

HEALTH WEALTH CAREER

OREGON PUBLIC EMPLOYEES' BENEFITS BOARD

RISK BASED CAPITAL

APRIL 16, 2019

Emery Chen, ASA MAAA

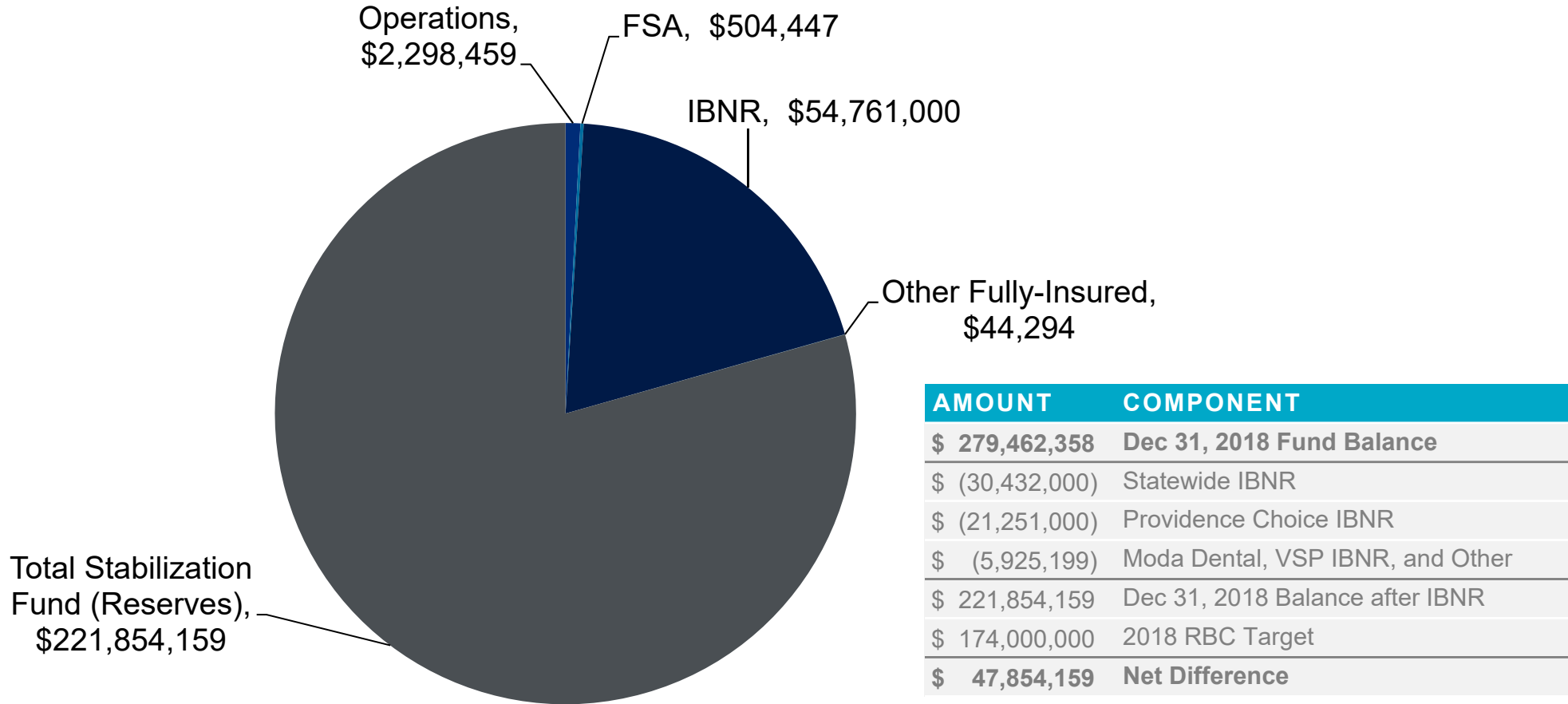
Attachment 2



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

