Financial Report

Board of Trustees Meeting

July 25, 2024

North Carolina State Health Plan
FOR TEACHERS AND STATE EMPLOYEES
A Division of the Department of State Treasurer

STATE TREASURER OF NORTH CAROLINA
DALE R. FOLWELL, CPA

Overview

The Board's actions over the last year have stabilized the budget situation through 2025.
More action is needed to resolve a structural deficit going forward.

- FY 2023-24 Estimated Actual vs. Budget
- CY 2024 Projection vs. Budget
- FY 2024-25 Budget
- CY 2025 Budget
- Projections for CY 2026-27
- Strategies for Balancing the Budget

All dollar figures are in millions.

Projection vs. Budget: Fiscal Year 2023-24

($s in millions)	**FY 2023-24 Est. Actual**	**FY 2023-24 Budget**	**Difference**
Premiums & Subsidies	$4,105.1	$4,141.3	($36.2)
Investment Earnings	$30.5	$5.5	$25.0
Total Revenue	**$4,135.6**	**$4,146.8**	**($11.2)**
Net Medical Claims	$3,087.4	$3,064.5	$22.9
Net Pharmacy Claims	$1,000.2	$1,020.9	($20.7)
Medicare Advantage Payments	$15.4	$16.9	($1.5)
Administrative Expenses	$138.8	$145.6	($6.8)
Total Expenses	**$4,241.9**	**$4,247.9**	**($6.0)**
Plan Income/(Loss)	**($106.3)**	**($101.1)**	**($5.2)**
Ending Cash Balance	**$636.1**	**$645.9**	**($9.8)**

Budget reflects revised employer contribution rates but has not been adjusted for the exclusion of weight-loss GLP-1s.

Projection vs. Budget: Calendar Year 2024

($s in millions)	CY 2024 Projection	CY 2024 Budget	Difference
Premiums & Subsidies	$4,300.7	$4,282.5	$18.2
Investment Earnings	$25.5	$23.2	$2.3
Total Revenue	**$4,326.2**	**$4,305.7**	**$20.5**
Net Medical Claims	$3,257.0	$3,244.0	$13.0
Net Pharmacy Claims	$992.8	$984.1	$8.7
Medicare Advantage Payments	$15.5	$18.5	($3.0)
Administrative Expenses	$140.8	$138.0	$2.8
Total Expenses	**$4,406.2**	**$4,384.6**	**$21.6**
Plan Income/(Loss)	**($80.0)**	**($78.9)**	**($1.1)**
Ending Cash Balance	**$591.0**	**$590.4**	**$0.6**

Budget has been adjusted for the exclusion of weight-loss GLP-1s.

State Health Plan Budget

- The Plan must budget on both a fiscal year and calendar year basis.
- Staff develop the Plan's budget using projections of revenue and expenses in consultation with the Plan's external actuaries.
- Budget Assumptions:
  - No changes to benefits or premiums, except changes that have been approved by the Board.
  - Employer contribution rate = maximum allowed in State budget
- The Board requires the Plan's budget to maintain a year-end cash balance that exceeds the Target Stabilization Reserve (TSR).

