NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE ACTUARIAL NOTE

BILL NUMBER: House Bill 562, Sections 3 & 4

SHORT TITLE: Direct Pay/Substance Abuse Professionals

SPONSOR(S): Rep. Martha Alexander

SYSTEM OR PROGRAM AFFECTED: Teachers' and State Employees' Comprehensive Major Medical 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, and Premium Payments for Coverages Selected by Eligible Former Teachers and State Employees.

BILL SUMMARY: Sections 3 and 4 of the bill authorize substance abuse professionals certified under Article 5C of Chapter 90 of the General Statutes to be direct providers of treatment for chemical dependency and mental illness under the Plan's self-insured indemnity program. These professionals are certified substance abuse counselors and certified substance abuse prevention consultants.

The Plan's twelve health maintenance organization (HMO) alternatives to the indemnity program are not however required by the bill to use certified substance abuse counselors and certified substance abuse prevention consultants in the treatment of chemcial dependency and mental illness.

EFFECTIVE DATE: July 1, 1997.

ESTIMATED IMPACT ON STATE: Based upon information supplied by the Teachers' and State Employees' Comprehensive Major Medical Plan, the consulting actuary for the Plan, Aon Consulting,and the consulting actuary for the General Assembly's Fiscal Research Division, Dilts, Umstead & Dunn, estimate that adding certified substance abuse counselors and certified substance abuse prevention consultants to the indemnity program's current list of authorized providers for the treatment of chemical dependency and mental illness will not materially increase the cost to the Plan's indemnity program.

ASSUMPTIONS AND METHODOLOGY: The Comprehensive Major Medical Plan for Teachers and State Employees is divided into two programs. From October, 1982, through June, 1986, the Plan had only a self-funded indemnity type of program which covered all employees, retired employees, eligible dependents of employees and retired employees, and eligible former employees and their eligible dependents authorized to continue coverage past a termination of employment other than for retirement or disability purposes. A prepaid program of coverage by health maintenance organizations (HMOs) was offered in July, 1986, as an alternative to the Plan's self-insured indemnity program. The benefits of the self-insured indemnity type of program are spelled out in Part 3 of Article 3 of Chapter 135 of the North Carolina General Statutes (i.e., $250 annual deductible, 20% coinsurance up to $1,000 annually, etc. paid by the program's members). HMOs are required to offer

benefits that are comparable to those provided by the self-insured indemnity program. Employer-paid non-contributory premiums are only authorized for the indemnity program's coverage for employees and retired employees. Whenever employees and office holders first employed or taking office on and after October 1, 1995 become eligible for health benefits as retired employees, the amount of premium paid by the State for individual coverage will be based upon the retiree's amount of retirement service credit at the time of retirement. Only retired employees with 20 or more years of service credit at retirement will be eligible for non-contributory health benefit premiums. Retirees with 10 or more years of service credit at retirement will be eligible for 50% partially contributory health benefit premiums. Retired employees with 5 or more year of service credit at retirement will be eligible to continue their health benefits on a fully contributory basis. All other types of premium in the indemnity program are fully contributory. Premiums paid by employers to HMOs are limited to like amounts paid to the indemnity program with employees and retired employees paying any HMO amounts above the indemnity program's non-contributory rates. Both types of coverage continue to be available in the Plan with twelve HMOs currently covering about 25% of the Plan's total population in about 85 of the State's 100 counties. The Plan's employees and retired employees select the type of program that they wish for themselves and their dependents during the months of August and September of each year for coverage beginning in October. The demographics of the Plan as of December 31, 1996, include:

	Self-Insured Indemnity Program	Alternative HMOs	Plan Total
Number of Participants			
Active Employees	186,400	70,400	256,800
Active Employee Dependents	104,700	51,800	156,500
Retired Employees	84,400	5,400	89,800
Retired Employee Dependents	14,400	1,200	15,600
Former Employees & Dependents with Continued Coverage	2,700	800	3,500
Total Enrollments	392,600	129,600	522,200
Number of Contracts			
Employee Only	206,300	51,800	258,100
Employee & Child(ren)	29,900	14,500	44,400
Employee & Family	36,600	10,100	46,700
Total Contracts	272,800	76,400	349,200
Percentage of Enrollment by Age			
29 & Under	27.3%	44.7%	31.6%
30-44	21.6	28.0	23.2
45-54	20.0	17.8	19.5
55-64	13.8	7.1	12.1
65 & Over	17.3	2.4	13.6
Percentage of Enrollment by Sex			
Male	39.8%	40.0%	39.8%
Female	60.2	60.0	60.2

