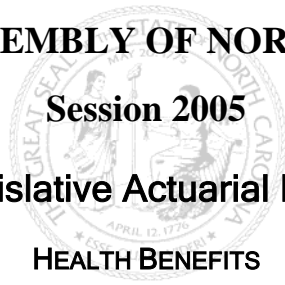


GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2005

Legislative Actuarial Note

HEALTH BENEFITS

BILL NUMBER: Senate Bill 622 (Conference Committee Report)

SHORT TITLE: 2005 Appropriations Act.

SPONSOR(S):

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, premium payments for coverages selected by firefighters, rescue squad workers, members of the National Guard, certain County local governments, and the North Carolina Symphony Society, Inc.

BILL SUMMARY: According to available information submitted by the Executive Administrator of the Teachers’ and State Employees’ Comprehensive Major Medical, the Plan’s self-insured indemnity program needs over \$484 million in additional financial support to remain solvent and maintain minimum claim stabilization reserves for the 2005-2007 biennium. The Plan’s Executive Administrator also reports that he can increase receipts to the Plan through the 28% subsidy offered to employers who maintain an actuarially equivalent outpatient drug benefit to Medicare eligible plan members who do not enroll in Medicare’s new Part D outpatient drug benefit beginning in January 2006. The estimated receipts to be received by the Plan under this subsidy for the 2005-2007 biennium are estimated to be \$64.5 million (\$8.7 million in 2005-2006 and \$55.8 million in 2006-2007). Additional financial support of \$47.1 million in reduced outpatient prescription drug claim costs is projected by the Plan’s consulting actuary for paid claims under the program’s pharmacy benefit manager contract implemented beginning April 1, 2005 (\$28.3 million in 2005-2006 and \$18.8 million in 2006-2007). The Executive Administrator’s estimate assumes that implementation of a case management program at a cost of \$30 million for the biennium will return gross claims savings on a one-to-one basis for each administrative dollar expended.

	<u>2005-2006</u>	<u>2006-2007</u>	<u>Biennium</u>
<u>Additional Financial Support Required</u> (\$Million)	\$209.239	\$275.733	\$484.972

From these requirements can be deducted the additional funding provided by this Act in the way of premiums paid on behalf of teachers, state employees, and retired employees by employing agencies and the State Retirement Systems:

<u>Employer Financing</u> (\$Million)	<u>2005-2006</u>	<u>2006-2007</u>	<u>Biennium</u>
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General Fund	\$108.648	\$142.728	\$251.376
Highway Fund	5.070	6.661	11.731
Other Employer Funds	22.414	29.445	51.859
Total	\$136.132	\$178.834	\$314.966

This additional premium financing is equivalent to a 12.3% across-the-board premium rate increase effective October 1, 2005. The Plan's Executive Administrator has the statutory authority to set the premium rates for the spouses and dependent children of teachers, state employees, and retired employees who elect to pay for parent and child and family coverage. If the Executive Administrator were to increase the premium amounts paid by employees and retired employees for their family members by 12.3% across-the-board effective October 1, 2005, he says that the additional premium income to the program will be:

	<u>2005-2006</u>	<u>2006-2007</u>	<u>Biennium</u>
<u>Employee Financing</u> (\$Million)	\$29.332	\$38.533	\$67.865

After realizing the additional premium income provided by this Act and the anticipated premium income to be provided by the Plan's Executive Administrator, the program's financial condition would still be in a deficit position.

Consequently, the Plan's Executive Administrator has recommended cuts in the benefits to members of the Plan's self-insured indemnity program. The net amount of these recommended benefit reductions for the 2005-2007 biennium is:

	<u>2005-2006</u>	<u>2006-2007</u>	<u>Biennium</u>
<u>Recommended Net Benefit Reductions</u> (\$Million)	\$43.456	\$56.957	\$100.413

The special provision in Section 29.31 of this Act reflects the net benefit changes recommended by the Plan's Executive Administrator. Subsection (a) of Section 29.31 increases the benefit for plan members who are age 40 and over by allowing them to utilize the existing \$150 annual wellness benefit for an annual mammogram. This subsection also increases outpatient prescription drug copayments for each prescription for branded drugs with generic equivalents from \$35 to \$40, and for non-formulary or non-preferred formulary drugs from \$40 to \$50; Subsection (b) increases the indemnity program's maximum annual out-of-pocket for the 20% coinsurance paid by members of the program from \$1,500 to \$2,000 with an annual limit of \$6,000 per employee and child(ren) or employee and family contract; Subsection (c) makes conforming changes for the enhanced mammogram benefit authorized in Subsection (a); Subsection (d) makes conforming changes to the out-of-pocket maximum described in Subsection (b); this subsection also increases out-of-pocket expenditures for plan members by increasing the hospital inpatient copayment from \$100 to \$150, increasing from \$50 to \$75 the copayment for hospital outpatient and ambulatory surgical facility services with allowable charges exceeding \$500, and an increase in the hospital emergency room copayment from \$100 to \$200. Subsection (e) removes the eligibility of employees and their families of the N.C. Symphony effective June 30, 2006.

