

October 18, 2005

The Honorable Marc Basnight
President Pro Tempore and Co-chairman,
Joint Legislative Commission on Governmental Operations
North Carolina General Assembly

The Honorable James Black
Speaker of the House and Co-chairman,
Joint Legislative Commission on Governmental Operations
North Carolina General Assembly

Dear Senator Basnight and Speaker Black:

I am submitting this letter, pursuant to SL 2005-276, which requires that the Executive Administrator of the Teachers' and State Employees' Comprehensive Major Medical Plan (State Health Plan), consult with the Joint Legislative Commission on Governmental Operations, in order to negotiate an extension of the current Claims Processing Contract. The State Health Plan currently contracts with Blue Cross Blue Shield of North Carolina as its Claim Processing Contractor, and the contract will expire June 30, 2007.

The Plan's Board of Trustees, at their last meeting, approved that the Executive Administrator extend the contract with Blue Cross Blue Shield of NC up to an additional three years (through June 30, 2010), with the exact terms to be decided by the Executive Administrator.

The recommendation to extend the contract is due to a number of factors, largely related to our members and potential disruption of service, in addition to cost savings. It is anticipated, through the implementation of performance guarantees and a thorough review of administrative charges, we will reduce our claims processing expenditure. Please refer to the attachment on Page 3.

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In addition, as the Plan's new Executive Administrator, I am concerned about the lack of sufficient time to develop and evaluate a request for proposal to seek a new Claims Processing Contractor capable of handling 2.5 million claims per year for 564,000 members and 131,000 CHIP children in all 100 North Carolina counties. My experience also leads me to believe there is not another vendor that could handle the State Health Plan's membership without extreme disruption to our members due to the lack of contracted provider coverage throughout the entire state. Also, the current claims processor is a local company and employs more than 350 people on behalf of the State Health Plan.

As always, I appreciate your support of the State Health Plan.

Sincerely,

George C. Stokes
Executive Administrator

GCS:lm

cc: The Honorable Anthony Rand, Co-Chair, Committee on Employer Hospital
and Medical Benefits
The Honorable Thomas Wright, Co-Chair, Committee on Employer
Hospital and Medical Benefits
Mr. Mark Trogon, Fiscal Research
Ms. Chris Minard, Commission Assistant

**North Carolina State Teacher's and Employees'
Comprehensive Major Medical Plan
Contract Extension of Claims Processing Contract (CPC)**

Objective

The recent budget provided the Executive Administrator, in consultation with the Joint Legislative Committee on Government Operations, the authority to extend the current CPC for up to three additional years. Subsequently, the Plan's Board of Trustees approved this extension. The current agreement expires in 2007. The Plan does not intend to extend three years at once but will negotiate options to renew.

Rationale for the Extension

- The Plan currently is focused on the development of three crucial initiatives and would find it difficult to direct resources to a new major bid process.
 - PPO
 - Integrated Health Management
 - Medicare Part D Subsidy
- The Plan understands the requirement to bid the contract in the future but has several significant cost saving requirements to implement in the next two years.

Benefits of the Extension

- Low administrative costs compared to similar agreements in the market (\$8/employee contract vs. \$16-25 market rate)
- Current arrangements accommodate North Carolina Health Choice (CHIP) reimbursement methodology
- Limited member and provider disruption
- Current claims processor is local and employs 350 staff members dedicated to the Plan