



State of NJ SHBP Mid-Year Analysis

March 13, 2024



Today's Discussion

Meeting Objectives

- Provide a summary of the results of the Mid-Year Analysis
- Discuss Local Government Active Results and Cost Drivers
- Discuss State Active Results and Cost Drivers
- Discuss 2025 Rate Setting expectations

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**Mid-Year Results
Overview**

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**Local Government
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Mid-Year Overview

Mid-Year Results Overview

Based on updated experience, Local Government Actives, Local Government Retirees, and State Actives are each projected at an overall loss in 2024 while State Retirees are projected at a slight gain

The Local Government Claim Stabilization Reserve (CSR) balance as of 12/31/2024 is projected to be -\$74M or -0.5 months of plan cost, compared to the recommended level 2.0 months of plan cost

Based on these projected losses and building in future trends, premium rate increases for 2025 are likely to be in the double digits for both groups

Plan Year 2024 (\$ Millions)	Local Government		State	
	2024 Rate Setting Analysis*	Updated Mid-Year Analysis	2024 Rate Setting Analysis	Updated Mid-Year Analysis
Actives				
Total Premium	\$1,275.8	\$1,213.9	\$1,974.9	\$1,982.6
Total Claims and non-Fee Expenses	\$1,202.8	\$1,195.1	\$1,900.1	\$2,001.2
Total Admin Fees	\$34.6	\$30.1	\$74.7	\$69.1
Total Cost	\$1,237.4	\$1,225.3	\$1,974.8	\$2,070.4
\$ Gain/(Loss)**	\$38.4	(\$11.4)	\$0.0	(\$87.7)
% Gain/(Loss)**	3.0%	(0.9%)	0.0%	(4.4%)
Retirees				
Total Premium	\$587.5	\$548.5	\$710.3	\$699.5
Total Claims and non-Fee Expenses	\$555.7	\$548.3	\$687.4	\$677.7
Total Admin Fees	\$14.2	\$12.2	\$22.8	\$20.5
Total Cost	\$569.9	\$560.5	\$710.2	\$698.3
\$ Gain/(Loss)**	\$17.6	(\$12.0)	\$0.1	\$1.3
% Gain/(Loss)**	3.0%	(2.2%)	0.0%	0.2%

*Local Government 2024 premiums include 3% margin

**A gain indicates that plan costs are projected to be lower than aggregate premiums (premium rates x heads) and a loss indicates the opposite

Mid-Year Results Overview: Cost Drivers

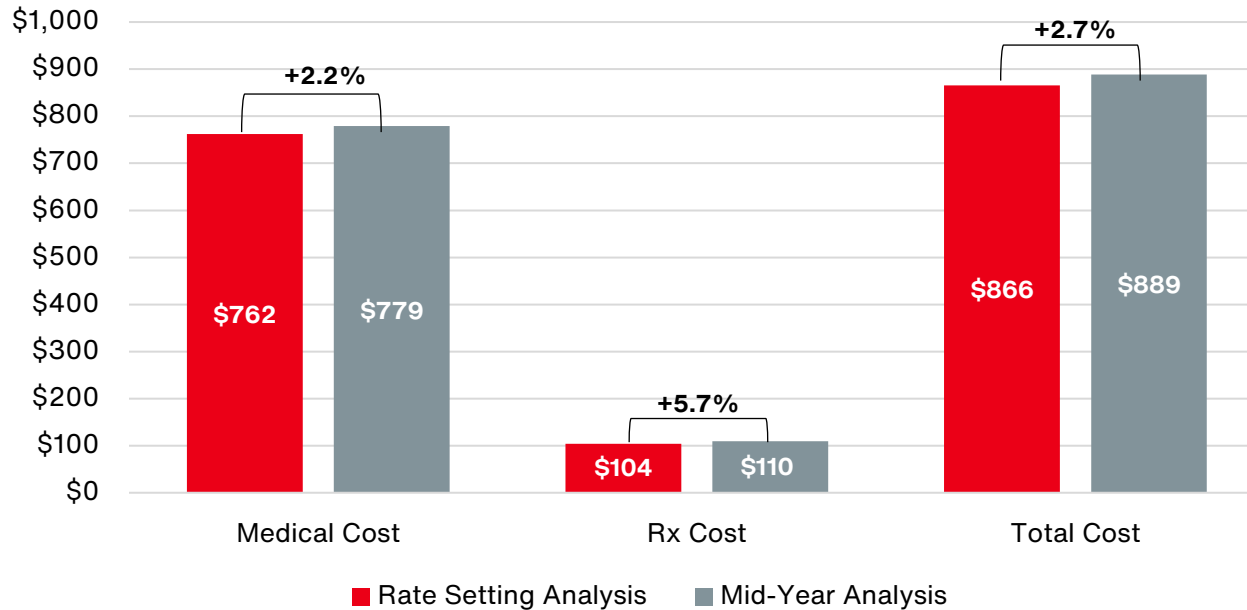
- Medical inflation and increases in utilization of higher-cost-services, particularly for outpatient, are contributing to cost increases across each of the populations
- Active and Early Retiree Rx trends are 19%+, partially the result of high utilization of GLP-1 drugs for diabetes and weight loss
- Local Government Active and Retiree groups each saw an increase in the utilization of specialist professional services. The specialist copay increase adopted for State Actives effective 1/1/2023 may have helped insulate the State Active group from this increase
- Similarly, while Local Government Actives saw little change in urgent care utilization, the State Active group saw a significant decrease in urgent care utilization, which could also be partly attributed to the increase in urgent care copay on certain State Active plan options
- Significant enrollment declines over past two years, as employers opt out of the SHBP for available lower cost coverage, has likely increased the risk pool remaining in the plan and leads to increased average cost

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Local Government Active Results

Emerging 2023 Actual Costs vs. Rate Setting Estimates

Local Government Actives
Plan Year 2023 Cost (PMPM)



- Cost includes projected claims, administrative fees, rebates, and other expenses

The chart above shows the change in projected 2023 per member, per month (PMPM) costs between the Rate Setting Analysis (red bars) and the Mid-Year analysis (gray bars). The chart is shown on a PMPM basis to normalize for the change in headcounts between the two periods which better isolates the impact of changes in average costs.

The Rate Setting Analysis was based on a projection of 2023 claims using 2022 data. Actual emerging 2023 medical and Rx claims data is reflected in the Mid-Year analysis. The updated data shows that actual 2023 costs are higher than previously estimated, which is contributing to future projected losses.

