

State of Wisconsin Group Insurance Board Department of Employee Trust Funds

Reserve Update

May 2023/ Ken Vieira and Patrick Klein

Experience Highlights

- State 2022 YE fund balance \$122.9M versus the \$169.7M projected at August GIB - \$46.7M Loss
 - Loss driven by Investment Income, Pharmacy claims, and fewer than projected rebates
 - Medical and Dental projections materialized as expected
- Local 2022 YE fund balance \$11.4M versus the \$18.1M projected at August GIB - \$6.7M Loss
 - Similar drivers as State. Losses from Investment Income, Pharmacy claims, and fewer than projected rebates
- The losses above will likely drop both funds below the target and require increases that exceed the schedule presented in Option 2 at the Aug. GIB
- The stock market has realized small gains thus far in 2023 but still below assumed rates
 - 1.9% 2023 YTD (Dow Jones as of 4/12/2023)
- Future projections will assume an investment return of 6.7% instead of 7.0%
 - Based on the Core Trust Fund annualized return expectation of 6.7% obtained from SWIB

Board Approved 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
- The new 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
- 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
- In 2021, based on the reserve at that time, the Board approved moving to the new policy over the 3-year period ending in 2024
- Last year, based on the reserve at that time and renewal results, the Board approved using the remaining surplus to hold down the rate increase for 2023

Reserve Surplus Calculation – August 2022

- Based on the mid-point reserve target, the State has a surplus of \$76.7M
- Locals also have a surplus of \$4.3M

Projected Reserve (in millions)

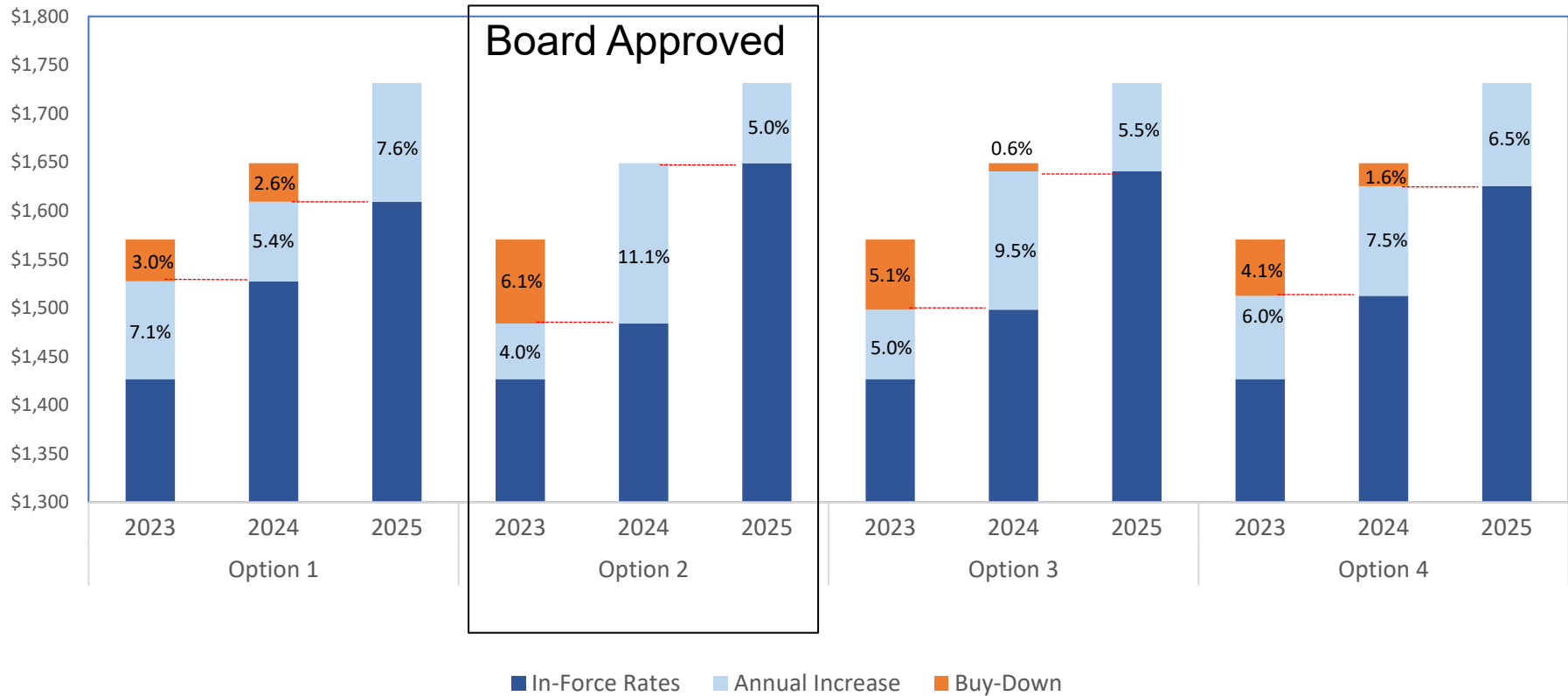
	State				Local			
	Medical	Rx	Dental	Total	Medical	Rx	Dental	Total
Projected Fund Balance 12/31/2022	97.1	48.9	23.8	169.7	(3.2)	21.2	0.1	18.1
Projected 2023 Claims (SI)		449.5	61.4	511.0		61.0	2.2	63.2
Projected 2023 Premiums (FI)	1,222.7			1,222.7	203.6			203.6
New Policy Reserve Target								
3% Medical, 8% Rx, 5% Dental	36.7	36.0	3.1	75.7	6.1	4.9	0.1	11.1
5% Medical, 10% Rx, 7% Dental	61.1	45.0	4.3	110.4	10.2	6.1	0.2	16.4
Mid-Point Reserve	48.9	40.5	3.7	93.1	8.1	5.5	0.1	13.8
Surplus New Policy	48.2	8.4	20.1	76.7	(11.4)	15.7	(0.1)	4.3

