

# State of Arkansas Employee Benefits Division

**Interim Monitoring Report  
for  
Arkansas State Employees (ASE)**  
Through August 31st

Senate and House Insurance and Commerce Committees

Courtney White, FSA, MAAA

28 SEPTEMBER 2020



# Limitations

Courtney White is a Member of the American Academy of Actuaries and a Fellow of the Society of Actuaries and meets the Qualification Standards of the American Academy of Actuaries to render 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 and 2021 budgets are based on historical ASE medical claims and invoices for Arkansas Blue Cross and Blue Shield (ABCBS); pharmacy claims and invoices from MedImpact; historical state, school district, and plan funding from EBD; plan administration from EBD; historical ASE employees/retirees and members by benefit plan, age/gender, and by month from EBD; 2019 and 2020 ASE benefit plan summaries from EBD; 2020 and 2021 fees and administrative expenses from EBD; conversations with EBD regarding the programs and plan initiatives; 2019 through February 2020 financials from EBD, and actuarial judgment.

While we reviewed the data provided by 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. 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 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.

This presentation has been prepared for the sole use of the management of the State of Arkansas Employee Benefits Division for setting the ASE budget for CY2020 and CY2021. It may not be appropriate for other purposes. Milliman does not intend to benefit any third party from this analysis.

# Agenda

- Arkansas State Employees (ASE)
  - Plan Experience
- Appendices
  - A. Plan summary
  - B. Assumptions / methodology

# Executive Summary

- 2020 & 2021 projections updated to incorporate claims data incurred from March 2019 to February 2020 and paid through August 2020.
- 2020 projected plan experience
  - Allocated reserves for 2020 is \$25.1M
  - Estimated deficit of \$7.8M
  - End of Year Assets: \$63.8M
  - Incorporate estimated impact of COVID from deferred services, pent-up demand, and treatment / testing costs
  - No plan changes / 5% increase in employee contributions
- 2021 projected plan experience
  - Allocated reserves for 2021 is \$14.5M
  - Projected surplus: \$29.8M
  - End of Year Assets: \$79.1M
  - Reflected 2021 program initiatives
  - Increased membership based on historical patterns
  - Baseline trends (medical: 5%, pharmacy: 8%)
  - August 5, 2020 Board action (next slide)

## Board Action – August 5, 2020

- Increased employee contribution for the Active employees and Pre-65 retirees by 5%
  - No change to Post-65 retirees contributions
- Changed wellness credit from \$75 per month to \$50 per month for Active employees
  - Maintained \$0 employee contribution for Basic Plan with Wellness for Employee Only contracts
- Increased State funding from \$420 per eligible per month to \$450 per eligible per month
- Medicare Retiree to obtain pharmacy coverage through Medicare Part D market
- No plan design changes for actives and Pre-65 retirees

# Total Plan Experience

<u>Funding</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
State Contribution	\$ 173.61	\$ 172.24	\$ 184.48
Employee Contribution	97.45	99.27	108.66
Other	23.47	21.65	15.87
<b>Total Income</b>	<b>\$ 294.53</b>	<b>\$ 293.16</b>	<b>\$ 309.01</b>
Medical Claims	\$ (194.56)	\$ (213.33)	\$ (221.57)
Pharmacy Claims	(86.58)	(96.91)	(60.58)
Administration Fees	(18.30)	(17.46)	(17.58)
Plan Administration	(2.90)	(2.80)	(2.90)
<b>Total Expenses</b>	<b>\$ (302.34)</b>	<b>\$ (330.49)</b>	<b>\$ (302.62)</b>
Program Savings	\$ -	\$ 4.45	\$ 8.96
<b>Net Income / (Loss) Before Reserve Allocation</b>	<b>\$ (7.81)</b>	<b>\$ (32.87)</b>	<b>\$ 15.35</b>
Allocation of Reserves	\$ 21.70	\$ 25.08	\$ 14.46
<b>Net Income / (Loss) After Reserve Allocation</b>	<b>\$ 13.89</b>	<b>\$ (7.79)</b>	<b>\$ 29.81</b>

<u>Average Membership</u>			
Active Employees / Pre-65 Retirees	47,755	46,730	46,730
Post-65 Retirees	13,344	13,791	14,204
<b>Total Enrolled</b>	<b>61,099</b>	<b>60,521</b>	<b>60,935</b>

