State Employees Health Plan Task Force

Finding Cost Savings and Efficiencies

September 24, 2015

Final

Prepared by Aon
Consulting | Health & Benefits

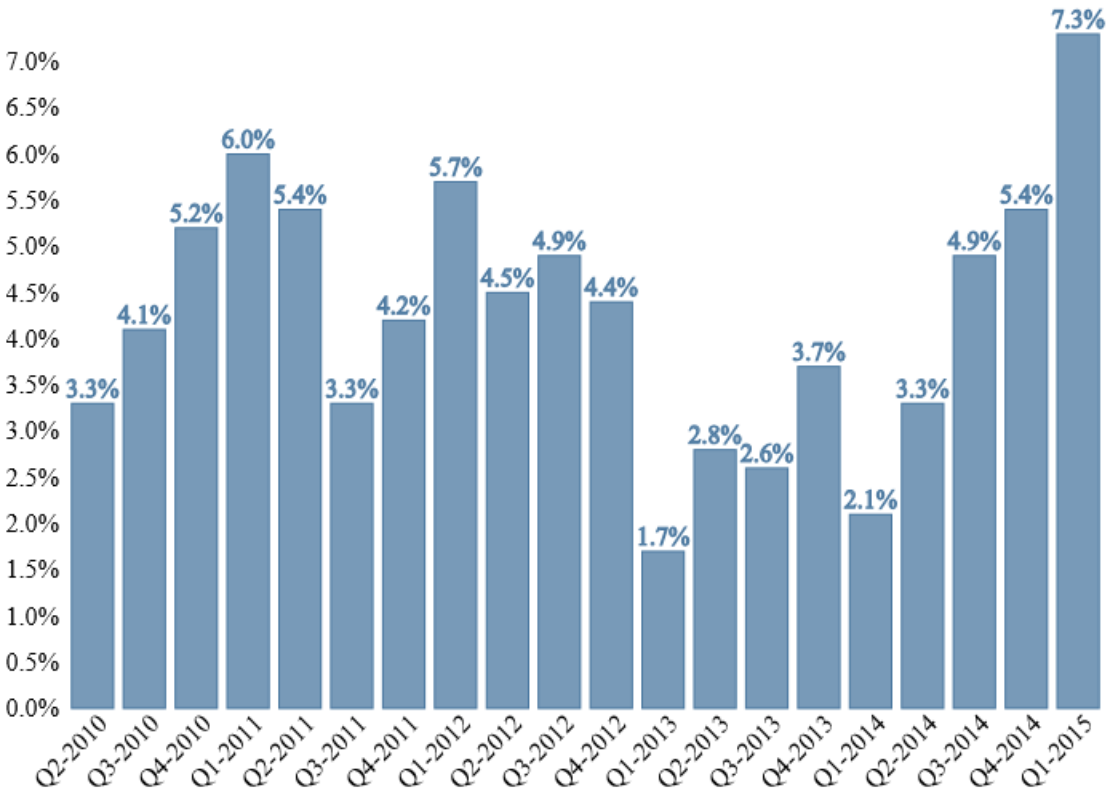
Empower Results®

Responding to September 9 Requests.

- Detail on overall spending, plan sponsor trends with like circumstances
- Benchmarking from Aon Benchmarking Tool
  - Plan Premiums
  - Participant Contributions
  - Benefit Plan Deductibles
  - Health Savings Account (HSA)* and Health Reimbursement Account (HRA) Contributions by Plan Sponsors
- Trend discussion from external sources
- Key observations from Aon Health Care survey of Plan Sponsors
- Sizing the Problem, refined
  - DEFAC revenue growth estimates from today for the next 2-3 year periods (through 2020) average 3%.
- Opportunities segmentation

* Technical note: In order for a benefit plan to feature an HSA, the plan features must conform to a Qualified High Deductible Health Plan as set forth by the IRS, including a minimum deductible and a maximum Out of Pocket that is different than the ACA requirements, as well as several other important features.

Health Services Spending Growth



Health Services defined as: The latest figures from the Quarterly Services Survey (QSS), conducted by the U.S. Census Bureau, While the QSS does not cover all health spending – leaving out, for example, pharmaceuticals and medical devices, which are not considered services – it includes the vast majority of the health care spending. Within the health sector, hospital spending increased 9.2 percent between first quarter 2014 and first quarter 2015. Greater use of services accounted for a portion of the increase — the number of hospital days rose 3.5% and the number of discharges rose 4% over the period — while price and intensity made up the remainder. Spending on ambulatory health care (e.g., services in physician offices, hospital outpatient departments) increased by 5.9% over the period.).

Source: Kaiser Family Foundation analysis of Quarterly Services Survey

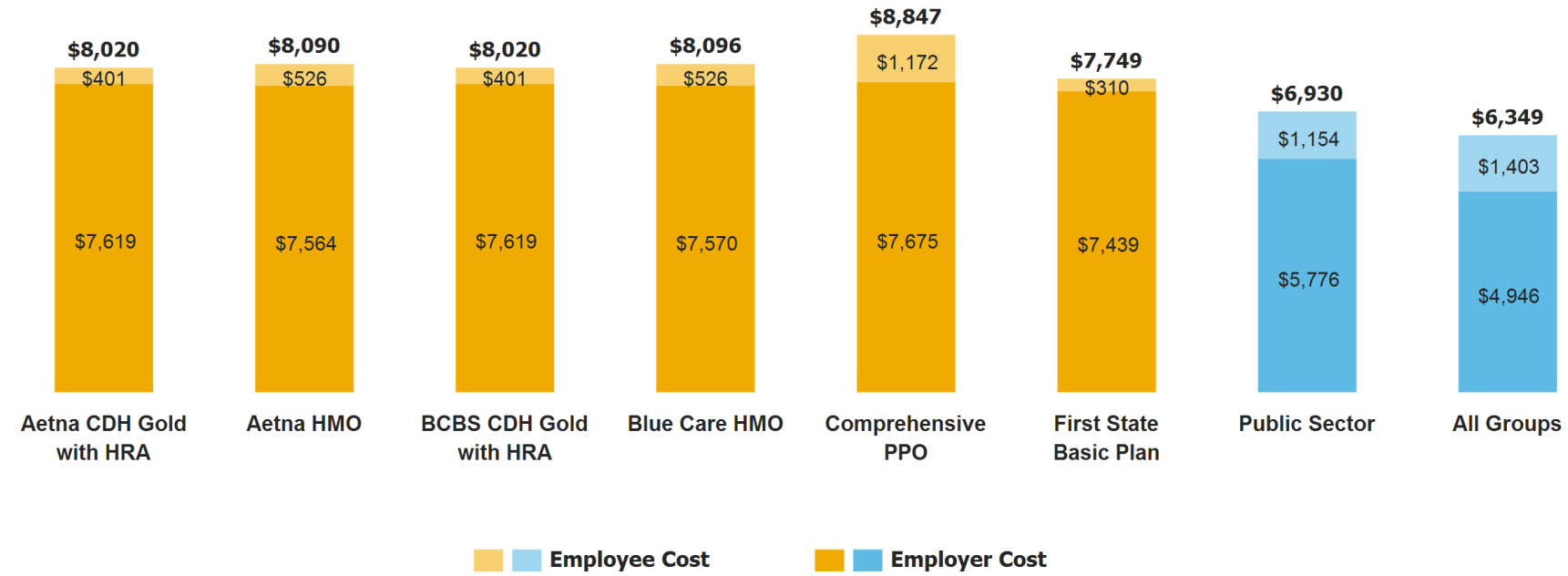
Medical and Prescription Drug Trend – Historical and Emerging

