

AUDITOR'S REVIEW: THE 2014 STATE & SCHOOL EMPLOYEES' LIFE AND HEALTH INSURANCE PLAN



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**Office of the State Auditor
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Auditor's Review: The 2014 State & School Employees' Life and Health Insurance Plan
Performance Audit Report #139
September 23, 2015
Executive Summary

CY 2014 Actuarial Report Results

- Employee enrollment in the Insurance Program decreased by 0.3% during 2014;
- 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 2014 with a \$257.9 million surplus and premiums exceeded claims by about \$49 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 2014 Actuarial Report prepared by Wm. Lynn Townsend, FSA, MAAA (Actuarial Report) and the August 31, 2014 financial statements prepared by DFA-Insurance, indicated several important items:

1. The Plan's revenue exceeded claims and expenses by \$8.8 million in CY 2014. The Plan had a surplus of \$257.9 million on December 31, 2014.
2. The Plan's enrollment decreased for CY 2014. Retired employee membership grew by 1.7%; while active employee membership decreased by 0.6%.
3. A comparison of claims incurred to premiums received shows health insurance premiums exceeded claims by about \$49 million in CY 2014.



For the fiscal year that ended June 30, 2014, the Plan's receipts exceeded disbursements by \$6 million. For the year that ended December 31, 2014, the Plan's assets exceeded its liabilities by \$257.9 million.

Several benefit changes were implemented for CY 2014 and effective January 1, 2014. Two (2) are highlighted below:

- The Plan added coverage for one A1C test (a test of a person's average blood glucose level over a span of a few months) as a wellness/preventive benefit for adults age 18 and older.
- Emergency room services will be subject to a \$50 copayment on the first (1st) visit and a \$200 copayment for every ER visit thereafter.



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Auditor's Review: The 2014 State & School Employees' Life and Health Insurance Plan
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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, 2014, of the Plan. The OSA's analysis of CY 2014 Actuarial Report prepared by Wm. Lynn Townsend, FSA, MAAA (Actuarial Report) and the August 31, 2014, financial statements prepared by DFA-Insurance, indicated several important items:

1. The Plan's revenue exceeded claims and expenses by \$8.8 million in CY 2014. This \$8.8 million resulted in the plan having a surplus of \$257.9 million on December 31, 2014.
2. The Plan's enrollment decreased for CY 2014. Excluding dependents, retired employee membership grew by 1.7% while active employee membership decreased by 0.6%.
3. A comparison of claims incurred to premiums received shows that health insurance premiums exceeded claims by about \$49 million in CY 2014.

- *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 2014*
- *More money from premiums was collected in 2014 than was paid out in claims*
- *The Plan's revenue exceeded claims and expenses by \$8.8 million*
- *This resulted in a \$257.9 million surplus on December 31, 2014*

**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 2014 the Plan had a surplus of \$257.9 million as of December 31, 2014.

Table 1: Comparison of Funding Status (In Millions)				
	December 2011	December 2012	December 2013	December 2014
Plan Assets	\$314.4	\$356.4	\$349.5	379.6
Less Plan Liabilities	103.0	109.6	100.5	121.7
Surplus Funds	211.4	246.8	249.0	257.9
Annual Change in Funding Status	\$71.9	\$35.4	\$2.3	\$8.8

Source: CY 2014 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 2014. In CY 2014, enrollment decreased 0.3% (.25%) for employees and 0.2% for dependents.

Table 2: Health Plan Average Enrollment				
Participant	CY 2011	CY 2012	CY 2013	CY2014
Employees	141,220	140,484	139,825	139,476
Dependents	48,036	46,675	45,617	45,533
Total Members	189,256	187,159	185,442	185,010

Source: CY 2014 Actuarial Report prepared by Wm. Lynn Townsend, FSA, MAAA.

Townsend reports: *"Until recent years, the growth in early retiree enrollment generally had 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 retiree enrollment actually declined by 2.7% in CY12, by 1.7% in CY13 and by 2.0% in CY14."

