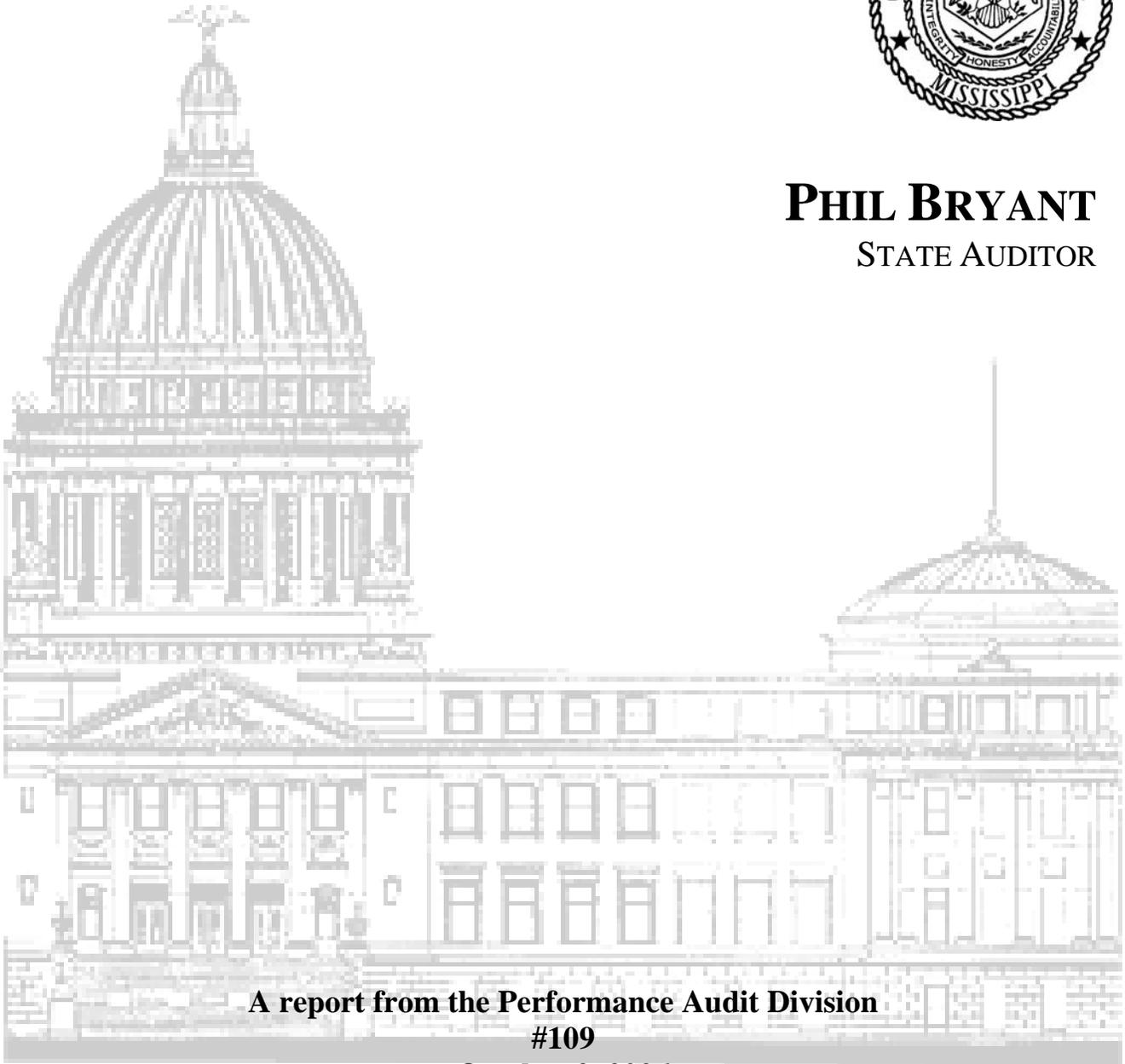


**A PERFORMANCE REVIEW OF THE STATE AND SCHOOL EMPLOYEES'  
LIFE AND HEALTH INSURANCE PLAN  
FISCAL YEARS 2004 & 2005**



**PHIL BRYANT**  
STATE AUDITOR



**A report from the Performance Audit Division**

**#109**

**October 2, 2006**

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**STATE OF MISSISSIPPI**  
**OFFICE OF THE STATE AUDITOR**  
**PHIL BRYANT**  
AUDITOR

October 2, 2006

Department of Finance and Administration, Office of Insurance  
State and School Employees Health Insurance Management Board  
Members of the Mississippi Legislature

Ladies and Gentlemen:

The Office of the State Auditor has completed *A Performance Review of the State and School Employees' Life and Health Insurance Plan*. The results of this review are presented to you in the report published herein. This review was initiated based on the request of the Department of Finance and Administration, Office of Insurance, on behalf of the State and School Employees Health Insurance Management Board (Board), pursuant to requirements of Section 25-15-11, Mississippi Code of 1972, Annotated.

