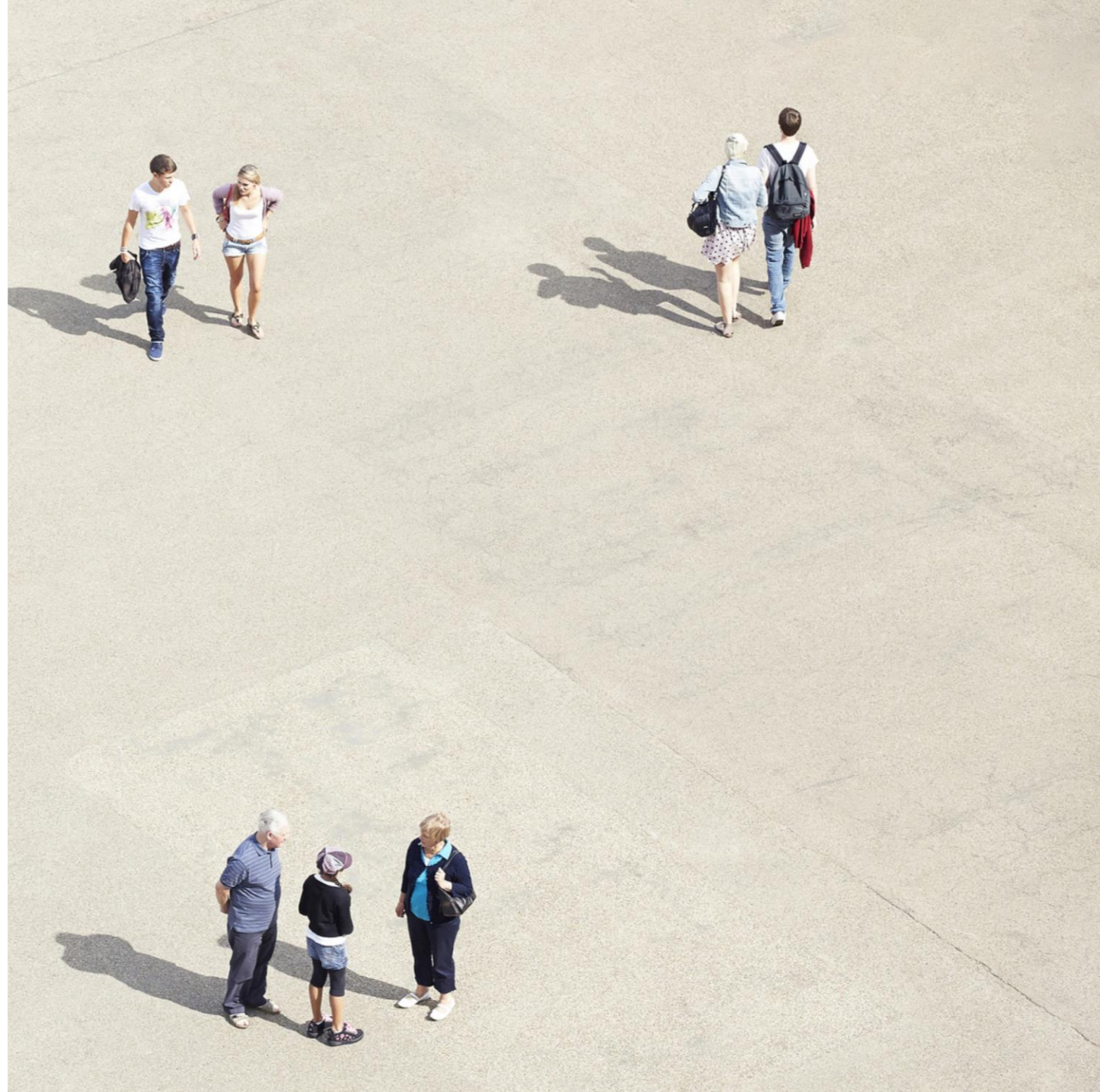




State of NJ 2022 SHBP Mid-Year Analysis

March 8, 2023



Today's Discussion

Meeting Objectives

- Overview of the Mid-Year analysis
- Provide summary of Local Government Active Results and Cost Drivers
- Provide summary of State Active Results and Cost Drivers
- Discuss renewal expectations

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Mid-Year
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Mid-Year Overview

Mid-Year Overview

Purpose of Mid-Year Analysis

- The purpose of the Mid-Year Analysis is to evaluate emerging plan costs against projections included in the prior Rate Setting Analysis
- Plan Year 2022 and Plan Year 2023 costs are reprojected based on more recent experience than was available for the Rate Setting
- This allows for comparison of new projected costs against the Plan Year 2023 Premiums that were approved in 2022, and provides a preliminary directional view into the upcoming 2024 Renewal Analysis

Claims Experience

- The Plan Year 2022 and 2023 projections reflect more recent claims data
 - The Rate Setting Analysis reflected 12-months of CY2021 incurred claims data
 - The Mid-Year Analysis reflects 12-months of incurred claims data through September 2022

