

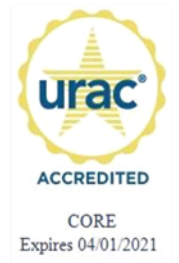


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**AGENDA ITEM**

Action Item

Information Only

**Date:** April 9, 2020

**Item Number:** IV

**Title:** Proposed Plan Year 2021 Rates

**REPORT**

**RATE DEVELOPMENT**

Rate development, in its very basic form, is a three-step process that uses a variety of assumptions, projections and variables. Actuaries develop proposed rates based on the plans' medical, pharmacy and dental utilization as well as unit costs and any external impacts which may have significant effects on the cost of health care. The following is a very simplified, high level explanation of how PEBP develops rates:

*Step 1: Experience + Projected Trend = Base rates*

Aon develops base rate cards by analyzing claims experience and projecting trend. Typically, Aon uses claims experience through January of the current year. Updated population, projected enrollment, contract savings and any new plan design features are also factored into the Aon analysis. The Base Rate is essentially what Aon believes it will cost per member to cover claims in the upcoming year according to actuarial modeling.

*Step 2: Base Rates + Administrative Costs = Overall Rates*

Once Aon presents base rate cards, PEBP adds what is referred to as the Admin load. These are administrative costs associated with running the program. This includes operating costs as well as HSA/HRA funding. The sum of these two is considered the Overall Rate.

*Step 3: Overall Rates - Employer Contributions = Member Share*

The member share is a simple math formula and is derived from deducting the employer contributions (state subsidy) from the overall rate. The remaining amount is what PEBP must

charge the member in order to cover the overall costs of the program. It is important to note that the state subsidy is approved by the legislature during each legislative session and therefore cannot be increased/decreased during the off year. This means that any increases in overall rates during the off years must be borne 100% by the members.

One additional piece of the rate development process is the tiers of coverage. Currently, the tiers of coverage are not developed using an actuarial methodology. Instead, the following board approved policy (established in July 2011) is applied:

Participant only = \$X  
 Participant + Spouse = \$2X  
 Participant + Children = \$X+\$Y  
 Participant + Family = \$2X+\$Y

X= Average cost of an adult  
 Y= Average composite cost of children

Option #1 being presented in the rate section of this report uses a different tiering structure that applies a more accurate determination of costs across all tiers and determines the actual cost that should be applied to each tier to cover a dependent child or spouse.

RATE AND EMPLOYER CONTRIBUTION HISTORY (CDHP)

As illustrated in the tables below, premiums for Employee only on the CDHP have hovered in the low to mid \$40 range since the inception of the plan. In an effort to curb the continuous buildup of excess reserves, rates were aggressively cut in PY 2019 and PY 2020. Since then PEBP has experienced higher trend with insufficient employer contributions to cover the increased trend. As a result, excess reserves are depleted and rate increases are now necessary to cover the program costs. As you can see from Table 1, the rate increases presented at the March 31, 2020 Board meeting would be reasonable had the rates in PY 2019/2020 held flat.

