

State of Arkansas Employee Benefits Division

Interim Monitoring Report

Through August 31st

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SEPTEMBER 2021



Agenda

- Arkansas State Employees (ASE)
- Public School Employees (PSE)
- 2021 Roadmap
- Assumptions and Methodology
- Appendices

Arkansas State Employees (ASE)

Executive Summary

- 2021 & 2022 projections updated to incorporate medical claims data incurred from March 2019 to February 2020 and paid through August 2021 and pharmacy claims data incurred from July 2020 to June 2021 and paid through August 2021
- 2021 projected plan experience
 - Projected deficit Before Allocation of Prior Years' Surplus: **-\$18.8M**
 - Allocation of Prior Years' Surplus for 2021: \$14.5M
 - Projected deficit: **-\$4.4M** (after prior years' surplus allocation)
 - Reflects 2021 program initiatives and board decisions
 - Reflects changes in membership based on historical patterns
 - Baseline trends (medical: 5%, pharmacy: 8%)
- 2022 projected plan experience
 - Projected deficit Before Allocation of Prior Years' Surplus: **-\$2.7M**
 - Allocation of Prior Years' Surplus for 2022: \$6.1M
 - Estimated surplus of \$3.4M (after prior years' surplus allocation)
 - Reflects Board of Finance and Arkansas Legislative Committee actions (see next slide for additional detail)

2022 Approved Initiatives

- 5% contribution increase for Actives, Pre-65 Retirees, and Post-65 Retirees
- \$25 increase in contributions for Non-Wellness Actives
- Maintain \$50 wellness credit for Active employees
- Require wellness visit with physician to receive wellness credit
- \$50 increase to monthly State Funding (to \$500 per month) beginning August 2021

Total Plan Experience

	<u>2020</u>	<u>2021</u>	<u>2022</u>
State Contribution	\$ 171.05	\$ 191.29	\$ 202.56
Employee Contribution	100.96	109.47	122.10
Other	17.43	21.10	22.13
Total Income	\$ 289.44	\$ 321.87	\$ 346.79
Medical Claims	\$ (201.46)	\$ (226.22)	\$ (227.31)
Pharmacy Claims	(90.53)	(98.96)	(106.41)
Administration Fees	(16.26)	(16.09)	(16.40)
Plan Administration	(2.55)	(1.84)	(1.85)
Life Insurance	(0.93)	-	-
Total Expenses	\$ (311.74)	\$ (343.12)	\$ (351.98)
Program Savings	\$ -	\$ 2.44	\$ 2.47
Net Income / (Loss) Before Reserve Allocation	\$ (22.29)	\$ (18.81)	\$ (2.72)
Allocation of Reserves	\$ 27.00	\$ 14.46	\$ 6.07
Net Income / (Loss) After Reserve Allocation	\$ 4.71	\$ (4.35)	\$ 3.35

Amounts above in \$ Millions.

Average Membership

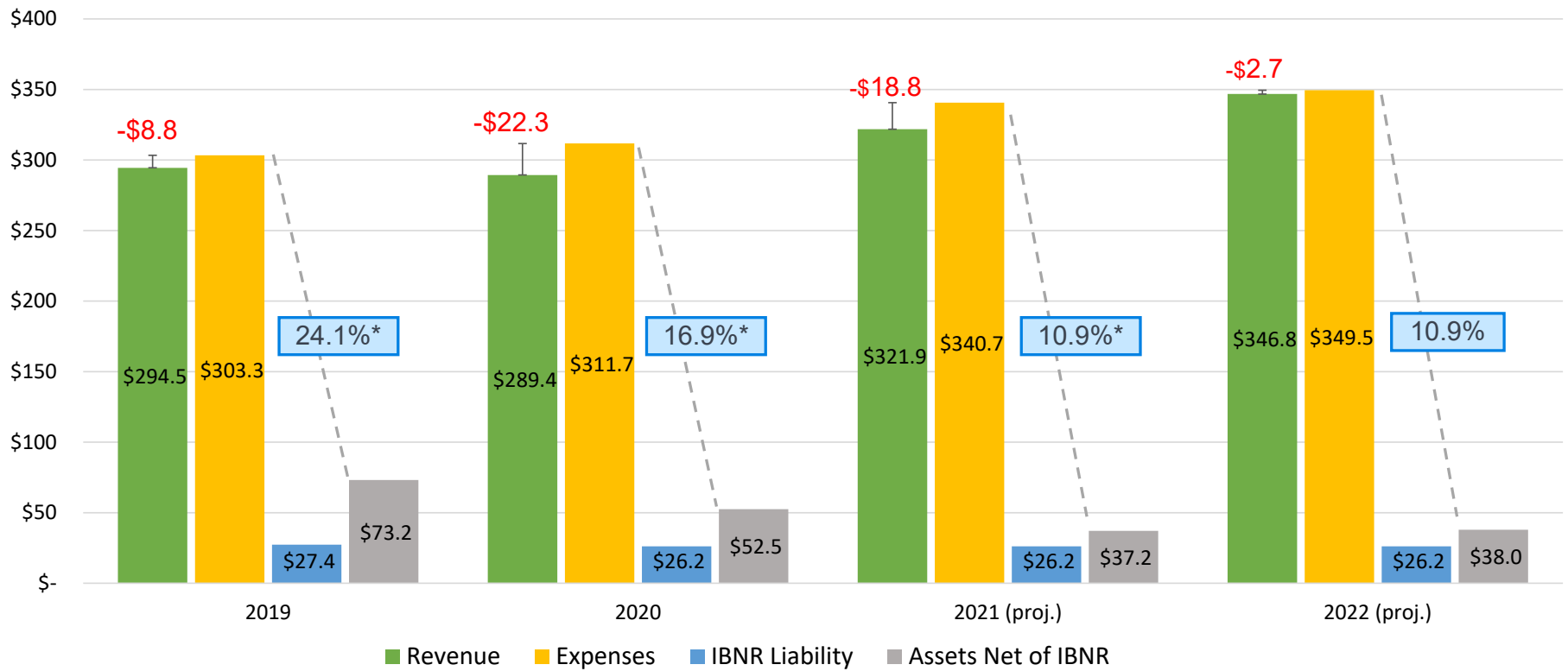
Active Employees / Pre-65 Retirees	46,542	45,034	44,975
Post-65 Retirees	13,726	13,911	14,329
Total Enrolled	60,268	58,945	59,303

Total Income PMPM¹	\$ 437.55	\$ 475.48	\$ 495.84
Total Expenses PMPM²	\$ (431.04)	\$ (481.64)	\$ (491.14)

¹ Allocation of Reserves included in Total Income

² Total Expenses offset by Program Savings

Change in Revenue, Expenses, and Assets

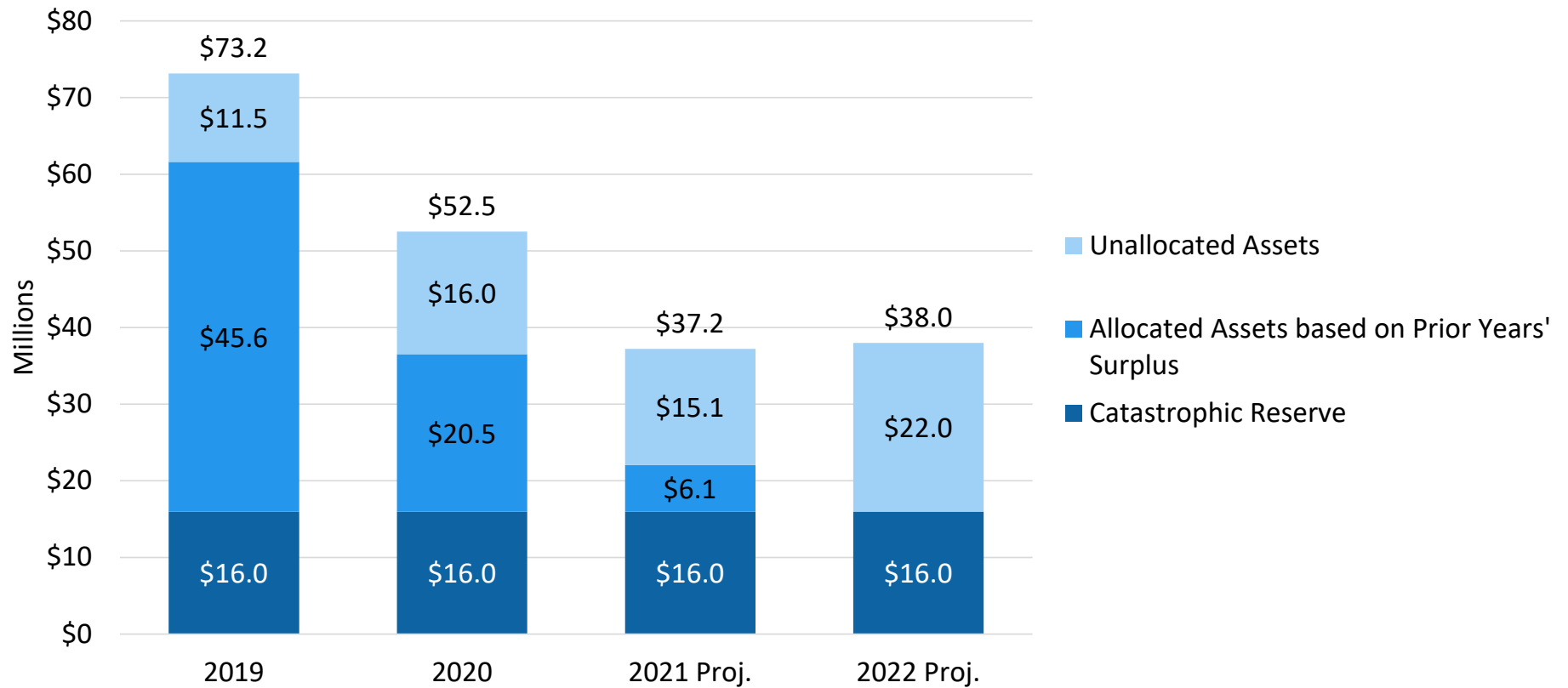


* Assets Net of IBNR as a portion of Expenses

Projected Assets: 2019 – 2021

Development of 2021 End-of-Year Assets (\$millions)			
			Assets
(a)	2020	End-of-Year Gross Assets	\$78.8
(b)	Proj 2021	Allocation of Prior Years' Surplus	(\$14.5)
(c)		Total Surplus / (Deficit)	(\$4.4)
(d)		FICA Funding	\$3.5
(e) = (a) + (b) + (c) + (d)		End-of-Year Gross Assets Available	\$63.5
(f)		Incurred but not reported (IBNR)	(\$26.2)
(g) = (e) + (f)		End of Year Net Assets Available	\$37.2
(h)	Proj 2022	Allocation of Prior Years' Surplus	(\$6.1)
(i)		Total Surplus / (Deficit)	\$3.4
(j)		FICA Funding	\$3.5
(k) = (e) + (h) + (i) + (j)		End-of-Year Gross Assets Available	\$64.3
(l)		Incurred but not reported (IBNR)	(\$26.2)
(m) = (k) + (l)		End of Year Net Assets Available	\$38.0

