

April 6, 2016

**SENT VIA ELECTRONIC MAIL**

Senator Phil Berger, Co-Chair  
Joint Legislative Commission on  
Governmental Operations  
North Carolina Senate  
Room 2007, Legislative Building  
Raleigh, NC 27601

Speaker Tim Moore, Co-Chair  
Joint Legislative Commission on  
Governmental Operations  
North Carolina House of Representatives  
Room 2304 Legislative Building  
Raleigh, NC 27601

Re: Budget Special Provision on Reserve for Future Benefits Needs/State Health Plan Cash Reserve

Dear Senator Berger and Speaker Moore:

Pursuant to Section 30.26.(c) of Session Law (SL) 2015-241, the 2015 Appropriations Act, the State Health Plan (Plan) is required to report to the Joint Legislative Commission on Governmental Operations (Commission) within 60 days of projecting that cash reserves will fall below the minimum twenty percent of annual costs as required under Section 30.26 (b) of SL 2015-241.

On February 5, 2016, the State Health Plan Board of Trustees (Board) voted to delay action on certain proposed modifications to Plan benefits for the 2017 calendar year (CY). Since the most recent financial forecast at the time of the February 5<sup>th</sup> Board meeting projected cash reserves to fall below the twenty percent threshold during FY 2016-17, the Fiscal Research Division notified the Plan that a report to the Commission is warranted.

**State Health Plan Board of Trustees Action**

The Board approved the following benefit and contracting changes for 2017 at its February and March 2016 meetings:

1. Maintained the same healthy activities (i.e. tobacco attestation, select a primary care physician and complete a health assessment) to earn premium credits as the previous year,
2. Added a new low-cost generic specialty medications tier and increased cost sharing on select pharmacy tiers for the Traditional 70/30 and Enhanced 80/20 PPO plans, and
3. Awarded the Pharmacy Benefit Management (PBM) services contract, which is expected to save \$300 million to \$500 million over the next three years, to CVS/Caremark with services effective January 1, 2017.

The Board delayed action on other cost-sharing increases and a proposal to increase the current base premium for the Enhanced 80/20 plan and establish, for the first time, a base premium for the Traditional 70/30 and Consumer-Directed Health Plan options. Given the date of the Board's next meeting and the lead time required by the Plan and its various vendor partners to establish new base premiums, the Plan cannot implement base premiums on the Traditional 70/30 and CDHP options before CY 2018.

## Financial Projections

The Plan's consulting actuary, The Segal Company (Segal), updated the Plan's financial forecast to reflect the benefit changes approved by the Board to date as well as potential savings associated with the new PBM contract. The latest forecast scenarios, finalized March 31, 2016, do not include any increase to the employer contribution for 2017 and project the Plan will fall below the legislatively mandated minimum cash reserve in spring 2017, depending on the formulary selected.

It is important to note that an increase in the employer and employee contributions or premium rates is not required for CY 2017 under the Plan's traditional forecasting model, which maintains a reserve target equal to nine percent of net claims.

The table below summarizes the projected premium increases under various baseline forecast scenarios, which assume no additional benefit changes and no increase to the employer or employee contributions effective January 1, 2017.

**Table One: Baseline Forecast Scenarios**

|   | Baseline Forecast<br>(assumes no<br>additional changes) |        | Baseline Forecast<br>With PBM Contract<br>(Open Formulary) |        | Baseline Forecast<br>With PBM Contract<br>(Closed Formulary) |        |
|---|---|--------|--|--------|--|--------|
|   | ER  | EE     | ER   | EE     | ER   | EE     |
| CY 2017 Projected Increase  | 0.00%   | 0.00%  | 0.00%  | 0.00%  | 0.00%  | 0.00%  |
| Max Amount Short<br>of 20% Reserve<br>(1 <sup>st</sup> Month short) | \$115.6 M<br>(March 2017)                               |        | \$83.2 M<br>(April 2017)                                   |        | \$ 72.0 M<br>(May 2017)                                      |        |
| CY 2018 Projected Increase  | 15.21%  | 15.21% | 12.71%   | 12.71% | 11.91%   | 11.91% |
| CY 2019 Projected Increase  | 15.21%  | 15.21% | 12.71%   | 12.71% | 11.91%   | 11.91% |
| CY 2020 Projected Increase  | 4.82%   | 4.82%  | 6.02%  | 6.02%  | 6.45%  | 6.45%  |
| CY 2021 Projected Increase  | 4.82%   | 4.82%  | 6.02%  | 6.02%  | 6.45%  | 6.45%  |

