GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2011

Legislative Actuarial Note

HEALTH BENEFITS

BILL NUMBER: Senate Bill 323 (Ratified)

SHORT TITLE: State Health Plan/ Appropriations & Transfer II.

SPONSOR(S): Senator Apodaca

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 323 (Ratified) appropriates funds from various sources, authorizes annual premium rate increases, makes various benefit and provider related changes to achieve financial savings, and directs other various changes to the Plan.

The ratified bill also moves the Plan under the Department of State Treasurer via a Type II transfer, provides the State Treasurer with the power to appoint or remove the Plan's Executive Administrator, and generally gives the State Treasurer broad authority over the operation of the Plan.

EFFECTIVE DATE: Section 1.9 becomes effective when it becomes law. Section 1.10(a) becomes effective July 1, 2010. All other sections of Part I become effective July 1, 2011. Section 2.1 becomes effective when it becomes law. All other sections of Part II become effective January 1, 2012.

According to the Plan's staff, actual operational implementation dates for some changes will differ from those required in the bill. Due to prevailing federal law requirements and operational time periods required for enrollment of plan members under new premium contribution and out-of-pocket requirements schedules, implementation of certain changes in the bill will be delayed. The financial effects to the Plan of delayed implementation will be noted in the following pages where it relates to any estimated financial impact stated.

ESTIMATED IMPACT ON STATE:

2011-13 Biennium

Increased Premium Contributions

Appropriated Funds

Sections 1.1(a), (b), and (c) appropriate the estimated required funds to support increased employer contributions to the Plan for the 2011-13 biennium. These appropriations are based on increased employer contribution rates derived from an annual 5.3 % premium increase in total premium rates for the fiscal year

beginning July 1, 2011, and an additional annual premium increase of 5.3% for the fiscal year beginning July 1, 2012. The table below reflects the allocation of appropriated funds by fund source:

Additional Employer Contributions
Appropriated Funds

Fund Source	FY 2011-12	FY 2012-13	Biennium
General Fund	$7,119,541	$102,151,104	$109,270,645
Highway Fund	$332,245	$4,767,052	$5,099,297
Other Funds	$1,468,770	$21,073,896	$22,542,666
Total	$8,920,556	$127,992,052	$136,912,608

Employee Funds

Section 1.2(a) of the bill establishes new monthly contribution rates for active employees in the Basic 70/30 plan and the Standard 80/20 plan options, and for retired employees enrolled in the Standard 80/20 plan. There is no monthly contribution required for retired employees enrolled in the Basic 70/30 plan option. A summary of the most common estimated monthly contribution rates are reflected below:

Employee & Retired Employee Contribution Rates for Own Coverage

	FY 2011-12		FY 2012-13	
	Basic 70/30	Standard 80/20	Basic 70/30	Standard 80/20
Employeee Contribution				
Non-Medicare Eligible				
Medicare Secondary	$10.81	$21.63	$11.38	$22.77
Medicare Primary	$5.00	$10.00	$5.27	$10.53
Retiree Contribution				
Non-Medicare Eligible	$0.00	$21.63	$0.00	$22.77
Medicare Eligible	$0.00	$10.00	$0.00	$10.53

Section 1.2(b) of the bill authorizes an annual 5.3% premium increase in contributory premium rates for dependent coverage for the fiscal year beginning July 1, 2011, and an additional annual premium increase of 5.3% for the fiscal year beginning July 1, 2012. For purposes of estimating additional premium contributions collected by the Plan in FY 2011-12, the estimated amounts below are assumed to be collected over a delayed 10-month period rather than a full 12-month plan year:

Additional Member Contributions			
Coverage Category	**FY 2011-12**	**FY 2012-13**	**Biennium**
Contributions for Employee Coverage	$67,474,721	$84,416,401	$151,891,122
Contributions for Retiree Coverage	$17,858,739	$22,788,680	$40,647,419
Contributions for Dependent Coverage	$17,127,304	$44,044,729	$61,172,033
Total	$102,460,764	$151,249,810	$253,710,574

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 2011-13 biennium as a result of the authorized premium rate increase:

