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The Honorable Glenn Youngkin, Governor of Virginia
The Honorable Barry D. Knight, Chair, House Appropriations Committee
The Honorable Janet D. Howell, Co-Chair, Senate Finance and Appropriations Committee
The Honorable George L. Barker, Co-Chair, Senate Finance and Appropriations Committee

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

Pursuant to Chapter 1, Item 86, G of the 2023 Special Session I, the attached report provides information related to the renewal cost of the state employee health insurance program premiums. Please be advised that these initial rates may be reduced by plan and program changes and be partially subsidized by the Health Insurance Fund during the 2024-2025 plan year.

Please contact me if there are any questions or concerns.

Sincerely,

A handwritten signature in cursive script that reads "Janet L. Lawson".

Janet L. Lawson
Director

cc: The Honorable Jeff Goettman, Chief of Staff
The Honorable Margaret McDermid, Secretary of Administration
Michael Maul, Director, Department of Planning and Budget

REPORT ON THE IMPACT OF RENEWAL COST ON

EMPLOYEE AND EMPLOYER PREMIUMS

This report is submitted as required by Chapter 1, Item 86, A of the 2023 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 and Appropriations 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 is provided by the Department's benefit consultant, Aon, and summarizes the renewal cost of the state employee premiums for fiscal year 2025 that will go into effect on July 1, 2024, and the key drivers of FY 2025 projections compared to the FY 2024 rates. The information package complies with all of the prior actuarial methods / procedures endorsed and approved by the APA audit report of October 2011.

The three charts shown in this report provide summaries of rate projections for FY 2024 through FY 2026 and these include:

- Recast FY 2024 Projection
- FY 2025 Projection
- FY 2026 Projection

Each chart 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. Excess funds in the Health Insurance Fund (HIF) have been used to subsidize the rates in recent years as follows:

- FY2022: 3.2%
- FY2023: 6.0%
- FY2024: 4.1%

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 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 the review of July 2020 – June 2023 claims and Aon forward looking trends. Claims incurred in the months of July 2020 – December 2020 were adjusted to pre-pandemic levels when determining trend assumptions.
 - The trend tables for Fiscal Years 2024-2025 and 2025-2026 are shown in the “Trend Tables” section of this document. Overall Scenario B health plan trend is +8.02% and +7.79% respectively for these years.

Reconciliation of FY 2022 and FY 2023 Plan Experience

The reconciliation of the FY 2022 and FY 2023 costs below does include estimates of claims runout and pharmacy rebates beyond June 2023 but it is mostly complete.

	<u>FY2022</u>	<u>FY2023</u>
Premiums	\$1,428,600,000	\$1,421,400,000
Medical Claims	\$ 969,800,000	\$1,017,300,000
Pharmacy Claims	\$ 404,000,000	\$ 452,400,000
Dental Claims	\$ 52,600,000	\$ 52,900,000
Pharmacy Rebates	(\$ 103,100,000)	(\$ 129,600,000)
Carrier Administration	\$ 53,300,000	\$ 54,200,000
DHRM Administration	\$ 5,700,000	\$ 5,700,000
Total	\$1,382,300,000	\$1,452,900,000
Net Surplus/(Deficit)	\$ 46,300,000	(\$ 31,500,000)

Recast FY 2024 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 2023, consistent with the IBNP valuation completed in mid-September. This analysis also provides an updated important baseline for projecting rates for FY 2025.