Observations

Updated 2023 PMPM Medical costs are 2.2% higher than projected due to higher-than-expected medical claims trends

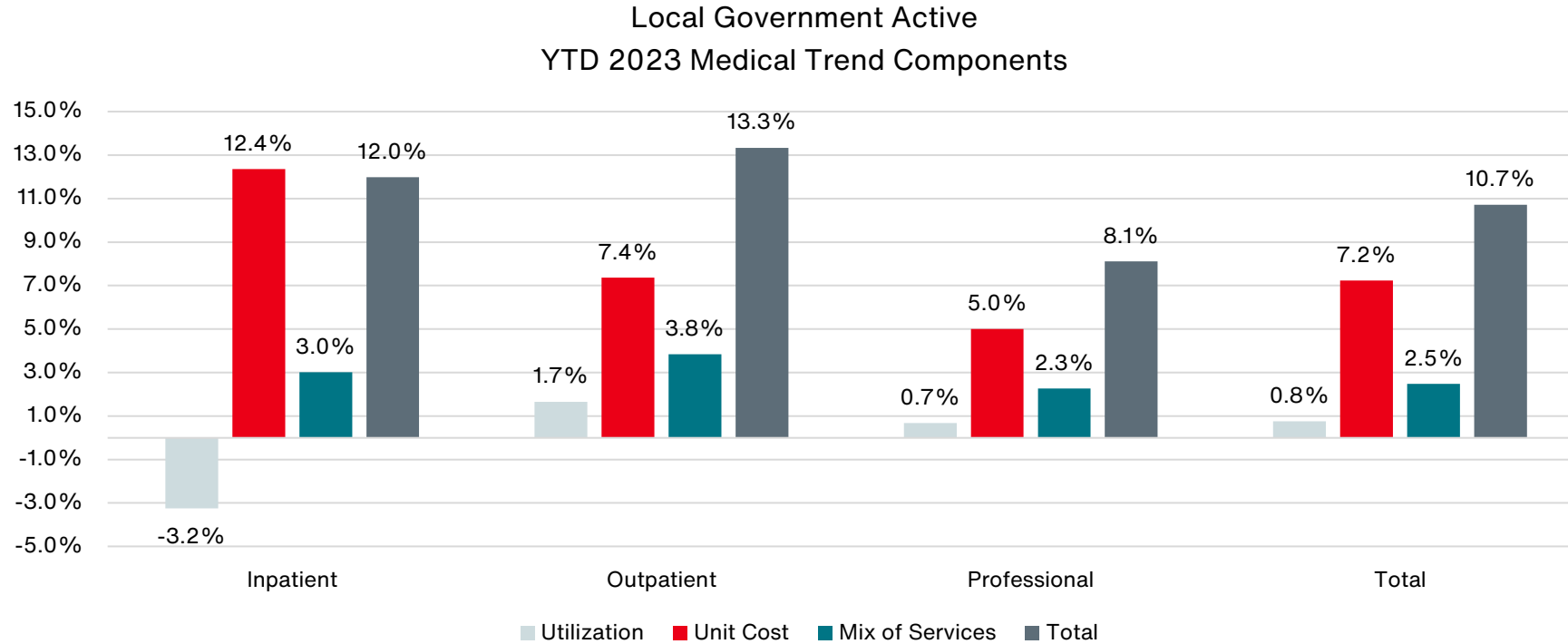
- 10.9% YTD September PPO trends are higher than the 7.5% combined trend & anti-selection assumptions reflected in the 2024 Rate Setting Analysis

Updated 2023 PMPM Rx costs are 5.7% higher than projected due to higher-than-expected Rx claims trends

- 23.5% YTD September Rx trend is higher compared to the 10.0% combined trend & anti-selection assumptions reflected in the 2024 Rate Setting Analysis

The increase in prescription drug claims was partially offset by an increase in actual prescription drug rebates

Local Government Active Medical Claim Trends



- The chart above shows increases in the different components of medical cost separately for inpatient, outpatient, and professional services
 - Utilization represents change in cost due to the year-over-year changes in the number of visits per member
 - Unit Cost represents change in cost due to the year-over-year change in the average cost of each services
 - Mix of Services represents the change in costs due to the change in the types of services members are utilizing; a higher number generally indicates that members are utilizing more expensive services compared to the prior year
- While total utilization increases are relatively low, medical costs have increased as a result of higher inflation across all three major categories as well as an increase in the utilization of higher cost services within these categories
- Horizon reports BOB trends for 2023 of 7.9% (7.1% cost and 0.8% utilization), with comparable changes in overall utilization across the service categories

Local Government Active Medical Claim Drivers

Emerging 2023 Medical Trends

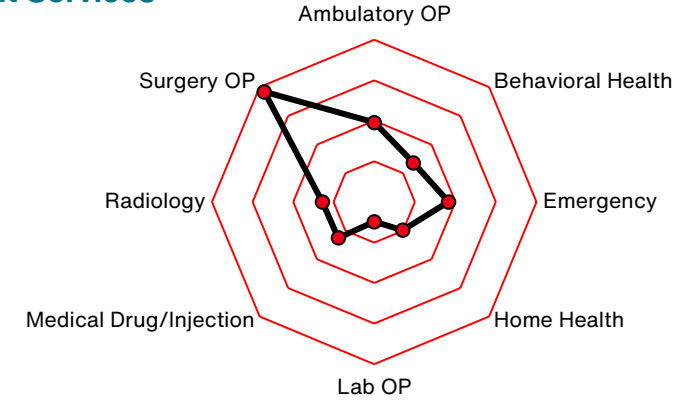
Service Category	Visits / 1,000	\$ / Visit	Total Trend	Total Cost PMPM
Inpatient				
Inpatient Facility Acute	2%	11%	13%	\$116.08
Behavioral Health	(17%)	31%	8%	\$9.25
Inpatient Other	(11%)	(5%)	(15%)	\$2.38
Outpatient				
Surgery OP	12%	13%	26%	\$80.63
Emergency	6%	6%	12%	\$46.69
Medical Drug/Injection	4%	(0%)	4%	\$39.91
Ambulatory OP	3%	13%	17%	\$39.57
Radiology	3%	7%	10%	\$18.74
Behavioral Health	7%	7%	14%	\$16.86
Lab OP	(26%)	(9%)	(32%)	\$6.26
Home Health	(6%)	(1%)	(7%)	\$0.92
Professional				
Specialist Physician	7%	4%	11%	\$154.35
Primary Physician	(3%)	9%	6%	\$41.30
Medical Drug/Injection	11%	8%	20%	\$26.83
Behavioral Health	13%	(3%)	10%	\$25.00
Ancillary	11%	6%	17%	\$17.53
Radiology	5%	9%	15%	\$12.78
Urgent Care	0%	5%	5%	\$9.29
Lab PF	(45%)	7%	(42%)	\$8.95
Home Health	(6%)	22%	14%	\$2.62

The chart above shows the year-over-year change in member utilization (visits / 1,000), change in average cost of services (\$ / visit), and change in the PMPM cost (Total Trend). Total Cost PMPM captures both the average cost per service as well as the average utilization.

