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December 14, 1992

To: Members of the Executive Board

From: The Secretary

Subject: Finances of the Medical Benefits Plan -
Estimates for CY 1992-1996

There is attached for the information of the Executive Directors a report on the estimated finances of the Medical Benefits Plan for CY 1992-1996. This does not propose any change in the level of the monthly contribution scale in 1993.

Mr. Huddleston (ext. 37119) is available to answer any technical or factual questions relating to this paper.

Att: (1)

Other Distribution:
Department Heads



INTERNATIONAL MONETARY FUND

Finances of the Medical Benefits Plan: Estimates for
CY 1992-1996

Prepared by the Administration Department

Approved by Graeme Rea

December 11, 1992

In paragraph 4 of the paper "Phase II of the Review of the Medical Benefits Plan" (EBAP/92/44), which was approved by the Executive Board on March 4, 1992, it was stated that:

"A 'stabilization' reserve will be established. The target level for this reserve will be approximately 12 percent of estimated annual claims reimbursement costs, with the understanding that some variation around this target will be permitted so as to reduce the frequency and extent of changes in contributions ... The scale of contributions to the Plan would normally be reviewed at least annually and adjusted--if necessary--with the effect from the beginning of each calendar year, taking into account the best estimates of future income and expenditure; the aim of these adjustments in contribution would be to approximate the reserve target at the end of that year."

The purpose of this paper is to report on the current estimated outcome for CY 1992, and projections for the next four years, with a view to seeing if an adjustment in monthly contributions by enrollees and the Fund is appropriate. The conclusion is that it would be prudent not to adjust contributions at this time.

Estimates for CY 1992

(a) Income. On the basis of actual experience for the first ten months of the year, it is estimated that total income will be \$15,450,000, which is about the same as in CY 1991. This estimate takes account of the 12 percent reduction in the contribution rate effective March 1992, an increase of about 7.5 percent in the number of persons enrolled in the Plan, the general increase in average salaries which resulted in enrollees moving up the progressive contribution scale, and interest accrued on the reserve.

(b) Expenditures. It is estimated that total expenditures will be \$14,945,000 or about 18 percent higher than in CY 1991. This increase in total expenditures compares with increases in the two prior years of 14.2 percent and 9.2 percent, respectively. The estimated outturn of \$14,945,000 compares with an estimate of \$14,900,000 made approximately one year ago in connection with the CAP review of the MBP. The average cost per

enrollee in CY 1992 on the basis of these calculations will be \$4,995, or 10.6 percent higher than in CY 1991. (This might be compared with increases of 11.7 percent and 4.9 percent in CY 1991 and CY 1990 respectively.)

(c) Net impact on the reserve. The estimated net surplus for the year (\$505,000) is 3.4 percent of expenditures. When added to the carry-over surplus from CY 1991, it is estimated that the reserve at the end of CY 1992 will be \$4,150,000 or 29.1 percent of claims costs.

Projections for CY 1993-96

(a) Income. The projections for the next four years allow for a further significant expansion in the number of enrollees. The projections also allow for an increase in the Plan contribution income on account of higher average salaries and pensions and for the full year impact of the contribution discount for retirees enrolled in national health schemes, which became effective July 1, 1992. It is assumed, for the purposes of this exercise, that in each year the net impact of interest on reserve and fluctuations in the dollar/SDR rate will be about the same as in CY 1992.

