

State Health Benefit Plan Financial Status

Presentation to the
Board of Community Health
September 11, 2008



Discussion Points

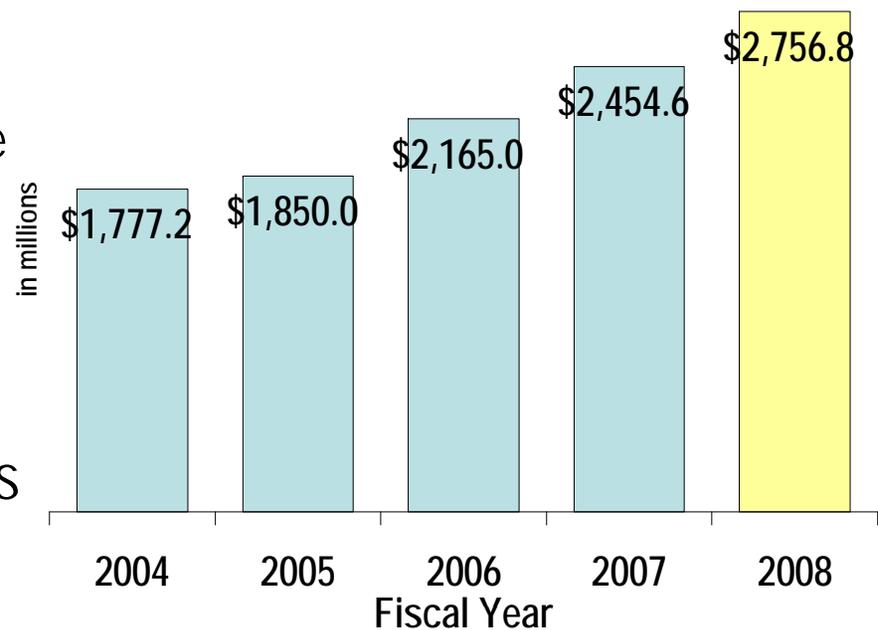
- FY 2008
 - Revenue Collections
 - Expense
 - Revenue/Expense Statement
- FY 2009 – FY 2010
 - Revenue Assumptions
 - Expense Projections
 - Revenue/Expense Statement
- Fund Balance
- Next Steps



Historical Revenue

- **\$302.2 million or 12.3% growth** in revenues collected in FY 2008 as compared to FY 2007*
- 14.5% increase in employer revenue* as collection methods changed in FY 2008:
 - Percent of Payroll for teachers and state employees increased from 16.713% to 18.534%
 - DOE contributions on behalf of school personnel increased from \$242.5 m to \$279.2 m
- 6.2% increase in employee premiums due to higher membership and CY 2008 premium increase

Revenues Collected by Fiscal Year



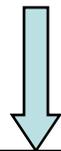
NOTE: FY 2008 Unaudited

* Does not include OPEB contributions for state employees

Milestones of SHBP Reform

FY 2005

- Rx Design Plan Change
- Additional Co-Pays
- New Consumer Directed Health Plans (CDHP) as Pilot Program
- Dependent audits to validate eligibility



July 1, 2004

July 1, 2005

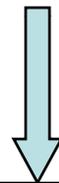


FY 2006

- HMO Cost Sharing Design Implemented
- Pharmacy Cost Sharing Increased for non-preferred drugs
- New Surcharges for smoking and spouses with access to other insurance
- Expansion of CDHP pilots to additional payroll locations

CY 2006

- United Healthcare administering PPO and TPA
- Medicare Part D implementation
- Administrative contract consolidation



