



The State of Delaware

Group Health Insurance Plan

Financial Subcommittee Discussion Guide

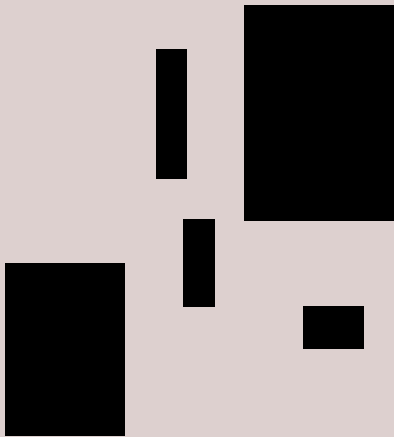
December 4, 2018

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Today's discussion

- GHIP Long-term Projection Recast
- Minimum Reserve & Surplus Modeling
- Next steps

GHIP Long-term Projection Recast



GHIP long term health care cost projections

FY19 Q1 update

- The revised long-term cost projections on the following page reflect updated GHIP claims experience through September 2018
- FY19 GHIP Operating Expenses projected to be \$921.6M, down from \$932.1M as of the FY18 Q4 update
 - Decrease primarily driven by continued favorable claims experience in FY19 Q1, particularly for the medical program
- FY20 GHIP Operating Expenses projected to be \$985.6M, down from \$999.7M as of the FY18 Q4 update, based on 5% health care trend and reflecting the following:
 - \$0.5M estimated savings for the implementation of COE program with SurgeryPlus effective 7/1/2019, based on assumed 10% utilization of COE facilities
 - \$2.4M cost for legislative bills impacting GHIP
- GHIP projected to end FY20 with a \$3.5M surplus, assuming 2% increase in premium contributions effective 7/1/2019, no change to current reserve methodology, and full use of available surplus funding
- Financial Subcommittee recommends 5% health care trend FY19 to FY20, represents “aggressive” end of the range of reasonable trend assumptions (see Appendix for full range)

GHIP long term health care cost projections (FY19 Q1 update¹)

Illustrative: Increase premium rates by 2% annually starting in FY20

GHIP Costs (\$ millions)	FY17 Actual	FY18 Actual	FY19 Projected ¹	FY20 Projected ^{1,6}	FY21 Projected ⁶	FY22 Projected ⁶	FY23 Projected ⁶
Average Enrolled Members	123,132	125,488	125,861	128,308	130,874	133,491	136,161
GHIP Revenue							
Premium Contributions (Increasing with Enrollment) ²	\$799.0	\$810.9	\$814.8	\$831.1	\$847.7	\$864.7	\$882.0
<i>2.0% Annual Premium Increase Starting FY20</i>	-	-	-	\$16.6	\$33.9	\$52.5	\$72.2
Other Revenues ³	\$81.6	\$92.1	\$88.6	\$99.3	\$106.3	\$113.8	\$121.9
Total Operating Revenues	\$880.6	\$903.0	\$903.5	\$947.0	\$987.8	\$1,031.0	\$1,076.1
GHIP Expenses (Claims/Fees)							
Operating Expenses (No Change)	\$816.8	\$853.9	\$921.6	\$985.6	\$1,055.6	\$1,130.5	\$1,210.8
<i>% Change Per Member</i>		2.6%	7.4%	4.9%	5.0%	5.0%	5.0%
Excise Tax Liability ⁴						\$9.1	\$16.3
Adjusted Net Income (Revenue less Expense)	\$63.8	\$49.1	(\$18.1)	(\$38.6)	(\$67.7)	(\$108.6)	(\$151.0)
Balance Forward	\$38.9	\$102.7	\$151.8	\$133.7	\$95.1	\$27.4	(\$81.2)
Ending Balance	\$102.7	\$151.8	\$133.7	\$95.1	\$27.4	(\$81.2)	(\$232.2)
- Less Claims Liability ⁵	\$54.0	\$58.9	\$61.3	\$65.6	\$70.3	\$75.3	\$80.6
- Less Minimum Reserve ⁵	\$24.0	\$24.0	\$24.3	\$26.0	\$27.8	\$29.8	\$31.9
GHIP Surplus (After Reserves/Deposits)	\$24.7	\$68.9	\$48.1	\$3.5	(\$70.7)	(\$186.3)	(\$344.7)

Note: FY17 actual based on final June 2017 Fund Equity report; FY18 actual based on final June 2018 Fund Equity report; projected operating expenses based on experience through FY19 Q1; FY19 enrollment as of September 2018; reflects ESI FY17 Q4 restated claims; numbers in table may not add up due to rounding

¹ Includes approved design changes for site-of-care steerage for imaging/outpatient lab and COE services and proposed design changes for \$0 statin coverage and preventive 3D mammography effective 7/1/2018 and implementation of SurgeryPlus COE effective 7/1/2019; includes financial impact of legislative bills impacting GHIP (\$1.2m increase to FY19 budget and \$2.4m increase to FY20 projection); assumes no additional program changes in FY20 and beyond.

² Includes State and employee/pensioner premium contributions; assumes 2% annual enrollment growth for FY20-FY23. Note, 2% contribution increase ranges \$6 to \$66 per year for active employees

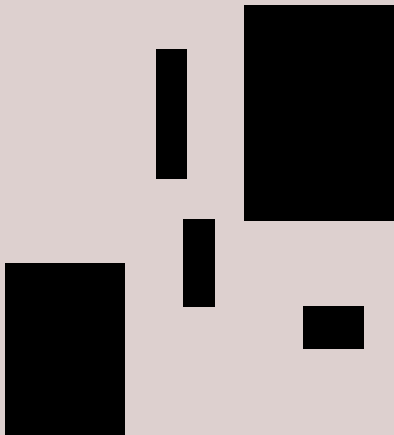
³ Includes Rx rebates, EGWP payments, other revenues; includes fees for participating non-State groups (assumed to increase proportionally with membership growth and health care trend)

⁴ 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

⁵ FY19 Claims Liability and FY19 Minimum Reserve levels updated with data through June 2018; future years assumed to increase with overall GHIP expense growth

⁶ FY20-FY23 projections based on 5% composite trend (assumes 6% underlying trend less 1% for future GHIP cost reduction initiatives); assumes no additional program changes in FY20; assumes 2% annual growth in GHIP membership.

