

North Carolina State Health Plan

Strategic Planning Process Recommendations

Phase I: Discovery Report

*January 31, 2014
Final*

Prepared by:
Tom Gualtieri-Reed, MBA
Lynn Spragens, MBA

Table of Contents

Executive Summary	3
I. Background & Purpose	4
II. Phase 1 Discovery Key Findings	5
III. Strategic Planning Guiding Principles	7
IV. Strategic Planning Process Recommendations.....	9
A. Existing Process Steps and Tools to Build Upon	9
B. Strategic Planning Framework.....	10
C. Preliminary Strategic Questions to Address	11
D. Strategic Plan Governance and Management	13
E. 2014 Timeline	15
REFERENCE MATERIALS.....	16
i. North Carolina General Statute 135-48.22. Board Powers and Duties.	16
ii. Macro-level Calendar of Dependencies.....	17
iii. Balanced Scorecard Concept.....	18
iv. Multi-year Financial Model.....	19

Executive Summary

The State Health Plan (SHP) has undergone many changes over the past 18-24 months, including the creation of a 10-member Board of Trustees that has the responsibility to develop and maintain a strategic plan. The State Treasurer, Board of Trustees (BOT) and SHP leadership recognize that an effective strategic planning process and plan will enable the SHP to better fulfill the SHP's mission in the future. This document outlines the key findings from an initial discovery phase of planning work and provides a set of recommendations for developing a strategic planning process and plan for the SHP that can be implemented and maintained by the State Treasurer, the current and future BOT and leaders of the SHP. The following is a summary of the key content and recommendations included in this report:

Strategic Planning Guiding Principles

The guiding principles will be used to create a level of consistency in the planning approaches and may be modified from time to time throughout the planning process. The principles included in this report have been developed based on the input of the members of the BOT and SHP leadership team gathered through interviews, a review of previous planning work and discussions at recent board and staff meetings.

Strategic Planning Framework

The recommended process framework will be used to structure the analysis, synthesis and output of the strategic plan. It is important to note that not all planning processes follow a linear path but this structure will help ensure consistent steps are taken to develop and continuously refresh the strategic plan.

Preliminary Strategic Questions to Address

This report identifies and organizes a set of strategic questions that have already been identified through the work of the BOT and SHP leadership. It is recommended that these issues be the starter list used to drive an initial wave of analysis, measurement and strategic prioritization.

Strategic Plan Governance & Management

The recommendations included in this section are intended to leverage existing strategic planning resources and tools, to create a level of cross-training for BOT and staff to ensure consistency during board term transition periods and specifically recommends that an appropriate level of SHP staffing be assigned to support the development of the strategic plan.

2014 Timeline

The timeline outlined in this report targets the first release of a strategic plan to be in late May or early June 2014. This timeline takes into consideration the time required to allocate and organize staff and resources and the need to better understand and assess the 2014 changes that have been implemented. This timeline can be adjusted as needed, but at a minimum provides the initial steps that can be taken to implement this strategic planning process.

In addition to what is outlined above, this report includes several concept charts, important contract dates and other information that will be useful references during the planning process.

I. Background & Purpose

The State Health Plan for Teachers and State Employees (SHP) provides health care coverage to more than 668,000 teachers, state employees, retirees, state university and community college personnel, and their dependents. The SHP has undergone a significant amount of change over the past 18-24 months.

Effective January 1, 2012 the SHP became a division of the North Carolina Department of State Treasurer. Previously the SHP reported to a legislative oversight committee within the General Assembly. As part of this change, in December of 2011 a new 10-member Board of Trustees (BOT) was appointed by the Governor (2), Senate (2), House (2) and State Treasurer (2) and includes the State Treasurer and State Budget Director. The BOT is made up of a diverse group of current and former teachers, state employees and other experts in medicine and health administration. The board is responsible for decisions regarding vendor contracts and the design of employee health benefits as well as the development of a strategic plan.

During this period of time, the SHP has evaluated and awarded new contracts for third party administrator services for its self-funded plan offerings, added a fully-insured Medicare Advantage offering and two additional payers to administer the offering, transitioned to a January 1 benefit plan year, added a new health engagement offering with incentives for healthy behaviors and undergone a change in SHP administrative leadership. The health care industry is also experiencing unprecedented levels of regulatory and market changes due to the Affordable Care Act (ACA). As the ACA becomes a reality, market and healthcare stakeholders, including employers, individuals, payers, regulators, providers and legislators, are continuously seeking to understand and assess its impact. It is prudent that the BOT and SHP leadership team build such external factors into the strategic planning process.

In an effort to ensure that the SHP continues to fulfill its mission amidst all of these changes, the SHP is undergoing an assessment of its strategic planning process. The purpose of this document is to outline the key findings from an initial discovery phase of work and provide a set of recommendations for developing a strategic planning process and plan for the SHP that can be implemented and maintained by the State Treasurer, the current and future BOT and leaders of the SHP.

