



# 2025 SEHBP Rate Setting Analysis

State of New Jersey

July 10, 2024



# Today's Discussion

## Meeting Objectives

- Overview of the Rate Setting Analysis and results
- Provide summary of Local Education rating assumptions and active cost drivers

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Analysis Overview**

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# 1

## Overview

# Overview of SEHBP Recommended Premium Rate Impact

## Plan Year 2025 Rate Impact Recommendations

| Plan Year 2025<br>Premium Rate Changes | Actives      |              |              | Early Retirees |              |              | Medicare Retirees |              |              |
|--|--------------|--------------|--------------|----------------|--------------|--------------|-------------------|--------------|--------------|
|  | Medical      | Rx           | Total        | Medical        | Rx           | Total        | Medical           | Rx           | Total        |
| <b>Local Education Plans</b>           |              |              |              |                |              |              |                   |              |              |
| PPO10/15                               | 20.7%        | 30.4%        | 21.9%        | N/A            | N/A          | N/A          | N/A               | N/A          | N/A          |
| NJEHP                                  | 5.8%         | 27.7%        | 8.0%         | 11.9%          | 16.3%        | 12.8%        | N/A               | N/A          | N/A          |
| GSHP                                   | 5.8%         | 27.7%        | 8.3%         | 11.9%          | 16.3%        | 12.9%        | N/A               | N/A          | N/A          |
| <b>Total</b>                           | <b>12.1%</b> | <b>29.0%</b> | <b>14.0%</b> | <b>11.9%</b>   | <b>16.3%</b> | <b>12.8%</b> | <b>9.0%</b>       | <b>17.8%</b> | <b>14.9%</b> |

| Claim Stabilization Reserve Balance<br>(in \$ millions) | Total |
|---|-------|
| 12/31/2023  | \$197 |
| 12/31/2024  | \$149 |
| 12/31/2025  | \$185 |
| Months of Plan Cost as of 12/31/2025                    | 1.3   |

- 2025 Active, Early Retiree, and Medicare Retiree pricing is projected with Medical and Prescription Drug claims incurred from January 1, 2023 through December 31, 2023 with runout through March 31, 2024
- For Actives, the NJEHP and GSHP premium increase reflects a 33% blend of the rate increases on a pooled basis (combined with PPO10/15 experience) and a 67% blend of the rate increases on a stand-alone basis. The PPO10 and PPO15 plan premium increase was calculated to cover the remaining projected plan cost
- Local Education Active premiums include a 2.0% margin, since the projected total Claim Stabilization Reserve for the Local Education Group is expected to be below the target level of 2.0 months at the end of Plan Year 2025
- Medicare Retiree medical rate changes reflect both Aetna Medicare Advantage premium rate increases and self-insured medical plan increases

# Overview of Rate Setting Results

- Active and Early Retiree increases are driven by higher-than-expected claim cost trends, particularly for prescription drugs where there was significant utilization of high-cost GLP-1 drugs.
- Medicare Retiree costs are largely driven by Prescription Drugs. The Inflation Reduction Act (IRA) reduces member OOP expenses and EGWP revenues which is estimated to increase the total Medicare Retiree plan cost 9.2% or \$66.0M. Additionally, actual Medicare Retiree Rx claim trends were higher than anticipated in last year's rate setting analysis.
- Recommended trend assumptions for projecting claims are higher compared to the prior rate setting analysis:
  - Medical trend assumptions have been increased, which reflects the expected continued upward pressure of economy wide inflation on plan prices
  - Rx trend assumptions have been increased, which reflects an increase in plan utilization of high-cost specialty and GLP-1 drugs
- Local Education Actives premium increases include additional adjustments:
  - The NJEHP and GSHP premium increase reflects a 33% blend of the rate increases on a pooled basis (combined with PPO10/15 experience) and a 67% blend of the rate increases on a stand-alone basis. The PPO10 and PPO15 plan premium increase was calculated to cover the remaining projected plan cost
  - Medical and Rx trends include additional anti-selection loads to account for employers with favorable risks leaving the plan, leaving behind employers with higher average costs
  - Premium rates include 2.0% margin to help replenish the claim stabilization reserve, which is still less than required to reach the target 2.0 months of plan costs

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## Local Education Projections

