The State of Delaware

Financial Subcommittee

Health Savings Account (HSA) Planning

May 2, 2019

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Today's discussion

- Recap from last meeting and review timeline
- Review following topics with request for feedback and a recommendation from the Subcommittee:
  - HSA plan design
  - HSA budget rates and employee contributions
  - HSA fiduciary responsibility
  - CDH Gold plan options
- Next steps

- Appendix
  - Supplemental information about HSA plans

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Recap from April 4, 2019 subcommittee meeting

- Financial subcommittee meeting on 4/4/19 was cancelled, though subcommittee members were invited to the Health Policy & Planning meeting that afternoon
- Further dialogue on CDH Gold options as well as member communications considerations were discussed with the Health Policy & Planning subcommittee
- An executive session was also held to discuss detailed findings from the HSA administrator RFP
- Today's discussion will revisit the list of tasks that were recommended by the Proposal Review Committee (PRC) from the HSA Administrator RFP
  - Will walk through each task within the Financial Subcommittee's purview, with WTW recommendations for the Subcommittee to react to
  - Subcommittee members will be asked for input on the proposed recommendations within each task
  - Feedback from Subcommittee members will be shared with the Health Policy & Planning committee during that meeting this afternoon

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Timeline

○ Review options and provide feedback
■ Discuss other subcommittee's feedback
◈ TPA capabilities (HSA RFP review)
✓ Finalize recommendations

<u>*Goal*</u> – Review and consider all key decision points associated with an HSA plan in order to be ready to present a complete proposal to the SEBC at the June 10, 2019 meeting

Task (PRC recommendation #)	Owner	February 7		March 7		April 4		May 2		June 6	
		Financial	Health P&P	Financial	Health P&P	Financial	Health P&P	Financial	Health P&P	Financial	Health P&P
Develop HSA plan design (2)	Health P&P		○	○ ■	■ ○			○ ■	■ ✓		
Develop premium rates (2)	Financial			○	○ ■	■ ✓		○	○ ■	■ ✓	
Evaluate current plan offerings and feasibility of continuing CDH Gold plan (3)	Health P&P		○	○ ■	○ ■	○ ■	○ ■	○ ■	■ ✓		
Review fiduciary responsibilities (4)	Financial			○		○		○		✓	
Determine intensity of focus for communication and education (5)	Health P&P				○		○		○		✓
Review TPA capabilities (6)	Health P&P						◈ ○		○		✓
Finalize HSA plan proposal and recommendations to SEBC (7)	Health P&P							○	○ ■	■ ✓	■ ✓

Did not address these topics on 3/7 due to time constraints

April 4 Financial Subcommittee meeting cancelled

Revised 4/4/19.

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Task (PRC recommendation #)	Owner
Develop HSA plan design (2)	Health P&P

HSA plan design – proposed option

Plan Design (In-network)	Proposed HSA Plan Design ("Scenario 1")	CDH Gold w/HRA	State Employers Peer Benchmark HDHP+HSA[3]	CY2019 IRS Requirements for HSA Plans[4]
Deductible (Ind./Fam.)	$2,000 / $4,000	$1,500 / $3,000	$2,100 / $4,200	*Minimum of* $1,350 / $2,700
Account Funding (Ind./Fam.)	$1,000 / $2,000	$1,250 / $2,500	$700 / $1,400[3]	*Maximum[5] of* $3,500 / $7,000
Coinsurance	80%	90%	80%	
Out-of-Pocket Max (Ind./Fam.)	$4,500 / $9,000	$4,500 / $9,000	$4,500 / $9,000	*Maximum of* $6,750 / $13,500
PCP Office Visit	80%	90%	80%	
Specialist Office Visit	80%	90%	80%	
Emergency Room	80%	90%	80%	
Inpatient Care	80%	90%	80%	
Prescription Drug[1]				
Out-of-Pocket Max (Ind./Fam.)	Combined with medical	$2,100 / $4,200	Combined with medical	Combined with medical
▪ Retail	$8 / $28 / $50 after deductible	$8 / $28 / $50	85% / 80% / 75% after deductible	Subject to deductible
▪ Mail Order	$16 / $56 / $100 after deductible	$16 / $56 / $100	85% / 80% / 75% after deductible	Subject to deductible
Relative Benefit Value (RBV)[2]	**0.89**	**0.96**	**0.88**	

WTW recommends the following approach for the State:

- Recommended HSA plan design reflects "HSA Scenario 1" previously outlined for this Subcommittee
- HSA plan design and RBV is meaningfully different from CDH Gold plan
- Fairly well aligned to State employers benchmark design, with slightly richer HSA account funding

1 Retail 30 day supply; mail order 90 day supply.
2 RBV estimate includes Health Savings Account seed.
3 See materials from 3/7/19 meeting for further details.
4 Announced by the IRS on May 10, 2018.
5 Combined for employer and employee account funding. Does not include catch-up contribution for individuals attaining age 55 by 12/31 until enrolled in Medicare; CY2019 catch-up contribution amount: $1,000.

