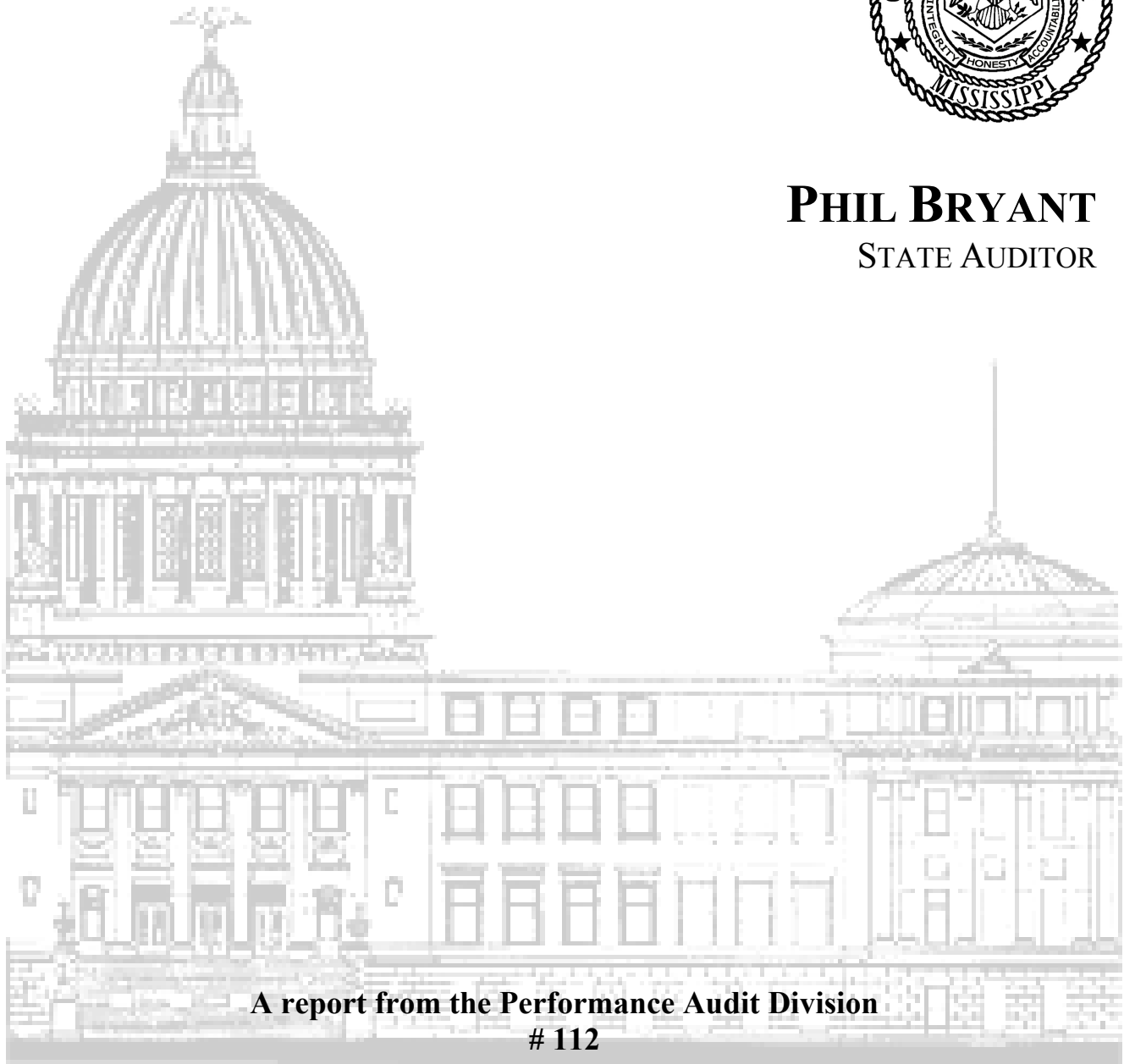


**A PERFORMANCE REVIEW OF THE STATE AND SCHOOL EMPLOYEES'  
LIFE AND HEALTH INSURANCE PLAN  
CALENDAR YEAR 2006**



**PHIL BRYANT**  
STATE AUDITOR



**A report from the Performance Audit Division**

**# 112**

**May 8, 2007**

**[www.osa.state.ms.us](http://www.osa.state.ms.us)**



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

May 8, 2007

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. Unlike December 2005's deficit of \$2.1 million, the Plan now operates at a surplus of \$56.3 million. The success of this can be credited to 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 fluid and cursive, with a large, stylized "P" and "B".

