



GHIP Trend Development Discussion

SEBC Combined Subcommittee Meeting

July 17, 2023

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Agenda

- Health care trend considerations
- Next steps
- Appendix

Health care trend considerations

Goals for today's discussion

- Review historical GHIP trend and macroeconomic pressures on healthcare trend previously discussed with the Financial Subcommittee in June 2023
- Discuss WTW's recommendation to increase medical and Rx trends for FY24 Budget
- Determine Financial Subcommittee recommendations on GHIP trend assumptions (i.e., maintain existing assumptions or adopt WTW recommendation to increase trend)
 - Any recommended change in healthcare trend assumptions will need to be approved by the SEBC

Historical GHIP gross claims increases¹

Plan Year	Active Medical Gross Claims		Active Rx Gross Claims		Pre-Medicare Medical Gross Claims		Pre-Medicare Rx Gross Claims		MedicFill Medical Gross Claims		MedicFill Rx Gross Claims	
	Per Member Per Year	Annual Increase/ (Decrease)	Per Member Per Year	Annual Increase/ (Decrease)	Per Member Per Year	Annual Increase/ (Decrease)	Per Member Per Year	Annual Increase/ (Decrease)	Per Member Per Year	Annual Increase/ (Decrease)	Per Member Per Year	Annual Increase/ (Decrease)
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FY18	\$4,672	-1%	\$1,224	2%	\$8,846	2%	\$2,510	-4%	\$1,896	0%	\$4,229	-2%
FY19	\$4,878	4%	\$1,321	8%	\$8,659	-2%	\$2,745	9%	\$1,984	5%	\$4,624	9%
FY20	\$4,576	-6%	\$1,451	10%	\$8,810	2%	\$2,919	6%	\$1,900	-4%	\$5,108	10%
FY21	\$5,350	17%	\$1,509	4%	\$9,046	3%	\$3,060	5%	\$1,975	4%	\$5,111	0%
FY22	\$5,619	5%	\$1,576	4%	\$8,259	-9%	\$2,828	-8%	\$2,098	6%	\$5,309	4%
FY23 YTD	\$5,992	7%	\$1,788	13%	\$9,355	13%	\$3,127	11%	\$2,144	2%	\$6,075	14%
Avg. Trend	\$5,115	4%	\$1,438	7%	\$8,809	1%	\$2,830	3%	\$1,985	2%	\$4,964	6%

1. Source: WTW's Q4 quarterly financial reports for each fiscal year; FY23 YTD based on FY23 Q3 quarterly financial report, annualized

- Vendor reporting through FY23 Q4 will not be available until later this month
- Based on weekly claims files provided by DHR, per member per year (PMPY) gross claims trend in FY23 relative to FY22 are as follows:
 - Medical: +9.8%
 - Commercial Rx: +17.6%
 - EGWP Rx: +14.9%
 - Rx trends partially influenced by FY22 move to CVS Health, which resulted in \$0 invoices in the first month after implementation

Forces impacting expected medical inflation in the U.S.



