

2009

**SENATE
COMMITTEE OF THE
WHOLE**

MINUTES

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[PRINTABLE VERSION](#)**NC Senators****2009-2010 Session****Party District Member**

Dem 10 Charles W. Albertson
 Rep 42 Austin M. Allran
 Rep 48 Tom Apodaca
 Dem 18 Bob Atwater
 Dem 1 Marc Basnight

Dem 7 Doug Berger
 Rep 26 Phil Berger
 Rep 33 Stan Bingham
 Rep 22 Harris Blake
 Dem 14 Dan Blue [APPOINTED 05/19/2009]

Dem 9 Julia Boseman
 Rep 34 Andrew C. Brock
 Rep 6 Harry Brown
 Rep 31 Peter S. Brunstetter
 Rep 46 Debbie A. Clary
 Dem 37 Daniel G. Clodfelter
 Dem 38 Charlie Smith Dannelly
 Dem 5 Don Davis

Dem 28 Katie G. Dorsett
 Rep 30 Don East
 Dem 24 Tony Foriest
 Rep 41 James Forrester
 Dem 32 Linda Garrou
 Rep 35 W. Edward (Eddie) Goodall

Dem 45 Steve Goss
 Dem 40 Malcolm Graham
 Rep 36 Fletcher L. Hartsell, Jr.
 Dem 43 David W. Hoyle
 Rep 15 Neal Hunt

Rep 44 Jim Jacumin
 Dem 3 Clark Jenkins
 Dem 4 Ed Jones
 Dem 23 Eleanor Kinnaird

Dem 14 Vernon Malone [DECEASED 04/18/2009]
 Dem 20 Floyd B. McKissick, Jr.
 Dem 49 Martin L. Nesbitt, Jr.

Rep 2 Jean Preston
 Dem 25 William R. Purcell
 Dem 47 Joe Sam Queen

Dem 19 Tony Rand
 Rep 12 David Rouzer

Rep 39 Bob Rucho
 Dem 21 Larry Shaw
 Dem 50 John Snow

Dem 8 R. C. Soles, Jr.
 Dem 16 Josh Stein

Rep 17 Richard Stevens
 Dem 11 A. B. Swindell

Rep 29 Jerry W. Tillman
 Dem 27 Don Vaughan

Dem 13 David F. Weinstein

Counties Represented

Duplin, Lenoir, Sampson

Catawba, Iredell

Buncombe, Henderson, Polk

Chatham, Durham, Lee

Beaufort, Camden, Currituck, Dare, Hyde, Pasquotank, Tyrrell, Washington

Franklin, Granville, Vance, Warren

Gulfport, Rockingham

Davidson, Guilford

Harnett, Moore

Wake

New Hanover

Davie, Rowan

Jones, Onslow

Forsyth

Cleveland, Rutherford

Mecklenburg

Mecklenburg

Greene, Pitt, Wayne

Guilford

Alleghany, Stokes, Surry, Yadkin

Alamance, Caswell

Gaston, Iredell, Lincoln

Forsyth

Mecklenburg, Union

Alexander, Ashe, Watauga, Wilkes

Mecklenburg

Cabarrus, Iredell

Gaston

Wake

Burke, Caldwell

Edgecombe, Martin, Pitt

Bertie, Chowan, Gates, Halifax, Hertford, Northampton, Perquimans

Orange, Person

Wake

Durham

Buncombe

Carteret, Craven, Pamlico

Anson, Richmond, Scotland, Stanly

Avery, Haywood, Madison, McDowell, Mitchell, Yancey

Bladen, Cumberland

Johnston, Wayne

Mecklenburg

Cumberland

Cherokee, Clay, Graham, Haywood, Jackson, Macon, Swain, Transylvania

Brunswick, Columbus, Pender

Wake

Wake

Nash, Wilson

Montgomery, Randolph

Guilford

Hoke, Robeson

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SENATE COMMITTEE OF THE WHOLE

Thursday, March 12, 2009, 9 a.m.

Room 643, Legislative Office Building

MINUTES

The Senate Committee of the Whole met Thursday, March 12, 2009 at 9 a.m. in Room 643 of the Legislative Office Building. Senate Deputy Pro Tem Senator Charles Dannelly presided. *(Members attending attached.)* The meeting was called to discuss Senate Committee Substitute for Senate Bill 287 **State Health Plan \$/Good Health Initiatives** by Senator Tony Rand, Chairman of the Rules Committee and sponsor of the bill. The proposed committee substitute was passed previously by the Senate Committee on Employee Hospital and Medical Benefits and by the Appropriations and Base Budget Committee.

Senator Rand pointed out that the State Health Plans needs \$250 million dollars to cover claims through the end of the fiscal year. The proposed changes in benefits in the bill would produce 15% savings for the plan, because there would be another quarter involved. Senator Rand said the bill would normally be part of the budget, but the current need required some earlier consideration before the end of the fiscal year. He said the Health Plan would be part of the whole picture as the Legislature was required to deal with anticipated budget shortfall of some \$2 billion. The bill as currently drafted seeks a total appropriation of \$450 million. Senator Rand copies of the Plan's contracts with Blue Cross/Blue Shield and Medco would be made available.

Presentation

Dr. Jack Walker, administrator of the State Health Plan provided a handout which began with current rate for the Plan. The handout proceeded to outline various details which lead to the provisions in the current bill. The Plan could have faced a potential 30.8% increase to cover costs, and \$800 million needs in appropriations. Vendors have postponed collecting @\$19 million to allow the Plan to have those funds on hand. That "loan" must be repaid.

Walker's handout included several scenarios: raising co-pays and deductibles various levels and increasing employee premium costs. The document includes the proposals for raising prescription co-pays and deductibles. *(See attachment: NC Senate Committee of the Whole, March 12, 2009)*

Questions and Discussion

Senator Tillman asked if a premium increase to members of \$10 per month had been eliminated from consideration. Senator Rand said such a premium might be the best for the future of the plan. Currently, younger, healthier family members of Plan participants can purchase insurance cheaper. This leaves the Plan to insure the older sicker population who cost the plan more. He said that employee organizations opposed the premium idea. Walker, however, said costs have been shifted to the individual about as much as the individual member can stand.

The average age of the non-Medicare eligible members in the State plan is 46.4 years. In the commercial insurance world the average is @ 33years. In the State Plan 31% over the participants are under the age of 40.

In 2000, 61% of the non-Medicare members of the State Plan would be considered healthy, i.e. dealing primarily with acute, short term conditions. In 2008 that figure is 50%. Each percentage point difference it costs the Plan \$68 million.

Senator Rucho asked if the bill served as a “stop gap” before additional measures such as the bill would be needed. He said he thought the bill did not go far enough in terms of preventing future cost problems for the Plan. Walker said costs were tending to rise 8% to 9% per year for plans. He said the bill’s plan to encourage smokers to quit the habit would help reduce cost increases. Those measures to allow smokers who quit to pay the lower costs part of the plan go into effect in 2010. Additionally the bill calls for similar cost incentives for people to lose weight. Those modifications go into effect in 2011. Walker pointed out that a \$10 per month premium for plan members would raise \$90 million to help offset costs, for instance to lower rates for family plans. He also spoke of certain “banded rates” that might be used for members under age 30, or under age 40, for example.

