NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE ACTUARIAL NOTE

BILL NUMBER: Senate Bill 775

SHORT TITLE: State Employee Health Plan Benefits for Board Members.

SPONSOR(S): Sen. Rand

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: The bill allows members of regulatory and advisory boards, commissions, and councils within the State who receive staff support from employees already covered by the Teachers' and State Employees' Comprehensive Major Medical Plan to become members of the Plan and receive the Plan's benefits. Eligible spouses and dependent children of members of these boards, commissions, and councils can also be covered by the bill on a fully contributory basis whenever board members elect to cover them and pay the premium for their coverage. Surviving spouses of deceased members of these boards, commissions, and councils are also covered by the bill on a fully contributory basis. Members of these boards, commissions, and councils currently serving are eligible for non-contributory individual coverage under the bill when their premiums are paid by state agencies and departments, local boards of education, community college institutions, and institutions of the University of North Carolina. Members of boards, commissions, and councils who are no longer serving are eligible for coverage under the bill on a fully contributory basis whenever they have served a minimum of five years on these boards, commissions, and councils. Members of regulatory and advisory boards, commissions, and councils, and their eligible family members would be able to become members of the Plan's self-insured indemnity program or a health maintenance organization (HMO) offered by the Plan.

EFFECTIVE DATE: January 1, 2002.

ESTIMATED IMPACT ON STATE: The consulting actuary for the Teachers' and State Employees' Comprehensive Major Medical Plan, Aon Consulting, estimates that the bill will result in an increased claim cost to the Plan of $800,000 for the 2001-02 fiscal year and $1,700,000 for the 2002-03 fiscal year. This estimate is based upon Aon's assumption that only 20% of current members of boards, commissions, and councils are already covered by the Plan and that the remaining 80% of members of boards, commission, and councils would be some five years older than current members of the Plan, resulting in 10-15% higher claim costs and underwriting losses to the Plan for the assumed 5,000 new board members to be covered by the bill. Aon Consulting did not, however, assume any differences in the ages of spouses and dependent children of members of boards, commissions, and councils as compared to the ages of spouses and dependent children of employees and retired employees covered by the Plan and concluded, "…no substantial assumed cost impact."

The consulting actuary for the General Assembly's Fiscal Research Division, Hartman and Associates, estimates that the current premium rate structure for employees, retired employees, and their families is

sufficient to cover those board members not already covered by the Teachers' and State Employees' Comprehensive Major Medical Plan. Any increases in premium rates approved by the General Assembly for employees and retired employees and the Plan's Executive Administrator and Board of Trustees for family members of employees and retired employees for the 2001-03 biennium would also apply to the board members and their families covered by the bill.

If the Plan's current non-contributory monthly premium rate of $187.98 were to apply to all of the 6,210 board members currently identified, the annual costs to state departments, agencies, boards and institutions would be $14,008,269. However, if 25-50% of these board members are already covered by the Plan, the annual costs to state departments, agencies, boards, and institutions would currently be $7,004,135 to $10,506,201. If these costs were to be increased 30% across-the-board for the 2001-03 biennium, as has been proposed, the revised annual costs to state departments, agencies, boards, and institutions would be $9,105,376 to $13,658,061. These additional costs would be required to be paid from within the State's $26 to $28 billion annual operating budgets for the 2001-03 biennium without obligating the General Assembly to appropriate additional funds for the purposes of the bill.

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 only had 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. Beginning in July, 2000, firefighters, rescue squad workers, and members of the National Guard and their eligible dependents were allowed to voluntarily participate in the Plan on a fully contributory basis, provided they were ineligible for any other type of group health benefits and had been without such benefits for at least six months. Employer-paid non-contributory premiums are only authorized for the indemnity program's coverage for employees and retired employees. All other types of premium in the indemnity program are fully contributory. The Plan's Executive Administrator has set the premium rates for firefighters, rescue squad workers, and members of the National Guard and their families at 47% more than the comparable rates charged for employees, retired employees, and their families. 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 three HMOs currently covering about 9% of the Plan's total population in 24 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, 2000, include:

	Self-Insured Indemnity Program	Alternative HMOs	Plan Total
Number of Participants			
Active Employees	248,518	28,822	277,340
Active Employee Dependents	134,795	17,376	152,171
Retired Employees	104,305	3,185	107,490
Retired Employee Dependents	17,936	594	18,530
Former Employees & Dependents with Continued Coverage	2,865	381	3,246

