



August 9, 2021

Ms. Cari Eaton
Chief Financial Officer
State of Nevada Public Employees' Benefits Program (PEBP)
901 S. Stewart Street, Suite 1001
Carson City, NV 89701

Subject: Incurred But Not Paid (IBNP) Liability and Catastrophic Reserve as of June 30, 2021 for PEBP's Self-Insured Health and Welfare Plans

Dear Cari:

Aon has estimated the Incurred But Not Paid (IBNP) liability for the State of Nevada Public Employees' Benefits Program (PEBP) self-insured active & retiree medical, prescription drug, and dental plans to be **\$52,286,000** as of June 30, 2021. This is an increase of \$772,000, or 1.5%, from the prior reserve estimate as of June 30, 2020. The change in medical and dental liabilities from the previous reserve estimate is attributable to the following:

- An overall decrease in CDHP membership of around -1.5% (approximately -\$611,000) and in Premier (EPO) membership of around -2.8% (approximately -\$279,000)
- An overall decrease in CDHP claims per person for Medical/Rx of around -3.6% (approximately -\$1,508,000)
- The addition of an expense reserve for claims runout termination fees from HealthSCOPE Benefits, Inc. and Hometown Health
 - For HealthSCOPE Benefits, Inc., included 2 months of ASO fees for CDHP and Premier and 1 month of ASO fees for Dental (approximately \$1,971,000)
 - For Hometown Health, estimated at \$1,395,000; contract termination on June 30, 2021
- An overall increase in Premier claims per person for Medical/Rx of around 8.5% (approximately \$840,000) – driven by several large claimants
- Estimated temporary claims suppression due to COVID-19, offset by an increase in claims payment processing times starting June 2021 (combined approximately -\$1,036,000)

The components of the reserve are shown below:



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Benefit Plan	FY2020		FY2021	
	CDHP	EPO	CDHP	EPO
Medical	\$39,003,000	\$9,122,000	\$32,472,000	\$12,177,000
Prescription Drugs	<u>\$1,596,000</u>	<u>\$784,000</u>	<u>\$2,180,000</u>	<u>\$957,000</u>
Total Medical IBNR	\$40,599,000	\$9,906,000	\$34,652,000	\$13,134,000
Medical Expense Margin*	\$0	\$0	\$2,606,584	\$654,416
Dental	\$1,009,000		\$1,134,000	
Dental Expense Margin	\$0		\$105,000	
Total IBNR	\$51,514,000		\$48,920,000	
Total Expense Margin	\$0		\$3,366,000	
Total All Reserves	\$51,514,000		\$52,286,000	

*Medical Expense Margin reflects the termination run-out fees from HealthSCOPE Benefits, Inc., and Hometown Health network

As of April 9, 2020, PEBP's board decided to move to a 10% load on the CDHP and Premier plan IBNP reserves for medical and dental claims. Due to the speed at which prescription drug claims are paid by PEBP, it has historically been excluded from a margin load, and we maintained that practice going forward.

This IBNP estimate does not reflect any of the following items that may have been incurred but not yet received: prescription drug rebates and Retiree Drug Subsidy reimbursements. IBNP is also commonly referred to as IBNR. Although used synonymously, IBNR is technically a subset of IBNP which also includes claims reported but not processed and processed but not paid. The IBNP amount above includes all liability components incurred but not yet paid. The COVID-19 adjustments for 2020 incurred claims estimates are discussed in the actuarial method and assumptions section.

In addition to the IBNP liability, a non-actuarial liability which can exist is a "float" liability, which is based on the difference between the checks issued and the checks cleared. This liability can typically be assessed with 100% accuracy a day or two after the close of the period. It is an appropriate GAAP liability, but a non-actuarial liability, and as such is not addressed by this actuarial opinion.

The estimated number of months of claims covered by the IBNP reserve determined as of June 30, 2020 and 2021 by benefit plan is illustrated in the following table:

Benefit Plan	Estimated No. of Months Covered (prior to margin load)			
	FY2020		FY2021	
	CDHP	EPO	CDHP	EPO
Medical	2.9	2.0	2.7	2.5
Prescription Drugs	0.5	0.5	0.6	0.6
Dental		<u>0.5</u>		<u>0.5</u>
Total IBNR	2.8	1.9	2.5	2.4

Shown below is a comparison of historical IBNP estimates. Please note this illustration excludes the expense and catastrophic reserve margins, and represent medical, dental, and prescription drug claims IBNPs only.

