Self-Funding Analysis

For Medical, Dental, and Vision Benefits

Fiscal Year 2018 through Fiscal Year 2020

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State of Idaho

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June 30, 2016

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SECTION 1: EXECUTIVE SUMMARY

Based on the following analysis, we recommend that the State consider changing the funding method of its medical, dental, and vision plans from fully-insured to self-funded. With the appropriate planning, this change could result in a savings, although numerous structural and governance changes would need to be considered.

From a purely financial perspective, if the State were to begin self-funding on July 1, 2017, it could save approximately $60.6 million between FY2018 and FY2020. The components of the estimated savings are shown in the table below, in millions. Note that consideration must be given to how the Department of Insurance (DOI) could replace the revenue resulting from the reduced state premium taxes shown in the table.

State Premium Tax Savings	$	(13.8)
Healthcare Reform Fee Savings		(38.1)
Stop Loss Fee Cost		1.2
Additional Administrative Costs		2.7
Claims Incurred to Paid Adjustment Savings*		(23.4)
Lost Revenue from Lower Employee Contributions		10.8
Total Estimated Cash Savings	$	(60.6)

*This represents cash savings, but not accrual accounting savings, since the State would have to hold an Incurred but not Reported (IBNR) reserve equal to the adjustment amount.

The estimated savings in the chart above increased by $13.5 million when compared with our June 5, 2014 study. This is described in more detail in Section 6.

An additional estimated $26.3 million would be required to increase reserve and surplus levels to the level required for self-funded plans by the DOI. Once reserve levels are met in FY2020 and beyond, the State could potentially see annual savings of approximately $15.8 million.

SECTION 2: ADVANTAGES AND DISADVANTAGES OF SELF-FUNDING

This section discusses advantages and disadvantages of self-funding for the State of Idaho.

Currently the State of Idaho health plan is a fully-insured plan with Blue Cross of Idaho (BCI). Under its Agreement with BCI, there is a mechanism for the calculation of a monthly surplus or deficit. Each month, any monthly surplus is refunded to the State, and any monthly deficit is returned to BCI. The State is also requred to hold a Contingency Reserve of 10% of projected annualized total medical and dental premiums for unexpected claims.

Upon termination of the current Plan, under the Agreement, claims incurred prior to the termination date and paid during the runout period (six months) will be subtracted from the reserve for incurred but unpaid claims and/or any applicable contingency reserve. At the end of that period, the State and BCI would negotiate a settlement for any additional liabilities not yet paid.

This arrangement operates in a similar fashion to a self-funded arrangement with aggregate stop-loss insurance, to the extent that the State benefits from favorable claims experience and is insured against unfavorable experience of 10% or more greater than expected, on an aggregate basis. However, because the health plan is a fully-insured contract, it is subject to taxes and fees that would not be applicable if the health plan was self-funded. While other, different costs would be applicable under a self-funded arrangement, overall the fees and taxes on the health plan would be lower.

All of the State’s current plans are currently grandfathered, and changing from fully-insured to self-funded would not, in and of itself, change that status.

ADVANTAGES

Reduced State Premium Taxes

Under a self-funded arrangement, the State would save an estimated $13.8 million in State of Idaho premium taxes from FY2018 through FY2020. This is because the premium tax that applies to self-funded plans is lower than the premium tax that applies to fully-insured plans.[1] Although this reduction in premium tax would be a savings to the State of Idaho health plan, it would result in less revenue for the DOI. Therefore, a change to self-funding may require thought about how the lost DOI revenue would be replaced.

Reduced Federal Health Insurer Fee

The Federal Health Insurer fee under the Affordable Care Act (ACA) does not apply to self-funded plans.[2] We project that the State would save an estimated $38.1 million in health insurer fees from FY2018 through FY2020.

[1] For the medical plan, the premium tax would decrease from 1.5% of premium to $0.04 per member per month. For the dental plan, the premium tax would no longer apply, as the premium tax on self-funded plans applies only once per participant, and all dental participants also have medical coverage.

[2] The BCI health insurer fee is projected to be $19.21 per active member per month and 36.80 per retiree member per month for medical in FY2018 and increasing thereafter.

Improved Cash Flow

Under a self-funded arrangement, the self-funded trust would hold the reserves for incurred but not paid (IBNP) claims, rather than BCI. This would allow the State to accrue interest on the reserve through the trust. It should be noted that BCI credits interest on the IBNP equal to the two year U.S. Treasury note rate. Therefore this advantage would apply only if the trust is able to earn more than the BCI credit.

DISADVANTAGES

Assumption of Risk

If the State were to switch to self-funding, the State would assume the risk of claims exceeding the State's ability to pay. This risk can be mitigated through holding reserves and purchasing specific and/or aggregate stop-loss coverage. The cost of both specfic and aggregate stop-loss coverage is estimated at $1.2 million over the FY2018-FY2020 period.

Higher Operating Costs

The plan operating costs would increase under a self-funded arrangement due to items such as the following:

- Increased administrative staffing, including staff for HIPAA compliance
- Third party administrator fees
- Additional fee for BCI to be fiduciary of record
- Stop-loss coverage for aggregate and specific coverage
- Legal fees
- Investment and banking fees
- Increased actuarial fees for special DOI filing requirements
- Accounting fees
- Fiduciary insurance
- Trustee expenses for travel and meetings
- Banking and DOI continuation fees

These additional operating costs, excluding the cost of stop-loss coverage, are estimated at $2.7 million over the FY2018–FY2020 period.

Legislative Approval

Legislative approval would be required for the State to move to a self-funded trust.

Transition Costs

The State would incur costs to transition from the current fully-insured arrangement to a self-funded trust, which would not be payable from reserves. Transition costs include the following:

- Requests for Proposals (RFPs) for vendors:
  - Outside administrator
  - Medical/Dental administration
  - Legal
  - Accounting
  - Investment manager
- Startup costs
  - Actuarial certification
  - Propel consulting
  - Legal documents and vendor contract negotiation

The level of costs is difficult to predict, but we estimate it could be between $200,000 and $300,000 or more.

DOI Requirements

The State health plan would be subject to a considerable number of requirements from the Department of Insurance if it becomes self-funded. These are described more fully in Section 6. Failure to meet these requirements could result in disqualification of the Trust and termination of the Plan.

Governance

An independent Board of Trustees, rather than the State, would control plan design choices and vendor selections. In addition, once contributions are made to the self-funded trust, they are only subject to decisions made by the Board of Trustees. While the State may appoint the Trustees, the Trustees are required to make decisions based on the best interest of the plan participants.

SECTION 3: COST PROJECTION

The tables in this section show the projected revenue and expense statement for FY2016 through FY2020. The tables in the comparison section provide a high level comparison of the following scenarios for medical/vision benefits and dental benefits. The full revenue and expense statements follow at the end of this section.

FULLY-INSURED (CURRENT) STATUS

Tables 3-1 and 3-2 are based on the current fully-insured situation for the medical/vision and dental benefits. These results will not match the results presented in our June 1, 2016 letter due to differences in the limit on contuining medical and dental coverage for disabled employees. This is described in more detail in Section 8.