II. Phase 1 Discovery Key Findings

As part of this discovery phase, a series of steps were taken to understand the current situation of the SHP strategic planning process and plan. Included in these steps were interviews with the active SHP BOT, including the North Carolina State Treasurer, key staff members of the Treasurer's Office, the SHP Executive Administrator and the SHP Executive Team. In addition, a review was conducted of available BOT minutes, presentations and relevant SHP strategic planning material, the new SHP plan offerings for the January 1, 2014 plan period, the March 2012 report of key findings from the Treasurer's and Board's state-wide tour and other information such as the North Carolina Statutes and a draft dashboard to monitor the quality and experience and the Treasurer's Office strategic priorities.

The following is a summary of key findings from the initial interviews that were conducted:

Progress To Date & What's Going Well
☐ A lot of positive energy, momentum and relationships ☐ Diverse, committed and knowledgeable staff and Board of Trustees ☐ Passion for the member, the member's health and being a model for North Carolina ☐ Significant change is already underway (a "new chassis") ☐ 3rd party vendors have been selected and contracts are in place ☐ Dashboard development is progressing ☐ Long term financial model (underway) ☐others
Challenges & "Natural Tensions"
☐ Diverse, committed and knowledgeable staff and Board of Trustees: How do we leverage this? ☐ Significant change is already underway (a "new chassis"): How do we stabilize while we create new momentum for the future? ☐ Premiums & affordability: What is the value proposition to our members and to other stakeholders (legislature)? ☐ Ability to directly influence price, quality and efficiency: What can we control? ☐ The need for data & information: How do we learn about the market, the business, our members, etc. ☐ Leadership and Board turnover: How do we maintain continuity of purpose and plan? ☐ Prioritization: The many versus the few.

The following is an additional set of strategic planning process observations that were identified and considerations that are factored into the final recommendations:

Topic	Observation	Considerations
Mission Statement	The BOT and SHP Leadership Team are supportive of and are using the Mission Statement to guide their thinking and actions.	No action necessary. Revisit as needed.
Vision Statement	While there is a stated vision in place, there were several comments regarding the desire to move the SHP from an administrator of benefits and insurer to having a more active role in supporting the health outcomes and lifestyle choices of its members.	Consider the revision of a vision statement at an appropriate time during planning.
Guiding Principle Observations	There is a strong desire and a recognized need by both the BOT and SHP leadership to develop a set of strategic planning guiding principles as they relate to: ▪ The reaffirmation of the Mission Statement as the primary guide to decision making ▪ A general statement on and commitment to ensure the strategic plan becomes an active part of the actions and decisions made by the BOT and SHP ▪ Appropriately listening to and considering the differing needs of specific member constituents while balancing what is in the best interests of all members ▪ Member cost sharing, particularly for preventive services ▪ The use of industry benchmarks to measure quality, cost and member experience ▪ The appropriate engagement with and support from the General Assembly, specifically as it relates to reserves and funding approvals ▪ An acknowledgement for the need to stabilize and evaluate current plan design changes while continuing to update, modify, and improve plan offerings and incentives as well as develop new plan designs where appropriate	Develop an initial draft set of Guiding Principles and revisit as needed at appropriate times during the planning process.
Governance and Strategic Management	There is a need to address, as part of the process, the efficient and effective use of the SHP Executive Leadership Team and staff as well as BOT expertise. This includes but is not limited to: ▪ Freeing up time for or allocating dedicated staff time to enable the Executive Administrator to engage in more frequent strategic planning activities ▪ Effectively engaging more of the BOT in the activities of strategic planning, including the effective and appropriate use of the BOT formal board meetings ▪ Enabling the BOT to fulfill their fiduciary role and set the precedence of this being an “active” oversight board	Consider redesigning the use of the BOT meeting time, BOT workgroups and allocation of staff to support strategic planning activities.

III. Strategic Planning Guiding Principles

These guiding principles will be used to enable the BOT and SHP leadership team to develop a strategic plan. These are intended to create a level of consistency in planning approaches and may be modified from time to time during the strategic planning process.

1. The State Health Plan's **Mission Statement** will serve as the primary guide in the development of a strategic plan.

"Our mission is to improve the health and health care of North Carolina teachers, state employees, retirees, and their dependents, in a financially sustainable manner, thereby serving as a model to the people of North Carolina for improving their health and well-being."

