# AGENDA

## State and Public School Life and Health Insurance Board

## February 23rd, 2021

## 1:00 p.m.

## EBD Board Room – Rockefeller Building, Suite 500

| | | |
|---|---|---|
| *I.* | *Call to Order* | *Renee Mallory, Chair* |
| *II.* | *Approval of January Minutes* | *Renee Mallory, Chair* |
| *III.* | *Benefits Subcommittee Update* | *Shalada Toles, EBD Deputy Director* |
| *IV.* | *Trend Experience* | *Paul Sakhrani & Courtney White, Milliman* |
| *V.* | *EBD Report* | *Shalada Toles, EBD Deputy Director* |
| *VI.* | *Director Search* | *Mitch Rouse, TSS Chief Legal Counsel* |
| *VII.* | *Secretary's Report* | *Amy Fecher, TSS Secretary* |
| *VIII.* | *Adjournment* | *Renee Mallory, Chair* |

***2021 Upcoming Meetings:***

***March 23rd, April 20th, May 25th***

***NOTE: All material for this meeting will be available by electronic means only***

***Notice: Silence your cell phones. Keep your personal conversations to a minimum.***

# STATE AND PUBLIC SCHOOL LIFE AND HEALTH INSURANCE BOARD MEETING MINUTES

210th meeting of the State and Public School Life and Health Insurance Board (hereinafter called the Board), met on February 23, 2021, at 1:00 PM

*Date* | *time* 2/23/2021 1:00 PM | *meeting called to order by Renee Mallory, Chair*

## Attendance

| Members Present | Members Absent |
|---|---|
| Cindy Allen - teleconference | |
| Stephanie Lilly-Palmer | |
| Greg Rogers - teleconference | |
| Dori Gutierrez | |
| Secretary Cindy Gillespie – proxy – Damian Hicks | |
| Dr. John Kirtley – Vice-Chair | |
| Melissa Moore - teleconference | |
| Dr. Terry Fiddler | |
| Secretary Amy Fecher - teleconference | |
| Dr. Lanita White - teleconference | |
| Lisa Sherrill | |
| Herb Scott | |
| Cynthia Dunlap | |
| Renee Mallory - Chair | |
| Shalada Toles, Employee Benefits Division Deputy Director | |

**OTHERS PRESENT:**

Rhoda Classen, Theresa Huber, Laura Thompson, Stella Greene, Drake Rodriguez, Mary Massirer, Fran Adams, Janella DeVille, EBD; Micah Bard, Dwight Davis, Sherry Bryant, UAMS EBRX; Jessica Akins, Takisha Sanders, Health Advantage; Elizabeth Montgomery, ACHI; Courtney White, Paul Sakhrani, Scott Cohen, Milliman; Mitch Rouse, TSS; Sylvia Landers, Colonial Life; Kristie Banks, Mainstream; Sidney Keisner, UAMS; Brent Flaherty, Judith Paslaski, Suzanne Woodall, MedImpact; Nicholas Poole, ASEA; Frances Bauman, Novo Nordisk; Stephen Carroll, AllCare Specialty; Nima Nabavi, Amgen, Donna Morey, ARTA; Charles Hubbard, ASP; Erika Gee, WLJ; Aaron Shaw, BI; Robin Keene, ASEA; Ronda Walthall, ARDOT; Jim Musick, GSK; Mary Grace Smith, ASE Retiree; Melissa Riffle, AGFC; Angie Brown, ADPHT; Scott Hart, AstraZeneca

## Approval of Minutes by Renee Mallory, Chair

**MOTION** by Lilly-Palmer:

Motion to accept the January 26, 2021 minutes.

Dr. Kirtley seconded; all were in favor.

**Minutes Approved.**

## Subcommittee Updates by Shalada Toles, EBD Deputy Director

Toles provided a brief update on the Benefits subcommittee meeting.

**Topics Discussed:**
- Approval of Minutes
- Trend Experience by Milliman
- EBD Report

## Trend Experience by Courtney White & Paul Sakhrani, Milliman

White and Sakhrani provided an update on the Plan experience for ASE and PSE and presented the 2021 roadmap.

ASE

- 2021 & 2022 projections updated to incorporate medical claims data incurred from March 2019 to February 2020 and paid through January 2021 and pharmacy claims data incurred from December 2019 to November 2020 and paid through January 2021. 2020 reflects actual claims paid.

- 2021 projected plan experience
    - Allocation of Prior Years' Surplus for 2021 is $14.5M
    - Projected deficit: -$1.3M (after prior years' surplus allocation)
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    - Reflects 2021 program initiatives and board decisions
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    - End of Year Unallocated Assets for 2021: -$20.9M
    - Reflected baseline scenario
    - No plan design or contribution changes

PSE

- 2021 & 2022 projections updated to incorporate medical claims data incurred from March 2019 to February 2020 and paid through January 2021 and pharmacy claims data incurred from December 2019 to November 2020 and paid through January 2021. 2020 reflects actual claims paid.

- 2021 projected plan experience
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Discussion:

*ASE*

Dr. Fiddler: What is the time period for the IBNR. From the time that you identify something as needing to be paid to the time you actually paid it, and it comes off of it?

White: We look at the date of service, and then we look at historical patterns because we have to estimate it. We have claims that have incurred in January '21 that we're estimating how long it's going to be before those get paid.

Dr. Fiddler: How long does that usually happen? If you've got something in January, when do you normally end up paying that, as an average? I know it's all different ones, but I'm just wondering how long you could actually call something part of the IBNR when it no longer is.

White: I'd have to go back, and we can send you the exact number, but I think it's less than a month and a half on average. That's a rolling number, and it gets updated every month. You have those claims that were incurred in January of 2021. Those are expected to be paid in a month and a half, and some of them are paid within weeks. Some of them are paid 18 months later, just depending on the back and forth between the health insurance carrier and the provider in terms of getting the adjudication of the claim correct.

Lilly-Palmer: To Dr. Fiddler's point, that is good information to have. It's my understanding that wherever the claim is incurred, they have up to six months to even file that claim. At that point, that is where the 18 months comes in because not all of them file it within that month. While I see where you're going with that, and it is good information to have, if they have six months to file that claim and then negotiating that claim back and forth, then don't they have another six months up to the 18 months.

Toles: Six months is the timely filing deadline for Medicare primary claims.

Lilly-Palmer: Right, I mean after that is filed, don't they have other time to negotiate?

White: I'm not sure there is a statutory limit on when the claim has to be paid, though.

Dr. Fiddler: My point is you had made the comment, not that it was happening but say that the plan ceases to exist. And so, you had to have X amount of net assets available to take care of that. Well, my point would be that in my world, when I had a practice, if I had those things like incurred, but not reported, that's still money. That's already gone as far as I was concerned because I had to make that bill paid. If that bill comes up and you said

the six months, we may have a whole lot more than $26 million, but we may have $8 or $10 million if we had an opportunity that everybody got their accountant and said, hey, go ahead, and let's pay this. So, this seems to me like a very wobbly issue as far as actually have that to call on if we don't have it. Because when you went down to 2022, if it stays at $26.9 million, we're still $5 million in the red, and it may be even more. That's what I'm concerned about.

Toles: To add to that discussion, because of the CARES Act, the timely filing guidelines have been waived temporarily. So, the six months could expand significantly.

Dr. Kirtley: This is just our operating average of when we look back for everything that we paid up; this is about how much we know is in that queue waiting to get reported to us. So, we've always said that we have to have this much in reserve to pay all the bills.

Mallory: At any given time.

Dr. Kirtley: It's a risk for us already, and our best guess is that it's roughly $26.6 million at any given time.

Dr. Fiddler: Isn't that what happened before I was on the Board, several years back that we rolled the dice and came up with snake eyes on some of that risk?

Dr. Kirtley: Well, we never got past that, but there was a point historically where we did not have as much money in the bank as what we estimated the IBNR to be, which is why we started things like the catastrophic reserve so that we would have a secondary mechanism for anything catastrophic. So, we would always have enough money to pay all of our risks.

Dr. Fiddler: I'm not a knee-jerking person by any stretch of the imagination, but we have never had a 2020 before. That's why I'm concerned about this.

White: Yeah, and it's based on the most recent data. We're looking at the claims up to the most recent month that we have data to try to estimate what that additional liability and asset might be. Most of it is medical, just so you know. The pharmacy claims are paid almost within a week or two because they're mostly electronically adjudicated. There are some timing differences on when the claim is paid by MedImpact and when EBD actually writes the check to them for that. But most of it is medical. I think your point is we need to have positive net assets available; that bottom number needs to be positive.

Dunlap: Where is the catastrophic reserve in these numbers on the screen?

White: It's included in the assets net of IBNR, the $46.1 million. That reflects that we have $16 million in catastrophic reserve, which was $30 million in 2018, I believe.

Dunlap: So, when you get to 2022, there is no catastrophic reserve?

Fecher: We have nothing.

White: Yes, we are $20 million in the hole. We really don't have enough money to fund the catastrophic reserve, and we're still $5 million short.

Dr. Kirtley: In 2022, it shows us using the entire catastrophic reserve for the bottom line, which does away with it and still be short $4.9 million.

Dunlap: Okay, I just wanted to make sure that that was what I was seeing.

*PSE*

Dr. Fiddler: At the end of the year (2022), we have net assets available of -$18.8 million. If the IBNR holds true at $7.1 million, do we have enough catastrophic reserve to cover our loss in 2022 if it stays as it is? That is a rhetorical question. If it holds true in 2022 for 2021, the only way that we can increase the catastrophic reserve is either: going to the PSE members or going to the legislature to increase that.

Mallory: Or both.

Dr. Fiddler: When do we start crossing those I's and dotting those T's so that this doesn't happen.

Fecher: I think Dr. Fiddler is bringing up an excellent point. I just want to talk to the Board about our responsibility. We sit here every month and see that these numbers are getting worse and worse. At the end of 2022, we will definitely be in a deficit with no reserve fund, and we are going to have to make some hard decisions. I had Mitch pull up the enabling legislation on our Board, and if you will indulge me, I wanted to read a little bit of what our responsibilities are. We are to manage the state employee and public-school personnel health insurance and self-funded medical problems, enhance the ability to control premiums, expand managed care capabilities where feasible, and study alternate funding arrangements which minimize or eliminate problems. We are to propose future goals and measures to address the common objectives of both groups. So, what I wanted to bring to the Board and get direction from you is that we waited until August last year and we aren't going to have that luxury this year. I think we need to start immediately, and we may even need to meet more than monthly because we need to have a proposal on what we are going to propose to do as far as getting the plan back on track. I can work with Milliman and bring you models or whatever the Board wants to do, but if we don't do something, it's going to be done for us. They're going to legislate it. So, I just wanted to bring that up to the Board. I know that's not fun, and it's stark, but it's the reality of where we are.

Dr. Fiddler: I appreciate it as a Board member that you are approaching this because my concern is that we are going to have a different legislature in 2022 or maybe a different makeup. So, what I don't want it to fall on is the shoulders of the members of ASE and, in this case, the shoulders of the members of PSE. That's why I would like for us to meet more often to do these things. Rather than us starting to wring our hands, we don't have that prerogative anymore. We don't want people to be hit in the face with this again where they think things are going well and they aren't. If we can address this early, we can't solve that problem, but we can certainly be a part of that solution. If we say that we ended with a surplus and we have asked for too much money, well, I have never seen a surplus not get used. So, I would rather ask for too much and adjust to too much than to not have enough, and it fall on our individual members, retirees, ASE, or PSE.

## EBD Report by Shalada Toles, EBD Deputy Director

Toles stated that the Bariatric program opened on February 1st and closed pretty quickly. Three hundred slots were closed within 12 hours, I believe. HealthAdvantage is doing a good job of reaching out to all those interested. We have contacted 78 of the 300, and we expect to have everyone reached by March 31st. I also wanted to let this group know that we have a total of 218 members on the ASE side who have opted out of the drug program this year, and that number

increased slightly every month. Lastly, on the Bariatric program, there is proposed legislation to extend the pilot program to 2026, and we will continue to watch that to see what happens.

## Director Search by Mitch Rouse, TSS Legal Counsel

Rouse stated that we have nine applicants so far. We have advertised it on several boards that were recommended by this committee, as well as LinkedIn and a few other spots to try to get as much traffic as we could. At this point, we have nine applicants. I have reached out to the subcommittee to set up a time for us to meet and go over those applicants.