End of Year Assets Net of IBNR



Public School Employees (PSE)

Executive Summary

- 2021 & 2022 projections updated to incorporate medical claims data incurred from March 2019 to February 2020 and paid through August 2021 and pharmacy claims data incurred from July 2020 to June 2021 and paid through August 2021.
- 2021 projected plan experience – includes \$20M special funding from the Department of Education
 - Projected deficit Before Allocation for Prior Years' Surplus: **-\$16.4M**
 - Allocation of Prior Years' Surplus for 2021: \$15.5M
 - Projected deficit: **-\$1.0M** (after prior years' surplus allocation)
 - Reflected 2021 program initiatives and board decisions
 - Reflects changes in membership based on historical patterns
 - Baseline trends (medical: 7%, pharmacy: 8%)
- 2022 projected plan experience
 - Projected surplus Before Allocation for Prior Years' Surplus: \$1.5M
 - Allocation of Prior Years' Surplus for 2022: \$7.1M
 - Estimated surplus of \$8.5M (after prior years' surplus allocation)
 - Reflects Board of Finance and Arkansas Legislative Committee actions (see next slide for additional detail)

2022 Approved Initiatives

- 0% contribution increase for Actives, Pre-65 Retirees, and Post-65 Retirees
- \$25 increase in contributions for Non-Wellness Actives
- Maintain \$50 wellness credit for Active employees
- Require wellness visit with physician to receive wellness credit
- \$35M from Restricted Reserves
- \$20M from Department of Education
- Increase minimum District Funding to \$168.52 PMPM

Total Plan Experience

	<u>2020</u>	<u>2021</u>	<u>2022</u>
PPE Funding	\$ 102.23	\$ 104.66	\$ 110.78
Employee Contribution	124.15	137.46	155.31
Dept of Ed Funding	90.45	130.45	130.45
Restricted Reserve	-	-	35.00
Other	13.41	19.37	19.76
Total Income	\$ 330.24	\$ 391.94	\$ 451.30
Medical Claims	\$ (253.50)	\$ (301.91)	\$ (336.16)
Pharmacy Claims	(67.04)	(78.12)	(84.10)
Administration Fees	(26.80)	(28.19)	(29.38)
Plan Administration	(3.16)	(1.97)	(2.04)
Total Expenses	\$ (350.50)	\$ (410.19)	\$ (451.68)
Program Savings	\$ -	\$ 1.79	\$ 1.84
Net Income / (Loss) Before Reserve Allocation	\$ (20.26)	\$ (16.46)	\$ 1.46
Allocation of Reserves	\$ 22.00	\$ 15.48	\$ 7.05
Net Income / (Loss) After Reserve Allocation	\$ 1.74	\$ (0.98)	\$ 8.51

Amounts above in \$ Millions.

Average Membership

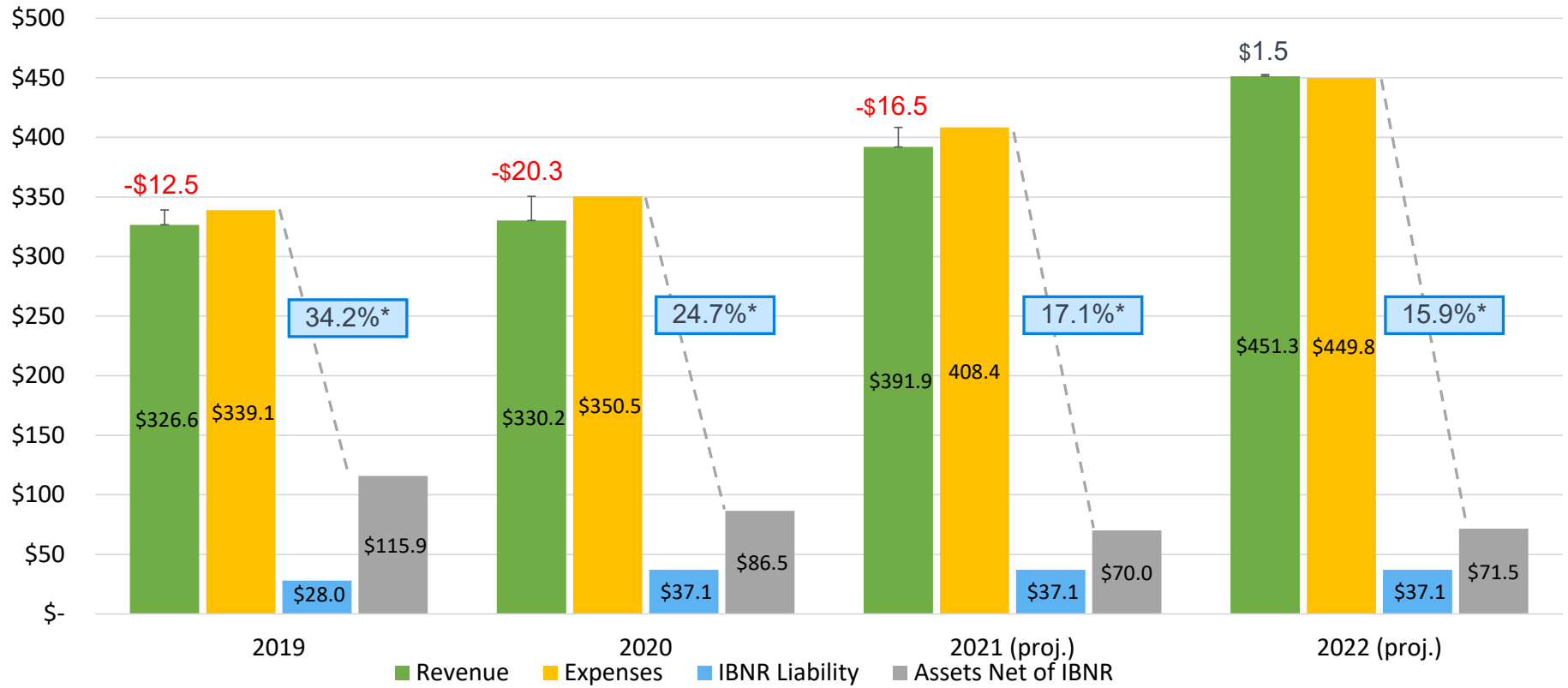
Active Employees / Pre-65 Retirees	84,129	85,458	87,981
Post-65 Retirees	15,003	15,797	16,745
Total Enrolled	99,131	101,255	104,726

Total Income PMPM¹	\$ 296.11	\$ 335.31	\$ 364.73
Total Expenses PMPM²	\$ (294.65)	\$ (336.12)	\$ (357.95)

¹ Allocation of Reserves included in Total Income

² Total Expenses offset by Program Savings

Change in Revenue, Expenses, and Assets

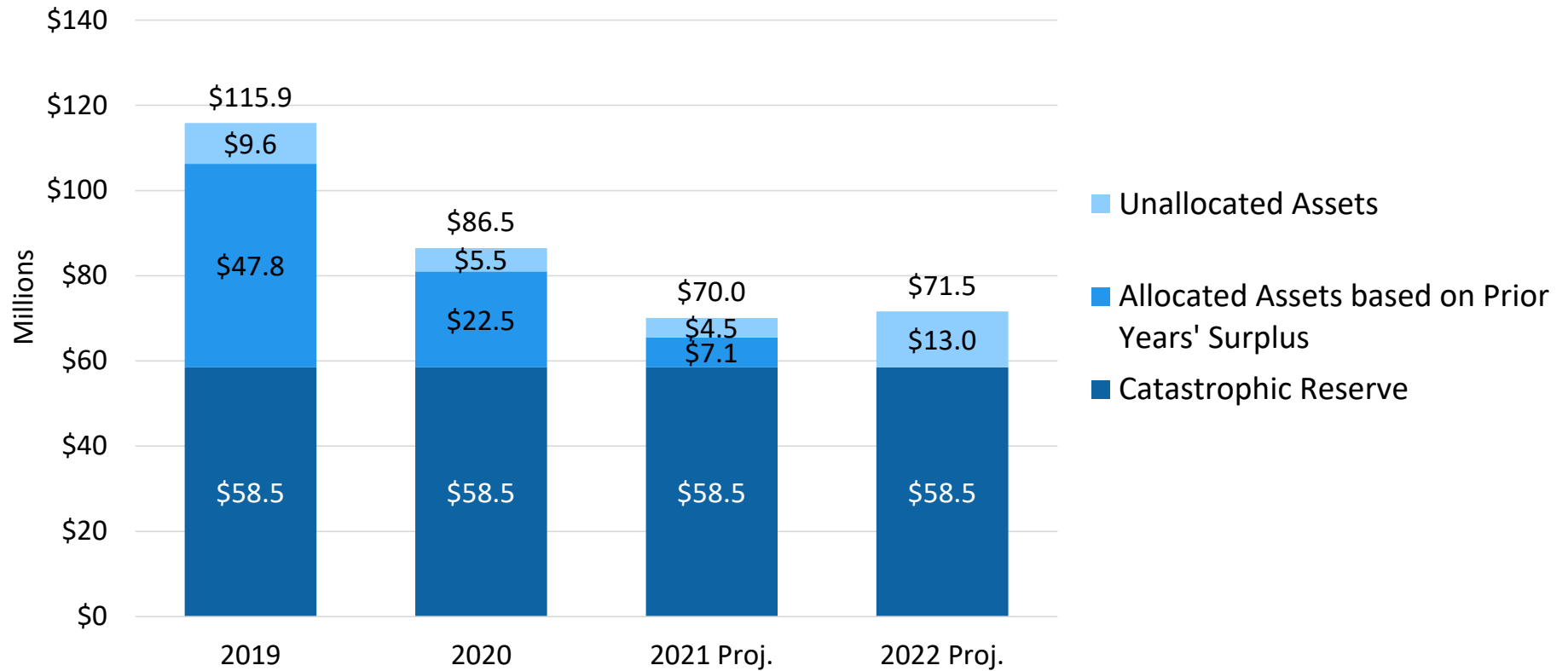


* Assets Net of IBNR as a portion of Expenses

Projected Assets: 2019 – 2021

Development of 2021 End-of-Year Assets (\$millions)			
			Assets
(a)	2020	End-of-Year Gross Assets	\$123.6
(b)	Proj 2021	Allocation of Prior Years' Surplus	(\$15.5)
(c)		Total Surplus / (Deficit)	(\$1.0)
(d) = (a) + (b) + (c)		End-of-Year Gross Assets Available	\$107.1
(e)		Incurred but not reported (IBNR)	(\$37.1)
(f) = (d) + (e)		End of Year Net Assets Available	\$70.0
(g)	Proj 2022	Allocation of Prior Years' Surplus	(\$7.1)
(h)		Total Surplus / (Deficit)	\$8.5
(i) = (d) + (g) + (h)		End-of-Year Gross Assets Available	\$108.5
(j)		Incurred but not reported (IBNR)	(\$37.1)
(k) = (i) + (j)		End of Year Net Assets Available	\$71.5

End of Year Assets Net of IBNR



2021 Roadmap

Timeline: Gantt chart

Description	2020			2021												2022			
	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	
Glide Path and Guiding Principles	█																		
Strategic Roadmap		█																	
Education			█																
2022 Strategies/Initiatives			█																
Finalize Rates/Decisions								█											
Plan Management	█																		
Monthly Plan Performance	█																		
Open Enrollment	█														█				

Limitations

Courtney White and Paul Sakhrani are Members of the American Academy of Actuaries and Fellows of the Society of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render actuarial opinion contained herein. To the best of our knowledge and belief, this analysis is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices.

