Discussion Points

STATE HEALTH BENEFITS – DETERRENCE AND RESPONSE TO INCREASING COSTS

Aetna Reinstatement

1a. In December 2023, the State awarded new contracts for healthcare insurance to Aetna and Horizon, enabling both companies to provide medical healthcare coverage to active State and local employees enrolled in the State Health Benefits and School Employees' Health Benefits programs. Since 2019, Horizon has been the sole provider of medical healthcare coverage for all active employees enrolled in the State Health Benefits and School Employees' Health Benefits programs. Currently, both companies offer medical healthcare coverage to retirees enrolled in the programs.

- ***Questions:*** **What was the State's motivation for awarding a medical healthcare insurance contract to Aetna in addition to Horizon? How will the selection of two different insurers impact State, local government, and local education employer costs for the provision of healthcare coverage to active employees of the State Health Benefits and School Employees' Health Benefits programs?**

  The Commercial Medical contract is not an insurance contract, but a third-party administrator contract. Aetna was not added to the Commercial Medical contract. Rather, the contract was reprocured, and the Commercial Medical Bid Solicitation was awarded to two vendors pursuant to the requirements set out in P.L. 2023, c.195. That new two-vendor contract commences July 1, 2024 and is not expected to generate savings for FY 2025. Whether the two-vendor approach generates any savings in later fiscal years will depend on members' enrollments and utilization of services.

1b. According to a March 2024 press release from the Division of Pensions & Benefits in the Department of the Treasury, the "new Aetna plan options will have the same plan design and rates as the available Horizon plans for the current Plan Year 2024."

- ***Questions:*** **Are there any differences between the Horizon contract and the Aetna contract? Did Aetna underbid to win the award of a contract? Is the Aetna network comparable to the Horizon network or is it more restrictive resulting in lower costs to the State and local government employers? Is the Aetna plan a pilot program implementing a referenced based pricing model or other cost savings measure? Is the Aetna plan to the Horizon plan the same as the Garden State Plan is to the New Jersey Educator's Plan or the PPO10 plan? Are member contributions premium-based or compensation based?**

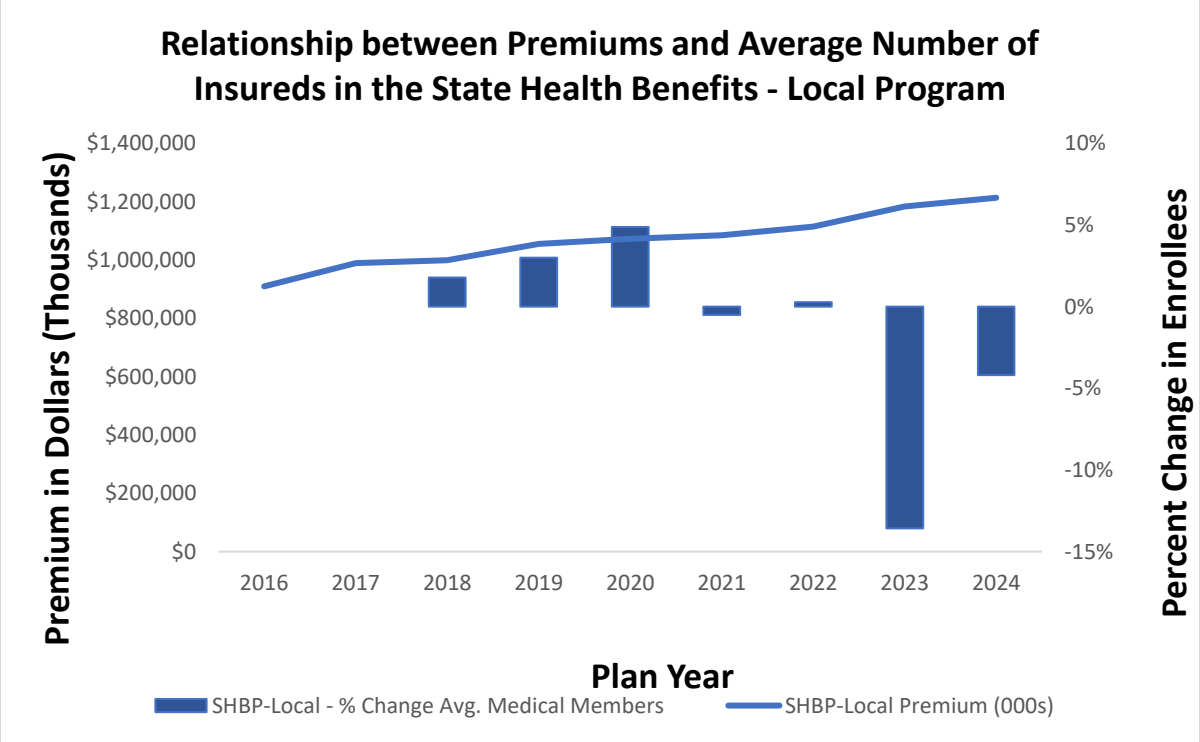
  As part of the Scope of Work section outlined in the Commercial Medical Bid Solicitation, both Aetna and Horizon are required to provide the same level of service and capabilities. Treasury is unable to answer the question about whether Aetna "underbid," as that term is undefined here. Generally, it is not a concept that is relevant to the evaluation of responsive bids in a procurement for a professional services contract. The only medical services provided outside of the Commercial Medical Bid Solicitation are the separate Garden State Health Plan (GSHP, created pursuant to P.L. 2020, Chapter 44 ("Chapter 44") and administered by Aetna through a separate procurement effort) and the Medicare Advantage plans (administered by Aetna through a separate procurement effort). As required by the Commercial Medical Bid

Discussion Points (Cont'd)

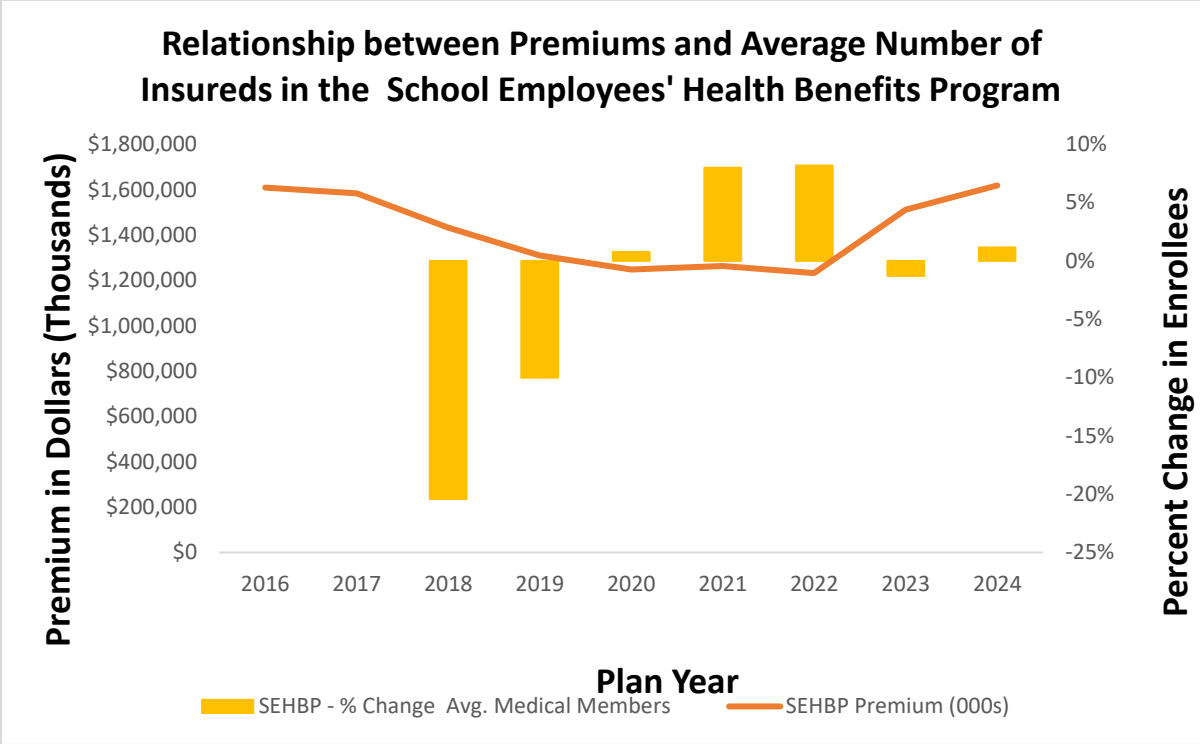
Solicitation, the Aetna and Horizon networks are comparable. Both vendors met the Bid Solicitation requirements. Per Chapter 44, members in the New Jersey Educators Health Plan (NJEHP) and Garden State Health Plan pay contributions based on percentage of salary. A reference based pricing program could only be implemented through Plan Design Committee resolution or legislation.

Local Government Migration

2. These graphs show the relationship between premiums and enrollment changes for the State Health Benefits – Local and School Employees' Health Benefits programs trend



Discussion Points (Cont'd)



Employer participation and therefore employee participation in the State Health Benefits and School Employee Health Benefits program fluctuates over time as premiums change. . In Plan Year 2023, the State Health Benefits –Local Employee group experienced a 6.2 percent premium increase and the number of enrolled Local employees decreased by 13.6 percent. The School program experienced a 22.7 percent premium increase and the number of enrolled School employees decreased by 1.3 percent. Since 2021 school employees have been contributing towards their healthcare coverage on a percentage of compensation basis instead of on a percentage of premium basis, therefore they are more insulated from premium increases.

- ***Questions:*** **Based on the trends shown above, how elastic are changes in employer participation and therefore employee enrollment to changes in premiums? How has this changed over time and what program/plan, economic, insurance, medical, and prescription drug industry changes have influenced this relationship? Does the premium elasticity of employee enrollment or employer participation differ for the Local Government Group program versus the School Employee Group program? If so, what factors might explain the difference? Does higher membership lead to lower overall costs? Please explain.**

  Both Local Government and Local Education employers can choose each year between participating in the SHBP/SEHBP or obtaining outside coverage. Employer choice is influenced by changes in SHBP/SEHBP rates each year and whether outside coverage is available for lower rates.

Discussion Points (Cont'd)

While both Local Government and Local Education employers are impacted by this dynamic, recent experience has shown more Local Government employers opting out of the SHBP compared to Local Education employers. This difference might be attributable to the implementation of Chapter 44 on the Local Education side, which established lower cost plans (NJ Educators Health Plan and Garden State Health Plan) that may compare more favorably to premiums available outside the SEHBP.

• Do potential changes in employer participation rates impact plan design features for the Local program and the School program? If so, how? Or, is it the other way around? Does the State group influence plan design features for the local group and the State group?

Employer participation does not impact plan design features. Per P.L. 2011, c.78 ("Chapter 78"), plan design changes in the SHBP can only be effectuated by resolution of the SHBP Plan Design Committee (PDC) or through separate legislation. For Local Education, the plan designs are defined through Chapter 44 and are thus unaffected by changes in Local Education employers' participation.

School Employees' Health Benefits Program Migration to New Jersey Health Educators Plan

3. As of Fiscal Year 2021, Active employees in the School Employees' Health Benefits program hired prior to January 1, 2021 are to be enrolled in one of three plan options, including two legacy plans that require employees to pay for the cost of healthcare coverage as a percentage of plan premium and one new plan offering called the New Jersey Health Educators' Plan that requires employees to pay for healthcare coverage as a percentage of salary. Active employees hired after December 31, 2020 are automatically enrolled in the Educators plan; as of July 1, 2021, active employees may also select healthcare coverage through the Garden State Health Plan, which also requires employees to pay for coverage as a percentage of salary and has healthcare coverage and cost-sharing requirements equivalent to the Educators plan, but restricted to New Jersey providers.