Senator Phil Berger asked about the possibility of moving from a fiscal year to a calendar year as a way of removing an “impediment” for younger subscribers. Walker said there would be a temporary cost to make such a move and he would welcome such a change since it would put the State Plan on the same schedule as other flex-option programs.

Walker also believes that the State Plan costs for prescriptions are lower than the State Medicaid match.

Senator Purcell questioned the dispensing percentages for drugs, since he indicated that Medco would be able to dispense drugs cheaper through mail order. Senator Rand pointed out those members who wished to use branded drugs when there was a generic equivalent would pay almost the full amount of the cost. Tracy Stephenson from the State Health Plan gave the example of Allegra which has a generic equivalent. Under the proposed bill if a member wanted to buy the branded prescription, they would pay \$65.49--\$10 co-pay plus the additional cost to the plan. The generic prescription would be \$10.

Senator Hoyle asked about Governor Perdue’s plan to take money from the Rainy Day Fund to help the state’s budget deficit. Senator Rand said the Governor planned to set aside the \$250 million needed for the Health Plan. However, the General Assembly would have to appropriate the money.

Senator Doug Berger opposed “opening the door” by setting up a premium cost which he felt would tend to be increased in the future. He also asked about information and proposals from the state’s retail pharmacists claiming that the bill proposes mechanism that would divert between 33% and 50% of the prescriptions filled to out of state pharmacies. The pharmacy organization claim this would mean that between \$213 million and \$328 million that now go to North Carolina pharmacies would be filled out of state. (*See attachment “Economic Impact of Senate Bill 287 to Independent and Chain Pharmacies.”*) Walker would not comment on the proposals because he had not seen them.

Senator Stephens asked about Medicare supplement plans. Walker said the State Plan staff wanted to look at such plans, particularly in light of possible changes at the federal level.

Senator Clodfelter asked if the Plan would be losing ground in the move to using generic drugs more and more if prescriptions were filled by mail order. Mark Wermish (sp) of Medco said that most acute care drugs were dispensed by retail and were generic. Drugs for long term conditions such as diabetes tended to use mail order. He said that 95% of the prescriptions use generic drugs when such are available.

Senator Nesbitt asked if the fiscal situation with health plans was nationwide and how North Carolina compared with other states in a cost per employee basis. Walker said all state programs were facing the same cost increase of about 9% per year. Mark Trogdon, of the Fiscal Research staff said cost per employee comparisons were hard to make due to the differences in coverage and co-pays etc. between one state and another.

Senator Queen wanted to know what sort of impact a federal universal health plan might have on North Carolina which seemed to be an unanswerable question. Walker pointed out that the bill provides for a two-year solution which recognizes rising cost trends.

Senator McKissick objected to drawing Highway Fund money as a revenue source, but Mark Trogdon assured him that such funds always went to pay costs from employees who were paid from the Highway Fund.

Senator McKissick also wanted to know how smoking restrictions would be verified. Ann Rogers from the State Health Plan said the rules would be ready by October 1, 2009. Walker said the cost of administering the smoking restrictions would be re-couped with the savings.

In answer to Senator Kinnaird's question concerning profits from BCBS versus the State Health Plan money problems, Walker said such profits came from the company's commercial operations.

When Senator Jenkins posed questions about Dr. Walker's credentials, Walker provided the information requested.

Responding to a question from Senator Bingham, Walker said that all retail pharmacies would be able to participate in the contract on the same terms whether it is an independent pharmacy or a chain.

When Senator Foriest asked about transparency in the mechanics of the Health Plan, Lacy Barnes, Deputy Director of the State Health plan said that the various contracts the Plan has with vendors such as BCBS, Medco or Health Dialogue will be made available.


Senator Snow asked that Dr. Walker respond to the independent pharmacists points at a later time.

Senator Blake was told that Medco would be the mail order provider. And Senator McKissick was told that the compensation to retail pharmacies would be the same as mail order providers.

Andy Ellen, general counsel from the NC Retail Merchants was joined by Mike Davis and Bill Rustin of the NC Association of Community Pharmacists to speak in favor of the information and proposals previously mentioned.

Senator Rand ended the meeting with the admonition that anyone with thoughts and ideas would be welcome to present those proposals.

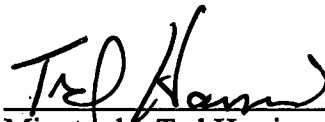
The meeting adjourned at 11:15.



Senator Charlie Dannelly, Presiding



Evelyn Costello, Committee Clerk



Minutes by Ted Harrison

Senate Bill 287, State Health Plan

- **2009 is already a very challenging year and the State Health Plan, like all of state government and the private sector, is suffering. We are facing a budget deficit and will have to make some hard choices.**
- **Unlike the federal government, we are required by the state Constitution to balance the budget and we will. This will require cuts and some will be painful.**
- **We have a responsibility to our state employees and uninsured children to shore up the State Health Plan; it is going to go bankrupt if we do not pass this measure as soon as possible.**
- **This is not a corporate bailout, it's saving the plan that provides health coverage to more than 662,000 state employees, teachers, retirees, current and former lawmakers, state university and community college personnel, state hospital staff. The State Health Plan also administers NC Health Choice, which provides health insurance to more than 128,000 uninsured children in North Carolina.**
- **In order to keep the State Health Plan solvent, we must have this signed into law by April 1 to keep within the required 90-day notice for the change in coverage.**
- **Savings were required in order to avoid charging employee premiums.**
- **The State Health Plan's problems are due to incorrect projections, increases in health care costs, an aging population, and the economic downturn.**
- **Some changes are painful, but necessary. We need long-term sustainability for this plan instead of patching the hole with tax dollars every year.**
- **One huge savings came in changing the way we pay for maintenance prescription drugs. Estimated savings to the Plan in creating the extended retail network is \$90 million over the next 2 years.**
- **Maintenance drugs are medications prescribed for chronic, long-term conditions and are taken on a regular, recurring basis, such as for diabetes or high cholesterol. The plan will now require these medications (after a two-month supply) to be obtained at a network provider or the SHP's contracted mail-order pharmacy.**
- **This only applies to maintenance drugs (taken more than 2 months) and not a one-time prescription.**

- **Any pharmacy can join the network.** This will affect small pharmacists, who will have to accept the agreed upon reimbursement rates in order to be a part of the network. **These changes are not taking business away from NC pharmacists and sending it to out-of-state providers – we are reducing payments to network pharmacists in order to help state employees afford their medicine and keep the Health Plan solvent. It is the pharmacists' choice to participate or not.**
- **These pharmacy changes will save money for those on the plan.** Currently, if a Plan member purchases a 3 month supply of a maintenance medication, they pay 3 copays. If the network is established, an Plan member that obtains a 3 month supply of a maintenance medication through the network will only pay 2 and 1/2 copays, thus saving members 1/2 copay on every 3 month supply.
- We were also forced to raise co-pays, deductibles, and premiums on dependents. While the 7.8% increase in dependent coverage is difficult, it could have been much higher. **If benefits had not been lowered, dependents could have seen a 31% increase in their monthly premium.**
- People who smoke will see their costs increase in 2010. Those with a body mass index over 40 will see increases in 2011. **We are making these changes to encourage healthy lifestyles and save money.**
- **We did not plan poorly, legislators were kept in the dark**—told that there was a \$50 million surplus, when there was a \$65 million deficit. Changing to the PPO plan was supposed to save 8% and instead saved 4%. The plan was budgeted according to the incorrect projections and the Administrator was fired as a result.
- BlueCross and Blue Shield of NC is under contract to be the Plan's claims processing contractor. This means they process medical claims (except for pharmacy claims), provide a medical provider network for the Plan, and supply customer service for benefit administration.
- **The contract the State Health Plan has with BCBS is being made public at the insistence of legislators. We cannot force them to release their contracts with providers.**
- Last year, BCBS was paid \$97.5 million to administer the claims and provide the provider network. According to the SHP, this sum is in line with other states for similar services.



