

GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2013

Legislative Actuarial Note

HEALTH BENEFITS

BILL NUMBER: House Bill 675 (Third Edition)

SHORT TITLE: Amend Pharmacy Laws.

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 675 (Third Edition) makes changes to several different pharmacy laws. The changes in each section are described below.

Sections 1 and 2: Amend statutes related to pharmacy technicians.

Section 3: Amends statutes governing pharmacy audits to add new rights of a pharmacy during such audits. These include not subjecting any portion of the reimbursement of dispensed products to recoupment, except in cases of fraud or misrepresentation, basing recoupment of claims on the actual financial harm or overpayment or underpayment, and having the audit based only on information obtained by the entity conducting the audit.

Section 4: Amends statutes governing pharmacy audits to provide that recoupment of disputed funds shall not occur until the later of the appeals deadline or the final internal disposition.

Section 5: Amends G.S. 90-106 to prohibit dispensing a Schedule II substance more than six months after the date it was prescribed.

For purposes of this Legislative Actuarial Note, the analysis herein is limited to any potential financial effect on the Plan and not on any other program or non-governmental entity.

EFFECTIVE DATE: October 1, 2013. Sections 3 and 4 apply to audits commencing on or after that date.

ESTIMATED IMPACT ON STATE:

The Segal Company, the consulting actuary for the State Health Plan for Teachers and State Employees, estimates that the proposed bill's requirements will lower the Plan's recoupments of improper pharmacy claims by \$1.1 million in FY 2013-14 and \$1.9 million in FY 2014-15, reducing the Plan's net operating income by the same amount.

Hartman & Associates, the consulting actuary for the General Assembly's Fiscal Research Division, estimates that the proposed bill's requirements will lower the Plan's recoupments of improper pharmacy claims by \$1.2 million in FY 2013-14 and \$2.0 million in FY 2014-15, reducing the Plan's net operating income by the same amount.

The reduction in audit recoupments calculated by both actuaries is due to the provision not allowing recoupment of reimbursement of dispensed product except in cases of fraud or misrepresentation. As none of the Plan's recoupments in recent years have been in cases of fraud or misrepresentation, this would cause the Plan to lose all recoupments except for dispensing fees. Dispensing fees represent a small portion of the total amount recouped.

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 provisions in lines 2 through 5 of page 3 appear to conflict with the provisions in lines 6 through 25. Lines 2 through 5 do not allow recoupment of any reimbursement of dispensed product except in cases of fraud or misrepresentation. Lines 6 through 25 allow recoupment based on actual financial harm, overpayment or underpayment, which could include reimbursement of dispensed product and dispensing fees under certain conditions. Both actuaries have assumed that the provisions of lines 2 through 5 would govern.

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 participate in the Standard plan or who elect dependent coverage. Total requirements for the Plan are estimated to be \$3.05 billion for FY 2013-14 and \$3.30 billion for FY 2014-15. 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 premiums from employees and retirees; and
- 2) The "Standard" 80/20 plan.

The Basic plan offers coverage to employees and retired employees on a noncontributory basis. The Standard plan offers coverage to employees and retired employees on a partially contributory 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 2012-13:

<u>Coverage Type</u>	PPO Basic		PPO Standard	
	Employee/ Retiree	Employer	Employee/ Retiree	Employer
Non-Medicare Active Employee/Retiree				
Employee	\$0.00	\$432.66	\$22.76	\$432.66
Employee + Child(ren)	\$198.06	\$432.66	\$286.16	\$432.66
Employee + Spouse	\$510.32	\$432.66	\$629.64	\$432.66
Employee + Family	\$543.54	\$432.66	\$666.18	\$432.66
Medicare Primary for Only Employee/Retiree				
Employee	\$0.00	\$336.25	\$10.52	\$336.25
Employee + Child(ren)	\$198.06	\$336.25	\$273.92	\$336.25
Employee + Spouse	\$510.32	\$336.25	\$617.40	\$336.25
Employee + Family	\$543.54	\$336.25	\$653.94	\$336.25

The employer share of premiums for retirees is paid from the Retiree Health Benefit Fund. During FY 2012-13, employers contribute 5.3% of active employee payroll into the Fund. Total contributions for the year are projected to be approximately \$828 million.

