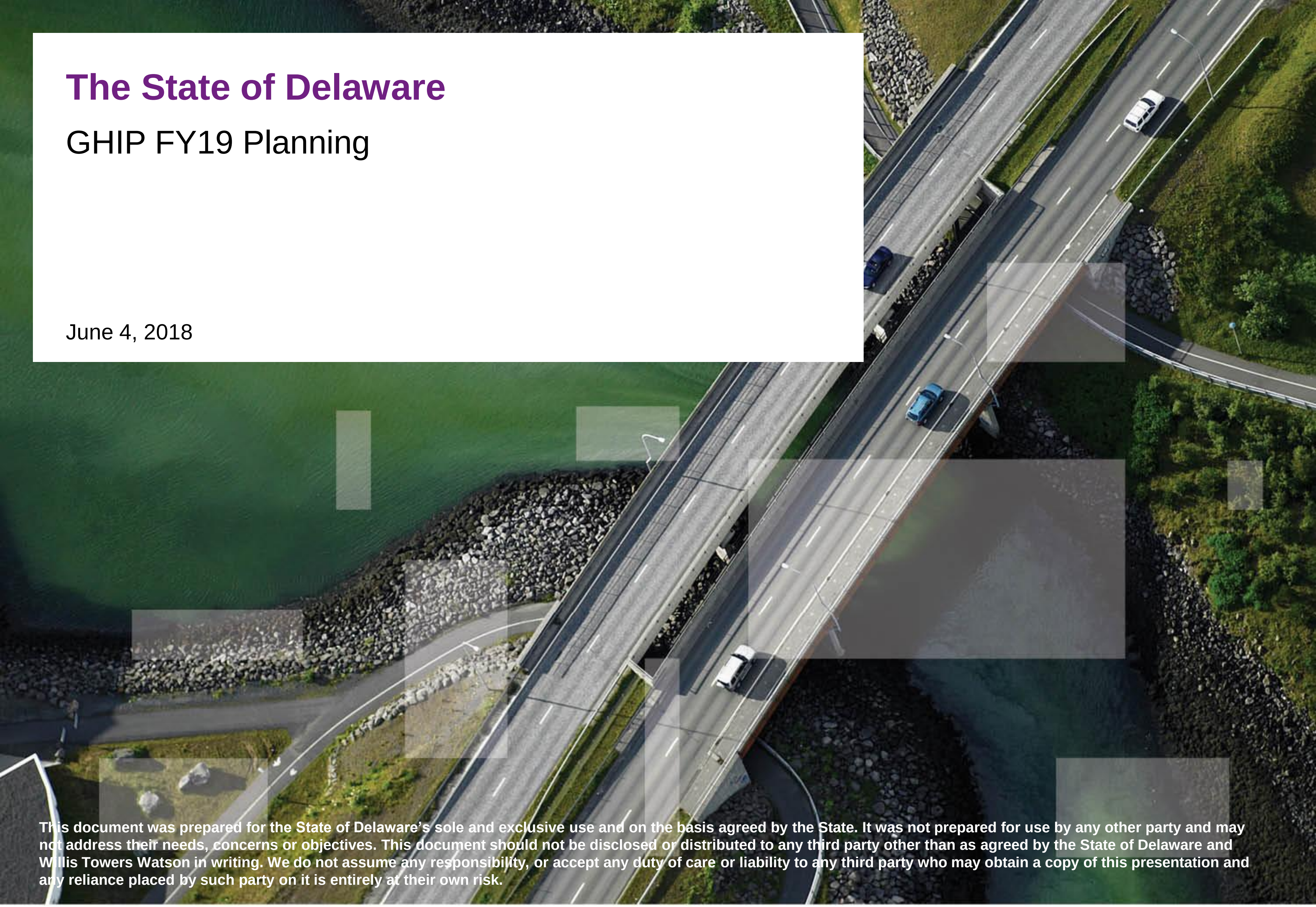


The State of Delaware

GHIP FY19 Planning

June 4, 2018

Willis Towers Watson

Contents

Health Savings Account (HSA) plan considerations

Health Savings Account plan – defined

Definitions	
Consumer Directed Health Plan (CDHP)	A type of medical plan offered together with a personal account (i.e., health savings account or health reimbursement arrangement) that can be used to pay a portion of the medical expense not paid by the plan. Also called a High Deductible Health Plan (HDHP).
Health Savings Account (HSA)	A tax-advantaged medical savings account available to taxpayers in the United States who are enrolled in an IRS-qualified HDHP.

References to a ***Health Savings Account (HSA) plan*** are intended to describe an IRS-qualified Consumer Directed Health Plan with a Health Savings Account

Plan design requirements for a Health Savings Account plan

- The Internal Revenue Service (IRS) mandates certain plan design provisions to maintain tax-favored status of the Health Savings Account

Calendar Year 2019 Limits*	**IRS-qualified HDHP / HSA (Ind./Fam.)**
***Minimum* Deductible**	$1,350 / $2,700
***Maximum* Out-of-Pocket Max**	$6,750 / $13,500
***Maximum* Health Savings Account contribution** (combined employer and employee)	$3,500 / $7,000
Catch-up Health Savings Account contributions (for individuals attaining age 55 by 12/31 until enrolled in Medicare)	$1,000

* Announced by IRS on May 10, 2018

- Deductible applies to all services covered by the plan – i.e., medical *and* prescription drug
- Health Savings Account plan enrollee cannot have any other coverage that provides first-dollar coverage of medical expenses (e.g., dual coverage on a spouse's plan) and cannot have a health care Flexible Spending Account (FSA) to pay for medical expenses (i.e., "limited purpose" health care FSA for dental and vision expenses only)

