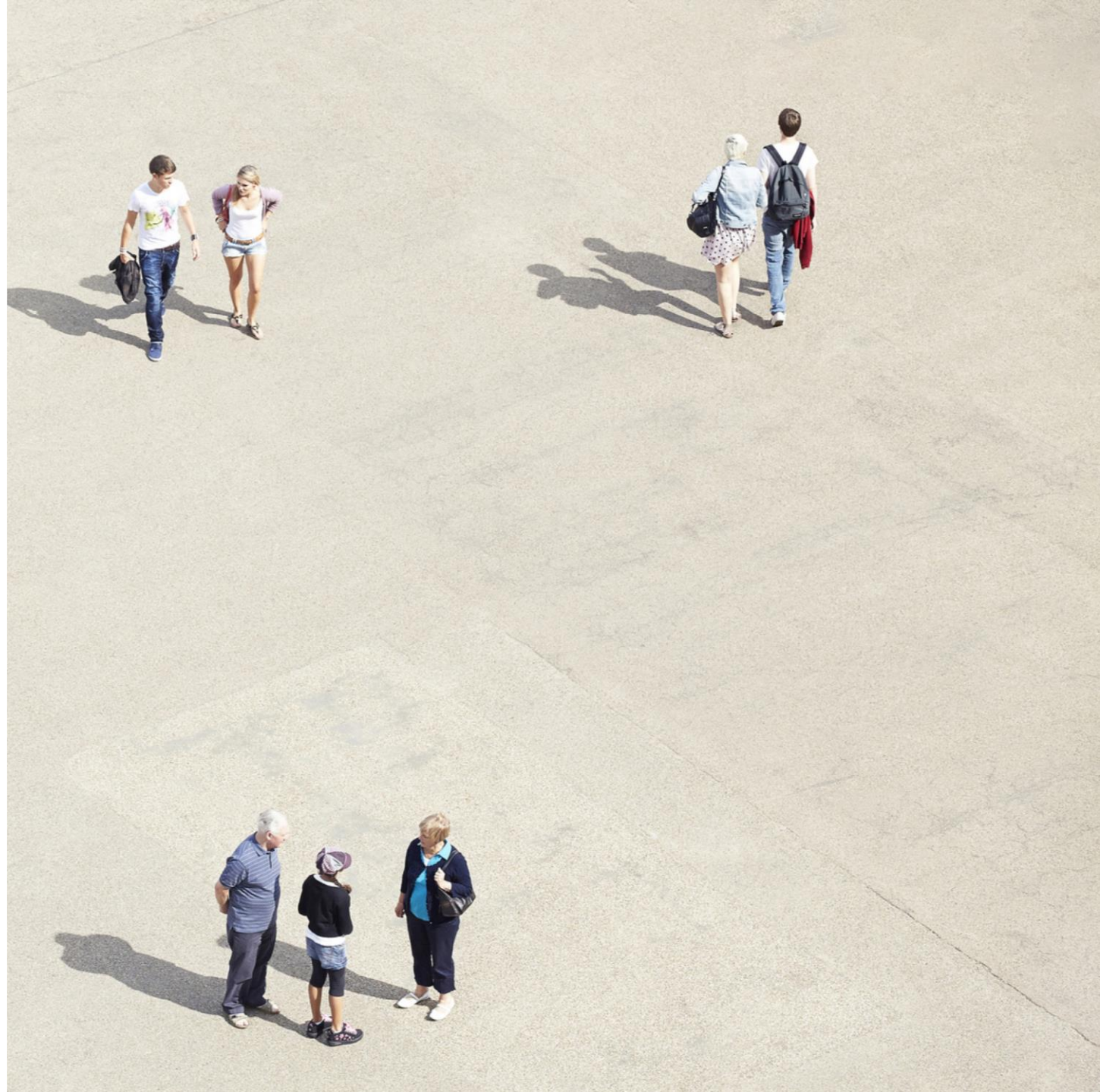




# State of NJ SEHBP Mid-Year Analysis

March 17, 2025



# Today's Discussion

## Meeting Objectives

- Provide a summary of the results of the Mid-Year Analysis
- Discuss Local Education Active Results and Cost Drivers
- Discuss 2026 Rate Setting expectations

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**Mid-Year Results  
Overview**

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# 1

## Mid-Year Overview

# Mid-Year Results Overview

Based on updated experience, Local Education Actives and Local Education Retirees are each projected at an overall loss in 2025. The expected costs increases have more than offset the 2.0% margin in the Active premium rates.