Financial Condition

Current and Projected Results for 2011-13 Biennium – The following summarizes actual financial results for FY 2011-12 and projected financial results for FY 2012-13, based on financial experience through December, 2012. It reflects the adoption of an Employer Group Waiver Plan (EGWP) for Medicare-eligible retirees effective January 1, 2013.

	(\$ millions)	
	Actual FY 2011-12	Projected FY 2012-13
Beginning Cash Balance	\$269.9	\$502.2
Receipts:		
Net Premium Collections	\$2,749.9	\$2,884.6
Early Retiree Reinsurance Program	\$42.2	(\$0.6)
Medicare Part D / EGWP Subsidies	\$57.6	\$59.9
Investment Earnings	\$3.0	\$2.8
Total	\$2,852.7	\$2,946.8
Disbursements:		
Net Medical Claim Payment Expenses	\$1,826.8	\$1,899.2
Net Pharmacy Claim Payment Expenses	\$628.0	\$679.8
Administration and Claims-Processing Expenses	\$165.5	\$170.4
Total	\$2,620.3	\$2,749.4
Net Operating Income (Loss)	\$232.4	\$197.3

Financial Projection 2013-15 Biennium – The following summarizes a financial projection conducted by the Plan’s consulting actuary, The Segal Company, for the 2013-15 biennium. The information is provided by fiscal year based on year-to-date financial experience (through December 2012) and other updated factors. The projection assumes an 8.5% annual claims growth trend, that benefit provisions remain the same, and that both employer and member-paid premiums are kept constant over the biennium.

	(\$ millions)	
	Projected FY 2013-14	Projected FY 2014-15
Beginning Cash Balance	\$699.6	\$608.2
Receipts:		
Net Premium Collections	\$2,877.7	\$2,865.8
Early Retiree Reinsurance Program	\$0.0	\$0.0
Medicare Part D / EGWP Subsidies	\$82.9	\$102.5
Investment Earnings	\$2.7	\$2.0
Total	\$2,963.3	\$2,970.2
Disbursements:		
Net Medical Claim Payment Expenses	\$2,118.3	\$2,248.6
Net Pharmacy Claim Payment Expenses	\$753.9	\$824.8
Administration and Claims-Processing Expenses	\$182.4	\$223.9
Total	\$3,054.7	\$3,297.2
Net Operating Income (Loss)	(\$91.4)	(\$327.0)

Other Information

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, fraud detection, and other authorized actions by the State Treasurer, 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 8.5% annually according to the Plan’s consulting actuary. Investment earnings are based upon a 0.4% 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, 2012

I. No. of Participants	Basic	Standard	Total	Percent of Total
<u>Actives</u>				
Employees	126,974	187,018	313,992	46.9%
Dependents	<u>72,615</u>	<u>84,298</u>	<u>156,913</u>	<u>23.5%</u>
Sub-total	199,589	271,316	470,905	70.4%
<u>Retired</u>				
Employees	29,014	145,419	174,433	26.1%
Dependents	<u>5,602</u>	<u>13,160</u>	<u>18,762</u>	<u>2.8%</u>
Sub-total	34,616	158,579	193,195	28.9%
<u>Former Employees with Continuation Coverage</u>				
Employees	555	911	1,466	0.2%
Dependents	<u>254</u>	<u>338</u>	<u>592</u>	<u>0.1%</u>
Sub-total	809	1,249	2,058	0.3%
<u>Firefighters, Rescue Squad & National Guard</u>				
Employees	3	5	8	0.0%
Dependents	<u>3</u>	<u>1</u>	<u>4</u>	<u>0.0%</u>
Sub-total	6	6	12	0.0%
<u>Local Governments</u>				
Employees	544	1,342	1,886	0.3%
Dependents	<u>442</u>	<u>509</u>	<u>951</u>	<u>0.1%</u>
Sub-total	986	1,851	2,837	0.4%
<u>Total</u>				
Employees	157,090	334,695	491,785	73.5%
Dependents	78,916	98,306	177,222	26.5%
Grand Total	236,006	433,001	669,007	100%
Percent of Total	35.3%	64.7%	100.0%	
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II. Enrollment by Contract				
	Basic	Standard	Total	
Employee Only	117,228	280,916	398,144	
Employee Child(ren)	23,480	29,181	52,661	
Employee Spouse	6,155	13,499	19,654	
Employee Family	10,227	11,099	21,326	
Total	157,090	334,695	491,785	
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Percent Enrollment by Contract				
	Basic	Standard	Total	
Employee Only	74.6%	83.9%	81.0%	
Employee Child(ren)	14.9%	8.7%	10.7%	
Employee Spouse	3.9%	4.0%	4.0%	
Employee Family	6.5%	3.3%	4.3%	
Total	100.0%	100.0%	100.0%	

