



North Carolina
State Health Plan
FOR TEACHERS AND STATE EMPLOYEES



4th Quarter Actuarial Forecast Update

Board of Trustees Meeting

September 27, 2013

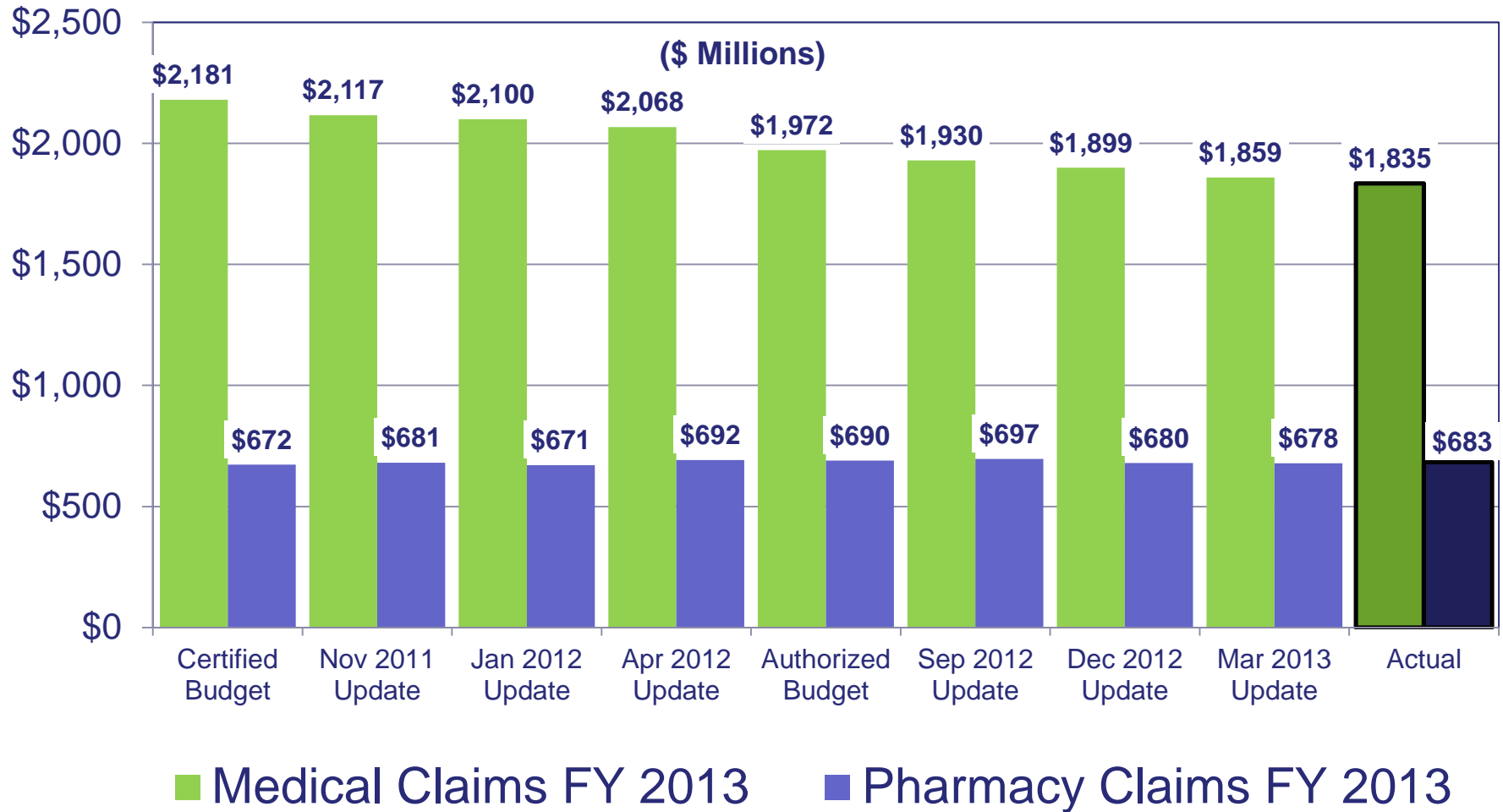
Forecast prepared by The Segal Company
Final version dated 9-17-13