Health Savings Account plan design – *illustrative scenarios*

Plan Design (In-network)	CDH HRA (Ind./Fam.)	HSA Scenario 1 (Ind./Fam.)	HSA Scenario 2 (Ind./Fam.)
Deductible	$1,500 / $3,000	$2,000 / $4,000	$1,500 / $3,000
Employer HSA Funding	$1,250 / $2,500	$1,000 / $2,000	$1,000 / $2,000
Coinsurance	90%	80%	80%
Out-of-Pocket Max	$4,500 / $9,000	$4,500 / $9,000	$4,500 / $9,000
PCP Office Visit	90%	80%	80%
Specialist Office Visit	90%	80%	80%
Emergency Room	90%	80%	80%
Inpatient Care	90%	80%	80%
Prescription Drug[1]			
Out-of-Pocket Max	Combined with medical	Combined with medical	Combined with medical
Generic / Preferred / Non preferred			
▪ Retail	$8 / $28 / $50 after deductible	$8 / $28 / $50 after deductible	$8 / $28 / $50 after deductible
▪ Mail Order	$16 / $56 / $100 after deductible	$16 / $56 / $100 after deductible	$16 / $56 / $100 after deductible
Relative Benefit Value (RBV) [2]	**0.96**	**0.89**	**0.91**

1 Retail 30 day supply; mail order 90 day supply.
2 RBV estimate includes Health Savings Account seed.

Health Savings Account plan financial impact – Employee payroll contributions

- Illustrative Health Savings Account rates shown below based on actuarial relativity to FY18 rate for CDH Gold[1] with employee contributing 5% of the total premium
  - Per the Delaware Code, the State must pay 95% of the premium for a consumer-directed health plan

Monthly Rates	FY18 CDH Gold		Proposed HSA Plan[2]		
Coverage Tier	Rate	EE Contrib	Rate[2]	EE Contrib	Annual EE Savings
Employee Only	$719.68	$35.98	$665.12	$33.26	-$32.64
EE + Spouse	$1,492.22	$74.58	$1,379.10	$68.96	-$67.44
EE + Child(ren)	$1,099.56	$54.96	$1,016.21	$50.81	-$49.80
Family	$1,895.74	$94.78	$1,752.03	$87.60	-$86.16