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Task (PRC recommendation #)	Owner
Develop HSA plan design (2)	Health P&P

HSA plan – employer seed considerations

- The State has flexibility in determining the amount and timing of HSA seed money

WTW recommends the following approach for the State:

- Provide HSA seed (i.e., employer contribution) as an up-front lump sum at the start of the plan year
  - Aligns with approach taken by other employers in first year of offering an HSA plan
  - Helps mitigate financial impact of claims (usually Rx) in early part of the plan year as participants become accustomed to the HSA plan
- For new hires, prorate the HSA seed according to the date of enrollment in the plan
  - Example – a new hire who enrolls in the HSA plan on October 1 would receive 75% of the full HSA seed
  - No adjustment to annual deductible or out-of-pocket maximum for new hires
  - Similar to approach in place today for HRA funding and CDH Gold plan deductible/out-of-pocket maximum for new hires

Seed timing	Pros	Cons	WTW Comments
Up-front lump sum	▪ Employees have immediate protection against high claims early in plan year ▪ Administrative ease	▪ Employer seed vests immediately and money is portable; employees leaving employer during the year receive full value of the benefit ▪ The GHIP could forfeit $100k in annual seed money for employees terminating during the year[1]	▪ Turnover for State employees is relatively low, so risk of significant losses of employer HSA seed funding due to voluntary turnover throughout the year is likely low

[1] Per 5% migration to HSA plan; assumes 5% annual turnover with uniform distribution throughout year, $1,000/$2,000 ind./family seed, and 40%/60% ind./family enrollment split

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Task (PRC recommendation #)	Owner
Develop premium rates (2)	Financial

HSA plan – potential financial impact on GHIP

- Financial impact of an HSA 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 HSA contribution ("seed")
  - Employee contributions relative to existing plan options

Estimated FY20 GHIP Savings[1]	HSA Scenario 1	HSA Scenario 2	HSA Scenario 3
Per 5% Migration to HSA plan	$2.9M ($1.9M General Fund)	$2.1M ($1.4M General Fund)	$1.2M ($0.8M General Fund)
Full Replacement (100% enrollment in HSA plan)	$57.6M ($38.1M General Fund)	$41.9M ($27.7M General Fund)	$23.0M ($15.2M General Fund)

- The richest HSA plan design permissible under IRS mandate includes a $1,350/$2,700 deductible (ind./family), followed by 100% plan cost-sharing
  - Relative Benefit Value: 98.7% (assumes $1,000/$2,000 Health Savings Account seed)
  - Estimated GHIP **Cost**[1]: $0.8M ($0.5M General Fund) per 5% migration, up to $16.5M ($10.9M General Fund) at 100% migration

[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; excludes post-65 retiree Medicfill participants; assumes implementation of HSA plan 7/1/19; savings based on reduction in GHIP claims due to difference in actuarial value between current plan and HSA scenarios 1, 2 and 3; based on experience and enrollment through FY19 Q2

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Task (PRC recommendation #)	Owner
Develop premium rates (2)	Financial

HSA plan – employee financial impact

- The GHIP has flexibility in setting the HSA budget rates to increase appeal of this plan relative to existing plan options
  - Per the Delaware Code, the State must pay 95% of the premium (or budget rate) for a consumer-directed health plan
  - Budget rates are typically set based on pricing equity, meaning the difference in budget rates between plans reflect the difference in relative benefit value (RBV) between plans

WTW recommends the following approach for the State:

- Set HSA budget rate based on plan design value relative to CDH Gold
- Set employee contributions equal to 5% of the budget rate

Monthly Rates	FY19 CDH Gold		HSA Plan (Scenario 1)		
Coverage Tier	Rate	EE Contrib	Rate	EE Contrib	EE Savings (Annual)
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 Plan	FY19 HMO	EE Savings (Annual)	FY19 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

1 HSA plan scenario 1 RBV of 0.89 relative to CDH Gold RBV of .963 (both include account seed).

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Task (PRC recommendation #)	Owner
Review fiduciary responsibilities (4)	Financial