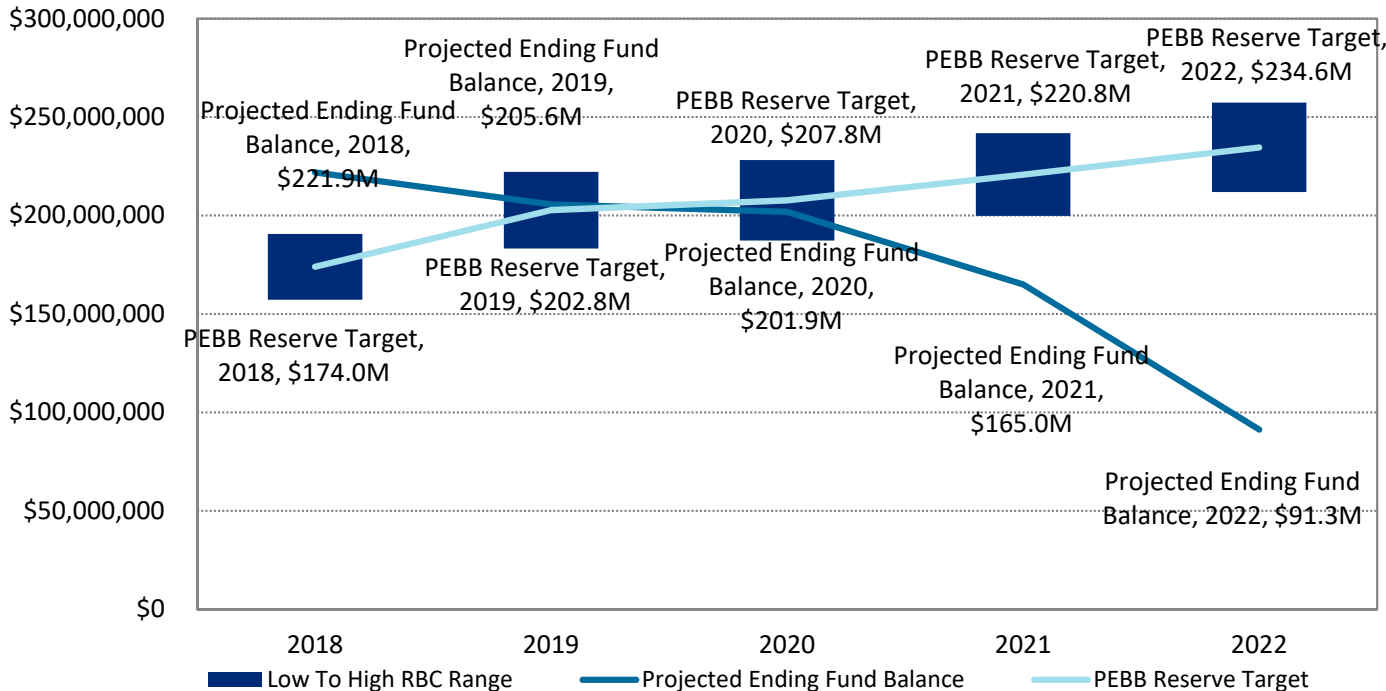
PEBB GENERAL LEDGER ACCOUNT FUND BALANCES AS OF DECEMBER 31, 2018



Plan fund balances (e.g. Statewide) include required funding to pay for claims
Total fund balance is \$279,462,358