Minimum Reserve & Surplus Modeling



Minimum reserve discussion

Current minimum reserve methodology

FY19 Cost Estimate		
Variability Description	Lower Bound	Upper Bound
Expected Value (without margin)	\$852.4M	
70% Confidence Interval	\$840.8M	\$863.9M
90% Confidence Interval	\$834.0M	\$870.7M
95% Confidence Interval	\$830.5M	\$874.3M
97% Confidence Interval	\$828.1M	\$876.7M

At the 97% confidence interval level, the upper bound is \$24.3M higher than the projected budget

- Current minimum reserve set based on upper bound of 97% confidence interval of Willis Towers Watson health care trend variability tool, set annually based on final fiscal year budget
- At 11/7/2018 meeting, the Financial Subcommittee discussed alternate minimum reserve modeling scenarios, including a 98.5% confidence interval, and a 1% load to reflect changes in morbidity and population risk factors not captured within Willis Towers Watson’s health care trend variability tool

The above analysis is based on GHIP data available through FY18 Q4, current enrollment as of July 2018, 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

Minimum reserve discussion

Minimum reserve methodology – *Alternative 1*

FY19 Cost Estimate		
Variability Description	Lower Bound	Upper Bound
Expected Value (without margin)	\$833.0M	
70% Confidence Interval	\$821.4M	\$844.5M
90% Confidence Interval	\$814.6M	\$851.3M
95% Confidence Interval	\$811.1M	\$854.9M
97% Confidence Interval	\$808.8M	\$857.3M
98.5% Confidence Interval	\$805.8M	\$860.1M

At the 97% confidence interval level, the upper bound is \$24.3M higher than the projected budget

\$27.1M at 98.5% confidence interval

- The above exhibit reflects reforecasted FY19 projected costs based on data through FY19 Q1
- Increasing the confidence interval from 97% to 98.5% increases the FY19 minimum reserve from \$24.3M to \$27.1M

The above analysis is based on GHIP data available through FY19 Q1, current enrollment as of September 2018, 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

Minimum reserve discussion

Minimum reserve methodology – *Alternative 2*

FY19 Cost Estimate		
Variability Description	Lower Bound	Upper Bound
Expected Value	\$833.0M	
Expected Value plus 1% population risk load	\$840.9M	
70% Confidence Interval	\$829.4M	\$852.5M
90% Confidence Interval	\$822.6M	\$859.3M
95% Confidence Interval	\$819.0M	\$862.8M
97% Confidence Interval	\$816.7M	\$865.1M
98.5% Confidence Interval	\$813.8M	\$868.1M

At the 97% confidence interval level, the upper bound with load is \$32.1M higher than the projected budget of \$833.0M

→ \$35.1M at 98.5% confidence interval

- The above exhibit reflects reforecasted FY19 projected costs based on data through FY19 Q1, plus additional 1% load for potential population risk volatility not captured by the variability tool
- Increasing the confidence interval from 97% to 98.5% and including a 1% population risk load increases the FY19 minimum reserve from \$24.3M to \$35.1M

The above analysis is based on GHIP data available through FY19 Q1, current enrollment as of September 2018, 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, which could exceed the 1% population risk load.

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

GHIP long term health care cost projections (FY19 Q1 update¹)

Illustrative: Increase premium rates by 2% annually starting in FY20 **and increase minimum reserve**

GHIP Costs (\$ millions)	FY17 Actual	FY18 Actual	FY19 Projected ¹	FY20 Projected ^{1,6}	FY21 Projected ⁶	FY22 Projected ⁶	FY23 Projected ⁶
Average Enrolled Members	123,132	125,488	125,861	128,308	130,874	133,491	136,161
GHIP Revenue							
Premium Contributions (Increasing with Enrollment) ²	\$799.0	\$810.9	\$814.8	\$831.1	\$847.7	\$864.7	\$882.0
<i>2.0% Annual Premium Increase Starting FY20</i>	-	-	-	\$16.6	\$33.9	\$52.5	\$72.2
Other Revenues ³	\$81.6	\$92.1	\$88.6	\$99.3	\$106.3	\$113.8	\$121.9
Total Operating Revenues	\$880.6	\$903.0	\$903.5	\$947.0	\$987.9	\$1,031.0	\$1,076.1
GHIP Expenses (Claims/Fees)							
Operating Expenses (No Change)	\$816.8	\$853.9	\$921.6	\$985.6	\$1,055.6	\$1,130.5	\$1,210.8
% Change Per Member		2.6%	7.6%	4.9%	5.0%	5.0%	5.0%
Excise Tax Liability ⁴						\$9.1	\$16.3
Adjusted Net Income (Revenue less Expense)	\$63.8	\$49.1	(\$18.1)	(\$38.6)	(\$67.7)	(\$108.6)	(\$151.0)
Balance Forward	\$38.9	\$102.7	\$151.8	\$133.7	\$95.1	\$27.4	(\$81.2)
Ending Balance	\$102.7	\$151.8	\$133.7	\$95.1	\$27.4	(\$81.2)	(\$232.2)
- Less Claims Liability ⁵	\$54.0	\$58.9	\$61.3	\$65.6	\$70.3	\$75.3	\$80.6
- Less Minimum Reserve ⁵	\$24.0	\$24.0	\$35.1	\$37.5	\$40.2	\$43.1	\$46.2
GHIP Surplus (After Reserves/Deposits)	\$24.7	\$68.9	\$37.3	(\$8.0)	(\$83.1)	(\$199.6)	(\$359.0)

