HEALTH WEALTH CAREER

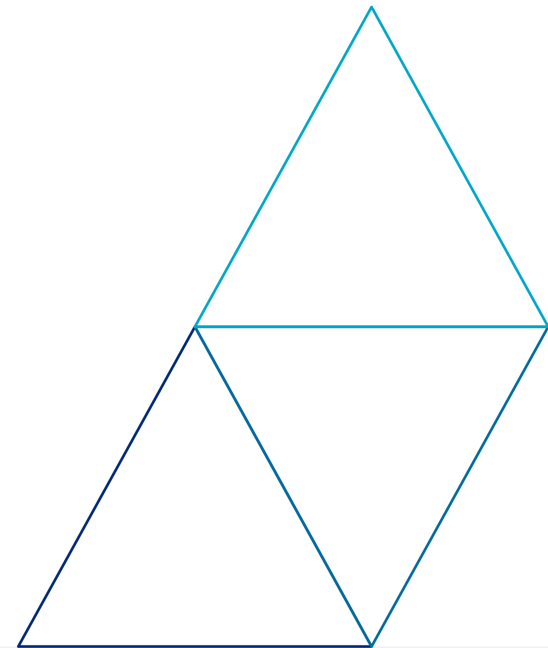
MARKET TRENDS EXPERIENCE UPDATE & HEALTHFLEX EXCHANGE

Wespath Benefits and Investments

OCTOBER 24, 2017

Todd Swim
Partner

Chicago

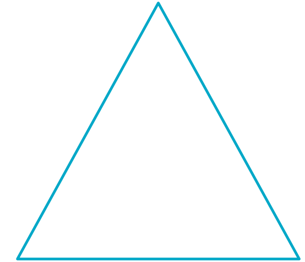


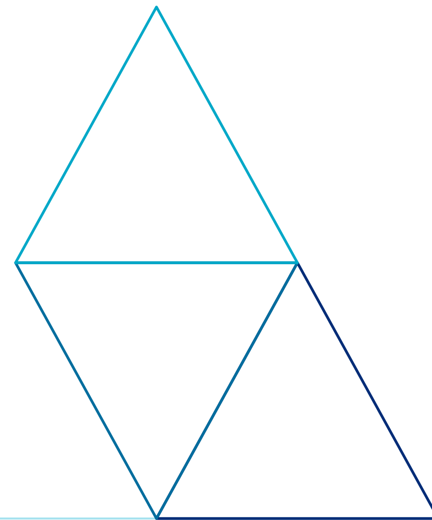
AGENDA

- Market Trends—Mercer Annual Survey Highlights
- Experience Update
- HealthFlex Exchange—Plan Sponsor Migration Strategy

Copyright © 2017 Mercer Health & Benefits LLC. All rights reserved.

MARKET TRENDS—MERCER ANNUAL SURVEY HIGHLIGHTS





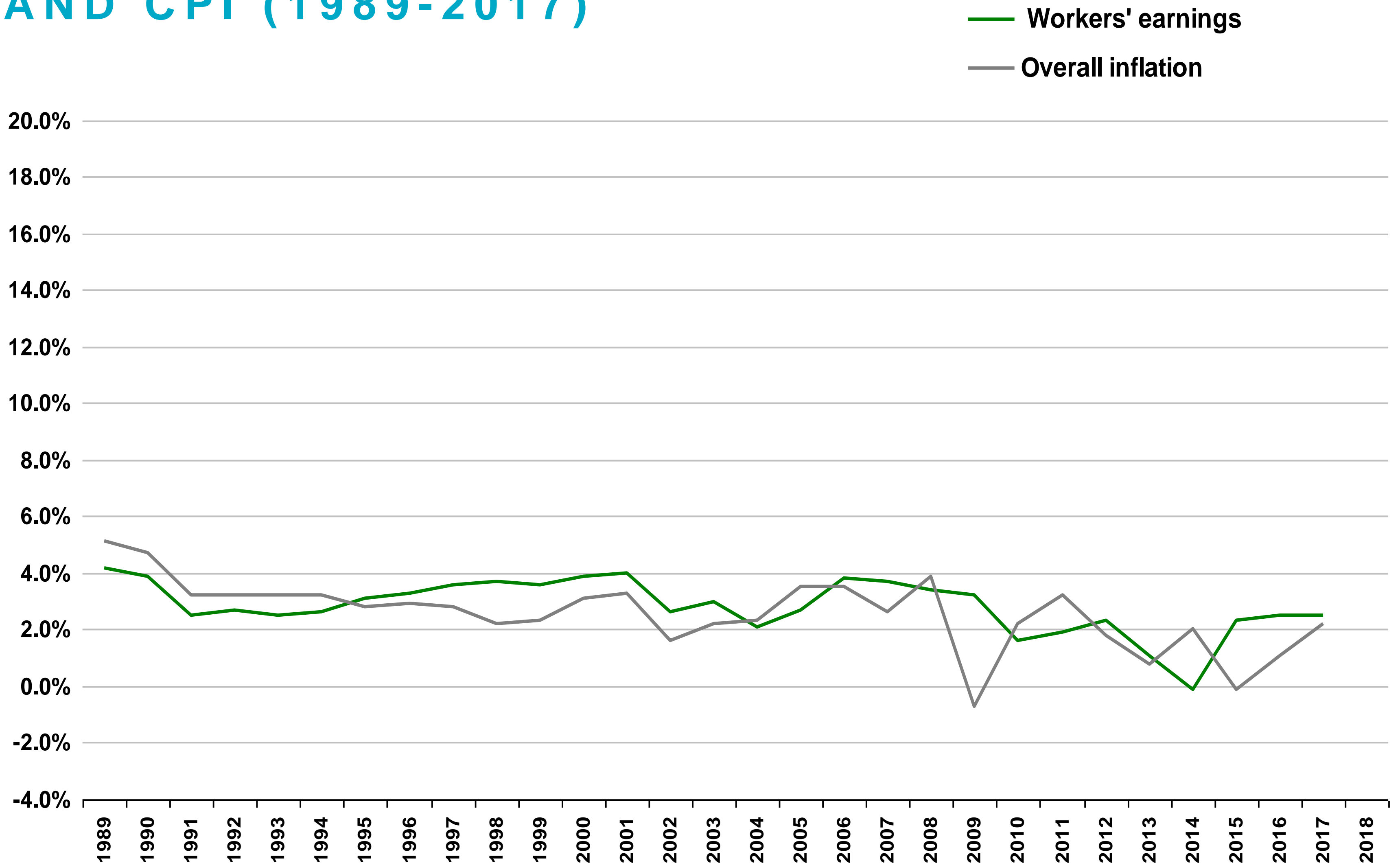
Copyright © 2017 Mercer Health & Benefits LLC. All rights reserved.

