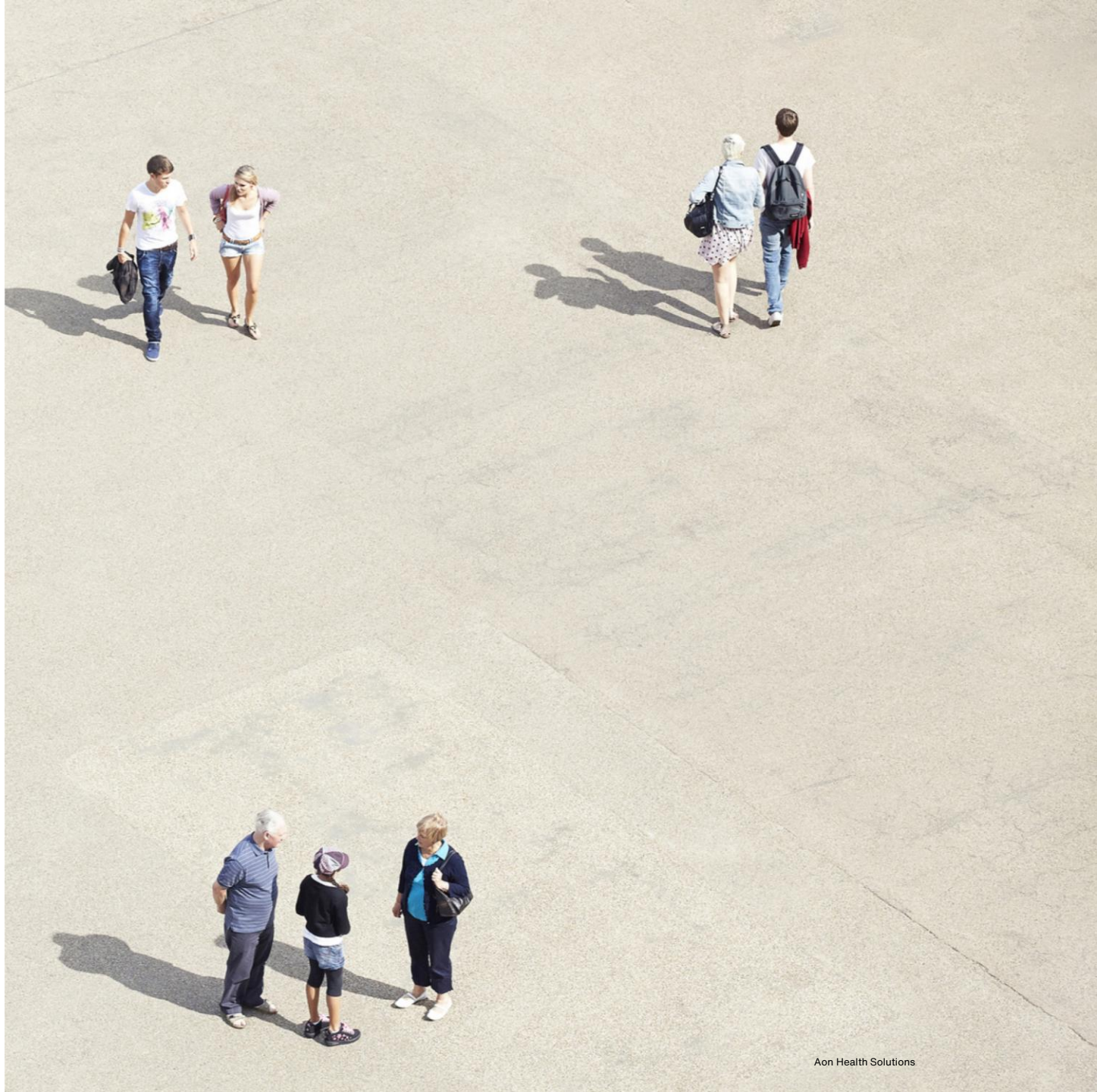
2027 SEHBP
Rate Setting Analysis

State of New Jersey

July 15, 2026

DRAFT



Today's Discussion

Meeting Objectives

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

1 **Rate Setting Analysis Overview**

2 **Local Education Results**

3 **Dental**

4 **Appendix**

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Overview

Overview of SEHBP Recommended Premium Rate Impact

Plan Year 2027 Rate Impact Recommendations

PY2027 Premium Rate Impact	Medical	Rx			Total
		Rx Card	MMRx	Total Rx	
Actives					
PPO10/15	45.3%	44.0%	44.0%	44.0%	45.1%
NJEHP	29.0%	45.9%	45.9%	45.9%	31.6%
GSHP	29.0%	45.9%	45.9%	45.9%	32.2%
Total	**32.4%**	**45.4%**	**45.6%**	**45.5%**	**34.4%**
Early Retirees					
NJEHP	9.2%			18.1%	11.3%
GSHP	9.2%			18.1%	11.5%
Total	**9.2%**			**18.1%**	**11.3%**
Medicare Retirees					
Medicare Advantage	13.1%			2.4%	6.2%
Medicare Supplement	10.3%			2.4%	6.2%
Total	**12.3%**			**2.4%**	**6.2%**
Grand Total	**23.7%**			**15.4%**	**21.1%**

Note: Medicare Advantage premium increases shown reflect a weighted average across the Medicare Advantage plans and actual increases vary by option.

Claim Stabilization Reserve Balance (in $ millions)	Total
12/31/2025	($66)
12/31/2026	($56)
12/31/2027	$138
Months of Plan Cost as of 12/31/2027	1.0

- 2027 Active, Early Retiree, and Medicare Retiree cost is projected with Medical and Prescription Drug claims incurred from January 1, 2025 through December 31, 2025 with runout through March 31, 2026.
- For Actives, the premium increases are based on two distinct, stand-alone experience pools, representing combined PPO10 and PPO15 experience, and separately the combined NJEHP/GSHP experience.
  - The 2027 NJEHP premium (Medical + Rx card) is projected to be 37.6% lower compared to the PPO10 plan.