2. It is the desire of the BOT and SHP leadership team to develop a strategic planning process and plan that is **sustainable** beyond the current BOT members and SHP leadership team.
3. The development and execution of a strategic plan is viewed as a **joint responsibility** of the BOT and SHP leadership team, with the BOT approving strategic measures and strategic priorities while providing the support and guidance to the SHP leadership team to execute on the strategic plan.
4. The development of a strategic plan is considered **a process** to help understand what is relevant. The strategic plan will serve as a guide in prioritizing what is done, what is measured and how BOT and SHP staff time and resources are allocated.
5. It is the intent of the BOT and SHP leadership team to utilize all reasonable information sources to support the development of the strategic plan. When and where possible and appropriate, **industry or market benchmarks** and data will be used to develop strategic measures and establish strategic priorities for the SHP, with a specific emphasis on state employee health plans with similar characteristics and of comparable size.
6. The BOT and SHP leadership team acknowledges the need to integrate the SHP strategic plan into the strategic plan of North Carolina's **Department of State Treasurer**.
7. The adopted Strategic Plan should take into account the following factors:
 - a. It is the intent of the BOT and SHP leadership team to ensure the **perspective of the member**, including experience and value, is factored into the strategic plan.
 - b. It is the intent of the BOT and SHP leadership team to support the development of benefit offerings that are **affordable** to state employees, retirees and their dependents and the State of North Carolina. Therefore the BOT and SHP leadership team will make every effort to work on behalf of the members and State of North Carolina to develop the most competitively priced offerings that **improve the health and well-being of its members**.

- c. There needs to continue to be a **sense of urgency** to ensure the SHP remains financially stable to fulfill the mission of improving the health and health care of its members. That said the BOT and SHP leadership team acknowledge that the ability to make operational changes requires time and resources. Therefore, it is prudent to have a **reasonable period of stabilization** to manage recent member and operational impacts and to have time to measure the results of recent changes. Continuous measurement and monitoring will be an integral part of the strategic planning process.
- d. It is the intent of the BOT and SHP leadership team to effectively manage premiums that members are required to pay for coverage and for out of pocket health care expenses. The BOT and SHP leadership team **support the development of programs and benefit offerings that encourage healthy lifestyles** and the appropriate use of incentives and cost sharing as levers in influencing the use of healthcare services and improving the health of plan members. Ongoing communication and education will be critical.
- e. The BOT and SHP leadership team acknowledge that there will be a dependency on the **support of the North Carolina General Assembly** to fund or operationally execute on the strategic plan. The BOT and SHP leadership team will work collaboratively with that constituency to ensure the strategic plan fulfills the mission of the SHP.
- f. Given the dependency on 3rd party vendors and business partners, the SHP, working in the best interests of the SHP members and State of North Carolina, will take a **partnership approach** with these stakeholders in developing and executing the strategic plan. This will include utilizing their areas of expertise and information to guide the decisions and actions of the BOT and SHP leadership team.
- g. It is the intent of the BOT and SHP leadership team to act in a manner that is in **the best interests of all members** of the SHP and actively work toward **consensus** that will enable the fulfillment of the mission of the SHP.

IV. Strategic Planning Process Recommendations

A. Existing Process Steps and Tools to Build Upon

Over the past year and a half the BOT and SHP leadership team have developed or started to develop several strategic planning process steps and tools that can be leveraged to maintain the positive and constructive progress that has been made to date. Listed below are some examples along with a description of the opportunity to integrate into a more formalized strategic planning process:

Workgroups & "Active" Board

- Balance workgroups with strategic discussions & operational pre-Board meeting input
- Use workgroups to build relationships among BOT and SHP leadership team and staff
- Focus formal Board meetings on fiduciary responsibilities, formal Board votes and member experience

Dashboard

- Transition dashboard to a "balanced scorecard" for SHP
- Integrate strategic measures with operational and financial performance - one stop performance shopping
- Consider developing composite measures for quality and cost performance for strategic planning purposes

Financial Model

- A multi-year modeling tool provides a channel to capture key strategic or business assumptions as well as a tool to develop scenarios for strategic decisioning
- Continue to use the existing financial modeling tool to run scenarios on membership, pricing, medical expense, plan/vendor admin expenses & reserve assumptions over a multi-year time horizon

Member Experience & Learnings From New Designs

- Integrate into regular Board meetings an update on member satisfaction, feedback from current designs and member engagement levels
- Focus a portion of the formal Board meetings on member experiences and input as this is critical information that will ensure commitment to the Mission Statement

B. Strategic Planning Framework

The following is a high level framework that can be used by the BOT and SHP leadership team to develop, monitor and manage a strategic plan for the SHP. The outer circles are the main components of a strategic plan. The “circle” image is intended to set the context that the planning process is ongoing and one component flows into the next.

An assessment of internal and external factors and trends. Examples:

- Demographics
- Regulatory changes (ACA)
- Disease and cost trends
- Medical science developments

The areas of focus or priorities and actions that leadership believes will have the greatest impact on the measures.