Section 29.32 of the Act permits the Town of Forest City to become an employing unit under the Teachers' and State Employees' Comprehensive Major Medical Plan for the purpose of providing health benefits to its employees, retired employees, and their eligible spouses and dependent

children. If the Town elects to participate in the Plan, they must by legal resolution approved by the Plan elect such participation and agree to make any contributions required by the Plan. The Town must enroll all of its eligible employees and their eligible spouses and dependent children on a non-contributory, partially contributory, or fully contributory basis. All enrolled employees, retired employees, and their family members will be required to participate in disease management, case management, and all other cost containment measures implemented by the Plan. If the Town elects to enroll its retired employees, and their eligible spouses and dependent children, the election is irrevocable. If the Town makes an election to cover retired employees they are also required to make additional contributions to the Local Governmental Employees' Retirement System for this purpose as do all other employers participating in the Plan that cover its retired employees. If the Town does not participate in the Local Governmental Employees' Retirement System, but has another formally established retirement plan, and elects to cover its retired employees, it is required to make premium contributions to the Plan as it may require. The Town and their employees and retired employees will pay the same premium rates as those charged by the Plan for active and retired teachers and state employees and their dependents enrolled in the Plan. The opportunity to participate in the Plan will expire June 30, 2006.

Section 29.33 of the bill modifies the authority of the Executive Administrator and the Plan's Board of Trustees to adopt optional programs under the Plan, and allows the Executive Administrator to extend the Plan's current claims processing contract by up to three years beyond the current expiration date of June 30, 2007. Subsection (a) modifies G.S. 135-39.5B to change the title of the section to "Optional" plans. Subsection (b) authorizes the Executive Administrator and the Board of Trustees, after consultation with the Committee on Employee Hospital and Medical Benefits, to adopt an optional program providing health benefit coverage, that is either underwritten or purchased, that may be a preferred provider option (PPO) or other optional type program. Subsection (c) amends G.S. 135-40.4 to require any contract involving an optional program to be considered not a public record. Subsection (c) amends G.S. 135-39.4A to amend the authority of the Executive Administrator to consult with the Committee on Employee Hospital and Medical Benefits before execution of a contract for an optional program. Subsection (d) allows the Executive Administrator and the Board of Trustees to extend the current claims processing contract by up to 3 years beyond the current expiration date of June 30, 2007, after consultation with the Joint Legislative Committee on Governmental Operations.

With the additional premium income provided for by this Act, expected increases in premium income to be provided by the Plan's Executive Administrator through increases in fully contributory premium rates, claims savings anticipated through management actions of the Executive Administrator, and the benefit changes included in this Act, the Plan's self-insured indemnity program is projected to end the 2005-2007 biennium with a cash balance of \$170.131 million of which only \$15.4 net of the Claims Stabilization Reserve would not be obligated by the following October of 2007 according to the Plan's Executive Administrator.

It must be noted that the data on the amount of financial support included in this Summary comes from the Executive Administrator of the Teachers' and State Employees' Comprehensive Major Medical Plan and not from the General Assembly's Fiscal Research Division nor from its consulting actuary.

EFFECTIVE DATE: July 1, 2005

ESTIMATED IMPACT ON STATE:

Sections 29.31 and 29.32

Based upon information provided by the Plan, its consulting actuary, Aon Consulting, estimates that the referenced provisions of the bill will result in a net cost reduction to the Plan’s self-insured indemnity program of \$43.4 million in fiscal year 2005-2006 and \$56.7 million in fiscal year 2006-2007 for a total net cost reduction for the 2005-2007 biennium of \$100.2 million. Aon Consulting’s estimate has \$44.8 million in total cost reductions for 2005-2006 and \$58.6 million for 2006-2007 for a total of \$103.4 million for the biennium. Aon Consulting’s estimate has a total increase in the program’s cost of \$1.4 million in 2005-2006 and \$1.9 million in 2006-2007 for a total increase in cost for the biennium of \$3.3 million.