The assumptions used in the development of the 2020, 2021, and 2022 budgets relied on historical ASE and PSE medical and pharmacy claims from ABCBS and MedImpact, respectively; funding and plan administration from EBD; historical ASE and PSE members by benefit plan, age/gender, and by month from EBD; 2019, 2020, and 2021 ASE and PSE benefit plan summaries from EBD; 2020, 2021, and 2022 fees and administrative expenses from EBD; conversations with EBD regarding the program, and actuarial judgment.

While we reviewed the ABCBS, MedImpact, and EBD information for reasonableness, we have not audited or verified this data and other information. If the underlying data or information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete.

Expected outcomes are sensitive to the underlying assumptions used. Differences between our projections and actual amounts depend on the extent to which future experience conforms to the assumptions made for this analysis. It is certain that actual experience will not conform exactly to the assumptions used in this analysis. Actual amounts will differ from projected amounts to the extent that actual experience deviates from expected experience.

Any reader of this report should possess a certain level of expertise in areas relevant to this analysis to appreciate the significance of the assumptions and the impact of these assumptions on the illustrated results. The reader should also be advised by their own actuaries or other qualified professionals competent in the subject matter of this report, so as to properly interpret the material.

The terms of Milliman's Consulting Services Agreement as a subcontractor to Health Advantage, an affiliate of ABCBS, for the State of Arkansas dated October 29, 2019 apply to this email and its use.

This presentation has been provided for the internal use of the management of the State of Arkansas Employee Benefits Division for setting the ASE and PSE budget for CY2020, CY2021, and CY2022. The information contained in this presentation is confidential and proprietary. This information may not be appropriate for other uses and should not be distributed to or relied on by any other parties without Milliman's prior written consent. We do not intend this information to benefit any third party even if we permit the distribution of our work product to such third party. If this analysis is distributed internally or to a third party, we request that it be distributed in its entirety.



Thank you

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Appendices

Appendix

Assumptions & Methodology

Assumptions & Methodology

Assumptions - Trend

Division	Group	Medical Trend	Pharmacy Trend
ASE	Active/Pre-65 Retirees	5.0%	8.0%
	Post-65 Retirees	5.0%	8.0%
PSE	Active/Pre-65 Retirees	7.0%	8.0%
	Post-65 Retirees	7.0%	8.0%

Assumptions & Methodology

Assumptions – Other

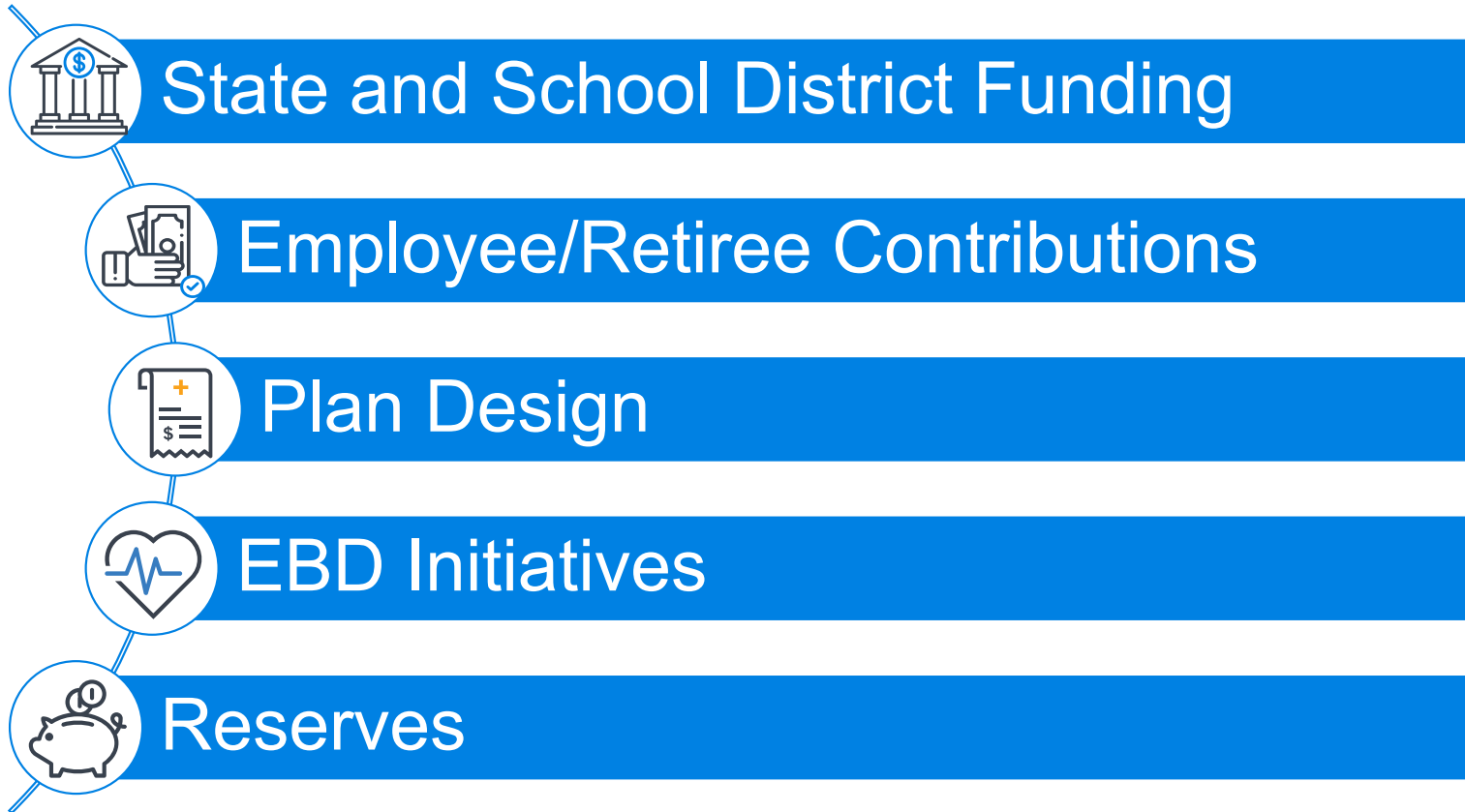
- Age/Gender
 - Age/Gender factor based on Milliman Health Cost Guidelines™
- Enrollment Projections
 - Actual enrollment utilized for March 2019 through August 2021
 - Projected September 2021 – December 2022 based on historical patterns
- Program Savings
 - Estimated remaining 2021 program savings of \$2.4 million for ASE and \$1.8 million for PSE
 - Estimated remaining 2022 program savings of \$2.5 million for ASE and \$1.8 million for PSE
 - Program savings offset as initiatives are reflected in the claims experience and projected pharmacy claims cost
- Plan Administration Expense
 - ASE - \$2.61 PMPM for CY 2021 (\$2.61 PMPM for CY 2022); UAMS shifted to Administration Fees PMPM
 - PSE - \$1.62 PMPM for CY 2021 (\$1.63 PMPM for CY 2022); UAMS shifted to Administration Fees PMPM
- Administration Fees include PCORI charges for 2021 and 2022
- Percentage of Population earning wellness incentive
 - ASE – 76.4%
 - PSE – 79.2%
- Minimum District Funding: \$161.87 in 2020, \$164.66 in 2021, and \$168.52 in 2022

Assumptions & Methodology

Methodology

1. Summarized fee-for service (FFS) medical claims incurred from March 1, 2019 to February 29, 2020 and paid March 1, 2019 to August 31, 2021. Medical claims are gross of withholds. Reports reflects the timing of when EBD is expected to pay the withhold.
2. Summarized fee-for-service (FFS) pharmacy claims incurred from July 1, 2020 to June 30, 2021 and paid from July 1, 2020 to August 31, 2021.
3. Converted the paid and incurred claims to incurred claims using completion factors. This incorporates the incurred but not reported (IBNR) claim reserve.
4. Summarized member months for March 2019 to February 2020 (medical) and July 2020 to June 2021 (pharmacy).
5. Divided the summarized incurred claims by the appropriate member months to calculate PMPMs.
6. For 2020, utilized actual claims for January 2020 to December 2020.
7. For 2021, utilized actual claims for January – June 2021 and projected July – December 2021.
8. 2021 and 2022 projected the incurred claims PMPM from the midpoint of the experience period (September 1, 2019 for medical / January 1, 2021 for pharmacy) to the midpoint of the contract period (October 1, 2021 and July 1, 2022, respectively).
9. Made adjustments for seasonality, benefit changes, and age/gender mix.
10. Accounted for rating period fees and administrative expenses.
11. Where applicable, converted incurred budget to paid budget based on historical payment patterns.