A Division of the Department of State Treasurer

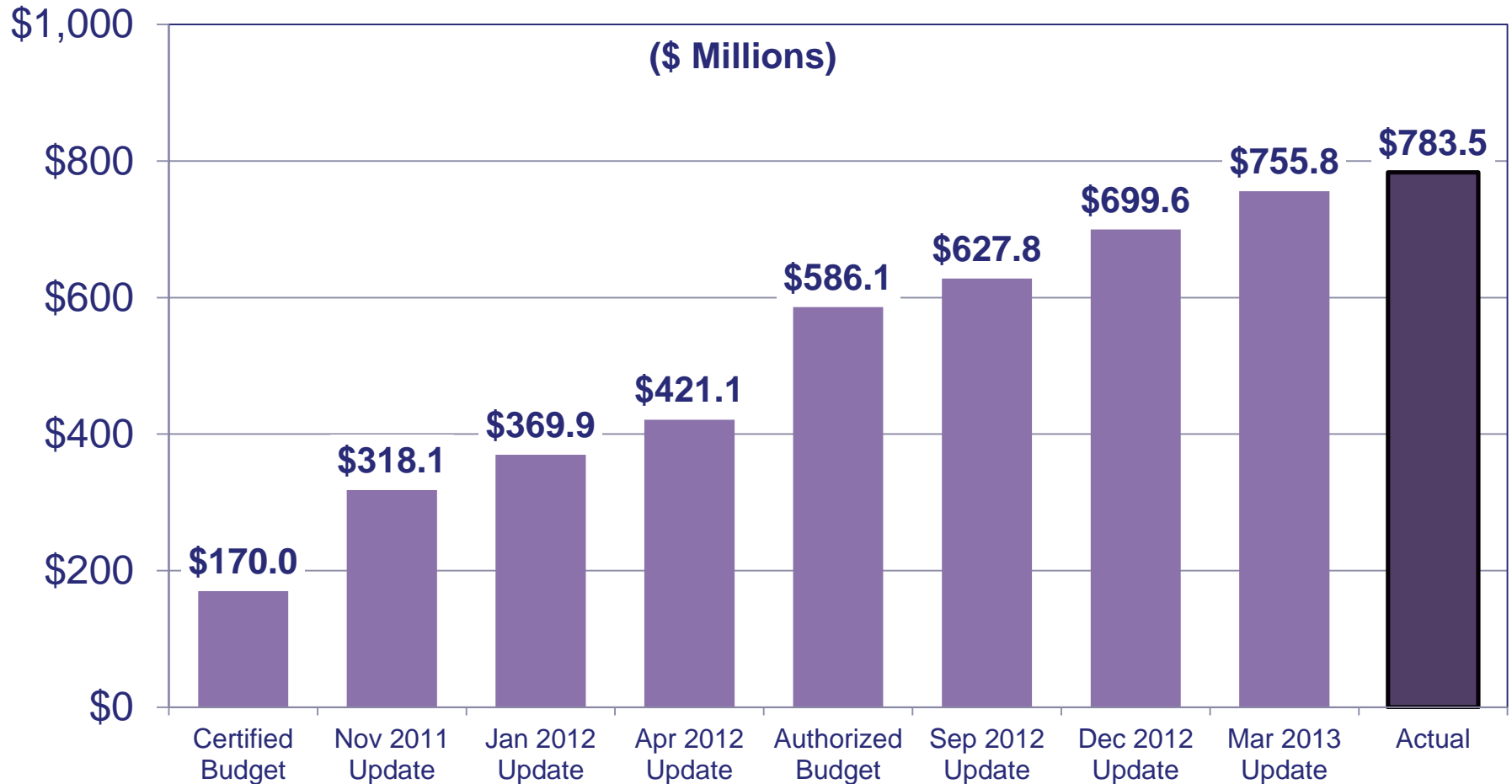
Presentation Overview

- Final Fiscal Year 2012-13 Charts
- Forecast update schedule
- Updated assumptions: 3rd Quarter vs. 4th Quarter Projection
- Updated forecast for Short Plan Year (July-December 2013)
- Summary and Long-Term Outlook