2018 TO 2022 FUND BALANCE MERCER TREND RATES

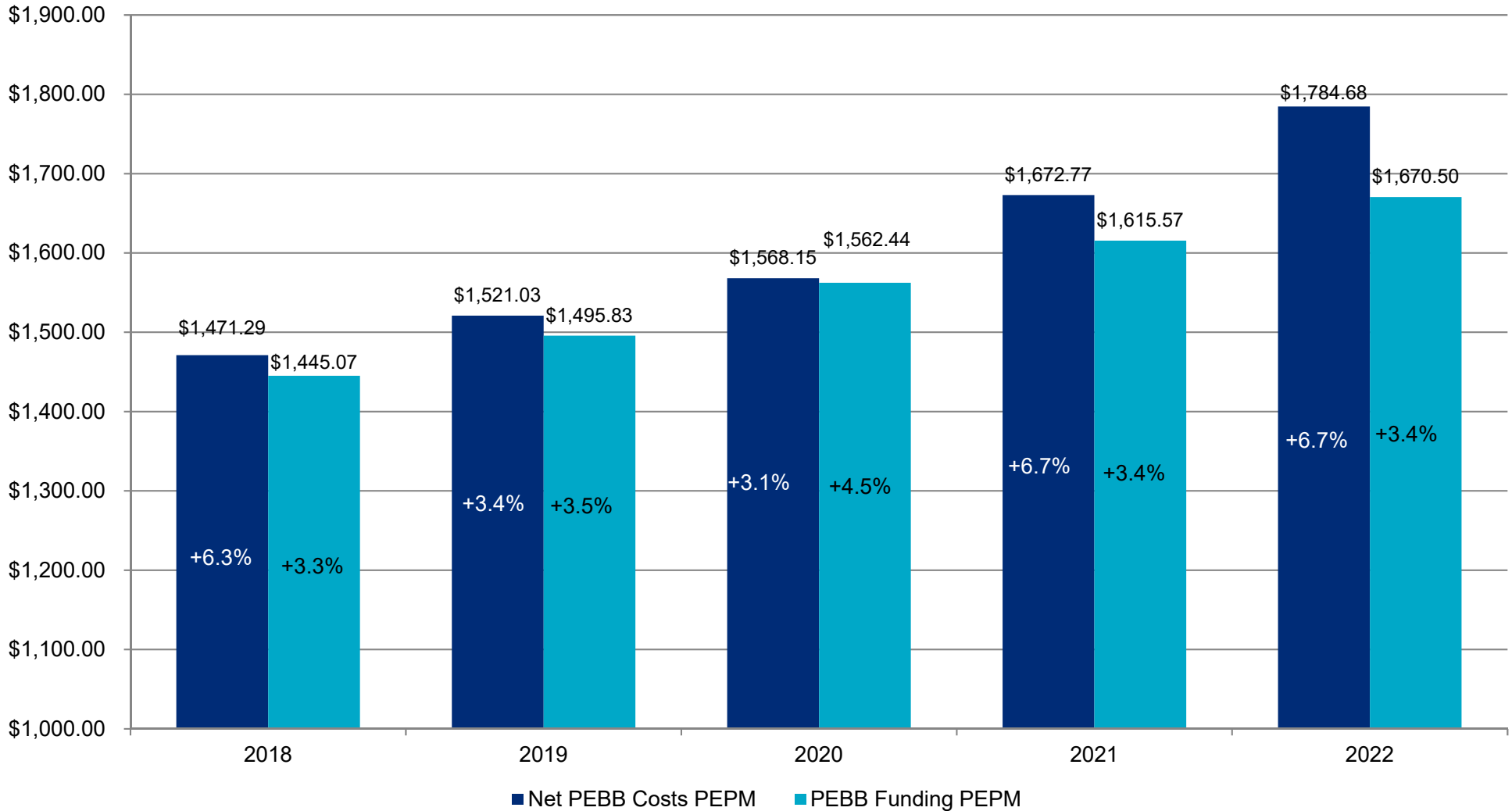
- Costs are set based on claims through February 2019
 - Mercer projected trend rates for plans with 2% provider tax in 2020 and beyond and \$35M in savings from SB 1067
 - Includes impact of eliminating double coverage and opt out provisions
 - Double covered members currently in the plan move to primary; employees currently opting out of coverage remain opted out
- Funding for 2020 is based on preliminary renewal results
 - Includes reduction for family tier contribution subsidy
- 2021 and 2022 funding increased by 3.4% from 2020 preliminary funding rate
- Chart below shows projected ending fund balance and the recommended RBC range
- PEBB Reserve Target is middle of High and Low RBC



