



The State of Delaware

Health Fund Reserve Calculation Methodology

SEBC Financial Subcommittee Meeting

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Initial Reserve Calculation

- What is IBNP – An Incurred But Not Paid (IBNP) reserve or liability is an estimate of the value of the unpaid portion of medical and/or prescription drug claims that have been incurred during the current and prior periods but have not yet been reported or have been reported but are unpaid as of the reporting date. When calculating this liability, we should additionally consider other items that may be “due but unpaid” such as:
 - Prescription drug rebates
 - Delays in receipts of other revenue items (such as participating group fees, EGWP payments from the government, etc.)
- WTW began determining Claim Liability and Minimum reserves in 2016
- Initial Claim Liability estimates were based on the average lags reported by each carrier at that time
- These lag factors were then applied to the most recent rolling twelve months of claims estimates to produce an estimated aggregate total Claim Liability reserve
 - On a go-forward basis, each subsequent Claim Liability reserve was estimated based on the growth in GHIP Operating Expenses
- The year-end Claim Liability reserve was \$68.3 million at the end of FY23 and is currently projected to be \$73.4 million at the end of FY24

Minimum Reserve

- An Additional Minimum Reserve has been calculated to protect the GHIP Fund from potential adverse fluctuations in claims experience from year-to-year to ensure that the Fund has enough cash on hand to cover both its expected costs plus any potential unanticipated costs
- The year-end FY23 Minimum Reserve was estimated at \$27.2 million, or approximately 2.1% of expected FY24 annual operating expenses
- In general, the GHIP Fund should maintain enough cash on hand to cover expected Operating Expenses plus IBNP plus Minimum Reserves
 - At a minimum, the GHIP Fund should have enough cash on hand to cover both projected Operating Expenses plus the Minimum Reserve
- For FY24, Operating Expenses are currently projected at 1.9% worse than Budget due to poor claims experience on the pharmacy side (largely due to the coverage of obesity medications in the commercial plan, higher than anticipated EGWP claims and higher than anticipated SurgeryPlus claims)
- A 2% cushion should generally be enough to cover this type of bad experience period

Refresh of IBNP Estimates

- While Operating Expenses have increased over time, so have plan administrator claim processing times
 - For example, many PBMs process claims in real time (e.g., CVS)
- Pharmacy rebates are paid on a lagged basis
 - E.g., FY24-Q1 rebates were paid in November 2023 – a 60-day lag
 - IBNP should reflect that this revenue stream has been earned as of any particular measurement date
- EGWP Revenues are lagged
 - The Plan receives many different revenue streams from the government related to the EGWP:
 - Direct Subsidies – paid monthly on the 6th business day of the current month
 - Federal Reinsurance Payments – paid monthly on the 6th business day of the current month
 - Coverage Gap Discount fees – paid quarterly, 90-120 days after quarter ends
 - Year-end Reconciliation – paid annually, 12-15 months after the close of the Plan year
 - Any of these revenue streams “earned” prior to the measurement date and received after the measurement date should be reflected in the Claim Liability Reserve
- These “lagged” payments due the GHIP total more than \$50 million at any given measurement date

Refresh of IBNP Estimates

	Re-Estimated FY23 YEAR-END IBNP		
	6/30/2023 Reported IBNR	Due and Not Yet Paid or (Received)	Total 6/30/2023 IBNP
Aetna	\$ 27,400,000	\$ 2,600,000	\$ 30,000,000
Highmark	\$ 51,000,000	\$ 12,400,000	\$ 63,400,000
CVS	\$ -	\$ 9,000,000	\$ 9,000,000
SurgeryPlus	\$ 400,000	\$ 100,000	\$ 500,000
EGWP Direct Subsidy	\$ -	\$ -	\$ -
Federal Reinsurance	\$ -	\$ (1,900,000)	\$ (1,900,000)
Commercial Rebates	\$ -	\$ (17,500,000)	\$ (17,500,000)
EGWP Rebates	\$ -	\$ (15,000,000)	\$ (15,000,000)
EGWP Year-end Reconciliation	\$ -	\$ (13,500,000)	\$ (13,500,000)
Coverage Gap Discount	\$ -	\$ (8,000,000)	\$ (8,000,000)
Participating Group Fees	\$ -	\$ (600,000)	\$ (600,000)
Expenses	\$ -	\$ 4,000,000	\$ 4,000,000
Total	\$ 78,800,000	\$ (28,400,000)	\$ 50,400,000