The Plan Year 2023 Rate Setting Analysis projected that approximately 50 percent of active employees in the School program would enroll in the Educators plan, with 35 percent and less than 1 percent enrolled in the Legacy10 and Garden plans respectively. Substantiating that, the Mid-Year analysis for Plan Year 2023 found that 51 percent of total active employees enrolled in the Educators plan, 32 percent enrolled in the Legacy10 plan, and 1 percent enrolled in the Garden plan as predicted.

The Plan Year 2023 monthly cost of coverage for families with dependents in the Educators plan is approximately $400 less than the cost of the Legacy10 plan, whereas Garden plan costs are approximately $900 less than the Educators plan. This amounts to annual savings of approximately $4,800 per year for Educator enrollees and approximately $10,800 for Garden enrollees before factoring in coverage utilization.

Total plan costs per employee before cost-sharing are $12,315 for the Legacy10 plan, $8,141 for the Educators plan, and $6,285 for the Garden plan.

Discussion Points (Cont'd)

- ***Questions:*** **What dynamics are at play among the Legacy, Educator, and Garden plans that result in 34 percent and 51 percent reduction in total plan costs, respectively? How is the Garden State Plan achieving total plan costs that are 51 percent lower than the Legacy plans and what do the insureds gain and lose by choosing to participate in either the Educators or Garden plans?**

  The plans have lower rates because they have higher cost sharing, a smaller network, and tend to have younger, healthier members, because per Chapter 44, new hires (who tend to be younger and healthier) only have the NJEHP or the GSHP to choose from. As required by Chapter 44 employees who enroll in the NJEHP or GSHP pay contributions based on a percentage of salary, as opposed to employees who enroll in the PPO10 and PPO15, who pay contributions based on a percentage of premium as defined under Chapter 78.

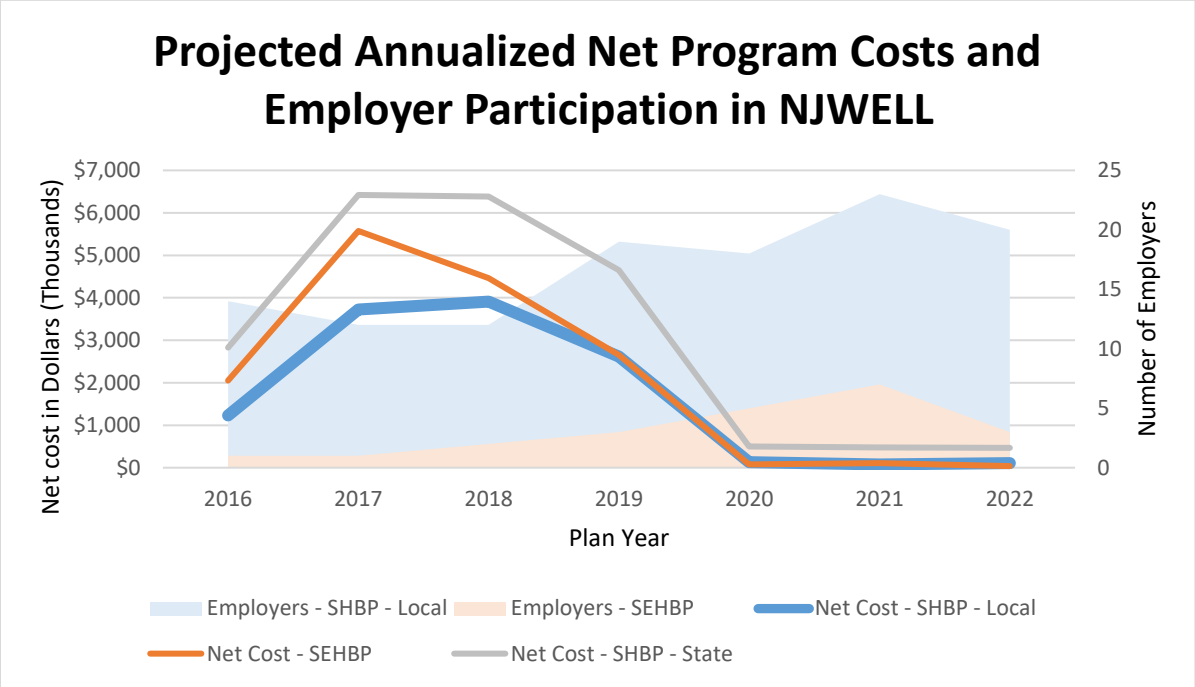
Employee Wellness Incentives, Plan Risk Pools, and Employer Plan Costs

4. Since Plan Year 2014, the State Health Benefits and School Employees' Health Benefits programs have offered a wellness program called NJWELL to active employees. The program aims to incentivize habits like daily exercise and healthy eating, which have been shown to reduce an individual's propensity to develop chronic health conditions and contribute to high health care costs.

Under the current plan structure, State Health Benefits and School Employees' Health Benefits Program local employers can get a 1 percent discount on premium rates for the following plan year, based on employee participation in NJWELL in the current plan year.

This graph shows the relationship between Projected Annualized Net Program Costs, which are expected administrative and incentive costs reduced by projected savings, and Local Employer and School Employer participation in NJWELL over time. Based on the graph, the net cost and the number of employers participating in the State, Local, and School Employee Health Benefits programs administering NJWELL has declined significantly since FY 2018.

Discussion Points (Cont'd)



- ***Questions:*** **What factors contributed to the decrease in net costs and the number of employers participating? ? For each employer group program, what is the net cost per employee and how has it changed overtime? Is this program not effective? Has the program realized any net savings in any year?**

  Treasury does not agree with the characterization set out above of the data regarding NJWELL. In fact, since the program's inception there has been a steady positive linear trend in the number of employers participating. Program year 2023-2024 saw a 39% increase in the number of employers who qualified for the discount from the prior year. Further analysis would be required for causality of net cost trends and stratification by employer group.

- **Is the decline in employer participation due to a lack of interest in the program by employees or due to an inadequate incentive?**

  There is no decline. As mentioned previously, Program year 2023-2024 observed a 39% increase in the number of participating employees relative to the prior year. There exists consistent Year-over-Year growth in the number of SHBP/SEHBP members engaged with NJWELL, indicating sustained and expanding interest and appropriate incentive levels.

- **Why was the employer premium discount rate of one percent chosen? What criteria need to be met for an employer to qualify for the discount?**

  The employer premium discount rate of one percent was approved by the SHBP Plan Design Committee. Employers need to have twenty-five percent of their employees participate, and complete, the NJWELL program in order to qualify for the discount on an annual basis.

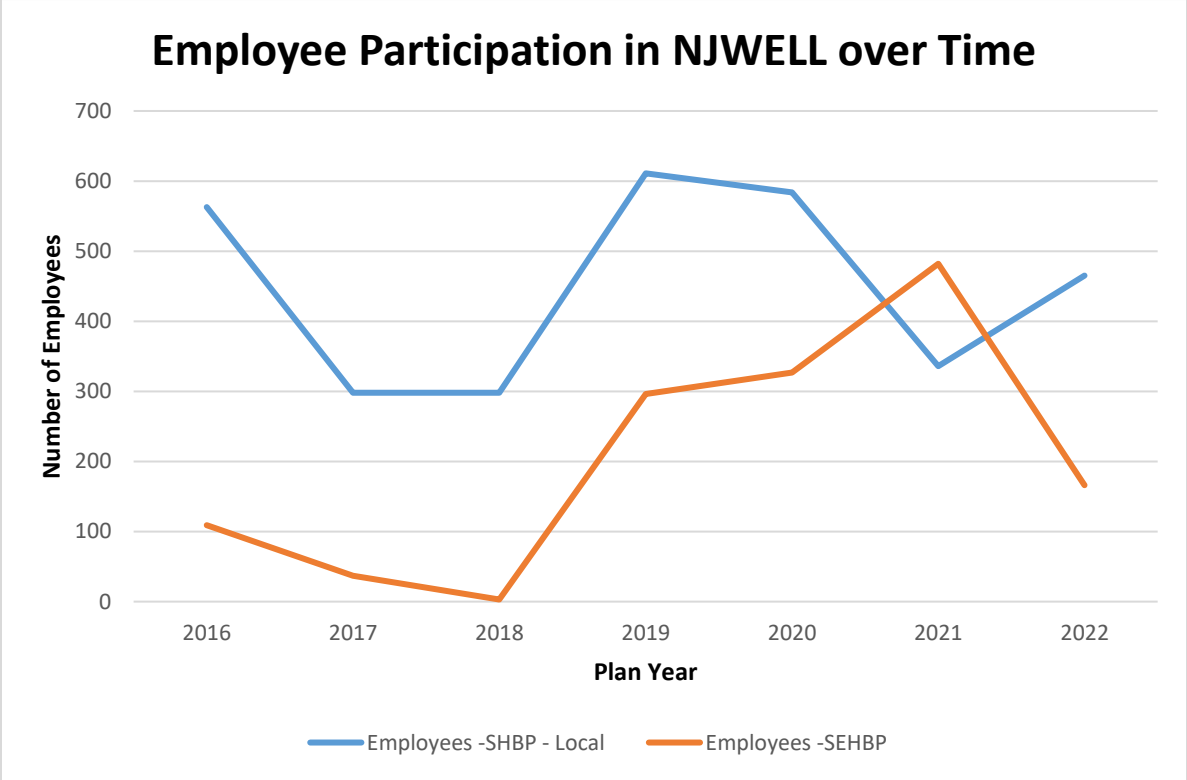
- **Is there any evidence that NJWELL is having an effect on employee healthcare outcomes or general health? Please compare the original projections for health**

Discussion Points (Cont'd)

improvements and participation to the actual health improvements and participation findings. Is there any evidence that NJWELL is delivering cost savings to participating employers or the Health Benefits programs

According to Horizon, those who participate in the program benefit from coaching and weight reduction strategies, which have a positive implication for their overall health.

4a. This graph shows the number of employees that participated in NJWELL for the Local and School Health Benefits programs from Plan Year 2016 to Plan Year 2022. For the most part, participation in Plan Year 2022 is about the same as it was in Plan Year 2016.



- ***Questions:*** **What factors account for the overall changes in employee participation over time? Are the participants in the program healthy participants who are taking advantage of the monetary incentive, but less healthy members are not participating due to privacy or other issues? What are the utilization and financial incentive dynamics at play and what effect is the program having on cost control?**

  There is no data on members' motivations for their participation in this program. The incentive is to have a preventative effect on member health and not solely to control costs.

<u>Compliance with Federal Transparency in Coverage (TiC) final ruling</u>

5. In 2020, the Federal government released the Transparency in Coverage Final Rule, which requires most health insurers in the individual and group markets, including self-funded plans to make personalized out-of-pocket cost and negotiated rate information available to

Discussion Points (Cont'd)

plan participants for all covered healthcare services through an online self-service tool. The Rule also requires insurers to make pricing information regarding negotiated rates for all covered services provided by in-network providers, historical payments and charges to the plan from out-of-network providers, and in-network negotiated rates and net prices for all covered prescription drugs available to the public at large. The final stage of the rule went into effect January 1, 2024

- ***Questions:*** **How has Horizon conformed with the Transparency in Coverage Rule and where can members go to find the information required to be provided under the rule? What does it mean to make personalized out-of-pocket cost and negotiated rate information available to plan participants through an online tool? Is the dissemination in general or is the information patient specific? Does the State anticipate that this Rule will impact total plan costs, covered services utilization, the number of participants who meet their annual deductible, or the rate at which participants meet their annual deductible? Why or why not? What is the impact of this Rule on contract prices and administrative expenses?**

  Per Horizon: "Horizon has conformed with the Transparency in Coverage Rule by developing a new on-line treatment cost estimator tool for authenticated members that includes personalized information regarding members' cost-sharing responsibilities for covered items and services, including prescription drugs. For a specified medical billing code or short description entered, it allows members to compare costs across both in-network and out-of-network providers. The tool informs members of any accumulated deductible or other out-of-pocket expenditures to date and of any medical management requirement. The tool provides out of network allowed amount that the plan would pay an out of network provider for a covered item or service. The self-service tool provides the required notices and disclaimers in plain language as part of the members personalized out of pocket estimate. Members can go to www.horizonblue.com to access Horizon's treatment cost estimator tool. The tool for medical cost estimations can be found under their Benefits and Coverage options tab, while the pharmacy benefits and estimates are available under the Prescriptions/Pharmacy Benefits options tab."