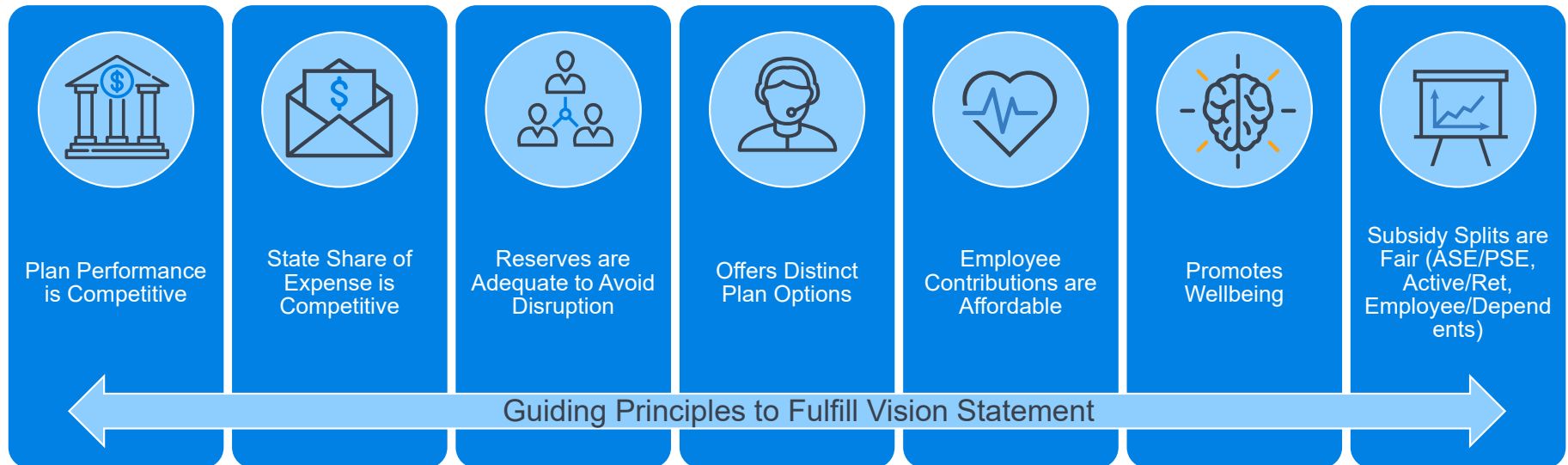
Budget Levers



Draft – Guiding Principles & Vision Statement

Draft Vision Statement:

The Board will offer plan options that provide competitive value and health promotion in comparison to other states and consistently ensure that the plan is fully funded to maximize value and remain solvent

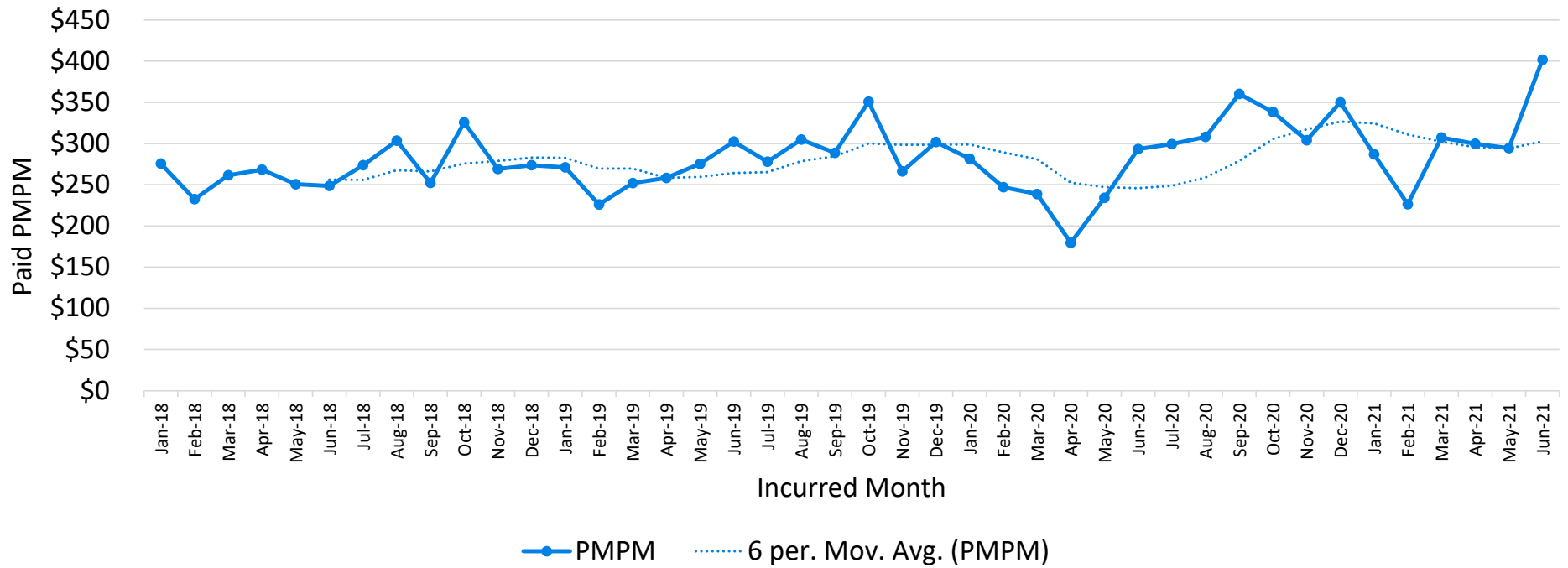


Appendix

ASE Supporting Exhibits

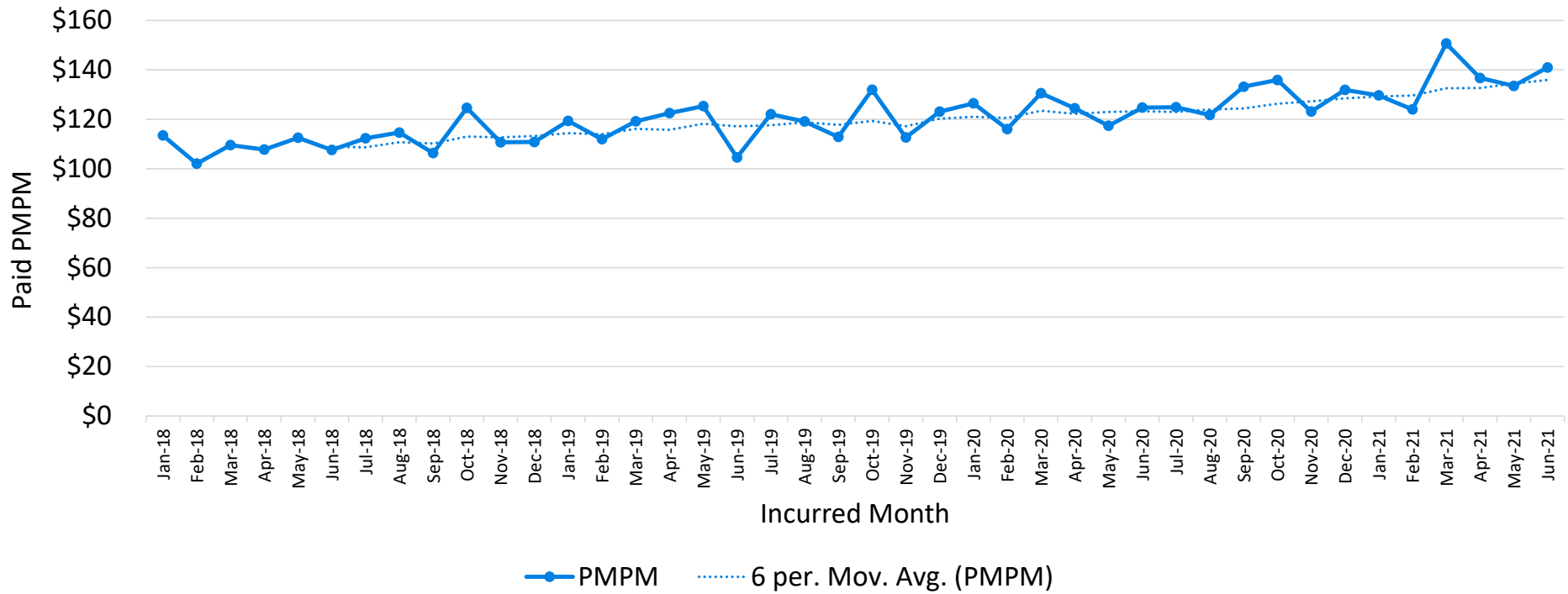
Monthly Trend - Medical

ASE - Medical Per Member Per Month (PMPM)

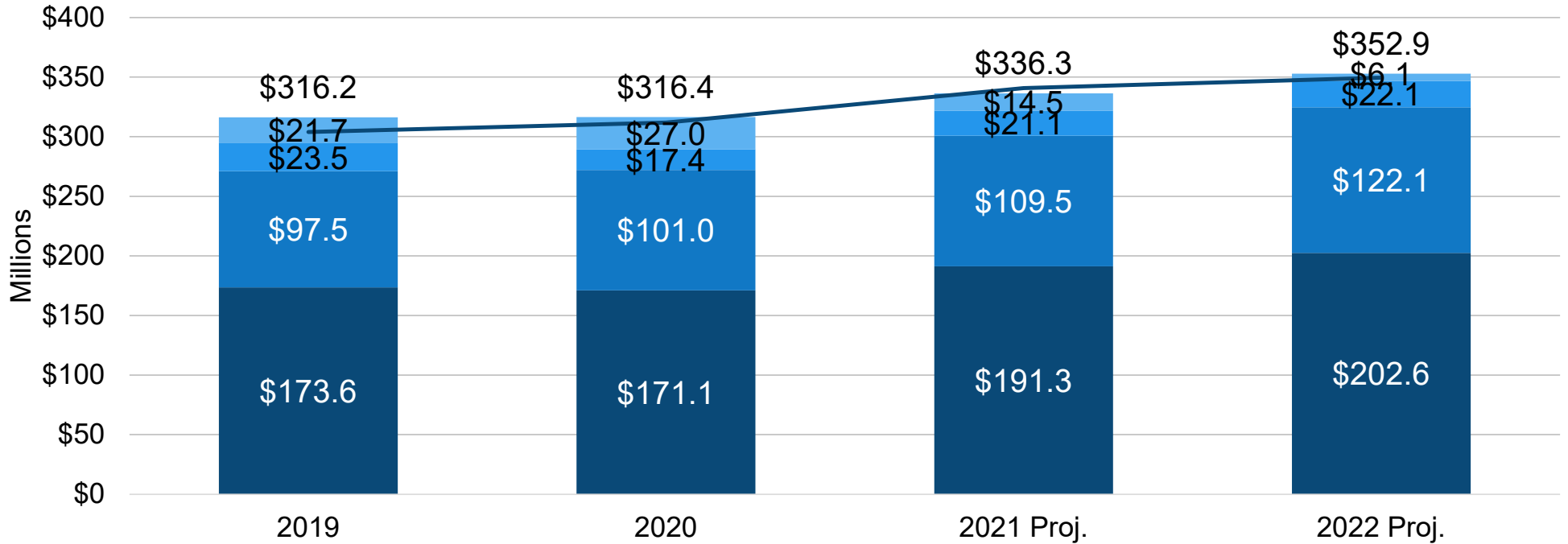


Monthly Trend - Pharmacy

ASE - Pharmacy Per Member Per Month (PMPM)



