Understanding Health Plan Actuarial Reports

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International Foundation of Employee Benefit Plans

Today’s Goal:

To answer the question:

“How do I read the reports presented by my actuary?”

Purpose of an Actuarial Report

- A detailed analysis prepared by actuaries to evaluate the financial aspects of a health plan
  - Assess financial health and sustainability
  - Predict future costs and revenues
  - Guide pricing and benefit decisions
  - Satisfy accounting and governmental requirements

Typical Actuarial Reports

- Plan projections
- Assumptions
  - Trend analysis
- Rate setting
  - Funding rates
  - COBRA, self-payment and retiree rates
  - Rates for new groups
- Reserve targeting

Typical Actuarial Reports

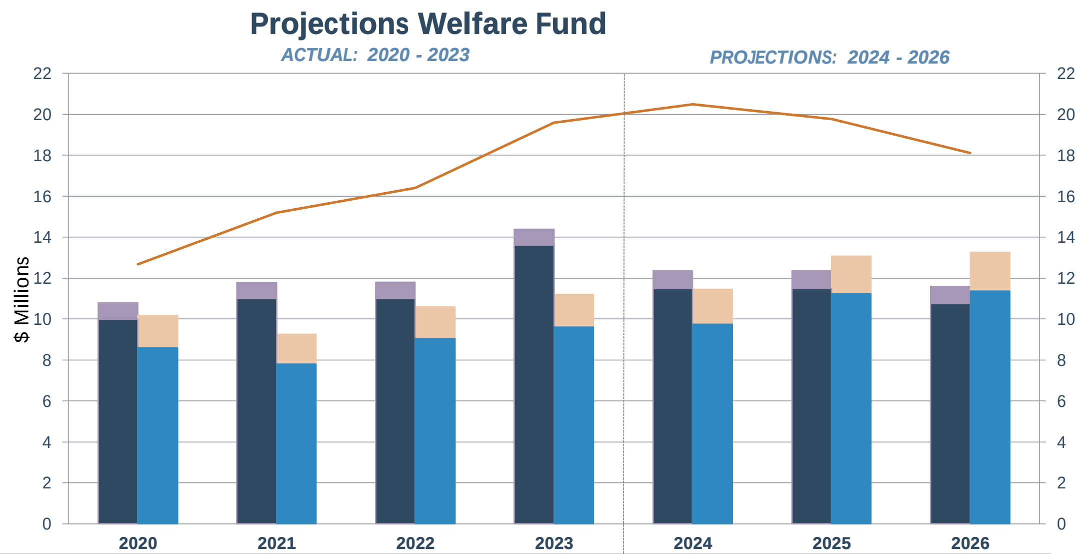
- Experience monitoring
- Liabilities
  - Incurred but Unreported (IBU) claims estimation
  - Accumulated eligibility quantification
  - "ASC 965" post-retirement benefits valuation
- Benefit/program changes valuations

Plan Projections

- Is Your Plan on the Right Track?
  - How will medical and pharmacy trends impact the future?
  - What type of benefits can you afford?
  - Reserve analysis?
  - Sensitivity Analyses
    - What if hours are higher/lower than assumed?
    - What if investment returns are different than assumed?
    - How do contribution rate changes impact your plan?

Plan Projections

Multiyear snapshot



	2020	2021	2022	2023	2024	2025	2026
Enrollment	989	870	814	860	875	875	845
Employer Contribs/Invest Income	10.00	11.00	11.00	13.60	11.50	11.50	10.75
Employee/Retiree Contribs	0.80	0.78	0.80	0.79	0.85	0.85	0.85
Benefit Costs (Claims & Premiums)	(8.60)	(7.80)	(9.05)	(9.60)	(9.75)	(11.25)	(11.37)
Administrative Expenses	(1.58)	(1.45)	(1.54)	(1.61)	(1.70)	(1.81)	(1.90)
Net Surplus/(Deficit)	0.62	2.53	1.21	3.18	0.90	(0.71)	(1.67)
Total Asset Value (End of Year)	**12.66**	**15.19**	**16.40**	**19.58**	**20.48**	**19.77**	**18.10**

