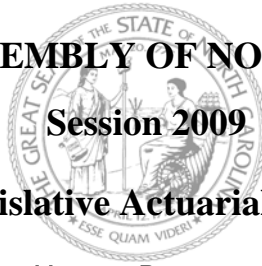


GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2009

Legislative Actuarial Note

HEALTH BENEFITS

BILL NUMBER: House Bill 2055 (Second Edition)

SHORT TITLE: State Health Plan/Local Govt Retiree Contrib.

SPONSOR(S): Representative England

SYSTEM OR PROGRAM AFFECTED: Retiree Health Benefit Fund, a trust fund authorized under G.S. 135-7(f). The Retiree Health Benefit fund receives payroll contributions from employing units and uses those contributions, plus investment earnings, to pay for non-contributory health benefit coverage of eligible retired employees.

BILL SUMMARY: House Bill 2055 (Second Edition) forgives a liability owed by Rutherford County, a local government authorized to be an employing unit under the State Health Plan, to the State's Retiree Health Benefit Fund. The amount of the liability to be forgiven is equal to the net of the total payroll contributions owed by the County to the Fund for the period July 1, 2005 through June 30, 2008 minus the aggregate premium contributions paid by the County to the State Health Plan for its covered retirees during the same period of time.

EFFECTIVE DATE: July 1, 2010

ESTIMATED IMPACT ON STATE:

Aon Consulting, consulting actuary for the State Health Plan for Teachers and State Employees, and Hartman and Associates, consulting actuary for the General Assembly's Fiscal Research Division, each estimate the bill will have no impact on the State Health Plan, but would result in the State's Retiree Health Benefit Fund not collecting an estimated \$1.09 million in net payroll contributions and lost investment earnings.

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.

Each consulting actuary, based on data provided by the Retirement Systems Division of the Department of State Treasurer, assumed the amount of payroll contributions owed by Rutherford County for the period equaled \$1,501,953. Payroll contributions deposited to the Retiree Health Benefit Fund are invested in the State's Short-term Investment Fund. Therefore, each actuary then estimated the lost investment earnings on the funds owed by Rutherford County from July 1, 2005 through June 30, 2009 based on actual earnings in the Short-term Investment Fund, and then a projected return through June 30, 2010 based on actual returns under the Fund through March 30, 2010. The amount of lost investment earnings is projected to be \$122,410 by Hartman and Associates, and \$126,975. The difference is due to a slightly different projected investment return for the period July 1, 2009 through June 30, 2010.

As an offset to the payroll contributions and interest owed, each consulting actuary credited the amount paid by the County in premium contributions to the State Health Plan during the affected period by \$539,363 as reported by the Plan.

Retiree Health Benefit Fund: Through May 31, 2010, the Retiree Health Benefit Fund had an ending cash balance of \$556.7 million. Year-to-date average monthly payroll contributions have equaled \$56.1 million with average monthly investment earnings of \$708,955. Total monthly contributions plus investment earnings have averaged \$56.8 million through May 31, 2010. Average monthly disbursements from the Fund for the same period were \$47.7 million with average monthly administrative charges of \$24,055. On average, through May 31, 2010, the Fund has averaged a net monthly gain of \$9.1 million.

Other Post Employment Benefits: The amount of annual payroll contributions to the Fund is projected to be \$673.2 million based on actual results through May 31, 2010 and a payroll contribution rate of 4.5% of payroll. According to the most recent Other Post Employment Benefit actuarial valuation of retiree health care liabilities for the State as of December 2008, the State's Unfunded Actuarial Accrued Liability for retiree healthcare obligations is projected to be \$27.9 billion over a 30-year period. The Annual Required Contribution for the State to fund this obligation on an actuarial basis over a 30-year period is projected to be \$2.7 billion, or 17.5% of payroll.

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, 2009, 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 *revised* requirements for the Plan are estimated to be \$2.55 billion for FY 2009-10 and \$2.74 billion for FY 2010-11. The Plan's PPO benefit design includes two alternative benefit levels listed below:

- 1) The "Basic" 70/30 plan that offers higher out-of pocket requirements in return for lower fully contributory dependent premiums; and
- 2) The "Standard" 80/20 plan.

The Basic and Standard plans offer coverage to employees and retired employees on a noncontributory basis. Coverage for dependents under both plans is offered on a fully contributory basis.

Financial Condition

Revised Financial Projection 2009-11 Biennium – The following summarizes a revised financial projection by conducted by the Plan's consulting actuary, Aon Consulting, for the 2009-11 biennium. The

information is provided by fiscal year based on year-to-date financial experience (through March 2010) and other updated factors.

