



GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2011

Legislative Actuarial Note

HEALTH BENEFITS

BILL NUMBER: House Bill 644 (Fourth Edition)

SHORT TITLE: Establish Pharmacy Audit Rights.

SPONSOR(S):

SYSTEM OR PROGRAM AFFECTED: State Health Plan for Teachers and State Employees (Plan).

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 644 (Fourth Edition) adds a new Article 4C to Chapter 90 of the General Statutes entitled "Pharmacy Audit Rights." The proposed legislation generally changes the terms and conditions under which a pharmacy may be audited by an insurance company, third-party payer, or any entity that represents a responsible party requiring an audit of a pharmacy.

For purposes of this Legislative Actuarial Note, the analysis herein is limited to any potential financial effect on the State Health Plan only and not any other program or non-governmental entity. The analysis is also limited to Section 1 of the proposed bill.

EFFECTIVE DATE: January 1, 2012

ESTIMATED IMPACT ON STATE:

Aon Consulting, the consulting actuary for the State Health Plan for Teachers and State Employees, projects that the proposed legislation's requirements will lower the Plan's recoveries of improper pharmacy claims by a midpoint estimate of \$312,000 in FY 2011-12 and \$668,000 in FY 2012-13.

Hartman & Associates, the consulting actuary for the General Assembly's Fiscal Research Division, states that there is not sufficient data on the Plan's pharmacy audit procedures to estimate the overall financial impact of the proposed legislation. However, Hartman and Associates notes that given the level of historical audit recovery amounts and other information provided by the Plan, the assumed limitations on audit recovery amounts proposed in the legislation should not have a material impact on the Plan.

ASSUMPTIONS AND METHODOLOGY: The actuarial analyses used by each respective consulting actuary are on file with the Fiscal Research Division. Copies of each respective consulting actuary's analysis, including assumptions, are also attached to the original copy of this Legislative Actuarial note.

The Plan's third-party administrator for the Plan's pharmacy benefits estimates that there will be an estimated 25% to 35% reduction in audit recoveries annually due to the following:

1. The number of prescriptions that can be audited will be limited as compared to current practice;
2. The number of audits that can be performed in a year will be limited as compared to current practice; and
3. Potential differences between the Plan's third party administrator's current documentation requirements and the North Carolina Board of Pharmacy's requirements could limit the identification of certain discrepancies.

Summary Information and Data about the Plan

The Plan administers health benefit coverage for active employees from employing units of State agencies and departments, universities, local public schools, and local community colleges. Eligible retired employees of authorized employing units may also access health benefit coverage under the Plan. Eligible dependents of active and retired employees are authorized to participate in the Plan provided they meet certain requirements. Employees and retired employees of selected local governments may also participate in the Plan under certain conditions. Members of fire, rescue squads, and the National Guard may also obtain coverage under the Plan provided they meet certain eligibility criteria.

The State finances the Plan on a self-funded basis and administers benefit coverage under a Preferred Provider Option (PPO) arrangement. The Plan's receipts are derived through premium contributions, investment earnings and other receipts. Premiums for health benefit coverage are paid by (1) employing agencies for active employees, (2) the Retiree Health Benefit Fund for retired employees, and (3) employees and retirees who elect dependent coverage. Total requirements for the Plan are estimated to be \$2.90 billion for FY 2011-12 and \$3.08 billion for FY 2012-13. The Plan's PPO benefit design includes two alternative benefit levels listed below:

- 1) The "Basic" 70/30 plan that offers higher out-of-pocket requirements in return for lower fully contributory dependent premiums; and
- 2) The "Standard" 80/20 plan.

The Basic and Standard plans offer coverage to employees and retired employees on a noncontributory basis. Coverage for dependents under both plans is offered on a fully contributory basis.

The following table provides a summary of most monthly premium rates for the Plan in FY 2010-11:

<u>Coverage Type</u>	PPO Basic		PPO Standard	
	Employee/ Retiree	Employer	Employee/ Retiree	Employer
Non-Medicare Active Employee/Retiree				
Employee	\$0.00	\$410.80	\$0.00	\$410.80
Employee + Child(ren)	\$178.68	\$410.80	\$237.62	\$410.80
Employee + Spouse	\$460.36	\$410.80	\$547.48	\$410.80
Employee + Family	\$490.34	\$410.80	\$580.44	\$410.80

<u>Coverage Type</u>	PPO Basic		PPO Standard	
	Employee/ Retiree	Employer	Employee/ Retiree	Employer
Medicare Primary for Only Employee/Retiree				
Employee	\$0.00	\$312.76	\$0.00	\$312.76
Employee + Child(ren)	\$187.60	\$312.76	\$237.62	\$312.76
Employee + Spouse	\$469.28	\$312.76	\$547.48	\$312.76
Employee + Family	\$499.26	\$312.76	\$580.44	\$312.76

The employer share of premiums for retirees is paid from the Retiree Health Benefit Fund. During FY 2010-11, employers contribute 4.9% of active employee payroll into the Fund. Total contributions for the year are projected to be approximately \$721 million.