Since the State and School Employees' Life and Health Insurance Plan (Plan) is an extremely important government program protecting the health of thousands of state employees and public school employees, the significance of this report cannot be overstated. While the Plan continues to operate at a deficit, actions by the Board have reduced the deficit amount since December 2004 (from \$35.2 million at December 2004 to \$15.7 million at December 2005). The financial condition of the Plan has improved since December 2004 primarily as the result of premium increases and benefit changes.

It is our hope the information included in this report will be beneficial to state and public school employees in understanding the condition of their life and health insurance plan and to state officials and policy-makers in the administration of this vital program.

Additional copies of this report may be downloaded from the State Auditor's Office web page (<http://www.osa.state.ms.us>).

Sincerely,

A handwritten signature in black ink that reads "Phil Bryant". The signature is written in a cursive style with a large, sweeping initial "P".

Phil Bryant  
State Auditor

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**Office of the State Auditor  
Phil Bryant**

**A Performance Review of the State and School Employees'  
Life and Health Insurance Plan**

*Executive Summary*

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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) conduct a performance review of the State and School Employees' Life and Health Insurance Plan (Plan).

Due to the number and scope of other financial and compliance audits of the Plan conducted annually, the OSA limited the scope of this performance review to summarization and analysis of the other audits conducted on the Plan.

**Actuarial Report**

The OSA's analysis of the December 31, 2005, Actuarial Report prepared by Wm. Lynn Townsend, FSA, MAAA (Actuary) and the May 31, 2006, financial statements prepared by DFA-Insurance, indicated several important items:

1. The Plan had a funding deficit of \$15.7 million at December 31, 2005. However, since December 31, 2004, the Plan deficit had been reduced by \$19.6 million. The improved financial condition occurred primarily as the result of premium increases and benefit changes.
2. The Plan enrollment has fluctuated over the last three calendar years.
3. A comparison of claims incurred to premiums incurred shows that health insurance premiums exceeded claims by \$48.3 million before deducting operational costs in calendar year 2005.
4. The State subsidizes the premium rates for retirees and most active dependent premium classes. In calendar year 2005, the amount subsidized by the State was \$55.6 million.

**Plan Financial Condition In FY 2005**

In FY 2004, Plan receipts fell behind disbursements by \$32.7 million, while in FY2005, Plan receipts exceeded disbursements by \$21.1 million.



As of December 31, 2005, the Plan's liabilities exceeded its assets by \$15.7 million, an improvement over calendar year 2004.

The Plan is able to continue operations despite the \$15.7 million deficit due to the cash flow generated from current premium collections and investment income. The approximate two-month lag between the date a claim is incurred to the date it is filed and paid has helped allow the Plan to continue processing claims without interruption.

### **House Bill 26**

House Bill 26 included several provisions that affected the Plan in 2005. Some notable changes were:

1. Employees hired on or after January 1, 2006, may choose to have a basic level of health insurance or may purchase additional benefits or levels of coverage and pay the difference in premiums.
2. Retirees who are below the age for Medicare eligibility and who were initially employed on or after January 1, 2006, may be charged a Plan premium that is actuarially determined to cover the full cost of insurance.
3. Employees retiring on or after July 1, 2005, must have been covered under the Plan for four years in order to continue coverage under the Plan as a retiree.

### **Benefit Changes for CY 2005 and Proposed Future Changes**

Several benefit changes were implemented for calendar year 2005. In addition, the Board has approved new health insurance premium rates for FY 2006 for all Plan participants – active employees, dependents, retirees, and COBRA participants.

The Board has identified several problem areas with the current health benefit Plan and has developed proposed changes in its January 2003 *Mississippi State and School Employees' Health Insurance Plan Strategic Plan*.

### **Claims Review**

The OSA's analysis of the calendar year 2004 Claims Review performed by PricewaterhouseCoopers, LLP indicated Blue Cross did meet the claims payment accuracy, the claims processing accuracy, and the financial accuracy standards contained in the Claims Administrative Services contract with the Board. The Claims Review indicated the Blue Cross operations appeared reasonably organized and appropriate controls in key areas were in place.