(b) Expenditures. It is assumed that costs will increase by about 13 percent per annum per enrollee, which has been the average for the past five years. 1/ Partially offsetting this trend is provision for savings it is estimated will be yielded from the introduction of approved programs for improved cost management (large-case management; pre-certification of nonemergency hospital care; and focussed review of long-term psychiatric care). It has been estimated that these programs will reduce costs by about 6 percent per annum. It has been assumed that there will be some impact from these programs in CY 1993, but that the full impact will not be felt until CY 1994. In CY 1995 provision is also made for some additional savings that might be yielded from a possible HMO/PPO arrangement. Four other programs in aggregate are expected to be cost neutral:

- (i) Retiree discount program (w.e.f. July 1, 1992)--some savings from greater use of national plans;
- (ii) stop-loss insurance for large cases (w.e.f. July 1, 1992)--savings should offset part of the annual premium cost of about \$160,000;
- (iii) discount drug program (w.e.f. January 1, 1993)--may be small additional cost;

1/ This figure might be compared with a trend factor for 1993 projected by MetLife and our broker, Johnson and Higgins of some 20-25 percent. Experience in recent years is that the MBP costs have risen somewhat less than the average for the USA.

- (iv) utilization review program (w.e.f. January 1, 1993)--savings should exceed annual fee of \$140,000.

Finally, it is assumed that overhead costs will increase annually by about 12 percent (higher wages and greater volume of claims from an expanded enrollment), which is about two thirds the average rate of increase in the last five years.

(c) Impact of projections of income and expenditure on the reserve. As shown in Attachment I, on the basis of the assumptions outlined above, expenditures will exceed income by a small amount in CY 1993, and the cumulative reserve will drop from 29 percent at the end of CY 1992 to 24 percent at the end of CY 1993. Thereafter, the reserve would shrink at an accelerating pace, dropping to about 6 percent by the end of CY 1996.

Contribution scale for CY 1993

As it is projected that the reserve at the end of CY 1993 will be about 24 percent of annual claims costs, the contribution scale could be reduced by about 12 percent so as to bring the reserve into line with the target level of 12 percent. However, such action would mean that the plan would lose its reserve in CY 1994 (see Attachment II, Table A). On the assumptions outline above, to maintain the reserve at the 12 percent target level in CY 1994 and beyond, after a 12 percent reduction in CY 1993, contributions would have to be raised by nearly 20 percent in CY 1994, with a further increase in CY 1996 (see Attachment II, Table B). Simulations with reductions of less than 12 percent for CY 1993 suggest that contributions would still have to be raised in CY 1994 unless the CY 1993 reduction was 3 percent or less. On balance, it seems preferable not to reduce contributions in CY 1993, when the prospect is that unless the reduction is very small, it would make necessary an upward adjustment in CY 1994.

Accordingly, no action to adjust the contribution scale at the beginning of CY 1993 is proposed. This would have the advantage of providing some additional cushion against the unexpected. As shown in Table I, present estimates indicate that leaving contribution rates unchanged in CY 1993 should mean that no further adjustment will be necessary for some time.

Attachments (2)

Medical Benefits Plan: Income, Expenditures, and Reserve, CY 1978-1996

CY	In thousands of U.S. dollars					In percent				
	Income	Expenses			Income Minus Expenses	Return of Premium	Reserve at End of Year	Reserve as % of Claims	Increase Over Prior Year	
		Claims	Overhead	Total					Income	Expenses
1978	2,332	1,889 <u>1/</u>	73	1,962	370	-329	805	42.6	4.5	8.0
1979	2,463	2,074	80	2,154	309	-349	766	36.9	5.6	9.8
1980	2,899	2,389	116	2,505	394	-453	706	29.6	17.7 <u>2/</u>	16.3
1981	3,462	3,217	147	3,364	98	--	805	25.0	19.4 <u>2/</u>	34.3
1982	4,267 <u>3/</u>	3,742	166	3,908	359	--	1,164	31.1	23.3 <u>2/3/</u>	16.2
1983	4,935	3,725	187	3,912	1,023	-1,106	1,081	29.0	15.7 <u>2/</u>	0.1
1984	5,381	4,789	204	4,993	388	--	1,470	30.7	9.0	27.6
1985	5,689	4,955	220	5,175	514	-547	1,437	29.0	5.7	3.6
1986	5,977	5,521	239	5,760	217	--	1,654	30.0	5.1	11.3
1987	6,409	6,568	260	6,828	-419	--	1,236	18.8	7.2	18.5
1988	7,365 <u>4/</u>	7,755	328	8,083	-718	--	628 <u>5/</u>	8.1	14.9 <u>4/</u>	18.3
1989	9,255 <u>6/</u>	9,692	442	10,134	-879	--	-251	-2.6	25.7 <u>6/</u>	25.4
1990	11,547 <u>7/</u>	11,019	557	11,576	-29	--	920 <u>8/</u>	8.3	24.8 <u>7/</u>	14.2
1991	15,308	12,001	582	12,644	2,725	--	3,645	30.2	33.1	9.2
Est. 1992	15,450 <u>9/</u>	14,250	695	14,945	505	--	4,150	29.1	0.5 <u>9/</u>	18.2
Proj. 1993	17,000	16,400	780	17,180	-180	--	3,970	24.2	10.0	15.0
Proj. 1994	18,200	17,900	875	18,775	-575	--	3,395	20.0	7.1	9.3
Proj. 1995	19,200	19,100	980	20,080	-880	--	2,515	13.2	5.5	7.0
Proj. 1996	20,100	20,300	1,100	21,600	-1,300	--	1,215	6.0	4.7	6.6