Upward Pressure

1 Higher overall inflation and increased labor costs



2 Provider consolidation



3 Escalating drug costs



4 Worsening mental health



5 Missed preventive and nonemergency care



6 Health system pressure post-pandemic



Downward Pressure

1 Recessionary influence



2 Technological improvements



3 Improved drug therapies



4 Virtual solutions



5 Acceleration to value-based care



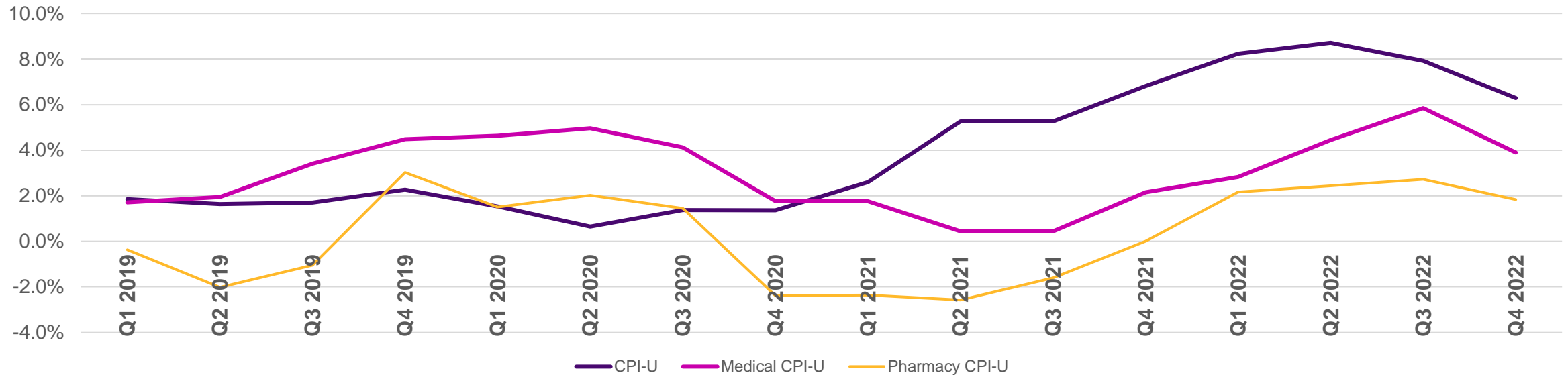
6 Health system pressure post-pandemic



Recent inflationary pressures are a key cost driver...

- Consumer Price Index for Urban Consumers (CPI-U) is a measure of the change over time in prices for the same market basket of goods and services including some healthcare
 - Increases in prices typically result from an increase in scarcity, an increase in demand, or an increase in expected future prices
 - Disruptions to supply chains and energy commodity production have had a significant impact on prices in parts of the economy
 - Medical CPI-U focuses solely on healthcare-related goods and services
 - Some different dynamics effecting prices for healthcare have resulted in disruption of the historical relationship between medical CPI and CPI

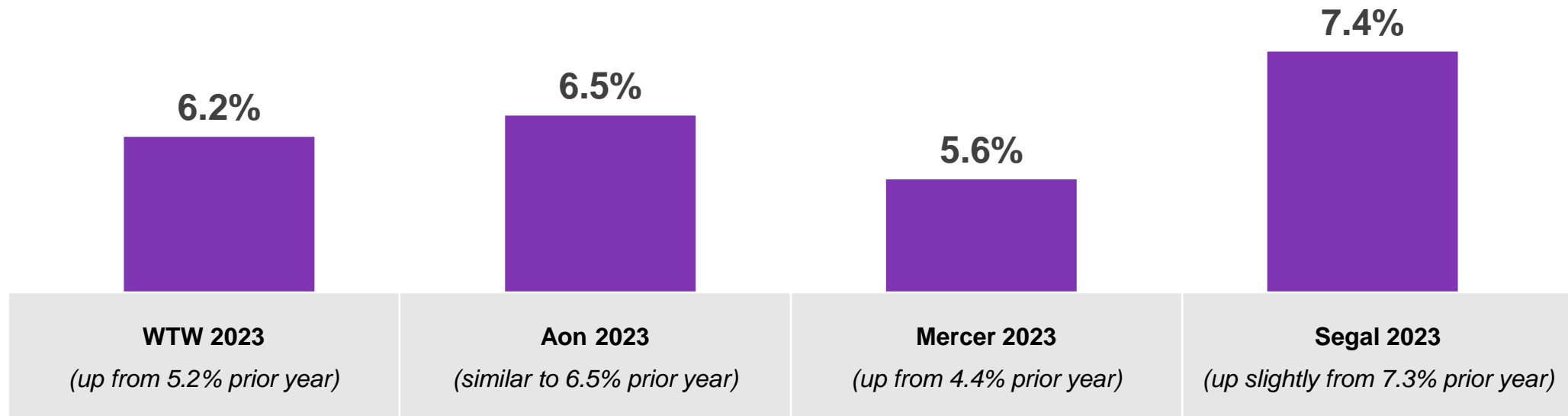
Historical CPI-U Rolling 12 Months



Source: Bureau of Labor Statistics (BLS) CPI-U data through December 2022.

Trend outlook — Other sources for consideration

- WTW's 2022 Best Practices in Health Care Survey indicates a 1% increase in trend for 2023 compared to the prior year
- Other consulting firms' trend forecasts project similar or higher trend than last year
- Note that trend projections in these surveys are backward looking based on trend assumptions chosen for 2023 pricing projections and do not consider the prospective factors outlined in this document



