



NEVADA FACULTY ALLIANCE
840 S. Rancho Dr., Suite 4-571
Las Vegas, Nevada 89106

Date: April 7, 2020
 To: Public Employees’ Benefits Program Board
 Laura Freed, Chair
 Laura Rich, Executive Director
 From: Kent Ervin, Legislative Liaison, Nevada Faculty Alliance
 Subject: Public Comment for 4/9/2010 Board Meeting, Agenda Item 4
 History and Analysis of Rate Proposals

The Nevada Faculty Alliance is the independent association of faculty at NSHE institutions. We work to empower faculty be fully engaged in our mission to help students succeed. A strong employee benefits program is essential to recruiting and retaining high quality faculty members to carry out that mission, as well as our Classified staff colleagues who support it.

We appreciate that the rate changes are difficult decisions for the Board, and that the Covid-19 crisis will produce additional challenges in the future. This analysis is offered in the spirit of allowing better informed decisions, particularly for the newer board members.

At the March 31 meeting of the PEBP Board, AON presented actuarial rates for FY2021 that rose by 3.4% to 9.5% versus FY2020 depending on the tier and plan for state active employees. In contrast, the employee premiums proposed by PEBP staff rose from 19% to 53% for the same categories, with an *inverse* relationship to the percentage increase in rates (see Table 1). The board recognized that the high percentage increases in premiums appeared to target the largest group of employees—those with no dependents in the CDHP were slated for a 53% increase in their payroll deductions. It was appropriate for the Board to request other options.

Table 1. Rate Proposal from 3/31/2020

	Rate		Employee Premium		Fraction of rate increase borne by employee
	\$ change	% change	\$ change	% change	
CDHP					
Employee Only	\$21.01	3.4%	\$16.43	53.1%	78%
Employee + Spouse	\$62.67	5.5%	\$40.25	25.2%	64%
Employee + Children	\$47.79	5.8%	\$28.77	34.7%	60%
Employee + Family	\$89.43	6.7%	\$52.59	24.8%	59%
HMO/EPO					
Employee Only	\$66.16	8.2%	\$32.42	23.6%	49%
Employee + Spouse	\$146.96	9.4%	\$82.19	19.8%	56%
Employee + Children	\$102.88	8.7%	\$55.72	20.2%	54%
Employee + Family	\$183.68	9.5%	\$105.65	19.1%	58%

Looking at dollar amounts instead of percentage changes tells a similar story. Although the CDHP employee premiums increase by smaller absolute amounts, the increases in employee premiums represent 59% to 78% of the overall increases for the CDHP versus 49% to 58% for the HMO/EPO. These disparities result from the policy of changing the employer contribution (subsidies) by incremental percentage points rather than adjusting the dollar amounts of the subsidies uniformly across tiers to meet funding requirements, as well as the fact the state funding fell short of the increase in costs.

The charts and tables appended on page 4 illustrate that the rates for the CDHP have been relatively flat over the past years while the state appropriations per employee per month have increased gradually but at a faster rate. The primary source of steeply rising costs for PEBP are the HMO/EPO plans. The state subsidy for the HMO/EPO plans now exceeds the state appropriation per employee (table at bottom right on page 4, averaged over all four tiers), while the CDHP subsidy is lower than the state appropriation. Although some cross subsidization in insurance plans is unavoidable, the HMO/EPO costs have become unsustainable. This is exacerbated by the fact the subsidy percentages for the HMO/EPO plans were increased in recent years compared with the CDHP subsidy percentages.

The Covid-19 crisis in Nevada became apparent after the rates were developed by AON and PEBP. The potential impact on costs for PEBP is not known—a preliminary model by Willis Towers Watson suggests it could range from a 1% to a 7% increase in health plan costs. If ever there was a reason for the “catastrophic reserve”, however, this is it. If the catastrophic reserve is significantly reduced because of Covid-19, then PEBP and the State will have to consider how it can be built back up over a period of years. Because of the unknown impact at this juncture, it is premature to attempt to build those impacts of Covid-19 into the rate schedules. Notably, Governor Sisolak did not include PEBP in his recently announced budget cuts for planning purposes. We do however recognize that it would be imprudent to dip deep into reserves at this time to mitigate the rate changes.

