

State of Arkansas

# BLR Review

## Funding Projections

September 2021 / Patrick Klein and Matthew Kersting

# Agenda

**Financial Projections**

**Questions**

# Executive Summary

- Based on a review of claims and funding for ASE and PSE programs, Segal has developed funding projections under various scenarios from 2021 through 2025
- Without infusion of additional funding or reduction in projected expenses, both ASE and PSE programs are projected to have no assets by 2024 and 2023, respectively
- The following slides provide projections including the recommendations presented as part of Segal's study
- Results are provided separately for ASE, PSE, as well as on a combined basis

# Financial Projection – Status Quo

Arkansas State Employees under current funding and contribution structure (incorporates 2022 changes):

	2021	2022	2023	2024	2025
State Funding	\$192	\$204	\$204	\$204	\$204
Employee Funding	111	123	123	123	123
<u>Other Income</u>	<u>18</u>	<u>20</u>	<u>21</u>	<u>23</u>	<u>25</u>
<b>Total Income</b>	<b>\$321</b>	<b>\$347</b>	<b>\$348</b>	<b>350</b>	<b>\$352</b>
Medical Claims / Expenses	\$230	\$242	\$253	\$266	\$279
Rx Claims / Expenses	97	105	113	122	132
<u>Plan Administration</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>
<b>Total Expenses</b>	<b>\$329</b>	<b>\$349</b>	<b>\$368</b>	<b>\$390</b>	<b>\$413</b>
<b>Net Income / (Loss)</b>	<b>(\$8)</b>	<b>(\$2)</b>	<b>(\$20)</b>	<b>(\$40)</b>	<b>(\$61)</b>
<b>Total Assets</b>	<b>\$70</b>	<b>\$68</b>	<b>\$48</b>	<b>\$8</b>	<b>(\$61)</b>
<b>Reserve Target</b>	<b>\$46</b>	<b>\$49</b>	<b>\$52</b>	<b>\$55</b>	<b>\$58</b>

- State Funding fixed at \$500 max per budgeted position, effective August 1<sup>st</sup> 2021
- Under current funding and contribution structure for the State employees, Assets Less IBNR Reserve are projected to turn negative during 2024, while Total Assets are projected to turn negative during 2025
- The program is projected to have a shortfall each year through 2025

# Financial Projection – w/ Recommendations

## Arkansas State Employees including Segal recommendations:

	2021	2022	2023	2024	2025
State Funding	\$192	\$204	\$204	\$204	\$204
Employee Funding	111	123	110	110	110
<u>Other Income</u>	<u>18</u>	<u>20</u>	<u>42</u>	<u>36</u>	<u>39</u>
<b>Total Income</b>	<b>\$321</b>	<b>\$347</b>	<b>\$348</b>	<b>\$350</b>	<b>\$353</b>
Medical Claims / Expenses	\$230	\$242	\$238	\$251	\$264
Rx Claims / Expenses	97	105	83	92	102
<u>Plan Administration</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>
<b>Total Expenses</b>	<b>\$329</b>	<b>\$349</b>	<b>\$323</b>	<b>\$345</b>	<b>\$368</b>
<b>Net Income / (Loss)</b>	<b>(\$8)</b>	<b>(\$2)</b>	<b>\$33</b>	<b>\$5</b>	<b>(\$15)</b>
<b>Total Assets</b>	<b>\$70</b>	<b>\$68</b>	<b>\$101</b>	<b>\$106</b>	<b>\$91</b>
<b>Reserve Target</b>	<b>\$46</b>	<b>\$49</b>	<b>\$45</b>	<b>\$48</b>	<b>\$52</b>

- The above table implements a side-by-side Medicare Advantage retiree program, with an assumed enrollment of 75%, additional Rx rebates due to updates to pharmacy contract and the implementation of a diabetes management program
  - All changes are assumed to go live in 2023
- By implementing these changes, the State Employee program will be above target reserves through 2025, though funding would need to be increased slightly to avoid a loss in 2025
- No additional funding is assumed over the five year period

