2018 Proposed Benefit Design Changes

Note: This presentation primarily focuses on plan options for Active Employees and Non-Medicare Retirees due to timing of Medicare Advantage rate renewals.

Board of Trustees Meeting

March 22, 2017

A Division of the Department of State Treasurer
Presentation Overview

- Focus and Priorities
- Benefit Plan Options for Active Employees & Non-Medicare Retirees
- Wellness Premiums & Credits
- Subscriber Premiums
- Dependent Premiums
- Stork Rewards Program
- Financial Impact of Proposal
- Priority for Using Future Savings
- Board Action

Note: The proposed benefit changes primarily focus on plan options for Active Employees and Non-Medicare Retirees due to timing of Medicare Advantage rate renewals.
Focus and Priorities

• Reduce Complexity
• Improve Value
• Provide Certainty
• Make Family Coverage Affordable
• Ensure Financial Sustainability
• Preserve Benefits and Reserves
• Address Long-term Retiree Health Liability
Benefit Plan Options for Active Employees and Non-Medicare Retirees

Note: Premiums and benefit designs for the Medicare Advantage plan offerings will be determined at a later date due to timing of Medicare Advantage rate renewals.
Proposed 2018 Plan Options

Reduce complexity and promote long-term financial stability by eliminating the Consumer-Directed Health Plan (CDHP 85/15):

• The benefit design, which includes a deductible and coinsurance with a health reimbursement account (HRA) and various incentive programs, is complex and requires a high level of engagement and health literacy.

• Despite the CDHP 85/15 having the highest actuarial value among plan options available to active employees and non-Medicare retirees, members prefer the copay-based plans.
  - Available since 2014, current enrollment is 6.5% of eligible subscribers.
  - As noted in the Optimized Enrollment Analysis presented to the Board in December 2016, if all members had selected the “lowest cost plan” (and did not change their utilization patterns), the Plan would have spent nearly $270 million more in CY 2015.
  - The analysis determined which plan design would have resulted in the lowest cost for each member in Calendar Year 2015 (i.e., optimal enrollment) and considered both member premiums and out-of-pocket costs when services are utilized.

Note: Elimination of the CDHP 85/15 includes the Health Engagement Program incentives for the Healthy Lifestyles and Positive Pursuits components.
Wellness Premiums & Credits
Proposed 2018 Wellness Premiums & Credits

Reduce complexity and improve the member experience by simplifying the wellness premiums and credits:

- Reduce the number of wellness premiums and credits from 3 to 1
- Retain tobacco attestation only
- Increase the monthly tobacco wellness premium and corresponding credit from $40 to $60
- Apply tobacco attestation to all plan options for Active Employees
- Retirees will not be required to complete the tobacco attestation or pay a premium for the 70/30 plan

Note: Members on the 80/20 plan will continue to receive a copay reduction for using their selected primary care physician.
Subscriber Base Premiums
Proposed 2018 Subscriber Premiums

Expand the use of subscriber premiums to create a more balanced approach for spreading cost increases across the population and promoting long-term financial stability

- Subscriber (i.e., employee/retiree) premiums spread the impact of cost increases or required savings over the entire population
- The simplified wellness premium and credit structure for the tobacco attestation would be combined with the following monthly subscriber premiums for active employees and non-Medicare retirees.*

<table>
<thead>
<tr>
<th>Active Employees &amp; Non-Medicare Retirees *</th>
<th>70/30 Plan</th>
<th>80/20 Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly Subscriber Premium</td>
<td>$25.00</td>
<td>$50.00</td>
</tr>
</tbody>
</table>

* Non-Medicare Retirees will not be required to complete the tobacco attestation or pay a premium for the 70/30 plan.
Expand Subscriber Base Premiums

- Changes to the various benefit plans over the past several years have focused entirely on cost sharing – with the effect of concentrating cost increases among those who require health care services

- Board members have expressed a desire to better spread risk across the Plan population by establishing base premiums for employees on all the plan options

- Premium rates linked to plan value:
  - Allows for differential pricing of the benefit options
  - Mimics pricing in the health care insurance market – higher value plans (i.e., lower cost sharing requirements) are more costly (i.e., higher premiums)

Note: G.S. 135-48.40(a) requires the Plan to offer a “noncontributory” or premium free plan to retirees.
The Comparative Analysis of State Health Plans presented in January 2017 shows that only one other comparator state (Virginia) has a $0 employee premium offering.