Source: Horizon Actuarial Services, LLC

Assumptions

- Plan projections require assumptions about future expectations of key parameters:
  - Income
    - Contribution Units (Headcounts or Hours worked—Local and reciprocal) → Trustees
    - Negotiated contribution rate changes → Trustees
    - Investment return → Investment Consultant
    - Retiree and Self contributions

Assumptions

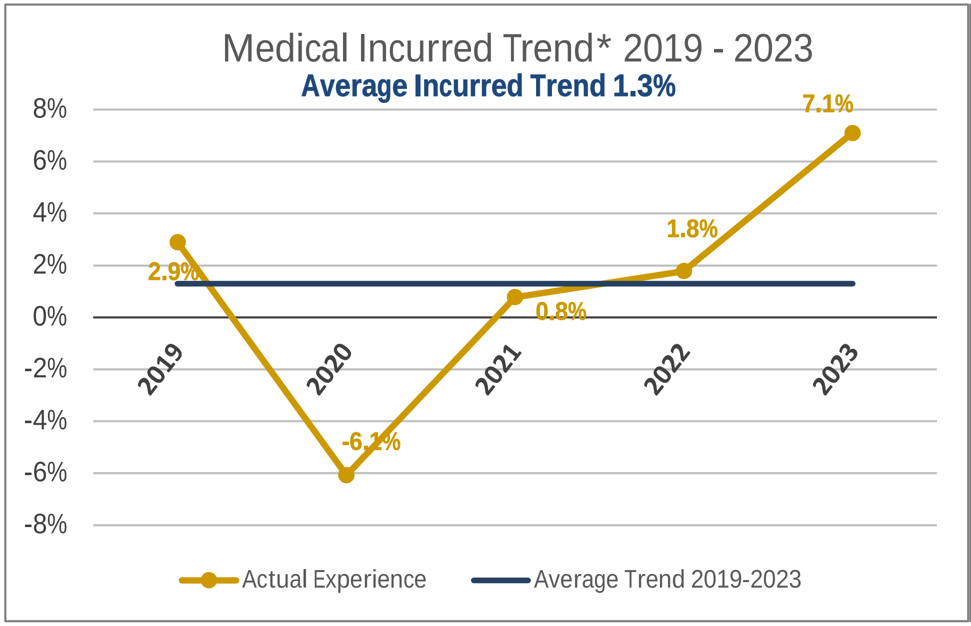
- Expense
  - Enrolled counts (actives/retirees) → Trustees
  - Family size
  - Years of experience considered and weights → Actuary
  - Seasonality → Actuary
  - Trend rates → Actuary
  - Plan design/vendor/new program changes → Actuary
  - Renewals
  - Operating and administrative expense increases
- Sensitivity scenarios → Trustees

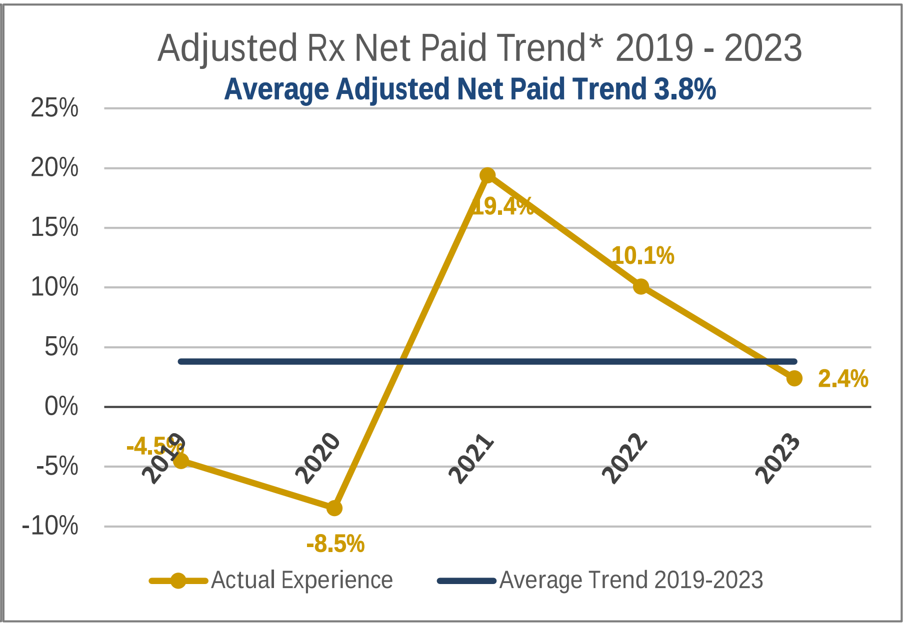
Trend Analysis

- A major driver of plan costs; components include
  - Technological advancements
  - Pharmaceutical prices—Research and new drugs
  - Aging population and chronic disease burdens such as diabetes, cardiovascular disease and obesity
  - Consumerism driven by information and advertising
  - Government policies and insurance reforms
  - Healthcare provider consolidation
  - Administrative costs

