

State and School Employees Health Insurance Management Board

March 22, 2023

1. Minutes of the Standing Monthly Board Meeting, February 22, 2023 – Ms. Liz Welch, Chairman
2. Actuarial Report Calendar Year 2022 – Mr. Wm. Lynn Townsend, FSA, MAAA, Consulting Actuary
3. Wellness Incentive Program – Ms. Cindy Bradshaw, State Insurance Administrator
4. Financial Statements – Mr. Chris Shaman, Deputy Director, Office of Insurance
5. General Schedule – Mr. Chris Shaman, Deputy Director, Office of Insurance
6. Old Business
7. New Business

Next Meeting: April 26, 2023

Agenda Item 1

Minutes of Standing Monthly Board Meeting, February 22, 2023 Ms. Liz Welch

Description

The minutes of the standing monthly Board meeting held on February 22, 2023

Action Requested

Approval of the minutes

State and School Employees Health Insurance Management Board

Standing Monthly Meeting February 22, 2023

The standing monthly meeting of the State and School Employees Health Insurance Management Board convened Wednesday, February 22, 2023, in Room 117, in the Woolfolk Building located at 501 North West Street in Jackson, Mississippi, at 9:00 a.m. The presiding officer was Ms. Liz Welch, Chairman of the Board. A quorum was present.

Voting Members Present

Ms. Liz Welch, Chairman
Mr. Mike Chaney
Mr. Mark Formby
Mr. Larry Fortenberry
Mr. Kelly Hardwick
Mr. Ray Higgins
Dr. Alfred Rankins
Mr. Kell Smith
Dr. Robert Taylor (represented by Sheila Buie)

Non-Voting Members Present

Voting Members Absent

Mr. Christopher Burkhalter, Vice Chairman

Non-Voting Members Absent

The Honorable John Read – Chairman,
House Appropriations Committee
The Honorable Walter Michel – Chairman,
Senate Insurance Committee
The Honorable Briggs Hopson – Chairman,
Senate Appropriations Committee
The Honorable Henry Zuber – Chairman
House Insurance Committee

Department of Finance and Administration Staff Present:

Ms. Cindy Bradshaw
Mr. Chris Shaman
Ms. Karen McKlemurry
Ms. Carlotta Edwards *(Via Teams)*
Ms. Alicia Coleman *(Via Teams)*
Ms. Christina Young *(Via Teams)*
Ms. Stacie Sheriff *(Via Teams)*
Ms. Krista Robinson *(Via Teams)*

Attorney General's Office Staff Present:

Ms. Liz Bolin, Esquire

Call to Order

The meeting was chaired and called to order by Ms. Liz Welch, Chairman of the Board.

Agenda Item 1: Minutes of the January 25, 2023 Standing Monthly Board Meeting

Chairman Welch announced that the minutes of the Board's January 25, 2023 standing monthly meeting had been provided to all Board members for their review in advance of today's meeting. A motion was made by Mr. Formby for the Board to approve the minutes for January as presented. Mr. Mike Chaney seconded the motion. The motion passed by an 7 – 0 vote, with members Chaney, Formby, Fortenberry, Hardwick, Higgins, Rankins and Smith voting affirmatively.

Agenda Item 2: Actuarial Services Contract

Chairman Welch recognized Ms. Cindy Bradshaw, State Insurance Administrator with the Office of Insurance, who advised the Board that the Actuarial Services Contract with Mr. Wm. Lynn Townsend, FSA, MAAA, which began October 1, 2018, will expire on September 30, 2023. We have exercised the one-year extension. Ms. Bradshaw recommended that the Board enter into negotiations with Mr. Townsend for a few more years. A motion was made by Mr. Fortenberry to enter into negotiations. Mr. Higgins seconded the motion. The motion passed by an 7 – 0 vote, with members Chaney, Formby, Fortenberry, Hardwick, Higgins, Rankins and Smith voting affirmatively.

