



# GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2015

## Legislative Actuarial Note Health Benefits

**BILL NUMBER:** House Bill 154 (Third Edition)

**SHORT TITLE:** Local Governments in State Health Plan.

**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:**

#### Sections 1-3 (Local Governments)

House Bill 154 (Third Edition) adds local governments to the list of employers eligible to have their employees participate in the Plan under the following conditions:

- The local government must meet certain administrative and legal requirements.
- The Plan is required to admit any local government meeting those requirements, regardless of claims experience. Participation is optional for the local government.
- The local government shall determine which employees and dependents are eligible and what portion of the premium they will pay. Retirees are not eligible to participate.
- The total premiums paid to the Plan will be the same as the fully contributory premiums for State employees and cannot vary by claims experience.
- The Plan may charge 1.5% interest per month for late payment of premiums.

Once the number of employees and dependents of employees of local governments enrolled in the Plan reaches 10,000, no additional local governments will be allowed to join. However, the total count of employees and dependents can exceed 10,000 depending on the size of the final local government admitted and due to growth in the number of members at the local governments that participate.

The bill only allows local governments with less than 1,000 employees and dependents to participate.

18 local governments already participate in the Plan, covering 2,118 employees, 980 dependents and roughly 500 retirees. These local governments were added in several different laws passed between 2004 and 2007, as well as Session Laws 2014-75 and 2014-105. These local governments participate under different, sometimes ambiguous policies and the bill gives these governments an option to elect to participate under the clarified policies contained in the bill.

#### Section 4 (Pioneer Springs Community School)

Section 4 of the bill permits the Board of Directors of Pioneer Springs Community School, a public charter school, to become a participating employer under the Plan within 30 days after the act becomes law. Under G.S. 135-48.54, an election to join the Plan by the board of a charter school is irrevocable and shall require all eligible employees of the charter school to participate.

**EFFECTIVE DATE:** The Third Edition is effective when it becomes law.

#### **ESTIMATED IMPACT ON STATE:**

##### Sections 1-3 (Local Governments)

Both The Segal Company, the actuary for the Plan, and Hartman & Associates, the actuary for the General Assembly, state that the cost of adding local governments cannot be determined due to a lack of demographic data and claims experience for the workforce of the local governments that might wish to join.

However, both actuaries note the possibility of a cost due to adverse selection. Adverse selection occurs when local governments and/or employees with higher-than-average claims cost are more likely to join the Plan than those with lower-than-average claims costs and those higher costs cannot be recovered through adjustments to premiums. The following aspects of the bill contribute to the potential for adverse selection:

- Participation is optional for local governments and the Plan cannot deny participation to any local unit. It is possible that local governments with higher-than-average claims costs will be more likely to choose to join.
- Local governments can determine eligibility. Local governments could choose to set eligibility rules that encourage employees with higher-than-average claims costs to enroll.
- Premiums cannot vary with the experienced claims for a particular local government, so the Plan cannot charge a higher premium to a local government whose employees incur higher-than-average claims.

Finally, both actuaries noted that the claims experience of the local units that participated in 2014 was favorable. Hartman & Associates calculated that claims costs were roughly 6% lower in 2014 for local government employees and dependents than for other comparable Plan members. The Segal Company calculated that claims and expenses for local government employees and dependents were roughly 4.3% lower than premiums. Thus, for the 2014 Plan Year, local government participation in the Plan reduced the amount the State would otherwise have to contribute to the Plan.

#### Section 4 (Pioneer Springs Community School)

The consulting actuary for the Plan, The Segal Company, estimates a financial loss to the Plan of \$43,000 for FY 2015-2016 if Pioneer Springs Community School elects to participate in the Plan. Given the small size of the School, Segal estimates the projected costs would have a negligible impact on the Plan.

Hartman & Associates, consulting actuary for the General Assembly, estimates that the financial impact on the Plan would not be material upon Pioneer Springs Community School electing to participate in the Plan.