The Local Education Claim Stabilization Reserve (CSR) balance as of 12/31/2025 is projected to be \$80M or 0.6 months of plan cost, below the target level 2.0 months of plan cost

**Based on these projected losses and building in future trends, premium rate increases for 2026 are likely to be in the double digits for both groups**

	Local Education	
Plan Year 2025 (\$ Millions)	2025 Rate Setting Analysis*	Updated Mid-Year Analysis
<b>Actives</b>		
Total Premium	\$1,769.0	\$1,566.6
Total Claims and non-Fee Expenses	\$1,700.2	\$1,570.2
Total Admin Fees	\$33.5	\$37.2
Total Cost	\$1,733.7	\$1,607.4
\$ Gain/(Loss)**	\$35.3	(\$40.8)
% Gain/(Loss)**	2.0%	(2.6%)
Claim Stabilization Reserve	\$184.7	\$80.1
Months of Plan Cost	1.3	0.6
<b>Retirees</b>		
Total Premium	\$1,160.6	\$1,182.3
Total Claims and non-Fee Expenses	\$1,126.9	\$1,168.4
Total Admin Fees	\$33.9	\$35.9
Total Cost	\$1,160.8	\$1,204.3
\$ Gain/(Loss)**	(\$0.2)	(\$22.0)
% Gain/(Loss)**	(0.0%)	(1.9%)

## Local Education Actives:

- Experience has continued to deteriorate since the 2025 Rate Setting Analysis. Aggregate 2025 costs are now projected to be 7.3% lower than the previous analysis driven by a 10.7% reduction in membership offset by a **3.8% increase in per member per month costs**.

## Local Education Retirees:

- Aggregate 2025 costs are now projected to be 3.7% higher than the previous analysis driven by a 0.5% increase in membership and a **3.2% increase in per member per month costs**.

## Local Education Active CSR:

- The premiums set in the Rate Setting Analysis included 2% margin to increase the CSR balance. Even with margin, the total CSR was projected to be below the target level of 2.0 months of plan costs as of 12/31/2025.
- The Local Education CSR is estimated using actual balances provided by the State and projected differences in premiums vs costs. If premiums are greater than costs, the CSR will increase.
- Based on updated estimates, the CSR is projected to decrease compared to the prior Rate Setting Analysis. **2025 Active premiums would need to be 12.0% higher to increase the CSR to the target level of 2.0 months** of plan costs as of 12/31/2025.

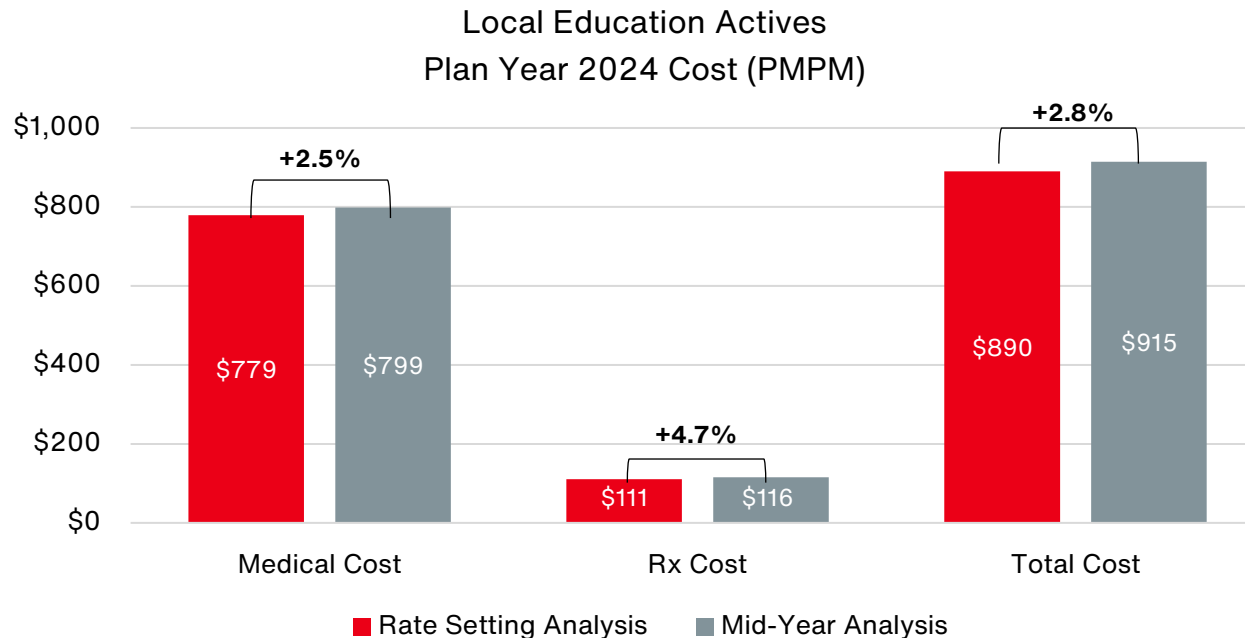
# Mid-Year Results Overview: Cost Drivers