MERCER SURVEY HIGHLIGHTS

- Average health benefit costs are predicted to rise 4.3% in 2018 per household—this is after all plan sponsor initiatives to control costs such as raising deductibles and copays as well as changing vendors / contracts
- The organic cost trend for 2018 is projected to be 6%
- Pharmaceutical costs are a major cost driver—projected to grow more than 7% in 2018 fueled by new specialty medications
- The 2020 Excise Tax still looms over high-cost (rich) plan designs
- 46% of plan sponsors will take specific steps to reduce cost growth in 2018
- Offering lower-cost, high-deductible health plans has been an important strategy for holding down costs over the past several years. This trend is also driven by the need to minimize the exposure to the ACA's excise tax on high-cost plans
- Increased consumerism from high-deductible plans is cited as a contributor to keeping costs lower than they would otherwise be

Copyright © 2017 Mercer Health & Benefits LLC. All rights reserved.

ANNUAL HEALTH COST TRENDS VS. EARNINGS AND CPI (1989-2017)

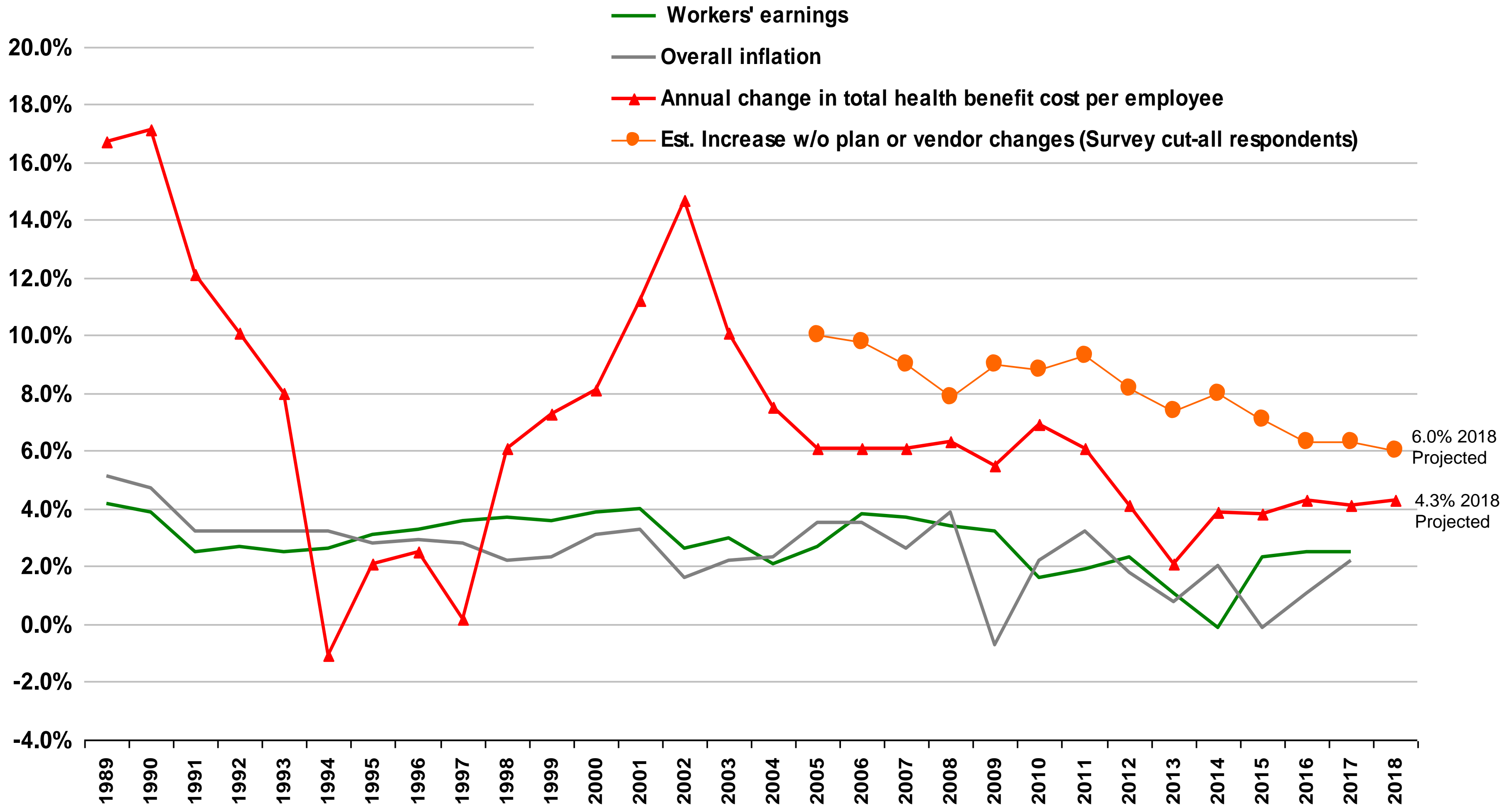


Source: Mercer's National Survey of Employer-Sponsored Health Plans; Bureau of Labor Statistics, Consumer Price Index, U.S. City Average of Annual Inflation (April to April) 1988-2007; Bureau of Labor Statistics, Seasonally Adjusted Data from the Current Employment Statistics Survey (April to April) 1988-2007.

U:\EHB\CORE\CGO\GBPDFL\YEAR\2017\FINANCIAL\2017 Summit 10-24-17_final.pptx

Copyright © 2017 Mercer Health & Benefits LLC. All rights reserved.

