

Office of the State Auditor  
Performance Audit Division



# State of Mississippi

**From the Office of State Auditor**

**Phil Bryant**

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

Report # 80  
March 8, 2004

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

March 8, 2004

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 2002 (from \$15.5 million at June 2002 to \$14.1 million at June 2003). The financial condition of the Plan has improved since June 2002 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.

Sincerely,

A handwritten signature in black ink that reads "Phil Bryant".

Phil Bryant

**Office of the State Auditor  
Phil Bryant**



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

*Report 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 June 30, 2003, Actuarial Report prepared by Wm. Lynn Townsend, FSA, MAAA (Actuary) and the June 30, 2003, financial statements prepared by DFA-Insurance, indicated several important items, such as:

1. The Plan had a funding deficit of \$14.1 million at June 2003. However, since June 30, 2002, the Plan deficit had been reduced by \$1.4 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. The rate increases that were implemented on July 1, 2003 will generate about 5.6% less in premium than would have been generated had the Plan implemented the rate increases that were recommended in the CY 2002 Actuarial Report. In light of this, claims and other expenses are expected to exceed premiums and other revenue by about \$31 million in FY 2004, and unfunded claims liabilities are expected to grow from \$14 million on June 30, 2003 to \$45 million on June 30, 2004. Represented as a

percentage of health insurance premiums, this amounts to a 6.8% loss. In the absence of prior rate increases or other Plan changes prior to that time, the Plan's assets would likely be depleted by November 2004. Further, premium increases are not likely given recent Legislative action limiting premium increases and prohibiting benefit changes in FY 2004.

2. The average Health Plan enrollment has decreased over the last three fiscal years.
3. A comparison of claims incurred to premiums incurred shows that health insurance premiums exceeded claims by \$19.1 million before deducting operational costs in fiscal year 2003.
4. The State subsidizes the premium rates for retirees and most active dependent premium classes. In fiscal year 2003, the amount subsidized by the State was \$43 million.

### **Plan Financial Condition Improved In FY 2003**

In FY 2002, Plan receipts exceeded disbursements by \$4.8 million, while at June 30, 2003 Plan receipts exceeded disbursements by \$8.7 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, 2003, the Plan's liabilities exceeded its assets by \$14.1 million, an improvement over fiscal year 2002.

The Plan is able to continue operations despite the \$14.1 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 partially addressed the Plan's funding problems by authorizing increases in the Plan premiums for fiscal year 2004; however Legislative action limited premium increases and prohibited benefit changes in 2004. 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.

### **Benefit Changes for CY 2003 and Proposed Future Changes**

Several benefit changes were implemented for calendar year 2003. In addition, the Board has approved health insurance premium increases for FY 2004 of 4.1% for active employees.

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 2002 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.

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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 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 and an annual claims review, 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 slightly since June 2002. The analysis prepared by the Actuary provides for a broad range of results. The rate increases that were implemented on July 1, 2003 will generate about 5.6% less in premium than would have been generated had the Plan implemented the rate increases that were recommended in the CY 2002 Actuarial Report. In light of this, claims and other expenses are expected to exceed premiums and other revenue by about \$31 million in FY 2004, and unfunded claims liabilities are expected to grow from \$14 million on June 30, 2003 to \$45 million on June 30, 2004. Represented as a percentage of health insurance premiums, this amounts to a 6.8% loss. In the absence of prior rate increases or other Plan changes prior to that time, the Plan's assets would likely be depleted by November 2004. 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, 2003, of the Plan.

The OSA's analysis of the Actuarial Report and the June 30, 2003, financial statements indicate several items of importance. These items are summarized below.

1. The Plan had a funding deficit of \$15.5 million at June 30, 2002. However, as of June 30, 2003 the Plan deficit has been reduced to \$14.1 million, a \$1.4 million improvement since the end of fiscal year 2002. This improvement is primarily 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 incurred shows that health insurance premiums exceeded claims by \$19.1 million in fiscal year 2003. [Emphasis added]
4. The State subsidizes the premium rates for retirees and most active dependent premium classes. Represented as a cost per active employee, the FY2003 subsidy costs were \$30.59 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 and prescription drug co-pay 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 shows the results of this comparison. As shown in Table 1 the Plan has improved from a \$15.5 million deficit at June 30, 2002, to a \$14.1 million deficit at June 30, 2003, (a \$1.4 million improvement).