- Increases in the cost of medical services and increases in utilization for outpatient, are contributing to medical cost increases for both Actives and Early Retirees
  - For Local Education Actives, there was an increase in utilization of outpatient ambulatory (+10%), outpatient surgeries (+4%), outpatient medical pharmacy (+10%), and specialist physicians (+3%)
  - Additionally, large reductions in SEHBP active enrollment in 2024 appears to have resulting in higher average costs as favorable risks have left the plan
  - For Local Education Early Retirees, there was an increase in utilization of outpatient surgeries (+6%), outpatient ambulatory (+8%), and specialist physicians (+3%)
- PMPM Rx increases for Local Education Actives (+19%) are significantly higher than expected, partially the result of high utilization of GLP-1 drugs for diabetes and weight loss

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## Local Education Active Results

# Emerging 2024 Actual Costs vs. Rate Setting Estimates



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

The chart above shows the change in projected 2024 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 2024 claims using 2023 data. Actual emerging 2024 medical and Rx claims data is reflected in the Mid-Year analysis. The updated data shows that actual 2024 costs are higher than previously estimated, which is contributing to future projected losses.

## Observations\*

Updated 2024 PMPM Medical costs are 2.5% higher than projected due to higher-than-expected medical claims increases

- 2024 rolling 12-month medical claim increase was 9.1%, which is greater than expected, particularly given increased enrollment in lower cost plan options

Updated 2024 PMPM Rx costs are 4.7% higher than projected due to higher-than-expected Rx claims increases

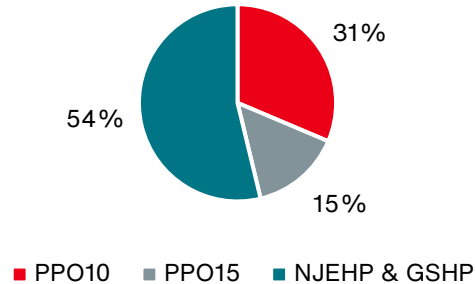
- 2024 rolling 12-month Rx claim increase of 19.2% is higher than expected as GLP-1 claims continue to be a major driver of cost increases

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

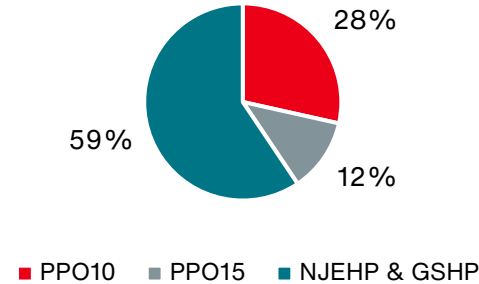
\*Rolling 12-month increases are through September 2024 and include both Horizon and Aetna claims and capitation and are adjusted for changes to eviCore

