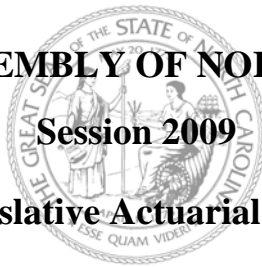


GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2009

Legislative Actuarial Note

HEALTH BENEFITS

BILL NUMBER: Senate Bill 287 (Fifth Edition)
SHORT TITLE: State Hlth Plan \$/Good Health Initiatives.
SPONSOR(S): Rep. Holliman

SYSTEM OR PROGRAM AFFECTED: State Health Plan for Teachers and State Employees (Plan).

FUNDS AFFECTED: State General Fund, State Highway Fund, other State employer receipts; premium payments for dependents of active employees and retired employees of State agencies and universities, local public schools and local community colleges; premium payments for coverages selected by eligible former employees; premium payments for coverages selected by firefighters, rescue squad workers, members of the National Guard, and certain authorized local governments.

BILL SUMMARY: Senate Bill 287 (Fifth Edition) appropriates funds from various sources, authorizes annual premium rate increases, makes various benefit and provider related changes to achieve financial savings, enhances select benefits, changes the Plan to a calendar year based plan year and directs other various changes to the Plan. The bill also generally establishes a Blue Ribbon Task Force to conduct a comprehensive review of the Plan.

EFFECTIVE DATE: The appropriation in Section 1(a) is effective when the bill becomes law. The appropriations in Sections 1(b), (c), and (d) become effective July 1, 2009. The benefit changes in Sections 2(a), (b) and (d) become effective July 1, 2009. The benefit change in Section 2(c) of the bill becomes effective January 1, 2010. Sections 5(g) and (h) of the bill, which implements a change to a calendar year based plan year, becomes effective July 1, 2011. The remainder of this act is effective when it becomes law.

ESTIMATED IMPACT ON STATE:

Current FY 2008-2009

Appropriated Funds

Section 1(a) of the bill appropriates the sum of \$250 million from the Savings Reserve Account ("Rainy Day Fund") of the General Fund for the 2008-09 fiscal year. These funds are to be used to finance a shortfall in funds available to pay health care benefits, administrative costs, and adequately fund the Plan's beginning cash balance on July 1, 2009.

2009-2011 Biennium

Increased Premium Contributions

Appropriated Funds

Sections 1(b), (c), and (d) appropriate the estimated required funds to support increased employer contributions to continue non-contributory benefit coverage for eligible employees and retired employees enrolled in the Plan for the 2009-2011 Biennium. These appropriations correspond to an annual 10.0% premium increase in non-contributory premium rates for the fiscal year beginning July 1, 2009, and an additional annual premium increase of 10.0% for the fiscal year beginning July 1, 2010. Historically, the Plan has applied a premium increase in October of the first fiscal year of a biennium; however, the premium increases in the proposed committee substitute propose to change that methodology to an annual increase at the beginning of each fiscal year of a biennium. The table below reflects the allocation of appropriated funds by fund source:

| Additional Employer Contributions Appropriated Funds | | | |
|---|----------------------|----------------------|----------------------|
| Fund Source | FY 2009-10 | FY 2010-11 | Biennium |
| General Fund | \$148,769,662 | \$312,416,291 | \$461,185,953 |
| Highway Fund | \$6,942,584 | \$14,579,427 | \$21,522,011 |
| Other Funds | \$30,691,360 | \$64,451,856 | \$95,143,216 |
| Total | \$186,403,606 | \$391,447,574 | \$577,851,180 |

Employee Funds

Section 2(f) of the proposed committee substitute authorizes an annual 10.0% premium increase in contributory premium rates for the fiscal year beginning July 1, 2009, and an additional annual premium increase of 10.0% for the fiscal year beginning July 1, 2010. The estimated additional premium contributions from this proposed change is listed below:

| Additional Employee Contributions For Contributory Dependent Coverage | | | |
|--|-------------------|-------------------|-----------------|
| Fund Source | FY 2009-10 | FY 2010-11 | Biennium |
| Employee Contributions | \$38,161,723 | \$80,139,618 | \$118,301,341 |