Medical and Dental Claims Only IBNP								
Group	FY2020		FY2021		\$ Change		% Change	
	CDHP	EPO	CDHP	EPO	CDHP	EPO	CDHP	EPO
Medical State								
Active	\$26,660,000	\$6,874,000	\$21,850,000	\$8,734,000	(\$4,810,000)	\$1,860,000	-18.0%	27.1%
Retiree	<u>\$7,762,000</u>	<u>\$1,290,000</u>	<u>\$6,214,000</u>	<u>\$1,598,000</u>	<u>(\$1,548,000)</u>	<u>\$308,000</u>	<u>-19.9%</u>	<u>23.9%</u>
Total	\$34,422,000	\$8,164,000	\$28,064,000	\$10,332,000	(\$6,358,000)	\$2,168,000	-18.5%	26.6%
Medical Non-State								
Active	\$14,000	\$9,000	\$9,000	\$16,000	-\$5,000	\$7,000	-35.7%	77.8%
Retiree	<u>\$1,021,000</u>	<u>\$121,000</u>	<u>\$1,447,000</u>	<u>\$722,000</u>	<u>\$426,000</u>	<u>\$601,000</u>	<u>41.7%</u>	<u>496.7%</u>
Total	\$1,035,000	\$130,000	\$1,456,000	\$738,000	\$421,000	\$608,000	40.7%	467.7%
Prescription Drugs	\$1,596,000	\$784,000	\$2,180,000	\$957,000	\$584,000	\$173,000	36.6%	22.1%
Subtotal	\$37,053,000	\$9,078,000	\$31,700,000	\$12,027,000	(\$5,353,000)	\$2,949,000	-14.4%	32.5%
Dental State								
Active	\$626,000		\$704,000		\$78,000		12.5%	
Retiree	<u>\$202,000</u>		<u>\$232,000</u>		<u>\$30,000</u>		<u>14.9%</u>	
Total	\$828,000		\$936,000		\$108,000		13.0%	
Dental Non-State								
Active	\$100		\$200		\$100		100.0%	
Retiree	<u>\$88,600</u>		<u>\$94,700</u>		<u>\$6,100</u>		<u>6.9%</u>	
Total	\$88,700		\$94,900		\$6,200		7.0%	
Grand Total	\$47,047,700		\$44,757,900		(\$2,289,800)		-4.9%	

Employee Count as of June 2021			
Group	Medical		Dental
	CDHP	EPO	
State			
Active	19,067	3,826	26,228
Retiree	<u>3,261</u>	<u>585</u>	<u>9,753</u>
Total	22,328	4,411	35,981
Non-State			
Active	4	4	8
Retiree	<u>484</u>	<u>109</u>	<u>4,260</u>
Total	488	113	4,268
Total	22,816	4,524	40,249

Actuarial Methods and Assumptions

Liabilities for medical, dental and prescription drug benefits were estimated based on the Developmental Method. The underlying principle of the Developmental Method is that the progression of claims payment follows runoff patterns that are assumed to remain stable over time. HealthSCOPE Benefits, Inc. and

Express Scripts provided historical medical, dental, and prescription drug claims data summarized by incurred and paid period from July 1, 2017 through June 30, 2021, with emphasis on the last twenty-four months. Claims were adjusted as necessary for historical plan design changes. The results, produced by applying the Developmental Method to this data, were then adjusted for months where data was deemed non-credible. These adjustments were made using the Projection Method, which is based on the change in costs per exposure unit over time. The IBNP was determined using a June 30, 2021 measurement date.

The IBNP liability was further adjusted to reflect actuarial assumptions related to a number of factors/contingencies which could impact reserve adequacy. Such factors/contingencies include: changes in claim payment cycles, plan design, insurance carriers, large dollar shock claims, emerging claim trends, enrollment shifts, differences in the number of days in the projection period versus the baseline period, and other factors.

