State of Mississippi

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

From the Office of State Auditor
Phil Bryant

November 15, 2002

Report Summary

Based on state law requirements, 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 conduct a performance review of the State and School Employee's Life and Health Insurance Plan (Plan).

While the Plan continues to operate at a deficit, actions by the Board have reduced the deficit amount since June 2001 (from $28.7 million at June 2001 to $25.1 million at June 2002). The financial condition of the Plan has improved since June 2001 primarily as the result of premium increases and benefit changes.

The actuarial audit report provides for a broad range of results. Assuming the projected premium and benefit changes are implemented, the Plan's financial condition is expected to either continue to improve through June 2005 to a projected deficit of $17.2 million or worsen to a projected deficit of $51 million, depending upon future drug card changes and non-drug trend assumptions.

More detailed information is included within the report.

PERFORMANCE REVIEW

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BRIEF SHEET

Office of the
State Auditor of Mississippi
Phil Bryant

November 15, 2002

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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 June 30, 2002, Actuarial Report prepared by Wm. Lynn Townsend, FSA, MAAA (Actuary) and the June 30, 2002, financial statements prepared by DFA-Insurance, indicated several important items, such as:

1. The Plan had a funding deficit of $25.1 million at June 2002. However, since June 30, 2001, the Plan deficit had been reduced by $3.6 million. The improved financial condition occurred primarily as the result of premium increases and benefit changes.

   The analysis prepared by the Actuary provides for a broad range of results. Assuming the projected premium and benefit changes are implemented, the Plan's financial condition is expected to either continue to improve through June 2005 to a projected deficit of $17.2 million or worsen to a projected deficit of $51 million, depending on future drug card changes and non-drug trend assumptions.

2. The average Health Plan enrollment has decreased over the last three fiscal years.

3. A comparison of claims incurred to premiums shows that health insurance <u>premiums exceeded incurred claims</u> by $19.5 million before deducting operational costs in fiscal year 2002.

4. The State subsidizes the premium rates for retirees and most active dependent premium classes. In fiscal year 2002, the amount subsidized by the State was $43 million.

See page 3 of the report for more details.

Plan Financial Condition Improved In FY 2002

In FY 2001, Plan receipts exceeded disbursements by $14.9 million, while at June 30, 2002 Plan receipts exceeded disbursements by $4.8 million. 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.

At June 30, 2002, the Plan's liabilities exceeded its assets by $25.1 million, an improvement over fiscal year 2001.

The Plan is able to continue operations despite the $25.1 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.

The Board has already addressed the Plan's funding problems by authorizing increases in the Plan premiums for fiscal year 2003. However, the Board should continue to assess the Plan's financial condition and take any additional steps necessary to place this important government program on sound long-term financial ground.

See page 7 of the report for more details.

Benefit Changes for CY 2002 and Proposed Future Changes

Several benefit changes were implemented for calendar year 2002. In addition, the Board has approved health insurance premium increases for FY 2003 from 1.1% for child only to 12.1% for children only.

The Board has identified several problem areas with the current health benefit Plan and has developed proposed changes in its November 2001 *Mississippi State and School Employees' Health Insurance Plan Strategic Plan*.

See page 12 of the report for more details.

Claims Audit

The OSA's analysis of the calendar year 2001 Claims Audit performed by PricewaterhouseCoopers, LLP indicated Blue Cross did meet the correct payment of claims, the correct processing of claims performance and the financial accuracy standards.

The Claims Audit indicated the Blue Cross operations appeared reasonably organized and appropriate controls in key areas were in place. However, the errors detected during the audit indicated standard policies and procedures may not be consistently followed. In addition, the audit suggested Blue Cross evaluate and improve claims processing.

See page 17 of the report for more details.

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State of Mississippi

OFFICE OF THE STATE AUDITOR
PHIL BRYANT
AUDITOR

November 15, 2002

Department of Finance and Administration, Office of Insurance
State and School Employees Health Insurance Management Board
Members of the Mississippi Legislature
State and Public School Employees
All State Agencies, Boards, and Commissions

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 June 2001 (from $28.7 million at June 2001 to $25.1 million at June 2002). The financial condition of the Plan has improved since June 2001 primarily as the result of premium increases and benefit changes.

The analysis prepared by the Actuary provides for a broad range of results. Assuming the projected premium and benefit changes are implemented, the Plan's financial condition is expected to either continue to improve through June 2005 to a projected deficit of $17.2 million or worsen to a projected deficit of $51 million, depending upon future drug card changes and non-drug trend assumptions.