SELF-FUNDED STATUS

Tables 3-3 and 3-4 show projected results for a self-funded trust for medical/vision and dental benefits. Note that we have assumed that the trust purchases aggregate stop-loss coverage at 110% for FY2018-FY2019, increasing to 115% in FY2020 as reserves are built. Note that the stop-loss coverage would not apply to dental or vision benefits.

COMPARISON

A high level comparison of the medical/vision results is shown in the table below (in $millions).

Medical/Vision	FY2016	FY2017	FY2018	FY2019	FY2020
Fully-insured					
Revenue	$261.5	$273.8	$305.5	$333.3	$362.8
Expenses	$256.4	$270.1	$303.1	$330.3	$360.0
Self-funded					
Revenue	$261.5	$273.8	$302.5	$330.0	$359.3
Expenses	$256.4	$270.1	$270.3	$313.0	$341.0
Increase/(Decrease)					
Revenue	$0	$0	$(3.0)	$(3.3)	$(3.5)
Expenses	$0	$0	$(32.8)	$(17.3)	$(19.0)

As shown in the previous table, expenses would be reduced by an estimated $69.1 million over the FY2018 – FY2020 period under a self-funded trust. The Idaho State premium taxes make up $13.8 million of this savings.

We have not assumed a decrease in the State appropriation. However, as cost savings occur under the self-funded scenario, employee contributions will rise less quickly than under the fully-insured scenario. This results in relatively lower revenue, which results in an estimated reduction in revenue of $9.8 million over the FY2018-FY2020 period, for an estimated net savings of $59.3 millon. We have assumed any net savings would be used to build up reserves with the following objectives:

- Reduce the costs of aggregate stop-loss coverage by increasing the aggregate stop-loss attachment point over the next several years.
- Build an actuarially recommended reserve to achieve a 95% confidence level against insolvency over any three year period.

A high level comparison of the dental results is shown in the table below (in $millions).

Dental	FY2016	FY2017	FY2018	FY2019	FY2020
Fully-insured					
Revenue	$12.6	$12.2	$13.0	$13.9	$14.5
Expenses	$12.2	$12.3	$13.3	$13.9	$14.5
Self-funded					
Revenue	$12.6	$12.2	$12.7	$13.6	$14.1
Expenses	$12.2	$12.3	$12.1	$13.3	$13.8
Increase/(Decrease)					
Revenue	$0	$0	$(0.3)	$(0.3)	$(0.4)
Expenses	$0	$0	$(1.2)	$(0.6)	$(0.7)

As shown in the table above, expenses would be reduced by an estimated $2.5 million over the FY2018 – FY2020 period under a self-funded trust, with Idaho State premium taxes making up less than $0.1 million of this estimated savings.

Similar to the medical projection, we have not reduced the State appropriation, but revenue would decrease due to decreases in employee contributions. This results in an estimated reduction in revenue of $1.0 million over the FY2018-FY2020 period, for an estimated net savings of $1.5 millon. We have assumed any net savings would be used to build reserves until actuarially Frecommended reserves are built up at the 95% confidence level.

TABLE 3-1
STATE OF IDAHO – MEDICAL AND VISION PLANS
INCOME STATEMENT – FULLY-INSURED STATUS

		Projected				
Fiscal Year	2015	2016	2017	2018	2019	2020
A. Revenue						
1. State Appropriation	$ 188,560,000	$ 201,630,000	$ 223,640,000	$ 248,490,000	$ 270,210,000	$ 293,200,000
2. Sweep Collection	12,340,000	13,970,000	16,850,000	18,740,000	20,370,000	22,120,000
3. Employee Contributions	24,080,000	24,120,000	24,370,000	28,400,000	31,960,000	35,920,000
4. Retiree Contributions	6,900,000	7,040,000	7,790,000	8,700,000	9,400,000	10,140,000
5. COBRA Contributions	730,000	640,000	740,000	830,000	900,000	990,000
6. Transfers from Other Accounts	3,000,000	14,140,000	-	-	-	-
7. Interest	200,000	210,000	360,000	390,000	420,000	460,000
8. Other Revenue [1]	(30,000)	(220,000)	30,000	(10,000)	-	-
Total Revenue	$ 235,780,000	$ 261,530,000	$ 273,780,000	$ 305,540,000	$ 333,260,000	$ 362,830,000
B. Claims						
1. Active and COBRA Medical Incurred Claims	$ 193,320,000	$ 217,590,000	$ 237,610,000	$ 259,170,000	$ 282,710,000	$ 308,380,000
2. Active and COBRA Vision Incurred Claims	1,930,000	1,980,000	2,030,000	2,110,000	2,200,000	2,280,000
3. Retiree Medical Incurred Claims	9,470,000	10,660,000	11,620,000	13,010,000	14,570,000	16,320,000
Net Claims	$ 204,720,000	$ 230,230,000	$ 251,260,000	$ 274,290,000	$ 299,480,000	$ 326,980,000
C. Claims Administration						
Active Administration						
1. Blue Cross	$ 8,970,000	$ 9,160,000	$ 9,160,000	$ 9,570,000	$ 10,000,000	$ 10,460,000
2. Premium Tax	3,280,000	3,400,000	3,700,000	4,030,000	4,390,000	4,780,000
3. Risk Charge	650,000	-	-	-	-	-
4. Health Care Reform Fees	8,560,000	8,880,000	2,230,000	10,850,000	11,800,000	12,750,000
Retiree Administration						
5. Blue Cross	210,000	190,000	190,000	190,000	200,000	210,000
6. Premium Tax	150,000	160,000	180,000	200,000	220,000	250,000
7. Risk Charge	30,000	-	-	-	-	-
8. Health Care Reform Fees	320,000	340,000	80,000	450,000	480,000	520,000
Total Claims Admin Fees	$ 22,170,000	$ 22,130,000	$ 15,540,000	$ 25,290,000	$ 27,090,000	$ 28,970,000
D. General Operations						
1. Disabled Employee Premium Funding	$ 1,970,000	$ 2,120,000	$ 2,350,000	$ 2,570,000	$ 2,800,000	$ 3,060,000
2. FSA Funding	$ 20,000	$ 20,000	$ -	$ -	$ -	$ -
3. State Administration	960,000	940,000	910,000	940,000	960,000	990,000
4. Wellness	880,000	920,000	-	-	-	-
Total General Operations	$ 3,830,000	$ 4,000,000	$ 3,260,000	$ 3,510,000	$ 3,760,000	$ 4,050,000
E. Total Expense	$ 230,720,000	$ 256,360,000	$ 270,060,000	$ 303,090,000	$ 330,330,000	$ 360,000,000
F. Increase / (Decrease) in Assets	**$ 5,060,000**	**$ 5,170,000**	**$ 3,720,000**	**$ 2,450,000**	**$ 2,930,000**	**$ 2,830,000**

G. Net State Cost (w/o retiree subsidy) [2]	$ 195,730,000	$ 220,250,000	$ 232,880,000	$ 260,010,000	$ 282,000,000	$ 305,790,000
State Cost per Enrollee	$10,712.60	$11,953.87	$12,508.33	$13,827.38	$14,848.36	$15,941.51

H. Assumed Enrollees						
1. Number of Active Enrollees	18,271	18,425	18,618	18,804	18,992	19,182
2. Number of COBRA Enrollees	84	75	77	77	78	79
3. Number of Eligible Full Time Participants	19,467	19,702	20,021	20,222	20,424	20,629
4. Number of Retiree Enrollees	872	830	811	811	811	811

(1) This is a balancing amount because of rounding.