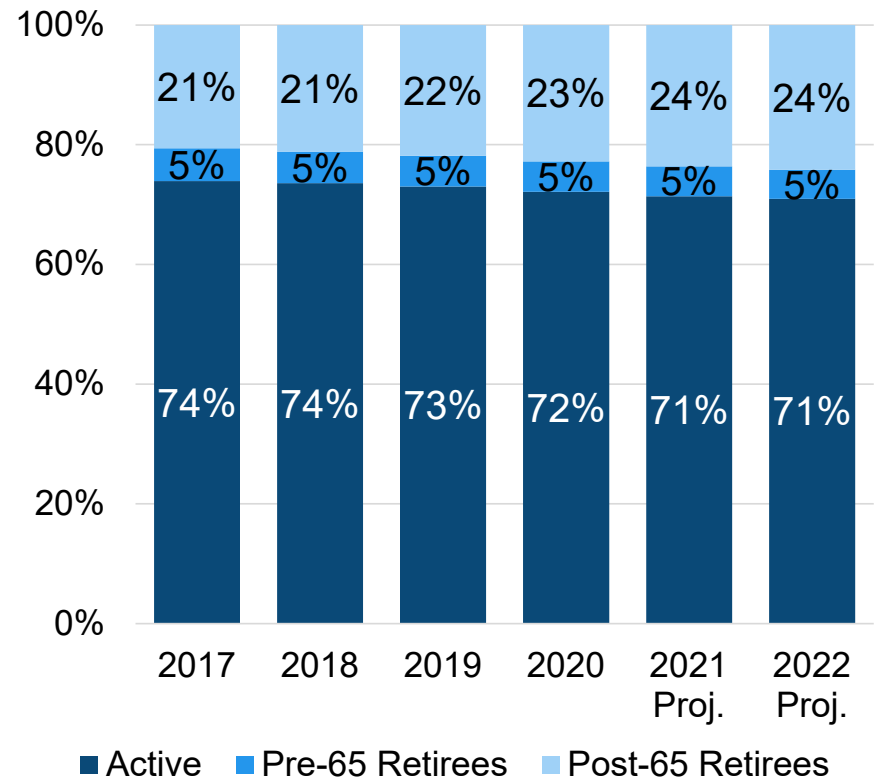
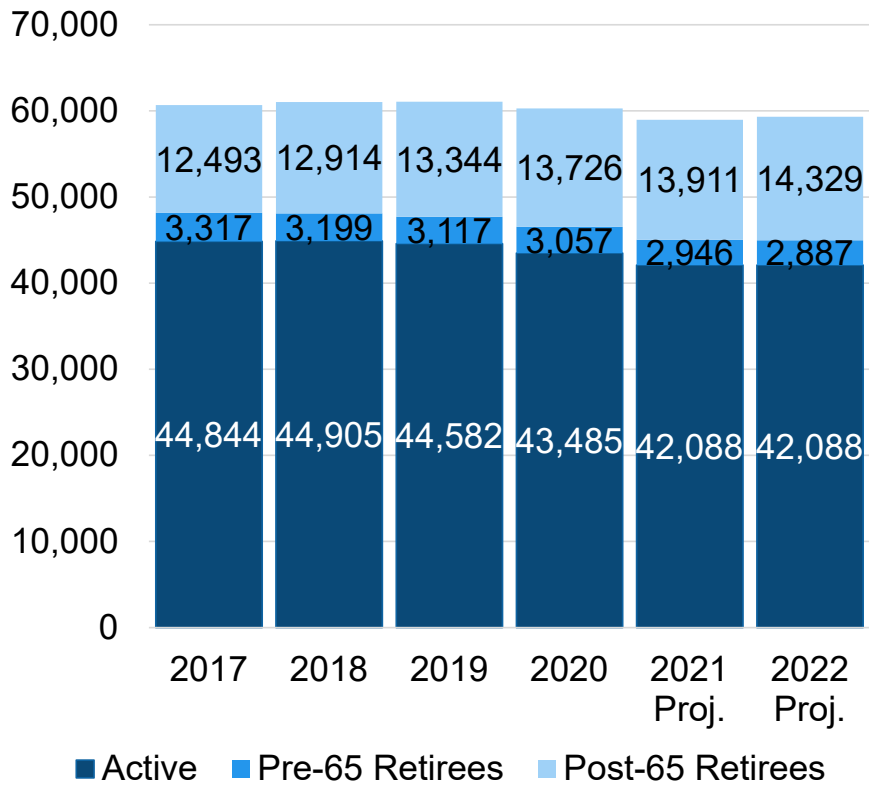
ASE - Income vs. Expenditure



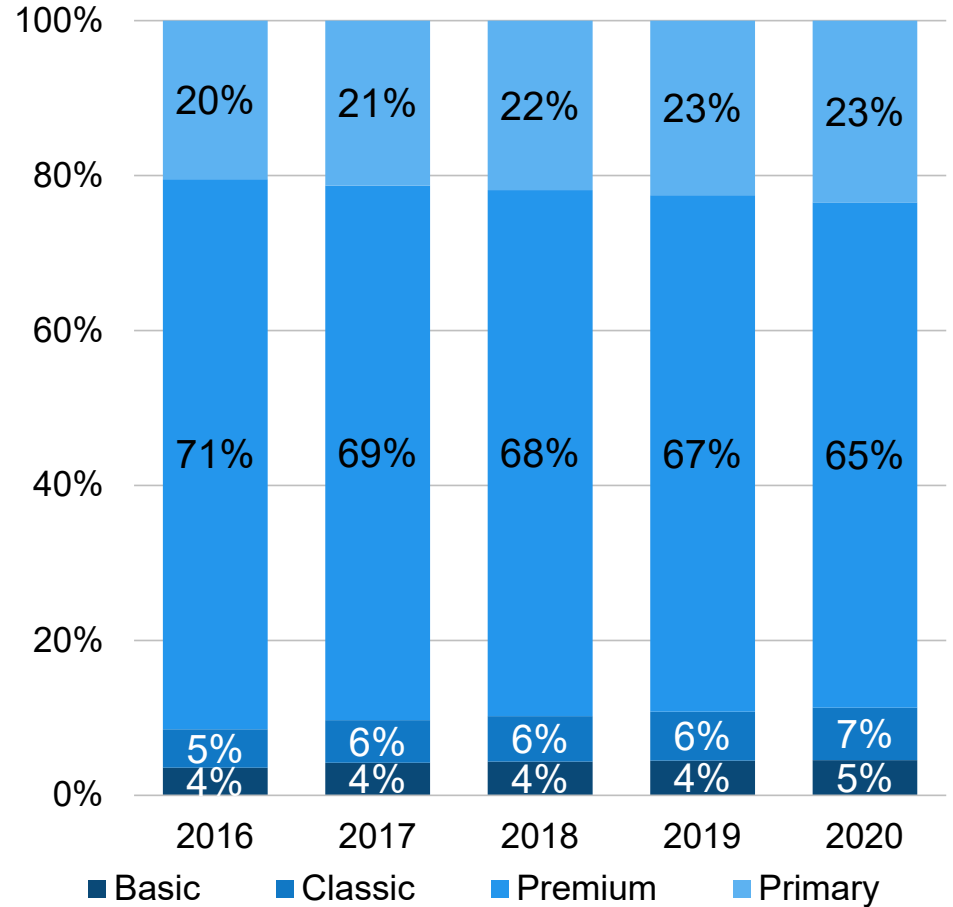
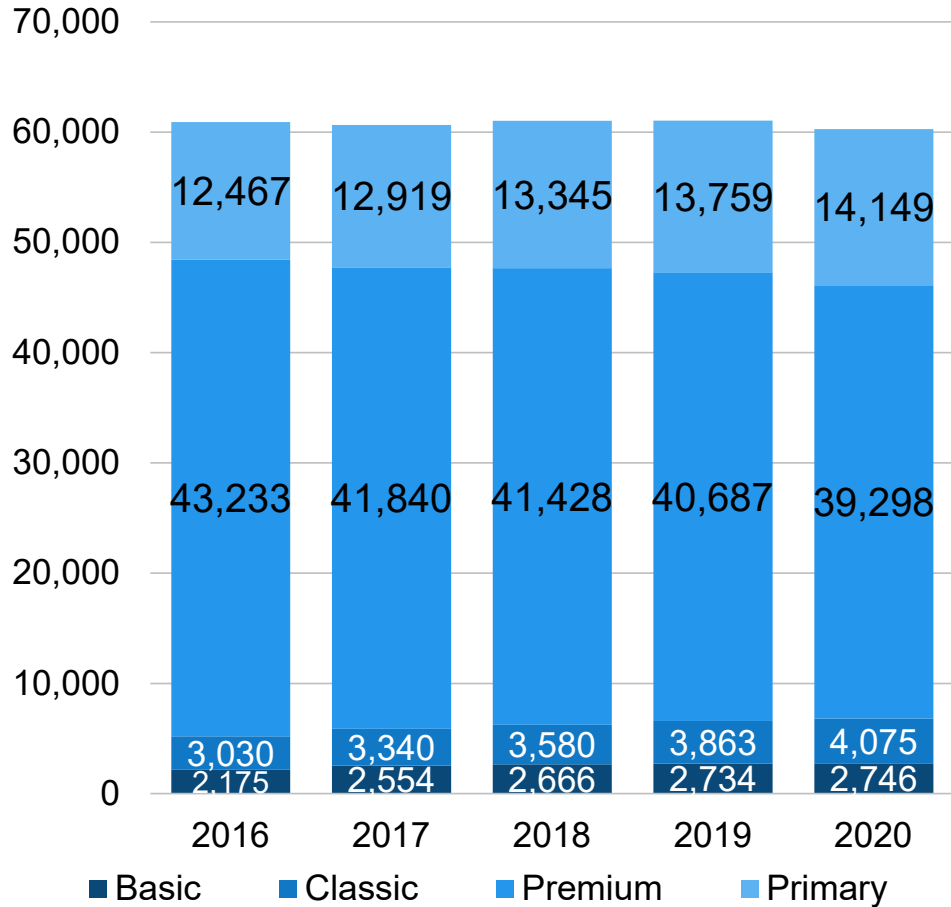
■ State Contribution
 ■ Employee Contribution
 ■ Other Income
 ■ Allocation of Prior Years' Surplus
 — Total Expenses*