Phil Bryant  
State Auditor

# TABLE OF CONTENTS

<b>EXECUTIVE SUMMARY .....</b>	<b>i</b>
<b>INTRODUCTION .....</b>	<b>1</b>
PURPOSE .....	1
SCOPE .....	1
<b>ACTUARIAL REPORT .....</b>	<b>2</b>
ANALYSIS .....	2
<b>ACTUARIAL REPORT RESULTS FOR CY 2006 .....</b>	<b>3</b>
PLAN'S CURRENT FUNDING STATUS .....	3
HEALTH PLAN ENROLLMENT .....	3
HEALTH INSURANCE PREMIUMS VERSUS CLAIMS .....	4
RETIREE & DEPENDENT RATE SUBSIDIES .....	5
<b>PLAN FINANCIAL CONDITION IMPROVED SINCE FY 2005.....</b>	<b>6</b>
PLAN RECEIPTS EXCEED DISBURSEMENTS.....	6
MAJOR CAUSES FOR INCREASES IN PLAN RECEIPTS.....	8
PLAN OPERATES AT A SURPLUS .....	8
CONCLUSION.....	9
EXCESS RECEIPTS OVER DISBURSEMENTS .....	9
PLAN RECEIPTS AND DISBURSEMENTS .....	9
<b>BENEFIT CHANGES FOR FY 2006 AND PROPOSED FUTURE CHANGES .....</b>	<b>10</b>
<i>LARGE ANNUAL INCREASES IN THE STATE'S HEALTH BENEFIT PREMIUMS IS COMMON</i>	10
PRIOR PREMIUM INCREASES .....	10
APPROVED PREMIUM INCREASES .....	11
<i>THE PLAN SUBSIDIZES SOME PARTICIPANT CATEGORIES AT THE EXPENSE OF OTHER CATEGORIES</i> .....	11
BOARD EFFORTS TO REDUCE COSTS SHOULD BE CONTINUED .....	12
STRATEGIC PLAN .....	12
PLAN CHANGES .....	13
<b>CLAIMS REVIEW .....</b>	<b>15</b>



**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 studies conducted on the Plan.

**Actuarial Report**

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

1. The Plan's revenues exceeded expenses by \$58.5 million since December 31, 2005, and the Plan had a surplus of \$56.3 million at December 31, 2006. The improved financial condition occurred primarily as the result of a reduction in claim trends due to Hurricane Katrina.
2. The Plan enrollment has decreased over the last three calendar years.
3. A comparison of claims received to premiums incurred shows that health insurance premiums exceeded claims by \$91.3 million in calendar year 2006.
4. According to the CY 2006 Actuarial Report, the State subsidizes the premium rates for non-Medicare retirees and active dependent premium classes. In calendar year 2006, the amount subsidized by the State was \$48.4 million. This amount is down from the \$55.6 million reported in calendar year 2005.



### **Plan Financial Condition In FY 2006**

For the year ended June 30, 2006, Plan receipts exceeded disbursements by \$57.3 million, an improvement of \$36.2 million from June 30, 2005.

For the year ended December 31, 2006, the Plan's assets exceeded its liabilities by \$56.3 million, an improvement over calendar year 2005.