Examples:

- Targeted expansion of NC Health Smart & incentives
- Provider engagement on quality
- Low cost benefit design options



Key strategic issues and conclusions that are identified based on leadership’s review of the environmental analysis. Examples:

- Growth in incidence of disease
- Inconsistent quality of care
- Affordability / value are key drivers of satisfaction

A limited number of strategic measures used to establish direction and measure success. Examples:

- Financial stability (target reserves)
- Member engagement levels
- Quality of care
- Total cost of care

C. Preliminary Strategic Questions to Address

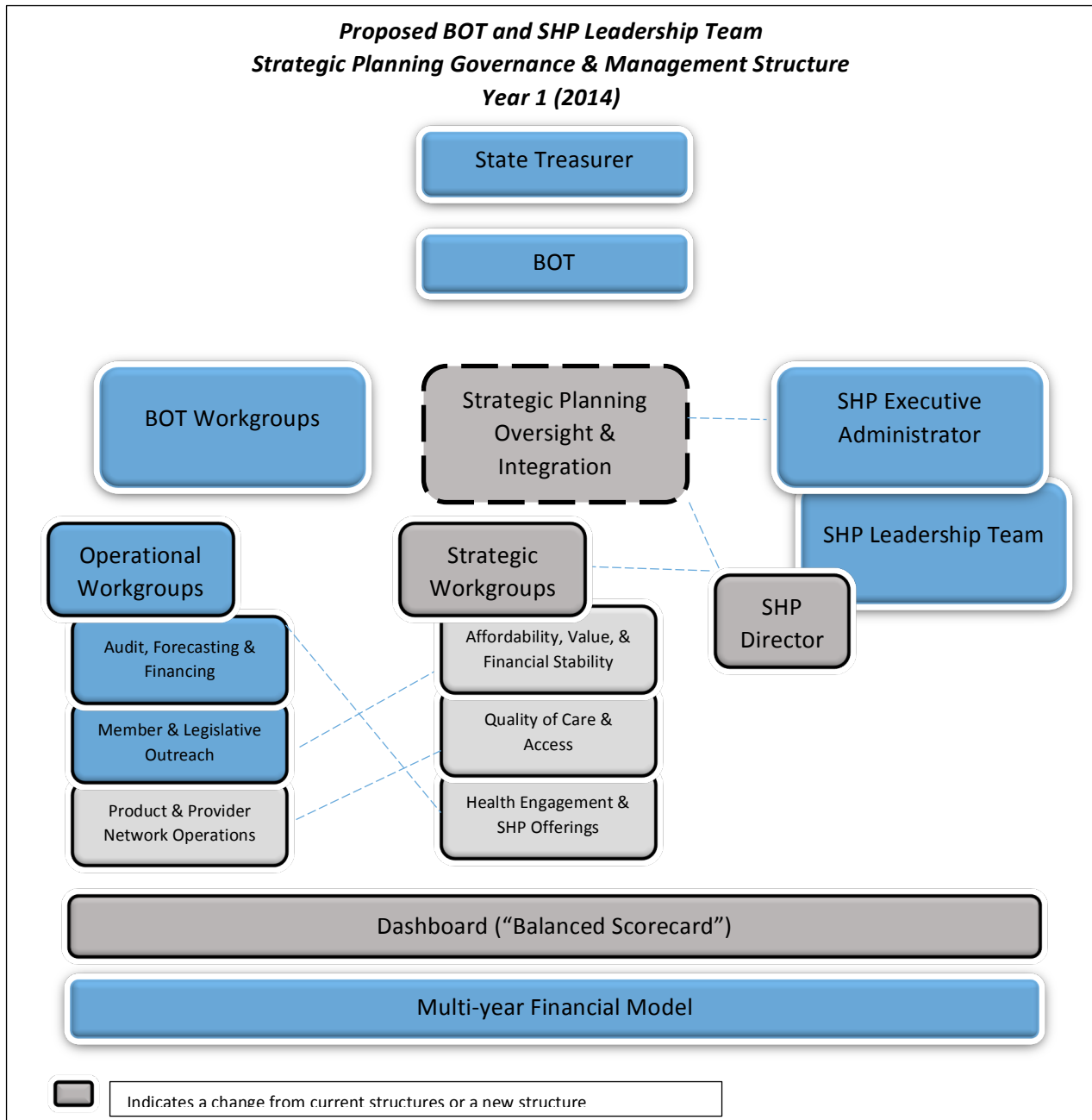
In an effort to leverage the strategic planning work that has been conducted to date, the following table includes a proposed set of strategic and business issues and questions that have been identified. These issues can be used to drive an initial wave of analysis, measurement and strategic prioritization. This will allow the BOT and SHP leadership team to continue to build on the momentum of actions already underway while at the same time informing the development of a more formal strategic planning process for the SHP.

