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AGENDA ITEM

Action Item

Information Only

Date: July 23, 2020

Item Number: IX

Title: Plan Design Changes for Fiscal Year 2022/2023

BACKGROUND

Each Biennium, state agencies must build and submit an agency budget request to the Governor's Finance Office by the end of August. The budget request undergoes review and often, numerous modifications before it eventually becomes part of the Governor's proposed budget presented in January prior to the start of the legislative session.

Under normal conditions, agencies receive a set of instructions and general directives in the spring prior to the August budget submission deadline. With a relatively stable economic outlook, this past spring agencies were advised to submit budgets that aligned with the Governor's goal of a family and child centered government. Unfortunately, the COVID-19 pandemic has drastically changed the situation and the state is now expected to be faced significant budget shortfalls for FY 22/23.

The special session which took place earlier this month, focused solely on resolving the more immediate FY 21 budget shortfalls. Meanwhile, until updated economic indicators become available, state agencies have moved forward with FY 22/23 budget building and it is only safe to assume that more budget cuts will be necessary.

REPORT

WHAT IS PROMPTING THE CHANGES

Recognizing that any further budget cuts under the current plan design will have significant impacts on members, either in the form of reduced benefits, increased out-of-pocket expenses, increased premiums or a combination of all of those, PEBP has taken this opportunity to revamp the program by introducing modifications and additions to the current plan design.

PEBP staff, 4 board members, PEBP's actuary and many other partners met in May for a 2-day strategic planning session to discuss options that would enable the program to reduce costs, retain benefits and improve member satisfaction. PEBP also reached out to advocacy groups to provide written input and feedback on what changes they would like to see, noting that "nothing was off the table".

Although PEBP has not been provided specific targets for PY 22/23, the expectation based on the current economic climate is that the program will be asked to make additional reductions, so the team collectively strategized to develop program policy and plan changes that are able to absorb the impact of budget reductions more easily, while also being mindful of economic impact on PEBP participants.

VARIABLES

There are many variables that will significantly affect projections and in turn, likely impact PEBP's budget:

Contracts

PEBP has 5 contracts up for renewal, some of them having a very significant impact on the overall budget. A change in the medical and/or dental network contracts will impact claims costs, while changes to the Benefits Management system and HMO contracts will affect administrative costs. Actuarial projections will not incorporate any of these possible changes as the contracts will not be approved until early 2021.

COVID-19

To date PEBP has paid approximately \$500,000 in COVID-19 related claims, however these claims costs have been incurred during a period when the state was largely shut down. Since restrictions were relaxed and businesses were allowed to reopen, the COVID-19 cases have spiked dramatically. We cannot predict if this will lead to a sharp increase in related cases or, as some have predicted, if there will be a resurgence in the fall.

Trend

The pandemic will almost undoubtedly have a bearing on trend. Medical carriers are currently anticipating a 0.5%-1.0% increase on 2021 trends for claims that were suppressed in 2020 and will return in 2020. Those claim trends do not yet include any additional increase in costs due to potential future infection waves, future treatment regimens, long-term health impacts of those who have contracted COVID, the cost and availability of a future vaccine, etc. Collectively the unknowns of this pandemic will certainly increase the volatility on claim projections.

State Economic Conditions

The vast majority of the member premium is subsidized by the state through the employer contribution, which is approved at each legislative session. Historically, the employer contribution has been approximately 91-96% of the total premium cost for active employees,

however, given the current budget shortfalls, it is unclear what percentage the state will be able to contribute toward premiums in FY 22/23.

PLAN DESIGN CHANGES

Presented in the table below are the concepts behind the proposed plan changes that are to be included in the FY 22/23 agency budget request submission. Although a preliminary plan benefit design is shown, the deductibles, copays and coinsurance displayed are based on very immature data and will very likely change when the Board is presented with updated information at the November Board meeting where final PY22 plan design decisions will be approved. It is important to recognize that the proposed plan design shown in the table below is meant to illustrate what the plan design benefit might look like once factors such as updated trend are taken into consideration.

