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

Board of Trustees Meeting
In-Person/Webinar/Recorded
July 25, 2024
Minutes

Convene Meeting

Welcome

The meeting of the North Carolina State Health Plan for Teachers and State Employees (Plan) Board of Trustees was called to order by Chair Dale R. Folwell, CPA, at 1:30 p.m. on Thursday, July 25, 2024. He welcomed Representative Wesley Harris, candidate for State Treasurer and noted that Brad Briner, also a candidate for State Treasurer, received an invitation to the meeting but was unable to attend.

Roll Call for Attendance

Present: Dale R. Folwell, Kristin Walker, Melanie Bush, Russell "Rusty" Duke, Peter Robie, M.D., Mike Stevenson (Virtual), Cyrus Vernon, Kerry Willis, M.D. Chair Folwell indicated that a quorum was present.

Absent: Wayne Fish

Conflict of Interest

No conflicts of interest were noted. During a Board meeting, members should notify the Board chair if a conflict arises.

Reading of SEI Statements into Minutes Pursuant to the Ethics Act § 138A-15(c)

Statements of Economic Interest (SEI) for Treasurer Dale R. Folwell, James M. Stevenson and James W. Fish were read into the minutes.

Consent Agenda *(Requires Vote)*

Minutes – April 25, 2024, and June 6, 2024; Bylaws Amendment

> **Board Vote***:* Motion by Dr. Robie; second by Mr. Vernon; roll call vote was taken; unanimous vote by Board to approve the minutes from the April 25, 2024, and June 6, 2024, meetings and the Board of Trustee Bylaws amendment.

Public Comments

Debra Conrad, President, Conrad CapitoLink, LLC, discussed an investigation into Express Scripts.

Penny Shelton, PharmD and Executive Director, North Carolina Association of Pharmacists, discussed the experiences of at independent pharmacists.

Overview of Specialty Pharmacy

Charles Sceiford, Health & Benefits Actuary and Jenny Vogel, PharmD, Sr. Clinical Pharmacist, presented information on specialty medications and the financial impact of these drugs. Mr. Sceiford stated that the total pharmacy costs in 2023, after rebates, was slightly over $1 billion. Approximately 51% of the cost was attributed to specialty medications prescribed to only 2.7% of Plan members.

Only about 3% of all pharmacies in the United States are accredited specialty pharmacies and are owned by hospitals, health care providers, Pharmacy Benefit Managers (PBM), etc. With few exceptions, Plan members are required to use the contracted specialty vendor, CVS Caremark. If a different pharmacy is used, the member is responsible for the total cost of the specialty drug.

Dr. Vogel reviewed the Plan's pharmacy tiers and the cost-share associated with each tier, pointing out how manufacturer coupons undercut plan design strategy. Mr. Sceiford reviewed the top 25 specialty medications prescribed to Plan members. The gross cost (what the manufacturers charge) of the top four drugs is approximately $100 million. Plan members typically pay approximately 3-4% of the drug cost. Mr. Sceiford noted that the specialty medication cost per prescription is approximately $5,000 whereas the generic medication cost (without GLP-1 drugs) is approximately $50.

Mr. Sceiford stated that specialty medication utilization has more than doubled since 2013, and the gross costs have more than doubled since 2017.

The pharmacy trend Per Member Per Month (PMPM) cost for specialty drugs increased approximately 9%, while the trend for non-specialty drugs was approximately 3% until GLP-1 drugs came into play and significantly increased the trend in 2022-2023.

GLP-1 Request for Information Update

Memo to Board of Trustees

Sam Watts, Executive Administrator, noted that the Plan issued a Request for Information (RFI) looking for solutions to reopen coverage for GLP-1 drugs. This was a first step to determine if there were ways the Plan could cover GLP-1s in a cost-effective way for members who need it most. Nineteen organizations submitted proposals, 11 of which met the criteria established by Plan staff.

Mr. Watts reviewed a proposal from Public Citizen.

Financial Report

Financial Update

Dr. Emma Turner, Chief Economist, summarized the Plan's financial status and actions taken by the board to try and stabilize the budget shortfall through 2025. However, as expenses continue to increase faster than funding, the Plan will have to do more to resolve the deficit going forward.

The Fiscal Year (FY) 2023-24 budget was established prior to the Board's vote to exclude GLP-1 drugs and was not adjusted to reflect that change. If the Plan had continued coverage for GLP-1s, the ending cash balance would have been closer to $70 million below budget. The projections for Calendar Year (CY) 2024 were adjusted to reflect the change in coverage for GLP-1s.

The projections for Calendar Year (CY) 2024 have improved slightly from the previous report to the Board. The ending cash balance and Plan income/loss are close to the budgeted amount. The premiums and subsidies from the federal government are higher than projected due to the unexpected increase in member enrollment. However, with the increase in Plan members, pharmacy expenses, and medical expenses are higher than projected. The Plan's administrative expenses increased due, in part, to legal bills—particularly due to Blue Cross and Blue Shield of North Carolina (Blue Cross NC) vs. State Health Plan.