Oversight of HSA investment options

Considerations for the State

- Most HSAs include an option for accountholders to invest HSA savings once it reaches a certain dollar threshold
- HSA administrators and/or their banking partners normally determine investment options available to accountholders; plan sponsors do not typically play a role
- During the HSA Administrator RFP, the PRC expressed interest in understanding any potential fiduciary responsibilities for HSA investment accounts
- HSAs are generally considered IRS trust accounts that are exempt from ERISA, even in cases where the employer makes contributions to employee accounts, provided further employer involvement is limited
- While the Department of Labor has stated that an HSA under which the employer makes or influences the investment choices will be subject to ERISA, it is unlikely that this would be the case for the State since governmental plans are not subject to ERISA
- Nevertheless, providing direct oversight of HSA investments may carry other risks
  - State laws would still apply, to the extent that Delaware has passed any investment or banking statutes that require the employer to meet certain standards when playing a role in overseeing any investment options offered to employees
  - Non-compliance with those requirements could put the State at risk of participant lawsuits due to improper selection of investment choices, improper oversight, excessive fees claims and potential conflict of interest charges

WTW recommends the following approach for the State:

- Delegate all responsibility for investment fund oversight to the HSA administrator and/or its banking partner
- To the extent that the State decides to move forward with exercising some level of direct oversight of HSA investment options, then SEBC should consult with legal counsel to evaluate potential risks of this approach

Disclaimer: Willis Towers Watson is providing this information to the State of Delaware solely in our capacity as consultants with knowledge and experience in the industry and not as legal advice. The issues presented here have legal implications, and we recommend discussing this matter with the State's legal counsel prior to choosing a course of action.

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Task (PRC recommendation #)	Owner
Evaluate current plan offerings and feasibility of continuing CDH Gold plan (3)	Health P&P

Impact of HSA plan on other GHIP offerings

CDH Gold plan

- Several options for the future of the CDH Gold plan in the event that an HSA plan is implemented have been reviewed with both Subcommittees
- SBO has conducted a survey of CDH Gold plan participants to gauge what they value about the plan

WTW recommends the following approach for the State, if an HSA plan is implemented:

- Retain the CDH Gold plan as an option under the GHIP, but freeze the plan to new enrollees and discontinue any future funding of the HRA once the HSA plan is rolled out
- For any CDH Gold enrollee who drops coverage or changes their medical plan enrollment after the CDH Gold is frozen, prohibit re-enrollment in the CDH Gold plan

- Recommended approach limits potential member dissatisfaction (particularly for those with large HRA fund balances) by continuing to offer CDH Gold plan
- Produces additional administrative work for SBO to maintain CDH Gold plan alongside HSA plan, but will ensure enrollment in consumer directed plan is steered toward HSA plan over time

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Next steps

- Subcommittee member feedback discussed today will be shared with the Health Policy & Planning Subcommittee this afternoon
- WTW to incorporate this feedback into the materials for the June 6 meeting of the Financial Subcommittee
  - ***Subcommittee's final recommendation on premium rates and HSA fiduciary responsibilities, both which will be incorporated into the proposal to the SEBC for an HSA plan, will be formulated at this meeting***

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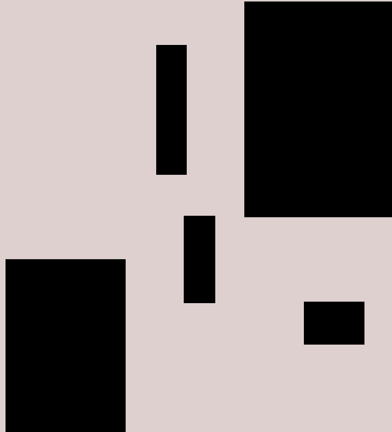
Appendix



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PRC recommended tasks from HSA Administrator RFP

- PRC recommended the following to the SEBC and the Health Policy & Planning and Financial Subcommittees:

1. Evaluate the overall GHIP plan offerings available and goals associated with adding an HSA plan to the GHIP offerings ***(SEBC)***
2. Develop the proposed plan design (including the amount of and schedule for employer funding of the HSA) and premium rates ***(HP&P – design; Financial – premium rates)***
3. Evaluate the current plan offerings and in particular, the feasibility of continuing the existing CDH Gold plan, including how members' account balances would be managed if a proposal included discontinuation of this plan ***(HP&P)***
4. Fully understand the fiduciary responsibilities, if any, by the State for the investment accounts along with any fees to members and how the investment funds are structured ***(Financial)***
5. Determine the intensity of focus needed to communicate and educate members about a HSA plan ***(HP&P)***
6. Re-evaluate how closely aligned each vendor is to the above considerations to determine which vendor may be the best fit to administer a HSA plan ***(HP&P)***
7. Propose whether or not to offer a HSA plan and the effective date, including all of the above considerations as part of a proposal that will include a recommendation on which of the two TPAs is best suited to administer the HSA plan ***(HP&P)***

Note: "Owner" of the final decision about each the above topics is denoted in parentheses at the end of each topic.

