

Commonwealth of Kentucky

Kentucky Employees' Health Plan

**Actuarial Reserve Study
March 31, 2025**

**Three Alliance Center
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May 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 March 31, 2025, 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 \$137.6 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 2025 plan year are not sufficient to cover future incurred claims and administrative fees for the 2025 plan year, a "premium deficiency reserve" (PDR) in the amount of the difference should be estimated. As of March 31, 2025, due to the estimated revenue (\$1,950.0 million) being insufficient to cover the estimated program expenses (\$2,180.4 million), there is an additional premium deficiency reserve of \$230.4 million.

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 March 31, 2025.

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 March 31, 2025, 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.



May 20, 2025

LinXia Xiong, FSA, MAAA
Vice President

Date



May 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 April 1, 2021 to March 31, 2025 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 March 31, 2025, the resulting UCL for March 31, 2025 was approximately \$131.1 million. In addition, an explicit margin for adverse deviation of 5.0% of claims unpaid on March 31, 2025 has been used.

RESULTS

The result of our reserve analysis shows the following components of our March 31, 2025 reserve for the Kentucky Employees' Health Plan.

Exhibit 1

Kentucky Employees' Health Plan				
Terminal Liability Calculation as of March 31, 2025				
	Unpaid Claims Liability as of March 31, 2025	Margin (5%)	Administrative Fees for Processing Runout Claims	Total IBNR Reserve (Rounded to Nearest \$1,000)
Medical	\$126,712,975	\$6,335,649	\$0	\$133,049,000
Pharmacy	\$999,573	\$49,979	\$0	\$1,050,000
CDHP HRA	\$2,204,099	\$110,205	\$0	\$2,314,000
Waiver HRA	\$1,123,587	\$56,179	\$0	\$1,180,000
Grand Total	\$131,040,234	\$6,552,012	\$0	\$137,592,000

* 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 March 31, 2025

Month	Enrollment	Estimated Incurred Claims	Completion Factor	Actual Paid	Total Unpaid Claim Reserve
Apr-22	138,732	\$139,491,903	1.000	\$139,491,903	\$0
May-22	138,533	\$145,946,034	1.000	\$145,946,034	\$0
Jun-22	138,120	\$156,832,938	1.000	\$156,832,938	\$0
Jul-22	137,350	\$148,827,088	1.000	\$148,827,088	\$0
Aug-22	136,362	\$159,402,928	1.000	\$159,402,928	\$0
Sep-22	135,557	\$155,509,457	1.000	\$155,509,457	\$0
Oct-22	137,962	\$160,540,470	1.000	\$160,540,470	\$0
Nov-22	138,038	\$168,781,103	1.000	\$168,781,103	\$0
Dec-22	138,200	\$179,039,224	1.000	\$179,039,224	\$0
Jan-23	138,657	\$129,904,384	1.000	\$129,904,384	\$0
Feb-23	138,390	\$134,125,639	1.000	\$134,125,639	\$0
Mar-23	138,646	\$162,225,866	1.000	\$162,225,866	\$0
Apr-23	138,642	\$153,659,376	1.000	\$153,659,376	\$0
May-23	138,525	\$167,631,376	1.000	\$167,644,950	(\$13,574)
Jun-23	138,392	\$176,380,212	1.000	\$176,380,241	(\$29)
Jul-23	138,166	\$172,325,777	1.000	\$172,293,948	\$31,828
Aug-23	137,374	\$181,061,680	1.000	\$180,999,607	\$62,073
Sep-23	136,796	\$166,236,510	1.000	\$166,169,802	\$66,708
Oct-23	139,327	\$184,360,070	0.999	\$184,225,041	\$135,029
Nov-23	139,556	\$189,146,170	0.999	\$188,892,049	\$254,120
Dec-23	139,704	\$200,239,840	0.998	\$199,865,111	\$374,729
Jan-24	140,879	\$145,286,992	0.998	\$144,968,848	\$318,144
Feb-24	140,692	\$157,126,294	0.997	\$156,686,979	\$439,316
Mar-24	140,964	\$168,606,152	0.996	\$168,014,953	\$591,198
Apr-24	140,951	\$178,440,022	0.995	\$177,604,030	\$835,991
May-24	140,811	\$185,210,256	0.994	\$184,136,448	\$1,073,808
Jun-24	140,567	\$184,763,576	0.993	\$183,513,646	\$1,249,931
Jul-24	140,025	\$204,507,263	0.993	\$203,064,004	\$1,443,259
Aug-24	139,110	\$194,548,919	0.991	\$192,818,671	\$1,730,248
Sep-24	138,863	\$191,193,387	0.989	\$189,051,057	\$2,142,330
Oct-24	141,061	\$215,118,299	0.983	\$211,532,486	\$3,585,813
Nov-24	141,094	\$202,588,230	0.977	\$197,918,678	\$4,669,552
Dec-24	141,445	\$236,894,004	0.964	\$228,372,433	\$8,521,571
Jan-25	142,676	\$170,130,651	0.943	\$160,358,910	\$9,771,741
Feb-25	142,659	\$175,955,390	0.868	\$152,768,172	\$23,187,219
Mar-25	142,703	\$204,591,860	0.671	\$137,350,316	\$67,241,544
Total		\$6,246,629,340		\$6,118,916,792	\$127,712,548