  Per Horizon: "Plan participants have access to an online self-service tool that will enable them to obtain a high-level cost estimate for services from different providers to aid them in their health care decision-making."

  Per Horizon: "The information in Horizon's Treatment Cost Estimator tool is patient/member specific as members must authenticate into the system using their member portal login credentials. This ensures that the tool displays information that is specific to the member's plan. The estimated cost for the procedure/billing code is based on the provider selected, member benefits and any accumulated deductible or other out-of-pocket expenditures to date. That being said, the cost information provided in our cost estimators tools for medical and wellness services, treatments, tests, surgeries and other procedures is an estimate. This tool is for informational purposes only and is intended to help members understand what the estimated health costs may be. We show members these estimated costs to help see if there are ways to save money by changing where they go for services or by changing what kind of services they have."

Discussion Points (Cont'd)

The purpose of the Rule was to enhance information available to members. Horizon's compliance with the Rule now allows members to receive this estimated cost information via self-service tools.

For the new contract starting fiscal year 2025, the cost is embedded in the Administrative Services Only Fee.

Medical Cost Inflation

6. As a result of increasing medical costs over the past few years, the SHBP has pursued initiatives to control medical cost inflation through targeting other specific drivers of medical costs such as implementing controls on out-of-network reimbursements for certain services, changes in the reimbursement structure for out-of-network services, and introducing new plan design options.

- ***Questions:*** **How have these initiatives been put into practice and what has been the impact on medical cost inflation? How do carve outs in the Horizon contract impact the ability of the State to control medical costs by targeting specific drivers, such as out-of-network reimbursements for certain services or changes in the reimbursement structure for out-of-network services? Have new plan design options been introduced as a mechanism to control increasing medical cost inflation? How do these plans differ from the ones currently available that would allow them to control the cost more effectively?**

  It is important to note that the State does not contract directly with health care providers, and neither the Division nor the PDCs have direct influence over the prices charged for health care services by any provider, whether in or out of network. Several strategies have been implemented to limit what the plan pays for some services and influence member behavior. One such strategy was the change in out-of-network reimbursements for specific plan options. This change resulted in limiting the amount the SHBP reimburses for certain out-of-network services. In addition to these changes, the SHBP PDC also approved increases in urgent care and specialist copay levels for certain plan options available to State employees. These changes resulted in savings while also impacting the overall utilization of these services.

Plan Year 2023 Mid-Year Analysis
Changes in Professional Services Utilization and Cost per Visit

7. This table from the Plan Year 2023 Mid-Year Analysis shows that:

- The specialist physician trend is still increasing albeit at a slower rate for State active employees most likely due to the higher specialist visit copay imposed in Plan Year 2023.
- In addition, utilization and cost of urgent care decreased significantly for the State Group.

Discussion Points (Cont'd)

Service Category	Visits/1000	$/Visit	Total Trend	Total Cost PMPM
Professional				
Specialist Physician	7%	4%	26%	$154.35
Primary Physician	(3%)	9%	12%	$41.30
Urgent Care	0%	5%	5%	$9.29
State Actives				
Service Category	Visits/1000	$/Visit	Total Trend	Total Cost PMPM
Professional				
Specialist Physician	(2%)	6%	4%	$116.05
Primary Physician	(6%)	8%	2%	$37.61
Urgent Care	(21%)	(7%)	(27%)	$5.77

- ***Questions:*** **What changes in plan design may have led to these changes in utilization and were these changes the expected changes when adopted and implemented? What factors are at play that result in State per member per month costs to be lower than the local per member per month costs? How do these phenomena compare to national trends in utilization and costs? What factors might account for the decrease in primary care physician utilization observed for both Local government and State Active employees? What factors account for the increase in the cost per visit for urgent care for Local government active employees and the decrease in the cost per visit for urgent care for State Active employees?**

  The SHBP PDC implemented a specialist and urgent care copay increase on the State Active Legacy HMO, OMNIA, NJDIRECT, NJDIRECT2019, CWA Unity, and CWA Unity 2019 plan designs, which likely influenced the reduction in utilization. There was a significant decrease in both specialist and urgent care utilization for these plans, which was not observed for the plans where no copay increase was made.

  State Active Costs are lower compared to Local Government in part because of the underlying populations. The State Active population has an average risk score that is significantly lower than the Local Government population. (A risk score is a measurement used to predict expected cost based on demographic and diagnostic data for the covered population.)

  Additionally, the State Active plan has a higher proportion of employees who are enrolled in plans with higher out-of-pocket requirements such as the NJDIRECT, CWA Unity, NJDIRECT2019, CWA Unity 2019, and OMNIA plans.

  Among their Large Group book-of-business, Horizon reports a 3.1% increase in utilization of specialist evaluation and management services, a -5.7% decrease in utilization of urgent care, and a 3.7% increase in utilization of primary care provider ("PCP") evaluation and management services.

  The decrease in PCP utilization could reflect normal year-over-year fluctuations, or possibly continued decreases in COVID-19 related testing and care.

Discussion Points (Cont'd)

Urgent care cost per visit differences in State vs Local Government are likely due to changes in the types of services the employees are using. The reduction in State indicates that the types of urgent care services members are using are lower cost compared to the previous year.

STATE HEALTH BENEFITS – FINANCES

Sustainable Savings

8. In response to the FY 2024 Discussion Points, it was revealed that the "Administration will seek approval for [the $200 million in one-time SFRF grant] funding once there has been agreement on sustainable savings, verified by the Division of Pension and Benefits' health benefits actuary, with its partners in labor and the Legislature." Sustainable savings are defined as long-term cost savings that can be achieved through targeted initiatives and lean methods that identify and remove outflows from cost drivers, which allow for continuous improvement in cost management. Examples within healthcare include coordinated care, telehealth, and programs that incentivize preventive care.

- ***Questions:*** **Please describe the Administration's sustainable savings strategy and how it is or is not synergistic with other cost control measure being undertaken. Please provide an update on an agreement on sustainable savings.**

  While efforts were made, the Administration did not attain an "agreement on sustainable savings, verified by the Division of Pension and Benefits' health benefits actuary, with its partners in labor and the Legislature" as hoped during the FY 2024 budget process. Accordingly, no savings were scored in the FY 2024 Appropriations Act. The Administration continues to work with its partners in labor, including but not limited to working within the PDCs, to identify responsible, fair reforms in public employee health benefits that will result in sustainable savings over time.

Savings from Prior Authorization

9. The response to the FY 2024 Discussion Points stated that the State realized $77.1 million in savings in Plan Year 2022 due to prior authorization services being in effect.

Prior authorization is defined as a health plan cost-control process that requires physicians and other health care professionals to obtain advance approval from a health plan before a specific service is delivered to the patient in order to qualify for payment coverage. Prior authorization services have developed and changed over time in order to become more effective as the healthcare landscape continues to evolve.

- ***Questions:*** **How has the State designed and changed prior authorization over time to become more effective? What changes have been made to make prior authorization more cost effective as the plan designs change in tandem?**

  It is important to note that prior authorization (PA) is not plan design. It is a practice implemented by the carriers to reduce waste, improve medical outcomes, and prevent fraud.

Discussion Points (Cont'd)

PA approvals are provided for services that are medically necessary and the services that are subject to PA approvals are continuously evaluated and updated. PA reduces costs by improving medical efficacy and enhancing overall efficiency.

- **How cost effective have prior authorization services been since Plan Year 2022? Is it reasonable to assume that prior authorization services will save about $100 million per plan year?**

While savings in any given plan year will depend on the services that are being requested and approved in the PA process, it is noteworthy that PA saved the plans well over $100M in Plan Year 2023. PA has been effective in limiting inappropriate health care resource utilization through the application of medical necessity review using evidence based clinical guidelines. As new medical technology and therapies, which are often costly, emerge, the need for clinical review is paramount to ensure appropriate use of health care resources as well as promoting quality and safety of care. Implementation of enhanced automation and use of other technologies in the PA process will promote cost effective use of health plan and provider office staff resources and increase speed to care through real time authorization decision-making.

Step Therapy Savings

10. Last year, the department stated that Step therapy savings for chemotherapy administered through the medical benefit program for actives employees and early retirees reduced Plan Year 2022 costs by $10 million. It also stated that program savings for step therapy through the pharmacy benefit program reduced costs by $19.75 million.

Step therapy is a type of prior authorization that intends to control costs by opting to use the most cost-effective drugs for a given condition as a first attempt before "stepping up" to a more expensive or risky therapy.

- ***Questions:*** **How has the State designed and changed step therapy savings over time to become more effective? What changes have been made to make step therapy more cost effective as the plan designs change in tandem?**

Each carrier establishes its own step therapy policies.

Descriptions of changes implemented by Horizon and Optum, respectively, are set out below:

Horizon Response: "Within medical drug management, Horizon manages a Medical Formulary to drive utilization to preferred, lower-net-cost products. Currently this includes 19 specialty drug categories encompassing >90 products and continues to grow as more products are approved by the FDA. Example categories include preferred biosimilar products across oncology products, viscosupplements, and ophthalmic injections. In addition to regular assessments of our Medical Formulary, Horizon works very closely with key health system partners to ensure formulary alignment in key categories to further drive use to preferred products while limiting member disruption."

Discussion Points (Cont'd)

Optum Response: "In 2021, the State implemented comprehensive utilization management. This includes the full suite of all standard utilization management edits available through Optum Rx. The implementation of comprehensive utilization management included the addition of step therapy. Utilization management is continually monitored and updated in accordance with clinical practice guidelines and market trends. "

- **How cost effective has step therapy been since Plan Year 2022? Is it reasonable to assume that step therapy will save about $20 million per plan year?**

  Savings will depend on the services that are being requested and approved in the Step Therapy process. Horizon and Optum estimate combined savings of approximately $20 million for Plan Year 2023.

Claims Stabilization Fund

11. In the responses to the FY 2024 Discussion Points, the Department indicated that there is a claims stabilization fund for the State Health Benefits Fund – State. The Department also stated that the reserve is funded on a pay-as-you go basis and that the majority of resources are derived from annual State appropriations.

- ***Questions:*** **Please discuss the benefits of the use of this fund: what are its parameters, goals, etc.? What amount of funds are recommended to be held in the reserve? How was this amount determined? Have funds been used to pay for cost over runs and if so, how much over the past three years?**

  A claims stabilization reserve ("CSR") is necessary to offset higher than expected claims costs for a given plan year.

  The CSRs for Local Government and Local Education each target a funding level of at least two months of Plan Costs per actuarial recommendation. If a CSR falls below a target level, additional funding may be recommended.

STATE HEALTH BENEFITS–CHANGES IN POLICY

Outstanding Plan Design Resolutions

12. The chart below details the Plan Design Committee's resolutions that were adopted in FY 2024 and their current status. According to the Plan Design Committee's meeting minutes, twelve resolutions were adopted with five renewed and three adopted but issues remain outstanding.

