



GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2015

**Legislative Actuarial Note
Health Benefits**

BILL NUMBER: Senate Bill 815 (First Edition)

SHORT TITLE: Charter School in State Health Plan.

SPONSOR(S): Senator Blue

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: Senate Bill 815 (First Edition) permits the Board of Directors of Longleaf School of the Arts, 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: When it becomes law.

ESTIMATED IMPACT ON STATE:

The consulting actuary for the Plan, The Segal Company, estimates a financial loss to the Plan of \$34,000 for FY 2016-2017 if Longleaf School of the Arts elects to participate in the Plan. Segal estimates claims would increase by 0.02% after joining the Plan, relative to claims under the School's current medical benefits plan. In addition, for the purposes of estimating the potential cost impact to the Plan, Segal assumes potential claims for the School would be 150% greater on average due to expected adverse selection of costlier plan members entering the Plan. Even with this assumption, and 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 Longleaf School of the Arts electing to participate in the Plan. Hartman & Associates noted that the employee demographics of the School's group would be expected to produce 20% lower average claim costs than the Plan's membership, and that given the minimal number of prospective employees and dependents to be enrolled, there is not expected to be a significant financial impact as a percent of total claims. Hartman & Associates, however, also noted the lack of available historical claims experience from the School to assess potential adverse selection against 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 2016-2017 fiscal year based on the highest estimate of additional cost (i.e., \$34,000).

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, 2016, there were 86 charter schools with 6,163 enrolled active employees and dependents participating in the Plan.

Data submitted by the 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 \$13,119 per month and provided details on the benefits in its current program, which include:

- In-network office visit and therapy co-pay: \$20 Primary Care; \$40 Specialist
- Preventive care: \$0
- Deductible: \$1,500 (individual, in-network)
- Out-of-pocket maximum: \$4,500 (individual, in-network)
- Inpatient and outpatient hospital: 20% coinsurance after deductible (in-network)
- Prescription drug co-pays: \$4 generic; \$35 preferred brand

Distribution of Participants - Lingleaf School of the Arts						
	<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	1	1	2
5-9			0			0
10-14			0			0
15-19			0			0
20-24	2	1	3			0
25-29	1	6	7			0
30-34		3	3		1	1
35-39	2	2	4			0
40-44	1	1	2	1		1
45-49		2	2			0
50-54	1	1	2			0
55-59		1	1			0
60-64		1	1			0
65-69			0			0
70-74			0			0
75-79			0			0
>79			0			0
Unknown			0			0
TOTAL	7	18	25	2	2	4

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. 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 2016:

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	\$463.68	\$14.20	\$104.20
Consumer-Directed Health Plan	\$463.68	\$0.00	\$80.00

Alternate Plan

	Employer Share	Employee/Retiree Share
Traditional 70/30 Plan	\$463.68	\$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	\$360.24	\$0.00
MA-PDP Enhanced Plan	\$360.24	\$66.00

Alternate Plan

	Employer Share	Employee/Retiree Share
Traditional 70/30 Plan	\$360.24	\$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	\$280.52	\$189.82	\$210.92	\$132.00	\$198.00	\$150.06
Employee/Retiree + Spouse	\$646.32	\$489.14	\$543.46	\$132.00	\$198.00	\$394.56
Employee/Retiree + Family	\$685.22	\$520.96	\$578.86	\$264.00	\$396.00	\$429.92

The employer share of premiums for retirees is paid from the Retiree Health Benefit Fund. During FY 2015-16, employers contribute 5.60% of active employee payroll into the Fund. Total contributions for the year are projected to be approximately \$915 million.

Financial Condition

Projected Results for CY 2016 and CY 2017 – The following summarizes projected financial results for 2016 and 2017, based on financial experience through December, 2015 and enrollments for January, 2016. 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, a new pharmacy benefit manager contract approved in March 2016 with an open formulary, and no assumed premium increase in 2017 (corresponds to General Assembly using half of the \$71 million Reserve for Future Benefit Needs for premium increases).

