



MEETING OF THE BOARD OF GOVERNORS
Task Force on Pricing, Flexibility, and Affordability

November 7, 2023 at 3:30 PM
Via Video Conference and PBS North Carolina Livestream

AGENDA

- A-1. Approval of the Minutes of August 16, 2023.....Wendy Murphy
- A-2. Self-Funded Student Health Insurance Report..... Jean Russell
Bob Jordan
Gallagher Student Health
- A-3. Adjourn

DRAFT MINUTES

August 16, 2023 at 2 p.m.
Via Videoconference and PBS North Carolina Livestream
UNC System Office
223 S. West Street, Suite 1800
Raleigh, North Carolina

This meeting of the Task Force on Pricing, Flexibility and Affordability was presided over by Chair Wendy Murphy. The following committee members, constituting a quorum, were also present in person or by phone: Carolyn Coward, Lee Barnes, Jimmy Clark, and Estefany Gordillo-Rivas.

Staff members present included Dr. Andrew Kelly, Jennifer Haygood, and others from the UNC System Office.

1. Call to Order and Approval of OPEN Session Minutes of January 17, 2023 (Item A-1)

The chair called the meeting to order at 2:02pm on Wednesday, August 16, 2023, and called for a motion to approve the open session minutes of January 17, 2023.

MOTION: Resolved, that the Task Force on Pricing, Flexibility and Affordability approve the open session minutes of January 17, 2023, as distributed.

Motion: Carolyn Coward
Motion carried

2. Update on Self-Funded Student Health Insurance (Item A-2)

Chair Murphy gave an update and overview of the Student Health Insurance study thus far. Dr. Andrew Kelly then provided more depth on the process and status. Discussion by the task force followed.

3. Debt Service Fee Policy, Practice, and Trends (Item A-3)

Chair Murphy gave a small introduction to Debt Service Fee and called on Ms. Jennier Haygood. Ms. Haygood provided System background and data on debt service fee, along with the current and possible implications of debt service fee for the System.

There being no further business and without objection, the meeting adjourned at 3:01 p.m.

Wendy Murphy, Chair

AGENDA ITEM

A-2. Self-Funded Student Health Insurance Report..... Jean Russell
Bob Jordan
Gallagher Student Health

Situation: In academic year 2022-23, the task force received a briefing on the opportunity to improve the affordability and efficiency of student health insurance by moving to a self-funded plan. The task force recommended a resolution to the Committee on Budget and Finance that called on the UNC System Office to develop a proposed implementation plan for such a plan and present it to the University of North Carolina Board of Governors no later than its November meeting.

Background: In January 2023, the Task Force on Pricing, Flexibility, and Affordability recommended, and the Committee on Budget and Finance approved a resolution that called on the System Office to develop a proposed implementation plan for such a plan and present it to the Board of Governors no later than its November meeting. After soliciting bids through a competitive RFP process, the System Office chose Arthur J. Gallagher & Company (Gallagher) to provide necessary expertise in drafting the proposed implementation plan.

Representatives from Gallagher Student Health will present their findings and recommendations to the task force for their consideration and, pending a vote of the task force, referral to the Committee on Budget and Finance.

Assessment: The task force will receive a report from Gallagher Student Health representatives on the potential benefits and risks of moving to a self-funded student health insurance plan for the UNC System.

Action: This item requires a vote by the task force.

University of North Carolina System

Building a Sustainable Student Health Insurance Plan (SHIP) and Advancing Health Equity for Students *Self-Funded Student Health Benefit Plan Feasibility Study*



Summary of the Self-Funded SHIP Feasibility Study ***Building a Sustainable Student Health Insurance Plan and Advancing Health Equity for Students***

The University of North Carolina System (UNC System), a collective of 16 universities, provides among the most valuable public education in the country. It is a multi-institution system, including the North Carolina School of Science and Mathematics. It is governed by one Board of Governors, and its main objective is to foster the development of a well-planned and coordinated higher education system; improve the quality of education; extend educational benefits beyond university borders and encourage efficient and effective use of state resources. (Source: northcarolina.edu/about-us/)

The University of North Carolina Board of Governors instructed the president and system office staff to conduct a feasibility study on self-funding in response to the significant increase in student health insurance plan rates. This increase, from \$1,347.24 in 2013-2014 to \$2,755.56 in 2023-2024, represents nearly a 104% rise in costs over the span of a decade. In accordance with this, Gallagher Student Health and Special Risk (GSH) performed an actuarial analysis to explore whether self-funding could enhance student affordability by curbing future premium increases, expanding or maintaining care access for students, reducing administrative costs and increasing administrative and coverage flexibility.