(2) G = B1 + B2 + C1 + C2 + C3 + C4 + D1 + D2 + D3 + D4 - A3 - A5.

Note: Reserve drawdown pays for loss.

TABLE 3-2
STATE OF IDAHO – DENTAL PLAN
INCOME STATEMENT – FULLY-INSURED STATUS

		Projected				
Fiscal Year	2015	2016	2017	2018	2019	2020
A. Revenue						
1. State Appropriation	$ 4,200,000	$ 4,730,000	$ 4,240,000	$ 4,550,000	$ 5,040,000	$ 5,250,000
2. Sweep Collection	280,000	330,000	320,000	330,000	370,000	370,000
3. Employee Contributions	7,470,000	7,470,000	7,550,000	8,040,000	8,380,000	8,730,000
4. COBRA Contributions	100,000	100,000	100,000	110,000	110,000	120,000
5. Transfers from Other Accounts	-	-	-	-	-	-
6. Interest	-	20,000	20,000	20,000	20,000	20,000
7. Other Revenue [1]	10,000	(20,000)	-	(10,000)	-	-
Total Revenue	$ 12,060,000	$ 12,630,000	$ 12,230,000	$ 13,040,000	$ 13,920,000	$ 14,490,000
B. Claims						
1. Active and COBRA Incurred Claims	$ 10,660,000	$ 11,200,000	$ 11,660,000	$ 12,120,000	$ 12,610,000	$ 13,120,000
Net Claims	$ 10,660,000	$ 11,200,000	$ 11,660,000	$ 12,120,000	$ 12,610,000	$ 13,120,000
C. Claims Administration						
1. Blue Cross	$ 570,000	$ 590,000	$ 620,000	$ 650,000	$ 680,000	$ 710,000
2. Premium Tax	10,000	10,000	10,000	10,000	10,000	10,000
3. Risk Charge	20,000	-	-	-	-	-
4. Health Care Reform Fees	310,000	380,000	50,000	510,000	560,000	610,000
Total Claims Admin Fees	$ 910,000	$ 980,000	$ 680,000	$ 1,170,000	$ 1,250,000	$ 1,330,000
D. General Operations						
None	$ -	$ -	$ -	$ -	$ -	$ -
Total General Operations	$ -	$ -	$ -	$ -	$ -	$ -
E. Total Expense	$ 11,570,000	$ 12,180,000	$ 12,340,000	$ 13,290,000	$ 13,860,000	$ 14,450,000
F. Increase / (Decrease) in Assets	**$ 490,000**	**$ 450,000**	**$ (110,000)**	**$ (250,000)**	**$ 60,000**	**$ 40,000**
G. Net State Cost [2]	$ 4,000,000	$ 4,610,000	$ 4,690,000	$ 5,140,000	$ 5,370,000	$ 5,600,000
State Cost per Enrollee	$219.03	$250.34	$252.07	$273.52	$282.93	$292.12
H. Assumed Enrollees						
1. Number of Active Enrollees	18,262	18,415	18,606	18,792	18,980	19,170
2. Number of COBRA Enrollees	158	153	151	153	154	156

(1) This is a balancing amount because of rounding.

(2) G = B1 + C1 + C2 + C3 + C4 - A3 - A4.

Note: Reserve drawdown pays for loss.

TABLE 3-3
STATE OF IDAHO – MEDICAL AND VISION PLANS
INCOME STATEMENT – SELF-FUNDED STATUS

		Projected				
Fiscal Year	2015	2016	2017	2018	2019	2020
A. Revenue						
1. State Appropriation	$ 188,560,000	$ 201,630,000	$ 223,640,000	$ 248,490,000	$ 270,210,000	$ 293,200,000
2. Sweep Collection	12,340,000	13,970,000	16,850,000	18,740,000	20,370,000	22,120,000
3. Employee Contributions	24,080,000	24,120,000	24,370,000	25,620,000	28,900,000	32,560,000
4. Retiree Contributions	6,900,000	7,040,000	7,790,000	8,260,000	8,790,000	9,350,000
5. COBRA Contributions	730,000	640,000	740,000	800,000	870,000	950,000
6. Transfers from Other Accounts	3,000,000	14,140,000	-	-	-	-
7. Interest	200,000	210,000	360,000	560,000	870,000	1,090,000
8. Other Revenue [1]	(30,000)	(220,000)	30,000	-	-	10,000
Total Revenue	$ 235,780,000	$ 261,530,000	$ 273,780,000	$ 302,470,000	$ 330,010,000	$ 359,280,000
B. Claims						
1. Active and COBRA Medical Incurred Claims	$ 193,320,000	$ 217,590,000	$ 237,610,000	$ 259,170,000	$ 282,710,000	$ 308,380,000
2. Active and COBRA Incurred to Paid Adj.	$ -	$ -	$ -	$ (17,870,000)	$ (1,770,000)	$ (1,930,000)
3. Active and COBRA Vision Incurred Claims	1,930,000	1,980,000	2,030,000	2,110,000	2,200,000	2,280,000
4. Retiree Medical Incurred Claims	9,470,000	10,660,000	11,620,000	13,010,000	14,570,000	16,320,000
5. Retiree Medical Incurred to Paid Adj.	-	-	-	(870,000)	(120,000)	(130,000)
Net Claims	$ 204,720,000	$ 230,230,000	$ 251,260,000	$ 255,550,000	$ 297,590,000	$ 324,920,000
C. Claims Administration						
Active Administration						
1. Blue Cross	$ 8,970,000	$ 9,160,000	$ 9,160,000	$ 9,810,000	$ 10,250,000	$ 10,710,000
2. Premium Tax	3,280,000	3,400,000	3,700,000	20,000	20,000	20,000
3. Stop Loss Fee	650,000	-	-	340,000	410,000	410,000
4. Health Care Reform Fees	8,560,000	8,880,000	2,230,000	250,000	130,000	-
Retiree Administration						
5. Blue Cross	210,000	190,000	190,000	200,000	210,000	220,000
6. Premium Tax	150,000	160,000	180,000	-	-	-
7. Stop Loss Fee	30,000	-	-	10,000	20,000	20,000
8. Health Care Reform Fees	320,000	340,000	80,000	10,000	-	-
Total Claims Admin Fees	$ 22,170,000	$ 22,130,000	$ 15,540,000	$ 10,640,000	$ 11,040,000	$ 11,380,000
D. General Operations						
1. Disabled Employee Premium Funding	$ 1,970,000	$ 2,120,000	$ 2,350,000	$ 2,570,000	$ 2,800,000	$ 3,060,000
2. FSA Funding	$ 20,000	$ 20,000	$ -	$ -	$ -	$ -
3. State Administration and Trust Expenses	960,000	940,000	910,000	1,550,000	1,600,000	1,640,000
4. Wellness	880,000	920,000	-	-	-	-
Total General Operations	$ 3,830,000	$ 4,000,000	$ 3,260,000	$ 4,120,000	$ 4,400,000	$ 4,700,000
E. Total Expense	$ 230,720,000	$ 256,360,000	$ 270,060,000	$ 270,310,000	$ 313,030,000	$ 341,000,000
F. Increase / (Decrease) in Assets	**$ 5,060,000**	**$ 5,170,000**	**$ 3,720,000**	**$ 32,160,000**	**$ 16,980,000**	**$ 18,280,000**
G. Net State Cost (w/o retiree subsidy) [2]	$ 195,730,000	$ 220,250,000	$ 232,880,000	$ 231,530,000	$ 268,580,000	$ 291,060,000
State Cost per Enrollee	$10,712.60	$11,953.87	$12,508.33	$12,312.81	$14,141.74	$15,173.60
H. Assumed Enrollees						
1. Number of Active Enrollees	18,271	18,425	18,618	18,804	18,992	19,182
2. Number of COBRA Enrollees	84	75	77	77	78	79
3. Number of Eligible Full Time Participants	19,467	19,702	20,021	20,222	20,424	20,629
4. Number of Retiree Enrollees	872	830	811	811	811	811

(1) This is a balancing amount because of rounding.

