GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2009

Legislative Actuarial Note

HEALTH BENEFITS

BILL NUMBER: House Bill 439 (First Edition)

SHORT TITLE: State Health Plan/Taxpayer Recovery Act.

SPONSOR(S): Representatives England, Folwell, Hurley, and Hall

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: The bill requires reimbursement payments for city or county ambulance services to be paid by the Plan directly to the city or county ambulance service provider, or made co-payable to the provider and plan member.

EFFECTIVE DATE: July 1, 2009, and applies to county or city ambulance services provided on and after that date.

ESTIMATED IMPACT ON STATE:

<u>Aon Consulting</u>, the consulting actuary for the State Health Plan for Teachers and State Employees, estimates that the bill will have no financial impact on medical claims, but will have administrative costs of approximately $43,000 to $76,000 to implement the bill's requirements assuming ambulance services are paid by direct method.

<u>Hartman & Associates</u>, the consulting actuary for the General Assembly's Fiscal Research Division, estimates that the bill will have no financial impact on the Plan's medical claims payments. Based on the Plan's staff comments, administrative costs to implement the bill's provisions of approximately $43,000 to $76,000 assuming ambulance services are paid by direct method.

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.

The estimate of no impact to the Plan's medical costs is based on the assumption that the Plan will maintain its current percentage number of in-network ambulance service providers relative to the number of out-of-network ambulance providers. This assumption is based on the application of the bill being limited to ambulance services reimbursed by the Plan only, and not those reimbursed by the total commercial provider network the Plan participates in through its Claims Processing Contractor (CPC).

Data to estimate potential savings from alleged over utilization of services by Plan members who use out-of-network ambulance providers excessively was not available. In discussions with several county emergency medical service providers, whom currently do not contract with the CPC, there were several anecdotal examples of individuals utilizing ambulance services excessively and in turn not reimbursing the county ambulance service provider once the CPC made payment to the individual. None of the anecdotal examples given could be attributed to services paid for by the Plan on behalf of a plan member, but were related to the CPC's provider network through which the Plan participates.

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 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.

As of July 1, 2008, the State finances the Plan on a self-funded basis and administers benefit coverage under a Preferred Provider Option (PPO) arrangement. 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 elect dependent coverage. Total requirements for the Plan are estimated to be $2.6 billion for FY 2008-09. The Plan's PPO benefit design includes three alternative benefit levels offered to plan members. The three alternative benefit levels include the following:

1) The "Basic" 70/30 plan that offers higher out-of pocket requirements in return for lower fully contributory dependent premiums;

2) The "Standard" 80/20 plan; and

3) The "Plus" 90/10 plan with enhanced benefits via lower out-of pocket requirements as compared to the other PPO plan alternatives offered.

Employees and retired employees electing coverage under the Plus alternative must make a partially contributory premium contribution for their own coverage. 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.

<u>Financial Condition</u>

Financial Projection (Revised) for FY 2008-09 -- For the fiscal year beginning July 1, 2008, the Plan began its operations with a beginning cash balance of $139.8 million. Receipts for the year are projected to be $2.3 billion from premium collections, $53.9 million from Medicare Part D subsidies, and $2.7 million from investment earnings, for a total of slightly over $2.3 billion in receipt income for the year. Projected disbursements from the Plan are expected to be $2.4 billion in claim-payment expenses and $168.7 million in administration and claims-processing expenses for projected total expenses of nearly $2.6 billion for FY 2008-09. The Plan’s net operating loss is projected to be approximately $264.4 million for the fiscal year, assuming a 9% annual claims growth trend.

Projected operating losses are expected to deplete the Plan's cash balance of $139.8 million and leave it without sufficient operating resources to continue operations for the fiscal year. It is currently estimated by the Plan's Executive Administrator that the Plan will not be able to pay claims on a timely basis by March 31, 2009.

Consequently, the reforecast of Plan finances now indicates that the Plan will require up to $300 million in additional resources to operate for the balance of the 2008-09 fiscal year. This amount represents the estimated funds necessary to pay claims and administrative expenses through June 30, 2009, plus funding a minimum stabilization reserve equal to 7.5% of projected claims, and assuming a future premium rate increase effective October 1, 2009.

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, 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.

