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AGENDA ITEM

[X] Action Item
[ ] Information Only

Date: November 23, 2020

Item Number: VIII

Title: Plan Year 2022 Plan Design Recommendations and FY22/23 Budget Reserve Proposals

SUMMARY

This report provides information on the Plan Year 22 Plan Design recommendations to include 12% budget reserves for FY22.

BACKGROUND

Earlier this year, the Governor's Finance Office (GFO) requested agencies to submit budget reserves for Fiscal Years 2020 and 2021. PEBP was exempt from FY20 budget reserves but was able to achieve almost $25M in budget reserves for FY21, mainly by adjusting required reserve levels and contract adjustments. Additionally, agencies were originally asked to submit flat FY22/23 budgets, which for PEBP is automatically a 5% cut when trend is accounted for.

On November 3, 2020, the Governor's Finance Office (GFO) released a memo to state agency directors indicating that unfortunate economic conditions and declining revenues are expected in the next biennium. As a result, agencies are being asked to make necessary preparations by formulating and submitting proposed budget reserves of 12%. For PEBP, 12% is the equivalent of approximately $72M for the biennium. These reserve proposals are being used for budget planning purposes and may be adjusted when the Economic Forum releases the official forecast of future state General Fund revenues in December. The options presented in this report are for consideration not only for Plan Year 22 plan benefit design, but to be included, as necessary, in PEBP's FY22/23 agency request budget.

Each November, the PEBP Board discusses and approves the plan design for the following plan year so that in March, the approved plan design can be rated and premiums can be presented. At that point, all member material (including guides, master plan documents, website content, and member communications) is updated accordingly by staff in advance of open enrollment. The same approach is being proposed this year with an added element that will allow PEBP staff, in

coordination with GFO, to finalize a budget based on the forecasts presented by the Economic Forum in December. PEBP is proposing a menu of options to be considered in order to meet the budget reserve goal of 12%. Ranking the options in order of preference will reduce the need to call an emergency Board meeting (should the 12% goal change prior to January). It will allow PEBP to incorporate the necessary budgetary changes into the FY22/23 agency request budget and implement the changes accordingly in time for the upcoming Open Enrollment period.

Disclaimer: It is important to emphasize that although standard actuarial methodology has been applied to develop Plan Year 22 budget savings options and recommendations, the program has many outstanding variables that will ultimately play a critical role and affect the overall experience of the plan:

- Renewal of several major contracts
- COVID-19 costs
- Trend
- Introduction of new plan – unknown utilization
- Legislative Session

REPORT

8.1 PY2022 PROPOSED PLAN DESIGN

The grid below illustrates the plan design concept that the Board approved in July, including a new low deductible copay plan and modifications to the existing plans. The preliminary concept presented in July sought to meet the initial budget requirement, which required a reduction in benefits of approximately 5% in order to meet the required caps. Although the PEBP Board only approved the "concept" of the new plan design to ensure staff were able to incorporate the idea into the agencies budget submission, the specific plan details were not approved as plan design is historically presented and discussed each November. The intent was to present and approve the 5% reduced plan design, but the new budgetary goals required staff to make necessary adjustments to the original version. The grid below represents the adjusted benefit levels and illustrates a slightly leaner plan design than the original version presented to the Board in July.