* Total Expenses offset by Program Savings

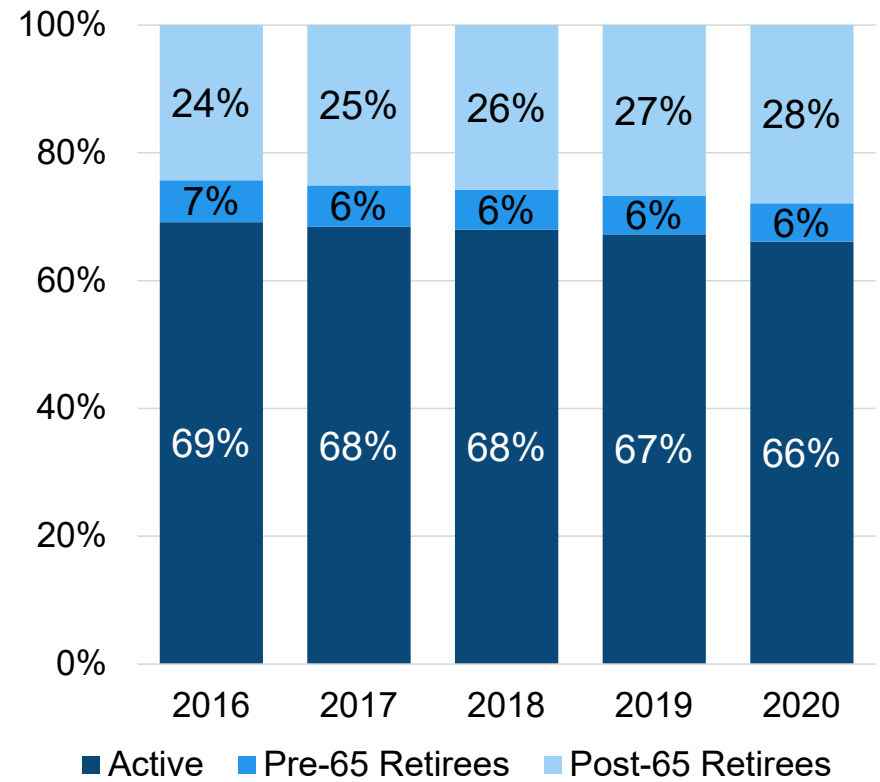
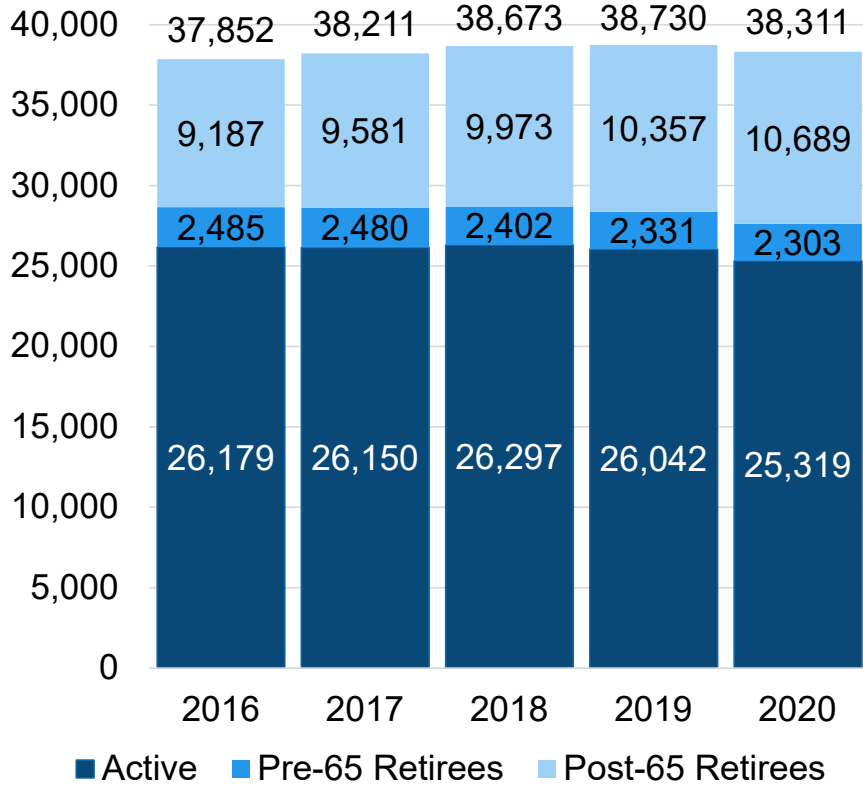
ASE - Average Membership by Status



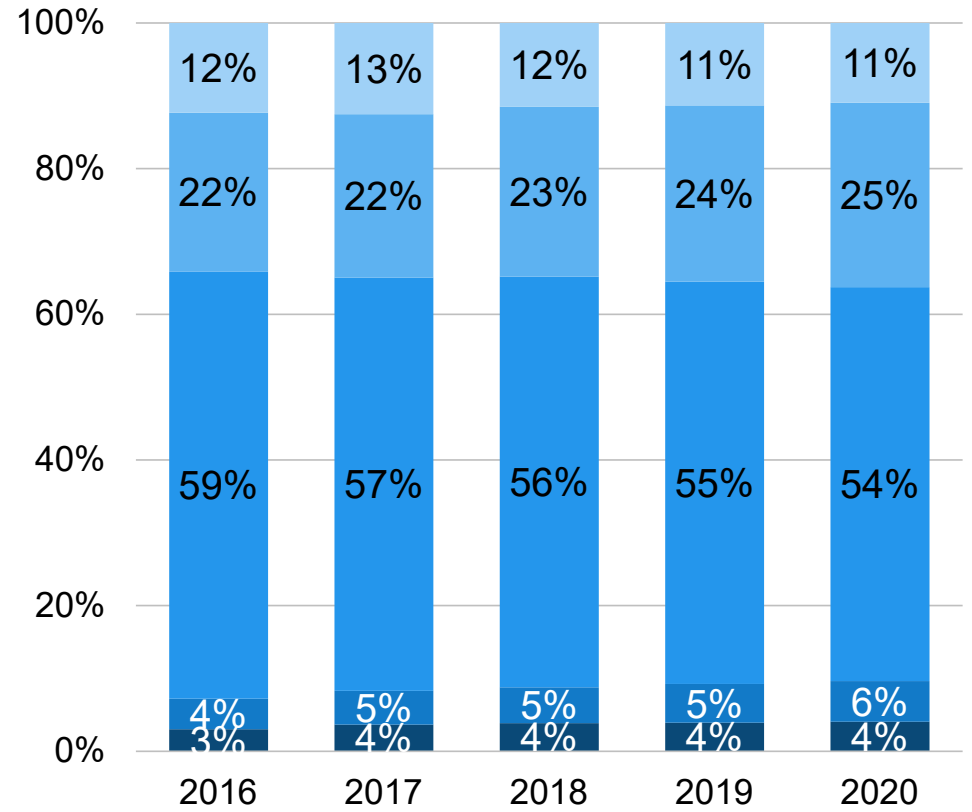
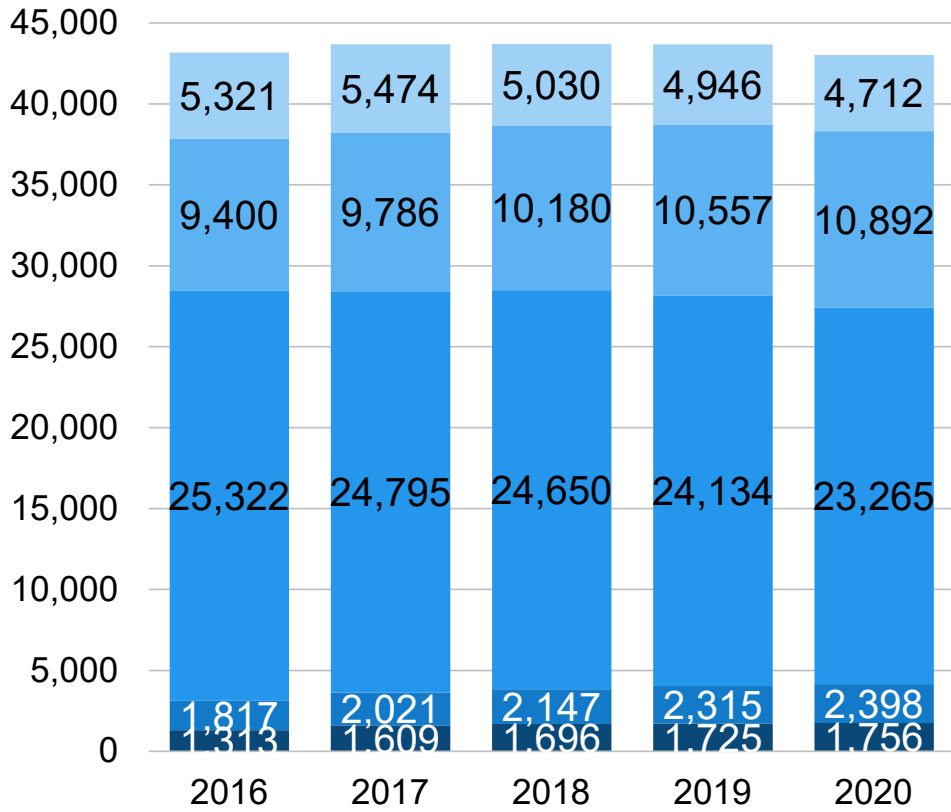
ASE - Average Membership by Plan



ASE - Average Enrollment (Subscribers) by Status



ASE - Average Enrollment (Subscribers) by Plan



■ Basic ■ Classic ■ Premium ■ Primary ■ Waived

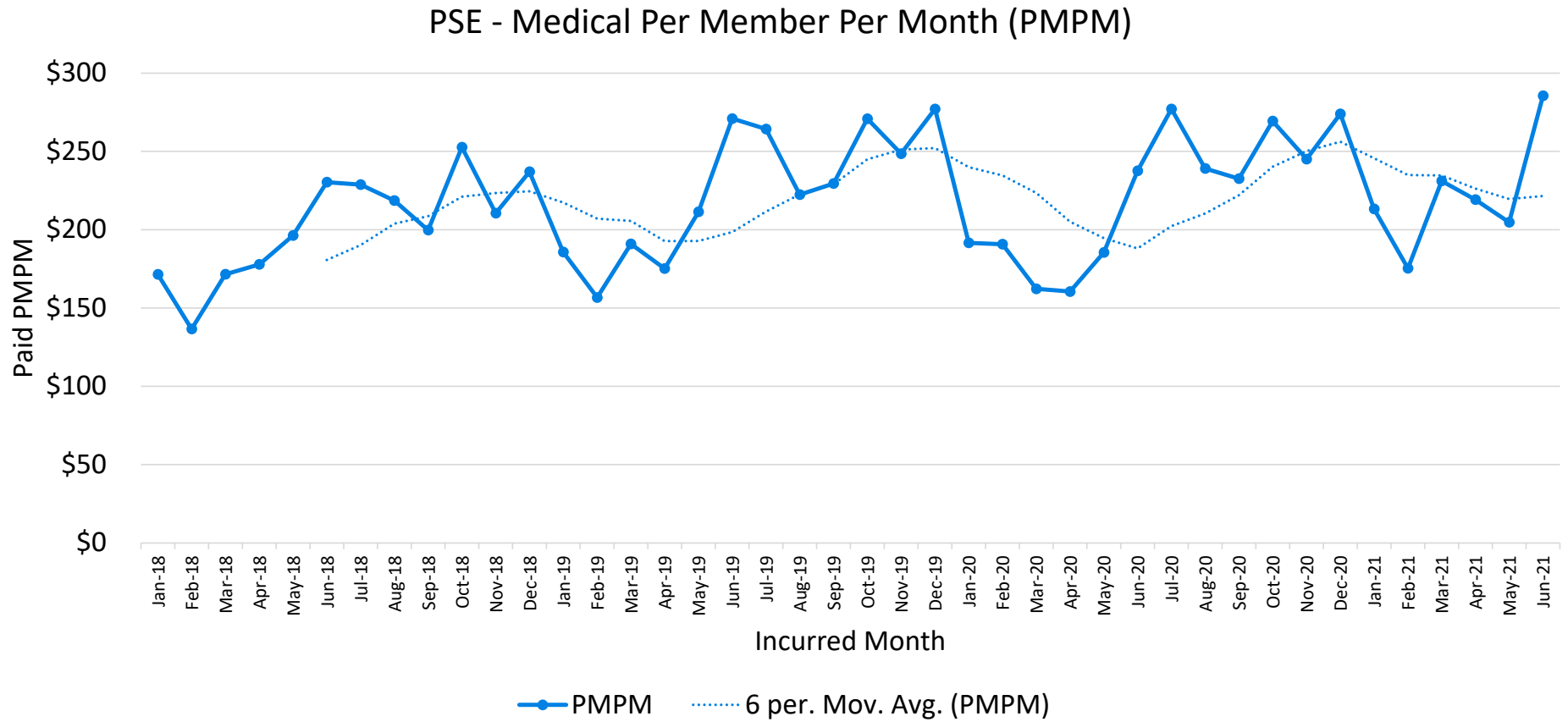
■ Basic ■ Classic ■ Premium ■ Primary ■ Waived



