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AGENDA ITEM

Action Item

Information Only

Date: January 26, 2023
Item Number: VI
Title: Governor's Recommended Budget for the 2024-2025 Biennium

SUMMARY

This report provides updates on the Governor's Recommended Budget for the 2024-2025 biennium.

REPORT

AGENCY REQUEST BUDGETS

At the May 26, 2022 board meeting, the board directed staff to submit two versions of an agency request budget for the 2024-2025 biennium. The first budget follows the guidance received from the Governor's Office and budgets to maintain FY22 benefit design. Additionally, it includes enhancement requests for in-house counsel and upgrading two existing IT positions. The second budget is based on then slightly richer FY20 plan design, which includes the restoration of LTD and Life Insurance. This budget request also includes a request for an in-house counsel and IT position upgrades. PEBP worked closely with our actuary Segal and submitted the budgets on September 1, 2022.

The Governor's Recommended Budget remains confidential until released by the Governor, so PEBP is unable to share any changes or decisions until such time that the budget is made publicly available.

GOVERNOR'S RECOMMENDED BUDGET

The Governor's Recommended Budget was released during the Governor's State of the State address on January 23, 2023.

PEBP's total biennial budget request has increased from FY22/23 by \$100M to \$1.1 billion. In this budget, the benefit levels from FY22 are continued and the "restored benefits" are now incorporated into the base benefit design.

An overview of the funding and expenditures are outlined below:

Funding	Agency Request		Governor's Recommended	
	FY 2024	FY 2025	FY 2024	FY 2025
Carryforward	\$145.4 M	\$148.0 M	\$145.0 M	\$138.0 M
State Subsidy	\$310.2 M	\$333.0 M	\$296.0 M	\$313.0 M
Non-State Subsidy	\$21.0 M	\$21.4 M	\$20.2 M	\$20.5 M
Contributions	\$81.0 M	\$95.0 M	\$79.0 M	\$83.0 M
All Other	\$26.2 M	\$29.2 M	\$24.0 M	\$25.0 M
Total Funding	\$583.5 M	\$626.1 M	\$563.5 M	\$579.0 M

Expenditures	Agency Request		Governor's Recommended	
	FY 2024	FY 2025	FY 2024	FY 2025
Operating	\$8.3 M	\$8.6 M	\$6.2 M	\$6.5 M
Self-Funded Admin	\$18.0 M	\$18.3 M	\$13.0 M	\$13.0 M
HSA/HRA Funding	\$53.0 M	\$54.0 M	\$53.0 M	\$54.0 M
Self-Funded Claims	\$306.1 M	\$328.0 M	\$304.0 M	\$318.0 M
Fully Insured	\$50.4 M	\$56.0 M	\$50.4 M	\$56.0 M
Reserves	\$148.0 M	\$162.0 M	\$138.0 M	\$132.0 M
Total Expenditures	\$583.5 M	\$626.1 M	\$563.5 M	\$579.0 M

VARIANCE

The main variance between the Agency Request budget versus the Governor's Recommended budget stems from the difference in trend percentage. Although the benefit plan design remains consistent, the lower trend assumes lesser inflation amounts to the future costs of healthcare, and thus decreases the overall budget amount. Historically, GFO has not used the actuarial assumptions provided by PEBP's consultants and has instead applied the same inflationary trend (derived from Moody's Economy) to PEBP, Corrections, and Medicaid. Because this method has been utilized since 2012, the change in trend amount was not unexpected, however it always imposes an inherent risk in year two should the actual trend surpass the budgeted trend.

Self-funded claim trend and fully insured product inflation is shown in the table below:

PY 2024/2025 Utilization Inflation			Utilization Inflation	
	Agency Request	Gov Rec		Approx Variance
Medical	5.00%	3.91%	FY 2024	\$ 12,638,213
RX	8.00%	3.67%	FY 2025	\$ 18,846,127
Dental	2.00%	2.00%		

In the past, PEBP has made up for the lowered budgeted trend through cost saving measures such as contract renewals and program implementations aimed at reducing medical costs. Although there are not as many contracting opportunities in the upcoming biennium, the program will be implementing several benefits that are projected to save the plan considerably.