The additional cost impact of the bill, projected by either consulting actuary, would be expected to impact total claims growth by approximately two thousandths of one percent (0.002%) for the 2015-2016 fiscal year based on the highest estimate of additional cost (i.e., \$43,000).

**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.

Authorized Charter Schools: As of January, 2015, there were 81 charter schools with 5,446 enrolled active employees and dependents participating in the Plan.

Data submitted by Pioneer Springs Community School: The Segal Company and Hartman & Associates based their respective analyses in part on a Distribution of Participants schedule submitted by the School. The schedule below reflects the age and sex demographic data for employees and dependents of the School. Complete claims experience data is usually unavailable on a group this size. However, the School did note that it currently pays total medical premiums of \$8,152 per month and provided details on the benefits in its current program, which include:

- In-network office visit and therapy co-pay: \$25 Primary Care; \$50 Specialist
- Preventive care: \$0
- Deductible: \$1,000 (individual, in-network)
- Out-of-pocket maximum: \$6,000 (individual, in-network)
- Inpatient and outpatient hospital: 20% coinsurance after deductible (in-network)
- Prescription drug co-pays: \$10 generic; \$35 preferred brand

<b>Distribution of Participants - Pioneer Springs Community School</b>						
	<u>Active Employees</u>			<u>Dependents of Active Employees</u>		
<u>Ages</u>	<u>Male</u>	<u>Female</u>	<u>Total</u>	<u>Male</u>	<u>Female</u>	<u>Total</u>
0-4			0			0
5-9			0			0
10-14			0			0
15-19			0			0
20-24			0			0
25-29		5	5			0
30-34			0			0
35-39		4	4			0
40-44		5	5			0
45-49		2	2			0
50-54		1	1			0
55-59			0			0
60-64		1	1			0
65-69			0			0
70-74			0			0
75-79			0			0
>79			0			0
Unknown			0			0
<b>TOTAL</b>	<b>0</b>	<b>18</b>	<b>18</b>	<b>0</b>	<b>0</b>	<b>0</b>

**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 and charter schools 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, with the exception of many Medicare-eligible retirees who are in fully-insured Medicare Advantage plans. 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 a plan with a non-zero premium or who elect dependent coverage. Starting in 2014, benefit and premium changes are typically effective at January 1. The Plan's PPO benefit design includes three alternative benefit levels listed below:

- 1) The "Traditional" 70/30 plan that offers higher out-of-pocket requirements in return for lower employee and retiree premiums without needing to complete wellness activities,
- 2) The "Enhanced" 80/20 plan that offers lower out-of-pocket requirements with higher employee and retiree premiums, which can be lowered by completing wellness activities, and
- 3) The Consumer-Directed Health Plan (CDHP) that applies deductibles and co-insurance to all services and offers lower employee and retiree premiums if one completes wellness activities

Medicare-eligible retirees are offered three alternative plans:

- 1) The "Traditional" 70/30 plan as coverage secondary to Medicare for medical services plus a pharmacy benefit plan,
- 2) "Base" Medicare Advantage Prescription Drug Plans (MA-PDPs) from a choice of two carriers, Humana or United Healthcare, that are actuarially equivalent to the "Enhanced" 80/20 Plan and apply in-network out-of-pocket requirements at out-of-network providers
- 3) "Enhanced" MA-PDPs, identical to the "Base" MA-PDPs, except with lower co-pays and higher retiree premiums

The following tables provide a summary of the most common monthly premium rates for the Plan in 2015:

**Active Employees and Non-Medicare Retirees**

Wellness Plans

	Employer Share	Employee/Retiree Share	
		Complete All Wellness Activities *	Complete No Wellness Activities
Enhanced 80/20 Plan	\$448.12	\$13.56	\$63.56
Consumer-Directed Health Plan	\$448.12	\$0.00	\$40.00

Alternate Plan

	Employer Share	Employee/Retiree Share
Traditional 70/30 Plan	\$448.12	\$0.00

\* Members receive credits for each activity. We have shown all or none for simplicity.

