

AON

Trend Presentation

PEBP

March 24, 2022



Public Employees' Benefits Program

Trend Presentation Exhibit

CDHP + EPO	FY2018	FY2019	FY2020	FY2021
Enrollment Medical/Rx	331,622	335,797	338,534	332,688
Total Medical Incurred Claims	\$172,311,724	\$190,451,169	\$176,348,802	\$198,845,888
Total Rx Incurred Claims (Net of Rebates)	\$41,524,622	\$43,578,545	\$41,787,256	\$45,386,049
Total Medical/Rx Incurred Claims	\$213,836,346	\$234,029,714	\$218,136,058	\$244,231,937

Dental	FY2018	FY2019	FY2020	FY2021
Enrollment Dental	476,237	485,281	492,776	488,270
Total Dental Incurred Claims	\$24,760,129	\$25,032,833	\$22,481,880	\$25,171,343

Claims Trend	FY2018	FY2019	FY2020	FY2021
Medical Incurred Claims PEPM	\$520	\$567	\$521	\$598
Medical Claims Trend		9%	-8%	15%
Rx Incurred Claims PEPM	\$125	\$130	\$123	\$136
Rx Claims Trend		4%	-5%	11%
Medical/Rx Incurred Claims PEPM	\$645	\$697	\$644	\$734
Medical/Rx Claims Trend		8%	-8%	14%
Dental Incurred Claims PEPM	\$52	\$52	\$46	\$52
Dental Claims Trend		-1%	-12%	13%
Medical/Rx/Dental Claims PEPM	\$697	\$749	\$690	\$786
Experience Trend		7%	-8%	14%

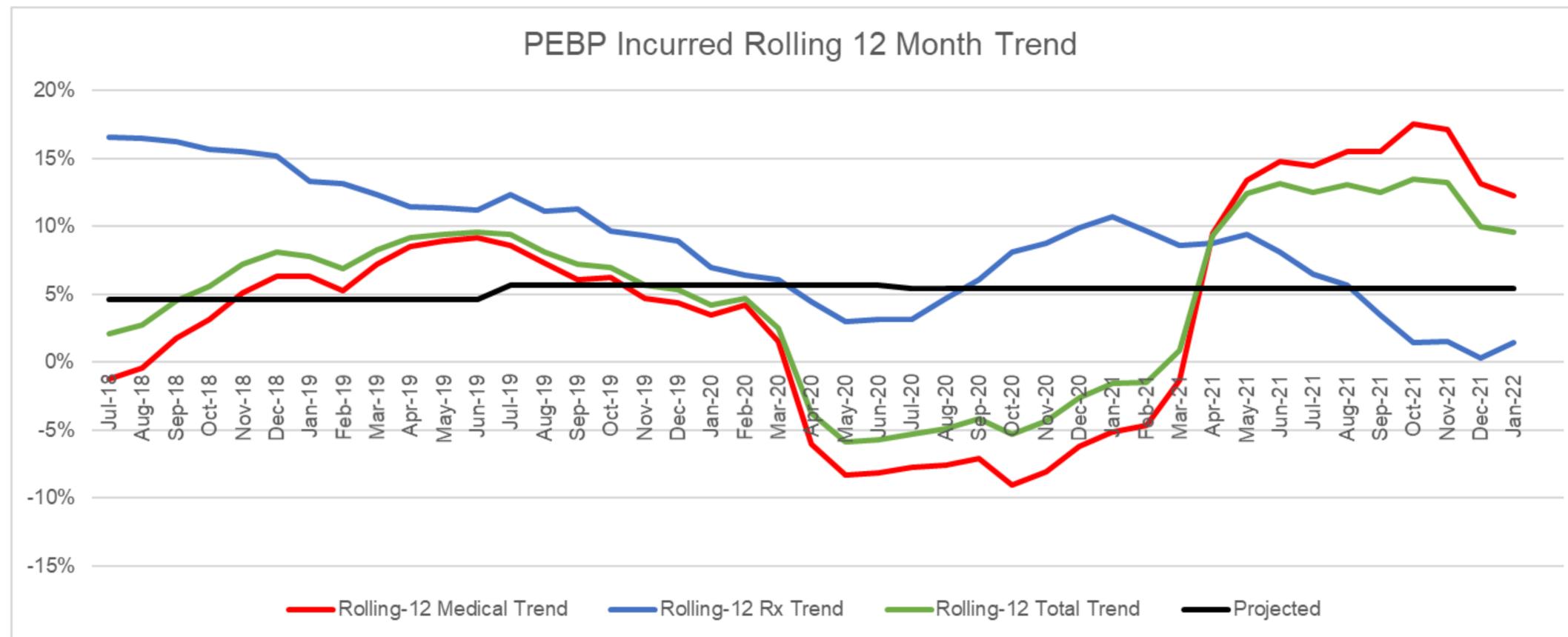
Note: EPO and CDHP claims are combined while the EPO was fully insured in FY18 and prior