Total Increased Premium Contributions From Appropriated and Employee Funds

The table below reflects the total additional premium contributions projected to be received by the Plan over the 2009-2011 Biennium as a result of the proposed premium rate increase:

| Total Additional Premium Contributions From Appropriated and Employee Funds | | | |
|--|----------------------|----------------------|----------------------|
| Fund Source | FY 2009-10 | FY 2010-11 | Biennium |
| <u>Appropriated</u> | | | |
| General Fund | \$148,769,662 | \$312,416,291 | \$461,185,953 |
| Highway Fund | \$6,942,584 | \$14,579,427 | \$21,522,011 |
| Other Funds | \$30,691,360 | \$64,451,856 | \$95,143,216 |
| Sub-total | \$186,403,606 | \$391,447,574 | \$577,851,180 |
| Employee Contributions | \$38,161,723 | \$80,139,618 | \$118,301,341 |
| Total | \$224,565,329 | \$471,587,192 | \$696,152,521 |

Financial Savings for the 2009 Biennium

Per the requirements of Senate Rule 42.2, House Rule 36.2, and G.S. 120-114 actuarial analyses have been prepared with respect to the proposed committee substitute's proposed benefit and other changes that are estimated to affect the financial condition of the Plan. A summary of the proposed changes is presented below including the estimated actuarial impact of these changes.

Sections 2(b), (d), and (e) of the bill proposes various benefit changes to include increased annual deductibles, annual co-insurance maximums, increased office visit co-pays, increased outpatient prescription drug co-pays, and a new specialty drug co-pay. These subsections include lower co-pays for chiropractor, physical, occupational, and speech therapy services.

A summary of the out-of-pocket changes for medical benefit related services are summarized in the table below:

| Medical Benefits Plan Member Co-pays (per visit) | PPO Basic | | PPO Standard | |
|---|------------------|-------------------|---------------------|-------------------|
| | Current | New Co-pay | Current | New Co-pay |
| Primary Care | \$25 | \$30 | \$20 | \$25 |
| Specialty Care | \$50 | \$70 | \$40 | \$60 |
| Urgent Care | \$75 | \$75 | \$50 | \$75 |
| Inpatient Hospital | \$200 | \$250 | \$150 | \$200 |
| Chiropractor Services | \$50 | \$30 | \$40 | \$25 |
| Physical-Occupational-Speech Therapy | \$50 | \$30 | \$40 | \$25 |
| Annual Deductible | | | | |
| In-network | \$600 | \$800 | \$300 | \$600 |
| Out-of-network | \$1,200 | \$1,600 | \$600 | \$1,200 |
| Coinsurance Maximum | | | | |
| In-network | \$2,500 | \$3,250 | \$1,750 | \$2,750 |
| Out-of-network | \$5,000 | \$6,500 | \$3,500 | \$5,500 |

For acute and maintenance prescription drugs, the co-pay for brand drugs increases from \$30 per script to \$35 per script, brand drugs with a generic equivalent from \$40 per script to \$10 plus the difference in the

Plan's gross allowed cost of the brand drug and the Plan's cost of the generic equivalent drug, and from \$50 per script to \$55 per script for non-preferred brand drugs.

The proposed committee substitute authorizes a new co-pay tier for specialty prescription drugs determined to be "biotech" medications or other select costly medications that cost the Plan in excess of \$400 per prescription. The new per script co-pay will be equal to 25% of the Plan's cost for the drug or a maximum of \$100. The current co-pays for specialty drugs range from \$30 to \$50 per script.

Revision of Estimated Saving by Using an Exclusive Specialty Drug Vendor: The bill authorizes the Plan to contract with an exclusive specialty drug vendor through which to channel plan member purchases of specialty drugs on an outpatient basis or in a professional office or institution setting. Actuarial notes issued for prior editions of the bill assumed an approximate savings of \$3.5 million over the biennium from the utilization of a specialty pharmacy vendor. An amendment to the bill, allowing any retail pharmacy to dispense specialty medications at the same discounted savings rate as provided by an exclusive specialty drug vendor under contract to the Plan, was initially determined to be cost neutral to the Plan. This previous cost neutral estimate assumed that retail pharmacies would honor the same discount rates as the specialty vendor. However, the State Health Plan has subsequently determined that its projected savings of \$3.5 million over the biennium will not materialize as a result of their specialty drug vendor no longer guaranteeing the estimated savings without an exclusive provider agreement.

Section 2(c) of the bill, effective January 1, 2010 also eliminates the current in-network routine eye examination benefit offered under the Plan.

