MISSOURI CONSOLIDATED HEALTH CARE PLAN
BOARD MEETING
SEPTEMBER 27, 2018

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

Absent: Jim McAdams
Senator John Rizzo
Senator David Sater
Director Randall Williams

Others attending: Judith Muck, Executive Director; Kim Backes, Research Coordinator; 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; and visitors.

Vice Chairperson O'Neill called the meeting to order.

Mark Reading, President of the Association of Active and Retired Missouri State Employees (ARMSE), addressed the Missouri Consolidated Health Care Plan (MCHCP) Board of Trustees. Mr. Reading stated that he and Gary Findlay recently met with Adam Gresham in the Lt. Governor's office and Dan Haug, Budget Director, Office of Adminstration Budget and Planning. Mr. Reading and Mr. Findlay mailed a letter to both today outlining ARMSE priorities and concerns rearding MCHCP. Mr. Reading provided a detailed overview of the letter to the board.

There were no further public comments.

Representative Wood made a motion to approve the open session minutes of the August 23, 2018, regular MCHCP Board of Trustees meeting. Ms. Luebbering seconded. Motion passed unanimously.

Ms. Muck presented the Willis Towers Watson (WTW) contract renewal for actuarial and consulting services. This is the first renewal of this contract. There will be three additional one-year renewals available after this year.

The contract allows for a three percent increase of the hourly rates for core services and WTW's renewal offer includes this hourly rate increase. However, the total not-to-exceed price for core services is a slight reduction in the amount by $1,281. The total not-to-exceed price for 2019 is $300,114 for core services. The total not-to-exceed price for 2018 is $301,395. WTW includes rates for non-core special projects. Those rates have also increased for 2019 over those rates offered in 2018. MCHCP staff recommends the contract with WTW for actuarial and consulting services be renewed for calendar year (CY) 2019.

Representative Kendrick made a motion to approve the contract renewal with Willis Towers Watson for actuarial and consulting services be renewed for CY 2019 at the proposed not-to-exceed price of $300,114 as presented. Representative Wood seconded. Motion passed unanimously.

Ms. Fischer presented the draft documents relating to the FY 2020 appropriations request. Ms. Fischer began by briefly over viewing Column A — FY 2020 MCHCP department request, Column B — current FY 2019 core and Column C — FY 2020 new decision item (NDI). Column B has been realigned proportionately to the level of appropriated funding for FY 2019.

Office salaries of $3,298,518 represent 70 full-time employees (FTEs) with no change from the core total of FTEs. The personnel advisory board (PAB) recommendations include a 2.9 percent general structure adjustment, 1 percent within grade/market pay adjustment with an additional .6 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 $5,343,335.

Operations expense of $2,943,237 (not including TPA fees); furniture, fixtures and equipment of $193,400; less $73,653 from estimated administrative fees from public entities net to the subtotal for operating expenses including personal service allocations of $8,406,319.

Fiscally responsible plan operations are a strong component of this budget and MCHCP is pleased to report that Plan operations as mentioned are at 1.7 percent of projected state expense for FY 2020 and at 4.2 percent with the inclusion of TPA administration for the same period. A detailed breakout by department and expense description was provided to the board.

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 $452,521,266 and pharmacy payments net of estimated rebates are projected at $145,502,508.

For CY 2020, 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 2020 costs; for CY 2019, the following trends were used: active and non-Medicare retiree medical claims 6.5 percent; Medicare retiree medical claims 0 percent, due to the introduction of the fully-insured Medicare Advantage Group Plan; and pharmacy claims at 13 percent. Additional enrollment assumptions include: enrollment as of July 1, 2018, total subscribers of 52,974 and total lives of 95,658 members; CY 2020 reflects no change in medical plan options from those available in CY 2019. For CY 2019, MCHCP is replacing the PPO 300 Plan and PPO 600 Plans with a PPO 750 Plan and PPO 1250 Plan for non-Medicare members. Medicare members will be enrolled in a hybrid fully-insured Medicare Advantage Plan for CY 2019; MCHCP subsidies for the PPO 1250 Plan range from employee only at 93.5 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; For Medicare members, MCHCP's subsidy percentage for retirees is 2.5 percent of the base plan for each year of service capped at 65 percent. The base plan is the Medicare Advantage Plan. For families with Medicare and non-Medicare family members, the base plan is the Medicare Advantage Plan combined with the PPO 1250 Plan.

