



PETER P. CAMACCI JR
DIRECTOR, HEALTH INSURANCE OFFICE
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
5 N. 5TH ST.
HARRISBURG, PA 17101-1905
TELEPHONE (888) 773-7748; EXT. 4859
LOCAL (717) 720-4859
FAX (717) 783-7141
E-MAIL: PCAMACCI@PA.GOV

MEMORANDUM

Date: December 1, 2021
From: Peter Camacci
To: Health Care Committee
Subject: Proposed 2022 Health Options Program Budget

Attached is the Proposed 2022 Program Budget for the Health Options Program and two detailed administrative expenses budgets. These Proposed 2022 Budgets are compared to the respective 2021 Budgets and our projections of receipts and expenditures for 2021. A brief review of each follows:

Proposed 2022 Program Budget (Page 4)

The Proposed 2022 Program Budget assumes a Beginning Balance as of January 1, 2022 of \$386,379,000 (*row 1, column C*). As of September 30, 2021, the Program has \$95,162,857 on account with Mellon Bank, \$85,000,000 in short term investments and an operational account of \$180,743,958 with M&T Bank.

The 2022 Program Budget anticipates Total Receipts of \$480,653,000 (*row 11, column C*), an increase of 0.4% over the 2021 Projected Experience. The primary driver of the change is the growth in enrollment offset by Medicare Prescription Drug Plans (self-funded) and Managed Care Plan (insured) premium decreases.

The notable increases/decreases in 2022 Budgeted Receipts, over 2021 Projected Experience, are:

- Retiree Contributions for the self-funded Medicare Prescription Drug Plans (*row 5, column C*) are lower (-3%) than the Projected Experience amount for 2021 (*row 5, column B*) due to a 5% reduction in the average contribution rates offset by anticipated increased enrollment.
- Retiree Contributions for the insured Dental and Vision Benefits (*rows 6 and 7, respectively, column C*) are higher (9% for Dental and 6% for Vision) than the Projected Experience amount for 2021 (*rows 6 and 7, column B*) due to anticipated increased enrollment in the combined benefit (6%) and a \$1 increase in the combined contribution rate that was applicable toward the Dental Benefit.

The 2022 Program Budget anticipates Total Program Expenses of \$454,364,000 (*row 31, column C*), an increase of 3% over the 2021 Projected Experience (*row 31, column B*), or a 9% decrease from the 2021 Program Budget (*row 31, column A*).

The notable differences between 2022 Budgeted Expenses and the 2021 Projected Experience are:

- Incurred Claims for the Medical Plans (row 14, column C) are expected to increase 7% over the 2021 Projected Experience (row 14, column B), or decrease 4% from the 2021 Program Budget (row 14, column A). Medical claim utilization continued to be impacted by the COVID-19 pandemic in 2021. The 2021 budget (column A) had assumed a return the pre-COVID-19 utilization plus some additional utilization for services being suspended, cancelled or rescheduled in 2020. However, medical utilization has not returned to pre-pandemic levels as quickly as anticipated. It is expected that medical utilization will continue to recover in addition to regular medical inflation.
- 2022 Medicare Prescription Drug Plans expenses (row 19, column C) are expected to increase 5% from the 2021 Projected Experience (row 19, column B) due to price inflation, offset by updated, improved contract terms with Optum for 2022. 2022 Prescription Drug Rebates (row 24, column C) are expected to increase 17% from the 2021 Projected Experience (row 24, column B) which includes updated contract terms with Optum for 2022. The updated contract terms are also reflected in a 5% decrease to Medicare Prescription Drug premiums, approved by the Board in June of this year and reflected in the Medicare Prescription Drug Plan Receipts (row 5, column C)
- The lower than expected medical expenses in 2021, combined with lower than expected prescription drug trend, resulted in a projected surplus in 2021 of \$38,187,000 (row 32, column B).
- The Proposed 2022 Program Budget Expenses are projected to exceed Receipts by \$26,289,000 (row 32, column C). The Proposed 2022 Program Budget Ending Balance is expected to be \$412,668,000 (row 33, column C). The Ending Balance represents a reserve equal to 123% of anticipated annual HOP benefits and expenses, net of CMS payments. This is an increase from the 2021 budgeted reserve of 88%, mainly due to the continued reduction in medical claim utilization in 2021 because of COVID-19 and updated contract terms with Optum for the Medicare Prescription Drug Plans in 2022.

Proposed 2022 HOP Administrative Expenses Budget (Page 5)

The 2022 HOP Administrative Expenses Budget anticipates Total Expenses of \$4,224,000 (row 19, column C). This represents a 7% increase from the 2021 Projected Experience (row 19, column B), and a 2% increase over the 2021 Budget (row 19, column A). Total Administrative Expenses for 2022 are expected to be lower than our 2% (of Retiree Contribution) Sponsor Expenses Guideline of \$6,147,000 (row 1, column C) by \$1,923,000 (row 21, column C).

The notable changes to the 2022 budget are as follows:

- Personnel expenses have increased 12% to \$1,300,000 (row 13, column C) from the 2021 Program Budget.
- Postage and Printing expenses have decreased by 13%, to reflect a return to regular Option Selection Period expenses, after conducting a full Open Enrollment for the HOP plans in 2021. This decrease is somewhat offset by continued increasing postage rates and materials cost (row 6, 14, and 15, column C).

Proposed 2022 Medicare Prescription Drug Plan Administrative Expenses Budget (Page 6)

The Proposed 2022 Medicare Prescription Drug Plan Administrative Expenses Budget (2022 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 2022, we anticipate Total PDP Administrative Expenses of \$7,901,000 (*row 13, column C*), roughly equal to the Projected Experience of 2021 and a decrease of 1% over the 2021 Budget. The notable changes to the 2022 budget are as follows:

- Postage and Printing expenses have decreased by 13%, to reflect a return to regular Option Selection Period expenses, after conducting a full Open Enrollment for the HOP plans in 2021. This decrease is somewhat offset by continued increasing postage rates and materials cost (*rows 5, 9, and 10, column C*).

