

NJSBA Finance Conference

February 9, 2018

Brown & Brown Benefit Advisors
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Employee Benefits Consulting & Brokerage | Labor Relations & Human Resources Support
Client Services & Claims Adjudication | Compliance & Regulatory Guidance | Enrollment & Decision Support Technology



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1

Discussion Items

- **Brown & Brown Benefit Advisors**
- **NJ BOE Group Medical Insurance Marketplace**
- **School Employees Health Benefits Program**
 - **2018 Rate Increase & 2019 Rate Forecasting**
 - **Independent Auditors' Reports**
 - **"A Mass Exodus"**
- **Shared Services: HIFs and Trusts**
- **Regulatory Improvements in Self Insurance**
- **Health Centers**
- **Chapter 78: What Happens Next?**
- **ACA "Cadillac Tax": Minimizing the Damage**
- **Q & A (Time Permitting)**

Brown & Brown Benefit Advisors

Who Are We?

We are group insurance brokers, advisors, and consultants. We specialize in New Jersey public employers. We put our clients first...always.

What Do We Do?

We design, market, and manage employee benefit plans using “best practices” and a culture of ethics consistent with our values.



What Are Our Credentials?

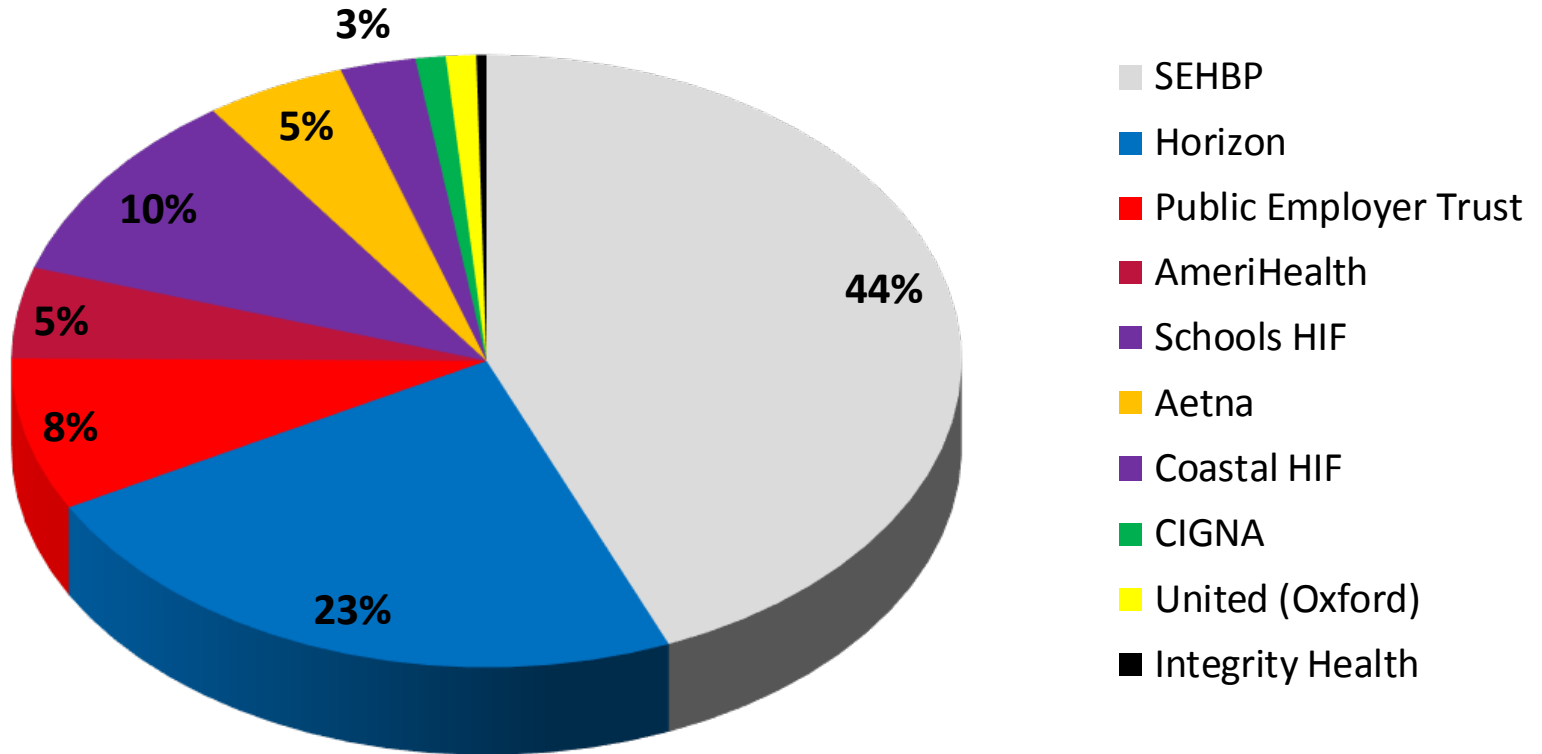
- Representing **310** NJ school districts (**53%** of the market place)
- Managing **\$1 billion** of premium
- Relationships with over **30** insurance carriers, TPAs, and PBMs
- Broker teams chaired by industry leaders with avg. of **25+** years experience
- Subsidiary of Brown & Brown Insurance (NYSE: BRO)
- **8,000** employees and **200** offices worldwide
- Proprietary programs, including The Public Employer Trust