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.

Phil Bryant
State Auditor

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Introduction

Purpose of Performance Review

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, statutory authorization by the PEER Committee to contract compliance audits of the Plan's third party administrator, and this annual performance review, the Board also contracts an actuarial report every six months and an annual claims audit, and periodically contracts audits of the pharmacy network and the utilization 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

The financial condition of the Plan has improved since June 2001 primarily as the result of premium increases and benefit changes. The analysis prepared by the Actuary provides for a broad range of results. Assuming the projected premium and benefit changes are implemented, the Plan's financial condition is expected to either continue to improve through June 2005, or it could worsen, depending on future drug card changes and non-drug trend assumptions. The State continues to subsidize the premium rates for retirees and most active dependent premium classes.

The Board contracted with Wm. Lynn Townsend, FSA, MAAA (Townsend) to prepare an actuarial report based on a review of the experience through June 30, 2002, of the Plan.

The OSA's analysis of the Actuarial Report and the June 30, 2002, financial statements indicates several items of importance. These items are summarized below.

1. The Plan had a funding deficit of $28.7 million at June 30, 2001. However, as of June 30, 2002 the Plan deficit has been reduced to $25.1 million, a $3.6 million improvement since the end of fiscal year 2001, primarily as the result of premium increases and benefit changes. [Emphasis added]

2. The Health Plan enrollment has decreased over the last three fiscal years.

3. A comparison of claims incurred to premiums shows that health insurance premiums exceeded incurred claims by $19.5 million in fiscal year 2002. [Emphasis added]

4. The State subsidizes the premium rates for retirees and most active dependent premium classes. In fiscal year 2002 the amount subsidized by the State was $43 million, an increase of $9.3 million from fiscal year 2001.

The Plan deficit and the subsidization of premium classes are continual problems that are being addressed by the Board. Possible solutions include premium increases, deductible increases and prescription drug copay increases.

Actuarial Report Results for

Plan's Current Funding Status

Townsend compared the Plan's current funding status with the funding status of prior periods. Table 1, page 4, shows the results of this comparison. As shown in Table 1, the Plan has improved from a $28.7 million deficit at June 30, 2001, to a $25.1 million deficit at June 30, 2002, (a $3.6 million improvement).

The analysis prepared by the Actuary provides for a broad range of results. Assuming the projected premium and benefit changes are implemented, the Plan's financial condition is expected to either continue to improve through June 2005 to a projected deficit of 17.2 million or worsen to a projected deficit of $51 million, depending on future drug card changes and non-drug trend assumptions.

Table 1

Comparison of Funding Status (In Millions)					
	June 1998	**June 1999**	**June 2000**	**June 2001**	**June 2002**
Plan Assets	$92.8	$42.7	$28.9	$44.7	$48.8
Less Plan Liabilities	83.4	62.7	67.6	73.4	73.9
Plan Surplus (Deficit)	9.4	(20.0)	(38.7)	(28.7)	(25.1)
Annual Increase (Decrease) in Surplus	($30.8)	($29.4)	($18.7)	$10.0	$3.6

Source: FY 2002 Actuary Report prepared by Wm. Lynn Townsend, FSA, MAAA

Health Plan Enrollment

As shown in Table 2, page 4, the total plan enrollment has decreased over the last three fiscal years. Enrollment decreased from 195,865 in FY 2000 to 194,135 in FY 2001, a decrease of 0.88%. Enrollment decreased from 194,135 in FY 2001 to 188,886 in FY 2002, a decrease of 2.7%.

Table 2

Health Plan Average Enrollment			
Participant	**FY 2000**	**FY 2001**	**FY 2002**
Employees	129,278	131,623	132,768
Dependents	66,587	62,512	56,118
Members	195,865	194,135	188,886

Source: FY 2002 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 FY 2002 - 6.9% growth in FY 2002 for retired employees and their dependents versus a 3.8% decline in the total number of active employees and their dependents. Excluding dependents, retiree membership grew by 8.2% in FY 2002 versus a 0.1% decline in active employee membership. Since premium rates in the past have been set at a level below cost for the retiree classes, higher retiree enrollment growth tends to exert upward pressure on the active employee premium rate."*

Table 3, page 5, shows the retired employees as a percentage of total employees for the last three fiscal years.