## **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 review by the OSA as part of publication of the state's Comprehensive Annual Financial Report, annual compliance audits of the Plan's third party administrator, and this annual performance review, the Board also contracts an actuarial report every six months, an annual claims review of the third party medical claims administrator and pharmacy benefit manager, and periodically contracts an audit of the medical management vendor.

Due to the number and scope of other financial and compliance audits of the Plan conducted annually, the OSA limited the scope of this performance review to summarization and analysis of the other audits conducted on the Plan. The oversight provided by these required and elective audits should provide the Plan sufficient audit coverage.



## Actuarial Report

### *Analysis*

Due to the unusual effect Hurricane Katrina had on the Plan, the estimates for incurred claims and outstanding claims liabilities in this CY 2005 Report have a greater degree of uncertainty than has been the case in recent actuarial valuations.

The financial condition of the Plan has improved slightly since December 2004. The analysis prepared by the Actuary provides for a broad range of results. Projected rate increases included in this report are as follows: 11% on July 1, 2006; 11% on July 1, 2007; and 10% on July 1, 2008. Using these rate increases and the other assumptions, the Plan is expected to end the projection period with a slight funding surplus.

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, 2005, of the Plan.

The OSA's analysis of the Actuarial Report and the December 31, 2005, financial statements indicate several items of importance. These items are summarized below.

1. The Plan had a funding deficit of \$15.7 million at December 31, 2005. However, since December 31, 2004, the Plan deficit had been reduced by \$19.6 million. The improved financial condition occurred primarily as the result of premium increases and benefit changes.
2. The Plan enrollment has fluctuated over the last three calendar years.
3. A comparison of claims incurred to premiums incurred shows that health insurance premiums exceeded claims by \$15.3 million in calendar year 2004 and \$48.3 million in calendar year 2005.
4. The State subsidizes the premium rates for retirees and most active dependent premium classes. Represented as a cost per active employee, the CY 2005 subsidy costs were \$39.15 per active employee per month.

The Plan deficit and the subsidization of premium classes are continual problems that are being addressed by the Board. Solutions which have been considered include premium increases, deductible increases, prescription drug co-pay increases, and benefit changes.



## Actuarial Report Results for CY2005

### *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. As shown in Table 1, the Plan has improved from a \$35.2 million deficit at December 31, 2004, to a \$15.7 million deficit at December 31, 2005, (a \$19.5 million improvement).

**Table 1**

<b>Comparison of Funding Status (In Millions)</b>					
	<b>December 2001</b>	<b>December 2002</b>	<b>December 2003</b>	<b>December 2004</b>	<b>December 2005</b>
<b>Plan Assets</b>	\$40.3	\$51.1	\$37.8	\$40.6	\$70.5
<b>Less Plan Liabilities</b>	63.2	73.2	64.8	75.8	86.2
<b>Plan Surplus (Deficit)</b>	(22.9)	(22.1)	(27.1)	(35.2)	(15.7)
<b>Annual Increase (Decrease) in Surplus</b>	\$18.9	\$0.8	(\$5.0)	(\$8.2)	\$19.6

Source: CY 2005 Actuary Report prepared by Wm. Lynn Townsend, FSA, MAAA

### *Health Plan Enrollment*

As shown in Table 2, the average total plan enrollment has fluctuated over the last three calendar years. Enrollment increased from 190,114 in CY 2003 to 192,762 in CY 2004, an increase of 1.4%. Enrollment decreased from 192,762 in CY 2004 to 190,941 in CY 2005, a decrease of 0.95%.

**Table 2**

<b>Health Plan Average Enrollment</b>			
<b>Participant</b>	<b>CY 2003</b>	<b>CY 2004</b>	<b>CY 2005</b>
<b>Employees and Retirees</b>	136,167	138,332	138,462
<b>Dependents</b>	53,947	54,430	52,479
<b>Members</b>	190,114	192,762	190,941

Source: CY 2005 Actuary Report prepared by Wm. Lynn Townsend, FSA, MAAA

Townsend reports: *“The retiree population continued to grow at a faster rate than the active population in CY 2005 – 2.7% growth in CY 2005 for retired employees and their*



dependents versus a 1.3% decline in the total number of active employees and their dependents. Excluding dependents, retiree membership grew by 3.7% in CY 2005 versus a 0.3% decline in active employee membership.”

