

State of Arkansas Employee Benefits Division

Interim Monitoring Report
for
Public School Employees (PSE)
Through August 31st

Senate and House Insurance and Commerce Committees

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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 PSE 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 PSE employees/retirees and members by benefit plan, age/gender, and by month from EBD; 2019 and 2020 PSE 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 PSE 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

- Public School Employees (PSE)
 - 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 plan experience
 - Allocated reserves for 2020 is \$25.3M
 - Estimated deficit of \$15.4M
 - End of Year Assets: \$108.3M
 - Incorporate estimated impact of COVID from deferred services, pent-up demand, and treatment / testing costs
 - No plan changes / 0% increase to employee contributions
- 2021 projected plan experience
 - Allocated reserves for 2021 is \$15.5M
 - Projected deficit: \$27.5M
 - End of Year Assets: \$65.3M
 - Reflected 2021 program initiatives
 - Increased membership based on historical patterns
 - Baseline trends (medical: 7%, pharmacy: 8%)
 - August 5, 2020 Board action (next slide)

Board Action – August 5, 2020

- Changed wellness credit from \$75 per month to \$50 per month for Active employees
- Increased Department of Education funding from \$88.1M to \$108.1M
- No changes to Active employee, Pre-65 retiree, or Post-65 retiree contributions
- No plan design changes

Total Plan Experience

<u>Funding</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
PPE Funding	\$ 102.39	\$ 105.38	\$ 108.89
Employee Contribution	121.12	124.21	138.60
Dept of Ed Funding	88.10	88.10	108.10
Other	15.02	14.88	15.38
Total Income	\$ 326.64	\$ 332.57	\$ 370.96
Medical Claims	\$ (247.12)	\$ (275.18)	\$ (314.77)
Pharmacy Claims	(60.87)	(70.82)	(79.14)
Administration Fees	(28.46)	(28.18)	(29.20)
Plan Administration	(2.61)	(2.55)	(2.63)
Total Expenses	\$ (339.06)	\$ (376.74)	\$ (425.74)
Program Savings	\$ -	\$ 3.47	\$ 11.77
Net Income / (Loss) Before Reserve Allocation	\$ (12.42)	\$ (40.70)	\$ (43.00)
Allocation of Reserves	\$ 12.66	\$ 25.25	\$ 15.48
Net Income / (Loss) After Reserve Allocation	\$ 0.23	\$ (15.45)	\$ (27.52)

Average Membership

Active Employees / Pre-65 Retirees	82,391	84,475	86,891
Post-65 Retirees	14,279	15,003	15,903
Total Enrolled	96,670	99,479	102,794

Total Income PMPM¹	\$ 292.48	\$ 299.75	\$ 313.28
Total Expenses PMPM²	\$ (292.28)	\$ (312.69)	\$ (335.60)

