



North Carolina
State Health Plan
FOR TEACHERS AND STATE EMPLOYEES



2nd Quarter Actuarial Forecast Update

Board of Trustees Meeting

March 22, 2013

Forecast prepared by The Segal Company
Final version dated 3-12-13

A Division of the Department of State Treasurer

Presentation Overview

- Forecast update schedule
- Updated assumptions: Authorized Budget vs. 2nd Quarter Projection
- Updated forecast for FY 2012-13
- Summary graphs
- Outlook for 2013-15 and 2015-17 Fiscal Bienniums
- Summary

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

Authorized Budget vs. 2nd Quarter Update

- Overall trend assumption of 8.5%
- Membership trends
 - 1% annual decrease in actives
 - 1% annual increase in retirees
- Continuation of EGWP + Wrap pharmacy benefit

Forecast Assumptions **Changed/Revised** in the Update

Authorized Budget vs. 2nd Quarter Update

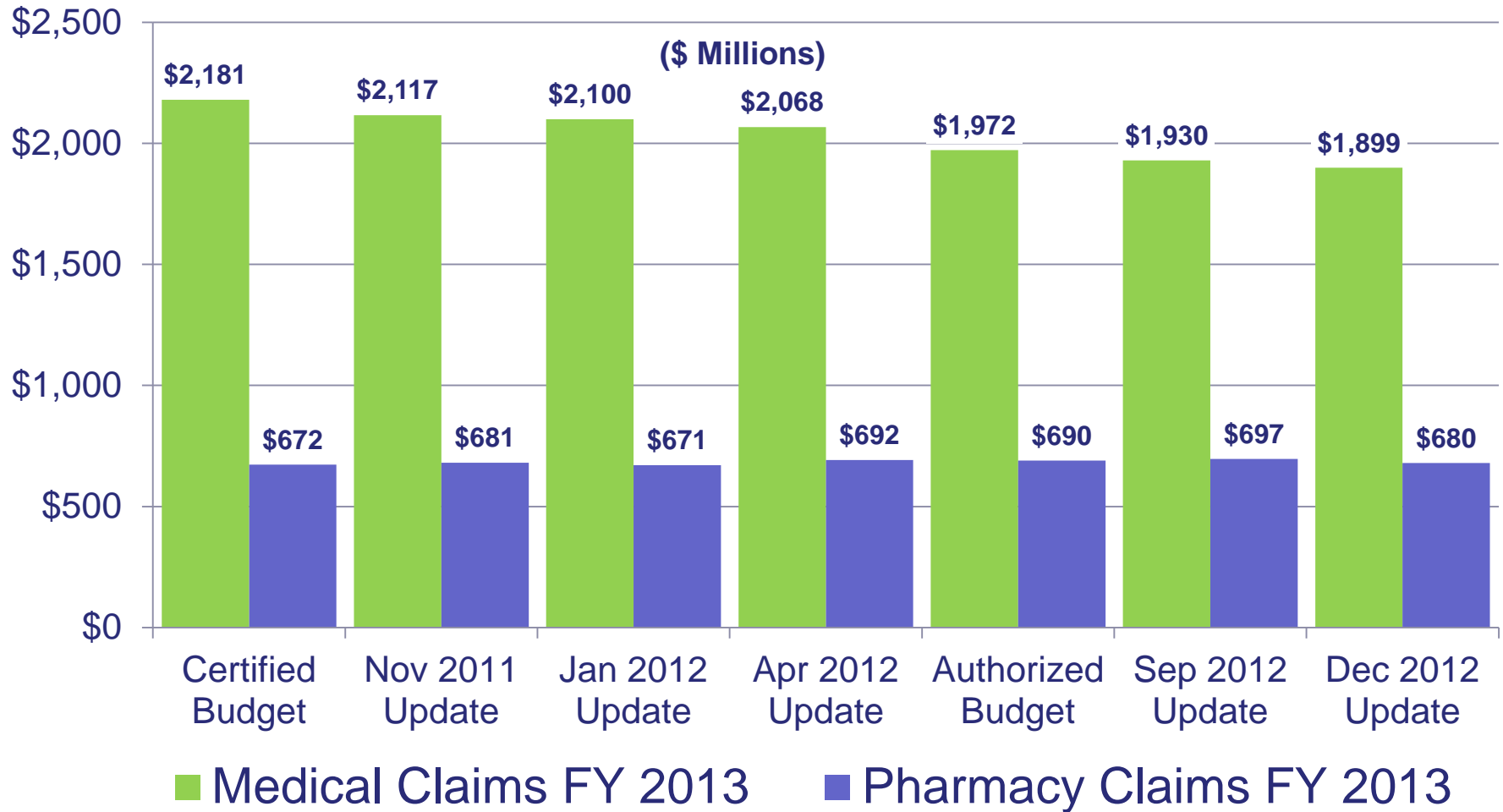
- Membership based on actual December 2012 counts (instead of June 2012)
- Anticipated claims expenditures based on actual experience through December 2012 (instead of through June 2012)
- Enhancements to behavioral health and dental benefits (November 2012 Board decision)
- Investment earnings assumption reduced to reflect current rates
- Administrative costs adjusted to reflect more recent Plan projections
- Timing of pharmacy claims payments and rebates were aligned with current expectations
- Pharmacy rebate amounts were increased for 2013 and 2014 to more closely match current projections
- Affordable Care Act reinsurance fee was added to future year expenses

