

## Memorandum

To: Senate Committee on Finance, Vermont Legislature  
Ann Cummings, Chairperson; Mark A. MacDonald, Vice Chairperson

From: Mark Hage and Bobby-Jo Salls, VEHI Trust Administrators

RE: Background information on the Vermont Education Health Initiative (VEHI) and Explanation of Major Factors Driving Premium Rate Increases

Date: February 23, 2024

On behalf of VEHI, thank you for the opportunity to testify. What we will share and discuss today was first presented to the House Committee on Education in early January at its request.

This document contains basic information about VEHI and the allocation of its spending on health insurance benefits, followed by narrative, beginning on page 3, on the major cost factors responsible for premium rate increases in FY24 and FY25. As we make clear, we are not alone in Vermont (or nationally) in facing rising prices, especially for hospital and pharmaceutical services.

We will be happy to take questions during or at the end of our presentation at the committee's discretion.

### What is VEHI?

1. The [Vermont Education Health Initiative](#) is a non-profit, self-insured, intermunicipal insurance association. We are regulated by the Vermont Department of Financial Regulation (DFR) and we contract with Blue Cross and Blue Shield of Vermont (BCBSVT) for actuarial and administrative services, including claims processing and customer support.
2. We provide health insurance benefit plans to every public school in Vermont, to several private educational institutions, to non-Medicare eligible retirees in the Vermont State Teachers' Retirement System (VSTRS), and, transitionally since 2022, to Medicare retirees who are not yet eligible under CMS rules for VSTRS's Medicare Advantage plans.
3. Currently, roughly 34,000 active school employees and their dependents are enrolled in health insurance coverage through VEHI. Additionally, in partnership with VSTRS, there are approximately 800 non-Medicare retirees and their dependents and 1,000 Medicare retirees and their dependents.
4. Our Board of Directors consists of six members, three appointed by the Vermont-National Education Association and three appointed by the Vermont School Boards Association.
5. The management team responsible for day-to-day operations consists of four individuals: three employed by the Vermont School Boards Insurance Trust (VSBIT) (Bobby-Jo Salls, Jon Steiner, and Chris Roberts) and one by Vermont-NEA (Mark Hage). Most interactions with central office staff and local union leaders and school employees are facilitated by Ms. Salls and Mr. Hage. VSBIT and Vermont-NEA were the founding organizations of VEHI, dating back to the mid-1990s.

6. Additionally, VEHI offers school districts competitive dental and LTD benefit plan programs in tandem with Delta Dental and National Insurance Services, respectively.
7. Our PATH Wellness Program, which is administered and managed by VSBIT staff, is long established and popular statewide with school employees.

