

# The State of Delaware

## Group Health Insurance Plan

### Long Term Projections as of FY19 Q4

August 26, 2019

*This document was prepared for the State of Delaware's sole and exclusive use and on the basis agreed by the State. It was not prepared for use by any other party and may not address their needs, concerns or objectives. This document should not be disclosed or distributed to any third party other than as agreed by the State of Delaware and Willis Towers Watson in writing. We do not assume any responsibility, or accept any duty of care or liability to any third party who may obtain a copy of this presentation and any reliance placed by such party on it is entirely at their own risk.*

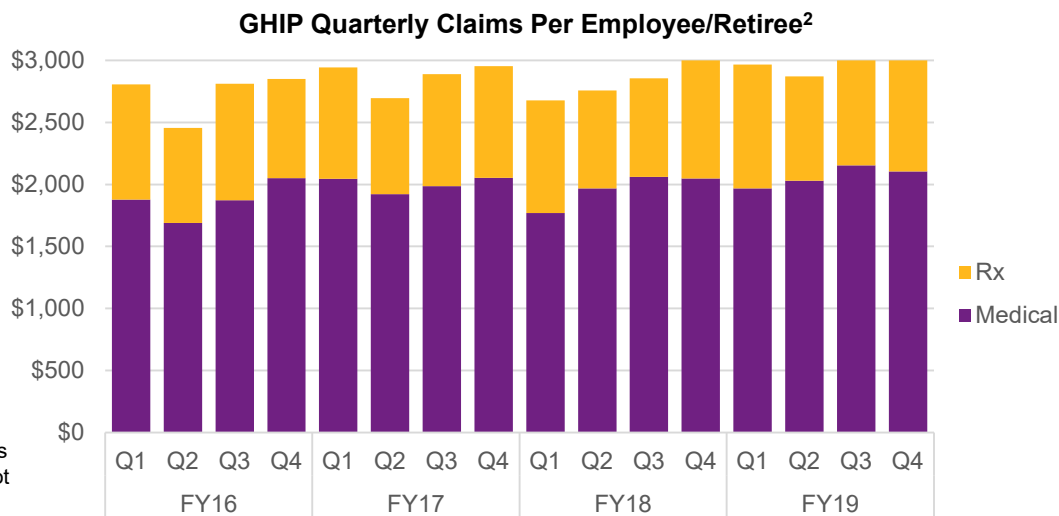
# Today's discussion

- Final FY20 Budget and preliminary FY21 projection
- EGWP funding update
- Long term projections including revised excise tax calculation
- Next steps

# GHIP long term health care cost projections (FY19 Q4 update)

## Final FY20 budget and preliminary FY21 projections

- Final FY20 Budget of \$837.0M (see separate document for details) reflects the following key assumptions:
  - Updated claims experience through June 2019
  - Enrollment as of July 2019 with 1% additional assumed membership growth during FY20
  - Approved FY20 program changes and passed legislation
    - Implementation of SurgeryPlus site-of-care steerage (\$500k savings), Highmark infusion therapy steerage program (\$2.0M savings), Livongo diabetes prevention services (\$720k savings) and select copay changes (\$6.9M savings)
    - HB 386 (\$100k cost), SB 227 (\$2.1m cost), SB 225 (\$175k cost), and SB 34 (\$500k cost)
- Preliminary FY21 projected budget of \$883.4M reflects 5% annual health care trend, 1% membership growth and implementation of Highmark radiation therapy authorization program<sup>1</sup>
- FY19 Q4 medical claim levels significantly more favorable than expected based on historical patterns
- FY19 Q4 pharmacy claim levels also favorable, with Q1 and Q4 expected to be the highest claim quarters given invoice timing



<sup>1</sup>Highmark estimates \$633k annual savings

<sup>2</sup>Based on combined active, pre-65 retiree, and post-65 Medicare retiree gross medical and pharmacy claims provided by Highmark, Aetna, and ESI; does not include offsets from drug rebates and EGWP payments

# GHIP long term health care cost projections (FY19 Q4 update)

## Headcount projections

- In May 2019, Financial Subcommittee recommended 1% annual membership growth assumption for FY20 – FY23 based on historical enrollment patterns
- July 2019 enrollment increased by 1.6% over FY19 average
  - Aetna HMO enrollment decreased slightly and enrollment increased for all other plan options
- Enrollment assumed to increase by 1% during FY20, representing a 0.5% average increase over July 2019 and 2.1% increase over FY19

