ACTUARIAL ANALYSIS OF THE UNPAID CLAIMS LIABILITIES AND RESERVES AS OF JUNE 30, 2015

MARICOPA COUNTY SELF-FUNDED EMPLOYEE BENEFITS PROGRAM

OCTOBER 19, 2015

Presenters
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MEETING AGENDA

- Review unpaid claims liabilities and reserves as of June 30, 2015.
- Review current reserve philosophy.
- Request endorsement by Board of Trustees.

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OVERVIEW

- Mercer has been retained by Maricopa County to value self-funded health benefit plan unpaid claims liabilities and reserves as of June 30, 2015, and potential self-insured risks beyond unpaid claims liabilities.
- The Plan provides medical, prescription drug, dental, vision, behavioral health, and short-term disability (STD) coverage for approximately 11,600 employees:
  - For this coverage, the unpaid claims liability and claims reserve represents costs that are already incurred by means of health care services that have already been provided or disablements that have already occurred, but for which the Plan has not yet paid.
- Reserves for potential self-insured risks beyond the unpaid claims liabilities include:
  - Unpaid claims adjustment administrative expense (if any).
  - Large claims.
  - Excess Consolidated Omnibus Budget Reconciliation Act (COBRA) expense.
  - Claims fluctuation.
  - Premium deficiency reserves (if any).
  - Reserve for performance incentives (if any).

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NET AMOUNT OF AVAILABLE ASSETS IN EXCESS OF PLAN'S LIABILITY REQUIREMENTS AND RESERVE NEEDS

- As of June 30, 2015, there were approximately $35.8 million in total assets available ($4.8 million of which is dedicated to the Wellness program and $2.2 million of which is for STD, an employee-pay-all program) to cover the Plan's liability requirements and reserve needs.
- This amount accounts for restricted assets and fully covers the liabilities for unpaid claims, the reserve for the excess COBRA expense, the claims fluctuation reserve, and the premium deficiency reserves.
- The $24.3 million the County is holding in net assets available as of June 30, 2015 is not sufficient to cover the recommended Plan reserve of $28.7 million excluding STD and Wellness at June 30, 2015.
- However, with no legal requirement to separate Wellness from All Other, the combination of the two has $29.1 million in net assets as of June 30, 2015, which is sufficient to cover the recommended plan reserve by $0.4 million.

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NET AMOUNT OF AVAILABLE ASSETS IN EXCESS OF PLAN'S LIABILITY REQUIREMENTS AND RESERVE NEEDS (CONT'D)

Measurements as of June 30, 2015		STD	Wellness	All Other	Total
1.	Available assets	$ 2,227,717	$ 4,790,865	$ 28,796,256	$ 35,814,839
2.	Accrued liabilities	$ 13,574	$ 52,020	$ 4,454,325	$ 4,519,919
3.	Other current liabilities	$ 0	$ 0	$ 0	$ 0
4.	Net amount of assets available to cover Plan's liability requirements and reserve needs (1 − 2 − 3)	$ 2,214,143	$ 4,738,846	$ 24,341,931	$ 31,294,920
5.	Unpaid claims liabilities and reserves (includes Premium Deficiency Reserve [PDR]) as of June 30, 2015, including reserve for claim fluctuation of 100% (250% for STD) of the net underwriting risk component of risk-based capital (RBC)	$ 761,966	$ 0	$ 28,697,973	$ 29,459,939
6.	Net amount of assets, in excess of reserves, available to cover the Plan's liability requirements and reserve needs (4 − 5)	$ 1,452,177	$ 4,738,846	$ (4,356,042)	$ 1,834,981