Aon Consulting, the consulting actuary for the State Health Plan for Teachers and State Employees, estimates that the implementation of the proposed committee substitute's proposed benefit changes will yield the following projected savings:

| Aon Consulting Projected Financial Savings Benefit and Provider Related Changes | | | |
|--|----------------------|----------------------|----------------------|
| Category | FY 2009-10 | FY 2010-11 | Biennium |
| Medical Benefits | \$104,658,485 | \$99,372,746 | \$204,031,231 |
| Outpatient Prescription Drugs (acute drugs) | \$22,162,147 | \$24,092,234 | \$46,254,381 |
| Specialty Drugs | \$1,404,138 | \$1,561,785 | \$2,965,923 |
| Total | \$128,224,770 | \$125,026,765 | \$253,251,535 |

Hartman & Associates, the consulting actuary for the General Assembly's Fiscal Research Division, estimates that the implementation of the proposed committee substitute's proposed benefit changes will yield the following projected savings:

**Hartman & Associates
Projected Financial Savings
Benefit and Provider Related Changes**

| Category | FY 2009-10 | FY 2010-11 | Biennium |
|---|----------------------|----------------------|----------------------|
| Medical Benefits | \$106,159,000 | \$109,068,000 | \$215,227,000 |
| Outpatient Prescription Drugs (acute drugs) | \$24,015,000 | \$24,225,000 | \$48,240,000 |
| Specialty Drugs | \$1,471,000 | \$1,530,000 | \$3,001,000 |
| Total | \$131,645,000 | \$134,823,000 | \$266,468,000 |

Provided below is a comparison table reflecting the specific results of each consulting actuary by the type of benefit and provider change proposed in the proposed committee substitute:

| Category | Aon Consulting (Plan) | | | Hartman & Assoc. (General Assembly) | | |
|--|------------------------------|----------------------|----------------------|--|----------------------|----------------------|
| | FY 2009-10 | FY 2010-11 | Biennium | FY 2009-10 | FY 2010-11 | Biennium |
| Medical Benefits | | | | | | |
| Primary Care Co-pay (Increase) | \$8,518,038 | \$9,571,177 | \$18,089,215 | \$8,116,000 | \$9,257,000 | \$17,373,000 |
| Specialist Co-pay (Increase) | \$29,077,025 | \$32,672,003 | \$61,749,028 | \$27,125,000 | \$31,713,000 | \$58,838,000 |
| Urgent Care Co-pay (Increase) | \$739,560 | \$830,997 | \$1,570,557 | \$854,000 | \$994,000 | \$1,848,000 |
| Inpatient Co-pay (Increase) | \$2,158,037 | \$2,424,849 | \$4,582,886 | \$1,970,000 | \$2,247,000 | \$4,217,000 |
| Routine Eye Exam (Eliminate Benefit) {Eff. 1/2010} | \$2,158,693 | \$7,193,591 | \$9,352,284 | \$2,540,000 | \$7,039,000 | \$9,579,000 |
| Deductible and Coinsurance Max (Increase) | \$76,215,565 | \$86,849,600 | \$163,065,165 | \$78,079,000 | \$92,463,000 | \$170,542,000 |
| Chiropractor Co-pays to Primary Care (Lower) | (\$8,647,603) | (\$9,741,271) | (\$18,388,874) | (\$7,511,000) | (\$8,782,000) | (\$16,293,000) |
| PT, OT, & ST Co-Pays to Primary Care (Lower) | (\$5,560,830) | (\$6,319,901) | (\$11,880,731) | (\$5,014,000) | (\$5,862,000) | (\$10,876,000) |
| Calendar Year Plan Year (One-time cost) | \$0 | (\$24,108,299) | (\$24,108,299) | \$0 | (\$20,001,000) | (\$20,001,000) |
| Sub-total | \$104,658,485 | \$99,372,746 | \$204,031,231 | \$106,159,000 | \$109,068,000 | \$215,227,000 |
| Outpatient Prescription Drugs (acute drugs) | | | | | | |
| Brand Drug Co-pay (Increase) | \$11,734,884 | \$12,173,684 | \$23,908,568 | \$12,010,000 | \$11,741,000 | \$23,751,000 |
| Brand Drug with Generic Equivalent (Increase) | \$4,632,720 | \$5,644,491 | \$10,277,211 | \$6,285,000 | \$6,536,000 | \$12,821,000 |
| Non-Preferred Brand Drug Co-pay (Increase) | \$3,089,092 | \$3,204,602 | \$6,293,694 | \$3,530,000 | \$3,671,000 | \$7,201,000 |
| Reduce from 34-Day supply to 30-Day Supply | \$2,705,451 | \$3,069,457 | \$5,774,908 | \$2,190,000 | \$2,277,000 | \$4,467,000 |
| Sub-total | \$22,162,147 | \$24,092,234 | \$46,254,381 | \$24,015,000 | \$24,225,000 | \$48,240,000 |
| Specialty Drugs | | | | | | |
| Establish a Specialty Drug vendor | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Specialty Drug Copay (Establish) | \$1,404,138 | \$1,561,785 | \$2,965,923 | \$1,471,000 | \$1,530,000 | \$3,001,000 |
| Sub-total | \$1,404,138 | \$1,561,785 | \$2,965,923 | \$1,471,000 | \$1,530,000 | \$3,001,000 |
| Grand Total | \$128,224,770 | \$125,026,765 | \$253,251,535 | \$131,645,000 | \$134,823,000 | \$266,468,000 |