Table 3 shows the retired employees as a percentage of total employees enrolled in the Plan for the last four (4) calendar years.

Table 3: Retirees as a Percentage of Employees			
CY 2011	CY 2012	CY 2013	CY 2014
15.9%	16.3%	16.7%	17%

Source: CY 2014 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 about \$49 million in CY 2014. Table 4 compares premiums to claims incurred for the last five (5) 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 2010	CY 2011	CY 2012	CY 2013	CY 2014
Premiums	\$714.3	\$741.9	\$731.6	\$723.2	\$718.3
Claims Incurred	704.3	652.0	673.1	708.6	669.2
Gain (Loss) Prior to Expenses	10	89.9	58.5	14.6	49.1
Loss Ratio (Claims/Premium)	98.6%	87.9%	92.0%	98.0%	93.2%

Source: CY 2014 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) declined from \$708.6 million in CY13 to \$669.2 million in CY14, a decrease of 5.6%."

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 2014 Plan subsidy costs.

Table 5: State and School Employees' Life and Health Insurance Plan CY2014 Plan Subsidy Cost				
	Premiums	Claims	Expenses less Other Income	Gain (Loss)
Active Dependents	\$91,235,082	(\$114,316,284)	(\$5,281,873)	(\$28,363,075)
COBRA Employees	3,552,850	(16,759,576)	(196,078)	(13,402,804)
Disabled Retirees - Plan Primary	1,134,561	(7,260,577)	(60,483)	(6,186,499)
Retirees - Plan Primary	56,643,761	(79,246,717)	(1,565,628)	(24,168,584)
Retirees - Medicare Primary	40,869,324	(32,913,449)	(4,389,978)	3,565,897
Disable Retirees - Life Insurance	-	(1,776,968)	-	(1,776,968)
Subtotal - Subsidized Classes	\$193,435,578	(\$252,273,570)	(\$11,494,039)	(\$70,332,031)
Active Employees	\$524,814,914	(\$418,740,043)	(\$26,914,454)	\$79,160,417
Total	\$718,250,491	(\$671,013,613)	(\$38,408,492)	\$8,828,386

Source: CY 2014 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 2014 exceed disbursements by \$6 million. Table 6 shows the Plan's receipts and disbursements for fiscal years 2012, 2013, and 2014. The Plan's receipts increased from FY 2013 to FY 2014. Receipts increased from \$764 million in FY 2013 to \$767 million in FY 2014, an increase of -0.33%.

Table 6: State and School Employees' Life and Health Insurance Plan Excess Receipts over Disbursements			
	Fiscal Year 2012	Fiscal Year 2013	Fiscal Year 2014
Total Receipts	\$781,160,201	\$764,615,513	\$767,165,653
Total Disbursements	738,123,393	728,866,251	760,898,766
Excess Receipts Over (Under) Disbursements	\$43,036,808	\$35,749,262	\$6,266,886

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

CY 2014 Premiums

In the last 28 years, from CY 1986 through CY 2014, 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 2014. 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 2014 Approved Premium Rates				
Premium Class	<u>Legacy</u> Select Total Premium	<u>Legacy Select</u> Employee / Retiree Portion	<u>Horizon</u> Select Total Premium	<u>Horizon Select</u> 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 2014

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. See Table 7 for a listing of January 1, 2014 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 2014. The following sections detail those changes.

Provide Limited Coverage of Speech Therapy to Include Delayed Language Development

- Effective January 1, 2014, the Plan will provide limited benefits for coverage of speech therapy with the diagnosis of delayed language development. There will be a maximum of 15 speech therapy visits **per lifetime**.

Prescription Drug Retail and Mail Copayments

Effective January 1, 2014, the Plan revised the copayments for prescription drugs in the chart below. The deductible will remain at \$75. Prescription drugs purchased under the Plan's mail order option are dispensed in 90-day supplies and will continue to be subject to two (2) copayments.

