



North Carolina
State Health Plan
FOR TEACHERS AND STATE EMPLOYEES



Implications of Forecast Update on Long Range Planning

Board of Trustees Meeting

May 22, 2015

A Division of the Department of State Treasurer

Presentation Overview

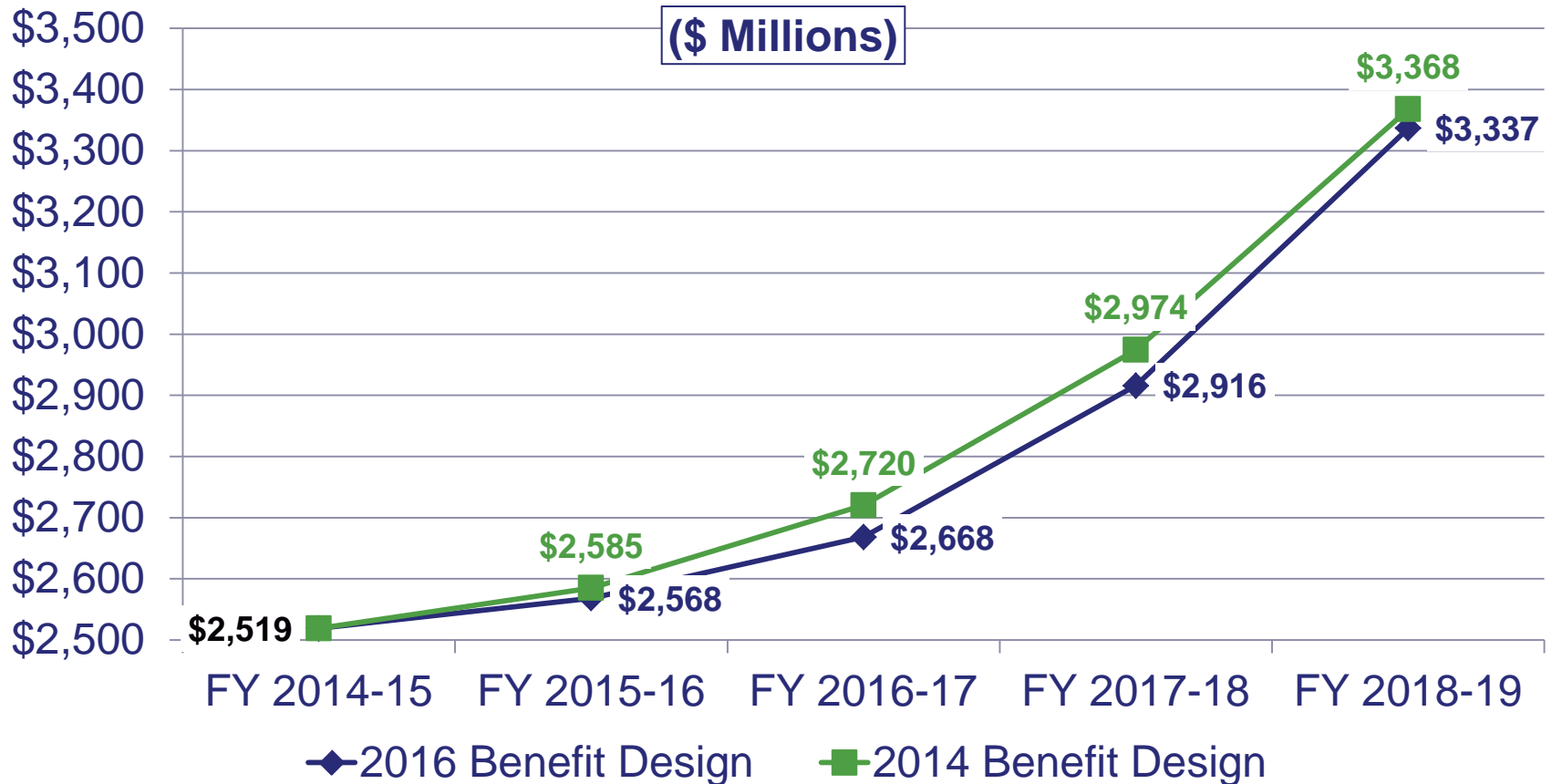
- 2015 Board Approved Design
- Long-term Outlook
 - Per member per month (PMPM) spending
 - Stable forecasts
 - Role of cash balance in the Plan's funding structure
 - Forecast for 2017-2019 Fiscal Biennium: 14.7% annual increases
- Potential Cost Saving Strategies

Board Approved Plan Designs

- Effective CY 2014, the Board approved a series of benefit design changes to reduce long-term cost trends through:
 - Improving member's health,
 - Offering cost-effective plan options (Medicare Advantage and CDHP),
 - Incenting engagement with Plan resources, and
 - Encouraging members to use high quality, lower cost providers
- These actions reduced Plan and member expenses
- The Board has approved new initiatives for CY 2016 that:
 - Provide members with meaningful choice,
 - Educate members about their health care options, and
 - Build on the CY 2014 approach
- These new initiatives will save **approximately \$172M over the next four years in overall expenditures**