Forecast Comparisons: FY 2012-13 Claims



Forecast Comparisons: FY 2012-13 Ending Cash



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

3rd Quarter Update vs. 4th Quarter Update

- Overall trend assumption of 8.5%
- Membership trends
 - 1% annual decrease in actives
 - 1% annual increase in retirees
- Short plan year, July-December 2013
- New plan offerings as of January 1, 2014
- Includes impact of:
 - SL 2013-360, Appropriations Act, SB 402 funding to increase employer contributions for health plan coverage during the 2013-15 biennium
 - SL 2013-379, Amend Pharmacy Laws, HB 675 pertaining to audits
 - Coverage changes approved by Board in July to comply with Federal Mental Health Parity Act

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

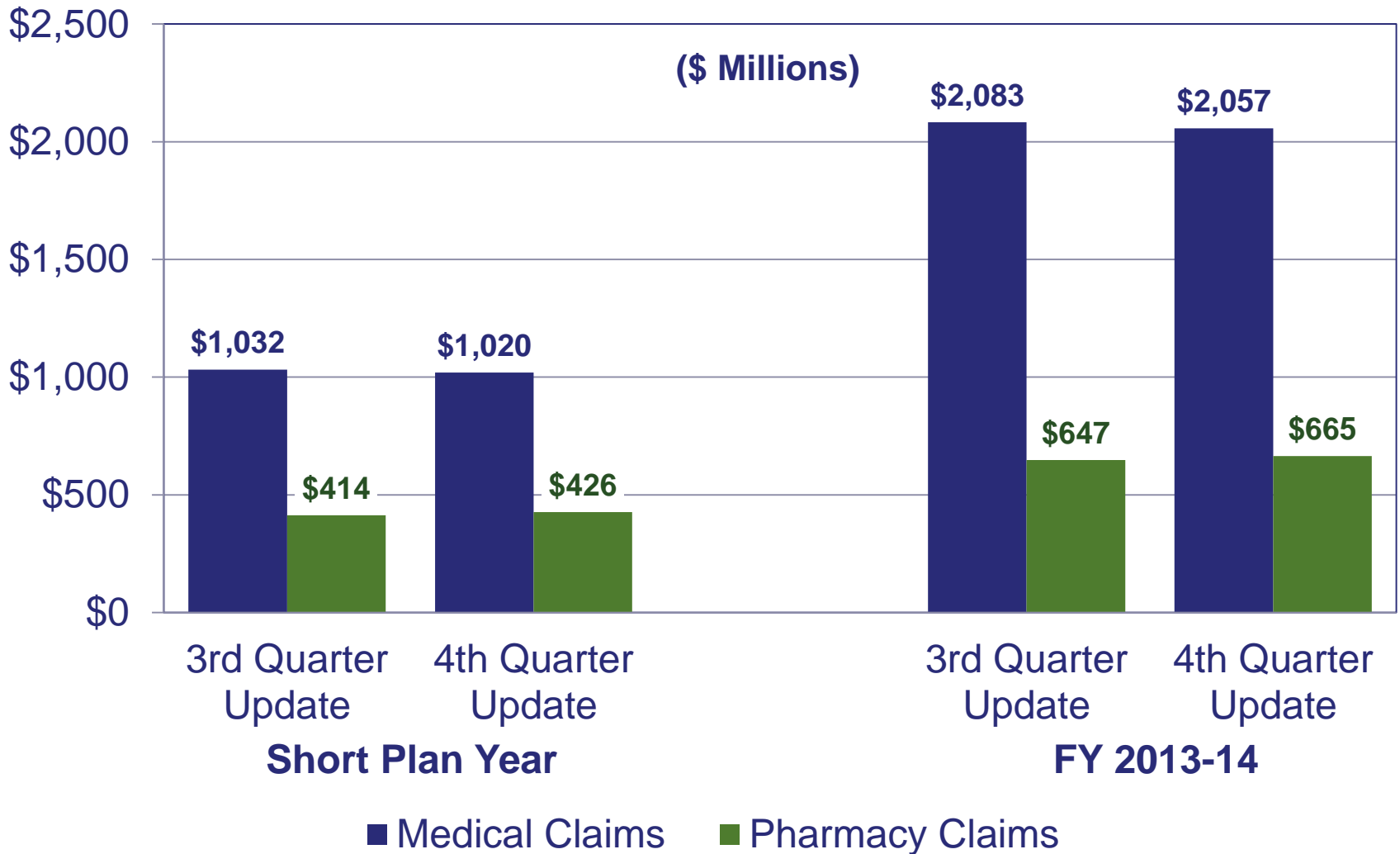
3rd Quarter Update vs. 4th Quarter Update