The Covid-19 crisis is already having an impact on families in Nevada and their budgets. Although state employees are continuing to be paid in full for now, that may not be true for their spouses and household members. A \$16 to \$52/month increase in the PEBP premium (CDHP tiers) is manageable for higher-paid employees, but for an entry level classified employee at \$30,000/year it represents a 0.6% to 2.1% decrease in a year with no COLA increase. That is significant hit to a lower-income household. PEBP should not unnecessarily contribute to lower pay for state employees.

To mitigate the rate increases, especially for the largest group of employees in the base CDHP plan, without major use of the reserves prior to Covid-19 costs, we recommend consideration of the following low-cost options as shown in Table 2:

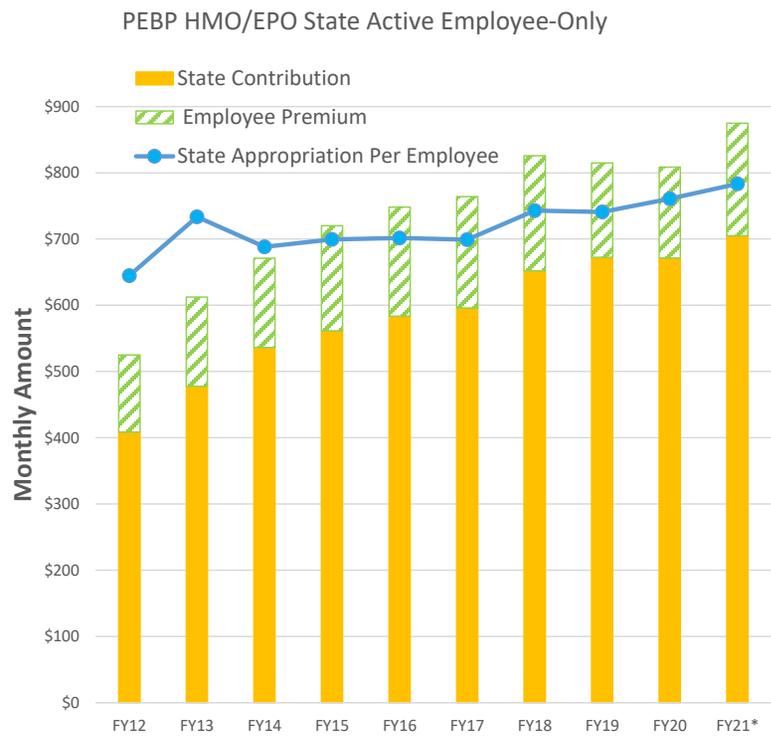
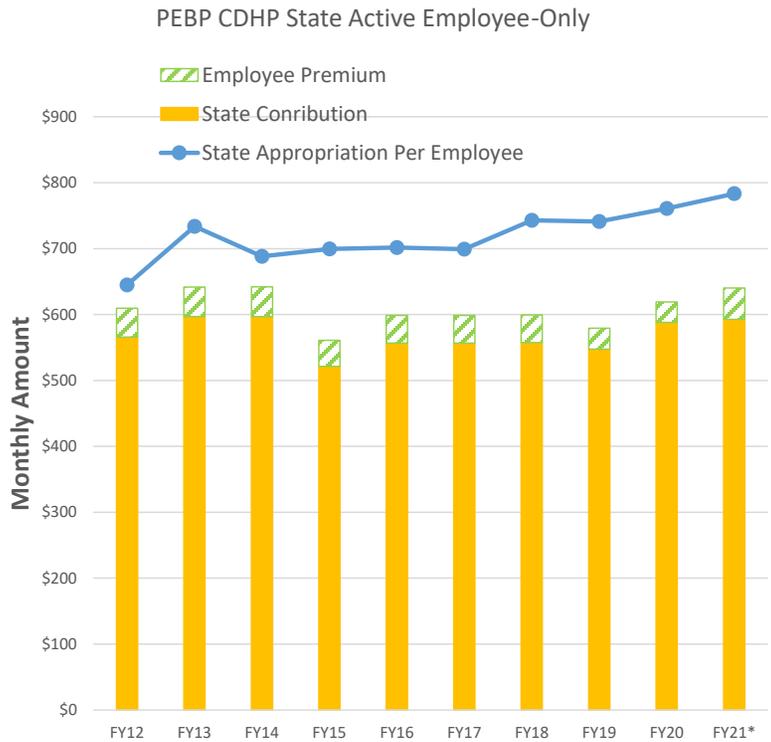
Option 1: A \$5/employee or larger flat supplemental state subsidy for each of the four tiers in the CDHP plan compared with the 3/31 proposal would reduce the single-employee premium to \$42, still a sharp increase from \$31 in FY2020 but closer to the level in years after the Great Recession. The cost would be approximately \$1.5M for a \$5 supplement, which is within the margin of error for estimating excess reserves. No change would be made to the HMO/EPO proposed rate and premium schedule.