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HSA plan design – *illustrative scenarios*

HP&P Subcommittee Feedback:
No comments were provided on any of the illustrative scenarios below.

WTW Recommendation: Scenario 1

Plan Design (In-network)	CDH Gold w/HRA	HSA Scenario 1	HSA Scenario 2	HSA Scenario 3	State Employers Peer Benchmark HDHP+HSA[3]	CY2019 IRS Requirements for HSA Plans[4]
Deductible (Ind./Fam.)	\$1,500 / \$3,000	\$2,000 / \$4,000	\$1,500 / \$3,000	\$1,500 / \$3,000	\$2,100 / \$4,200	*Minimum of* \$1,350 / \$2,700
Account Funding (Ind./Fam.)	\$1,250 / \$2,500	\$1,000 / \$2,000	\$1,000 / \$2,000	\$1,000 / \$2,000	\$700 / \$1,400[3]	*Maximum[5] of* \$3,500 / \$7,000
Coinsurance	90%	80%	80%	90%	80%	
Out-of-Pocket Max (Ind./Fam.)	\$4,500 / \$9,000	\$4,500 / \$9,000	\$4,500 / \$9,000	\$4,500 / \$9,000	\$4,500 / \$9,000	*Maximum of* \$6,750 / \$13,500
PCP Office Visit	90%	80%	80%	90%	80%	
Specialist Office Visit	90%	80%	80%	90%	80%	
Emergency Room	90%	80%	80%	90%	80%	
Inpatient Care	90%	80%	80%	90%	80%	
Prescription Drug[1]						
Out-of-Pocket Max (Ind./Fam.)	\$2,100 / \$4,200	Combined with medical	Combined with medical	Combined with medical	Combined with medical	Combined with medical
▪ Retail	\$8 / \$28 / \$50 after deductible	\$8 / \$28 / \$50 after deductible	\$8 / \$28 / \$50 after deductible	\$8 / \$28 / \$50 after deductible	85% / 80% / 75% after deductible	Subject to deductible
▪ Mail Order	\$16 / \$56 / \$100 after deductible	\$16 / \$56 / \$100 after deductible	\$16 / \$56 / \$100 after deductible	\$16 / \$56 / \$100 after deductible	85% / 80% / 75% after deductible	Subject to deductible
Relative Benefit Value (RBV)[2]	**0.96**	**0.89**	**0.91**	**0.93**	**0.88**	

1 Retail 30 day supply; mail order 90 day supply.
2 RBV estimate includes Health Savings Account seed.
3 See appendix for further details about this benchmark.
4 Announced by the IRS on May 10, 2018.
5 Combined for employer and employee account funding. Does not include catch-up contribution for individuals attaining age 55 by 12/31 until enrolled in Medicare; CY2019 catch-up contribution amount: \$1,000.

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HSA plan – employer seed considerations

HP&P Subcommittee Feedback: Several members voiced their preference for delivering HSA seed money as an up-front lump sum.

WTW Recommendation

- The GHIP has flexibility in the amount and timing of HSA seed money

Seed timing	Pros	Cons
Up-front lump sum	▪ Employees have immediate protection against high claims early in plan year ▪ Administrative ease	▪ Employer seed vests immediately and money is portable; employees leaving employer during the year receive full value of the benefit ▪ The GHIP could forfeit $100k in annual seed money for employees terminating during the year[1]
Fixed per-pay contribution	▪ Employer protection against employee turnover ▪ Employees "earn" seed money over course of plan year ▪ Minimizes budget impact	▪ Employees may have to pay for early claims with personal funds ▪ Administrative complexity for employer and employee
Periodic payments (quarterly, semi-annually, etc.)	▪ Employer protection against employee turnover ▪ Employees "earn" seed money over course of plan year, with more money available initially ▪ Less complex than per-pay deposits	▪ Employees may have to pay for early claims with personal funds ▪ Administrative complexity for employer and employee

- Additional considerations:
  - Determination of the amount and timing of HSA seed money must be made as part of plan design and could impact overall plan costs/savings
  - Total deposits (employer + pre-tax employee contributions) are treated as employer contributions, and are subject to nondiscrimination testing
  - How to treat new hires during course of the year (i.e., make "whole" on date of hire, prorate, etc.)?

