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NORTH CAROLINA HEALTH BENEFITS MANAGEMENT PLAN
REPORT BRIEFING
SEPTEMBER 24, 2014

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MARSH & McLENNAN COMPANIES

Overview – Current State in 2010

Medicaid

- OSBM study, 2010:
  - Medicaid program could be more tightly integrated with other state health insurance programs and less integrated with social service functions like TANF (citing success in other states in improving health outcomes and lower costs).
- Looming impact of the Affordable Care Act.

State Employee Health Plan (SEHP)

- $80 million loss in the SEHP program in SFY2008.
- $250 million bailout in SFY2009.
- Navigant study, 2010:
  - SEHP should become an independent agency accountable to the Governor's Office and a Governing Board.

Global Observations

- Public and state employee health benefits programs were projected to consume one-third of government expenditures by SFY 2012-2013.
- Health technology, systems of care, data collection and use, and regulatory changes were anticipated to drive a rapid pace of change in the industry.
- Concern that if Medicaid and SEHP didn't further adapt to meet the changing environment, there was a risk of costly, duplicative, and ineffective operational models.

Overview – Genesis of Project

DHHS scope of work objective:

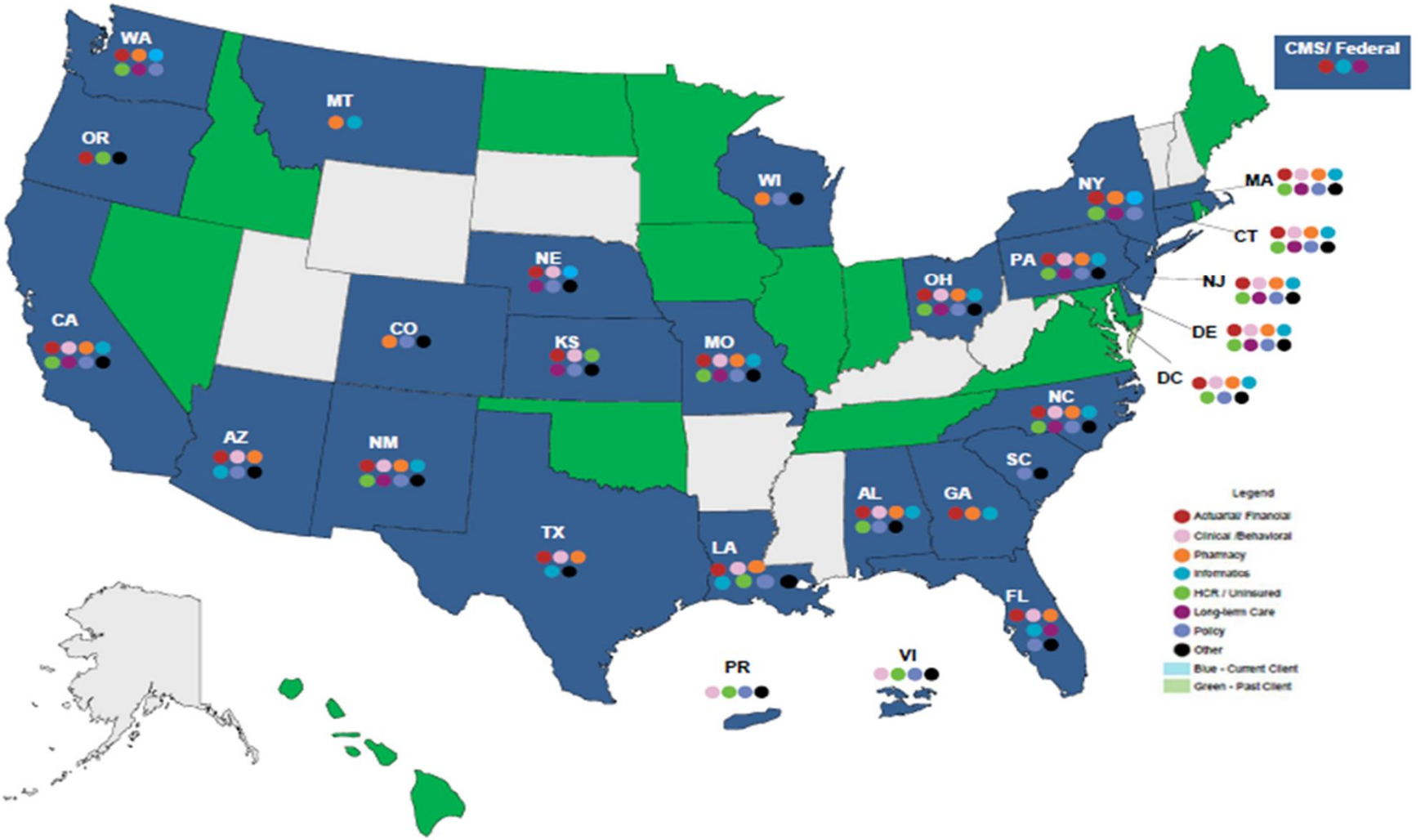
- Assess the degree to which enhanced health outcomes and lower costs could be achieved through tighter integration; and
- Determine ways re-organization, restructuring and/or consolidation might improve costs, efficiency and health outcomes of the identified Medicaid and non-Medicaid health programs

