

AGENDA ITEM DETAILS

Subject: Review, Discussion and Consideration of the Proposed Rates for HealthSelect of Texas and Consumer Directed HealthSelect Plans with rates inclusive of plan changes for Fiscal Year 2021 – (Action)

RECOMMENDED ACTION:

Move that the Board of Trustees of the Employees Retirement System of Texas approve the proposed FY21 HealthSelect of Texas and Consumer Directed HealthSelect contribution rates, inclusive of the recommended plan change, as presented in this agenda item effective September 1, 2020.

Background/Analysis:

The Employees Retirement System of Texas (ERS) Board of Trustees sets the monthly contribution rates for HealthSelect of Texas® based on the plan's benefits, member cost sharing, projected expenses, provider reimbursement arrangements, and available funding from the State of Texas. The extent to which the ERS Board of Trustees can increase contributions is limited by the funding appropriated by the State Legislature. As a self-funded plan, contributions are deposited into an ERS-administered fund, together with investment income and revenue from various sources, and used to pay claims and internal and external administrative expenses.

Contribution Rate Analysis

When developing recommended FY21 contribution rates, the ERS Actuarial and Reporting Services (ARS) unit and Rudd and Wisdom, Inc., ERS' consulting actuary for insurance, analyzed the following critical factors:

1. revenue requirements;
2. state funding;
3. historical enrollment;
4. claims experience;
5. projected contingency fund balance;
6. cost containment practices;
7. the impact of participating Health Maintenance Organizations and funding for basic life and accidental death and dismemberment coverages.

Other considerations include:

1. projected health plan benefit cost trend (the projected increase in per capita cost as a result of anticipated increases in the price and utilization of health care services);
2. member cost share leveraging (the effect of fixed member copay costs applied against rising health care costs forcing the plan to cover a larger percentage of cost); and
3. expected medical and prescription drug benefit costs under the administrative services and pharmacy benefit management contracts in effect for FY20.

Without accounting for the impact of COVID-19, FY20 medical benefit cost trend is estimated to be approximately 6.1% and prescription drug trend is estimated to be 6.9%. The FY20 combined medical and prescription drug trend is estimated at 6.3%. FY21 combined medical and prescription drug trend is expected to be consistent with historic trend levels at approximately 6.8%.

Covid-19 Impact

Currently the impact of COVID-19 to the plan is uncertain. HealthSelectSM will likely see increased costs as members are diagnosed and treated for COVID-19. Additionally, as the rate of COVID-19 testing increases, the plan will experience increased costs since these tests will be covered at 100%. In the short term, HealthSelect is expected to see reduced utilization as a result of the social distance measures that are in place, contributing to delays in scheduling elective health care services. While many of these services will be performed at a later date, resulting in a delayed cost rather than a reduced one, some will likely never occur. At this point we are unable to estimate the ultimate impact of these utilization changes.

While the ultimate impact of COVID-19 is still unknown at this point, the plan is able to absorb the increased cost and there is no need to increase contribution rates as a result of the pandemic.

Plan Changes

As described in agenda item 26, ERS implemented the following changes due to Covid-19 in order to allow members to continue to access care and to protect members from the costs of the disease.

- Waived member cost share for telemedicine visits including mental health virtual visits and those provided through in-network provider platforms. Member cost share for those enrolled in Consumer Directed HealthSelectSM was waived for telemedicine visits associated with COVID-19.
- Waived member cost share for both in-network and out-of-network testing for COVID-19.
- Waived referral and certain prior authorization requirements.

Staff is recommending offering certain diabetic supplies at no cost to the participant effective September 1, 2020. These are:

- Free Glucometer – One Touch Verio on One Touch Flex Meter offered at \$0 cost share annually.
- Verio test strips offered at \$0 cost share at in-network pharmacies.
- Lancets and lancing devices at \$0 cost share.
- Other diabetic supplies covered under OptumRx's premium formulary will be offered at the lesser of cost or Tier 2 or Tier 3 copay

Additionally, Group Benefits is implementing the HealthSelectShoppERS program which incents members to shop for lower cost healthcare by making employer contributions to members TexFlex health care reimbursement account or limited flexible spending account when shopping for lower cost service providers.

Finally, the annual out-of-pocket maximum costs will remain at FY20 levels. These changes are not expected to have a significant impact on FY21 plan costs.

Full details of these changes are provided in agenda item #26.