Trend Analysis

Incurred Trend adjusted for plan design changes and vendor renewals





Trend Analysis

- Trend Surveys
- 2023-2024 Medical/Rx
  - IFEBP: 7.0%
  - Segal: 6.8% PPO/Specialty drug 14.5%
  - Aon: 8.5%
  - Willis Towers Watson: 9.9% global
- 2024-2025 Medical/Rx
  - IFEBP: 8.0%
  - Aon: 8.0%
  - PWC: 8.0%

Polling Question

What medical/Rx trend rate is your plan using to project costs for 2025?

A. < 5%

B. 6-8%

C. 9-12%

D. > 12%

Polling Question

To the Trustees, auditors and administrators in the room: Do you receive a review of assumptions report from your actuary?

A. Yes

B. No

Polling Question

To the Trustees, auditors and administrators in the room: Do you receive a projections report from your actuary?

A. Yes

B. No

Polling Question

To the Trustees, auditors and administrators in the room: Do you receive sensitivity projections from your actuary?

A. Yes

B. No

Rate Setting

- Evaluate, set and adjust rates
  - Analyze historical performance
  - Project costs based on trends and assumptions
  - Rates set to cover costs and other factors
- Self-supporting vs. subsidized rates
- Contribution rates vs. targeted funding rates
- COBRA rates—Follow government guidelines
- Entry rates for new groups

Reserve Targeting

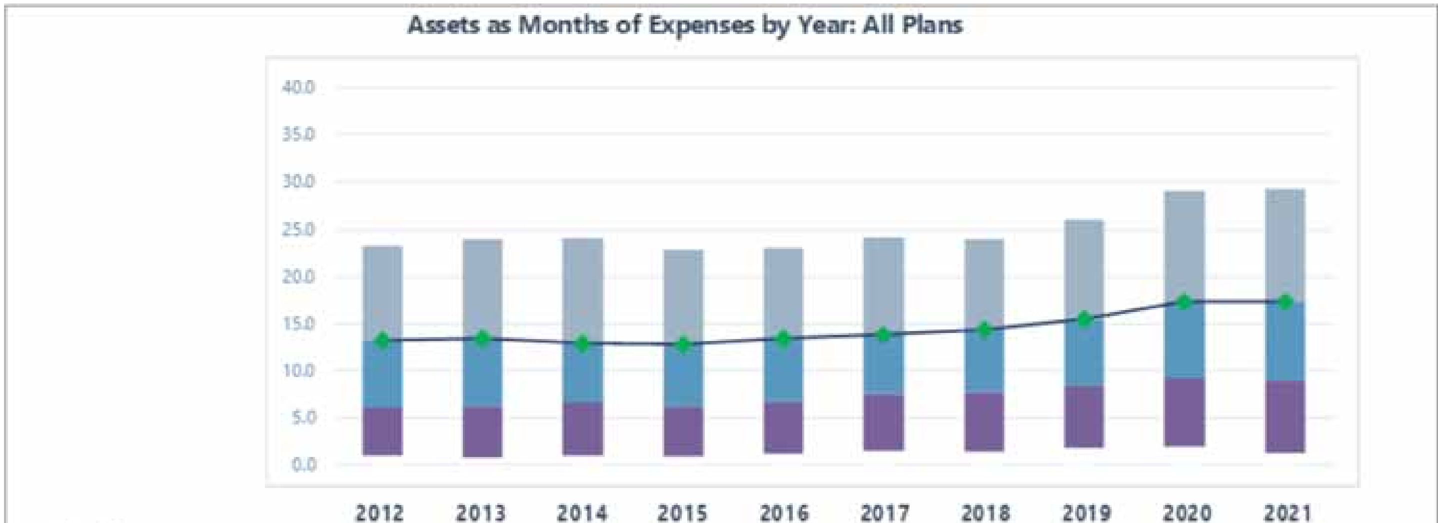
- Reserves: Assets earmarked to meet current and future benefit obligations and to withstand income and expense volatility
- Measurement of overall financial health—Assets—Gross vs. net of certain liabilities
  - Can include funding for large claims and potential expected exposures
- Trigger point for actions to maintain viability
  - Income strengthening/expense reductions