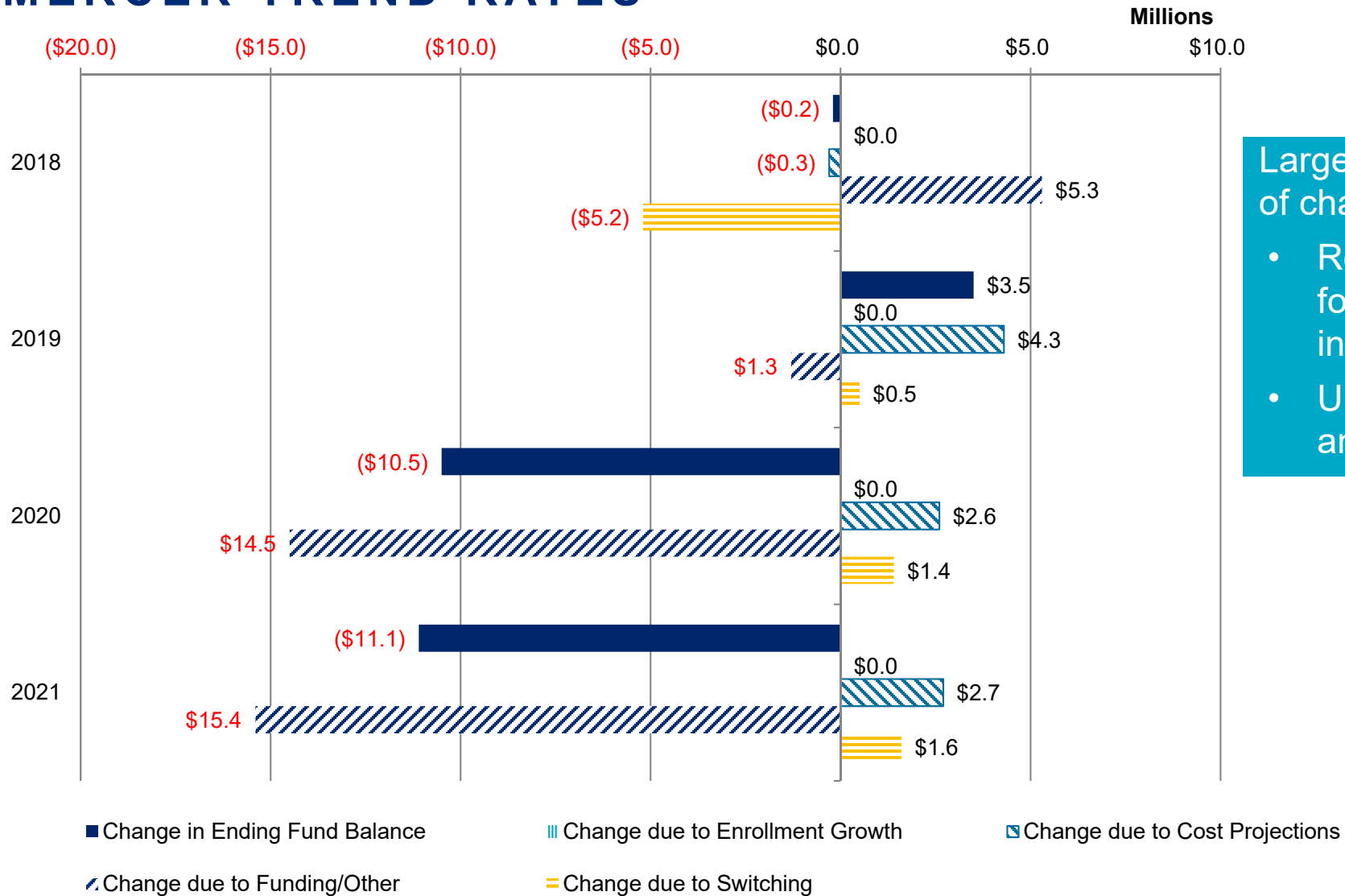
Key Takeaways

- 2019 and 2020 ending fund balances are projected to near PEBB reserve target
- 2021 and 2022 ending fund balance is projected to be below reserve target
- 2022 projected ending fund balance is \$143 million below reserve target
- Current funding increase for 2020 is 1.3%; 2% funding assessment would meet 3.4% target (\$21 million per year)
- Midpoint of Middle and Low would decrease targeted RBC by about \$10 million per year

2018 TO 2022 FUND BALANCE COSTS VERSUS FUNDING — MERCER TREND RATES



COMPONENTS OF CHANGE FROM DECEMBER MERCER TREND RATES



Largest components of change include:

- Required funding for 2020 coming in below 3.4%
- Updated claims and enrollment

FUND BALANCE DETAIL

MERCER TREND

- PEBB projected cost PEPM increases based on Mercer trend rates are
 - 3.4% for 2019, 3.1% for 2020, and 6.7% for 2021 and 2022
 - Self-insured trend rates are 6.5% for medical, 10% for Rx, 3% for dental, 2% for vision
- Funding increase for 2020 is 4.5% from 2019 funding (3.2% from 2019 composite) after contribution subsidy and premium tax
 - Increase for 2021 and 2022 is 3.4% from 2020