Total Additonal Premium Contributions From Appropriated and Employee/Retiree Paid Funds			
Fund Source	**FY 2011-12**	**FY 2012-13**	**Biennium**
Appropriated			
General Fund	$7,119,541	$102,151,104	$109,270,645
Highway Fund	$332,245	$4,767,052	$5,099,297
Other Funds	$1,468,770	$21,073,896	$22,542,666
Sub-total	$8,920,556	$127,992,052	$136,912,608
Member Contributions			
Contributions for Employee Coverage	$67,474,721	$84,416,401	$151,891,122
Contributions for Retiree Coverage	$17,858,739	$22,788,680	$40,647,419
Contributions for Dependent Coverage	$17,127,304	$44,044,729	$61,172,033
Sub-total	$102,460,764	$151,249,810	$253,710,574
Total	$111,381,320	$279,241,862	$390,623,182

Financial Savings for the 2011-13 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 bill's authorized increases in plan member out-of-pocket requirements and other changes that are estimated to affect the financial condition of the Plan. A summary of the authorized changes are described below including the estimated actuarial impact of these changes.

Sections 1.3(a)(1), (a)(2) and (b) of the bill authorize various increases in plan member out-of-pocket requirements to include increased annual deductibles and annual co-insurance maximums, increased office visit co-pays and increased outpatient prescription drug co-pays. According to the Plan's staff, the application of these out-of-pocket amounts to plan member claims will become effective September 1, 2011 versus the July 1, 2011 effective date in the bill. Therefore, the financial savings to be generated by

increasing current out-of-pocket limits are assumed over a delayed 10-month period for FY 2011-12 instead of a full 12-month plan year.

The in-network out-of-pocket changes for medical and pharmacy benefit related services are summarized in the table below:

	Basic 70/30		**Standard 80/20**	
	Current	New	Current	New
Medical Benefits				
Plan Member Co-pays (per visit)				
Primary Care	$30	$35	$25	$30
Mid-Tier	$55	$64	$45	$52
Specialty Care	$70	$81	$60	$70
Urgent Care	$75	$87	$75	$87
Inpatient Hospital	$250	$291	$200	$233
Emergency Room	$250	$291	$200	$233
Annual Deductible (Individual)				
In-network	$800	$933	$600	$700
Out-of-network	$1,600	$1,866	$1,200	$1,400
Coinsurance Maximum (Individual)				
In-network	$3,250	$3,793	$2,750	$3,210
Out-of-network	$6,500	$7,586	$5,500	$6,420
Pharmacy Benefits				
Generic (copay)	$10	$12	$10	$12
Preferred Brand (copay)	$35	$40	$35	$40
Non-preferred Brand (copay)	$55	$64	$55	$64

Aon Consulting, the consulting actuary for the State Health Plan for Teachers and State Employees, estimates that implementation of the benefit changes included in the bill will yield the following projected savings:

Aon Consulting
Projected Financial Savings
Increasing Out-of-Pocket Limits

Category	FY 2011-12	FY 2012-13	Biennium
Medical Benefits	$36,381,527	$48,670,257	$85,051,784
Pharmacy Benefits	$19,923,309	$27,574,933	$47,498,242
Total	$56,304,836	$76,245,190	$132,550,026

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

Hartman & Associates
Projected Financial Savings
Increasing Out-of-Pocket Limits

Category	FY 2011-12	FY 2012-13	Biennium
Medical Benefits	$38,782,051	$52,400,552	$91,182,603
Pharmacy Benefits	$18,144,189	$22,277,574	$40,421,763
Total	$56,926,240	$74,678,126	$131,604,366

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

Total Projected Financial Savings From Increasing Out-of-Pocket Limits (By Type)