For the fiscal year beginning July 1, 2009, the Plan began its operations with a beginning cash balance of \$189.9 million. Receipts for the year are projected to be \$2.41 billion from net premium collections, \$74.4 million from Medicare Part D subsidies, and \$3.4 million from investment earnings for a total of approximately \$2.49 billion in receipt income for the year. Projected disbursements from the Plan are expected to be \$2.39 billion in net claim-payment expenses and \$164.1 million in administration and claims-processing expenses for projected total expenses of nearly \$2.55 billion for FY 2009-10. The Plan's net operating loss is projected to be approximately \$66.3 million for the fiscal year, assuming a 9% annual claims growth trend and an annual premium increase of 8.9% effective July 1, 2009.

For the fiscal year beginning July 1, 2010, the Plan is projected to begin its operations with a beginning cash balance of \$123.6 million. Receipts for the year are projected to be \$2.68 billion from net premium collections, \$56.1 million from Medicare Part D subsidies, and \$2.7 million from investment earnings for a total of approximately \$2.73 billion in receipt income for the year. Projected disbursements from the Plan are expected to be \$2.55 billion in net claim-payment expenses and \$191.7 million in administration and claims-processing expenses for projected total expenses of nearly \$2.74 billion for FY 2010-11. The Plan's net operating loss is projected to be approximately \$7.1 million for the fiscal year, assuming a 9% annual claims growth trend and an annual premium increase of 8.9% effective July 1, 2010.

Based on the revised financial projection (May 2010), the Plan's estimated ending cash balance on June 30, 2011 is projected to be \$116.5 million. This amount is approximately \$75.7 million less than the originally projected (April 2009) ending cash balance of \$192.2 million.

Original Financial Projection 2009-11 Biennium (April 2009) – Session Law 2009-16 (Senate Bill 287) appropriated funds from various sources, authorized annual premium rate increases, made various benefit and provider related changes to achieve financial savings, and directed other various changes to the Plan. The enacted law also appropriated the sum of \$250 million from the Savings Reserve Account ("Rainy Day Fund") of the General Fund for the 2008-09 fiscal year. The following summarizes the original financial projection by fiscal year for the 2009-11 biennium and assumes the changes enacted in Session Law 2009-16 (Senate Bill 287).

For the fiscal year beginning July 1, 2009, the Plan was projected to begin its operations with a beginning cash balance of \$146.9 million. Receipts for the year were projected to be \$2.4 billion from net premium collections, \$56.3 million from Medicare Part D subsidies, and \$8.0 million from investment earnings for a total of approximately \$2.5 billion in receipt income for the year. Projected disbursements from the Plan were expected to be \$2.3 billion in net claim-payment expenses and \$185.6 million in administration and claims-processing expenses for projected total expenses of nearly \$2.5 billion for FY 2009-10. The Plan's net operating income was projected to be approximately \$14.8 million for the fiscal year, assuming a 9% annual claims growth trend and an annual premium increase of 8.9% effective July 1, 2009.

For the fiscal year beginning July 1, 2010, the Plan was projected to begin its operations with a beginning cash balance of \$161.6 million. Receipts for the year were projected to be \$2.7 billion from net premium collections, \$50.4 million from Medicare Part D subsidies, and \$8.8 million from investment earnings for a total of approximately \$2.7 billion in receipt income for the year. Projected disbursements from the Plan were expected to be \$2.5 billion in net claim-payment expenses and \$191.7 million in administration and claims-processing expenses for projected total expenses of nearly \$2.7 billion for FY 2010-11. The Plan's net operating income was projected to be approximately \$30.6 million for the fiscal year, assuming a 9% annual claims growth trend and an annual premium increase of 8.9% effective July 1, 2010.

Other Information

Historically, the Plan has applied a premium increase in October of the first fiscal year of a biennium. However, the annual premium increases authorized in Session Law 2009-16 (Senate Bill 287) changes that methodology to an annual increase at the beginning of each fiscal year of the 2009-11 biennium.

