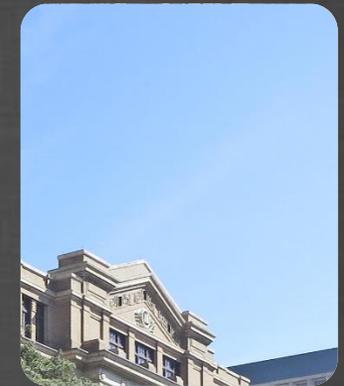


# MID-YEAR UPDATE AND REVIEW

September 16, 2015



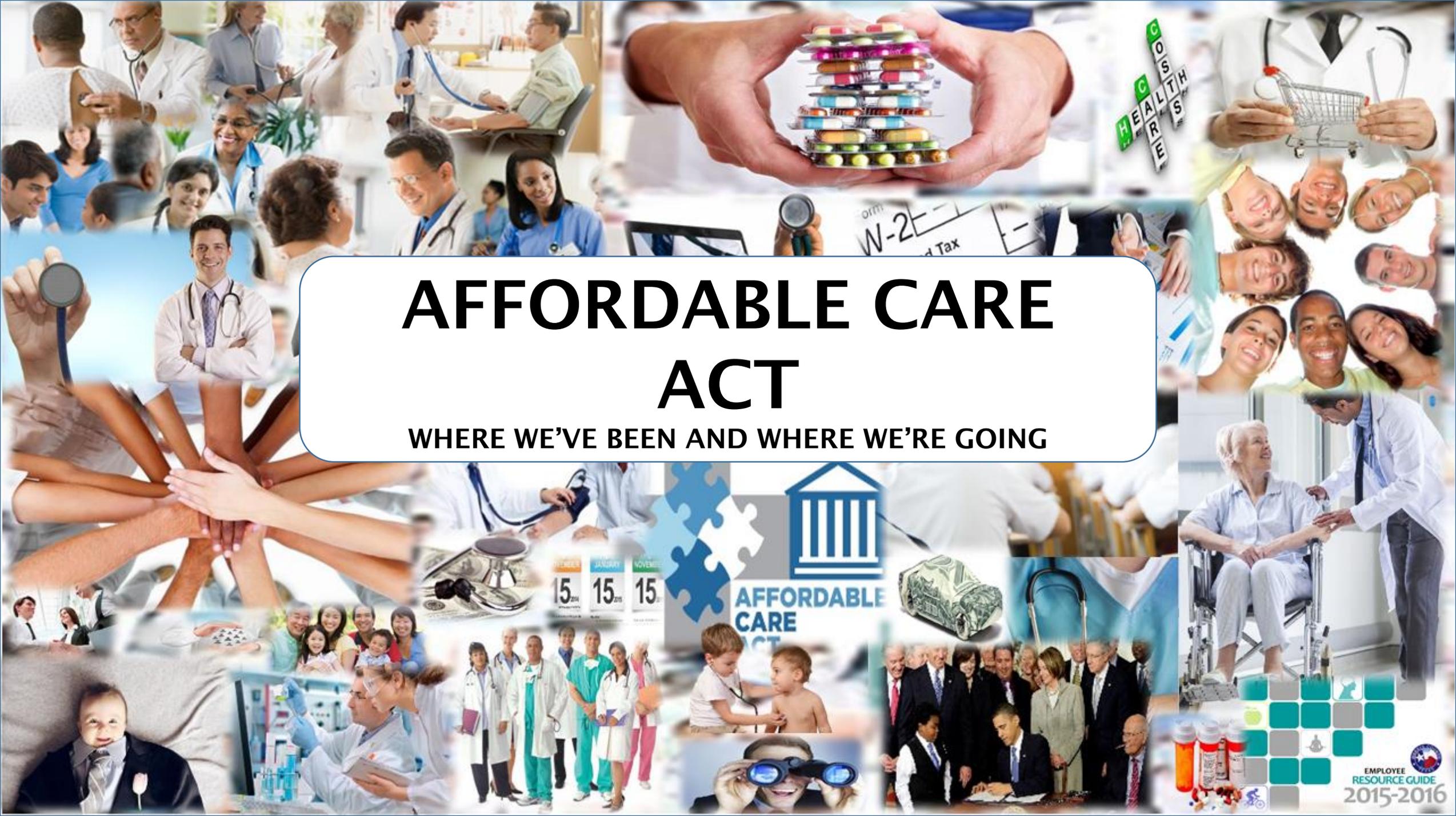
# AGENDA

- **Federal Healthcare Legislation**

- **County Workforce Demographics**

- **Medical and Prescription Drug Plan Update**

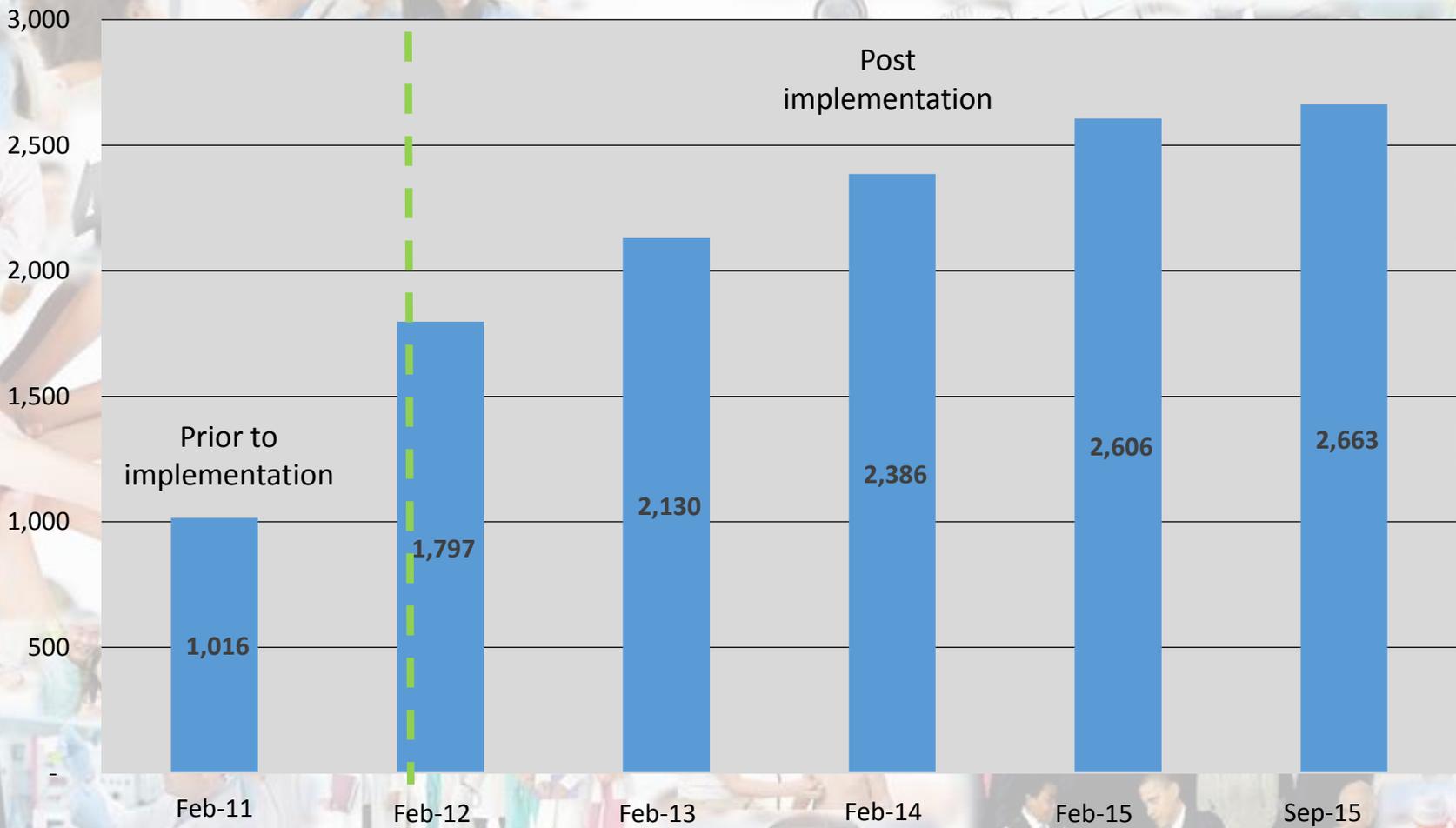
- **Texas County & District Retirement System (TCDRS) Plan**



# AFFORDABLE CARE ACT

WHERE WE'VE BEEN AND WHERE WE'RE GOING

# Adult Children



# Where We're Going



# Where We're Going



- Extensive annual reporting requirement for employers and self-insured plans in 2016.
- “Essential” health benefits definitions will continue to be modified.

# Where We're Going



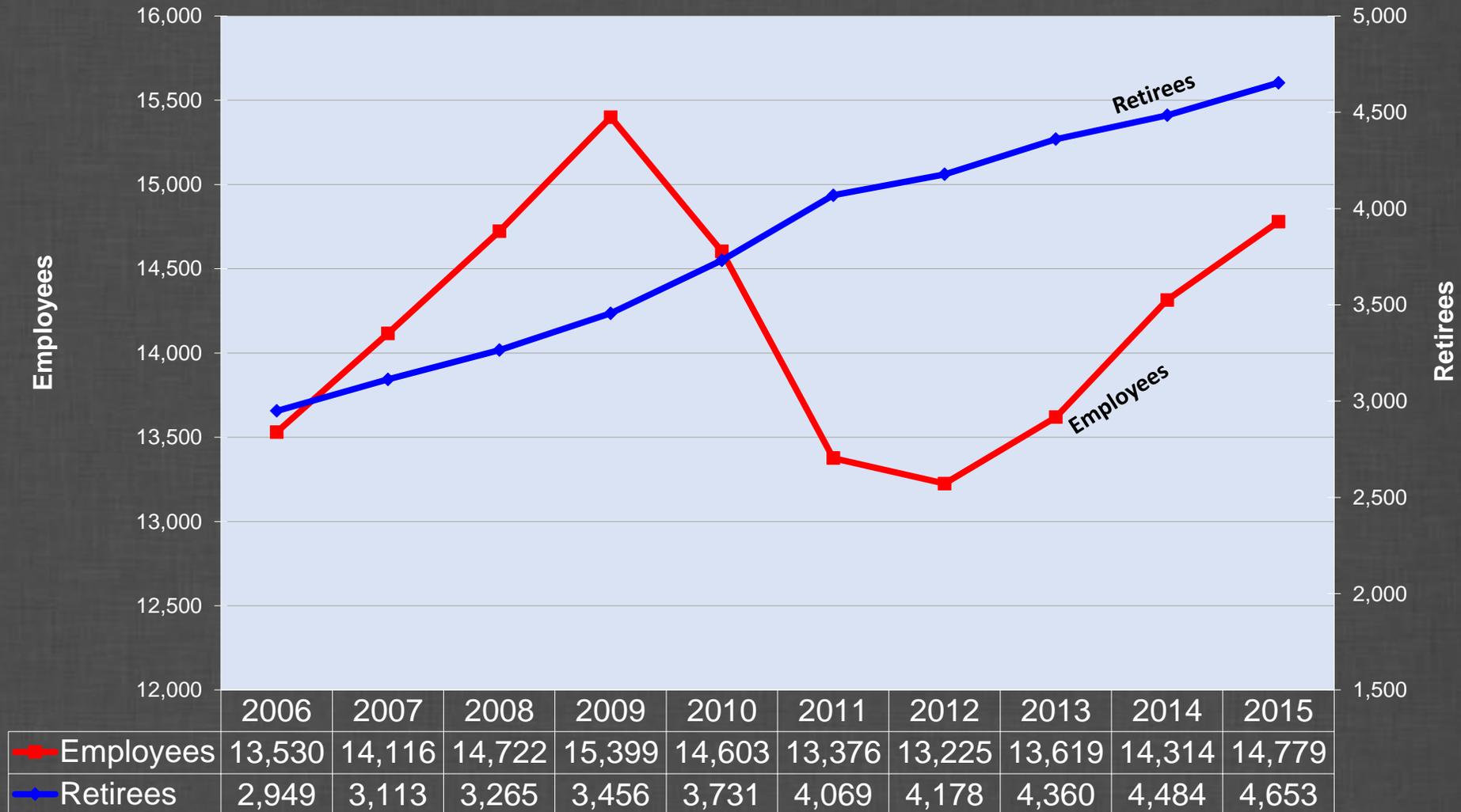
An excise tax (40% of incremental costs) is imposed on employer-sponsored health plans in 2018.