Employer Contributions

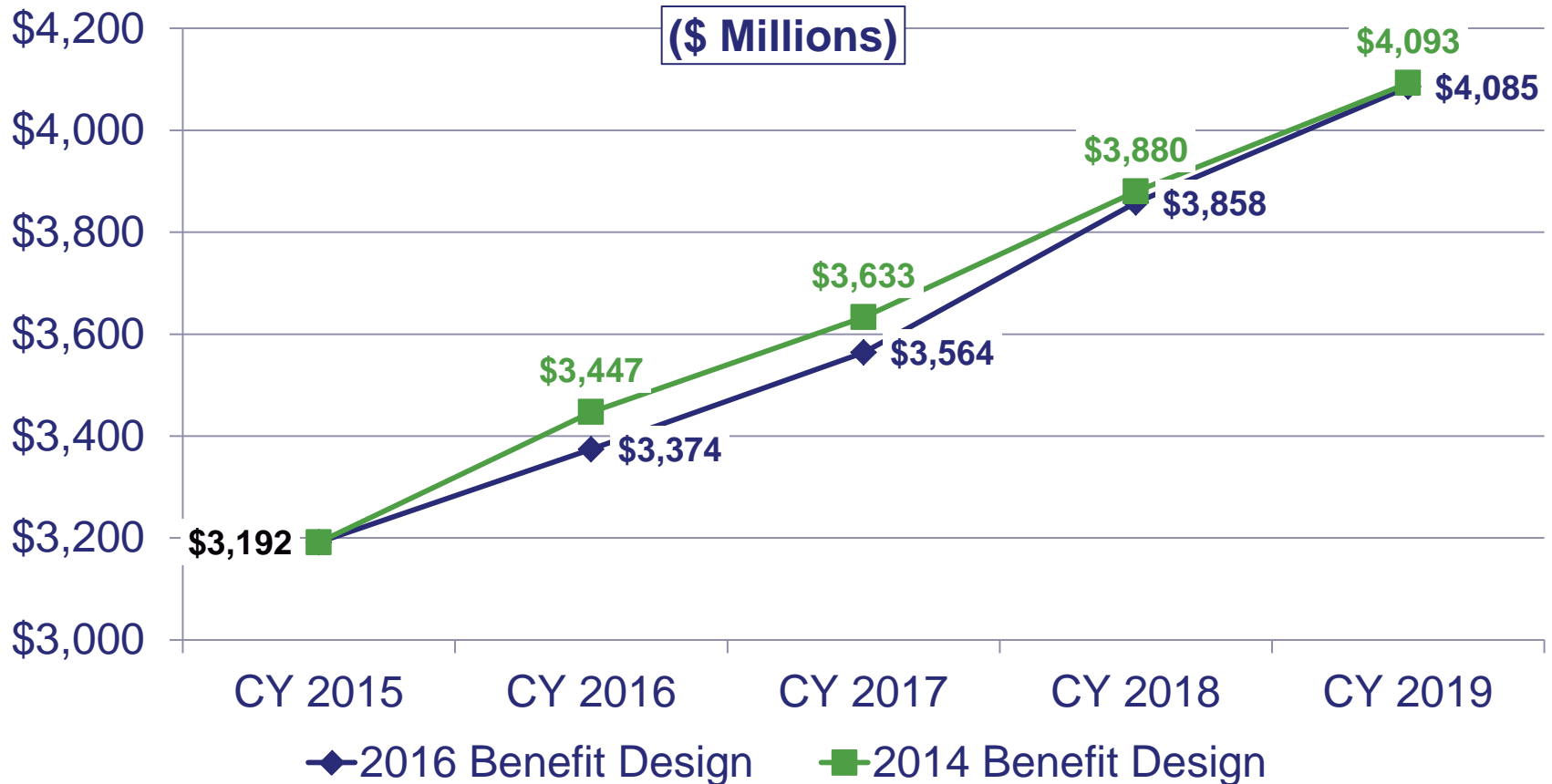
2016 and 2014 Board Benefit Designs



- Projections suggest the 2016 Board Approved Benefit Design could save the State **\$158 million** in employer contributions over the next four years relative to the 2014 Benefit Design
- This amount includes approximately **\$127 million** in State General Fund appropriations

Plan Spending

2016 and 2014 Board Benefit Designs



- Projections suggest the 2016 Board Approved Benefit Design could save the Plan **\$172 million** over the next four calendar years (2016-2019) relative to the 2014 Benefit Design