## Secretary's Report by Amy Fecher, TSS Secretary

Fecher provided an update on the legislative session. We are tracking about 16 bills for EBD that could affect the healthcare plans. Some of them will benefit us, and some will cost us more. I wanted to bring your attention to HB1337. That is a bill that has been filed that changes the makeup of this Board. It adds two members, one would be a state, and the other would be a retired state employee. It also states that at the end of 2022, any time we make significant changes to the plan, including anything above a 5% increase or more that we would have to go before the legislature for review and approval before those could take place. It also raises the cap that the state could pay to up to $500 because currently, we are at $450, which is that cap right now. One other thing is the training the Milliman has put together for us. I want to encourage everyone, if you have not been able to get online and access these trainings, to reach out to Shalada or Rhoda. They will sit there and walk you through it. It is some very valuable training, and I'm watching them myself. I think it will give, especially the newer Board members, you a little bit of information that you may not already know. On the larger discussion, I really just want direction from the Board because when we came with a presentation in August last year, there was a lot of pushback from the Board, the public, and from the legislators on the proposed plan. We need to identify how we are going to come up with a plan, whether that is this Board meeting and separate sessions just to address this issue, if it's a subcommittee that we are going to put together to look at this issue, or if you want me to put together different models from the administrative part and bring them to the whole Board and start looking through suggestion on what we could change, but we are going to have to do something.

Dr. Kirtley: Is there any legislation on the PSE side to increase any of the money on that side? Because I understand what that would do on the ASE side, but is there anything parallel for PSE?

Fecher: Not that I am aware of, but Greg, are you all tracking anything on the education side of that? I have not seen anything.

Rogers: No, other than what we went through during the fall hearings when the governor approved our request to increase what we were given from the $88 million to the $108 million, so that is already in there. It is still showing the deficit even with the additional $20 million, but that is all that I know of.

Dr. Kirtley: I know back in the fall, we had Board members that had asked for several ideas to be shared to EBD and had asked about getting those, but I'm not sure we ever got those.

Dr. White: I had asked for those several times and never received anything. I don't know if you got anything, Secretary Fecher, but I had asked for it and was supposed to get it in August of 2020 and was again promised in September, but I did not receive that.

Fecher: Yes, I believe we had asked the former director for those. I was not aware that those had not been shared with you, so we will go back and get that information for you. I have a lot more information just in the questions that Dr. White answered that I could bring back to the Board as well. I have been looking at it very seriously because every month we sit here, and these numbers get worse and worse. It is something that I have been worried about for some time, and I just want to develop a path forward.

Dr. Kirtley: I think you are losing sleep over some of the issues many of us are on this. I know one of the things that we talked about in the past was a review of payment models. I know we have done reviews of our pharmacy payment models, but we aren't sure about our other payment models just because of the complexity of having a third-party intermediary that manages those contracts for us, whereas the Board has done direct management of our pharmacy contractual rates. We weren't sure how we shaped up or if it was like a Medicare plus percentage or anything else on any other procedural issues. I know we have had some questions about that.

Fecher: I do have a little more information on pharmacy costs as well that we have had someone work on that I can share with the Board. I believe it needs a little bit of an explanation with it rather than just sending out a bunch of documents, but if this Board could find a way or anyone that can participate and have a couple of hours working session, I think it would be very useful.

Dr. Kirtley: I think we get a lot of that on the pharmacy side. I know that for me as a pharmacist, I do, but I think we have always had a good bit of confusion on how it works on the medical side because it's not as clear to me. As confusing as pharmacy is, at least I understand it, but I have never been clear on exactly how our medical reimbursement modeling or our contractual agreement for administrative costs on that. I know you get the same questions that we have heard for years about our administrative costs as well as our funding for those services.

Mallory: Is there room to negotiate rates? I think in all my years on the Board, I don't think we have ever approached it that way, and I'm not sure we know why.

Dr. Kirtley: We have had a couple of physicians on here in the past that actually said that we needed to address that side the same way that we have tried to address pharmacy and see where we can trim. That is 70% of the overall cost of the plan on ASE. I haven't looked on PSE.

White: We are looking at the Health Advantage medical claims repricing those as much as we can through Medicare to do a comparison of the hospital reimbursement as a percentage of Medicare and for the physicians.

Dr. White: I am very excited that you are going to bring that for us, Secretary Fecher. I have been asking for that for almost a year now. We do need to look at it because it is the elephant in the room.

Dr. Kirtley: I think that we just don't even know what it is. So, if Milliman can actually give us some numbers to let us know kind of what our calculation area is versus what it could be, the same way that we have done with pharmacy for years. That will be an eye-opener as to the majority cost on the plan.

Mallory: To your point, it is both inpatient and outpatient facility costs plus medical.

White: We are breaking it down into those three buckets, and we have some State of Arkansas benchmarks that we are comparing them against for the whole state, not just for your plan or what Health Advantage brings to the table.

Dr. Kirtley: We need to know if we underpaying or overpaying. Either one is not favorable for the plan. If we are underpaying, we have a whole other set of issues. If we are overpaying, we have a set of issues.

White: I think the contracting cycle is a little different for medical than it is for pharmacy. Those contracts are usually locked in for two or three years at certain reimbursement rates, and then when they come up for renegotiation, that is when they make the changes. It's not like they come out; I don't have all the inside into what Health Advantage does but, there could be a variety of different contractual makeups that equate to what we are going to show you. It's not like they are saying we are going to pay all hospitals X percent of Medicare. There are different structures behind all that, and those contracts come up for renegotiation, not all on the same day. They are on rolling cycles that happen throughout that time period.

Dr. White: Will we have an operation for planning purposes?

Dr. Kirtley: We have never micromanaged the reimbursement of the medical side the way that we have done on the pharmacy side for over a decade. We just don't know what we are specifically engaged in on that side.

Mallory: As they say, we don't know what we don't know. We have never had that information.

Dr. Kirtley: We could look at it, and it could be a significant change up, or down because of the exact type of change that we have done in pharmacy for years to save money.

White: Our goal is to have that analysis to Secretary Fecher this week or early next week. It will definitely be ready for the Board next month.

Mallory: At this point, I would ask if we want it to be the full Board or do we want to elect the subcommittee or nominate a subcommittee to look at that.

Dr. Kirtley: I think, for one thing, it is something we are going to have to educate the whole Board on because this is different than any knowledge any of us have had. I would say that we really need the entire Board to better understand that because we are putting Secretary Fecher in a position where she is getting political questions thrown at her constantly, and we've got to get the whole Board educated on the issue if it's a potential solution.

Mallory: Courtney, do you think you all will have that by the next Board meeting? I hate to wait two months.

White: We will definitely have it by then.

Fecher: I really believe we need to get together before a month from now because there is a lot of information we could go over before Courtney and Milliman complete that.

Dr. White: Are you thinking in the next two weeks, Secretary Fecher?

Fecher: Yes, I think it would be wise. One thing I would say is I agree with Dr. Kirtley completely on the whole Board being involved, but please just know if you can't make it to a meeting, as long as we have a quorum, we are going to go forward. I know even working with the subcommittee for hiring for the director has been problematic, sometimes finding times that work for everyone. Everyone is welcome to participate. We will just have to set some times and keep moving with it and please participate in as many or all that you can.

Dr. Kirtley: I think Secretary Fecher said it best when she said working meeting where we are getting educated, not necessarily that we are making decisions at that meeting, but we are all trying to get up to speed as quickly as possible. If she gets that information next week and there is a time that we can do it, it may take multiple sessions for us all to get up to speed, but she's right with the legislature in session it helps the whole Board and

her as Secretary as much as anything to get on this right now, real quick before it gets worse.

Mallory: Okay, so basically what we will do, Secretary Fecher, is wait for you to basically say when we need to meet, and Rhoda can send something out, and we can get a meeting up as soon as we can. I think we are all committed to that.

Fecher: Great! We will get something to you by the end of the day.

**MOTION** by Dr. Kirtley:

I make a motion to adjourn the meeting.

Lilly-Palmer seconded. All were in favor.

**Meeting Adjourned.**

# The State and Public School Life and Health Insurance Board
## Benefits Sub-Committee Summary Report

The following report resulted from a meeting of the Benefits Sub-Committee meeting.

**Topics Discussed:**
- Approval of Minutes
- Trend Experience by Milliman
- EBD Report

**Plan Update: Paul Sakhrani and Courtney White, Milliman**

White and Sakhrani provided an update on the Plan experience for ASE and PSE and presented the 2021 roadmap.

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**EBD Report: Shalada Toles, EBD Deputy Director**

Toles provided an update on the Bariatric program. We accepted 150 applicants on both sides, ASE and PSE. HealthAdvantage is working on reaching out to the applicants. There is also a bill in legislation right now that would extend the program through 2026.

# State of Arkansas Employee Benefits Division

## Interim Monitoring Report

Through January 31st

State and Public School Life and Health Insurance Board of Directors

Courtney White, FSA, MAAA
Paul Sakhrani, FSA, MAAA

23 FEBRUARY 2020

Milliman

# Agenda

- Arkansas State Employees (ASE)
- Public School Employees (PSE)
- 2021 Roadmap
- Assumptions and Methodology
- Appendices

# Arkansas State Employees (ASE)

# Executive Summary

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# Total Plan Experience

| Funding | 2020 | 2021 | 2022 |
|---|---|---|---|
| State Contribution | $ 172.24 | $ 184.48 | $ 184.48 |
| Employee Contribution | 99.02 | 109.31 | 109.82 |
| Other | 21.65 | 21.51 | 21.66 |
| **Total Income** | $ 292.91 | $ 315.31 | $ 315.97 |
| Medical Claims | $ (205.70) | $ (218.62) | $ (229.95) |
| Pharmacy Claims | (90.92) | (98.87) | (107.57) |
| Administration Fees | (17.42) | (17.28) | (17.41) |
| Plan Administration | (2.79) | (2.77) | (2.87) |
| **Total Expenses** | $ (316.83) | $ (337.54) | $ (357.80) |
| Program Savings | $ - | $ 6.46 | $ 6.55 |
| **Net Income / (Loss) Before Reserve Allocation** | $ (23.91) | $ (15.77) | $ (35.29) |
| Allocation of Reserves | $ 25.08 | $ 14.46 | $ 6.07 |
| **Net Income / (Loss) After Reserve Allocation** | $ 1.17 | $ (1.31) | $ (29.21) |

| Average Membership | | | |
|---|---|---|---|
| Active Employees / Pre-65 Retirees | 46,619 | 45,844 | 45,844 |
| Post-65 Retirees | 13,746 | 14,074 | 14,496 |
| **Total Enrolled** | 60,366 | 59,918 | 60,340 |

| | | | |
|---|---|---|---|
| **Total Income PMPM[1]** | $ 438.99 | $ 458.63 | $ 444.75 |
| **Total Expenses PMPM[2]** | $ (437.37) | $ (460.46) | $ (485.10) |

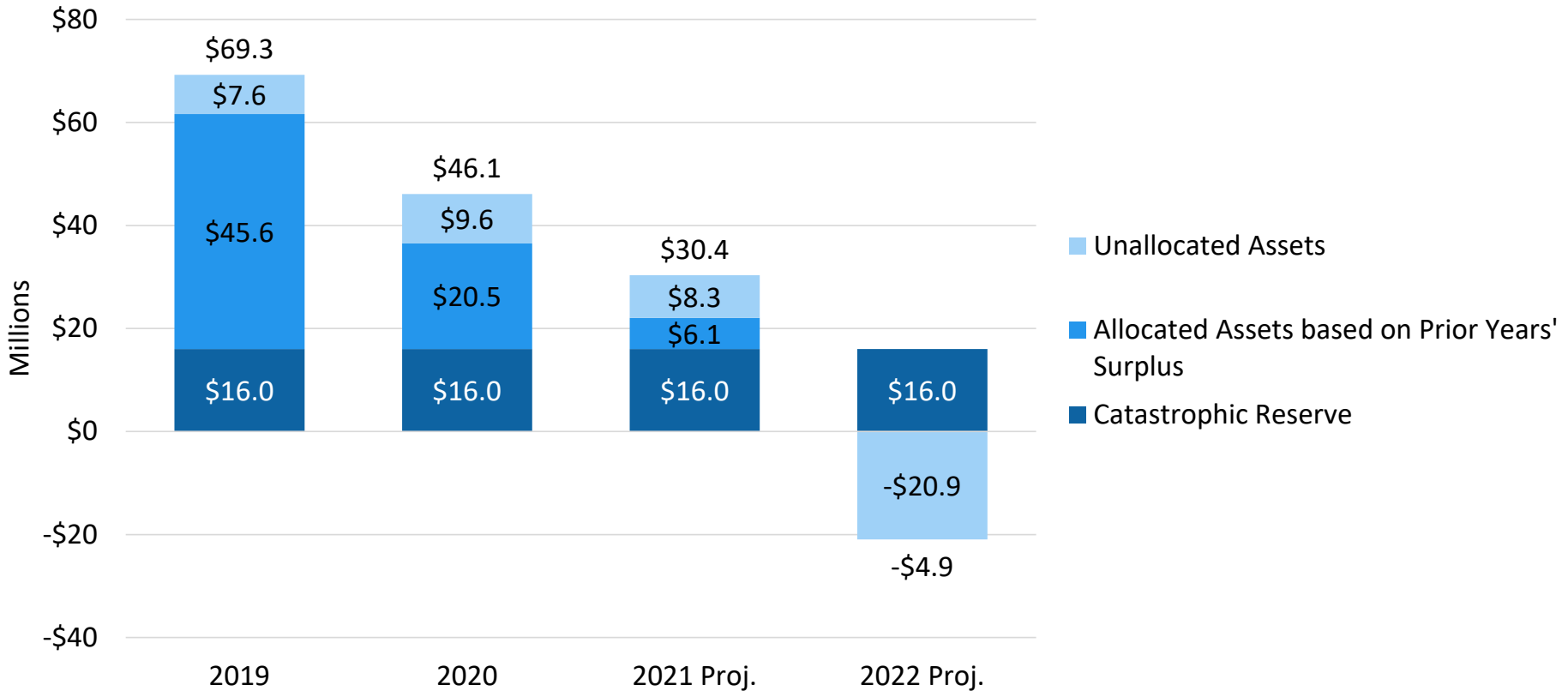
[1] Allocation of Reserves included in Total Income

