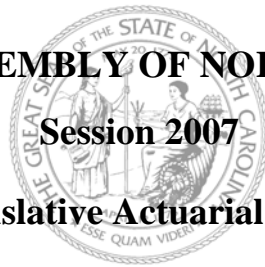


GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2007

Legislative Actuarial Note

HEALTH BENEFITS

BILL NUMBER: House Bill 265 (Third Edition)

SHORT TITLE: Establish High-Risk Pool.

SPONSOR(S): Representatives Insko, Holliman, England, and Underhill

SYSTEM OR PROGRAM AFFECTED: Teachers' and State Employees' Comprehensive Major Medical Plan (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, and certain authorized local governments.

BILL SUMMARY: House Bill 265 (3rd edition) generally establishes a high-risk pool to offer insured health benefit coverage to eligible citizens of the State who presumably otherwise cannot secure affordable coverage by other means. Third edition of House Bill 265 subjects the Plan to the following proposed changes to Chapter 58 of the General Statutes as it relates to establishing a high-risk pool:

- 1) Includes the Plan under the definition of "Insurer" [Section 1.1].
- 2) Allows for per member per month assessment fees be applied to insured lives under the Plan and other defined insurers as required by the proposed G.S. 58-50-290. The proposed assessment fees are to be increased on a graduated basis by calendar year in amounts not to exceed the following schedule:
 - Seventy cents (.70) for the 2008 and 2009 calendar year;
 - One dollar (\$1.00) for the 2010 calendar year;
 - One dollar thirty cents (\$1.30) for the 2011 calendar year;
 - One dollar seventy cents (\$1.70) for the 2012 fiscal year;
 - Two dollars (\$2.00) for the 2013 calendar year and all years thereafter [Section 1.1]
- 3) Allows for the special assessment of fees upon the Plan and other insurers to cover certain federally defined individuals, [Section 1.1]

EFFECTIVE DATE: Sections 2.1, 2.2 and 3 of the bill become effective July 1, 2007, and expire July 1, 2009. The remainder of the bill is effective when it becomes law. Enrollment in the Pool shall commence no later than January 1, 2009.

ESTIMATED IMPACT ON STATE:

Assessment Fees

By including the Plan under the proposed definition of insurer, the Plan would be subject to the graduated assessment fees specified in the proposed legislation. The proposed assessment fee is applied to the Plan on a per member per month basis.

Aon Consulting, the consulting actuary for the Teachers' and State Employees' Comprehensive Major Medical Plan (Plan), estimates the bill if enacted would cost the Plan a midpoint estimate by fiscal year of:

\$0.4 million in the 2008-2009 fiscal year;
\$1.8 million in the 2009-2010 fiscal year;
\$3.7 million in the 2010-2011 fiscal year;
\$5.7 million in the 2011-2012 fiscal year; and
\$7.7 million in the 2012-2013 fiscal year.

Hartman and Associates, consulting actuary for the North Carolina General Assembly, projects a best estimate cost of the proposed bill to the Plan as follows:

\$0.2 million in the 2008-2009 fiscal year;
\$1.7 million in the 2009-2010 fiscal year;
\$3.2 million in the 2010-2011 fiscal year;
\$5.1 million in the 2011-2012 fiscal year; and
\$7.5 million in the 2012-2013 fiscal year.

Special Assessment Fees

No estimate of financial impact is available from either consulting actuary regarding the potential application of special assessment fees to insure coverage of certain federally defined individuals if enrollment is capped at any point in time.

ASSUMPTIONS AND METHODOLOGY:

Actuarial Notes from each respective actuary for the 3rd edition of the bill reflects a lesser projected impact to the Plan than reflected in the actuarial note for the 2nd edition of the bill. Additional data made available from the NC Department of Insurance sponsored study of High-Risk Pools conducted by Milliman and Associates was incorporated in the review of data and other available information sources on high risk pools.

Data was provided in 2006 by the North Carolina Institute of Medicine (IOM) in conjunction with Blue Cross Blue Shield of North Carolina (BCBSNC) as to the baseline assumptions for a high-risk pool as proposed in the bill. The amount of projected loss net of premiums paid is an

estimated \$29.9 million on a current basis assuming medical provider reimbursement at standard Medicare rates. The claims estimates were generated from an analysis by the IOM and BCBSNC based on underwriting experience from insured individuals in higher-risk tiers for a specific individually underwritten insured product offered by the insurer. This loss represents the baseline claims loss projected on a current basis from which the Plan's actuary and the General Assembly's actuary projected future losses for ultimately determining each actuary's projected, though different, assessment rate charges to be paid by the Plan on a per member per month basis. The data also estimated the number of enrollees in the high-risk pool to be 9,000 participants or 1% of the estimated uninsured population.

Aon Consulting's estimate is based on a projected average enrollment of 619,000 plan members as of January 2007. In addition to normal claims growth trends Aon Consulting also estimates the high-risk pool claims could be 100% to 300% greater than projected by the IOM and BCBSNC. Aon Consulting's estimate assumes the pool will commence enrollment January 1, 2009. Population levels are assumed at 2004 levels but are expected to be at significantly higher levels at implementation. Aon Consulting also used assessment rate Scenarios 19 & 27 from the Milliman study as the low and high range of expected impact with respect to the required assessment rates.

Hartman and Associates assume a 12% rate growth in the baseline claims provided by the Institute of Medicine and an enrollment growth rate of 2% annually for membership in the Plan. Total average membership in the Plan is assumed to be 618,000 as of December 2006. The analysis by Hartman and Associates does not assume additional claims risk beyond what is projected by the IOM and BCBSNC. Hartman and Associate's estimate assumes the pool will commence enrollment January 1, 2009. The estimated number of covered insured lives in the State was assumed to be 4.2 million based on U.S. Census estimates and North Carolina Department of Insurance projections. Hartman and Associates also notes that "we do not have data available to determine the number of federally defined eligible individuals who may enter the Pool and thus cannot estimate the financial impact on the Plan of this provision." They further note that a special assessment would apply during periods when enrollment in the Pool would be limited due to unfavorable claims experience.

SOURCES OF DATA:

-Actuarial Note, Hartman & Associates, House Bill 265 (1st Edition) as Amended: Establish the North Carolina High Risk Pool, March 22, 2007, supersedes February 26, 2007 version, original of which is on file in the General Assembly's Fiscal Research Division.

-Actuarial Note, Aon Consulting, House Bill 265 (1st edition) with Proposed Amendment H265-ARD-1[v.2], Establish High Risk Pool, March 23, 2007, supersedes February 23, 2007 version 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

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DATE: March 28, 2007



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