Agenda Item 3: Calendar Year 2022 Actuarial Report Preliminary Projections

Chairman Welch recognized Mr. Wm. Lynn Townsend, FSA, MAAA, consulting actuary for the Board, who presented preliminary projections from his actuarial analysis of the State and School Employees' Life and Health Insurance Plan for calendar year (CY) 2022. A copy of the report entitled "*CY22 Actuarial Report Preliminary Projections*" was provided to Board members for their review prior to the meeting. Mr. Townsend discussed historical and projected trend rates, and provided projected premium rate adjustment needs as indicated to meet the Plan's stated funding objective. A motion was made by Mr. Chaney to notified LBO that we anticipate a 5% increase for CY2024 and a 5% increase for CY2025. Mr. Formby seconded the motion. The motion passed by an 7 – 0 vote, with members Chaney, Formby, Fortenberry, Hardwick, Higgins, Rankins and Smith voting affirmatively.

Agenda Item 4: Financial Statements

Chairman Welch recognized Mr. Chris Shaman, Deputy Director, Office of Insurance, who briefly reviewed the financial statements for the State and School Employees' Life and Health Insurance Plan for the month of January 2023. Copies of the financial statements were provided to Board members for their review prior to the meeting. No action was required or taken by the Board on this item.

Agenda Item 5: General Schedule

Chairman Welch recognized Mr. Shaman, who reviewed the schedule of major activities and actions to be taken by the Board for the next several months.

Agenda Item 6: Old Business

There was no old business for the Board to consider.

Agenda Item 7: New Business

There was no new business for the Board to consider.

Adjournment

Chairman announced that the next standing meeting of the State and School Employees Health Insurance Management Board is scheduled for 9:00 a.m., on Wednesday, March 22, 2023.

As there was no further business, the meeting was adjourned at 9:59 a.m.

Liz Welch
Chairman
State and School Employees Health Insurance Management Board

Agenda Item 2

Actuarial Report Calendar Year 2022

Mr. Wm. Lynn Townsend

Description

Mr. Townsend will discuss his actuarial analysis of the State and School Employees' Life and Health Insurance Plan for calendar year 2022, providing historical and projected trend rates, and projected premium rate adjustments needed to meet the Plan's state funding objective. A copy of Mr. Townsend's *CY22 Actuarial Report Highlights*, as well as his *Actuarial Report Calendar Year 2022*, are included in this section.

Action Requested

None

**STATE OF MISSISSIPPI'S
STATE & SCHOOL EMPLOYEES'
LIFE & HEALTH INSURANCE PLAN**

CY22 ACTUARIAL REPORT

HIGHLIGHTS

**Wm. Lynn Townsend, FSA, MAAA
103 Hatheway Lane
Madison, Mississippi 39110
March 22, 2023**

CY22 FINANCIAL SUMMARY

in Millions

Health Plan Premiums	\$ 810.8
Medical & Drug Claims Incurred	(801.7)
Administrative & Cost Containment Expenses	(29.5)
PCORI Fees	<u>(0.5)</u>
Subtotal Health Plan	\$ (20.9)
Life Insurance Premium Contributions to the Plan	
Life Insurance Premiums to Minnesota Life	\$ 19.0
Subtotal Life Insurance	<u>0.9</u>
Interest and Other Revenue	<u>1.1</u>
Total Gain (Loss) Before ARPA Payment	(18.9)
ARPA Payment	60.0
Total Gain (Loss) After ARPA Payment	<u>\$ 41.1</u>
Plan Surplus, 12/31/21 (1), (2)	\$ 60.6
Plan Surplus, 12/31/22 (2)	<u>\$101.7</u>

(1) Based on a retroactive evaluation of claims liabilities using actual paid claims.

(2) Plan Surplus, as shown above, does not take into account the liabilities of the State, as an employer, for post-retirement benefits. According to the most recent valuation prepared by Cavanaugh Macdonald, the State's unfunded actuarial accrued liability associated with retiree benefits provided through the State and School Employees' Life and Health Insurance Plan was about \$494 million as of 6/30/22.