# Financial Projection – Status Quo

Public School Employees under current funding and contribution structure (incorporates 2022 changes):

	2021	2022	2023	2024	2025
District Contribution	\$94	\$97	\$97	\$97	\$97
Employee Funding	149	165	165	165	165
Dept of Education Funding	130	165	110	110	110
<u>Rebates</u>	<u>13</u>	<u>19</u>	<u>21</u>	<u>22</u>	<u>24</u>
<b>Total Income</b>	<b>\$386</b>	<b>\$446</b>	<b>\$393</b>	<b>\$394</b>	<b>\$396</b>
Medical Claims / Expenses	\$326	\$347	\$371	\$396	\$422
Rx Claims / Expenses	73	78	84	91	98
<u>Plan Administration</u>	<u>3</u>	<u>3</u>	<u>3</u>	<u>4</u>	<u>4</u>
<b>Total Expenses</b>	<b>\$402</b>	<b>\$428</b>	<b>\$458</b>	<b>\$491</b>	<b>\$524</b>
<b>Net Income / (Loss)</b>	<b>(\$16)</b>	<b>\$18</b>	<b>(\$65)</b>	<b>(\$97)</b>	<b>(\$128)</b>
<b>Total Assets</b>	<b>\$109</b>	<b>\$127</b>	<b>\$62</b>	<b>(\$35)</b>	<b>(\$163)</b>
<b>Reserve Target</b>	<b>\$56</b>	<b>\$60</b>	<b>\$64</b>	<b>\$69</b>	<b>\$73</b>

- Includes \$20M in additional funding in 2021 and 2022 and \$35M additional funding in 2022 in department of education funding line, on top of an increased baseline of DoE funding by \$20M
- Employee funding based on minimum department of education funding levels
- Assets projected to fall below zero in 2024
- Assumes no population growth over the period after 2022

# Financial Projection – w/ Recommendations

## Public School Employees including Segal recommendations:

	2021	2022	2023	2024	2025
District Contribution	\$94	\$97	\$97	\$97	\$97
Employee Funding	149	165	165	165	165
Dept of Education Funding	130	165	110	110	110
<u>Rebates</u>	<u>13</u>	<u>19</u>	<u>37</u>	<u>40</u>	<u>43</u>
<b>Total Income</b>	<b>\$386</b>	<b>\$446</b>	<b>\$409</b>	<b>\$412</b>	<b>\$415</b>
Medical Claims / Expenses	\$326	\$347	\$375	\$400	\$427
Rx Claims / Expenses	73	78	79	86	93
<u>Plan Administration</u>	<u>3</u>	<u>3</u>	<u>3</u>	<u>4</u>	<u>4</u>
<b>Total Expenses</b>	<b>\$402</b>	<b>\$428</b>	<b>\$457</b>	<b>\$490</b>	<b>\$524</b>
<b>Net Income / (Loss)</b>	<b>(\$16)</b>	<b>\$18</b>	<b>(\$48)</b>	<b>(\$78)</b>	<b>(\$109)</b>
<b>Total Assets</b>	<b>\$109</b>	<b>\$127</b>	<b>\$79</b>	<b>\$1</b>	<b>(\$108)</b>
<b>Reserve Target</b>	<b>\$56</b>	<b>\$60</b>	<b>\$64</b>	<b>\$69</b>	<b>\$73</b>

- The above table implements a side-by-side Medicare Advantage retiree program (with pharmacy), with an assumed enrollment of 75%, additional Rx rebates due to updates to pharmacy contract and the implementation of a diabetes management program, and the improvement of benefits to match ASE plan designs
  - All changes are assumed to go live in 2023
- By implementing these changes, the Public School Employee program will reduce projected shortfalls, but additional funding would still be needed over the five year period

# Financial Projection – Status Quo

Combined funds under current funding and contribution structure (incorporates 2022 changes):

