

AUDITOR'S REVIEW: THE 2013 STATE & SCHOOL EMPLOYEES' LIFE AND HEALTH INSURANCE PLAN



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Auditor's Review: The 2013 State & School Employees' Life and Health Insurance Plan
Performance Audit Report #138
December 22, 2014
Executive Summary

CY 2013 Actuarial Report Results

- Employee enrollment in the Insurance Program decreased by 0.9% during 2013;
- Base Insurance Coverage is still paid 100% by the State;
- Both Horizon and Legacy employees continue to pay a portion of their premium for Select coverage;
- The plan ended 2013 with a \$243.3 million surplus and premiums exceeded claims by \$9.5 million

The Department of Finance and Administration, Office of Insurance (DFA-Insurance), on behalf of the State and School Employees Health Insurance Management Board (Board), requested the Office of the State Auditor (OSA) to conduct a performance review of the State and School Employees' Life and Health Insurance Plan (Plan). The OSA limited the scope of this performance review to analysis and summarization of the other studies conducted on the Plan.

The OSA's analysis of the CY 2013 Actuarial Report prepared by Wm. Lynn Townsend, FSA, MAAA (Actuarial Report) and the August 31, 2013 financial statements prepared by DFA-Insurance, indicated several important items:

1. The Plan's claims and expenses exceeded revenue by \$2.8 million in CY 2013. The Plan had a surplus of \$243.3 million on December 31, 2013.
2. The Plan's enrollment decreased for CY 2013. Retired employee membership grew by 1.8%, while active employee membership decreased by 0.9%.
3. A comparison of claims incurred to premiums received shows health insurance premiums exceeded claims by \$9.5 million in CY 2013.



For the fiscal year that ended June 30, 2013, the Plan's receipts exceeded disbursements by \$36 million. For the year that ended December 31, 2013, the Plan's assets exceeded its liabilities by \$243.3 million.

Several benefit changes were implemented for CY 2013. Two are highlighted below:

- Maternity benefits are provided to covered enrollees or covered spouses.
- The Plan will provide benefits for bariatric surgery procedures as well as expansion of preventive services for adult women.



**Office of the State Auditor
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Auditor's Review: The 2013 State & School Employees' Life and Health Insurance Plan
Performance Audit Report #138
December 22, 2014

Introduction

Purpose The Department of Finance and Administration, Office of Insurance (DFA-Insurance) on behalf of the State and School Employees Health Insurance Management Board (Board), requested the Office of the State Auditor (OSA) to conduct a performance review of the State and School Employees' Life and Health Insurance Plan (Plan). The letter requesting this review is in compliance with Section 25-15-11, Mississippi Code of 1972, Annotated, which states, in part:

Annually, the board [State and School Employees Health Insurance Management Board] shall request, and the Department of Audit shall conduct, a comprehensive audit of the State and School Employees Life and Health Insurance Plan...

Scope In addition to an annual performance review by the OSA as part of the State's Comprehensive Annual Financial Report, the Board also contracts for an actuarial report every six months, an annual claims review of the third party medical claims administrator and the pharmacy benefit manager.

Due to the number and scope of other financial and compliance audits of the Plan conducted annually, OSA limits the scope of this performance review to a summary and analysis of the other studies conducted for the Plan. The work conducted for these required and elective audits should provide the Plan sufficient oversight.

Actuarial Report

Analysis

The Board contracted with Wm. Lynn Townsend, FSA, MAAA (Townsend) to prepare an actuarial report based on a review of the experience through December 31, 2013, of the Plan. The OSA's analysis of CY 2013 Actuarial Report prepared by Wm. Lynn Townsend, FSA, MAAA (Actuarial Report) and the August 31, 2013, financial statements prepared by DFA-Insurance, indicated several important items:

1. The Plan's claims and expenses exceeded revenue by \$2.8 million in CY 2013. This \$2.8 million resulted in the plan having a surplus of \$243.3 million on December 31, 2013.
2. The Plan's enrollment decreased for CY 2013. Excluding dependents, retired employee membership grew by 1.8% while active employee membership decreased by 0.9%.
3. A comparison of claims incurred to premiums received shows that health insurance premiums exceeded claims by \$9.5 million in CY 2013.

- *Legacy* refers to an employee or retiree who was initially hired prior to January 1, 2006

- *Horizon* refers to an employee or retiree who was initially hired on or after January 1, 2006.

- *Total Plan enrollment decreased in 2013*

- *More money from premiums was collected in 2013 than was paid out in claims*

- *Claims and expenses exceeded the Plan's revenues by \$2.8 million*

- *This resulted in a \$243.3 million surplus on December 31, 2013*



Plan's Current Funding Status

Townsend compared the Plan's current funding status with the funding status of prior periods. Table 1 shows the results of this comparison. Note the amounts shown for the Plan's liabilities for prior years are based upon a retroactive review of the life and health insurance claims liabilities based on actual incurred claims. The Plan's liabilities also include an offset based on an evaluation of drug rebates receivable as of the end of each year. As shown in Table 1, in CY 2013 the Plan's assets exceeded liabilities by \$243.3 million as of December 31, 2013.

