



STATE OF ARKANSAS
**Department of Finance
and Administration**

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June 4, 2021

Arkansas Legislative Council
Senator Terry Rice, Senate Co-Chair
Rep. Jeff Wardlaw, House Co-Chair
Room 315, State Capitol Building
Little Rock, AR 72201

Re: Recommendations from the State Board of Finance to the Arkansas Legislative Council
Regarding Arkansas State Employee Health Insurance

Dear Co-Chairs:

Act 1004 of 2021, ("the Act"), abolished the State and Public School Life and Health Insurance Board and transferred the duties and responsibilities of that Board to the State Board of Finance ("SBF"). The Act at Section (e)(3) requires the following:

(3) All commitments, decisions, plans, or other actions taken by the State and Public School Life and Health Insurance Board with regard to plans, plan design, plan benefits, premiums, premium increases, deductibles, or cost-containment measures for plans to take effect January 1, 2022, or thereafter are subject to modification, change, or other action by the State Board of Finance and shall be submitted to the Legislative Council for approval before implementation by the State Board of Finance.

On June 1, the SBF met and agreed by a majority vote to adopt the recommendations attached as Attachment 1 regarding the Arkansas state employee health insurance. These recommendations are submitted to the Legislative Council for approval. A copy of the assumptions and methodology upon which the SBF recommendations were adopted is included with this request.

Respectfully,

A handwritten signature in black ink that reads "Larry W. Walther".

Larry W. Walther
Chair, State Board of Finance
& DFA Secretary

cc: Arkansas State Board of Finance

Attachment 1
State Board of Finance ("SBF") Recommendations

1. Increase active member contribution, pre-65 retiree contribution, and post-65 retiree contribution by 5%.
2. Increase the monthly state funding, per member, from \$450 to \$500 effective August 1, 2021.
3. Decrease the wellness credit for active members to \$25 from \$50.
4. Implement a penalty for active members who do not meet the wellness requirements by \$25, creating a \$50 difference in plan costs for those who meet the wellness requirements versus those who do not meet the requirements.
5. Eliminate on-site wellness clinics and request that active members have a wellness checkup with a primary care physician.
6. Request that the Arkansas Legislative Council ("ALC") set aside \$10 Million from the Restricted Reserve Fund or other fund for EBD through calendar year 2022.
7. If the ALC chooses not to approve any of these recommendations, SBF requests that ALC fund the portion not approved from the Restricted Reserve Fund or other funds as determined by ALC.

State of Arkansas Employee Benefits Division

CY2022 Planning

Arkansas Legislative Council Meeting
Arkansas State Employees (ASE)

Courtney White, FSA, MAAA
Paul Sakhrani, FSA, MAAA

18 JUNE 2021



Agenda

- Recommended Calendar Year 2022 Changes
- Appendices

ASE – Recommended Changes

ASE - Summary of Initiatives from June 1st Board Meeting

- Baseline 2022 ASE Surplus/Deficit Estimate: **(\$33.3M)**
- Baseline 2022 ASE Reserve Estimate: \$5.8M / 1.7% of expenses / 6 days
- 2022 ASE Surplus/Deficit Estimate After Initiatives: \$0.7M
- 2022 Reserve Estimate After Initiatives: \$48.3M / 14.0% / 51 days

Initiative	2022 Estimated	
	Savings	Balance
5% Active Contribution Increase	\$3.1M	(\$30.2M)
5% Pre-65 and Post-65 Retiree Contribution Increase	\$2.3M	(\$27.9M)
Reduction in Wellness Credit for Actives from \$50 to \$25 per month	\$5.2M	(\$22.7M)
Add Non-Wellness Contribution for Actives (\$25 per month)	\$1.7M	(\$21.0M)
Wellness Visit Required Through Physician for Wellness Credit	\$1.1M	(\$19.9M)
Increase Monthly State Funding by \$50 Per Month to \$500 (Aug 2021)	<u>\$20.5M</u>	\$0.7M
Total Revenue / Expense Reduction	\$33.9M	

Contribution changes do not reflect migration between benefit plans or tier

Add Non-Wellness Contribution impacts the spread between employees who earn the wellness incentive and those who do not earn the wellness incentive.

Additional Restricted Reserve Request

- 2022 Reserve Estimate After Initiatives: \$48.3M / 14.0% / 51 days
- 2022 ASE Surplus/Deficit Estimate After Initiatives: \$0.7M
- Request an additional \$10M from restricted reserve
- 2022 Reserve Estimate with Restricted Reserve and Initiatives: \$58.3M / 16.9% / 62 days

ASE - Active Wellness (Based on June 1st Board Meeting)

Tier	Projected Employees	2021 Contribution	2022 Contribution	Contribution Change (\$)	Contribution Change (%)
<u>Premium</u>					
Employee	9,389	\$143.99	\$176.19	\$32.20	22.4%
Employee & Spouse	1,183	\$455.48	\$503.25	\$47.77	10.5%
Employee & Child(ren)	3,738	\$263.52	\$301.70	\$38.18	14.5%
Family	1,063	\$575.01	\$628.76	\$53.75	9.3%
<u>Classic</u>					
Employee	1,335	\$77.79	\$106.68	\$28.89	37.1%
Employee & Spouse	128	\$300.98	\$341.03	\$40.05	13.3%
Employee & Child(ren)	379	\$149.30	\$181.77	\$32.47	21.7%
Family	194	\$372.49	\$416.11	\$43.62	11.7%
<u>Basic</u>					
Employee	989	\$0.00	\$0.00	\$0.00	0.0%
Employee & Spouse	92	\$175.44	\$209.21	\$33.77	19.2%
Employee & Child(ren)	181	\$56.98	\$84.83	\$27.85	48.9%
Family	105	\$207.43	\$242.80	\$35.37	17.1%