[2] Total Expenses offset by Program Savings

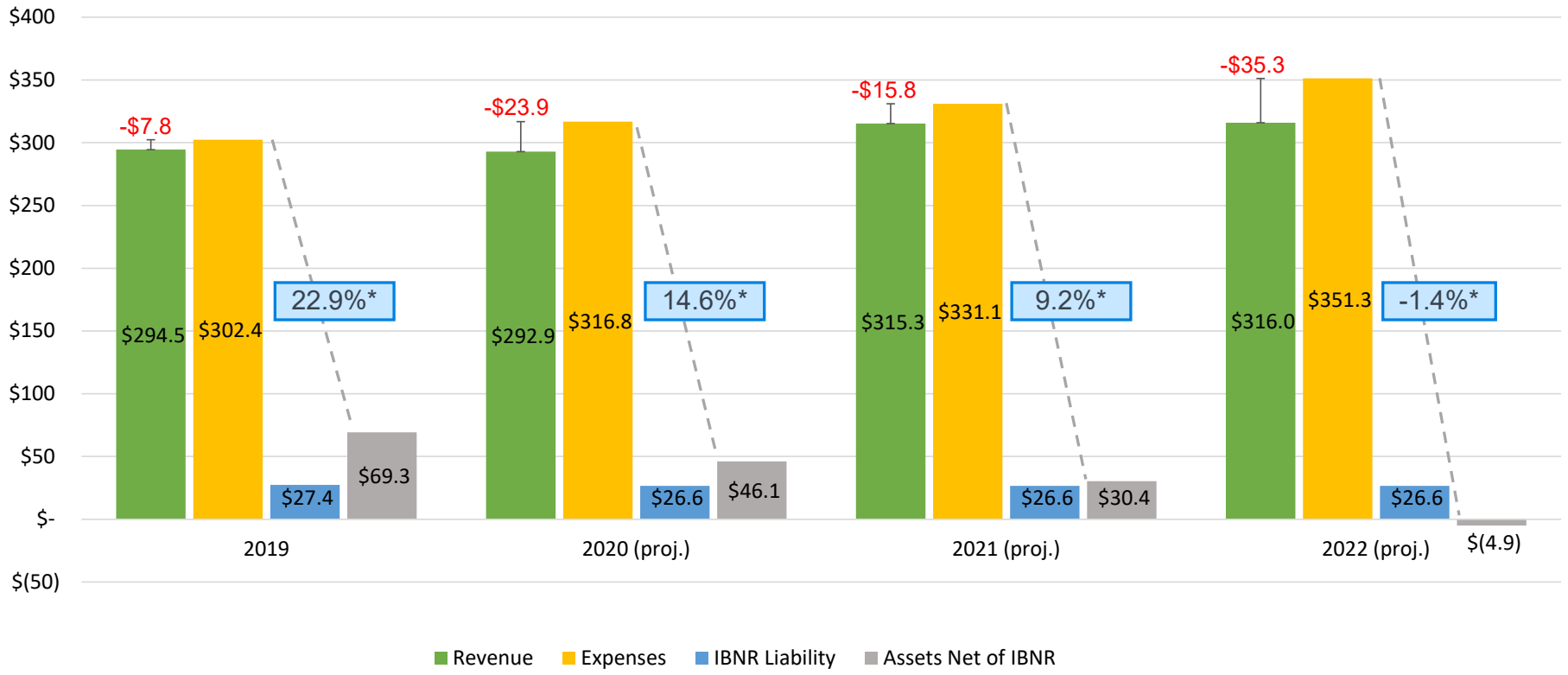
# Projected Assets: 2019 – 2021

| Development of 2021 End-of-Year Assets ($millions) | | | |
|---|---|---|---|
| | | | Assets |
| (a) | Proj 2020 | End-of-Year Gross Assets | $72.7 |
| (b) | 2021 | Allocation of Prior Years' Surplus | ($14.5) |
| (c) | | Total Surplus / (Deficit) | ($1.3) |
| (d) = (a) + (b) + (c) | | End-of-Year Gross Assets Available | $56.9 |
| (e) | | Incurred but not reported (IBNR) | ($26.6) |
| (f) = (d) + (e) | | End of Year Net Assets Available | $30.4 |
| (g) | 2022 | Allocation of Prior Years' Surplus | ($6.1) |
| (h) | | Total Surplus / (Deficit) | ($29.2) |
| (i) = (d) + (g) + (h) | | End-of-Year Gross Assets Available | $21.7 |
| (j) | | Incurred but not reported (IBNR) | ($26.6) |
| (k) = (i) + (j) | | End of Year Net Assets Available | ($4.9) |

# End of Year Assets Net of IBNR

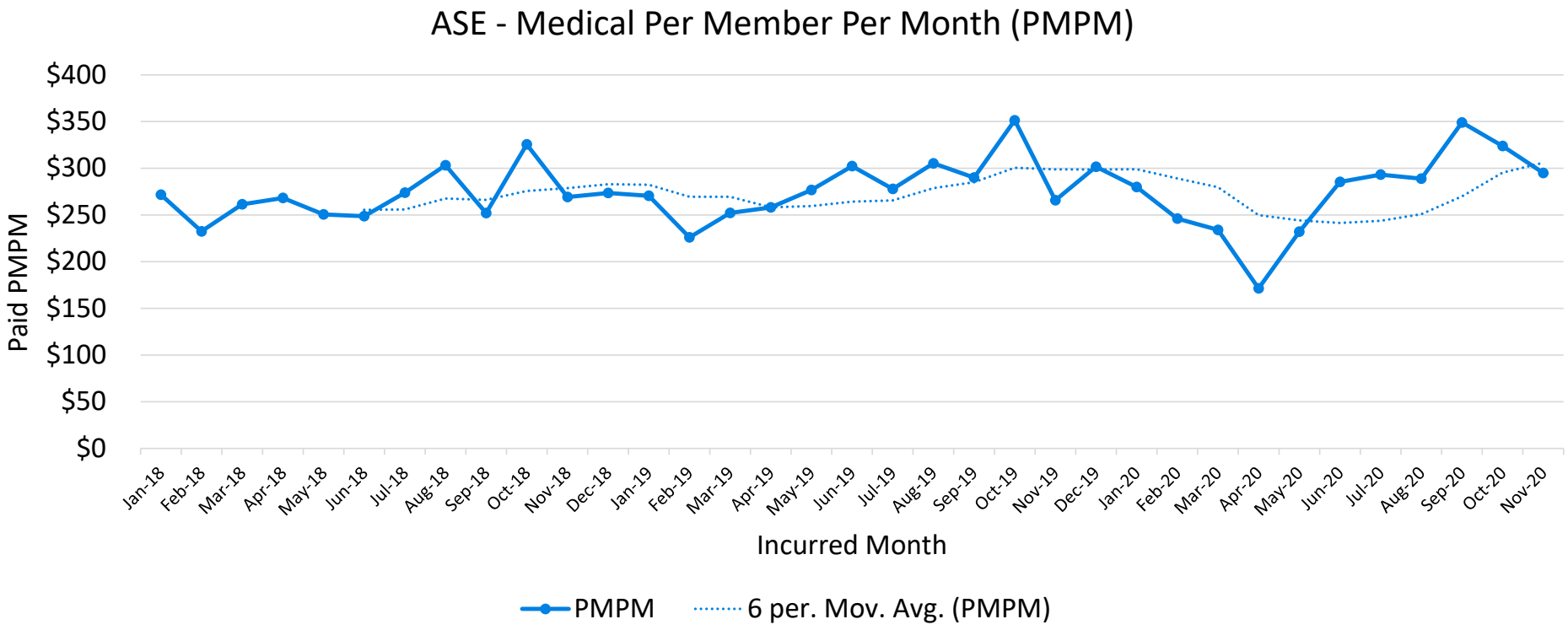


# Change in Revenue, Expenses, and Assets

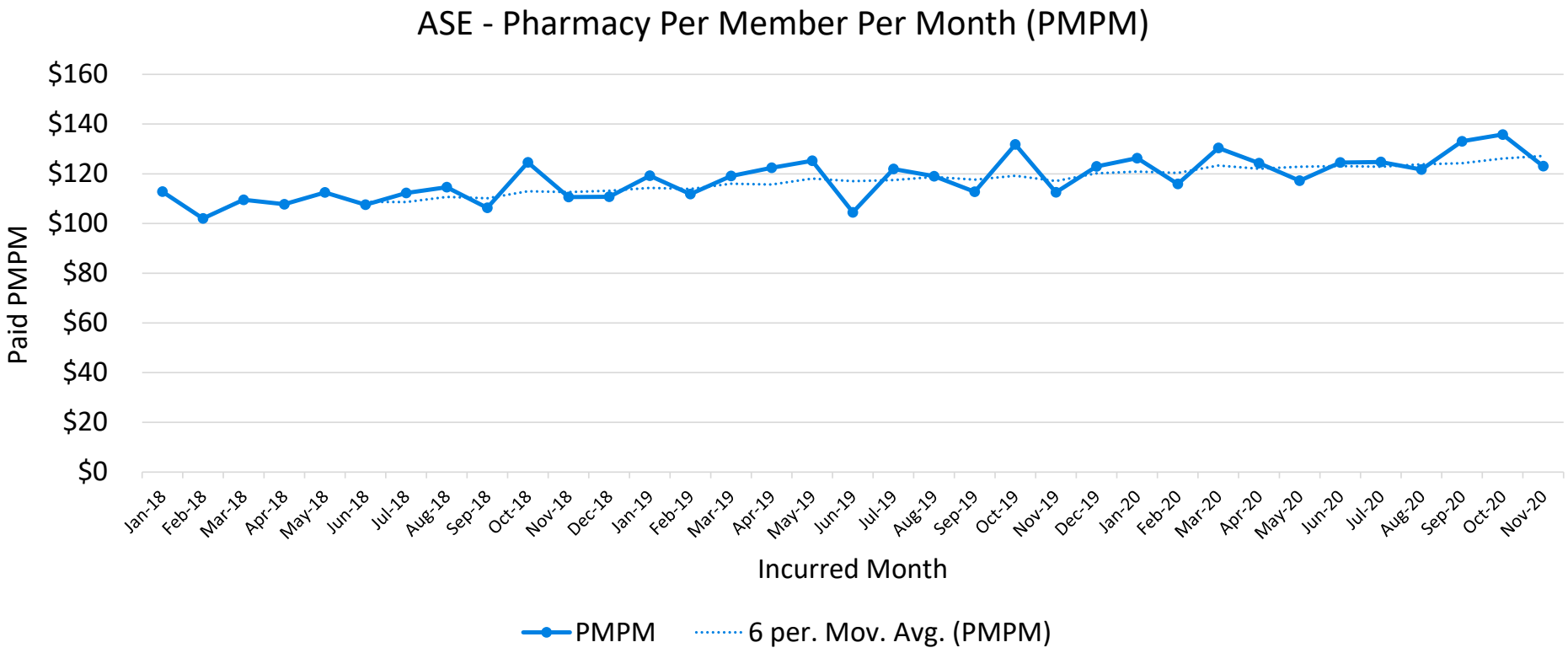



* Assets Net of IBNR as a portion of Expenses

# Monthly Trend - Medical



# Monthly Trend - Pharmacy



# Public School Employees (PSE)

# Executive Summary

- 2021 & 2022 projections updated to incorporate medical claims data incurred from March 2019 to February 2020 and paid through January 2021 and pharmacy claims data incurred from December 2019 to November 2020 and paid through January 2021. 2020 reflects actual claims paid.
- 2021 projected plan experience
  - Allocation of Prior Years' Surplus for 2021: $15.5M
  - Projected deficit: -$19.2M (after prior years' surplus allocation)
  - End of Year Unallocated Assets for 2021: -$13.7M
  - Reflected 2021 program initiatives and board decisions
  - Increased membership based on historical patterns
  - Baseline trends (medical: 7%, pharmacy: 8%)
- 2022 projected plan experience
  - Allocation of Prior Years' Surplus for 2022: $7.1M
  - Estimated deficit of -$63.6M (after prior years' surplus allocation)
  - End of Year Unallocated Assets for 2022: -$77.3M
  - Reflects baseline scenario
  - No plan design or contribution changes

