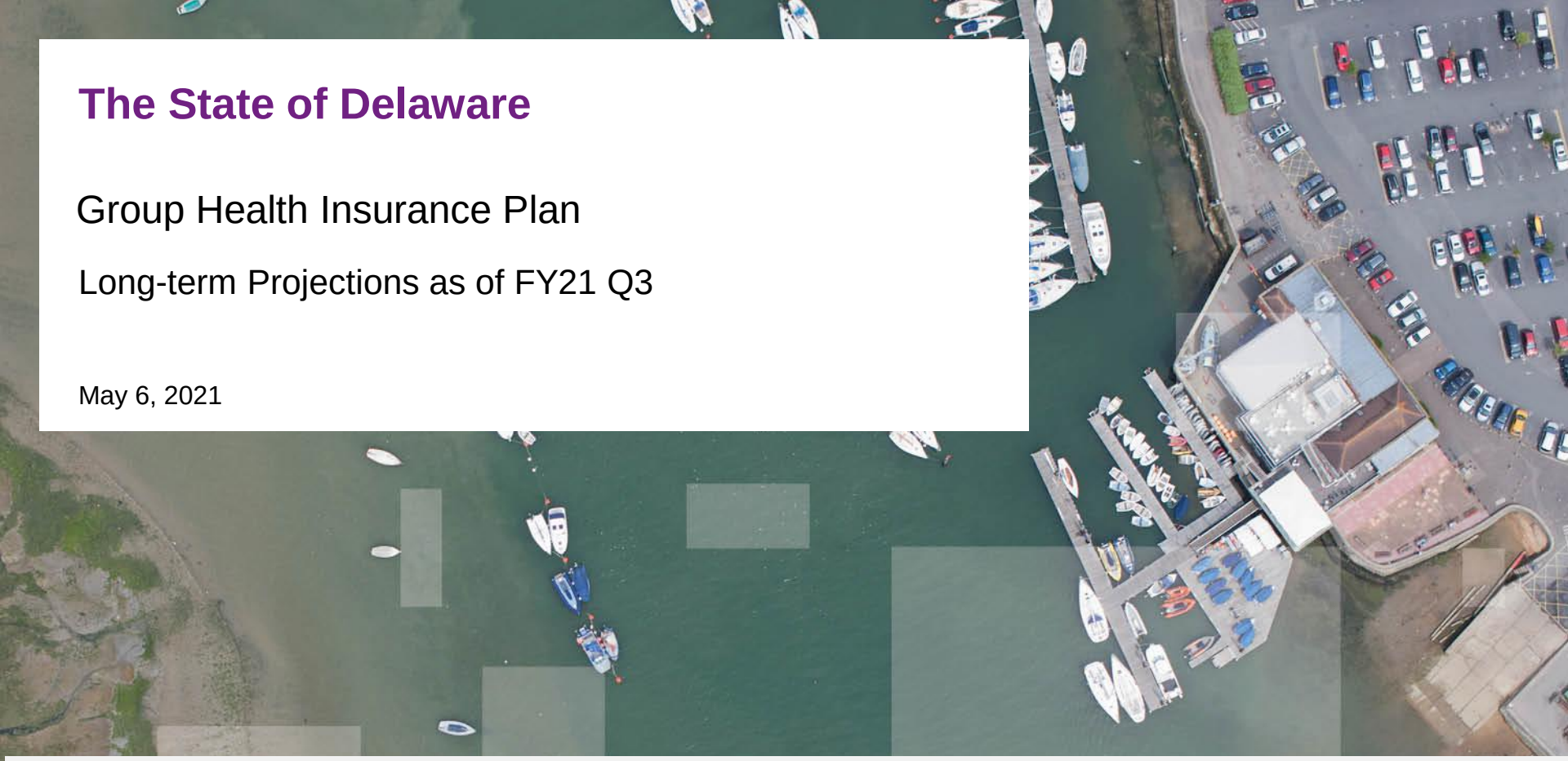


The State of Delaware

Group Health Insurance Plan

Long-term Projections as of FY21 Q3

May 6, 2021

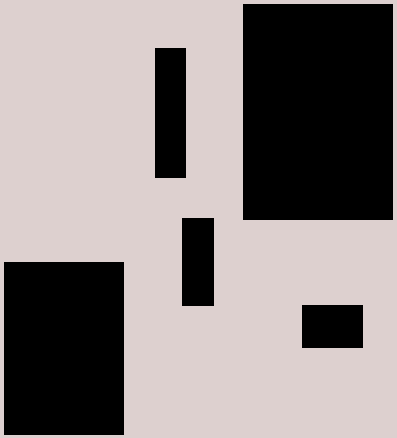
The data and assumptions in this report reflect information available as of 5/7/2020 and the estimates are specific to the State of Delaware GHIP. Due to the high degree of uncertainty associated with the COVID-19 pandemic, results may vary from the estimates provided.

Willis Towers Watson

Today's discussion

- COVID-19 financial impact
  - Considerations for FY21 and beyond
  - Impact of deferred care
  - Cost of COVID-19 testing and treatment
- GHIP long term health care cost projections (FY21 Q3 update)
- Surplus smoothing and COVID-19 reserve recommendations
- Recommended next steps
- Appendix

COVID-19 financial impact



COVID-19 financial impact

Considerations for FY21 and beyond

- Significant reduction in GHIP health care costs during Calendar Year 2020 due to the impact of deferred care, far exceeding the costs related to testing and treatment of COVID-19 cases
- The impact of the COVID-19 pandemic on the GHIP in Calendar Year 2021 and beyond is still unknown and depends on many factors, including:
  - Level of 2020 care deferral that returns in 2021
  - Ongoing vaccination costs once no longer covered by federal government
  - Change in service mix (e.g., sustained shift to virtual care)
  - Downstream impact from missed preventive screenings/immunizations, compounding mental health issues, and additional unknown health needs of COVID-19 ‘survivors’