ASE - Active Non-Wellness (Based on June 1st Board Meeting)

Tier	Projected Employees	2021 Contribution	2022 Contribution	Contribution Change (\$)	Contribution Change (%)
<u>Premium</u>					
Employee	2,597	\$193.99	\$226.19	\$32.20	16.6%
Employee & Spouse	566	\$505.48	\$553.25	\$47.77	9.5%
Employee & Child(ren)	905	\$313.52	\$351.70	\$38.18	12.2%
Family	572	\$625.01	\$678.76	\$53.75	8.6%
<u>Classic</u>					
Employee	468	\$127.79	\$156.68	\$28.89	22.6%
Employee & Spouse	76	\$350.98	\$391.03	\$40.05	11.4%
Employee & Child(ren)	112	\$199.30	\$231.77	\$32.47	16.3%
Family	82	\$422.49	\$466.11	\$43.62	10.3%
<u>Basic</u>					
Employee	312	\$50.00	\$50.00	\$0.00	0.0%
Employee & Spouse	34	\$225.44	\$259.21	\$33.77	15.0%
Employee & Child(ren)	46	\$106.98	\$134.83	\$27.85	26.0%
Family	35	\$257.43	\$292.80	\$35.37	13.7%

ASE - Pre-65 Retirees (Based on June 1st Board Meeting)

Tier	Projected Retirees	2021 Contribution	2022 Contribution	Contribution Change (\$)	Contribution Change (%)
<u>Premium</u>					
Retiree	1,508	\$293.71	\$308.40	\$14.69	5.0%
Retiree & NME Spouse	241	\$751.78	\$789.37	\$37.59	5.0%
Retiree & Child(ren)	91	\$542.75	\$569.89	\$27.14	5.0%
Retiree & NME Spouse & Child(ren)	35	\$1,000.80	\$1,050.84	\$50.04	5.0%
Retiree & ME Spouse	160	\$567.55	\$595.93	\$28.38	5.0%
Retiree & ME Spouse & Child(ren)	12	\$816.59	\$857.42	\$40.83	5.0%
<u>Classic</u>					
Retiree	87	\$227.51	\$238.89	\$11.38	5.0%
Retiree & Spouse	17	\$597.26	\$627.12	\$29.86	5.0%
Retiree & Child(ren)	3	\$428.53	\$449.96	\$21.43	5.0%
Family	9	\$798.27	\$838.18	\$39.91	5.0%
<u>Basic</u>					
Retiree	40	\$174.72	\$183.46	\$8.74	5.0%
Retiree & Spouse	9	\$471.74	\$495.33	\$23.59	5.0%
Retiree & Child(ren)	3	\$336.19	\$353.00	\$16.81	5.0%
Family	3	\$633.21	\$664.87	\$31.66	5.0%

ASE - Post-65 Retirees (Based on June 1st Board Meeting)

Tier	Projected Retirees	2021 Contribution	2022 Contribution	Contribution Change (\$)	Contribution Change (%)
<u>Primary</u>					
Retiree	8,219	\$183.92	\$193.12	\$9.20	5.0%
Retiree & Non-Medicare Spouse	290	\$641.99	\$674.09	\$32.10	5.0%
Retiree & Child(ren)	58	\$432.96	\$454.61	\$21.65	5.0%
Retiree & Non-Medicare Spouse & Child(ren)	16	\$891.01	\$935.56	\$44.55	5.0%
Retiree & Medicare Spouse	2,684	\$440.62	\$462.65	\$22.03	5.0%
Retiree & Medicare Spouse & Child(ren)	33	\$689.66	\$724.14	\$34.48	5.0%

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, 2022 budgets, and the benefit benchmarking 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 benefit summaries and rate sheets from other State benefit programs; 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, EBD, and other state 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 CY2022 benefit planning and 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.

Appendices

Appendix

Monthly Reporting - 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 – Benefit Plan Changes (2020 to 2022)

- ASE
 - No significant plan cost changes for Active, Pre-65, and Post-65 benefit plans
- PSE
 - No significant plan cost changes for Active, Pre-65, and Post-65 benefit plans

Assumptions & Methodology

Assumptions – Other

- Age/Gender
 - Age/Gender factor based on Milliman Health Cost Guidelines™
- Enrollment Projections
 - Actual enrollment utilized for March 2019 through March 2021
 - Projected April 2021 – December 2022 based on historical patterns
- Program Savings
 - Estimated remaining 2021 program savings of \$5.3 million for ASE and \$3.9 million for PSE
 - Estimated remaining 2022 program savings of \$5.4 million for ASE and \$4.0 million for PSE
 - Program savings offset as initiatives are reflected in the claims experience and projected pharmacy claims cost
- Plan Administration Expense
 - ASE - \$2.17 PMPM for CY 2021 (\$2.16 PMPM for CY 2022); UAMS shifted to Administration Fees PMPM
 - PSE - \$1.47 PMPM for CY 2021 (\$1.47 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 and \$164.66 in 2021 and 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 March 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 February 1, 2020 to January 31, 2021 and paid from February 1, 2020 to March 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 February 2020 to January 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 2021 and projected February – December 2021.
8. 2021 and 2022 projected the incurred claims PMPM from the midpoint of the experience period (September 1, 2019 for medical / August 1, 2020 for pharmacy) to the midpoint of the contract period (July 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.