

Health Insurance Actuarial Audit



Item 5A – Group Insurance Board

Renee Walk, Director

Office of Strategic Health Policy





Action Needed

The Department of Employee Trust Funds (ETF) requests that the Group Insurance Board (Board) accept the audit report of the 2024 health insurance rate setting and reserving process and the response of the consulting actuary, Segal.

Background

- Audit conducted by Milliman, Inc.
- Audit completed of 2024 process and assumptions used to develop:
 - Fully insured medical rates
 - Self-insured pharmacy rates
 - Self-insured dental rates
 - Reserve fund targets

Findings and Recommendations

- Processes to calculate premiums and reserves were consistent with general actuarial practice.
- Assumptions were reasonable.
- Reserve amounts were calculated to be reasonable.
 - Slightly lower range was recommended for dental reserve.
- Additional recommendations for future consideration were provided.

Actuarial Audit of 2024 Health Insurance Rate Setting and Reserving

Wisconsin Department of Employee Trust Funds
Group Health Insurance Plan

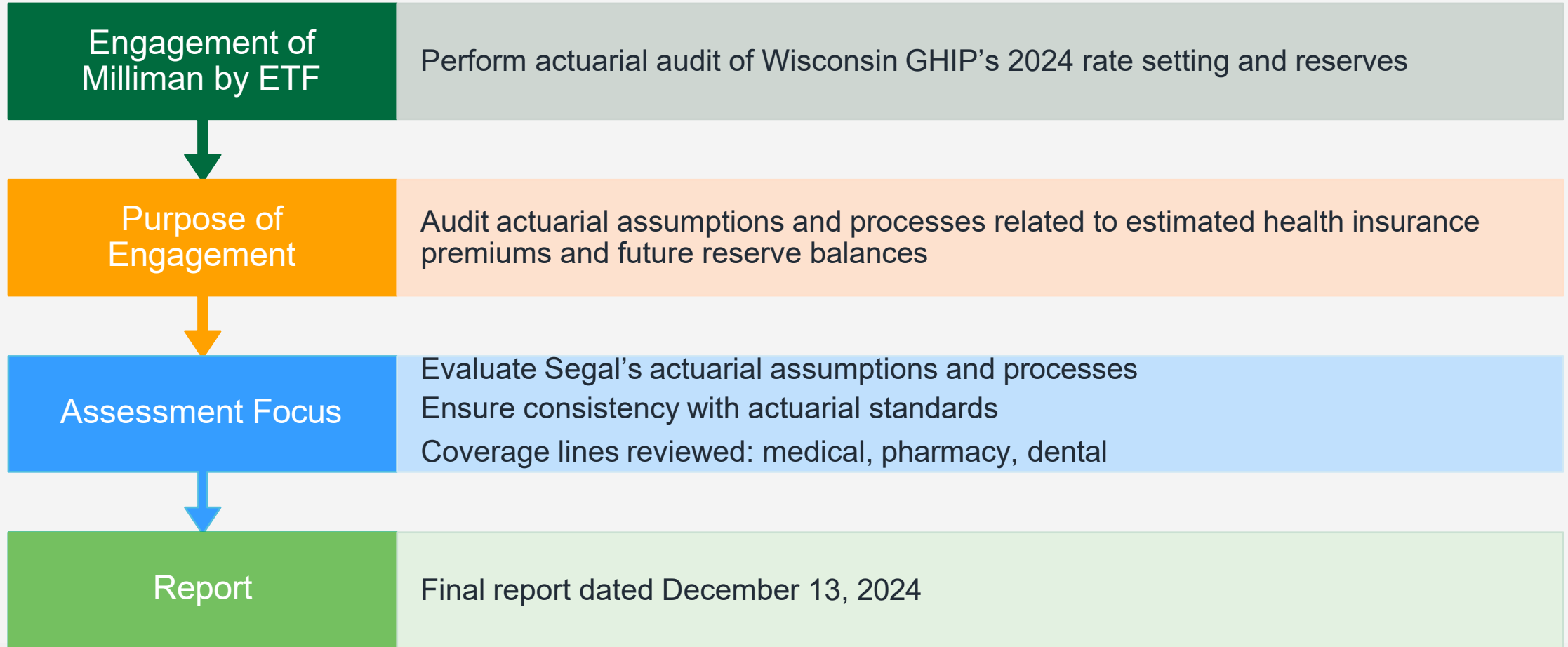
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FEBRUARY 26, 2025

Today's Discussion

- Introduction and Background
- Summary of Findings
- Recommendations for:
 - Health Insurance Rate Setting
 - Projected Reserve Balances
- Actuarial Standards of Practice (ASOPs)
- Audit Limitations

