Financial Report

Board of Trustees Meeting

October 24, 2024

North Carolina State Health Plan
FOR TEACHERS AND STATE EMPLOYEES
A Division of the Department of State Treasurer

State Treasurer of North Carolina
Dale R. Folwell, CPA

Overview

Budget Updates

Projection Updates

Strategies for Balancing the Budget

State Health Plan Budget

- Staff develop the Plan's budget using projections of revenue and expenses in consultation with the Plan's external actuaries.
- Budget Assumptions:
  - No changes to benefits or premiums, except changes that have been approved by the Board.
  - Employer contribution rate = maximum allowed in State budget
- The Board requires the Plan's budget to maintain a year-end cash balance that exceeds the Target Stabilization Reserve (TSR).
- TSR is the minimum reserve required to pay for services already provided to members.

TSR = 9% of Calendar Year Claims

- **~$390M**

Budget Monitoring and Adjustments

- In recent history, the Plan has maintained significant reserves. As reserves decrease, it's crucial to closely monitor the budget and spending by:
  - Adjusting budget for changes in contribution rates, administrative actions, and Board or legislative decisions.
  - Updating financial projections quarterly to reflect enrollment and claims experience.
  - Promptly addressing variances between budgeted and actual figures.
  - Managing significant volatility in timing by adjusting actuals to reflect the timing assumptions of the budget to allow for meaningful comparisons.

Projection vs. Budget: Calendar Year 2024

($s in millions)	CY 2024 Projection	CY 2024 Budget	Difference
Premiums & Subsidies	$4,294.1	$4,282.5	$11.6
Investment Earnings	$27.8	$23.2	$4.6
Total Revenue	**$4,321.9**	**$4,305.7**	**$16.2**
Net Medical Claims	$3,255.2	$3,244.0	$11.2
Net Pharmacy Claims	$959.1	$984.1	($25.0)
Medicare Advantage Payments	$15.4	$18.5	($3.1)
Administrative Expenses	$143.7	$138.0	$5.7
Total Expenses	**$4,373.4**	**$4,384.6**	**($11.2)**
Plan Income/(Loss)	**($51.5)**	**($78.9)**	**$27.4**
Ending Cash Balance	**$619.5**	**$590.4**	**$29.1**

Budget has been adjusted for the exclusion of weight-loss GLP-1s & to correct interest rate.

Projection vs. Budget: Calendar Year 2025

($s in millions)	CY 2025 Projection	CY 2025 Budget	Difference
Premiums & Subsidies	$4,484.6	$4,489.0	($4.4)
Investment Earnings	$16.6	$20.1	($3.5)
Total Revenue	**$4,501.2**	**$4,509.1**	**($7.9)**
Net Medical Claims	$3,375.7	$3,377.5	($1.8)
Net Pharmacy Claims	$1,033.0	$1,009.5	$23.5
Medicare Advantage Payments	$90.6	$91.0	($0.4)
Administrative Expenses	$201.3	$197.1	$4.2
Total Expenses	**$4,700.6**	**$4,675.0**	**($25.6)**
Plan Income/(Loss)	**($199.4)**	**($165.9)**	**($33.5)**
Ending Cash Balance	**$420.0**	**$425.1**	**($5.1)**

Budget has been adjusted for increased administrative expenses under new TPA.

Beyond 2025: Out-Year Forecast

- Projections for future years are based on the following key assumptions:
  - **State Funding:** 4% increase annually, determined on fiscal year basis
  - **Annual Per-Member Costs:** Projected using customized actuarial trend assumptions, with adjustments for anticipated deviations.
    - Medical Claims: 6.0%
    - Pharmacy Claims: 9.5%
    - Pharmacy Rebates: 7.0%
    - Administrative expenses: 3.0%.
  - **Medicare Advantage Premiums:** Increase from current $0 rate to $126 in 2026 & $159 in 2027, based on renewal estimates.
  - **Investment return rate:** 3.8% in 2024, gradually reduced to 2.0% by 2027.
  - **Enrollment and plan selection:** Various assumptions based on recent enrollment and migration patterns.