- On July 27th, 2020, the SEBC approved decision to hold a one-time COVID-19 reserve of $23.5M in FY21; continue to monitor

Continue to evaluate COVID-19 impact on GHIP long term cost projections, trend assumptions, minimum reserve, rate action planning, and other factors

COVID-19 financial impact update

Impact of deferred care

- Through March, FY21 claims ran $6.7M above budget, resulting in a reduction in the Fund Equity Balance of $26.2M fiscal year-to-date (July 2020 – March 2021)
- April medical claims exceeded budget by an additional $2.6m

FY21 Q2	October			November			December			FY21 Q2 Total		
	Actual	Budget	Variance	Actual[2]	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance
Medical	$55.1m	$50.6m	**+$4.5m**	$53.4m	$47.6m	**+$5.8m**	$52.9m	$56.6m	**($3.6m)**	$161.4m	$154.8m	**+$6.6m**
Rx	$23.9m	$23.3m	**+$0.6m**	$35.1m	$35.0m	**+$0.2m**	$24.3m	$23.3m	**+$0.9m**	$83.3m	$81.6m	**+$1.7m**
Total	$79.0m	$73.9m	**+$5.1m**	$88.6m	$82.6m	**+$6.0m**	$77.2m	$79.9m	**($2.7m)**	$244.7m	$236.4m	**+$8.3m**

FY21 Q3	January			February			March			FY21 Q3 Total		
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance
Medical	$52.1m	$53.1m	**($1.1m)**	$55.1m	$50.0m	**+$5.1m**	$65.1m	$59.4m	**+$5.7m**	$172.3m	$162.5m	**+$9.8m**
Rx	$24.7m	$25.1m	**($0.5m)**	$24.7m	$25.1m	**($0.4m)**	$25.9m	$25.1m	**+$0.7m**	$75.3m	$75.3m	**+$0.0m**
Total	$76.8m	$78.3m	**($1.5m)**	$79.9m	$75.2m	**+$4.7m**	$91.0m	$84.5m	**+$6.4m**	$247.6m	$237.8m	**+$9.8m**

