State Employee Advisory Commission and
Public-School Advisory Commission Minutes

May 14, 2024

The Arkansas State Employee Advisory Commission and Public-School Employee Advisory Commission met on Tuesday, May 14, 2024, at 10:00 a.m.

ASE Commission Members Present:	PSE Commission Members Present:
Ronda Walthall	**Billy Jackson**
Jerry Jones	**Julie Bates**
Cynthia Dunlap	**Greg Rogers**
Marty Casteel	
Bruce Maloch	

Others Present: Grant Wallace, Director of EBD; Amanda Land, Deputy Director of EBD; Jay Bir, EBD; Janella Deville, EBD; Denise Flake, EBD; Skochu Fields, EBD; Cindy Monterroza, EBD; Jessica Akins, DIS; Sylvia Landers, Colonial Life; Jake Goll, Navitus; Sherry Bryant, EBRx; Trey Gardner, EBRx; Kristen Belew, EBRx; Jake Goll, Navitus; Dr. Jill Johnson, UAMS; Jenna Goldman, UAMS; Paul Sakhrani, Milliman; Scott Cohen, Milliman; John Bridges, ASEA; Ashley Boes, Nima Nabavi, AMAEN; Lori Bowen, BLR; Takisha Sanders, ABCBS; Stephen Carroll, AllCare Specialty; Marc Bagby, Lilly; Michael Morrison, Arkansas Pharmacists Association; Frances Ballman, Novo Nordisk; Jomy Joseph, SANOFI; Debbie Rogers, Martha Hill, Glenda Martin, Derrick Smith, Cassandra Mendenhall, Christopher Cannon, David Hopkins, Jeff Byers, Brent Parker, Jim Musick, Nicholas Poole, Kristie Banks, and 3 others.

1. Call to Order

Meeting was called to order by Chairman Cynthia Dunlap and announced there was a quorum for the PSE and ASE Commissions.

2. Approval of April 14, 2024, Minutes, Cynthia Dunlap

Billy Jackson moved to approve the minutes from the April 14 Regular Meeting, seconded by Jerry Jones. **Motion Passed.**

3. Director's Update, Grant Wallace

Director Wallace mentioned retirement call volume and receipt of forms are increasing for Employee Benefits Division (EBD). He also mentioned portability is gearing up, where teachers will transfer districts. He said there have been improvements to the Portability Process and will function more efficiently this year. This will hopefully make the process smoother for HIRs and EBD.

Director Wallace asked if there were any questions from the Commission about anything and wanted to take a moment to allow for any.

4. Contract Reviews, Grant Wallace

A. EBRx

Director Wallace said the EBRx agreement is an interagency agreement and is for one year. There is not an increase in overall cost from the current agreement at $1.6 million. There is a slight shift in the work, notably in the appeals process. With Navitus as the new Pharmacy Benefits Manager, there have been more pharmacy appeals filed. Director Wallace would like to ensure resources are shifted accordingly to support the increased volume.

Rhonda Walthall moved to accept the EBRx contract, seconded by Marty Casteel. **Motion Passed.**

B. Mainstream

Mainstream is the EBD technology partner and they maintain the ARBenefits portal system for both reps and members. The contract being presented is to extend the current agreement for six months at a cost of up to $1 million. The method is by billable hours, so it is dependent on how they are utilized, but the $1 million is a little less than half of the previous 12 months. The previous full year was $2.5 million. Director Wallace stated he is investigating all options available up to, and including, a Request For Proposal (RFP). There are some things DIS does have in place with cooperative extensions of which EBD may be able to take advantage. These options are being reviewed and then how to proceed will be decided at a later time. He said everything is on the table, which is why this extension is only for six months.

Jones motioned to approve the Mainstream Contract, seconded by Casteel. **Motion Passed.**

5. Formulary Review

A. Pharmacy, Jake Goll

Jake Goll presented the April Formulary Advisory Committee recommendations. The following drugs were recommended to be added or changed on the formulary:

- Opill tablets
- Opfolda tablets
- Ridaura capsules
- Lithium oral solution
- Lokelma Pak
- Doxepin HCL cream
- Doxepin Cream, Prudoxin Cream, Zonalon Cream
- Tegsedi injections
- Mycophenolate DR tablets (generic for Myfortic)
- Litfulo capsules

- Tezspire pen
- Humulin R
- Humulin N
- Humulin 70/30
- Vevye Ophthalmic solution

Jackson motioned to accept the April FAC recommendations, seconded by Casteel. **Motion Passed.**

B. Medical, Kristen Belew

Kritin Belew presented the Second Quarter Medical recommendations. The following drugs had recommendations:

- Alyglo
- Amvuttra
- Casgevy
- Combogesic IV
- Defencath
- Eylea HD
- Ixchiq
- Lanreotide
- Lenmeldy
- Lyfgenia
- Rivfloza
- Tezspire
- Vectibix
- Wainua
- Zilbrysq

Bates commented gene therapy drugs are something needing to be aggressively addressed. As these continue to be rolled on to the market, she said there is not a plan anywhere that can afford these prices and how the State chooses to deal with these will be important and possibly be something to address in the next General Session. Director Wallace said these are treatments being discussed. Bates added it is sad because gene therapies might work but the plan won't be able to absorb the cost. Dunlap asked if the gene therapy costs are based on a single treatment or a lifetime treatment. She added since there is no guarantee the treatment will take to a patient, why would any plan pay upwards of $5 million if it does not work? Belew said that scenario would be part of any strategy. She said some contracts with manufacturers say if the therapy does not work, there is no requirement to pay for it, which is likely the reason for such high costs.

Greg Rogers motioned to approve the Medical recommendations, seconded by Casteel. **Motion Passed.**

6. <u>Milliman Update & Rate Setting Exercise, Paul Sakhrani & Scott Cullin</u>

Director Wallace said it would be ideal to be able to come to an agreement on 2025 rates in this meeting to present them to the State Board of Finance and Arkansas Legislative Council and follow timelines to get ready for Open Enrollment.

Paul Sahkrani began by reminding the Commissions the numbers being presented are actuarial assumptions and estimates based on generally accepted actual principles. Milliman relied on data from various sources including EBD and its vendors.

For the Arkansas State Employees (ASE) plan, the current projections show a little over $50 million in surplus. The approved initiatives include state funding climbing from $550 per month per budgeted position in 2023 to $660 in 2025. EBD also began a 5-year transition in 2023 to align to what employees pay for insurance in surrounding states.

The status quo of the plan shows in 2025 the plan shows a healthy surplus and it is not until 2029 that there is a deficit with overall assets. The plan's surplus peaks at $285 million in 2028 before the plan starts seeing those reserves being eaten in to. The ASE side will consider two different scenarios, the status quo or continuing along with the 5-year transition plan. The status quo scenario has member rates staying flat in 2025.

The second scenario is continuing the 5-year transition plan to get them more aligned with the market and surrounding states. Employee contributions would be lower in 2025 and this would affect the surplus illustrated under the status quo scenario. In 2025, instead of being over $50 million, it would be about $48 million. This would continue to decrease to $30 million in 2026, $10 million in 2027, then in 2028 a cash flow deficit and furthermore in 2029. The reserves stay in a health position, even through 2029 as they are about 58% of overall expenses by that year. Dunlap asked if the basic change to the ASE plan was due to the increased funding. Sakhrani said they would illustrate that.

Director Wallace emphasized the strategy is to be more competitive with surrounding states and the goal is to spend down the reserves over the next 10 years to get to that mark that was set out for at the beginning of the 5-year transition. For example, if medical is seeing a 6% inflation, then the 6% is shared equally by the employer and the employee, so there is some predictability with funding. Bates mentioned the $660 funding from the State seems to be generous for employer contributions. Sakhrani mentioned the $660 is spread out across the entire population and must cover both active and retired employees and dependents. The $660 is based off budgeted positions but is really covering the entire cohort of everyone enrolled in the plan. Dunlap asked how it compares to other states. Sakhrani said Arkansas employees are on the higher end of how much they pay for insurance. Director Wallace said the State is higher on the employer retiree contribution but lower on the employer active contribution and that is what is trying to get balanced out. He said EBD wants to get to a place where there is continuity, and some level of inflation drives the numbers instead of exercises like this where numbers get plugged in and you see where it goes. He added it is a better way to budget and understand all the levers you can pull to adjust and why you need to pull certain levers in certain situations.

Director Wallace mentioned they do have healthy reserves, but they can be spent down quickly and with the cost of healthcare his preference is to always have an extra cushion from the targets to avoid operating within the margins. Bates said looking at the next five years things will change drastically, and any number of things can play into a singular year and does not want to set up unrealistic expectations of rates continuing to decrease when there are too many unknowns like the list of gene therapy drugs listed at $3.1 million and $5.1 million. Walthall said she would prefer the cost be flat or increase incrementally each year to give that expectation. Once it starts decreasing, there is an expectation the rates will not increase.

Director Wallace said it is important to understand the history and why these conversations are being had as opposed to five years ago. He does not want to rely heavily on the reserves and create false expectations and EBD cannot assume the legislature will always have extra funding. He said he thinks it is important to get to a more predictable amount and why he leans on continuing the 5-year transition plan because it is also important to be competitive in employer recruitment and retention. This will not be a continuous decrease and once you get to zero, then everybody’s levels are set and once we get to that point then there will be some increases but what those increases look like are unknown. There is no guarantee there will not be a bad high-claims experience in the next year and a half that will force a level set, and this is why this procedure is done every year and it is important to be transparent. He emphasized he feels there is enough reserve to continue with the 5-year plan, but it is something to be continually monitored.