	2021	2022	2023	2024	2025
State Funding	\$192	\$204	\$204	\$204	\$204
Employee Funding	260	288	288	288	288
District Contribution	94	97	97	97	97
Dept of Education Funding	130	165	110	110	110
<u>Other Income</u>	<u>31</u>	<u>39</u>	<u>42</u>	<u>45</u>	<u>49</u>
<b>Total Income</b>	<b>\$707</b>	<b>\$793</b>	<b>\$741</b>	<b>\$744</b>	<b>\$748</b>
Medical Claims / Expenses	\$556	\$589	\$624	\$662	\$701
Rx Claims / Expenses	170	183	197	213	230
<u>Plan Administration</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>6</u>	<u>6</u>
<b>Total Expenses</b>	<b>\$731</b>	<b>\$777</b>	<b>\$826</b>	<b>\$881</b>	<b>\$937</b>
<b>Net Income / (Loss)</b>	<b>(\$24)</b>	<b>\$16</b>	<b>(\$85)</b>	<b>(\$137)</b>	<b>(\$189)</b>
<b>Total Assets</b>	<b>\$179</b>	<b>\$195</b>	<b>\$110</b>	<b>(\$27)</b>	<b>(\$216)</b>
<b>Reserve Target</b>	<b>\$102</b>	<b>\$109</b>	<b>\$116</b>	<b>\$123</b>	<b>\$131</b>

- By combining the funds, shortfalls would still exist over the five year projection period



# Financial Projection – w/ Recommendations

## Combined funds including Segal Recommendations:

	2021	2022	2023	2024	2025
State Funding	\$192	\$204	\$204	\$204	\$204
Employee Funding	260	288	288	288	288
District Contribution	94	97	97	97	97
Dept of Education Funding	130	165	110	110	110
<u>Other Income</u>	<u>31</u>	<u>39</u>	<u>79</u>	<u>76</u>	<u>82</u>
<b>Total Income</b>	<b>\$707</b>	<b>\$793</b>	<b>\$765</b>	<b>\$762</b>	<b>\$768</b>
Medical Claims / Expenses	\$556	\$589	\$613	\$651	\$691
Rx Claims / Expenses	170	183	162	178	195
<u>Plan Administration</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>6</u>	<u>6</u>
<b>Total Expenses</b>	<b>\$731</b>	<b>\$777</b>	<b>\$780</b>	<b>\$835</b>	<b>\$892</b>
<b>Net Income / (Loss)</b>	<b>(\$24)</b>	<b>\$16</b>	<b>(\$15)</b>	<b>(\$73)</b>	<b>(\$124)</b>
<b>Total Assets</b>	<b>\$179</b>	<b>\$195</b>	<b>\$180</b>	<b>\$107</b>	<b>(\$17)</b>
<b>Reserve Target</b>	<b>\$102</b>	<b>\$109</b>	<b>\$116</b>	<b>\$123</b>	<b>\$131</b>

- With the introduction of recommended changes, overall funding improves on a combined basis, but would still require additional state funding in order to shore up the program over the long term

Q&A



# Assumptions and Caveats

## Assumptions

- Projections based on CY 2020 claims experience
- Budgeted positions set at 34,000, with State funding of \$500
- Trend: Medical 5%, Rx 8%, Admin: 3%
- RDS for ASE assumed to be \$5,000,000 in 2021, increasing with Rx trend
- Rebates assumed to be \$12,000,000 for ASE and \$9,500,000 for PSE, increasing with Rx trend
- Contributions developed based on enrollment provided as part of Milliman presentations. For PSE, employee contributions developed based on minimum funding numbers
- 2020 medical claims were increased by 9.4% to adjust for the impact of COVID
- Admin expenses were projected forward from 2020 with trend
- Enrollment assumed to be static over the projection period

## 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.
- In addition, Segal has made adjustments to its 2020 and 2021 projections due to the Coronavirus (COVID-19). Actual plan sponsor results may differ from these projections based on several factors including; location of covered members, adherence to national guidelines (e.g., social distancing) to contain the rate of transmission, new treatment developments, or additional outbreaks. In addition, the projections are not adjusted for underlying health conditions.