(2) G = B1 + B2 + C1 + C2 + C3 + C4 + D1 + D2 + D3 + D4 - A3 - A5.

Note: Reserve drawdown pays for loss.

TABLE 3-4
STATE OF IDAHO – DENTAL PLAN
INCOME STATEMENT – SELF-FUNDED STATUS

		Projected				
Fiscal Year	2015	2016	2017	2018	2019	2020
A. Revenue						
1. State Appropriation	$ 4,200,000	$ 4,730,000	$ 4,240,000	$ 4,550,000	$ 5,040,000	$ 5,250,000
2. Sweep Collection	280,000	330,000	320,000	330,000	370,000	370,000
3. Employee Contributions	7,470,000	7,470,000	7,550,000	7,730,000	8,040,000	8,360,000
4. COBRA Contributions	100,000	100,000	100,000	100,000	110,000	110,000
5. Transfers from Other Accounts	-	-	-	-	-	-
6. Interest	-	20,000	20,000	20,000	30,000	30,000
7. Other Revenue [1]	10,000	(20,000)	-	(10,000)	(10,000)	-
Total Revenue	$ 12,060,000	$ 12,630,000	$ 12,230,000	$ 12,720,000	$ 13,580,000	$ 14,120,000
B. Claims						
1. Active and COBRA Incurred Claims	$ 10,660,000	$ 11,200,000	$ 11,660,000	$ 12,120,000	$ 12,610,000	$ 13,120,000
2. Active and COBRA Incurred to Paid Adj.	-	-	-	(690,000)	(30,000)	(30,000)
Net Claims	$ 10,660,000	$ 11,200,000	$ 11,660,000	$ 11,430,000	$ 12,580,000	$ 13,090,000
C. Claims Administration						
1. Blue Cross	$ 570,000	$ 590,000	$ 620,000	$ 650,000	$ 680,000	$ 710,000
2. Premium Tax	10,000	10,000	10,000	-	-	-
3. Stop Loss Fee	20,000	-	-	-	-	-
4. Health Care Reform Fees	310,000	380,000	50,000	10,000	-	-
Total Claims Admin Fees	$ 910,000	$ 980,000	$ 680,000	$ 660,000	$ 680,000	$ 710,000
D. General Operations						
None	$ -	$ -	$ -	$ -	$ -	$ -
Total General Operations	$ -	$ -	$ -	$ -	$ -	$ -
E. Total Expense	$ 11,570,000	$ 12,180,000	$ 12,340,000	$ 12,090,000	$ 13,260,000	$ 13,800,000
F. Increase / (Decrease) in Assets	**$ 490,000**	**$ 450,000**	**$ (110,000)**	**$ 630,000**	**$ 320,000**	**$ 320,000**
G. Net State Cost [2]	$ 4,000,000	$ 4,610,000	$ 4,690,000	$ 4,950,000	$ 5,140,000	$ 5,360,000
State Cost per Enrollee	$219.03	$250.34	$252.07	$263.41	$270.81	$279.60
H. Assumed Enrollees						
1. Number of Active Enrollees	18,262	18,415	18,606	18,792	18,980	19,170
2. Number of COBRA Enrollees	158	153	151	153	154	156

(1) This is a balancing amount because of rounding.

(2) G = B1 + C1 + C2 + C3 + C4 - A3 - A4.

Note: Reserve drawdown pays for loss.

SECTION 4: RESERVE PROJECTION

The tables in this section show the projected reserves for FY2017 through FY2021. The first tables provide a high level comparison of the following scenarios for medical/vision benefits and dental benefits. The balance sheet exhibits follow at the end of this section.

FULLY-INSURED (CURRENT) STATUS

Tables 4-1 and 4-2 are based on the current fully-insured situation for the medical/vision and dental benefits. These results will not match the results presented in the June 1, 2015 letter due to differences in the limit on contining medical and dental coverage for disabled employees. This is described in more detail in Section 8.

SELF-FUNDED STATUS

Tables 4-3 and 4-4 show projected results for a self-funded trust for the medical/vision and dental benefits. Note that we have assumed that the trust purchases aggregate stop-loss coverage at 110% for FY2018-FY2019, increasing to 115% in FY2020 as reserves are built. Note that the stop-loss coverage would not apply to dental or vision benefits.

COMPARISON

A high level comparison of the beginning of fiscal year medical/vision results is shown in the table below (in $millions).

Medical/Vision	FY2017	FY2018	FY2019	FY2020	FY2021
Fully-insured					
Required reserves	$26.3	$29.8	$32.5	$35.4	$38.2
Total recomm. reserves	$43.6	$49.4	$53.9	$58.7	$63.4
Self-funded					
Required reserves	$26.3	$28.7	$37.0	$58.9	$64.1
Total recomm. reserves	$52.5	$57.4	$62.5	$68.2	$73.6
Increase/(Decrease)					
Required	$0.0	$(1.1)	$4.5	$23.5	$25.9
Total	$8.9	$8.0	$8.6	$9.5	$10.2

As shown in the table above, by the beginning of FY2021, the required reserves would increase from $26.3 million in FY2017 by an estimated $37.8 million to $64.1 million under a self-funded trust. This is a result of minimum DOI surplus requirements under Chapter 40.

As shown in the previous table, by the beginning of FY2021, the total actuarially recommended reserves would increase from $52.5 million in FY2017 by an estimated $21.1 million to $73.6 million under a self-funded trust at the 95% confidence level.

The actuarially recommended reserves increase from the fully-insured to the self-funded scenario because of the switch in confidence level from 90% to 95%.

A high level comparison of the beginning of fiscal year dental results is shown in the table below (in $millions).

Dental	FY2017	FY2018	FY2019	FY2020	FY2021
Fully-insured					
Required reserves	$1.5	$1.6	$1.4	$1.5	$1.5
Total recomm. reserves	$1.5	$1.6	$1.4	$1.5	$1.5
Self-funded					
Required reserves	$1.5	$1.4	$4.1	$4.3	$4.4
Total recomm. reserves	$1.5	$1.4	$4.1	$4.3	$4.4
Increase/(Decrease)					
Required	$0.0	$(0.2)	$2.7	$2.8	$2.9
Total	$0.0	$(0.2)	$2.7	$2.8	$2.9

As shown in the table above, required reserves would increase from $1.5 million in FY2017 by an estimated $2.9 million to $4.4 million over the FY2018 – FY2021 period under a self-funded trust. This is a result of minimum DOI surplus requirements under Chapter 40 of the Idaho Code.

