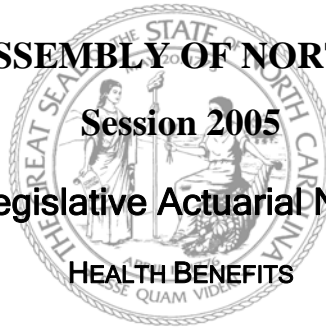


# GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2005

## Legislative Actuarial Note



**BILL NUMBER:** Senate Bill 1208 (First Edition)

**SHORT TITLE:** Repeal Sunset/State Health Plan Local Option.

**SPONSOR(S):** Senator Dalton

**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, premium payments for coverages selected by eligible former teachers and State employees, premium payments for coverages selected by firefighters, rescue squad workers, members of the National Guard, certain County local governments, and the North Carolina Symphony Society, Inc.

**BILL SUMMARY:** Bill removes the June 30, 2006 sunset authorizing the counties of Bladen, Cherokee, Rutherford, Washington, and Wilkes counties, and the Town of Forest City, to voluntarily participate as an employing unit under the Plan for the purposes of offering health benefit coverage to their eligible employees and their dependents and eligible retired employees and their dependents.

**EFFECTIVE DATE:** When it becomes law.

**ESTIMATED IMPACT ON STATE:** Based upon information provided by the Plan, the consulting actuary for the Plan, Aon Consulting, and the consulting actuary for the General Assembly's Fiscal Research Division, Hartman and Associates, both estimate that removing the sunset will not have a significant financial impact on the Plan.

**ASSUMPTIONS AND METHODOLOGY:** The Comprehensive Major Medical Plan for Teachers and State Employees currently operates a self-insured indemnity type health benefit program serving covered 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. 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., \$350 annual deductible, 20% coinsurance up to \$2,000 annually, etc. paid by the program's members).

The Plan also has statutory authorization under G.S. 135-39.5B(a) to operate optional prepaid programs of health benefit coverage. A prepaid program of coverage by health maintenance organizations (HMOs) was offered in July 1986 under this authority, as an alternative to the Plan's

self-insured indemnity program, where HMOs were required to offer benefits that were comparable to those provided by the self-insured indemnity program at that time. Coverage under prepaid HMO plan alternatives ceased being offered after September 30, 2001 due to the lack of HMOs with certificates of authority to transact business in the state responding to solicitations by the Plan to offer them as alternatives.

The 2005 Session of the General Assembly modified the Plan's statutes by adding G.S. 135-39.5(b) to allow the Plan to adopt an arrangement for optional hospital and medical benefits programs other than an option prepaid program on a purchased or underwritten basis including a preferred provider option (PPO) or other type optional program. After consultation with the Committee on Employee Hospital and Medical benefits in early 2006, the Plan has elected to offer benefit alternatives under a PPO option beginning October 1, 2006.

Beginning in July 2000, firefighters, rescue squad workers, and members of the National Guard and their eligible dependents were allowed to voluntarily participate in the Plan on a fully contributory basis, provided they were ineligible for any other type of group health benefits and had been without such benefits for at least six months.

In July 2004, the North Carolina Symphony Society, Inc., a non-profit corporation, was included as an employing unit under the Plan for the purpose of providing health benefits to the Symphony Society's employees and employees' families. The Symphony Society provides health benefits for its employees and employee family members through a labor contract with the Professional Musicians Association, a local of the American Federation of Musicians. Coverage under the Plan will be on a partially contributory basis for Symphony Society employees and enrolled spouses and dependent children. The amount of contributions provided by the Symphony Society and by their employees is determined periodically in accordance with the labor contract. The Plan's Executive Administrator and Board of Trustees are required to set premium rates for Symphony society employees and their families separate from those charged to active and retired teachers and state employees and their dependents enrolled in the Plan. Retired employees of the Symphony Society are not eligible for health benefits under the Plan since they are not members of the State Retirement Systems. The authorization for the North Carolina Symphony, Inc. to be deemed an employing unit expires June 30, 2006.

Also beginning in July 2004, the North Carolina county local governments of Bladen, Cherokee, Rutherford, and Washington counties, and beginning in July 2005 the local government municipality of the Town of Forest City, were authorized to become employing units under the Plan for the purpose of providing health benefits to their respective employees, retired employees, and their employee's eligible spouses and dependent children. If a local government elects to participate in the Plan, they must by legal resolution approved by the Plan elect such participation and agree to make any contributions required by the Plan. A local government must allow all of its eligible employees and their eligible spouses and dependent children to enroll in the Plan on a non-contributory, partially contributory, or fully contributory basis. All enrolled employees, retired employees, and their family members will be required to participate in disease management, case management, and all other cost containment measures implemented by the Plan. If a local government elects to enroll its retired employees, and their eligible spouses and dependent children, the election is irrevocable. Local government employers making this election to cover retired

employees are also required to make additional contributions to the Local Governmental Employees' Retirement System for this purpose as do all other employers participating in the Plan that cover its retired employees. If a local government does not participate in the Local Governmental Employees' Retirement System, but has another formally established retirement plan, and elects to cover its retired employees, it is required to make premium contributions to the Plan as it may require. Local governments and their employees and retired employees will pay the same premium rates as those charged by the Plan for active and retired teachers and state employees and their dependents enrolled in the Plan. County local governments authorized to participate in the Plan may do so through June 30, 2006. Of the county local governments authorized to participate in the Plan, only the counties of Bladen, Rutherford, and Washington have chosen to do so as of December 31, 2005.

