



North Carolina
State Health Plan
FOR TEACHERS AND STATE EMPLOYEES



1st Quarter Actuarial Forecast Update

Board of Trustees Meeting

November 22, 2013

Forecast prepared by The Segal Company
Final version dated 11-14-13

A Division of the Department of State Treasurer

Presentation Overview

- Forecast update schedule
- Updated assumptions: Certified Budget vs. 1st Quarter Projection
- Updated forecast for Short Plan Year (July – December 2013)
- Summary graphs
- Summary and Outlook for 2015-2017 Fiscal Biennium

Actuarial Forecast Update Schedule

- The Plan's actuary updates the forecast at the end of each fiscal year and at least quarterly
- Updates take into account more recent information:
 - Actual financial results and cash balance
 - Membership data, including impact of enrollment changes
 - Claims experience
 - Changes in anticipated costs or revenues

Forecast Assumptions **Maintained** in the Update

Certified Budget vs. 1st Quarter Update

- Overall trend assumption of 8.5%
- Membership trends
 - 1% annual decrease in actives
 - 1% annual increase in retirees
- Short Plan Year from July - December
- New benefit design effective January 1, 2014
- 2014 revenues reflect 3.57% across the board premium increases effective January 1, 2014 as authorized by the General Assembly and adopted by the Board
- 2015 revenues reflect 2.14% across the board premium increases effective January 1, 2015 as authorized by the General Assembly

Forecast Assumptions **Changed/Revised** in the Update Certified Budget vs. 1st Quarter Update

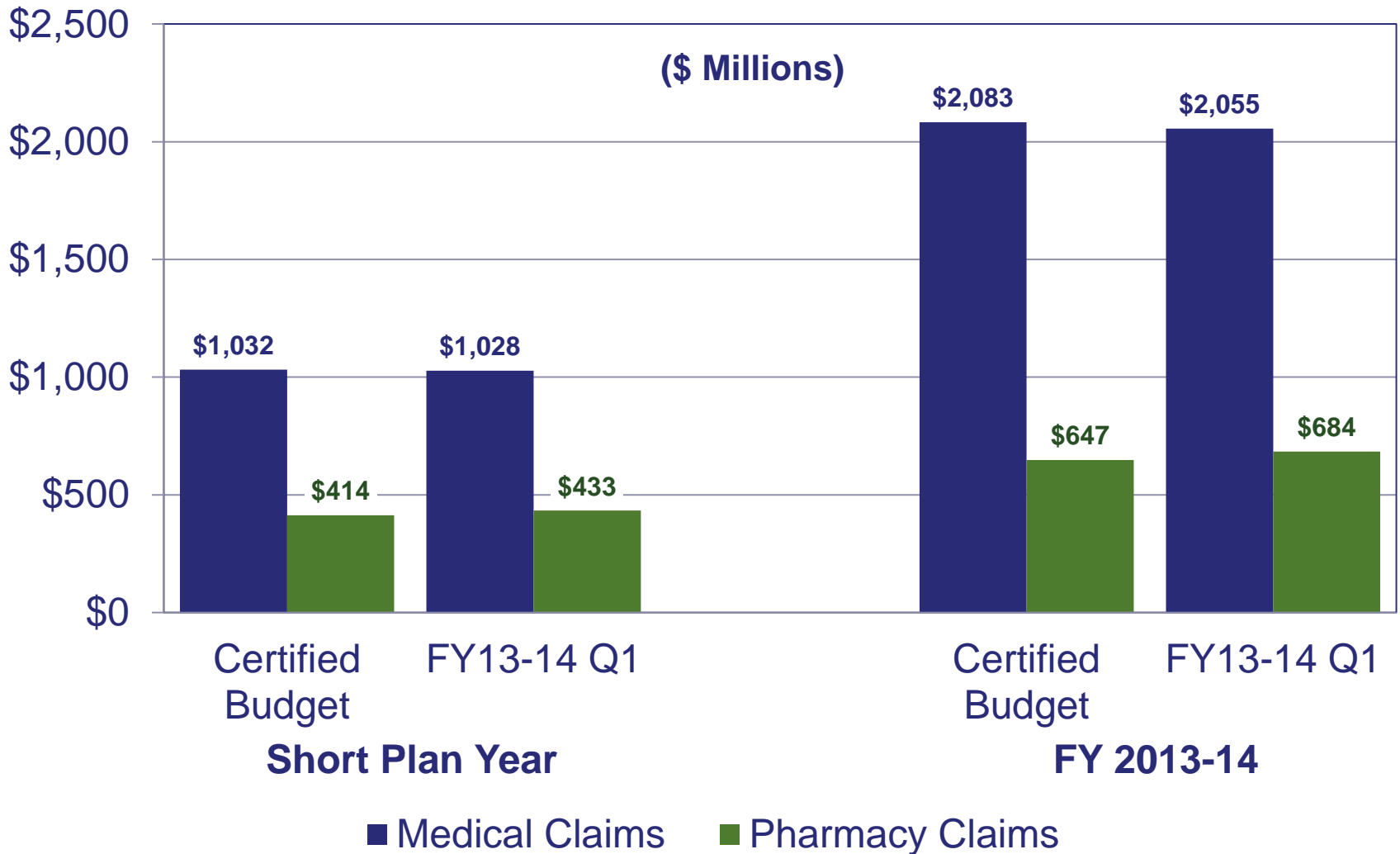
- Membership based on actual September 2013 counts (instead of March 2013)
- Anticipated claims expenditures based on actual experience through September 2013 (instead of through March 2013)
- Baseline pharmacy claims amount increased to reflect experience from the last six months (rather than the last 12 months) due to increasing pharmacy trends
- Changes to “Essential Health Benefits” approved at September Board meeting are incorporated
- Repayment to CMS of \$5.7 million in Retiree Drug Subsidy revenue is included
- Timing and amounts of pharmacy rebates have been adjusted
- Timing of EGWP catastrophic subsidy revenue was moved from November 2014 to January 2015

