



2025 SHBP 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 Government rating assumptions and active cost drivers
- Provide summary of State rating assumptions and active cost drivers
- Provide summary of Dental results

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**Rate Setting
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Overview

Overview of SHBP Recommended Premium Rate Impact

Plan Year 2025 Rate Impact Recommendations

Plan Year 2025 Premium Rate Changes	Actives			Early Retirees			Medicare Retirees		
	Medical	Rx	Total	Medical	Rx	Total	Medical	Rx	Total
Local Government									
PPO / HDHP	14.6%	28.6%	16.3%	15.1%	33.1%	17.8%	N/A	N/A	N/A
HMO	14.6%	28.6%	16.5%	15.1%	33.1%	18.1%	N/A	N/A	N/A
Tiered Network	12.1%	22.3%	13.6%	15.1%	33.1%	18.1%	N/A	N/A	N/A
Total	14.5%	28.4%	16.3%	15.1%	33.1%	17.9%	7.0%	32.4%	22.8%
State									
PPO / HDHP	12.3%	25.1%	14.5%	8.8%	20.6%	10.8%	N/A	N/A	N/A
HMO	12.3%	25.1%	14.5%	8.8%	20.6%	11.0%	N/A	N/A	N/A
Tiered Network	1.0%	17.5%	3.6%	8.8%	20.6%	11.0%	N/A	N/A	N/A
Unity PPO	7.6%	23.8%	10.1%	8.8%	20.6%	10.8%	N/A	N/A	N/A
Total	8.1%	23.6%	10.6%	8.8%	20.6%	10.9%	7.6%	16.4%	13.8%

- 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
- Medicare Retiree medical rate changes reflect both Aetna Medicare Advantage premium rate increases and self-insured medical plan increases
- Local Government Active and Retiree premiums include a 3.0% margin, since the projected total Claim Stabilization Reserve for the Local Government Group is expected to be below the target level of 2.0 months at the end of Plan Year 2025. Even with margin, projected reserve remains below target level.

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 is 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 Local Government Medicare Retiree plan costs 5.6% or \$9.5M and the State Medicare Retiree plan costs 10.7% or \$31.6M. 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 Government Active and Retiree premium increases include additional adjustments:
 - Medical and Rx trends include additional anti-selection loads to account for the risk of employers with favorable risks leaving the plan, leaving behind employers with higher average costs
 - Premium rates include 3.0% margin to help replenish the claim stabilization reserve, which is projected to be below the target 2.0 months of plan costs. Even with margin, projected reserve remains below target level.

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Local Government Projections

Local Government Pricing Methodology/Assumptions

	2025 Pricing Projections
Claims Experience	Claims based on 12-months of incurred experience from January 1, 2023 through December 31, 2023 with runout through March 31, 2024
Enrollment Distribution / Migration Assumption	<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 0.5% of Actives in the PPO10 and PPO15 plans migrate to the Tiered Network plan and 1.0% of Actives are New Hires who enroll in the Unity 2019 PPO Plan. It is also assumed that 5% of Active and Early Retirees will enroll with Aetna</p>
Trend Assumption (excluding anti-selection)	<p>Active (2024 / 2025): Medical = 7.5% / 8.0% Rx = 13.5% / 12.5%</p> <p>Early Retiree (2024 / 2025): Medical = 7.5% / 8.0% Rx = 13.0% / 12.5%</p> <p>SI Medicare (2024 / 2025): Medical = 5.5% / 5.5% Rx = 13.5% / 13.0%</p>
Rx Rebates / EGWP	Projected Rx Rebates and EGWP credits are based on data provided by Optum
Anti-Selection	Active and Retiree medical and prescription drug trends have been increased by 200 basis points for Plan Year 2024 and 150 basis points Plan Year 2025
High-Cost Claimants	Claims were reviewed for abnormal high-cost claimants and adjusted based on this review
Other	The Local Government Active and Retiree premium rate changes reflect a 3.0% margin since the projected total Claim Stabilization Reserve for the Local Government 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.