- The chart compares the recast actuarial rate projection for FY 2024 with the previous year's FY 2024 rate projection (and the claim data used to establish the FY 2024 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. The Commonwealth decided to reflect the more aggressive trend from Scenario A in the FY 2024 rate projection. For Scenario A, Medical is +3.6%, Dental -54.7%, Rx +5.7%, MISA/Behavioral Health +6.2%. The overall total, based on the weighted value of each component's relativity to premium is +3.5%. Aon had estimated a rate increase for FY 2024 of +8.2% when rates were established last year. Scenario A rates were ultimately subsidized 50% to limit the increase to 4.1%. This overall increase in costs shown in the table below is primarily due to this subsidy inherent in the final FY 2024 rates.
- The recast vs. FY 2024 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 FY2024 Rating Projections
Actives, COBRAs, and Retirees without Medicare

	COVA Care Enrollees (@July23)	Medical	Dental	Rx Drugs	Subtotal	MISA	Total
FY2024 COVA Rates	71,098	\$590.53	\$8.93	\$187.87	\$787.34	\$30.66	\$818.00

FY2024 Projected Cost per Contract Unit

Scenario A	COVA Care	71,098	\$611.56	\$4.05	\$198.55	\$814.16	\$32.55	\$846.71
	% Increase		3.6%	-54.7%	5.7%	3.4%	6.2%	3.5%
Scenario B	COVA Care	71,098	\$617.17	\$4.08	\$200.32	\$821.56	\$32.83	\$854.39
	% Increase		4.5%	-54.4%	6.6%	4.3%	7.1%	4.4%
Scenario C	COVA Care	71,098	\$622.78	\$4.11	\$202.08	\$828.96	\$33.12	\$862.08
	% Increase		5.5%	-54.0%	7.6%	5.3%	8.0%	5.4%

FY 2025 Projection

Developing an estimated cost for the upcoming fiscal year (FY 2025) 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 2025, which will be effective on July 1, 2024, 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 2025 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 +11.2%, Dental -51.7%, Rx +14.6%, MISA/Behavioral Health +17.6%. The overall projected total increase, based on the weighted value of each component's relativity to premium, is +11.6% before any program and/or design changes and any rate subsidy from the HIF. The overall projected total increase is reduced to +9.6% under Scenario A.
- While the initial projected increase is +11.6% (or +9.6% under the aggressive scenario), we are looking at ways to lower this increase:
 - Plan design changes, including increases to the deductible and out-of-pocket maximum.
 - We believe there are sufficient funds in the HIF to subsidize 25% - 50% of the FY 2025 rate increase. A rate subsidy of this magnitude will reduce the HIF by approximately \$35M - \$70M and will bring the healthcare rate renewal into the 6-7% range (average increase of only 2.5% over the last 5 plan years including 2025).

Commonwealth of VA
Summary of FY2025 Rating Projections
Actives, COBRAs, and Retirees without Medicare

	COVA Care Enrollees (@July23)	Medical	Dental	Rx Drugs	Subtotal	MISA	Total
FY2024 COVA Rates	71,098	\$590.53	\$8.93	\$187.87	\$787.34	\$30.66	\$818.00

FY2025 Projected Cost per Contract Unit

Scenario A	COVA Care	71,098	\$645.13	\$4.25	\$211.64	\$861.02	\$35.42	\$896.44
	% Increase		9.2%	-52.4%	12.6%	9.4%	15.5%	9.6%
Scenario B	COVA Care	71,098	\$656.90	\$4.32	\$215.39	\$876.61	\$36.06	\$912.67
	% Increase		11.2%	-51.7%	14.6%	11.3%	17.6%	11.6%
Scenario C	COVA Care	71,098	\$669.24	\$4.38	\$219.30	\$892.92	\$36.69	\$929.61
	% Increase		13.3%	-51.0%	16.7%	13.4%	19.7%	13.6%

FY 2026 Projection

Development of the FY 2026 rate increase is the third and final step in the Commonwealth’s requested three-year projection cycle. Similar to the FY 2025 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 +6.5%, Dental +2.8%, Rx +10.1%, MISA/Behavioral Health +9.8%. The overall projected total increase, based on the weighted value of each component’s relativity to premium, is +7.4%. Note, the 7.4% is compared to FY 2025 Scenario B and will be 9.4% if compared to FY 2025 Scenario A. If rate increases are subsidized 50% for FY 2025 and claims experience continues as expected, the FY 2026 increase may be +14.4% absent any HIF subsidy.