Comparison of Models for Short Plan Year

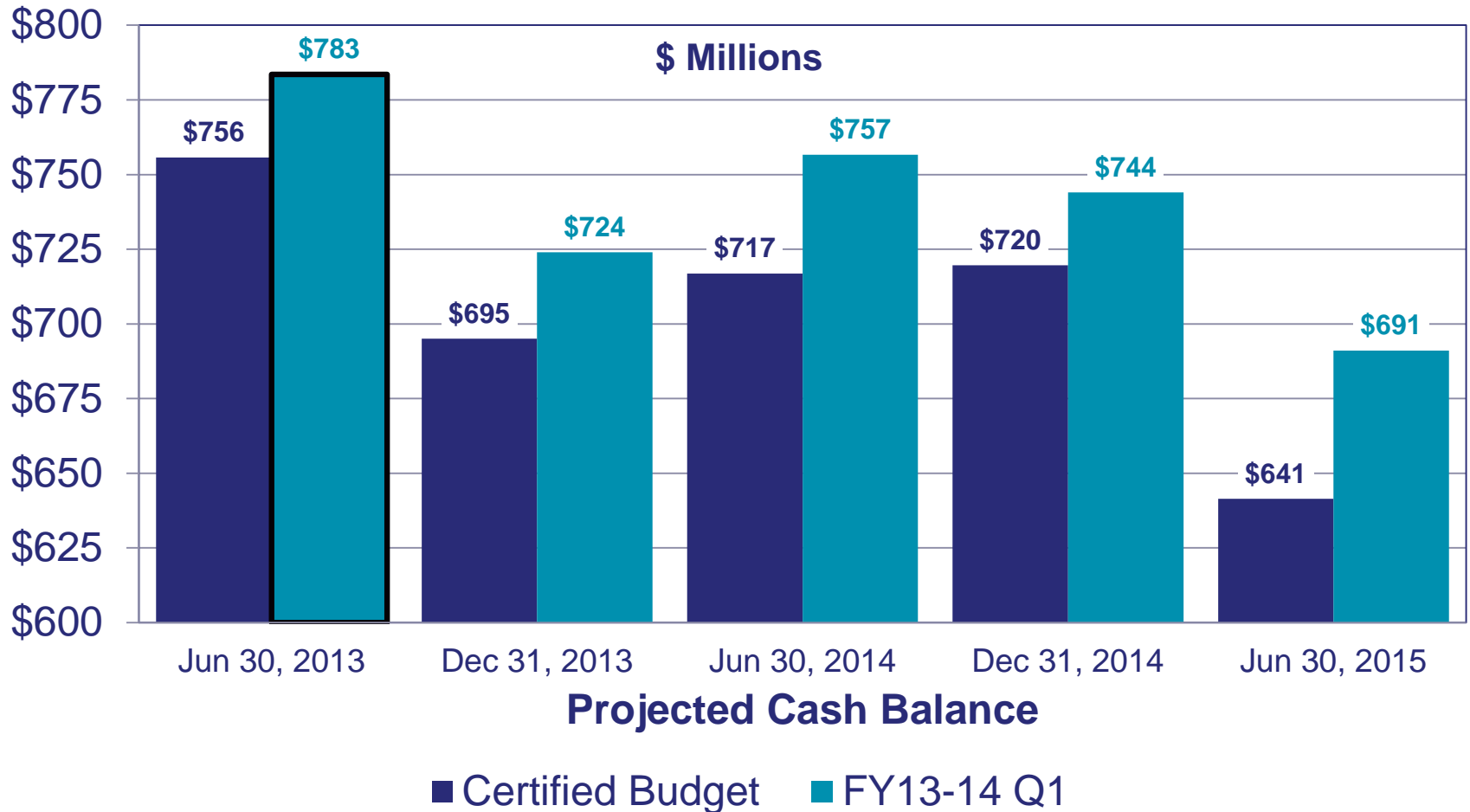
Certified Budget vs. 1st Quarter Update

Short Plan Year July – December 2013	1 st Quarter Update (per Segal 11-14-13)	Certified Budget (per Segal 8-19-13)	Difference: Increase/ (Decrease) From Budget
Beginning Cash Balance	\$783.5 m	\$755.8 m	\$27.7 m
Plan Revenue	\$1.487 b	\$1.476 b	\$11.4 m
Net Claims Payments	\$1.460 b	\$1.445 b	\$14.9 m
Net Admin. Expenses	\$86.7 m	\$91.3 m	(\$4.6 m)
Total Plan Expenses	\$1.547 b	\$1.537 b	\$10.3 m
Net Income/(Loss)	(\$59.6 m)	(\$60.8 m)	\$1.2 m
Ending Cash Balance	\$723.9 m	\$695.0 m	\$28.9 m
FB 2015-17 Premium Increase	7.72%	8.22%	(0.50%)

Forecast Comparisons: Short Plan Year and Fiscal Year 2013-14



Forecast Comparisons: Ending Cash Balances



Summary/FB 2015-17 Outlook

- Current Fiscal Biennium (2013-2015)
 - Relative to the Certified Budget, the 1st Quarter Update projects **lower** medical claims costs and **higher** pharmacy claims costs for the biennium
 - \$691.1 million cash balance at the end of the biennium:
 - \$49.7 million higher than the Certified Budget (due in part to a higher starting balance)
 - Exceeds the 9.0% target reserve amount by \$435.4 million
 - Equates to approximately 11 weeks of FY 2015-16 projected operating expenses
 - Assuming no changes in benefits beyond the Board's current design, the 1st Quarter Update projects a 7.72% premium increase for January 1 of each year of the 2015-17 biennium. This is **lower** than the Certified Budget projection (8.22%)

Certified Budget

(Segal 8-19-13)

North Carolina State Health Plan
Financial Projections - Mar 2013
Trends - 8.5% Medical & Pharmacy
Board Approved Wellness Incentives - Active 70/30 Unchanged thru 2015 only, Retirees 70/30 Unchanged
With MA & PDP
Incentives start at \$15/\$15/\$20 and increase to \$25/\$25/\$40 in Calendar 2016, \$10 Standard Premium Credit
Certified Budget