	(\$ millions)	
	Projected CY 2016	Projected CY 2017
Beginning Cash Balance	\$1,015.2	\$863.2
Receipts:		
Net Premium Collections	\$3,118.0	\$3,153.0
Medicare Part D / EGWP Subsidies	\$18.4	\$17.2
Investment Earnings	\$3.6	\$2.4
Total	\$3,139.9	\$3,172.6

Disbursements:		
Net Medical Claim Payment Expenses	\$2,198.4	\$2,309.7
Net Pharmacy Claim Payment Expenses	\$748.1	\$727.0
Medicare Advantage Premiums	\$193.2	\$213.0
Administration and Claims-Processing Expenses	\$250.4	\$249.1
Total	\$3,390.1	\$3,498.8
Net Operating Income (Loss)	(\$250.2)	(\$326.2)

Of the premiums paid in CY 2016, an estimated \$2.1 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, 2016

I. No. of Participants	Traditional 70/30	Enhanced 80/20	Consumer Directed	Medicare Advantage	Total	Percent of Total
<u>Actives</u>						
Employees	124,524	172,262	12,987	-	309,773	44.2%
Dependents	74,027	78,800	13,726	-	166,553	23.8%
Sub-total	198,551	251,062	26,713	-	476,326	68.0%
<u>Retired</u>						
Employees	57,363	31,377	1,364	105,878	195,982	28.0%
Dependents	6,221	4,205	507	8,615	19,548	2.8%
Sub-total	63,584	35,582	1,871	114,493	215,530	30.8%
<u>Other</u>						
Employees	1,919	3,686	517	-	6,122	0.9%
Dependents	1,077	1,324	412	-	2,813	0.4%
Sub-total	2,996	5,010	929	-	8,935	1.3%
<u>Total</u>						
Employees	183,806	207,325	14,868	105,878	511,877	73.0%
Dependents	81,325	84,329	14,645	8,615	188,914	27.0%
Grand Total	265,131	291,654	29,513	114,493	700,791	100%
Percent of Total	37.8%	41.6%	4.2%	16.3%	100.0%	
II. Enrollment by Contract						
	Traditional	Enhanced	CDHP	MA	Total	
Employee Only	141,203	163,058	7,846	97,263	409,370	
Employee Child(ren)	24,867	28,046	3,356	191	56,460	
Employee Spouse	6,087	5,835	1,023	8,424	21,369	
Employee Family	10,327	9,454	2,488		22,269	
Other (e.g. Split Contract)	1,322	932	155		2,409	
Total	183,806	207,325	14,868	105,878	511,877	
Percent Enrollment by Contract						
	Traditional	Enhanced	CDHP	MA	Total	
Employee Only	76.8%	78.6%	52.8%	91.9%	80.0%	
Employee Child(ren)	13.5%	13.5%	22.6%	0.2%	11.0%	
Employee Spouse	3.3%	2.8%	6.9%	8.0%	4.2%	
Employee Family	5.6%	4.6%	16.7%	0.0%	4.4%	
Other (e.g. Split Contract)	0.7%	0.4%	1.0%	0.0%	0.5%	
Total	100.0%	100.0%	100.0%	100.0%	100.0%	
III. Enrollment by Sex						
	Traditional	Enhanced	CDHP	MA	Total	
Female	154,763	189,650	16,456	75,648	436,517	
Male	110,368	102,004	13,057	38,845	264,274	
Total	265,131	291,654	29,513	114,493	700,791	
Percent Enrollment by Sex						
	Traditional	Enhanced	CDHP	MA	Total	
Female	58.4%	65.0%	55.8%	66.1%	62.3%	
Male	41.6%	35.0%	44.2%	33.9%	37.7%	
Total	100.0%	100.0%	100.0%	100.0%	100.0%	