Enrollment

- The Plan Year 2022 and 2023 projections reflect updated enrollment information:
 - The Rate Setting Analysis was based on April 2022 census data projected to 2023
 - The Mid-Year Analysis is based on January 2023 Open Enrollment information provided by the State, which were then adjusted for known new employer entrants and terminations

Projection Assumptions

- The Plan Year 2023 projections reflect updated projection assumptions:
 - Based on actual claims experience and information from Optum, the Medicare Retiree Rx trend has been increased from 6.00% to 7.25% for both State and Local Government
 - Based on a review of known employer entrants and terminations provided by the State and Horizon, the Plan Year 2023 Local Government Anti-Selection load was increased from 25bps to 100bps

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Local Government Active Results

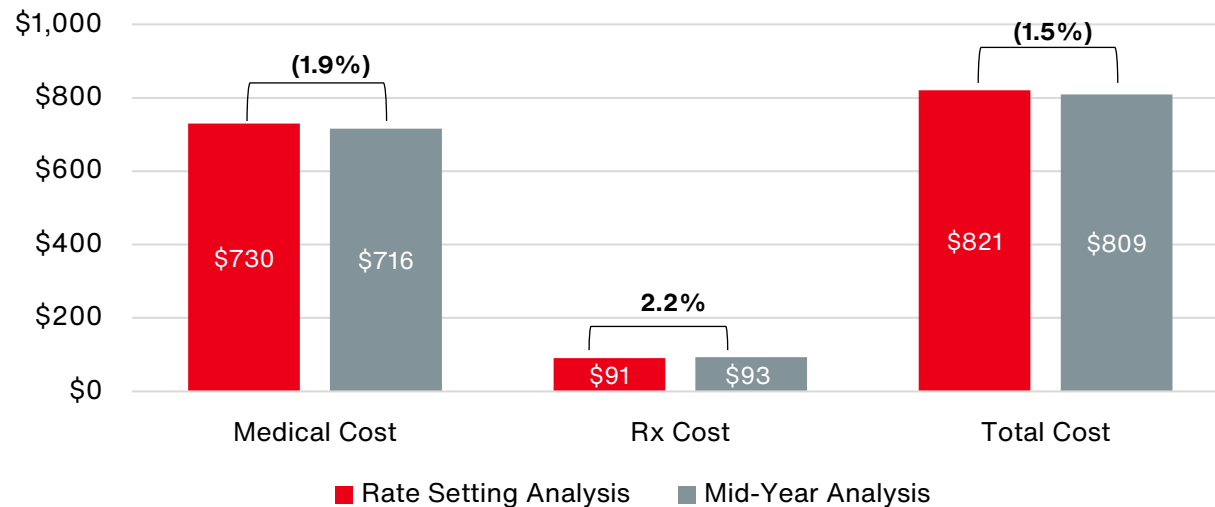
Local Government Active Plan Year 2022 Re-Projection

Plan Year 2022 (\$ Millions)	2023 Rate Setting Analysis	Mid-Year Analysis	Difference
(1) Premiums	\$1,116.9	\$1,114.3	(\$2.6)
(2) Medical Cost	\$1,120.5	\$1,097.4	(\$23.1)
(3) Rx Cost	\$139.0	\$143.1	\$4.1
(4) Total Cost = (2) + (3)	\$1,259.5	\$1,240.5	(\$19.0)
Gain / (Loss) = (1) - (4)	(\$142.6)	(\$126.2)	\$16.4

The Plan Year 2022 re-projected total cost in the Mid-Year Analysis is 1.5% (\$19M) lower compared to the 2023 Rate Setting Analysis:

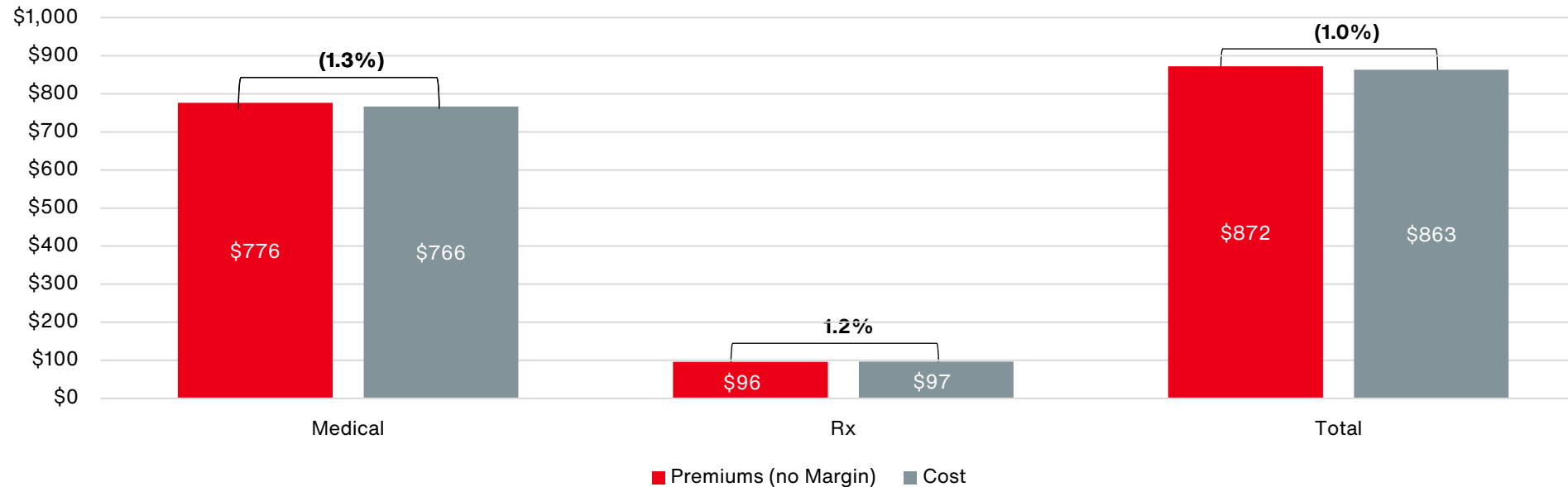
- Actual 2022 enrollment decreased 0.1% compared to the Rate Setting Analysis
- Favorable medical claims experience reduced total plan cost
 - 4.0% Rolling 12-month PPO trends are lower than the 6.25% Rate Setting combined trend & anti-selection assumption
- Prescription Drug claim costs were higher than expected
 - 11.8% Rolling 12-month Rx trend is higher compared to the 7.75% Rate Setting combined trend & anti-selection assumption
- The increase in prescription drug claims was partially offset by an increase in prescription drug rebate