- FY2020 is impact by the claims suppression due to COVID-19
- FY2021 increase looks larger since it is compared to FY2020 with the claims suppression

Healthcare Trend Exhibit

The below graph shows the ebbs and flows over the last several years.

- Note- no adjustments are made for plan design or contract changes
- Medical trend peaked in October 2021 and it is slowly decreasing



What Will Change Going Forward?



Previous COVID-19 Waves

The last 15 to 18 months of medical claims experience (since about July 2020) contains the impacts of 4 separate periods of COVID-19 lulls and outbreaks

This claims experience includes these COVID-19-related elements:

- COVID-19 testing costs
- Vaccine costs
- COVID-19 treatment costs
- Suppression of other claims to make room for COVID-19 patients



Future COVID-19 Waves

At this point, the expectation is for continuing seasonal COVID-19 waves, with these same elements included in each

How much will each element change in subsequent waves?

Costs expected to be the same as or slightly less than previous COVID-19 waves



Deferred Care

Initial expectations assumed there would be a rebound of deferred care claims — which has yet to occur

A stabilizing market indicates this seems unlikely in the near term; we are watching other indicators such as healthcare employment levels, cancer costs and specialty drug pricing for potential cost increases

Little to no expected net cost impact



Inflation Impacts

In addition, U.S. inflation rates are at the highest levels since the 1980s; inflation is linked to healthcare spending through healthcare wages

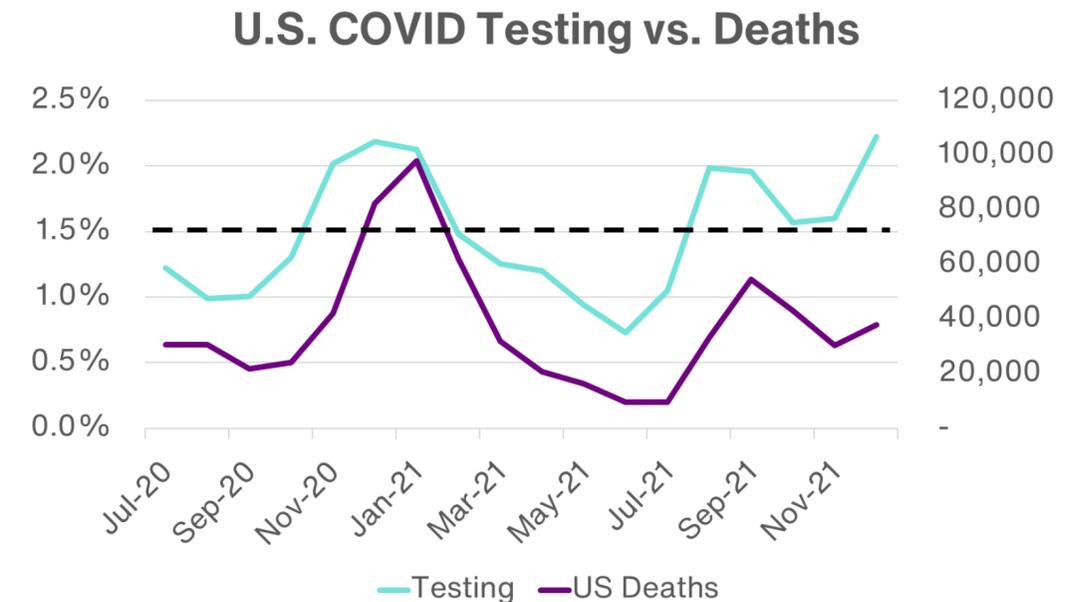
Economy-wide inflation is expected to add around 1 point to medical trends from 2021 → 2022 and from 2022 → 2023

Medical only trend projected for both 2021 → 2022 and 2022 → 2023 is 1 point higher

