



MEMORANDUM

TO: Health Care Commission
 Duane Goossen, Chair
 Steve Dechant
 Sandy Praeger
 Nancy Ruoff
 John Staton

FROM: Doug Farmer

DATE: March 4, 2010

SUBJECT: Target Reserves Funding Levels

At the January Health Care Commission (HCC) meeting, the HCC asked for additional information on the target level of reserve funding for a self-funded plan of the size of the State Employee Health Plan (SEHP). The plan actuaries from Aon have provided us with some additional information on the reserves and the level of confidence that they have with each reserve amount. The overall confidence level is a measure of our actuaries' confidence that plan reserves are sufficient to cover any plan liabilities. This analysis looks at Incurred But Not Reported (IBNR) and Claims Fluctuation Reserve (CFR).

For Plan Year 2010:

Confidence Level	IBNR	CFR	Total
50%	\$28,000,000	\$0	\$28,000,000
60%	\$28,000,000	\$8,619,849	\$36,619,849
75%	\$28,000,000	\$21,776,461	\$49,776,461
90%	\$28,000,000	\$37,655,130	\$65,655,130
95%	\$28,000,000	\$45,821,302	\$73,821,302

For Plan Year 2011:

Confidence Level	IBNR	CFR	Total
50%	\$30,100,000	\$0	\$30,100,000
60%	\$30,100,000	\$9,416,254	\$39,516,254
75%	\$30,100,000	\$23,788,432	\$53,888,432
90%	\$30,100,000	\$41,134,164	\$71,234,164
95%	\$30,100,000	\$50,054,826	\$80,154,826

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Aon recommends using the 95 percent confidence level. They report that most of the other states that they work with have been using the 90 percent confidence level for setting their reserve funding. While they maintain that they would recommend a 95 percent confidence level for a public employer, they reported to us that their other state clients are reviewing their reserve level funding due to the current economic situation of state budgets.

We are prepared to model any additional options the HCC may wish to see before making a decision on the funding levels and rates. If the commissioners have specific requests prior to the HCC meeting, please forward them to my attention and we will have them available so the HCC can make a decision at the April 23, 2010, meeting.