Resolution Number	Resolution Title	Adopted	Renewed	Outstanding
2023-2	Reduced Retiree Specialty Copay	X		
2023-3	Formulary Management and Out of Network Physical Therapy	X	X	

Discussion Points (Cont'd)

2023-4	Mail Order Incentive and $0 Copay for Generic Mail Order Prescription Drugs	X	X	
2023-5	Generic Substitution Preference	X	X	
2023-6	Copay Reduction for Retiree Mail Order Preferred Brand Prescription Drugs	X	X	
2023-7	Tiered Network Plan Financial Incentive Program	X	X	
2023-8	Point Solutions	X		X
2023-9	Reference-Based Pricing	X		X
2023-10	Medical Specialty Rx	X		X
2023-11	NJ DIRECT HD Low	X		
2023-12	NJ DIRECT HD High	X		
2023-13	Modification of Resolution 2019-2 (First Responders DPCMH Pilot Program)	X		

The three outstanding resolutions were adopted in July 2023 with the intention of developing, researching, and finalizing findings in order to create pilot programs by the end of CY 2023. However, there is no record of the discussion or finalization of findings in the accessible meeting minutes. Two of these outstanding resolutions, Point Solutions and Reference-Based Pricing, are carried over from the gridlock that occurred in September 2022.

- ***Questions:*** **What are the outstanding issues with regards to the implementation of these resolutions? What does the Administration have to do to effectuate these resolutions? What are the reasons for the delay in implementation?**

  Resolution 2023-8 (Point Solutions): There is no language in this Resolution supporting the assertion that with respect to this Resolution the PDC had the "intention of developing, researching, and finalizing findings in order to create pilot programs by the end of CY 2023." See: https://www.nj.gov/treasury/pensions/documents/hb/Resolutions/SHBP-PDC/2023-8-SHBP-PDC-Res-Point-solutions.pdf

  As reported in the minutes of subsequent SHBP PDC meetings throughout 2023, the Division of Pensions and Benefits ("DPB" or "the Division") continued and completed its analysis of the remaining point solutions programs in the SHBP, and informed the PDC in December 2023 that the SHBP would be terminating all point solutions as of June 30, 2024. These actions fulfilled the directive of Resolution 2023-8.

Discussion Points (Cont'd)

Resolution 2023-9 (Reference Based Pricing or "RBP"): In that Resolution the PDC resolved to "use best efforts to develop and finalize a more detailed resolution regarding a RBP pilot program for the SHBP by its September 2023 meeting."
See: https://www.nj.gov/treasury/pensions/documents/hb/Resolutions/SHBP-PDC/2023-9-SHBP-PDC-Res-Reference-based-pricing.pdf

As reported out at the September 2023 meeting and subsequent meetings since then, the PDC has decided to pursue a concept referred to as a "Centers of Excellence" program, in lieu of the RBP concept. While that work by the PDC is ongoing, the PDC members have yet to reach agreement on the details of a pilot program. The Administration cannot implement a program until such an agreement is reached and approved by the PDC.

Resolution 2023-10 (Medical Specialty Rx): There is no language in this Resolution supporting the assertion that with respect to this Resolution the PDC had the "intention of developing, researching, and finalizing findings in order to create pilot programs by the end of CY 2023." In that Resolution the PDC resolved to "continue to work within its subgroup structure to develop and finalize plan design changes to address the rising costs of medical and/or specialty pharmacy prescription drug benefits with a focus on a multi-phase, incremental approach to reforms, while also continuing to analyze longer-term, structural reforms; and 2. The SHBP Plan Design Committee shall use best efforts to finalize at least one resolution designed to lower the cost of certain medical and/or specialty pharmacy prescription drug benefits for the SHBP by its October 2023 meeting."
See: https://www.nj.gov/treasury/pensions/documents/hb/Resolutions/SHBP-PDC/2023-10-SHBP-PDC-Res-Medical-specialty-Rx.pdf

As reported out at subsequent PDC meetings since that time, the PDC subgroup created to study and develop recommendations to the full PDC regarding medical specialty pharmacy reforms has continued its work, with the support of the Division staff and its health benefits consultants. The PDC subgroup has yet to develop or recommend any reforms to the full PDC. The Administration cannot implement a program until such an agreement is reached and approved by the PDC.

Impact of Adopted Plan Design Resolutions: Brand Drugs v. Generic Drugs

13. The table shows brand drugs as a percent of non-specialty scripts and non-specialty script spend for Plan Year 2022 and Plan Year 2023 to date for State Health Benefits and School Employees' Health Benefits program active employees as reported in the Plan Year 2022 Mid-Year Analysis from the State's actuary. Non-specialty scripts are defined as drugs with which people tend to be familiar, such as high blood pressure medications and anti-depressants.

Group	Plan Year	Brand Drugs as a Percent of:	
		Non-Specialty Scripts	Non-Specialty Spend
SHBP - State Actives			
	2022	18.0%	83.0%
	2023 YTD	16.0%	87.0%

Discussion Points (Cont'd)

SHBP - Local Actives			
	2022	15.8%	82.5%
	2023 YTD	15.0%	86.0%
SEHBP - Actives			
	2022	17.0%	81.0%
	2023 YTD	16.0%	84.0%

As can be seen in the table above, although brand drugs only comprise about 20 percent of non-specialty scripts, the cost of brand drugs comprises about 80 percent of costs associated with non-specialty scripts.

On October 30, 2019, the SHBP Plan Design Committee adopted a resolution which required members to bear the full difference in cost between brand and generic drug products. The Committee has continued this resolution for each plan year following its initial adoption in 2019.

- ***Questions:*** **How effective has this resolution been in controlling State employee healthcare prescription drug costs? What are the average annual savings associated with the continuous renewal of this resolution? Since the adoption of the resolution, has the department noticed a change in the ratio of the utilization of brand drugs to generic drugs?**

  This program has helped the SHBP/SEHBP save approximately $29 million on average per year. Since 2019, the plans have seen a steady increase in its Generic Efficiency Rate, which measures the percentage of generic equivalents being filled over the brand.

- **Why are some brand drugs included in the formulary while others are not?**

  Per Optum: "In general, generic medications are included on formulary as preferred products, providing the lowest member cost share. In most instances, brands, and particularly high-cost brands are excluded from the formulary. Brands are included on formulary when there is no generic available in the marketplace, market supply issues that require coverage of the brand to ensure access to therapy, or (in rare cases) the cost differential between brand and generic is narrow."

Impact of Adopted Plan Design Resolutions: Mail Order Pharmacy

14. On September 6, 2019, the SHBP Plan Design Committee adopted a resolution which set a $0 copay for prescriptions for generic drugs filled through OptumRx's Mail Order Pharmacy by active members. The Committee has continued this resolution for each plan year following its initial adoption in 2019

- ***Questions:*** **Since the adoption of the resolution, how has the use of mail order changed over time? How cost effective is this measure and what average savings can the State expect from renewing this resolution each year?**

Discussion Points (Cont'd)

The SHBP/SEHBP mail order utilization rate increased initially from 12.1% in 2019 to 16.4% in 2020, and has since leveled off, currently at 14.5%. The resolution is a financial benefit for members by offering a convenient mail order option with $0 co-pay. Additionally, the SHBP/SEHBP benefits from a higher percentage of low-cost generics being filled at mail order where the average aggregate discount guarantees are higher than at retail. Retail costs will vary by pharmacy.

STATE HEALTH BENEFITS – IMPACTS ON COVERAGE

Drug Costs: Drug Affordability and Supply Chains

15. At the beginning of FY 2024 Gov. Murphy signed P.L.2023, c. 106, which established certain data reporting requirements for drug manufacturers, insurance carriers, pharmacy benefits managers, drug wholesalers, pharmacy services administrative organizations and others within the prescription drug supply chain that operate within this State and also established a drug affordability council to make recommendations to State leaders regarding the control of drug availability and costs. Early this year the federal Food and Drug Administration (FDA) gave permission for the state of Florida to import drugs from Canada at far lower costs than purchasing these same drugs in the United States. This is the first instance of the FDA providing this kind of approval to a US state. Florida believes it could save up to $180 million annually on drugs costs for individuals under the care of state agencies and Medicaid members.

New Jersey currently does not have permission from the federal government, nor a law allowing for a state importation drug program, but a recent analysis by Colorado found that such a program could provide substantial savings to the commercial market lowering costs for consumers, employers, and other payers.

As of 2020, Utah had already saved $225,000 in specialty drug costs for state employee health plan members after a 2018 law authorized employees to travel to Mexico or Canada to purchase certain specialty drugs.

- ***Questions:*** **Is the SHBP Plan Design Committee aware of this development within the drug supply chain? Have any discussions taken place regarding the development within the drug supply chain and seeking approval from the FDA to import pharmaceuticals? Given that many U.S. drug manufacturers make drugs offshore, would purchasing drugs offshore essentially be buying U.S. drugs offshore for lower prices than can be had onshore?**

  The SHBP and SEHBP provide prescription benefits to members through a contract with its pharmacy benefits manager (PBM). The cost to the State, local employers, and employees of those prescription benefits is governed by the terms of the PBM contract, and the prices negotiated by the PBM with pharmaceutical companies.

Rise of White Bagging

Discussion Points (Cont'd)

16. Recently, there has been an increase in criticisms in the medical community, particularly oncologists, regarding the practice of white bagging by insurers. The process known as "white bagging" replaces the traditional buy-and-bill distribution pathway. Traditionally, oncologists were able to purchase specialty drugs directly from distributors or manufacturers, which allowed the physicians to be reimbursed for both the cost of the drug, as well as the administration of the drug. White bagging requires physicians to purchase these drugs from a specialty pharmacy. As a result, physicians are only able to be reimbursed for administering the specialty drug, not the cost of the drug itself.

White bagging as a more common distribution method has not only led to increased out-of-pocket costs for patients, but safety concerns as well. By requiring physicians to buy pre-made specialty drugs, it limits options for patients with changing conditions and often causes delays in treatment.

As of January 2024, five states have enacted laws banning the use of payer-mandated white bagging, while three states have added guardrails around the practice.

- ***Questions:*** **Is the Administration aware of the process known as white bagging? Is white bagging something the Plan Design Committee is considering, or investigating, as it thinks about the development of the specialty pharmacy program? Is white bagging in the current contract for the vendors of SHBP/SEHBP? Will there be guardrails around the process of white bagging included in future contracts?**

  The PDC, which was established through Chapter 78 with equal representation of management and labor, authorizes the PDC to approve all plan design changes. However, the PDC does not have authority over contracting, which is the purview of the Health Benefits Commissions. To the extent that any developments in health care industry practices may be relevant to the work of the PDC to make plan design changes in order to contain costs, the Division and its consultants will work with the PDC to explore the possible alternatives.

Point Solutions

17. In response to the FY 2024 Discussion points, the Department indicated that the Division of Pension and Benefits developed evaluations of existing Point Solutions, resulting in the termination of one point solution. Point solutions are defined as a specific service that a vendor provides within a health benefits program designed to improve health outcomes and reduce the cost of care for certain subsets of the covered population, covered persons with certain health conditions, or certain services. Examples may include NJWELL, the State's wellness incentive program, and the State's partnership with Hinge Health, a digital platform offering coach-led exercise therapy for chronic back and joint pain to State Health Benefits program – State and Local and School Employees' Health Benefits program participants.

