



Michigan Public School Employees' Retirement System

2025 Strategic Initiative Package

July 18, 2024



Disclaimer

This document was prepared for your sole and exclusive use and on the basis agreed with by you. It was not prepared for the use by any other party and may not address their needs, concerns, or objectives. This document should not be disclosed or distributed to any third party other than as agreed with you and WTW in writing. We do not assume any responsibility, nor accept any duty of care or liability to any third party who may obtain a copy of this presentation, and any reliance placed by such party on it is entirely at their own risk.

MPSERS 2025 strategic initiative package

1. Retiree Health Plan Financial Metrics
2. General Healthcare Metrics
3. Strategic Initiative Package

Executive summary

Retiree Plan Financial Metrics

- Funded Ratio of 126.9% as of September 30, 2023, Retiree Health Actuarial Valuation
- Total annual trend for Retiree Health Plan from 2019 to 2022 is -2.8% (medical, pharmacy, dental and vision combined)



General Healthcare Metrics

- 2024 and 2025 Medical and pharmacy trend expected to be between 6% and 11%
- The federal Inflation Reduction Act (IRA) is expected to have a positive impact on member cost sharing for the Medicare pharmacy benefit in 2025, which will most likely not be entirely offset by federal government subsidies
- No significant state legislation expected to negatively impact Retiree Health Plan
- CMS Medicare Advantage revenue expected to remain stable



2025 Strategic Initiative Package

Non-Medicare Population

- Copay Card Solutions

Total Population

- Change Medical Plan to apply Deductible before Coinsurance
- Allow for new Interim caries arresting medicament as a covered Dental benefit

