HEALTH WEALTH CAREER

Bdatt.2

OREGON PUBLIC EMPLOYEES' BENEFITS BOARD

RISK BASED CAPITAL

APRIL 19, 2016

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WHAT IS RISK BASED CAPITAL

- From the National Association of Insurance Commissioners (NAIC)
  - ***Risk-Based Capital*** (RBC) is a method of measuring the minimum amount of ***capital*** appropriate for a reporting entity to support its overall business operations in consideration of its size and ***risk*** profile. RBC limits the amount of ***risk*** a company can take.
- NAIC created RBC to determine the minimum amounts of capital appropriate for insurance companies
  - The capital provides a cushion against insolvency
- Formulas focus on various areas of risk; for PEBB, underwriting risk is the main exposure

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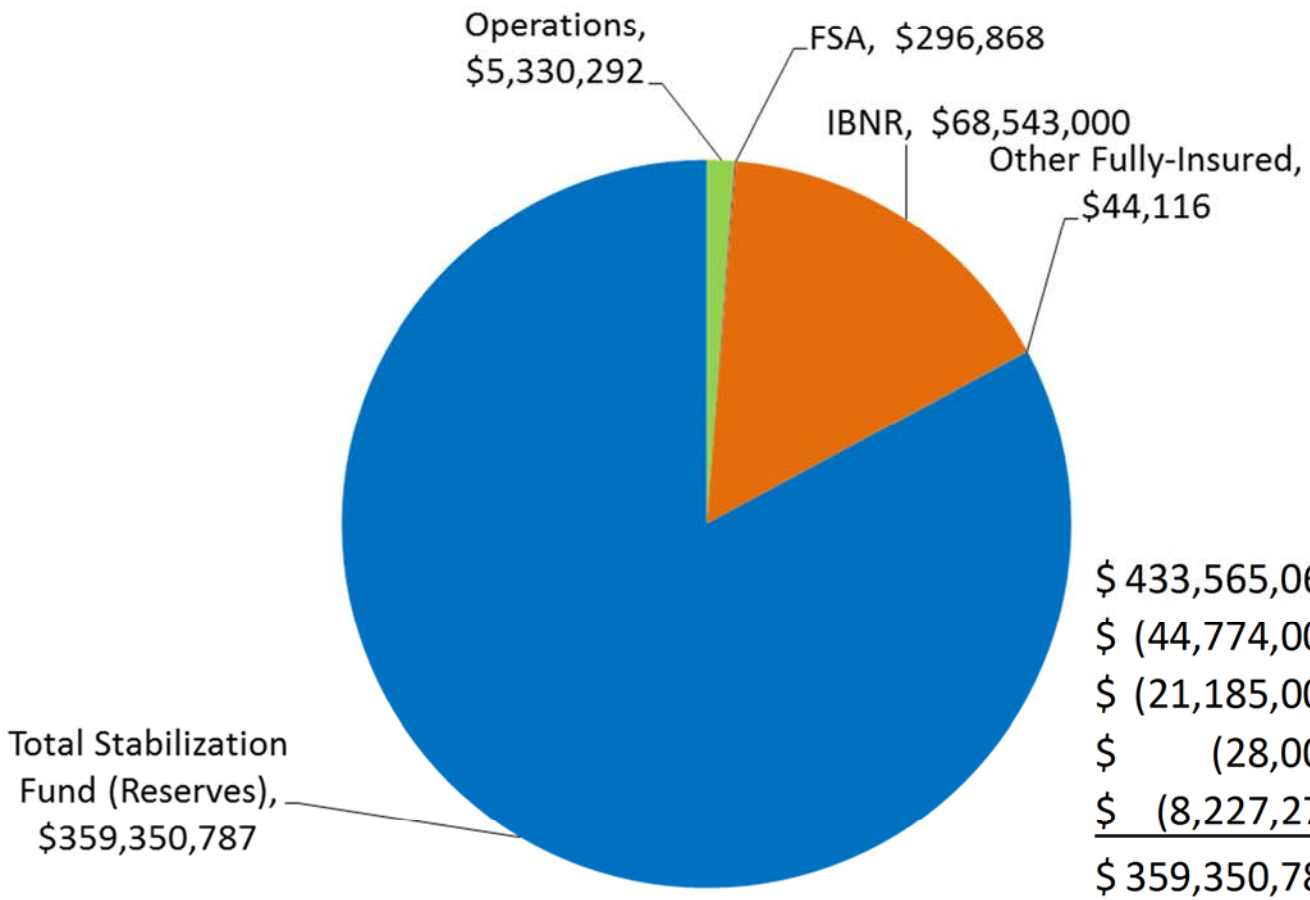
PEBB GENERAL LEDGER ACCOUNT FUND BALANCES AS OF DECEMBER 31, 2015



