



Theresa Carson, Executive Officer

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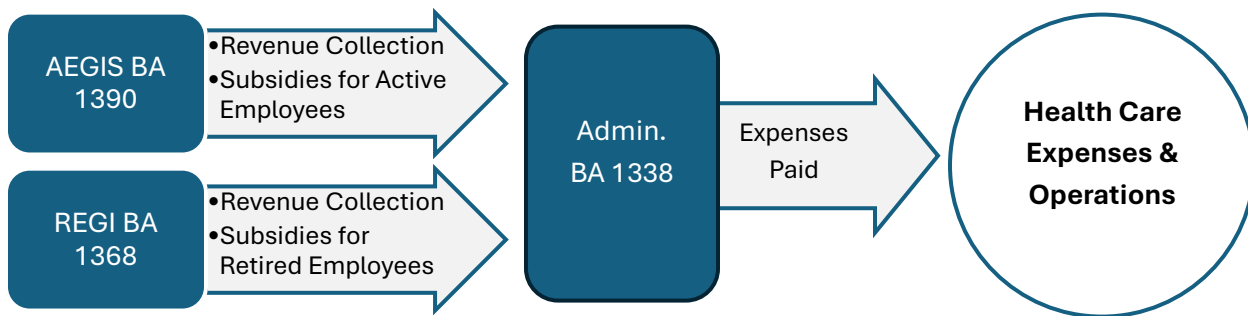
Re: Summary of findings from fiscal evaluation and review of PEBP budget

In the fall of 2025, the Nevada Health Authority (NVHA) hired a state budget and fiscal expert on contract (“NVHA contractor”) to support a review of the fiscal, accounting, and budget practices for the Public Employees’ Benefits Program (PEBP) for the last two fiscal years. This memo outlines the findings from this review, steps or actions taken to address issues identified, and key recommendations for consideration by the PEBP Board and Executive Officer.

A. Background

As illustrated below, PEBP has three budget accounts (BAs) - the Active Employees Group Insurance (AEGIS), which is BA 1390, the Retired Employees Group Insurance (REGI), which is BA 1368, and the PEBP Administrative Account (“Admin. Account”), which is BA 1338. The AEGIS and REGI accounts collect contributions for PEBP plans based on legislatively approved rates. These funds are transferred to the Admin. Account, monthly, to make payments for the cost of PEBP expenses. The funds transferred cover the medical and operating expenses associated with the program. Other revenues are transferred to the Admin. Account, including employee premiums, prescription rebates, among other revenues.

Figure 1: PEBP Revenue & Expenditure Flow Chart by Budget Account



For AEGIS and REGI accounts, revenue is collected from several state employer groups to fund the “employer contribution” of the program. These include:

- State’s Central Payroll at the Nevada Division of Human Resource Management
- Nevada Department of Transportation
- Nevada System of Higher Education
- Nevada Office of Boards and Commissions
- Nevada Legislative Counsel Bureau
- Public Employees’ Retirement System of Nevada.

For the employer contributions to the AEGIS account, the amount of revenue collected is based on a flat rate per employee as approved by the Nevada State Legislature. For the employer contributions to the REGI account, the amount of revenue collected is based on a percentage of payroll expenses as approved by the Nevada State Legislature for each retired employee group.

The Admin. Account (BA 1338) has three reserve categories:

- **Category 82 - Health Reimbursement Arrangement (HRA) Reserve** – This reserve category covers liabilities associated with unused HRA contributions at the end of each fiscal year. The reserve amount that PEBP must maintain for the HRA Reserve is based on 80% of the unused HRA balances for both the Consumer Driven Health Plan (CDHP) and the Medicare Exchange. Contribution rates are adjusted to maintain the necessary reserve amounts in this reserve category.
- **Category 84 - Incurred but Not Reported (IBNR) Reserve** – This reserve category covers all claims incurred prior to the end of the year that have not yet been paid. Adjustments to the IBNR Reserve are based on actuarial evaluations and are set at the time biennial budgets are built and approved by the Nevada State Legislature.
- **Category 85 - Catastrophic Reserve** – This reserve category serves as an emergency fund to address losses that exceed the projected claims expenditures and ensure plan solvency over the long term. It is calculated to ensure that PEBP has sufficient funds to pay the cost of at least 45 days of estimated claims for the year. The actual amount is set by the actuary at the time the biennial budgets are built and approved by the legislature. Contribution rates are adjusted to support the necessary reserve amounts in this reserve category.