CURRENT FUNDING STATUS

AS OF DATE:	12/31/2021	12/31/2022
ASSETS		
Cash and Invested Assets	\$ 156,468,196	\$ 192,830,400
Accrued Interest	33,942	215,659
Total Cash, Invested Assets, and Accrued Interest	<u>\$ 156,502,137</u>	<u>\$ 193,046,059</u>
LIABILITIES		
Estimated Medical Claims IBNR (Incurred But Not Reported)	\$ 82,785,504	\$ 82,349,583
less Estimated Due Rebates on Medical Claim Drugs		(1,676,493)
less Estimated Accrued Rebates on Medical Claim Drugs	(2,573,643)	(2,000,000)
Estimated Accrued Hospital Provider Incentive Payments	1,996,546	2,000,000
Medical Claims Due on Out-of-State Blue Card Claims	7,648,964	6,697,938
Provision for Claims Settlement Expenses	8,000,000	8,000,000
Estimated Drug Claims IBNR (Net of Adjustments)	(750,075)	(581,236)
Drug Claims Paid by CVS Caremark But Not Yet Paid by the Plan	14,745,750	14,995,950
less Estimated Accrued Drug Pricing Penalty	(6,258,227)	(4,916,869)
less Estimated Rebates Receivable on Drug Card Claims	(33,403,291)	(33,194,693)
Accrued PCORI Fees for CY19 thru the Current Calendar Year	1,459,069	1,997,026
Premium Payable to Minnesota Life for Billed Life Claims & Expense Charges	1,476,464	1,561,787
Estimated Future Premium for Life Claims Pending, Incurred prior to CY20	403,913	231,733
Premium Contributions Received in Advance (less Arrears)	18,181,309	13,078,257
Due & Accrued Prior Period Expenses	2,318,637	2,795,568
Total Claim Liabilities and Due & Accrued Expenses	<u>\$ 96,030,920</u>	<u>\$ 91,338,550</u>
PLAN SURPLUS	<u>\$ 60,471,217</u>	<u>\$ 101,707,509</u>

HISTORICAL FINANCIAL OVERVIEW

	CY18	CY19	CY20	CY21	CY22
INCOME, CLAIMS & EXPENSES					
Health Premiums	\$722	\$747	\$768	\$777	\$811
BCBS Claims (Medical)	(566)	(589)	(581)	(615)	(595)
Drug Card Claims	(217)	(241)	(261)	(303)	(340)
Drug Card Rebates	49	65	75	115	133
Administrative Expenses	(35)	(33)	(33)	(30)	(29)
PCORI Fees	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
Subtotal - Health Plan Gain (Loss)	(\$47)	(\$52)	(\$34)	(\$55)	(\$21)
Life Gain (Loss)	2	3	0	1	1
Interest & Other Revenue	5	4	2	1	1
ARPA Payment	0	0	0	0	60
Total Plan Gain (Loss)	(\$40)	(\$45)	(\$31)	(\$53)	\$41
SURPLUS (DEFICIT) End of Year	\$189	\$145	\$113	\$61	\$102
FUNDING OBJECTIVE					
One Full Month's Costs REVISED					\$71
One Half Month's Costs PRIOR	\$33	\$34	\$34	\$35	
INCREASE RATES					
Medical Claims	2%	4%	-1%	6%	-3%
Drug Claims, Pre Rebates	7%	11%	8%	16%	12%
Rebates	19%	32%	15%	54%	16%
Drug Claims, After Rebates	4%	5%	6%	0%	10%
ACTIVE EMPLOYEE RATE INCREASE	0%	3%	3%	3%	6%
KEY PLAN CHANGES					
Deductible Change-Select Plan	\$1,000	\$1,000	\$1,000	\$1,300	\$1,500
Drug Vendor	Prime	Prime	Prime	CVS	CVS
Value Formulary					Jul 1
Revision of Funding Objective					Jul 1

RECENT BENEFIT CHANGES

- **CY21**

Select Plan Deductible – In CY21 the medical deductible for Select coverage was increased by \$300. This Plan change was expected to reduce Plan costs in CY21 by about \$11.6 million.

Coinsurance Maximum – In CY21 the coinsurance maximums were increased by \$500 for both Select coverage and Base coverage. This Plan change was expected to reduce Plan costs in CY21 by about \$4.0 million.

- **CY22**

Select Plan Deductible – The in network medical deductible for Select coverage was increased by \$200 for CY22. This Plan change is expected to reduce Plan costs in CY22 by about \$7 million.

Implementation of the CVS Caremark “Value” Formulary – The Plan implemented the CVS Caremark “Value” Formulary on 7/1/22. CVS Caremark provided a preliminary annual savings estimate for this change of about \$18 million.