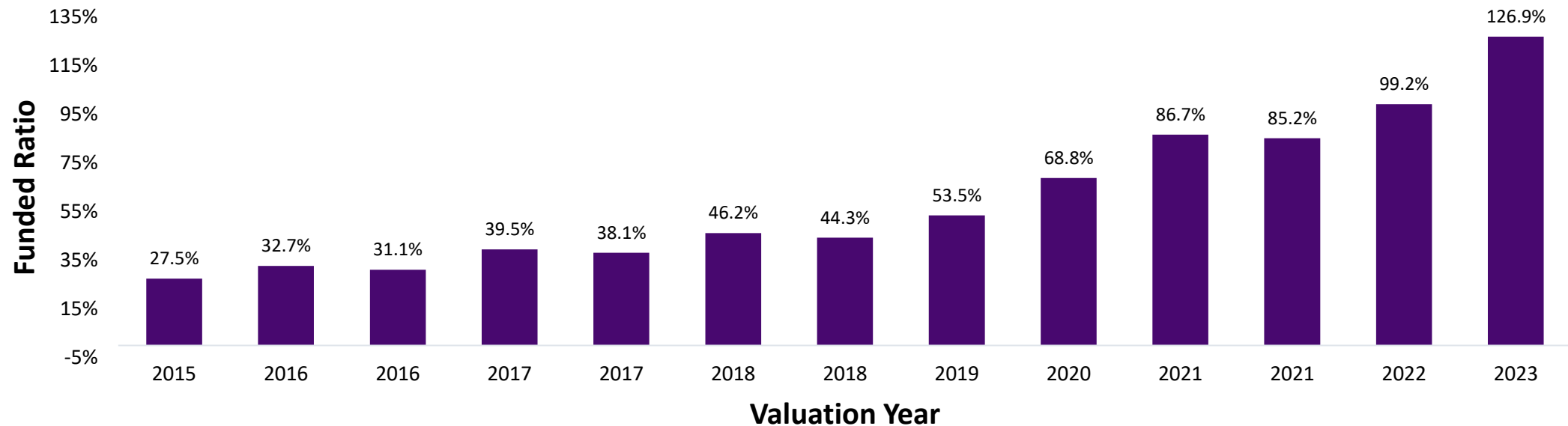
Total Estimated Cost of \$13.5M

Retiree health plan financial metrics

Retiree health plan funded ratio

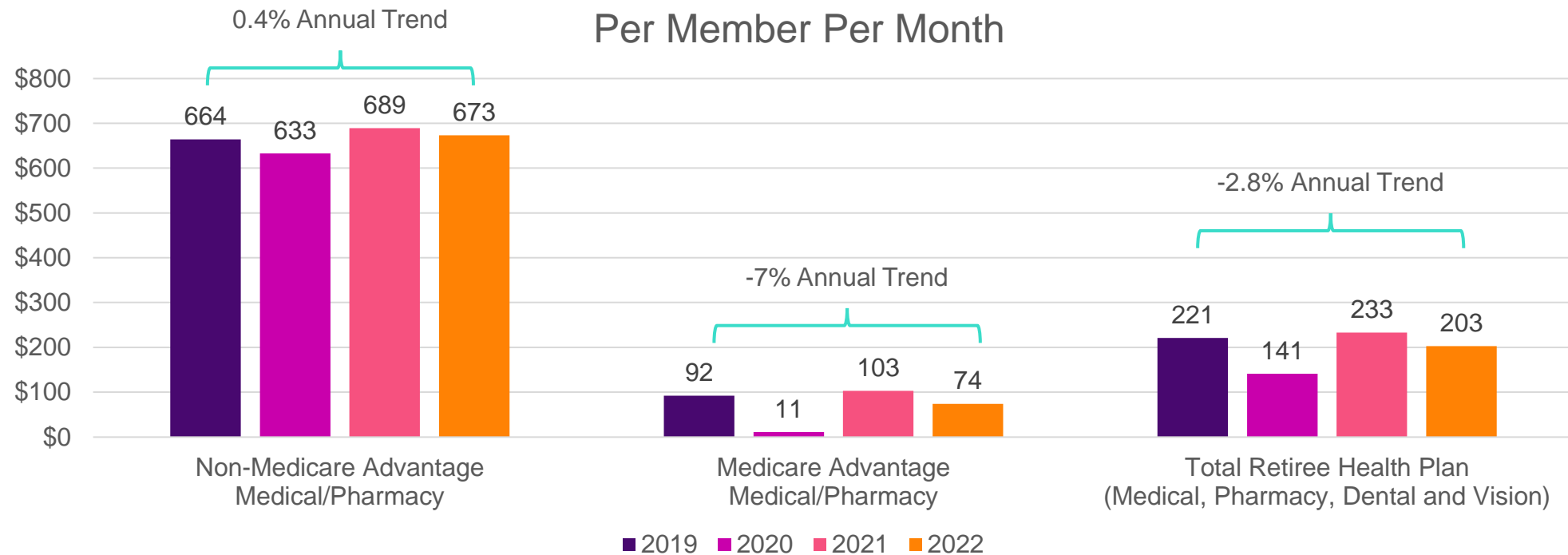
Funded Ratio

- Funds are accumulated by the System to meet future benefit obligations to retirees and beneficiaries.
- The percentage computed by dividing the actuarial value of assets by the actuarial accrued liability is referred to as the “funded ratio”.
- This ratio provides an indication of the funding status of the System and generally, the greater this percentage, the stronger the System.
- **Funded Ratio is 126.9% as of the September 30, 2023, Retiree Health Actuarial Valuation.**