- Segal recommends the State and Local plans utilize a portion of the surplus to buy down premiums
- Also note there is \$17.4M for State and \$2.7M for Locals to move to the lower end of the range

August 2022 GIB Meeting: Projected State Premium Increases – Options 1 through 4

- Depending on the option, there will be an additional increases over trend in the future to compensate for the underfunding in prior years

Buy-Down Scenarios (in \$ millions)



- Each option produces the same 3-year overall increase of 5.0%

Board Approved Multi-Year Reserve Draw Strategy – Option 2

- After 6 years of buy-downs, the option approved, with recent experience, is resulting in no additional reserve surplus expected for 2024. The loss is approximately 3% of premium.

State Reserve Multi-year Strategy

	Balance ¹	Target ²	% of Claims/ FI Premium	Surplus ³	Draw
2023	\$169.7 122.9	\$93.1	5.4%	\$76.7	\$86.5
2024	\$89.1	\$97.7	5.4%	-\$8.7	\$0.0
2025	\$95.3	\$102.6	5.4%	-\$7.3	\$0.0

*Projected
Balance*

*Updated
Balance*

Local Reserve Multi-year Strategy

	Balance ¹	Target ²	% of Claims/ FI Premium	Surplus ³	Draw
2023	\$18.1 \$11.4	\$13.8	5.2%	\$4.3	\$4.1
2024	\$15.1	\$14.5	5.2%	\$0.6	\$0.0
2025	\$16.1	\$15.2	5.2%	\$1.0	\$0.0

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

² Reserve Policy 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 (State) or Low End (Local).

Fund Balance – Projected State, as of 6/30/2022

- Using ETF transactional data through 6/30/2022, Segal projected the December ending fund balance.

State Health Reserve (in millions)

	Medical	Pharmacy	Dental	Total
Balance 1/1/2022	96.5	90.1	23.7	210.3
Revenue				
Premiums	1,184.1	216.1	60.7	1,461.0
EGWP Subsidy		55.1		55.1
Investment Income	0.6	0.4	0.1	1.1
Total Revenue	1,184.7	271.7	60.9	1,517.2
Expenses				
Paid Claims	1,164.6	409.4	59.6	1,633.5
Admin Costs	19.6	9.4	1.2	30.2
Rebates		(105.9)		(105.9)
Total Expenses	1,184.1	312.9	60.8	1,557.8
Net Income /(Deficit)	0.6	(41.2)	0.1	(40.5)
Balance 12/31/2022	97.1	48.9	23.8	169.7

Fund Balance – Preliminary

State, through 12/31/2022

- Below are the preliminary State health insurance plan results for the period ending December 31, 2022.

