

Actuarial Review –

Local Governments and School Divisions in State Employee Health Benefits Plan

Department of Human Resource Management

Senate Finance Committee

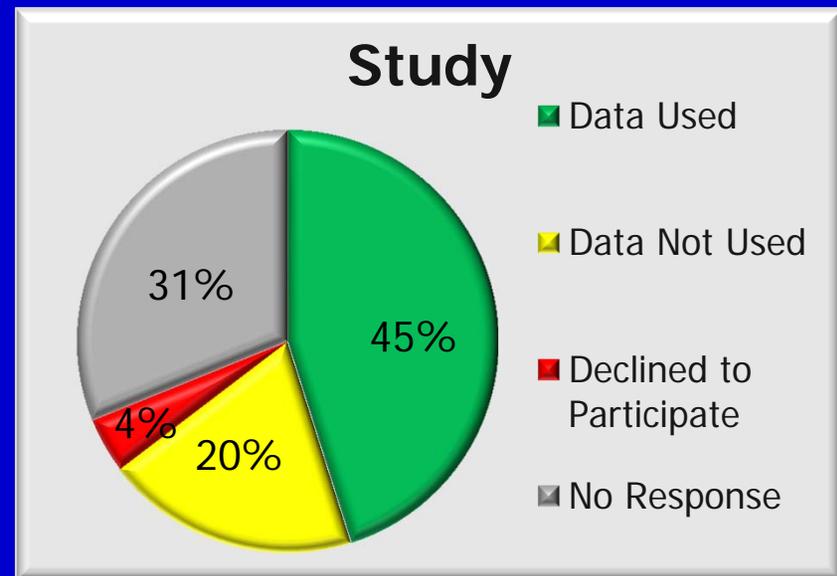
General Government/Technology Subcommittee General
Assembly Building, Richmond, Virginia

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 |

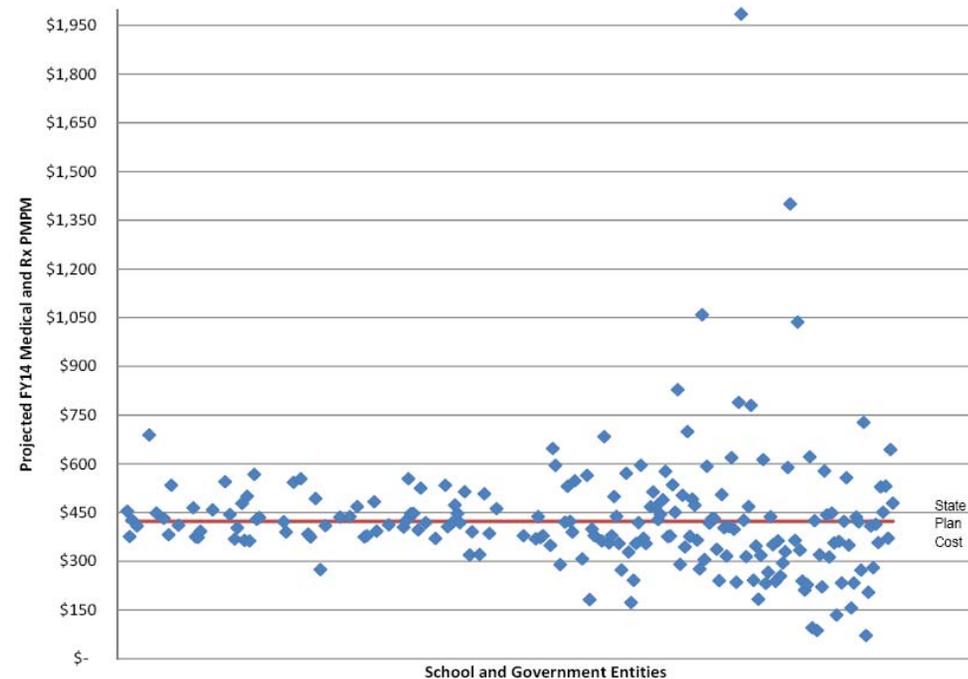


FY 2014

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

School and Government Entities
Projected Medical and Rx
Cost Per Member Per Month (PMPM)



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 |
| Highest Cost Quartile | \$547 | \$423 | \$429 | 1.4% |
| Average Enrolled Members | 9,438 | 192,324 | 201,762 | 4.9% |
| Number of Local Entities | 51 | | | |
| Lowest 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