

New Jersey School Employees' Health Benefits Commission School Employees' Health Benefits Program (SEHBP) – Local Education Group

Plan Year 2018 Medical/Rx Rate Renewal Recommendation

August 8, 2017

- For the Local Education Group in Plan Year 2018, Aon is recommending a 13.0% increase in premium rates for Active Employees, an increase of 15.9% for Early Retirees, and a decrease of 5.8% for Medicare Retirees.
 - In aggregate, the recommended rate actions represent an overall increase for the Local Education Group of 8.5%, as compared to the Plan Year 2017 overall increase of 3.8%.
 - The following chart provides the recommended premium rates changes by plan type:

	<u>Active Employees</u>	<u>Early Retirees</u>	<u>Medicare Retirees</u>
Medical PPO	13.0%	20.4%	0.3%
Medical HMO	13.0%	20.4%	(9.1%)
Prescription Drug PPO	13.3%	1.3%	(10.1%)
Prescription Drug HMO	13.3%	1.3%	(10.1%)
Total	13.0%	15.9%	(5.8%)

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

- The Plan Year 2018 renewal premiums are projected to produce a gain of \$35 million for Local Education Active Employees and no projected gain or loss for Retirees. The Active gain will be added to the Claim Stabilization Reserve for Active Education members. For Actives, the target Claim Stabilization Reserve is projected to be equivalent to 1.4 months of plan costs as of December 31, 2018. Since the Active reserve is projected to be less than the target reserve level of 2.0 months, the Active recommended renewal increase includes a 2% margin to help build the reserve up to the target level plan costs. The Retiree target reserve level has been set to \$0, since the State is responsible for approximately 90% of Education Retiree plan cost. As a result, the Education Retiree premiums do not include any margin.
- Plan Year 2018 projected cost for the Local Education Group is approximately \$3.0 billion (\$1.7 billion for Actives and \$1.3 billion for Retirees).

The Plan Year 2018 Renewal assumes the following:

- Effective January 1, 2018, prescription drug benefits for Active Employees and Retirees will be administered by Optum (currently administered by Express Scripts through December 31, 2017).

Prescription drug cost projections for Plan Year 2018 provided in this renewal reflect the impact of procuring a new PBM starting in Plan Year 2018.

- This change is estimated to reduce Plan Year 2018 prescription drug costs approximately \$93 million for the Local Education Group (\$6 million for Actives and \$87 million for Retirees).
- SEHBP Medicare Prescription Drug Integration will continue as EGWP Plus Wrap.
- The Retiree Rx copays and Out-of-Pocket Maximum limits for SEHBP PPOs and HMOs will remain unchanged from the Plan Year 2017 levels.
- Enrollment projections assume that 0.5% of the Active enrollment and 0.5% of the Retiree enrollment in NJ DIRECT10 will migrate to lower-cost plans as a result of participant contribution changes.
- Active Employee enrollment is projected to decrease approximately 8.0% in Plan Year 2017 and 2.5% in Plan Year 2018. Early Retiree enrollment is projected to decrease 4.5% in Plan Year 2017 and 4.0% in Plan Year 2018. Finally, Medicare Retiree enrollment is projected to increase 2.5% in Plan Year 2017 and 3.0% in Plan Year 2018.
- The impact of the following benefit changes has been reflected:
 - The State of New Jersey mandate expanding coverage for treatment for substance use disorders, as well as the restrictions on the use of opioid medications. This law was effective May 16, 2017, and is estimated to increase non-Medicare medical claims by approximately 1.1% annually.
 - Federal legislation requiring coverage for medically necessary services for gender reassignment. This law was effective January 1, 2017, and is estimated to increase medical claims by approximately 0.17% annually.
- The following components of Federal Health Care Reform impact the SEHBP in Plan Year 2018:
 - 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. The collection of the HIF for Plan Year 2017 was suspended by the Consolidated Appropriations Act of 2016. Our projections assume that the HIF will not be repealed for Plan Year 2018 and is expected to increase Medicare medical costs by 1.4%.
 - In-Network Out-of-Pocket Maximum for medical and prescription drug benefits combined will be no greater than \$7,350 Single / \$14,700 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.
- Differences in the rate changes among Actives and Retirees, benefit plans and coverage tiers reflect the impact of:
 - The Aon prescription drug trend recommendation for Actives has been increased to 13.0% for Plan Year 2017 from 11.0% in the Plan Year 2017 Renewal Report. The Aon Plan Year

2018 prescription drug trend recommendation is 12.0% for Actives and 11.0% for Retirees. The trends represent the expected increases in costs due to specialty drugs.

