

# GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2013

## Legislative Actuarial Note

### HEALTH BENEFITS

**BILL NUMBER:** House Bill 176 (First Edition)

**SHORT TITLE:** Charter School Election.

**SPONSOR(S):** Representative Alexander

**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:** House Bill 176 (First Edition) permits the Board of Directors of Corvian Community School, a public charter school, to become a participating employer under the Plan within 30 days after the act becomes law. Under G.S. 135-48.54, an election to join the Plan by the board of a charter school is irrevocable and shall require all eligible employees of the charter school to participate.

**EFFECTIVE DATE:** When it becomes law.

### ESTIMATED IMPACT ON STATE:

The consulting actuary for the State Health Plan for Teachers and State Employees, The Segal Company, estimates a financial loss to the Plan of \$58,000 for FY 2013-2014 if Corvian Community School elects to participate in the Plan. Segal estimates claims would increase by 22.5% after joining the Plan, relative to claims under the School's current medical benefits plan. In addition, for the purposes of estimating the potential cost impact to the Plan, Segal assumes potential claims for the School would be 200% greater on average due to expected adverse selection of costlier plan members entering the Plan. Even with this assumption, and given the small size of the School, Segal estimates the projected costs would have a negligible impact on the Plan.

Hartman & Associates, consulting actuary for the General Assembly's Fiscal Research Division, estimates that the financial impact on the Plan would not be material upon Corvian Community School electing to participate in the Plan. Hartman and Associates noted that the employee and dependent demographics of the School's group would be expected to produce slightly lower costs as compared to the Plan's membership, and that given the minimal number of prospective employees and dependents to be enrolled, there is not expected to be a significant financial impact as a percent of total claims. Hartman & Associates, however, also noted the lack of available historical claims experience from the School to assess potential adverse selection against the Plan.

The additional cost impact of the bill, projected by either consulting actuary, would be expected to impact total claims growth by approximately two thousandths of one percent (0.002%) for the 2013-2014 fiscal year based on the highest estimate of additional cost (i.e., \$58,000).

**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.

Authorized Charter Schools: As of December, 2012, there were 69 charter schools with 4,348 enrolled active employees and dependents participating in the Plan.

Data submitted by the School: The Segal Company and Hartman and Associates based their respective analyses in part on a Distribution of Participants schedule submitted by the School. The schedule below reflects the age and sex demographic data for employees and dependents of the School. The School did not provide complete claims experience data due to a refusal of their incumbent carrier to release claims information on the school's participants. However, the School did note that it currently pays total medical premiums of \$4,652.80 per month and provided details on the benefits in its current program, which include:

- In-network office visit and therapy co-pay: \$25 Primary Care; \$50 Specialist
- Preventive care: \$0
- Urgent care centers co-pay: \$50
- Emergency room co-pay: \$300
- Deductible: \$2,500 (individual, in-network)
- Co-insurance maximum: \$4,000 (individual, in-network)
- Inpatient and outpatient hospital: 20% coinsurance after deductible (in-network)
- Prescription drug co-pays: \$10 generic; \$35 preferred brand

Distribution of Participants -- Corvian Community School												
Ages	Active Employees			Dependents of Active Employees			Retired Employees			Dependents of Retired Employees		
	Male	Female	Total	Male	Female	Total	Male	Female	Total	Male	Female	Total
0-4	0	0	0	0	0	0			0			0
5-9	0	0	0	0	2	2			0			0
10-14	0	0	0	0	0	0			0			0
15-19	0	0	0	0	0	0			0			0
20-24	0	0	0	0	0	0			0			0
25-29	0	3	3	0	0	0			0			0
30-34	0	2	2	0	0	0			0			0
35-39	0	3	3	0	0	0			0			0
40-44	0	3	3	1	0	1			0			0
45-49	0	0	0	0	0	0			0			0
50-54	0	0	0	0	0	0			0			0
55-59	0	1	1	0	0	0			0			0
60-64	0	0	0	0	0	0			0			0
65-69	0	0	0	0	0	0			0			0
70-74	0	0	0	0	0	0			0			0
75-79	0	0	0	0	0	0			0			0
>79	0	0	0	0	0	0			0			0
Unknown	0	0	0	0	0	0			0			0
TOTAL	0	12	12	1	2	3	0	0	0	0	0	0

**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.

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 participate in the Standard plan or who elect dependent coverage. Total requirements for the Plan are estimated to be \$3.05 billion for FY 2013-14 and \$3.30 billion for FY 2014-15. 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 premiums from employees and retirees; and
- 2) The "Standard" 80/20 plan.