January 1, 2006

January 1, 2008



CY 2008

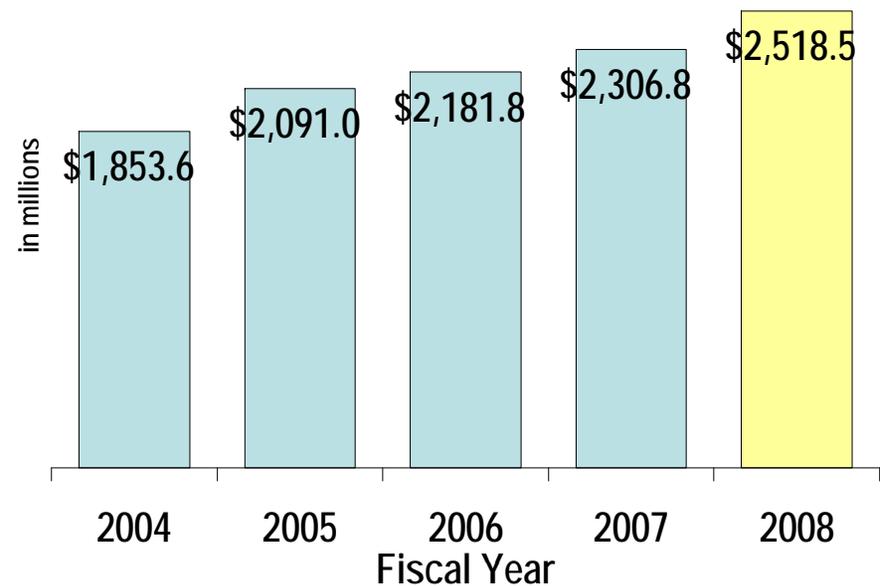
- CHDP options available statewide
- Reduce from 4 to 3 HMO's
- End new enrollment in Indemnity option



Historical Expense

- **\$211.7 million or 9.2% growth** in expenditures* in FY 2008 as compared to FY 2007
- Comparing most recent plan years' self-insured options:
 - **3.6% growth in enrollment**
 - Primarily New Teachers
 - **6.5% growth in PMPM growth**
 - Comparable to national averages for self-insured and gov't plans
 - Aligned with financial goals set by Governor