ENROLLMENT PROJECTIONS

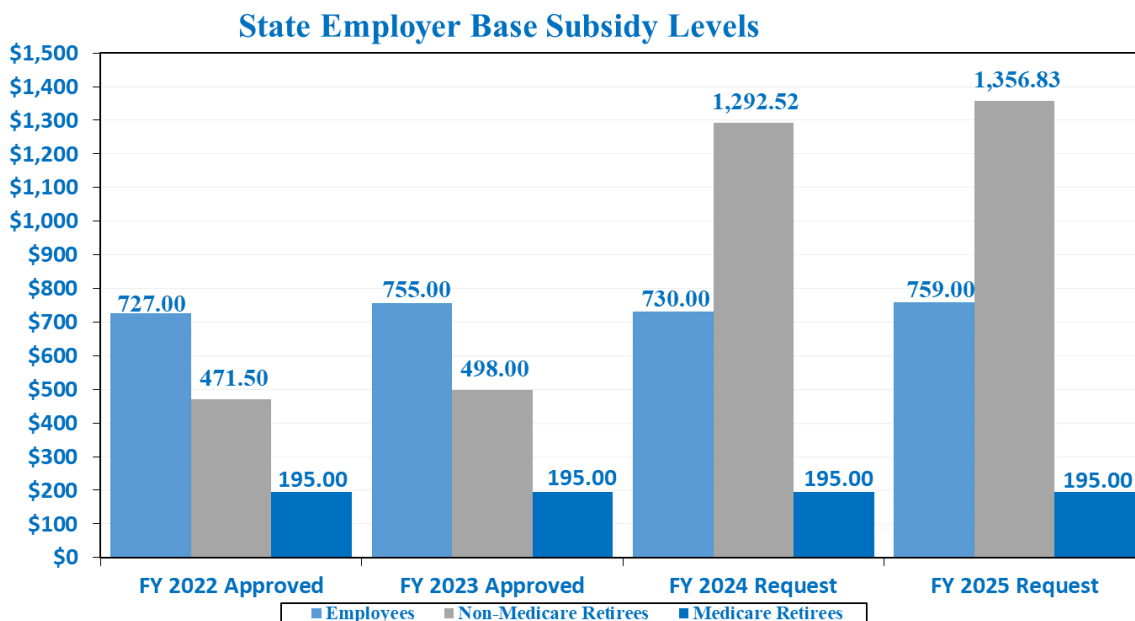
The table below depicts the enrollment projections used to develop the projected costs. Enrollment projections that are included in the Governor’s Recommended Budget are based upon Fiscal Year 2022 actuals and are actuarially reviewed.

State	Average	Budgeted		
	FY22	FY23	FY24	FY25
Employees	25,684	25,838	26,354	26,880
Non-Medicare Retirees	4,214	4,237	4,244	4,251
Medicare Retirees	8,086	8,321	8,655	9,000
Total State	37,984	38,396	39,253	40,131
% Change		1.08%	2.23%	2.24%
Non-State				
Employees	7	6	6	6
Non-Medicare Retirees	724	643	578	578
Medicare Retirees	5,011	5,014	5,014	5,014
Total Non-State	5,742	5,663	5,598	5,598
% Change		-1.38%	-1.15%	0.00%
Total	43,726	44,059	44,851	45,729
Total Enrollment Growth		0.76%	1.80%	1.96%

EMPLOYER SUBSIDY

The subsidy is made up of the Active Employee Group Insurance (AEGIS) and the Retired Employee Group Insurance (REGI). AEGIS and REGI make up the contributions paid by employers on behalf of employees and retirees. The contributions are allocated across all plans and tiers and make up the employer’s portion of the total plan rates. The amounts reflected for retirees is based on a retiree with 15 years of service and is adjusted up or down based on the total years of service.

The table below provides the employer contributions approved in the Governor’s Recommended Budget:



The REGI Problem:

The REGI subsidies are assessed through a percentage of payroll paid by agencies monthly. Over the past several years, PEBP has had an increasing shortfall of the REGI budget, some of which may be due to vacancies across the state that has reduced payroll expenses. Another reason is due to a statute that requires active and retiree costs to be pooled together when determining future rates. Rating actives and retirees together unintentionally underfunds the REGI budget and creates an overage in AEGIS.

After many discussions with PEBP actuaries and GFO, a solution was developed that adjusts AEGIS and REGI rates to reflect the actual costs of each group more accurately; AEGIS decreases while REGI increases. Additionally, the AEGIS subsidy amount, while actuarially

determined, is intended to avoid any significant premium increases for employees throughout the biennium.

BUDGET ENHANCEMENTS

Below is an overview of the enhancement decision units that were included in the Governor’s Recommended Budget.

E225 Board Member Travel – This enhancement adds authority to allow two board members to attend the annual State and Local Government Benefits Association (SALGBA) conference.

Utilization Trend		
	Agency Request	Gov Rec
Medical	5.00%	3.91%
RX	8.00%	3.67%
Dental	2.00%	2.00%

E226 Office Relocation – This enhancement adds authority to pay for a non-state-owned office lease throughout the biennium.

E710 Equipment Replacement – This enhancement adds authority to replace equipment according to the state’s equipment replacement schedule.

E815 In-House Counsel – This enhancement adds authority to reclassify the existing Chief Information Officer position to an In-House Legal Counsel to allow PEBP with access to the health plan specific counsel that would be highly beneficial for providing legal expertise in specific health care related issues, benefit compliance reviews, and contracting matters.

Enhancement Decision Units	FY 2024	FY 2025
E225 - Board Member Travel	\$ 1,186	\$ 1,185
E226 - Office Relocation	\$ 232,410	\$ 236,968
E710 - Equipment Replacement	\$ 13,398	\$ 22,825
E815 - In-House Counsel	\$ 9,307	\$ 9,307
Total Enhancement Decision Units	\$ 256,301	\$ 270,285

PEBP also requested an enhancement to upgrade our current IT Professional 3 and IT Professional 2 positions due to the loss of the CIO position, however, the enhancement for both position upgrades were not included in the Governor’s Recommended Budget.

CONCLUSION

PEBP appreciates the assistance of the GFO and Governor's Office working with PEBP to keep plan design consistent while also mitigating rate increases to employees in the Governor's Recommended Budget.