

State of Arkansas

PSE Adequacy Review

Funding Projections

August 2024 / Patrick Klein

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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 (MDC) was reduced from \$300 to \$234.50 in July 2023
- The fund is projected to close 2024 with \$250M in assets – while the target reserve is \$64M
- Expenses projected to exceed revenues starting in 2025
 - Severe downward trajectory without funding being addressed
- Used Milliman’s projection from 6/15/24 meeting for employee contribution, claims and expenses – validated for reasonableness
- Incorporated Navitus projected Rx Rebates that were materially higher than Milliman’s projection
- Assumed Minimum District Contribution changes are effective Jan 1st (Calendar Year)
- Assumed Dept of Ed. funding changes are effective July 1st (Fiscal Year)
- Assumed Medical CPI of 4.0% using historical amounts
 - About 2% less than cost trend projections

Financial Projection – Baseline

Fixed \$234.50 Minimum District Contribution and DoE Funding:

Calendar Year	2024	2025	2026	2027	2028	2029
<i>Assumed Minimum District Contribution</i>	\$234.50	\$234.50	\$234.50	\$234.50	\$234.50	\$234.50
<i>All values below in millions</i>						
District Contribution	\$134.0	\$136.7	\$139.4	\$142.2	\$145.0	\$147.9
Employee Funding	139.9	143.6	147.5	151.5	155.7	160.0
Dept of Education Funding	142.0	142.0	142.0	142.0	142.0	142.0
<u>Other</u>	<u>61.2</u>	<u>59.9</u>	<u>61.6</u>	<u>63.3</u>	<u>66.1</u>	<u>71.4</u>
Total Income	\$477.0	\$482.1	\$490.5	\$499.0	\$508.8	\$521.3
Medical Claims	\$317.8	\$339.2	\$364.6	\$392.3	\$422.0	\$453.6
Rx Claims	102.6	110.2	121.3	133.6	147.2	162.1
Administration Fees	37.4	36.0	37.7	39.3	41.1	42.8
Plan Administration	1.7	1.9	1.9	1.9	2.0	2.1
<u>MAPD Premium Cost</u>	<u>7.9</u>	<u>10.0</u>	<u>12.3</u>	<u>15.0</u>	<u>18.2</u>	<u>21.8</u>
Total Expenses	\$467.5	\$497.2	\$537.8	\$582.3	\$630.4	\$682.3
Net Income / (Loss)	\$9.6	(\$15.1)	(\$47.3)	(\$83.2)	(\$121.6)	(\$161.0)
Total Assets	\$250.4	\$235.3	\$187.9	\$104.7	(\$16.9)	(\$177.9)
Target Reserve (12-16%; Midpoint 14%)	\$65.4	\$69.6	\$75.3	\$81.5	\$88.2	\$95.5
Asset Surplus / Deficit to Target Reserve	\$184.9	\$165.7	\$112.6	\$23.2	(\$105.1)	(\$273.4)

- 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 – Med. CPI applied to MDC and DoE

\$234.50 Minimum District Contribution and DoE Funding increasing with Medical CPI (4.0%):

Calendar Year	2024	2025	2026	2027	2028	2029
<i>Assumed Minimum District Contribution</i>	\$234.50	\$243.88	\$253.64	\$263.78	\$274.33	\$285.31
<i>All values below in millions</i>						
District Contribution	\$134.0	\$142.1	\$150.8	\$159.9	\$169.7	\$180.0
Employee Funding	139.9	143.6	147.5	151.5	155.7	160.0
Dept of Education Funding	142.0	144.8	150.6	156.7	162.9	169.4
<u>Other</u>	<u>61.2</u>	<u>59.9</u>	<u>61.6</u>	<u>63.3</u>	<u>66.1</u>	<u>71.4</u>
Total Income	\$477.0	\$490.4	\$510.5	\$531.4	\$554.3	\$580.8
Medical Claims	\$317.8	\$339.2	\$364.6	\$392.3	\$422.0	\$453.6
Rx Claims	102.6	110.2	121.3	133.6	147.2	162.1
Administration Fees	37.4	36.0	37.7	39.3	41.1	42.8
Plan Administration	1.7	1.9	1.9	1.9	2.0	2.1
<u>MAPD Premium Cost</u>	<u>7.9</u>	<u>10.0</u>	<u>12.3</u>	<u>15.0</u>	<u>18.2</u>	<u>21.8</u>
Total Expenses	\$467.5	\$497.2	\$537.8	\$582.3	\$630.4	\$682.3
Net Income / (Loss)	\$9.6	(\$6.8)	(\$27.3)	(\$50.8)	(\$76.0)	(\$101.5)
Total Assets	\$250.4	\$243.6	\$216.3	\$165.4	\$89.4	(\$12.1)
Target Reserve (12-16%; Midpoint 14%)	\$65.4	\$69.6	\$75.3	\$81.5	\$88.2	\$95.5
Asset Surplus / Deficit to Target Reserve	\$184.9	\$174.0	\$141.0	\$83.9	\$1.2	(\$107.7)

