

State of Arkansas

# PSE Adequacy Review

## Funding Projections

February 2024 / Patrick Klein

# Overview

- Segal was asked to review the fund balance reserve projections and determine the adequacy of the PSE funding for 2024 and beyond
- The minimum district contribution was reduced from \$300 to \$234.50 at the beginning of FY 24' due to surplus.
- The fund is projected to close 2024 with \$265.7M in assets – while the target reserve is \$64M
- Surplus mainly attributed to lower claims due to COVID, one time money from ARPA & Restricted Reserve.
- Expenses projected to exceed revenues starting in 2025.
- Gathered data on current school district participation and contribution level.
- Used Milliman's projection from 11/15/23 meeting for employee contribution, claims and expenses – validated for reasonableness.
- Included adjusted Milliman's projections to incorporate Navitus' additional Rx Rebate.
- Ran various funding scenarios to illustrate impact to reserve over multiple years.

Segal finds that while the PSE fund is in a comfortable position. The plan must strategically spend down the surplus and then incorporate CPI increases to revenue that keep pace with plan expenses.

# Financial Projection – Baseline

## Fixed \$234.50 Minimum District Contribution and DoE Funding:

	2024	2025	2026	2027	2028	2029
<i>Assumed Minimum District Contribution (Fiscal Year)</i>	\$234.50	\$234.50	\$234.50	\$234.50	\$234.50	\$234.50
<i>Avg. Minimum District Contribution (Calendar Year)</i>	\$234.50	\$234.50	\$234.50	\$234.50	\$234.50	
District Contribution	\$135.1	\$137.8	\$140.6	\$143.4	\$146.3	
Employee Funding	137.6	141.3	145.1	149.1	153.2	
Dept of Education Funding	142.0	142.0	142.0	142.0	142.0	
<u>Other</u>	<u>46.0</u>	<u>49.1</u>	<u>51.9</u>	<u>54.3</u>	<u>56.3</u>	
<b>Total Income</b>	<b>\$460.8</b>	<b>\$470.2</b>	<b>\$479.6</b>	<b>\$488.8</b>	<b>\$497.7</b>	
Medical Claims	\$311.8	\$334.0	\$359.5	\$386.6	\$415.4	
Rx Claims	97.0	106.8	117.6	129.5	142.6	
Administration Fees	34.6	36.2	37.8	39.4	41.1	
Plan Administration	1.7	1.8	1.8	1.9	1.9	
<u>MAPD Premium Cost</u>	<u>9.8</u>	<u>12.1</u>	<u>14.7</u>	<u>17.7</u>	<u>21.2</u>	
<b>Total Expenses</b>	<b>\$454.9</b>	<b>\$490.7</b>	<b>\$531.3</b>	<b>\$575.0</b>	<b>\$622.2</b>	
<b>Net Income / (Loss)</b>	<b>\$5.9</b>	<b>(\$20.5)</b>	<b>(\$51.8)</b>	<b>(\$86.3)</b>	<b>(\$124.5)</b>	
<b>Total Assets</b>	<b>\$265.7</b>	<b>\$245.1</b>	<b>\$193.4</b>	<b>\$107.1</b>	<b>(\$17.4)</b>	
<b>Target Reserve (12-16%; Midpoint 14%)</b>	<b>\$63.7</b>	<b>\$68.7</b>	<b>\$74.4</b>	<b>\$80.5</b>	<b>\$87.1</b>	

- Expenses begin to exceed Income beginning in 2025
- Total Assets expected to fall below zero
- Current Minimum District Contribution of \$234.50 is inadequate

