AGENDA

State and Public School Life and Health Insurance Board
Benefits Sub-Committee

February 14th, 2020
10:00 a.m.

EBD Board Room – 501 Building, Suite 500

I. Call to Order..... Susan Gardner, Chair

II. Approval of January Minutes..... Susan Gardner, Chair

III. Plan Update.....Paul Sakhrani & Courtney White, Milliman

IV. Director's Report .....Chris Howlett, EBD Director

V. Adjournment..... Susan Gardner, Chair

2020 Upcoming Meetings:

March 13th, April 10th, May 15th

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.

BENEFITS MEETING MINUTES

The Benefits Sub-Committee of the State and Public School Life and Health Insurance Board (hereinafter called the Committee) met on February 14, 2020, at 10:00 a.m. in the EBD Board Room, 501 Woodlane, Suite 500, Little Rock, Arkansas.

Date | *time* 2/14/2020 10:00 AM | *Meeting called to order by* Susan Gardner, Chair

In Attendance

Members Present

Susan Gardner – Chair
Claudia Moran
Stephanie Lilly-Palmer
Ronnie Kissire – Vice-chair
Cindy Allen
Carla Haugen - Teleconference
Chris Howlett, Employee Benefits Division (EBD) Director

Members Absent

Herb Scott

Others Present

Rhoda Classen, EBD; Ronda Walthall, ARDOT; Elizabeth Montgomery, ACHI; Takisha Sanders, Jessica Akins, HA; Paul Sakhrani, Milliman; Charles Hubbard, ASP; Bill Clary, ARSEBA

Approval of Minutes by Susan Gardner, Chair

MOTION by Lilly-Palmer:

Move to approve the January 17, 2020 minutes.

Moran seconded; all were in favor.

Minutes Approved.

Plan Update by Paul Sakhrani, Milliman

Sakhrani provided an educational piece on financial statements and an update on plan experience for ASE and PSE.

<u>ASE</u>

- Updated projections show a reduction in net income of $480K in 2019 and $12.5M in 2020 (Changes shown relative to January board meeting).
    - Higher medical claims due to emerging experience and handling of the claim payment timing
    - Lower pharmacy claims
    - Lower employee contributions (2020)
- 2019 plan experience
    - Estimated surplus of $13.9M
    - Estimated unallocated net assets at the end of 2019 is $8.8M
- 2020 plan experience

    - Allocated reserves for 2020 is $25.1M
    - Estimated surplus of $6.1M
    - Estimated unallocated net assets at the end of 2020 is $2.7M
    - No plan changes / 5% increase in employee contributions

PSE

- Updated projections show an increase in net income of $2.5M in 2019 and a reduction of $9.1M in 2020 (Changes shown relative to November board meeting).
    - Lower medical claims (2019)
    - Higher medical claims due to emerging experience and handling of the claim payments timing
    - Lower PPE and employee contributions (2020)
- 2019 plan experience
    - Estimated surplus of $240K
    - Estimated unallocated net assets at the end of 2019 is $14.7M
- 2020 plan experience
    - Allocated reserves for 2020 is $25.2M
    - Estimated deficit of $13.6M
    - Estimated unallocated net assets at the end of 2020 is $1.0M
    - Allocated reserves for 2020 is 25.3M
    - No plan changes / 0% increase to employee contributions

Discussion:

ASE

Howlett: With the trend on the pharmacy or the medical, that is gross of rebate, right?

Sakhrani: Yes, that is correct.

Director's Report by Chris Howlett, EBD Director

Howlett provided an update on some outstanding requests in regard to the movement of the population, the bus driver bill, and Catapult. The final count for bus drivers being added to the plan is 1,601 people which is about 40% of what it was previously. Lastly, respective to the Catapult visits and the decrease in the number of wellness attained for 2020 versus 2018 or 2019, we are still pulling some of those figures and should have those back soon. The recommendation to create the Medical Utilization and Evaluation Committee was approved and we are in process of pulling that together and getting it set up.

MOTION by Kissire:

I make a motion to adjourn the meeting.

Lilly-Palmer seconded; all were in favor. **Meeting Adjourned**

State of Arkansas Employee Benefits Division

Interim Monitoring Report

Through January 31st

State and Public School Life and Health Insurance Benefit Subcommittee

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

14 FEBRUARY 2020

Milliman

Agenda

- Education – Financial Statements
- Arkansas State Employees (ASE)
  - Plan Experience
- Public School Employees (PSE)
  - Plan Experience
- Appendices
  A. Plan summary
  B. Assumptions / methodology
  C. Limitations & caveats

What is a financial statement?

A summary of financial activities. Common financial statements include balance sheets and statements of cash flows.

Balance Sheet vs. Statement of Cash Flows

Balance sheet

- Shows assets (what is owned) and liabilities (what is owed) at a specific point in time

Statement of cash flows

- Shows the movement of cash over time

Balance Sheet

Assets		Liabilities	
Cash	$500	Mortgage	$125,000
Savings Account	$3,000	Credit Card Balance	$7,500
Investments	$1,500	Student Loan	$60,000
House	$175,000	Car Loan	$32,500
Retirement Savings	$20,000		
Total Assets	$200,000	Total Liabilities	$225,000

owned

owed

Statement of Cash Flows

Cash Inflows	
Monthly Income	$4,250
Year-End Bonus	$750
Total Inflows	$5,000
Cash Outflows	
Rent	$1,500
Electricity and Water	$150
Groceries	$250
Phone and Internet	$175
Health Insurance	$450
Credit Card Payment	$750
Car Payment	$625
Car Insurance	$100
Student Loan Payment	$1,500
Total Outflows	$5,500
Ending Cash Balance	**($500)**

More losses would eat into savings or require investment liquidation

$500 cash on Balance Sheet is now $0

Balance Sheet

Assets		Liabilities	
Bank Account	$19,769,628	Accounts Payable	$12,250
State Treasury	$132,021,390	Health IBNR	$27,000,000
Accounts Receivable	$4,091,545	Rx IBNR	$1,000,000
Due from ASE	$187,802		
Total Assets	$156,070,366	Total Liabilities	$28,012,250

Net Assets Available	$128.1M
Allocated Assets	$113.3M
Unallocated Assets	$14.8M

Statement of Cash Flows

Cash Inflows	December
PPE/DOE Contribution	$13,198,695
Employee Contribution	$10,134,607
Other	$1,532,540
Total Inflows	$24,865,842
Cash Outflows	
Medical Claims	$24,223,277
Medical Administration Fees	$2,044,799
Employee Assistance Program	$84,824
Pharmacy Claims	$5,230,189
Pharmacy Administration	$199,322
Plan Administration	$149,666
Total Outflows	$31,932,378
Cash Balance	**($7,066,536)**
Allocation of Reserves	$1,054,666
Ending Cash Balance	**($6,011,069)**

Reduced assets from ~$156M in Nov to ~$149M in Dec

Arkansas State Employees (ASE)

Executive Summary

- Updated projections show a reduction in net income of $480K in 2019 and $12.5M in 2020 (Changes shown relative to January board meeting).
  - Higher medical claims due to emerging experience and handling of the claim payment timing
  - Lower pharmacy claims
  - Lower employee contributions (2020)
- 2019 plan experience
  - Estimated surplus of $13.9M
  - Estimated unallocated net assets at the end of 2019 is $8.8M
- 2020 plan experience
  - Allocated reserves for 2020 is $25.1M
  - Estimated deficit of $6.1M
  - Estimated unallocated net assets at the end of 2020 is $2.7M
  - No plan changes / 5% increase in employee contributions

Total Plan Experience

Funding	2018	2019	2020
State Contribution	$ 174.70	$ 173.61	$ 172.32
Employee Contribution	96.70	97.45	101.44
Other	19.70	23.47	22.46
Total Income	$ 291.10	$ 294.53	$ 296.22
Medical Claims	$ (201.40)	$ (194.56)	$ (218.66)
Pharmacy Claims	(81.90)	(86.58)	(97.31)
Administration Fees[1]	(22.70)	(18.30)	(17.35)
Plan Administration	N/A	(2.90)	(2.89)
Total Expenses	$ (306.00)	$ (302.34)	$ (336.20)
Pharmacy Savings	$ -	$ -	$ 8.75
Net Income / (Loss) Before Reserve Allocation	$ (14.90)	$ (7.82)	$ (31.24)
Allocation of Reserves	$ 18.00	$ 21.70	$ 25.10
Net Income / (Loss) After Reserve Allocation	$ 3.10	$ 13.89	$ (6.14)

Average Membership			
Active Employees / Pre-65 Retirees	48,100	47,720	46,878
Post-65 Retirees	12,914	13,348	13,820
Total Enrolled	61,014	61,068	60,699

