

MINUTES

BLUE RIBBON TASK FORCE ON THE STATE HEALTH PLAN FOR TEACHERS AND STATE EMPLOYEES

Wednesday, November 18, 2009 9 AM
Room 1228, Legislative Building

The Blue Ribbon Task Force on the State Health Plan for Teachers and State Employees held its first meeting on November 18, 2009 in Room 1228 of the Legislative Building. Senator Tony Rand, Co-Chair presided. *(See Attachment: Members Present.)* Senator Rand asked the members of the Task Force and staff to introduce themselves. Following those introductions, Senator Rand set a tone by saying the State Health Plan spends about \$50 million dollars per week thus was of significant importance to the General Assembly and the employees covered by the plan. Rep Holliman urged all Task Force members to be involved in the work of the group and assured the members there were no preconceived notions concerning the scope to be covered.

PRESENTATIONS

Overview of S.L. 2009-16 (SB 287)

Gann Watson, Attorney with the Bill Drafting Division of the General Assembly outlined the law which provided for Good Health Initiatives in the State Health Plan, set up premium increases, benefit changes, appropriated \$250 million to the Plan to cover a shortfall, etc. SB 287 also created the Blue Ribbon Task Force. *(SEE ATTACHMENT: SB 287.)*

The Task Force is at liberty to consider a variety of issues, including, but not limited to an independent board to administer the State Health Plan or operation by a state agency, creation of tiered rates for members, methods to increase participation for dependents, a closed prescription system, and changing the SHP to operate on a calendar year basis. The over-riding purpose is to see that the Plan maintains financial stability, reasonable costs, quality member care and the governance mechanism to achieve such goals. The Task Force will report to each Session of the General Assembly and will cease to operate on December 31, 2010.

An 8.9% premium increase for each year of the biennium is in the appropriations act separate from SB287.

In addition, SB 287 eliminated the 90/10 PPO coverage, increased certain co-pay rates for members and dependent coverage. There were other issues modified such as duties of the executive director, accreditation of state hospitals that provide mental health and chemical dependency treatment, and made various contractual health plan actions public record and requires an independent audit.

Wellness Initiatives are part of the act, in the form of weight reduction and smoking cessation programs. The smoking cessation initiative goes into effect July 1, 2010. The 80/20 plan will be available to employees and their dependents who are non-smokers. If the employee or a dependent proves to be a smoker or uses other tobacco products they will be taken out of the 80/20 plan and re-enrolled in the 70/30 plan. There will be random testing of members to see if they are indeed following the guidelines and if a coverage change should result.

The weight reduction initiative goes into effect July, 2011 and all members must fit into certain criteria set up by the Plan, unless the member is covered by Medicare, or has a physician's written exemption.

Rep. Folwell asked if dependent adherence to the wellness guidelines was required for both the smoking and weight loss programs. Ann Rogers from the SHP said that only the smoking program required dependent adherence. There followed further discussion of dependent adherence. Senator Apodaca was told that policy coverage would change one month after a family member might fail a random smoking test. Rep. Braxton questioned the justification for moving an entire family to the 70/30 plan if only one member smoked or failed a smoking test after the member had certified all the family members were non-smokers. Senator Rand said the main reason was cost.

Mr. Stone termed as a 'penalty' the rate difference when a single family member failed a random test. Senator Rand said it was not a penalty, only that the family would fall under the 70/30 rather than the 80/20 plan. As for the issue that one member could affect the entire family, Ann Rogers from the SHP said that the enrollment was made for a family as a unit, not individual members. Data collected by the Plan show a smoker costs the Plan an additional \$2054 per member month.

Commissioner Goodwin asked if obesity might be considered a pre-existing condition given the federal health insurance debate on pre-existing conditions. Ms. Rogers said the Plan would consider that concern and provide information later. Senator Rand said that obesity may be under the individual's control, whereas asthma for example of a pre-existing condition is not considered to be under a person's control.

Mr. Stone returned to the dependent adherence issue asking if family members could seek individual coverage if one person was founding smoking. It was pointed out that the General Assembly can change the enrollment system, but there could be a cost issue that is not clear at this time.

Senator Apodaca asked the age at which the Plan considered the additional smoker cost would kick in. Ms. Rogers said the statistics did not figure age as a factor in the excessive cost for smokers.

Overview of the State Health Plan

Mark Trogdon, Fiscal Analyst for the General Assembly's Fiscal Research Division provided members with the overview including authorization, benefit design, administration and eligibility. *(SEE ATTACHMENT: Overview-this includes the Quarterly Report presented to the Joint Committee on Employee Hospital and Medical Benefits on November 12, 2009))*

The Plan began in 1982 as a self-financed indemnity plan, but is a PPO plan now. There are 661,000 members spread across North Carolina's 100 counties, some of the other contiguous states and a few foreign countries. The statewide coverage has a major impact in setting up provider networks due to shortage of medical personnel in some rural counties.

Mr. Trogdon pointed out the statutory home of the Plan and said the Plan is a receipt-supported operation. And he noted the emergency \$250 million appropriation made to the Plan in the 2009 Session of the General Assembly.