FY21 Q4	April[2]			May			June			FY21 Q4 Total		
	Actual	Budget	Variance	Actual[2]	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance
Medical	$60.0m	$56.6m	**+$3.4m**							$60.0m	$56.6m	**+$3.4m**
Rx	$24.6m	$25.4m	**($0.8m)**							$24.6m	$25.4m	**($0.8m)**
Total	$84.6m	$82.0m	**+$2.6m**							$84.6m	$82.0m	**+$2.6m**

1 Final figures have been rounded to the nearest $0.1m; numbers in table may not add up due to rounding
2 Preliminary, based on weekly claims analysis provided by DHR; may not match final Fund Equity Report when completed

COVID-19 financial impact update

Cost of COVID-19 testing and treatment

- The tables below highlight GHIP COVID-19 expenses based on the most recent dashboard provided by IBM Watson Health:

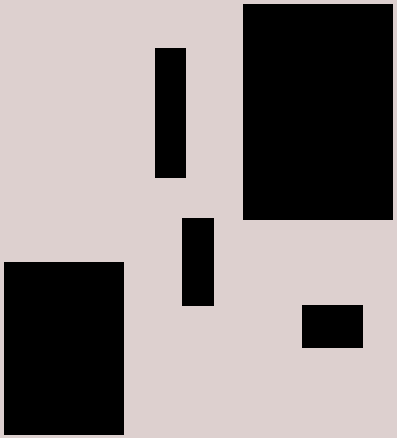
COVID-19 Treatment	Highmark	Aetna	Total
COVID-19 Dx Payments	**$14.6m**	**$4.2m**	**$18.7m**
COVID-19 Dx (Admits) Payments	$13.7m	$3.4m	$17.1m
% Inpatient Payments	94.2%	81.1%	91.3%
Patients	4,468	1,343	5,811
Admits	708	78	786

COVID-19 Testing	Highmark	Aetna	Total
DNA RNA Tests Payments	$2.9m	$1.3m	$4.1m
DNA RNA Tests Patients	21,835	7,696	29,531
DNA RNA Tests Visits	32,913	12,078	44,991
Antibody Diagnostic Tests	$98k	$30k	$128k
Antibody Diagnostic Patients	2,274	585	2,859
Antibody Diagnostic Visits	2,445	623	3,068

$23.0m paid for COVID-19 testing and treatment through March 2021

COVID-19 diagnosis: (Principal Diagnosis = U071 or Any Secondary Diagnosis = U071 or Z8616) OR (Any Secondary Diagnosis = B9729 and Service Month = Jan-Apr 2020)
DNA RNA tests: Procedure Codes = 0202U; 0223U; 0240U; 0241U; 87635; 87636; 87367; 87426; C9803; G2023; G2024; U0001; U0002; U0003; U0004
Antibody tests: Procedure Codes = 0224U; 0226U; 86318; 86328; 86408; 86409; 86413; 86769; 87428; 87811

GHIP long term health care cost projections



GHIP long term health care cost projections (FY21 Q3 update)

Revised projections

- Projected FY21 budget of $899.2m is up 1.1% ($9.8M) from FY21 Q2 update of $889.4m; reflects actual operating expenses through March 2021, April 2021 claims and estimated claim levels for May and June
- FY21 and FY22 budgets reflect Other Revenues based on when revenues will be received by the GHIP Fund to better align the cash flow timing, rather than when revenues will be incurred by the plan
  - FY21 Other Revenues reflect actual payments received Q1-Q3 and expected to be ***paid*** in Q4, and no longer captures anticipated federal reinsurance true-up amounts to be ***earned*** in CY21 and CY22
  - FY22 Other Revenues reflect $8.4m estimated CY20 true-up payment to be received in January 2022 (previously captured under FY21)
- FY20 Q4 and FY21 Q1 experience excluded from budget projection; claim levels not indicative of future experience due to volume of deferred care
  - May and June 2021 claims expected to be at budget; $8.5m in additional deferred care expected to return in FY22 as additional services and/or downstream impact of foregone care

