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May 6, 2021

Mr. Porter Wilson
Executive Director
Employees Retirement System
of Texas
Post Office Box 13207
Austin, Texas 78711-3207

Re: Recommended Contribution Rates for HealthSelect
for Fiscal Year 2022

Dear Mr. Wilson:

The purpose of this correspondence is to present recommended contribution rates for HealthSelect of Texas and Consumer Directed HealthSelect (CDHS) (collectively referred to herein as HealthSelect) for Fiscal Year 2022 (FY22). HealthSelect is the self-funded health plan provided under the Texas Employees Group Benefits Program (GBP).

The recommendations presented herein were developed based on (a) projections of anticipated costs for the remainder of FY21 and for FY22 and (b) funding available for FY22. Our analysis and these projections are discussed herein.

Basis for Projections

We and the staff have projected health plan benefit costs, administrative expenses and other revenue for FY21 and FY22 as described below:

- **Health Plan Benefit Costs** - To project health plan benefit costs, we have analyzed historical enrollment and claims experience, and we have estimated expected changes in per capita cost as a result of anticipated increases in the price and utilization of health care services and member cost share leveraging (the health plan benefit cost trend). We developed a projection based on the benefit structure currently in effect for FY21 and the medical and prescription drug benefit costs expected under the administrative services and pharmacy benefits management contracts in effect for FY22.

- **Administrative Expense** - The administrative expense for FY22 has been projected based on the administrative fees expected to be paid to (a) the HealthSelect medical benefits administrator, and (b) the HealthSelect pharmacy benefits manager (PBM).
- **Other Revenue (Net Investment Income, Subsidies available under the Medicare Part D Retiree Drug and Employer Group Waiver Programs, and Prescription Drug Rebates)** - The revenue expected to be generated from these sources has been projected under benefits and contracts in place for FY21 and FY22. This revenue has been used to offset other plan costs.

Updated Projection for FY21

HealthSelect experience for FY21 is projected to be slightly better than expected at the time the Board adopted rates in May, 2020, due to savings resulting from the new HealthSelect MAPPO contract that went into effect January 1, 2021.

Funding Available for HealthSelect for FY22

At this time, the Legislative Appropriations Act (CSSB 1) remains under consideration by the legislature; however, both the House and Senate versions of the bill provide for no increase in per capita funding for FY22 or FY23. The legislature intends for a funding deficiency, if any, to be covered through supplements from the GBP contingency fund.

We and the staff determined the funding available for HealthSelect for FY22 as follows.

1. We determined the amount of funding expected to be available under the legislative appropriation for FY22.
2. We determined that the rates for the basic life and AD&D coverage could remain unchanged.
3. We agreed that the state contribution rates for HealthSelect Medicare Advantage should be set at the same level as for HealthSelect.
4. After allocating funding for the basic life and AD&D coverages, we determined that the remaining FY22 funding provided in the GAA would be sufficient to maintain HealthSelect contribution rates at FY21 levels for FY22 except as noted in Item 6 below.
5. During FY20, two HMOs paid Medical Loss Ratio (MLR) rebates, as required under the Affordable Care Act, totaling about \$3 million. Under federal rules governing the disposition of such rebates by the plan sponsor, ERS was required to distribute to members a portion of the rebates consistent with the portion of the total contributions made to the plans during the period for which the rebates are required. In order to comply with the federal rules, about 19% of the rebates was distributed to the members through reductions

in FY21 dependent contribution rates for all GBP health plans. This resulted in a small reduction in dependent contribution rates (about 0.1%). This reduction was intended to apply to FY21 only.

Early in FY21, one of the participating HMOs paid an MLR rebate of about \$2 million. Under Federal rules, ERS is once again required to distribute to members a portion of the rebate through reductions in FY22 dependent contribution rates for all GBP health plans. Since this year's MLR rebate is less than last year's, the required reduction in the FY22 contribution rates is lower than the reduction applicable to the FY21 rates; however, we and the staff recommend that ERS continue the FY21 reduction in dependent contribution rates for FY22. This strategy will result in a distribution to members that is slightly more than required thereby assuring compliance with the Federal rules.

Projection for FY22

We and the staff then projected financial results for HealthSelect in FY22 in order analyze the adequacy of the available funding. Our projection is based on the following important assumptions.

1. The FY22 HealthSelect benefit enhancements recommended by the staff will have a negligible impact on cost.
2. The health plan benefit cost trend is projected to be about 5.1% for FY22. The projected trend is expected to be lower than the true underlying trend since FY21 costs are higher than usual due to the additional health care services that will occur in FY21 as participants utilize services that were deferred in FY20 as a result of the COVID-19 pandemic.
3. Investment income is expected to continue to increase during FY22 due to the growth in invested assets attributable to the favorable experience. The plan is not expected to experience market losses.
4. The ACA's Health Insurance Providers Fee was repealed for CY 2021 and beyond. This will result in significant savings for the GBP in future years; e.g., the GBP incurred about \$27.6 million in ACA fees in CY20.
5. Prescription drug rebates and Part D subsidies will continue to increase along with increases in prescription drug plan costs.

6. HealthSelect state and member contribution rates will remain at FY21 levels for FY22.
 - a. The state contribution rates for HealthSelect Medicare Advantage and Consumer Directed HealthSelect will be set equal to the HealthSelect state contribution rates.
 - b. The member contribution rates for Consumer Directed HealthSelect will be set at 90% of the HealthSelect member contribution rates.

