State of Mississippi

PERFORMANCE AUDIT

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

From the Office of State Auditor
Phil Bryant

Report # 60
July 25, 2001

Report Summary

Based on state law requirements, the Department of Finance and Administration, Office of Insurance (DFA-Insurance), on behalf of the State and School Employees Health Insurance Management Board (Board), requested the Office of the State Auditor conduct a performance review of the State and School Employee's Life and Health Insurance Plan (Plan).

While the Plan continues to operate at a deficit, actions by the Board have significantly reduced the deficit amount since December 2000 (from $42.5 million at December 2000 to $24.4 million at June 2001). The financial condition of the Plan has improved since December 2000 primarily as the result of premium increases, benefit changes, and an increase in the deductibles. Assuming the projected premium and benefit changes are implemented, the financial condition is expected to continue to improve until the beginning of calendar year 2002, at which time the approximate $24.4 million deficit is projected to decrease to an approximate $10 million deficit with the Plan projected to become fully funded in calendar year 2003.

More detailed information is included within the report.

Office of the
State Auditor of Mississippi
Phil Bryant

Report # 60
July 25, 2001

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

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 audit to summarization and analysis of the other audits conducted on the Plan.

Actuarial Report

The OSA's analysis of the June 30, 2000 and December 31, 2000 Actuarial Reports prepared by Wm. Lynn Townsend, FSA, MAAA and the June 30, 2001 financial statements prepared by DFA-Insurance, indicated several important items, such as:

1. The Plan had a funding deficit of $42.5 million at December 30, 2000. However, as of June 30, 2001 the Plan deficit has been reduced to $24.4 million, a $18.1 million improvement since the end of calendar year 2000. The improved financial condition occurred primarily as the result of premium increases, benefit changes, and an increase in the deductibles. Assuming the projected premium and benefit changes are implemented, the financial condition is expected to continue to improve until the beginning of calendar year 2002, at which time the approximate $19.8 million deficit is projected to decrease to an approximate $10 million deficit with the Plan projected to become fully funded in calendar year 2003.

2. The average calendar year Health Plan enrollment continues to increase. The growth rate of retiree enrollment continues to outpace other premium classes.

3. A comparison of claims incurred to premiums shows that health insurance premiums exceeded incurred claims by $17.7 million in calendar year 2000. In addition, premiums continue to exceed claims payments at June 2001.

4. Drug benefit claims incurred decreased from $70.5 million in calendar year 1999 to $66.6 million in calendar year 2000.

5. The State subsidizes the premium rates for retirees and most active dependent premium classes. In fiscal year 2000 the amount subsidized by the State was $38.5 million.

See page 3 of the report for more details.

Plan Financial Condition is Improving

In FY 2000 Plan disbursements exceeded receipts by $14.6 million, while at June 30, 2001 Plan receipts exceeded disbursements by $18.8 million. The growth in Plan receipts over the past several years results primarily from increases in health insurance premiums and the introduction in October 1999 of life insurance benefits to employees of public school districts, community/junior colleges, and public libraries, resulting in increased life insurance premium contributions.

At June 30, 2001, the Plan's liabilities exceeded its assets by $24.4 million, a significant improvement over fiscal year

BRIEF SHEET

2000. As reflected in the June 2001 financial statements prepared by DFA-Insurance, the Plan's current financial trend is to receive more funds than it disburses.

The Plan is able to continue operations despite the $24.4 million deficit due to the cash flow generated from current premium collections and investment income. The approximate two month lag between the date a claim is incurred to the date it is filed and paid has helped allow the Plan to continue processing claims without interruption.

The Board has already addressed the Plan's funding problems by authorizing increases in the Plan premiums for fiscal year 2002. However, the Board should continue to assess the Plan's financial condition and take any additional steps necessary to place this important government program on sound long-term financial ground.

See page 10 of the report for more details.

Benefit Changes for 2001 and Proposed Future Changes

Several benefit changes were implemented for calendar year 2001 (see page 24 for more details). In addition, the Board has approved health insurance premium increases for FY 2002 from 6% for active employees to 15% for Medicare Retiree and Medicare Spouse.

The Board has identified several problem areas with the current health benefit Plan and has developed proposed changes in its October 2000 *Mississippi State and School Employees' Health Insurance Plan Strategic Plan* (see page 23).

See page 17 of the report for more details.

Claims Audit

The OSA's analysis of the calendar year 2000 Claims Audit performed by PricewaterhouseCoopers LLP indicated, while Blue Cross did meet the correct payment of claims and the correct processing of claims performance standards, they continue to not achieve the financial accuracy standard (i.e., "correct dollar amounts paid.").

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

See page 26 of the report for more details.

Contact

Mitchell H. Adcock, CPA, CIA, CFE, CPM
Performance Audit Division Director
(601) 576.2800

TABLE OF CONTENTS

State of Mississippi

OFFICE OF THE STATE AUDITOR
PHIL BRYANT
AUDITOR

July 25, 2001

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 significantly reduced the deficit amount since December 2000 (from $42.5 million at December 2000 to $24.4 at June 2001). The financial condition of the Plan has improved since December 2000 primarily as the result of premium increases, benefit changes, and an increase in the deductibles. Assuming the projected premium and benefit changes are implemented, the financial condition is expected to continue to improve until the beginning of calendar year 2002, at which time the approximate $24.4 million deficit is projected to decrease to an approximate $10 million deficit with the Plan projected to become fully funded in calendar year 2003.

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,

Phil Bryant
State Auditor

POST OFFICE BOX 956 • JACKSON, MISSISSIPPI 39205 • (601) 576-2800 • FAX (601) 576-2687

Introduction

Purpose of Performance Audit

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 audit of the State and School Employees' Life and Health Insurance Plan (Plan). The letter requesting this audit 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 audit by the OSA as part of publication of the state's Comprehensive Annual Financial Report, statutory authorization by the PEER Committee to contract compliance audits of the Plan's third party administrator, and this annual performance audit, the Board also contracts an actuarial report every six months and an annual claims audit, and periodically contracts audits of the pharmacy network and the utilization management vendor.

Due to the number and scope of other financial and compliance audits of the Plan conducted annually, the OSA limited the scope of this performance audit to summarization and analysis of the other audits conducted on the Plan. The oversight provided by these required and elective audits should provide the Plan sufficient audit coverage.

Actuarial Report

Analysis

The financial condition of the Plan has improved since December 2000 primarily as the result of premium increases, benefit changes, and an increase in the deductibles. Assuming the projected premium and benefit changes are implemented, the financial condition is expected to continue to improve until the beginning of calendar year 2002, at which time the approximate $24.4 million deficit is projected to decrease to an approximate $10 million deficit with the Plan projected to become fully funded in calendar year 2003. The State continues to subsidize the premium rates for retirees and most active dependent premium classes. Projected increases in premiums and changes in drug benefits will allow the Plan to become fully funded in February 2003.

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, 2000 and December 31, 2000 of the Plan.

The OSA's analysis of the Actuarial Reports and the June 30, 2001 financial statements indicates several items of importance. These items are summarized below.

1. The Plan had a funding deficit of $42.5 million at December 30, 2000. However, as of June 30, 2001 the Plan deficit has been reduced to $24.4 million, a $18.1 million improvement since the end of calendar year 2000, primarily as the result of premium increases, benefit changes, and an increase in the deductibles. [Emphasis added]

2. The average calendar year Health Plan enrollment continues to increase. The growth rate of retiree enrollment continues to outpace other premium classes.

3. A comparison of claims incurred to premiums shows that health insurance premiums exceeded incured claims by $17.7 million in calendar year 2000. [Emphasis added] In addition, premiums continue to exceed claims payments at June 2001.

4. Drug benefit claims incurred decreased from $70.5 million in calendar year 1999 to $66.6 million in calendar year 2000. [Emphasis added]

5. The State subsidizes the premium rates for retirees and most active dependent premium classes. In fiscal year 2000 the amount subsidized by the State was $38.5 million.

The Plan deficit and the subsidization of premium classes are continual problems that are being addressed by the Board. Townsend's CY 2000 report included plan projections **(See detail of projection in appendix A)** attempting to solve Plan problems. Possible solutions include premium increases, deductible increases and prescription drug copay increases.

Actuarial Report Results for

Plan's Current Funding Status

Townsend compared the Plan's current funding status with the funding status of prior periods. Table 1, page 4 shows the results of this comparison, along with the June 2001 figures obtained from DFA-Insurance financial statements. As shown in Table 1, the Plan has gone from a $42.5 million deficit at December 31, 2000 to a $24.4 million deficit at June 30, 2001 (a $18.1 million improvement). This improved financial condition resulted from the excess premiums collected over the claims paid. During the first part of the calendar year, less is disbursed for claims since employees must first meet the medical and prescription calendar year deductible before claims are paid. Assuming the projected premium and benefit changes are implemented, the financial condition is expected to continue to improve until the beginning of calendar year 2002, at which time the deficit is projected to decrease to an approximate $10 million deficit with the Plan projected to become fully funded in calendar year 2003.

Table 1

Comparison of Funding Status (In Millions)						
	Dec-96 [1]	Dec-97 [1]	Dec-98 [1]	Dec-99 [1]	Dec-00 [1]	June-01 [2]
Plan Assets	101.2	86.9	66.2	21.2	28.8	44.6
Less Plan Liabilities	53.4	70.2	76.3	66.5	71.3	69.0
Plan Surplus (Deficit)	47.8	16.7	(10.1)	(45.2)	(42.5)	(24.4)
Annual Increase (Decrease) in Surplus		(31.1)	(26.8)	(35.1)	2.7	18.1

Source: [1] **CY 2000 Actuary Report prepared by Wm. Lynn Townsend, FSA, MAAA**
[2] **June 30, 2001 financial statements prepared by DFA-Insurance**

Health Plan Enrollment

As shown in Table 2, page 5, the total plan enrollment has increased over the last three calendar years. Enrollment rose from 192,869 in CY 1999 to 196,579 in CY 2000, an increase of 1.9%. However, as of June 30, 2001 total plan enrollment has decreased by 2.9% (approximate 6,700 decrease in the active dependent participant class).

Table 2

Health Plan Enrollment				
Participant	**CY 1998[1]**	**CY 1999 [1]**	**CY 2000 [1]**	**June 30, 2001 [2]**
Employees	124,103	127,364	130,406	131,203
Dependents	64,261	65,505	66,173	59,621
Members	188,364	192,869	196,579	190,824

Source: [1] **CY 2000 Actuary Report prepared by Wm. Lynn Townsend, FSA, MAAA**
[2] **DFA-Insurance**

Townsend reports *"The retiree population continues to grow at a faster rate than the employed population (7.9% for retirees versus 1.4% for active members in CY 2000). Since premium rates in the past have been set at a level below cost for the retiree classes, higher retiree enrollment growth tends to exert upward pressure on the active employee premium rate."* Table 3, page 5 shows the retired employees as a percentage of total employees for the last three calendar years and at April 2001.