Local Government Active Premium Increase Drivers

Local Government Active premiums are projected to increase **16.3%** in total for 2025, primarily a result of the following:

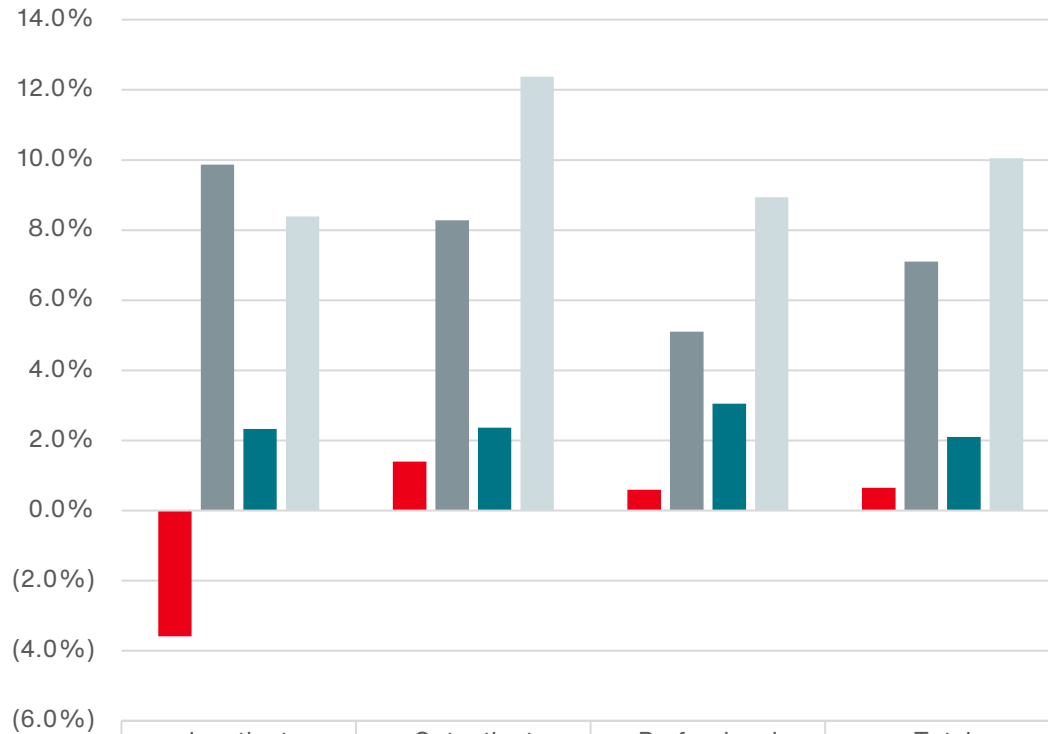
- **+2.2%** - Actual 2023 claims experience was higher compared to expected 2023 claims
 - Actual 2023 PMPM Active medical claims experience was 1.0% higher than expected
 - Actual 2023 PMPM Active prescription drug claims experience was 11.8% higher than expected
- **+9.8%** - Medical and Rx trend projection 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 1.0% and 4.5% 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
- **+2.5%** - 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 125 basis points higher compared to the prior analysis. 2025 includes an additional 150 basis point load for anti-selection
- **-0.6%** - Prescription drug rebates are projected to increase in 2025
- **+1.7%** - Impact of other changes including cost increases due to NJ State Mandates, actual vs expected plan enrollment and migration assumptions, and changes in administrative fees
- **0.0%** - There is no additional impact for margin since both 2024 and 2025 premium rates reflect 3.0% margin



*Impacts are multiplicative, not additive

Local Government Active Medical Claim Trends

Local Government Active
PY2023 Trend Medical Components



	Inpatient	Outpatient	Professional	Total
■ Utilization	(3.6%)	1.4%	0.6%	0.6%
■ Unit Cost	9.9%	8.3%	5.1%	7.1%
■ Mix of Services	2.3%	2.4%	3.0%	2.1%
■ Total	8.4%	12.4%	8.9%	10.1%