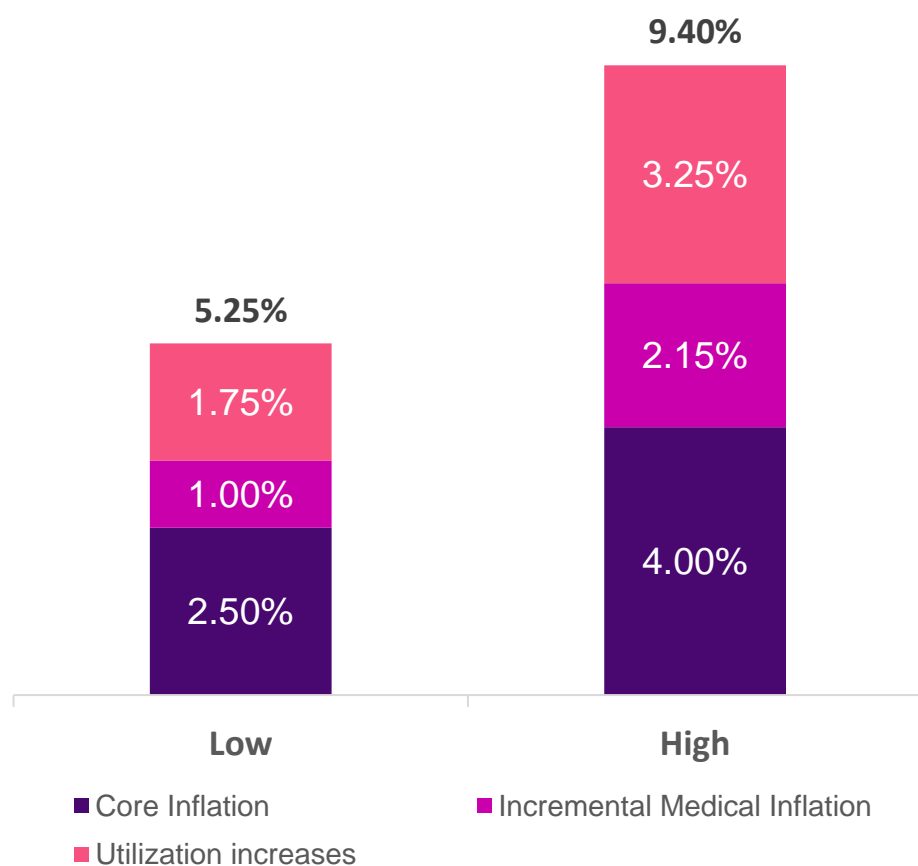
<https://aon.mediaroom.com/2022-08-18-Aon-US-Employer-Health-Care-Cost-Projected-to-increase-6-5-Percent-Next-Year>

<https://www.mercer.us/newsroom/health-benefit-cost-growth-will-accelerate-in-2023.html>

https://www.segalco.com/media/2989/segal-trend-survey-2023.pdf?utm_source=list_email&utm_medium=email&utm_campaign=2023_Segal_HPCTS

Trend building block approach illustration

Medical/Rx combined (2022 to 2024)



Source: <https://www.bls.gov/news.release/cpi.nr0.htm>.

General Inflation

- 2.5% is the lower bound of the Fed's December 2022 forecast
- 4.0% is slightly above the upper bound of the Fed's December 2022 forecast
- Major externalities outside of the Fed's influence include the war in Ukraine and COVID-19

Incremental Health Care Inflation

- Health care inflation is likely to revert to the historical pattern of exceeding general inflation
- Labor shortages are becoming more acute
- Expectations of future inflation written into recent three- to five-year contracts between carriers and health care providers likely to mitigate the rate of decrease once inflation begins to abate