**Table 1 Rate and Trend History**

State Active Employees	PY 2011	PY 2012	PY 2013	PY 2014	PY 2015	PY 2016	PY 2017	PY 2018	PY 2019	PY2020
Employee only	\$ 43.73	\$ 43.90	\$ 44.93	\$ 44.93	\$ 39.26	\$ 41.91	\$ 41.91	\$ 41.91	\$ 31.73	\$ 30.95
E + Spouse	\$ 278.84	\$ 198.40	\$ 206.96	\$ 206.96	\$ 156.45	\$ 171.50	\$ 171.50	\$ 171.50	\$ 156.04	\$ 160.01
E + Children	\$ 81.53	\$ 91.71	\$ 96.31	\$ 96.31	\$ 86.08	\$ 92.72	\$ 92.72	\$ 92.72	\$ 82.41	\$ 82.97
E + Family	\$ 195.14	\$ 246.23	\$ 258.34	\$ 258.34	\$ 203.05	\$ 222.08	\$ 222.09	\$ 222.09	\$ 206.72	\$ 212.02
<b>State Retirees Non-Medicare</b>										
Retiree only	\$ 217.71	\$ 220.70	\$ 227.28	\$ 227.28	\$ 195.81	\$ 209.08	\$ 209.08	\$ 209.08	\$ 199.56	\$ 203.33
E + Spouse	\$ 722.01	\$ 539.93	\$ 557.49	\$ 557.49	\$ 438.89	\$ 477.86	\$ 477.86	\$ 477.86	\$ 470.33	\$ 482.10
R + Children	\$ 298.79	\$ 319.49	\$ 329.08	\$ 329.08	\$ 289.85	\$ 312.59	\$ 312.59	\$ 312.60	\$ 309.96	\$ 315.68
R + Family	\$ 542.49	\$ 638.76	\$ 662.41	\$ 662.41	\$ 535.54	\$ 582.77	\$ 582.78	\$ 582.78	\$ 580.72	\$ 594.45
Unsub Spouse	\$ 603.74	\$ 609.68	\$ 631.32	\$ 631.40	\$ 543.91	\$ 580.78	\$ 580.78	\$ 581.78	\$ 562.26	\$ 598.03
Unsub Spouse + Children	\$ 744.85	\$ 785.45	\$ 813.12	\$ 813.20	\$ 711.84	\$ 765.62	\$ 765.62	\$ 771.82	\$ 761.19	\$ 806.09
Total Incurred Claims	\$184,577,543	\$120,319,253	\$117,649,252	\$125,521,940	\$149,933,573	\$156,138,893	\$162,845,234	\$175,520,194	\$193,594,781	
Total Medical Enrollment	281,157	210,307	208,595	212,965	228,305	244,354	256,841	264,879	271,488	
Total Claims Pre Rebate	\$656.49	\$572.11	\$564.01	\$589.40	\$656.72	\$638.99	\$634.03	\$662.64	\$713.09	
PEPM Trend Exclude Rebates	-	-12.9%	-1.4%	4.5%	11.4%	-2.7%	-0.8%	4.5%	7.6%	
State Rx Rebates	\$ 3,104,438	\$2,177,824	\$366,528	\$631,340	\$446,957	\$824,045	\$2,511,302	\$6,669,652	\$9,299,150	
PEPM Trend Net of Rebates	-	-13.0%	0.1%	4.3%	11.7%	-2.9%	-1.8%	2.1%	6.5%	

**Table 2 Employer Contribution History**

State Active Employees	PY 2011	PY 2012	PY 2013	PY 2014	PY 2015	PY 2016	PY 2017	PY 2018	PY 2019	PY 2020
Employee Only	\$ 580.93	\$ 565.78	\$ 596.86	\$ 596.94	\$ 521.54	\$ 556.78	\$ 556.78	\$ 557.38	\$ 547.52	\$ 603.99
Employee + Spouse	\$ 1,223.52	\$ 979.29	\$ 1,034.96	\$ 1,035.04	\$ 838.42	\$ 907.15	\$ 907.16	\$ 915.88	\$ 911.13	\$ 1,004.24
Employee + Child(ren)	\$ 684.24	\$ 693.74	\$ 735.79	\$ 735.87	\$ 648.15	\$ 694.16	\$ 694.16	\$ 700.45	\$ 695.77	\$ 764.62
Employee + Family	\$ 994.78	\$ 1,107.32	\$ 1,173.87	\$ 1,173.95	\$ 964.41	\$ 1,043.92	\$ 1,043.92	\$ 1,058.94	\$ 1,059.37	\$ 1,164.88
State Retirees Non-Medicare										
Retiree only	\$ 392.27	\$ 388.98	\$ 404.04	\$ 404.12	\$ 348.10	\$ 371.70	\$ 371.70	\$ 372.70	\$ 362.70	\$ 405.73
Retiree + Spouse	\$ 765.67	\$ 637.76	\$ 663.49	\$ 663.57	\$ 539.09	\$ 582.88	\$ 582.89	\$ 589.51	\$ 579.85	\$ 651.21
Retiree + Child(ren)	\$ 452.30	\$ 465.96	\$ 484.04	\$ 484.12	\$ 421.99	\$ 453.03	\$ 453.03	\$ 459.22	\$ 451.23	\$ 504.25
Retiree + Family	\$ 632.75	\$ 714.79	\$ 745.93	\$ 746.01	\$ 615.03	\$ 665.32	\$ 665.32	\$ 676.03	\$ 668.38	\$ 749.74
Surviving/Unsubsidized Spo	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Surviving/Unsubsidized Spo	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