As shown in the table above, by the beginning of FY2021, the total actuarially recommended reserves would increase from $1.5 million in FY 2017 by an estimated $2.9 million to $4.4 million under a self-funded trust at the 95% confidence level. For the self-funded trust, the minimum DOI surplus requirements are greater than the calculated actuarially recommended reserves at the 95% confidence level.

TABLE 4-1
STATE OF IDAHO – MEDICAL AND VISION PLANS
BALANCE SHEET – FULLY-INSURED STATUS

		Projected					
Fiscal Year	2015	2016	2017	2018	2019	2020	2021
A. Assets							
1. Beginning Asset Balance [1]	$ 16,040,000	$ 21,100,000	$ 26,270,000	$ 29,990,000	$ 32,440,000	$ 35,370,000	$ 38,200,000
Total Assets	$ 16,040,000	$ 21,100,000	$ 26,270,000	$ 29,990,000	$ 32,440,000	$ 35,370,000	$ 38,200,000
B. Liabilities at Beginning of FY							
1. Base Contingency Reserves	$ 11,040,000	$ 23,750,000	$ 26,270,000	$ 29,750,000	$ 32,450,000	$ 35,370,000	$ 38,200,000
2. Additional Contingency Reserves [2]	-	-	-	-	-	-	-
3. Other Requirements [3]	-	-	-	-	-	-	-
Total Liabilities	$ 11,040,000	$ 23,750,000	$ 26,270,000	$ 29,750,000	$ 32,450,000	$ 35,370,000	$ 38,200,000
C. Surplus / (Deficit)	$ 5,000,000	$ (2,650,000)	$ -	$ 240,000	$ (10,000)	$ -	$ -
D. Total Liabilities and Net Assets	$ 16,040,000	$ 21,100,000	$ 26,270,000	$ 29,990,000	$ 32,440,000	$ 35,370,000	$ 38,200,000

E. Additional Actuarial Reserves [4]	12,260,000	15,670,000	17,330,000	19,640,000	21,410,000	23,350,000	25,220,000
F. Surplus / (Deficit) (with Additional Actuarial Reserves)	$ (7,260,000)	$ (18,320,000)	$ (17,330,000)	$ (19,400,000)	$ (21,420,000)	$ (23,350,000)	$ (25,220,000)

(1) Includes amounts in accounts 9386 Blue Cross Reserve, 9383 Blue Cross Reserve / Retirees, and 9397 Medical Sweep Reserves.

(2) This equals the premium request from Blue Cross minus the projected premium to be sent to Blue Cross based on the State's final rates. Blue Cross can call this amount in addition to the base contingency reserve requirement if claims exceed premiums.

(3) This is the expected PSR drawdown minus sweep collections.

(4) Based on the 90th percentile. Reflects updated 2016 PSR factors.

TABLE 4-2
STATE OF IDAHO – DENTAL PLANS
BALANCE SHEET – FULLY-INSURED STATUS

		Projected					
Fiscal Year	2015	2016	2017	2018	2019	2020	2021
A. Assets							
1. Beginning Asset Balance [1]	$ 810,000	$ 1,300,000	$ 1,750,000	$ 1,640,000	$ 1,390,000	$ 1,450,000	$ 1,490,000
Total Assets	$ 810,000	$ 1,300,000	$ 1,750,000	$ 1,640,000	$ 1,390,000	$ 1,450,000	$ 1,490,000
B. Liabilities at Beginning of FY							
1. Base Contingency Reserves	$ 600,000	$ 1,210,000	$ 1,220,000	$ 1,330,000	$ 1,390,000	$ 1,450,000	$ 1,490,000
2. Additional Contingency Reserves [2]	-	-	-	-	-	-	-
3. Other Requirements [3]	150,000	-	280,000	270,000	-	-	-
Total Liabilities	$ 750,000	$ 1,210,000	$ 1,500,000	$ 1,600,000	$ 1,390,000	$ 1,450,000	$ 1,490,000
C. Surplus / (Deficit)	$ 60,000	$ 90,000	$ 250,000	$ 40,000	$ -	$ -	$ -
D. Total Liabilities and Net Assets	$ 810,000	$ 1,300,000	$ 1,750,000	$ 1,640,000	$ 1,390,000	$ 1,450,000	$ 1,490,000

E. Additional Actuarial Reserves [4]	$ 50,000	$ -	$ -	$ -	$ -	$ -	$ -
F. Surplus / (Deficit) (with Additional Actuarial Reserves)	$ 10,000	$ 90,000	$ 250,000	$ 40,000	$ -	$ -	$ -

(1) Includes amounts in accounts 9321 Blue Cross Dental Reserve, and 9398 Dental Sweep Reserves.

(2) This equals the premium request from Blue Cross minus the projected premium to be sent to Blue Cross based on the State's final rates. Blue Cross can call this amount in addition to the base contingency reserve requirement if claims exceed premiums.

(3) This is the expected PSR drawdown minus sweep collections.

(4) Based on the 90th percentile. Reflects updated 2016 PSR factors.

TABLE 4-3
STATE OF IDAHO – MEDICAL AND VISION PLANS
BALANCE SHEET – SELF-FUNDED STATUS

		Projected					
Fiscal Year	2015	2016	2017	2018	2019	2020	2021
A. Assets							
1. Beginning Asset Balance [1]	$ 16,040,000	$ 21,100,000	$ 26,270,000	$ 29,990,000	$ 62,150,000	$ 79,130,000	$ 97,410,000
Total Assets	$ 16,040,000	$ 21,100,000	$ 26,270,000	$ 29,990,000	$ 62,150,000	$ 79,130,000	$ 97,410,000
B. Liabilities at Beginning of FY							
1. Contingency/IBNR Reserves	$ 11,040,000	$ 23,750,000	$ 26,270,000	$ 28,680,000	$ 22,360,000	$ 24,420,000	$ 26,370,000
2. Minimum Surplus Reserves	-	-	-	-	14,640,000	34,440,000	37,760,000
3. Additional Contingency Reserves [2]	-	-	-	-	-	-	-
4. Other Requirements [3]	-	-	-	-	-	-	-
Total Liabilities	$ 11,040,000	$ 23,750,000	$ 26,270,000	$ 28,680,000	$ 37,000,000	$ 58,860,000	$ 64,130,000
C. Surplus / (Deficit)	$ 5,000,000	$ (2,650,000)	$ -	$ 1,310,000	$ 25,150,000	$ 20,270,000	$ 33,280,000
D. Total Liabilities and Net Assets	$ 16,040,000	$ 21,100,000	$ 26,270,000	$ 29,990,000	$ 62,150,000	$ 79,130,000	$ 97,410,000
E. Additional Actuarial Reserves [4]	17,340,000	23,740,000	26,260,000	28,670,000	25,510,000	9,290,000	9,470,000
F. Surplus / (Deficit) (with Additional Actuarial Reserves)	$ (12,340,000)	$ (26,390,000)	$ (26,260,000)	$ (27,360,000)	$ (360,000)	$ 10,980,000	$ 23,810,000
Stop Loss Attachment Point Used	N/A	N/A	N/A	110%	110%	115%	115%

(1) Includes amounts in accounts 9386 Blue Cross Reserve, 9383 Blue Cross Reserve / Retirees, and 9397 Medical Sweep Reserves.