Option 2: Replace the subsidies in the 3/31 proposal by taking the subsidies for each tier and plan from FY2020 and increasing them by 3% across the board, which is the increase in the state appropriations per active employee per month for FY2021. Then simply subtract this new subsidy from the rates calculated by AON. This is cost neutral because it simply applies the available revenue in a more uniform way. It does put more of the burden of the higher increased costs for the HMO/EPO plans on the employees, although the subsidies will still exceed the state appropriations. If the higher premiums cause migration out of the HMO/EPO, that will save PEBP money in subsidies.

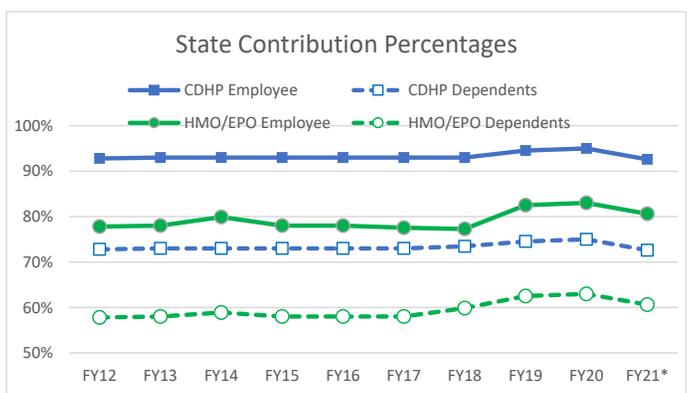
Thank you for your consideration and for your hard work in balancing the needs of state employees with your fiscal responsibility to the program as a whole.

Table 2. Employee Premiums for State Active Employees—Options

Employee Premiums	FY2020	FY2021		
		3/31	NFA option 1	NFA option 2
CDHP				
Employee Only	\$30.95	\$47.38	\$42.38	\$34.32
Employee + Spouse	\$160.01	\$200.26	\$195.26	\$193.42
Employee + Children	\$82.97	\$111.74	\$106.74	\$108.44
Employee + Family	\$212.02	\$264.61	\$259.61	\$267.51
HMO/EPO				
Employee Only	\$137.31	\$169.73	\$169.73	\$183.33
Employee + Spouse	\$415.95	\$498.14	\$498.14	\$528.55
Employee + Children	\$275.84	\$331.56	\$331.56	\$351.52
Employee + Family	\$554.32	\$659.97	\$659.97	\$696.57



Plan Year	State Contribution Percentages				Differences			
	Employee		Dependents		Employee-Dependents		CDHP-HMO	
	CDHP	HMO/EPO	CDHP	HMO/EPO	CDHP	HMO/EPO	Employees	Dependents
FY12	92.8%	77.8%	72.8%	57.8%	20.0%	20.0%	15.0%	15.0%
FY13	93.0%	78.0%	73.0%	58.0%	20.0%	20.0%	15.0%	15.0%
FY14	93.0%	79.9%	73.0%	58.9%	20.0%	21.1%	13.1%	14.1%
FY15	93.0%	78.0%	73.0%	58.0%	20.0%	20.0%	15.0%	15.0%
FY16	93.0%	78.0%	73.0%	58.0%	20.0%	20.0%	15.0%	15.0%
FY17	93.0%	77.5%	73.0%	58.0%	20.0%	19.5%	15.5%	15.0%
FY18	93.0%	77.3%	73.4%	59.8%	19.6%	17.4%	15.7%	13.6%
FY19	94.5%	82.5%	74.5%	62.5%	20.0%	20.0%	12.0%	12.0%
FY20	95.0%	83.0%	75.0%	63.0%	20.0%	20.0%	12.0%	12.0%
FY21*	92.6%	80.6%	72.6%	60.6%	20.0%	20.0%	12.0%	12.0%



