

Draft Senate Bill with Additional Proposal

(As Drafted October 15, 2013)

Actuarial Cost Study prepared for
Senate and House Education Committees
Senate and House Insurance and Commerce Committees

The leadership of the listed committees has put forward a proposed bill, as well as another proposal included in a memo to the Governor's office, on the topic of funding for the Arkansas State Employee (ASE) and Public School Employee (PSE) health insurance funds administered by the Employee Benefits Division (EBD). This letter provides our analysis of the proposals for use by these committees.

SUMMARY AND FISCAL IMPACT

The proposed bill and the memo proposal include several changes. We've listed the detailed changes below, under "Provisions of the Bill".

The basic issue is that the employee premiums under the PSE for 2014 would average about 44% more than the 2013 rates. While this 44% increase can be parsed in different ways, we estimate that it comes from:

- (a) 11% increase in the cost of medical care
 - (b) 3% increase due to fees under the Affordable Care Act
 - (c) 8% increase because there are no reserves to offset the increase. (In other words, part of the 2013 increase was covered by existing reserves in the PSE fund at the end of 2012. There are no such reserves now.)
 - (d) 22% increase due to "migration". If healthy people leave the Gold plan and move to the Bronze plan (for example), this makes the Gold plan more expensive, and often increases the cost of the Bronze plan (because the "healthy" former Gold member is often less healthy than the average Bronze member). There was migration in 2013, and the published EBD rates anticipate more.
- equals 44% Total increase

EBD has estimated (and we agree with this estimate) that an additional \$54 million in funding would result in the 2014 rates being the same as the 2013 rates. If this \$54 million were split three ways (\$18 million from the state, \$18 million from the school districts, and \$18 million from the employees), the \$18 million increase to employee premiums would be equivalent to a 16% increase instead of a 44%. Alternately, if \$43 million were appropriated to be used in 2014, the employee premiums would increase about 10% from the previous year.

[Note: The 44% increase and the 16% increase do not include the \$5/\$10 surcharge that EBD has added to the rates to replenish the PCE "catastrophic loss" reserve.]

Proposed Heath Insurance Bill (As Of October 15, 2013)
October 15, 2013

PROVISIONS OF THE BILL

There are many technical and wording corrections in the 28 pages of this draft bill. This report will focus on the key issues that are substantial changes.

Topic 1 – Employee Education

The bill explicitly includes (in at least two places) a duty to educate employees about various available options (pages 2 and 5). It is difficult to anticipate the effect of these sections. EBD provides printed materials through the designated health insurance representative at each school district (see §21-5-406(e)). The actual providers of health savings account plans (which are chosen by the school districts and not EBD) provide their own education. Since there is an emphasis in these proposals on increasing availability of health savings account plans, the bill is asking EBD to increase education where they have no ability to contract the provider. Additional materials or on-site education would increase administrative costs.

Topic 2 – EBD Board Structure

The EBD board is changed by adding 2 new members, increasing the total board from 12 members to 14 members. The two new members are “engaged in employee benefits management or risk management in private industry”. Although several members on the current board have pertinent experience, the addition of these two positions should expand the professional experience of the board. We see no appreciable change to rates because of this change.

Topic 3 – Foundation Funding Allocated to EBD

This bill would require school districts to ensure that allocated foundation funding is paid directly to EBD or to the individual health savings accounts (page 8). It was reported to the combined committees in September 2013 the amounts attributable to the funding matrix and the amounts paid to the PSE fund. It was shown in that report that there is a \$3.6 million difference. Based on that report, there were 182 school districts that contributed less than the amount provided by the matrix, and the additional amount that would have been contributed to the fund is \$9 million. These amounts are based on the \$131 payment. Preliminary estimates adjusting the \$131 payment to \$150 that is effective beginning 2014 suggest that this additional amount could be as low as \$4.7 million.

There are areas of concern regarding application to ensure that these provisions have the desired effect. First, it is our understanding that this will be in effect during the 2014-15 school year. The insurance premiums change on a calendar year basis, so EBD would need to carefully disclose how this will work in practice. Second, it is not clear in the bill if the increase would be an increase in the amount paid monthly by the district (i.e. the \$150 per month per covered employee) or if there would be a separate billing for this additional amount. These two items could be addressed through EBD rules.