Other Proposed Changes Affecting the Plan

Section 2(a) of the proposed committee substitute eliminates the PPO Plus benefit alternative for plan members effective July 1, 2009. Employees currently in this plan will be provided the option to enroll in the remaining PPO Basic or PPO Standard plans. The PPO Plus alternative currently offers 90/10 coverage for an additional premium charge paid by the plan member.

Section 2(g) of the proposed committee substitute directs the Plan to achieve a reduction of \$18 million in FY 2009-10 and \$20 million in FY 2010-11 in pharmacy provider costs through its existing contract authority with the Plan's Pharmacy Benefit Manager. These savings are based on the Plan's actuarial projection dated March 20, 2009 which makes specific assumptions about enrollment, estimated costs and utilization trends. Total savings under this authority may increase or decrease without adjustment based on

a change in total enrollment provided that the rate of savings achieved on a per member per month basis remains constant. Adjustments to total savings may be made within 60-days after each six-month period of a fiscal year if savings exceed 105% of the specified savings.

Section 5(g), (h) of the proposed committee substitute makes required changes to implement a calendar year based plan year for the Plan beginning January 1, 2011. The proposed committee substitute specifies a six-month plan year from July 1, 2010 to December 31, 2010 to accomplish the transition from the current July through June fiscal year plan year to the proposed January through December calendar year. For the six month transition plan year plan member out-of-pocket requirements for deductible, co-insurance maximums, and prescription drug co-pay limits are assumed to be 50% of annual limits proposed in other sections of the proposed committee substitute.

Under the proposed committee substitute, annual premium rates charged for non-contributory employee only coverage and contributory dependent coverage will increase for the fiscal year beginning July 1, 2009 by an annual rate of 10.0% plus an additional annual premium increase of 10.0% for the fiscal year beginning July 1, 2010. Of these total annual 10.0% premium rate increases included in the proposed committee substitute, the additional cost of the proposed calendar year benefit plan year change is estimated to be equivalent to nine-tenths of one percent (0.9%) effective July 1, 2009, and then again by another nine-tenths of one percent (0.9%) on July 1, 2010.

These projected rates of premium increase are recommended by the Plan's consulting actuary, Aon Consulting, to provide the Plan will sufficient financial reserves to operate from July 1, 2009 through December 31, 2011. This 30-month period is 6 months greater than the 24-month financial projection period for funding the Plan due to the proposed transition to a calendar year basis plan year.

The additional 6 months included in the financial projection for the Plan requires increased cash reserves of approximately \$44.9 million. These cash reserves are in addition to the projected benefit costs of approximately \$20 million to \$24.5 million for the calendar year based plan year change. These additional reserves are expected to provide the Plan with adequate cash to operate until the General Assembly would be expected to enact future premium increases or benefit changes effective January 1, 2012.

Reconciliation of Plan's Financial Requirements

According to available information from the Executive Administrator of the Plan, the Plan needs an immediate appropriation of \$250 million for the current 2008-2009 fiscal year to operate through June 30, 2009, and to provide for an adequate beginning cash balance to begin operations for the new fiscal year commencing July 1, 2009. In addition, for the new biennium beginning July 1, 2009 the Plan is estimated to require over \$1.2 billion in additional financial support to remain solvent and maintain minimum claim stabilization reserves for the 2009-2011 biennium. If the Plan were to maintain current benefit levels and assuming a 9% per capita claims trend, the Plan would require an estimated 30.8% premium increase for the biennium (effective October 1, 2009).