Table 3

Retirees as a Percentage of Employees			
CY 1998 [1]	**CY 1999 [1]**	**CY 2000 [1]**	**April 30, 2001[2]**
9.5%	10.0%	10.6%	10.9%

Source: [1] **CY 2000 Actuary Report prepared by Wm. Lynn Townsend, FSA, MAAA**
[2] **DFA-Insurance**

Health Insurance Premiums Versus Claims

Health insurance premiums are estimated to have exceeded incurred claims by $17.7 million in calendar year 2000, a significant improvement over calendar year 1999. The increase in premiums from calendar year 1999 and calendar year 2000 is attributed to the increase in enrollment, along with the premium rate increases during calendar year 2000. Table 4, page 6, compares premiums to claims incurred for the last five calendar years.

Table 4

Health Insurance Premium Versus Claims Incurred (In Millions)					
	CY96	**CY97**	**CY98**	**CY99**	**CY00**
Premiums	235.1	254.9	283.7	309.0	361.1
Claims Incurred	248.7	272.8	296.8	327.7	343.4
Gain (Loss) Prior to Expenses	(13.6)	(17.9)	(13.1)	(18.7)	17.7
Loss Ratio (Claims/Premium)	105.8%	107.0%	104.6%	106.1%	95.1%

Source: CY 2000 Actuary Report prepared by Wm. Lynn Townsend, FSA, MAAA

Townsend stated *"Incurred claims . . . increased from $327.7 million in CY1999 to $343.4 million in CY2000, an increase of about 5%. Eliminating the effect of member growth and the effect of a slight overstatement in prior claims liability estimates, incurred claims per member increased in CY2000 by about 4%."*

As of June 30, 2001 premiums continue to exceed claims paid. The premiums received for the calendar year as of June 30, 2001 were $190.3 million, $18.1 more than the amount paid in claims ($172.2).

Drug Benefit Claims Incurred

Drug benefit claims incurred decreased 3.9 million or 5.6% from $70.5 million in CY99 to $66.6 million in CY2000. As of June 30, 2001, $33 million had been paid for drug claims. Per Townsend *"The reduction in costs in CY2000 is a result of the drug card benefit changes made for CY2000 and follows extraordinary increases in cost during the prior two years . . ."* Table 5, page 6 shows a comparison of drug costs for the last four calendar years and as of April 2001.

Table 5

Comparison of Drug Card Costs (In Millions)				
	1997	**1998**	**1999**	**2000**
Drug Claims Incurred	$36.3	$50.2	$70.5	$66.6
Percentage Increase (Decrease)		38.1%	40.6%	-5.6%

Source: CY 2000 Actuary Report prepared by Wm. Lynn Townsend, FSA, MAAA

As shown in Table 6, page 7 and as stated by Townsend *"Although the net claim payments per script decreased by 7%, allowed drug charges per script increased by 11% in CY2000. This drug cost inflation*

rate is an improvement versus the 14% increase experienced in both CY1998 and CY1999. However, this rate of increase is still a problem and is much higher than the cost increase experienced by other components of medical care. Overall, drug utilization (i.e., scripts per member) remained flat in CY2000 versus CY1999 - significant improvement versus the utilization increases of 13-15% over the last two years."

Table 6

Analysis of Incurred Drug Claims Increase Rates for All Members Combined			
	CY 1998	**CY 1999**	**CY 2000**
Allowed Charge per Script	14%	14%	11%
Net Cost per Script	20%	20%	-7%
Scripts per Member	13%	15%	0%
Net Cost per Member	35%	37%	-7%

Source: CY 2000 Actuary Report prepared by Wm. Lynn Townsend, FSA, MAAA

Retiree & Dependent Rate Subsidies
(from FY 2000 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 7, page 7 shows the fiscal year 2000 Plan subsidy costs. The monthly premiums would have to increase from $28 for active dependents to $1,133 for disabled retiree - plan primary, to eliminate the Plan's subsidy cost.

Table 7

State and School Employees Life and Heath Insurance Plan FY 2000 Plan Subsidy Costs					
	Premiums	**Claims**	**Expenses less Other Income**	**Gain (Loss)**	**Monthly Subsidy per Member**
Active Dependents	$64,070,597	$70,955,900	$3,975,868	($10,861,171)	$28.32
COBRA Employees	2,944,126	6,558,311	182,696	(3,796,881)	$276.58

State and School Employees Life and Heath Insurance Plan FY 2000 Plan Subsidy Costs					
	Premiums	Claims	Expenses less Other Income	Gain (Loss)	Monthly Subsidy per Member
Disabled Retirees - Plan Primary	907,415	5,338,529	56,309	(4,487,423)	$1,133.19
Disabled Retirees - Medicare Primary	1,379,647	4,000,662	85,613	(2,706,628)	$314.14
Retirees - Plan Primary	15,827,181	27,414,344	860,518	(12,447,681)	$186.06
Retirees - Medicare Primary	12,251,922	15,737,141	760,287	(4,245,506)	$52.77
Subtotal - Subsidized Classes	97,380,888	130,004,887	5,921,291	(38,545,290)	
Active Employees	$233,497,067	$202,101,738	$8,373,433	$23,021,896	—
Total	$330,877,955	$332,106,625	$14,294,724	($15,523,394)	

Source: FY 2000 Actuary Report prepared by Wm. Lynn Townsend, FSA, MAAA

According to Townsend *"Plan subsidy costs are expected to be reduced in FY2001 due to the dependent and retiree premium rate increases that occurred on 7/1/2000 and the benefit changes implemented in CY2000 and scheduled for CY2001. However, subsidy costs will still exist and are projected to increase in FY2002 and again in FY2003, particularly for retirees, if any needed rate increases are applied 'across-the-board'. In order to address rising subsidy costs, the State may want to review the mechanisms currently in place to establish dependent premium rates. Also, although the Medicare retiree premium is defined as 'actuarially determined', it traditionally has been set well below the true actuarial cost. The State may also want to review possible plan changes in light of their effect on future subsidy costs."*

Plan Projections/Rate Increase Recommendations

The following plan projections were taken verbatim from the executive summary of Townsend's CY 2000 report. Appendix A consists of the detailed figures of the plan projections.

Plan Projections

Regular plan benefits were assumed to increase by 5% in CY2001 after the net savings

from CY2001 benefit changes. The non-drug benefit trend assumed for CY2002-2003 is 7%.

The drug benefit trend assumptions were derived from an annual allowed cost per script inflation assumption of 12%, an annual script utilization growth assumption of 1%, and the estimated cost impact of the CY2001 drug card copay changes. Projections for CY2002 and CY2003 also assume a 5% annual increase in copays and a $25 annual increase in the drug card deductible. The net drug card benefit increases developed from these assumptions are as follows: 5% in CY2001 and 16% in CY2002 and CY2003.

The projections are based on an assumed growth in enrollment of 2.5% for active employees and dependents and 7.5% for retirees.

The projections included in this Report assume an increase in the active employee premium rate of 6% as of July 1, 2001, and the trend related increases each year thereafter. If assumptions are realized, these projections indicate that the Plan will be in essentially a fully funded position during CY2003.

Plan Financial Condition is Improving

Plan Receipts Exceed Disbursements

Currently, Plan receipts exceed disbursements. In FY 2000 Plan disbursements exceeded receipts by $14.6 million, while at June 30, 2001 Plan receipts exceeded disbursements by $18.8 million.

Plan receipts rose from $355.6 million in FY 2000 to $410.6 million in FY 2001, an increase of 15.5%. Plan disbursements during this period increased slightly (5.9%) from $370.1 million in FY 2000 to $391.8 million in FY 2001.

As of June 30, 2001 Plan receipts exceeded disbursements by $18.8 million. See Table 10, page 13, for more information on excess Plan receipts over (under) disbursements. See Table 11, page 13, for information on specific Plan receipts and disbursements.

Major Causes for Increases in Plan Receipts

The growth in Plan receipts over the past several years results primarily from increases in health insurance premiums and the introduction in October 1999 of life insurance benefits to employees of public school districts, community/junior colleges, and public libraries, resulting in increased life insurance premium contributions.

Increased health insurance premiums and life insurance premium contributions have greatly contributed to the significant growth in Plan receipts over the past several years. See Table 12, page 17 for more information on health insurance premium increases. Table 8, page 10, shows life insurance premium contributions have increased significantly over the last several years. Under new legislation passed during the 1999 legislative session, employees of public school districts, community/junior colleges, and public libraries became eligible to participate in the group life insurance plan, effective October 1, 1999. This resulted in the increases in life insurance premium contributions since that date.

Table 8

Life Insurance Premium Contributions			
CY 1998 [1]	CY 1999 [1]	CY 2000 [1]	Partial CY 2001 [2]
8,636,990	11,172,958	17,785,179	9,084,159

Source: [1] **CY 2000 Actuary Report prepared by Wm. Lynn Townsend, FSA, MAAA**
[2] **June 30, 2001 financial statements prepared by DFA-Insurance**

Plan's Deficit is Becoming Smaller

From calendar year 2000 to June 30, 2001, the Plan's financial condition improved $18.1 million (from a $42.5 million deficit in 2000 to a $24.4 million deficit at June 2001).

Excess disbursements over receipts over the last four calendar years have caused the financial status of the Plan to move from a $47.8 million surplus at December 31, 1996 to a $42.5 million deficit at December 31, 2000. However, the Plan has moved to a $24.4 million deficit at June 30, 2001, a significant improvement (deficit lowered by $18.1 million). This improved financial condition resulted from the excess premiums collected over the claims paid. During the first part of the calendar year, less is disbursed for claims since employees must first meet the medical and prescription calendar year deductible before claims are paid. Assuming the projected premium and benefit changes are implemented, the financial condition is expected to continue to improve until the beginning of calendar year 2002, at which time the approximate $24.4 million deficit is projected to decrease to an approximate $10 million deficit with the Plan projected to become fully funded in calendar year 2003, based on projections in the CY 2000 actuary report.

See Table 9, page 11, for more information on Plan surpluses and deficits.

Table 9

Comparison of Funding Status (in millions)	CY 1996 [1]	CY 1997 [1]	CY 1998 [1]	CY 1999 [1]	CY 2000 [1]	June 30 2001[2]
Plan Assets	101.2	86.9	66.2	21.2	28.8	44.6
less Plan Liabilities	53.4	70.2	76.3	66.5	71.3	69.0
Plan Surplus/(Deficit)	47.8	16.7	(10.1)	(45.2)	(42.5)	(24.4)
Annual Increase (Decrease) in Surplus		(31.1)	(26.8)	(35.1)	2.7	18.1

Source: [1] CY 2000 Actuary Report prepared by Wm. Lynn Townsend, FSA, MAAA
[2] June 30, 2001 financial statements prepared by DFA-Insurance.