- The chart above shows the individual premium rates charged by various states
  - Red bars indicate plans less rich than NC’s 80/20 plan (blue bar) and the green bars indicate plans with richer benefits
  - Members in other states may receive richer benefits but pay significantly higher premiums in many cases
Current 2017 Subscriber Premium Rates and Credits

Subscribers can reduce premiums by earning credits through the completion of three activities (i.e., tobacco attestation, select a PCP, complete health assessment).

<table>
<thead>
<tr>
<th>Active Employees &amp; Non-Medicare Retirees *</th>
<th>70/30 Plan*</th>
<th>80/20 Plan</th>
<th>CDHP 85/15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Monthly Subscriber Premium</td>
<td>$40</td>
<td>$105.04</td>
<td>$80</td>
</tr>
<tr>
<td>Tobacco Premium Credit</td>
<td>($40)</td>
<td>($40)</td>
<td>($40)</td>
</tr>
<tr>
<td>PCP Premium Credit</td>
<td>n/a</td>
<td>($25)</td>
<td>($20)</td>
</tr>
<tr>
<td>Health Assessment Premium Credit</td>
<td>n/a</td>
<td>($25)</td>
<td>($20)</td>
</tr>
<tr>
<td>Net Subscriber Premium After Credits</td>
<td>$0</td>
<td>$15.04</td>
<td>$0</td>
</tr>
</tbody>
</table>

* Non-Medicare Retirees are not required to complete the tobacco attestation or pay a premium for the 70/30 plan.
Proposed 2018 Subscriber Premium Rates and Credits

- The simplified wellness premium and credit structure for the tobacco attestation would be combined with the subscriber premiums for active employees and non-Medicare retirees.*
- Subscribers can reduce their total premium by completing the tobacco attestation to earn a $60 premium credit.

<table>
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<th>Active Employees &amp; Non-Medicare Retirees *</th>
<th>70/30 Plan*</th>
<th>80/20 Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Monthly Subscriber Premium</td>
<td>$85</td>
<td>$110</td>
</tr>
<tr>
<td>Tobacco Premium Credit</td>
<td>($60)</td>
<td>($60)</td>
</tr>
<tr>
<td>Net Subscriber Premium After Credits</td>
<td>$25</td>
<td>$50</td>
</tr>
</tbody>
</table>

* Non-Medicare Retirees will not be required to complete the tobacco attestation or pay a premium for the 70/30 plan.
Dependent Premiums
Proposed 2018 Dependent Premiums

Freeze family premiums at the 2017 level as the initial step to improving the affordability of Plan benefits for families and attracting younger, healthier members.

- North Carolina’s contribution strategy has differed from most other states
  - Employee/retiree-only coverage is highly subsidized by the state, while dependent coverage is not
  - Employees/retirees are responsible for paying the “full premium cost” of dependent coverage
    - The state’s employer contribution for employee/retiree coverage effectively provides an indirect, but relatively low subsidy
    - As such, dependent enrollment is low, with 80% of employees/retirees selecting employee only coverage

<table>
<thead>
<tr>
<th>2017 Employee/Retiree + Family Premiums for Active Employees &amp; Non-Medicare Retirees</th>
<th>70/30 Plan</th>
<th>80/20 Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly Premium</td>
<td>598.70</td>
<td>$708.72</td>
</tr>
</tbody>
</table>
Subscriber Enrollment and Premium Receipts by Tier

Subscriber Enrollment by Tier

- EE Only: 413,510 (80%)
- EE + Children: 58,335 (11%)
- EE + Spouse: 21,771 (4%)
- EE + Family: 22,791 (5%)

