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STATE OF NEVADA

PUBLIC EMPLOYEES' BENEFITS PROGRAM

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ACCREDITED

CORE
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DAMON HAYCOCK
Executive Officer

PLAN YEAR 2018 REPORT TO PARTICIPANTS AND STAKEHOLDERS

PURPOSE, MISSION, VISION AND VALUES

PURPOSE

The Public Employees' Benefits Program (PEBP) administers a group health and life insurance program which offers comprehensive medical, prescription drug, dental, vision, life, and long-term disability insurance. Our organization is responsible for designing and managing a quality health care program for approximately 43,000 primary participants and 27,000 covered dependents, totaling over 70,000 lives.

MISSION

Provide employees, retirees, and their families with access to high quality benefits at affordable prices.

VISION

PEBP will be a member focused, nationally recognized, affordable program of employer sponsored benefits serving employees, retirees, their families and the Nevada taxpayer.

VALUES

- Service
- Innovation
- Accountability
- Transparency
- Fairness
- Integrity
- Compassion
- Sustainability
- Collaboration

PLAN YEAR 2018 OVERVIEW

PEBP continued to provide a Consumer Driven Health Plan (CDHP) alongside two regional Health Maintenance Organization (HMO) plans for active employees and non-Medicare retirees while covering Medicare retirees through an individual market exchange.

PROGRAM ENROLLMENT

As of June 30, 2018, the following enrollment was recorded:

Plan	Employees	Pre-Medicare Retirees	Dependents	Total Lives
CDHP	19,097	3,907	18,863	41,867
Hometown Health (HMO – North)	3,837	817	3,763	8,417
Health Plan of Nevada (HMO – South)	3,283	641	2,796	6,720
Total Pre-Medicare Lives	26,217	5,365	25,422	57,004
Medicare Enrollment	Employees	Medicare Retirees	Medicare Dependents	Total
Medicare Exchange (Via Benefits)	0	11,988	1,691	13,679
Tricare	0	141	19	160
Total *	26,217	17,494	27,132	70,843
	Employees	Retirees	Dependents	Covered Lives

**PEBP's total program is split 60% Employees / 40% Retirees (Pre-Medicare + Medicare)*

PEBP'S SELF-INSURED CDHP

ENROLLMENT

Looking at average enrollment throughout Plan Year 2018 (versus a snapshot near the end of the plan year shown above), the CDHP experienced the following:

1. 3.1% increase in State Employees (from 18,525 to 19,100) with 3.2% increase in total lives (from 35,124 to 36,389).
2. 18.4% decrease in Non-State Employees (from 5 to 4) with flat covered lives (7 each year).
3. 2.3% increase in State Retirees (from 3,095 to 3,165) with 3.3% increase in covered lives (from 4,533 to 4,681).
4. 13.4% decrease in Non-State Retirees (from 1,003 to 868) with 13% decrease in covered lives (from 1,101 to 958).

UTILIZATION AND COST

The CDHP experienced slightly reduced (-0.2%) medical costs on a per employee/retiree per month (PEPM) basis in Plan Year 2018 (PY18) versus Plan Year 2017 going from \$451 in 2017 to \$450 in 2018. A slightly larger decrease (-1.1%) was experienced when factoring in all the dependents on a per member per month basis (PMPM) going from \$250 to \$248.

However, in pharmacy coverage, the PEPM increased significantly (+19.8%) from \$59.07 in Plan Year 2017 to \$70.76 in Plan Year 2018. When factoring in drug rebates earned in that time frame (not necessarily realized as there is an approximate 180-day lag in receiving rebates), the PEPM increased only 17.7% going from \$48.16 in 2017 to \$56.68 in 2018. Those rebates equated to just over \$7.1 million (a \$1.8 million increase over 2017 – an increase of 32.8%). The increased costs in pharmacy coverage are attributed to new drugs, new members with high cost claims, and a significant increase in utilization of preventive drugs assigned to the preventive drug list PEBP implemented at the start of Plan Year 2018.