Financial Condition

Current and Projected Results for 2009-11 Biennium – The following summarizes actual financial results for FY 2009-10 and projected financial results for FY 2010-11, based on financial experience through December, 2010.

	(\$ millions)	
	Actual FY 2009-10	Projected FY 2010-11
Beginning Cash Balance	\$189.9	\$121.5
Receipts:		
Net Premium Collections	\$2,412.6	\$2,677.4
Early Retirement Reinsurance Program	\$0.0	\$45.0
Medicare Part D Subsidies	\$74.4	\$60.5
Investment Earnings	\$3.5	\$2.4
Total	\$2,490.5	\$2,785.3
Disbursements:		
Net Medical Claim Payment Expenses	\$1,797.5	\$1,860.5
Net Pharmacy Claim Payment Expenses	\$596.7	\$647.7
Administration and Claims-Processing Expenses	\$164.6	\$171.7
Total	\$2,558.9	\$2,679.9
Net Operating Income (Loss)	(\$68.4)	\$105.4

Financial Projection 2011-13 Biennium – The following summarizes a financial projection conducted by the Plan's consulting actuary, Aon Consulting, for the 2011-13 biennium. The information is provided by fiscal year based on year-to-date financial experience (through December 2010) and other updated factors. The projection assumes a 9.5% annual claims growth trend, that benefit provisions remain the same, and that both employer and member-paid premiums are increased by 6.3% effective July 1, 2011 and July 1, 2012.

	(\$ millions)	
	Projected FY 2011-12	Projected FY 2012-13
Beginning Cash Balance	\$226.8	\$239.0
Receipts:		
Net Premium Collections	\$2,829.0	\$2,995.2
Early Retirement Reinsurance Program	\$25.6	\$0.0
Medicare Part D Subsidies	\$60.1	\$62.6
Investment Earnings	\$2.3	\$2.5
Total	\$2,917.0	\$3,060.3
Disbursements:		
Net Medical Claim Payment Expenses	\$2,065.1	\$2,199.0
Net Pharmacy Claim Payment Expenses	\$659.2	\$699.4
Administration and Claims-Processing Expenses	\$180.5	\$183.6
Total	\$2,904.8	\$3,082.0
Net Operating Income (Loss)	\$12.2	(\$21.7)

This projection incorporates \$151 million in projected savings over the biennium from a new Pharmacy Benefit Manager (PBM) contract to be effective October 1, 2011. It assumes that the Plan maintains “grandfathered” status under the federal Affordable Care Act (ACA). It assumes the Plan experiences an increase of \$33 million in claims over the biennium due to requirements in the ACA to cover additional dependents.

Other Information

In the 2009-11 biennium, the annual premium increases were applied at the beginning of each fiscal year of the biennium. Historically, the Plan had applied a premium increase in October of the first fiscal year of a biennium.

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 9.5% annually according to the Plan’s consulting actuary. Investment earnings are based upon a 1.0% return on available cash balances. The active population is projected to decline by 1% per year, the COBRA population is projected to remain constant, and the retired population is projected to increase by 1% per year.

Enrollment as of December 31, 2010

State Health Plan Enrollment as of December 31, 2010				
I. No. of Participants	Basic	Standard	Total	Percent of Total
<u>Actives</u>				
Employees	65,849	256,468	322,317	48.6%
Dependents	<u>50,588</u>	<u>105,759</u>	<u>156,347</u>	<u>23.6%</u>
Sub-total	116,437	362,227	478,664	72.2%
<u>Retired</u>				
Employees	16,429	143,764	160,193	24.2%
Dependents	<u>4,352</u>	<u>14,173</u>	<u>18,525</u>	<u>2.8%</u>
Sub-total	20,781	157,937	178,718	26.9%
<u>Former Employees with Continuation Coverage</u>				
Employees	1,014	1,237	2,251	0.3%
Dependents	<u>403</u>	<u>347</u>	<u>750</u>	<u>0.1%</u>
Sub-total	1,417	1,584	3,001	0.5%
<u>Firefighters, Rescue Squad & National Guard</u>				
Employees	2	3	5	0.0%
Dependents	<u>1</u>	<u>2</u>	<u>3</u>	<u>0.0%</u>
Sub-total	3	5	8	0.0%
<u>Local Governments</u>				
Employees	486	1,429	1,915	0.3%
Dependents	<u>303</u>	<u>629</u>	<u>932</u>	<u>0.1%</u>
Sub-total	789	2,058	2,847	0.4%
<u>Total</u>				
Employees	83,780	402,901	486,681	73.4%
Dependents	55,647	120,910	176,557	26.6%
Grand Total	139,427	523,811	663,238	100%
Percent of Total	21.0%	79.0%	100.0%	
II. Enrollment by Contract				
	Basic	Standard	Total	
Employee Only	55,472	335,154	390,626	
Employee Child(ren)	13,817	36,176	49,993	
Employee Spouse	5,719	17,462	23,181	
Employee Family	8,772	14,109	22,881	
Total	83,780	402,901	486,681	
Percent Enrollment by Contract				
	Basic	Standard	Total	
Employee Only	66.2%	83.2%	80.3%	
Employee Child(ren)	16.5%	9.0%	10.3%	
Employee Spouse	6.8%	4.3%	4.8%	
Employee Family	10.5%	3.5%	4.7%	
Total	100.0%	100.0%	100.0%	