COVID-19 Testing Costs and Vaccine Costs

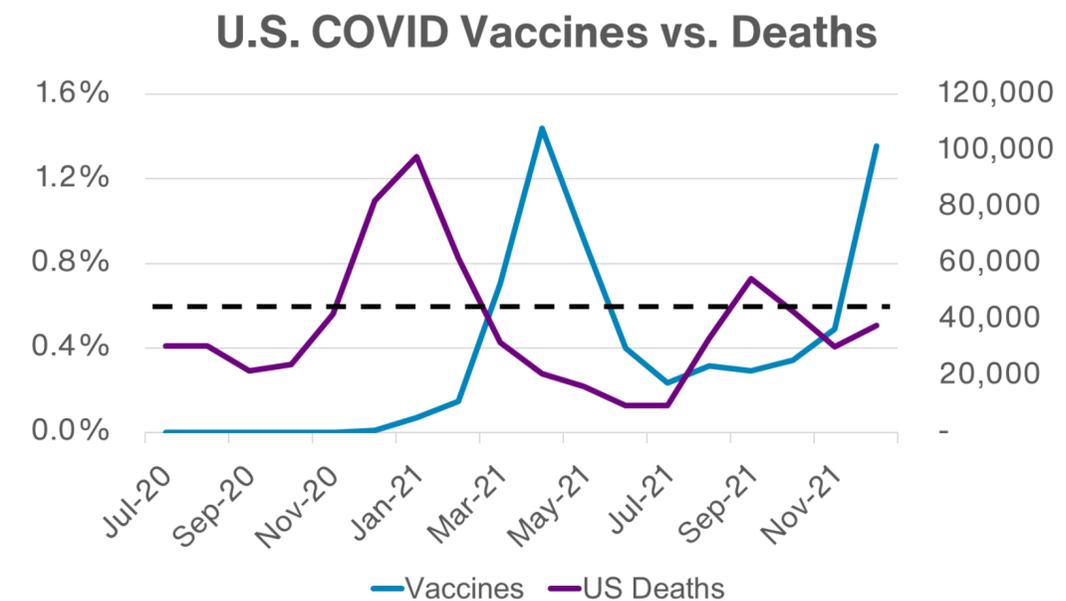
COVID-19 Testing Costs

- Waning concerns about COVID-19 likely means that **future testing costs will be no larger than past costs**
- Maintaining the same expected level of testing costs is likely to be slightly conservative
- A 33% reduction in testing costs only reduces total medical budgets by 0.5%