	1/1/2018 - 12/31/2018	1/1/2019 - 12/31/2019	1/1/2020 - 12/31/2020	1/1/2021 - 12/31/2021	1/1/2022 - 12/31/2022
PEBB Projected Costs*	\$944,400,000	\$976,700,000	\$1,007,100,000	\$1,074,600,000	\$1,146,800,000
PEBB Projected Costs* (PEPM)	\$1,464.62	\$1,513.90	\$1,561.02	\$1,665.64	\$1,777.55
Surcharges Payments from Employees	\$4,500,000	\$4,500,000	\$4,500,000	\$4,500,000	\$4,500,000
HEM Refunds	(\$8,800,000)	(\$9,100,000)	(\$9,100,000)	(\$9,100,000)	(\$9,100,000)
Net PEBB Costs	\$948,700,000	\$981,300,000	\$1,011,700,000	\$1,079,200,000	\$1,151,400,000
Net PEBB Costs (PEPM)	\$1,471.29	\$1,521.03	\$1,568.15	\$1,672.77	\$1,784.68
Funding	\$932,300,000	\$965,000,000	\$1,008,000,000	\$1,042,300,000	\$1,077,700,000
Funding (PEPM) (2018-19 Actual, 2020-21 based on 3.4% increases from 2019 Renewal)	\$1,445.07	\$1,495.83	\$1,562.44	\$1,615.57	\$1,670.50
Funding as % of Net PEBB Costs	98%	98%	100%	97%	94%
Proj Surplus/(Deficit) for PY**	(\$16,400,000)	(\$16,300,000)	(\$3,700,000)	(\$36,900,000)	(\$73,700,000)
Beginning Risk Stabilization Fund	\$250,600,000	\$221,900,000	\$205,600,000	\$201,900,000	\$165,000,000
SB 501 Transfer (Estimated \$12.3M Penalty)	(\$12,300,000)				
Ending PY Risk Stabilization Fund	\$221,900,000	\$205,600,000	\$201,900,000	\$165,000,000	\$91,300,000
PEBB Reserve Target	\$174,000,000	\$202,750,000	\$207,750,000	\$220,800,000	\$234,600,000
Difference between Ending Balance and Target	\$47,900,000	\$2,850,000	(\$5,850,000)	(\$55,800,000)	(\$143,300,000)
% Difference	28%	1%	-3%	-25%	-61%

* Using Dec 2018 enrollment of 53,686, March 2019 enrollment of 53,763, and February 2019 claims experience

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

FUND BALANCE DETAIL

MERCER TREND WITH 2.1% FUNDING ASSESSMENT

- Funding increase for 2020 is 6.7% from 2019 funding (net 3.4% from 2019 composite excluding the impact of premium tax)
 - Includes family contribution subsidy
 - Increase for 2021 and 2022 is 3.4% from 2020
 - Reduces 2022 difference to RBC Target by \$63.7 million

	1/1/2018 - 12/31/2018	1/1/2019 - 12/31/2019	1/1/2020 - 12/31/2020	1/1/2021 - 12/31/2021	1/1/2022 - 12/31/2022
PEBB Projected Costs*	\$944,400,000	\$976,700,000	\$1,007,100,000	\$1,074,600,000	\$1,146,800,000
PEBB Projected Costs* (PEPM)	\$1,464.62	\$1,513.90	\$1,561.02	\$1,665.64	\$1,777.55
Surcharges Payments from Employees	\$4,500,000	\$4,500,000	\$4,500,000	\$4,500,000	\$4,500,000
HEM Refunds	(\$8,800,000)	(\$9,100,000)	(\$9,100,000)	(\$9,100,000)	(\$9,100,000)
Net PEBB Costs	\$948,700,000	\$981,300,000	\$1,011,700,000	\$1,079,200,000	\$1,151,400,000
Net PEBB Costs (PEPM)	\$1,471.29	\$1,521.03	\$1,568.15	\$1,672.77	\$1,784.68
Funding	\$931,800,000	\$965,000,000	\$1,028,500,000	\$1,063,500,000	\$1,099,700,000
Funding (PEPM) (2018-19 Actual, 2020-21 based on 3.4% increases from 2019 Renewal)	\$1,445.07	\$1,495.83	\$1,594.25	\$1,648.45	\$1,704.50
Funding as % of Net PEBB Costs	98%	98%	102%	99%	96%
Proj Surplus/(Deficit) for PY**	(\$16,900,000)	(\$16,300,000)	\$16,800,000	(\$15,700,000)	(\$51,700,000)
Beginning Risk Stabilization Fund	\$251,100,000	\$221,900,000	\$205,600,000	\$222,400,000	\$206,700,000
SB 501 Transfer (Estimated \$12.3M Penalty)	(\$12,300,000)				
Ending PY Risk Stabilization Fund	\$221,900,000	\$205,600,000	\$222,400,000	\$206,700,000	\$155,000,000
PEBB Reserve Target	\$174,000,000	\$202,750,000	\$207,800,000	\$220,800,000	\$234,600,000
Difference between Ending Balance and Target	\$47,900,000	\$2,850,000	\$14,600,000	(\$14,100,000)	(\$79,600,000)
% Difference	28%	1%	7%	-6%	-34%

