Michigan Dental Association MEWA
Preliminary Rating Projection 2023

June 1, 2022

Methodology

Revenue

- Revenues are projected to CY2023 based on an assumed rate increase and enrollment estimations. Revenues include:
  - Healthcare premiums

Expenses

- Healthcare expenditures are projected to CY2023 using a set of assumptions. These expenditures include:
  - Medical claims
  - Pharmacy claims and rebates
  - Administrative costs
  - Stop Loss premiums and recoveries

"Break Even Point"

- The necessary rate increase for CY2023 is the increase at which projected net expenses equal net revenue

Assumptions Used – Preliminary Rate Setting

Assumption	Value	Comment
Base Period	Jan21-Dec21	See "Base Period" Slide
Demographic Adjustment	-1.1%	See "Demo Adj." Slide
Priority Health Admin Fee	$50.38 PEPM	Assumed 2% over CY2022 Rate
Stop Loss Premium inc. (all rates)	2.5%	Assumed 2.5% over CY2022 Rate
Stop Loss Recoveries (% of premium)	50.0%	Assumed Recovery Rate
Medical Trend	5.8%	See Trend Development Slide
Rx Trend	7.0%	
Rx Rebates	19.6% of Rx Cost	Based on 2020 rebates received
Save on SP (Rx Program)	($256,800)	Savings est. for 2023
Other Expense Increase	0.0%	Non-Claim, Non-Administrative
Change in Enrollment	0.0%	Constant from April 2022
2023 Plan Changes	-0.05%	Increase to TROOP levels to the 2023 maximum allowed limit

Assumptions Used – Claims Experience Period

- For purposes of projecting Medical and Pharmacy Claims experience, Terry Group used the CY2021 incurred claims experience as an experience period. An average claims cost was calculated for this period and was then trended to CY2023 using a midpoint to midpoint trend.

- We did consider CY2022 experience for this preliminary projection. We feel that as of April 2022 that experience is still too immature to rely on for projections.

Service Type	Base Period	Months of Trend Required	Weighting
Medical	Jan21 – Dec21	24	100% of Med
Pharmacy	Jan21 – Dec21	24	100% of Rx

Assumptions Used – Demographic Adjustments

- Terry Group noted a decrease in collected premiums throughout CY2021, signifying a change in average demographics of MDA's covered population. To account for this, Terry Group made corresponding decreases to the estimated claims projections for CY2023.

- The estimated claims reduction factor can vary for differing experience periods and is based on that period's average premiums compared to CY2023's average premiums controlled for plan enrollment and annual increase differences. Since this projection uses only one experience period (CY2021), only one such adjustment is needed.

Service Type	Experience Period	Demographic Adjustment
Medical	Jan21 – Dec21	-1.1%

Assumptions Used – Trend Development

Terry Group considers both MDA experience and other industry sources when selected trends for projection

Source	Medical	Pharmacy
Segal Healthcare	7.8%	8.4%
PwC Behind the Numbers	6.5%	NA
Willis Towers Watson	6.5%	NA
Kaiser Foundation 2021 PPO	2.7%	NA
Evernorth 2020 Drug Trend Report	NA	4.0%

	Medical	Pharmacy
Selected for 2023 Rating	5.8%	7.0%

*Actual trend for 2021 includes impacts due to COVID-19 and is not considered a typical representation of healthcare cost changes

2023 Projection – Impact of Different Rate Increases

Rate Increase Assumption	Projected 2021 Net Income	Comment
10.5%	$20,000	The “break even” point
0.0%	($2,251,000)	10.5% below recommendation
5.0%	($1,171,000)	5.5% below recommendation
15.0%	$991,000	4.5% above recommendation

- Terry Group projects that MDA MEWA requires a 10.5% rate increase over CY2022 rates to break even with projected healthcare costs in CY2023
- A 1% change in the rate increase used will have an approximate $210K impact on the net income of MDA MEWA in CY2023
- As examples of alternative rate changes, increases of 0%, 5%, and 15% are shown in the above table as well with their net income projections

2023 Projection – Alternate Trend Assumptions

- In Developing the CY2023 Rate Increase Estimation, Terry Group relied on Median Trend assumptions as detailed on the Trend Selection Slide

- The below table presents 2 alternate trend scenarios – a ‘higher’ trend and ‘lower’ trend. In each case, the trend values and the necessary rate increase are shown.