- Membership based on actual June 2013 counts (instead of March 2013)
- Anticipated claims expenditures based on actual experience through June 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
- Projected pharmacy rebate amounts increased to reflect more recent expectations

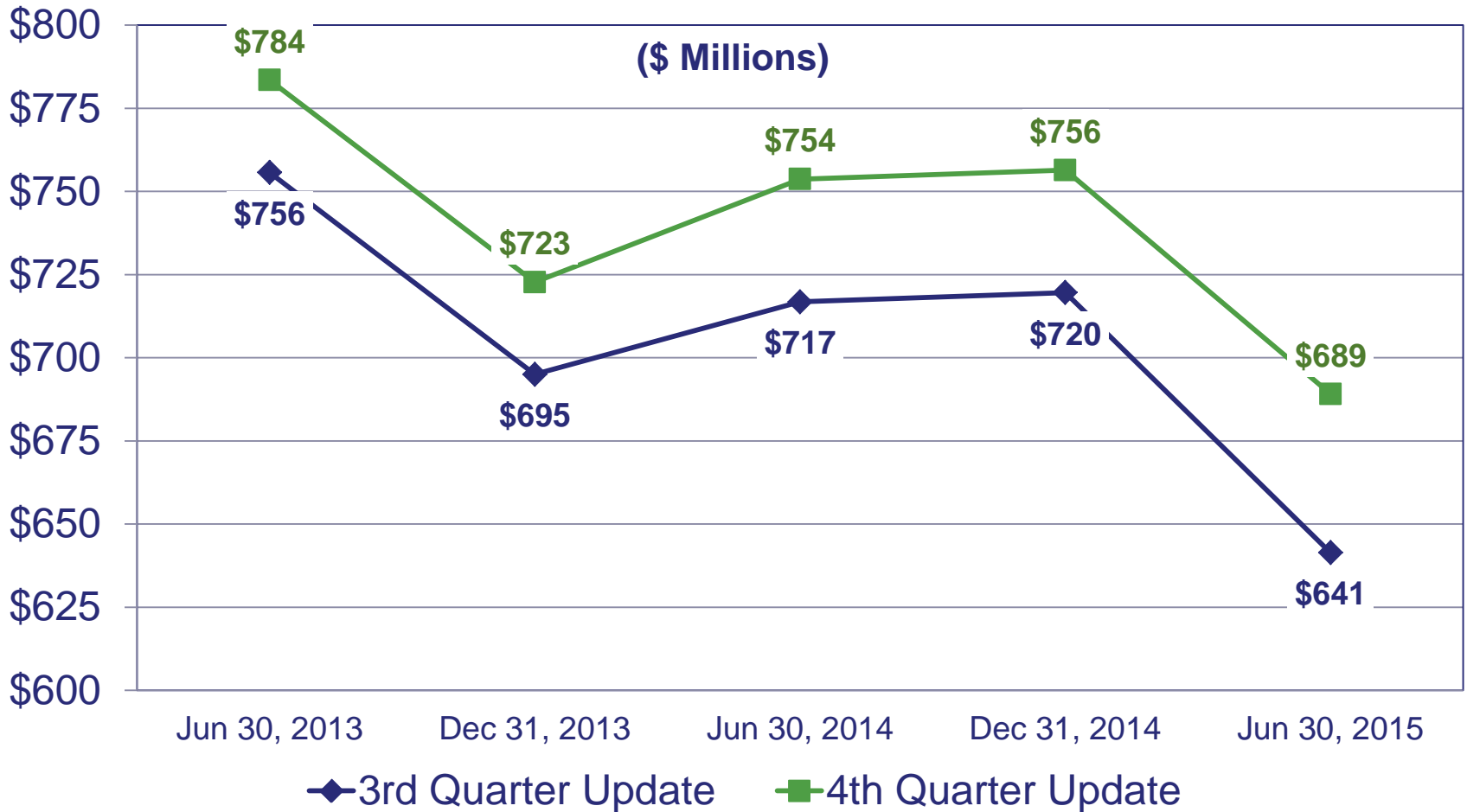
Comparison of Models for Short Plan Year (Jul-Dec 2013) 3rd Quarter Update vs. 4th Quarter Update

