

State of Delaware

State of Delaware GHIP FY18 Budget Projections

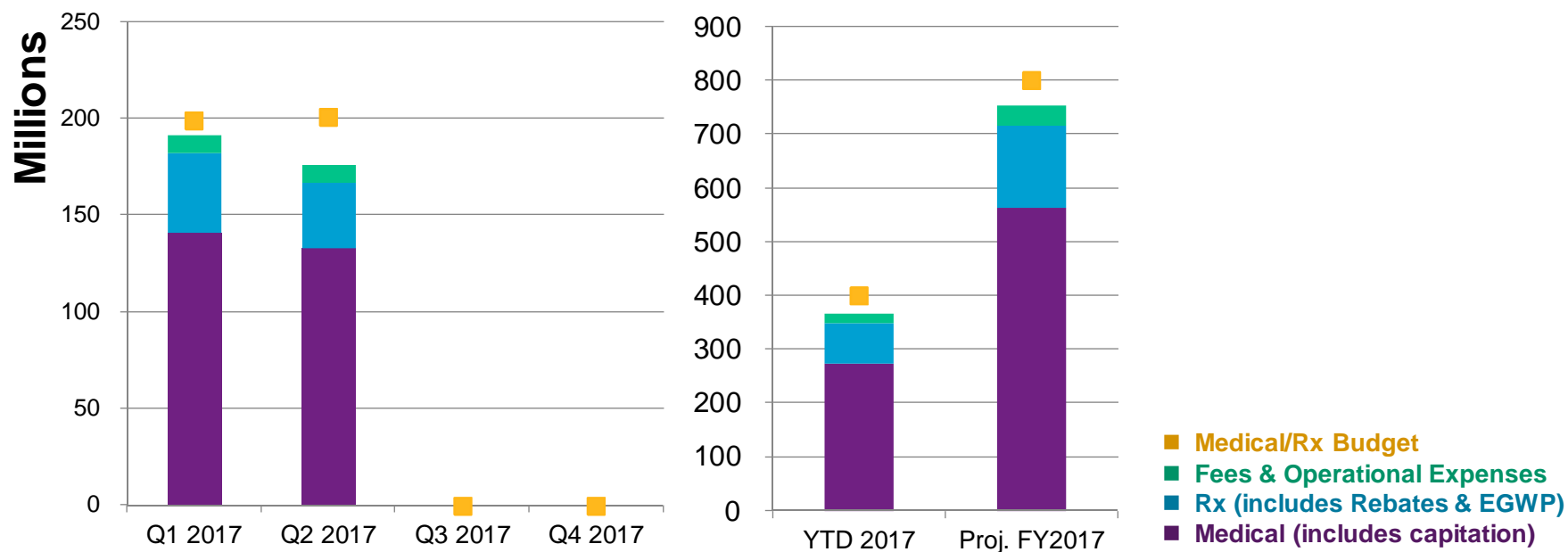
FY17 Q2 Update

February 6, 2017

Financial reporting

FY17 Q2 update

- Total active and retiree medical and prescription drug cost for the period of July 1, 2016 through December 31, 2016 is \$367.6M, which is approximately 92% of the \$400.2M budget (or 8% below budget), resulting in a surplus of \$32.7M
- Overall medical and prescription drug costs per employee increased 6.6% over the first two quarters of FY16, and are projected to increase 4.5% over the full fiscal year
- Additional detail provided in FY17 Q2 Financial Reporting document



FY18 health care budget projections

Revised budget based on FY17 Q2 data

- FY18 revised budget of \$799.3M is a 0.2% increase over FY17 budget of \$797.7M, reflecting updated data through December 2016 and WTW analysis of ESI contract savings
 - Note, FY17 Q1 and Q2 pharmacy pricing improvements are captured in the claims experience for the Commercial (active/pre-65 retiree) population
 - WTW analysis indicates an additional \$26.5m savings expected in FY18

Component	Description	Preliminary 1/23 SEBC		Revised 2/6 SEBC	
		Cost (\$M)	Impact (%)	Cost (\$M)	Impact (%)
FY17 Budget		\$797.7		\$797.7	
Claims Experience	Claims experience updated through FY17 Q2 compared to budgeted costs; also reflects slight shifts in covered population, utilization, and plan design	(\$21.5)	-2.7%	(\$27.8)	-3.5%
Health Care Trend (Medical/Rx)	6.5%/10% Active and Pre-65 Retirees 3%/10% Medicare Retirees	\$59.0	7.4%	\$59.0	7.4%
Medical TPA RFP	Aetna awarded HMO (AIM) and CDH Highmark retained PPO, FSB, and Medicfill	(\$3.1)	-0.4%	(\$3.1)	-0.4%
ESI Contract Savings	Savings shown for FY18 (Year 2 of 3-year contract); preliminary estimate developed by Segal and revised estimate developed by WTW based on more recent data	(\$50.4)	-6.3%	(\$26.5)	-3.3%
FY18 Budget		\$781.7	-2.0%	\$799.3	0.2%

Note: FY17 aggregate budget based on September 2016 contracts while FY18 aggregate budget based on December 2016 contracts. FY17 budget of \$797.7M reflects 6 months of CY16 rates and 6 months of CY17 rates for the Medicfill plan.

