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Memorandum

To: Renee Walk

From: Kenneth Vieira, Patrick Klein

Date: January 16, 2025

Re: 2024 Health Insurance Rate Setting and Reserving Actuarial Audit

The Department of Employee Trust Funds (ETF) has asked Segal to review the 2024 Health Insurance Rate Setting and Reserving Actuarial Audit (Audit) prepared by Milliman that was forwarded to Segal on December 13th, 2024.

Segal appreciates the work and effort provided by Milliman. We recognize that the program in Wisconsin is complex and required a significant amount of time by Milliman, ETF and Segal to review and explain the processes in place. We will briefly go through each of the recommendations that were included in ***Section 1 Summary of Findings***. There is additional details for each in other sections of their report, but we believe addressing the summary points to be sufficient. We will address the main items listed under Audit Conclusions that start on Page 2 of the report.

AUDIT CONCLUSION

<u>Review of Procedures, Actuarial Assumptions, and ASOPs used in Calculating Health Insurance Premiums</u>

"Based on our review of the process and the actuarial assumptions, we found that Segal used actuarial and underwriting processes consistent with those used in general actuarial practice. We believe the overall process and selection of actuarial assumptions to be reasonable. "

Segal appreciates and agrees with the overall comment from Milliman

"We recommend that Segal considers disclosing additional information regarding assumption development in their actuarial documents or referencing other sources.."

Segal does go through all our assumptions with ETF during the renewal process. If desired by ETF and the Group Insurance Board (Board), Segal could add a formal document that summarizes all our assumptions utilized. Segal previously presented a more thorough and detailed renewal to the Board, but it was a lot of information to go through for the time allotted and it was recommended that we streamline the presentation. Given the amount of details, and the length of the presentation, it might make sense to simply have it included as an appendix. We also do not want do disclose any assumption that may impede negotiations, so this would need to be in closed session documents and protected.

"Review and analyze all assumptions periodically to determine their continued appropriateness"

We agree with Milliman and Segal does review all our assumptions, some more frequently than others. We will ensure that any older assumptions, like tier ratios, will be reviewed periodically as well.

"Perform a claims analysis by plan type (non-HDHP vs. HDHP) to monitor actual claims by plan and ensure pricing differential continues to be appropriate."

Segal does do claims analysis periodically and will adjust any factors if there is significant variation. If enrollment in the HDHP becomes more pronounced it could change the cost relativities, but we would not expect the relationship of the actuarial values to change. Premiums are built off the actuarial values, meaning we rate the whole group and do not expect each plan to be self-supporting due to anti-selection that would occur. We will continue to monitor as needed.

"Determine whether there is value in performing an independent regression analysis on historical pharmacy claims experience and incorporate a credibility factor to reflect a component for actual historical trends to represent differences in the GHIP's experience versus the marketplace. "

Over the years we have migrated from a 50/50 weighting of Segal Trend Survey and Navitus Expected Trend. Given the prospective nature of the pharmacy benefit, and the complexity of the program, we now rely on Navitus Expected Trend. This occurred because Segal was somewhat higher than Navitus and the pharmacy performance was building a surplus, primarily from higher rebates.

Annually, we go through the various pharmacy components with Navitus, looking in detail at every component. Both actuarial teams (Segal and Navitus) reach agreement on trends, rebates, administrative costs, EGWP subsidies, pipeline, movement to generics, etc. We believe, given the size of ETF, that this provides the best estimate of what to expect prospectively.

Segal could further look at this to see if a more data driven credibility factor could help stabilize the cost projections, but over the years we believe our projections have been accurate and explainable.

"Consider shifting the dental experience period forward to include more recent claims and enrollment. This may be less of a concern with the shift in rate setting timing starting 2025."

Segal uses the prior calendar year (with one month of runout) in our rate development with the shift in rate setting timing. This maxiimizes the data the vendor as able to provide us given the timeframe included in the ETF work plan.

<u>Review of Procedures, Actuarial Assumptions, and ASOPs used in Projected Reserve Balances</u>

"Based on our review of the GIB Reserve Policy and projected fund balances, we found the reserve estimation using the target ranges as a percentage of projected premiums or claims to be reasonable for medical and pharmacy, however, we found a target dental range of 5% to 7% to be higher than we would expect."

Segal appreciates and agrees with the overall comment from Milliman. In the prior audit performed by Lewis & Ellis, it was recommended to increase the dental range from 3%-5% to 5%-7%. At that time, we commented that we did not think it was necessary, but we complied with their recommendation. Since the amount of the dental reserve is very small compared to the entire reserve, we recommend staying conservative at the current level.

"Perform a periodic, formal actuarial review of the target ranges to ensure adequate provision for future risk."

