

**NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE ACTUARIAL NOTE**

BILL NUMBER: House Bill 1071

SHORT TITLE: UNC Flexible Benefits Clarification

SPONSOR(S): Reps. Miner & McComas

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 and premium payments for coverages selected by firefighters, rescue squad workers, and members of the National Guard.

BILL SUMMARY: The bill allows the University Board of Governors to establish health care benefits or health insurance for the dependents of employees participating in the University's Flexible Compensation Plan. These additional benefits would be an alternative to the health benefits offered to spouses and eligible dependent children of employees enrolled in the Teachers' and State Employees' Comprehensive Major Medical Plan.

EFFECTIVE DATE: When it becomes law.

ESTIMATED IMPACT ON STATE: Based upon information provided by the Plan, Aon Consulting, the consulting actuary for the Plan, states that "...dependents who leave the plan and move to the 125 plan will typically have a better risk profile, leaving the plan with adverse selection and higher average costs." Also, based on information provided by the Plan, Hartman & Associates, consulting actuary for the General Assembly's Fiscal Research Division, states that the bill "...would lead to self-selection based on benefit provisions, rating factors, and individual health status" and that "...anti-selection against the State Plan would occur, and the Plan would likely lose lower-risk individuals."

Aon Consulting further attempted to quantify the amount of cost to the Plan for the 2003-05 biennium. Assuming that the alternative dependent health care benefits or health insurance would be available to 50% of eligible employees and that the alternative benefit would attract 10% of eligible dependents, Aon projects enactment of the bill would have a cost to the Teachers' and State Employees' Comprehensive Major Medical Plan of \$600,000 for 2003-04 and \$900,000 for 2004-05, or a total cost of \$1,500,000 for the 2003-05 biennium.

Hartman & Associates did not quantify the amount of cost to the Plan, but stated that the bill "...will increase costs to the Plan, and the cost could be substantial."

ASSUMPTIONS AND METHODOLOGY: The Comprehensive Major Medical Plan for Teachers and State Employees is divided into two programs. From October 1982 through June 1986, the Plan only had a self-funded indemnity type of program which covered all employees, retired employees, eligible dependents of employees and retired employees, and eligible former employees and their eligible dependents authorized

to continue coverage past a termination of employment other than for retirement or disability purposes. A prepaid program of coverage by health maintenance organizations (HMOs) was offered in July 1986, as an alternative to the Plan's self-insured indemnity program. The benefits of the self-insured indemnity type of program are spelled out in Part 3 of Article 3 of Chapter 135 of the North Carolina General Statutes (i.e., \$350 annual deductible, 20% coinsurance up to \$1,500 annually, etc. paid by the program's members). HMOs are required to offer benefits that are comparable to those provided by the self-insured indemnity program. Beginning in July, 2000, firefighters, rescue squad workers, and members of the National Guard and their eligible dependents were allowed to voluntarily participate in the Plan on a fully contributory basis, provided they were ineligible for any other type of group health benefits and had been without such benefits for at least six months. Employer-paid non-contributory premiums are only authorized for the indemnity program's coverage for employees and retired employees. All other types of premiums in the indemnity program are fully contributory, except for job-sharing public school teachers who are authorized partially contributory premiums at 50% of non-contributory rates. The Plan's Executive Administrator has set the premium rates for firefighters, rescue squad workers, and members of the National Guard and their families at 20% more than the comparable rates charged for employees, retired employees, and their families. Premiums paid by employers to HMOs are limited to like amounts paid to the indemnity program with employees and retired employees paying any HMO amounts above the indemnity program's non-contributory rates. Both types of coverage continue to be available in the Plan; however, none of the HMOs with certificates of authority to transact business in North Carolina have offered to participate in the Plan since September 30, 2001. The Plan's employees and retired employees select the type of program that they wish for themselves and their dependents during the months of August and September of each year for coverage beginning in October. The demographics of the Plan as of December 31, 2002, include:

	<u>Self-Insured Indemnity Program</u>	<u>Alternative HMOs</u>	<u>Plan Total</u>
<u>Number of Participants</u>			
Active Employees	280,065	-0-	280,065
Active Employee Dependents	137,841	-0-	137,841
Retired Employees	117,225	-0-	117,225
Retired Employee Dependents	18,999	-0-	18,999
Former Employees & Dependents with Continued Coverage	2,535	-0-	2,535
Firefighters, Rescue Squad Workers, National Guard Members & Dependents	7	-0-	7
Total Enrollments	556,672	-0-	556,672
<u>Number of Contracts</u>			
Employee Only	313,439	-0-	313,439
Employee & Child(ren)	40,978	-0-	40,978
Employee & Family	44,710	-0-	44,710
Total Contracts	399,127	-0-	399,127
<u>Percentage of Enrollment by Age</u>			
29 & Under	26.9%	-0-%	26.9%
30-44	20.9	-0-	20.9
45-54	20.9	-0-	20.9
55-64	16.2	-0-	16.2