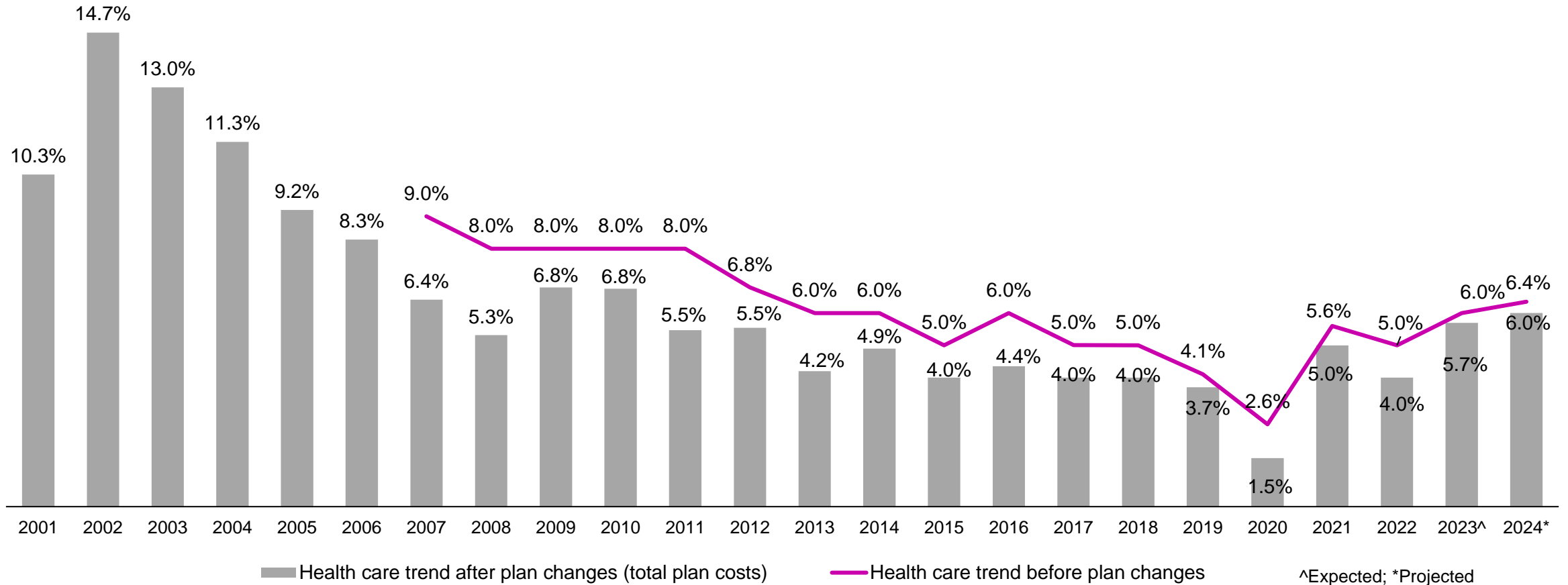
Retiree health plan historical trends

- 3-year annual total trend for the retiree health plan is -2.8% (medical, pharmacy, dental and vision combined).
 - Non-Medicare Advantage 3-year annual trend is 0.4%
 - Medicare Advantage 3-year annual trend is -7%