Based upon information available from the Plan, the consulting actuary for the General Assembly’s Fiscal Research Division, Hartman and Associates, estimates the referenced provisions of the bill will result in a net cost reduction to the Plan’s self-insured indemnity program of \$56.0 million in fiscal year 2005-2006 and \$68.1 million in fiscal year 2006-2007 for a total net cost reduction of \$124.1 million for the 2005-2007 biennium. Hartman and Associates’ estimate has \$57.3 million in total cost reductions for 2005-2006 and \$69.7 million for 2006-2007 for a total of \$127.0 million for the biennium. Hartman and Associates’ estimate has a total increase in the program’s cost of \$1.3 million in 2005-2006 and \$1.6 million in 2006-2007 for a total increase in cost for the biennium of \$2.9 million.

The differences in the cost reduction estimates between Aon Consulting and Hartman and Associates are:

	<u>2005-2006</u>		<u>2006-2007</u>	
	<u>Aon Consulting</u>	<u>Hartman & Associates</u>	<u>Aon Consulting</u>	<u>Hartman & Associates</u>
Increase Out of Pocket Max. to \$2,000/yr	\$25.8 Million	\$39.5 Million	\$33.8 Million	\$48.5 Million
Increased Drug Copayments	\$6.8 Million	\$9.8 Million	\$8.9 Million	\$11.3 Million
Increase Inpatient Copayment	\$2.0 Million	\$2.0 Million	\$2.6 Million	\$2.4 Million
Increase Outpatient Copayment	\$3.7 Million	\$2.8 Million	\$4.8 Million	\$3.7 Million
Increase ER Copayment	\$6.5 Million	\$3.2 Million	\$8.5 Million	\$3.8 Million
Total	\$44.8 Million	\$57.3 Million	\$58.6 Million	\$69.7 Million

The differences in the cost increase estimates between Aon Consulting and Hartman and Associates involves the cost of increasing the benefit for female plan members who are age 40 and over by allowing them to utilize the existing \$150 annual wellness benefit for an annual mammogram, and allowing the Town of Forest City the option to enroll in the Plan. The differences in the estimates are as follows:

	<u>2005-2006</u>		<u>2006-2007</u>	
	<u>Aon Consulting</u>	<u>Hartman & Associates</u>	<u>Aon Consulting</u>	<u>Hartman & Associates</u>
Annual Mammograms	\$0.9 Million	\$1.3 Million	\$1.2 Million	\$1.6 Million
Add Town of Forest City	\$0.5 Million	\$0.0 Million	\$0.7 Million	\$0.0 Million
Remove N.C. Symphony	\$0.0 Million	\$0.0 Million	\$0.0 Million	\$0.0 Million

Neither consulting actuary expected an adverse financial impact to the Plan from the N.C. Symphony's anticipated exiting the Plan on June 30, 2006 since the Symphony's premiums are set to cover their claims experience and are calculated separate and apart from those set for teachers and state employees.

Section 29.33

The consulting actuary for the Teachers' and State Employees' Comprehensive Major Medical Plan, Aon Consulting, says that the proposed legislation does not specify the necessary benefit design coverages, premium contribution schedules or other provisions for an alternative program type option required to estimate the financial impact upon the Plan. Aon Consulting cautions that if benefit design, contribution level, provider network, and employee communications are not carefully designed, the overall Plan may experience increased financial requirements. They also note that if the Plan purchases a fully-insured program option versus choosing to self-insure, that costs would be higher due to contribution rates including premium taxes, risk charges, and other profit measures typically covered under fully-insured premiums. Nonetheless, Aon Consulting assumed that the Plan would develop an unspecified program option as an alternative to the current self-insured indemnity program that would cause a reduction in the Plan's overall financial requirements.

Aon Consulting assume that an alternative program option would attract significantly less than 50% of current plan members. On that basis Aon Consulting estimates a \$23.0 million savings to the Plan in the 2006-2007 fiscal year, if an alternative program is offered beginning July 1, 2006.

The consulting actuary for the General Assembly's Fiscal Research Division, Hartman & Associates, states that the financial impact of the bill is not determinable. Hartman & Associates states that the financial impact of alternative benefit program types is highly dependent upon benefit design, provider arrangements, and plan member behavior. Factors related to this observation include: whether the alternative program option maintains lesser or greater benefits than the current self-insured indemnity program; the Plan's ability to attain provider volume discounts under the alternative program option and maintain current discounts under the self-insured indemnity program; the cost impact to the Plan of plan members self-selecting the program option most advantageous and causing cost shifting between the self-insured indemnity program and other presumed program options to be authorized; the unknown availability of a viable health care provider network for an alternative program option in all of the State's 100 counties; and additional administrative costs to the Plan through either administering another self-insured

program or costs imbedded in a purchased fully insured program option. Consequently, Hartman & Associates was unable to estimate the expected financial impact to the Plan of the proposed legislation without further detail.