Assumptions for the Self-Insured Indemnity Program: For the fiscal year beginning July 1, 1996, the self-insured program started its operations with a beginning cash balance of $368.3 million. Receipts for the year are

estimated to be $580 million from premium collections, $25 million from investment earnings, and $12 million in risk adjustment and administrative fees from HMOs, for a total of $617 million in receipts for the year. Disbursements from the self-insured program are expected to be $595 million in claim payments and $18 million in administration and claims processing expenses for a total of $613 million for the year beginning July 1, 1996. For the fiscal year beginning July 1, 1997, the self-insured indemnity program is expected to have an operating cash balance of over $372 million with a net operating loss of $54 million for the 1997-98 fiscal year. For the fiscal year beginning July 1, 1998, the self-insured indemnity program is expected to have an operating cash balance of $318 million with a net operating loss of $118 million for the 1998-99 fiscal year. The estimated cash balance for the self-insured indemnity program is expected to be $200 million at the end of the 1997-99 biennium. The self-insured indemnity program is consequently assumed to be able to carry out its operations without any increases in its current premium rates or a reduction in existing benefits until the 1999-2000 fiscal year. This assumption is predicated upon the fact that the program's cost containment strategies (hospital DRG reimbursements, pre-admission hospital testing, pre-admission hospital inpatient certification with length-of-stay approval, hospital bill audits, required second surgical opinions, mental health case management, coordination of benefits with other payers, Medicare benefit "carve-outs", cost reduction contracts with participating physicians and other providers, prescription drug manufacturer rebates from voluntary formularies, and fraud detection) are maintained and improved where possible. Current non-contributory premium rates are $110.08 monthly for employees whose primary payer of health benefits is Medicare and $144.60 per month for employees whose primary payer of health benefits is not Medicare. Fully contributory premium amounts for employee and child(ren) contracts are $68.50 monthly for children whose primary payer of health benefits is Medicare and $90.12 monthly for other covered children, and $164.30 per month for family contracts whose dependents have Medicare as the primary payer of health benefits and $216.18 per month for other family contract dependents. Claim cost trends are expected to increase 8-10% annually. Total enrollment in the program is expected to decrease about one percent (1.0%) annually due to competition from alternative HMOs. The number of enrolled active employees is expected to show a 1-2% loss annually, whereas the growth in the number of retired employees is assumed to be 4% per year. The program is expected to lose about 3-4% of its number of active employee dependents each year, whereas the number of enrolled retiree dependents is assumed to show no appreciable change from year to year. Investment earnings are based upon a 6% monthly return on available cash balances. The self-insured indemnity program maintains 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.

<u>Asssumptions for the Self-Insured Indemnity Program's Substance Abuse Claims and Use of Certified Substance Abuse Professionals</u>: For the fiscal year ending June 30, 1996, the Plan's indemnity program paid $1,602,720 in claims related to chemical dependency - $1,011,372 for alcohol abuse and $591,348 for drug abuse. Of the total amount paid, $912,761 was paid for inpatient care, $500,015 was paid for outpatient treatment, $155,590 was paid for partial hospitalizations, and the remaining $34,354 was paid for residential treatment programs. Total charges for these paid claims was $2,877,638. Of the total amount of claim payments made during 1995-96, almost 80% were paid on behalf of the program's active employee group including both employees and their enrolled dependents. This active employee group accounted for 215

inpatient admissions involving 2,519 inpatient days for an average length-of-stay of almost 12 days. For outpatient treatment, the active employee group accounted for 3,909 visits by some 654 patients for an average of 6 visits per patient for the year. In comparison to fiscal year 1994-95 claims experience for substance abuse, 1995-96's experience showed a decrease of over $400,000 in paid claims for a 20% drop. In addition, the active employee group's inpatient admissions fell by over 35% for 1995-96 and the number of inpatient days dropped by over 40%. Outpatient visits for the active employee group for 1995-96 however remained about the same as they were in 1994-95.

According to the North Carolina Substance Abuse Professionals Certification Board, there are 860 certified counselors and consultants residing in 85 of North Carolina's 100 counties. The Board also has another 57 certified professionals residing outside of the state. A survey of procedures and charges by the Addiction Professionals of North Carolina indicates that charges by certified substance abuse counselors and consultants range from $50-$75 for initial interviews, $40-$90 for 45-50 minutes of individual psychotherapy with an average of $60, $50 for special family psychotherapy, $25-$75 for group psychotherapy with an average of $40, and $35 for drug testing. In comparison, the indemnity program's in-state claims experience for the same procedures for calendar year 1996 reveals the following average charges:

Provider	Initial Interview	Individ. Therapy	Family Therapy	Group Therapy
Psychiatrists	$128	$ 99	$ 92	$65
Other Physicians	114	104	102	81
Psychologists	108	92	95	36
Psychiatric Nurses	103	81	-	48
Clinical Soc. Workers	91	80	90	49
Pastoral Counselors	96	82	82	48
Profess. Counselors	98	96	81	41

Since October, 1993, when psychiatric nurses and certified clinical social workers were first added to the indemnity program's list of direct service providers for chemical dependency and mental illness, the same claims experience for the program furthermore indicates that the percentage of visits to psychiatrists and psychologists has dropped by more than 15%, replaced to some degree by an increased number of visits to psychiatric nurses, certified clinical social workers, pastoral counselors, and certified professional counselors. However, the total number of visits to all of these professionals did not increase. In fact, the total number of visits actually decreased by about 4% per member enrolled in the program.

SOURCES OF DATA:

-Actuarial Note, Dilts, Umstead & Dunn, House Bill 562, Sections 3 & 4, April 21, 1997, original of which is on file in the General Assembly's Fiscal Research Division.

-Actuarial Note, Aon Consulting, House Bill 562, Sections 3 & 4, April 23, 1997, 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.

FISCAL RESEARCH DIVISION

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DATE: April 24, 1997.

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