# Harris County's Workforce Demographics

# EMPLOYEE ENROLLMENT STILL LESS THAN PEAK PRIOR TO THE GREAT RECESSION



*Note: November actual enrollment each year. 2015 based on September enrollment.*

# SLOWER GROWTH RATE IN RETIREES

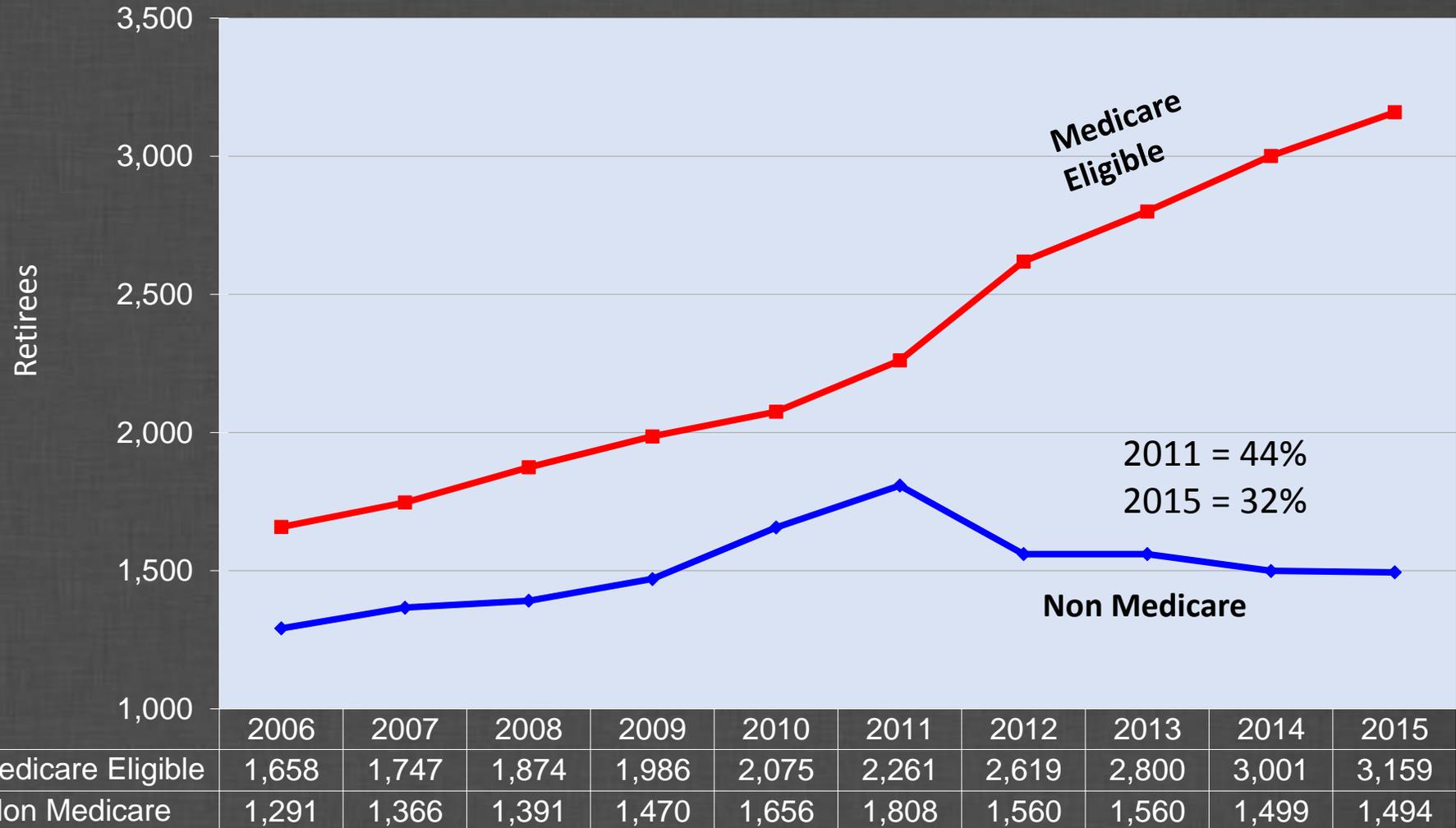
(HAS INCREASED 158% OVER PAST 10 YEARS)

## Percentage Change in Covered Employees/Retirees



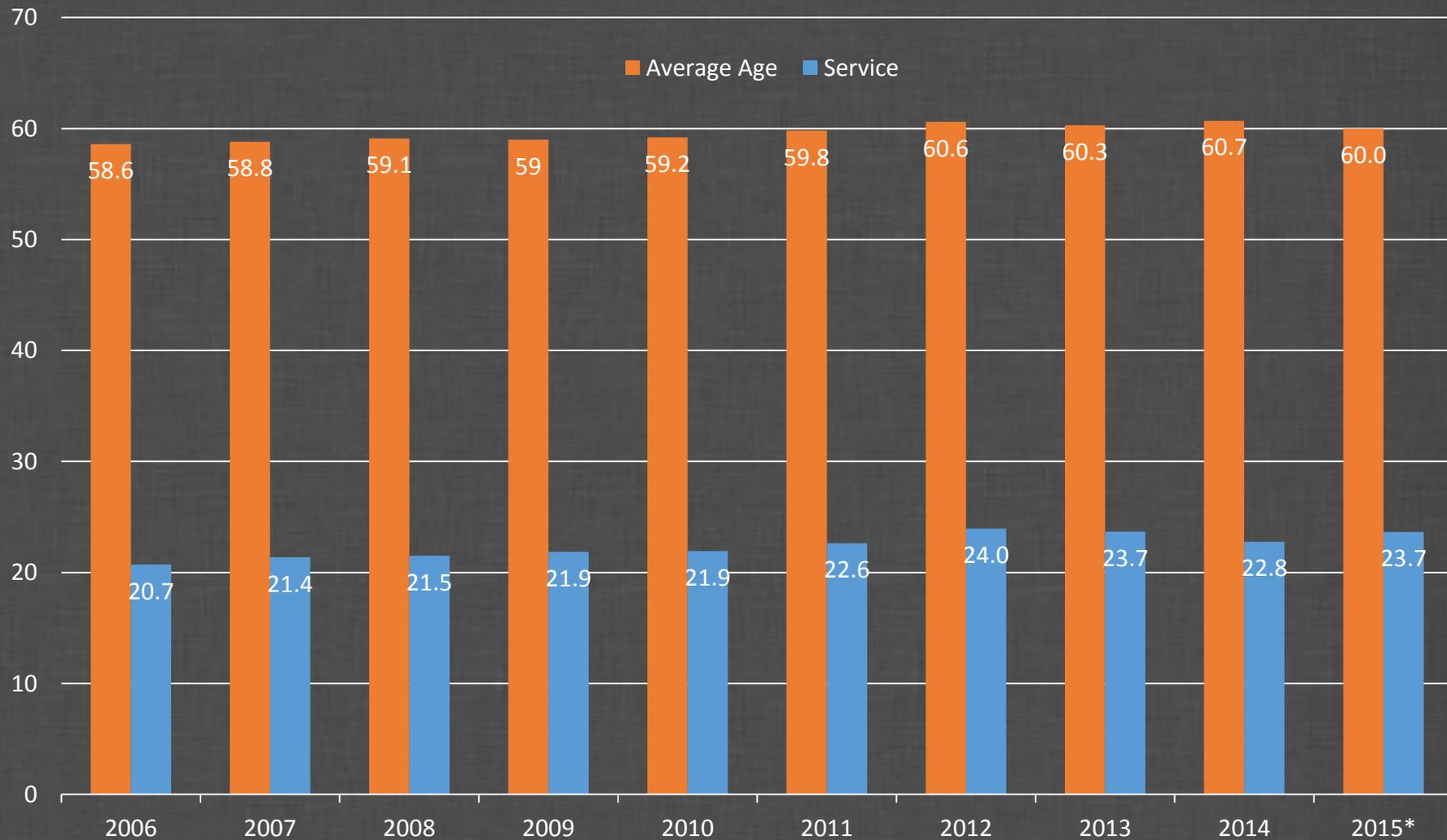
Note: November actual enrollment each year. 2015 based on September enrollment.

# NON MEDICARE RETIREES ARE A SMALLER PERCENTAGE OF RETIREE POPULATION



*Note: November actual enrollment each year. 2015 based on September enrollment.*

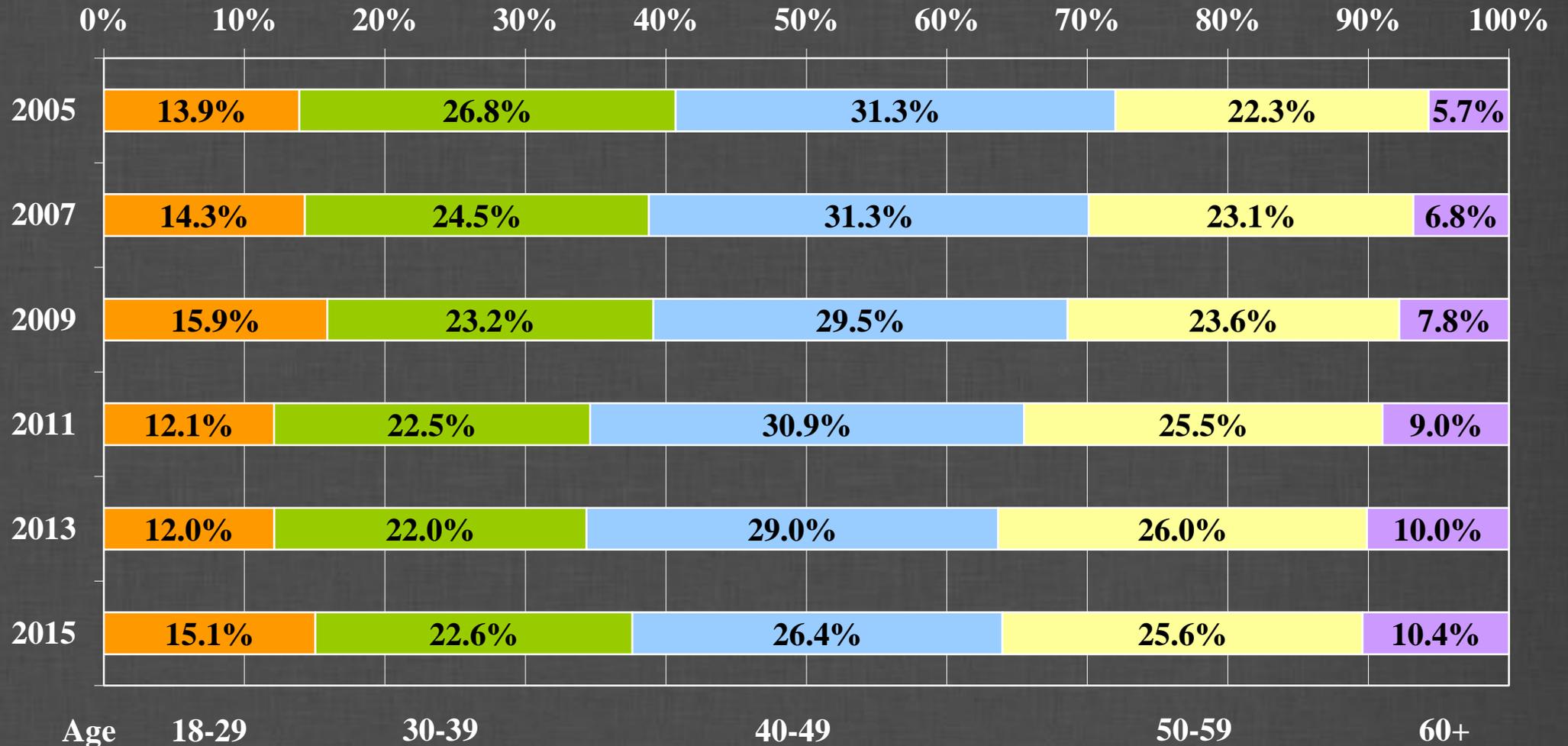
# AVERAGE AGE & SERVICE AT RETIREMENT (INSURED RETIREES)



*\*Through August 2015*

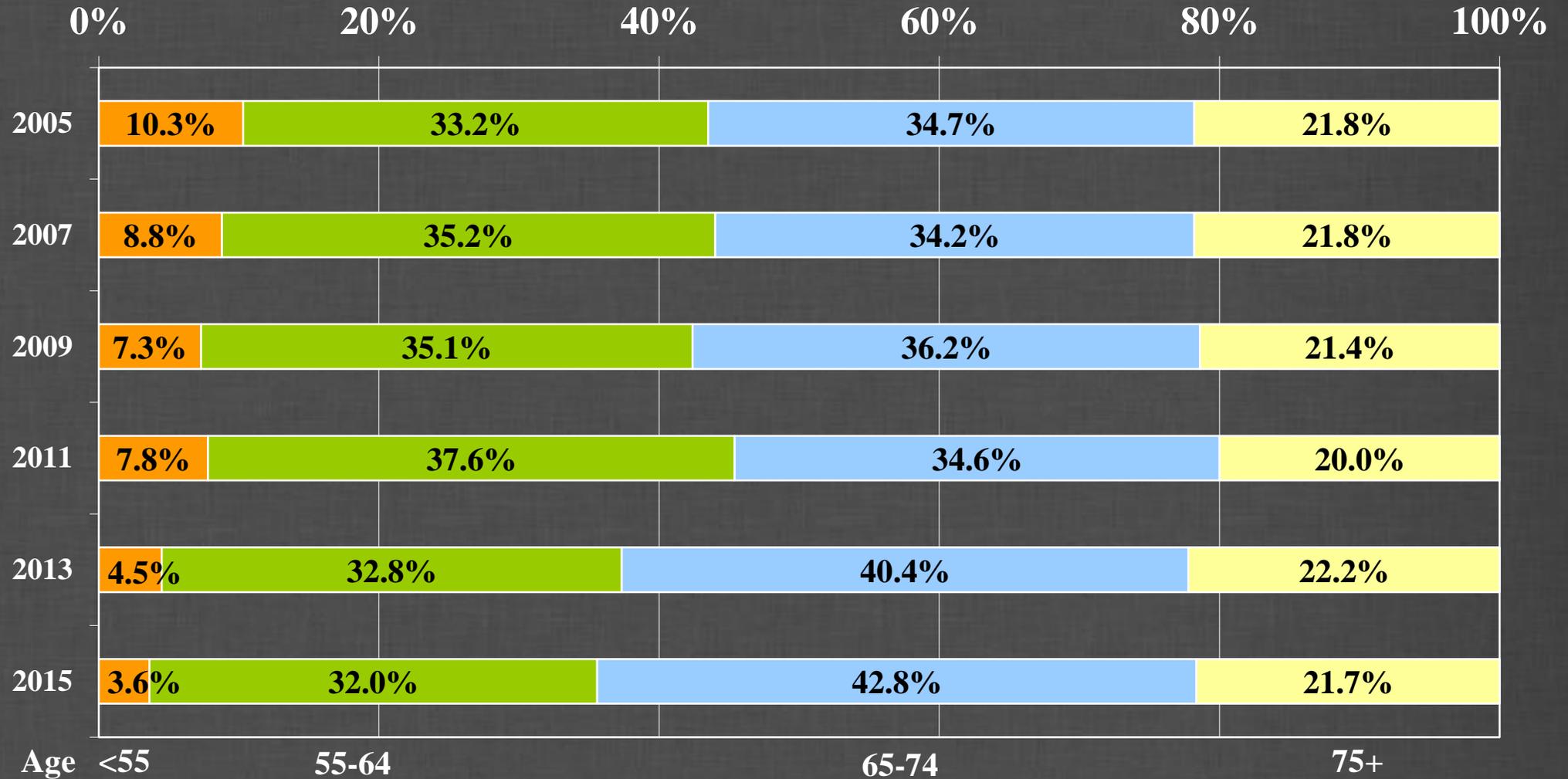
# ACTIVE WORKFORCE DEMOGRAPHICS:

36% OF INSURED EMPLOYEES ARE NOW AGE 50 OR OVER  
(62% ARE OVER AGE 40)



Note: Data as of June of each year.