It should be noted that while GSH conducted a comprehensive analysis of the various UNC System student health insurance plan offerings, including the core Student Blue plan, RA/TA plans and Post Doc plan, this summary document primarily focuses on the Student Blue plan with the lion's share of student enrollment. A detailed analysis of all the student insurance plans can be found in GSH's full self-funding feasibility report.

This comprehensive study draws from diverse sources, including but not limited to data from the UNC System's BCBSNC Student Blue Plan, interviews with key stakeholders across the 16 universities, UNC System executive team members, general and outside counsels, Gallagher's diverse team of subject matter experts, benchmarking against peer institutions, as well as data from the North Carolina Department of Insurance (NCDOI), the North Carolina Association of Insurance Agents (NCAIA) and various insurance carriers.

The UNC System boasts a substantial risk pool, encompassing approximately

24,000 students enrolled in the system-sponsored student health insurance plan. Self-funding offers the opportunity for the System to establish a well-planned and meticulous budget, specifically tailored to cover the expenses associated with claims. This approach not only provides a transparent financial framework but also opens the door to creating a comprehensive, cost-efficient, and sustainable student health insurance program for the long term.

By having a meticulously structured budget, the System can effectively allocate resources, predict future financial needs, and ensure that the program remains financially robust. This comprehensive approach not only benefits the institution but also serves the best interests of the students, as it allows for the delivery of high-quality health coverage that can endure and adapt to evolving needs over an extended period.

Whether the UNC System chooses to transition from its current fully insured model to a self-funding strategy or not, conducting a comprehensive assessment of various critical aspects is imperative. These aspects encompass the rating methodology, waiver criteria, prescription carve-out, benefit plan design, and enrollment categorization.

Financial Benefit of Self-Funding and Cash Flow Analysis

The findings of this study highlight substantial cost savings achievable by transitioning to a self-funded model for SHIP — potential savings range from an impressive Baseline Cost Approach scenario savings of \$885K to Mid-Case Cost Approach Scenario of \$5.9M per year. Furthermore, conservatively projecting savings over five years, assuming minimal participation changes from FY25, reveals an estimated \$5 million in savings for the Baseline Cost Approach scenario to \$30 million in savings for the Mid-Case Cost Approach scenario.

It's important to note that 61% of enrolled members, a substantial majority, incur claims below \$500 annually. In contrast, a very small fraction, approximately 0.4% of enrolled members, surpass the \$50,000 threshold with their claims. Noteworthy is the UNC System's favorable risk pool, with no members incurring claims exceeding \$550,000 over the past two years. This indicates a stable and well-managed risk profile within the system.

A self-funded model provides flexibility and the opportunity to reduce claims trend over time. Significantly, there is a distinct opportunity to achieve savings in the

SHIP pharmacy program, ranging from 10% to 12% of pharmacy claims due to pharmacy rebates. This translates to an estimated annual savings of approximately \$1.6 million to \$2 million based on paid claims recorded from March 2022 to February 2023. It's important to note that these savings may vary depending on the total volume of pharmacy claims, but the provided figures represent a conservative estimate. A 10%-12% savings range associated with achieving higher pharmacy rebates might seem low when compared to industry benchmarks in the commercial market, which typically fall within the range of 20%-30%. This estimate is influenced by the unique demographics and high utilization of generic drugs among the student population.

Pharmacy Claims Utilization from 3/2022 – 2/2023

	Total Pharmacy Paid	Savings 10%	Savings 12%
SHIP	\$16,278,022	\$1,627,802	\$1,953,363

A thorough review of a pharmacy carve-out model (i.e., contracting directly with a pharmacy benefit manager) should be completed following the establishment and maintenance of a self-funded program for a few years and the accumulation of sufficient data. This review aims to investigate the potential for achieving even greater cost savings within the pharmacy component of the program.

