

Memo

Date: September 16, 2014
To: Sparb Collins, Executive Director NDPERS
From: Josh Johnson, Pat Pechacek and Jon Herschbach
Subject: FULLY INSURED HEALTH PREMIUM PROJECTION FOR JULY 2015-JUNE 2017 BIENNIUM

Deloitte Consulting was asked by the North Dakota Public Employees Retirement System (NDPERS) to estimate the required fully insured medical premiums for the group health insurance program for the twenty-four month period beginning July 1, 2015 and ending June 30, 2017. This report provides our estimate of required medical premiums and describes the methods and assumptions used in the premium estimates.

Data Used in the Analysis

We have based our analysis on the following resources and information:

- Monthly data for NDPERS medical claims incurred between June 1, 2013 and May 31, 2014 and paid through June 30, 2014.
- Monthly data for NDPERS pharmacy claims incurred between June 1, 2013 and May 31, 2014 and paid through June 30, 2014 (Excluding PDP pharmacy claims for Medicare retirees)
- Member and contract enrollment data, by month and plan, from June 1, 2013 and May 31, 2014.
- Historical incurred/paid lag data for claims adjudicated by BCBSND for NDPERS for the past 36 months (July 1, 2011 – June 30, 2014).

Our analysis was based upon data supplied by NDPERS. We have assumed without audit or verification that all data and information provided to us is complete and accurate. We have relied upon it in arriving at our conclusions regarding the liabilities and reserves held. We performed an independent calculation of the liability using the claim data supplied and our proprietary unpaid claim liability model.

Methodologies and Assumptions

The following steps and cost components were incorporated in our development of estimated required premiums for July 1, 2015 through June 30, 2017:

- *Incurred but not reported (IBNR) claims factor* – Because not all claims which were incurred within the experience period were reported and paid by the time of the report, an actuarial factor must be applied which estimates the amount of IBNR claims outstanding.
 - *IBNR Estimation Methodology*

In our development of the unpaid claim reserve estimates, we used the Deloitte Consulting IBNR Model. Our reserve model uses a modified completion factor approach, which is a common method for estimating these liabilities and one that is standard industry practice.

Our IBNR model analyzes claim payment patterns for various months of claim payments. By averaging the most recent claim patterns, we are able to determine if claims processing has sped up or slowed down, and also quantify the potential impact to the IBNR liability as a result of changing payment patterns.

In order for claim payment patterns to be considered credible, a minimum of 24 to 36 months of data is typically required, therefore, a lag report for the period July 1, 2011 through June 30, 2014 was utilized in the analysis.
- *Calculation of per member per month (PMPM) costs* – Incurred claims including estimated IBNR were divided by the average member enrollment during the experience period in order to calculate the average cost per member (person).
- *Trend* – An appropriate trend should be used to roll forward the adjusted incurred claims to the projection period. Trend may be supplied by the plan administrator or obtained from industry studies or other published surveys and NDPERS historical trend can be considered to some extent. In this analysis, survey data was utilized and compared to representative trend factors provided by the incumbent insurance carrier (BCBSND) and to NDPERS historical trend. Trend factors utilized (annual):

○ Non-Medicare medical	8.00%
○ Medicare medical	3.45%
○ Non-Medicare pharmacy	6.45%
○ Medicare pharmacy	5.85%

Incurred PMPM claims were trended forward 31 months to the mid-point of the biennium projection period.
- *Administrative fees, retention and other fixed costs* – Administrative expenses and risk/retention charges were estimated based on the actual fee/retention levels

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charged by the incumbent carrier and include the administration of all current program components. This is including but not limited to: network management, provider contracting, claims processing, member services, disease management, wellness and other programs. Also included in the fixed costs are estimated ACA fees for the Transitional Reinsurance program, Patient Centered Outcomes Research Institute and the ACA Health Insurer fees.

- *Projection of total cost* – The total trended PMPM claims cost based on the average member enrollment during the experience period was multiplied by the current enrollment from May 2014 and combined with the estimated fixed costs to generate a projected total biennium cost. Projected total cost was compared to current premium rates times May 2014 enrollment in order to calculate a required premium increase percentage.

Projection Results

The projected total 24 month cost for the period beginning 7/1/15 for all active, Non-Medicare and Medicare retiree coverage is estimated to be \$325,400,000. Compared to the total cost based on current full premium rates of \$274,400,000, this is an increase of approximately 18.6% (approximately 9.3% per year). As an illustration, the current full rate for active state employees of \$1,001.72 would require an increase to \$1,188.42.