(2) This equals the premium request from Blue Cross minus the projected premium to be sent to Blue Cross based on the State's final rates. Blue Cross can call this amount in addition to the base contingency reserve requirement if claims exceed premiums.

(3) This is the expected PSR drawdown minus sweep collections.

(4) Based on the 95th percentile. Reflects updated 2016 PSR factors.

TABLE 4-4
STATE OF IDAHO – DENTAL PLANS
BALANCE SHEET – SELF-FUNDED STATUS

		Projected					
Fiscal Year	2015	2016	2017	2018	2019	2020	2021
A. Assets							
1. Beginning Asset Balance [1]	$ 810,000	$ 1,300,000	$ 1,750,000	$ 1,640,000	$ 2,270,000	$ 2,590,000	$ 2,910,000
Total Assets	$ 810,000	$ 1,300,000	$ 1,750,000	$ 1,640,000	$ 2,270,000	$ 2,590,000	$ 2,910,000
B. Liabilities at Beginning of FY							
1. Contingency/IBNR Reserves	$ 600,000	$ 1,210,000	$ 1,220,000	$ 1,280,000	$ 740,000	$ 770,000	$ 800,000
2. Minimum Surplus Reserves	-	-	-	-	3,350,000	3,490,000	3,630,000
3. Additional Contingency Reserves [2]	-	-	-	-	-	-	-
4. Other Requirements [3]	150,000	-	280,000	70,000	-	-	-
Total Liabilities	$ 750,000	$ 1,210,000	$ 1,500,000	$ 1,350,000	$ 4,090,000	$ 4,260,000	$ 4,430,000
C. Surplus / (Deficit)	$ 60,000	$ 90,000	$ 250,000	$ 290,000	$ (1,820,000)	$ (1,670,000)	$ (1,520,000)
D. Total Liabilities and Net Assets	$ 810,000	$ 1,300,000	$ 1,750,000	$ 1,640,000	$ 2,270,000	$ 2,590,000	$ 2,910,000
E. Additional Actuarial Reserves [4]	$ 370,000	$ -	$ -	$ -	$ -	$ -	$ -
F. Surplus / (Deficit) (with Additional Actuarial Reserves)	$ (310,000)	$ 90,000	$ 250,000	$ 290,000	$ (1,820,000)	$ (1,670,000)	$ (1,520,000)

(1) Includes amounts in accounts 9321 Blue Cross Dental Reserve, and 9398 Dental Sweep Reserves.

(2) This equals the premium request from Blue Cross minus the projected premium to be sent to Blue Cross based on the State's final rates. Blue Cross can call this amount in addition to the base contingency reserve requirement if claims exceed premiums.

(3) This is the expected PSR drawdown minus sweep collections.

(4) Based on the 95th percentile. Reflects updated 2016 PSR factors.

SECTION 5: EXPENSE COMPARISON

This section compares the ongoing expenses between the current fully-insured arrangement and a self-funded trust. The comparisons on Tables 5-1 and 5-2 are estimated for FY2018. Assumed increases in future years are summarized in Section 7. Note that we used BCI expenses in our projection, even though it may be necessary to do a re-marketing campaign that could result in one or more different vendors than BCI. The expense estimates are based on preliminary conversations we have had with BCI, the State and Propel, but actual results can be expected to vary from our estimates.

TABLE 5-1 MEDICAL EXPENSES

Medical Fees – Administration

If the State uses BCI, most of the administration costs would likely remain unchanged under a self-funded arrangement.

Medical Fees – Stop-Loss Coverage

The Idaho DOI requirements mention the need for individual and aggregate stop-loss coverage. We obtained preliminary stop-loss coverage quotes from BCI for FY2017. Per Employee Per Month (PEPM) are displayed in the chart below. We used 24% trend for specific stop loss and 8% trend for aggregate stop loss to estimate these amounts for FY2018. Note that the specific stop-loss covers the cost of claims above $2 million per covered life. The FY2017 aggregate coverage is at 105%, 110%, or 115% of expected aggregate claims.

Specific $2 million	Aggregate 105%	Aggregate 110%	Aggregate 115%
$0.90 PEPM	$4.30 PEPM	$0.33 PEPM	$0.05 PEPM

Note that BCI did not provide a price for aggregate stop-loss coverage above 115%, since they don't typically issue that type of coverage for groups as large as the State of Idaho.

In our projection, we assume that the self-funded trust purchases $2 million specific stop-loss each year. For aggregate stop-loss, we assume the trust purchases 110% coverage in FY2018 and FY2019, increasing to 115% in FY2020 and FY2021 as reserves are built to the IBNR reserve and minimum DOI surplus requirements under Chapter 40.

Health Care Reform Fees

There are three types of health care reform related fees that are included in the analysis:

- Transitional Reinsurance Assessment Fee

  This fee is estimated at $27 per member per year (PMPY) in 2016, and $0 PMPY in 2017 and beyond. The fee is payable on a calendar year basis and applies to both fully-insured and self-funded plans.

- Patient Centered Outcomes Research Institute (PCORI) Fee

  This fee is $2.17 PMPY in 2016, increasing to reflect inflation in National Health Expenditures in future years. We assume this will increase with 8% trend. This fee applies to both fully-insured and self-funded plans. FY2019 is the last year that this fee is charged.

- Health Insurer Fee

  Based on the Blue Cross of Idaho renewal, this fee for medical is $22.51 PEPM in FY2017 for actives and $22.00 PEPM in FY2017 for retirees, increasing based on Federal government estimates in future years. This fee applies to fully-insured plans but not self-funded plans. We have included a small residual Health Insurer Fee in the self-funded scenario in FY2018, and no Health Insurer Fee for future years.

Other Trust Paid Operating Expenses

We have included additional operating expenses beginning in FY2018 that relate to operating a self-funded trust. The estimated amounts are based on our experience and conversations with Propel, BCI, and the State. These estimates may change depending on a variety of factors.

- State of Idaho administration fees

  Based on our conversations with the State of Idaho Department of Administration, there would be a need to add approximately three staff to perform additional duties related to a self-funded plan. The average salary plus payroll load for these three employees in FY2018 is assumed to be $80,000.

- Third Party Administrator fees

  We estimate $100,000 in third party administrator fees each year, based on discussions with the Propel.

- Consulting fees – Propel

  Based on discussions with Propel, there would not be any incremental fees if the funding arrangement were to switch from fully insured to self funded.

- Actuarial fees – Milliman

  We estimate approximately $42,000 in additional Milliman fees each year relating to the annual application filing (prior to the beginning of each fiscal year) and the annual statement filing (in the first quarter of each fiscal year).

- Investment, legal, and accounting fees

  We have included estimates for investment consulting, legal, and accounting fees.

- Fiduciary and dishonesty insurance

  We estimated the cost of fiduciary insurance based on information from Propel.

- Trustee meetings / travel

  We estimated the cost of trustee meetings based on five trustees at $21,000 per year.

- Premium tax

  We have included a premium tax of $0.04 per member per month (PMPM) based on the requirements of Title 41, Chapter 40, Section 40-4012 of the Idaho Code.

