

Commonwealth of Kentucky

Kentucky Employees' Health Plan

**Actuarial Reserve Study
December 31, 2024**

**Three Alliance Center
3550 Lenox Road NE
Suite 1700
Atlanta, GA 30326**

February 2025

Commonwealth of Kentucky

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EXECUTIVE SUMMARY

Aon has conducted an actuarial valuation of the incurred, but not paid, claims as of December 31, 2024, for the medical and prescription drug benefits provided by Kentucky Employees' Health Plan (KEHP) and administered through Humana and Express Scripts (ESI) prior to 2015. Beginning from 2015, medical and prescription drug benefits are administered through Anthem and Caremark.

The results show a projected total reserve of approximately \$138.4 million. This figure includes \$6.6 million as an explicit provision for adverse experience. Claims that have been processed and paid, and invoiced to KEHP but not yet paid are excluded from these actuarial estimates, though this may represent an additional liability outside the scope of this actuarial review. The estimates provided also exclude unallocated amounts, which are believed to be immaterial to the Plan.

The details of the Unpaid Claim Reserve are shown in separate exhibits for Medical, Pharmacy, CDHP Health Reimbursement Arrangement (HRA) and the Waiver Credit HRA.

The traditional actuarial loss developmental method and Bornhuetter-Ferguson method were the basis of our calculation. The loss development uses historical paid claims information by incurred date. This method is consistent with reserve calculations within the industry, and best reflects the impact on claim payment patterns and accounts for the cyclical nature of the Plan's claims.

In accordance with GASB 10, to the extent that future billed premiums for the 2024 plan year are not sufficient to cover future incurred claims and administrative fees for the 2024 plan year, a "premium deficiency reserve" (PDR) in the amount of the difference should be estimated. As the Commonwealth's plan year end is December 31, 2024, there are no longer any "future" claims, admin fees, or premiums relate to the 2024 plan year. Therefore, there is no estimated premium deficiency reserve as of December 31, 2024.

Also included in this report are the actual Rx rebates paid from January 1, 2021 to September 30, 2024 and the estimated Rx rebate from October 1, 2024 to December 31, 2024.

The results mentioned above are contingent upon future events. Consequently, actual results will differ from projected results. These deviations may be material. KEHP staff should monitor emerging experience and take appropriate actions as required.

**ACTUARIAL CERTIFICATION
STATEMENT OF OPINION**

Aon has been retained by the Commonwealth of Kentucky to study the actuarial reserves for incurred but not paid claims as of December 31, 2024, for the medical and prescription drug benefits provided by Kentucky Employees' Health Plan. I am employed by Aon. I am a Member of the Society of Actuaries and am qualified by education and experience to make the statements of actuarial opinion contained herein.

In performing our reserve study, we have relied upon reports and information provided by Merative, the carriers and The Commonwealth of Kentucky. We have not audited this data beyond general tests for reasonableness. The results are our best estimate of incurred but unpaid claims with explicit margins for adverse deviation. The techniques and methodology used are reasonable and in accordance with generally accepted actuarial principles and practice.



February 20, 2025

LinXia Xiong, FSA, MAAA
Vice President

Date



February 20, 2025

Colleen M. Huber, FSA, MAAA
Senior Vice President

Date

DATA AND ASSUMPTIONS

Commonwealth of Kentucky Medical and Pharmacy benefits are administered through Anthem and Caremark beginning from 2015. Below is all data source we have used:

- Monthly enrollment provided by Merative.
- Transactional and eligibility data was provided by KEHP.
- Medical and Pharmacy claims incurred and paid from January 1, 2021 to December 31, 2024 provided by Anthem and Caremark.

No adjustment for interest was used in this analysis. Anthem and Caremark don't charge administrative fees for processing run-out claims so no administrative fee reserve is required.

METHODOLOGY

The unpaid claim liability (UCL), also called the incurred but not reported (IBNR) reserve, at a specified date is essentially the estimated claims incurred up to that date less the claims that have been (incurred and) paid to that date. Since the incurred and paid claims are known, the UCL is easily determined once the incurred claims have been estimated.

The traditional loss development method uses historical claim payment patterns to develop completion factors that are used to estimate incurred claims. The claims incurred in a given month and paid by the end of the experience period are divided by the completion factor to estimate the incurred claims for that month. The UCL for that month is subsequently determined by subtracting the known incurred and paid claims from the estimated incurred claims. The total UCL is merely the sum of all the appropriate monthly UCL estimates.

