



*North Carolina*  
**State Health Plan**  
FOR TEACHERS AND STATE EMPLOYEES



## **Future Planning**

### ***Board of Trustees Meeting***

**November 20, 2015**

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*A Division of the Department of State Treasurer*

# Presentation Overview

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- State Budget, SL 2015-241
  - Special Provisions
  - Short-term vs. Long-term approaches
    - Starting in 2017 vs. waiting until 2018
- Levers for Reducing Cost Growth
  - Member cost-sharing
    - Premiums
    - Cost-Share
  - Provider Payments
  - Improve Health
  - Member Health

# State Budget Impact on Planning Future Benefits

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- **SECTION 30.26.(a)** It is the intent of the General Assembly to make funds in the Reserve for Future Benefits Needs available for increasing employer contributions to the State Health Plan for Teachers and State Employees during the 2016-2017 fiscal year only if the General Assembly determines that the State Treasurer and the Board of Trustees established under G.S. 135-48.20 have adopted sufficient measures to limit projected employer contribution increases during the 2017-2019 fiscal biennium, in accordance with their powers and duties enumerated in Article 3B of Chapter 135 of the General Statutes.
- **SECTION 30.26.(b)** During the 2015-2017 fiscal biennium, the State Health Plan for Teachers and State Employees shall maintain a cash reserve of at least twenty percent (20%) of its annual costs. For purposes of this section, the term "cash reserve" means the total balance in the Public Employee Health Benefit Fund and the Health Benefit Reserve Fund established in G.S. 135-48.5 plus the Plan's administrative account, and the term "annual costs" means the total of all medical claims, pharmacy claims, administrative costs, fees, and premium payments for coverage outside of the Plan.

# Implications of Budget Provisions

- SL 2015-241, Section 30.26 (a) and Section 30.26 (b) directly and indirectly mandate the Plan to reduce costs to the employer contribution and use fewer reserve dollars in the short term. The implications are that future dollars will need to come from sources other than the State General Fund in coming fiscal bienniums, which will require cost-shifting measures or reductions in spend

Timeframe	Mechanism to Reduce Employer Increase	Certainty in Cost Saving
Short Term	Member Cost-Sharing Increases Provider Networks	Higher Short Term
Midterm	Provider Reimbursement	Unlikely in Short Term TBD in the Long Term
Long Term	Improve Member Health	Potential Cost in Short Term Long Term savings likely

# Opportunities to Reduce Cost Growth

## Members

- Premium based
  - Across the Board Premium Increase
  - Increases through Premium Credits
  - *Removal of Spousal Coverage*
- Cost-Sharing based
  - Across the board increases
  - 70/30 strategy moves to annual basis
  - Value-based increases
    - ER
    - Reference price labs
    - Rx tiering

## Members and Providers

- Premium based
  - Narrow network offerings
    - Medical
    - Pharmacy
  - *Mandatory Wellness*
- Cost-sharing based
  - Tiering based on quality and price
  - Bundled Payments
  - ACOs

## Providers

- Premium and Cost-sharing
  - Cut reimbursements
  - Move to downside risk arrangements where possible

*Items in italics would require legislative changes*

# Opportunities to Reduce Cost Growth that Can Improve Members Health in the Long Term

## Members

- Premium based
  - Across the Board Premium Increase
  - **Targeted Increases through Premium Credits**
  - Removal of Spousal Coverage
- Cost Sharing based
  - Across the board increases
  - **70/30 strategy moves to annual basis**
  - **Value-based increases**
    - ER
    - Reference price labs
    - Rx tiering

## Members and Providers

- Premium based
  - **Narrow network offerings**
    - Medical
    - Pharmacy
  - **Mandatory Wellness**
- Cost-sharing based
  - **Tiering based on quality and price**
  - **Bundled Payments**
  - **ACOs**

## Providers

- Premium and Cost-sharing
  - Cut reimbursements
  - **Move to downside risk arrangements where possible**

# Quantifying Opportunities

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- Segal provided estimates of savings opportunities at a recent Board meeting that began to quantify multiple opportunities to reduce cost growth
- Based on our most recent forecast to reduce premium growth to about 6% annually *and* maintain a 20% reserve through the biennium, the Plan will need to generate approximately \$850m in savings
  - The General Assembly has not indicated whether 6% cost growth would be sufficient
- Changes could be implemented for CY 2017 and CY 2018 benefits
  - Recently, more significant changes have been made in even-numbered years
  - By holding off changes until CY 2018, we run the risk of having to make larger reductions, not meeting the 20% reserve threshold, and/or putting CY 2017 employer contributions at risk