No estimated savings or additional costs for the authorization to implement a preferred provider option or other optional program were incorporated in to the Plan's estimated financial needs for the coming biennium. Neither was any impact estimated for the potential impact of extending the current claims processing contract by up to three years beyond the current expiration date of June 30, 2007.

EFFECTIVE DATE: July 1, 2005

ASSUMPTIONS AND METHODOLOGY: The Comprehensive Major Medical Plan for Teachers and State Employees is divided into two programs: a self-insured indemnity type program and a prepaid program of coverage by health maintenance organizations. 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). 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. 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. In July 2004, the North Carolina Symphony Society, Inc., a non-profit corporation, was included as an employing unit under the Plan for the purpose of providing health benefits to the Symphony Society's employees and employees' families. The Symphony Society provides health benefits for its employees and employee family members through a labor contract with the Professional Musicians Association, a local of the American Federation of Musicians. Coverage under the Plan will be on a partially contributory basis for Symphony Society employees and enrolled spouses and dependent children. The amount of contributions provided by the Symphony Society and by their employees is determined periodically in accordance with the labor contract. The Plan's Executive Administrator and Board of Trustees are required to set premium rates for Symphony society employees and their families separate from those charged to active and retired teachers and state employees and their dependents enrolled in the Plan. Retired employees of the Symphony Society are not eligible for health benefits under the Plan since they are not members of the State Retirement Systems. Also beginning in July 2004, the North Carolina county local governments of Bladen, Cherokee, Rutherford, Washington, and Wilkes counties were authorized to become employing units under the Plan for the purpose of providing health benefits to their respective employees, retired employees, and their employee's eligible spouses and dependent children. If these local governments elect to participate in the Plan, they must by legal resolution approved by the Plan elect such participation and agree to make any contributions required by the Plan. A local government must allow all of its eligible employees and their eligible spouses and dependent

children to enroll in the Plan on a non-contributory, partially contributory, or fully contributory basis. All enrolled employees, retired employees, and their family members will be required to participate in disease management, case management, and all other cost containment measures implemented by the Plan. If a local government elects to enroll its retired employees, and their eligible spouses and dependent children, the election is irrevocable. Local government employers making this election to cover retired employees are also required to make additional contributions to the Local Governmental Employees' Retirement System for this purpose as do all other employers participating in the Plan that cover its retired employees. If a local government does not participate in the Local Governmental Employees' Retirement System, but has another formally established retirement plan, and elects to cover its retired employees, it is required to make premium contributions to the Plan as it may require. Local governments and their employees and retired employees will pay the same premium rates as those charged by the Plan for active and retired teachers and state employees and their dependents enrolled in the Plan. County local governments authorized to participate in the Plan may do so through June 30, 2006. Of the county local governments authorized to participate in the Plan, none have chosen to do so as of December 31, 2004. Employer-paid non-contributory premiums are only authorized for the self-insured indemnity program's coverage for teachers, state employees and retired employees. All other types of premium contributions in the indemnity program are fully contributory, except for job-sharing public school teachers who are authorized to pay 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 teachers, state employees, retired employees, and their families. Similarly the Plan's Executive Administrator has set premium rates for members of the North Carolina Symphony Society, Inc. and their families at 51% more than the comparable rates charged for teachers, state 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 program coverage continue to be available under 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, 2004, include:

	<u>Self-Insured Indemnity Program</u>	<u>Alternative HMOs</u>	<u>Plan Total</u>
<u>Number of Participants</u>			
Active Employees	295,793	-0-	295,793
Active Employee Dependents	134,812	-0-	134,812
Retired Employees	127,074	-0-	127,074
Retired Employee Dependents	19,180	-0-	19,180
Former Employees & Dependents with Continued Coverage	2,278	-0-	2,278
Firefighters, Rescue Squad Workers, National Guard Symphony Members & Dependents	171	-0-	171

Total Enrollments	579,308	-0-	579,308
<u>Number of Contracts</u>			
Employee Only	339,047	-0-	339,047
Employee & Child(ren)	41,448	-0-	41,448
Employee & Family	42,372	-0-	42,372
Total Contracts	422,867	-0-	422,867