Claims Expenditures

Medical Claims Costs

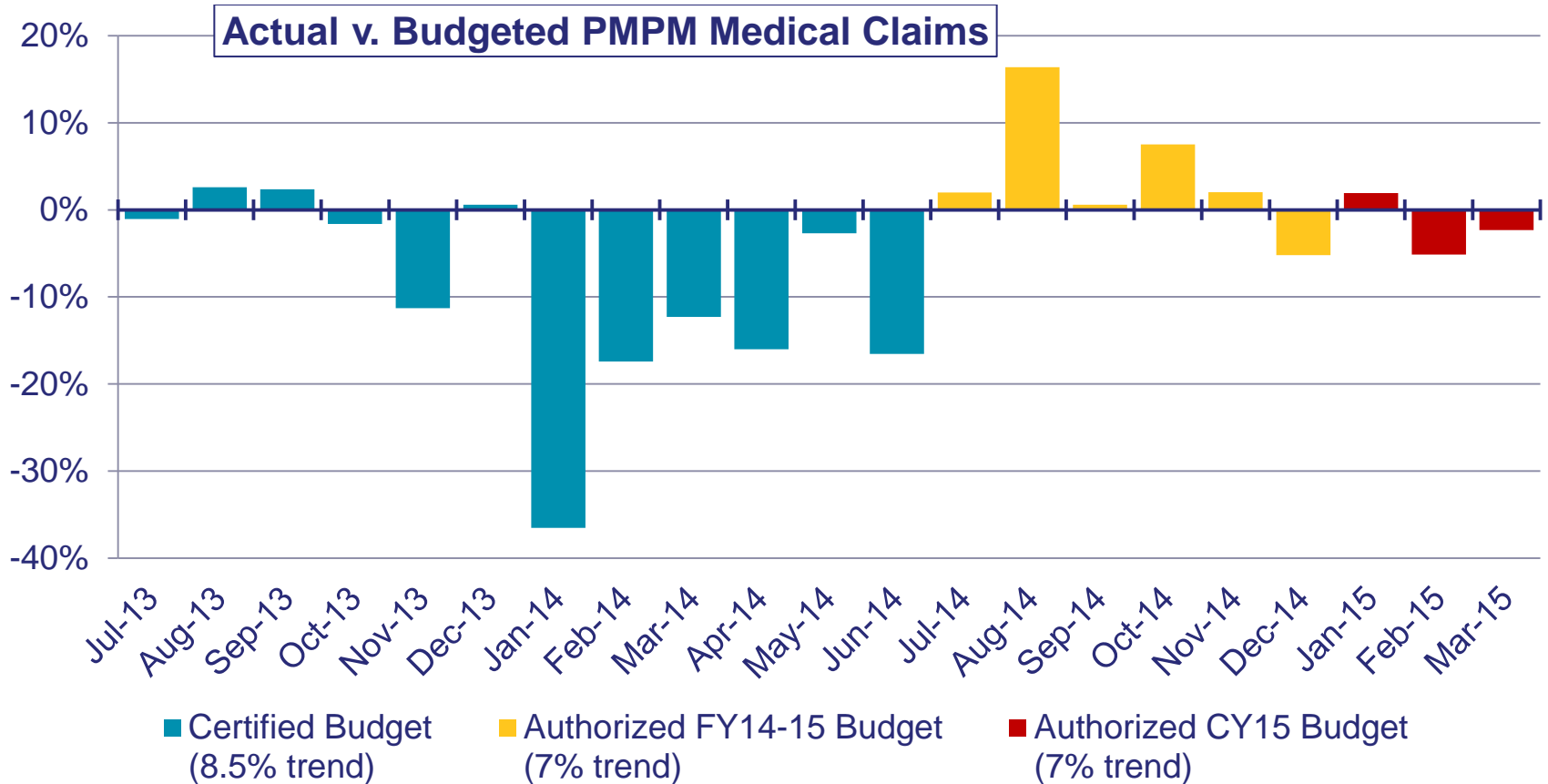
- Following several years of low trend, the Plan's medical claim costs were again below budgeted levels in FY 2013-14, driven by lower than expected costs in the second half of the fiscal year
 - Lower than expected claims over several years led to a cash balance that was approaching \$1 billion at the end of FY13-14
 - In response, the Plan lowered its assumption of medical trend from 8.5% to 7% and did not increase premiums in 2015
- In FY14-15, PMPM medical claims have been closer to, and often above, the Authorized Budget projections

Pharmacy Claims Costs

- PMPM pharmacy claims have generally exceeded budget projections throughout the fiscal biennium
- Although they are not displayed in the subsequent charts, pharmacy rebates and federal Medicare pharmacy subsidies have been higher than anticipated and have helped to offset some of the total pharmacy costs

Medical Claims

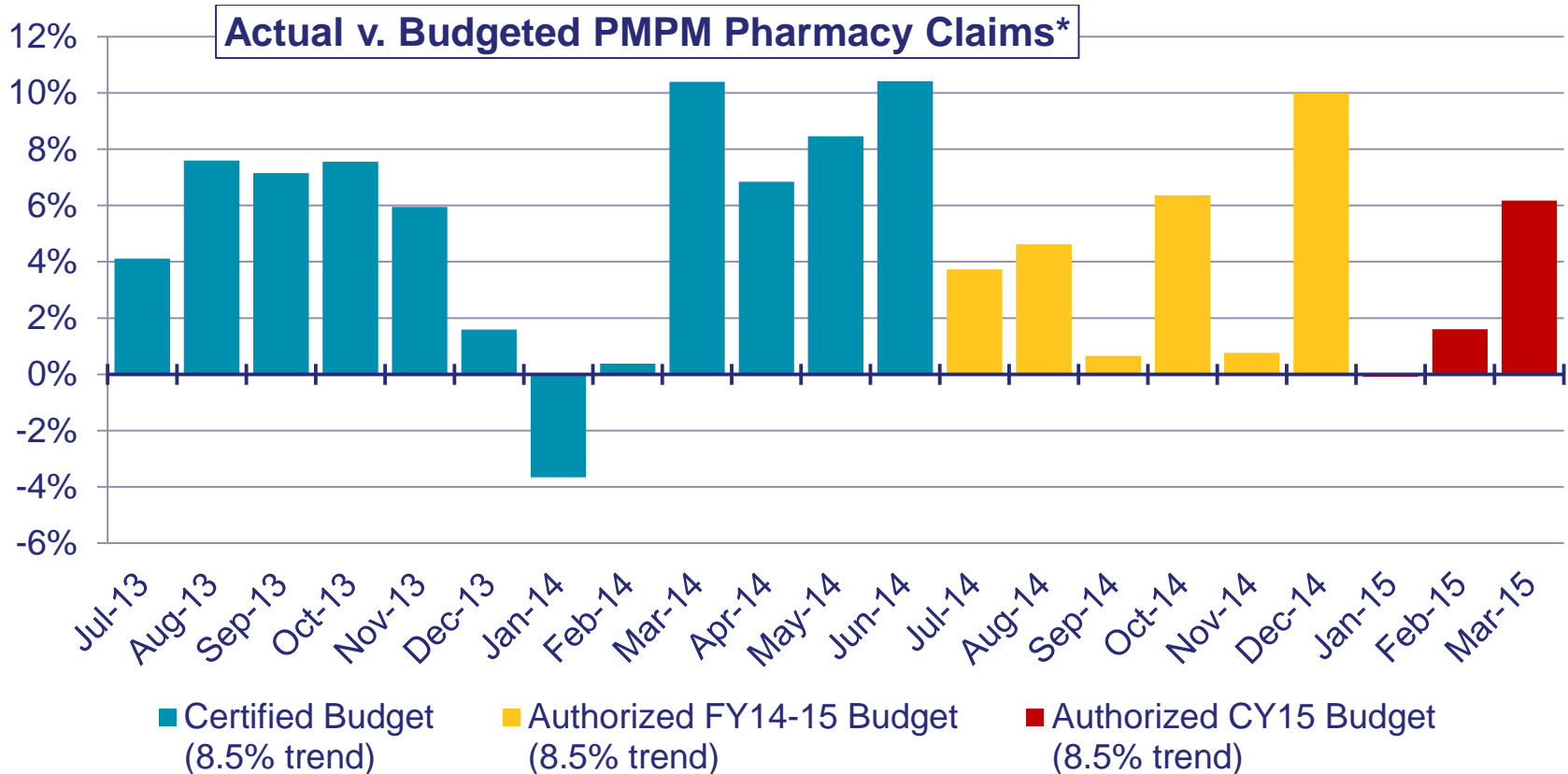
Percent Difference from Budgeted PMPM



- Actual PMPM medical claims costs have been closer to budgeted figures in the more recent (authorized) budgets, in part because of the change to a 7% annual medical trend assumption
- Generally, PMPM projections increased on a monthly basis ***within a given budget***