This method is relatively easy to understand and is effective when the historical claim payment patterns are deemed to be stable enough to estimate current/future claim payment patterns and when several months of claim payments (run-out) after the incurred month are available. When the run-out for any month is limited, this month is called immature and the associated completion factor is significantly less than one. The resulting incurred claim estimate is unstable. Consequently, a secondary method has traditionally been used to estimate the immature months.

The secondary method for health claims is often an average of historical incurred claims adjusted for claim trend and enrollment between the historical period and the time of interest. One of the shortcomings of this secondary method is that the available claim payment information for the month being estimated is not used. Another problem is that the line of demarcation between mature months and immature months is as much art as science.

The Bornhuetter-Ferguson Method (BFM) addresses both of these issues by blending the loss development method and the secondary method. The BFM uses the available incurred and paid data and the expected UCL developed from the secondary method to estimate incurred claims. This method generally provides a more stable estimate than the pure loss development method, a more responsive estimate than the secondary method, and a reasonable technique for blending the results of both methods.

Using the BFM with claims paid through December 31, 2024, the resulting UCL for December 31, 2024 was approximately \$131.8 million. In addition, an explicit margin for adverse deviation of 5.0% of claims unpaid on December 31, 2024 has been used.

RESULTS

The result of our reserve analysis shows the following components of our December 31, 2024 reserve for the Kentucky Employees' Health Plan.

Exhibit 1

Kentucky Employees' Health Plan Terminal Liability Calculation as of December 31, 2024				
	Unpaid Claims Liability as of December 31, 2024	Margin (5%)	Administrative Fees for Processing Runout Claims	Total IBNR Reserve (Rounded to Nearest \$1,000)
Medical	\$127,779,570	\$6,388,979	\$0	\$134,169,000
Pharmacy	\$519,293	\$25,965	\$0	\$545,000
CDHP HRA	\$2,143,146	\$107,157	\$0	\$2,250,000
Waiver HRA	\$1,367,393	\$68,370	\$0	\$1,436,000
Grand Total	\$131,809,402	\$6,590,470	\$0	\$138,400,000

* Claims that have been processed and paid, and invoiced to KEHP but not yet paid are excluded from these actuarial estimates, though this may represent an additional liability outside the scope of this actuarial review. The estimates provided also exclude unallocated amounts, which are believed to be immaterial to the Plan.

**No administrative fees are required from Anthem or Caremark for processing runout claims.

Exhibit 2a

Kentucky Employees' Health Plan Medical and Pharmacy Terminal Liability Calculation as of December 31, 2024

Month	Enrollment	Estimated Incurred Claims	Completion Factor	Actual Paid	Total Unpaid Claim Reserve
Jan-22	139,271	\$120,093,689	1.000	\$120,093,689	\$0
Feb-22	138,919	\$120,680,763	1.000	\$120,680,763	\$0
Mar-22	138,935	\$145,918,590	1.000	\$145,918,590	\$0
Apr-22	138,732	\$139,459,131	1.000	\$139,459,131	\$0
May-22	138,533	\$146,020,903	1.000	\$146,020,903	\$0
Jun-22	138,120	\$156,709,066	1.000	\$156,709,066	\$0
Jul-22	137,350	\$148,749,453	1.000	\$148,749,453	\$0
Aug-22	136,362	\$159,308,241	1.000	\$159,308,241	\$0
Sep-22	135,557	\$155,415,755	1.000	\$155,415,755	\$0
Oct-22	137,962	\$160,470,196	1.000	\$160,470,196	\$0
Nov-22	138,038	\$168,706,315	1.000	\$168,706,315	\$0
Dec-22	138,200	\$178,880,387	1.000	\$178,880,387	\$0
Jan-23	138,657	\$129,933,317	1.000	\$129,933,317	\$0
Feb-23	138,390	\$134,169,506	1.000	\$134,177,917	(\$8,411)
Mar-23	138,646	\$162,177,526	1.000	\$162,174,512	\$3,013
Apr-23	138,642	\$153,690,903	1.000	\$153,702,545	(\$11,642)
May-23	138,525	\$167,248,875	1.000	\$167,253,694	(\$4,819)
Jun-23	138,392	\$176,435,570	1.000	\$176,417,097	\$18,472
Jul-23	138,166	\$172,298,313	1.000	\$172,225,846	\$72,467
Aug-23	137,374	\$180,990,845	0.999	\$180,849,947	\$140,898
Sep-23	136,796	\$166,134,141	0.999	\$165,935,995	\$198,146
Oct-23	139,327	\$184,255,369	0.999	\$183,996,349	\$259,020
Nov-23	139,556	\$188,984,544	0.998	\$188,684,663	\$299,881
Dec-23	139,704	\$199,647,570	0.998	\$199,288,061	\$359,508
Jan-24	140,879	\$144,530,780	0.998	\$144,179,215	\$351,565
Feb-24	140,692	\$156,370,599	0.997	\$155,845,276	\$525,324
Mar-24	140,964	\$167,940,157	0.996	\$167,287,487	\$652,671
Apr-24	140,951	\$177,240,045	0.995	\$176,366,085	\$873,961
May-24	140,811	\$183,928,846	0.993	\$182,675,403	\$1,253,443
Jun-24	140,567	\$185,530,058	0.990	\$183,663,874	\$1,866,184
Jul-24	140,025	\$204,167,072	0.985	\$201,036,414	\$3,130,658
Aug-24	139,110	\$195,765,062	0.978	\$191,439,083	\$4,325,979
Sep-24	138,863	\$192,719,027	0.966	\$186,146,233	\$6,572,794
Oct-24	141,061	\$218,131,096	0.940	\$204,950,900	\$13,180,196
Nov-24	141,094	\$208,212,249	0.870	\$181,144,506	\$27,067,743
Dec-24	141,445	\$225,381,811	0.702	\$158,210,000	\$67,171,811
Total		\$6,076,295,772		\$5,947,996,909	\$128,298,863