Comparison of Models for FY 2012-13

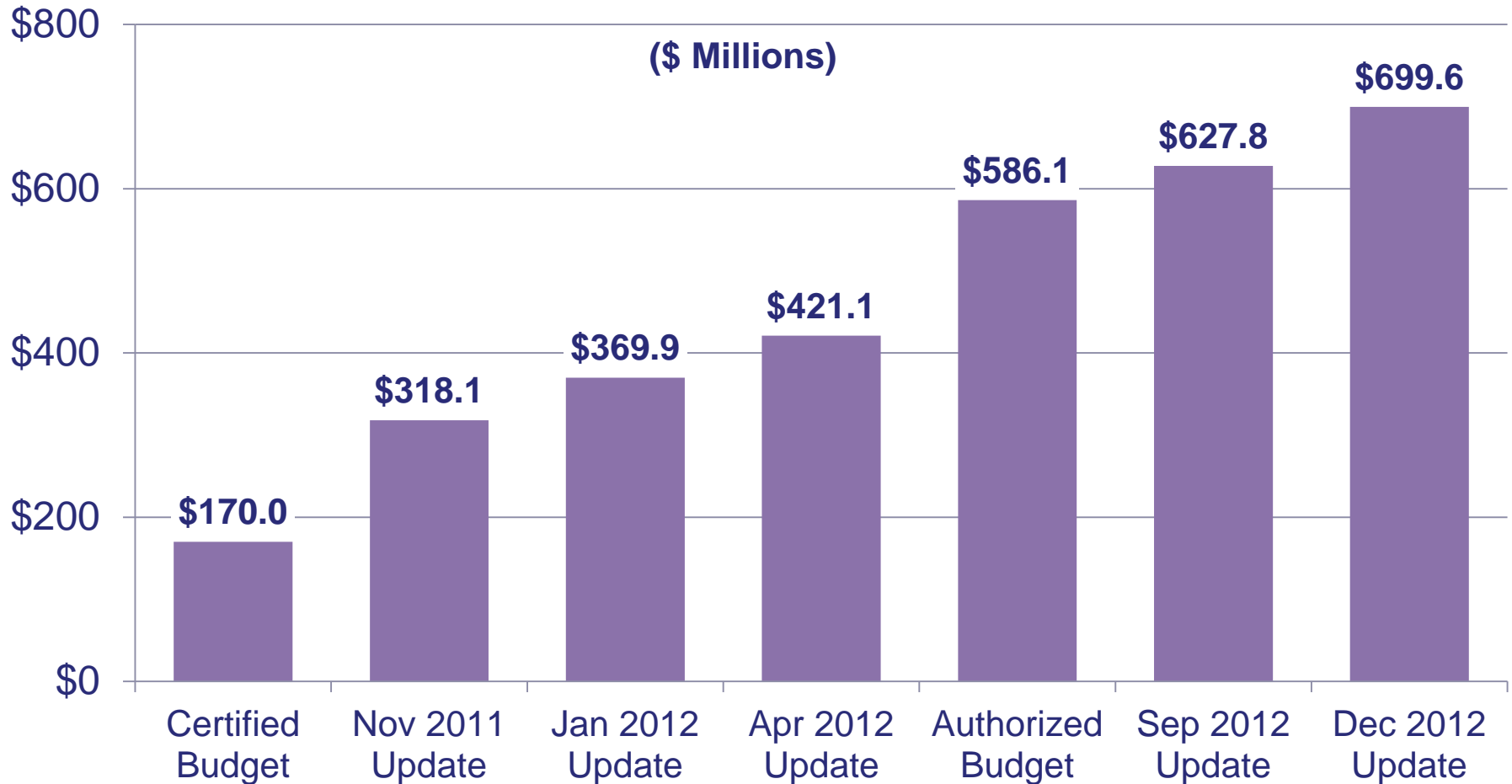
Authorized Budget and 2nd Quarter Update