- ***Questions:*** **Please summarize the results of the evaluations of the point solutions. What criteria lead to the termination of one point solution? Please provide a list of each point solution, what health benefit cost center it is targeting and which vendor provides the point solution.**

  The Division has been engaged in ongoing analyses of the cost and impact of the several point solution vendors engaged by or for the SHBP/SEHBP in recent years. In general:

Discussion Points (Cont'd)

Some point solutions' fees were assessed on a per member per month ("PMPM") or per employee per month ("PEPM") basis, and were therefore not sensitive to the actual level of member participation.

Member participation in all point solutions was generally low, limiting the impact on population health and plan spend.

There was duplication of services among two of the point solutions.

There are numerous challenges in measuring the impact on member health and plan spend of the point solutions. This is an area the Division is continuing to address.

Currently, all of the point solution engagements are being or have been terminated. Note that NJWELL, which is not being terminated, is not in this category of point solutions, as it is a general wellness program that addresses multiple health issues and avenues to health promotion, rather than a program focusing on a specific area.

Point Solution Overviews:

Amino:

The navigation tool aimed to help members to locate high-quality, cost-effective providers and to make appointments. This service duplicated Included Health's services, as well as the carrier's services.

Hinge Health:

Hinge Health is a musculoskeletal system physical therapy program targeting acute and chronic back, muscular, and joint pain. Members are given a prescribed virtual program they can do using an app. No specific diagnosis or provider referral is needed.

Grand Rounds/Included Health:

The point solution provided expert medical opinions, referrals to care, and live clinical support. The medical opinion component was the only service that was not duplicated by the carrier or another vendor. Note that any member may seek a second opinion simply by making an appointment with another provider.

Livongo by Teladoc Health:

Livongo provides programs for diabetes, hypertension/cardiovascular health and mental health. The contract permitted members to enroll in one or a combination of programs, all of which were rolled out beginning in 2020, with no copay.

WondrHealth (previously Naturally Slim):

WondrHealth is a digital health and wellness program designed to promote weight loss and overall well-being. The program focuses on behavior modification and addresses the

Discussion Points (Cont'd)

psychological aspects of weight management. There are no specific biometric goals, and anyone age 16 and over may participate.

- **Taken together how much do point solutions, on average, offset health benefit costs?**

  While some of the point solutions appear to have improved some markers of member health for the small number of members who participated, it is not evident that any of the point solutions reduced or offset utilization of health care services sufficiently to reduce overall plan costs.

- **Will the point solutions continue to be evaluated on a recurring basis? If so, is an external evaluator or vendor handling the evaluations of existing point solutions providers?**

  If new point solutions are brought into the SHBP/SEHBP going forward, the Division will oversee a process for evaluating their efficacy.

Anti-Obesity Agents

18. The table below displays the impact of weight loss drugs within the State Health Benefits Program and State Educators Health Benefits Program. It includes the increase in utilization of anti-obesity agents, their impact on per member per month spend, and per member per month weigh loss spend as a percentage of the total employer spend.

Group	Plan Year	Weight Loss Drugs		
		Utilization Increase	PMPM Spend Increase	PMPM Total Employer Spend
SHBP - State Actives				
	2022	56%		
	2023 YTD		172%	9%
SHBP - Local Actives				
	2022	66%		
	2023 YTD		161%	9%
SEHBP - Actives				
	2022	79%		
	2023 YTD		190%	7%

This increase in spending on weight loss drugs for State sponsored health insurance plans mimics the overall trend of spending for this drug category across the United States. As a result some employers have begun to restrict coverage for these drugs by placing limitations on the population that can use the drugs, establishing life-time spending caps, and dropping coverage all-together

Discussion Points (Cont'd)

- ***Questions:*** **Are the plan design committees for the State Health Benefits and School Employees' Health Benefits programs considering restricting coverage for weight-loss drugs? What factors do the plan design committees consider when deciding to restrict coverage for certain services? What is the ratio between Employer plan spend for weight-loss drugs and prescription drug rebates for weight-loss drugs? Have rebates increased by the same factor as Employer spend?**

  The PDC, which was established through Chapter 78 with equal representation of management and labor, authorizes the PDC to make all plan design changes, including coverage restrictions. The PDC is provided the most up to date and applicable information, including but not limited to impact analysis, to be able to determine any future plan design changes.

  Per Optum: "Rebates on weight loss medications have provided, on average, a 37% offset to the plan's costs for weight loss medications year-over-year (YoY)."

- **What is the total fiscal year spend for these drugs in FY 2024? What has been the trend prior to FY 2024? What is the future projected trend of anti-obesity agents with cost controls and without?**

  The SHBP/SEHBP is projected to spend approximately $65.9 million on weight loss drugs in FY2024. Per Optum: "YoY trend from 2021 to 2022 was approximately 98.2%. YoY trend from 2022 to 2023 was approximately 165.2%."

Projected Obesity GLP-1 PMPM Costs	2025	2026	2027
Baseline Ingredient Cost PMPM Net of Rebates	$39.08	$48.73	$56.21
Baseline Plan Paid PMPM Net of Rebates	$34.51	$42.96	$49.33

  Per Optum: "Implementing cost controls would change these projections. Costs will vary based on the type of controls put in place."

- **How will this impact the population of members who require these medications for chronic medical conditions such as diabetes?**

  Per Optum: "GLP-1 products indicated for the treatment of chronic medical conditions (diabetes) have distinct product names, ID numbers and FDA approved indications versus the products for weight management. The Prior Authorization process ensures that members taking GLP-1 medications to treat diabetes are taking the appropriate, FDA indicated GLP-1 products, whereas members taking GLP-1 medications for weight loss are taking those appropriate, FDA indicated GLP-1 products."

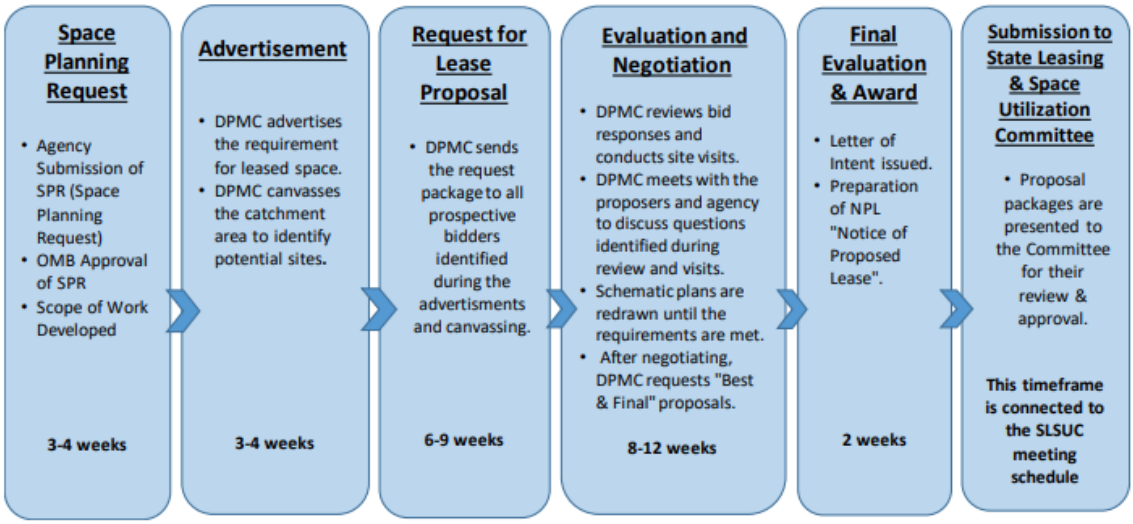
PROPERTY RENTALS AND INSURANCE

Property Rentals: Space Utilization Study and State Leases

19a. This graphic from the New Jersey Department of the Treasury Executive Branch Office Space Review and Recommendations Report shows the timeline and process to approve

Discussion Points (Cont'd)

State leases. The report states that the "timeline does not include the time required to fit out office space and effectuate associated agency moves."



The report made various recommendations to increase the efficiency of the State leasing process, including updating State statutes to require quarterly State Leasing & Space Utilization Committee meetings and exempting certain leases from the committee's approval based on square footage or monetary thresholds.

- ***Questions:*** **How will establishing square footage and monetary thresholds affect oversight and transparency of the State leasing process? What percentage of the State leasing costs would be exempted if a waiver from Committee approval went into effect?**

  If a threshold for approval by the Committee was established for all leases, the Division of Property Management and Construction's (DPMC) lease procurement process will continue to have both significant oversight and transparency. DPMC's lease procurement process includes review and approval from all of the following: (1) the Office of Management & Budget for budgetary approval; (2) Division of Law for legal matters; (3) the Office of the State Comptroller for procurement process; and (4) the Treasurer's Office. The requirement of DPMC securing the approval of lease procurements by a joint legislative committee is an additional layer of oversight unique to the State of New Jersey.

  If a threshold for approval by the Committee was established for all leases of 5,000 square feet and above, then based on DPMC's current lease portfolio around 10% of DPMC's total leasing costs would not be required to be presented to the Committee for approval. For a threshold of 10,000 square feet and above then based on DPMC's current lease portfolio around 25% of DPMC's total leasing costs would not be required to be presented to the Committee for approval.

19b. In response to last year's discussion points, the Administration indicated that the Division of Property Management & Construction, which is responsible for facilitating and

Discussion Points (Cont'd)

administering State leases, was planning a multi-step review of State office space utilization and intended to engage a consultant to assist with the initial stage before calendar year 2024.

- ***Questions:*** **What were the findings of the consultant's study, specifically with regard to the effect of the remote work week for State employees and its impact on the State leasing program? Is the remote work program projected to produce long term savings to the State not only with regard to its effect on the State leasing program, but also its effect on utilities, transportation, and the environment?**

  The consultant's report has not yet been finalized. The study was based on Executive branch office space only and not a review of ancillary effects on transportation, utilities, and environment. Preliminary indications are that if a 2-day telework program was made permanent, it would not, in itself, significantly impact the State leasing program.

- **What vendor was chosen to conduct the study and what was the cost of the contract?**

  Boston Consulting Group. The contract cost $2,366,000.

20c. In response to last year's discussion points, the Administration stated that the State was paying holdover penalties for two Trenton leases and one Bayonne lease in the amounts of $246,138.01, $163,479.01, and $5,803.12 per month.