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North Carolina Senate Committee of the Whole

SB 287

State Health Plan \$/Good Health Initiatives

March 12, 2009

North Carolina State Health Plan

Teachers' and State Employees' Comprehensive Major Medical Plan

Monthly Contribution Rates for Twelve-Month Employees / Retirees for Benefit Years 2007-2009 Effective October 1, 2007

EMPLOYEE / RETIREE MONTHLY CONTRIBUTION RATES			
Coverage Types	NC SmartChoice™ Basic Plan 70/30	NC SmartChoice™ Standard Plan 80/20	NC SmartChoice™ Plus Plan 90/10
Non-Medicare Active Employee / Retiree			
Employee / Retiree	\$ 43.98	\$ 43.98	\$ 43.98
Employee / Retiree + Child(ren)	\$ 269.78	\$ 269.78	\$ 269.78
Employee / Retiree + Spouse	\$ 564.22	\$ 564.22	\$ 564.22
Employee / Retiree + Family	\$ 595.52	\$ 595.52	\$ 595.52
Medicare Primary for Only Employee / Retiree			
Employee / Retiree	\$ 33.48	\$ 33.48	\$ 33.48
Employee / Retiree + Child(ren)	\$ 259.28	\$ 259.28	\$ 259.28
Employee / Retiree + Spouse	\$ 553.72	\$ 553.72	\$ 553.72
Employee / Retiree + Family	\$ 585.06	\$ 585.06	\$ 585.06
Medicare Primary for Only Dependent(s)			
Employee / Retiree	\$ 43.98	\$ 43.98	\$ 43.98
Employee / Retiree + Child(ren)	\$ 215.86	\$ 215.86	\$ 215.86
Employee / Retiree + Spouse	\$ 432.36	\$ 432.36	\$ 432.36
Employee / Retiree + Family	\$ 463.68	\$ 463.68	\$ 463.68
Medicare Primary for Both Employee / Retiree and Dependent(s)			
Employee / Retiree	\$ 33.48	\$ 33.48	\$ 33.48
Employee / Retiree + Child(ren)	\$ 205.36	\$ 205.36	\$ 205.36
Employee / Retiree + Spouse	\$ 421.86	\$ 421.86	\$ 421.86
Employee / Retiree + Family	\$ 453.18	\$ 453.18	\$ 453.18

The amount your employer contributes toward the cost of employees' and retirees' health insurance premiums is below:

Coverage Types	PPO Plans
Non-Medicare Active Employee / Retiree	\$ 346.38
Medicare Primary for Only Employee / Retiree	\$ 263.72
Medicare Primary for Only Dependent(s)	\$ 346.38
Medicare Primary for Both Employee / Retiree and Dependents	\$ 263.72

Notes:

- 1) If your employment contract is for less than 12 months, contact your Health Benefits Representative or benefits office for monthly rates.
- 2) If you are actively employed and you or your dependent(s) are Medicare eligible, the State Health Plan is the primary insurer and the Non-Medicare rates apply. An exception to this would be if you or your dependent(s) are Medicare eligible due to end stage renal disease (ESRD).

**North Carolina State Health Plan
Financial Projections - October 2008
Total For All Plans - 9% Trend**

	2005 - 2007 Biennium		2007 - 2009 Biennium		2009 - 2011 Biennium		To 10/1
	Actual FY 2006	Actual FY 2007	Actual FY 2008	FY 2009	FY 2010	FY 2011	July 11 to Sep-11
PLAN INCOME:							
Net Contribution Income	1,876,218,057	1,976,030,840	2,230,398,650	2,285,114,577	2,815,373,888	2,991,413,800	747,853,450
Intrafund Transfer	-	-	-	-	-	-	-
Retro Disenrollments	-	(5,187,357)	(7,637,274)	(7,020,945)	(9,640,339)	(10,243,131)	(2,560,783)
Medicare Part D	-	39,725,660	41,829,398	48,945,077	56,262,519	50,349,199	10,653,987
Investment Earnings	9,667,186	12,247,482	8,816,494	2,675,372	547,314	6,765,871	2,169,641
Total Plan Income	1,885,885,243	2,022,816,625	2,273,407,268	2,329,714,082	2,862,543,381	3,038,285,740	758,116,296
PLAN EXPENSE:							
Medical Claims Payment	1,746,227,347	1,967,829,627	1,651,670,238	1,816,652,157	1,906,135,996	2,076,463,866	538,997,016
Pharmacy Claims Payment	-	-	524,310,920	607,153,198	639,672,113	699,965,807	169,684,761
Claim Refunds	-	-	(25,683,261)	(19,441,996)	(15,124,553)	(16,371,914)	(4,364,126)
Medco Contract Savings	-	-	-	(5,574,420)	(4,631,636)	(5,795,134)	(4,123,503)
Medicaid Primary Adjustment	-	-	-	5,000,000	-	-	-
Health Dialog Savings	-	-	-	(4,512,199)	(5,109,187)	(5,109,187)	(1,277,297)
Pharmacy Initiatives	-	-	-	(6,710,854)	(10,466,667)	(12,133,333)	(2,941,346)
Projected Claims	1,746,227,347	1,967,829,627	2,150,297,897	2,392,565,886	2,510,476,066	2,737,020,105	695,975,505
Total Administrative Costs	81,708,934	144,280,008	140,070,316	180,662,582	177,026,007	182,487,690	46,913,647
Total Plan Expense	1,827,936,280	2,112,109,634	2,290,368,213	2,573,228,469	2,687,502,073	2,919,507,795	742,889,153
Plan Income (Loss)	57,948,963	(89,293,009)	(16,960,945)	(243,514,387)	175,041,309	118,777,945	15,227,143
Beginning Cash Balance (Deficit)	188,049,489	245,998,452	156,705,443	139,744,498	(103,769,889)	71,271,420	190,049,365
Ending Cash Balance (Deficit)	245,998,452	156,705,443	139,744,498	(103,769,889)	71,271,420	190,049,365	205,276,508
Target Stabilization Reserve	130,967,051	147,587,222	161,272,342	179,442,441	188,285,705	205,276,508	205,276,508

					10/1 Increase	
Premium Increase	12.3%		11.2%	PPO	30.8%	
Projected Claims Increase	4.7%	12.7%	9.3%	11.3%	4.9%	9.0%
Total Expense Increase	5.7%	15.5%	8.4%	12.3%	4.4%	8.6%
Claims Per Member Trend	2.5%	8.6%	4.1%	9.0%	4.8%	9.0%
Expense Per Member Trend	3.5%	11.4%	3.3%	10.0%	4.3%	8.6%