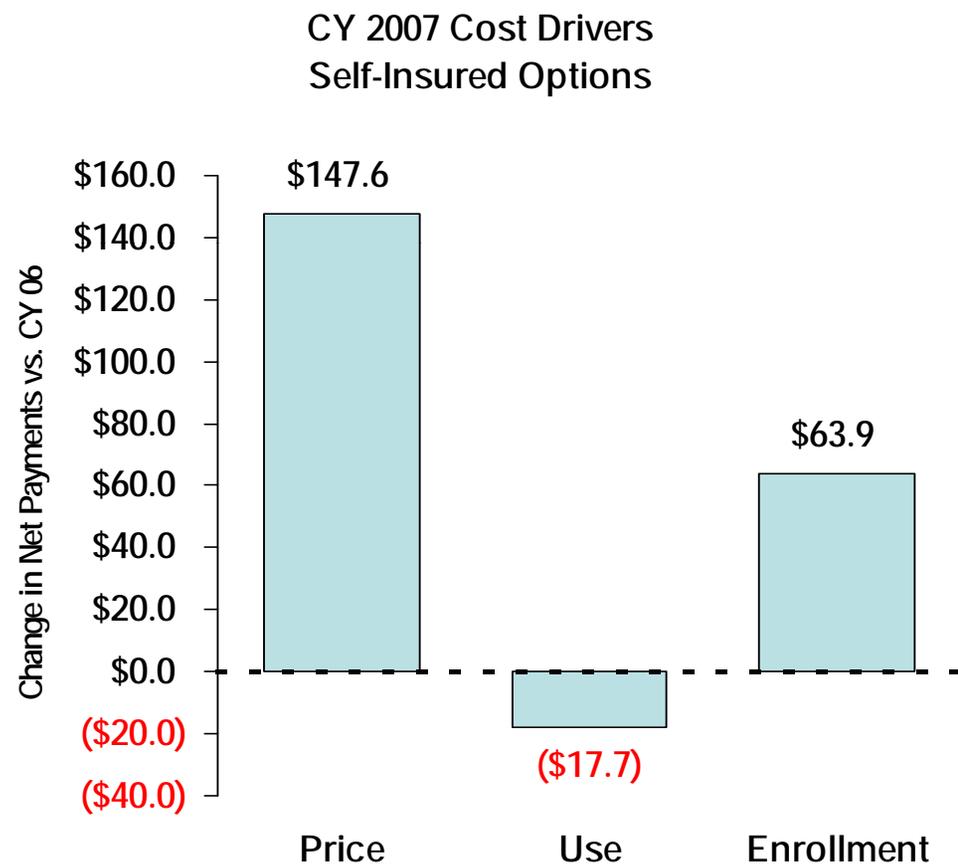
Cash-Based Expenditures by Fiscal Year



NOTE: FY 2008 Unaudited; *cash-based
Source for plan comparisons: Thomson Reuters, 9/4/08