- ***Questions:*** **Please identify any leases resulting in holdover penalties for FY 2024. What is the dollar amount of the penalty for each lease thus far?**

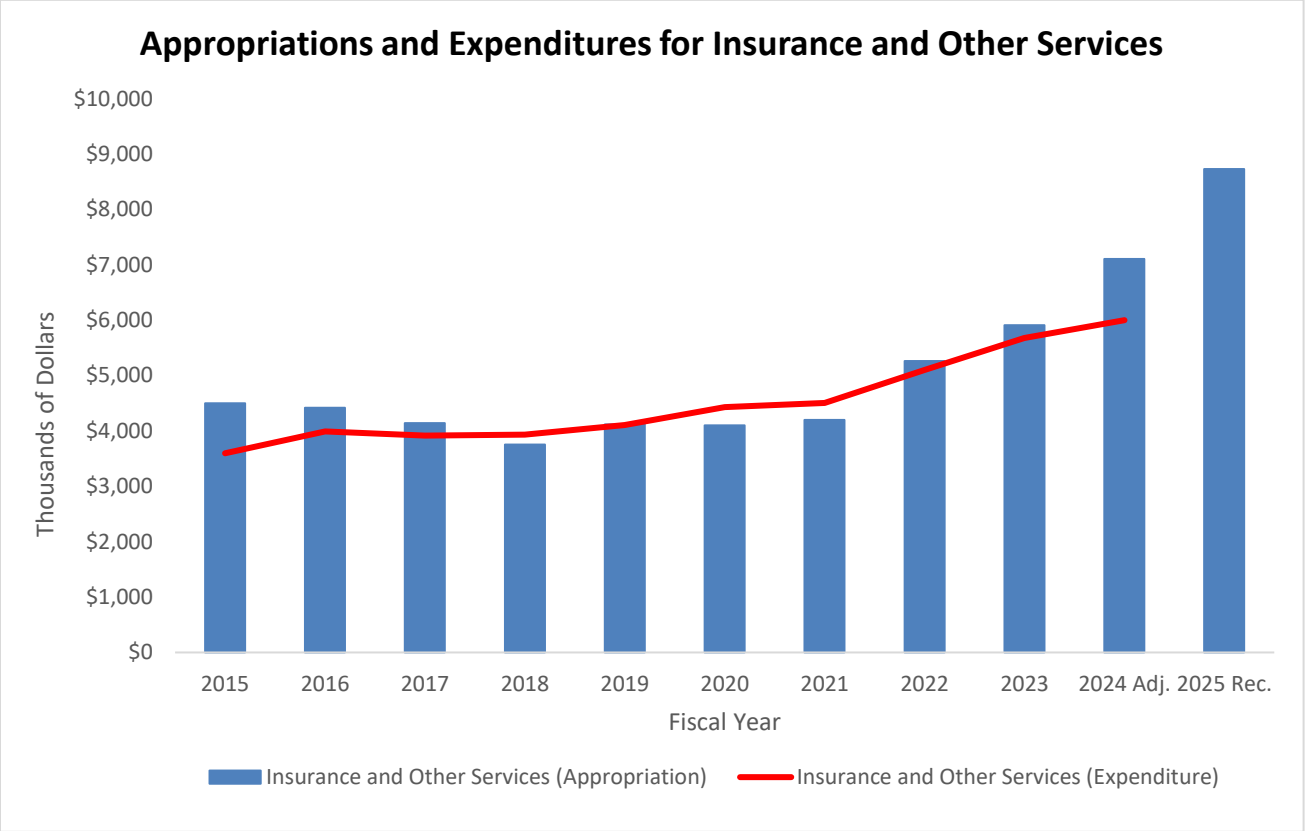
  Bayonne $5,803.12
  Trenton (50 East State Street) $1,476,828.06
  Trenton (33 West State Street) $980,874.06
  Total = $2,463,505.24

  The State negotiated a credit for the Trenton leases through an earlier lease start dates totaling $776,495.38 ($466,594.46 and $309,900.92 respectively).

Trends in Expenditures for Insurance and Other Services

20. The graph depicts the eleven-year trend in appropriations and expenditures for the Insurance and Other Services appropriation. The appropriation is comprised of costs for property insurance premiums, casualty insurance premiums, and special insurance premiums. Costs for property insurance premiums are the largest dollar component of the Insurance and Other Services appropriation.

Discussion Points (Cont'd)



As the graph shows, appropriations and expenditures for the Insurance and Other Services appropriation have increased since 2015. The compound annual growth rate in appropriations for Insurance and Other Services is 6 percent for the period, with a recommended 20 percent increase in FY 2024 and a recommended 23 percent increase in FY 2025.

- ***Question:*** **What factors have contributed to the spike in appropriations and expenditures for Insurance and Other Services since 2019?**

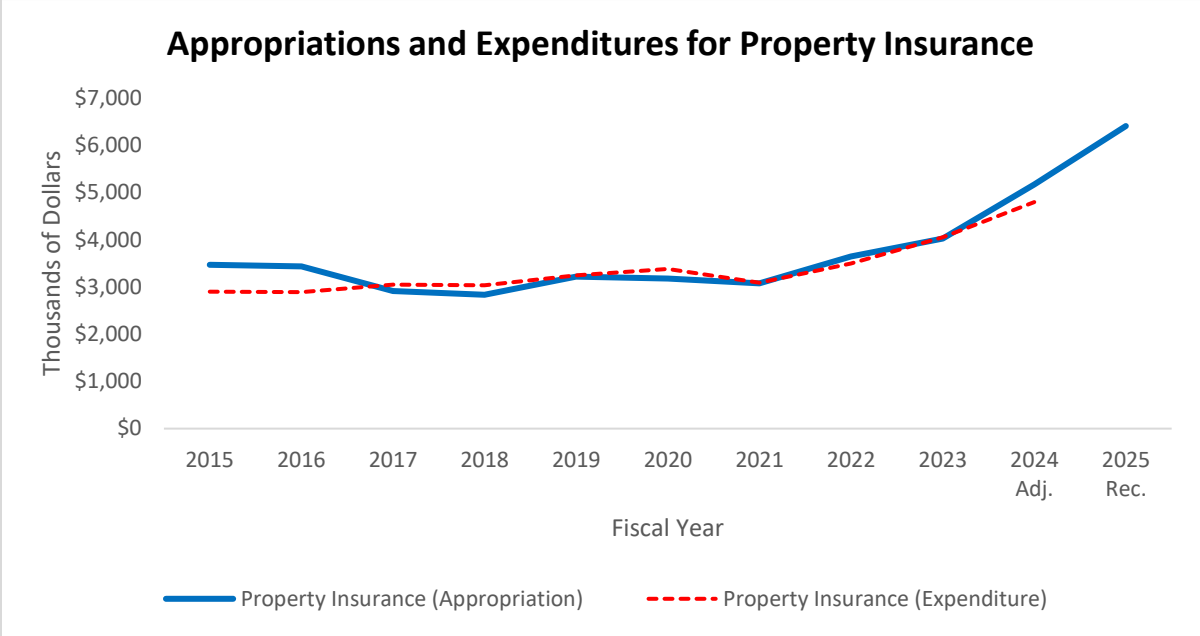
  The three biggest premium components in our entire insurance portfolio are Aviation, Property, and Cyber insurance. Combined, these three policies represent over 90% of our insurance premiums. These also happen to be the most volatile due to known claim trends and the potential for catastrophic losses, known as maximum potential loss (MPL). We follow all underwriter recommendations to eliminate or mitigate the potential for MPL and to date have been able to come in under Broker projections. Nonetheless, premiums for these three policies are on the rise around the globe as insurance markets grapple with the severity and frequency of claims in these three market segments.

Property Insurance: Trends in Expenditures and Impact of Climate Change

21a. The graph illustrates the ten-year trend in appropriations and expenditures for property insurance premiums since 2015. The Property Insurance Premium appropriation is used to purchase insurance coverage for damage to State-owned real and personal property. Coverage includes standard protection for buildings and contents, marine vessels,

Discussion Points (Cont'd)

catastrophic loss to vehicles parked in State locations, and mainframe computer equipment coverage. Additional policies include fine arts coverage and high-value van coverage.



Since 2015, the compound annual growth rate in appropriations for property insurance premiums is 6 percent. However, the trend increased noticeably in FY 2021. By FY 2023 property insurance had increased by 28 percent and by 24 percent in FY 2024.

News reports suggest that large property insurance companies have suspended coverage for new policies or started excluding coverage for certain climate related weather events like hurricanes from policies in certain coastal states thereby increasing premiums for policy holders.

The Office of Management and Budget has previously stated that global climate change is increasing State costs for property insurance.

- ***Questions:*** **What are the primary reasons for the increase in appropriations and expenditures in the property insurance account since 2021? What is happening with the State's contract with Affiliated FM, the State's property insurer as of spring FY 2023? How have overall conditions in the property insurance marketplace impacted State costs? What are the current market conditions and market outlook for Property Insurance Premiums?**

  The impact of climate change has caused an increase in both the frequency and severity of hurricanes, storm related floods, wildfires, winter storms, and extreme freeze and drought events. The world's largest global insurance brokerage, Marsh McLennan, noted in their report for 2024 that insured costs for these events rose globally from approx. $450 Billion in 2021 to $600 Billion in 2023, with 3 of the costliest years in history occurring since 2020. Finally, inflationary pressures have seen property schedules increase in insurable values and, therefore, a commensurate rise in premiums.

Discussion Points (Cont'd)

Our insurer, Affiliated FM (AFM) has increased the frequency of inspections of our highest valued locations, generating recommendations to reduce our exposure to loss. They provide plan reviews for construction projects, engineering services, and do all of our boiler inspections as well.

Our broker at each renewal goes to the insurance market for multiple bids from insurers that provide the best combination of price, coverage, and ancillary services we require from AFM. What is unique about AFM is their staffing of engineers in the underwriting, inspections, and claim services. These services are essential to our property insurance program.

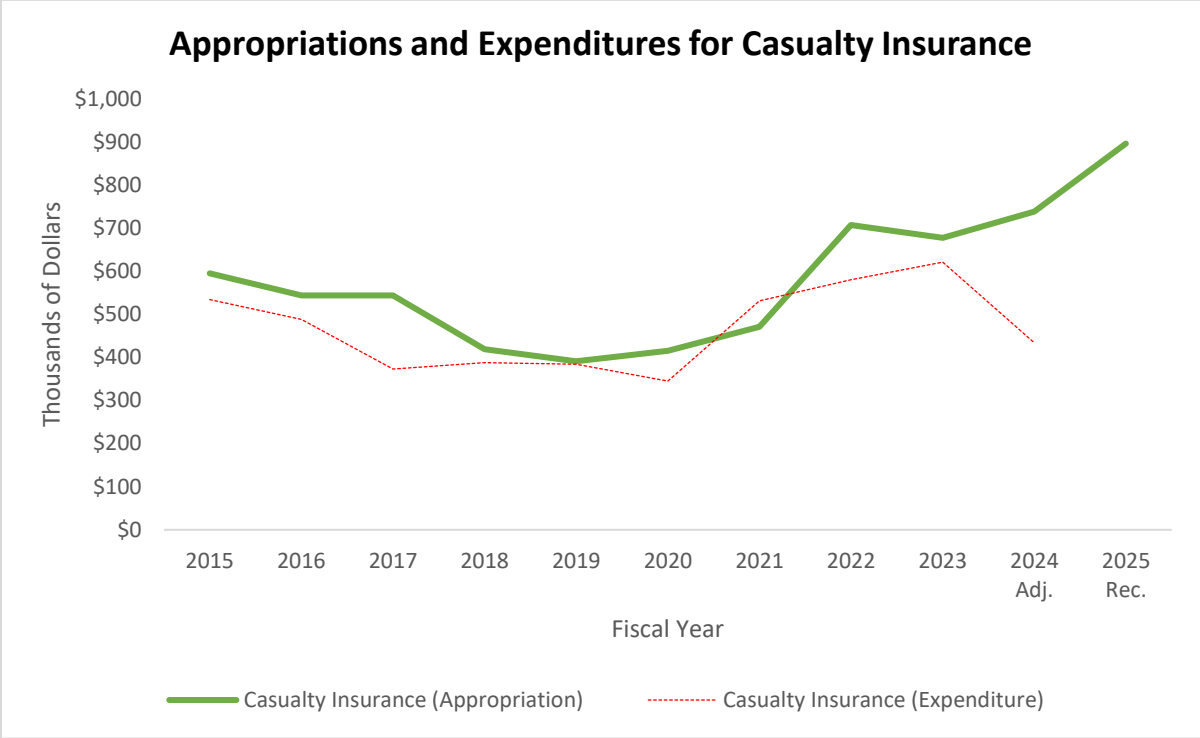
In the past 12 years since Superstorm Sandy in 2012, we have only experienced 3 major claims: a Fire loss and Flood event, each costing approx. $2 Million in insured loss, and damage to the Statehouse Portico, with an estimated cost to repair of $8M. Our experience with AFM has been excellent when you consider the billions in values insured around the State, and the exposures we are subject to as a coastal State and the type of weather that entails.

