



PY20 Financial Outlook PY21 Rates and PEBP Board Considerations

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Prepared by Aon
Health Solutions

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Today's Agenda



PEBP Financials

- Looking back
- Projected PY20 close
- PEBPs Population
- What does this mean?



PY21 Rates

- Methodology
- Base Rates
- Admin Fees
- HSA/HRA
- Overall Rates
- Premiums



Board Considerations

- Required Reserve Policies for IBNP
- Required Reserve Policies for Catastrophic

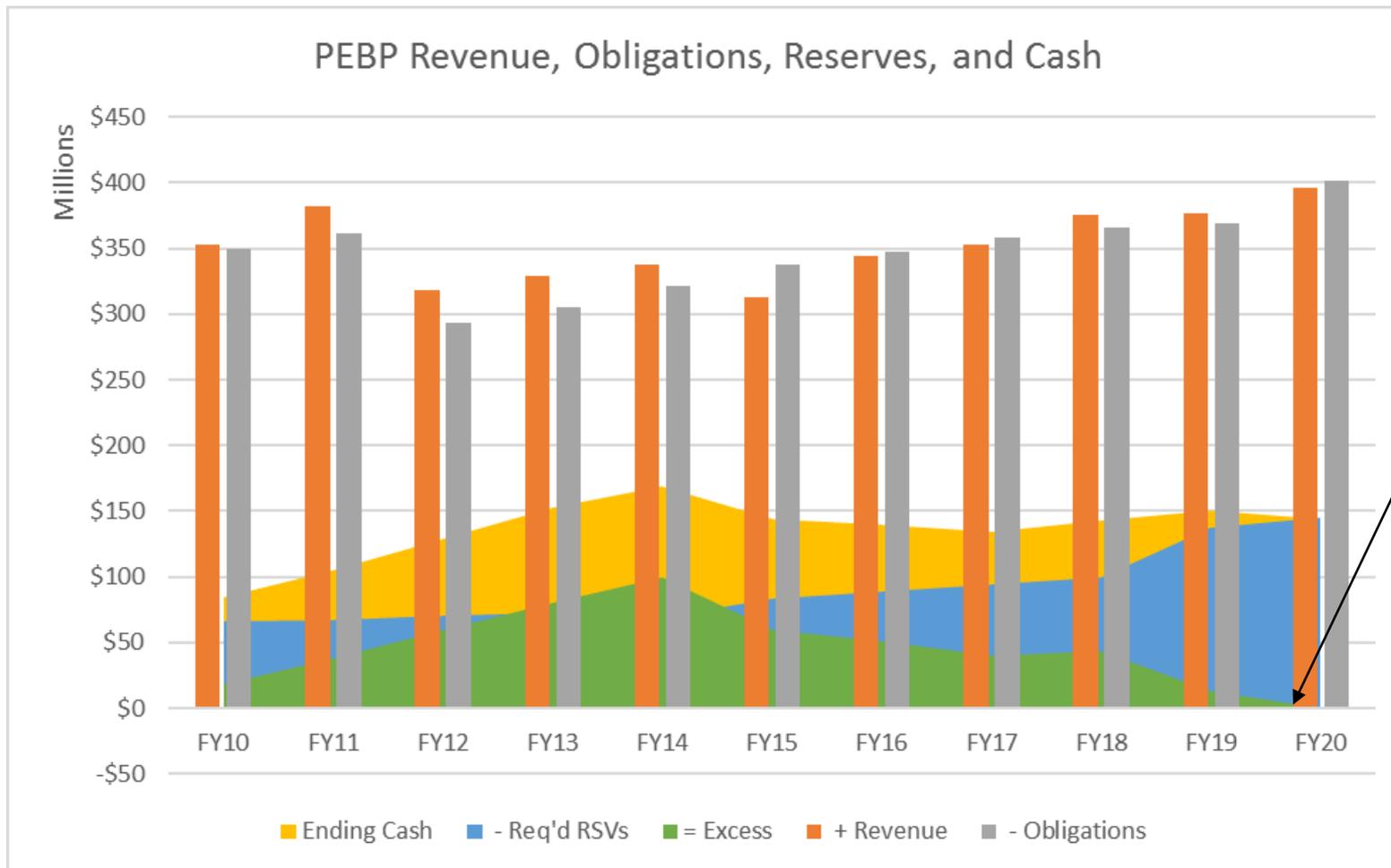


PEBP Financials

