Statewide Benefits Office
Benefits Made Easy

SEBC Financial Subcommittee Meeting
FEBRUARY 24, 2022

The Financial Subcommittee met Thursday, February 24, 2022. In the interests of protecting the citizens of this State from the public health threat caused by COVID-19, this meeting was presented via Webex and participants were encouraged to attend virtually.

Subcommittee Members Represented or in Attendance:

Director Faith Rentz, Statewide Benefits Office ("SBO"), Department of Human Resources ("DHR") (Appointee of Secretary Claire DeMatteis), Chair
The Honorable Colleen Davis, State Treasurer, Office of the State Treasurer
Ms. Judy Anderson, Delaware State Education Association, (Appointee of Mr. Taschner, Executive Director, DSEA)
Mr. Steven Costantino, Director Health Care Reform, Dept. of Health and Social Services ("DHSS") (Appointee of Secretary Magarik)
Ms. Jeanette Hammon, Sr. Fiscal and Policy Analyst, Office of Management & Budget ("OMB") (Appointee OMB Director Cerron Cade)
Mr. Robert Scoglietti, Deputy Controller General, Office of the Controller General ("OCG") (Appointee of Controller General Ruth Ann Jones)
Mr. Stuart Snyder, Chief of Staff, Department of Insurance (Appointee of Commissioner Trinidad Navarro)
Ms. Ashley Tucker, Deputy State Court Administrator, Administrative Office of the Courts, (Appointee of The Hon. Collins Seitz, Chief Justice, Delaware Supreme Court)

Subcommittee Members Not Represented or in Attendance:

Mr. Keith Warren, Chief of Staff, Office of the Lt. Governor (Appointee of Lt. Governor Bethany Hall-Long)

Others in Attendance:

Ms. Leighann Hinkle, Deputy Director, SBO, DHR
Mr. Chris Giovannello, Willis Towers Watson ("WTW")
Ms. Jaclyn Iglesias, WTW
Ms. Rebecca Warnken, WTW
Ms. Gabby Costagliola, WTW
Ms. Wendy Beck, Highmark Delaware
Ms. Marian Coker, Information Resource Specialist, Department of State
Ms. Sara Dunlevy, CVS Health
Mr. Rick Geisenberger, Secretary of Finance, DOF
Ms. Sandy Hart, IBM Watson Health
Ms. Charlene Hrivnak, CVS Health
Ms. Katherine Impellizzeri, Aetna
Ms. Heather Johnson, Controller, DHR
Ms. Lisa Mantegna, Highmark Delaware
Mr. Walt Mateja, IBM Watson Health
Mr. Nick Moriello, Highmark Delaware
Mr. Sean McNeeley, Director of Bond Finance, DOF
Ms. Evelyn Nestlerode, Deputy State Court Administrator, CFO, AOC
Ms. Louisa Phillips, Delaware Healthcare Association
Ms. Courtney Stewart, Deputy Director, OMB
Mr. Charles Simons, Highmark Delaware
Ms. Martha Sturtevant, Exec. Sec., SBO, DHR
Ms. Carole Mick, SBO, DHR - Recorder, State Employee Benefits Committee and Subcommittees

CALLED TO ORDER – DIRECTOR FAITH RENTZ

Director Rentz called the meeting to order at 1:15 p.m.

DIRECTOR'S REPORT – DIRECTOR RENTZ, CHAIR

Overview of Combined Financial and Health Policy Planning Subcommittee

The meeting was primarily held in executive session where discussion occurred regarding additional items related to the 2021 Health Third-Party Administrator ("TPA") Request for Proposal ("RFP"). Some of the information

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discussed will be presented during today's meeting and ultimately brought before the SEBC on Monday, February 28th, 2022 for vote.

