

State of Arkansas

BLR Review

Funding Projections

August 2021 / Patrick Klein and Matthew Kersting

Agenda

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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
- Based on budget review Segal recommends the development of a reserve policy representing a target reserve between 12% and 16% of projected plan expenses, reviewed over a 5-year projection period
 - This recommendation incorporates benchmark data from other states the Segal works with
 - Development of this reserve policy will allow the State to plan for anticipated funding changes and plan expenses on a gradual basis, rather than large funding requirements to fill unanticipated holes in funding
- PSE funding projections may need further review, as sources of funding are more fluid than in the ASE program
- A review of historical data seems to indicate that funding shortfalls result from static funding and short term funding planning, rather than large expense shocks from year to year

Historical Financials

Arkansas State Employees

	2012	2013	2014	2015	2016	2017	2018	2019	2020
State Funding	\$162	\$167	\$172	\$174	\$176	\$175	\$175	\$174	\$171
Employee Funding	86	87	91	95	95	97	97	97	101
<u>Other Income</u>	<u>11</u>	<u>10</u>	<u>11</u>	<u>12</u>	<u>12</u>	<u>16</u>	<u>20</u>	<u>23</u>	<u>17</u>
Total Income	\$259	\$264	\$274	\$281	\$283	\$288	\$292	\$294	\$289
Medical Claims / Expenses	\$190	\$204	\$197	\$183	\$195	\$184	\$218	\$211	\$218
Rx Claims / Expenses	78	84	72	77	78	78	83	88	91
<u>Plan Administration</u>	<u>4</u>	<u>4</u>	<u>7</u>	<u>7</u>	<u>6</u>	<u>4</u>	<u>5</u>	<u>3</u>	<u>3</u>
Total Expenses	\$272	\$292	\$276	\$267	\$279	\$266	\$306	\$302	\$312
Net Income / (Loss)	(\$13)	(\$28)	(\$2)	\$14	\$4	\$22	(\$14)	(\$8)	(\$23)

- Funding based on reports provided by EBD
- Losses begin to occur in the reporting, largely due to funding remaining flat, while claim expenses continue to trend

Historical Financials

Public School Employees

	2012	2013	2014	2015	2016	2017	2018	2019	2020
District Contribution	\$94	\$97	\$100	\$98	\$97	\$98	\$100	\$102	\$102
Employee Funding	130	131	120	109	112	116	117	121	124
Dept of Education	50	50	50	104	70	77	88	88	90
<u>Other Income</u>	<u>2</u>	<u>53</u>	<u>22</u>	<u>8</u>	<u>8</u>	<u>11</u>	<u>14</u>	<u>15</u>	<u>13</u>
Total Income	\$276	\$331	\$292	\$319	\$287	\$302	\$319	\$326	\$329
Medical Claims / Expenses	\$233	\$237	\$225	\$201	\$223	\$215	\$259	\$271	\$279
Rx Claims / Expenses	64	68	53	52	54	53	59	63	68
<u>Plan Administration</u>	<u>5</u>	<u>4</u>	<u>9</u>	<u>9</u>	<u>8</u>	<u>5</u>	<u>5</u>	<u>3</u>	<u>3</u>
Total Expenses	\$302	\$309	\$287	\$262	\$285	\$273	\$323	\$337	\$350
Net Income / (Loss)	(\$26)	\$22	\$5	\$57	\$2	\$29	(\$4)	(\$11)	(\$21)

- Similar to ASE, funding remains relatively flat over the period, though there are periodic infusions large funding amounts in various years
- Claims experience, though volatile, trends at rates in line with market over the period

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>
Total Income	\$321	\$347	\$348	350	\$352
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>
Total Expenses	\$329	\$349	\$368	\$390	\$413
Net Income / (Loss)	(\$8)	(\$2)	(\$20)	(\$40)	(\$61)
Total Assets	\$70	\$69	\$50	\$10	(\$50)

- State Funding fixed at \$500 max per budgeted position, effective August 1st 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

Impact of Budgeted Positions

Funding Impact of Changing the Number of Budgeted Positions:

	Current Positions	Reduced Positions to number of Filled	Reduced Positions w/ Additional Funding
Current Positions	34,000	25,000	25,000
Funding per Position	\$500	\$500	\$680
Federal Portion (~25%)	\$125	\$125	\$170
State Portion (~75%)	\$375	\$375	\$510
Total Funding	\$204,000,000	\$150,000,000	\$204,000,000
Total Federal Funding	\$51,000,000	\$37,500,000	\$51,000,000
Total State Funding	\$153,000,000	\$112,500,000	153,000,000

