

State of Delaware

State of Delaware GHIP FY18 Budget Projections

Overview of Pricing Methodology

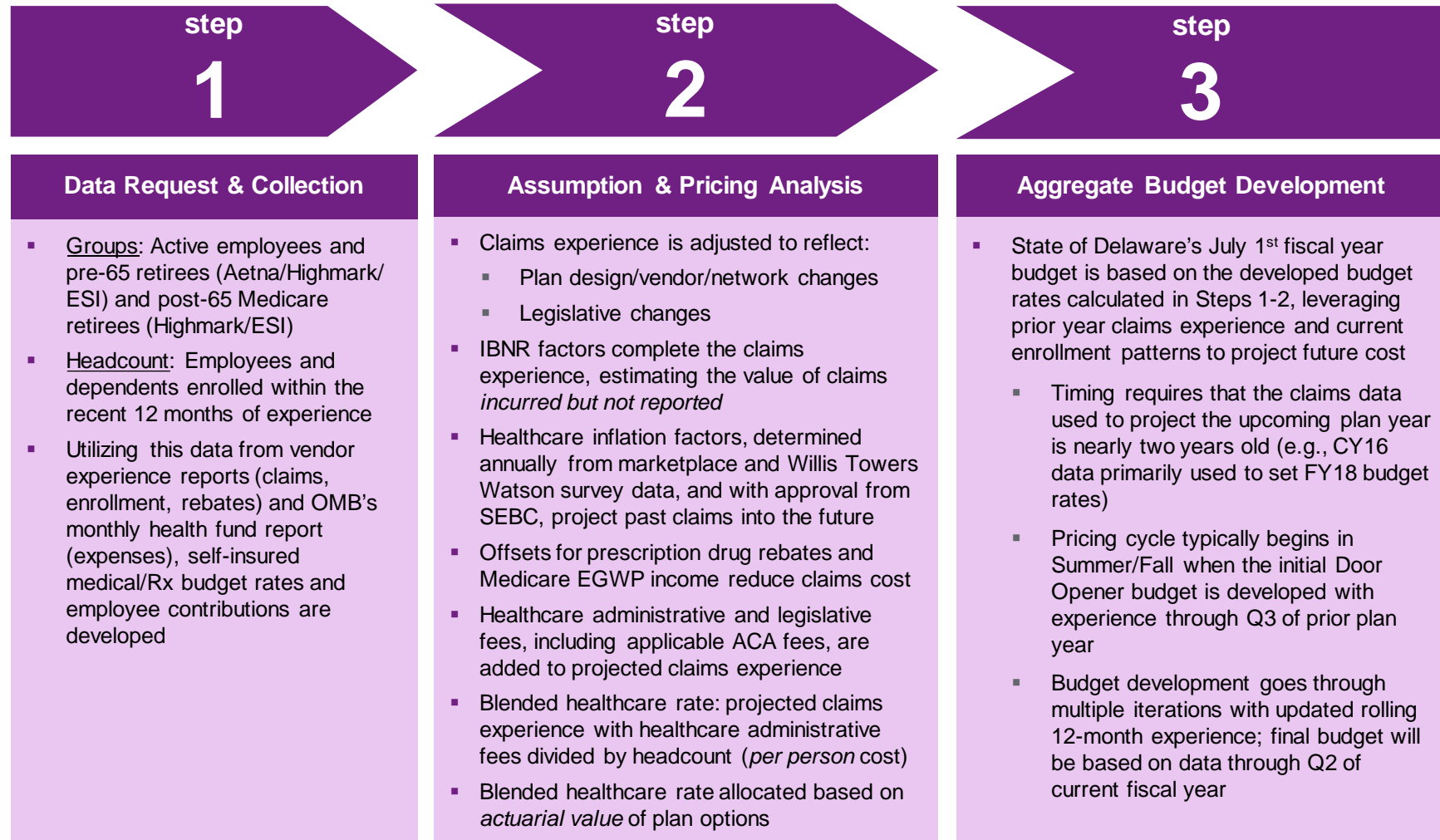
January 23, 2017

Today's discussion

- Overview of WTW pricing methodology
- Preliminary FY18 projected medical/Rx aggregate budget
- Appendix