* Using Dec 2018 enrollment of 53,686, March 2019 enrollment of 53,763, and February 2019 claims experience

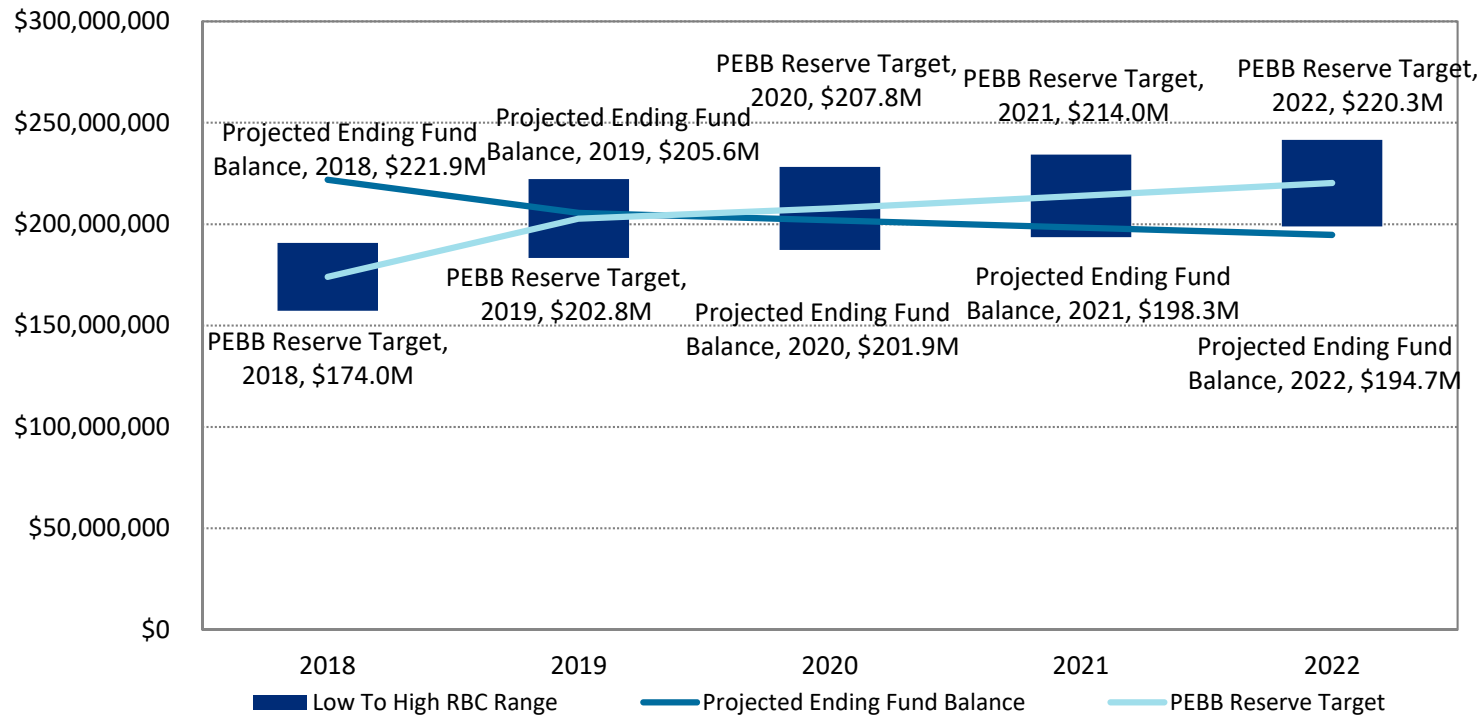
** Surplus/(Deficit) = Agency Payments + Surcharges - PEBB Projected Costs