NEW PROGRAMS & SERVICES

The PEBP Board approved a new pharmacy benefit for members taking preventive drugs monthly and new requirements for enhanced member funding utilizing excess reserves. An increase to the Medicare Part B premium was approved to meet the base amount set by Medicare (\$134), and other cost saving activities were approved to include reference based pricing outpatient surgeries (hip and knee replacements) as well as a new method of purchasing hearing aids.

Preventive Drug List

To meet the growing demand for affordable monthly preventive drugs, a preventive drug list was approved to bypass the deductible and go straight to 20% coinsurance for the member saving some members hundreds of dollars each month and increasing compliance with treatment plans.

PEBP was able to shift \$1.5 million away from members to the plan to make drugs more affordable. The result was increased compliance with asthma, COPD, multiple sclerosis, and pulmonary hypertension drugs. Compared to PEBP's Pharmacy Benefit Manager's book of business, PEBP members were more compliant in some of these areas by 4.1% - 8.6%. Higher compliance with drug regimens should lower costs on the medical plan over time as members better control their conditions.

HSA/HRA Incentives

To incentivize member behavior, the program implemented a \$200 enhanced HSA/HRA funding opportunity by emplacing four simple requirements all primary participants could achieve:

1. Complete an annual preventive/wellness medical exam;
2. Complete annual lab work ordered by the doctor at the annual medical exam;
3. Complete an annual preventive/wellness dental exam; and
4. Complete a single teeth cleaning.

The annual preventive medical exam and lab work achieved an increase of 13.4% (1,475 more primary participants) utilization over the previous year. The annual dental exam and teeth cleaning already had almost every primary participant achieving the required result, so no increase/decrease occurred.

CONTINUED PROGRAMS & SERVICES

The PEBP Board approved utilizing excess reserves to continue to provide a higher level of life insurance (\$25,000 employee / \$12,500 retiree), an enhanced HSA/HRA benefit of \$200 (see above), and the administrative fees associated with the Medicare Exchange HRA and life insurance premiums for Medicare retirees.

ACCOMPLISHMENTS

STRATEGIC PLAN AND BOARD POLICIES & PROCEDURES

PEBP successfully held its first annual Strategic Planning Session in August 2017. In November 2017, the Board approved the revised Strategic Plan. PEBP's mission, vision, values, goals, and strategies were all updated to reflect the direction PEBP is headed. Access, quality, and affordability became PEBP's new taglines attached in its new logo.

Three simple yet purposeful overall strategies were approved to guide the Program:

1. Improve access to care;
2. Improve the member experience; and
3. Reduce costs to the Program

Every PEBP staff recommendation is framed within those overall strategies, and specific strategies were developed in the areas of program administration, transparency, collaboration and communication. For Plan Year 2018, PEBP met almost all of the strategic objectives set out from the plan.

PEBP also updated the Boards Duties, Policies & Procedures to implement new statutory changes resulting from the 79th Legislative Session and to provide the Board and Executive Officer more flexibility to respond to issues and develop solutions.

PEBP's updated Strategic Plan is located on our website in the "About Us" section available from the top menu of every webpage.

NEW REGULATION – SUBROGATION

In November, 2017, the PEBP Board adopted a new regulation further defining the policy on 1st Party subrogation providing more financial relief to members whose personal insurance benefits outside of PEBP are responsible for PEBP medical services. Previously the member's out-of-

pocket costs were not always considered, and this new regulation ensures members retain enough benefit to offset up to their annual remaining out-of-pocket maximum.

2017 MEMBER SATISFACTION SURVEY

In November and December, 2017, PEBP conducted a satisfaction survey to gauge firsthand knowledge of our membership. In this survey, PEBP asked a series of customer satisfaction questions, and of the responses, participants rated PEBP between 6.88 and 8.01 on a scale of 1 (not satisfied) to 10 (extremely satisfied).