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

Impact of updated medical claims experience

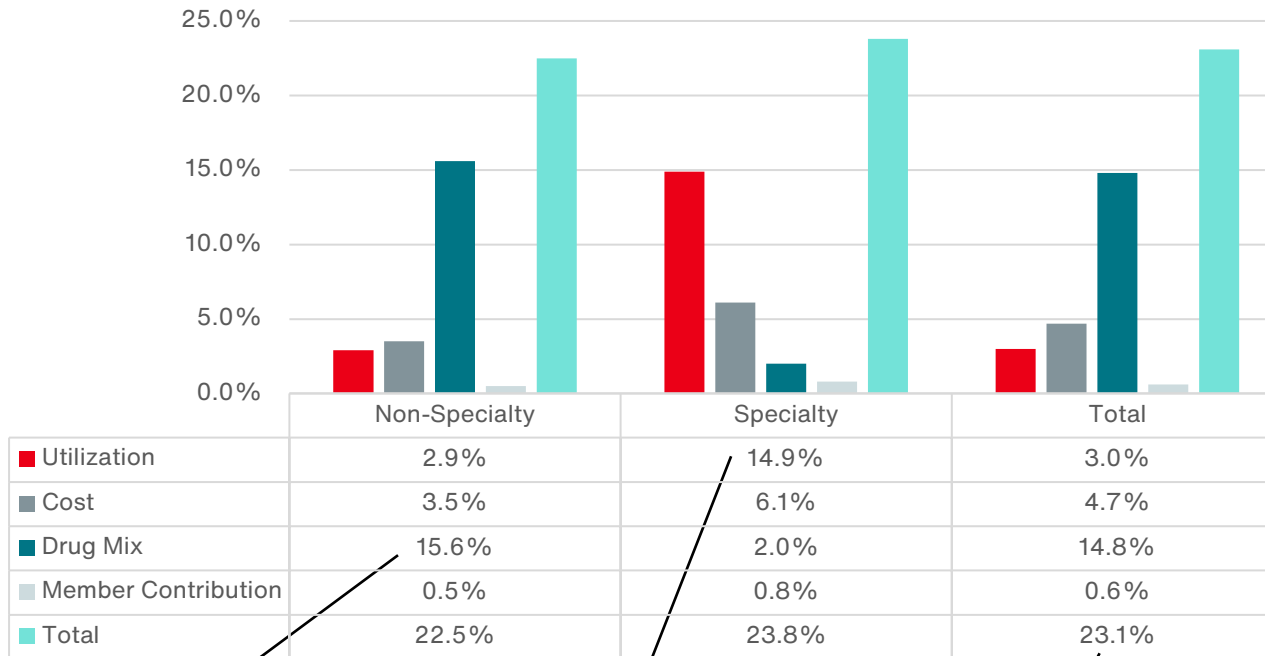
- Actual 2023 PMPM Active medical claims experience was 1.0% higher than expected
- Based on CY2023 reporting provided by Horizon, medical claim experience was driven by the following:
 - Medical claims for outpatient services increased, with a total annual trend of 12%, including an 11% increase in the cost per visit and 1% increase in utilization.
 - Utilization increased for outpatient services that are higher cost, including Emergency Room (+1% utilization), outpatient ambulatory (+3% utilization), and Outpatient Surgery (+11% utilization).
 - Inpatient visits decreased 4%, but the cost per visit increased 12%. Additionally, professional visits increased 1%, including a 7% increase in specialist visits, and the cost per services increased 8%.

Impact of updated assumptions

- The medical projection also reflects higher trend and anti-selection assumption compared to the PY2024 Rate Setting Analysis
- 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 3.9% higher compared to what was estimated in the PY2024 Rate Setting Analysis

Local Government Active Rx Claim Drivers

Local Government Actives
PY2023 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.

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% 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 11.8% 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 34.3% 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 160.0%. Wegovy ranked first in terms of individual drug spend, and Ozempic, Mounjaro, and Trulicity were all GLP-1 drugs that ranked in the top 10 of individual drug spend
- Overall specialty drug claims PMPM increased 23.8%, 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 18.4% higher compared to what was estimated in the PY2024 Rate Setting Analysis, which is partially offset by higher-than-expected rebates

Local Government Claim Stabilization Reserve

Claim Stabilization Reserve Balance (in \$ millions)	Total	Active	Retiree	Months of Plan Cost as of Dec 31
12/31/2023	(\$50)	\$76	(\$126)	(0.4)
12/31/2024	(\$100)	\$44	(\$144)	(0.7)
12/31/2025	(\$40)	\$85	(\$124)	(0.2)

- The projected reserves as of December 31, 2023, 2024, and 2025 are based on the reserve balance as of June 30, 2023 provided by the State and adjusted to December 31, 2023 based on actual expenses and revenues provided by the State
- Local Government Active and Retiree premium rates reflect a 3.0% margin in both 2024 and 2025 since the projected total Claim Stabilization Reserve for the Local Government Group is expected to be below the target level of 2.0 months
- Even with the included margin, the Claim Stabilization Reserve is projected to be below the target level at December 31, 2025.