Based on these assumptions, our projection indicates that HealthSelect revenue will continue to exceed expenses in FY22.

Proposed Rates

Based on the analysis described above and in consultation with the staff, we recommend that HealthSelect state and member contribution rates be maintained at FY21 levels for FY22; i.e., no rate change.

The following information is included in the attachments:

- The recommended HealthSelect and Consumer Directed HealthSelect contribution rates for FY22 are presented in Attachment 1.
- The recommended HealthSelect and Consumer Directed HealthSelect contribution rates for FY22 for the state and the members are presented in Attachment 2.
- A comparison of the FY21 and the recommended FY22 member contribution rates is presented in Attachment 3.

Conclusion

It is our best estimate at this time that the contribution rates recommended herein, together with other revenue sources, will provide adequate funding to support the current benefits through FY22. It is important to note, however, that HealthSelect is operating in a volatile environment in which both the cost and utilization of health care services could rise rapidly as the world recovers from the pandemic which has dampened demand for elective health care services and preventive care. This volatility creates the potential for actual experience to vary from that which has been anticipated in developing the projections upon which these rate recommendations are based.

Mr. Porter Wilson
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Please let us know if you have questions or if you need additional information.

Sincerely,

A handwritten signature in black ink, appearing to read "P. S. Dial". The signature is written in a cursive style with a large initial "P" and "S".

Philip S. Dial

PSD:nlg

Enclosures

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Attachment 1

TEXAS EMPLOYEES GROUP BENEFITS PROGRAM

Recommended Monthly Contribution Rates for HealthSelect for FY 2022

| Coverage Category | HealthSelect | Consumer Directed HealthSelect |
|--|---------------------|---------------------------------------|
| <i>Active Employees</i> | | |
| Employee Only | \$622.60 | \$622.60 |
| Employee & Spouse | 1,337.68 | 1,301.94 |
| Employee & Children | 1,101.36 | 1,077.42 |
| Employee & Family | 1,816.44 | 1,756.76 |
| <i>Retirees</i> | | |
| Retiree Only | \$622.60 | \$622.60 |
| Retiree & Spouse | 1,337.68 | 1,301.94 |
| Retiree & Children | 1,101.36 | 1,077.42 |
| Retiree & Family | 1,816.44 | 1,756.76 |
| <i>Retirees with Interim Insurance Coverage</i> | | |
| Retiree Only | \$1,740.98 | \$1,659.98 |
| Retiree & Spouse | 3,743.21 | 3,481.14 |
| Retiree & Children | 3,081.51 | 2,852.48 |
| Retiree & Family | 5,083.74 | 4,754.63 |
| <i>Surviving Dependents</i> | | |
| Spouse Only | \$715.08 | \$679.34 |
| Children Only | 478.76 | 454.82 |
| Spouse & Children | 1,193.84 | 1,134.16 |
| <i>COBRA (Including Former Employee)</i> | | |
| Employee Only | \$634.22 | \$588.32 |
| Employee & Spouse | 1,363.60 | 1,235.34 |
| Employee & Children | 1,122.55 | 1,006.33 |
| Employee & Family | 1,851.93 | 1,699.26 |
| <i>COBRA (Without Employee)</i> | | |
| Spouse or Child Only | \$634.22 | \$588.32 |
| Spouse & Children | 1,122.55 | 1,006.33 |

NOTE: Contribution rates do not include basic term life or AD&D.

Attachment 2

TEXAS EMPLOYEES GROUP BENEFITS PROGRAM

**Recommended FY 2022
Monthly State and Member Contribution Rates**

| HealthSelect | | | |
|--------------------------|--------------|--------------|---------------|
| Coverage Category | Total | State | Member |
| Member Only | \$622.60 | \$622.60 | \$0.00 |
| Member & Spouse | 1,337.68 | 980.14 | 357.54 |
| Member & Children | 1,101.36 | 861.98 | 239.38 |
| Member & Family | 1,816.44 | 1,219.52 | 596.92 |

| Consumer Directed HealthSelect | | | |
|---------------------------------------|--------------|--------------|---------------|
| Coverage Category | Total | State | Member |
| Member Only | \$622.60 | \$622.60 | \$0.00 |
| Member & Spouse | 1,301.94 | 980.14 | 321.80 |
| Member & Children | 1,077.42 | 861.98 | 215.44 |
| Member & Family | 1,756.76 | 1,219.52 | 537.24 |

Note: Contribution rates do not include Basic Life.

Attachment 3

TEXAS EMPLOYEES GROUP BENEFITS PROGRAM

**Comparison of FY21 and FY22
Monthly Member Contribution Rates**

| HealthSelect | | | |
|--------------------------|-------------|-------------|---------------|
| Coverage Category | FY21 | FY22 | Change |
| Member Only | \$0.00 | \$0.00 | \$0.00 |
| Member & Spouse | 357.54 | 357.54 | 0.00 |
| Member & Children | 239.38 | 239.38 | 0.00 |
| Member & Family | 596.92 | 596.92 | 0.00 |

| Consumer Directed HealthSelect | | | |
|---------------------------------------|-------------|-------------|---------------|
| Coverage Category | FY21 | FY22 | Change |
| Member Only | \$0.00 | \$0.00 | \$0.00 |
| Member & Spouse | 321.80 | 321.80 | 0.00 |
| Member & Children | 215.44 | 215.44 | 0.00 |
| Member & Family | 537.24 | 537.24 | 0.00 |