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2018 TO 2022 FUND BALANCE

3.4% EXPENDITURE GROWTH

- Costs are set based on claims through February 2019
 - 2019 and 2020 based on projected (2020 increase below 3.4% mandate)
 - 2021 and 2022 based on 3.4% from 2020
- Funding for 2020 is based on required funding (no funding assessment to reach 3.4% increase over 2019 composite)
- PEBB Reserve Target is middle of High and Low RBC



Key Takeaways

- 2020 projected PEBB costs are below the 3.4% mandate
- Claims savings required in 2021 to achieve 3.4% increase from 2020 is \$33 million
- 2020 to 2022 ending fund balance is below target RBC and drops below fund range in 2022

FUND BALANCE DETAIL

3.4% EXPENDITURE GROWTH

- PEBB projected cost PEPM increases are
 - 3.3% for 2019, 3.1% for 2020, 3.4% for 2021 and 2022
- Funding increase for 2020 is needed funding and 2021 and 2022 is 3.4% per year from 2020

	1/1/2018 - 12/31/2018	1/1/2019 - 12/31/2019	1/1/2020 - 12/31/2020	1/1/2021 - 12/31/2021	1/1/2022 - 12/31/2022
PEBB Projected Costs*	\$944,400,000	\$976,700,000	\$1,007,100,000	\$1,041,300,000	\$1,076,700,000
PEBB Projected Costs* (PEPM)	\$1,464.62	\$1,513.90	\$1,561.02	\$1,614.03	\$1,668.90
Surcharges Payments from Employees	\$4,500,000	\$4,500,000	\$4,500,000	\$4,500,000	\$4,500,000
HEM Refunds	(\$8,800,000)	(\$9,100,000)	(\$9,100,000)	(\$9,100,000)	(\$9,100,000)
Net PEBB Costs	\$948,700,000	\$981,300,000	\$1,011,700,000	\$1,045,900,000	\$1,081,300,000
Net PEBB Costs (PEPM)	\$1,471.29	\$1,521.03	\$1,568.15	\$1,621.16	\$1,676.03
Funding	\$931,800,000	\$965,000,000	\$1,008,000,000	\$1,042,300,000	\$1,077,700,000
Funding (PEPM) (2018-19 Actual, 2020-21 based on 3.4% increases from 2019 Renewal)	\$1,445.07	\$1,495.83	\$1,562.44	\$1,615.57	\$1,670.50
Funding as % of Net PEBB Costs	98%	98%	100%	100%	100%
Proj Surplus/(Deficit) for PY**	(\$16,900,000)	(\$16,300,000)	(\$3,700,000)	(\$3,600,000)	(\$3,600,000)
Beginning Risk Stabilization Fund	\$251,100,000	\$221,900,000	\$205,600,000	\$201,900,000	\$198,300,000
SB 501 Transfer (Estimated \$12.3M Penalty)	(\$12,300,000)				
Ending PY Risk Stabilization Fund	\$221,900,000	\$205,600,000	\$201,900,000	\$198,300,000	\$194,700,000
PEBB Reserve Target	\$174,000,000	\$202,750,000	\$207,800,000	\$214,000,000	\$220,300,000
Difference between Ending Balance and Target	\$47,900,000	\$2,850,000	(\$5,900,000)	(\$15,700,000)	(\$25,600,000)
% Difference	28%	1%	-3%	-7%	-12%

* Using Dec 2018 enrollment of 53,686, March 2019 enrollment of 53,763, and February 2019 claims experience

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

KEY TAKEAWAYS

- 1 2020 projected ending fund balance just slightly below PEBB Reserve Target
- 2 2020 PEBB funding based on preliminary renewal results is below 3.4% increase from 2019 composite rate
- 3 Increasing funding to 3.4% threshold would add \$20.5 million to fund balance for 2020, with increased funding compounding in future years
- 4 Keeping costs growth to 3.4% or lower results in a Stabilization Fund Balance that slowly decreases; the increase in the PEBB Reserve Target due to trend growth increases the difference between ending balance and target to \$25.6 million by 2022