Project team: Mercer (Prime Contractor) and Alvarez & Marsal (Subcontractor)

Project span: February 2011 through April 2011

Overview – Mercer

GHSC SERVICE MAP 2014



Assessment Approach

The Team divided the project into five stages:

- Performing initial interviews
- Conducting research and review of existing reports and available data
- Conducting follow-up interviews with key stakeholders
- Review of relevant actions taken by other progressive states, and
- Development of a comprehensive final assessment

The Team used the following evaluation criteria:

Evaluation Criteria	Values
Appropriate and Effective Governance	Appropriate Governance that Provides Effective Program Guidance and Maintains Consistent Health Care Policies.
Prudent Purchasing	Purchasing Health Care Services that Focus on Value and Outcomes to Manage Spending Growth Curves.
Accountable Oversight	Programs that are Managed Through Coordinated/Integrated and Streamlined Administration of Health Benefits Plans.
Conducive to Progressive Realignment	Programs that are Effective at Adapting to Address Evolving Responsibilities, Including Those Related to Health Care Reform.

Recap of Assessment Findings

Appropriate and Effective Governance

- Changes to the governance structure will allow the State to more appropriately and effectively manage its publicly funded health benefits.
- Organizations need to be nimble enough to implement policy changes aimed at reducing costs or leveraging purchasing power.

Prudent Purchasing

- Opportunity for ongoing monitoring of cost control initiatives.
- Multiple division partners requires diligent oversight of cost control activities.
- Streamline billing practices for health care providers to achieve cost savings through a pass-through of provider efficiencies.
- Transition staff from provider cost data auditing to value-based purchasing activities.
- Expand the use of pooled-purchasing opportunities.

Recap of Assessment Findings — Continued

- DMA has opportunities to further manage their contracts with health service management vendors.
- Other states have identified significant potential savings related to prudent purchasing activities within an integrated governance framework.

Accountable Oversight

- Significant room for improvement in this area including:
  - Aligning DHHS Divisions
  - Consolidating Functional Areas
  - Leveraging a Consolidated Data Repository
  - Reporting parity
  - Utilizing Shared Services - Operational / Technical / Systems