# Emerging 2024 Actual Costs vs. Rate Setting Estimates

2023 Enrollment Distribution



2024 Enrollment Distribution

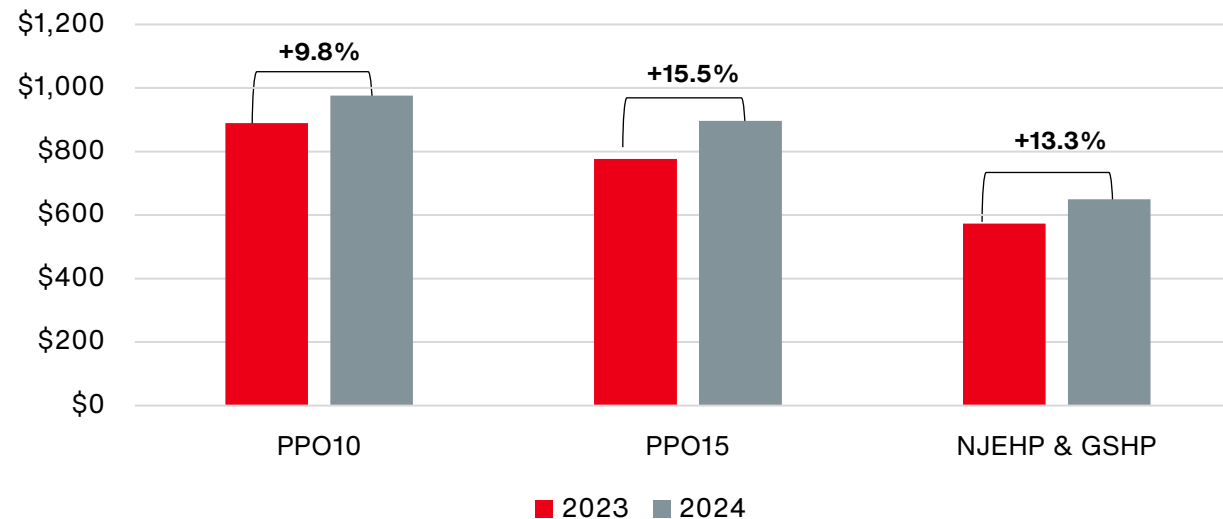


## Observations

The pie charts show the enrollment distribution by plan for 2023 and 2024, illustrating a continuing shift into the lower cost NJEHP and GSHP plan options

- The number of subscribers in the NJEHP & GSHP options increased 5% in 2024 while enrollment the PPO10 and PPO15 plan options decreased 14% and 23%, respectively

Medical Claim Increases

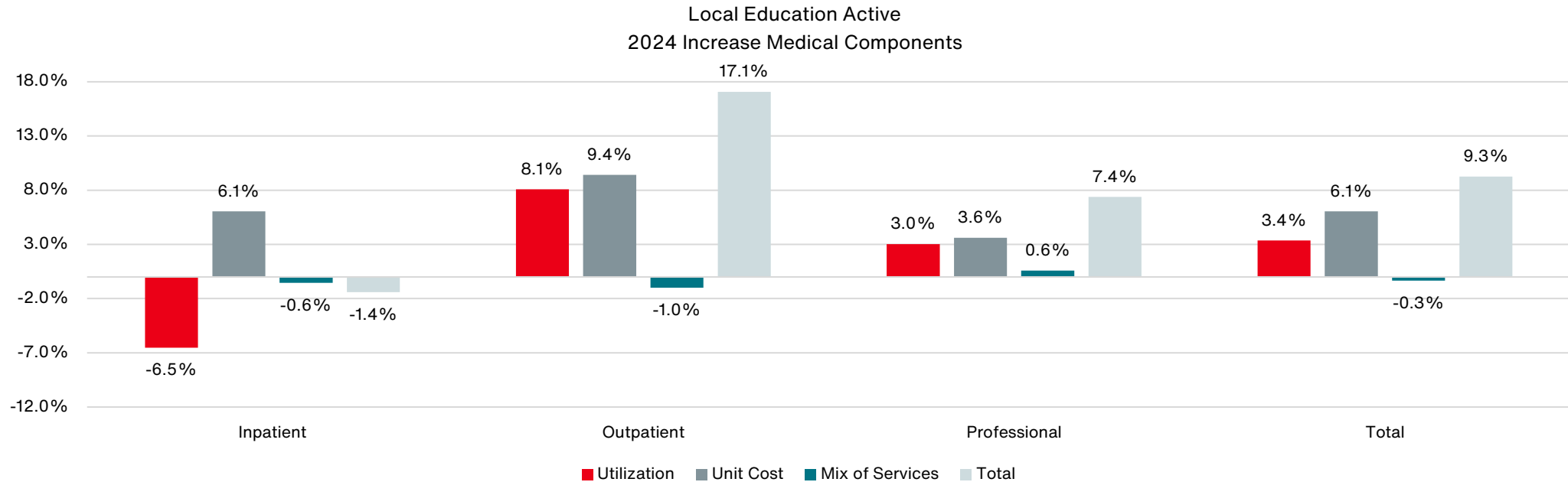


The bar chart to the left shows updated 2023 and 2024 medical PMPM claims separately by plan option. Plan increases were higher than expected.

