PEBA
SC Retirement Systems and State Health Plan

South Carolina Public Employee Benefit Authority
Serving those who serve South Carolina

Meeting Agenda

|Health Care Policy Committee |Finance, Administration, Audit and Compliance Committee |Retirement Policy Committee| Board of Directors

Wednesday, October 22, 2025 | 202 Arbor Lake Drive., Columbia, SC 29223| 1st Floor Conference Room

Health Care Policy Committee |9:30 a.m.

I. Call to order
II. Approval of meeting minutes (March 12, 2025)
III. MUSC Plan annual update
IV. Wondr Health program review
V. State Health Plan budget requirements for 2027
VI. Old business/Director's report
VII. Adjournment

Notice of public meeting

This notice is given to meet the requirements of the S.C. Freedom of Information Act and the Americans with Disabilities Act. Furthermore, this facility is accessible to individuals with disabilities, and special accommodations will be provided if requested in advance.

PUBLIC EMPLOYEE BENEFIT AUTHORITY AGENDA ITEM
HEALTH CARE POLICY COMMITTEE

Meeting Date: October 22, 2025

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1. Subject: MUSC Plan Annual Update

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2. Summary: PEBA and MUSC have partnered to sponsor the MUSC Health Plan for its employees and hospitals since 2014. Dr. David Louder, Executive Director of the MUSC Health Alliance, will make his annual presentation as to the performance of the health plan and general happenings in the Medical University system.

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3. What is Committee asked to do? Receive as information

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4. Supporting Documents:

(a) Attached: 1. MUSC Health Plan 2025 Review

MUSC Health Plan

Population Health Team

Oct 22, 2025

MUSC
Medical University
of South Carolina

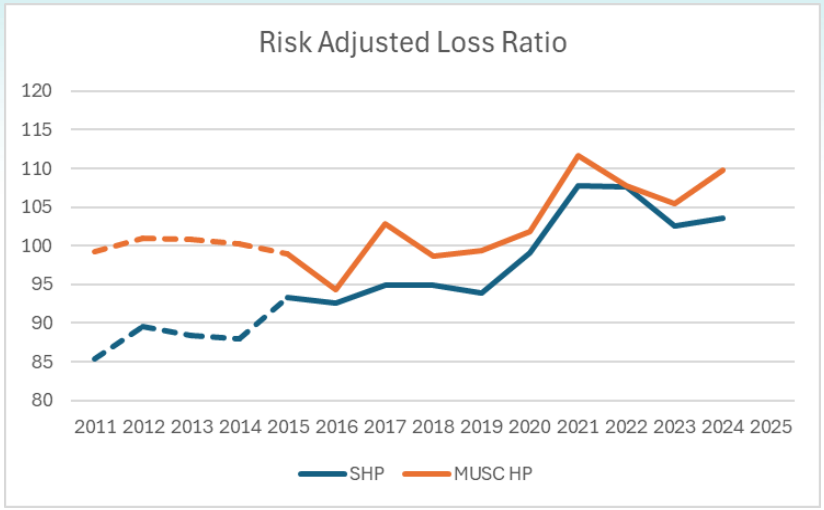
Changing What's Possible | MUSC.edu

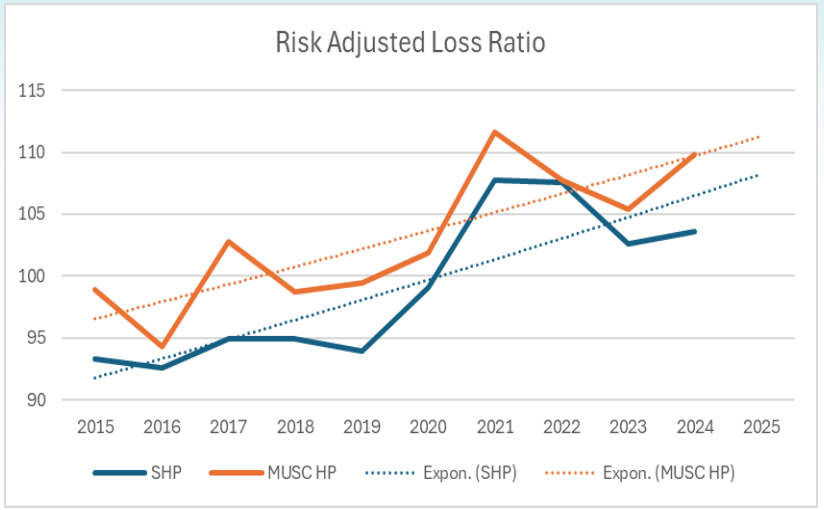
MUSC Health Plan

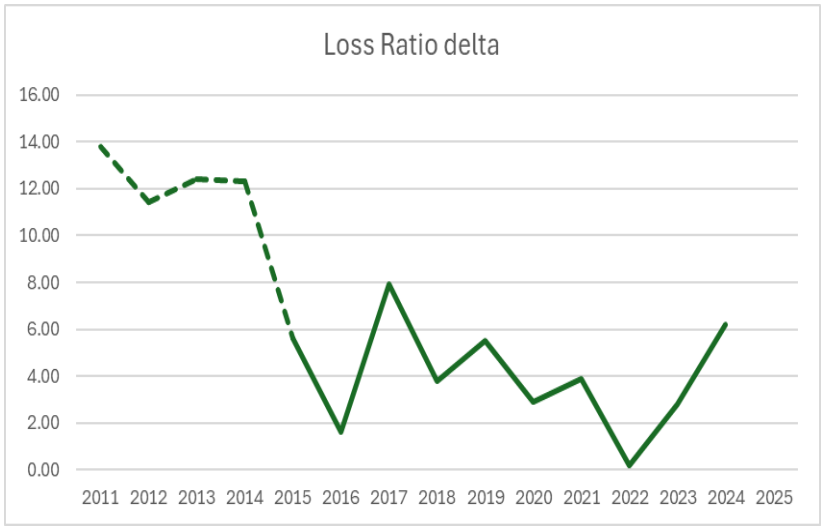
- Originated in 2014
- Goals:
  - Create “domestic” tier for MUSC as a care provider and employer
  - Gain experience in value-based care
    - Improve quality and decrease costs
- Richer (ACA required) benefits offset by decreased hospital reimbursement
- Financial model unchanged since origination
- Quality measures updated annually

- Savings target has never been met
- MUSC Health has had success and urgency with other programs that have “down-side” risk

MUSC Health Plan and State Health Plan Loss Ratio Performance







- Plan Design changes in 2015 resulted in a dramatic decrease in the Loss Ratio delta
- Although there appeared to be a favorable trend in the closing of the Loss Ratio Delta through 2022, 2023 and 2024 performance negated this trend
- Loss ratios for both MUSC HP and State HP are largely responding to same influences
- In 2025, MUSC HP now has claims analytics to use for identification and execution of savings opportunities

2024 Quality Performance

	2024	2023
Adult HEDIS	27/35	21/35
Pediatric HEDIS	14/33	15/24
ED utilization	0/16	4/16
Readmissions	0/16	0/8
TOTAL Quality	41%	41%

Pediatric scoring thresholds increased in 2024

2024 Performance: 2026 future

- Slow progress on measured quality performance year over year; overall score remains stagnant
- The difference in MUSC Health Plan and State Health Plan Loss Ratios decrease 10 years due to plan design
  - Relative Performance since then is slowly improving
- MUSC employee size and location changed dramatically
- Actuarial evidence that health system health plans simply have more utilization and cost when compared to other employers
  - MUSC is the only major health system in the State Health Plan
  - This difference makes the target more challenging

THE STATUS QUO IS NOT GETTING US TO OUR GOALS

New MUSC Health Plan Shared Risk Model

Financial Arrangement	Current	New for 2026
Model	Upside-only Gainsharing	**Symmetric Up/Down Risk**
Benchmark	State Health Plan Loss Ratio	State Health Plan Loss Ratio
2026-2029 Targets	@Benchmark	**Graduated to Benchmark**
2029+ Targets	@Benchmark	@Benchmark
Up/Down Risk Cap	0% downside of benchmark	**+/- 3% of target**
Sharing Rate	50% x Quality %	**75% x Quality %**
What's in Quality	HEDIS+ED Rates + Readmits	**75% HEDIS + 25% low value**
Model Design	Early model for providers new to risk	Updated mdel to include downside risk in alignment with other payers
MUSC Urgency	No downside risk	$6M in downside risk