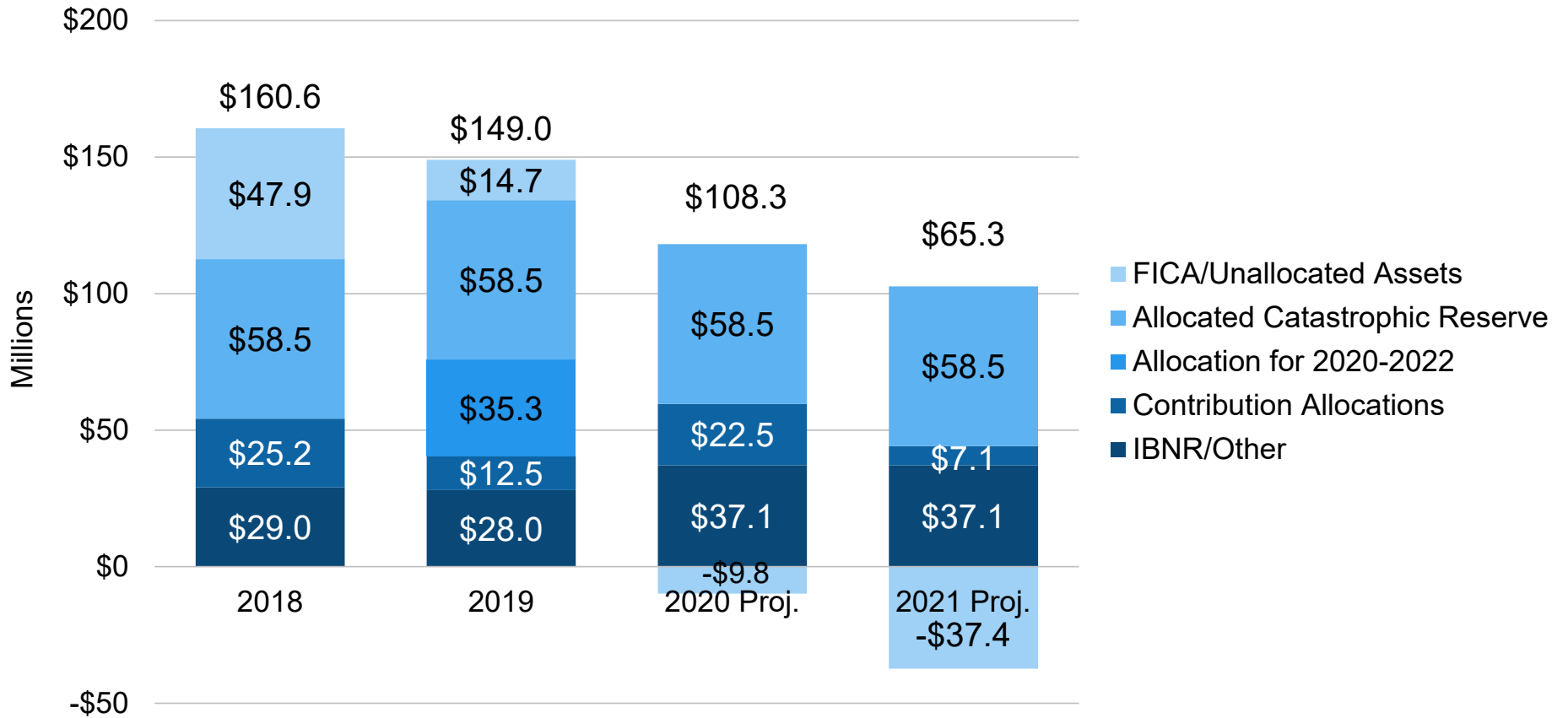
¹ Allocation of Reserves included in Total Income

² Total Expenses offset by Program Savings

Projected Assets: 2019 – 2021

Development of 2021 End-of-Year Assets (\$millions)			
(a)	2019	End-of-Year Assets	\$149.0
(b)	2020	Total Income	\$332.6
(c)		Total Expenses	(\$373.3)
(d)		Allocated Assets	<u>\$25.3</u>
(e) = (b) + (c) + (d)		Total Surplus / (Deficit)	(\$15.4)
(f) = (a) - (d) + (e)		End-of-Year Assets	\$108.3
(g)	2021	Total Income	\$371.0
(h)		Total Expenses	(\$414.0)
(i)		Allocated Assets	<u>\$15.5</u>
(j) = (g) + (h) + (i)		Total Surplus / (Deficit)	(\$27.5)
(k) = (f) - (i) + (j)		End-of-Year Assets	\$65.3