REQUIRED RESERVE POLICY CONSIDERATIONS

PEBP has three categories of required reserves: Incurred But Not Paid (IBNP), Catastrophic and HRA reserves. The IBNP reserve is used as a provision for claims that have been incurred but have not yet been reported. This is necessary since providers have up to a year to submit a claim to PEBP. Catastrophic reserves are intended to protect from unforeseen events or large increases in claims that have not been factored into actuarial forecasts. The HRA reserve is necessary to cover reimbursements for HRA claims and must be funded at 100%.

At the November 21<sup>st</sup> Board meeting, Aon presented information regarding PEBP’s IBNP and Catastrophic Reserves indicating that, in comparison to other state/public entities, PEBP’s required reserves are set very conservatively and offered possible approaches for PEBP consideration.

At the March 31, 2020 Board meeting, two separate reserve policy considerations were presented in an effort to release approximately \$8.5M. The option to move from a very conservative 25% to a more standard 10% IBNP margin load would release \$7.04M and making a modest change from 62 days to a 60-day Catastrophic reserve level releases \$1.4M in additional funds. Because excess reserves are projected to be exhausted, this one-time release of funds will be used to cover a shortfall in the state retiree insurance costs and non-state employee’s insurance costs categories and a possible “cushion” moving into PY21. Given the unknown impact of COVID-19, PEBP believes this is an appropriate use of these funds.

**PEBP strongly discourages using required reserves to mitigate the rate increases for the following reasons:**

1. This is a one-time funding source that will not likely exist or be available next year. By artificially lowering rates (offsetting the rate increases), it will inevitably lead to a much bigger impact on rates next year. Members will be forced to bear the shock of two years of rate increases all at once and the only mechanism to lessen the blow will be to reduce benefits.

2. The purpose of required reserves is to ensure the plan is fiscally solvent and that the plan is able to cover unforeseen costs. Using reserves to lower rates may be perceived as a fiduciarily irresponsible move and could result in unintended consequences.
3. The impact of COVID-19 is unknown at this time. Not only is there a strong possibility that this pandemic could result in increased claims, but the economic impact on the state will surely have downstream effects on PEBP.
4. State agencies have been asked to make significant budget cuts. Artificially softening rates at a time of economic crisis is in contradiction to this directive.

RATE OPTIONS

At the March 31, 2020 Board meeting, the Board requested that Aon apply updated plan experience through March 2020 and update overall rates accordingly. The additional two months of plan experience was not favorable, which resulted in higher overall rates than what was originally presented.

Base Rates - Comparing PY21 over PY20

	Medical/Rx	Dental	Total Change
State CDHP	11.0%	0.2%	10.2%
State EPO	14.2%	0.2%	13.5%
State HPN	7.0%	0.2%	6.6%
Non-State CDHP	-17.1%	1.2%	-16.5%
Non-State EPO	-1.0%	1.2%	-0.9%
Non-State HPN	7.0%	1.2%	6.7%

For overall rates, PEBP prepared five options for the board to vote on.