Plan	FY19 Average (Vendor Reported)	July 2019 (Vendor Reported)	FY20 Projected
First State Basic	2,770	2,904	2,918
CDH Gold	2,595	2,847	2,861
HMO	10,966	10,533	10,586
Comp PPO	28,260	28,993	29,138
Medicfill	26,704	27,130	27,265
<b>Total Enrolled</b>	<b>71,295</b>	<b>72,407</b>	<b>72,768</b>
<b>Estimated Members</b>	<b>125,696</b>	<b>127,645</b>	<b>128,282</b>
<b>Increase over FY19</b>		<b>1.6%</b>	<b>2.1%</b>

# GHIP long term health care cost projections (FY19 Q4 update)

## EGWP funding update

### EGWP Payments

	CY 2018		CY 2019		CY 2020	
Average Members	25,694		26,608		26,875	
Rx plan cost	\$4,538		\$4,801		\$4,990	
EGWP funding component	PMPM	\$	PMPM	\$	PMPM	\$
Direct subsidy	\$161	\$4.1M	\$125	\$3.3M	\$77	\$2.1M
Coverage gap	\$555	\$14.3M	\$748	\$19.9M	\$842	\$22.6M
Reinsurance/LICS	\$557	\$14.3M	\$647	\$17.2M	\$697	\$18.7M
<b>Total funding</b>	<b>\$1,273</b>	<b>\$32.7M</b>	<b>\$1,520</b>	<b>\$40.4M</b>	<b>\$1,616</b>	<b>\$43.4M</b>

- Overall GHIP EGWP payments have been increasing since program inception, but varies by component
  - Direct subsidy funding is determined based on annual national bid amount set by CMS and has been decreasing in recent years; in July 2019, CMS announced a \$3.69 PMPM reduction in the national bid amount for 2020 driving a reduction in the projected GHIP direct subsidy payments
  - Coverage gap discount payments have been increasing over time as the Medicare Part D donut hole continues to close
  - Reinsurance payments also continue to increase as more claimants exceed the reinsurance threshold over time
  - In 2017, CMS moved to a prospective payment method for reinsurance, with a fixed amount paid each month and reconciliation occurring at the end of the calendar year based on actual incurred reinsurance – prospective payment amounts are adjusted periodically by ESI based on emerging claims experience, impacting the cash flow timing but not the total reinsurance attributable to plan year

Source: Membership and paid claim data as of June 2019 assuming 1% annual membership growth and 5% health care trend for 2020; EGWP funding reflects actual direct subsidy payments through June 2019 and coverage gap payments through Dec 2018; reinsurance funding projected based on estimates from ESI (CY2018 pending final true up in January 2020)

# GHIP long term health care cost projections (FY19 Q4 update)

## Long term projection exhibits

- Following a favorable Q4, FY19 ended with a surplus of \$80.7M
- Based on final FY20 budget projections and no premium rate increases during fiscal year, GHIP is projected to end FY20 with a \$74.7M surplus
- Financial Subcommittee to consider future rate action for mid-year FY20 and/or FY21
- For illustrative purposes, the following pages show the revised long term projections under two premium rate increase scenarios:
  - 2.0% increase effective 7/1/2020 (\$43.9M projected surplus through end of FY21)
  - Hold premium rates flat effective 7/1/2020 (\$27.1M projected surplus through end of FY21)
    - Financial Subcommittee recommendation to smooth available GHIP surplus over two years requires a 1.2% premium increase in FY21
- Long term projections on the following pages reflect the latest ACA excise tax calculations
  - Excise tax currently scheduled to take effect in 2022, and GHIP not expected to hit the excise tax threshold until 2023
  - In July, the House approved legislation to repeal excise tax, but action from Senate still pending

# GHIP long term health care cost projections (FY19 Q4 update<sup>1</sup>)

## Final FY20 Budget with 2% annual premium increase FY21-FY23

*FY21 reflects employee contribution increases of \$0.56 – \$5.46 per month (\$6.72 – \$65.52 per year) and State subsidy increases of \$13.35 – \$35.73 per employee per month (\$160.20 – \$428.76 per year) effective 7/1/2020*

