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Date: December 14, 2024
To: Interim Retirement and Benefits Committee
From: Kent Ervin, Nevada Faculty Alliance
Subject: Public Employees' Benefits Program

The Nevada Faculty Alliance (NFA) is the independent statewide association of professional employees at the colleges and universities of the Nevada System of Higher Education (NSHE). Most NSHE employees participate in the Public Employees' Benefits Program (PEBP). Providing robust employee health care benefits is essential for recruitment and retention as well as keeping our colleagues healthy and productive in their jobs.

Here we address three major areas of concern about PEBP:

1) Proposed elimination of the Health Maintenance Organization/Exclusive Provider Organization (HMO/EPO) plan option.
2) Deficient cash balances to cover mandatory reserves in the self-funded plans.
3) Bills to diminish the authority of the PEBP Board

Proposed Elimination of the HMO/EPO Plan Option

At the September 2024 meeting of the PEBP Board, PEBP staff recommended the elimination of the HMO/EPO plan option. The HMO is a fully insured plan with a restricted provider network in Southern Nevada. The EPO is a self-funded plan with a similar premium and copay structure as the HMO that is available to participants in Northern Nevada. An HMO or HMO-like option has been available for decades along with the high-deductible health plan option with a Preferred Provider Organization (PPO) network. HMO participants pay a higher monthly premium in exchange for a plan with predictable copays, zero deductible, and 0% coinsurance. The PEPB Board deferred a decision and requested additional information including the results of a Request for Proposals for the HMO contract. A decision is slated for January.

The Nevada Faculty Alliance firmly opposes the elimination of the HMO/EPO plan, for the following reasons:

1) Participants who choose to pay more in monthly premiums in exchange for freedom from high unpredictable out-of-pocket expenses should have that option.
2) Especially in southern Nevada, certain providers including behavioral health are available only in the HMO plan and not in the self-funded PPO plans. Patients with those providers would have to hunt for new providers—many of whom are not accepting new patients or do not accept the PEBP PPO plan.
3) The state employer contribution (aka state subsidy) is now the same across all three plan options, so it does not cost PEPB more for participants who choose the HMO/EPO plan.

4) Per the PEBP Duties, Policies, and Procedures manual as approved by the PEPB Board the EPO plan is underwritten together with the other self-funded plans in a single risk pool, so there is no overall savings by moving its participants into the other self-funded PPO plan options.

In 2021, after years of requests by participants, PEPB added a "middle" plan option, a low-deductible PPO plan with a modest deductible, copays, and coinsurance. There has been significant migration from the high-deductible plan into the low-deductible plan, while the migration out of the HMO/EPO has been relatively small. Since the introduction of the low-deductible plan, its deductible was reduced to $0. Also, a deductible and coinsurance on some services were added to the HMO/EPO plan—uncommon for HMOs. In addition to the Health Savings Account (HSA) contributions for the high-deductible plan, which is part of its "consumer-driven" plan design, similar contributions to a Health Reimbursement Account (HRA) were made for the other two plans although they are not eligible for an HSA. The original idea for three plan options has been muddied by these changes. Instead of eliminating the EPO/HMO, the design of the three plan options should be realigned to correspond to the original intent of a high-deductible plan with an HSA, a low-deductible plan with a modest deductible, and an HMO copay-only plan with zero deductible and zero coinsurance. As noted, the participants pay the full differential cost of the plan options based on the actuarial value, so the cost to PEBP is neutral with respect to plan option design differences.

PEBP Excess Reserves Are Now Negative

For over a decade after the introduction of the high-deductible plan and shifting retirees to the Medicare Exchange, PEPB generated cash reserves in excess of the mandatory reserve amounts for Incurred But Not Reported (IBNR) claims that carry over to the next fiscal year, for the Catastrophic reserve (previously known as the rate-stabilization reserve), and the HRA reserve for individual account balances. These represented funds paid in by the employer and by employees that were designated to pay for health care claims but instead accumulated despite spend-down plans over the years. However, beginning with FY2023 the excess reserves have declined because of more aggressive spend-down plans by PEBP, allocation of reserve funds for various uses in the legislative budget process, and funding of PEPB at levels below the trends predicted by the actuaries.

The chart on page 3 shows the mandatory reserves (as provided in annual actuary letters and audited financial statements) versus the cash balance. As of the end of FY2024, the "excess reserve" dropped to a negative $28 million. Based on PEBP's budgeted work program cash balance projection, it will be a negative $66 million at the end of FY2025. ***The Governor's Executive Budget and the legislatively approved budget must provide sufficient funds to restore the mandatory reserves and to maintain plan benefits and employee premiums at current levels or better.***