Exhibit 2b
Kentucky Employees' Health Plan
Medical
Terminal Liability Calculation as of December 31, 2024

Month	Enrollment	Estimated Incurred Claims	Completion Factor	Actual Paid	Total Unpaid Claim Reserve
Jan-22	139,271	\$79,713,297	1.000	\$79,713,297	\$0
Feb-22	138,919	\$80,955,115	1.000	\$80,955,115	\$0
Mar-22	138,935	\$98,183,711	1.000	\$98,183,711	\$0
Apr-22	138,732	\$94,518,710	1.000	\$94,518,710	\$0
May-22	138,533	\$98,192,860	1.000	\$98,192,860	\$0
Jun-22	138,120	\$106,602,462	1.000	\$106,602,462	\$0
Jul-22	137,350	\$100,526,709	1.000	\$100,526,709	\$0
Aug-22	136,362	\$107,057,499	1.000	\$107,057,499	\$0
Sep-22	135,557	\$104,247,611	1.000	\$104,247,611	\$0
Oct-22	137,962	\$109,372,802	1.000	\$109,372,802	\$0
Nov-22	138,038	\$116,514,010	1.000	\$116,514,010	\$0
Dec-22	138,200	\$123,838,095	1.000	\$123,838,095	\$0
Jan-23	138,657	\$82,244,206	1.000	\$82,244,206	\$0
Feb-23	138,390	\$86,396,643	1.000	\$86,405,698	(\$9,055)
Mar-23	138,646	\$104,965,665	1.000	\$104,965,999	(\$334)
Apr-23	138,642	\$97,901,229	1.000	\$97,921,446	(\$20,217)
May-23	138,525	\$104,992,717	1.000	\$105,008,986	(\$16,269)
Jun-23	138,392	\$113,126,645	1.000	\$113,122,407	\$4,238
Jul-23	138,166	\$110,988,755	0.999	\$110,931,966	\$56,789
Aug-23	137,374	\$114,259,472	0.999	\$114,137,014	\$122,457
Sep-23	136,796	\$104,945,722	0.998	\$104,768,198	\$177,524
Oct-23	139,327	\$115,833,537	0.998	\$115,600,314	\$233,223
Nov-23	139,556	\$122,647,528	0.998	\$122,372,611	\$274,916
Dec-23	139,704	\$130,928,592	0.997	\$130,595,543	\$333,050
Jan-24	140,879	\$89,399,645	0.996	\$89,069,837	\$329,808
Feb-24	140,692	\$99,392,883	0.995	\$98,891,595	\$501,288
Mar-24	140,964	\$107,361,783	0.994	\$106,736,823	\$624,960
Apr-24	140,951	\$112,360,800	0.992	\$111,514,090	\$846,711
May-24	140,811	\$117,540,704	0.990	\$116,326,826	\$1,213,878
Jun-24	140,567	\$120,497,506	0.985	\$118,677,346	\$1,820,160
Jul-24	140,025	\$129,371,406	0.976	\$126,287,512	\$3,083,894
Aug-24	139,110	\$121,842,665	0.965	\$117,552,587	\$4,290,078
Sep-24	138,863	\$117,474,350	0.944	\$110,927,483	\$6,546,867
Oct-24	141,061	\$135,553,301	0.903	\$122,395,730	\$13,157,571
Nov-24	141,094	\$132,716,810	0.796	\$105,680,588	\$27,036,221
Dec-24	141,445	\$136,200,913	0.507	\$69,029,102	\$67,171,811
Total		\$3,928,666,359		\$3,800,886,788	\$127,779,570