- Medical costs are beginning to increase from historically low levels- Most recent Kaiser Foundation health care services spending report shows health ***services spending grew from the third quarter of 2014 from 5.4% to 7.3% in the first quarter of 2015.***
- Large Delaware employer: historical average trend (medical and drug) 3.7%. emerging trend 12.4%
- State of NJ (Active) – historical average medical (5.9%), prescription drug (11.9%), rating trend medical (7.5%) prescription drug (18%)
- State of NY (Active) – historical average medical (3%), prescription drug (3%), rating trend medical (7.5%) prescription drug (18%)

Medical Benchmarking Report – Aon Benchmarking Tool

Single Premiums

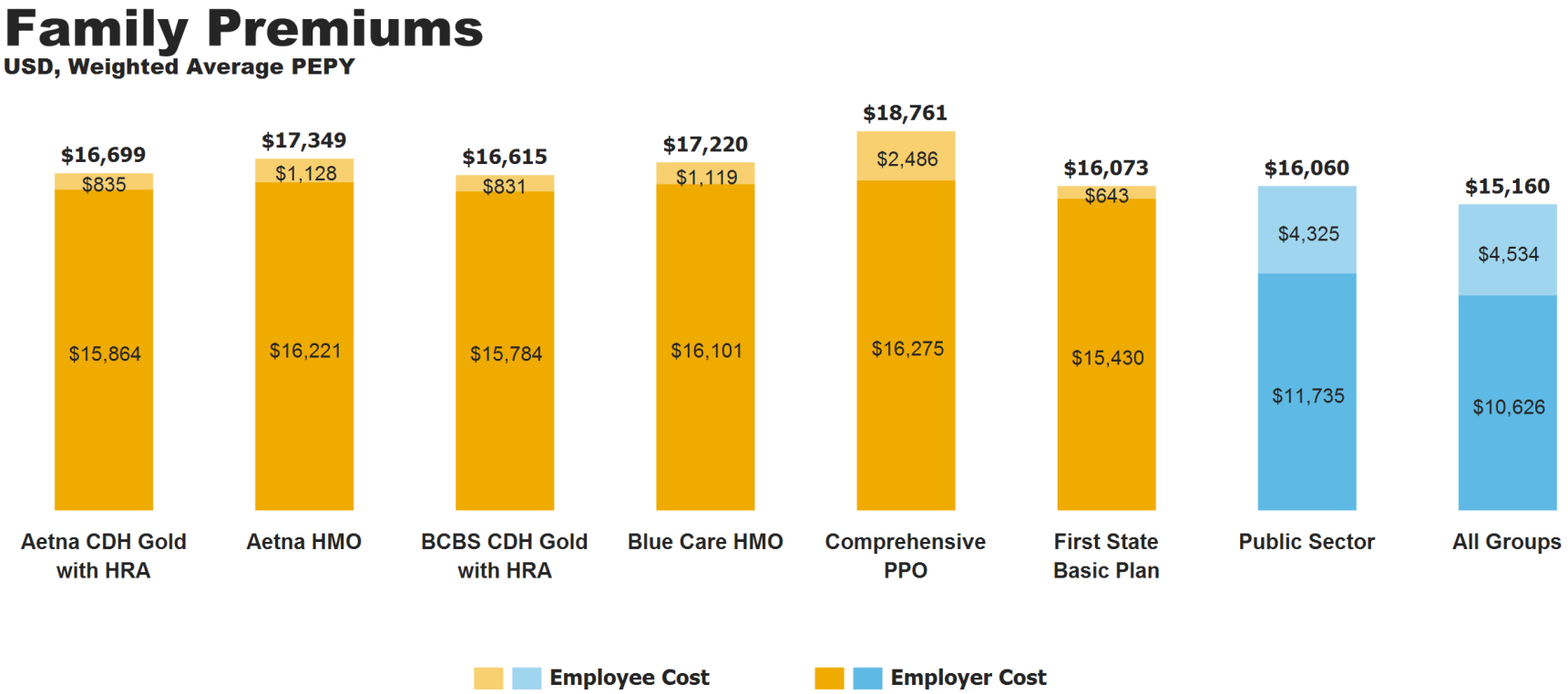
USD, Weighted Average PEPY



Note: This report was generated on September 18, 2015 and includes 46 public employers.