TSR = 9% of Calendar Year Claims

~$390M

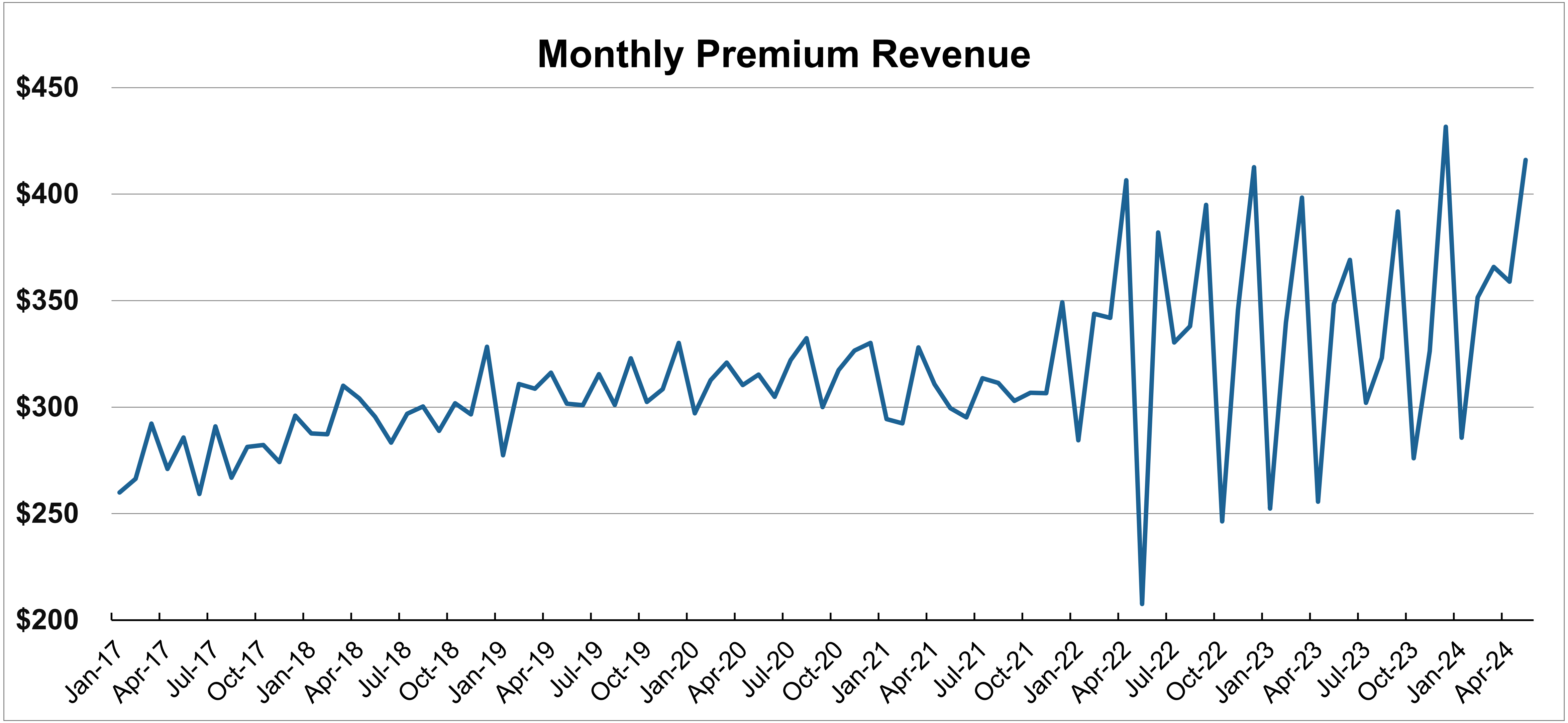
Reserve Adequacy

- The Target Stabilization Reserve (TSR) is an estimate of the minimum amount the Plan needs to pay for services already provided to its members.
- TSR is the minimum amount the Plan needs to manage typical variations in cash flow.
- Additional reserves may be appropriate:
  - To support long-term financial planning and to avoid the need for sudden changes in response to financial pressures, ensuring benefits remain stable and reliable.
  - To provide cushion due to uncertainty in forecast during times of transition.
  - To manage the inherent unpredictability in healthcare costs.

Budget Monitoring and Adjustments

- In recent history, the Plan has maintained significant reserves. As reserves decrease, it becomes critical to more closely monitor the budget and actual spending by:
  - Adjusting the budget to reflect:
    - Modifications to employer contribution rates.
    - Board actions related to benefits, premiums, or significant contracts.
    - Major legislative or federal policy changes.
  - Updating financial projections quarterly to reflect current conditions by incorporating enrollment and claims experience.
  - Monitoring and responding to variances between budgeted and actual figures promptly.
  - Managing significant volatility in timing by adjusting actuals to reflect the timing assumptions of the budget to allow for meaningful comparisons.

Seasonal Variation and Volatility



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New Budget: Fiscal Year 2024-25

($s in millions)	**FY 2024-25 Budget**	**Change from Prior Year**	***% Change from Prior Year***
Premiums & Subsidies	$4,393.2	$220.5	*5.3%*
Investment Earnings	$22.5	($8.0)	*-26.2%*
Total Revenue	**$4,415.7**	**$212.5**	***5.1%***
Net Medical Claims	$3,361.0	$273.6	*8.9%*
Net Pharmacy Claims	$991.1	($9.1)	*-0.9%*
Medicare Advantage Payments	$46.6	$31.2	*202.6%*
Administrative Expenses	$168.0	$29.2	*21.0%*
Total Expenses	**$4,566.6**	**$324.7**	***7.7%***
Plan Income/(Loss)	**($151.0)**	**($112.4)**	***291.2%***

Change from prior year is measured relative to an estimate with adjustments for timing.