Exhibit 2c
Kentucky Employees' Health Plan
Pharmacy
Terminal Liability Calculation as of December 31, 2024

Month	Enrollment	Estimated Incurred Claims	Completion Factor	Actual Paid	Total Unpaid Claim Reserve
Jan-22	139,271	\$40,380,392	1.000	\$40,380,392	\$0
Feb-22	138,919	\$39,725,648	1.000	\$39,725,648	\$0
Mar-22	138,935	\$47,734,879	1.000	\$47,734,879	\$0
Apr-22	138,732	\$44,940,422	1.000	\$44,940,422	\$0
May-22	138,533	\$47,828,043	1.000	\$47,828,043	\$0
Jun-22	138,120	\$50,106,604	1.000	\$50,106,604	\$0
Jul-22	137,350	\$48,222,744	1.000	\$48,222,744	\$0
Aug-22	136,362	\$52,250,742	1.000	\$52,250,742	\$0
Sep-22	135,557	\$51,168,144	1.000	\$51,168,144	\$0
Oct-22	137,962	\$51,097,394	1.000	\$51,097,394	\$0
Nov-22	138,038	\$52,192,305	1.000	\$52,192,305	\$0
Dec-22	138,200	\$55,042,293	1.000	\$55,042,293	\$0
Jan-23	138,657	\$47,689,111	1.000	\$47,689,111	\$0
Feb-23	138,390	\$47,772,863	1.000	\$47,772,219	\$644
Mar-23	138,646	\$57,211,860	1.000	\$57,208,513	\$3,347
Apr-23	138,642	\$55,789,673	1.000	\$55,781,099	\$8,575
May-23	138,525	\$62,256,158	1.000	\$62,244,707	\$11,450
Jun-23	138,392	\$63,308,925	1.000	\$63,294,691	\$14,235
Jul-23	138,166	\$61,309,557	1.000	\$61,293,880	\$15,678
Aug-23	137,374	\$66,731,374	1.000	\$66,712,933	\$18,440
Sep-23	136,796	\$61,188,419	1.000	\$61,167,797	\$20,622
Oct-23	139,327	\$68,421,832	1.000	\$68,396,035	\$25,797
Nov-23	139,556	\$66,337,016	1.000	\$66,312,052	\$24,964
Dec-23	139,704	\$68,718,977	1.000	\$68,692,519	\$26,459
Jan-24	140,879	\$55,131,135	1.000	\$55,109,377	\$21,758
Feb-24	140,692	\$56,977,716	1.000	\$56,953,680	\$24,036
Mar-24	140,964	\$60,578,374	1.000	\$60,550,664	\$27,711
Apr-24	140,951	\$64,879,245	1.000	\$64,851,995	\$27,250
May-24	140,811	\$66,388,142	1.000	\$66,348,577	\$39,565
Jun-24	140,567	\$65,032,551	1.000	\$64,986,528	\$46,024
Jul-24	140,025	\$74,795,667	1.000	\$74,748,902	\$46,765
Aug-24	139,110	\$73,922,397	1.000	\$73,886,497	\$35,900
Sep-24	138,863	\$75,244,677	1.000	\$75,218,750	\$25,927
Oct-24	141,061	\$82,577,795	1.000	\$82,555,170	\$22,625
Nov-24	141,094	\$75,495,439	1.000	\$75,463,917	\$31,522
Dec-24	141,445	\$89,180,898	1.000	\$89,180,898	\$0
Total		\$2,147,629,413		\$2,147,110,120	\$519,293

Exhibit 3

Kentucky Employees' Health Plan Terminal Liability Calculation as of December 31, 2024