	Aon Consulting (Plan)			Hartman & Assoc. (General Assembly)		
Category	**FY 2011-12**	**FY 2012-13**	**Biennium**	**FY 2011-12**	**FY 2012-13**	**Biennium**
Medical Benefits						
Primary Care Co-pay (Increase)	$5,541,767	$7,454,181	$12,995,948	$5,687,460	$8,009,992	$13,697,452
Mid-tier Specialty Co-pay (Increase)	$2,391,270	$3,216,476	$5,607,746	$2,378,186	$3,349,342	$5,727,528
Specialist Co-pay (Increase)	$6,586,243	$8,859,097	$15,445,340	$6,514,216	$9,375,444	$15,889,660
Urgent Care Co-pay (Increase)	$377,288	$507,488	$884,776	$396,881	$563,851	$960,732
Inpatient Co-pay (Increase)	$1,101,651	$1,481,822	$2,583,473	$1,174,733	$1,654,448	$2,829,181
Emergency Room Co-pay (Increase)	$1,835,861	$2,469,400	$4,305,261	$1,878,231	$2,645,226	$2,726,939
Deductible and Coinsurance Max (Increase)	$18,547,447	$24,681,793	$43,229,240	$20,752,344	$26,802,249	$47,554,593
Sub-total	$36,381,527	$48,670,257	$85,051,784	$38,782,051	$52,400,552	$91,182,603
Outpatient Prescription Drugs (acute drugs)						
Generic Drug Co-pay (Increase)	$5,504,247	$7,576,117	$13,080,364	$5,885,447	$7,626,400	$13,511,847
Brand Drug Co-pay (Increase)	$9,100,922	$12,523,397	$21,624,319	$6,910,060	$8,258,637	$15,168,697
Non-Preferred Brand Drug Co-pay (Increase)	$5,318,140	$7,475,419	$12,793,559	$5,348,682	$6,392,537	$11,741,219
Sub-total	$19,923,309	$27,574,933	$47,498,242	$18,144,189	$22,277,574	$40,421,763
Grand Total	$56,304,836	$76,245,190	$132,550,026	$56,926,240	$74,678,126	$131,604,366

Other Changes Affecting the Plan

Section 1.5 repeals the "Comprehensive Wellness Initiative" authorized originally under Session Law 2009-16. The Plan's consulting actuary has incorporated the increased financial cost of the program's repeal into the overall actuarial cost projection for the changes proposed in the bill, by assuming approximately 95% of employee or retiree contracts, that involve a plan member who is a tobacco-user and currently enrolled in the Basic 70/30 plan per the requirement of the Comprehensive Wellness Initiative, will migrate back to the Standard 80/20 plan in the absence of the requirement. The Plan's consulting actuary estimates by fiscal year the increased financial impact to the Plan for the 2011-13 biennium:

	FY 2011-12	**FY 2012-13**	**Biennium**
Repeal Comprehensive Wellness Initiative	$14.4M	$26.0M	$40.4M

For purposes of projecting the additional financial cost to the Plan from repealing the Comprehensive Wellness Initiative, it was assumed that the program would remain in effect until August 31, 2011. Thereafter the program is assumed to be repealed for purposes of estimating financial impact.

Section 1.6 amends current statutory language under G.S. 135-45 to allow implementation of monthly premium contribution rates to be paid by employees and certain retired employees for their own coverage under the Plan.

Section 1.7 amends G.S. 135-45.1 to conform to requirements under the federal Affordable Care Act requiring coverage to be offered to dependent children to age 26 without requiring the dependent to be a full-time student.

Section 1.8 is a boilerplate provision used to set specific employer contribution amounts paid by State agencies and departments, universities, local public schools, and local community colleges to fund health benefit coverage for employees, and percentage-based payroll contributions paid to the Retiree Health

Benefit Fund to finance premiums paid by the Retirement Systems Division of the Department of State Treasurer on behalf of retired employees.

Annual Employer Contributions

	Basic 70/30		Standard 80/20	
I. Employees & Retirees	FY 2011-12	FY 2012-13	FY 2011-12	FY 2012-13
Employees	$4,952	$5,211	$4,952	$5,211
Non-Medicare Retiree	$4,952	$5,211	$4,952	$5,211
Medicare Retiree	$3,768	$3,965	$3,768	$3,965
II. Retiree Health Benefit Fund	FY 2011-12	FY 2012-13		
Payroll Contribution Rate	5.0%	5.3%		

Section 1.9 amends G.S. 135-45(b) to make the protection of trade secrets in State Health Plan contracts consistent with the general trade secret protection for all public agency contracts.