Tier	State Actives in Tier and Plan				
	CDHP	EPO	HMO	Total	Percentage
Employee	11258	2121	2059	15438	56.6%
Employee + Spouse	1738	387	277	2402	8.8%
Employee + Children	4022	1076	781	5879	21.6%
Employee + Family	2805	431	324	3560	13.1%
Total Employees	19823	4015	3441	27279	100.0%
Percentage	72.7%	14.7%	12.6%	100.0%	

Subsidies per employee per month weighted by tiers			
State Active Employees	FY2020	FY2021*	Change
CDHP state contribution	\$730.58	\$744.22	1.87%
HMO/EPO state contribution	\$844.02	\$888.35	5.25%
State appropriation	\$760.79	\$783.30	2.96%

*FY2021 per proposals from 3/31/2020 board meeting. Updated 4/8/2020 NFA.



NEVADA FACULTY ALLIANCE

840 S. Rancho Dr., Suite 4-571
Las Vegas, Nevada 89106

Date: April 9, 2020
To: Public Employees' Benefits Program Board
Laura Freed, Chair
Laura Rich, Executive Director
From: Kent Ervin, Legislative Liaison, Nevada Faculty Alliance
Subject: Public Comment for 4/9/2010 Board Meeting, Agenda Item 4
Analysis of Options 1 to 5

We very much appreciate that PEBP staff and AON have worked hard to provide additional rate schedule options for the Board's consideration. Given that the new proposals became available only yesterday afternoon and corrected this morning, we have not been able to query constituents about them. This additional comment provides some analysis.

The attached sheets, based on the updated Version 3 of the PEBP proposals posted on April 9, show how the state contributions (a.k.a. subsidies) would change for each of the five options if the current board policies for setting rates are used (right-hand blocks, using Option 2 rates) rather than adjusting the total rates by tier to get the same effect for the employee premiums as in the PEBP proposals (left-hand blocks). This is more consistent with how rates, state contributions and employee premiums have been considered in the past. These are of course directly related:

$$\text{Employee Premium} = \text{Total Rate} - \text{State Contribution},$$

so it is just a different way of looking at the effects of how the employee premiums are set for each option, emphasizing the changes in the state contributions rather than artificially changing the rates by tier.

Option 1 fundamentally shifts costs to the Employee+Spouse tier by significantly decreasing the subsidy percentage for spouse and increasing the subsidy percentage for children. That would be a major policy change. The sharp \$99/month (CDHP) or \$260/month (HMO/EPO) premium increase versus FY2020 in the Employee+Spouse tier will be a hardship for that minority of participants. Option 1 also goes against the Board policy since 2011 that equalizes the tiers to avoid having the tier rates shift every year based on actuarial experience and demographic differences between tiers and plans. It would no longer be the case that the incremental cost of adding children or adding a spouse would be the same regardless of whether the employee already covered a spouse or children, respectively

Option 2 is the status quo policy with the increased rates from AON except that the state subsidy percentages are decreased across the board, making up for the shortfall in state funding at the legislatively approved 95% base subsidy level. This hits the Employee-only tier the hardest in

percentage terms because of the change for the employee from covering 5.0% of the rate in FY2020 to covering 8.1% of the increased total rate. The higher rates from AON's analysis of more recent data exacerbated the issues with the proposal from March 31.

Option 3 ameliorates the differences among the tier levels in percentages terms, with a smaller decrease in the subsidy percentage for the Employee-Only tier versus the dependent tiers. This may be a reasonable compromise given the circumstances.

Options 4 and 5 use funds from freed reserves, which could dip into mandatory reserves if excess reserves are depleted as currently projected. While we note that those projections at March rate-setting time have underestimated end-of-year excess reserves in all but one of the past eight years, using reserves at this time with Covid-19 uncertainties is probably not politically acceptable.

I also include the two options suggested in NFA's public comment letter of April 7, 2020, for comparison.

