                |                |                |                |                 |
| PPO Medical              | 0.0%           | 0.0%           | 0.0%           | 0.0%           | 0.0%            |
| HMO Medical              | 0.0%           | 0.0%           | 0.0%           | 0.0%           | 0.0%            |
| PPO Rx                   | 0.0%           | 0.0%           | 0.0%           | 0.0%           | 0.0%            |
| HMO Rx                   | 0.0%           | 0.0%           | 0.0%           | 0.0%           | 0.0%            |
| <b>Total</b>             | <b>0.0%</b>    | <b>0.0%</b>    | <b>0.0%</b>    | <b>0.0%</b>    | <b>0.0%</b>     |
| <b>Medicare Retirees</b> |                |                |                |                |                 |
| PPO Medical              | (9.9%)         | (9.9%)         | (9.9%)         | (9.9%)         | (9.9%)          |
| HMO Medical              | 5.2%           | 5.2%           | 5.2%           | 5.2%           | 5.2%            |
| PPO Rx                   | (15.3%)        | (15.3%)        | (15.3%)        | (15.3%)        | (15.3%)         |
| HMO Rx                   | (15.3%)        | (15.3%)        | (15.3%)        | (15.3%)        | (15.3%)         |
| <b>Total</b>             | <b>(12.7%)</b> | <b>(12.7%)</b> | <b>(12.7%)</b> | <b>(12.7%)</b> | <b>(12.7%)</b>  |
| <b>Grand Total</b>       | <b>4.0%</b>    | <b>3.5%</b>    | <b>3.5%</b>    | <b>4.4%</b>    | <b>4.9%</b>     |