General healthcare metrics

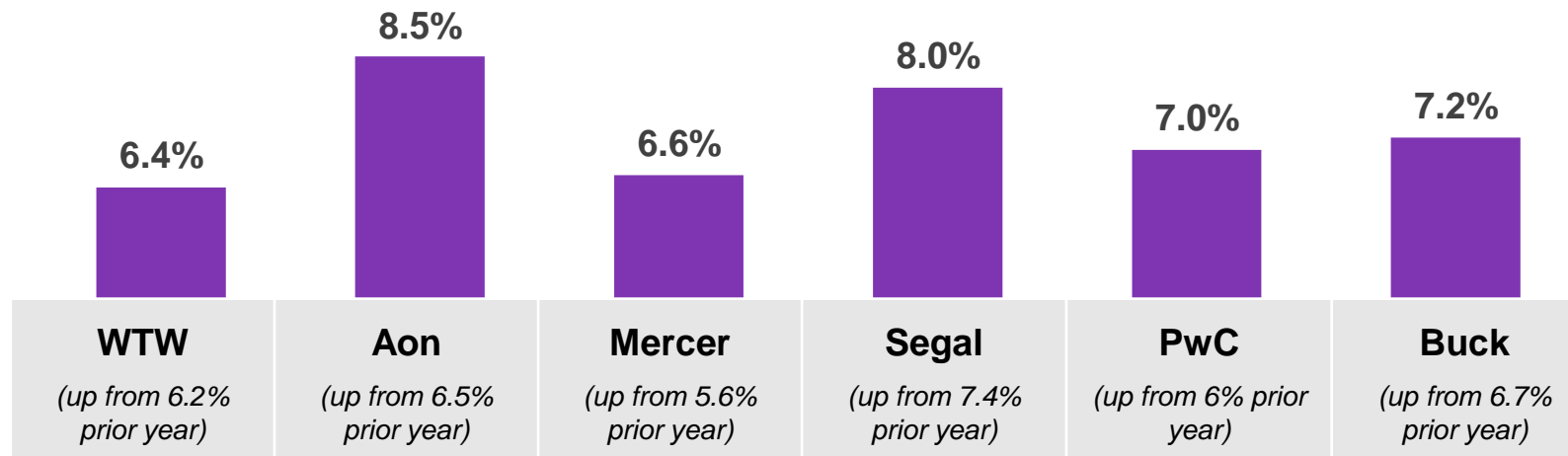
Increases in healthcare cost trend



Note: Percentages of healthcare trend are **median** numbers.
 Sample: Companies with at least 1,000 employees
 Source: WTW 2023 Best Practices in Healthcare Survey; Bureau of Labor Statistics, CPI-U, CES

Trend outlook — Other sources for consideration

- WTW's 2023 Best Practices in Health Care Survey indicates a 6.5% expected trend for 2024 healthcare costs.
- Similar to WTW, other consulting firms' trend forecasts project higher trend than last year.
- Note that trend projections in these surveys are backward looking based on trend assumptions chosen for 2024 pricing projections and do not consider the prospective factors.



WTW: <https://www.wtwco.com/en-us/insights/2023/11/employers-remain-focused-on-controlling-healthcare-costs>

Aon: <https://aon.mediaroom.com/2023-08-22-Aon-U-S-Employer-Health-Care-Costs-Projected-to-Increase-8-5-Percent-Next-Year>

Mercer: <https://www.mercer.com/en-us/insights/us-health-news/health-benefit-cost-expected-to-rise-54-in-2024-mercero-survey/>

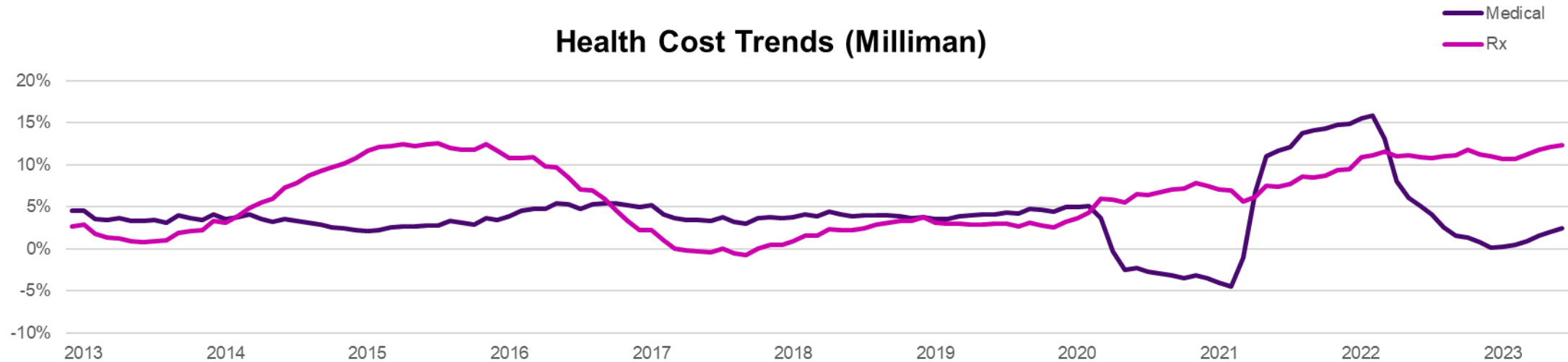
Segal: <https://www.segalco.com/consulting-insights/2024-health-plan-cost-trend-survey>

PWC: <https://www.pwc.com/us/en/industries/health-industries/library/assets/pwc-behind-the-numbers-2024.pdf>

Buck: <https://buck.com/press/buck-survey-shows-medical-costs-for-employer-sponsored-plans-in-2023-2024-have-yet-to-fully-adjust-for-inflation/>

Milliman Health Trend Guideline (HTG) – Historical trend graph

Incurred 12-month rolling trend



- Milliman HTG measures the historical change in healthcare claim costs and utilization in self-funded medical and pharmacy plans.
- Illustration is through July 2023 with a 12-month incurred rolling trend.
- Medical trend since 2020 has been impacted by COVID-19 while pharmacy trend has been relatively stable.