GHIP Costs (\$ millions)	FY17 Actual	FY18 Actual	FY19 Actual	FY20 Projected <sup>1</sup>	FY21 Projected <sup>7</sup>	FY22 Projected <sup>7</sup>	FY23 Projected <sup>7</sup>
Average Enrolled Members	123,132	125,488	126,360	128,282	129,565	130,861	132,170
<b>GHIP Revenue</b>							
Premium Contributions (Increasing with Enrollment) <sup>2</sup>	\$799.0	\$810.9	\$817.4	\$832.5	\$840.7	\$849.1	\$857.6
<i>2.0% Premium Increase FY21 and beyond</i>	-	-	-	-	\$16.8	\$34.1	\$52.3
Other Revenues <sup>3</sup>	\$81.6	\$92.1	\$98.5	\$110.5	\$122.1	\$129.5	\$137.3
<b>Total Operating Revenues</b>	<b>\$880.6</b>	<b>\$903.0</b>	<b>\$915.9</b>	<b>\$943.0</b>	<b>\$979.6</b>	<b>\$1,012.7</b>	<b>\$1,047.2</b>
<b>GHIP Expenses (Claims/Fees)</b>							
Operating Expenses <sup>4</sup>	\$816.8	\$853.9	\$904.0	\$949.3	\$1,005.5	\$1,066.3	\$1,130.8
% Change Per Member		2.6%	5.1%	3.4%	4.9%	5.0%	5.0%
Excise Tax Liability <sup>5</sup>							\$2.5
<b>Adjusted Net Income (Revenue less Expense)</b>	<b>\$63.8</b>	<b>\$49.1</b>	<b>\$11.9</b>	<b>(\$6.3)</b>	<b>(\$25.9)</b>	<b>(\$53.6)</b>	<b>(\$86.1)</b>
Balance Forward	\$38.9	\$102.7	\$151.8	\$163.8	\$157.5	\$131.6	\$78.0
Ending Balance	\$102.7	\$151.8	\$163.8	\$157.5	\$131.6	\$78.0	(\$8.1)
- Less Claims Liability <sup>6</sup>	\$54.0	\$58.9	\$58.8	\$58.5	\$62.0	\$65.7	\$69.7
- Less Minimum Reserve <sup>6</sup>	\$24.0	\$24.0	\$24.3	\$24.3	\$25.7	\$27.3	\$29.0
<b>GHIP Surplus (After Reserves/Deposits)</b>	<b>\$24.7</b>	<b>\$68.9</b>	<b>\$80.7</b>	<b>\$74.7</b>	<b>\$43.9</b>	<b>(\$15.0)</b>	<b>(\$106.8)</b>

Please refer to Appendix (slide 13) for detailed projection footnotes



# FY20 monthly rates and employee/retiree contributions

Illustrative: 2.0% increase effective 7/1/2020

*FY21 reflects employee contribution increases of \$0.56 – \$5.46 per month (\$6.72 – \$65.52 per year) and State subsidy increases of \$13.35 – \$35.73 per employee per month (\$160.20 – \$428.76 per year) effective 7/1/2020*