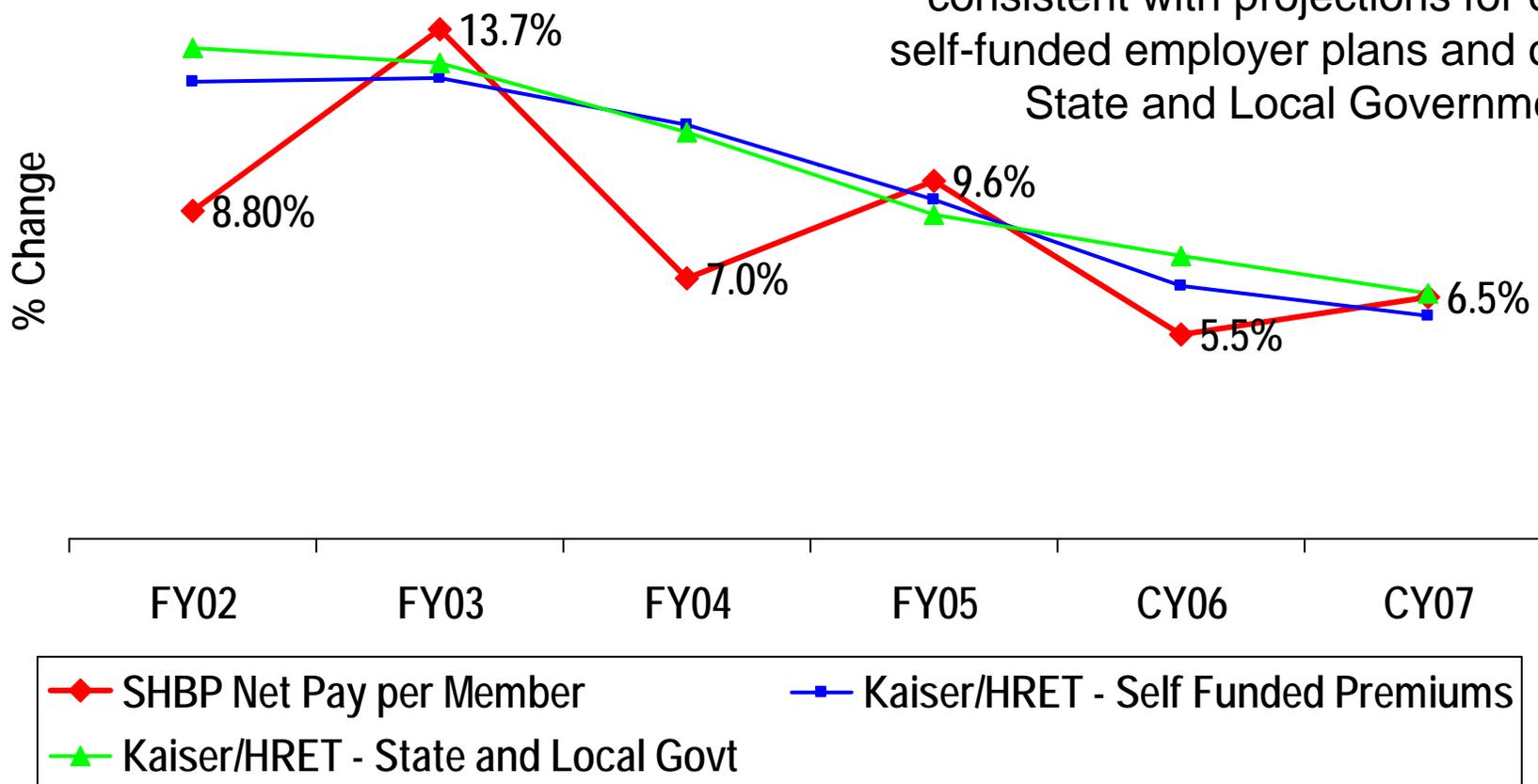
Contributions to Net Payment Increase

- Price Up and Use Down
- Combination suggests:
 - a more intense mix of services being provided resulting in higher average costs
 - cost-sharing and plan design strategies are working to control utilization



Annual Changes in Net Payments Per Member

The CY 2007 PMPY increase is consistent with projections for other self-funded employer plans and other State and Local Governments.



FY 2008 Revenue/Expense Statement

(in millions)	FY 2008
Employer Contributions	\$2,111.4
Member Premiums	624.2
Other Revenue	21.2
Contributions Earmarked for OPEB	<u>184.9</u>