In the CY 2006 Actuarial Report Townsend stated: *"In comparison to CY 2005, the Plan is now operating with a surplus of \$56.3 million. In preparing the CY 2006 projections that appeared in the CY 2005 Actuarial Report, it was assumed that the non-drug claims trend would be 10% for the 1<sup>st</sup> half of CY 2006 but would increase to 14.3% over the 2<sup>nd</sup> half of CY 2006 as claims were restored to their pre-Katrina levels. Based on current estimates of claims liabilities, trend assumptions that high did not prove to be necessary for CY 2006. The trend rate during the 1<sup>st</sup> half of CY 2006 was only 0.3% and the trend rate during the 2<sup>nd</sup> half of CY 2006 was 13.4%. Consequently, actual health insurance claims incurred were significantly less than the amount previously projected for CY 2006, and the Plan's funding position improved significantly more than was previously anticipated."*

### **House Bill 26 of 2005 2<sup>nd</sup> Extraordinary Session**

House Bill 26 of 2005 2<sup>nd</sup> Extraordinary Session, which amended §25-15-15 and §25-15-9, included several provisions that affected the Plan in 2005 and 2006. Some notable changes were:

1. Employees 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.
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. 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 an active employee.
3. In addition to all other applicable requirements, 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 2006 and Proposed Future Changes**

Several benefit changes were implemented for calendar year 2006. In addition, the Board 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 Board's calendar year 2005 Claims Review performed by PricewaterhouseCoopers, LLP indicated that Blue Cross of Mississippi, the Plan's third party medical claims administrator, 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 the State's Comprehensive Annual Financial Report, and this annual performance review, the Board also contracts for an Actuarial Report every six months, and an annual claims review of the third party medical claims administrator and pharmacy benefit manager, and periodically contracts for 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 studies 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 December 2005. The analysis presented in the Actuarial provides for a broad range of results. Projected rate increases included in this report are as follows: 5% on July 1, 2007, 10% on July 1, 2008, and 10% on July 1, 2009. Using these rate increases and the other assumptions, these projections will increase the Plan's funding surplus in CY 2007, but will have reductions in CY 2008.

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, 2006 of the Plan.

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

1. The Plan's revenues exceeded expenses by \$58.5 million since December 31, 2005, and the Plan had a surplus of \$56.3 million at December 31, 2006. The improved financial condition occurred primarily as the result of a reduction in claim trends due to Hurricane Katrina.
2. The Plan enrollment has decreased over the last three calendar years.
3. A comparison of claims received to premiums incurred shows that health insurance premiums exceeded claims by \$91.3 million in calendar year 2006.
4. According to the CY 2006 Actuarial Report, the State subsidizes the premium rates for non-Medicare retirees and active dependent premium classes. In calendar year 2006, the amount subsidized by the State was \$48.4 million. This amount is down from the \$55.6 million reported in calendar year 2005.





## Actuarial Report Results for CY 2006

### *Plan's Current Funding Status*

Townsend compared the Plan's current funding status with the funding status of prior periods. Table 1 shows the results of this comparison. Note that the amounts shown for Plan liabilities for prior years are based upon a retroactive review of the life and health insurance claims liabilities based on actual incurred claims. Plan liabilities also now include an offset based on an evaluation of drug rebates receivable as of the end of each year. As shown in Table 1, the Plan has improved with a surplus of \$56.3 million as of December 31, 2006.

**Table 1**

<b>Comparison of Funding Status (In Millions)</b>					
	<b>December 2002</b>	<b>December 2003</b>	<b>December 2004</b>	<b>December 2005</b>	<b>December 2006</b>
<b>Plan Assets</b>	\$51.1	\$37.8	\$40.6	\$70.5	\$151.7
<b>Less Plan Liabilities</b>	73.2	64.8	75.2	72.7	95.4
<b>Surplus Funds (Unfunded Liabilities)</b>	(22.1)	(27.1)	(34.7)	(2.1)	56.3
<b>Annual Change in Funding Status</b>	\$0.8	(\$5.0)	(\$7.6)	\$32.6	\$58.5

Source: CY 2006 Actuarial 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 calendar years. Enrollment decreased from 192,762 in CY 2004 to 190,941 in CY 2005, a decrease of 0.94%. Enrollment decreased from 190,941 in CY 2005 to 189,117 in CY 2006, a decrease of 0.96%.