FY18 health care budget projections

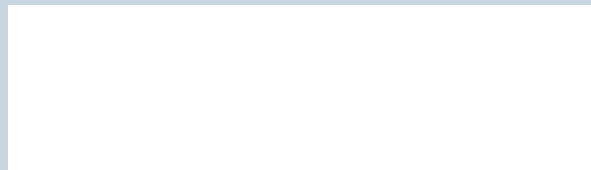
Revised budget based on FY17 Q2 data

- FY18 projected budget is shown below under a range of reasonable assumptions, including varying weighting for the two experience periods and a range of health care trend factors
- The SEBC can choose to be more or less conservative in setting the FY18 GHIP budget by selecting an alternative set of assumptions

Key Assumption – Experience Period	Aggressive	Recommendation	Conservative
Experience Period	1/1/15 – 12/31/16	1/1/15 – 12/31/16	1/1/15 – 12/31/16
Experience Weighting (Prior Period / Current Period)	50% / 50% (2 years, even split)	35% / 65% (2 years, emphasizes recent)	0% / 100% (most recent year only)
FY18 Aggregate Costs	\$797.6M	\$799.3M	\$803.1M
FY18 Overall % Increase (vs FY17)	0.0%	0.2%	0.7%
FY18 Overall \$ Increase (vs FY17)	(\$0.1M)	\$1.6M	\$5.4M
Key Assumption – Trend	Aggressive	Recommendation	Conservative
Medical Trend – Active/Pre65	6%	6.5%	7%
Medical Trend – Medicare	3%	3%	3%
Pharmacy Trend	10%	10%	12%
FY18 Aggregate Costs	\$794.6M	\$799.3M	\$811.2M
FY18 Overall % Increase (vs FY17)	(0.4%)	0.2%	1.7%
FY18 Overall \$ Increase (vs FY17)	(\$3.1M)	\$1.6M	\$13.5M

Note: FY17 aggregate budget based on September 2016 contracts while FY18 aggregate budget based on December 2016 contracts. FY17 budget of \$797.7M reflects 6 months of CY16 rates and 6 months of CY17 rates for the Medicfill plan.

Appendix



Health care trend variability analysis

FY18 Budget Estimate			FY18 Budget Change over FY17 (%)		FY18 Budget Change over FY17 (\$)	
Variability Description	Lower Bound	Upper Bound	Lower Bound	Upper Bound	Lower Bound	Upper Bound
Expected Value (without margin)	\$799,256,000		0.2%		\$1,579,694	
70% Confidence Interval	\$787,736,000	\$810,777,000	-1.2%	1.6%	(\$9,940,000)	\$13,101,000
90% Confidence Interval	\$780,973,000	\$817,540,000	-2.1%	2.5%	(\$16,703,000)	\$19,864,000
95% Confidence Interval	\$777,470,000	\$821,043,000	-2.5%	2.9%	(\$20,206,000)	\$23,367,000
97% Confidence Interval	\$775,134,000	\$823,378,000	-2.8%	3.2%	(\$22,542,000)	\$25,702,000