Short Plan Year July – December 2013	3 rd Quarter Update (Final Version per Segal 8-19-13)	4 th Quarter Update (per Segal 9-17-13)	Difference Increase/ (Decrease)
Beginning Cash Balance	\$755.8 m	\$783.5 m	\$27.7 m
Plan Revenue	\$1.476 b	\$1.477 b	\$0.8 m
Net Claims Payments	\$1.445 b	\$1.446 b	\$0.8 m
Net Admin. Expenses	\$91.3 m	\$91.3 m	\$0.0 m
Total Plan Expenses	\$1.537 b	\$1.538 b	\$0.8 m
Net Income/(Loss)	(\$60.8 m)	(\$60.8 m)	\$0.0 m
Ending Cash Balance	\$695.0 m	\$722.7 m	\$27.7 m

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



Forecast Comparisons: Ending Cash Balances



Summary/FB 2015-17 Outlook

Final Fiscal Year 2012-13 results:

- Actual medical claims ended **\$25 million below** the 3rd Quarter Update
- Actual pharmacy claims ended **\$5 million above** the 3rd Quarter Update

Current Fiscal Biennium: 2013-2015

- Relative to the 3rd Quarter Update, the 4th Quarter Update projects slightly **lower** medical claims costs and slightly **higher** pharmacy claims costs

Fiscal Biennium 2015-17 Outlook

- Cash balance to start the 2015-17 Fiscal Biennium:
 - \$689.1 million
 - \$47.8 million higher than the 3rd Quarter Update (mostly due to higher starting balance – actual FY 2013 ending cash higher than 3rd Quarter projection)
 - Exceeds the 9.0% target reserve amount by \$434.7 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 4th Quarter Update projects a 7.64% premium increase for January 1st of each year of the 2015-17 biennium. This is **lower** than the previous projection (of 8.22%)
- **Caveat:** While the 4th Quarter Update indicates we can expect our cash balance to continue to exceed projections (slide 10) – an indication claims experience is likely to continue to be less than projected – actual claims payments in the 1st quarter of FY 2013-14 are close to or exceeding projections.

Q3 Update

(Final Version
Segal 8-19-2013)