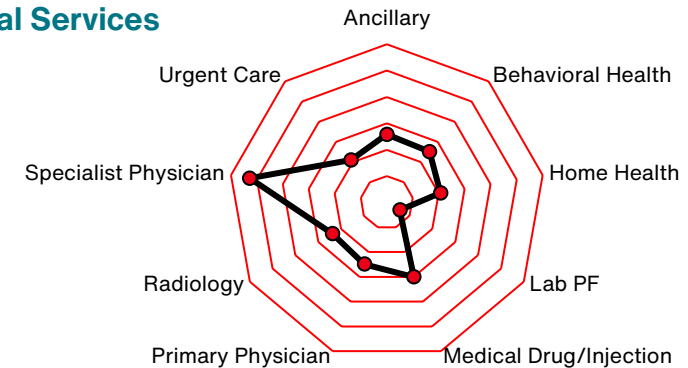
Cost increases are driven by high increases in the \$ / visit across services as well as increases in utilization of high-cost services (OP Surgery, ER, and Specialist Physician).

Relative Medical PMPM Claim Impact

Outpatient Services



Professional Services

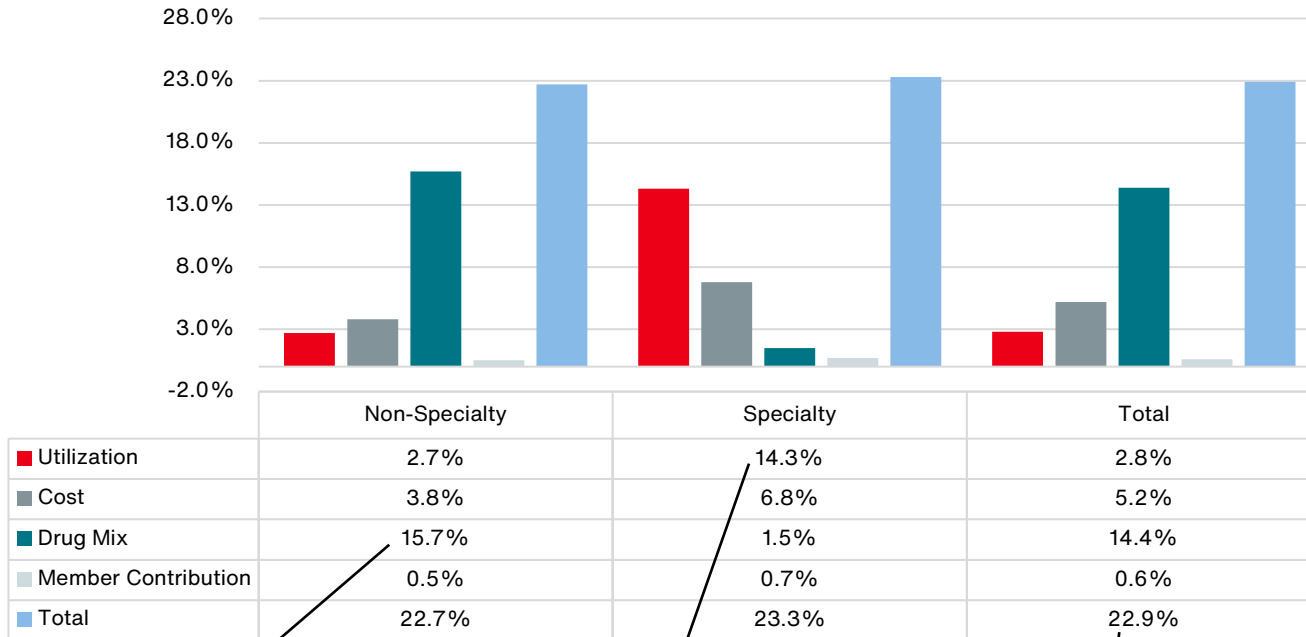


The graphs above show the relative cost impact for each given service category. The further from the center of the graph, the greater the overall increase to cost due to that factor.

While some services may have high trends, they may not be significant contributors to the cost increase if the average cost of that service is smaller than other services. As an example, while professional radiology had a 15% trend, the impact to total cost is less than specialist physician, which had an 11% trend but is a more expensive and more frequently used service.

Local Government Active Rx Claim Drivers

**Local Government Actives
YTD2023 Rx Trend Components**



Increase in Drug mix, which represents higher cost drugs being utilized compared to last year, is where the high utilization of GLP-1 brand drugs is showing up in the analysis.

14% increase in specialty drug utilization, which represents the change in the number of specialty scripts per member, is driving a 23% overall increase in specialty drug PMPM amounts.

The average plan paid PMPM amount has increased 23% over the prior period driven by high utilization of both GLP-1 drugs and specialty drugs.

Non-Specialty

- Brand drugs account for 15% of non-specialty scripts and 86% of non-specialty claims spend
- PMPM spend for Diabetes related drugs increased 31% and accounts for 17% of total plan paid (Ozempic was top drug in category)
- PMPM spend for weight loss related drugs increased 161% and accounts for 9% of total plan paid

Specialty

- Specialty Drug PMPM spend for inflammatory conditions (such as Humira and Stelara) increased 37% and accounts for 25% of total plan paid
- PMPM spend for Oncology specialty drugs increased 16%