Exhibit 2b
Kentucky Employees' Health Plan
Medical
Terminal Liability Calculation as of March 31, 2025

Month	Enrollment	Estimated Incurred Claims	Completion Factor	Actual Paid	Total Unpaid Claim Reserve
Apr-22	138,732	\$94,552,857	1.000	\$94,552,857	\$0
May-22	138,533	\$98,117,730	1.000	\$98,117,730	\$0
Jun-22	138,120	\$106,726,101	1.000	\$106,726,101	\$0
Jul-22	137,350	\$100,604,280	1.000	\$100,604,280	\$0
Aug-22	136,362	\$107,151,030	1.000	\$107,151,030	\$0
Sep-22	135,557	\$104,340,842	1.000	\$104,340,842	\$0
Oct-22	137,962	\$109,444,154	1.000	\$109,444,154	\$0
Nov-22	138,038	\$116,588,127	1.000	\$116,588,127	\$0
Dec-22	138,200	\$123,996,120	1.000	\$123,996,120	\$0
Jan-23	138,657	\$82,215,237	1.000	\$82,215,237	\$0
Feb-23	138,390	\$86,351,343	1.000	\$86,351,343	\$0
Mar-23	138,646	\$105,016,798	1.000	\$105,016,798	\$0
Apr-23	138,642	\$97,875,560	1.000	\$97,875,560	\$0
May-23	138,525	\$105,384,279	1.000	\$105,398,963	(\$14,684)
Jun-23	138,392	\$113,080,254	1.000	\$113,084,487	(\$4,233)
Jul-23	138,166	\$111,035,571	1.000	\$111,013,786	\$21,785
Aug-23	137,374	\$114,333,439	1.000	\$114,284,653	\$48,786
Sep-23	136,796	\$105,053,197	0.999	\$105,000,330	\$52,867
Oct-23	139,327	\$115,942,415	0.999	\$115,825,491	\$116,924
Nov-23	139,556	\$122,813,365	0.998	\$122,578,463	\$234,902
Dec-23	139,704	\$131,523,520	0.997	\$131,172,876	\$350,644
Jan-24	140,879	\$89,841,544	0.997	\$89,545,150	\$296,395
Feb-24	140,692	\$99,904,117	0.996	\$99,514,317	\$389,800
Mar-24	140,964	\$107,849,214	0.995	\$107,329,884	\$519,329
Apr-24	140,951	\$113,591,761	0.993	\$112,844,970	\$746,791
May-24	140,811	\$118,826,034	0.992	\$117,837,768	\$988,266
Jun-24	140,567	\$119,870,155	0.990	\$118,701,976	\$1,168,179
Jul-24	140,025	\$129,791,359	0.989	\$128,423,227	\$1,368,133
Aug-24	139,110	\$120,583,677	0.986	\$118,924,731	\$1,658,946
Sep-24	138,863	\$115,894,763	0.982	\$113,826,239	\$2,068,523
Oct-24	141,061	\$132,455,762	0.974	\$128,946,535	\$3,509,227
Nov-24	141,094	\$127,080,652	0.964	\$122,472,993	\$4,607,659
Dec-24	141,445	\$149,917,744	0.944	\$141,453,171	\$8,464,572
Jan-25	142,676	\$100,562,979	0.903	\$90,827,844	\$9,735,135
Feb-25	142,659	\$104,740,843	0.779	\$81,597,359	\$23,143,484
Mar-25	142,703	\$119,708,807	0.438	\$52,467,263	\$67,241,544
Total		\$4,002,765,630		\$3,876,052,655	\$126,712,975