NJ BOE Group Medical Insurance Marketplace

Who Are the Medical Risk Bearers?

Estimated Carrier/Vendor Market Share as of 1/1/18 *



*As a percentage of 603 BOEs, ESCs, and Vo-Techs

School Employees Health Benefits Program

2018 Rate Increase & 2019 Rate Forecasting

- SEHBP Commission approved 1/1/18 rate increase = +13.0%
- 2010-2018 nine year average rate increase = +11.3%
- 2010-2018 compounded rate increase = +159.5%
- Competing vehicles realizing rate increases of +3% to +7%
- SEHBP suffers from:
 - Structural annual operating deficit 3 of the past 5 years
 - “Adverse selection” via “good” groups leaving and “bad” groups entering
 - Dysfunction at the Commission level
 - Paralysis at the Plan Design Committee level
 - Legacy plan designs with next-to-zero member liability (e.g., “Direct 10”)
- Our preliminary forecast for 1/1/19 = +15.0% to +17.0%
- Our forecast could go up based on quality and quantity of additional SEHBP “defectors”



School Employees Health Benefits Program

Independent Auditors' Reports

SEHBP	6/30/16	6/30/15	6/30/14	6/30/13	6/30/12
Premium	\$2,879,000,000	\$2,719,000,000	\$2,453,000,000	\$2,377,000,000	\$2,146,000,000
Claims	\$2,948,000,000	\$2,706,000,000	\$2,544,000,000	\$2,332,000,000	\$2,329,000,000
12 Mo. Result	(\$72,000,000)	\$13,000,000	(\$94,000,000)	\$45,000,000	(\$183,000,000)
Loss Ratio	102%	100%	104%	98%	109%
Surplus	\$73,000,000	\$145,000,000	\$134,000,000	\$229,000,000	\$184,000,000

Note: 12 month results may not equal premium – claims due to admin. charges, interest earned, and rounding

School Employees Health Benefits Program

“A Mass Exodus”: 68 Districts and 64,000 members (est.)



