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PUBLIC RISK POOLS RESERVE METHODS PROPER

Actuary Report Shows LGC's Reserve Levels Are Appropriate

Concord, NH: The Local Government Center (LGC) today released an independent, third-party actuary's report concerning the use of proper reserve setting criteria for New Hampshire's public risk pools. LGC also provided a copy of the report to the Secretary of State's office which is reviewing reserve issues as part of a study of 5-B public risk pools as required by the New Hampshire Legislature.

Wendy Parker, Deputy Director for Risk Pool Operations said, "In recent days, the Secretary of State has suggested that millions of dollars in excess of what was needed was collected by the LGC HealthTrust based on their review of reserve levels. The report we shared today with the Secretary of State's office demonstrates that this is not the case and that any disagreement is likely based on the methodology used to determine reserves." Parker added, "The issue of which methodology should be used in establishing reserves in health coverage programs remains one of the open issues in the Secretary of State's review. An initial, early review of the reserve that was released by the Secretary of State in December of 2010, suggested that a less conservative method should be used by New Hampshire's three public risk pools. However, the Local Government Center's HealthTrust is concerned that such an approach would provide uncertainty in the ability to pay claims in all circumstances and would cause spikes in health care costs for cities, towns, counties and schools; we believe that this is not the best approach for public, local governmental entities."

In order to find some means of resolution and offer an evidenced-based record for the Secretary of State's regulatory review, LGC HealthTrust retained Milliman, a leading actuarial firm, to conduct a review of the LGC HealthTrust's reserve policy. A copy of this analysis has been submitted to the Secretary of State in this matter. [The report is also attached here.](#)

Milliman's report found that in establishing a proper reserve methodology, public risk pools have a number of considerations which are distinguishable from how non-public and even state pools act.

"In New Hampshire, the risk pools are not in a good position to use taxes or other means to raise additional funds if the reserve level is set too low," Parker said. "As a result, a more conservative approach is recommended." Parker stressed, "Risk pools' boards of directors need to make proper decisions concerning the establishment of reserves for the good of the organization and its members. The Milliman report validates that the LGC has acted well within the range of proper reserve setting and we are proud to submit this report for the record in this matter."

Key results of the report include:

- LGC’s HealthTrust is a not-for-profit risk benefits pool. Although it is not an insurance company, its services mirror that of an insurance company. As a risk-bearing entity, adequate capital/surplus is crucial for continued viability.
- As HealthTrust provides similar benefits and takes on similar risks as nonprofit insurance companies, it is therefore, reasonable to expect HealthTrust to hold a capital/surplus amount on its balance sheet consistent with a similarly sized health insurance company;
- RBC, “Risk Based Capital,” is an appropriate reserve formula and RBC factors are based on Stochastic modeling;
- HealthTrust’s reserve levels are well within the range of appropriate target reserve levels; and
- The target level recommended by the Secretary of State’s actuary is low and will not allow HealthTrust to meet minimum standards if its [claims] experience is bad, even in a single year.
- If HealthTrust was able to count on its member groups or its parent company for additional capital should the need arise, then it might make sense for it to have different standards.
- However, HealthTrust does not have this safety net and similar to an insurance company, it is solely responsible to maintain capital levels sufficient to cover its obligations.

Parker added, “The Secretary of State’s office seems to have identified the LGC’s HealthTrust as having a conservative authorized control level, which is a part of our annual filing with them. However, their suggestion that it is too high, fails to factor in the types of risks associated with a public sector risk pool where participation is voluntary and any deficiencies in rates can only be corrected by increasing the contributions at a future renewal.” Parker continued, “Each year the Board of Directors review the RBC level taking into account current market conditions and membership levels. If, in any year there are surplus amounts above the target RBC level, they are returned to members as a credit against future health coverage costs in a three year cycle.”

David Frydman, LGC General Counsel said “Certainly the establishment of risk pool reserves is a complex process and much care should be taken in doing so. We understand the Secretary of State is continuing to analyze how the Local Government Center has conducted this work in the past. We hope that the Milliman report will assist them in not only learning more about our method, but also validating our proper conduct, given the needs of cities, towns, counties and schools to conservatively manage public funds.”

Attachments:

- [Milliman Report: Target Capital/Surplus for HealthTrust](#)
- [Letter from LGC General Counsel to New Hampshire Secretary of State, Bureau of Securities Regulation](#)

About the Local Government Center

The New Hampshire Local Government Center (LGC) is a nonprofit organization governed by an active board of directors comprising municipal, school and county representatives, including employees, management and elected officials. Its mission is to strengthen the quality of member governments and the ability of their officials and employees to serve the public. For more information, visit www.nhlgc.org.