Component ($M)	Description	FY21	FY22
	FY21 Q2 (*includes* impact of COVID-19)	**$889.4**	**$946.6**
Claims Experience	Claims experience updated to reflect impact of COVID-19 (including pent-up demand due to return of deferred care)	$1.3	$3.0
Enrollment	Expected claims and premium increase due to growth in covered population	($1.1)	($1.2)
Updated Other Revenues	Includes revised EGWP payments, pharmacy rebates and participating group fees	$9.7	($7.3)
	FY21 Q3 (*includes* impact of COVID-19)	**$899.2**	**$941.2**

GHIP long term health care cost projections (FY21 Q3 update)

No premium increases FY21-FY26

GHIP Costs ($ millions)	FY20 Actual	FY21 Projected[1]	FY22 Projected[1]	FY23 Projected[1]	FY24 Projected[1]	FY25 Projected[1]	FY26 Projected[1]
Average Enrolled Members	128,531	130,071	131,372	132,686	134,013	135,353	136,707
GHIP Revenue							
Premium Contributions (Increasing with Enrollment)[2]	$830.8	$840.7	$849.2	$857.7	$866.3	$874.9	$883.7
Hold premium rates flat FY21 and beyond	-	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Other Revenues[3]	$122.8	$129.4	$142.4	$151.6	$161.6	$172.1	$183.3
Total Operating Revenues	**$953.7**	**$970.1**	**$991.6**	**$1,009.3**	**$1,027.9**	**$1,047.0**	**$1,067.0**
GHIP Expenses (Claims/Fees)							
Operating Expenses[4]	$927.7	$1,028.6	$1,083.6	$1,139.8	$1,216.8	$1,299.1	$1,386.9
% Change Per Member	*0.9%*	*9.6%*	*4.3%*	*4.1%*	*5.7%*	*5.7%*	*5.7%*
Adjusted Net Income (Revenue less Expense)	**$26.0**	**($58.5)**	**($92.0)**	**($130.5)**	**($188.9)**	**($252.1)**	**($319.9)**
Balance Forward	$163.8	$189.8	$131.2	$39.2	($91.2)	($280.1)	($532.2)
Ending Balance	$189.8	$131.2	$39.2	($91.2)	($280.1)	($532.2)	($852.1)
- Less Claims Liability[5]	*$57.5*	*$57.5*	*$60.6*	*$63.7*	*$68.0*	*$72.6*	*$77.5*
- Less Minimum Reserve[5]	*$24.3*	*$24.3*	*$25.6*	*$26.9*	*$28.7*	*$30.6*	*$32.7*
- Less COVID-19 Reserve[6]		*$23.5*					
GHIP Surplus (After Reserves/Deposits)	**$108.0**	**$25.9**	**($47.0)**	**($181.8)**	**($376.8)**	**($635.4)**	**($962.3)**

- FY22 projected shortfall = $72.9M
  - Shortfall in any given year = operating revenues – operating expenses – change in reserve
  - **$991.6M - $1,083.6M - ($19.1M) = $72.9M**

It is evident that the COVID-19 pandemic will have an impact on health care costs. We have used available information and reasonable estimation techniques to develop health care cost estimates for the GHIP that reflect the impact of COVID-19. However due to the high degree of uncertainty associated with this pandemic, results may vary from the estimates provided.