The weighted average state contributions (bottom right of second sheet) are estimated here based on the current populations by tier and plan as provided by PEBP and included on the attached sheets. These represent the total costs for comparison with the state appropriation per member per month.

None of the five options have a major shift in state contributions from the more expensive HMO/EPO plan, which now has a total subsidy above the state appropriation per member per month, to the CDHP plan which is subsidized at a level lower than the state appropriation. The high cost of the HMO/EPO plan needs to be addressed by PEBP in the future.

We appreciate that the rate changes are difficult decisions for the Board, and that the Covid-19 crisis will produce additional challenges in the future. This analysis is offered in the spirit of allowing better informed decisions, particularly for the newer board members.

Thank you for the opportunity for input.

CDHP Plan State Actives	PY2020	3/31 proposal	option 1	option 2	option 3	option 4	option 5	option 1	option 2	option 3	option 4	option 5	NFA 1*	NFA 2*
Tiers	TOTAL RATES PER PROPOSAL							TOTAL RATES USING EXISTING POLICY						
Employee	\$619	\$640	\$615	\$647	\$639	\$633	\$635	\$647	\$647	\$647	\$647	\$647	\$647	\$647
E + spouse	\$1,135	\$1,198	\$1,322	\$1,211	\$1,228	\$1,214	\$1,219	\$1,211	\$1,211	\$1,211	\$1,211	\$1,211	\$1,211	\$1,211
E + children	\$827	\$875	\$849	\$884	\$883	\$874	\$877	\$884	\$884	\$884	\$884	\$884	\$884	\$884
E + family	\$1,343	\$1,433	\$1,556	\$1,449	\$1,473	\$1,455	\$1,461	\$1,449	\$1,449	\$1,449	\$1,449	\$1,449	\$1,449	\$1,449
Tiers	EMPLOYEE PREMIUMS							EMPLOYEE PREMIUMS AS PROPOSED						
Employee	\$31	\$47	\$40	\$52	\$44	\$41	\$42	\$40	\$52	\$44	\$41	\$42	\$42	\$41
E + spouse	\$160	\$200	\$259	\$211	\$227	\$211	\$217	\$259	\$211	\$227	\$211	\$217	\$201	\$207
E + children	\$83	\$112	\$79	\$119	\$118	\$109	\$112	\$79	\$119	\$118	\$109	\$112	\$109	\$118
E + family	\$212	\$265	\$291	\$277	\$301	\$280	\$287	\$291	\$277	\$301	\$280	\$287	\$267	\$283
Tiers	STATE CONTRIBUTION							ADJUSTED STATE CONTRIBUTION						
Employee	\$588	\$593	\$575	\$594	\$595	\$592	\$593	\$606	\$594	\$603	\$606	\$605	\$604	\$606
E + spouse	\$975	\$998	\$1,064	\$1,001	\$1,001	\$1,003	\$1,002	\$953	\$1,001	\$984	\$1,000	\$995	\$1,011	\$1,005
E + children	\$744	\$763	\$770	\$765	\$765	\$764	\$765	\$805	\$765	\$766	\$775	\$772	\$775	\$766
E + family	\$1,131	\$1,168	\$1,265	\$1,171	\$1,171	\$1,175	\$1,174	\$1,157	\$1,171	\$1,148	\$1,169	\$1,162	\$1,181	\$1,165
Relationship	STATE CONTRIBUTION PERCENTAGE							ADJUSTED STATE CONTRIBUTION PERCENTAGE						
Employee	95.0%	92.6%	93.5%	91.9%	93.1%	93.5%	93.4%	93.8%	91.9%	93.2%	93.7%	93.5%	93.5%	93.7%
Spouse only	75.0%	72.6%	69.1%	71.9%	68.9%	70.7%	70.1%	61.3%	71.9%	67.6%	69.9%	69.1%	71.9%	70.6%
Children only	75.0%	72.6%	83.5%	72.0%	69.8%	71.6%	71.0%	83.7%	72.0%	68.9%	71.1%	70.3%	72.0%	67.7%
Tiers	Participants							AVERAGE STATE CONTRIBUTION (all tiers)						
Employee	11,258	57%						\$755	\$746	\$746	\$754	\$752	\$756	\$753
E + spouse	1,738	9%												
E + children	4,022	20%						STATE APPROPRIATION PEPM						
E + family	2,805	14%						\$783.30						
Total	19,823	100%												

*NFA 1: one-time \$10 supplemental subsidy to all CDHP tiers only. NFA 2: subsidies at 103% of FY2020 for CDHP and HMO/EPO.