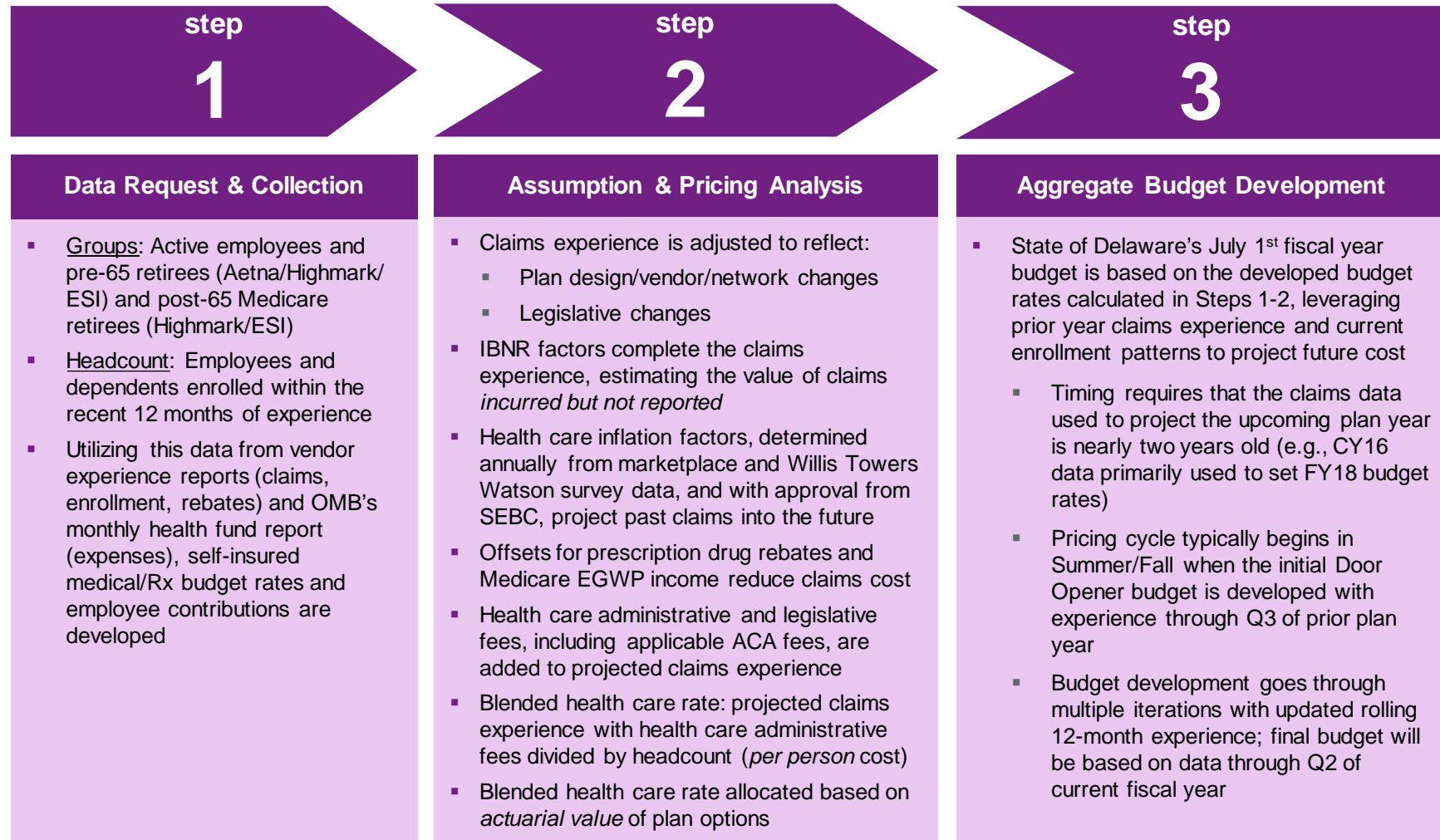
- Health care trend variability analysis provides statistical confidence intervals to better quantify volatility and address risk tolerance concerns
 - Confidence intervals represent the probability that the budget estimate will fall between an upper and lower bound of a health care claims distribution

The above analysis is based on GHIP data available through FY17 Q2, current enrollment as of December 2016 (including assumed migration for terminating plans), decisions approved to date by the SEBC, and other pricing assumptions as outlined in this document. The estimated confidence intervals shown are directional and intended to reflect the potential random fluctuation in claim cost given the current size and risk profile of the GHIP. The model does not contemplate potential change in cost due to shifts in enrollment, demographics or morbidity of the population, unexpected changes in provider networks, or significant changes in regulations affecting the health care market.

Source: Willis Towers Watson Trend Variability tool including proprietary Health Care Claims Continuance table based on 2017 data

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 January 2015 through December 2016
 - Period 1 (1/1/2015 – 12/31/2015) weighted 35%
 - Period 2 (1/1/2016 – 12/31/2016) 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 independently verified by WTW

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 (1/15 – 12/15): 67,500 total contracts (+2.0% from prior period)
 - Active and pre-65 retiree: 43,740
 - Medicare: 23,760
 - Period 2 Enrollment (1/16 – 12/16): 68,427 total contracts (+1.4% from prior period)
 - Active and pre-65 retiree: 43,821
 - Medicare: 24,606
- **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
 - The following migration was assumed for participants currently enrolled in discontinuing plans:
 - Highmark HMO: 75% migrate to Aetna HMO and 25% migrate to Highmark Comprehensive PPO
 - Highmark CDH Gold: 90% migrate to Aetna CDH Gold and 10% migrate to Highmark Comprehensive PPO

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

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 Q2

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