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

**Table 3**

<b>Retirees as a Percentage of Employees</b>		
<b>CY 2003</b>	<b>CY 2004</b>	<b>CY 2005</b>
12.9%	13.6%	14.1%

Source: CY 2005 Actuary Report prepared by Wm. Lynn Townsend, FSA, MAAA

***Health Insurance Premiums Versus Claims***

Incurred health insurance premiums are estimated to have exceeded claims by \$48.3 million in calendar year 2005. The increase in premiums for calendar year 2005 is attributed to the premium rate increases during calendar year 2005. Table 4 compares premiums to claims incurred for the last five calendar years.

**Table 4**

<b>Health Insurance Premium Versus Claims Incurred (In Millions)</b>					
	<b>CY 2001</b>	<b>CY 2002</b>	<b>CY 2003</b>	<b>CY 2004</b>	<b>CY 2005</b>
<b>Premiums</b>	\$392.8	\$418.7	\$446.9	\$511.5	\$584.5
<b>Claims Incurred</b>	360.7	399.9	433.4	496.2	536.2
<b>Gain (Loss) Prior to Expenses</b>	(\$32.1)	\$18.8	\$13.5	\$15.3	\$48.3
<b>Loss Ratio (Claims/Premium)</b>	91.8%	95.5%	97.0%	97.0%	91.7%

Source: CY 2005 Actuary Report prepared by Wm. Lynn Townsend, FSA, MAAA

Townsend stated: “Incurred claims . . . increased from \$496.2 million in CY 2004 to \$536.2 million in CY 2005, an increase of about 8.1%.”



**Retiree & Dependent Rate Subsidies**  
(from CY 2005 Actuary Report)

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 calendar year 2005 Plan subsidy costs.

**Table 5**

<b>State and School Employees Life and Health Insurance Plan CY 2005 Plan Subsidy Costs</b>				
	<b>Premiums</b>	<b>Claims</b>	<b>Expenses less Other Income</b>	<b>Gain (Loss)</b>
<b>Active Dependents</b>	\$86,147,158	100,015,328	\$4,788,391	(\$18,656,561)
<b>COBRA Employees</b>	3,797,953	10,306,107	211,105	(6,719,258)
<b>Disabled Retirees - Plan Primary</b>	1,243,843	9,123,722	69,138	(7,949,016)
<b>Disabled Retirees - Medicare Primary</b>	3,807,088	8,052,709	211,613	(4,457,234)
<b>Retirees - Plan Primary</b>	45,034,730	58,554,015	1,981,655	(15,500,941)
<b>Retirees – Medicare Primary</b>	29,285,572	30,020,259	1,627,805	(2,362,492)
<b>Subtotal - Subsidized Classes</b>	169,316,343	216,072,140	8,889,705	(55,645,502)
<b>Active Employees</b>	415,193,055	320,164,653	19,823,798	75,204,603
<b>Total</b>	\$584,509,399	\$536,236,793	\$28,713,503	\$19,559,102

Source: CY 2005 Actuary Report prepared by Wm. Lynn Townsend, FSA, MAAA



## Plan Financial Condition Improved Since FY 2004

### *Plan Receipts Exceed Disbursements*

According to Cash Flow statements provided by DFA-Insurance, Plan receipts currently exceed disbursements. In FY 2005, Plan receipts exceeded disbursements by \$21.1 million. Plan receipts rose from \$488.8 million in FY 2004 to \$593.4 million in FY 2005, an increase of 21.4%. Plan disbursements during this period increased (9.7%) from \$521.5 million in FY 2004 to \$572.3 million in FY 2005.

### *Major Causes for Increases in Plan Receipts*

The growth in Plan receipts over the past several years results primarily from increases in health insurance premiums and the introduction in October 1999 of life insurance benefits to employees of public school districts, community/junior colleges, and public libraries, resulting in increased life insurance premium contributions.

Table 6 illustrates the increase in life insurance premium contributions over the last several calendar years.

**Table 6**

<b>Life Insurance Premium Contributions</b>			
<b>CY 2002</b>	<b>CY 2003</b>	<b>CY 2004</b>	<b>CY 2005</b>
\$18,799,433	\$19,976,589	\$19,614,199	\$15,762,419

Source: CY 2005 Actuary Report prepared by Wm. Lynn Townsend, FSA, MAAA

### *Plan's Deficit is Decreasing*

From December 31, 2004 to December 31, 2005, the Plan's financial condition improved \$19.5 million (from a \$35.2 million deficit in CY 2004 to a \$15.7 million deficit in CY 2005).