Conclusion

At June 30, 2001, the Plan's liabilities exceeded its assets by $24.4 million, a significant improvement over calendar year 2000. As reflected in the June 2001 financial statements prepared by DFA-Insurance, the Plan's current financial trend is to receive more funds than it disburses.

The Plan is able to continue operations despite the $24.4 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 and Plan expenses.

Based on projections (which include annual adjustments in premiums and/or benefits) by Townsend (actuary), as explained on page 8, if his recommendations are implemented by the Board, the Plan should be fully funded during CY 2003. The Board has already addressed the Plan's funding problems by authorizing increases in the Plan premiums for fiscal year 2002. However, the Board should continue to assess the Plan's financial condition and take any additional steps necessary to place this important government program on sound long-term financial ground.

Background Information on Plan's Operation

DFA-Insurance categorizes disbursements from the Plan in four groups:

- **Claims/Refunds** - Claim/Refund disbursements are payments made by DFA-Insurance to pay approved health and life insurance claims, to refund certain health premiums and to make payment under the Patient Audit Incentive Program;

- **Administrative expenses** - Administrative disbursements are payments made by DFA-Insurance to manage and administer the Plan;

- **Cost Containment Fees -** Cost containment fees are payments made by DFA-Insurance to third parties that help manage the utilization and appropriateness of medical services to ensure maximum effectiveness and efficiency; and

- **Network Fees** - Network fees are payments made by DFA-Insurance to third parties to provide participant access to provider networks, usually at negotiated lower fees than are normally charged individual health care recipients.

Excess Disbursements Over Receipts

Cumulatively, for the period from fiscal year 1999 through fiscal year 2001, the Plan expended more funds than it received or Plan disbursements exceeded receipts. These excess disbursements over receipts for this period total $45.4 million. However, because of significant increases in the health insurance premium rates during calendar year 2000 and benefit adjustments, **at June 30, 2001 Plan receipts exceeded disbursements**. Table 10, page 13, shows excess disbursements (over) under receipts for fiscal years 1999, 2000 and 2001.

Table 10

State and School Employees Life and Heath Insurance Plan Excess Disbursements over Receipts				
	Fiscal Year 1999	Fiscal Year 2000	Fiscal Year 2001[1]	Total
Total Receipts	$312,238,080	$355,591,497	$410,607,803	$1,078,437,380
Total Disbursements	361,888,332	370,145,481	391,849,986	1,123,883,799
Excess Receipts Over (Under) Disbursements	($49,650,252)	($14,553,984)	18,757,817	($45,446,419)

[1] Fiscal Year 2001 amounts are as of June 30, 2001. These amounts may change once the fiscal-year-end books are closed.

Source: Financial statements prepared by DFA-Insurance.

Plan Receipts and Disbursements

Plan receipts increased significantly from fiscal year 2000 to fiscal year 2001. Receipts rose from $355.6 million in FY 2000 to $410.6 in FY 2001, an **increase of 15.5%** over two years.

Plan disbursements increased slightly from fiscal year 2000 to fiscal year 2001. Disbursements rose from $370.1 million in FY 2000 to $391.8 million in FY 2001, an increase of 5.9% over two years. Table 11, page 13, shows Plan receipts and disbursements for fiscal years 1999, 2000 and 2001.

Table 11

State and School Employees Life and Health Insurance Plan Cash Receipts and Disbursements	Fiscal Year 1999	Fiscal Year 2000	Fiscal Year 2001[1]
Receipts			
Premiums Received			
Medical	$292,419,069	$330,962,287	$382,631,687
Life	8,871,475	15,514,378	18,108,360
Refunds of Claim Overpayments	3,327,421	2,833,306	3,475,984
Subrogation Receipts	957,319	664,817	591,062

State and School Employees Life and Health Insurance Plan Cash Receipts and Disbursements	Fiscal Year 1999	Fiscal Year 2000	Fiscal Year 2001[1]
Late Fees Received	15,951	14,444	24,125
Interest Received	4,386,610	2,482,140	2,240,054
PCS Pharmacy Rebate	2,234,922	3,120,125	3,536,531
Blue Cross Pharmacy Rebate	25,313	0	0
Total Receipts	$312,238,080	$355,591,497	$410,607,803
Disbursements			
Claims/Refunds			
Medical Claims	$277,152,548	$272,203,930	$292,090,648
Pharmacy Claims	58,318,889	67,367,651	68,316,082
Life Insurance Claims	7,154,500	9,589,500	12,077,000
Premium Refunds	87,888	131,255	169,486
Patient Audit Incentive Program	2,671	590	2,374
Total Claims/Refunds	$342,716,496	$349,292,926	$372,655,590
Administrative Expenses			
State Administrative Expenses	$1,022,242	$1,118,914	$1,153,605
William M. Mercer, Inc. - Audit	99,462	28,520	0
PricewaterhouseCoopers - Consultant	214,495	298,154	230,143
Wm. Lynn Townsend - Actuarial	92,257	99,630	85,500
Blue Cross Blue Shield (BCBS)	10,402,444	11,173,454	11,065,006
BCBS Performance Penalty	(962,021)	(209,854)	(458,435)
Conseco (Lamar Life)	149,962	253,107	273,641
Centra Performance Penalty	175,742	0	0
Medstat Data Base Service	355,060	341,022	304,245
Trustmark Bank Charges	27,553	23,753	11,471
MSU - Health Plan Satisfaction Survey	14,000	0	0
Total Administrative Expenses	$11,591,196	$13,126,700	$12,665,176
Cost Containment Fees			
Intracorp - Utilization Management	$0	$0	$1,125,831

State and School Employees Life and Health Insurance Plan Cash Receipts and Disbursements	Fiscal Year 1999	Fiscal Year 2000	Fiscal Year 2001[1]
Intracorp - Performance Penalty Deduction	0	0	(200,000)
Unicare/Cost Care - Utilization Review Fees	4,736,953	4,599,532	2,204,747
Total Cost Containment Fees	$4,736,953	$4,599,532	$3,130,578
Network Fees			
PCS - Pharmacy Network	$1,136,478	$1,054,362	$1,264,396
BCBS - Key Provider	1,236,175	703,945	0
MS Physicians Care Provider	341,723	150,923	0
Baptist & Physicians Central Services	96,930	43,033	0
Health Choice/Health Connection	31,612	20,187	0
Managed Health Care	769	0	0
AHS - PPO Network	0	1,153,873	2,134,246
Total Network Fees	$2,843,687	$3,126,323	$3,398,642
Total Disbursements	$361,888,332	$370,145,481	$391,849,986
Net Increase (Decrease) To Plan Assets	($49,650,252)	($14,553,984)	$18,757,817

[1] Fiscal Year 2001 amounts are as of June 30, 2001. These amounts may change once the fiscal-year-end books are closed.
Source: Department of Finance and Administration, Office of Insurance

For the period from FY 2000 to FY 2001, total receipts increased $55 million from $355.6 million in FY 2000 to $410.6 million in FY 2001. Following is a description of changes in significant receipt categories over this period:

- Medical premiums received increased $51.6 million, or 15.6%, from $331.0 in FY 2000 to $382.6 in FY 2001 and
- Life premiums received increased $2.6 million, or 1.7%, from $15.5 million in FY 2000 to $18.1 million in FY 2001.

For the period from FY 2000 to FY 2001, total disbursements increased $21.7 million from $370.1

million in FY 2000 to $391.8 million in FY 2001. Following is a description of changes in specific disbursement categories over this period:

- Claims/Refunds increased $23.4 million, or 6.7%, from $349.3 million in FY 2000 to $372.7 million in FY 2001;

- Administrative expenses decreased 461,524, or 3.5%, from $13.1 million in FY 2000 to $12.7 million in FY 2001;

- Cost containment fees decreased $1.5 million, or 3.3%, from $4.6 million in FY 2000 to $3.1 million in FY 2001; and

- Network fees increased $272,319, or 8.7%, from $3.1 million in FY 2000 to $3.4 million in FY 2001.

Benefit Changes for 2001 and Proposed Future Changes

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

While the state has increased health benefit premiums 9 of the last 12 years at an average annual increase of over 7% and approved another premium increase for FY 2002 of 6% - 15%, Mississippi had the lowest or second lowest health benefit premiums in a comparison with surrounding states prepared by DFA- Insurance.

Prior Premium Increases

The state has increased Plan premiums several times over the last few years to meet increased cost and utilization. See Table 12, page 17, for a listing of previous Plan premium increases.

Table 12

State and School Employees' Heath Insurance Plan
Summary of Active Employee Rate Increases
1986 through 2000

Year	Increase
1986	0.0%
1987	0.0%
1988	0.0%
1989	6.0%
1990	10.0%
1991	20.0%
1992	25.0%
1993	5.0%
1994	0.0%
1995	0.0%
1996	0.0%
1997	10.0%
1998	4.5%
1999	9.0%
2000	15.0%

Note: This rate increase history is equivalent to an annualized rate increase of 6.7% for the last 15 years and an annualized rate increase of 5.4% for the last 7 years.
Source: DFA- Insurance

Plan premiums have increased nine times in the 15-year period from 1986 through 2000 for an average annual increase of over 6%. In the last 12 years from FY 89 through FY 2000, the state has increased

Plan premiums nine times for an average annual increase over 7%. Increases in Plan premiums have been made each of the last two fiscal years from 1999 to 2000 for an average annual increase of over 12%.

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 FY 2002 from 6% for active employees to 15% for Medicare Retiree and Medicare Spouse. See Table 13, page 18, for a listing FY 2002 approved premium increases.

Table 13

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

Premium Class	FY 2001 Rates	Approved FY 2002 Rates	Percent Increase (Decrease)
Active Employee	$193	$205	6%
Active Spouse	193	216	12%
Active Full Family	290	325	12%
Children Only	145	165	14%
Child Only	145	87	-40%
Non-Medicare Retiree	222	236	6%
Medicare Retiree	130	150	15%
Non-Medicare Spouse	222	249	12%
Medicare Spouse	130	150	15%
Non-Medicare Full Family	316	354	12%

Source: CY 2000 Actuarial Report Highlights prepared by Wm. Lynn Townsend, FSA, MAAA and DFA-Insurance

Effective July 1, 2001 the Plan will offer a "Child Only" premium class, at a rate over 40% less than the "Children Only" rate. According to Townsend, *"This change will benefit approximately 45% of the employees who currently cover only one child under the children only premium class."*

As stated in the Health Plan Update dated June 2001 *"The Health Insurance Management Board must ensure that the premiums charged by the Plan are sufficient to pay the claims. Otherwise, the Plan would run out of money and be unable to pay claims since there is no other direct source of revenue for the Plan. The Board has three choices when faced with a projected increase in claims: raise premiums, reduce benefits, or take actions that combine these two. As a general practice, the Board has taken the third route and both adjusted benefits and raised premiums. . . . While the Board recognizes how hard premium increases are on a family's budget, the cost of doing nothing is even greater: a bankrupt Plan or a severe reduction in benefits."*

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.