**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	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	2,895,781,603	1,442,578,008	1,490,952,575	1,487,864,429	1,516,588,534	1,513,510,299	1,634,606,643	1,631,357,328	1,781,956,879	1,758,528,795
EGWP/PDP Spouse Premium Reduction		(1,244,665)	(2,498,837)	(14,615,034)	(14,687,927)	(14,781,184)	(14,834,807)	(14,908,796)	(14,983,155)	(15,057,884)	(15,132,986)
MA Spouse Premium Reduction			(5,898,039)	(5,927,458)	(5,957,019)	(5,986,730)	(6,016,589)	(6,046,598)	(6,076,755)	(6,107,063)	(6,137,371)
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	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	18,164,492	18,129,151
CDHP Premium Reduction			-	(3,528,927)	(3,521,818)	(4,751,766)	(4,747,728)	(5,957,822)	(5,945,979)	(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	3,320,859
EGWP+Wrap											
Direct Subsidy	-	25,008,159	25,151,533	-	-	-	-	-	-	-	-
Coverage Gap Subsidy	-	-	7,195,769	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	2,852,680,163	2,958,251,928	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	1,780,504,458	1,776,386,545
PLAN EXPENSE:											
Medical Claims Payment	1,849,410,105	1,882,949,142	997,508,625	1,111,574,513	1,036,956,734	1,201,076,486	1,130,686,803	1,298,249,706	1,217,598,950	1,400,256,154	1,312,797,082
Claim Refunds	(22,634,615)	(23,855,443)	(12,060,684)	(12,583,200)	(12,885,851)	(13,596,192)	(14,362,157)	(14,789,230)	(15,257,602)	(15,736,111)	(16,451,838)
Dental & MHSA Enhancement			1,965,794	3,370,442	3,144,191	3,428,824	3,428,393	3,936,466	3,691,922	4,245,763	3,980,576
Medicare Advantage Claims Reduction				(51,465,701)	(60,190,041)	(65,631,913)	(65,959,257)	(71,922,732)	(72,281,451)	(78,816,526)	(79,206,628)
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	21,922,781
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	17,400,803
Premium Incentive			(7,995,527)	(11,972,541)	(11,462,987)	(11,446,086)	(15,440,086)	(12,527,363)	(12,502,373)	(19,984,282)	(19,945,259)
CDHP Claims Reduction			(2,705,932)	(4,051,876)	(5,771,199)	(5,760,920)	(8,941,127)	(8,923,291)	(12,953,021)	(12,927,728)	(12,927,728)
Limited Network Savings			310,434	464,845	390,200	399,624	389,624	602,750	601,547	576,589	575,483
PCP Copay Waiver			4,407,787	8,600,242	(367,417)	(366,875)	(4,088,355)	(4,078,203)	(17,078,970)	(17,045,620)	(17,045,620)
Mental Health Enhancements			451,938	608,120	704,185	682,915	765,427	717,677	830,633	778,752	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	1,280,102,988	1,211,875,383
Medicare Advantage Premiums			-	86,864,745	87,297,988	108,861,089	109,404,040	133,102,486	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)	(32,607,518)	(23,014,123)	(26,428,528)	(23,850,891)	(27,281,378)	(24,724,242)	(28,163,286)	(25,823,274)
Calendar Year Adjustments			6,211,534	(9,511,046)	11,406,548	(10,470,311)	12,325,781	(12,201,284)	12,627,650	(13,186,116)	13,647,560
Net Pharmacy Claims	628,032,853	677,065,471	410,785,408	346,976,963	449,525,637	389,531,630	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)	(152,603,370)	(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		222,782	462,707	-	-	-	-	-	-	-	-
Expand Coverage of Diabetic Test Strips			591,768	686,454	813,546	741,737	879,099	869,588	881,885	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			(188,553)	(265,758)	(265,758)	(258,101)	(305,899)	(321,725)	(326,275)	(370,373)	(375,627)
Total Pharmacy Claims	628,032,853	678,066,922	413,475,579	233,824,638	310,922,331	232,264,620	334,847,983	287,664,597	321,199,992	309,662,242	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	1,600,892,923	1,729,570,723	1,718,169,132
Administrative Costs	165,480,561	164,665,404	85,504,284	91,148,330	88,666,681	88,484,867	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	1,536,712,490	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	718,822,218	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	255,231,860	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%
Premium Increase:	7/1 Increase	7/1 Increase		1/1 Increase		1/1 Increase		1/1 Increase		1/1 Increase	
	5.3%	5.3%		3.57%		2.14%		8.22%		8.22%	

Q4 Update

(Segal 9-17-13)

North Carolina State Health Plan
Financial Projections - Jun 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

