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MEMORANDUM

Date: November 17, 2020
From: Peter Camacci
To: Health Care Committee
Subject: Proposed 2021 Health Options Program Budget

Attached is the Proposed 2021 Program Budget for the Health Options Program and two detailed administrative expenses budgets. These Proposed 2021 Budgets are compared to the respective 2020 Budgets and our projections of receipts and expenditures for 2020. A brief review of each follows:

Proposed 2021 Program Budget (*Page 4*)

The Proposed 2021 Program Budget assumes a Beginning Balance as of January 1, 2021 of \$321,529,000 (*row 1, column C*). As of September 30, 2020, the Program has \$95,168,205 on account with Mellon Bank, \$85,000,000 in short term investments and an operational account of \$124,773,021 with M&T Bank.

The 2021 Program Budget anticipates Total Receipts of \$499,702,000 (*row 11, column C*), an increase of 5% over the 2020 Projected Experience. The primary driver of the increase is the growth in enrollment and Medical Benefits Plans (self-funded) premium increases.

The notable increases/decreases in 2021 Budgeted Receipts, over 2020 Projected Experience, are:

- Retiree Contributions for the self-funded Medical Benefits Plans (*row 4, column C*) are higher (6%) than the Projected Experience amount for 2020 (*row 4, column B*) due to a 2% increase in the average contribution rate and anticipated increased participation.
- Payments from the Centers for Medicare and Medicaid Services (CMS) for the Medicare Rx Options (*row 9, column C*) are higher (6%) than the Projected Experience amount for 2020 (*row 9, column B*) due to higher expected Part D reinsurance payments and anticipated increased participation.
- 2020 Projected Investment Earnings (*row 10, column B*) are lower than the amount Budgeted for 2020 (*row 10, column A*) due to the actual year to date experience for 2020.
- 2021 Projected Investment Earnings (*row 10, column C*) are \$300,000, based on estimates received from the Office of Financial Management.

The 2021 Program Budget anticipates Total Program Expenses of \$500,558,000 (*row 31, column C*), an increase of 13% over the 2020 Projected Experience (*row 31, column B*), or an 8% increase over the 2020 Program Budget (*row 31, column A*).

The notable increases in 2021 Budgeted Expenses, over the 2020 Projected Experience, are:

- Incurred Claims for the Medical Plans (row 14, column C) are expected to increase 24% from the 2020 Projected Experience (row 14, column B), or 10% over the 2020 Program Budget (row 14, column A). Medical claim utilization was significantly impacted by the COVID-19 pandemic in 2020. Medical utilization has been and will be lower in 2020 due to services being suspended, cancelled or rescheduled. This has artificially lowered the medical expenses in 2020, and resulted in a projected surplus in 2020 of \$33,773,000 (row 32, column B). The 24% increase anticipates that medical utilization will return to pre-COVID-19 levels in 2021, and that some of the delayed claims from 2020 will be made up in 2021 in addition to regular medical inflation and anticipated increased participation.
- Prescription Drug Plans expenses (row 19, column C) are expected to increase 9% from the 2020 Projected Experience (row 19, column B) due to price inflation and anticipated increased participation. This increase is partially offset by a projected 11% increase in drug rebates (row 24, column C).

The Proposed 2021 Program Budget Expenses are projected to exceed Receipts by \$856,000 (row 32, column C). The Proposed 2021 Program Budget Ending Balance is expected to be \$320,674,000 (row 33, column C). The Ending Balance represents a reserve equal to 88% of anticipated annual self-funded benefits and expenses, net of CMS payments. This is an increase from the 2020 budgeted reserve of 75%, mainly due to the reduced medical claim utilization in 2020 because of COVID-19.

Proposed 2021 HOP Administrative Expenses Budget (Page 5)

The 2021 HOP Administrative Expenses Budget anticipates Total Expenses of \$4,130,000 (row 18, column C). This represents a 7% increase from the 2020 Projected Experience, and a 15% increase over the 2020 Budget. Total Administrative Expenses for 2021 are expected to be lower than our 2% Sponsor Expenses Guideline of \$6,186,000 (row 1, column C) by \$2,056,000 (row 20, column C).

