

State of Arkansas Employee Benefits Division

EXHIBIT E

ASE and PSE Program Update

Through November 30th

Senate and House Insurance and Commerce Committees

Courtney White, FSA, MAAA

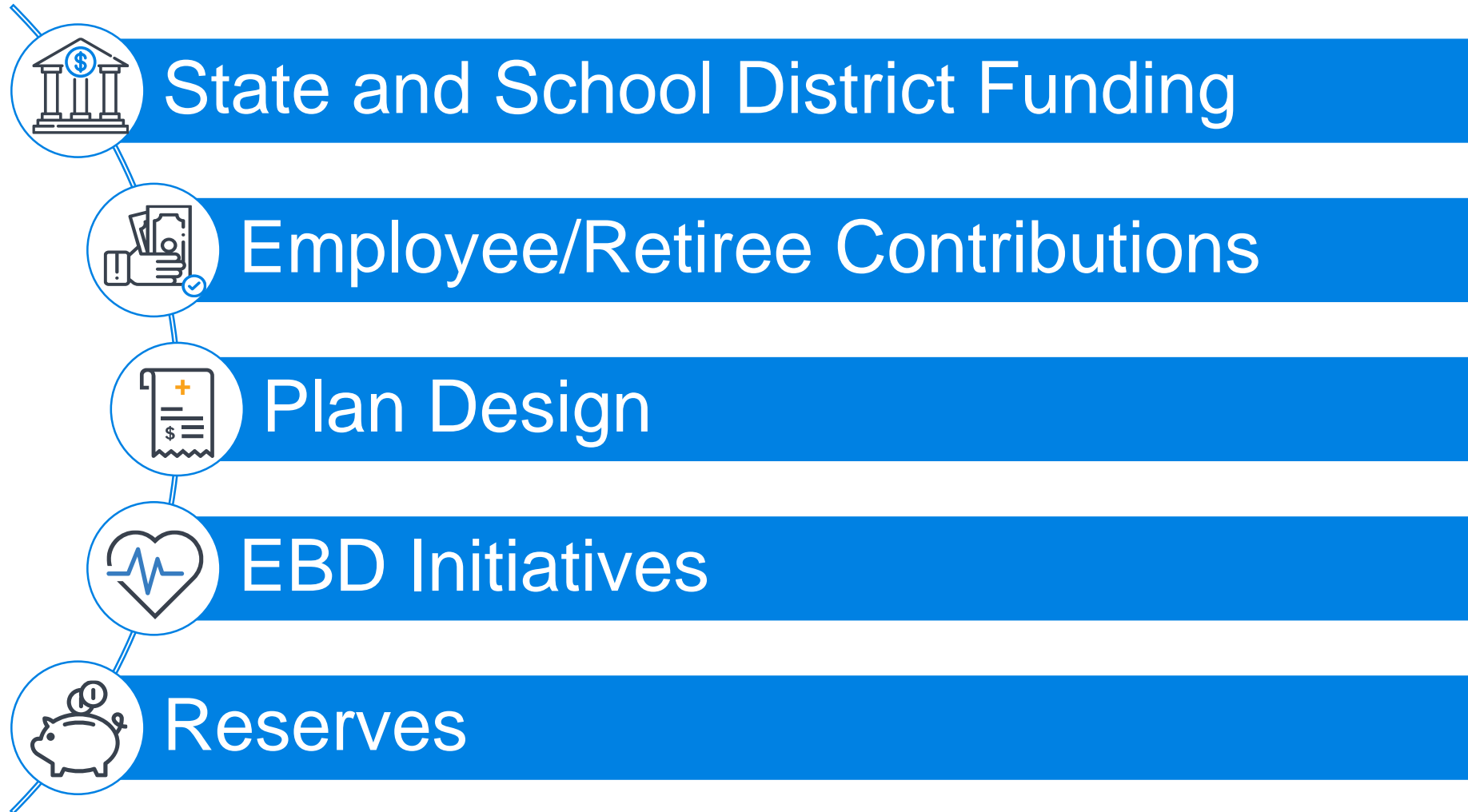
16 DECEMBER 2020



Agenda

- Budget Levers
- Arkansas State Employees (ASE)
- Public School Employees (PSE)
- Appendix

Budget Levers



Arkansas State Employees (ASE)