	2011 - 2013 Biennium		2013 - 2015 Biennium				2015 - 2017 Biennium				Projection Calendar 2017 Jul-Dec	
	Actual FY 2012	Projection FY 2013	Projection Short Plan Year Jul-Dec 2013	Projection Calendar 2014 Jan-June	Projection Calendar 2014 July-Dec	Projection Calendar 2015 Jan-Jun	Projection Calendar 2015 Jul-Dec	Projection Calendar 2016 Jan-June	Projection Calendar 2016 July-Dec	Projection Calendar 2017 Jan-Jun		
PLAN INCOME:												
Net Contribution Income	2,750,368,851	2,895,761,603	1,442,578,008	1,490,952,575	1,487,864,429	1,516,588,534	1,513,510,299	1,634,806,643	1,631,357,328	1,761,956,879	1,758,528,795	
EGWP/PDP Spouse Premium Reduction		(1,244,865)	(2,498,837)	(14,616,034)	(14,687,927)	(14,761,184)	(14,834,807)	(14,908,796)	(14,983,155)	(15,057,884)	(15,132,986)	
MA Spouse Premium Reduction				(5,898,039)	(5,927,456)	(5,957,019)	(5,986,730)	(6,016,589)	(6,046,588)	(6,076,755)	(6,107,063)	
MA Buy-up Premium				10,940,979	10,995,548	15,140,644	15,216,158	19,774,355	19,872,981	24,884,033	25,008,144	
Health care Reform ERRP	42,163,391	(558,219)	-	-	-	-	-	-	-	-	-	
Retro Disenrollments	(451,496)	(714,727)	(721,289)	(745,476)	(743,932)	(758,294)	(756,755)	(817,303)	(815,679)	(880,978)	(879,264)	
Premium Incentive				(15,363,911)	(15,332,089)	(14,299,813)	(14,287,662)	18,347,595	18,311,123	18,164,462	18,129,151	
CDHP Premium Reduction				(3,528,827)	(3,521,618)	(4,751,766)	(4,747,728)	(5,957,822)	(5,945,079)	(7,139,050)	(7,125,180)	
Medicare Part D	57,583,602	36,936,224	2,784,744	3,434,018	2,910,058	3,588,549	3,041,010	3,750,033	3,177,856	3,918,785	3,320,856	
EGWP+Wrap												
Direct Subsidy	-	25,008,159	25,151,533	-	-	-	-	-	-	-	-	
Coverage Gap Subsidy	-	-	7,195,789	17,999,102	-	-	-	-	-	-	-	
Catastrophic Subsidy	-	-	-	-	13,047,904	-	-	-	-	-	-	
Total	-	25,008,159	32,347,302	17,999,102	13,047,904	-	-	-	-	-	-	
Appropriations from State Reserve												
Investment Earnings	3,015,815	3,063,553	1,448,002	1,420,130	1,471,875	1,364,138	1,187,237	977,122	864,507	734,935	644,071	
Total Plan Income	2,952,680,163	2,959,251,928	1,475,938,129	1,484,595,416	1,476,076,792	1,496,153,788	1,492,341,023	1,649,755,238	1,645,792,386	1,780,504,456	1,776,386,545	
PLAN EXPENSE:												
Medical Claims Payment	1,849,410,105	1,882,949,142	997,508,825	1,111,574,513	1,036,956,734	1,201,076,486	1,130,886,863	1,298,249,708	1,217,598,950	1,400,256,154	1,312,797,082	
Claim Refunds	(22,634,815)	(23,855,443)	(12,080,884)	(12,583,200)	(12,885,851)	(13,590,192)	(14,302,157)	(14,789,230)	(15,257,502)	(15,736,111)	(16,451,838)	
Dental & MHSA Enhancement			1,965,794	3,370,442	3,144,191	3,841,824	3,428,393	3,936,466	3,691,922	4,245,763	3,980,576	
Medicare Advantage Claims Reduction				(51,495,701)	(60,190,041)	(65,631,913)	(66,959,257)	(71,922,732)	(72,281,451)	(78,816,526)	(79,209,628)	
Calendar Year Adjustments			44,524,878	(4,229,258)	14,039,329	(14,419,571)	18,622,423	(17,792,129)	20,205,328	(19,304,460)	21,922,721	
Preventative at 100% in Standard Plan				9,805,123	13,733,526	15,553,431	15,012,324	16,765,870	16,153,784	18,067,218	17,400,803	
Premium Incentive				(7,995,527)	(11,972,541)	(11,462,987)	(11,446,088)	(12,527,363)	(12,502,373)	(19,984,282)	(19,945,259)	
CDHP Claims Reduction				(2,705,932)	(4,051,876)	(5,771,199)	(5,762,690)	(8,941,127)	(8,923,291)	(12,953,021)	(12,927,728)	
Limited Network Savings			310,434	484,845	390,200	389,624	389,624	602,750	601,547	576,589	575,483	