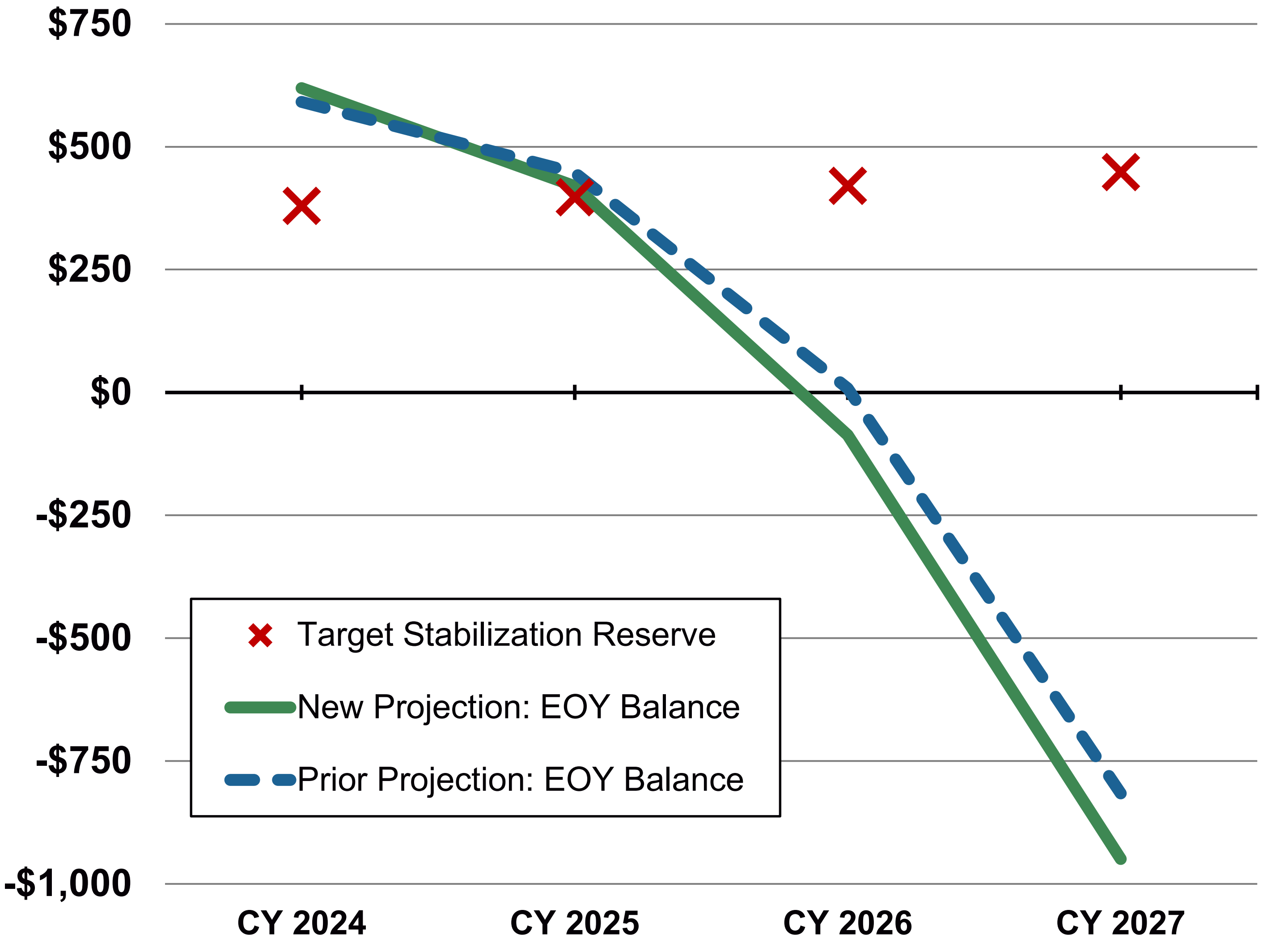
Reserve Adequacy

- The Target Stabilization Reserve (TSR) is an estimate of the minimum amount the Plan need to manage typical variations in cash flow.
- Additional reserves could:
  - Support long-term financial planning ensuring stable and reliable benefits without sudden changes.
  - Help manage the inherent unpredictability of healthcare costs.
  - Provide cushion due to uncertainty in forecast during times of transition.

