

GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2007

Legislative Actuarial Note

HEALTH BENEFITS

BILL NUMBER: House Bill 2561 (First Edition)

SHORT TITLE: Add Towns to State Health Plan.

SPONSOR(S): Representative Goodwin

SYSTEM OR PROGRAM AFFECTED: Teachers' and State Employees' Comprehensive Major Medical Plan. On and after July 1, 2008 the Plan will be known as the *State Health Plan for Teachers and State Employees* (see Section 28.22A of Session Law 2007-323).

FUNDS AFFECTED: State General Fund, State Highway Fund, other State employer receipts; premium payments for dependents of active employees and retired employees of State agencies and universities, local public schools and local community colleges; premium payments for coverages selected by eligible former employees; premium payments for coverages selected by firefighters, rescue squad workers, members of the National Guard, and certain authorized local governments.

BILL SUMMARY: House Bill 2561 (1st edition) amends Section 31.26(j) of Session Law 2004-124 (2004 Appropriations Act), as further amended by Section 29.32 of Session Law 2005-276 (2005 Appropriations Act). Proposed legislation permits the towns of Biscoe, Candor, Mount Gilead, Star, plus the Handy Sanitary District, the Troy Housing Authority and Montgomery County with the option to become an employing unit under the Teachers' and State Employees' Comprehensive Major Medical Plan (Plan) for the purpose of providing health benefits to the Town's employees, retired employees, and their eligible spouses and dependent children.

If a local government elects to participate as an employer under the Plan, it must do so by legal resolution of its governing board. An irrevocable election is required by the local government if it enrolls its retired employees, and their eligible spouses and dependent children. The local government must also agree to make any premium contributions required by the Plan. All enrolled employees, retired employees, and their family members of a participating local government will be required to participate in disease management, case management, and all other cost containment measures implemented by the Plan. Employees and retired employees of local governments authorized for benefit coverage under the Plan will pay the same premium rates as those charged by the Plan for other participating active and retired employees and their dependents.

In addition, an irrevocable election by a local government to cover retired employees also requires it to make financial contributions to the Local Governmental Employees' Retirement System for the purpose of financing retired employee employees' health benefits offered under the Plan. 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 on behalf of its retired employees.

EFFECTIVE DATE: July 1, 2008

ESTIMATED IMPACT ON STATE: The consulting actuary for the Teachers' and State Employees Comprehensive Major Medical Plan, Aon Consulting, estimates an average annual mid-point loss of \$350,108 beginning with the 2008-2009 fiscal year. Of that amount, Aon Consulting estimates \$192,357 in costs for Montgomery County in part based on their analysis of the County's actual claims experience, enrollment data, and plan design. The balance of the estimated additional costs projected by Aon Consulting is equal to \$160,751 for the other named local governmental units. Aon Consulting's analysis of these other local units was done by comparing the Plan's current age and sex demographic data with similar data submitted by each local governmental unit to determine risk costs. Additional assumptions were also used regarding cost trends and adverse selection factors for the purposes of estimating impact to the Plan.

Hartman & Associates, consulting actuary for the General Assembly's Fiscal Research Division, estimates an average annual cost of approximately \$150,000 to the Plan. Specifically, the estimated cost to the Plan is projected for Montgomery County based on submitted claims data, age and sex data, benefit design and other factors. For the other local governmental units Hartman and Associates did not estimate an impact given the lack of available claims data. Hartman and Associates noted that by comparing the age and sex demographic data for these local units and the Plan that lower expected claims for these units could be possible as compared to other employing units under the Plan. However, Hartman and Associates also noted that the lack of available claims data does not allow for a specific determination of claims risk and possible adverse selection against the Plan.

ASSUMPTIONS AND METHODOLOGY:

General Assumptions for House Bill 2159 (1st Edition)

Authorized local governments: Currently, the towns of Black Creek, Forest City, Lake Lure, Sunset Beach, and Tabor City, plus the counties of Beaufort, Bladen, Mitchell, Rutherford, and Washington participate as local government based employing units under the Plan. The towns of Biltmore Forest, Black Mountain, Blowing Rock, and Ocean Isle Beach, and the counties of Cherokee and Wilkes are also authorized to join the Plan as an employing unit but have not yet elected to do so at this time. As of April 2008, local government units have enrolled approximately 2,670 active employees and their dependents in the Plan.