	Modified CDHP		New Low Ded PPO w/ copay		EPO/HMO	
	PY21	Proposed PY22	PY21	Proposed PY22	PY21	Proposed PY22
Deductible (Individual w/in Family)	$1,500/$3,000 ($2,800)	$2,000/$4,000 ($2,850)		$1,000/$2,000 ($1,000)	$0	$500/$1,000 ($500)
OOP Max (Individual w/in Family)	$3,900/$7,800 ($6,850)	$6,000/$12,000 ($6,000)		$6,000/$12,000 ($6,000)	$7,150/$14,300 ($7,150)	$6,000/$12,000 ($6,000)
Coinsurance	20%	20%		20%	N/A	20%
Primary Care Visit	20% after ded.	20% after ded.		$30	$20	$25
Specialist Visit	20% after ded.	20% after ded.		$50	$40	$40
ER visit	20% after ded.	20% after ded.		$750	$500	ded + $750
UC Visit	20% after ded.	20% after ded.		$80	$30	$50
Inpatient Hospital	20% after ded.	20% after ded.		20% after ded.	$500	ded + $750
Outpatient Surgery	20% after ded.	20% after ded.		$500	$350	$350
RX						
Generic	20% after ded.	20% after ded.		$10	$10	$10
Formulary	20% after ded.	20% after ded.		$40	$40	$40
Non-formulary	20% after ded.	20% after ded.		$75	$75	$75
Specialty	20% after ded.	20% after ded.		30% after ded.	20%	30% after ded.
All other services	20% after ded.	20% after ded.		20% after ded.	Varies by service	20% after ded.
HSA employer contribution	$700 + $200/dep	$300		N/A	N/A	N/A
Actuarial Value	87.3%	78.4%		81.8%	92.0%	86.2%
Approximate EE only Rate	$43.94	**$44.60**		**$84.38**	$171.05	**$149.47**
Approx E + spouse Rate	$227.16	**$234.51**		**$314.07**	$517.57	**$444.26**
Approx E + Children Rate	$117.80	**$126.24**		**$180.94**	$343.23	**$270.45**
Approx E+Fam Rate	$301.01	**$272.74**		**$367.22**	$689.74	**$521.82**

*Rates are only an approximation based on above plan design and current experience through October 2020.

The plan design above, along with the assumption that PEBP will see a 2.5% reduction in headcount due to hiring freezes and the possibility of position eliminations, **achieves approximately $20.1M of the $36M necessary budget reserves for FY22.**

8.2 - 8.8

Since placing the burden entirely on plan design would decimate the plan, PEBP has completed analysis on a variety of other benefits that the Board will need to consider in order to make up the remaining $15.9M deficit:

Option	Detail	Savings	Rank
8.2 OON billed charges negotiated by using 140% Medicare model rather than Fair Health Standards.	Fair Health has historically been considered the claims payment markets' solution for the pricing of non-contracted providers. Fair Health maintains a database of billed charges by service code and zip code and determines typical charges for that service in that geographical area. This is referred to as the "Fair Health Usual & Customary charge." Since Medicare pricing is a controlled and equitable price point that takes into account geographic location. Moving to a referenced based value approach increases plan savings while using a value familiar to the provider community.	$1.9M	
8.3 Implement Smart 90 to EPO	In PY19, PEBP implemented Smart 90 to the CDHP on a voluntary basis and in PY20 it became mandatory. Smart 90 improves drug pricing on 90- day maintenance medications for	$500K	

and Low Deductible Plan	both the program and the member by narrowing the pharmacy network to Smart90 participating pharmacies. Although two major pharmacies are excluded from this network (CVS and Walgreens), all but 34 members will have access to a participating pharmacy within 4 miles of their home. Member savings = $317K		
8.4 Implement 30-day Express Advantage Network on CHDP, EPO and Low Deductible Plans	Similar to Smart 90, the Express Advantage Network improves drug pricing on 30-day prescriptions for both the member and the program by narrowing the pharmacy network to Express Advantage participating pharmacies. Although two major pharmacies are excluded from this network (CVS and Walgreens), all but 34 members (EPO) and 94 members (CDHP) will have access to a participating pharmacy within 4 miles of their home. Additionally, members have the option of continuing to fill their prescription at a non-participating pharmacy by paying an additional $10 to the price of their medications.	$900K	
8.5 Reductions to Medicare Health Reimbursement Arrangement (HRA) contributions	Option 1: Reduce from $13/YOS to $12 Option 2: Reduce from $13/YOS to $11	$1.7M $3.4M	
8.6 Reduction or Elimination of Basic Life Insurance Benefit	Current: $25k/Actives, $12,500/retirees Option 1: Reduce to $20k/Actives, $10k retirees Option 2: Reduce to $10k/Actives, $5k retirees Option 3: Eliminate *Total Claims in PY18: 41 actives, 294 retirees PY19: 47 actives, 273 retirees	 $1.3M $4.0M $7.0M	
8.7 Elimination of Long-Term Disability Benefit	Eliminate LTD benefit. This benefit is designed to help protect against a loss of income in the event of a disability that results in the ability to work for an extended period of time. *Utilization: PY19: 25, PY20: 21 *Total Active Claims: 117	$5.6M	
8.8 Elimination of Part B Subsidy	Retirees who are covered under PEBP plans (excluding Exchange) are required to purchase Medicare Part B. PEBP provides a Part B premium to offset this cost. Approximately 1100 members are receiving a $135.50 premium credit.	$1.7M	
8.9 Eliminating retiree dependent subsidies	Under this option, PEBP will continue to offer retiree dependent coverage, however dependents of retirees will no longer be subsidized by the plan. Dependent Coverage Count: 2106	$4.5M	
8.10 Unbundling of Dental Premium	Dental premiums are currently embedded into the overall premium. Members enrolling in a medical plan automatically receive dental coverage. This option separates the two premiums	$4.2M*	