The result of discussions and consensus between PEBA and MUSC Health

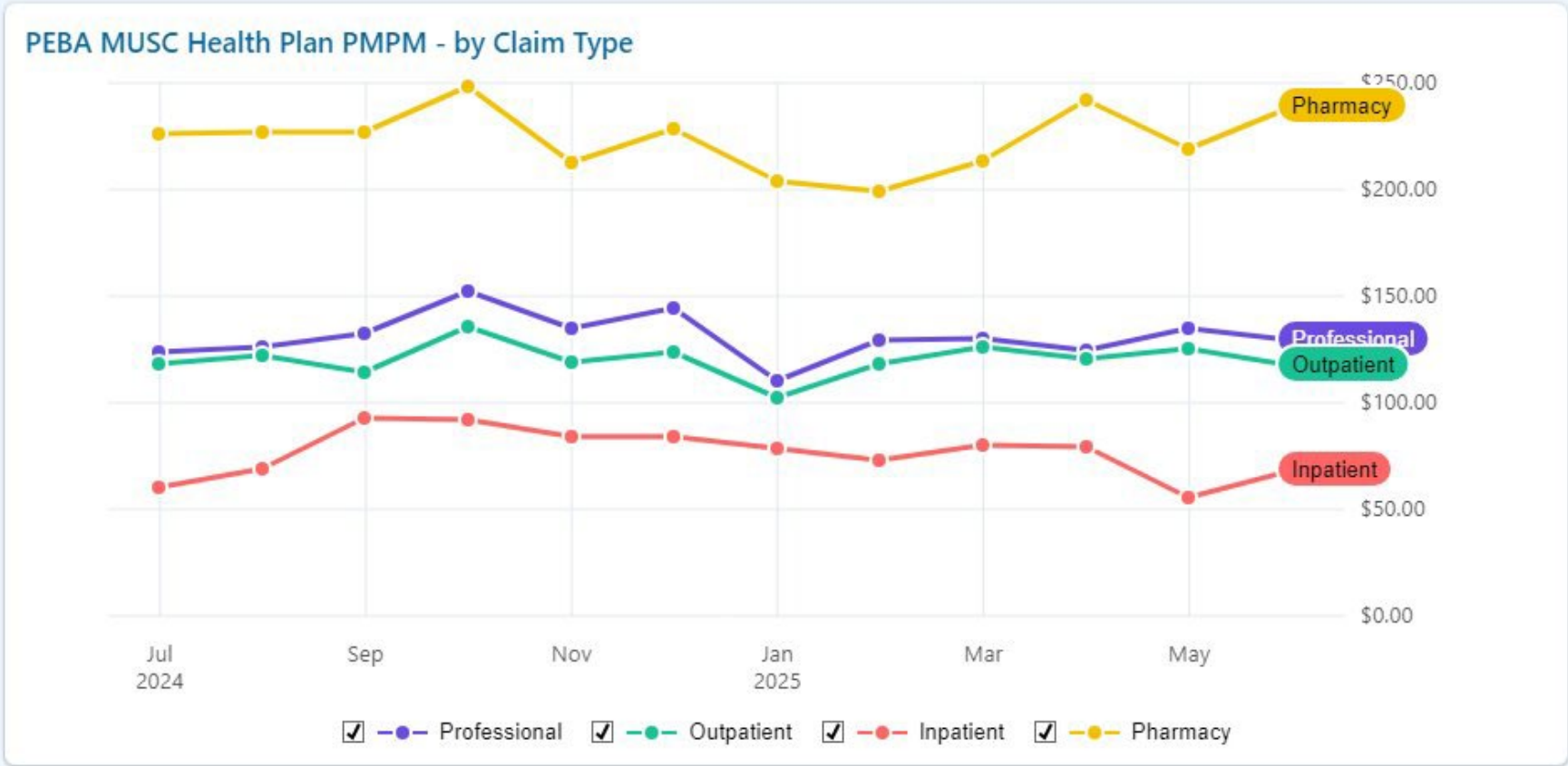
MUSC Health Update

Internal Claims Based Analytics

- MUSC Health Plan Claims ingested into Epic, the Electronic Medical Record
- Allows understanding of both cost of care and care utilized outside of MUSC
- Adjacent to clinical data (test results, orders, diagnoses)
- “Patient Radar;” Additional real time ADT (admission, discharge, transfer) data from a 3rd party vendor

- High fidelity reporting
- Integration into clinical decision support
- Informed Care Management

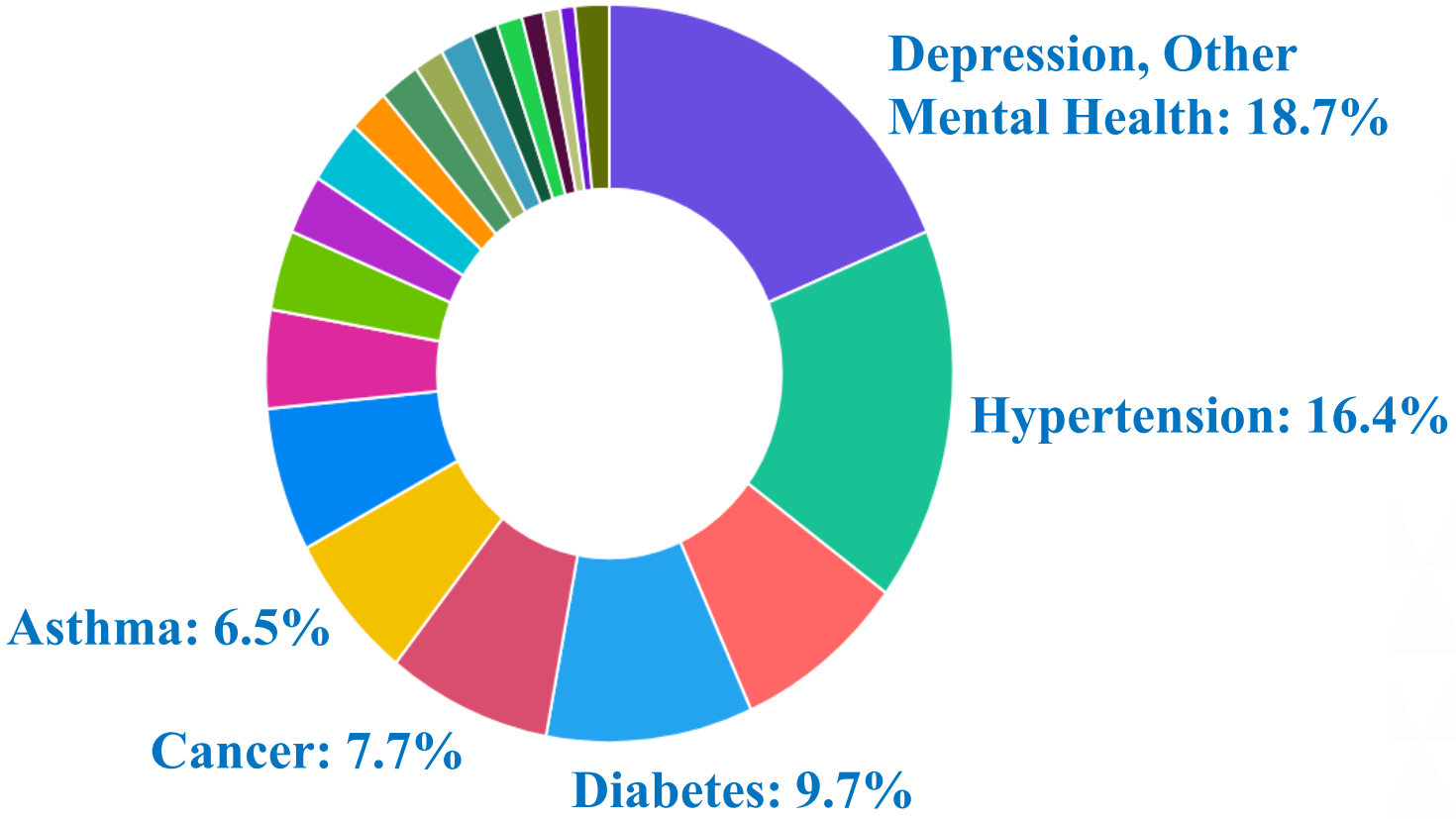
MUSC Health Plan Categorized PMPM



Pharmacy is PRE-rebate expenditures

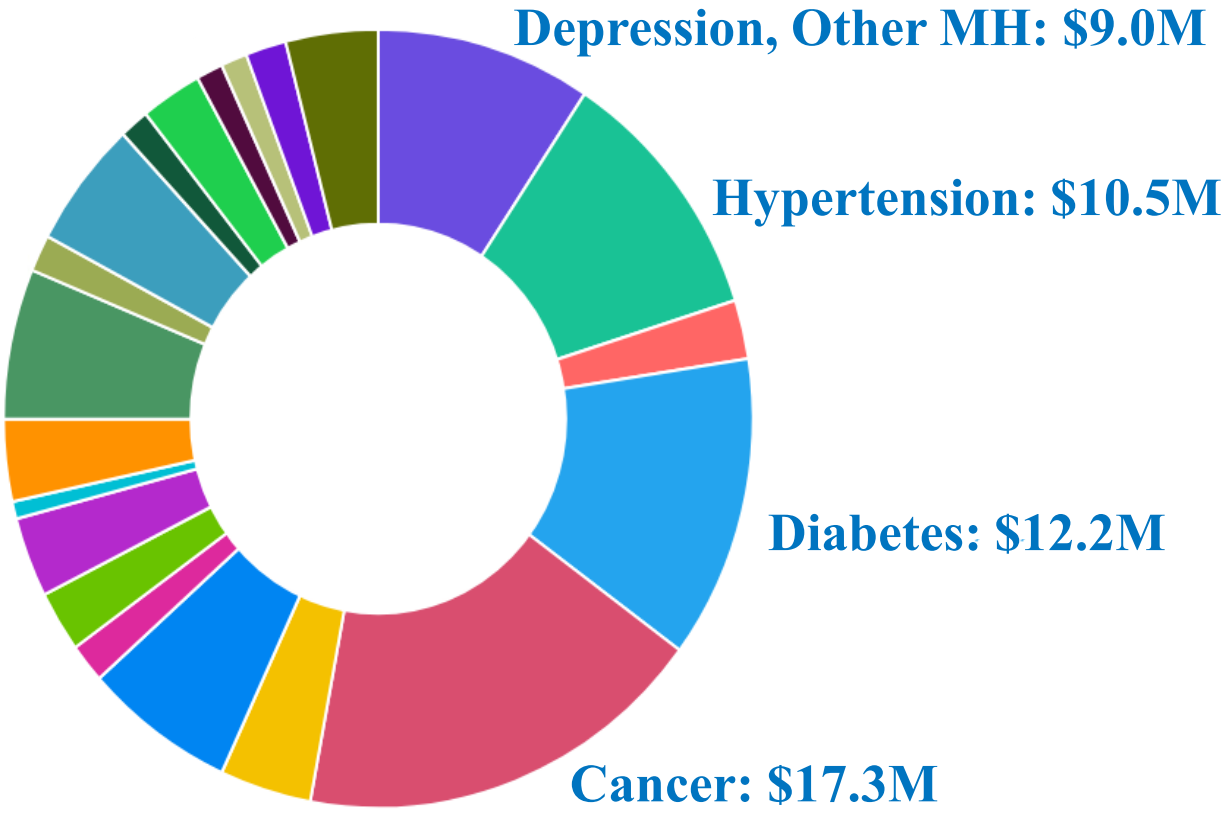
Member Chronic Conditions (CCHGs): 45 % of members have CCHG

Top 20 Conditions by Incidence



Member Chronic Conditions (CCHGs) by cost

Paid Dollars by CCHG Patient Category (top 20 shown) January-June 2025



Further Integration

- Georgetown and Horry Counties
- Deepens existing financial interest
- Allows for increased collaboration for clinical services
- Exploring Value-Based Care Opportunities
- Tidelands Health and its related organizations remain distinct entities
  - Transition of 51 Employees from Tidelands to MUSC
- Will bring Tidelands Health into Tier A of MUSC Health Plan
  - We already had a handful of employees in the Murrells Inlet area

Clinical Services across the State

- Kidney Transplant Program in Lancaster very successful
- Collaboration with SC Dept of Corrections
- Obstetric Services at Columbia Northeast
- Downtown Columbia hospital beds are projected to be full
- Expanded free standing Emergency Services
- New hospitals in Bluffton, Indian Land, Nexton

- Bringing tertiary services to affiliated hospitals
- Hospitalist and intensivist by telehealth

Questions?