Reserve Targeting

- Targeted reserves vary depending on:
  - Fund size
  - Fixed vs. variable work
  - Fully insured vs. self-insured
  - Stop loss insurance
  - Types of liabilities
  - Ability to make changes quickly
  - Trustees' risk tolerance
  - Funding policy

Reserve Setting

- IFEBP 5500 survey—Assets as Months of Expenses



	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
5th %ile	1	1	1	1	1	1	1	2	2	1
25th %ile	6	6	7	6	7	8	8	8	9	9
Median	13	13	13	13	13	14	14	16	17	17
75th %ile	23	24	24	23	23	24	24	26	29	29
95th %ile	58	61	62	55	59	65	63	68	77	79
Median	13	13	13	13	13	14	14	16	17	17

Source: Form 5500 data

Polling Question

How many months of reserves does your plan hold?

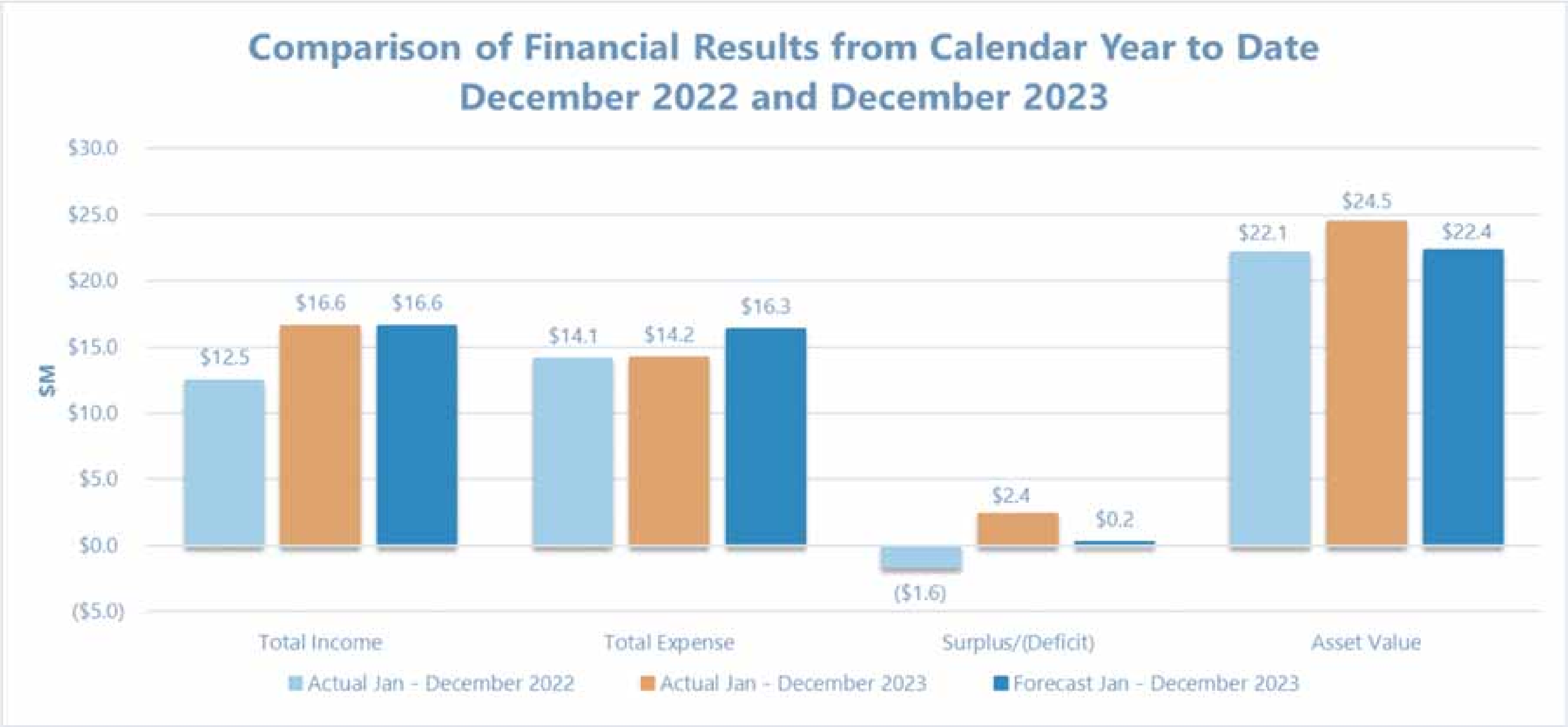
A. < 6 months
B. 6-12 months
C. 13-18 months
D. > 18 months