The notable changes to the 2021 budget are as follows:

- The Benefits Consulting expenses in the 2021 Proposed HOP Administrative Budget are anticipated to be \$700,000 (row 5, column C). This reduction reflects RFPs that were completed in 2020 for a Third Party Administrator, Dental Benefits, and Vision services.
- Contract (MCO + Dental) Management expenses have decreased by 7% to reflect transition of a portion of this work to the Deputy Director of the Health Insurance Office (row 9, column C).
- Meeting Expense has decreased 22% to \$200,000 (row 11, column C), and Personnel expenses have increased 73% to \$1,165,000 (row 13, column C) from the respective 2020 Program Budgets.
- Communications Consulting expenses and Postage and Printing expenses have increased by 3% and 26%, respectively, to reflect a possible Open Enrollment for the HOP plans in 2021 and continued increasing enrollment (row 6, 14, and 15, column C).

Proposed 2021 Medicare Prescription Drug Plan Administrative Expenses Budget (Page 6)

The Proposed 2021 Medicare Prescription Drug Plan Administrative Expenses Budget (2021 PDP Budget) details the Administrative Expenses of the Medicare Prescription Drug Plans. The

federal Centers for Medicare and Medicaid Services (CMS) require that all administrative expenses of the PDP be identified and budgeted separately.

For 2021, we anticipate Total PDP Administrative Expenses of \$7,968,000 (*row 13, column C*), an increase of 6% over the Projected Experience of 2020 and an increase of 4% over the 2020 Budget. The notable changes to the 2021 budget are as follows:

- The Benefits Consulting expenses in the 2021 Proposed PDP Administrative Budget are anticipated to be \$783,000 (*row 2, column C*). This increase is in anticipation of a Pharmacy Benefits Manager RFP to be completed in 2021.
- Communications Consulting expenses and Postage and Printing expenses have increased by 3% and 26%, respectively, to reflect a possible Open Enrollment for the HOP plans in 2021 and continued increasing enrollment (*rows 5, 9, and 10, column C*).

Please note that we are expecting payments from CMS for 2021 of \$82,397,000 (*row 9, column C*).

The Total PDP Administrative Expenses are approximately 4.2% of the combined Retiree Contributions for the Medicare Prescription Drug Plans and CMS Payments (*page 4, rows 5 and 9, column C*). These expenses result from CMS required contract compliance measures and mandated communications to plan participants. If we added the PDP Administrative Expenses to the HOP Administrative Expenses, they would equal 2% of Total Receipts.

We will be prepared to answer any questions concerning the Proposed 2021 Health Options Program Budget at the Health Care Committee meeting on December 2, 2020.

HEALTH OPTIONS PROGRAM
Proposed 2021 HOP Program Budget
Compared to 2020 Budget and Projected 2020 Experience