	<u>Self-Insured Indemnity Program</u>	<u>Alternative HMOs</u>	<u>Plan Total</u>
<u>Percentage of Enrollment by Age</u>			
29 & Under	26.2%	-0-%	26.2%
30-44	20.6	-0-	20.6
45-54	20.1	-0-	20.0
55-64	17.9	-0-	17.9
65 & Over	15.3	-0-	15.3

<u>Percentage of Enrollment by Sex</u>			
Male	37.9%	-0-%	37.9%
Female	62.1	-0-	62.1

Assumptions for the Self-Insured Indemnity Program: For the fiscal year beginning July 1, 2004, the self-insured program started its operations with a beginning cash balance of \$224 million. Receipts for the year are estimated to be \$1.687 billion from premium collections and \$7 million from investment earnings for a total of \$1.694 billion in receipts for the year. Disbursements from the self-insured program are expected to be \$1.667 billion in claim payments and \$56 million in administration and claims processing expenses for a total of \$1.723 billion for the year beginning July 1, 2004. For the fiscal year beginning July 1, 2004, the self-insured indemnity program is expected to have a net operating loss of approximately \$29 million for the year. The Plan's self-insured indemnity program is expected to have an available beginning cash balance of \$195 million for the fiscal year beginning July 1, 2005. The self-insured indemnity program is consequently assumed to not be able to carry out its operations for the 2005-2007 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 \$217.66 monthly for employees whose primary payer of health benefits is Medicare and \$285.92 per month for employees whose primary payer of health benefits is not Medicare. Fully

contributory premium amounts for employee and child(ren) contracts are \$135.46 monthly for children whose primary payer of health benefits is Medicare and \$178.22 monthly for other covered children, and \$324.88 per month for family contracts whose dependents have Medicare as the primary payer of health benefits and \$427.48 per month for other family contract dependents. Claim cost trends are expected to increase at a rate of 12% annually. Total enrollment in the program is expected to increase less than 2% annually over the next few years. The number of enrolled active employees is expected to increase about 2.5% annually over the next few years, whereas the growth in the number of retired employees is assumed to be 5% per year. The program is expected to have a 1% decrease in the number of active employee dependents per year whereas the number of retiree dependents is expected to increase 1% per year. Investment earnings are based upon a 3.5% 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 changes in the Self-insured Indemnity Program's Benefits and Premium Rates:

Overall Financial Picture for the past six years:

	(\$ Million)					
	<u>1998-99</u>	<u>1999-2000</u>	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>
BEGINNING BALANCE	\$334.140	\$234.145	\$188.019	\$51.243	\$91.598	\$123.054
RECEIPTS						
Premiums Due	\$592.920	\$765.552	\$932.536	\$1,247.438	\$1,385.188	\$1,579.465
Plus: Receivables (Prior)	\$0.276	\$0.194	\$0.263	\$0.339	\$0.246	\$0.384
Sub-Total	\$593.196	\$765.746	\$932.799	\$1,247.777	\$1,385.434	\$1,579.849
Less: Receivables (Current)	\$0.194	\$0.263	\$0.339	\$0.246	\$0.384	\$0.339
Premium Receipts						
Employees	\$334.388	\$432.624	\$540.449	\$734.636	\$822.006	\$951.262
Retirees	\$131.759	\$170.560	\$195.661	\$259.853	\$291.633	\$342.183
Dependents	\$122.842	\$157.675	\$191.132	\$246.962	\$265.427	\$279.686
Former Members	\$4.013	\$4.624	\$5.206	\$6.064	\$5.962	\$6.345
Fire/Rescue/Nat'l. Guard	\$0.000	\$0.000	\$0.012	\$0.016	\$0.022	\$0.034
Sub-Total	\$593.002	\$765.483	\$932.460	\$1,247.531	\$1,385.050	\$1,579.510
Less: Refunds	\$1.295	\$1.641	\$1.960	\$3.127	\$1.745	\$3.295
Total Net Premiums	\$591.707	\$763.842	\$930.500	\$1,244.404	\$1,383.305	\$1,576.215
Investment Earnings	\$20.464	\$15.241	\$9.879	\$4.187	\$7.492	\$7.812
Average Annual Yield	6.0%	5.9%	6.0%	5.2%	4.3%	4.1%
Long Term Care Fees	\$0.006	\$0.017	\$0.018	\$0.020	\$0.019	\$0.018
HMO Fees	\$16.473	\$14.516	\$8.364	\$1.674	\$0.000	\$0.000
Transfer - State Budget Office				\$36.000		
Transfer - AdvancePCS				\$0.500	1.168	