ANNUAL HEALTH COST TRENDS VS. EARNINGS AND CPI (1989-2017)

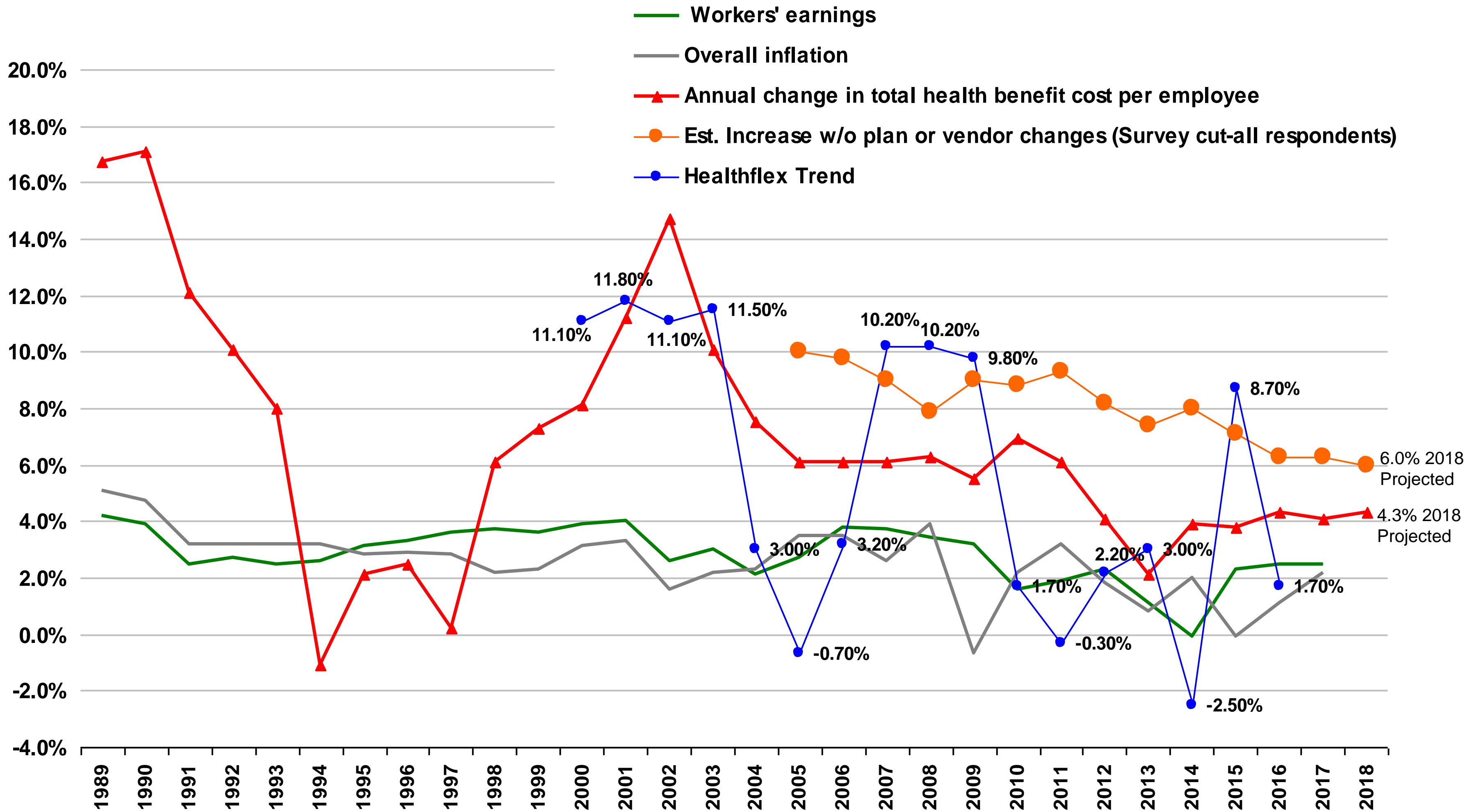


Source: Mercer's National Survey of Employer-Sponsored Health Plans; Bureau of Labor Statistics, Consumer Price Index, U.S. City Average of Annual Inflation (April to April) 1988-2007; Bureau of Labor Statistics, Seasonally Adjusted Data from the Current Employment Statistics Survey (April to April) 1988-2007.

U:\EHB\CORE\CGO\GBPDFL\YEAR\2017\FINANCIAL\2017 Summit 10-24-17_final.pptx

Copyright © 2017 Mercer Health & Benefits LLC. All rights reserved.

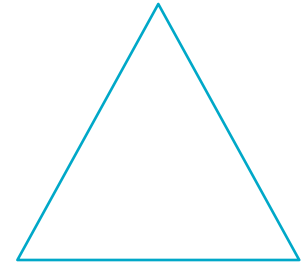
ANNUAL HEALTH COST TRENDS VS. EARNINGS AND CPI (1989-2017)



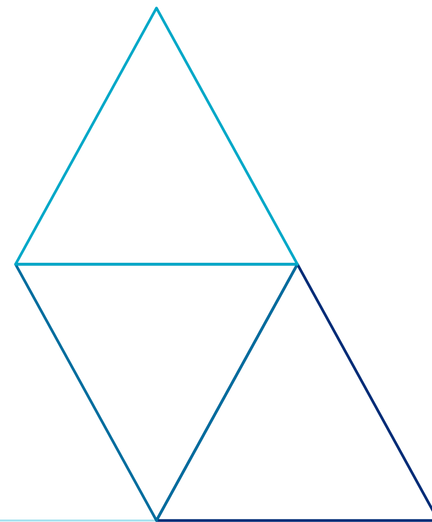
Source: Mercer's National Survey of Employer-Sponsored Health Plans; Bureau of Labor Statistics, Consumer Price Index, U.S. City Average of Annual Inflation (April to April) 1988-2007; Bureau of Labor Statistics, Seasonally Adjusted Data from the Current Employment Statistics Survey (April to April) 1988-2007.