**Table 1**

<b>Comparison of Funding Status (In Millions)</b>					
	<b>June 1999</b>	<b>June 2000</b>	<b>June 2001</b>	<b>June 2002</b>	<b>June 2003</b>
<b>Plan Assets</b>	\$42.7	\$28.9	\$44.6	\$48.8	\$56.2
<b>Less Plan Liabilities</b>	60.3	64.7	68.7	64.3	70.3
<b>Plan Surplus (Deficit)</b>	(17.6)	(35.8)	(24.1)	(15.5)	(14.1)
<b>Annual Increase (Decrease) in Surplus</b>	(\$28.9)	(\$18.1)	\$11.7	\$8.6	\$1.4

Source: FY 2003 Actuary Report prepared by Wm. Lynn Townsend, FSA, MAAA

### *Health Plan Enrollment*

As shown in Table 2 the average total plan enrollment has decreased over the last three fiscal years. Enrollment decreased from 194,135 in FY 2001 to 188,886 in FY 2002, a decrease of 2.7%. Enrollment decreased from 188,886 in FY 2002 to 188,758 in FY 2003, a decrease of .07%.

**Table 2**

<b>Health Plan Average Enrollment</b>			
<b>Participant</b>	<b>FY 2001</b>	<b>FY 2002</b>	<b>FY 2003</b>
<b>Employees and Retirees</b>	131,623	132,768	135,024
<b>Dependents</b>	62,512	56,118	53,734
<b>Members</b>	194,135	188,886	188,758

Source: FY 2003 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 2003 - 6.8% growth in FY 2003 for retired employees and their dependents versus a 0.9% decline in the total number of active employees and their*

*dependents. Excluding dependents, retiree membership grew by 7.9% in FY 2003 versus a 0.9% growth in active employee membership.*

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

**Table 3**

<b>Retirees as a Percentage of Employees</b>		
<b>FY 2001</b>	<b>FY 2002</b>	<b>FY 2003</b>
11.0%	11.8%	12.6%

Source: FY 2003 Actuary Report prepared by Wm. Lynn Townsend, FSA, MAAA

### *Health Insurance Premiums Versus Claims*

Incurred health insurance premiums are estimated to have exceeded incurred claims by \$19.1 million in fiscal year 2003. The increase in premiums for fiscal year 2003 is attributed to the premium rate increases during fiscal year 2003. Table 4 compares premiums to claims incurred for the last five fiscal years.

**Table 4**

<b>Health Insurance Premium Versus Claims Incurred (In Millions)</b>					
	<b>FY 1999</b>	<b>FY 2000</b>	<b>FY 2001</b>	<b>FY 2002</b>	<b>FY 2003</b>
<b>Premiums</b>	293.1	\$330.9	\$382.3	\$403.5	\$435.8
<b>Claims Incurred</b>	308.8	334.7	355.8	379.0	416.7
<b>Gain (Loss) Prior to Expenses</b>	(\$15.7)	(\$3.8)	(\$26.5)	\$24.5	\$19.1
<b>Loss Ratio (Claims/Premium)</b>	105.4%	101.2%	93.1%	93.9%	95.6%

Source: FY 2003 Actuary Report prepared by Wm. Lynn Townsend, FSA, MAAA

Townsend stated: *“Incurred claims . . . increased from \$379.0 million in FY 2002 to \$416.7.0 million in FY 2003, an increase of about 9.9%.*

### *Retiree & Dependent Rate Subsidies (from FY 2003 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 fiscal year 2003 Plan subsidy costs.

**Table 5**

<b>State and School Employees Life and Health Insurance Plan FY 2003 Plan Subsidy Costs</b>				
	<b>Premiums</b>	<b>Claims</b>	<b>Expenses less Other Income</b>	<b>Gain (Loss)</b>
<b>Active Dependents</b>	\$71,091,625	\$83,232,397	\$3,902,458	(\$16,043,230)
<b>COBRA Employees</b>	3,396,186	8,002,832	186,428	(4,793,074)
<b>Disabled Retirees - Plan Primary</b>	1,224,920	7,005,014	67,240	(5,847,333)
<b>Disabled Retirees - Medicare Primary</b>	2,503,682	4,545,891	137,436	(2,179,644)
<b>Retirees - Plan Primary</b>	29,744,816	43,097,281	1,153,835	(14,506,299)
<b>Retirees - Medicare Primary</b>	20,299,792	18,892,582	1,114,324	292,886
<b>Subtotal - Subsidized Classes</b>	128,261,022	164,775,997	6,561,720	(43,076,695)
<b>Active Employees</b>	307,508,970	251,950,797	11,129,912	44,428,262
<b>Total</b>	\$435,769,992	\$416,726,794	\$17,691,632	\$1,351,566

