

AUDITOR'S REVIEW: THE 2012 STATE & SCHOOL EMPLOYEES' LIFE AND HEALTH INSURANCE PLAN



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**Office of the State Auditor
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Auditor's Review: The 2012 State & School Employees' Life and Health Insurance Plan

Performance Audit Report #135

October 1, 2013

Executive Summary

CY 2012 Actuarial Report Results

- Employee enrollment in the Insurance Program decreased by 0.8% during 2012;
- Base Insurance Coverage is still paid 100% by the State;
- Both Horizon and Legacy employees continue to pay a portion of their premium for Select coverage;
- The plan ended 2012 with a \$243.2 million surplus and premiums exceeded claims by \$57 million

The Department of Finance and Administration, Office of Insurance (DFA-Insurance), on behalf of the State and School Employees Health Insurance Management Board (Board), requested the Office of the State Auditor (OSA) to conduct a performance review of the State and School Employees' Life and Health Insurance Plan (Plan). The OSA limited the scope of this performance review to analysis and summarization of the other studies conducted on the Plan.

The OSA's analysis of the CY 2012 Actuarial Report prepared by Wm. Lynn Townsend, FSA, MAAA (Actuarial Report) and the August 31, 2012 financial statements prepared by DFA-Insurance, indicated several important items:

1. The Plan's revenue exceeded claims and expenses by \$31.6 million in CY 2012. The Plan had a surplus of \$243.2 million on December 31, 2012.
2. The Plan's enrollment decreased for CY 2012. Retired employee membership grew by 1.6%, while active employee membership decreased by 0.8%.
3. A comparison of claims incurred to premiums received shows health insurance premiums exceeded claims by \$57 million in CY 2012.



For the fiscal year that ended June 30, 2012, the Plan's receipts exceeded disbursements by \$43 million. For the year that ended December 31, 2012, the Plan's assets exceeded its liabilities by \$243.2 million, an increase of \$31.6 million over CY 2011.

Several benefit changes were implemented for CY 2012. Two are highlighted below:

- Expanded wellness benefits to include flu, shingles, and pneumonia vaccines.
- Eliminated the Health Quotient (HQ) requirement for participants.

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Office of the State Auditor
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Auditor's Review: The 2012 State & School Employees' Life and Health Insurance Plan
Performance Audit Report #135
October 1, 2013

Introduction

Purpose The Department of Finance and Administration, Office of Insurance (DFA-Insurance) on behalf of the State and School Employees Health Insurance Management Board (Board), requested the Office of the State Auditor (OSA) to conduct a performance review of the State and School Employees' Life and Health Insurance Plan (Plan). The letter requesting this review is in compliance with Section 25-15-11, Mississippi Code of 1972, Annotated, which states, in part:

Annually, the board [State and School Employees Health Insurance Management Board] shall request, and the Department of Audit shall conduct, a comprehensive audit of the State and School Employees Life and Health Insurance Plan...

Scope In addition to an annual performance review by the OSA as part of the State's Comprehensive Annual Financial Report, the Board also contracts for an actuarial report every six months, an annual claims review of the third party medical claims administrator and the pharmacy benefit manager.

Due to the number and scope of other financial and compliance audits of the Plan conducted annually, OSA limits the scope of this performance review to a summary and analysis of the other studies conducted for the Plan. The work conducted for these required and elective audits should provide the Plan sufficient oversight.

Actuarial Report

Analysis The Board contracted with Wm. Lynn Townsend, FSA, MAAA (Townsend) to prepare an actuarial report based on a review of the Plan activity through December 31, 2012. The OSA's analysis of CY 2012 Actuarial Report prepared by Wm. Lynn Townsend, FSA, MAAA (Actuarial Report) and the August 31, 2012, financial statements prepared by DFA-Insurance, indicated several important items:

1. The Plan's revenue exceeded claims and expenses by \$31.6 million in CY 2012. This \$31.6 million resulted in the plan having a surplus of \$243.2 million on December 31, 2012.
2. The Plan's enrollment decreased for CY 2012. Excluding dependents, retired employee membership grew by 1.6% while active employee membership decreased by 0.8%.
3. A comparison of claims incurred to premiums received shows that health insurance premiums exceeded claims by \$57 million in CY 2012.

- *Legacy* refers to an employee or retiree who was initially hired prior to January 1, 2006

- *Horizon* refers to an employee or retiree who was initially hired on or after January 1, 2006.