The benchmark industry group is based on 46 employers offering 102 various benefit plans. Aon continually refreshes the plan data and results may change as new clients and plans are added to the database

Medical Benchmarking Report – Aon Benchmarking Tool

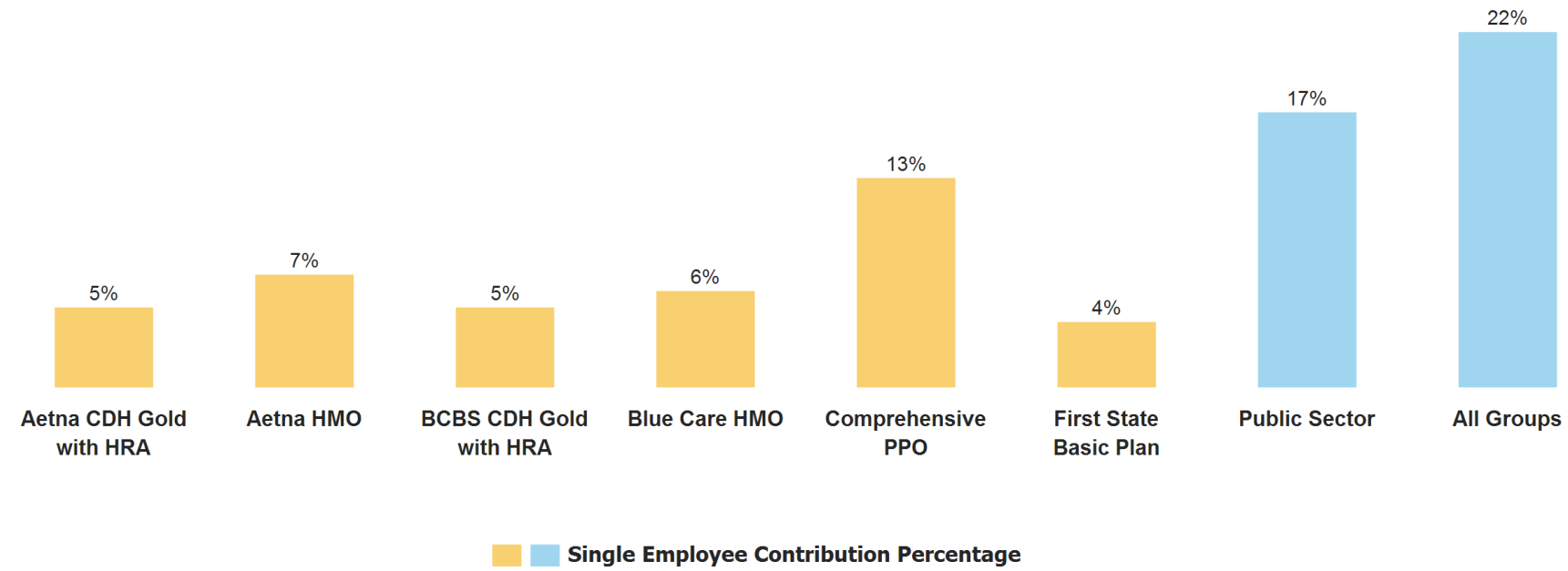


Note: This report was generated on September 18, 2015 and includes 46 public employers.
The benchmark industry group is based on 46 employers offering 102 various benefit plans. Aon continually refreshes the plan data and results may change as new clients and plans are added to the database
Family premiums are based on all tiers except employee only

Medical Benchmarking Report – Aon Benchmarking Tool

Single Employee Contributions

Percentage of Total Premium, Weighted Average

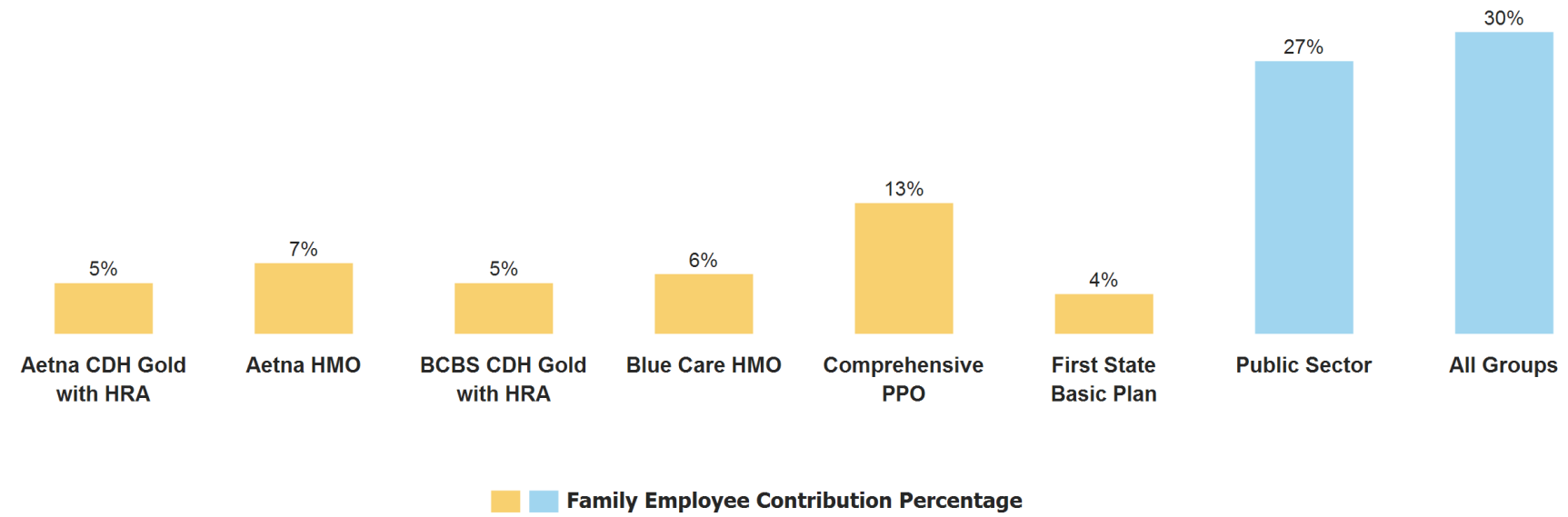


Note: This report was generated on September 18, 2015 and includes 46 public employers.
The benchmark industry group is based on 46 employers offering 102 various benefit plans. Aon continually refreshes the plan data and results may change as new clients and plans are added to the database

