



State of Wisconsin Group Insurance Board
Department of Employee Trust Funds

Health Plan Reserve Policy

November 13, 2019

Board	Mtg Date	Item #
GIB	11.13.19	4A



Segal Consulting

Two Main Reserves Held By GIB

➤ Unpaid Claims Liability Reserve

Estimate for the amount of claims already delivered (“Incurred”) but not yet paid by the plan. This is standard for all self-insured plans and includes:

- Claims reported but not yet paid or outstanding (“ICOS”)
- Claims Incurred but not yet reported (“IBNR”)

➤ Premium Stabilization Reserves (“PSR”)

A reserve set by the Board to build up a fund for a bad year and thus prevent an excessive rate hike the following year. The reserve may be used by the Board at its discretion to offset future rate increases or for premium holidays. The purpose of premium stabilization reserves is to “stabilize” the contribution or premium rate paid by employer(s) over a number of years by allowing them to continue using their favorable claim experience.

Unlike the unpaid claims liability, this reserve is for a contingent issue (i.e., a future material rate increase resulting from worse-than-expected claims experience) which is not as expected or likely.

PSR is the Reserve Policy Requiring Board Vote

Premium Stabilization Reserve Policy

- In August 2017, Segal was asked to review the reserve policy in place and recommended some modifications at the August 30, 2018 Board meeting.
- The proposed policy looked at a number of factors and recommended reducing the reserve levels for the self-insured pharmacy and dental programs.
- A key component looks at expected trends vs. actual trends. Over the last 10 years the maximum deviation was 3.5% for Medical, 6.5% for Pharmacy and 2% for Dental.
- Being self-insured vs. fully-insured also carries additional risk, depending on the benefit.
- The new policy, approved by the Board, sets reserves at:
 - Medical: 3% to 5% of premiums (unchanged from prior)
 - Pharmacy: 8% to 10% of projected claims (reduced from 15% to 25%)
 - Dental: 3% to 5% of projected claims (reduced from 15% to 25%)
- Another change from the prior policy was instituting a Multi-Year Reserve Strategy.
 - It was proposed to move to the midpoint of the new policy over a 4-year period to minimize premium fluctuations—with 2021 being the last year of the phase-in.

Lewis & Ellis Audit

- Used a Risk Based Capital (RBC) Approach to PSR Target

Program	Insured	Segal	L&E		
			Premium Rate Stabilization	Additional Surplus "Reserve"	Total
Medical	Fully-Insured	3%-5%	3%-5%	0%	3%-5%
Pharmacy	Self-Insured	8%-10%	3%-5%	5%-7%	8%-12%
Dental	Self-Insured	3%-5%	1%-2%	4%-5%	5%-7%

- L&E Conclusion

“Based on our review of the data provided to us by ETF and Segal, actuarial assumptions and methods, and our own experience in the area of development medical and other reserve amounts, we believe the recently proposed approach by Segal for the development of target reserve goals for the State of Wisconsin Group Health Insurance program is reasonable and sufficient for the structure and funding objectives of the Group Health Insurance Program.”

Segal Increased Dental Reserve By 2% & Incorporated Investment Return

Reserve Surplus Calculation

- Based on the new policy reserve target, the State has a surplus of \$102.8M. Locals also have a surplus of \$5.8M.

Projected Reserve (in millions)

	State				Local			
	Medical	Rx	Dental	Total	Medical	Rx	Dental	Total
Projected Fund Balance 12/31/2019	65.1	107.8	7.1	180.0	4.3	12.7	(0.1)	16.9
Projected 2020 Claims (SI)		316.1	58.4	374.5		46.0	1.4	47.4
Projected 2020 Premiums (FI)	1,130.3			1,130.3	171.9			171.9
New Policy Reserve Target								
3% Medical, 8% Rx, 5% Dental	33.9	25.3	2.9	62.1	5.2	3.7	0.1	8.9
5% Medical, 10% Rx, 7% Dental	56.5	31.6	4.1	92.2	8.6	4.6	0.1	13.3
Mid-Point Reserve	45.2	28.4	3.5	77.2	6.9	4.1	0.1	11.1
Surplus New Policy	19.9	79.3	3.6	102.8	(2.6)	8.6	(0.2)	5.8

- ETF will typically utilize a portion of the surplus to buy down premiums.