Dave Louder
louder@musc.edu

PUBLIC EMPLOYEE BENEFIT AUTHORITY AGENDA ITEM
HEALTH CARE POLICY COMMITTEE

Meeting Date: October 22, 2025

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1. Subject: Wondr Health Program Review

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2. Summary: We have offered Wondr Health (originally Naturally Slim) as a key feature of our population health efforts since 2018. This program has been popular from the start, and over time has evolved from an emphasis on weight loss to overall good health. Nikki Zelenovich, Wondr's Senior Vice-President of Client Success, will present the ongoing focus of the program as well as outcomes information.

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3. What is Committee asked to do? Receive as information

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4. Supporting Documents:

(a) Attached: 1. Wondr Health Program Review

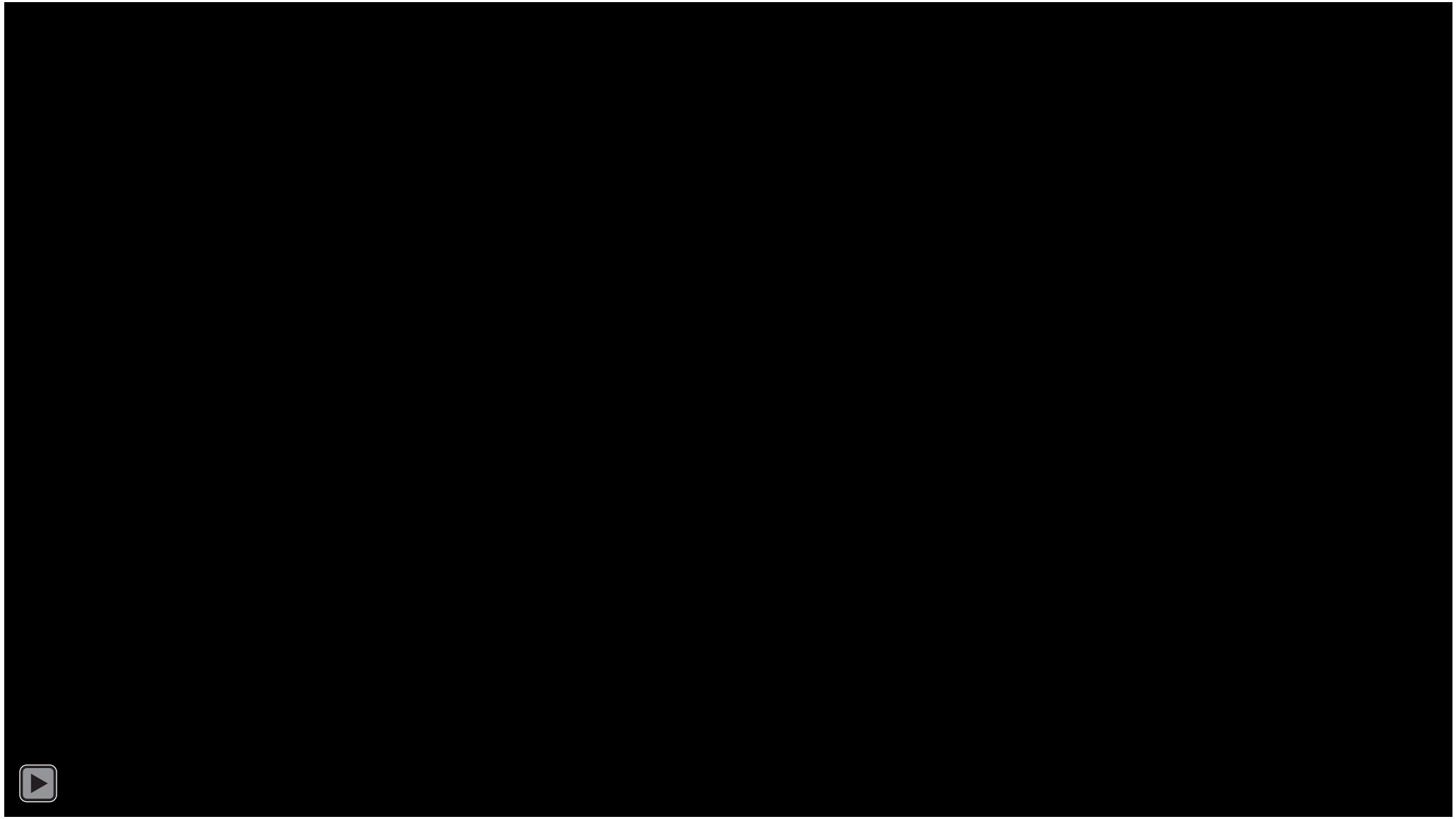
wondr HEALTH™

Wondr Program Review

South Carolina Public Employee Benefit Authority

Sept 2018 - 2024

What is Wondr?



Wondr program philosophies

Food & nutrition
Eating patterns are best based on whole foods, personal preferences, cultural traditions, budgetary consideration, and health needs.

Motivation
We seek to fuel motivation within the participant, and every interaction matters—it may either fuel or stifle motivation.

Resilience
Resilience goes beyond physical health and requires the ability to practice healthy self-care, create connection with others, and develop a balanced perspective.

Physical activity
Personalizing physical activity enables participants to more consistently lose weight, relieve stress, and better perform everyday activities.

Sleep
Sleep is essential to weight management, health, and wellbeing. It impacts overall quality of life.

Impact
To make an impact on a person's health, we meet them at their starting place. From there, we support their needs along the journey.

Product Evolution

Evolving Wondr

Team of Experts

Expert obesity clinicians, registered dietitians, and certified health coaches deliver an enhanced care experience through our content.

Rewards, incentives, and gamification

Reinforce skills and behaviors through expansion of the reward program with non-monetary rewards and in-app streaks.

WONDR HEALTH

Participants are at the center of everything we do.

Personalization

Participants expect value and relevance from every interaction. Beyond baseline expectations, Wondr Health is embedding personalization in all aspects of the program.

Messaging consistency

Emails, SMS, app notifications, and human interactions are cohesive and centered around personalized Up Next best actions.

Next-best action

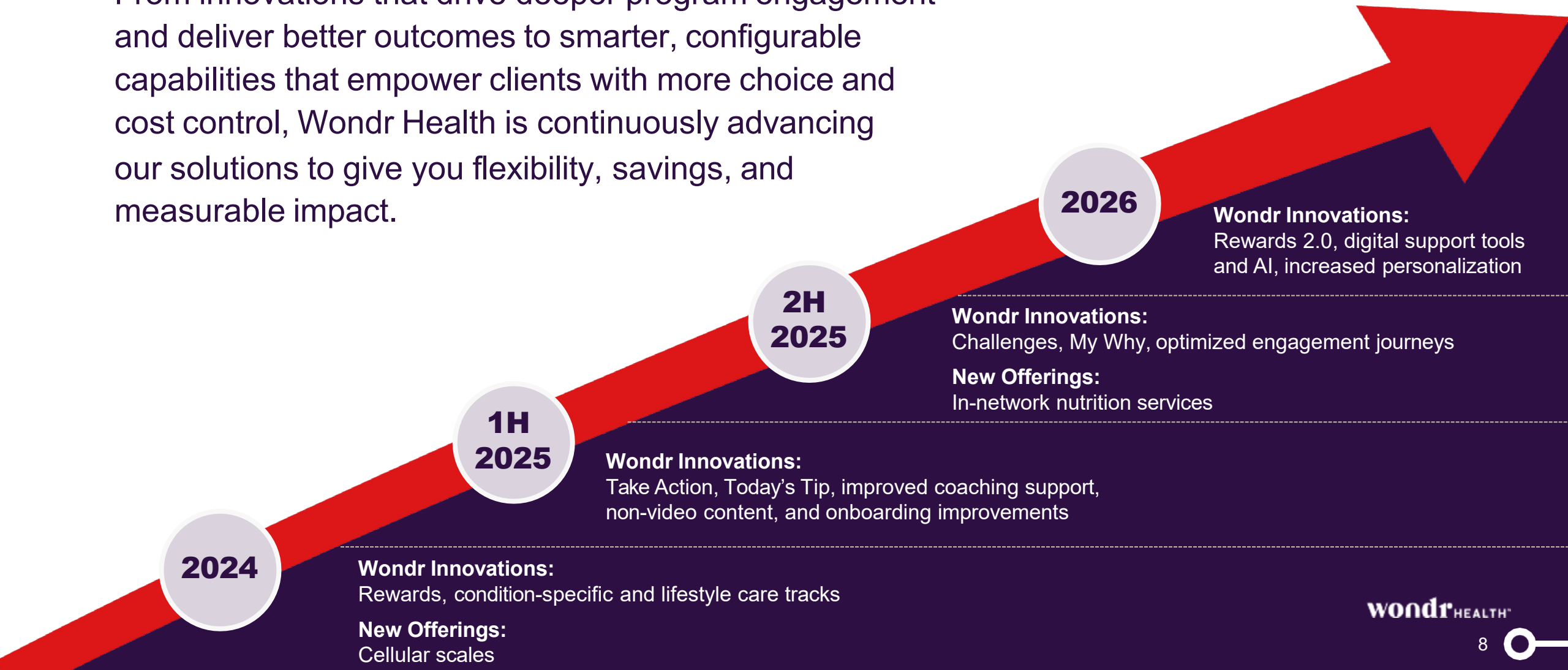
Up Next is a core feature that guides participants to their next-best action, making it a habit-forming, daily-use experience.