**Medicare Retirees**

Medicare Advantage Plans

	Employer Share	Employee/Retiree Share
MA-PDP Base Plan	\$348.24	\$0.00
MA-PDP Enhanced Plan	\$348.24	\$33.00

Alternate Plan

	Employer Share	Employee/Retiree Share
Traditional 70/30 Plan	\$348.24	\$0.00

**Dependents** (paid by employee/retiree in addition to premiums above)

	All Dependents are Non-Medicare			One or More Medicare Dependents		
	Enhanced 80/20	CDHP	Traditional 70/30	MA-PDP Base	MA-PDP Enhanced	Traditional 70/30
Employee/Retiree + Children	\$272.79	\$184.60	\$205.12	\$114.50	\$147.50	\$145.94
Employee/Retiree + Spouse	\$628.54	\$475.68	\$528.52	\$114.50	\$147.50	\$383.72
Employee/Retiree + Family	\$666.38	\$506.64	\$562.94	\$229.00	\$295.00	\$418.10

The employer share of premiums for retirees is paid from the Retiree Health Benefit Fund. During FY 2014-15, employers contribute 5.49% of active employee payroll into the Fund. Total contributions for the year are projected to be approximately \$848 million.

**Financial Condition**

**Projected Results for CY 2015 and CY 2016** – The following summarizes projected financial results for 2015 and 2016, based on financial experience through December, 2014 and enrollments for January, 2015. The projection assumes a 7.0% annual claims growth trend for medical claims, an 8.5% trend for pharmacy claims, benefit provisions and member-paid premiums as currently adopted by the Board, and assumed premium increases in 2016 based on the Board’s recommendation.

	(\$ millions)	
	Projected CY 2015	Projected CY 2016
Beginning Cash Balance	\$1,014.8	\$863.2
Receipts:		
Net Premium Collections	\$2,946.7	\$3,063.9

Medicare Part D / EGWP Subsidies	\$63.2	\$14.3
Investment Earnings	\$3.9	\$3.0
Total	\$3,013.8	\$3,081.2
Disbursements:		
Net Medical Claim Payment Expenses	\$2,099.3	\$2,175.5
Net Pharmacy Claim Payment Expenses	\$657.8	\$713.9
Medicare Advantage Premiums	\$174.2	\$193.4
Administration and Claims-Processing Expenses	\$234.1	\$237.8
Total	\$3,165.5	\$3,320.6
Net Operating Income (Loss)	(\$151.7)	(\$239.4)

Of the premiums paid in CY 2015, an estimated \$2.0 billion is derived from General Fund sources and an estimated \$0.1 billion is derived from Highway Fund sources.

### **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. Medical claim costs are expected to increase at a rate of 7.0% annually and pharmacy claim costs are expected to increase at a rate of 8.5% annually according to assumptions adopted by the Board of Trustees. The active population is projected to decline by 1% per year and the retired population is projected to increase by 1% per year.

