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**AGENDA ITEM**

☒ Action Item  
☐ Information Only

Date: March 5, 2003  
Item Number: III  
Title: Rate and Plan Design –  
July 2003 through June 2004

**Summary**

This report addresses the following topics:

1. Current Financial Condition of the Program
2. Upcoming Plan Year Projections
  - a. Update on FY 2004 State Budget
  - b. Cost Projections with Current Plan Design
3. Plan Design Objectives
4. Plan Design Options
  - a. Option #1 – Maintenance of Current Benefits
  - b. Option #2 – Two-Tier Plan
5. Recommendation

**Report**

***Current Financial Condition of the Program:***

As reported in many different forums, the Public Employees' Benefits Program (PEBP) has experienced two years of very rapid increases in claims cost. Projections show that expenses will have outpaced premium revenue by almost \$22 million between July 2001 and June 2003. This will leave the plan's funded reserve at a precarious \$3.9 million as of June 30, 2003 compared to the actuarially recommended level of \$25 million<sup>1</sup>.

A five-year history of the program's net income/(loss) and funded reserves is shown on the following chart. Note that substantial mid-year infusions of state subsidy occurred in FY 1999 and again in FY 2003. Without those increases in revenue, the fund would have been in a significant cash deficit position.

<sup>1</sup> As of June 30, 2002.

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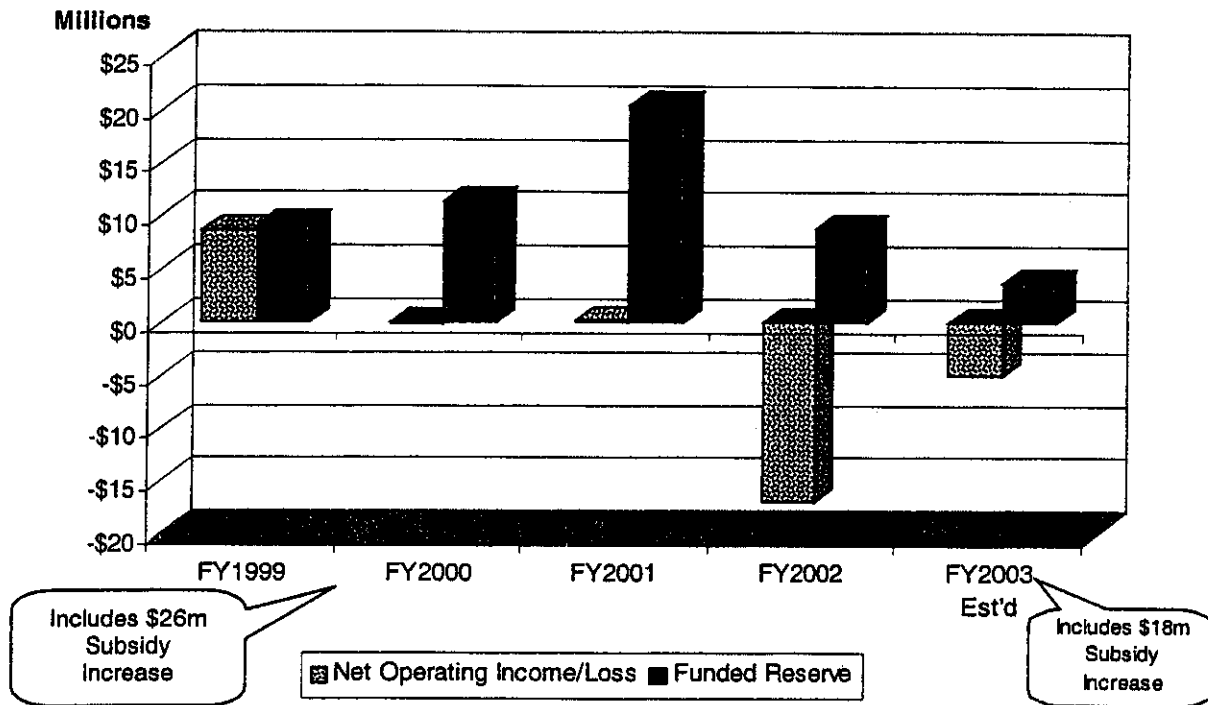
ASSEMBLY WAYS AND MEANS

DATE: 3-4-03 ROOM: 2134 EXHIBIT D

SUBMITTED BY: PEBP

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### PEBP Fund 625 Net Income/(Loss) and Funded Reserve Levels