Issue	Example Strategic & Business Questions
Affordability & Member Value	▪ What are reasonable premium and out of pocket costs for members? ○ How does the SHP ensure out of pocket costs do not create disincentives to get needed care (e.g. meds for chronic conditions)? ○ How can incentives be used to drive value to the member? ▪ What is the SHPs premium strategy? ○ What premiums and out of pocket costs are other similar states' health plans and private employers establishing? How does the SHP compare? ▪ What are the top 10 drivers of medical costs? By demographic, region, provider, disease and health care services (hospitalizations, ER, Rx, etc) ○ What are appropriate medical and pharmacy expense trends for the SHP? How can the SHP affect medical and pharmacy expense trends for its members? ▪ Should the SHP attempt to factor in supplemental policies offered to members by other insurance carriers into its value story? If so, how? ▪ How can the SHP assess the effectiveness of affordability and value initiatives?
Quality of Care & Access	▪ What are the most significant gaps in quality of or access to care for SHP members? ○ How can the SHP drive the transition of provider reimbursement models to pay for outcomes (value)? ○ How does the SHP measure quality of and access to care for SHP members? What industry standard measures exist? ○ How can the SHP leverage existing measures or utilize the measures from 3rd party vendors? ○ What measures of quality and access will have the greatest impact on cost and quality? ○ How can the SHP assess the effectiveness of quality and access initiatives? ▪ How can the SHP effectively improve provider engagement with the SHP? ○ Which providers are best suited to work with SHP members to improve quality of care? Access to care? Which providers are seeing the highest volume of SHP members? ○ What should the relationship be between SHP and providers? ▪ What can the SHP do to drive the expansion of PCMH's and even integrate into accountable care organizations (ACOs)? ▪ How can the SHP partner with the 3rd party vendors and providers to improve quality of care and access?

Financial Stability	▪ What additional actions should be taken to obtain legislative support over the long term? ▪ How should financial stability be defined and evaluated? ○ What level or percentage of healthcare cost trend is sustainable? ○ What is a reasonable target reserve level to maintain for the next 3-5 years? ○ What is a reasonable period of time to project and assess financials? ▪ To what extent should benefit design be used to maintain financial stability? ▪ To what degree is the SHP willing to spend more in the short term to achieve long term stability or savings?
Member Health Engagement	▪ What is the SHPs strategy for member communication and engagement? ○ How can the SHP more effectively engage members, particularly those with chronic health conditions? ○ How can the SHP partner with the various state agencies to promote healthy lifestyles? ○ What are other large employers doing to increase member health engagement? What are examples of model worksite wellness programs? ▪ How can the SHP service model (web and phone) assist in ensuring members know how to access providers and who are the most effective providers? ○ How can health care cost and quality metrics become more transparent? ▪ How will recent enrollment and new product challenges influence longer-term strategies to engage members around new health programs? ○ How effective have the recent changes in benefit designs been in increasing member health engagement? ○ How can the SHP assess the effectiveness of member engagement initiatives?
Future of SHP Offerings	▪ How much can and should the SHP drive new models of care delivery and / or provider payment models? ○ With what strategic partners should the SHP be doing this? ▪ How will future Federal-level policymaking impact the SHP? ▪ How will future State-level policymaking impact the SHP? ▪ What are the implications of ACA, exchanges, subsidies, Medicaid expansion etc. on future new product designs and SHP offerings? ▪ Should the SHP consider defined contribution products, integration with Medicaid or any other significant changes to the operations or offerings of the SHP? ○ How effective have the 3rd party vendors been and who are the best partners for the future?

D. Strategic Plan Governance and Management

The following recommendations are designed to ensure both the BOT and SHP leadership team are able to fulfill their responsibilities while leveraging the momentum, energy and knowledge of the BOT and SHP staff. These recommendations are also designed to create a level of cross-training for BOT and staff to ensure consistency during board term transition periods. These recommendations take into consideration the requirements of the North Carolina statutes. A more thorough review of these recommendations in context to SHP budgets, SHP staff operational priorities, BOT availability, BOT board meetings and other such dependencies will need to be considered over time.