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FIVE YEAR HISTORICAL DATA FOR LIABILITIES AND RESERVES

		Liabilities and Reserves as of June 30:					
	Coverage	2015	2014 Apr 14, 2015 Revision	2014 Oct 17, 2014 Report	2013	2012	2011
1.	Liability for medical claims	$12,264,638	$10,234,621	$10,234,621	$ 6,995,779	$ 9,788,420	$10,991,704
2.	Liability for prescription drug claims	$ 9,403	$ -	$ -	$ -	$ -	$ -
3.	Liability for dental claims	$ 654,002	$ 553,998	$ 553,998	$ 466,041	$ 484,345	$ 409,517
4.	Liability for vision claims	$ 167,817	$ 143,530	$ 143,530	$ 161,597	$ 107,576	$ 91,554
5.	Liability for behavioral health claims	$ 128,297	$ 226,157	$ 226,157	$ 293,591	$ 231,766	$ 178,642
6.	Liability and reserve for STD benefits	$ 463,942	$ 528,991	$ 528,991	$ 369,938	$ 323,861	$ 443,654
7.	**Subtotal for 1+2+3+4+5+6**	**$13,688,099**	**$11,687,297**	**$11,687,297**	**$ 8,286,946**	**$10,935,967**	**$12,115,071**
8.	Liability for unpaid claims adjustment administrative expense	$ -	$ -	$ -	$ -	$ -	$ 175,000
9.	Reserve for large claims	$ 2,502,661	$ 2,132,448	$ 4,781,520	$ 3,296,724	$ 3,273,892	$ 2,722,850
10.	Reserve for excess COBRA expense beyond the premiums for those enrolled in COBRA as of July 1	$ 234,891	$ 195,703	$ 195,703	$ 245,625	$ 205,841	$ 244,089
11.	Reserve for claims fluctuation	$12,194,540	$11,688,584	$17,365,711	$15,393,768	$25,647,270	$24,843,470
12.	Premium deficiency reserves	$ 839,748	$ 7,714,984	$ 7,714,984	$ 1,000,000	$ -	$ -
13A.	Liability for earned but unpaid performance incentives	$ -	$ -	$ -	$ -	$ -	$ -
13B.	Reserve for maximum potential performance incentives	$ -	$ -	$ -	$ -	$ -	$ 20,000
14.	**Total for 7+8+9+10+11+12+13A+13B**	**$29,459,939**	**$33,419,016**	**$41,745,215**	**$28,223,063**	**$40,062,970**	**$40,120,480**

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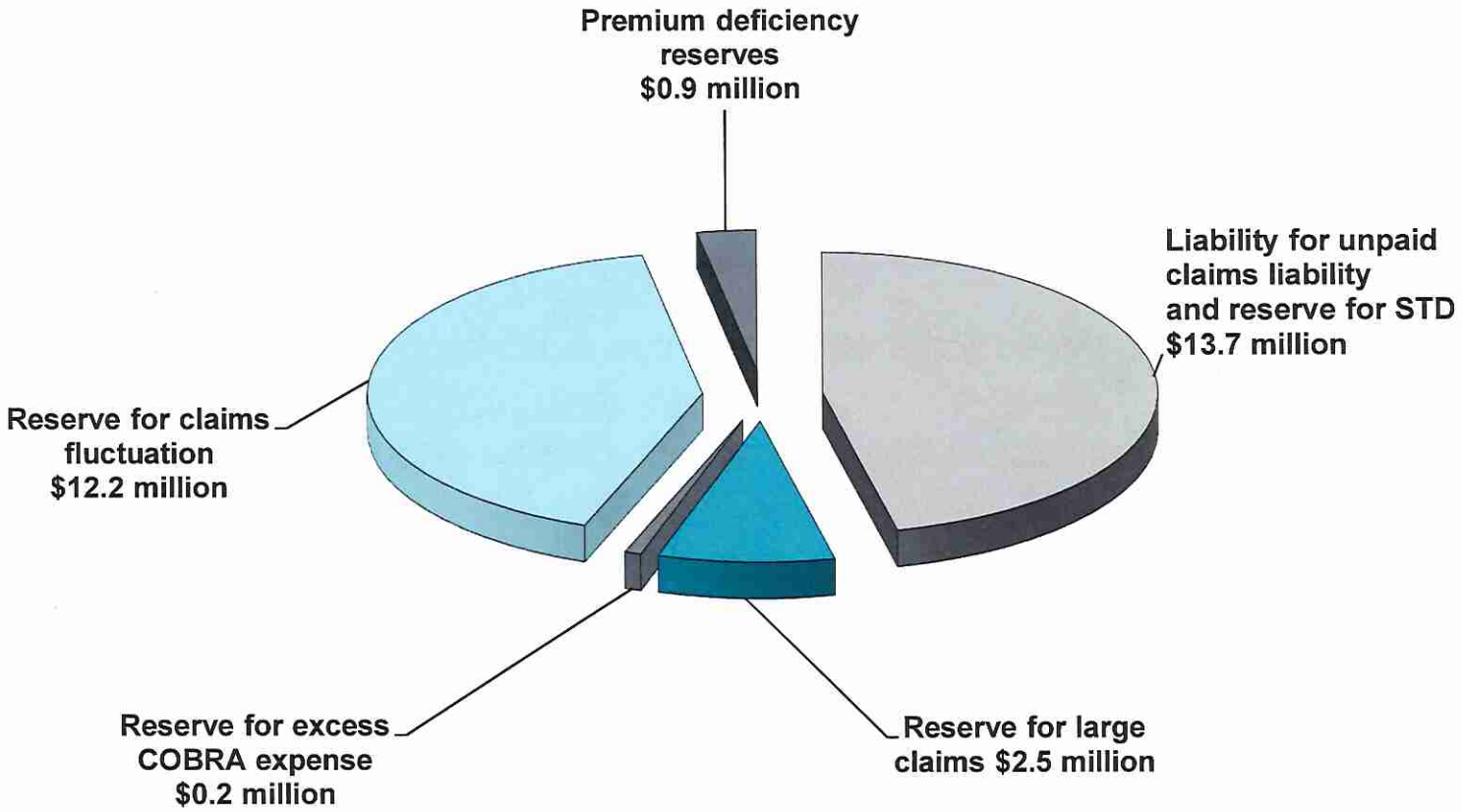
LIABILITIES AND NEEDED RESERVES