**Table 2**

<b>Health Plan Average Enrollment</b>			
<b>Participant</b>	<b>CY 2004</b>	<b>CY 2005</b>	<b>CY 2006</b>
<b>Employees and Retirees</b>	138,332	138,462	138,140
<b>Dependents</b>	54,430	52,479	50,976
<b>Members</b>	192,762	190,941	189,117

Source: CY 2006 Actuarial 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 2006 – 0.5% growth in CY 2006 for retired employees and their dependents versus a 1.1% decline in the total number of active employees and their dependents. Excluding dependents, retiree membership grew by 1.5% in CY 2006 versus a 0.4% 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**

Retirees as a Percentage of Employees		
CY 2004	CY 2005	CY 2006
13.6%	14.1%	14.3%

Source: CY 2006 Actuarial Report prepared by Wm. Lynn Townsend, FSA, MAAA

### *Health Insurance Premiums Versus Claims*

Incurred health insurance premiums are estimated to have exceeded claims by \$91.3 million in calendar year 2006. Table 4 compares premiums to claims incurred for the last five calendar years. The amounts shown for claims incurred for prior years are based on a retroactive review of health insurance claims liabilities based on actual incurred claims.

**Table 4**

Health Insurance Premiums Versus Claims Incurred (In Millions)					
	CY 2002	CY 2003	CY 2004	CY 2005	CY 2006
Premiums	\$418.7	\$446.9	\$511.5	\$584.5	\$624.9
Claims Incurred	\$399.8	\$433.4	\$495.8	\$522.7	\$533.6
Gain (Loss) Prior to Expenses	\$18.9	\$13.5	\$15.7	\$61.8	\$91.3
Loss Ratio (Claims/Premium)	95.5%	97.0%	96.9%	89.4%	85.4%

Source: CY 2006 Actuarial Report prepared by Wm. Lynn Townsend, FSA, MAAA

Townsend stated: "Based on current claim liability estimates, incurred claims (net of subrogation receipts, claim refunds, pharmacy rebates) increased from \$522.7 million in CY 2005 to \$533.6 million in CY 2006, an increase of about 2.1%."



**Retiree & Dependent Rate Subsidies**  
**(from CY 2006 Actuarial 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 2006 Plan subsidy costs.

**Table 5**

State and School Employees' Life and Health Insurance Plan CY 2006 Plan Subsidy Costs				
	Premiums	Claims	Expenses less Other Income	Gain (Loss)
Active Dependents	\$90,987,085	\$108,562,682	\$5,883,037	(\$23,458,634)
COBRA Employees	3,786,835	11,583,259	244,849	(8,041,274)
Disabled Retirees - Plan Primary	1,303,949	6,678,885	84,311	(5,459,246)
Retirees - Plan Primary	49,731,217	59,972,479	2,421,314	(12,662,577)
Retirees – Medicare Primary	23,805,295	21,025,657	1,539,201	1,240,437
Subtotal - Subsidized Classes	<b>\$169,614,381</b>	<b>\$207,822,962</b>	<b>\$10,172,712</b>	<b>(\$48,381,294)</b>
Active Employees	<b>\$455,305,031</b>	<b>\$325,766,834</b>	<b>\$22,698,589</b>	<b>\$106,839,608</b>
<b>Total</b>	<b>\$624,919,412</b>	<b>\$533,589,797</b>	<b>\$32,871,301</b>	<b>\$58,458,314</b>

Source: CY 2006 Actuarial Report prepared by Wm. Lynn Townsend, FSA, MAAA



## Plan Financial Condition Improved Since FY 2005

### *Plan Receipts Exceed Disbursements*

According to Cash Flow statements provided by DFA-Insurance, Plan receipts currently exceed disbursements. In FY 2006, Plan receipts exceeded disbursements by \$57.3 million. Plan receipts rose from \$593.4 million in FY 2005 to \$633.3 million in FY 2006, an increase of 6.7%. Plan disbursements during this period increased (.65%) from \$572.3 million in FY 2005 to \$576.0 million in FY 2006.

