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October 26, 2021

The Honorable Luke E Torian, Chair House Appropriations Committee  
The Honorable Janet D. Howell, Chair Senate Finance and Appropriations Committee  
The Honorable Grindly Johnson, Secretary of Administration

Subject: Report on the Impact of the Renewal Cost on Employee and Employer Premiums for FY2023

The attached report is pursuant to Chapter 552, Item 83, G of the 2021 Virginia Acts of Assembly, Reconvened Special Session I. Due to the current healthcare situation, the Health Insurance Fund may be able to cover up to 100 percent of the projected increase of 6.0 percent.

Please contact me if there are any questions or concerns,

Sincerely,

A handwritten signature in cursive script that reads "Emily S. Elliott".

Emily S. Elliott  
Director  
Department of Human Resource Management



**REPORT ON THE IMPACT OF RENEWAL COST ON  
EMPLOYEE AND EMPLOYER PREMIUMS**

**Department of Human Resource Management  
October 26, 2021**

This report is submitted as required by Chapter 552, Item 83, G of the 2021 Virginia Acts of Assembly, Reconvened Special Session I, which states:

*The Department of Human Resource Management shall report to the Governor and Chairmen of the House Appropriations and Senate Finance Committees, by October 15 of each year, on the renewal cost of the state employee health insurance program premiums that will go into effect on July 1 of the following year. This report shall include the impact of the renewal cost on employee and employer premiums and a valuation of liabilities as required by Other Post Employment Benefits reporting standards.*

## **Summaries of Rating Projections**

### **Overview**

The following information summarizes the renewal cost of the state employee premiums for fiscal year 2023 that will go into effect on July 1, 2022, and the key drivers of FY 2023 projections compared to the FY 2022 rates. The information package complies with all of prior actuarial methods / procedures endorsed and approved by the Auditor of Public Accounts (APA) audit report of October 2011. Separately, the Commonwealth of Virginia Joint Legislative Audit and Review Commission (“JLARC”) conducted a review of the rate determination methodology and assumptions for the Virginia State Employee Health Insurance Program. The results of this review were presented to the JLARC committee members on September 20, 2021. They concluded that the methodology and assumptions were reasonable and appropriate.

The four charts shown in this report provide a cost reconciliation for FY 2021 and summaries of rate projections for FY 2022 through FY 2024 and these include:

- Reconciliation of FY 2021 Plan Costs
- Recast FY 2022 Projection
- FY 2023 Projection
- FY 2024 Projection

Each of the FY 2022 – FY 2024 projection charts includes three scenarios (A, B, and C). Scenario A represents the most aggressive projection, Scenario B the most likely projection, and Scenario C the most conservative projection. It is important to note that each scenario represents a reasonable actuarial outcome. Historically, this range has been utilized in final budget setting based on the Commonwealth’s fiscal priorities and internal assessment of the risk to be assumed for the applicable budget cycle.

Each chart shows the baseline rates under the three scenarios. Separate tables at the end of the document provide the underlying claim trend assumptions based on the Incurred But Not Paid (IBNP) valuation completed mid-September and Aon’s current outlook for future trends.

- Projected Cost per Contract Unit is synonymous with *actuarial rate* or *per contract unit per month (PCUPM)*. For these projections, it represents a per-employee equivalent unit cost and serves as the actuarial baseline for cost projections in the requested three FY iterations. The assumptions inherent in the contract unit measure take into account the relative cost of each dependent class (spouse or child) relative to an employee. The per-employee or contract unit equivalent is the “base” level of exposure for rating purposes. This method was approved by the APA actuarial methods audit report of October 2011.
- The COVA Care Basic plan is shown because it is the basis for employer contributions. This chart shows rate projections and percentage increases or decreases from each fiscal year’s premium rates per contract unit.
- Claim trend analysis inherent in Aon’s future trend outlook includes detailed claim patterns to forecast future inflationary impact. The latter includes: price inflation; utilization rates of health care providers; government (Medicare/ACA) cost shifting; plan changes; and, other current factors influencing health provider cost. Historical claim experience for the Commonwealth is also considered when establishing the estimated trends.
  - The updated trend analysis is based on review of July 2018 – June 2021 claims and Aon forward looking trends. Due to the deferral of medical services experienced from March 2020 – June 2021, these months were adjusted to pre-COVID levels when determining trend assumptions.
  - The trend tables for Fiscal Years 2022-2023 and 2023-2024 are shown in the “Trend Tables” section of this document. Overall Scenario B health plan trend is +5.59% and +6.14% respectively for these years.

### Reconciliation of FY 2021 Plan Experience

The reconciliation of the FY 2021 costs below does include estimates of claims runout and pharmacy rebates beyond June 2021 but it is mostly complete.