The third item is that the contribution can be made to PSE or to the health savings account. This is concerning because the effect to the bottom line of PSE would be less if it goes to the health savings account. Additionally, it could lead to antiselection/migration, which could increase the employee cost under PSE if it drove participants into the high deductible plan. We would recommend replacing (c)(i)(b) with the following language to ensure that PSE receives an appropriate amount of these new payments.

“(b) Making contribution for public school employees participating in a consumer-driven health plan option either to offset the premium or to the health savings account.”

Topic 4 – Health Savings Account

The bill would provide a health savings account option to be paired with the consumer-driven (high deductible) plan (page 24 and 25). The employer contributions to the plan are permissive. By definition, the employee can also contribute. This seems to be intended to increase participation in a consumer-driven plan. It is hard to predict how much behavior can be changed, but in looking at the past few years, the Bronze plan has had a \$0 premium and did not draw many new participants until the premium increase for Gold and Silver in 2013. If the 2014 and 2015 premium increases are minimized, there may not be many “healthy” participants who are compelled to move to the consumer-driven plan.

Topic 5 – Task Force

Section 2 of the bill would create a temporary task force made up of 12 legislators (page 25 and 26). This group would be given power to study and suggest additional long term changes to ASE and PSE to ensure long term viability of the plans. This should give time for additional thought and study of more long term solutions.

HISTORY

We have included several charts and graphs showing historical information concerning PSE. The first chart (Appendix A) shows the premium history from 2010 through the currently adopted rates by EBD for 2014. This chart shows the details of how the total cost is broken down and the employee rates are ultimately determined. Appendix B has a graph showing the total cost of the Gold plan for individuals and for family rates over the past several years. Appendix C compiles basic financial information for the PSE plan over the past 3 years.

APPROPRIATION

The overall plan would need this bill as well as an appropriation bill. We have not been asked to review such a bill, but we would want to point out that unless any appropriation is coupled with direction on how to apply the money to the rates, there could be unexpected results. Any additional money set aside for PSE could reduce rates by certain dollar amounts or certain percentages. Everything we have been asked to review seems to point to a reduction in rates so that the employee rates only increase by some certain percentage.

OTHER ISSUES

On page 7, item (a)(2) in part states that the programs are "maintained on an actuarially sound basis as determined by actuarial standards established by the board." Actuarial Standards has a professional meaning that could be confused. We would suggest "maintained on an actuarially sound basis as determined by criteria established by the board within generally accepted actuarial practice."

Sincerely,



Steve Osborn, F.S.A., M.A.A.A.