FINANCIALS – MR. CHRIS GIOVANNELLO, WTW

January Fund Report

Within the January Fund Equity Report, other revenue items include the Prescription Drug True Up/Year End Reconciliation Payments of $8.7 million, representing the calendar year 2020 federal reinsurance true-up payment. Previously was budgeted for $8.4 million, but actual payment was $8.7 million, also reflected in the updated long-term projections. Additionally, the Fund received a coverage gap discount payment of $6.5 million compared to $6.4 million budgeted.

January was a favorable claims month driven by the overall claims experience and specifically, the CVS pharmacy claims for the EGWP plan, which were lighter than expected in the first month after the transition from Express Scripts to CVS Health. Overall, through the month of January, claims are $35 million below budget.

FY22 Quarter 2 Financial Reporting

Program experience from July 2021 through December 2021 compared to the same period from FY21, as well as to the FY22 budget will be discussed in this portion.

Overall, compared to last year's claims experience through Q2, gross claims have increased by 3.7%. This was primarily driven by pharmacy claims (increased about 10% compared to last year's claims experience). Total cost per employee per year decreased 0.2% and total cost per member per year increased about 0.6%. Total program cost is only up 0.5% as the unfavorable pharmacy claims are offset by increased revenues, include rebate payments and EGWP revenues.

Mr. Costantino queried on whether the pharmacy claims were being driven by cost or utilization or a combination of both. Mr. Giovannello indicated that the pharmacy claims cost increased 7% and the utilization of all prescriptions increased 1.4%. Overall, it was a combination of cost and utilization that lead to an overall increase in pharmacy claims.

Relative to the FY22 Budget, total program cost is down approximately 9% which is unsurprising based on the Fund reports previously reviewed.

FY23 GHIP Projections/FY23 Health Plan Premium Modeling

The projections for FY23 have been updated to include $24 million in COVID-19 reimbursement funds. The payment for these claims is expected to be received during FY23 based on claims that were attributable to calendar year 2021. No additional COVID-19 funding relief is reflected in the projections as funding relief would offset COVID-19 related expenses.

GHIP long term health care cost projections for FY23 are reflected with legislation impact. Senate Bill 25, which pertains to chiropractor reimbursement not less than Medicare, went into effect January 1st, 2022 and has been included in the projections for FY22 with an added cost of $0.5 million in FY22 and FY23. Other legislation either anticipated to be passed or passed with an effective date on or before the end of FY23 are not currently built into the projections. Most notably, Senate Bill 120, the primary care reimbursement bill, which Highmark estimates a fiscal year impact of $4.6M - $29.9M per year for the Highmark population only, is not built into the projections. Aetna has not provided a similar estimate. While these costs are not built into the projections, they should be considered when discussing potential rate action for FY23.

Long term projections have been updated to include January claims, with an adjustment for Highmark February claims experience. Current projections yield a $30.2M surplus at the end of FY22, and a $62.7M deficit at the end of FY23. Projections reflect the recommended Medicare plan option based on recommendations of the Combined Subcommittee meeting earlier today. On Monday, February 28th, 2022, the SEBC will be voting on several considerations for FY23, including the move to a group Medicare Advantage ("MA") product effective 1/1/23 and a rate increase based on a Financial Subcommittee recommendation.

Mr. Giovannello acknowledged Mr. Scoglietti's earlier question that was raised in the Executive Session of the Combined Meeting of the Financial and Health Policy & Planning Subcommittees, asking what portion of the operating expenses in FY22 is attributable to claims. Mr. Giovannello confirmed that the projections have built in about $1.018 billion for claims in FY22. Using the projection methodology of analyzing actual claims in FY22 through January with the built-in high claims experience in February 2022, over-the-counter COVID-19 testing, and Senate Bill 25, and assuming remaining monthly claims will be at budgeted amounts.