Data submitted by the Town: Aon Consulting and Hartman and Associates base their respective analyses in part on actual claims experience (where available), enrollment data, and plan designs provided by each respective local government unit.

Summary Plan Information

The Plan operates on a self-funded basis funded through premium contributions, investment earnings and other receipts. As of October 1, 2006, the Plan operates an Indemnity plan and an optional Preferred Provider Option (PPO) plan. Effective July 1, 2008, the Plan will no longer operate the Indemnity Plan as a benefit option for plan members. The PPO plan offers three options to plan members that include: (1) a "basic" 70/30 plan that offers higher out-of-pocket requirements in return for lower fully contributory dependent premiums; (2) a "standard" 80/20 plan; and (3) a 90/10 "plus" plan with enhanced benefits via lower out-of-pocket requirements as compared to the other PPO plan options. Participation in the plus plan requires employees and retired employees to make a partially contributory premium contribution to participate in this option. The basic and standard plans offer coverage to employees and retired employees on a noncontributory basis. Coverage for dependents under all plans is offered on a fully contributory basis.

Additional assumptions include Medicare benefit "carve-outs," cost containment strategies including prior approval for certain medical services, utilization of the "Blue Options" provider network, case and disease management for selected medical conditions, mental health case management, coordination of benefits with other payers, a prescription drug benefit manager with manufacturer rebates from formularies, and fraud detection, and other authorized actions by the Executive Administrator and Board of Trustees to manage the Plan to maintain and improve the Plan's operation and financial condition where possible. Claim cost trends are expected to increase at a rate of 9% annually according to the Plan's consulting actuary. Investment earnings are based upon a 4.5% return on available cash balances.

Financial Condition

Revised Financial Projection for the 2008-2009 Fiscal Year (July 2008)¹

For the fiscal year beginning, July 1, 2008, the Plan is projected to have an operating loss of approximately \$240 million. The beginning cash balance for the Plan was \$140.6 million as of July 1, 2008. Consequently, the Plan is not expected to be able to sufficiently fund its operations for the entire 2008-2009 fiscal year. Based on the negative results experienced during the 2007-2008 fiscal year (see below), and the projected outlook for the 2008-2009 fiscal year, it is assumed that the Plan will require additional premium income, savings through benefit changes, a cash infusion, or some combination thereof in order to operate for the 2008-2009 fiscal year and thereafter.

Year-to-date Operating Results for the 2007-2008 Fiscal Year²

¹ Aon Consulting, Consulting Actuary for the Teachers' and State Employees' Comprehensive Major Medical Plan, July 2008.

² Summary of Operations (Cash Basis Reporting), For the Period Ending June 2008, 2007-2008 Fiscal Year, July 2008, NC State Health Plan for Teachers and State Employees.

Through June 30, 2008, the Plan reports an operating loss of approximately \$17 million for the 2007-2008 fiscal year. Year-to-date operating losses in the Indemnity plan total \$87.8 million versus a projected annual loss of \$2.5 million. To date, these losses are partially offset by \$70.9 million in operating gains under the PPO plans. The Plan as a result has operated substantially behind its projected annual operating income of \$57.9 million for the 2007-2008 fiscal year. Based on actual results through June 2008, the Plan fell short of projected income by an estimated \$74.9 million for the fiscal year. It is further reported by the Executive Administrator of the Plan that an estimated \$62.7 million in June 2008 claims will be paid in July 2008. This transfer of paid claims from the end of the 2007-2008 fiscal year to the first month of the 2008-2009 fiscal year understates the Plan's reported loss by \$62.7 million for the 2007-2008 fiscal year.