Jody Carreiro, A.S.A, M.A.A.A.
Actuary

APPENDIX A

PUBLIC SCHOOL EMPLOYEES HEALTH FUND

RECENT HISTORY OF RATES

	2010	2011					
	Net Amount Paid by Employee	Total Base Cost	Amount paid by Acts 1842/1421	Amount paid by School Districts	Amount covered by Fund reserves	Net Amount Paid by Employee	Increase over prior year
ACTIVE EMPLOYEES:							
GOLD							
Employee only	152.69	402.78	82.91	131.00	18.53	170.34	12%
Employee & Spouse	721.45	1,090.48	147.23	131.00	40.51	771.74	7%
Employee & Children	406.05	710.19	112.80	131.00	29.52	436.87	8%
Family	723.40	1,098.18	152.48	131.00	40.88	773.82	7%
SILVER							
Employee only							
Employee & Spouse							
Employee & Children							
Family							
BRONZE							
Employee only	48.19	247.54	82.91	131.00	18.53	15.10	-69%
Employee & Spouse	429.93	651.84	147.23	131.00	40.51	333.10	-23%
Employee & Children	217.98	428.68	112.80	131.00	29.52	155.36	-29%
Family	430.84	658.06	152.48	131.00	40.88	333.70	-23%
RETIRES NOT ELIGIBLE FOR MEDICARE							
GOLD							
Retiree only	527.62	457.42	-	-	-	457.42	-13%
Retiree and NME Spouse	1,213.72	1,152.01	-	-	-	1,152.01	-5%
Retiree & children	939.28	768.28	-	-	-	768.28	-18%
Retiree, NME Spouse & Child	1,900.80	1,159.82	-	-	-	1,159.82	-39%
Retiree & Medicare Spouse	609.70	596.82	-	-	-	596.82	-2%
Retiree, Medicare Sp & Child	1,004.01	907.71	-	-	-	907.71	-10%
SILVER							
Retiree only							
Retiree and NME Spouse							
Retiree & children							
Retiree, NME Spouse & Child							
BRONZE							
Retiree only							
Retiree and NME Spouse							
Retiree & children							
Retiree, NME Spouse & Child							
MEDICARE ELIGIBLE RETIREES							
Retiree only	41.44	150.16	-	-	108.72	41.44	0%
Retiree and NME Spouse	674.34	568.37	-	-	-	568.37	-16%
Retiree & children	421.17	459.20	-	-	38.03	421.17	0%
Retiree, NME Spouse & Child	1,054.07	877.42	-	-	-	877.42	-17%
Retiree & Medicare Spouse	170.59	284.91	-	-	114.32	170.59	0%
Retiree, Medicare Sp & Child	550.32	593.96	-	-	43.64	550.32	0%

- <a> Before 2012, "GOLD" was the "Health Advantage" plan, and "BRONZE" was the "NovaSys High Deductible PPO" plan.
- 2010 and 2011 rates from March 4, 2011 "Monitoring Report" from Cheiron.
- <c> 2012 rates from March 9, 2012 "Monitoring Report" from Cheiron.
- <d> 2013 rates from February 19, 2013 "Monitoring Report" from Cheiron.
- <e> Amounts shown for retirees as "Amount Covered By Fund Reserve" include retirement subsidy payments that are included in the active employee costs (i.e., a cross subsidy from actives to retirees).