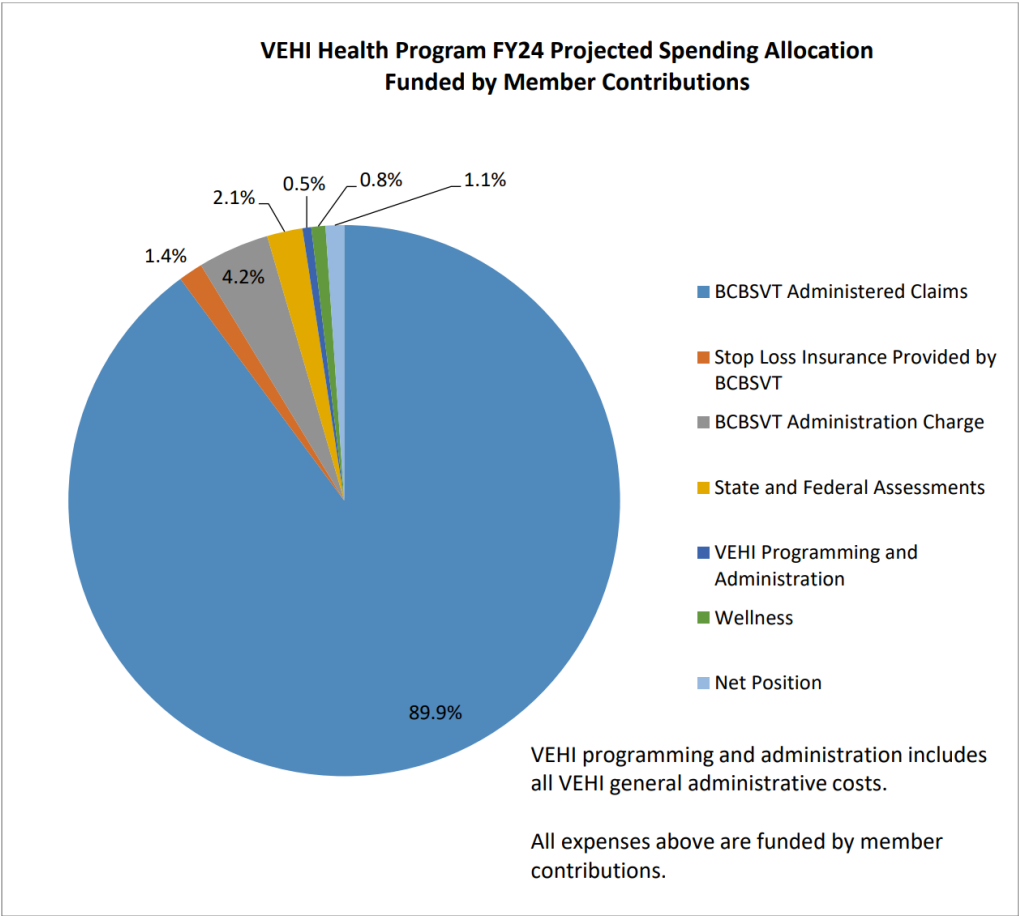
### **VEHI Benefit Plans**

1. VEHI offers 4 health insurance plans to school districts, public and private. They provide access to the same medical and Rx benefits and medical networks. Their cost-sharing arrangements differ. (We would be happy to discuss the details of each plan and their compatibility with health spending accounts [HRAs, HSAs, and FSAs], if that is of interest to the committee.)
2. Additionally, VEHI offers three benefit plans to non-Medicare enrollees in VSTRS, and one Medicare supplement plan (VSTRS-65) to Medicare enrollees not eligible for Medicare Advantage, as explained above.
3. VEHI sets the premiums for its benefit plans for active employees annually, on a fiscal-year basis, in collaboration with BCBSVT's actuarial team. Our premium rates for retirees are set on a calendar-year basis.
4. Our premium rates for both subscriber populations, active and retired, are subject to review and approval by DFR. Further, to accommodate school budget-setting timelines, VEHI's active premiums are filed with DFR well in advance of their effective date. For example, the rates that go into effect on July 1, 2024, and run through June 30, 2025 (i.e., FY25), were filed in the fall of 2023.
5. Cost-sharing between public school boards and public-school employees is set by the terms of statewide health care bargaining. This includes premium co-sharing amounts between employees and school districts and contributions by school districts to health spending accounts (HRAs/HSAs) to assist employees with out-of-pocket expenses (deductibles, co-pays, and co-insurance charges).

### **FY24 Spending Allocation of Premium Dollars**

As you can see from the graph below, nearly **90 percent** of premium dollars in FY24 were allocated to paying incurred claims. This is in line with past years.

Just **four percent** of our aggregate costs are devoted to administrative services and **1.1 percent** is allocated to sustaining the "net position" (e.g., financial reserves) we are required to have as a matter of fiscal prudence.



**What is driving VEHI premium increases?**

Premiums, as you know, are increasing for everyone in Vermont and nationally. The biggest factor, by far, is price inflation.

VEHI, like all risk pools and insurance carriers, has been impacted greatly by rising hospital budgets and hospital prices for inpatient and outpatient services; also, like everyone else, we are experiencing sharp spikes in costs for prescription medications, notably for specialty drugs.

Hospital costs (inpatient and outpatient services combined) account for approximately 55 percent of our claims spend. Rx costs drive about 20 percent of our claims spend.