# CHANGE IN PERCENTAGE OF UNDER 65 RETIREES

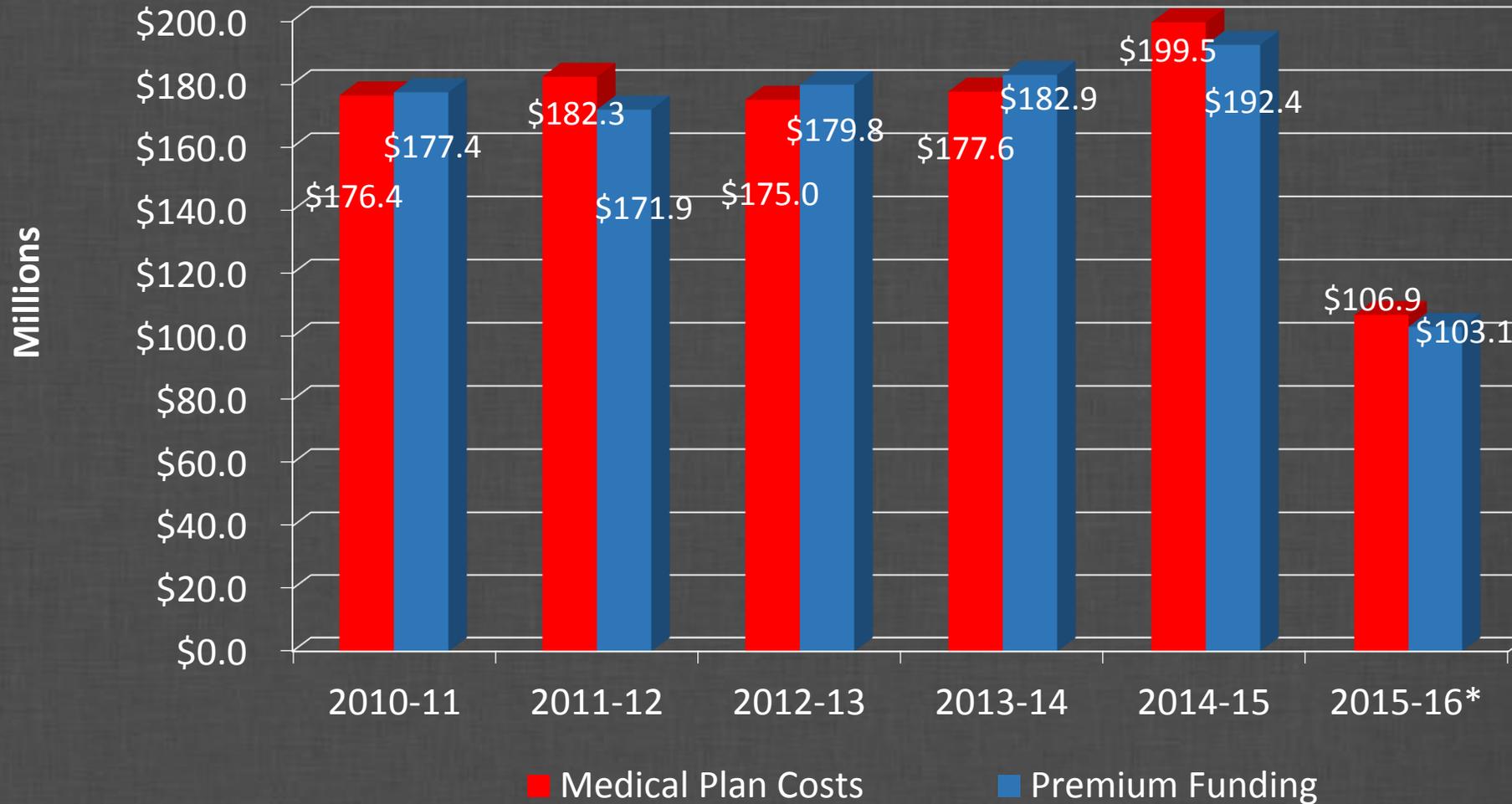


Note: Data as of June of each year.

# MEDICAL PLAN UPDATE



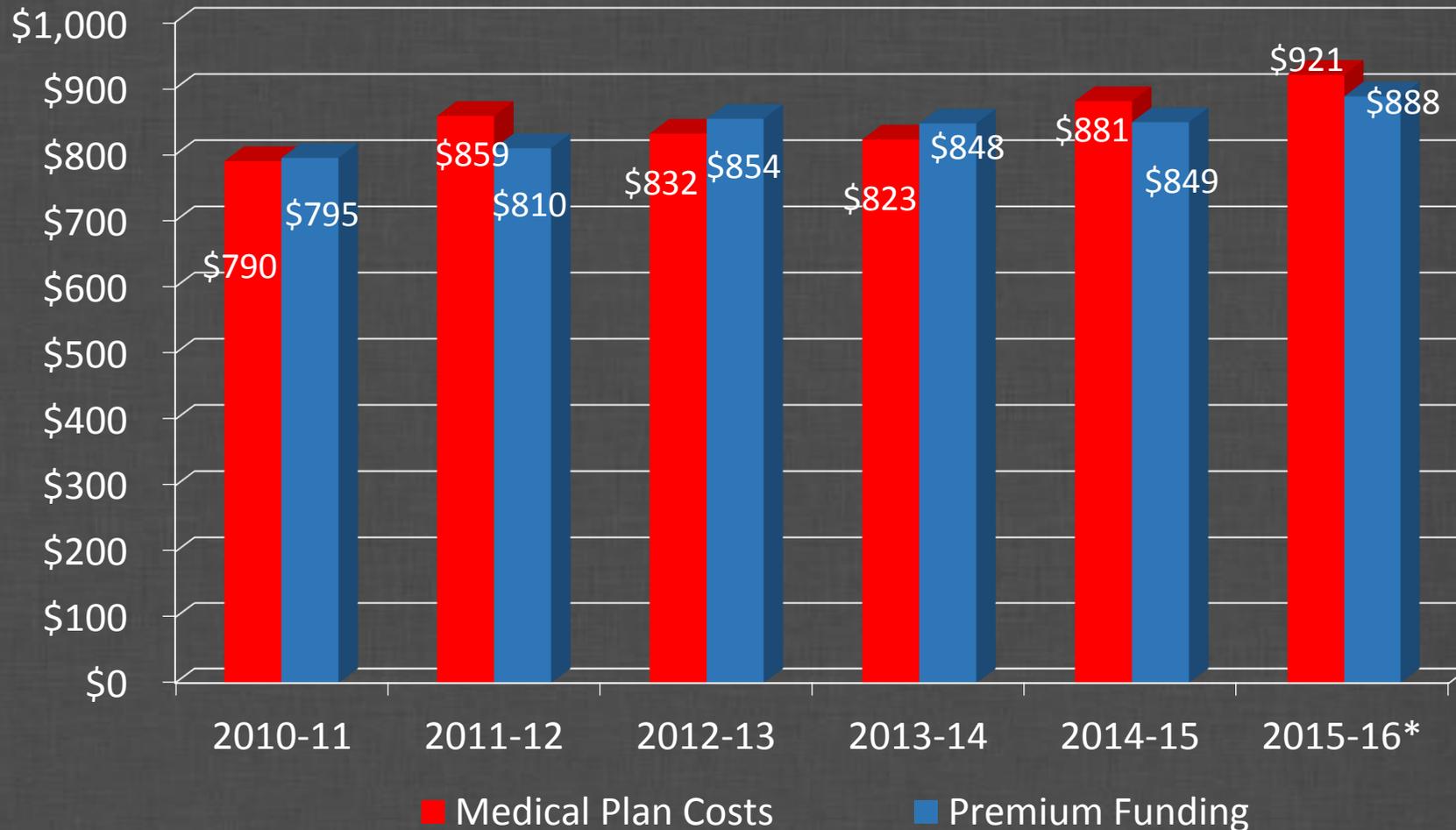
# SELF FUNDED MEDICAL PLAN RESULTS (PAID BASIS)



\*Through August 2015

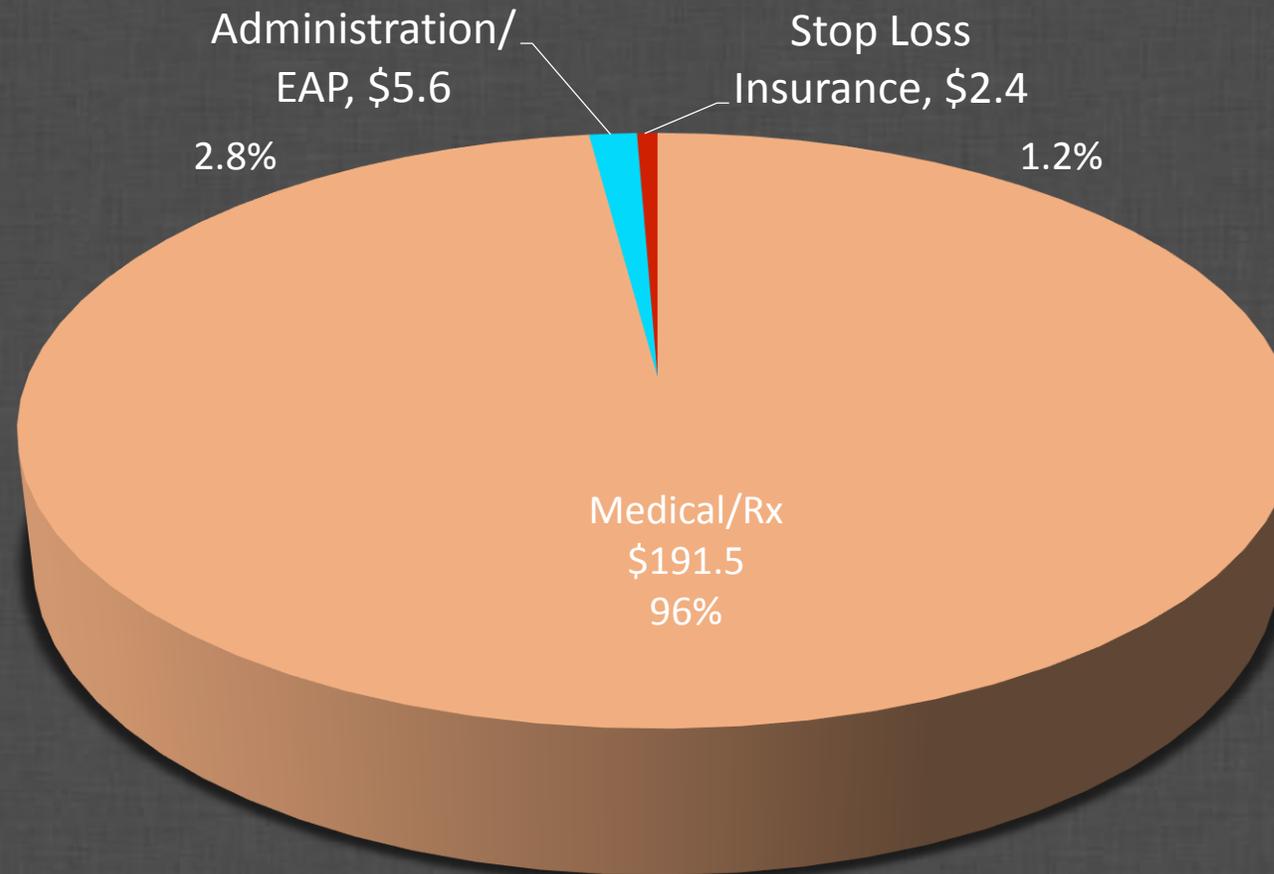
# SELF FUNDED MEDICAL PLAN RESULTS

(PER EMPLOYEE/RETIREE PER MONTH)



\*Through August 2015

# CLAIMS ACCOUNT FOR 96% OF MEDICAL COSTS



Administration is net of Rx rebates.