Ending Cash Balance = $554.2M

$162.5M above TSR

TSR= Target Stabilization Reserve

New Budget: Calendar Year 2025

($s in millions)	Calendar 2025 Budget	Change from Prior Year	*% Change from Prior Year*
Premiums & Subsidies	$4,489.0	$188.3	*4.4%*
Investment Earnings	$20.1	($5.4)	*-21.2%*
Total Revenue	**$4,509.1**	**$182.9**	***4.2%***
Net Medical Claims	$3,377.5	$120.5	*3.7%*
Net Pharmacy Claims	$1,009.5	$16.7	*1.7%*
Medicare Advantage Payments	$91.0	$75.5	*487.1%*
Administrative Expenses	$175.2	$34.4	*24.4%*
Total Expenses	**$4,653.1**	**$246.9**	***5.6%***
Plan Income/(Loss)	**($144.0)**	**($64.0)**	***80.0%***

Ending Cash Balance = $447.0M

$52.2M above TSR

TSR= Target Stabilization Reserve

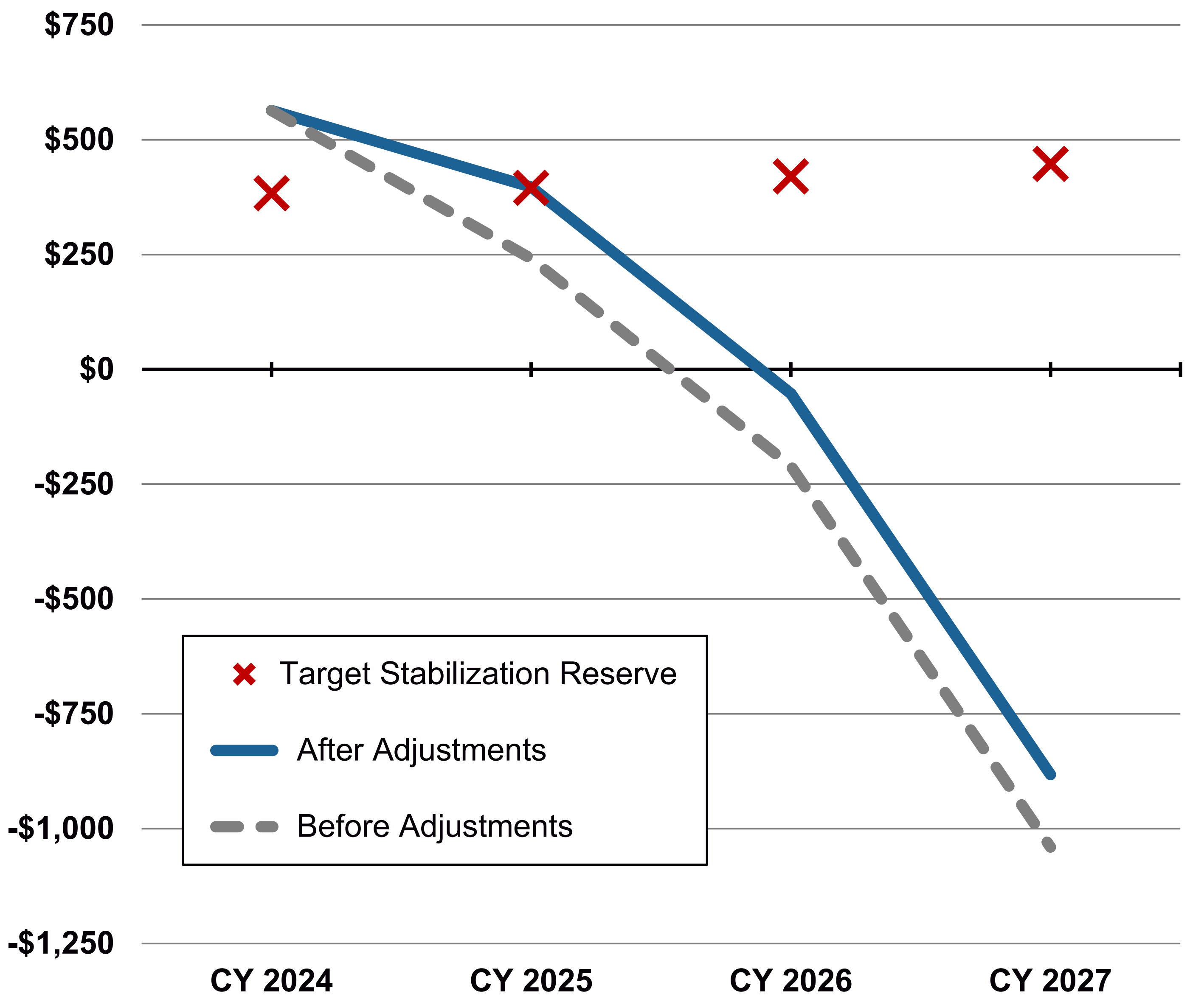
Forecast Uncertainty

- **New TPA Transition:** Significant uncertainty in estimating claims savings.
  - Variations in claims adjudication processes and policies between the old and new TPA can lead to unexpected costs or savings.
  - Uncertainty in achieving anticipated savings through new provider contracts and renegotiations.