- On June 30, 2026, Chapter 28 was enacted into law and provides a temporary cash flow mechanism to cover unexpected, mid-year shortfalls in the SEHBP. The Division is estimating that a transfer will be required in 2026 under Chapter 28 to cover emerging claims. The Division is projecting that the amount transferred will be $70 million as of 12/31/2026.
- Actives premiums are set 15.9% above expected costs for Plan Year 2027. This increase includes 4.2% margin to repay the $70 million that is projected to be owed under Chapter 28 along with an additional 11.7% to help build the CSR to 1.0 month of plan cost. The projected CSR balances remain below the targeted 2.0 months of plan cost in Plan Year 2027, indicating that further margin adjustments may be warranted.
  - The projected rates include anti-selection assumptions of 5.0% in 2026 and 4.75% in 2027 on projected Active claim costs to reflect the increased risk of employers choosing to leave the plan. Even this level of anti-selection may be insufficient if attrition from the plan is significant.
  - An additional scenario is included in the appendix for reference.

Active Plan Benchmarking

2026 Per Employee Per Year (PEPY) Plan Cost Comparison

Plan Year 2026	Local Education Actives	Aon HVI New Jersey Market
Medical Cost PEPY	$30,110	N/A
Rx Cost PEPY	$7,380	N/A
Total Cost PEPY	$37,490	$19,940
Average Age	47.8	43.3
Average Actuarial Value	98%	89%

>Local Education Active PEPY amounts are based on the latest PY2026 projections; PEPY amounts are normalized for the number of employees with drug coverage through the SEHBP
>New Jersey Market benchmarking is based on Aon's Health Value Initiative (HVI) database for 2026 (210,000 subscribers)

The first chart shows Local Education Active total projected 2026 plan costs compared to Aon's HVI Benchmarking data for the New Jersey Market.

- Local Education PEPY plan costs are 88% higher than the New Jersey Market benchmark.