# Financial Projection – Medical CPI applied to MDC

**\$234.50 Minimum District Contribution increasing with Medical CPI (3.7%) and fixed DoE Funding:**

	2024	2025	2026	2027	2028	2029
<i>Assumed Minimum District Contribution (Fiscal Year)</i>	\$234.50	\$243.18	\$252.17	\$261.50	\$271.18	\$281.21
<i>Avg. Minimum District Contribution (Calendar Year)</i>	\$238.84	\$247.68	\$256.84	\$266.34	\$276.20	
District Contribution	\$137.6	\$145.6	\$154.0	\$162.9	\$172.3	
Employee Funding	137.6	141.3	145.1	149.1	153.2	
Dept of Education Funding	142.0	142.0	142.0	142.0	142.0	
<u>Other</u>	<u>46.0</u>	<u>49.1</u>	<u>51.9</u>	<u>54.3</u>	<u>56.3</u>	
<b>Total Income</b>	<b>\$463.3</b>	<b>\$477.9</b>	<b>\$493.0</b>	<b>\$508.2</b>	<b>\$523.7</b>	
Medical Claims	\$311.8	\$334.0	\$359.5	\$386.6	\$415.4	
Rx Claims	97.0	106.8	117.6	129.5	142.6	
Administration Fees	34.6	36.2	37.8	39.4	41.1	
Plan Administration	1.7	\$1.8	\$1.8	1.9	1.9	
<u>MAPD Premium Cost</u>	<u>9.8</u>	<u>12.1</u>	<u>14.7</u>	<u>17.7</u>	<u>21.2</u>	
<b>Total Expenses</b>	<b>\$454.9</b>	<b>\$490.7</b>	<b>\$531.3</b>	<b>\$575.0</b>	<b>\$622.2</b>	
<b>Net Income / (Loss)</b>	<b>\$8.4</b>	<b>(\$12.8)</b>	<b>(\$38.4)</b>	<b>(\$66.8)</b>	<b>(\$98.5)</b>	
<b>Total Assets</b>	<b>\$268.2</b>	<b>\$255.4</b>	<b>\$217.0</b>	<b>\$150.2</b>	<b>\$51.7</b>	
<b>Target Reserve (12-16%; Midpoint 14%)</b>	<b>\$63.7</b>	<b>\$68.7</b>	<b>\$74.4</b>	<b>\$80.5</b>	<b>\$87.1</b>	

- Expenses begin to exceed Income beginning in 2025
- Total Assets expected to fall below reserve target by 2028
- Assumed 3.7% CPI increase

# Financial Projection – Med. CPI applied to MDC and DoE

**\$234.50 Minimum District Contribution and DoE Funding increasing with Medical CPI (3.7%):**

	2024	2025	2026	2027	2028	2029
<i>Assumed Minimum District Contribution (Fiscal Year)</i>	\$234.50	\$243.18	\$252.17	\$261.50	\$271.18	\$281.21
<i>Avg. Minimum District Contribution (Calendar Year)</i>	\$238.84	\$247.68	\$256.84	\$266.34	\$276.20	
District Contribution	\$137.6	\$145.6	\$154.0	\$162.9	\$172.3	
Employee Funding	137.6	141.3	145.1	149.1	153.2	
Dept of Education Funding	142.0	147.3	152.7	158.4	164.2	
<u>Other</u>	<u>46.0</u>	<u>49.1</u>	<u>51.9</u>	<u>54.3</u>	<u>56.3</u>	
<b>Total Income</b>	<b>\$463.3</b>	<b>\$483.2</b>	<b>\$503.7</b>	<b>\$524.6</b>	<b>\$545.9</b>	
Medical Claims	\$311.8	\$334.0	\$359.5	\$386.6	\$415.4	
Rx Claims	97.0	106.8	117.6	129.5	142.6	
Administration Fees	34.6	36.2	37.8	39.4	41.1	
Plan Administration	1.7	1.8	1.8	1.9	1.9	
<u>MAPD Premium Cost</u>	<u>9.8</u>	<u>12.1</u>	<u>14.7</u>	<u>17.7</u>	<u>21.2</u>	
<b>Total Expenses</b>	<b>\$454.9</b>	<b>\$490.7</b>	<b>\$531.3</b>	<b>\$575.0</b>	<b>\$622.2</b>	
<b>Net Income / (Loss)</b>	<b>\$8.4</b>	<b>(\$7.5)</b>	<b>(\$27.7)</b>	<b>(\$50.5)</b>	<b>(\$76.3)</b>	
<b>Total Assets</b>	<b>\$268.2</b>	<b>\$260.6</b>	<b>\$233.0</b>	<b>\$182.5</b>	<b>\$106.2</b>	
<b>Target Reserve (12-16%; Midpoint 14%)</b>	<b>\$63.7</b>	<b>\$68.7</b>	<b>\$74.4</b>	<b>\$80.5</b>	<b>\$87.1</b>	

- Expenses begin to exceed Income beginning in 2025
- Total assets above target reserve at the end of 2028, however trajectory of fund must be addressed – \$76.3M loss in 2028.
- CPI increases to MDC and DoE insufficient.