- The two-year average experience trend for Horizon Actives is approximately 10.1%, with poor claim experience in 2016. The recommended PPO medical trend for Actives has been increased to 9.0% in Plan Year 2017; as compared to the Plan Year 2017 PPO Active medical trend of 7.0% reflected in the Plan Year 2017 Renewal Report (prior to any anti-selection adjustment). The recommended Active PPO medical trend is 8.75% in Plan Year 2018.
- The recommended PPO medical trend for Early Retirees has been increased to 8.0% in Plan Years 2017 and 2018, as compared to the PPO Early Retiree medical trend of 7.5% for Plan Year 2017 reflected in the Plan Year 2017 Renewal Report.
- The self-insured Medicare Retiree medical trend is 4.0% in Plan Year 2017 and 3.5% in Plan Year 2018, as compared to the Plan Year 2017 Medicare retiree medical trend of 3.5% in the Plan Year 2017 Renewal Report.
- The Plan Year 2017 medical trend for HMO Actives has been increased to 6.0% from 5.5% in the Plan Year 2017 Renewal Report (prior to any anti-selection adjustment). The HMO Active trend assumption is 5.5% in Plan Year 2018.
- The medical trend assumption for HMO Early Retirees is 6.0% in Plan Year 2017 and 5.5% in Plan Year 2018, as compared to the Plan Year 2017 trend assumption of 5.5% shown in the Plan Year 2017 Renewal Report.
- Based on expected terminations of Local Education Active employers from the SEHBP, the Active medical and prescription drug trends have been increased by 50 basis points for Plan Years 2017 and 2018. The Plan Year 2017 Renewal Report reflected an adjustment of 50 basis points in Plan Year 2017. This adjustment is based on future expectations of the anti-selection risk (employers with good experience are terminating which will affect the SEHBP's overall loss ratio).
- The Medicare Advantage rates were provided by Aetna and these rates include the Health Insurer Fee. PPO Medicare Advantage premium rates increased approximately 20%, while Legacy HMO Medicare Advantage premium rate decreased approximately 7%.
- Rx Rebates for Plan Year 2016 were lower than originally projected in the Plan Year 2017 renewal report, and Plan Year 2017 projected Rx Rebates are estimated to be approximately \$22 million lower than projected in the Plan Year 2017 renewal report. Plan Year 2018 Rx rebates reflect the expected financial impact of the Optum RFP response.
- EGWP credits are projected to be approximately \$190 million in Plan Year 2016 and Plan Year 2017. Plan Year 2018 EGWP subsidies reflect the expected financial impact of the Optum RFP response and are projected to increase to approximately \$216 million.

Attachment A
SEHBP – Local Education Group
Plan Year 2018 Rate Renewal Recommendations

	Total	Single	EE + Spouse	Family	EE + Child(ren)
Actives					
PPO Medical	13.0%	13.0%	13.0%	13.0%	13.0%
HMO Medical	13.0%	13.0%	13.0%	13.0%	13.0%
PPO Rx	13.3%	13.3%	13.3%	13.3%	13.3%
HMO Rx	13.3%	13.3%	13.3%	13.3%	13.3%
Total	13.0%	13.0%	13.0%	13.0%	13.0%
Early Retirees					
PPO Medical	20.4%	20.4%	20.4%	20.4%	20.4%
HMO Medical	20.4%	20.4%	20.4%	20.4%	20.4%
PPO Rx	1.3%	1.3%	1.3%	1.3%	1.3%
HMO Rx	1.3%	1.3%	1.3%	1.3%	1.3%
Total	15.9%	15.9%	15.9%	15.9%	15.9%
Medicare Retirees					
PPO Medical	0.3%	0.3%	0.3%	0.3%	0.3%
HMO Medical	(9.1%)	(9.1%)	(9.1%)	(9.1%)	(9.1%)
PPO Rx	(10.1%)	(10.1%)	(10.1%)	(10.1%)	(10.1%)
HMO Rx	(10.1%)	(10.1%)	(10.1%)	(10.1%)	(10.1%)
Total	(5.8%)	(5.8%)	(5.8%)	(5.8%)	(5.8%)
Grand Total	8.5%	8.5%	8.5%	8.5%	8.5%