

**GEORGIA DEPARTMENT OF COMMUNITY HEALTH**

**State Health Benefit Plan (SHBP)**

**Retirees**

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**Actuarial Reserve Study**

**June 30, 2007**

**Aon Consulting  
One Piedmont Center  
3565 Piedmont Road, N.E.  
Atlanta, Georgia 30305  
(404) 264-3141**

**August, 2007**

**GEORGIA DEPARTMENT OF COMMUNITY HEALTH  
State Health Benefit Plan  
Retirees**

**TABLE OF CONTENTS**

Executive Summary.....	3
Actuarial Statement of Opinion.....	4
Data and Assumptions .....	5
Methodology .....	6
Results .....	7
Reserve Analysis as of 6/30/2007 .....	8

## EXECUTIVE SUMMARY

Aon Consulting has conducted an actuarial valuation of the incurred, but not paid, claims as of June 30, 2007, for the Georgia Department of Community Health's State Health Benefit Plan for Retirees.

The results show a projected total reserve of approximately \$47.5 million. This \$47.5 million includes \$2.7 million for administrative fee liability and \$2.1 million as an explicit provision for adverse experience.

This represents an increase of about 14.7% from the 2006 restated liability. Without margin there is a 9.5% increase. Part of the increase is due to a 4.9% increase in number of enrollees. Terminal Liability per Employee increased by 9.3%.

The details of the reserve components for 2006 and 2007 are shown on pages 7 and 8 of this report.

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

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

**ACTUARIAL CERTIFICATION  
STATEMENT OF OPINION**

Aon Consulting has been contacted by Georgia Department of Community Health to study the actuarial reserves of their State Health Benefits Plan (Retirees) for incurred but not paid claims as of June 30, 2007. I am employed by Aon Consulting. 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 Georgia Department of Community Health and verified the consistency of the data with Medstat files. 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 and loss adjustment expenses. The techniques and methodology used are reasonable and in accordance with generally accepted actuarial principles and practice.



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Kenneth C. Vieira, F.S.A., M.A.A.A.  
Senior Vice President

August 17, 2007  
Date

## **DATA AND ASSUMPTIONS**

We used monthly incurred and paid claim data provided by Georgia Department of Community Health and verified the data to be consistent with Medstat files. Monthly enrollment data was also provided by the Plan. The reports identified claims incurred after June 30, 2004, and paid by June 30, 2007.

No adjustment for interest was used in this analysis. An administrative expense load of 6.4% was added to the reserve. A 9.3% annual claim trend was used for projection purposes. This is consistent with other plan experiences.

## 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 (or 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 unity. 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-Furgeson 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, 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 6/30/07, the resulting UCL for 6/30/07 was approximately \$42.6 million. The administrative cost is assumed to be 6.4% of claims. This amount has been added to the UCL. In addition, an explicit margin for adverse deviation of 5% of the UCL outstanding claims has been used.

## RESULTS

The result of our reserve analysis shows the following components of our June 30, 2007 reserve in comparison to the June 30, 2006 Restated Terminal Liability.

### Georgia Department of Community Health (Retirees) State Health Benefit Plan Terminal Liability Calculation as of June 30, 2007

Medical & Prescription Drug Plan Terminal Liability Calculation	Medical and Prescription Drug		Change
	June-06 Restated	June-07 Claims	
Unpaid Claim Liability (UCL)	\$38,925,506	\$42,639,184	9.5%
Margin for Adverse Deviation (5%)	\$0	\$2,131,959	
UCL + Margin for Adverse Deviation	\$38,925,506	\$44,771,143	15.0%
Administrative Fee Liability (AFL) (6.4%)	\$2,491,232	\$2,728,908	
Terminal Liability (includes Administrative Fee Liability, Margin for Adverse Deviation, and Rounded to the Nearest \$1,000)	\$41,417,000	\$47,500,000	14.7%
Number of Enrolled Employees at the end of the period (June)	78,178	82,041	4.9%
Terminal Liability per Employee	\$530	\$579	9.3%

**Georgia Department of Community Health  
State Health Benefit Plan (SHBP) - Retirees**

**Terminal Liability Calculation as of June 30, 2007**

**Medical & Prescription Drug**

<b>Month</b>	<b>Enrollment</b>	<b>Estimated Incurred Claims</b>	<b>Completion Factor</b>	<b>Paid to Date</b>	<b>Unpaid Claim Reserve</b>
Jul-04	70,818	\$28,934,852	1.000	\$28,934,852	\$0
Aug-04	71,206	\$31,819,852	1.000	\$31,819,852	\$0
Sep-04	71,528	\$32,100,489	1.000	\$32,100,489	\$0
Oct-04	74,088	\$33,648,419	1.000	\$33,648,419	\$0
Nov-04	74,168	\$33,161,329	1.000	\$33,161,329	\$0
Dec-04	74,297	\$33,561,734	1.000	\$33,561,734	\$0
Jan-05	74,377	\$36,840,209	1.000	\$36,840,209	\$0
Feb-05	74,572	\$34,188,031	1.000	\$34,188,031	\$0
Mar-05	74,677	\$39,455,458	1.000	\$39,455,458	\$0
Apr-05	74,724	\$37,299,427	1.000	\$37,299,427	\$0
May-05	74,834	\$37,661,894	1.000	\$37,661,894	\$0
Jun-05	74,877	\$42,248,984	1.000	\$42,248,984	\$0
Jul-05	74,949	\$33,432,842	1.000	\$33,432,842	\$0
Aug-05	75,421	\$38,613,540	1.000	\$38,613,540	\$0
Sep-05	75,776	\$36,426,218	1.000	\$36,426,218	\$0
Oct-05	78,143	\$38,058,468	1.000	\$38,058,468	\$0
Nov-05	78,166	\$40,162,452	1.000	\$40,162,452	\$0
Dec-05	78,309	\$38,745,952	1.000	\$38,745,952	\$0
Jan-06	78,114	\$35,364,897	1.000	\$35,364,897	\$0
Feb-06	78,159	\$32,540,619	1.000	\$32,540,619	\$0
Mar-06	78,248	\$36,509,561	1.000	\$36,509,561	\$0
Apr-06	78,227	\$32,860,213	1.000	\$32,860,213	\$0
May-06	78,258	\$35,050,744	1.000	\$35,035,140	\$15,604
Jun-06	78,178	\$37,892,872	0.999	\$37,840,894	\$51,977
Jul-06	78,447	\$34,566,586	0.997	\$34,478,246	\$88,340
Aug-06	78,840	\$41,138,492	0.995	\$40,948,569	\$189,923
Sep-06	79,357	\$39,363,875	0.993	\$39,104,829	\$259,046
Oct-06	81,128	\$41,757,864	0.991	\$41,387,293	\$370,572
Nov-06	81,217	\$39,383,955	0.987	\$38,880,667	\$503,289
Dec-06	81,233	\$38,144,022	0.981	\$37,434,090	\$709,932
Jan-07	81,367	\$38,217,137	0.974	\$37,223,791	\$993,346
Feb-07	81,502	\$35,129,171	0.961	\$33,751,616	\$1,377,555
Mar-07	81,636	\$37,189,458	0.943	\$35,083,828	\$2,105,630
Apr-07	81,771	\$35,848,506	0.904	\$32,416,307	\$3,432,199
May-07	81,906	\$38,277,595	0.794	\$30,400,378	\$7,877,217
Jun-07	82,041	\$37,767,805	0.347	\$13,103,251	\$24,664,554
Total		\$1,220,508,328		\$1,177,869,145	\$42,639,184