[1] Per 5% migration to HSA plan; assumes 5% annual turnover with uniform distribution throughout year, $1,000/$2,000 ind./family seed, and 40%/60% ind./family enrollment split

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Current GHIP offerings

Plan participant enrollment patterns

- Approximately 1/3 of GHIP enrollees are millennials[1] who are lower paid, more likely to waive/enroll in single coverage, and more likely to elect plans with low contributions (First State Basic, CDH Gold) than other State employees
- Between CY2014 and CY2018, new hires/rehires were more likely to waive coverage or elect First State Basic and CDH Gold options compared to the current GHIP State eligible population overall
  - In more recent years (CY2017-CY2018), new hires are increasingly likely to elect the lowest cost plan (FSB) or waive coverage; fewer new employees elected the HMO and CDH Gold options, though proportion in CDH Gold remains higher than GHIP overall (see Appendix for data table)
- Offering an HSA plan alongside the existing CDH Gold option would erode potential GHIP savings
- For administrative and legislative simplicity, consider replacing CDH Gold plan with an HSA plan
  - Requires strategy for participants with existing Health Reimbursement Account (HRA) balances

HP&P Subcommittee Feedback:
Limited to one member voicing opinion that CDH Gold is "a good plan that encourages consumerism among our insured, as it incentivizes them to spend money for their health care as if it was their own."

CDH Gold – FY19 enrollment and HRA balances

- As of December 2018, there are 2,569 employees enrolled in the Aetna CDH Gold plan
- Total funds remaining in participant HRA balances are $6.5M, with an average remaining balance of $2,537
- If the State were to eliminate the CDH Gold plan and cause HRA balances to be forfeited, there is a potential for members with existing HRA balances to rush to spend remaining funds before forfeiture

HRA Balance (as of December 2018)	# of Participants (% total)
$0	315 (12%)
$1 - $100	34 (1%)
$100 - $249	45 (2%)
$250 - $499	108 (4%)
$500 - $999	279 (11%)
$1,000 - $2,499	845 (33%)
$2,500 - $4,999	602 (23%)
$5,000 - $9,999	286 (11%)
$10,000 and greater	55 (2%)
Total	**2,569 (100%)**

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

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CDH Gold plan – options for employees with HRA fund balance

- Because the CDH Gold is a self-insured medical plan with the HRA funded entirely by the State, the SEBC has discretion over:
  - What HRA funds could be used for (e.g., payroll contributions, out-of-pocket expenses for covered services) and for which plans (i.e., medical, dental, vision)
  - How long those funds are available (e.g., 6 months, 1 year)
  - Rules/Restrictions regarding use of funds (e.g., employee must be currently enrolled in the State's dental plan in order to be able to use HRA balance to offset out-of-pocket expenses for covered dental services)

HP&P Subcommittee Feedback:
One member voiced preference for premium holiday HRA until the funds are exhausted.

Another member inquired about the administrative cost of both the limited-purpose HRA and the post-deductible HRA. Administrative fees for either option could be up to $100,000 per year, but may vary by HRA option, scope of allowable expenses, length of time funding is available, vendor selection and potential need for a new or modified eligibility file.

HRA Options	Description	Pros	Cons
Premium Holiday HRA	Allow employees to use HRA funds to pay for coverage in lieu of payroll contributions in year one	▪ Could offer only if employee enrolls in HSA plan to encourage enrollment ▪ Offers the most benefit to employees, especially if not limited to employees electing an HSA plan	▪ May be expensive for the State, particularly if not limited to employees electing an HSA plan ▪ Could be an administrative burden for the State to maintain
Limited-purpose HRA	Use HRA money to pay for "permitted insurance" (e.g., dental, vision)[1]	▪ Offers a small benefit to employees ▪ Minimal cost to the State (relative to HRA use for medical expenses), especially if limited to out-of-pocket costs for "permitted insurance"	▪ Communication could be difficult ▪ If State allows HRA funds to offset dental and vision premiums, may need to review with those insurers for potential impact on premiums for those fully-insured plans
Post-deductible HRA	Pays for medical expenses after HSA plan deductible met	▪ Encourages HSA plan enrollment ▪ Potential for moderate cost to the State	▪ Would shield employees from some health care cost until HRA balance ran out
Retirement HRA	HRA used to pay for medical expenses[2] in retirement	▪ Little cost to the State in the near-term ▪ The State could chose to allow employees to keep HRA funds if they terminate before retirement	▪ No immediate value to the employee ▪ Could be an administrative burden for the State to maintain

1 Potential compliance considerations related to allowing HRA use toward expenses not covered by the plan, and allowing employees continued access to HRA if they drop medical coverage.
2 For non-Medicare eligible retirees enrolled in an IRS-qualified high deductible health plan, would need to be post-deductible medical expenses only to maintain eligibility for HSA contributions.

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