MISSOURI CONSOLIDATED HEALTH CARE PLAN
BOARD MEETING
SEPTEMBER 22, 2016

Attending: Chairperson Doug Nelson
Representative Kip Kendrick
Mark Langworthy
Linda Luebbering (via conference call)
Viola Schaefer
Senator Scott Sifton (via conference call)

Absent: Director John Huff
Director Peter Lyskowski
Representative Caleb Rowden
Senator David Sater

Others attending: Judith Muck, Executive Director; Kim Backes, Research Coordinator; Denise Chapel, Director of Vendor Relations; Shelley Farris, Director of Benefit Administration; Stacia Fischer, Chief Financial Officer; Tammy Flaugher, Senior Administrative Specialist; Bethany Goodin, Member Services Manager; Garry Kornrumpf, Internal Auditor; Bruce Lowe, Chief Information Officer; Mia Platz, Communication and Publication Manager; Jennifer Stilabower, General Counsel; Julie Watson, Chief Population Health Officer (via conference call); and visitors.

Chairperson Nelson called the meeting to order. There were no public comments.

Mr. Langworthy made a motion to approve the open session minutes of the August 25, 2016, regular MCHCP Board of Trustees meeting. Ms. Schaefer seconded. Motion passed unanimously.

Ms. Fischer presented the draft documents relating to the fiscal year (FY) 2018 appropriations request. Ms. Fischer stated that she will focus her review to the lead executive summary sheet which is supported by additional documents. Ms. Fischer began by briefly over viewing Column A — FY 2018 MCHCP department request, Column B — FY 2017 core and Column C — FY 2018 new decision item (NDI). Column B has been realigned proportionately to the level of appropriated funding for FY 2017 so we are reflecting in line item (18) a projected use of net assets over current funding level.

MCHCP's budget process brings a preliminary request to the board in September of each year, and this FY 2018 request is updated for final approval of the appropriation request at the December board meeting after the results of the 2017 Plan Year Open Enrollment have concluded.

Office salaries of $3,250,179 represent 70 full-time employees (FTEs) with no change from the core total. The personnel advisory board (PAB) recommendations include a 2.7 percent general structure adjustment and a 1.7 percent within grade with an additional 1.1 percent for those with 7 plus years of service. These items are included in our department request, as MCHCP will not automatically receive this funding if approved. If not approved by the General Assembly and Governor, MCHCP will conform as recommended to the state wide pay plan. The fringe benefits reflect the associated benefit costs for 70 FTE; overtime and fringes projected reflect primarily overtime associated with Open Enrollment. The subtotal for personal service items is $5,051,852.

Operations expense of $2,932,442 (not including third party administrator fees); furniture, fixtures and equipment of $178,250; less $128,796 from estimated administrative fees from public entities net to the subtotal for operating expenses including personal service allocations of $8,033,748. Analytically speaking, without the inclusions of the general structure, within grade and associated fringe benefits that are incorporated and will not be granted if not appropriated, the Plan would be bringing to you an internal personal service and operations budget that has been reduced by greater than 2 percent.

Ms. Fischer reviewed the projected plan cost assumptions. These items encompass our self-insured medical and pharmacy plan costs in line items 9 through 12. Medical payments for our preferred provider organization (PPO) and Health Savings Account (HSA) plans total $434,553,888 and pharmacy payments are projected at $119,741,646.

For calendar year (CY) 2018, the following assumptions in the development of these plan costs were utilized: actual premium equivalents as determined by MCHCP's actuary were used in calculating first half FY 2018 costs; for CY 2018, the following trends were used: active medical claims 7.5 percent (last year was 5.5 percent); non-Medicare retiree medical claims 7.5 percent (last year was 5.5 percent); Medicare retiree medical claims 3.5 percent (last year was 5 percent); and pharmacy claims remain consistent with last year at 12 percent. Additional enrollment assumptions include: enrollment as of Aug. 1, 2016, total subscribers of 53,338 and total lives of 95,707 members; enrollment reflects 2016 member selection by plan and coverage level and will be updated after the results of the 2017 Plan year Open Enrollment; MCHCP subsidies for active employees in CY 2018 are developed by tier of coverage. The subsidies are for the base PPO 600 Plan and range from employee only at 92.9 percent to employee and spouse at 82.9 percent. Wellness and tobacco-free incentives were developed based upon anticipated participation and these estimates will be updated after Open Enrollment. MCHCP is following the current contribution policy for retirees in CY 2018 as in CY 2017, which is 2.5 percent of the PPO 600 Plan premium for each year of service the retiree has, with a cap at 65 percent.