Historical Trend Comparison

	Milliman HTG (New Jersey)		Local Education Actives	
	Medical	Rx	Medical	Rx
2024-2025	8.4%	17.9%	11.4%	23.5%
2023-2024	10.2%	15.2%	10.0%	20.7%
2022-2023	7.9%	12.8%	5.9%	18.6%
3 Yr CAGR 2022-2025	**8.8%**	**15.3%**	**9.1%**	**20.9%**

NJ trends are shown on an incurred basis, medical trends include medical claims and capitation amounts for the PPO plans and are normalized for the impact of plan design changes

The second chart shows the Local Education historical medical and Rx claims trend over the past 3 years compared to Milliman's Health Trend Guideline (HTG) report for the New Jersey market.

- While Local Education Active medical trends the last 3 years are comparable to benchmark, recent experience is trending higher.
- Local Education Rx claims are trending much higher compared to the Milliman benchmark. Some employers in the benchmark may not cover GLP-1 drugs for weight loss.

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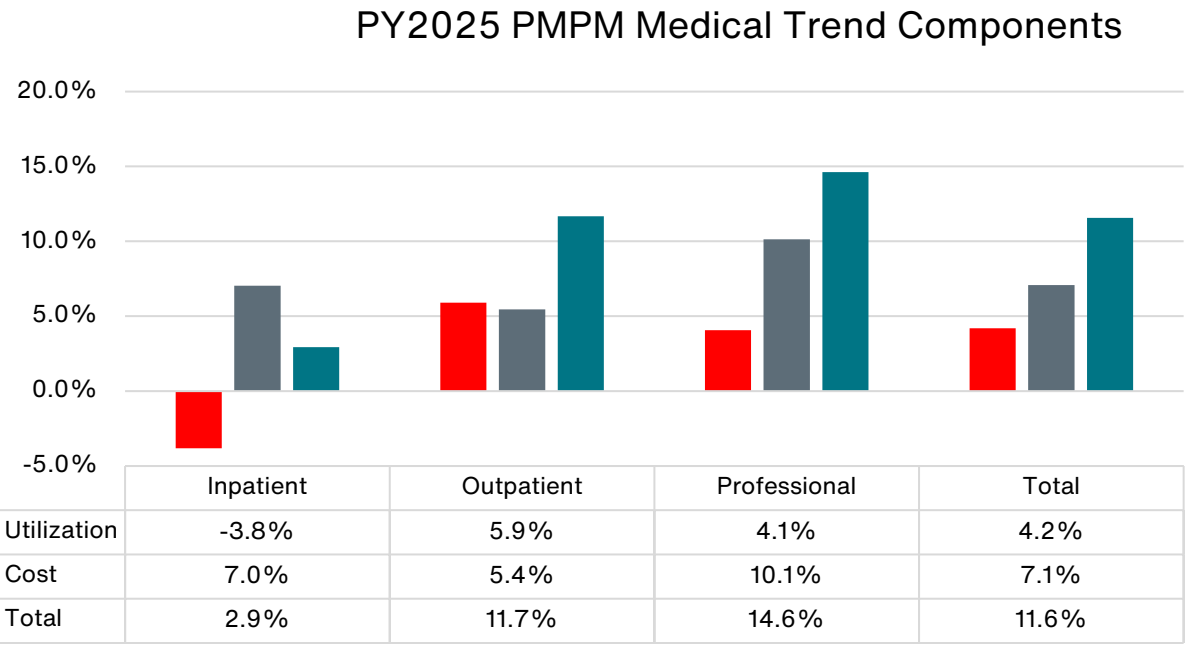
Local Education Projections

Local Education Active PMPM Medical Claim Trends



	Inpatient	Outpatient	Professional	Total
Utilization	-3.8%	5.9%	4.1%	4.2%
Cost	7.0%	5.4%	10.1%	7.1%
Total	2.9%	11.7%	14.6%	11.6%

Horizon BOB	Inpatient	Outpatient	Professional	Total
Utilization	0.3%	3.1%	1.6%	1.7%
Cost	3.6%	5.4%	7.3%	6.0%
Total	3.9%	8.7%	9.0%	7.9%

NJ medical claim drivers are based on Horizon reporting that reflects CY2025 incurred claims with 3 months of runout; Cost per visit increases are comprised of both unit cost trends and mix of services (i.e., members using more or less expensive services on average) changes.