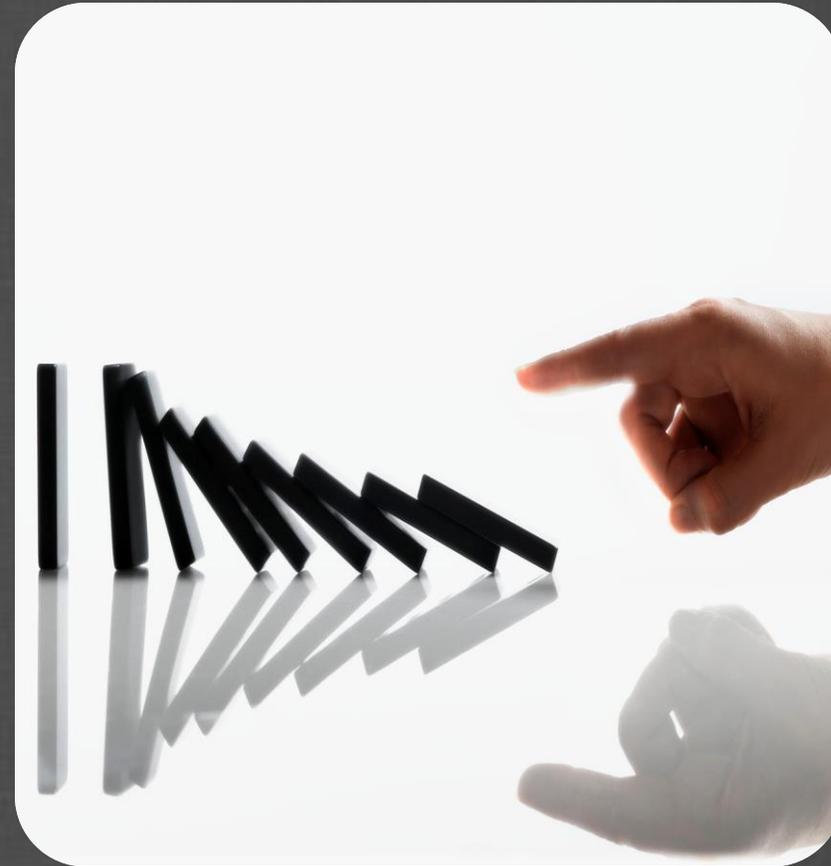
In Millions

# \$566,000 in Claims Every Day in FY 2015-16



# MEDICAL COST DRIVERS

- Uncompensated Care
- Medicare/Medicaid
- Advancement in Treatment Options and Technology
- Waste and Fraud
- Pre-Mature Babies and Aging Population
- Prescription/Specialty Drugs
- Chronic and “New” Illnesses
- Legislative Changes/ACA
- Defensive Medicine
- Physician Ownership of Facilities
- Utilization (Demand)
- Catastrophic (and large) claims



# KEY MEDICAL STATISTICS

	2013-14	2014-15	% Change
Pharmacy Paid Amount per Member	\$1,105	\$1,290	16.7%
Medical Paid Amount per Member	\$4,147	\$4,409	6.3%
Inpatient Paid Amount per Member	\$1,326	\$1,421	7.1%
Outpatient Paid Amount per Member	\$2,821	\$2,988	5.9%
Admissions/1,000 Members	98	98	0.5%
Days of Care/1,000 Members	603	634	5.1%
Average Length of Stay	6.2	6.4	4.5%
Total Surgeries/1,000 Members	886	869	-2.0%
Inpatient Surgeries/1,000 Members	85	91	6.6%
Outpatient Surgeries/1,000 Members	801	778	-2.9%
Office Visits/1,000 Members	5,050	4,913	-2.7%
ER Visits/1,000 Members	203	207	2.0%

# LESS THAN 3% OF HARRIS COUNTY MEMBERS INCURRED 50% OF ALL MEDICAL CLAIMS PAID (FY 2014-15)

Claims Amount	Average # Members	% of Total	Total Medical Claims Paid	% of Total	Annual Claims Paid per Member
<\$25,000	32,676	97.1%	\$74,022,856	49.9%	\$2,265
\$25,000 - \$49,999	562	2.9%	\$19,308,176	13%	\$34,356
\$50,000 - \$99,999	237		\$16,056,806	10.8%	\$67,750
\$100,000 - \$199,999	123		\$16,798,569	11.3%	\$136,574
\$200,000 - \$299,999	33		\$7,871,770	5.3%	\$238,538
\$300,000 - \$399,999	10		\$3,498,254	2.4%	\$349,825
\$400,000 - \$499,999	6		\$2,567,944	1.7%	\$427,991
\$500,000 - \$599,999	4		\$2,143,098	1.4%	\$535,775
\$600,000-\$699,999	0		\$0	0%	\$0
\$700,000+	5		\$6,131,062	4.1%	\$1,226,212
Total	33,656	100%	\$133,752,070	100%	\$3,974

Note: Excludes prescription drugs.

# TOP 10 HIGH COST CLAIMANTS

	2014-15		2015-16	
Claimant	Major Diagnosis Category	Medical Paid	Major Diagnosis Category	Medical Paid
1	Cancer	\$1,951,300	Newborn	\$993,433
2	Kidney Blockage	\$1,350,576	Surgery Complications	\$440,444
3	Respiratory Failure	\$1,277,422	Cancer	\$363,003
4	Cancer	\$781,349	Pneumonia	\$302,619
5	Brain Disorder	\$770,416	Cancer	\$295,588
6	Cancer	\$561,463	Surgery Complications	\$278,892
7	Cancer	\$549,471	Cancer	\$275,888
8	Cystic Fibrosis	\$523,153	Heart Failure	\$272,726
9	Gangrene	\$509,010	Newborn	\$254,799
10	Pericardial Disease	\$461,438	Rehabilitation Procedure	\$248,257

*Note: Excludes prescription drugs.*

# TOP 10 SITES OF CANCER

(FY 2014-15)

Cancer Site	Members
Skin	387
Breast	321
Multiple	276
Prostate	260
Colorectal	107
Malignant Melanoma	83
Hodgkin's Disease/Lymphoma	80
Lung	63
Leukemia	53
Bladder	46

# CANCER INCIDENCE AND COST

	FY 2013-14	FY 2014-15	% Change
Members	1,546	1,654	7.0%
Medical Paid	\$13,472,337	\$14,916,671	10.7%
Pharmacy Paid	\$1,392,253	\$1,612,640	15.8%
Total Paid	\$14,864,590	\$16,529,310	11.2%

# Prescription Drugs

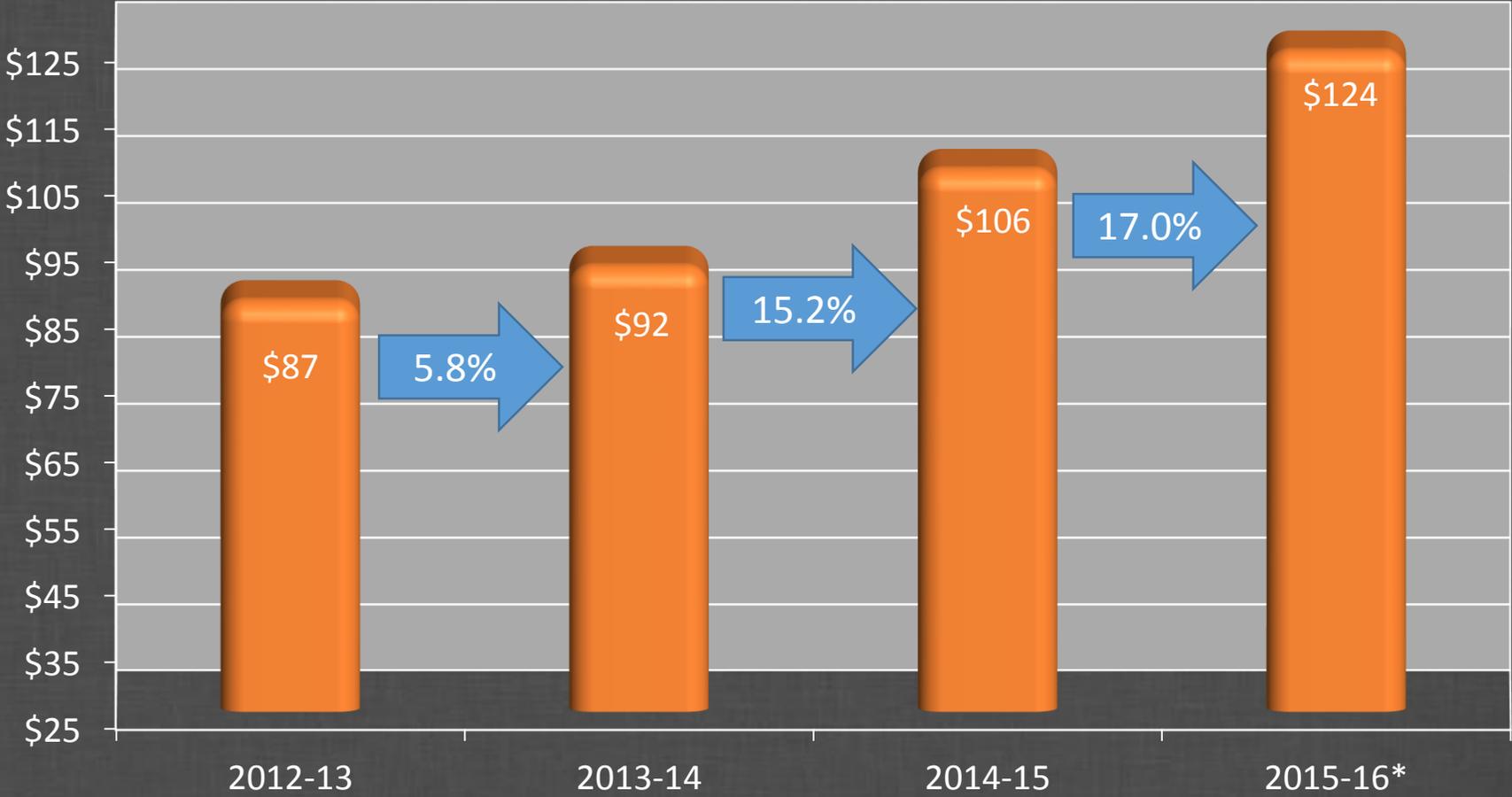


# PRESCRIPTION DRUG UTILIZATION OF HARRIS COUNTY MEMBERS (FY 2014-15)

- Approximately 84% of all members had at least one prescription.
- Approximately 607,000 prescriptions filled (nearly 2,000 different drugs).
- Average of 18 prescriptions per member per year.
- Plan paid \$43 million for prescription drugs in FY 2014-15 (projected to exceed \$50 million in 2015-16).

# PRESCRIPTION DRUG COST TREND

PER-MEMBER-PER-MONTH



\*Based on claims through August 2015

# TOP 10 PRESCRIPTION DRUGS BY TOTAL COST (FY 2014-15)

Drug	Diagnosis	Utilizing Members	Plan Cost	Plan Cost Per Day
SOVALDI	Hepatitis	16	\$1,412,118	\$988.88
HUMIRA	Auto-Immune	58	\$1,354,654	\$104.79
CRESTOR	High Cholesterol	1,045	\$954,854	\$4.21
LANTUS SOLOSTAR	Diabetes	412	\$716,906	\$10.88
ENBREL	Auto-Immune	38	\$690,596	\$101.07
VICTOZA 3-PAK	Diabetes	217	\$614,804	\$15.44
ATORVASTATIN CALCIUM	High Cholesterol	2,370	\$571,079	\$1.12
ABILIFY	Psychiatric Disorders	153	\$558,538	\$23.83
NEXIUM	Heartburn and Ulcer	546	\$548,896	\$5.65
ADVATE	Hemophilia	2	\$449,675	\$19,551.09

# TOP 10 SPECIALTY DRUGS BY TOTAL COST (FY 2014-15)

Drug	Diagnosis	Patients	Plan Cost	Plan Cost Per Day
SOVALDI	Hepatitis	16	\$1,412,118	\$988.88
HUMIRA	Auto-Immune	58	\$1,354,654	\$104.79
ENBREL	Auto-Immune	38	\$690,596	\$101.07
ADVATE	Hemophilia	2	\$449,675	\$19,551
OLYSIO	Hepatitis	7	\$417,606	\$745.72
STELARA	Psoriasis	12	\$381,302	\$194.54
COPAXONE	Multiple Sclerosis	12	\$352,529	\$170.14
ATRIPLA	HIV	15	\$321,412	\$63.02
IMBRUVICA	Oral Oncolytics	4	\$277,071	\$318.47
TECIFIDERA	Multiple Sclerosis	7	\$274,333	\$166.26

# CURRENT COSTS AND FUTURE RISKS

**\$24,176**

**Average annual  
healthcare costs of a  
patient with chronic  
Hepatitis C**

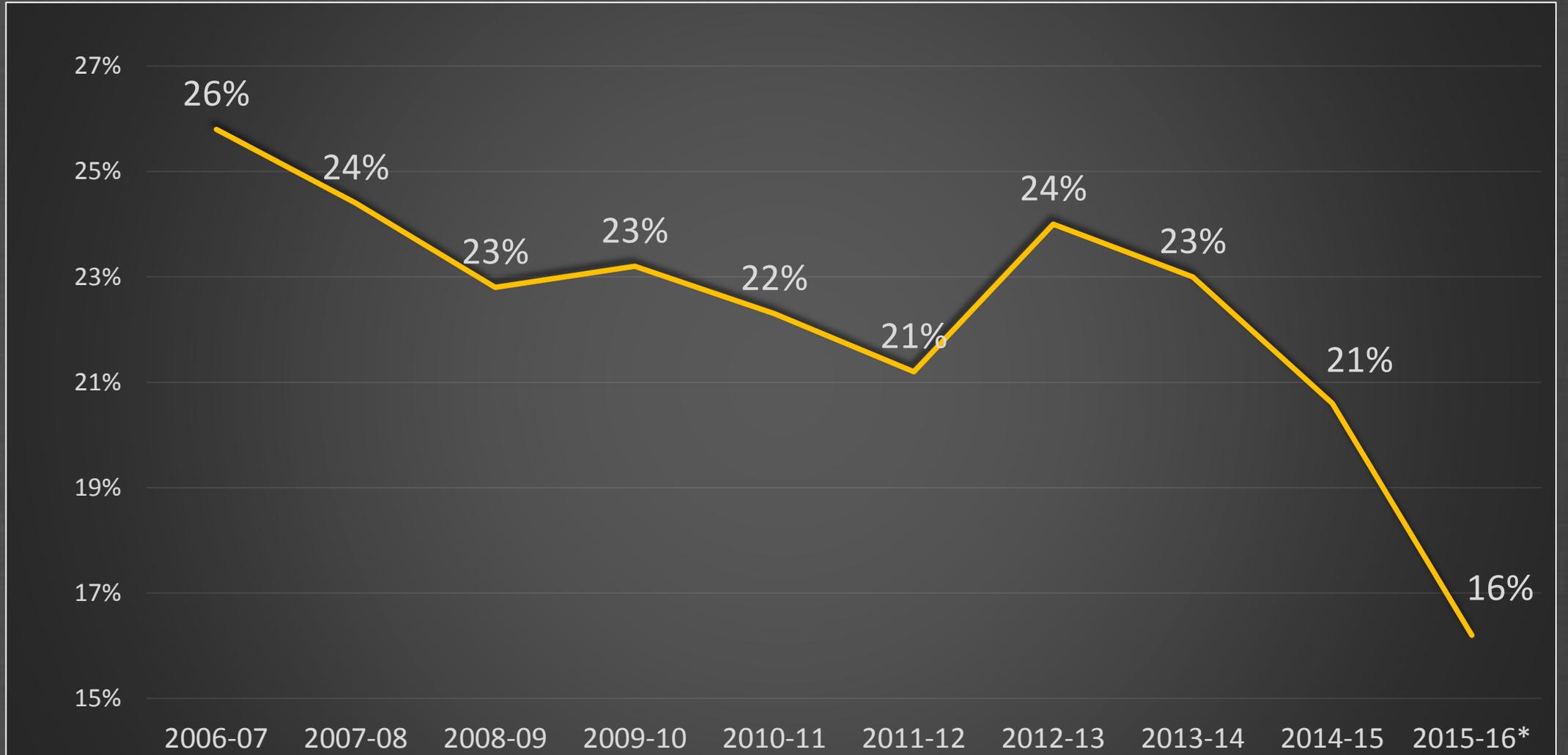
**\$94,500**

**Cost of a 12-week course of  
therapy with new medications  
can exceed this amount**  
Therapy regimens and duration  
can differ based on genotype  
and response to therapy

