Montana Public Schools ABC Insurance Program

MASS President's Meeting

November 7, 2023

Presented by:
Scott McClave, Tom Quirk

Agenda

- Mission/Goals
- Governance
- Underwriting
  - New Entrant Underwriting
  - Renewal Underwriting
- Entry/Exit Rules
- Financial Oversight
- Value Proposition
- Appendix

Program Goals

- Establish and maintain a member-directed risk sharing pool
- Offer insurance program that is cost competitive and meets the needs of Montana school districts.
- Committed to full transparency in all costs and accounting
- Create equitable risk sharing structures to ensure fairness and consistency for all members
- Offer long term stability through large pool risk sharing, fiscally prudent operations and accounting
- Achieve goals established by HB332 and obtain $40M benefit for Montana public schools.

HB 332

$40M in funding to first public school health insurance pool/trust to meet minimum requirements by July 1st, 2026 deadline

- Minimum 150 districts
- Minimum 12,000 covered Employee Lives (different than member lives)
- Max 12% of annual funding spent on admin
- Equal allocation of assessment risk among members
- Five(5) year initial commitment, five year lockout period.
- Early exit possible based on renewal and claim performance.

Governed by its members
For its members

Governance

BOARD OF DIRECTORS

- 11 Seats
- Each seat elected from member district
- 5 administrative, 5 labor
- 3 year terms

EXECUTIVE COMMITTEE

- Board appoints 7 members
- Handles day-to-day decisions
- 3 year terms

Governance

GUIDING PRINCIPLES

- **Member-Driven:** Governance by Members enrolled in the Program
- **Fair:** Each Member pays their own way through initial underwriting and application of the Renewal Allocation Methodology
- **Cost-Effective:** Pool large numbers of Members to obtain rate stability and economies of scale
- **Mitigate Risk:** Individually underwrite each prospective Member to ensure that only “good risk” groups participate in the pool and each Members is brought in at the right rate
- **Transparent:** Program level data and fixed cost data always available to Members

Underwriting Overview

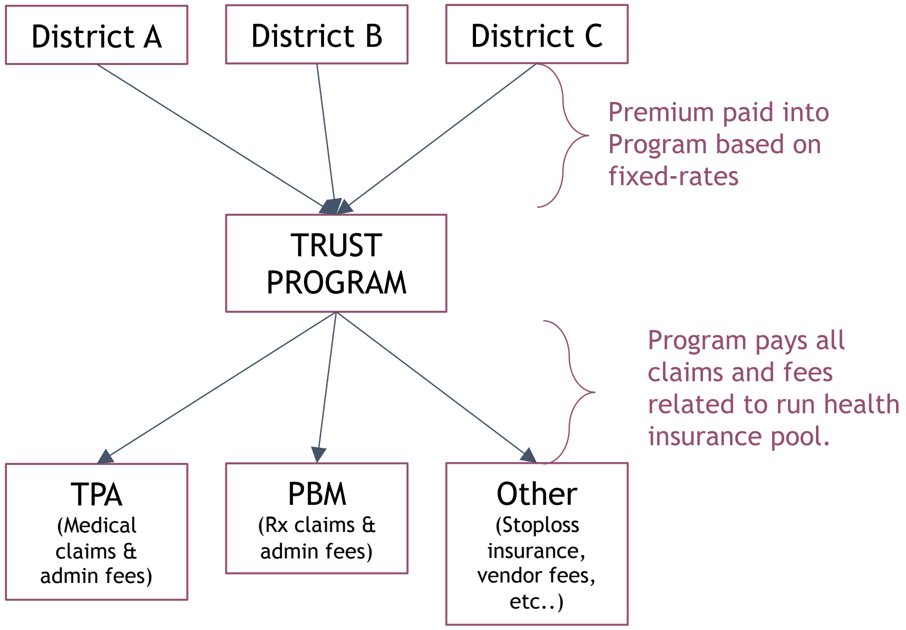
Underwriting: the process of developing rates for new members of the pool as well as annual policy renewals

Underwriting rules and guidelines are what truly define a pool and are most often the single biggest determinant in whether a program is successful or not in the long run.