Exhibit 2c
Kentucky Employees' Health Plan
Pharmacy
Terminal Liability Calculation as of March 31, 2025

Month	Enrollment	Estimated Incurred Claims	Completion Factor	Actual Paid	Total Unpaid Claim Reserve
Apr-22	138,732	\$44,939,046	1.000	\$44,939,046	\$0
May-22	138,533	\$47,828,303	1.000	\$47,828,303	\$0
Jun-22	138,120	\$50,106,837	1.000	\$50,106,837	\$0
Jul-22	137,350	\$48,222,807	1.000	\$48,222,807	\$0
Aug-22	136,362	\$52,251,898	1.000	\$52,251,898	\$0
Sep-22	135,557	\$51,168,615	1.000	\$51,168,615	\$0
Oct-22	137,962	\$51,096,316	1.000	\$51,096,316	\$0
Nov-22	138,038	\$52,192,976	1.000	\$52,192,976	\$0
Dec-22	138,200	\$55,043,104	1.000	\$55,043,104	\$0
Jan-23	138,657	\$47,689,147	1.000	\$47,689,147	\$0
Feb-23	138,390	\$47,774,296	1.000	\$47,774,296	\$0
Mar-23	138,646	\$57,209,068	1.000	\$57,209,068	\$0
Apr-23	138,642	\$55,783,816	1.000	\$55,783,816	\$0
May-23	138,525	\$62,247,097	1.000	\$62,245,987	\$1,110
Jun-23	138,392	\$63,299,958	1.000	\$63,295,754	\$4,204
Jul-23	138,166	\$61,290,206	1.000	\$61,280,162	\$10,043
Aug-23	137,374	\$66,728,241	1.000	\$66,714,954	\$13,287
Sep-23	136,796	\$61,183,313	1.000	\$61,169,471	\$13,841
Oct-23	139,327	\$68,417,655	1.000	\$68,399,551	\$18,104
Nov-23	139,556	\$66,332,805	1.000	\$66,313,587	\$19,218
Dec-23	139,704	\$68,716,320	1.000	\$68,692,235	\$24,085
Jan-24	140,879	\$55,445,448	1.000	\$55,423,698	\$21,750
Feb-24	140,692	\$57,222,178	0.999	\$57,172,662	\$49,516
Mar-24	140,964	\$60,756,938	0.999	\$60,685,069	\$71,869
Apr-24	140,951	\$64,848,261	0.999	\$64,759,060	\$89,200
May-24	140,811	\$66,384,222	0.999	\$66,298,680	\$85,542
Jun-24	140,567	\$64,893,421	0.999	\$64,811,670	\$81,751
Jul-24	140,025	\$74,715,904	0.999	\$74,640,778	\$75,126
Aug-24	139,110	\$73,965,242	0.999	\$73,893,940	\$71,302
Sep-24	138,863	\$75,298,624	0.999	\$75,224,818	\$73,806
Oct-24	141,061	\$82,662,537	0.999	\$82,585,952	\$76,585
Nov-24	141,094	\$75,507,578	0.999	\$75,445,686	\$61,893
Dec-24	141,445	\$86,976,261	0.999	\$86,919,262	\$56,999
Jan-25	142,676	\$69,567,672	0.999	\$69,531,066	\$36,606
Feb-25	142,659	\$71,214,548	0.999	\$71,170,813	\$43,735
Mar-25	142,703	\$84,883,053	1.000	\$84,883,053	\$0
Total		\$2,243,863,710		\$2,242,864,137	\$999,573