- Expenses begin to exceed Income beginning in 2025
- Total assets and target reserve at a loss at the end of 2029, trajectory of fund must be addressed – \$101.5M loss in 2029
- CPI increases to MDC and DoE insufficient

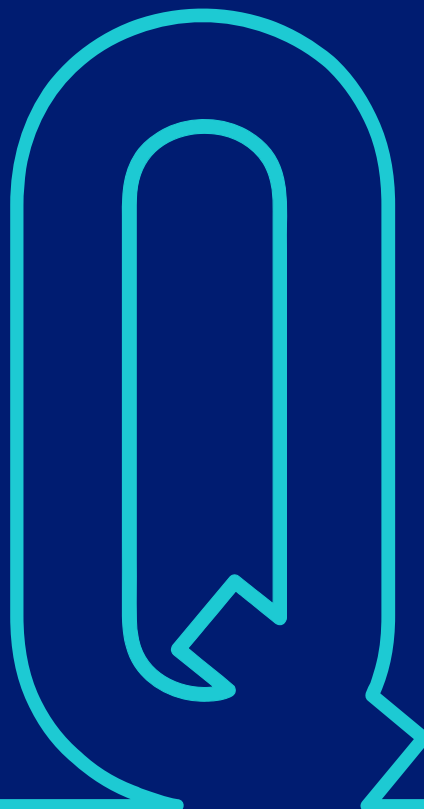
Financial Projection – Adjusted 2025 District Contribution

Minimum District Contribution returns to \$300.00 plus Medical CPI in CY 2025 DoE Funding increases in FY 2026:

Calendar Year	2024	2025	2026	2027	2028	2029
<i>Assumed Minimum District Contribution</i>	\$234.50	\$312.00	\$324.48	\$337.46	\$350.96	\$365.00
<i>All values below in millions</i>						
District Contribution	\$134.0	\$181.8	\$192.9	\$204.6	\$217.1	\$230.2
Employee Funding	139.9	143.6	147.5	151.5	155.7	160.0
Dept of Education Funding	142.0	144.8	150.6	156.7	162.9	169.4
Other	<u>61.2</u>	<u>59.9</u>	<u>61.6</u>	<u>63.3</u>	<u>66.1</u>	<u>71.4</u>
Total Income	\$477.0	\$530.1	\$552.6	\$576.1	\$601.7	\$631.1
Medical Claims	\$317.8	\$339.2	\$364.6	\$392.3	\$422.0	\$453.6
Rx Claims	102.6	110.2	121.3	133.6	147.2	162.1
Administration Fees	37.4	36.0	37.7	39.3	41.1	42.8
Plan Administration	1.7	1.9	1.9	1.9	2.0	2.1
MAPD Premium Cost	<u>7.9</u>	<u>10.0</u>	<u>12.3</u>	<u>15.0</u>	<u>18.2</u>	<u>21.8</u>
Total Expenses	\$467.5	\$497.2	\$537.8	\$582.3	\$630.4	\$682.3
Net Income / (Loss)	\$9.6	\$32.9	\$14.8	(\$6.1)	(\$28.6)	(\$51.3)
Total Assets	\$250.4	\$283.3	\$298.1	\$291.9	\$263.3	\$212.0
Target Reserve (12-16%; Midpoint 14%)	\$65.4	\$69.6	\$75.3	\$81.5	\$88.2	\$95.5
Asset Surplus / Deficit to Target Reserve	\$184.9	\$213.7	\$222.8	\$210.4	\$175.0	\$116.5

- Medical CPI of 4% increases funding in future years for MDC and Dept of Education Funding.
- Total assets above target reserve at the end of 2029, with a \$51M net loss in that year.
- Net loss would be mitigated if plan can manage trends below market expectations and closer to Medical CPI.

Q&A



Caveats

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- 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.