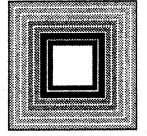


# **NC State Health Plan for Teachers and State Employees**

***Adverse Financial Condition of the  
State Health Plan Requires Immediate  
Attention***

**February 2009**

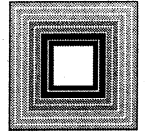


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# **Outline of Presentation**

- 1) Key Points to Remember**
- 2) Summary Description of the Plan**
- 3) Plan's Unexpected Financial losses for the Prior Fiscal Year (FY 2007-08)**
- 4) Plan's Financial Shortfall for the Current Fiscal Year (FY 2008-09)**
- 5) 2009 Biennium Financial Outlook**

# Key Points to Remember



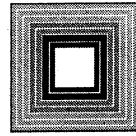
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# Key Points to Remember

- 1) The General Assembly will be asked to enact a special appropriation of up to \$300 million to keep the State Health Plan operating through the end of the current fiscal year
- 2) The Plan is projected to fall short of its financial needs by an estimated \$1.2 billion for the upcoming 2009 Biennium assuming current benefit levels and a 9% annual rate of growth in per capita claims
- 3) To reduce the \$1.2 billion shortfall projected for the upcoming 2009 Biennium, a menu of benefit changes, premium rate increases and other operational changes will have to be seriously considered



# Summary Description of Plan



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# Summary Description of the Plan

- Authorized under Article 3A of Chapter 135 of the **General Statutes as the State Health Plan for Teachers and State Employees**
- Commonly referred to as the **“State Health Plan”**
- Provides employer sponsored group health benefit coverage for nearly 667,000 plan members under a **Preferred Provider Option (PPO) design**

# Summary Description Cont'd

- The Plan operates as a self-funded benefit plan
- Plan medical benefits are administered through a third-party administrator (BCBSNC) and pharmacy benefits through a pharmacy benefit manager (Medco)
- Plan Members located in all 100 counties



# Summary Description Cont'd

- Employing agencies\* pay 100% of the premium cost for eligible active employees
- Retirement Systems Division of the Department of State Treasurer\* pays 100% of the premium cost for eligible retired employees
- Active Employees and Retired Employees\* pay 100% of the premium cost to cover eligible family members

\* For PPO Standard (Choice) and Basic Plans

# Summary Description Cont'd

- For the fiscal year ending June 30, 2008 (FY 2007-2008) the Plan paid approximately \$2.15 Billion in medical and pharmacy claims
- Of that amount an estimated \$1.63 Billion was for medical claims and \$524.3 million in pharmacy related claims



# Summary Description Cont'd

## Primary Groups Eligible for Coverage

State Employees: Eligible active employees from employing units of State agencies, departments and universities

Local Education Employees: Eligible active employees of local public school systems and local community college institutions

Eligible Retired Employees: Former state and local education employees eligible to participate in the Plan based upon commencement of retirement benefits from a State administered retirement system

Eligible Dependents: Family members of active and retired employees are authorized to participate in the Plan provided they meet certain eligibility requirements



# Summary Description Cont'd

## Plan Enrollment by Active and Retired Employees\*

Active Employees	334,279
Dependents	166,228
<b>Sub-total</b>	<b>500,507</b>
Retired Employees	146,774
Dependents	19,528
<b>Sub-total</b>	<b>166,302</b>
<b>Total Enrollment</b>	<b>666,809</b>

\* As of December 2008



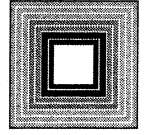
# Summary Description Cont'd

## Plan Enrollment by Employer Type\*

<u>Employer Type</u>	<u>Employees</u>	<u>Dependents</u>	<u>Total</u>
State Agencies	83,170	39,648	122,818
UNC System	44,333	26,157	70,490
Local Public Schools	188,241	91,063	279,304
Local Community College	14,809	7,617	22,426
Other	3,726	1,743	5,469
<b>Sub-total</b>	<b>334,279</b>	<b>166,228</b>	<b>500,507</b>
Retirement Systems	146,774	19,528	166,302
<b>Grand Total</b>	<b>481,053</b>	<b>185,756</b>	<b>666,809</b>

\* As of December 2008

# Unexpected Losses for FY 2007-08



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# Unexpected Losses for FY 2007-08

- The Plan's operating results for the fiscal year ending June 30, 2008 reveal a \$17.0 million loss for the period compared to expected reserve income of \$57.9 million
- The FY 2007-08 reported loss was lowered by an estimated \$62.8 million as a result of some medical and pharmacy claims from June 2008 being paid in the first month of the new fiscal year beginning July 1, 2008 (FY2008-09)



# Unexpected Losses Cont'd

— If the June 2008 claims had been paid in the final month of the fiscal year, the loss for FY 2007-08 would have been an estimated \$79.8 million

(\$17M reported loss + \$62.8M June 2008 claims = \$79.8M)

— The swing from a projected reserve income of \$57.9 million to an unofficial loss of \$79.8 million means the Plan's original financial projection fell short by \$137.7 million

(\$57.9M loss of proj. income + \$79.8M estimated loss = \$137.7M)