- *Total Plan enrollment decreased in 2012*

- *More money from premiums was collected in 2012 than was paid out in claims*

- *Revenue exceeded claims and Plan expenses by \$31.6 million*

- *This resulted in a \$243.2 million surplus on December 31, 2012*

**Plan's Current Funding Status**

Townsend compared the Plan's current funding status with the funding status of prior periods. Table 1 shows the results of this comparison. Note the amounts shown for the Plan's liabilities for prior years are based upon a retroactive review of the life and health insurance claims liabilities based on actual incurred claims. The Plan's liabilities also include an offset based on an evaluation of drug rebates receivable as of the end of each year. As shown in Table 1, in CY 2012 the Plan improved with a surplus of \$243.2 million as of December 31, 2012.

Table 1: Comparison of Funding Status (In Millions)				
	December 2009	December 2010	December 2011	December 2012
Plan Assets	\$258.6	\$251.9	\$314.4	\$356.4
Less Plan Liabilities	89.8	112.6	102.9	113.2
Surplus Funds	168.8	139.3	211.5	243.2
Annual Change in Funding Status	(\$5.2)	(\$29.5)	\$72.2	\$31.6

Source: CY 2012 Actuarial Report prepared by Wm. Lynn Townsend, FSA, MAAA. 1

Health Plan Enrollment

As shown in Table 2, the average total Plan enrollment decreased in CY 2012. In CY 2012, enrollment decreased 0.5 % for employees and 2.8% for dependents.

Table 2: Health Plan Average Enrollment				
Participant	CY 2009	CY 2010	CY 2011	CY 2012
Employees	144,985	144,023	141,220	140,484
Dependents	50,060	50,723	48,036	46,675
Total Members	195,045	194,746	189,256	187,159

Source: CY 2012 Actuarial Report prepared by Wm. Lynn Townsend, FSA, MAAA.

Townsend reports: *"Historically, the growth in early retiree enrollment generally has been far greater than the growth in active employee enrollment. Since premium rates are set at a level below cost for the early retiree premium rate classes, higher retiree enrollment growth tends to exert upward pressure on the active employee premium rate.*

[T]he growth in early retirees has recently slowed compared to historical growth rates. Early retirees enrollment actually declined by 2.7% in CY12."

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

Table 3: Retirees as a Percentage of Employees			
CY 2009	CY 2010	CY 2011	CY 2012
14.5%	15.1%	15.9%	16.3%

Source: CY 2012 Actuarial Report prepared by Wm. Lynn Townsend, FSA, MAAA

¹ Adjustments in rounding may produce differences in annual amounts between reports.

**Health Insurance Premiums versus Claims**

"Health insurance premiums are estimated to have exceeded incurred claims (prior to administrative expenses but after drug rebates) by \$57 million in CY 2012." 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 2008	CY 2009	CY 2010	CY 2011	CY 2012
Premiums	\$706.2	\$718.7	\$714.3	\$741.9	\$731.6
Claims Incurred	646.3	682.3	704.5	651.7	674.7
Gain (Loss) Prior to Expenses	59.9	36.4	9.8	90.2	56.9
Loss Ratio (Claims/Premium)	91.5%	94.9%	98.6%	87.8%	92.2%

Source: CY2012 Actuarial Report prepared by Wm. Lynn Townsend, FSA, MAAA any columns or rows that do not total exactly are due to rounding.

Townsend stated: "Based on current claim liability estimates, incurred claims (net of subrogation receipts, claim refunds, and pharmacy rebates) increased from \$651.7 million in CY11 to \$674.7 million in CY12, an increase of 3.5%."

Retiree & Dependent Rate Subsidies

Townsend stated: "Historically, premium rates for retirees - and for most active dependent premium classes have been set below true actuarial cost. In effect, the State subsidizes those premium classes..."

Table 5 shows the CY 2012 Plan subsidy costs.