The underwriting methodology proposed here has key advantages:

1. It is a proven successful model: it works.
2. A draft working version has already been constructed for MT schools and can be implemented now.
3. Complies with all of the requirements of HB 332
4. Meets the needs of MT school districts:
    - benefit design
    - vendors
    - financial equity and fairness
    - long term stability

Underwriting



- Fully-pooled risk arrangement
- Underwritten and renewed as a single pool
- New business opportunities are rated appropriately based on their risk profile
- Members are brought in at the “right” rate
- Committee ensures suitable risk characteristics through new member approval process
- New groups receive the pool renewal for a specified period (2-3 years)
- After the guarantee period, member groups are allocated the pool renewal with an adjustment based on their own performance (renewal allocation methodology)

Underwriting

RATING METHODOLOGY

Key Concepts:

- Bring in new members at the right rate
- Applicants evaluated for fit within program
- Disciplined risk evaluation and rate setting

NEW MEMBER RATING: LARGE GROUP SEGMENT

- New groups individually underwritten based on demographics, claims experience (if available) and plan design
- Each new group has its own, unique rates and benefits
- Program team calculates rates, Actuary reviews calculation, Board/Committee approves final rates (checks and balances system)

NEW MEMBER RATING: SMALL GROUP SEGMENT

- New groups individually evaluated for risk profile fit within pool:
  - Demographics
  - Employer contributions
  - Participation rate
  - Non-Medicare retiree content
- Menu of plan designs to choose from: over 40(?) variations possible
- Rates are fixed by plan design each year and also grouped into geographic regions that reflect cost of care in those areas.

Underwriting

RENEWAL RATING METHODOLOGY

Key Concepts:

- Entire pool is self-insured but members pay fixed rates to the pool
- Complete transparency of fixed costs
- Every member’s renewal starts at the average renewal for the entire pool

RENEWAL MEMBER RATING: LARGE GROUP SEGMENT

- Current members receive pooled renewal change subject to annual adjustment per loss allocation model based on three-year (governance decision) average loss ratio relative to the Program
- Max of 7.5% (governance decision) loss allocation adjustment up or down
- New members (without claims data for initial rating) receive pooled rate change first renewal with no loss allocation formula applied
- New members (with claims data for initial rating) receive pooled rate change first 2 renewals with no loss allocation formula applied

RENEWAL MEMBER RATING: SMALL GROUP SEGMENT

- Small group is pooled together and treated as one large group with the same renewal methodology applied to large group segment (see above)
- Small group governance committee works with underwriting and actuary team to consider renewal allocation among plan design types and geographic regions
  - renewal may vary slightly by plan type (governance decision)
  - renewal may vary slightly by geographic region (governance decision)
  - individual groups within small group program are not singled out for separate renewals: all groups within geographic regions receive same renewals and pay the same premium rates by plan available in the region.

Participation, Entry and Exit Rules

HB 332 mandates specific participation terms to be met:

1. Members must commit to an initial 5 year participation period. However, early exit is possible:
    - after 3rd year
    - conditions are met that indicate member may have experienced unfair renewals
    - must give notice in advance of next renewal
    - may be responsible for tail claims excess of budgeted IBNR reserves.

2. After exit, members may not re-enter pool for 5 years

Intent of entry/exit requirements is:

- require some time commitment from members to experience stability and benefits of pool
- prevent rate-hopping
- encourage pooled insurance mindset (not to take advantage of pool and leave with deficit)
- allow for fairness and early exit if pooled program is truly not a fit

Financial Oversight

Financial oversight and discipline are primary mission goals of program. Critical features have been structured specifically to ensure fiscal prudence as well as legislative compliance:

- All new member rates and renewal changes are subject to two separate approval processes:
  - Committee review and approval
  - Actuary review and approval
- Full summary program accounting and financial reporting will be provided quarterly to allow for full transparency
- Program level reserves will be established and actuarially certified. Reserve funding will be indicated in financial reports:
  - IBNR funding reserve
  - Claim Fluctuation Reserve
  - Catastrophic Excess Reserve
- Program financials will be audited annually by certified CPA. Audit results will be publicly available.

Value Proposition: All Members

- Cost Competitiveness
- Pooled renewal stability
- Benefit design flexibility
- Consultative support
- Transparency
- Enhanced Reporting
- HB 332

Appendix

Underwriting

RENEWAL MODEL ALLOCATION EXAMPLE 1: HIGHER THAN AVERAGE

LOSS RATIO VARIANCE	District XYZ	ABC Pool
Loss Ratio History*		
Current -2	91.1%	76.5%
Current -1	93.3%	84.6%
Current Period	89.4%	87.5%
Total Average	91.3%	83.4%
Loss Ratio Variance	+7.8%	

RENEWAL CALCULATION	District XYZ Renewal Calc
Loss Ratio Variance	+7.8%
Safe Harbor Corridor	+/- 5.2%
Adjustment Triggered	Yes: +2.6%
Floor/Ceiling Exceeded (+/- 7.5%)	No
ABC Pool Avg Renewal	+7%
Member Specific Renewal	+9.6%

* Loss ratio is the ratio of premium to claims. <u>Claims are adjusted to remove shock claimants above thresholds specific to each group based on the group's size</u>: smaller groups have a lower catastrophic threshold than larger groups.