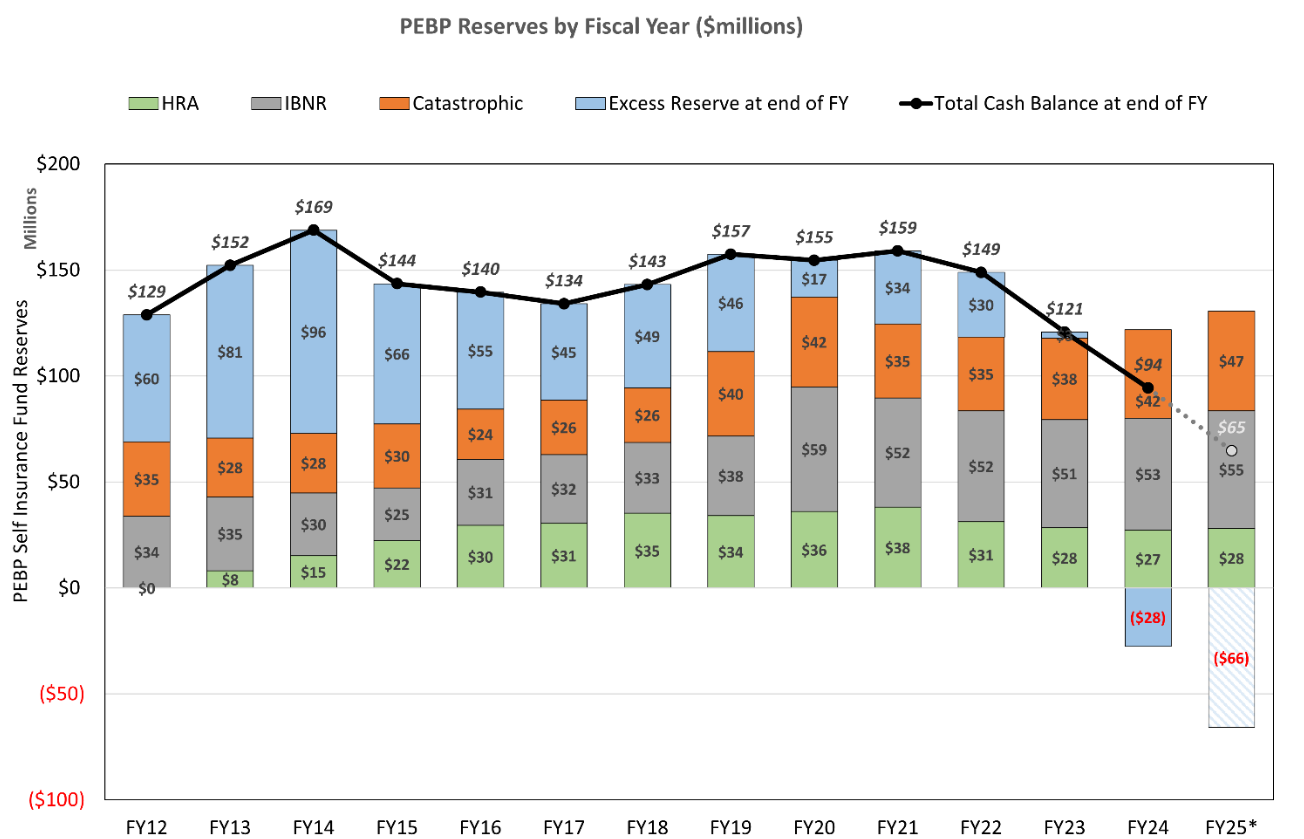
Bills to Restrict the Authority and Oversight of the PEPB Board

We note with concern that two pre-filed bills would diminish the authority and oversight of the PEBP Board.

- AB22 would remove the PEBP Board from the process to review the results of Requests for Proposals and to approve vendor contracts.
- SB32 would make the PEBP Quality Control Officer report to the PEPB Executive Officer instead of the Director of the Department of Administration.

These bills would reverse provisions enacted by [SB502](SB502) of 2017. Although the two bills were filed “on behalf of the Public Employees’ Benefits Program”, the PEBP Board was not consulted prior to their publication on NELIS (see November 2024 Board meeting transcript, pages 31-38). ***The NFA will be carefully monitoring these bills during the legislative session.***

Thank you for the opportunity to provide background information and our input on PEBP.



Health Reimbursement Account (HRA) reserves cover participant balances. Incurred but Not Reported (IBNR) reserves are for services for which claims are submitted in the next fiscal year. Catasrophic reserves are for extraordinary claims or rate stabilization. Excess Reserves are end-of-FY cash balances above (or below if negative) the mandatory IBNR Reserve, mandatory Catastrophic Reserve, and HRA liability, reported as of the end of the prior fiscal year. Sources: Total Cash Balances per PEBP Quarterly Budget Reports for the Close of the Fiscal Year. Catastrophic reserve amounts from annual actuarial letters (or PEBP reports prior to FY2017). IBNR and HRA liabilities from the Self Insurance Fund annual audited financial statements. *FY2025 ending cash balance per work program. Compiled and created by NFA 12/13/2024.

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The Nevada Faculty Alliance is the independent statewide association of professional employees of the colleges and universities of the Nevada System of Higher Education. The NFA is affiliated with the American Association of University Professors, which advocates for academic freedom, shared governance, and faculty rights, and the American Federation of Teachers/AFL-CIO, representing over 300,000 higher education professionals nationwide. The NFA works to empower our members to be wholly engaged in our mission to help students succeed.