PCP Copay Waiver				4,407,787	6,800,242	(367,417)	(368,675)	(4,088,355)	(4,078,203)	(17,078,970)	(17,045,620)	
Mental Health Enhancements				451,938	808,120	704,185	682,915	785,427	717,877	830,633	778,752	
Net Medical Claims	1,826,775,490	1,859,093,698	1,031,938,612	1,050,910,619	986,446,678	1,110,116,847	1,070,905,478	1,190,261,283	1,145,926,587	1,260,102,988	1,211,875,383	
Medicare Advantage Premiums				86,864,745	87,297,988	108,861,089	109,404,040	133,102,488	133,766,343	159,805,493	160,602,532	
Pharmacy Claims Payment	721,163,013	749,090,373	426,782,431	389,095,527	461,133,212	420,430,469	498,290,216	492,888,065	499,857,994	532,671,371	540,226,350	
Rebates	(93,130,160)	(72,024,902)	(22,208,556)	(32,807,518)	(23,014,123)	(26,428,528)	(23,850,891)	(27,281,378)	(24,724,242)	(28,163,286)	(25,623,274)	
Calendar Year Adjustments			6,211,534	(6,511,046)	11,406,548	(10,470,311)	12,325,781	(12,201,284)	12,627,650	(13,186,116)	13,647,680	
Net Pharmacy Claims	628,032,853	677,065,471	410,785,408	346,976,963	449,525,637	383,531,630	486,765,106	453,405,403	487,761,402	491,321,968	528,250,635	
MA-PDP Claims Reduction				(114,577,245)	(139,255,710)	(151,846,028)	(152,803,370)	(166,400,470)	(167,230,403)	(182,349,955)	(183,256,437)	
EGWP+Wrap Reduction in Rebates		808,689	1,635,695	827,018	-	-	-	-	-	-	-	
EGWP+Wrap Claim Increase		222,762	462,707	-	-	-	-	-	-	-	-	
Expand Coverage of Diabetic Test Strips			591,788	686,454	813,546	741,737	879,099	869,588	881,895	939,755	953,084	
HB 675 - Pharmacy Audit Changes				100,000	104,617	95,383	113,047	111,821	113,403	120,847	122,561	
Specialty Pharmacy Tier				(189,553)	(265,758)	(258,101)	(305,899)	(321,725)	(326,275)	(370,373)	(375,627)	
Total Pharmacy Claims	628,032,853	678,096,922	413,475,579	233,824,838	310,922,331	232,264,620	334,847,993	287,664,597	321,199,992	306,662,242	345,691,217	
Total Claims	2,454,808,343	2,537,190,620	1,445,414,191	1,371,600,002	1,384,666,997	1,451,242,555	1,515,157,501	1,611,028,367	1,600,892,023	1,726,570,723	1,718,169,132	
Administrative Costs	165,480,561	164,605,404	85,504,284	91,148,330	88,666,681	88,484,887	91,324,774	91,141,320	93,688,951	93,504,688	96,122,447	
ACA Reinsurance Fee				-	-	34,632,846	-	21,039,454	-	14,201,632	-	
Extra EGWP+Wrap Administration		2,893,881	5,794,014	-	-	-	-	-	-	-	-	
Total Plan Expense	2,620,288,904	2,704,749,905	1,636,712,490	1,462,748,331	1,473,333,678	1,574,360,269	1,606,482,275	1,723,209,141	1,694,581,874	1,837,277,042	1,814,291,579	
Plan Income (Loss)	232,391,259	253,502,023	(60,774,360)	21,847,084	2,743,114	(78,206,481)	(114,141,252)	(73,453,903)	(48,789,488)	(56,772,586)	(37,905,034)	
Beginning Cash Balance (Deficit)	269,856,212	502,247,471	755,749,494	694,975,134	716,822,218	719,565,332	641,358,851	527,217,599	453,763,696	404,974,207	348,201,621	
Ending Cash Balance (Deficit)	502,247,471	755,749,494	694,975,134	716,822,218	719,565,332	641,358,851	527,217,599	453,763,696	404,974,207	348,201,621	310,296,587	
Target Stabilization Reserve	184,110,626	202,975,250	219,485,780	239,446,206	234,282,695	255,231,880	266,976,005	281,356,728	289,072,916	299,741,728	310,296,587	
	7.5%	8.0%	8.0%	8.5%	8.5%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	
	7/1 Increase	7/1 Increase		1/1 Increase		1/1 Increase		1/1 Increase		1/1 Increase		
Premium Increase:	5.3%	5.3%		3.57%		2.14%		8.22%		8.22%		

