OFFICE OF GOVERNOR RONNIE MUSGROVE
INTEROFFICE MEMORANDUM

TO: BOYD

FROM: RILEY

SUBJECT: 10/6/00 MEETING WITH ANDERSON AND HANNA: UPDATE ON STATE EMPLOYEES' INSURANCE PLAN

DATE: 10/9/00

CC: FILE

The Governor met with Gary Anderson and Therese Hanna on Friday, October 6, 2000, for an update on the status of the State and School Employees' Health Insurance Plan. Governor's staff present included Cole, Gilbert, Buttross, Tell and myself. Points highlighted during the meeting included:

- As of June 30, 2000, the plan covered a total of 197,066 lives (active, dependents, and retirees).

- Ideally, we would maintain a reserve balance of approximately $60 million (2 months' worth of claims). According to DFA, the plan had a deficit of $38.3 million as of June 30, 2000. The plan started FY 2000 with a $22.7 million deficit and then experienced a $15.5 million deficit in FY 2000. The Governor asked DFA to rephrase their lingo to say that we are $38 million under where we would like to be with our reserve, rather than saying the plan has a $38 million deficit.

- Employee out-of-pocket expenses accounted for 17.2% of the plan's covered charges in calendar year 1996 and 18.9% in calendar year 1999.

- In calendar year 1998, 76% of plan participants incurred less than $1,000 in payments (9% of the plan's payments), while 8% incurred payments of more than $5,000 (69% of the plan's payments. In other words, 76% of the plan's participants (the healthy ones) are carrying the rest of the plan.

- Four primary factors affected costs between 1997 and 1999 were:

    1. Pharmacy cost increases: drugs comprise approximately $88 million of the $333 million in claims in 1999; payments for drugs increased almost 120% from 1997 to 1999

    2. increased outpatient utilization and cost: hospitals are pushing patients to outpatient services and are increasing costs for such services

    3. hospital cost increases

    4. retiree subsidies: retirees accounted for 7.8% of the plan in calendar year 1995 and accounted for 10% in calendar year 1999; claims for retirees dramatically exceed the premiums collected for the retirees (the plan experienced a 714% loss ratio for disabled

retirees with regular coverage and a 346% loss ratio for disabled retirees with Medicare as their primary coverage)

- The Governor conveyed that we must put the pharmaceutical firms out of business gently and that we have got to work with our hospitals as to their shifting patients to outpatient surgery and then driving up the charges

- The Governor said that we have also got to initiate a stronger, clearer marketing campaign to state employees, explaining the status of the plan and why changes are being made. He said that the common man can't understand the data that DFA releases.

- Armerita pointed out that if the federal government approves our request for a zero-based waiting period for CHIP, then state employees are going to put their kids in CHIP, which will eliminate the funding from premiums on healthy kids that do not incur many costs. Hanna said that Mississippi and North Carolina are the only two states that will allow state employees to enroll their children in CHIP.

- DFA has several long-term strategies for strengthening the financial stability of the plan

    1. work with PERS to develop a recommendation for funding retiree health insurance

    2. implement disease management programs to address chronic illnesses

    3. achieve full funding by 2002

- Several points were made regarding Mississippi's plan compared to national averages or plans in surrounding states:

    1. Expenditures for state employees' health care account for approximately .7% of the state budget, while such expenditures average approximately 1.7% nationally and 1.5% in the southeast.

    2. Health insurance premium expenditures per state employee average approximately $1,800 in Mississippi, while such expenditures average approximately $3,900 nationally and $2,300 in the southeast

    3. In January 1999, Mississippi employees did not incur a monthly premium and the plan paid $172/month. Alabama employees did not incur a premium and Alabama's state plan incurred $357/month. Florida employees paid the least, at $32/month, while the state paid $262. Louisiana employees incurred the most, at $113/month, with the state paying $113.

    4. Regarding monthly premiums for family coverage, Mississippi employees paid a monthly premium of $243 and the plan paid $172. Tennessee employees paid the lowest monthly premium for family coverage ($103) and the state contributed $410. Arkansas employees paid the highest monthly premium at $330, with the state paying $261.

    5. Regarding monthly premiums for retiree coverage, Mississippi retirees paid a monthly premium of $113 and the plan paid $0. Alabama retirees do not pay a premium, while Louisiana retirees paid the lowest at $41, with the state paying $95/month.