Please note that we are expecting payments from CMS for 2022 of \$71,348,000 (*page 4, row 9, column C*).

The Total PDP Administrative Expenses are approximately 4.6% 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 2.5% of Total Receipts.

We will be prepared to answer any questions concerning the Proposed 2022 Health Options Program Budget at the Health Care Committee meeting on December 16, 2021.

HEALTH OPTIONS PROGRAM
Proposed 2022 HOP Program Budget
Compared to 2021 Budget and Projected 2021 Experience

	(A)	(B)	(C)
	BUDGETED 2021	Projected Experience 2021	Proposed BUDGET 2022
	(in thousands \$)	(in thousands \$)	(in thousands \$)
1 Beginning Balance at January 1	\$ 321,529	\$ 348,192	\$ 386,379
2 Receipts:			
3 Retiree Contributions			
4 Medical Benefits Plans (self-funded)	245,708	241,415	245,701
5 Medicare Prescription Drug Plans (self-funded)	107,690	104,864	101,751
6 Dental Plan (insured)	9,705	11,270	12,329
7 Vision (insured)	856	994	1,057
8 Managed Care Plans (insured)	53,046	50,787	48,242
9 CMS Payments for Medicare Prescription Drug Plan	82,397	69,114	71,348
10 Investment earnings	300	225	225
11 Total Receipts	\$ 499,702	\$ 478,669	\$ 480,653
12 Program Expenses:			
13 Medical Benefits Plans (self-funded)			
14 Incurred Claims	204,570	183,249	195,828
15 Fitness Program	9,371	5,125	8,437
16 Claims Adjudication Expense	21,998	16,075	16,528
17 Pre-65 Rx Benefits (HOP Pre-65 Medical Plan)	278	(103)	94
18 ACA Tax Expense	-	-	-
19 Medicare Prescription Drug Plans (self-funded)	238,329	218,752	229,097
20 Advance Payments for Manufacturer's Discounts	26,235	28,917	31,134
21 Drug Manufacturer's Discounts	(26,235)	(28,917)	(31,134)
22 Pharmacy Benefit Manager Administrative Fees	6,135	6,447	6,548
23 PDP Administrative Expenses	7,968	7,902	7,901
24 Drug Benefit Rebates	(62,658)	(71,678)	(83,663)
25 Dental Plan (insured)	9,219	11,533	12,501
26 Vision (insured)	833	970	1,031
27 Managed Care Plans (insured)	53,046	50,787	48,242
28 Enrollment Expenses	7,301	7,490	7,597
29 HOP Administrative Expenses	4,130	3,933	4,224
30 HOP Investment Expenses	38	-	-
31 Total Program Expense	\$ 500,558	\$ 440,482	\$ 454,364
32 Receipts Over (Under) Expenses	\$ (856)	\$ 38,187	\$ 26,289
33 Ending Balance	\$ 320,674	\$ 386,379	\$ 412,668

HEALTH OPTIONS PROGRAM
Proposed 2022 HOP Administrative Expenses Budget
Compared to 2021 Budget and Projected 2021 Experience

	(A)	(B)	(C)
	BUDGETED 2021	Projected Experience 2021	Proposed BUDGET 2022
	(in thousands \$)	(in thousands \$)	(in thousands \$)
Sponsor Expenses Guideline			
1 (2% of Retiree Contributions excluding Medicare Part D)	\$ 6,186	\$ 6,069	\$ 6,147
2 Administrative Expenses:			
3 Auditing (Claims)	60	-	33
4 Banking	85	74	85
5 Benefit Consulting	700	660	721
6 Communications Consulting & Project Management	361	361	364
7 Equipment	50	50	50
8 Fiduciary Insurance	90	90	90
9 Contract (MCO + Dental) Management	246	246	253
10 Legal	100	-	100
11 Meeting Expense	200	100	200
12 Miscellaneous	50	50	50
13 Personnel (payment to PSERS)	1,165	1,235	1,300
14 Postage	402	402	351
15 Printing	402	402	351
16 Rent (payment to PSERS)	132	140	147
17 Investment Expense		36	40
18 Web Services and Development	87	87	89
19 Total Administrative Expenses	\$ 4,130	\$ 3,933	\$ 4,224
20 Excess (deficiency) of Sponsor Expenses Guideline			
21 over (under) Budgeted Administrative Expenses	\$ 2,056	\$ 2,136	\$ 1,923

HEALTH OPTIONS PROGRAM
Proposed 2022 Medicare Prescription Drug Plan (PDP) Administrative Expenses Budget
Compared to 2021 Budget and Projected 2021 Experience

	(A)	(B)	(C)
	BUDGETED 2021	Projected Experience 2021	Proposed BUDGET 2022
	(in thousands \$)	(in thousands \$)	(in thousands \$)
1 Administrative Expenses:			
2 Benefit Consultant	\$ 783	\$ 783	\$ 806
3 Claims Auditing	71	71	73
4 CMS Compliance	1,139	1,139	1,139
5 Communications Consulting	499	499	503
6 Miscellaneous	25	25	25
7 Operational Audit & Required Survey & Data Validation	244	244	245
8 Pharmacy Consultant	61	61	63
9 Postage	402	402	351
10 Printing	402	402	351
11 Third Party Administrator	4,152	4,086	4,150
12 Web Services and Development	190	190	194
13 Total PDP Administrative Expenses	\$ 7,968	\$ 7,902	\$ 7,901