Enrollment Data as of December 31, 2008

I.	No. of Participants	Basic	Standard	Plus	Total	Percent of Total
	Actives					
	Employees	11,623	271,243	47,687	330,553	49.6%
	Dependents	20,454	115,875	28,156	164,485	24.7%
	Sub-total	32,077	387,118	75,843	495,038	74.2%
	Retired					
	Employees	1,726	127,081	17,967	146,774	22.0%
	Dependents	1,117	14,935	3,476	19,528	2.9%
	Sub-total	2,843	142,016	21,443	166,302	24.9%
	Former Employees with Continuation Coverage					
	Employees	60	1,349	344	1,753	0.3%
	Dependents	61	501	182	744	0.1%
	Sub-total	121	1,850	526	2,497	0.4%
	Firefighters, Rescue Squad & National Guard					
	Employees	-	3	2	5	0.0%
	Dependents	-	3	-	3	0.0%
	Sub-total	-	6	2	8	0.0%
	Local Governments					
	Employees	72	1,577	319	1,968	0.3%
	Dependents	141	637	218	996	0.1%
	Sub-total	213	2,214	537	2,964	0.4%
	Total					
	Employees	13,481	401,253	66,319	481,053	72.1%
	Dependents	21,773	131,951	32,032	185,756	27.9%
	Grand Total	**35,254**	**533,204**	**98,351**	**666,809**	**100%**
	Percent of Total	**5.3%**	**80.0%**	**14.7%**	**100.0%**	

II.	Enrollment by Contract	Basic	Standard	Plus	Total
	Employee Only	2,684	328,635	49,246	380,565
	Employee Child(ren)	4,958	36,903	8,589	50,450
	Employee Spouse	2,274	18,145	4,469	24,888
	Employee Family	3,565	17,570	4,015	25,150
	Total	**13,481**	**401,253**	**66,319**	**481,053**

Percent Enrollment by Contract	Basic	Standard	Plus	Total
Employee Only	19.9%	81.9%	74.3%	79.1%
Employee Child(ren)	36.8%	9.2%	13.0%	10.5%
Employee Spouse	16.9%	4.5%	6.7%	5.2%
Employee Family	26.4%	4.4%	6.1%	5.2%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Enrollment Data Continued

III.	Enrollment by Sex	Basic	Standard	Plus	Total
	Female	18,837	334,917	61,752	415,506
	Male	16,417	198,287	36,599	251,303
	Total	**35,254**	**533,204**	**98,351**	**666,809**

Percent Enrollment by Sex	Basic	Standard	Plus	Total
Female	53.4%	62.8%	62.8%	62.3%
Male	46.6%	37.2%	37.2%	37.7%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

IV.	Enrollment by Age	Basic	Standard	Plus	Total
	29 & Under	17,390	136,277	27,211	180,878
	30 to 44	8,125	107,375	17,315	132,815
	45 to 54	5,164	94,548	18,277	117,989
	55 to 64	3,195	102,901	23,452	129,548
	65 & Over	1,380	92,103	12,096	105,579
	Total	**35,254**	**533,204**	**98,351**	**666,809**

Percent Enrollment by Age	Basic	Standard	Plus	Total
29 & Under	49.3%	25.6%	27.7%	27.1%
30 to 44	23.0%	20.1%	17.6%	19.9%
45 to 54	14.6%	17.7%	18.6%	17.7%
55 to 64	9.1%	19.3%	23.8%	19.4%
65 & Over	3.9%	17.3%	12.3%	15.8%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

V.	Retiree Enrollment by Category	Employee	Dependents	Total
	Non-Medicare Eligible	49,534	12,080	61,614
	Medicare Eligible	97,240	7,448	104,688
	Total	**146,774**	**19,528**	**166,302**

Percent by Category (Retiree)	Employee	Dependents	Total
Non-Medicare Eligible	33.7%	61.9%	37.0%
Medicare Eligible	66.3%	38.1%	63.0%
Total	**100.0%**	**100.0%**	**100.0%**

SOURCES OF DATA:

-Actuarial Note, Hartman & Associates, "House Bill 439: An Act to Require the State Health Plan to Make Payments for County of City Ambulance Services Directly or Co-Payable to the Provider", April 16, 2009, original of which is on file in the General Assembly's Fiscal Research Division.

-Actuarial Note, Aon Consulting, "House Bill 439 State Health Plan/Taxpayer Recovery Act", April 16, 2009, original of which is on file with the State Health 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 Trogdon

APPROVED BY: Marilyn Chism, Director
Fiscal Research Division

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