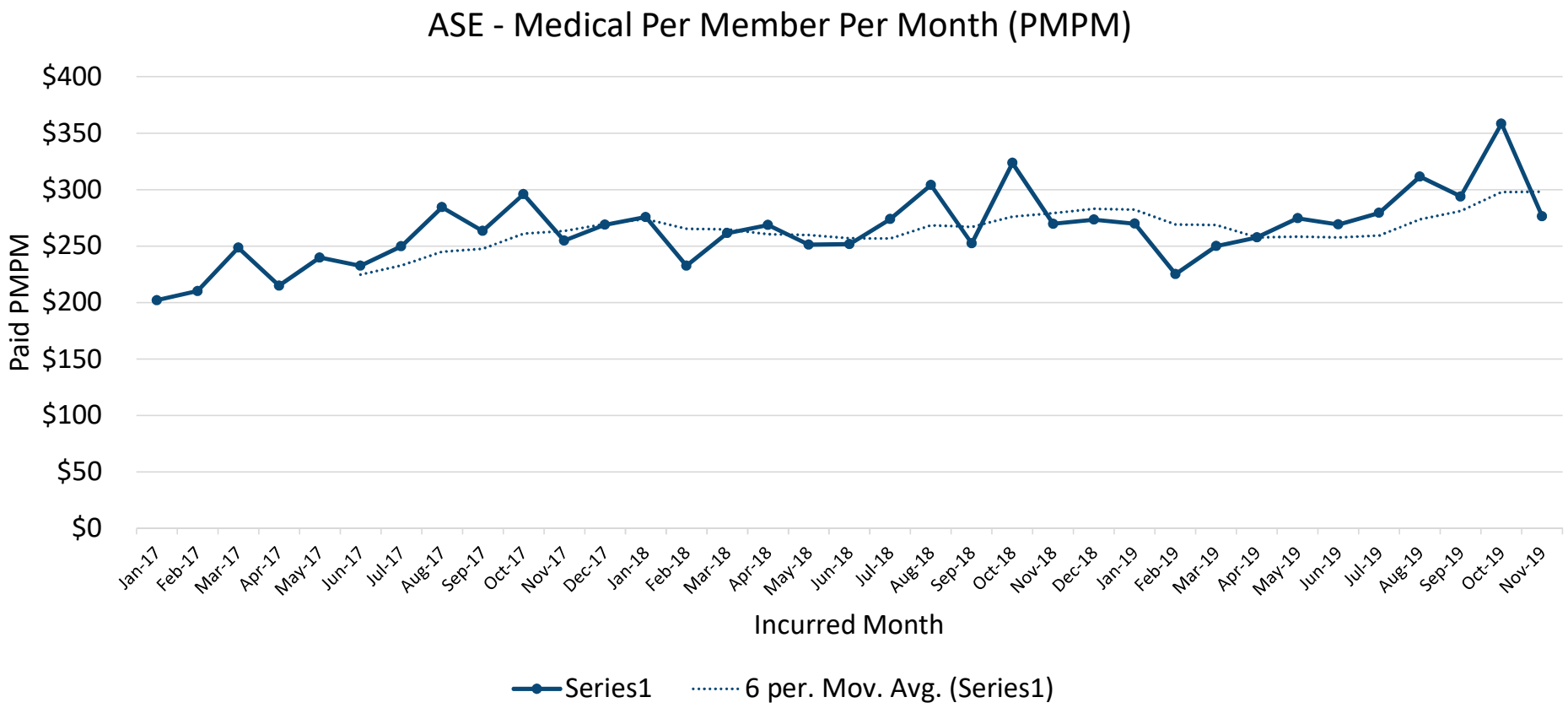
Total Income PMPM[2]	$ 422.17	$ 431.53	$ 441.14
Total Expenses PMPM[3]	$ (417.94)	$ (412.58)	$ (449.57)

[1] 2018 Administration Fees included Plan Administration

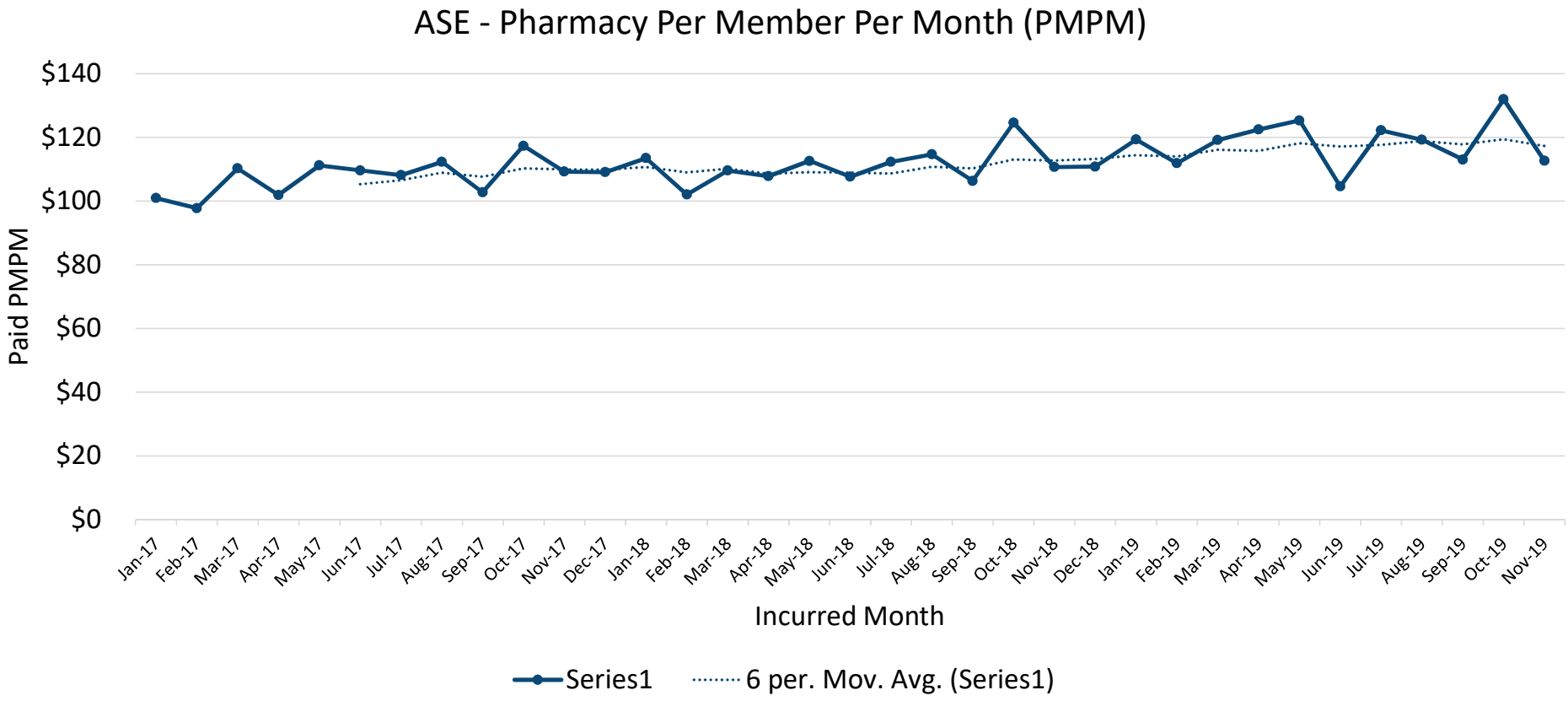
[2] Allocation of Reserves included in Total Income