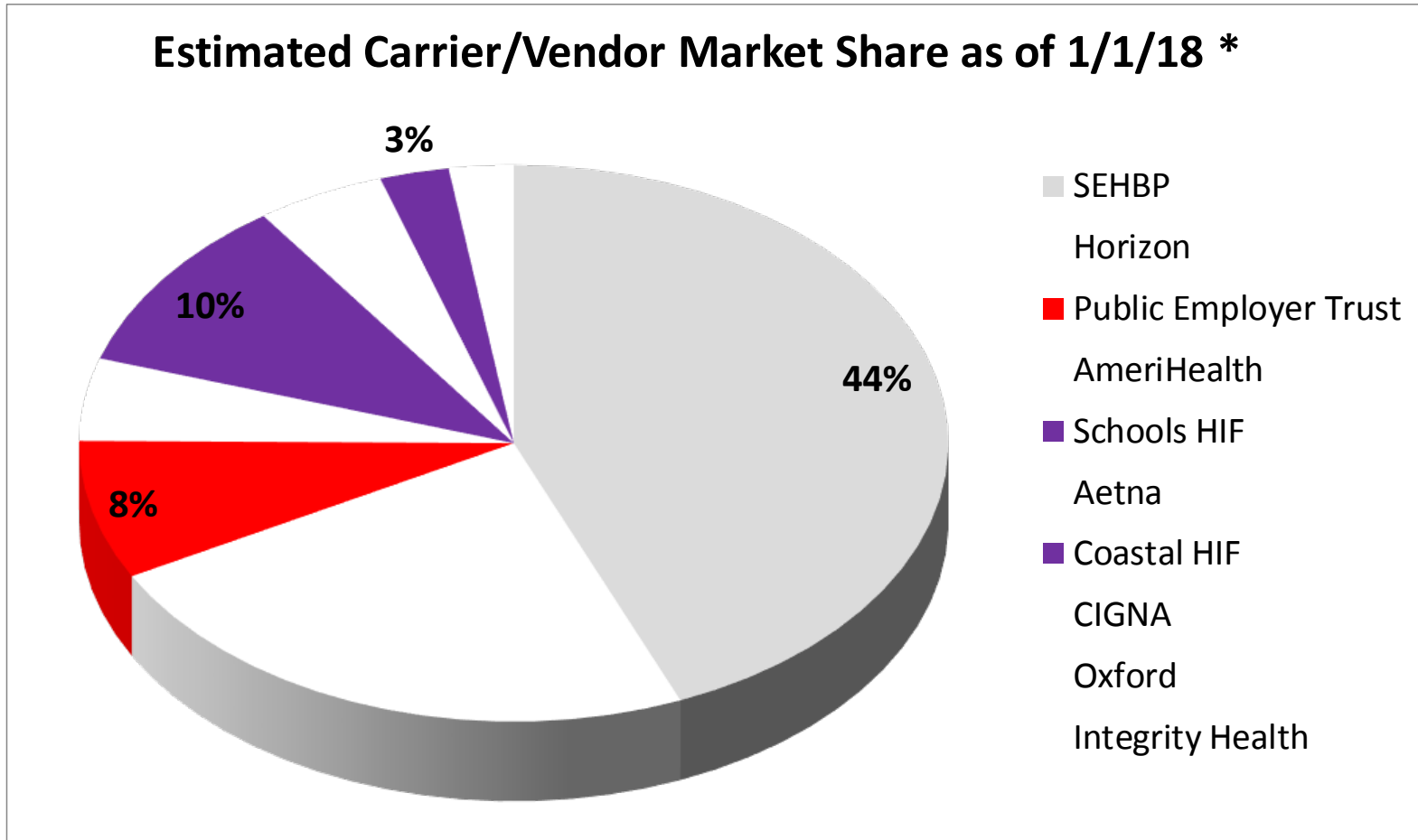
BOEs That Have Left SEHBP Since 7/1/14

Barnegat TWP	Eatontown	Madison	Rahway ¹
Barrington	Egg Harbor TWP	Margate	Readington TWP
Bayhead	<u>Elizabeth</u> ¹	Matawan-Aberdeen Reg'l	Somerset ESC
Belmar	Elsinboro	Mendham Borough ¹	South Hunterdon Reg'l
Bellmawr ¹	Evesham TWP ¹	Mendham TWP	Springfield TWP (Burlington) ¹
Belvidere	Freehold Borough	Millburn	Stillwater TWP ¹
Bethlehem TWP ²	Garwood	Millstone TWP	Sussex ESC
Bogota	Great Meadows Reg'l	Montgomery TWP	Tinton Falls
Bordentown ¹	Hanover Park Reg'l	Mountainside ¹	Tuckerton Borough
Brick TWP ¹	Harrison TWP ¹	<u>Newark</u> ¹	Union County ESC
Bridgewater-Raritan Reg'l ¹	High Bridge Borough	Oaklyn	Union County Vo-Tech
<u>Camden</u>	Highlands Borough	Ogdensburg Borough	Union TWP (Hunterdon)
Chesterfield TWP	Hillsborough TWP	Palmyra	Voorhees TWP ¹
Clark TWP	Hopewell Valley Reg'l ¹	Pennsville	West Deptford ¹
Colts Neck TWP	Hunterdon Central Reg'l	Pittsgrove ¹	West Morris Regional ¹
East Greenwich TWP ¹	Little Egg Harbor TWP	Point Pleasant	Wharton Borough
East Hanover TWP	Long Branch	Point Pleasant Beach	Woodlynne

¹ BOE is not a client of Brown & Brown ² Pending February 2018 BOE resolution

NJ BOE Group Medical Insurance Marketplace

Who Are the Medical Risk Bearers?