PEBP identified several goals during the plan design process. First, we wanted to improve the plan options so that members had more appropriate plan selections that met their needs. The idea of a low deductible plan has been consistently requested by members and advocacy groups, so PEBP introduced a middle tier option that more closely fulfills this request. The second goal was to modify the plan designs to make them simpler for the average member to use and comprehend. Introducing copays and reducing/eliminating the complex rules that have been built on the CDHP will allow members to have a better understanding of their benefits.

The third goal was to reduce PEBP costs. Since PEBP has not yet been given a target for FY 22/23, PEBP anticipates submitting two budget requests – one assuming a 5% reduction, the other assuming a 10% reduction. This will give the Governor's Finance Office (GFO) two options when deciding what should eventually be included in the Governor's recommended budget provided updated economic indicators that better determine the states' fiscal position in FY 22/23 are available.

Plan Design Changes for FY 22/23 Report

July 23, 2020

Page 4

Proposed Plan Design Changes

	Modified CDHP			New Low Ded PPO w/ copay			EPO/HMO		
	Current	~5%	~10%	Current	~5%	10%	Current	~5%	~10%
Deductible (Individual w/in Family)	\$1,500/\$3,000 (\$2,800)	\$2,000/\$4,000 (\$2,000)	\$2,500/\$5,000 (\$2,500)		\$1,000/\$2,000 (\$1,000)	\$1,250/\$2,500 (\$1,250)	\$0	\$500/\$1,000 (\$500)	\$600/\$1,200 (\$600)
OOP Max (Individual w/in Family)	\$3,900/\$7,800 (\$6,850)	\$5,000/\$10,000 (\$5,000)	\$5,500/\$11,000 (\$5,500)		\$5,000/\$10,000 (\$5,000)	\$5,500/\$11,000 (\$5,500)	\$7,150/\$14,300 (\$7,150)	\$5,000/\$10,000 (\$5,000)	\$5,500/\$11,000 (\$5,500)
Coinsurance	20%	20%	25%		20%	20%	N/A	15%	20%
Primary Care Visit	20% after ded.	20% after ded.	25% after ded.		\$30	\$30	\$20	\$20	\$20
Specialist Visit	20% after ded.	20% after ded.	25% after ded.		\$50	\$50	\$40	\$40	\$40
ER visit	20% after ded.	20% after ded.	25% after ded.		\$750	\$1,200	\$500	\$750	\$800
UC Visit	20% after ded.	20% after ded.	25% after ded.		\$80	\$120	\$30	\$50	\$80
Inpatient Hospital	20% after ded.	20% after ded.	25% after ded.		\$750	ded/coins	\$500	\$750	\$800
Outpatient Surgery	20% after ded.	20% after ded.	25% after ded.		\$500	ded/coins	\$350	\$350	ded/coins
RX									
Generic	20% after ded.	20% after ded.	25% after ded.		\$10	\$10	\$10	\$10	\$10
Formulary	20% after ded.	20% after ded.	25% after ded.		\$40	\$40	\$40	\$40	\$40
Non-formulary	20% after ded.	20% after ded.	25% after ded.		\$75	\$80	\$75	\$75	\$80
Specialty	20% after ded.	20% after ded.	25% after ded.		20% after ded.	25% after ded.	20%	20% after ded.	25% after ded.
HSA employer contribution	\$700 + \$200/dep	\$500	N/A		N/A	N/A	N/A	N/A	N/A
AV	87.3%	80.4%	76.6%		83.0%	80.7%	92.0%	87.2%	85.1%
Premium	Least expensive premium				Middle option premium		Most expensive premium		

In addition to the above plan design changes, PEPP is also proposing a dental buy up plan. This will allow members to purchase a richer dental benefit for an additional premium.

CONCLUSION

PEPP must submit an agency request budget by the end of August. The Board must decide whether PEPP's agency request budget should incorporate the options introduced above or submit a budget using PEPP's current plan design structure.

PEPP Recommendation: PEPP recommends the Board approve incorporating the new plan design concepts identified in this report, to include the modification of the existing CHDP and HMO/EPO plans, the addition of a mid-level low deductible copay plan, and the addition of a dental buy up plan. These plan options not only reduce the program costs but increase member

choice and allow for greater flexibility when faced with the very realistic possibility of budget reductions.