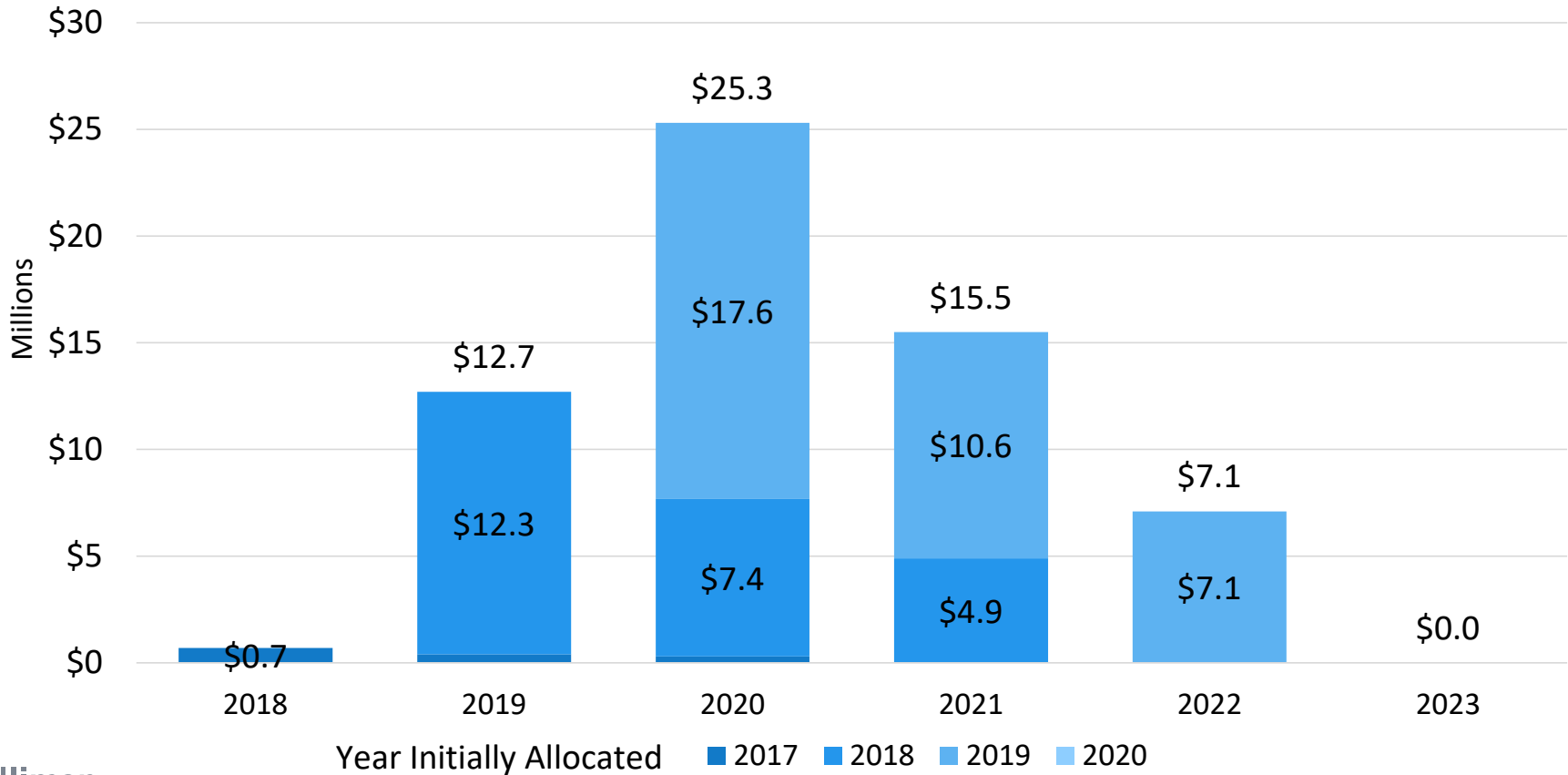
End of Year Assets