1/ Includes \$446,805 paid for outstanding claims carried over from the old Medical Insurance Plan.

2/ Comparatively large increases in income because of inflation and associated increase in salary levels during these years.

3/ Reflects 5 percent increase in contribution scale with effect from May 1, 1982.

4/ Reflects 15 percent increase in contribution scale with effect from May 1, 1988.

5/ Includes \$110,000 upward adjustment to reflect reimbursements paid out over the previous years that were not cashed by recipients.

6/ Reflects 18.3 percent increase in contribution scale with effect from May 1, 1989.

7/ Reflects 30 percent increase in contribution scale with effect from September 1, 1990.

8/ Reflects write-off of deficit as of April 30, 1990 (\$1,200,000).

9/ Reflects 12.0 percent reduction in contribution scale with effect from March 1992. It also reflects discounts for retirees enrolled in national health plans effective May 1992 as well as increases in staff contributions for other dependents effective April 1 and October 1, 1992. Also includes \$46,000 representing the net effect of interest payments and movements in the U.S. dollar/SDR exchange rate.

**Table A. Medical Benefits Plan: Financial Projections CY 1993-96
Assuming 12 Percent Reduction in Contributions on January 1, 1993**

CY	In thousands of U.S. dollars							In percent		
	Income	Expenses			Income Minus Expenses	Return of Premium	Reserve at End of Year	Reserve as % of Claims	Increase Over Prior Year	
		Claims	Overhead	Total					Income	Expenses
1993	15,000	16,400	780	17,180	-2,180	--	1,970	12.0	-2.9	15.0
1994	16,000	17,900	875	18,775	-2,775	--	-805	-4.5	6.7	9.3
1995	16,900	19,100	980	20,080	-3,180	--	-3,985	-20.9	5.6	7.0
1996	17,700	20,300	1,100	21,400	-3,700	--	-7,685	-37.9	4.7	6.6

**Table B. Same as Above but with Counter Adjustments in CY 1994-96 ^{1/}
Necessary to Maintain End of Year Reserve at 12 Percent of Annual Claim Costs**

CY	In thousands of U.S. dollars							In percent		
	Income	Expenses			Income Minus Expenses	Return of Premium	Reserve at End of Year	Reserve as % of Claims	Increase Over Prior Year	
		Claims	Overhead	Total					Income	Expenses
1993	15,000	16,400	780	17,180	-2,180	--	1,970	12.0	-2.9	15.0
1994	19,000	17,900	875	18,775	+225	--	2,195	12.3	26.7	9.3
1995	20,100	19,100	980	20,080	+20	--	2,215	11.6	5.8	7.0
1996	21,800	20,300	1,100	21,400	+400	--	2,615	12.8	8.5	6.6

^{1/} Increases in contribution rates as follows: 19 percent in CY 1994; 4 percent in CY 1996.