$ 433,565,062	Dec 31, 2015 Fund Balance
$ (44,774,000)	Statewide IBNR
$ (21,185,000)	Providence Choice IBNR
$ (28,000)	Trillium
$ (8,227,276)	Moda Dental, VSP IBNR and Other
$ 359,350,787	Dec 31, 2015 Balance after IBNR
$ 150,250,000	2015 RBC Target
$ 209,100,787	Net Difference

Plan fund balances (e.g. Statewide) include required funding to pay for claims

Total fund balance is $433,565,062

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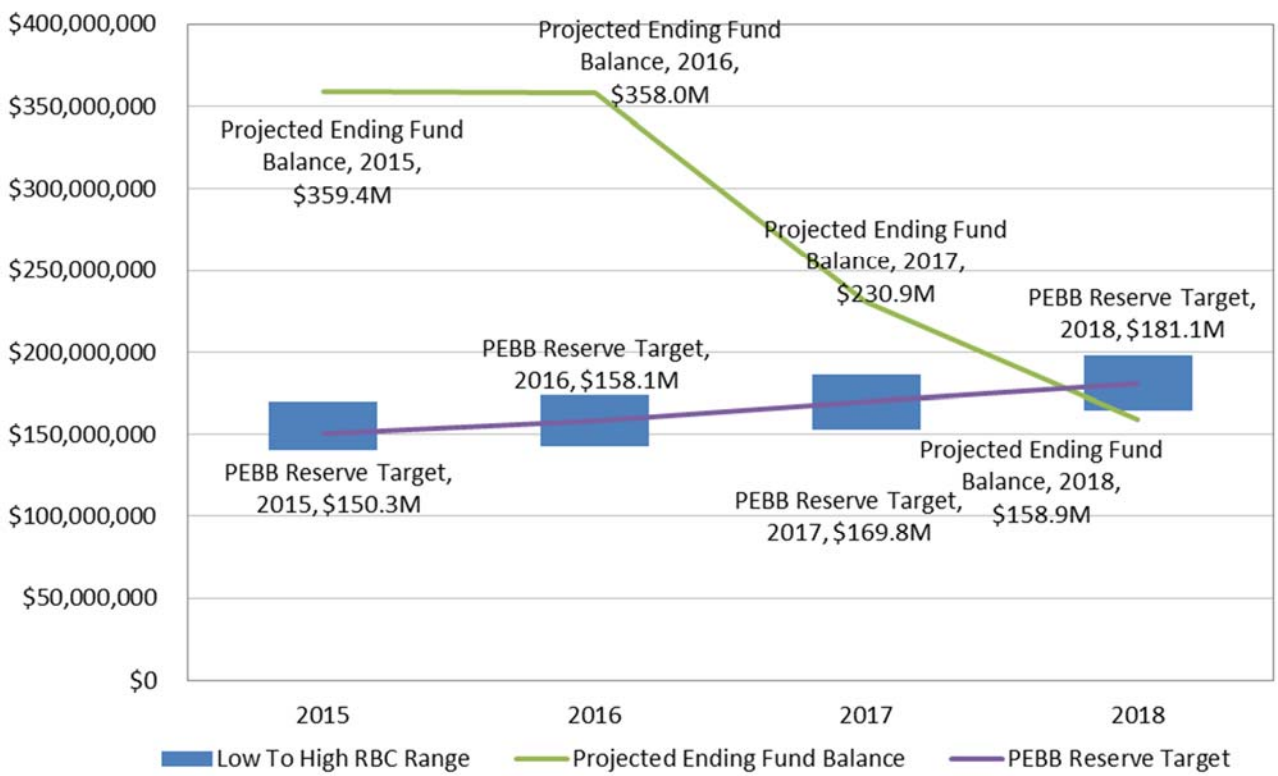
2015 TO 2018 FUND BALANCE UPDATED FOR MARCH 2016 ENROLLMENT AND CLAIMS

