NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE ACTUARIAL NOTE

BILL NUMBER: Senate Bill 1551, Sections 8, 9, & 11

SHORT TITLE: Charter Schools

SPONSOR(S): Senator Wib Gulley

SYSTEM OR PROGRAM AFFECTED: Teachers' and State Employees' Comprehensive Major Medical Plan.

FUNDS AFFECTED: State General Fund, State Highway Fund, Other State Employer Receipts, Premium Payments for Dependents by Active and Retired Teachers and State Employees, and Premium Payments for Coverages Selected by Eligible Former Teachers and State Employees.

BILL SUMMARY: The bill gives charter schools the opportunity to make an irrevocable election to either participate in the Teachers' and State Employees' Comprehensive Major Medical Plan or not to participate in the Plan. Participation in a State Retirement Systems program would no longer be required for charter schools to participate in the Plan. Schools approved by the State Board of Education for operation in 1997 or 1998 must make the election prior to September 1, 1998. Schools approved for operation after 1998 must make the election within 30 days after a charter is signed. A school's election to participate in the Plan requires that all of the school's employees participate in the Plan if they want employer-sponsored health benefits. A school's election not to participate in the Plan will prevent any of the school's employees and their eligible dependents from being eligible for the Plan's benefits.

EFFECTIVE DATE: July 1, 1998.

ESTIMATED IMPACT ON STATE: Based upon data provided by the N. C. Department of Public Instruction on the number of employees of charter schools and their spouses and dependent children that are provided employer-sponsored health benefits, the Teachers' and State Employees' Comprehensive Major Medical Plan has suffered from adverse selection against the Plan by the charter school employee population. Of a total population of 1,443 employees and dependents in charter school sponsored health benefit programs, only 77 maintained coverage under the Plan, including its health maintenance organization (HMO) options. The remaining population of 1,366 enrollees fall in the following age bands: 49% under age 30; 59% under age 35; and 71% under age 40. By comparison, the indemnity program of the Plan has only 35% of its population under age 30; 42% under age 35; and 50% under age 40 in its active employee group. Conversely, the Plan's indemnity program for the active employee group has 49% of its population between the ages of 40 and 64 whereas the charter school population has only 28% of its total membership in the same age band. Furthermore, the charter school population that maintained coverage in the Plan reflected an age distribution closer to that of the indemnity program: 44% under age 30; 55% under age 35; 57% under age 40; and 42% between the ages of 40 and 64. As an indication that older age populations cost more to insure for health coverage, for the year ended December 31, 1997, the Plan's indemnity program had a per capita claim cost of $722 for those under age 30; $1,355 for those age 30-44; $1,975 for those age 45-54; and $3,196 for those age 55-64. For those under age 65, the indemnity program's average annual per capita claim cost was $1,616, which is the claim cost basis upon which a single community rated premium of $1,735 is set for those under age 65 in the program. Adverse or anti-selection occurs whenever the indemnity program loses $1,735 annually per person in premium receipts but loses only $722 in per capita annual claim costs for those persons under age 30 and only $1,355 for those between the ages of 30 and 44. Both the Plan's consulting actuary, Aon Consulting, and the consulting actuary of the General Assembly's Fiscal Research Division, Hartman & Associates, confirm that anti-selection has already occurred in the Plan from charter school employees and their dependents opting out of the Plan. As the number of charter schools increases, this trend is also expected to increase resulting in more costs to the Plan as charter schools are given more opportunities to opt out of the Plan. An additional cost impact on the State apart from anti-selection against the Major Medical Plan comes from removing the requirement that participation in the Plan is contingent upon participation in a State Retirement Systems program. Currently, each employer's contribution rate as a percentage of payroll to the State Retirement Systems includes a 2% surcharge used by the Retirement Systems to pay premiums to the Major Medical Plan on behalf of retired teachers and state employees. Under the bill, a charter school could elect not to participate in a program offered by the State Retirement Systems but elect to participate in the Major Medical Plan. Participation in the Plan would allow those charter school employees with previously earned vested retirement benefits to receive those benefits as well as non-contributory retiree health benefits. In such a situation, the State Retirement Systems would not be receiving the 2% surcharge from charter school retirement contributions in order to pay for the health benefit premiums of employees retired from charter schools. At some future date, the 2% surcharge on employer contributions to the State Retirement Systems might have to be increased to those employers participating in the Systems' programs to pay for the health benefit premium costs of retired employees of charter schools that don't participate in the Retirement System. Of course, the incidence of these situations would become lower with charter schools' hiring of younger employees.