*As a percentage of 603 BOEs, ESCs, and Vo-Techs

Shared Services Vehicles

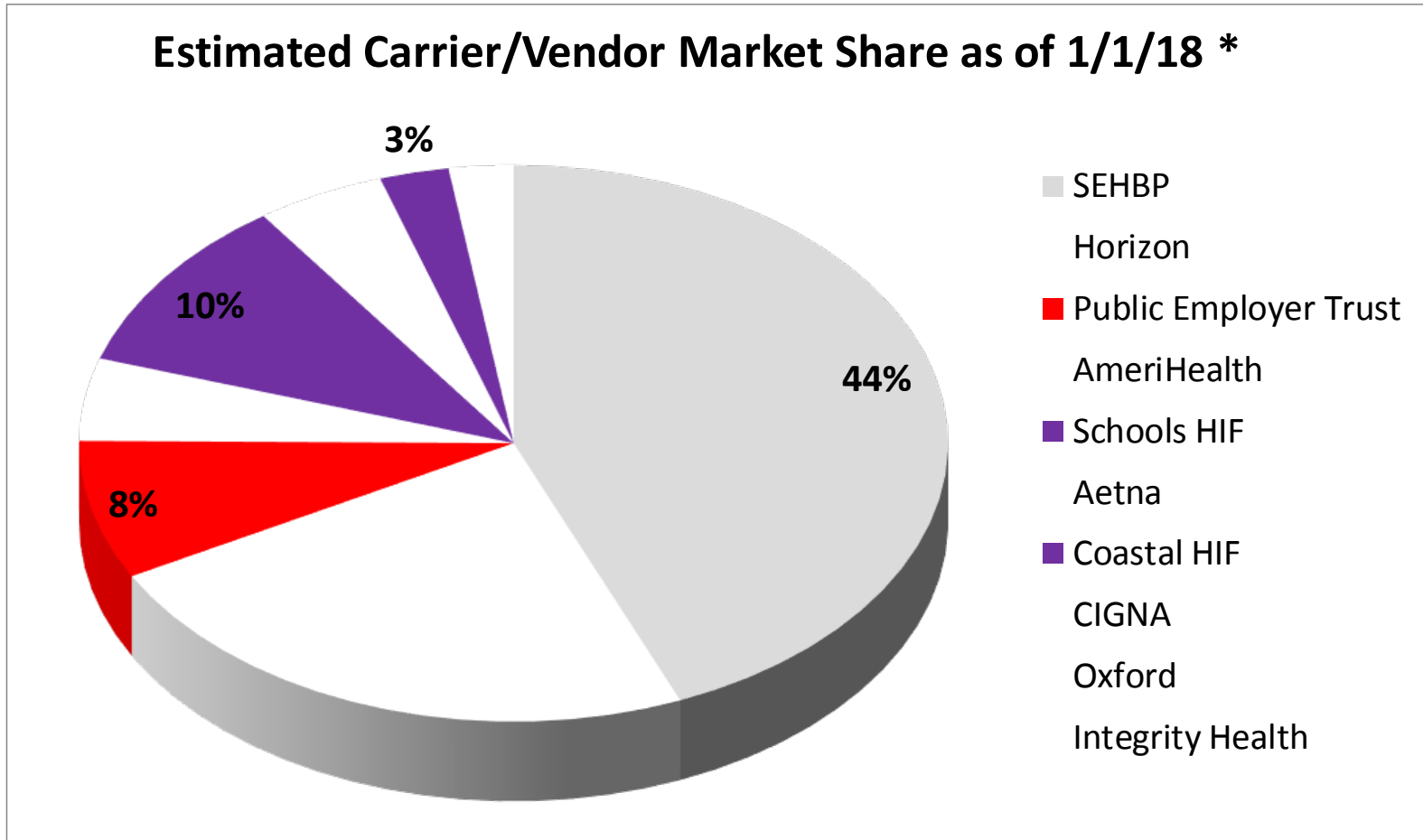
Trust v. HIF v. SEHBP



65% of NJ BOEs are in a <i>shared services vehicle</i>	TRUST	HIF	SEHBP
Established...?	1986	1991 Muni / 1995 BOE (BOE's re-enter 2007)	1961, 2007
Insurance Concept (Risk)...?	Fully-Insured	Self-Insured	Self-Insured
Risk Belongs To...?	Carriers	Participant Groups	State of NJ
"Equal to" Capable...?	Yes	Yes	No
Commitment	1 year	3 years (90 day out)	60 days
Rate Guarantee...?	1 year	1 year	1 year
Retrospective Assessment Exposure...?	No	Yes	No
Dividends Possible...?	No	Yes	No
Experience Rating Maintained?	No	Yes	Yes
Pooled Rate Action...?	Yes	Maybe	Yes
Historical Stability...?	Stable since inception in 1986	A few BOE HIF's went "belly up" in 2001	Rate changes fluctuate from -32% to +25% from 2007-2010

NJ BOE Group Medical Insurance Marketplace

Who Are the Medical Risk Bearers?



*As a percentage of 603 BOEs, ESCs, and Vo-Techs

Health Centers

- Intense population management with a collaborative tone
- Deliver your own primary care, x-rays, pain mgmt., and drugs
- \$0 employee copay
- Self Insured
- Wrap around provider network, TPA, and stop-loss insurance
- Currently in place at Long Branch BOE ¹ and Toms River BOE
- Health center capital investment = \$200,000 to \$500,000 (est.)
- Philosophy: “own” your health care delivery, data, and risk
- Union support is critical and achievable
- Integrity Health[™] model covers multiple angles
- Minimum group size = 500 employees
- A potential game changer, but ROI is difficult to measure

Regulatory Improvement in Self Insurance

- In August of this year, the NJDOBI published a rule change permitting employers to self insure medical plans with only a 10% risk corridor between “expected claims” and “maximum liability,” at which point a stop-loss umbrella policy kicks in.
- Previous *risk corridor* was 25% to qualify as “self insured”