Top Drugs of Note

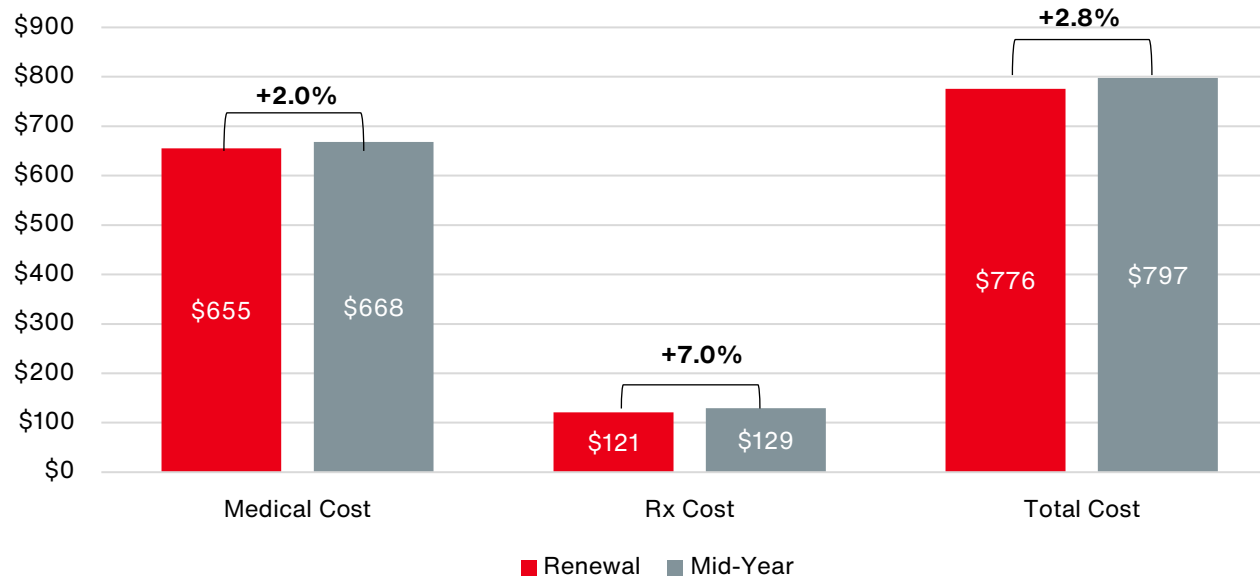
- Inflammatory conditions, Diabetes, and Weight Loss drugs are the main drivers of Rx claim costs
 - Wegovy is the top drug spend and the PMPM spend is 1,182% above Optum's benchmark
 - Humira and Stelara (anti-inflammatory drugs) rank second and third and PMPM spend is 49% and 136% higher than Optum's benchmark
 - Wegovy, Ozempic, Mounjaro, Trulicity, and Saxenda are all GLP-1 drugs that ranked in the top-12 of total drug spend

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State Active Results

Emerging 2023 Actual Costs vs. Rate Setting Estimates

State Actives
Plan Year 2023 Cost (PMPM)



- Cost includes projected claims, administrative fees, rebates, and other expenses

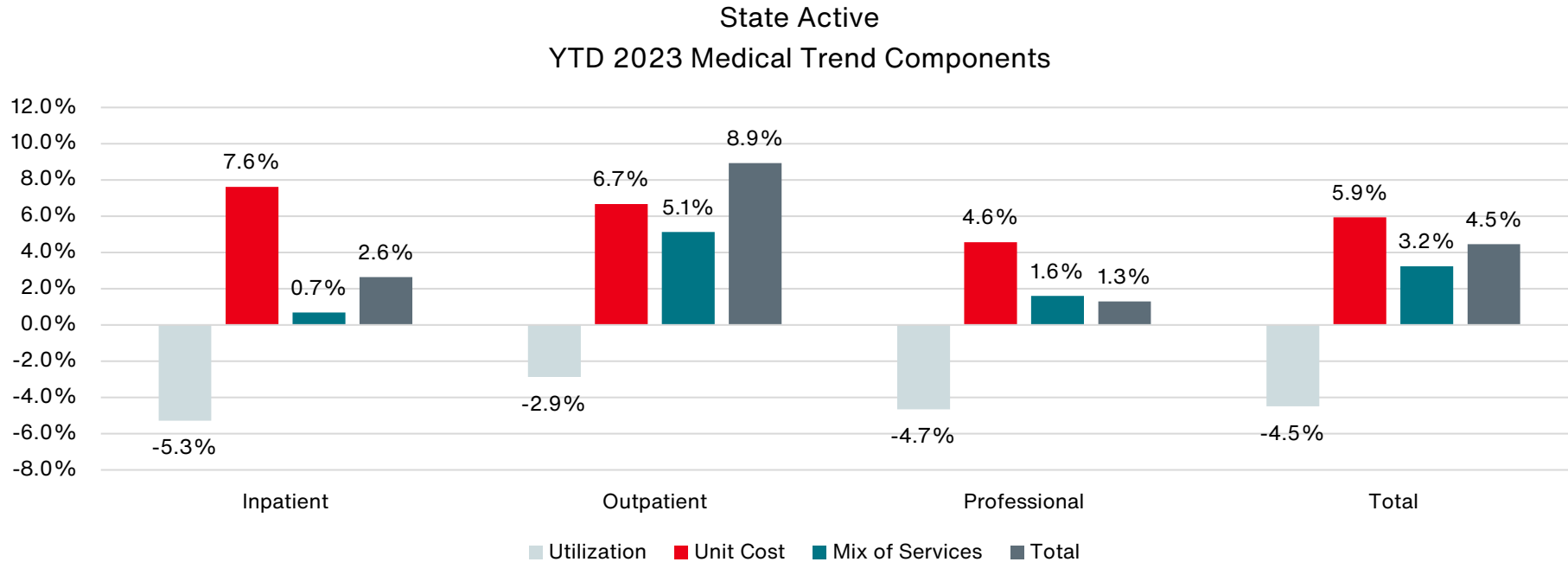
The chart above shows the change in projected 2023 per member, per month (PMPM) costs between the Rate Setting Analysis (red bars) and the Mid-Year analysis (gray bars). The chart is shown on a PMPM basis to normalize for the change in headcounts between the two periods which better isolates the impact of changes in average costs.

The Rate Setting Analysis was based on a projection of 2023 claims using 2022 data. Actual emerging 2023 medical and Rx claims data is reflected in the Mid-Year analysis. The updated data shows that actual 2023 costs are higher than previously estimated, which is contributing to future projected losses.