PEBP can only cover its costs (both operational and medical expenses) with the funds it collects from both state employer groups (contributions) and employees (premium payments). If PEBP experiences cash flow challenges in the interim, PEBP’s budget accounts are set up in a manner that does not allow PEBP to accept state contingency funds, nor can PEBP increase the level of the state’s contribution by adjusting state employer group rates without statutory changes. Typically, the use of reserves should be limited and focused on emergency situations to ensure reserve levels are sufficient to cover unexpected high-cost claims. PEBP’s main lever is to adjust benefits and premium rates for participants in between legislative sessions.

B. Findings

After reviewing the revenue accounts and collection methodologies at PEBP, NVHA’s contractor found several internal fiscal and budgeting procedures with respect to collections that appear to have caused cash flow problems for the program. Several key corrective action steps have been taken or are underway to address these issues as further described below. Additionally, NVHA reviewed the rate challenges raised and addressed by the PEBP Board at recent meetings and has

identified several issues that have threatened the market's stability for PEBP plans and compounded cash flow and revenue challenges.

1. Finding #1: Revenue tracking methodologies lacked proper safeguards for ensuring state collections accurately reflected covered employee and retiree.

For the AEGIS account, the reviewer found the internal PEBP budget tracking spreadsheet had been designed in a manner that did not accurately calculate the amount of revenue owed to PEBP for covered employees. Instead, the methodology for determining the number of covered employees used the total amount of revenue collected monthly from each state employer entity and divided this amount by the legislatively approved rate. By not first calculating the amount owed by each state employer group based on number of employees enrolled in PEBP plans, the methodology did not verify whether the amounts collected from state entities accurately reflected the amount owed to PEBP to support the cost of employee coverage.

For the REGI account, the reviewer found similar design flaws in the internal PEBP budget tracking spreadsheet and process for verifying revenues collected from state employer groups. This spreadsheet, for example, recorded the amounts received but used a manual process to calculate whether the payroll amounts sent by the state employer groups accurately reflected the monthly amounts owed to PEBP. Some state employer groups, however, did not send the necessary payroll information regarding enrolled retirees to complete such calculations; in those cases, PEBP staff were unable to verify if revenues collected from state employer groups were correct.

Additionally, the internal spreadsheet for the REGI account did not include a mechanism for keeping a running balance of amounts owed or overpaid to PEBP from state employer groups. This resulted in revenue discrepancies and no process for reconciliation.

Corrective Action: The contractor in collaboration with PEBP fiscal staff has developed an updated budget tracking spreadsheet for the AEGIS account so that the revenue calculations correctly assess the total number of employees covered by PEBP plans (which is tracked in the PEBP Ariel System) and are multiplied by the legislatively approved rate to determine the amount each group owes each month. The actual amounts received can now be posted to the tracking spreadsheet, so that the actual balance for the amounts owed or overpaid in contributions to PEBP is appropriately maintained and reconciled when needed.

The REGI budget tracking spreadsheet has been revised so that the total payroll amount received from per state employer group is multiplied by the approved REGI percentages to verify that the amount received equals the amount each state employer group owes PEBP for health insurance costs for retirees. The actual amounts received are then posted to the REGI budget tracking spreadsheet which now includes a running balance of amounts owed or overpaid to PEBP. Staff at both PEBP and the Governor's Finance Office (GFO) are working with state employer groups to ensure that these groups are paying the proper amounts to PEBP going forward. This includes sharing the necessary payroll information and data for covered individuals with PEBP staff, so that PEBP can verify collections are correct based on plan enrollments for participants.

2. Finding #2: PEBP has not been following internal procedures for reconciling owed payments with state employer groups.

For the last twos, prior PEBP fiscal staff had not been consistently following internal procedures for reconciling differences in state employer group collections and the required contributions. This has led to insufficient and delayed contributions being transferred to AEGIS and REGI accounts, which has resulted in insufficient revenues and cash flow challenges for PEBP.

Corrective Action: The NVHA contractor has recently trained the new Chief Financial Officer (CFO) at PEBP to apply the proper procedures for addressing late or incorrect payments from state employer groups. Additionally, the new CFO has trained PEBP fiscal and accounting staff in this process and will be tracking it forward. If state employer groups do not respond promptly to correct a discrepancy in a collection, the PEBP CFO will immediately notify the GFO Director to request support in obtaining the owed monies from such state employer groups.