The highest rating (10 – extremely satisfied) had the most responses, and some positive results can be seen below:

- Prompt follow-up of requests: 65% of responses scored between 8-10
- Communication on benefits: 60% of responses scored between 8-10
- Quality of information PEPB provides: 67% of responses scored between 8-10
- Quality of customer service at PEBP: 70% of responses scored between 8-10
- Training and Education at PEBP: 50% of responses scored between 8-10
- Benefit information available: 55% of responses scored between 8-10

PEBP attributes this positive feedback to a rejuvenation of communication and a reprioritization of in-person assistance to members across the state.

ACCREDITATION

In April 2018, PEBP became the first public sector program nationwide to receive Core Accreditation from URAC. URAC is the independent leader in promoting healthcare quality through accreditation, certification and measurement. By achieving this status, PEBP demonstrates it has met rigorous standards in quality and accountability in such areas as Regulatory Compliance, Quality Management, Consumer Protection and Empowerment, Information Management, and Health Care System Coordination. Employees, retirees and their dependents should feel proud and reassured knowing their health program has successfully shown it meets a higher national standard of healthcare. The accreditation is effective April 1, 2018 through April 1, 2021.

TWO AMERICAN BUSINESS AWARDS

In May 2018, PEBP was selected from nominations nationwide as winner of two top ranking awards from the 16th annual American Business Awards. PEBP was selected as winner of a Gold Stevie Award in the category of Organization of the Year - Non-Profit or Government - Large category. And, we were a selected winner of a Silver Stevie Award in the category of Most Innovative Company of the Year - Up to 100 Employees category. Every success and accomplishment we achieve fulfills our mission to provide State and local employees, retirees and their dependents access to high quality benefits at affordable prices.

CONTRACTING

Express Scripts

PEBP signed a one-year contract extension for Pharmacy Benefits Manager (PBM) services with Express Scripts to capitalize on additional specialty drug rebates starting January 1, 2018. The total rebate guarantees increased by \$8.1 million through 2022.

HealthSCOPE Benefits

PEBP signed a two-year contract extension for a national Preferred Provider Organization (PPO) network to support PEBP's CDHP membership. This extension was developed to align termination dates with other HealthSCOPE Benefits contracts at PEBP for consistency.

Willis Towers Watson

PEBP amended the contract for Medicare Exchange services to Medicare eligible retirees to reduce the Health Reimbursement Account (HRA) fees in Calendar Year 2018 to offset a PEBP investment in data sharing.

The Standard

PEBP extended the contract with The Standard for basic life insurance and long-term disability insurance through 2022. The Standard provided reduced rates for both services projecting a \$2 million savings through the end of the contract extension.

PEBP extended another contract with The Standard for voluntary life insurance at reduced rates and short term disability insurance at flat rates for PEBP members through 2023. This voluntary life benefit is projected to save approximately \$470,000 to members' premiums over what they were paying in 2018.

Hometown Health Plan

The PEBP Board approved the cancelation of the northern Nevada Health Maintenance Organization (HMO) plan offering to eligible employees and pre-Medicare retirees starting Plan Year 2019 (July 1, 2018). The Board approved replacing this HMO plan with a self-insured PEBP managed Exclusive Provider Organization (EPO) plan.

CUSTOMER SERVICE

Phone Calls, Walk-ins, and Emails

PEBP received approximately 41,000 phone calls in Plan Year 2018. The average time to answer calls was 16 seconds and the abandoned call rate was under 1%. These figures exceed industry standards and the performance guarantees included in our vendor contracts (30 seconds and 3% respectively). PEBP also received 1,427 total walk-ins during the same time period. In addition to phone calls, members also contact PEBP member services through email via the PEBP website. In plan year 2018, PEBP received over 18,000 emails, up significantly from 13,000 the prior year.