Comparison of Premiums With Surrounding States

DFA-Insurance compared (See Table 14, page 19) the Plan's monthly premiums with state employee health benefit plans in five surrounding states as of January 1999: Alabama, Arkansas, Florida, Louisiana and Tennessee. The four coverage categories of health premiums used in the comparison were employee, family, retiree, and retiree & spouse. Based on the January 1999 data, Mississippi has the lowest health premiums in three of the four categories (employee, family and retiree) and the second lowest in the other category (retiree & spouse).

Table 14

State Employee Health Benefit Plans
Mississippi & Surrounding States Monthly Premiums

State	Employee Coverage	Family Coverage	Retiree Coverage	Retiree & Spouse
Alabama	$357	$521	n/a	$110
Arkansas	371	591	$294	588
Florida	224	508	119	238
Louisiana	227	447	136	256
Tennessee	205	513	205	307
Mississippi	172	415	113	226

Source: DFA- Insurance

Based on this comparison, the Plan's monthly premiums compare favorably with surrounding states. However, this comparison of monthly premiums does not take into consideration the difference in benefits offered by the states and must be evaluated in that light.

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, spouse, children, family, COBRA, early retirement, retirement spouse, and Medicare retirement). 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.

The Board approved premium increases for fiscal year 2002 (Table 13, page 18) ranging from 6% for active employees to 15% for Medicare retiree and Medicare spouse.

Table 15, page 21, shows Plan average monthly premium rates and average monthly claims for calendar year 2000. Premiums collected exceeded claims paid per employee in three of the eleven premium classes (active employees, children and non-Medicare retirees - full family). Therefore, active employees, children and non-Medicare retirees - full family subsidize the other categories. This is not that unusual except for the degree of subsidization.

In the other eight premium categories [spouse, family, non-Medicare disabled retiree, Medicare disabled retiree, non-Medicare retirees (non-disabled), non-Medicare retiree (non-disabled) spouse only, Medicare retirees and Medicare retirees spouse only], claims paid per employee exceeded premiums charged. These eight premium categories are subsidized by the active employee, children, and non-Medicare retirees - full family premium categories. The four premium classes where claims paid per employee greatly exceeded (large amount of subsidization) premiums are: spouse - $109; non-Medicare disabled retiree - $1,164; Medicare disabled retiree - $360; and non-Medicare retirees (non-disabled) - $116.

The approved premium increases do not address the large disparity for claims paid and premiums charged in four of the eleven premium classes.

Table 15

State and School Employees' Health Insurance Plan
Premiums versus Claims by Premium Class
Calendar Year 2000

Premium Class	Monthly Average Premium	Monthly Paid Losses (Claims)	Excess Premiums over (under) Claims
Active (& COBRA) Employees	$183	$154	$29
Active (& COBRA) Dependents			
Spouse Only	177	287	(109)
Full Family	266	267	(1)
Child(ren) Only	133	98	35
Non-Medicare Disabled Retiree	203	1,367	(1,164)
Medicare Disabled Retiree	122	481	(360)
Non-Medicare Retirees (Non-disabled)	203	319	(116)
Spouse Only	204	284	(80)
Full Family	291	181	110
Medicare Retirees	122	141	(20)
Spouse Only (Medicare)	122	150	(29)

Source: CY 2000 Actuary Report prepared by Wm. Lynn Townsend, FSA, MAAA

Board Efforts to Reduce Costs Should be Continued

In its five-year strategic plan to address problems with the state and school employees' health plan, the Board includes requiring provider contracts to be priced on a fixed fee basis and working with the Retirement System to design a funding mechanism for retiree health insurance. Finding ways such as these to reduce costs is the only real alternative to continuing the fifteen-year trend by the state of increasing health benefit premiums an average of 6.7% per year.

Background

DFA- Insurance annually publishes the *State of Mississippi State and School Employees' Health Insurance Plan, Summary Plan Description*. This health insurance information is provided to all participating state and school employees and retirees. This summary describes administration of the Plan as follows:

The State and School Employees Heath Insurance Management Board is responsible for administration of the Plan. The Department of Finance and Administration, Office of Insurance provides the day-to-day management of the Plan.

The Plan is self-insured by the State of Mississippi. The Board contracts with various vendors to provide the services necessary to operate the Plan. The Claims Administrator, ***Blue Cross Blue Shield of Mississippi****, processes medical claims and maintains eligibility records. The Pharmacy Benefit Manager,* ***AdvancePCS****, processes retail pharmacy claims and provides a pharmacy mail order service. The Utilization Review Manager,* ***Intracorp****, determines medical necessity for inpatient admissions and certain outpatient services, as well as provides for case management services. The Network,* ***AHS State Network****, contracts with physicians, hospitals, and other health care providers to provide negotiated discounts in a defined geographic area.* ***Conseco*** *is the life insurer for those employer units participating in the State's Group Term Life Insurance Plan.*

The cost of maintaining the Plan is paid jointly by the State and you [state employee]*, through contributions that go into the insurance fund. The State pays the total cost of your* [state employee] *participation as an eligible employee. If you* [state employee] *elect coverage for your eligible dependents, you pay for the cost of their participation through payroll deductions. Retirees and COBRA Participants pay for the cost of their coverage and that of their dependents.*

The average Plan enrollment in calendar year 2000 was over 196,000 participants, a slight increase from fiscal year 1999. Table 16, page 22, shows the Plan participants for the last three calendar years, along with enrollment as of June 30, 2001.

Table 16

State and School Employees' Health Insurance Plan Enrollment				
Participant	**CY 1998** [1]	**CY 1999** [1]	**CY 2000** [1]	**June 30, 2001**[2]
Employees	124,103	127,364	130,406	131,203
Dependents	64,261	65,505	66,173	59,621
Total Members	188,364	192,869	196,579	190,824

Source: [1] CY 2000 Actuary Report prepared by Wm. Lynn Townsend, FSA, MAAA
[2] DFA-Insurance

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 October 2000 *Mississippi State and School Employees' Health Insurance Plan Strategic Plan*:

In light of the trends in the health care delivery system and in employee benefit plans, and based on an examination of cost and utilization data, survey results, and comments from Plan participants and others, several problem areas have been noted in the State and School Employees' Plan:

- *Excessive growth in claims, particularly in pharmacy;*
- *A growing retiree population requiring increased subsidies;*
- *Lack of certain services, particularly preventive/routine care;*
- *High employee out-of-pocket costs;*
- *A family deductible related to multiple individual deductibles rather than a specific dollar amount;*
- *Rapidly growing utilization of outpatient services;*
- *Need for preventive management of high cost cases;*
- *Discount arrangements that don't control for cost shifting;*
- *A complicated and error-prone premium billing and payment system; and*
- *Need to comply with future GASB reporting requirements.*

Strategic actions to be taken to address some of these problem areas are similar to actions being taken by most large employer and state employee health benefit plans. These strategic actions include the following:

- *Implementing a disease management program;*
- *Improving benefits for preventive services;*
- *Implementing a three-tiered pharmacy co-payment system;*
- *Adding a mail order prescription drug program;*
- *Requiring provider contracts to be priced on a fixed fee basis;*
- *Working with the Retirement System to design a funding mechanism for retiree health insurance; and*
- *Develop the capacity to electronically 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.

The Board implemented the following insurance benefit changes for 2001:

- High option coverage for children;
- Revisions to calendar year deductible, out-of-network coinsurance, and family deductible;
- Addition of a third tier for non-preferred brand name drugs;
- Increase pharmacy co-payment amounts;
- Addition of pharmacy mail order for certain maintenance drugs;
- Eliminate physician services benefits for the extraction of impacted teeth;
- Eliminate waiver of calendar year deductible for services related to accidental injury;
- Addition of diabetes training/education benefits to Plan participants who enroll in a formal disease management program sponsored by the Plan;
- Addition of $20 co-payment per day for hospital stays in a private room; and
- Addition of $5,000 lifetime maximum for services related to temporal mandibular joint disorder.

See Appendix B for detailed descriptions of 2001 insurance benefit changes.

Legislative Efforts to Provide Retirees Health Insurance

Recognizing the growing costs of health insurance coverage for retirees, the Legislature has taken steps to study the feasibility of a universal retiree health care program for the State's current and future retired public employees.

Background

House Bill 1281 of the 2000 Legislative session directed the Board of Trustees of the Public Employees' Retirement System (PERS) to *"conduct a comprehensive study of the feasibility of providing one (1) health insurance program for all retired public employees, . . ."* To complete this study the PERS Board of Trustees, through the Executive Director of PERS, created a Retiree Insurance Advisory Committee consisting of representatives from the Legislature, various State employers, the State's Health Plan and other groups.

Conclusion

As explained in the Report on a Comprehensive Study of Retiree Health Care Coverage for Mississippi's Public Employees, December 12, 2000 (Study), *"While the intent is for retirees to pay the full cost of coverage, in practice this does not happen. Current Mississippi statute limits the early retiree premiums to 115% of the active employee costs. Based on a recent analysis of the claims experience of the Plan, the actual cost for early retirees is slightly more than double the cost for active employees. This has resulted in the State subsidizing approximately a third of the cost of early retiree coverage . . . "* The Study also stated *"For fiscal year 2001, the current subsidy is estimated to be $12 million. As retirees*

become a larger portion of the State Plan's total covered population, and medical costs continue to increase, the subsidy for this group is expected to grow to $31 million by 2005, and $62 million by 2025."

The Study presented a recommendation to the Legislature for a statewide retiree health insurance plan: *"The proposed plan provides a more equitable subsidy to retirees by tying the level of subsidy to length of service to the State. Accordingly, a larger subsidy will be provided to longer-service employees who have made significant contributions to the State over the course of their careers. Over the longer term, by encouraging plan participation and providing access to affordable health care, the plan will save the State money. A retiree who may have been without coverage will be able to obtain medical care earlier rather that accessing other State-sponsored health programs when the condition has worsened to an extremely expensive level."*

Under the recommended plan, the State will continue to subsidize a portion of the costs. As stated in the Study: *"The State subsidy will be equal to a percentage of the total cost for retirees only. The percentage will be equal to 2% for each year of service at retirement, up to a maximum subsidy of 60%. If retirement occurs before age 60, the subsidy will be reduced by 3% for each year of age below 60 at retirement. Once determined, the percentage will not change but it will be applied to each year's total cost. Thus, the dollar amount of subsidy provided to each retiree will grow as medical costs increase. The estimated actuarial present value of the State subsidy under this proposed plan in $1,268 million. If this present value or liability were to be pre-funded in a manner similar to the funding approach used for the PERS retirement benefits, a contribution of 2.19% of payroll would be required initially to pre-fund this cost of the subsidy."*

The Legislature considered legislation in the 2001 Session to implement the recommendations outlined in the Study. House Bill 1137 passed the House Insurance Committee, but died in the House Appropriations Committee.