	and allows members to opt out of dental or pay a separate premium to enroll into dental. Proposed premiums to enroll in dental: E only: $5, E+S: $10, E+C: $10, E+F: $15 **if 8.9 is prioritized before 8.10, then 8.10 savings is reduced to $2.6M*		
8.11 Premium increases	Meet budget reserve goal partially or entirely through increases in premiums.	Varies	
8.12 Possible transition of non-Medicare retirees to SSHIX	See details in section below	$12.6M	

8.12 POSSIBLE TRANSITION OF NON-MEDICARE RETIREES TO SILVER STATE HEALTH INSURANCE EXCHANGE

Similar to the actions PEBP took in 2011 as a result of the recession, this option will require retirees that are either not of Medicare age or do not qualify for Medicare to purchase coverage through Nevada's individual marketplace (Silver State Health Insurance Exchange (SSHIX)/Nevada Health Link).

Because retiree health care is expensive, many public sector employers have elected to no longer offer health coverage to retirees. In fact, during the 76th (2011) legislative session, the decision was made that employees hired after January 1, 2012 would no longer be eligible to receive a retiree health benefit subsidy. In many instances, those employers that do provide retiree benefits, have transitioned to providing retirees with financial assistance in the form of a Health Reimbursement Arrangement (HRA) contributions. Retirees can then seek and purchase their own health coverage and use their HRA to offset the cost of premiums and/or out-of-pocket costs. Leveraging Nevada's SSHIX will help reduce PEBP's costs while continuing to subsidize retirees with funding determined by their years of service.

Advantages	Disadvantages
Retirees will have access to more plan options.	Although the ACA has been upheld several times, the law is continuously being challenged.
Lower income retirees (<400% federal poverty level) may qualify for federal subsidies on the Exchange and have access to cheaper premiums and reduced out of pocket expenses than what they currently receive through PEBP. These federal subsidies would in many cases also be more advantageous than the HRA subsidy that would be provided by PEBP.	Although retirees in Clark/Nye County will experience less of an increase, premiums will likely increase for most retirees living in Nevada. Due to the high cost of care in the rurals and the age banding on the Exchange, those living in the rurals or higher income retirees (>400%FPL) will be the hardest hit. Their premiums and out of pocket costs will increase. The impact is unknown for retirees residing outside of Nevada as Exchange and

	Healthcare.gov plans and rates vary from state to state.
The Exchange can offer the services of brokers and navigators to help retirees located in Nevada transition.	This will require a significant undertaking by PEBP involving massive communication and planning. Should this option be leveraged, it is recommended it not be effective until PY23.
This option provides flexibility to the state to raise/reduce subsidies based on economic conditions.	This will require legislative changes.

Age Make-up of Non-Medicare Retirees

Years of Age	#
<45	19
46 – 55	714
56-65	3152
65+	1028
Total Non-Medicare members	4913

*692 members reside outside of Nevada.

Federal Poverty Level (FPL)

Household Size	100%	133%	138%	250%	400%
1	$12,760	$16,612	$17,236	$31,225	$51,040
2	$17,240	$22,490	$23,335	$42,275	$67,640
3	$21,720	$28,369	$29,435	$53,325	$85,320
4	$26,200	$34,248	$35,535	$64,375	$103,000
5	$30,680	$40,126	$41,634	$75,425	$120,680

Retiree Salaries

PEBP was unable to gather retiree income data on this population due to PERS confidentiality restrictions. Although not an indicator of actual retiree earnings, State of Nevada Department of Administration records show the median ending income of a retiree, within the past 5 years, is approximately $40,419.

