

State of Montana SEGBAC Committee Meeting

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Q1 2011 Financial Report

Enrollment

	Q1 2010	Q1 2011	% Change
Total Enrollment	16,277	16,175	(0.6%)
Indemnity	7,631	7,463	(2.2%)
Managed Care	8,647	8,711	0.7%
Actives / COBRA	12,939	12,868	(0.5%)
Pre-65 Retirees	851	834	(2.0%)
Medicare Retirees	2,487	2,472	(0.6%)

Financial Results

(Amounts in \$000's)	Jan 2011 – Mar 2011	Jan 2011 – Dec 2011*
Revenue	\$39,094	\$151,762
Claims	\$30,689	\$130,889
<u>Administration</u>	<u>\$ 1,488</u>	<u>\$ 8,079</u>
Total Expenses	\$32,177	\$138,968
Contribution to Reserves	\$ 6,916	\$ 12,794
Assets as % of ACL	385%	333%

* High Trend Scenario

Claim Trends

Comparison of Medical, Rx and Dental Monthly Per-Capita Claims Costs

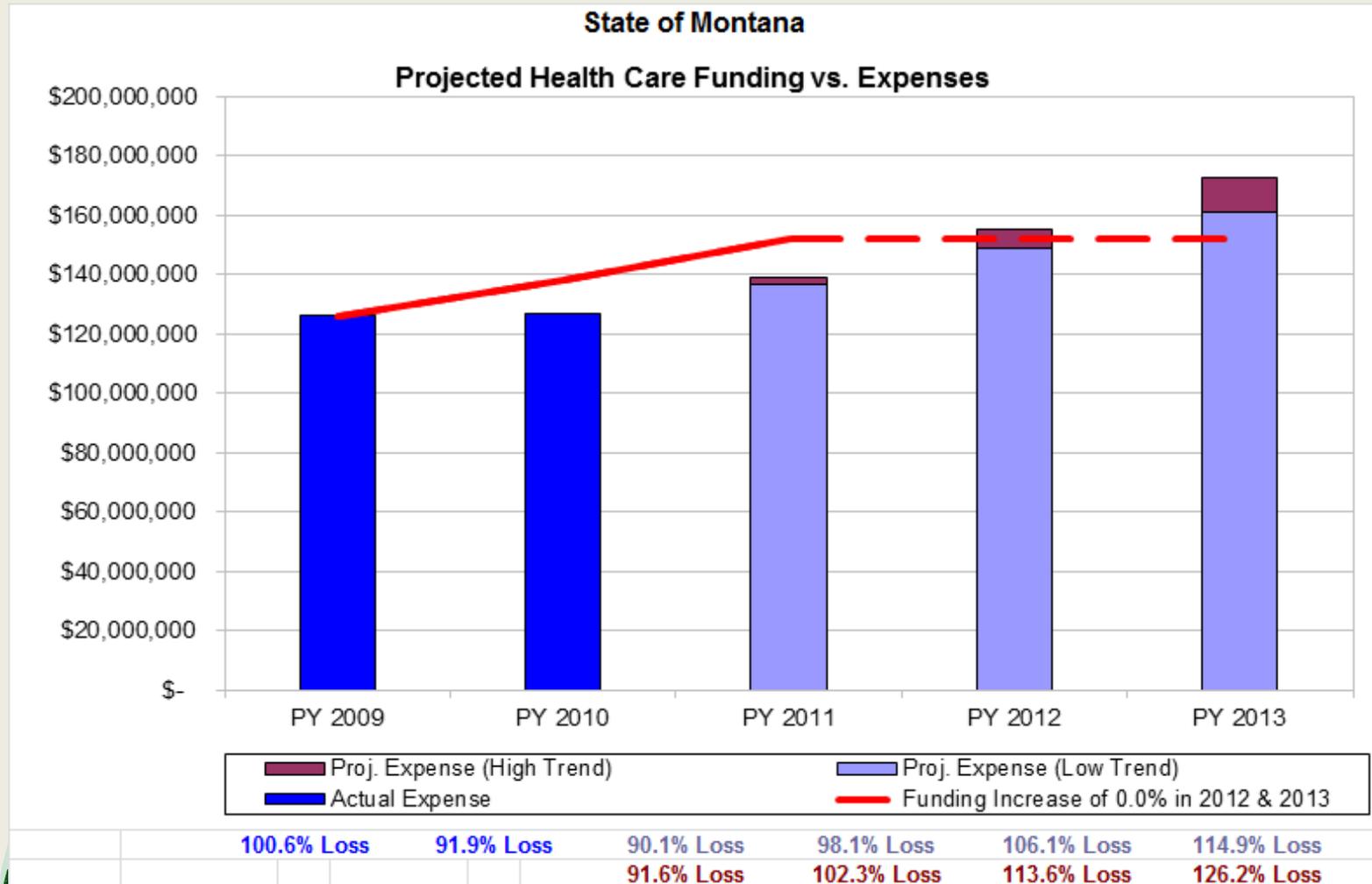
Benefit (12-mths)	Apr 10 - Mar 11	Apr 09 - Mar 10	% Change
Medical	\$478.20	\$452.49	5.7%
Rx	<u>\$108.76</u>	<u>\$124.55</u>	<u>(12.7%)</u>
Combined	\$586.96	\$577.04	1.7%
Dental	\$35.28	\$37.37	(5.6%)

