



# **Actuarial Review –**

## **Local Governments and School Divisions in State Employee Health Benefits Plan**

**Department of Human Resource Management**

Senate Finance Committee

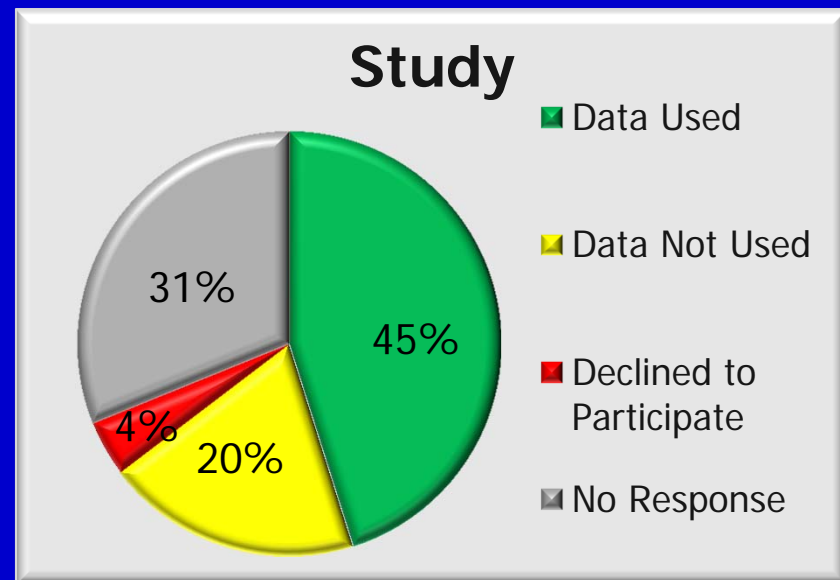
General Government/Technology Subcommittee General  
Assembly Building, Richmond, Virginia

October 17, 2013



# Population Sampling

- Used data from 45% of school and local government entities
  - 49,200 average enrolled employees
  - 86,800 average enrolled members