FY 2021 Premiums	\$1,412,600,000
Medical Claims	\$948,300,000
Pharmacy Claims	\$363,200,000
Dental Claims	\$52,400,000
Pharmacy Rebates	(\$82,900,000)
Carrier Administration	\$52,700,000
DHRM Administration	\$5,500,000
Total	\$1,339,200,000
Net Surplus/(Deficit)	\$73,400,000

### Recast FY 2022 Projection

The recast is the first step in the fiscal three-year projection process required by the Commonwealth. It provides an early estimate of how actual current FY costs compare to

previously projected costs/rates. The recast is based on claim data through June 2021, consistent with the IBNP valuation completed in mid-September.

- The chart compares the recast actuarial rate projection for FY 2022 with the previous year's FY 2022 rate projection (and the claim data used to establish the FY 2022 rates).
  - This recast projection utilized an additional twelve months of claim experience and the updated trend outlook.
  - The chart shows the recast comparison for each plan component and rolls it up to the total. For Scenario B, Medical is +1.7%; Dental is -20.7%; Rx is -4.0%; and MISA/Behavioral Health is +28.3%. The overall total, based on the weighted value of each component's relativity to premium is +0.6%. Aon had estimated a rate increase for FY 2022 of +6.4% when rates were established last year. Rate increases were subsidized 50%. This overall increase in rates is due to the subsidy inherent in the final FY 2022 rates selected offset by more favorable claim experience.
- The recast vs. FY 2022 rate comparison is shown for each component of the COVA Care Basic rate. However, the Total percentage increase is the critical cost impact factor in the table.

**Commonwealth of VA  
Summary of FY2022 Rating Projections  
Actives, COBRAs, and Retirees without Medicare**

	Enrollees(@July21)	Medical	Dental	Rx Drugs	Subtotal	MISA	Total
FY2022 COVA Rates	72,640	\$565.70	\$18.60	\$179.38	\$763.68	\$22.32	\$786.00
	FY2022 Projected Cost per Contract Unit						
Scenario A							
COVA Care	72,640	\$569.94	\$14.62	\$167.25	\$751.80	\$28.39	\$780.19
<b>% Increase</b>		<b>0.7%</b>	<b>-21.4%</b>	<b>-6.8%</b>	<b>-1.6%</b>	<b>27.2%</b>	<b>-0.7%</b>
Scenario B							
COVA Care	72,640	\$575.24	\$14.75	\$172.14	\$762.13	\$28.64	\$790.77
<b>% Increase</b>		<b>1.7%</b>	<b>-20.7%</b>	<b>-4.0%</b>	<b>-0.2%</b>	<b>28.3%</b>	<b>0.6%</b>
Scenario C							
COVA Care	72,640	\$580.54	\$14.88	\$177.05	\$772.46	\$28.89	\$801.35
<b>% Increase</b>		<b>2.6%</b>	<b>-20.0%</b>	<b>-1.3%</b>	<b>1.2%</b>	<b>29.4%</b>	<b>2.0%</b>

## FY 2023 Projection

Developing an estimated cost for the upcoming fiscal year (FY 2023) is the second step in the Commonwealth’s requested three-year projection cycle. The Exhibit shown below contains the rate projections and expected cost increase for FY 2023, which will be effective on July 1, 2022, for COVA Care under its current plan design. This chart builds on the outcome of the recast step above and blends current experience and trends compared to current rates.

- The FY 2023 rate increase is shown for each component of the COVA Care Basic rate. For budget planning purposes, the total percentage increase is the critical cost impact factor in the table.
- The chart shows the rate change comparison for each plan component and rolls it up to the total. For Scenario B, Medical is +6.3%; Dental is -18.4%; Rx is +3.7%; and Mental Illness Substance Abuse/Behavioral Health is +39.5%. The overall projected total increase, based on the weighted value of each component’s relativity to premium, is +6.0%.
- While the projected increase is +6.0%, we believe there are sufficient funds in the Health Insurance Fund (“HIF”) to cover up to 100 percent of the increase during the plan year as the projected HIF balance for June of 2022 is 475 million. By subsidizing 100 percent of the increase, the HIF balance should reduce by approximately \$86 Million during the plan year. As the subsidy is designed to regulate the HIF balance, **a Premium Holiday would not be recommended** during the current FY 2022 Plan Year.

### Commonwealth of VA Summary of FY2023 Rating Projections Actives, COBRAs, and Retirees without Medicare

	Enrollees(@July21)	Medical	Dental	Rx Drugs	Subtotal	MISA	Total	
FY2022 COVA Rates	72,640	\$565.70	\$18.60	\$179.38	\$763.68	\$22.32	\$786.00	
	FY2023 Projected Cost per Contract Unit							
Scenario A								
	COVA Care	72,640	\$590.09	\$14.89	\$178.56	\$783.54	\$30.58	\$814.12
	<b>% Increase</b>		<b>4.3%</b>	<b>-19.9%</b>	<b>-0.5%</b>	<b>2.6%</b>	<b>37.0%</b>	<b>3.6%</b>
Scenario B								
	COVA Care	72,640	\$601.22	\$15.18	\$186.00	\$802.40	\$31.13	\$833.53
	<b>% Increase</b>		<b>6.3%</b>	<b>-18.4%</b>	<b>3.7%</b>	<b>5.1%</b>	<b>39.5%</b>	<b>6.0%</b>
Scenario C								
	COVA Care	72,640	\$612.35	\$15.46	\$193.65	\$821.46	\$31.69	\$853.15
	<b>% Increase</b>		<b>8.2%</b>	<b>-16.9%</b>	<b>8.0%</b>	<b>7.6%</b>	<b>42.0%</b>	<b>8.5%</b>