<b>Total Income PMPM<sup>1</sup></b>	<b>\$ 431.31</b>	<b>\$ 438.20</b>	<b>\$ 442.37</b>
<b>Total Expenses PMPM<sup>2</sup></b>	<b>\$ (412.37)</b>	<b>\$ (448.93)</b>	<b>\$ (401.60)</b>

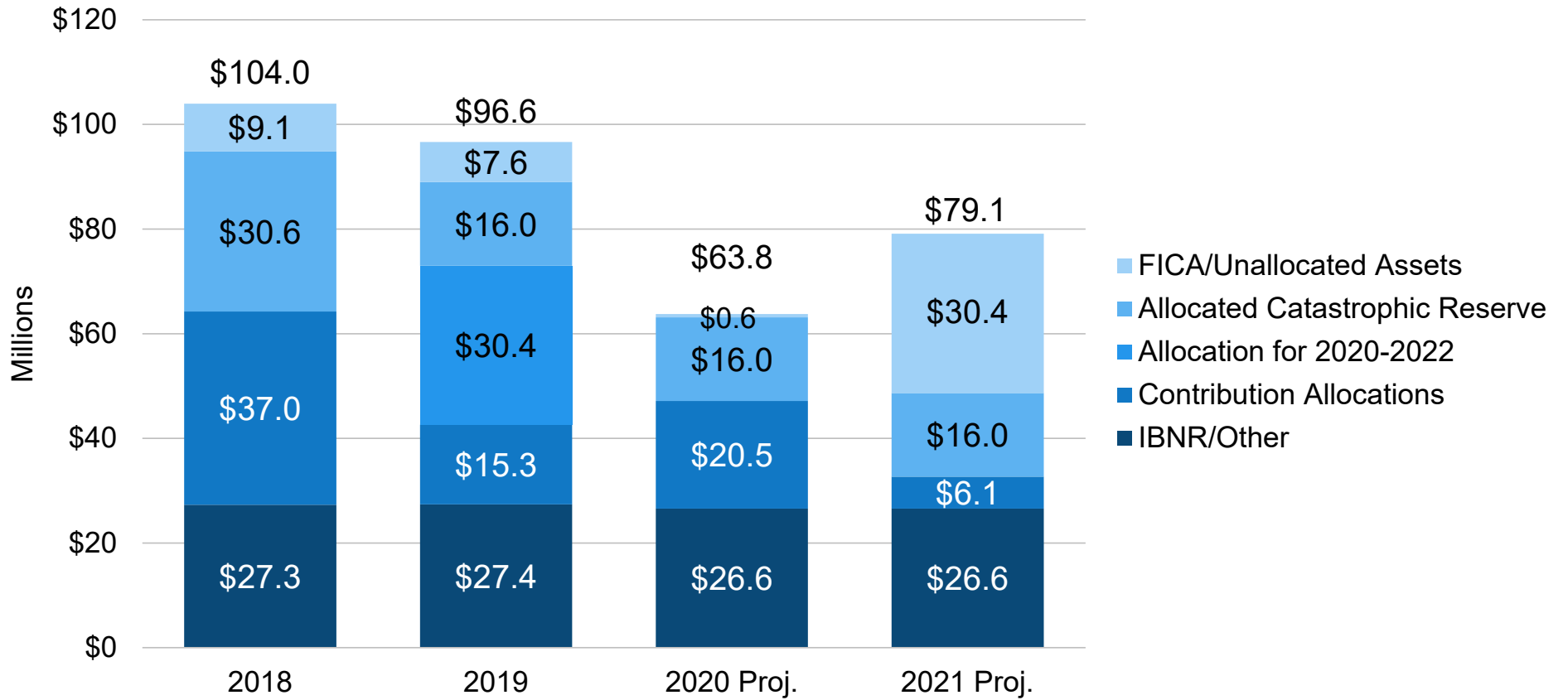
<sup>1</sup> Allocation of Reserves included in Total Income

<sup>2</sup> Total Expenses offset by Program Savings

## Projected Assets: 2019 – 2021

Development of 2021 End-of-Year Assets (\$millions)			
(a)	2019	End-of-Year Assets	\$96.6
(b)	2020	Total Income	\$293.2
(c)		Total Expenses	(\$326.0)
(d)		Allocated Assets	<u>\$25.1</u>
(e) = (b) + (c) + (d)		Total Surplus / (Deficit)	(\$7.8)
(f) = (a) - (d) + (e)		End-of-Year Assets	\$63.8
(g)	2021	Total Income	\$309.0
(h)		Total Expenses	(\$293.7)
(i)		Allocated Assets	<u>\$14.5</u>
(j) = (g) + (h) + (i)		Total Surplus / (Deficit)	\$29.8
(k) = (f) - (i) + (j)		End-of-Year Assets	\$79.1