Strategic initiative package – metrics summary

	Metric Outlook
Retiree Health Plan Metrics	
Funded Ratio <ul style="list-style-type: none"> Funded ratio of 126.9% as of September 30, 2023 	
Historical Trend <ul style="list-style-type: none"> Total trend for the retiree health plan from 2018 to 2022 is -2.8% 	
General Healthcare Metrics	
Projected Healthcare Trend <ul style="list-style-type: none"> Expected increases in trend due to inflationary pressures 	
CMS Medicare Advantage Revenue <ul style="list-style-type: none"> No significant changes are expected in the Medicare Advantage revenue from CMS 	
State/Federal Legislative Changes <ul style="list-style-type: none"> Inflation Reduction Act (IRA) of 2022 is expected to increase Medicare Part D costs (pharmacy) in 2025 due to a member maximum out-of-pocket decrease to \$2,000. Final impact analysis is TBD 	
Population Health <ul style="list-style-type: none"> COVID-19 pandemic has ended and expect minimum disruption from ending of pandemic going forward 	
Any other potential impact <ul style="list-style-type: none"> No other significant changes are expected to impact retiree medical plan financial considerations 	

2025 Strategic initiative package

Plan modernization – Medical

- Change both Medicare and Non-Medicare Medical Plans to apply Deductible before Coinsurance.
 - Historically, the Plan has been set up to apply Coinsurance prior to the Deductible when determining what the member pays out-of-pocket.
 - The decision to apply Coinsurance prior to Deductible was made many years ago and intended to be a financial saving mechanism for the Plan, and to decrease the financial impact of medical inflation.
 - Applying Coinsurance prior to Deductible is a non-standard method to determine member out-of-pocket expense across existing health plans.
 - Converting the Plan to apply Deductible before Coinsurance will increase cost for the Plan and decrease cost for members in various circumstances.
 - No members will pay more under the new order to determine member cost sharing, and some members will pay less.
 - The Medicare cost increase will be approximately \$10M per year and the Non-Medicare cost increase will be approximately \$3.5M per year.
 - Aligns with the industry standard (for active and retiree plans) as well as the Dental plan for members.
 - **Recommendation:** Convert both Medicare and Non-Medicare Plans to apply Deductible before Coinsurance.

Plan modernization – Medical (continued)

Deductible before Coinsurance – Example

Coinsurance before Deductible	
First Medical Claim	
Approved Amount	\$800
Apply 10% Coinsurance	\$80
Remaining Claim Balance	\$720
Apply Deductible	\$720
Member Cost (<i>Coins. + Ded.</i>)	\$800
Plan Cost (<i>Approved – Member Cost</i>)	\$0
Total Member Cost (YTD)	
Deductible (<i>max of \$800</i>)	\$720
Coinsurance (<i>max of \$900</i>)	\$80
Out-of-Pocket Maximum (<i>max of \$1,700</i>)	\$800
Total Plan Cost (YTD)	
Plan Cost	\$0

Deductible before Coinsurance	
First Medical Claim	
Approved Amount	\$800
Apply Deductible	\$800
Remaining Claim Balance	\$0
Apply 10% Coinsurance	\$0
Member Cost (<i>Coins. + Ded.</i>)	\$800
Plan Cost (<i>Approved – Member Cost</i>)	\$0
Total Member Cost (YTD)	
Deductible (<i>max of \$800</i>)	\$800
Coinsurance (<i>max of \$900</i>)	\$0
Out-of-Pocket Maximum (<i>max of \$1,700</i>)	\$800
Total Plan Cost (YTD)	
Plan Cost	\$0

Member hits Deductible

After first medical claim the member and Plan have the same overall cost

Plan modernization – Medical (continued)