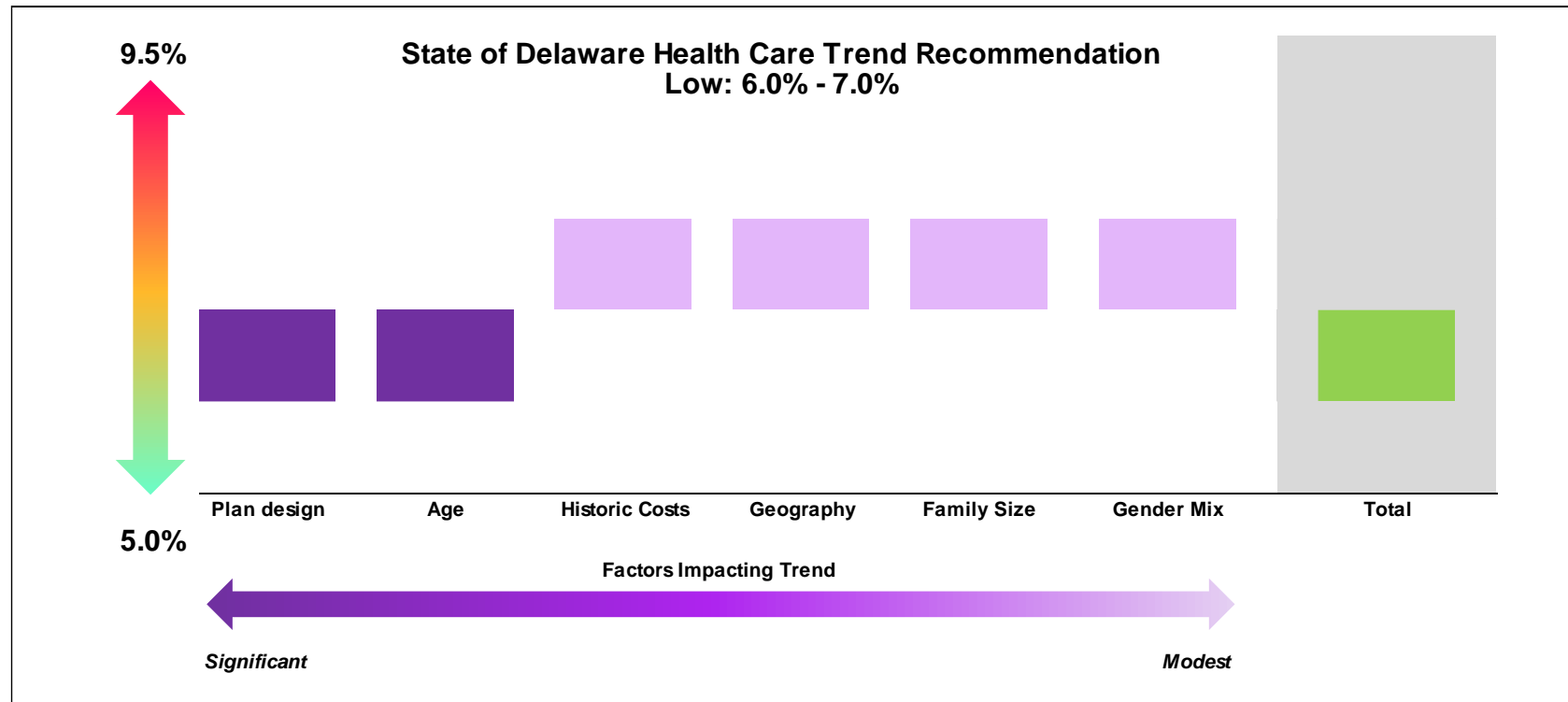
Utilization/Service Mix

- Historically, utilization has been about 1.75% of trend
- Recent disruptions to access to care may result in additional future utilization
- Economic downturns tend to reduce health care expenditures as incomes decline

Healthcare Trend Customization Model

WTW can narrow trend range based on State of Delaware characteristics

- WTW's Healthcare Trend Customization model completed for GHIP active population using GHIP's 2023 Financial Benchmark Survey data
- Modeling suggests trend falling on the lower end of range, primarily due to Delaware's rich plan designs
 - Richer plans and higher cost populations are correlated with lower expected trend
- Current assumptions: medical trend of 5% and pharmacy trend of 8% yields a composite trend of 6%, on low-end of trend recommendation
- Every 1% increase in healthcare trend (medical + Rx) will increase FY24 claims by \$12M



Aligned with 2023 FBS submission

WTW recommendation

- In light of recent GHIP experience and macroeconomic pressures on healthcare trend, WTW recommends increasing the current GHIP trend assumptions
 - Current **medical** trend assumptions:
 - Actives/Non-Medicare retirees = 5%
 - Medicare retirees = 3%
 - Recommended FY24 **medical** trend assumptions:
 - **Actives/Non-Medicare retirees = 6%**
 - Medicare retirees = 3%
 - Current **Rx** trend assumptions:
 - Actives/Non-Medicare retirees = 8%
 - Medicare retirees = 8%
 - Recommended FY24 **Rx** trend assumptions:
 - **Actives/Non-Medicare retirees = 9%**
 - **Medicare retirees = 9%**
- Increasing the GHIP trend assumptions will result in higher FY24 budgeted operating expenses, and will impact future GHIP plan rates beginning in FY25

Next steps

Next steps

- FY24 rates approved by SEBC did not include updates to current GHIP medical and pharmacy trend assumptions; FY24 trend assumption is a budgeting item that will not impact FY24 rates
- FY24 Budget to be reviewed and voted on by SEBC in August timeframe
- Financial Subcommittee to recommend potential changes to GHIP trend assumptions (medical and Rx) for SEBC approval prior to voting on FY24 budget