[3] Total Expenses offset by Pharmacy Savings

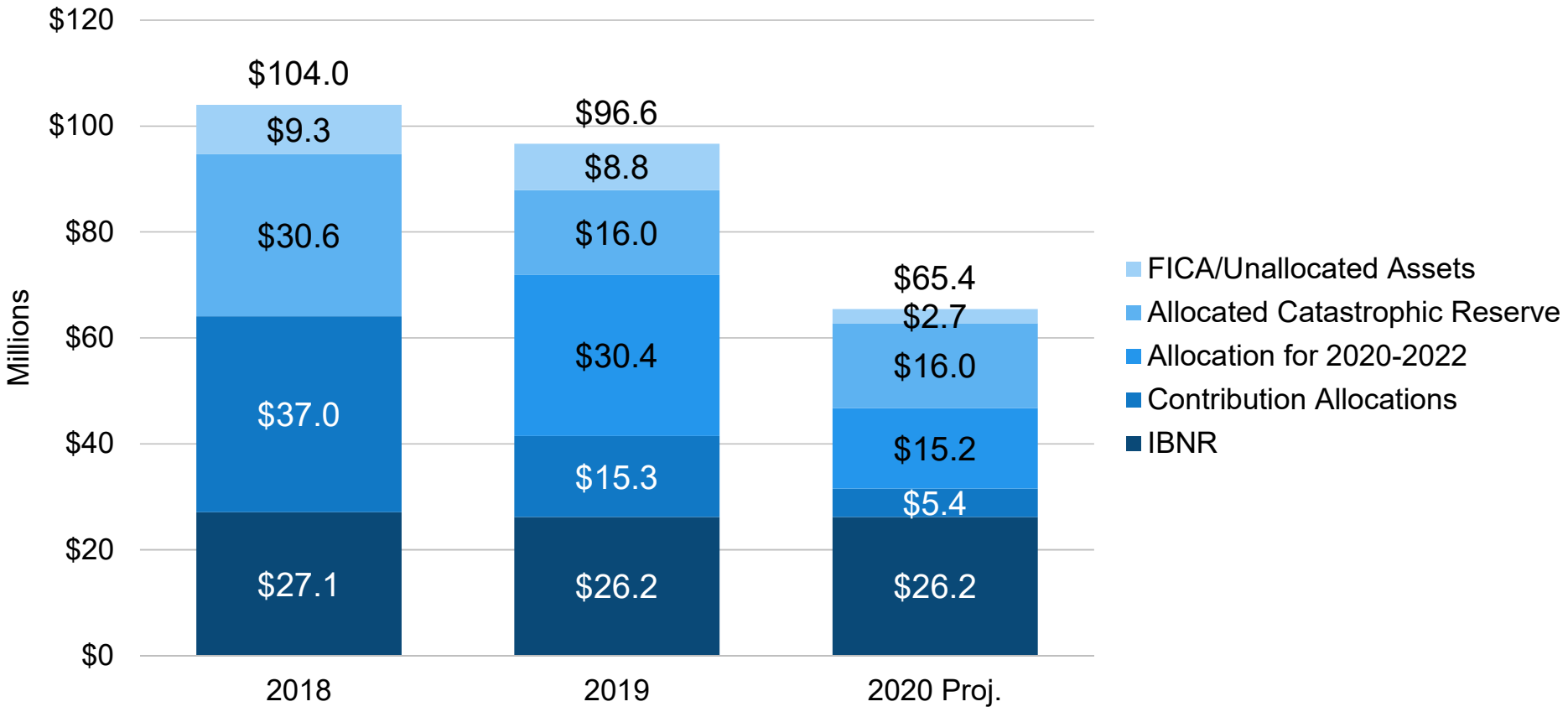
Monthly Trend - Medical



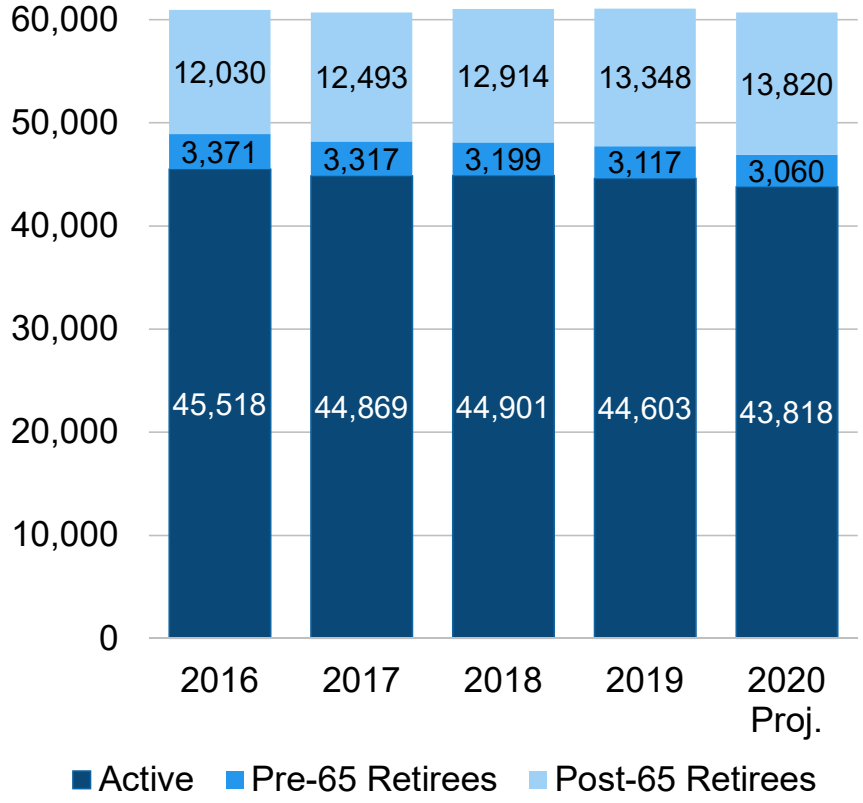
Monthly Trend - Pharmacy

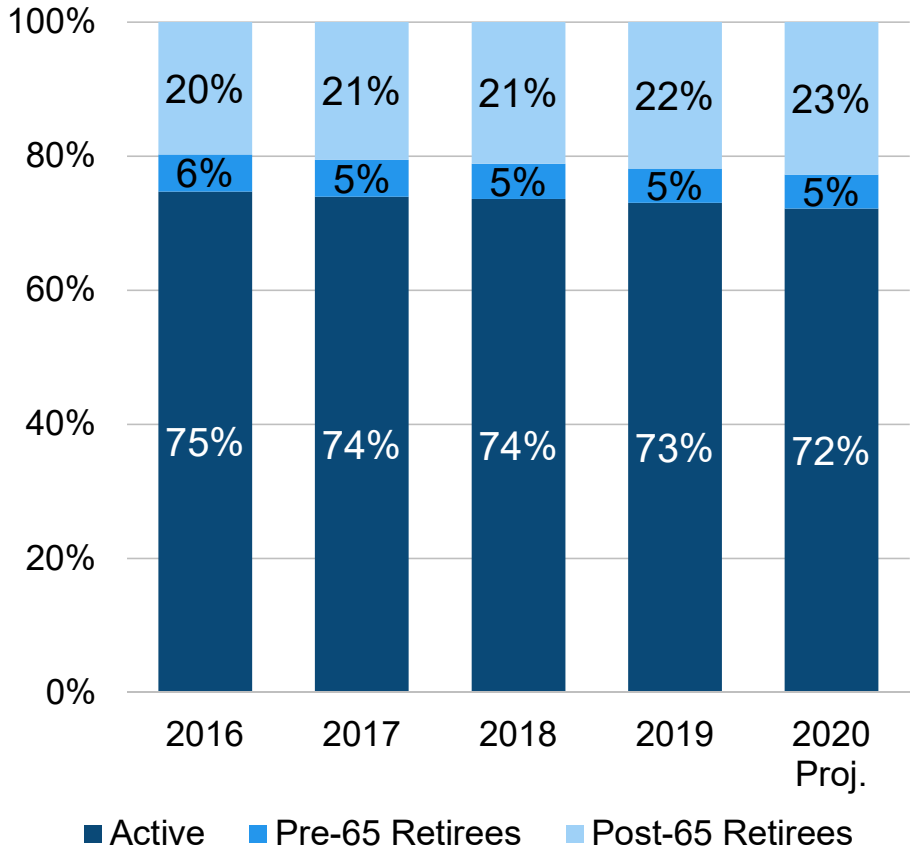


End of Year Assets

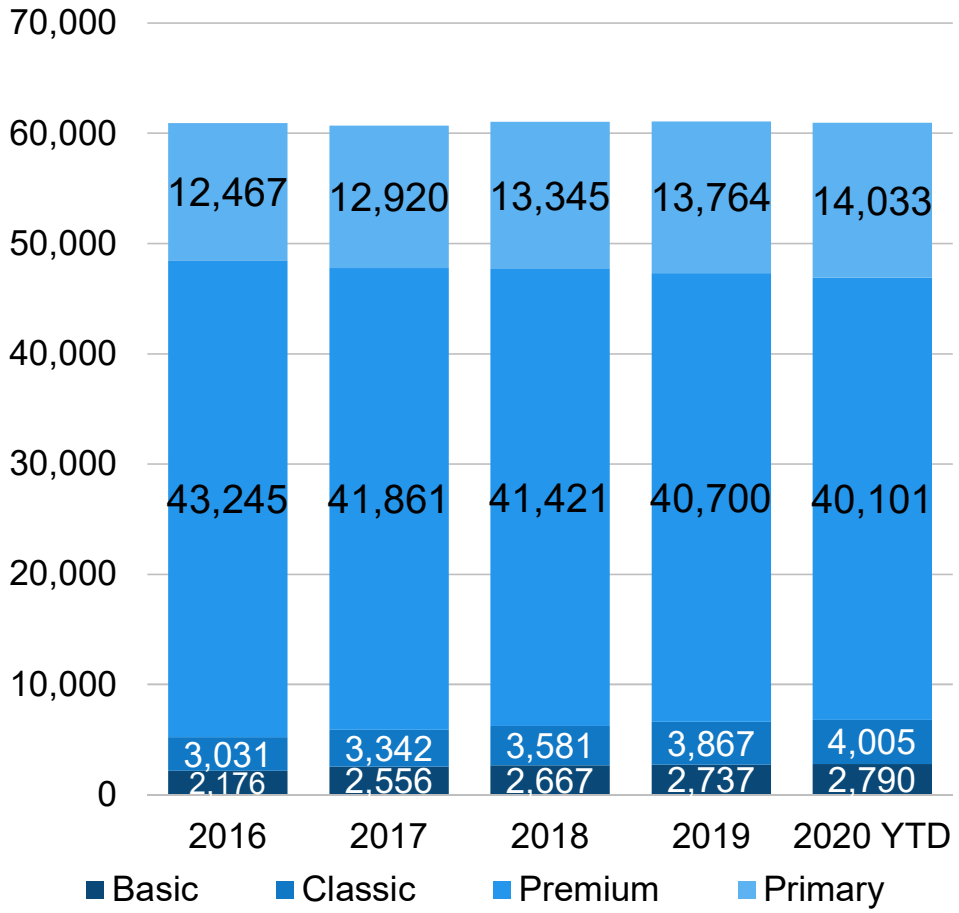


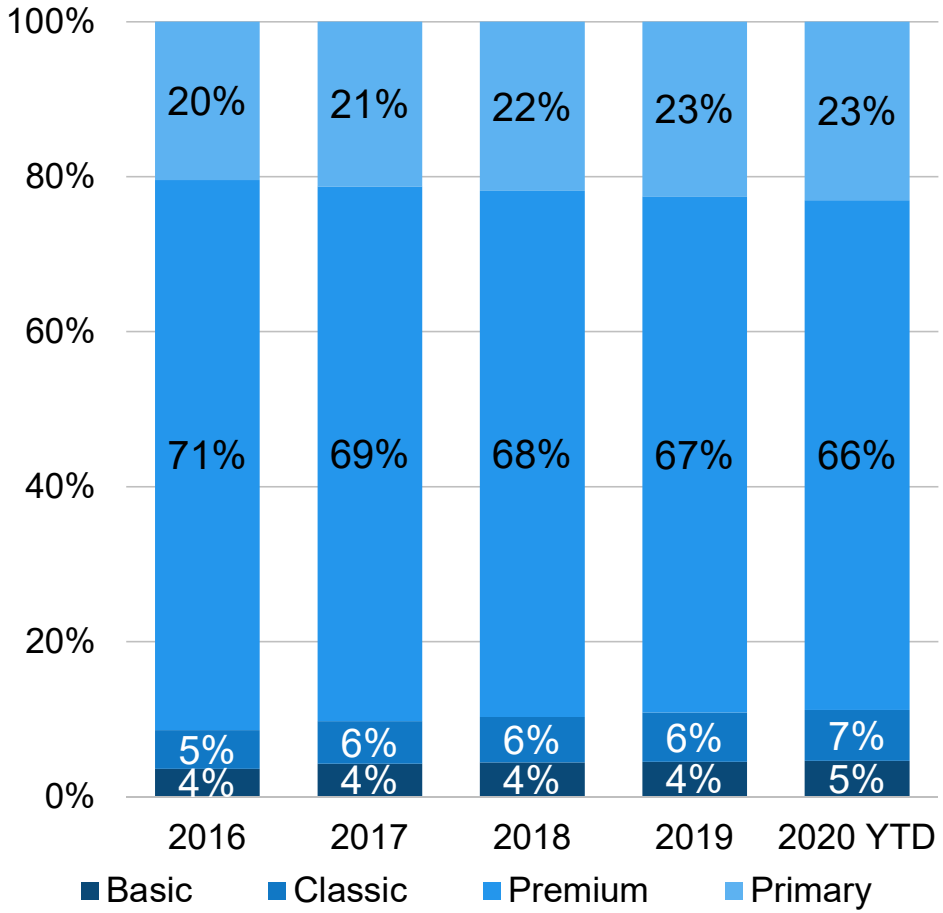
ASE - Average Membership by Status





ASE - Average Membership by Plan





Public School Employees (PSE)