Source: FY 2003 Actuary Report prepared by Wm. Lynn Townsend, FSA, MAAA

## **Plan Financial Condition Improved Since FY 2002**

### **Plan Receipts Exceed Disbursements**

According to Cash Flow statements provided by DFA, plan receipts currently exceed disbursements. In FY 2003, Plan receipts exceeded disbursements by \$8.7 million. Plan receipts rose from \$432.9 million in FY 2002 to \$465.9 million in FY 2003, an increase of 7.6%. Plan disbursements during this period increased (6.8%) from \$428.1 million in FY 2002 to \$457.2 million in FY 2003.

### **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 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**

<b>Life Insurance Premium Contributions</b>			
<b>FY 2000</b>	<b>FY 2001</b>	<b>FY 2002</b>	<b>FY 2003</b>
\$15,480,503	\$18,098,986	\$18,495,643	\$19,266,465

Source: FY 2003 and 2002 Actuary Report prepared by Wm. Lynn Townsend, FSA, MAAA

### **Plan's Deficit is Becoming Smaller**

From June 30, 2002, to June 30, 2003, the Plan's financial condition improved \$1.4 million (from a \$15.5 million deficit in FY 2002 to a \$14.1 million deficit in FY 2003).

### **Conclusion**

At June 30, 2003, the Plan's liabilities exceeded its assets by \$14.1 million, an improvement over fiscal year 2002.

The Plan is able to continue operations despite the \$14.1 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 2001 through fiscal year 2003, the Plan received more funds than it expended or Plan receipts exceeded disbursements. These excess receipts over disbursements for this period total \$28.4 million.

**Table 7**

<b>State and School Employees Life and Health Insurance Plan Excess Receipts over Disbursements</b>				
	<b>Fiscal Year 2001</b>	<b>Fiscal Year 2002</b>	<b>Fiscal Year 2003</b>	<b>Total</b>
<b>Total Receipts</b>	\$410,607,803	\$432,889,648	\$465,913,931	\$1,309,411,382
<b>Total Disbursements</b>	395,649,261	428,109,067	457,245,968	1,281,004,296
<b>Excess Receipts Over (Under) Disbursements</b>	\$14,958,542	\$4,780,581	\$8,667,963	\$28,407,086

Source: Financial statements prepared by DFA-Insurance.

#### *Plan Receipts and Disbursements*

Plan receipts increased from fiscal year 2002 to fiscal year 2003. Receipts rose from \$432.9 million in FY 2002 to \$465.9 million in FY 2003, an increase of 7.6%.

Plan disbursements increased from fiscal year 2002 to fiscal year 2003. Disbursements rose from \$428.1 million in FY 2002 to \$457.2 million in FY 2003, an increase of 6.8%.

Table 8, shows Plan receipts and disbursements for fiscal years 2001, 2002 and 2003.