U:\EHB\CORE\CGO\GBPDFL\YEAR\2017\FINANCIAL\2017 Summit 10-24-17_final.pptx

Copyright © 2017 Mercer Health & Benefits LLC. All rights reserved.

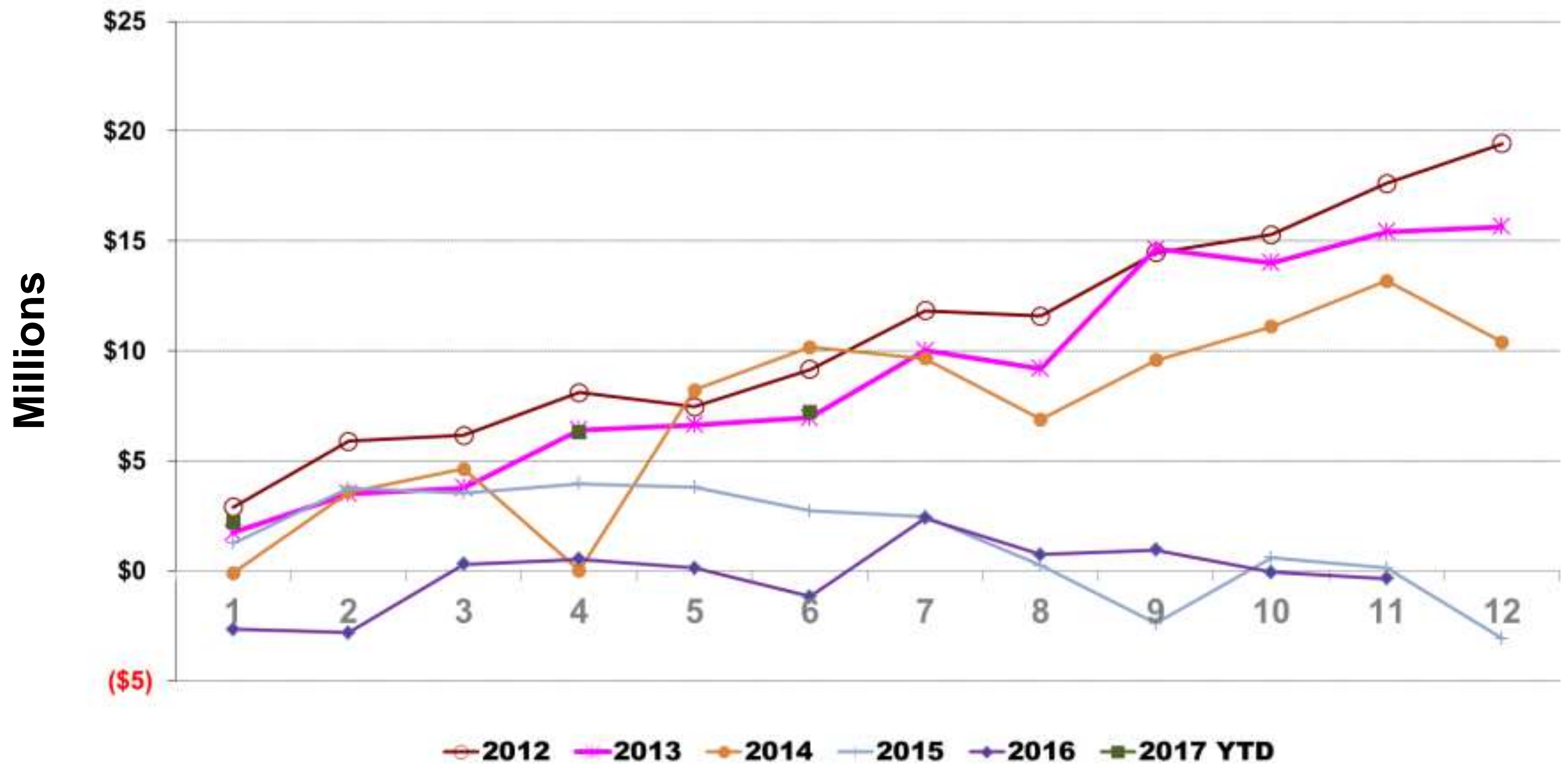


EXPERIENCE UPDATE



Copyright © 2017 Mercer Health & Benefits LLC. All rights reserved.

HEALTHFLEX EXPERIENCE
CUMULATIVE



U:\EHB\CORE\CGO\GBPDFL\YEAR\2017\FINANCIAL\2017 Summit 10-24-17_final.pptx

Copyright © 2017 Mercer Health & Benefits LLC. All rights reserved.

HEALTHFLEX FINANCIAL HISTORY ($000)

Year	Underwriting Gain/(Loss)	Investment & Other Income	Surplus Gain/(Loss)	% of Premium
2007	$10,896	$6,531	$17,426	13.4%
2008	$(2,845)	$(17,580)	$(20,425)	(14.6%)
2009	$(8,397)	$7,502	$(895)	(0.6%)
2010	$10,593	$6,901	$17,494	10.7%
2011	$26,798	$(709)	$26,090	14.6%
2012	$14,308	$5,132	$19,440	12.1%
2013	$7,809	$7,835	$15,644	10.9%
2014	$8,187	$2,218	$10,405	8.2%
2015	$(1,281)	$(1,803)	$(3,084)	-2.7%
2016	$(3,416)	$5,054	$1,638	1.5%

2005 - 2006 performance Dividend ($000 omitted; paid in 2007): $9,873
2010 - 2011 performance Dividend ($000 omitted; paid in 2012): $15,000
2012 - 2013 performance Dividend ($000 omitted; paid in 2014): $20,000

Copyright © 2017 Mercer Health & Benefits LLC. All rights reserved.