**Here is what we shared with school districts and their local unions about VEHI’s FY24 (July 2023 – June 2024) premium rate increase:**

*As in past rating cycles, we analyzed medical and pharmaceutical price inflation, plan enrollment and cost-sharing trends, utilization of medical and Rx services, mandates and fees, and administrative costs. **Increases in medical and pharmacy prices are responsible for virtually the entire increase in FY24 premiums, with higher commercial rates charged by hospitals being the most significant factor.** This, coupled with an unfavorable market for investments, has driven the need for the increase to cover FY24 expenses.*

Here is what VEHI explained to school districts and local unions about its [FY25](#) (July 2024 – June 2025) premium rate increase:

*Breaking down FY25's medical trend, two-thirds is attributable to higher medical prices. Continued increases in hospital budgets and in prices for hospital services, plus more expensive pharmaceutical charges, remain the major cost drivers. We are not alone in this regard. In a recent FAQ explaining to Vermonters its affiliation with Blues Michigan, Blue Cross and Blue Shield of Vermont noted that the main driver of premium increases in FY24 is "rising hospital budgets, and the cost of inpatient and outpatient services, and pharmaceutical prices."*

One third of our FY25's rate increase is attributable to an increase in utilization of services, hospital and non-hospital based, which we discussed with our members this year as follows:

*One third of the medical trend increase for FY25 is pegged to an increase in utilization of services. Services for members in our pool increased in FY23, as it did for the Blues' membership statewide, as people returned to care, post-pandemic, after deferring treatments for ongoing medical conditions, and, generally, as more folks with medical needs now feel comfortable returning to hospitals and physician practices after a long hiatus.*

Historically, VEHI utilization trends are consistent from year to year; for our pool, as is true nationally, most utilization of services is highly concentrated among a relatively small percentage of patients. In any given year, most of our subscribers get little to modest amounts of medical care.

One more thing about FY25's rates. 2.6 percent of that year's rate renewal figure is for the purpose of strengthening VEHI's net position (i.e., financial reserves). Briefly, VEHI did not see the gain in its reserves at the end of FY23 as had been projected in the fall of 2021 when the FY23 rates were filed with DFR. Similarly, we projected during this year's rate setting for FY25 that we would not hit our net position target again by the end of FY24. Consequently, we needed to collect additional revenue to rebuild the reserves.

### Rx Price Trends

Here is select data to help you better understand what VEHI (and others in the private insurance market) are facing with respect to prescription medications.

In the first nine months of 2023 (January through September):

- VEHI incurred a gross Rx cost (*prior to estimated negotiated rebates being applied*) of **\$55.1 million** compared to \$46.2 million for the same period in 2022.
- Overall Rx cost/inflationary trend rose **22.5 percent**. Specialty drug cost trend rose 20.6 percent, and the cost trend for non-specialty medications rose 24.9 percent.
- Specialty medications account for **56.1 percent** of total VEHI Rx spending. In the first nine months of 2023, specialty medications came in at **\$30.9 million** in costs, even though only **829 VEHI patients** were prescribed them. This group of patients represents just 3.2 percent of our total patient count and 2.3 percent of our total claim count.
- The average gross cost per patient on specialty medications was **\$37,319**.

- Just **246 VEHI patients** needed medications that cost **\$50,000 or more**. But in the aggregate, their claims represented **42 percent** of VEHI's gross cost.
- Conversely, **21,633 VEHI patients** needed medications that cost between \$1 and less than \$1,000, with a gross cost per patient of just **\$155**.
- **84 percent** of our Rx claims are for generic medications, the least expensive on the market, yet we are still enduring steep price hikes each year for mostly non-generic medications.

VEHI works diligently with its independent Rx consultant, **Remedy Analytics**, and with the pharmacy team at **BCBSVT** to understand, analyze, reduce, and manage pharmaceutical costs without compromising access to high-quality care. Nonetheless, the prices for high-cost medications present an enormous and accelerating challenge.

Thank you.