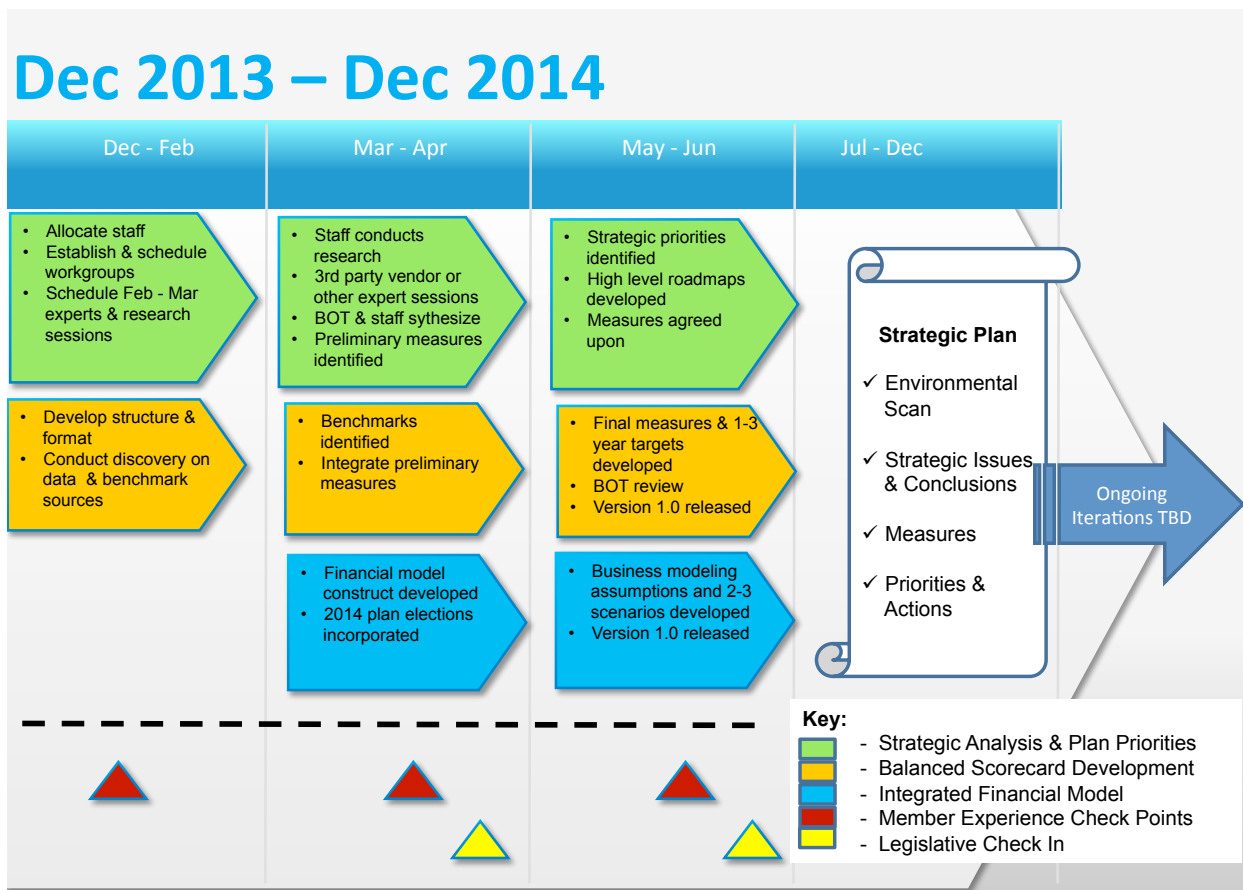


The following are some of the key points of consideration as the BOT and SHP leadership work to implement these recommendations:

1. **Leverage existing structures.** The intention is to leverage existing structures and components that are in place already or where there are efforts underway. For example, the workgroups have been effective to date and the model should be modified to support the strategic planning process. In addition, the dashboard can be further developed to provide the source for developing and monitoring key performance measures.
2. **Operational and strategic workgroups.** Creating a separate set of strategic workgroups focused on analyzing the strategic issues will ensure the more “short term” responsibilities are appropriately managed while protecting time for the “longer-term” planning work.
 - a. **New operational workgroup – Product and Provider Network Operations**
Focus this workgroup on more immediate provider network quality and access challenges, 3rd party vendor delivery for current product offerings and other current product offering issues and challenges that would require BOT input or expertise. Keep the other 2 operational workgroups as is.
 - b. **Strategic workgroups**
Assign the longer-term strategic questions and issues to each strategic workgroup, organized by the broad categories as outlined in section IV. C. of this report. SHP leadership and staff would conduct analysis and provide recommendations to SHP workgroups for input and guidance. That workgroup would then bring forward to the full BOT a summary of key findings and recommendations for integration into the strategic plan. This allows for a level of expertise to be developed among the BOT and staff around specific subjects, particularly given the broad range and volume of topics that could be explored.
3. **Workgroup membership.** It is recommended that 3 BOT members be assigned to each operational workgroup and strategic workgroup with the BOT Chair (State Treasurer) participating as and where needed. In addition, if possible and with consideration of the expertise of BOT members, the membership of the operational and strategic workgroups will vary to enable all BOT members to work closely with each other. This will help ensure smoother transitions during scheduled BOT turnover and will also better leverage the diverse perspectives of the BOT and SHP staff members.
4. **SHP leadership staffing.** In order to effectively build an initial strategic plan, more dedicated SHP leadership resources will need to be allocated. The specific position (director-level) and responsibilities will need to be determined but generally, this will include a level of SHP leadership oversight for the administration of the strategic planning process and ongoing strategic plan management.
5. **Strategic Planning Oversight & Integration.** At this time, there is a Strategic Planning workgroup that can be repositioned. By establishing the strategic workgroups, all BOT will be able to participate in the development of the strategic plan. It is recommended that the Strategic Planning workgroup members initially function to ensure an appropriate level of oversight and integration is occurring but eventually that responsibility should transition to include the full BOT.

E. 2014 Timeline

This timeline assumes that the strategic plan development will be a process that will continue to evolve over time but that a reasonable first release of a more formalized strategic plan would be at the end of May or early June of 2014. This will allow time to set up the governance structure, complete the analysis of the strategic questions and ensure that the initial launch of the January 2014 offering is successful and member selections are understood.