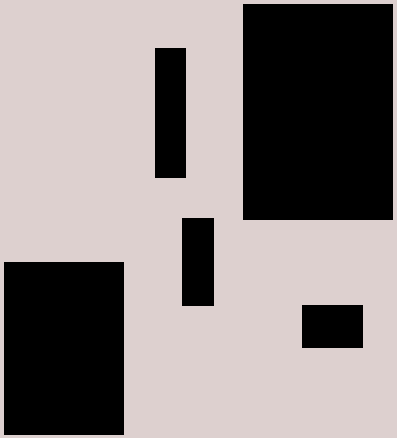
Please refer to Appendix for FY17, FY18, and FY19 actual results (slide 16) and detailed projection footnotes (slide 17)

GHIP long term health care cost projections (FY21 Q3 update)

Premium rate increase scenarios (reflects impact of COVID-19)

- To maintain the long-term stability of the Fund, the Financial Subcommittee recommends smoothing any available surplus over a minimum of two years
- Absent program changes or premium rate increases, the GHIP is on track to fully deplete health fund surplus during FY22, even with the release of COVID-19 reserve
- Financial Subcommittee will be tasked with recommending the **timing** and **level of rate increase** for FY22
- The updated long-term projections are shown without any future rate increases or FY22 program/legislative changes
  - **$25.9M projected surplus** through end of FY21 (reflects $23.5M COVID-19 reserve)
  - **$47.0M projected deficit** through end of FY22 that will need to be addressed through premium rate increases or other savings initiatives
  - If no other program changes, target smoothing FY21 surplus ($25.9M) over 2 years requires 7.1% premium increase effective 7/1/21 (14.2% increase effective 1/1/22)
  - If no other program changes, target $0 surplus by end of FY22 requires 5.5% premium increase effective 7/1/21 (11.0% increase effective 1/1/22)
    - *Note: this rate action would fall short of recommendation to smooth surplus over 2 years*

Surplus smoothing and COVID-19 reserve recommendations



Surplus smoothing and COVID-19 reserve recommendations
Background

- On January 14th, 2019, the Financial Subcommittee presented a recommendation to the SEBC to smooth available surplus over two years
  - Recommendation intended to minimize the need for significant rate increases in years with poor claims experience
  - Surplus smoothing also minimizes volatility on year-over-year increases in member contributions
  - Financial Subcommittee included a recommendation to revisit surplus smoothing methodology annually
- On July 27th, 2020, the SEBC approved decision to hold a one-time COVID-19 reserve of $23.5M in FY21
  - The intent of establishing the COVID-19 reserve was to mitigate the risk that future rate actions are insufficient to maintain the solvency of the Fund under adverse scenarios directly or indirectly related to COVID-19
  - Upon establishing the COVID-19 reserve, it was recommended to review reserve levels more frequently (e.g., quarterly) until the pandemic has subsided and claim levels are more stable

Surplus smoothing and COVID-19 reserve recommendations
Background

Surplus or shortfall in any given fiscal year is driven by:

	Operating Revenues (premiums and other revenues (rebates, EGWP, etc.))	-	Operating Expenses (claims, fees, etc.)	-	Change in Reserves	=	Budget Surplus or Shortfall
FY22 Projection:	$991.6m	-	$1,083.6m	-	($19.1m)	=	$72.9m shortfall

- $3.1m increase in Claims Liability
- $1.3m increase in Minimum Reserve
- Release of $23.5m COVID-19 Reserve

SEBC can address the $72.9m shortfall through one or more levers:

- Increase premium rates
- Adopt program changes to reduce operating expenses
- Use some or all available cumulative surplus from prior year ($25.9m estimated FY21)

Surplus smoothing and COVID-19 reserve recommendations

Impact on long-term projections

Projection with COVID-19 Reserve

GHIP Costs ($ millions)	FY21 Projected[1]	FY22 Projected[1]
Adjusted Net Income (Revenue less Expense)	**($58.5)**	**($92.0)**
Balance Forward	$189.8	$131.2
Ending Balance	$131.2	$39.2
- Less Claims Liability[5]	*$57.5*	*$60.6*
- Less Minimum Reserve[5]	*$24.3*	*$25.6*
- Less COVID-19 Reserve[6]	*$23.5*	
Net Income less Change in Reserve		***($72.9)***
GHIP Surplus (After Reserves/Deposits)	**$25.9**	**($47.0)**