Deductible before Coinsurance – Example

Coinsurance before Deductible	
Second Medical Claim	
Approved Amount	\$200
Apply 10% Coinsurance	\$20
Remaining Claim Balance	\$180
Apply Deductible	\$80
Member Cost (<i>Coins. + Ded.</i>)	\$100
Plan Cost (<i>Approved – Member Cost</i>)	\$100
Total Member Cost (YTD)	
Deductible (<i>max of \$800</i>)	\$800
Coinsurance (<i>max of \$900</i>)	\$100
Out-of-Pocket Maximum (<i>max of \$1,700</i>)	\$900
Total Plan Cost (YTD)	
Plan Cost	\$100

Deductible before Coinsurance	
Second Medical Claim	
Approved Amount	\$200
Apply Deductible	\$0
Remaining Claim Balance	\$200
Apply 10% Coinsurance	\$20
Member Cost (<i>Coins. + Ded.</i>)	\$20
Plan Cost (<i>Approved – Member Cost</i>)	\$180
Total Member Cost (YTD)	
Deductible (<i>max of \$800</i>)	\$800
Coinsurance (<i>max of \$900</i>)	\$20
Out-of-Pocket Maximum (<i>max of \$1,700</i>)	\$820
Total Plan Cost (YTD)	
Plan Cost	\$180

Already Met

Member pays less when deductible applies first.

Plan pays more.

Plan modernization – Medical (continued)

Deductible before Coinsurance – Example

Coinsurance before Deductible	
Third Medical Claim	
Approved Amount	\$8,800
Apply 10% Coinsurance	\$800
Remaining Claim Balance	\$8,000
Apply Deductible	\$0
Member Cost (<i>Coins. + Ded.</i>)	\$800
Plan Cost (<i>Approved – Member Cost</i>)	\$8,000
Total Member Cost (YTD)	
Deductible (<i>max of \$800</i>)	\$800
Coinsurance (<i>max of \$900</i>)	\$900
Out-of-Pocket Maximum (<i>max of \$1,700</i>)	\$1,700
Total Plan Cost (YTD)	
Plan Cost	\$8,100

Limited to \$800 because \$100 was applied to Coinsurance from prior claim

Deductible before Coinsurance	
Third Medical Claim	
Approved Amount	\$8,800
Apply Deductible	\$0
Remaining Claim Balance	\$8,800
Apply 10% Coinsurance	\$880
Member Cost (<i>Coins. + Ded.</i>)	\$880
Plan Cost (<i>Approved – Member Cost</i>)	\$7,920
Total Member Cost (YTD)	
Deductible (<i>max of \$800</i>)	\$800
Coinsurance (<i>max of \$900</i>)	\$900
Out-of-Pocket Maximum (<i>max of \$1,700</i>)	\$1,700
Total Plan Cost (YTD)	
Plan Cost	\$8,100

Already Met

Same spend overall for the year for the member and the Plan. No further expenses for member. Plan pays all costs going forward.

Plan modernization – Pharmacy

- Copay Card Solution for Mail order and Specialty Distribution.
 - Explore opportunities to maximize funds from pharmaceutical manufacturers at mail order and specialty distribution.
 - This program would not affect Plan expense, but it could save members money.
 - This program cannot currently be rolled out for the Medicare population due to CMS rules.
 - **Recommendation:** Expand copay card solutions to the Non-Medicare eligible population.

Plan modernization – Dental

- Interim caries arresting medicament.
 - Topical medication to treat and prevent tooth decay to preserve the tooth.
 - Helps with tooth sensitivity and avoiding broader invasive procedures.
 - Minimal cost increase to Plan, \$14,000 annual increase in Plan cost.
 - **Recommendation:** Allow for this service to be a covered benefit under the Dental Plan.

Recommendations summary

Initiative Summary	Plan	Member Population	Estimated Savings/(Costs)	Effective Date	Notes
Change both Medicare and Non-Medicare Medical Plans to apply Deductible before Coinsurance	Medical	Non-Medicare and Medicare	(\$13.5M)	1/1/2025	
Copay Card Solutions	Pharmacy	Non-Medicare	\$0	1/1/2025	
Interim caries arresting medicament	Dental	All Dental Members	De Minimus	1/1/2025	
Total			(\$13.5M)		