Appendix

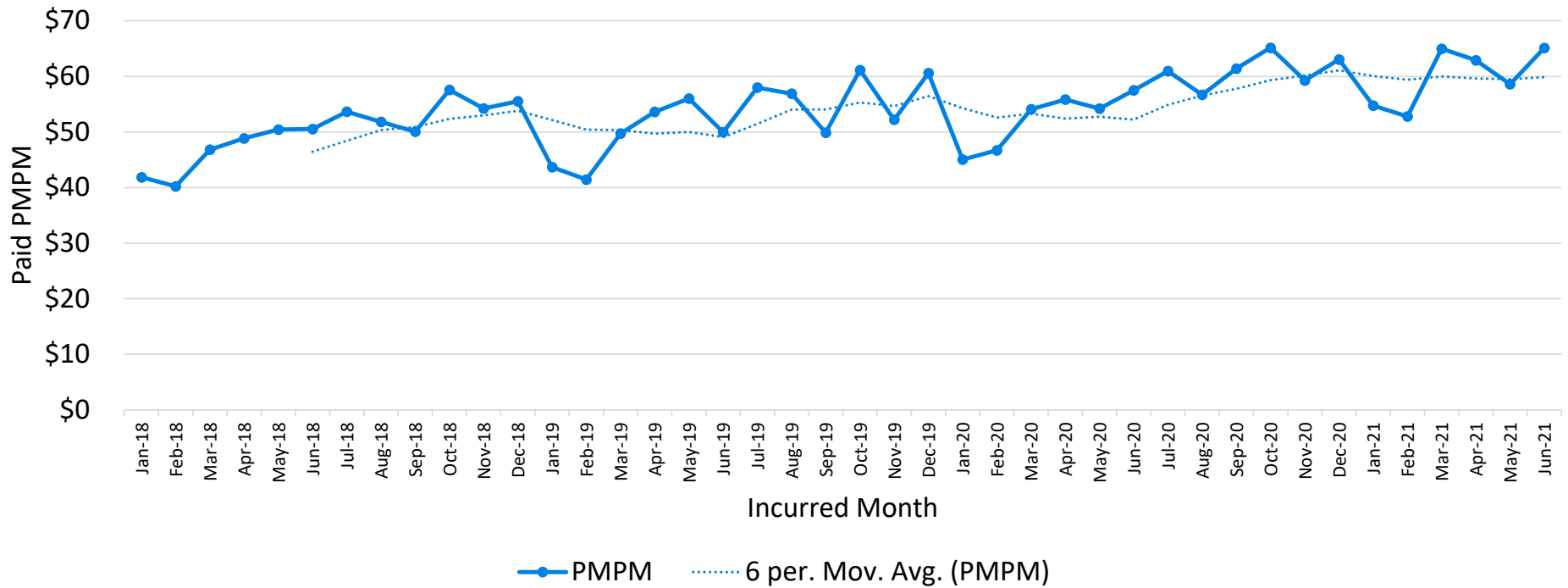
PSE Supporting Exhibits

Monthly Trend - Medical

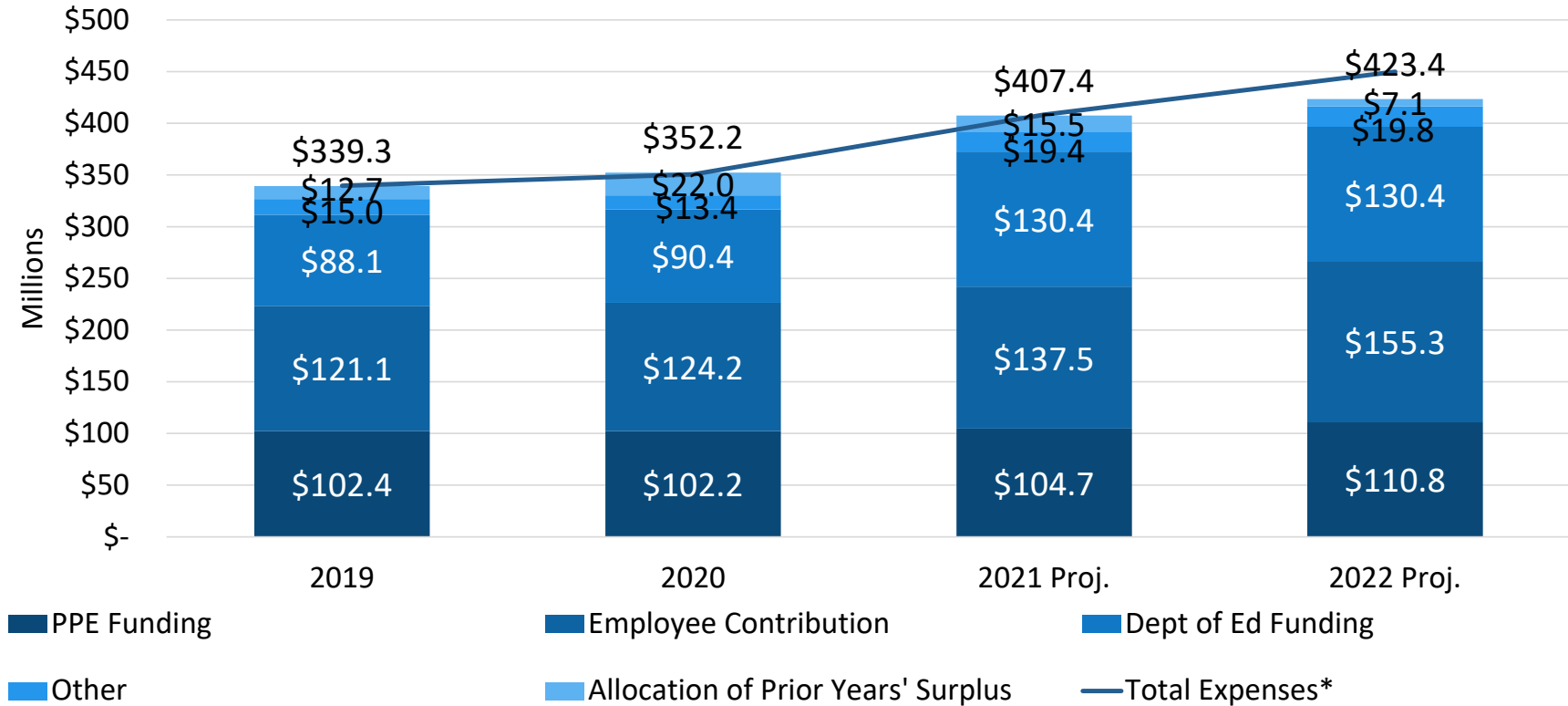


Monthly Trend - Pharmacy

PSE - Pharmacy Per Member Per Month (PMPM)



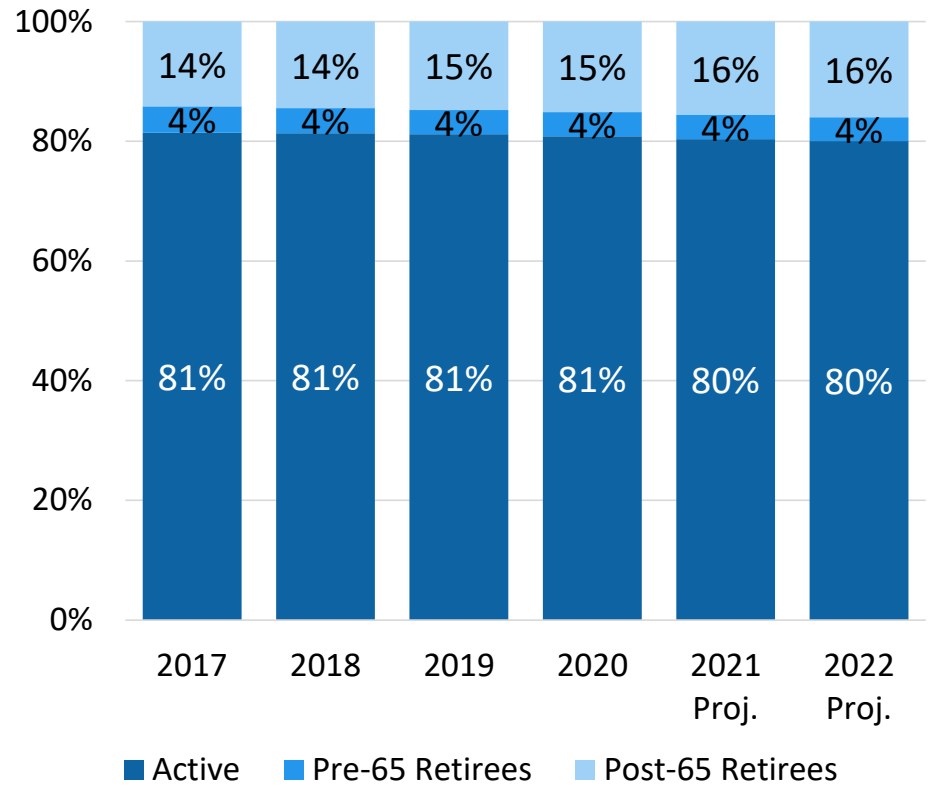
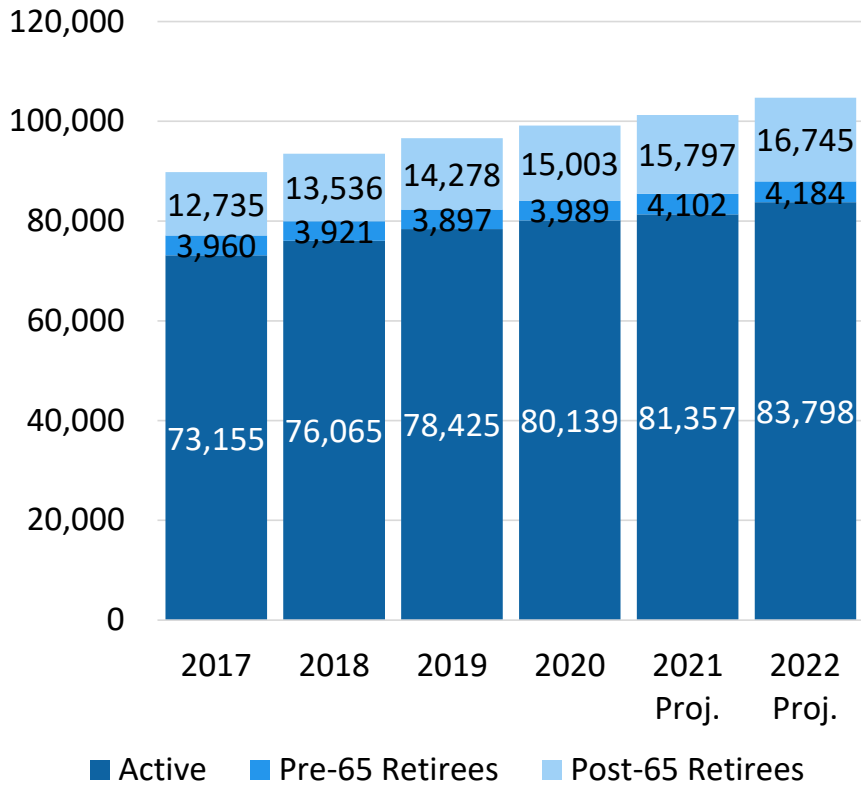
PSE - Income vs. Expenditure