Generic	\$12
Preferred Brand	\$45
Non-Preferred Brand	\$70
Specialty	\$70

Emergency Room Benefits

- Effective January 1, 2014, Emergency Room services will be subject to a \$50 copayment on the first (1st) visit and a \$200 copayment for every ER visit thereafter.

Hospital Room Benefits

- Effective January 1, 2014, there will **no longer** be a \$20 per day private room copayment for hospital stays.

Expand List of Vaccines Available Through the Catamaran Vaccine Program

- Effective January 1, 2014, the Plan expanded the list of vaccines through the Catamaran Vaccine Program to include the following:

Hepatitis A and B	HPV
Measles	Mumps
Rubella	Varicella
Meningococcal	Polio
Rabies	Rotavirus
Tetanus	Diphtheria
Acellular Pertussis	



Amend BMI Minimum for Participation in the Weight Management Enhancement Program

- Effective January 1, 2014, the Plan amended the BMI (Body Mass Index) minimum to include participants with a BMI of ≥ 30 .

Add Coverage under Wellness/Preventive Benefits for one A1C test per year for adults age 18 and older

- Effective January 1, 2014, the Plan added coverage as a wellness/preventive benefit (100% not subject to deductible / in-network only) for one (1) A1C test (a test of a person's average blood glucose level over a span of a few months) per year for adults age 18 and older.

Expand Benefits for Dietitian Counseling

- Effective January 1, 2014, the Plan expanded regular Plan benefits for dietitian counseling to allow three (3) additional visits per year, subject to the calendar year deductible and applicable coinsurance. **This is not a wellness benefit**, but subject to regular contract benefits.

Add Centers of Excellence Program

- Effective January 1, 2014, the Plan added a Centers of Excellence program with staggered implementation as specific benefits and COE providers are determined.

Benefit Changes Required by the Patient Protection and Affordable Care Act

- The Plan **eliminated** pre-existing condition exclusions for any participant regardless of age.
- The Plan **provided** coverage for Vitamin D for non-Medicare adult participants ages 65 years or older, due to their increased risk for falls. Coverage for this drug **will be provided as a wellness/preventive benefit** with no cost-sharing and must be purchased by prescription to qualify.
- The Plan **provided** coverage for one-time (1) screening for Hepatitis C (HCV) infection for participants at higher risk for infection and for adult participants born between 1945 and 1965. Coverage for this screening will be provided as a wellness/preventive benefit with no cost-sharing.

Out-of-Pocket Maximums for Select Coverage

- As required by PPACA, the Plan implemented a coinsurance/copayment maximum for Select Coverage. Beginning in January, the individual coinsurance/copayment maximum will be \$6,350 for individual coverage and \$12,700 for family coverage. Out-of-pocket costs subject to these maximums will include: deductibles, coinsurance, and copayments for in-network providers. Examples of costs not subject to the coinsurance/copayment



maximum include premiums, non-covered services, expenses in excess of the allowable charge, and cost sharing for out-of-network providers.

Benefit Changes Required by State Law

- The Plan added coverage for telemedicine services effective July 1, 2013. These benefits are available only for in-network providers certified by the AHS State Network for telemedicine services.

Timely Limit for Claims Filing

- Effective January 1, 2014, the Plan's timely claims filing limit will be adjusted as stated below:
 - **Deadline for Filing Medical Claims:** All claims and any additional information requested must be filed with BCBSMS within 12 months of the day you received services or supplies.
 - **Deadline for Filing Prescription Drug Claims:** All claims and any additional information requested must be filed with Catamaran within 12 months of the day you received services or supplies.

National BCBSMS Network Access:

- Effective January 1, 2014, Plan participants will have access to the national Blue Card program. This national network will be available to all participants whether residing within the state or out-of-state (out-of-area participants). As such, a separate out-of-area participant benefit structure is no longer necessary.



For more information about this issue, contact

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