- Federal funding represents, on average, approximately \$125 of the current funding for each budgeted position (~25%)
 - Funding varies significantly by position, so Federal funding impact would depend on which positions are eliminated
- If the State were to reduce the number of positions from 34,000 to 25,000, an additional \$54,000,000 would be required to fill the budget gap, resulting in a funding need of \$680 per budgeted position
 - The additional funding would need to be negotiated with the Federal government

Financial Projection – Reduced Positions

Arkansas State Employees under a reduction to 25,000 budgeted positions and no change to funding:

	2021	2022	2023	2024	2025
State Funding	\$192	\$150	\$150	\$150	\$150
Employee Funding	111	123	123	123	123
<u>Other Income</u>	<u>18</u>	<u>21</u>	<u>21</u>	<u>23</u>	<u>25</u>
Total Income	\$321	\$293	\$294	\$296	\$298
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>
Total Expenses	\$329	\$349	\$368	\$390	\$413
Net Income / (Loss)	(\$8)	(\$56)	(\$74)	(\$94)	(\$115)
Total Assets	\$70	\$15	(\$58)	(\$152)	(\$266)

- If funding per position were not increased from the current \$500 to \$680, assets would deteriorate further and faster than the status quo, resulting in a deficit in 2023

Financial Projection – Increased EE Premium

Arkansas State Employees with an increase in employee contributions to maintain current assets:

	2021	2022	2023	2024	2025
State Funding	\$192	\$204	\$204	\$204	\$204
Employee Funding	111	124	143	162	183
<u>Other Income</u>	<u>18</u>	<u>20</u>	<u>21</u>	<u>23</u>	<u>25</u>
Total Income	\$321	\$348	\$368	\$389	\$412
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>
Total Expenses	\$329	\$349	\$368	\$390	\$413
Net Income / (Loss)	(\$8)	(\$1)	\$0	(\$1)	(\$1)
Total Assets	\$70	\$70	\$70	\$70	\$70

- Without changes to the plan, the State has two levers available to increase revenue
 - Increase employee contributions
 - Increase State funding (currently capped at \$500)
- In order to close funding gaps in future years, the State would need to increase employee contributions by an average of 13% each year, on top of contribution increases already implemented

Reserve Policies

The majority of States that Segal works with have formal reserve policies, including Incurred But Not Reported (IBNR) Reserves, Claims Fluctuation Reserves (CFR)

Incurred But Not Reported Reserves

- IBNR reserves represent reserves for claims that have been incurred (i.e., procedures provided, treatments received) that have not yet been paid
- These reserves occur due to lags in payments resulting from claim reviews and billing processes
- Many states have IBNR targets, often in the range of 7% - 9% of claims

Claims Fluctuation Reserves

- Reserves set up to ensure solvency in the event of adverse claims experience
- Based on the size of the groups, Segal's CFR model would recommend a CFR of approximately 8% of claims expenses
- State CFR reserve policies vary widely, ranging from 3% to 10%



Segal recommends Arkansas establish a formal reserve policy range of 12% and 16% of expected claims in a given year

Reserve Policies

The majority of States that Segal works with have formal reserve policies, including Incurred But Not Reported (IBNR) Reserves, Claims Fluctuation Reserves (CFR)

Sample State Reserve Policies

- Alaska: Total reserve of 150% to 250% of IBNR
- Arizona: Total reserve of 200% of total unpaid liability
- Colorado: Minimum 12% target reserve
- Kansas: 5.5% solvency reserve
- Mississippi: CFR of $\frac{1}{2}$ of monthly projected incurred claims (~4%)
- Nebraska: 7.8% solvency reserve
- New Hampshire: 3% solvency reserve (considered a floor)
- North Carolina: Reserve set at 9% of anticipated claims
- South Dakota: Solvency reserve equal to IBNR (~8%)
- Tennessee: Reserve set at 10% of anticipated claims
- West Virginia: Target reserve of 14% of plan expenses
- Wisconsin: Target reserve of 8 – 10% of medical self-insured ; 3% - 5% fully-insured



Financial Projection – w/ Funding Target

Arkansas State Employees with a shared State / EE increase to reach Target Reserve in 2025:

	2021	2022	2023	2024	2025
State Funding	\$192	\$204	\$215	\$227	\$239
Employee Funding	111	123	130	137	144
<u>Other Income</u>	<u>18</u>	<u>20</u>	<u>21</u>	<u>23</u>	<u>25</u>
Total Income	\$321	\$347	\$366	\$387	\$408
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>
Total Expenses	\$329	\$349	\$368	\$390	\$413
Net Income / (Loss)	(\$8)	(\$2)	(\$2)	(\$3)	(\$5)
Total Assets	\$70	\$68	\$66	\$62	\$58
Target Reserve (midpoint 12-16%)	\$46	\$49	\$51	\$54	\$58
Surplus	\$24	\$19	\$15	\$8	\$0

- Starting in 2023, increasing State and EE funding by 5.4% per year will result in the State reaching their funding target reserve by 2025
- Target reserve represents 14% of medical and pharmacy claims and expenses in each year, the midpoint of the 12% - 16% target reserve range

Financial Projection – w/ Funding Target

Arkansas State Employees with a State Funding increase only to reach Target Reserve in 2025:

	2021	2022	2023	2024	2025
State Funding	\$192	\$204	\$221	\$240	\$261
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>
Total Income	\$321	\$347	\$365	\$386	\$409
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>
Total Expenses	\$329	\$349	\$368	\$390	\$413
Net Income / (Loss)	(\$8)	(\$2)	(\$3)	(\$4)	(\$4)
Total Assets	\$70	\$68	\$65	\$62	\$58
Target Reserve (midpoint 12-16%)	\$46	\$49	\$51	\$54	\$58
Surplus	\$24	\$19	\$14	\$8	\$0

- Starting in 2023, increasing State funding by 8.6% per year will result in the State reaching their funding target reserve by 2025
- Target reserve represents 14% of medical and pharmacy claims and expenses in each year, the midpoint of the 12% - 16% target reserve range

Financial Projection – w/ Funding Target

Arkansas State Employees funding increase to reach Target Reserve in 2025 with adverse claims experience:

	2021	2022	2023	2024	2025
State Funding	\$192	\$204	\$215	\$231	\$239
Employee Funding	111	123	130	139	144
<u>Other Income</u>	<u>18</u>	<u>20</u>	<u>21</u>	<u>23</u>	<u>25</u>
Total Income	\$321	\$347	\$366	\$387	\$408
Medical Claims / Expenses	\$230	\$247	\$258	\$271	\$285
Rx Claims / Expenses	97	107	115	124	135
<u>Plan Administration</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>
Total Expenses	\$329	\$356	\$375	\$398	\$413
Net Income / (Loss)	(\$8)	(\$9)	(\$10)	(\$4)	\$2
Total Assets	\$70	\$61	\$52	\$47	\$50
Target Minimum Reserve (12%)	\$46	\$42	\$45	\$47	\$50
Assets w/o Additional Funding	\$24	\$19	\$52	\$40	\$27

- As poor claims experience (2% higher than trend) begins to materialize, assets project to fall below target minimum reserve levels starting in 2024
- This would result in a “trigger” for the state to increase funding (or reduce expenses) in order to maintain minimum reserve levels in the projection period
- Without this additional funding, reserve levels would be inadequate based on the established policy

Financial Projection – Status Quo

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

	2021	2022	2023	2024	2025
PPE Funding	\$106	\$110	\$110	\$110	\$110
Employee Funding	155	172	172	172	172
Dept of Education Funding	113	148	93	93	93
<u>Rebates</u>	<u>10</u>	<u>10</u>	<u>11</u>	<u>12</u>	<u>13</u>
Total Income	\$384	\$440	\$386	\$387	\$388
Medical Claims / Expenses	\$326	\$359	\$383	\$409	\$437
Rx Claims / Expenses	73	81	87	94	102
<u>Plan Administration</u>	<u>3</u>	<u>3</u>	<u>3</u>	<u>4</u>	<u>4</u>
Total Expenses	\$402	\$443	\$473	\$507	\$543
Net Income / (Loss)	(\$18)	(\$3)	(\$87)	(\$120)	(\$155)
Total Assets	\$106	\$103	\$16	(\$104)	(\$259)

- Includes \$20M in additional funding in 2021 and 2022 and \$35M additional funding in 2022 in department of education funding line
- 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