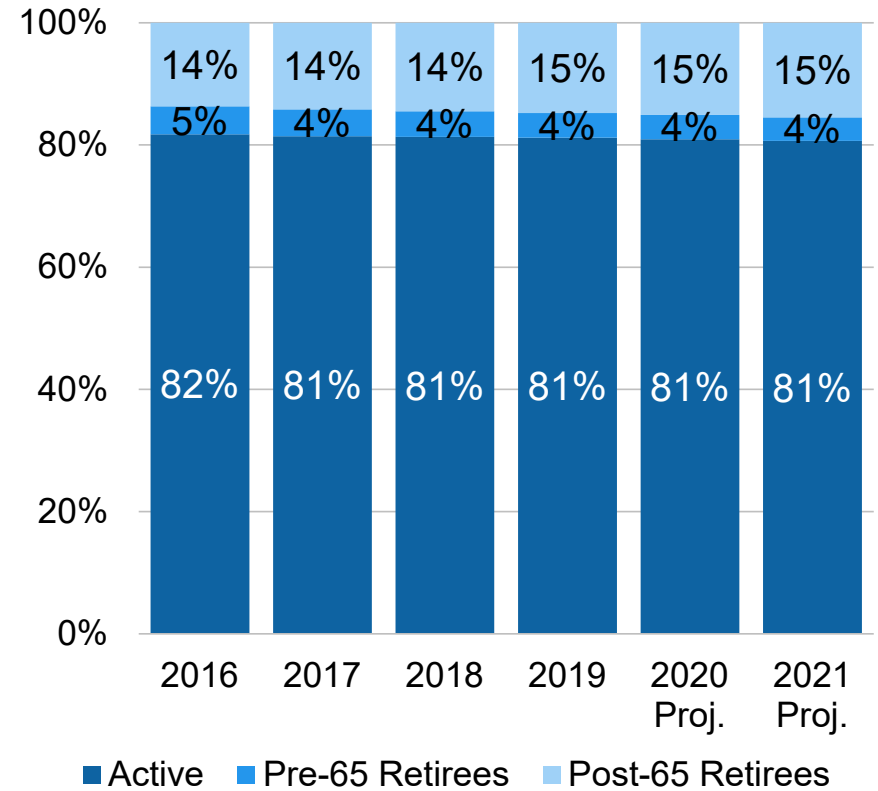
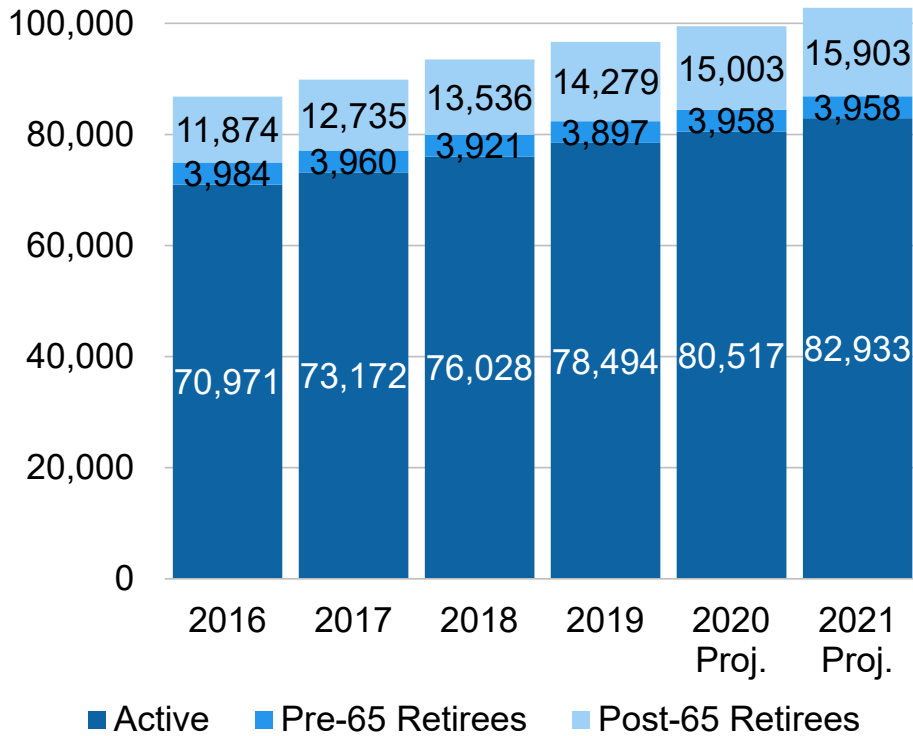
Appendix