There was a discussion as to the supplemental funds that are appropriated from the Governor's Recommended Budget of $82.8 million and if those funds are a place holder considering the premium rate increase that had been discussed earlier. Ms. Anderson asked whether any of that funding impacted the scenarios presented today. Ms. Hammon added that the $82.8 million is a placeholder for discussion after all decisions have been made and votes have been taken. It's still too early to say where the money is going to go and what it will cover because there are so many decisions that need to be made that affect cost and rates. Mr. Giovannello added that, assuming $82.8m of government funds are available for the rate action, that would be enough to cover a 9% rate increase, which is about $55 million in terms of the State share for active and pre-65 retirees. Treating the supplemental bill funding as a placeholder provides the State with enough funding to cover the rate increase scenarios discussed today, with some flexibility to implement a higher rate increase if warranted. Ms. Anderson said that if there's an $82.8 million placeholder in the budget and we're contemplating a 9% increase, which is a $55 million State commitment, are the remaining additional resources earmarked for anything else, from an expense perspective. Ms. Rentz confirmed that any excess funds will not be available for the Group Health Insurance Plan. Mr. Scoglietti added that the Governor recommended the $82.8 million in a one-time bill, so unlike an ongoing appropriation in the Operating Budget, this would be a one-time amount and then reconsidered for FY24. Upon request from Mr. Scoglietti, Mr. Giovannello reiterated that the $55 million is only the State share for active employees and pre-65 retirees, and the employee/pre-65 retiree share is about $7 million, which would equal about $62 million total additional funding for a 9% rate increase tied to active employees and pre-65 retirees.

FY22 projection of $30.2 million surplus will be fully depleted during the subsequent plan year, resulting in a $62.7 million deficit projected for FY23. The one-time rate action needed to solve for the $62.7 million deficit in one year would be 8.67%. Smoothing the rate increase over three years to target $0 deficit by the end of FY25 requires an 8.98% annual rate increase in FY23-FY25. Discussion occurred on the member impact scenarios tied to each rate action that illustrated the monthly and annual increases by medical plan and coverage tier.

Ms. Hammon requested feedback from Ms. Rentz and Mr. Scoglietti based on their experience if historical rate increases have been one-time actions or if they were smoothed over multiple years. Discussion was had that historically the SEBC has only made decisions one year at a time, however it was acknowledged that there has been a five-year gap since the last rate increase and that there have been broader discussions of the possibility of applying a rate increase over time rather than just solving for the current year. Mr. Costantino added that when the Financial Subcommittee first started looking at a one-year increase, it was on the order of around 14%, and he was one of the Subcommittee members who originally suggested smoothing the increase over three years to reduce the "sticker shock" to employees. Mr. Giovannello confirmed that was the genesis of the discussion around smoothing the rate action over multiple years and added that it's purely coincidental that the one-year and three-year increases are similar (i.e., 8.7% vs. 9%), due to a lot of the moving pieces that were discussed this morning, but in the past, there was a meaningful differentiation where smoothing the rate increase would have a different impact on the one-year and three-rate rate actions required.

Ms. Hammon added that she appreciates the longer-term view of the impact of a rate increase but is also mindful of the potential impact of unplanned changes on the cost projections. She questioned whether it is better for the State to alert participants of these rate changes now, so they can plan for them. Mr. Scoglietti emphasized the importance of remembering what is being voted on at Monday's SEBC, recognizing that the 9% increase seems valid for FY23 but questioning whether it's critical for the SEBC to vote on FY24 and FY25 on Monday, since the FY24 rates would not be finalized by a vote until this time next year, to which Ms. Rentz agreed.

Ms. Anderson commented that if the Subcommittee decided to recommend moving forward with the 8.67% rate increase, then it should also consider other possible cost reduction opportunities in the upcoming fiscal years, including site-of-care steerage opportunities that could potentially yield savings for the GHIP. Considering these opportunities, Ms. Anderson expressed that it would be challenging to lock into rate increases for FY24 and FY25, realizing that rates will probably need to increase, however, there are still some cost levers to consider with an opportunity for additional savings for the GHIP.

Ms. Hammon agreed, and part of this morning's conversation was that once decisions on plan designs are made, then there would be a period of waiting to see what the potential savings are, and how they play out will be important for determining final rates for FY24.