Average Membership (not Lagged)			642,923	652,768	652,864	652,864	652,864
Average Membership (Lagged 2-Mont)	586,644	608,705	638,729	652,136	652,864	652,864	-
Increase %	2.2%	3.8%	4.9%	2.1%	0.1%	0.0%	-100.0%

**North Carolina State Health Plan
Financial Projections - October 2008
Total For All Plans - 9% Trend**

2005 - 2007 Biennium		2007 - 2009 Biennium		2009 - 2011 Biennium		To 10/1
Actual FY 2006	Actual FY 2007	Actual FY 2008	FY 2009	FY 2010	FY 2011	July 11 to Sep-11

Baseline Premium - No Increase	10/1/2007 Rates	Total	Current PPO		Total PPO
			\$ 2,287,240,138		\$ 2,287,240,138
		Employee	\$ 423,215,491		\$ 423,215,491
		Employer	\$ 1,864,024,647		\$ 1,864,024,647
		% EE	18.5%		18.5%
		Membership	652,860		652,860

			2007 - 2009 Biennium				
			FY 2008	FY 2009	FY 2010	FY 2011	
Projected Membership					100%	100%	
					652,864	652,864	
						100.00%	
Baseline Premium - No Increase	10/1/2007 Rates	Total			\$ 2,287,254,152	\$ 2,287,254,152	
		Employee			\$ 423,218,084	\$ 423,218,084	
		Employer			\$ 1,864,036,067	\$ 1,864,036,067	
		% EE			18.5%	18.5%	

			2007 - 2009 Biennium				
			FY 2008	FY 2009	FY 2010	FY 2011	

Total		% Of Total				
Total Additional Funding Needed	100.0%			528,119,736	704,159,648	1,232,279,385
Less Employee Funding	18.5%	18.5%		97,719,715	130,292,953	228,012,667
Employer Funds Needed	81.5%			430,400,022	573,866,695	1,004,266,717
General Fund	80%	65.0%		343,504,436	458,005,915	(801,510,352)
Highway Fund	4%	3.0%		16,030,207	21,373,609	37,403,816
Other Employer Funds	16%	13.4%		70,865,378	94,487,171	165,352,549
Total Employer Funds Needed	100%	100.0%		430,400,022	573,866,695	1,004,266,717

**North Carolina State Health Plan
FY 2008-09 - Aon Cash Forecast**

	PROJ Mar-09	PROJ Apr-09	PROJ May-09	PROJ Jun-09	PROJECTED FISCAL YEAR
PLAN INCOME:					
Net Contribution Income	190,604,513	190,604,513	190,604,513	190,604,513	2,285,114,577
<u>Intrafund Transfer</u>	<u>(100,000,000)</u>	<u>(100,000,000)</u>	<u>(75,000,000)</u>	<u>(75,000,000)</u>	<u>(250,000,000)</u>
Retro Disenrollments	(652,664)	(652,664)	(652,664)	(652,664)	(7,020,945)
Medicare Part D	4,682,173	4,249,208	4,423,384	3,867,199	48,945,077
Investment Earnings	151,599	-	242,678	373,606	3,291,657
Total Plan Income	194,785,621	294,201,057	269,617,911	269,192,654	2,580,330,366
PLAN EXPENSE:					
Indemnity Run-out	159,252	79,626	39,813	-	71,041,542
PPO Run-in	174,715,554	140,939,941	140,637,615	176,872,549	1,745,610,615
Medical Claims Payment	174,874,807	141,019,567	140,677,428	176,872,549	1,816,652,157
Pharmacy Claims Payment	49,906,231	75,398,882	37,185,142	50,993,098	607,153,198
Claim Refunds	(1,219,310)	(1,216,218)	(1,220,388)	(1,225,004)	(19,441,996)
Medco Contract Savings	(185,737)	(185,737)	(185,737)	(185,737)	(5,574,420)
Medicaid Primary Adjustment	-	-	-	5,000,000	5,000,000
Health Dialog Savings	(490,837)	(662,631)	(662,631)	(662,631)	(4,512,199)
Pharmacy Initiatives	(776,664)	(1,173,393)	(578,693)	(793,578)	(6,710,854)
Medical Initiatives	-	-	-	-	-
Projected Claims	222,108,489	213,180,471	175,215,122	229,998,698	2,392,565,886
Total Administrative Costs	18,348,958	23,146,929	40,864,789	23,295,858	180,662,582
Total Plan Expense	240,457,447	236,327,400	216,079,911	253,294,556	2,573,228,469
Plan Income (Loss)	(45,671,825)	57,873,657	53,538,000	15,898,098	7,101,897
Beginning Cash Balance (Deficit)	65,208,465	19,536,640	77,410,297	130,948,298	139,744,498
<u>Ending Cash Balance (Deficit)</u>	<u>(19,536,640)</u>	<u>(77,410,297)</u>	<u>(130,948,298)</u>	<u>(146,846,396)</u>	<u>(146,846,396)</u>
Target Stabilization Reserve					179,442,441
Membership	652,864	652,864	652,864	652,864	652,768
Membership - Lag-2	652,864	652,864	652,864	652,864	652,136
Number of Weeks In Month	5	4	4	5	53
PBM	\$49,906,231	\$75,398,882	\$37,185,142	\$50,993,098	\$607,153,198
MEDICAL	\$174,874,807	\$141,019,567	\$140,677,428	\$176,872,549	\$1,824,950,879
Average Weekly Medical Check	\$34,974,961	\$35,254,892	\$35,169,357	\$35,374,510	\$34,433,035
Per Member Per Week	\$ 53.57	\$ 54.00	\$ 53.87	\$ 54.18	\$ 52.80
Admin Cost Per Member Per Week					\$ 5.23

North Carolina State Health Plan
Fiscal Years 2010-2011 Benefit Modeling
Revised 02/18/2009