**\$577,100**

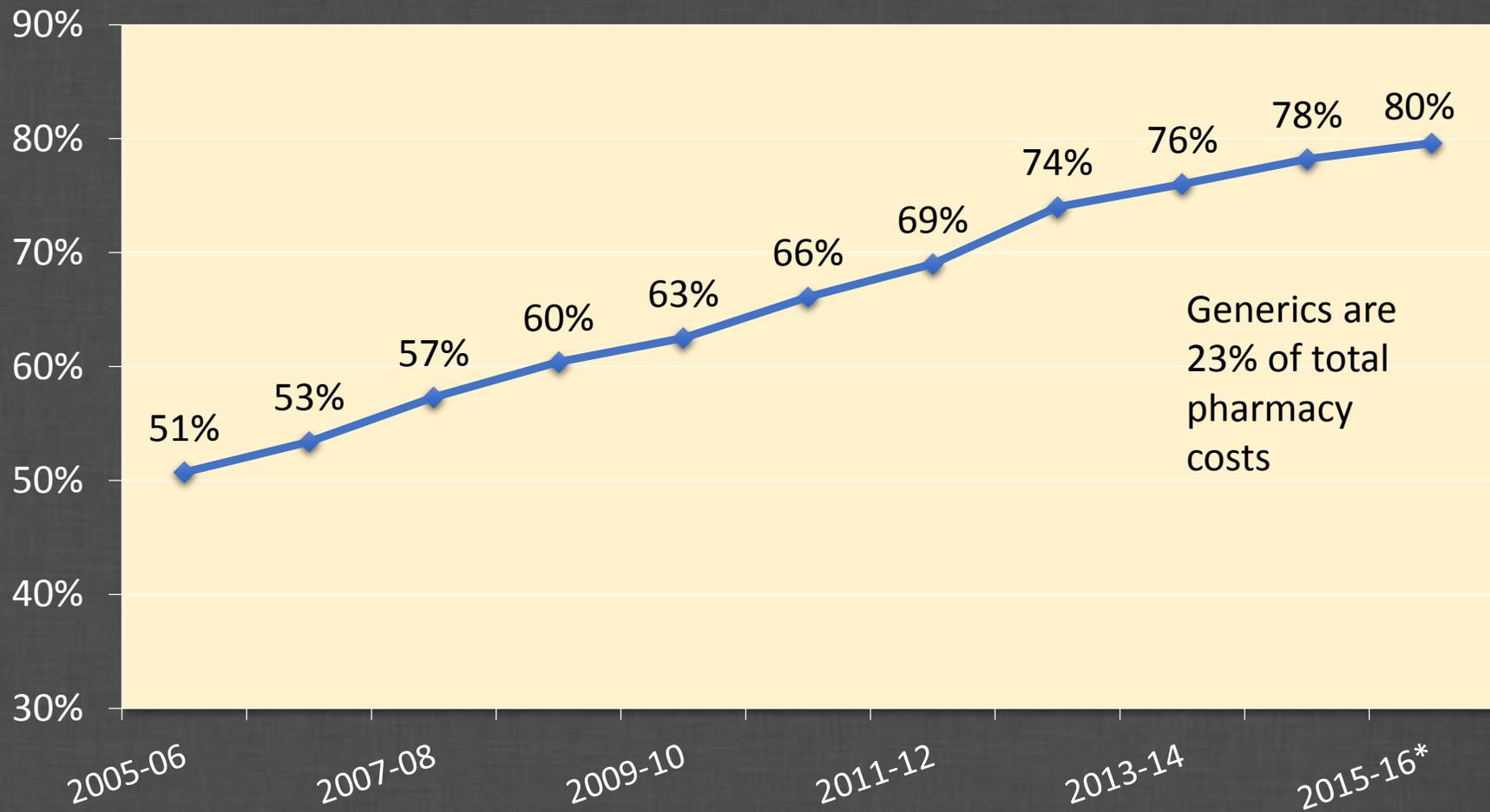
**Average cost of a liver  
transplant**  
Untreated Hepatitis C can  
lead to liver cancer and/or  
end stage liver disease  
requiring a liver  
transplant.