Fund Balance

State

- The fund balance decreased \$6.4M in 2018 and projected to decrease an additional \$20.2M in 2019.

State Health Reserve (in millions)

	2012	2013	2014	2015	2016	2017	2018	2019
Beginning of Year								
Medical	56.8	61.4	66.7	69.4	74.8	76.9	84.7	62.0
Pharmacy	103.7	77.9	63.1	30.8	6.7	60.1	121.8	134.7
Dental	0.0	0.0	0.0	0.0	0.0	(1.2)	0.2	3.5
Total	160.5	139.3	129.8	100.1	81.5	135.8	206.6	200.2
Gain/(Loss)								
Medical	4.6	5.3	2.7	5.4	2.1	7.8	(22.7)	3.2
Pharmacy	(25.7)	(14.9)	(32.3)	(24.1)	53.4	61.6	13.0	(27.0)
Dental	0.0	0.0	0.0	0.0	(1.2)	1.4	3.3	3.5
Total	(21.2)	(9.6)	(29.6)	(18.7)	54.3	70.8	(6.4)	(20.2)
End of Year								
Medical	61.4	66.7	69.4	74.8	76.9	84.7	62.0	65.1
Pharmacy	77.9	63.1	30.8	6.7	60.1	121.8	134.7	107.8
Dental	0.0	0.0	0.0	0.0	(1.2)	0.2	3.5	7.1
Total	139.3	129.8	100.1	81.5	135.8	206.6	200.2	180.0

* Reserves inclusive of investment income

Fund Balance

Local

- The fund balance increased \$3.1M in 2018 and projected to decrease \$5.1M in 2019.

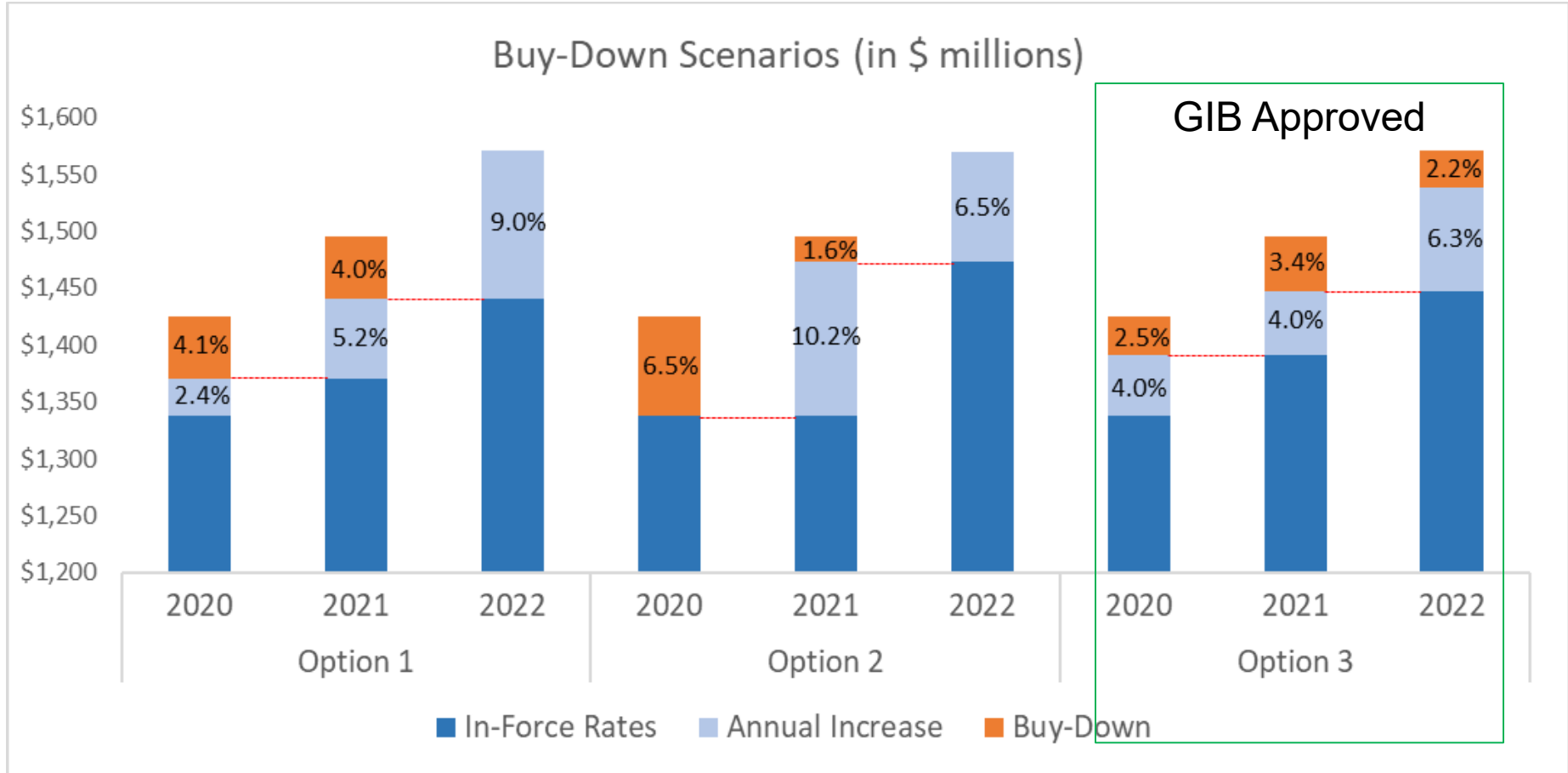
Local Health Reserve (in millions)