Table 5-1
State of Idaho Self-Funded Study
Fully Insured vs. Self-Funded
Preliminary Comparison of Expected FY2018 Medical Expenses

	Fully Insured	Self-Funded	Estimated Annual Cost/ (Savings)
1. Medical Fees: Blue Cross:			
a. Administration	$ 8,300,000	$ 8,300,000	$ -
b. Disease Management, Diagnostic Imaging and COBRA	790,000	790,000	-
c. EAP/Behavioral Health (Actives only)	670,000	670,000	-
d. Risk Charge	-	-	-
e. Premium Tax	4,230,000	20,000	(4,210,000)
f. Fiduciary for claims appeals	-	250,000	250,000
g. Total Administration	$ 13,990,000	$ 10,030,000	$ (3,960,000)
2. Medical Fees: Stop Loss Coverage			
a. Aggregate - 110%	$ -	$ 80,000	$ 80,000
b. Specific - $2 mm	-	270,000	270,000
c. Total Stop Loss	$ -	$ 350,000	$ 350,000
3. Health Care Reform (HCR) Fees			
a. Reinsurance Assessment Fee	$ -	$ -	$ -
b. PCORI Fee	120,000	120,000	-
c. Health Insurer Fee - Medical	11,180,000	140,000	(11,040,000)
d. Total Health Care Reform	$ 11,300,000	$ 260,000	$ (11,040,000)
4. Total Administration + Stop-Loss + HCR	$ 25,290,000	$ 10,640,000	$ (14,650,000)
5. General Operations			
a. Disabled Employee Premium Funding	$ 2,570,000	$ 2,570,000	$ -
b. Total General Operations	$ 2,570,000	$ 2,570,000	$ -
6 Other Trust-Paid Operating Expenses			
a. SOI Administration Fees (Actives Only)	$ 940,000	$ 1,176,500	$ 236,500
b. Third Party Administrator		$ 100,000	100,000
c. Consulting Fees - Propel		-	-
d. Actuarial Fees - Millman		42,000	42,000
e. Investment Consulting Fees		42,000	42,000
f. Legal Retainer / Fees		64,000	64,000
g. Accounting Fees		60,000	60,000
h. Fiduciary Insurance		42,000	42,000
i. Trustee Meeting / Travel		21,000	21,000
j. Banking		1,000	1,000
k. Dishonesty Insurance/Surety Bond		1,000	1,000
l. DOI Continuation Fee		500	500
m. Other		-	-
n. Total Other Administrative Fees	$ 940,000	$ 1,550,000	$ 610,000
7. Total Administration + Stop-Loss + HCR + Other	$ 28,800,000	$ 14,760,000	$ (14,040,000)

TABLE 5-2 DENTAL AND VISION EXPENSES

Vision and Dental Fees - Administration

The vision and dental administration fees are assumed to be the same for a self-funded trust as a fully-insured plan based on information from BCI. However, the premium tax, and health insurer fee would be reduced to zero for a self-funded trust.

Table 5-2
State of Idaho Self-Funded Study
Fully Insured vs. Self-Funded
Preliminary Comparison of Expected FY2018 Vision and Dental Expenses

		Estimated Annual		
		Fully Insured	Self-Funded	Cost/ (Savings)
1.	Vision Fees			
a.	Administration	$ 390,000	$ 390,000	$ -
b.	Premium Tax	30,000	-	(30,000)
c.	Risk and Contingency	40,000	-	(40,000)
d.	HCR: Health Insurer Fee	90,000	-	(90,000)
e.	Total Vision	$ 550,000	$ 390,000	$ (160,000)
2.	Dental Fees:			
a.	Administration	$ 650,000	$ 650,000	$ -
b.	Premium Tax	10,000	-	(10,000)
c.	Risk and Contingency	-	-	-
d.	HCR: Health Insurer Fee	510,000	-	(510,000)
e.	Total Dental	$ 1,170,000	$ 650,000	$ (520,000)

SECTION 6: CHANGES FROM PRIOR STUDY

The prior self-funding study is dated June 5, 2014. Differences in results between this study and the prior study are attributed to plan administration changes and changes due to trend.

PLAN ADMINISTRATION CHANGES

Beginning in FY2016, the State of Idaho increased their contingency reserves from 5% to 10% of the projected annual aggregate monthly premium paid to BCI. With this increase, the risk charge that was previously paid to BCI was eliminated.

In the executive summary of the prior study, there is a risk charge / stop loss fee savings of $1.5 million. In the prior study, the risk charge was eliminated by moving to a self-funded arrangement, and the savings from this more than offset the cost of stop loss. In this study, because there is no longer a risk charge under the fully-insured arrangement, there is no savings to offset the cost of stop loss, so the stop loss fees are now a cost of $1.2 million.

Because larger reserves are already being held due to the increase in the contingency reserves, the increase in reserves needed to meet the level required for self-funded plans by the DOI is smaller than in our prior study. In the prior study, an additional estimated $35.2 million was needed to increase reserves from the 5% contingency level to the level required by the DOI. In this study, an additional estimated $26.3 million is needed to increase reserves from the 10% contingency level to the level required by the DOI.

The other trust-paid operating expenses are estimated to be higher in this study than in our prior study. This is largely due to the includsion of a Third Party Administrator fee in this study that was not included in our last study. We have included the Third Party Administrator fee as a result of a discussion with Propel.

CHANGES DUE TO TREND

The prior study evaluated the impact of self-funding beginning in FY2016. This study evaluates the impact of self funding beginning in FY2018. Many of the elements of this study will be larger than last study due to trend, including:

- Premium Tax savings
- Health Insurer Fee savings
- Administrative costs
- Incurred to paid adjustments
- Lost revenue from lower employee contributions

The health insurer fee will increase by more than trend. An aggregate amount is set each year to be collected by the federal government. This aggregate amount is divided over all fully insured plans. Since our prior self-funding study, experience has shown that a number of plans have switched from a fully insured arrangement to a self-funded arrangement. Thus, there are fewer fully insured plans to pay for the same required amount, increasing the amount to be collected from the remaining full insured plans.

SECTION 7: STATE OF IDAHO REQUIREMENTS

The State of Idaho DOI has a set of requirements that would have to be followed if the State changed to a self-funded trust. There are two sections of the Idaho Code Title 41 that could apply: Chapter 40 or Chapter 41.

The State of Idaho Department of Administration would have to initiate a formal legal inquiry with the State of Idaho Department of Insurance to obtain a definitive ruling as to which chapter of the Idaho Code would apply to a self-funded trust for participants in the State of Idaho health and dental benefit plans.

For purposes of this analysis, we have assumed that Chapter 40 would apply. We have also included additional actuarially recommended reserves at the 95th percentile for premium stabilization, based on the analyses we perform each year when we update the group insurance reserve recommendations for the State of Idaho.

CHAPTER 40

This section of the Idaho Code applies to self-funded health care plans that are not governed by ERISA and that provide coverage to residents of Idaho. The requirements of Chapter 40 are more stringent (mostly with respect to minimum surplus requirements) than the requirements of Chapter 41.

CHAPTER 41

This section of the Idaho Code applies to joint public agency self-funded health care plans in Idaho. The requirements of Chapter 41 are somewhat less stringent than the requirements of Chapter 40.