- Costs for 2016 are set based on claims through March 2016
  - Mercer projected trend rates for plans and estimated $1.5M AllCare risk share payment per year
- Funding for 2017 is based on status quo
  - Includes reduction for tier change contribution subsidy
- Includes $120M payment for Senate Bill 501 in 2017 and $30M penalty to be paid in 2018
- 2018 funding increased by 3.4% from prior year
- Chart below shows projected ending fund balance and the recommended RBC range
- PEBB Reserve Target is middle of High and Low RBC



Takeaway

- If funding is increased at 3.4% annually for 2018 but expenses grow at 7.2% annually, the fund balance would decrease by $200M from 2015 to 2018
- 2018 ending fund balance is under target by $22M, 12% below target

FUND BALANCE DETAIL – MERCER TREND

- PEBB projected cost PEPM increases based on Mercer trend rates are
  - 3.9% for 2016, 5.8% for 2017, and 7.2% for 2018
  - Trend rates are 7.5% for medical, 4% for dental, 3% for vision
- Funding increase for 2018 is 3.4% from 2017 needed funding after contribution subsidy
  - 2016 is a 2.8% increase; 2017 is projected to be a 5.0% increase

	1/1/2015 - 12/31/2015	1/1/2016 - 12/31/2016	1/1/2017 - 12/31/2017	1/1/2018 - 12/31/2018
PEBB Projected Costs*	$796,200,000	$832,200,000	$880,200,000	$943,500,000
PEBB Projected Costs* (PEPM)	$1,285.60	$1,335.86	$1,412.91	$1,514.52
Surcharges Payments from Employees	$4,400,000	$4,500,000	$4,500,000	$4,500,000
HEM Refunds	($13,900,000)	($13,000,000)	($13,000,000)	($13,000,000)
Net PEBB Costs	$805,700,000	$840,700,000	$888,700,000	$952,000,000
Net PEBB Costs (PEPM)	$1,300.94	$1,349.51	$1,426.56	$1,528.17
Funding	$811,400,000	$839,300,000	$881,600,000	$910,000,000
Funding (PEPM) (2017 Actual, 2018 - 2019 = 3.4% Increase)	$1,310.11	$1,347.31	$1,415.17	$1,460.67
Funding as % of Net PEBB Costs	101%	100%	99%	96%
Proj Surplus/(Deficit) for PY**	$5,700,000	($1,400,000)	($7,100,000)	($42,000,000)
Beginning Risk Stabilization Fund	$353,700,000	$359,400,000	$358,000,000	$230,900,000
SB 501 Transfer ($120M + estimated $30M Penalty)			($120,000,000)	($30,000,000)
Ending PY Risk Stabilization Fund	$359,400,000	$358,000,000	$230,900,000	$158,900,000
PEBB Reserve Target	$150,250,000	$158,050,000	$169,800,000	$181,100,000
Difference between Ending Balance and Target	$209,150,000	$199,950,000	$61,100,000	($22,200,000)
% Difference	139%	127%	36%	-12%