Appendix

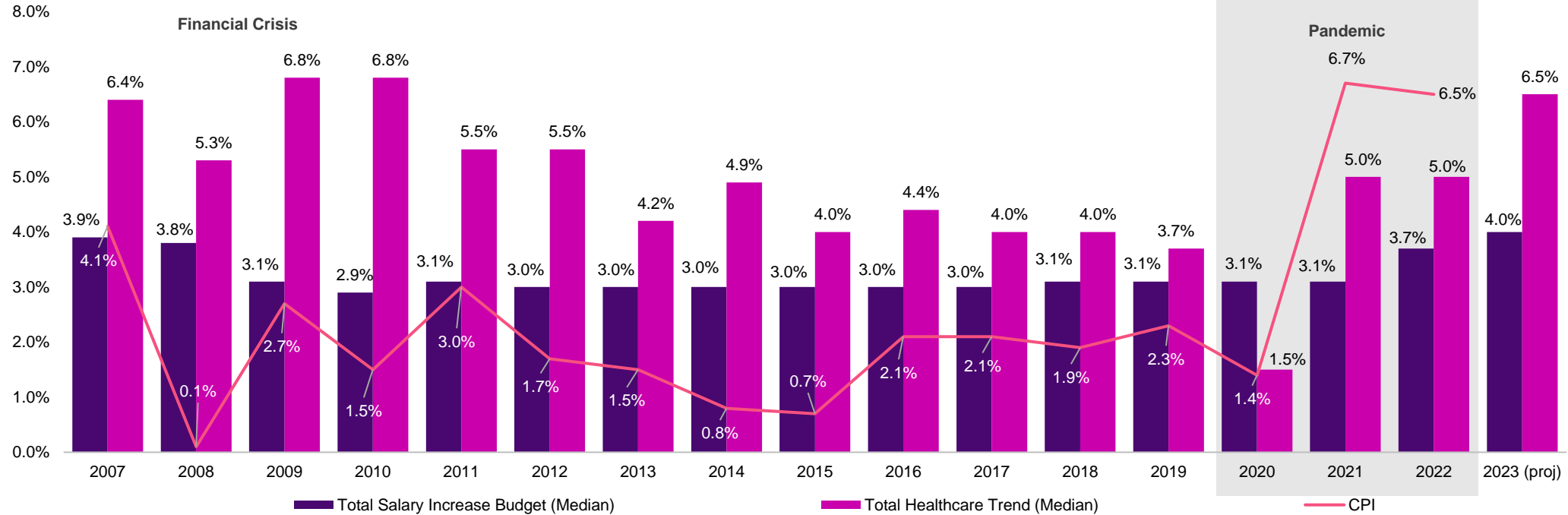
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1. Source: WTW's Q4 quarterly financial reports for each fiscal year; FY23 YTD based on FY23 Q3 quarterly financial report, annualized

- Current trend assumptions:
 - Medical: 5% actives and pre-Medicare, 3% Medicare; Rx: 8%
 - Active and pre-Medicare populations use the same trend assumption; combined average annual trends are 4% medical, 6% Rx
- Average historical Active, pre-Medicare and Medicfill population's trends are slightly below current trend assumptions
- Pre-Medicare is a higher cost population as previously established and higher cost typically means lower annual trend since there's less room for utilization to have an impact as the population is already utilizing care at a higher rate
- Medicfill trend slightly more favorable than current assumptions; however, excludes claim amounts paid by Medicare
 - Medical trend for Medicare participants generally lower than non-Medicare populations
 - CMS sets reimbursement rates for Medicare providers; since Medicfill pays what Medicare doesn't pay, Medicfill unit cost increases align with cost increases set by CMS

Historical health care trend



Note: Percentages of healthcare trend are median numbers.

Sample: Companies with at least 1,000 employees. Sources: WTW 2007 -2022 Salary Budget Planning Reports; WTW 2022 Best Practices in Healthcare Survey; BLS CPI Index; December year-end – U.S.