III. Enrollment by Sex	Basic	Standard	Total
Female	137,067	281,337	418,404
Male	98,939	151,664	250,603
Total	236,006	433,001	669,007

Percent Enrollment by Sex	Basic	Standard	Total
Female	58.1%	65.0%	62.5%
Male	41.9%	35.0%	37.5%
Total	100.0%	100.0%	100.0%

IV. Enrollment by Age	Basic	Standard	Total
19 & Under	50,510	57,419	107,929
20 to 29	30,459	34,693	65,152
30 to 44	55,932	69,280	125,212
45 to 54	43,808	63,317	107,125
55 to 64	43,577	90,285	133,862
65 & Over	11,720	118,007	129,727
Total	236,006	433,001	669,007

Percent Enrollment by Age	Basic	Standard	Total
19 & Under	21.4%	13.3%	16.1%
20 to 29	12.9%	8.0%	9.7%
30 to 44	23.7%	16.0%	18.7%
45 to 54	18.6%	14.6%	16.0%
55 to 64	18.5%	20.9%	20.0%
65 & Over	5.0%	27.3%	19.4%
Total	100.0%	100.0%	100.0%

V. Retiree Enrollment by Category	Employee	Dependents	Total
Non-Medicare Eligible	53,656	11,878	65,534
Medicare Eligible	120,777	6,884	127,661
Total	174,433	18,762	193,195

Percent Enrollment by Category (Retiree)	Employee	Dependents	Total
Non-Medicare Eligible	30.8%	63.3%	33.9%
Medicare Eligible	69.2%	36.7%	66.1%
Total	100.0%	100.0%	100.0%

VI. Enrollment By Major Employer Groups	Employees	Dependents	Total
State Agencies	72,946	33,507	106,453
UNC System	50,104	30,627	80,731
Local Public Schools	172,563	83,045	255,608
Charter Schools	2,765	1,583	4,348
Local Community Colleges	15,614	8,151	23,765
Other			
Local Governments	1,886	951	2,837
COBRA	1,466	592	2,058
Nat. Guard, Fire & Rescue	8	4	12
Sub-total	317,352	158,460	475,812
Retirement System	174,433	18,762	193,195
Total	491,785	177,222	669,007
Percent Enrollment by Major Employer Groups	Employees	Dependents	Total
State Agencies	14.8%	18.9%	15.9%
UNC System	10.2%	17.3%	12.1%
Local Public Schools	35.1%	46.9%	38.2%
Charter Schools	0.6%	0.9%	0.6%
Local Community Colleges	3.2%	4.6%	3.6%
Other			
Local Governments	0.4%	0.5%	0.4%
COBRA	0.3%	0.3%	0.3%
Nat. Guard, Fire & Rescue	0.0%	0.0%	0.0%
Sub-total	64.5%	89.4%	71.1%
Retirement System	35.5%	10.6%	28.9%
Total	100.0%	100.0%	100.0%

SOURCES OF DATA:

The Segal Company; North Carolina State Health Plan; Financial Projections – Dec 2012; Trends – 8.5% Medical & Pharmacy; With Dental, MHSA and ACA Reinsurance Fee. March 12, 2013. Filename “NCSHP Q2 Update – Baseline Updated 031213 – V2.pdf”

-Actuarial Note, Hartman & Associates, House Bill 675, “House Bill 675, 3rd Edition: An Act Amending Laws Pertaining to the Regulation of Pharmacy Technicians, Pharmacy Audits, and Prescriptions for Schedule II Substances”, May 17, 2013, original of which is on file in the General Assembly’s Fiscal Research Division.

-Actuarial Note, The Segal Company, House Bill 675, “House Bill 675 3rd Edition Amend Pharmacy Laws”, May 22, 2013, 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: David Vanderweide

APPROVED BY: Mark Trogon, Director
Fiscal Research Division

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