# Total Plan Experience

| Funding | 2020 | 2021 | 2022 |
|---|---|---|---|
| PPE Funding | $ 105.12 | $ 110.02 | $ 113.71 |
| Employee Contribution | 123.90 | 137.52 | 142.33 |
| Dept of Ed Funding | 88.10 | 108.10 | 108.10 |
| Other | 14.88 | 15.30 | 15.81 |
| **Total Income** | $ 332.00 | $ 370.94 | $ 379.95 |
| Medical Claims | $ (259.30) | $ (304.58) | $ (340.73) |
| Pharmacy Claims | (67.42) | (74.18) | (82.03) |
| Administration Fees | (28.11) | (28.96) | (29.93) |
| Plan Administration | (2.54) | (2.61) | (2.78) |
| **Total Expenses** | $ (357.38) | $ (410.34) | $ (455.48) |
| Program Savings | $ - | $ 4.74 | $ 4.88 |
| **Net Income / (Loss) Before Reserve Allocation** | $ (25.37) | $ (34.66) | $ (70.66) |
| Allocation of Reserves | $ 25.25 | $ 15.48 | $ 7.05 |
| **Net Income / (Loss) After Reserve Allocation** | $ (0.12) | $ (19.19) | $ (63.60) |

| Average Membership | | | |
|---|---|---|---|
| Active Employees / Pre-65 Retirees | 84,226 | 86,059 | 88,518 |
| Post-65 Retirees | 15,005 | 15,907 | 16,861 |
| **Total Enrolled** | 99,230 | 101,966 | 105,379 |

| | | | |
|---|---|---|---|
| **Total Income PMPM[1]** | $ 300.02 | $ 315.80 | $ 306.04 |
| **Total Expenses PMPM[2]** | $ (300.12) | $ (331.48) | $ (356.33) |

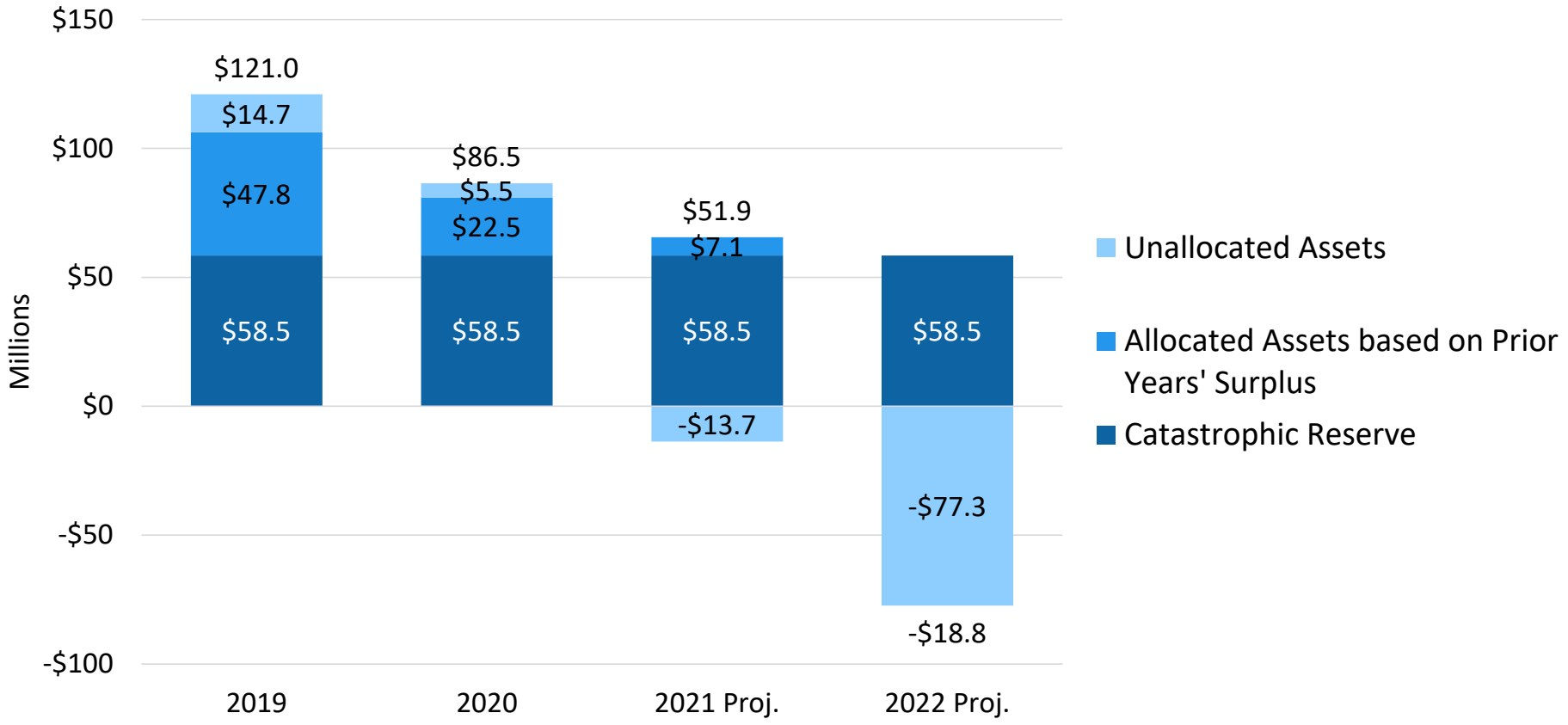
[1] Allocation of Reserves included in Total Income

[2] Total Expenses offset by Program Savings

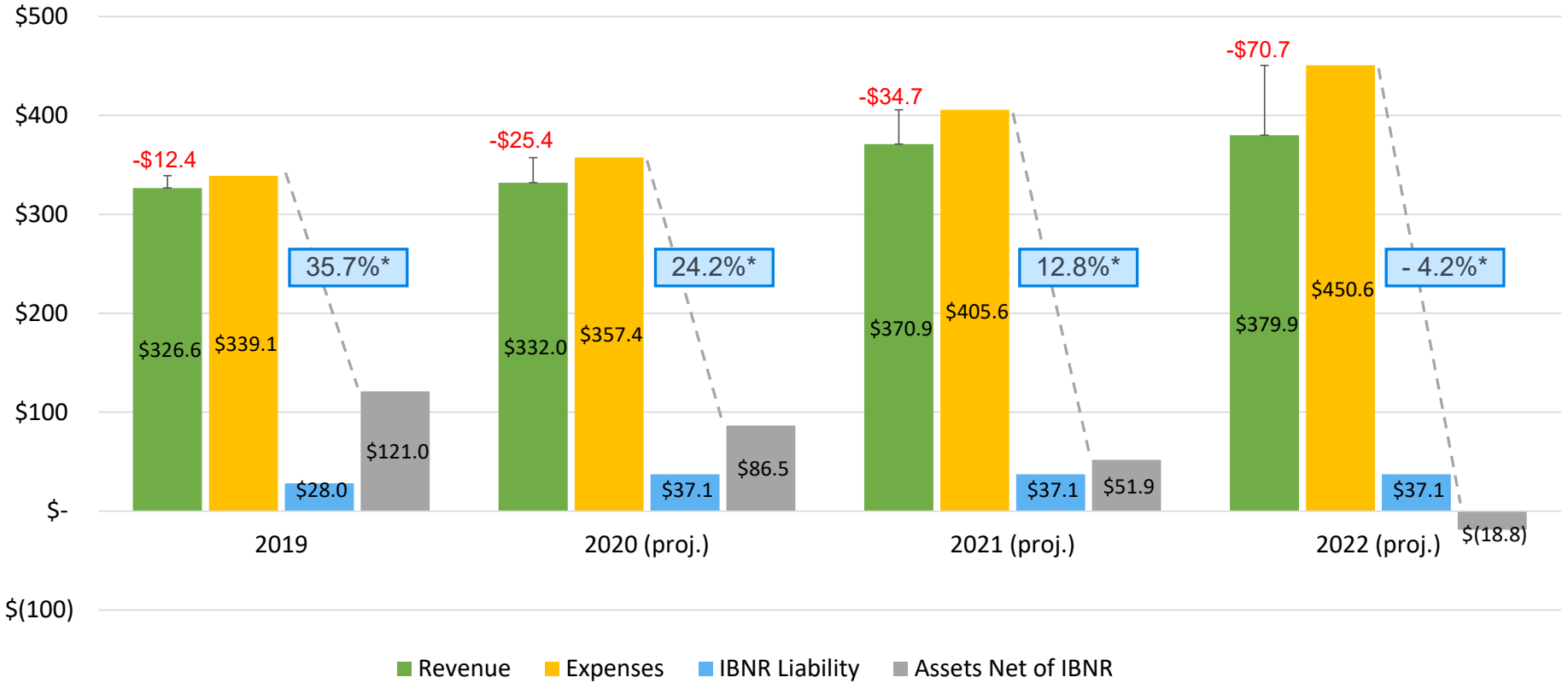
# Projected Assets: 2019 – 2021

| Development of 2021 End-of-Year Assets ($millions) | | | |
|---|---|---|---|
| | | | Assets |
| (a) | Proj 2020 | End-of-Year Gross Assets | $123.6 |
| (b) | 2021 | Allocation of Prior Years' Surplus | ($15.5) |
| (c) | | Total Surplus / (Deficit) | ($19.2) |
| (d) = (a) + (b) + (c) | | End-of-Year Gross Assets Available | $89.0 |
| (e) | | Incurred but not reported (IBNR) | ($37.1) |
| (f) = (d) + (e) | | End of Year Net Assets Available | $51.9 |
| (g) | 2022 | Allocation of Prior Years' Surplus | ($7.1) |
| (h) | | Total Surplus / (Deficit) | ($63.6) |
| (i) = (d) + (g) + (h) | | End-of-Year Gross Assets Available | $18.3 |
| (j) | | Incurred but not reported (IBNR) | ($37.1) |
| (k) = (i) + (j) | | End of Year Net Assets Available | ($18.8) |