# AVERAGE COPAYMENT % DECLINING



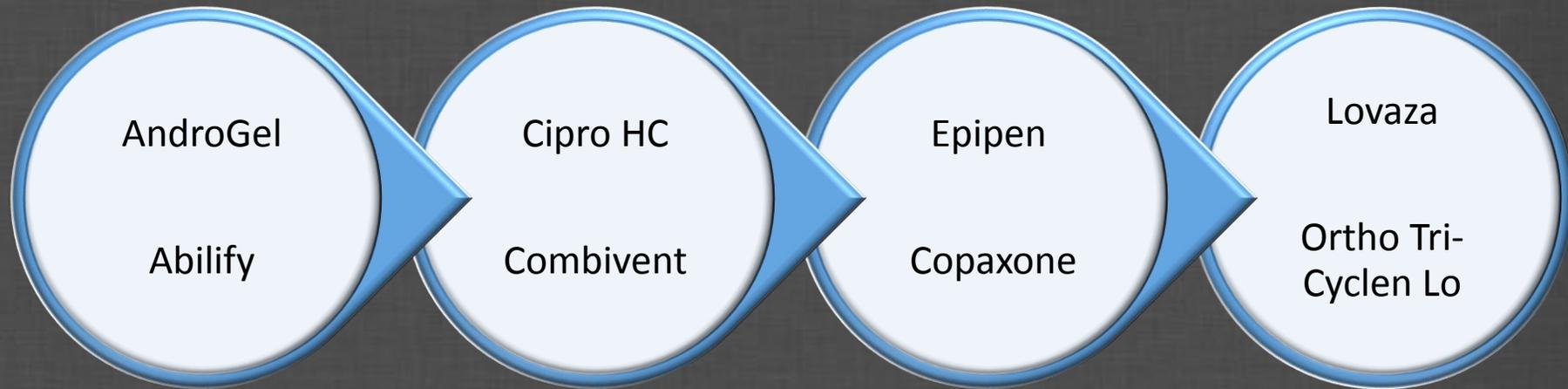
\*Through May 2015

# GENERIC UTILIZATION RATIO CONTINUES TO CLIMB



\*Based on claims through May 2015

# 2015 GENERIC LAUNCHES



# BUT “NEW” DRUGS KEEP COMING

- Vierkira Pak

Hepatitis



- Ibrance
- Opdivo

Cancer



- Praluent
- Evolcumab

Cholesterol



- Brexpiprazole

Depression



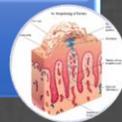
- Toujeo

Diabetes

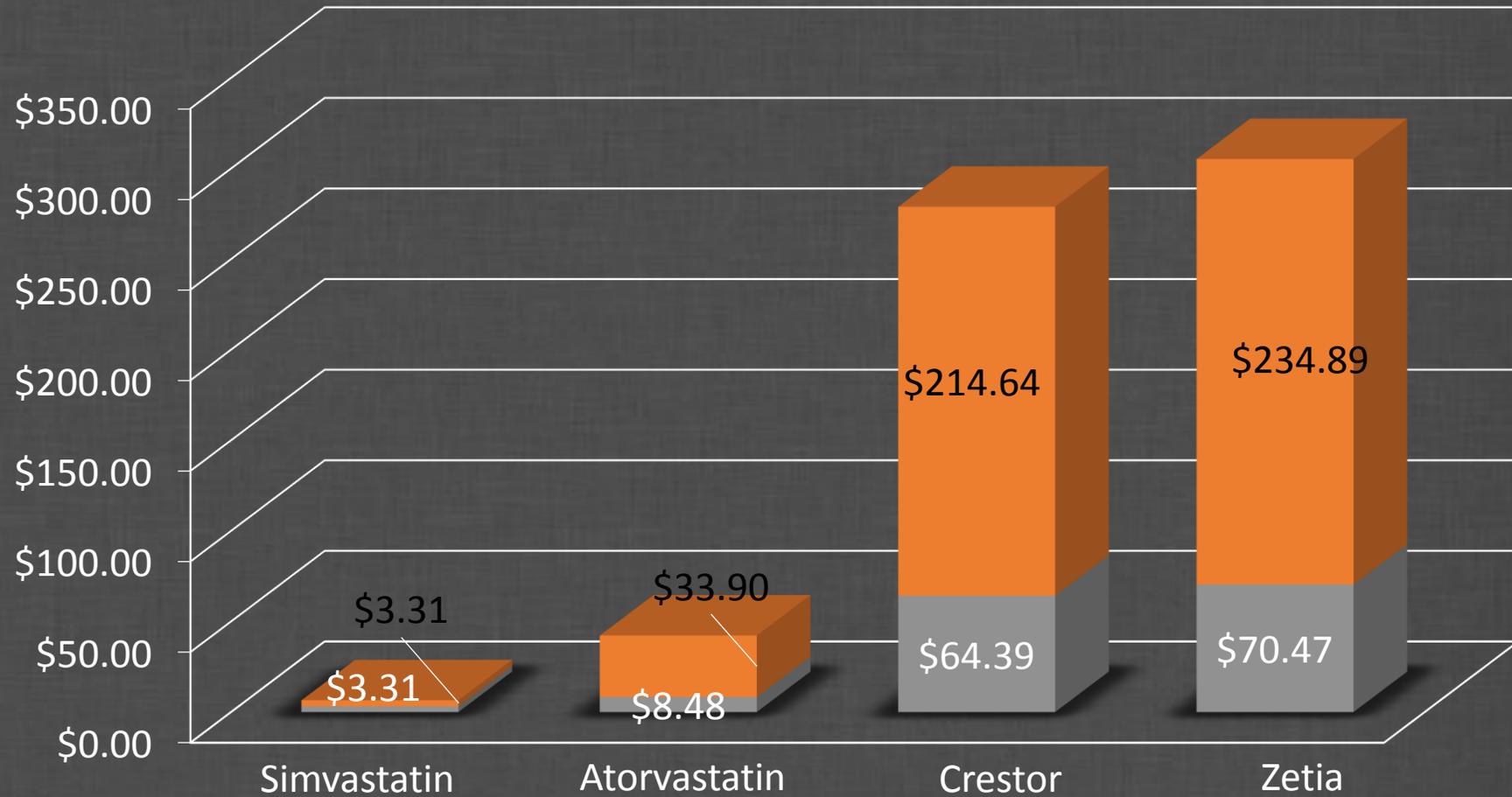


- Cosentyx

Psoriasis



# PRESCRIPTION DRUG COMPARISON

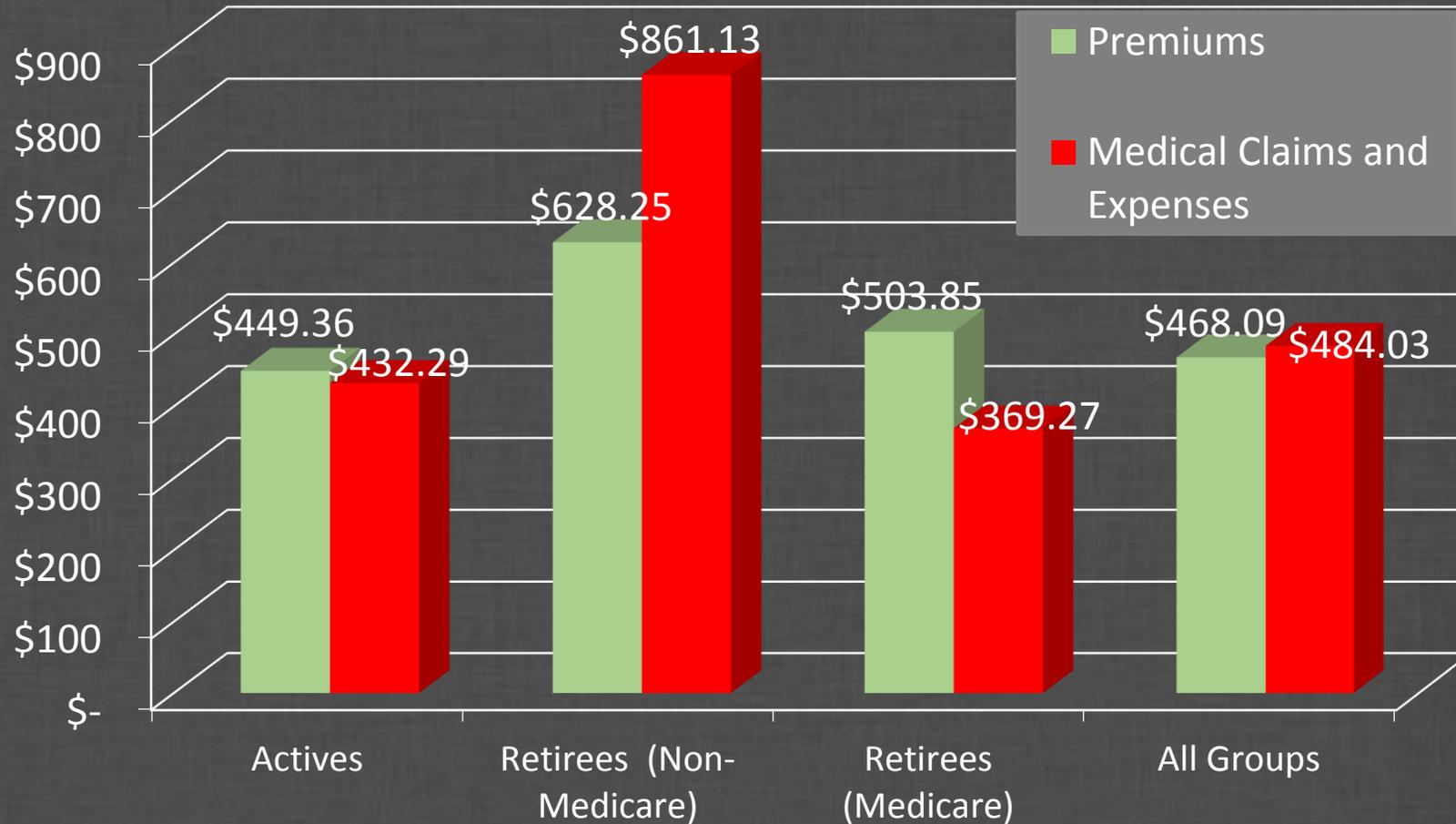


# RETIREE HEALTH CARE



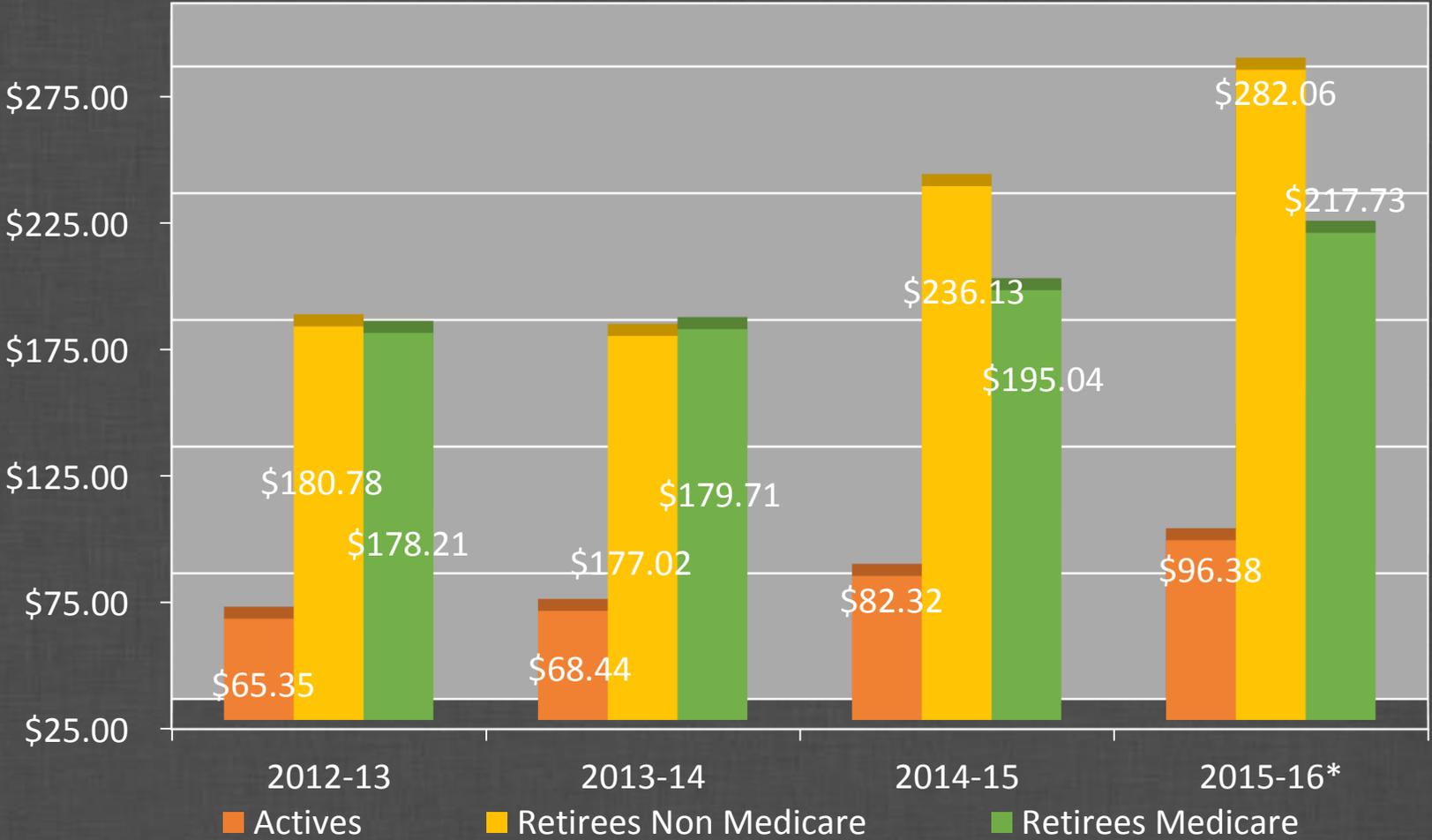
# FY 2014-15 MEDICAL COST AND PREMIUM COMPARISON BY GROUP

(PER-MEMBER-PER-MONTH)



# PRESCRIPTION DRUG COST TREND

PER-MEMBER-PER-MONTH



\*Based on claims through August 2015

# GASB 45 RETIREE HEALTHCARE LIABILITY

## (3/1/2013 VALUATION)

### Unfunded Accrued Liability (UAL):

Fully Eligible Actives	\$183.6 M
Not Yet Eligible Actives	\$473.4 M
Retired	<u>\$532.7 M</u>
<b>Total UAL:</b>	<b>\$1,189.7 M</b>

### Annual Required Contributions (ARC):

Service Cost At Year-End	\$40.7 M
30-year Amortization of UAL	<u>\$68.8 M</u>
<b>Total ARC:</b>	<b>\$109.5 M</b>

# NEW GASB REPORTING REQUIREMENTS ISSUED FOR POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

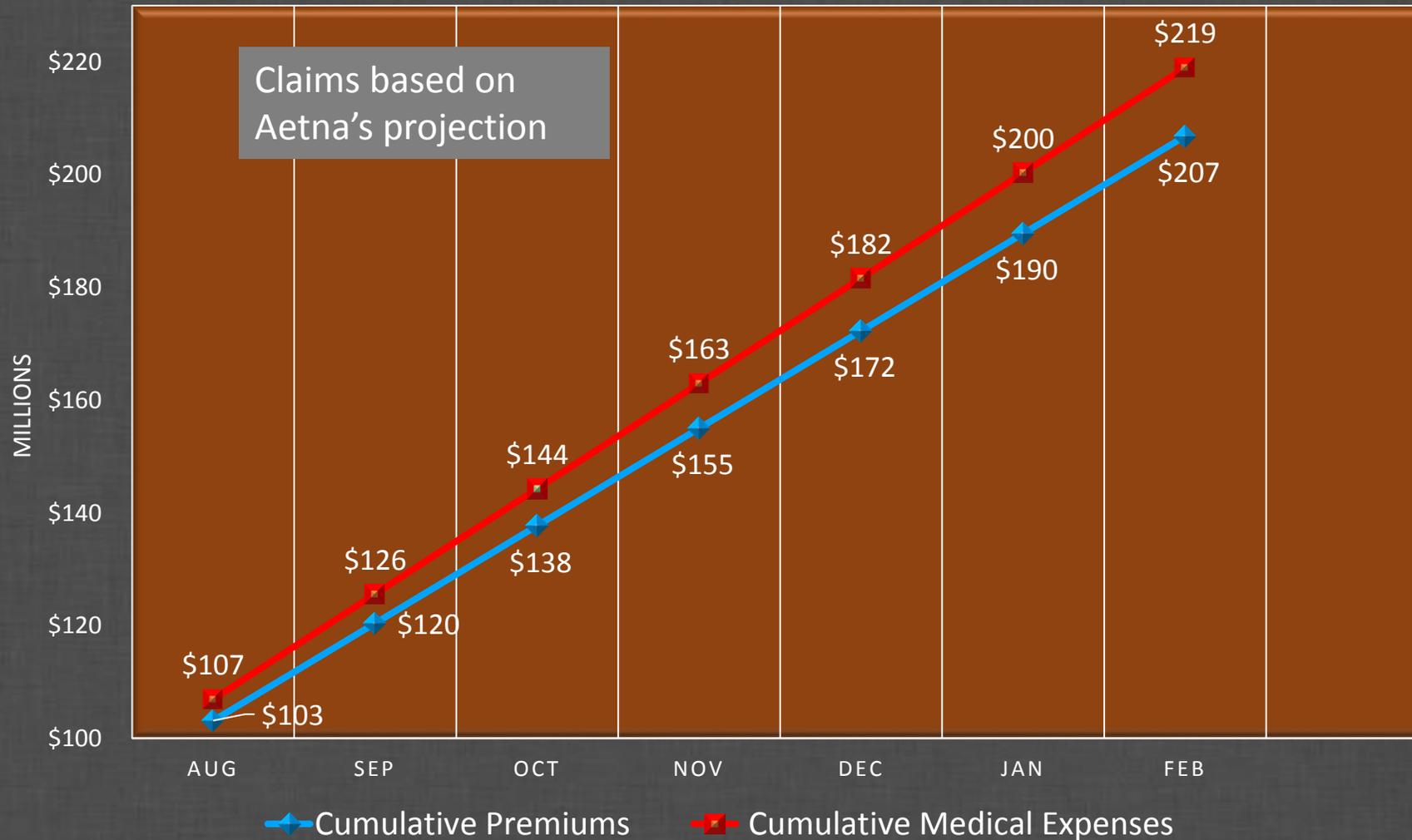
- GASB 74/75 issued in June 2015 (effective March 1, 2017).
- Mirrors new GASB pension standards 67 and 68.
- The unfunded liability becomes a balance sheet item rather than a note disclosure.
- The use of a tax-exempt 20-year municipal bond index (AA/Aa-or-higher rated) as the discount rate if the plan has no assets maintained in an irrevocable trust.
- Must include ACA Cadillac tax in liability.
- Extensive note disclosure requirements and supplementary information.