### *Conclusion*



At December 31, 2005, the Plan’s liabilities exceeded its assets by \$15.7 million, an improvement over calendar year 2004.

The Plan is able to continue operations despite the \$15.7 million deficit due to the cash flow generated from current premium collections and investment income. The approximate two month lag between the date a claim is incurred to the date it is filed and paid has helped allow the Plan to continue processing claims without interruption. Nonetheless, the current level of premium receipts is insufficient to fund the current and projected level of claims, Plan expenses, and immediately eliminate the Plan deficit.

***Excess Receipts over Disbursements***

Cumulatively, for the period from fiscal year 2003 through fiscal year 2005, the Plan expended more funds than it received, or Plan disbursements exceeded receipts. Disbursements for this period exceeded receipts by \$2.9 million.

**Table 7**

<b>State and School Employees Life and Health Insurance Plan Excess Receipts over Disbursements</b>				
	<b>Fiscal Year 2003</b>	<b>Fiscal Year 2004</b>	<b>Fiscal Year 2005</b>	<b>Total</b>
<b>Total Receipts</b>	\$465,913,931	\$488,827,856	\$593,445,933	\$1,548,187,720
<b>Total Disbursements</b>	457,245,968	\$521,533,362	572,332,450	1,551,111,780
<b>Excess Receipts Over (Under) Disbursements</b>	\$8,667,963	(\$32,705,506)	\$21,113,483	(2,924,060)

Source: Financial statements prepared by DFA-Insurance.

***Plan Receipts and Disbursements***

Plan receipts increased from fiscal year 2004 to fiscal year 2005. Receipts rose from \$488.8 million in FY 2004 to \$593.4 million in FY 2005, an increase of 21.4%.

Plan disbursements increased from fiscal year 2004 to fiscal year 2005. Disbursements rose from \$521.5 million in FY 2004 to \$572.3 million in FY 2005, an increase of 9.7%.

Table 8 shows Plan receipts and disbursements for fiscal years 2003, 2004, and 2005.



Table 8

<b>State and School Employees Life and Health Insurance Plan Cash Receipts and Disbursements</b>	<b>Fiscal Year 2003</b>	<b>Fiscal Year 2004</b>	<b>Fiscal Year 2005</b>
<b>Receipts</b>			
Premiums Received			
Medical	\$437,429,355	\$458,001,401	\$561,749,370
Life	19,330,796	20,506,321	17,039,612
Refunds of Claim Overpayments	2,174,827	1,694,728	1,987,701
Subrogation Receipts	1,037,678	944,563	1,132,485
Late Fees Received	26,720	7,651	11,666
Interest Received	991,382	644,837	983,527
PCS Pharmacy Rebate	4,923,174	7,009,720	10,092,818
Pharmacy Settlement	0	18,635	448,753
<b>Total Receipts</b>	<b>465,913,931</b>	<b>488,827,856</b>	<b>593,445,933</b>
<b>Disbursements</b>			
<i>Claims/Refunds</i>			
Medical Claims	343,443,913	387,000,988	426,542,808
Pharmacy Claims	75,796,520	91,049,557	101,399,588
Life Insurance Claims	13,105,188	12,906,292	11,422,145
Premium Refunds	237,593	198,258	400,412
Patient Audit Incentive Program	3,501	2,005	1,533
<i>Total Claims/Refunds</i>	432,586,713	491,157,100	539,766,486
<i>Administrative Expenses</i>			
State Administrative Expenses	1,155,297	1,576,123	1,482,522
PricewaterhouseCoopers – Consultant	252,798	255,207	336,858
Wm. Lynn Townsend – Actuarial	67,905	98,670	120,620
Blue Cross Blue Shield (BCBS)	13,780,951	14,807,774	15,820,554
BCBS Performance Penalty	0	0	0
Conseco (Lamar Life)	303,578	300	0
Aetna	390,099	808,746	758,392
Medstat Data Base Service	377,155	389,966	403,283