Allocation of Total Premiums by Tier

- EE Only: 97%
- EE + Children: 64%
- EE + Spouse: 48%
- EE + Family: 42%

Based on Oct 2016 Reports

(EE = Employee/Retiree)
## Estimated 2016 Monthly Premium Collections by Tier

<table>
<thead>
<tr>
<th>Coverage Tier</th>
<th>Subscribers</th>
<th>%</th>
<th>Employer Contributions</th>
<th>Col %</th>
<th>EE Premiums</th>
<th>Col %</th>
<th>Dependent Premiums</th>
<th>Col %</th>
<th>Total Premiums</th>
<th>Col %</th>
</tr>
</thead>
<tbody>
<tr>
<td>EE Only</td>
<td>413,510</td>
<td>80.1%</td>
<td>$177,088,248</td>
<td>79.6%</td>
<td>$5,347,694</td>
<td>80.2%</td>
<td>$0</td>
<td>0.0%</td>
<td>$182,435,942</td>
<td>68.5%</td>
</tr>
<tr>
<td>EE + Child(ren)</td>
<td>58,335</td>
<td>11.3%</td>
<td>$26,595,289</td>
<td>12.0%</td>
<td>$768,587</td>
<td>11.5%</td>
<td>$14,258,361</td>
<td>38.3%</td>
<td>$41,622,236</td>
<td>15.6%</td>
</tr>
<tr>
<td>EE + Spouse</td>
<td>21,771</td>
<td>4.2%</td>
<td>$8,465,560</td>
<td>3.8%</td>
<td>$255,959</td>
<td>3.8%</td>
<td>$8,941,088</td>
<td>24.0%</td>
<td>$17,662,607</td>
<td>6.6%</td>
</tr>
<tr>
<td>EE + Family</td>
<td>22,791</td>
<td>4.4%</td>
<td>$10,273,647</td>
<td>4.6%</td>
<td>$299,856</td>
<td>4.5%</td>
<td>$14,045,242</td>
<td>37.7%</td>
<td>$24,618,745</td>
<td>9.2%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>516,407</td>
<td>100.0%</td>
<td>$222,422,743</td>
<td>100.0%</td>
<td>$6,672,096</td>
<td>100.0%</td>
<td>$37,244,691</td>
<td>100.0%</td>
<td>$266,339,530</td>
<td>100.0%</td>
</tr>
</tbody>
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<thead>
<tr>
<th>Coverage Tier</th>
<th>Subscribers</th>
<th>%</th>
<th>ER Contributions</th>
<th>Row %</th>
<th>EE Premiums</th>
<th>Row %</th>
<th>Dependent Premiums</th>
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<td>$266,339,530</td>
<td>100.0%</td>
<td></td>
</tr>
</tbody>
</table>

Sources: MEM001-2016-1031 (BCBSNC membership report); Humana and United Medicare Advantage invoices (prepared by COBRAGuard)

EE = Employee/Retiree
Stork Rewards Program
Proposed Phase Out of Stork Rewards Program

Discontinue enrollment in the Stork Rewards incentive program after March 31, 2017, to phase out the program by the end of the 2017 benefit year.

- Program has not shown any consistent or significant Return on Investment (ROI) over the 5 years it has been offered to members.
- The incentive component, by itself, has not shown any impact on adverse newborn outcomes (pre-term births, low birth weight babies, and/or Neonatal Intensive Care Unit (NICU) admissions). There has been a very small but significant change over time in antenatal outcomes. There has been a significant increase in engagement of members in the incentive program.
- Last year, the program cost the Plan $1,038,450 and is projected to increase to $1,659,878 in the current year.
Adverse Newborn Outcome, Preterm Births

- The adverse newborn outcome rate among Plan members is already low.
- 97% of pregnant Plan members are already engaged with their Ob/Gyn when they first interact with their maternity coach.

**2015 Preterm Birth Rates**

- United States: 9.6%
- Vermont: 7.3%
- Georgia: 10.8%
- North Carolina: 10.2%
- South Carolina: 11.1%
- Tennessee: 11.0%
- Mississippi: 13.0%

*March of Dimes State Preterm Birth Rates* | *State Health Plan (PY4)* | *"A" grade by March of Dimes*
Financial Impact & Priority for Savings
## Financial Impact of Proposal