COVID-19 in 2020 and 2021:

The COVID-19 pandemic has greatly impacted the U.S. health care landscape in 2020 and 2021. The number of COVID-19 cases in the U.S. continues to fluctuate and it is unclear when the rate of infection will diminish. There are many uncertainties associated with the impact of COVID-19 on employer health care claims costs and as a result our IBNP estimate may exhibit more volatility than in a typical year. In addition to direct COVID-19 expenditures due to testing, vaccination and treatment of members with COVID-19, elective procedures and nonemergency visits may continue to be deferred, resulting in significant changes to the types and frequency of claims incurred by members of employer-sponsored plans. At this point in time there is no consistent emerging data across carriers of a change in payment speed, but there is clear evidence of a change in the types and level of claims incurred during the COVID-19 pandemic. Payment speed pattern changes may also emerge as more data becomes available.

Aon has developed a model to estimate COVID-19 claims impacts which incorporates two offsetting cost factors – direct COVID-19 claims costs and cost reductions due to deferral of unnecessary services. In the early stages of the pandemic, the savings due to the deferral of services has generally exceeded the additional direct claims costs due to COVID-19 for most employers. This may result in a temporary reduction in IBNP reserves required, though the impact to a particular employer can vary based on related industry, geography, and demographic considerations. While COVID-19 impacts may result in a reduction to the IBNP in the short term, it is very likely that many deferred services will return later in the year or next year. As a result, many employers may experience greater increases in their IBNP later in the year or in subsequent years than typical amounts due only to seasonality.

Using historical payment and enrollment patterns, Aon has only adjusted claims between March 2020 and December 2020 for the medical and dental coverages. For prescription drug claims, after reviewing the claims lag, we did not notice significant deviations due to COVID-19 and thus, did not adjust for any impacts of COVID-19.

Volatility

There can be significant volatility in IBNP estimates depending upon the measurement period. As the medical, dental, and prescription drug carriers / PBMs have significantly increased their claim processing speeds over the last several years; the outstanding IBNP amount at any point in time has become a much



smaller amount in relation to annual paid claims under the plan. Smaller amounts tend to have greater volatility (on a percentage basis).

Source of Information

In performing our estimate of IBNP liability, we relied on medical/dental claims data provided by HealthSCOPE Benefits, Inc. and prescription drug claims data provided by Express Scripts. Enrollment data was provided by PEBP. We reviewed the data for reasonableness but have not audited it; as such, we are not certifying herein as to its accuracy.

Catastrophic Reserve

At the April 9, 2020 Board Meeting, PEBP's Board elected to move from the 95% confidence interval on their Catastrophic Reserve (which amounted to approximately 62 days of claims payments on hand) to a 60 days of claims payments on hand methodology. Later, at the April 29, 2020 Board Meeting, this was moved to 50 days. We have estimated the catastrophic reserve to be \$34.9 million as of June 30, 2021. This catastrophic reserve includes PEBP's CDHP and Premier plans.

Catastrophic Reserve	6/30/2020	6/30/2021
CDHP	\$25,630,000	\$25,114,000
EPO	\$9,205,000	\$9,761,000
Total	\$34,835,000	\$34,875,000

Actuarial Certification

We certify that to the best of our knowledge, the methods and assumptions used to develop the estimated IBNP liability are reasonable and are calculated in accordance with generally accepted actuarial principles as promulgated by Actuarial Standards of Practice Number 5 (pertaining to estimating incurred health claim liabilities) and Number 23 (pertaining to data quality). It should be noted that Aon's conclusions are based on certain assumptions that appear reasonable at the time of reserve development. Actual experience can vary from projected experience, and this difference may be material.

This report is intended for the sole use of PEBP. Aon acknowledges the IBNP liability may be used by PEBP's auditors in collaboration with PEBP financial statements. Reliance on information contained within this report by anyone for other than the intended purposes puts the relying entity at risk of being misled because of confusion or failure to understand applicable assumptions, methodologies, or limitations of the report's conclusions.

The actuary whose signature appears below is a Member of the American Academy of Actuaries and meets the qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Aon's relationship with the Plan and the Plan Sponsor is strictly professional. There are no aspects of the relationship that may impair the objectivity of Aon's work.



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If you have any questions or need additional information, please call me at 202-674-7692 or email me at shun.yu@aon.com.

Sincerely,

Shun Yu

Shun Yu, FSA, MAAA
Aon

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