The *Financial Summary* begins on page 12 of the Attachment. On page 13, line 17 is the reflection in the Net Plan Income that is an anomaly. The Plan received a prepayment in June of \$52 million from the State Retirement System that was actually budgeted to be received in July-the next fiscal year. This pre-payment causes a skew in the figures.

Mr. Trogdon pointed to a higher than expected increase in claims in June, due in part to members anticipating premium increases which came in July.

Through the rest of the presentation Mr. Trogdon tracked historical data that showed a steady trend of increases in health care costs at approximately 8% each year. The Plan and the General Assembly have taken steps to equalize this, but it is a difficult level to hold.

Demographic effects can be plotted through the Summary.

There was a further explanation of SB287 (*SEE ATTCHMENT: SB 287 and Actuarial Note.*) As stated above, the Session Law eliminated the Plan's 90/10 plan which had been losing about \$150 million per year. Other Plan changes such as benefit reductions, premium and co-pay increases and pharmacy discount may be tracked in the attachment.

Ms. Adcock asked about increased costs for specialty drugs. Mr. Trogdon said this involved bio-tech drugs, but not cancer drugs. Mr. Feezor asked if the specialty drugs included genetically tailored drugs. Ms. Stephenson said the definition cover drugs which were not biologically created, not synthetically created, not used for chronic conditions and had only limited distribution. These drugs are channeled through a single vendor as a way to be more cost effective.

Representative Braxton asked why administrative costs had risen when claims had declined. Mr. Trogdon explained that the projections for claims took into account various factors such as the trend for the cost of care, out of pocket expenses and benefits changes. Ms Mona Moon, Chief Financial Officer for the State Health Plan explained that another factor in the change shown on page 13 of the Summary was the settling up of the cost-plus contract with Blue Cross-Blue Shield. At the end of FY 2007-2009, BCBS paid a refund of \$17 million to the Plan. She said the Plan was making quarterly settling actions in that FY, but now the settling up was done monthly and no refunds this high should be expected. Further, Senator Rand said that this would be subject to extensive audit. Ms. Moon said the audit done by Thomas and Gibbs should be available in late January.

Mr. Stone asked if employee receipts paid for about 20% of the Plan. Mr. Trogdon said the figure was closer to 17%. Mr. Stone also asked who validated the certification that the SHP prescription plan was equal to or better than Medicare Part D. Ms. Stephenson of SHP said the AON consulting firm made this validation.

Mr. Feezor asked if there was data available concerning impact on the Plan based on geography or job category. Ms. Rogers from the SHP said there was information on the Plan's website concerning pilots which had been conducted showing types of disease by government agency or utilization of benefits.

Mr. Feezor also asked about information on the use of mail order versus retail stores for prescription drugs. Mr. Trogdon said there is no incentive in the Plan to prompt the use of mail order. Dr. Jack Walker, Plan Administrator said mail order prescription use was less than 2% of the total.

Task Force Discussion

Co-Chair Representative Holliman asked the members to express their ideas for issues to be considered by the Task Force.

Representative Braxton wants more younger family members covered by the Plan, consideration of an HSA Plan, cost differences between brand drugs and generics.

Ms. Ransome expressed interest in incentives for use of mail order for drugs, and the impact on the family of wellness initiatives.

Ms. Simmons wants a price break for teacher assistants who are in a low salary range.

Mr. Stone is concerned with dependent coverage and younger members, the role of trustees and governance, prescription drugs vis a vis brand name when generics bring on adverse reactions, and he would like to see more coverage options.

Dr. Myers, in his second term on the Board of Trustees, believes there was a Covenant made in 1982 when the Plan began to provide adequate coverage in a sound financial basis for employees. Since then we have an aging population and use of increased services and he said such changes bring difficult decisions to be made in order to continue to keep a viable Plan and the covenant.

Mr. Feezor said the Task Force should look at such things as the 8-11% cost of care increase in a long range view. He spoke of incentives to make coverage more affordable for families, considering the cost of premiums versus similar costs to corporate employees. He also urged consideration of governance and the trend of costs rising more than gross domestic product.

From the viewpoint of the current Chairman of the Board of Trustees, Steve Beam said the Board has done a report concerning oversight and the role of the Trustees. (*SEE ATTACHMENT: State Health Plan Board Structure.*) He said members may have to look at private health care plans and realize that these members of the SHP may have to pay for coverage.

Ms. Adcock is interested in lower administrative costs, increasing younger members in the Plan and disease prevention considerations.

Commissioner Goodwin is most concerned with the coverage, solvency and the oversight and governance of the Plan.

Senator Garrou also wants a longer view taken of the operation of the Plan.

Representative Folwell primarily wants a change to a calendar year. He believes the Plan punishes younger people and should have more attention paid to older members with chronic conditions. His term is a focus on 'health and not health care'.

Co-Chair Representative Holliman announced the next meeting of the Task Force for December 2.

The meeting adjourned at 10:25 am.

Senator Tony Rand, Co-Chair Presiding

Carol Bowers, Committee Clerk

Representative Hugh Holliman, Co-Chair

Ted Harrison, Committee Assistant