# End of Year Assets

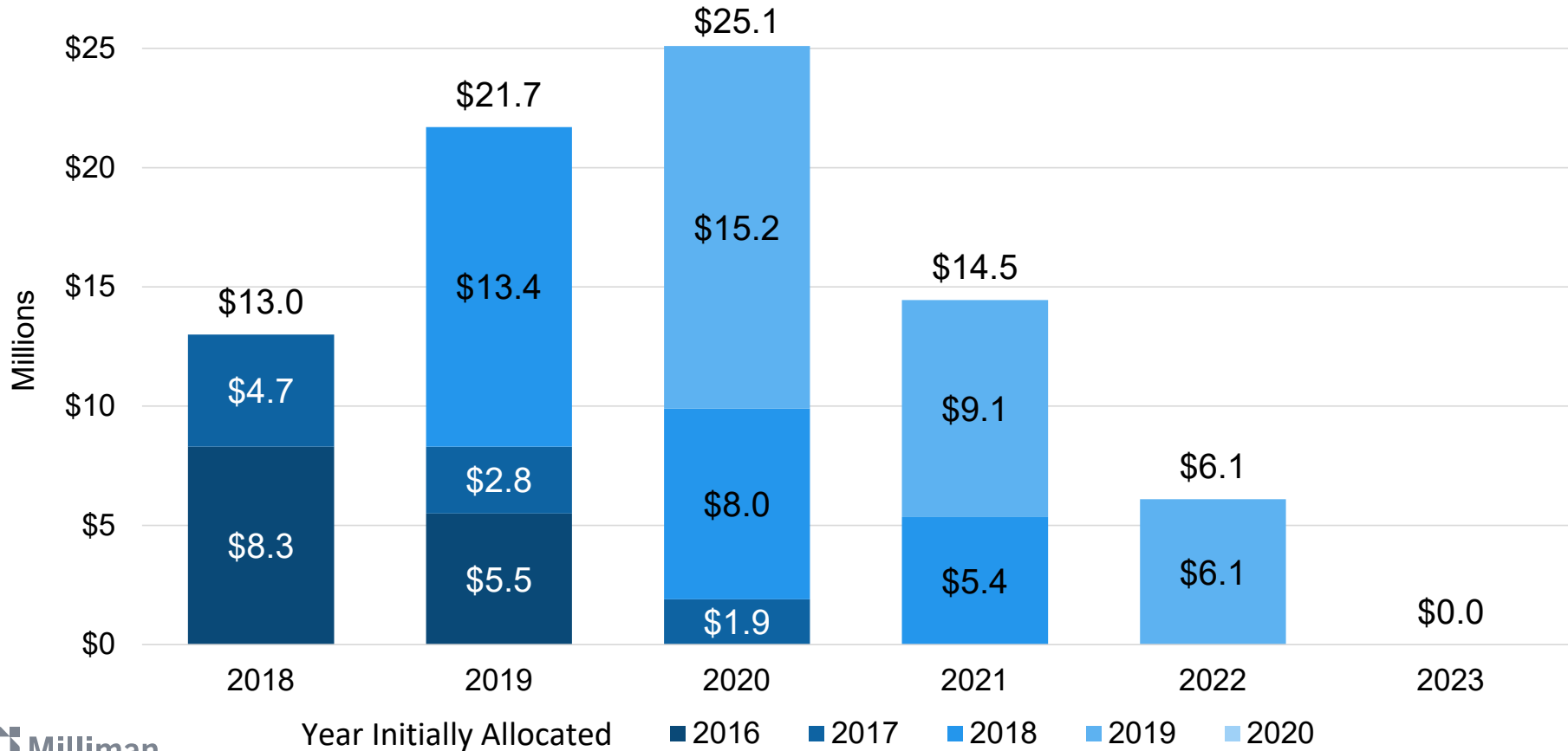