REFERENCE MATERIALS

- i. North Carolina General Statute 135-48.22. Board Powers and Duties.
 - ii. Macro-level Calendar of Dependencies
 - iii. Balanced Scorecard Concept
 - iv. Multi-year Financial Model
-

i. North Carolina General Statute 135-48.22. Board Powers and Duties.

The general statute information is included as a reference to document the authority and responsibility the Board of Trustees has to develop and maintain a strategic plan for the Plan. This also serves as a guide and reference in clarifying the role of the Board of Trustees as it relates to what requires Board approval.

§ 135-48.22. Board powers and duties.

The Board of Trustees shall have the following powers and duties:

- (1) Approve benefit programs, as provided in G.S. 135-48.30(a)(2).
- (2) Approve premium rates, co-pays, deductibles, and coinsurance percentages and maximums for the Plan, as provided in G.S. 135-48.30(a)(2).
- (3) Oversee administrative reviews and appeals, as provided in G.S. 135-48.24.
- (4) Approve large contracts, as provided in G.S. 135-48.33(a).
- (5) Consult with and advise the State Treasurer as required by this Article and as requested by the State Treasurer.
- (6) Develop and maintain a strategic plan for the Plan. (2011-85, s. 2.10; 2012-173, s. 4(a).)

ii. Macro-level Calendar of Dependencies.

The following calendar of dependencies highlights key externally or internally determined dates that should be considered as the strategic plan for the SHP is developed and maintained. This calendar is intended to be a reference point at this time and should not be considered approved or finalized by the BOT, SHP leadership, vendors or other stakeholders. These dates are subject to change and may be updated from time to time as part of the vendor contracting or strategic planning process.

Category		2014		2015		2016	
		Jan-Jun	Jul-Dec	Jan-Jun	Jul-Dec	Jan-Jun	Jul-Dec
Operational	Final Designs	▲		▲		▲	
	Open Enrollment		→		→		→
	BCBSNC						▲ 12/31/16
	Humana						▲ 12/31/16
	United						▲ 12/31/16
	Medco / Express Scripts				▲ 12/31/15		▲ 12/31/16
	Active Health		▲ 12/31/14		▲ 12/31/15		
	Cobra Guard						▲ 12/31/16
	Benefit Focus						▲ 12/31/16

▲ - Internal or Plan deadline

▲ - Vendor contract termination or renewal

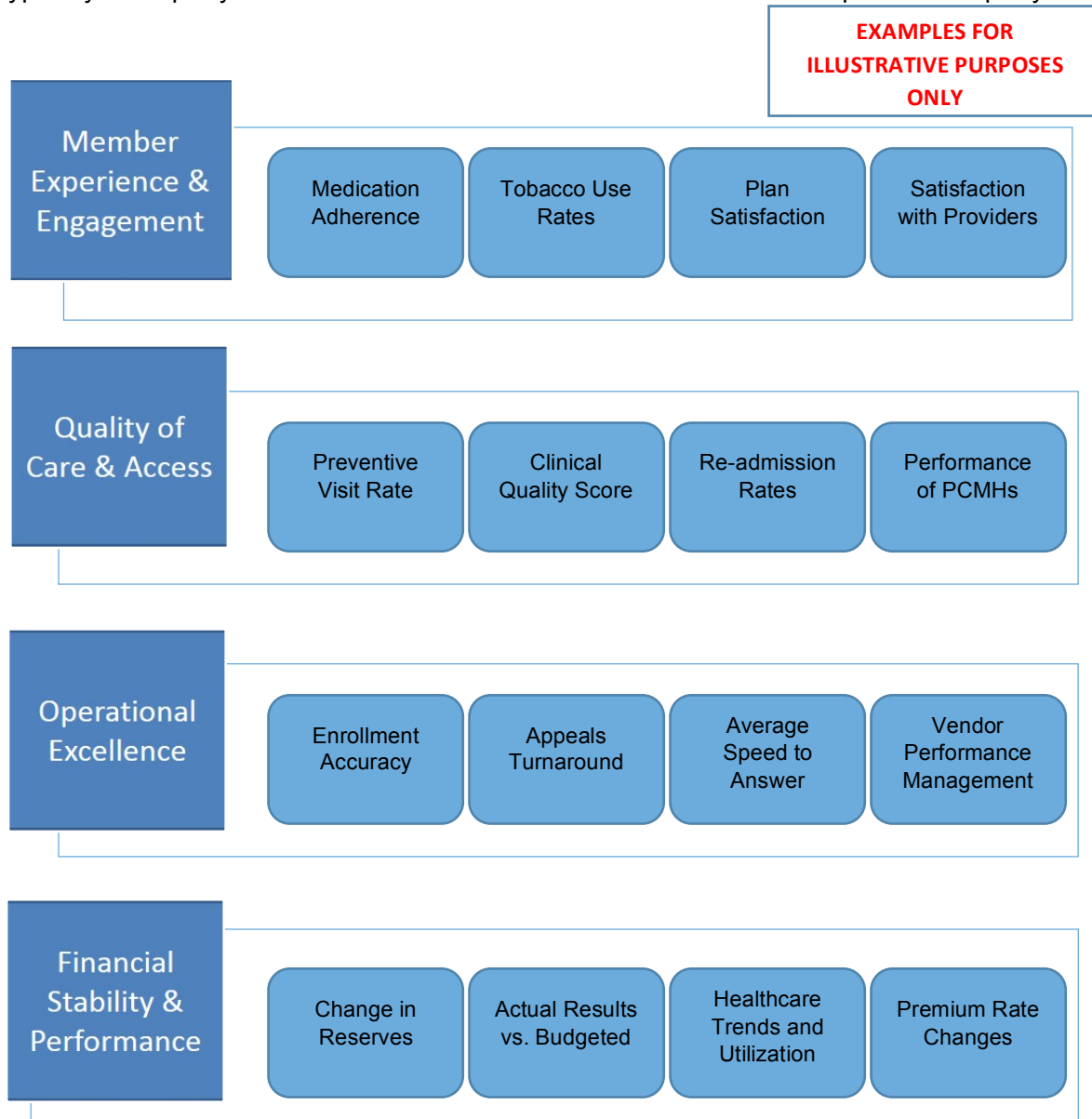
Legislative	Legislative Sessions						
	Budget Approvals	→		→		→	
	State Elections		▲ 2yr GA				▲ 2yr GA 4yr Gov, Trs

