



October 11, 2011

Mr. Roger Wilson
Employee Benefits Administrator
DAS State Personnel Division
P. O. Box 94905
Lincoln, NE 68509-4905

Re: State of Nebraska – June 30, 2011 Incurred but not Reported Reserves

Dear Roger:

Aon Hewitt estimated the Incurred But Not Reported (IBNR) liability for the State of Nebraska's self-insured Medical and Prescription Drug plans for the period ending June 30, 2011 to be \$10.2 million. Details surrounding the estimated and finalized reserve liabilities are on the attached document. In addition to development of the IBNR, Aon Hewitt has completed an analysis of Claim Fluctuation Reserve levels for various confidence interval percentiles. The results of this analysis are included below.

Our actuarially determined IBNR liability builds upon our "best estimate" by including a margin of 3% to better assure that the liability estimate is sufficient under moderately adverse conditions and a load of 3% to account for administrative fees on the payment of the outstanding claims.

Note that although commonly referred to as the IBNR claim liability, the IBNR is technically a subset of the unpaid claims liability, which also includes reported but unprocessed claims and processed but unpaid claims. The IBNR amount above includes all liability components incurred but not reported to the claims administrator, incurred and reported to the administrator but awaiting processing, and incurred and processed but not yet paid.

The June 2011 results for Express Scripts were based on actual run out information provided by Express Scripts through September 2011. The run out for June 2011 was higher than historical run out. It is likely that the reserve will return to normal levels for future valuations.

Actuarial Methods and Assumptions

Liabilities for medical and prescription drug benefits were estimated based on the Development Method. The underlying principle of the Developmental Method is the progression of claims payments follows runoff patterns assumed to remain stable over time. Blue Cross Blue Shield of Nebraska provided claim data summarized by incurred and paid from January 1, 2009 through June 30, 2011. Express Scripts provided claim data summarized by incurred and paid from January 1, 2009 through September 30, 2011. The results, produced by applying the Development Method to this data, were then adjusted for months where data was deemed non-



credible. These adjustments were made using the Projection Method, which was based on changes in costs per exposure unit over time.

The IBNR liability was further adjusted to reflect actuarial assumptions related to a number of factors/contingencies which could impact reserve adequacy. Such factors/contingencies include: changes in claim payment cycles, plan design, insurance carriers, large dollar shock claims, emerging claim trends, and other factors.

Claim Fluctuation Reserve

The chart below illustrates the appropriate level for a claim fluctuation reserve based on 4 confidence intervals:

Confidence Interval	CFR Reserve
75%	\$ 14,360,000
90%	\$ 23,240,000
95%	\$ 26,970,000
99.5%	\$ 37,690,000

The claim fluctuation reserves were developed through simulation modeling of expected claim experience. Aon Hewitt calibrated our large database of detailed claim experience for a similar population and risk profile, reflecting anticipated variations in claims based on the number of individuals covered under the State of Nebraska health plan.

The claim fluctuation reserve in the above table represents the necessary reserve amount for a given confidence level that total claims will not exceed expected claims plus the additional CFR. In this illustration, the State of Nebraska should hold at least \$26.97 million in reserve above and beyond the IBNR in order to be 95% confident that claims will not exceed expected claims.

Source of Information

In performing Aon Hewitt's estimate of IBNR liability, we relied on data provided by Blue Cross Blue Shield and Express Scripts. We reviewed the data for reasonableness but have not audited it; as such, we are not certifying herein as to its accuracy.

Actuarial Certification

We certify to the best of our knowledge, the methods and assumptions used to develop the estimated IBNR liability are reasonable and are calculated in accordance with generally accepted actuarial principles as promulgated by Actuarial Standards of Practice Number 5 (pertaining to estimating incurred health claim liabilities) and Number 23 (pertaining to data

Aon Hewitt

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quality). It should be noted that Aon Hewitt's conclusions are based on certain assumptions that appear reasonable at this time. Actual experience can vary from projected experience, and this difference may be material.

If you have any questions or need additional information, please call me at 402-697-5238.

Sincerely,

A handwritten signature in cursive script, appearing to read "N. Nanette Rasmussen".

N. Nanette Rasmussen, FSA, MAAA

cc: David Petta, FSA, MAAA
Kim Lobato

State of Nebraska
Summary of Incurred But Not Reported Reserve Recommendations
As of June 30, 2011

			6/30/2010	6/30/2011
BCBS POS	Medical	Claim Reserve	\$6,198,000	\$5,653,000
		Expense Load	\$186,000	\$170,000
		Margin	\$192,000	\$175,000
		Final Reserve	\$6,576,000	\$5,998,000
		Lives, end of period	8,658	7,512
BCBS PPO	Medical	Claim Reserve	\$733,000	\$1,026,000
		Expense Load	\$22,000	\$31,000
		Margin	\$23,000	\$32,000
		Final Reserve	\$778,000	\$1,089,000
		Lives, end of period	1,281	2,234
BCBS HDHP	Medical	Claim Reserve	\$130,000	\$120,000
		Expense Load	\$4,000	\$4,000
		Margin	\$4,000	\$4,000
		Final Reserve	\$138,000	\$128,000
		Lives, end of period	315	482
Wellness PPO	Medical	Claim Reserve	\$1,746,000	\$1,568,000
		Expense Load	\$52,000	\$47,000
		Margin	\$54,000	\$48,000
		Final Reserve	\$1,852,000	\$1,663,000
		Lives, end of period	3,881	3,485
Rx¹	Drug	Claim Reserve	\$552,000	\$1,235,000
		Expense Load	\$17,000	\$37,000
		Margin	\$17,000	\$38,000
		Final Reserve	\$586,000	\$1,310,000
		Lives, end of period	14,135	13,713
Total Medical			\$9,238,000	\$8,878,000
Rx			\$586,000	\$1,310,000
Lives, end of period			14,135	13,713
Total Medical and Rx			\$9,824,000	\$10,188,000

¹Rx reserve was based on actual claims run out through September 2011.