**Local Government Actives
Plan Year 2022 Cost (PMPM)**



Local Government Active Plan Year 2023 Re-Projection

Local Government Actives (PMPM)
Plan Year 2023 Premiums vs. Cost



- For comparison purposes, the premiums shown above do not include the additional 2.0% margin reflected in the final Plan Year 2023 premium rates
 - The Plan Year 2023 Local Government premiums included 2.0% premium margin to increase the claims stabilization reserve closer to the recommended 2.0 months of plan cost, or a 0.980 Loss Ratio
- Based on Mid-Year projections, there is a 0.9% gain compared to the Rate Setting Analysis (0.971 loss ratio with margin):
 - Gain is driven by favorable 2022 medical claims experience
 - The medical gain is partially offset by higher-than-expected Rx claims experience and an increase in the anti-selection assumption

Local Government Active Medical Claim Drivers*

Top Trend Contributors

- Overall, utilization increased approximately 1% and the cost per visit increased 3%
- The top five contributors to trend are Medical Pharmacy, ER, Specialist Physician, Outpatient Surgery, and Behavioral health

Professional Services

- Professional services accounts for approximately 47% of medical claims spend
- Overall, visits/member increased 2% and the cost per visit increased 3%
 - PCP visits/member did not change, but the cost per visit increased 3%
 - Utilization of specialist services increased 1% and the cost per visit increased 5%
 - While urgent care visits have decreased 9%, utilization is still significantly higher compared to pre-pandemic levels

Outpatient Services

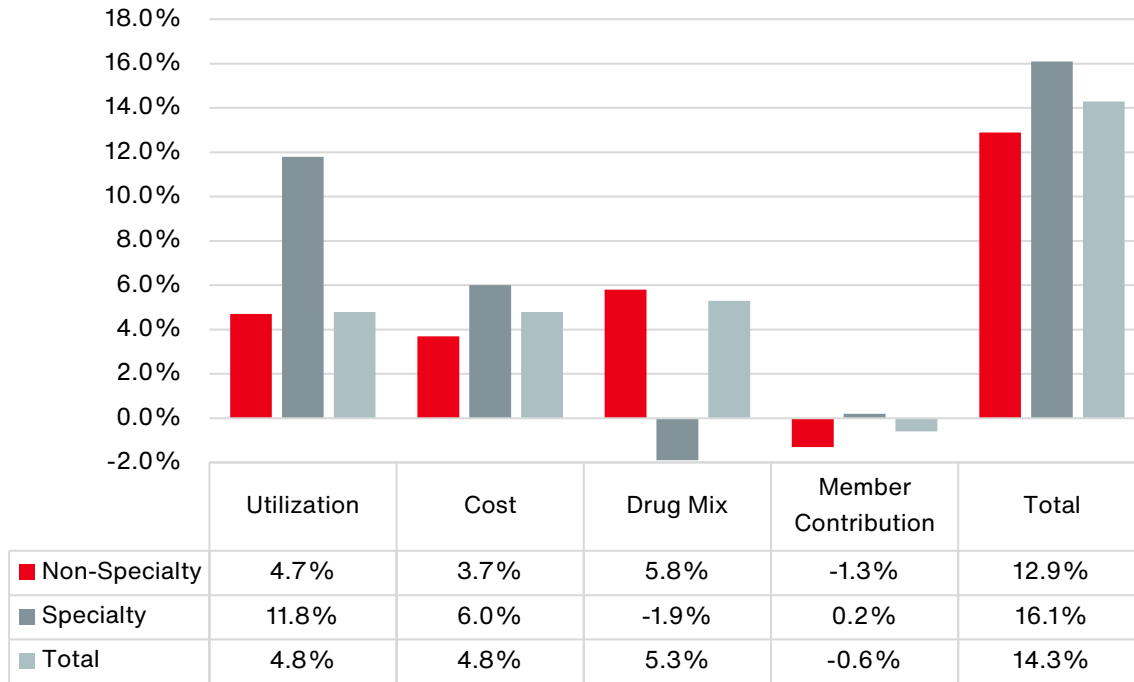
- OP services account for approximately 34% of medical claims spend
- While overall utilization of outpatient services decreased 6%, the cost per visit increased 23%, driven in part by utilization of more expensive services
 - Utilization of ER services increased 15%, Medical Drug/Injectables increased 6%, and OP Surgery increased 4%
 - Behavioral health visits increased 5% and the cost per visit increased 23%