- New TPA Transition
- Unpredictable MA Premiums
- Pharmacy Benefit Volatility

Forecast Uncertainty

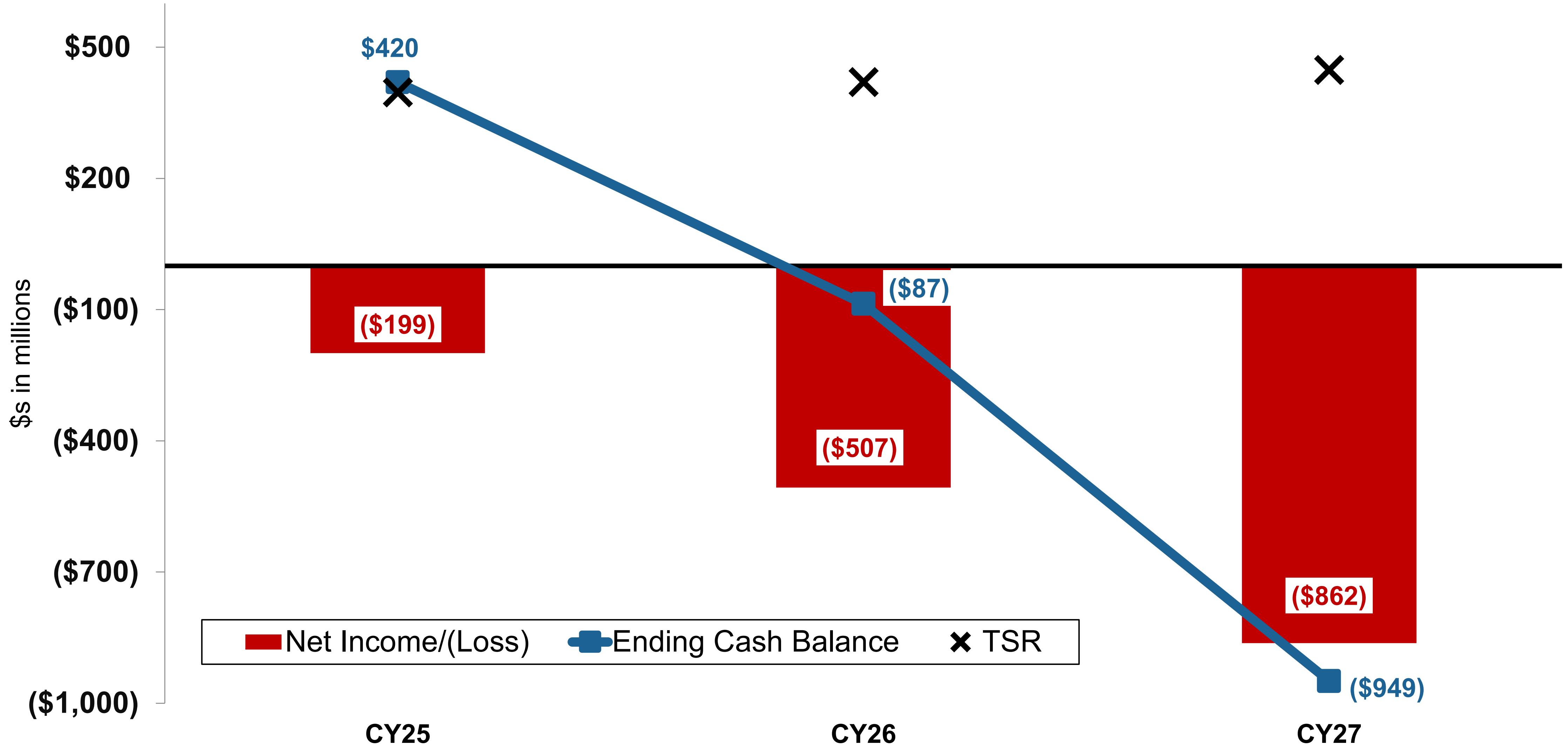
Projection Updates



- Projection declined due to:
  - Revised projection of TPA fees
  - Reduced expectations for pharmacy rebates
  - Higher expected MA premiums in 2026
  - Refined interest rate model
- Cash balance now expected to exceed TSR by $23 million at end of 2025.
- Cash balance expected to fall below TSR in early 2026.
- Without action, may be unable to pay bills in summer 2026.