The proposed committee substitute addresses this projected shortfall by authorizing the following changes:

1. Proposing a 10.0% annual premium increase on July 1 of each fiscal year of the biennium for non-contributory and contributory premium rates; this change moves the historical date to increase premium rates from October 1 in the first year of a biennium, and moves to an annual premium increase;
2. Eliminating the current PPO Plus option benefit alternative;

3. Increase plan member out-of-pocket requirements for certain medical and prescription drug benefits; and
4. Directing the Plan to achieve a reduction of \$18 million in FY 2009-10 and \$20 million in FY 2010-11 in pharmacy provider costs through its existing contract authority with the Plan's Pharmacy Benefit Manager.

A financial summary table provided below provides a projected reconciliation of the financial related changes authorized under the proposed committee substitute assuming the Plan's consulting actuary's estimate of projected financial need for the 2009-2011 biennium, their projected financial savings due to benefit and other provider related changes, and their estimate of additional premium contributions:

**State Health Plan
Summary of Financial Changes
Senate Bill 287 (5th Edition)
(\$ Million)**

| | FY 2009-10 | FY 2010-11 | Biennium |
|--|-------------------|-------------------|------------------|
| 1) Projected Financial Support Required Before Any Adjustments | \$528.1 | \$704.2 | \$1,232.3 |
| 2) Adjust for Proposed FY 2008-09 Special Appropriation of \$250M | (\$107.1) | (\$142.9) | (\$250.0) |
| 3a) Adjust for Elimination of PPO Plus (Net Adjustment) | (\$14.4) | (\$24.4) | (\$38.8) |
| 3b) Additional Cash Requirements for Calendar Year Change Eff. Jan 2011 | \$21.5 | \$23.4 | \$44.9 |
| 4) Adjusted Financial Support Required for the 2009-11 Biennium | \$428.1 | \$560.3 | \$988.4 |
| 5a) Benefit Enhancements Effective July 1, 2009 | | | |
| Medical | | | |
| Lower Chiropractic Care Co-pay | \$8.7 | \$9.7 | \$18.4 |
| Lower Physical, Occupational & Speech Therapy Co-pay | \$5.6 | \$6.3 | \$11.9 |
| Calendar Year Plan Year Effective January 1, 2011 (One-time) | \$0.0 | \$24.1 | \$24.1 |
| Sub-total | \$14.3 | \$40.1 | \$54.4 |
| Total -- Benefit Enhancements | \$14.3 | \$40.1 | \$54.4 |
| 5b) Benefit Reductions Effective July 1, 2009 | | | |
| Medical | | | |
| Primary Care Co-pay (Increase) | (\$8.5) | (\$9.6) | (\$18.1) |
| Specialist Co-pay (Increase) | (\$29.1) | (\$32.7) | (\$61.8) |
| Urgent Care Co-pay (Increase) | (\$0.7) | (\$0.8) | (\$1.5) |
| Inpatient Co-pay (Increase) | (\$2.2) | (\$2.4) | (\$4.6) |
| Deductible and Coinsurance Maximum (Increase) | (\$76.2) | (\$86.9) | (\$163.1) |
| Routine Eye Exam (Eliminate Benefit) {Effective January 1, 2010} | (\$2.2) | (\$7.2) | (\$9.4) |
| Sub-total | (\$118.9) | (\$139.6) | (\$258.5) |
| Outpatient Acute and Specialty Prescription Drugs | | | |
| Brand Drug Co-pay (Increase) | (\$11.8) | (\$12.2) | (\$24.0) |
| Brand Drug with Generic Equivalent (Increase) | (\$4.6) | (\$5.6) | (\$10.2) |
| Non-Preferred Brand Drug Co-pay (Increase) | (\$3.1) | (\$3.2) | (\$6.3) |
| Reduce from 34-Day supply to 30-Day Supply per script | (\$2.7) | (\$3.1) | (\$5.8) |
| Specialty Drug Copay (Establish) | (\$1.4) | (\$1.6) | (\$3.0) |
| Establish a Specialty Drug vendor (Exclude Cancer Drugs) | \$0.0 | \$0.0 | \$0.0 |
| Sub-total | (\$23.6) | (\$25.7) | (\$49.3) |
| Total -- Benefit Reductions | (\$142.5) | (\$165.3) | (\$307.8) |
| 6) Additional Pharmacy Discounts to be Implemented by the Plan | (\$18.0) | (\$20.0) | (\$38.0) |
| 7) Appropriations by the General Assembly | | | |
| Premium increase for Employing Agencies (July 1, 2009 = 10.0%, July 1, 2010 = 10.0%) | | | |
| General Fund | (\$148.8) | (\$312.4) | (\$461.2) |
| Highway Fund | (\$6.9) | (\$14.6) | (\$21.5) |
| Other Employer Funds | (\$30.7) | (\$64.5) | (\$95.2) |
| Total Employer Funds | (\$186.4) | (\$391.5) | (\$577.9) |
| 8) Premium increases for Dependent Coverage (July 1, 2009 = 10.0%, July 1, 2010 = 10.0%) Paid by Employees and Retirees for Enrolled Spouses and Dependent Children | | | |
| Total Employee Funds | (\$38.2) | (\$80.1) | (\$118.3) |
| 9) Plan's Other Operating Adjustments | (\$0.3) | \$4.9 | \$4.6 |
| 10) Balance | \$57.0 | (\$51.6) | \$5.4 |