As discussed on page 23, one of the Board's planned strategic actions was *"Working with the Retirement Sytsem to design a funding mechanism for retiree health insurance."* DFA-Insurance, on behalf of the Board, worked with PERS on the development of the Study and the 2001 proposed legislation.

Claims Audit

Audit Conclusions

While Blue Cross Blue Shield of Mississippi did meet the correct payment of claims and the correct processing of claims performance standards, they continue to not achieve the financial accuracy standard included in the administrative service contract.

The Board entered into an administrative service contract (Contract) with Blue Cross Blue Shield of Mississippi (Blue Cross) to provide claim administrative services for the Plan. The firm of PricewaterhouseCoopers LLP (PwC) was selected to perform an audit of the claims performance by Blue Cross. The most recent audit available covered medical claims processed January 1, 2000 through December 31, 2000.

While Blue Cross did meet the correct payment of claims and the correct processing of claims performance standards, the results of the PwC audit indicate **Blue Cross continues to not achieve the financial accuracy standard** (i.e., "correct dollar amounts paid."). Based on Blue Cross' failure to achieve the financial accuracy standard for the audit period, they were assessed a performance penalty of $458,435.

PwC summarized the key objectives of the audit in the executive summary of their report.

> *The key objectives of this engagement were to evaluate whether:*
>
> 1. *BCBSMS* [Blue Cross] *is performing required services;*
> 2. *BCBSMS is meeting performance guarantees and service standards contained in the contract;*
> 3. *Service standards are consistent with industry standards; and*
> 4. *BCBSMS has appropriate systems and technology in place to provide high quality administrative services to State of Mississippi.*

To gain an understanding of the claims control procedures, PwC conducted a review of the Blue Cross claims processing operations. The PwC report said *"BCBSMS's* [Blue Cross] *Jackson operation appeared to be reasonably well organized with appropriate controls in key areas. The installation of a front-end claim imaging system is a positive enhancement that has streamlined the claims payment process. The type of financial and processing errors detected during the audit indicate that standard policies and procedures may not be consistently followed. Areas of concern include:*

1. *Mapping of home grown codes to fees;*

2. *Adjudicators can override a number of system edits. No override reports are generated for supervisory review;*

3. *Eligibility is received via hard copy rather than electronic; and*

4. *Negotiated network rates are frequently above billed charges.*"

PwC's report said *"BCBSMS appears to be performing required services, however, the errors found on this audit suggest a need for evaluation and improvements in claims processing, particularly in the areas of:*

1. *Contract rate and fee schedule calculations;*

2. *Application of covered benefits;*

3. *Denial for unauthorized services;*

4. *Coordination of benefits and investigation;*

5. *Application of pre-existing condition requirement; and*

6. *Payment to correct provider.*

Additional issues identified during this audit included:

1. *Lack of medical necessity review of potential cosmetic procedure or services provided relating to vague diagnosis.*

2. *Network hospital claims with negotiated payments higher than billed charges."*

Audit Results

The Contract provided the following performance standards:

- 97% of all claims will be paid correctly.
- 99% of all dollars will be paid correctly.
- 95% of all claims will be processed correctly. Claims with payment errors will not be

considered in the calculation of processing accuracy.

- 90% of clean claims (claims not requiring investigation) will be processed in 14 calendar days.

- 80% of all claims will be processed within 20 calendar days.

Table 17, page 28, shows results of compliance with the performance standards.

Table 17

Four Major Categories of Contract Evaluation			
Description of Performance Category	**Actual %**	**Contract %**	**Meets Contract %**
Correct Payment of Claims	99.1 %	97 %	**YES**
Correct Dollar Amounts Paid	96.1 %	99 %	**NO**
Correct Processing of Claims	97.2 %	95 %	**YES**
Claim Turnaround Time:			
Clean Claims (paid in 14 calendar days)	72.3 %	90 %	**
All Claims (paid in 20 calendar days)	85.5 %	80 %	**

Source: Information taken from the report of PricewaterhouseCoopers LLP

** - The sample was not structured to measure compliance with this performance guarantee.

Claims Audit Recommendations

The PwC report states: *"BCBSMS* [Blue Cross] *should provide the State of Mississippi with a corrective action plan for all claim audit errors and operational deficiencies identified in this claim audit. The State of Mississippi and BCBSMS initiatives should include:*

1. *Policy clarification and communication between the State of Mississippi with BCBSMS and potential re-training of claims processors.*

2. *BCBSMS should immediately credit appropriate parties for all underpayments and recovery of all overpayments identified in the audit.*

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

4. Determine why negotiated in-network claim payments frequently exceed billed charges."

Summary of Blue Cross's Response to Claims Audit

Portions of Blue Cross's response to PwC report.

We appreciate the opportunity to respond to the claims audit report prepared by PricewaterhouseCoopers LLP (PwC) for the calendar year 2000. Blue Cross & Blue Shield of Mississippi continues to be proud of its performance on the State of Mississippi Health Insurance Contract and we believe that this report shows our commitment and dedication. Below are our comments to the findings and recommendations as reported by PricewaterhouseCoopers.

Turnaround Time Calculation

As noted in the report, the sample was not structured to measure compliance with the State of Mississippi's performance guarantees. However, because comparisons were made for the claims in the accuracy sample to the turnaround measures, we believe this would lead one to draw inaccurate conclusions regarding our performance in this category. Because of that, we are disclosing our performance statistics based on the tracking mechanism that is used to measure compliance with the performance measures.

	January - December 2000
Performance Measure	***BCBSMS Performance***
90% of clean claims within 14 days	*95.9%*
80% of all claims within 20 days	*95.8%*

Claims turnaround time has continued to be a primary focuses for the State Health Plan during the 2000 year. As indicated, we believe that our performance in this area is one that continues to improve . . . .

Homegrown Codes

Our use of homegrown codes continues to be limited to those that support our UB92 processing. Specifically, these are hospital claims reported to us using UB92 revenue codes. UB92 is a national standard billing format required by Health Care Finance Administration. The detailed nature of this claim billing requirement has led us to store the detail in an offline data file and cross reference the revenue codes to fewer homegrown codes . . . in a "many to one" relationship.

Use of Overrides

For purposes of claims processing, the use of an override code is necessitated by a 'hard' edit that cannot be bypassed by any other mechanism. The most prevalent use of override codes

occurs with the processing of claims that edit for potential duplicates. Within the last year, we have implemented an audit process intended to review claims that appear to be duplicates . . . .

Negotiated Network Rates

Advances Health Systems, primarily responsible for network negotiations, has indicated that this situation is inherent in a DRG prospective payment program. . . .

As the claims administrator, we are responsible for hospital bill audit whereby claims are selected on a retrospective basis from a database of paid inpatient and outpatient hospital, and physician claims using industry standard selection criteria. . . . We have redirected our audit plans to give consideration to this issue . . .

All of the information listed in this section of the report by the Auditor is based on a review of the report dated May 2001, performed by PwC on the contract between the Board and Blue Cross. Some of the important issues in the report have been summarized for review.

More information can be obtained from a reading of the complete PwC report available at DFA-Insurance or Blue Cross. This includes among other items more detailed information regarding audit findings and responses by Blue Cross to said findings.

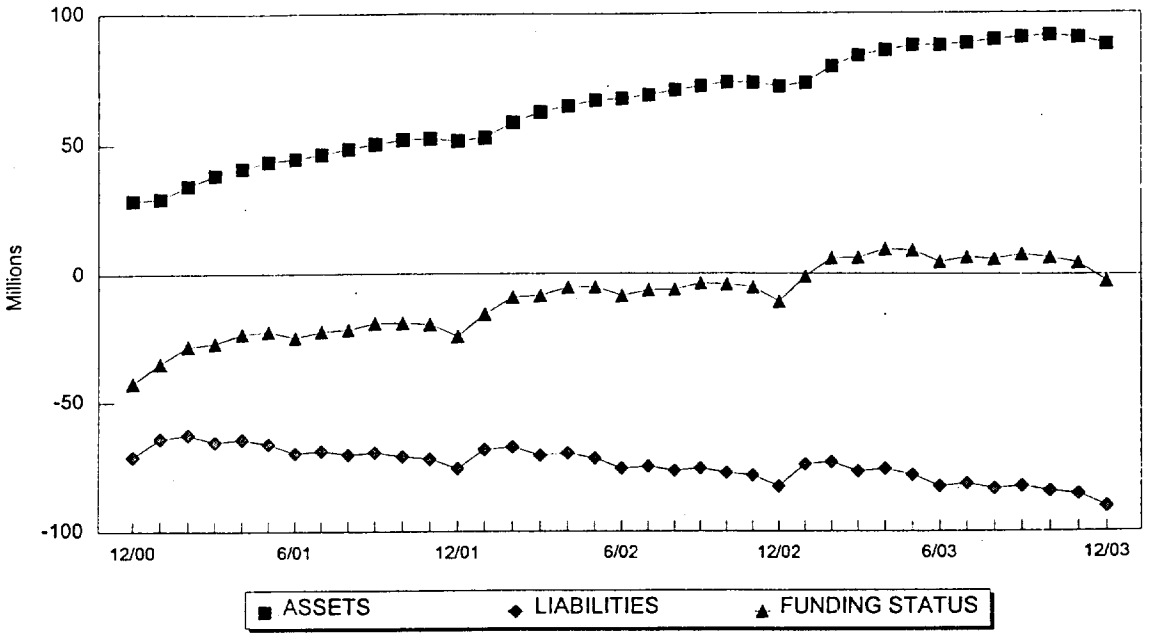
Appendices

Appendix A

Projection for the State and School Life and Health Insurance Plan

Source: CY 2000 Actuary Report Prepared by Wm. Lynn Townsend, FSA, MAAA

Projected Plan Assets, Liabilities, & Funding Status



KEY ASSUMPTIONS:

Medical Care Trend for Non-Drug Benefits				FUTURE Drug Benefits		
	Gross	Benefit Changes	Drug*		Copay Increase	Deductible
CY2001	7.0%	2.0%	5.3%			
CY2002	7.0%	0.0%	16.0%	CY2002	5.0%	$75
CY2003	7.0%	0.0%	16.2%	CY2003	5.0%	$100

** The above drug trends are after the effect of the illustrated deductibles and copay increases. The drug trend assumptions are also based on the following underlying assumptions for the growth in allowed costs per script and the growth in scripts per person:*