Health Reimbursement Arrangements

CDHP HRA				
Period	Paid To Date	Completion Factor	Total Incurred	Unpaid Claim Reserve
Apr-Jun 2021	\$15,463,476	100.0%	\$15,463,476	\$0
Jul-Sep 2021	\$12,043,626	100.0%	\$12,043,626	\$0
Oct-Dec 2021	\$11,003,813	100.0%	\$11,003,813	\$0
Jan-Mar 2022	\$17,812,217	100.0%	\$17,812,217	\$0
Apr-Jun 2022	\$16,170,679	100.0%	\$16,170,679	\$0
Jul-Sep 2022	\$11,826,878	100.0%	\$11,826,878	\$0
Oct-Dec 2022	\$10,842,167	100.0%	\$10,842,167	\$0
Jan-Mar 2023	\$19,188,240	100.0%	\$19,188,240	\$0
Apr-Jun 2023	\$15,829,319	100.0%	\$15,829,319	\$0
Jul-Sep 2023	\$11,864,993	100.0%	\$11,864,993	\$0
Oct-Dec 2023	\$11,447,362	99.9%	\$11,454,827	\$7,465
Jan-Mar 2024	\$20,428,931	99.7%	\$20,495,758	\$66,827
Apr-Jun 2024	\$18,706,794	99.2%	\$18,849,088	\$142,294
Jul-Sep 2024	\$13,320,349	98.3%	\$13,547,313	\$226,964
Oct-Dec 2024	\$9,692,785	85.1%	\$11,392,381	\$1,699,595
Total	\$215,641,630		\$217,784,776	\$2,143,146

Waiver HRA				
Plan Year	Paid To Date	Completion	Total Incurred	Unpaid Claim
2021	\$35,910,682	100.0%	\$35,910,682	\$0
2022	\$35,207,269	100.0%	\$35,207,269	\$0
2023	\$36,394,948	100.0%	\$36,402,620	\$7,672
2024	\$35,641,632	96.3%	\$37,001,352	\$1,359,720
Total	\$143,154,531		\$144,521,923	\$1,367,393

Exhibit 4

Kentucky Employees' Health Plan Rx Rebates as of December 31, 2024

Plan Year	Rebate Amount		
	Accounting	Incurred	
Q1 2021	\$43,236,360	\$41,785,088	Actual/Estimate
Q2 2021	\$43,485,834	\$45,063,561	Actual/Estimate
Q3 2021	\$46,018,808	\$45,815,130	Actual/Estimate
Q4 2021	\$55,228,565	\$48,831,564	Actual/Estimate
Q1 2022	\$46,693,187	\$52,714,177	Actual/Estimate
Q2 2022	\$52,280,271	\$55,908,115	Actual/Estimate
Q3 2022	\$56,253,088	\$58,579,490	Actual/Estimate
Q4 2022	\$65,302,918	\$58,758,585	Actual/Estimate
Q1 2023	\$57,552,152	\$65,199,835	Actual/Estimate
Q2 2023	\$65,764,561	\$74,848,451	Actual/Estimate
Q3 2023	\$69,736,334	\$80,138,115	Actual/Estimate
Q4 2023	\$79,254,035	\$82,052,466	Actual/Estimate
Q1 2024	\$75,303,265	\$81,441,916	Actual/Estimate
Q2 2024	\$74,252,427	\$84,838,525	Actual/Estimate
Q3 2024	\$79,150,447	\$92,827,894	Actual/Estimate
Q4 2024	\$98,973,435	\$98,973,435	Estimate/Estimate

Exhibit 5
Kentucky Employees' Health Plan
Premium Deficiency Reserve as of December 31, 2024

Calculation of the Premium Deficiency Reserve	
(figures in \$millions)	
Revenue	
Medical and Pharmacy Premiums	\$2,129.4
HRA Waiver Premiums	\$52.5
Interest Income	\$20.1
Pharmacy Rebates	\$327.7
Total Revenue (a)	\$2,529.7
Expenses	
Medical and Pharmacy Claims	\$2,274.7
Administrative Fees (Medical & Pharmacy)	\$85.2
Operating Expenses/ERRP	\$10.0
HRA (waiver & select) Claims	\$98.3
Total Expenses (b)	\$2,468.2
Net Gain/(Loss) (a) - (b)	\$61.5

* As of December 31, 2024, there are no longer any “future” claims, admin fees, or premiums relate to the 2024 plan year. Therefore, there is no estimated premium deficiency reserve as of December 31, 2024. Above is the revenue and expenses experience of plan year 2024