Note: FY17 actual based on final June 2017 Fund Equity report; FY18 actual based on final June 2018 Fund Equity report; projected operating expenses based on experience through FY19 Q1; FY19 enrollment as of September 2018; reflects ESI FY17 Q4 restated claims; numbers in table may not add up due to rounding

¹ Includes approved design changes for site-of-care steerage for imaging/outpatient lab and COE services and proposed design changes for \$0 statin coverage and preventive 3D mammography effective 7/1/2018 and implementation of SurgeryPlus COE effective 7/1/2019; includes financial impact of legislative bills impacting GHIP (\$1.2m increase to FY19 budget and \$2.4m increase to FY20 projection); assumes no additional program changes in FY20 and beyond.

² Includes State and employee/pensioner premium contributions; assumes 2% annual enrollment growth for FY20-FY23

³ Includes Rx rebates, EGWP payments, other revenues; includes fees for participating non-State groups (assumed to increase proportionally with membership growth and health care trend)

⁴ 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

⁵ FY19 Claims Liability and FY19 Minimum Reserve levels updated with data through June 2018 and Alternative 2 Minimum Reserve methodology; future years assumed to increase with overall GHIP expense growth

⁶ FY20-FY23 projections based on 5% composite trend (assumes 6% underlying trend less 1% for future GHIP cost reduction initiatives); assumes no additional program changes in FY20; assumes 2% annual growth in GHIP membership.

GHIP surplus modeling

Scenarios for consideration

- Using surplus to minimize annual premium increases may put a strain on future revenues needed to keep pace with health care cost trend
- At 11/7/2018 meeting, the Financial Subcommittee discussed spreading the current surplus level over 2-3 years, rather than using the full amount to offset costs in FY20
- The following pages outline for scenarios for consideration:
 1. No change to reserve and spread \$48.1M surplus over 2 years (use \$24.0M surplus in FY20 and \$24.1M surplus in FY21)
 2. No change to reserve and spread \$48.1M surplus over 3 years (use \$16.0M surplus in FY20, \$16.1M surplus in FY21, and \$16.0M surplus in FY22)
 3. Increase reserve to \$35.1M (Alternative 2) and spread \$37.3M surplus over 2 years (use \$18.6M surplus in FY20 and \$18.7M surplus in FY21)
 4. Increase reserve to \$35.1M (Alternative 2) and spread \$37.3M surplus over 3 years (use \$12.4M surplus in FY20, \$12.5M surplus in FY21, and \$12.4M surplus in FY22)
- Each scenario includes illustrative target savings opportunity to “balance” the fund (\$0 surplus) by FY21 or FY22 – via premium contributions increases or program initiatives to decrease operating expenses
- See Appendix for Alternative 1 minimum reserve scenarios

GHIP long term health care cost projections

Illustrative: No change to reserve and smooth surplus over 2 years

GHIP Costs (\$ millions)	FY19 Projected	FY20 Projected	FY21 Projected	FY22 Projected
Total Operating Revenues ¹ <i>With 2% annual premium increase</i>	\$903.5	\$947.0	\$987.9	\$1,031.0
Operating Expenses (No Change) ²	\$921.6	\$985.6	\$1,055.6	\$1,130.5
Target Savings Opportunities ³ <i>Program changes and/or premium increases</i>	N/A	(\$20.6)	(\$50.1)	(\$115.6)
Adjusted Net Income (Revenue less Expense and Savings)	(\$18.1)	(\$18.0)	(\$17.6)	\$7.0
Balance Forward	\$151.8	\$133.7	\$115.7	\$98.1
Ending Balance	\$133.7	\$115.7	\$98.1	\$105.1
- Less Claims Liability ⁴	\$61.3	\$65.6	\$70.3	\$75.3
- Less Minimum Reserve ⁴	\$24.3	\$26.0	\$27.8	\$29.8
GHIP Surplus (After Reserves/Deposits)	\$48.1	\$24.1	\$0.0	\$0.0

Savings target:
Equivalent to additional rate increases of 2.5%, 5.9%, and 13.4% for FY20, FY21, and FY22, respectively (in addition to +2% annual premium increase) – or other program changes and initiatives

¹ Includes State and employee/pensioner premium contributions, Rx rebates, EGWP payments and other revenues; assumes 2% annual enrollment growth for FY20-FY23; assumes 2% annual premium increase FY20-FY22; includes fees for participating non-State groups (assumed to increase proportionally with membership growth and health care trend)

² Operating expenses based on experience through FY19 Q1; assumes 5% health care cost trend for FY20 and beyond; includes approved design changes for site-of-care steerage for imaging/outpatient lab and COE services and proposed design changes for \$0 statin coverage and preventive 3D mammography effective 7/1/2018 and implementation of SurgeryPlus COE effective 7/1/2019; includes financial impact of legislative bills impacting GHIP (\$1.2m increase to FY19 budget and \$2.4m increase to FY20 projection); assumes no additional program changes in FY20 and beyond

³ Target savings opportunities represent amount of program changes and/or premium increases needed to target 1/2 surplus in FY20 and \$0 surplus in FY21 and FY22; savings are cumulative

⁴ FY19 Claims Liability and FY19 Minimum Reserve levels updated with data through June 2018; future years assumed to increase with overall GHIP expense growth