**Implementation on 7/1/22 of the Value Formulary
Effect on Semi-Annual Drug Benefit Costs Incurred in CY22 vs CY21
in Millions**

	Gross Costs*	Drug Rebates	Net Costs*	Year over Year Increase		
				Gross Costs*	Drug Rebates	Net Costs*
C21 1H	\$140.9	(\$54.1)	\$86.8			
C21 2H	\$161.8	(\$61.2)	\$100.6			
C21 Total	\$302.7	(\$115.3)	\$187.4			
C22 1H	\$173.0	(\$69.8)	\$103.2	22.8%	29.2%	18.9%
C22 2H ⁽¹⁾	\$166.9	(\$63.7)	\$103.2	3.2%	4.0%	2.6%
C22 Total	\$339.9	(\$133.5)	\$206.4	12.3%	15.8%	10.2%

* Net of actual CY21 and projected CY22 pricing adjustments.

EXPANDED HISTORICAL FINANCIAL OVERVIEW

	CY10	CY11	CY12	CY13	CY14	CY15	CY16	CY17	CY18	CY19	CY20	CY21	CY22
INCOME, CLAIMS & EXPENSES													
Health Premiums	\$714	\$742	\$732	\$723	\$718	\$718	\$720	\$723	\$722	\$747	\$768	\$777	\$811
BCBS Claims (Medical)	(598)	(547)	(557)	(574)	(513)	(515)	(550)	(556)	(566)	(589)	(581)	(615)	(595)
Drug Card Claims	(115)	(115)	(127)	(144)	(158)	(175)	(189)	(202)	(217)	(241)	(261)	(303)	(340)
Drug Card Rebates	9	10	10	10	13	14	34	42	49	65	75	115	133
Administrative Expenses	(54)	(39)	(33)	(34)	(32)	(32)	(35)	(37)	(35)	(33)	(33)	(30)	(29)
PCORI Fees	0.0	0.0	(0.2)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
ACA Transitional Reinsurance	0	0	0	0	(11)	(7)	(5)	0	0	0	0	0	0
ACA Early Retiree Reinsurance	5	14	0	0	0	0	0	0	0	0	0	0	0
Drug Company Settlements	0	0	1	14	0	0	0	0	0	0	0	0	0
Subtotal - Health Plan Gain (Loss)	(\$39)	\$65	\$26	(\$6)	\$17	\$2	(\$24)	(\$31)	(\$47)	(\$52)	(\$34)	(\$55)	(\$21)
Life Gain (Loss)	5	5	6	5	1	1	0	3	2	3	0	1	1
Interest & Other Revenue	5	2	3	3	2	3	3	3	5	4	2	1	1
ARPA Payment	0	0	0	0	0	0	0	0	0	0	0	0	60
Total Plan Gain (Loss)	(\$29)	\$72	\$35	\$2	\$21	\$5	(\$21)	(\$25)	(\$40)	(\$45)	(\$31)	(\$53)	\$41

SURPLUS (DEFICIT) End of Year	\$139	\$211	\$247	\$249	\$269	\$274	\$254	\$229	\$189	\$145	\$113	\$61	\$102
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FUNDING OBJECTIVE													
One Full Month's Costs REVISED		\$29	\$30	\$31	\$30	\$31	\$32	\$32	\$33	\$34	\$34	\$35	\$71
One Half Month's Costs PRIOR													

INCREASE RATES													
Medical Claims	4%	-9%	2%	3%	-11%	0%	7%	1%	2%	4%	-1%	6%	-3%
Drug Claims, After Rebates	-1%	-1%	11%	15%	8%	11%	-4%	4%	4%	5%	6%	0%	10%
ACTIVE EMPLOYEE RATE INCREASE	0%	4%	0%	0%	0%	0%	0%	0%	0%	3%	3%	3%	6%

KEY PLAN CHANGES													
Deductible Change-Select Plan	\$500	\$1,000										\$1,300	\$1,500
Blue Card (out-of-state claims)					CY14		CY16					CVS	CVS
PCP Copay Plan							PRIME						Jul 1
Drug Vendor													Jul 1
Value Formulary													
Revision of Funding Objective													

SUMMARY PROJECTIONS (in Millions)

