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May 6, 2020

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 2021

Dear Mr. Wilson:

The purpose of this correspondence is to present recommended contribution rates for HealthSelect for Fiscal Year 2021 (FY21). 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 FY20 and for FY21 and (b) funding available for FY21. 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 FY20 and FY21 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 FY20 and the medical and prescription drug benefit costs expected under the administrative services and pharmacy benefits management contracts in effect for FY21.

- **Administrative Expense** - The administrative expense for FY21 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 FY20 and FY21. This revenue has been used to offset other plan costs.

Updated Projection for FY20

HealthSelect experience for FY20 has been better than expected at the time the Board adopted rates in May, 2019. The following are key observations regarding the FY20 experience.

1. FY20 per capita medical and prescription drug benefit costs have been lower than expected.
2. Prescription drug rebates and the subsidies attributable to the Medicare Part D Employer Group Waiver Plan + Wrap (EGWP) continue to be greater than expected.

Funding Available for HealthSelect for FY21

The General Appropriations Act (GAA) for the 2020-21 Biennium does not provide for an increase in the state's per capita funding for health insurance. 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 FY21 as follows.

1. We determined the amount of funding expected to be available under the legislative appropriation for FY21.
2. We completed rate negotiations with the HMOs participating in the GBP. Based on these negotiations, we determined that the average per capita contribution for HMOs participating in the GBP for FY21 will remain the same.
3. We determined that the rates for the basic life and AD&D coverage could remain unchanged.
4. We agreed that the state contribution rates for HealthSelect Medicare Advantage should be set at the same level as for HealthSelect.

5. After allocating funding for the HMOs and the basic life and AD&D coverages, we determined that the remaining FY21 funding provided in the GAA would be sufficient to maintain HealthSelect contribution rates at FY20 levels for FY21 except as noted in Item 6 below.
6. Since the appropriation for the GBP health plans for FY21 does not provide an increase in state funding, ERS staff and the consulting actuary originally intended to recommend that all health plan contribution rates be maintained at current levels for FY21; however, an unforeseen development requires a small reduction in FY21 dependent contribution rates. Over the last few months, two HMOs have unexpectedly 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 is 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 must be distributed to the members through reductions in FY21 dependent contribution rates for all GBP health plans. This will result in a small reduction in dependent contribution rates (about 0.1%) as indicated on the attachment.

Projection for FY21

We and the staff then projected financial results for HealthSelect in FY21 in order analyze the adequacy of the available funding. Our projection is based on the following important assumptions.

1. HealthSelect benefits will be maintained at current levels during FY21, except for the update to the maximum member cost sharing under the ACA.
2. The health plan benefit cost trend is projected to be about 6.8% for FY21. The projected trend is similar to that experienced thus far in FY20. Health benefit cost has been lower than otherwise would have been the case due to the new TPA contract which became effective September 1, 2017.
3. Investment income is expected to increase during FY21 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 is expected to incur 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 contribution rates for members will remain at FY20 levels for FY21, while FY21 contribution rates for dependents will be slightly lower than the FY20 rates due to distribution of a portion of the MLR rebates as discussed above.
 - 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 FY21.

Proposed Rates

Based on the analysis described above and in consultation with the staff, we recommend that HealthSelect state contribution rates for members be maintained at FY20 levels for FY21; i.e., no rate change. We further recommend that FY21 HealthSelect state and member contribution rates for dependents be established at levels slightly below those currently in effect in order to facilitate distribution of MLR rebates as required under federal rules,

The following information is included in the attachments:

- The recommended HealthSelect and Consumer Directed HealthSelect contribution rates for FY21 are presented in Attachment 1.
- The recommended HealthSelect and Consumer Directed HealthSelect contribution rates for FY21 for the state and the members are presented in Attachment 2.
- A comparison of the FY20 and the recommended FY21 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 FY21. 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 continue to rise. 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 fluid and cursive, with the first letters of each name being capitalized and prominent.

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 2021

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 2021
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 FY20 and FY21
Monthly Member Contribution Rates**

HealthSelect			
Coverage Category	FY20	FY21	Change
Member Only	\$0.00	\$0.00	\$0.00
Member & Spouse	\$358.00	357.54	-0.46
Member & Children	\$239.70	239.38	-0.32
Member & Family	\$597.70	596.92	-0.78

Consumer Directed HealthSelect			
Coverage Category	FY20	FY21	Change
Member Only	\$0.00	\$0.00	\$0.00
Member & Spouse	\$322.20	321.80	-0.40
Member & Children	\$215.74	215.44	-0.30
Member & Family	\$537.94	537.24	-0.70