3. Finding #3: The surplus funds used by PEBP after COVID to buy down member contributions and mitigate premium increases were not correctly tracked and accounted for in PEBP's Ariel system.

About 2.5 years ago, PEBP experienced a sizable surplus of approximately \$26 million in the Administrative Account mostly because of low utilization of elective care by PEBP recipients during the COVID pandemic. This resulted in reduced health care expenditures and contributed to earnings for the program. At that time, the PEBP Board approved using this surplus to "buy down" employee contributions and to mitigate natural premium increases affecting plans after the 2022 plan year.

In her review, the NVHA consultant found errors with how the buy down was implemented in the Ariel System. (The Ariel System is the system PEBP uses via a contract with a vendor (Tellus) to manage premium contributions and member enrollments by plan.) Specifically, these errors occurred in how the Ariel System was updated to reflect the buy down with respect to scheduled collections from employees/retirees and state employer groups for both the AEGIS and REGI accounts.

For collecting premium payments from employees and retirees, the Ariel System was configured to charge the reduced premium rate (after the buy down subsidy was applied) and did not include an itemized invoice to illustrate that premium rates had been reduced by surplus funds. This insulated PEBP recipients from the actual premium costs for plans for several years. Additionally, after the surplus funds had been depleted by plan year 2025, the Ariel System was not adjusted to reflect the loss of these funds. Instead, the reduced premium rates continued to be collected, resulting in insufficient employee premium collections for AEGIS.

With respect to the employer contributions, PEBP established new placeholder categories or accounts for collecting a portion of these contributions during the time PEBP implemented the buy down for employee premiums. Establishing these placeholder accounts for AEGIS and REGI was problematic, because it reduced the amounts that should have otherwise been transferred to PEBP to cover the cost of health care expenditures from each state employer groups.

The proper way to implement this buy-down subsidy would have been to reflect such subsidy on the rate sheets as a reduction to the overall premium rate and to reflect the subsidized amounts in the Ariel System for the employer and employee contribution amounts. The placeholder accounts were unnecessary and caused insufficient collections necessary to support transfers to the Administrative Account to help cover the cost of health care claims for the program.

Corrective Action: The Ariel System has been updated to reflect the correct premium rates, remove the placeholder accounts, and ensure collections for both AEGIS and REGI accounts no longer reflect the buy down subsidies from COVID as they were depleted in plan year 2024.

PEBP has also worked closely with the NVHA contractor and the vendor that oversees the Ariel System to identify the amounts that should have been transferred to PEBP from the placeholder accounts between 2024 and 2025 in support of the employer contributions owed to PEBP. As a result, PEBP identified a little over \$14 million in the AEGIS account and \$4.4 million in the REGI Account as revenues eligible for transfer to the Admin. Account in support of paying the cost of claims for health care expenditures. These additional funds have since been transferred and all budget materials for the PEBP Board have been updated accordingly. PEBP intends to conduct a fiscal review with the support of the Governor's Finance Office to ensure a full accounting of all employer contribution funds tied the placeholder accounts from 2022 to 2024. This includes reconciling additional funds identified as remaining in a placeholder account to determine which funds

are eligible for transfer to PEBP. Currently, NVHA and PEBP lack sufficient resources due to workload and budget preparation for the biennial budget in 2027.

To ensure proper monitoring of revenue collections and expenditures for cash flow purposes, PEBP fiscal staff have also fully transitioned their accounting and revenue tracking system for the Administrative Account to BETS, which is the state's recommended tracking system for state budget accounts.

4. The PEBP budget workbook and tracking spreadsheet used by PEBP that was also shared with the GFO and Legislative Counsel Bureau for the current biennium was outdated and incorrect.

The budget tracking spreadsheet for BA 1338 (PEBP Admin) was outdated and required manual updates for the projections, increasing the risk of errors by staff in calculations. The spreadsheet was also designed in a manner that was difficult for fiscal staff to understand. The PEBP budget workbook shared with LCB was not updated to reflect the budget request. Additionally, the revenues reflected in the legislatively approved budget workbook for PEBP were higher than the projections in the workbook based on enrollment and therefore resulted in overstated projections for PEBP revenues. It appears that both LCB and GFO staff requested an updated workbook for the PEBP budget but were never provided one prior to the legislature approving the PEBP budget. There also appears to have been miscommunication between PEBP's contracted actuary and PEBP's fiscal team at the time the workbook for the budget was being built and finalized. It is still unclear who was responsible for the tasks in the budget build workbook for the previous legislative session.