Observations

- Updated 2023 PMPM Medical costs are 2.0% higher than projected due to higher-than-expected medical claims trends
 - YTD September medical claims experience trend of 6.8% PPO is higher than expected given migration to lower cost plans and copay increases
 - High PPO trends were partially offset by favorable Tiered Network and HMO trends
- Updated 2023 PMPM Rx costs are 7.0% higher than projected due to higher-than-expected Rx claims trends
 - 21.6% YTD September Rx trend is higher compared to the 9.0% Rate Setting trend assumption
- The increase in prescription drug claims was partially offset by an increase in prescription drug rebates

State Active Medical Claim Trends



- The chart above shows increases in the different components of medical cost separately for inpatient, outpatient, and professional services
 - **Utilization** represents change in cost due to the year-over-year changes in the number of visits per member
 - **Unit Cost** represents change in cost due to the year-over-year change in the average cost of each services
 - **Mix of Services** represents the change in costs due to the change in the types of services members are utilizing; a higher number generally indicates that members are utilizing more expensive services compared to the prior year
- Medical costs have increased as a result of higher inflation across all three major categories as well as an increase in the utilization of higher cost services within these categories. These increases were partially offset by reductions in overall utilization across all three categories
 - While the copay changes appear to have positively impacted specialist and urgent care utilization, medical inflation coupled with increased utilization of higher cost services has resulted in overall cost increases
- Horizon reports BOB trends for 2023 of 7.9% (7.1% cost and 0.8% utilization)

State Active Medical Claim Drivers

Emerging 2023 Medical Trends

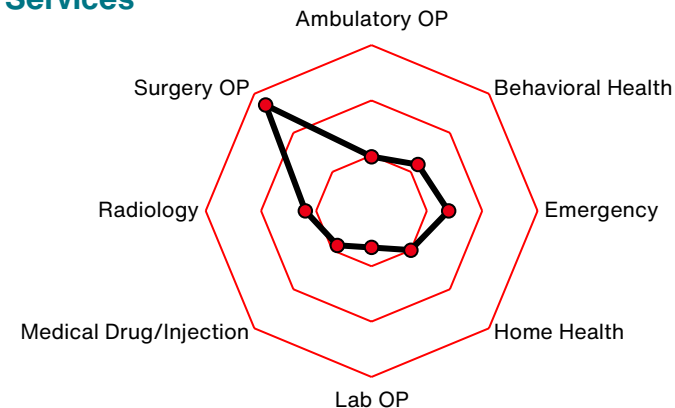
Service Category	Visits / 1,000	\$ / Visit	Total Trend	Total Cost PMPM
Inpatient				
Inpatient Facility Acute	(4%)	6%	1%	\$93.23
Behavioral Health	(11%)	35%	20%	\$8.12
Inpatient Other	4%	8%	13%	\$3.42
Outpatient				
Surgery OP	9%	16%	27%	\$75.90
Medical Drug/Injection	(1%)	(2%)	(3%)	\$40.26
Emergency	6%	5%	11%	\$37.92
Ambulatory OP	(3%)	3%	(1%)	\$31.46
Radiology	(1%)	11%	9%	\$21.61
Behavioral Health	7%	7%	15%	\$13.73
Lab OP	(32%)	(5%)	(35%)	\$5.91
Home Health	(5%)	8%	2%	\$0.87
Professional				
Specialist Physician	(2%)	6%	4%	\$116.05
Primary Physician	(6%)	8%	2%	\$37.61
Behavioral Health	9%	(0%)	9%	\$23.30
Medical Drug/Injection	2%	2%	4%	\$21.43
Ancillary	9%	(0%)	8%	\$12.61
Radiology	3%	6%	9%	\$12.21
Lab PF	(42%)	5%	(39%)	\$7.72
Urgent Care	(21%)	(7%)	(27%)	\$5.77
Home Health	(4%)	30%	25%	\$2.10

The chart above shows the year-over-year change in member utilization (visits / 1,000), change in average cost of services (\$ / visit), and change in the PMPM cost (Total Trend). Total Cost PMPM captures both the average cost per service as well as the average utilization.

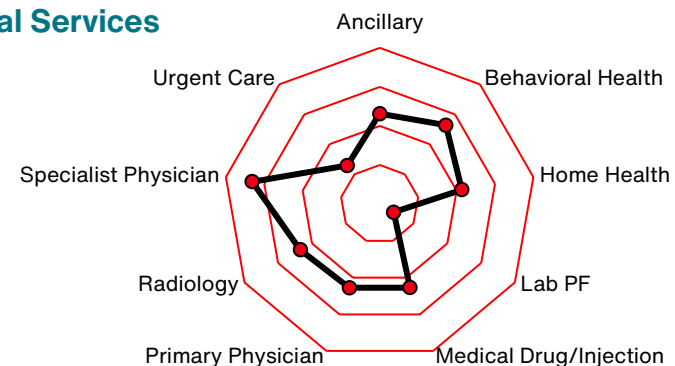
Cost increases are driven by high increases in the \$ / visit for almost all services as well as increases in utilization for high-cost services like OP Surgery and ER

Relative Medical PMPM Claim Impact

Outpatient Services



Professional Services

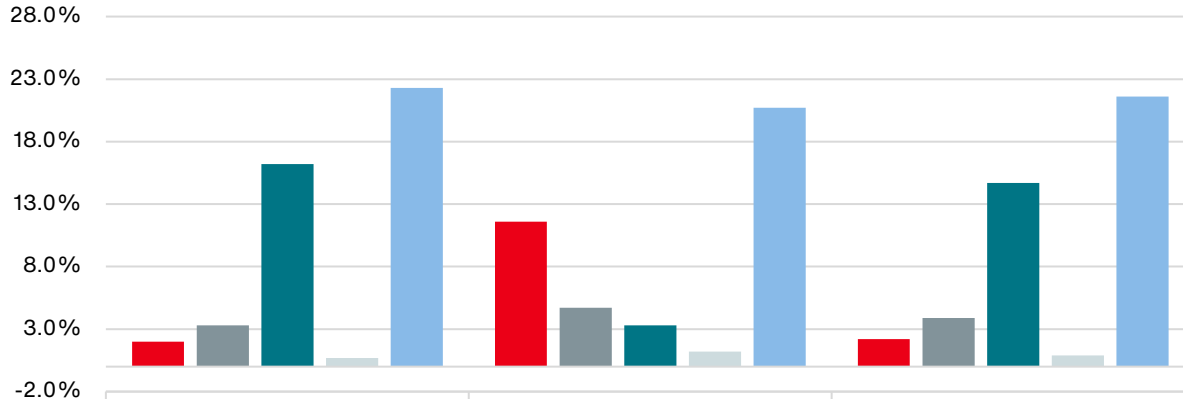


These graphs above show the relative cost impact for each given service category. The further from the center of the graph, the greater the increase to cost.

While some services may have high trends, they may not be significant contributors to the cost increase if the average cost of that service is smaller than other services. As an example, while home health had a 25% trend, the impact to total cost is less than specialist physician, which had a 4% trend but has a much higher average cost PMPM.

