Joint Legislative Audit and Review Commission

2021 Actuarial Review of the Virginia State Employee Health Insurance Program

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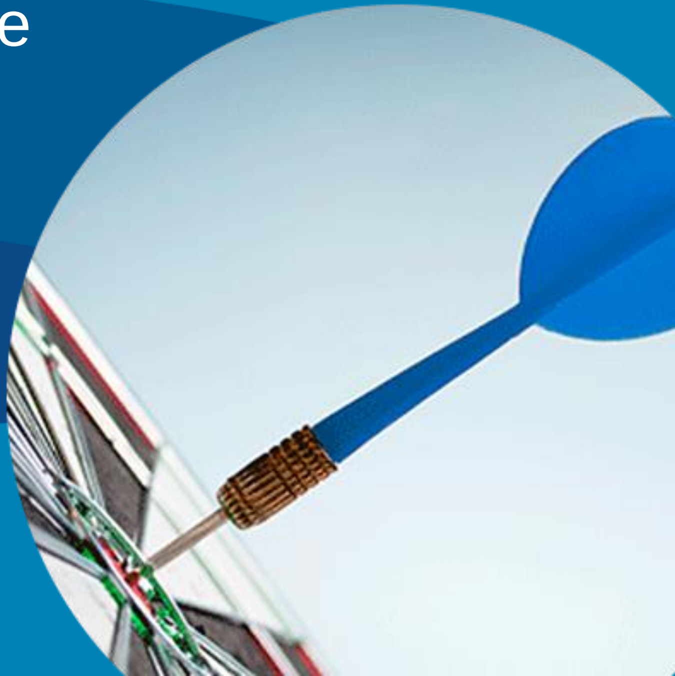

Executive Summary

- The focus of this review was the Active & Pre-65 retiree segment of the State Employee Health Insurance Program
- The actuarial assumptions and methods used to set premium rates and contingency reserves are reasonable and follow generally accepted principles and practices and applicable standards
- The State Employee Health Insurance Program is actuarially sound.
  - The methodology used and the premium rates set for FY 2020, 2021 and 2022 are reasonable
  - The Health Insurance Fund (HIF) has more than sufficient assets to cover the ongoing cash flow requirements and the value of current and future health care claim obligations
    - There is room to reduce the level of the HIF

Agenda

- Purpose of the Review and General Approach
- GRS Review
  - Underlying Actuarial Principles
  - Results and Observations
- Considerations and Recommendations
- Comments and Questions

Purpose of the Review and General Approach

- To provide the General Assembly a comprehensive overview of the actuarial calculations, methodology and assumptions used in the setting of premium rates for the State Employee Health Insurance Program
- Review consisted of non-replication review of the actuarial calculations. This audit was completed with the full and willing cooperation of the staffs of the Joint Legislative Audit and Review Commission (JLARC), the Department of Human Resources Management and their retained actuary, Aon
- Excluded from the review were the Medicare segment and the fully insured HMO benefits

Purpose of the Review and General Approach

- The review addressed the following areas:
  - Assumptions, methods and underlying data used to produce premium rates, actuarial liabilities and contingency reserves
  - Reasonableness and accuracy of the rate development process for the three fiscal years 2020 through 2022
  - Determination that the calculations and processes are in conformity with:
    - Generally accepted actuarial principles and practices
    - Actuarial Standards of Practice issued by the Actuarial Standards Board
  - The reasonableness of all program revenues and expenses for the Health Insurance Fund, and recommendations concerning the target levels of cash balances

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GRS Review – Underlying Actuarial Principles

- Actuarial calculations are based on assumptions regarding future events
- The rate setting process is a statistical projection of the amount and timing of future expense payments
- The set of actuarial assumptions is the foundation of the rate setting process
- Future actuarial measurements may differ significantly from the current measurements due to unanticipated changes in the health care environment, changes in applicable laws and regulations and exposure
- When actual claims experience deviates from the projected claims, procedures and processes to adjust the levels of the Health Insurance Fund should be utilized

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GRS Review – Results and Observations

- Based on the results of GRS' review, we believe:
  - Methodology and rate increases proposed by Aon are reasonable and appropriate
  - The primary actuarial assumptions including medical & pharmacy trends and experiences periods used are reasonable
  - The actuarial development process conforms to generally accepted actuarial practices and to the Actuarial Standards of Practice
  - Revenue and expenses flowing through the Health Insurance Fund are reasonable and appropriate

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GRS Review – Results and Observations

- Based on the results of GRS' review, we believe:
  - Aon used reasonable and appropriate methods and data to recommend the FY end actuarial liabilities and contingency reserves.
    - The vast majority of Actuarial Liabilities are the claims that were incurred during the fiscal year but remained unpaid at the end of the fiscal year. At FY end 2020 this liability was estimated to be $124 million.
    - The Contingency Reserve is established for unforeseen circumstances that may increase future claim costs. At FY end 2020 this reserve was estimated to be $102 million.
    - In total of the two items above is $226 million and the balance of the HIF at FY end 2021 was $420. Clearly there is room to reduce the level of the HIF.

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Considerations and Recommendations

- We recommend that the program:
  - Actively manage the HIF to reserve values provided in the actuary's annual FY end report titled "Actuarial Liabilities and Reserves" (or to 110 to 125% of the recommended level)
  - Continue to monitor the HIF and manage the HIF level using Premium Holidays as needed
  - Evaluate using a smoothing process to compare actual claims to projected claims in setting rates for the next fiscal year.

Comments and Questions

Disclosures

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- This presentation shall not be construed to provide tax advice, legal advice or investment advice.
- Jim Pranschke, the actuary submitting this presentation, is a Member of the American Academy of Actuaries and meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.
- This is one of multiple documents comprising the actuarial review of the actuarial calculations pertaining to the State Employee Health Insurance Program. Additional documentation regarding actuarial assumptions, and methods, and important additional disclosures are provided in the full 2021 Review of the Actuarial Calculations used for the Virginia State Employee Health Insurance Program prepared by GRS.

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Disclosures

- This study was performed at the request of the Commonwealth of Virginia Joint Legislative Audit and Review Commission ("JLARC"). It may be shared with other interested parties only with the permission of JLARC. If shared with other parties, it should be shared in its entirety.
- This report should not be relied upon for any other purpose or by any other party.
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- If you need additional information to make an informed decision about the contents of this presentation, or if anything appears to be missing or incomplete, please contact us before relying on this presentation.