	(A)	(B)	(C)
	BUDGETED 2020	Projected Experience 2020	Proposed BUDGET 2021
	(in thousands \$)	(in thousands \$)	(in thousands \$)
1 Beginning Balance at January 1	\$ 255,447	\$ 287,756	\$ 321,529
2 Receipts:			
3 Retiree Contributions			
4 Medical Benefits Plans (self-funded)	230,024	232,017	245,708
5 Medicare Prescription Drug Plans (self-funded)	105,209	104,502	107,690
6 Dental Plan (insured 2020, self-funded 2021)	9,932	10,106	9,705
7 Vision (insured 2021)	N/A	N/A	856
8 Managed Care Plans (insured)	52,780	52,111	53,046
9 CMS Payments for Medicare Prescription Drug Plan	65,305	77,740	82,397
10 Investment earnings	3,400	1,105	300
11 Total Receipts	\$ 466,650	\$ 477,581	\$ 499,702
12 Program Expenses:			
13 Medical Benefits Plans (self-funded)			
14 Incurred Claims	186,638	166,154	204,570
15 Fitness Program	9,014	5,674	9,371
16 Claims Adjudication Expense	21,878	21,952	21,998
17 Pre-65 Rx Benefits (HOP Pre-65 Medical Plan)	136	271	278
18 ACA Tax Expense	-	-	-
19 Medicare Prescription Drug Plans (self-funded)	209,757	219,169	238,329
20 Advance Payments for Manufacturer's Discounts	24,449	24,018	26,235
21 Drug Manufacturer's Discounts	(24,449)	(24,018)	(26,235)
22 Pharmacy Benefit Manager Administrative Fees	6,420	5,954	6,135
23 PDP Administrative Expenses	7,646	7,518	7,968
24 Drug Benefit Rebates	(51,766)	(56,299)	(62,658)
25 Dental Plan (insured 2020, self-funded 2021)	9,448	10,006	9,219
26 Vision (insured 2021)	N/A	N/A	833
27 Managed Care Plans (insured)	52,780	52,111	53,046
28 Enrollment Expenses	7,592	7,383	7,301
29 HOP Administrative Expenses	3,590	3,879	4,130
30 HOP Investment Expenses	28	36	38
31 Total Program Expense	\$ 463,161	\$ 443,808	\$ 500,558
32 Receipts Over (Under) Expenses	\$ 3,489	\$ 33,773	\$ (856)
33 Ending Balance	\$ 258,936	\$ 321,529	\$ 320,674

HEALTH OPTIONS PROGRAM
Proposed 2021 HOP Administrative Expenses Budget
Compared to 2020 Budget and Projected 2020 Experience

	(A)	(B)	(C)
	BUDGETED 2020	Projected Experience 2020	Proposed BUDGET 2021
	(in thousands \$)	(in thousands \$)	(in thousands \$)
Sponsor Expenses Guideline			
1 (2% of Retiree Contributions excluding Medicare Part D)	\$ 5,590	\$ 5,885	\$ 6,186
2 Administrative Expenses:			
3 Auditing (Claims)	60	60	60
4 Banking	85	85	85
5 Benefit Consulting	791	751	700
6 Communications Consulting & Project Management	350	350	361
7 Equipment	50	50	50
8 Fiduciary Insurance	90	90	90
9 Contract (MCO + Dental) Management	264	264	246
10 Legal	100	100	100
11 Meeting Expense	256	120	200
12 Miscellaneous	50	50	50
13 Personnel (payment to PSERS)	673	1,110	1,165
14 Postage	318	318	402
15 Printing	318	318	402
16 Rent (payment to PSERS)	100	128	132
17 Web Services and Development	85	85	87
18 Total Administrative Expenses	\$ 3,590	\$ 3,879	\$ 4,130
19 Excess (deficiency) of Sponsor Expenses Guideline			
20 over (under) Budgeted Administrative Expenses	\$ 2,000	\$ 2,006	\$ 2,056

HEALTH OPTIONS PROGRAM
Proposed 2021 Medicare Prescription Drug Plan (PDP) Administrative Expenses Budget
Compared to 2020 Budget and Projected 2020 Experience

	(A)	(B)	(C)
	BUDGETED 2020	Projected Experience 2020	Proposed BUDGET 2021
	(in thousands \$)	(in thousands \$)	(in thousands \$)
1 Administrative Expenses:			
2 Benefit Consultant	\$ 653	\$ 653	\$ 783
3 Claims Auditing	69	69	71
4 CMS Compliance	1,139	1,139	1,139
5 Communications Consulting	484	484	499
6 Miscellaneous	25	25	25
7 Operational Audit & Required Survey & Data Validation	237	237	244
8 Pharmacy Consultant	60	60	61
9 Postage	318	318	402
10 Printing	318	318	402
11 Third Party Administrator	4,157	4,029	4,152
12 Web Services and Development	186	186	190
13 Total PDP Administrative Expenses	\$ 7,646	\$ 7,518	\$ 7,968