FY 2013-14 Q1 Update (Segal 11-14-13)

**North Carolina State Health Plan
Financial Projections - Sep 2013
Trends - 8.5% Medical & Pharmacy**
Board Approved Wellness Incentives - Active 70/30 Unchanged thru 2015 only, Retirees 70/30 Unchanged
With MA & PDP, With Essential Health Benefits & MH Parity
Incentives start at \$15/\$15/\$20 and increase to \$25/\$25/\$40 in Calendar 2016, \$10 Standard Premium Credit

	2012 - 2013 Biennium		2014 - 2015 Biennium				2016 - 2017 Biennium				Projection Calendar 2017 Jul-Dec	
	Actual	Actual	Projection	Projection	Projection	Projection	Projection	Projection	Projection	Projection		
	FY 2012	FY 2013	Short Plan Year Jul-Dec 2013	Calendar 2014 Jan-June	Calendar 2014 July-Dec	Calendar 2015 Jan-Jun	Calendar 2015 Jul-Dec	Calendar 2016 Jan-June	Calendar 2016 July-Dec	Calendar 2017 Jan-Jun		
PLAN INCOME:												
Net Contribution Income	2,750,368,851	2,895,366,140	1,454,995,731	1,497,179,531	1,494,163,089	1,523,095,383	1,520,090,707	1,634,253,292	1,631,098,518	1,753,072,738	1,750,362,250	
EGWP/PDP Spouse Premium Reduction	-	-	(1,231,103)	(14,552,885)	(14,825,208)	(14,808,212)	(14,771,520)	(14,845,194)	(14,919,235)	(14,993,648)	(15,068,428)	
MA Spouse Premium Reduction	-	-	(5,856,638)	(5,856,638)	(5,885,849)	(5,915,205)	(5,944,707)	(5,974,357)	(6,004,154)	(6,034,100)	(6,064,196)	
MA Buy-up Premium	-	-	11,144,450	11,200,034	11,200,034	15,391,702	15,468,469	20,077,844	20,177,983	25,245,260	25,371,173	
Health care Reform ERRP	42,163,391	(558,219)	-	-	-	-	-	-	-	-	-	
Retro Disenrollments	(451,496)	(487,819)	(613,406)	(748,590)	(747,082)	(781,548)	(780,045)	(817,127)	(815,549)	(876,838)	(875,181)	
Premium Incentive	-	-	(15,132,835)	(15,102,346)	(15,102,346)	(14,099,776)	(14,071,961)	18,234,558	18,199,358	18,052,395	18,018,317	
CDHP Premium Reduction	-	-	(3,486,444)	(3,479,420)	(3,479,420)	(4,693,593)	(4,684,333)	(5,878,700)	(5,867,442)	(7,042,408)	(7,029,111)	
Medicare Part D	57,583,802	38,056,016	(2,045,274)	3,280,324	2,779,814	3,427,938	2,904,906	3,582,196	3,035,627	3,743,394	3,172,230	
EGWP+Wrap												
Direct Subsidy	-	24,435,483	25,741,422	-	-	-	-	-	-	-	-	
Coverage Gap Subsidy	-	-	8,953,844	18,169,771	-	-	-	-	-	-	-	
Catastrophic Subsidy	-	-	-	-	-	13,171,626	-	-	-	-	-	
Total	-	24,435,483	34,695,267	18,169,771	-	13,171,626	-	-	-	-	-	
Appropriations from State Reserve	-	-	-	-	-	-	-	-	-	-	-	
Investment Earnings	3,015,815	3,236,713	1,663,868	1,489,193	1,545,098	1,447,780	1,284,123	1,065,908	939,801	788,054	665,776	