State Health Reserve (in millions)

	Medical	Pharmacy	Dental	Total
Balance 1/1/2022	96.5	90.1	23.7	210.3
Revenue				
Premiums	1,181.6	216.1	59.0	1,456.7
EGWP Subsidy		56.9		56.9
Investment Income	(6.6)	(14.5)	(1.7)	(22.8)
Total Revenue	1,175.0	258.5	57.3	1,490.8
Expenses				
Paid Claims	1,162.8	419.2	57.1	1,639.1
Admin Costs	21.8	10.6	1.1	33.5
Rebates*		(94.3)		(94.3)
Total Expenses	1,184.6	335.5	58.2	1,578.3
Net Income /(Deficit)	(9.6)	(77.0)	(0.9)	(87.5)
Balance 12/31/2022	86.9	13.1	22.8	122.9

*Rebate amount is based on estimated accruals that used prior year Navitus Data.

Fund Balance – Gain/Loss

State

- Below is the Gain/Loss for State health insurance plan for the period ended December 31, 2022.

State Health Reserve (in millions)

	Medical	Pharmacy	Dental	Total
Revenue				
Premiums	(2.5)	(0.1)	(1.7)	(4.3)
EGWP Subsidy		1.8		1.8
Investment Income	(7.2)	(14.9)	(1.8)	(23.9)
Total Revenue	(9.7)	(13.2)	(3.5)	(26.4)
Expenses				
Paid Claims	1.9	(9.8)	2.5	(5.4)
Admin Costs	(2.2)	(1.1)	0.1	(3.3)
Rebates		(11.6)		(11.6)
Total Expenses	(0.4)	(22.5)	2.6	(20.3)
Gain/(Loss)	(10.0)	(35.7)	(1.0)	(46.7)

- 2022 loss driven by investment income (\$23.9M) and losses on the pharmacy program (\$22.5M less \$1.8M = \$20.7M).

Fund Balance – Projected

Local, as of 6/30/2022

- Using ETF transactional data through 6/30/2022, Segal projected the December ending fund balance.

Local Health Reserve (in millions)

	Medical	Pharmacy	Dental	Total
Balance 1/1/2022	(3.3)	20.4	0.1	17.2
Revenue				
Premiums	185.6	38.1	2.1	225.8
EGWP Subsidy		3.5		3.5
Investment Income	(0.0)	0.1	0.0	0.1
Total Revenue	185.6	41.8	2.1	229.5
Expenses				
Paid Claims	183.1	55.6	2.1	240.8
Admin Costs	2.5	0.9	0.0	3.4
Rebates		(15.5)		(15.5)
Total Expenses	185.6	40.9	2.1	228.6
Net Income /(Deficit)	0.0	0.8	(0.1)	0.8
Balance 12/31/2022	(3.2)	21.2	0.1	18.1

Fund Balance – Preliminary

Local, through 12/31/2022

- Below are the preliminary Local health insurance plan results for the period ending December 31, 2022.

Local Health Reserve (in millions)

	Medical	Pharmacy	Dental	Total
Balance 1/1/2022	(3.3)	20.4	0.1	17.2
Revenue				
Premiums	185.3	38.1	2.0	225.4
EGWP Subsidy		3.4		3.4
Investment Income	1.0	(3.2)	0.0	(2.2)
Total Revenue	186.3	38.3	2.0	226.6
Expenses				
Paid Claims	182.9	57.4	2.0	242.3
Admin Costs	2.8	1.0	0.0	3.8
Rebates*		(13.8)		(13.8)
Total Expenses	185.7	44.6	2.0	232.3
Net Income /(Deficit)	0.6	(6.3)	0.0	(5.7)
Balance 12/31/2022	(2.7)	14.1	0.1	11.4

*Rebate amount is based on estimated accruals that used prior year Navitus Data.

Fund Balance – Gain/Loss

Local

- Below is the Gain/Loss for Local health insurance plan for the period ended December 31, 2022.

Local Health Reserve (in millions)

	Medical	Pharmacy	Dental	Total
Revenue				
Premiums	(0.3)	(0.0)	(0.1)	(0.3)
EGWP Subsidy	0.0	(0.1)	0.0	(0.1)
Investment Income	1.1	(3.3)	(0.0)	(2.3)
Total Revenue	0.8	(3.5)	(0.1)	(2.8)
Expenses				
Paid Claims	0.2	(1.9)	0.1	(1.7)
Admin Costs	(0.4)	(0.1)	0.0	(0.5)
Rebates	0.0	(1.7)	0.0	(1.7)
Total Expenses	(0.2)	(3.7)	0.1	(3.9)
Gain/(Loss)	0.6	(7.2)	(0.1)	(6.7)

- Like State, 2022 loss was driven by investment income and the pharmacy program.

Thank You

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