  - Changes in member behavior and utilization patterns under the new TPA could affect projected savings.
- **Medicare Advantage Premiums:** Future rates are unpredictable due to regulatory changes and market dynamics.
- **Pharmacy Benefit Volatility:** Rapid changes in the sector, such as increasing specialty drug prices, growth of biosimilars, shifting PBM practices, and the introduction of new treatments, increase risk of forecast inaccuracies.

Beyond 2025: Out-Year Forecast

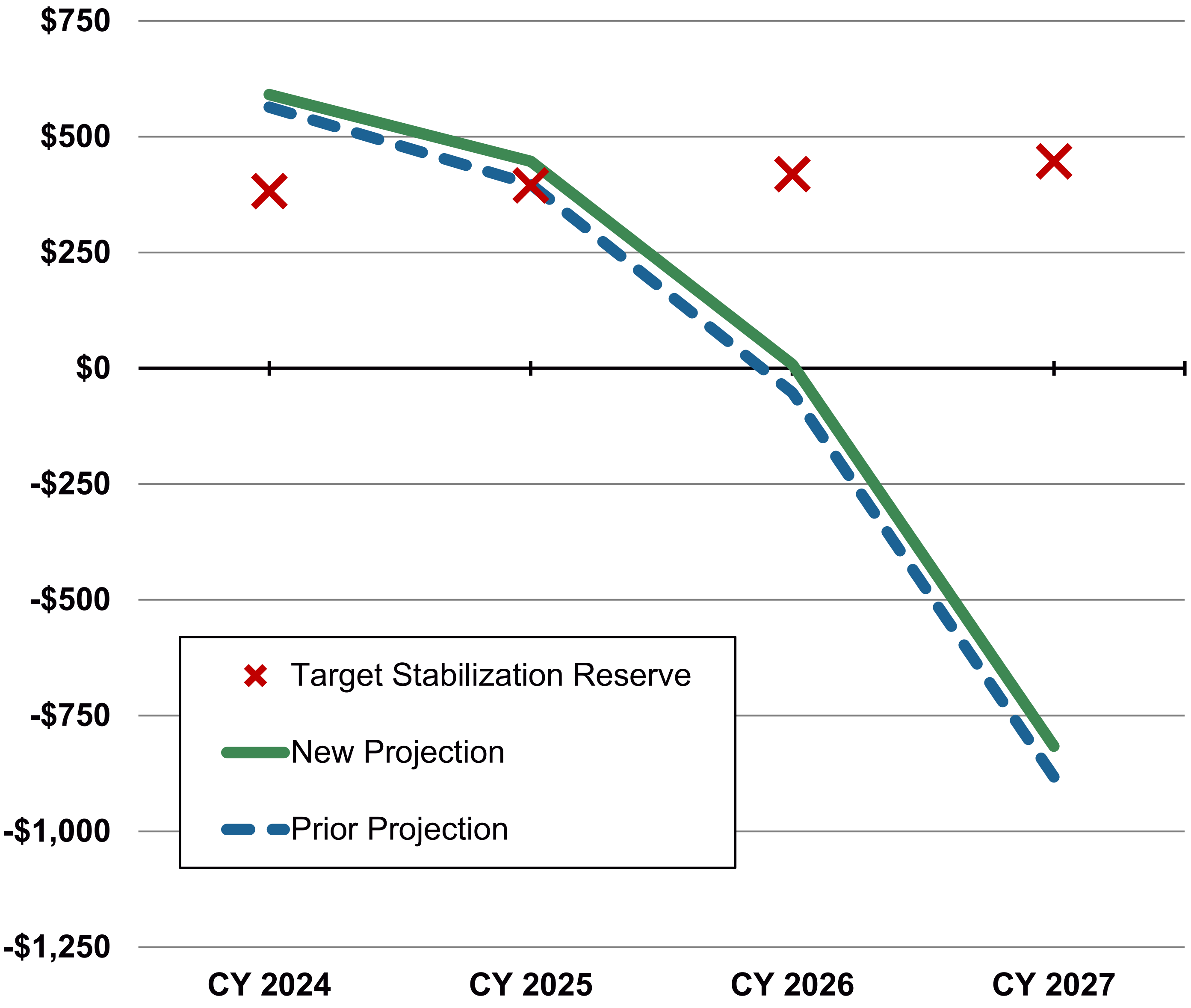
- Projections for future years are based on the following key assumptions:
  - **State Funding:** 4% increase annually, determined on fiscal year basis
  - **Annual Per-Member Costs:** Projected using customized actuarial trend assumptions
    - Medical Claims: 6.0%
    - Pharmacy Claims: 9.5%
    - Pharmacy Rebates: 7.0%
    - Administrative expenses: 3.0%
  - **Medicare Advantage Premiums:** Increase from current $0 rate to $159 by 2027, based on preliminary renewal estimates.
  - **Investment return rate:** 3.8%, based on recent experience.
  - **Enrollment and plan selection:** Various assumptions based on recent enrollment and migration patterns.