Book-of-Business trends were provided by Horizon for inpatient, outpatient and professional. Total book-of-business trend was estimated using NJ's claim distribution by category

Impact of updated 2025 medical claims experience

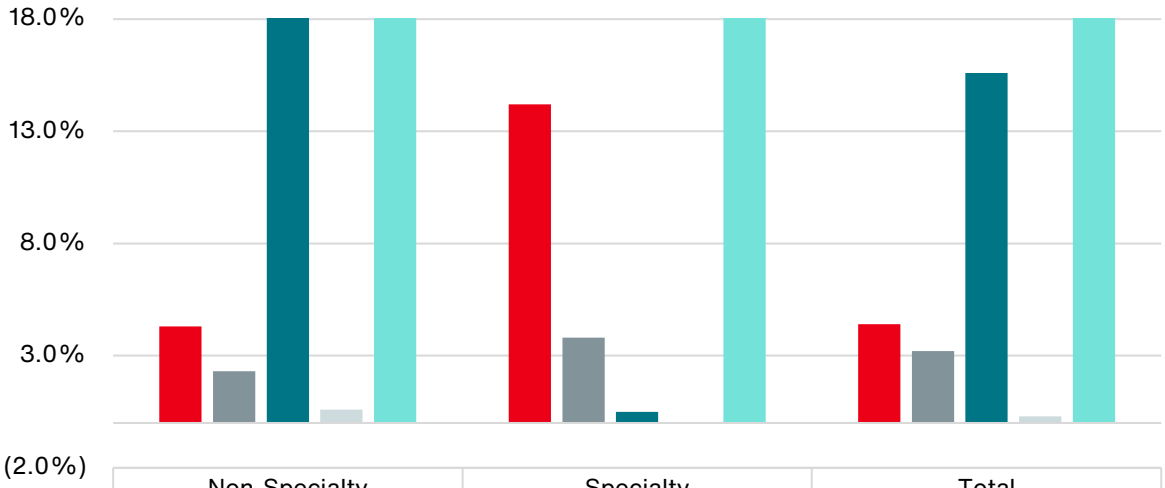
- Horizon reported 2025 medical trends of 11.6%, lower than the 11.75% medical trend + anti-selection assumptions reflected in last year's rate setting analysis.
- Medical claim trends are largely driven by increased costs and utilization of both outpatient and professional services:
  - Medical claims for outpatient services increased 12%, including a 5% increase in the cost per visit and a 6% increase in utilization.
  - Outpatient (OP) unit cost has increased for Ambulatory OP (+9%), Emergency Room (+8%), Medical Pharmacy (+14%), and Surgery (+12%). Utilization of Ambulatory OP and Lab increased 10% and 15%, respectively.
  - For professional services, utilization increased 4% and cost increased 10% for a total professional trend of 15%. Specialist physician was the biggest driver of professional cost increases, with an overall trend of 17%.
  - These trends are likely influenced by the effects of anti-selection as a large number of employers elected to leave the SEHBP in 2025, a trend which has continued into 2026.

Impact of updated 2026 assumptions

- The medical projection also reflects higher trend and anti-selection assumption compared to the PY2026 Rate Setting Analysis.
- 2026 medical claims are projected to be 1.5% higher compared to what was estimated in the PY2026 Rate Setting Analysis.

Local Education Active PMPM Rx Claim Drivers (Before Rebates)

PY2025 PMPM Rx Trend Components



	Non-Specialty	Specialty	Total
Utilization	4.3%	14.2%	4.4%
Cost	2.3%	3.8%	3.2%
Drug Mix	20.5%	0.5%	15.6%
Member Contribution	0.6%	0.0%	0.3%
Total	27.6%	18.4%	23.5%

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 23.5% over the prior period driven by high utilization of both GLP-1 drugs and specialty drugs.

