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April 29, 2024

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

Re: Recommended Contribution Rates for HealthSelect
for Fiscal Year 2025

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 2025 (FY25). 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 FY24 and for FY25 and (b) funding available for FY25. 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 FY24 and FY25 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 (a) anticipated increases in the price and utilization of health care services and (b) member cost share leveraging (collectively, the health plan benefit cost trend). The projection is based on the benefit structure that will be in effect for FY25 and the medical and prescription drug benefit costs expected under the administrative services and pharmacy benefits management contracts in effect for FY25.
- **Administrative Expense** - The administrative expense for FY25 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 FY24 and FY25. This revenue has been used to offset other plan costs.

Updated Projection for FY24

Over the first seven months of FY24, HealthSelect medical costs have risen somewhat faster than expected at the time the Board adopted rates for FY24 in May, 2023 (7.9% vs 6.8%). Nevertheless, we expect the plan to generate a small gain for the year.

Funding Available for HealthSelect for FY25

The General Appropriations Act (GAA) for the 2024-25 Biennium, does not provide for an increase in per capita funding for FY25. The legislature intends for the expected funding deficiencies, if any, to be covered through supplements from the GBP contingency fund.

We and the staff determined the funding available for HealthSelect for FY25 as follows.

1. We determined the amount of funding expected to be available under the GAA for FY25.
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 FY25 funding provided in the GAA would be sufficient to maintain HealthSelect contribution rates at FY24 levels for FY25.

Projection for FY25

We and the staff then projected financial results for HealthSelect in FY25 in order to analyze the adequacy of the available funding. Our projection is based on the following important assumptions.

1. The FY25 HealthSelect benefit changes recommended by the staff will have a negligible impact on cost.
2. The health plan benefit cost trend is projected to be about 7.4% for FY25. At this time, we believe the trend has returned to a level that is more consistent with historic trends than the levels that had been experienced during the COVID-19 pandemic; i.e., over the period FY20-22.

The initial impact of the pandemic was to drive the trend below 1% in FY20 due to health care that was deferred or simply skipped due to safety concerns and/or government

orders. As expected, the trend was much higher (about 12%) in FY21 as participants used additional health care services as they caught up with primary care, treatments and procedures that were deferred in FY20.

Trend was below normal in FY22 (about 5.2%) reflecting a slowing in utilization following FY21, the catch-up year. The trend accelerated slightly in FY23 to about 5.9% which was similar to historic pre-pandemic trends. Thus far, the FY24 trend has been above the historical norm, currently standing at just below 8%, primarily as a result of faster growth in hospital costs and continuing double digit increases in prescription drug costs. We expect the growth in hospital costs to decrease to a more normal level of 6-7%, but we expect prescription drug costs to continue to increase in the 11% range in FY25.

3. Investment income is expected to remain at the FY24 level in FY25 as plan assets, which have been growing for many years, level off as expenses catch up with revenue.
4. Prescription drug rebates and Part D subsidies will continue to increase along with increases in prescription drug plan costs and with the implementation of the new PBM contract.
5. The FY25 HealthSelect state and member contribution rates will remain at the rates currently in effect for FY24.
 - a. The state contribution rates for HealthSelect Medicare Advantage and Consumer Directed HealthSelect will continue to be set equal to the HealthSelect state contribution rates.
 - b. The member contribution rates for Consumer Directed HealthSelect dependent coverage will continue to be set at 90% of the HealthSelect member contribution rates.

Based on these assumptions, our FY25 projections indicate that HealthSelect expenses will exceed revenue for the first time since FY10. This is to be expected since by FY25, state and member contribution rates will have been basically level since FY17; i.e., for 9 years.

The FY25 funding deficiency is currently projected to be about \$250 million or about 7% of HealthSelect revenue. This deficiency will be made up by a subsidy from the contingency fund.

Proposed Rates

Based on the analysis described above and in consultation with the staff, we recommend that HealthSelect state and member contribution rates for FY25 be established at the levels in effect for FY24.