Wondr Health takes a whole-person health approach to weight management

Supporting healthier, more productive teams by addressing weight as a gateway to lasting physical, metabolic, and emotional health.

Smarter solutions. Stronger results.

From innovations that drive deeper program engagement and deliver better outcomes to smarter, configurable capabilities that empower clients with more choice and cost control, Wondr Health is continuously advancing our solutions to give you flexibility, savings, and measurable impact.



Non-video content

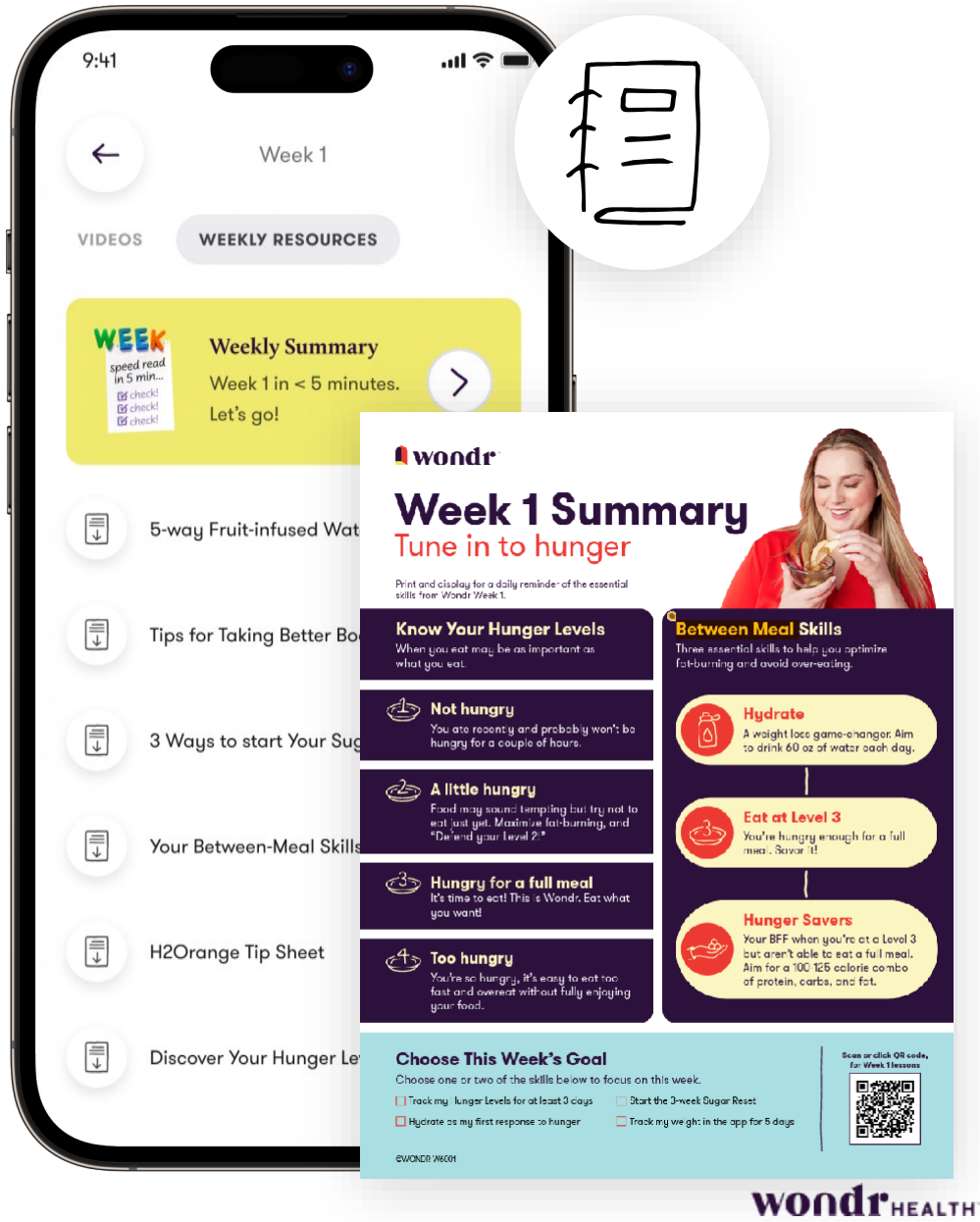
Augmenting video lessons to help participants learn key skills

Objective

Drive sustained behaviors by delivering content in multiple modalities to support participants' preferred learning styles.

Approach

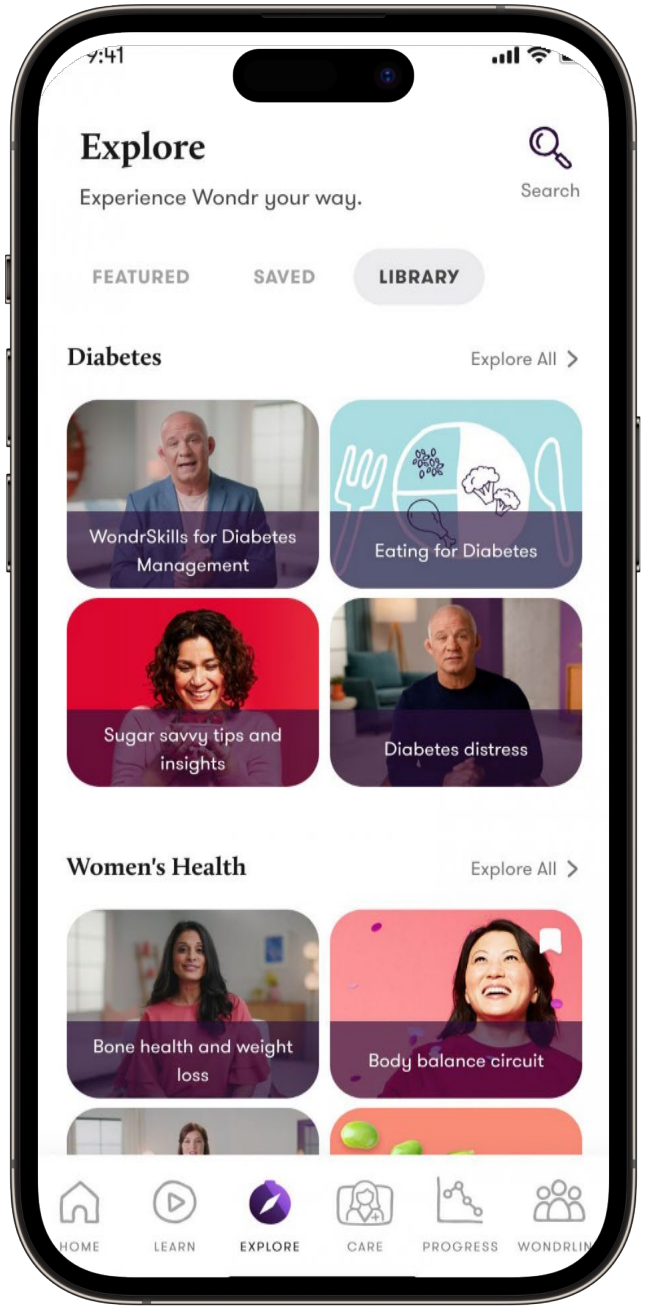
- Weekly summaries – scannable/printable PDF resources
- Quick summary of key concepts participants can reference and print off to put on their fridge.

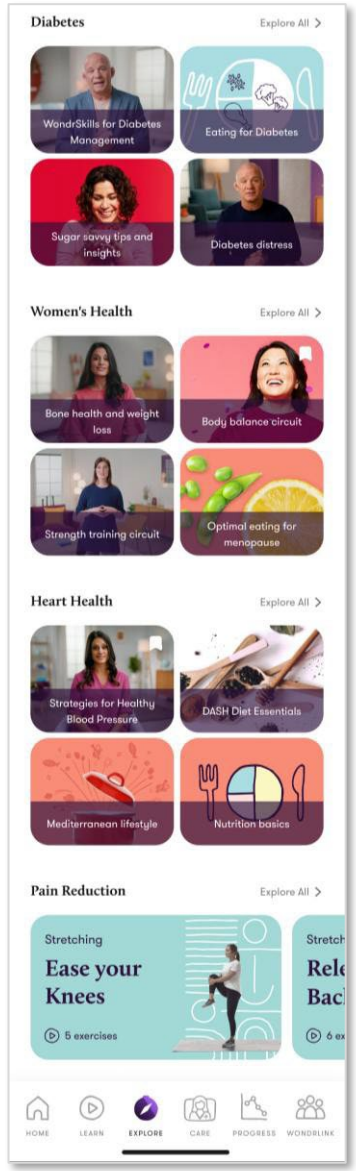


Condition and lifestyle care tracks

Participants have access to condition-specific content tracks for diabetes, high blood pressure, heart health, women's health, gut health, and sleep apnea.

Content tracks consist of expert-led video and non-video resources.