In addition to the array of benefits associated with self-funding, a significant financial advantage comes from the elimination of the state healthcare fee or state premium tax. This fee/tax imposed by the State of North Carolina on fully insured health policies had previously been incorporated into the overall cost structure of the SHIP. By converting to a self-funded health plan, the UNC System stands to realize substantial savings, estimated at approximately \$1.5 million annually.

Approximately 12% of the student population chooses to enroll in SHIP. Approximately 2,300 international students opting for non-ACA International Student Services (ISS) plans and waiving SHIP coverage. It's worth noting that ISS plans come with limitations and exclusions and are not as comprehensive as SHIP.

Requiring international students to enroll in SHIP can offer multiple advantages to the program. It's well-documented that international students typically have healthcare claims that are 20% to 40% less than those of domestic students in the United States. This not only bolsters the overall risk pool, given that international students are considered a more favorable insurance category, but also guarantees that these students have access to comprehensive health coverage.

In addition, a rise in international student enrollment in SHIP would result in a reduction in the average cost per student. This, in turn, benefits the students, as they are responsible for covering the full cost of SHIP. For example, if 40% of international students were to enroll in the SHIP, the average cost per student would decrease by \$22.00 annually. This alignment of interests ultimately serves the best interests of both the program and the students it serves.

Cash Flow Analysis:

A comprehensive cash flow analysis for both the Baseline Cost Approach Scenario and the Mid-Case Cost Approach Scenario sheds light on the recommended initial capitalization required to kick start the self-funded SHIP program. It is estimated that an initial capitalization of \$17.5 million (Baseline Cost) to \$16.75 million (Mid-Case Cost) is needed. The estimates assume that no premiums will be collected from students until November.

However, as the year progresses, a surplus is generated, reaching \$20.4 million (Baseline Cost) to \$19.6 million (Mid-Case Cost) by the end of the first year. This surplus can be further divided into two crucial components:

- **True Surplus:** This is the surplus at the end of Year 1, which plays a crucial role in covering claims at the beginning of Year 2 when SHIP is waiting for premium payments. The majority of the surplus, totaling \$14.6 million (Baseline Cost) to \$13.9 million (Mid-Case Cost), is designated as "true surplus." These funds exceed the amount required to meet immediate operational and claim-related expenses for the 2nd year, serving as a financial buffer for unforeseen contingencies and bolstering the overall financial stability of the program.

- **Reserve for Claims not Yet Reported:** The remaining \$5.8 million (Baseline Cost) to \$5.6 million (Mid-Case Cost) is earmarked as a reserve. This reserve is specifically intended to cover claims that have been incurred but have not yet been reported or received at the end of the year. This reserve is essential to ensure that the program can meet its obligations to cover potential claims and maintain financial stability.

This cash flow analysis demonstrates that the self-funded SHIP program, under both scenarios, is expected to not only cover its initial capitalization but also generate a surplus that strengthens its financial position while prudently setting aside reserves to meet future claim-related obligations.

It's important to note, the potential for savings can be further optimized by implementing an aggressive procurement process, ideally in collaboration with experienced professionals. This is especially important because SHIP necessitates a unique understanding of the marketplace, distinct from employer-sponsored plans. By harnessing this expertise and adopting a strategic approach, the System can maximize its savings and enhance the financial viability of its student health insurance program.

Recommended Governance Structure:

Establishing a dedicated management structure is of utmost importance for effective governance, and it can be simple within the UNC System. A straightforward approach involves designating a SHIP self-funded executive director within the UNC System office, responsible for overseeing the SHIP program. The executive director will have access to and collaborate with UNC System finance, human resources, and general counsel on an as-needed basis. To support the executive director, a partnership model with one or more qualified vendors should be adopted.

Adopting a partnership model that includes strategic consulting, analytics and comprehensive reporting across various areas such as claims, billing, cash flow, renewal projections and administrative support is highly advisable. This holistic approach significantly enhances the successful implementation and management of a self-funded SHIP program within the UNC System, ensuring the essential support for a thriving program.

The partnership model ensures the system can access the most up-to-date resources, expertise and support required to run the self-funded program efficiently. It's worth noting that many consortium programs operate under a partnership model as it minimizes the resources needed to run a self-funded program while maximizing efficiency. A prime example of a consortium effectively employing the partnership model for enhanced efficiency is the North Carolina Health Insurance Pool (NCHIP).