Executive Summary

- Updated projections show an increase in net income of $2.5M in 2019 and a reduction of $9.1M in 2020 (Changes shown relative to January board meeting).
  - Lower medical claims (2019)
  - Higher medical claims due to emerging experience and handling of the claim payments timing
  - Lower PPE and employee contributions (2020)
- 2019 plan experience
  - Estimated surplus of $240K
  - Estimated unallocated net assets at the end of 2019 is $14.7M
- 2020 plan experience
  - Allocated reserves for 2020 is $25.2M
  - Estimated deficit of $13.6M
  - Estimated unallocated net assets at the end of 2020 is $1.0M
  - No plan changes / 0% increase to employee contributions

Total Plan Experience

Funding	2018	2019	2020
PPE Funding	N/A	$ 102.39	$ 105.87
Employee Contribution[1]	217.40	121.12	124.36
Dept of Ed Funding	88.10	88.10	88.10
Other	13.80	15.02	15.79
Total Income	$ 319.30	$ 326.64	$ 334.13
Medical Claims	$ (235.20)	$ (247.11)	$ (278.95)
Pharmacy Claims	(56.80)	(60.87)	(69.59)
Administration Fees[2]	(30.90)	(28.46)	(27.98)
Plan Administration	N/A	(2.61)	(2.70)
Total Expenses	$ (322.90)	$ (339.06)	$ (379.22)
Pharmacy Savings	$ -	$ -	$ 6.25
Net Income / (Loss) Before Reserve Allocation	$ (3.60)	$ (12.42)	$ (38.84)
Allocation of Reserves	$ 4.50	$ 12.66	$ 25.22
Net Income / (Loss) After Reserve Allocation	$ 0.90	$ 0.24	$ (13.61)

Average Membership			
Active Employees / Pre-65 Retirees	79,963	82,317	84,280
Post-65 Retirees	13,536	14,280	15,108
Total Enrolled	93,499	96,597	99,388

Total Income PMPM[3]	$ 288.59	$ 292.70	$ 301.31
Total Expenses PMPM[4]	$ (287.79)	$ (292.50)	$ (312.72)

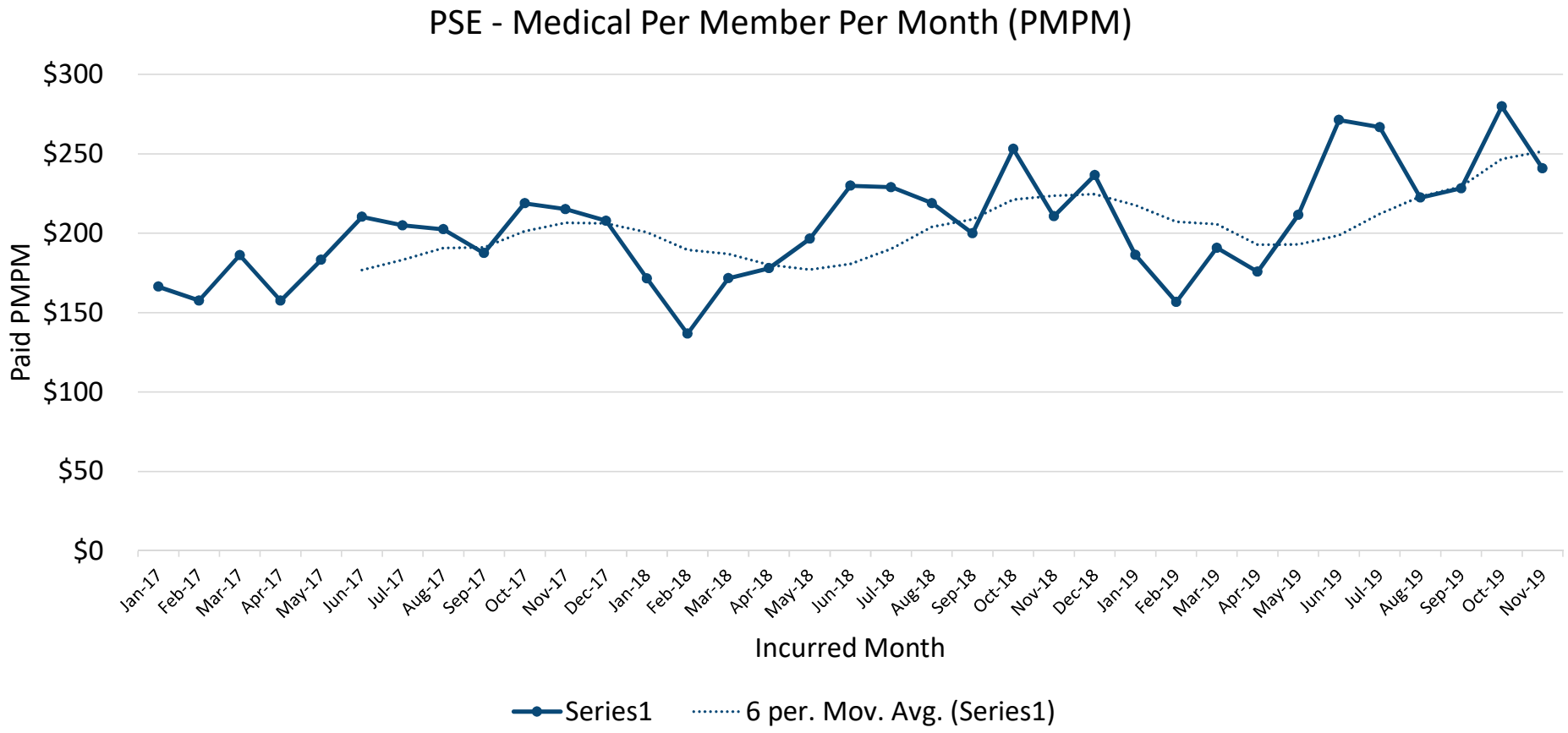
[1] 2018 Employee Contribution included PPE Funding and Allocation from Department of Education

[2] 2018 Administration Fees included Plan Administration

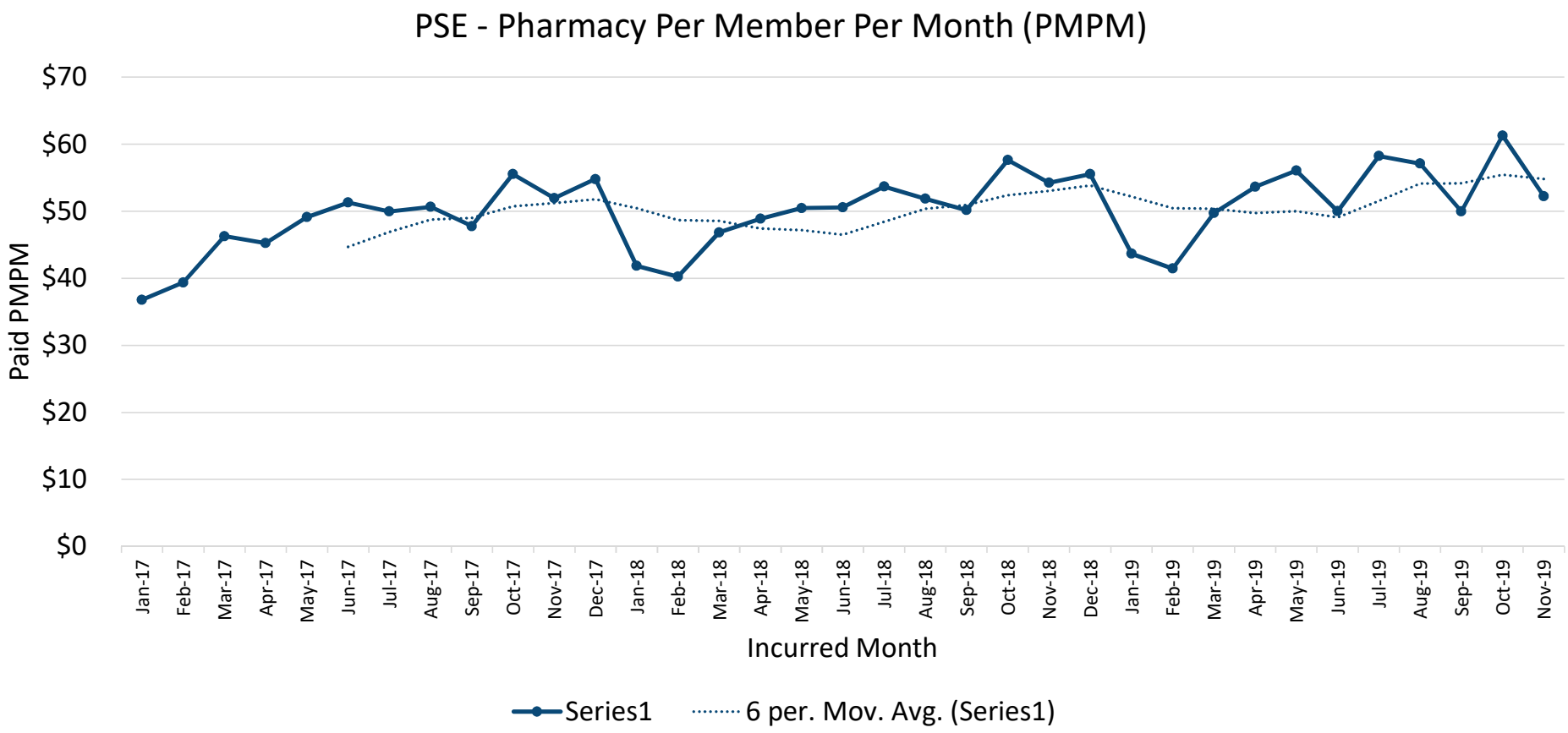
[3] Allocation of Reserves included in Total Income