FY 2012-13	Authorized Budget (per Segal 9-18-12)	2nd Quarter Update (per Segal 3-14-13)	Difference Increase/ (Decrease)
Beginning Cash Balance	\$502.2 m	\$502.2 m	\$0.0 m
Plan Revenue	\$2.936 b	\$2.947 b	\$10.5 m
Net Claims Payments	\$2.663 b	\$2.579 b	(\$84.1 m)
Net Admin. Expenses	\$189.4 m	\$170.4 m	(\$19.0 m)
Total Plan Expenses	\$2.852 b	\$2.749 b	(\$103.0 m)
Net Income/(Loss)	\$83.9 m	\$197.4 m	\$113.5 m
Ending Cash Balance	\$586.1 m	\$699.6 m	\$113.5 m
FB 2013-15 Premium Increase	1.9%	-0.6%	-2.5%
FB 2015-17 Premium Increase	15.1%	17.6%	2.5%

Forecast Comparisons: FY 2012-13 Claims



Forecast Comparisons: FY 2012-13 Ending Cash



Outlook for Upcoming Fiscal Bienniums

2nd Quarter Updated Baseline Forecast

Assuming no changes in benefits:

- 0.6% premium **decrease** for July 1st of each year of the 2013-15 biennium
- Potential State savings associated with the premium adjustment in the 2013-15 biennium
 - Total State Funding = (\$41.2 m) 2013-15
 - (\$14.0 m) in FY 2013-14 + (\$27.8 m) in FY 2014-15
 - Total General Fund Appropriation = (\$33.5 m) 2013-15
 - (\$11.2 m) in FY 2013-14 + (\$22.3 m) in FY 2014-15
- 17.6% premium increase required July 1st of each year of the 2015-17 biennium (compared to 15.1% in Authorized Budget)

Summary

- The Plan's claims trend continues to be under the budget projection
- Projected cash balance at the end of FY 2012-13:
 - \$699.6 million
 - Exceeds 7.5% target reserve amount by \$506.2 million
 - Equates to approximately 12 weeks of FY 2013-14 projected operating expenses
- Baseline premium increase for 2013-15 Fiscal Biennium is **lower** than previously forecasted
- Baseline premium increase for 2015-17 Fiscal Biennium is **higher** than previously forecasted

Authorized Budget

(Segal 9-18-12)

North Carolina State Health Plan
 Financial Projections - June 2012
 Trends: Medical 8.5% Drugs 8.5%
 With EGWP+Wrap and Spouse Rate Reduction

