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Correspondence Memorandum

Date: August 11, 2023 (Revised)

To: Group Insurance Board

From: Renee Walk, Programs & Policy Unit Director
Office of Strategic Health Policy

Subject: 2024 Health Plan Rates and Qualifications

The Department of Employee Trust Funds (ETF) recommends the Group Insurance Board (Board) approve the recommended health, pharmacy, and dental rates presented by the Board's actuary, Segal, for plan year 2024.

ETF requests Board approval to make any additional, minor adjustments to the health plan service areas as they are finalized.

ETF also recommends the Board approve State premiums under Option 1 and Local premiums without use of reserves.

Background

2023 was a year of substantial changes for many Group Health Insurance Program (GHIP) members, following the departure of WEA Trust Insurance Corporation (WEA) from the GHIP and the insurance market at large. Over 50,000 members moved from WEA to a new health plan, and many of the GHIP's existing plans moved into new service areas or, in some cases, products, to fill gaps. The GHIP entered 2023 with five new health plan network offerings.

At the rate-setting meeting for plan year 2023, the Board also revised its rate strategy. Due to losses in the pharmacy benefit and lower investment gains, the available funds at the time were insufficient to continue the three-year buy-down strategy approved by the Board the prior year (Ref. GIB | 08.17.22 | 7C). Of the options provided, the Board elected Option 2, which used the remaining surplus to reduce plan year 2023 rate increases to approximately 4%. As of the drafting of this memo, the Board's overall reserves are below the low end of the target range set by its policy.

Network Changes

Following a year of substantial expansion in 2023, local program employers will experience a reduction in their available Tier 1 plans in 2024. 37 counties will lose at

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Electronically Signed 08/09/2023

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least one Tier 1 plan in 2024. Four counties will lose as many as three Tier 1 plans. This shift was primarily due to a reduction in the number of plans offering a Tier 1 rate in the local program, not a reduction in the number of plans qualified to participate in each county.

There will be 30 State Maintenance Plan (SMP) counties for the local program in 2024. The total population estimated in the new SMP counties is approximately 7,100 members, with Sauk County (1,300 members), Green County (1,100 members), and Columbia County (1,100 members) making up the three largest population groups. All four counties that offered SMP in 2023 will continue to offer SMP in 2024.

Rate Negotiations

ETF and Segal, the Board's consulting actuary, met with participating health plan vendors, as well as the dental benefits administrator and the pharmacy benefits manager, to discuss overall cost trends and rate increases for 2024. Following negotiations, the average medical rate increase for the State program was 5.4% over the rates from 2023. The average medical rate increase for the Local program was 14.6%, though the actual increase may be less if members move to Tier 1 plans or SMP, given the large shift in county qualifications discussed above.

The largest increase in medical rates in the GHIP for the coming year was in the Medicare Advantage program. UnitedHealthcare (UHC) proposed a 25% increase in rates, and declined reductions following their rate discussion meeting. If medical loss ratios in the Medicare Advantage product are under 90%, the Board will receive a settlement.

The overall increase anticipated for the State pharmacy benefit will be 5.7%. The overall increase for Locals will be 6.4%. In the dental program, the increase for both State and Local programs will be 3.0%.

The aggregate renewal for all three programs combined for the State program will be 5.7%, and for Locals will be 13.2%. These increases will be different than the actual increases experienced by employers and employees due to premium buy-downs in the past several years that have artificially reduced rates paid. The actual experience of members and employers will depend on the reserve option selected by the Board.

Reserves Below Target

Wis. Stats. §40.03(6)(e) states that the Board shall use any excess money in the GHIP to reduce premium payments in the contract years that follow or to establish a reserve to stabilize future year costs. This is legal basis for the reserve fund held by the Board.

In August 2017, the Board established a policy on reserves for medical, pharmacy, and dental benefits (Ref. GIB | 08.30.17 | 7E). The reserve is intended to help smooth rate increases so that members and employers do not experience sudden changes in their insurance rates (Ref. GIB | 11.13.19 | 4A). The Board's policy sets a target range for the reserve funds. Currently, those ranges are:

- Medical: 3% to 5% of premiums
- Pharmacy: 8% to 10% of projected claims
- Dental: 3% to 5% of projected claims

In recent years, the reserve has been above the target ranges due to positive experience in the programs and investments. This has led to a surplus above the target range. Board has approved multi-year buy-down strategies to reduce the reserves to the midpoint of the ranges. The buy-down has been reviewed annually during rate setting with the Board and adjusted to account for actual premium expenditures and pharmacy rebate payments (versus projected), as well as for investment returns on the fund. This has resulted in the premium increase experienced by members and employers being 2% to 4% in most years after the policy was adopted, versus the actual increases pre-buy-down. The multi-year strategy was extended through 2024 based on fund balances in 2021.

Proposed rate increases for plan year 2023 before the buy-down averaged 10% for the State pool and 7% for the Local pool. Due to changes in investment returns and losses in the pharmacy program, Segal notified the Board at the August 2022 meeting that funds were no longer sufficient to continue the buy-down strategy through 2024. At that meeting, the Board opted to buy down rates by 6.1% to achieve an average annual increase of 4%. This reduced the reserve to the low end of the target range (Ref. GIB | 08.17.22 | 7C). While the Board was able to make up some deficit by realizing better-than-anticipated rebate returns in the pharmacy program, poor returns on investments in the fund resulted in the reserve now being below the Board's target ranges.

This means that there are no longer surplus funds available under the current Board policy to smooth premium rates in this or future years.

Reserve Options

Segal's 2024 report to the Board includes four reserve stabilization options for the State program:

- Option 1: Continue the approach approved in 2022, resulting in an 11.8% premium increase for plan year 2024, and 5.7% anticipated increases in 2025 and 2026.
    - *Pros:* This option will stabilize reserves at the midpoint as defined by the Board's current policy and is consistent with the approach approved in 2022.
    - *Cons:* This option results in the largest 2024 premium increase for employers and members among the options given.
- Option 2: Continue the approach approved in 2022, resulting in an 11.8% premium increase for plan year 2024, but plan for slightly smaller increases in 2025 and 2026 (5.4%) to instead reach the low end of the Board's target reserve range.

    - *Pros:* This option helps to bring reserves back into the target range.
    - *Cons:* Since this option only aims to bring reserves to the low end of the target range, there is a possibility that adverse experience or negative market trends may cause the Board to still miss the low end of the range by 2026.
- Option 3: Buy down 2024 rates with the remaining reserve funds to 8.5%, with subsequent 8.5% increases in 2025 and 2026 to reach the low end of the Board's target reserve range.
    - *Pros:* Reduces premium increases for 2024 below the original path approved in 2022.
    - *Cons:* This would result in reserves in 2024 being well below the current low end of the reserve target range. This could put the plan at risk of not being able to pay self-insured claims or health insurance premiums timely.
- Option 4: Use all remaining reserve funds to buy down 2024 rates to 7.5%. It would then be necessary to increase rates by 14.8% in 2025 to return the reserve to the low end of the target range. Premiums would then be anticipated to be flat in 2026.
    - *Pros:* Provides the lowest premium increase for 2024.
    - *Cons:* This option would very likely put the plan in the position of being unable to pay self-insured claims or health insurance premiums should there be adverse experience.

ETF recommends Option 1, which is the most consistent with the Board's reserve policy.

The Local program currently has a reserve deficit, so no funds are available for buy-down in that program. Their rate increase will pass through.

Staff will be at the Board meeting to answer questions.