The market outlook for Coastal States is not good. We had our version of a major storm, Superstorm Sandy, back in 2012, as noted above. It pointedly demonstrated how exposed we are in the Northeast to another storm such as this. This experience, coupled with climate change and warming seas, puts us in a vulnerable position for future storms, and underwriters' price their risks accordingly. As a result, we hold the services offered by AFM to be as important as the insurance coverage and provisions they provide.

Casualty Insurance

21b. The graph illustrates the trend in appropriations and expenditures for casualty insurance premiums since 2015. The Casualty Insurance Premium Payments appropriation is used to purchase automobile excess liability insurance; aircraft liability and physical hull damage insurance; workers' compensation for special classes of State employees supported by federal or non-State funds; and accidental health insurance to provide medical reimbursement, disability and death benefits to volunteers in State programs who do not qualify as State employees and would not be eligible for workers' compensation benefits. Casualty premiums include the New Jersey State Police marine fleet as well as Aircraft Hull and Liability Insurance.

Discussion Points (Cont'd)



As the graph shows, appropriations have typically exceeded expenditures for casualty insurance since 2015. Despite this trend expenditures grew until FY 2024. Recommended appropriations are budgeted to increase by 21 percent in FY 2025.

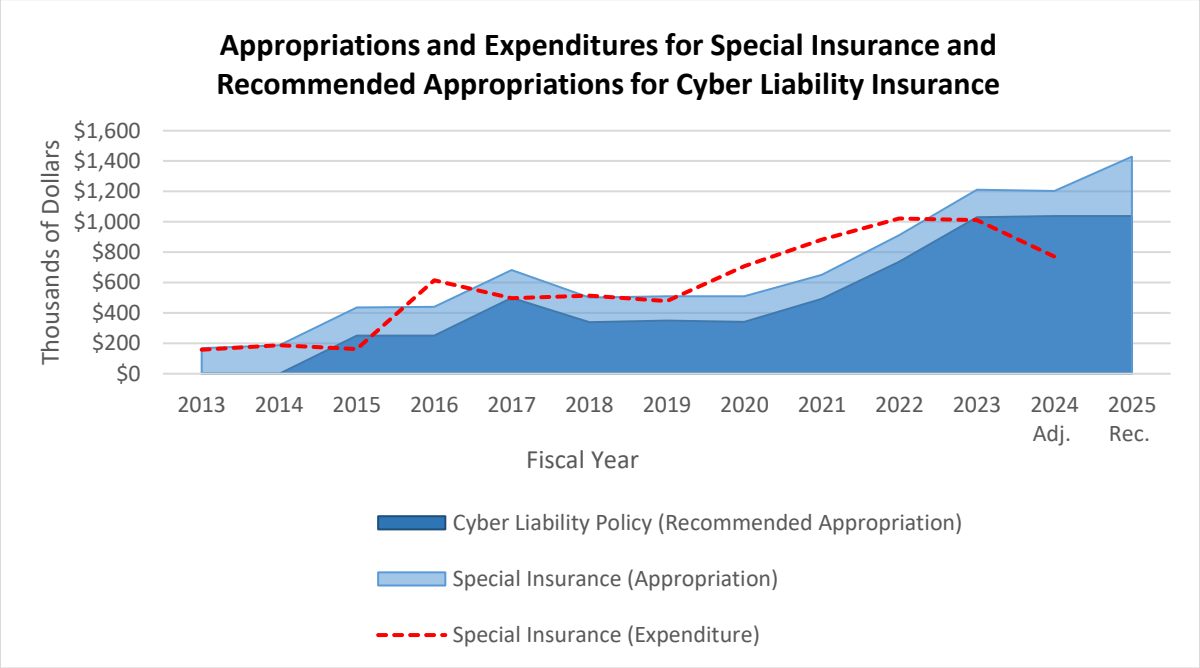
- ***Questions:*** **Is there a reason why appropriations for Casualty Insurance Premiums have exceeded expenditures on a continual basis since FY 2015 and why appropriations are recommended to increase by 21 percent in FY 2025 when expenditures dropped beginning in FY 2023? What are the current market conditions and what is current market outlook for Casualty Insurance Premiums?**

  Aviation insurance dominates all other policies for our total Casualty Premiums. The Aviation Liability market was very stable for rotary aircraft up until about 2020. Since then, the market has become more volatile due to loss history trends in the US and conflicts around the globe. The Division of Risk Management (division) has set our projections based on the recommendations of our division broker's insight into pricing for our renewals, and the division anticipates their broker would rather err on the side of caution until this market becomes more predictable. Nonetheless, Aviation is pushing our Casualty lines higher. The division's broker does believe, however, that this trend around the globe is plateauing and the division anticipates smaller increases in the future.

Special Insurance: Cyber Liability Insurance Policy

Discussion Points (Cont'd)

21c. The graph shows the trend in appropriations for Special Insurance premiums, expenditures for Special Insurance premiums, and recommended appropriations for the State's Cyber Liability Insurance Policy, which AIG underwrites. Recommended appropriations for Cyber Liability Insurance are the largest dollar component of the appropriation for Special Insurance.



As the graph shows, appropriations and expenditures for special insurance and recommended appropriations for the State's Cyber Liability insurance policy have increased over since 2015. The compound annual growth rate for special insurance is 11 percent since 2015. Actual expenditures dipped in FY 2023. The appropriation is recommended to increase by 19 percent in FY 2025.

Last year's discussion points indicated that Cyber Liability Insurance costs increased due to extraordinary adverse market conditions.

- ***Questions:*** **What is the primary reason for the increase in Cyber Liability Insurance costs since 2015? Why has the State recommended a 19 percent increase in appropriations for Special Insurance for FY 2025 when expenditures for FY 2024 have dropped? What were the extraordinary adverse market conditions that affected cybersecurity in FY 2024? What market conditions does the State anticipate for FY 2025?**

  The overall trend for Cyber Liability is directly related to the claim experience globally for Cyber events (ransomware attacks, compromised data, and so on). Predicting premiums a year in advance of the final budget for each fiscal year is extremely difficult and unpredictable. Our FY 2025 renewal for Cyber insurance is 11/25/24. We won't know the actual premium until 30 days or less in advance of the renewal, which is almost halfway through FY 2025.

Discussion Points (Cont'd)

The Director of NJCCIC and his team have worked proactively and diligently to reduce the States cyber security risk. We hope our renewal in November reflects this, however, as noted above, our rates may be impacted by events globally.

Medical Malpractice Self-Insurance Fund for Rutgers, Rowan, and University Hospital

22. The FY 2025 recommended appropriation for Medical Malpractice is $38.8 million, a 56 percent increase over the FY 2024 adjusted appropriation of $24.9 million.

- ***Questions:*** **What factors are contributing to the 56 percent increase between the FY 2025 recommended appropriation and the FY 2024 adjusted appropriation? What prompted the FY 2024 $4.9 million supplemental appropriation?**

  The increase represents the ongoing processing of claims, which were backlogged due to the COVID-19 pandemic. Additionally, the average cost of these claims has increased.

AID TO INDEPENDENT AUTHORITIES

New Jersey Wind Port Financing and Rent Costs

23. In October 2023, Danish energy company Ørsted cancelled the two offshore wind projects with a combined offshore wind capacity of approximately 2,200 MW that the New Jersey Public Board of Utilities (BPU) had awarded the firm in 2019 and 2021. In January 2024, the Board of Public Utilities approved two new offshore wind projects with a combined offshore wind capacity of approximately 4,000 MW. Although the newly approved offshore wind projects are projected to produce more electricity than the projects that Ørsted cancelled, the company's first project, Ocean Wind 1, was due to start providing power in 2024 or 2025. In contrast, Leading Light Wind and Attentive Energy Two are not due to become operational until 2032 and 2031 respectively. Thus far, the State has issued $160,000,000 in lease revenue bonds with annual payments of $21,000,000 over 10 years with the final maturity date being March 1, 2033.

- ***Questions:*** **Is Ørsted still involved in the Wind Port project to any extent? Why are Leading Light Wind and Attentive Energy Two projects not expected to become operational until 2032 and 2031, respectively? Has there been a marked change in the scope of the wind energy endeavor? If so, why and how? Please describe the strategy and business plan for the development of the Wind Port including short term and long term financing, as well as future development to achieve the production goals.**

  The Economic Development Authority (EDA) is in but not of (IBNO) Treasury and per statute is independent of Treasury. All answers below were provided by EDA.

  Ørsted has not executed the proposed Development Agreement and Sublease Agreement with the New Jersey Wind Port (NJWP) and does not currently have a role with respect to the Port.

Discussion Points (Cont'd)

Per the NJBPU procurement schedule and as noted in the January Board Orders, projects awarded in the NJ3 solicitation (Attentive Energy 2 and Leading Light Wind) are expected to have commercial operation dates in 2031-32. This is not an atypical timeframe for offshore wind development and is not significantly different from that of previously awarded projects. Generally, offshore wind developments take about 8-10 years to bring online as there are extensive permitting processes, multiple opportunities for public input, financial investment decisions that must be finalized, and complex logistics to coordinate.

Regarding the strategy and business plan for the development of the NJWP, EDA continues to negotiate and solicit bids from interested parties to conduct marshaling activities at the Port. Simultaneously, EDA continues construction that can support both marshaling and component manufacturing activities. Later this year, the first 30 acre marshaling parcel will be completed, while EDA continues to make progress constructing the first manufacturing parcel. EDA will also begin soliciting bids from interested manufacturing companies in 2024.

EDA has received nearly $638 million in funding to construct the NJWP, including from the State's FY 2022 Budget, the Debt Defeasance and Prevention Fund, and bonds. These resources have provided the capital needed to ensure that the Port is available for operations on a timeline that comports with industry needs. Looking ahead to the next phase of construction, EDA is assessing all available funding strategies to determine the best path forward.

- **Will the State need to issue additional offshore wind lease revenue bonds or seek additional financing to cover interest payments or other costs due to the delay in operating revenues?**

  The Economic Development Authority (EDA) is in but not of (IBNO) Treasury and per statute is independent of Treasury. All answers below were provided by EDA.

  In order to remain competitive with industry needs and plan for the future of the NJWP, additional capital to support upcoming phases of construction will likely be needed. However, such needs continue to be assessed and the strategy remains to align any future requests for public funding with reliable revenue opportunities.

Last year's discussion points stated that the cost of basic rent, additional rent, and ground lease rent payments for the Wind Port is subject to change over time.

- ***Questions:*** **How will the delay in operating revenues impact costs for basic rent, additional rent, and ground lease rent payments? Have anticipated costs for basic rent, additional rent, and ground lease rent changed between FY 2024 and FY 2025? If so, by how much?**

  The Economic Development Authority (EDA) is in but not of (IBNO) Treasury and per statute is independent of Treasury. All answers below were provided by EDA.

  The delay in revenue commencement is not anticipated to impact projections for base rent or additional rent under the ground lease. EDA anticipates no change to base rent projections,

Discussion Points (Cont'd)

as these figures are tied to parcel acreage. Similarly, delay in revenue commencement should not impact the additional rent amount in FY 2025 and beyond. EDA anticipates that the annual additional rent amount for FY 2025 will be lower than for FY 2024 as Parcel A completes because the bulk of additional rent arises from costs associated with PSE&G's oversight of construction. As overall site development completes, additional rent should decline further as the Port transitions from construction phase to operations.

Liberty Science Center – Use of $1 million grant-in-aid from FY 2023

24. The FY 2024 responses to the discussion points indicated that the Liberty Science Center would provide an expenditure report detailing the uses of the $1 million grant provided by the State in the FY 2023 for SciTech Scity. SciTech Scity is a research campus focused on technological innovation and education.