Total Receipts	\$628.650	\$793.616	\$948.761	\$1,286.785	\$1,391.984	\$1,584.045
TOTAL BEGINNING BALANCE AND RECEIPTS	\$962.790	\$1,027.761	\$1,136.780	\$1,338.028	\$1,483.582	\$1,707.099
DISBURSEMENTS						
Claim Receipts	\$1,779.548	\$2,016.299	\$2,547.856	\$3,377.252	\$3,707.747	\$4,264.385
Plus: Payables (Prior)	\$13.718	\$15.583	\$8.079	\$184.041	\$24.169	\$24.169
Sub-Total	\$1,793.266	\$2,031.882	\$2,555.935	\$3,561.293	\$3,731.916	\$4,288.554
Less: Deductibles	\$96.851	\$97.575	\$102.921	\$143.644	\$144.760	\$146.390
Copayments	\$114.795	\$174.055	\$292.993	\$482.071	\$548.306	\$662.237
Coordination of Benefits	\$513.490	\$550.578	\$641.248	\$823.011	\$910.504	\$1,072.274
Non-Covered Charges	\$334.009	\$373.100	\$262.302	\$859.781	\$746.993	\$904.041
Payables (Current)	\$15.583	\$8.079	\$184.041	\$24.169	\$39.483	\$52.492
Claim Payments						
Employees	\$346.092	\$410.692	\$538.175	\$655.514	\$701.651	\$761.811
Retirees	\$201.581	\$240.441	\$285.252	\$307.249	\$338.839	\$381.798
Dependents	\$161.689	\$168.364	\$238.428	\$253.853	\$288.311	\$295.443
Former Members	\$9.176	\$8.998	\$10.556	\$11.994	\$13.052	\$11.991
Fire/Rescue/Nat'l. Guard	\$0.000	\$0.000	\$0.019	\$0.007	\$0.017	\$0.077
Sub-Total	\$718.538	\$828.495	\$1,072.430	\$1,228.617	\$1,341.870	\$1,451.120
Less: Refunds	\$8.100	\$8.402	\$16.088	\$13.915	\$16.473	\$13.446
Total Net Claims	\$710.438	\$820.093	\$1,056.342	\$1,214.702	\$1,325.397	\$1,437.674
Administration	\$1.299	\$1.309	\$1.998	\$4.957	\$5.563	\$6.601
Claims Processing	\$16.908	\$18.340	\$27.197	\$26.771	\$29.568	\$38.483
Total Disbursements	\$728.645	\$839.742	1085.537	\$1,246.430	\$1,360.528	\$1,482.758
ENDING BALANCE	\$234.145	\$188.019	\$51.243	\$91.598	\$123.054	\$224.341
NUMBER OF CLAIMS (000)						
Beginning Inventory	57.3	59.7	34.8	382.7	49.6	70.8
Claims Received	6,712.2	8,086.5	7,709.7	6,896.9	7,168.5	7,628.9
Claims Processed	6,709.8	8,111.4	7,361.8	7,230.0	7,147.3	7,610.9
Ending Inventory	59.7	34.8	382.7	49.6	70.8	88.8
Paid Claims	6,577.1	7,922.6	7,164.3	7,005.5	6,280.3	7,123.7
Paid Adjustments	103.4	141.3	158.9	193.5	179.4	218.3
Total Paid Claims	6,680.5	8,063.9	7,323.2	7,199.0	6,459.7	7,342.0
Average Claim Payment	\$108	\$108	\$146	\$171	\$208	\$198
AVERAGE NUMBER OF MEMBERS (000)						
Employees	190.9	201.3	238.3	272.4	279.7	286.5

Retirees	91.5	96.1	103.3	111.3	117.5	122.6
Dependents						
Employee	105.6	109.3	128.7	140.0	137.9	135.5
Retiree	15.5	16.3	17.7	18.6	19.1	19.3
Total Dependents	121.1	125.6	146.4	158.6	157.0	154.8
Former Members	2.6	2.6	2.7	2.6	2.3	2.3
Total Membership	406.1	425.6	490.7	544.9	556.5	566.2

AVERAGE NUMBER OF CONTRACTS (000)

Employee Only	216.8	229.6	263.6	298.5	314.3	327.8
Employee & Child(ren)	30.2	31.3	37.1	41.1	41.1	41.1
Employee & Family	38.1	39.4	44.4	45.4	44.7	43.3
Total Number of Contracts	285.1	300.3	345.1	385.0	400.1	412.2