The Employee Assistance Program is projected at $653,613 which represents enrollment times the contract price. The patient-centered outcomes research fee (PCORI) is projected at $213,999 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 $598,891,386; less projected member contributions of $111,372,847; result in a grand total request for FY 2020 of $495,924,858. The NDI over FY 2019 core is $29,957,583.

Additionally, the Plan will submit a supplemental budget request for the actuarially projected benefit costs for FY 2019 over the net available MCHCP FY 2019 appropriation. This breakout was shared with the board and reflects updated medical claims costs, the addition of the Medicare Advantage Plan and the additional projected savings for the pharmacy market check – resulting in a request of $14,306,011 in total funds for the FY 2019 Supplemental.

Following a brief discussion, Representative Wood made a motion to accept staff recommendation to adopt the FY 2020 core appropriation of $465,967,275 and a new decision item of $29,957,583 for a total MCHCP

FY 2020 request of $495,924,858 and a FY 2019 supplemental request of $14,306,011. Representative Kendrick seconded. Motion passed unanimously.

Ms. Fischer presented the financial update. Before beginning she provided some August 2018 results and some items of note from the recently concluded FY 2018.

Monthly state contributions for August from the employer of $38,658,820 and member contributions of $9,042,707 represent contributions from 53,061 subscribers and total 95,365 covered lives.

Ms. Fischer then moved to discussions regarding the investment section primarily associated with the Other Post-Employment Benefits (OPEB) Trust. The total OPEB portfolio returned 1.56 percent for August net of fees with a concentration mix of 39 percent equities, 57 percent fixed income and 4 percent in cash and equivalents. Since inception total fund return is 7.22 percent; nearly a 1 percent increase over the weighted benchmark of 6.41 percent. Our rolling annual returns are 7.19 percent for one-year; 6.01 percent for three-year; and 6.90 percent for five-year. Comments from our investment manager as it relates to our performance strategy include: expect a short term rate increase from the Federal Reserve in September. So, in August we took advantage of the strong market to pare back some equity exposure by about 2 percent. Considering the overall position of the Plan, we are parking proceeds in some shorter term holdings acknowledging the liquidity needs of the Plan for claims activity.

In our expense section, self-funded medical claims posted at $39,827,880 for August. To watch, for the first two-months of FY 2019 through August, gross claims cost has come in approximately $10 million over actuarial projections – and we are heading into the heavier claims period of the CY. Gross pharmacy expense for August posted at $14,276,963.

Next, Incurred But Not Reported (IBNR) was evaluated by WTW based upon claims activity through June 30, 2018. As a result of the updated claims projections and the mature claims data through June 30, 2018, IBNR reservations for the second six-months of 2018 have been reduced by a range of one percent to two percent through Dec. 31, 2018. The Plan projects after reservations including OPEB to be able to fund approximately $2 million of the IBNR liability at Dec. 31, 2018.

Turning to 2019, the Plan conservatively has maintained the FY 2019 funding level from the State for the full CY at $465 million or $38.8 million monthly – making no presumption of the funding of the new decision item of $29.9 million. Medical and pharmacy projections reflect seasoning at intervals to reflect projected medical with the inclusion of the Medicare Advantage Plan and pharmacy trends. All other expenditures have been updated to reflect current enrollment and existing contract pricing. IBNR claims projections for CY 2019, are projected to include the introduction of the fully insured Medicare Advantage Plan for our Medicare retirees and a reduction in overall IBNR for the CY. Although, the 2018 claims costs for the Medicare retiree population from 2018 will continue to present itself through run out of claims expense. In conclusion, the increase in Plan funding of $62 million for FY 2019, the addition of the fully insured Medicare Advantage Plan and the change in plan design have improved the projected plan assets at Dec. 31, 2018 by over $25 million to $135 million at Dec. 31, 2019, but still reflect the inability to fund for the Plan’s IBNR reservation of $63 million at Dec. 31, 2018 and necessitates full funding of the Plan’s FY 2020 budget request of $495.9 million to not further reduce and erode plan assets. She asked the board to appreciate that actual results may differ from these projections.

Ms. Muck reminded the board that the October 25, 2018, board meeting will be held at Missouri State Employees’ Retirement System (MOSERS) which is located at 907 Wildwood Drive in Jefferson City.

Ms. Schaefer made a motion to adjourn. Director Lindley-Myers seconded. Motion passed unanimously. Meeting adjourned.