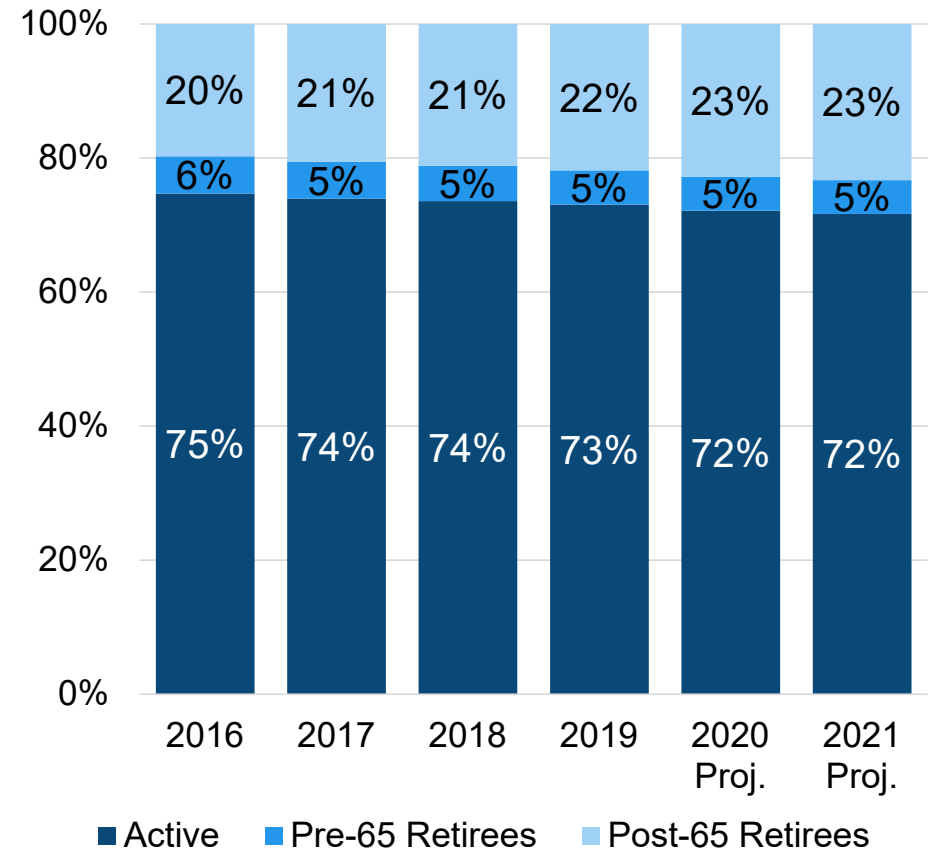
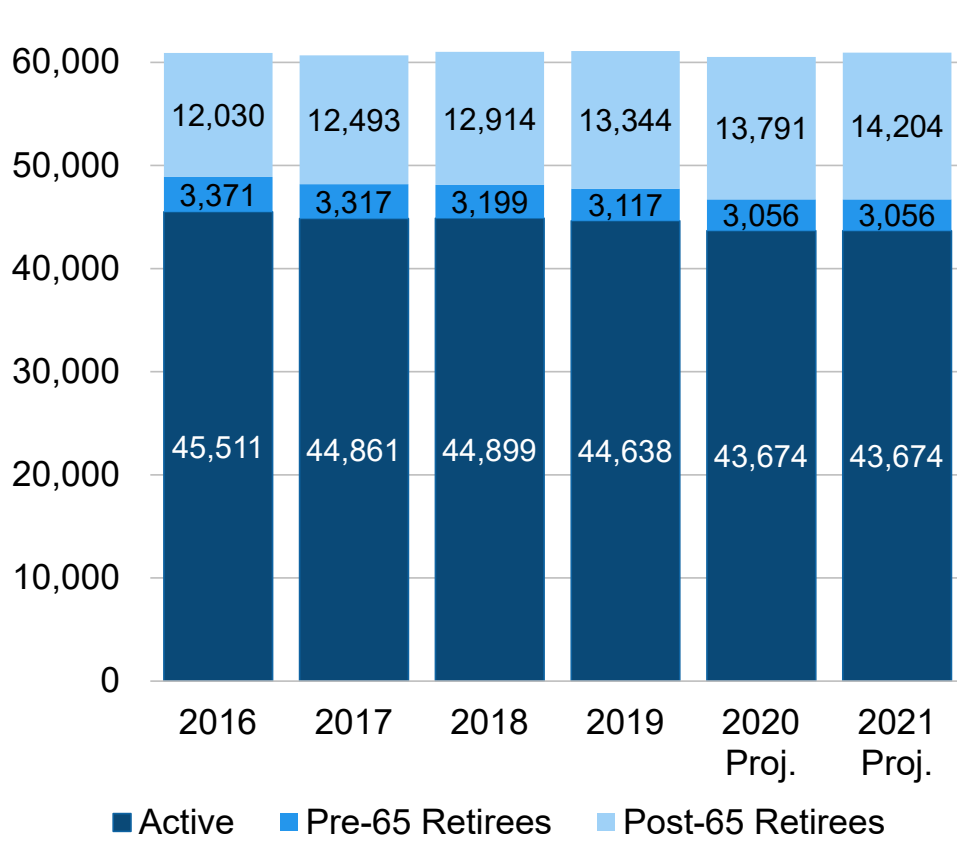
# Appendix