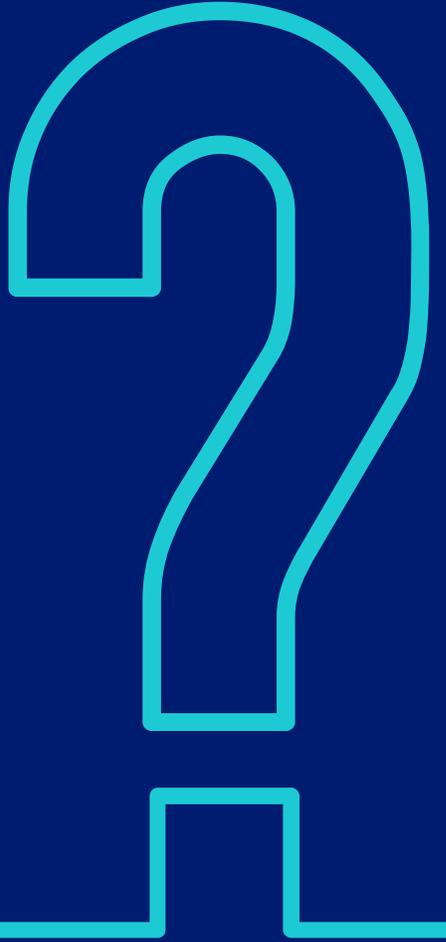
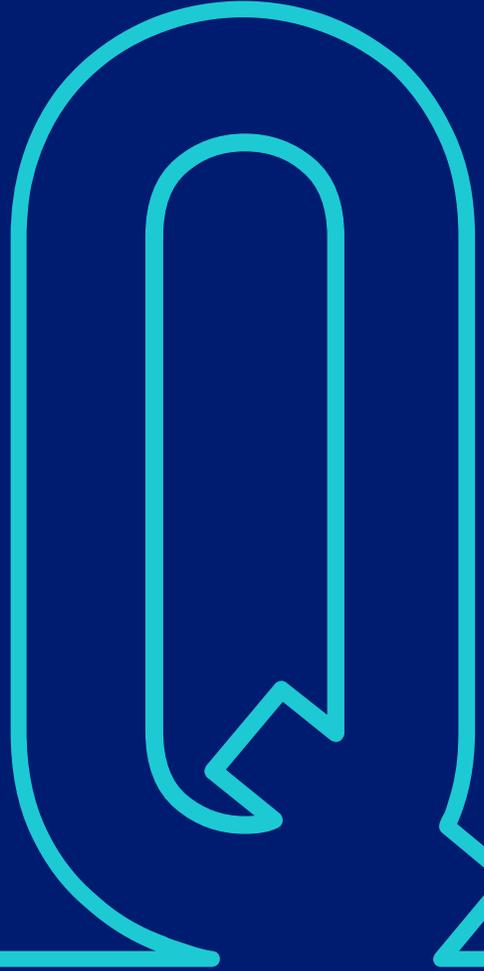
Financial Projection – Status Quo

Public School Employees with shared increase to reach Target Reserve in 2025:

	2021	2022	2023	2024	2025
PPE Funding	\$106	\$110	\$117	\$124	\$132
Employee Funding	155	172	183	194	207
Dept of Education Funding	113	148	157	167	178
<u>Rebates</u>	<u>10</u>	<u>10</u>	<u>11</u>	<u>12</u>	<u>13</u>
Total Income	\$384	\$440	\$468	\$498	\$529
Medical Claims / Expenses	\$326	\$359	\$383	\$409	\$437
Rx Claims / Expenses	73	81	87	94	102
<u>Plan Administration</u>	<u>3</u>	<u>3</u>	<u>3</u>	<u>4</u>	<u>4</u>
Total Expenses	\$402	\$443	\$473	\$507	\$543
Net Income / (Loss)	(\$18)	(\$3)	(\$5)	(\$9)	(\$14)
Total Assets	\$106	\$103	\$98	\$89	\$75
Target Reserve (midpoint 12-16%)	\$56	\$62	\$66	\$70	\$75
Surplus	\$50	\$41	\$32	\$18	\$0

- In order to get to target reserve by 2025, funding would need to increase by 6.3% per year starting in 2023
- Above increase all sources of funding by the same percentage
- Assumes no population growth over the period from increased 2022 levels

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
- 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.