Assumptions for Increasing Outpatient Prescription Drug Copayments: The Plan's self-insured indemnity Plan spent the following gross claims amounts for outpatient prescription drugs over the last six years:

	Fiscal Years (\$ Million)					
	<u>1998-99</u>	<u>1999-2000</u>	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>
Outpatient Prescription Drugs	\$115.001	\$172.714	\$260.195	\$262.115	\$304.151	\$353.952

For the 2003-2004 fiscal year the total number of plan member scripts equaled 9,375,097 for an average enrolled membership of 566,200. The per member per year number of scripts for all categories of drugs was 16.5. The average out-of-pocket copay paid by plan members was \$21.27 per script. The average charge was \$73.98 per script and the average allowed charge was \$58.68 per script. The average amount paid by the Plan was \$38.86 per script, which is approximately a 66.2% reimbursement rate of the allowed charges.

On a per script basis, brand drugs represent 51% of plan member scripts and 84% of paid claims for outpatient drugs. The average allowed charge for a brand source drug was \$91.85 while the average amount paid equaled \$64.07. The next highest category of drugs in terms of scripts issued is Generic drugs, which represent 43% of total scripts and 13% of paid claims. The average allowed charge for generic drugs was \$20.87 per script while the average amount paid was \$11.69 per script.

For brand with generic equivalent drugs, plan member scripts totaled 544,866 or approximately 6% of total scripts. Average allowed charges for this category equaled \$47.22 with paid claims at an estimated \$18.59. For non-formulary drugs, plan member scripts totaled 980,573 with and average allowed charge of \$88.73 and average paid claims of \$52.50. The average copay for this category of drug was \$37.67, which is the highest average copay amount for all categories of drugs covered.

Assumptions for increased Inpatient, Outpatient, and Emergency Room Copayments: The table below provides the number of applicable services and copayments collected over the last two fiscal years for Inpatient, Outpatient, and Emergency Room copayments:

	FY 2003-2004			FY 2002-2003		
	<u>No. of Services</u>	<u>Copayment Amount</u>	<u>Average Copay</u>	<u>No. of Services</u>	<u>Copayment Amount</u>	<u>Average Copay</u>
Inpatient	49,696	\$4,968,671	\$99.98	48,239	\$4,821,472	\$99.95
Outpatient (Eligible Chgs.only)	126,706	\$6,335,307	\$50.00	110,391	\$5,519,533	\$50.00
Emergency Room (Eligible Chgs.only)	43,553	\$4,160,987	\$95.54	42,980	\$4,081,913	\$94.97

Assumptions for increasing the indemnity program's maximum annual out-of-pocket for the 20% coinsurance paid by members of the program from \$1,500 to \$2,000 with an annual limit of \$6,000 per employee and child(ren) or employee and family contract; Annual Distribution of Claims data with respect to eligible charges for 12-month plan members was provided by the Claims Processing Contractor for use in evaluating the cost reduction impact of this benefit reduction.

Assumptions for increasing the benefit for plan members who are age 40 and over by allowing them to utilize the existing \$150 annual wellness benefit for an annual mammogram: The Plan's Claims Processing Contractor reports that for the 2003-2004 fiscal year, the average charge billed for a screening mammogram was for the age 35 to 54 active member group was \$56.54 while the average paid amount was \$23.99. The number of mammogram procedures for this group equaled 142.8 per 1,000 members. For the same age group among non-Medicare retired plan members, the average charge billed was \$56.58 and the average amount paid was \$30.52. The number of mammogram procedures per 1,000 members equaled 90.9 for non-Medicare retired members.

For the prior 2002-2003 fiscal year, the average charge billed for active members of the age 35 to 54 group was \$54.82 and the average amount paid equaled \$24.53. There were 143.4 mammogram procedures per 1,000 members. Similarly for the non-Medicare retired group, the average billed charge was \$56.17 and the average paid amount \$27.89 with 106.1 procedures conducted per 1,000 plan members.

Assumptions for adding the optional election by the Town of Forest City to join the Plan: A current census of employees provided by the Town of Forest City and retired employees enrolled in the Local Governmental Employees' Retirement System for the Town are shown below. Aon Associates, the consulting actuary for the Plan assumed that the census of employees and retired employees for the Town reflected a demographic similar to the Plan. The consulting actuary for

the General Assembly, Hartman and Associates, assumed the demographics for the Town's employees, dependents, and retired employees to be similar to the Plan. Hartman and Associates also noted that without prior claims experience for this specific group, and given that participation is optional, adverse selection against the Plan might occur.