GHIP long term health care cost projections

Illustrative: No change to reserve and smooth surplus over 3 years

GHIP Costs (\$ millions)	FY19 Projected	FY20 Projected	FY21 Projected	FY22 Projected
Total Operating Revenues ¹ <i>With 2% annual premium increase</i>	\$903.5	\$947.0	\$987.9	\$1,031.0
Operating Expenses (No Change) ²	\$921.6	\$985.6	\$1,055.6	\$1,130.5
Target Savings Opportunities ³ <i>Program changes and/or premium increases</i>	N/A	(\$28.6)	(\$58.1)	(\$99.6)
Adjusted Net Income (Revenue less Expense and Savings)	(\$18.1)	(\$10.0)	(\$9.6)	(\$9.0)
Balance Forward	\$151.8	\$133.7	\$123.7	\$114.1
Ending Balance	\$133.7	\$123.7	\$114.1	\$105.1
- Less Claims Liability ⁴	\$61.3	\$65.6	\$70.3	\$75.3
- Less Minimum Reserve ⁴	\$24.3	\$26.0	\$27.8	\$29.8
GHIP Surplus (After Reserves/Deposits)	\$48.1	\$32.1	\$16.0	\$0.0

Savings target: Equivalent to additional rate increases of 3.4%, 6.9%, and 11.5% for FY20, FY21, and FY22, respectively (in addition to +2% annual premium increase) – or other program changes and initiatives

¹ Includes State and employee/pensioner premium contributions, Rx rebates, EGWP payments and other revenues; assumes 2% annual enrollment growth for FY20-FY23; assumes 2% annual premium increase FY20-FY22; includes fees for participating non-State groups (assumed to increase proportionally with membership growth and health care trend)

² Operating expenses based on experience through FY19 Q1; assumes 5% health care cost trend for FY20 and beyond; includes approved design changes for site-of-care steerage for imaging/outpatient lab and COE services and proposed design changes for \$0 statin coverage and preventive 3D mammography effective 7/1/2018 and implementation of SurgeryPlus COE effective 7/1/2019; includes financial impact of legislative bills impacting GHIP (\$1.2m increase to FY19 budget and \$2.4m increase to FY20 projection); assumes no additional program changes in FY20 and beyond

³ Target savings opportunities represent amount of program changes and/or premium increases needed to target 2/3 surplus in FY20, 1/3 surplus in FY21, and \$0 surplus in FY22; savings are cumulative

⁴ FY19 Claims Liability and FY19 Minimum Reserve levels updated with data through June 2018; future years assumed to increase with overall GHIP expense growth

GHIP long term health care cost projections

Illustrative: Increase reserve (Alternative 2) and smooth surplus over 2 years

GHIP Costs (\$ millions)	FY19 Projected	FY20 Projected	FY21 Projected	FY22 Projected
Total Operating Revenues ¹ <i>With 2% annual premium increase</i>	\$903.5	\$947.0	\$987.9	\$1,031.0
Operating Expenses (No Change) ²	\$921.6	\$985.6	\$1,055.6	\$1,130.5
Target Savings Opportunities ³ <i>Program changes and/or premium increases</i>	N/A	(\$26.7)	(\$56.4)	(\$116.5)
Adjusted Net Income (Revenue less Expense and Savings)	(\$18.1)	(\$11.9)	(\$11.3)	\$7.9
Balance Forward	\$151.8	\$133.7	\$121.8	\$110.5
Ending Balance	\$133.7	\$121.8	\$110.5	\$118.4
- Less Claims Liability ⁴	\$61.3	\$65.6	\$70.3	\$75.3
- Less Minimum Reserve ⁵	\$35.1	\$37.5	\$40.2	\$43.1
GHIP Surplus (After Reserves/Deposits)	\$37.3	\$18.7	\$0.0	\$0.0

Savings target:
Equivalent to additional rate increases of 3.2%, 6.7%, and 13.5% for FY20, FY21, and FY22, respectively (in addition to +2% % annual premium increase) – or other program changes and initiatives

¹ Includes State and employee/pensioner premium contributions, Rx rebates, EGWP payments and other revenues; assumes 2% annual enrollment growth for FY20-FY23; assumes 2% annual premium increase FY20-FY22; includes fees for participating non-State groups (assumed to increase proportionally with membership growth and health care trend)

² Operating expenses based on experience through FY19 Q1; assumes 5% health care cost trend for FY20 and beyond; includes approved design changes for site-of-care steerage for imaging/outpatient lab and COE services and proposed design changes for \$0 statin coverage and preventive 3D mammography effective 7/1/2018 and implementation of SurgeryPlus COE effective 7/1/2019; includes financial impact of legislative bills impacting GHIP (\$1.2m increase to FY19 budget and \$2.4m increase to FY20 projection); assumes no additional program changes in FY20 and beyond

³ Target savings opportunities represent amount of program changes and/or premium increases needed to target 1/2 surplus in FY20 and \$0 surplus in FY21 and FY22; savings are cumulative

⁴ FY19 Claims Liability updated with data through June 2018; future years assumed to increase with overall GHIP expense growth

⁵ FY19 Minimum Reserve updated with data through September 2018 and Alternative 2 Minimum Reserve methodology; future years assumed to increase with overall GHIP expense growth

GHIP long term health care cost projections

Illustrative: Increase reserve (Alternative 2) and smooth surplus over 3 years

GHIP Costs (\$ millions)	FY19 Projected	FY20 Projected	FY21 Projected	FY22 Projected
Total Operating Revenues ¹ <i>With 2% annual premium increase</i>	\$903.5	\$947.0	\$987.9	\$1,031.0
Operating Expenses (No Change) ²	\$921.6	\$985.6	\$1,055.6	\$1,130.5
Target Savings Opportunities ³ <i>Program changes and/or premium increases</i>	N/A	(\$32.9)	(\$62.6)	(\$104.1)
Adjusted Net Income (Revenue less Expense and Savings)	(\$18.1)	(\$5.7)	(\$5.1)	(\$4.5)
Balance Forward	\$151.8	\$133.7	\$128.0	\$122.9
Ending Balance	\$133.7	\$128.0	\$122.9	\$118.4
- Less Claims Liability ⁴	\$61.3	\$65.6	\$70.3	\$75.3
- Less Minimum Reserve ⁵	\$35.1	\$37.5	\$40.2	\$43.1
GHIP Surplus (After Reserves/Deposits)	\$37.3	\$24.9	\$12.4	\$0.0