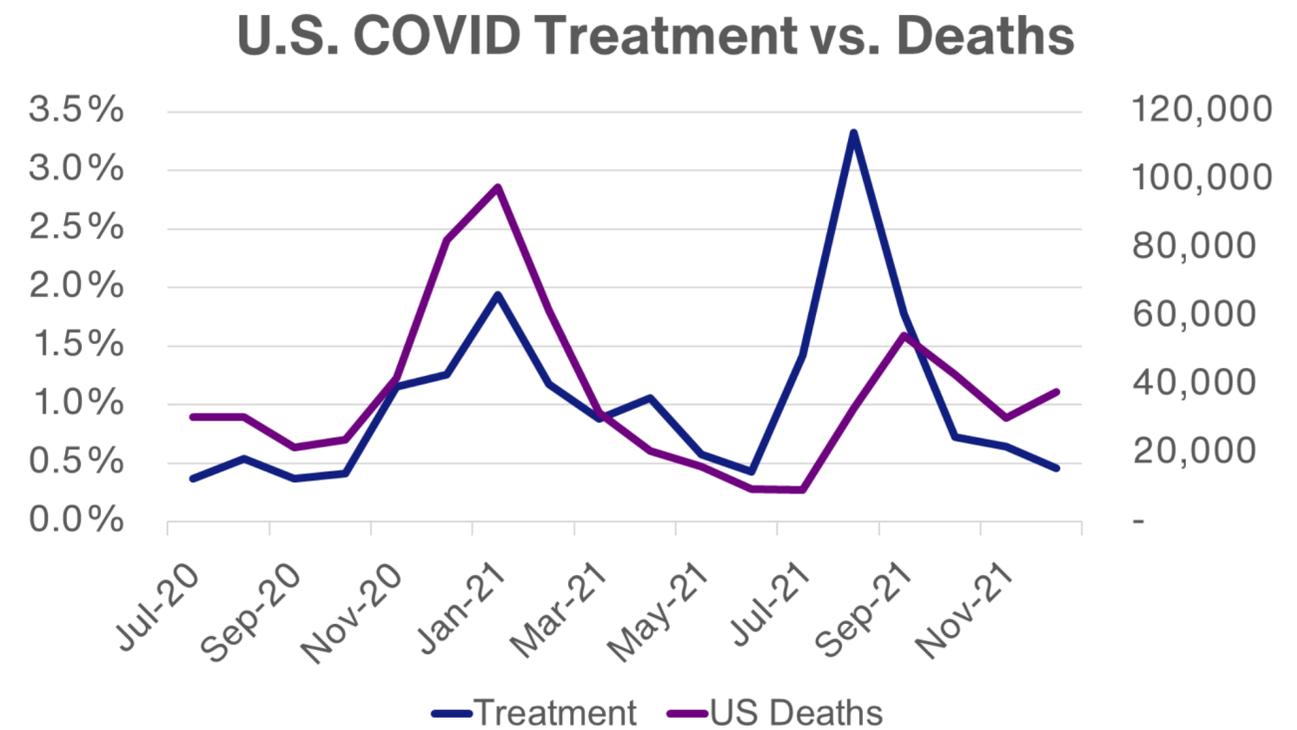
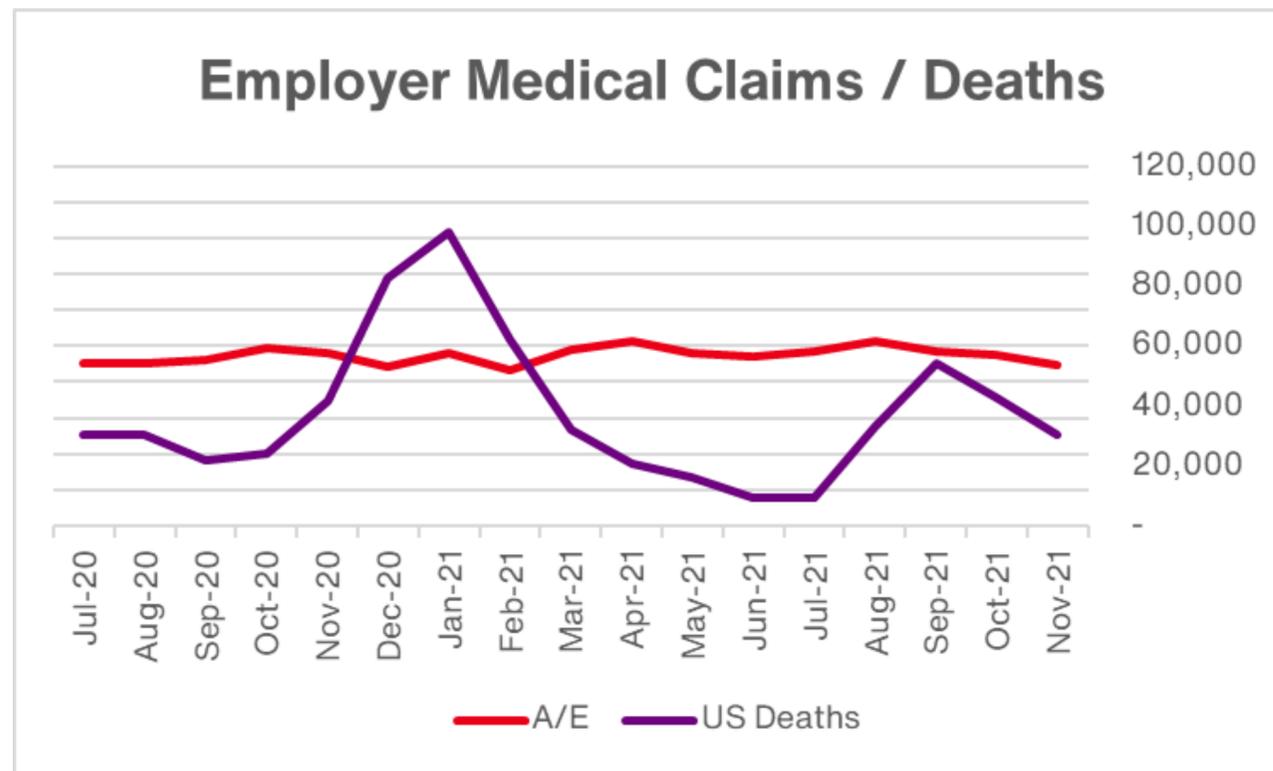
COVID-19 Vaccine Costs

