



## NJ DIVISION OF PENSION & BENEFITS

### SHBP and SEHBP Rate Renewal for Plan Year 2023

#### Frequently Asked Questions (FAQ)

The annual process of calculating and setting the Plan Year 2023 premium rates for the State health benefits plans is currently underway. Premium rates for State and local employers and members participating in the State Health Benefits Plan (SHBP) and the School Employees Health Benefits Plan (SEHBP) likely will increase by 12-22%, depending on the plan.

The following covers frequently asked questions about the process, the likely impact on health benefits plan members and employers, and related questions. The Plan Year 2023 Rate Setting Recommendations Analysis presented to the SHBP and SEHBP Commissions can be found on our website: <https://www.nj.gov/treasury/pensions/rate-renewal.shtml>

#### **Q. How are the SHBP and SEHBP premium rates determined each year?**

**A.** The Division of Pensions and Benefits (the Division) in the New Jersey Department of the Treasury engages an actuarial consultant to analyze actual claims information for all SHBP and SEHBP plan members during the prior plan year. The Division's consultant is Aon, an independent, expert actuarial/health care consulting firm. Aon's analysis includes actual claims experience of the prior year and the plans' coverage levels and cost-sharing arrangements, as well as assumptions about ongoing inflation, likely trends in health services utilization, input from Division professionals, and the impact, if any, of other measures or services that may influence members' health care decisions. Upon completion of that analysis, Aon presents to the Commissions preliminary premium rates for the following plan year.

#### **Q. Who has authority to approve the premium rates?**

**A.** Under State statutes (N.J.S.A.52:14-17.28, -17.29, and -17.39 and -17.46.5 and -17.46.6), the SHBP Commission and the SEHBP Commission have sole authority to determine and

approve the premium rates. The memberships of the commissions are set in statute. The Treasurer's designee sits as Chair of the SHBP Commission. Each member of the Commission, including the Chair, has one vote.

**Q. When do the Commissions set the premium rates?**

- A. Each year, the Commissions receive a presentation from the Division and Aon, usually in early to mid-July, which sets out the preliminary rate renewal information, including the changes for every plan in each employer group, and explains the process and the basis for Aon's calculations of those rate changes. The Commission members typically send questions and requests for additional information to the Division, and responses are provided in the following weeks to the Commission members. Each Commission then has a subsequent public meeting – often in late July, but occasionally as late as September – to vote on the actuaries' final recommended rate calculation.

**Q. When will the Commissions meet to approve the rates for Plan Year 2023?**

- A. As of July 25, 2022, the meeting date for the Commissions' vote on the rate changes has not yet been scheduled. The Commission members have submitted extensive information requests to the Division and Aon, and providing responsive information will require at least 2-3 weeks. The Commissioners will also require time to review the responsive information.

As stated above, each year the rates are typically renewed during the July-August timeframe, although there have been some years during which the final rate approvals occurred in early September. It is important to the Division to ensure that rates are approved to allow sufficient time to prepare for open enrollment periods in October, and to provide local employers as much notice as possible of the new rates.

**Q. Can the Treasurer or the Governor overrule a decision by the Commissions?**

- A. No. No other State official, including the Treasurer and the Governor, has statutory authority to override a majority vote of the Commissions.

**Q. Has the process changed this year?**

- A. No. The process explained above has been the same this year as it has been for the Commissions every year for well over a decade.

**Q. I read that the rates would be voted on sometime during the week of July 25. Is that wrong?**

A. While the SHBP Commission is scheduled to meet on July 25, its agenda will not include any discussion or approval of plan year 2023 rates. The Commission will be hearing member appeals only during its July 25 meeting. As noted above, the meeting for the Commissions' vote on rate increases has not yet been scheduled.

**Q. Are the Commissions and the Plan Design Committees the same thing?**

A. No. The Plan Design Committees (PDCs) were created by L. 2011, c. 78, § 45 and § 46<sup>1</sup> and have a different role than the Commissions. The Commissions have statutory contracting authority<sup>2</sup>, while the PDCs “set the amounts for maximums, co-pays, deductibles, and other such participant costs for all plans offered in the [SHBP/SEHBP].”<sup>3</sup> The PDCs also “have the responsibility for and authority over the various plans and components of those plans” offered by the SHBP and the SEHBP including the “authority to create, modify, or terminate any plan or component.”<sup>4</sup> Thus, the PDCs are responsible for setting and approving changes to the design of the health benefits plans; the health plan designs are factored into the calculation of the premium rates. The PDCs consist of equal numbers of labor and public employer representatives.

**Q. Are the Plan Design Committees involved in the rate renewal process?**

A. While the design of the health benefits plans certainly is an important driver of the costs of health benefits, the PDCs do not approve the premium rates. By statute, only the Commissions approve the premium rates. However, the PDCs have authority to make plan design changes that could lower the costs of health benefits, such as by narrowing the scope of services covered, increasing member cost-sharing for more expensive providers or procedures, or similar changes.

Each year, the SHBP PDC approves several resolutions that put into effect important cost control measures, such as requiring mandatory generic drugs, lists of covered prescription drugs, and others. In its calculation of the Plan Year 2023 rate increases, Aon assumed that the SHBP PDC would renew those cost control resolutions. If the SHBP PDC does not agree to renew those resolutions, the rate increases will likely be higher.

Typically, the PDCs meet monthly. The next SHBP PDC meeting is tentatively scheduled for Wednesday, July 27.