Take Action

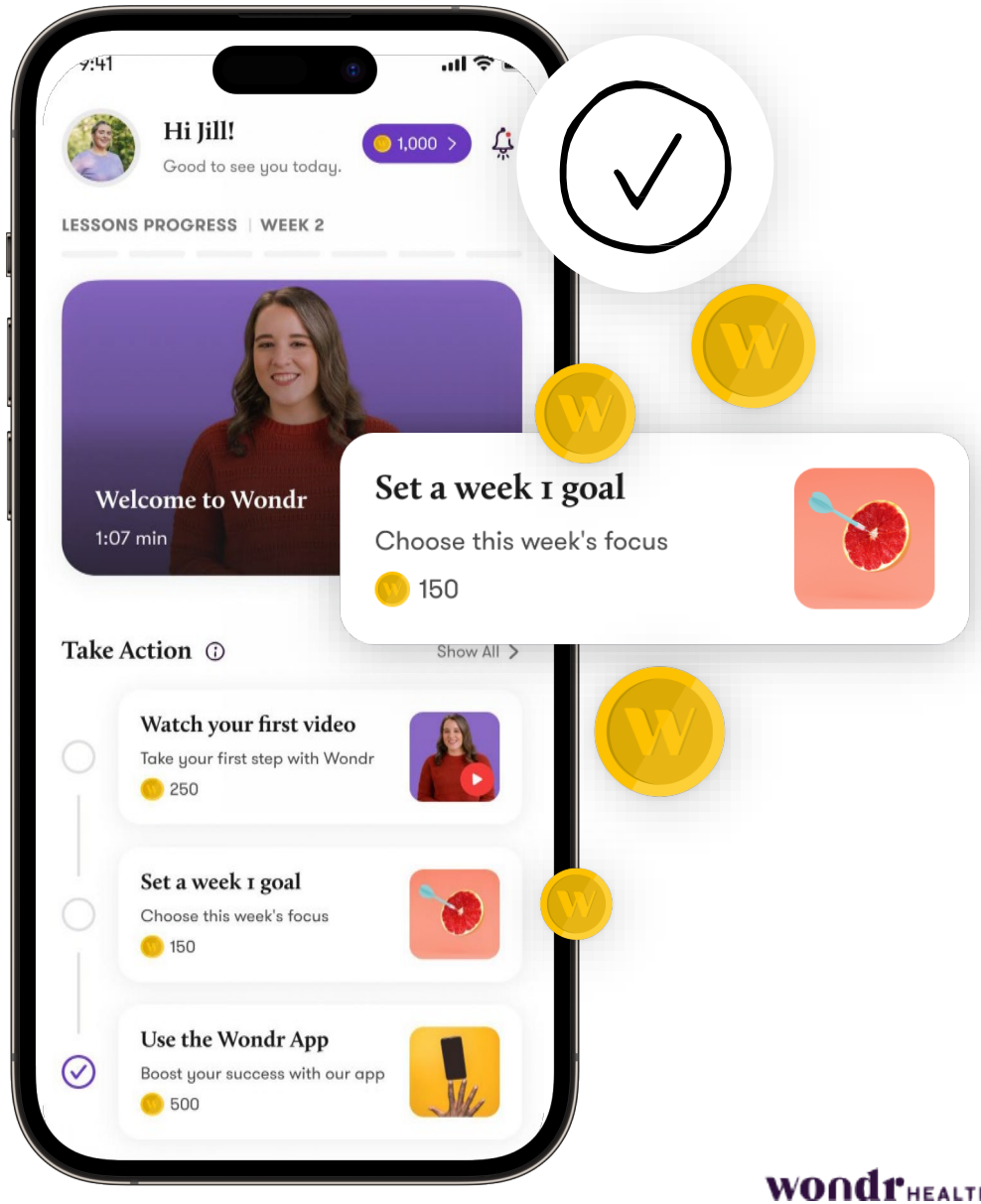
Delivering a guided experience

Objective

Sustain engagement, improve outcomes, build habits through manageable daily actions.

Approach

- Invite participants to “take action” towards their weight-loss goals.
- Empower participants to take control of their practice through newly learned skills.
- Start with key skills directly tied to program progress and then move to more robust personalization.



Daily Tips

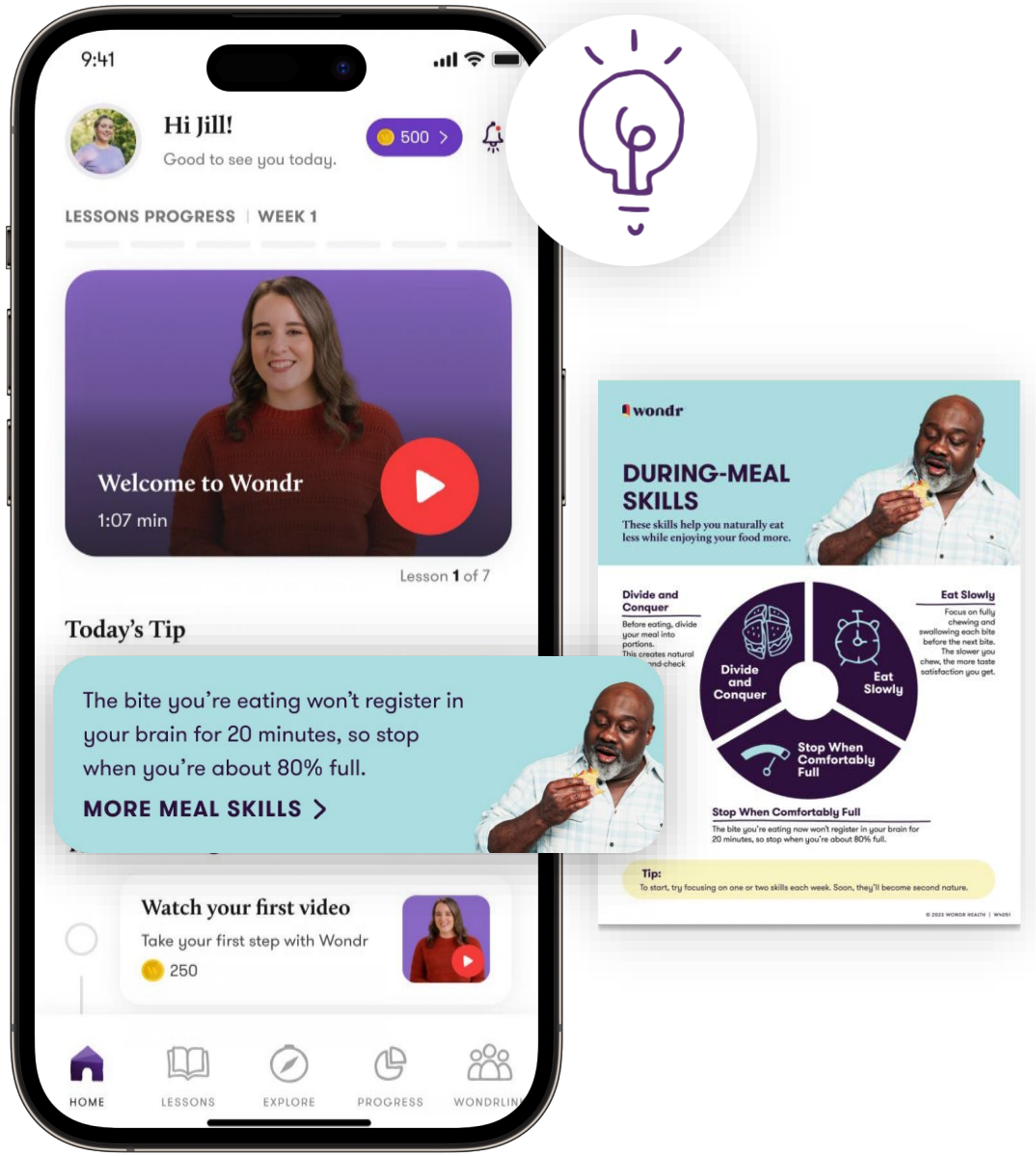
Building skills, motivation, and coaching

Objective

Improve education and awareness by reinforcing key skills and behaviors specific to weight loss.

Approach

- Fresh, daily, snackable pieces of content
- Program-expanded content and announcements (like seasonal challenges)
- Participants crave quick motivational insights to "remind me daily of why I'm doing this."