Experience Monitoring

- How is the Fund's financial performance tracking?
  - Trend analysis
  - Per capita claims expenses
  - Long-term view of net assets
  - Deviations from projections

Archery: The first actuary's shot is 2 feet wide to the left.
The second actuary's shot is 2 feet wide to the right.
High fives all around—On average, they shot bullseye!

Experience Monitoring



Source: Horizon Actuarial Services, LLC

Experience Monitoring

Source: Horizon Actuarial Services, LLC

Liabilities—IBU

Incurred
But
Unpaid
claims reserve

- IBU is a promise of claims already incurred that need to be paid
- Snapshot liability at year end

Liabilities—IBU

- IBU typically ranges between two and three months of claims
  - Varies with participant count, health trend, utilization, provider speed of submission and claim processing time
- Plan assets must cover this liability
- Generally made up of 2 components:

Incurred but not reported (IBNR) claims:

$ for claims provided prior to a set date that has not yet been submitted to the payer

Claims payable:

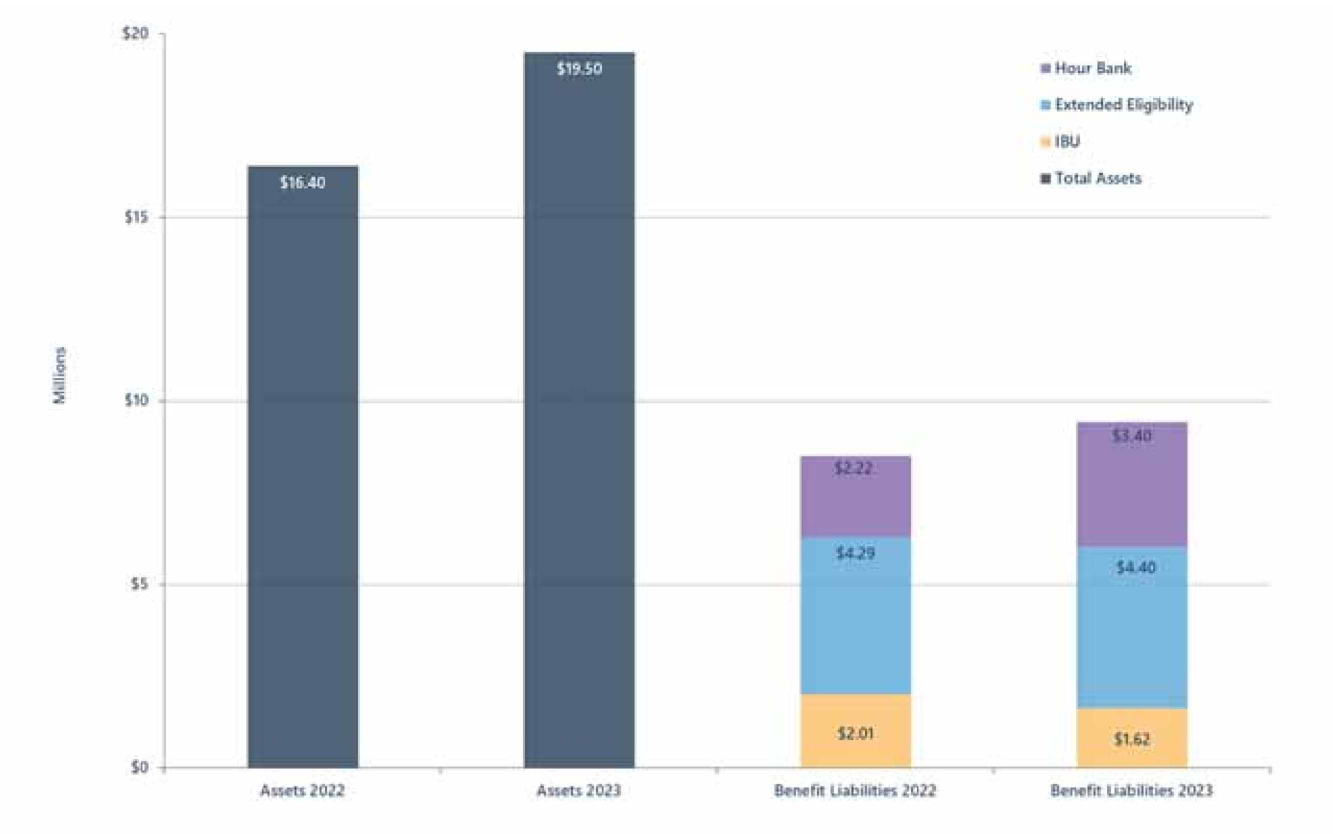
$ for claims incurred prior to a set date that have been reported to the payer and are in the process of being adjudicated, but that have not yet been paid