	2009 - 2011 Biennium		2011 - 2013 Biennium		2013 - 2015 Biennium		2015 - 2017 Biennium	
	Actual FY 2010	Actual FY 2011	Actual FY 2012	Projection FY 2013	Projection FY 2014	Projection FY 2015	Projection FY 2016	Projection FY 2017
PLAN INCOME:								
Net Contribution Income	2,413,877,944	2,684,814,172	2,750,368,851	2,874,486,516	2,916,676,038	2,959,728,308	3,393,464,293	3,891,087,902
EGWP Spouse Premium Reduction				(1,677,672)	(3,380,488)	(3,414,293)	(3,448,436)	(3,482,920)
Health care Reform ERRP Retro Disenrollments	- (1,310,146)	45,298,812 (1,281,584)	42,163,391 (451,496)	- (1,437,243)	- (1,458,338)	- (1,479,864)	- (1,696,732)	- (1,945,544)
Medicare Part D	74,357,704	66,276,535	57,583,602	39,519,892	6,118,945	6,394,298	6,682,041	6,982,733
EGWP+Wrap								
Direct Subsidy	-	-	-	19,759,856	49,128,383	53,467,015	57,652,316	60,557,992
Coverage Gap Subsidy	-	-	-	-	23,881,638	25,579,742	26,752,699	27,822,807
Catastrophic Subsidy	-	-	-	-	-	12,367,808	13,247,221	13,914,881
Total	-	-	-	19,759,856	73,010,020	91,414,565	97,652,235	102,295,680
Appropriations from State Reserve								
Investment Earnings	3,532,448	2,861,085	3,015,819	5,658,262	5,634,496	3,897,996	2,188,479	2,330,393
Total Plan Income	2,490,457,950	2,797,969,020	2,852,680,167	2,936,309,611	2,996,600,673	3,056,541,009	3,494,841,881	3,997,268,243
PLAN EXPENSE:								
Medical Claims Payment	1,829,432,245	1,852,549,690	1,849,410,105	2,003,583,417	2,164,584,776	2,338,776,406	2,533,991,483	2,731,021,739
Claim Refunds	(31,916,831)	(24,723,681)	(22,634,615)	(31,216,928)	(34,171,210)	(36,920,558)	(40,003,154)	(43,111,401)
Net Medical Claims	1,797,515,414	1,827,826,009	1,826,775,490	1,972,366,489	2,130,413,566	2,301,855,848	2,493,988,330	2,687,910,338
Pharmacy Claims Payment Rebates	N/A N/A	N/A N/A	721,163,013 (93,130,160)	743,436,376 (53,940,467)	803,206,762 (55,826,830)	867,853,936 (57,785,556)	937,782,114 (59,831,034)	1,013,429,567 (61,915,172)
Net Pharmacy Claims	596,709,775	655,868,735	628,032,853	689,495,909	747,379,932	810,068,380	877,951,079	951,514,395
EGWP+Wrap Reduction in Rebates				766,594	3,124,038	3,218,384	3,315,579	3,415,709
EGWP+Wrap Claim Increase				417,042	899,806	995,141	1,100,576	1,217,182
Total Pharmacy Claims	596,709,775	655,868,735	628,032,853	690,679,545	751,403,776	814,281,904	882,367,234	956,147,286
Total Claims	2,394,225,189	2,483,694,744	2,454,808,343	2,663,046,034	2,881,817,342	3,116,137,752	3,376,355,564	3,644,057,624
Administrative Costs	164,649,780	165,902,094	165,480,561	183,604,143	189,112,267	194,785,635	200,629,204	205,822,850
Extra EGWP+Wrap Administration	-	-	0	5,783,249	11,616,926	12,085,088	12,572,117	13,078,773
Total Plan Expense	2,558,874,969	2,649,596,838	2,620,288,904	2,852,433,426	3,082,546,535	3,323,008,476	3,589,556,885	3,862,959,248
Plan Income (Loss)	(68,417,019)	148,372,182	232,391,263	83,876,185	(85,945,862)	(266,467,466)	(94,715,005)	134,308,995
Beginning Cash Balance (Deficit)	189,901,049	121,484,030	269,856,212	502,247,475	586,123,660	500,177,798	233,710,331	138,995,327
Ending Cash Balance (Deficit)	121,484,030	269,856,212	502,247,475	586,123,660	500,177,798	233,710,331	138,995,327	273,304,322
Target Stabilization Reserve at 7.5%	179,566,889	186,277,106	184,110,626	199,728,453	216,136,301	233,710,331	253,226,667	273,304,322
	//1 Increase	//1 Increase	//1 Increase	//1 Increase	//1 Increase	//1 Increase	//1 Increase	//1 Increase
Premium Increase:	8.9%	8.9%	5.3%	5.3%	1.9%	1.9%	15.1%	15.1%

Q1 Update

(Segal 11-15-12)

North Carolina State Health Plan Financial Projections - Sept 2012 Trends: Medical 8.5% Drugs 8.5% With EGWP+Wrap and Spouse Rate Reduction