Purpose and Scope of the Actuarial Audit



Overview

1

Overall process and assumptions are reasonable and consistent with those used in general actuarial practice

2

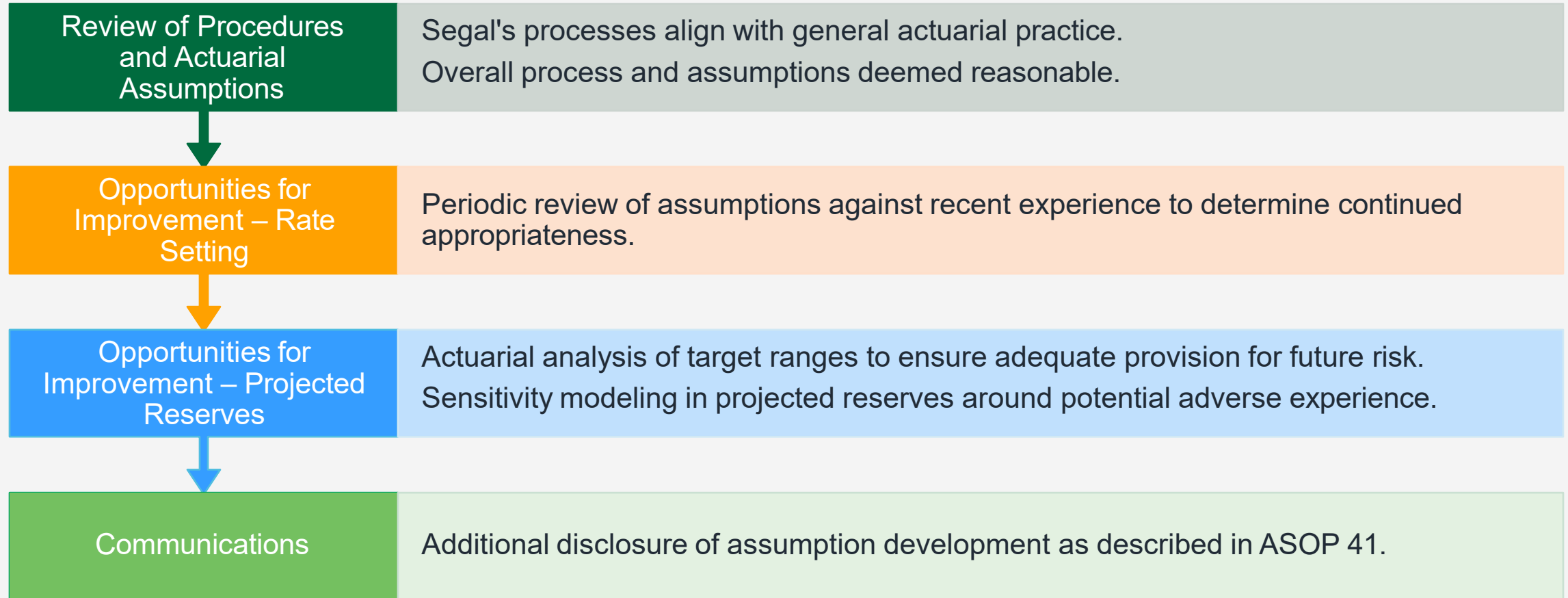
Specific recommendations have been provided for consideration in rate setting and future reserve balances

3

We suggest additional disclosure of assumptions and assumption development as described in ASOP 41



Audit Conclusions – Summary



Recommendations for Health Insurance Rate Setting

Review and Analyze Assumptions

- Evaluate HMO Tier 1 and Tier 2 limits against carrier loss ratios
- Compare aggregate rate tier ratios to GHIP's specific claims experience
- Validate risk adjustment assumptions for new groups based on emerging experience
- Adjust dental experience period to include most recent claims

Claims Analysis by Plan Type

- Monitor actual claims by plan (non-HDHP vs. HDHP)
- Ensure pricing differential remains appropriate
- Independently analyze historical pharmacy claims experience using regression analysis

Actuarial Communications

- Document assumptions in future working documents

Recommendations for Aggregate Rate Setting Assumptions



Review Tier Ratios Periodically

GHIP's size makes it credible for periodic reviews
Review tier ratios relative to specific claim experience
Changes could result in winners and losers



Reflect Actuarial Cost Differences



Consider expanding tiers

Consider providing three or four tier rates
Align actuarial expectations with actual costs

Recommendations for Aggregate Rate Setting Assumptions

Review tier ratios periodically

- GHIP's size makes it credible for periodic reviews
- Review tier ratios relative to specific claim experience
- Changes could result in winners and losers