Inpatient Services

- IP services account for approximately 19% of medical claims spend
- Significant reduction in utilization (14%) partially offset by small increase in the cost per visit (0.4%)

Local Government Active Rx Claim Drivers*

Local Government Actives
PY2022 Rx Trend Components



Total

- Plan paid PMPM has increased 14% over the previous period driven primarily by drug mix in traditional and utilization for specialty

Non-Specialty

- Brand drugs account for 16% of non-specialty scripts and 82% of non-specialty claims spend
- PMPM spend for Diabetes related drugs increased 18% and accounts for 16% of total plan paid (Ozempic was top drug in category)
- PMPM spend for non-specialty Asthma/COPD related drugs increased 12% and accounts for 4% of total plan paid

Specialty

- Specialty Drug PMPM spend for Inflammatory conditions increased 23% and accounts for 22% of total plan paid
- PMPM spend for Oncology drugs increased 25% and accounts for 5% of total plan paid
- In Plan Year 2022 there were 122 new drugs with 55 new utilizers

Top Drugs of Note

- Inflammatory conditions, Diabetes, and Oncology drugs continue to drive Rx cost
 - Top 4 Drugs by spend (Humira Pen, Stelara, Ozempic, Trulicity) are consistent in rank with Optum's benchmark
- Utilization of Anti-Obesity Agents (such as Wegovy and Saxenda) increased 66%
 - Ranks higher than Optum's benchmark in terms of claims spend

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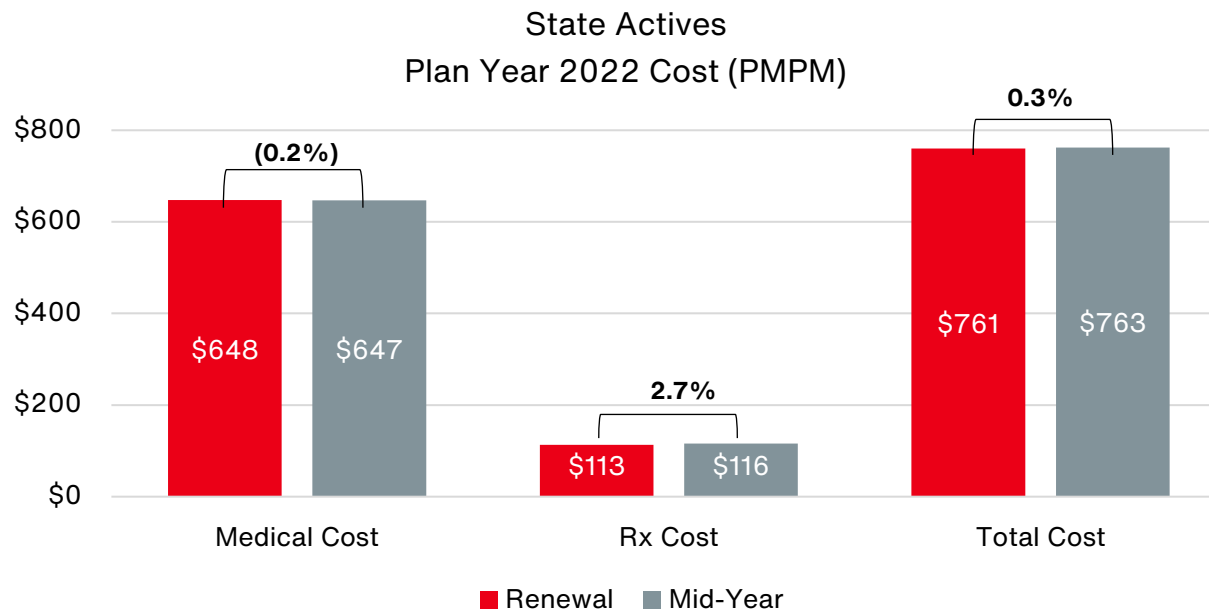
State Active Results

State Active Plan Year 2022 Re-Projection

Plan Year 2022 (\$ Millions)	2023 Rate Setting Analysis	Mid-Year Analysis	Difference
(1) Premiums	\$1,644.3	\$1,630.1	(\$14.2)
(2) Medical Cost	\$1,604.2	\$1,590.5	(\$13.7)
(3) Rx Cost	\$279.2	\$284.7	\$5.5
(4) Total Cost = (2) + (3)	\$1,883.4	\$1,875.2	(\$8.2)
Gain / (Loss) = (1) - (4)	(\$239.1)	(\$245.1)	(\$6.0)