Total Revenue	\$2,941.7
Cash Expense	\$2,518.5
Transfer to OPEB Fund	<u>184.9</u>
Total Expense	\$2,703.4
Surplus/Deficit	\$238.3

Future Revenue*

FY 2009

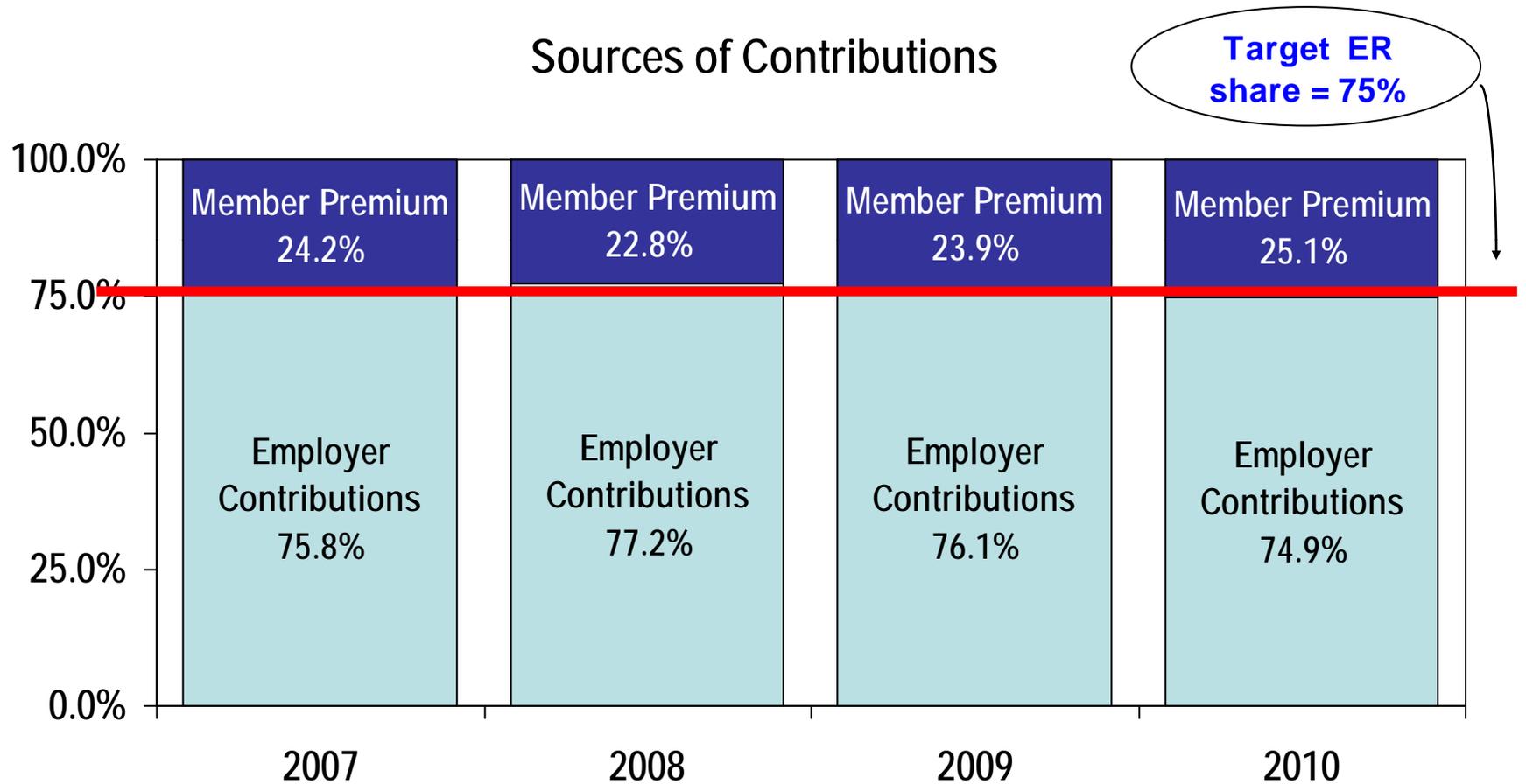
- **\$148.0 million or 5.4% growth** in revenues collected in FY 2009 as compared to FY 2008*
- 4.0% increase in employer revenue considering:
 - State employee hiring freeze and impact of agency budget cuts in personal services
 - No Pay raise for state employees on January 1, 2009
- 10.2% increase in member premiums due to expected increase in the number of members (teachers and school employees) and CY 2009 premium increase