## FY 2024 Projection

Development of the FY 2024 rate increase is the third and final step in the Commonwealth's requested three-year projection cycle. Similar to the FY 2023 projection, the increase is shown for each component of the COVA Care Basic rate. The total percentage increase is the critical cost impact factor in the table.

The chart shows the rate change comparison for each plan component and rolls it up to the total. For Scenario B, Medical is +5.0%; Dental is +3.0%; Rx is +8.5%; and MISA/Behavioral Health is +9.3%. The overall projected total increase, based on the weighted value of each component's relativity to premium, is +5.9%. If rates are subsidized 100 percent for FY 2023 and claims experience continues as expected, the FY 2024 increase may be +12.3% absent any HIF subsidy.

### Commonwealth of VA Summary of FY2024 Rating Projections Actives, COBRAs, and Retirees without Medicare

	Enrollees(@July21)	Medical	Dental	Rx Drugs	Subtotal	MISA	Total
Estimated FY2023 COVA Rates (A Scenario)	72,640	\$590.09	\$14.89	\$178.56	\$783.54	\$30.58	\$814.12
Estimated FY2023 COVA Rates (B Scenario)	72,640	\$601.22	\$15.18	\$186.00	\$802.40	\$31.13	\$833.53
Estimated FY2023 COVA Rates (C Scenario)	72,640	\$612.35	\$15.46	\$193.65	\$821.46	\$31.69	\$853.15
FY2024 Projected Cost per Contract Unit							
Scenario A							
COVA Care	72,640	\$613.55	\$15.20	\$191.11	\$819.86	\$33.13	\$852.99
		<b>4.0%</b>	<b>2.1%</b>	<b>7.0%</b>	<b>4.6%</b>	<b>8.3%</b>	<b>4.8%</b>
Scenario B							
COVA Care	72,640	\$631.05	\$15.63	\$201.76	\$848.44	\$34.02	\$882.46
		<b>5.0%</b>	<b>3.0%</b>	<b>8.5%</b>	<b>5.7%</b>	<b>9.3%</b>	<b>5.9%</b>
Scenario C							
COVA Care	72,640	\$648.55	\$16.06	\$212.41	\$877.02	\$34.92	\$911.94
		<b>5.9%</b>	<b>3.9%</b>	<b>9.7%</b>	<b>6.8%</b>	<b>10.2%</b>	<b>6.9%</b>

## Trend Tables

These tables show the trend for each plan component and roll it up to the total. For Scenario B, FY 2022 – FY 2023 Medical is +4.5%; Dental is +3.0%; Rx is +8.0%; and MISA/Behavioral Health is +9.0%. The overall projected total trend (Scenario B), based on the weighted value of each component’s relativity to premium is +5.59%.

		FY2022 - FY2023 Trend Assumptions					
		Medical	Dental	Rx Drugs	Subtotal	MISA	Total
Scenario A	COVA Care	3.50%	2.00%	7.00%	4.47%	8.00%	4.58%
Scenario B	COVA Care	4.50%	3.00%	8.00%	5.47%	9.00%	5.59%
Scenario C	COVA Care	5.50%	4.00%	9.00%	6.48%	10.00%	6.60%

For Scenario B, FY 2023 – FY 2024 Medical is +5.0%; Dental is +3.0%; Rx is +8.5%; and MISA/Behavioral Health is +9.5 %. The overall projected total trend (Scenario B), based on the weighted value of each component’s relativity to premium is +6.14%.

		FY2023 - FY2024 Trend Assumptions					
		Medical	Dental	Rx Drugs	Subtotal	MISA	Total
Scenario A	COVA Care	4.00%	2.00%	7.50%	4.99%	8.50%	5.11%
Scenario B	COVA Care	5.00%	3.00%	8.50%	6.02%	9.50%	6.14%
Scenario C	COVA Care	6.00%	4.00%	9.50%	6.99%	10.50%	7.11%

\*The FY 2022-FY 2023 trend assumptions reflect the raw claim trend used for the FY 2023 projection, excluding any other cost adjustments (e.g., claims suppression in the experience period, pharmacy rebate savings and administrative fees.)



## Other Post-Employment Benefits

The following actuarial report provides a valuation of liabilities in accordance with GASB Statement No. 75, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 75). The Actuarial Valuation Report that provided base information for this report may be found at <https://www.dhrm.virginia.gov/docs/default-source/gasb-75/fy2021/actuarialvaluationreportfy21.pdf>.