Table 6 shows Plan receipts and disbursements for fiscal years 2004, 2005, and 2006.

**Table 6**

<b>State and School Employees' Life and Health Insurance Plan Cash Receipts and Disbursements</b>	<b>Fiscal Year 2004</b>	<b>Fiscal Year 2005</b>	<b>Fiscal Year 2006</b>
<b>Receipts</b>			
Premiums Received			
Medical	\$458,001,401	\$561,749,370	\$601,392,541
Life	20,506,321	17,039,612	15,979,579
Refunds of Claim Overpayments	1,694,728	1,987,701	1,292,184
Subrogation Receipts	944,563	1,132,485	1,118,618
Late Fees Received	7,651	11,666	23,421
Interest Received	644,837	983,527	2,836,252
Pharmacy Rebates	7,009,720	10,092,818	10,558,305
Pharmacy Settlement	18,635	448,753	135,872
<b>Total Receipts</b>	<b>488,827,856</b>	<b>593,445,932</b>	<b>633,336,772</b>
<b>Disbursements</b>			
<i>Claims/Refunds</i>			
Medical Claims	387,000,988	426,542,808	426,781,511
Pharmacy Claims	91,049,557	101,399,588	99,063,968
Life Insurance Claims	12,906,292	11,422,145	13,439,820
Premium Refunds	198,258	400,412	448,424
Patient Audit Incentive Program	2,005	1,533	176
<b>Total Claims/Refunds</b>	<b>491,157,100</b>	<b>539,766,486</b>	<b>539,733,899</b>



<b>State and School Employees' Life and Health Insurance Plan Cash Receipts and Disbursements</b>	<b>Fiscal Year 2004</b>	<b>Fiscal Year 2005</b>	<b>Fiscal Year 2006</b>
<i>Administrative Expenses</i>			
State Administrative Expenses	1,576,123	1,482,522	1,177,695
PricewaterhouseCoopers – Consultant	255,207	336,858	223,434
Wm. Lynn Townsend – Actuarial	98,670	120,620	98,871
Blue Cross Blue Shield (BCBS)	14,807,774	15,820,554	16,804,491
Conseco (Lamar Life)	300	0	0
Aetna	808,746	758,392	797,443
Medstat Data Base Service	389,966	403,283	404,108
Trustmark Bank Charges	25,637	27,485	31,550
<i>Total Administrative Expenses</i>	<b>17,962,423</b>	<b>18,949,714</b>	<b>19,537,592</b>
<i>Cost Containment Fees</i>			
Intracorp - Utilization Management	8,937,539	9,933,177	11,747,752
<i>Total Cost Containment Fees</i>	<b>8,937,539</b>	<b>9,933,177</b>	<b>11,747,752</b>
<i>Network Fees</i>			
PCS - Pharmacy Network	1,061,837	1,176,838	630,618
Catalyst Rx - Pharmacy Network	0	0	1,700,212
AHS - PPO Network	2,414,462	2,506,233	2,702,468
AHS Performance Penalty	0	0	(58,297)
<i>Total Network Fees</i>	<b>3,476,299</b>	<b>3,683,071</b>	<b>4,975,001</b>
<b>Total Disbursements</b>	<b>521,533,361</b>	<b>572,332,448</b>	<b>575,994,244</b>
<b>Net Increase (Decrease) To Plan Assets</b>	<b>(\$32,705,505)</b>	<b>\$21,113,484</b>	<b>\$57,342,528</b>

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



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

The growth in Plan receipts over the past several years results primarily from increases in health insurance premium. Table 7 illustrates the life insurance premium contributions over the last several calendar years.

**Table 7**

<b>Life Insurance Premium Contributions</b>			
<b>CY 2003</b>	<b>CY 2004</b>	<b>CY 2005</b>	<b>CY 2006</b>
\$19,976,589	\$19,614,199	\$15,762,419	\$16,296,495

Source: CY 2006 Actuarial Report prepared by Wm. Lynn Townsend, FSA, MAAA

### ***Plan Operates at a Surplus***

From December 31, 2005 to December 31, 2006, the Plan's revenue exceeded expenses by \$58.5 million (from a \$2.1 million deficit in CY 2005 to a \$56.3 million surplus in CY 2006).