<b>State and School Employees Life and Health Insurance Plan Cash Receipts and Disbursements</b>	<b>Fiscal Year 2003</b>	<b>Fiscal Year 2004</b>	<b>Fiscal Year 2005</b>
Trustmark Bank Charges	22,029	25,637	27,485
<i>Total Administrative Expenses</i>	16,349,812	17,962,424	18,949,715
<i>Cost Containment Fees</i>			
Intracorp - Utilization Management	4,830,669	8,937,539	9,933,177
Intracorp - Performance Penalty Deduction	0	0	0
Unicare/Cost Care - Utilization Review Fees	0	0	0
<i>Total Cost Containment Fees</i>	4,830,669	8,937,539	9,933,177
<i>Network Fees</i>			
PCS - Pharmacy Network	1,102,616	1,061,837	1,176,838
AHS - PPO Network	2,376,158	2,414,462	2,506,233
<i>Total Network Fees</i>	3,478,774	3,476,299	3,683,071
<b>Total Disbursements</b>	<b>457,245,968</b>	<b>521,533,362</b>	<b>572,332,450</b>
<b>Net Increase (Decrease) To Plan Assets</b>	<b>\$8,667,963</b>	<b>(\$32,705,506)</b>	<b>\$21,113,483</b>

Source: Financial statements prepared by Department of Finance and Administration, Office of Insurance



## Benefit Changes for FY 2005 and Proposed Future Changes

### *Large Annual Increases in the State's Health Benefit Premiums is Common*

In the last 19 years, from FY 1987 through FY 2005, the State has increased Plan premiums 14 times for an average annual increase of 8%. Increases in Plan premiums have been made each of the last nine fiscal years for an average annual increase of 9.7%.

On July 1, 2005, the monthly premium rate for active employees was increased from \$280 to \$305, an increase of 9%. The premium rates for dependents and retirees were also increased by 9% on July 1, 2005.

### *Prior Premium Increases*

The State has increased Plan premiums several times over the last few years to meet increased cost and utilization. See Table 9 for a listing of previous Plan premium percent increases.

**Table 9**

<b>Summary of Plan Active Employee Rate Increases 1987 through 2005</b>	
Year	Increase
1987	0%
1988	0%
1989	6%
1990	10%
1991	20%
1992	25%
1993	5%
1994	0%
1995	0%
1996	0%
1997	10%
1998	4.5%
1999	9%
2000	15%
2001	6%
2002	7%
2003	4%
2004	23%



Summary of Plan Active Employee Rate Increases 1987 through 2005	
Year	Increase
2005	9%

Source: CY2005 Actuary Report prepared by Wm. Lynn Townsend, FSA, MAAA

***Approved Premium Increases***

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 10 for a listing of fiscal year 2006 approved premium increases.

**Table 10**

State and School Employees' Health Insurance Plan Comparison of Monthly Premium Rates by Class			
Premium Class	FY 2005 Rates	Approved FY 2006 Rates	Percent Increase (Decrease)
Active Employee	\$280	\$305	8.9%
Active Spouse	298	325	9.0%
Active Full Family	438	477	8.9%
Children Only	210	229	9.0%
Child Only	105	114	8.6%
Early Retiree	322	351	9.0%
Early Retiree Spouse	343	374	9.0%
Early Retiree Family	504	549	8.9%
Medicare Retiree/Spouse	202	220	8.9%

Source: DFA-Insurance

According to DFA-Insurance, rate increases are projected to occur each fiscal year in order to fully fund the Plan and to keep pace with increases in medical costs, along with inflation. However, the situation is re-evaluated twice a year by DFA-Insurance upon receipt of the actuary report.



### ***The Plan Subsidizes Some Participant Categories at the Expense of Other Categories***

Charges for premiums to operate the Plan are made by participant category (active employee, active spouse, active full family, children only, child only, early retiree, early retiree spouse, early retiree family, and Medicare retiree/spouse). Increases in Plan premiums per participant are not necessarily based on costs within these categories. This results in the subsidization of certain categories with higher claims costs per participant by other categories with lower claims costs per participant.

Some subsidization of other premium classes is necessary by the active employee premium class because federal and state laws restrict increases to the COBRA and early retirement premium classes. However, rather than continuing or increasing subsidization of premium classes incurring higher claims, the Legislature could revisit the basis for setting the current health benefit premium structure for early retirees. With the current subsidization of retiree premiums, House Bill 26, in essence, is funding a retirement benefit through the Plan.

### ***Board Efforts to Reduce Costs Should be Continued***

In its five-year strategic plan to address problems with the Mississippi's State and School Employees' Health Insurance Plan, the Board includes requiring provider contracts to be priced on a fixed fee basis and working with the Retirement System to design a funding mechanism for retiree health insurance. Finding ways such as these to reduce costs is the only real alternative to continuing the current trend by the State of Mississippi of increasing health benefit premiums.