	2012	2013	2014	2015	2016	2017	2018	2019
Beginning of Year								
Medical	1.8	1.7	0.6	0.7	0.6	(0.1)	(0.8)	(1.5)
Pharmacy	18.4	17.0	20.5	15.6	8.4	14.3	19.9	23.7
Dental	0.0	0.0	0.0	0.0	0.0	(0.1)	(0.2)	(0.2)
Total	20.1	18.7	21.1	16.3	9.0	14.2	18.9	22.1
Gain/(Loss)								
Medical	(0.0)	(1.1)	0.0	(0.0)	(0.7)	(0.8)	(0.7)	5.8
Pharmacy	(1.4)	3.5	(4.9)	(7.2)	5.9	5.6	3.8	(11.0)
Dental	0.0	0.0	0.0	0.0	(0.1)	(0.1)	0.0	0.0
Total	(1.4)	2.4	(4.9)	(7.2)	5.1	4.7	3.1	(5.1)
End of Year								
Medical	1.7	0.6	0.7	0.6	(0.1)	(0.8)	(1.5)	4.3
Pharmacy	17.0	20.5	15.6	8.4	14.3	19.9	23.7	12.7
Dental	0.0	0.0	0.0	0.0	(0.1)	(0.2)	(0.2)	(0.1)
Total	18.7	21.1	16.3	9.0	14.2	18.9	22.1	16.9

* Reserves inclusive of investment income

Projected State Premium Increases – Option 1 vs. 2 vs. 3

- GIB considered three options during the August discussion, settling on Option 3.



- Option 3 provides the smoothest rate increases.
- Each option produces the same 3-year annual increase of 5.5%.

Multi-Year Reserve Draw Strategy – Option 3

➤ The table below illustrates the draws (higher 2020) over the next 3-year period—reaching new policy target in 2022:

State Reserve Multi-year Strategy

	Balance ¹	Target ²	% of Claims/ FI Premium	Surplus ³	Draw
2019	\$228.3	\$116.5	8.0%	\$111.8	\$49.1
2020	\$180.0	\$77.2	5.1%	\$102.8	\$33.0
2021	\$157.3	\$81.0	5.1%	\$76.2	\$48.0
2022	\$116.9	\$85.1	5.1%	\$31.8	

Local Reserve Multi-year Strategy

	Balance ¹	Target ²	% of Claims/ FI Premium	Surplus ³	Draw
2019	\$25.6	\$16.9	7.1%	\$8.7	\$7.8
2020	\$16.9	\$11.1	5.1%	\$5.8	\$6.5
2021	\$11.4	\$11.7	5.1%	-\$0.2	\$0.0
2022	\$12.2	\$12.2	5.1%	\$0.0	

¹ Assumes 7% investment return and no additional gains or losses that would impact the fund balance.

² New Reserve Target Policy in 2020, assumed to increase at 5% per year.

³ The Surplus refers to the money in the fund that exceeds the Midpoint Target Reserve at beginning of year.

Historical Fund Balance Buy-Downs

- Since 2007 there have been frequent buy-downs to move toward the Board Reserve Policy.