Growth Rates	Actual CY 1998	Actual CY 1999	Actual CY 2000	Assumed CY 2001-03
Cost per script	13.9%	14.2%	11.1%	12%
Scripts per person	12.7%	14.5%	0.1%	1%

Future Rate Increases

Active Employee Premium	Effective Date	Active Employee Increase	Average Dependent/ Retiree Increase
193.00	07/01/2000		
205.00	07/01/2001	6%	7%
205.00	01/01/2002	0%	0%
219.00	07/01/2002	7%	10%
219.00	01/01/2003	0%	0%
234.00	07/01/2003	7%	8%

PROJECTED CASH FLOWS

Mo	Yr	Health Premiums Incurred	Health Claims Paid, Net	Health Plan Expense	Cash Flow Medical	Cash Flow Life	Interest Income	Net Cash Flow Total
1	2001	33,052,616	(31,054,759)	(1,916,738)	81,119	348,234	139,187	568,541
2	2001	33,052,616	(26,564,341)	(1,916,738)	4,571,537	349,653	152,673	5,073,863
3	2001	33,052,616	(27,682,939)	(1,916,738)	3,452,939	351,077	174,309	3,978,325
4	2001	33,052,616	(29,056,211)	(1,916,738)	2,079,667	352,508	190,085	2,622,260
5	2001	33,052,616	(29,036,818)	(1,916,738)	2,099,060	353,944	202,700	2,655,704
6	2001	33,052,616	(30,516,393)	(1,916,738)	619,485	355,386	211,884	1,186,754
7	2001	35,163,596	(32,228,407)	(1,916,738)	1,018,452	356,834	218,529	1,593,815
8	2001	35,163,596	(31,777,816)	(1,916,738)	1,469,043	358,288	227,249	2,054,580
9	2001	35,163,596	(32,075,942)	(1,916,738)	1,170,916	359,747	236,384	1,767,047
10	2001	35,163,596	(32,251,315)	(1,916,738)	995,544	361,213	244,434	1,601,191
11	2001	35,163,596	(33,517,457)	(1,916,738)	(270,599)	362,685	249,076	341,162
12	2001	35,163,596	(34,770,998)	(1,916,738)	(1,524,140)	364,162	247,711	(912,266)
1	2002	36,227,118	(33,495,913)	(2,034,552)	696,654	365,646	248,664	1,310,964
2	2002	36,227,118	(29,177,386)	(2,034,552)	5,015,181	367,136	265,296	5,647,612
3	2002	36,227,118	(30,928,402)	(2,034,552)	3,264,165	368,631	288,166	3,920,962
4	2002	36,227,118	(32,603,429)	(2,034,552)	1,589,138	370,133	302,944	2,262,215
5	2002	36,227,118	(32,682,897)	(2,034,552)	1,509,669	371,641	313,598	2,194,908
6	2002	36,227,118	(34,388,967)	(2,034,552)	(196,401)	373,155	320,031	496,786
7	2002	39,021,589	(36,251,395)	(2,034,552)	735,642	374,676	324,648	1,434,965
8	2002	39,021,589	(35,817,286)	(2,034,552)	1,169,751	376,202	332,568	1,878,521
9	2002	39,021,589	(36,165,735)	(2,034,552)	821,302	377,735	340,738	1,539,774
10	2002	39,021,589	(36,366,680)	(2,034,552)	620,358	379,274	347,638	1,347,269
11	2002	39,021,589	(37,770,510)	(2,034,552)	(783,473)	380,819	350,734	(51,920)
12	2002	39,021,589	(39,253,225)	(2,034,552)	(2,266,188)	382,370	346,937	(1,536,881)
1	2003	40,212,534	(37,460,472)	(2,160,108)	591,953	383,928	346,424	1,322,305
2	2003	40,212,534	(32,438,665)	(2,160,108)	5,613,760	385,492	364,795	6,364,047
3	2003	40,212,534	(34,796,710)	(2,160,108)	3,255,715	387,063	389,644	4,032,422
4	2003	40,212,534	(36,759,540)	(2,160,108)	1,292,886	388,640	404,267	2,085,792
5	2003	40,212,534	(36,904,851)	(2,160,108)	1,147,574	390,223	413,917	1,951,714
6	2003	40,212,534	(38,836,765)	(2,160,108)	(784,340)	391,813	418,644	26,117
7	2003	43,101,959	(40,888,560)	(2,160,108)	53,290	393,409	420,780	867,480
8	2003	43,101,959	(40,444,494)	(2,160,108)	497,356	395,012	426,004	1,318,373
9	2003	43,101,959	(40,858,897)	(2,160,108)	82,954	396,621	431,333	910,908
10	2003	43,101,959	(41,083,893)	(2,160,108)	(142,042)	398,237	435,162	691,358
11	2003	43,101,959	(42,658,067)	(2,160,108)	(1,716,216)	399,860	434,707	(881,649)
12	2003	43,101,959	(44,387,365)	(2,160,108)	(3,445,514)	401,489	426,344	(2,617,682)

KEY ASSUMPTIONS

Average Net Benefit Trend

CY2001	105.0%
CY2002	108.9%
CY2003	109.0%

Future Rate Increases

Active Employee Premium	Effective Date	Active Employee Increase	Average Dep/Ret Increase
193.00	07/01/2000		
205.00	07/01/2001	6%	7%
205.00	01/01/2002	0%	0%
219.00	07/01/2002	7%	10%
219.00	01/01/2003	0%	0%
234.00	07/01/2003	7%	8%

PROJECTED ASSETS, LIABILITIES, & FUNDING STATUS

Mo	Yr	Total Plan Assets	Health Claim Liabilities	Life Claim Liabilities	Other Liabilities	Total Plan Liabilities	Surplus Funds (Unfunded Liabilities)
12	2000	28,833,050	(62,423,174)	(3,307,098)	(5,606,426)	(71,336,698)	(42,503,648)
1	2001	29,401,591	(55,318,493)	(3,320,572)	(5,611,995)	(64,251,060)	(34,849,470)
2	2001	34,475,454	(53,814,955)	(3,334,100)	(5,617,581)	(62,766,637)	(28,291,183)
3	2001	38,453,779	(56,539,887)	(3,347,684)	(5,623,183)	(65,510,754)	(27,056,975)
4	2001	41,076,039	(55,535,864)	(3,361,323)	(5,628,801)	(64,525,987)	(23,449,948)
5	2001	43,731,743	(57,285,399)	(3,375,017)	(5,634,435)	(66,294,851)	(22,563,109)
6	2001	44,918,497	(60,840,662)	(3,388,767)	(5,640,085)	(69,869,514)	(24,951,017)
7	2001	46,512,312	(60,014,363)	(3,402,574)	(5,645,751)	(69,062,688)	(22,550,376)
8	2001	48,566,892	(61,436,666)	(3,416,436)	(5,651,434)	(70,504,536)	(21,937,645)
9	2001	50,333,939	(60,646,856)	(3,430,355)	(5,657,133)	(69,734,344)	(19,400,405)
10	2001	51,935,130	(62,160,881)	(3,444,331)	(5,662,848)	(71,268,060)	(19,332,931)
11	2001	52,276,292	(63,049,236)	(3,458,363)	(5,668,580)	(72,176,179)	(19,899,887)
12	2001	51,364,026	(66,740,578)	(3,472,453)	(5,674,328)	(75,887,359)	(24,523,333)
1	2002	52,674,990	(59,458,422)	(3,486,600)	(5,680,093)	(68,625,116)	(15,950,126)
2	2002	58,322,602	(58,373,789)	(3,500,805)	(5,685,874)	(67,560,468)	(9,237,866)
3	2002	62,243,564	(61,629,968)	(3,515,068)	(5,691,672)	(70,836,708)	(8,593,144)
4	2002	64,505,780	(60,635,995)	(3,529,389)	(5,697,486)	(69,862,870)	(5,357,090)
5	2002	66,700,687	(62,668,949)	(3,543,768)	(5,703,318)	(71,916,035)	(5,215,348)
6	2002	67,197,473	(66,620,836)	(3,558,206)	(5,709,166)	(75,888,207)	(8,690,734)
7	2002	68,632,438	(65,765,807)	(3,572,702)	(5,715,030)	(75,053,539)	(6,421,101)
8	2002	70,510,959	(67,383,369)	(3,587,258)	(5,720,912)	(76,691,538)	(6,180,579)
9	2002	72,050,733	(66,533,819)	(3,601,873)	(5,726,810)	(75,862,502)	(3,811,768)
10	2002	73,398,003	(68,238,639)	(3,616,547)	(5,732,726)	(77,587,912)	(4,189,910)
11	2002	73,346,083	(69,267,807)	(3,631,282)	(5,738,658)	(78,637,747)	(5,291,664)
12	2002	71,809,202	(73,440,567)	(3,646,076)	(5,744,607)	(82,831,250)	(11,022,048)
1	2003	73,131,507	(64,862,598)	(3,660,930)	(5,750,574)	(74,274,102)	(1,142,595)
2	2003	79,495,554	(64,007,880)	(3,675,846)	(5,756,557)	(73,440,283)	6,055,272
3	2003	83,527,976	(67,720,839)	(3,690,821)	(5,762,558)	(77,174,218)	6,353,758
4	2003	85,613,768	(66,642,171)	(3,705,858)	(5,768,576)	(76,116,606)	9,497,163
5	2003	87,565,483	(68,944,282)	(3,720,956)	(5,774,611)	(78,439,850)	9,125,633
6	2003	87,591,600	(73,310,247)	(3,736,116)	(5,780,664)	(82,827,027)	4,764,573
7	2003	88,459,080	(72,376,608)	(3,751,337)	(5,786,734)	(81,914,680)	6,544,400
8	2003	89,777,453	(74,200,415)	(3,766,621)	(5,792,821)	(83,759,857)	6,017,595
9	2003	90,688,361	(73,263,024)	(3,781,966)	(5,798,926)	(82,843,917)	7,844,444
10	2003	91,379,719	(75,164,264)	(3,797,375)	(5,805,049)	(84,766,687)	6,613,031
11	2003	90,498,070	(76,319,698)	(3,812,846)	(5,811,189)	(85,943,732)	4,554,338
12	2003	87,880,388	(81,027,872)	(3,828,380)	(5,817,346)	(90,673,598)	(2,793,210)

KEY ASSUMPTIONS

Average Net Benefit Trend

CY2001	105.0%
CY2002	108.9%
CY2003	109.0%

Future Rate Increases

Active Employee Premium	Effective Date	Active Employee Increase	Average Dep/Ret Increase
193.00	07/01/2000		
205.00	07/01/2001	6%	7%
205.00	01/01/2002	0%	0%
219.00	07/01/2002	7%	10%
219.00	01/01/2003	0%	0%
234.00	07/01/2003	7%	8%

