MISSOURI CONSOLIDATED HEALTH CARE PLAN
BOARD MEETING
SEPTEMBER 28, 2017

Attending: Jim McAdams
Representative Kip Kendrick (via conference call)
Mark Langworthy (via conference call)
Director Chlora Lindley-Myers
Linda Luebbering
Daniel O'Neill
Senator John Rizzo (via conference call)
Viola Schaefer
Representative David Wood

Absent: Senator David Sater
Director Randall Williams

Others attending: Judith Muck, Executive Director; Denise Chapel, Director of Vendor Relations (via conference call); 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, Jennifer Stilabower, General Counsel; Julie Watson, Chief Population Health Officer (via conference call); and visitors.

Mr. McAdams called the meeting to order.

The board welcomed Daniel O'Neill and Representative David Wood to the Missouri Consolidated Health Care Plan (MCHCP) Board of Trustees.

Ms. Luebbering made a motion to approve the open session minutes of the August 24, 2017, regular MCHCP Board of Trustees meeting. Ms. Schaefer seconded. Motion passed unanimously.

Ms. Fischer presented the draft documents relating to the fiscal year (FY) 2019 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 2019 MCHCP department request, Column B — current FY 2018 core and Column C — FY 2019 new decision item (NDI). Column B has been realigned proportionately to the level of appropriated funding for FY 2018.

MCHCP's budget process brings a preliminary request to the board in September of each year, and this FY 2019 request is updated for final approval of the appropriation request at the December board meeting after the results of the 2018 Plan Year Open Enrollment (OE) have concluded. The MCHCP department request resides in House Bill (HB) 5 and is included with the Office of Administration – Employee Benefits section of the budget.

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 2.9 percent general structure adjustment, 1.7 percent within grade/market pay adjustment with an additional 1 percent for those employees 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; projected overtime and fringes reflect primarily overtime associated with OE. The subtotal for personal service items is $5,160,380.

Operations expense of $2,933,025 (not including third party administrator fees); furniture, fixtures and equipment of $177,050; less $71,781 from estimated administrative fees from public entities net to the subtotal for operating expenses including personal service allocations of $8,198,674.

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 $471,869,544 and pharmacy payments net of estimated rebates are projected at $130,339,122.

For calendar year (CY) 2019, 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 2019 costs; for CY 2018, the following trends were used: active medical claims 5.5 percent; non-Medicare retiree medical claims 5.5 percent; Medicare retiree medical claims 3.5 percent; and pharmacy claims remain consistent with last year at 12 percent. Additional enrollment assumptions include: enrollment as of July. 1, 2017, total subscribers of 53,339 and total lives of 95,766 members; enrollment reflects 2017 member selection by plan and coverage level and will be updated after the results of the 2018 Plan year OE; MCHCP subsidies for active employees in CY 2019 are developed by tier of coverage. The subsidies are for the base PPO 600 Plan and range from employee only at 94.4 percent to employee and spouse at 84.3 percent. Wellness and tobacco-free incentives were developed based upon anticipated participation and these estimates will be updated after OE. MCHCP is following the current contribution policy for retirees in CY 2019 as in CY 2018, 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 is projected at $668,442 which represents enrollment times the contract price. Transitional Reinsurance (Section 1341) is shown at $0. Our cash cost of the assessment will be paid during FY 2018 in the amount of $383,344. Transitional Reinsurance applied to calendar plan years 2014 through 2016 with payments that tail after each of these CYs. The patient-centered outcomes research fee (PCORI) is projected at $203,253 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 $603,080,361; less projected member contributions of $114,432,201; less contributions from interest income of $1,789,709; result in a grand total request for FY 2019 of $495,057,125. The NDI over FY 2018 core is $91,706,809. Finally, the actuary, projects the Plan will expend $48,155,281 in net assets during FY 2018.

The Plan recognizes the significance of the FY 2019 appropriation request total during the continued statewide budgetary pressures, and that employee benefits exist among many other statewide needs being considered this FY. Ms. Fischer provided recent MCHCP budget history for additional context. Since FY 2015, the Plan's actuarial recommendation has included, for this five-year period, $125 million in increase from the $370 million core appropriation that existed in FY 2015 to the current FY 2019 request of $495 million. During that same five-year period from FY 2015 to the present core that will begin the FY 2019 budget process, the Plan has seen its core budget increase $33 million of that $125 million actuarial recommendation. That difference is significant as the difference between this five-year period ($92 million) and the current Plan year NDI for FY 2019 of $91 million is nearly identical and demonstrates the accuracy and validity of the actuarial recommendations as performed and calculated by Willis Towers Watson.