Budget Report

Rodney Bizzell, Financial Analyst, reviewed the Plan's budget for the fiscal year and calendar year 2025. It is required that the budget balance exceeds the Target Stabilization Reserve (TSR) by 9% of the calendar year claims. The TSR represents the minimum amount the Plan needs to pay for services already provided to Plan members.

Additional reserves may be appropriate to provide a cushion as expenses increase faster than revenue. Mr. Bizzell reviewed a chart demonstrating the seasonal variation and volatility relative to the monthly premium revenue. The volatility increase over the past few years may be due to employer groups prepaying premiums on a quarterly basis. A legislative change that allowed schools systems to hold onto state funds longer than they previously were allowed to may have also contributed to the volatility.

Mr. Bizzell presented information on the FY 2024-25 budget. In terms of revenue, premiums are $220 million higher based on enrollment growth. Medicare Advantage premiums are higher and investment earnings lower than the prior year, based on a slightly lower interest rate assumption. Administrative expenses are higher, which includes a 3-month overlap of the Third-Party Administrators due to the transition to Aetna. Overall, expenses exceed revenue by $151 million. The ending cash balance of $554 million is $162.5 million above the TSR.

The projected trend for the CY 2025 budget is similar to the FY 2025 budget. Medicare Advantage projected payments are significantly higher. The ending cash balance of $447 million is $52.2 million above the TSR, based on lower claims expenses.

Financial Projections

Dr. Turner noted the uncertainty in projecting medical expenses, adding that the projected cushion of $52 million isn't that much considering the Plan's overall budget. Contributing factors to the forecast uncertainty are the transition to a new TPA, Medicare Advantage premiums and the pharmacy trend. She added that Mr. Sceiford has been reviewing the pharmacy rebate models to determine if adjustments are needed.

Beyond 2025, staff is using what the State budget has funded for the Plan. A 4% increase for out years is used in the projected trend, which is controlled by the legislature. However, medical and pharmacy claims are growing 6-9.5% each year, which is well above 4%. In addition, anticipated rate increases to the Medicare Advantage plan will adversely impact the budget.

Dr. Turner reviewed the decision made by the Board at the June 2024 meeting to increase the Retirement System contributions in 2025 and increase dependent premiums in the MA plans due to the anticipated budget deficit. Since then, several changes to the budget brought the projected cash balance just above the TSR at the end of 2025. The cash balance is expected to fall below the TSR in early 2026. Continuing on this path, the projected revenue loss would be $439 million at the end of 2026 and $824 million at the end of 2027.

The Plan will require funding from the General Assembly, approximately $440 million in 2026 and $825 million in 2027. Plan staff are also reviewing ways to reduce expenses. At the October 2024 board meeting, Plan staff will present detailed options and cost reduction strategies to address the budget shortfall.

In response to a request for additional information on COVID-19 reimbursements, Dr. Turner responded that the Plan spent over $500 million on direct Covid-19 related costs and received only $200 million from federal funds. Remaining funds were appropriated to various projects and programs. All of the

federal funds allocated to North Carolina have to be spent by 2026, pending no federal changes. At that time, if funds remain, the Plan hopes to recoup some or all of the money spent on Covid-19 treatment, testing and vaccinations.

Executive Administrator Report

Aetna Transition Update

Mr. Watts stated that the transition from Blue Cross NC to Aetna is well underway. The Plan is preparing for Open Enrollment beginning in October and staff members are beginning to travel around the state for onsite meetings and conducting webinars. The Aetna bus tour is also preparing for travel to various areas around the state to provide information and answer questions from state employees.

Independent Pharmacy Research Update

The research is ongoing.

Prior Authorizations

Following a request from Dr. Willis to research and review the cost effectiveness of prior authorizations, staff analyzed data provided by Blue Cross NC. They found that cost-avoidance from utilization is approximately $60 million. The pharmacy data provided by Caremark CVS demonstrated a cost-avoidance of approximately $147 million. That number, before rebates, is higher. These numbers are large enough that it warrants a review of the cost-effectiveness of prior approvals and other utilization.

Overall, the research on this topic is mixed, with some of the findings making sense while others don't.

SB 559/New Board Responsibility for Admitting Charter Schools

Mr. Watts reviewed the current rules for charter schools to be covered under the State Health Plan. More information will be shared with the board at a future meeting.

Adjournment

Chair Folwell called for a motion to adjourn.

> ***Board Vote:*** Motion by Mr. Vernon; second by Dr. Robie; vote was taken; unanimous vote by Board to adjourn.

The meeting was adjourned at 3:50 p.m.

Minutes submitted by: Joel Heimbach, Secretary

Approved by: _____

Dale R. Folwell, CPA, Chair