State of Oklahoma
Oklahoma Employees Insurance and Benefits Board
Oklahoma Health Care Authority

OEIBB Fund Equity Policy

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Approved: OEIBB	

POLICY

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Section I: Written Policies

1.0. Policy Objectives

The objective of this policy is to establish a basis for the recommendation of appropriate fund equity levels to be maintained by the self-funded HealthChoice plans that will assure the long-term financial viability of the plans and to lessen the exposure to unforeseen claim patterns, significant economic occurrences and any other factors that might impact the financial stability of the plans as well as provide for a degree of rate stabilization by mitigating to the degree possible, natural fluctuations in annual claim costs.

1.1. Review

The OEIBB shall ratify this policy on an annual basis at the public board meeting scheduled in November.

1.2. Plans Covered

The HealthChoice self-funded plans covered by this policy include:

1. HealthChoice Health and Dental Fund
2. HealthChoice Life Fund
3. HealthChoice Disability Fund

There are two distinct areas this policy will address.

1. The methodology to determine the minimum fund equity amount to be maintained.
2. The methodology to determine the OEIBB's consideration of excess/deficit fund equity and its recommendation of premium rates and plan design.

Section II: Definitions

Fund Equity: Fund equity is the extent to which total assets exceed total liabilities on the Plan's balance sheet.

Minimum Required Capital: Minimum Required capital is an allocation of fund equity that is held to maintain the Plan's solvency on an ongoing basis that provides reasonable assurance the plan will be able to meet all claim and administrative cost obligations in any given plan year. Any insurance program faces a number of risks that have the potential to threaten its solvency, indicating the need for required capital.

Section III: Considerations in Determining the Appropriate Level of Fund Equity

3.0. Minimum Required Capital

Any insurance program faces a number of risks that have the potential to threaten its solvency, indicating the need for required capital. These risks generally fall into three broad categories:

1. Insurance Risks - risk that incurred claims may exceed premiums collected. If claims are greater than premiums, the Fund would need excess capital to pay excess claims. This is the most significant risk for the Fund.
2. Asset Risks – risk that assets may be inadequate to fund liabilities.
3. Operational Risks – risk that administrative costs exceed projections due to matters outside the control of the Plan.

Four factors are involved in determining insurance program's appropriate Risk-Based Capital level.

1. Degree and nature of risks undertaken by the Fund should be considered. For the insurance risk, this is tied to the type of coverage provided, the frequency of claims, the size of claims, and the relative difficulty of estimating expected claim levels.
2. Size of the plan. A statistical concept called the "law of large numbers" states that when there are a larger number of exposures to risks, there is a smaller probability of percentage deviation from the mean.
3. Degree of conservatism inherent in premium rates. The more margins built into the premium rates, the less likely it is that claims will exceed premiums, thus lessening the insurance risk.
4. Degree of safety desired. While the possibility of insolvency can never be completely eliminated, it should be intuitively clear that the more equity an insurance program has, the less likely it is to become insolvent.

Additionally, since the Funds do not have profit margins or performance expectations, no excess margin is built into premium rates indicating the need for more equity than a commercial insurance company.

3.1. Use of Fund Equity for Rate Stabilization

The OEIBB will generally consider up to 20% of any available fund equity in excess of the minimum required capital amount as well as any deficit in required capital at the end of the preceding plan year in its recommendation of premium rates and plan designs in order to minimize the impact of natural claim cost fluctuations on premium rates. The Board may recommend an amount over the 20% threshold to be used if a majority of the Board members determine the amount to be justified.

Section IV: Methodology

4.0. Minimum Required Capital

There is no legal requirement for plans to maintain a minimum level of Fund Equity. Therefore, the OEIBB recommends setting a benchmark for a minimum amount of Fund Equity based on the National Association of Insurance Commissioners (NAIC) Health Risk Based Capital (RBC) formula for the Health and Dental fund. The benchmark is the amount of Fund Equity that results in an RBC ratio of 200% according to the appropriate NAIC RBC formulas.

This is an appropriate benchmark because the vast majority of insurance companies have an RBC ratio greater than 200% because an RBC ratio less than 200% will result in regulatory action by the state Insurance Commissioner.

For the Life and Disability funds, the benchmark is the amount of Fund Equity that results in an RBC ratio of 125% according to the appropriate Life RBC formulas.

4.1. Use of Fund Equity for Rate Stabilization

The OEIBB, in conjunction with EGID staff and the actuarial consultants, will determine the equitable allocation of any excess/deficit fund equity in its recommendation of premium rates and plan designs with the objective of mitigating projected cost increases.