Illustrative: Projection without COVID-19 Reserve

GHIP Costs ($ millions)	FY21 Projected[1]	FY22 Projected[1]
Adjusted Net Income (Revenue less Expense)	**($58.5)**	**($92.0)**
Balance Forward	$189.8	$131.2
Ending Balance	$131.2	$39.2
- Less Claims Liability[5]	*$57.5*	*$60.6*
- Less Minimum Reserve[5]	*$24.3*	*$25.6*
- Less COVID-19 Reserve[6]	*$0*	*-*
Net Income less Change in Reserve		***($96.4)***
GHIP Surplus (After Reserves/Deposits)	**$49.4**	**($47.0)**

Surplus smoothing impact – use half surplus	
Projected FY22 shortfall	$72.9
Target use of 1/2 of surplus	$13.0
Revenue from premiums	$59.9
Rate increase needed 7/1/2021	***7.1%***
FY22 surplus after reserve	$13.0

Surplus smoothing impact – target $0 surplus	
Projected shortfall	$72.9
Target using full surplus	$25.9
Revenue from premiums	$47.0
Rate increase needed 7/1/2021	***5.5%***
FY22 surplus after reserve	$0

Releasing $23.5m reserve reduces rate increase needed based on formula

One-time $23.5m reserve has no impact on rate increase if full surplus used

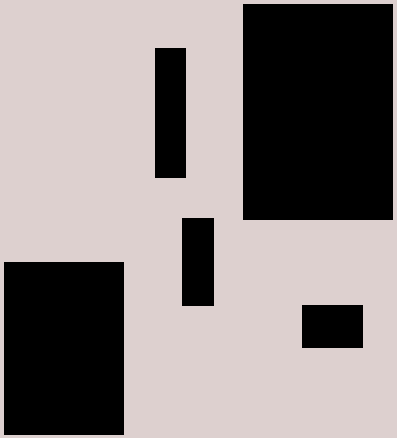
Surplus smoothing impact – use half surplus	
Projected FY22 shortfall	$96.4
Target use of 1/2 of surplus	$24.7
Revenue from premiums	$71.7
Rate increase needed 7/1/2021	***8.4%***
FY22 surplus after reserve	$24.7

Surplus smoothing impact – target $0 surplus	
Projected shortfall	$96.4
Target using full surplus	$49.4
Revenue from premiums	$47.0
Rate increase needed 7/1/2021	***5.5%***
FY22 surplus after reserve	$0

Recommended next steps

- Continue to monitor emerging plan experience for COVID-19 testing and treatment, care deferral by type of care, and GHIP overall
- Continue to monitor emerging utilization and cost savings for the GHIP initiatives adopted to date
- Continue to discuss timing and level of future rate action

Appendix



GHIP historical health care fund information

FY17-FY19

GHIP Costs ($ millions)	FY17 Actual	FY18 Actual	FY19 Actual
Average Enrolled Members	123,132	125,488	126,360
GHIP Revenue			
Premium Contributions (Increasing with Enrollment)[2]	$799.0	$810.9	$817.4
Hold premium rates flat FY21+)	-	-	-
Other Revenues[3]	$81.6	$92.1	$98.5
Total Operating Revenues	**$880.6**	**$903.0**	**$915.9**
GHIP Expenses (Claims/Fees)			
Operating Expenses[4]	$816.8	$853.9	$904.0
% Change Per Member		*2.6%*	*5.1%*
Excise Tax Liability[5]			
Adjusted Net Income (Revenue less Expense)	**$63.8**	**$49.1**	**$11.9**
Balance Forward	$38.9	$102.7	$151.8
Ending Balance	$102.7	$151.8	$163.8
- Less Claims Liability[6]	*$54.0*	*$58.9*	*$58.8*
- Less Minimum Reserve[6]	*$24.0*	*$24.0*	*$24.3*
GHIP Surplus (After Reserves/Deposits)	**$24.7**	**$68.9**	**$80.7**