FY 2010

- **(\$12.9 million) or 0.4% decrease** in revenues collected in FY 2010 as compared to FY 2009
- 2.0% reduction in employer revenue:
 - Assumes no pay raise for teachers on September 1, 2009 or for state employees on January 1, 2010
 - Assumes budget cuts to local boards of education who may reduce payroll
- 4.5% increase in the collection of member premiums due to CY 2009 premium increase (impacts the first half of FY 2010)
 - No assumption about a change in member premiums for CY 2010

* Based on DCH projections as of 9/4/08 and does not reflect OPEB contributions for state employees

Revenue Sources



Does not include co-insurance paid by employee when utilizing healthcare services.

Future Expense

FY 2009 – \$192.4 m or 7.6% growth

FY 2010 – \$143.8 m or 5.3% growth

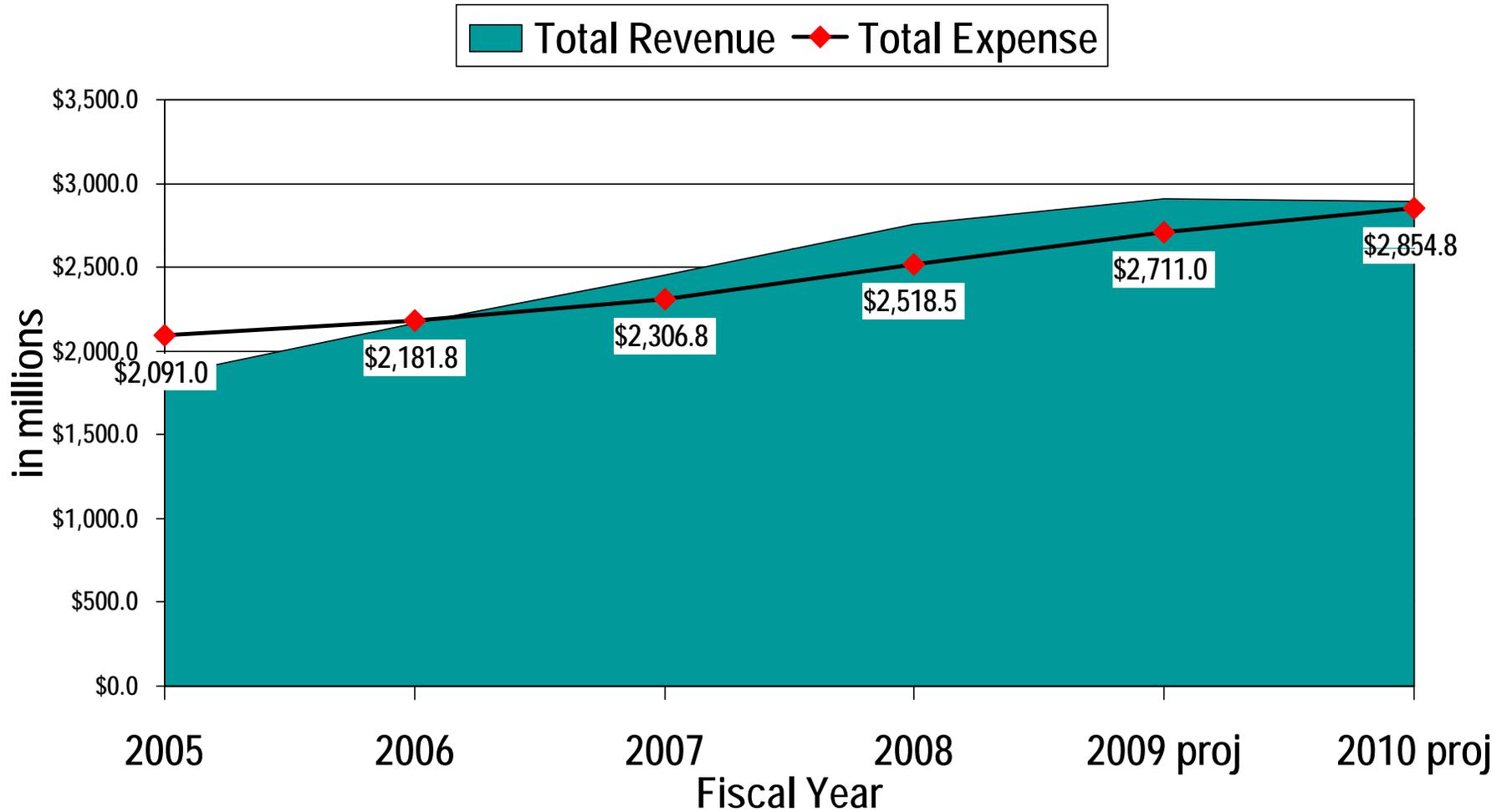
Assumptions for FY 2009 and FY 2010

- Pricing, Benefit Design and Marketing of CDHP plans moves 6% of HMO membership and 3% of PPO membership to a CDHP plan option every year
- 25% enrollment in Medicare Advantage plans in CY 2009
- Membership growth for teachers, school employees, and retirees through FY 2009; however, no growth for active state employees
- Nominal net growth in active membership in FY 2010 due to budget restrictions; assume continued growth in retiree membership

FY 2009-10 Revenue/Expense Statement

(in millions)	FY 2009	FY 2010	% change
Employer Contributions	\$2,195.4	\$2,151.5	-2.0%
Employee Premiums	688.2	719.2	4.5%
Other Revenue	21.2	21.2	-
Total Revenue	\$2,904.8	\$2,892.0	-0.4%
Cash Expense	\$2,711.0	2,854.8	5.3%
Total Expense	\$2,711.0	\$2,854.8	5.3%
Surplus/Deficit	\$193.8	\$37.2	