5% Plan Design Change

DRAFT - inputs have NOT been peer reviewed

Assumptions: Plan medical, rx, and dental costs **remain flat** for PY22 over PY21

State Subsidy is **decreased by 5%** from PY21, remains flat from PY22 to PY23

Trend around 5% for PY23 over PY22, but State Subsidy is unchanged

State Active EEs	Statewide CDHP			NEW Copay PPO			EPO/HMO		
	PY21 Premium	PY22 Premium	PY 23 Premium	PY21 Premium	PY22 Premium	PY 23 Premium	PY21 Premium	PY22 Premium	PY 23 Premium
Employee Only	43.94	44.53	73.06	n/a	60.93	92.35	171.05	141.29	170.20
Employee + Spouse	227.16	234.69	291.75	n/a	267.49	330.33	517.57	428.20	486.03
Employee + Child(ren)	117.80	138.49	178.44	n/a	161.46	205.45	343.23	273.95	314.43
Employee + Family	301.01	275.53	344.01	n/a	314.90	390.31	689.74	507.74	577.14

State Retirees Non-Medicare	Statewide CDHP			NEW Copay PPO			EPO/HMO		
	PY21 Premium	PY22 Premium	PY 23 Premium	PY21 Premium	PY22 Premium	PY 23 Premium	PY21 Premium	PY22 Premium	PY 23 Premium
Retiree only	233.59	239.81	268.35	n/a	256.22	287.64	419.79	336.57	365.48
Retiree + Spouse	553.84	581.39	638.46	n/a	614.20	677.04	994.97	774.90	832.73
Retiree + Child(ren)	362.66	387.75	427.69	n/a	410.71	454.70	705.58	523.20	563.68
Retiree + Family	682.91	695.79	764.27	n/a	735.16	810.57	1,280.76	928.00	997.40

Important to note, this does not include any increase in admin fees from PY21. Does not include any impacts (+/-) from upcoming RFPs.

Assumes 50% of HSA participants, 25% of HRA actives and 15% of HRA retirees move to Copay plan. HMO/EPO enrollment remains constant.

Actual enrollment may be different, which would change the rate blends.

5% Plan Design Change

DRAFT - inputs have NOT been peer reviewed

Assumptions: Plan medical, rx, and dental costs **increase 2.5%/5%/1.5%** for PY22 over PY21

State Subsidy is **decreased by 5%** from PY21, remains flat from PY22 to PY23

Trend around 5% for PY23 over PY22, but State Subsidy is unchanged

State Active EEs	Statewide CDHP			NEW Copay PPO			EPO/HMO		
	PY21 Premium	PY22 Premium	PY 23 Premium	PY21 Premium	PY22 Premium	PY 23 Premium	PY21 Premium	PY22 Premium	PY 23 Premium
Employee Only	43.94	60.59	90.03	n/a	78.62	111.04	171.05	152.59	182.16
Employee + Spouse	227.16	266.90	325.77	n/a	302.95	367.80	517.57	450.90	510.03
Employee + Child(ren)	117.80	161.02	202.23	n/a	186.26	231.65	343.23	289.82	331.21
Employee + Family	301.01	314.19	384.83	n/a	357.46	435.27	689.74	534.99	605.94

State Retirees Non-Medicare	Statewide CDHP			NEW Copay PPO			EPO/HMO		
	PY21 Premium	PY22 Premium	PY 23 Premium	PY21 Premium	PY22 Premium	PY 23 Premium	PY21 Premium	PY22 Premium	PY 23 Premium
Retiree only	233.59	255.99	285.43	n/a	274.02	306.45	419.79	347.99	377.56
Retiree + Spouse	553.84	613.81	672.68	n/a	649.87	714.71	994.97	797.81	856.94
Retiree + Child(ren)	362.66	410.43	451.64	n/a	435.67	481.07	705.58	539.24	580.62
Retiree + Family	682.91	734.69	805.34	n/a	777.96	855.77	1,280.76	955.49	1,026.44

Important to note, this does not include any increase in admin fees from PY21. Does not include any impacts (+/-) from upcoming RFPs.

Assumes 50% of HSA participants, 25% of HRA actives and 15% of HRA retirees move to Copay plan. HMO/EPO enrollment remains constant.