The Plan Year 2022 re-projected total cost in the Mid-Year Analysis is 0.4% (\$8.2M) lower compared to the Rate Setting Analysis:

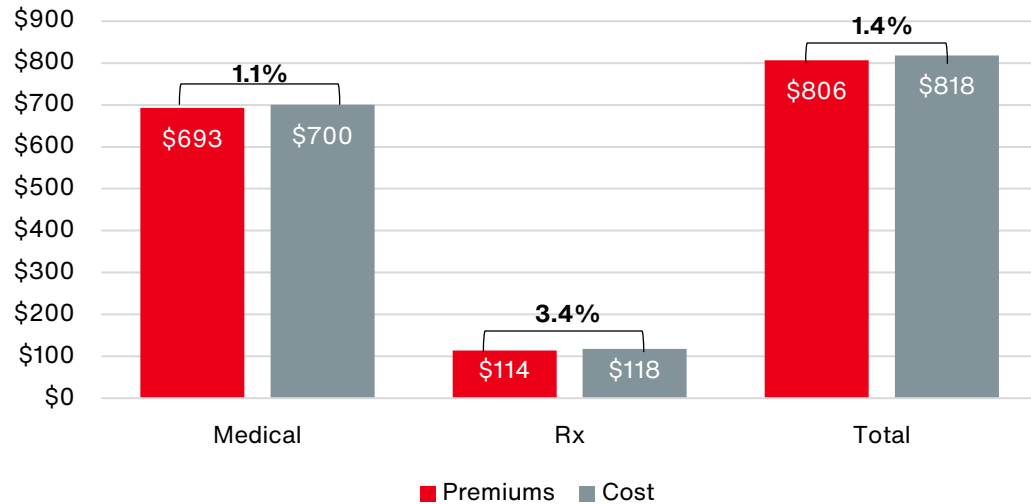
- Actual 2022 enrollment decreased 0.7% compared to the Rate Setting Analysis
- Updated average medical claims experience is slightly below expected in the 2023 Rate Setting Projection



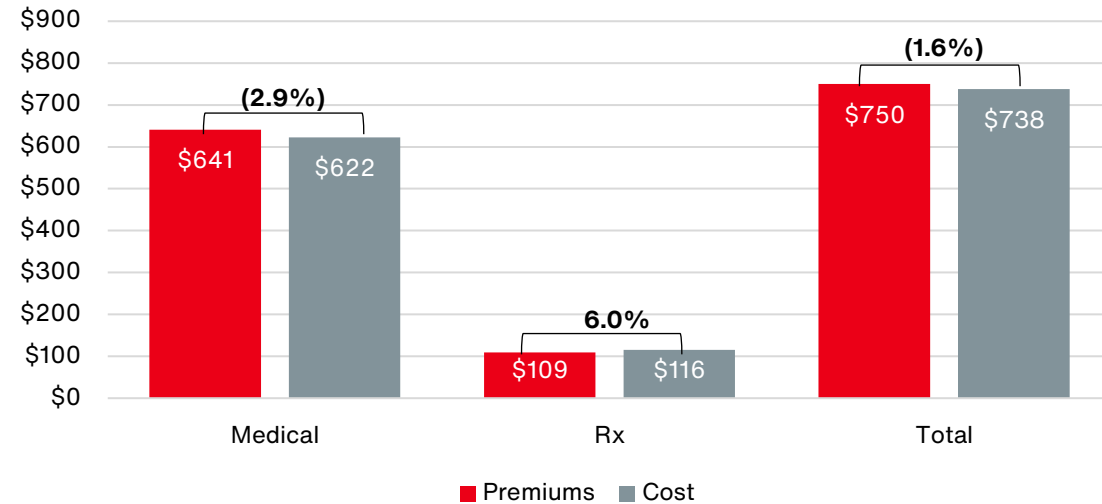
- Rolling 12-month medical claims experience shows a trend of 6.1% PPO, 6.4% HMO, and 0.8% Tiered Network
- Updated average Prescription Drug claims costs were higher than expected in the 2023 Rate Setting Analysis
 - 12.8% Rolling 12-month Rx trend is higher compared to the 7.75% Rate Setting trend assumption
- The increase in prescription drug claims was partially offset by an increase in prescription drug rebates

State Active Plan Year 2023 Re-Projection

State Actives: CWA Unity/NJDIRECT (PMPM)
Plan Year 2023 Premiums vs. Cost



State Actives: Non-CWA Unity/NJDIRECT (PMPM)
Plan Year 2023 Premiums vs. Cost



- Based on the updated Mid-Year projections, the projected total CWA Unity/NJDIRECT loss ratio is 1.014, a 1.4% loss compared to the Rate Setting Analysis
- The projected total non-CWA Unity/NJDIRECT loss ratio is 0.984, a 1.6% gain compared to the Rate Setting Analysis
 - CWA Unity/NJDIRECT loss is driven by higher-than-expected 2022 medical and Rx claims experience
 - Non-CWA Unity/NJDIRECT medical gain is offset by higher-than-expected Rx claims experience

State Active Medical Claim Drivers*

Top Trend Contributors

- Overall, utilization decreased approximately 1% and the cost per visit increased 6%
- The top five contributors to trend are Medical Pharmacy, ER, Outpatient Surgery, Primary Physician, and Specialist Physician