**Table 8**

<b>State and School Employees Life and Health Insurance Plan Cash Receipts and Disbursements</b>	<b>Fiscal Year 2001</b>	<b>Fiscal Year 2002</b>	<b>Fiscal Year 2003</b>
<b>Receipts</b>			
<b>Premiums Received</b>			
<b>Medical</b>	\$382,631,687	\$403,423,055	\$437,429,355
<b>Life</b>	18,108,360	18,478,634	19,330,796
<b>Refunds of Claim Overpayments</b>	3,475,984	3,305,812	2,174,827
<b>Subrogation Receipts</b>	591,062	826,580	1,037,678
<b>Late Fees Received</b>	24,125	28,474	26,720
<b>Interest Received</b>	2,240,054	1,356,520	991,382
<b>PCS Pharmacy Rebate</b>	3,536,531	5,470,573	4,923,174
<b>Total Receipts</b>	410,607,803	432,889,648	465,913,931
<b>Disbursements</b>			
<b>Claims/Refunds</b>			
<b>Medical Claims</b>	292,036,896	322,396,223	343,443,913
<b>Pharmacy Claims</b>	68,316,082	69,756,669	75,796,520
<b>Life Insurance Claims</b>	13,069,500	12,408,500	13,105,188
<b>Premium Refunds</b>	169,486	213,503	237,593
<b>Patient Audit Incentive Program</b>	2,374	3,212	3,501
<b>Total Claims/Refunds</b>	373,594,338	404,778,107	432,586,713
<b>Administrative Expenses</b>			
<b>State Administrative Expenses</b>	1,342,395	1,177,841	1,155,297
<b>PricewaterhouseCoopers - Consultant</b>	284,063	420,619	252,798
<b>Wm. Lynn Townsend - Actuarial</b>	92,790	66,540	67,905
<b>Blue Cross Blue Shield (BCBS)</b>	12,092,875	12,885,541	13,780,951
<b>BCBS Performance Penalty</b>	(458,435)	0	0
<b>Conseco (Lamar Life)</b>	298,709	302,295	303,578
<b>Aetna</b>	0	0	390,099
<b>Medstat Data Base Service</b>	366,091	404,476	377,155
<b>Trustmark Bank Charges</b>	12,198	19,251	22,029
<b>Total Administrative Expenses</b>	14,030,686	15,276,563	16,349,812



<b>State and School Employees Life and Health Insurance Plan Cash Receipts and Disbursements</b>	<b>Fiscal Year 2001</b>	<b>Fiscal Year 2002</b>	<b>Fiscal Year 2003</b>
<b>Cost Containment Fees</b>			
<b>Intracorp - Utilization Management</b>	2,267,125	4,582,400	4,830,669
<b>Intracorp - Performance Penalty Deduction</b>	(200,000)	(90,354)	0
<b>Unicare/Cost Care - Utilization Review Fees</b>	2,204,747	0	0
<b>Total Cost Containment Fees</b>	4,271,872	4,492,046	4,830,669
<b>Network Fees</b>			
<b>PCS - Pharmacy Network</b>	1,425,154	1,220,565	1,102,616
<b>AHS - PPO Network</b>	2,327,211	2,341,786	2,376,158
<b>Total Network Fees</b>	3,752,365	3,562,351	3,478,774
<b>Total Disbursements</b>	395,649,261	428,109,067	457,245,968
<b>Net Increase (Decrease) To Plan Assets</b>	\$14,958,542	\$4,780,581	\$8,667,963

Source: Department of Finance and Administration, Office of Insurance

## Benefit Changes for CY 2003 and Proposed Future Changes

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

The state has increased active employee health benefit premiums 12 of the last 15 years at an average annual increase of 8% and approved another premium increase for FY 2004 of 4.1%.

#### *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 increases.

**Table 9**

<b>Summary of Plan Active Employee Rate Increases 1987 through 2003</b>	
<b>Year</b>	<b>Increase</b>
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%

Source: DFA- Insurance

Plan premiums have increased 12 times in the 17-year period from 1987 through 2003 for an average annual increase of 7%.

In the last 14 years from FY 1990 through FY 2003, the state has increased Plan premiums 12 times for an average annual increase of 8%. Increases in Plan premiums have been made each of the last six fiscal years for an average annual increase of 7.6%.

*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 2004 of 4.1% for active employees. However, Legislative action has limited premium increase and benefit changes for 2004. See Table 10, for a listing fiscal year 2004 approved premium increases.

**Table 10**

<b>State and School Employees' Health Insurance Plan Comparison of Monthly Premium Rates by Class</b>			
<b>Premium Class</b>	<b>FY 2003 Rates</b>	<b>Approved FY 2004 Rates</b>	<b>Percent Increase (Decrease)</b>
Active Employee	\$219	\$228	4.1%
Active Spouse	242	242	0%
Active Full Family	356	356	0%
Children Only	185	185	0%
Child Only	88	88	0%
Early Retiree	252	252	0%
Early Retiree Spouse	279	279	0%
Early Retiree Family	396	396	0%
Medicare Retiree/Spouse	164	164	0%

**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 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 seventeen-year trend by the state of Mississippi of increasing health benefit premiums at an average rate of 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 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 the following Plan changes for CY 2003:

- The Plan implemented a new disease management program through its utilization management vendor effective August 1, 2003. The Intracorp Smart Steps program is a proactive patient management system of interventions and communications for populations with chronic conditions in which self-care efforts are significant. Initially, the Smart Steps program covers the following targeted health conditions: diabetes, coronary heart disease, and asthma.