			FY10	FY11
Baseline Numbers				
Projected Medical			\$ 1,885,902,256	\$ 2,054,982,765
Projected Pharmacy			\$ 624,573,810	\$ 682,037,340
Total			\$ 2,510,476,066	\$ 2,737,020,105
		Effective Date		
Copay Changes				
Primary Care Copays	Increase \$5	07/01/09	\$ 8,518,038	\$ 9,571,177
	Increase \$10	07/01/09	\$ 16,455,781	\$ 18,490,314
Specialty Care Copays	Increase \$5	07/01/09	\$ 7,269,256	\$ 8,168,001
	Increase \$10	07/01/09	\$ 14,538,512	\$ 16,336,001
	Increase \$20	07/01/09	\$ 29,077,025	\$ 32,672,003
Urgent Care Center Copays	Increase \$10	07/01/09	\$ 310,217	\$ 348,571
	Increase \$20	07/01/09	\$ 619,063	\$ 695,602
Inpatient Admission Copay	Increase \$50	07/01/09	\$ 2,158,037	\$ 2,424,849
	Increase all to \$300	07/01/09	\$ 6,770,137	\$ 7,607,172
Medical Deductible/Coinsurance **** Based On BCBS Allowed Claims Only				
Deductible	Raise \$100	07/01/09	\$ 17,121,035	\$ 19,023,373
	Raise \$200	07/01/09	\$ 32,998,562	\$ 36,665,069
	Raise \$300	07/01/09	\$ 47,869,559	\$ 53,188,399
	Raise \$400	07/01/09	\$ 61,731,371	\$ 68,590,412
	Raise \$500	07/01/09	\$ 74,874,714	\$ 83,194,126
	Raise \$600	07/01/09	\$ 87,475,480	\$ 97,194,978
	Raise \$700	07/01/09	\$ 99,601,943	\$ 110,668,825
Coinsurance Percent	Raise 5%	07/01/09	\$ 12,389,997	\$ 14,867,996
	Raise 10%	07/01/09	\$ 23,769,730	\$ 28,523,676
Coinsurance Maximum	Raise \$250	07/01/09	\$ 5,735,620	\$ 6,882,744
	Raise \$500	07/01/09	\$ 10,408,907	\$ 12,490,689
	Raise \$750	07/01/09	\$ 14,791,484	\$ 17,749,781
	Raise \$1000	07/01/09	\$ 18,552,089	\$ 22,262,506
	Raise \$1250	07/01/09	\$ 22,293,595	\$ 26,752,314
Prescription Drug Copays				
Generics	Raise from \$10 to \$12	07/01/09	\$ 12,721,790	\$ 14,572,232
	Raise from \$10 to \$14	07/01/09	\$ 24,294,318	\$ 27,828,037
Preferred Brand	Raise from \$30 to \$35	07/01/09	\$ 11,734,884	\$ 12,173,684
	Raise from \$30 to \$40	07/01/09	\$ 22,972,428	\$ 23,831,431
	Raise from \$30 to \$50	07/01/09	\$ 42,960,818	\$ 44,567,243
Non-Preferred Brand	Raise from \$50 to \$55	07/01/09	\$ 3,089,092	\$ 3,204,602
	Raise from \$50 to \$60	07/01/09	\$ 6,054,415	\$ 6,280,807
	Raise from \$50 to \$75	07/01/09	\$ 14,002,125	\$ 14,525,704
Brand w/Generic Equivalent	SHP pay as generic, member pays diff	07/01/09	\$ 2,439,544	\$ 3,156,233
	Generic copay, member pays diff	07/01/09	\$ 4,632,720	\$ 5,644,491
	Member pays 100%	07/01/09	\$ 6,933,780	\$ 8,476,642

North Carolina State Health P
Fiscal Years 2010-2011 Benefit Modeling
Revised 02/18/2009

			FY10	FY11
Baseline Numbers				
Projected Medical			\$ 1,885,902,256	\$ 2,054,982,765
Projected Pharmacy			\$ 624,573,810	\$ 682,037,340
Total			\$ 2,510,476,066	\$ 2,737,020,105
		Effective Date		
Prescription Drug Deductible				
Add Pharmacy Deductible				
	\$50	07/01/09	\$ 14,536,518	\$ 14,833,182
	\$100	07/01/09	\$ 28,227,965	\$ 28,804,045
	\$150	07/01/09	\$ 41,167,370	\$ 42,007,520
	\$200	07/01/09	\$ 53,488,462	\$ 54,580,064
	\$200 Brand Only	07/01/09	\$ 46,532,479	\$ 47,482,121
Other Pharmacy				
Specialty Drugs				
	25% coinsurance, \$100 max	07/01/09	\$ 1,611,107	\$ 1,796,601
(at current out-of-pocket maximum)	25% coinsurance, \$150 max	07/01/09	\$ 3,071,985	\$ 3,444,358
	25% coinsurance, \$200 max	07/01/09	\$ 4,058,694	\$ 4,572,764
	25% coinsurance, no max	07/01/09	\$ 6,452,983	\$ 7,612,315
	10% coinsurance, \$100 max	07/01/09	\$ 1,340,901	\$ 1,492,385
	10% coinsurance, \$150 max	07/01/09	\$ 2,548,356	\$ 2,854,511
	10% coinsurance, \$200 max	07/01/09	\$ 3,206,501	\$ 3,610,420
	10% coinsurance, no max	07/01/09	\$ 4,494,555	\$ 5,322,877
Pharmacy Out-of-Pocket Max				
	Increase from \$2,500 to \$3,000	07/01/09	\$ 1,241,933	\$ 1,421,323
	Increase from \$2,500 to \$3,500	07/01/09	\$ 1,833,840	\$ 2,098,728
Days Supply Per Copay				
	Change from 34 to 30 days	07/01/09	\$ 2,705,451	\$ 3,069,457
Extended Refill / Retail*				
		07/01/09	\$ 55,611,684	\$ 68,183,760
Other Product Changes or Additions				
Eliminate PPO Plus Option				
	Savings less lost premium	07/01/09	\$ 5,431,051	\$ 7,103,815
Routine Eye Benefit				
	Eliminate Benefit	07/01/09	\$ 5,937,149	\$ 7,193,591
	Move to SPC (current) copay amount	07/01/09	\$ 1,812,375	\$ 2,036,451
	Move to SPC+\$10 copay amount	07/01/09	\$ 2,740,042	\$ 3,078,810
	Move to SPC+\$20 copay amount	07/01/09	\$ 3,667,708	\$ 4,121,170
Premium Structure				
Charge Employee Premium for Standard				
	\$10 per month	07/01/09	\$ 45,304,813	\$ 46,621,356
All Active Employees & Retirees				
	\$25 per month	07/01/09	\$ 99,650,979	\$ 102,020,755
(No Premium for Basic)				
	\$50 per month	07/01/09	\$ 158,536,109	\$ 163,802,279
Charge Employee Premium for Standard				
	\$10 per month	07/01/09	\$ 31,022,553	\$ 31,888,569
Active Employees Only				
	\$15 per month	07/01/09	\$ 44,446,576	\$ 45,502,249
(No Premium for Basic)				
	\$25 per month	07/01/09	\$ 68,381,753	\$ 69,940,583
	\$50 per month	07/01/09	\$ 109,062,571	\$ 112,526,637