ASSUMPTIONS AND METHODOLOGY: The Comprehensive Major Medical Plan for Teachers and State Employees is divided into two programs. From October, 1982, through June, 1986, the Plan had only a self-funded indemnity type of program which covered all employees, retired employees, eligible dependents of employees and retired employees, and eligible former employees and their eligible dependents authorized to continue coverage past a termination of employment other than for retirement or disability purposes. A prepaid program of coverage by health maintenance organizations (HMOs) was offered in July, 1986, as an alternative to the Plan’s self-insured indemnity program. The benefits of the self-insured indemnity type of program are spelled out in Part 3 of Article 3 of Chapter 135 of the North Carolina General Statutes (i.e., $250 annual deductible, 20% coinsurance up to $1,000 annually, etc. paid by the program’s members). HMOs are required to offer benefits that are comparable to those provided by the self-insured indemnity program. Employer-paid non-contributory premiums are only authorized for the indemnity program’s coverage for employees and retired employees. Whenever employees and office holders first employed or taking office on and after October 1, 1995 become eligible for health benefits as retired employees, the amount of premium paid by the State for individual coverage will be based upon the retiree's amount of retirement service credit at the time of retirement. Only retired employees with 20 or more years of service credit at retirement will be eligible for non-contributory health benefit premiums. Retirees with 10 or more years of service credit at retirement will be eligible for 50% partially contributory health benefit premiums. Retired employees with 5 or more year of service credit at retirement will be eligible to continue their health benefits on a fully contributory basis. All other types of premium in the indemnity program are fully contributory. Premiums paid by employers to HMOs are limited to like amounts paid to the indemnity program with employees and retired employees paying any HMO amounts above the indemnity program's non-contributory rates. Both types of coverage continue to be available in the Plan with twelve HMOs currently covering about 27% of the Plan's total population in about 88 of the State's 100 counties. The Plan's employees and retired employees select the type of program that they wish for themselves and their dependents during the months of August and September of each year for coverage beginning in October. The demographics of the Plan as of December 31, 1997, include:

	Self-Insured Indemnity Program	Alternative HMOs	Plan Total
Number of Participants			
Active Employees	183,500	78,500	262,000
Active Employee Dependents	102,000	56,400	158,400
Retired Employees	87,100	6,400	93,500
Retired Employee Dependents	14,600	1,300	15,900
Former Employees & Dependents with Continued Coverage	2,700	900	3,600
Total Enrollments	389,900	143,500	533,400
Number of Contracts			
Employee Only	207,000	57,500	264,500
Employee & Child(ren)	29,000	17,200	46,200
Employee & Family	36,500	10,800	47,300
Total Contracts	272,500	85,500	358,000
Percentage of Enrollment by Age			
29 & Under	26.8%	44.5%	31.5%
30-44	20.6	27.2	22.4
45-54	20.5	18.2	19.9
55-64	14.3	7.6	12.5
65 & Over	17.8	2.5	13.7
Percentage of Enrollment by Sex			
Male	39.6%	39.7%	39.6%
Female	60.4	60.3	60.4

Assumptions for the Self-Insured Indemnity Program: For the fiscal year beginning July 1, 1997, the self-insured program started its operations with a beginning cash balance of $384.9 million. Receipts for the year are estimated to be $580 million from premium collections, $25 million from investment earnings, and $15 million in risk adjustment and administrative fees from HMOs, for a total of $620 million in receipts for the year. Disbursements from the self-insured program are expected to be $640 million in claim payments and $18 million in administration and claims processing expenses for a total of $658 million for the year beginning July 1, 1997.

For the fiscal year beginning July 1, 1998, the self-insured indemnity program is expected to have an operating cash balance of over $346 million with a net operating loss of $98 million for the 1998-99 fiscal year. For the fiscal year beginning July 1, 1999, the self-insured indemnity program is expected to have an operating cash balance of $248 million with a net operating loss of $170 million for the 1999-2000 fiscal year. The estimated cash balance for the self-insured indemnity program is expected to be $78 million at the end of the 1999-2000 fiscal year. The self-insured indemnity program is consequently assumed to be able to carry out its operations without any increases in its current premium rates or a reduction in existing benefits until the 1999-2000 fiscal year. This assumption is predicated upon the fact that the program's cost containment strategies (hospital DRG reimbursements, pre-admission hospital testing, pre-admission hospital inpatient certification with length-of-stay approval, hospital bill audits, required second surgical opinions, mental health case management, coordination of benefits with other payers, Medicare benefit "carve-outs", cost reduction contracts with participating physicians and other providers, prescription drug manufacturer rebates from voluntary formularies, and fraud detection) are maintained and improved where possible. Current non-contributory premium rates are $110.08 monthly for employees whose primary payer of health benefits is Medicare and $144.60 per month for employees whose primary payer of health benefits is not Medicare. Fully contributory premium amounts for employee and child(ren) contracts are $68.50 monthly for children whose primary payer of health benefits is Medicare and $90.12 monthly for other covered children, and $164.30 per month for family contracts whose dependents have Medicare as the primary payer of health benefits and $216.18 per month for other family contract dependents. Claim cost trends are expected to increase 8-10% annually. Total enrollment in the program is expected to decrease about one percent (1.0%) annually due to competition from alternative HMOs. The number of enrolled active employees is expected to show a 1-2% loss annually, whereas the growth in the number of retired employees is assumed to be 4% per year. The program is expected to lose about 3-4% of its number of active employee dependents each year, whereas the number of enrolled retiree dependents is assumed to show no appreciable change from year to year. Investment earnings are based upon a 5% monthly return on available cash balances. The self-insured indemnity program maintains a claim stabilization reserve for claim cost fluctuations equal to 7.5% of annual claim payments without reserving additional funds for incurred but unreported claims.