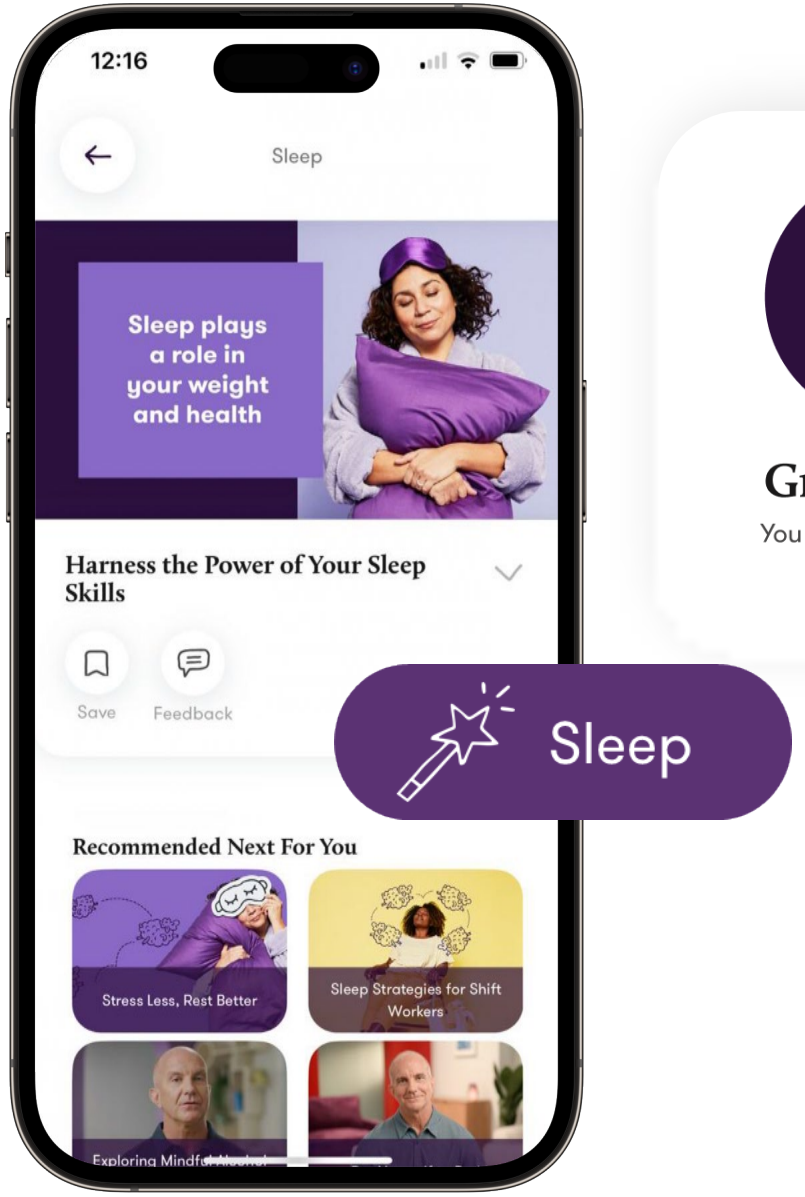
Optimized engagement journeys

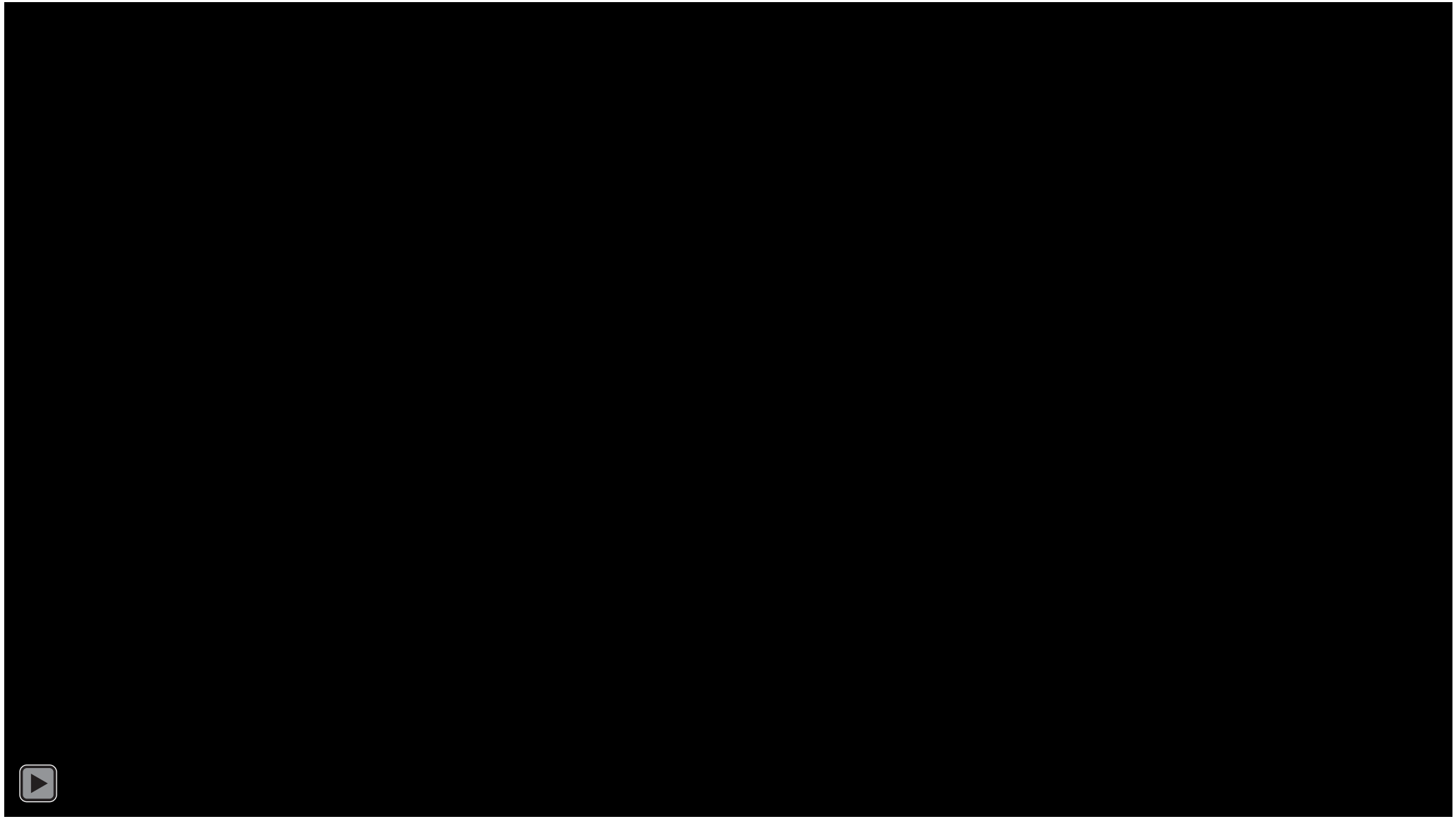
Objective

Optimize engagement journeys across Wondr Health-led communication channels based on participant motivators, progress, and engagement in program.

Approach

- Use messaging, prompts, and personalization
- Provide more audience-specific messaging
- Intentional communication channel distribution





Sept 2018-2024

At A Glance

wondr HEALTH™

Total participants

102,913

% Activated Participants (2+ sessions)

64%

(Benchmark: 57% - 74%)

Average % weight loss (2+ sessions)

4.0%

(Benchmark: 2% - 3%)

Sleep Improvement %

38%

(Benchmark: 43% - 60%)

Mood Improvement %

65%

(Benchmark: 67% - 81%)

Energy Improvement %

65%

(Benchmark: 66% - 78%)

Sept 2018-2024

Participant Breakdown

wondr HEALTH

Activation

102,913
Enrolled

65,923
Activated Participants
(2+ sessions)

64%
% Activated Participants
(2+ sessions)
(Benchmark: 57% - 74%)

Demographics

51
Age
(average)

166
Starting Weight
(average)

34.6
Starting BMI
(average)

19%
Male

81%
Female

✓ Risk Factors	% Of Users
⊕ Obesity	68%
⊕ Hypertension	46%
⊕ Musculoskeletal	35%
⊕ Sleep Apnea	23%
⊕ Prediabetes	18%
⊕ Diabetes	13%
⊕ One or more risk factor	90%

Sept 2018-2024

Program Engagement

Activated (2+ Sessions)

Sept 2018-2024

Program Engagement

wondr HEALTH

Participant Engagement

% 2+ sessions	64%
% Downloaded the Mobile App	61%
% Interacted with Community	22%

Tracking

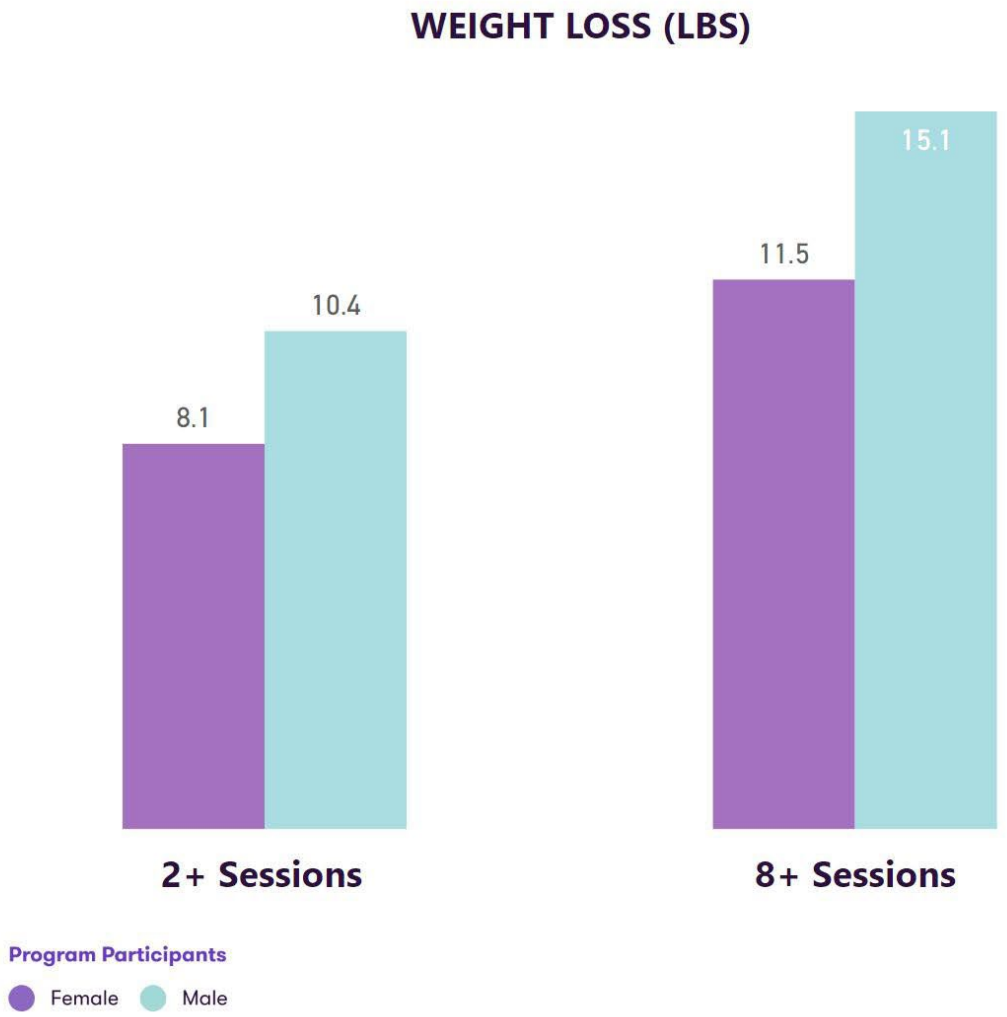
% Logged Weight	77%
% Tracked Meals	41%
% Completed Skill Check	55%
% Logged Physical Activity	36%

Goal Setting And Tools Usage

% Set Goals	80%
% Used Behavior Tools	20%

Sept 2018-2024

Clinical Results - Weight Loss



Participants

8+ completed sessions

12.1
Avg Lbs Lost

5.8%
Avg Weight Loss
(Benchmark: 2.8% - 5.1%)

67%
Achieved 3% Weight Loss
(Benchmark: 35% - 59%)