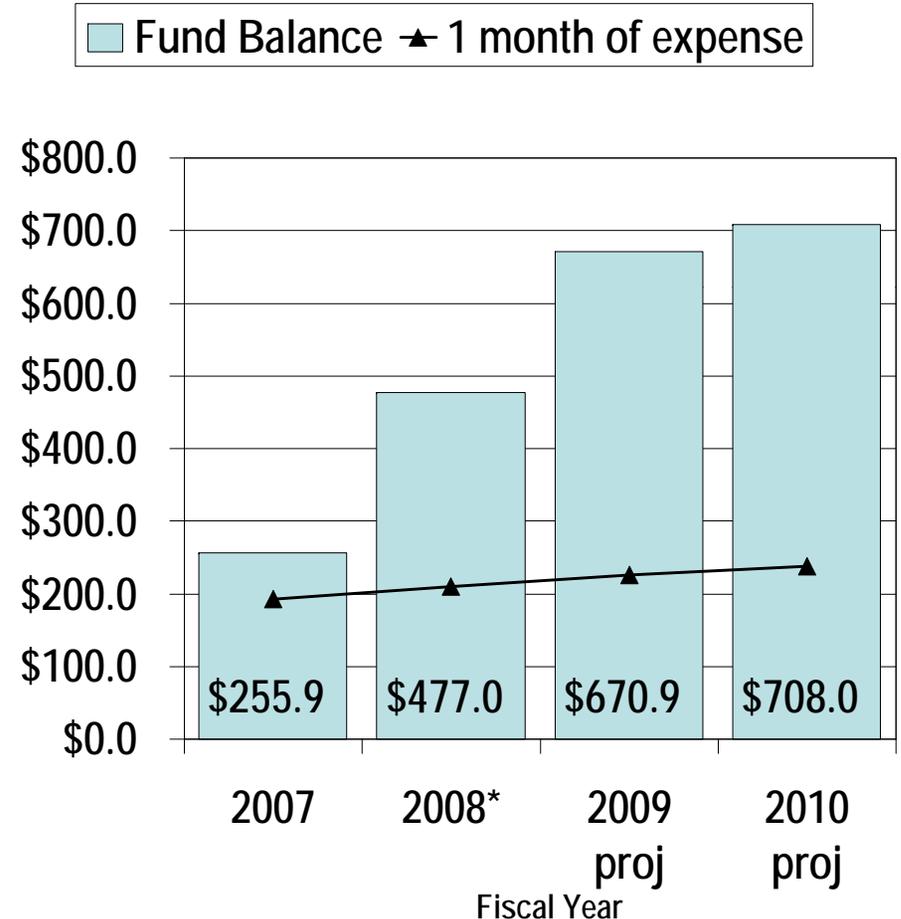
Revenue vs. Expense



NOTE: FY 2008 Unaudited and does not include OPEB contributions for future liabilities of state employees.

Fund Balance

- The Fund Balance is increased when annual revenues exceed annual expenses.
- The Fund Balance currently exceeds the recommended level of 1 month's worth of SHBP expenditures.
- In FY 2009, employer contributions are expected to be reduced, allowing employers to lapse the state share of their contributions back to the Treasury for other use.
- The SHBP would utilize part of the Fund Balance to cover the loss of annual employer contributions.
- The Governor and General Assembly will determine how much of the fund balance is used.



NOTE: FY 2008 Unaudited

Next Steps

- Plan's fiscal health suggests we should reconsider CY 2009 member premiums
- Important to active state employee members who will see no pay raise on January 1, 2009
- **Today's resolution for board's consideration would eliminate premium increases for members already in the CDHP options**
 - All other premiums remain as passed by the board on August 14, 2008.
- Increases for PPO and HMO options support premium pricing strategy that provides financial incentives for members to choose CDHP options
 - Pricing strategy supports projected plan expenditures; without it expenditures increase more dramatically, jeopardizing the plan's fiscal health by 2010.
- **Members in the PPO or HMO option in CY 2008 can select a CDHP plan option and see their premiums decrease in CY 2009**