Enrollment Data as of December 31, 2007

I. <u>No. of Participants</u>	<u>Indemnity Plan</u>	<u>PPO Options</u>	<u>Total</u>	<u>Percent of Total</u>
<u>Actives</u>				
Employees	68,745	253,572	322,317	50.0%
Dependents	<u>21,031</u>	<u>135,744</u>	<u>156,775</u>	<u>24.3%</u>
Sub-total	89,776	389,316	479,092	74.4%
<u>Retired</u>				
Employees	85,753	55,948	141,701	22.0%
Dependents	<u>7,859</u>	<u>11,611</u>	<u>19,470</u>	<u>3.0%</u>
Sub-total	93,612	67,559	161,171	25.0%
<u>Former Employees with Continuation Coverage</u>				
Employees	682	1,022	1,704	0.3%
Dependents	<u>226</u>	<u>616</u>	<u>842</u>	<u>0.1%</u>
Sub-total	908	1,638	2,546	0.4%
<u>Firefighters, Rescue Squad & National Guard</u>				
Employees	3	-	3	0.0%
Dependents	-	-	-	<u>0.0%</u>
Sub-total	<u>3</u>	<u>-</u>	<u>3</u>	0.0%
<u>Local Governments</u>				
Employees	16	1,082	1,098	0.2%
Dependents	<u>-</u>	<u>459</u>	<u>459</u>	<u>0.1%</u>
Sub-total	16	1,541	1,557	0.2%
<u>Total</u>	<u>184,315</u>	<u>460,054</u>	<u>644,369</u>	
Percent of Total	28.6%	71.4%	100.0%	100.0%

Enrollment Data Continued

II. <u>Retiree Enrollment by Category</u>	Indemnity	PPO	<u>Total</u>
	<u>Plan</u>	<u>Options</u>	
Non-Medicare Eligible	25,859	34,711	60,570
Medicare Eligible	<u>67,753</u>	<u>32,848</u>	<u>100,601</u>
Total	93,612	67,559	161,171

<u>Percent by Category (Retiree)</u>	Indemnity	PPO	<u>Total</u>
	<u>Plan</u>	<u>Options</u>	
Non-Medicare Eligible	27.6%	51.4%	37.6%
Medicare Eligible	<u>72.4%</u>	<u>48.6%</u>	<u>62.4%</u>
Total	100.0%	100.0%	100.0%

III. <u>Enrollment by Age</u>	Indemnity	PPO	<u>Total</u>
	<u>Plan</u>	<u>Options</u>	
29 & Under	25,706	147,450	173,156
30 to 44	23,965	105,402	129,367
45 to 54	28,204	89,488	117,692
55 to 64	40,880	82,975	123,855
65 & Over	<u>65,560</u>	<u>34,739</u>	<u>100,299</u>
Total	184,315	460,054	644,369

<u>Percent Enrollment by Age</u>	Indemnity	PPO	<u>Total</u>
	<u>Plan</u>	<u>Options</u>	
29 & Under	13.9%	32.1%	26.9%
30 to 44	13.0%	22.9%	20.1%
45 to 54	15.3%	19.5%	18.3%
55 to 64	22.2%	18.0%	19.2%
65 & Over	35.6%	7.6%	15.6%
Total	100.0%	100.0%	100.0%

IV. <u>Enrollment by Sex</u>	Indemnity	PPO	<u>Total</u>
	<u>Plan</u>	<u>Options</u>	
Female	117,283	284,899	402,182
Male	<u>67,032</u>	<u>175,155</u>	<u>242,187</u>
Total	184,315	460,054	644,369

<u>Percent Enrollment by Sex</u>	Indemnity	PPO	<u>Percent of Total</u>
	<u>Plan</u>	<u>Options</u>	
Female	63.6%	61.9%	62.4%
Male	<u>36.4%</u>	<u>38.1%</u>	<u>37.6%</u>
Total	100.0%	100.0%	100.0%

SOURCES OF DATA:

-Actuarial Note, Hartman & Associates, House Bill 2561 (1st Edition), June 27, 2008, original of which is on file in the General Assembly's Fiscal Research Division.

-Actuarial Note, Aon Consulting, House Bill 2561 (1st Edition), July 1, 2008, 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 Trogdon

APPROVED BY:

Lynn Muchmore, Director
Fiscal Research Division

DATE: July 18, 2008



Signed Copy Located in the NCGA Principal Clerk's Offices