GHIP long term health care cost projection footnotes

Note: FY17, FY18, FY19 and FY20 actual based on final June 2017, June 2018, June 2019 and June 2020 Fund Equity reports; FY21+ projected operating expenses and enrollment based on experience through FY21 Q3 with adjustments to FY21/FY22 due to COVID-19 financial impact; assumed 1% annual enrollment 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); FY21 reflects implementation of Highmark radiation therapy authorization program ($633k annual savings per Highmark); FY21-FY26 projections based on 5% medical, 8% pharmacy baseline trend; assumes 1% annual growth in GHIP membership; FY21 projection reflects impact of COVID-19; assumes no other program changes in FY21 and beyond.
2. Includes State and employee/pensioner premium contributions; assumes 1% annual enrollment growth for FY21-FY26
3. Includes Rx rebates, EGWP payments, other revenues based on when revenues will be received; FY21 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 and premium growth); FY20 includes $5.2m CY2018 CMS financial reconciliation payment received January 2020; FY21 includes $9.5m CY2019 CMS financial reconciliation payment received January 2021.
4. FY21 includes estimated reduction in pharmacy claims as a result of best and final ESI FY20 renewal proposal, provided 1/29/2019; FY22 and beyond includes estimated reduction in pharmacy claims as a result of PBM award to CVS Health
5. FY20 Minimum Reserve levels updated with data through June 2019; FY20 Claim Liability updated with lag factors as of Dec 2019 and claims data through December 2019; FY21 reserves assumed to remain at FY20 levels; future years assumed to increase with overall GHIP expense growth.
6. One-time COVID-19 reserve as approved by SEBC on July 27th, 2020

It is evident that the COVID-19 pandemic will have an impact on health care costs. We have used available information and reasonable estimation techniques to develop health care cost estimates for the GHIP that reflect the impact of COVID-19. However due to the high degree of uncertainty associated with this pandemic, results may vary from the estimates provided.

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 (1/1/2018 – 12/31/2019)
- 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

GHIP long term health care cost projections (FY21 Q2 update)

CVS Health pharmacy contract

- On December 14, 2020, the SEBC approved award of pharmacy benefit management to CVS Health
  - Commercial contract is projected to reduce allowed pharmacy claims by $7.8M (3.8%) and increase rebates by $21.9M, yielding $29.4M gross savings for the period 7/1/2021 – 6/30/2022
  - EGWP contract is projected to reduce allowed pharmacy claims by $13.2M (7.8%) and increase rebates by $29.8M, yielding $43.0M gross savings for the period 1/1/2022 – 12/31/2022
- Estimated total reduction of $32.2M in GHIP pharmacy plan cost for FY22 ($18.4M Commercial, $13.8M EGWP)

CVS Health Contract	Commercial FY22 Summary	EGWP CY22 Summary
Rx allowed cost savings (before rebates)[1]	3.8% ($7.8M)	7.8% ($13.2M)
Rx allowed cost savings (incl. rebates) [2]	14.6% ($21.9M)	21.5% ($29.8M)
FY22 plan cost reduction[3]	$18.4M	$13.8M

[1]Estimated savings for each respective contract period using allowed claims (plan and member cost sharing combined), utilization, and enrollment data for the period 4/1/2019 – 3/31/2020 and composite annual pharmacy trend rate of 6-8% (varying by generic, brand, and specialty drug categories)
[2] Estimated Rx allowed cost savings per footnote 1 plus estimated increase in rebates based on current drug mix; rebate improvements shown are above any anticipated rebate over-performance (true-up) for current contract
[3] Estimated reduction in GHIP pharmacy plan cost (net of member cost sharing) for the period 7/1/2011 – 6/30/2022 based on the pricing assumptions outlined in the Appendix; rebate improvements based on projected rebates above anticipated FY22 over-performance