

State of Arkansas

PSE Adequacy Review

Funding Projections

September 2022 / Patrick Klein and Matthew Kersting

Overview

- Segal was tasked by BLR with reviewing the funding projections to determine the adequacy of the proposed \$300 Minimum District Contribution for 2023 and beyond
- Gathered data on current school district participation and contribution level
- Used Milliman's projection from 8/5/22 meeting for claims and expenses with one key difference:
 - Updated to account for the implementation of the MAPD program in 2023, assuming 75% enrollment
- Confirmed the following with BLR:
 - Minimum District Contribution applies only to enrolled active contracts
 - According to Act111, Minimum District Contribution is not currently scheduled to increase with Medical CPI
 - According to Act111, Department of Education contribution of \$142 million is set to increase with Medical CPI

Segal finds that the \$300 minimum district contribution is adequate in the short term but will require adjustments in order to keep pace with trending expenses in future years.

Financial Projection – Current Law

Public School Employees with fixed \$300 Minimum District Contribution and DoE Funding Increasing with CPI:

| | 2023 | 2024 | 2025 | 2026 | 2027 |
|--|--------------|--------------|---------------|---------------|---------------|
| <i>Assumed Minimum District Contribution</i> | \$300 | \$300 | \$300 | \$300 | \$300 |
| District Contribution | \$176 | \$179 | \$183 | \$186 | \$190 |
| Employee Funding | 138 | 142 | 146 | 150 | 154 |
| Dept of Education Funding | 142 | 147 | 153 | 158 | 164 |
| <u>Other</u> | <u>24</u> | <u>26</u> | <u>28</u> | <u>30</u> | <u>32</u> |
| Total Income | \$480 | \$494 | \$509 | \$525 | \$540 |
| Medical Claims | \$328 | \$355 | \$385 | \$419 | \$455 |
| Rx Claims | 91 | 100 | 110 | 121 | 134 |
| <u>Plan Administration</u> | <u>36</u> | <u>38</u> | <u>41</u> | <u>43</u> | <u>45</u> |
| Total Expenses | \$455 | \$493 | \$536 | \$583 | \$634 |
| Net Income / (Loss) | \$25 | \$1 | (\$27) | (\$58) | (\$94) |
| Total Assets | \$196 | \$197 | \$171 | \$113 | \$19 |
| Target Reserve (12-16%; Midpoint14%) | \$64 | \$69 | \$75 | \$82 | \$89 |

- Expenses begin to exceed Income beginning in 2025
- Total Assets expected to fall below reserve target by 2027
- Current Minimum District Contribution of \$300 is adequate for 2023 and 2024

Financial Projection – Current Law

Public School Employees with fixed \$328 Minimum District Contribution where assets meet reserve target in 2027:

| | 2023 | 2024 | 2025 | 2026 | 2027 |
|--|--------------|--------------|--------------|---------------|---------------|
| <i>Assumed Minimum District Contribution</i> | \$328 | \$328 | \$328 | \$328 | \$328 |
| District Contribution | \$192 | \$196 | \$200 | \$204 | \$208 |
| Employee Funding | 138 | 142 | 146 | 150 | 154 |
| Dept of Education Funding | 142 | 147 | 153 | 158 | 164 |
| <u>Other</u> | <u>24</u> | <u>26</u> | <u>28</u> | <u>30</u> | <u>32</u> |
| Total Income | \$497 | \$511 | \$526 | \$542 | \$558 |
| Medical Claims | \$328 | \$355 | \$385 | \$419 | \$455 |
| Rx Claims | 91 | 100 | 110 | 121 | 134 |
| <u>Plan Administration</u> | <u>36</u> | <u>38</u> | <u>41</u> | <u>43</u> | <u>45</u> |
| Total Expenses | \$455 | \$493 | \$536 | \$583 | \$634 |
| Net Income / (Loss) | \$42 | \$18 | (\$9) | (\$41) | (\$76) |
| Total Assets | \$196 | \$214 | \$205 | \$165 | \$89 |
| Target Reserve (midpoint 12-16%) | \$64 | \$69 | \$75 | \$82 | \$89 |