BOT Terms	Initial 2.5 Year Terms	6/30/14	▲ Hargett Johnson Medlin Rubin			6/30/16	▲ TBD TBD TBD TBD
	Initial 3.5 Year Terms			▲ Cunningham Huffstetler Moore Newton			Note: New 6/30/17 →

"Wildcards"	ACA Employer Requirements			TBD			
	Other Regulatory Requirements			TBD			
	Market Trends			TBD			

iii. **Balanced Scorecard Concept.**

An important step in developing an effective strategic planning process and plan is to establish measures that will serve as a guide to setting priorities and monitoring progress. The concept is to establish a limited number of measures (10-15) whereby the SHP can monitor **trends** and establish longer term strategic **targets**. The diagram below is intended to build off of the work of the Dashboard and create a balanced scorecard that would enable the BOT and SHP leadership team to organize SHP measures into categories and identify strategic areas of focus and priorities. For purposes of this document, the following categories were used: **member experience & satisfaction, quality of care & access, financial stability & performance** and **operational excellence**. These measures would be revisited on a pre-determined basis, typically once per year and reviewed with the BOT and SHP leadership 1-2 times per year.



iv. Multi-year Financial Model.

The BOT and SHP leadership have recognized the value of developing a multi-year, dynamic financial forecast that is maintained on a regular basis. Expanding the forecasting time horizon of the current model will enable the SHP to continue to capture critical business assumptions and conduct scenario planning beyond the immediate term as well as establish annual and multi-year goals. The financial model creates an opportunity to understand both internal and external factors that could impact the strategic plan and measures of success. The table below outlines major components of the model and examples of key assumptions.

Section	Description	Sample Assumptions & Factors
Membership	Number of enrolled members by product	• Current membership by coverage type: active employees, non-Medicare retirees and Medicare retirees • % of members electing coverage in a particular plan • Average family size (family coverage election) • Membership by product (MA, CDHP) • State and local employment outlook • Likely impact of plan design and premium strategies on plan selection
Premium Revenue	Projected total premium contributions	• Required across the board premium adjustments (%) • Premiums paid by employing units/retirement system • Base employee/retiree premiums • Premium surcharges • Impact of plan design changes on contribution revenues Note: Amount paid per enrollee varies by coverage tier and plan selection
Other Plan Revenue	Non premium revenue	• Retiree Drug Subsidy • EGWP Subsidy • ERRP Subsidy • Investment Earnings

Continued on Next Page

Medical Expense	Total cost of care	• Separate trend assumptions for medical and pharmacy expenses – assumption designed to take into account the following: ○ Medical CPI trends ○ Provider contracted rates ○ Projected utilization of health services & incidence of diseases ○ Generic prescription fill rates ○ Growth in specialty pharmacy ○ Growth in MAPDP fully insured premiums ○ Savings associated with population health management services • Also considerations for the impact of the following: ○ Proposed changes in plan design and member cost sharing assumptions ○ Anticipated changes in payment models ○ Impact associated with new TPA/PBM/MAPDP contracts
Administrative Expense	Expenses for SHP staff and vendor costs	• Projected vendor contract terms • Administrative staff assumptions
Net Income	Total revenue – total expense	• Formula driven field
Reserves	Cash balance	• Formula driven field, but required premium adjustments established to meet target reserve level • Target stabilization reserve levels or ranges • Dependent on premium pricing strategy and 3rd party vendor contracting effectiveness and risk sharing

The following chart outlines the current forecasting process that will be used to further develop the multi-year financial model:

Forecasting Process