	2011 - 2013 Biennium		2013 - 2015 Biennium				2015 - 2017 Biennium				
	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 Jul-Dec	Calendar 2015 Jan-Jun	Calendar 2015 Jul-Dec	Calendar 2016 Jan-June	Calendar 2016 July-Dec	Calendar 2017 Jan-Jun	Calendar 2017 Jul-Dec
PLAN INCOME:											
Net Contribution Income	2,750,368,851	2,895,366,140	1,442,174,466	1,490,547,441	1,487,472,109	1,516,200,908	1,513,135,765	1,625,450,041	1,622,232,251	1,742,717,907	1,739,341,677
EGWP/PDP Spouse Premium Reduction			(2,487,307)	(14,619,077)	(14,691,991)	(14,785,288)	(14,838,911)	(14,912,921)	(14,987,300)	(15,062,050)	(15,137,173)
MA Spouse Premium Reduction			(5,915,367)	(5,944,871)	(5,974,521)	(5,974,521)	(6,004,319)	(6,034,266)	(6,064,383)	(6,094,806)	(6,125,008)
MA Buy-up Premium				11,086,677	11,141,972	15,329,232	15,405,688	20,010,236	20,110,038	25,172,031	25,297,578
Health care Reform ERRP	42,163,391	(558,219)									
Retro Disenrollments	(451,496)	(487,819)	(721,087)	(745,274)	(743,738)	(758,100)	(758,568)	(812,725)	(811,116)	(871,359)	(869,671)
Premium Incentive				(15,191,859)	(15,160,315)	(14,132,995)	(14,121,033)	18,418,359	18,381,897	18,234,380	18,199,054
CDHP Premium Reduction				(3,511,855)	(3,504,610)	(4,728,115)	(4,724,113)	(5,927,555)	(5,915,821)	(7,102,205)	(7,088,445)
Medicare Part D	57,583,602	38,056,016	3,480,930	4,292,522	3,637,572	4,485,686	3,801,263	4,687,542	3,972,320	4,898,481	4,151,074
EGWP+Wrap											
Direct Subsidy	-	24,435,483	25,486,468	-	-	-	-	-	-	-	-
Coverage Gap Subsidy	-	-	7,246,510	18,126,022	-	-	-	-	-	-	-
Catastrophic Subsidy	-	-	-	-	13,139,911	-	-	-	-	-	-
Total	-	24,435,483	32,732,978	18,126,022	13,139,911	-	-	-	-	-	-
Appropriations from State Reserve											
Investment Earnings	3,015,815	3,236,713	1,499,854	1,484,750	1,545,368	1,449,429	1,282,970	1,125,880	999,600	846,301	721,467
Total Plan Income	2,852,680,163	2,960,048,314	1,476,679,834	1,485,554,180	1,476,891,411	1,497,106,256	1,493,180,742	1,642,004,560	1,637,917,507	1,762,738,876	1,758,490,555
PLAN EXPENSE:											
Medical Claims Payment	1,849,410,105	1,858,096,405	985,190,847	1,097,790,133	1,024,105,824	1,189,201,329	1,116,692,340	1,282,191,803	1,202,548,316	1,382,959,214	1,296,591,064
Claim Refunds	(22,634,615)	(23,467,914)	(11,856,867)	(12,427,128)	(12,726,122)	(13,427,769)	(14,184,290)	(14,606,266)	(15,068,895)	(15,541,887)	(16,248,702)
Dental & M&SA Enhancement			1,965,773	3,370,429	3,144,204	3,641,869	3,428,483	3,936,578	3,692,057	4,245,954	3,880,787
Medicare Advantage Claims Reduction				(51,998,249)	(60,761,863)	(66,255,435)	(66,685,888)	(72,906,018)	(72,968,145)	(79,565,305)	(76,962,142)
Calendar Year Adjustments			44,524,878	(4,229,258)	14,039,329	(14,419,571)	18,822,423	(17,792,129)	20,205,326	(19,304,460)	21,922,781
Preventative at 100% in Standard Plan				9,667,771	13,547,862	15,338,830	14,810,139	16,534,080	15,936,126	17,817,328	17,166,254
Premium Incentive				(7,870,811)	(11,785,870)	(11,278,934)	(11,262,371)	(12,267,698)	(12,243,326)	(19,636,512)	(19,598,330)
CDHP Claims Reduction				(2,677,783)	(4,009,753)	(5,714,828)	(5,706,435)	(8,856,958)	(8,839,362)	(12,834,027)	(12,809,073)