Impact of 2025 Contribution Adjustments on Projections



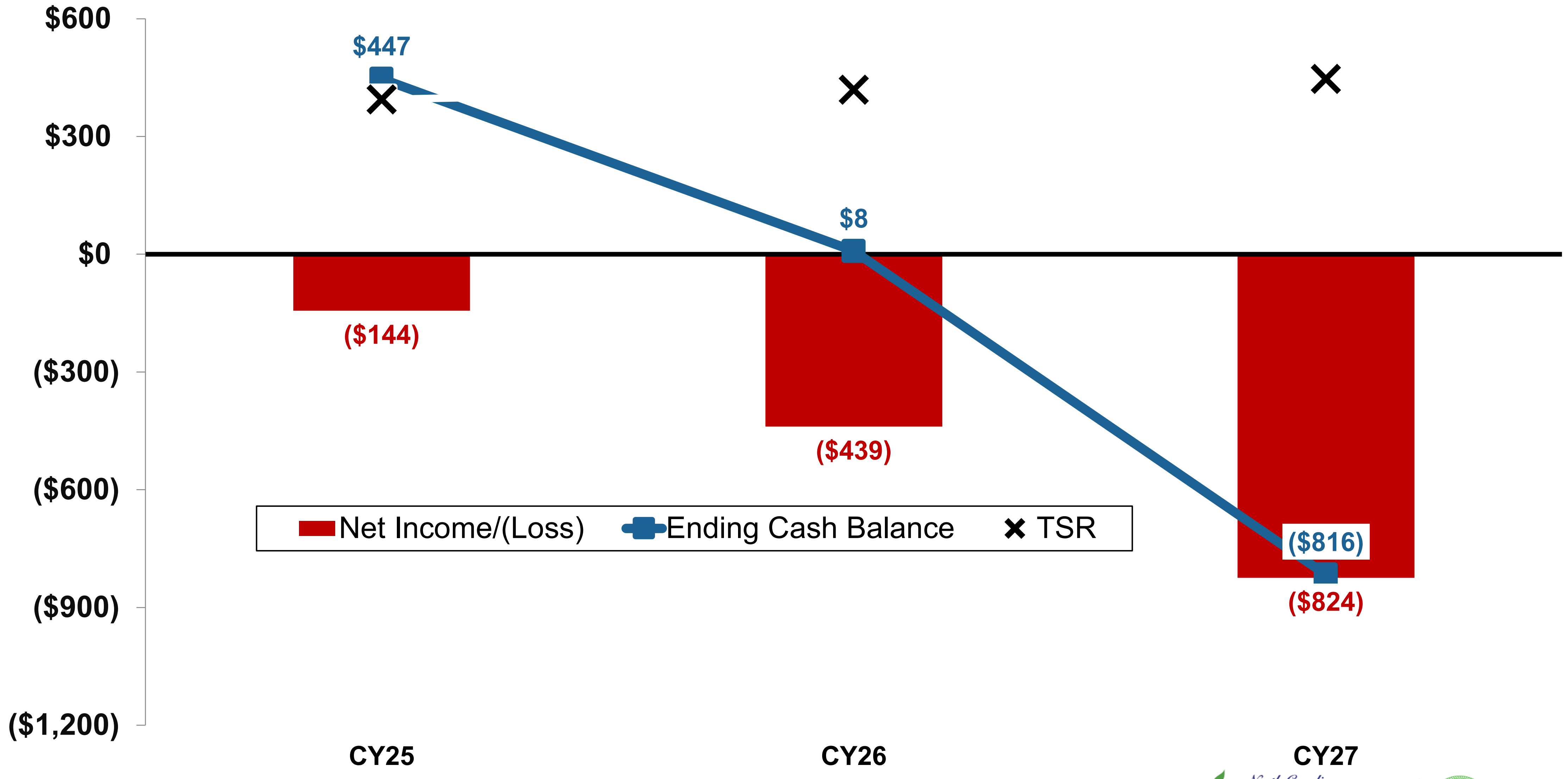
- Board voted in June to adjust funding for 2025:
  - Increase Retirement System contribution.
  - Increase premiums for dependents and contributory retirees who elect Medicare Advantage plans.
- Brought projected cash balance at end of CY 2025 to just above TSR.
- Only increased funding for CY 2025.