# Timeline for Implementing Benefit Changes

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## 2016

- Benefit designs are set for CY 2016
- Approve changes for CY 2017
- NCGA determines if changes are sufficient for release of FY 2016-17 increase
- Award PBM contract for CY 2017
- Monitor reserves and forecast results

## 2017

- Approve benefit designs for CY 2018 and CY 2019
- Work with NCGA on CY 2018 and CY 2019 premium increases
- Monitor reserves
- Track impact of benefit changes on CY 2018 forecast

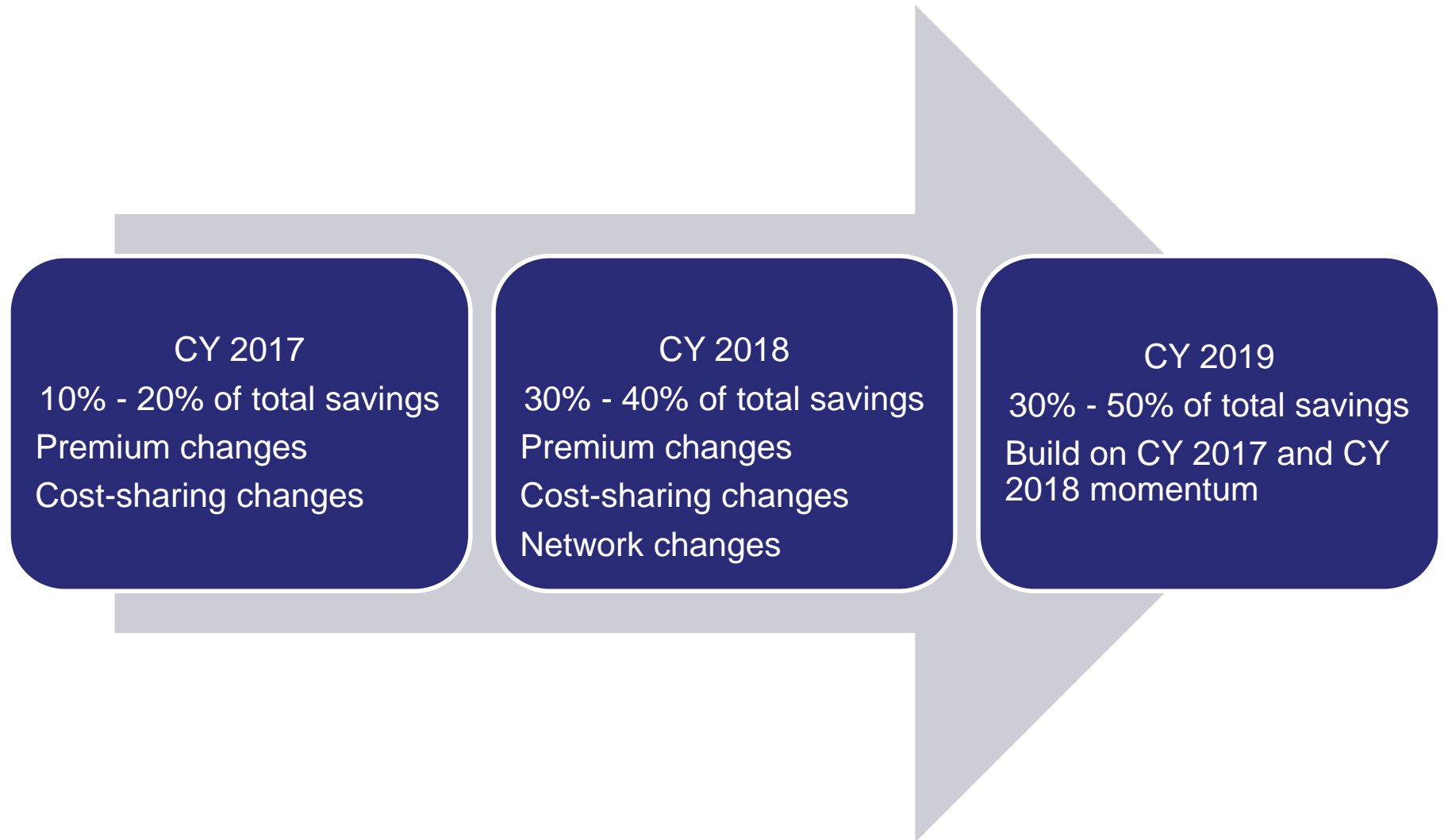
## 2018 *and beyond*

- Third Party Administrator RFP
- Potential network changes
- Evaluate provider payment strategies and opportunities
- Identify potential large scale partnerships