HEALTHFLEX
HISTORICAL ANNUAL TREND IN CLAIMS (PEPM)

Year	PPO	EPO	CDHP	Medicare	Total Claims
2007	11.3%	6.4%		7.7%	10.2%
2008	12.0%	9.2%		8.3%	10.2%
2009	8.9%	16.8%		6.5%	9.8%
2010	1.2%	5.9%		-2.6%	1.7%
2011	0.8%	1.7%		-2.1%	-0.3%
2012	2.8%	0.9%	11.3%	-1.3%	2.2%
2013[1]	4.3%	-1.8%	-6.2%	N/A	3.0%[2]
2014[1]	-5.0%	N/A	-3.9%	N/A	-2.5%[2]
2015	8.9%	N/A	23.7%	N/A	8.7%[2]
2016	5.8%	N/A	-3.1%	N/A	1.7%[2]

[1] *Adjusted from prior versions to reflect retroactive revisions to claims.*

[2] *2013 and beyond PEPM increases for Total Claims excludes Medicare as to the significant drop in covered members in Medicare plans as of 2013 and beyond skews the total PEPM figures*

U:\EHB\CORE\CGO\GBPDFL\YEAR\2017\FINANCIAL\2017 Summit 10-24-17_final.pptx

Copyright © 2017 Mercer Health & Benefits LLC. All rights reserved.

HISTORICAL CLAIMS FUNDING RATIOS

Year	PPO	EPO	CDHP	Medicare	Total
2007	91.3	96.8		99.9	94.2
2008	101.8	103.3		101.9	102.1
2009	109.3	110.0		103.5	108.1
2010	97.1	98.8		94.7	97.0
2011	93.4	89.8	71.0	85.7	89.5
2012	94.0	99.3	76.1	89.0	92.5
2013[1]	100.2	102.6	73.7	N/A	98.1[2]
2014[1]	96.9	N/A	71.8	N/A	95.7[2]
2015	106.1	N/A	88.3	N/A	104.8[2]
2016	113.1	N/A	85.9	N/A	108.6[2]

[1] *Adjusted from prior versions to reflect retroactive revisions to claims.*

[2] *2013 and beyond PEPM increases for Total Claims excludes Medicare as to the significant drop in covered members in Medicare plans as of 2013 and beyond skews the total PEPM figures*

U:\EHB\CORE\CGO\GBPDFL\YEAR\2017\FINANCIAL\2017 Summit 10-24-17_final.pptx

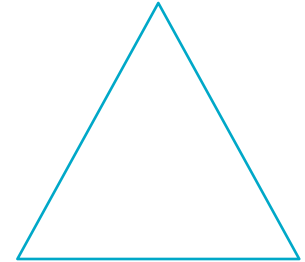
Copyright © 2017 Mercer Health & Benefits LLC. All rights reserved.

CDHP RESULTS

- CDHP participants, while demographically similar to PPO participants, continue to have significantly lower use rates in key service categories, but higher use of preventive care and generic drugs
- This is due to selection (healthier lives) and consumerism (having direct interest in the cost of care). The differences in use rates (PPO vs. CDHP) continue to be markedly different despite growing enrollment. This is evidence of the strong impact of consumerism
- These results are consistent with what we have seen in other CDHPs and have continued to see year-over-year under the HealthFlex CDHP experience

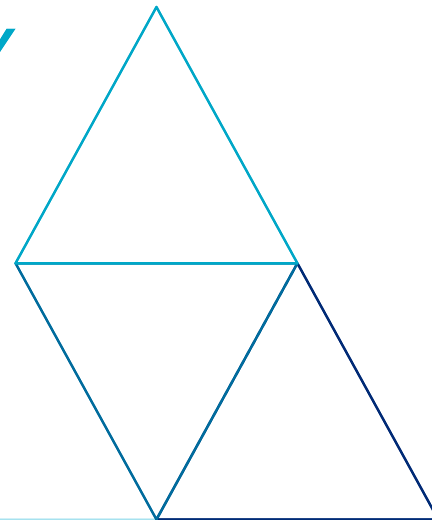
	PPO	CDHP	Variance
Average age	52.3	51.4	-1.72%
Average household size	2.10	1.82	-13.38%
Admits/1,000	61.30	35.10	-42.74%
Days/1,000	294.24	193.05	-34.39%
MD visits/1,000	4,873	4,218	-13.44%
OP Surgery/1,000	186	176	-5.38%
X-rays/1,000	2,216	2,108	-4.87%
Labs/1,000	9,048	7,832	-13.44%
ER/1,000	170	139	-18.24%
Rx allowed $/member	$1,631	$1,285	-21.23%
Rx-Generic %	78.90%	80.30%	+1.4 pp
% Medical Claims In-Network	93.32%	95.23%	+1.9 pp
Preventive care (% members using)	44.32%	45.04%	+0.7 pp
Emergency Room (% members using)	13.47%	11.09%	-2.4 pp

Copyright © 2017 Mercer Health & Benefits LLC. All rights reserved.



HEALTHFLEX EXCHANGE

PLAN SPONSOR MIGRATION STRATEGY



Copyright © 2017 Mercer Health & Benefits LLC. All rights reserved.

TRENDS IN PRIVATE EXCHANGES

- Enrollment up 80+%—2015 vs. 2014
- 2015 enrollment: 6 million lives
  - 2016 reporting limited:
  - One estimate: 8 million lives*
  - Another estimate:
    6 million lives with rapid but slowing growth
- Public exchanges—significant adverse selection because of individual nature
- Private Exchanges enjoy all of the risk protection typically found in larger self-insured pools

*Accenture Consulting

Copyright © 2017 Mercer Health & Benefits LLC. All rights reserved.

ENROLLMENT DRIVERS FOR PRIVATE EXCHANGES

- Choice and flexibility—better aligned with plan sponsor/participant needs
- Plan choices, coverage tiers and full transparency to “total cost”
  - Also: participant share of that total cost
- Easily enables shift from a “defined benefit” to “defined contribution” approach—but not a requirement
- Provides glide path for many plan sponsors to be able to continue plan sponsorship in the face of medical plan costs continuing to grow at 2-4 x Consumer Price Index
- Administrative efficiency

Copyright © 2017 Mercer Health & Benefits LLC. All rights reserved.

WHY HEALTHFLEX EXCHANGE?

HealthFlex Exchange is a customized solution that blends the best features of leading Private exchanges with the unique needs of HealthFlex and the UMC.