Pharmacy Claims

Percent Difference from Budgeted PMPM

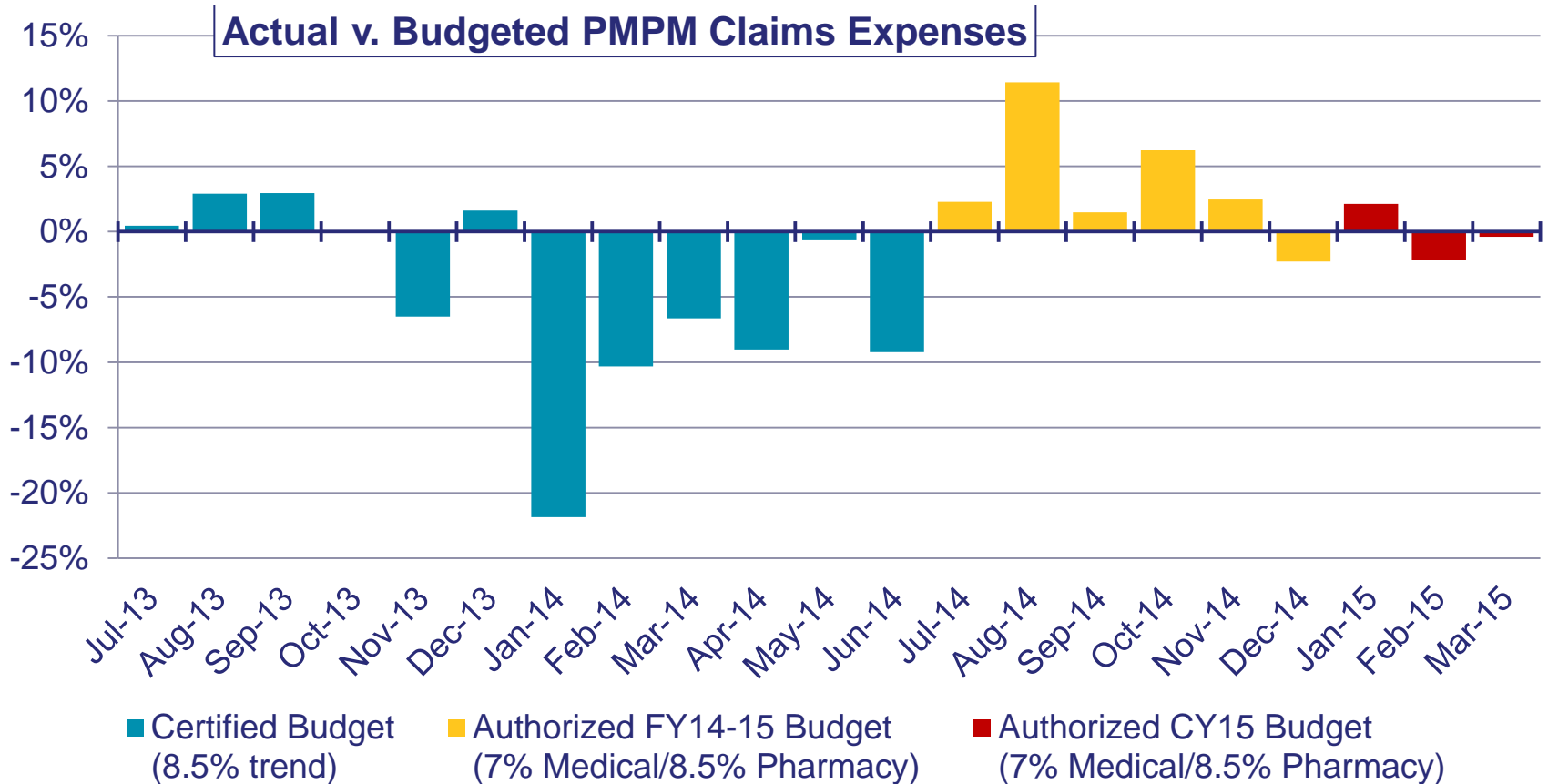


- PMPM pharmacy claims have been over budget almost every month since July 2013
- Authorized budgets are closer to, but still below, actual pharmacy costs
- Generally, PMPM projections increased on a monthly basis ***within a given budget***