Liabilities—Accumulated Eligibility

- Accumulated eligibility is a promise of future coverage for eligibility already earned
  - Months of coverage based on lag between work as of year end and coverage in the next plan year
  - Hour bank or dollar bank accumulation provides extended coverage
  - ↑ with excess hours worked, employee growth, and health trend; ↓ when used in slow times
- Usage translates into Plan expenses

Liabilities—
IBU and Accumulated Eligibility

Fund Assets
vs. Liabilities



Liabilities—ASC 965 Valuation

- Basic definitions
  - Accounting Standards Codification (ASC)
  - Topic 965: Accounting and Reporting by Health and Welfare Benefit Plans
  - Financial Accounting Standards Board (FASB)
  - Other Post-Employment Benefits (OPEB)
    - Post-Employment = Retirees
    - “Other” mean other than pension
    - Includes medical, prescription drug, dental, vision, life/death, ancillary benefits, plus administration costs

Liabilities—ASC 965 Valuation

- Valuation report
  - Inputs
    - Census, claims, plan provisions
    - Assumptions: Discount rate, turnover (mortality, retirement, termination), trend, cost share
    - Actuarial Cost Method
  - Per capita claims costs (PCCC)
    - Current and future retirees
  - Retiree medical generally not vested; pay-as-you-go

Liabilities—ASC 965 Valuation

- Report goes to auditor and Trustees
  - Public vs. not public
- H&W vs. OPEB valuation vs. Pension liability

Associated Plans (Example)					
H&W Plan				DB Pension Plan	
Assets	Months of Reserves	OPEB APBO*	OPEB EPBO**	Assets	Accrued Liability
$50M	20	$150M	$250M	$350M	$350M