In-person Education and Outreach

During the month of May, 480 state employees attended a series of open enrollment meetings across the state hosted by PEBP staff and vendors. In addition, 70 employees attended via the new interactive webinar based presentations. The presentation material was also made available on the PEBP website in order to make it accessible to those who could not attend.

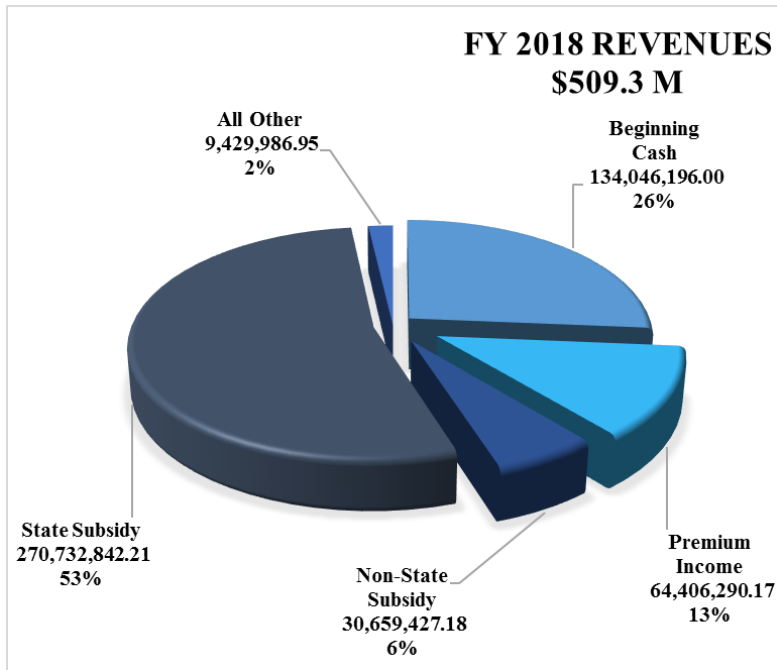
Additionally, it provided State Human Resources and Agency Representatives a tool to be able to assist employees with any benefits and open enrollment related questions.

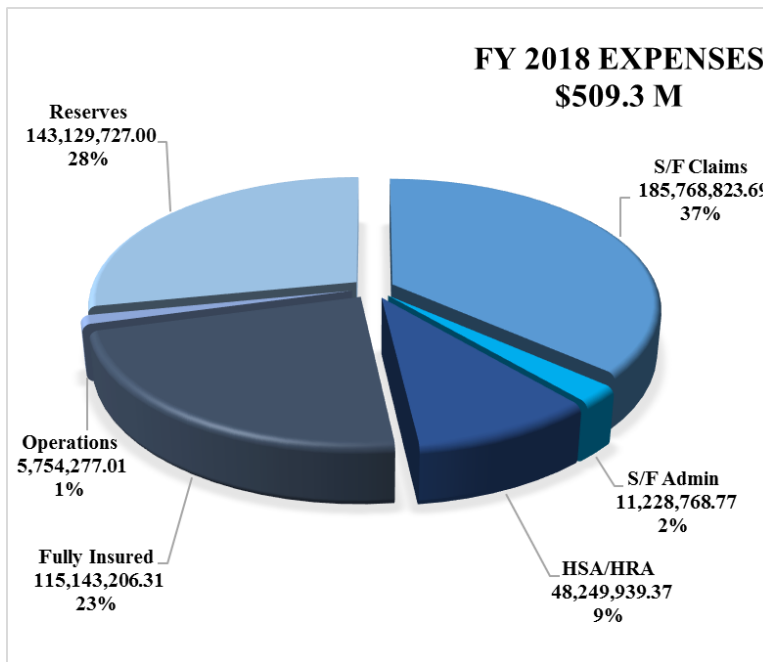
FISCAL YEAR PERFORMANCE INDICATORS

PEBP met or exceeded many of the PY18 performance indicators, to include, generic drug utilization, and in-network medical and dental utilization. PEBP did not meet its goal of 102.82% claims loss ratio (designed to spend down excess reserves) as PEBP continues to analyze and implement cost savings measures which offset the ability to spend down reserves.