History of Revenues, Obligations, Reserves and Excess Cash

For each plan year:

$$\text{Revenue} \text{ minus } \text{Obligations} = \text{Ending Cash} \text{ minus } \text{Required Reserves} = \text{Excess}$$



PEBP's current best estimate of year end Excess for FY20 is between **-\$1M** and **\$1M**

Required Reserves – FY10 to FY20

PEBP’s “required” reserves have more than doubled in size over the past decade

HRA Reserve

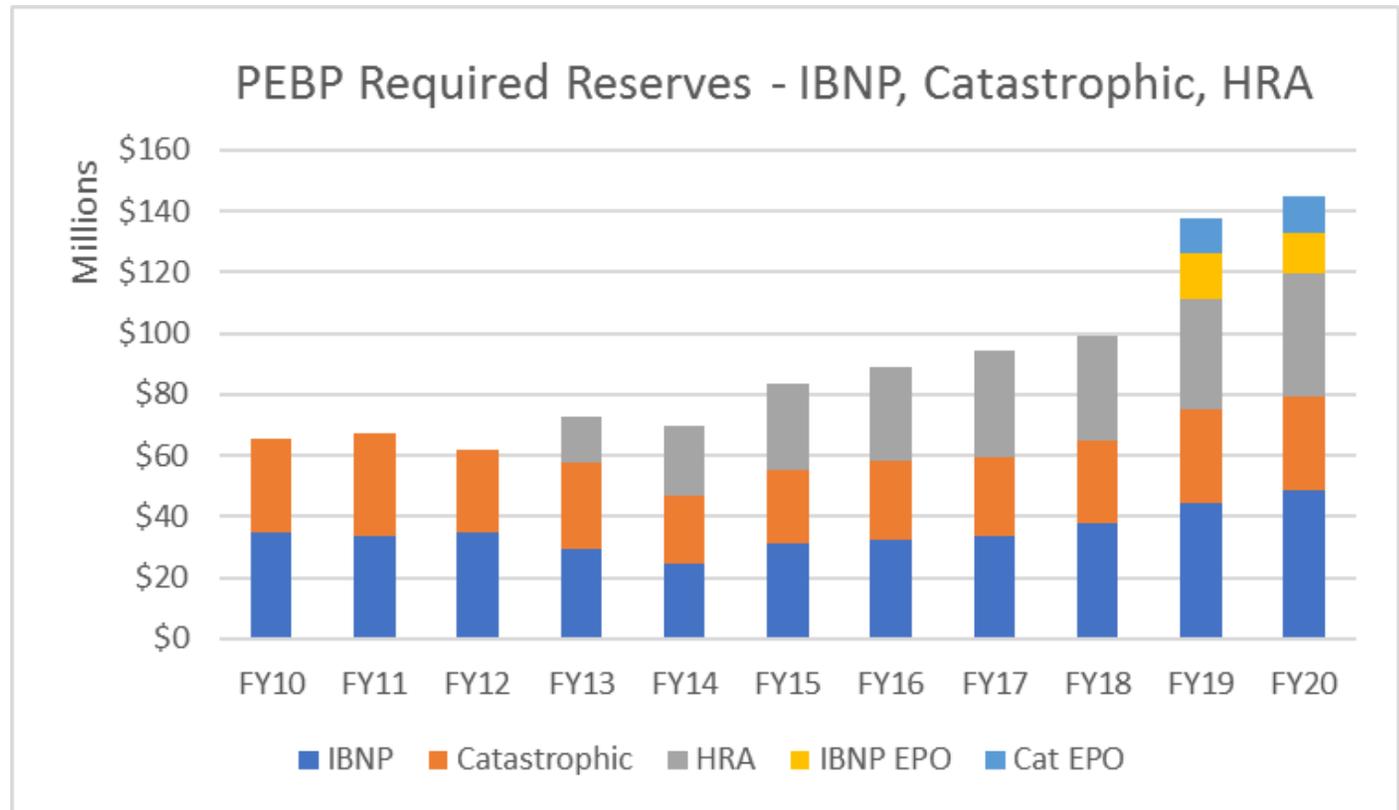
- The most notable increase comes in the HRA Reserve, which began at \$15M in FY13
- Has grown 2.6x that amount to an estimated \$40M by the end of FY20