* Using December 2015 enrollment of 51,610, March 2016 enrollment of 51,914 and March 2016 claims experience; Medical/RX, Vision, Basic Life. Dental uses February 2016 claims experience

** Surplus/(Deficit) = Agency Payments + Surcharges - PEBB Projected Costs

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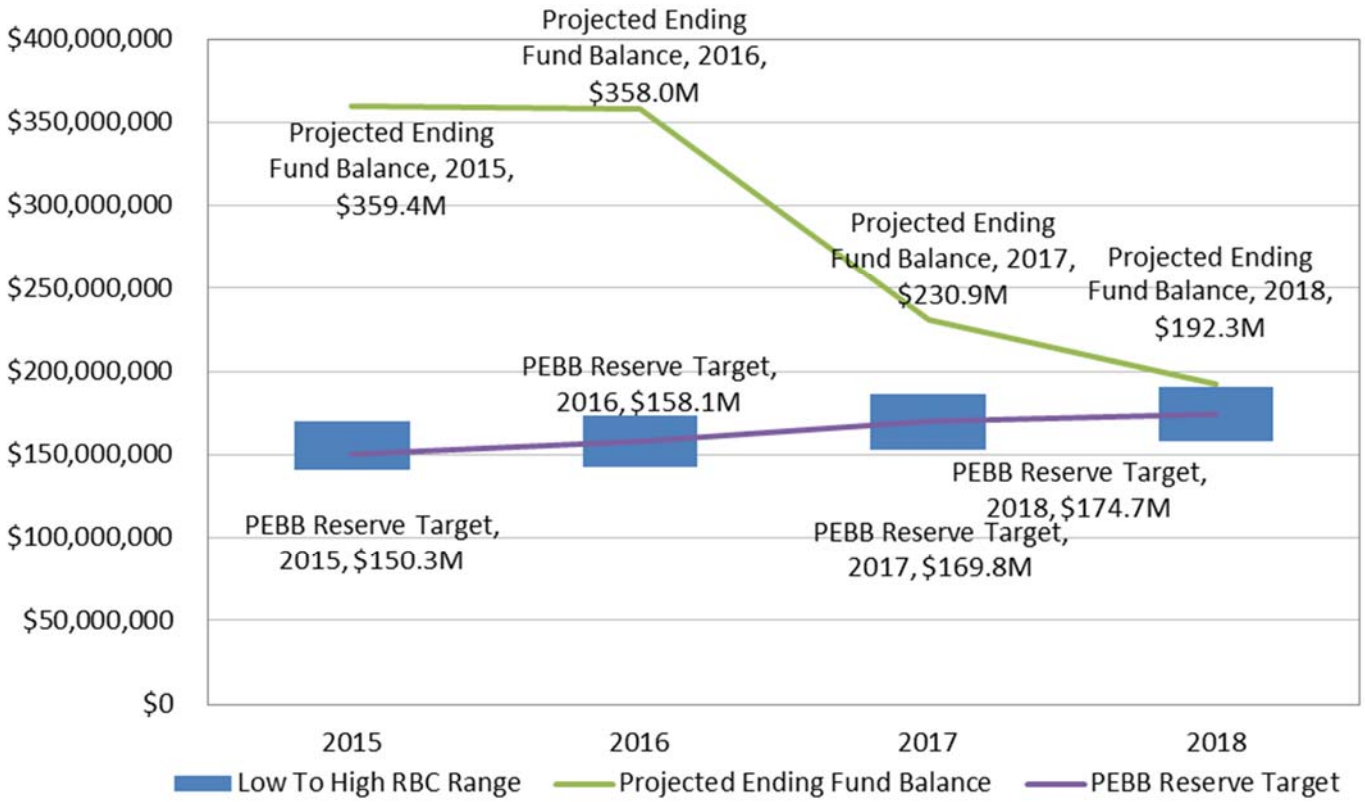
2015 TO 2018 FUND BALANCE WITH MARCH 2016 DATA AND 3.4% EXPENDITURE GROWTH