[4] Total Expenses offset by Pharmacy Savings

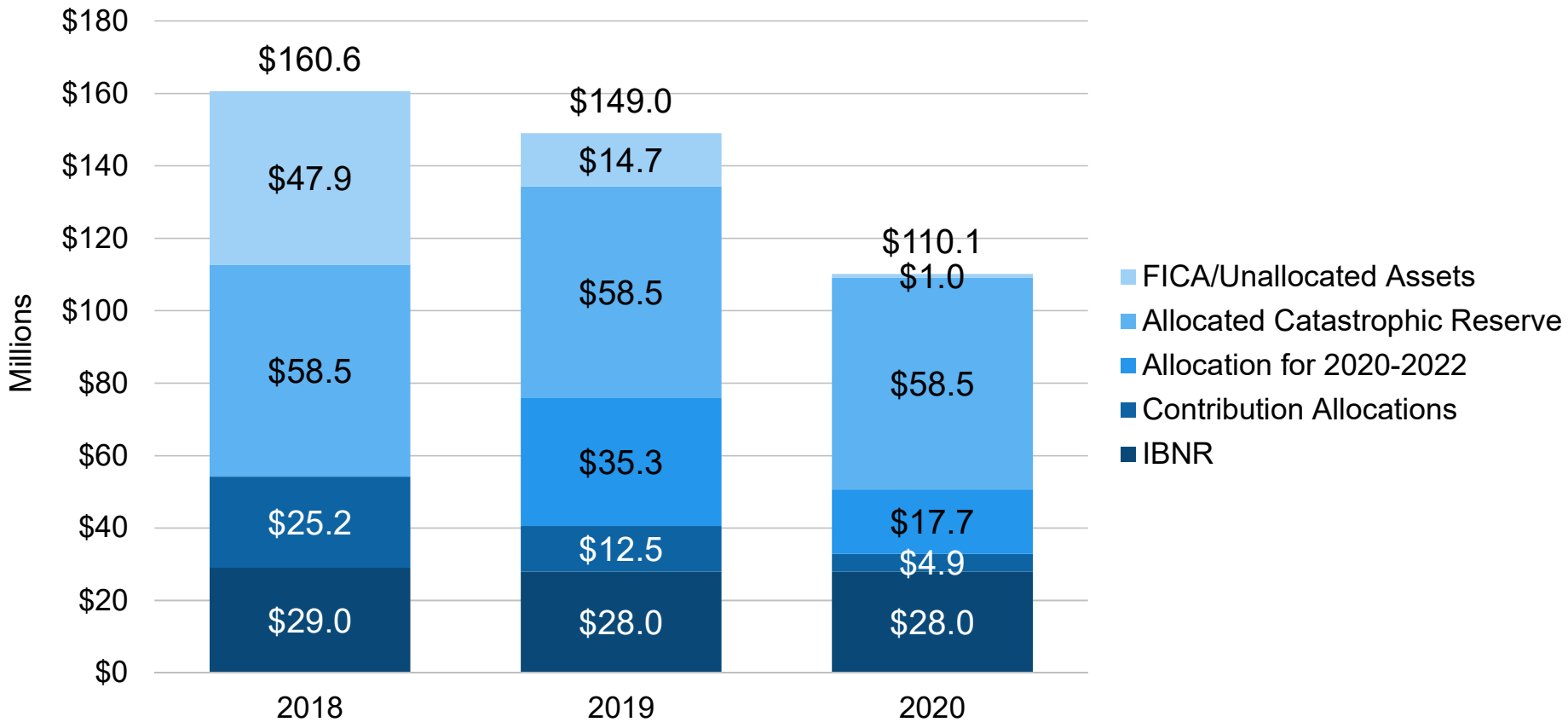
Monthly Trend - Medical



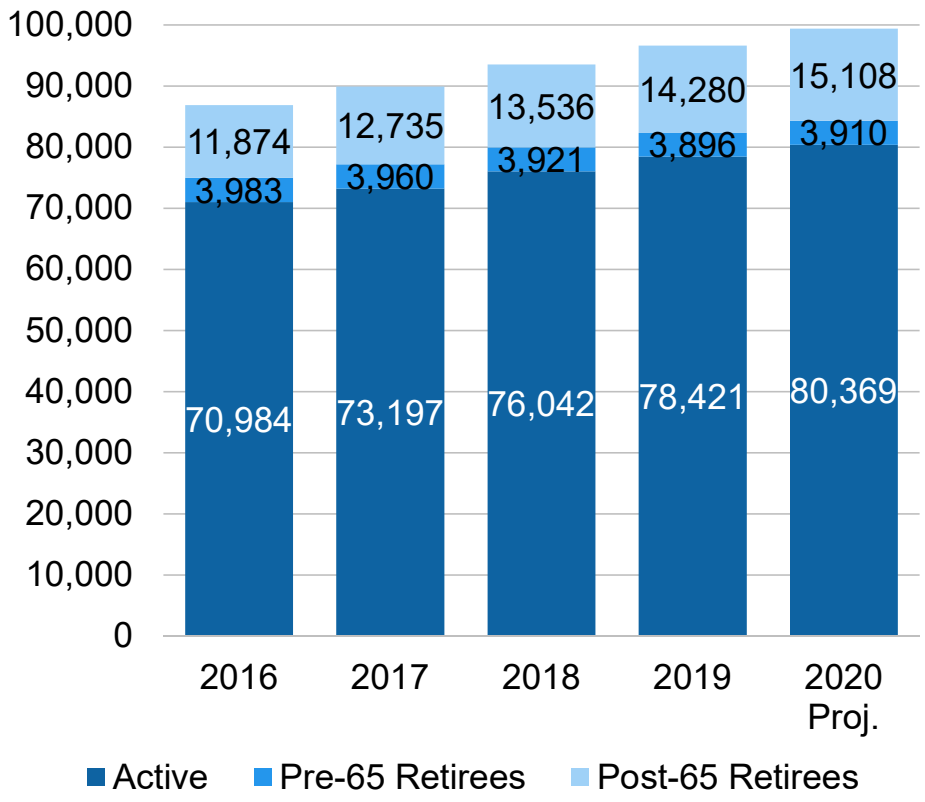
Monthly Trend - Pharmacy

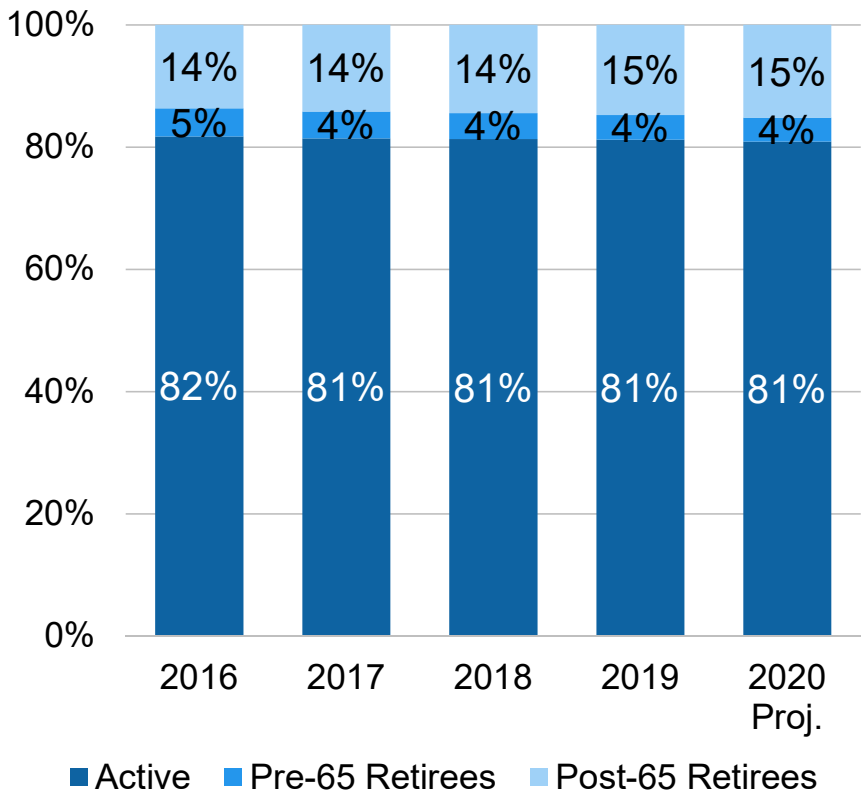


End of Year Assets

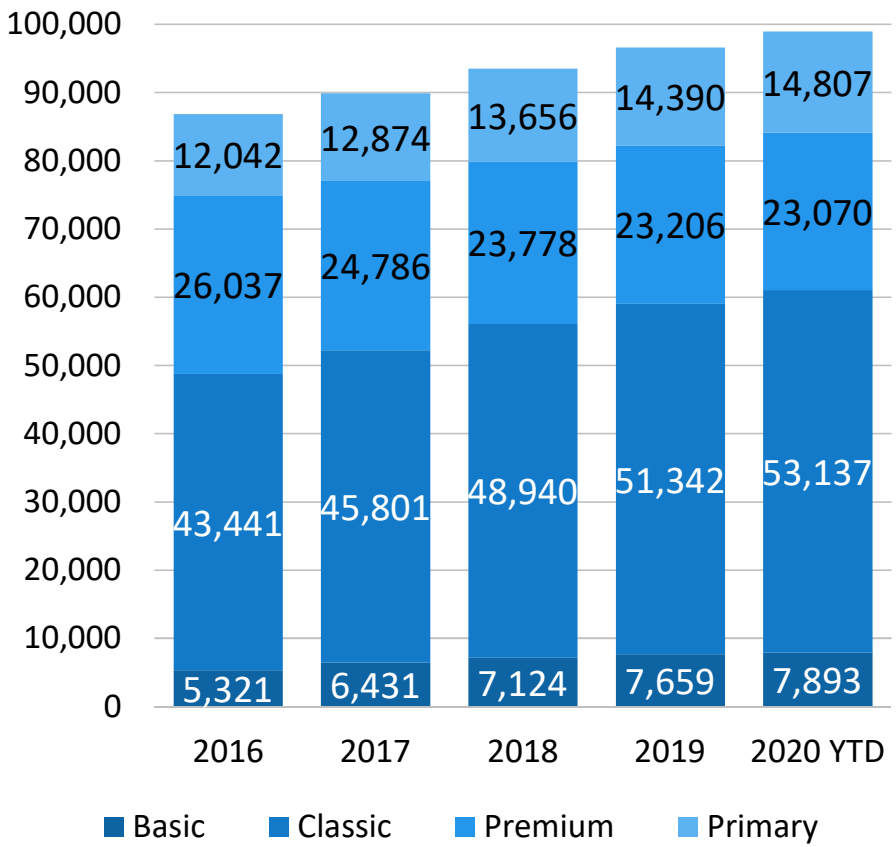


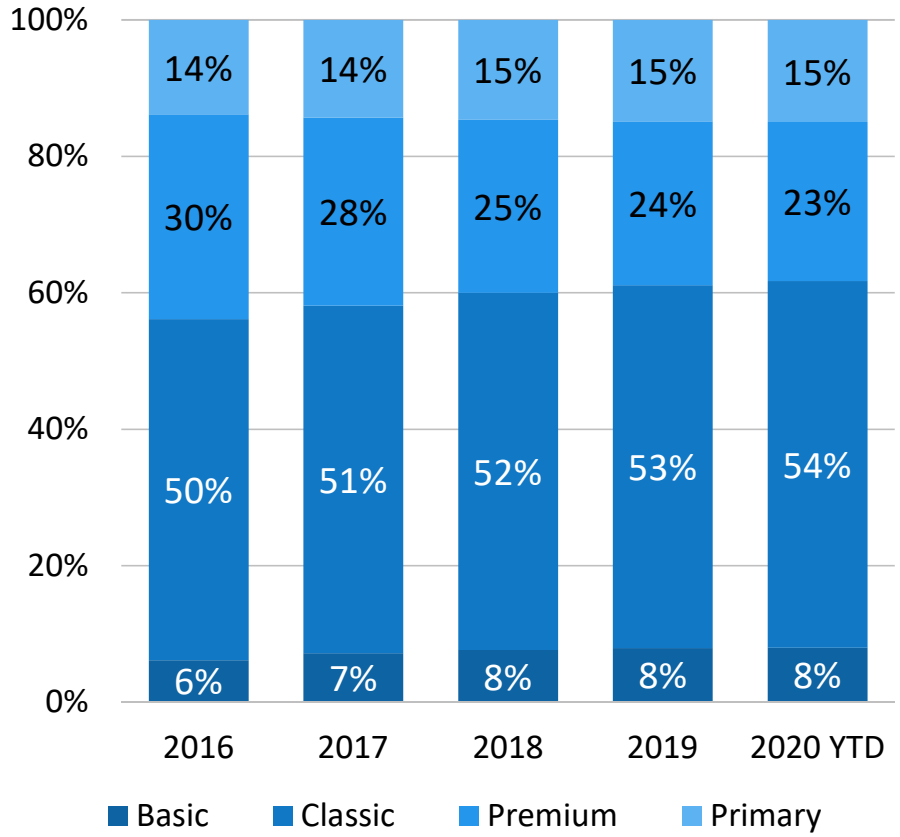