Section 1.10(a) amends G.S. 135-44.4(18) to allow the Plan to authorize benefit coverage or payment of claims on behalf of a plan member that have been denied as a result of administrative errors or system issues.

Section 1.10(b) makes the amended change effective July 1, 2010.

Section 1.10(c) amends G.S. 135-45.1(15) to require Health Benefits Representatives to enroll employees and dependents in accordance with the Plan's eligibility requirements.

Section 2 of the bill (Part II), which transfers the Plan to the Department of State Treasurer, and provides the State Treasurer with broad authority over the Plan, is not estimated to have any financial impact on the Plan.

Reconciliation of Plan's Projected Financial Requirements for the 2011-13 Biennium

For the new biennium beginning July 1, 2011 the Plan is estimated to require over $515.5 million in additional financial support to remain solvent and maintain current benefit levels and minimum claim stabilization reserves. This estimate assumes the Plan will experience a 9.5% per capita claims trend, continued implementation of the Comprehensive Wellness Initiative, extending coverage to dependent children to age 26 per the requirements of the federal Affordable Care Act, receiving $25.6 million in Early Retiree Reinsurance Program as authorized by the federal Affordable Care Act, maintaining "grandfather" status per the federal Affordable Care Act, achieving an additional $151 million in pharmacy cost savings over the biennium through a new pharmacy benefit management contract effective October 1, 2011, and implementing an estimated 6.3% premium increase on July 1, 2011 and again on July 1, 2012.

The bill addresses the projected shortfall described above by authorizing the following changes:

1. Authorizing a 5.3% annual premium increase on July 1 of each fiscal year of the biennium for total premium contribution rates; the actuarial analyses assume that employer contributions will be

effective July 1, 2011, and all other premium contribution rates paid by employees and retirees will increase or become effective September 1, 2011;

2. Increasing plan member out-of-pocket requirements for certain medical and prescription drug benefits; the actuarial analyses assume that changes to out-of-pocket limits will be effective September 1, 2011; and

3. Establishing new monthly contribution rates for active employees in the Basic 70/30 plan and the Standard 80/20 plan options and for retired employees enrolled in the Standard 80/20 plan. There is no monthly contribution required for retired employees enrolled in the Basic 70/30 plan option.

A financial summary table provided below provides a projected reconciliation of the financial related changes authorized under the bill assuming the Plan's consulting actuary's estimate of projected financial need for the 2011-13 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[1,2]

Senate Bill 323 (Ratified)

($ Million)

	FY 2011-12	FY 2012-13	Biennium
1) Projected Financial Support Required	$168.8	$346.7	$515.5
2) Benefit Reductions (Changes in Out-of-Pocket Amounts) Effective July 1, 2011			
Medical			
Primary Care Co-pay (Increase)	($5.5)	($7.5)	($13.0)
Mid-tier Specialist Co-pay (Increase)	($2.4)	($3.2)	($5.6)
Specialist Co-pay (Increase)	($6.6)	($8.9)	($15.4)
Urgent Care Co-pay (Increase)	($0.4)	($0.5)	($0.9)
Inpatient Co-pay (Increase)	($1.1)	($1.5)	($2.6)
Emergency Room Co-pay (Increase)	($1.8)	($2.5)	($4.3)
Deductible and Coinsurance Maximum (Increase)	($18.5)	($24.7)	($43.2)
Sub-total	($36.4)	($48.7)	($85.1)
Outpatient Acute and Specialty Prescription Drugs			
Generic Drug Co-pay (Increase)	($6.6)	($7.6)	($14.2)
Brand Drug Co-pay (Increase)	($9.1)	($12.5)	($21.6)
Non-Preferred Brand Drug Co-pay (Increase)	($5.3)	($7.5)	($12.8)
Sub-total	($21.0)	($27.6)	($48.6)
Total -- Benefit Reductions	($57.4)	($76.3)	($133.7)
3) Appropriations by the General Assembly			
Premium increase for Employing Agencies			
General Fund	($7.1)	($102.2)	($109.3)
Highway Fund	($0.3)	($4.8)	($5.1)
Other Employer Funds	($1.5)	($21.1)	($22.5)
Total Additional Employer Funds	($8.9)	($128.0)	($136.9)
4) Premium increases paid by Employees and Retirees			
Paid for Employee's Own Coverage	($67.5)	($84.4)	($151.9)
Paid for Retiree's Own Coverage	($17.9)	($22.8)	($40.6)
Paid for Spouses and Dependent Children	($17.1)	($44.0)	($61.2)
Total Employee Additional Funds	($102.5)	($151.2)	($253.7)
5) Net Financial Effect of Member Migration Between Plan Options	$10.3	$26.2	$36.5
6) Balance	$10.3	$17.4	$27.7