# Local Education Pricing Methodology/Assumptions

|   | 2025 Pricing Projections   |
|---|--|
| <b>Claims Experience</b>                              | Claims based on 12-months of incurred experience from January 1, 2023 through December 31, 2023 with runout through March 31, 2024   |
| <b>Enrollment Distribution / Migration Assumption</b> | <p>Projected 2024 enrollment through June 2024 is based on actual monthly census data provided by the State through April 2024 and projected enrollment from July 2024 through December 2024 is based on Special Open Enrollment Period results provided by the State</p> <p>For Plan Year 2025, it is assumed that 60.0% of Actives enroll in the NJEHP, 25.7% enroll in the PPO10, 11.4% enroll in the PPO15, and 3.0% enroll in the GSHP. It is also assumed that 5% of Active and Early Retirees will enroll with Aetna</p>  |
| <b>Trend Assumption (excluding anti-selection)</b>    | <p>Active (2024 / 2025): Medical = 7.0% / 7.5%   Rx = 12.5% / 11.5%</p> <p>Early Retiree (2024 / 2025): Medical = 7.0% / 7.5%   Rx = 12.5% / 12.0%</p> <p>SI Medicare (2024 / 2025): Medical = 5.5% / 5.5%   Rx = 13.5% / 13.0%</p>  |
| <b>Rx Rebates / EGWP</b>                              | Projected Rx Rebates and EGWP credits are based on data provided by Optum  |
| <b>Anti-Selection</b>                                 | Active medical and prescription drug trends have been increased by 100 basis points for Plan Year 2024 and 75 basis points Plan Year 2025  |
| <b>High-Cost Claimants</b>                            | Claims were reviewed for abnormal high-cost claimants and adjusted based on this review  |
| <b>Other</b>  | <p>The Local Education Active premium rates reflect a 2.0% margin since the projected total Claim Stabilization Reserve for the Local Education Group is expected to be below the recommended level of 2.0 months at the end of Plan Year 2024. Even with this margin, the reserve is projected to fall short of the recommended level at the end of Plan Year 2025.</p> <p>The projected PPO10 and PPO15 costs reflect a 1% selection adjustment assuming those remaining in the plan will be higher cost on average compared to the pre-migration average cost for those plans</p> |

# Local Education Active Premium Increase Drivers

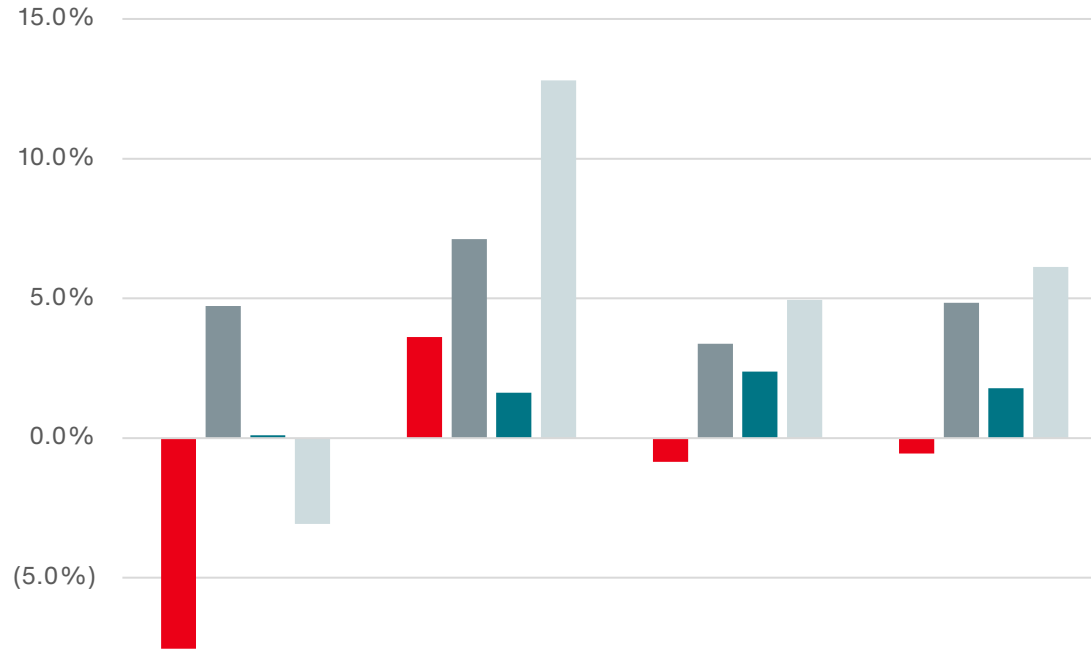
Local Education Active premiums are projected to increase **14.0%** in total for 2025, a result of the following:

- **+2.4%** - Actual 2023 claims experience was higher compared to expected 2023 claims
  - Actual 2023 PMPM Active medical claims experience was 0.8% higher than expected
  - Actual 2023 PMPM Active prescription drug claims experience was 12.6% higher than expected
- **+8.7%** - Medical and Rx trend projection assumptions have increased from the prior rate setting analysis driven by upward economic wide inflationary pressures on medical costs and expected increases in GLP-1 and specialty drug trend costs and utilization
  - The 2024 medical and Rx trend assumptions reflected in this analysis are 0.5% and 3.5% higher, respectively, compared to the 2024 Rate Setting Analysis
  - The Plan Year 2025 premiums include an additional year of trend to account for projected increases from 2024 to 2025
- **+0.9%** - The anti-selection adjustment has been increased from the prior analysis to account for favorable risks leaving the plan
  - The 2024 anti-selection assumption is 25 basis points higher compared to the prior analysis. Additionally, 2025 includes an additional 75 basis point load for anti-selection
- **-0.6%** - Prescription drug rebates are projected to increase in 2025
- **1.4%** - Impact due to increased margin since the projected total Claim Stabilization Reserve for the Local Education Group is expected to be below the target level
- **+0.7%** - Impact of other changes including cost increases due to NJ State Mandates, actual vs expected plan enrollment and migration assumptions, plan selection adjustments, and changes in administrative fees



# Local Education Active Medical Claim Trends

Local Education Active  
PY2023 Medical Trend Components



|                   | Inpatient | Outpatient | Professional | Total  |
|-------------------|-----------|------------|--------------|--------|
| ■ Utilization     | (7.5%)    | 3.6%       | (0.8%)       | (0.5%) |
| ■ Cost            | 4.7%      | 7.1%       | 3.4%         | 4.8%   |
| ■ Mix of Services | 0.1%      | 1.6%       | 2.4%         | 1.8%   |
| ■ Total           | (3.1%)    | 12.8%      | 4.9%         | 6.1%   |

Medical claim drivers are based on Horizon reporting that reflects CY2023 incurred claims with 1 month runout; Cost per visit increases are comprised of both unit cost trends and mix of service changes

## Impact of updated medical claims experience

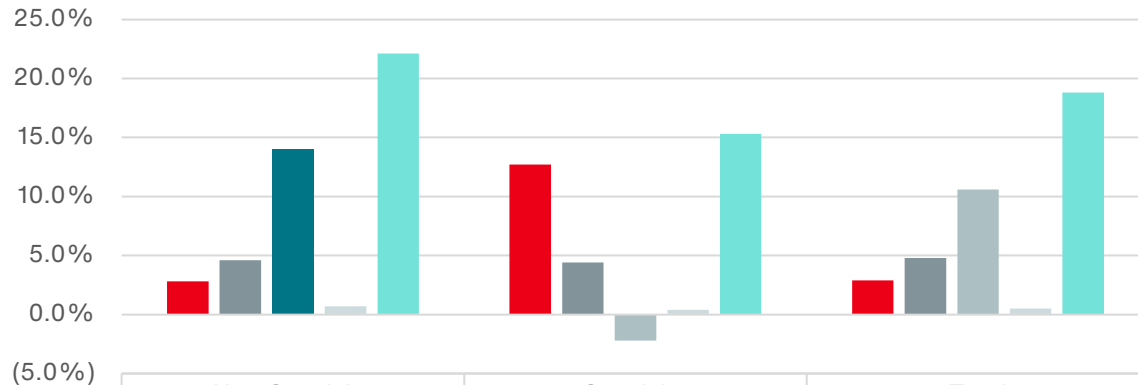
- Actual 2023 PMPM Active medical claims experience was 0.8% higher than expected
- Based on CY2023 reporting provided by Horizon, medical claim experience was driven by the following:
  - Medical claims for outpatient services increased, with a total annual trend of 13%, including a 9% increase in the cost per visit and 4% increase in utilization.
  - Utilization increased for outpatient services that are higher cost, including Emergency Room (+4% utilization), outpatient medical pharmacy (+2% utilization), and Outpatient Surgery (+10% utilization).
  - Inpatient visits decreased 8%. Additionally, professional visits decreased 1%, including an 8% reduction in PCP visits. However, there was an increase in higher cost specialist services (+6% utilization) and the overall professional cost per visit increased 6%.