Professional Services

- Professional services accounts for approximately 45% of medical claims spend
- Overall, visits/member decreased 1% and the cost per visit increased 2%
 - PCP visits/member increased 3% and the cost per visit increased 3%
 - Utilization of specialist services did not change, but the cost per visit increased 3%
 - Urgent care visits did not change, and utilization is still significantly higher compared to pre-pandemic levels

Outpatient Services

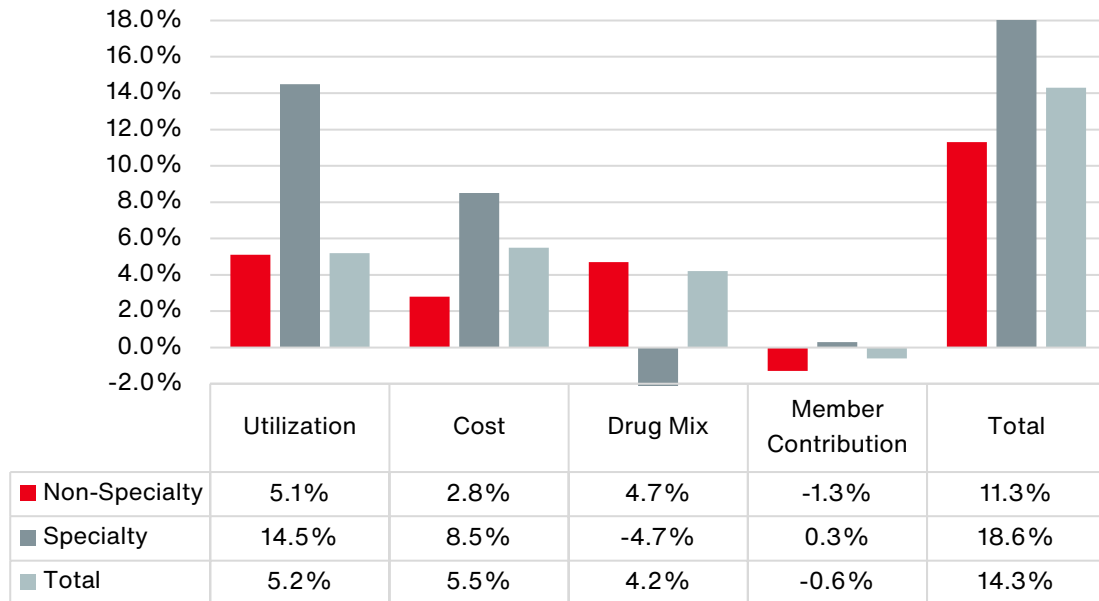
- OP services account for approximately 36% of medical claims spend
- While overall utilization of outpatient services decreased 8%, the cost per visit increased 25%, driven in part by utilization of more expensive services
 - Utilization of ER services increased 16%, OP Surgery increased 5%, and Radiology increased 2%
 - Medical Drug/Injectables services increased 1% and the cost per visit increased 34%

Inpatient Services

- IP services account for approximately 19% of medical claims spend
- Reduction in utilization (7%) partially offset by an increase in the cost per visit (3%)

State Active Rx Claim Drivers*

State Actives
PY2022 Rx Trend Components



Total

- Plan paid PMPM has increased 14% over the previous period driven primarily by utilization in traditional and utilization for specialty

Non-Specialty

- Brand drugs account for 18% of total non-specialty scripts and 83% of non-specialty spend
- PMPM spend for Diabetes related drugs increased 15% and accounts for 16% of total plan paid (Ozempic was top drug in category)
- PMPM spend for non-specialty Asthma/COPD related drugs increased 14% and accounts for 4% of total plan paid

Specialty

- Specialty PMPM spend for Inflammatory conditions related drugs increased 29% and accounts for 22% of total plan paid
- PMPM spend for Oncology drugs increased 8% and accounts for 6% of total plan paid
- In Plan Year 2022 there were 122 new drugs with 121 new utilizers

Top Drugs of Note

- Inflammatory conditions, Diabetes, and Oncology drugs continue to drive Rx cost
 - Top 3 Drugs by spend (Humira Pen, Stelara and Ozempic) are consistent in rank with Optum's benchmark
- Utilization of Anti-Obesity Agents (such as Wegovy and Saxenda) increased 56%
 - These drugs rank much higher than Optum's benchmark in terms of PMPM spend

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Renewal Expectations

Expectations for Upcoming Renewal

Plan Year 2024 Renewal Updates

- The PY 2024 Renewal Analysis will reflect full Calendar Year 2022 claims experience with runout through March 2023 and updated enrollment
- Results will reflect updated Medical and Prescription Drug trend assumptions based on actual experience, vendor recommendations, and the latest Aon trend guidance
 - Anticipate that trends will be equal to or higher than current trend assumptions

Local Government Active

- Based on the Mid-Year results, which show some medical claims favorability offset by prescription drug increases, expect 2024 premium increases to be close to or higher than assumed trend
- Will continue to evaluate population changes for anti-selection impacts
- Based on latest Claim Stabilization Reserve projections, 2024 premiums will likely need to include an additional 2% margin in order to increase the claims stabilization reserve balance closer to recommended 2.0 months of plan cost