65 & Over	15.1	-0-	15.1
<u>Percentage of Enrollment by Sex</u>			
Male	38.3%	-0-%	38.3%
Female	61.7	-0-	61.7

Assumptions for the Self-Insured Indemnity Program: For the fiscal year beginning July 1, 2002, the self-insured program started its operations with a beginning cash balance of \$91.6 million. Receipts for the year are estimated to be \$1.371 billion from premium collections and \$7 million from investment earnings for a total of \$1.378 billion in receipts for the year. Disbursements from the self-insured program are expected to be \$1.335 billion in claim payments and \$38 million in administration and claims processing expenses for a total of \$1.373 billion for the year beginning July 1, 2002. For the fiscal year beginning July 1, 2002, the self-insured indemnity program is expected to have a net operating gain of approximately \$5 million for the year. Without reserving an additional \$15 million for implementation of the claims data and privacy requirements of the federal Health Insurance Portability and Accountability Act (HIPPA) that take effect on and after April 14, 2003, the Plan's self-insured indemnity program is expected to have an available beginning cash balance of \$96 million for the fiscal year beginning July 1, 2003. The self-insured indemnity program is nonetheless assumed to be unable to carry out its operations for the 2003-2005 biennium without increases in its current premium rates or a reduction in existing benefits or payments to health care providers or both. This assumption is further predicated upon the fact that the program's cost containment strategies (hospital DRG reimbursements, discounts on hospital outpatient services, pre-admission hospital testing, pre-admission hospital inpatient certification with length-of-stay approval, hospital bill audits, case and disease management for selected medical conditions, mental health case management, coordination of benefits with other payers, Medicare benefit "carve-outs", cost reduction contracts with participating physicians and other providers, a prescription drug benefit manager with manufacturer rebates from formularies, and fraud detection) are maintained and improved where possible. Current non-contributory premium rates are \$186.04 monthly for employees whose primary payer of health benefits is Medicare and \$244.38 per month for employees whose primary payer of health benefits is not Medicare. Fully contributory premium amounts for employee and child(ren) contracts are \$115.78 monthly for children whose primary payer of health benefits is Medicare and \$152.32 monthly for other covered children, and \$277.68 per month for family contracts whose dependents have Medicare as the primary payer of health benefits and \$365.36 per month for other family contract dependents. Claim cost trends are expected to increase 12% annually. Total enrollment in the program is expected to increase less than 1% annually over the next two years. The number of enrolled active employees is expected to show no increase over the next two years, whereas the growth in the number of retired employees is assumed to be 5% per year. The program is expected to have a 2% decrease in the number of active employee dependents per year whereas the number of retiree dependents is expected to increase 2% per year. Investment earnings are based upon a 4.5% return on available cash balances. The self-insured indemnity program maintains a claim stabilization reserve for claim cost fluctuations equal to 7.5% of annual claim payments without reserving additional funds for incurred but unreported claims.

Assumptions for the Indemnity Plan's University Dependents: As of March 31, 2003, University active employee group enrollments in the Teachers' and State Employees' Comprehensive Major Medical Plan were:

<u>University</u>	<u>Employee & Child(ren) Dependent</u>		<u>Employee & Family Dependent</u>			<u>Total Enrollment</u>		<u>Total</u>
	<u>Only Employees</u>	<u>s</u>	<u>Employees</u>	<u>s</u>	<u>Employees</u>	<u>Dependents</u>		
Appalachian State	1,402	299	505	345	783	2,046	1,288	3,334
East Carolina	2,896	545	934	675	1,673	4,116	2,607	6,723
Elizabeth City State	320	71	118	42	100	433	218	651

Fayetteville State	456	85	159	65	153	606	312	918
NC A&T	940	196	337	174	433	1,310	770	2,080
NC Central	579	142	221	80	209	801	430	1,231
NC State	5,033	826	1,434	1,196	2,788	7,055	4,222	11,277
School of Arts	276	38	59	56	122	370	181	551
UNC Asheville	422	73	126	81	176	576	302	878
UNC Chapel Hill	7,538	1,251	2,157	1,763	4,277	10,552	6,434	16,986
UNC Charlotte	1,451	232	385	315	724	1,998	1,109	3,107
UNC Greensboro	1,484	212	368	301	682	1,997	1,050	3,047
UNC Healthcare	3,661	609	1,021	389	953	4,659	1,974	6,633
UNC Pembroke	402	74	135	76	174	552	309	861
UNC Wilmington	960	162	264	233	505	1,355	769	2,124
Western Carolina Winston Salem State	849	149	254	155	340	1,153	594	1,747
TOTAL	29,088	5,042	8,605	6,007	14,220	40,137	22,825	62,962