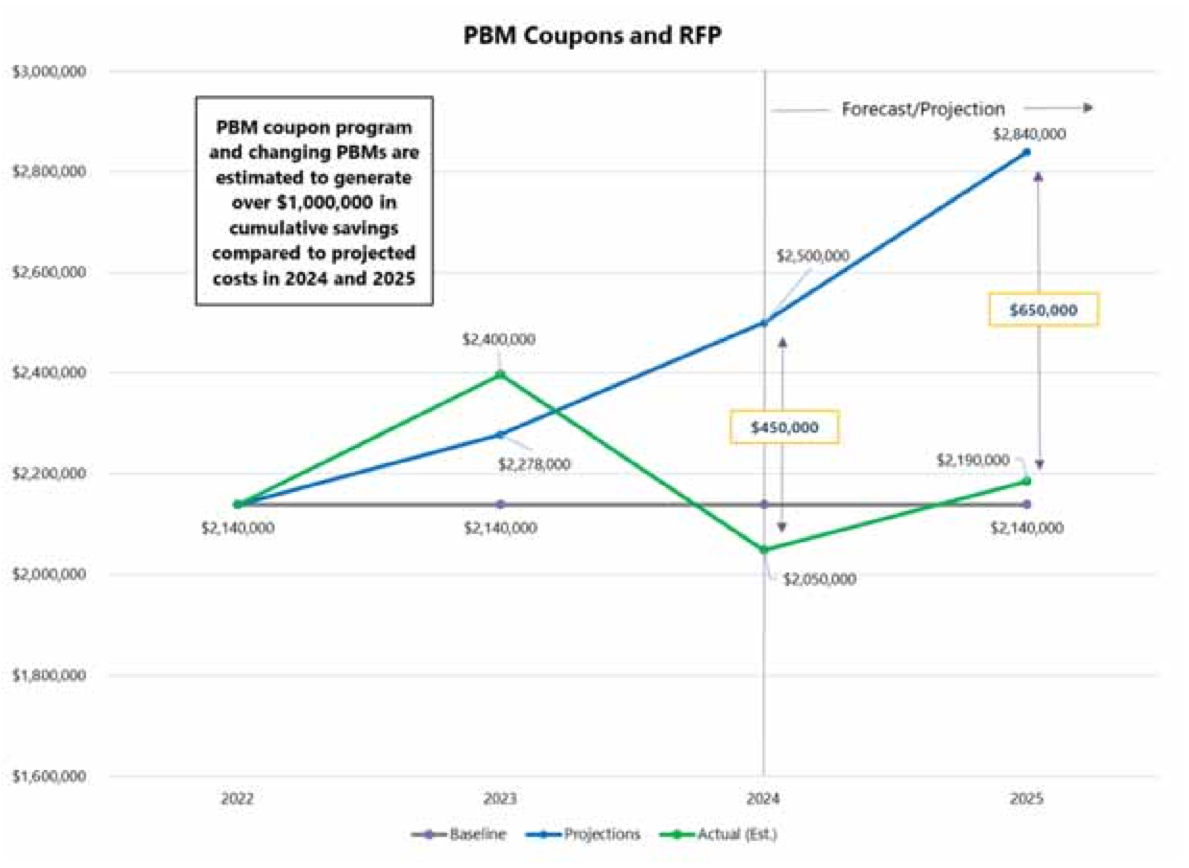
*Accumulated Post-Retirement Benefit Obligation (APBO): Actuarial present value of all benefits attributed to service rendered prior to the measurement date.
**Expected Post-Retirement Benefit Obligation (EPBO): Actuarial present value of all benefits attributed to all service.

Valuing Benefit / Program Changes

- Balance cost and coverage
- Steerage and behavior changes
- Current vs. future savings
- Using plan experience + actuarial models
- Impacts on costs and participant outcomes
- Administrative and communication ease
- Other impacts

Valuing Benefit / Program Changes

- *Is the cost/(savings) compared to the base or forecast, gross or net of fees?*
- *How does the change impacts member cost?*



Valuing Benefit / Program Changes

- Actuary can estimate Plan and participant cost or savings for eligibility or benefit changes
- Check for reasonability and validate vendor estimates of program cost or savings

	Hypothetical Plan:	Projected Annualized 2025 Plan Cost / (Savings)	
	Estimated Value of Changes to Benefits/Programs	Aggregate $	Per Hour
1	Add Weight Loss Benefit	$2,800,000	$0.80
2	Improve Medical Coinsurance 80% / 60% to 90% / 80%	$1,500,000	$0.43
3	Add Enhance Vision	$700,000	$0.20
4	Eliminate third party telemedicine vendor	($100,000)	($0.03)
5	Reduce Life and AD&D benefit by 50%	($150,000)	($0.04)
6	Increase Specialty Rx copays $30 to $50	($250,000)	($0.07)
7	PBM RFP and Coupon Program	($650,000)	($0.19)

More Questions to Ask Your Actuary

- Accuracy of cost projections?
  - Stress test results
  - Regular comparison of results to projections
- Benefit prevalence and trends
- Hot topics
- Cost efficiencies/savings ideas
  - Low-hanging fruit
  - Feasible options—What works and doesn’t work?

Key Takeaways

- Learn purpose and terminology in reports and ask questions
- Understand how changes affect the financial health of the Plan
- Actuaries generally decide on assumptions and methodology based on reasonability
- Trustees provide input on industry activity and make decisions with actuarial support

Your Feedback Is Important. Please Scan This QR Code.

Session Evaluation