**Option 1:** Using updated claims experience, this option re-tiers CDHP overall rates closer to actual cost relativities between employee, spouse, and child from current 1/1.87/1.37/2.24 (EE Only/EE+SP/EE+CH/EE+F) to 1/2.15/1.38/2.53. Similarly, re-tier EPO/HMO overall rates from current 1/1.95/1.47/2.42 (EE Only/EE+SP/EE+CH/EE+F) to 1/2.24/1.56/2.8. The subsidy percentage changes lessen the amount given to those covering spouses on the plan for the benefit of employee only and single parent coverage levels. Overall rates and employee premiums under this scenario are shown below:

Overall Rates - Before Contributions and Premiums

State Employees		
Tier	CDHP	EPO/HMO
Employee Only	615.06	823.05
Employee + Spouse	1,322.37	1,843.63
Employee + Child(ren)	848.78	1,287.07
Employee + Family	1,556.09	2,307.65

State Retirees		
Tier	CDHP	EPO/HMO
Employee Only	595.32	819.78
Employee + Spouse	1,279.94	1,836.31
Employee + Child(ren)	821.54	1,281.96
Employee + Family	1,506.16	2,298.48

Non-State Retirees		
Tier	CDHP	EPO/HMO
Employee Only	1,019.12	811.65
Employee + Spouse	1,975.50	1,603.69
Employee + Child(ren)	1,874.88	1,278.14
Employee + Family	2,831.26	2,070.18

Premiums

State Active Employees	Statewide PPO				Statewide EPO/HMO			
	Consumer Driven Health Plan				PEBP EPO and HPN HMO			
	PY20	PY21	Change	% Change	PY20	PY21	Change	% EE Pays
Employee Only	30.95	40.15	9.20	7%	137.47	139.79	2.32	17%
Employee + Spouse	160.01	258.79	98.78	20%	415.95	676.06	260.11	37%
Employee + Child(ren)	82.97	78.78	-4.19	9%	275.84	360.53	84.69	28%
Employee + Family	212.02	291.29	79.26	19%	554.32	896.81	342.49	39%

State and Non-State Retirees	Statewide PPO				Statewide EPO/HMO			
	Consumer Driven Health Plan				PEBP EPO and HPN HMO			
	PY20	PY21	Change	% Change	PY20	PY21	Change	% Change
Employee Only	203.33	208.23	4.90	2%	362.56	389.33	26.77	7%
Employee + Spouse	482.10	623.53	141.44	29%	859.32	1,151.99	292.67	34%
Employee + Child(ren)	315.68	327.56	11.88	4%	609.39	723.99	114.60	19%
Employee + Family	594.45	742.86	148.41	25%	1,106.15	1,486.64	380.49	34%

**Option 2:** This option uses the board approved tiering ratios using updated claims experience. Option 2 is essentially an updated version of the rates presented on March 31, 2020 using the most current claims experience.

Overall Rates – Before Contributions and Premiums

State Employees		
Tier	CDHP	EPO/HMO
Employee Only	646.81	876.70
Employee + Spouse	1,211.45	1,712.08
Employee + Child(ren)	884.03	1,288.12
Employee + Family	1,448.67	2,123.50

State Retirees		
Tier	CDHP	EPO/HMO
Employee Only	625.78	854.99
Employee + Spouse	1,190.42	1,690.37
Employee + Child(ren)	863.00	1,266.41
Employee + Family	1,427.64	2,101.79

Non-State Retirees		
Tier	CDHP	EPO/HMO
Employee Only	1,024.03	812.32
Employee + Spouse	1,986.90	1,605.03
Employee + Child(ren)	1,663.43	1,260.75
Employee + Family	2,626.30	2,053.46

Premiums

State Active Employees	Statewide PPO				Statewide EPO/HMO			
	Consumer Driven Health Plan				PEBP EPO and HPN HMO			
	PY20	PY21	Change	% Change	PY20	PY21	Change	% Change
Employee Only	30.95	52.15	21.20	68%	137.47	175.89	38.42	28%
Employee + Spouse	160.01	210.61	50.60	32%	415.95	510.58	94.63	23%
Employee + Child(ren)	82.97	118.73	35.76	43%	275.84	340.72	64.88	24%
Employee + Family	212.02	277.18	65.16	31%	554.32	675.40	121.08	22%