Executive Summary

- 2020 & 2021 projections updated to incorporate medical claims data incurred from March 2019 to February 2020 and paid through November 2020 and pharmacy claims data incurred from October 2019 to September 2020 and paid through November 2020
- 2020 projected plan experience
 - Allocation of Prior Years' Surplus for 2020: \$25.1M
 - Estimated surplus of \$500K (after prior years' surplus allocation)
 - End of Year Unallocated Assets for 2020: \$8.9M
 - Incorporate estimated impact of COVID from deferred services, pent-up demand, and treatment / testing costs
 - No plan changes / 5% increase in employee contributions
- 2021 projected plan experience
 - Allocation of Prior Years' Surplus for 2021: \$14.5M
 - Projected deficit: **-\$4.8M** (after prior years' surplus allocation)
 - End of Year Unallocated Assets for 2021: \$4.1M
 - Reflected 2021 program initiatives
 - Increased membership based on historical patterns
 - Baseline trends (medical: 5%, pharmacy: 8%)
 - September 29, 2020 Board action (next slide)

Board Action – September 29, 2020

- Increased employee contribution for the Active employees, Pre-65 retirees, and Post-65 retirees by 5%
- \$25 per month stipend for Post-65 retirees opting out of pharmacy coverage
- Changed wellness credit from \$75 per month to \$50 per month for Active employees
 - Maintained \$0 employee contribution for Basic Plan with Wellness for Employee Only contracts
- Increased State funding from \$420 per eligible per month to \$450 per eligible per month
- No plan design changes

Total Plan Experience

<u>Funding</u>	<u>2019</u>		<u>2020</u>		<u>2021</u>	
State Contribution	\$	173.61	\$	172.24	\$	184.48
Employee Contribution		97.45		99.01		110.02
Other		23.47		21.65		21.80
Total Income	\$	294.53	\$	292.91	\$	316.31
Medical Claims	\$	(194.58)	\$	(205.34)	\$	(222.31)
Pharmacy Claims		(86.58)		(91.97)		(100.37)
Administration Fees		(18.30)		(17.42)		(17.53)
Plan Administration		(2.90)		(2.79)		(2.81)
Total Expenses	\$	(302.36)	\$	(317.52)	\$	(343.02)
Program Savings	\$	-	\$	-	\$	7.50
Net Income / (Loss) Before Surplus Allocation	\$	(7.84)	\$	(24.61)	\$	(19.22)
Allocation of Prior Years' Surplus	\$	21.70	\$	25.08	\$	14.46
Net Income / (Loss) After Surplus Allocation	\$	13.87	\$	0.47	\$	(4.76)

Average Membership

Active Employees / Pre-65 Retirees	47,751	46,611	46,611
Post-65 Retirees	13,343	13,748	14,161
Total Enrolled	61,094	60,359	60,772

Total Income PMPM¹	\$	431.35	\$	439.03	\$	453.56
Total Expenses PMPM²	\$	(412.43)	\$	(438.38)	\$	(460.08)

¹ Allocation of Prior Years' Surplus included in Total Income

² Total Expenses offset by Program Savings

Early 2022 Snapshot

<u>Funding</u>	<u>2022</u>
State Contribution	\$ 184.48
Employee Contribution	110.78
Other	21.80
Total Income	\$ 317.06
Medical Claims	\$ (235.02)
Pharmacy Claims	(109.14)
Administration Fees	(17.65)
Plan Administration	(2.91)
Total Expenses	\$ (364.73)
Program Savings	\$ 7.55
Net Income / (Loss) Before Surplus Allocation	\$ (40.12)
Allocation of Prior Years' Surplus	\$ 6.10
Net Income / (Loss) After Surplus Allocation	\$ (34.02)

■ Key Assumptions

- 2021 state contributions - \$450 per budget employee per month
- No changes to Employee Contributions or Other
- Headcount
 - Active/Pre-65: 0%
 - Post-65: +3%
- Trends
 - Medical: +5%
 - Pharmacy: +8%
 - Admin: +0%
 - Plan Admin: +3%

Public School Employees (PSE)

Executive Summary

- 2020 & 2021 projections updated to incorporate medical claims data incurred from March 2019 to February 2020 and paid through November 2020 and pharmacy claims data incurred from October 2019 to September 2020 and paid through November 2020
- 2020 plan experience
 - Allocation of Prior Years' Surplus for 2020: \$25.3M
 - Estimated deficit of **-\$3.5M** (after prior years' surplus allocation)
 - End of Year Unallocated Assets for 2020: \$2.1M
 - 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
 - Allocation of Prior Years' Surplus for 2021: \$15.5M
 - Projected deficit: **-\$27.2M** (after prior years' surplus allocation)
 - End of Year Unallocated Assets for 2021: **-\$25.1M**
 - Reflected 2021 program initiatives
 - Increased membership based on historical patterns
 - Baseline trends (medical: 7%, pharmacy: 8%)
 - September 29, 2020 Board action (next slide)