The table below compares the requirements of the two chapters. The list is representative but not comprehensive.

Area	Requirement	Chapter 40	Chapter 41
Fees/Penalties	Filing fee for registration	Yes	Yes
Fees/Penalties	Filing fee for annual report	Yes	**No**
Fees/Penalties	Premium tax of 4 cents PMPM	Yes	**No**
Fees/Penalties	Penalties for violation of rules	Yes	Yes
Plan	Written statement of benefits	Yes	Yes
Plan	Special rules for maternity and mammography	Yes	Yes
Plan	No exclusion of coverage by government entities	Yes	Yes
Reporting	Registration with Idaho DOI	Yes	Yes
Reporting	DOI oversight of records and discretion to terminate if insolvent	Yes	Yes
Reporting	Actuarial projection of revenue and expenses prior to each year	Yes	Yes

Area	Requirement	Chapter 40	Chapter 41
Reporting	Annual statement within 90 days of fiscal year end, CPA certified	Yes	Yes
Reporting	Annual certified actuarial opinion with annual statement	Yes	**No**
Reporting	Certification by a CPA	Yes	Yes
Reporting	Quarterly supplemental financial reports	Yes	Yes
Reserves	Actuarially certified reserves (IBNR, IBNP, unearned contribution)	Yes	Yes
Reserves	Minimum surplus requirements	Yes	**No**
Reserves	Quarterly reserve adjustments	Yes	**No**
Trust	Stop-loss coverage	Yes	Yes
Trust	Provide agreements and other documentation to Idaho DOI	Yes	Yes
Trust	Appoint trustees and establish trust document	Yes	Yes
Trust	Biographical affadavits of all trustees, officers and directors	Yes	**No**
Trust	Actuarial soundness of the trust	Yes	Yes
Trust	Trust investment requirements	Yes	Yes

DIFFERENCES

The major differences between the requirements of Chapters 40 and 41 are described below. There are other minor differences that we have not included here.

Minimum Surplus

Chapter 40 requires a minimum surplus of at least:

- 3 months of contributions, or
- For plans that purchase stop-loss coverage, 110% of the difference between:
  - aggregate stop-loss attachment point plus costs of operation, and
  - expected contributions for the year

Chapter 41 does not have this requirement. For the State, we have calculated the minimum required surplus for medical benefits based on 110% of the difference of the aggregate stop-loss attachment point plus costs of operation less expected contributions for the year. For dental, we have used 3 months of contributions.

Section 41-4010 (6) allows 12 months to build a minimum surplus for a new self-funded plan. We have assumed that this surplus will be built by June 30, 2018. It may be a requirement that three months of reserves would need to be funded in advance. We have not assumed this to be the case in this report.

Premium Tax and Annual Filing Fee

Chapter 40 has a premium tax requirement of 4 cents PMPM and an annual filing fee for the annual report. These requirements do not appear in Chapter 41.

Quarterly Reserve Adjustments

Chapter 40 specifically requires quarterly reserve adjustments. Chapter 41 does not explicity require this, but does mention a quarterly financial reporting requirement.

Annual Actuarial Opinion

Chapter 40 specifically requires an annual actuarial opinion to be provided with the plan's annual statement. Chapter 41 does not explicity require this statement, but does state that the plan's annual statement should be in a form prescribed by the director.

Biographical Affadavits

As part of the registration of the plan, Chapter 40 requires names, addresses, and official capacities for all individuals who will have significant involvement with the plan, including all trustees, officers and directors. Trustees and management personnel are also required to submit biographical affadavits on a form prescribed by the director. Chapter 41 does not explicitly require this information, but it does state that the director ma require additional relevant documentation and information.

SECTION 8: METHODOLOGY

The data, methods, plan provisions, and assumptions we used are generally consistent with those outlined in our Funding Levels Projection letter dated June 1, 2016, projecting plan costs, except as specifically described in this report. Some of these assumptions are described below. Please note that in our June 1, 2016 letter, we assumed a change in the limit on continuing medical and dental coverage for disabled employees from 30 months to 6 months for those who become disabled on or after July 1, 2017. The fully insured scenarios presented in this report do not reflect this change. All fully insured scenarios presented in this report reflect a 30 month limit on continuing medical and dental coverage for disabled employees. The fully insured scenarios presented in this report will not match the June 1, 2016 letter for this reason.

For purposes of this study, we have assumed that the State will need to comply with Title 41, Chapter 40 of the Idaho Code.

We have also assumed that the State would make no changes to the options currently offered or the plan designs of those options, and by doing so would retain grandfather status for those options. We have assumed the State would make the same appropriation under a self-funded status that it would under the current, fully-insured status. This would build up the reserves to the required amount for the self-funded trust and continue to build reserves toward the actuarially recommended reserves for the self-funded trust.

Stop-Loss Trend: We assumed 24% annual trend for specific stop-loss premiums and 8% annual trend for aggregate stop-loss premiums. These are based on the medical trend assumption and a leveraging adjustment from Milliman's *Health Cost Guidelines*™.

Operating Expenses Trend: We assumed 3% annual trend on operating expenses. This is consistent with the trend we asumed on administrative fees.

Actuarial Reserve Setting: To determine the Actuarially Required Reserves at different stop-loss levels, we used similar methodology to our Updated Premium Stabilization Reserves letter to the State of Idaho dated February 1, 2013. For the fully-insured arrangement, we use a 90% confidence level. For the self-funded trust, we use a 95% confidence level.

Share of Covered Charges: We assume no cost shift to the employee for FY2016 and afterward.

CAVEATS

In performing this analysis, we relied on data and other information provided by the State of Idaho, Blue Cross of Idaho, and Propel. We have not audited or verified this data and other information. If the underlying data or information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete. We performed a limited review of the data used directly in our analysis for reasonableness and consistency and have not found material defects in the data. If there are material defects in the data, it is possible that they would be uncovered by a detailed, systematic review and comparison of the data to search for data values that are questionable or for relationships that are materially inconsistent. Such a review was beyond the scope of our assignment.

Given the long time period involved in this projection and the inherent uncertainty with group insurance projections, there is no guarantee that the State contributions will be adequate to cover FY2017 through FY2020 experience. Conversely, if health cost trends and claims are more moderate than expected, our estimates may be too high. Yet to be released regulations regarding health care reform may also vary from our assumptions and cause our estimates to be inadequate. Differences between our projections and actual amounts depend on the extent to which future experience conforms to the assumptions made for this analysis. It is certain that actual experience will not conform exactly to the assumptions used in this analysis. Actual amounts will differ from projected amounts to the extent that actual experience deviates from expected experience. Emerging experience and regulations should be monitored closely and appropriate action taken if necessary.

The consultants who worked on this report are employee benefit consultants and actuaries. Milliman's advice is not intended to be a substitute for qualified legal or accounting counsel.

This report has been prepared solely for the internal business use of and is only to be relied upon by the management of the State of Idaho. No portion of this letter may be provided to any other party without Milliman's prior written consent. Milliman does not intend to benefit or create a legal duty to any third party recipient of its work.

We are Members of the American Academy of Actuaries and are qualified to perform assignments of this type.

If you have any questions concerning these projections, please let us know.

Sincerely,

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RLS/MG/bh

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