- ***Questions:*** **Has the report been issued, and if so, please summarize how SciTech City expended the funds and how these expenditures have benefitted the center. Have these expenditures led to an increase in visitors or attendees of SciTech City?**

  The expenditure report submitted by the Liberty Science Center stated that the entirety of the grant funds was used to engage consultants to provide advice and support on the development of the SciTech Scity project. It is too early in the development to assess the impact of the funds on visitor attendance.

International Event Improvement and Attraction

25. Since FY 2022, the International Event Improvement and Attraction account has been used "to support facilities in New Jersey that are competing to host international events and feature New Jersey on a global stage." This includes a $15 million appropriation in the FY 2022 Appropriations Act from the State Fiscal Recovery Fund for the World Cup and Meadowlands Complex, and a recommended appropriation of $30 million in FY 2023. The FY 2025 recommended appropriation for International Event Improvement and Attraction is $25 million, a 233 percent increase over the FY 2024 adjusted appropriation of $7.5 million.

In June 2022, FIFA named New Jersey and New York as joint hosts for the 2026 FIFA World Cup games, leading to extensive renovations to the Meadowlands complex in order to accommodate the games.

- ***Questions:*** **Has the plan for International Event Improvement and Attraction changed, and if so how?**

  The New Jersey Sports and Exposition Authority (NJSEA) provided all answers below.

  The NJSEA continues to use the International Events, Improvements and Attraction account to support facilities in New Jersey that are competing to host international events and feature New Jersey on a global stage.

Discussion Points (Cont'd)

Appropriations from the International Events, Improvements and Attraction account have been used to provide initial funding to form a revolving loan to the FIFA World Cup 2026 NY/NJ Host Committee. The loaned funds are being used by the Host Committee to support its fundraising efforts and meet its NY/NJ hosting obligations.

These funds are also being used to meet agreed upon field specification requirements to host FIFA World Cup matches at the MetLife Stadium and host the 2024 NHL Stadium Series. Mobilization and demobilization were required at the soccer pitch construction site to accommodate the NHL event.

The NJSEA has also committed funds from the account for infrastructure related improvements at the Complex that are necessary for the FIFA World Cup 2026. These improvements will serve to enhance Sports Complex operations generally, along with future sports and entertainment events hosted at the Complex.

These projects include:

1. A feasibility analysis for the expansion of the pedestrian bridge capacity over Route 120 linking the east and west side of the Complex with the goal of improving pedestrian flow and overall public safety at the Complex.

2. Procurement of construction management services to assist with management of World Cup related projects. Specifically, the selected firm will expand the capability of the NJSEA's full-time staff managing both capital and facilities projects.

3. Procurement of services for refurbishing the ten original 1975 storm water pumps and associated motor control centers that provide essential flood protection for the Complex.

4. Procurement of services to repave and maintain the various internal parking lots and roadways at the Complex in advance of World Cup 2026.

Additionally, NJSEA committed funds from the International Events, Improvements and Attraction account to help attract and host the UFC 302 mixed martial arts event at Prudential Center in Newark, which is scheduled for June 1st of this year. Anticipated benefits accruing to the State include: positive economic impacts for the City of Newark and the surrounding region and increased economic activity for hotels, restaurants, and local businesses. The State will also benefit from the UFC's efforts at community engagement including an event with the Boys & Girls Club of Newark to promote physical fitness and a visit to the Newark Covenant House from UFC athletes.

Are the renovations at the Meadowlands Complex for the FIFA World Cup games, or for other future sporting events as well, such as football?

The New Jersey Sports and Exposition Authority (NJSEA) provided all answers below.

The transportation and infrastructure improvements, including the projects listed above, will benefit future operations and events. These events include, but are not limited to, NFL games

Discussion Points (Cont'd)

and concerts. Certain renovations to meet FIFA field size and other specifications will only remain in place through FIFA World Cup 2026.

What is the State's responsibility in improving the Meadowlands complex for other sports use? If the State renovates the complex with the intention of hosting football future games, what is the return on investment?

The New Jersey Sports and Exposition Authority (NJSEA) provided all answers below.

On occasion, the NJSEA provides funding to the Meadowlands Complex to help secure less commonly hosted events. Recent examples of this are the 2024 Copa América and the NHL Stadium Series. Depending on the event, the Stadium must be modified to meet specialized field and seating requirements. The NJSEA is the real property owner and landlord to the venues on the Complex and maintains most of the infrastructure on the Complex. The NJSEA also provides Fire and EMS emergency services. Infrastructure improvement projects, to be funded from the International Events, Improvements and Attraction account, are detailed above. FIFA World Cup 2026 matches are currently estimated to generate over $2 billion in economic impact and will support over 14,000 jobs.

- **How will these renovations impact the overall benefits provided by the complex to the public?**

The New Jersey Sports and Exposition Authority (NJSEA) provided all answers below.

The renovations will enhance the experience of visitors to the Meadowlands Complex for the FIFA World Cup 2026 matches and the infrastructure improvements will provide long lasting benefits for hosting future sporting and entertainment events. Attracting and securing events at the Complex has already positively impacted the State. The NHL Stadium Series partnership provided the opportunity for more than 1,600 children and their families to attend 2-day hockey games and also participate in pre-game and in-game activities. Additionally, the partnership launched the "Jersey Girls Hockey Club," which is a recreational ice hockey league for girls in New Jersey. The program gives girls the opportunity to play hockey in a safe, fun and inclusive environment that empowers them to reach their full potential on and off the ice.

- **What factors are contributing to the 233 percent increase between the FY 2025 recommended appropriation and the FY 2024 adjusted appropriation?**

The New Jersey Sports and Exposition Authority (NJSEA) provided all answers below.

The increase is mainly attributable to the award of eight FIFA World Cup 2026 matches to NY/NJ, including the final match of the 2026 World Cup.

Last year's discussion points stated that New York City and the New Jersey Sports and Exposition Authority had committed to providing for security as co-hosts for some of the FIFA 2026 World Cup Games, but security costs had not been finalized.

Discussion Points (Cont'd)

- ***Questions:*** **Have the security costs been finalized? If so, what are the security costs and what services will they cover? How is the security criteria determined, and what State agencies or non-State entities will provide security for the event?**

  The New Jersey Sports and Exposition Authority (NJSEA) provided all answers below.

  Questions regarding security-related costs and services should be directed to the New Jersey State Police, which is in charge of security at the Complex.

Capital Security Commission

26. The FY 2022 Appropriations Act appropriated $5 million to a newly created Capital Security Commission. The $5 million for the commission continued in FY 2023, FY 2024, and FY 2025. The mission of the Capital Security Commission is to assess and review threats and security risks at State facilities, as well as recommend security projects that would enhance security at State-owned facilities. To date of the $9.1 million in budget authority for the account, $104,959 has been expended.

- ***Questions:*** **Why has the name of the Capital Security Commission changed to Capital Security Projects? What projects have been identified as Capital Security projects that need to be funded? Why have only $104, 959 in project been funded and what funds were expended on what projects?**

  The line item name change occurred in FY 2023 to clarify that the appropriation is used to support capital costs of the security-related projects rather than operating costs of the intergovernmental working group known as the Interdepartmental Security Committee, which, at the time of the FY 2022 GBM, was anticipated to be called the Capital Security Commission.

  For FY 2024 and FY 2025, the Interdepartmental Security Committee has identified the projects in the tables below, which were previously provided to the Office of Legislative Services. As capital projects take multiple years to implement, funds are not always expended in the year that they are appropriated. The $104,959 that is seen as expended represents physical payments made toward the projects during the current fiscal year and is not representative of contracts entered into or work being completed toward the numerous security-related capital projects.

  The third table below titled "FY 2024 Expenses" lists the projects for which payments have been made this current fiscal year.

Interdepartmental Security Committee - FY 2024		
Description	**Amount**	**Status**
Access Control System, replace 2 doors Bank Street Garage	$29,995.00	Completed
Access Control System and Lobby Configuration, 225 East State Street	$222,500.00	In Progress
Access Control System, 25 South Stockton	$2,000.00	In Progress

Discussion Points (Cont'd)

Access Control System, 222 South Warren Street	$16,804.00	Completed
Access Control System, 1400 Negron Drive	$124,849.60	In Progress
Access Control, add reader, 25 Market Street	$7,570.49	Completed
Access Control Software License Upgrade	$9,115.73	Completed
Access Control System Replacement at Gates, 401 East State Street	$9,650.00	Completed
Access Server Upgrade, PHEAL, DOH	$27,192.14	Completed
Video Surveillance System Change Order, 1200 Negron Drive	$45,290.31	In Progress
Video Surveillance System Change Order, 1400 Negron Drive	$23,238.16	In Progress
Video Surveillance System Change Order, 40 East Broad Street	$4,361.50	Completed
Video Surveillance System Riverview Parking Deck Change Order	$25,000.00	In Progress
Video Surveillance System 199 East Broadway, Salem Change Order	$13,822.07	In Progress
Video Surveillance Software purchase, 33 West State 9th Floor	$1,331.83	Completed
Exterior Security LED Lighting, 630 Bangs Ave Garage	$143,004.19	In Progress
Turnstile Project, 401 East State Street	$1,048,007.78	In Progress
Turnstile Project, 101 South Broad Street	$597,675.59	In Progress
Turnstile Project, 222 South Warren Street	$743,985.92	In Progress
Turnstile Project, 1 John Fitch Parkway	$992,548.46	In Progress
Security Building, 200 Barracks Street Stacey Park Roadway	$6,890.00	In Progress
Security Booth, 401 East State Street	$2,345.04	Completed
Security Booth, SH Parking Entrance	$13,732.46	Completed
Security Screening Pavilion, 125 West State Street	$1,500,000.00	In Progress
Security Fencing, Bank Street Parking Garage	$64,522.69	Completed
Total - Interdepartmental Security Committee - FY 2024	**$5,675,432.96**	

Interdepartmental Security Committee - FY 2025		
Description	**Amount**	**Status**
Access Control System and Lobby Configuration, 225 East State Street	$4,600,000.00	In Planning
Access Control System, 195 West State Street	$250,000.00	In Planning
Access Control System, 1325 Boardwalk, Atlantic City	$250,000.00	In Planning
Access Control System, 199 South Broadway, Salem	$250,000.00	In Planning
Access Control System, 60 State Street, Hackensack	$60,000.00	In Planning
Access Control System, 110 5th Street, Plainfield	$50,000.00	In Planning
Access Control System, 3131 Princeton Pike	$25,000.00	In Planning
Turnstile Project, 20 West State Street	$1,500,000.00	In Planning
Video Surveillance System, 25 Market Street	$575,000.00	In Planning
Video Surveillance System, 131-137 West State Street	$500,000.00	In Planning

Discussion Points (Cont'd)

Access Control System, 1200 Negron Drive	$400,000.00	In Planning
Fencing, Exterior Lighting, Security, 135 West Hanover Street	$800,000.00	In Planning
Total - Interdepartmental Security Committee - FY 2025	**$9,260,000.00**	
**This list represents potential projects to be funded during FY 2025. The Committee will determine which projects will be funded based on available resources, including the appropriation, carryforward balances and potential surplus balances from projects that are currently in progress.*		

Interdepartmental Security Committee - FY 2024 Expenses		
Description	**Amount**	**Status**
Video Surveillance System, 1200 Negron Drive	$13,247.16	In Progress
Video Surveillance System, 1400 Negron Drive	$40,704.92	In Progress
NJSP Security Booth Stacey Park	$6,890.00	In Progress
NJDEP HQ Guard Booth	$2,345.04	Complete
RJH Justice Complex Access Readers	$5,464.50	Complete
Access Control Software Licenses	$9,115.73	Complete
DOH PHEAL SERVER & SOFTWARE CONFIG	$27,192.14	Complete
Total	**$104,959.49**	