

# RESERVE POLICY FOR THE GROUP HEALTH INSURANCE PROGRAM

Adopted: November 18, 2020

Reviewed: November 15, 2023

## BACKGROUND

The Group Health Insurance Program (GHIP) offers group medical, pharmacy, wellness and optional dental coverage under Uniform Benefit contracts negotiated by Employee Trust Funds (ETF). The GHIP is available to all WRS eligible state active and retired employees and their dependents and all WRS local active and retired employees and their dependents, if their employer participates. The GHIP is separated into two programs, state and local, each with their own rates and reserves.

Medical benefits are fully insured through contracts with licensed insurers, meaning the insurers assume the financial risk to pay for the members' claims and administrative expenses in exchange for the negotiated contract rates. Wellness, dental and pharmacy benefits are self-funded. The state and participating local governmental employers are the plan sponsors, with ETF as the plan administrator. The state and local participating employers assume the financial risk to ensure that the respective health insurance reserves administered by ETF are able to pay claims. Claims and administrative expenses may be more or less than premiums collected each year.

The GHIP is authorized by Wisconsin Statute § 40.52 and is funded by premiums paid by participating employees and employers, and investment income. The reserve targets established by the Group Insurance Board (Board) under this policy are used in determining annual premium rates paid by participants. The establishment of a reserve is authorized by Wisconsin Statute § 40.03 (6) (d)7. The Board is also directed under §40.03 (6)(f), Wis. Stat., to take prompt action to resolve any actuarial or cash deficit that occurs in the accounts. For purposes of this policy, accounts are considered either the state program or the local program.

As required under § 40.05 (4) Wis. Stat., the share of the premium paid by state employees is 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 GHIP. Retirees participate on a "member pay" basis, where the member pays the entire premium.

## OBJECTIVE

This reserve policy is designed to provide guidance for the Board in establishing GHIP reserve targets for the state and local programs that are sufficient to fund liabilities, protect the fiscal integrity of the program and maintain a reasonable premium rate for program member enrollees and employers.

## RESERVE TARGET

The Board will, in consultation with its actuaries, establish separate reserve targets for the state and local programs. The Board established target ranges are based on the summation of projected premiums and claims calculated as follows:

- Medical (including wellness incentives): 3% to 5% of projected premiums
- Pharmacy: 8% to 10% of projected claims
- Dental: 5% to 7% of projected claims

While the calculation is based on each of the above categories, the reserve target range is in aggregate. For both programs, the Board strives to maintain a reserve balance near the midpoint of the target range.

## USE OF RESERVES

Annually, and in consultation with its actuaries, the Board reviews current reserve balances that could be applied to reduce future premiums. During its review the Board shall consider the available amounts, impact of the application of reserves on future premiums and employer budget limitations.

The state and local programs' reserve balances are compared against board approved target ranges at the end of each rate year (calendar year). Future period reserve balances are projected by the plan actuaries using estimated current GHIP costs relative to revenues from premiums and beginning of the year, state and local account balances, and current estimated investment rate of return provided by ETF's Division of Trust Finance. The actuaries assume that the subsequent years' costs will be entirely offset by revenues, resulting in no other changes to the projected reserve balance.

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 of the target range if the state and local programs' financial condition, claim experience, and other factors or trends indicate that different targets are necessary to fulfill the Board's fiduciary responsibility to the GHIP and member enrollees.

If, in any year, reserves are expected to fall outside the target range for any reason, the Board will adopt a plan to return reserve balances to the target range within no more than five years.

## INVESTMENTS

Assets of the state and local programs' account balances, are invested in the Core Retirement Investment Trust by the State of Wisconsin Investment Board.

## RESERVE POLICY REVIEW

The Board will review this policy and the reserve targets for the state and local programs at least every three years.

## AUDIT OF ACTUARIAL ASSUMPTIONS

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

### REVISIONS

Version	Adopted Date	Change Description
1.0 (Original)	November 18, 2020	
2.0		Added statutory citations authorizing reserves. Clarified existence of two reserve accounts, the calculation of the target ranges in comparison to account balances, the Board's desire to maintain a reserve near the midpoint of the target ranges and where account balances are invested.