Ms. Rentz acknowledged these comments and stated that as it relates to some of the other plan design changes still on the table as well as the pending legislation, the Subcommittee will continue to monitor the legislation and will be able to continue contemplating some of those plan design changes, since most can be implemented mid-year during FY23. Those changes could potentially help offset some of the cost impact of the pending legislation, which will continue to evolve over the next several months. However, there is a sense of urgency in locking down FY23 rates ahead of July 1 because the SBO is required to conduct Open Enrollment by early May and needs time to prepare and notify members of the FY23 rates by the start of Open Enrollment. Therefore, it is necessary for the SEBC to decide on a rate action now as opposed to holding off on making such a decision until some of those other changes are determined. Some of the plan design changes that the Subcommittees discussed in Fall 2021 such as changing deductibles and co-pays would be considered significant plan design changes that would require the State to offer plan participants a new enrollment opportunity. However, there were other changes discussed previously that could be implemented at any time during the plan year without requiring the State to offer another enrollment opportunity outside of the regular annual open enrollment.

Treasurer Davis offered another consideration, that as we talk about cost control, we're also talking about trading participants' ease of access to care, with the tradeoff being that the SEBC could lock in a rate increase now, giving plan participants the opportunity to plan for that adjustment, and then ensure participants' ease of access to care continues, which is her greatest concern.

Ms. Hammon asked about the duration of the TPA contracts that the State would be entering into. Ms. Rentz confirmed that they would be three-year contracts and clarified that the Proposal Review Committee has already tied out on the administrators of the plans that will be offered for FY23, which determines the administrative fees for the TPAs' support for those plans. The other programs and services including care management would be separate fees from the base administrative fee, not necessarily subject to a 3-year guarantee, and have yet to be negotiated and decided upon.

Mr. Costantino added that there hasn't ever been a reverse trend in health care spend, with perhaps the exception of the first year of COVID, and that is before factoring in the provider relief funds, which have had an impact on total cost of care. Health care cost trend has been significant, and while he appreciates all the policy work they are doing, he's not convinced that the estimated savings on these initiatives play out over time. He also indicated that even value-based agreements, which there hasn't been much transparency from the TPAs, don't produce a material impact on trend until after the first few years. Health care trend is not going to reverse itself, and if the State further delays a rate increase, there will be worse "sticker shock" and the past has proven that.

Mr. Giovannello added that a one-time rate increase of 8.67% is targeting a $0 deficit in FY23, so to the extent that claims are less favorable in the second half of FY22 and the starting surplus reduces, or if claims trend higher in FY23, we're assuming that operating expenses will go up about 5.7% per year (i.e., 5% medical trend, 8% pharmacy trend, plus some additional trend on other operating expenses and fees), but ultimately we're targeting a $0 deficit if we increase rates by 8.67% and these projections prove to be accurate. Also, the deficit is shown after reserves are depleted, so there is still some cushion if there are adverse claims events in any given year, most of which is the minimum reserve of $24.7 million in FY23. While there is some cushion in the budget, the Subcommittee and SEBC should be thinking of the recommended rate action as a starting point, and if the SEBC wants to implement a rate increase greater or less than the recommended amount, then there is clarity around what the implications of doing so would be. While we're discussing a three-year smoothing and are only solving for a FY23 rate increase on February 28th, the State will soon be at the point where rate increases will be necessary annually and there aren't likely to be any solutions that will solve for the entirety of the $219.3 million deficit in FY24. Any rate increase that goes into effect for FY23 will have a compounding effect in FY24. Recognizing that another rate increase in FY24 will likely be necessary, there is probably little appetite for considering a double-digit increase, so it's important to keep in mind that there is a compounding effect at play, meaning any rate increases to the Fund in FY23 will recur in FY24 and that will increase the revenue base, of which the State share is about 90%.