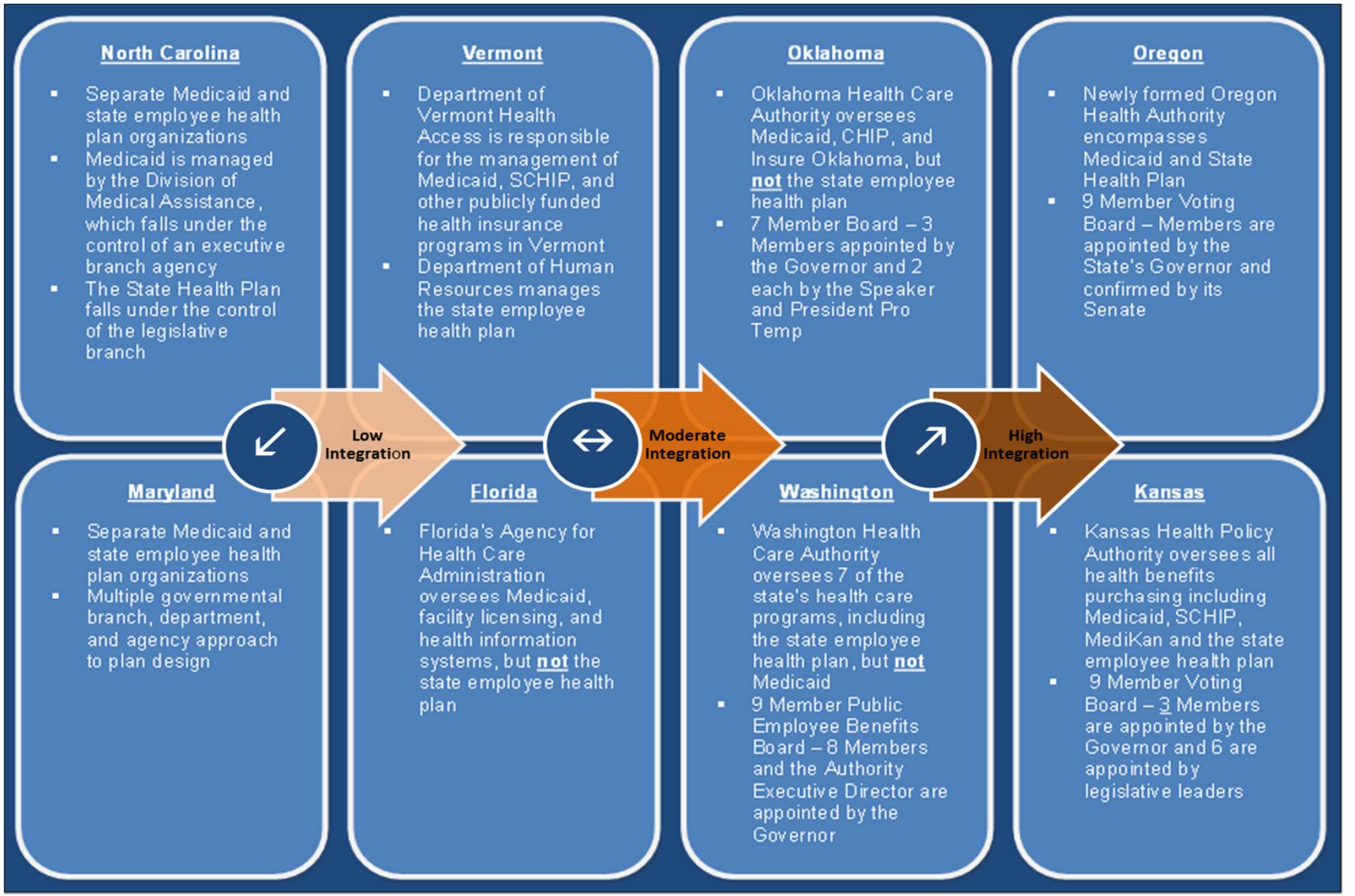
Conducive to Progressive Realignment

  - DMA has made a commitment to infrastructure development, but focusing on other needs has created a diversion of organizational resources and attention.

Risks, Constraints, and Other Material Considerations

- The Status Quo jeopardizes the State.
- Significant organizational change requires significant change momentum.
- Organizational change can create uncertainty and fear.
- Organizational change is distracting.
- Even effective organizational change creates temporary inefficiency.

Recap of Assessment Findings – Comparison to Select Other States



Options Identified for Evaluation

Option 1: Status Quo

- DMA and SEHP stay in their current locations within the State government without any changes to overall management.
- DMA would maintain administration over Medicaid and Health Choice.
- SEHP would continue to outsource most of its functions to a claims services contractor.