Savings target: Equivalent to additional rate increases of 4.0%, 7.4%, and 12.0% for FY20, FY21, and FY22, respectively (in addition to +2% annual premium increase) – or other program changes and initiatives

¹ Includes State and employee/pensioner premium contributions, Rx rebates, EGWP payments and other revenues; assumes 2% annual enrollment growth for FY20-FY23; assumes 2% annual premium increase FY20-FY22; includes fees for participating non-State groups (assumed to increase proportionally with membership growth and health care trend)

² Operating expenses based on experience through FY19 Q1; assumes 5% health care cost trend for FY20 and beyond; includes approved design changes for site-of-care steerage for imaging/outpatient lab and COE services and proposed design changes for \$0 statin coverage and preventive 3D mammography effective 7/1/2018 and implementation of SurgeryPlus COE effective 7/1/2019; includes financial impact of legislative bills impacting GHIP (\$1.2m increase to FY19 budget and \$2.4m increase to FY20 projection); assumes no additional program changes in FY20 and beyond

³ Target savings opportunities represent amount of program changes and/or premium increases needed to target 2/3 surplus in FY20, 1/3 surplus in FY21, and \$0 surplus in FY22; savings are cumulative

⁴ FY19 Claims Liability updated with data through June 2018; future years assumed to increase with overall GHIP expense growth

⁵ FY19 Minimum Reserve updated with data through September 2018 and Alternative 2 Minimum Reserve methodology; future years assumed to increase with overall GHIP expense growth

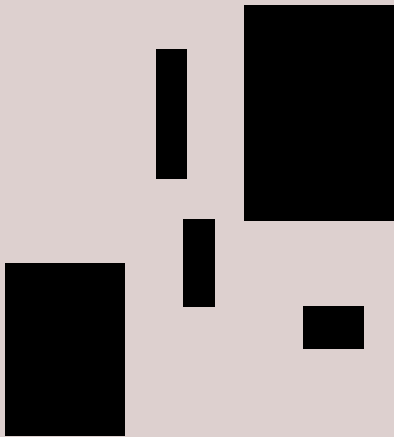
GHIP minimum reserve and surplus discussion

Discussion and decision points for Financial Subcommittee

- Does the subcommittee recommend adopting an alternative methodology for setting the minimum reserve?
 - Increase confidence interval, and/or add a load for potential volatility in the health status and demographics of the population?
 - Adopt change effective immediately for FY19 or wait until FY20?
- What is the Financial Subcommittee's point of view regarding use of surplus to offset future premium increases?

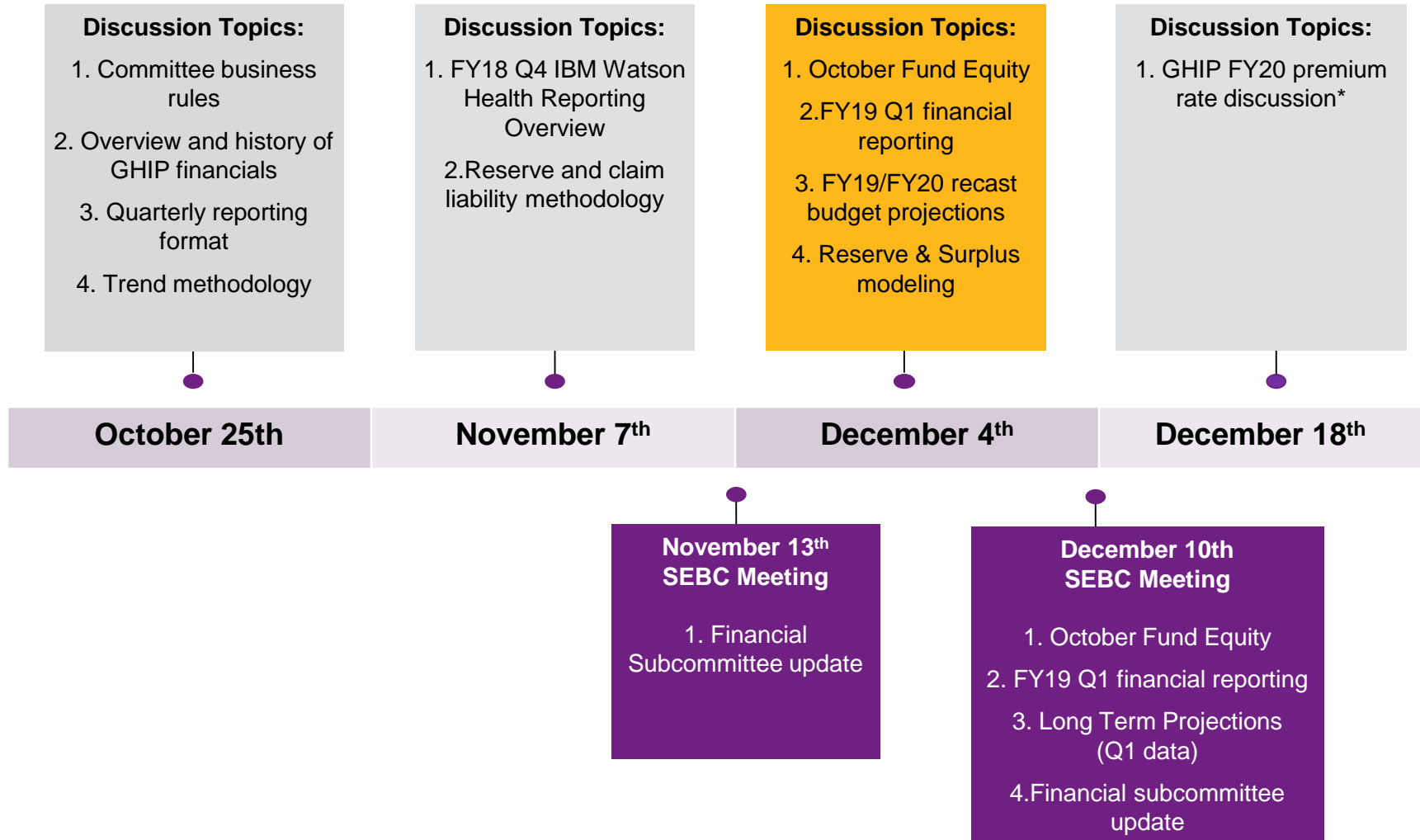
FY20 premium rate discussion scheduled for 12/18 Financial Subcommittee meeting; to support this discussion, ***decisions on minimum reserve and use of surplus need to be finalized today***