IBNP Reserve

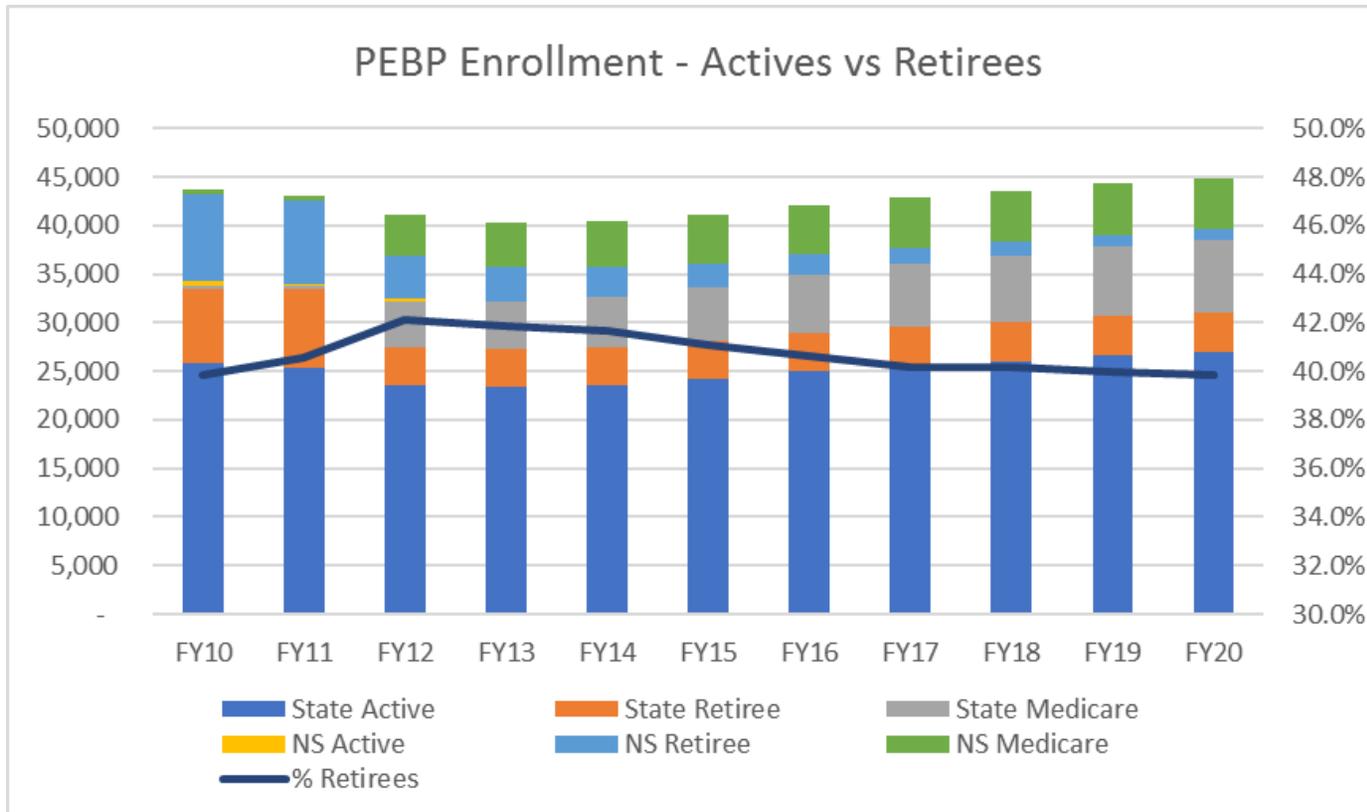
- Recent large claims in FY19 and FY20 have increased the IBNP Reserve as their slower speed to pay creates a longer lag
- The 95% confidence interval in periods of volatility results in a larger load