Impact of Other Adjustments on Projections



- Projection improved due to:
  - Higher interest rate assumption
  - Slightly lower expected claims expenses.
- Cash balance now expected to exceed TSR by $52 million at end of 2025.
- Cash balance expected to fall below TSR in early 2026.
- Without action, likely to be unable to pay bills in fall 2026.

Revised Projection: Financial Results by Plan Year



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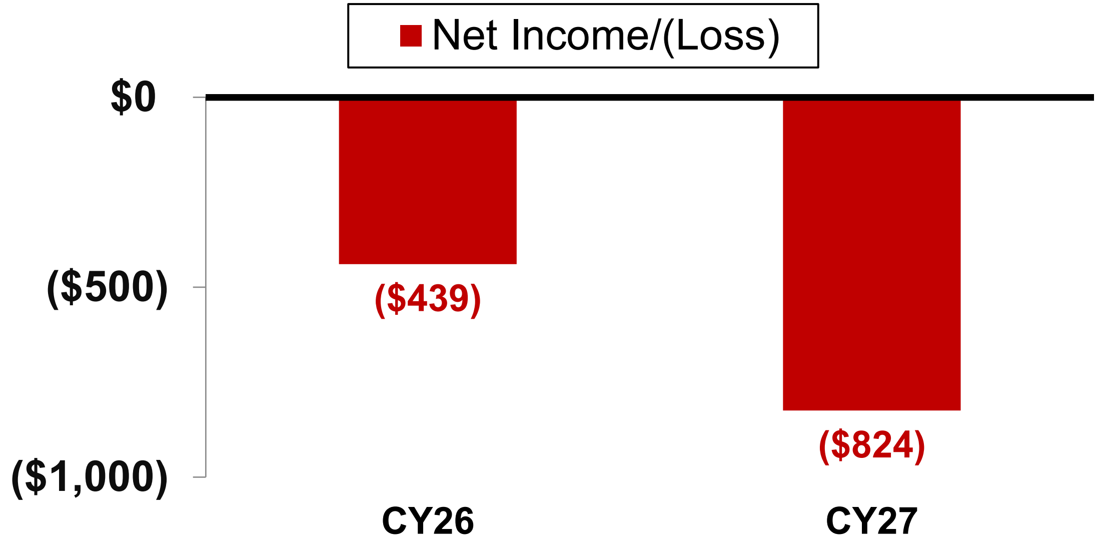
Strategies for Balancing the Budget

- To achieve a balanced budget, the Plan needs a strategic approach that combines increased funding and reduced expenditures.
- At the next Board meetings, we will present detailed options for addressing the budget shortfall.
- The Plan requires approximately $440 million in 2026 and an additional $825 million in 2027.



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Strategies for Balancing the Budget

- **Cost Reduction Strategies:**
  - Work with TPA to secure lower rates through provider network strategy.
  - Develop approaches to better differentiate between plans.
  - Use data to manage and reduce pharmacy benefit costs.
  - Review existing contracts for cost-saving opportunities.
- **Additional Funding Opportunities:**
  - Request increase in employer contribution rates from General Assembly
  - Request additional reimbursements for over $316 million in unreimbursed COVID-related costs.
  - Obtain higher federal subsidies by reopening the Employer Group Waiver Plan (EGWP) for Medicare retirees and maximizing Retiree Drug Subsidies (RDS).