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RECENT HISTORY OF RATES

	2012						2013					
	Total Base Cost	Amount paid by Acts 1842/1421	Amount paid by School Districts	Amount covered by Fund reserves	Net Amount Paid by Employee	Increase over prior year	Total Base Cost	Amount paid by Acts 1842/1421	Amount paid by School Districts	Amount covered by Fund reserves	Net Amount Paid by Employee	Increase over prior year
ACTIVE EMPLOYEES:												
GOLD												
Employee only	437.36	90.12	131.00	28.88	187.36	10%	469.68	101.76	131.00	10.22	226.70	21%
Employee & Spouse	1,202.68	160.22	131.00	62.54	848.92	10%	1,186.36	101.76	131.00	(73.60)	1,027.20	21%
Employee & Children	779.48	122.74	131.00	45.18	480.56	10%	821.66	101.76	131.00	7.42	581.48	21%
Family	1,211.24	165.92	131.00	63.12	851.20	10%	1,538.32	101.76	131.00	275.60	1,029.96	21%
SILVER												
Employee only	401.62	90.12	131.00	22.94	157.56		370.04	81.48	131.00	-	157.56	0%
Employee & Spouse	1,097.40	160.22	131.00	92.32	713.86		927.00	82.14	131.00	-	713.86	0%
Employee & Children	712.64	122.74	131.00	54.80	404.10		643.58	100.96	131.00	7.52	404.10	0%
Family	1,105.20	165.92	131.00	92.50	715.78		1,200.54	100.96	131.00	252.80	715.78	0%
BRONZE												
Employee only	148.90	17.90	131.00	-	-	-100%	182.78	41.78	131.00	-	10.00	
Employee & Spouse	349.34	31.82	131.00	-	186.52	-44%	421.00	47.52	131.00	-	242.48	30%
Employee & Children	238.70	24.38	131.00	-	83.32	-46%	299.78	60.46	131.00	-	108.32	30%
Family	352.42	32.96	131.00	-	188.46	-44%	538.02	162.02	131.00	-	245.00	30%
RETIREES NOT ELIGIBLE FOR MEDICARE												
GOLD												
Retiree only	457.42	-	-	-	457.42	0%	469.68	-	-	-	469.68	3%
Retiree and NME Spouse	1,202.68	-	-	50.67	1,152.01	0%	1,186.36	-	-	-	1,186.36	3%
Retiree & children	779.48	-	-	11.20	768.28	0%	821.66	-	-	-	821.66	7%
Retiree, NME Spouse & Child	1,211.24	-	-	51.42	1,159.82	0%	1,538.32	-	-	-	1,538.32	33%
Retiree & Medicare Spouse	596.82	-	-	-	596.82	0%	609.06	-	-	-	609.06	2%
Retiree, Medicare Sp & Child	924.22	-	-	16.51	907.71	0%	961.04	-	-	-	961.04	6%
SILVER												
Retiree only	401.62	-	-	-	401.62		370.04	-	-	(31.58)	401.62	0%
Retiree and NME Spouse	1,097.40	-	-	-	1,097.40		927.00	-	-	(170.40)	1,097.40	0%
Retiree & children	712.64	-	-	-	712.64		643.58	-	-	(69.06)	712.64	0%
Retiree, NME Spouse & Child	1,105.20	-	-	-	1,105.20		1,200.54	-	-	-	1,200.54	9%
BRONZE												
Retiree only	148.90	-	-	-	148.90		182.78	-	-	-	182.78	23%
Retiree and NME Spouse	349.34	-	-	-	349.34		421.00	-	-	-	421.00	21%
Retiree & children	238.70	-	-	-	238.70		299.78	-	-	-	299.78	26%
Retiree, NME Spouse & Child	352.42	-	-	-	352.42		538.02	-	-	-	538.02	53%
MEDICARE ELIGIBLE RETIREES												
Retiree only	144.75	-	-	103.31	41.44	0%	139.38	-	-	89.24	50.14	21%
Retiree and NME Spouse	568.37	-	-	-	568.37	0%	597.87	-	-	-	597.87	5%
Retiree & children	486.85	-	-	65.68	421.17	0%	523.12	-	-	13.50	509.62	21%
Retiree, NME Spouse & Child	918.61	-	-	41.19	877.42	0%	1,208.03	-	-	146.35	1,061.68	21%
Retiree & Medicare Spouse	289.49	-	-	118.90	170.59	0%	278.77	-	-	72.35	206.42	21%
Retiree, Medicare Sp & Child	631.60	-	-	81.28	550.32	0%	630.74	-	-	-	630.74	15%