**ER = employer contribution, EE = employee premium**

If the General Assembly releases funds in the *Reserve for Future Benefits Needs* established in Section 30.26.(a) of SL 2015-241, and member contributions are increased by the same percentage as the employer contribution, the Plan is still projected to fall below the legislatively mandated minimum cash reserve during FY 2016-17 without additional benefit changes.

The table below summarizes the projected premium increases under various forecast scenarios assuming funds reserved for the employer contribution are released for FY 2016-17 and that employer and employee contributions are increased by the same percentage effective January 1, 2017.

**Table Two: Impact of Potential Increases in Employer and Employee Contributions**

|   | Baseline Forecast<br>With Increases in<br>Employer & Employee<br>Contributions |        | With PBM Contract<br>(Open Formulary) and<br>Increases in Employer<br>& Employee<br>Contributions |       | With PBM Contract<br>(Closed Formulary)<br>and Increases in<br>Employer & Employee<br>Contributions |       |
|---|--|--------|---|-------|---|-------|
|   | ER   | EE     | ER  | EE    | ER  | EE    |
| CY 2017 Projected Increase  | 3.43%  | 3.43%  | 3.43%   | 3.43% | 3.43%   | 3.43% |
| <b>Max Amount Short<br/>of 20% Reserve<br/>(1<sup>st</sup> Month short)</b> | <b>\$63.1 M<br/>(May 2017)</b>   |        | <b>\$35.6 M<br/>(May 2017)</b>  |       | <b>\$ 26.2 M<br/>(May 2017)</b>   |       |
| CY 2018 Projected Increase  | 11.67%   | 11.67% | 9.19%   | 9.19% | 8.41%   | 8.41% |
| CY 2019 Projected Increase  | 11.67%   | 11.67% | 9.19%   | 9.19% | 8.41%   | 8.41% |
| CY 2020 Projected Increase  | 6.84%  | 6.84%  | 8.12%   | 8.12% | 8.57%   | 8.57% |
| CY 2021 Projected Increase  | 6.84%  | 6.84%  | 8.12%   | 8.12% | 8.57%   | 8.57% |

*ER = employer contribution, EE = employee premium*

**Next Steps**

The Plan staff will present a modified proposal to the Board at its next regularly scheduled meeting on May 13, 2016 that, combined with the potential increase in employer contributions for CY 2017 and the PBM savings, aims to limit the projected increase in employer contributions for CY 2018 and CY 2019 to between five and eight percent.

Forgoing the employer increase in FY 16-17 would substantially alter these results. Reducing the employer contribution for CYs 2018 and 2019 to eight percent or less would be a significant reduction from the projected 14.83% increase that was anticipated at the passage of the State budget, while retaining meaningful benefits for members and their dependents. The alternative proposal will not require the elimination of the Enhanced 80/20 plan or either of the other two offerings, nor elimination of spousal coverage. The Plan will submit an updated report to the Commission following the results of the upcoming Board meeting.

If the General Assembly believes these projected savings targets are insufficient, the State Treasurer and Board request clarification as early as possible prior to the May 13, 2016 Board meeting to provide adequate time to for staff to develop an alternative strategic benefit proposal, determine financial impacts, seek stakeholder input, and create an implementation and communication timeline.

For further questions or additional information, please contact Thomas Friedman at [Thomas.Friedman@nctreasurer.com](mailto:Thomas.Friedman@nctreasurer.com) or 919-602-7178.

Sincerely,



Mona M. Moon  
Executive Administrator