# ASE - Reserves Allocation by Year

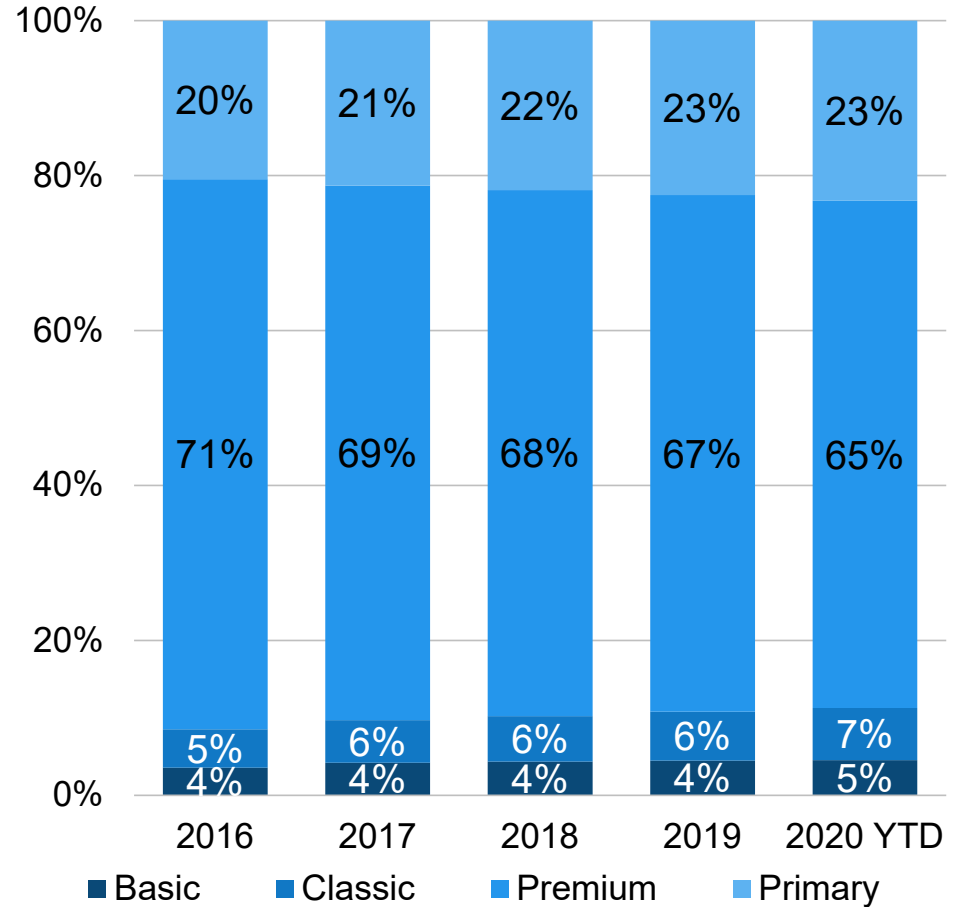
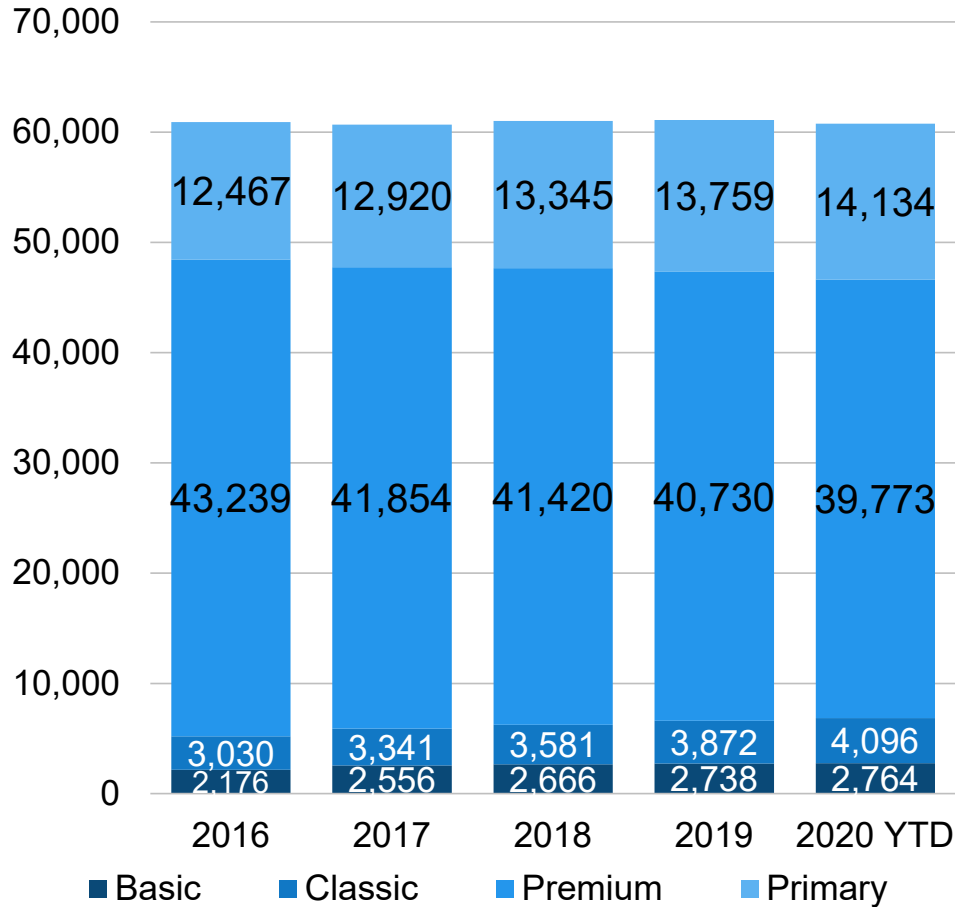
The chart represents the reserves amounts allocated each year (in millions), and how much reserves are available each year.