### **Conclusion**

At December 31, 2006, the Plan's assets exceeded liabilities by \$56.3 million, an improvement over calendar year 2005.

Townsend stated: *"In preparing the CY 2006 projections that appeared in the CY 2005 Actuarial Report, it was assumed that the non-drug claims trend would be 10% for the 1<sup>st</sup> half of CY 2006 but would increase to 14.3% over the 2<sup>nd</sup> half of CY 2006 as claims were restored to their pre-Katrina levels. Based on current estimates of claims liabilities, trend assumptions that high did not prove to be necessary for CY 2006. The trend rate during the 1<sup>st</sup> half of CY 2006 was only 0.3% and the trend rate during the 2<sup>nd</sup> half of CY 2006 was 13.4%. Consequently, ..., actual health insurance claims incurred were significantly less than the amount previously projected for CY 2006, and the Plan's funding position improved significantly more than was previously anticipated."*

### **Excess Receipts over Disbursements**

Cumulatively, for the period from fiscal year 2004 through fiscal year 2006, the Plan disbursed fewer funds than it received. In other words, Plan receipts exceeded disbursements. Receipts for this period exceeded disbursements by \$45.7 million. Table 8 shows the Plan's total receipts and disbursements for fiscal years 2004, 2005, and 2006.

**Table 8**

<b>State and School Employees' Life and Health Insurance Plan Excess Receipts over Disbursements</b>				
	<b>Fiscal Year 2004</b>	<b>Fiscal Year 2005</b>	<b>Fiscal Year 2006</b>	<b>Total</b>
<b>Total Receipts</b>	\$488,827,856	\$593,445,932	\$633,336,772	\$1,715,610,560
<b>Total Disbursements</b>	521,533,361	572,332,448	575,994,245	1,669,860,056
<b>Excess Receipts Over (Under) Disbursements</b>	(\$32,705,505)	\$21,113,484	\$57,342,527	\$45,750,506

Source: Financial statements prepared by DFA-Insurance.

### **Plan Receipts and Disbursements**

Plan receipts increased from fiscal year 2005 to fiscal year 2006. Receipts rose from \$593.4 million in FY 2005 to \$633.3 million in FY 2006, an increase of 6.7%.

Plan disbursements increased from fiscal year 2005 to fiscal year 2006. Disbursements rose from \$572.3 million in FY 2005 to \$576.0 million in FY 2006, an increase of 0.65%.



## Benefit Changes for CY 2006 and Proposed Future Changes

### *Large Annual Increases in the Plan's Health Insurance Premiums are Common*

In the last 20 years, from CY 1987 through CY 2006, the Plan has increased health insurance premiums 15 times for an average annual increase of 8.1%. Increases in Plan premiums have been made each of the last ten fiscal years for an average annual increase of 9.7%.

On July 1, 2006, the monthly premium rate for active employees was increased from \$305 to \$339, an increase of 11%. The premium rates for dependents and retirees were also increased by 11% on July 1, 2006.

### *Prior Premium Increases*

The Plan has increased health insurance 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**

Summary of Plan Active Employee Rate Increases 1987 through 2006	
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%
2005	9%
2006	11%

Source: CY 2006 Actuarial 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**

<b>State and School Employees' Health Insurance Plan Comparison of Monthly Premium Rates by Class</b>			
<b>Premium Class</b>	<b>FY 2006 Rates</b>	<b>Approved FY 2007 Rates</b>	<b>Percent Increase (Decrease)</b>
Active Employee	\$305	\$339	11.1%
Active Spouse	325	361	11.0%
Active Full Family	477	529	10.9%
Children Only	229	254	10.9%
Child Only	114	127	11.4%
Early Retiree	351	390	11.1%
Early Retiree Spouse	374	415	11.0%
Early Retiree Family	549	609	10.9%
Medicare Retiree/Spouse	137	152	10.9%

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 actuarial 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 some early retirement premium classes. With this subsidization of retiree premiums, the State, in essence, is funding a retirement benefit through the Plan. House Bill 26 of 2005 2<sup>nd</sup> Extraordinary Session provided that for retired employees who are under the age for Medicare eligibility and who were initially employed on or after January 31, 2006, the Board may impose a premium surcharge in an amount the Board determines actuarially to cover the full cost of insurance.