- Vaccine costs are likely to be lower in 2022 because of the reduced number of shots and reduced interest in shots
- A 50% reduction in vaccine costs only reduces total medical budgets by 0.3%
- 2023 vaccine costs could be even lower; however, the government may stop paying the vaccine costs and instead transfer that cost to health plans
- **Net impact is likely to be no cost increase over 2021, but possibly a small decrease**



COVID-19 Treatment Costs and Suppression of Other Claims

- Even as COVID-19 treatment costs rise and fall, other costs fall and rise
- Net medical costs are expected to remain fairly stable



Will Deferred Care Rebound?

Where are the deferred claims?

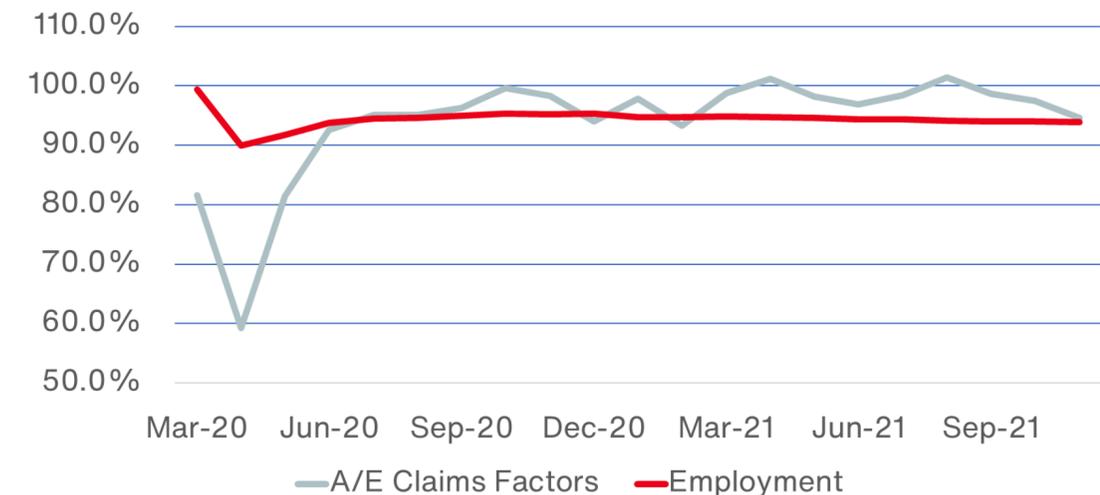
When COVID-19 began, many expected March 2020 to May 2020 deferred services and costs to return once the pandemic was over, in addition to “normal” costs for the second half of 2020

- This would result in a temporary period of “above normal” cost
- However, two years after the onset of the pandemic, this has yet to occur

Will long COVID-19 or deferred preventive care result in new costs that wouldn't have happened without COVID?

- The healthcare system appears to have **returned to an equilibrium state**
- The human component of medical care means most costs don't scale much faster than employment
- Additional costs for long COVID-19 or other conditions are likely to displace other care
- Aon's trend team is monitoring utilization and costs for specific conditions such as cancer and long COVID-19 for signs of increases
- Specialty drug costs are scalable, so treatments that use expensive drugs could drive up costs
- Aon's pharmacy practice is monitoring expected drug trends

A/E Medical Claims Factors vs. Healthcare Employment



Note: A/E medical claims factors based on Aon clients; healthcare employment levels as reported by Bureau of Labor Statistics

Future Trends: Impact of Inflation

- Economy-wide inflation will likely drive up wages in the healthcare sector, which may in turn drive up negotiated prices
- For most national medical carriers, price increases will be slow to appear in medical claims because provider contracts are only renegotiated every 2 to 4 years
 - Historically, healthcare prices have trended a couple of points higher than underlying inflation – will providers be able to maintain that spread in upcoming negotiations?
 - Aon is monitoring medical claims and provider negotiations very frequently to be able to provide early warning
- Expected trends from 2021 → 2022 and 2022 → 2023 are **higher by 1 point in each year** than in 2021 trend guidance which is approximately \$9M per year