PSE - Average Membership by Status





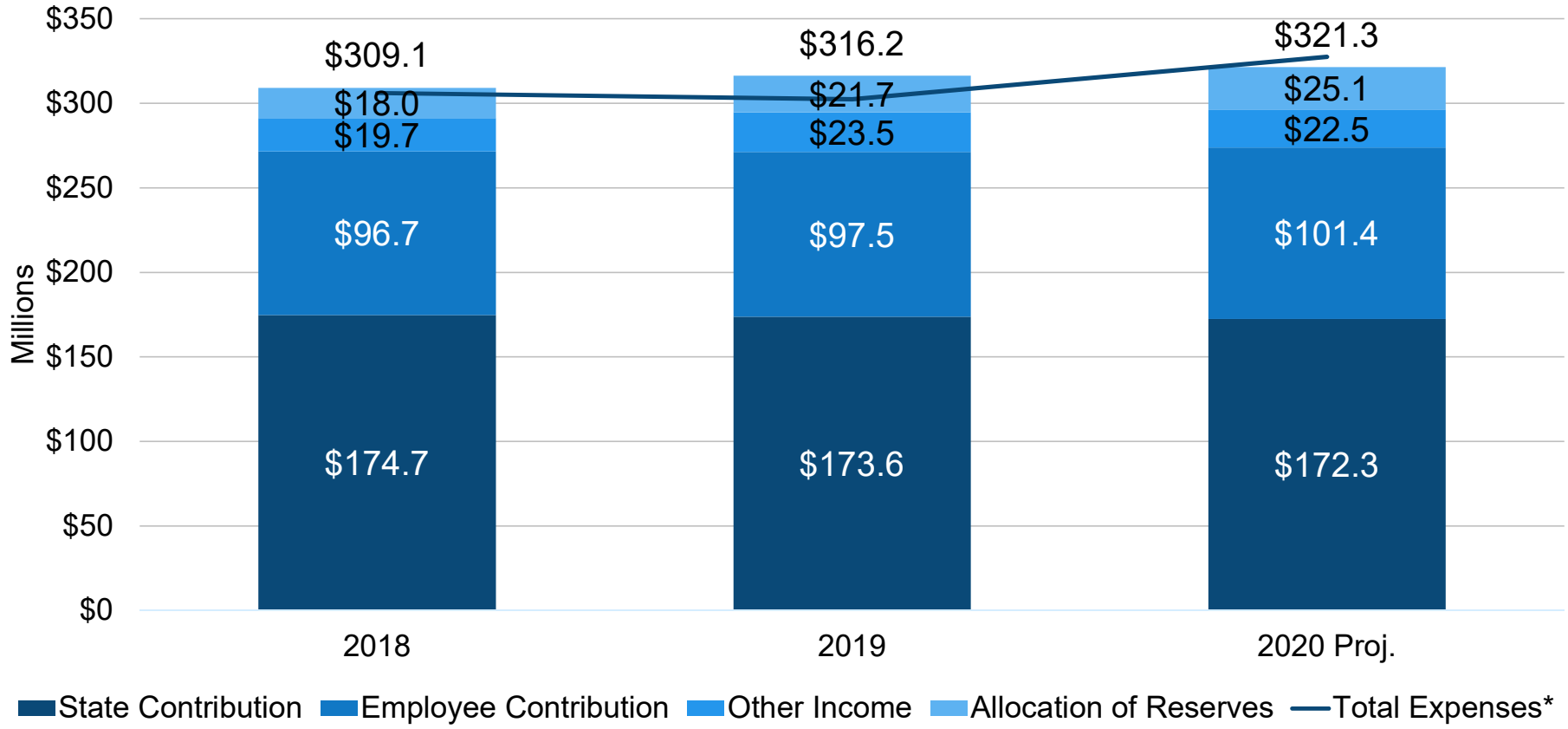
PSE - Average Membership by Plan





Appendix

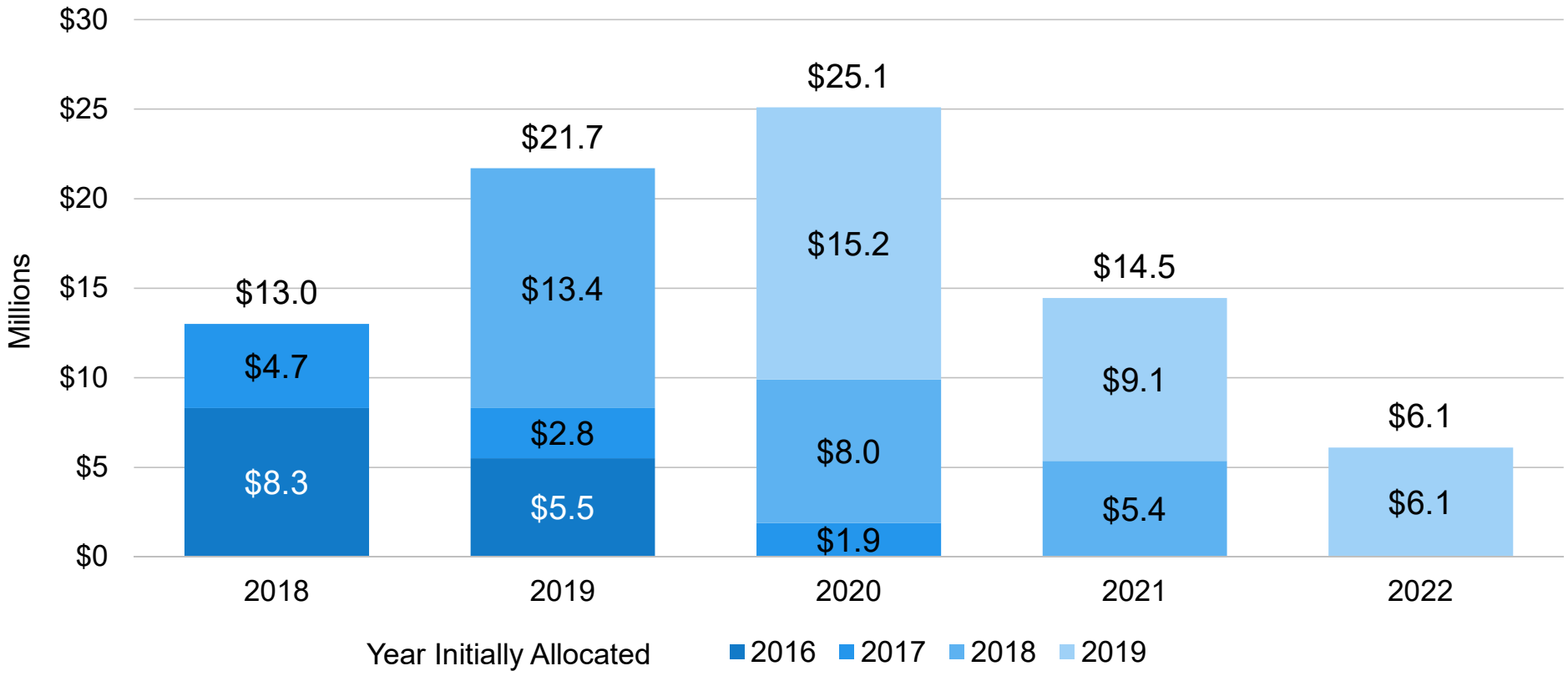
ASE - Income vs. Expenditure



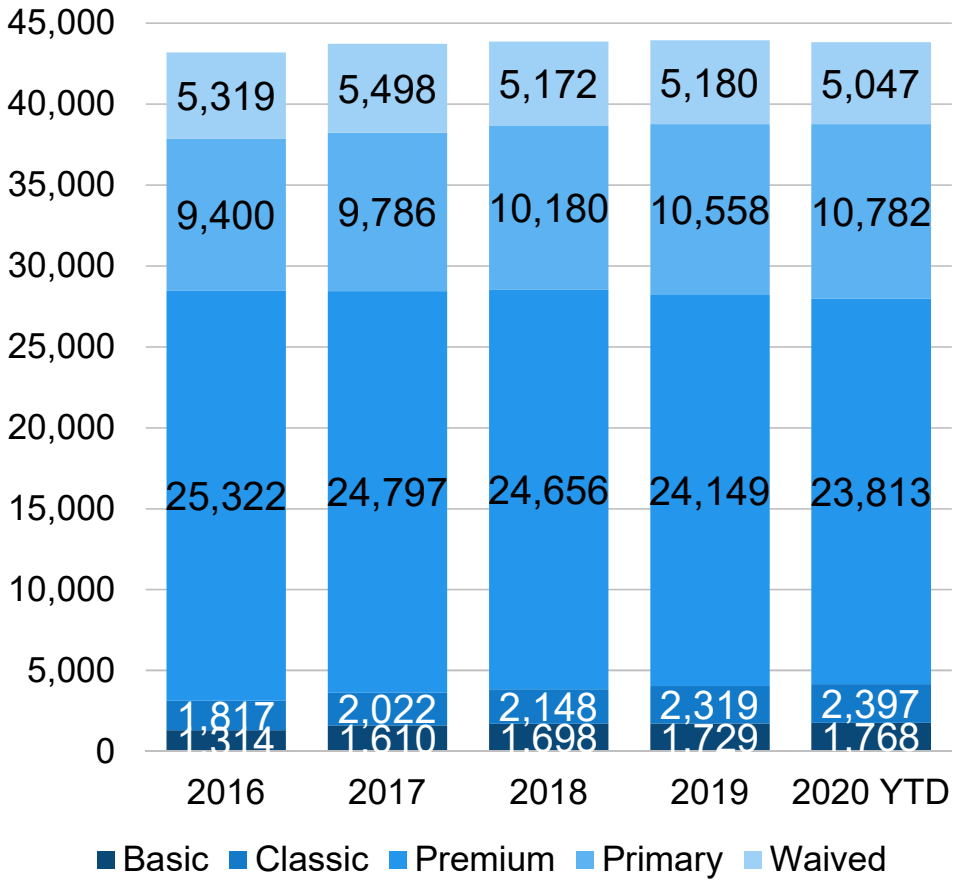
* Total Expenses offset by Pharmacy Savings