- 2024 NJEHP medical claims are projected to be 34% lower compared to the PPO10 plan option



# Local Education Active Medical Claim Increases



- 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 has slightly decreased overall, medical costs have increased as a result of higher inflation across all three major categories as well as an increase in the utilization, particularly on outpatient
- Horizon reports BOB increases for YTD2024 of 8.4% including 4.5% IP, 10.2% OP, and 8.9% professional

# Local Education Active Medical Claim Drivers

## Emerging 2024 Medical Increases

Service Category	Visits / 1,000	\$ / Visit	Total Trend	Total Cost PMPM
<b>Inpatient</b>				
Inpatient Facility Acute	(7%)	7%	(1%)	\$95.42
Behavioral Health	1%	5%	6%	\$6.65
Inpatient Other	(14%)	(8%)	(22%)	\$1.92
<b>Outpatient</b>				
Surgery OP	4%	7%	11%	\$85.02
Medical Drug/Injection	10%	5%	16%	\$43.28
Emergency	1%	12%	14%	\$41.17
Ambulatory OP	10%	11%	22%	\$31.60
Radiology	18%	30%	54%	\$28.45
Behavioral Health	7%	3%	10%	\$13.92
Lab OP	2%	(1%)	1%	\$6.79
Home Health	9%	7%	17%	\$0.86
<b>Professional</b>				
Specialist Physician	3%	3%	6%	\$156.66
Primary Physician	(1%)	7%	6%	\$40.53
Behavioral Health	9%	3%	13%	\$38.06
Medical Drug/Injection	1%	(3%)	(1%)	\$24.93
Radiology	16%	29%	50%	\$19.10
Ancillary	9%	1%	10%	\$14.65
Urgent Care	7%	0%	8%	\$11.00
Lab PF	(14%)	(8%)	(21%)	\$8.65
Home Health	6%	(2%)	5%	\$2.79

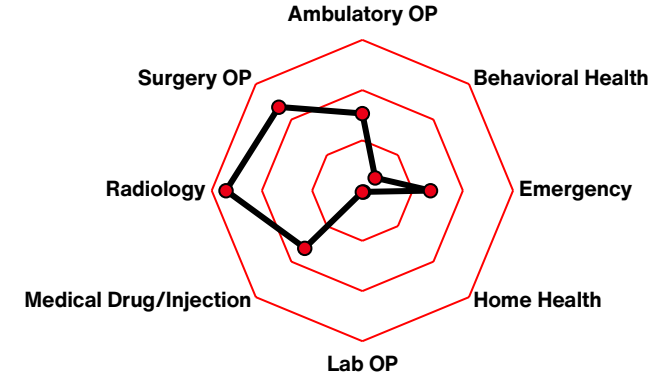
The chart above shows the year-over-year change in member utilization (visits / 1,000), change in average cost of services (\$ / visit), and change in the PMPM cost (Total Trend). Total Cost PMPM captures both the average cost per service as well as the average utilization.

Cost increases are driven by high increases in the \$ / visit for almost all services as well as increases in utilization of outpatient services like Surgery and Medical Pharmacy.



## Relative Medical PMPM Claim Impact

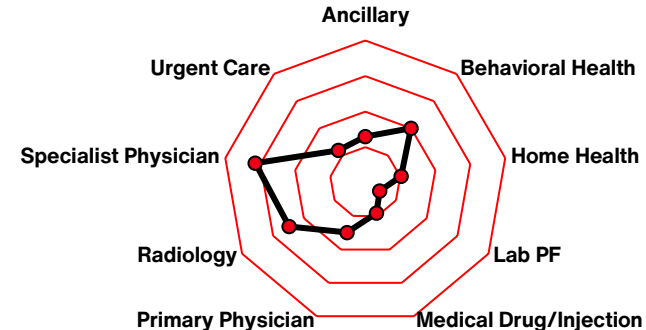
### Outpatient Services



The top drivers of outpatient cost increases are:

- Outpatient surgery (increases in both utilization and cost per service)
- Medical Pharmacy (increases in both utilization and cost per service)
- Radiology increases are driven by elimination of eviCore

### Professional Services



The top drivers of professional cost increases are:

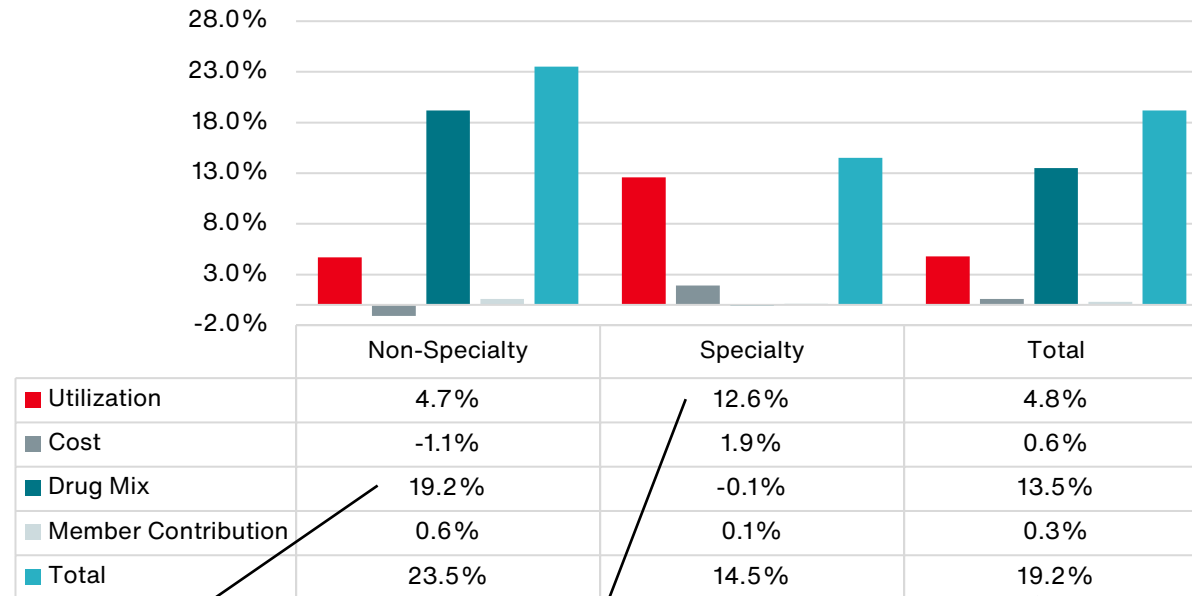
- Specialists (increases in both utilization and cost per service)
- Behavioral Health (increases in both utilization and cost per service)
- Radiology increases are driven by elimination of eviCore

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 increases, they may not be as significant contributors to cost increases if the cost of unit cost is smaller than other services. As an example, while professional ancillary had a 10% increase, the impact to total cost is less than specialist physician, which had an 6% increase but is a more expensive category.

# Local Education Active Rx Claim Drivers

Local Education Actives  
YTD2024 Rx Increases 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.

13% increase in specialty drug utilization, which represents the change in the number of specialty scripts per member, is driving a 15% overall increase in specialty drug PMPM amounts.

The average plan paid PMPM amount has increased 19% 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 11% and accounts for 12% of total plan paid (Ozempic was top drug in category)
- PMPM spend for weight loss related drugs increased 123% and accounts for 14% of total plan paid

## Specialty

- Specialty Drug PMPM spend for inflammatory conditions (such as Humira Pen and Stelara) increased 11% and accounts for 23% of total plan paid
- PMPM spend for Oncology specialty drugs increased 12%

## Top Drugs of Note

- Inflammatory conditions, Weight Loss, and Diabetes drugs are the main drivers of Rx claim costs
  - Wegovy is the top drug spend and the PMPM spend is 290% above Optum's benchmark
  - Humira and Stelara (anti-inflammatory drugs) rank second and third
  - Wegovy and Zepbound are GLP-1 weight loss drugs ranked 1<sup>st</sup> and 7<sup>th</sup> in total drug spend, respectively
  - Ozempic and Mounjaro are all GLP-1 diabetic drugs ranked 4<sup>th</sup> and 6<sup>th</sup> in total drug spend, respectively

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## Rate Setting Expectations

# Expectations for Upcoming Rate Setting

## Plan Year 2026 Rate Setting Updates

- The PY2026 Rate Setting Analysis will reflect full Calendar Year 2024 claims experience with runout through March 2025 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, premium increases likely to be in the double digits for 2026
- For Local Education, additional margin will be required on top of rate increase to increase the balance of the CSR (last year's premium rates included 2.0% margin).
  - Based on updated estimates, the 2025 Active CSR is projected to be negative, and 2025 Active premiums would need to be 12.0% higher to increase the CSR to the target level of 2.0 months of plan costs.
- There may be some potential relief on NJEHP increases as rates move closer toward fully separate experience pools

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## Appendix

# Local Education Claim Stabilization Reserve

Claim Stabilization Reserve Balance (in \$ millions)	Active
12/31/2023	\$198
12/31/2024	\$121
12/31/2025	\$80
Months of Plan Cost as of 12/31/2025	0.6