	FY 2020			FY 2021 with 2.0% Increase			\$ Change Employee/ Pensioner Contribution		\$ Change State Subsidy	
	Rate	Employee Contribution	State Subsidy	Rate	Employee Contribution	State Subsidy	Monthly	Annual	Monthly	Annual
<b>First State Basic</b>										
Employee	\$695.36	\$27.84	\$667.52	\$709.27	\$28.40	\$680.87	\$0.56	\$6.72	\$13.35	\$160.20
Employee + Spouse	\$1,438.68	\$57.52	\$1,381.16	\$1,467.45	\$58.67	\$1,408.78	\$1.15	\$13.80	\$27.62	\$331.44
Employee + Child	\$1,057.02	\$42.26	\$1,014.76	\$1,078.16	\$43.11	\$1,035.05	\$0.85	\$10.20	\$20.29	\$243.48
Family	\$1,798.42	\$71.92	\$1,726.50	\$1,834.39	\$73.36	\$1,761.03	\$1.44	\$17.28	\$34.53	\$414.36
<b>CDH Gold</b>										
Employee	\$719.68	\$35.98	\$683.70	\$734.07	\$36.70	\$697.37	\$0.72	\$8.64	\$13.67	\$164.04
Employee + Spouse	\$1,492.22	\$74.58	\$1,417.64	\$1,522.06	\$76.07	\$1,445.99	\$1.49	\$17.88	\$28.35	\$340.20
Employee + Child	\$1,099.56	\$54.96	\$1,044.60	\$1,121.55	\$56.06	\$1,065.49	\$1.10	\$13.20	\$20.89	\$250.68
Family	\$1,895.74	\$94.78	\$1,800.96	\$1,933.65	\$96.68	\$1,836.97	\$1.90	\$22.80	\$36.01	\$432.12
<b>Aetna HMO</b>										
Employee	\$725.94	\$47.16	\$678.78	\$740.46	\$48.10	\$692.36	\$0.94	\$11.28	\$13.58	\$162.96
Employee + Spouse	\$1,530.58	\$99.50	\$1,431.08	\$1,561.19	\$101.49	\$1,459.70	\$1.99	\$23.88	\$28.62	\$343.44
Employee + Child	\$1,110.52	\$72.18	\$1,038.34	\$1,132.73	\$73.62	\$1,059.11	\$1.44	\$17.28	\$20.77	\$249.24
Family	\$1,909.82	\$124.12	\$1,785.70	\$1,948.02	\$126.60	\$1,821.42	\$2.48	\$29.76	\$35.72	\$428.64
<b>Comprehensive PPO</b>										
Employee	\$793.86	\$105.18	\$688.68	\$809.74	\$107.28	\$702.46	\$2.10	\$25.20	\$13.78	\$165.36
Employee + Spouse	\$1,647.34	\$218.26	\$1,429.08	\$1,680.29	\$222.63	\$1,457.66	\$4.37	\$52.44	\$28.58	\$342.96
Employee + Child	\$1,223.46	\$162.08	\$1,061.38	\$1,247.93	\$165.32	\$1,082.61	\$3.24	\$38.88	\$21.23	\$254.76
Family	\$2,059.40	\$272.86	\$1,786.54	\$2,100.59	\$278.32	\$1,822.27	\$5.46	\$65.52	\$35.73	\$428.76



# GHIP long term health care cost projections (FY19 Q4 update<sup>1</sup>)

Final FY20 Budget with no premium increases FY21-FY23

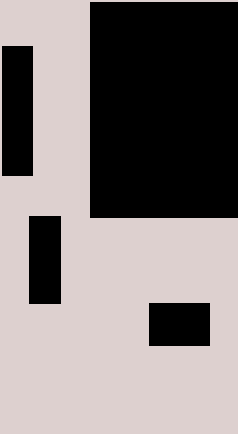
GHIP Costs (\$ millions)	FY17 Actual	FY18 Actual	FY19 Actual	FY20 Projected <sup>1</sup>	FY21 Projected <sup>7</sup>	FY22 Projected <sup>7</sup>	FY23 Projected <sup>7</sup>
Average Enrolled Members	123,132	125,488	126,360	128,282	129,565	130,861	132,170
<b>GHIP Revenue</b>							
Premium Contributions (Increasing with Enrollment) <sup>2</sup>	\$799.0	\$810.9	\$817.4	\$832.5	\$840.7	\$849.1	\$857.6
<i>Hold premium rates flat FY20+</i>	-	-	-	-	\$0.0	\$0.0	\$0.0
Other Revenues <sup>3</sup>	\$81.6	\$92.1	\$98.5	\$110.5	\$122.1	\$129.5	\$137.3
<b>Total Operating Revenues</b>	<b>\$880.6</b>	<b>\$903.0</b>	<b>\$915.9</b>	<b>\$943.0</b>	<b>\$962.8</b>	<b>\$978.6</b>	<b>\$994.9</b>
<b>GHIP Expenses (Claims/Fees)</b>							
Operating Expenses <sup>4</sup>	\$816.8	\$853.9	\$904.0	\$949.3	\$1,005.5	\$1,066.3	\$1,130.8
% Change Per Member		2.6%	5.1%	3.4%	4.9%	5.0%	5.0%
Excise Tax Liability <sup>5</sup>						\$0.0	\$2.5
<b>Adjusted Net Income (Revenue less Expense)</b>	<b>\$63.8</b>	<b>\$49.1</b>	<b>\$11.9</b>	<b>(\$6.3)</b>	<b>(\$42.7)</b>	<b>(\$87.7)</b>	<b>(\$138.4)</b>
Balance Forward	\$38.9	\$102.7	\$151.8	\$163.8	\$157.5	\$114.8	\$27.1
Ending Balance	\$102.7	\$151.8	\$163.8	\$157.5	\$114.8	\$27.1	(\$111.3)
- Less Claims Liability <sup>6</sup>	\$54.0	\$58.9	\$58.8	\$58.5	\$62.0	\$65.7	\$69.7
- Less Minimum Reserve <sup>6</sup>	\$24.0	\$24.0	\$24.3	\$24.3	\$25.7	\$27.3	\$29.0
<b>GHIP Surplus (After Reserves/Deposits)</b>	<b>\$24.7</b>	<b>\$68.9</b>	<b>\$80.7</b>	<b>\$74.7</b>	<b>\$27.1</b>	<b>(\$65.9)</b>	<b>(\$210.0)</b>

