

# GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2007

## Legislative Actuarial Note

### HEALTH BENEFITS

**BILL NUMBER:** House Bill 2443 (Third Edition)

**SHORT TITLE:** State Health Plan.

**SPONSOR(S):**

**SYSTEM OR PROGRAM AFFECTED:** Teachers' and State Employees' Comprehensive Major Medical Plan. On and after July 1, 2008 the Plan will be known as the *State Health Plan for Teachers and State Employees* (see Section 28.22A of Session Law 2007-323).

**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:** The amended Senate committee substitute to House Bill 2443 (H2443-PCS80635-LN-79) generally rewrites Article 3 of Chapter 135 to make certain policy, conforming and technical changes to the Article to reflect the elimination of the Indemnity plan benefit option effective July 1, 2008 as enacted in Sections 28.22 and 28.22A of Session Law 2007-323.

From an actuarial and financial perspective, there are two changes included in the proposed committee substitute that are not authorized in current law:

- (1) **Authority of the Executive Administrator and Board of Trustees to offer multiple type benefit plans:** Section 3 (c) of the proposed committee substitute establishes the authority of the Plan to offer comprehensive group health benefit coverage through one or more group health plans. The Executive Administrator and Board of Trustees may operate group plans as a preferred provider option, health maintenance, point-of-service, or other organizational arrangement. Furthermore, an act of the General Assembly is required for the Executive Administrator and the Board of Trustees to change at any point in time the Plan's comprehensive benefit coverage, including co-payments, deductibles, out-of-pocket expenditures, and lifetime maximums, under any plan type option authorized.
- (2) **Authorize an optional Medicare Advantage program:** Under Section 3 (o) of the proposed committee substitute, the Plan is authorized to offer an insured Medicare Advantage product to Medicare eligible plan members in lieu of other coverage offered under the Plan in conjunction with carve outs for Medicare Parts A & B. Under the proposed authorization Medicare eligible plan members would have an option to select a Medicare Advantage plan offered through an

authorized insurer under contract with the Plan. The authorizing language also requires the Plan to continue to offer the Plan's current outpatient prescription drug coverage to all Medicare eligible plan members regardless of whether they are enrolled in a Medicare Advantage product or continue to remain in other benefit plans offered by the Plan.

## **ESTIMATED IMPACT ON STATE:**

### Authority to Offer Multiple Benefit Plans

An act of the General Assembly would be required to offer any change in comprehensive benefits offered through a single or multi plan type offering authorized in the proposed legislation. In addition, House rules, Senate rules, and G.S. 120-114 require any change in health benefits proposed in a bill before the General Assembly to have an actuarial note to estimate financial and actuarial effect to the State. Therefore, it is assumed that any future changes to benefits recommended by the Executive Administrator and Board of Trustees in future proposed legislation before the General Assembly would be considered with the appropriate legislative actuarial note attached.

### Optional Medicare Advantage Plan

Aon Consulting, the consulting actuary for the Teachers' and State Employees' Comprehensive Major Medical Plan, estimates that the implementation of a Medicare Advantage plan, implemented effective January 1, 2009, and thereafter on a fiscal year basis, would generate estimated savings of \$5.9 million in the 2008-2009 fiscal year, and \$11.8 million in the 2009-2010 fiscal year. Aon Consulting estimates in part rely upon a proprietary database and cost projection model in conjunction with other data. Aon Consulting also uses an assumed midpoint enrollment rate of 30,000 Medicare eligible plan members electing to enroll in a future Medicare Advantage plan beginning January 1, 2009.

Hartman & Associates, the consulting actuary for the General Assembly's Fiscal Research Division, estimates that a Medicare Advantage plan would not have a significant financial impact based on the information available from the Plan. Hartman & Associates noted that the yet- to-be determined benefit design and unknown geographic availability of a potential Medicare Advantage product to be offered by the Plan, limits any reliable estimate of actuarial and financial impact to the Plan at this time.

**EFFECTIVE DATE:** July 1, 2008

## **ASSUMPTIONS AND METHODOLOGY:**

### **Summary Plan Information**

The Plan operates on a self-funded basis funded through premium contributions, investment earnings and other receipts. As of October 1, 2006, the Plan operates an Indemnity plan and an optional Preferred Provider Option (PPO) plan. Effective July 1, 2008, the Plan will no longer operate the Indemnity Plan as a benefit option for plan members. The PPO plan offers three options to plan members that include: (1) a "basic" 70/30 plan that offers higher out-of-pocket requirements in return for lower fully contributory dependent premiums; (2) a "standard" 80/20 plan; and (3) a 90/10 "plus" plan with enhanced benefits via lower out-of-pocket requirements as compared to the other PPO plan options. Participation in the plus plan requires employees and retired employees to make a partially contributory premium contribution to participate in this option. The basic and standard plans offer coverage to employees and retired employees on a noncontributory basis. Coverage for dependents under all plans is offered on a fully contributory basis.