Exhibit 3

Kentucky Employees' Health Plan Terminal Liability Calculation as of March 31, 2025

Health Reimbursement Arrangements

CDHP HRA				
Period	Paid To Date	Completion Factor	Total Incurred	Unpaid Claim Reserve
Jan-Mar 2022	\$17,811,577	100.0%	\$17,811,577	\$0
Apr-Jun 2022	\$16,170,099	100.0%	\$16,170,099	\$0
Jul-Sep 2022	\$11,826,453	100.0%	\$11,826,453	\$0
Oct-Dec 2022	\$10,841,778	100.0%	\$10,841,778	\$0
Jan-Mar 2023	\$19,186,532	100.0%	\$19,186,532	\$0
Apr-Jun 2023	\$15,827,910	100.0%	\$15,827,910	\$0
Jul-Sep 2023	\$11,863,937	100.0%	\$11,863,937	\$0
Oct-Dec 2023	\$11,446,343	100.0%	\$11,446,343	\$0
Jan-Mar 2024	\$20,007,913	99.9%	\$20,021,555	\$13,642
Apr-Jun 2024	\$18,284,423	99.7%	\$18,337,485	\$53,062
Jul-Sep 2024	\$13,125,978	99.4%	\$13,210,187	\$84,209
Oct-Dec 2024	\$10,597,475	98.3%	\$10,775,957	\$178,481
Jan-Mar 2025	\$20,465,084	91.6%	\$22,339,789	\$1,874,705
Total	\$197,455,502		\$199,659,601	\$2,204,099

Waiver HRA				
Plan Year	Paid To Date	Completion Factor	Total Incurred	Unpaid Claim Reserve
2022	\$35,204,578	100.0%	\$35,204,578	\$0
2023	\$36,389,890	100.0%	\$36,390,279	\$389
2024	\$35,522,926	99.3%	\$35,775,398	\$252,472
2025	\$10,135,597	92.1%	\$11,006,323	\$870,726
Total	\$117,252,991		\$118,376,578	\$1,123,587

Exhibit 4

Kentucky Employees' Health Plan Rx Rebates as of March 31, 2025

Plan Year	Rebate Amount		
	Accounting	Incurred	
Q1 2022	\$46,693,187	\$51,705,924	Actual/Estimate
Q2 2022	\$52,280,271	\$54,784,501	Actual/Estimate
Q3 2022	\$56,253,088	\$57,393,478	Actual/Estimate
Q4 2022	\$65,302,918	\$57,284,326	Actual/Estimate
Q1 2023	\$57,552,152	\$62,817,482	Actual/Estimate
Q2 2023	\$65,764,561	\$71,954,412	Actual/Estimate
Q3 2023	\$69,736,334	\$71,597,580	Actual/Estimate
Q4 2023	\$84,626,441	\$66,718,944	Actual/Estimate
Q1 2024	\$75,303,265	\$76,351,634	Actual/Estimate
Q2 2024	\$74,252,427	\$81,829,294	Actual/Estimate
Q3 2024	\$79,150,447	\$87,449,947	Actual/Estimate
Q4 2024	\$100,001,089	\$92,889,363	Estimate/Estimate
Q1 2025	\$88,019,143	\$104,717,479	Estimate/Estimate

Exhibit 5
Kentucky Employees' Health Plan
Premium Deficiency Reserve as of March 31, 2025

Calculation of the Premium Deficiency Reserve	
(figures in \$millions)	
Revenue	
Medical and Pharmacy Premiums	\$1,606.3
HRA Waiver Premiums	\$39.6
Interest Income	\$3.2
Pharmacy Rebates	\$300.9
Total Revenue (a)	\$1,950.0
Expenses	
Medical and Pharmacy Claims	\$2,034.5
Administrative Fees (Medical & Pharmacy)	\$71.2
Operating Expenses/ERRP	\$7.6
HRA (waiver & select) Claims	\$67.1
Total Expenses (b)	\$2,180.4
Net Gain/(Loss) (a) - (b)	(\$230.4)

* There is an estimated premium deficiency reserve of \$230.4 million as of March 31, 2025.