Commonwealth of VA
Summary of FY2026 Rating Projections
Actives, COBRAs, and Retirees without Medicare

	COVA Care Enrollees (@July23)	Medical	Dental	Rx Drugs	Subtotal	MISA	Total
Estimated FY2025 COVA Rates (A Scenario)	71,098	\$645.13	\$4.25	\$211.64	\$861.02	\$35.42	\$896.44
Estimated FY2025 COVA Rates (B Scenario)	71,098	\$656.90	\$4.32	\$215.39	\$876.61	\$36.06	\$912.67
Estimated FY2025 COVA Rates (C Scenario)	71,098	\$669.24	\$4.38	\$219.30	\$892.92	\$36.69	\$929.61

FY2026 Projected Cost per Contract Unit

Scenario A	COVA Care	71,098	\$680.31	\$4.35	\$230.75	\$915.42	\$38.55	\$953.97
	% Increase from Scenario A - FY25		5.5%	2.4%	9.0%	6.3%	8.8%	6.4%
Scenario B	COVA Care	71,098	\$699.38	\$4.44	\$237.06	\$940.89	\$39.59	\$980.48
	% Increase from Scenario B - FY25		6.5%	2.8%	10.1%	7.3%	9.8%	7.4%
Scenario C	COVA Care	71,098	\$718.44	\$4.54	\$243.37	\$966.35	\$40.66	\$1,007.02
	% Increase from Scenario C - FY25		7.4%	3.7%	11.0%	8.2%	10.8%	8.3%

Trend Tables

These tables show the trend for each plan component and roll it up to the total. For Scenario B, FY 2024 - FY 2025 Medical is +6.5%, Dental +3.0%, Rx +11.0%, and MISA/Behavioral Health +10.0%. The overall projected total trend (Scenario B), based on the weighted value of each component's relativity to premium is +8.02%.

		FY2024 - FY2025 Trend Assumptions					
		Medical	Dental	Rx Drugs	Subtotal	MISA	Total
Scenario A	COVA Care	5.50%	2.00%	10.00%	6.97%	9.00%	7.04%
Scenario B	COVA Care	6.50%	3.00%	11.00%	7.95%	10.00%	8.02%
Scenario C	COVA Care	7.50%	4.00%	12.00%	9.00%	11.00%	9.07%

For Scenario B, FY 2025 - FY 2026 Medical is +6.5%, Dental +3.0%, Rx +10.0%, and MISA/Behavioral Health +10.0%. The overall projected total trend (Scenario B), based on the weighted value of each component's relativity to premium is +7.79%.

		FY2025 - FY2026 Trend Assumptions					
		Medical	Dental	Rx Drugs	Subtotal	MISA	Total
Scenario A	COVA Care	5.50%	2.00%	9.00%	6.67%	9.00%	6.75%
Scenario B	COVA Care	6.50%	3.00%	10.00%	7.71%	10.00%	7.79%
Scenario C	COVA Care	7.50%	4.00%	11.00%	8.62%	11.00%	8.71%

Recent healthcare trends are primarily driven by healthcare inflation, which lags general inflation due to the multi-year nature of medical provider contracting, severity of catastrophic claims, new weight loss medications, and the increased utilization of specialty drugs.

Final premium recommendations and any proposed plan design changes will be provided in December, concurrent with the Governor's introduced budget for the state employee health insurance plan.

*The FY 2024-FY 2025 trend assumptions reflect the raw claim trend used for the FY 2025 projection, excluding any other cost adjustments (e.g., claims suppression in the experience period, pharmacy rebate savings and administrative fees.)

Other Post-Employment Benefits

As part of our annual actuarial review, other post-employment benefits are included. The actuarial report which 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)*, is available for review on the DHRM website at www.dhrm.virginia.gov/finance-and-administration and here: [CoVa FY2023 GASB 75 Report \(virginia.gov\)](#).