**Enrollment as of January 1, 2015**

<b>I. No. of Participants</b>	<b>Traditional 70/30</b>	<b>Enhanced 80/20</b>	<b>Consumer Directed</b>	<b>Medicare Advantage</b>	<b>Total</b>	<b>Percent of Total</b>
<u>Actives</u>						
Employees	134,404	168,041	9,279	-	311,724	45.5%
Dependents	78,230	74,173	9,326	-	161,729	23.6%
Sub-total	212,634	242,214	18,605	-	473,453	69.1%
<u>Retired</u>						
Employees	58,623	31,116	847	98,813	189,399	27.6%
Dependents	6,513	4,032	353	7,787	18,685	2.7%
Sub-total	65,136	35,148	1,200	106,600	208,084	30.4%
<u>Other</u>						
Employees	904	1,512	59	-	2,475	0.4%
Dependents	627	582	69	-	1,278	0.2%
Sub-total	1,531	2,094	128	-	3,753	0.5%
<u>Total</u>						
Employees	193,931	200,669	10,185	98,813	503,598	73.5%
Dependents	85,370	78,787	9,748	7,787	181,692	26.5%
<b>Grand Total</b>	<b>279,301</b>	<b>279,456</b>	<b>19,933</b>	<b>106,600</b>	<b>685,290</b>	<b>100%</b>
<b>Percent of Total</b>	<b>40.8%</b>	<b>40.8%</b>	<b>2.9%</b>	<b>15.6%</b>	<b>100.0%</b>	
<b>II. Enrollment by Contract</b>						
	<b>Traditional</b>	<b>Enhanced</b>	<b>CDHP</b>	<b>MA</b>	<b>Total</b>	
Employee Only	149,351	159,389	5,537	91,026	405,303	
Employee Child(ren)	26,212	26,050	2,287	187	54,736	
Employee Spouse	6,385	5,616	638	7,600	20,239	
Employee Family	10,656	8,812	1,622			
Other (e.g. Split Contract)	1,327	802	101		2,230	
<b>Total</b>	<b>193,931</b>	<b>200,669</b>	<b>10,185</b>	<b>98,813</b>	<b>482,508</b>	
<b>Percent Enrollment by Contract</b>						
	<b>Traditional</b>	<b>Enhanced</b>	<b>CDHP</b>	<b>MA</b>	<b>Total</b>	
Employee Only	77.0%	79.4%	54.4%	92.1%	84.0%	
Employee Child(ren)	13.5%	13.0%	22.5%	0.2%	11.3%	
Employee Spouse	3.3%	2.8%	6.3%	7.7%	4.2%	
Employee Family	5.5%	4.4%	15.9%	0.0%	0.0%	
Other (e.g. Split Contract)	0.7%	0.4%	1.0%	0.0%	0.5%	
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	
<b>III. Enrollment by Sex</b>						
	<b>Traditional</b>	<b>Enhanced</b>	<b>CDHP</b>	<b>MA</b>	<b>Total</b>	
Female	164,204	182,573	11,095	70,102	427,974	
Male	115,097	96,883	8,838	36,498	257,316	
<b>Total</b>	<b>279,301</b>	<b>279,456</b>	<b>19,933</b>	<b>106,600</b>	<b>685,290</b>	
<b>Percent Enrollment by Sex</b>						
	<b>Traditional</b>	<b>Enhanced</b>	<b>CDHP</b>	<b>MA</b>	<b>Total</b>	
Female	58.8%	65.3%	55.7%	65.8%	62.5%	
Male	41.2%	34.7%	44.3%	34.2%	37.5%	
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	

<b>IV. Enrollment by Age</b>	<b>Traditional</b>	<b>Enhanced</b>	<b>CDHP</b>	<b>MA</b>	<b>Total</b>
24 & Under	72,665	66,607	7,567	10	146,849
25 to 44	73,396	74,376	5,727	290	153,789
45 to 54	46,998	55,289	3,438	1,128	106,853
55 to 64	47,633	76,519	3,029	1,579	128,760
65 & Over	38,609	6,665	172	103,593	149,039
<b>Total</b>	<b>279,301</b>	<b>279,456</b>	<b>19,933</b>	<b>106,600</b>	<b>685,290</b>

  

<b>Percent Enrollment by Age</b>	<b>Traditional</b>	<b>Enhanced</b>	<b>CDHP</b>	<b>MA</b>	<b>Total</b>
24 & Under	26.0%	23.8%	38.0%	0.0%	21.4%
25 to 44	26.3%	26.6%	28.7%	0.3%	22.4%
45 to 54	16.8%	19.8%	17.2%	1.1%	15.6%
55 to 64	17.1%	27.4%	15.2%	1.5%	18.8%
65 & Over	13.8%	2.4%	0.9%	97.2%	21.7%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