Underwriting

RENEWAL MODEL ALLOCATION EXAMPLE 1: LOWER THAN AVERAGE

LOSS RATIO VARIANCE	District XYZ	ABC Pool
Loss Ratio History*		
Current -2	71.2%	76.5%
Current -1	76.7%	84.6%
Current Period	81.1%	87.5%
Total Average	76.3%	83.4%
Loss Ratio Variance	-7.1%	

RENEWAL CALCULATION	District XYZ Renewal Calc
Loss Ratio Variance	-7.1%
Safe Harbor Corridor	+/- 4.3%
Adjustment Triggered	Yes: -2.8%
Floor/Ceiling Exceeded (+/- 7.5%)	No
ABC Pool Avg Renewal	+7%
Member Specific Renewal	+4.2%

*** Loss ratio is the ratio of premium to claims. <u>Claims are adjusted to remove shock claimants above thresholds specific to each group based on the group's size</u>: smaller groups have a lower catastrophic threshold than larger groups.**

EARLY EXIT REQUIREMENTS

HB 332 mandates an initial 5 year commitment from all program members. However, the legislation also defines the circumstances under which a member is allowed to exit the program earlier than 5 years:

- At the beginning of year 3 (and in each subsequent year) in the program a report is provided to each program member (district) showing the following:
    1. **Cost Rate**: a districts cost per member for the prior plan year
    2. **Contribution Rate**: a districts fixed-rate premium contribution, per member, to the pool for the current year (based on prior year enrollment)
    3. **Adjusted Contribution Inflation Rate**: the percentage difference between the contribution rate (2) and the cost rate (3)
    4. **Medical Care Index Rate**: The medical care index (medical inflation) rate from the United States bureau of labor statistics as of July 1 of the current year.
    5. **Inflation Gap Factor**: The ratio of dividing the adjusted contribution inflation rate (3) by the medical care index rate (4).
- If the Inflation Gap Factor is greater than 1.5 then a member district may leave the program at the end of the current year (earliest possible exit would be at end of year 3).
- Districts opting to exit early do not own rights to any reserves accumulated by the entire program, including funds distributed to the program via HB 332, and may also be liable for any run-out claim liability in excess of their allocated IBNR reserve funds.

EARLY EXIT Examples

Sample Report and Calculation for 2027 Plan Year

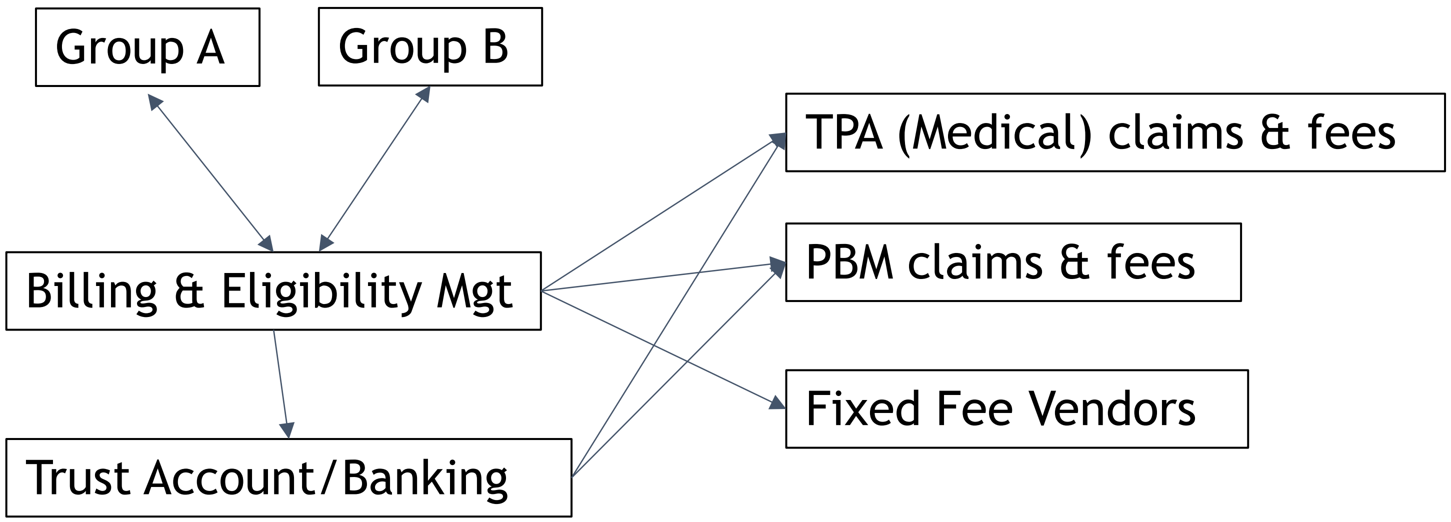
Scenario 1: District A does not qualify for early exist