Premier Reserve

- Moving the HHP HMO plan to EPO self-funding in FY19 increased required reserves by \$26M



PEBP's Population Mix



PEBP's population as a whole has remained fairly stable – between 40k and 45k

Non-State participation has dropped from 23% of the population in FY10 to 14% in FY20

Retirees have consistently made up 39.8% to 42.1% of the population over the past decade

What Does this Mean?

For the first time in over a decade, as reserve policy exists today, PEBP will start PY21 with little to no excess reserve dollars

During the last budget cycle, the Legislature approved supplemental HSA/HRA funding for PY21, this funding was to come from excess reserves and is estimated to cost \$3M

Due to the uncertainty of available excess reserves to begin PY21, PEBP is recommending a delay on funding this supplemental HSA/HRA amounts until January 2021 when a more clear assessment of available funding can be made

If current projections were indicating a shortfall of more than \$1M in excess reserves, this shortfall amount should be added into the PY21 rates in order to get the plan and it's required reserves back to fully funded

Now may be a good time to revisit Board policy for each of it's Required Reserves:



IBNP (95% confidence interval, can this be lowered to 10% margin)



Catastrophic Reserves (95% confidence interval = 62 days on hand)



HRA Reserves (currently 100% funded and no cap on rollover amounts)



PY21 Rates

Rate Setting Methodology Refresher

Experience * Projected Trend = Base Rates

Base Rates + Administrative Costs + HSA/HRA Funding = Overall Rates

Overall Rates – Employer Contributions (Subsidy) = Member Share (Premiums)

Step 1

- Aon gathers claims data from PEBP vendors and conducts Pharmacy Market Check
- This year's market check resulted in a **price decrease of 9%**

Step 2

- Aon evaluates past experience and trends it forward to PY21, applies results of Pharmacy Market Check, to create Base Rates

Step 3

- PEBP Financial staff takes the Base Rates and adds on Administrative Fees as well as HSA/HRA loads to create Overall Rates

Step 4

- PEBP Financial staff applies Budget approved Employer Contributions from AEGIS/REGI to calculate Member Share (Premiums)

Base Rates – Comparing PY21 over PY20

	Medical/Rx	Dental	Total Change
State CDHP	9.6%	0.1%	8.8%
State EPO	13.8%	0.1%	13.1%
State HPN	7.0%	0.1%	6.6%
Non-State CDHP	-13.9%	0.5%	-13.4%
Non-State EPO	-1.4%	0.5%	-1.3%
Non-State HPN	7.0%	0.5%	6.6%

While Dental Experience has remained favorable to established base rates, Medical and Pharmacy Costs have not

HPN provided PEBP with a 7% renewal for PY21 as they too are seeing costs rise

Due to the shrinking size of the Non-State population, their experience is becoming far less credible and increasingly volatile, with the most recent experience being far more favorable than in years past

Per PEBP Board direction, we continue to set rates aggressively – with a 50% chance they will be sufficient to cover claims costs and a 50% chance they will be short

Administrative Fees and HSA/HRA Expense Loads

Administrative Fees – made up of PEBP
Operating fees and Contract Obligations:

Active CDHP = \$40.51

Active HMO = \$41.32*

Retiree CDHP = \$19.48**

Retiree HMO = \$19.61

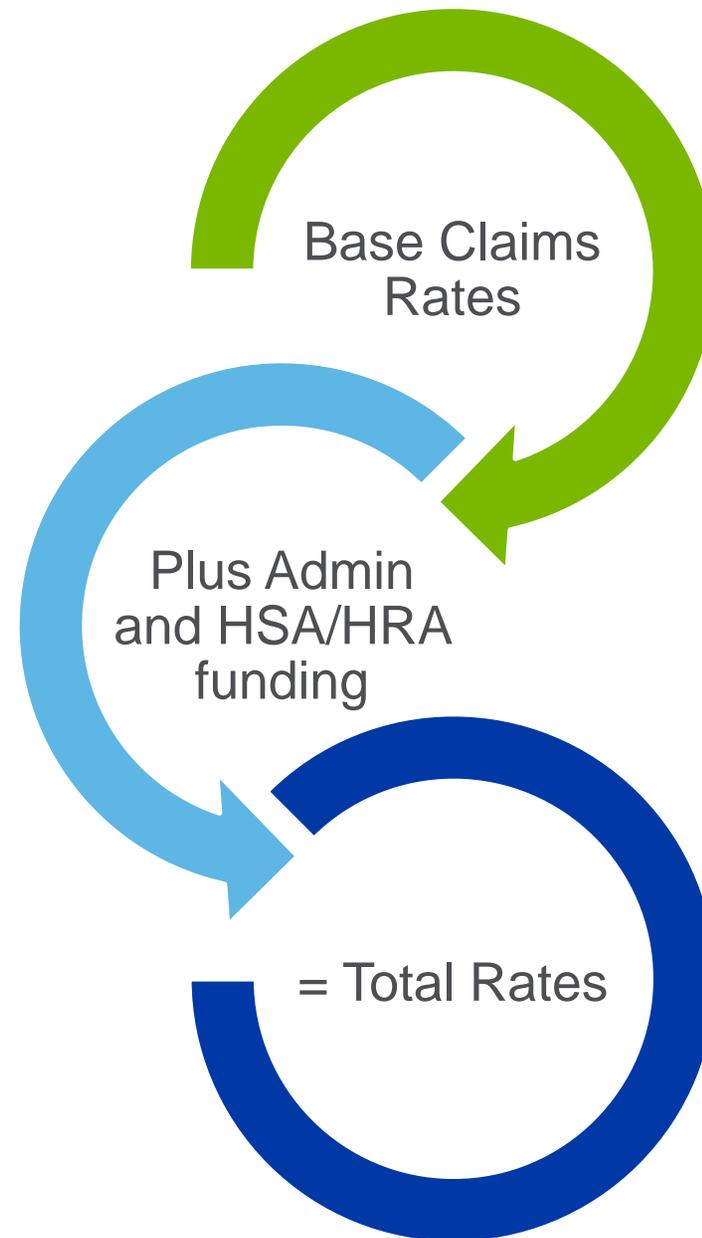
HSA/HRA Funding for Active and Retirees
not on the WTW Exchange:

\$700 per Participant plus

\$200 per Dependent up to 3

*Pharmacy Rebates are subtracted from Admin fees for
both self-funded plans, CDHP and EPO

**Retiree Admin Fees are lower than the Actives due to
lower Life Insurance Premiums as well as the cost of
LTD being added to the Actives



Overall Rates – Before Contributions and Premiums

State Employees			State Retirees		
Tier	CDHP	EPO/HMO	Tier	CDHP	EPO/HMO
Employee Only	640.07	874.78	Employee Only	619.04	853.07
Employee + Spouse	1,197.96	1,708.24	Employee + Spouse	1,176.93	1,686.53
Employee + Child(ren)	874.91	1,285.48	Employee + Child(ren)	853.88	1,263.77
Employee + Family	1,432.79	2,118.94	Employee + Family	1,411.76	2,097.23