Notes**:**

[1] The $27.7 million balance remaining at the end of the biennium (see Item 6) is a product of rounding error and a difference in projected ending cash balances between baseline financial projections and final projections after the authorized premium increases, benefit changes, and other program changes. This remaining difference is expected to lower the Plan's cash balance reserves over the biennium. Year-to date operating results for the Plan through March 30, 2011, adjusting for one-time gains of certain financial transaction that increase Plan receipts in the current plan year, indicate the Plan's cash balance is $102 million greater than expected as noted in the Plan's

August 31, 2010 Authorized Budget. According to the Plan's Executive Administrator, by the end of the plan year on June 30, 2011, the Plan's ending cash balance is expected to be $58 million higher than originally estimated.

[2]The $36.5 million in financial costs to the Plan (see Item 5) reflects mostly the predicted effect of certain plan members currently enrolled in the Basic 70/30 plan migrating back to the Standard 80/20 plan to receive lower out-of-pocket requirements. This assumption is due to the repeal of the requirement under the current Comprehensive Wellness Initiative for a plan member to enroll in the Basic 70/30 plan if that plan member is a tobacco-user who declines to participate in tobacco use cessation programs to maintain eligibility for the Standard 80/20 plan.

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.

Premium contributions rates and estimates of aggregate collections, projected claims expenditures, estimated administrative expenditures, projections of enrollment migration between the Basic 70/30 plan and the Standard 80/20 plan, effects due to the repeal of the Comprehensive Wellness initiative, and other financial impacts on the Plan were estimated by the Plan's consulting actuary for the purposes of this Legislative Actuarial Note.

General Assumption Highlights

The following items represent key assumptions used with respect to predicting the Plan's financial requirements for the 2011-13 biennium:

1. The Plan will maintain "grandfather' status under the federal Affordable Care Act. To maintain grandfather status under the federal guidelines, premium contributions for an employee or retired employee's own coverage cannot exceed 5% of the premium cost. In addition, the out-of-pocket limits cannot increase by more than 15% plus the rate of medical inflation in FY 2011-12, and by the rate of medical inflation in FY 2012-13. For the purposes increasing out-of-pocket limits in the bill, FY 2011-12, the rate of increase was 16.7% which is calculated by using a medical inflation rate of 1.7% plus the aforementioned 15% one-time adjustment. There was no adjustment made for the FY 2012-13.
2. The Plan will achieve $151 million in additional savings over the 2011-13 biennium on pharmacy related claims and administrative costs over current costs. These savings are estimated due to the implementation of a new pharmacy benefit management contract effective October 1, 2011.
3. The Plan will incur projected additional costs of $15.6 million in FY 2011-12 and $17.0 million in FY 2012-13 to provide dependent coverage to age 26 per the requirements of the federal Affordable Care Act.
4. The Plan will collect $45.1 million in FY 2010-11, and $25.6 million in FY 2011-12 in Early Retiree Reinsurance Program funds authorized under the federal Affordable Care Act.
5. Approximately 95% of employee or retiree contracts, that involve a plan member who is a tobacco-user and currently enrolled in the Basic 70/30 plan per the requirement of the Comprehensive Wellness Initiative, will migrate back to the Standard 80/20 plan in the absence of the requirement. An estimated 25% of Non-Medicare retiree only contracts and 20% of Medicare-eligible retiree only contracts in the Standard 80/20 plan are expected to migrate to the Basic 70/30 plan to avoid paying a monthly premium contribution charged to retired employees in the Standard 80/20 plan. It is estimated that 5% of employee only contracts and contracts covering dependents in the Standard 80/20 plan will migrate to the Basic 70/30 plan to reduce their amount of monthly premium contribution paid. It is generally assumed that plan members will migrate to the plan option that will most benefit them economically based on their relative need for medical services.