# Financial Projection – Steady increases to MDC and DoE

Solved for annual increase to Minimum District Contribution and DoE Funding to slowly approach target (8.8%):

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
<i>Assumed Minimum District Contribution (Fiscal Year)</i>	\$234.50	\$255.14	\$277.59	\$302.02	\$328.59	\$357.51	\$388.97	\$423.20	\$460.44	\$500.96	\$545.04
<i>Avg. Minimum District Contribution (Calendar Year)</i>	\$244.82	\$266.36	\$289.80	\$315.30	\$343.05	\$373.24	\$406.08	\$441.82	\$480.70	\$523.00	\$545.04
District Contribution	\$141.1	\$156.6	\$173.7	\$192.8	\$214.0	\$237.5	\$263.5	\$292.5	\$324.6	\$360.2	\$382.9
Employee Funding	137.6	141.3	145.1	149.1	153.2	157.4	161.7	166.2	170.8	175.5	180.3
Dept of Education Funding	142.0	154.5	168.1	182.9	199.0	216.5	235.5	256.3	278.8	303.4	330.0
<u>Other</u>	<u>46.0</u>	<u>49.1</u>	<u>51.9</u>	<u>54.3</u>	<u>56.3</u>	<u>58.3</u>	<u>60.4</u>	<u>62.6</u>	<u>64.8</u>	<u>67.2</u>	<u>69.6</u>
<b>Total Income</b>	<b>\$466.7</b>	<b>\$501.4</b>	<b>\$538.8</b>	<b>\$579.1</b>	<b>\$622.4</b>	<b>\$669.6</b>	<b>\$721.2</b>	<b>\$777.5</b>	<b>\$839.0</b>	<b>\$906.2</b>	<b>\$962.9</b>
Medical Claims	\$311.8	\$334.0	\$359.5	\$386.6	\$415.4	\$446.4	\$479.7	\$515.5	\$554.0	\$595.3	\$639.8
Rx Claims	97.0	106.8	117.6	129.5	142.6	157.1	173.0	190.5	209.9	231.1	254.6
Administration Fees	34.6	36.2	37.8	39.4	41.1	42.9	44.7	46.6	48.6	50.7	52.9
Plan Administration	1.7	1.8	1.8	1.9	1.9	2.0	2.0	2.1	2.1	2.2	2.2
<u>MAPD Premium Cost</u>	<u>9.8</u>	<u>12.1</u>	<u>14.7</u>	<u>17.7</u>	<u>21.2</u>	<u>25.3</u>	<u>30.3</u>	<u>36.2</u>	<u>43.3</u>	<u>51.8</u>	<u>62.0</u>
<b>Total Expenses</b>	<b>\$454.9</b>	<b>\$490.7</b>	<b>\$531.3</b>	<b>\$575.0</b>	<b>\$622.2</b>	<b>\$673.7</b>	<b>\$729.8</b>	<b>\$791.0</b>	<b>\$858.0</b>	<b>\$931.2</b>	<b>\$1,011.4</b>
<b>Net Income / (Loss)</b>	<b>\$11.8</b>	<b>\$10.7</b>	<b>\$7.5</b>	<b>\$4.0</b>	<b>\$0.2</b>	<b>(\$4.0)</b>	<b>(\$8.5)</b>	<b>(\$13.5)</b>	<b>(\$18.9)</b>	<b>(\$25.0)</b>	<b>(\$48.6)</b>
<b>Total Assets</b>	<b>\$271.6</b>	<b>\$282.3</b>	<b>\$289.8</b>	<b>\$293.8</b>	<b>\$294.0</b>	<b>\$290.0</b>	<b>\$281.5</b>	<b>\$268.0</b>	<b>\$249.0</b>	<b>\$224.0</b>	<b>\$175.5</b>
<b>Target Reserve (12-16%; Midpoint 14%)</b>	<b>\$63.7</b>	<b>\$68.7</b>	<b>\$74.4</b>	<b>\$80.5</b>	<b>\$87.1</b>	<b>\$94.3</b>	<b>\$102.2</b>	<b>\$110.7</b>	<b>\$120.1</b>	<b>\$130.4</b>	<b>\$141.6</b>