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

The following table provides a summary of most monthly premium rates for the Plan in FY 2012-13:

<u>Coverage Type</u>	PPO Basic		PPO Standard	
	Employee/ Retiree	Employer	Employee/ Retiree	Employer
Non-Medicare Active Employee/Retiree				
Employee	\$0.00	\$432.66	\$22.76	\$432.66
Employee + Child(ren)	\$198.06	\$432.66	\$286.16	\$432.66
Employee + Spouse	\$510.32	\$432.66	\$629.64	\$432.66
Employee + Family	\$543.54	\$432.66	\$666.18	\$432.66
Medicare Primary for Only Employee/Retiree				
Employee	\$0.00	\$336.25	\$10.52	\$336.25
Employee + Child(ren)	\$198.06	\$336.25	\$273.92	\$336.25
Employee + Spouse	\$510.32	\$336.25	\$617.40	\$336.25
Employee + Family	\$543.54	\$336.25	\$653.94	\$336.25

The employer share of premiums for retirees is paid from the Retiree Health Benefit Fund. During FY 2012-13, employers contribute 5.3% of active employee payroll into the Fund. Total contributions for the year are projected to be approximately \$828 million.

**Financial Condition**

**Current and Projected Results for 2011-13 Biennium** – The following summarizes actual financial results for FY 2011-12 and projected financial results for FY 2012-13, based on financial experience through December, 2012. It reflects the adoption of an Employer Group Waiver Plan (EGWP) for Medicare-eligible retirees effective January 1, 2013.

	(\$ millions)	
	Actual FY 2011-12	Projected FY 2012-13
Beginning Cash Balance	\$269.9	\$502.2
Receipts:		
Net Premium Collections	\$2,749.9	\$2,884.6
Early Retiree Reinsurance Program	\$42.2	(\$0.6)
Medicare Part D / EGWP Subsidies	\$57.6	\$59.9
Investment Earnings	\$3.0	\$2.8
Total	\$2,852.7	\$2,946.8
Disbursements:		
Net Medical Claim Payment Expenses	\$1,826.8	\$1,899.2
Net Pharmacy Claim Payment Expenses	\$628.0	\$679.8
Administration and Claims-Processing Expenses	\$165.5	\$170.4
Total	\$2,620.3	\$2,749.4
Net Operating Income (Loss)	\$232.4	\$197.3

**Financial Projection 2013-15 Biennium** – The following summarizes a financial projection conducted by the Plan's consulting actuary, The Segal Company, for the 2013-15 biennium. The information is provided by fiscal year based on year-to-date financial experience (through December 2012) and other updated factors. The projection assumes an 8.5% annual claims growth trend, that benefit provisions remain the same, and that both employer and member-paid premiums are kept constant over the biennium.

	(\$ millions)	
	Projected FY 2013-14	Projected FY 2014-15
Beginning Cash Balance	\$699.6	\$608.2
Receipts:		
Net Premium Collections	\$2,877.7	\$2,865.8
Early Retiree Reinsurance Program	\$0.0	\$0.0
Medicare Part D / EGWP Subsidies	\$82.9	\$102.5
Investment Earnings	\$2.7	\$2.0
Total	\$2,963.3	\$2,970.2
Disbursements:		
Net Medical Claim Payment Expenses	\$2,118.3	\$2,248.6
Net Pharmacy Claim Payment Expenses	\$753.9	\$824.8
Administration and Claims-Processing Expenses	\$182.4	\$223.9
Total	\$3,054.7	\$3,297.2
Net Operating Income (Loss)	(\$91.4)	(\$327.0)

### **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, fraud detection, and other authorized actions by the State Treasurer, 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 8.5% annually according to the Plan's consulting actuary. Investment earnings are based upon a 0.4% return on available cash balances. The active population is projected to decline by 1% per year, the COBRA population is projected to remain constant, and the retired population is projected to increase by 1% per year.

**Enrollment as of December 31, 2012**

<b>I. No. of Participants</b>	<b>Basic</b>	<b>Standard</b>	<b>Total</b>	<b>Percent of Total</b>
<u>Actives</u>				
Employees	126,974	187,018	313,992	46.9%
Dependents	<u>72,615</u>	<u>84,298</u>	<u>156,913</u>	<u>23.5%</u>
Sub-total	199,589	271,316	470,905	70.4%
<u>Retired</u>				
Employees	29,014	145,419	174,433	26.1%
Dependents	<u>5,602</u>	<u>13,160</u>	<u>18,762</u>	<u>2.8%</u>
Sub-total	34,616	158,579	193,195	28.9%
<u>Former Employees with Continuation Coverage</u>				
Employees	555	911	1,466	0.2%
Dependents	<u>254</u>	<u>338</u>	<u>592</u>	<u>0.1%</u>
Sub-total	809	1,249	2,058	0.3%
<u>Firefighters, Rescue Squad &amp; National Guard</u>				
Employees	3	5	8	0.0%
Dependents	<u>3</u>	<u>1</u>	<u>4</u>	<u>0.0%</u>
Sub-total	6	6	12	0.0%
<u>Local Governments</u>				
Employees	544	1,342	1,886	0.3%
Dependents	<u>442</u>	<u>509</u>	<u>951</u>	<u>0.1%</u>
Sub-total	986	1,851	2,837	0.4%
<u>Total</u>				
Employees	157,090	334,695	491,785	73.5%
Dependents	78,916	98,306	177,222	26.5%
<b>Grand Total</b>	<b>236,006</b>	<b>433,001</b>	<b>669,007</b>	<b>100%</b>
<b>Percent of Total</b>	<b>35.3%</b>	<b>64.7%</b>	<b>100.0%</b>	
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<b>II. Enrollment by Contract</b>	<b>Basic</b>	<b>Standard</b>	<b>Total</b>	
Employee Only	117,228	280,916	398,144	
Employee Child(ren)	23,480	29,181	52,661	
Employee Spouse	6,155	13,499	19,654	
Employee Family	10,227	11,099	21,326	
<b>Total</b>	<b>157,090</b>	<b>334,695</b>	<b>491,785</b>	
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<b>Percent Enrollment by Contract</b>	<b>Basic</b>	<b>Standard</b>	<b>Total</b>	
Employee Only	74.6%	83.9%	81.0%	
Employee Child(ren)	14.9%	8.7%	10.7%	
Employee Spouse	3.9%	4.0%	4.0%	
Employee Family	6.5%	3.3%	4.3%	
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	