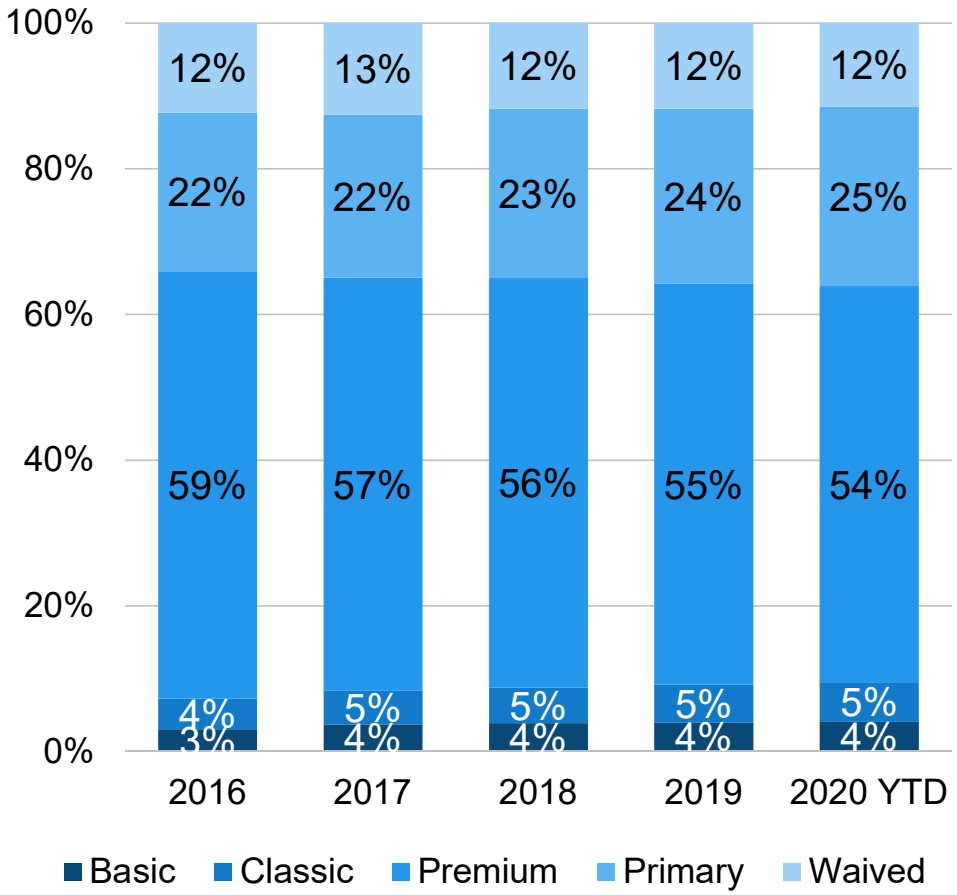
ASE - Reserves Allocation by Year

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



ASE - Average Enrollment (Subscribers) by Plan





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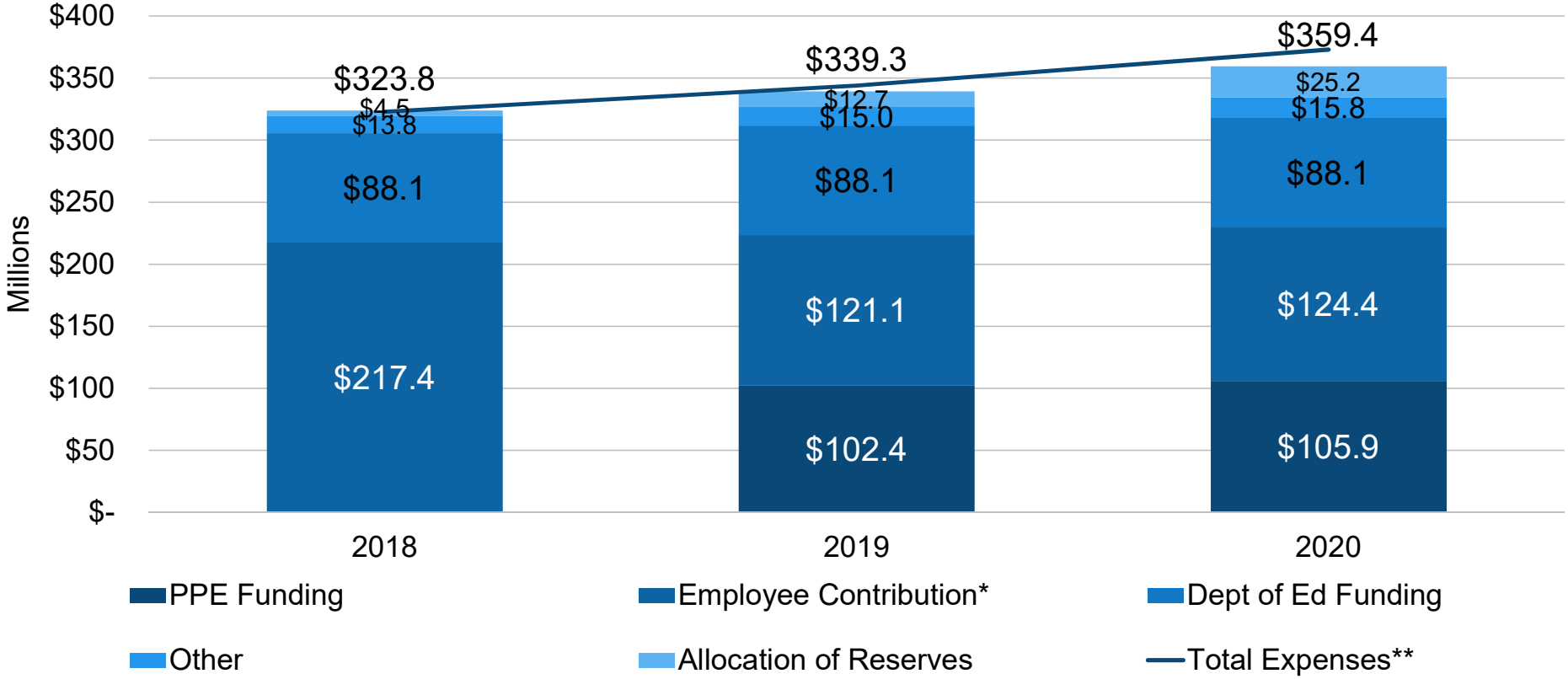
PSE - Income vs. Expenditure