Performance Measures	Goal	Actual
Expense Ratio	4.10%	4.34%
Claims Loss Ratio	102.82%	95.60%
Generic Drug Utilization	82%	86%
Medical In-Network Utilization	96%	96%
Dental In-Network Utilization	94%	94%
Appeals per 1,000 Participants	0.1	0.48

PROGRAM FINANCES





2018 FINANCIAL OVERVIEW

The Program continues to maintain financial solvency with fully funded Incurred But Not Paid (IBNP) reserves for each of the last thirteen plan years and a fully funded Catastrophic reserve for each of the last eleven plan years. As of June 30, 2018, there were 23.0 million dollars in the Program above those required reserve levels on a budgetary basis (cash as opposed to accrual).

PEBP derived its revenue in Fiscal Year 2018 from four primary sources: State Subsidies (53%); Employee and Retiree Premium (13%), Non-State Employer Contributions which includes the SB522 supplemental subsidy (6%), and funds carried forward from Previous Years (26%).

Program revenues can only be spent on Program expenses. In Fiscal Year 2018, the expenses of the Program were: Self-Funded Administration, Claims and Health Savings Accounts and Health Reimbursement Arrangement Contributions (48%), Fully Insured Premiums (23%), and Agency Operations (1%). The balance, approximately 28%, was reserved and carried forward to Fiscal Year 2019.

RESERVE UTILIZATION

The conservative financial policies advocated by the actuarial consultants and adopted by the Board, the adoption of plan design changes when necessary to balance increasing medical costs, and the responsible funding of benefit enhancements ensure the plan is run in a fiscally prudent manner. As part of the annual rate setting process, the Board determines how to utilize any reserves accumulated in excess of those actuarially required to maintain the financial solvency of the Program.

In November 2016, the Board approved the Plan Benefit Design for Plan Year 2018 (beginning July 1, 2017). The rates were approved in March 2017 and included the continuation of the following enhancements:

- Medicare Exchange Life Insurance Premiums (\$0.4 million);
- Medicare Exchange HRA Administrative Fees (\$0.4 million);
- CDHP HSA/HRA Enhanced Funding (\$4.5 million); and
- Increase basic group life insurance benefit from \$10k to \$25k for employees and from \$5k to \$12.5k for retirees (\$3.6 million);

Staff projected sufficient reserves to pay for and the Board approved similar enhancements into Plan Year 2019 at which time it is anticipated a close to complete spend down of excess reserves and the sun setting of enhanced benefits to the program.

FUTURE CHALLENGES

HIGH COST AND UTILIZATION OF SPECIALTY DRUGS

In Plan Year 2018, PEBP experienced significant double-digit increases to our CDHP pharmacy benefits with specialty drugs still the highest cost to the plan overall. Although many programs are in place (and many more will be implemented in Plan Year 2019 and Plan Year 2020), the increase in costs need to be monitored and mitigated if the plan will remain solvent.

NEW EPO PLAN OFFERING

PEBP is offering an additional self-insured plan in northern Nevada in Plan Year 2019 that is untested. Based on utilization, PEBP will need to potentially make slight to major changes to the plan design to keep the member premiums affordable moving forward. Many cost saving programs from the CDHP have been applied to the EPO plan, however, it is too early to tell their effect and it may take 2-3 years to gain a level of comfort with the plan experience and costs. PEBP will need to be flexible and pivot ahead of significant trend increases where applicable.

FINAL DISPOSITION OF THE AFFORDABLE CARE ACT (ACA)

With the mid-term elections in November 2018, the majority in Congress today held by the Republican Party may remain or change. Depending on who gets elected, the Affordable Care Act may get repealed, replaced, or completely left alone. With all the uncertainty, PEBP will need to remain vigilant, flexible, and ready to pivot if the ACA changes or becomes repealed altogether.