CY 2001 PROJECTED PLAN EXPERIENCE

CLASS	ACTIVE/ RETIRED	COV TYPE	COUNT 01/01/2001	PREMIUM RATE 01/01/2001	AVERAGE INCREASE 01/01/2001	PREMIUM RATE 07/01/2001	PERCENT INCREASE 07/01/2001	PREMIUMS	CLAIMS	PLAN EXPENSES	GAIN (LOSS)	GAIN (LOSS) RATE
EMPLOYEE	ACTIVE	REGULAR	120,000	193.00	0%	205.00	6%	286,561,112	(232,899,698)	(16,103,577)	37,557,837	13.1%
SPOUSE ONLY	ACTIVE	REGULAR	6,874	193.00	0%	216.00	12%	16,869,509	(24,945,655)	(947,998)	(9,024,144)	-53.5%
FULL FAMILY	ACTIVE	REGULAR	10,736	290.00	0%	325.00	12%	39,615,444	(37,414,106)	(2,226,228)	(24,890)	-0.1%
CHILD(REN) ONLY	ALL	REGULAR	8,029	145.00	0%	165.00	14%	14,933,219	(12,765,234)	(839,187)	1,328,798	8.9%
CHILD ONLY	ALL	REGULAR	6,622	145.00	0%	87.00	-40%	9,218,019	(5,326,084)	(518,015)	3,373,919	36.6%
DISABLED EMPLOYEE	RETIRED	REGULAR	371	222.00	0%	236.00	6%	1,018,672	(6,465,168)	(57,245)	(5,503,741)	-540.3%
DISABLED EMPLOYEE	RETIRED	MEDICARE	813	130.00	0%	150.00	15%	1,366,390	(4,992,092)	(76,786)	(3,702,488)	-271.0%
EMPLOYEE	RETIRED	REGULAR	6,334	222.00	0%	236.00	6%	17,405,926	(25,608,067)	(978,143)	(9,180,284)	-52.7%
SPOUSE ONLY	RETIRED	REGULAR	1,734	222.00	0%	249.00	12%	4,900,593	(6,239,489)	(275,394)	(1,614,289)	-32.9%
FULL FAMILY	RETIRED	REGULAR	327	316.00	0%	354.00	12%	1,314,636	(775,918)	(73,877)	464,841	35.4%
FAMILY (1 ON MEDICARE)	RETIRED	MEDICARE	60	197.00	0%	221.00	12%	150,308	(376,594)	(8,447)	(234,733)	-156.2%
SPOUSE ONLY	RETIRED	MEDICARE	2,027	130.00	0%	150.00	15%	3,405,589	(3,826,247)	(191,380)	(612,039)	-18.0%
EMPLOYEE	RETIRED	MEDICARE	7,463	130.00	0%	150.00	15%	12,537,854	(13,216,446)	(704,577)	(1,383,168)	-11.0%
TOTAL								409,297,271	(374,850,798)	(23,000,853)	11,445,620	2.8%

RECAP BY SUBGROUP					
ACTIVE EMPLOYEES	286,561,112	(232,899,698)	(16,103,577)	37,557,837	13.1%
DEPENDENTS OF ACTIVE EMPLOYEES	80,636,191	(80,451,079)	(4,531,428)	(4,346,316)	-5.4%
DISABLED RETIREES (REGULAR)	1,018,672	(6,465,168)	(57,245)	(5,503,741)	-540.3%
DISABLED RETIREES (MEDICARE)	1,366,390	(4,992,092)	(76,786)	(3,702,488)	-271.0%
RETIREES & DEPENDENTS (REGULAR)	23,621,156	(32,623,474)	(1,327,414)	(10,329,732)	-43.7%
RETIREES & DEPENDENTS (MEDICARE)	16,093,751	(17,419,287)	(904,404)	(2,229,940)	-13.9%
TOTAL	409,297,271	(374,850,798)	(23,000,853)	11,445,620	2.8%
LIFE INSURANCE GAIN				4,040,474	
INTEREST INCOME				2,494,221	
TOTAL GAIN (LOSS)				17,980,314	4.4%
BEGINNING SURPLUS FUNDS (UNFUNDED LIABILITIES)				(42,503,648)	
CHANGE IN SURPLUS				17,980,314	
ENDING SURPLUS FUNDS (UNFUNDED LIABILITIES)				(24,523,333)	

AVERAGE NET BENEFIT TREND		DRUG CARD BENEFITS		
			Copay Increase	Drug Deductible
CY2001	105.0%			
CY2002	108.9%	CY2002	5%	$75
CY2003	109.0%	CY2003	5%	$100

CY 2002 PROJECTED PLAN EXPERIENCE

CLASS	ACTIVE/ RETIRED	COV TYPE	COUNT 01/01/2002	PREMIUM RATE 01/01/2002	PERCENT INCREASE 01/01/2002	PREMIUM RATE 07/01/2002	PERCENT INCREASE 07/01/2002	PREMIUMS	CLAIMS	PLAN EXPENSES	GAIN (LOSS)	GAIN (LOSS) RATE
EMPLOYEE	ACTIVE	REGULAR	123,000	205.00	0%	219.00	7%	312,913,214	(259,083,362)	(16,920,904)	36,908,948	11.8%
SPOUSE ONLY	ACTIVE	REGULAR	7,046	216.00	0%	242.00	12%	19,362,814	(27,727,422)	(1,047,052)	(9,411,659)	-48.6%
FULL FAMILY	ACTIVE	REGULAR	11,004	325.00	0%	356.00	10%	44,963,529	(41,555,617)	(2,431,420)	976,492	2.2%
CHILD(REN) ONLY	ALL	REGULAR	8,229	165.00	0%	185.00	12%	17,281,588	(14,181,017)	(934,509)	2,166,062	12.5%
CHILD ONLY	ALL	REGULAR	6,788	87.00	0%	93.00	7%	7,330,709	(5,916,796)	(396,411)	1,017,502	13.9%
DISABLED EMPLOYEE	RETIRED	REGULAR	398	236.00	0%	252.00	7%	1,166,802	(7,558,258)	(63,095)	(6,454,551)	-553.2%
DISABLED EMPLOYEE	RETIRED	MEDICARE	874	150.00	0%	164.00	9%	1,647,231	(6,028,683)	(89,075)	(4,470,526)	-271.4%
EMPLOYEE	RETIRED	REGULAR	6,809	236.00	0%	252.00	7%	19,937,007	(30,011,351)	(1,078,101)	(11,152,446)	-55.9%
SPOUSE ONLY	RETIRED	REGULAR	1,864	249.00	0%	279.00	12%	5,905,683	(7,302,484)	(319,352)	(1,716,154)	-29.1%
FULL FAMILY	RETIRED	REGULAR	352	354.00	0%	396.00	12%	1,581,978	(905,904)	(85,546)	590,528	37.3%
FAMILY (1 ON MEDICARE)	RETIRED	MEDICARE	64	221.00	0%	248.00	12%	181,295	(462,203)	(9,804)	(290,712)	-160.4%
SPOUSE ONLY	RETIRED	MEDICARE	2,179	150.00	0%	164.00	9%	4,105,559	(4,684,253)	(222,010)	(800,704)	-19.5%
EMPLOYEE	RETIRED	MEDICARE	8,023	150.00	0%	164.00	9%	15,114,831	(16,184,464)	(817,340)	(1,886,974)	-12.5%
TOTAL								451,492,241	(421,601,815)	(24,414,618)	5,475,807	1.2%
RECAP BY SUBGROUP												
ACTIVE EMPLOYEES								312,913,214	(259,083,362)	(16,920,904)	36,908,948	11.8%
DEPENDENTS OF ACTIVE EMPLOYEES								88,938,640	(89,380,851)	(4,809,392)	(5,251,603)	-5.9%
DISABLED RETIREES (REGULAR)								1,166,802	(7,558,258)	(63,095)	(6,454,551)	-553.2%
DISABLED RETIREES (MEDICARE)								1,647,231	(6,028,683)	(89,075)	(4,470,526)	-271.4%
RETIREES & DEPENDENTS (REGULAR)								27,424,668	(38,219,740)	(1,483,000)	(12,278,072)	-44.8%
RETIREES & DEPENDENTS (MEDICARE)								19,401,685	(21,330,921)	(1,049,154)	(2,978,389)	-15.4%
TOTAL								451,492,241	(421,601,815)	(24,414,618)	5,475,807	1.2%
LIFE INSURANCE GAIN											4,243,516	
INTEREST INCOME											3,781,962	
TOTAL GAIN (LOSS)											13,501,285	3.0%
BEGINNING SURPLUS FUNDS (UNFUNDED LIABILITIES)											(24,523,333)	
CHANGE IN SURPLUS											13,501,285	
ENDING SURPLUS FUNDS (UNFUNDED LIABILITIES)											(11,022,048)	

AVERAGE NET BENEFIT TREND	
CY2001	105.0%
CY2002	108.9%
CY2003	109.0%

DRUG CARD BENEFITS		
	Copay Increase	Drug Deductible
CY2002	5%	$75
CY2003	5%	$100