Next Steps



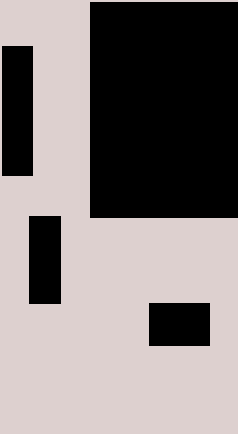
Next steps

Financial Subcommittee topics through December 2018



* Denotes subcommittee vote on recommendations for further consideration by the SEBC

Appendix



Monthly rates and employee/retiree contributions with 2% increase

	FY 2019			FY 2020 with 2% Increase			\$ Change Employee/ Pensioner Contribution	
	Rate	Employee Contribution	State Subsidy	Rate	Employee Contribution	State Subsidy	Monthly	Annual
First State Basic								
Employee	\$695.36	\$27.84	\$667.52	\$709.27	\$28.37	\$680.90	\$0.53	\$6.36
Employee + Spouse	\$1,438.68	\$57.52	\$1,381.16	\$1,467.45	\$58.70	\$1,408.75	\$1.18	\$14.16
Employee + Child	\$1,057.02	\$42.26	\$1,014.76	\$1,078.16	\$43.13	\$1,035.03	\$0.87	\$10.44
Family	\$1,798.42	\$71.92	\$1,726.50	\$1,834.39	\$73.37	\$1,761.02	\$1.45	\$17.40
CDH Gold								
Employee	\$719.68	\$35.98	\$683.70	\$734.07	\$36.70	\$697.37	\$0.72	\$8.64
Employee + Spouse	\$1,492.22	\$74.58	\$1,417.64	\$1,522.06	\$76.10	\$1,445.96	\$1.52	\$18.24
Employee + Child	\$1,099.56	\$54.96	\$1,044.60	\$1,121.55	\$56.07	\$1,065.48	\$1.11	\$13.32
Family	\$1,895.74	\$94.78	\$1,800.96	\$1,933.65	\$96.68	\$1,836.97	\$1.90	\$22.80
Aetna HMO								
Employee	\$725.94	\$47.16	\$678.78	\$740.46	\$48.13	\$692.33	\$0.97	\$11.64
Employee + Spouse	\$1,530.58	\$99.50	\$1,431.08	\$1,561.19	\$101.48	\$1,459.71	\$1.98	\$23.76
Employee + Child	\$1,110.52	\$72.18	\$1,038.34	\$1,132.73	\$73.62	\$1,059.11	\$1.44	\$17.28
Family	\$1,909.82	\$124.12	\$1,785.70	\$1,948.02	\$126.63	\$1,821.39	\$2.51	\$30.12
Comprehensive PPO								
Employee	\$793.86	\$105.18	\$688.68	\$809.74	\$107.29	\$702.45	\$2.11	\$25.32
Employee + Spouse	\$1,647.34	\$218.26	\$1,429.08	\$1,680.29	\$222.64	\$1,457.65	\$4.38	\$52.56
Employee + Child	\$1,223.46	\$162.08	\$1,061.38	\$1,247.93	\$165.35	\$1,082.58	\$3.27	\$39.24
Family	\$2,059.40	\$272.86	\$1,786.54	\$2,100.59	\$278.33	\$1,822.26	\$5.47	\$65.64
Port POS								
Employee	\$601.74	\$0.00	\$601.74	\$613.77	\$0.00	\$613.77	\$0.00	\$0.00
Employee + Spouse	\$1,490.58	\$0.00	\$1,490.58	\$1,520.39	\$0.00	\$1,520.39	\$0.00	\$0.00
Employee + Child	\$905.58	\$0.00	\$905.58	\$923.69	\$0.00	\$923.69	\$0.00	\$0.00
Family	\$1,505.40	\$0.00	\$1,505.40	\$1,535.51	\$0.00	\$1,535.51	\$0.00	\$0.00

GHIP long term health care cost projections

Illustrative: Increase reserve (Alternative 1) and smooth surplus over 2 years

GHIP Costs (\$ millions)	FY19 Projected	FY20 Projected	FY21 Projected	FY22 Projected
Total Operating Revenues ¹ <i>With 2% annual premium increase</i>	\$903.5	\$947.0	\$987.9	\$1,031.0
Operating Expenses (No Change) ²	\$921.6	\$985.6	\$1,055.6	\$1,130.5
Target Savings Opportunities ³ <i>Program changes and/or premium increases</i>	N/A	(\$22.2)	(\$51.8)	(\$115.8)
Adjusted Net Income (Revenue less Expense and Savings)	(\$18.1)	(\$16.4)	(\$15.9)	\$7.2
Balance Forward	\$151.8	\$133.7	\$117.3	\$101.4
Ending Balance	\$133.7	\$117.3	\$101.4	\$108.6
- Less Claims Liability ⁴	\$61.3	\$65.6	\$70.3	\$75.3
- Less Minimum Reserve ⁵	\$27.1	\$29.0	\$31.1	\$33.3
GHIP Surplus (After Reserves/Deposits)	\$45.3	\$22.7	\$0.0	\$0.0