Impact of updated 2025 Rx claims experience

- Optum reported 2025 Rx claim trends of 23.5%, lower than the 25.25% Rx trend + anti-selection assumptions reflected in last year's rate setting analysis.
- Drugs for inflammatory conditions ranked number one in terms of spend by disease state, and PMPM claims spend for inflammatory conditions increased 21.0% in 2025. The top drugs in this category were Dupixent, Stelara, and Skyrizi Pen.
- PMPM Drug Spend for weight loss drugs (such as high cost GLP-1 medications) increased 83.5%. Zepbound ranked first in terms of individual drug spend, and Wegovy, Mounjaro and Ozempic were all GLP-1 drugs that ranked in the top 5 of individual drug spend.
- Overall specialty drug claims PMPM increased 18.4%, which was driven by inflammatory conditions (noted above) and oncology.

Impact of updated 2026 assumptions

- The Rx projection also reflects higher trend and anti-selection assumption compared to the PY2026 Rate Setting Analysis.
- 2026 Rx claims before rebates are projected to be 0.9% higher compared to what was estimated in the PY2026 Rate Setting Analysis.

Based on CY2025 paid claims reporting provided by Optum. Member contributions represent member cost-share through copays and coinsurance.

Local Education Active Premium Increase Drivers

Local Education Active premiums are projected to increase **34.4%** in total for 2027, a result of the following:

- **Plan Year 2026 Reforecast +5.7%** - Actual 2025 claims trends remain elevated and are higher than expected after accounting for the significant migration to the NJEHP. Additionally, medical and Rx trend and anti-selection projection assumptions have increased from the prior rate setting analysis driven by upward medical cost pressures and expected increases in GLP-1 and specialty drug costs and utilization:
  - While trends remain high, actual 2025 Active PMPM medical and prescription drug claims are slightly lower than what was projected in the prior analysis. However, this is offset by a premium deficit following significant migration into the NJEHP plan.
  - The 2026 medical and Rx trend assumptions reflected in this analysis are 0.5% and 1.5% higher, respectively, compared to the 2026 Rate Setting Analysis.
  - The 2026 anti-selection assumption is 350 basis points higher compared to the prior analysis, reflecting a significant plan membership reduction as employers have elected to leave the SEHBP.
- **Trend to Plan Year 2027 +10.7%** - The Plan Year 2027 premiums include an additional year of trend to account for projected increases from 2026 to 2027.
- **Anti-selection +4.2%** - 2027 premiums include an additional 475 basis point load for anti-selection to account for favorable risks leaving the plan.
  - Enrollment has decreased each of the past three years, with reductions of 5%, 8% and 18% in 2024, 2025, and 2026.
- **Rx Rebates +0.6%** - Prescription drug rebates as a percentage of prescription drug claims are projected to be lower in 2027 compared to the 2026 reforecast.
- **Margin +9.3%** - Plan Year 2027 premium rates are set 15.9% higher than the projected medical and prescription drug costs for Actives to fund projected amounts owed under Chapter 28 ($70M) and to build the CSR balance. The Plan Year 2026 premium rates reflected a 6.0% margin.
- **Other Changes +0.2%** - Impact actuarial adjustments and other changes.

*Total premium impacts shown are multiplicative, not additive

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Local Education Dental Projections

Overview of Recommended Renewal Impact

Plan Year 2027 Rate Impact Recommendations

	Actives	Retirees
Dental Expense Plan		
SEHBP Aetna DEP	0.7%	5.0%
SEHBP Horizon DEP	0.7%	5.0%
SEHBP Aetna DEP Plus	N/A	15.5%
SEHBP Horizon DEP Plus	N/A	15.5%
DPO Plans		
Aetna	0.0%	0.0%

- The table above provides the Plan Year 2027 premium rate changes.