III. Enrollment by Sex	Basic	Standard	Total
Female	75,627	338,703	414,330
Male	63,800	185,108	248,908
Total	139,427	523,811	663,238
Percent Enrollment by Sex	Basic	Standard	Total
Female	54.2%	64.7%	62.5%
Male	45.8%	35.3%	37.5%
Total	100.0%	100.0%	100.0%
IV. Enrollment by Age	Basic	Standard	Total
19 & Under	35,455	74,859	110,314
20 to 29	12,915	46,222	59,137
30 to 44	31,582	98,133	129,715
45 to 54	27,089	85,600	112,689
55 to 64	29,854	106,470	136,324
65 & Over	2,532	112,527	115,059
Total	139,427	523,811	663,238
Percent Enrollment by Age	Basic	Standard	Total
19 & Under	25.4%	14.3%	16.6%
20 to 29	9.3%	8.8%	8.9%
30 to 44	22.7%	18.7%	19.6%
45 to 54	19.4%	16.3%	17.0%
55 to 64	21.4%	20.3%	20.6%
65 & Over	1.8%	21.5%	17.3%
Total	100.0%	100.0%	100.0%
V. Retiree Enrollment by Category	Employee	Dependents	Total
Non-Medicare Eligible	53,034	11,292	64,326
Medicare Eligible	107,159	7,233	114,392
Total	160,193	18,525	178,718
Percent Enrollment by Category (Retiree)	Employee	Dependents	Total
Non-Medicare Eligible	33.1%	61.0%	36.0%
Medicare Eligible	66.9%	39.0%	64.0%
Total	100.0%	100.0%	100.0%

VI. Enrollment By Major Employer Groups	Employees	Dependents	Total
State Agencies	75,779	33,151	108,930
UNC System	50,357	29,457	79,814
Local Public Schools	180,864	86,046	266,910
Local Community Colleges	15,317	7,693	23,010
Other			
Local Governments	1,915	932	2,847
COBRA	2,251	750	3,001
Nat. Guard, Fire & Rescue	5	3	8
Sub-total	326,488	158,032	484,520
Retirement System	160,193	18,525	178,718
Total	486,681	176,557	663,238
Percent Enrollment by Major Employer Groups	Employees	Dependents	Total
State Agencies	15.6%	18.8%	16.4%
UNC System	10.3%	16.7%	12.0%
Local Public Schools	37.2%	48.7%	40.2%
Local Community Colleges	3.1%	4.4%	3.5%
Other			
Local Governments	0.4%	0.5%	0.4%
COBRA	0.5%	0.4%	0.5%
Nat. Guard, Fire & Rescue	0.0%	0.0%	0.0%
Sub-total	67.1%	89.5%	73.1%
Retirement System	32.9%	10.5%	26.9%
Total	100.0%	100.0%	100.0%

SOURCES OF DATA:

-Actuarial Note, Hartman & Associates, House Bill 644, “House Bill 644 Proposed Committee Substitute H644-CSRW-59 [v.2] (Section 1): An Act to Establish Pharmacy Audit Rights And to Establish Standards For Recoupment of Claims,” June 14, 2011, original of which is on file in the General Assembly’s Fiscal Research Division.

-Actuarial Note, Aon Consulting, House Bill 644, “House Bill 644 Proposed Committee Substitute S644-CSRW-59 [v.2],” June 14, 2011, original of which is on file with the State Health Plan for Teachers and State Employees and the General Assembly’s Fiscal Research Division.

FISCAL RESEARCH DIVISION: (919) 733-4910

PREPARED BY: Mark Trogdon

APPROVED BY:
Lynn Muchmore, Director
Fiscal Research Division

DATE: June 16, 2011



Signed Copy Located in the NCGA Principal Clerk's Offices