Reflect actuarial cost differences

- Spouses are more expensive than members
- Children are less expensive than members or spouses

Consider expanding tiers

- Consider providing three or four tier rates
- Align actuarial expectations with actual costs

Recommendations for Projected Reserve Balances

Conduct formal actuarial review of reserve target ranges

Consider an explicit premium deficiency reserve when rates are reduced under a “Buy-Down” strategy

Consider performing additional sensitivity testing around fund balance projections

Continue to review reserve policy to clarify recommended process when fund balance falls below target range

Consider including additional disclosures in actuarial documents, as described in ASOP 41

Recommendations for Reserve Policy and Fund Projection



Lower Target Range for Dental

Small impact on aggregate reserve balance due to small claims volume



Periodic Actuarial Evaluation of Pharmacy Reserve Target

Target consistency with “Best Estimate” to “Moderately Adverse” claims scenario range, using Monte Carlo simulation or other actuarial modeling

Prepare for adverse scenarios and inform rate action decisions

Consider premium deficiency reserve under 'Buy Down' strategy



Evaluate Multiple Projection Scenarios

Include sensitivity modeling for adverse claims, investment returns, and expenses

Present analysis in an actuarial reserve report



Clarify Process for Reserve Fund Below Target Range

Retain flexibility in reserve policy

Purpose of ASOPs

Actuarial Standards of Practice



Framework for Professionalism

Provide a basic framework accommodating additional considerations



Guidance for Actuaries

Techniques, applications, procedures, and methods reflecting appropriate actuarial practices in the U.S.



Mandatory Compliance

Members of actuarial organizations in the U.S. must satisfy applicable ASOPs when providing actuarial services



Additional Considerations

Legal and regulatory requirements

Professional requirements from employers or actuarial organizations

Evolving actuarial practice

Actuary's professional judgment informed by the nature of the engagement

Description of Potentially Relevant ASOPs

Several ASOPs are relevant to this work



ASOP 23

Data quality

Guidance on selecting, reviewing, using, and relying on data

Disclosures on data source, selection, review, and reliance

ASOP 28

Statements of opinion on assets & liabilities

Guidance on issuing statements of actuarial opinion on health insurance assets and liabilities

Identification of applicable balance sheet items

ASOP 41

Actuarial communications

Guidance on communication of actuarial findings

Disclosure of material assumptions, methods, and data

Documentation of work and communication of uncertainties

ASOP 42

Health and disability actuarial assets and liabilities

ASOP 56

Financial modeling

Audit Limitations

The scope of our actuarial review did not extend to the following:

- Source Data Validation
- Data Validation Methodology
- Replication of Health Insurance Rate and Reserve Calculations
- Review of HMO Renewal Information
- Financial Soundness of GHIP

Certification Statement of Audit Report

The statement below was included in our report dated December 13, 2024:

We have performed an actuarial audit review of the 2024 Health Plan Rate Setting and Reserving process and results presented to the State of Wisconsin Group Insurance Board (“GIB” or “Board”) in August 2023 by Segal, the actuary for GIB. This report presents the results of our review. An overview of our findings is included in Section 1 of the report. More detailed commentary on our review process and findings is included in the latter sections.

Milliman’s work product was based on the Department of Employee Trust Funds’ (“ETF”) and Segal’s process and assumptions for a specific and limited purpose. It is a complex, technical analysis that assumes a high level of knowledge concerning the operations of the State of Wisconsin Group Health Insurance Program (GHIP) and uses data described in Appendix A, which Milliman has not audited. No third-party recipient of Milliman’s work product should rely upon Milliman’s work product. Such recipients should engage qualified professionals for advice appropriate to their own specific needs. If this report is distributed to other parties, it must be copied in its entirety, including this certification section. Milliman consents to release of this report to Segal.

In preparing this report, we relied, without audit, on information (both oral and in writing) furnished by ETF and Segal. We would like to express our appreciation to the ETF staff and the Segal staff for their assistance in supplying the requested information and for providing prompt responses to our questions.

On the basis of the foregoing, we hereby certify that, to the best of our knowledge and belief, this report is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Actuarial Standards of Practice promulgated by the Actuarial Standards Board and the applicable Guides to Professional Conduct, amplifying Opinions, and supporting Recommendations of the American Academy of Actuaries. The consultants who worked on this assignment are health care actuaries. Milliman’s advice is not intended to be a substitute for qualified legal or accounting counsel. The signing actuaries are independent of GIB and ETF. We are not aware of any relationship that would impact the objectivity of our work. We are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.



Thank you

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