- Costs for 2016 are set based on claims and enrollment through March 2016 with estimated $1.5M AllCare risk share payment per year
- Funding for 2017 is based on status quo with reduction for employee contribution tier change subsidy
- 2018 expenditures and funding increased by 3.4% from prior year
- Includes $120M payment for Senate Bill 501 in 2017 and $30M penalty to be paid in 2018
- Chart below shows projected ending fund balance and the recommended RBC range
- PEBB Reserve Target is middle of High and Low RBC



Takeaway

- If funding is increased at 3.4% annually for 2018 and expenses grow at 3.4% annually, the fund balance would decrease by $167M from 2015 to 2018
- 2018 ending fund balance exceeds target by $17.6M, 10% above target

FUND BALANCE DETAIL– 3.4% EXPENDITURE GROWTH

- PEBB projected cost PEPM increases are
  - 3.9% for 2016, 5.8% for 2017, 3.4% for 2018
- Funding increase for 2018 are 3.4% per year from 2017 needed funding after contribution subsidy
  - 2016 is a 2.8% increase; 2017 is projected to be a 5.0% increase
- Includes SB 501 payments and projected switching to lower contribution plans

	1/1/2015 - 12/31/2015	1/1/2016 - 12/31/2016	1/1/2017 - 12/31/2017	1/1/2018 - 12/31/2018
PEBB Projected Costs*	$796,200,000	$832,200,000	$880,200,000	$910,100,000
PEBB Projected Costs* (PEPM)	$1,285.60	$1,335.86	$1,412.91	$1,460.91
Surcharges Payments from Employees	$4,400,000	$4,500,000	$4,500,000	$4,500,000
HEM Refunds	($13,900,000)	($13,000,000)	($13,000,000)	($13,000,000)
Net PEBB Costs	$805,700,000	$840,700,000	$888,700,000	$918,600,000
Net PEBB Costs (PEPM)	$1,300.94	$1,349.51	$1,426.56	$1,474.55
Funding	$811,400,000	$839,300,000	$881,600,000	$910,000,000
Funding (PEPM) (2017 Actual, 2018 - 2019 = 3.4% Increase)	$1,310.11	$1,347.31	$1,415.17	$1,460.67
Funding as % of Net PEBB Costs	101%	100%	99%	99%
Proj Surplus/(Deficit) for PY**	$5,700,000	($1,400,000)	($7,100,000)	($8,600,000)
Beginning Risk Stabilization Fund	$353,700,000	$359,400,000	$358,000,000	$230,900,000
SB 501 Transfer ($120M + estimated $30M Penalty)			($120,000,000)	($30,000,000)
Ending PY Risk Stabilization Fund	$359,400,000	$358,000,000	$230,900,000	$192,300,000
PEBB Reserve Target	$150,250,000	$158,050,000	$169,800,000	$174,700,000
Difference between Ending Balance and Target	$209,150,000	$199,950,000	$61,100,000	$17,600,000
% Difference	139%	127%	36%	10%

* Using December 2015 enrollment of 51,610, March 2016 enrollment of 51,914 and March 2016 claims experience; Medical/RX, Vision, Basic Life. Dental uses February 2016 claims experience

** Surplus/(Deficit) = Agency Payments + Surcharges - PEBB Projected Costs

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2015 TO 2019 FUND BALANCE TAKEAWAYS