Non-State Retirees		
Tier	CDHP	EPO/HMO
Employee Only	1,059.18	810.86
Employee + Spouse	2,057.20	1,602.11
Employee + Child(ren)	1,721.45	1,258.69
Employee + Family	2,719.49	2,049.94

State Employee Premiums

State Active Employees	Statewide PPO			Statewide EPO/HMO		
	Consumer Driven Health Plan			PEBP EPO and HPN HMO		
Tier	PY20	PY21	Change	PY20	PY21	Change
Employee Only	30.95	47.38	16.43	137.47	169.73	32.26
Employee + Spouse	160.01	200.26	40.25	415.95	498.14	82.19
Employee + Child(ren)	82.97	111.74	28.77	275.84	331.56	55.72
Employee + Family	212.02	264.61	52.59	554.32	659.97	105.65

State/Non-State Retiree Premiums

State Active Employees	Statewide PPO			Statewide EPO/HMO		
	Consumer Driven Health Plan			PEBP EPO and HPN HMO		
Tier	PY20	PY21	Change	PY20	PY21	Change
Employee Only	203.33	226.43	23.10	362.56	414.41	51.85
Employee + Spouse	482.10	542.08	59.98	859.32	985.98	126.66
Employee + Child(ren)	315.68	359.30	43.61	609.39	696.06	86.67
Employee + Family	594.45	674.94	80.48	1,106.15	1,267.63	161.48



Board Considerations

Required Reserve Policy Considerations

IBNP:  Per our presentation at the November 2019 board meeting, PEBP is one of the most conservative State entities in their approach to having a 95% confidence interval load on their IBNP

Consideration:

PEBP could move to a 10% margin load on their IBNP from the current 25%. This would release **\$7.04M** from the year end required reserves and give PEBP a cushion moving in to PY21, especially in light of COVID-19 and its unknown impact on claims in the next 12-18

Catastrophic:  Similarly to IBNP, PEBP is conservative in their approach to a 95% confidence interval for unknown claims (which currently equals about 62 days of claims on hand)

Consideration:

PEBP could move modestly to holding 60 days on hand. This would release an additional **\$1.4M** into excess for PY21 and may be necessary to cover any shortfall that occurs at the end of PY20

If the PEBP Board wanted to get more aggressive, they could move to 50 days on hand which would release \$8.4M from current levels. A full comparison chart of options is available in the Appendix.



Appendix— Detailed Catastrophic Reserve Funding Options

Catastrophic Reserve Options

As a reminder, the **Catastrophic Reserve** is a separate and distinct fund from the catastrophic load on the IBNP and this fund is held at a 95% confidence interval

- IBNP reserve provides for claim dollars attributable to services incurred on or prior to a specific valuation date, and paid after that measurement date, with margins covering potential large claim amounts to be paid after the valuation date that were not known as of the valuation date
- Catastrophic reserve protects from unforeseen events that could cause a large increase in aggregate claim dollars paid by the Plan beyond actuarial forecasts



PEBP Projected June 30, 2020 Catastrophic Reserve Options

Plan	Current Method (Equivalent to 62 days of claims)	45 Days of Claims	50 Days of Claims	60 Days of Claims	75 Days of Claims
Premier	\$12,200,000	\$8,800,000	\$9,800,000	\$11,800,000	\$14,700,000
HDHP	\$31,000,000	\$22,500,000	\$25,000,000	\$30,000,000	\$37,500,000
Total	\$43,200,000	\$31,300,000	\$34,800,000	\$41,800,000	\$52,200,000
<i>\$ Change from Current</i>		-\$11,900,000	-\$8,400,000	-\$1,400,000	\$9,000,000
<i>% Change from Current</i>		-28%	-19%	-3%	21%