Medical Benchmarking Report – Aon Benchmarking Tool

Family Employee Contributions

Percentage of Total Premium, Weighted Average

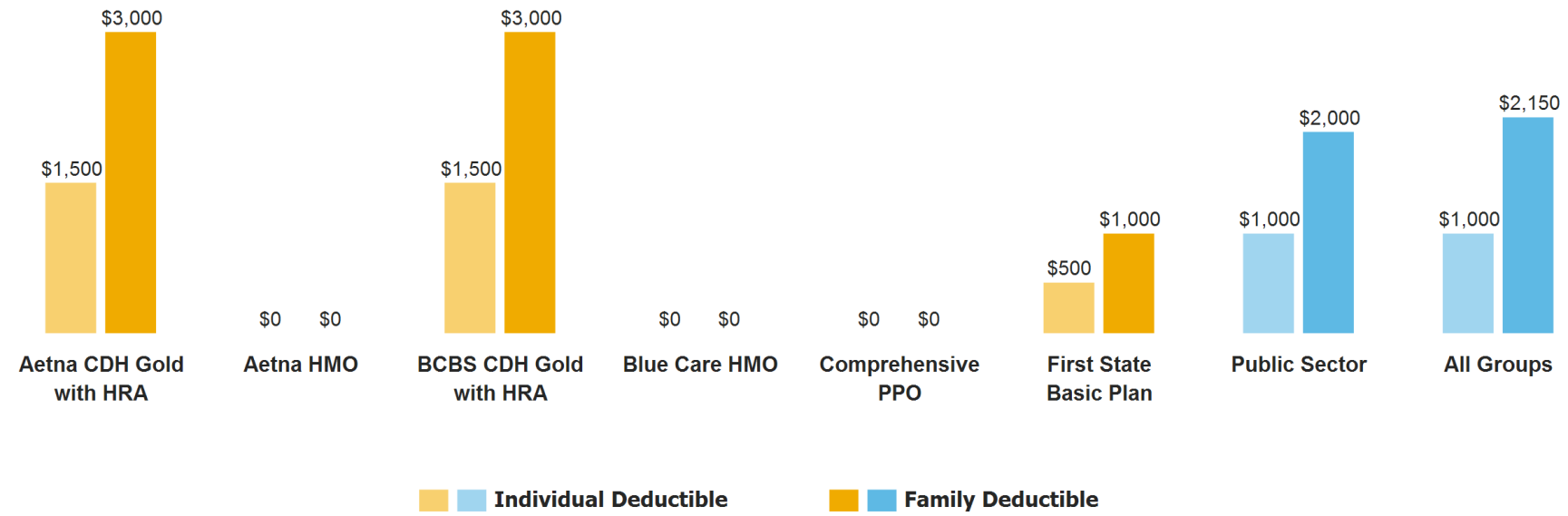


Note: This report was generated on September 18, 2015 and includes 46 public employers.
The benchmark industry group is based on 46 employers offering 102 various benefit plans. Aon continually refreshes the plan data and results may change as new clients and plans are added to the database
Family premiums are based on all tiers except employee only

Medical Benchmarking Report – Aon Benchmarking Tool

In-Network Deductibles

USD, Plan Weighted Median

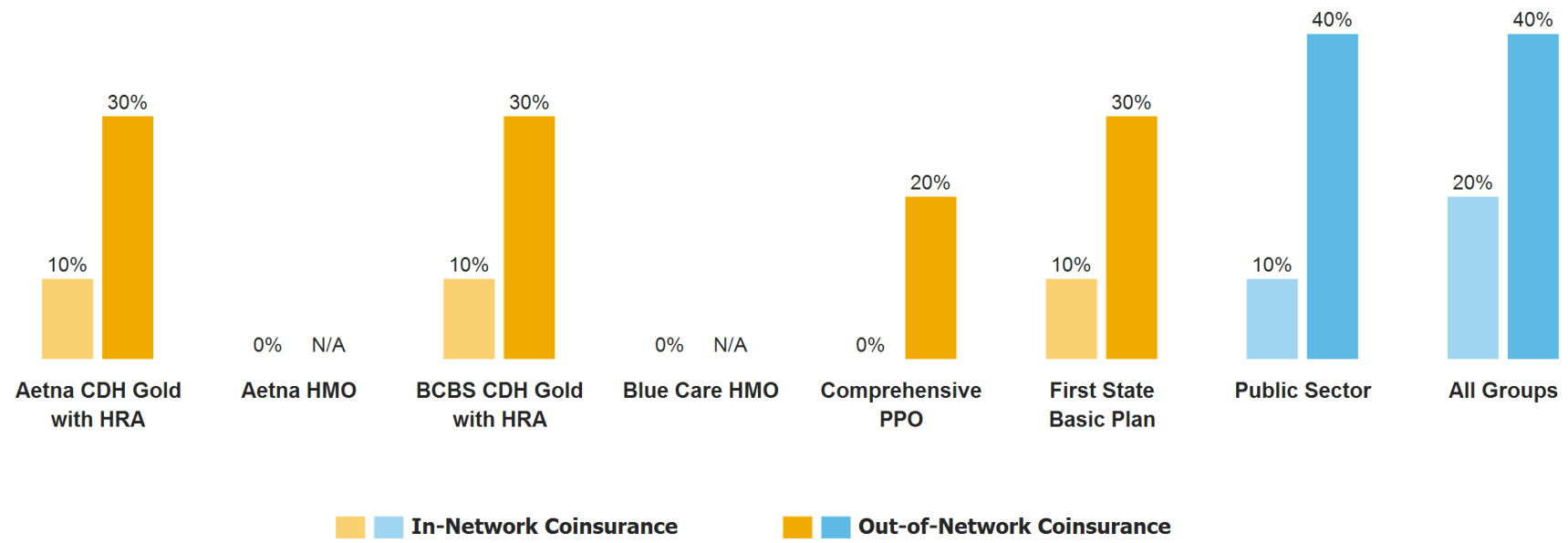


Note: This report was generated on September 18, 2015 and includes 46 public employers.
The benchmark industry group is based on 46 employers offering 102 various benefit plans.
Aon continually refreshes the plan data and results may change as new clients and plans are added to the database
Most of the deductible in the CDH plan is covered by the $1250 (ee) and $2500 (family) HRA which pays first.