State Active Rx Claim Drivers

State Actives
YTD 2023 Rx Trend Components



	Non-Specialty	Specialty	Total
Utilization	2.0%	11.6%	2.2%
Cost	3.3%	4.7%	3.9%
Drug Mix	16.2%	3.3%	14.7%
Member Contribution	0.7%	1.2%	0.9%
Total	22.3%	20.7%	21.6%

Increase in Drug mix, which represents higher cost drugs being utilized compared to last year, is where the high utilization of GLP-1 brand drugs is showing up in this analysis.

12% increase in specialty drug utilization, which represents the change in the number of specialty scripts per member, is driving a 21% increase in specialty drug PMPM amounts.

The average plan paid PMPM amount has increased 22% over the prior period driven by high utilization of both GLP-1 drugs and specialty drugs.

Non-Specialty

- Brand drugs account for 16% of non-specialty scripts and 87% of non-specialty claims spend
- PMPM spend for Diabetes related drugs increased 28% and accounts for 17% of total plan paid
- PMPM spend for weight loss related drugs increased 172% and accounts for 9% of total plan paid

Specialty

- Specialty Drug PMPM spend for inflammatory conditions (such as Humira and Stelara) increased 29% and accounts for 23% of total plan paid
- PMPM spend for Oncology specialty drugs increased 30%

Top Drugs of Note

- Inflammatory conditions, Diabetes, and Weight Loss drugs are the main drivers of Rx claim costs
 - Wegovy is the top drug spend and the PMPM spend is 1,140% above Optum's benchmark
 - Humira and Stelara (anti-inflammatory drugs) rank second and fourth and PMPM spend is 45% and 96% higher than Optum's benchmark
 - Wegovy, Ozempic, Mounjaro, Trulicity, and Saxenda are all GLP-1 drugs that ranked in the top-12 of total drug spend

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Rate Setting Expectations

Expectations for Upcoming Rate Setting

Plan Year 2025 Rate Setting Updates

- The PY2025 Rate Setting Analysis will reflect full Calendar Year 2023 claims experience with runout through March 2024 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
- Based on the Mid-Year results, which show losses on both medical and prescription drugs, combined with expected future trend increase, expecting premium increases to be in the double digits for 2025
- For Local Government, additional margin will be required on top of rate increase to increase the balance of the CSR (last year's premium rates included 3.0% margin).

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Appendix

Local Government Claim Stabilization Reserve

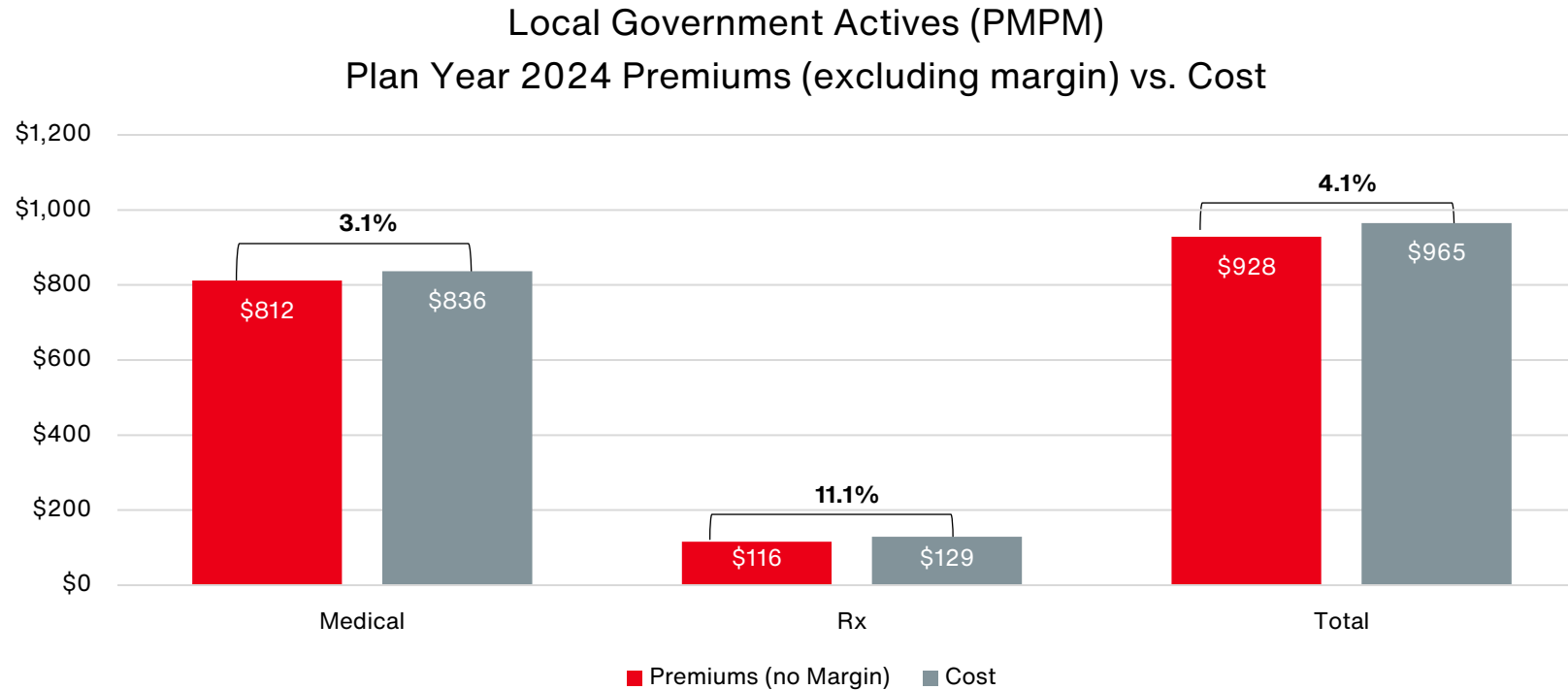
Claim Stabilization Reserve Balance (in \$ millions)	Total	Active	Retiree
12/31/2022	(\$27)	\$98	(\$126)
12/31/2023	(\$51)	\$73	(\$124)
12/31/2024	(\$74)	\$62	(\$136)
Months of Plan Cost as of 12/31/2024	(0.5)	0.6	(2.9)

- The claim stabilization reserve as of December 31, 2022 is based on actual balances provided by the Division. The projected reserves as of December 31, 2023 and 2024 are based on the reserve balance as of June 30, 2023 provided by the Division. The claims stabilization reserve as of December 31, 2024 is estimated based off projected gains and losses in the active and retiree plans.