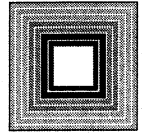
# Unexpected Losses Cont'd

## Reasons for Unexpected Losses

- Net provider discounts were less than projected
- Out-of-pocket cost-sharing paid by plan members was less than projected
- Utilization of medical services by plan members was at a greater rate than projected
- Administrative costs for claims processing were not accurately accounted for in the projection
- Premium collections were overestimated



# Financial Shortfall FY 2008-09



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# Financial Shortfall FY 2008-09

- Unexpected losses in FY 2007-08 put the Plan into a financial crisis for the current fiscal year beginning on July 1, 2008 (FY 2008-09)
- Consequently, the General Assembly will have to take action early in the 2009 session to keep the Plan financially viable



# Financial Shortfall FY 2008-09 Cont'd

- Given the unexpected financial losses for FY 2007-08, the Plan in July 2008 issued a revised actuarial projection for the current fiscal year (FY 2008-09)
- Based on the July 2008 revised actuarial projection the Plan is expected have a \$264.4 million shortfall for the current fiscal year



# Financial Shortfall FY 2008-09 Cont'd

- Projected losses will deplete the Plan's cash reserves and leave it without sufficient resources to continue operations for the fiscal year
- The Plan's Executive Administrator originally estimated that the Plan would not be able to pay claims on a timely basis by the end of the 2<sup>nd</sup> quarter (December 31, 2008) for FY 2008-09



# Financial Shortfall

## FY 2008-09 Cont'd

- The Plan has initiated cost saving measures and cash management actions to preserve cash flow without delaying payment of medical and pharmacy claims
- Given the cash management actions taken by the Plan, the Executive Administrator now estimates that the Plan will not be able to pay claims on a timely basis by the end of the 3<sup>rd</sup> quarter (March 31, 2008)

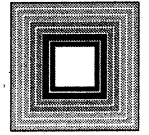


# Financial Shortfall FY 2008-09 Cont'd

- Thus, the Plan will require up to \$300 million in additional cash resources by March 31, 2008, to operate for the balance of the 2008-09 fiscal year **9**



# 2009 Biennium Financial Outlook



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# 2009 Biennium

## Financial Outlook

- **Significant financial measures will have to be taken to fund the Plan for 2009 biennium**
- **Assuming a 9% per capita growth trend in medical and drug claims and current benefit levels, the additional aggregate premium payments from employing agencies and employees (with dependent coverage) required to fund the Plan is as follows:**



# 2009 Biennium Financial Outlook

**State Health Plan  
Projected Additional Funding Requirements<sup>1,2</sup>  
All Premium Sources  
by Employer/Employee Contribution  
(\$million)**

	<u>FY 2009-10</u>	<u>FY 2010-11</u>	<u>Biennium</u>
Employer	\$430.4	\$573.9	\$1,004.3
<u>Employee (i.e., Dependent Coverage)<sup>3</sup></u>	97.7	130.3	228.0
<b>Total</b>	<b>\$528.1</b>	<b>\$704.2</b>	<b>\$1,232.3</b>

**Projected Rate of Premium Increase: 30.8% on 10/01/2009**

<sup>1</sup>Board of Trustees, NC State Health Plan for Teachers and State Employees, November 18, 2008

<sup>2</sup>Assumes 9% Per Capita Claims Growth Trend and Current Benefit Levels (July 2008)

<sup>3</sup>May include some premiums for optional employee "buy-up" coverage under PPO Plus.

# 2009 Biennium Financial Outlook

## State Health Plan Projected Additional Funding Requirements<sup>1,2</sup> Employer Premiums by Fund Source (\$million)

	<u>FY 2009-10</u>	<u>FY 2010-11</u>	<u>Biennium</u>
General Fund	\$343.5	\$458.0	\$ 801.5
Highway Fund	16.0	21.4	37.4
Other Receipts	70.9	94.5	165.4
<b>Total</b>	<b>\$430.4</b>	<b>\$573.9</b>	<b>\$1,004.3</b>

**Projected Rate of Premium Increase: 30.8% on 10/01/2009**

<sup>1</sup>Board of Trustees, NC State Health Plan for Teachers and State Employees, November 18, 2008  
<sup>2</sup>Assumes 9% Per Claims Growth Trend and Current Benefit Levels (July 2008)



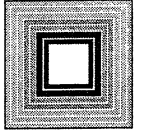
# 2009 Biennium

## Financial Outlook

- Revised actuarial projection underway by the Plan's consulting actuary based on year-to-date operating results through December 2008
- Actuarial projections are sensitive to assumptions about utilization of services, claims trends, and provider reimbursement costs
- Volatility in actual vs. projected financial results are more likely in the second half of the fiscal year



# Final Synopsis



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# Final Synopsis

- **Unexpected financial losses in FY 2007-08 put the Plan in an adverse financial condition**
- **FY 2008-2009 financial shortfall ensued from faulty financial projection and prior fiscal year losses**
- **Special appropriation of up to \$300 million in the current fiscal year required to keep the State Health Plan operating through June 30, 2009**



## **Final Synopsis Cont'd**

- **Plan is projected to fall short of its financial needs by \$1.2 billion for the upcoming 2009 Biennium**
- **A menu of benefit reductions, premium rate increases, and other operational changes will have to be seriously considered**
- **Shoring up the financial condition of the State Health Plan will be a major budgetary issue before the General Assembly during the 2009 Session**



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