Savings target: Equivalent to additional rate increases of 2.7%, 6.1%, and 13.4% for FY20, FY21, and FY22, respectively (in addition to +2% % annual premium increase) – or other program changes and initiatives

¹ Includes State and employee/pensioner premium contributions, Rx rebates, EGWP payments and other revenues; assumes 2% annual enrollment growth for FY20-FY23; assumes 2% annual premium increase FY20-FY22; includes fees for participating non-State groups (assumed to increase proportionally with membership growth and health care trend)

² Operating expenses based on experience through FY19 Q1; assumes 5% health care cost trend for FY20 and beyond; includes approved design changes for site-of-care steerage for imaging/outpatient lab and COE services and proposed design changes for \$0 statin coverage and preventive 3D mammography effective 7/1/2018 and implementation of SurgeryPlus COE effective 7/1/2019; includes financial impact of legislative bills impacting GHIP (\$1.2m increase to FY19 budget and \$2.4m increase to FY20 projection); assumes no additional program changes in FY20 and beyond

³ Target savings opportunities represent amount of program changes and/or premium increases needed to target 1/2 surplus in FY20 and \$0 surplus in FY21 and FY22; savings are cumulative

⁴ FY19 Claims Liability updated with data through June 2018; future years assumed to increase with overall GHIP expense growth

⁵ FY19 Minimum Reserve updated with data through September 2018 and Alternative 2 Minimum Reserve methodology; future years assumed to increase with overall GHIP expense growth

GHIP long term health care cost projections

Illustrative: Increase reserve (Alternative 1) and smooth surplus over 3 years

GHIP Costs (\$ millions)	FY19 Projected	FY20 Projected	FY21 Projected	FY22 Projected
Total Operating Revenues ¹ <i>With 2% annual premium increase</i>	\$903.5	\$947.0	\$987.9	\$1,031.0
Operating Expenses (No Change) ²	\$921.6	\$985.6	\$1,055.6	\$1,130.5
Target Savings Opportunities ³ <i>Program changes and/or premium increases</i>	N/A	(\$29.7)	(\$59.4)	(\$100.7)
Adjusted Net Income (Revenue less Expense and Savings)	(\$18.1)	(\$8.9)	(\$8.3)	(\$7.9)
Balance Forward	\$151.8	\$133.7	\$124.8	\$116.5
Ending Balance	\$133.7	\$124.8	\$116.5	\$108.6
- Less Claims Liability ⁴	\$61.3	\$65.6	\$70.3	\$75.3
- Less Minimum Reserve ⁵	\$27.1	\$29.0	\$31.1	\$33.3
GHIP Surplus (After Reserves/Deposits)	\$45.3	\$30.2	\$15.1	\$0.0

Savings target:
Equivalent to additional rate increases of 3.6%, 7.0%, and 11.6% for FY20, FY21, and FY22, respectively (in addition to +2% annual premium increase) – or other program changes and initiatives

¹ Includes State and employee/pensioner premium contributions, Rx rebates, EGWP payments and other revenues; assumes 2% annual enrollment growth for FY20-FY23; assumes 2% annual premium increase FY20-FY22; includes fees for participating non-State groups (assumed to increase proportionally with membership growth and health care trend)

² Operating expenses based on experience through FY19 Q1; assumes 5% health care cost trend for FY20 and beyond; includes approved design changes for site-of-care steerage for imaging/outpatient lab and COE services and proposed design changes for \$0 statin coverage and preventive 3D mammography effective 7/1/2018 and implementation of SurgeryPlus COE effective 7/1/2019; includes financial impact of legislative bills impacting GHIP (\$1.2m increase to FY19 budget and \$2.4m increase to FY20 projection); assumes no additional program changes in FY20 and beyond

³ Target savings opportunities represent amount of program changes and/or premium increases needed to target 2/3 surplus in FY20, 1/3 surplus in FY21, and \$0 surplus in FY22; savings are cumulative

⁴ FY19 Claims Liability updated with data through June 2018; future years assumed to increase with overall GHIP expense growth

⁵ FY19 Minimum Reserve updated with data through September 2018 and Alternative 2 Minimum Reserve methodology; future years assumed to increase with overall GHIP expense growth

Health care budget projections

FY19 recast and FY20 projection – sensitivity analysis

- FY19 and FY20 projected costs are shown below under a range of reasonable assumptions, including varying weighting for the two experience periods and varying the health care trend factors

Vary the experience period	Key Assumption	Aggressive (Current)	Moderate	Conservative
	Experience Period		10/1/16 – 9/30/18	10/1/16 – 9/30/18
Experience Weighting (Prior Period / Current Period)		35% / 65% (2 years, emphasizes recent)	50% / 50% (2 years, equally weighted)	10% / 30% / 60% (3 years, emphasizes recent)
FY19 Aggregate Costs (Recast)		\$832.9M	\$832.9M	\$832.9M
FY20 Aggregate Costs (Projected)		\$886.3M	\$887.3M	\$890.0M
FY20 Overall % Change (vs FY19 Recast)		6.4%	6.5%	6.9%
FY20 Overall \$ Change (vs FY19 Recast)		\$53.4M	\$54.4	\$57.1

Vary the health care trend	Key Assumption	Aggressive (Current)	Moderate	Conservative
	FY20 Medical Trend		5%	5.5%
FY20 Pharmacy Trend		5%	8%	9%
FY19 Aggregate Costs (Recast)		\$832.9M	\$832.9M	\$832.9M
FY20 Aggregate Costs (Projected)		\$886.3M	\$895.7M	\$900.9M
FY20 Overall % Change (vs FY19 Recast)		6.4%	7.5%	8.2%
FY20 Overall \$ Change (vs FY19 Recast)		\$53.4M	\$62.8	\$68.0