Trend Scenario	Trends Used	‘Break Even’ Rate Increase
Lower Trend	5% Med / 5% Rx	8.6%
Higher Trend	8% Med / 8% Rx	13.8%

MDA MEWA – Historic Rate Adequacy

Rating Year	Premium Collected	Expenses - Claims and Fixed Expenses*	Premium over Expenses
2016	$18,321,704	$19,156,088	-4.4%
2017	$18,754,790	$19,020,899	-1.4%
2018	$20,050,788	$20,099,670	-0.2%
2019	$19,639,768	$19,640,824	0.0%
2020	$18,830,553	$18,703,627	0.7%
2021	$20,296,713	$21,963,532	-7.6%

*Includes Stop Loss Recoveries and Pharmacy Rebates

Proposed Plan Changes other than TROOP Increases

- MDA MEWA asked us to consider the addition of certain benefits to their plan offerings. Adding these benefits could result in increased costs for MDA MEWA into CY2023 and therefore could require a higher rate increase. We were provided cost factors by Priority Health for use in this analysis.

- The requested benefit coverages, their cost factor, and additional rate increase required are shown below. These rate increases are to be considered as additional to the 10.5% projection without these coverages.

Benefit Coverage	Cost Factor	Additional Rate Increase Needed
Allergy Testing 100%	0.0002%	0.0%
8 Weight Loss Drugs	0.061%	0.0%
Fertility Coverage ($20k/$30k limit)	0.51% / 0.70% ($20K / $30k)	0.4% / 0.5% ($20k / $30k)

Removing Plan Offerings – Plans #7 and #9

- MDA MEWA asked us to consider the cost impacts of removing two of their current twelve plan offerings: Plan #7, an EPO, and Plan #9, an HSA.

- In considering the removal of these plans we had to consider where currently enrolled members in those plans would migrate, as that would determine the claims cost and premium impacts for CY2023.

- For Plan 7, there are currently less than 5 enrolled contracts. This amount is negligible to MDA MEWA. Removing Plan 7 from the plan offerings would have no impact to MDA MEWA.

Removing Plan Offerings – Plans #7 and #9 - continued

- For Plan #9, MDA MEWA asked us to consider that the currently enrolled members would migrate to Plan #12, a similar HSA plan. We agree this is the most likely choice for enrollees currently in Plan #9.

- The similarity in premiums and expected claims cost in these plans would result in a negligible impact to MDA MEWA and would not require any additional rate increase to be considered for CY2023

- If enrollees on Plan #9 migrate to plans other than Plan #12, the low enrollment (approximately 50 contracts) would result in a low total impact for the MEWA and migration to higher premium plans may result in net savings for the MEWA.

Additional Plan Offering - $0 Deductible Plan

- MDA MEWA is considering the addition of a $0 Deductible Plan, sometimes referred to as a copay-only plan, to their suite of plan offerings.

- Priority Health provided an SBC covering the details of this plan. We have estimated the benefit value of this plan and have compared it to the current plan offerings of the MEWA.

- Our analysis shows the proposed $0 deductible plan to have benefit value between Plan #1, the $500 Premier Elite PPO Plan and Plan #2, the $1,000 Elite PPO Plan.

Additional Plan Offering - $0 Deductible Plan - continued

- We would strongly suggest a more thorough analysis of this plan next year with data supporting claims costs and premiums collected once this plan has been offered. It is possible that an adjustment may be needed in CY2024 to better align this plan to the other MDA MEWA plan offerings.

- The estimated benefit value of this plan is stated below, along with the estimated benefit value of Plans #1 and Plans #2 for the MDA MEWA.