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State Active Results

State Pricing Methodology/Assumptions

	2025 Pricing Projections
Claims Experience	Claims based on 12-months of incurred experience from January 1, 2023 through December 31, 2023 with runout through March 31, 2024
Enrollment Distribution / Migration Assumption	<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 2.5% of members are new hires who enroll in the Unity 2019 PPO plans and that 1.0% of the State Active subscribers retire each year and enroll in either the Unity PPO Early Retiree plans</p> <p>It is assumed that 2.0% of State Active Legacy PPO15 and HMO15 participants migrate to the Tiered Network plan in Plan Year 2025</p> <p>For Plan Year 2025, it is assumed that 5% of Active and Early Retirees will enroll with Aetna</p>
Trend Assumption	<p>Active (2024 / 2025): Medical = 7.0% / 7.5% Rx = 13.5% / 12.5%</p> <p>Early Retiree (2024 / 2025): Medical = 7.0% / 7.5% Rx = 13.0% / 12.5%</p> <p>SI Medicare (2024 / 2025): Medical = 5.5% / 5.5% Rx = 13.5% / 13.0%</p>
Rx Rebates / EGWP	Projected Rx Rebates and EGWP credits were provided by Optum
High-Cost Claimants	Claims were reviewed for abnormal high-cost claimants and adjusted based on this review

State Active Premium Increase Drivers

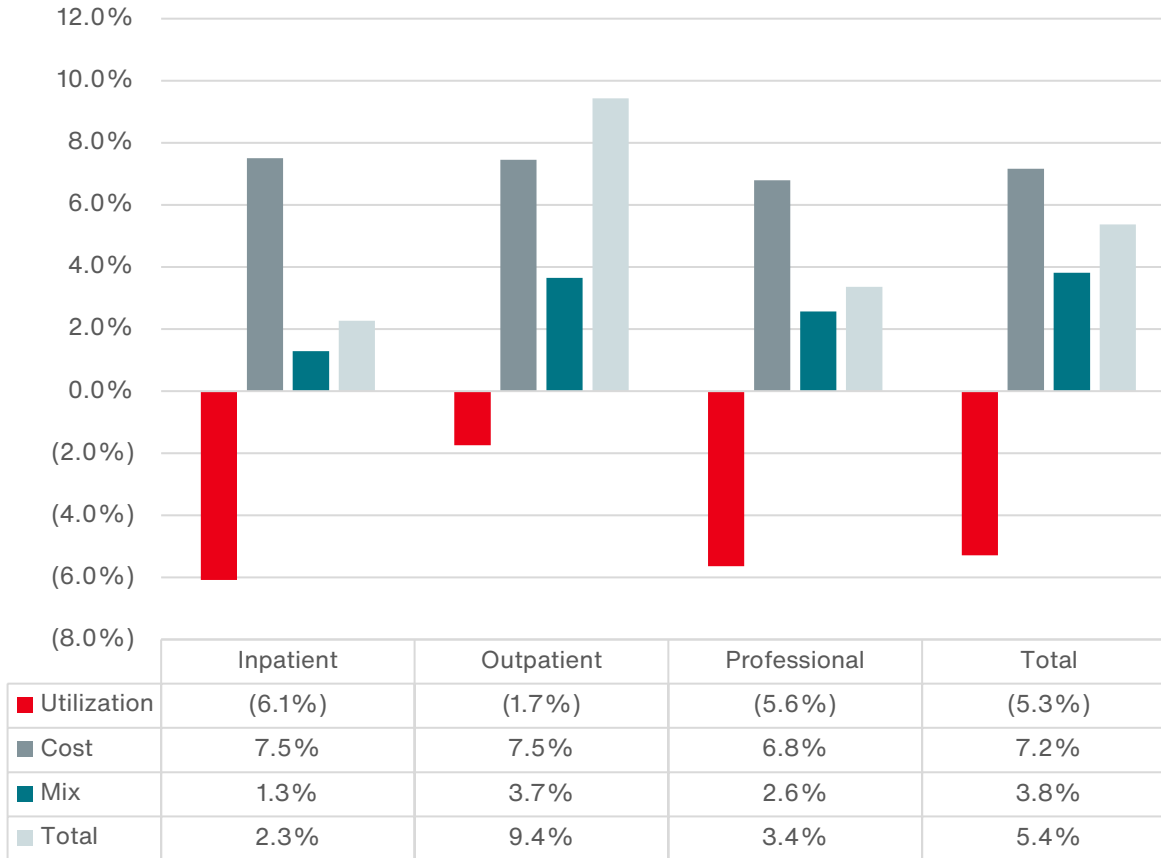
State Active premiums are projected to increase **10.6%** in total for 2025, primarily a result of the following:

- **+2.1%** - Actual 2023 claims experience was higher compared to expected 2023 claims
 - Actual 2023 PMPM Active medical claims experience was 0.2% higher than expected
 - Actual 2023 PMPM Active prescription drug claims experience was 11.9% higher than expected
- **+9.3%** - 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 4.5% 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
- **-1.0%** - Prescription drug rebates are projected to increase in 2025
- **+0.1%** - Impact of other changes including cost increases due to NJ State Mandates, actual vs expected plan enrollment and migration assumptions, and changes in administrative fees

*Impacts are multiplicative, not additive

State Active Medical Claim Trends

State Actives
PY2023 Medical Trend Components



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

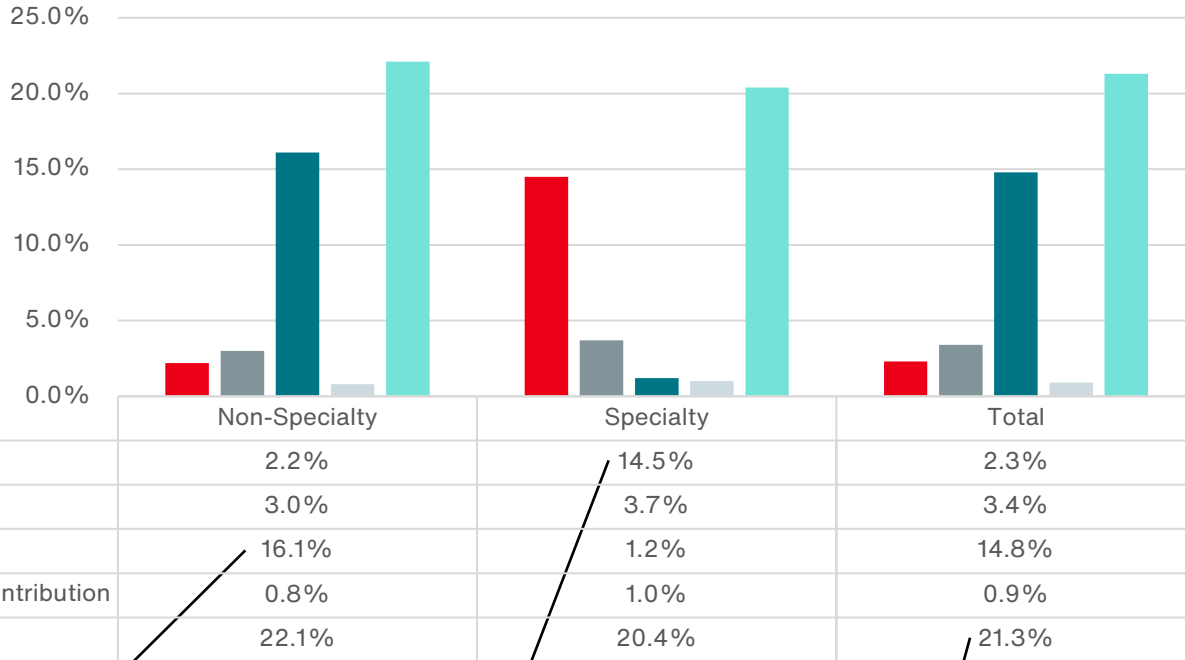
- Actual 2023 PMPM Active medical claims experience was 0.2% higher than expected
- Based on CY2023 reporting provided by Horizon, medical claim experience was driven by the following:
 - Medical claims for outpatient services increased, with a total annual trend of 9%, including an 11% increase in the cost per visit, offset by a 2% decrease in utilization.
 - While there was a decrease in overall outpatient utilization, utilization increased for outpatient services that are higher cost, including Emergency Room (+2% utilization), outpatient medical pharmacy (+2% utilization), and Outpatient Surgery (+7% utilization).
 - Overall, inpatient visits decreased 6%. Additionally, professional visits decreased 6%, including a 1% reduction in specialist visits, but the cost per visit increased 10%.

Impact of updated assumptions

- The medical projection also reflects a higher trend assumption compared to the PY2024 Rate Setting Analysis
- Claims are also projected to be 0.5% higher due to NJ State Mandates that went into effect in 2024
- Overall, Plan Year 2024 medical claims are projected to be 0.7% higher than the Plan Year 2024 rate setting analysis

State Active Rx Claim Drivers

State Active
PY2023 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 this analysis.