Monthly Rates	Employee Contribution Impact				
Coverage Tier	HSA[2]	FY18 HMO	EE Savings (Annual)	FY18 PPO	EE Savings (Annual)
Employee Only	$33.26	$47.16	-$166.80	$105.18	-$863.04
EE + Spouse	$68.96	$99.50	-$366.48	$218.26	-$1,791.60
EE + Child(ren)	$50.81	$72.18	-$256.44	$162.08	-$1,335.24
Family	$87.60	$124.12	-$438.24	$272.86	-$2,223.12

- The GHIP has flexibility in setting the Health Savings Account plan design (subject to IRS-qualified HDHP provisions) and budget rates to increase appeal relative to existing plan options

1 CDH Gold RBV of 96.3% (including HRA seed).
2 HSA scenario 1 reflects a $2,000/$4,000 single/family deductible, $1,000/$2,000 HSA seed and an RBV of 0.89 (see page 5 for complete plan design provisions).

How does a Health Savings Account plan work?

From the member's perspective – *illustrative based on HSA Scenario 1*

- ***Employees' ability to enjoy these plan benefits is predicated on enrolling in the State's Health Savings Account plan[1]***
- Members would receive an annual contribution from the State/Employer to fund the Health Savings Account, and can also deposit their own money, up to IRS limits
- The Health Savings Account can be used to pay for qualified medical expenses[2], including during the deductible period, or can be used as a savings vehicle for future expenses (beyond the current plan year)
- Members must meet a deductible before the plan begins paying toward covered services – for in-network services, the deductible is $2,000 for an individual plan / $4,000 for a family plan (the IRS requires minimum deductibles of $1,350 ind. / $2,700 fam. in CY2019)
- Prescription drug costs as negotiated by Express Scripts, must be paid in full by the member until the deductible is met (available Health Savings Account funds can be used)
- Prescription drugs and services received under the medical plan count toward the plan deductible and out-of-pocket maximums

1 Would be designed as an IRS-qualified consumer directed health plan.
2 Term generally means "medical care" including medical, Rx, dental, vision and long-term care services. IRS Publications 502 (https://www.irs.gov/publications/p502) and 969 (https://www.irs.gov/publications/p969) provide guidance on IRC §213(d) qualified medical expenses. Withdrawals for any other expenses (prior to accountholder reaching age 65) are subject to a tax penalty.

How does a Health Savings Account plan work? (continued)

From the member's perspective – *illustrative based on HSA Scenario 1*

- Once the deductible is met, the member has the security of knowing that the plan pays a set amount for services – 80% for in-network services
- There are limits to the amount of out-of-pocket expenses a member can pay in a plan year – in-network, that's $4,500 for an individual plan/$9,000 for a family plan (CY2019 IRS maximum out-of-pocket expenses $6,750 ind. / $13,500 fam.)
- Once the out-of-pocket maximum is reached, plan pays for all covered services and prescriptions at 100%
- Unused Health Savings Account funds will carryover to the next year, regardless of whether or not employee remains enrolled in the State's Health Savings Account plan
  - However, employee will need to remain enrolled in an IRS-qualified consumer-directed health plan in order to continue making contributions to a Health Savings Account

1 Would be designed as an IRS-qualified consumer directed health plan.
2 Term generally means "medical care" including medical, Rx, dental, vision and long-term care services. IRS Publications 502 (https://www.irs.gov/publications/p502) and 969 (https://www.irs.gov/publications/p969) provide guidance on IRC §213(d) qualified medical expenses. Withdrawals for any other expenses (prior to accountholder reaching age 65) are subject to a tax penalty.