Note: The \$5.4 million balance remaining at the end of the biennium is a product of \$3.5 million in the savings lost from previously assumed savings via a specialty drug vendor, rounding error, differences in projected ending cash balances between financial projections estimating total financial requirements and final requirements after the proposed premium increases, benefit changes, and other program changes. This difference is not expected to have an adverse effect on the Plan's finances.

ASSUMPTIONS AND METHODOLOGY:

The actuarial analyses used by each respective consulting actuary are on file with the Fiscal Research Division. Copies of each respective consulting actuary's analysis, including assumptions, are also attached to the original copy of this Legislative Actuarial note.

Summary Information and Data about the Plan

The Plan administers health benefit coverage for active employees from employing units of State agencies and departments, universities, local public schools, and local community colleges. Eligible retired employees of authorized employing units may also access health benefit coverage under the Plan. Eligible dependents of active and retired employees are authorized to participate in the Plan provided they meet certain requirements. Employees and retired employees of selected local governments may also participate in the Plan under certain conditions. Members of fire, rescue squads, and the National Guard may also obtain coverage under the Plan provided they meet certain eligibility criteria.

As of July 1, 2008, the State finances the Plan on a self-funded basis and administers benefit coverage under a Preferred Provider Option (PPO) arrangement. The Plan's receipts are derived through premium contributions, investment earnings and other receipts. Premiums for health benefit coverage are paid by (1) employing agencies for active employees, (2) the Retiree Health Benefit Fund for retired employees, and (3) employees and retirees who elect dependent coverage. Total requirements for the Plan are estimated to be \$2.6 billion for FY 2008-09. The Plan's PPO benefit design includes three alternative benefit levels offered to plan members. The three alternative benefit levels include the following:

- 1) The "Basic" 70/30 plan that offers higher out-of pocket requirements in return for lower fully contributory dependent premiums;
- 2) The "Standard" 80/20 plan; and
- 3) The "Plus" 90/10 plan with enhanced benefits via lower out-of pocket requirements as compared to the other PPO plan alternatives offered.

Employees and retired employees electing coverage under the Plus alternative must make a partially contributory premium contribution for their own coverage. The Basic and Standard plans offer coverage to employees and retired employees on a noncontributory basis. Coverage for dependents under all plans is offered on a fully contributory basis.

Financial Condition

Financial Projection (Revised) for FY 2008-09 -- For the fiscal year beginning July 1, 2008, the Plan began its operations with a beginning cash balance of \$139.8 million. Receipts for the year are projected

to be \$2.3 billion from premium collections, \$53.9 million from Medicare Part D subsidies, and \$2.7 million from investment earnings, for a total of slightly over \$2.3 billion in receipt income for the year. Projected disbursements from the Plan are expected to be \$2.4 billion in claim-payment expenses and \$168.7 million in administration and claims-processing expenses for projected total expenses of nearly \$2.6 billion for FY 2008-09. The Plan's net operating loss is projected to be approximately \$264.4 million for the fiscal year, assuming a 9% annual claims growth trend.