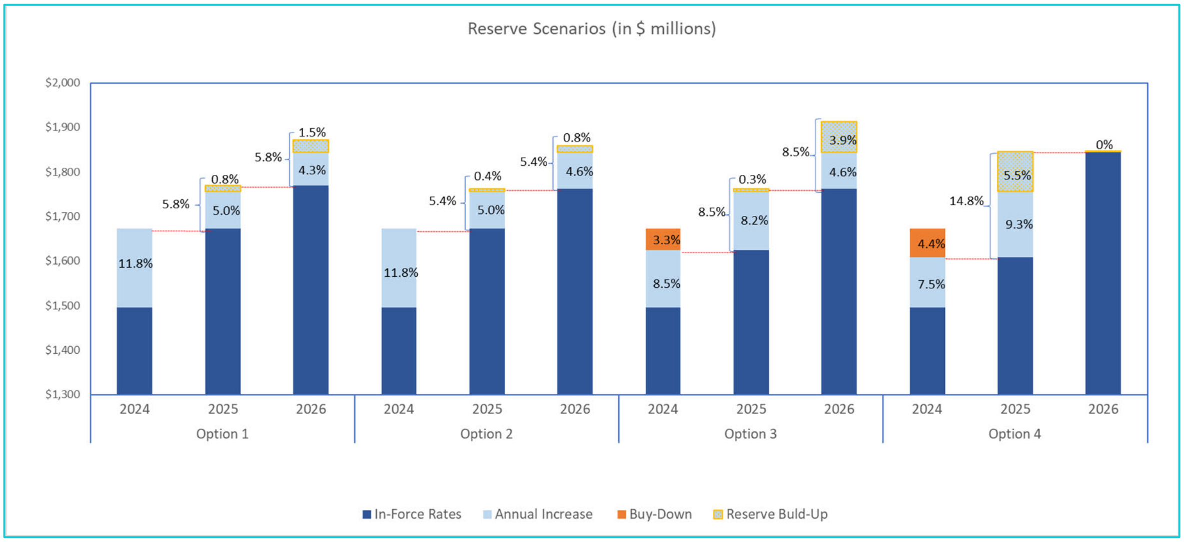
Segal agrees and this is done annually. The current ranges utilized and agreed to be reasonable by Milliman were selected to represent the provision for future risk.

"Perform a periodic actuarial evaluation of the pharmacy reserve target to ensure it is consistent with a range of "best estimate" to "moderately adverse" claims scenarios."

Segal agrees and this is consistent with the ranges used and agreed to by Milliman. As variability increases, the 8%-10% range utilized on pharmacy may need to widen.

"Consider an explicit premium deficiency reserve in years where rates are reduced under a "Buy Down" strategy.."

Segal does point out a piece that is related to making up the "Buy Down" in our scenarios presented to the board. There is a piece for annual increase/trend, Buy Down/Up component and experience (reserve build-up). From our presentation to the GIB:



If directed, Segal could change the reference to "Premium Deficiency Reserve" vs. "Buy-Down". Given the current reserve depletion, it may make sense to re-visit how it is presented to the Board.

"Consider performing additional sensitivity modeling in projecting fund balances that considers provision for adverse deviation.. "

Segal currently provides the Board three to four scenarios each year. The ranges on the reserve targets are designed to provide sensitivity and were agreed to by Milliman. While providing additional insights and scenarios may be beneficial, we advise caution as it could lead to information overload and may not be suitable for the intended audience . As we go through each renewal (Medical, Pharmacy and Dental) it might make more sense to provide some ranges to give the Board a feel for how adverse claims experience could impact the fund balance.

"Continue to review GIB's reserve policy to clarify recommended process when fund balance falls below reserve target range."

Segal agrees with the recommendation. We understand the policy is to get the reserve within the range, which is reasonable. The board does review the reserve policy every few years but there does not appear to be a specific action or timeline defined in the policy. Segal believes there also needs to be some flexibility in the policy given many moving parts - state budgets, potential pandemics, claims variability, legislation, etc.

"Consider including additional disclosures in actuarial documents, as described in ASOP 41, to provide more transparency on the source of assumptions used in each analysis."

This was similarly stated earlier. Segal discloses all our assumptions during our renewal process but could add additional documentation if ETF deems it helpful.

In Summary

We have commented on all the recommendations offered by Milliman in their Audit. At this point in time, we do not believe there would need to be any actuarial changes to the current process. If the Board would like Segal to do additional analysis and/or include additional assumption documentation as suggested, we would be happy to provide.

We appreciate the opportunity to respond, and the thorough work provided by Milliman. We are available to discuss further if needed.