- Changes from November 2015
  - 2016 projected PEBB funding increased by $7M
    - Switching into lower contribution plans was smaller than projected
  - 2016 projected costs are almost unchanged
    - Enrollment increased by 6 and costs per employee per month decreased by $1
    - Better experience in self-insured plans
    - Estimated deficit decreased by $8.6M
  - Estimated 2017 deficit decreased by $35M
    - Assumes PEBB funding will be at renewal premium levels and not capped at 3.4%
  - Using projected trends for expenditures results in projected deficits for 2016 through 2018 and a shortfall relative to reserve targets by 12/31/18
  - SB 501 requires a transfer of $120M on May 1, 2017 from PEBB to the State General Fund
    - Expected Federal penalty of $10M to $30M for redirecting federal funds to be paid 12 to 18 months following
- Reasons for uncertainty
  - Medical trend higher than 3.4%
  - Biennial budget limitation
  - PEBB funding by agencies

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RISK BASED CAPITAL METHOD REVIEW – 2016 AND 2017
MARCH 2016 – MERCER PROJECTED COSTS

- Based on claims and enrollment from March 2016
- Low, mid-point of low/middle, middle and high for each year

Recommended Rate Stabilization Reserve Range								
	1/1/2016 - 12/31/2016				1/1/2017 - 12/31/2017			
	Low	Mid-Point Low/Middle	Middle	High	Low	Mid-Point Low/Middle	Middle	High
Stabilization Fund for Self-Insured Plans								
Statewide Plan	$85,000,000	$89,250,000	$93,500,000	$102,000,000	$91,000,000	$95,750,000	$100,500,000	$110,000,000
% of RBC	250%	263%	275%	300%	250%	263%	275%	300%
Providence	$50,000,000	$52,500,000	$55,000,000	$60,000,000	$54,000,000	$56,750,000	$59,500,000	$65,000,000
% of RBC	250%	263%	275%	300%	250%	263%	275%	300%
Trillium								
% of RBC								
DDOR	$6,500,000	$7,375,000	$8,250,000	$10,000,000	$7,000,000	$7,750,000	$8,500,000	$10,000,000
% of RBC	200%	225%	250%	300%	200%	225%	250%	300%
VSP	$1,100,000	$1,200,000	$1,300,000	$1,500,000	$1,100,000	$1,200,000	$1,300,000	$1,500,000
% of RBC	150%	163%	175%	200%	150%	163%	175%	200%
Total	$142,600,000	$150,325,000	$158,050,000	$173,500,000	$153,100,000	$161,450,000	$169,800,000	$186,500,000

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RISK BASED CAPITAL METHOD REVIEW – 2018 AND 2019 MARCH 2016 – MERCER PROJECTED COSTS

- Based on claims and enrollment from March 2016
- Low, mid-point of low/middle, middle and high for each year

Recommended Rate Stabilization Reserve Range								
	1/1/2018 - 12/31/2018				1/1/2019 - 12/31/2019			
	Low	Mid-Point Low/Middle	Middle	High	Low	Mid-Point Low/Middle	Middle	High
Stabilization Fund for Self-Insured Plans								
Statewide Plan	$98,000,000	$102,750,000	$107,500,000	$117,000,000	$105,000,000	$110,250,000	$115,500,000	$126,000,000
% of RBC	250%	263%	275%	300%	250%	263%	275%	300%
Providence	$58,000,000	$60,750,000	$63,500,000	$69,000,000	$62,000,000	$65,000,000	$68,000,000	$74,000,000
% of RBC	250%	263%	275%	300%	250%	263%	275%	300%
Trillium								
% of RBC								
DDOR	$7,000,000	$7,875,000	$8,750,000	$10,500,000	$7,500,000	$8,375,000	$9,250,000	$11,000,000
% of RBC	200%	225%	250%	300%	200%	225%	250%	300%
VSP	$1,200,000	$1,275,000	$1,350,000	$1,500,000	$1,200,000	$1,300,000	$1,400,000	$1,600,000
% of RBC	150%	163%	175%	200%	150%	163%	175%	200%
Total	$164,200,000	$172,650,000	$181,100,000	$198,000,000	$175,700,000	$184,925,000	$194,150,000	$212,600,000

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