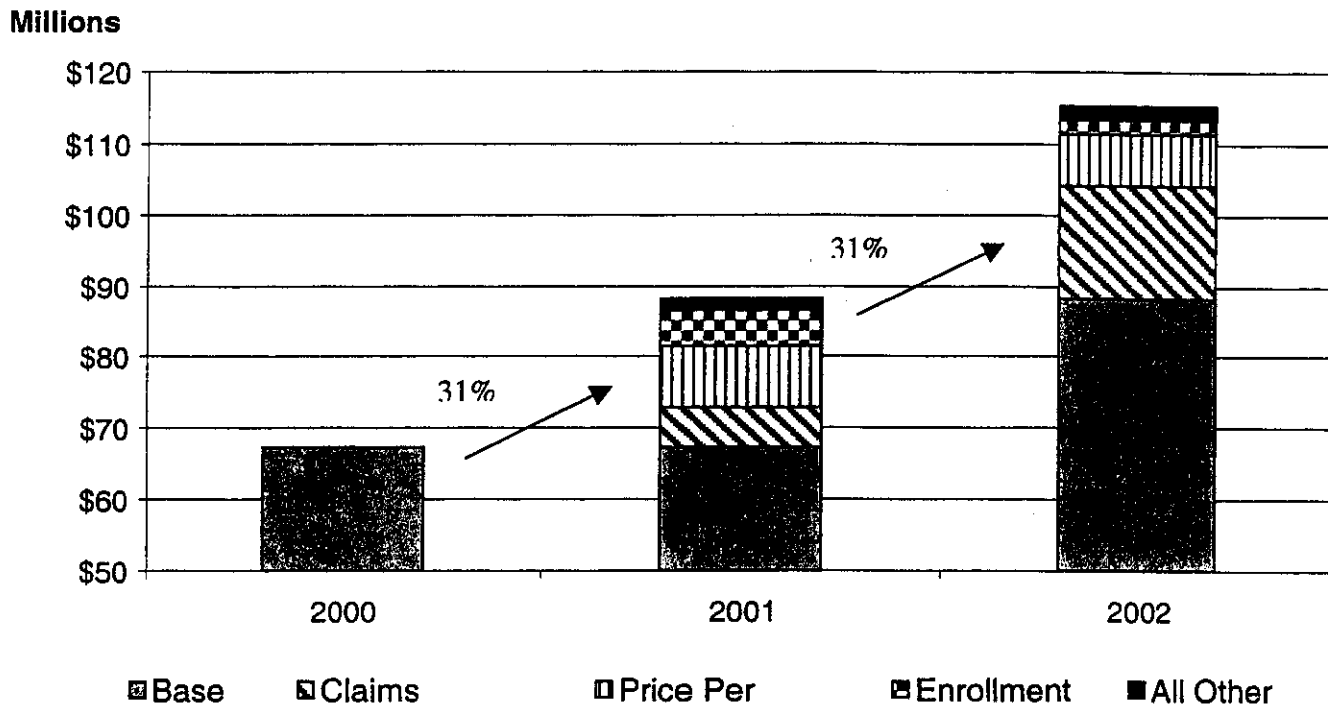


Reasons for the decline in financial condition of the plan are multi-fold:

- **Large claims** - After the infusion of additional State subsidy during FY 1999, the plan appeared to experience a period of relative financial stability for the next two fiscal years. However, during this two year period, there was a build up of unpaid claims, large dollar claims in particular. Payment of those claims during FY 2002 was a significant factor in the net loss during that year.
- **Claim volume (utilization)** - During the later part of FY 2002 and FY 2003, the plan continued to realize a significant increase in the number of claims submitted and paid.

The following graphic represents the proportion of increase in claims expense that can be attributed to price (e.g. large claims), claims volume, and enrollment changes. From this chart, it can be summarized that most of the growth in calendar year 2001 was the result of cost per claim and that most of the growth in calendar year 2002 was the result of claims volume.

### Self Funded Cost Increases (Medical, Dental, and Vision)



- Loss of Health Maintenance Organization (HMO) options** – HMO programs, by design and operating fundamentals, have built-in ‘systems’ for monitoring and containing costs that are not provided for at that same level in preferred provider (PPO) plans. Access to care is more defined and utilization is closely monitored. In January 2001, there was a shift of 4,400 participants from HMO providers to the self-funded plan. Again in 2002, there was a shift of another 1,100 participants to the self-funded plan. Due to market pressures in northern Nevada, the HMO providers withdrew from participating in the PEBP plan after incurring financial losses each year. The resulting shift to the self-funded plan put on added pressure (and risk) that the rate structure did not support.
- Premium increases** – While there are many different rate categories, one way of viewing how the rise in claims expense compares to premium increases is shown on the chart below. During the recent two-year period of rapid increases in claims expense, the average per capita cost in the self-funded plan has risen 56% (for medical, dental, and vision). During that same period, no category of premium rates has increased at that rate except the non-state actives. This representation is meant to