

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

Plan Year 2016 Medical/Rx Rate Renewal Recommendation

July 17, 2015

- For Plan Year 2016, Aon is recommending Local Education Group overall premium rate changes of 7.6% for Active Employees, 11.7% for Early Retirees, and 13.7% for Medicare Retirees.
 - In aggregate, the recommended rate actions represent an overall increase for the Local Education Group of 9.5%, comparable to the Plan Year 2015 recommended renewal action of 9.4%.
 - Following are the recommended premium rates changes by plan type:

	Active Employees	Early Retirees	Medicare Retirees
Medical PPO	7.2%	11.3%	5.9%
Medical HMO	7.8%	11.3%	5.9%
Prescription Drug PPO	9.6%	29.0%	20.5%
Prescription Drug HMO	9.6%	29.0%	20.5%
Total	7.6%	11.7%	13.7%

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

The Plan Year 2016 Renewal assumes the following:

- The Retiree Rx copays and Out-of-Pocket Maximum limits for SEHBP PPOs and HMOs will remain at the Plan Year 2015 levels.
- No change in the benefit landscape for Plan Year 2016, 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.
- Plan Year 2016 enrollment projections assume that 0.5% of the Active enrollment and 0.5% of the Retiree enrollment in NJ DIRECT15 will migrate to lower-cost plans as a result of these contribution changes.



- NJWELL is projected to increase Plan Year 2016 net costs \$1 million, with savings anticipated in future years.
- The New Jersey State Breast Evaluation and Other Medically-Necessary Testing mandate is projected to increase medical costs by 0.5%.
- Infertility mandate clarification is not expected to increase projected costs.
- The Autism and Other Developmental Disabilities Mandate is projected to increase medical costs by 0.1%.
- The contract extension with Express Scripts is projected to reduce overall Plan Year 2016 prescription drug costs by approximately 3.0%.
- Overall, Plan Year 2016 Local Education Active Employee enrollment is projected to decrease approximately 6% from the Plan Year 2015 level, while Early Retiree enrollment will decrease approximately 8% and Medicare Retiree enrollment will increase approximately 6%.
- The following components of Federal Health Care Reform impact the SEHBP in Plan Year 2016:
 - In-Network Out-of-Pocket Maximum for medical and prescription drug benefits combined will be no greater than \$6,850 Single / \$13,700 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.
 - The Transitional Reinsurance Fee (\$27 per non-Medicare member in Plan Year 2016), is projected to add \$6.8 million to SEHBP plan costs.
 - The Patient Centered Outcomes Research Institute (PCORI) Fee is assumed to increase at a 6% medical inflation rate from the Plan Year 2015 cost of \$2.20 per member per year. This is projected to increase SEHBP plan costs by \$0.9 million.
- Differences in the rate changes among Actives and Retirees, benefit plans and coverage tiers reflect the impact of:
 - Rx Rebates have been much higher than projected in Plan Years 2014 and 2015. Plan Year 2016 Rx rebates are projected to increase to \$132 million, from \$110 million in Plan Year 2015.
 - Plan Year 2015 prescription drug trends are expected to increase to 18.5% for Actives, compared to 9.0% in the Plan Year 2015 Renewal Report, and 18.0% for Retirees, compared to 10.5% in the Plan Year 2015 Renewal Report. These higher

trends are due to the increasing frequency of high-cost compound drugs and new high-cost specialty drugs.

- Based on expected terminations of Local Education Active Employers from the SEHBP, the Active medical and prescription drug trends have been increased by 50 basis points.
 - Since the two-year benefit adjusted average experience trend for Horizon Actives is approximately 7.5%, the PPO medical trend has been reduced to 8.0% (with the anti-selection load) from the Plan Year 2015 Renewal PPO medical trend of 8.3%.
 - PPO trends for Horizon Early Retirees have been lower than those for Actives in recent years, so the PPO medical trend for Early Retirees has been updated to 7.0%, from the PPO medical trend of 8.3% in the Plan Year 2015 Renewal Report.
 - Due to the continued favorable experience for the Horizon Medicare Retiree group, the Aon Hewitt recommended PPO medical trends have been reduced from 4.5% in the Plan Year 2015 Renewals to 3.5%.
 - The HMO medical trend for Actives has been updated to 7.5% from 7.0% in the Plan Year 2015 Renewal Report.
 - The HMO medical trend for Early Retirees remains at 7.0%, consistent with the Plan Year 2015 Renewal Report.
 - Projected 2016 EGWP credits are projected to increase from \$178 million for Plan Year 2015 to \$198 million for Plan Year 2016.
 - For Active premiums, increases vary by coverage tier, since the differences in costs by coverage tier have been revised based on actual SEHBP experience. Specifically, the load for Child(ren) coverage is recommended to increase from 75% of the Single coverage rate to 86% (See Attachment A for premium increases by coverage tier). This adjustment will make the Employee + Child(ren) rate more consistent with actual experience. This will increase Plan Year premiums for Employee+Child(ren) coverage an additional 6% and Family coverage an additional 4%.
- Plan Year 2016 projected costs for the SEHBP are \$2.8 billion (\$1.6 billion for Actives and \$1.2 billion for Retirees). Plan Year 2016 renewal premiums are projected to produce a \$34 million gain for Actives and no loss or gain for Retirees.
 - The 12/31/16 Claim Stabilization Reserve for Actives is projected at 2.0 months of projected Plan costs. The Active gain will be added to the Claim Stabilization Reserve for Active Education. Since the Active reserve is projected to be less than the target reserve as of



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12/31/2016, the Active recommended renewal increase 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 2016 premiums do not include any margin to rebuild Retiree reserve levels.

Attachment A
SEHBP – Local Education Group
Plan Year 2016 Rate Renewal Recommendations

	Total	Single	Ee + Spouse	Family	Ee + Child(ren)
Actives					
PPO Medical	7.2%	4.8%	4.8%	9.0%	11.3%
HMO Medical	7.8%	4.8%	4.8%	9.0%	11.3%
PPO Rx	9.6%	7.1%	7.1%	11.4%	13.9%
HMO Rx	9.6%	7.1%	7.1%	11.4%	13.9%
Total	7.6%	5.2%	5.2%	9.3%	11.7%
Early Retirees					
PPO Medical	11.3%	11.3%	11.3%	11.3%	11.3%
HMO Medical	11.3%	11.3%	11.3%	11.3%	11.3%
PPO Rx	29.0%	29.0%	29.0%	29.0%	29.0%
HMO Rx	29.0%	29.0%	29.0%	29.0%	29.0%
Total	11.7%	11.7%	11.7%	11.7%	11.7%
Medicare Retirees					
PPO Medical	5.9%	5.9%	5.9%	5.9%	5.9%
HMO Medical	5.9%	5.9%	5.9%	5.9%	5.9%
PPO Rx	20.5%	20.5%	20.5%	20.5%	20.5%
HMO Rx	20.5%	20.5%	20.5%	20.5%	20.5%
Total	13.7%	13.7%	13.7%	13.7%	13.7%
Grand Total	9.5%	8.0%	8.0%	10.6%	12.2%