Fund Buy-Down (in millions)

Premium Year	State	Local
2022	31.8	0.0
2021	48.0	0.0
2020	33.0	6.5
2019	49.1	7.8
2018	29.0	0.0
2017	0.0	0.0
2016	0.0	0.0
2015	20.0	5.0
2014	20.5	3.1
2013	32.8	1.2
2012	30.0	1.0

- Buy-downs require additional premium in the future years to make up the amount

2020 Premium Rates – Board Approved

- Recommending that State draws down the reserve \$33 million to reduce the overall increase to 4% from 6.5% increase, using the Pharmacy rates.
- Recommending that Locals draws down the reserve \$6.5 million to reduce the overall increase to 5.2% from 8.6% increase, using the Pharmacy rates.
- Aggregate increase after buy-down is 4.2%.

	2019 Inforce (Post BD)	2020 Premium (Pre BD)	2020 Buydown	2020 Premium (Post BD)	\$ Change	% Change
State						
Medical	\$1,089.9	\$1,130.3	\$0.0	\$1,130.3	\$40.5	3.7%
Pharmacy	\$166.4	\$210.5	(\$33.0)	\$177.5	\$11.1	6.7%
Dental	\$58.3	\$58.3	\$0.0	\$58.3	\$0.0	N/A
Admin	\$23.5	\$25.5	\$0.0	\$25.5	\$2.0	8.7%
Total	\$1,338.0	\$1,424.6	(\$33.0)	\$1,391.6	\$53.6	4.0%
Local						
Medical	\$164.8	\$171.9	\$0.0	\$171.9	\$7.1	4.3%
Pharmacy	\$22.1	\$31.1	(\$6.5)	\$24.6	\$2.6	11.6%
Dental	\$1.4	\$1.4	\$0.0	\$1.4	\$0.0	N/A
Admin	\$2.9	\$3.2	\$0.0	\$3.2	\$0.3	8.7%
Total	\$191.3	\$207.7	(\$6.5)	\$201.2	\$9.9	5.2%
Grand Total	\$1,529.3	\$1,632.3	(\$39.5)	\$1,592.8	\$63.5	4.2%

2020 Premium Rates – By Group

- This table shows the buy-down draws and increases by group rather than by product – generating the same total increase

	2019 Inforce (Post BD)	2020 Premium (Pre BD)	2020 Buydown	2020 Premium (Post BD)	\$ Change	% Change
State						
Non-Medicare, Non-Grad	\$1,018.1	\$1,097.7	(\$22.2)	\$1,075.6	\$57.5	5.6%
Medicare	\$163.3	\$158.0	(\$7.9)	\$150.1	(\$13.1)	(8.0%)
Grad Assistants	\$52.4	\$56.4	(\$0.8)	\$55.7	\$3.3	6.3%
HDHP	\$104.3	\$112.5	(\$2.2)	\$110.3	\$6.0	5.7%
Total	\$1,338.0	\$1,424.6	(\$33.0)	\$1,391.6	\$53.6	4.0%
Local						
Non-Medicare, Non-Grad	\$179.4	\$195.4	(\$5.8)	\$189.6	\$10.2	5.7%
Medicare	\$7.8	\$7.8	(\$0.5)	\$7.2	(\$0.5)	(6.5%)
HDHP	\$4.1	\$4.4	(\$0.1)	\$4.3	\$0.2	5.9%
Total	\$191.3	\$207.7	(\$6.5)	\$201.2	\$9.9	5.2%
Grand Total	\$1,529.3	\$1,632.3	(\$39.5)	\$1,592.8	\$63.5	4.2%

Group Increases Vary Due To Pharmacy Experience

Premium Stabilization Reserve Policy - Recommendation

- Calendar Year-end fund balances will incorporate experience through June
- Applying ETF specific trends and enrollments, claims and premiums are projected to year-end
- Unpaid Claims Liability Reserve is calculated and incorporated
- ETF assumed investment returns are used in development
- Reserves are targeted at:
 - Medical: 3% to 5% of premiums
 - Pharmacy: 8% to 10% of projected claims
 - Dental: 5% to 7% of projected claims
- Surplus would be the excess fund balance over the reserve corridors
- The policy would target eliminating the surplus over a 3-year period—with 2022 being the last year of the phase-in.

This Is The Process Utilized For 2020 Renewals

Questions & Discussion

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Thank you!