	2009 - 2011 Biennium		2011 - 2013 Biennium		2013 - 2015 Biennium		2015 - 2017 Biennium	
	Actual FY 2010	Actual FY 2011	Actual FY 2012	Projection FY 2013	Projection FY 2014	Projection FY 2015	Projection FY 2016	Projection FY 2017
PLAN INCOME:								
Net Contribution Income	2,413,877,944	2,684,814,172	2,750,368,851	2,881,178,126	2,905,794,584	2,924,823,970	3,361,816,387	3,864,425,033
EGWP Spouse Premium Reduction				(2,380,577)	(4,796,834)	(4,844,802)	(4,893,250)	(4,942,183)
Health care Reform ERRP	-	45,298,812	42,163,391	(558,219)	-	-	-	-
Retro Disenrollments	(1,310,146)	(1,281,584)	(451,496)	(1,229,459)	(1,452,897)	(1,462,412)	(1,680,908)	(1,932,213)
Medicare Part D	74,357,704	66,276,535	57,583,602	39,484,930	6,022,192	6,293,191	6,576,385	6,872,322
EGWP+Wrap								
Direct Subsidy	-	-	-	19,759,856	49,128,383	53,467,015	57,652,316	60,557,992
Coverage Gap Subsidy	-	-	-	-	23,881,638	25,579,742	26,752,699	27,822,807
Catastrophic Subsidy	-	-	-	-	-	12,367,808	13,247,221	13,914,881
Total	-	-	-	19,759,856	73,010,020	91,414,565	97,652,235	102,295,680
Investment Earnings	3,532,448	2,861,085	3,015,819	5,276,364	5,969,875	4,214,395	2,169,585	2,314,107
Total Plan Income	2,490,457,950	2,797,969,020	2,852,680,167	2,941,531,021	2,984,546,940	3,020,438,907	3,461,640,433	3,969,032,747
PLAN EXPENSE:								
Medical Claims Payment	1,829,432,245	1,852,549,690	1,849,410,105	1,959,418,996	2,173,445,682	2,306,478,258	2,503,378,397	2,698,259,632
Claim Refunds	(31,916,831)	(24,723,681)	(22,634,615)	(29,465,322)	(33,861,914)	(36,388,828)	(40,058,934)	(42,593,587)
Net Medical Claims	1,797,515,414	1,827,826,009	1,826,775,490	1,929,953,674	2,139,583,768	2,270,089,430	2,463,319,463	2,655,666,045
Pharmacy Claims Payment	N/A	N/A	721,163,013	749,381,163	811,734,220	877,142,174	947,899,910	1,024,451,990
Rebates	N/A	N/A	(93,130,160)	(53,940,471)	(55,826,834)	(57,785,560)	(60,201,307)	(62,303,702)
Net Pharmacy Claims	596,709,775	655,868,735	628,032,853	695,440,692	755,907,386	819,356,614	887,698,603	962,148,288
EGWP+Wrap Reduction in Rebates				766,594	3,124,038	3,218,384	3,315,579	3,415,709
EGWP+Wrap Claim Increase				417,042	899,806	995,141	1,100,576	1,217,182
Total Pharmacy Claims	596,709,775	655,868,735	628,032,853	696,624,327	759,931,230	823,570,138	892,114,758	966,781,179
Total Claims	2,394,225,189	2,483,694,744	2,454,808,343	2,626,578,001	2,899,514,997	3,093,659,568	3,355,434,221	3,622,447,224
Administrative Costs	164,649,780	165,902,094	165,480,561	183,604,143	189,112,267	194,785,635	194,426,051	194,426,051
Extra EGWP+Wrap Administration	-	-	0	5,783,249	11,616,926	12,085,088	12,140,279	12,140,279
Total Plan Expense	2,558,874,969	2,649,596,838	2,620,288,904	2,815,965,393	3,100,244,191	3,300,530,292	3,562,000,552	3,829,013,555
Plan Income (Loss)	(68,417,019)	148,372,182	232,391,263	125,565,628	(115,697,250)	(280,091,385)	(100,360,118)	140,019,192
Beginning Cash Balance (Deficit)	189,901,049	121,484,030	269,856,212	502,247,475	627,813,103	512,115,853	232,024,468	131,664,350
Ending Cash Balance (Deficit)	121,484,030	269,856,212	502,247,475	627,813,103	512,115,853	232,024,468	131,664,350	271,683,542
Target Stabilization Reserve	179,566,889	186,277,106	184,110,626	196,993,350	217,463,625	232,024,468	251,657,567	271,683,542
			7.5%	7.5%	7.5%	7.5%	7.5%	7.5%
Premium Increase:	7/1 Increase	7/1 Increase	7/1 Increase	7/1 Increase	1/1 Increase	1/1 Increase	1/1 Increase	1/1 Increase
	8.9%	8.9%	5.3%	5.3%	1.1%	1.1%	15.4%	15.4%

Q2 Update

(Segal 3-12-13)

North Carolina State Health Plan Financial Projections - Dec 2012 Trends - 8.5% Medical & Pharmacy With Dental, MHSA and ACA Reinsurance Fee