As noted above, legislative changes would be necessary should this option be implemented. Although staff have not had the opportunity to vet this thoroughly through legal, two clear changes to statute have been identified:

1. NRS 287.043(2) states *"In establishing and carrying out the Program, the Board shall: (a) For the purpose of establishing actuarial data to determine rates and coverage for active and retired state officers and employees and their dependents, commingle the claims experience of such active and*

retired officers and employees and their dependents for whom the Program provides primary health insurance coverage into a single risk pool.

Since this option eliminates the need to determine rates and coverage for retirees and absent of claims, retirees would no longer be included in the single risk pool

2. NRS 287.046(5) states "*Except as otherwise provided in subsection 6, adjustments to the portion of the amount approved by the Legislature as described in subsection 2 to be paid by the Retirees' Fund for persons who retire on or after January 1, 1994, with state service must be as follows:*
(a) For each year of service less than 15 years, excluding service purchased pursuant to NRS 1A.310 or 286.300, the portion paid by the Retirees' Fund must be reduced by an amount equal to 7.5 percent of the base funding level defined by the Legislature. In no event may the adjustment exceed 75 percent of the base funding level defined by the Legislature.
(b) For each year of service greater than 15 years, excluding service purchased pursuant to NRS 1A.310 or 286.300, the portion paid by the Retirees' Fund must be increased by an amount equal to 7.5 percent of the base funding level defined by the Legislature. In no event may the adjustment exceed 37.5 percent of the base funding level defined by the Legislature."

Due to the overall higher premiums on the Exchange, PEBP is proposing a different funding methodology using increased subsidies for retirees:

	PY2021 Non Medicare State Retirees Current Employer Subsidy Monthly	
	CDHP Base Subsidy	EPO/HMO Base Subsidy
Retiree only	$393.72	$435.33
Retiree + Spouse	$636.04	$693.60
Retiree + Child(ren)	$495.52	$562.52
Retiree + Family	$737.84	$820.79

Current and Proposed Non-Medicare YOS Retiree Subsidies (Monthly)					
YOS	Current PY21	Retiree Only	Retiree+Spouse	Retiree+Child(ren	Retiree+Family
5	-$358.61	$160	$257	$204	$301
6	-$322.75	$208	$334	$266	$391
7	-$286.89	$256	$411	$327	$482
8	-$251.03	$304	$488	$388	$572

9	-$215.17	$352	$565	$449	$662
10	-$179.31	$400	$642	$511	$753
11	-$143.45	$448	$720	$572	$843
12	-$107.58	$497	$797	$633	$933
13	-$71.72	$545	$874	$695	$1,024
14	-$35.86	$593	$951	$756	$1,114
15	$0.00	$641	$1,028	$817	$1,204
16	$35.86	$689	$1,105	$878	$1,295
17	$71.72	$737	$1,182	$940	$1,385
18	$107.58	$785	$1,259	$1,001	$1,475
19	$143.45	$833	$1,336	$1,062	$1,566
20	$179.31	$881	$1,413	$1,123	$1,656

56 year-old retiree with 20 YOS living in:	PEBP Premium (CDHP)	Exchange Premium* w/ applied subsidy
Clark County	$54.28	$0
Carson City	$54.28	$315.78
Reno	$54.28	$163.35
Elko	$54.28	$537.98

**Gold level plan, $1,250/deductible, $5,900 OOPM, copay based for office visits/Rx, coinsurance based for procedures and specialty Rx.*

RECOMMENDATION:

1. Approve Plan Year 2022 Proposed Plan Benefit Design as illustrated in section 8.1
2. Rank options 8.2 – 8.12 in order of preference from most to least desirable for PY22 implementation as necessary to meet budgetary goals established by GFO for PY22.
3. Approve staff to implement budget reserve options in order of preference as necessary to meet budgetary goals established by GFO for FY22 and FY23.