* Gross pharmacy claims, excludes rebates

Total Claims: Medical and Pharmacy

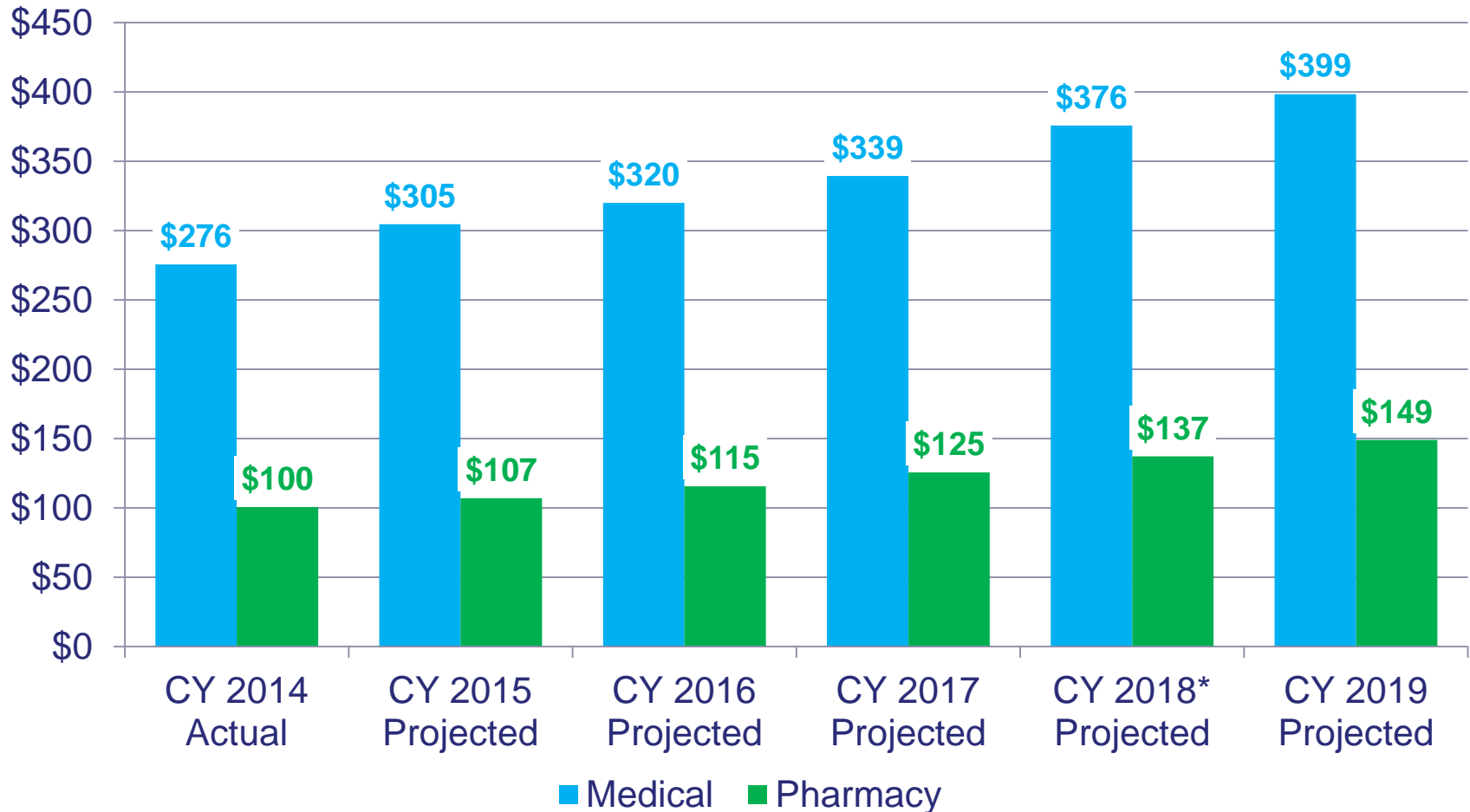
Percent Difference from Budgeted PMPM



- With the exception of August 2014, PMPM claims costs have been fairly close to the authorized budgets since the start of FY 2014-15
- Generally, PMPM projections increased on a monthly basis ***within a given budget***

Projected PMPM Medical and Pharmacy Claims

CY 2015 1st Quarter Update



*CY 2018 will have 53 weekly medical claims payments; all other years will have 52

Note: Projected Medicare Advantage members are excluded from the PMPM calculations

Pharmacy Trend Factors

PMPM Costs from 2013 to 2014

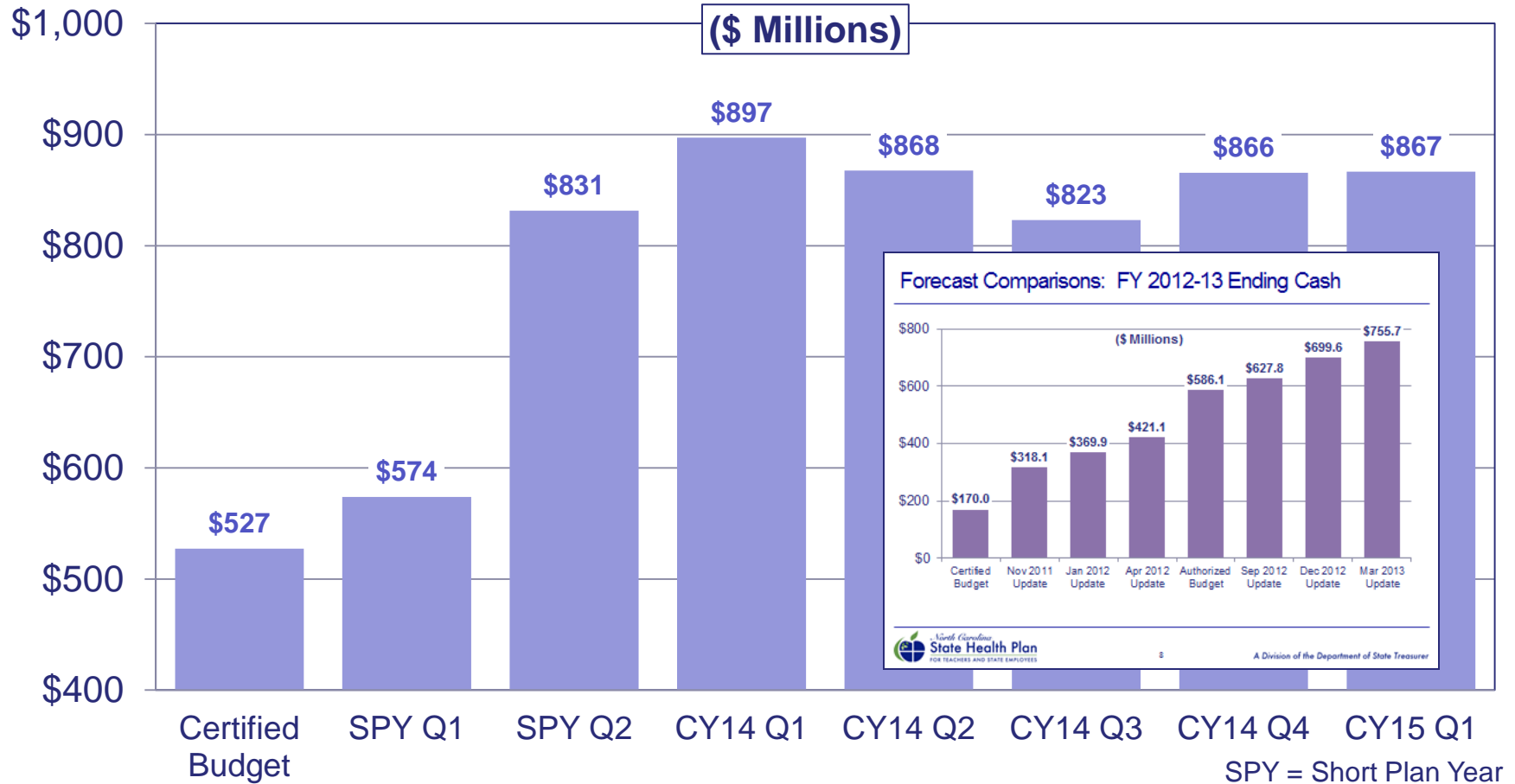
Trend Factor	Impact
Utilization and Drug Mix	+6.3%
Inflation and Discounts	+8.1%
Cost Share	+4.0%
Total	+18.4%
Source: Express Scripts	