Higher overall inflation and increased labor costs	Provider consolidation may lead to higher unit costs	Escalating specialty drug costs	Missed preventive and non-emergency care
Costs and clinical implications of long COVID-19 could be substantial	Worsening mental health	Changing government regulations	IRA enhancing Medicare Part D and the funding uncertainty

GHIP long term health care cost projections

May 2023 update – 9.4% rate increase for FY24+ for actives/pre-Medicare; 5.0% for Medicfill 1/1/24

GHIP Costs (\$ millions) ¹	FY22	FY23	FY24	FY25	FY26	FY27
	Actual	Projected	Projected	Projected	Projected	Projected
Average Enrolled Members	130,141	131,138	132,450	133,775	135,113	136,464
GHIP Revenues						
Premium Contributions ²	\$839.7	\$903.3	\$912.3	\$1,000.9	\$1,010.8	\$1,020.9
<i>Increase rates 9.4% in FY24 (5% Medicfill 1/1/24)</i>			\$74.6			
Other Revenues ³	\$194.7	\$183.3	\$213.8	\$215.5	\$227.7	\$245.4
Total Operating Revenues	\$1,034.4	\$1,086.6	\$1,200.7	\$1,216.4	\$1,238.5	\$1,266.3
GHIP Expenses						
Operating Expenses ⁴	\$1,029.6	\$1,183.8	\$1,238.9	\$1,295.0	\$1,368.5	\$1,460.5
<i>% Change Per Member</i>	2.1%	14.1%	3.6%	3.5%	4.6%	5.7%
Adjusted Net Income	\$4.8	(\$97.2)	(\$38.2)	(\$78.6)	(\$130.0)	(\$194.2)
Balance Forward	\$152.3	\$157.2	\$60.0	\$21.8	(\$56.8)	(\$186.8)
Ending Balance	\$157.2	\$60.0	\$21.8	(\$56.8)	(\$186.8)	(\$381.0)
- Less Claims Liability ⁵	\$61.0	\$70.1	\$73.4	\$76.7	\$81.1	\$86.6
- Less Minimum Reserve ⁵	\$24.3	\$27.9	\$29.2	\$30.5	\$32.2	\$34.4
GHIP Surplus (After Reserves/Deposits)	\$71.9	(\$38.0)	(\$80.8)	(\$164.0)	(\$300.1)	(\$502.0)

- 10.2% rate increases required for FY25 and FY26 to solve for FY26 deficit (assumes Medicfill rates would also increase in CY25 and CY26)
- Projections reflect all items voted on by SEBC as of April 24th, 2023 SEBC meeting and assume no additional program or legislative changes impacting GHIP spend; excludes potential impact of the Primary Care law (unknown if it will impact GHIP)
- Every 1% increase in healthcare trend (medical + Rx) will increase FY24 claims by \$12M

GHIP long term health care cost projection footnotes

Note: FY17-FY22 actuals based on final June Fund Equity reports for respective fiscal year; FY23+ projected operating expenses and enrollment based on experience through March 2023 (claims experience updated based on OMB weekly claims analysis through April 2023); assumed 1% annual enrollment growth; numbers in table may not add up due to rounding

1. FY23-FY27 projections based on 5% medical, 8% pharmacy baseline trend; assumes 1% annual growth in GHIP membership; assumes Medicfill plan remains in place FY23-FY27 at CY22 premium rates
2. Includes State and employee/pensioner premium contributions; assumes 1% annual enrollment growth for FY23-FY27
3. Includes Rx rebates, EGWP payments, other revenues based on when revenues will be received; FY23 and beyond includes estimated improvements in Rx rebates based on result of PBM award to CVS Health; rebates assumed to be paid 60 days after the quarter adjudicated; includes fees for participating non-State groups (assumed to increase proportionally with membership and premium growth)
4. FY23 and beyond includes estimated reduction in pharmacy claims as a result of PBM award to CVS Health; reflects FY24 savings initiatives voted on by SEBC as of most recent SEBC meeting, including Hinge Health (\$4M savings), bariatric surgery carve-out to SurgeryPlus (\$1M savings), CVS Transform Diabetes Care and Drug Savings Review (\$1.5M savings), Prudent Rx (\$6.6M savings), increases in hospital outpatient surgery, hospital based high-tech imaging and Rx copays (\$0.8M cumulative savings); reflects cost increases associated with House Bill 303 (\$2.4M annual cost effective 1/1/24) and weight loss medication coverage with utilization management (\$1.8M annual cost effective FY24); excludes impact of the Primary Care law (unknown if it will impact GHIP); Reflects CVS Market Check for FY24 (\$9.4M cost decrease), FY25 (\$20.4M cost decrease), and FY26 (\$4.8M cost decrease)
5. Minimum Reserve and Claim Liability updated for FY23; reserves in future years assumed to increase with overall GHIP claims growth

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.