Projected operating losses are expected to deplete the Plan's cash balance of \$139.8 million and leave it without sufficient operating resources to continue operations for the fiscal year. It is currently estimated by the Plan's Executive Administrator that the Plan will not be able to pay claims on a timely basis by March 31, 2009.

Consequently, the reforecast of Plan finances now indicates that the Plan will require up to \$300 million in additional resources to operate for the balance of the 2008-09 fiscal year. This amount represents the estimated funds necessary to pay claims and administrative expenses through June 30, 2009, plus funding a minimum stabilization reserve equal to 7.5% of projected claims, and assuming a future premium rate increase effective October 1, 2009.

Other Information

Additional assumptions include Medicare benefit "carve-outs," cost containment strategies including prior approval for certain medical services, utilization of the "Blue Options" provider network, case and disease management for selected medical conditions, mental health case management, coordination of benefits with other payers, a prescription drug benefit manager with manufacturer rebates from formularies, and fraud detection, and other authorized actions by the Executive Administrator and Board of Trustees to manage the Plan to maintain and improve the Plan's operation and financial condition where possible. Claim cost trends are expected to increase at a rate of 9% annually according to the Plan's consulting actuary. Investment earnings are based upon a 4.5% return on available cash balances.

Enrollment Data as of December 31, 2008

| I. No. of Participants | Basic | Standard | Plus | Total | Percent of Total |
|-------------------------------|---------------|-----------------|---------------|----------------|-------------------------|
| <u>Actives</u> | | | | | |
| Employees | 11,623 | 271,243 | 47,687 | 330,553 | 49.6% |
| Dependents | 20,454 | 115,875 | 28,156 | 164,485 | 24.7% |
| Sub-total | 32,077 | 387,118 | 75,843 | 495,038 | 74.2% |
| <u>Retired</u> | | | | | |
| Employees | 1,726 | 127,081 | 17,967 | 146,774 | 22.0% |
| Dependents | 1,117 | 14,935 | 3,476 | 19,528 | 2.9% |
| Sub-total | 2,843 | 142,016 | 21,443 | 166,302 | 24.9% |
| Former Employees with | | | | | |
| <u>Continuation Coverage</u> | | | | | |
| Employees | 60 | 1,349 | 344 | 1,753 | 0.3% |
| Dependents | 61 | 501 | 182 | 744 | 0.1% |
| Sub-total | 121 | 1,850 | 526 | 2,497 | 0.4% |
| Firefighters, Rescue Squad & | | | | | |
| <u>National Guard</u> | | | | | |
| Employees | - | 3 | 2 | 5 | 0.0% |
| Dependents | - | 3 | - | 3 | 0.0% |
| Sub-total | - | 6 | 2 | 8 | 0.0% |
| Local Governments | | | | | |
| Employees | 72 | 1,577 | 319 | 1,968 | 0.3% |
| Dependents | 141 | 637 | 218 | 996 | 0.1% |
| Sub-total | 213 | 2,214 | 537 | 2,964 | 0.4% |
| Total | | | | | |
| Employees | 13,481 | 401,253 | 66,319 | 481,053 | 72.1% |
| Dependents | 21,773 | 131,951 | 32,032 | 185,756 | 27.9% |
| Grand Total | 35,254 | 533,204 | 98,351 | 666,809 | 100% |
| Percent of Total | 5.3% | 80.0% | 14.7% | 100.0% | |

| II. Enrollment by Contract | Basic | Standard | Plus | Total |
|---------------------------------------|---------------|-----------------|---------------|----------------|
| Employee Only | 2,684 | 328,635 | 49,246 | 380,565 |
| Employee Child(ren) | 4,958 | 36,903 | 8,589 | 50,450 |
| Employee Spouse | 2,274 | 18,145 | 4,469 | 24,888 |
| Employee Family | 3,565 | 17,570 | 4,015 | 25,150 |
| Total | 13,481 | 401,253 | 66,319 | 481,053 |
| Percent Enrollment by Contract | | | | |
| Employee Only | 19.9% | 81.9% | 74.3% | 79.1% |
| Employee Child(ren) | 36.8% | 9.2% | 13.0% | 10.5% |
| Employee Spouse | 16.9% | 4.5% | 6.7% | 5.2% |
| Employee Family | 26.4% | 4.4% | 6.1% | 5.2% |
| Total | 100.0% | 100.0% | 100.0% | 100.0% |