- Specialty drugs have even higher trends and continue to play an increasing role in overall pharmacy costs
- The Plan will work through a similar analysis on medical

Stable Forecasts

- Because claims costs have been close to projections during FY 2014-15, the forecasts have remained relatively stable
- Contrast this with two years ago, when the forecasts produced during FY 2012-13 showed rapidly increasing cash reserves and decreasing funding needs for the upcoming biennium

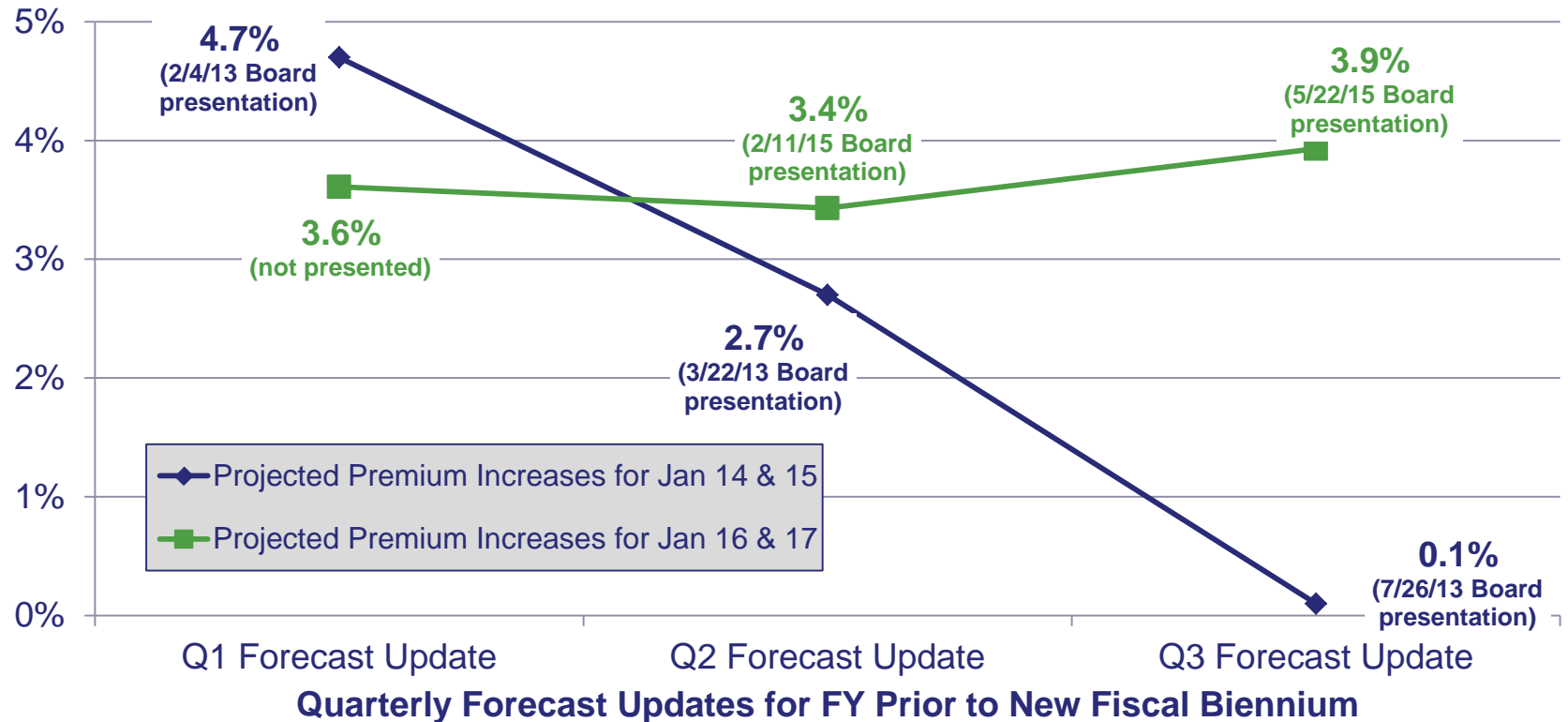
Forecast Comparisons: Ending Cash Balance December 31, 2015



- Contrast this slide from the presentation earlier today with the imbedded slide from two years ago
- The current slide shows little growth in the expected 12/31/15 cash balance over the last year

Required Premium Increases

Forecasts Throughout the Budget Process



- In 2013 (blue line), required premium increases for the 2014 Board Approved Design continued to decrease during the State's biennial budgeting process.
- In 2015 (green line), required premium increases for the 2016 Board Approved Benefit Design have remained relatively stable.