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<sup>1</sup> (N.J.S.A.52:14-17.27(b) and N.J.S.A.52:14-17.46.3(e))

<sup>2</sup> N.J.S.A.52:14-17.28 and N.J.S.A.52:14-17.46.5

<sup>3</sup> N.J.S.A. 52:14-17.29(J) and -17.46.7

<sup>4</sup> N.J.S.A.52:14-17.27(b) and N.J.S.A.52:14-17.46.3(e).

**Q. Could the PDCs make changes to the plans that would lower the Plan Year 2023 rate increases?**

A. The PDCs have statutory authority to make plan design changes that affect health benefits costs. It is possible that they could approve plan design changes that would lower the amount of the Plan Year 2023 increases. However, plan design changes would need to be drastic in order to impact the rate increases by more than a few percentage points.

**Q. Does anyone else have the authority to make changes to the health benefits plans that would lower the Plan Year 2023 rate increases?**

A. Under their respective collectively bargained contracts with the State, the public employee unions may identify and agree to support plan design changes that may lower the increases. Those identified changes would then be subject to approval and adoption by the PDCs. The Legislature also has the authority, by enacting new laws, to alter health benefits plans to potentially lower rates.

**Q. Why are the Plan Year 2023 rates going up so much?**

A. As explained by Aon to the Commissions during their respective July 11 public meetings, the rates for a given plan year are based on the actual members' claims experience during the preceding plan year. This is also often referred to as "utilization." Experience includes the numbers of visits by members to providers, the types of providers used (primary care, specialists, urgent care, emergency room, etc.), the number of medical procedures members had, and the types and costs of those procedures. A similar experience analysis is performed for prescription drug benefits claims.

The two factors driving almost all of the premium rate increases this year are: 1) increased utilization by members; and 2) overall health care cost increases.

1. Increased Utilization:

- The combined effects of the COVID-19 pandemic have resulted in far higher utilization of medical services overall by our plans' members, both because of illness due to COVID infections, and perhaps more significantly, because so many members are having services or procedures previously postponed due to the pandemic.
- The type of providers that plan members are using have also shifted, with more visits to higher-cost providers, e.g., specialists, the emergency room, and urgent care – which cost the plan much more than visits to a primary care physician. For example:
  - For State active members, outpatient visits increased by 36.2%; specialist visits by 21.4%; emergency room visits by 13%; and urgent care visits by 44%.

- For the local government section of the SHBP, outpatient visits increased by 26.5%; specialist visits by 16.4%; emergency room visits by 17%; and urgent care visits by 38%.
- Utilization trends in the other sections are comparable.

2. Health Care Cost Increases:

- o Additionally, due to inflation and other factors affecting the costs of health care, in New Jersey and nationally, the cost of medical services and procedures in 2021 increased overall by more than 5% and up to 18.1% for pre-65 retirees, with the costs of certain procedures or provider visits popular with plan members increasing even more than that.

**Q. Why do members' claims experience matter?**

- A. Actual experience matters because most members in the SHBP and SEHBP are enrolled in self-funded plans. A self-funded, or self-insured plan, is one in which the employer assumes the financial risk for providing health care benefits to its employees and members. The State plans pay for members' claims as members incur them on a monthly basis. This is accomplished by reimbursing claims costs and paying a monthly administrative fee to a third party vendor, currently Horizon, which in exchange for that fee provides the State the use of their provider network, and their claims processing, administration, and adjudication services. It is, in essence, a pay-as-you-go system of providing for health benefits for public employees. Under this self-funded model, the State, rather than an insurer, assumes the risk of health care cost and utilization increases.

The premium rates for an upcoming plan year reflect calculations about how much it will cost the State and local government employers to pay for the health care of their employees, based on the actual health care costs and utilization of the preceding year.

**Q. Can the State negotiate these rates?**

- A. No. Because it is a self-funded plan, as explained above, with the exception of members enrolled in Medicare Advantage plans, there is no insurer with which to negotiate. Rates are based on actual and expected claims experience.

**Q. How successful were the cost-saving initiatives, which were designed to influence member behavior, that were implemented over the past few years?**

- A. Many savings initiatives, like out-of-network reforms, enrollment of retirees in Medicare Advantage plans, and prescription drug benefit changes, have led to meaningful savings. However, it is still relatively early in the life of some newer add-on services, which are

voluntary for members, and at this point members' behavior has not changed to the degree required to realize the savings previously estimated for prior years. Those savings, estimated to be roughly 3 percentage points of the total rate increase, are not relied upon in this year's projections.

**Q. During Plan Year 2021, there was a premium holiday for SEHBP participants. Why did the plans allow a premium holiday in February 2022 yet now require a significant rate increase?**

A. The use of the reserves for a premium holiday last year is unrelated to the rate increase this year. It is customary to review the claims reserve balance annually, regardless if they are high or low, in order to maintain the recommended reserve level of two months of claims and provide relief to districts and taxpayers when possible. At the point in time the premium holiday decision was made, in the summer of 2021 for the February premium payment, the claims reserve balance was equal to 6.3 months of claims costs. The reserve balance had grown due to prior positive experience, giving the SEHBP an opportunity to approve a premium holiday.

**Q. How will this impact the State's recently signed FY2023 budget?**

A. The FY2023 budget reflects enough resources to absorb the increased rates. The increased rates may, however, affect the required appropriation for health care costs in the FY2024 budget.

For those local (county, town, and school board) employers that participate in the SHBP or SEHBP, how the premium rate increases will impact their budgets will vary widely.

**Q. What impact will this have on individual members of the SHBP and SEHBP?**

A. At this point (July 25, 2022), it is too early to know what the individual impact will be.

**Q. Will there be any impact on local government employers or employees that do not participate in the SHBP or SEHBP?**

A. No, public employees who are not in the State health benefits plans should contact their employer directly for information about their specific plans.