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APPENDIX A
PUBLIC SCHOOL EMPLOYEES HEALTH FUND

RECENT HISTORY OF RATES

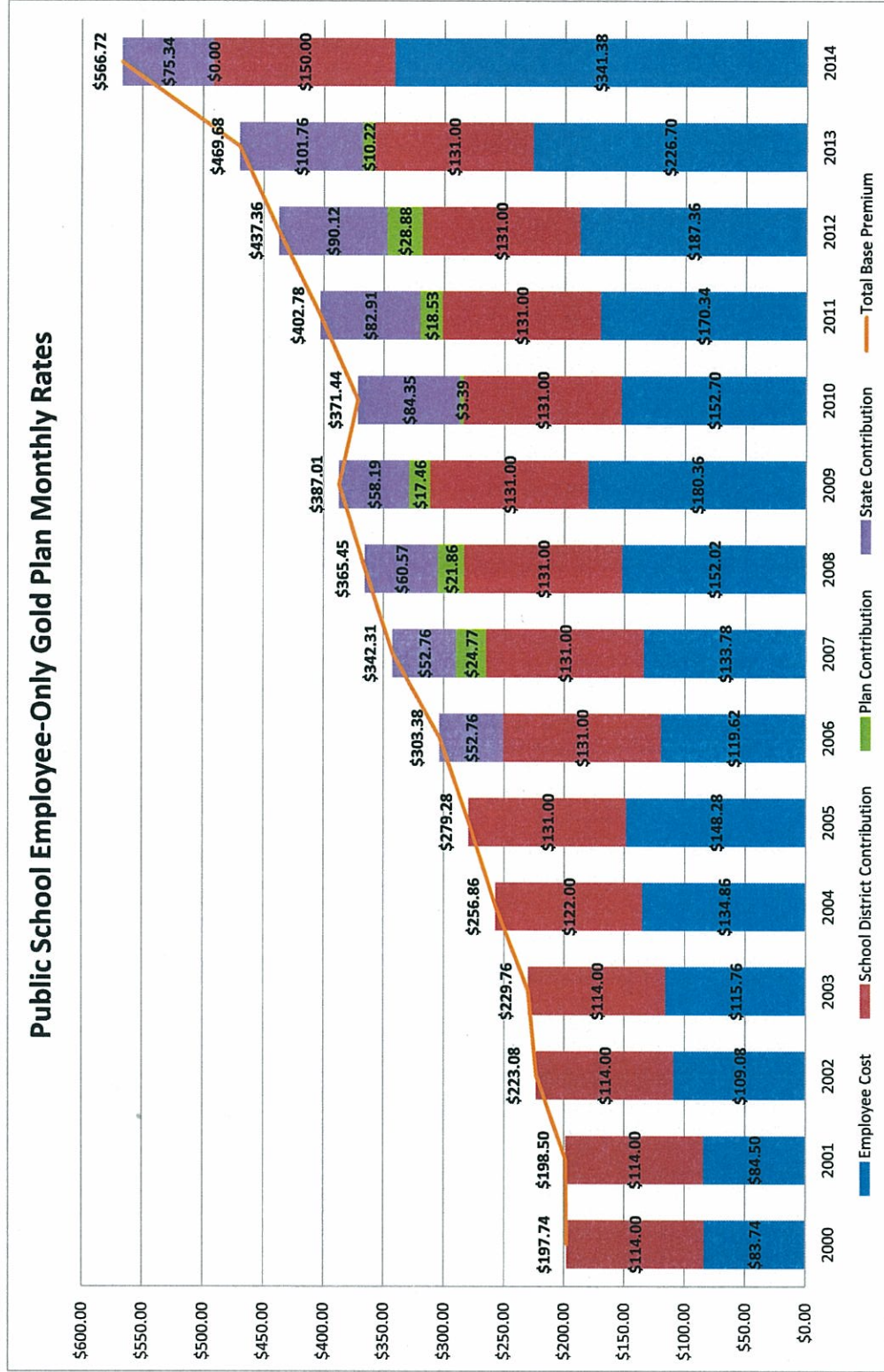
EBD proposal for 2014 - Assumes Migration "D"