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, and fraud detection, and other authorized actions by the Executive Administrator and Board of Trustees to manage the Plan to maintain and improve the Plan's operation and financial condition where possible. Claim cost trends are expected to increase at a rate of 9% annually according to the Plan's consulting actuary. Investment earnings are based upon a 4.5% return on available cash balances.

### **Financial Condition**

#### **Year-to-date Operating Results <sup>1</sup>**

Through May 31, 2008, the Plan has an operating loss of approximately \$38.7 million for the 2007-2008 fiscal year. Year-to-date operating losses in the Indemnity plan total \$91.8 million versus a projected annual loss of \$2.5 million. To date, these losses are partially offset by \$53.1 million in operating gains under the PPO plans. The Plan as a result is operating substantially behind its projected annual operating income of \$57.9 million for the 2007-2008 fiscal year. Based on actual results through May 2008, the Plan revised its projected income to reflect an estimated \$63.9 million loss for the fiscal year, or a reduction of \$121.8 million in projected income. The negative results experienced during the 2007-2008 fiscal year are expected to require the Executive Administrator of the Plan to implement additional cost saving programs for the balance of the 2007-2009 biennium.

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<sup>1</sup> Summary of Operations (Cash Basis Reporting), For the Period Ending May 2008, 2007-2008 Fiscal Year, Teachers' and State Employees Comprehensive Major Medical Plan.

## **Financial Projection (Revised June 2008)<sup>2</sup>**

Combined Benefit Plan Components (Indemnity and PPO): For the fiscal year beginning July 1, 2007, the Plan is projected to start its operations with a beginning cash balance of \$156.7 million. Receipts for the year are estimated to be \$2.223 billion from premium collections, \$51.8 million from Medicare Part D subsidies and \$8.5 million from investment earnings for a total of \$2.283 billion in receipts for the year. Claims payments from the Plan are expected to be \$1.653 billion in medical claim payments, \$548 million in pharmacy claim payments, plus \$9.6 million in other cost adjustments for total net claims payments of \$2.211 billion. Total disbursements of the Plan are expected to be \$2.347 billion after adding total net claims payments plus \$136.9 million in administration and claims processing expenses. For the fiscal year beginning July 1, 2007, the Plan is expected to have net operating income loss of approximately \$63.9 million for the year. The Plan is also projected to have an available beginning cash balance of \$92.8 million for the fiscal year beginning July 1, 2008. The Plan does maintain 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.

Indemnity Plan Component: For the fiscal year beginning July 1, 2007, the Indemnity plan started its operations with a beginning cash balance of \$112.8 million. Receipts for the year are estimated to be \$686.7 million from premium collections, \$47.7 million from Medicare Part D subsidies and \$4.1 million from investment earnings for a total of \$738.5 million in receipts for the year. Claims payments from the Indemnity Plan are expected to be \$545.1 million in medical claim payments, \$232 million in pharmacy claim payments, minus \$1.3 million in other cost adjustments for total net claims payments of \$775.8 million. Total disbursements of the Indemnity plan are expected to be \$837.9 million after adding total net claims payments plus \$62.1 million in administration and claims processing expenses. For the fiscal year beginning July 1, 2007, the Indemnity plan is expected to have net operating income loss of approximately \$99.4 million for the year. The Indemnity plan is projected to have an ending cash balance of \$13.4 million for the fiscal year ending June 30, 2008. The Indemnity plan as a benefit plan option will cease to exist on July 1, 2008.

PPO Plans Component: For the fiscal year beginning July 1, 2007, the consolidated PPO plans started operations with a beginning cash balance of \$43.9 million. Receipts for the year are estimated to be \$1.537 billion from premium collections, \$4.1 million from Medicare Part D subsidies and \$4.4 million from investment earnings for a total of \$1.546 billion in receipts for the year. Claims payments from the Plan are expected to be \$1.108 million in medical claim payments, \$316 million in pharmacy claim payments, plus \$10.9 million in other cost adjustments for total net claims payments of \$1.435 billion. Total disbursements of the Plan are expected to be \$1.510 billion after adding total net claims payments plus \$74.8 million in administration and claims processing expenses. For the fiscal year beginning July 1, 2007, the PPO plans are expected to have net operating income of approximately \$35.6 million for the year. The PPO plans are also projected to have an available beginning cash balance of \$79.5 million for the fiscal year beginning July 1, 2008.