Corrective Action: The NVHA contractor is working with the PEBP CFO and fiscal staff to develop a new budget build workbook in coordination with PEBP's contracted actuary, GFO, and LCB fiscal staff to ensure the workbook for the upcoming legislative session correctly calculates the need for the upcoming biennium.

5. The previous rates and coverage decisions approved by the PEBP Board over the last four years present challenges for ensuring the financial stability of the program.

NVHA is currently exploring whether it has the funding to pay for a complete review and audit of the rates approved by the PEBP Board over the last 3-to-4 years by an independent contracted actuary to assess fully the actuarial appropriateness of approved rates. Until such a complete audit is available, PEBP staff and NVHA have reviewed several key decisions by the PEBP Board since 2022. This review has resulted in several key issues being identified as creating financial challenges for PEBP that have been compounded by the fiscal and accounting challenges identified above.

The first issue is that the premium rates set for the low-deductible plan appear to not have been actuarially prudent, meaning they were set too low and have resulted in a high percentage of individuals migrating from other plans to the low-deductible plan. When premium rates are set too low (often below marginal cost) and cross-subsidization occurs as it has here, it ends up forcing the program to overcharge other members in other plans to cover the losses from the low-deductible plan, leading to market inefficiencies, rate increases, and benefit reductions. This practice can, over time, ruin the underlying market and cause everyone to pay more for less.

For PEBP, this has increased the risk of destabilization of PEBP's market and plans. Although cross subsidization of plans in a market like PEBP is not an uncommon practice, the extent of the decrease in the low-deductible plan's rates appears to not have been actuarially prudent given the risk to the stability of other PEBP plans. Migration to the low-deductible plan has been primarily from the Consumer Health Driven Plan, but some have migrated from the EPO/HMO to the low-deductible plan as well. With this significant migration of members to the low-deductible plan, it has also resulted in PEBP being unable to collect sufficient revenues in premiums to cover the cost of care for its members.

The second issue identified is that the PEBP Board added benefits and costs to the program in some years since 2022 that appear to have been made without a full understanding and recognition that the premiums being charged to members and the employer groups were being subsidized by the surplus from COVID of approximately \$26 million. As previously

mentioned, this surplus was used to buy down the cost of the total premium amount, including increases to such amounts, as of July 2022. This surplus was one time and therefore temporary in nature. When such funds were depleted at the end of plan year 2025, no adjustments in the employer and member contribution levels were made by the PEBP Board for SFY 2024 to account for the added benefits and costs in the program and the subsidized premium rates that had been financed by the COVID-related surplus.

The third issue is that the PEBP Board did not address the continued losses to the EPO/HMO and low-deductible plan due to the migration issues previously described. For example, for plan years 2023 and 2024, the EPO/HMO had a deficit in net revenue of approximately \$25 million at the end of each plan year and continues to run a deficit in plan year 2026. Additionally, the low-deductible plan started experiencing a deficit in plan year 2024 after the depletion of the COVID-related surplus and the other benefits and costs added to the plan by the PEBP Board in the prior year.

Lastly, the PEBP Board approved using Catastrophic Reserves to mitigate or prevent significant premium increases in plan year 2025. Soon after this decision, the 2025 Nevada State Legislature approved the use of additional state general funds to help rebuild the reserves for PEBP by increasing the state employer group contribution. Upon review, it does not appear that the additional funds were implemented in a manner that achieved legislative intent.

Instead, the PEBP Board appears to have used these funds to pay for another buy down for employee premiums in plan year 2026 to mitigate the impact of needed increases on recipients. For example, for plan year 2025, the employer contribution was set at 91% of the CDHP premium for a single participant and that subsidy was applied across all three plans. Additionally, for plan year 2026, the Board increased the employer contribution by 2.5% for a total of 93.5% of the CDHP premium for a single participant which was applied across all three plans. Similar increases were made for dependent tiers with respect to reducing recipient costs by shifting greater costs to the employer's portion of the total premium costs.

Corrective Action: PEBP is exploring new options for covering members by securing a contract through NVHA with a separate actuarial firm of experts to assess the current plans and programming, including the pharmacy benefit manager contract, cost containment opportunities, plan design, care management strategies, and other options for controlling costs for recipients and the state as the employer. PEBP and NVHA staff intend to present to the PEBP Board these options and recommendations later this summer. Additionally, Segal – PEBP's current contracted actuarial firm - has assigned a new actuary to support the review of the rates going forward as requested by the state.