Ms. Anderson asked a question related to claims liability discussed earlier today: considering the group MA plan recommendation moving forward, assuming it is approved by the SEBC, would the claims liability reserve change. Mr. Giovannello clarified that WTW has already adjusted the claims liability projection based on the Subcommittees' recommendation to implement a group MA plan discussed earlier today. The claims liability has decreased from what it would be in our status quo projection based on the reduction in the operating expenses; if you look at FY22 to FY23, the claims liability is still increasing slightly due to trend, but absent the move to group MA, it would be higher than $61.9 million reflected in the current long-term projection. Ms. Anderson also asked, should the SEBC decide not to pass the group MA recommendation, would the claims liability figures increase, therefore impacting the rate increase. Mr. Giovannello clarified that if the SEBC decides to maintain the current Medicfill Medicare Supplement plan and not implement a group MA plan, then in that scenario, the deficit would reduce to about $52 million because the Medicfill rates subsidize the active employee and pre-65 retiree rates today.

Ms. Anderson also asked for clarification that, if the State were to implement a group MA plan, which is fully insured, then the State wouldn't need to carry a claims liability for that plan. Mr. Giovannello confirmed this was accurate; regarding the FY22 claims liability of $61.9 million, only about $4-$5 million is attributable to Medicfill. In FY23, the claims liability would reduce for a 6-month period if a group MA plan was implemented, and in FY24, it would reduce for a 12-month period, but the total annual reduction would still only be worth about $4-$5 million.

Ms. Anderson inquired about the impact of smoothing the rates over four years instead of three. Mr. Giovannello confirmed that the rate increase in that scenario would be slightly less than the currently modeled increase but reiterated that smoothing the rate over multiple years just helps set a target and made more sense when the one-year rate increase was a double-digit figure. The main takeaway for the Subcommittee is to think about how any rate action in FY23 could affect future rate actions for FY24 and FY25, ideally avoiding a scenario where the State delays future rate actions.

Ms. Rentz inquired if there were other concerns, questions, or observations from the Subcommittee, recognizing that Subcommittee members would be engaging in dialogue with their respective SEBC members in preparation for Monday's meeting. Mr. Scoglietti stated that the ending balance of the Fund went from $189 million to $115 million between FY20 and FY22, generating a deficit each year, so it's time to true-up.

Ms. Hammon asked Ms. Rentz whether there was anything needed from the Subcommittee in terms of thoughts or a recommendation beyond what they've already provided for Monday. Ms. Rentz responded that this is the last opportunity for the Subcommittee to talk about whether there is any additional modeling or exhibits that the group would want to see prepared for Monday, considering this morning's discussion, and understanding that the scenarios which WTW has reviewed with the group today are how the long-term projections would play out assuming the recommendations coming out of this morning's meeting are approved by the SEBC on Monday. Absent any other suggestions from the group, the scenarios reviewed today would be presented to the SEBC on

Monday, and as Ms. Rentz shared with the group this morning, the SBO and the SEBC Co-Chairs stand ready to engage in additional conversations as needed to clarify questions as the SEBC and Subcommittee members think through this decision between now and Monday.

Ms. Anderson acknowledged that we're probably looking at a rate increase and reaffirmed the importance of the Subcommittee doing its fiduciary duty to control cost components as much as possible considering size of the rate increase in question. Ms. Rentz asked for clarification as to how Ms. Anderson envisioned further evaluation of cost containment, to which Ms. Anderson clarified that she was not inferring that the Subcommittee wasn't meeting its fiduciary responsibility but believes there are a number of opportunities for managing the cost of the plan, despite recognizing the Treasurer's remarks earlier about ensuring members have access to care when they need it, and for this reason did not foresee the unions supporting anything past a one-year rate increase.

Ms. Rentz acknowledged these comments and indicated that following Monday's SEBC meeting once decisions on FY23 rates and other items from the health TPA RFP are made, the Subcommittee and SEBC will continue discussions of other changes and cost savings opportunities that could be implemented both prior to and during FY23. Time is running out for the SEBC to make decisions on FY23 rates and on other critical items ahead of July 1, while still allowing the SBO to meet target deadlines for Open Enrollment and the July 1 plan year.