- Using an index for both MDC and DoE funding greater than Med CPI – 8.8%
- Expenses begin to exceed Income beginning in 2029
- Smoothed approach to slowly approach target reserve

# Financial Projection – One-time MDC Adjustment for 2028

Minimum District Contribution and DoE Funding has one-time adjustment in FY 2028 and increases with 5% annually thereafter:

	2024	2025	2026	2027	2028	2029
<i>Assumed Minimum District Contribution (Fiscal Year)</i>	\$234.50	\$234.50	\$234.50	\$234.50	\$365.00	\$383.25
<i>Avg. Minimum District Contribution (Calendar Year)</i>	\$234.50	\$234.50	\$234.50	\$299.75	\$374.13	
District Contribution	\$135.1	\$137.8	\$140.6	\$183.3	\$233.4	
Employee Funding	137.6	141.3	145.1	149.1	153.2	
Dept of Education Funding	142.0	142.0	142.0	149.1	156.6	
<u>Other</u>	<u>46.0</u>	<u>49.1</u>	<u>51.9</u>	<u>54.3</u>	<u>56.3</u>	
<b>Total Income</b>	<b>\$460.8</b>	<b>\$470.2</b>	<b>\$479.6</b>	<b>\$535.8</b>	<b>\$599.4</b>	
Medical Claims	\$311.8	\$334.0	\$359.5	\$386.6	\$415.4	
Rx Claims	97.0	106.8	117.6	129.5	142.6	
Administration Fees	34.6	36.2	37.8	39.4	41.1	
Plan Administration	1.7	1.8	1.8	1.9	1.9	
<u>MAPD Premium Cost</u>	<u>9.8</u>	<u>12.1</u>	<u>14.7</u>	<u>17.7</u>	<u>21.2</u>	
<b>Total Expenses</b>	<b>\$454.9</b>	<b>\$490.7</b>	<b>\$531.3</b>	<b>\$575.0</b>	<b>\$622.2</b>	
<b>Net Income / (Loss)</b>	<b>\$5.9</b>	<b>(\$20.5)</b>	<b>(\$51.8)</b>	<b>(\$39.3)</b>	<b>(\$22.9)</b>	
<b>Total Assets</b>	<b>\$265.7</b>	<b>\$245.1</b>	<b>\$193.4</b>	<b>\$154.1</b>	<b>\$131.2</b>	
<b>Target Reserve (12-16%; Midpoint 14%)</b>	<b>\$63.7</b>	<b>\$68.7</b>	<b>\$74.4</b>	<b>\$80.5</b>	<b>\$87.1</b>	

- Scenario designed to spend down surplus rapidly and then realign funding with expenses by using a one-time adjustment in 2028.
- Total assets above target reserve at the end of 2028 and a well positioned net income/(loss) trajectory.
- Apply increase in future years to maintain reserve

# Q&A





# Assumptions and Caveats

## Assumptions

- Projections, including medical claims, pharmacy claims, rebates, employee & retiree contributions, and administrative costs were based off baseline Milliman projections, with the addition of Navitus' additional Rx Rebates to other income
- No future plan design changes assumed
- Trend: Medical 6%, Rx 8%, based on Milliman projections
- Applied projected increase for Navitus Rx Rebates
- Baseline Medical CPI: 3.7% (based on historical average)
- Enrollment assumed to increase by approximately 3% per year based on Milliman projections

## 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.