Scenario 2: District A qualifies for early exit

	Scenario 1	Scenario 2
District Name:	District A	District A
Total Costs (annual), 2026	$5,376,000	$5,216,000
Covered Lives (members, annual sum), 2026	9,600	9,600
Cost Rate, 2026	$6,720.00	$6,520.00
2027 Contribution Rate (per member)	$7,000.00	$7,000.00
Adjusted Contribution Inflation Rate	4.17%	7.36%
Medical Care Index Rate	4.20%	4.20%
Inflation Gap Factor	0.992	1.753
Is Inflation Gap Factor > 1.5?	No	Yes

Administrative Structure: Data and Transactions

1. Billing & Eligibilty (B&E) vendor integrates with each member to track day to day enrollment in plan (including adds/deletes)
2. B&E vendor bills each group monthly based on enrollment and fixed rates established by pool and collects funds
3. B&E vendor distributes fees to vendors operating on fixed fee basis (fixed monthly or PEPM basis)
4. B&E vendor remits all remaining funds (claim funding) to Trust Account
5. Trust Account maintains all claim funding and is connected with each member's TPA and PBM to pay claim costs via automated ACH process



Value Proposition: Large Group

- Flexibility: Keep your current benefit plan offering exactly as it is: no need to change vendors unless you want to
- Simplicity: instead of administering a program that may have required integration with multiple vendors, the program now handles this and frees up resources internally.
- Monthly cost stability: Cost of program (fixed rates) will be known up front each year and will only change as enrollment changes.
- Renewal stability: Renewals will be driven primarily by overall pool financial performance with some member-specific performance used to determine if limited adjustment above/below pool average percent change is warranted (see renewal allocation methodology for detail).
- Large group purchasing efficiency:
  - buying from vendors as a larger pool will allow negotiation of administration fees and improved contract terms. Savings passed directly to members via improved rates.
  - stop loss insurance savings due to stability of entire pool (purchase of high limits reduces premium and insurance company profit margin: potentially no stop loss insurance necessary once reserves appropriately funded)
- Existing reserves that currently self-funded districts may have accrued for financial stability and IBNR may be used for other purposes as deemed necessary by the district.
- Consultative support: consultants for program can assist with a variety of analysis and support activities. <u>Additionally, districts may retain their own consultants as needed and program support will coordinate with them.</u>
- Enhanced reporting: entire program will utilize a consolidated claim data warehouse enabling sophisticated reporting capabilities for each member to help understand claim trends and utilization areas where there may be opportunities for intervention and improvements.
- Full Transparency: all costs related to program administration and accounting are available to program members.

Value Proposition: Small Group

- Simplicity: easy management of eligibility through electronic system. Billing, invoicing and payments handled electronically with in-person support available.
- Monthly cost stability: Cost of program (fixed rates) will be known up front each year and will only change as enrollment changes.
- Renewal stability: Renewals will be driven primarily by overall pool financial performance with some member-specific performance used to determine if limited adjustment above/below pool average percent change is warranted (see renewal allocation methodology for detail).
- Large group purchasing efficiency:
    - buying from vendors as a larger pool will allow negotiation of administration fees and improved contract terms. Savings passed directly to members via improved rates.
    - stop loss insurance savings due to stability of entire pool (purchase of high limits reduces premium and insurance company profit margin: potentially no stop loss insurance necessary once reserves appropriately funded)
- Large portfolio of benefits to choose from with known rates/costs. Easy budgeting and planning while meeting employee and dependent insurance needs
- Best-in-class vendors supporting program
- Reporting: data warehouse will report on small group program as a whole so that members can understand both financial performance driving renewals as well as areas that the management committee will focus on to improve member experience and cost.
- Traditional large group rate structure: no more age-banded rates.