# End of Year Assets Net of IBNR

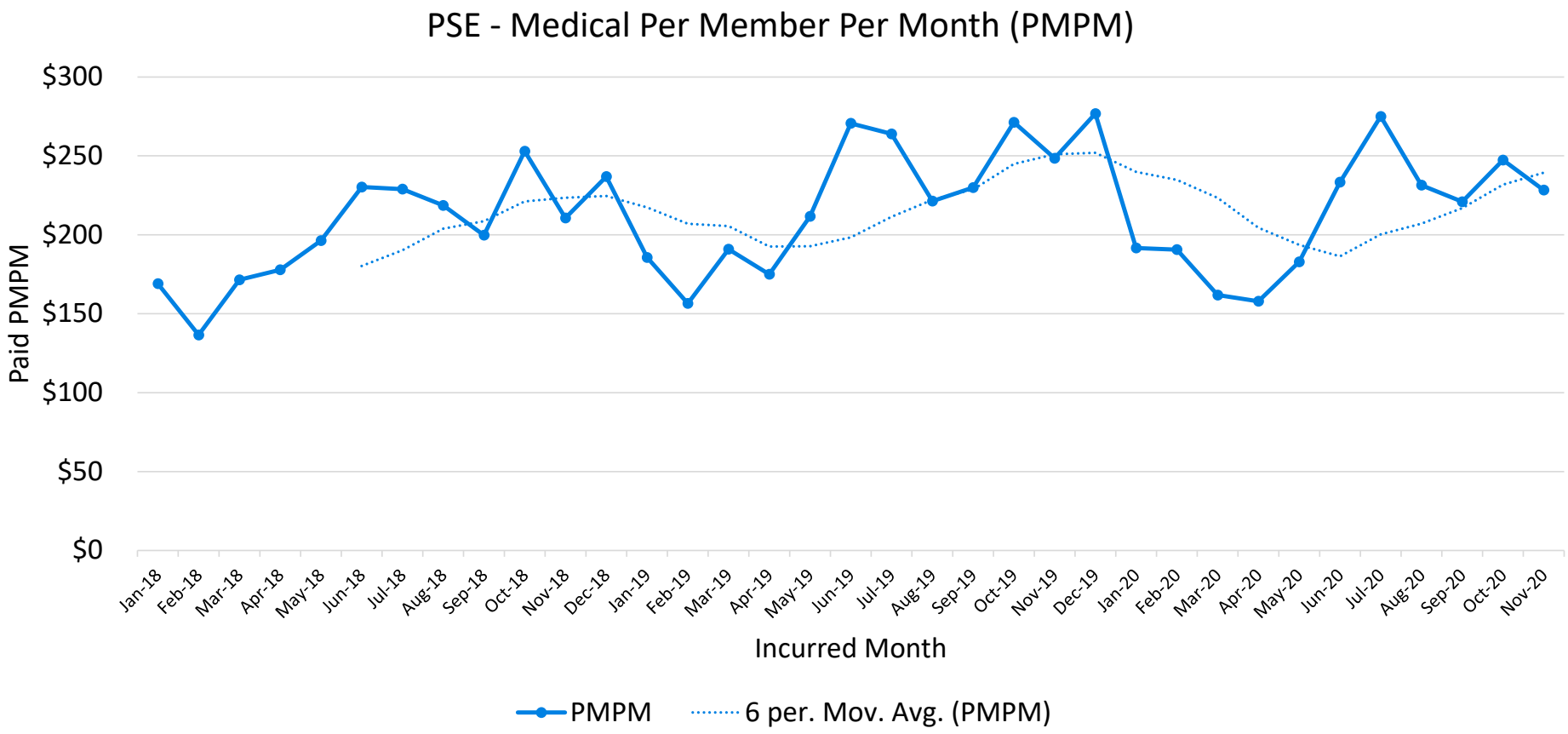


# Change in Revenue, Expenses, and Assets

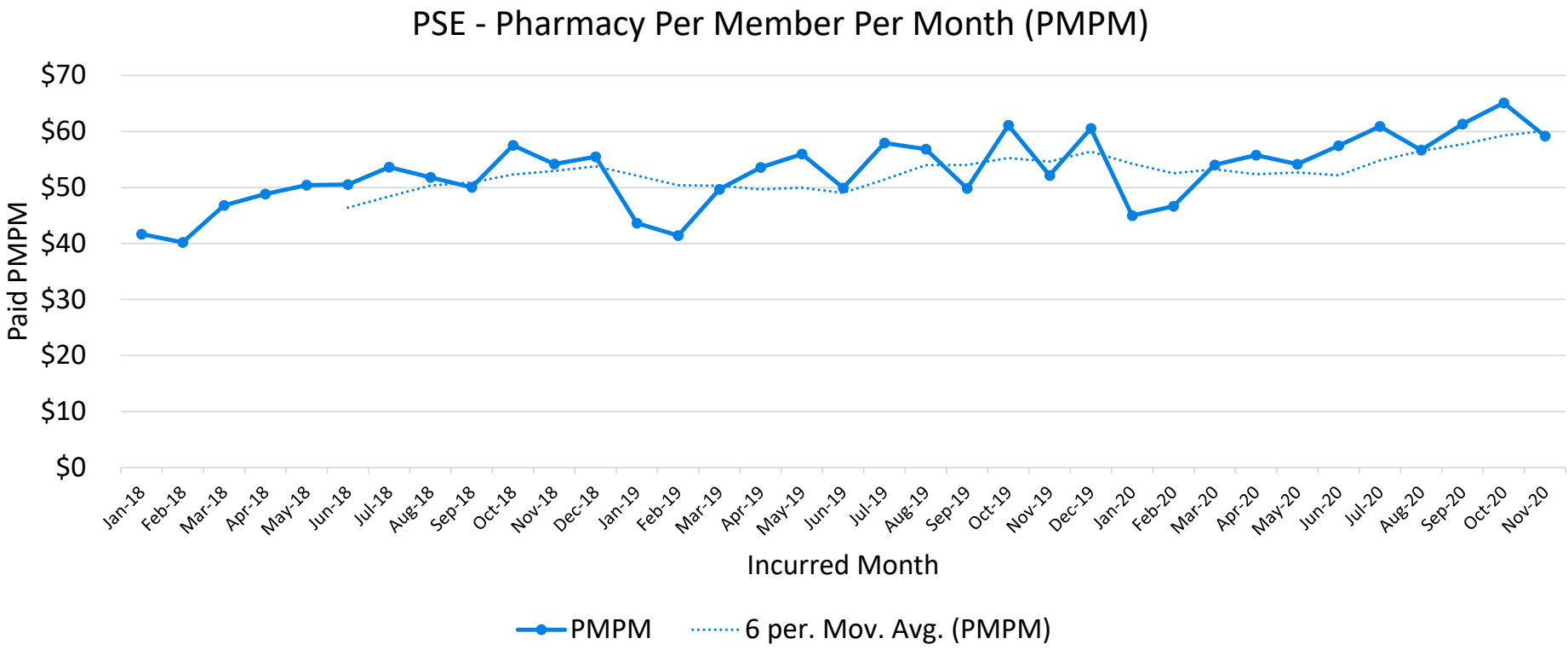



* Assets Net of IBNR as a portion of Expenses

# Monthly Trend - Medical

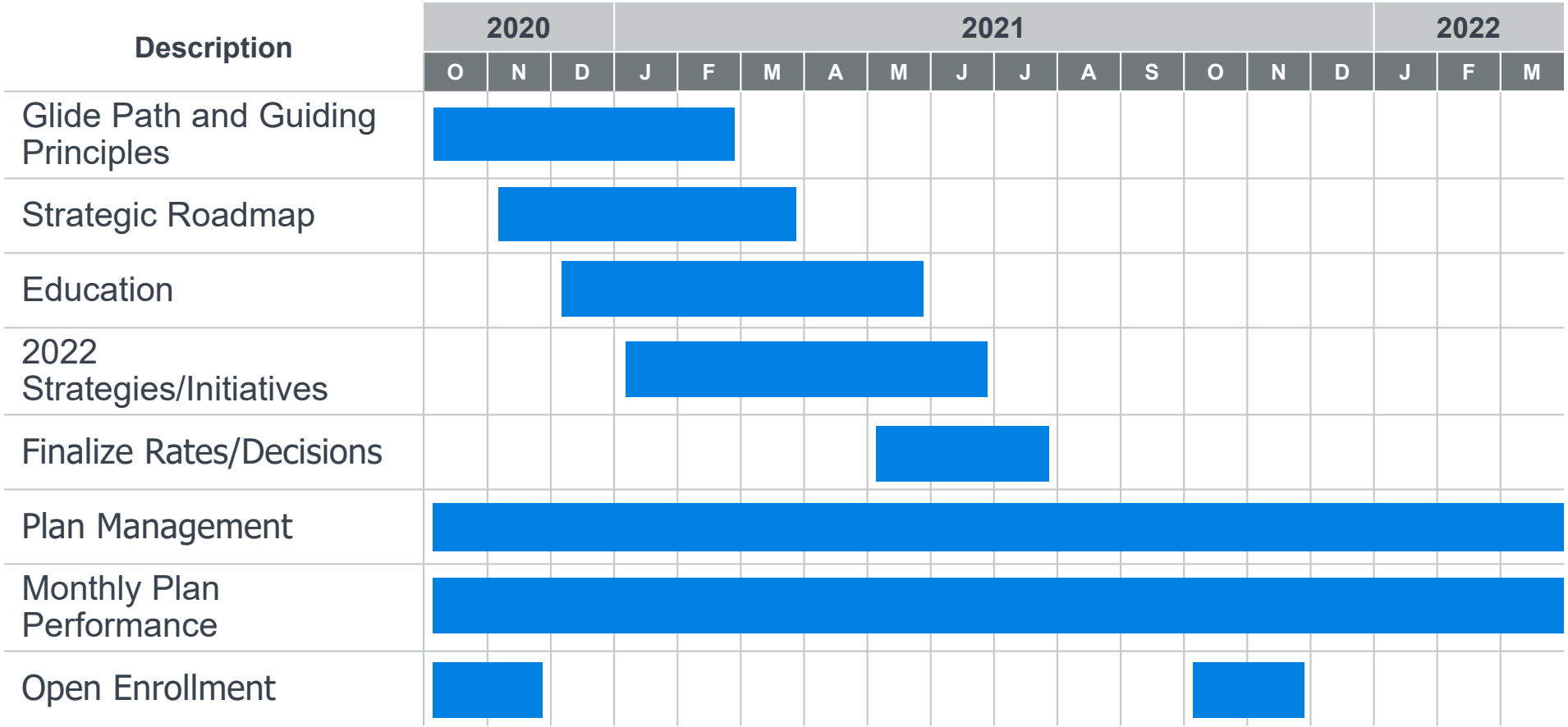


# Monthly Trend - Pharmacy



# 2021 Roadmap

# Timeline: Gantt chart



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# Thank you

**Courtney White, FSA, MAAA**
**Paul Sakhrani, FSA, MAAA**

# Assumptions & Methodology

# Assumptions & Methodology

## Assumptions - Trend

| Division | Group | Medical Trend | Pharmacy Trend |
|---|---|---|---|
| ASE | Active/Pre-65 Retirees<br>Post-65 Retirees | 5.0%<br>5.0% | 8.0%<br>8.0% |
| PSE | Active/Pre-65 Retirees<br>Post-65 Retirees | 7.0%<br>7.0% | 8.0%<br>8.0% |

# Assumptions & Methodology

Assumptions – Benefit Plan Changes (2020 to 2022)

- 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 January 2021
  - Projected February 2021 – December 2022 based on historical patterns
- Program Savings
  - Estimated remaining 2021 program savings of $6.5 million for ASE and $4.7 million for PSE
  - Estimated remaining 2022 program savings of $6.6 million for ASE and $4.9 million for PSE
  - Program savings offset as initiatives are reflected in the claims experience and projected pharmacy claims cost
- Plan Administration Expense
  - ASE - $3.85 PMPM for CY 2021 ($3.97 PMPM for CY 2022)
  - PSE - $2.14 PMPM for CY 2021 ($2.20 PMPM for CY 2022)
- Plan Administration Fees include PCORI charges for 2021 and 2022
- Percentage of Population earning wellness incentive
  - ASE – 76.4%
  - PSE – 79.2%
- Minimum District Funding: $161.87 in 2020 and $164.66 in 2021 and 2022

# 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 January 31, 2021. 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 December 1, 2019 to November 30, 2020 and paid from December 1, 2019 to January 31, 2021.
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 2019 to February 2020 (medical) and December 2019 to November 2020 (pharmacy).
5. Divided the summarized incurred claims by the appropriate member months to calculate PMPMs.
6. For 2020, utilized actual claims for January 2020 to December 2020.
7. 2021 and 2022 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 and July 1, 2022, respectively).
8. Made adjustments for seasonality, benefit changes, and age/gender mix.
9. Accounted for rating period fees and administrative expenses.
10. 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, 2021, and 2022 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, 2021, and 2022 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.

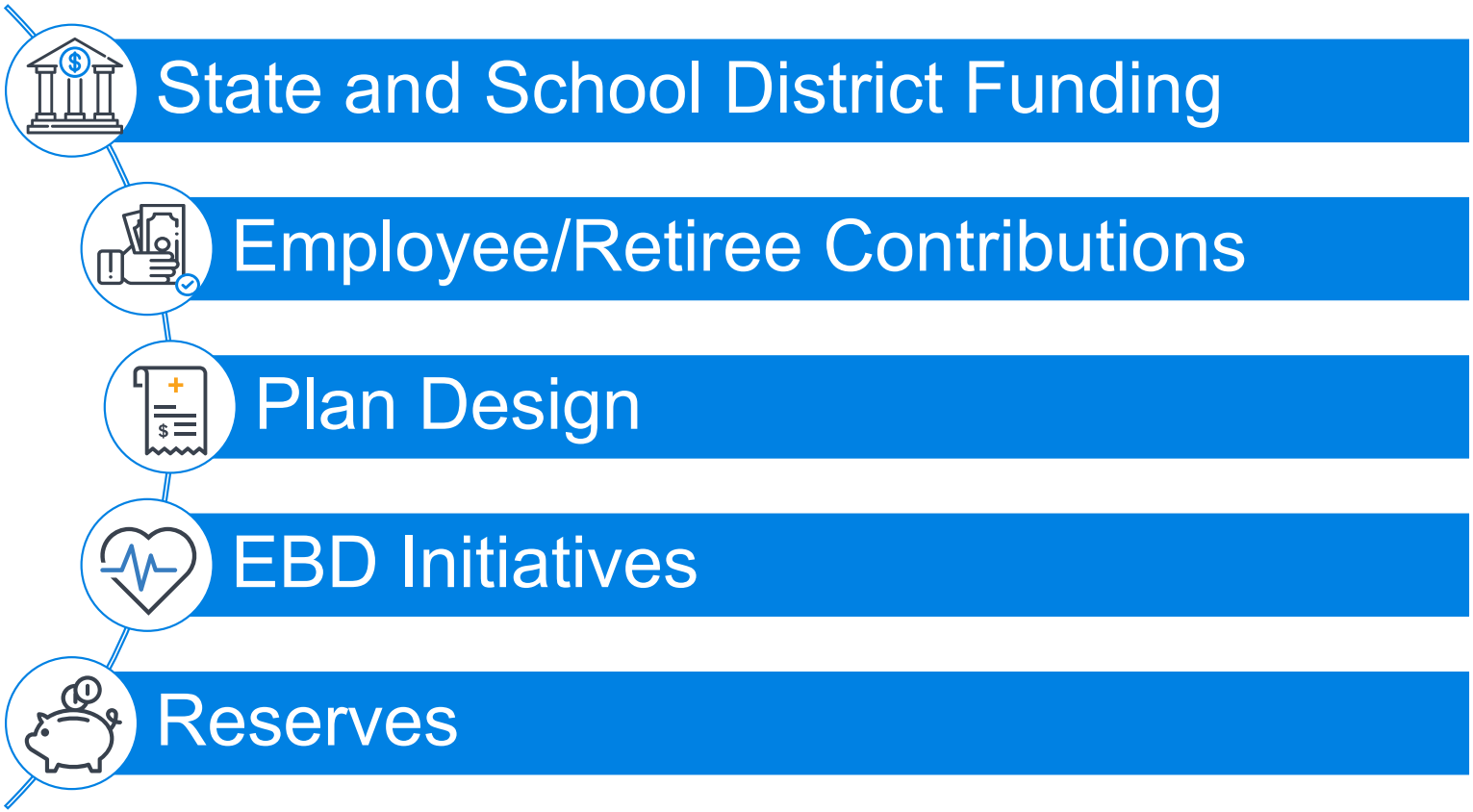
Any reader of this report should possess a certain level of expertise in areas relevant to this analysis to appreciate the significance of the assumptions and the impact of these assumptions on the illustrated results. The reader should also be advised by their own actuaries or other qualified professionals 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.