Employee Assistance Program payments represent enrollment times the contract price. Transitional Reinsurance (Section 1341) is estimated at $383,344. These estimates represent the projected cash cost of the assessment to be paid during FY 2018. The patient-centered outcomes research fee (PCORI) is projected at $195,571 and represents the fee per average covered life imposed on plan sponsors of applicable self-insured health plans to fund the PCORI institute. The subtotal for claims and TPA expenses equal $555,552,400; less projected member contributions of $111,626,391; less contributions from interest income of $1,130,260; result in a grand total request for FY 2018 of $450,829,133. The NDI over FY 2017 core is $56,219,797. Finally, the actuary, projects the Plan will expend $30,272,727 in net assets during FY 2017.

Representative Kendrick asked why member contributions were dropping. Ms. Muck responded that MCHCP's population has dropped somewhat and therefore our contributions have lessened. This may change once Open Enrollment ends. Ms. Fischer stated that this is based on approximately 95,000 covered lives. Ms. Muck added that for this exercise MCHCP has not assumed for FY 2018 that premiums remain flat.

Ms. Muck mentioned that MCHCP is moving trend for active employees and non-Medicare retirees from 5.5 percent to 7.5 percent. This is reflective of significant upward trends that MCHCP is seeing, with claims expenses rising. Past history shows MCHCP has improved or remained stable. MCHCP saw 7.5 percent a couple years ago, so this is not beyond our realm of experience. This is indicative of the medical insurance world — there will be ebbs and flows in claims experience. Ms. Muck has spoken to Willis Towers Watson and asked them to delve into where the increase is coming from. MCHCP believes based on our initial look that the increase in claims cost is coming from a myriad of things, including high-cost claimants and the mix of services may be changing. This is a new trend and MCHCP will monitor closely. This is one of the reasons you are seeing an NDI of $56 million.

The board briefly discussed the projected use of net assets over appropriation.

Following discussion, Ms. Luebbering made a motion to accept staff recommendation to adopt the FY 2018 core appropriation of $394,609,336 and a new decision item of $56,219,797 for a total MCHCP request of $450,829,133 as outlined. MCHCP is also requesting an "E" for the FY 2018 appropriation request. Representative Kendrick seconded. Motion passed unanimously.

Ms. Fischer presented the contract renewals for Central Bank and Willis Towers Watson.

Ms. Fischer began with the banking and investment services contract renewal. Central Bank is the current contractor for banking and investment services. The current contract was awarded in September 2013, and included the original contract period (CY 2014) and four one-year optional renewal periods at the sole discretion of the Board of Trustees.

Ms. Fischer briefly reviewed the highlights of the executive summary which was provided to the board. It is MCHCP staff recommendation to renew the Central Bank contract for banking and investment services for CY 2017. The contract will have one remaining renewal option to be available at the discretion of the Board of Trustees.

Next, Ms. Fischer presented the actuarial services contract renewal. MCHCP contracts with Willis Towers Watson to provide actuarial and consulting services. Next year (2017) will be the final renewal year of the five-year contract. The contract allows for negotiated pricing for CY 2017.

For CY 2017, Willis Towers Watson has proposed renewal pricing for actuarial and consulting core services of $410,993. Current year (2016) not-to-exceed pricing for core services is $508,281; however, the pharmacy benefit manager (PBM) procurement was included in the 2016 core services. The procurement project is no longer included in the core services, and additional hours have been allocated for the pharmacy subject matter expert to aid in the pharmacy market check as well as general pharmacy consulting. The only additional costs would be travel costs associated with subject matter experts to be reimbursed at CONUS rates for the area.

Ms. Fischer briefly reviewed the core projects for CY 2017 pricing which was provided to the board. Should MCHCP require non-core projects, the rates as quoted would be utilized after approval of a scope and project budget. These fees represent an 18 percent discount from standard fees.

MCHCP staff recommends the contract with Willis Towers Watson for actuarial and consulting services be renewed for CY 2017 at the proposed not-to-exceed price of $410,993.

