NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE ACTUARIAL NOTE

BILL NUMBER: House Bill 563, Sections 8 & 9

SHORT TITLE: Mental Health Parity

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: Section 8 of the bill removes the maximum benefit limitations for coverage of chemical dependency under the Plan's self-insured indemnity program. These limits for each covered individual are $8,000 per fiscal year, $25,000 for a lifetime, and $200 per day except for medical detoxification treatment. Removal of these specialized limits for substance abuse will result in its coverage being limited only to the same deductibles, coinsurance factors, and durational and other limitations as generally affect physical illnesses and injuries. Similar limitations on other mental health coverages under the Plan's indemnity program were removed by the 1991 Session of the General Assembly effective January 1, 1992. At that time, inpatient mental health benefits were limited to 30 days per year for each covered individual and outpatient treatments were limited to 50 visits and $2,200 in claim payments per year for each person. When these limitations were removed, a managed individualized plan of case-by-case treatment was implemented for mental health benefits, including utilization review and use of available preferred provider networks to contain the expected cost increases from removing the specialized mental health limitations.

Section 9 of the bill eliminates social workers, other than certified clinical social workers, from being authorized providers for the treatment of mental illness under the Plan's indemnity program. Currently, social workers other than certified clinical social workers who work under the direct employment and supervision of psychologists and doctors of psychology are eligible to provide services for the treatment of mental illness under the Plan's indemnity program.

The Plan's twelve health maintenance organization (HMO) alternatives to the indemnity program are required to have the same coverage for chemical dependency benefits under Section 6 of the bill as the Plan's indemnity program.

EFFECTIVE DATE: January 1, 1998 Assumed. See Technical Considerations.

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, estimates that the removal of chemical dependency limits in the Plan's indemnity program would increase claim costs

by 0.10% to 0.16%. However, using a midpoint value of 0.13%, the Plan's consulting actuary projects the cost to the Plan's indemnity program to be $208,000 for 1997-87 and $898,000 for 1998-99. The consulting actuary for the General assembly's Fiscal Research Division, Dilts, Umstead & Dunn, estimates the cost for removing the indemnity program's chemical dependency limits to be $363,000 for 1997-98 and $1,560,000 for 1998-99, or approximately 0.25% of projected claims. The estimate from the Fiscal Research Division's consulting actuary includes allowances for additional utilization from members of the Plan's indemnity program who have previously met their lifetime maximum benefit levels of $15,000 to $25,000 for substance abuse. In contrast to both of these actuarial projections, an actuarial analysis of the effects of eliminating arbitrary benefit limits on mental illness and chemical dependency benefits within North Carolina conducted by Coopers & Lybrand for the North Carolina Coalition for Mental Health Care and the American Psychological Association reveals that the cost for removing mental illness and chemical dependency limits amounts to a 2.9% claim cost increase for a managed indemnity plan like the State Plan's indemnity program. The analysis furthermore notes that removing only mental health limits, a 2.2% increase in claims cost, results in a cost increase of only 0.7% of claims for eliminating the chemical dependency benefit limits. Although actuarial projections from the consulting actuaries of the Plan and the Fiscal Research Division are well below Coopers & Lybrand's estimate, the projection from the Fiscal Research Division is much closer to that of Coopers & Lybrand. Using the projections from the Fiscal Research Division's consulting actuary, additional costs for eliminating chemical dependency benefit limits for outlying years are expected to be $1,685,000 for 1999-2000, $1,820,000 for 2000-01, and $1,966,000 for 2001-02. Although Sections 8 and 9 of the bill are expected to produce additional claims costs for the Plan's indemnity program, the program's anticipated reserves for the 1997-99 are sufficient to cover the additional costs of the bill without requiring an additional General or Highway Fund appropriation for the 1997-99 biennium.

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.

Asssumptions for the Self-Insured Indemnity Program's Substance Abuse Claims: 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.

Since the inception of the Plan in October, 1982, substance abuse benefits in the Plan's indemnity program have been limited. Through December, 1984, the indemnity program's substance abuse benefits were limited to 30 days per person each year for inpatient care and to 50 visits and $2,200 in claim payments annually for outpatient treatment for each covered individual. In addition, outpatient care was subject to a 20% coinsurance rate paid by enrolled members whereas all other care was subject to a 5% or 10% coinsurance rate. Effective January 1, 1985, these limitations were replaced with a 30-day claim payment limit of $3,000, an annual claim payment limit of $5,000, a lifetime claim payment limit of $15,000, and a $100 daily limit for non-medical detoxification treatment for each person. Effective September 1, 1987, the 30-day limit was increased to $3,900, the annual limit was increased to $6,500, the lifetime limit was increased to $20,000, and the daily detoxification limit was increased to $130. Effective October 1, 1989, the 30-day limit was eliminated, the annual limit was increased to $8,000, the lifetime limit was increased to $25,000, and the daily detoxification limit was raised to $200. No further changes have been made to these limits since October, 1989. Over the last three years, the indemnity program's records show that $1,457,649 in substance abuse claims have been denied by the program in exceeding these benefit limits.

SOURCES OF DATA:

-Actuarial Note, Dilts, Umstead & Dunn, House Bill 563, Sections 8 & 9, April 22, 1997, original of which is on file in the General Assembly's Fiscal Research Division.

-Actuarial Note, Aon Consulting, House Bill 563, Sections 8 & 9, 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: Since the Teachers' and State Employees' Comprehensive Major Medical Plan does not issue, deliver, or renew an insurance contract in accordance with Section 10 of the bill, Section 8 of the bill needs to be rewritten to read: "Section 8. Effective January 1, 1998, G. S. 135-40.7A reads as rewritten:" and Section 9 of the bill needs to be rewritten to read: "Section 9. Effective January 1, 1998, G. S. 135-40.7B reads as rewritten;".

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DATE: April 24, 1997.

Signed Copy Located in the NCGA Principal Clerk's Offices