



North Carolina
State Health Plan
for Teachers and State Employees
www.shpnc.org

State Health Plan Update & Impact of Federal Health Care Reform

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North Carolina
**HEALTH
Smart**

Presentation Overview

- Financial Update
- Overview of Health Care Reform
- Outlook for Long Session

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Financial Update

- Budget Overview
- FY 2010 Financial Results
- FY 2011 Year to Date Financial Results

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State Health Plan Revenues (FY 2010-11 Authorized Budget)

Sources of Plan Revenue	Amount	Percentage
Member Premiums	\$2.666 b	97.0%
Medicare Part D Retiree Drug Subsidy	\$59.1 m	2.1%
Early Retiree Reinsurance Program (ERRP)	\$22.8 m	0.8%
Other Revenue	\$2.5 m	0.1%
Total Revenues	\$2.750 b	100%

Allocation of Premium Revenue (<i>estimated</i>)	Amount	Percentage
General Fund	\$1.778 b	66.7%
Highway Fund	\$82.6 m	3.1%
Other Receipts/Employer Funds	\$367.9 m	13.8%
Employee	\$437.2 m	16.4%

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State Health Plan Expenditures

(FY 2010-11 Authorized Budget)

Plan Expenses	Amount	Percentage
Medical Claims	\$1.893 b	68.6%
Pharmacy Claims	\$671.8 m	24.4%
Administrative Expense	\$191.7 m	7.0%
Total Expenditures	\$2.756 b	100%

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Financial Report

Fiscal Year 2009-10

Actual vs. Budgeted

	Actual thru June 2010	Certified Budget (per SL 2009-16)	Variance Over/(Under) Budget
Beginning Cash Balance *	\$189.9 m	\$146.8 m	\$43.1 m
Plan Revenue *	\$2.490 b	\$2.501 b	(\$10.6 m)
Net Claims Payment	\$2.394 b	\$2.300 b	\$93.5 m
Net Admin. Expenses	\$164.6 m	\$185.6 m	(\$21.0 m)
Total Plan Expense	\$2.559 b	\$2.486 b	\$72.6 m
Net Income/(Loss) *	(\$68.4 m)	\$14.8 m	(\$83.2 m)
Ending Cash Balance	\$121.5 m	\$161.6 m	(\$40.1 m)

* Approximately \$52 m in premiums budgeted for receipt in July 2009 were paid by the Retirement System in June 2009 and contribute to the variances in beginning cash, revenue and net income/(loss).

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Adjusted Variance Report

Fiscal Year 2009-10

Per Member Per Month (PMPM) Analysis

	Actual YTD, as Adjusted, thru June	Certified Budget (per SL 2009-16)	Adjusted Variance Over/(Under) Budget
Plan Revenue *^	\$319.26	\$319.24	\$0.02
Claims Payment +	\$303.57	\$293.67	\$9.90
Net Admin. Expenses	\$20.71	\$23.69	(\$2.98)
Total Plan Expense	\$324.28	\$317.36	\$6.92
Net Income/(Loss)	(\$5.02)	\$1.88	(\$6.90)

* Adjusted for \$52 m prepaid July 2009 premiums.

^ Removed impact of \$7.6 m unbudgeted Part D reconciliation payment for FY 2007-08.

+ Removed impact of unbudgeted portion of \$19.8 m "rebate guarantee" receipts for FY 2008-09.

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Financial Report

FY 2010-11 Year to Date thru October

Actual vs. Budgeted

	Actual YTD Oct 2010	Authorized Budget (per Aon 8-13-10)	Variance Over/(Under) Budget
Beginning Cash Balance	\$121.4 m	\$121.4 m	\$0.0 m
Plan Revenue	\$920.7 m	\$909.1 m	\$11.6 m
Net Claims Payment	\$768.8 m	\$822.2 m	(\$53.4 m)
Net Admin. Expenses	\$55.9 m	\$64.0 m	(\$8.1 m)
Total Plan Expense	\$824.7 m	\$886.2 m	(\$61.5 m)
Net Income/(Loss)	\$96.0 m	\$22.9 m	\$73.1 m
Ending Cash Balance	\$217.4 m	\$144.3 m	\$73.1 m

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Adjusted Variance Report

FY 2010-11 Year to Date thru October

Per Member Per Month (PMPM) Analysis

	Actual YTD, as Adjusted	Authorized Budget (per Aon 8-13-10)	Adjusted Variance Over/(Under) Budget
Plan Revenue	\$346.83	\$343.55	\$3.28
Claims Payment +	\$297.77	\$310.50	(\$12.73)
Net Admin. Expenses	\$21.12	\$24.17	(\$3.05)
Total Plan Expense	\$318.89	\$334.67	(\$15.78)
Net Income/(Loss)	\$27.94	\$8.88	\$19.06

+ Removed impact of unbudgeted portion of \$19.6 m "rebate guarantee" receipts for FY 2009-10.