### ***Plan Problem Areas and Proposed Changes***

The Board has identified several problem areas with the current health benefit Plan and has developed proposed changes in its January 2003 *Mississippi State and School Employees' Health Insurance Plan Strategic Plan*:

*"In light of the trends in the health care delivery system and in employee benefit plans, and based on an examination of cost and utilization data, survey results, and comments from Plan participants and others, several target areas have been noted in the State and School Employees' Plan:*

- *Excessive growth in costs*
- *A growing retiree population*
- *High employee out-of-pocket costs*
- *Poor understanding of the benefits and operation of the Plan by participants*
- *Limited coverage of preventive/routine care*
- *Rapidly growing utilization of outpatient services*
- *A complicated and error-prone premium billing and payment system*



- *Complex regulations under the Health Insurance Portability and Accountability Act*
- *Potential changes in GASB reporting requirements*

*Strategic actions to be taken to address some of these problem areas are similar to actions being taken by most large employer and state employee health benefit plans. These strategic actions include the following:*

- *Improving benefits for preventive services*
- *Improving communications to employees*
- *Increasing the number of providers with contracts reflecting prospective fixed-cost pricing*
- *Working with the Retirement System to implement a pre-funded retiree health insurance plan*
- *Developing the capacity to electronically enroll participants and transfer premium billing information and payments*

*These strategic directions reflect a commitment to maintaining an important employee benefit that will allow the State to attract and retain employees while ensuring that the benefit is affordable for both the State and the Plan participants.”*

### ***Plan Changes***

The Board implemented several Plan changes for the fiscal years 2005 and 2006. Even though this report addresses fiscal years, the plan changes are based on calendar years. The following sections detail those changes.

#### ***Plan changes for CY 2005:***

Beginning fiscal year 2005, state employees have a new choice for their health care coverage as an alternative to the traditional medical coverage. This new choice is called a Health Savings Account (HSA). Health Savings Accounts were created by Public Law 108-173, the "Medicare Prescription Drug, Improvement and Modernization Act of 2003," signed into law by President Bush on December 8, 2003. HSAs are portable, interest-bearing, funded accounts to provide for tax-free savings for medical, dental, vision, and prescription drugs. HSAs are designed to help individuals save for qualified medical and retiree health expenses on a tax-advantaged basis.

Any adult who is covered by a high-deductible health plan (and has no other first-dollar coverage) may establish an HSA. Tax-advantaged contributions can be made in three ways:

1. the individual or family can make tax deductible contributions to the HSA even if they do not itemize deductions;



2. the individual's employer can make contributions that are not taxed to either the employer or the employee; and,
3. employers sponsoring cafeteria plans can allow employees to contribute untaxed salary through salary reduction.

To encourage saving for health expenses after retirement, individuals age 55 and older are allowed to make additional catch-up contributions to their HSAs. Once an individual enrolls in Medicare they are no longer eligible to contribute to their HSA.

Amounts contributed to an HSA belong to the account holder and are completely portable. Funds in the account can grow tax-free through investment earnings, just like an IRA.

Additional Plan changes for CY 2005:

- Effective January 1, 2005, drug card co-pays were increased from \$11 to \$12 for generic drugs, from \$27 to \$30 for preferred brand drugs, and from \$42 to \$50 for other brand name drugs with no generic equivalent. For certain drugs – if they are purchased through SpecialtyRx – the \$30 preferred brand co-pay began to apply instead of the normally applicable \$50 co-pay.
- Previously, the coverage for wellness/preventive services for participants, ages 18 and older, was limited to a maximum benefit of \$200 annually, subject to the calendar year deductible. Effective January 1, 2005, the limit for this benefit was increased from \$200 to \$250.
- Effective January 1, 2005, a \$50 emergency room visit co-pay began to apply to any emergency room visit after the first visit in a calendar year. The co-pay is in addition to the Plan deductible and does count toward the plan stop-loss limit.
- Previously, therapy services provided out-of-network were covered under the Plan using a co-insurance rate of 75% and were subject to the in-network deductible and stop loss limits. Effective, January 1, 2005, the out-of-network co-insurance rate was reduced from 75% to 60%. Out-of-network services are also now subject to the out-of-network deductible and stop loss limits.