Total liabilities and reserves as of June 30, 2015 of $29.5 million



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LIABILITY FOR CLAIMS INCURRED BUT NOT PAID FOR HEALTH BENEFITS

- Liability for claims incurred but not paid:
  - The Plan incurs a liability when a covered employee or dependent receives medical, prescription drug, dental, vision, or behavioral health care that is covered under the terms of the Plan.
  - Actual payment to the provider or to the employee may occur within a few weeks or as much as 12 or more months later, although the majority of claims unpaid at any point in time are from the most recent three months.
  - The unpaid claim liability as of the end of an accounting period is essential to accurately measure the Plan's financial position.

Coverage	Months of Claims	Incurred But Not Paid
Liability for medical claims	1.22	$12,264,638
Liability for prescription drug claims	0.01	$ 9,403
Liability for dental claims	1.83	$ 654,002
Liability for vision claims	1.37	$ 167,817
Liability for behavioral health claims	1.69	$ 128,297
Total liability	**1.07**	**$13,224,157**

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LIABILITIES AND RESERVES FOR STD BENEFITS

- Liability and reserve for STD benefits:
  - STD provides benefits up through the twenty-sixth week following disability.
  - Benefits commence after a two-week elimination period (no elimination period for inpatient hospitalization).
  - Cost for STD is paid entirely by employees; there is no employer contribution.
  - Liabilities and benefits the Plan owes, but has not paid as of the valuation date, include incurred but not reported (IBNR), reported but unpaid claims (RBUC), and due and unpaid claims.
  - The reserve for the present value of amounts not yet due provides for payments beyond the valuation date on disablements that occurred by the valuation date.

	Months of Claims	Dollars
IBNR	0.32	$ 62,880
RBUC	0.45	$ 89,735
Due and unpaid claims	0.09	$ 18,340
Present value of amounts not yet due	1.47	$292,987
Total STD claim liability and reserve	**2.34**	**$463,942**

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RESERVE FOR LARGE CLAIMS

- Effective July 1, 2011, the County eliminated its specific stop-loss insurance.
- Mercer is recommending the County establish a reserve to provide a means of smoothing recognition of the costs of large claims over periods of more than a year.
- The large claims reserve is based on expected claims developed from Mercer's national large claim model.

	Based on a $750,000 Attachment Point
1. Expected claims costs per employee per month	$ 17.81
2. June 2015 enrollment annualized employee-months	140,520
3. Initial reserve level = 1 × 2	$2,502,661

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RESERVE FOR EXCESS COBRA EXPENSE

- When former employees elect to continue their benefits under COBRA, they pay 102% of the total premium.
- Depending on the circumstance, the COBRA continuation can extend up to 36 months.
- This 102% premium is not expected to cover the costs of the benefits because, on average, those who elect a COBRA extension of benefits have about 50% higher than average claims.
- The COBRA reserve is the expected shortfall of future premiums compared to future expenses for all those who are on the COBRA extension of benefits as of the valuation date.
- As of June 30, 2015, the reserve for excess COBRA expense is $234,891.