FY18 health care budget development

Overview of budget development process



FY18 health care budget development

Assumption and pricing analysis details



- **Claims experience** provided by vendors (Highmark, Aetna, and ESI) reflected paid claims and enrollment for the most recent available 24 months, or two experience periods, from October 2014 through September 2016
 - Period 1 (10/1/2014 – 9/30/2015) weighted 35%
 - Period 2 (10/1/2015 – 9/30/2016) weighted 65%
- Claims experience was adjusted for **claim offsets** from pharmacy rebates and EGWP funding, including:
 - Commercial Drug Rebates: Prescription drug claims are offset by actual prescription rebate payments received from ESI for the quarter payment was attributable
 - Medicare EGWP: Medicare costs offset by actual and projected¹ EGWP income; includes income from Direct Subsidy, Coverage Gap Discount, Reinsurance/LICS, and applicable Medicare drug rebates
 - Claims experience was also adjusted based on revised ESI contract terms effective 7/1/2016²
- **Incurred But Not Reported (IBNR)** adjustments convert paid claims to an incurred basis based on the lag between when a claim is incurred and when it is paid. Budget reflects average lag factors as of 10/31/2016

¹Retiree Medicare plan runs on a calendar year basis, and a portion of CY2016 EGWP income is based on future projections

²Additional ESI contract savings projections provided by Segal; subject to change following independent WTW analysis

FY18 health care budget development

Assumption and pricing analysis details



- **Exposure** adjustments reflected GHIP's minor enrollment changes and converted the adjusted claims experience for each period into a *per adult* equivalent claims cost
 - Period 1 Enrollment (10/14 – 9/15): 67,216 total contracts (+2.1% from prior period)
 - Active and pre-65 retiree: 43,689
 - Medicare: 23,526
 - Period 2 Enrollment (10/15 – 9/16): 68,230 total contracts (+1.5% from prior period)
 - Active and pre-65 retiree: 43,815
 - Medicare: 24,415
- **Inflation and trend** adjustments increased the claims costs to reflect expected year-over-year increases to the cost of services; trend assumption set based on review of national survey data and GHIP-specific experience
 - The following factors were used to project GHIP claims to FY18:
 - Active and non-Medicare retiree medical trend: 6.5%
 - Medicare medical trend: 3%
 - Prescription drug trend: 10%

FY18 health care budget development

Assumption and pricing analysis details



- **Plan Design** adjustments applied to the claims costs to reflect any plan design changes or movement across plans, and were based on the relative difference in *actuarial value* of the plans
 - Period 1 claims adjusted to reflect the FY16 plan design changes to OOP limits effective 7/1/2015 and changes to Rx copays effective 9/1/2015
 - Both period claims assume no additional FY17 plan design changes effective 7/1/2016
 - No adjustment made for change in copay for urgent care centers and freestanding hi-tech imaging, pending further analysis regarding potential member steerage (data still emerging)
- **Vendor adjustments** reflect results from medical TPA RFP effective 7/1/2017
 - Aetna sole administration of the CDH Gold and HMO plans
 - Highmark retention of the Comprehensive PPO, First State Basic, POS, and Medicfill plans

FY18 health care budget development

Assumption and pricing analysis details



- **Self-insured fixed costs** were added to the adjusted claims cost to develop the total budget; this includes the following administrative service fees and expenses:

Fee	Payable
Active/Pre-65 Retiree Medical ASO Fee ¹	Aetna & Highmark
Commercial Pharmacy Drug ASO Fee	ESI
Medicare Retiree Medical ASO Fee ¹	Highmark
EGWP Pharmacy Drug ASO Fee	ESI
OMB Office Expenses ²	OMB Expenses
ACA Fees	Federal Government/HHS

¹ Medical ASO fees reflect the results of the FY18 medical TPA RFP; Aetna HMO fees reflect AIM model including Care Link fees

² OMB Office Expenses includes the cost of HMS-Health Advocate Inc. EAP, Truven Analytics, Ceridian/Conexis, Segal Consulting, Willis Towers Watson Consulting, Vanguard Direct (ACA reporting), OMB salaries, wages, and other employer costs