Cost Projection Methodology and Assumptions

	2024 Cost Projections	
Claims Experience	12 months of incurred claims data paid through September 2023 provided by Horizon, Aetna, and Optum	
Enrollment Distribution	2024 Open Enrollment data provided by the State	
2024 Self-Insured Claims Trend (Excluding Anti-Selection)	<u>State</u> Active PPO: 6.50% Medical / 10.50% Rx Active HMO: 6.50% Medical / 10.50% Rx Early Retiree PPO & HMO: 6.50% Medical / 10.50% Rx Self-Insured Medicare: 5.50% Medical / 9.25% Rx	<u>Local Government</u> Active PPO: 6.50% Medical / 10.50% Rx Active HMO: 6.50% Medical / 10.50% Rx Early Retiree PPO & HMO: 6.50% Medical / 10.50% Rx Self-Insured Medicare: 5.50% Medical / 9.25% Rx
Anti-Selection	Local Government Active and Retiree medical and prescription drug trends have been increased by 75 basis points for Plan Year 2024	
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	

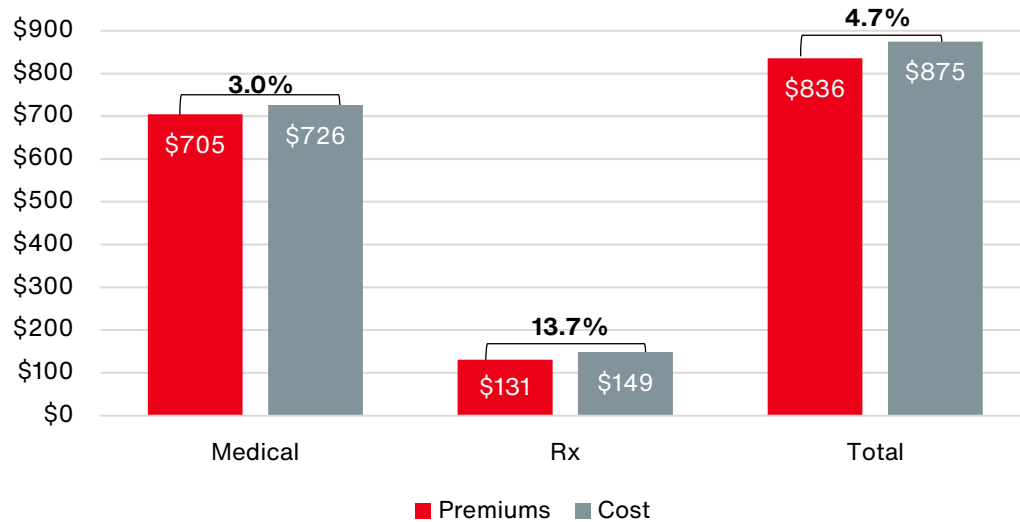
Local Government Active Plan Year 2024 Re-Projection



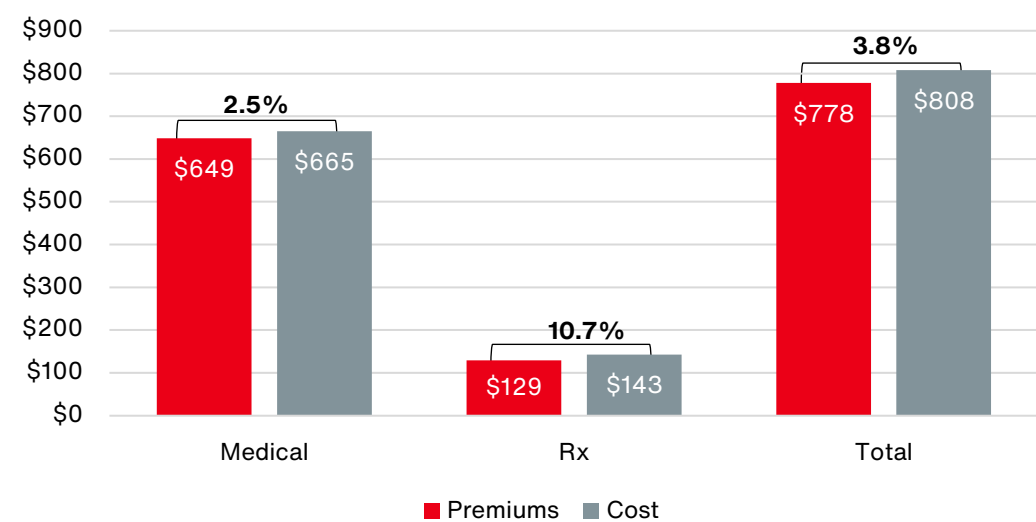
- For comparison purposes, the premiums shown above do not include the additional 3.0% margin reflected in the final Plan Year 2024 premium rates to illustrate the difference in actual vs expected experience
 - The Plan Year 2024 Local Government premiums included 3.0% premium margin to increase the claims stabilization reserve closer to the recommended 2.0 months of plan cost
- Based on Mid-Year projections, there is a 4.1% loss compared to the Rate Setting Analysis (0.9% loss with margin):