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RESERVE FOR CLAIMS FLUCTUATION

- Based on a RBC approach of provisions set forth by insurance regulating bodies to maintain reasonable solvency levels.
- Takes into account specific information related to the County's types of coverage offered, claim levels, funding sources, and Plans' provider contracts.
- In Mercer's opinion, it is appropriate for the County to target 100% (250% for STD) of the company action level (CAL) RBC underwriting risk component for the underwriting risk reserve:
  - About 95% of health insurers have a surplus of 100% CAL or more.
  - The County is no longer purchasing specific stop-loss insurance.
  - All medical benefit options, in order to comply with the Affordable Care Act, have an unlimited dollar benefit.
- No requirement to hold such a reserve, so holding this reserve is a County management decision:
  - Result of RBC calculation (excluding STD) is $11,896,516 at 100% CAL level (equivalent to 8.8% of annual paid claims).
  - Result of RBC calculation for STD is $298,024 at 250% CAL level (equivalent to 12.5% of annual paid claims).

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PREMIUM DEFICIENCY RESERVE

- A PDR is established as of June 30, 2015 to recognize that:
  - Premiums in effect for fiscal year 2016 (FY16) are now expected not to cover FY16 claims and administrative expense:
    - Administrative expense rates are known.
    - Expected claims are based on projections from claims paid through July 2015.
  - Two separate PDR calculations:
    - For STD, FY16 premiums are expected to cover FY16 expense, so no PDR.
    - For the combination of all other health benefits, the $839,748 PDR is the result of the shortfall for drugs being slightly larger in magnitude than the expected excess for medical, dental, vision, and behavioral health.
- Premium rates for FY17 have not yet been finalized:
  - If, as has been assumed, the rates would be expected to cover FY17 expenses, then there would be no need for additional PDR.
  - But, if they are expected to provide less revenue than FY17 expense, then the expected shortfall would be additional PDR.

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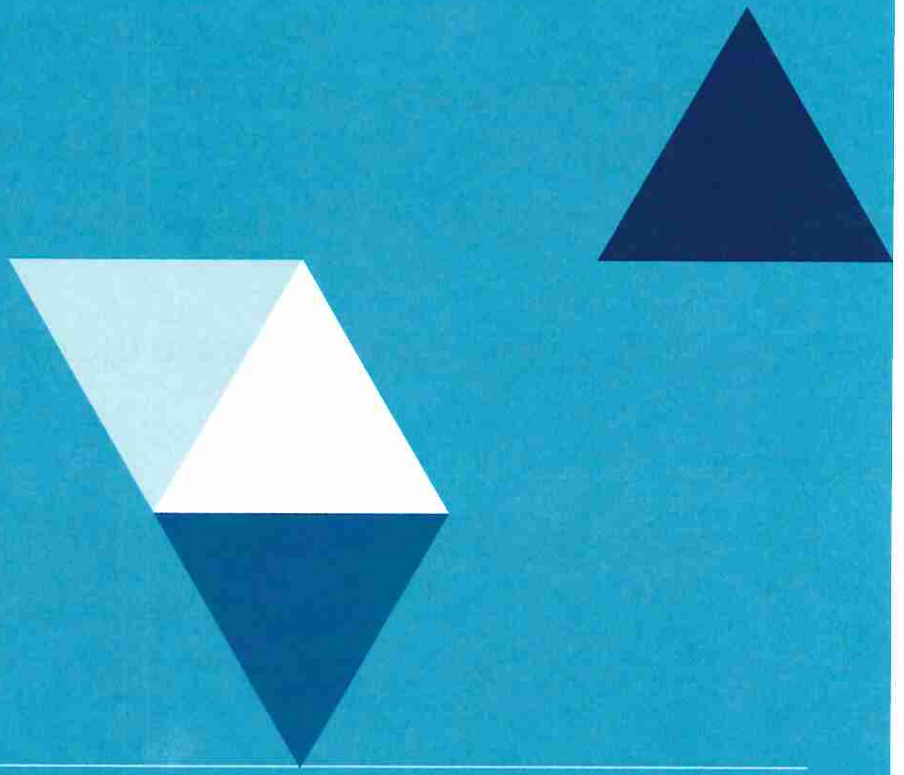
QUESTIONS?



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