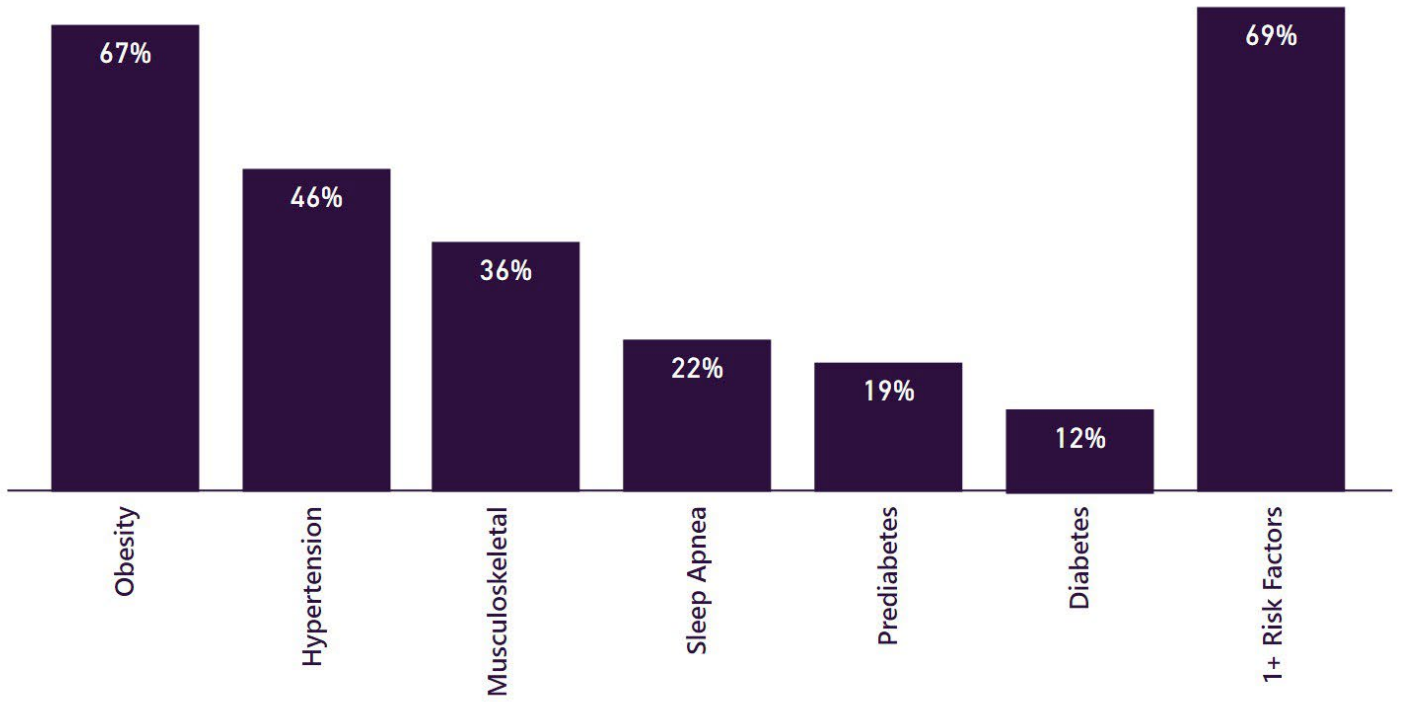
45%
Achieved 5% Weight Loss
(Benchmark: 17% - 38%)

Sept 2018-2024

Clinical Results - Weight Loss Impact To Risk Factor Subgroups

Activated Participants

Risk Factors	% Of Users
Obesity	67%
Hypertension	46%
Musculoskeletal	36%
Sleep Apnea	22%
Prediabetes	19%
Diabetes	12%
One or more risk factor	90%



The Federal Obesity Treatment Guidelines highlight that weight loss of as little as 3% body weight produces clinically meaningful health benefits and greater weight loss produces greater benefits

Sept 2018-2024

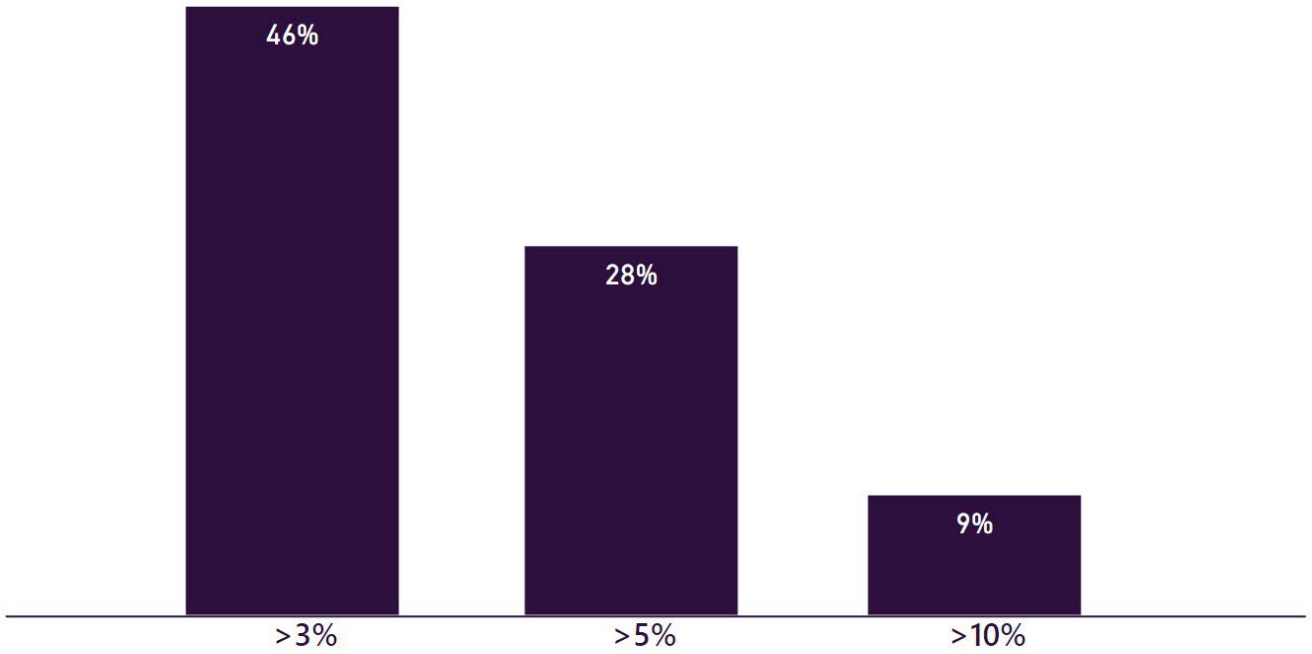
Clinical Results - Weight Loss Benefits

% of Activated Participants & Average Body Weight Loss

>3%
Prevent Diabetes, High Triglycerides, Glycemic Improvement

>5%
High Blood Pressure, Osteoarthritis, Depression

>10%
Cancer, Obstructive Sleep Apnea, Fatty Liver



The Federal Obesity Treatment Guidelines highlight that weight loss of as little as 3% body weight produces clinically meaningful health benefits and greater weight loss produces greater benefits

Repeater Data

- 13,715 Total Repeaters since 2018
- 2024 Analysis – 3,667 Repeaters
  - *2024 Average Weight Loss: 3.14%*
  - *Average All-Time Weight Loss: 9.33%*

Repeat participation in a behavioral weight loss program is a powerful indicator of sustained engagement, long-term behavior change, and trust in the intervention.

Repeaters are a strong signal of sustained behavior change and long-term health commitment. With over 13,700 repeaters since 2018 and an average all-time weight loss of 9.33%, these individuals demonstrate the program's ability to foster lasting lifestyle improvements.

Sept 2018-2024

Retirees Data

- 16,134 Starters
- 9,550 Participated in 8+ weeks
- Average Weight Loss: 6.25%
- Average Pounds Lost: 12.38 lbs.

With over 16,000 starters and nearly 60% continuing for 8+ weeks, the program demonstrates sustained commitment. An average weight loss of 6.25%—equating to over 12 pounds per participant—signals meaningful health outcomes that can reduce chronic disease risk, lower healthcare utilization, and improve quality of life.

For PEBA, this validates the long-term value of investing in wellness programs that not only support current employees but also extend benefits into retirement, ultimately driving down healthcare costs and enhancing organizational well-being.

Testimonials:

- *"Wondr is a wonderful program that supports all areas of your being as you go through the process of not only losing weight but also moving to a healthy lifelong lifestyle. There is so much support for the mental and physical health for all participants that's provided by this program. The program will energize you and leave you feeling positive. It does not disrupt your daily living but helps you to see how to incorporate ideas that will enhance it."*

- *"I have been trying to reduce my weight since I retired in 2019. I was calorie counting, working out with a fitness trainer three times a week and walking every day up to 2-3 miles. When I read about Wondr through BCBS, I decided to see if I would be selected for the program and if it would help me make progress on weight loss. It has and I've lost 8 pounds, have only 2 to go to reach my short-term goal of 10 pounds. Biggest benefit has been my triglycerides. Before Wondr, my triglycerides were over 300 with medication, diet and exercise. The last test I had was about 3 weeks ago and my triglycerides were 162. I have been trying for many years to bring down my triglycerides (the highest was over 600) as I have a high familial risk for heart disease. The exercise and walking improved my blood pressure, and I am now managing my B/P with only one medication at half the dose. Thank you to the coaches. The videos were excellent and provided really good information."*

Testimonials:

- *"I really feel empowered to make big changes in my health using these skills over time. This program is full of great common sense as well as science backed research and information. I felt powerless, and like there was a problem with me concerning weight loss, and my ability to change my health. After this program, I realized that I was not the problem, I just did not have the right skill set. This program has given me so much confidence and motivation to continue. I would highly recommend it to anyone and have already done so."*

- *"This second-time around program has been awesome. Has re-focused me on important skills. I have a lot of stress, mainly imposed on myself. I know this affects my overall health. The WONDR skills really have improved my way of thinking which has made a BIG difference. Thank you!!"*

- *"Wondr has changed my life for the better. It is by far the only program that has worked for me. I keep rejoining so that I will maintain the weight loss."*

- *"I love the overall approach of the program. So many programs are strict and often difficult to follow. Wondr works for me because I make decisions on what I eat based on your easy protocols. I am pleased with how much I have lost. Will continue to use the skills to get to goal weight."*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PUBLIC EMPLOYEE BENEFIT AUTHORITY AGENDA ITEM
HEALTH CARE POLICY COMMITTEE

Meeting Date: October 22, 2025

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1. Subject: State Health Plan Budget Requirements Approval for 2027

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2. Summary: Mr. Rob Tester will present and discuss the State Health Plan's budget requirements for 2027 in anticipation of the upcoming legislative appropriation cycle.

3. What is Committee asked to do? Approve the 2027 State Health Plan budget requirements.

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4. Supporting Documents:

(a) Attached: 1. 2027 State Health Plan Budget Information and Continuation Requirements
2. State Health Plan Budget Requirements for 2027

State Health Plan Budget Information and Continuation Requirements

Annual Base – Calendar Year 2026

Employer funds: $3,076.6 M.
Enrollee funds: $ 565.0 M.
Total: $3,641.6 M.