2008

**North Carolina State Health Plan
Comparison of SHP PPO Benefits with PPOs Provided by other Employers**

BENEFITS	North Carolina State Health Plan			(Industry Data*)		
	Basic Plan Network/Non-Network	Standard Plan Network/Non-Network	Plus Plan Network/Non-Network	Southeast Employers Network/Non-Network	(Large Employers) Network/Non-Network	(Governments) Network/Non-Network
Deductible						
EE only	\$600 / 1,200	\$300 / \$600	\$150 / \$300	\$400-550 / \$800-\$1,200	\$400-500 / \$800-\$1,000	\$400-500 / \$900-\$1,200
EE+Family	\$1,800 / \$3,600	\$900 / \$1,800	\$450 / \$900	\$900-1,300 / \$1,700-2,500	\$1,000-1,300 / \$1,900-2,400	\$1,200-1,500 / \$2,500-3,200
OOP						
EE only	\$2,500 / \$5,000	\$1,750 / \$3,500	\$1,000 / \$2,000	\$1,800-2,000 / \$3,700-4,000	\$2,000-2,200 / \$4,000-4,400	\$1,900-2,200 / \$3,700-4,400
EE+Family	\$7,500 / \$15,000	\$5,250 / \$10,500	\$3,000 / \$6,000	\$3,700-3,900 / \$7,500-7,800	\$4,200-4,600 / \$8,400-9,200	\$4,500-4,900 / \$9,000-10,000
Copays						
PCP	\$25 / 50%	\$20 / 50%	\$15 / 70%	\$20-25 / ded/coins	\$20-25 / ded/coins	\$20-25 / ded/coins
Specialist	\$40 / 50%	\$40 / 50%	\$30 / 70%	\$30-35 / ded/coins	\$30-35 / ded/coins	\$30-35 / ded/coins
Hospital Admission	\$200	\$150	\$100	\$200-250 / \$250-300 or ded/coins	\$200-250 / \$250-300 or ded/coins	\$200-250 / \$250-300 or ded/coins
Emergency Room	\$250	\$200	\$150	\$100-150 / \$150-200	\$100-150 / \$150-200	\$100-150 / \$150-200
Coinurance	70% / 50%	80% / 60%	90% / 70%	90-100% / 60-70%	90-100% / 60-70%	85-100% / 60-70%
Rx						
Retail Copays (gen/pref/non-pref)	\$10/30/50	\$10/30/50	\$10/30/50	\$10-15 / \$25-35 / \$45-60	\$10-15 / \$25-35 / \$50-60	\$10-15 / \$30-40 / \$55-70
Mail order				2-2.5 x retail	2-2.5 x retail	2-2.5 x retail
Employee Contributions						
Employee	\$0.00	\$0.00	\$43.98	\$82-102	\$59-126	\$86-146
Employee + Child(ren)	\$150.66	\$200.36	\$269.78	\$207-253	\$205-223	\$193-253
Employee + Spouse	\$388.18	\$461.64	\$564.22	\$152-244	\$172-264	\$153-234
Family	\$413.46	\$489.44	\$595.52	\$240-310	\$260-310	\$221-280

* Industry data sourced from Aon client data (not including NC SHP); Aon Benefits Survey; Mercer National Survey of Employer-Sponsored Health Plans (2007); Watson Wyatt 2008-09 Survey Report on Employee Benefits, and other publicly available data



Plan Design (Benefit Changes)

	Standard / Choice (80/20)			Basic (70/30)		
	Current Choice	Proposed Choice	Increase or Decrease	Current Basic	Proposed Basic	Increase or Decrease
1. In / Out of Network Deductibles	\$300/\$600	\$600/\$1,200	Up \$300/\$600	\$600/\$1,200	\$800/\$1,600	Up \$200/\$400
2. Coinsurance Max	\$1,750/\$3,500	\$2,750/\$5,500	Up \$1,000/\$2,000	\$2,500/\$5,000	\$3,250/\$6,500	Up \$750/\$1,500
3. Urgent Care Copay	\$50	\$75	Up \$25	\$75	\$75	No Change
4. Primary Copay	\$20	\$25	Up \$5	\$25	\$30	Up \$5
5. Specialist Copay	\$40	\$60	Up \$20	\$50	\$70	Up \$20
6. Routine Eye	\$20	Not Covered	From Covered to Not Covered	\$25	Not Covered	From Covered to Not Covered
7. Inpatient Copay	\$150	\$200	Up \$50	\$200	\$250	Up \$50
8. Drugs-Generic	\$10	\$10	No Change	\$10	\$10	No Change
9. Drugs-Preferred Brand	\$30	\$35	Up \$5	\$30	\$35	Up \$5
10. Brand w/ Generic	\$40	Pay as Generic, Member pays difference	Pay as Generic, Member pays difference	\$40	Pay as Generic, Member pays difference	Pay as Generic, Member pays difference
11. Non-Preferred Brand	\$50	\$55	Up \$5	\$50	\$55	Up \$5
12. New Specialty Drug Tier	Come out of preferred and non-preferred tiers today \$30 or \$50	25% up to a maximum of \$200 per 30 day supply	Copay to up to \$200 in member coinsurance	Come out of preferred and non-preferred tiers today \$30 or \$50	25% up to a maximum of \$200 per 30 day supply	Copay to up to \$200 in member coinsurance
13. Days Supply	34	30	From 34 to 30 days	34	30	From 34 to 30 days
14. Extended Retail Maintenance Drugs	1 copay / 34 day supply	After two 30-day fills, must obtain from select retail pharmacies or mail order, or a penalty applies	After two 30-day fills, must obtain from select retail pharmacies or mail order, or a penalty applies	1 copay / 34 day supply	After two 30-day fills, must obtain from select retail pharmacies or mail order, or a penalty applies	After two 30-day fills, must obtain from select retail pharmacies or mail order, or a penalty applies

Color Key	
Current Design	
Proposed Design	
Increase or Decrease	

**North Carolina Health Plan
Financial Projections - October 2008
9% Trend Scenario Summary - Without Loan Repayment**

Scenario	1a	2a	3a	4a_1	4a_2	4a_3
1st Premium Increase	10/1/2009	7/1/2009	7/1/2009	10/1/2009	7/1/2009	7/1/2009
2nd Premium Increase	N/A	N/A	7/1/2010	N/A	N/A	7/1/2010
Loan	\$250 million	\$250 million	\$250 million	\$250 million	\$250 million	\$250 million
Repaid	No	No	No	No	No	No
Plus Option	Yes	Yes	Yes	No	No	No
1st Premium Increase	25.0%	22.1%	13.7%	24.4%	21.5%	13.3%
2nd Premium Increase	0.0%	0.0%	13.7%	0.0%	0.0%	13.3%
Choice Family Premium (\$489.44)						
FY2010	\$ 611.91	\$ 597.69	\$ 556.37	\$ 608.67	\$ 594.82	\$ 554.67
FY2011	\$ 611.91	\$ 597.69	\$ 632.45	\$ 608.67	\$ 594.82	\$ 628.60
Total Bienium						
Total Additional Funding Needed	\$ 1,001,594,278	\$ 1,011,705,566	\$ 981,087,499	\$ 957,323,662	\$ 966,988,029	\$ 937,778,549
Less Employee Funding	\$ 185,328,251	\$ 187,199,176	\$ 181,533,815	\$ 162,683,707	\$ 164,326,030	\$ 159,362,290
Employer Funds Needed	\$ 816,266,027	\$ 824,506,391	\$ 799,553,684	\$ 794,639,955	\$ 802,661,999	\$ 778,416,259
General Fund	\$ 651,466,049	\$ 658,042,725	\$ 638,127,843	\$ 634,206,171	\$ 640,608,605	\$ 621,257,958
Highway Fund	\$ 30,401,749	\$ 30,708,660	\$ 29,779,299	\$ 29,596,288	\$ 29,895,068	\$ 28,992,038
Other Employer Funds	\$ 134,398,229	\$ 135,755,005	\$ 131,646,541	\$ 130,837,496	\$ 132,158,325	\$ 128,166,264
Total Employer Funds Needed	\$ 816,266,027	\$ 824,506,391	\$ 799,553,684	\$ 794,639,955	\$ 802,661,999	\$ 778,416,259
Scenario	5a_1	5a_2	5a_3	6a_1	6a_2	6a_4
1st Premium Increase	10/1/2009	7/1/2009	7/1/2009	10/1/2009	7/1/2009	7/1/2009
2nd Premium Increase	N/A	N/A	7/1/2010	N/A	N/A	7/1/2010
Loan	\$250 million	\$250 million	\$250 million	\$250 million	\$250 million	\$250 million
Repaid	No	No	No	No	No	No
Plus Option	No	No	No	No	No	No
Benefit Package	Yes	Yes	Yes	Yes	Yes	Yes
Extended Refill	No	No	No	Yes	Yes	Yes
1st Premium Increase	16.1%	14.2%	8.9%	13.1%	11.5%	7.3%
2nd Premium Increase	0.0%	0.0%	8.9%	0.0%	0.0%	7.3%
Choice Family Premium (\$489.44)						
FY2010	\$ 568.04	\$ 558.91	\$ 533.09	\$ 553.32	\$ 545.90	\$ 525.11
FY2011	\$ 568.04	\$ 558.91	\$ 580.63	\$ 553.32	\$ 545.90	\$ 563.39
Total Bienium						
Total Additional Funding Needed	\$ 631,095,707	\$ 637,466,740	\$ 618,681,771	\$ 512,905,341	\$ 518,083,220	\$ 502,960,597
Less Employee Funding	\$ 107,245,849	\$ 108,328,517	\$ 105,136,275	\$ 87,161,057	\$ 88,040,965	\$ 85,471,087
Employer Funds Needed	\$ 523,849,858	\$ 529,138,224	\$ 513,545,496	\$ 425,744,284	\$ 430,042,255	\$ 417,489,510
General Fund	\$ 418,087,224	\$ 422,307,895	\$ 409,863,261	\$ 339,788,669	\$ 343,218,901	\$ 333,200,492
Highway Fund	\$ 19,510,737	\$ 19,707,702	\$ 19,126,952	\$ 15,856,805	\$ 16,016,882	\$ 15,549,356
Other Employer Funds	\$ 86,251,897	\$ 87,122,626	\$ 84,555,283	\$ 70,098,811	\$ 70,806,472	\$ 68,739,662
Total Employer Funds Needed	\$ 523,849,858	\$ 529,138,224	\$ 513,545,496	\$ 425,744,284	\$ 430,042,255	\$ 417,489,510

