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Correspondence Memorandum

Date: November 2, 2020
To: Group Insurance Board
From: Eileen Mallow, Director
Office of Strategic Health Policy
Subject: Group Health Insurance Program Reserve Policy

The Department of Employee Trust Funds (ETF) recommends the Board adopt the attached policy regarding annual review and application of reserves for the Group Health Insurance Program and the WPE.

Background

Each year, during the annual rate setting process, the Board reviews with its actuaries the projected reserve balances in the health insurance programs. In the past, surplus reserves have often been used to “buy-down” insurance premiums for the next year while establishing expectations for use of any future balances.

During its 2018 review of the Group Health Insurance program, the Legislative Audit Bureau noted that the Board had no written policy discussing the use of reserves. The attached summarizes recent Board actions into a policy statement. The policy codifies established Board reserve targets, documents the process for review and application of any surplus reserves, and establishes a regular audit cycle of reserve targets.

Staff will be available during the meeting to respond to any questions.

Attachment: Draft Reserve Policy for the Group Health Insurance Program

Reviewed and approved by John Voelker, Deputy Secretary

Electronically Signed 11/10/20

Board	Mtg Date	Item #
GIB	11.18.20	5

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RESERVE POLICY FOR THE GROUP HEALTH INSURANCE PROGRAM

ADOPTED: _____

The Group Health Insurance Program (GHIP) offers group medical, pharmacy and optional dental coverage. The GHIP is available to all WRS eligible state employees and their dependents and all WRS local employees and their dependents if their employer participates. Retirees participate on a “member pay” basis, where the member pays the entire premium. There are separate programs for state and local employees. The program offers health related benefits subject to a Uniform Benefits contract. Medical benefits are fully insured through contracts with licensed insurers. Dental and pharmacy benefits are self-funded by the program.

The GHIP is authorized by Wisconsin Statute § 40.52 and is funded by premiums paid by employees and employers. The reserve target established by the Group Insurance Board (Board) under this policy is used in determining annual premium rates to be paid by program enrollees. As required under § 40.05 (4) Wis. Stat., premium rates paid by state employees subject to a calculation established by the Administrator of the Division of Personnel Management, but the employer contribution cannot exceed 88% of the estimated premiums and cost sharing for any benefit year. Local units of government may determine their contribution amount but are not permitted to exceed a contribution of 88% to be able to participate in the state health insurance program.

OBJECTIVE

This reserve policy is designed to provide guidance for the Board in establishing GHIP fund reserve target that is sufficient to fund plan liabilities, protect the fiscal integrity of the program, and maintain a reasonable premium rate for employees and employers. Implementation of the reserve policy is subject to review annually by the Board as discussed below.

GROUP HEALTH INSURANCE PROGRAM RESERVE TARGET

The Board will, in consultation with its actuaries, establish separate reserve targets for the state and local programs. Reserves are estimated separately for the state and local pools and, within each pool, separately for medical, pharmacy and dental benefits, reflecting the risk associated with each item. Anticipated income from invested assets is

incorporated into the reserve calculation. The current reserve policy, approved by the Board, sets reserves at:

- Medical: 3% to 5% of premiums
- Pharmacy: 8% to 10% of projected claims
- Dental: 5% to 7% of projected claims

In order to preserve the fund integrity and ease the impact of premium rate changes, the Board may decide to spread recommended rate adjustments so that the surplus target is reached over a period of years rather than in one year.

This policy does not prohibit the Board, upon the advice of ETF staff and program actuaries, from setting premium rates that cause the reserve balance to fall outside the target range if the program's financial condition, claim experience, and other factors or trends indicate that a different target is necessary to fulfill the Board's fiduciary responsibility to the GHIP and member enrollees.

Each year, and in consultation with its actuaries, the Board determines the availability of surplus to reduce member and employer premiums. During its review the Board shall consider the available amounts, impact of the application of reserves on future premiums and budget limitations.

RESERVE TARGET POLICY REVIEW PERIOD

The Board will review this policy and the reserve targets for each plan at least every three years.

AUDIT OF PLAN RESERVES

ETF will present the results of an independent audit of the reserves and reserve policy to the Board not less than every 5 years.