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Appendix

Local Education Pricing Methodology/Assumptions

	2027 Pricing Projections
Claims Experience	Claims based on 12-months of incurred experience from January 1, 2025 through December 31, 2025 with runout through March 31, 2026
Enrollment Distribution / Migration Assumption	Monthly census data was provided by the State through April 2026 For Plan Year 2027, it is assumed that 15% of Actives enrolled in the PPO10 and PPO15 plans will migrate to the NJEHP plan. Active enrollment is assumed to decrease 8.75% in 2027
Trend Assumption (excluding anti-selection)	Active (2026 / 2027): Medical = 10.0% / 9.5% | Rx = 20.5% / 18.5% Early Retiree (2026 / 2027): Medical = 10.0% / 9.5% | Rx = 19.0% / 17.5% SI Medicare (2026 / 2027): Medical = 6.0% / 6.0% | Rx = 0.8% / 7.4%
Rx Rebates / EGWP	Projected Rx Rebates and EGWP credits are based on data provided by Optum
Anti-Selection	Active medical and prescription drug trends have been increased by 500 basis points for Plan Year 2026 and 475 basis points Plan Year 2027
High-Cost Claimants	Claims were reviewed for abnormal high-cost claimants and adjusted where necessary based on this review
Chapter 28 & Premium Margin	On June 30, 2026, Chapter 28 was enacted into law and provides a temporary cash flow mechanism to cover unexpected, mid-year shortfalls in the SEHBP that might otherwise require precipitous corrective actions on the fund's revenue or expenditure side. The Division is estimating that a transfer will be required in 2026 under Chapter 28 to cover emerging claims, which is projected to be $70 million as of 12/31/2026. Resulting premiums for Actives under this scenario are set 15.9% above expected costs for Plan Year 2027. This increase includes 4.2% margin to repay the $70 million that is projected to be owed under Chapter 28 along with an additional 11.7% to help build the CSR to 1.0 month of plan cost. Even with this margin, the reserve is projected to fall short of the recommended level at the end of Plan Year 2027.
Other	The projected PPO10 and PPO15 costs reflect a 6% selection adjustment in 2026 and a 2% selection adjustment in 2027 assuming those remaining in the plan will be higher cost on average compared to the pre-migration average cost for those plans

Dental Pricing Methodology/Assumptions

	2027 Pricing Projections
Claims Experience	Claims based on 12-months of incurred experience from January 1, 2025 through December 31, 2025 with runout through March 31, 2026
Enrollment Distribution / Migration Assumption	Monthly census data was provided by the State through April 2026
Trend Assumption	4.5% Annual Trend
Other	SHBP and SEHBP experience is combined for purposes of calculating premium rate increases The premium increase for the SEHBP Retiree DEP Plus plan includes an additional adjustment to reflect high emerging experience in that plan option.

Local Education – Alternative Active Scenario

PY2027 Premium Rate Impact	Medical	Rx			Total
		Rx Card	MMRx	Total Rx	
Actives					
PPO10/15	51.1%	49.8%	49.8%	49.8%	50.9%
NJEHP	34.2%	51.7%	51.7%	51.7%	36.9%
GSHP	34.2%	51.7%	51.7%	51.7%	37.4%
Total	**37.7%**	**51.2%**	**51.3%**	**51.2%**	**39.8%**
Early Retirees					
NJEHP	9.2%			18.1%	11.3%
GSHP	9.2%			18.1%	11.5%
Total	**9.2%**			**18.1%**	**11.3%**
Medicare Retirees					
Medicare Advantage	13.1%			2.4%	6.2%
Medicare Supplement	10.3%			2.4%	6.2%
Total	**12.3%**			**2.4%**	**6.2%**
Grand Total	**26.8%**			**16.7%**	**23.6%**

Note: Medicare Advantage premium increases shown reflect a weighted average across the Medicare Advantage plans and actual increases vary by option.

- **Alternative Scenario: Fund the CSR to 2.0 Months of Plan Cost** – this scenario brings the CSR to its target level for Actives without explicitly considering the repayment of the $70M anticipated to be owed under Chapter 28. Plan Year 2027 resulting Active premiums are set 20.0% above expected costs
- Assumes 2027 anti-selection of 5.25% on projected Active claim costs to reflect the increased risk of employers choosing to leave the plan. Even this level of anti-selection may be insufficient if attrition from the plan is significant.
- Assumes Active enrollment will decrease 10.0% in 2027.

Claim Stabilization Reserve Balance (in $ millions)	Total
12/31/2025	($66)
12/31/2026	($56)
12/31/2027	$272
Months of Plan Cost as of 12/31/2027	2.0

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 presentation has been prepared to present our analysis of the Plan Year 2027 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, 2027 through December 31, 2027. The use of this presentation 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