	Total Base Cost	Amount paid by Acts 1842/1421	Amount paid by School Districts	Amount covered by Fund reserves	Prelim. Amount Paid by Employee	Add on for Cat. Fund	Net Amount Paid by Employee	Increase over prior year
ACTIVE EMPLOYEES:								
GOLD								
Employee only	561.72	75.34	150.00	-	336.38	5.00	341.38	51%
Employee & Spouse	1,350.06	-	150.00	-	1,200.06	10.00	1,210.06	18%
Employee & Children	1,043.24	30.44	150.00	-	862.80	5.00	867.80	49%
Family	1,831.60	153.34	150.00	-	1,528.26	10.00	1,538.26	49%
SILVER								
Employee only	421.54	37.76	150.00	-	233.78	5.00	238.78	52%
Employee & Spouse	999.82	-	150.00	-	849.82	10.00	859.82	20%
Employee & Children	774.76	25.16	150.00	-	599.60	5.00	604.60	50%
Family	1,353.04	140.96	150.00	-	1,062.08	10.00	1,072.08	50%
BRONZE								
Employee only	262.66	67.82	150.00	-	44.84	5.00	49.84	398%
Employee & Spouse	590.98	81.18	150.00	-	359.80	10.00	369.80	53%
Employee & Children	463.20	152.48	150.00	-	160.72	5.00	165.72	53%
Family	791.52	277.98	150.00	-	363.54	10.00	373.54	52%
RETIREES NOT ELIGIBLE FOR MEDICARE								
GOLD								
Retiree only	561.72	-	-	-	561.72	5.00	566.72	21%
Retiree and NME Spouse	1,350.06	-	-	-	1,350.06	10.00	1,360.06	15%
Retiree & children	1,043.24	-	-	-	1,043.24	5.00	1,048.24	28%
Retiree, NME Spouse & Child	1,831.60	-	-	-	1,831.60	10.00	1,841.60	20%
Retiree & Medicare Spouse	710.18	-	-	-	710.18	10.00	720.18	18%
Retiree, Medicare Sp & Child	1,191.70	-	-	-	1,191.70	10.00	1,201.70	25%
SILVER								
Retiree only	421.54	-	-	-	421.54	5.00	426.54	6%
Retiree and NME Spouse	999.82	-	-	(97.58)	1,097.40	10.00	1,107.40	1%
Retiree & children	774.76	-	-	-	774.76	5.00	779.76	9%
Retiree, NME Spouse & Child	1,353.04	-	-	-	1,353.04	10.00	1,363.04	14%
BRONZE								
Retiree only	262.66	-	-	-	262.66	5.00	267.66	46%
Retiree and NME Spouse	590.98	-	-	-	590.98	10.00	600.98	43%
Retiree & children	463.20	-	-	-	463.20	5.00	468.20	56%
Retiree, NME Spouse & Child	791.82	-	-	-	791.82	10.00	801.82	49%
MEDICARE ELIGIBLE RETIREES								
Retiree only	148.46	-	-	71.78	76.68	5.00	81.68	63%
Retiree and NME Spouse	698.98	-	-	-	698.98	10.00	708.98	19%
Retiree & children	671.52	-	-	10.86	660.66	5.00	665.66	31%
Retiree, NME Spouse & Child	1,418.33	-	-	117.71	1,300.62	10.00	1,310.62	23%
Retiree & Medicare Spouse	296.92	-	-	35.88	261.04	10.00	271.04	31%
Retiree, Medicare Sp & Child	778.44	-	-	-	778.44	10.00	788.44	25%

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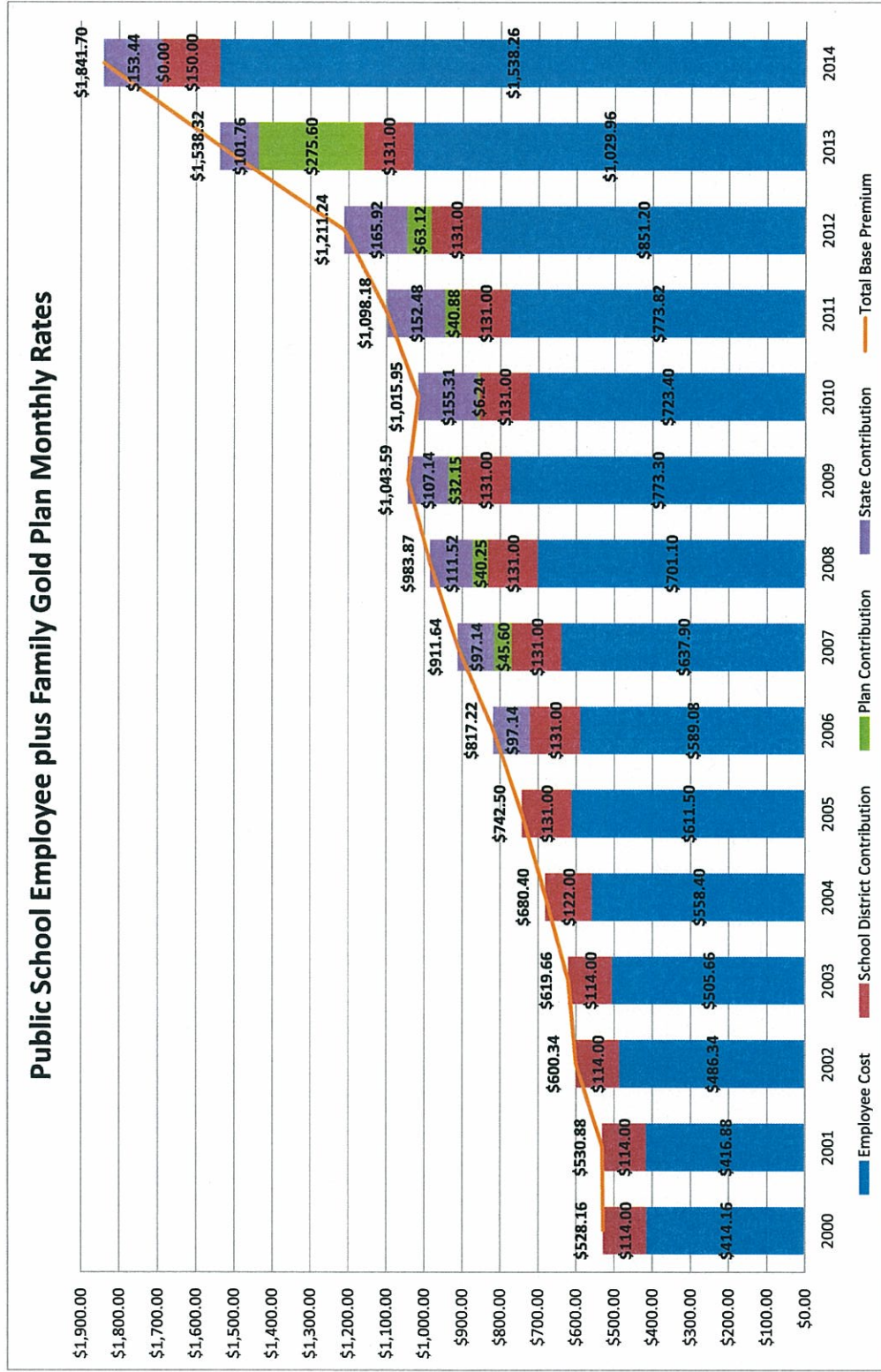
APPENDIX B