Medical Benchmarking Report – Aon Benchmarking Tool

Member Coinsurance

Percentage, Plan Weighted Median

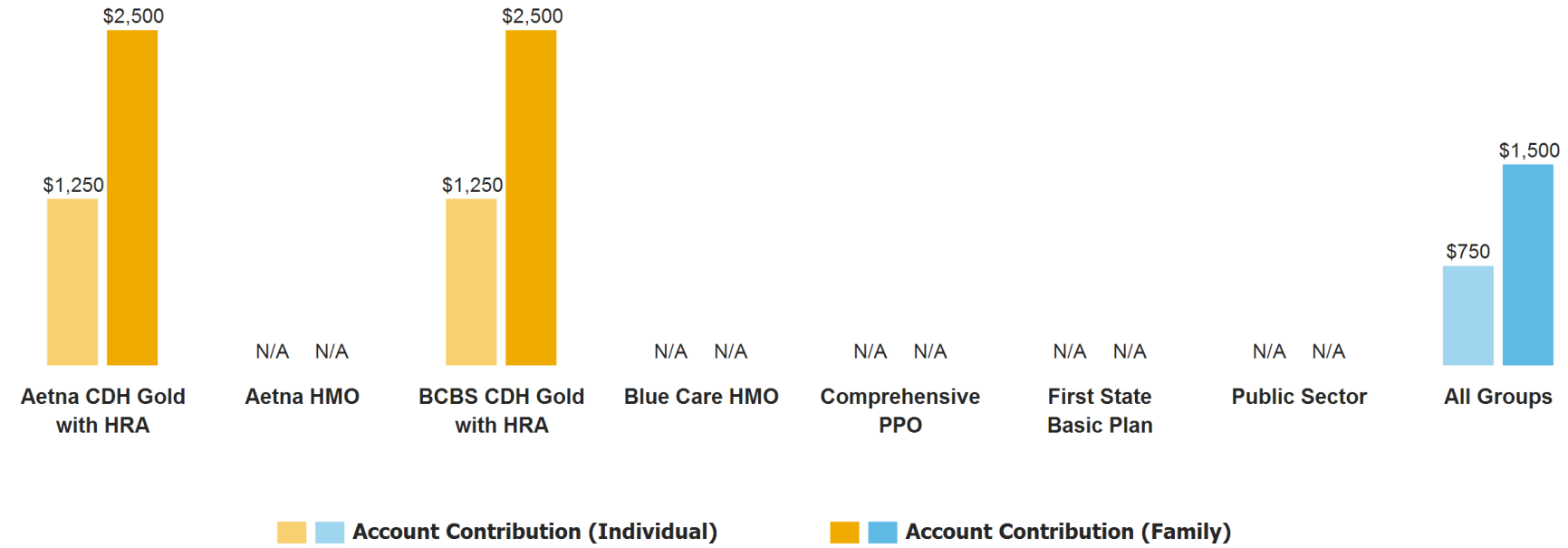


Note: This report was generated on September 18, 2015 and includes 46 public employers.
The benchmark industry group is based on 46 employers offering 102 various benefit plans.
Aon continually refreshes the plan data and results may change as new clients and plans are added to the database

Medical Benchmarking Report – Aon Benchmarking Tool

HRA Employer Contributions

USD, Plan Weighted Median

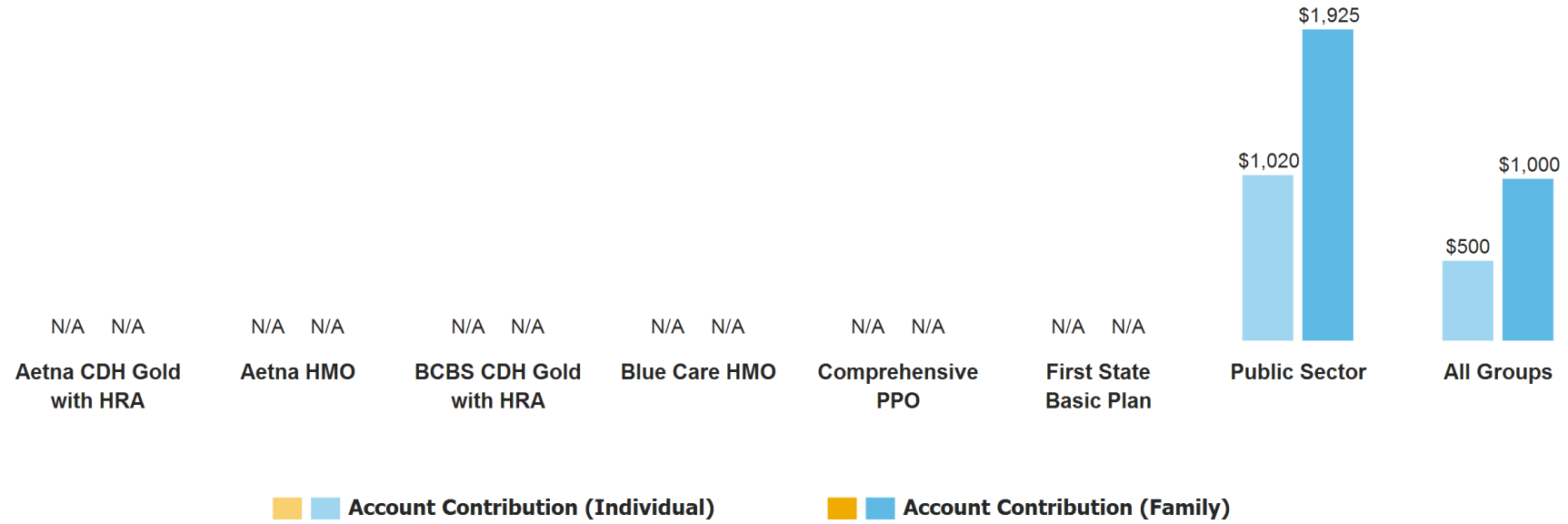


Note: This report was generated on September 18, 2015 and includes 46 public employers.
The benchmark industry group is based on 46 employers offering 102 various benefit plans.
Aon continually refreshes the plan data and results may change as new clients and plans are added to the database

Medical Benchmarking Report – Aon Benchmarking Tool

HSA Employer Contributions

USD, Plan Weighted Median



Note: This report was generated on September 18, 2015 and includes 46 public employers.
The benchmark industry group is based on 46 employers offering 102 various benefit plans.
Aon continually refreshes the plan data and results may change as new clients and plans are added to the database