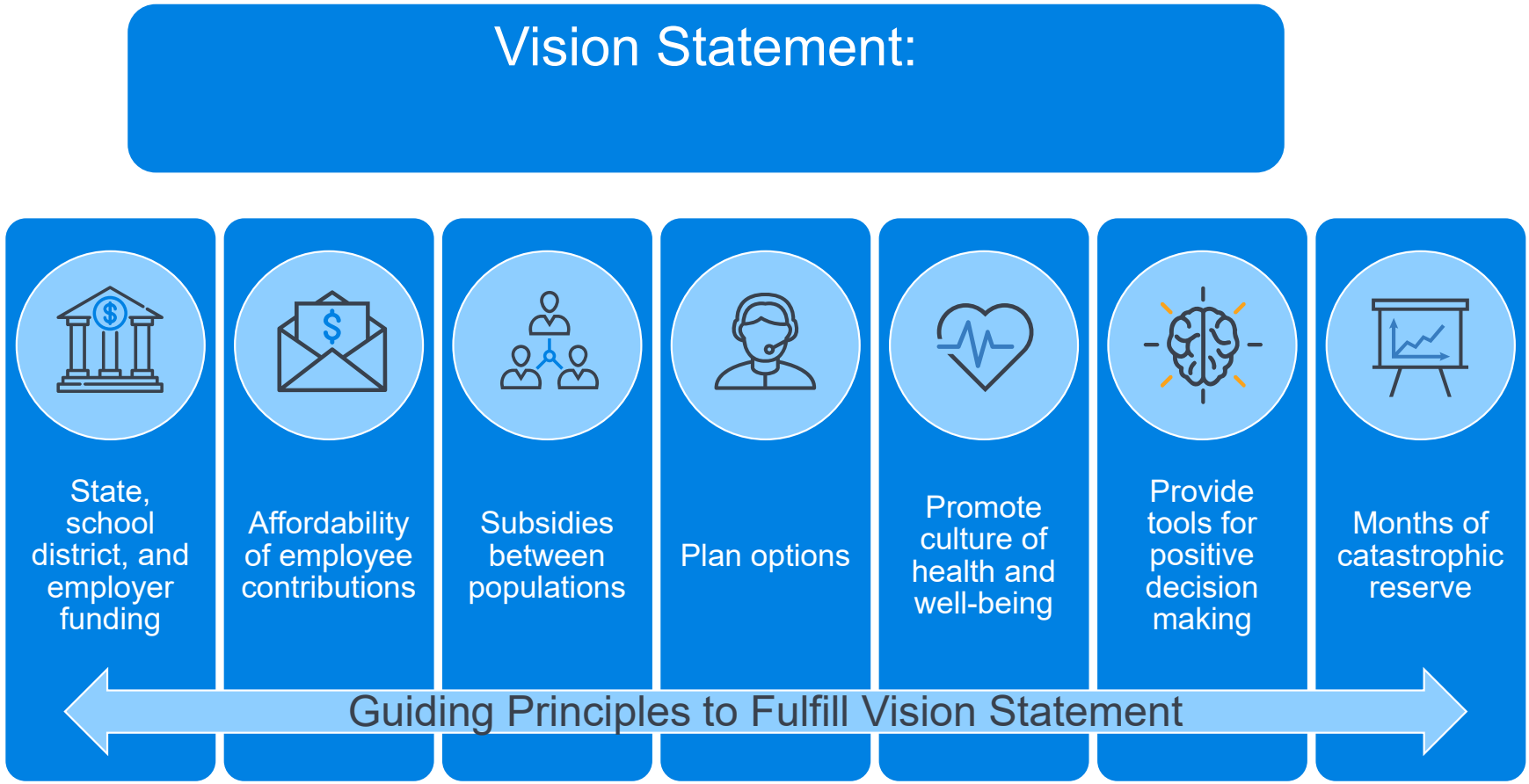
This presentation has been provided for the internal use of the management of the State of Arkansas Employee Benefits Division for setting the ASE and PSE budget for CY2020, CY2021, and CY2022. The information contained in this presentation is confidential and proprietary. This information may not be appropriate for other uses and should not be distributed to or relied on by any other parties without Milliman's prior written consent. We do not intend this information to benefit any third party even if we permit the distribution of our work product to such third party. If this analysis is distributed internally or to a third party, we request that it be distributed in its entirety.