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.

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 $2.90 billion for FY 2011-12 and $3.08 billion for FY 2012-13. The Plan's PPO benefit design includes two alternative benefit levels listed below:

1) The "Basic" 70/30 plan that offers higher out-of pocket requirements in return for lower fully contributory dependent premiums; and

2) The "Standard" 80/20 plan.

The Basic and Standard plans offer coverage to employees and retired employees on a noncontributory basis. Coverage for dependents under both plans is offered on a fully contributory basis.

The following table provides a summary of most monthly premium rates for the Plan in FY 2010-11:

	Basic 70/30		Standard 80/20	
Coverage Type	Employee/ Retiree	Employer	Employee/ Retiree	Employer
Non-Medicare Active Employee/Retiree				
Employee	$0.00	$410.80	$0.00	$410.80
Employee + Child(ren)	$178.68	$410.80	$237.62	$410.80
Employee + Spouse	$460.36	$410.80	$547.48	$410.80
Employee + Family	$490.34	$410.80	$580.44	$410.80
Medicare Primary for Only Employee/Retiree				
Employee	$0.00	$312.76	$0.00	$312.76
Employee + Child(ren)	$187.60	$312.76	$237.62	$312.76
Employee + Spouse	$469.28	$312.76	$547.48	$312.76
Employee + Family	$499.26	$312.76	$580.44	$312.76

The employer share of premiums for retirees is paid from the Retiree Health Benefit Fund. During FY 2010-11, employers contribute 4.9% of active employee payroll into the Fund. Total contributions for the year are projected to be approximately $721 million.

Financial Condition

Current and Projected Results for 2009-11 Biennium – The following summarizes actual financial results for FY 2009-10 and projected financial results for FY 2010-11, based on financial experience through December, 2010.

	($ millions)	
	Actual FY 2009-10	Projected FY 2010-11
Beginning Cash Balance	$189.9	$121.5
Receipts:		
Net Premium Collections	$2,412.6	$2,677.4
Early Retirement Reinsurance Program	$0.0	$45.0
Medicare Part D Subsidies	$74.4	$60.5
Investment Earnings	$3.5	$2.4
Total	$2,490.5	$2,785.3
Disbursements:		
Net Medical Claim Payment Expenses	$1,797.5	$1,860.5
Net Pharmacy Claim Payment Expenses	$596.7	$647.7
Administration and Claims-Processing Expenses	$164.6	$171.7
Total	$2,558.9	$2,679.9
Net Operating Income (Loss)	($68.4)	$105.4

Financial Projection 2011-13 Biennium – The following summarizes a financial projection conducted by the Plan's consulting actuary, Aon Consulting, for the 2011-13 biennium. The information is provided by fiscal year based on year-to-date financial experience (through December 2010) and other updated factors. The projection assumes a 9.5% annual claims growth trend, that benefit provisions remain the same, and that both employer and member-paid premiums are increased by 6.3% effective July 1, 2011 and July 1, 2012.

	($ millions)	
	Projected FY 2011-12	Projected FY 2012-13
Beginning Cash Balance	$226.8	$239.0
Receipts:		
Net Premium Collections	$2,829.0	$2,995.2
Early Retirement Reinsurance Program	$25.6	$0.0
Medicare Part D Subsidies	$60.1	$62.6
Investment Earnings	$2.3	$2.5
Total	$2,917.0	$3,060.3
Disbursements:		
Net Medical Claim Payment Expenses	$2,065.1	$2,199.0
Net Pharmacy Claim Payment Expenses	$659.2	$699.4
Administration and Claims-Processing Expenses	$180.5	$183.6

Total	$2,904.8	$3,082.0
Net Operating Income (Loss)	$12.2	($21.7)

This projection incorporates $151 million in projected savings over the biennium from a new Pharmacy Benefit Manager (PBM) contract to be effective October 1, 2011. It assumes that the Plan maintains "grandfathered" status under the federal Affordable Care Act (ACA). It assumes the Plan experiences an increase of $33 million in claims over the biennium due to requirements in the ACA to cover additional dependents.