During the transition to self-funding, the Executive Director will oversee the process. Initially, each of the 16 universities within the UNC System will maintain its existing business model for managing the SHIP. This approach will be subject to further review after the initial implementation. In the self-funded model, SHIP rates will be developed in a manner similar to the fully insured rates currently offered by BCBSNC. These rates will encompass fixed and projected claims costs and will be accessible to both students and universities. Developing these rates will necessitate close collaboration between the UNC System and the actuary within the partnership model.

Additional Findings and Considerations:

I. Tiered (or Varied) Premium Structure

Currently, the UNC System maintains uniform SHIP rates for all 16 universities, regardless of their individual Medical Loss Ratios (MLRs), the percentage of premiums spent on claims costs. While this standardized approach of having the same premium rate for all UNC institutions is well-intentioned, it may inadvertently lead to adverse outcomes and unintended cross-subsidization between UNC institutions. This may merit reevaluation.

The MLR is a pivotal metric for evaluating the proportion of premium revenue collected by an insurance company allocated to medical claims and healthcare services. It quantifies the portion of policyholders' premiums that directly funds healthcare-related expenses. The MLR is typically calculated by dividing the total medical claims by the total premium. This metric plays a crucial role in evaluating the efficiency and value provided by health insurance plans. Its primary aim is to ensure that a significant share of premium funds is directed toward the health and well-being of policyholders.

GSH explored various alternative rating methodologies with the main objective of enhancing the allocation of expenses to students. The goal is to align these expenses with the average costs specific to each university, creating a fair and equitable system where students contribute to their SHIP coverage in a manner that accurately reflects their university's unique costs. This approach will support the establishment of a sustainable SHIP, where premiums for each university are directly linked to their utilization patterns. However, it is essential to emphasize that this proposal requires thorough consideration and review in collaboration with the UNC System. In particular, the UNC System may want to consider separate premium rates for undergraduate and graduate students first before moving to a tiered or varied rate structure for each university.

II. Review of the Current Waiver Process

Analyzing the enrollment history assumes great significance due to its direct impact on risk assessment. A comprehensive examination of the factors contributing to the decline in enrollment plays a pivotal role in maintaining a strong and stable risk pool. Effective management of the waiver process ensures that students only waive coverage when they possess valid insurance. It remains a critical tool in sustaining a healthy pool of insured individuals.

It's essential to recognize that overall enrollment in SHIP program has experienced fluctuations. The onset of the COVID-19 pandemic resulted in a noticeable drop in enrollment, followed by a subsequent steady increase.

The presence of a young demographic within the SHIP plan establishes a highly favorable risk pool. SHIP's enrollment experiences annual fluctuations, characterized by new students enrolling and others discontinuing their coverage upon graduation. On average, the age of the enrolled student population consistently falls between 18-30 years old. In contrast, the postdoctoral program encompasses participants with a somewhat older average age, typically between 31-44 years old.

III. Managing Rate Escalation Under a Self-Funded Plan

A more detailed examination of SHIP rate escalations since 2013 reveals a steady upward trajectory over the past 11 years. These increases have averaged 8%, effectively doubling the rates during this prolonged period. Therefore, it is wise to

investigate the relationship between these rate increments and the larger trends in claims utilization.

Rate increase from 2013 to 2024

Plan Year	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
Rate	\$1,347.24	\$1,573.68	\$1,697.76	\$2,192.76	\$2,510.76
2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
\$2,558.52	\$2,597.76	\$2,587.56	\$2,587.56	\$2,674.92	\$2,755.56

Notably, the average rate increase over the last five years has been around 2%. It's important to emphasize that this increase occurred alongside a reduction in benefits plan design, resulting in higher out-of-pocket expenses for students seeking medical care.

In certain scenarios, especially when dealing with a large student population enrolled in SHIP, insurance companies may employ underwriting methodologies that deviate from the average trend to sustain their business. On the other hand, self-funding offers a more consistent rating methodology, as the university takes on the risk, ensuring greater stability and control over the plan's pricing and financial performance.

Reviewing the MLR and claims utilization is crucial in effectively managing the SHIP program.