<b>III. Enrollment by Sex</b>	<b>Basic</b>	<b>Standard</b>	<b>Total</b>
Female	137,067	281,337	418,404
Male	98,939	151,664	250,603
<b>Total</b>	<b>236,006</b>	<b>433,001</b>	<b>669,007</b>

<b>Percent Enrollment by Sex</b>	<b>Basic</b>	<b>Standard</b>	<b>Total</b>
Female	58.1%	65.0%	62.5%
Male	41.9%	35.0%	37.5%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

<b>IV. Enrollment by Age</b>	<b>Basic</b>	<b>Standard</b>	<b>Total</b>
19 & Under	50,510	57,419	107,929
20 to 29	30,459	34,693	65,152
30 to 44	55,932	69,280	125,212
45 to 54	43,808	63,317	107,125
55 to 64	43,577	90,285	133,862
65 & Over	11,720	118,007	129,727
<b>Total</b>	<b>236,006</b>	<b>433,001</b>	<b>669,007</b>

<b>Percent Enrollment by Age</b>	<b>Basic</b>	<b>Standard</b>	<b>Total</b>
19 & Under	21.4%	13.3%	16.1%
20 to 29	12.9%	8.0%	9.7%
30 to 44	23.7%	16.0%	18.7%
45 to 54	18.6%	14.6%	16.0%
55 to 64	18.5%	20.9%	20.0%
65 & Over	5.0%	27.3%	19.4%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

<b>V. Retiree Enrollment by Category</b>	<b>Employee</b>	<b>Dependents</b>	<b>Total</b>
Non-Medicare Eligible	53,656	11,878	65,534
Medicare Eligible	120,777	6,884	127,661
<b>Total</b>	<b>174,433</b>	<b>18,762</b>	193,195

<b>Percent Enrollment by Category (Retiree)</b>	<b>Employee</b>	<b>Dependents</b>	<b>Total</b>
Non-Medicare Eligible	30.8%	63.3%	33.9%
Medicare Eligible	69.2%	36.7%	66.1%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	100.0%

<b>VI. Enrollment By Major Employer Groups</b>	<b>Employees</b>	<b>Dependents</b>	<b>Total</b>
State Agencies	72,946	33,507	106,453
UNC System	50,104	30,627	80,731
Local Public Schools	172,563	83,045	255,608
Charter Schools	2,765	1,583	4,348
Local Community Colleges	15,614	8,151	23,765
Other			
Local Governments	1,886	951	2,837
COBRA	1,466	592	2,058
Nat. Guard, Fire & Rescue	8	4	12
Sub-total	317,352	158,460	475,812
Retirement System	174,433	18,762	193,195
<b>Total</b>	<b>491,785</b>	<b>177,222</b>	<b>669,007</b>
<b>Percent Enrollment by Major Employer Groups</b>	<b>Employees</b>	<b>Dependents</b>	<b>Total</b>
State Agencies	14.8%	18.9%	15.9%
UNC System	10.2%	17.3%	12.1%
Local Public Schools	35.1%	46.9%	38.2%
Charter Schools	0.6%	0.9%	0.6%
Local Community Colleges	3.2%	4.6%	3.6%
Other			
Local Governments	0.4%	0.5%	0.4%
COBRA	0.3%	0.3%	0.3%
Nat. Guard, Fire & Rescue	0.0%	0.0%	0.0%
Sub-total	64.5%	89.4%	71.1%
Retirement System	35.5%	10.6%	28.9%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>



**SOURCES OF DATA:**

The Segal Company; North Carolina State Health Plan; Financial Projections – Dec 2012; Trends – 8.5% Medical & Pharmacy; With Dental, MHSA and ACA Reinsurance Fee. March 12, 2013. Filename “NCSHP Q2 Update – Baseline Updated 031213 – V2.pdf”

-Actuarial Note, Hartman & Associates, House Bill 176, “House Bill 176: An Act to Authorize Corvian Community School, an Existing Charter School, to Participate in the State Health Plan for Teachers and State Employees”, March 20, 2013, original of which is on file in the General Assembly’s Fiscal Research Division.

-Actuarial Note, The Segal Company, House Bill 176, “House Bill 176 Charter School Election”, March 26, 2013, 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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**DATE:** March 26, 2013



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