IV. Enrollment by Age	Traditional	Enhanced	CDHP	MA	Total
24 & Under	68,579	71,417	11,272	6	151,274
25 to 44	68,236	77,686	8,265	261	154,448
45 to 54	44,917	57,827	5,192	991	108,927
55 to 64	45,251	77,793	4,524	1,467	129,035
65 & Over	38,148	6,931	260	111,768	157,107
Total	265,131	291,654	29,513	114,493	700,791

Percent Enrollment by Age	Traditional	Enhanced	CDHP	MA	Total
24 & Under	25.9%	24.5%	38.2%	0.0%	21.6%
25 to 44	25.7%	26.6%	28.0%	0.2%	22.0%
45 to 54	16.9%	19.8%	17.6%	0.9%	15.5%
55 to 64	17.1%	26.7%	15.3%	1.3%	18.4%
65 & Over	14.4%	2.4%	0.9%	97.6%	22.4%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

V. Retiree Enrollment by Category	Employee	Dependents	Total
Non-Medicare Eligible	53,515	9,734	63,249
Medicare Eligible in Traditional 70/30	36,589	1,199	37,788
Medicare Eligible in Base Medicare Advantage Plans	87,652	6,063	93,715
Medicare Eligible in Enhanced Medicare Advantage Plans	18,226	2,552	20,778
Total	195,982	19,548	215,530

Percent Enrollment by Category (Retiree)	Employee	Dependents	Total
Non-Medicare Eligible	27.3%	49.8%	29.3%
Medicare Eligible in Traditional 70/30	18.7%	6.1%	17.5%
Medicare Eligible in Base Medicare Advantage Plans	44.7%	31.0%	43.5%
Medicare Eligible in Enhanced Medicare Advantage Plans	9.3%	13.1%	9.6%
Total	100.0%	100.0%	100.0%

VI. Enrollment By Major Employer Groups	Employees	Dependents	Total
State Agencies	68,920	32,894	101,814
UNC System	51,808	33,122	84,930
Local Public Schools	169,576	89,302	258,878
Charter Schools (86 entities)	3,786	2,377	6,163
Local Community Colleges	15,683	8,858	24,541
Other			
Local Governments (44 entities)	5,354	2,410	7,764
COBRA/Reduction in Force	763	398	1,161
Nat. Guard, Fire & Rescue	5	5	10
Sub-total	315,895	169,366	485,261
Retirement System	195,982	19,548	215,530
Total	511,877	188,914	700,791

Percent Enrollment by Major Employer Groups	Employees	Dependents	Total
State Agencies	13.5%	17.4%	14.5%
UNC System	10.1%	17.5%	12.1%
Local Public Schools	33.1%	47.3%	36.9%
Charter Schools	0.7%	1.3%	0.9%
Local Community Colleges	3.1%	4.7%	3.5%
Other			
Local Governments	1.0%	1.3%	1.1%
COBRA/Reduction in Force	0.1%	0.2%	0.2%
Nat. Guard, Fire & Rescue	0.0%	0.0%	0.0%
Sub-total	61.7%	89.7%	69.2%
Retirement System	38.3%	10.3%	30.8%
Total	100.0%	100.0%	100.0%

SOURCES OF DATA:

The Segal Company; baseline financial projections updated through Q2 FY2016 with 0% employer and employee premium increase in 2017 and new PBM contract with open formulary; dated March 11, 2016. Filename “FY16 Q2- Baseline - 0% for ER and EE with PBM BAFO (Open).pdf”

-Actuarial Note, Hartman & Associates, Senate Bill 815, “Senate Bill 815: An Act to Authorize Longleaf School of the Arts to Elect to Participate in the State Health Plan for Teachers and State Employees”, May 20, 2016, original of which is on file in the General Assembly’s Fiscal Research Division.

-Actuarial Note, The Segal Company, Senate Bill 815, “Charter School In State Health Plan (Longleaf School Of The Arts)”, May 20, 2016, 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 6, 2016



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