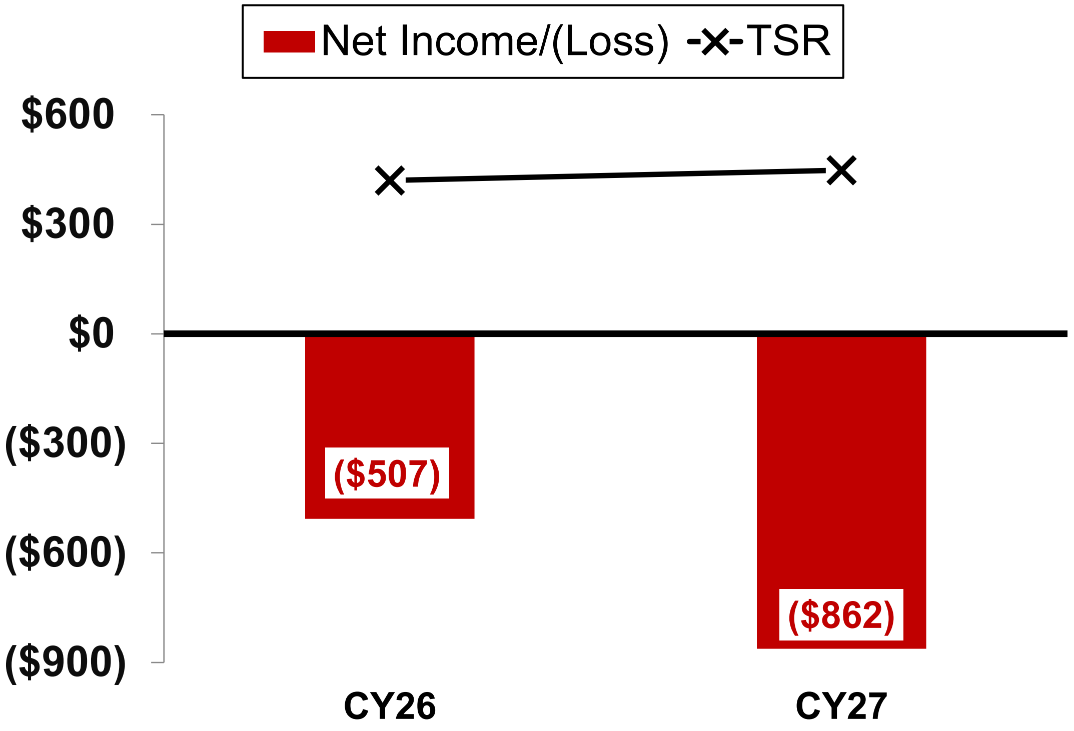
EOY=end of year; all dollar figures are in millions

Revised Projection



Strategies for Balancing the Budget

- To achieve a balanced budget, the Plan needs a strategic approach that combines increased funding and reduced expenditures.
- The Plan requires approximately $507 million in 2026 and an additional $890 million in 2027.



All dollar figures are in millions.

Potential Levers for Closing the Budget Gap

Taxpayers	• Employer contributions • Federal subsidies
Providers & Vendors	• Rates and Fees • Service Efficiency
Employees & Retirees	• Premiums • Benefit Design

Options to Balance the Budget: Taxpayers

- **State Budget Requests**
  - New Obesity Management Program
  - Reimbursement for over $316 million in unreimbursed COVID-related costs
  - Increase in employer and retirement system contribution rates
  - Increase in salary-related contribution rates for retiree health
- **Federal Subsidies**
  - Reopen the Employer Group Waiver Plan (EGWP) for Medicare retirees.
  - Increase Medicare Advantage enrollment.
  - Revise enrollment strategy to maximize Retiree Drug Subsidies (RDS).

Options to Balance the Budget: Providers and Vendors

- Improve oversight of medical and prescription drug costs through better vendor management, claims accuracy, and benefit oversight.
- Work with TPA to secure lower rates through provider network strategy.
- Continue and enhance efforts to promote primary care use with a focus on provider accountability for quality care.
- Review existing contracts for cost-saving opportunities.

Options to Balance the Budget: Employees and Retirees

- Premiums and benefits have been held constant for seven consecutive years.
- Without additional funding, adjustments will be required to address the budget deficit.
- Options to consider:
  - Increase premiums
  - Adjust cost-sharing measures, such as copays, out-of-pocket maximums, and deductibles.
  - Revise the provider network strategy to secure more cost-effective care options.
  - Replace the tobacco premium credit with more effective tobacco cessation programs and cancer screenings for respiratory conditions.