# HEALTH PLAN FUNDING



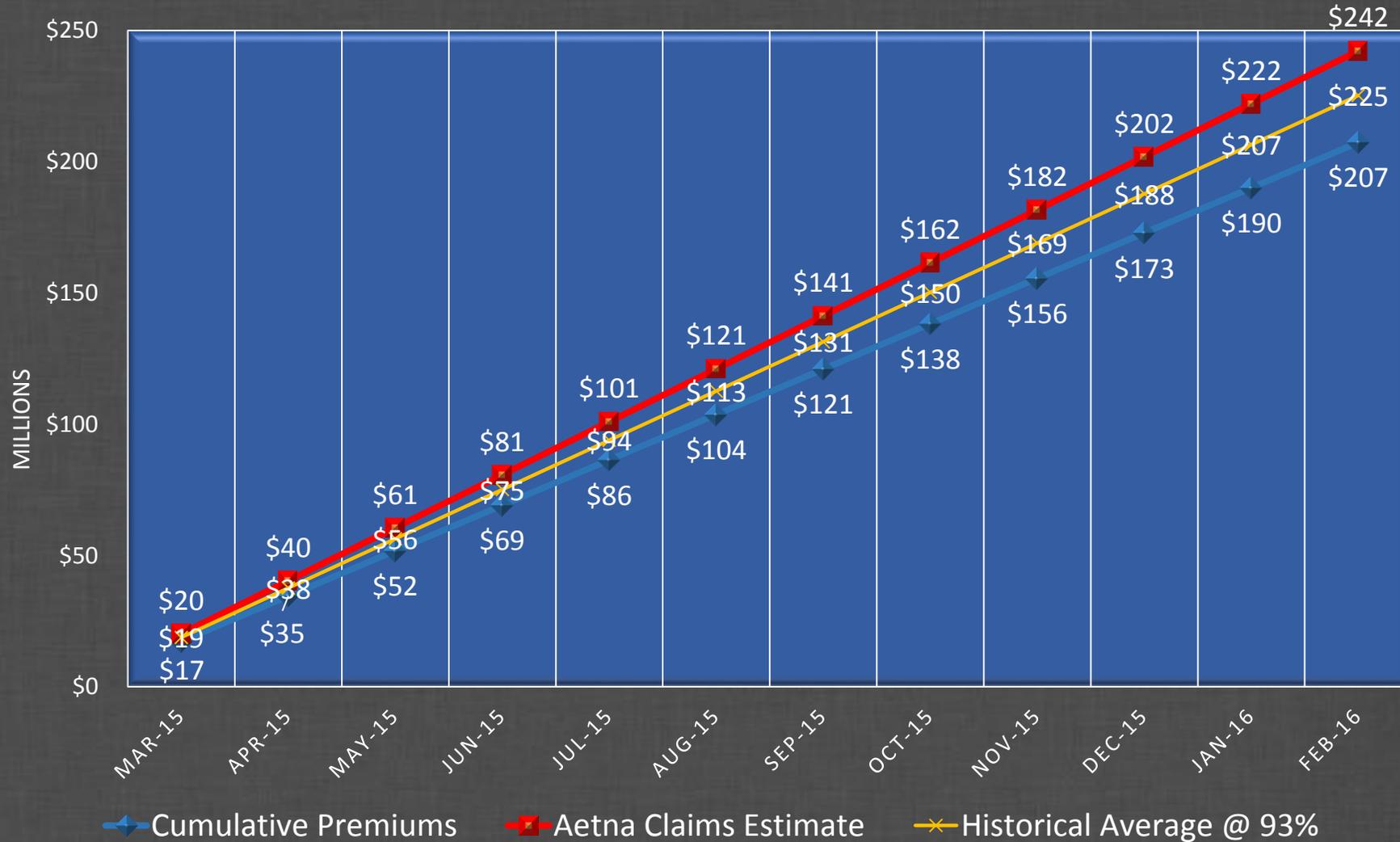
# MEDICAL COSTS MAY EXCEED PREMIUMS BY \$12 MILLION BY YEAR-END

FY 2015-16

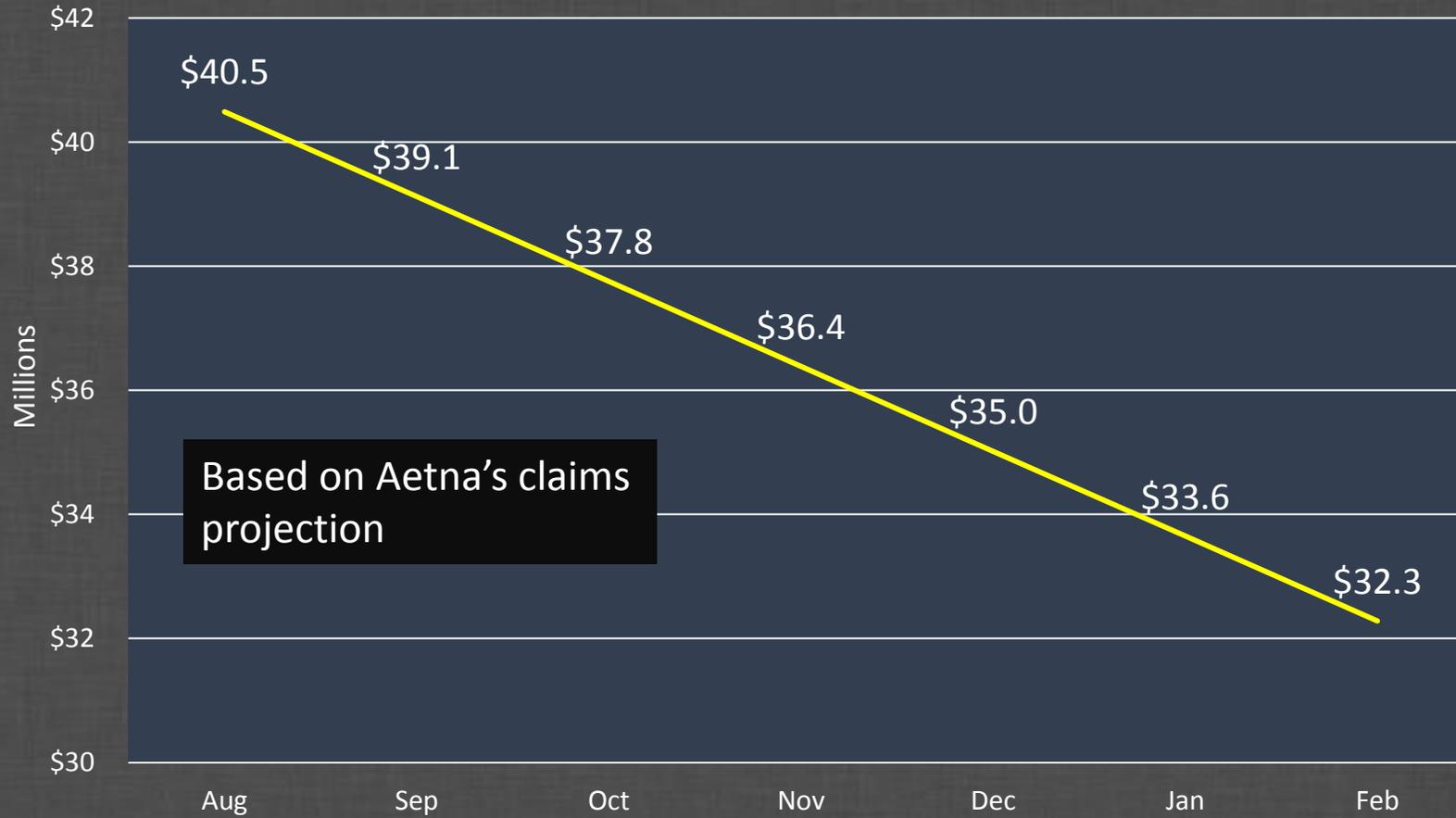


# GIVEN THESE TRENDS COSTS WOULD EXCEED FUNDING BY AN ADDITIONAL \$18 MILLION NEXT PLAN YEAR

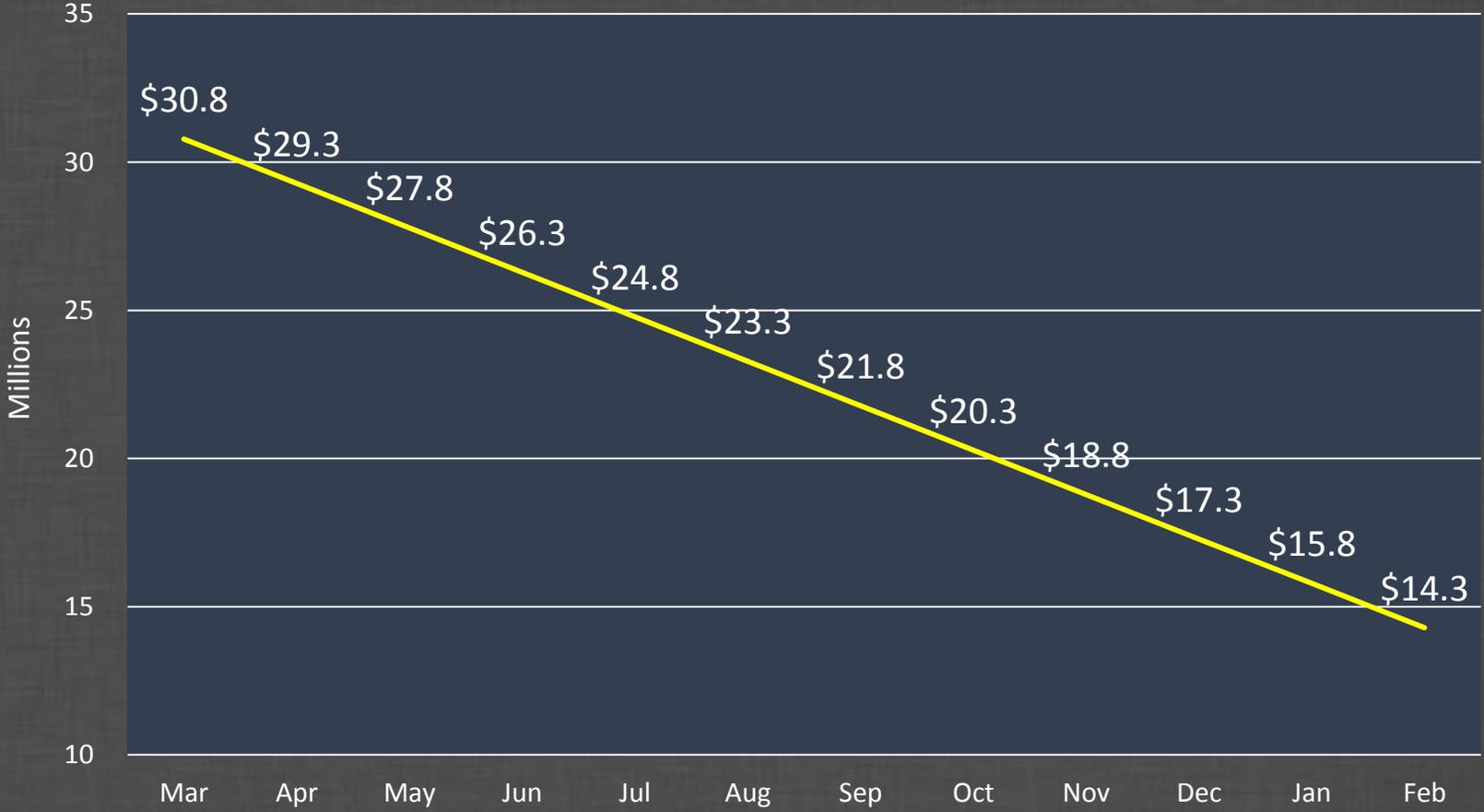
FY 2016-17



# PROJECTED HEALTH INSURANCE FUND NET RESERVE (FY 2015-16)



# PROJECTED HEALTH INSURANCE FUND NET RESERVE (FY 2015-16) WITH NO CHANGES IN FUNDING



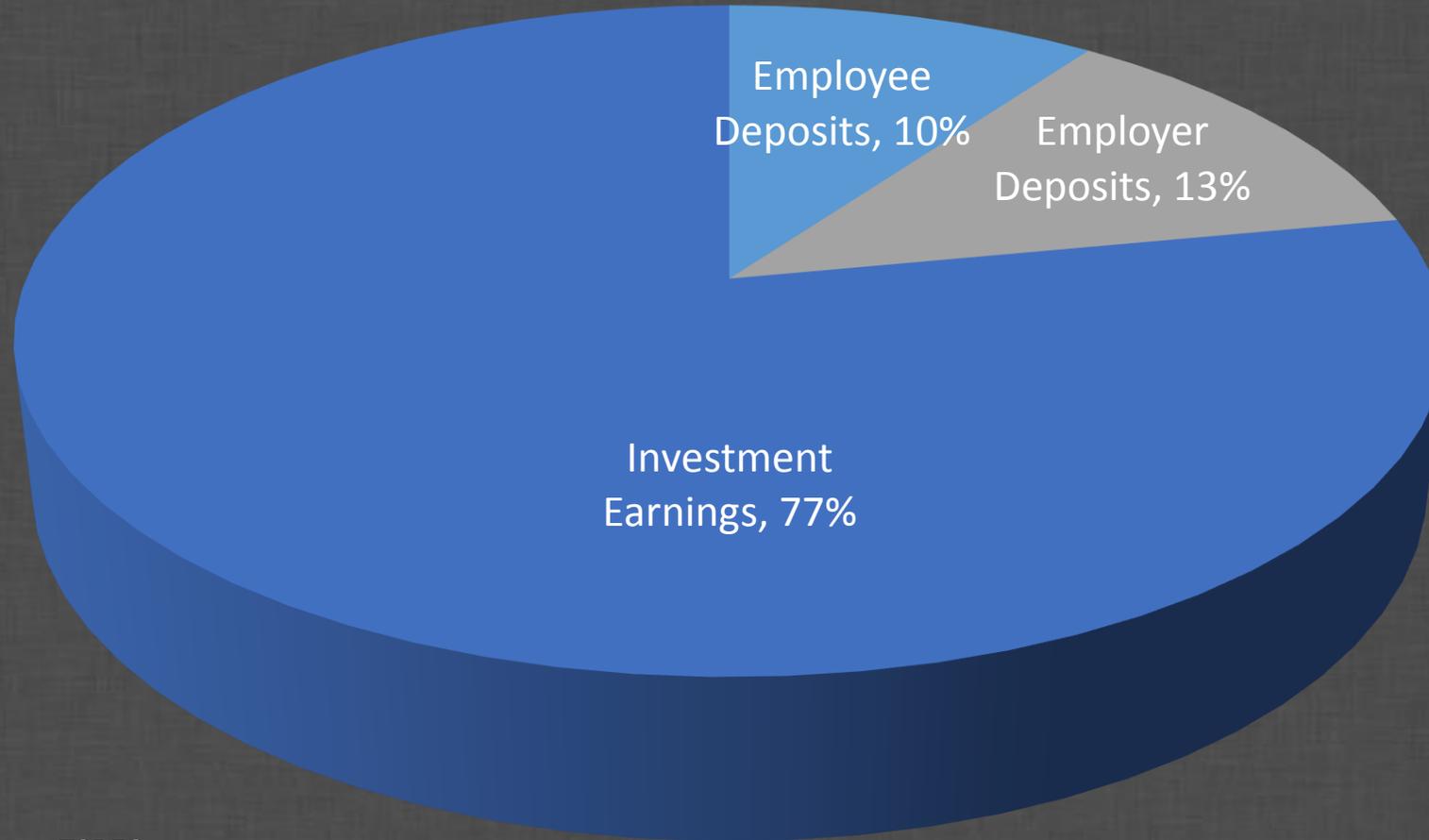
# FY 2016-17

- Department rate increase
- Employees and retirees rates determined at renewal (October 13<sup>th</sup>)
- Increase out-of-pocket max on medical plan to ACA limits
- Increase specialty pharmacy maximum copayment
- Life insurance recommendation