Scott Cohen with Milliman presented the Public-School Employee (PSE) plan details. Cullin said by the end of 2024 there will be a $4.6 million surplus. There is currently nothing approved for 2025, but he did say to keep in mind the 5-year transition.

The status quo of the plan shows a negative position in 2025 and escalates quickly through 2029. Looking at revenue through 2029 it remains relatively flat, but expenses increase. 2025 shows the first year of digging into the reserves and by 2027 those are nearly depleted. In 2028, the plan is in a significant negative position.

There were four different scenarios presented:

1. Maintain status quo
2. Continue the 5-year transition plan, but delay it in 2025
    a. 2026-2030: 13.5% increase in DOE and minimum district funding
    b. 2031+: 7.5% increase in DOE and minimum district funding
3. Continue 5-year transition plan, but delay it in 2025 and request additional DOE funding
    a. 2025: $15 million increase in DOE funding
    b. 2026-2030: 12% increase in DOE and district minimum funding
    c. 2031+: 7.5% increase in DOE and district minimum funding
4. Continue 5-year transition plan and request additional funding from DOE
    a. 2025: $18 million increase in DOE funding
    b. 2026-2030: 12% increase in DOE and minimum district funding
    c. 2031+: 7.5% increase in DOE and minimum district funding

Scenario 2 continues the transition plan but does not require additional funding from the Department in 2025, but in 2026-2030 will see increases in funding. This will see deficit spending those years but beginning in 2030 there will be positive net income and after 2030 will see a 7.5% increase annually. The idea for this model is to stabilize net income levels and in 2032 have a 10-12% reserve as a percentage of expenses.

Scenario 3 delays the 5-year transition and requires $15 million in funding from the Department for 2025. Beginning in 2026, there will be 12% annual increases in minimum district and Department funding, then starting in 2031 it drops to 7.5%. Like Scenario 2, there is a deficit from 2025-2029 and in 2030 enter back into a net positive. By 2034, the reserves settle in to about 10-12% of expenses.

Scenario 4 does not delay the 5-year transition, requires $18 million in one-time funding for 2025, then 12% increases until 2030, and 7.5% each year from 2031 and beyond. This scenario shows a decrease in many of the employee contributions starting in 2025 and the $18 million from the Department is to offset that change. Much like the other scenarios, this will run a deficit until 2030 and reserves will settle in at around 10-12% of expenses.

Bates asked about Department funding and how could that be dictated here and not through Adequacy. Director Wallace said the one-time infusion of Department funding is not in Adequacy and is what has been done in the past. He said this is why the different scenarios were developed and any one-time funding request was going to be under $20 million. Rogers mentioned Adequacy discussions will begin in August.

Director Wallace mentioned in the last General Session, funding was reduced from $300 to $234.50 and that is what is driving these conversations. He added he would like to see something stabilized until General Session next year and then go back and possibly change the district minimum to allow the plan to be more predictable. But for 2025, the district minimum is already set and cannot change it. He thinks the Commissions should prioritize the 2025 and

2026 numbers for the PSE plan since things will likely change substantially. Bates said there are basically two options for them to really look at with that in mind and it is the status quo or delaying the 5-year implementation and ask for Department funding.

Rogers said he can make a recommendation for one-time funds to stabilize the PSE plan because it will take more to look at district rates and the other oddity to consider is the plan is based on calendar year and school district budgeting is on a July through June fiscal year. He added there is a lot of confusion with this concept. Rogers said there was already a line item for this in budgets, but it would be better to have stability and to know what needs to be requested to smooth out the transition.

Sakhrani presented the base rate changes. He said these are mainly used for publishing purposes and on W-2s and COBRA benefits. The base rates for active ASE employees is 1.4% for all coverage bands. For Pre-65 plans there is a 1.4% increase except for bands involving a Medicare eligible spouse because those coverage bands are underwritten based on their own set of circumstances. For the MAPD plan, Milliman is still working on what the rates will be, but there is an assumed $5 increase for the Retiree Only plan and a $10 increase if there is a spouse. The Primary plan with Health Advantage is based off a self-funded rate which is based off the actual experience of the group. Milliman is projecting a 6% increase on those base rates.

The active PSE base rates will increase 2.2%. The Pre-65 base rates are generally the same with the Medicare spouses being slightly different. For the MAPD plan they are also working with the $5 and $10 increases like the ASE plan. Currently the Primary plan is seeing a slight decrease in the retiree only and retiree and Medicare eligible spouse plans but other are seeing a less than 2% increase.