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<sup>2</sup> Aon Consulting, Consulting Actuary for the Teachers' and State Employees' Comprehensive Major Medical Plan, June 2008.

**Enrollment Data as of December 31, 2007**

<b>I. <u>No. of Participants</u></b>	<b>Indemnity <u>Plan</u></b>	<b>PPO <u>Options</u></b>	<b><u>Total</u></b>	<b>Percent of <u>Total</u></b>
<u>Actives</u>				
Employees	68,745	253,572	322,317	50.0%
Dependents	21,031	135,744	156,775	24.3%
Sub-total	89,776	389,316	479,092	74.4%
<u>Retired</u>				
Employees	85,753	55,948	141,701	22.0%
Dependents	7,859	11,611	19,470	3.0%
Sub-total	93,612	67,559	161,171	25.0%
<u>Former Employees with Continuation Coverage</u>				
Employees	682	1,022	1,704	0.3%
Dependents	226	616	842	0.1%
Sub-total	908	1,638	2,546	0.4%
<u>Firefighters, Rescue Squad &amp; National Guard</u>				
Employees	3	-	3	0.0%
Dependents	-	-	-	0.0%
Sub-total	3	-	3	0.0%
<u>Local Governments</u>				
Employees	16	1,082	1,098	0.2%
Dependents	-	459	459	0.1%
Sub-total	16	1,541	1,557	0.2%
<u>Total</u>	<u>184,315</u>	<u>460,054</u>	<u>644,369</u>	
Percent of Total	28.6%	71.4%	100.0%	100.0%

<b>II. <u>Retiree Enrollment by Category</u></b>	<b>Indemnity <u>Plan</u></b>	<b>PPO <u>Options</u></b>	<b><u>Total</u></b>
Non-Medicare Eligible	25,859	34,711	60,570
Medicare Eligible	67,753	32,848	100,601
Total	93,612	67,559	161,171
<b><u>Percent by Category (Retiree)</u></b>	<b>Indemnity <u>Plan</u></b>	<b>PPO <u>Options</u></b>	<b><u>Total</u></b>
Non-Medicare Eligible	27.6%	51.4%	37.6%
Medicare Eligible	72.4%	48.6%	62.4%
Total	100.0%	100.0%	100.0%

**Enrollment Data Continued**

<b>III. <u>Enrollment by Age</u></b>	<b>Indemnity</b>	<b>PPO</b>	<b><u>Total</u></b>
	<b><u>Plan</u></b>	<b><u>Options</u></b>	
29 & Under	25,706	147,450	173,156
30 to 44	23,965	105,402	129,367
45 to 54	28,204	89,488	117,692
55 to 64	40,880	82,975	123,855
65 & Over	<u>65,560</u>	<u>34,739</u>	<u>100,299</u>
Total	184,315	460,054	644,369

<b><u>Percent Enrollment by Age</u></b>	<b>Indemnity</b>	<b>PPO</b>	<b><u>Total</u></b>
	<b><u>Plan</u></b>	<b><u>Options</u></b>	
29 & Under	13.9%	32.1%	26.9%
30 to 44	13.0%	22.9%	20.1%
45 to 54	15.3%	19.5%	18.3%
55 to 64	22.2%	18.0%	19.2%
65 & Over	35.6%	7.6%	15.6%
Total	100.0%	100.0%	100.0%

<b>IV. <u>Enrollment by Sex</u></b>	<b>Indemnity</b>	<b>PPO</b>	<b><u>Total</u></b>
	<b><u>Plan</u></b>	<b><u>Options</u></b>	
Female	117,283	284,899	402,182
Male	<u>67,032</u>	<u>175,155</u>	<u>242,187</u>
Total	184,315	460,054	644,369

<b><u>Percent Enrollment by Sex</u></b>	<b>Indemnity</b>	<b>PPO</b>	<b>Percent of</b>
	<b><u>Plan</u></b>	<b><u>Options</u></b>	<b><u>Total</u></b>
Female	63.6%	61.9%	62.4%
Male	<u>36.4%</u>	<u>38.1%</u>	<u>37.6%</u>
Total	100.0%	100.0%	100.0%

**SOURCES OF DATA:**

-Actuarial Note, Hartman & Associates, Senate Committee Substitute H2443-PCS80635-LN-79 as amended by H2443-ALN-127-127 [v.2] to House Bill 2443, July 9, 2008, original of which is on file in the General Assembly's Fiscal Research Division.

-Actuarial Note, Aon Consulting, Committee Substitute H2443-PCS80635-LN-79 as amended by H2443-ALN-127-127 [v.2] to House Bill 2443, July 10, 2008, 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:** July 10, 2008



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