# Appendix

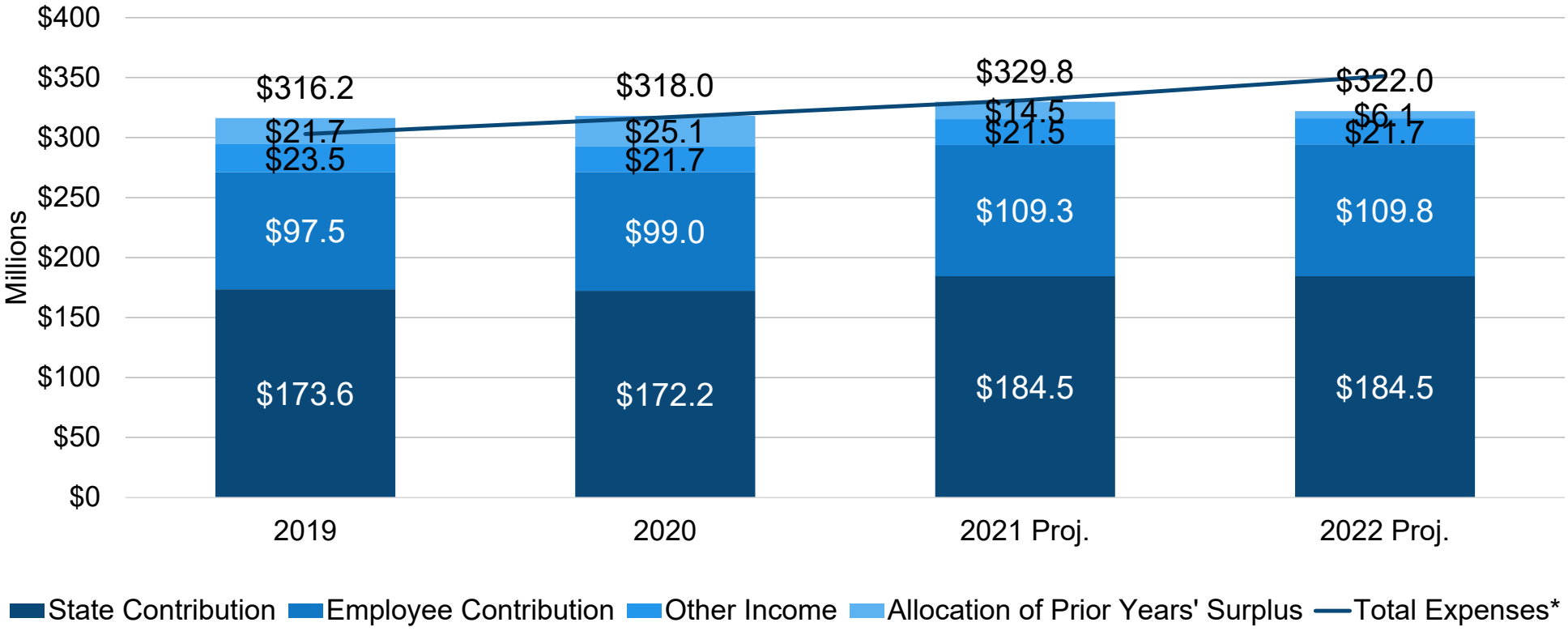
# Budget Levers



# Guiding Principles - *ILLUSTRATION*

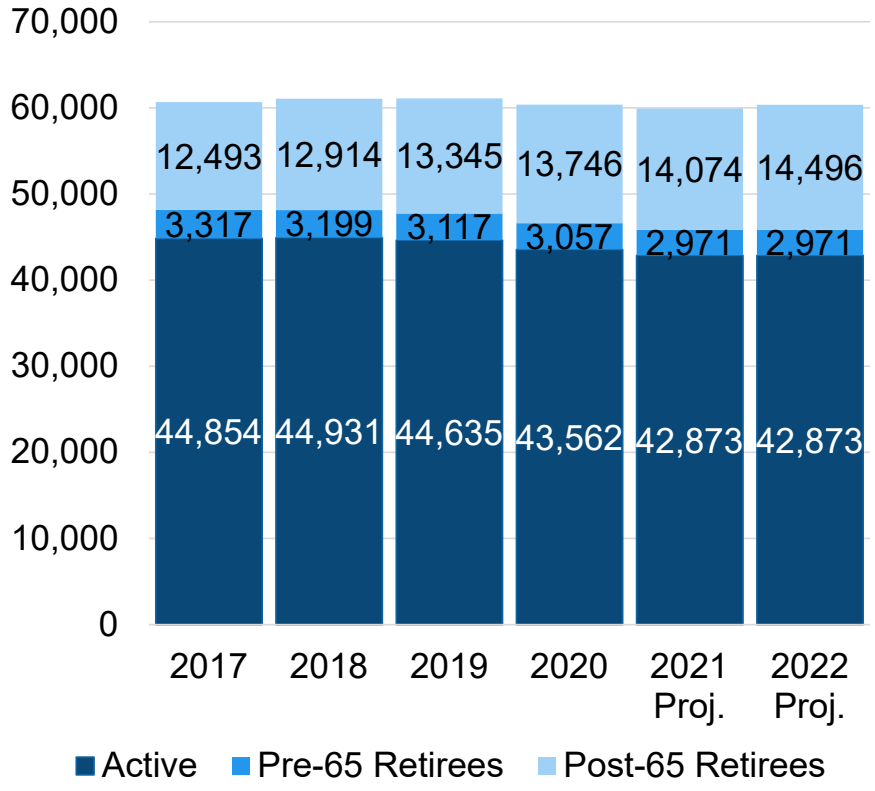


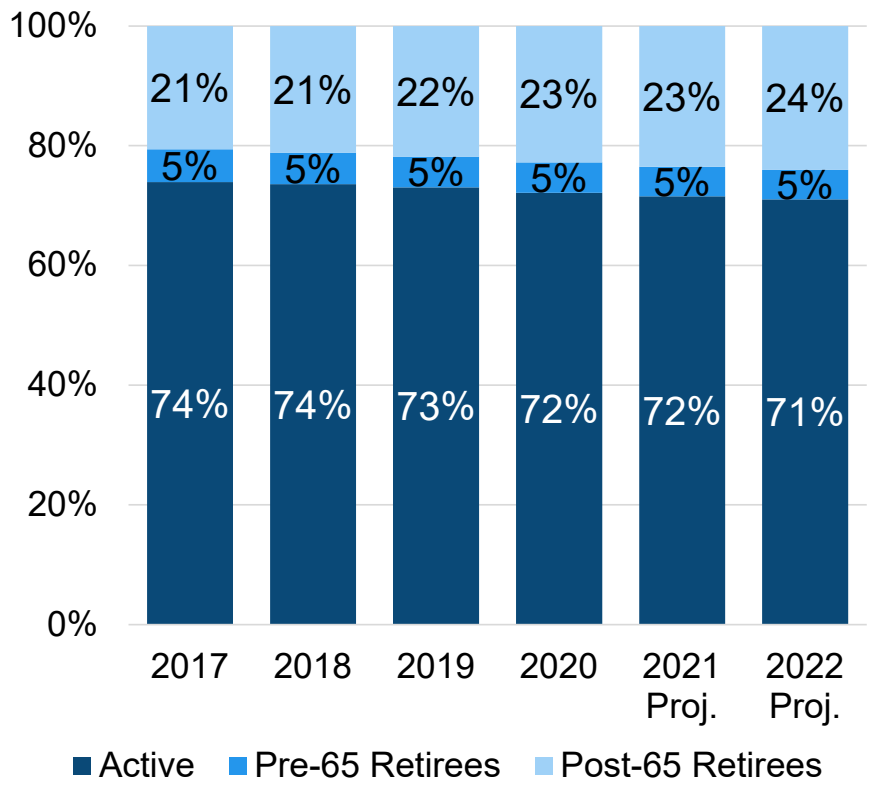
# ASE - Income vs. Expenditure



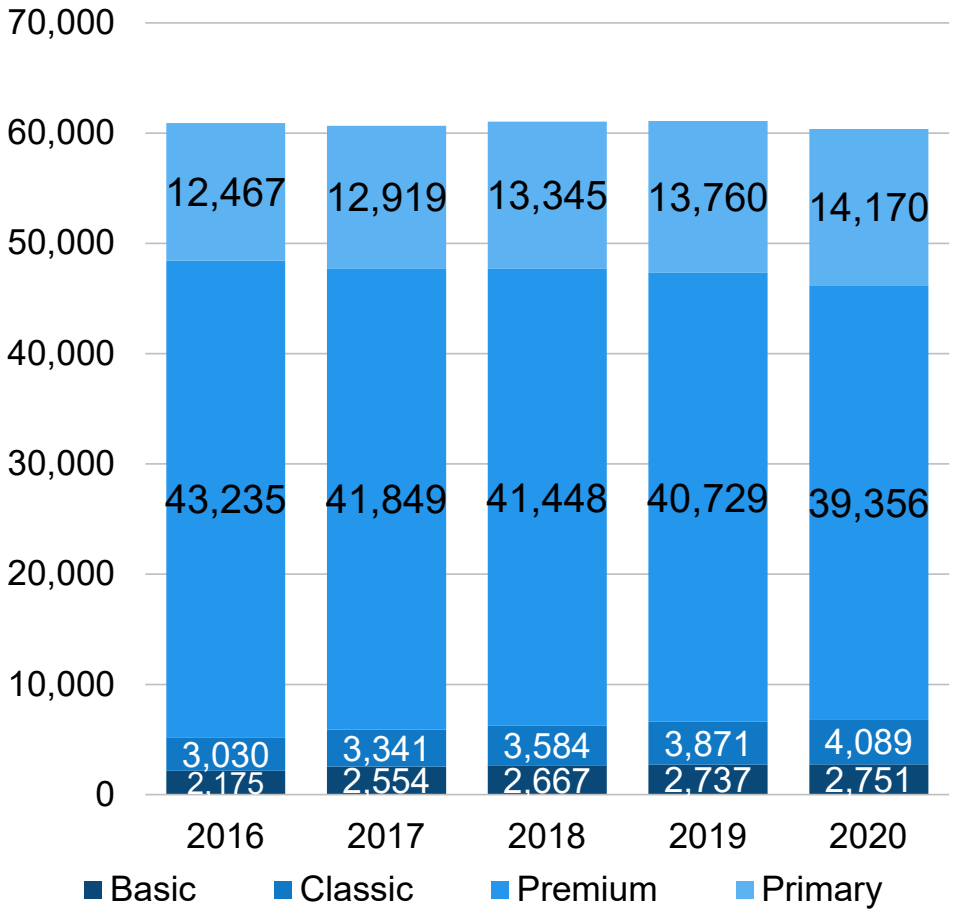

* Total Expenses offset by Program Savings

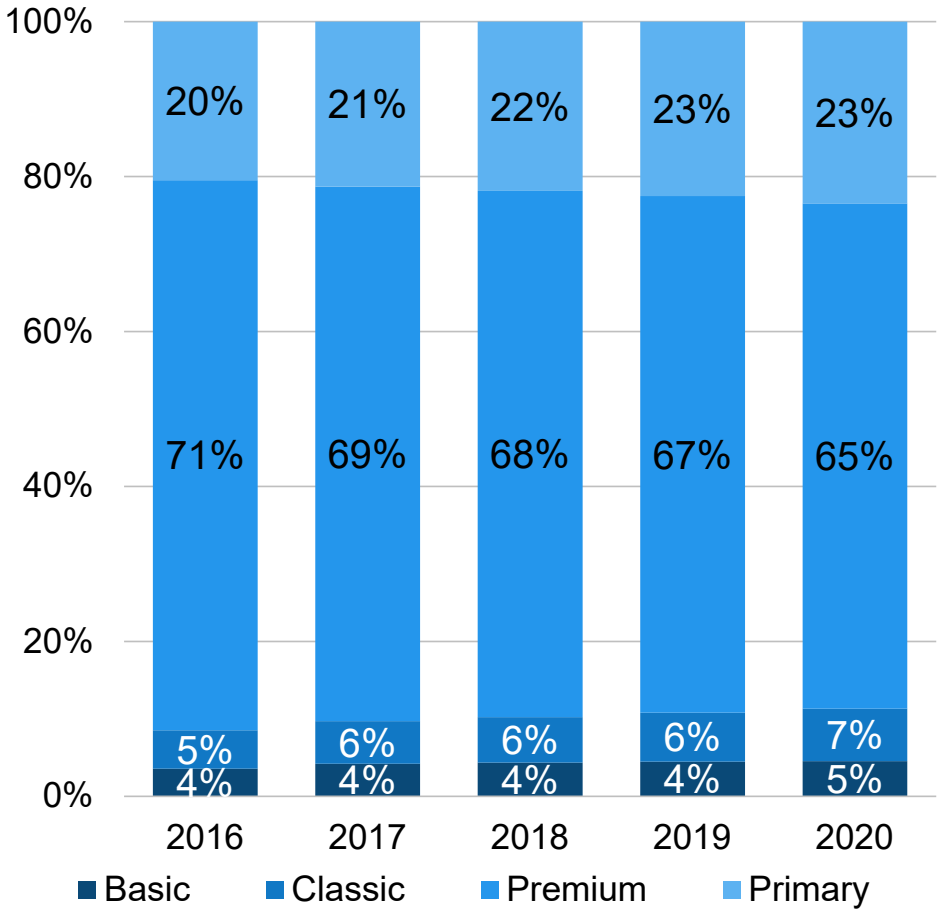
# ASE - Average Membership by Status



# ASE - Average Membership by Plan

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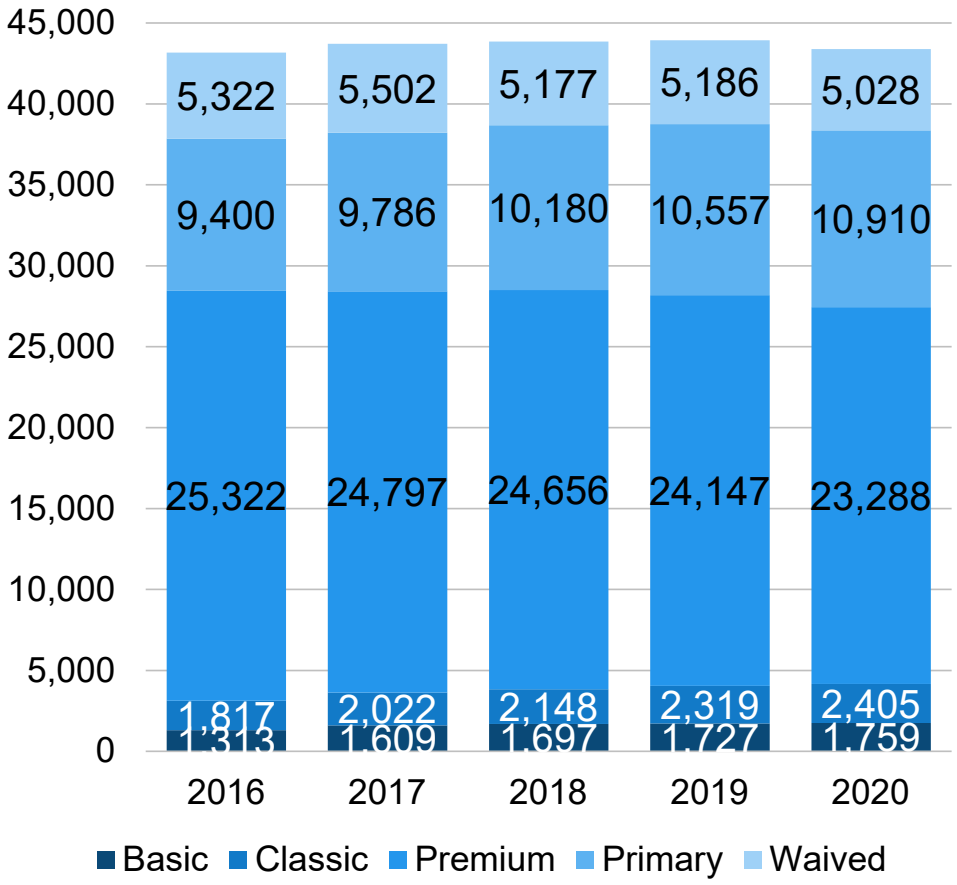
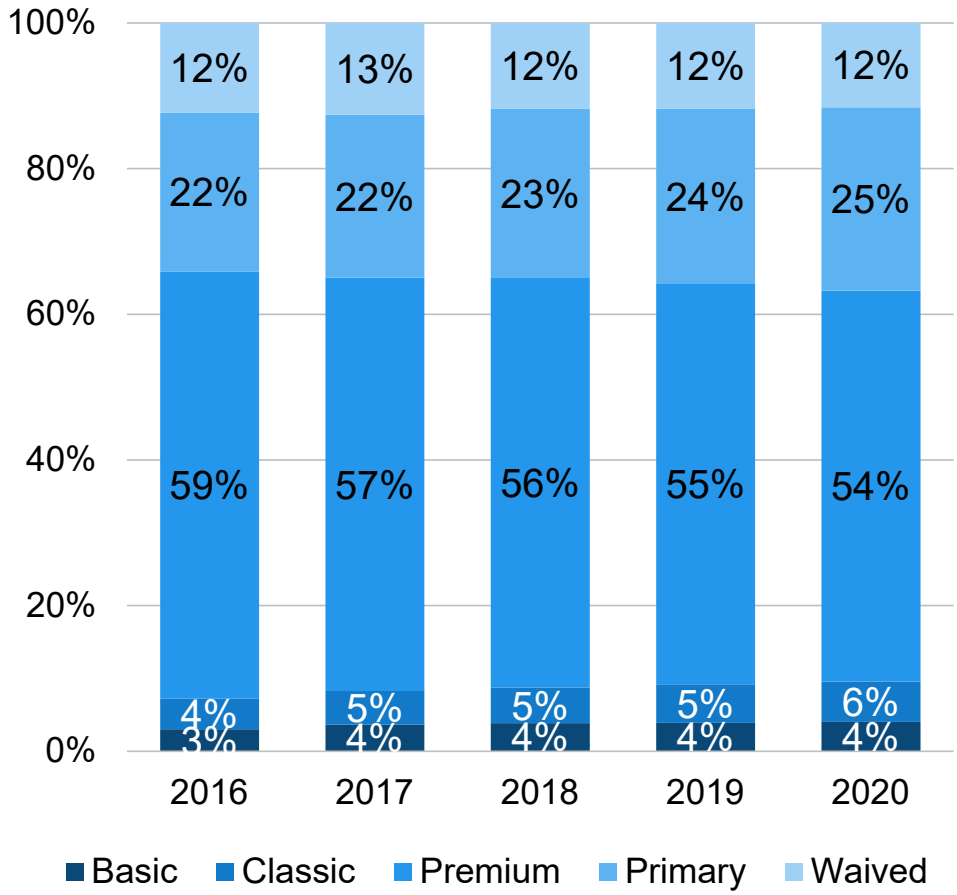
# ASE - Average Enrollment (Subscribers) by Plan