SHIP Medical Loss Ratio

Renewal	Claims	Premium	Loss Ratio
2018-2019	\$57,393,593	\$80,563,898	71.2%
2019-2020	\$56,961,704	\$79,090,732	72.0%
2020-2021	\$57,861,609	\$68,700,292	84.2%
2021-2022	\$61,251,853	\$69,442,976	88.2%
2022-2023 *	\$34,027,889	\$41,710,504	81.6%

Important Role of Student Health Centers

The Student Health Centers (SHCs), present across all 16 universities within the UNC System, play a pivotal role in delivering essential healthcare services to students. Their unwavering dedication to students' well-being is exemplified through many testimonials showcased in the full report. These centers provide cost-effective healthcare solutions to cater to the diverse needs of all students. This commitment allows students to focus on their education, knowing they have access to quality care that aligns with their unique requirements, thereby contributing to the promotion of health equity.

There is a unanimous commitment to maintaining the integrity of the current SHIP program and expanding coverage options to include dental care for students. This commitment underscores the institutions' dedication to enhancing the overall well-being of the student population while ensuring students continue to receive comprehensive health insurance coverage that meets their evolving needs.

Shared challenges were evident across the 16 universities within the UNC System, with common issues including concerns about being under resourced, the pressing need for additional financial support and staffing constraints. Furthermore, a noticeable trend was the increasing demand for mental health support among students, highlighting a widespread need for additional resources in this area.

Furthermore, it's worth noting that the 15 out of 16 SHCs across the System diligently pursue reimbursement from BCBSNC for claims incurred by students enrolled in the BCBSNC SHIP. However, it's important to clarify that not all student health centers use third-party billing for commercial plans. Among the 16 universities in the UNC System, 14 universities have traditionally adopted partial insurance recovery through a recognized process, credentialing with a limited number of commercial carriers. In contrast, only two universities have successfully implemented third-party billing recovery, invoicing the majority of the student population through their carriers.

In the past three years, the average reimbursement from BCBSNC for SHC services to SHIP-enrolled students has remained relatively stable, with minimal fluctuations. Given the shared challenges faced by the Student Health Centers and the potential for increased reimbursement from commercial carriers, there exists an opportunity to investigate the development of a streamlined turnkey solution for third-party billing capabilities. This solution can greatly benefit the Student

Health Centers across all 16 universities by improving their capacity to secure additional reimbursement for their services.

Benchmarking

Peer benchmarking with peer institutions has reaffirmed that the UNC System SHIP program provides sufficient coverage in terms of deductibles, coinsurance, copays and out-of-pocket expenses. Other peer institutions may provide lower deductibles and coinsurance. The current program is classified as a Gold-level plan in terms of actuarial value and aligns with ACA requirements. For more information, refer to the Benchmark section of the full report.

Conclusion

In conclusion, the UNC System, with an estimated 24,000 students enrolled in the Student Health Insurance Plan (SHIP), is characterized by a predominantly youthful demographic. This composition provides a robust risk-sharing mechanism, bolstering resilience against unfavorable outcomes.

The UNC System is favorably positioned to consider self-funding its student health insurance program. For smaller universities, insurance companies often target a medical loss ratio (MLR) range of 83%-85% for profitability. However, for universities with substantial student populations, such as the UNC System, insurance companies are more open to a higher MLR, potentially reaching 93% due to the estimated projected fully insured premium of \$72.4 million.

Moreover, over the past five years, the SHIP program has consistently maintained an impressive average MLR of 79%. This substantial margin provides the UNC System with an opportunity to leverage the benefits of self-funding.

Beyond the evident cost savings, self-funding offers intrinsic advantages, including enhanced plan flexibility, reduced taxes, transparency in claims data, customization options, the ability to forecast renewals, and the empowerment that comes with managing the SHIP program comprehensively. This newfound control allows for the freedom to better serve the students enrolled in the SHIP.

Implementing a self-funded health insurance plan with a strong focus on long-term sustainability necessitates effective plan management. This entails vigilantly

monitoring student demographics and usage patterns, considering factors like age, gender, geographic locations, and changes in medical requirements, all of which can influence the plan's design and cost structures.

Effective plan management also requires the regular review of utilization claims data to identify trends, outliers, and potential cost-saving opportunities. This data-driven approach informs decision-making and optimizes plan benefits.