Plan	Benefit Value (% of allowed cost share for MDA MEWA)	Estimated Premium Need for New $0 Deductible Plan
Plan #1 - $500 PPO	84.2%	
Plan #2 - $1000 PPO	82.0%	
New - $0 Deductible Copay-Only Plan	82.5%	Set between Plan #1 and Plan #2 for all ages/classes/areas

Premium Rebalance – Current State

- When considering the current MDA plan offerings, we were asked to consider the relationship between plan benefits and plan premiums.

- When only considering plan benefits, the MEWA has a narrow range of benefit values that range from about 71%-84%. This implies that between the richest and leanest plan options, MDA has an average of a 13% cost difference on claims for enrollees in those plans.

- However, when considering the premiums that MDA charges for their plans, there is a premium cost difference of ~45% for members in the same age/class/area group between the richest and leanest plans.

- For an average member that moves from the richest plan to the leanest plan, MDA may save 13% in claims cost, but receive 45% less premium, resulting in a net loss to MDA

Premium Rebalance – CY2023 consideration

- MDA has asked us to consider scenarios of unequal rate increases for CY2023 to reduce the gap between expected claims costs and premiums across the continuum of plan that they offer.

- There are many ways to set rates for CY2023 to reduce the 45% premium difference, and we recommend a gradual change for CY2023 with continued evaluation in subsequent years.

- Two scenarios are provided here for consideration. Both assume a 10.5% increase as the average increase and are set such MDA collects the same total premium they would if they implemented a universal 10.5% increase assuming the current enrollment distribution.

Premium Rebalance – Scenarios

- We created two scenarios for consideration:

- For scenario 1, we sorted plans into 2 groups depending on whether their current premium rate vs benefit relativity suggested the need for an increase higher or lower than the 10.5% aggregate. Each group represents approximately half of MDA's enrollment. For the lower group, we assumed an increase of 6% (approximately equal to total projected 2022 to 2023 medical+rx trend). The higher group increase was then set to get aggregate premiums equal to a 10.5% increase from 2022.

- For scenario 2, we set the Plan 1 increase to 6%. The increase for all other plans were set so that the premium relativity to Plan 1 was set closer to the benefit value relativity by the same proportion for each plan.

- These scenarios were primarily designed for discussion purposes and can be adjusted in numerous ways to achieve an aggregate 10.5% increase.

Premium Rebalance – Suggested Rate Increases

- The scenarios described above result in the following increases by plan:

Plan	Uniform Increase	Scenario 1 Increase	Scenario 2 Increase
Plan 1	10.5%	6.0%	6.0%
Plan 2	10.5%	6.0%	7.9%
Plan 3	10.5%	14.0%	9.0%
Plan 4	10.5%	14.0%	9.6%
Plan 5	10.5%	6.0%	9.2%
Plan 6	10.5%	6.0%	10.2%
Plan 7	10.5%	14.0%	9.9%
Plan 8	10.5%	14.0%	11.0%
Plan 9	10.5%	14.0%	14.0%
Plan 10	10.5%	14.0%	15.0%
Plan 11	10.5%	14.0%	12.2%
Plan 12	10.5%	14.0%	15.8%

Premium Rebalance – Scenario Relativities

- The scenarios described above result in the following relativities by plan:

Plan	AV	Benefit Relativity	Current Rate Relativity	Scenario 1 Rate Relativity	Scenario 2 Rate Relativity
Plan 1	84.2%	1.00	1.00	1.00	1.00
Plan 2	82.0%	0.97	0.87	0.87	0.89
Plan 3	79.1%	0.94	0.80	0.86	0.82
Plan 4	77.0%	0.91	0.75	0.81	0.78
Plan 5	76.6%	0.91	0.76	0.76	0.79
Plan 6	73.5%	0.87	0.70	0.70	0.73
Plan 7	77.9%	0.93	0.75	0.81	0.78
Plan 8	74.5%	0.88	0.68	0.73	0.71
Plan 9	71.3%	0.85	0.58	0.62	0.62
Plan 10	71.1%	0.84	0.55	0.59	0.60
Plan 11	75.6%	0.90	0.66	0.71	0.69
Plan 12	73.5%	0.87	0.55	0.60	0.60