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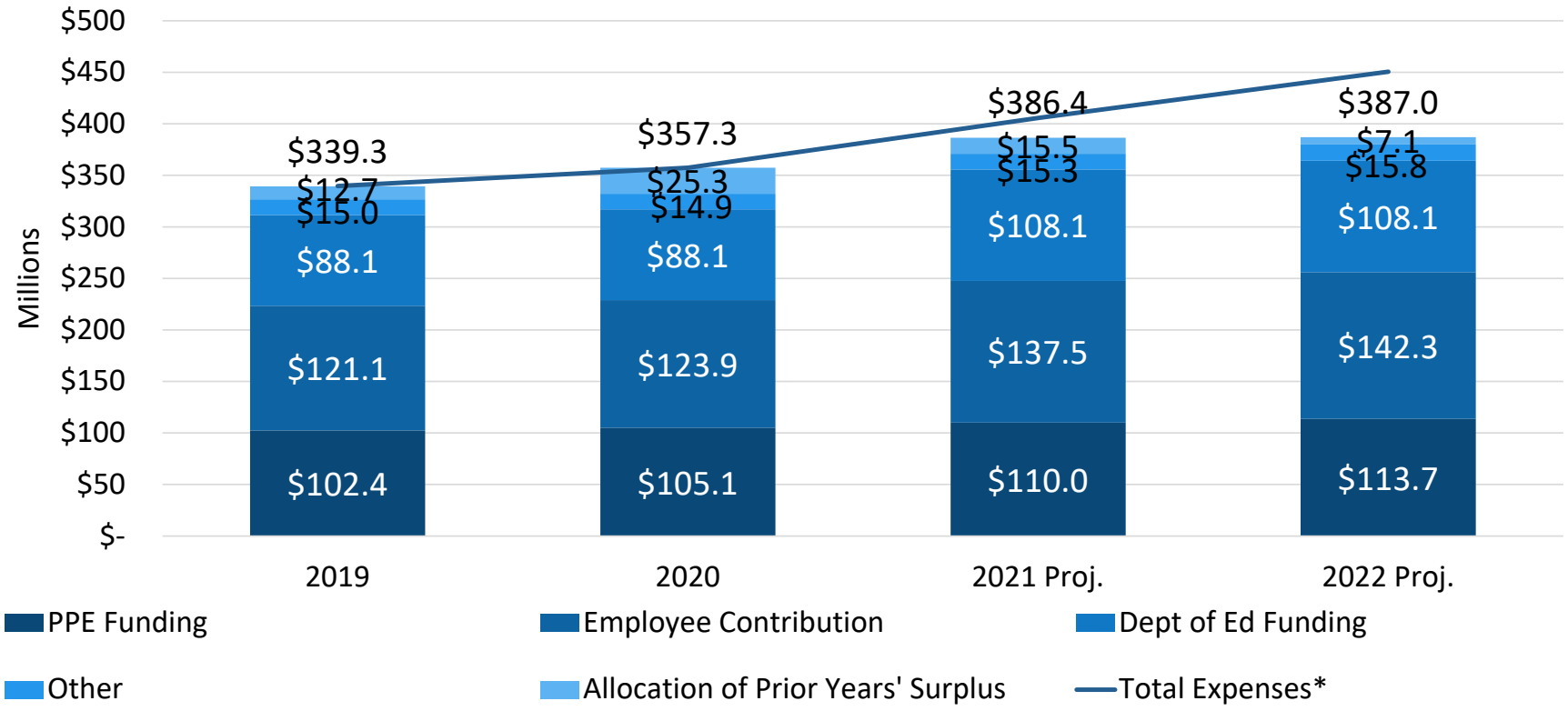
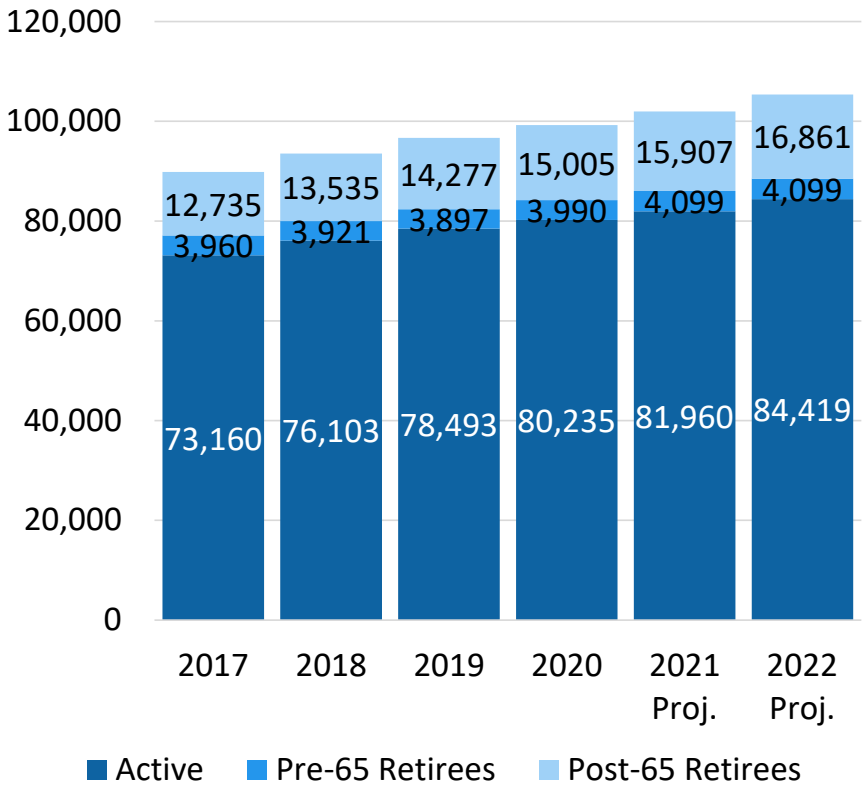
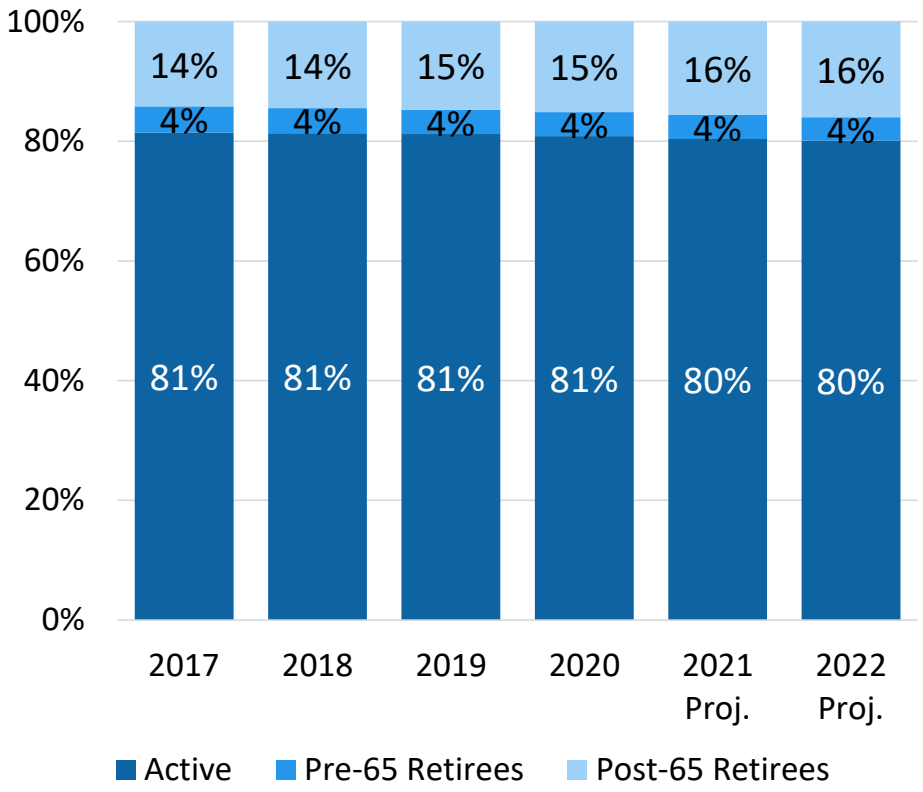
# PSE - Income vs. Expenditure



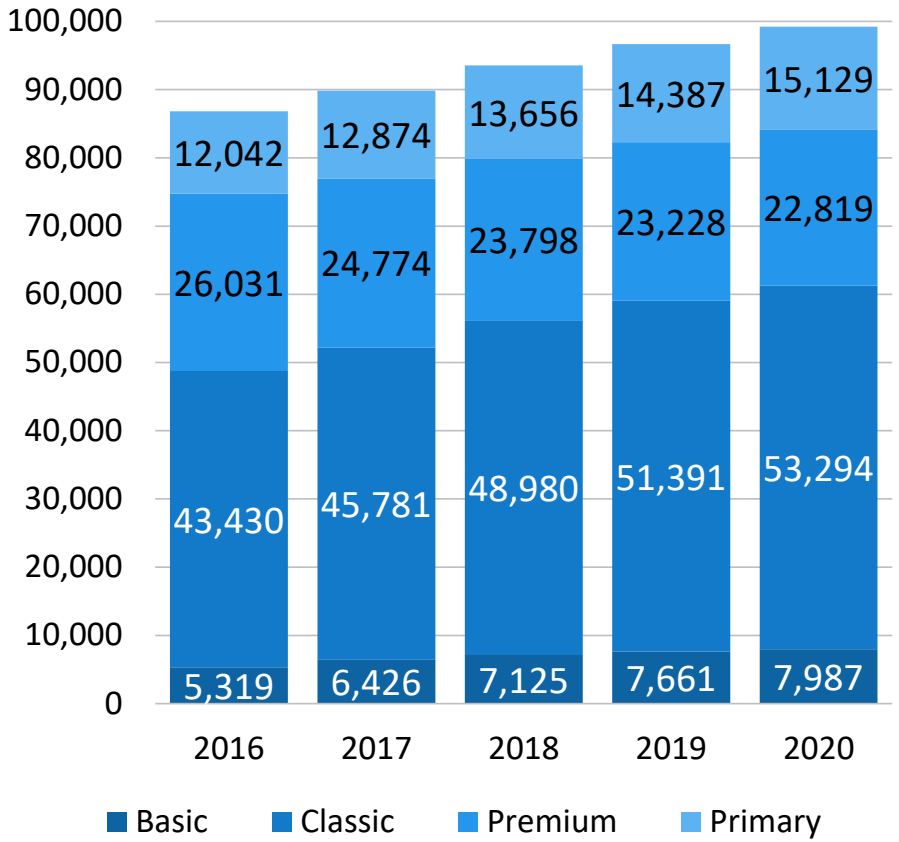

* Total Expenses offset by Program Savings

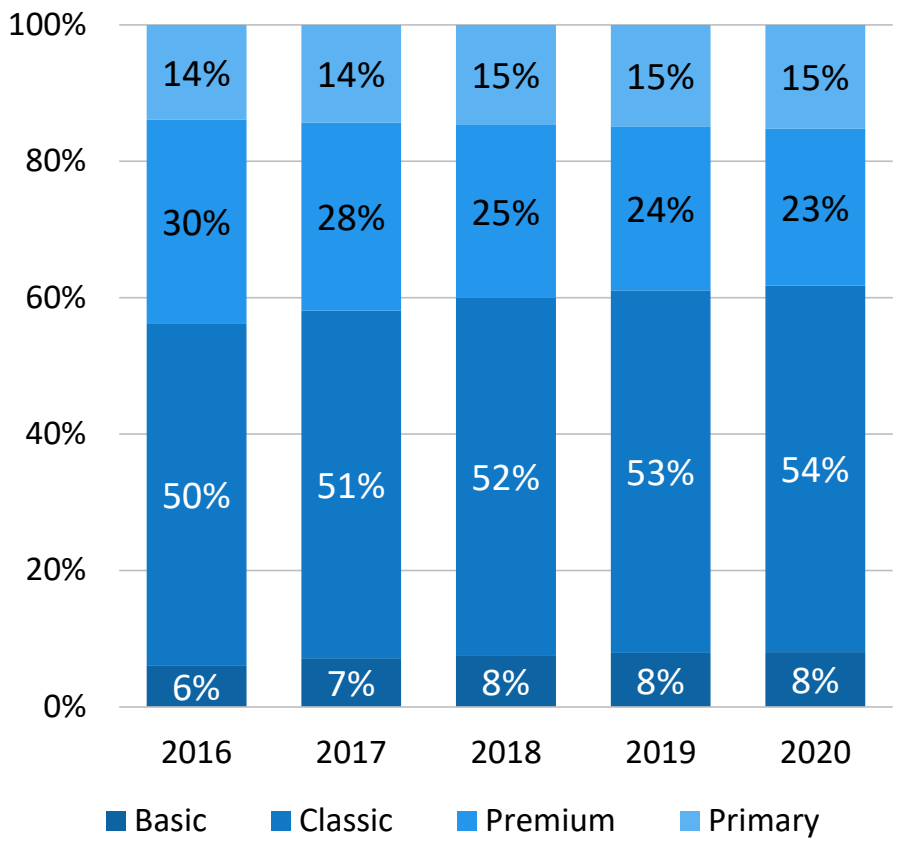
# PSE - Average Membership by Status



# PSE - Average Membership by Plan



# PSE - Average Enrollment (Subscribers) by Plan