HMO/EPO Plan State Actives	PY2020	3/31 proposal	option 1	option 2	option 3	option 4	option 5	option 1	option 2	option 3	option 4	option 5	NFA 1	NFA 2
Tiers	TOTAL RATES PER PROPOSAL							TOTAL RATES USING EXISTING POLICY						
Employee	\$809	\$875	\$832	\$877	\$872	\$865	\$868	\$877	\$877	\$877	\$877	\$877	\$877	\$877
E + spouse	\$1,561	\$1,708	\$1,844	\$1,712	\$1,719	\$1,706	\$1,710	\$1,712	\$1,712	\$1,712	\$1,712	\$1,712	\$1,712	\$1,712
E + children	\$1,183	\$1,285	\$1,287	\$1,288	\$1,291	\$1,281	\$1,284	\$1,288	\$1,288	\$1,288	\$1,288	\$1,288	\$1,288	\$1,288
E + family	\$1,935	\$2,119	\$2,308	\$2,124	\$2,138	\$2,121	\$2,127	\$2,124	\$2,124	\$2,124	\$2,124	\$2,124	\$2,124	\$2,124
Tiers	EMPLOYEE PREMIUMS							EMPLOYEE PREMIUMS AS PROPOSED						
Employee	\$137	\$170	\$140	\$176	\$171	\$164	\$167	\$140	\$176	\$171	\$164	\$167	\$176	\$185
E + spouse	\$416	\$498	\$676	\$511	\$518	\$497	\$504	\$676	\$511	\$518	\$497	\$504	\$511	\$532
E + children	\$276	\$332	\$361	\$341	\$343	\$330	\$334	\$361	\$341	\$343	\$330	\$334	\$341	\$354
E + family	\$554	\$660	\$897	\$675	\$690	\$663	\$672	\$897	\$675	\$690	\$663	\$672	\$675	\$701
Tiers	STATE CONTRIBUTION							ADJUSTED STATE CONTRIBUTION						
Employee	\$671	\$705	\$692	\$701	\$701	\$701	\$701	\$737	\$701	\$706	\$712	\$710	\$701	\$691
E + spouse	\$1,145	\$1,210	\$1,168	\$1,202	\$1,202	\$1,209	\$1,206	\$1,036	\$1,202	\$1,195	\$1,215	\$1,208	\$1,202	\$1,180
E + children	\$907	\$954	\$927	\$947	\$947	\$951	\$950	\$928	\$947	\$945	\$958	\$954	\$947	\$934
E + family	\$1,381	\$1,459	\$1,411	\$1,448	\$1,448	\$1,459	\$1,455	\$1,227	\$1,448	\$1,434	\$1,461	\$1,452	\$1,448	\$1,422
Relationship	STATE CONTRIBUTION PERCENTAGE							ADJUSTED STATE CONTRIBUTION PERCENTAGE						
Employee	83.0%	80.6%	83.2%	79.9%	80.4%	81.0%	80.8%	84.1%	79.9%	80.5%	81.3%	81.0%	79.9%	78.9%
Spouse only	63.0%	60.6%	47.0%	59.9%	59.1%	60.4%	60.0%	35.8%	59.9%	58.5%	60.2%	59.6%	59.9%	58.4%
Children only	63.0%	60.6%	51.5%	59.9%	58.9%	60.2%	59.7%	46.3%	59.9%	58.1%	59.8%	59.2%	59.9%	58.9%
Tiers	Participants							AVERAGE STATE CONTRIBUTION (all tiers)						
Employee	4,180	56%						\$861	\$882	\$883	\$894	\$890	\$882	\$869
E + spouse	664	9%						COMBINED AVERAGE STATE CONTRIBUTION CDHP + HMO/EPO						
E + children	1,857	25%						\$784	\$784	\$784	\$793	\$790	\$791	\$784
E + family	755	10%						STATE APPROPRIATION PEPM						
Total	7,456	100%						\$783.30						