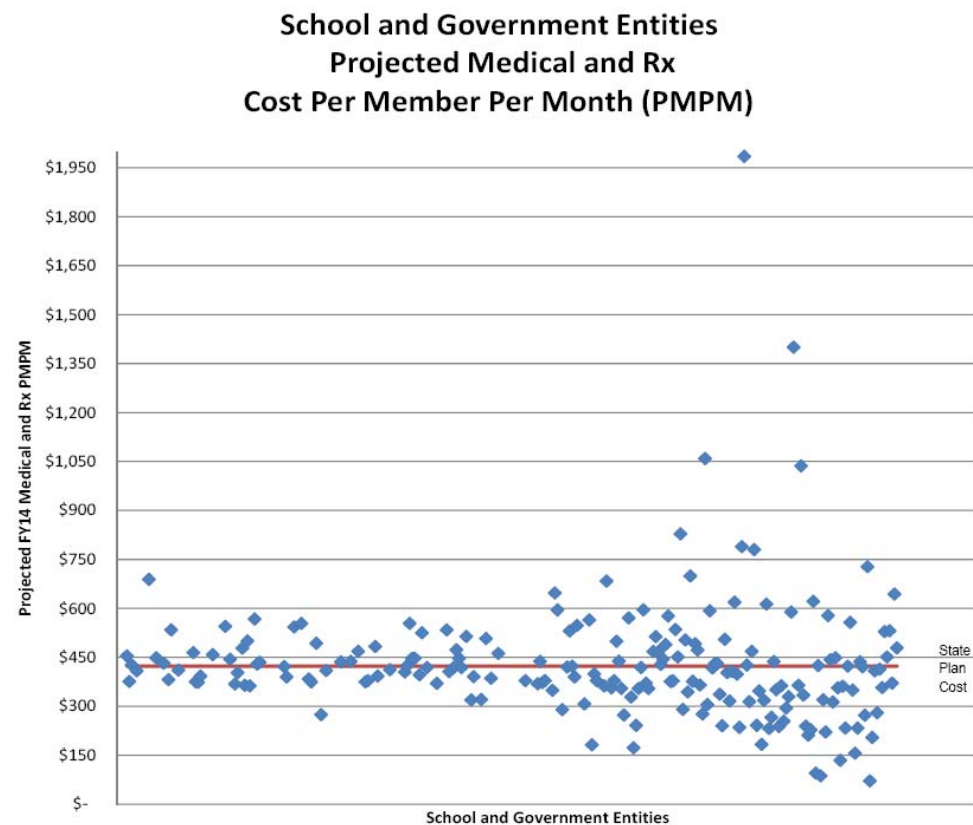
# Demographics

- State employees are older
- Locals have more females
- Aon Hewitt estimates
  - Cost neutral for differences due to age/gender
  - Geographic cost differences not material

Demographic Comparison – Enrolled Employees				
	School	Local Gov't	Total Local	State
Average Age	48.2	46.9	47.8	48.9
Females % of Total	76.3%	40.7%	66.8%	53.4%
Age/Gender Variance	1.025	0.932	1.000	1.000
Geographic Variance	1.008	0.998	1.006	1.000

# FY 2014 Projected Costs PMPM

- Some local costs are higher than state plan
- Some local costs are lower than state plan
- 5 small group outliers have high costs



*Note: One Entity with a projected Medical and Rx PMPM of \$ 4,278 is not included in the graph above due to scale.*



## FY 2014 Cost Comparison **Local vs. State**

- Estimated cost for local plans is similar to state plan costs, within a 2% margin of error

Estimated FY 2014 Cost PMPM			
	Local	State	Difference
Low Trend	\$415	\$423	-1.9%
Best Estimate Trend	\$423	\$423	0.0%
High Trend	\$431	\$423	1.9%
Average Enrolled Members	86,796	192,324	

- State cost based on medical and prescription drug costs for FY 2014 actuarial budget rate for COVA Care Basic
- Local cost based on information submitted and projected to FY 2014



## Implementation Considerations

# Selection Impact

- Selection impact is primary risk challenge
- Potential volatility
- If state plan optional, may create adverse selection
  - Disproportionate share of higher cost entities increases cost



## Implementation Considerations

# Selection Impact - Cost

- Plan costs increase 1.4% if only high cost entities join state plan
- Plan costs decrease 0.6% if only low cost entities join state plan

Estimated FY 2014 Cost PMPM				
	Local	State	Combined	Combined vs State
<b>Highest</b> Cost Quartile	\$547	\$423	\$429	1.4%
Average Enrolled Members	9,438	192,324	201,762	4.9%
Number of Local Entities	51			
<b>Lowest</b> Cost Quartile	\$311	\$423	\$420	-0.6%
Average Enrolled Members	4,432	192,324	196,756	2.3%
Number of Local Entities	50			



## Implementation Considerations

# Selection Impact - Size

- Smaller entities
  - 10% to 15% higher administrative costs
  - 4% higher estimated claims costs
- State Plan costs increase 0.4% if only entities with <250 employees joined the plan

Estimated FY 2014 Cost PMPM				
	Local	State	Combined	Combined vs State
Entities < 250 Employees	\$441	\$423	\$425	0.4%
Average Enrolled Members	19,488	192,324	211,812	10.1%
Number of Local Entities	153			





## Implementation Considerations

# Potential Protection Options

Single Risk Pool

**Option 1**  
**Mandatory**  
**State Plan**

**Option 2**  
**Optional**  
**State Plan**  
**With 3 Year**  
**Lock-in / Lock-out**

Multiple Risk Pools

**Option 3**  
**Mandatory or Optional**  
**State Plan**  
**with Adjusted Community**  
**Rating Basis**

**Option 4**  
**Optional**  
**State Plan**  
**with TLC-like Underwriting**  
**Control Structure**