Table 3

Retirees as a Percentage of Employees		
FY 2000	**FY 2001**	**FY 2002**
10.3%	11.0%	11.8%

Source: FY 2002 Actuary Report prepared by Wm. Lynn Townsend, FSA, MAAA

Health Insurance Premiums Versus Claims

Health insurance premiums are estimated to have exceeded incurred claims by $19.5 million in fiscal year 2002. The increase in premiums for fiscal year 2002 is attributed to the premium rate increases during fiscal year 2002. Table 4, page 5, compares premiums to claims incurred for the last five fiscal years.

Table 4

Health Insurance Premium Versus Claims Incurred (In Millions)					
	FY 1998	**FY 1999**	**FY 2000**	**FY 2001**	**FY 2002**
Premiums	$270.4	$293.1	$330.9	$382.3	$403.5
Claims Incurred	285.2	309.3	335.3	357.5	384.0
Gain (Loss) Prior to Expenses	($14.8)	($16.2)	($4.4)	$24.8	$19.5
Loss Ratio (Claims/Premium)	105.5%	105.5%	101.3%	93.5%	95.2%

Source: FY 2002 Actuary Report prepared by Wm. Lynn Townsend, FSA, MAAA

Townsend stated: *"Incurred claims . . . increased from $357.5 million in FY 2001 to $384.0 million in FY 2002, an increase of about 7.4%.*

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, page 6 shows the fiscal year 2002 Plan subsidy costs.

Table 5

State and School Employees Life and Heath Insurance Plan
FY 2002 Plan Subsidy Costs

	Premiums	Claims	Expenses less Other Income	Gain (Loss)
Active Dependents	$67,701,927	$81,052,953	$3,918,730	($17,269,756)
COBRA Employees	3,126,727	8,708,484	180,982	(5,762,739)
Disabled Retirees - Plan Primary	1,159,725	6,908,970	67,127	(5,816,372)
Disabled Retirees - Medicare Primary	2,133,373	4,389,273	123,484	(2,379,384)
Retirees - Plan Primary	25,109,159	35,379,828	990,844	(11,261,513)
Retirees - Medicare Primary	17,830,967	17,297,758	1,032,094	(498,885)
Subtotal - Subsidized Classes	117,061,878	153,737,266	6,313,261	(42,988,649)
Active Employees	286,428,424	230,241,514	9,550,106	46,636,804
Total	$403,490,302	$383,978,780	$15,863,367	$3,648,155

Source: FY 2002 Actuary Report prepared by Wm. Lynn Townsend, FSA, MAAA

Plan Financial Condition Improved Since FY 2001

Plan Receipts Exceed Disbursements

Currently, Plan receipts exceed disbursements. In FY 2002, Plan receipts exceeded disbursements by $4.8 million.

Plan receipts rose from $410.6 million in FY 2001 to $432.9 million in FY 2002, an increase of 5.4%. Plan disbursements during this period increased (8.2%) from $395.6 million in FY 2001 to $428.1 million in FY 2002.

For fiscal year 2002, Plan receipts exceeded disbursements by $4.8 million. See Table 8, page 9, for more information on excess Plan receipts over (under) disbursements. See Table 9, page , 10 for information on specific Plan receipts and disbursements.

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.

Increased health insurance premiums and life insurance premium contributions have greatly contributed to the significant growth in Plan receipts over the past several years. Table 6, page 7, shows life insurance premium contributions have increased significantly over the last several years. Under new legislation passed during the 1999 legislative session, employees of public school districts, community/junior colleges, and public libraries became eligible to participate in the group life insurance plan, effective October 1, 1999. This resulted in the increases in life insurance premium contributions since that date.

Table 6

Life Insurance Premium Contributions			
FY 1999	**FY 2000**	**FY 2001**	**FY 2002**
$8,894,757	$15,480,503	$18,098,986	$18,495,643

Source: FY 2002 Actuary Report prepared by Wm. Lynn Townsend, FSA, MAAA

Plan's Deficit is Becoming Smaller

From June 30, 2001, to June 30, 2002, the Plan's financial condition improved $3.6 million (from a $28.7 million deficit in FY 2001 to a $25.1 million deficit in FY 2002).

Excess disbursements over receipts over the last four fiscal years have caused the financial status of the Plan to move from a $9.4 million surplus at June 30, 1998, to a $25.1 million deficit at June 30, 2002.

See Table 1, page 4, for more information on Plan surpluses and deficits.

Conclusion

At June 30, 2002, the Plan's liabilities exceeded its assets by $25.1 million, an improvement over fiscal year 2001.

The Plan is able to continue operations despite the $25.1 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 2000 through fiscal year 2002, the Plan received more funds than it expended or Plan receipts exceeded disbursements. These excess receipts over disbursements for this period total $8.9 million.