Comparison of Models

Authorized CY15 Budget vs. CY 2015 1st Quarter Update

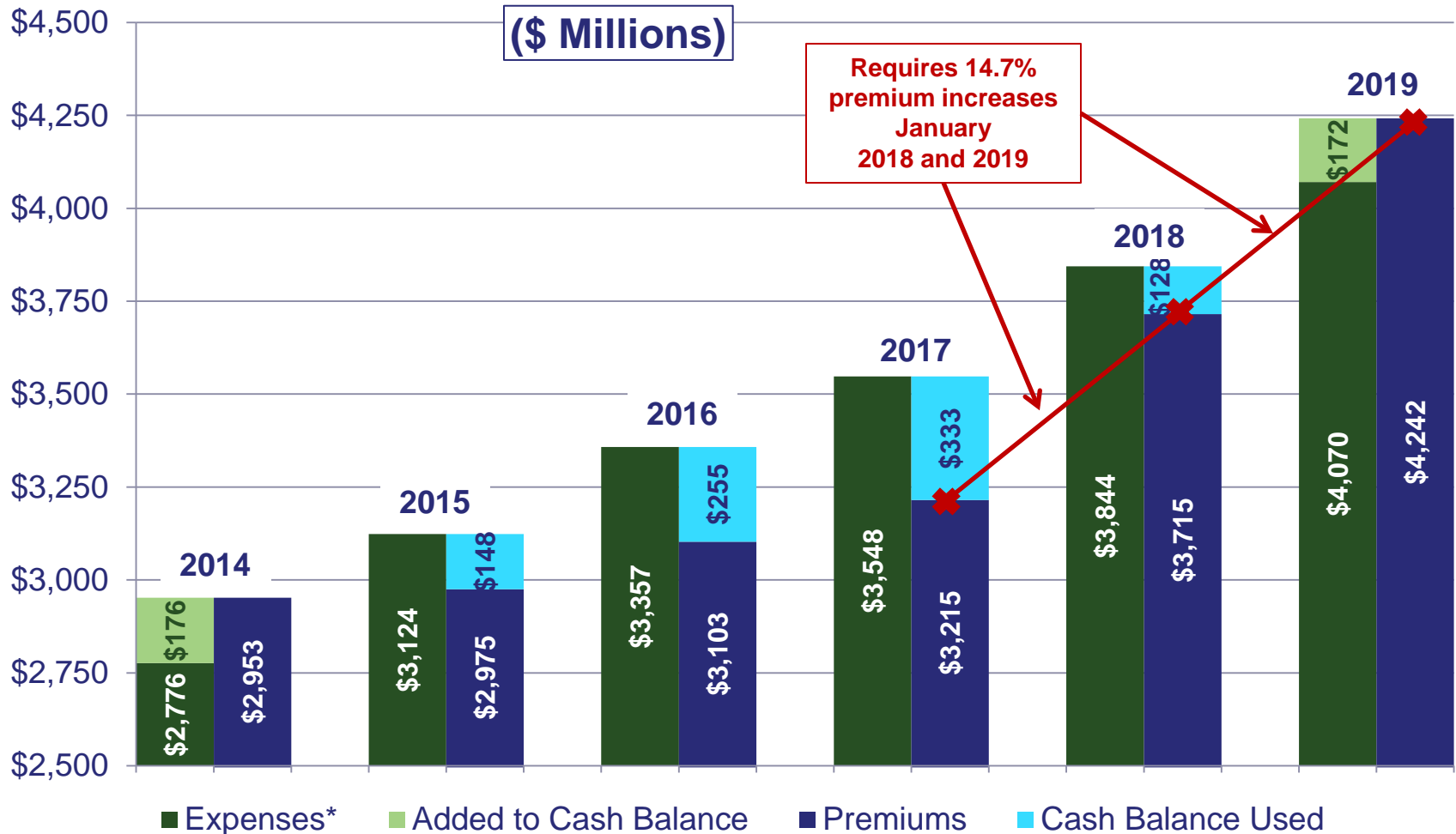
Calendar Year 2015	CY 2015 1 st Quarter Update (per Segal 5-13-15)	Authorized CY 2015 Budget (per Segal 4-28-15)	Difference: Increase/ (Decrease) From Budget
Beginning Cash Balance	\$1.015 b	\$1.015 b	\$0.0 m
Plan Revenue	\$3.043 b	\$3.030 b	\$13.1 m
Net Claims Payments	\$2.792 b	\$2.766 b	\$26.0 m
Medicare Advantage Premiums	\$173.5 m	\$174.1 m	(\$0.6 m)
Net Admin. Expenses	\$226.4 m	\$239.8 m	(\$13.4 m)
Total Plan Expenses	\$3.191 b	\$3.179 b	\$12.0 m
Net Income/(Loss)	(\$148.1 m)	(\$149.2 m)	\$1.1 m
Ending Cash Balance	\$866.7 m	\$865.6 m	\$1.1 m
2016 & 2017 Premium Increases	3.93%	3.43%	0.50%
2018 & 2019 Premium Increases	14.67%	15.21%	(0.54%)
2020 & 2021 Premium Increases	4.72%	4.34%	0.38%