Assumes Current Benefits and Rate Increases of 5% on 1/1/24 and 5% on 1/1/25

	Health Premium	Health Claims	Health Expense	Life Ins Interest & ACA Fees	Total Gain (Loss)	Gain as a % of Premium	ARPA Payment	Year End Projected Surplus Objective	Prior Surplus Objective	Revised Surplus Objective	Change in Surplus
CY17	\$723	(\$717)	(\$37)	\$5.7	(\$25)	-3.4%		\$229	\$32		(\$25)
CY18	\$722	(\$733)	(\$35)	\$6.5	(\$40)	-5.5%		\$189	\$33		(\$40)
CY19	\$747	(\$766)	(\$33)	\$7.1	(\$45)	-6.0%		\$145	\$34		(\$44)
CY20	\$768	(\$768)	(\$33)	\$1.8	(\$31)	-4.1%		\$113	\$34		(\$31)
CY21	\$777	(\$802)	(\$30)	\$1.2	(\$53)	-6.8%		\$61	\$35		(\$53)
CY22	\$811	(\$802)	(\$29)	\$1.5	(\$19)	-2.3%	\$60	\$102	\$35		\$41
CY23	\$860	(\$835)	(\$31)	\$2.0	(\$4)	-0.5%		\$98	\$37	\$74	(\$4)
CY24	\$903	(\$876)	(\$31)	\$1.9	(\$2)	-0.3%		\$95	\$39	\$77	(\$2)
CY25	\$948	(\$919)	(\$32)	\$1.8	(\$2)	-0.2%		\$93	\$41	\$81	(\$2)

TREND ASSUMPTIONS, NON-MEDICARE

	Medical	Drugs*	Total
CY23	3.0%	7.5%	4.2%
CY24	3.0%	10.0%	4.9%
CY25	3.0%	10.0%	5.0%

* Net of drug rebates

RATE INCREASE ASSUMPTIONS

	Plan Primary	Medicare Primary
01/01/24	5.0%	5.0%
01/01/25	5.0%	5.0%

STATE OF MISSISSIPPI'S

**STATE & SCHOOL EMPLOYEES'
LIFE & HEALTH INSURANCE PLAN**

**ACTUARIAL REPORT
CALENDAR YEAR 2022**

**PREPARED BY:
Wm. Lynn Townsend, FSA, MAAA
Consulting Actuary**

Wm. Lynn Townsend, FSA
CONSULTING ACTUARY

103 Hatheway Lane
Madison, MS 39110

WLTfSA@AOL.COM
601-362-1650

March 3, 2023

Ms. Cindy Bradshaw
State Insurance Administrator
Department of Finance and Administration
State of Mississippi
P. O. Box 24208
Jackson, Mississippi 39225

Dear Ms. Bradshaw:

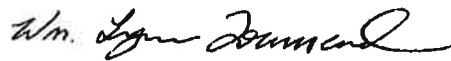
This Actuarial Report is based on a review of the experience through December 31, 2022, of the State and School Employees' Life and Health Insurance Plan ("Plan").

In performing my review and preparing my report, I relied on certain information and data provided by DFA, Blue Cross/Blue Shield of Mississippi ("BCBS"), CVS Caremark, Health Data & Management Solutions ("HDMS"), and Minnesota Life Insurance Company.

To the best of my knowledge and belief:

- 1.) All material aspects of my review have been communicated to DFA in this report.
- 2.) The calculations of the current claim liabilities of the Plan are in accordance with currently applicable Actuarial Standards of Practice.
- 3.) The projections of future cash flows and balance sheet items are based on future assumptions which, in the aggregate, appear to me to be fair and reasonable.

Sincerely,



Wm. Lynn Townsend, FSA, MAAA

TABLE OF CONTENTS

	Page
Executive Summary	1
CY22 Financial Summary	5
Current Funding Status	6
Life Insurance	10
Health Plan Enrollment	13
Health Insurance Experience	18
Plan Benefit Changes	32
Historical Health Insurance Rate Increases	34
Funding Policy	35
Plan Projections	36
Postemployment Benefits	47
Appendix	
Assumptions	48
Significant Historical Benefit Changes	50
Federal Health Care Reform	54
Retiree Life Insurance Rates	57

EXECUTIVE SUMMARY

For the last several calendar years, the State and School Employees' Life and Health Insurance Plan has used previously accumulated surplus to fund a portion of increasing annual benefit costs.