Table 7

State and School Employees Life and Heath Insurance Plan
Excess Receipts over Disbursements

	Fiscal Year 2000	Fiscal Year 2001	Fiscal Year 2002	Total
Total Receipts	$355,591,497	$410,607,803	$432,889,648	$1,199,088,948
Total Disbursements	370,145,481	395,649,261	428,109,067	1,193,903,809
Excess Receipts Over (Under) Disbursements	($14,553,984)	$14,958,542	$4,780,581	$5,185,139

Source: Financial statements prepared by DFA-Insurance.

Plan Receipts and Disbursements

Plan receipts increased from fiscal year 2001 to fiscal year 2002. Receipts rose from $410.6 million in FY 2001 to $432.9 million in FY 2002, an **increase of 5.4%**.

Plan disbursements increased from fiscal year 2001 to fiscal year 2002. Disbursements rose from $395.6 million in FY 2001 to $428.1 million in FY 2002, **an increase of 8.2%**.

Table 8, page 10, shows Plan receipts and disbursements for fiscal years 2000, 2001 and 2002.

Table 8

State and School Employees Life and Health Insurance Plan Cash Receipts and Disbursements	Fiscal Year 2000	Fiscal Year 2001	Fiscal Year 2002
Receipts			
Premiums Received			
Medical	$330,962,287	$382,631,687	$403,423,055
Life	15,514,378	18,108,360	18,478,634
Refunds of Claim Overpayments	2,833,306	3,475,984	3,305,812
Subrogation Receipts	664,817	591,062	826,580
Late Fees Received	14,444	24,125	28,474
Interest Received	2,482,140	2,240,054	1,356,520
PCS Pharmacy Rebate	3,120,125	3,536,531	5,470,573
Total Receipts	355,591,497	410,607,803	432,889,648
Disbursements			
Claims/Refunds			
Medical Claims	272,203,930	292,036,896	322,396,223
Pharmacy Claims	67,367,651	68,316,082	69,756,669
Life Insurance Claims	9,589,500	13,069,500	12,408,500
Premium Refunds	131,255	169,486	213,503
Patient Audit Incentive Program	590	2,374	3,212
Total Claims/Refunds	349,292,926	373,594,338	404,778,107
Administrative Expenses			
State Administrative Expenses	1,118,914	1,342,395	1,177,841
William M. Mercer, Inc. - Audit	28,520	0	0
PricewaterhouseCoopers - Consultant	298,154	284,063	420,619
Wm. Lynn Townsend - Actuarial	99,630	92,790	66,540
Blue Cross Blue Shield (BCBS)	11,173,454	12,092,875	12,885,541
BCBS Performance Penalty	(209,854)	(458,435)	0
Conseco (Lamar Life)	253,107	298,709	302,295
Medstat Data Base Service	341,022	366,091	404,476
Trustmark Bank Charges	23,753	12,198	19,251
Total Administrative Expenses	13,126,700	14,030,686	15,276,563

State and School Employees Life and Health Insurance Plan Cash Receipts and Disbursements	Fiscal Year 2000	Fiscal Year 2001	Fiscal Year 2002
Cost Containment Fees			
Intracorp - Utilization Management	0	2,267,125	4,582,400
Intracorp - Performance Penalty Deduction	0	(200,000)	(90,354)
Unicare/Cost Care - Utilization Review Fees	4,599,532	2,204,747	0
Total Cost Containment Fees	4,599,532	4,271,872	4,492,046
Network Fees			
PCS - Pharmacy Network	1,054,362	1,425,154	1,220,565
BCBS - Key Provider	703,945	0	0
MS Physicians Care Provider	150,923	0	0
Baptist & Physicians Central Services	43,033	0	0
Health Choice/Health Connection	20,187	0	0
AHS - PPO Network	1,153,873	2,327,211	2,341,786
Total Network Fees	3,126,323	3,752,365	3,562,351
Total Disbursements	370,145,481	395,649,261	428,109,067
Net Increase (Decrease) To Plan Assets	($14,553,984)	$14,958,542	$4,780,581

Source: Department of Finance and Administration, Office of Insurance

Benefit Changes for CY 2002 and Proposed Future Changes

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

The state has increased health benefit premiums 11 of the last 14 years at an average annual increase of over 8% and approved another premium increase for FY 2003 of 1% - 12%.

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, page 12, for a listing of previous Plan premium increases.

Table 9

Summary of Plan Active Employee Rate Increases 1986 through 2002

Year	Increase
1986	0%
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%

Source: DFA- Insurance

Plan premiums have increased eleven times in the 17-year period from 1986 through 2002 for an average annual increase of almost 7%.

