GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2005

Legislative Actuarial Note

HEALTH BENEFITS

BILL NUMBER: Senate Bill 622 (Sixth Edition)

SHORT TITLE: 2005 Appropriations Act.

SPONSOR(S): Representatives Crawford, Clary, Earle, Nye, Owens, Sherrill

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: According to available information submitted by the Executive Administrator of the Teachers' and State Employees' Comprehensive Major Medical Plan on June 3, 2005, the Plan's self-insured indemnity program needs over $484 million in additional financial support to remain solvent and maintain minimum claim stabilization reserves for the 2005-2007 biennium. This amount of additional financial support is a net requirement for the biennium after realizing a projected $79 million in reduced outpatient prescription drug claim costs for paid claims under the program's new pharmacy benefit manager contract implemented beginning April 1, 2005 according to the Plan ($43.6 million in 2005-2006 and $35.4 million in 2006-2007). The Plan's Executive Administrator also reports that he can increase receipts to the Plan through the 28% subsidy offered to employers who maintain an actuarially equivalent outpatient drug benefit to Medicare eligible plan members who do not enroll in Medicare's new Part D outpatient drug benefit beginning in January 2006. The estimated receipts to be received by the Plan under this subsidy for the 2005-2007 biennium are estimated to be $64.5 million ($8.7 million in 2005-2006 and $55.8 million in 2006-2007). The Executive Administrator's estimate assumes that implementation of a case management program at a cost of $30 million for the biennium will return gross claims savings on a one-to-one basis for each administrative dollar expended and that $6.7 million in increased administrative expenses for utilization of other medical management programs will return $12.2 million in gross claims saving over the biennium.

	2005-2006	2006-2007	Biennium
Additional Financial Support Required ($Million)	$209.239	$275.733	$484.972

From these requirements can be deducted the additional funding provided by this Act in the way of premiums paid on behalf of teachers, state employees, and retired employees by employing agencies and the State Retirement Systems:

Employer Financing ($Million)	2005-2006	2006-2007	Biennium
General Fund	$137.400	$183.200	$320.600
Highway Fund	6.400	8.500	14.900
Other Employer Funds	28.344	37.352	65.696
Total	**$172.144**	**$229.052**	**$401.196**

This additional premium financing is equivalent to a 15.8% across-the-board premium rate increase effective October 1, 2005. The Plan's Executive Administrator has the statutory authority to set the premium rates for the spouses and dependent children of teachers, state employees, and retired employees who elect to pay for parent and child and family coverage. If the Executive Administrator were to increase the premium amounts paid by employees and retired employees for their family members by 15.8% across-the-board effective October 1, 2005, he says that the additional premium income to the program will be:

	2005-2006	2006-2007	Biennium
Employee Financing ($Million)	$37.092	$48.879	$85.971

After realizing the additional premium income provided by this Act and the anticipated premium income to be provided by the Plan's Executive Administrator, the program's financial condition would reflect a very slight surplus for the biennium.

	2005-2006	2006-2007	Biennium
Remaining Amount Required ($Million)	$0.003	($2.198)	($2.195)

Benefit Change

Section 29.31 of the bill increases the benefit for plan members who are age 40 and over by allowing them to utilize the existing $150 annual wellness benefit for an annual mammogram.

EFFECTIVE DATE: July 1, 2005

ESTIMATED IMPACT ON STATE: Based upon information provided by the Plan, its consulting actuary, Aon Consulting, estimates that the referenced provision of the bill will result in a net cost increase to the Plan's self-insured indemnity program of $1.2 million in 2005-2006 and $1.6 million in 2006-2007 for a total increase in cost for the biennium of $2.8 million. Based upon information available from the Plan, the consulting actuary for the General Assembly's Fiscal

Research Division, Hartman and Associates, estimates the referenced provision of the bill will result in a net cost increase to the Plan's self-insured indemnity program of $1.3 million in 2005-2006 and $1.6 million in 2006-2007 for a total increase in cost for the biennium of $2.9 million.

The differences in the cost reduction estimates between Aon Consulting and Hartman and Associates are:

	2005-2006		**2006-2007**	
	Aon Consulting	**Hartman & Associates**	**Aon Consulting**	**Hartman & Associates**
Annual Mammograms	$1.2 Million	$1.3 Million	$1.6 Million	$1.6 Million

The actuarial projection by Aon Consulting on the amount of cost increase from the benefit change to the Plan' self-insured indemnity program increases the program's requirements and leaves the Plan with a projected shortfall of $605,000 for the 2005-2007 biennium. Based on Aon's projected net claims of $3.786 billion for the biennium, $605,000 represents .002% of total net claims and is considered to be within the margin of error for the claims projection and therefore not expected to have a significant impact on the operation of the program.