Following 7 straight years with no increase in the premium rates for non-Medicare rate classes, premium rates for active employees, dependents, and Legacy non-Medicare retirees were increased by 3% on 1/1/19, 3% on 1/1/20, 3% on 1/1/21, and 6% on 1/1/22. The Plan experienced surplus reductions of \$21 million in CY16, \$25 million in CY17, \$40 million in CY18, \$44 million in CY19, \$31 million in CY20, and \$53 million in CY21.

In CY22 Plan claims and expenses exceeded premium and other revenue by \$18.9 million. With the receipt of \$60 million in December 2022 from the federal government under the American Rescue Plan Act, surplus increased in CY22 by \$41.1 million instead of declining by \$18.9 million. Without the \$60 million ARPA payment the Plan would have ended CY22 with about \$41.7 million in Plan surplus, and with the \$60 million ARPA payment, the Plan ended CY22 with about \$101.7 million in Plan surplus.

The Plan increased premium rates for all classes by 6% on 1/1/23 and implemented the CVS Caremark "Value" Formulary for prescription drugs on 7/1/22. At its 2/22/23 meeting, the Board voted to plan on rate increases of 5% on 1/1/24 and 5% on 1/1/25. With those changes, the Plan is expected to experience close to break-even results in each of CY23, CY24, and CY25, and Plan surplus is expected to meet the Plan's revised stated funding objective throughout the projection period.

Funding Policy

At its meeting on 6/22/22, the Board voted to increase the Plan's stated funding objective for Plan surplus from one half (½) of one month's Plan expenses to one full month of Plan expenses, effective 7/1/22. The previous stated funding objective had been in place since 11/30/10, at which time a formal funding policy for the Plan was first established by the Board.

CY22 Benefit Changes

Select Plan Deductible – The in network medical deductible for Select coverage was increased by \$200 for CY22. This change was expected to reduce Plan costs in CY22 by about \$7 million.

Implementation of the CVS Caremark "Value" Formulary – The Plan implemented the CVS Caremark "Value" Formulary on 7/1/22. CVS Caremark provided a preliminary annual savings estimate for this change of about \$18 million.

Historical Financial Summary & Overview

Historical Financial Summary (in Millions)					
	CY18	CY19	CY20	CY21	CY22*
Health Insurance Gain (Loss)	(\$46.7)	(\$52.1)	(\$33.7)	(\$54.6)	(\$20.9)
Life Insurance Gain	2.4	3.2	0.5	0.9	0.9
Interest and Other Income	4.6	4.4	1.8	0.9	1.1
ARPA Payment	0.0	0.0	0.0	0.0	60.0
Total Gain (Loss)	(\$39.7)	(\$44.5)	(\$31.4)	(\$52.9)	\$41.1

* Based on current estimates of outstanding claims.

An overview of financial results and key plan changes during the last 5 years appears in the table on the following page,

EXECUTIVE SUMMARY (Continued)

HISTORICAL FINANCIAL OVERVIEW

	CY18	CY19	CY20	CY21	CY22*
INCOME, CLAIMS & EXPENSES					
Health Premiums	\$722	\$747	\$768	\$777	\$811
BCBS Claims (Medical)	(566)	(589)	(581)	(615)	(595)
Drug Card Claims	(217)	(241)	(261)	(303)	(340)
Drug Card Rebates	49	65	75	115	133
Administrative Expenses	(35)	(33)	(33)	(30)	(29)
PCORI Fees	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
Subtotal - Health Plan Gain (Loss)	(\$47)	(\$52)	(\$34)	(\$55)	(\$21)
Life Gain (Loss)	2	3	0	1	1
Interest & Other Revenue	5	4	2	1	1
ARPA Payment	0	0	0	0	60
Total Plan Gain (Loss)	(\$40)	(\$45)	(\$31)	(\$53)	\$41
SURPLUS (DEFICIT) End of Year					
Assets	\$291	\$259	\$212	\$156	\$193
Rebates Receivable	26	35	37	33	33
Liabilities (Prior to Rebates)	(128)	(149)	(136)	(129)	(124)
Surplus (Deficit)	\$189	\$145	\$113	\$61	\$102
FUNDING OBJECTIVE					
One Full Month's Costs REVISED					\$71
One Half Month's Costs PRIOR	\$33	\$34	\$34	\$35	
INCREASE RATES					
Medical Claims	2%	4%	-1%	6%	-3%
Drug Claims, Pre Rebates	7%	11%	8%	16%	12%
Rebates	19%	32%	15%	54%	16%
Drug Claims, After Rebates	4%	5%	6%	0%	10%
ACTIVE EMPLOYEE RATE INCREASE	0%	3%	3%	3%	6%
KEY PLAN CHANGES					
Deductible Change-Select Plan	\$1,000	\$1,000	\$1,000	\$1,300	\$1,500
Drug Vendor	Prime	Prime	Prime	CVS	CVS
Value Formulary					Jul 1
Revision of Funding Objective					Jul 1

* Based on claims liability estimates as of 12/31/2022.