Representative David Wood joined the meeting during the FY 2019 appropriations request presentation and was welcomed by the board.

Mr. McAdams asked for additional information as to why there were no other entries for income reflected other than member contributions for the appropriation request? Ms. Fischer responded that the sources of Plan income include state contribution, member contribution and return on investment (ROI). The contributions from interest income that is reflected in the appropriation request was the most recent overnight ROI that the Plan recognized in this most recent FY. Ms. Fischer added that within the financial update, which will be presented next, MCHCP does not make a projection other than return on overnight instruments. MCHCP is employing conservatism as it relates to income projections related to investment income as returns can be reactive to more sensitivity related to available investible assets and unknown economic drivers while income related to the State's appropriation and member contributions are more definitive. Last year our total investment return was approximately $7 million. Historically, it has been the board's position to only reflect the overnight activity not the longer term instruments. Ms. Muck added that the investment return from Other Post-Employment Benefits (OPEB) is reflected in the OPEB trust.

As there were no additional questions, Ms. Luebbering made a motion to accept staff recommendation to adopt the FY 2019 core appropriation of $403,350,316 and a new decision item of $91,706,809 for a total MCHCP request of $495,057,125 as outlined. MCHCP is also requesting an “E” for the FY 2019 appropriation request. Ms. Schaefer seconded. Motion passed unanimously.

Ms. Fischer presented the financial update. She reviewed some July 2017 results and some items of note from the recently concluded FY 2017.

Monthly state contributions for July 2017 from the employer of $33,695,620 and member contributions of $8,913,766 represent contributions from 53,250 subscribers and total 95,858 covered lives.

Ms. Fischer noted that $1,824,886 was received in the first quarter for the Coverage Gap Discount Program which is associated with our retiree Employer Group Waiver Plan (EGWP) population.

Ms. Fischer then moved to our investment section primarily associated with the OPEB Trust. The OPEB Trust total portfolio returned .75 percent for July net of fees with a concentration mix of 39 percent equities, 59 percent fixed income and 2 percent in cash and equivalents. Since inception, total fund return is 7.41 percent; nearly a 1 percent increase over the weighted benchmark of 6.51 percent. Comments from our investment manager include the following strategy update. In the equity portfolio we are in a holding pattern on our allocation, not adding or subtracting to any degree. We are looking for spots of weakness to add to our global allocation as we see better growth in those markets over US markets. In the bond portfolio, we continue to target a duration of about five years. If we do see some increase in long-term rate levels we will look to extend the duration slightly.

In our expense section, self-funded medical claims posted at $32,739,508 for July. Gross pharmacy expense for July was $13,339,861,133. For the first seven months of CY 2017, net pharmacy expense (adjusted for rebate receipt) is trending slightly under the remaining actuarial projected CY average of $10.4 million per month.

Next, Incurred But Not Reported (IBNR) was evaluated by Willis Towers Watson based upon claims activity through June 30, 2017. As a result of the updated claims projections and the mature claims data through June 30, 2017, IBNR reservations for the second six-months of 2017 have been increased by a range of 1.0 percent to 1.6 percent through Dec. 31, 2018. The Plan projects after reservations to reflect assets after reservations of approximately $21 million.

Ms. Luebbering stated that in the past the board has tried to keep a balance of one month's expenditures. Ms. Fischer responded that MCHCP has been in consultation with Budget and Planning regarding these projections and our status. Ms. Muck added that MCHCP is watching this closely and if we need a supplemental we will bring that to the board in December. The spreadsheet projections going forward presumes no new income from the State and therefore represents a conservative outlook regarding the current new decision items of $91 million. MCHCP will update the spreadsheet with the Governor's recommendation as we move through the budget process.