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 as of December 31, 2009

I. No. of Participants	Basic	Standard	Total	Percent of Total
<u>Actives</u>				
Employees	13,830	307,541	321,371	48.6%
Dependents	24,593	135,563	160,156	24.2%
Sub-total	38,423	443,104	481,527	72.8%
<u>Retired</u>				
Employees	2,074	151,395	153,469	23.2%
Dependents	1,313	18,075	19,388	2.9%
Sub-total	3,387	169,470	172,857	26.1%
<u>Former Employees with</u>				
Continuation Coverage				
Employees	121	3,120	3,241	0.5%
Dependents	87	749	836	0.1%
Sub-total	208	3,869	4,077	0.6%
<u>Firefighters, Rescue Squad &</u>				
National Guard				
Employees	-	5	5	0.0%
Dependents	-	3	3	0.0%
Sub-total	-	8	8	0.0%
Local Governments				
Employees	91	1,829	1,920	0.3%
Dependents	174	777	951	0.1%
Sub-total	265	2,606	2,871	0.4%
<u>Total</u>				
Employees	16,116	463,885	480,001	72.6%
Dependents	26,167	155,164	181,331	27.4%
Grand Total	42,283	619,049	661,332	100%
Percent of Total	6.4%	93.6%	100.0%	

II. Enrollment by Contract	Basic	Standard	Total
Employee Only	3,252	378,539	381,791
Employee Child(ren)	6,026	43,820	49,846
Employee Spouse	2,550	21,785	24,335
Employee Family	4,288	19,741	24,029
Total	16,116	463,885	480,001

Percent Enrollment by Contract	Basic	Standard	Total
Employee Only	20.2%	81.6%	79.5%
Employee Child(ren)	37.4%	9.4%	10.4%
Employee Spouse	15.8%	4.7%	5.1%
Employee Family	26.6%	4.3%	5.0%
Total	100.0%	100.0%	100.0%

III. Enrollment by Sex	Basic	Standard	Total
Female	22,479	390,209	412,688
Male	19,804	228,840	248,644
Total	42,283	619,049	661,332

Percent Enrollment by Sex	Basic	Standard	Total
Female	53.2%	63.0%	62.4%
Male	46.8%	37.0%	37.6%
Total	100.0%	100.0%	100.0%

IV. Enrollment by Age	Basic	Standard	Total
19 & Under	17,315	95,431	112,746
20 to 29	3,311	57,142	60,453
30 to 44	9,555	120,292	129,847
45 to 54	6,455	108,447	114,902
55 to 64	4,090	128,933	133,023
65 & Over	1,557	108,804	110,361
Total	42,283	619,049	661,332

Percent Enrollment by Age	Basic	Standard	Total
19 & Under	41.0%	15.4%	17.0%
20 to 29	7.8%	9.2%	9.1%
30 to 44	22.6%	19.4%	19.6%
45 to 54	15.3%	17.5%	17.4%
55 to 64	9.7%	20.8%	20.1%
65 & Over	3.7%	17.6%	16.7%
Total	100.0%	100.0%	100.0%

V. Retiree Enrollment by Category	Employee	Dependents	Total
Non-Medicare Eligible	51,747	11,879	63,626
Medicare Eligible	101,722	7,509	109,231
Total	153,469	19,388	172,857

VI. Enrollment By Major Employer Groups	Employees	Dependents	Total
State Agencies	75,367	34,645	110,012
UNC System	50,106	29,726	79,832
Local Public Schools	181,270	88,258	269,528
Local Community Colleges	14,623	7,524	22,147
Other			
Local Governments	1,920	951	2,871
COBRA	3,241	836	4,077
Nat. Guard, Fire & Rescue	5	3	8
Sub-total	5,166	1,790	6,956
Retirement System	153,469	19,388	172,857
Total	480,001	181,331	661,332

Percent Enrollment by Major Employer Groups	Employees	Dependents	Total
State Agencies	15.7%	19.1%	16.6%
UNC System	10.4%	16.4%	12.1%
Local Public Schools	37.8%	48.7%	40.8%
Local Community Colleges	3.0%	4.1%	3.3%
Other			
Local Governments	0.4%	0.5%	0.4%
COBRA	0.7%	0.5%	0.6%
Nat. Guard, Fire & Rescue	0.0%	0.0%	0.0%
Sub-total	1.1%	1.0%	1.1%
Retirement System	32.0%	10.7%	26.1%
Total	100.0%	100.0%	100.0%

SOURCES OF DATA:

-Actuarial Note, Hartman & Associates, “House Bill 2055 Proposed Committee Substitute H2055-CSME-15 [v.3]; An Act to Provide That a Local Government That Has Been Submitting Premium Payments For Its Employees to the State Health Plan Is Not Liable For Contributions Owed to the Retiree Health Benefit Fund for a Specified Period”, June 14, 2010, an original of which is on file in the General Assembly’s Fiscal Research Division.

-Actuarial Note, Aon Consulting, “House Bill 2055 Proposed Committee Substitute H2055-CSME-15 [v.3]”, June 16, 2010, an original of which is on file with the State Health Plan for Teachers and State Employees and the General Assembly’s Fiscal Research Division.

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