EXECUTIVE SUMMARY (Continued)

Projections

At the 2/22/23 meeting of the Health Insurance Management Board, preliminary projections were provided under 2 alternative rate increase scenarios, and the Board voted to adopt the rate increase assumptions used with the "Scenario 1" projections presented at that meeting.

The projections appearing in this Report are consistent in most material respects with the Scenario 1 projections presented at the February 22 Board meeting. The projections in this Report assume current benefits and assume rate increases of 5% on 1/1/24 and 5% on 1/1/25.

Summary projections appear below and detailed projections appear in the body of this Report.

Under the assumptions and rate increases used in these projections, the Plan is expected to experience close to break-even results in each of CY23, CY24, and CY25, and Plan surplus is expected to meet the Plan's revised stated funding objective throughout the projection period.

SUMMARY PROJECTIONS (in Millions)

Assumes Current Benefits and Rate Increases of 5% on 1/1/24 and 5% on 1/1/25

	Health Premium	Health Claims	Health Expense	Life Ins Interest & ACA Fees	Total Gain (Loss)	Gain (Loss) as a % of Premium	ARPA Payment	Year End Projected Surplus	Prior Surplus Objective	Revised Surplus Objective	Change in Surplus
CY17	\$723	(\$717)	(\$37)	\$5.7	(\$25)	-3.4%		\$229	\$32		(\$25)
CY18	\$722	(\$733)	(\$35)	\$6.5	(\$40)	-5.5%		\$189	\$33		(\$40)
CY19	\$747	(\$766)	(\$33)	\$7.1	(\$45)	-6.0%		\$145	\$34		(\$44)
CY20	\$768	(\$768)	(\$33)	\$1.8	(\$31)	-4.1%		\$113	\$34		(\$31)
CY21	\$777	(\$802)	(\$30)	\$1.2	(\$53)	-6.8%		\$61	\$35		(\$53)
CY22	\$811	(\$802)	(\$29)	\$1.5	(\$19)	-2.3%	\$60	\$102	\$35		\$41
CY23	\$860	(\$835)	(\$31)	\$2.0	(\$4)	-0.5%		\$98	\$37	\$74	(\$4)
CY24	\$903	(\$876)	(\$31)	\$1.9	(\$2)	-0.3%		\$95	\$39	\$77	(\$2)
CY25	\$948	(\$919)	(\$32)	\$1.8	(\$2)	-0.2%		\$93	\$41	\$81	(\$2)

TREND ASSUMPTIONS, NON-MEDICARE

	Medical	Drugs*	Total
CY23	3.0%	7.5%	4.2%
CY24	3.0%	10.0%	4.9%
CY25	3.0%	10.0%	5.0%

RATE INCREASE ASSUMPTIONS

	Plan Primary	Medicare Primary
01/01/24	5.0%	5.0%
01/01/25	5.0%	5.0%

* Net of drug rebates

EXECUTIVE SUMMARY (Continued)

Discussion of Assumptions and their Effect on the Projections

These projections are based on cost trends and other assumptions that are difficult to predict and are subject to change due to unanticipated benefit changes or other fundamental changes that affect future costs. This is particularly true during the throes of a global pandemic. There may also be elevated risk that health care costs could increase at higher rates than in prior years simply as a result of higher general inflation; no specific provision has been included for this contingency.

It is noted that current trend assumptions are considerably less than those that were actually experienced just a few years ago. However, the annual cost trend assumptions being used are consistent with the cost trends experienced in those recent years in which significant operational or benefit changes did not occur. To that extent, these assumptions appear to me to be reasonable.