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Federal Health Care Reform

- Passed on March 23, 2010
 - Senate Bill (H.R. 3590), entitled, "Patient Protection and Affordable Care Act", and the Reconciliation Bill
 - (H.R.4872) entitled, "Health Care and Education Affordability Act of 2010."
- Highlight Major Provisions
- Early Impacts and Actions
- Next Steps

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Areas of Focus of Health Care Reform

Insurance Reform

- Extends insurance coverage to 95% of Americans (an additional 31-36 million Americans over the next 10 years)
- Establishes high risk pool until 2014
- Establishes individual mandate and employer mandates to employers w/50 or more employees
- Offers reinsurance for employers covering pre-Medicare retirees ages 55-64
- Provides free preventive care
- Eliminates pre-existing condition exclusions
- Eliminates annual and lifetime limits
- Extends dependent age to 26 with no student requirement
- Creates regional / statewide insurance exchanges (2014)

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Areas of Focus of Health Care Reform

Medicaid Expansion

- Expands eligibility to 133% of FPL
- Demonstration Projects to improve care delivery

Medicare

- Medicare Advantage rate cuts
- Demonstration projects to improve care delivery

Quality Improvements

- Establishes Innovation Center to reduce expenditures and improve quality
- Various provisions to establish comparative and quality research

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ERRP Requirements

- Must have programs and procedures for chronic and high-cost conditions
- Estimated Reimbursement
 - Between \$88 million and \$130 million per plan year
- Must summarize how organization will use reimbursement
 - Cannot be used as general revenue
 - Will offset cost increases
- Have policies and procedures to detect fraud, waste and abuse

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Grandfathering Requirements

From a group coverage perspective, “grandfathered plans” are plans that were in existence when Health Care Reform was passed in March 2010.

“Grandfathered status” exempts plans from certain requirements of health care reform. Benefit changes over a certain amount, cause a plan to lose its grandfathered status.

Impacts

- Requirements not applicable to grandfathered plans include:
 - Preventive Services.
 - New Appeals and Claims Requirements.
- To maintain Grandfathering, must limit benefit changes
 - Any increase in coinsurance.
 - An increase in the deductible or Out-of-Pocket maximum greater than 15% + medical inflation.
 - An increase in a copayment equal to \$5 (adjusted for medical inflation) or medical inflation + 15%, whichever is greater.
 - Decrease in employer contribution by more than 5% below the contribution rate (as of 3/23/2010).

Actions

- Considering the cost of maintaining versus relinquishing GF status
- Maintaining GF status would allow the Plan to:
 - Monitor preventive costs of non-GF plans
 - Allow administrators to absorb the operational and implementation costs to changing the claims and appeals requirements
 - Understand the true costs of changes and prepare

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Coverage of Preventive Services

Impacts

- Mandates coverage for preventive services at 100% with no cost sharing.
- Expands the definition of preventive to include monitoring and maintenance care for chronic conditions.
- Grandfathered Plans exempt with certain benefit change and employee premium limits.
- Examples of new services under the preventive umbrella covered at 100%:
 - Alcohol Use Counseling (Mid-Tier Copay).
 - Weight Management Counseling (PCP Copay and 4 visits today).
- Additional Areas of Concern—how to monitor billing practices.

Actions

- Weighing benefits and costs of compliance versus maintenance of grandfathered status.

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Examples of Preventive Benefits Today

Service	Office	Outpatient Hospital	New Preventive
Routine Preventive Exam	Primary Care Physician (PCP) or Specialist Copay	Deductible & Coinsurance	Will vary, but many exams that require a copayment today would be covered at 100%
Colonoscopies	Specialist Copay	Deductible & Coinsurance	100%
Annual Mammogram	100%	100% if performed alone; otherwise, Deductible & Coinsurance	100%
Screening and counseling for obesity	PCP or Specialist Copay (up to 4 visits per year)	Deductible & Coinsurance	100% (no stated limits)
Counseling to reduce alcohol misuse	Office Visit Copay	Deductible & Coinsurance	100% (no stated limits)

Note that several types of screenings could involve more than one visit, and the definition of preventive involves following patients identified with potentially chronic conditions, so many more services could fall under the preventive benefit nomenclature. The Plan will need to assess the added costs of current preventive services going to 100% as well as new and ongoing services moving underneath the preventive umbrella.

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No Pre-Existing Condition Waiting Periods for Members under Age 19

Impacts

- Minimal
- Members enrolling when “first eligible” today are not subject to pre-existing waiting period.

Action

- Provision will be implemented July 1, 2011 at renewal.

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Extend Dependent Coverage to Age 26

Impacts

- Plan already covered full time students to age 26.
- Coverage extended for existing dependents who were full time students as of May 2010.
- HCR extends coverage to all eligible dependents over age 18 who are not full time students.
- Only requirement—not eligible for other employer group coverage.