PSE - Reserves Allocation by Year

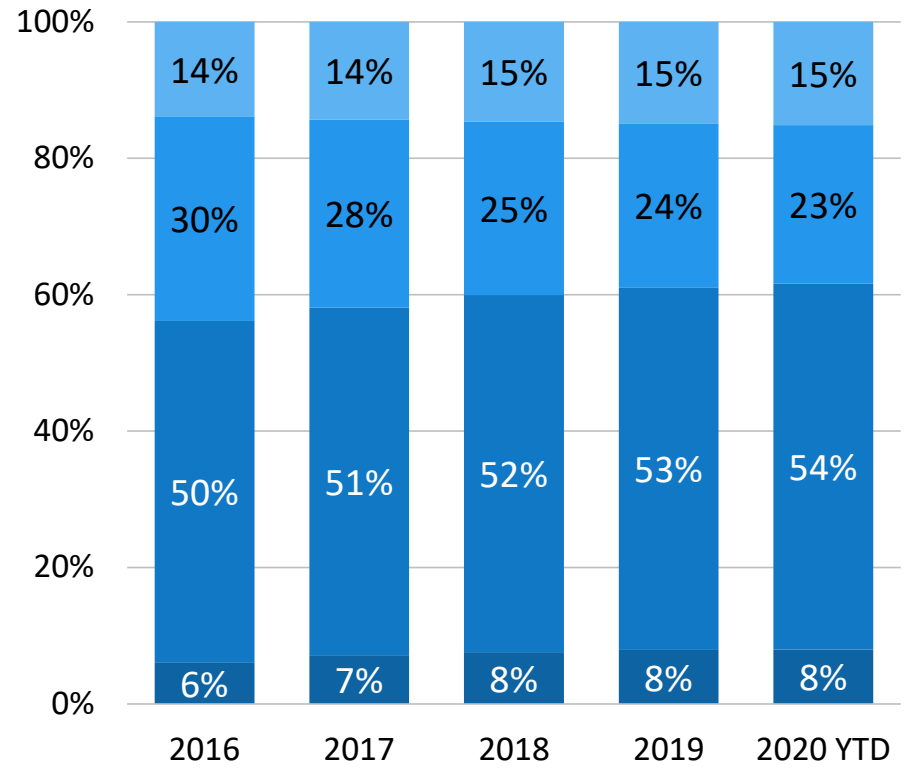
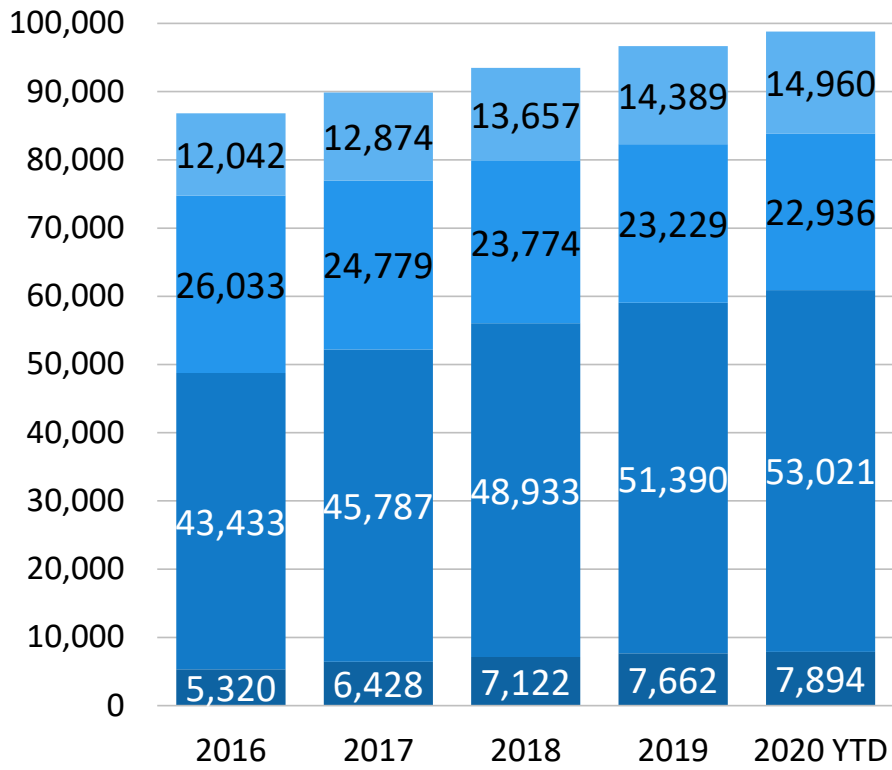
The chart represents the reserves amounts allocated each year (in millions), and how much reserves are available each year.