Other Information

In the 2009-11 biennium, the annual premium increases were applied at the beginning of each fiscal year of the biennium. Historically, the Plan had applied a premium increase in October of the first fiscal year of a biennium.

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 9.5% annually according to the Plan's consulting actuary. Investment earnings are based upon a 1.0% return on available cash balances. The active population is projected to decline by 1% per year, the COBRA population is projected to remain constant, and the retired population is projected to increase by 1% per year.

Enrollment by Category Type

State Health Plan Enrollment as of December 31, 2010

I. No. of Participants	Basic	Standard	Total	Percent of Total
Actives				
Employees	65,849	256,468	322,317	48.6%
Dependents	50,588	105,759	156,347	23.6%
Sub-total	116,437	362,227	478,664	72.2%
Retired				
Employees	16,429	143,764	160,193	24.2%
Dependents	4,352	14,173	18,525	2.8%
Sub-total	20,781	157,937	178,718	26.9%
Former Employees with Continuation Coverage				
Employees	1,014	1,237	2,251	0.3%
Dependents	403	347	750	0.1%
Sub-total	1,417	1,584	3,001	0.5%
Firefighters, Rescue Squad & National Guard				
Employees	2	3	5	0.0%
Dependents	1	2	3	0.0%
Sub-total	3	5	8	0.0%
Local Governments				
Employees	486	1,429	1,915	0.3%
Dependents	303	629	932	0.1%
Sub-total	789	2,058	2,847	0.4%
Total				
Employees	83,780	402,901	486,681	73.4%
Dependents	55,647	120,910	176,557	26.6%
Grand Total	**139,427**	**523,811**	**663,238**	**100%**
Percent of Total	**21.0%**	**79.0%**	**100.0%**	

II. Enrollment by Contract	Basic	Standard	Total
Employee Only	55,472	335,154	390,626
Employee Child(ren)	13,817	36,176	49,993
Employee Spouse	5,719	17,462	23,181
Employee Family	8,772	14,109	22,881
Total	**83,780**	**402,901**	**486,681**

Percent Enrollment by Contract	Basic	Standard	Total
Employee Only	66.2%	83.2%	80.3%
Employee Child(ren)	16.5%	9.0%	10.3%
Employee Spouse	6.8%	4.3%	4.8%
Employee Family	10.5%	3.5%	4.7%
Total	**100.0%**	**100.0%**	**100.0%**

III. Enrollment by Sex	Basic	Standard	Total
Female	75,627	338,703	414,330
Male	63,800	185,108	248,908
Total	**139,427**	**523,811**	**663,238**

Percent Enrollment by Sex	Basic	Standard	Total
Female	54.2%	64.7%	62.5%
Male	45.8%	35.3%	37.5%
Total	**100.0%**	**100.0%**	**100.0%**

IV. Enrollment by Age	Basic	Standard	Total
19 & Under	35,455	74,859	110,314
20 to 29	12,915	46,222	59,137
30 to 44	31,582	98,133	129,715
45 to 54	27,089	85,600	112,689
55 to 64	29,854	106,470	136,324
65 & Over	2,532	112,527	115,059
Total	**139,427**	**523,811**	**663,238**

Percent Enrollment by Age	Basic	Standard	Total
19 & Under	25.4%	14.3%	16.6%
20 to 29	9.3%	8.8%	8.9%
30 to 44	22.7%	18.7%	19.6%
45 to 54	19.4%	16.3%	17.0%
55 to 64	21.4%	20.3%	20.6%
65 & Over	1.8%	21.5%	17.3%
Total	**100.0%**	**100.0%**	**100.0%**

V. Retiree Enrollment by Category	Employee	Dependents	Total
Non-Medicare Eligible	53,034	11,292	64,326
Medicare Eligible	107,159	7,233	114,392
Total	**160,193**	**18,525**	178,718