Sakhrani presented the new rates for the scenarios discussed on the ASE plan. The status quo would see no change in the rates for 2025. He pointed out a majority of ASE members are on the Premium, employee only plan. The Premium plan is the coverage band a majority of members are enrolled in who have dependents. Currently Premium, Employee Only members are paying $162 per month and the status quo scenario would not change that. This would be the same for retiree plans.

The 5-year transition plan would show Premium, employee only members seeing a $10 decrease in premiums. Decreases will vary by coverage band on Plan level. The Pre-65 retirees will see slight increases in the Premium plan since a majority are on it, but the Classic and Basic will see varying decreases. The MAPD plan retiree only will see a 69-cent increase and double it for a Medicare spouse. Other MAPD coverage bands see varying increases. For the Primary plan there is a capped 10% increase for the retiree only and retiree with Medicare spouse.

Bates asked Director Wallace what his recommendation is for the ASE rates. Director Wallace said he would like to continue the 5-year transition plan. Dunlap asked how the calculations are made because the active employees have seen a decrease, but the retirees are seeing an increase. Sakhrani said they came up with a benchmark of how much is being subsidized. The MAPD plan the subsidy for the retiree only coverage band is $157, and the goal is to get state contributions roughly equivalent to each other across coverage bands so the plan is indifferent to which one the retiree selects. The current benchmark is 90% with the MAPD plan, which is about $160. The Primary plan sees a subsidy of about $300 for the retiree only coverage band. This is why those members are seeing a bigger increase and will continue to do so for the next few years until they are on a similar level. For the active group the subsidy is very similar and ideally will get to parity by 2027 if the 5-year transition plan continues.

Walthall moved to accept the 5-year transition plan for the ASE group, seconded by Jackson. **Motion Passed.**

Cohen presented the rate scenarios for the PSE group. The status quo applies to two other scenarios which pause the 5-year transition plan. These all show the exact same rates as the 2024 calendar year for actives, pre-65, and both Medicare plans.

Implementation of the 5-year transition would reflect an $18 million infusion from the Department. For the actives, there would be varying percentages of decrease ranging from just under 10% to about 25%. Cohen said the goal is the same with the PSE as it is with the ASE group and it is to get the subsidy to parity amongst the different coverages. The pre-65 would also see varying percentages of decreases except on the Basic plan with a retiree and non-Medicare spouse seeing a 1.1% increase and a retiree with a non-Medicare spouse and children seeing a 0.1% increase. Medicare eligible retirees on the Primary plan see various increases and decreases to get closer to parity and the retiree only coverage band is capped at a 10% increase. For the MAPD plan, there are decreases in coverage bands except for retiree only and retiree and Medicare-eligible spouse, but those increases are $.50 and $1 respectively.

Jackson asked Director Wallace what his recommendation is. Director Wallace said he wants to get to parity on the plan so on one hand, he wants to continue the 5-year transition plan. But the reserves for the PSE plan are more fragile than the ASE plan, so the fiduciary in him, wants to pause and reassess things once conversations during the General Session can occur. Walthall said if the funding is different than it is hard to have everything desired. Jackson said if it remained the same, they are going to have to change it next year anyway so he would like to keep things to status quo. Jackson wanted to confirm if sticking with the 5-year transition plan if it would increase retiree rates. Director Wallace said outside of maintaining the status quo, there are increases on the retiree contributions due to utilization and trying to reach parity with the MAPD and Primary plans. These are what really triggers for the retirees.

Bates moved to accept Scenario 3 as the Commission recommendation, seconded by Jackson. Rogers said he would begin having those conversations about additional funding for the 2025 year. Dunlap asked if additional funding could not be garnered would they have to come back and make a new recommendation. Director Wallace said the rates would not be impacted either way and they would reset for 2026 and depending on funding it may be a smaller impact or a larger one. **Motion Passed.**

7. Other Business

Director Wallace expressed his appreciation to the Commissions for passing these motions to keep the process going.

Jackson asked if there were any other issues with UnitedHealthcare because he is hearing "horror stories". Director Wallace said he was not aware of any widespread issues but if they do hear of anything to please direct those to him. He said the situation with St. Bernard's has levelized and he is hopeful those negotiations are ongoing and progress will be made similar to how it was with Conway Regional and Baptist. Jackson asked if it was a 3-year contract with four 1-year rollovers. Director Wallace confirmed it was. Jackson then asked if the Legislature could terminate the contract. Director Wallace said after the initial three years of the contract they do not have to exercise the 1-year rollovers at any point. Jackson asked if UnitedHealthcare could do the same, to which Director Wallace said yes.

Jones moved to adjourn until June 11, 2024, and Jackson seconded. **Motion Passed.**