- Self insured employers are exempt from or avoid...
 - NJ state premium tax = 2%
 - ACA Health Insurer Fee = 3%
 - Carrier profit margin = 3%
 - Total fixed cost exemption/avoidance = 8%
- We expect larger districts (500+ employees) to look more favorably on self insurance
- HIFs already enjoy these advantages, but are not risk free
- This rule change makes opening a health center less of a risk

Chapter 78: What Happens Next?

- **NJPL 2011 Chapter 78 requires mandatory, premium-linked employee contributions on a sliding scale driven by income**
- **“Phase 4” ranges from 3% to 35% of an average \$20,000 premium**
- **Many public employees have lower take home pay now vs. 2011**
- **Districts began hitting the “sunset” stage in 2015, after which point contributions become negotiable again**
- **The first wave of sunset districts gave some ground, but waves 2 and 3 seem to be less inclined to go backwards**
- **What does NJEA expect the new Governor to do?**
- **Moving from Chapter 78 back to Chapter 2 (1.5% of salary) would represent a wealth transfer of \$1 billion annually from taxpayers to BOE employees**

ACA “Cadillac Tax”: Minimizing the Damage

- ACA is here to stay until it’s not time to stay
- A 40% excise tax on annual medical rx drug, HSA, & FSA employer and employee contributions in excess of:
 - Single: \$10,000
 - All Other: \$17,500
- Designed to provide revenue for ACA individual coverage “marketplace” and encourage more affordable plan design
- In effect 2018, no 2019, I mean 2018, now 2022
- The one tax everyone loves to hate
- It is unrealistic to expect zero damage...but good product platform design, risk management, and marketing of your group insurance plans can lessen the impact

Questions and Answers

Closing Thoughts:

- Inaction is its own form of risk
- The only constant is change
- Don't let the perfect be the enemy of the good



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