In the last 14 years from FY 89 through FY 2002, the state has increased Plan premiums eleven times for an average annual increase of 8.4%. Increases in Plan premiums have been made each of the last six fiscal years for an average annual increase of 8.5%.

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. In addressing the Plan's current financial condition, the Board has approved premium increases for fiscal year 2003 from 1.1% for child only to 12.1% for children only. See Table 10, page 13, for a listing fiscal year 2003 approved premium increases.

Table 10

State and School Employees' Health Insurance Plan
Comparison of Monthly Premium Rates by Class

Premium Class	FY 2002 Rates	Approved FY 2003 Rates	Percent Increase (Decrease)
Active Employee	$205	$219	6.8%
Active Spouse	216	242	12.0%
Active Full Family	325	356	9.5%
Children Only	165	185	12.1%
Child Only	87	88	1.1%
Early Retiree	236	252	6.8%
Early Retiree Spouse	249	279	12.0%
Early Retiree Family	354	396	11.9%
Medicare Retiree/Spouse	150	164	9.3%

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, the State 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 state and school employees' health 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 seventeen-year trend by the state of increasing health benefit premiums an average of almost 7% per year.

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 November 2001 *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 problem areas have been noted in the State and School Employees' Plan:*
>
> - *Excessive growth in costs, particularly in pharmacy;*
> - *A growing retiree population requiring increased subsidies;*
> - *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;*
> - *The need to comply with regulations under the Health Insurance Portability and Accountability Act; and*
> - *The need to comply with future 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;*
> - *Working with the Retirement System to design a funding mechanism for retiree health insurance; and*
> - *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 Benefit Changes

The Board implemented the following insurance benefit changes for CY 2002 and CY 2003:

- Effective January 1, 2002, drug card copays were increased to $25 for preferred brand name drugs and to $35 for other brand name drugs with no generic equivalent. The generic copay of $10 remained the same.

- Effective January 1, 2002, the Plan began to provide limited benefits, up to a maximum annual benefit of $200 and subject to the calendar year deductible, for wellness/preventive services for participants who are age 18 and older. During CY 2001 this benefit was limited to $150.

- Effective January 1, 2002, the Plan removed the $10,000 living donor coverage dollar cap and began to provide living donor coverage only when the recipient is a Plan participant.

- Effective January 1, 2003, drug card copays will be increased to $11 for generic drugs, to $27 for preferred drugs and to $42 for other brand name drugs with no generic equivalent. The drug card plan continues to include a generic incentive. If a brand name drug is used when a generic equivalent is available, the employee is required to pay the generic copay, plus the difference in the brand name and generic cost.

Claims Audit

The Board entered into an administrative service contract with Blue Cross Blue Shield of Mississippi 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 Blue Cross. The most recent audit available covered medical claims processed January 1, 2001 through December 31, 2001.

The OSA's analysis of the calendar year 2001 Claims Audit indicated Blue Cross did meet the correct payment of claims, the correct processing of claims performance and the financial accuracy standards.

The Claims Audit indicated the Blue Cross operations appeared reasonably organized and appropriate controls in key areas were in place. However, the errors detected during the audit indicated standard policies and procedures may not be consistently followed. In addition, the audit suggested Blue Cross evaluate and improve claims processing.

PwC summarized its conclusion and recommendations as follows:

> *"CONCLUSION*
>
> *BCBSMS appears to be performing required services; however, the errors found on this review suggest a need for evaluation and improvements in claims processing, particularly in the areas of:*
>
> - *Medicare coordination of benefits;*
> - *Investigation of potential work related illness or TPL;*
> - *Benefit for multiple surgeries;*
> - *Calculation of authorized impatient length of stay;*
> - *Payment of usual and customary rate (U & C), and*
> - *Data entry.*

Additional issues identified during this review included:

- *Lack of medical necessity review of multiple physical therapy visits and ultrasounds.*

- *Other Party Liability (OPL) Questionnaire does not question whether other party was responsible for motor vehicle accident (MVA).*

- *Excessive time to correct a processor error.*

RECOMMENDATIONS

BCBSMS should provide the State of Mississippi with a corrective action plan for all claim review errors and operational deficiencies identified in this claim review. The State of Mississippi and BCBSMS initiatives should include:

- *BCBSMS should immediately credit appropriate parties for all incorrect payments identified in the review.*

- *Turnaround time should be closely monitored and BCBSMS should continue to evaluate the steps necessary to expedite claims payment."*