Trends reported by external surveys

- According to the Compensation and Benefits Report sponsored by the State of Colorado and conducted by Milliman with data from 39 public entities as of February 2015 reported that:
  - The average monthly premium for employee only coverage and family coverage paid by the employer was 87% and 77% respectively.
  - More than 84% (33 of the 39) offer a PPO, the most prevalent plan offered.
  - The average in network deductible is $993 for single coverage and $2173 for family coverage
  - Almost half 18 of 39 of the respondents offered a high deductible plan with a health savings account and 15 of the 18 provide a contribution to the health savings account. The average contribution to the savings account is $756 for single coverage and $1390 for family coverage.
- The PWC 2014 Touchstone Survey reported:
  - Offering plans with narrow networks, investing in wellness programs and contracting directly with centers of excellence and participating in private exchanges are steps being taken by employers to reduce health care costs.
  - 44% of employers across all industries are considering high deductible plans as the only insurance option for their employee during the next three years.
- The 2015 Towers Watson/National Business Group on Health Survey results:
  - Employers are increasing employee contributions for dependent coverage
  - The rate of high deductible health plans with health savings accounts offered as a total replacement, otherwise known as Account Based Health Plans-ABHP, more than doubled between 2012 and 2015. In 2015 , 16% of survey respondents reported offering a total replacement ABHP
- Milliman Atlas of Public Employer plans/ 2014 Pew Charitable Trust
  - In 2013, 19 states offered plans with a deductible of at least $1500 for employee only coverage, an increase from 16 states in 2011. Most state government employees enrolled in plans with no annual deductible (48%) or in plans with a deductible of less than $500 (32%). In 2013, only 8 percent of enrollers were in plans with deductible of $1,000 or more.

Key Insights from 2015 Aon Hewitt Health Care Survey – All Employers

Many employers are waiting to take action on major changes to their health strategy—looking first to their peers for guidance.

When it comes to putting their health care strategy into action, **employers are influenced by other firms:**

By major employers in their industry

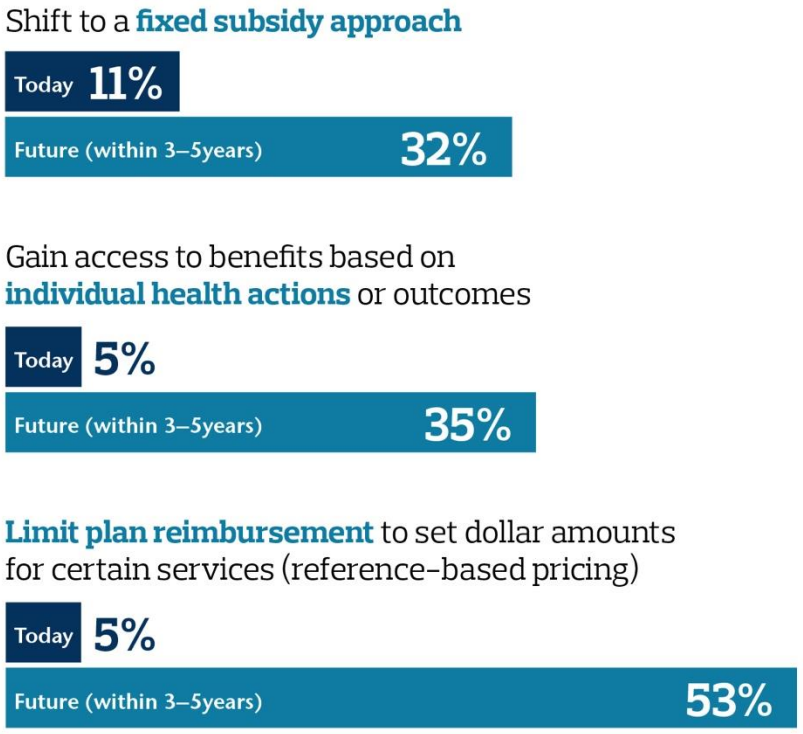
By major employers in their geography

By large, national employers

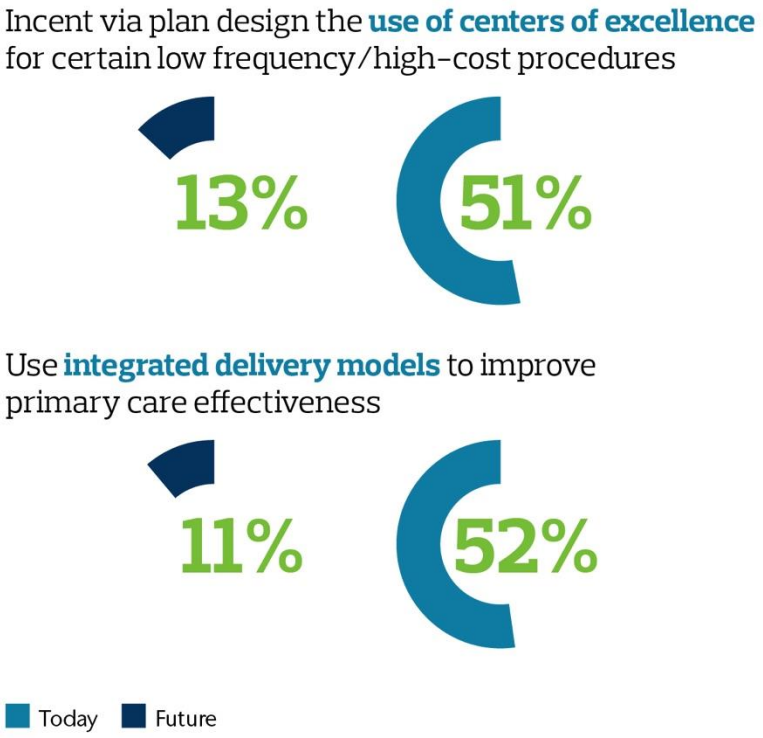
Source: 2015 Aon Hewitt Health Care Survey, All Employers

Key Insights from 2015 Aon Hewitt Health Care Survey – All Employers

To reduce longer-term trend, employers are planning strategic changes to how they fund health benefits.



Employers are also evaluating strategic changes to how care is accessed or delivered in order to reduce longer-term trend.