Please refer to Appendix (slide 13) for detailed projection footnotes

## Next steps

- SEBC to vote today to approve the final FY20 Budget
- Deeper dive discussion of full year FY19 financials and utilization/plan performance, including review of Q4 Incurred reporting, planned for November Financial Subcommittee meeting
- Continue to monitor emerging plan experience

# Appendix



# GHIP long term health care cost projection footnotes

**Note: FY17, FY18, and FY19 actual based on final June 2017, June 2018, and June 2019 Fund Equity reports; projected operating expenses based on experience through FY19 Q4; FY20 enrollment as of July 2019 with assumed 1% annual growth; numbers in table may not add up due to rounding**

1. Includes approved design changes effective 7/1/2019 including implementation of SurgeryPlus COE (\$0.5m annual savings), site-of-care steerage (\$6.9m), Highmark infusion therapy program (\$2.0m) and implementation of Livongo (\$0.7m), as well as cost impact of passed legislation (\$2.875m cost increase)
2. Includes State and employee/pensioner premium contributions; assumes 1% annual enrollment growth for FY20-FY23.
3. Includes Rx rebates, EGWP payments, other revenues; FY20 and beyond includes estimated improvements in Rx rebates based on best and final ESI FY20 renewal proposal, provided 1/29/2019; includes fees for participating non-State groups (assumed to increase proportionally with membership growth and health care trend).
4. FY20 and beyond includes estimated reduction in pharmacy claims as a result of best and final ESI FY20 renewal proposal, provided 1/29/2019. FY21 reflects implementation of Highmark radiation therapy authorization program (\$633k annual savings per to Highmark). Assumes no other program changes in FY21 and beyond.
5. 40% excise tax on the value of employer sponsored health care coverage over specified thresholds starting CY 2022. Threshold assumed to increase at 2% annually
6. FY20 Minimum Reserve levels updated with data through June 2019; FY20 Claim Liability updated with lag factors as of Dec 2018 and claims data through June 2019; future years assumed to increase with overall GHIP expense growth
7. FY21-FY23 projections based on 5% composite trend (assumes 6% underlying trend less 1% for future GHIP cost reduction initiatives); assumes 1% annual growth in GHIP membership.

# Health care budget development

## Assumption and pricing analysis details



- **Claims experience** provided by vendors (Highmark, Aetna, and ESI) reflect paid claims and enrollment for the most recent available 24 months, or two experience periods (4/1/2017 – 3/31/2019)
- Claims experience adjusted for **claim offsets** from pharmacy rebates and EGWP funding
- **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
- **Exposure** adjustments convert claims experience into a *per adult* equivalent claims cost
- **Inflation and trend** adjustments increase the claims costs to reflect expected year-over-year increases to the cost of services
- **Plan Design** adjustments applied to the claims costs to reflect any plan design changes or movement across plans, and are based on the relative difference in *actuarial value* of the plans
- **Vendor adjustments** reflect results from medical TPA RFP and other adopted vendor initiatives
- **Self-insured fixed costs** are added to the adjusted claims cost to develop the **total budget**; this includes administrative service fees and operational expenses

WTW projected total budget is based on a best estimate of projected GHIP expenses (claims, fees, etc.) and does not assume any surplus offset or deficit recoup based on current Fund balance