Mr. Langworthy made a motion to renew the banking and investment contract with Central Bank for CY 2017 and the actuarial services contract with Willis Towers Watson for CY 2017 as presented. Ms. Schaefer seconded. Motion passed unanimously.

Ms. Luebbering left the meeting and quorum was lost. The meeting continued with non-voting open discussions.

Ms. Muck provided the building lease status update. The Office of Administration (OA) Facilities Operations was able to negotiate a lease with TDK Properties effective Jan. 1, 2017, through Dec 31, 2021, for this location. The initial lease offer was $10.23 per square foot and OA Facilities was able to negotiate that amount to $10 per square foot (or $247,120 annually). MCHCP is currently paying $8.40 per square foot ($218,394 annually) as a temporary reduction in 2012. According to OA Facilities, the market rate in Jefferson City for a comparable building is approximately $11 to $12 per square foot. The increased amount is included in our budget request that was just reviewed with the board. Additionally, the Lessor will be installing new carpet and repairing and sealing the parking lot as well as painting new parking lines.

Ms. Fischer presented the financial update. She reviewed the August 2016 results and discussed the updates to claims expectations and Incurred But Not Reported (IBNR) for CY 2016 and 2017.

Monthly state contributions from the employer of $32,939,358 and member contributions of $9,244,975 represents contributions from 53,338 subscribers and total 95,707 covered lives.

MCHCP received $508,926 in direct subsidy associated with our retiree – Employer Group Waiver Plan (EGWP).

Next in our investment section, the Other Post-Employment Benefits (OPEB) Trust returned negative (.36 percent) for August net of fees with a concentration mix of 39 percent equities, 60 percent fixed income and 1 percent in cash and cash equivalents. Since inception total fund return is 7.52 percent; a 1.11 percent increase over the benchmark of 6.41 percent. Comments from our investment manager as it relates to our performance strategy include: We are nearing full allocation in our equity portfolio and the Bond portfolio is being maintained at right around five years. They believe that spreads on mortgage and corporate securities remain tight, which is beneficial for what we already own – but does make us watchful for new acquisitions. Markets are getting limited fiscal assistance (no cuts or spending programs) and the economy is nearing 60 days of the election which is likely to hold back the economy in the short term.

In our expense section, self-funded medical claims for August reported at $35,201,455. The actuary has updated the claims expectations for the remaining months of CY 2016 and 2017 prospectively. August pharmacy expense was $18,175,133 (reflecting three billed cycles versus two billed cycles for the month) and updated pharmacy projections net of pharmacy rebates have been included in the reports.

Next, IBNR was evaluated by Willis Towers Watson based upon claims activity through June 30, 2016. As a result of the updated claims projections and the mature claims data through June 30, 2016, IBNR reservations for the second

6-months of 2016 have been increased by a range of 7.3 percent to 7.5 percent, or most notably at Dec. 31, 2016, from $53.4 million in our last report to the currently projected $57,307,000.

Turning to 2017, the Plan conservatively has maintained the fiscal year (FY) 2017 funding level from the state for the full CY at $394.6 million or $32.8 million monthly. Pharmacy reflects seasoning at the six month CY interval to reflect current pharmacy trends. All other expenditures have also been updated to reflect current enrollment and contract pricing.

Briefly turning to 2018, the Plan again has conservatively maintained the FY 2017 funding from the state of $394.6 million. For member contributions, we have not assumed the ability to maintain flat premiums and have reflected the anticipated trend increases in member contributions. We have also included the actuarially projected medical and pharmacy spend based upon the Plan's historical performance and anticipated trend net of rebates. In 2018, as conservatively projected with no new revenue stream over our current FY 2017 levels, if you look to the net position the Plan is projected after December 2017 and beginning in January 2018 to drop below a one month level of Plan total claims and operating expenses after reservations and beginning in September 2018, to be unable to fully fund its liability for IBNR) claims costs. As always, actual results may differ from these projections.

Ms. Muck announced that Mr. Warrick has resigned his position on the MCHCP Board of Trustees. She also reminded the board that the October 27, 2016, board meeting will be held at Missouri State Employees' Retirement System (MOSERS) which is located at 907 Wildwood Drive in Jefferson City.

Meeting adjourned.