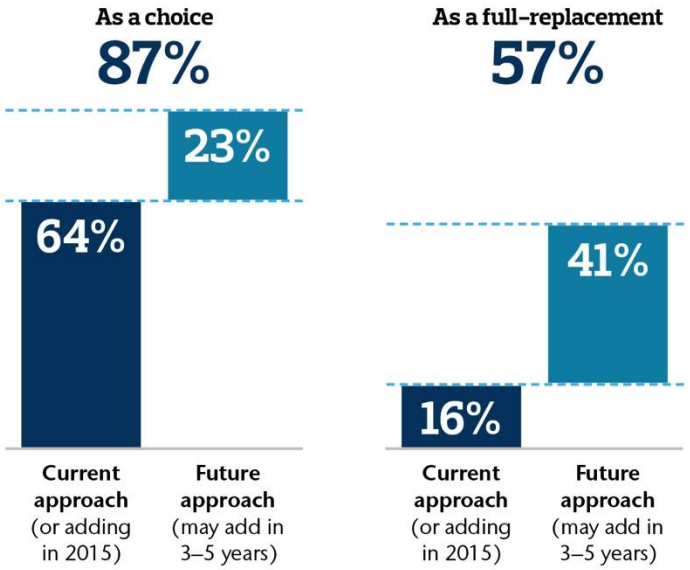


Source: 2015 Aon Hewitt Health Care Survey, All Employers

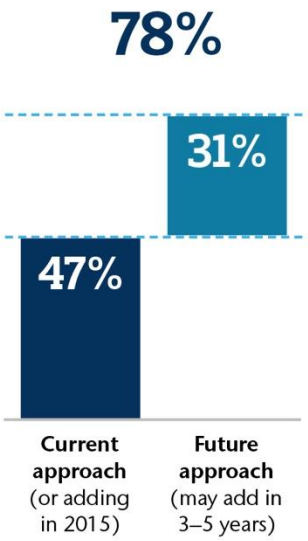
Key Insights from 2015 Aon Hewitt Health Care Survey – All Employers

Moving to high-deductible plans remains a primary design strategy to reduce cost and engage participants to improve health decisions.

Offer account-based, consumer-driven/ high-deductible health plan (HDHP)

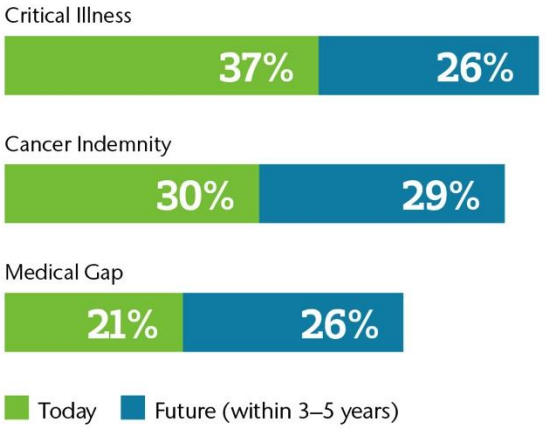


Health savings accounts (HSAs) remain the most popular to fund HDHP



Elective benefits support consumer-driven/HDHP with added coverage, choice and value by minimizing employee risk and out-of-pocket expenses.

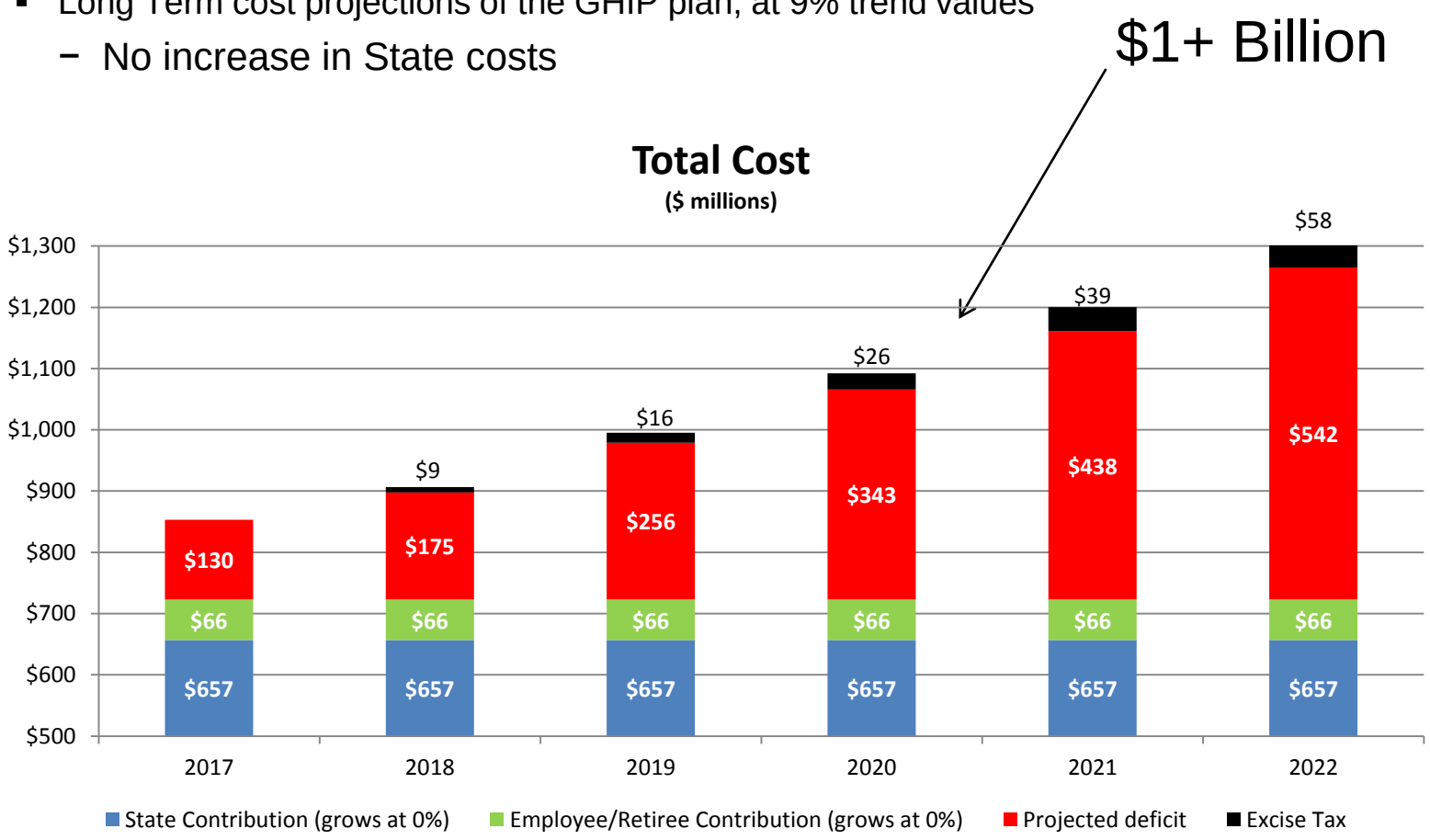
Top 3 elective supplemental medical benefits offered by employers:



Source: 2015 Aon Hewitt Health Care Survey, All Employers

Sizing the Problem – Projected Deficits under Current Circumstances

- Long Term cost projections of the GHIP plan, at 9% trend values
  - No increase in State costs

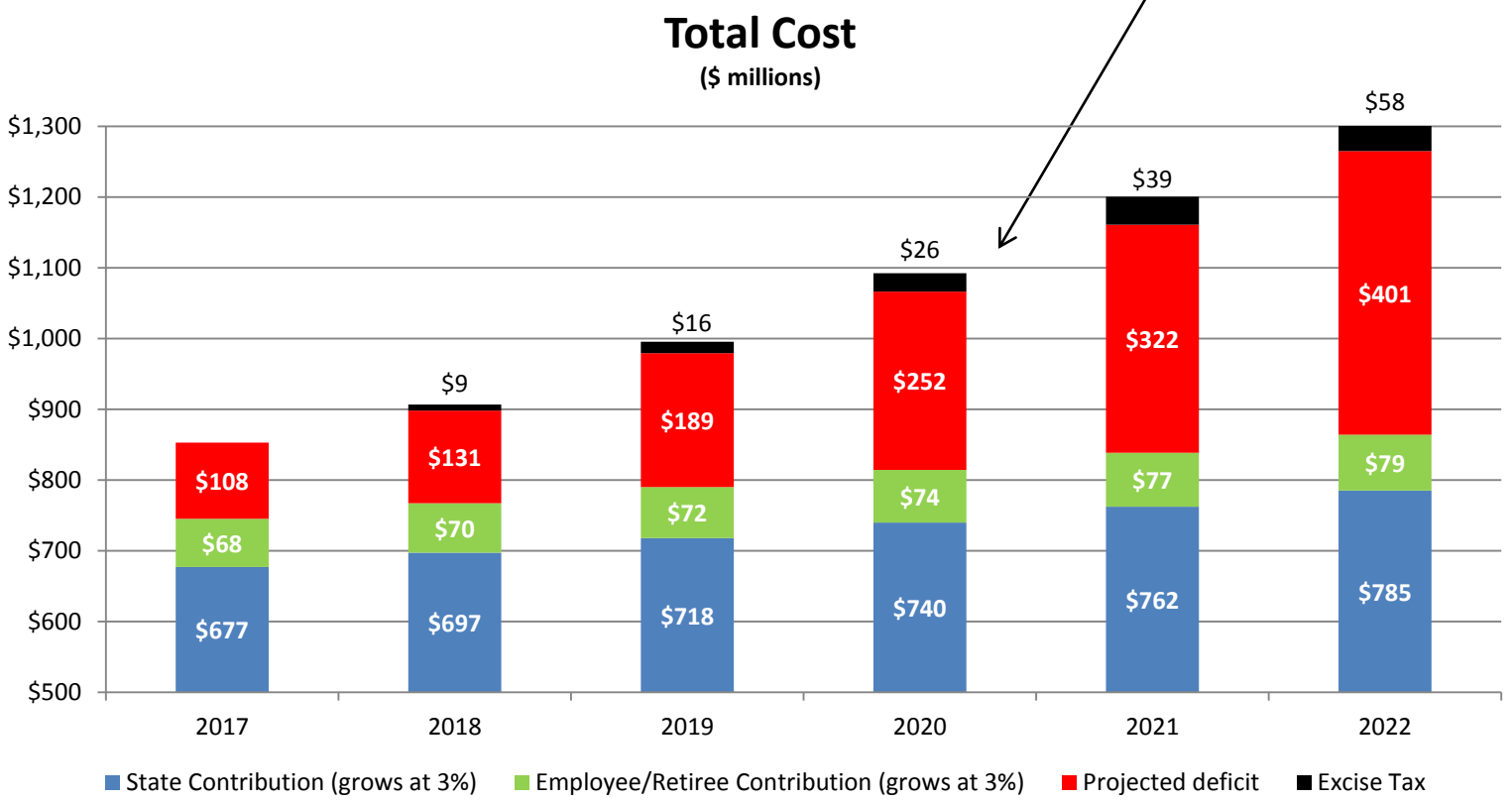


Data from various Segal documents, long term projections at 9% trend.

Cost Increases Cannot Be Absorbed Through Premiums Alone

- Long Term cost projections of the GHIP plan, at 9% trend values
  - Contributions illustrated with 3% growth

$1+ Billion



Data from various Segal documents, long term projections at 9% trend.

Options to Review

- Reduce Overall Plan Cost
  - Overall wellness and disease management - target disease states or related issues (value based designs); increase participation with incentive or surcharge
  - Contracting or site management – e.g. hospital and other provider contracting including narrow networks, limiting accessibility, direct contracting (with hospitals or other providers), centers of excellence, targeting providers with total cost of care or pay for value payment models
  - Member eligibility management
  - COB structure evaluation
- Utilize Insurance markets- create competitive pressures
  - Active Exchanges (group plans)
  - Retiree Exchanges (individual plan purchasing)

Options to Review continued

- Redesign plans
  - Review actuarial value - benefit reductions through cost sharing
  - Review number of plan offerings
- Review Premium Cost-Sharing Structure
  - Dependent subsidies
  - Tobacco surcharge
  - Double state share (does not change income into fund only State funding)
  - Salary based contributions (based on employee's salary)
  - Review cost share for richer plans (actives and retirees)
  - Review active versus non-Medicare premiums
  - Membership charges, e.g., outside groups