- Plan sponsor
  - Flexibility with funding and administration
  - Long-term sustainability and cost control
  - High-quality service and Wespath oversight with low disruption
- Participant
  - Flexibility/choice/control of plan selection and personal costs
  - Continued industry-leading supports, programs and services
  - Health accounts for long-term health/supplementary retirement savings
- Wespath
  - Greater administrative efficiency
  - Customize plans, programs, services to meet UMC needs

Copyright © 2017 Mercer Health & Benefits LLC. All rights reserved.

HEALTHFLEX EXCHANGE OPERATING EFFICIENCIES

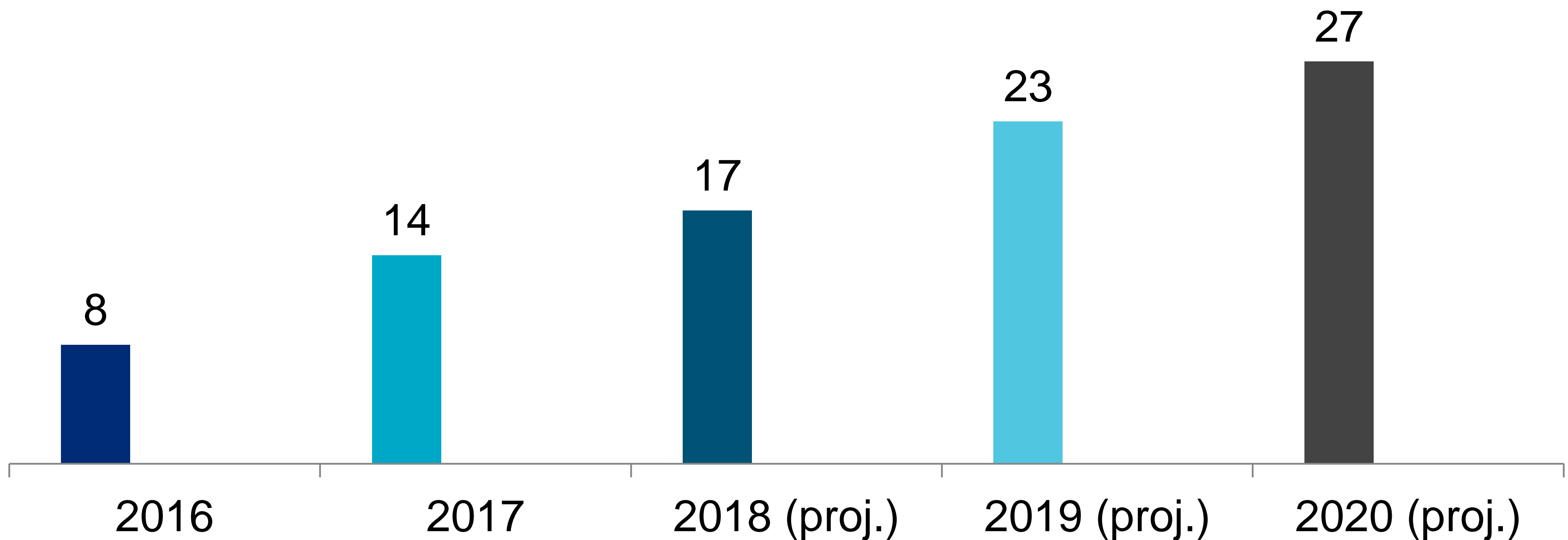
Full transition to HealthFlex Exchange would allow operating efficiencies to streamline the experience for all plan sponsors

- Streamlined communications
  - Required communications (e.g., Summaries of Benefits and Coverage)
  - Informational and educational communications
  - Targeting within HealthFlex Exchange
- Enhanced HealthFlex Exchange reporting
- Higher level of customer service support and expertise
- Efficient system setup and sunsetting of conversions

Copyright © 2017 Mercer Health & Benefits LLC. All rights reserved.

PLAN SPONSOR MIGRATION TO HEALTHFLEX EXCHANGE

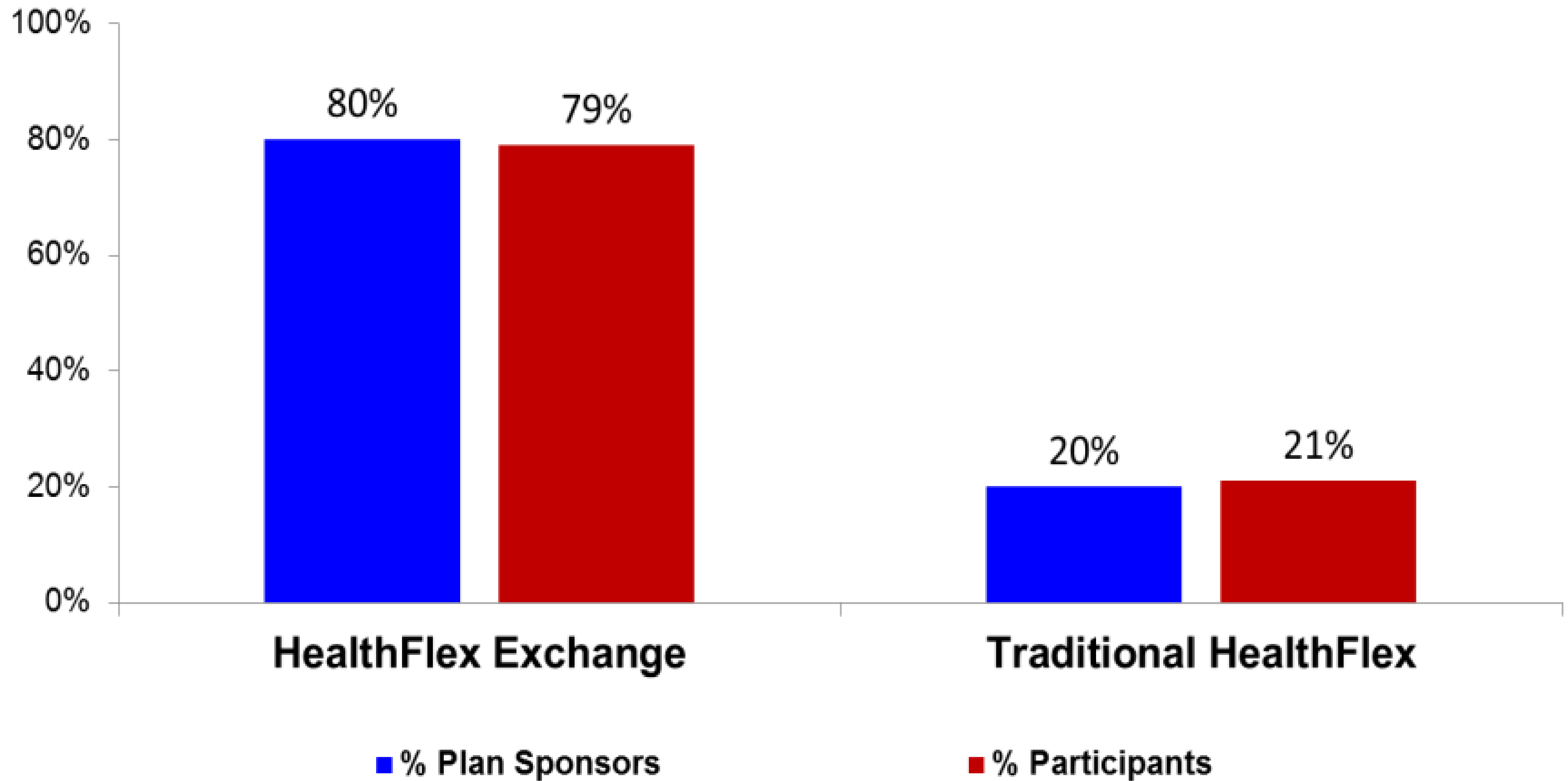
- Estimate: Close to 85% of plan sponsors will have chosen HealthFlex Exchange platform by 2020
- Approximately 50% of new plan sponsors—moving immediately to HealthFlex Exchange