State Active

- Based on the Mid-Year results, with medical claims trending as expected and high prescription drug trends, expect 2024 premium increases to be close to or higher than assumed trend
 - Given higher CWA Unity/NJDIRECT medical claims trends, anticipate premium increases that are higher than trend

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Appendix

Local Government Claim Stabilization Reserve

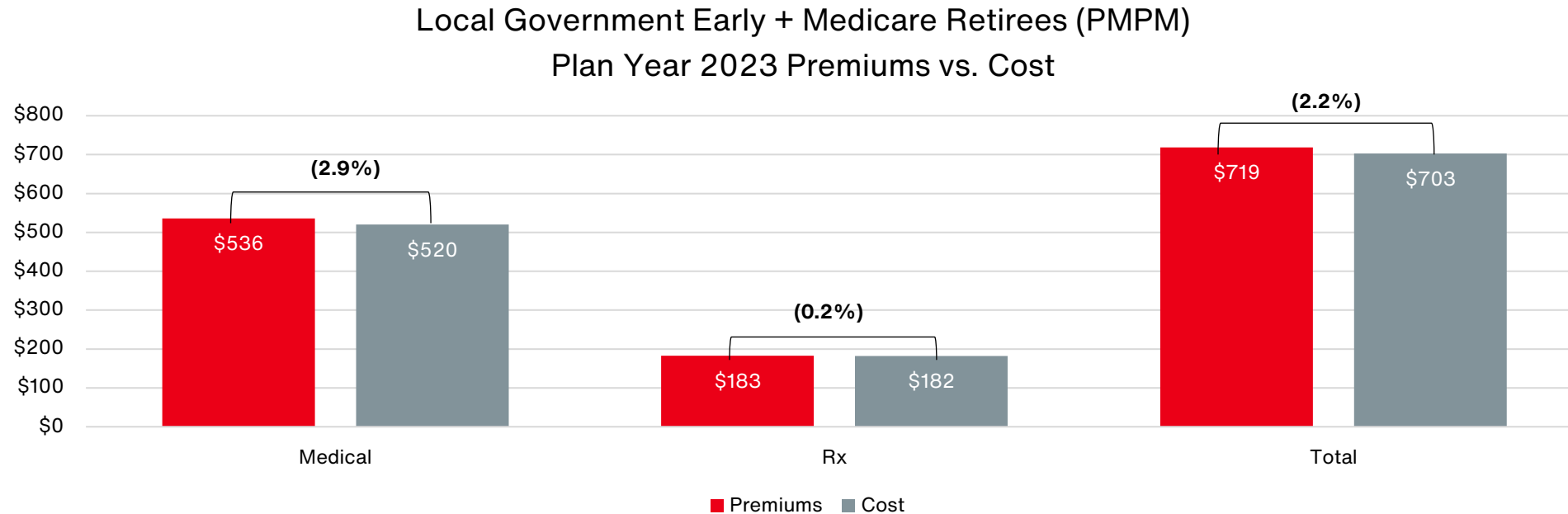
Claim Stabilization Reserve Balance (in \$ millions)	Total	Active	Retiree	Months of Plan Cost as of Dec 31
12/31/2021	\$238	\$292	(\$54)	1.7
12/31/2022	\$26	\$110	(\$84)	0.2
12/31/2023	\$74	\$146	(\$71)	0.5

- The claim stabilization reserve as of December 31, 2021 is based on actual balances provided by the Division. The projected reserves as of December 31, 2022 and 2023 are based on the reserve balance as of June 30, 2022 provided by the Division. The claims stabilization reserve as of December 31, 2023 is estimated based off projected gains and losses in the active and retiree plans.
- Local Government Active and Retiree premium rates for 2023 reflect a 2.0% margin since the projected total Claim Stabilization Reserve for the Local Government Group is expected to be below the recommended level of 2.0 months at the end of Plan Year 2023. This margin is expected to add 0.2 months to the reserve balance as of 12/31/2023

