

**New Jersey School Employees' Health Benefits Commission
School Employees' Health Benefits Program (SEHBP) – Local
Education Group**

Plan Year 2017 Medical/Rx Rate Renewal Recommendation

September 14, 2016

- For Plan Year 2017, Aon is recommending Local Education Group overall premium rate changes of 8.4% for Active Employees, 0.0% for Early Retirees, and (5.4%) for Medicare Retirees.
 - In aggregate, the recommended rate actions represent an overall increase for the Local Education Group of 3.8%, as compared to the Plan Year 2016 recommended renewal action of 9.5%.
 - Following are the recommended premium rates changes by plan type:

	Active Employees	Early Retirees	Medicare Retirees
Medical PPO	8.1%	0.0%	-3.9%
Medical HMO	8.1%	0.0%	-3.9%
Prescription Drug PPO	11.4%	0.0%	-6.5%
Prescription Drug HMO	11.4%	0.0%	-6.5%
Total	8.4%	0.0%	-5.4%

Attachment A provides additional details on the components of these increases.

The Plan Year 2017 Renewal assumes the following:

- The Retiree Rx copays and Out-of-Pocket Maximum limits for SEHBP PPOs and HMOs will revert to the Plan Year 2014 levels.
- On January 11, 2016, the SEHBP Plan Design Committee voted to approve the following changes:
 - The Express Scripts Compound Management solution was adopted effective February 2016. Plan Year 2016 savings are estimated to be approximately \$129 million.

- Effective March 1, 2016, the SEHBP covered only Viekira Pak as the first line of treatment for members prescribed a Hepatitis C medication. Plan Year 2016 savings are estimated to be approximately \$11 million.
- The SEHBP is sponsoring a Direct Primary Care Medical Home (DPCMH) Pilot Program for participating non-Medicare members and their dependents enrolled in a non-HMO SEHBP Plan. No savings have been estimated as it is uncertain when this program will be implemented.
- No change in the benefit landscape for Plan Year 2017, with Aetna and Horizon both offering PPO, HMO, and HDHP options, and Express Scripts continuing as the State's PBM.
- SEHBP Medicare Prescription Drug Integration will continue as EGWP Plus Wrap.
- Enrollment projections assume that 0.5% of the Active enrollment and 0.5% of the Retiree enrollment in NJ DIRECT10 will migrate to lower-cost plans as a result of participant contribution changes.
- An assumed two-year contract extension with Express Scripts is projected to reduce overall Plan Year 2017 prescription drug costs by approximately 2.8%.
- Overall, Local Education Active Employee enrollment is projected to decrease approximately 3% in Plan Year 2016 and 2.5% in Plan Year 2017, while Early Retiree enrollment will decrease approximately 5% in Plan Year 2016 and 4% in Plan Year 2017 and Medicare Retiree enrollment will increase approximately 3% annually.
- The following components of Federal Health Care Reform impact the SEHBP in Plan Year 2017:
 - In-Network Out-of-Pocket Maximum for medical and prescription drug benefits combined will be no greater than \$7,150 Single / \$14,300 Family combined. The SEHBP will have separate medical and prescription drug Out-of-Pocket Maximums. This is projected to have an insignificant cost impact on the SEHBP.
 - There is no Transitional Reinsurance Fee in Plan Year 2017.
- Differences in the rate changes among Actives and Retirees, benefit plans and coverage tiers reflect the impact of:
 - Plan Year 2016 prescription drug trends were expected to increase to 18.5% for Actives and 18.0% for Retirees. These higher trends were recommended due to the increasing frequency of high-cost compound drugs and new high-cost specialty drugs. The prescription drug trends have been lowered due to the Compound Drug plan design change adopted by the SEHBP Plan Design Committee on January 11,