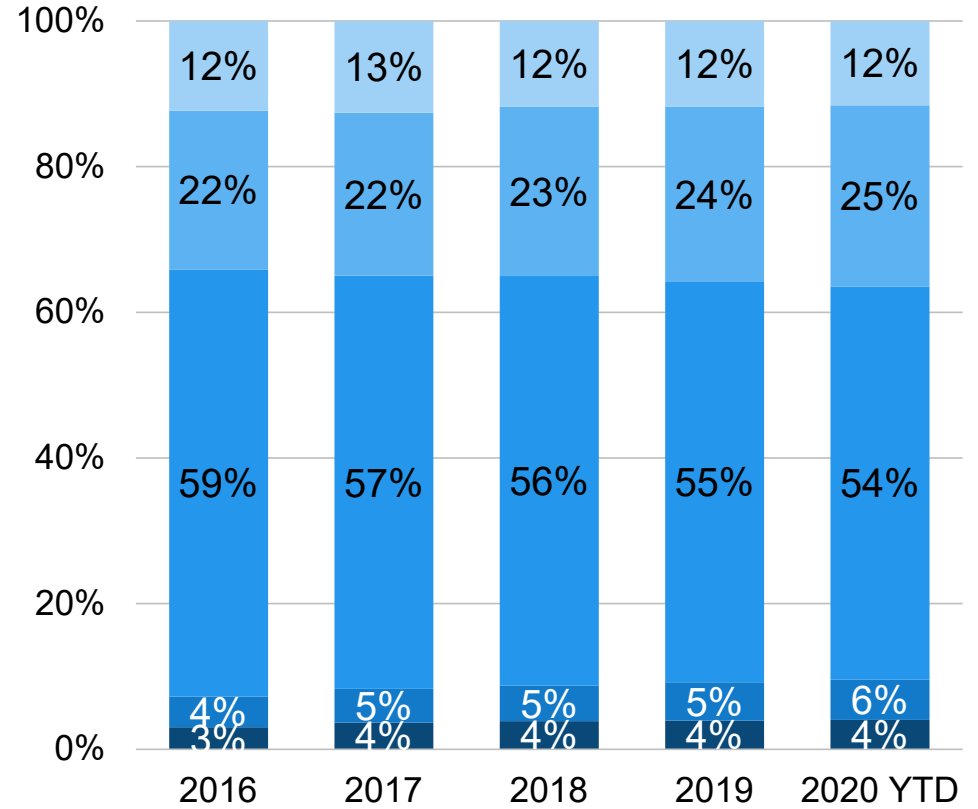
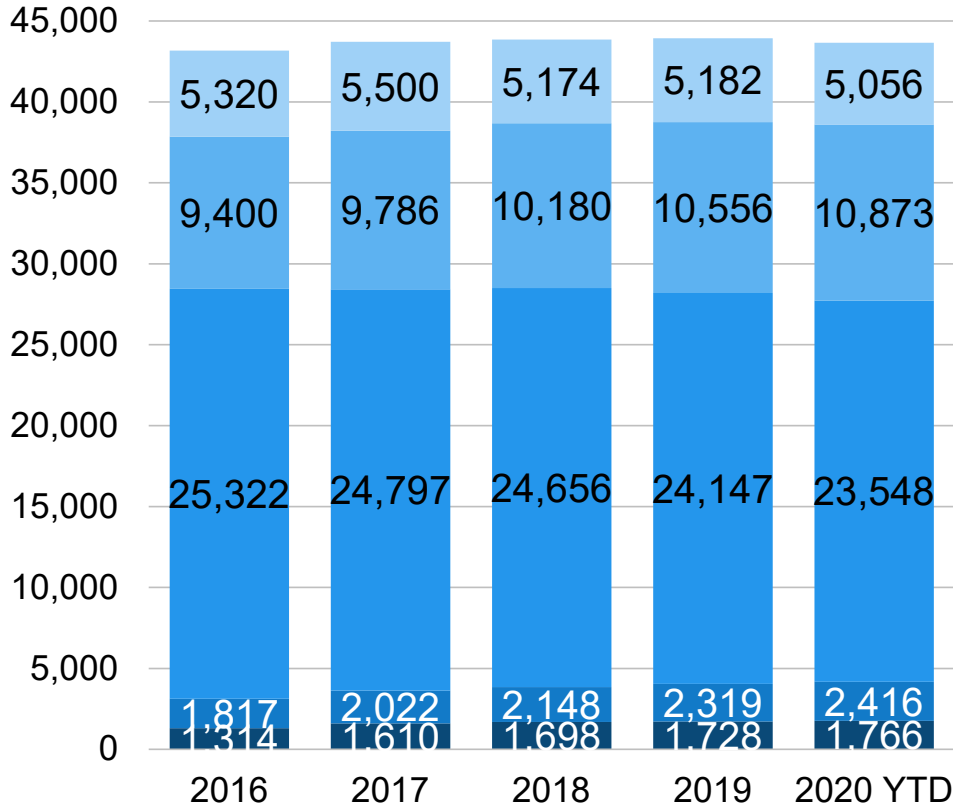
# ASE - Average Membership by Status



# ASE - Average Membership by Plan



# ASE - Average Enrollment (Subscribers) by Plan



■ Basic ■ Classic ■ Premium ■ Primary ■ Waived

■ Basic ■ Classic ■ Premium ■ Primary ■ Waived



# 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 (2019 to 2021)

- 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 July 2020
  - Projected August – December 2020 based on historical patterns
- Program Savings
  - Projected program of \$1.25 million per month for 2020, allocated between ASE / PSE based on pharmacy claims expense.
- Plan Administration Expense
  - ASE - \$3.85 PMPM for CY2020 (\$3.96 PMPM for CY2021)
  - PSE - \$2.14 PMPM for CY2020 (\$2.14 PMPM for CY2021)
- Plan Administration Fees include PCORI charges for 2020 and 2021
- Percentage of Population earning wellness incentive
  - ASE – 82%
  - PSE – 82%



# Assumptions & Methodology

## Methodology

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



**Thank you**

Courtney White, FSA, MAAA