Ms. Hammon asked about the two rate increase scenarios (i.e., 8.67% and 9%) and if both will be presented to the SEBC. Mr. Giovannello indicated that decision is up to the Subcommittee. Ms. Hammon suggested that only the recommended option should be presented. Ms. Rentz acknowledged these comments and welcomed other comments from the group, being mindful that it is Thursday afternoon and additional modeling will take time. If there's an interest in showing any additional rate scenarios to the SEBC, then we'd need to know that very soon to be prepared for Monday. Mr. Scoglietti indicated that he is comfortable with the 8.67% rate increase being recommended to the SEBC with the acknowledgement that the need for future rate increases will continue and FY24-FY25 could be illustrated for the SEBC, but the Committee's vote is only for a rate increase for FY23. He also mentioned that this model is predicated upon moving to a MA plan on January 1, 2023, which will be a heavy lift for the SBO, which he doesn't take lightly. Ms. Rentz acknowledged her appreciation for Mr. Scoglietti's comments and added that the group MA plan implementation would be a lot of effort for the Office of Pensions as well. Mr. Costantino agreed and noted that based on IBM Watson Health's data, there are opportunities for cost savings within the TPAs' claims spend, particularly for facility claims. Beyond the list of savings initiatives that Ms. Anderson talked about, we need to get into the "guts" of where the spend is and start putting pressure on the TPAs to control these costs, as those are driving trend. Ms. Rentz agreed and said that this is a larger issue and will be addressed with TPAs and the SEBC at a future time. Ms. Anderson agreed with Mr. Costantino's comments. Ms. Rentz stated that the intention is to engage in a deeper discussion on that topic with the SEBC once we get through these decisions and we're in a position to execute on Open Enrollment, likely throughout the rest of the calendar year as this will be an ongoing conversation.

Ms. Anderson echoed everyone's comments and offered that not only must the Subcommittees and SEBC get a handle on those costs, but it also presents an opportunity to help control overall health care cost disparities across Delaware compared to other nearby states. We have an opportunity through some of the site-of-care steerage programs to help control that.

Ms. Rentz does not have any additional material to bring forth, confirmed by Mr. Giovannello, and they have the necessary materials needed to bring to Monday's SEBC Meeting. Ms. Rentz reiterated again that she was available as needed to help address additional questions from Subcommittee members or SEBC as needed.

OTHER BUSINESS

No new business was presented.

PUBLIC COMMENT

Mr. Moriello queried if the care management recommendations will be included on the agenda for the SEBC meeting. Ms. Rentz responded that care management recommendations will be discussed, and the agenda for the SEBC meeting is posted and would not be altered based on the discussion from this morning's meeting.

After the meeting was concluded there was a public comment that was sent to the SBO via email. The comment was regarding the December 2021 minutes related to FY23 Planning Opportunities about implementing an annual deductible for the HMO and Comprehensive PPO plans. Will the Subcommittee be requesting a vote from the SEBC? The comment also included concern about the recommended 8.67% premium increase and the impact the increase would have on the recommended 2% pay increase. Ms. Rentz responded via email; the December 9, 2021 Subcommittee meeting minutes reflect that the Subcommittee was least likely to recommend this plan change to the SEBC. Therefore, no further discussions about this change have occurred at the Subcommittee level and no recommendation on this plan design change will be brought before the SEBC for the July 1 plan year. Ms. Rentz further responded to the concern about the premium increase by providing an illustrative example that the premium increase is much less than the proposed pay increase, primarily because the State is paying on average, 90% of the cost of employee health premiums.

ADJOURNMENT

A MOTION was made by Mr. Scoglietti and seconded by Mr. Costantino to adjourn the public session at 2:21 p.m. MOTION ADOPTED UNANIMOUSLY.

Respectfully submitted,

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Carole Mick, Statewide Benefits Office, Department of Human Resources
Recorder, State Employee Benefits Committee, and Subcommittees