

State of Kansas Health Plan's 2015 Claims Costs and Margin

Review of emerging claims experience and claims fluctuation margin

Prepared by Health and Benefits Consulting

Presentation to Kansas Health Care Commission



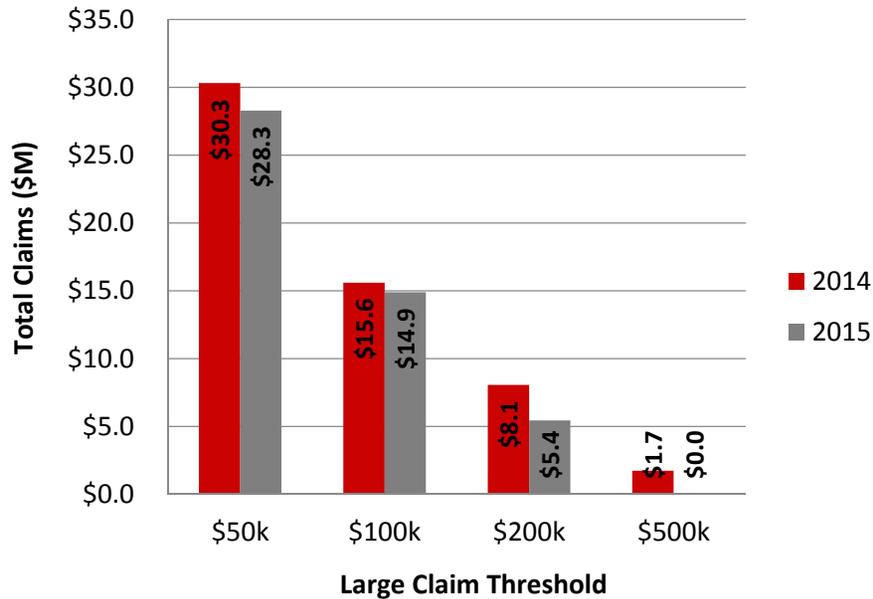
S&P Index Trend Update – No Change in the Index

- In the April 6, 2015 HCC meeting, we presented a comparison of the State of Kansas Health Plan's 2014 claim trend to the S&P Index trend
 - The 2014 State of Kansas Health Plan trend was estimated at 7.5%
 - At the time of the April meeting, the S&P Index trend was 4.0% with data through October 2014
 - With data through December 2014, the S&P Index trend remains at 4.0%

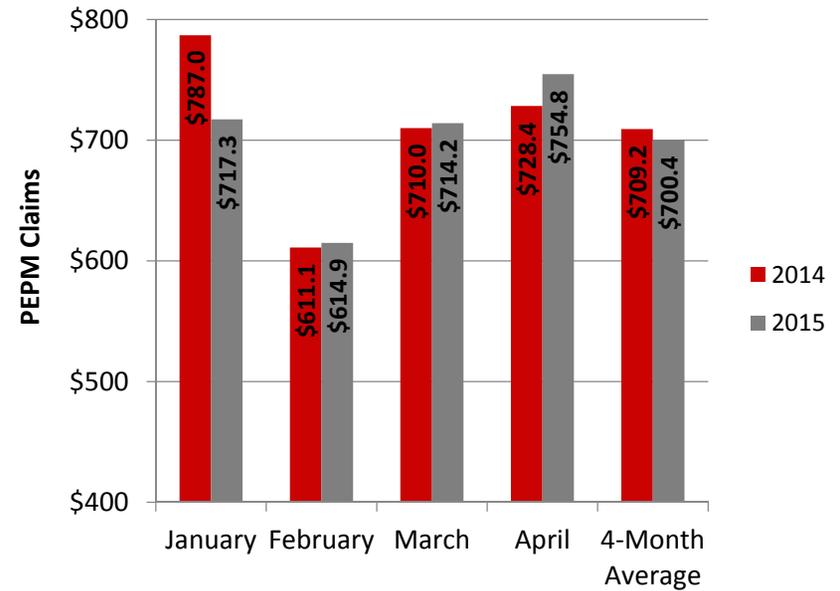
Claims Experience – January through April 2015 versus 2014

- Large claims experience has improved period over period with a decrease in incidence and total paid claims for members exceeding our large claim thresholds
- A comparison of the State of Kansas health plan claims experience for the first four months of the year shows per employee per month (PEPM) claims has actually gone down by 1.2%

Total Claims For Members With Claims Over Threshold (Jan-Apr)



January through April PEPM Claims - 2014 vs. 2015



Claims Fluctuation Margin Review

- Health plan claims costs are not always predictable. To address this volatility in claims expense, the State of Kansas funds a claims fluctuation reserve.
- Confidence Levels
 - Claims fluctuation reserves are often set to meet a certain statistical confidence level
 - This represents the likelihood total claims will fall below the budget plus the claims fluctuation reserve (e.g. at a 75% confidence level, we believe the budget plus reserve will exceed actual expenses three out of four years)
 - A confidence level (e.g. 75% or 90%) is chosen based on the risk aversion of the sponsor of the health plan
 - As the confidence level increases a larger reserve is required; the reserve is based on an assessment of the health plan's claims experience and trend assumption volatility
- Reserve Assessment
 - We have reviewed the State of Kansas health plan's historical claims and trend experience
 - Our statistical analysis indicates claims volatility is lower than originally projected, meaning the State does not need to hold as large of a fluctuation reserve
 - The State currently holds a 5.5% claims fluctuation reserve which equated to a 75% confidence level
 - This reserve could be lowered to 4% of claims to keep the same confidence level (75%)
 - Alternatively, the reserve could remain at 5.5% which increases the confidence level to 83%
 - At an 83% confidence level, we believe the budget plus reserve will exceed actual expenses five out of six years