Medical Loss Ratio

Within the last two months, two HMOs (one no longer participates with the Texas Employees Group Benefits Program (GBP)) have unexpectedly made Medical Loss Ratio rebates, as required under the Affordable Care act, totaling about \$3 million dollars. Under federal rules ERS is required to distribute to members the portion of the rebate consistent with the portion of the premium paid by members during the period for which the rebates are required. In order to comply with these rules about 19% of the rebates will be distributed to members through reductions in the FY21 dependent contribution rates for all GBP health plans. This will result in a small dependent contribution reduction of about 0.1% which is a \$0.88 reduction in the total contribution rate for Member and Spouse coverage.

Consumer Directed HealthSelect

By statute, the Consumer Directed HealthSelect plan, an optional consumer directed health plan (CDHP) combined with a health savings account, is required to be revenue neutral. In order to satisfy this

requirement, ERS and the consulting actuary considered the following items specific to the implementation of a CDHP:

1. profile of members who might select a CDHP,
2. savings due to reduced utilization,
3. adverse selection due to additional plan offerings and
4. savings due to benefit reduction.

The original pricing assumptions were based on a projected 3% enrollment. Current enrollment is 0.5%. Therefore, ERS is continuing its original pricing assumptions to develop rates.

In order to meet legislatively mandated neutrality, staff designed the CDHP plan benefits so that overall plan revenue would remain unchanged. The CDHP plan design includes an individual deductible of \$2,100/\$4,200 (individual/family), 80% coinsurance after the deductible, and \$45/\$90 (individual/family) monthly state contribution to the health savings account. Member CDHP contribution rates for dependent coverage are 90% of the HealthSelect of Texas member contribution rates and the state contribution rates are the same as the HealthSelect of Texas state contribution rates to ensure the Texas Employees Group Benefits Program (GBP) meets the requirement for revenue neutrality.

The rate analysis is included in this agenda item as Exhibit A.

Background

The GBP provides health benefits coverage throughout Texas and the United States for more than 500,000 state and higher education employees, retirees, and their family members. HealthSelect of Texas is the GBP's point-of-service health benefit plan with about 80% of total enrollment. Effective September 1, 2016, as required by state legislation, GBP members were provided the option of a consumer directed health plan combined with a health savings account known as Consumer Directed HealthSelect.

**Texas Employees Group Benefits Program
HealthSelect of Texas
Member Enrollment
(as of March 31, 2020)**

	Employees	Retirees	Beneficiaries	COBRA	Total
Member Only	129,343	37,880	776	588	168,587
Member & Spouse	15,588	8,157	0	43	23,788
Member & Children	39,522	3,273	53	42	42,890
Member & Family	21,334	2,060	0	33	23,427
Total	205,787	51,370	829	706	258,692

**Texas Employees Group Benefits Program
Consumer Directed HealthSelect
Member Enrollment
(as of March 31, 2020)**

	Employees	Retirees	Beneficiaries	COBRA	Total
Member Only	1,136	23	1	5	1,165
Member & Spouse	131	9	0	2	142
Member & Children	243	2	1	0	246
Member & Family	264	1	0	1	266
Total	1,774	35	2	8	1,819

The HealthSelect plan's administrative and benefit costs are funded by employer and enrolled member contributions. Contribution rates are adopted annually by the ERS Board of Trustees. The State currently pays 100% of the HealthSelect contribution rate for eligible full-time employees and retirees and 50% of the contribution rates for eligible dependent coverage.

HealthSelect participants share costs with the plan through:

- **Co-payments** – The fixed dollar amount a participant pays for certain medical and prescription drug services.
- **Deductible** – The annual amount a participant pays before the plan pays any benefits. Participants pay 100% of the allowable charges for certain medical and prescription drug services until the deductible is met. Currently, prescription drugs, bariatric surgery, out-of-area participants, and out-of-network medical services are subject to a deductible.
- **Coinsurance** – A percentage of the total allowable cost of certain types of services paid by the participant. Once a participant has paid their maximum amount of coinsurance in the plan year, the plan pays 100% of allowable costs for the rest of the plan year.

Internal administrative expenses represent approximately 0.5% of the total HealthSelect expenses. The plans pay external administrative fees to the HealthSelect third-party administrator and the pharmacy benefit manager. Combined internal and external administrative fees represent less than 3% of the total HealthSelect expenses.

Staff Recommendation:

Staff recommends approval of the proposed FY21 contribution rates for HealthSelect of Texas and Consumer Directed HealthSelect as shown in Exhibit A to this Agenda item, inclusive of the recommended plan change as presented in this agenda item, effective September 1, 2020.

ATTACHMENTS:

1. Exhibit A – Contribution Rates for HealthSelect Fiscal Year 2021