It is also noted that the Plan has periodically taken action to reduce costs. For example, in CY11 deductible and other benefit and Plan changes were implemented to significantly reduce Plan costs. In CY14, significant cost reductions were achieved thru the introduction of the Blue Card network for out-of-state claims and enhancements in the AHS network for in-state claims.

Future operating results could be worse – or better – than projected. If experience worsens, rate increases higher than those shown in future years, or other Plan changes, could be required. If these projections prove to be conservative, future rate increases could perhaps be reduced or delayed, or Plan surplus in excess of that projected could still exist at the end of any of the projection periods shown.

Postemployment Benefits

The CY22 Actuarial Report being provided herein does not separately identify and quantify the liabilities and costs that must be reported and recognized by the State, as an employer, under accounting rules established by the Governmental Accounting Standards Board for post-employment benefits. Therefore, Plan surplus – as defined in this Report – does not take into account the liabilities of the State, as an employer, associated with retiree health and life insurance.

Although there are significant surplus funds that exist in the Plan, there are much higher liabilities for the State – as an employer – for future retiree benefits that have not been funded. For example, based on current claims liability estimates, the Plan's surplus was about \$102 million as of 12/31/22. Based on the most recent valuation prepared by Cavanaugh Macdonald, the State's total liability for retiree life and health insurance benefits provided through the Plan was about \$494 million as of 6/30/22.

In evaluating the extent to which existing or projected surplus of the Plan is necessary or even sufficient, this Report should be reviewed in conjunction with the most recent version of the GASB Statement No. 74 Report that has been submitted to the Health Insurance Management Board by Cavanaugh Macdonald.

CY22 FINANCIAL SUMMARY

The monthly financial statements prepared by DFA were adjusted to reflect the updated estimates of Plan liabilities and certain items of a similar nature were combined, as follows. Note that the amount shown for Plan surplus as of 12/31/21 is based upon a retroactive review of the life and health insurance claims liabilities based on actual incurred claims and incurred drug rebates.

Financial Summary for CY22 (in millions)		
Health Premiums	\$ 810.8	
Health Claims Incurred	(801.7)	
Administrative & Cost Containment Expenses	(29.5)	
PCORI Fees Incurred	(0.5)	
Subtotal Health Insurance		\$ (20.9)
Life Insurance Premium Contributions to the Plan	\$ 19.0	
Life Insurance Premiums to Minnesota Life	(18.1)	
Subtotal Life Insurance		0.9
Interest and Other Revenue		1.1
Total Gain (Loss) Before ARPA Payment		(18.9)
ARPA Payment		60.0
Total Gain (Loss) After ARPA Payment		<u>\$ 41.1</u>
Plan Surplus, 12/31/21 (1), (2)		\$ 60.6
Plan Surplus, 12/31/22 (2)		<u>\$ 101.7</u>
<p>(1) Based on a retroactive evaluation of claims liabilities using actual paid claims.</p> <p>(2) Plan Surplus, as shown above, does not take into account the liabilities of the State, as an employer, for other postemployment benefits ("OPEB"). According to the most recent valuation prepared by Cavanaugh Macdonald, the State's Total OPEB Liability associated with retiree benefits provided through the State and School Employees' Life and Health Insurance Plan was about \$494 million as of 6/30/22.</p>		

Historical Financial Summary

The following historical financial summary is based upon a retroactive review of the life and health insurance claims liabilities based on actual incurred claims and incurred drug rebates.

Historical Financial Summary (in Millions)					
	CY18	CY19	CY20	CY21	CY22*
Health Insurance Gain (Loss)	(\$46.7)	(\$52.1)	(\$33.7)	(\$54.6)	(\$20.9)
Life Insurance Gain	2.4	3.2	0.5	0.9	0.9
Interest and Other Income	4.6	4.4	1.8	0.9	1.1
ARPA Payment	0.0	0.0	0.0	0.0	60.0
Total Gain (Loss)	<u>(\$39.7)</u>	<u>(\$44.5)</u>	<u>(\$31.4)</u>	<u>(\$52.9)</u>	<u>\$41.1</u>
Plan Surplus, Beginning of Year	\$228.9	\$189.2	\$144.8	\$113.4	\$60.6
Plan Surplus, End of Year	\$189.2	\$144.8	\$113.4	\$60.6	\$101.7
* Based on current estimates of outstanding claims.					