Table 1: Comparison of Funding Status (In Millions)				
	December 2010	December 2011	December 2012	December 2013
Plan Assets	\$251.9	\$314.4	\$356.4	\$349.5
Less Plan Liabilities	112.3	103.0	110.2	106.2
Surplus Funds	139.5	211.4	246.1	243.3
Annual Change in Funding Status	(\$29.3)	\$71.8	\$34.8	(\$2.8)

Source: CY 2013 Actuarial Report prepared by Wm. Lynn Townsend, FSA, MAAA. 1

Health Plan Enrollment

As shown in Table 2, the average total Plan enrollment decreased in CY 2013. In CY 2013, enrollment decreased 0.5% for employees and 2.3% for dependents.

Table 2: Health Plan Average Enrollment				
Participant	CY 2010	CY 2011	CY 2012	CY 2013
Employees	144,023	141,220	140,484	139,825
Dependents	50,723	48,036	46,675	45,617
Total Members	194,746	189,256	187,159	185,442

Source: CY 2013 Actuarial Report prepared by Wm. Lynn Townsend, FSA, MAAA.

Townsend reports: *"Historically, the growth in early retiree enrollment generally has been far greater than the growth in active employee enrollment. Since premium rates are set at a level below cost for the early retiree premium rate classes, higher retiree enrollment growth tends to exert upward pressure on the active employee premium rate.*

[T]he growth in early retirees has recently slowed compared to historical growth rates. Average early retirees enrollment actually declined by 1.7% in CY13 and 2.7% in CY12."

Table 3 shows the retired employees as a percentage of total employees for the last four calendar years.

Table 3: Retirees as a Percentage of Employees			
CY 2010	CY 2011	CY 2012	CY 2013
15.1%	15.9%	16.3%	16.7%

Source: CY 2013 Actuarial Report prepared by Wm. Lynn Townsend, FSA, MAAA

¹ Adjustments in rounding may produce differences in annual amounts between reports.

**Health Insurance Premiums versus Claims**

Health insurance premiums are estimated to have exceeded incurred claims (prior to administrative expenses and drug company settlements, but after drug rebates) by \$9.5 million in CY 2013. Table 4 compares premiums to claims incurred for the last five calendar years. The amounts shown for claims incurred for prior years are based on a retroactive review of health insurance claims liabilities based on actual incurred claims.

Table 4: Health Insurance Premiums Versus Claims Incurred (In Millions)					
	CY 2009	CY 2010	CY 2011	CY 2012	CY 2013
Premiums	\$718.7	\$714.3	\$741.9	\$731.6	\$723.2
Claims Incurred	683.6	704.3	652.1	673.7	713.7
Gain (Loss) Prior to Expenses	35.1	10	89.8	57.9	9.5
Loss Ratio (Claims/Premium)	95.1%	98.6%	87.9%	92.1%	98.7%

Source: CY 2013 Actuarial Report prepared by Wm. Lynn Townsend, FSA, MAAA any columns or rows that do not total exactly are due to rounding.

Townsend stated: "Based on current claim liability estimates, incurred claims (net of subrogation receipts, claim refunds, and pharmacy rebates, but prior to drug company settlements) increased from \$673.7 million in CY12 to \$713.7 million in CY13, an increase of 5.9%."

Retiree & Dependent Rate Subsidies

Townsend stated: "Historically, premium rates for retirees - and for most active dependent premium classes have been set below true actuarial cost. In effect, the State subsidizes those premium classes..."

Table 5 shows the CY 2013 Plan subsidy costs.

Table 5: State and School Employees' Life and Health Insurance Plan CY2013 Plan Subsidy Cost				
	Premiums	Claims	Expenses less Other Income	Gain (Loss)
Active Dependents	\$92,556,141	(\$120,862,193)	(\$4,220,867)	(\$32,526,919)
COBRA Employees	3,705,202	(17,097,799)	(160,245)	(13,552,842)
Disabled Retirees - Plan Primary	1,197,366	(7,928,089)	(50,908)	(6,781,630)
Retirees - Plan Primary	57,996,638	(79,810,783)	(1,579,640)	(23,393,785)
Retirees - Medicare Primary	39,619,074	(32,704,689)	(3,316,527)	3,597,858
Disable Retirees - Life Insurance	-	(1,504,330)	-	(1,504,330)
Subtotal - Subsidized Classes	\$195,074,420	(\$259,907,883)	(\$9,328,186)	(\$74,161,649)
Active Employees	\$528,158,027	(\$441,473,483)	(\$15,342,166)	\$71,342,379)
Total	\$723,232,447	(\$701,381,366)	(\$24,670,352)	(\$2,819,270)

Source: CY 2013 Actuarial Report prepared by Wm. Lynn Townsend, FSA, MAAA.



Plan Receipts Exceed Disbursements

According to Cash Flow statements provided by DFA-Insurance, the Plan's receipts in FY 2013 exceed disbursements by \$36 million. Table 6 shows the Plan's receipts and disbursements for fiscal years 2011, 2012, and 2013. The Plan's receipts decreased from FY 2012 to FY 2013. Receipts decreased from \$781 million in FY 2012 to \$764 million in FY 2013, a decrease of 2.12%.