ASSUMPTIONS AND METHODOLOGY: The Comprehensive Major Medical Plan for Teachers and State Employees is divided into two programs: a self-insured indemnity type program and a prepaid program of coverage by health maintenance organizations. 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 $1,500 annually, etc. paid by the program's members). From October, 1982, through June, 1986, the Plan only had 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. HMOs are required to offer benefits that are comparable to those provided by the self-insured indemnity program. 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. Also beginning in July 2004, the North Carolina county local governments of Bladen, Cherokee, Rutherford, Washington, and Wilkes counties 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 these local governments elect 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, none have chosen to do so as of December 31, 2004. Employer-paid non-contributory premiums are only authorized for the self-insured indemnity program's coverage for teachers, state employees and retired employees. All other types of premium contributions in the indemnity 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 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 program coverage continue to be available under the Plan; however none of the HMOs with certificates of authority to transact business in North Carolina have offered to participate in the Plan since September 30, 2001. 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, 2004, include:

	Self-Insured	Alternative	Plan

	Indemnity Program	HMOs	Total
Number of Participants			
Active Employees	295,793	-0-	295,793
Active Employee Dependents	134,812	-0-	134,812
Retired Employees	127,074	-0-	127,074
Retired Employee Dependents	19,180	-0-	19,180
Former Employees & Dependents with Continued Coverage	2,278	-0-	2,278
Firefighters, Rescue Squad Workers, National Guard Symphony Members & Dependents	171	-0-	171
Total Enrollments	579,308	-0-	579,308
Number of Contracts			
Employee Only	339,047	-0-	339,047
Employee & Child(ren)	41,448	-0-	41,448
Employee & Family	42,372	-0-	42,372
Total Contracts	422,867	-0-	422,867
Percentage of Enrollment by Age			
29 & Under	26.2%	-0-%	26.2%
30-44	20.6	-0-	20.6
45-54	20.1	-0-	20.0
55-64	17.9	-0-	17.9
65 & Over	15.3	-0-	15.3
Percentage of Enrollment by Sex			
Male	37.9%	-0-%	37.9%
Female	62.1	-0-	62.1

Assumptions for the Self-Insured Indemnity Program: For the fiscal year beginning July 1, 2004, the self-insured program started its operations with a beginning cash balance of $224 million. Receipts for the year are estimated to be $1.687 billion from premium collections and $7 million from investment earnings for a total of $1.694 billion in receipts for the year. Disbursements from the self-insured program are expected to be $1.667 billion in claim payments and $56 million in administration and claims processing expenses for a total of $1.723 billion for the year beginning July 1, 2004. For the fiscal year beginning July 1, 2004, the self-insured indemnity program is expected to have a net operating loss of approximately $29 million for the year. The Plan's self-insured indemnity program is expected to have an available beginning cash balance of $195 million for the fiscal year beginning July 1, 2005. The self-insured indemnity program is consequently assumed to not 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 $217.66 monthly for employees whose primary payer of health benefits is Medicare and $285.92 per month for employees whose primary payer of health benefits is not Medicare. Fully contributory premium amounts for employee and child(ren) contracts are $135.46 monthly for children whose primary payer of health benefits is Medicare and $178.22 monthly for other covered children, and $324.88 per month for family contracts whose dependents have Medicare as the primary payer of health benefits and $427.48 per month for other family contract dependents.
Claim cost trends are expected to increase at a rate of 12% 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 3.5% 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.

<u>Assumptions for increasing the benefit for plan members who are age 40 and over by allowing them to utilize the existing $150 annual wellness benefit for an annual mammogram</u>: The Plan’s Claims Processing Contractor reports that for the 2003-2004 fiscal year, the average charge billed for a screening mammogram was for the age 35 to 54 active member group was $56.54 while the average paid amount was $23.99. The number of mammogram procedures for this group equaled 142.8 per 1,000 members. For the same age group among non-Medicare retired plan members, the average charge billed was $56.58 and the average amount paid was $30.52. The number of mammogram procedures per 1,000 members equaled 90.9 for non-Medicare retired members.

For the prior 2002-2003 fiscal year, the average charge billed for active members of the age 35 to 54 group was $54.82 and the average amount paid equaled $24.53. There were 143.4 mammogram procedures per 1,000 members. Similarly for the non-Medicare retired group, the average billed charge was $56.17 and the average paid amount $27.89 with 106.1 procedures conducted per 1,000 plan members.

SOURCES OF DATA:

-Actuarial Note, Hartman & Associates, Section 29.31, House Committee Substitute for Senate Bill 622, June 10, 2005, original of which is on file in the General Assembly’s Fiscal Research Division.

-Actuarial Note, Aon Consulting, Section 29.31, House Committee Substitute for Senate Bill 622, June 13, 2005, 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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