	2009 - 2011 Biennium		2011 - 2013 Biennium		2013 - 2015 Biennium		2015 - 2017 Biennium	
	Actual FY 2010	Actual FY 2011	Actual FY 2012	Projection FY 2013	Projection FY 2014	Projection FY 2015	Projection FY 2016	Projection FY 2017
PLAN INCOME:								
Net Contribution Income	2,413,877,944	2,684,814,172	2,750,368,851	2,888,055,367	2,867,192,037	2,838,665,789	3,324,222,451	3,893,161,726
EGWP/PDP Spouse Premium Reduction	-	-	-	(2,474,820)	(4,986,732)	(5,036,599)	(5,086,965)	(5,137,835)
Health care Reform ERRP	-	45,298,812	42,163,391	(558,219)	-	-	-	-
Retro Disenrollments	(1,310,146)	(1,281,584)	(451,496)	(953,256)	(1,433,596)	(1,419,333)	(1,662,111)	(1,946,581)
Medicare Part D	74,357,704	66,276,535	57,583,602	39,186,799	6,218,762	6,498,606	6,791,044	7,096,641
EGWP+Wrap								
Direct Subsidy	-	-	-	20,745,749	51,579,580	56,134,684	60,528,804	63,579,456
Coverage Gap Subsidy	-	-	-	-	25,073,181	26,856,011	28,087,490	29,210,990
Catastrophic Subsidy	-	-	-	-	-	12,984,884	13,908,174	14,609,146
Total	-	-	-	20,745,749	76,652,762	95,975,578	102,524,469	107,399,592
Appropriations from State Reserve								
Investment Earnings	3,532,448	2,861,085	3,015,815	2,763,944	2,665,435	1,824,202	790,100	895,429
Total Plan Income	2,490,457,950	2,797,969,020	2,852,680,163	2,946,765,563	2,946,308,668	2,936,508,243	3,427,578,986	4,001,468,972
PLAN EXPENSE:								
Medical Claims Payment	1,829,432,245	1,852,549,690	1,849,410,105	1,927,218,996	2,146,442,728	2,277,747,133	2,472,113,547	2,664,472,655
Claim Refunds	(31,916,831)	(24,723,681)	(22,634,615)	(27,984,755)	(33,441,403)	(35,935,757)	(39,559,055)	(42,060,483)
Dental & MHSA Enhancement					5,336,171	6,786,124	7,365,203	7,938,301
Net Medical Claims	1,797,515,414	1,827,826,009	1,826,775,490	1,899,234,241	2,118,337,497	2,248,597,501	2,439,919,695	2,630,350,473
Pharmacy Claims Payment								
Rebates	N/A	N/A	721,163,013	747,552,157	816,574,151	882,342,892	992,085,394	1,033,506,748
Calendar Year Adjustments			(93,130,160)	(69,039,330)	(66,929,711)	(61,997,748)	(64,146,013)	(66,377,816)
Net Pharmacy Claims	596,709,775	655,868,735	628,032,853	678,512,828	749,644,440	820,345,144	927,939,381	967,128,932
MA-PDP Savings								
EGWP+Wrap Reduction in Rebates				804,842	3,279,908	3,378,961	3,481,005	3,586,132
EGWP+Wrap Claim Increase				437,850	944,701	1,044,792	1,155,488	1,277,912
Total Pharmacy Claims	596,709,775	655,868,735	628,032,853	679,755,520	753,869,048	824,768,897	932,575,874	971,992,975
Total Claims	2,394,225,189	2,483,694,744	2,454,808,343	2,578,989,761	2,872,206,545	3,073,366,397	3,372,495,569	3,602,343,448
Administrative Costs	164,649,780	165,902,094	165,480,561	164,665,404	170,829,702	177,151,548	176,821,843	176,821,843
ACA Reinsurance Fee						34,632,846	21,039,454	14,201,632
Extra EGWP+Wrap Administration	-	-	-	5,783,249	11,616,926	12,085,088	12,572,117	13,078,773
Total Plan Expense	2,558,874,969	2,649,596,838	2,620,288,904	2,749,438,414	3,054,653,173	3,297,235,880	3,582,928,983	3,806,445,697
Plan Income (Loss)	(68,417,019)	148,372,182	232,391,259	197,327,150	(108,344,505)	(360,727,637)	(155,349,997)	195,023,276
Beginning Cash Balance (Deficit)	189,901,049	121,484,030	269,856,212	502,247,471	699,574,621	591,230,116	230,502,480	75,152,483
Ending Cash Balance (Deficit)	121,484,030	269,856,212	502,247,471	699,574,621	591,230,116	230,502,480	75,152,483	270,175,759
Target Stabilization Reserve	179,566,889	186,277,106	184,110,626	193,424,232	215,415,491	230,502,480	252,937,168	270,175,759
	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%
Premium Increase:	8.9%	8.9%	5.3%	5.3%	-0.6%	-0.6%	17.6%	17.6%