FY18 health care budget projections

Preliminary budget based on Q1 data



- FY18 preliminary budget of \$781.7M is a 2.0% decrease from FY17 budget of \$797.7M and reflects medical TPA RFP decisions and ESI contract savings (estimate provided by Segal)

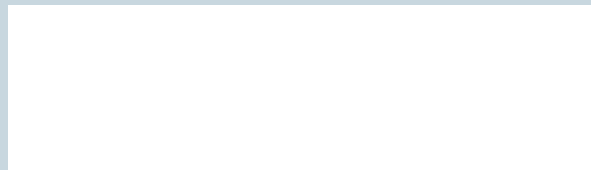
Key Assumption	Preliminary Budget
Experience Period	10/1/14 – 9/30/16
Experience Weighting (Prior Period / Current Period)	35% / 65% (2 years, emphasizes recent)
Medical Trend – Active / Pre-65	6.5%
Medical Trend – Medicare	3%
Pharmacy Trend	10%
FY18 Aggregate Costs	\$781.7M
FY18 Overall % Increase (vs FY17)	-2.0%
FY18 Overall \$ Increase (vs FY17)	-\$16.0M

Any reduction in FY18 budget will be used to fund GHIP reserve

FY18 budget to be further refined based on Q2 vendor data and WTW analysis of ESI contract savings

Note: FY17 and FY18 aggregate budgets based on 68,648 contracts as of Q1 FY17. FY17 budget of \$797.7M reflects 6 months of CY16 rates and 6 months of CY17 rates for the Medicfill plan

Appendix



Health care cost trend overview

- Health care cost trend is made up of three main components:
 - Unit cost:** the cost of a fixed basket of medical and Rx services
 - Utilization:** the size of the basket of services used (i.e., whether more services are going to be used next year relative to this year)
 - Mix:** how the assortment of services in the basket changes year over year (i.e., more urgent care visit, but fewer ER visits; more specialty drug use)
- Willis Towers Watson publishes health care cost trend information semi-annually based on data compiled for large employers; most recent 2016 Willis Towers Watson Best Practices in Health Care Survey includes results for nearly 550 large employers with 12.2 million full time employees
- Health care cost trends are reported before plan design changes and after plan design changes
 - The cost increase before plan changes (e.g., changes to deductibles, coinsurance) is a better measure of the true underlying increase in health care costs resulting from changes in utilization and unit costs, before reflecting cost shifting to employees
 - Expected 2016 to 2017 composite medical & Rx health care cost trends **before plan changes** are summarized below for active, pre-65 retirees, and post-65 retirees

Annual Medical/Rx Trend	Active	Pre-65 Retiree	Post-65 Retiree
Before Plan Design Changes			
National Average	6.0%	5.9%	4.7%
Public Sector & Education ¹	7.0%	n/a	n/a

¹ Industry-specific data available for active populations only

Recommended health care cost trends

- Current trend assumptions for FY18 projections (based on Segal recommendations):
 - Medical: 6.5%
 - Rx: 10.0%
 - Composite¹: 7.6%
 - Medical and Rx trend assumptions are applied to all statuses (active, pre-65 retiree, and post-65 retirees)
- WTW Recommendation
 - Composite trend of 7.6% falls slightly above public sector/education average of 7.0%
 - WTW generally recommends setting medical trend in the 6-7% range, and pharmacy trend in the 10-12% range for active and pre-65 retiree populations
 - Segal's trend recommendations fall within these ranges
 - Consider lowering medical trend to a more aggressive 6.0% assumption
 - For the post-65 retiree population, 10-12% pharmacy trend is appropriate driven largely by continued increase in specialty drug spend, but medical trend has been running closer to 2-3%
 - Consider reducing medical trend for post-65 retirees to 3%

WTW Recommendation	Active	Pre-65 Retiree	Post-65 Retiree
Medical Trend	6.5% ²	6.5% ²	3.0%
Rx Trend	10.0%	10.0%	10.0%

¹ Based on a weighted average of the most recent medical & Rx claims data for FY17 Q1

² Consider lowering medical trend to 6.0% based on discussion with SEBC