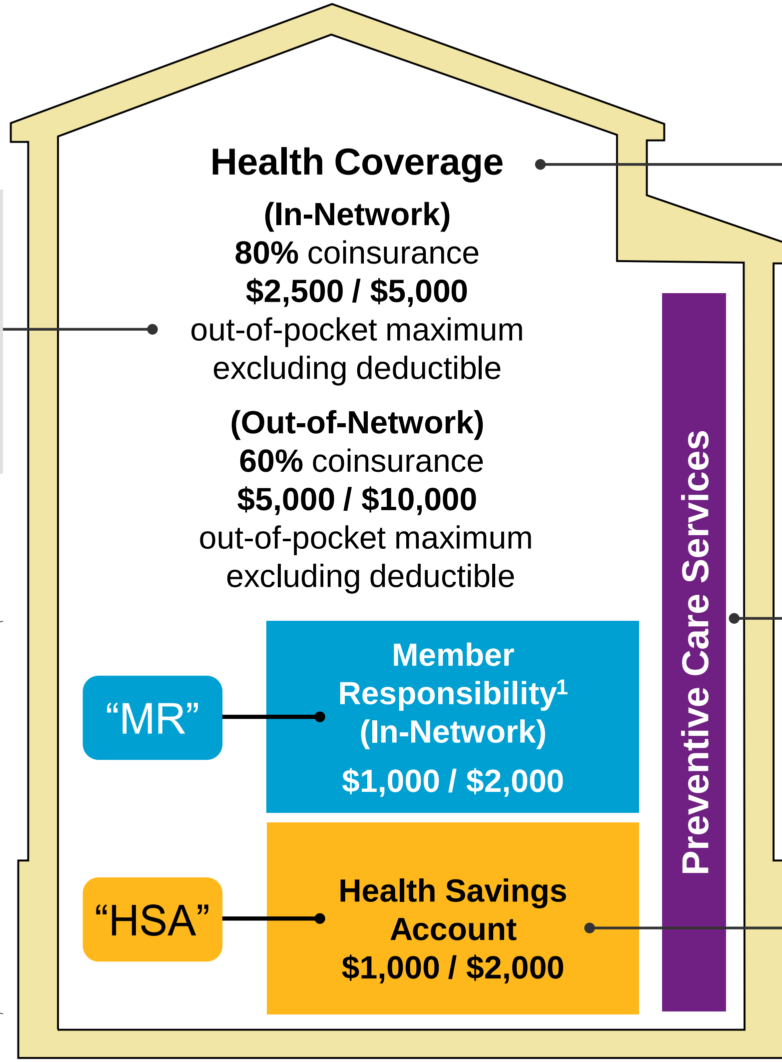
How does a Health Savings Account plan work? (continued)

From the member's perspective – *illustrative based on HSA Scenario 1*

- Protects members from high costs
- Coinsurance similar to traditional plans
- Out-of-pocket maximums for in- and out-of-network services

Deductible
(sum of "**MR**" and "**HSA**")
In-network: $2,000/$4,000
Out-of-network: $4,000/$8,000

1 Assumes member uses Health Savings Account to fund expenses in the deductible phase and did not have a prior Health Savings Account balance at start of the year.



Tools and resources to be successful consumers:
- SBO consumerism website
- Telephonic health coaches
- Cost / Quality comparison tools

In-network preventive care covered at 100%

- Funding provided by the State, but employees can contribute too (up to IRS limits)
- Pays for qualified medical expenses

Advantages of a Health Savings Account plan –
For current employees

- There are multiple advantages to offering a Health Savings Account plan that are not available in the current GHIP plans