# Breakdown of Annual Savings Goals by Benefit Year

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# Overview of Network-Based Approach

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- **Strengths:**

- Providers agree to charge less for services
- Networks inclusion can be tied to discounts and quality
- Likely to generate meaningful savings; however, not the full amount needed

- **Challenges:**

- Members have less choice in providers and likely to disrupt some members' care
- Not actionable uniformly throughout North Carolina
- Provider pushback

# Overview of Cost-Sharing Based Approach

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- **Strengths:**

- Can be done in a value-based manner that could mitigate impact on engaged members
- Can steer members to higher quality providers that could lead to healthier members
- Likely to generate meaningful savings; however, not the full amount needed
- Across-the-board approach would generate meaningful long-term savings

- **Challenges:**

- Members have been slow to embrace “carrot” approach on hospitals, specialists, and/or PCPs
- Unengaged members may pay more for care or not access care
- Current cost-sharing does not compare favorably to other states

# Overview of Premium-Based Approach

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- **Strengths:**

- Most predictable approach to generate significant savings
- Could be centered around wellness and engagement to offset member impact
- Individual coverage is on the lower end of costs compared to other states

- **Challenges:**

- Would further decrease dependent coverage affordability
- Unengaged members may pay more for care or not access care

# Benefits Change Discussion

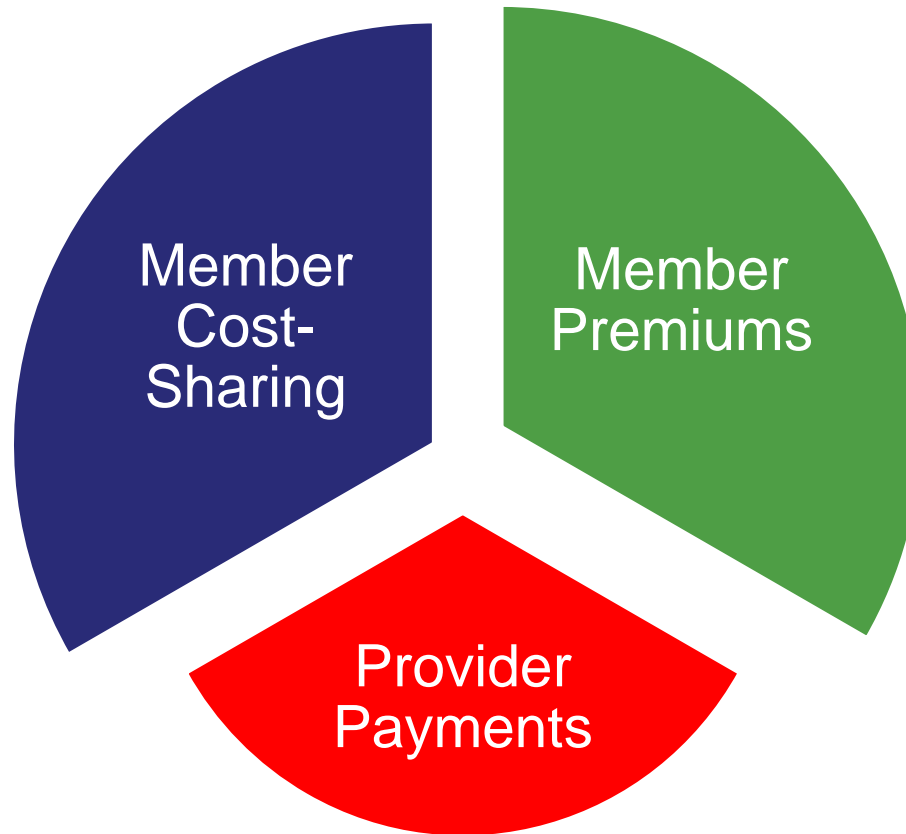
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- **Options to consider:**

- Changes to premium structure – *Most likely to reduce employer increase*
- Changes to cost-sharing structure – *Likely to reduce employer increase; however, depending on magnitude, likely to adversely impact member health*
- Implement new benefit (such as HDHP) – *Likely to reduce employer increase; however, likely to adversely impact member health*
- Long-term provider strategy – *Longer term strategy*
  - Opportunity in short term is more around Pharmacy Benefit
- Do nothing and forgo CY 2017 increase to employer contribution – *Forces large employee increases going forward*

# Areas to Generate Savings in the Short Term

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# Next Steps

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- Board feedback on potential benefit changes
- Plan staff develops recommended benefit design for January Board meeting
- Plan staff works with BCBSNC on cost-savings opportunities
- Board votes on design in February
- Monitor budget and member utilization
- Identify opportunities to reduce employer contribution