Benefit (Quarter)	Jan 11 - Mar 11	Jan 10 - Mar 10	% Change
Medical	\$489.23	\$440.04	11.2%
Rx	<u>\$106.38</u>	<u>\$ 91.66</u>	<u>16.1%</u>
Combined	\$595.61	\$531.69	12.0%

Loss Ratios by Group

Group	Jan-Mar 2011 Loss Ratio	Jan-Mar 2010 Loss Ratio
Actives	74.1%	75.9%
Non-Medicare Retirees	133.0%	146.1%
<u>Medicare Retirees</u>	<u>90.3%</u>	<u>82.3%</u>
Combined	78.5%	80.5%
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Indemnity	88.6%	88.1%
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Managed Care	70.6%	73.8%
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Funding vs. Expenses (through March 2011)



2012 Benefits and Rating

Good & Bad (& Good) News

■ Good News

- Maintain target reserve levels through 2011
- 2012 projected “status quo” results show small percentage increase to rates

■ Bad News

- Projecting 2013 “status quo” operating loss of \$6.3 to \$20.7 million, depending on trend
- No State share increase to offset rising costs

■ Good News

- We have two years to address it

“Status Quo”

- Claims data through March 2011
- Moderate trend assumptions
 - 10% medical; 10% pharmacy; 8% dental; 5% admin
- No benefit changes (even mandated ones)
- No contribution to general reserves
- No changes to tier ratios
- No migration between plans or tiers

2012 “Status Quo”

- **Results in 2012 “status quo” medical rate increase of 4%**
- BUT, no increase to State Share means full increase borne by employees / retirees
 - Contributions increase \$29 - \$43 per month for employees and \$13 to \$43 per month per retiree depending on plan / tier
- AND, we still need to adjust for mandated benefit changes (+3%)

2013 “Status Quo”

- 2013 medical rate increase will include
 - Full effects of trend
 - Contribution to general reserves to maintain at 300% of ACL (\$5 million)
- **Results in 2013 rate increase of 12%**
- BUT, no increase to State Share means full increase borne by employees / retirees
 - Contributions increase \$100 - \$140 per month for employees and \$40 to \$140 per month per retiree depending on plan / tier

Strategies

- In simplest terms, we have two techniques to address the shortfall
 - Reduce Expenses
 - Plan efficiency improvements
 - Benefit reductions
 - Increase funding
 - No state share adjustment for 2012 & 2013
 - Only available funding is through employee and retiree contributions
- Strategy should cover 2012 & 2013

2012 Benefits and Rating

Benefit Design Options & Pricing Considerations

Legislative Benefit Changes

- 2012
 - Mental Health Parity
 - PPACA – 100% preventive care coverage*
 - PPACA – no annual dollar benefit limits on essential services*

*Assumes Non-Grandfathered status

Benefit Changes

- Benefit design grid (handout)
- Outlines three levels of key benefit plan changes
 - Small, Medium, Large
- Will likely be additional changes to benefits not on the grid
- Purpose is to provide a starting point for benefit discussions for next two years
- Will require input from stakeholders / committee members

Pricing Considerations

- Financial reports & rating practices illustrate a variety of premium rate subsidies:
 - Active Employees to Retirees
 - Single Active Employees to Active Employees with Dependents
 - Single Retirees to Retirees with Dependents
- Pricing decisions should consider
 - How much to increase premium rates
 - Who should pay more

Reinsurance Options

Background

- PPACA contains provisions that increase the catastrophic claim risk to employers
 - Elimination of lifetime maximum
 - Removal of annual benefit maximums
 - Full coverage of preventive care services
- Many employers revisiting potential reinsurance solutions

Catastrophic Claim Experience

- The State has enjoyed positive experience in the number and cost of catastrophic claims

Year	Over \$100,000	Over \$250,000	Over \$500,000	Over \$750,000	Over \$1,000,000
2006	\$3,854,000	\$579,000	\$62,000	-	-
2007	\$3,316,000	\$355,000	-	-	-
2008	\$7,034,000	\$1,961,000	\$25,000	-	-
2009	\$7,272,000	\$1,618,000	\$262,000	-	-
2010	\$7,339,000	\$2,575,000	\$1,237,000	\$516,000	\$241,000

- Cumulative claims over 5-year period also favorable

Reinsurance Options

- Specific stop loss reinsurance
 - Protects against large annual claims by individual members
- Aggregate stop loss reinsurance
 - Protects against large aggregate annual claims for the entire plan
- Lifetime maximum reinsurance
 - Protects against removal of lifetime maximum

Findings

- Specific stop loss reinsurance unjustified given favorable claims experience and administrative loads in reinsurance premium rates
- Aggregate stop loss could be used to limit the general reserve requirement of the State plan, but involves a long-term commitment
- Lifetime maximum insurance product not yet developed or filed in the industry (and may never)