Enrollment Data Continued

| III. Enrollment by Sex | Basic | Standard | Plus | Total |
|-------------------------------|---------------|-----------------|---------------|----------------|
| Female | 18,837 | 334,917 | 61,752 | 415,506 |
| Male | 16,417 | 198,287 | 36,599 | 251,303 |
| Total | 35,254 | 533,204 | 98,351 | 666,809 |

| Percent Enrollment by Sex | Basic | Standard | Plus | Total |
|----------------------------------|---------------|-----------------|---------------|---------------|
| Female | 53.4% | 62.8% | 62.8% | 62.3% |
| Male | 46.6% | 37.2% | 37.2% | 37.7% |
| Total | 100.0% | 100.0% | 100.0% | 100.0% |

| IV. Enrollment by Age | Basic | Standard | Plus | Total |
|------------------------------|---------------|-----------------|---------------|----------------|
| 29 & Under | 17,390 | 136,277 | 27,211 | 180,878 |
| 30 to 44 | 8,125 | 107,375 | 17,315 | 132,815 |
| 45 to 54 | 5,164 | 94,548 | 18,277 | 117,989 |
| 55 to 64 | 3,195 | 102,901 | 23,452 | 129,548 |
| 65 & Over | 1,380 | 92,103 | 12,096 | 105,579 |
| Total | 35,254 | 533,204 | 98,351 | 666,809 |

| Percent Enrollment by Age | Basic | Standard | Plus | Total |
|----------------------------------|---------------|-----------------|---------------|---------------|
| 29 & Under | 49.3% | 25.6% | 27.7% | 27.1% |
| 30 to 44 | 23.0% | 20.1% | 17.6% | 19.9% |
| 45 to 54 | 14.6% | 17.7% | 18.6% | 17.7% |
| 55 to 64 | 9.1% | 19.3% | 23.8% | 19.4% |
| 65 & Over | 3.9% | 17.3% | 12.3% | 15.8% |
| Total | 100.0% | 100.0% | 100.0% | 100.0% |

| V. Retiree Enrollment by Category | Employee | Dependents | Total |
|--|-----------------|-------------------|----------------|
| Non-Medicare Eligible | 49,534 | 12,080 | 61,614 |
| Medicare Eligible | 97,240 | 7,448 | 104,688 |
| Total | 146,774 | 19,528 | 166,302 |

| Percent by Category (Retiree) | Employee | Dependents | Total |
|--------------------------------------|-----------------|-------------------|---------------|
| Non-Medicare Eligible | 33.7% | 61.9% | 37.0% |
| Medicare Eligible | 66.3% | 38.1% | 63.0% |
| Total | 100.0% | 100.0% | 100.0% |

SOURCES OF DATA:

Aon Consulting, North Carolina State Health Plan, Financial Projections – October 2008, Total For All Plans – 9% Trend, October 10, 2008.

Aon Consulting, North Carolina State Health Plan, Financial Projections – October 2008, Total For All Plans – 9% Trend, July 2009 & 2010 Rate Increases, \$250 Million Grant, No Plus Option – July 2009, Benefit Option, Pharmacy Initiatives, March 20, 2009.

Aon Consulting, "North Carolina State Health Plan, Financial Projections – October 2008, Total For All Plans – 9% Trend, July 2009 & 2010 Rate Increases, \$250 Million Grant, No Plus Option – July 2009, Benefit Option, Pharmacy Initiatives, Calendar Year Change (Scenario 2), PT/OT/ST, Chiro & MH", April 7, 2009.

Medco Health Solutions, various outpatient acute, specialty, and maintenance drug data and discount assumptions, March 2009.

State Health Plan, various summarized claims reports for medical claims by category and purpose and time period, December 2008, January 2009.

-Actuarial Note, Hartman & Associates, " Senate Bill 287 (Fifth Edition) House Committee Substitute #2: An Act to Appropriate Funds for the State Health Plan and to Make Other Changes to the State Health Plan", April 13, 2009, original of which is on file in the General Assembly’s Fiscal Research Division.

-Actuarial Note, Aon Consulting, "Senate Bill 287 Proposed Committee Substitute S287 [v.5], State Health Plan \$/Good Health Initiatives", April 13, 2009, original of which is on file with the Comprehensive Major Medical Plan for Teachers and State Employees and the General Assembly’s Fiscal Research Division.

TECHNICAL CONSIDERATIONS: None

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DATE: April 14, 2009



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