Note: FY19 recast and FY20 projected aggregate costs based on experience through FY19 Q1 consistent with long-term projection exhibit; assumes 2% membership growth in FY20; FY19 recast assumptions include 35%/65% prior/current experience period weighting and 7.4% composite health care cost trend; FY20 current projections include an additional 5% composite health care cost trend from FY19 through FY20

Reserve and claim liability discussion

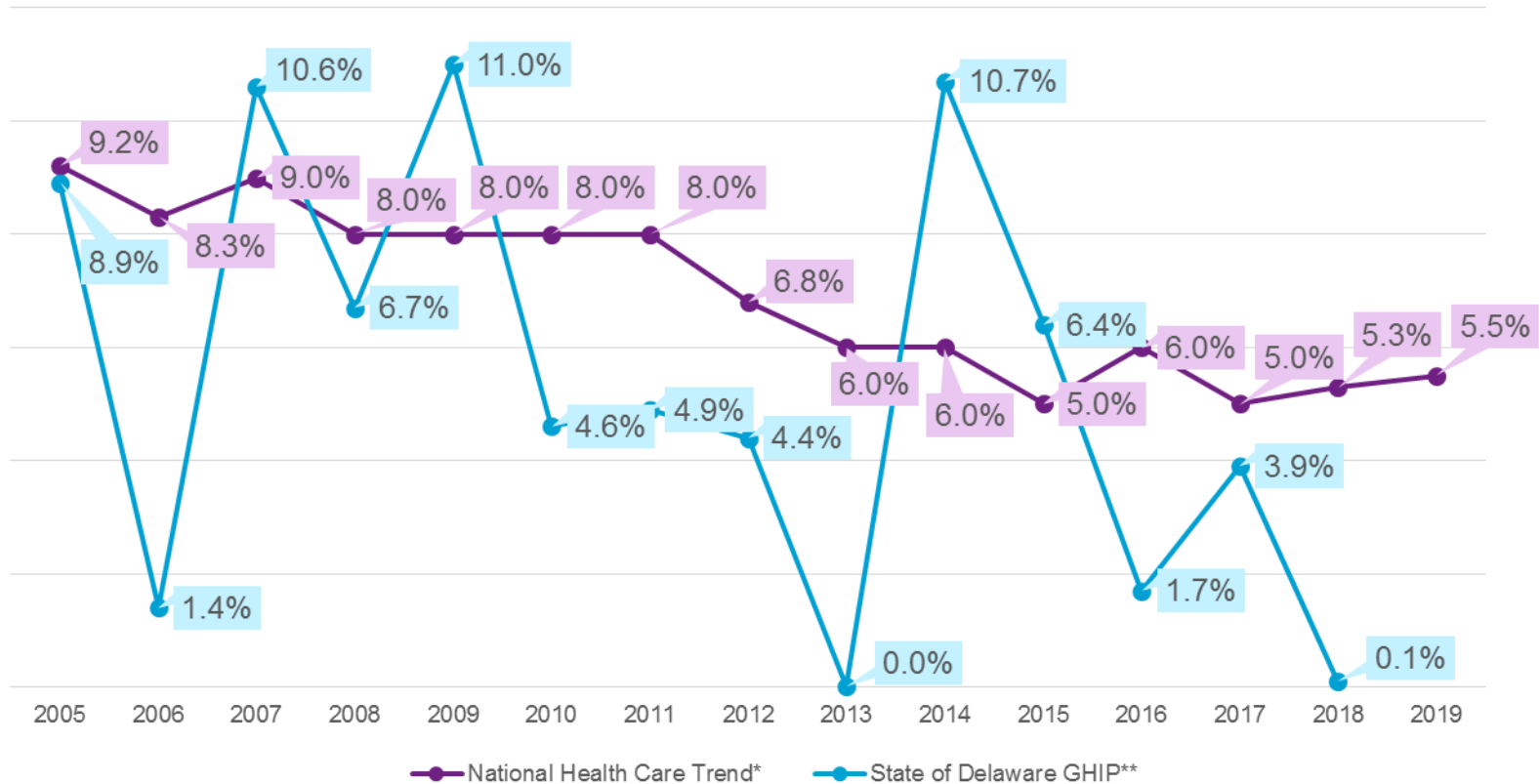
Overview and terminology

- To maintain the stability and financial health of the GHIP, a minimum level of funding is recommended to be held at any point in time to protect against potential future exposure, including:
 - Claim liability: estimated amount needed to pay outstanding claims if the plan was to be terminated; reflects incurred but not paid (“IBNP”) claim liability
 - Fund reserve: amount needed to protect against adverse claims experience, including any “shock” claims and fluctuations in claim levels for the current population
- The Fund Equity Balance refers to the cumulative funds available to pay claims in the health fund, and varies each month depending on actual revenue (premiums, rebates, etc.) less actual expenditures (claims, fees, etc.)
- Reserve Surplus (or Deficit) refers to the amount that the claim liability and fund reserve are over (or under) funded based on fund equity balance and target reserve levels

Historical GHIP cost increases

Actual GHIP increases vs. WTW survey data

Actual GHIP increases vs WTW survey data



*National Benchmark Source: Willis Towers Watson Best Practices in Healthcare survey. Based on respondents with at least 1,000 employees and median trends for medical and drug claims for active employees including both employer and employee contributions but excludes employee OOP costs. 2018 and 2019 benchmark data is projected.

**2007-2015 GHIP Trend data estimated based on Segal's State_of_Delaware_-_Trend_History_thru_Q2_FY16 030416.pdf

**2016-18 GHIP trend based on WTW financial reporting for corresponding fiscal year (includes net paid claims and fees) on a per employee per year basis