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

The average plan paid PMPM amount has increased 21% 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 11.9% 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 26.6% 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 164.8%. Wegovy ranked first in terms of individual drug spend, and Ozempic, Mounjaro, and Trulicity were all GLP-1 drugs that ranked in the top 10 of individual drug spend.
- Overall specialty drug claims PMPM increased 20.4%, which was driven by inflammatory conditions (noted above) and oncology.

Impact of updated assumptions

- The Rx projection also reflect a higher trend assumption compared to the PY2024 Rate Setting Analysis
- 2024 Rx claims are projected to be 16.7% 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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Dental Rate Increases

Dental Pricing Methodology/Assumptions

	2025 Pricing Projections
Claims Experience	Claims based on 12-months of incurred experience from January 1, 2022 through December 31, 2022 with runout through March 31, 2023
Enrollment Distribution / Migration Assumption	Monthly census data was provided by the State through April 2024;
Trend Assumption	4.0% Annual Trend
SEHBP Plan Design Changes	<p><u>Resolution 2023-1</u>: Adds implant coverage under major restorative services to current SEHBP Retiree Dental Plan without an Alternative Benefit Provision effective January 1, 2025. The annual maximum is \$3,000 for in-network and \$2,000 for out-of-network on an integrated basis.</p> <p><u>Resolution 2023-2</u>: Creates a new retiree DEP plan available to SEHBP Retirees beginning January 1, 2025. Provides coverage for orthodontia services under age 19 and includes an additional 4th tier. This plan is otherwise consistent with the base SEHBP Retiree DEP plan reflecting Resolution 2023-1.</p> <ul style="list-style-type: none"> ▪ It is assumed that 5% of SEHBP DEP Retirees will migrate to this new plan.

Overview of Recommended Renewal Impact

Plan Year 2025 Rate Impact Recommendations

	Actives	Retirees
Dental Expense Plan		
SHBP DEP	8.1%	6.8%
SEHBP DEP	8.1%	16.9%
SEHBP DEP Enhanced*	N/A	33.9%
DPO Plans		
Aetna	0.0%	0.0%
Cigna	5.0%	5.0%
Horizon	0.0%	0.0%
MetLife	0.0%	0.0%

- The table above provides the Plan Year 2025 premium rate changes.

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Appendix

Historical Premium Rate Increases and Gains/(Losses)

Premium Increase	2022	2023	2024	2025	Average
Local Government					
Active	2.3%	21.6%	7.3%	16.3%	11.6%
Early Retiree	31.8%	13.0%	7.3%	17.9%	17.1%
Medicare Retiree	6.9%	0.7%	8.8%	22.8%	9.5%
Total	5.0%	20.0%	7.4%	17.2%	12.2%
State					
Active	2.1%	19.2%	4.3%	10.6%	8.9%
Early Retiree	4.6%	12.7%	3.5%	10.9%	7.8%
Medicare Retiree	4.9%	(2.9%)	5.8%	13.8%	5.3%
Total	2.4%	17.8%	4.3%	11.0%	8.7%

- 2022 is based on the State rate setting analysis dated 8/17/2021 and the Local Government Rate Setting Analysis dated 9/8/2021
- 2023 is based on the State and Local Government rate setting analysis dated 9/14/2022
- 2024 is based on the State and Local Government rate setting analysis dated 7/31/2023

Gain/(Loss) - \$ millions	2021	2022	2023	2024	2025
Local Government					
Active	(\$106.3)	(\$106.3)	\$11.2	(\$31.6)	\$40.9
Early Retiree	(\$114.4)	(\$40.7)	(\$6.7)	(\$16.5)	\$13.9
Medicare Retiree	\$4.6	(\$3.2)	(\$11.2)	(\$1.6)	\$5.5
Total	(\$216.1)	(\$150.2)	(\$6.7)	(\$49.7)	\$60.3
State					
Active	(\$186.1)	(\$202.4)	\$1.8	(\$56.4)	\$0.6
Early Retiree	(\$38.0)	(\$34.1)	\$4.3	(\$9.9)	(\$0.1)
Medicare Retiree	\$16.6	\$8.6	(\$9.7)	\$22.3	\$0.0
Total	(\$207.5)	(\$227.9)	(\$3.6)	(\$44.0)	\$0.5

- 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
- Local Government historical and projected gains and losses include any premium margin that was included in the rates. For 2025, Active and Retiree premiums include 3.0% margin, resulting in a projected gain
- 2025 State Active and 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 State Health Benefits Program (SHBP). The purpose of this analysis is to recommend premium levels for the SHBP 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