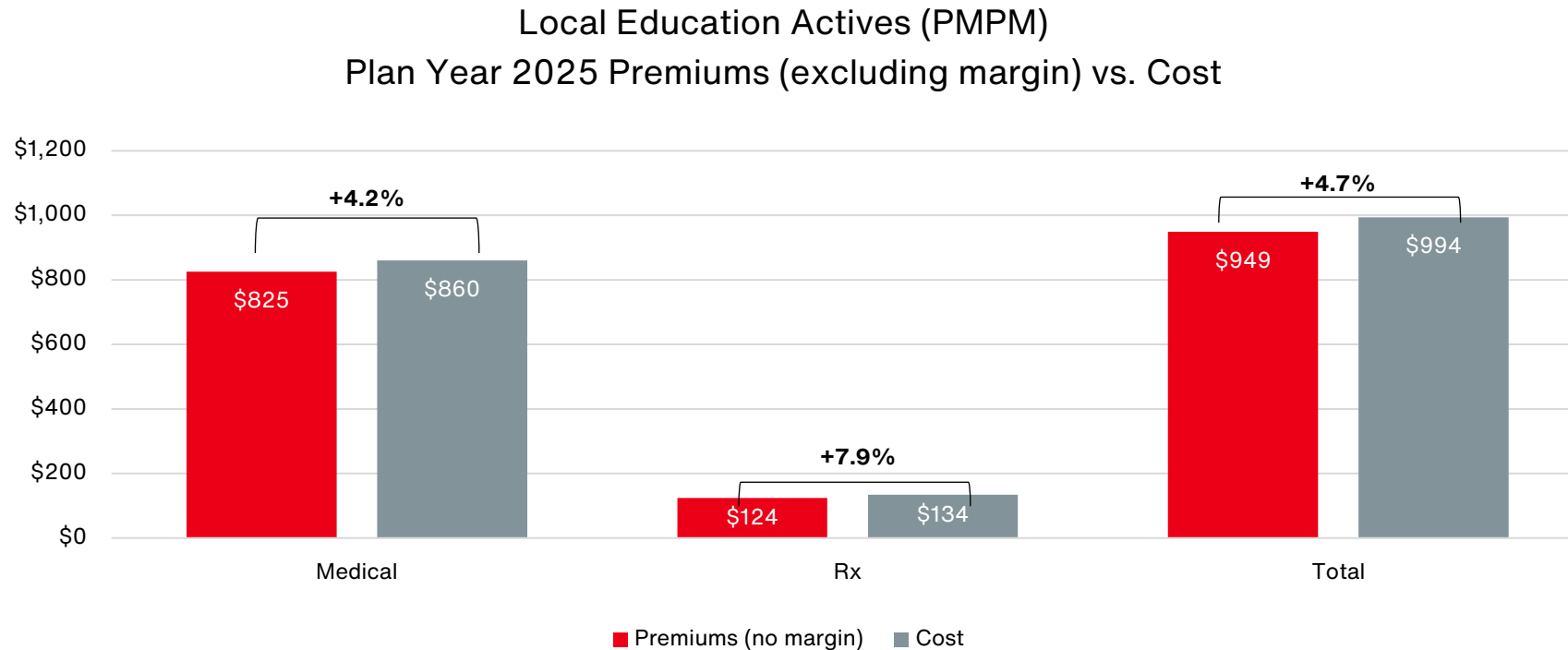
- The claim stabilization reserve as of December 31, 2023 is based on balances provided by the Division as of June 30, 2023. The projected reserves as of December 31, 2024 and 2025 are based on the reserve balance as of June 30, 2024 provided by the Division. The claims stabilization reserve as of December 31, 2025 is estimated based off projected gains and losses in the active and retiree plans.

# Cost Projection Methodology and Assumptions

	2025 Cost Projections
Claims Experience	12 months of incurred claims data paid through September 2024 provided by Horizon, Aetna, and Optum
Enrollment Distribution	Snap-shot January 2025 census data provided by the State
2024 Self-Insured Claims Trend (Excluding Anti-Selection)	Active PPO: 7.50% Medical / 11.50% Rx Early Retiree PPO: 7.50% Medical / 12.00% Rx Self-Insured Medicare: 5.50% Medical / 13.00% Rx
Anti-Selection	Local Education Active medical and prescription drug trends have been increased by 75 basis points for Plan Year 2025
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