Additionally, the plan's long-term success hinges on flexibility. It's vital to adapt the program in response to evolving student needs and healthcare regulations. Proactive adjustments allow the plan to stay cost-effective and relevant, ensuring it consistently aligns with the requirements of the UNC System and its students.

University of North Carolina System: Self-Funded Student Health Benefit Plan Feasibility Study

Prepared By:

Jean Russell, Vice President

Bob Jordan, Senior Healthcare Actuary

Jeff Montgomery, Senior Consulting Analyst, Gallagher Student Health & Special Risk

Agenda

- Recommendations
- Overview
- Key Findings
- Financial Analysis
 - Cash Flow Analysis
- Action Steps
- Q&A

Advantages of Implementing Self-Funding for SHIP

- Cost Containment (Student Blue Only):
 - Immediate savings of approximately \$885K to \$5.9M from projected fully insured cost for 2024-2025
 - Includes savings of \$1.5M by eliminating state health care fees and state premium taxes
 - Conservative five-year projected savings exceeding \$5.0M to \$30M
 - Additional savings of 10-12% in the pharmacy program compared to projected rates after increase in fully insured product in 2024-2025, representing around \$1.6M to \$2.0M
 - Implementing a vigilant procurement process is essential for enhancing overall savings.
 - Consider mandating international students to enroll in SHIP by modifying waiver criteria
 - GSH's actuarial experience shows that international students' healthcare claims are 20-40% lower than domestic students.
 - Establish an initial capitalization of at least \$16.7M
 - A year-end surplus of \$19.6M will be generated net of expenses
 - This represents \$13.9M in true surplus and \$5.7M in reserve to pay for claims incurred but not yet reported
 - Reevaluation of the \$20 administration fee added to SHIP rates

Recommendations

Advantages of Implementing Self-Funding for SHIP

- Empowerment Through Self-Funding:
 - Greater plan design flexibility
 - Transparency in claims data for improved decision-making
 - Tailoring customization to better meet student needs
 - Implement a governance and administration structure for improved management

Overview

- Gallagher Student Health and Special Risk (GSH) performed an actuarial analysis to explore whether self-funding could enhance student affordability by curbing future premium increases, expanding or maintaining care access for students, reducing administrative costs, and increasing administrative and coverage flexibility.
 - Conducted meetings with NCDOI, NCAIA, BCBSNC, UNC System General Counsel, outside counsel specializing in health insurance law, and system administrators. Interviewed representatives from 16 UNC System universities.
 - Crucial data was sourced from BCBSNC.
 - GSH also fostered collaboration across various teams of experts within Gallagher.
 - Multiple vendors were vetted to obtain pricing. The cost savings estimates will vary depending on vendor selection.
 - GSH chose to utilize a conservative cost estimate when presenting potential cost savings for the transition to self-funding. This approach not only enhances safety and security but also ensures a comprehensive and methodical analysis of the situation.
 - Engaging in a competitive procurement process holds significant potential for achieving substantial cost savings.

Key Findings

- **The UNC System Practices a Hard Waiver For Student Health Insurance**
 - Domestic students have the option to waive SHIP enrollment with evidence of creditable coverage.
 - International students have the flexibility to opt for off-shore international plans or choose SHIP.
 - Dependents are not eligible for enrollment.
- **SHIP Enrollment History**
 - While overall enrollment numbers at the UNC System have been steadily increasing, there has been a declining trend in SHIP enrollment.

Fall 2013	Spring 2014	Fall 2014	Spring 2015	Fall 2015	Spring 2016	Fall 2016	Spring 2017	Fall 2017	Spring 2018	Fall 2018
48,290	40,450	40,321	35,895	37,851	33,560	34,050	30,437	32,743	29,458	33,693
Spring / Summer 2019		Fall 2019	Spring 2020	Fall 2020	Spring 2021	Fall 2021	Spring 2022	Fall 2022	Spring 2023	
29,604		32,851	28,617	28,881	24,735	28,991	25,031	27,816	23,657	

- **Demographics of Enrolled Student Population**
 - 87.6% of students are in the age range of 18-30 years.
 - 0.1% of the students are adult learners in the age range of 65-74 years.

Key Findings

2022- 23 Waivers

- Approximately 12% of the student population enrolled in the SHIP.
- Approximately 213,000 students waived SHIP coverage.
- Among these, 2,300 international students waived SHIP coverage in favor of enrolling in ISS plans.