Cash Reserves and the Plan's Financial Model

- The Plan has accumulated significant cash reserves
 - The reserves are assumed to offset a portion of the required premium increases for the coming biennium
 - Once the reserves are reduced to the Target Stabilization Reserve level, the Plan's projected expenses will have to be supported through higher premiums
 - If recent trends continue into the next biennium, the required premium increase for January 2018 and 2019 will be significant
 - This is a function of the Plan's traditional financial model and the level of excess cash balance
- The General Assembly is concerned about being able to fund larger premium increases in the future and the House has included a budget provision that directs the Plan to reduce the projected increases in the next biennium

The Role of Cash in the Plan's Funding Structure

CY 2015 1st Quarter Update



*Expenses are net of federal subsidies and other non-premium revenues

Long Term Outlook

Conclusion

The 14.7% premium increases forecasted for January 2018 and 2019 appear to be a more likely possibility than they have been in the past

Potential Cost Saving Measures

Overview

House Budget includes the following special provision:

- “SECTION 30.26. 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.”
 - This language is concerning because of the lack of clarity regarding the overall timing and the definition of “sufficient”
- Every one percentage point reduction in the projected employer contribution for CYs 2018 and 2019 requires **\$105 million** in benefit reductions, cost-shifting, or other modifications;
 - A 3.75% increase in the next biennium would require over **\$1 billion in benefit reductions, cost-shifting, or modifications**
- Making changes to the benefit design earlier could reduce the severity of the changes as opposed to waiting for changes to be effective in the CY 2018 benefits

Alternative Approach to the Plan's Financial Model

- An alternative approach to making substantial modification to benefits to reduce the employer contribution for FB 2017-19 is to smooth or spread premium increases out over a four year period

Forecast Model	CY 2016	CY 2017	CY 2018	CY 2019
Traditional (2-year cycle)	3.9%	3.9%	14.7%	14.7%
4-year Smoothed	<u>7.2%</u>	<u>7.2%</u>	<u>7.2%</u>	<u>7.2%</u>
Difference	(3.3%)	(3.3%)	7.5%	7.5%

- A third option would be a hybrid approach that incorporates some smoothing and some reductions or modifications to benefits
 - Similar to the 1% reduction over four years that was mandated by the previous General Assembly

Potential Cost Saving Measures

Cost Sharing

Enhanced 80/20	Consumer Directed Health Plan	Traditional 70/30	Medicare Advantage (United and Humana)
<ul style="list-style-type: none">• Across the board increases to member cost share<ul style="list-style-type: none">• Savings: \$30 to \$61M• Targeted increases on lower value services<ul style="list-style-type: none">• Savings: TBD	<ul style="list-style-type: none">• Increase deductible• Further increase Out-of-Pocket Maximum• Increase coinsurance• Reduce HRA contributions• All Savings: TBD	<ul style="list-style-type: none">• Increase member cost-sharing in CY 2016 <i>and</i> CY 2017• All Savings: TBD	<ul style="list-style-type: none">• Increase cost sharing by 5% - 10%• Savings: \$8M to \$16M

Projected savings, where available, from Segal are annual savings and need to be analyzed further

Potential Cost Saving Measures

Vendor Configuration

BCBSNC

- Utilize smaller networks
 - Buy-up for broad network
 - **Savings: \$77M to \$85**
- Broader tiering of hospitals
 - **Savings: TBD**
- Regional product offerings
 - **Savings: TBD**
- Use bundled payments and reference pricing
 - **Savings: \$15M to \$46M**

ESI

- Formulary
 - Utilize closed formulary
 - **Savings: \$23M to \$39M**
 - Utilize ESI standard formulary
 - **Savings: \$8M to \$16M**
- Network
 - Narrow network
 - **Savings: \$8M to \$23M**
 - Mandatory mail order
 - **Savings: \$15M to \$31M**

Projected savings, where available, from Segal are annual savings and need to be analyzed further

Potential Cost Saving Measures

Wellness Design Overlay

- CYs 2016 and 2017 Board approved Wellness Design elements elevate the steps taken in CYs 2014 and 2015
 - Additional steps could be taken to push the Wellness Design further to better engage members, improve health, and reduce costs
 - Increase premium amounts
 - Increase activities
 - Move to outcome-based activities
 - **Combined Savings: \$62M to \$248M**

Projected savings, where available, from Segal are annual savings and need to be analyzed further

Potential Cost Saving Measures

Eligibility and Premium Structure

All members	Active Employees	Non-Medicare Retirees	Medicare Retirees
<ul style="list-style-type: none">• Remove spousal coverage• Savings \$100M	<ul style="list-style-type: none">• Increase premiums on:<ul style="list-style-type: none">• Enhanced 80/20• CDHP• Traditional 70/30• Savings: TBD	<ul style="list-style-type: none">• Move all Non-Medicare Retirees to an Exchange• Savings: \$81M to \$160M• Decouple Active and Non-Medicare Retiree premiums• Increase Non-Medicare Retiree premiums to reflect higher utilization• Savings: TBD	<ul style="list-style-type: none">• Increase Medicare Advantage Buy-up premium• Savings: TBD• Offer Medicare Advantage plan option only• Savings: \$63M to \$66M• Add premium on Medicare Advantage• Savings: \$31M to \$45M

Projected savings, where available, from Segal are annual savings and need to be analyzed further

Note: Several items on this page require statutory changes and/or legal review

Potential Cost Saving Measures

Benefit Redesign

- Examples of bolder strategies include significant redesign of the benefits options such as:
 - Elimination of the Traditional 70/30 and Enhanced 80/20 options to be replaced with High Deductible Health Plan and move CDHP to true buy-up
 - **Savings: \$402M to \$503M**
 - Eliminate all current offerings and replace with different, lower cost options
 - True high/low approach
 - Regional options
 - HSA options
 - **Savings: \$117M to \$266M**

Next Steps

- Schedule workgroup meetings to discuss options, identify alternatives, and determine Board interest in specific measures
- Review/refine the estimated financial impact of changes with Segal
- Consider benefit modifications for each of the upcoming calendar years 2016 through 2018