Employee savings vehicle	▪ A Health Savings Account allows employees to save for future medical expenses, including but not limited to retiree medical ▪ Employees decide when and how to use Health Savings Account funds, or whether to save them for future qualified medical expenses, including after retirement ▪ Employees can start, stop, or adjust Health Savings Account contributions at any time ▪ Funds can be invested once the Health Savings Account balance exceeds a certain threshold
No "use it or lose it" rule	▪ Unused funds carry over from year to year and are always the employee's to keep, unlike employee contributions to a health care Flexible Spending Account (FSA)
Triple tax incentives	▪ No federal taxes (or state taxes, except in NJ and CA)[1] on the funds the employee deposits, the employer-provided funds, the interest earned, or the funds spent on qualified medical expenses ▪ Taxes and penalties do apply if Health Savings Account funds are used to pay for anything other than qualified medical expenses
Competitive position	▪ The marketplace has been moving in this direction, with 73% of all large employers and 63% of public sector and education employers offering a consumer directed health plan (either Health Savings Account or Health Reimbursement Arrangement plan) in CY2017[2] ▪ New hires may have open Health Savings Accounts from a prior employer

1 Health Savings Account contributions made by the State or by the employee via pre-tax payroll deductions are not eligible for tax-favored treatment for state tax purposes in NJ and CA. In AL, pre-tax contributions are tax-free, but any post-tax employee contributions to the Health Savings Account are taxable by the state.
2 2017 Willis Towers Watson Best Practices in Health Care Employer Survey. Sample: Companies with at least 1,000 employees.

Advantages of a Health Savings Account plan – For former employees

- There are also advantages to having a Health Savings Account for former employees, including COBRA participants and retirees
- Accumulated Health Savings Account funds can be used to pay for qualified medical expenses
- Former employees can continue to make tax-advantaged contributions to a Health Savings Account, if still enrolled in an IRS-qualified consumer directed health plan ***and if not accepting Social Security payments after becoming eligible for Medicare***[1]
- This group can use Health Savings Account funds to pay for the following:
  - COBRA premiums
  - Health coverage while receiving unemployment compensation
  - Qualified long-term care insurance contracts, within statutory limits[2] (even if Health Savings Account contributions were made on a pre-tax salary reduction basis under a cafeteria plan)
- Individuals over age 65 can also use the Health Savings Account to pay for:
  - Health premiums for Medicare Part A, Part B, and Part D, Medicare Advantage premiums, and coverage under an employer's self-insured retiree health plan
    - **Note:** Premiums for Medigap/Medicare Supplement plans are not qualified medical expenses
  - Non-health related withdrawals without tax penalty (still subject to ordinary income tax) – just like an Individual Retirement Account (IRA)

1 Medicare Part A premiums are automatically removed from the Social Security benefit payments for Medicare-eligible individuals; it is not possible for those individuals to opt out of Medicare Part A. This automatic enrollment in Medicare Part A disqualifies any Social Security recipient from being eligible to make or receive Health Savings Account contributions.
2 See appendix for further details.

Health Savings Accounts vs. Health Reimbursement Arrangements

Account Feature	Health Savings Account (HSA)	Health Reimbursement Arrangement (HRA)
Taxability of account	▪ Provides triple-tax advantage for employees – contributions, interest and reimbursements (when used for qualified medical expenses)	▪ Not applicable (not employee's money)
Account ownership	▪ Is a trust account, owned by employee and is portable	▪ Employer owned and not portable
Obligations to open account	▪ Voluntary, the employee does not have to open the account	▪ Mandatory, the employee must have an account
Account contributions	▪ Can be made by the employee and/or the employer	▪ Can be made solely by the employer
Governing of accounts and plan	▪ IRS rules dictate account funding limits and qualifying medical plan design	▪ Not governed – employer has discretion over account funding amount and plan design
Account ownership at employment termination	▪ Account stays with employee	▪ Account is forfeited unless retiring from the company and employer allows retiree to retain access to funds

Indicates millennial population based on EBRI survey

Health Savings Account plan – demographic considerations

- Employees enrolling in Health Savings Account plans tend to be younger and healthier than those electing other types of plans; millennials are the generation most likely to be enrolled in an HSA plan
  - Millennials are more likely to engage in consumerism behaviors targeted by Health Savings Account plans when seeking medical care, and are more interested in the tax-advantages and investment features of these plans than other generations[1]
  - Health Savings Accounts are important employer tools for attracting and retaining young talent
- Approximately 1/3 of GHIP enrollees are millennials[2] who are lower paid, more likely to waive/enroll in single coverage, and more likely to elect plans with low contributions (FSB, CDH) than other State employees