SHIP Rate History

Plan Year	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
Rate	\$1,347.24	\$1,573.68	\$1,697.76	\$2,192.76	\$2,510.76
2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
\$2,558.52	\$2,597.76	\$2,587.56	\$2,587.56	\$2,674.92	\$2,755.56

**\$20 Administrative fee is not included in the above rates*

Key Findings

Medical Claims Trend

- The claims trend utilized by BCBSNC for renewal calculations within the UNC System exhibits inconsistencies within SHIP.
 - The average claims trend over the past five years have been 6.9%.
 - The actual claim trend and the claim trend applied by BCBSNC in the rate projections have consistently fallen within 7% - 8%.
 - The average rate increase in recent years have remained modest, typically ranging between 1% - 2%, indicating that the earlier rates were significantly in excess of what was required to pay claims.

Renewal	Claim Trend	Preliminary Rate Proposal	Final Rate
2019-2020	10.0%	2.2%	1.5%
2020-2021	5.2%	-0.4%	-0.4%
2021-2022	7.0%	2.0%	0.0%
2022-2023	5.6%	7.0%	3.4%
2023-2024	7.0%	6.3%	3.0%
Five-Year Average	6.9%	3.4%	1.5%

Figure F1

Key Findings

SHIP Medical Loss Ratio

- The loss ratio has been increasing dramatically over past few years.

Renewal	Claims	Premium	Loss Ratio
2018-2019	\$57,393,593	\$80,563,898	71.2%
2019-2020	\$56,961,704	\$79,090,732	72.0%
2020-2021	\$57,861,609	\$68,700,292	84.2%
2021-2022	\$61,251,853	\$69,442,976	88.2%
2022-2023 *	\$34,027,889	\$41,710,504	81.6%

*Partial year: August 2022 to February 2023

Total Paid Claims Break Out for Past Three Years

- Approximately 61% of enrolled students in SHIP had claims totaling under \$500 over the last three years.
- Only 0.4% of the enrolled students in SHIP had claims exceeding \$50,000.

Key Findings

Student Health Center Claims

- 15 universities seek reimbursement from BCBSNC for claims made by SHIP-enrolled students.
- Reimbursements go toward supporting student health centers for all students.

Plans	8/1/20-7/31/2021	8/1/21-7/31/2022	8/1/22-7/31/2023	Average
SHIP	\$3,477,086.85	\$3,807,028.94	\$3,876,499.72	\$3,720,205.17

2023-2024 BCBSNC Fully Insured Renewal Rate

- In the fully insured rate for 2023-2024, BCBSNC applied an “Account Specific Risk Adjustment” of (\$6.7M). This reduced the required increase from 15.3% to 6.3%. Gallagher has not received any data to support this adjustment.

Administrative Expenses

- Gallagher’s fully insured projection reflects the BCBSNC rate renewal projection as well as known expenses not included in the BCBSNC rates.
- The self funded projections include Gallagher’s best estimate of all fees required to run a self-insured plan.

Stop Loss

- Establishing Stop Loss at \$1,000,000 is the recommended conservative starting point, subject to ongoing review as the program progresses.

Cost Savings

- The removal of the State healthcare fee results in a savings of approximately \$1.5M.
- Moving stop loss coverage to a separate contract is expected to save approximately \$0.2M.
- Some vendors have proposed medical claims discounts exceeding what is currently achieved by 5% to 7%. No savings for medical discounts has been assumed in the projections.

Financial Analysis-SHIP

- Based on the data provided by BCBSNC, Gallagher's actuary forecasts an 11.5% renewal rate increase for the upcoming 2024-2025 plan year. (Note: BCBSNC has not submitted a rate proposal for 2024-2025 yet)
- When BCBSNC performs their renewal calculations, they will utilize the most recent claims data. Additionally, various factors will impact the renewal rates:
 - Renewal rates may fluctuate depending on the current claims utilization.
 - BCBSNC has the flexibility to apply discretionary business factors that can either increase or decrease the renewal rates.
- Self-funding presents the opportunity to achieve greater savings through a competitive procurement process, a key advantage of self-funding for increasing cost efficiencies.