Total Plan Income	2,852,680,163	2,960,048,314	1,487,465,082	1,491,486,077	1,469,848,073	1,516,366,077	1,499,515,639	1,649,698,330	1,645,844,906	1,772,554,853	1,768,552,830	
PLAN EXPENSE:												
Medical Claims Payment	1,849,410,105	1,858,096,405	1,004,924,154	1,087,845,343	1,014,877,297	1,175,569,905	1,108,736,822	1,270,823,703	1,191,944,159	1,370,832,602	1,285,284,586	
Claim Refunds	(22,634,815)	(23,467,914)	(11,861,894)	(12,309,995)	(12,611,230)	(13,307,208)	(13,868,798)	(14,476,540)	(14,935,747)	(15,405,170)	(16,106,749)	
Dental & MHSA Enhancement	1,424,086	-	3,370,351	3,144,282	3,144,282	3,642,138	3,428,880	3,937,253	3,692,869	4,247,099	3,982,055	
Medicare Advantage Claims Reduction	-	-	(51,956,107)	(60,778,121)	(66,273,163)	(66,273,163)	(66,603,704)	(72,625,445)	(72,987,669)	(79,586,594)	(79,983,537)	
Calendar Year Adjustments	-	-	(4,229,258)	(4,229,258)	(14,419,571)	(14,419,571)	18,622,423	(17,792,129)	20,205,328	(19,304,460)	21,922,781	
Preventative at 100% in Standard Plan	-	-	33,053,694	(5,957,332)	13,420,058	15,191,448	14,674,949	16,378,466	15,789,284	17,649,201	17,009,884	
Premium Incentive	-	-	(7,929,050)	(7,929,050)	(11,873,557)	(11,380,262)	(11,357,731)	(12,581,387)	(12,557,011)	(19,995,303)	(19,957,415)	
CDHP Claims Reduction	-	-	(2,637,947)	(3,950,260)	(5,647,915)	(5,636,733)	(5,636,733)	(8,766,694)	(8,749,709)	(12,719,839)	(12,695,736)	
Limited Network Savings	-	-	304,325	455,720	382,506	382,506	381,748	595,478	594,324	569,138	508,057	
PCP Copay Waiver	-	-	4,337,145	6,494,768	(398,850)	(397,800)	(397,800)	(4,021,959)	(4,014,168)	(16,995,135)	(16,982,932)	
Essential Health Benefits/MH Parity	-	-	1,411,202	1,898,981	2,198,838	2,198,838	2,070,089	2,390,068	2,241,718	2,593,874	2,431,814	
Net Medical Claims	1,826,775,490	1,834,628,491	1,027,540,221	1,027,775,341	965,117,266	1,085,558,067	1,048,050,085	1,163,858,843	1,121,223,380	1,231,885,210	1,185,492,589	
Medicare Advantage Premiums	-	-	88,480,183	88,921,483	110,744,961	111,297,308	111,297,308	135,281,658	135,656,384	162,309,415	163,118,944	
Pharmacy Claims Payment	721,163,013	752,419,650	456,411,374	414,627,785	491,418,537	448,066,598	531,072,633	525,343,967	532,801,144	567,808,369	575,892,516	
Rebates	(93,130,180)	(69,641,941)	(29,386,434)	(37,921,448)	(23,335,020)	(33,756,553)	(24,186,211)	(27,624,160)	(25,074,567)	(28,521,582)	(25,989,500)	
Calendar Year Adjustments	-	-	4,259,545	(10,817,063)	12,155,834	(11,158,568)	13,136,856	(13,004,731)	13,460,008	(14,055,935)	14,548,727	