Percent Enrollment by Category (Retiree)	Employee	Dependents	Total
Non-Medicare Eligible	33.1%	61.0%	36.0%
Medicare Eligible	66.9%	39.0%	64.0%
Total	**100.0%**	**100.0%**	100.0%

VI. Enrollment By Major Employer Groups	Employees	Dependents	Total
State Agencies	75,779	33,151	108,930
UNC System	50,357	29,457	79,814
Local Public Schools	180,864	86,046	266,910
Local Community Colleges	15,317	7,693	23,010
Other			
Local Goverments	1,915	932	2,847
COBRA	2,251	750	3,001
Nat. Guard, Fire & Rescue	5	3	8
Sub-total	326,488	158,032	484,520
Retirement System	160,193	18,525	178,718
Total	**486,681**	**176,557**	**663,238**

Percent Enrollment by Major Employer Groups	Employees	Dependents	Total
State Agencies	15.6%	18.8%	16.4%
UNC System	10.3%	16.7%	12.0%
Local Public Schools	37.2%	48.7%	40.2%
Local Community Colleges	3.1%	4.4%	3.5%
Other			
Local Goverments	0.4%	0.5%	0.4%
COBRA	0.5%	0.4%	0.5%
Nat. Guard, Fire & Rescue	0.0%	0.0%	0.0%
Sub-total	67.1%	89.5%	73.1%
Retirement System	32.9%	10.5%	26.9%
Total	**100.0%**	**100.0%**	**100.0%**

SOURCES OF DATA:

Aon Consulting, North Carolina State Health Plan, Financial Projections – January 2011, Total for All Plans – 9.5% Trend with Risk Adjustment, with PBM Contract Savings, February 4, 2011.

Aon Consulting, North Carolina State Health Plan, Financial Projections – January 2011 – 14b ($12 Generic), Total for All Plans – 9.5% Trend with Risk Adjustment, with Max GF Benefits except $12 Generic, with PBM Contract Savings, Additional Premium Charged to All Tiers – Active: 5% Std, 2.5% Basic; NMC Retiree 5% Std, 0% Basic; MC Retiree $10 Std, $0 Basic No CWI, Non-Smoker Movement: Active 5% single, 5% dep; NMC Retiree: 25% single, 5% dep; MC Retiree: 20% Single, 5% dep, April 26, 2011. [For Employer Contributions].

Aon Consulting, North Carolina State Health Plan, Financial Projections – January 2011 – 14b ($12 Generic – Start September – No Premium Increase for Late Start, Total for All Plans – 9.5% Trend with Risk Adjustment, with Max GF Benefits except $12 Generic, with PBM Contract Savings, Additional Premium Charged to All Tiers – Active: 5% Std, 2.5% Basic; NMC Retiree 5% Std, 0% Basic; MC Retiree $10 Std, $0 Basic No CWI, Non-Smoker Movement: Active 5% single, 5% dep; NMC Retiree: 25% single, 5% dep; MC Retiree: 20% Single, 5% dep, May 6, 2011.

Medco Health Solutions, various outpatient acute, specialty, and maintenance drug data and discount assumptions, December 2010.

State Health Plan, various summarized claims reports for medical claims by category and purpose and time period, December 2010.

Various communications with the Plan's staff regarding year-to-date operating results and cash balances and operation issues regarding implementation of required benefit changes.

-Actuarial Note, Hartman & Associates, Senate Bill 323 PCS, "Senate Bill 323 Proposed Committee Substitute S323-PCCS55289-ME-1: An Act to Make Appropriations and Adjustments for the 2011-13 Biennium to the State Health Plan and to Transfer the Plan to the Office of State Treasurer", May 6, 2011, original of which is on file in the General Assembly's Fiscal Research Division.

-Actuarial Note, Aon Consulting, Senate Bill 323 PCS, "Senate Bill 323 Proposed Committee Substitute S323-PCCS55289-ME-1 State Health Plan/Appropriations and Transfer", May 10, 2011, original of which is on file with the State Health Plan for Teachers and State Employees and the General Assembly's Fiscal Research Division.

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DATE: May 16, 2011

Signed Copy Located in the NCGA Principal Clerk's Offices