Demographics by Age Band			
Age Band	Average Salary	% Single Coverage	% Waive Coverage
< 26	$36,724	51.2%	37.1%
26 - 29	$41,879	65.9%	7.5%
30 - 39	$51,402	32.0%	8.6%
40 - 49	$59,423	19.1%	10.2%
50 - 59	$55,108	29.2%	9.5%
60 - 69	$54,766	40.7%	8.6%
70 and over	$51,889	43.1%	12.5%

Plan Election by Age Band					
Age Band	CDH	PPO	FSB	HMO	**Total Enrolled**
< 26	9.0%	47.8%	19.2%	24.0%	**676**
26 - 29	7.1%	50.9%	14.6%	27.4%	**2,250**
30 - 39	5.4%	60.5%	7.2%	26.9%	**7,277**
40 - 49	4.5%	61.7%	4.7%	29.1%	**8,269**
50 - 59	4.8%	62.0%	4.7%	28.5%	**8,467**
60 - 69	3.9%	68.5%	4.2%	23.3%	**3,839**
70 and over	2.4%	79.9%	2.1%	15.5%	**329**

GHIP Millennials (10,203 enrolled, 33% of total)

- Offering a Health Savings Account plan will be more attractive to GHIP millennials than other State employees, allowing them to build Health Savings Account balances and save for retirement during lean utilization years

1 Source: EBRI 2017 Consumer Engagement in Health Care Survey.
2 EBRI 2017 Consumer Engagement in Health Care Survey defines millennial generation as the demographic cohort with birth years ranging from 1977 to 2000.

Health Savings Account plan designs – surrounding states[1]

2018 Plan Design (In-network)	NJ HD4000[2]	NJ HD1500[2]
Deductible (Ind./Fam.)	$4,000 / $8,000	$1,500 / $3,000
Account Funding (Ind./Fam.)	N/A	$300 / $300
Coinsurance	80%	80%
Out-of-Pocket Max (Ind./Fam.)	$5,000 / $10,000	$2,500 / $5,000
PCP Office Visit	80%	80%
Specialist Office Visit	80%	80%
Emergency Room	80%	80%
Inpatient Care	80%	80%
Prescription Drug[3]		
Out-of-Pocket Max (Ind./Fam.)	Combined with medical	Combined with medical
▪ Retail ▪ Mail Order	80% after deductible	80% after deductible
Relative Benefit Value (RBV)[4]	**0.78**	**0.88** [5]

- The State of NJ provides two HSA-qualified high deductible health plans (HDHPs) alongside several other traditional plan options (5 PPOs, 5 HMOs with RBVs ranging from 0.87 – 0.98) with varying levels of eligibility
  - The State of NJ $300 annual Health Savings Account funding is available to HD1500 plan subscribers only
- The State of PA offers an CDHP with a Health Reimbursement Account for permanent part-time and temporary employees
- MD has not implemented an HSA-qualified HDHP from CY2016 through CY2018
- From CY2016 through CY2018, none of the states evaluated, implemented and then eliminated HSA-qualified HDHPs

1. Maryland (MD), Pennsylvania (PA) and New Jersey (NJ) state medical programs evaluated; MD and NJ 2016 through 2018 medical programs; PA 2017 and 2018 medical programs
2. HD1500 plan available to all Local government, Education and State employees; HD4000 plan available to Local Government and State employees only
3. Retail 30 day supply; mail order 90 day supply
4. RBVs shown are rough estimates developed using WTW proprietary actuarial tools and provided for reference only
5. NJ HD1500 plan RBV estimate shown includes HSA funding (annual funding dollars are $300 Individual/$300 Family); NJ HD1500 estimated RBV without seed is 0.86