State Active Plan Year 2024 Re-Projection

State Actives: CWA Unity/NJDIRECT (PMPM)
Plan Year 2024 Premiums vs. Cost



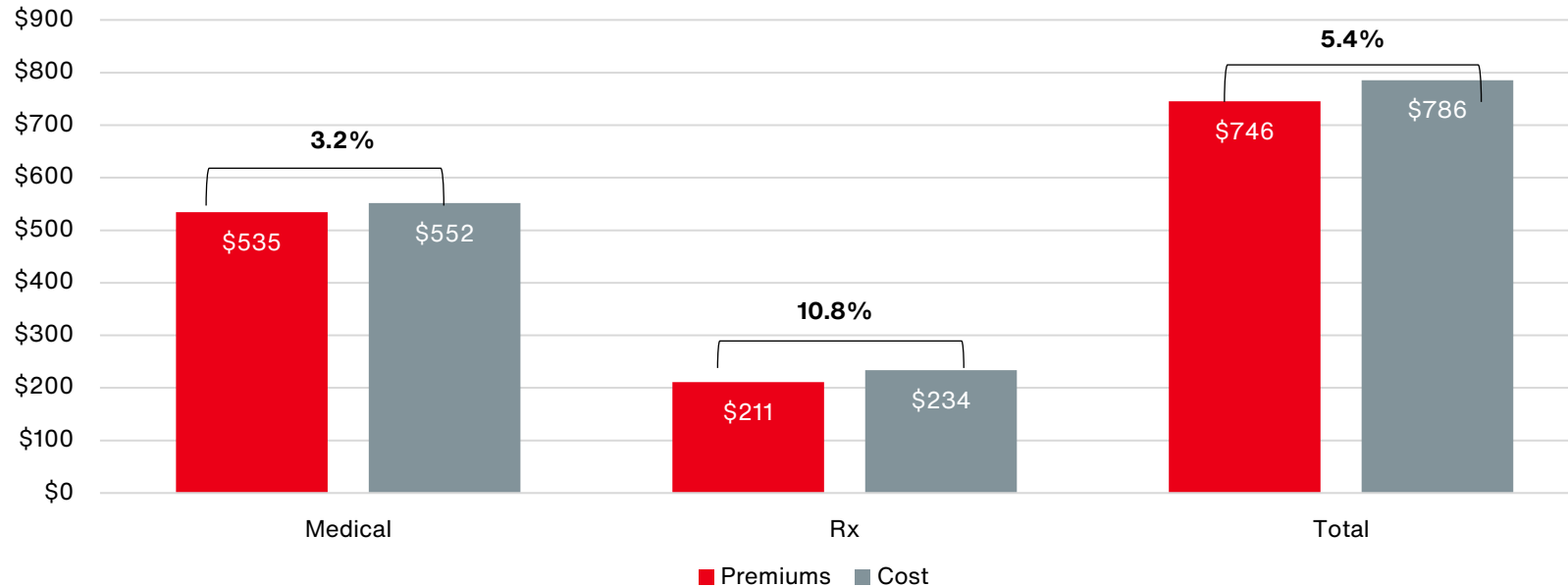
State Actives: Non-CWA Unity/NJDIRECT (PMPM)
Plan Year 2024 Premiums vs. Cost



- Based on the updated Mid-Year projections, the projected total CWA Unity/NJDIRECT cost results in a 4.7% loss relative to the 2024 PMPM Premium Rates
- The projected total non-CWA Unity/NJDIRECT cost results in a 3.8% loss relative to the 2024 Premium Rates

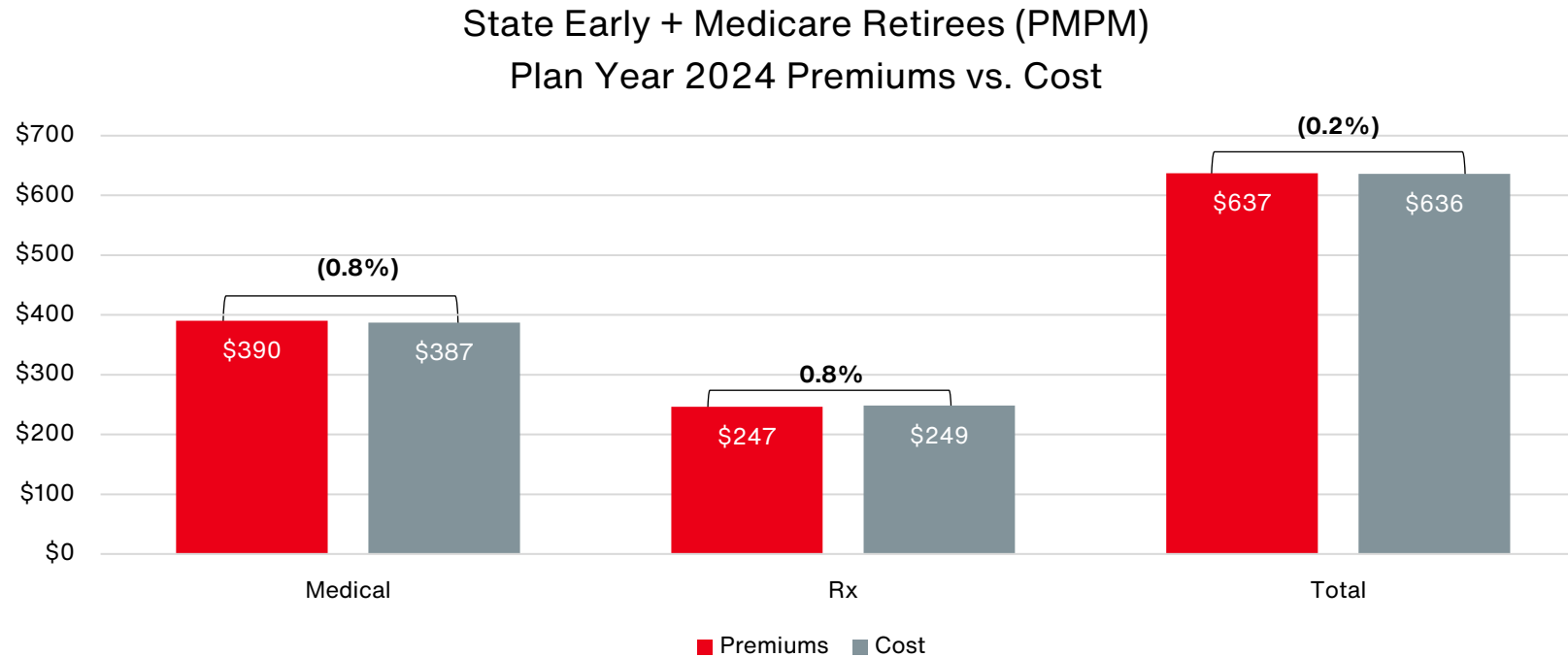
Local Government Retiree Plan Year 2024 Re-Projection

Local Government Early + Medicare Retirees (PMPM)
Plan Year 2024 Premiums (excluding margin) vs. Cost



- For comparison purposes, the premiums shown above do not include the additional 3.0% margin reflected in the final Plan Year 2024 premium rates to illustrate the difference in actual vs expected experience
 - The Plan Year 2024 Local Government premiums included 3.0% premium margin to increase the claims stabilization reserve closer to the recommended 2.0 months of plan cost
- Based on the updated Mid-Year projections, the projected total loss is 5.4% compared to 2024 premiums (2.2% with margin)

State Retiree Plan Year 2024 Re-Projection



- Based on the updated Mid-Year projections, the projected gain is 0.2% gain compared to the Plan Year 2024 premiums

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 2023 Mid-Year Experience Analysis for the State Health Benefits Program (SHBP). The purpose of this analysis is to re-projected the Plan Year 2023 and Plan Year 2024 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