PSE - Average Membership by Status



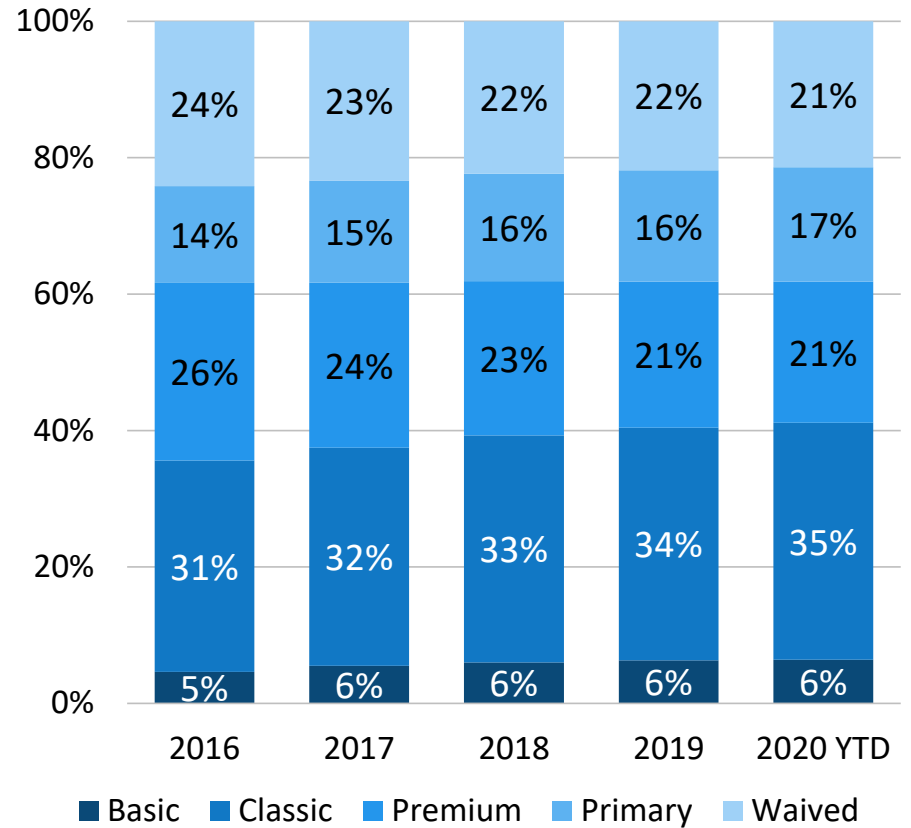
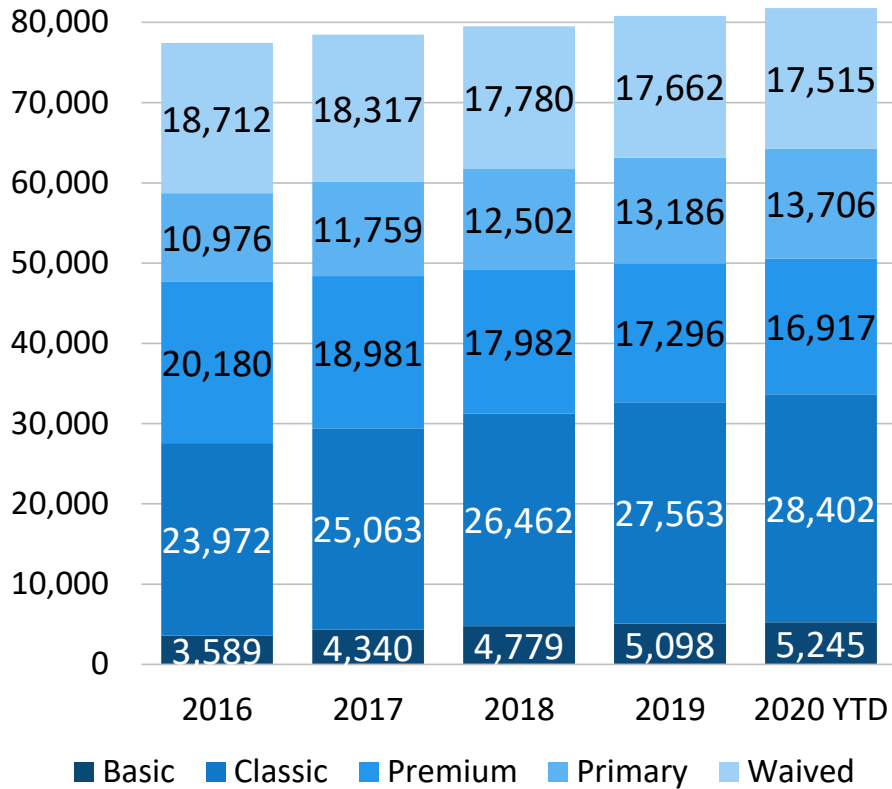
PSE - Average Membership by Plan



■ Basic ■ Classic ■ Premium ■ Primary

■ Basic ■ Classic ■ Premium ■ Primary

PSE - Average Enrollment (Subscribers) by Plan



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