State and Non-State Retirees	Statewide PPO				Statewide EPO/HMO			
	Consumer Driven Health Plan				PEBP EPO and HPN HMO			
	PY20	PY21	Change	% Change	PY20	PY21	Change	% Change
Employee Only	203.33	232.06	28.73	14%	362.56	419.66	57.10	16%
Employee + Spouse	482.10	554.38	72.28	15%	859.32	996.77	137.45	16%
Employee + Child(ren)	315.68	367.48	51.79	16%	609.39	703.89	94.50	16%
Employee + Family	594.45	689.80	95.34	16%	1,106.15	1,281.00	174.85	16%

**Option 3:** This option re-tiers the rates to equalize CDHP and EPO/HMO State Active employee premium percent increases by tier.

Overall Rates – Before Contributions and Premiums

State Employees		
Tier	CDHP	EPO/HMO
Employee Only	638.60	871.86
Employee + Spouse	1,228.00	1,719.07
Employee + Child(ren)	883.10	1,290.63
Employee + Family	1,472.50	2,137.84

State Retirees		
Tier	CDHP	EPO/HMO
Employee Only	627.31	855.12
Employee + Spouse	1,189.88	1,688.57
Employee + Child(ren)	858.18	1,268.10
Employee + Family	1,420.75	2,101.55

Non-State Retirees		
Tier	CDHP	EPO/HMO
Employee Only	1,024.03	812.32
Employee + Spouse	1,986.90	1,605.03
Employee + Child(ren)	1,663.43	1,260.75
Employee + Family	2,626.30	2,053.46

Premiums

State Active Employees	Statewide PPO				Statewide EPO/HMO			
	Consumer Driven Health Plan				PEBP EPO and HPN HMO			
	PY20	PY21	Change	% Change	PY20	PY21	Change	% Change
Employee Only	30.95	43.94	12.99	42%	137.47	171.05	33.58	24%
Employee + Spouse	160.01	227.16	67.15	42%	415.95	517.57	101.62	24%
Employee + Child(ren)	82.97	117.80	34.82	42%	275.84	343.23	67.39	24%
Employee + Family	212.02	301.01	88.99	42%	554.32	689.74	135.42	24%

State and Non-State Retirees	Statewide PPO				Statewide EPO/HMO			
	Consumer Driven Health Plan				PEBP EPO and HPN HMO			
	PY20	PY21	Change	% Change	PY20	PY21	Change	% Change
Employee Only	203.33	233.59	30.26	15%	362.56	419.79	57.23	16%
Employee + Spouse	482.10	553.84	71.74	15%	859.32	994.97	135.65	16%
Employee + Child(ren)	315.68	362.66	46.98	15%	609.39	705.58	96.19	16%
Employee + Family	594.45	682.91	88.46	15%	1,106.15	1,280.76	174.61	16%

**Option 4:** Using \$3.5M one-time reserve release to mitigate rate increases and equalize CDHP and EPO/HMO State Active employee premium increases by tier. **Note: using reserves to buy down rates will escalate future rate increases.**

Overall Rates - Before Contributions and Premiums

State Employees		
Tier	CDHP	EPO/HMO
Employee Only	632.62	865.29
Employee + Spouse	1,213.80	1,705.92
Employee + Child(ren)	873.88	1,280.75
Employee + Family	1,455.06	2,121.39

State Retirees

Tier	CDHP	EPO/HMO
Employee Only	619.76	847.44
Employee + Spouse	1,177.96	1,674.59
Employee + Child(ren)	848.94	1,257.28
Employee + Family	1,407.14	2,084.43

Non-State Retirees		
Tier	CDHP	EPO/HMO
Employee Only	1,015.03	803.32
Employee + Spouse	1,977.90	1,596.03
Employee + Child(ren)	1,654.43	1,251.75
Employee + Family	2,617.30	2,044.46