Four-Year Smoothed Premium Increases, Maintain Reserves

<table>
<thead>
<tr>
<th></th>
<th>CY 2017</th>
<th>CY 2018</th>
<th>CY 2019</th>
<th>CY 2020</th>
<th>CY 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Premium Increase</strong></td>
<td></td>
<td>6.96%</td>
<td>6.96%*</td>
<td>6.96%*</td>
<td>6.96%*</td>
</tr>
<tr>
<td><strong>Year-End Cash Balance</strong></td>
<td><strong>$834 m</strong></td>
<td><strong>$839 m</strong></td>
<td><strong>$877 m</strong></td>
<td><strong>$875 m</strong></td>
<td><strong>$834 m</strong></td>
</tr>
<tr>
<td><strong>Employee/Retiree Premiums - Increase from Prior CY</strong></td>
<td><strong>$175.2 m</strong></td>
<td><strong>$0.0 m</strong></td>
<td><strong>$0.3 m</strong></td>
<td><strong>-$0.8 m</strong></td>
<td></td>
</tr>
</tbody>
</table>

* premium increase would only be applied to the employer contribution

### Increases from Prior FY

<table>
<thead>
<tr>
<th></th>
<th>FY 2017-19</th>
<th>FY 2019-21</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employer Contributions</td>
<td>$134.1 m</td>
<td>$208.5 m</td>
</tr>
<tr>
<td>General Fund Contribution</td>
<td>$107.3 m</td>
<td>$166.8 m</td>
</tr>
</tbody>
</table>

### Forecast Model Assumes:
- $60 tobacco surcharge^, but elimination of health assessment and PCP selection wellness activities
- Base employee/retiree^ premiums for CY 2018: $25 for 70/30 and $50 for 80/20
- Premiums for EE + Family tiers for CY 2018: Remain at CY 2017 level
- Premiums for EE + Spouse & EE + Child(ren) tiers for CY 2018: Increase 6.96%
- Premiums for employee/retiree and dependent coverage tiers remain at CY 2018 levels through CY 2021
- Projected CY 2017 year-end cash balance retained over the four years

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^ Retirees will not be required to complete the tobacco attestation or pay a premium for the 70/30 plan.

EE = Employee/Retiree

Medicare Advantage benefits and premiums to be determined, premiums & benefits beyond 2018 subject to change
Share of Premium Collections

<table>
<thead>
<tr>
<th>Year</th>
<th>Employer Contributions</th>
<th>Employee/Retiree Contributions</th>
</tr>
</thead>
<tbody>
<tr>
<td>CY 2017</td>
<td>$2,718 83%</td>
<td>$549 17%</td>
</tr>
<tr>
<td>CY 2018</td>
<td>$2,898 80%</td>
<td>$724 19%</td>
</tr>
<tr>
<td>CY 2019</td>
<td>$3,091 81%</td>
<td>$724 19%</td>
</tr>
<tr>
<td>CY 2020</td>
<td>$3,297 82%</td>
<td>$724 18%</td>
</tr>
<tr>
<td>CY 2021</td>
<td>$3,517 83%</td>
<td>$723 17%</td>
</tr>
</tbody>
</table>

Chart assumes 6.96% annual increases in employer contributions from CY 2018 through CY 2021 and forecast model described on previous page.
Priority for Using Future Savings

1. No additional increases to the employee and dependent premium rates through 2021
2. No increases to member cost sharing (i.e., copays, deductibles, coinsurance maximums) through 2021
3. Increase the subsidy for family premiums
4. Reduce the unfunded liability for retiree health benefits
Board Action

Board approval of the following changes is requested, effective January 1, 2018, unless otherwise indicated:

1. Eliminate the CDHP 85/15 plan offering.
2. Reduce the number of wellness premiums/credits from three to one, by retaining only the tobacco attestation requirement on the 70/30* and 80/20 plans.
   - Subscribers who are not tobacco users or enroll in a Plan-approved tobacco cessation program will receive a $60 credit toward their monthly premium.
3. Charge the following subscriber premiums:
   - 70/30 Plan* = $25.00
   - 80/20 Plan = $50.00
4. Freeze premium rates for the family coverage tier on the 70/30 and 80/20 plans at the 2017 level.
5. Discontinue enrollment in the Stork Rewards Program March 31, 2017, to phase out the program by the end of 2017.

* Retirees will not be required to complete the tobacco attestation or pay a premium for the 70/30 plan. Premiums and benefit designs for the Medicare Advantage plan offerings will be determined at a later date due to timing of Medicare Advantage rate renewals.