The following information is included in the attachments:

- The recommended HealthSelect and Consumer Directed HealthSelect contribution rates for FY25 are presented in Attachment 1.

- The recommended HealthSelect and Consumer Directed HealthSelect contribution rates for FY25 for the state and the members are presented in Attachment 2.
- A comparison of the FY24 and the recommended FY25 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 and subsidies from the contingency fund, will provide adequate funding to support the current benefits through FY25. 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 change rapidly given that the plan is operating in an inflationary economy in which labor shortages continue to challenge health care providers. These conditions could lead to accelerating increases in the prices of medical services and pharmaceutical products. 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.

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

Sincerely,



Philip S. Dial

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Enclosures

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Attachment 1

TEXAS EMPLOYEES GROUP BENEFITS PROGRAM

Recommended Monthly Contribution Rates for HealthSelect for FY 2025

Coverage Category	HealthSelect	Consumer Directed HealthSelect
<i>Active Employees</i>		
Employee Only	\$622.60	\$622.60
Employee & Spouse	1,338.60	1,302.80
Employee & Children	1,102.00	1,078.02
Employee & Family	1,818.00	1,758.22
<i>Retirees</i>		
Retiree Only	\$622.60	\$622.60
Retiree & Spouse	1,338.60	1,302.80
Retiree & Children	1,102.00	1,078.02
Retiree & Family	1,818.00	1,758.22
<i>Retirees with Interim Insurance Coverage</i>		
Retiree Only	\$1,743.28	\$1,662.28
Retiree & Spouse	3,748.08	3,485.84
Retiree & Children	3,085.60	2,856.46
Retiree & Family	5,090.40	4,761.02
<i>Surviving Dependents</i>		
Spouse Only	\$716.00	\$680.20
Children Only	479.40	455.42
Spouse & Children	1,195.40	1,135.62
<i>COBRA (Including Former Employee)</i>		
Employee Only	\$635.05	\$589.15
Employee & Spouse	1,365.37	1,237.06
Employee & Children	1,124.04	1,007.78
Employee & Family	1,854.36	1,701.58
<i>COBRA (Without Employee)</i>		
Spouse or Child Only	\$635.05	\$589.15
Spouse & Children	1,124.04	1,007.78

NOTE: Contribution rates do not include Basic Life and AD&D.

Attachment 2

TEXAS EMPLOYEES GROUP BENEFITS PROGRAM

**Recommended FY 2025
Monthly State and Member Contribution Rates¹**

HealthSelect			
Coverage Category	Total	State	Member²
Member Only	\$622.60	\$622.60	\$0.00
Member & Spouse	1,338.60	980.60	358.00
Member & Children	1,102.00	862.30	239.70
Member & Family	1,818.00	1,220.30	597.70

Consumer Directed HealthSelect			
Coverage Category	Total	State	Member²
Member Only	\$622.60	\$622.60	\$0.00
Member & Spouse	1,302.80	980.60	322.20
Member & Children	1,078.02	862.30	215.72
Member & Family	1,758.22	1,220.30	537.92

¹Contribution rates do not include Basic Life and AD&D.

²Member contribution rates applicable to active employees and retirees who qualify for 100% of the state contribution.

Attachment 3

TEXAS EMPLOYEES GROUP BENEFITS PROGRAM

**Comparison of FY24 and FY25
Monthly Member Contribution Rates***

HealthSelect			
Coverage Category	FY24	FY25	Change
Member Only	\$0.00	\$0.00	\$0.00
Member & Spouse	358.00	358.00	0.00
Member & Children	239.70	239.70	0.00
Member & Family	597.70	597.70	0.00

Consumer Directed HealthSelect			
Coverage Category	FY24	FY25	Change
Member Only	\$0.00	\$0.00	\$0.00
Member & Spouse	322.20	322.20	0.00
Member & Children	215.72	215.72	0.00
Member & Family	537.92	537.92	0.00

* Member contribution rates applicable to active employees and retirees who qualify for 100% of the state contribution.