- **Scenario A- Baseline Cost Approach:** Reflects savings associated with implementing self-funding and elimination of the State Healthcare Fee with minimal other changes.
- **Scenario B- Mid-Case Cost Approach:** Reflects additional savings associated with achieving higher pharmacy rebates and administrative cost savings anticipated to be available through a competitive bidding process.
 - GSH conducted a comprehensive market analysis to assess potential carriers offering self-funding services.
 - Approach encompassed various carriers, ranging from Third-Party Administrators (TPAs) to Stop Loss providers, ensuring a well-rounded assessment of potential avenues for self-funding.
 - Gallagher's National Pharmacy Practice reviewed the SHIP claims and compared to similar groups has predicted a conservative pharmacy discount of 10%.

Financial Analysis-SHIP

	Fully Insured BCBSNC 8/1/24-7/31/25	Self-Funded Scenario A-Baseline Cost 8/1/24-7/31/25	Self-Funded Scenario B Mid-Case Cost 8/1/24-7/31/25
PMPM			
Claims	\$219.41	\$219.41	\$213.27
Administration Fee	\$28.84	\$29.00	\$18.45
Pooling Charge/Stop Loss Fee	\$2.33	\$2.65	\$1.91
Agent Fee/Consultant Fee	\$0.79	\$2.50	\$2.50
Legal, Accounting, Audit	\$0.00	\$2.00	\$2.00
Actuarial Fee	\$0.47	\$0.00	\$0.00
Student Fee	\$1.67	\$0.00	\$0.00
PCORI	\$0.28	\$0.28	\$0.28
State Healthcare Fee	\$5.16	\$0.00	\$0.00
Subtotal Retention and Fees	\$39.54	\$36.43	\$25.13
Total Expense	\$258.95	\$255.84	\$238.40

PMPM = per member per month

Financial Analysis-SHIP

	Fully Insured BCBSNC 8/1/24-7/31/25	Self-Funded Scenario A-Baseline Cost 8/1/24-7/31/25	Self-Funded Scenario B-Mid-Case Cost 8/1/24-7/31/25
Annual Expense			
Claims	\$62,397,058	\$62,397,058	\$60,650,202
Administration Fee	\$8,201,750	\$8,247,252	\$5,245,537
Pooling Charge/Stop Loss Fee	\$663,406	\$753,628	\$541,759
Agent Fee/Consultant Fee	\$225,548	\$710,970	\$710,970
Legal, Accounting, Audit	\$0	\$568,776	\$568,776
Actuarial Fee	\$133,299	\$0	\$0
Student Fee	\$473,980	\$0	\$0
PCORI	\$79,629	\$79,629	\$79,629
State Healthcare Fee	\$1,467,132	\$0	\$0
Subtotal Retention and Fees	\$11,244,743	\$10,360,255	\$7,146,670
Total Expense	\$73,641,801	\$72,757,313	\$67,796,872
Self-Funded Savings		\$884,488	\$5,844,929

**Savings are subject to claims volatility and assumed fees and are not guaranteed.*

Cash Flow Analysis – Scenario B – Mid-Case Cost



Insurance | Risk Management | Consulting

Initial Capitalization/Year End Reserve

- No premium is assumed to be collected before November.
- The initial capitalization would be \$16.75M.
- At the end of the year, the surplus generated would be \$19.6M.
- The year end surplus is allocated as \$13.9M in true surplus and \$5.7M in reserve to pay for claims incurred but not yet reported.

Five Year Savings Projection

- The savings over five years, assuming there are minimal participation changes from FY'25, are projected to be \$30M.
- Self-funded consortiums have the potential to achieve increasing savings over time due to the immediate and full realization of program savings. We anticipate that the five-year savings could potentially reach as high as \$35M, reflecting a conservative estimate of a 0.5% to 1.0% reduction in claims trend. It's worth noting that this savings estimate is on the conservative side, considering your existing consortium status. Transitioning to a self-funded model will further enhance your capacity to realize long-term claims reductions.

Action Steps to Implement Recommendations

- Institute a governance and administrative framework.
- Create comprehensive plan documents.
- Streamline invoicing and payment procedures for SHIP across the 16 universities and the System.
- Synchronize waiver deadlines with student billing statements.
- Formulate one or more advisory committees and engage with all 16 universities
- Engage an external strategic partner consultant specializing in SHIP

Questions