APPENDIX



RISK BASED CAPITAL — 2018 TO 2020

APRIL 2019 — MERCER PROJECTED COSTS

- Based on claims from February 2019 and March 2019 enrollment

Recommended Rate Stabilization Reserve Range												
	1/1/2018 - 12/31/2018				1/1/2019 - 12/31/2019				1/1/2020 - 12/31/2020			
	Low	Mid-Point Low/Middle	Middle	High	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	\$85,000,000	\$89,250,000	\$93,500,000	\$102,000,000	\$87,000,000	\$91,500,000	\$96,000,000	\$105,000,000
% of RBC	250%	263%	275%	300%	250%	263%	275%	300%	250%	263%	275%	300%
Providence	\$64,000,000	\$67,250,000	\$70,500,000	\$77,000,000	\$69,000,000	\$72,500,000	\$76,000,000	\$83,000,000	\$71,000,000	\$74,500,000	\$78,000,000	\$85,000,000
% of RBC	250%	263%	275%	300%	250%	263%	275%	300%	250%	263%	275%	300%
Moda					\$21,000,000	\$22,000,000	\$23,000,000	\$25,000,000	\$21,000,000	\$22,250,000	\$23,500,000	\$26,000,000
% of RBC					250%	263%	275%	300%	250%	263%	275%	300%
DDOR	\$7,000,000	\$7,750,000	\$8,500,000	\$10,000,000	\$7,000,000	\$7,875,000	\$8,750,000	\$10,500,000	\$7,000,000	\$7,875,000	\$8,750,000	\$10,500,000
% of RBC	200%	225%	250%	300%	200%	225%	250%	300%	200%	225%	250%	300%
VSP	\$1,300,000	\$1,400,000	\$1,500,000	\$1,700,000	\$1,300,000	\$1,400,000	\$1,500,000	\$1,700,000	\$1,300,000	\$1,400,000	\$1,500,000	\$1,700,000
% of RBC	150%	163%	175%	200%	150%	163%	175%	200%	150%	163%	175%	200%
Total	\$157,300,000	\$165,650,000	\$174,000,000	\$190,700,000	\$183,300,000	\$193,025,000	\$202,750,000	\$222,200,000	\$187,300,000	\$197,525,000	\$207,750,000	\$228,200,000

RISK BASED CAPITAL — 2021 AND 2022

APRIL 2019 — MERCER PROJECTED COSTS

- Based on claims from February 2019 and March 2019 enrollment

Recommended Rate Stabilization Reserve Range								
	1/1/2021 - 12/31/2021				1/1/2022 - 12/31/2022			
	Low	Mid-Point Low/Middle	Middle	High	Low	Mid-Point Low/Middle	Middle	High
Stabilization Fund for Self-Insured Plans								
Statewide Plan	\$93,000,000	\$97,750,000	\$102,500,000	\$112,000,000	\$99,000,000	\$104,000,000	\$109,000,000	\$119,000,000
% of RBC	250%	263%	275%	300%	250%	263%	275%	300%
Providence	\$75,000,000	\$78,750,000	\$82,500,000	\$90,000,000	\$80,000,000	\$84,000,000	\$88,000,000	\$96,000,000
% of RBC	250%	263%	275%	300%	250%	263%	275%	300%
Moda	\$23,000,000	\$24,000,000	\$25,000,000	\$27,000,000	\$24,000,000	\$25,250,000	\$26,500,000	\$29,000,000
% of RBC	250%	263%	275%	300%	250%	263%	275%	300%
DDOR	\$7,500,000	\$8,375,000	\$9,250,000	\$11,000,000	\$7,500,000	\$8,500,000	\$9,500,000	\$11,500,000
% of RBC	200%	225%	250%	300%	200%	225%	250%	300%
VSP	\$1,300,000	\$1,425,000	\$1,550,000	\$1,800,000	\$1,400,000	\$1,500,000	\$1,600,000	\$1,800,000
% of RBC	150%	163%	175%	200%	150%	163%	175%	200%
Total	\$199,800,000	\$210,300,000	\$220,800,000	\$241,800,000	\$211,900,000	\$223,250,000	\$234,600,000	\$257,300,000



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