U:\EHB\CORE\CGO\GBPDFL\YEAR\2017\FINANCIAL\2017 Summit 10-24-17_final.pptx

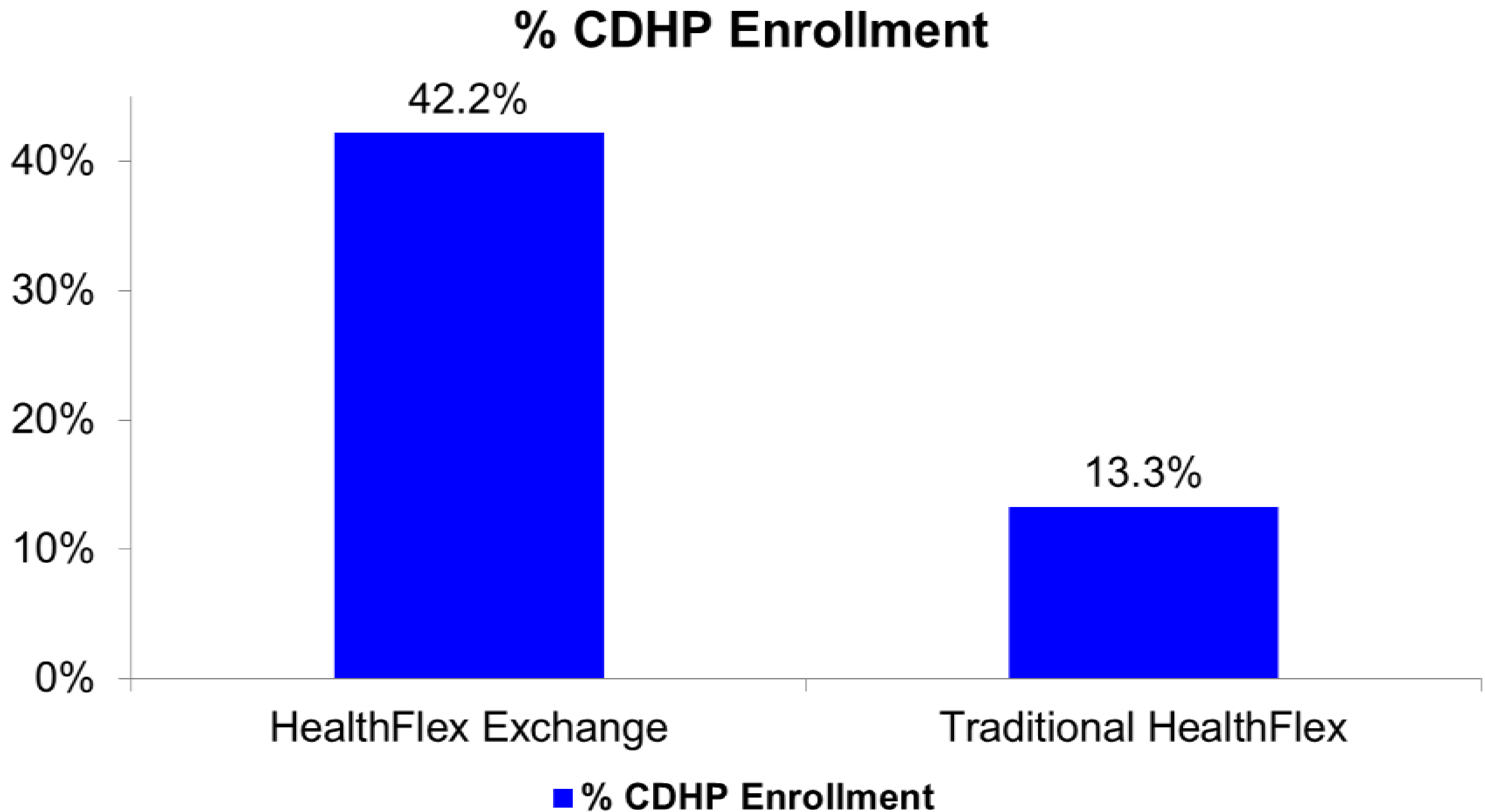
Copyright © 2017 Mercer Health & Benefits LLC. All rights reserved.

PROJECTED 2020 RISK POOLS



Copyright © 2017 Mercer Health & Benefits LLC. All rights reserved.

