

GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2007

Legislative Actuarial Note

HEALTH BENEFITS

BILL NUMBER: Senate Bill 163 (First Edition)

SHORT TITLE: Establish High Risk Pool

SPONSOR(S): Senator Berger of Franklin

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, and certain authorized local governments.

BILL SUMMARY: Senate Bill 163 (First Edition), which generally establishes a high-risk pool to offer insured health benefit coverage to eligible citizens of the State who presumably otherwise cannot secure affordable coverage by other means, affects the Teachers' and State Employees' Comprehensive Major Medical Plan (Plan) as follows:

- 1) Designates the Executive Administrator of the Plan as the "Executive Director" of the North Carolina Health Insurance Risk Pool (Pool) [Section 1.1].
- 2) Allows for per member per month assessment fees be applied to insured lives under the Plan and other defined insurers as required by the proposed G.S. 58-50-290. The proposed assessment fees are to be increased on a graduated basis by fiscal year according to the following schedule:
 - a. Seventy cents (.70) for the 2007-2008 fiscal year;
 - b. One dollar (\$1.00) for the 2008-2009 fiscal year;
 - c. One dollar thirty cents (\$1.30) for the 2009-2010 fiscal year;
 - d. One dollar seventy cents (\$1.70) for the 2010-2011 fiscal year;
 - e. Two dollars (\$2.00) for the 2011-2012 fiscal year and all years thereafter [Section 1.1].
- 3) Allows for the special assessment of fees upon the Plan and other insurers to cover certain federally defined individuals. [Section 1.1]
- 4) Creates the high-risk pool under the Plan for the purposes of administering the program [Section 1.1]

- 5) Allows the sum of \$1,000,000 to be transferred from the Plan's operating reserves in the Public Employee Health Benefit Fund be transferred to a newly established "North Carolina Health Insurance Risk Pool" [Section 2]

EFFECTIVE DATE: July 1, 2007

ESTIMATED IMPACT ON STATE:

Assessment Fees

By including the Plan under the proposed definition of insurer, the Plan would be subject to the graduated financial assessment fees specified in the proposed legislation. The proposed assessment fee is applied to the Plan on a per member per month basis.

Aon Consulting, the consulting actuary for the Teachers' and State Employees' Comprehensive Major Medical Plan (Plan), estimates the bill will cost the Plan by fiscal year within the ranges stated below:

\$0.3 million to \$0.5 million in the 2008-2009 fiscal year;
\$1.2 million to \$2.1 million in the 2009-2010 fiscal year;
\$2.5 million to \$4.5 million in the 2010-2011 fiscal year;
\$3.7 million to \$6.8 million in the 2011-2012 fiscal year; and
\$5.0 million to \$9.2 million in the 2012-2013 fiscal year.

Hartman and Associates, consulting actuary for the North Carolina General Assembly, projects a best estimate cost to the Plan by fiscal year of:

\$0.3 million in the 2008-2009 fiscal year;
\$2.1 million in the 2009-2010 fiscal year;
\$4.1 million in the 2010-2011 fiscal year;
\$6.5 million in the 2011-2012 fiscal year; and
\$9.6 million in the 2012-2013 fiscal year.

Special Assessment Fees

Both the consulting actuary for the Plan, Aon Consulting, and the consulting actuary for the General Assembly, Hartman and Associates, indicate that the provision for special assessment fees may create additional costs to the Plan in excess of the regular assessment fees. Both consulting actuaries noted that it is not possible to estimate the impact of the language authorizing special assessments on the Plan and other defined insurers due to the lack of data available to construct a financial projection.

Transfer of \$1 Million in Plan Operating Reserves

The impact to the Plan is assumed to be negligible since the transfer of Plan reserve funds are contingent upon the application and award of Federal funds for establishing the high-risk pool. The Executive Director of the Pool must use these federal funds to reimburse the Plan for any Plan funds expended on behalf of the Pool.

Administration of the High-Risk Pool by the Plan

The Plan's Executive Administrator has previously stated that the Plan will not cross-subsidize the operation of the Pool with Plan operating resources without charging and collecting funds from the Pool for services provided by the Plan. Therefore the administrative costs to the Plan will be negligible based on the assumptions and assurances provided by the Plan's Executive Administrator.

ASSUMPTIONS AND METHODOLOGY:

Data was made available to each consulting actuary from the NC Department of Insurance sponsored study of High-Risk Pools conducted by Milliman and Associates was incorporated in the review of data and other available information sources on high risk pools.

Data was also provided in 2006 by the North Carolina Institute of Medicine (IOM) in conjunction with Blue Cross Blue Shield of North Carolina (BCBSNC) as to the baseline assumptions for a high-risk pool as proposed in the bill. The amount of projected loss net of premiums paid is an estimated \$29.9 million on a current basis assuming medical provider reimbursement at standard Medicare rates. The claims estimates were generated from an analysis by the IOM and BCBSNC based on underwriting experience from insured individuals in higher-risk tiers for a specific individually underwritten insured product offered by the insurer. The data also estimated the number of enrollees in the high-risk pool to be 9,000 participants or 1% of the estimated uninsured population.

Aon Consulting's estimate is based on a projected average enrollment of 619,000 plan members as of January 2007. In addition to normal claims growth trends Aon Consulting also estimates the high-risk pool claims could be 100% to 300% greater than projected by the IOM and BCBSNC. Aon Consulting's estimate assumes the pool will commence enrollment January 1, 2009. Population levels are assumed at 2004 levels but are expected to be at significantly higher levels at implementation. Aon Consulting also used assessment rate Scenarios 10 & 18 from the Milliman study as the low and high range of expected impact with respect to the required assessment rates.

Hartman and Associates assume a 12% rate growth in the baseline claims provided by the Institute of Medicine and an enrollment growth rate of 2% annually for membership in the Plan. Total average membership in the Plan is assumed to be 618,000 as of December 2006. The analysis by Hartman and Associates uses data from actuarial projections and feasibility studies for a high-risk pool as well as information from other states for similar arrangements. Hartman and Associate's estimate assumes the pool will commence enrollment January 1, 2009 and will attain projected enrollment of 10,125 lives at the end of five years of operation. Hartman and Associates also

notes that “we do not have data available to determine the number of federally defined eligible individuals who may enter the Pool and thus cannot estimate the financial impact on the Plan of this provision.” They further note that a special assessment would apply during periods when enrollment in the Pool would be limited due to unfavorable claims experience.

SOURCES OF DATA:

-Actuarial Note, Hartman & Associates, Senate Bill 163 (First Edition), March 22, 2007, original of which is on file in the General Assembly’s Fiscal Research Division.

-Actuarial Note, Aon Consulting, Senate Bill 163 (First Edition), March 23, 2007, 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, Director
Fiscal Research Division

DATE: April 30, 2007



Signed Copy Located in the NCGA Principal Clerk's Offices