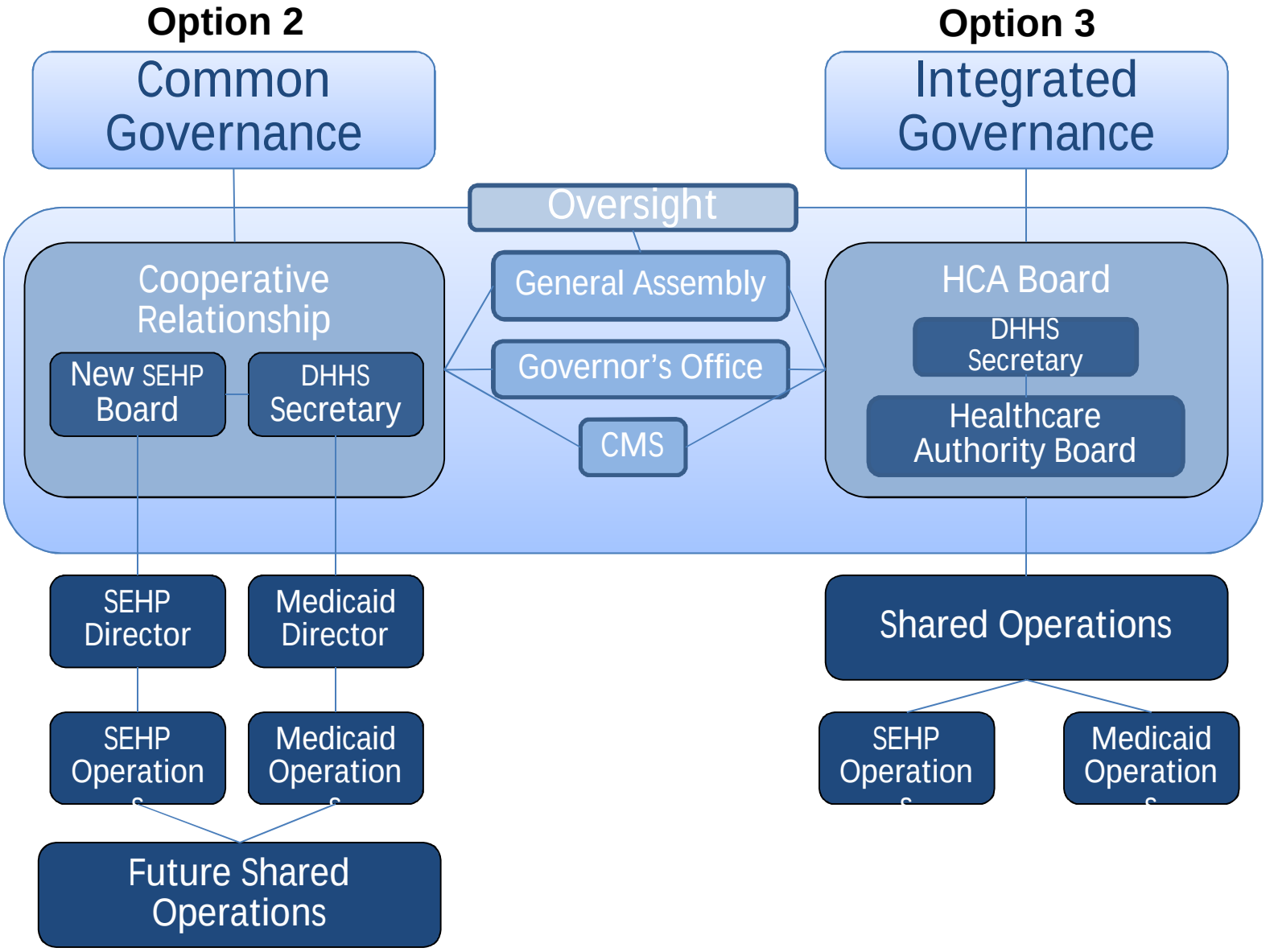
Option 2: Common Governance Structure

- DMA maintains responsibility for management of Medicaid and Health Choice
- SEHP is overseen by a new office within the executive branch that maintains authority for the SEHP.
- SEHP migrates towards an integrated medical governance structure coordinated with DHHS and SEHP continues to have dedicated, advisory governance

Option 3: Integrated Governance Structure

- DMA maintains responsibility for management of Medicaid and Health Choice.
- A coordinated plan management structure is developed so that the SEHP has dedicated operational leadership, yet management is integrated into a consolidated function within an integrated healthcare authority.

Comparison of Governance Structures



Options Analysis
Option 1 – Status Quo

Option 1: Maintaining Current Governing Structures

Governing Structure

DMA and SEHP would remain within their current reporting relationships within State government without any changes to overall management. DMA would maintain administration over Medicaid and Health Choice, while SEHP, as a separate entity, would continue to outsource most of its functions to a claims services contractor.

Plan Management Requirements

- Health Choice is migrating into current HP and future CSC environment previously supported through contracts with BCBS – this activity is already planned, and is well aligned with need for full integration as presented for Option 3.
- BCBS or another contracted plan management provider (based upon competitive contract award) will deliver SEHP plan administrative support.

Budgeted/Expected Cost Impacts

- Budgets for plan management activities are likely to increase to avoid any potential underfunding.
- Continued separate plan management environments.
- Continued separate governance structures.

Expected Quality Impacts

- Current state maintained.

Options Analysis
Option 2 – Common Governance

Option 2: Common Governance Structure

Governing Structure

DMA maintains responsibility for management of Medicaid and Health Choice.

SEHP is overseen by a new office in the Executive Branch which maintains budget authority over SEHP, and SEHP migrated towards an integrated medical governance structure coordinated with DHHS. SEHP continues to have dedicated advisory governance representation.

Plan Management Requirements

- Review contract requirements and current scopes of contracts with plan management providers to identify those functions that can and should be integrated into the current (HP) and future (CSC) environments to support the SEHP.
- Work towards consolidation of plan management environments supporting unique needs of SEHP (i.e., premium management).
- Integrate governance structures for medical quality and provider management.
- Design and coordinate other function, including program integrity.
- Integrate SEHP staff into a single State Health Plan management function.
- Decrease governance related expenses as review and oversight roles are consolidated.

Budgeted/Expected Cost Impacts

- Potential for significant cost control impacts related to consolidation of contracts in coordination with current implementation efforts (CSC).
- Transition management costs to government agency managing budget.
- Opportunities to impact provider management and set statewide rates.

Expected Quality Impacts

- Integration of governance supports qualified medical / health plan managers providing oversight.
- Potential to execute healthcare strategies across the State and leveraging capabilities associated with SEHP to DMA.

Options Analysis
Option 3 – Integrated Governance

Option 3: Integrated Governance Structure

Governing Structure

DMA maintains responsibility for management of Medicaid and Health Choice. A coordinated plan management structure is developed so that the SEHP has dedicated operational leadership, yet management is integrated into a healthcare authority.

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