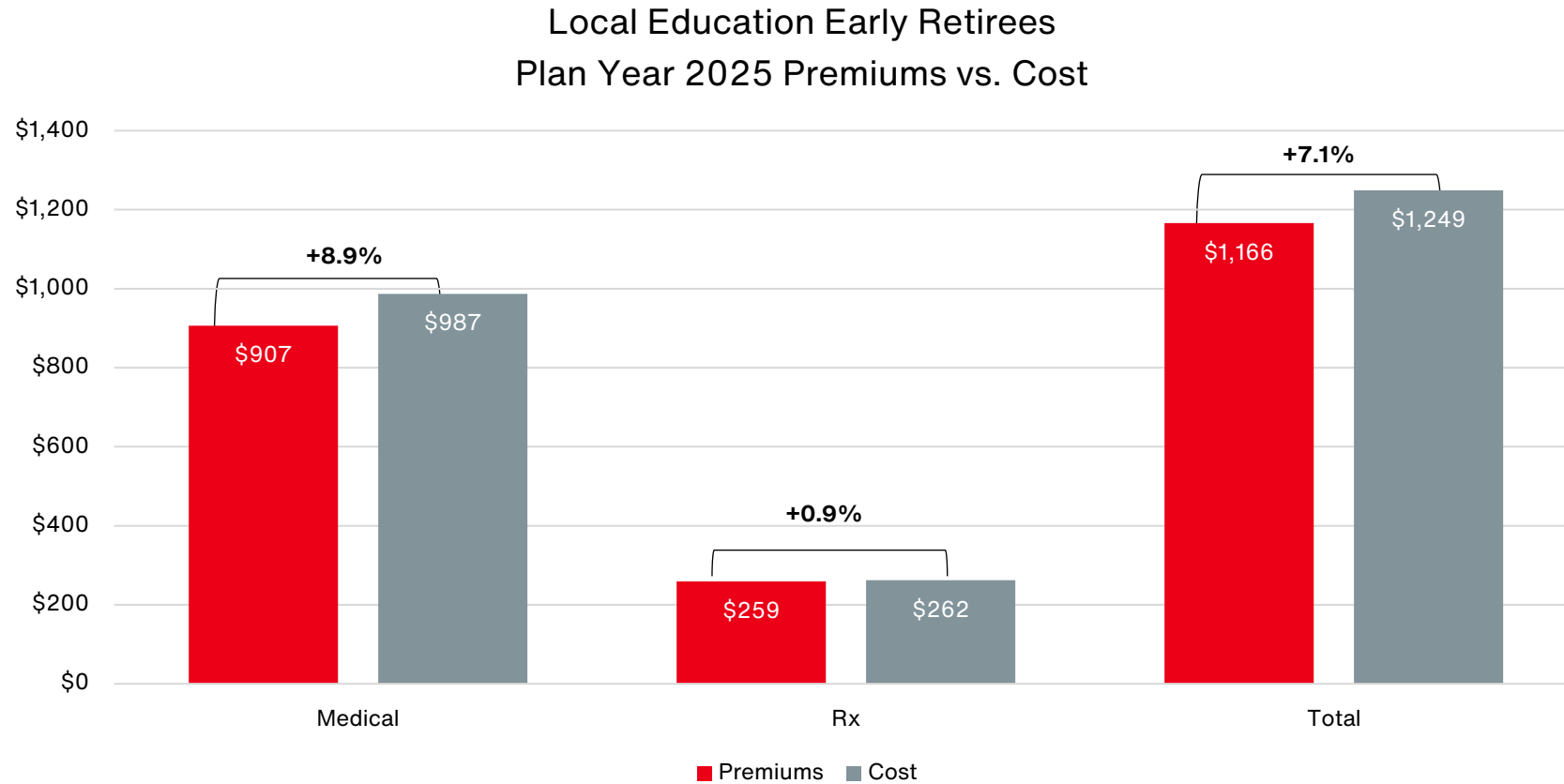


# Local Education Active Plan Year 2025 Re-Projection



- For comparison purposes, the premiums shown above do not include the additional 2.0% margin reflected in the final Plan Year 2025 premium rates to illustrate the difference in actual vs expected experience
  - The Plan Year 2025 Local Education premiums included 2.0% 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 4.7% loss compared to the Rate Setting Analysis (2.7% loss with margin):

# Local Education Retiree Plan Year 2025 Re-Projection



- Based on the updated Mid-Year projections, the projected total loss is 7.1% compared to 2025 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 2024 Mid-Year Experience Analysis for the School Employee's Health Benefits Program (SEHBP). The purpose of this analysis is to re-project the Plan Year 2024 and Plan Year 2025 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