HISTORICAL BREAKDOWN OF PREMIUM FUNDING



APPENDIX B

HISTORICAL BREAKDOWN OF PREMIUM FUNDING



APPENDIX C

PUBLIC SCHOOL EMPLOYEES HEALTH FUND

Recent Financial Statements from EBD

	1/1/2012 to 12/31/2012 <u>(12 months)</u>	10/1/2010 to 12/31/2011 <u>(15 months)</u>	10/1/2009 to 9/30/2010 <u>(12 months)</u>
INCOME			
School Districts Contributions	93,667,742	87,987,722	68,656,707
Employee Contributions	130,127,671	194,920,612	148,661,729
Department of Education	50,000,000	63,295,455	50,000,000
Other	1,914,844		
TOTAL INCOME	275,710,257	346,203,789	267,318,436
OUTGO			
Medical Claims Paid	213,277,599	238,477,418	192,676,021
Medical Admin Fees	19,170,661	21,816,097	15,437,040
Refunds	236,344	65,105	-14,206
Employee Assistance Program	970,158		
Behavioral Health		5,402,855	3,411,510
Pharmacy Claims Paid	62,468,415	71,218,428	49,683,757
Pharmacy Admin Fees	1,180,994	1,300,686	743,295
Plan Administration	4,988,663	3,467,901	3,502,252
TOTAL OUTGO	302,292,834	341,748,490	265,439,669
NET INCOME (cash basis):	<u>-26,582,577</u>	<u>4,455,299</u>	<u>1,878,767</u>
BALANCE SHEET			
NET ASSETS			
Bank Account	16,781,342	17,478,456	15,113,031
State Treasury	29,053,188	55,914,239	57,737,138
Receivables	2,539,898	1,243,898	1,424,801
Payables and deferred revenues	-1,738,713	-1,418,407	-5,511,478
TOTAL NET ASSETS	<u>46,635,715</u>	<u>73,218,186</u>	<u>68,763,492</u>
LIABILITIES AND RESERVES			
Claims incurred but not paid	27,300,000	27,840,000	27,840,000
Reserved to offset future premiums	12,600,000	29,400,000	25,150,206
Catastrophic reserve	6,735,715	10,000,000	9,100,000
Reserve for Pharmacy Reward Program	0	0	1,500,000
Surplus	0	5,978,186	5,173,286
TOTAL LIABILITIES AND RESERVES	<u>46,635,715</u>	<u>73,218,186</u>	<u>68,763,492</u>