Board Action – September 29, 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, and 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	\$ 105.09	\$ 108.59
Employee Contribution	121.12	123.87	137.97
Dept of Ed Funding	88.10	88.10	108.10
Other	15.02	14.88	15.38
Total Income	\$ 326.64	\$ 331.94	\$ 370.03
Medical Claims	\$ (247.11)	\$ (261.74)	\$ (312.59)
Pharmacy Claims	(60.87)	(68.35)	(73.89)
Administration Fees	(28.46)	(28.10)	(29.12)
Plan Administration	(2.61)	(2.54)	(2.63)
Total Expenses	\$ (339.06)	\$ (360.74)	\$ (418.22)
Program Savings	\$ -	\$ -	\$ 5.50
Net Income / (Loss) Before Surplus Allocation	\$ (12.42)	\$ (28.80)	\$ (42.69)
Allocation of Prior Years' Surplus	\$ 12.66	\$ 25.25	\$ 15.48
Net Income / (Loss) After Surplus Allocation	\$ 0.24	\$ (3.55)	\$ (27.21)

<u>Average Membership</u>			
Active Employees / Pre-65 Retirees	82,388	84,191	86,597
Post-65 Retirees	14,277	15,009	15,909
Total Enrolled	96,664	99,200	102,507

Total Income PMPM¹	\$ 292.50	\$ 300.06	\$ 313.40
Total Expenses PMPM²	\$ (292.30)	\$ (303.04)	\$ (335.52)

¹ Allocation of Prior Years' Surplus included in Total Income

² Total Expenses offset by Program Savings

Early 2022 Snapshot

<u>Funding</u>	<u>2022</u>
PPE Funding	\$ 112.21
Employee Contribution	142.56
Dept of Ed Funding	108.10
Other	15.89
Total Income	\$ 378.77
Medical Claims	\$ (345.62)
Pharmacy Claims	(82.46)
Administration Fees	(30.09)
Plan Administration	(2.80)
Total Expenses	\$ (460.96)
Program Savings	\$ 5.68
Net Income / (Loss) Before Surplus Allocation	\$ (76.51)
Allocation of Prior Years' Surplus	\$ 7.10
Net Income / (Loss) After Surplus Allocation	\$ (69.41)

- Key Assumptions
 - No changes to PPE, DOE, Employee Contributions or Other
 - Headcount
 - Active/Pre-65: +3%
 - Post-65: +6%
 - Trends
 - Medical: +7%
 - Pharmacy: +8%
 - Admin: +0%
 - Plan Admin: +3%



Thank you

Courtney White, FSA, MAAA

Appendix

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 October 2020
 - Projected November – December 2020 based on historical patterns
- Program Savings
 - 2021 program savings estimated to be \$7.5 million for ASE and \$5.5 million for PSE
- Plan Administration Expense
 - ASE - \$3.85 PMPM for CY2020 and CY 2021
 - PSE - \$2.14 PMPM for CY2020 and CY 2021
- 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 claims incurred from March 1, 2019 to February 29, 2020 and paid from March 1, 2019 to November 30, 2020. Medical claims are gross of withholds. Reports reflects the timing of when EBD is expected to pay the withhold.
2. Summarized fee-for-service (FFS) pharmacy claims incurred from October 1, 2019 to September 30, 2020 and paid from October 1, 2019 to November 30, 2020.
3. Converted the paid and incurred claims to incurred claims using completion factors. This incorporates the incurred but not reported (IBNR) claim reserve.
4. Summarized member months for March 1, 2019 to February 29, 2020 (medical) and October 1, 2019 to September 30, 2020 (pharmacy).
5. Divided the summarized incurred claims by the appropriate member months to calculate PMPMs.
5. 2020 Projected the incurred claims for November 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 (December 1, 2020). Utilize actual claims for January 2020 to October 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.

Limitations

Courtney White and Paul Sakhrani are Members of the American Academy of Actuaries and Fellows of the Society of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render actuarial 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 relied on historical ASE and PSE medical and pharmacy claims from ABCBS and MedImpact, respectively; funding and plan administration from EBD; historical ASE and PSE members by benefit plan, age/gender, and by month from EBD; 2019, 2020, and 2021 ASE and PSE benefit plan summaries from EBD; 2020 and 2021 fees and administrative expenses from EBD; conversations with EBD regarding the program, and actuarial judgment.

While we reviewed the 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. It is certain that actual experience will not conform exactly to the assumptions used in 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 also 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.

The terms of Milliman's Consulting Services Agreement as a subcontractor to Health Advantage, an affiliate of ABCBS, for the State of Arkansas dated October 29, 2019 apply to this email and its use.

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