**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 With Extended Refill**

	2005 - 2007 Biennium		2007 - 2009 Biennium		2009 - 2011 Biennium		To 10/1
	Actual FY 2006	Actual FY 2007	Actual FY 2008	FY 2009	FY 2010	FY 2011	July 11 to Sep-11
PLAN INCOME:							
Net Contribution Income	1,876,218,057	1,976,030,840	2,230,398,650	2,285,114,577	2,421,744,580	2,611,643,936	652,910,984
Intrafund Transfer	-	-	-	250,000,000	-	-	-
Retro Disenrollments		(5,187,357)	(7,637,274)	(7,020,945)	(8,292,483)	(8,942,732)	(2,235,683)
Medicare Part D	-	39,725,660	41,829,398	48,945,077	56,262,519	50,349,199	10,653,987
Investment Earnings	9,667,186	12,247,482	8,816,494	3,291,657	8,006,705	8,764,319	2,048,618
Total Plan Income	1,885,885,243	2,022,816,625	2,273,407,268	2,580,330,366	2,477,721,321	2,661,814,723	663,377,907
PLAN EXPENSE:							
Medical Claims Payment	1,746,227,347	1,967,829,627	1,651,670,238	1,816,652,157	1,849,711,295	2,009,948,827	521,731,410
Pharmacy Claims Payment		-	524,310,920	607,153,198	639,672,113	699,965,807	169,684,761
Claim Refunds		-	(25,683,261)	(19,441,996)	(14,758,505)	(15,847,475)	(4,224,330)
Medco Contract Savings		-	-	(5,574,420)	(4,631,636)	(5,795,134)	(4,123,503)
Medicaid Primary Adjustment		-	-	5,000,000	-	-	-
Health Dialog Savings		-	-	(4,512,199)	(5,109,187)	(5,109,187)	(1,277,297)
Pharmacy Initiatives		-	-	(6,710,854)	(10,466,667)	(12,133,333)	(2,941,346)
Medical Initiatives		-	-	-	-	(3,384,306)	(878,479)
Benefit Changes		-	-	-	(180,522,464)	(222,136,963)	(57,661,085)
Projected Claims	1,746,227,347	1,967,829,627	2,150,297,897	2,392,565,886	2,273,894,949	2,445,508,237	620,310,130
Total Administrative Costs	81,708,934	144,280,008	140,070,316	180,662,582	185,605,422	191,733,935	49,294,555
Total Plan Expense	1,827,936,280	2,112,109,634	2,290,368,213	2,573,228,469	2,459,500,371	2,637,242,172	669,604,685
Plan Income (Loss)	57,948,963	(89,293,009)	(16,960,945)	7,101,897	18,220,950	24,572,551	(6,226,779)
Beginning Cash Balance (Deficit)	188,049,489	245,998,452	156,705,443	139,744,498	146,846,396	165,067,346	189,639,897
Ending Cash Balance (Deficit)	245,998,452	156,705,443	139,744,498	146,846,396	165,067,346	189,639,897	183,413,118
Target Stabilization Reserve	130,967,051	147,587,222	161,272,342	179,442,441	170,542,121	183,413,118	183,413,118
					7/1 Increase	7/1 Increase	
					7.8%	7.8%	
Premium Increase	12.3%		11.2%	PPO			
Projected Claims Increase	4.7%	12.7%	9.3%	11.3%	-5.0%	7.5%	
Total Expense Increase	5.7%	15.5%	8.4%	12.3%	-4.4%	7.2%	
Claims Per Member Trend	2.5%	8.6%	4.1%	9.0%	-5.1%	7.5%	
Expense Per Member Trend	3.5%	11.4%	3.3%	10.0%	-4.5%	7.2%	
Average Membership (not Lagged)			642,923	652,768	652,864	652,864	652,864
Average Membership (Lagged 2-Mont	586,644	608,705	638,729	652,136	652,864	652,864	-
Increase %	2.2%	3.8%	4.9%	2.1%	0.1%	0.0%	-100.0%

Copayment Member Savings from Extended Retail Maintenance Drugs

\$40 Million for Biennium

**State of Illinois Extended Retail
For Maintenance Drugs ***

- | | |
|---|--------------------------|
| 1. Network Participation | 82% of Pharmacies |
| a. Chains | 98% |
| b. Independent | 40% |
| | |
| 2. Penetration of Maintenance Drug Scripts | |
| a. Retail | 67% |
| b. Mail Order | 33% |
| | |
| 3. In North Carolina, the percentage of scripts for: | |
| a. Acute Conditions | 23% |
| b. Maintenance Conditions | 77% |

***The State of Illinois program has been in existence for five years**

Sources: Medco
Pharmacy Department, State Health Plan

3/5/09

Texas Board of Pharmacy

Number of Licensed Pharmacies

	2000	2001	2002	2003	2004	2005
No. of Community (Independent Pharmacies Licensed	1664	1621	1654	1720	1723	1733
No. of Community (Multiple/Chain) Pharmacies Licensed	2153	2260	2310	2262	2354	2430
Total	3817	3881	3964	3982	4077	4163

Various state entities instituted **mandatory** mail order programs

Repackaging of Drugs

What is the significance of re-packaged drugs at PBM owned mail-order pharmacies?