Limited Network Savings			306,831	385,508	459,453	385,508	384,942	597,628	596,440	571,179	570,069
PCP Copay Waiver			4,374,516	6,550,465	(400,206)	(399,618)	(399,618)	(4,095,020)	(4,086,884)	(17,120,631)	(17,087,342)
Mental Health Enhancements			451,937	608,123	704,182	704,182	662,918	765,424	717,880	830,629	778,755
Net Medical Claims	1,826,775,490	1,834,628,491	1,019,824,631	1,036,788,388	973,171,653	1,094,774,976	1,056,462,623	1,173,801,425	1,130,489,565	1,242,421,682	1,195,304,122
Medicare Advantage Premiums			-	88,021,495	88,460,508	110,212,713	110,762,406	134,868,503	135,340,171	161,607,300	162,413,326
Pharmacy Claims Payment	721,163,013	752,419,650	439,471,366	400,667,190	474,851,078	432,941,019	513,121,759	507,563,056	514,744,662	548,539,882	556,324,465
Rebates	(93,130,160)	(69,641,941)	(22,231,618)	(37,631,175)	(23,038,391)	(33,453,422)	(23,876,429)	(27,307,574)	(24,751,103)	(28,190,866)	(25,651,553)
Calendar Year Adjustments			6,396,219	(10,452,836)	11,745,894	(10,781,873)	12,662,680	(12,564,560)	13,003,743	(13,578,939)	14,054,262
Net Pharmacy Claims	628,032,853	682,777,709	423,635,967	362,583,179	463,568,581	388,705,724	501,938,011	467,690,921	502,997,303	506,770,077	544,727,174
MA-PDP Claims Reduction				(115,393,569)	(140,344,687)	(153,033,461)	(153,796,725)	(167,701,719)	(168,538,141)	(183,775,928)	(184,692,522)
EGWP+Wrap Reduction in Rebates			1,647,855	838,031							
EGWP+Wrap Claim Increase			-	468,869							
Expand Coverage of Diabetic Test Strips			591,761	686,451	813,549	741,745	879,117	869,593	881,897	939,797	953,135
HB 875 - Pharmacy Audit Changes				100,000	104,617	95,383	113,048	111,824	113,406	120,851	122,566
Specialty Pharmacy Tier				(188,553)	(265,759)	(258,100)	(305,900)	(321,724)	(326,276)	(370,372)	(375,628)
Total Pharmacy Claims	628,032,853	682,777,709	426,344,452	238,625,540	323,866,300	236,251,291	348,827,551	300,648,895	335,128,199	323,684,426	360,734,725
Total Claims	2,454,808,343	2,517,406,200	1,446,169,083	1,363,435,424	1,385,498,461	1,441,238,980	1,516,052,580	1,609,118,824	1,600,957,925	1,727,713,408	1,718,452,173
Administrative Costs	165,480,561	161,401,639	85,503,942	91,148,672	88,666,322	88,485,226	91,324,401	93,690,104	93,690,104	93,506,610	96,125,220
ACA Reinsurance Fee						34,632,846		21,039,454		14,201,632	
Extra EGWP+Wrap Administration			5,794,014								
Total Plan Expense	2,620,288,904	2,678,807,839	1,537,467,039	1,454,584,096	1,474,164,783	1,564,357,052	1,607,376,981	1,721,299,971	1,694,648,029	1,835,421,650	1,814,577,393
Plan Income (Loss)	232,391,259	281,240,475	(60,787,205)	30,970,084	2,726,628	(67,250,796)	(114,196,240)	(79,295,381)	(56,730,522)	(72,682,774)	(56,086,837)
Beginning Cash Balance (Deficit)	269,856,212	502,247,471	783,487,946	722,700,741	753,670,825	756,397,453	689,146,657	574,950,417	495,655,036	438,924,513	366,241,740
Ending Cash Balance (Deficit)	502,247,471	783,487,946	722,700,741	753,670,825	756,397,453	689,146,657	574,950,417	495,655,036	438,924,513	366,241,740	310,154,902
Target Stabilization Reserve	184,110,626	201,392,466	115,693,527	238,816,383	233,659,380	254,406,370	266,156,240	281,265,426	288,906,907	299,580,420	310,154,902
	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%		7.64%		7.64%	