  

<b>V. Retiree Enrollment by Category</b>	<b>Employee</b>	<b>Dependents</b>	<b>Total</b>
Non-Medicare Eligible	53,743	9,610	63,353
Medicare Eligible in Traditional 70/30	37,538	1,487	39,025
Medicare Eligible in Base Medicare Advantage Plans	60,833	2,831	63,664
Medicare Eligible in Enhanced Medicare Advantage Plans	37,980	4,956	42,936
<b>Total</b>	<b>190,094</b>	<b>18,884</b>	<b>208,978</b>

  

<b>Percent Enrollment by Category (Retiree)</b>	<b>Employee</b>	<b>Dependents</b>	<b>Total</b>
Non-Medicare Eligible	28.3%	50.9%	30.3%
Medicare Eligible in Traditional 70/30	19.7%	7.9%	18.7%
Medicare Eligible in Base Medicare Advantage Plans	32.0%	15.0%	30.5%
Medicare Eligible in Enhanced Medicare Advantage Plans	20.0%	26.2%	20.5%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

  

<b>VI. Enrollment By Major Employer Groups</b>	<b>Employees</b>	<b>Dependents</b>	<b>Total</b>
State Agencies	69,629	33,021	102,650
UNC System	51,279	32,033	83,312
Local Public Schools	171,429	86,048	257,477
Charter Schools	3,402	2,044	5,446
Local Community Colleges	15,741	8,517	24,258
Other			
Local Governments	2,118	980	3,098
COBRA/Reduction in Force/Direct Bill	599	362	961
Nat. Guard, Fire & Rescue	2	2	4
Sub-total	314,199	163,007	477,206
Retirement System	189,399	18,685	208,084
<b>Total</b>	<b>503,598</b>	<b>181,692</b>	<b>685,290</b>

  

<b>Percent Enrollment by Major Employer Groups</b>	<b>Employees</b>	<b>Dependents</b>	<b>Total</b>
State Agencies	13.8%	18.2%	15.0%
UNC System	10.2%	17.6%	12.2%
Local Public Schools	34.0%	47.4%	37.6%
Charter Schools	0.7%	1.1%	0.8%
Local Community Colleges	3.1%	4.7%	3.5%
Other			
Local Governments	0.4%	0.5%	0.5%
COBRA/Reduction in Force	0.1%	0.2%	0.1%
Nat. Guard, Fire & Rescue	0.0%	0.0%	0.0%
Sub-total	62.4%	89.7%	69.6%
Retirement System	37.6%	10.3%	30.4%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>



**SOURCES OF DATA:**

The Segal Company; preliminary financial projections updated through Q4 CY2014 under revised benefit proposal; dated February 6, 2015; as presented to the Board of Trustees on February 11, 2015. Filename “CY2014 Preliminary Q4 Update – Revised Proposal.pdf”

-Actuarial Note, Hartman & Associates, “Draft Bill 2015-LL-102 [v.6]: An Act to Authorize Units of Local Government to Enroll Their Employees and Dependents in the State Health Plan”, March 20, 2015, original of which is on file in the General Assembly’s Fiscal Research Division.

-Actuarial Note, The Segal Company, “Bill Draft 2015-LL-102 Local Governments in State Health Plan”, March 17, 2015, original of which is on file with the State Health Plan for Teachers and State Employees and the General Assembly’s Fiscal Research Division.

-Actuarial Note, Hartman & Associates, “Senate Bill 136: An Act to Authorize Pioneer Springs Community School to Elect to Participate in the State Health Plan for Teachers and State Employees”, March 12, 2015, original of which is on file in the General Assembly’s Fiscal Research Division.

-Actuarial Note, The Segal Company, “Senate Bill 136 Charter School in State Health Plan”, March 19, 2015, original of which is on file with the State Health Plan for Teachers and State Employees and the General Assembly’s Fiscal Research Division.

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**DATE:** June 18, 2015



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