State-appropriated portion of Employer funds = $1,569.5 M.

Funds are spread throughout the budget in Employer Contributions lines of agencies and State Aid to Classsrooms lines of the State Department of Education.

Current composite monthly contribution rate effective January 2026:

Employer rate: $829.16 (79.3% of regional State employee plan average)
Enrollee rate: $159.16 (67.9% of regional average)
Total: $988.32 (77.2% of regional average)

FY 2026-27 Budget Requirements for ongoing SHP operations in 2027

- **Annualization**: There is a 4.6% Employer Only rate increase going into effect January 2026. Funding in the amount of **$34.525 M.** was appropriated for the January-June 2026 period. A like amount will be required in the upcoming budget for the July-December 2026 period to make agencies and school districts whole for the rate increase.
- **Retiree Enrollment Growth**: Net retiree enrollment growth continues at a historically low level. It is estimated that **$2.169 M.** is required for the estimated net number of new retirees with State-funded insurance. This number is based on the continued recent experience of 0.3% net growth in retirees.
- **2027 Rate Increase:**
    - There is no increase required for 2027 to sustain the current State Health Plan. It is projected that contribution rates going in force January 1, 2026 will be adequate to maintain the Plan through 2027.

Summary (State funds):

Annualization of 2026 4.6% employer only increase	**$34.525 M.**
2026-27 base Retiree Enrollment Growth	**$ 2.169 M.**
No 2027 Employer Increase	**$0**
TOTAL CONTINUATION OF CURRENT PLAN (NO INCREASE)	**$ 36.694 M.**

Recommend deletion of Proviso 108.12, which suspends the statutory sweep of Plan surplus funds at year end into the OPEB (retiree health) account. This proviso dates back to the COVID lockdown and the delay of health care services at that time. With the delay, any year-end surplus was overstated, and it was necessary to retain those funds to pay for later-delivered care. There is no longer evidence of any material delay in care, and as such the proviso is no longer needed.

10.15.2025

State Health Plan Budget Requirements for 2027

Contributing Factors

1. Continued High Expenditure Trends

As reported at the Board Retreat, the State Health Plan (Plan) continues to experience growth in claims expenditure above historic norms. This trend is occurring in both medical and pharmacy settings.

Medical trend (referring to claims processed by medical claims administrator BlueCross Blue Shield of South Carolina) this year through September equals a 7.0% increase in payments per member over the same period in 2024. Whereas the Plan is a secondary payer for the Medicare primary membership, paid trend this year to date is higher for that population at 8.2% versus 6.8% for the non-Medicare (active employees and retirees under age 65) membership. Key drivers include:

1) Expenditure for physician-administered medications has increased 18.7%, driven almost entirely by unit cost (up 16.4%) This is largely a result of the use of different, more expensive products, not growth in price of the same product. There has been an increase in the number of patients taking physician-administered medications as well.
2) Outpatient hospital has increased 6.7%, driven primarily by additional utilization volume (up 4.6%).
3) Spend in the inpatient hospital setting has increased approximately 5%, driven roughly in equal measure by utilization (more services) and unit cost (higher price per unit of service). Again, unit cost may increase not just through a higher price for the same admission, but the replacement of a lower-priced case with a higher-priced case.

On the pharmacy side (claims processed through pharmacy benefits manager Express Scripts), we do not yet have additional post-rebate reporting beyond the January-June information presented at the Board Retreat. Looking at cash payments only (pre-rebate), Plan pharmacy expenditure is up 9.5% per member year-over-year through nine months of 2025. We observed a 4-percentage point reduction in pharmacy trend in the 6-month period after adding rebates, so assuming this difference holds true when Q3 is added, we can estimate 5.5% post-rebate pharmacy trend through nine months of 2025.

Specialty pharmacy is the primary prescription drug trend driver this year. Pre-rebate, specialty medication spend is up 15.0% per member through September over the same period last year, while non-specialty spend is up a relatively modest 4.1% per member in 2025 over 2024.

A notable feature of the Plan's pharmacy trend is taking place with our Medicare membership. Overall, the paid prescription drug paid and incurred PMPM trend (pre-rebate) is 9.5% (covered PMPM, which includes Plan payment and patient cost share is 8.1%). A significant trend driver is revealed when comparing the prescription drug trends of members

that are Medicare primary to those who are not. The following table summarizes those differences (all numbers in table are pre-rebate):

Population	RX Covered PMPM Trend	RX Paid PMPM Trend
Medicare primary	11.8%	15.2%
SHP primary	6.3%	6.5%

There are three factors contributing to the Medicare primary trends:

1) The SHP could not implement the full suite of GLP1 management strategies it implemented for the SHP primary population on the Medicare primary population, reportedly because of CMS regulations.
2) The large leveraging effect (15.2% paid vs 11.8% covered) is because of the $2,000 phantom out of pocket maximum that went into effect on January 1, 2025.
3) Once a Medicare member reaches the phantom out of pocket maximum, it's likely that changes in mix (e.g. higher probability to use a brand drug vs. a generic) and utilization (e.g. more prescriptions) will occur.

While we are confident our new pharmacy benefits management approach described below will promote cost containment in our prescription drug sector, the effects of the Inflation Reduction Act changes to the Medicare pharmacy benefits in the Plan are enduring.

Mitigating Factors

1. New Pharmacy Benefits Manager approach and contract

PEBA's current Pharmacy Benefits Manager (PBM) contract with Express Scripts expires at the end of 2025. The PBM performs numerous functions related to State Health Plan prescription benefits. These duties include public-facing activities such as developing and managing the pharmacy network, operating specialty and home delivery pharmacies, and establishing the formulary, or preferred drug list. They also include backroom actions such as negotiating pricing with retail pharmacies and negotiating rebates from pharmaceutical companies.

When writing the PBM contract requirements in 2019 for the current 2021-2025 agreement, PEBA used what was then state-of-the-art methods. The pricing exhibit was based on pharmacy dispensing fees, pricing discount guarantees, and rebate guarantees. The continuous learning process led the PEBA team to a different approach in writing the requirements for the contract to commence in 2026. Pricing and rebate guarantees were not included, and in their place PEBA asked for a global financial guarantee tied to net prescription drug expenditure less pharma revenue, with the contractor putting significant fees at risk. In addition, PEBA mandated acquisition cost-based reimbursement for prescriptions filled at PBM-owned specialty and home delivery pharmacies.

CVS Caremark (Caremark) was hired as the State's new PBM, and very positive financial results are anticipated from this process. The net pricing guarantee for 2026 is materially less than projected net spend for 2025, and these savings will be attained through both reduced expenditure in real time and enhanced rebates. In addition, the contract requirements cap growth in 2027 to a national benchmark. The new PBM approach and outcome is a major mitigating factor in our 2027 budget requirements.

2. Managing unit cost in direct-contracted networks

The State Health Plan has operated direct-contracted hospital and physician networks for over 30 years, since the early 1990s. This is atypical among state employee health plans, as most will rely on the networks of their third-party administrators. Operating our own networks has given the Plan a critical tool in managing its expenditure over the years. Near universal provider participation in the networks is an essential component of the Plan's value; all general hospitals and over 99% of the physicians represented by claim dollars are in-network. It is important that PEBA maintain these networks in a manner that promotes participation while aligning with the Plan's and the State's fiscal realities.

This year we have observed expenditure growth in the hospital setting well above the effective pricing update for 2025. While the effective unit cost update was slightly above 1%, our hospital trend for non-Medicare members this year to date is 6.5%. This nearly 5.5-point delta over pure inflation exceeds what has been observed historically from volume and intensity changes. We believe this difference will persist, at least in the short term, so it is vital that unit cost growth be limited to the extent practical.

For 2026, we have implemented unit cost neutrality for our hospital pricing update. On the inpatient side, we provided increased pay for general case rates, while offsetting that increase by amending the formula that moves a case into high outlier status and reducing excess pay for those outlier admissions. In the outpatient setting, we again provided for a general case rate increase but offset with various methods: adopting CMS policy for non-reimbursement of ancillary services (removing incentive for the hospital to bill such services), continued movement toward site-neutral pricing, and upping the default discount off charges (this change was also made for inpatient cases).

Managing provider reimbursement such that the Plan's financial and value objectives are achieved will continue to be a challenge. Our unit cost neutrality in hospital pricing for 2026 is a mitigating factor in our budget requirements for 2027.

3. Pushing back on GLP-1 growth

The GLP-1 (Glucagon-like Peptide 1 agonists) class of medication, used for diabetes management and weight loss, have been a national phenomenon in recent years and a major cost driver for the State Health Plan in 2023 and 2024. While the State Health Plan covers these products for diabetes, weight loss is a general Plan exclusion.

PEBA worked with its present pharmacy benefits contractor and, with the Board's approval, began to address this surging spend late in 2024. For our Commercial (non-Medicare) membership, we began limiting supply of GLP-1s to 30 days per fill beginning in November 2024 to reduce waste, and initiated phase-in of a new prior approval process to require documentation that a patient's condition qualifies this individual to obtain the prescription under the terms of the Plan. This process was fully phased in by early 2025.

Along with pricing improvements obtained by our contractor, GLP-1 trends have turned around. Net GLP-1 expenditure was down 16.0% through June 2025 from the same period in 2024. The effects of the management changes are illustrated through comparison of the Commercial and Medicare membership (the Plan was only able to begin a more rigorous prior approval for Medicare members in July 2025). While the number of GLP-1 days of therapy grew 23.5% year-over-year through June 2025 in the unmanaged Medicare group, days declined 1.0% in the Commercial group.

We presented to our Board Committee in June 2024 a comprehensive analysis as to the cost effectiveness of anti-obesity medication coverage in the Plan, with the conclusion that this coverage is cost prohibitive. This analysis was updated in early 2025 and will continue to be revisited annually with potential pricing changes and as more information becomes available.

GLP-1 management is not a solved problem, but our partial success in stemming growth and continuing to take a hard line on non-diabetic usage is a mitigating factor in 2027 rate requirements.

10.15.2025