Effective January 1, 2003, drug card copays were increased to \$11 for generic drugs, to \$27 for preferred brand 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 Review

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 2, 2002 through December 31, 2002.

The OSA's analysis of the calendar year 2002 Claims Review indicated Blue Cross did meet the correct payment of claims, the correct processing of claims performance and the financial accuracy standards. The Claims Review indicated the Blue Cross operations appeared reasonably organized and appropriate controls in key areas were in place.

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:*

- *Negotiated rate processing*
- *Processing duplicate payments*
- *Benefit application*

*Additional issues identified during this review included:*

- *BCBSMS does not retain the HIAA usual and customary rate history within the system. As HIAA updates are received the usual and customary rates for claims paid prior to the update are lost.*

### *RECOMMENDATIONS*

*BCBSMS should provide the Board with a corrective action plan for all claim review errors and issues identified in this claim review. BCBSMS' initiatives should include:*

- *BCBSMS should immediately start the process to recover overpayment recoveries.*
- *BCBSMS should implement a process to identify and correct duplicate payments.*

- *BCBSMS should review the process used to verify the benefit option selected, and confirm that processors are applying the benefits correctly.*
- *BCBSMS should review the methodology used when calculating the appropriate benefit level when the provider is negotiated, and implement a process to prevent this in the future.*

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

BCBSMS was given the opportunity to respond to the findings made by PricewaterhouseCoopers in the 2003 Claims Review. The BCBSMS response to each issue is as follows:

#### ➤ **Duplicate Claims Review**

*"Subsequent to the 1999 claims review where there were duplicates noted in the findings, we worked with our internal audit division to develop a special review of claims specifically for the purpose of identifying duplicate payments, seeking recovery for overpayments and improving internal controls. We believe this process served us well in 2000 and 2001. During the calendar year 2002, we made program modifications for the purpose of fine tuning the edits and unfortunately, those changes resulted in these claims not being selected for review."*

*"We have since modified the programs and fully expect to further increase the detection of duplicate payments for the future."*

#### ➤ **HIAA File Tables**

*"Because of the enormous nature of the HIAA file itself (a schedule for each geographical area – over 500 in the United States), Blue Cross & Blue Shield of Mississippi has chosen not to maintain historical data on line. We have elected to maintain the data on electronic medium off line."*

*"We subscribe to HIAA in the form of three data files 1) medical allowances, 2) surgical allowances and 3) HCPCS allowances. They are received every 6 months at different intervals. When the magnetic tapes are received, we make a control copy that is used for update purposes. The control copy is archived for one year following the creation date. The original copy is maintained indefinitely."*

*"While we do not maintain this information on-line, we believe this offline method of storage is more than adequate for resolution of any historical claims issues that may surface."*

➤ Negotiated Rate Processing

*“Claims involving rates negotiated by entities other than AHS State Network are typically very complicated and the processing of these claims is very specialized. This work is performed by assigned individuals and is not delegated routinely throughout the processing area. We have and will continue to address/clarify the procedures to be used to adjudicate claims negotiated by external entities.”*

➤ Benefit Application

*“The PwC report recommendation address the need to review benefit application in the quality assurance review. Please note that benefit application is an integral part of the quality assurance review process. Our quality assurance review process is a random sample of claims processed by individuals. We also perform an internal compliance review intended to mirror the annual claims review performed at the request of the State of Mississippi. This review is a stratified sampling of claims for the plan and is performed each month. It is very likely this claim was not selected for review by either the QA initiative or the internal compliance review.”*

*“The claim in sample was inadvertently adjudicated as a sick baby instead of well baby. Such processing procedures are addressed throughout the 10-week training process and continue to be addressed through target training as needed for each individual based on an analysis of processing errors. We will continue this focus throughout calendar year 2003.”*

➤ Credit Underpayments/Overpayments Identified

*“Our staff has created a spreadsheet of the errors by audit sample number that outlines specific adjustments disposition. In most situations, adjustment activity has already been initiated and completed. Where items are pending, they will be resolved within the next 30 days and we will provide a report to your office at that time.”*