## Impact of updated assumptions

- The medical projection also reflects higher trend and anti-selection assumption compared to the PY2024 Rate Setting Analysis
- 2024 claims are also projected to be 0.5% higher due to NJ State Mandates that went into effect in 2024
- 2024 medical claims are projected to be 2.7% higher compared to what was estimated in the PY2024 Rate Setting Analysis

# Local Education Active Rx Claim Drivers

Local Education Active  
PY2023 Rx Trend Components



|                       | Non-Specialty | Specialty | Total |
|-----------------------|---------------|-----------|-------|
| ■ Utilization         | 2.8%          | 12.7%     | 2.9%  |
| ■ Cost                | 4.6%          | 4.4%      | 4.8%  |
| ■ Drug Mix            | 14.0%         | (2.2%)    | 10.6% |
| ■ Member Contribution | 0.7%          | 0.4%      | 0.5%  |
| ■ Total               | 22.1%         | 15.3%     | 18.8% |

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.

Increase in specialty drug utilization, which represents the change in the number of specialty scripts per member, is the primary driver of the 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.

## Impact of updated Rx claims experience

- Actual 2023 PMPM Active prescription drug claims experience was 12.6% higher than expected
- Drugs for inflammatory conditions rank number one in terms of spend by disease state, and PMPM claims spend for inflammatory conditions increased 21.4% in 2023. The top drugs in this category were Humira Pen, Stelara, and Dupixent.
- PMPM Drug Spend for weight loss drugs (such as high cost GLP-1 medications) increased 190.5%. Wegovy ranked first in terms of individual drug spend, and Ozempic and Mounjaro were all GLP-1 drugs that ranked in the top 10 of individual drug spend
- Overall specialty drug claims PMPM increased 15.3%, which was driven by inflammatory conditions (noted above) and oncology

## Impact of updated assumptions

- The Rx projection also reflects higher trend and anti-selection assumption compared to the PY2024 Rate Setting Analysis
- 2024 Rx claims are projected to be 17.8% higher compared to what was estimated in the PY2024 Rate Setting Analysis, which is partially offset by higher-than-expected rebates

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## Appendix

# Historical Rate Increases and Gain/(Loss)

| Premium Increase       | 2022   | 2023   | 2024 | 2025  | Average |
|------------------------|--------|--------|------|-------|---------|
| <b>Local Education</b> |        |        |      |       |         |
| Active                 | (1.2%) | 15.1%  | 6.3% | 14.0% | 8.3%    |
| Early Retiree          | 2.7%   | 15.8%  | 3.4% | 12.8% | 8.5%    |
| Medicare Retiree       | 4.9%   | (0.1%) | 6.9% | 14.9% | 6.5%    |

- 2022 is based on the Education rate setting analysis dated 8/17/2021
- 2023 is based on the State and Local Government rate setting analysis dated 9/19/2022
- 2024 is based on the State and Local Government rate setting analysis dated 7/24/2023

| Gain/(Loss)<br>(\$ millions) | 2021     | 2022      | 2023     | 2024     | 2025    |
|------------------------------|----------|-----------|----------|----------|---------|
| <b>Local Education</b>       |          |           |          |          |         |
| Active                       | (\$62.2) | (\$220.7) | (\$10.6) | (\$47.9) | \$35.3  |
| Early Retiree                | (\$37.0) | (\$26.3)  | \$0.0    | (\$17.8) | \$0.1   |
| Medicare Retiree             | \$28.7   | (\$14.2)  | (\$38.1) | \$36.3   | (\$0.3) |
| Total                        | (\$70.5) | (\$261.2) | (\$48.7) | (\$29.4) | \$35.1  |

- A gain is shown as a positive number and indicates the premiums were higher than plan costs. A loss is shown as a negative number and indicates that plan costs are higher than premiums
- Historical and projected gains and losses include any premium margin that was included in the rates. For 2025, Active premiums include 2.0% margin, resulting in a projected gain
- 2025 Retiree premiums are priced to approximately no gain or loss.

# 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 2025 Rate Setting Analysis for the School Employees' Health Benefits Program (SEHBP). The purpose of this analysis is to recommend premium levels for the SEHBP for January 1, 2025 through December 31, 2025. 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