Cost Projection Methodology and Assumptions

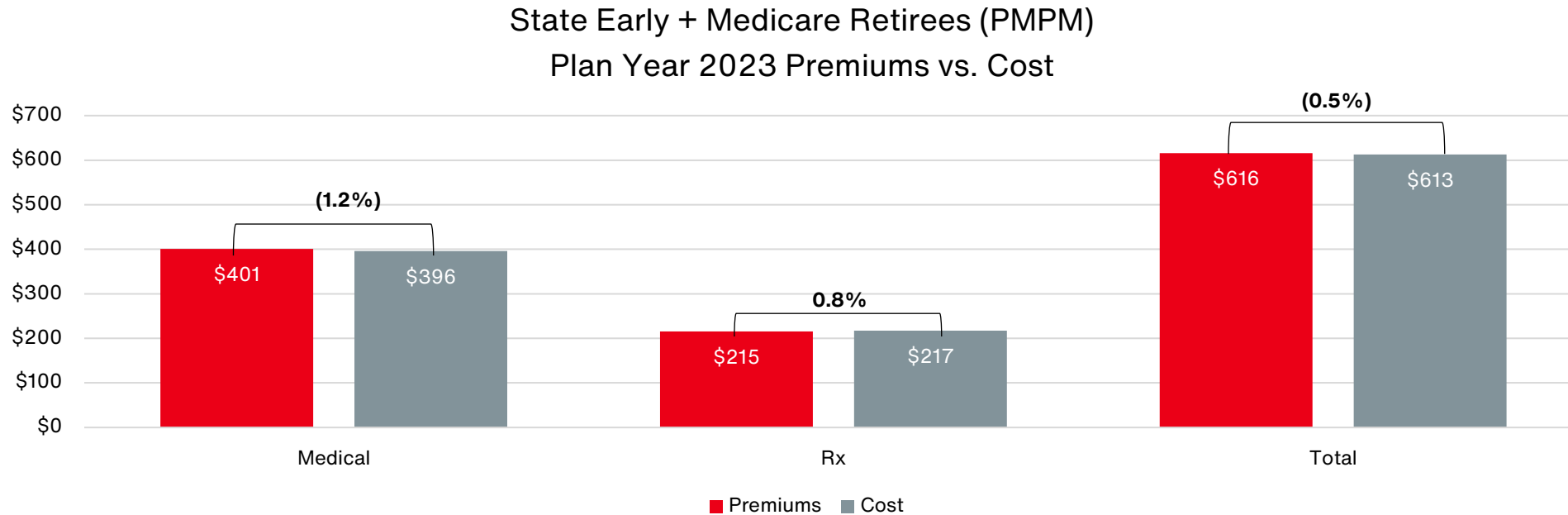
	2023 Cost Projections	
Claims Experience	12 months of incurred claims data paid through September 2022 provided by Horizon, Aetna, and Optum	
Enrollment Distribution	January 2023 Open Enrollment data provided by the State and adjusted based on known employer entrants and terminations, which were provided by Horizon and the State	
Self-Insured Claims Trend (Excluding Anti-Selection)	<u>State</u> Active PPO: 6.00% Medical / 7.75% Rx Active HMO: 6.50% Medical / 7.75% Rx Early Retiree PPO & HMO: 6.00% Medical / 7.50% Rx Self-Insured Medicare: 5.50% Medical / 7.25% Rx	<u>Local Government</u> Active PPO: 6.00% Medical / 7.50% Rx Active HMO: 6.50% Medical / 7.50% Rx Early Retiree PPO & HMO: 6.00% Medical / 7.50% Rx Self-Insured Medicare: 5.50% Medical / 7.25% Rx
Anti-Selection	Local Government Active and Retiree medical and prescription drug trends have been increased by 100 basis points for Plan Year 2023	
Rx Rebates / EGWP	Projected Rx Rebates and EGWP credits were provided by Optum	
High-Cost Claimants	Aon has not made any adjustments for high-cost claimants	

Local Government Retiree Plan Year 2023 Re-Projection



- The Plan Year 2023 Local Government premiums above included 2.0% premium margin, or a 0.980 Loss Ratio, to increase claims stabilization reserve balances closer to recommended 2.0 months of plan cost
- Based on the updated Mid-Year projections, the projected total loss ratio is 0.978, a 0.2% gain compared to the Rate Setting Analysis
 - Gain is driven by favorable 2022 medical claims experience
 - The medical gain is partially offset by higher-than-expected Rx claims experience and an increase in the anti-selection assumption

State Retiree Plan Year 2023 Re-Projection



- Based on the updated Mid-Year projections, the projected total loss ratio is 0.995, a 0.5% gain compared to the Rate Setting Analysis
 - Slight medical gain is driven by favorable 2022 medical claims experience
 - The medical gain is offset by higher-than-expected Rx claims experience

Disclaimers

The projections in this analysis are measured on an incurred basis and are consistent with the assumptions and methodology disclosed herein. Future projections may differ significantly from the current projections presented in this analysis due to (but not limited to) such factors as the following:

- Plan experience differing from what is anticipated by the economic or demographic assumptions;
- Changes in actuarial methods or in economic or demographic assumptions;
- Changes in plan provisions or applicable law.

This analysis contains the primary actuarial assumptions and methods used to develop the cost projections but may not include a comprehensive list of these methodologies and assumptions. Aon provided guidance with respect to these assumptions, and it is our belief that the assumptions represent reasonable expectations of anticipated plan experience.

Preparation of this Actuarial Analysis

This report has been prepared to present our analysis of the Plan Year 2022 Mid-Year Experience Analysis for the State Health Benefits Program (SHBP). The purpose of this analysis is to re-projected the Plan Year 2022 and Plan Year 2023 costs based on more recent experience. The use of this report for purposes other than those expressed herein may not be appropriate.

It should be noted that Aon's conclusions are based on certain assumptions that appear reasonable at this time. Actual experience can vary from projected experience, and this difference may be material.

Source of Information

In conducting this analysis, we relied on census data provided by the State and claims data provided by carriers. We reviewed the data for reasonableness and consistency with prior data but have not audited it; as such, we are not certifying, herein, as to its accuracy.

Thank You