Ms. Muck added that MCHCP has made it clear when meeting with Budget and Planning and others at the Capitol that without the $91 million the Plan will have to consider making changes to the plan design, premiums will not be able to be held flat, and potential changes to contribution strategies. These projections are assuming worst case scenario without new funding from the General Assembly and with no change to plan design and contribution strategy. While the board has expressed a desire to end each month end after reservations with one full month's expenditures, the consumption of plan assets within the current funding levels and member contributions is not capable of that level. MCHCP is continuing to have more high cost claimants (HCC). MCHCP has some HCC who have had no claims expense in prior years and are now at $1 million. Some of the HCCs include newborns, cancer patients, transplant patients and hemophilia patients. MCHCP is looking at what can be done to help manage and predict these HCCs. MCHCP will continue to monitor closely. MCHCP will continue to evaluate the need to prepare and submit a supplemental request at the December board meeting. In looking forward, if MCHCP does not receive full funding the board will be faced with making tough decisions in the future.

The board briefly discussed the consequences of doing a plan redesign after the OE period. Another OE period would need to be offered to give members an opportunity to change health plans. Members have made their elections for flexible spending accounts (FSAs); therefore, MCHCP would have to research whether the amounts contributed to their FSA could be changed during the year. There are a lot of complexities in making a plan change mid-year.

Ms. Fischer continued the financial update by turning to CY 2018, again the Plan conservatively has maintained the FY 2018 funding level from the state for the full CY at $403.3 million or $33.6 million monthly. Medical and pharmacy projections reflect seasoning at intervals to reflect projected medical and pharmacy trends. All other expenditure have been updated to reflect current enrollment and existing contract pricing. In 2018, as conservatively projected with no new revenue stream over our current FY 2018 levels, if you look to the net position, the Plan is projected in August 2018 to drop below the Plan's ability to be able to fully fund its liability for IBNR claims costs by the projected $55 million.

Briefly turning to 2019, the Plan again has conservatively maintained the FY 2018 funding from the state of $403.3 million. Again, not making a presumption of the level of funded status of the $91 million NDI we previously discussed. In 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 trends net of rebates. In CY 2019, as conservatively projected with no new revenue stream over our current FY 2018 levels, the Plan, beginning in January 2019 and for the full CY will be unable to fund the Plan's actuarially projected liability for claims IBNR, and portions of the remaining liabilities progressively as the calendar months of 2019 continue. We ask you to appreciate that actual results may differ from these projections and will be updated as we move through the legislative process.

Ms. Muck emphasized the seriousness of what we are looking at from the perspective of the Plan. Understandably we are projecting into the future. The claims expenses will actually vary, but the projected costs reflect best estimates and will not likely materially change the estimates as presented. MCHCP's population is progressively aging and the concentration of unhealthy risk and high cost claimants continues to drive Plan medical costs. Diabetes and congestive heart failure are just a couple of examples of MCHCP members having a higher prevalence rate. Seven percent of members consume more than 40 percent of plan costs with another 20 percent of members consuming an additional 36 percent of plan costs. In essence, less than 30 percent of members consume in excess of 75 percent of plan costs. If MCHCP does not receive the $91 million new decision item, the board will need to begin discussing options for moving forward and our members will need time to plan for any resulting changes.

Once MCHCP knows the Governor's recommendations then the board can begin discussing alternatives. Ms. Fischer added that staff will come to the board in December after the result of the 2018 OE period. Should we add or remove more lives from these projections or if the actuary should see some trends that change these will be reflected at that time.

Mr. McAdams asked if anyone from the public would like to address the board. There were no comments.

Ms. Luebbering made a motion to move into closed executive session pursuant to §610.021 RSMo (1), (5), (11), (12), (14) and (17) of §621.021 to discuss confidential or privileged communications between the board and its attorney; health proceedings involving identifiable persons; specifications for competitive bidding; sealed bids and related documents; records protected from disclosure by law; and confidential or privileged communications between a public governmental body and its auditor, including all auditor work product; however, all final audit reports issued by the auditor are to be considered open records. Director Lindley-Myers seconded. A roll-call vote was taken, and the motion passed with Mr. Adams, Representative Kendrick, Director Lindley-Myers, Ms. Luebbering, Mr. O'Neill, Senator Rizzo, Ms. Schaefer and Representative Wood in favor.

Upon return from closed executive session, Mr. McAdams reminded the board that the October 26, 2017, board meeting will be held at Missouri State Employees' Retirement System (MOSERS) which is located at 907 Wildwood Drive in Jefferson City.

Ms. Luebbering made a motion to adjourn. Ms. Schaefer seconded. Motion passed unanimously. Meeting adjourned.