Health Savings Account plan – other implementation considerations

Changing the State's benefits plan year from fiscal to calendar

- While the State is not required to change its benefits plan year if the SEBC votes to implement a Health Savings Account plan, it would be useful to align the benefit year with the calendar year given that it would be far easier for employees to manage their Health Savings Accounts, which have contribution limits that reset at the start of each calendar year
- Additional requirements of the State to support a plan year change from Fiscal Year (July 1) to Calendar Year (January 1):
  - Notify medical plan vendors of intent to shorten Fiscal Year plan year to 6 months (July 1 – December 31), and renegotiate benefit contracts as needed
  - Conduct two Open Enrollment (OE) events in that calendar year (one in the spring, one in the fall) to accommodate enrollment changes for the shortened Fiscal Year plan year as well as the following Calendar Year plan year
  - Adjust timing of GHIP budget development process to account for plan year differences and the need to move budgeting timeline to a Calendar Year basis
- Shifting the benefits plan year to a Calendar Year basis for all other benefits would provide a more integrated, seamless experience for all benefits to be in the same cycle
  - Modification to a Calendar Year will provide better integration with Flexible Spending Account (FSA) plan enrollment since there are two separate enrollment events for FSA and all other benefits today
- Additional administration will be required on the part of the SBO to ensure all other program contracts (dental, vision, etc.) are merged to the Calendar Year basis. Coordination with employer groups (i.e., school benefits) will need to be contemplated for preparation for a single OE event

Impact of moving the State’s benefit plan year to a Calendar Year

Pros	Cons
▪ Deductibles and out-of-pocket maximums for the HSA plan would align with tax year ▪ Alignment of medical and FSA plan years would eliminate potential for member confusion about how both work together ▪ Open Enrollment (OE) period would align for all benefits, creating a more integrated, seamless experience for employees ▪ Easier to communicate (over time, after initial roll-out)	▪ Need to re-execute all benefit contracts to reflect calendar year basis ▪ Requires second Open Enrollment event in 2019 ▪ Requires additional coordination with school districts (may impact local benefits, budgeting and union contracts) ▪ Deductible/Out-of-pocket maximum accumulators would reset on 1/1/2020 ▪ State’s budget process would require earlier planning and budget projections for the GHIP (i.e., increased potential for variability in future projections)

Timeline items are shaded to reflect the corresponding benefits plan year, i.e., [shaded] = "short" FY20 plan year.

Notes:
1 Also applies to dental, vision and supplemental benefits.
2 Price tags = employee and pensioner contributions.
3 Task should begin as soon as possible, but no later than January 2019.
4 Also includes Medicare population for all other benefit plans.

Implementation timeline – *illustrative*

- To maximize the success of a Health Savings Account plan, the State should allow at least 12 months for implementation (including member communications)
- The timeline below assumes that the SEBC has also decided to move forward with changing the State's benefit plan year from fiscal to calendar

FY19 Plan Year | **FY20 "Short" Plan Year** | **CY20 Plan Year**

State Fiscal Year 2019 | **State Fiscal Year 2020**

Jul-Sep '18 | Oct-Dec '18 | Jan-Mar '19 | Apr-Jun '19 | Jul-Sep '19 | Oct-Dec '19 | Jan-Mar '20

Benefits Plan Design / Pricing

Health Savings Account plan implementation[3]

Determine and finalize medical plan designs, incentives, and GHIP budget / price tags for "short" plan year FY20[1,2]

Determine proposed medical plan designs, incentives, Health Savings Account funding, and GHIP budget / price tags for CY20[1,2]

Finalize CY20 designs/ price tags[2]

Determine proposed medical plan designs, incentives, Health Savings Account funding, and GHIP budget / price tags for CY21[1,2]