Table 6: State and School Employees' Life and Health Insurance Plan Excess Receipts over Disbursements			
	Fiscal Year 2011	Fiscal Year 2012	Fiscal Year 2013
Total Receipts	\$785,293,517	\$781,160,201	\$764,615,513
Total Disbursements	749,853,037	738,123,393	728,866,251
Excess Receipts Over (Under) Disbursements	\$35,440,480	\$43,036,808	\$35,749,262

Source: Financial statements prepared by DFA-Insurance. Any columns or rows that do not total exactly are due to rounding.

CY 2013 Premiums

In the last 27 years, from CY 1986 through CY 2013, the Plan has increased health insurance premiums 19 times. There was a 4.2% increase in premiums from 2010 to 2011, but no increase from 2011 to 2013. The monthly premium for a Legacy employee enrolled in Select coverage was \$376, of which \$20 is paid by the employee. The monthly premium for a Horizon employee enrolled in Select coverage was \$394, of which \$38 is paid by the employee.

Table 7: CY 2013 Approval Premium Rates				
Premium Class	Legacy Select Total Premium	Legacy Select Employee / Retiree Portion	Horizon Select Total Premium	Horizon Select Employee / Retiree Portion
Active Employees paid by State	\$376	\$20	\$394	\$38
Active Employees and Spouse	819	463	837	481
Active Employees and Family	1,023	667	1,041	685
Active Employees and Children	688	332	706	350
Active Employees and Child	531	175	549	193
Early Retiree (Non-Medicare)	---	432	---	620
Early Retiree and Spouse (Non-Medicare)	---	941	---	1,317
Early Retiree and Family (Non-Medicare)	---	1,176	---	1,472

Source: Department of Finance and Administration-Insurance



Benefit Changes for CY 2013

Approved Premium Rates

Actuarial reports are used as a basis for establishing the health benefit premium rates. Projections in the actuarial report are made to indicate when the Plan will be fully funded. *Beginning January 1, 2011, the State's contribution rate was at \$356 per month for all employees.* See Table 7 for a listing of January 1, 2013 approved premium rates for Legacy and Horizon Select employees. Legacy refers to an employee or retiree who was initially hired prior to January 1, 2006 and Horizon refers to an employee or retiree who was initially hired on or after January 1, 2006.

Plan Changes

The Board implemented several Plan changes for the CY 2013. The following sections detail those changes.

Base & Select Coverage deductibles and coinsurance/co-payment maximums

- There will be no change in the Base or Select Coverage deductibles and coinsurance/co-payment maximums for calendar year 2013.

Prescription Drug Deductible and Co-payments

- There will be no change in the prescription drug deductible or co-payment structure.

Benefits for over-the-counter medications containing pseudoephedrine

- Effective January 1, 2013, the Plan will provide prescription drug benefits for over-the-counter pseudoephedrine medications purchased with a prescription. Benefits for these medications will be subject to regular prescription drug benefits, including copayments and prescription deductible.

Coverage for bariatric surgery procedures

- Effective January 1, 2013, the Plan will provide benefits for bariatric surgery procedures. All bariatric surgery procedures (inpatient and outpatient) will be subject to certification by the Plan's medical management vendor, ActiveHealth.

Maturity and Women Preventing Services: This expansion of preventive services for adult women is required by the Patient Protection and Affordable Care (PPACA).

- Effective January 1, 2013, the number of ultrasounds provided at 100% (90% for non-participating physician), not subject to the calendar year deductible, will increase from two to four. Additional ultrasounds might be ordered if the healthcare provider suspects a complication or problem related to the pregnancy.
- Maternity benefits are provided to covered enrollees or covered spouses. Other female dependents are not eligible for maternity benefits (except as noted).
- The attending physician will be reimbursed for covered routine prenatal care visits at 100% of the allowable charge (90% for non-



participating physician), not subject to the calendar year deductible. Regular Plan benefits will be provided for other prenatal laboratory and diagnostic procedures, inpatient hospital delivery, and other covered services.

- Screening for Gestational Diabetes in pregnant women between 24 and 28 weeks of gestation (and at the first prenatal visit for women at high risk for diabetes) the Plan will pay 100% for one additional gestational diabetes screening for all female participants at high risk for diabetes regardless of physician network status not subject to the calendar year deductible.

Contraceptive methods

- Contraceptive methods and counseling, including FDA-approved contraceptive methods, sterilization procedures, and patient education/counseling for all women with reproductive capacity. : No coinsurance or calendar year deductible may be applied to sterilization procedures or for office visits for contraceptive methods and counseling and patient education/counseling for all women with reproductive capacity. All FDA-approved contraceptive prescription drugs will be provided without copayment or prescription drug deductible.

Breastfeeding Support

- Breastfeeding support, supplies and counseling in conjunction with each childbirth including comprehensive lactation support and counseling by a trained provider during pregnancy and/or postpartum, and coverage of the cost of renting breastfeeding equipment. Coverage of breastfeeding supplies at 100%; not subject to the calendar year deductible.



For more information about this issue, contact

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