2016. Plan Year 2016 prescription drug trends were reduced to 13.50% for Actives and 12.75% for Retirees. Active and retiree prescription drug trends for Plan Year 2017 are 11.50% and 11.00%, respectively. The trends represent the expected increases in costs due to specialty drugs.
- Emerging Plan Year 2016 medical PPO experience for Actives and Early Retirees shows increases in trends mainly due to higher incidence and increased cost of high cost claims. Plan Year 2016 medical PPO trends for Actives have increased 175 basis points to 9.75% (includes the 25 basis point increase in the anti-selection load). The medical PPO trend for Plan Year 2016 for Early Retirees has increased 250 basis points to 9.50%. Plan Year 2017 medical PPO trends are recommended to be consistent with long-term assumptions and historical experience (7.50% for both Actives and Early Retirees).
 - Based on expected terminations of Local Education Active Employers from the SEHBP (notably the announcement that Newark Board of Education with about 10,000 members left the SEHBP on September 1, 2016), the Active medical and prescription drug trends have been increased by 75 basis points for Plan Year 2016. This anti-selection load has been reduced to 50 basis points in Plan Year 2017.
 - The Aon recommended PPO medical trends for Medicare Retirees remain at 3.5%.
 - The HMO medical trend for Actives has been updated to 6.75% in Plan Year 2016 and 6.00% in Plan Year 2017 from 7.5% in the Plan Year 2016 Renewal Report.
 - The HMO medical trend for Early Retirees has been reduced 100 basis points from 7.0% to 6.0% in Plan Year 2016. The recommendation for Plan Year 2017 is 5.50%.
 - Fully insured Medicare Advantage premium increases showed no change for the PPO plans and a 3% reduction for the HMO.
 - Rx Rebates were higher than projected in Plan Year 2015 and are expected to be higher in Plan Year 2016 than projected in the Plan Year 2016 renewal. Plan Year 2017 Rx rebates are projected to increase to \$155 million, from \$147 million projected in Plan Year 2016.
 - 2017 EGWP credits are projected to increase from \$188 million for Plan Year 2016 to \$210 million for Plan Year 2017.
 - The cost of Child(ren) coverage is approximately equal to 86% of the single coverage and there is no recommended increase to the Tier Factors in Plan Year 2017. The recommended premium increases are constant over all Tier coverage levels.



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- Plan Year 2017 projected costs for the SEHBP are \$2.9 billion (\$1.7 billion for Actives and \$1.2 billion for Retirees). Plan Year 2017 renewal premiums are projected to produce a \$35 million gain for Actives and no loss or gain for Retirees.
- The 12/31/17 Claim Stabilization Reserve for Actives is projected at 1.7 months of projected Plan costs. Since the Active reserve is estimated to be less than the target reserve of 2.0 months as of 12/31/2017, the recommended renewal premium increase for Actives includes a 2% margin to help build the result up to the target level.
- Since the State is responsible for approximately 90% of Local Education Retiree claim payments, Plan Year 2017 premiums do not include any margin to rebuild Retiree reserve levels.

Attachment A
SEHBP – Local Education Group
Plan Year 2017 Rate Renewal Recommendations

	Total	Single	Ee + Spouse	Family	Ee + Child(ren)
Actives					
PPO Medical	8.1%	8.1%	8.1%	8.1%	8.1%
HMO Medical	8.1%	8.1%	8.1%	8.1%	8.1%
PPO Rx	11.4%	11.4%	11.4%	11.4%	11.4%
HMO Rx	11.4%	11.4%	11.4%	11.4%	11.4%
Total	8.4%	8.4%	8.4%	8.4%	8.4%
Early Retirees					
PPO Medical	0.0%	0.0%	0.0%	0.0%	0.0%
HMO Medical	0.0%	0.0%	0.0%	0.0%	0.0%
PPO Rx	0.0%	0.0%	0.0%	0.0%	0.0%
HMO Rx	0.0%	0.0%	0.0%	0.0%	0.0%
Total	0.0%	0.0%	0.0%	0.0%	0.0%
Medicare Retirees					
PPO Medical	-3.9%	-3.9%	-3.9%	-3.9%	-3.9%
HMO Medical	-3.9%	-3.9%	-3.9%	-3.9%	-3.9%
PPO Rx	-6.5%	-6.5%	-6.5%	-6.5%	-6.5%
HMO Rx	-6.5%	-6.5%	-6.5%	-6.5%	-6.5%
Total	-5.4%	-5.4%	-5.4%	-5.4%	-5.4%
Grand Total	3.8%	3.8%	3.8%	3.8%	3.8%