Net Pharmacy Claims	628,032,853	682,777,709	431,284,485	365,889,254	480,239,351	403,151,475	520,023,278	484,715,076	521,188,555	525,230,852	564,451,743	
MA-PDP Claims Reduction	-	-	(116,068,145)	(141,087,642)	(153,843,588)	(153,843,588)	(154,610,892)	(168,589,498)	(169,430,348)	(184,748,799)	(185,670,245)	
EGWP+Wrap Reduction in Rebates	-	-	834,594	842,398	-	-	-	-	-	-	-	
EGWP+Wrap Claim Increase	-	-	238,622	-	-	-	-	-	-	-	-	
Expand Coverage of Diabetic Test Strips	-	-	380,804	686,435	813,565	741,794	879,214	869,730	882,076	940,032	953,416	
HB 675 - Pharmacy Audit Changes	-	-	100,000	104,814	95,386	104,814	113,056	111,837	113,424	120,876	122,567	
Specialty Pharmacy Tier	-	-	(188,549)	(265,785)	(258,094)	(258,094)	(305,906)	(321,717)	(328,283)	(370,363)	(375,637)	
Total Pharmacy Claims	628,032,853	682,777,709	432,738,506	251,261,393	339,804,124	249,896,974	360,098,750	316,785,430	352,425,425	341,172,598	376,481,875	
Total Claims	2,454,808,343	2,517,406,200	1,460,278,726	1,367,516,917	1,393,842,873	1,446,190,002	1,525,448,144	1,615,925,931	1,609,805,189	1,735,367,224	1,728,093,407	
Administrative Costs	165,480,561	161,401,639	83,826,787	91,261,895	88,664,163	88,487,385	91,322,160	91,143,934	93,697,029	93,518,151	96,141,860	
ACA Reinsurance Fee	-	-	-	-	-	34,632,846	-	21,039,454	-	14,201,832	-	
Extra EGWP+Wrap Administration	-	-	2,904,645	-	-	-	-	-	-	-	-	
Total Plan Expense	2,620,288,904	2,678,807,839	1,547,010,159	1,458,778,811	1,482,507,036	1,569,310,234	1,616,768,304	1,728,109,320	1,703,302,218	1,843,087,006	1,824,235,288	
Plan Income (Loss)	232,391,259	281,240,475	(59,545,076)	32,707,266	(12,658,963)	(52,944,157)	(117,252,665)	(78,410,990)	(57,457,313)	(70,532,153)	(56,682,438)	
Beginning Cash Balance (Deficit)	269,856,212	502,247,471	783,487,946	723,942,870	756,850,136	743,991,173	691,047,018	573,794,351	495,383,360	437,926,048	367,393,895	
Ending Cash Balance (Deficit)	502,247,471	783,487,946	723,942,870	756,850,136	743,991,173	691,047,018	573,794,351	495,383,360	437,926,048	367,393,895	311,711,457	
Target Stabilization Reserve	184,110,626	201,392,496	116,822,298	240,362,630	234,715,582	255,602,959	267,447,253	282,723,487	290,297,801	301,047,517	311,711,457	
	7.5%	8.0%	8.0%	8.5%	8.5%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	
	7/1 Increase	7/1 Increase		1/1 Increase		1/1 Increase		1/1 Increase		1/1 Increase		
Premium Increase:	5.3%	5.3%		3.57%		2.14%		7.72%		7.72%		