State Budget

FY20 Door Opener due

Update FY20 for Gov's Budget

Updated FY20 projection

FY20 State budget / mark-up

FY21 Door Opener due

Update FY21 for Gov's Budget

Includes:
- *Selection of medical carrier & Health Savings Account banking partner*
- *Updates to enrollment system, eligibility file and medical plan account structures*
- *Establish payroll process to deduct employee pre-tax Health Savings Account contributions*
- *Roll-out employee education campaign related to Health Savings Account plan*
- *Establishment of limited purpose FSA*

Communications

Employee communications re: plan year changes and FY20 OE — ***FY20 OE***

Employee communications re: CY20 OE — ***CY20 OE***

Contracting

Notify medical plan vendors of intent to shorten FY20 plan year to 6 months (7/1/19 – 12/31/19)[1]

Renegotiate benefit plan contracts as needed to account for plan year change for active and non-Medicare populations[1,4]

Address plan year change impact on GHIP budget/planning process and school district local benefits

Flexible Spending Account (FSA) RFP for 1/1/20 effective date

Future key decision points

- The following are additional decision points for the SEBC, in order of priority:
  1. Determine whether to offer Health Savings Account plan
  2. Determine whether to eliminate existing CDH Gold plan
     - If eliminated, determine whether (and how) employees will have access to unused HRA funds
  3. Finalize Health Savings Account plan design
  4. Determine Health Savings Account plan administrator(s)
  5. Develop and approve premium rates and Health Savings Account plan effective date

Next steps

Next steps

- Topics for discussion at June 25 SEBC meeting:
  - Q3 FY18 financials
  - May fund equity report
  - GHIP strategic framework updates
  - Value based contracting update from Aetna and Highmark
  - Clinical management programs – update on member engagement

Appendix

Health Savings Account plan financial impact – GHIP

- Financial impact of a Health Savings Account plan will vary based on:
  - Which participant groups are offered this plan
  - Availability of other plan options and/or changes to existing plan options
  - Final plan design and employer Health Savings Account contribution ("seed")
  - Employee contributions relative to existing plan options

Estimated GHIP Savings[1]	HSA Scenario 1	HSA Scenario 2
Per 5% Migration to HSA plan	$2.8M ($1.9M General Fund)	$2.1M ($1.4M General Fund)
Full Replacement (100% enrollment in HSA plan)	$56.7M ($37.6M General Fund)	$41.3M ($27.4M General Fund)

1 Savings assumes migration from current plans (if offered alongside) or full-replacement of active employees and pre-65 retirees enrolled in the First State Basic, CDH Gold, HMO, and PPO plans; this does not include Port POS or post-65 retiree Medicfill participants. Savings based on reduction in GHIP claims due to difference in actuarial value between current plan and HSA scenarios 1 and 2.

Qualified long-term care insurance contracts

- A qualified long-term care insurance contract is an insurance contract that provides only coverage of qualified long-term care services. The contract must[1]:
  1. Be guaranteed renewable,
  2. Not provide for a cash surrender value or other money that can be paid, assigned, pledged, or borrowed,
  3. Provide that refunds, other than refunds on the death of the insured or complete surrender or cancellation of the contract, and dividends under the contract must be used only to reduce future premiums or increase future benefits, and
  4. Generally not pay or reimburse expenses incurred for services or items that would be reimbursed under Medicare, except where Medicare is a secondary payer, or the contract makes per diem or other periodic payments without regard to expenses.

- Qualified long-term care premiums up to the following amounts (2018 per person limits) may be considered as qualified medical expenses[2]:
  - Age 40 or under – $420
  - Age 41 to 50 – $780
  - Age 51 to 60 – $1,560
  - Age 61 to 70 – $4,160
  - Age 71 or over – $5,200

1 Source: https://www.irs.gov/publications/p502, accessed 5/29/18.
2 Source: IRS Revenue Procedure: 2017-58; limits are subject to change as the IRS updates publications such as this from time to time.