Annualized dependent premiums based upon these March 31, 2003, enrollments were:

<u>University</u>	<u>Employee & Child(ren)</u>		<u>Employee & Family</u>		<u>Total Dependent Premiums</u>	
	<u>Contracts</u>	<u>Premiums</u>	<u>Contracts</u>	<u>Premiums</u>	<u>Contracts</u>	<u>Premiums</u>
Appalachian State	299	\$546,524	345	\$1,512,590	644	\$2,059,115
East Carolina	545	\$996,173	675	\$2,959,416	1,220	\$3,955,589
Elizabeth City State	71	\$129,777	42	\$184,141	113	\$313,918
Fayetteville State	85	\$155,366	65	\$284,981	150	\$440,347
NC A&T	196	\$358,257	174	\$762,872	370	\$1,121,128
NC Central	142	\$259,553	80	\$350,746	222	\$610,299
NC State	826	\$1,509,796	1,196	\$5,243,647	2,022	\$6,753,443
School of Arts	38	\$69,458	56	\$245,522	94	\$314,980
UNC Asheville	73	\$133,432	81	\$355,130	154	\$488,562
UNC Chapel Hill	1,251	\$2,286,628	1,763	\$7,729,556	3,014	\$10,016,184
UNC Charlotte	232	\$424,059	315	\$1,381,061	547	\$1,805,120
UNC Greensboro	212	\$387,502	301	\$1,319,680	513	\$1,707,182
UNC Healthcare	609	\$1,113,155	389	\$1,705,500	998	\$2,818,655
UNC Pembroke	74	\$135,260	76	\$333,208	150	\$468,468
UNC Wilmington	162	\$296,110	233	\$1,021,547	395	\$1,317,657
Western Carolina Winston Salem State	149	\$272,348	155	\$679,570	304	\$951,918
TOTAL	5,042	\$9,215,969	6,007	\$26,336,610	11,049	\$35,552,580

This March 31, 2003, data indicates that UNC active employee group dependents account for 12% of the Plan's total parent & child contracts, 13% of the Plan's total family contracts, and 14% of the Plan's total annual dependent premiums.

A comparison of enrollment characteristics between the Plan's total active and retired employee group dependents and UNC's active employee group dependents as of March and April 2002, and an underwriting comparison between the Plan's total active and retired employee group dependents and UNC's active employee group dependents for the 2000-01 fiscal year reveal:

<u>Total Active & Retired</u>	<u>UNC Active Employee</u>
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Group Dependents - 3/31/02 Group Dependents - 4/30/02

<u>Dependent Ages</u>	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
Age 29 & Under	115,057	72.2%	16,893	74.1%
Age 30-44	10,550	6.6%	2,275	10.0%
Age 45-54	13,816	8.7%	2,205	9.7%
Age 55-64	12,485	7.8%	1,279	5.6%
Age 65 & Over	7,483	4.7%	145	0.6%
Total Dependents	159,391	100.0%	22,797	100.0%

Dependent Contracts

Employee & Child(ren)	71,846	45.1%	8,596	37.7%
Employee & Family	87,545	54.9%	14,201	62.3%
Total Dependents	159,391	100.0%	22,797	100.0%

Total Active & Retired
Group Dependents

UNC Active Employee
Group Dependents

2000-01 Underwriting

<u>Annual Premiums</u>	<u>Contracts</u>		<u>Contracts</u>	
Employee & Child(ren)	37,002	\$50,586,100	5,045	\$6,904,487
Employee & Family	44,204	\$138,248,085	6,038	\$19,648,802
Total Dependents		\$188,834,185		\$26,553,289
<u>Annual Claims</u>				
Employee & Child(ren)		\$49,101,492		\$5,262,994
Employee & Family		\$179,534,694		\$21,162,591
Total Dependents		\$228,636,186		\$26,425,585
<u>Annual Gain (Loss)</u>				
Employee & Child(ren)		\$1,484,608		\$1,641,493
Employee & Family		(\$41,286,609)		(\$1,513,789)
Total Dependents		(\$39,802,001)		\$127,704

SOURCES OF DATA:

- Actuarial Note, Hartman & Associates, House Bill 1071, April 25, 2003, original of which is on file in the General Assembly's Fiscal Research Division.
- Actuarial Note, Aon Consulting, House Bill 1071, April 25, 2003, 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.

FISCAL RESEARCH DIVISION: 733-4910

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