Plan changes for CY 2006:

- A design change in the Plan's High Deductible Health Plan option was required by federal law if it was to continue to qualify for use with Health Savings Accounts. Effective, January 1, 2006, High Deductible Health Plan's (HDHP) used with Health Savings Accounts are not allowed to have drug benefits that are not subject to the HDHP deductible.
- Effective January 1, 2006, the calendar year deductible of the Select Plan (see page 15) is being increased as follows:



	<u>Up to 12/31/05</u>	<u>As of 01/01//06</u>
In Network, Individual	\$450	\$500
Out of Network, Individuals	\$900	\$1,000
In Network, Family	\$900	\$1,000
Out of Network, Family	\$1,800	\$2,000

- Prior to January 1, 2006, Medicare eligible retirees received the same Drug Co-pay Card that applied to active employees and non-Medicare eligible retirees. However, beginning January 1, 2006, Medicare eligible retirees and Medicare eligible dependents of retirees were eligible to purchase prescription drug coverage from Medicare. Effective January 1, 2006, the State Plan will no longer provide prescription drug coverage to retirees that are eligible for Medicare.
- Effective January 1, 2006, physician assistants are being added as covered providers.
- Currently, the coverage for wellness/preventive services for participants, ages 18 and older, is limited to a maximum benefit of \$250 annually, subject to calendar year deductible. Effective January 1, 2006, the calendar year deductible will no longer apply.

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- Employees initially hired on or after January 1, 2006, may choose to have a basic level of health insurance, as determined by the Health Insurance Management Board, for which 100% of the premium is paid by the State, or may purchase additional benefits or levels of coverage and pay the difference in premiums.
- Effective January 1, 2006, employees who are initially hired on or after January 1, 2006, hereafter referred to by the Plan as “HORIZON” employees, may choose one of two optional benefit plan: 1) the “BASE PLAN”, which in 2006 is a High Deductible Health Plan designed to meet the federal requirements for use with Health Saving Accounts, or 2) the “SELECT PLAN”, which in 2006 includes benefits similar to those provided in prior years to all employees. For HORIZON employees who choose the BASE PLAN option, the State will pay 100% of the employee’s monthly premium rate, which is \$290 as of January 1, 2006. HORIZON employees who chose the SELECT PLAN option must pay a monthly contribution rate of \$15 (as of January 1, 2006), which is the difference in the SELECT PLAN premium rate of \$305 and the State’s \$290 monthly contribution. Employees who were initially hired prior to January 1, 2006 (hereafter referred to by the Plan as “LEGACY” employees) may choose



either plan option with the State paying 100% of their monthly premium rates.

- For retirees who are under the age for Medicare eligibility and who were initially employed on or after January 1, 2006, the Plan may charge a premium that is actuarially determined to cover the full cost of insurance. For retirees who were initially employed prior to January 1, 2006, the premium rate continues to be limited to 115% of the premium rate for a active employee.
- In addition to all other applicable requirements, employees retiring on or after July 1, 2005, must have been covered under the State Plan for 4 years in order to continue coverage under the Plan as a retiree.

### **Claims Review**

The Board entered into an administrative service contract with Blue Cross Blue Shield of Mississippi (BCBSMS) to provide claim administration services for the Plan. The firm of PricewaterhouseCoopers LLP (PwC) was selected to perform an audit of the claims performance by BCBSMS. The most recent audit available covered medical claims processed January 1, 2004 through December 31, 2004. “Total payments for this period were \$402,317,819.”

The OSA’s analysis of the calendar year 2004 Claims Review performed by PwC indicated BCBSMS did meet the claims payment accuracy, the claims processing accuracy, and the financial accuracy standards contained in the Claims Administrative Services contract with the Board. “The Claims Review noted one underpayment totaling \$53.60 and one overpayment totaling \$100.00.”

PwC summarized its conclusion and recommendations as follows:

#### *CONCLUSION:*

*BCBSMS appears to be performing required services in accordance with the Performance Guarantee provision.*

#### *RECOMMENDATIONS:*

*BCBSMS should provide the Board with a corrective action plan for the errors identified in this claim review. This plan should include:*

- *BCBSMS should immediately start the process to correct the claim file data and recover the overpayment identified in the random sample.*



- *BCBSMS should reprocess, correct claim file data and issue additional benefits for the underpayment error identified in the random sample.*

### ***Blue Cross Blue Shield Claims Review Responses***

BCBSMS was given the opportunity to respond to the findings made by PwC in the 2004 Claims Review. The BCBSMS response to each issue is as follows:

- **Recover Overpayment**

*“Our staff has made the adjustment to recover the overpayment for the claim paid without the required pre-authorization. In addition, focused training modules have been developed for this specific process in order to increase the skills and knowledge of the adjudicators.”*

- **Issue Additional Benefits**

*“The claim in questions has been reopened and benefits have been paid to the provider of services.”*