Premiums

State Active Employees	Statewide PPO				Statewide EPO/HMO			
	Consumer Driven Health Plan				PEBP EPO and HPN HMO			
	PY20	PY21	Change	% Change	PY20	PY21	Change	% Change
Employee Only	30.95	40.83	9.88	32%	137.47	164.32	26.85	20%
Employee + Spouse	160.01	211.04	51.03	32%	415.95	497.18	81.23	20%
Employee + Child(ren)	82.97	109.43	26.46	32%	275.84	329.70	53.86	20%
Employee + Family	212.02	279.64	67.62	32%	554.32	662.57	108.25	20%

State and Non-State Retirees	Statewide PPO				Statewide EPO/HMO			
	Consumer Driven Health Plan				PEBP EPO and HPN HMO			
	PY20	PY21	Change	% Change	PY20	PY21	Change	% Change
Employee Only	203.33	227.77	24.44	12%	362.56	411.30	48.74	13%
Employee + Spouse	482.10	540.05	57.95	12%	859.32	974.85	115.53	13%
Employee + Child(ren)	315.68	353.63	37.95	12%	609.39	691.32	81.93	13%
Employee + Family	594.45	665.91	71.45	12%	1,106.15	1,254.87	148.72	13%

**Option 5:** Using \$2.3M one-time reserve release to mitigate rate increases and equalize CDHP and EPO/HMO State Active employee premium increases by tier. **Note: using reserves to buy down rates will escalate future rate increases.**

Overall Rates – Before Contributions and Premiums

State Employees		
Tier	CDHP	EPO/HMO
Employee Only	634.67	867.54
Employee + Spouse	1,218.66	1,710.42
Employee + Child(ren)	877.05	1,284.14
Employee + Family	1,461.03	2,127.02

State Retirees		
Tier	CDHP	EPO/HMO



Employee Only	622.35	850.08
Employee + Spouse	1,182.04	1,679.37
Employee + Child(ren)	852.10	1,260.99
Employee + Family	1,411.79	2,090.28

Non-State Retirees		
Tier	CDHP	EPO/HMO
Employee Only	1,018.12	806.41
Employee + Spouse	1,980.99	1,599.12
Employee + Child(ren)	1,657.52	1,254.84
Employee + Family	2,620.39	2,047.55

Premiums

State Active Employees	Statewide PPO				Statewide EPO/HMO			
	Consumer Driven Health Plan				PEBP EPO and HPN HMO			
	PY20	PY21	Change	% Change	PY20	PY21	Change	% Change
Employee Only	30.95	41.89	10.94	35%	137.47	166.63	29.16	21%
Employee + Spouse	160.01	216.56	56.56	35%	415.95	504.17	88.22	21%
Employee + Child(ren)	82.97	112.30	29.33	35%	275.84	334.35	58.51	21%
Employee + Family	212.02	286.97	74.95	35%	554.32	671.89	117.57	21%

State and Non-State Retirees	Statewide PPO				Statewide EPO/HMO			
	Consumer Driven Health Plan				PEBP EPO and HPN HMO			
	PY20	PY21	Change	% Change	PY20	PY21	Change	% Change
Employee Only	203.33	229.76	26.43	13%	362.56	414.21	51.65	14%
Employee + Spouse	482.10	544.77	62.67	13%	859.32	981.75	122.43	14%
Employee + Child(ren)	315.68	356.72	41.04	13%	609.39	696.21	86.82	14%
Employee + Family	594.45	671.73	77.28	13%	1,106.15	1,263.74	157.59	14%

**PEBP Recommendation:**

1. Approve changing the IBNP margin load from 25% to 10%, releasing \$7.04M
2. Approve lowering the catastrophic reserve level from 62 days on hand to 60 days on hand, releasing \$1.4M.
3. Approve Option 1. This option applies a more accurate subsidization methodology between the tiers and does not require the use of reserves to reduce rates.