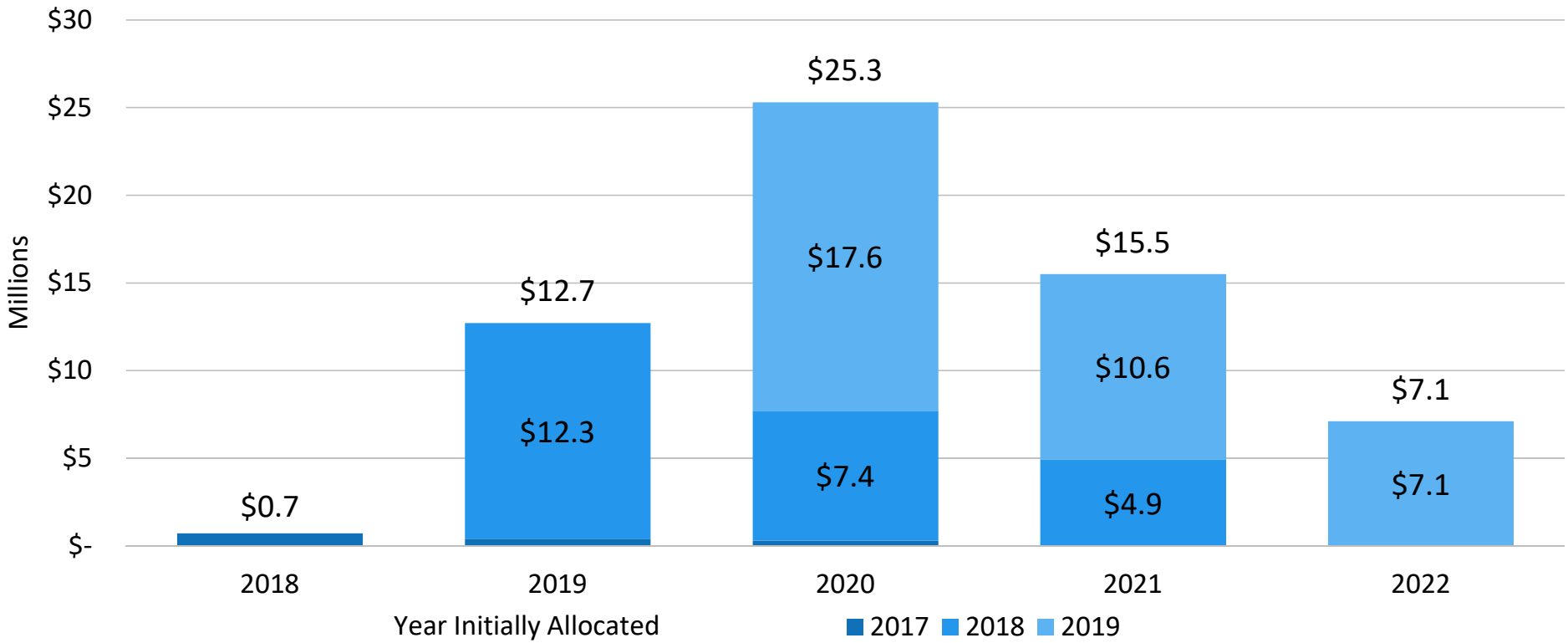


* 2018 Employee Contribution includes PPE Funding

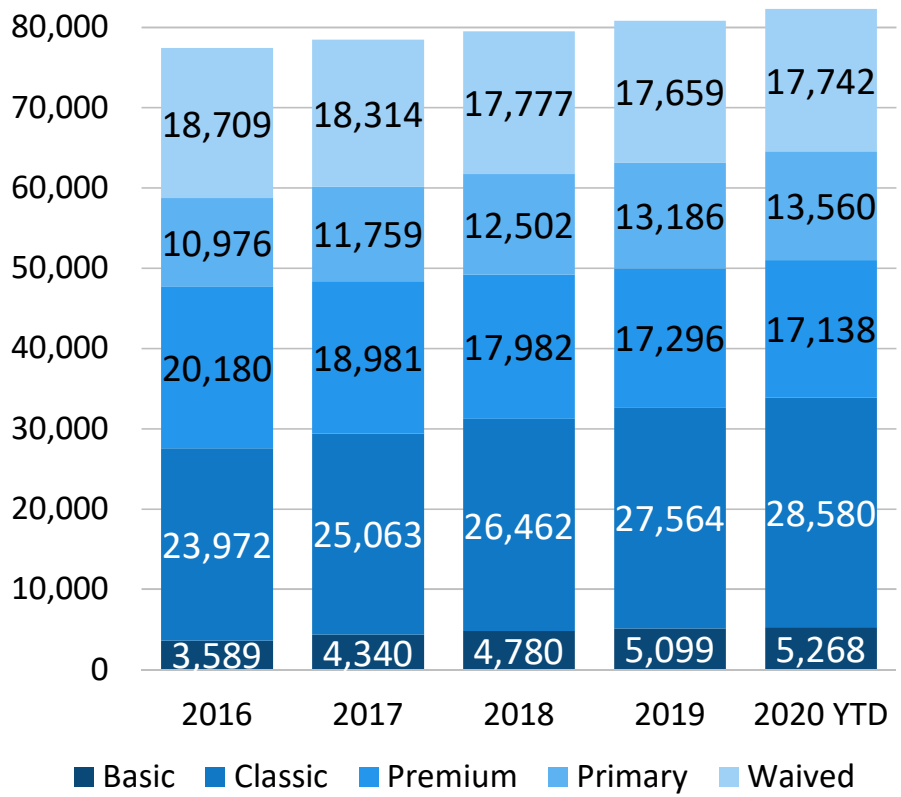
** Total Expenses offset by Pharmacy Savings

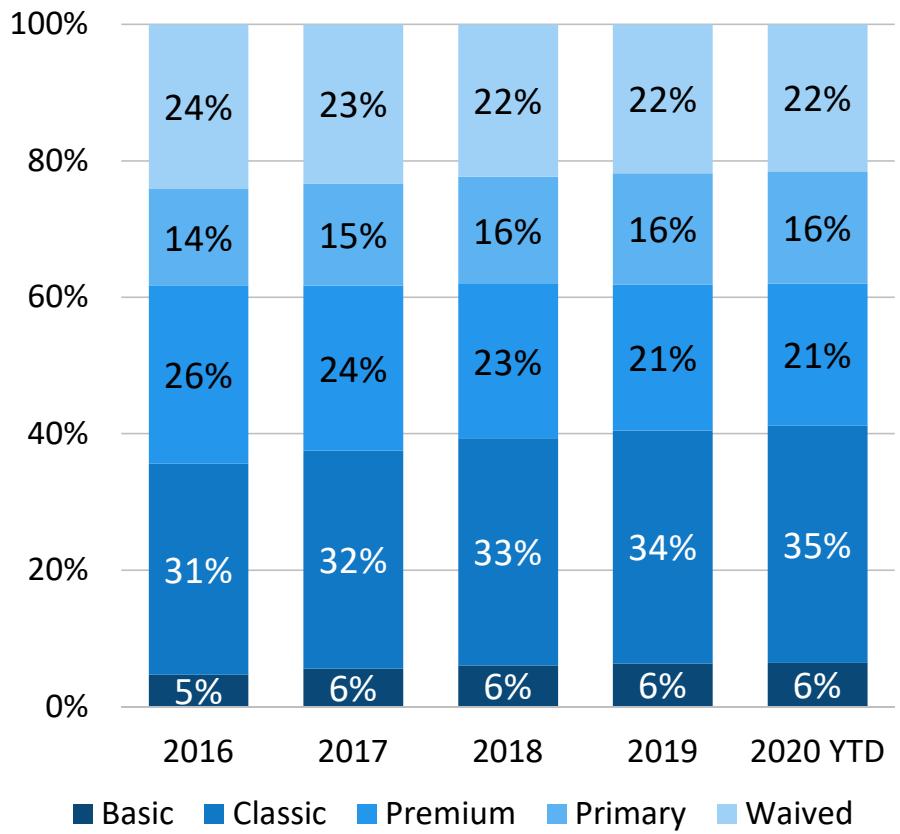
PSE - Reserves Allocation by Year

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



PSE - Average Enrollment (Subscribers) by Plan





Assumptions & Methodology

Assumptions - Trend

Division	Group	Medical Trend	Pharmacy Trend
ASE	Active/Pre-65 Retirees Post-65 Retirees	5.0% 5.0%	8.0% 8.0%
PSE	Active/Pre-65 Retirees Post-65 Retirees	6.0% 5.0%	8.0% 8.0%

Assumptions & Methodology

Assumptions – Benefit Plan Changes (2018 to 2020)

- ASE
  - No significant plan cost changes for Active, Pre-65, and Post-65 benefit plans
- PSE
  - No changes for Post-65 benefit plan
  - Active and Pre-65 (2019 changes)
    - Premium
      - Deductible decrease from $1,000 to $750 (individual)
      - Out-of-Pocket Maximum (OOPM) decrease from $3,500 to $3,250 (individual)
      - Pharmacy OOPM increase from $3,100 to $3,350 (individual)
    - Classic
      - Deductible decrease from $2,000 to $1,750 (individual)
      - Medical coinsurance limit increase from $4,450 to $4,700 (individual)
    - Basic
      - Deductible decrease from $4,250 to $4,000 (individual)
      - Medical coinsurance limit increase from $2,200 to $2,450 (individual)

Assumptions & Methodology

Assumptions – Other

- Age/Gender
  - Age/Gender factor based on Milliman Health Cost Guidelines™
- Enrollment Projections
  - Actual enrollment utilized for January 2019 through January 2020
  - Projected February – December 2020 based on historical patterns from 2019
- Pharmacy Savings
  - Projected savings of $1.25 million per month for 2020, allocated between ASE / PSE based on pharmacy claims expense.
  - Actual 2019 pharmacy claims reflect savings beginning in June 2019
- QualChoice Run-out Administration Fees
  - Actual run-out fees through July 2019
- Plan Administration Expense
  - ASE - $3.96 PMPM for CY2019 ($3.96 PMPM for CY2020)
  - PSE - $2.26 PMPM for CY2019 ($2.26 PMPM for CY2020)

Assumptions & Methodology

Methodology

1. Summarized fee-for-service (FFS) medical and pharmacy claims incurred from December 1, 2018 to November 30, 2019 and paid from December 1, 2018 to January 31, 2020. Medical claims include withholds starting January 2019. Reports reflects the timing of when EBD is expected to pay the withhold. Withhold true-up estimates provided ABCBS. Milliman to provide independent estimate.
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 December 1, 2018 to November 30, 2019.
4. Divided the summarized incurred claims by the appropriate member months to calculate PMPMs.
5. 2019 Projection composed of actual claims experience from January 2019 – November 2019 along with projected claims experience from December 2019.
6. 2020 Projected the incurred claims PMPM from the midpoint of the experience period (June 1, 2019) to the midpoint of the contract period (July 1, 2020).
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 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 2019 and 2020 budget are based on historical ASE and PSE claims, funding, and plan administration, historical ASE and PSE members by benefit plan, age/gender, and by month, 2018 and 2019 ASE and PSE benefit plan summaries, 2020 fees and administrative expenses, conversations with EBD regarding the program, and actuarial judgment.

While we reviewed the ABCBS 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 ASE and PSE budget for CY2019 and CY2020. It may not be appropriate for other purposes. Milliman does not intend to benefit any third party from this analysis.

Milliman

Thank you

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