Employer-paid non-contributory premiums are only authorized for the self-insured indemnity program and the three choices to be offered under the optional preferred provider option program's coverage for teachers, state employees and retired employees. All other types of premium contributions in the indemnity program and the preferred provider option program are fully contributory, except for job-sharing public school teachers who are authorized to pay partially contributory premiums at 50% of non-contributory rates. The Plan's Executive Administrator has set the premium rates for firefighters, rescue squad workers, and members of the National Guard and their families at 20% more than the comparable rates charged for teachers, state employees, retired employees, and their families. Similarly the Plan's Executive Administrator has set premium rates for members of the North Carolina Symphony Society, Inc. and their families at 51% more than the comparable rates charged for teachers, state employees, retired employees, and their families. Premiums paid by employers to optional programs are limited to like amounts paid to the indemnity program with employees and retired employees paying any optional program premium amounts above the indemnity program's non-contributory rates.

The demographics of the Plan as of December 31, 2005, include:

	<b><u>Self-Insured Indemnity Program</u></b>	<b><u>Optional Programs</u></b>	<b><u>Plan Total</u></b>
<b><u>Number of Participants</u></b>			
Active Employees	300,899	-0-	300,899
Active Employee Dependents	132,737	-0-	132,737
Retired Employees	133,486	-0-	133,486
Retired Employee Dependents	19,676	-0-	19,676
Former Employees & Dependents with Continued Coverage	2,482	-0-	2,482
Firefighters, Rescue Squad Workers, National Guard Symphony Members & Dependents	176	-0-	176
Local Government Members & Dependents	1,308	-0-	
Total Enrollments	590,764	-0-	590,764

	<b><u>Self-Insured Indemnity Program</u></b>	<b><u>Optional Programs</u></b>	<b><u>Plan Total</u></b>
<b><u>Number of Contracts</u></b>			
Employee Only	354,033	-0-	354,033
Employee & Child(ren)	41,686	-0-	41,686
Employee & Family	42,632	-0-	42,632
Total Contracts	438,351	-0-	438,351

**Percentage of  
Enrollment by Age**

29 & Under	25.8%	-0-%	25.8%
30-44	20.4	-0-	20.4
45-54	19.7	-0-	19.7
55-64	18.6	-0-	18.6
65 & Over	15.6	-0-	15.6

**Percentage of  
Enrollment by Sex**

Male	37.5%	-0-%	37.9%
Female	62.5	-0-	62.1

**Assumptions for the Self-Insured Indemnity Program:** For the fiscal year beginning July 1, 2005, the self-insured program started its operations with a beginning cash balance of \$188.1 million. Receipts for the year are estimated to be \$1.879 billion from premium collections and \$9.6 million from investment earnings for a total of \$1.888 billion in receipts for the year. Disbursements from the self-insured program are expected to be \$1.740 billion in claim payments and \$77.7 million in administration and claims processing expenses for a total of \$1.817 billion for the year beginning July 1, 2005. For the fiscal year beginning July 1, 2005, the self-insured indemnity program is expected to have a net operating gain of approximately \$70.9 million for the year. The Plan's self-insured indemnity program is expected to have an available beginning cash balance of \$259 million for the fiscal year beginning July 1, 2006. The self-insured indemnity program is assumed to be able to carry out its operations for the 2005-2007 biennium without increases in its current premium rates or a reduction in existing benefits or payments to health care providers or both.

This assumption is further predicated upon the fact that the program's cost containment strategies (hospital DRG reimbursements, discounts on hospital outpatient services, pre-admission hospital testing, pre-admission hospital inpatient certification with length-of-stay approval, hospital bill audits, case and disease management for selected medical conditions, mental health case management, coordination of benefits with other payers, Medicare benefit "carve-outs", cost reduction contracts with participating physicians and other providers, a prescription drug benefit manager with manufacturer rebates from formularies, and fraud detection) are maintained and improved where possible.

Current non-contributory premium rates are \$244.48 monthly for employees whose primary payer of health benefits is Medicare and \$321.14 per month for employees whose primary payer of health benefits is not Medicare. Fully contributory premium amounts for employee and child(ren) contracts are \$152.16 monthly for children whose primary payer of health benefits is Medicare, \$200.18 monthly for other covered children, \$364.92 month for family contracts whose dependents have Medicare as the primary payer of health benefits and \$480.14 per month for other family contract dependents.

Claim cost trends are expected to increase at a rate of 11% annually. Total enrollment in the program is expected to increase less than 2% annually over the next few years. The number of enrolled active employees is expected to increase about 2.5% annually over the next few years, whereas the growth in the number of retired employees is assumed to be 5% per year. The program is expected to have a 1% decrease in the number of active employee dependents per year whereas the number of retiree dependents is expected to increase 1% per year. Investment earnings are based upon a 4.5% 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.

Assumptions for SB 1208: Only three local governments have elected to participate under the Plan to date: Bladen County, Rutherford County, and Washington County. Plan data reflects claims total claims of \$2.6 million through the third quarter of the FY 2005-2006 fiscal year not including additional incurred but not reported claims. Collected premiums for the same period total approximately \$3.5 million. As of March 31, 2006, enrollments total 1,313 local government plan members.

**SOURCES OF DATA:**

- Actuarial Note, Hartman & Associates, Senate Bill 1208, May 12, 2006, original of which is on file in the General Assembly's Fiscal Research Division.
- Actuarial Note, Aon Consulting, Senate Bill 1208, May 15, 2006, 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

**FISCAL RESEARCH DIVISION:** (919) 733-4910

**PREPARED BY:** Mark Trogon

**APPROVED BY:** Lynn Muchmore

**DATE:** May 17, 2006



**Signed Copy Located in the NCGA Principal Clerk's Offices**