10% Plan Design Change***

DRAFT - inputs have NOT been peer reviewed

Assumptions: Plan medical, rx, and dental costs remain flat for PY22 over PY21

State Subsidy is decreased by 5% from PY21, remains flat from PY22 to PY23

Trend around 5% for PY23 over PY22, but State Subsidy is unchanged

***It's important to note, this scenario keeps the State budget at a 5% reduction

The plan design changes drops the cost of the benefits down by 10%, which means the Employees payroll costs see a benefit.

If the State GFO also comes back with a need to cut their subsidies by 10%, this will change these numbers dramatically.

State Active EEs	Statewide CDHP			NEW Copay PPO			EPO/HMO		
	PY21 Premium	PY22 Premium	PY 23 Premium	PY21 Premium	PY22 Premium	PY 23 Premium	PY21 Premium	PY22 Premium	PY 23 Premium
Employee Only	43.94	12.02	40.45	n/a	33.57	63.44	171.05	120.09	147.77
Employee + Spouse	227.16	169.66	226.52	n/a	212.77	272.50	517.57	385.80	441.16
Employee + Child(ren)	117.80	92.97	132.77	n/a	123.15	164.96	343.23	244.28	283.03
Employee + Family	301.01	197.49	265.73	n/a	249.23	320.90	689.74	456.87	523.30

State Retirees Non-Medicare	Statewide CDHP			NEW Copay PPO			EPO/HMO		
	PY21 Premium	PY22 Premium	PY 23 Premium	PY21 Premium	PY22 Premium	PY 23 Premium	PY21 Premium	PY22 Premium	PY 23 Premium
Retiree only	233.59	207.30	235.73	n/a	228.86	258.72	419.79	315.37	343.05
Retiree + Spouse	553.84	516.36	573.22	n/a	559.48	619.20	994.97	732.51	787.87
Retiree + Child(ren)	362.66	342.23	382.03	n/a	372.41	414.21	705.58	493.53	532.28
Retiree + Family	682.91	617.76	685.99	n/a	669.50	741.16	1,280.76	877.13	943.56

Important to note, this does not include any increase in admin fees from PY21. Does not include any impacts (+/-) from upcoming RFPs.

Assumes 50% of HSA participants, 25% of HRA actives and 15% of HRA retirees move to Copay plan. HMO/EPO enrollment remains constant.

10% Plan Design Change***

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Assumptions: Plan medical, rx, and dental costs increase 2.5%/5%/1.5% for PY22 over PY21

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State Active EEs	Statewide CDHP			NEW Copay PPO			EPO/HMO		
	PY21 Premium	PY22 Premium	PY 23 Premium	PY21 Premium	PY22 Premium	PY 23 Premium	PY21 Premium	PY22 Premium	PY 23 Premium
Employee Only	43.94	28.33	57.67	n/a	50.69	81.50	171.05	131.10	159.39
Employee + Spouse	227.16	202.28	260.96	n/a	247.00	308.62	517.57	407.83	464.41
Employee + Child(ren)	117.80	115.81	156.88	n/a	147.12	190.25	343.23	259.70	299.30
Employee + Family	301.01	236.64	307.05	n/a	290.31	364.25	689.74	483.31	551.19

State Retirees Non-Medicare	Statewide CDHP			NEW Copay PPO			EPO/HMO		
	PY21 Premium	PY22 Premium	PY 23 Premium	PY21 Premium	PY22 Premium	PY 23 Premium	PY21 Premium	PY22 Premium	PY 23 Premium
Retiree only	233.59	223.61	252.95	n/a	245.97	276.78	419.79	326.39	354.67
Retiree + Spouse	553.84	548.98	607.66	n/a	593.71	655.32	994.97	754.54	811.11
Retiree + Child(ren)	362.66	365.06	406.14	n/a	396.37	439.50	705.58	508.95	548.55
Retiree + Family	682.91	656.90	727.32	n/a	710.57	784.51	1,280.76	903.57	971.45

Important to note, this does not include any increase in admin fees from PY21. Does not include any impacts (+/-) from upcoming RFPs.

Assumes 50% of HSA participants, 25% of HRA actives and 15% of HRA retirees move to Copay plan. HMO/EPO enrollment remains constant.