Actions

- During annual enrollment, subscribers may enroll their eligible dependents ages 18—25 as of July 1, 2011.
- Enrollment period at least 30-days as required by law.

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Claims and Appeals Procedures

- Significant claims process and policy changes
 - Explanation of Benefits (EOBs)
- Minimal appeals impacts
- Regulations are complex and may impact existing regulations and laws, such as the Health Insurance Portability and Accountability Act (HIPAA).

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Next Steps

- Preparation for 2011 Long Session
- Health Care Benefits Study
 - Ten Year Plan Assessment
 - Health Care Reform
- Continue to evaluate the Regulations

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Long Session Outlook

- Updated Forecast
- Outlook for Upcoming Biennium
- Factors Affecting Expenditure Trend

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2010 Forecast Updates Current Fiscal Year 2010-11

- The Plan's actuary updates the forecast at the end of each FY & several times during the FY
- Take into account more recent information:
 - Prior year actual results and ending cash balance
 - Membership data
 - Claims experience
 - Changes in anticipated costs
 - Impact of Federal Health Care Reform
- Updates completed in July and November

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2010 Forecast Updates Current Fiscal Year 2010-11

Assumptions

- Premium increase effective July 1, 2010
- Based on most recent actual membership
 - Reflects 1% decline in actives and 1% increase in retirees
- Federal Health Care Reform
 - Receipt of Early Retiree Reinsurance Program (EERP) federal subsidy to begin Feb 2011
 - Extend coverage of dependents to age 26
- Savings associated with Comprehensive Wellness Initiative (CWI)
 - *Impact of tobacco requirement on enrollment*
 - *Higher member cost share*

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Fiscal Year 2010-11 November vs. July Forecast Update

2 nd Year of Biennium (9.5% trend)	Certified Budget (per SL 2009-16)	Authorized Budget Updated Aon Hewitt July 29, 2010	Updated Aon Hewitt Nov 15, 2010	Forecast Difference Increase/ (Decrease)
Beginning Cash Balance	\$161.6 m	\$121.5 m	\$121.5 m	\$0.0 m
Plan Revenue	\$2.713 b	\$2.728 b	\$2.757 b	\$29.0 m
Net Claims Payment	\$2.490 b	\$2.542 b	\$2.507 b	(\$35.0 m)
Net Admin. Expenses	\$191.7 m	191.7 m	191.7 m	\$0.0 m
Total Plan Expense	\$2.682 b	\$2.734 b	\$2.699 b	(\$35.0 m)
Net Income/(Loss)	\$30.6 m	(\$5.8 m)	\$58.9 m	\$64.7 m
Ending Cash Balance	\$192.2 m	\$115.7 m	\$180.4 m	\$64.7 m

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Current Fiscal Year 2010-11 Forecast Updates

Take Away Points

- Expecting improved cash position
- Plan's cash balance is currently projected to be \$180.4 million by the end of the biennium
 - Equates to approximately 3½ weeks of operating expenses
 - Within \$12 million of Certified Budget enacted in 2009 session

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Impact of Updates - Next Biennium

Forecast Risk

- The updates should be viewed with caution
 - July results heavily dependent upon higher than anticipated claims cost in previous fiscal year
 - June 2009 claims spike
 - Nov results heavily dependent upon lower than anticipated claims cost in current fiscal year.
 - Significant increase in enrollment in 70/30 plan
- The Plan typically experiences higher claims costs in the 2nd half of the fiscal year.

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Upcoming Biennium FYs 2011-12 & 2012-13

- Considering July & November Updates and Forecast Risks
- Assuming no changes in benefits, except for compliance with Federal coverage requirements
 - Early Retiree Reinsurance Program
 - Coverage for Adult Dependents

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Upcoming Biennium FYs 2011-12 & 2012-13

- Projected Range of Funding Requirements for 2011-2013:
 - 8.9% to 10.8% premium increase required each of next two fiscal years
 - State cost to fund premium increase for 2011-2013
 - \$591 million to \$717 million all sources
 - \$472 million GF to \$573 million GF

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Legislative Long Session

- Next forecast update in Jan 2011
- General Assembly will need to act by April 2011 to ensure premium and benefit changes effective July 1, 2011 for next biennium

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U.S. 2011 Health Care Cost Factors

Pushing Cost Down

- Generic Drug Dispensing Rate Increasing
- Increased Cost Sharing by Employees



Pushing Cost Up

- More Cost Shifting from Medicare
- Provider Consolidation
- Investment in Health IT
- Coverage of Dependents up to Age 26
- Elimination of Pre-Existing Conditions for Dependents
- Benefit Additions
- Reduction in Active Enrollment, Relative to Pre-Medicare Retirees
- Increasing Level of Obesity
- Expansion of Specialty Drugs
- As Employers Reduce Employment, COBRA Enrollment Increases

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Questions?

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