- Expenses begin to exceed income beginning in 2025
- Solved for Min. District Contribution of \$328 to ensure total assets match target reserve at the end of 2027
- Plan expenses anticipated to grow faster than income resulting in a likely funding challenge for 2028

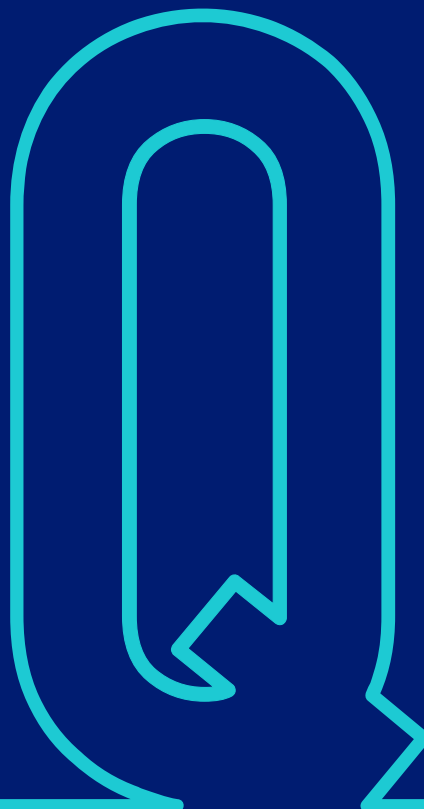
Financial Projection – CPI applied to MDC

Public School Employees with \$300 Minimum District Contribution and DoE funding increasing with Medical CPI:

| | 2023 | 2024 | 2025 | 2026 | 2027 |
|--|--------------|--------------|---------------|---------------|---------------|
| <i>Assumed Minimum District Contribution</i> | \$300 | \$311 | \$323 | \$335 | \$347 |
| District Contribution | \$176 | \$186 | \$196 | \$208 | \$220 |
| Employee Funding | 138 | 142 | 146 | 150 | 154 |
| Dept of Education Funding | 142 | 147 | 153 | 158 | 164 |
| <u>Other</u> | <u>24</u> | <u>26</u> | <u>28</u> | <u>30</u> | <u>32</u> |
| Total Income | \$480 | \$501 | \$523 | \$546 | \$570 |
| Medical Claims | \$328 | \$355 | \$385 | \$419 | \$455 |
| Rx Claims | 91 | 100 | 110 | 121 | 134 |
| <u>Plan Administration</u> | <u>36</u> | <u>38</u> | <u>41</u> | <u>43</u> | <u>45</u> |
| Total Expenses | \$455 | \$493 | \$536 | \$583 | \$634 |
| Net Income / (Loss) | \$25 | \$8 | (\$13) | (\$37) | (\$64) |
| Total Assets | \$196 | \$204 | \$191 | \$154 | \$90 |
| Target Reserve (midpoint 12-16%) | \$64 | \$69 | \$75 | \$82 | \$89 |

- Expenses begin to exceed Income beginning in 2025
- Total assets above target reserve at the end of 2027 if minimum district contribution and DoE funding increase with CPI
- Plan expenses anticipated to grow faster than income resulting in a possible funding challenge for 2028

Q&A



Assumptions and Caveats

Assumptions

- Projections, including medical claims, pharmacy claims, rebates, employee & retiree contributions, and administrative costs were based off baseline Milliman projections, adjusted for MAPD implementation
- Assumed 75% of eligible retirees would select the MAPD
- No future plan design changes assumed
- Trend: Medical 6%, Rx 8%, Admin: 3% based on Milliman projections
- MAPD: 0% trend guarantee 2024 & 2025, assumed to increase 5% in future years (Segal)
- Baseline Medical CPI: 3.7% (based on average of the last 15 years)
- Enrollment assumed to increase by approximately 2% per year based on Milliman projections
- Districts maintain current contribution level if above minimum threshold

Caveats

- The projections in this report are estimates of future costs and are based on information available to Segal at the time the projections were made. Segal has not audited the information provided. Projections are not a guarantee of future results. Actual experience may differ due to, but not limited to, such variables as changes in the regulatory environment, local market pressure, health trend rates and claims volatility. The accuracy and reliability of health projections decrease as the projection period increases.