CY 2003 PROJECTED PLAN EXPERIENCE

CLASS	ACTIVE/ RETIRED	COV TYPE	COUNT 01/01/2003	PREMIUM RATE 01/01/2003	PERCENT INCREASE 01/01/2003	PREMIUM RATE 07/01/2003	PERCENT INCREASE 07/01/2003	PREMIUMS	CLAIMS	PLAN EXPENSES	GAIN (LOSS)	GAIN (LOSS) RATE
EMPLOYEE	ACTIVE	REGULAR	126,075	219.00	0%	234.00	7%	342,673,180	(288,600,727)	(17,769,087)	36,303,366	10.6%
SPOUSE ONLY	ACTIVE	REGULAR	7,222	242.00	0%	271.00	12%	22,230,244	(30,855,595)	(1,152,734)	(9,778,085)	-44.0%
FULL FAMILY	ACTIVE	REGULAR	11,279	356.00	0%	380.00	7%	49,809,818	(46,210,986)	(2,582,855)	1,015,978	2.0%
CHILD(REN) ONLY	ALL	REGULAR	8,435	185.00	0%	199.00	8%	19,434,380	(15,774,407)	(1,007,757)	2,652,216	13.6%
CHILD ONLY	ALL	REGULAR	6,957	93.00	0%	99.00	6%	8,014,908	(6,581,612)	(415,608)	1,017,689	12.7%
DISABLED EMPLOYEE	RETIRED	REGULAR	428	252.00	0%	269.00	7%	1,339,133	(8,841,373)	(69,440)	(7,571,680)	-565.4%
DISABLED EMPLOYEE	RETIRED	MEDICARE	940	164.00	0%	176.00	7%	1,917,398	(7,281,437)	(99,425)	(5,463,465)	-284.9%
EMPLOYEE	RETIRED	REGULAR	7,320	252.00	0%	269.00	7%	22,881,596	(35,212,332)	(1,186,510)	(13,517,246)	-59.1%
SPOUSE ONLY	RETIRED	REGULAR	2,004	279.00	0%	312.00	12%	7,106,114	(8,556,725)	(368,483)	(1,819,094)	-25.6%
FULL FAMILY	RETIRED	REGULAR	378	396.00	0%	437.00	10%	1,888,829	(1,059,278)	(97,944)	731,607	38.7%
FAMILY (1 ON MEDICARE)	RETIRED	MEDICARE	69	248.00	0%	278.00	12%	218,578	- (566,763)	(11,334)	(359,519)	-164.5%
SPOUSE ONLY	RETIRED	MEDICARE	2,343	164.00	0%	176.00	7%	4,778,924	(5,736,653)	(247,808)	(1,205,538)	-25.2%
EMPLOYEE	RETIRED	MEDICARE	8,624	164.00	0%	176.00	7%	17,593,856	(19,827,697)	(912,318)	(3,146,158)	-17.9%
TOTAL								499,886,958	(475,105,585)	(25,921,301)	(1,139,928)	-0.2%
RECAP BY SUBGROUP												
ACTIVE EMPLOYEES								342,673,180	(288,600,727)	(17,769,087)	36,303,366	10.6%
DEPENDENTS OF ACTIVE EMPLOYEES								99,489,351	(99,422,599)	(5,158,953)	(5,092,202)	-5.1%
DISABLED RETIREES (REGULAR)								1,339,133	(8,841,373)	(69,440)	(7,571,680)	-565.4%
DISABLED RETIREES (MEDICARE)								1,917,398	(7,281,437)	(99,425)	(5,463,465)	-284.9%
RETIREES & DEPENDENTS (REGULAR)								31,876,539	(44,828,336)	(1,652,936)	(14,604,733)	-45.8%
RETIREES & DEPENDENTS (MEDICARE)								22,591,358	(26,131,113)	(1,171,460)	(4,711,215)	-20.9%
TOTAL								499,886,958	(475,105,585)	(25,921,301)	(1,139,928)	-0.2%
LIFE INSURANCE GAIN											4,456,746	
INTEREST INCOME											4,912,021	
TOTAL GAIN (LOSS)											8,228,839	1.6%
BEGINNING SURPLUS FUNDS (UNFUNDED LIABILITIES)											(11,022,048)	
CHANGE IN SURPLUS											8,228,839	
ENDING SURPLUS FUNDS (UNFUNDED LIABILITIES)											(2,793,210)	

AVERAGE NET BENEFIT TREND	
CY2001	105.0%
CY2002	108.9%
CY2003	109.0%

DRUG CARD BENEFITS		
	Copay Increase	Drug Deductible
CY2002	5%	$75
CY2003	5%	$100

ASSUMPTIONS

Basic Projection Approach

Paid claims costs per employee were calculated by premium class for CY2000 using the paid loss ratio reports supplied by BCBS, together with the monthly claims summary reports supplied by PCS. Paid losses were adjusted to an incurred basis by allocating the increase in claims liability in proportion to paid losses. Incurred medical and drug card claims rates were projected forward, by premium class, using assumptions for annual non-drug benefit trend, annual cost per script inflation, script utilization growth, adjustments to reflect the changes in drug card copays, and the cost effect of benefit changes. Future enrollment was assumed to grow by 2.5% each year for active employees and dependents and by 7.5% per year for retirees.

Medical Care Trend

Detailed assumptions for medical care trend are presented in an earlier section of this report.

Administrative Expenses

CY2001 health insurance administrative and cost containment program expenses were projected to be approximately 5.6% of premium based on projected premium levels. Future expense rates were assumed to increase by about 3.3% in CY2002 and CY2003.

Interest

Interest income was assumed to be earned and received at an annual rate of 5.75% and was based on the sum of the prior month's cash assets and one-half of the net cash flow for the month.

Net Cash Flow From Life Insurance

Life insurance coverage was assumed to produce net additions to the State Plan's funds of approximately 22% of premium. It was also assumed that the life insurance program would grow at a 5% annual rate.

Appendix B

Plan Benefit Changes for Year 2001

State and School Employees' Health Insurance Plan
Benefit Changes for Year 2001

Approved by the Health Insurance Management Board on June 27, 2000

⏭ High Option Coverage for Children

Current Benefit: The Plan provides only limited well-child benefits, and there is no optional coverage providing more comprehensive coverage for children.

2001 Benefit: Plan participants will be able to choose high option coverage for children for 2001 at an additional cost of $20 per month to the employee. Each employee will have the option of choosing regular coverage or high option coverage during open or special enrollment periods. The high option coverage will include inpatient well newborn nursery care and coverage of well-child services. Well-child care under the high option coverage will be provided at 100% of the allowable charge subject to the calendar year deductible, with the exception of immunizations. Immunizations will be covered at 80% subject to the calendar year deductible. All well-child care and immunizations must be provided by an in-network provider. Other than these enhancements, benefits will be the same as regular coverage.

⏭ Calendar Year Deductible, Out-of-Network Coinsurance, and Family Deductible

Current Benefit: The Plan has a $350 in-network calendar year deductible and a $600 out-of-network calendar year deductible. Medicare primary participants are subject to a $350 calendar year deductible. The Plan participant's insurance for out-of-network services is 35%. The family maximum deductible is 3 calendar year deductibles per family, equivalent to $1,050 in-network or $1,800 out-of-network. The out-of-pocket limit is $2,000 in-network and $3,000 out-of-network.

2001 Benefit: Calendar year deductible amounts will be $450/$900, out-of-network coinsurance will be 40%, current out-of-pocket limits remain the same, and the family deductible will be $900/$1800.

In-Network Deductible	$450
In-Network Coinsurance	20%
In-Network Out-of-Pocket Limit	$2,000
In-Network Family Deductible	$900
Out-of-Network Deductible	$900
Out-of-Network Coinsurance	40%
Out-of-Network Out-of-Pocket Limit	$3,000
Out-of-Network Family Deductible	$1,800

⏭ Pharmacy Co-Pays

Current Benefit: The co-payment amounts for the prescription drug program are as follows:

	1-30 Day Supply	31 - 60 Day Supply	61 - 90 Day Supply
Generic Drug	$8	$16	$24
Single-source Drug (not available in Generic)	$18	$36	$54
Multi-Source Drug (available in Generic)	$8 + Generic Differential*	$16 + Generic Differential	$24 + Generic Differential

*The Generic Differential is applied when a brand name drug is dispensed and a generic equivalent is available. The Plan participant pays the difference in the cost of the brand drug and the generic drug (generic differential) plus the generic co-payment amount.

2001 Benefit: A third tier for non-preferred brand name drugs is added and co-payment amounts are increased to $10/$20/$30.

	1-30 Day Supply	31 - 60 Day Supply	61 - 90 Day Supply
Generic Drug	$10	$20	$30
Single-source Drug (not available in Generic)	$20	$40	$60
Multi-Source Drug (available in Generic)	$10 + Generic Differential	$20 + Generic Differential	$30 + Generic Differential
Non-Preferred Brand Drug	$30	$60	$90

⏭ Pharmacy Mail Order

Current Benefit: The Plan's prescription drug program does not include a mail order option.

2001 Benefit: A mail order program will be offered to Plan participants that will allow them to order a 90-day supply of a maintenance drug for a co-payment that is equivalent to a 60-day supply under retail.

⏭ Extraction of Impacted Teeth

Current Benefit: Benefits are provided for physician's services related to the extraction of an impacted tooth.

2001 Benefit: Benefits for physician's services related to the extraction of impacted teeth are eliminated.

⏭ Waiver of Calendar Year Deductible for Services Related to Accidental Injury

Current Benefit: A Plan participant's calendar year deductible is waived for a period of twelve months from the date of an accident for claims relating to the accidental injury.

2001 Benefit: The calendar year deductible will apply to accidental injury claims.

⊠ Diabetes Training/Education

Current Benefit: No benefits are provided for diabetes outpatient training/education and medical nutrition therapy.

2001 Benefit: Benefits for outpatient diabetes training/education and medical nutrition therapy up to $250 per calendar year will be allowed for Plan participants participating in the Plan's diabetes disease management program, which will be developed and implemented by the Plan's utilization management vendor.

⊠ Room Rate Differential

Current Benefit: Inpatient hospital room and board are paid at the semi-private room rate. When a private room is occupied, the semi-private room rate is calculated by using the hospital's average semi-private room rate. If the hospital does not maintain semi-private rooms, the semi-private room rate is calculated at 90% of the weighted average of the hospital's charges for all private rooms. The difference in the cost of a semi-private and private room is not covered by the Plan and therefore becomes the participant's financial responsibility.

2001 Benefit: Private hospital rooms will carry a $20 per day co-payment.

⊠Lifetime Maximum for Temporal Mandibular Joint (TMJ) Disorder

Current Benefit: The Plan provides benefits for the diagnosis and treatment of TMJ without a lifetime maximum limit. Benefits are limited to phase one and phase two treatment, and benefits are not allowed for orthodontics, dentures, occlusional reconstruction, or for crowns or inlays.

2001 Benefit: The Plan will impose a $5,000 lifetime maximum for services related to TMJ as is required for fully insured plans.

Agency Response

STATE OF MISSISSIPPI
DAVID RONALD MUSGROVE, GOVERNOR

DEPARTMENT OF FINANCE AND ADMINISTRATION
GARY ANDERSON
EXECUTIVE DIRECTOR

August 2, 2001

Mitchell Adcock, CPA, CIA, CFE, CPM
Performance Audit Division Director
Office of the State Auditor
P. O. Box 956
Jackson, MS 39205

Dear Mr. Adcock:

Thank you for the opportunity to review the draft report of the performance audit of the State and School Employees' Life and Health Insurance Plan. Your staff has performed a comprehensive review of the audits and actuarial analyses conducted on the Plan and summarized the financial trends and status of the Plan.

We have no comments to make on the findings in the report and support your recommendation that the Health Insurance Management Board "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." As you point out in your report, the Board has made significant progress in reducing the Plan's unfunded liabilities and expects to achieve full funding of the Plan in 2003.

The Health Insurance Management Board has had to make some very difficult decisions regarding the benefits and funding of the Plan. The actions taken by the Board, however, have resulted in notable improvements in the financial condition of the Plan, as you have noted. The decisions faced by the Board are made more difficult by the health care environment at this time. As health care costs continue to climb far faster than the overall rate of inflation, the Board must decide the extent to which each party (the State, active employees, and retirees) absorbs a share of the increased cost.

Although such decisions are never popular, the Board is committed to maintaining a financially sound health plan for the employees and retirees of state agencies, public schools, colleges, universities, community/junior colleges, and public libraries.

Sincerely,

Therese Hanna

Therese Hanna
State Insurance Administrator