# TCDRS UPDATE



# WHAT IS IN A RETIREMENT CHECK?



Source: TCDRS

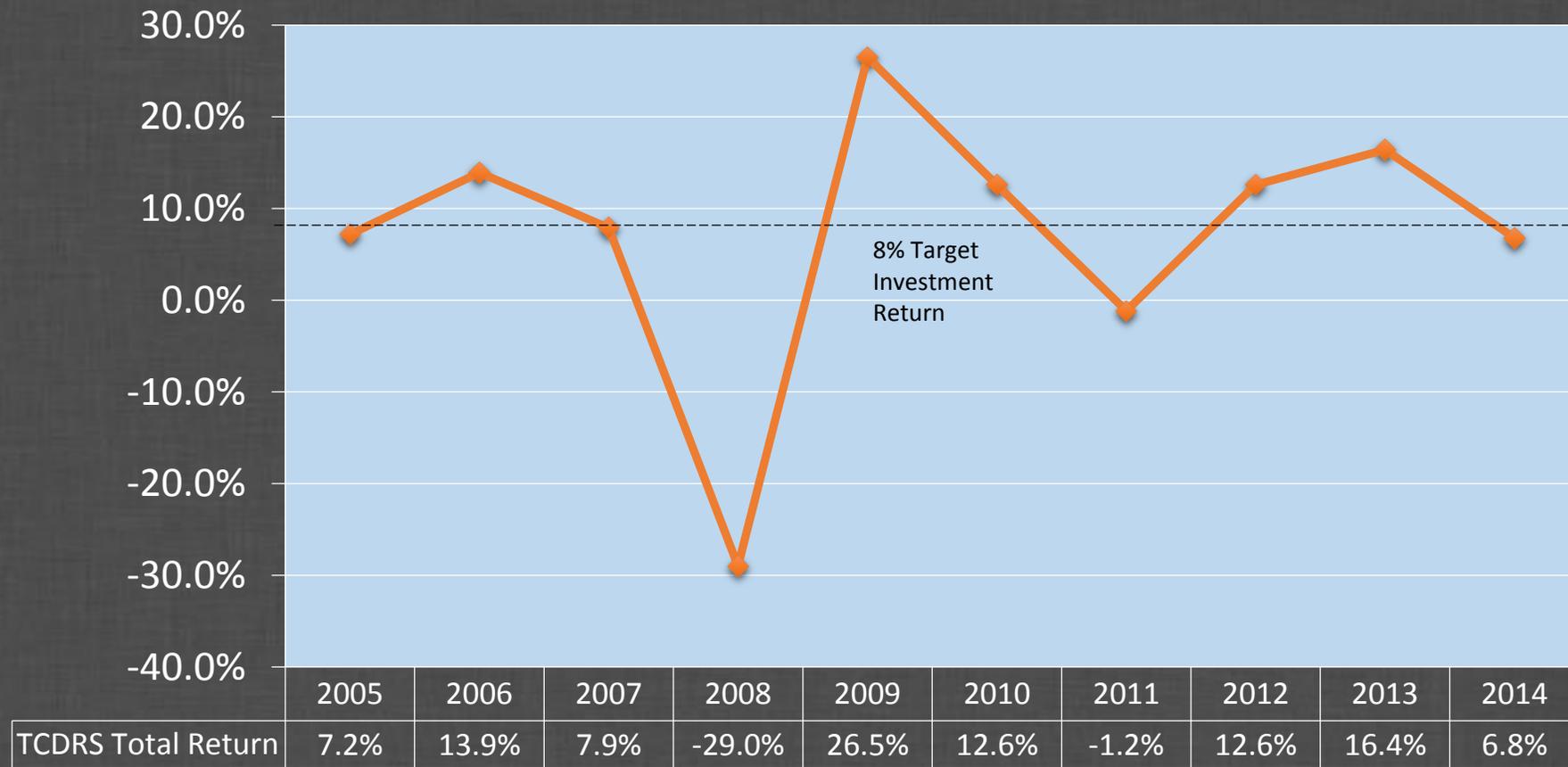
# TCDRS TOTAL FUND ASSET GROWTH

(JANUARY 1, 1981 THROUGH DECEMBER 31, 2014)

Beginning Market Value January 1, 1981	\$316,790,612
Net Contributions	\$3,722,569,957
Net Investment Return	\$20,552,709,265
Ending Market Value December 31, 2014	\$24,592,069,834

Source: TCDRS

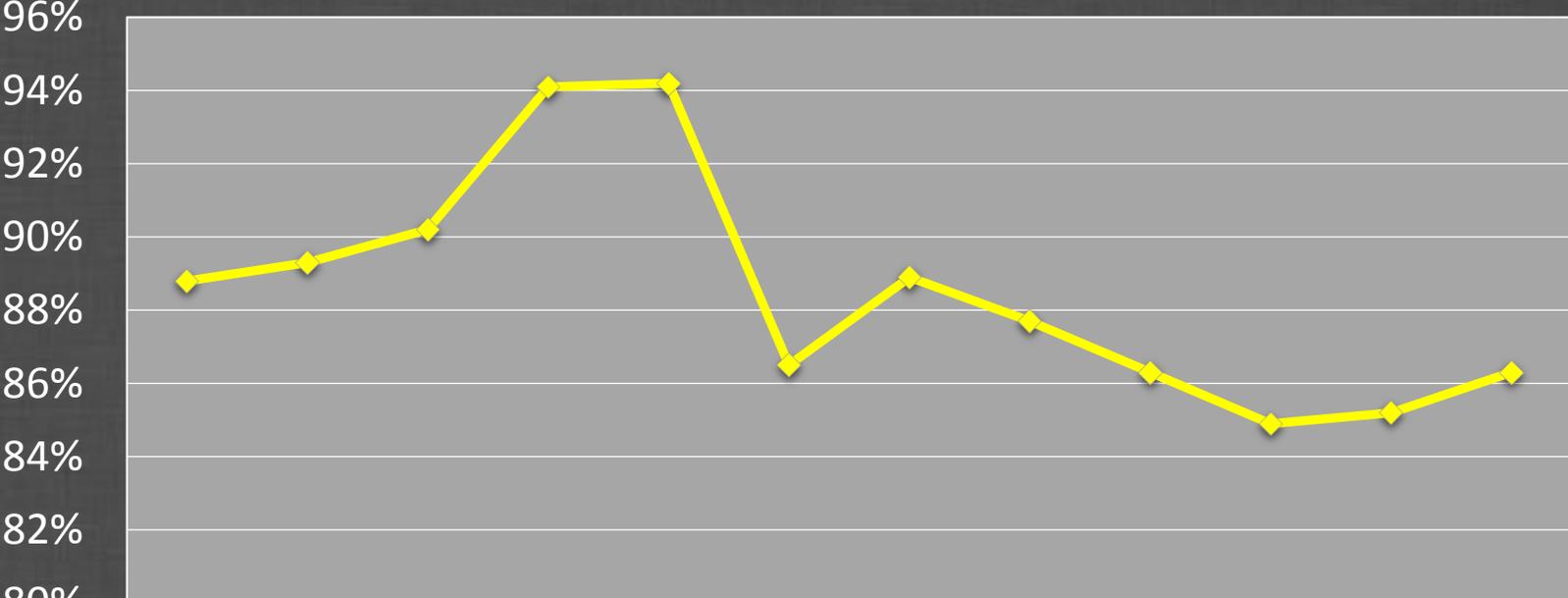
# TCDRS AVERAGE RETURN WAS 9.2% OVER THE LAST 30 YEARS



*Note: Net of fees*

# HARRIS COUNTY'S RETIREMENT PLAN FUNDED RATIO\*

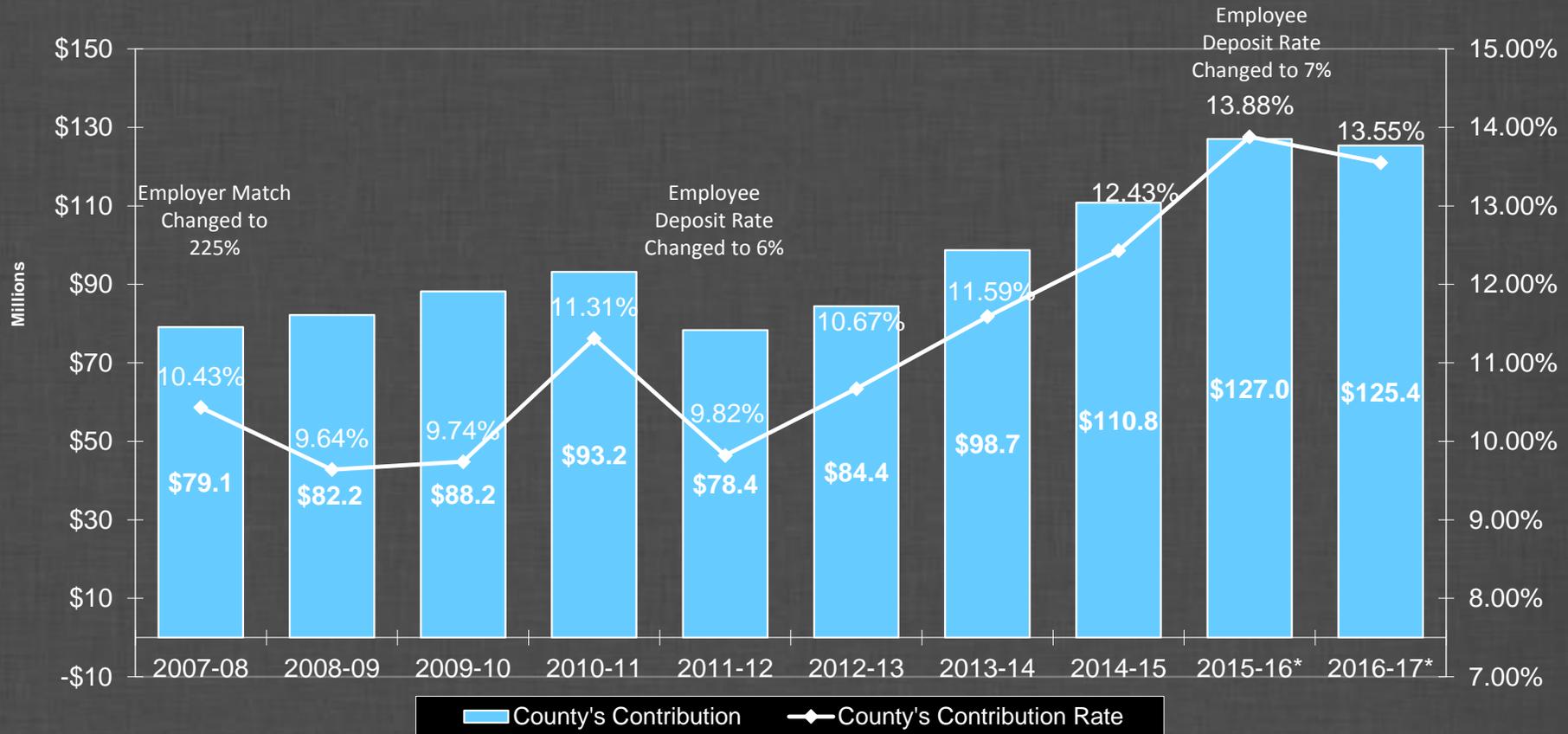
Funded Ratio\*



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
◆ Funded Ratio*	89%	89%	90%	94%	94%	87%	89%	88%	86%	85%	85%	86%

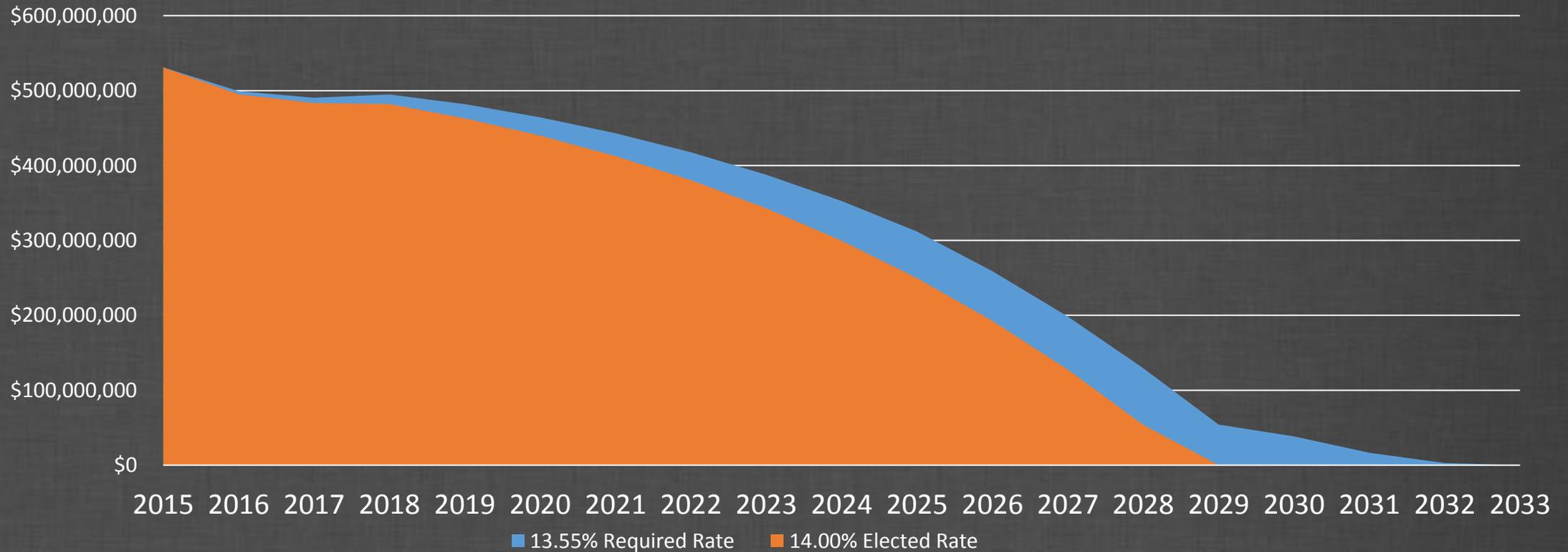
\* Funded ratio is based off the valuation date and equals Unfunded Actuarial Accrued liability/Actuarial Value of Assets.

# HISTORICAL CONTRIBUTION RATES AND BENEFITS



- FY 2015-16 and FY 2016-17 is projected based on current payroll.
- Note: Contribution rates are established by the TCDRS on a calendar year basis.

# UNFUNDED LIABILITY



Assumes actuarial assumptions are met

# GASB STATEMENT 68

- Implementation in FY 2015-16.
- Net pension liability on balance sheet instead of in the notes to the financial statements.
- Changes in calculation of long term unfunded liabilities.
- Differences between expected and actual investment returns on pension plan assets would have to be recognized as a pension expense over a closed 5-year period rather than being “smoothed” and then also being amortized as part of the unfunded liability.
- Additional disclosure requirements.

# QUESTIONS & ANSWERS