### ***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.

### ***Strategic Plan***

In FY 2007, the Board plans to update its five-year strategic plan. The updated plan will recognize changing trends in the health care industry, alternative health care delivery systems, any foreseeable problems with the present system of delivering and administering health care benefits in Mississippi, and develop options and recommendations for changes in the Plan.

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

*“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 calendar year 2006. The following sections detail those changes.

#### ***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. Beginning January 1, 2006, High Deductible Health Plan's (HDHP) used with Health Savings Accounts were not allowed to have drug benefits that are not subject to the HDHP deductible.
- Beginning January 1, 2006, the calendar year deductible of the Select Plan was increased as follows:

	<u>Current</u>	<u>January 1, 2006</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 prescription drug benefits 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, referred to as Medicare Part D. Beginning January 1, 2006, the Plan no longer provides prescription drug coverage to retirees that are eligible for Medicare.
- Prior to January 1, 2006, the Plan provided secondary medical coverage to Medicare eligible retirees, subject to the calendar year deductible, 20% employee coinsurance, and the employee's out-of-pocket limit. Beginning January 1, 2006, the Plan provided secondary medical coverage with no calendar year deductible and no employee coinsurance.
- On January 1, 2006, the monthly premium rate for Medicare eligible retirees was reduced from \$220 to \$137.



- Effective January 1, 2006, physician assistants are being added as covered providers.
- Previously, the coverage for wellness/preventive services for participants, ages 18 and older, was limited to a maximum benefit of \$250 annually, subject to calendar year deductible. Effective January 1, 2006, the calendar year deductible no longer applies to such benefits.

Plan changes for CY 2007:

- Prescription drug co-payment amounts were adjusted as follows:

	<u>Current</u>	<u>January 1, 2007</u>
Generic	\$ 12	\$ 13
Preferred Brand	\$ 30	\$ 33
Non-Preferred Brand	\$ 50	\$ 55

- Previously, the coverage for wellness/preventive services for participants, ages 18 and older, was limited to a maximum benefit of \$250 annually. Effective January 1, 2007, the limit for this benefit was increased from \$250 to \$300 for those participants who completed a health risk assessment.
- Previously, the Plan allowed participants the option to buy "High Option" coverage for their children for an additional premium of \$20 per month. Under High Option, children ages 0-17 were covered for certain wellness benefits. Effective January 1, 2007, child wellness benefits were made available to all covered children ages 0-17 at no additional premium charge.
- In order for the Base coverage option to continue to be a qualified High Deductible Health Plan Option (HDHP) under federal law, the calendar year deductible was increased for 2007. This was a result of the automatic indexing of the deductible limits prescribed by federal law. Effective January 1, 2007, the Base Option deductible was increased from \$1,050 to \$1,100 for Self Only Coverage and from \$2,100 to \$2,200 for Family Coverage.



## 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, 2005 through December 31, 2005. "Total payments for this period were \$423,800,676."

The OSA's analysis of the calendar year 2005 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 claim processing and payment error, representing an overpayment of \$857.51."

PwC summarized its conclusion and recommendations as follows:

### *CONCLUSION:*

*BCBSMS appears to be performing services at or above the Performance Guarantee levels and consistent with standard industry practices. Our Summary Operational Review found no significant areas of concern.*

### *RECOMMENDATIONS:*

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

- *Correct member's history for the identified error and immediately initiate recovery of the overpayment listed in the random sample.*
- *Provide feedback concerning the error to the processor who initially processed the claim.*