<u>Ages</u>	<u>Forest City Employees</u>				<u>Forest City Employee Spouses</u>				<u>Children</u>
	<u>Male</u>	<u>Female</u>	<u>Total</u>	<u>Percent</u>	<u>Male</u>	<u>Female</u>	<u>Total</u>	<u>Percent</u>	
0-4	0	0	0	0.0%	0	0	0	0.0%	15
5-9	0	0	0	0.0%	0	0	0	0.0%	23
10-14	0	0	0	0.0%	0	0	0	0.0%	23
15-19	1	0	1	0.8%	0	0	0	0.0%	22
20-24	7	1	8	6.0%	0	2	2	5.4%	4
25-29	20	2	22	16.5%	0	4	4	10.8%	0
30-34	14	1	15	11.3%	0	5	5	13.5%	0
35-39	17	4	21	15.8%	6	1	7	18.9%	0
40-44	15	1	16	12.0%	5	1	6	16.2%	0
45-49	13	4	17	12.8%	0	5	5	13.5%	0
50-54	11		11	8.3%	1	1	2	5.4%	0
55-59	8	6	14	10.5%	1	1	2	5.4%	0
60-64	2	1	3	2.3%	2	2	4	10.8%	0
65-69	2	1	3	2.3%	0	0	0	0.0%	0
70-74	1	1	2	1.5%	0	0	0	0.0%	0
75-79	0	0	0	0.0%	0	0	0	0.0%	0
>79	0	0	0	0.0%	0	0	0	0.0%	0
Unknown	0	0	0	0.0%	0	0	0	0.0%	0
TOTAL	111	22	133	100.0%	15	22	37	100.0%	87
Percent	83.5%	16.5%	100.0%		40.5%	59.5%	100.0%		

<u>Forest City Retired Employees</u>				
<u>Ages</u>	<u>Male</u>	<u>Female</u>	<u>Total</u>	<u>Percent</u>
0-4	0	0	0	0.0%
5-9	0	0	0	0.0%
10-14	0	0	0	0.0%
15-19	0	0	0	0.0%
20-24	0	0	0	0.0%
25-29	0	0	0	0.0%
30-34	0	0	0	0.0%
35-39	0	0	0	0.0%
40-44	0	0	0	0.0%
45-49	0	0	0	0.0%
50-54	4	2	6	12.2%
55-59	6	1	7	14.3%
60-64	6	0	6	12.2%
65-69	2	3	5	10.2%
70-74	7	4	11	22.4%
75-79	2	3	5	10.2%
>79	4	5	9	18.4%

Unknown	0	0	0	0.0%
TOTAL	31	18	49	100.0%
Percent	63.3%	36.7%	100.0%	

Data source: Active Employee Data Provided by the Town of Forest City/Retiree Data provided by the State Retirement System Office from the Local Government Retirement System database. Current ages calculated as of April 21, 2005.

Assumptions for removing the employees and their families of the N.C. Symphony from the Plan effective June 30, 2006: Provided below is the underwriting experience estimated for the N.C. Symphony for the 10-months of coverage provided in the 2004-2005 plan year.

**State Health Plan Experience for NC Symphony
10-Months of Coverage (2)
FY 2004-2005**

	<u>Employees</u>	<u>Dependents</u>	<u>Total</u>
Premiums Collected (1)	\$278,901	\$176,523	\$455,424
Claims	<u>(\$261,238)</u>	<u>(\$134,278)</u>	<u>(\$395,516)</u>
Net Underwriting Impact*	\$17,663	\$42,245	\$59,908

* Excludes Administrative Expenses

- 1) Premium rates for the Symphony were charged at a rate of 151% of the State Health Plan rate for Teachers and State Employees.
- 2) N.C. Symphony enrollment began September 1, 2004.

Data Source: Claims Processing Reports, State Health Plan.

SOURCES OF DATA:

- Actuarial Note, Hartman & Associates, Conference Committee Substitute for Senate Bill 622, August 5, 2005, original of which is on file in the General Assembly's Fiscal Research Division.
- Actuarial Note, Aon Consulting, Senate Bill 622 Proposed Conference Committee Substitute, August 5, 2005, 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.

TECHNICAL CONSIDERATIONS: None

FISCAL RESEARCH DIVISION: (919) 733-4910

PREPARED BY: Mark Trogon

APPROVED BY: James D. Johnson
Director Fiscal Research Division

DATE: August 8, 2005

Signed Copy Located in the NCGA Principal Clerk's Offices