<u>Assumptions for Charter Schools' Participation in the Plan:</u> Some 623 employees are employed in the 33 charter schools currently in operation in the State. Thirty-two of the schools sponsor a form of health benefits for their employees. One school's employees declined health benefit coverage. Of the 32 schools that sponsor a form of health benefits, only 2 have elected to participate in the Teachers' and State Employees' Comprehensive Major Medical Plan. The following ages apply to the employees and their dependents participating in some form of employer-sponsored health benefits in the 32 schools:

	Charter School Group in Plan						Charter School Group out of Plan					
Ages	Employ.	%	Depend.	%	Total	%	Employ.	%	Depend.	%	Total	%
0-4	0	0	7	15	7	9	0	0	89	11	89	6
5-9	0	0	7	15	7	9	0	0	141	18	141	10
10-14	0	0	7	15	7	9	0	0	116	15	116	8
14-19	0	0	9	19	9	12	0	0	91	12	91	7
20-24	1	3	1	2	2	3	51	9	39	5	90	7

25-29	2	7	0	0	2	3	109	18	39	5	148	11
30-34	5	18	3	6	8	10	90	15	44	6	134	10
35-39	1	3	1	2	2	3	107	18	54	7	161	12
40-44	6	20	4	9	10	13	72	12	52	7	124	9
45-49	9	30	3	6	12	15	69	12	43	6	112	8
50-54	3	10	3	6	6	8	54	9	35	4	89	6
55-59	1	3	2	5	3	4	23	4	17	2	40	3
60-64	1	3	0	0	1	1	13	2	8	1	21	2
65+	1	3	0	0	1	1	5	1	5	1	10	1
Total	30	100	47	100	77	100	593	100	773	100	1,366	100

Comparison of the total charter school population with that of the active group of the indemnity program of the Teachers' and State Employees' Comprehensive Major Medical Plan reveals the following:

	Total Charter School Group						State Employee Indemnity Group					
Ages	Employ.	%	Depend.	%	Total	%	Employ.	%	Depend.	%	Total	%
0-4	0	0	96	11	96	7	0	0	10,213	10	10,213	4
5-9	0	0	148	18	148	10	0	0	14,740	14	14,740	5
10-14	0	0	123	15	123	9	0	0	19,338	19	19,338	7
15-19	0	0	100	12	100	7	85	0	21,352	21	21,437	7
20-24	52	8	40	5	92	6	5,509	3	10,818	11	16,327	6
25-29	111	18	39	5	150	10	16,385	9	1,752	2	18,137	6
30-34	95	15	47	6	142	10	17,274	9	1,623	2	18,897	7
35-39	108	17	55	7	163	11	22,516	12	2,624	2	25,140	9
40-44	78	13	56	7	134	9	30,512	17	3,960	4	34,472	12
45-49	78	13	46	6	124	9	35,230	19	5,208	5	40,438	14
50-54	57	9	38	4	95	7	29,043	16	4,736	5	33,779	12
55-59	24	4	19	2	43	3	17,739	10	3,241	3	20,980	7
60-64	14	2	8	1	22	1	7,798	4	1,836	2	9,634	3
65+	6	1	5	1	11	1	2,000	1	484	0	2,484	1
Total	623	100	820	100	1,443	100	184,091	100	101,925	100	286,016	100

SOURCES OF DATA:

-Actuarial Note, Hartman & Associates, Senate Bill 1551, Sections 8, 9, & 11, June 18, 1998, original of which is on file in the General Assembly's Fiscal Research Division.

-Actuarial Note, Aon Consulting, Senate Bill 1551, Sections 8, 9, & 11, June 18, 1998, original of which is on file with the Comprehensive Major Medical Plan for Teachers and State Employees and the General Assembly's Fiscal Research Division.

TECHNICAL CONSIDERATIONS: None.

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