2017 RISK POOL DIFFERENCES—CDHP ENROLLMENT

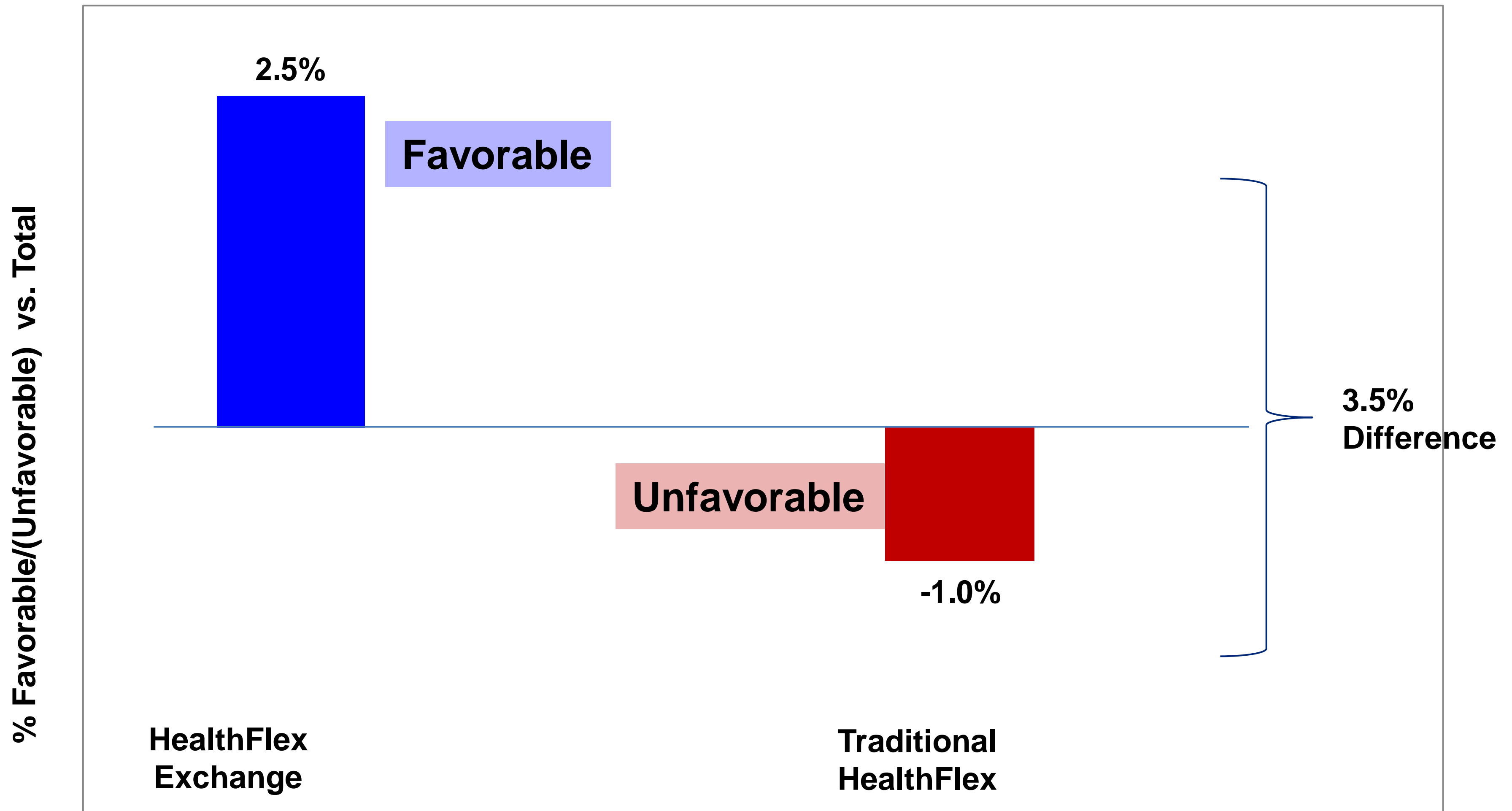


Based on January 2017 census

U:\EHB\CORE\CGO\GBPDFL\YEAR\2017\FINANCIAL\2017 Summit 10-24-17_final.pptx

Copyright © 2017 Mercer Health & Benefits LLC. All rights reserved.

2016 RISK POOL DIFFERENCE—CLAIMS-TO-CLAIMS FUNDING RATIOS



Copyright © 2017 Mercer Health & Benefits LLC. All rights reserved.

HEALTHFLEX EXCHANGE RISK POOL CONSIDERATIONS

- Traditional HealthFlex –significantly more PPO participants
- Experience difference PPO vs. CDH/HDH plans—
  well-established due to two primary factors:
  - Adverse selection—healthier participants migrate to account-based plans
  - Participants in account-based plans: better consumers of health care (even after risk adjustment)
- Future pricing will increasingly favor CDH/HDH plans
  - Will disadvantage plan sponsors with high concentrations of PPO enrollment
  - Will more fully reflect actual experience differential between PPO and CDH/HDH, which has not historically been fully reflected
- Maintaining two separate risk pools would logically result in a “death spiral” for Traditional HealthFlex plan sponsors—
  - PPO pricing would cause shrinking pool of participants with even higher loss ratios

Copyright © 2017 Mercer Health & Benefits LLC. All rights reserved.

ONE PLATFORM IN 2021— HEALTHFLEX EXCHANGE

2021: HealthFlex will offer **only HealthFlex Exchange** platform

- Plan sponsors in Traditional HealthFlex (as of 2018) will have 2019, 2020 and 2021 adoption agreement periods to choose to move to the HealthFlex Exchange
- In 2021, all HealthFlex participants will be on one administrative platform
- New plan sponsors—transition immediately to HealthFlex Exchange or have short transition period upon joining HealthFlex
- Modeling and support will be provided to ensure a smooth transition

Copyright © 2017 Mercer Health & Benefits LLC. All rights reserved.

MERCER

MAKE TOMORROW, TODAY

Services provided by Mercer Health & Benefits LLC.

Copyright © 2017 Mercer Health & Benefits LLC. All rights reserved.