What is a NDC Number?

The NDC identifies the labeler, product and trade package size. The first segment of the number, the labeler code is assigned by the FDA, A labeler is any firm that manufactures (including re-packagers or re-labelers), or distributes (under its own name) the drug. The second segment, the product, code identifies a specific strength, dosage form and formulation for a particular firm, the third segment identifies package sizes and types, both the product and package codes are assigned by the firm.

A drug can have multiple NDC numbers thus different AWP's due to different manufacturers and how the prescription drug is packaged. Typically if a pharmacy, retail or mail order, purchases a large quantity of a drug from a manufacturer, the AWP per unit on that package may be lower than if that pharmacy had purchased a drug in a smaller package size from the manufacturer.

PBMs do not or cannot mandate what NDC number a retail pharmacy uses; however, audits, both desk and field, are conducted by the PBM to ensure the pharmacy has correctly adjudicated the claim.

What is Re-packaging?

Re-packaged drugs are drugs manufactured by a FDA-licensed manufacturer and purchased in bulk by a FDA-regulated re-packaging company. Those companies then repackage the drugs, usually in quantities typical of the prescription dispensed for that drug. The re-packaging company assigns a new NDC number to the re-packaged drug and reports an AWP for the new NDC to industry pricing companies.

It is been alleged that PBM owned mail order pharmacies increase their profits by re-packaging drugs and selling them at inflated AWP.

A Federal Trade Commission report dated Aug 2005 concluded that PBM owned mail-order pharmacies dispensed so few repackaged drugs the financial impact on Plans was insignificant. Repackaged drugs accounted for roughly one out of every million prescriptions.

Does the Plan's current PBM repackage?

Our current PBM, Medco, attest they nor any affiliate or subsidiary of the company owns a re-packager or labeler company. Medco also states they do not purchase medications from a re-packager or labeler for re-packaging and that all products are procured in manufacturer distributed sizes and packages directly from the manufacturer or licensed wholesalers.

Medco does internally prepare a number of drugs into pre-counted lots. This is done for select high volume, large and/or odd shaped pills that cannot be counted by Medco's automation. This is not considered to be repackaging because the original manufacturer's lot number and expiration date are retained.

T. Stephenson
3/1/09

Medco will guarantee that all AWP's submitted by our mail-order pharmacy to will be the same as the AWP submitted by the drug manufacturer who manufactured that specific 11-digit NDC product.

Under no circumstances does Medco repackage or restock medications returned by the patient. Medications that are returned are destroyed.

When the PBM contract is amended with Extended Retail Maintenance Network and Mail Order, the amendment will specifically state re-packaging is prohibited. An auditing process will occur to ensure the contractual obligations are met.

The Federal Trade Commission report dated Aug 2005 concluded PBM owned mail-order pharmacies dispensed so few repackaged drugs the financial impact on Plans was insignificant.

The two examples of re-packaging that were provided to the Plan were Lipitor NDC 49999039290 & Prevacid NDC 4999904800 (see table below for comparison of a NDC that has not been re-packaged).

After researching these two examples it was determined that both of these drugs were manufactured by Lake Erie Medical and Surgical Supply who uses a company called QCP for distribution who re-packages RX and OTC Medications.

Reports confirm that these re-packaging products were not dispensed by our PBM mail order pharmacy but by retail pharmacies. The reports are attached for reference.

	Lipitor	Lipitor	Prevacid	Prevacid
NDC Number	00071015523	49999039290	00300304613	49999048000
Drug Strength	10 MG-Tablet	10 MG - Tablet	30 MG Capsule	30 MG Capsule DR
Manufacturer	Parke Davis	Lake Erie Medical and Surgical Supply	TAP	Lake Erie Medical and Surgical Supply
Current Average Wholesale Price	\$3.345/unit	\$5.350/unit	\$6.248/unit	\$8.9254/unit
Dispensing Size	90-	90-	100 -	100-
Re-packaged	NO	YES	NO	YES

Conclusion

The Plan's current PBM, Medco, has confirmed that their mail order pharmacy does not re-package drugs with inflated AWP's. Also re-packaging will be specifically prohibited in the PBM contract amendment for the Extended Retail Network. Re-packaging arguments made by retail pharmacies are not substantial and their practices may need to be investigated further.

T. Stephenson
3/1/09

Data Represents Each State's Most Recent Administrative Rates

State	ASO fees PMPM	ASO fees PEPM	ASO as a Percent of Total Costs	Benefit Options	Membership/Subscribers	BCBS Admin
North Carolina	\$14 PPO \$18 with HD & Medco	\$20 PPO \$25 with HD & Medco	5.0% 6.5%	3 PPO Options	662,00/404,370	yes
Southeast						
A	\$13-18 (HMO) \$14-15 (PPO) \$16-18 (PPO w/ HRA) \$14 (HDHP)	\$25-35 (HMO) \$27-30 (PPO) \$33-37 (PPO w/ HRA) \$27-28 (HDHP)	5.4%	HMO, PPO, HDHP and PPO w HRA	696,919/278,767	no
B	\$10	\$29	7.0%	PPO and HDHP	193,174/144,074	yes
C	\$14 (PPO) \$21 (POS) \$20 (HMO)	\$25 (PPO) \$37 (POS) \$36 (HMO)	4.2%	PPO, POS, HMO	275,000/144,000	yes
D	\$27 (aggregate)	\$41 (HDHP) \$46 (PPO)	6.0%	PPO and HDHP	199,178/95,384	yes
E	not disclosed due to currently being out to bid		6.0%	PPO and 2 HMO options	211,390/107,327	no
Northeast						
A	\$20 (aggregate)	\$40 (aggregate)	6.0%	High/Low PPO and 2 HMOs	110,648/60,746	no
B	\$11 (HMO) \$20-23 (PPO) \$20 (POS)	\$22 (HMO) \$40-46 (PPO) \$40 (POS)	3.5%	HMO, POS and High/Low PPO options	645,000/287,650	yes
West						
A	\$14 (aggregate)	\$28 (aggregate)	5.2%	HMO, PPO, HDHP wHSA	164,600/90,000	no
B	\$18 (aggregate)	\$36 (aggregate)	7.8%	Indemnity, PPO	32,334/16,147	yes
C	\$18 (aggregate)	\$36 (aggregate)	3.5%	HDHP, 2 POS, 2 HMOs (regional)	N/A	yes
D	\$18 (aggregate)	\$33 (aggregate)	5.8%	PPO and 3 HMOs (regional)	74,188/44,228	no
E	\$15 (aggregate)	\$21 (aggregate)	5.0%	8 HMOs PPO, HDHP, HAS	63,000/39,936	no
Benefit Options Provide Coverage for Employees, Retirees and Dependents						
Prepared:	September 26, 2008	Revised March 5, 2009				

AON



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Committee As A whole 3-12-89
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Anne Byers	State Health Plan
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Andy Ellen	NCHM
Mark Gregory	Kerr Drug
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GPM & H2.500

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American Heart Assn

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Harry Lyle	mwc
Mitch Kokhi	John Locke Foundation
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Lisa Martin	NC Home Builders

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