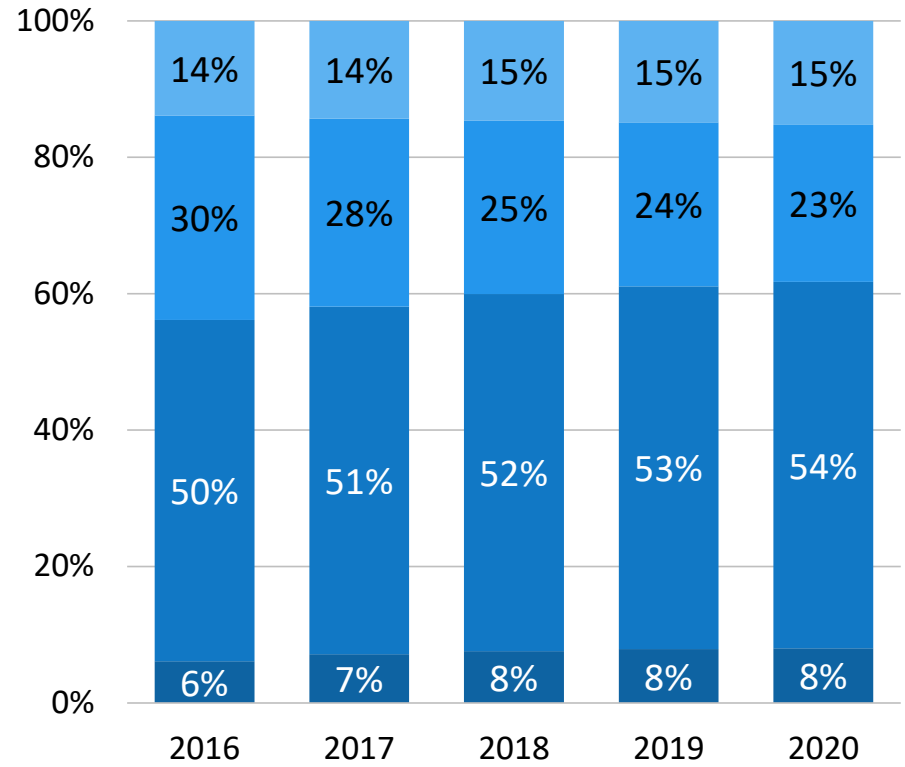
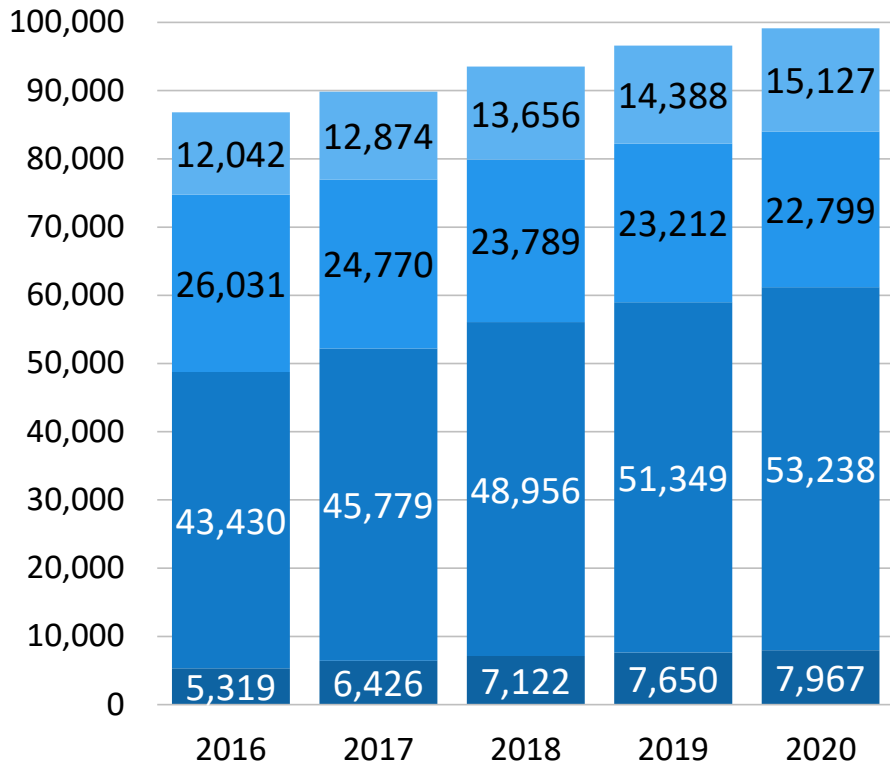
* Total Expenses offset by Program Savings

**Does not include the \$35 million restricted reserve funding in 2022

PSE - Average Membership by Status



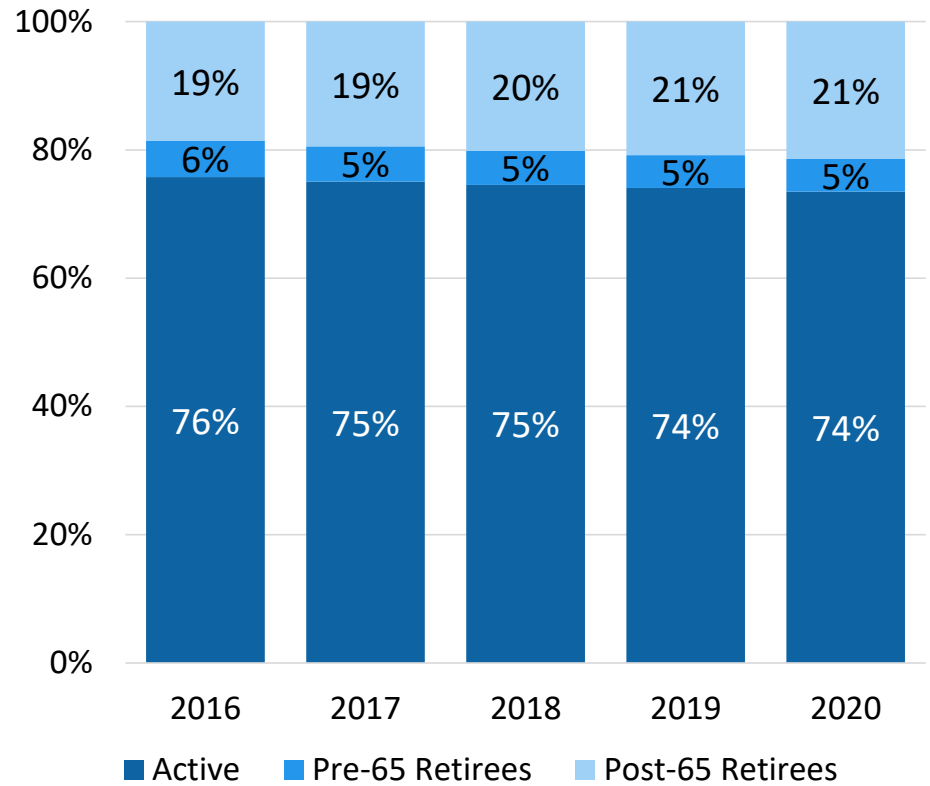
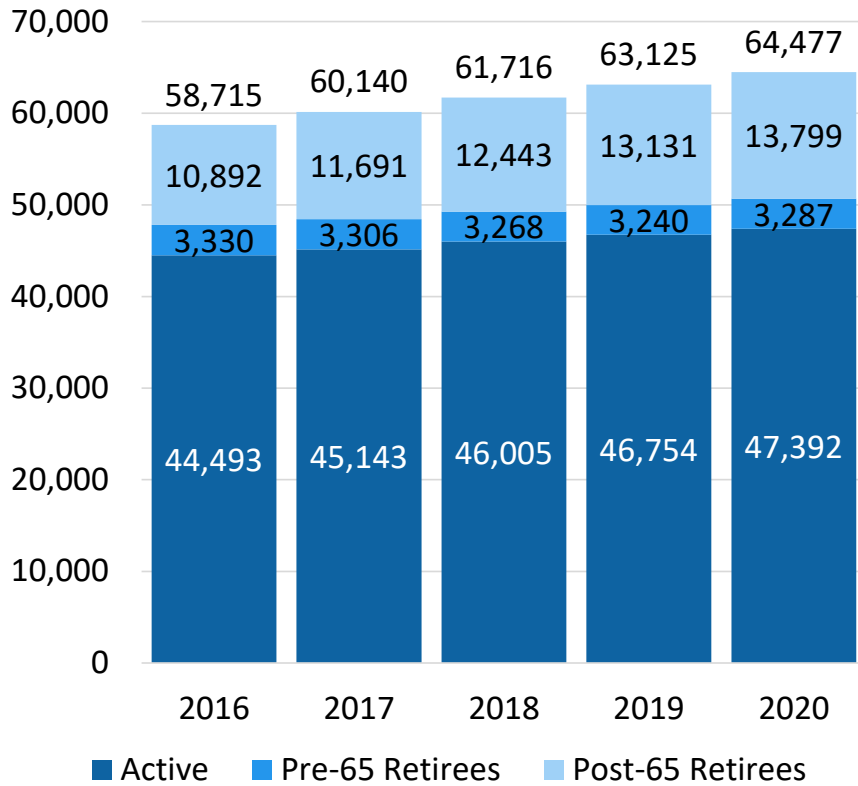
PSE - Average Membership by Plan



■ Basic ■ Classic ■ Premium ■ Primary

■ Basic ■ Classic ■ Premium ■ Primary

PSE - Average Enrollment (Subscribers) by Status



PSE - Average Enrollment (Subscribers) by Plan