Table 5: State and School Employees' Life and Health Insurance Plan CY2012 Plan Subsidy Cost				
	Premiums	Claims	Expenses less Other Income	Gain (Loss)
Active Dependents	\$96,428,217	(\$119,994,034)	(\$4,253,554)	(\$27,819,370)
COBRA Employees	3,686,764	(14,150,616)	(154,328)	(10,618,180)
Disabled Retirees - Plan Primary	1,236,332	(8,237,431)	(49,846)	(7,050,945)
Retirees - Plan Primary	59,351,296	(76,488,902)	(1,479,682)	(18,617,288)
Retirees - Medicare Primary	38,407,399	(30,780,077)	(3,088,395)	4,538,927
Disable Retirees - Life Insurance	-	(1,927,838)	-	(1,927,838)
Subtotal - Subsidized Classes	\$199,110,009	(\$251,578,899)	(\$9,025,805)	(\$61,494,695)
Active Employees	\$532,539,258	(\$425,017,165)	(\$14,207,382)	\$93,314,711
Total	\$731,649,267	(\$676,596,064)	(\$23,233,187)	\$31,820,016

Source: CY 2012 Actuarial Report prepared by Wm. Lynn Townsend, FSA, MAAA.

**Plan Receipts Exceed Disbursements**

According to Cash Flow statements provided by DFA-Insurance, the Plan's receipts in FY 2012 exceed disbursements by \$43 million. Table 6 below shows the Plan's receipts and disbursements for fiscal years 2010, 2011, and 2012. The Plan's receipts decreased from FY 2011 to FY 2012. Receipts decreased from \$785 million in FY 2011 to \$781 million in FY 2012, a decrease of 0.53%.

Table 6: State and School Employees' Life and Health Insurance Plan Excess Receipts over Disbursements			
	Fiscal Year 2010	Fiscal Year 2011	Fiscal Year 2012
Total Receipts	\$759,707,753	\$785,293,517	\$781,160,201
Total Disbursements	773,776,842	749,853,037	738,123,393
Excess Receipts Over (Under) Disbursements	(\$14,069,089)	\$35,440,480	\$43,036,808

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

CY 2012 Premiums**Premiums Have Increased At a Compound Annual Rate of 5.54% for the Last 26 Years**

In the last 26 years, from CY 1986 through CY 2012, the Plan has increased health insurance premiums 19 times. There was a 4.2% increase in premiums from 2010 to 2011, but no increase from 2011 to 2012. The monthly premium for a Legacy employee enrolled in Select coverage was \$376, of which \$20 is paid by the employee. The monthly premium for a Horizon employee enrolled in Select coverage was \$394, of which \$38 is paid by the employee.

Table 7: CY 2012 Approval Premium Rates				
Premium Class	<u>Legacy</u> Select Total Premium	<u>Legacy Select</u> Employee / Retiree Portion	<u>Horizon</u> Select Total Premium	<u>Horizon Select</u> Employee / Retiree Portion
Active Employees paid by State	\$376	\$20	\$394	\$38
Active Employees and Spouse	819	463	837	481
Active Employees and Family	1,023	667	1,041	685
Active Employees and Children	688	332	706	350
Active Employees and Child	531	175	549	193
Early Retiree (Non-Medicare)	---	432	---	620
Early Retiree and Spouse (Non-Medicare)	---	941	---	1,317
Early Retiree and Family (Non-Medicare)	---	1,176	---	1,472

Source: Department of Finance and Administration-Insurance



Benefit Changes for CY 2012

Approved Premium Rates

Actuarial reports are used as a basis for establishing the health benefit premium rates. Projections in the actuarial report are made to indicate when the Plan will be fully funded. *Beginning January 1, 2011, the State's contribution rate was at \$356 per month for all employees.* See Table 7 for a listing of January 1, 2012 approved premium rates for Legacy and Horizon Select employees. Legacy refers to an employee or retiree who was initially hired prior to January 1, 2006 and Horizon refers to an employee or retiree who was initially hired on or after January 1, 2006.

Plan Changes

The Board implemented several Plan changes for CY 2012. The following sections detail those changes.

- Expanded wellness benefits to include **flu, shingles, and pneumonia vaccines** administered by immunization-certified pharmacists at Catamaran participating pharmacies.
- Precertification of outpatient **CT Scans and MRI services** performed in an **emergency room** setting will no longer be required.
- Expanded precertification requirements to the transplant evaluation stage.
- Expanded wellness benefits to include the *ActiveHealth Weight Management Enhancement Program* for participants with a BMI of 40 or higher, to include a worksite-based weight loss program to be procured through an RFP process, and to better educate participants on the weight management benefits currently available in the Plan.
- Eliminated the Health Quotient (HQ) requirement for participants.
- The telephonic tobacco cessation counseling program is no longer required to receive benefits for smoking cessation medications.



For more information about this issue, contact

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