Firefighters, Rescue Squad Workers, National Guard Members & Dependents	3	-	3
Total Enrollments	508,422	50,358	558,780
Number of Contracts			
Employee Only	270,322	23,223	293,545
Employee & Child(ren)	38,775	6,006	44,781
Employee & Family	45,764	3,026	48,790
Total Contracts	354,861	32,255	387,116
Percentage of Enrollment by Age			
29 & Under	28.0%	41.6%	29.2%
30-44	20.9	26.6	21.4
45-54	21.3	19.2	21.1
55-64	14.5	9.2	14.0
65 & Over	15.4	3.4	14.3
Percentage of Enrollment by Sex			
Male	39.1%	36.9%	38.9%
Female	60.9	63.1	61.1

Assumptions for the Self-Insured Indemnity Program: For the fiscal year beginning July 1, 2000, the self-insured program started its operations with a beginning cash balance of $188 million. Receipts for the year are estimated to be $929 million from premium collections, $10 million from investment earnings, and $8 million in risk adjustment and administrative fees from HMOs, for a total of $947 million in receipts for the year. Disbursements from the self-insured program are expected to be $1.085 billion in claim payments and $31 million in administration and claims processing expenses for a total of $1.116 billion for the year beginning July 1, 2000. For the fiscal year beginning July 1, 2001, the self-insured indemnity program is expected to have an operating cash balance of only $19 million. The self-insured indemnity program is consequently assumed to be unable to carry out its operations for the 2001-2003 biennium without increases in its current premium rates or a reduction in existing benefits or payments to health care providers or both. This assumption is further 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 formularies, and fraud detection) are maintained and improved where possible. Of particular note in these cost containment strategies is that the program's contract with its pharmacy benefit manager, AdvancePCS, calls for a further reduction in claim payments for outpatient prescription drugs for the 2001-03 biennium. Effective July 1, 2001, dispensing fees for pharmacies will be reduced from $4.00 to $1.50 per prescription. In addition, ingredient prices for pharmacies will be reduced from 90% to 85% of average wholesale price (AWP) for branded drugs and from maximum allowable charges (MAC) by the federal Health Care Financing Administration (HCFA) or 80% of AWP to 45% of AWP for generic drugs. Current non-contributory premium rates are $143.10 monthly for employees whose primary payer of health benefits is Medicare and $187.98 per month for employees whose primary payer of health benefits is not Medicare. Fully contributory premium amounts for employee and child(ren) contracts are $89.06 monthly for children whose primary payer of health benefits is Medicare and $117.16 monthly for other covered children, and $213.60 per month for

family contracts whose dependents have Medicare as the primary payer of health benefits and $281.04 per month for other family contract dependents. Claim cost trends are expected to increase 12% annually. Total enrollment in the program is expected to increase about 3% annually over the next two years due to enrollment losses from alternative HMOs. The number of enrolled active employees is expected to show a 3% increase annually over the next two years, whereas the growth in the number of retired employees is assumed to be 5% per year. The program is expected to have an increase in the number of active employee dependents and retiree dependents of 2% per year. Investment earnings are based upon a 6% 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.

Assumptions for Coverage of Members of Boards, Commissions, and Councils: The latest complete information on the number of boards, commissions, and councils estimated to be impacted by the bill and the number of board members serving on these boards is:

Boards and Commissions	**Number of Boards**	**Number of Members**
Regulatory Boards & Commissions		
UNC Board of Governors	1	32
UNC Trustees	16	221
Community College State Board	1	20
Community College Trustees	58	754
Public School State Board	1	13
Public School Local Boards	117	779
State Government	168	2,007
Total	362	3,826
Advisory Boards, Commissions, Councils		
State Government	152	2,384
Grand Total	514	6,210

Of the 6,210 board members estimated to be impacted by the bill, some 25-50% of these board members are estimated to be already covered by the Teachers' and State Employees' Comprehensive Major Medical Plan by virtue of their employment as state officers and employees and officials and employees of local boards of education and community college institutions, or as retired officers, officials, and employees of the State or local boards of education and community college institutions.

A factor that will limit the Plan's exposure to claims costs from board members under the bill is the Plan's coordination of benefit (COB) provisions under G.S. 135-40.13, which are standard industry provisions as set by the National Association of Insurance Commissioners (NAIC) and used by the North Carolina Department of Insurance. Coordination of benefit provisions is intended to avoid claim payment delays and duplication of benefits when a person is covered by two or more plans. They avoid claim payment delays by establishing a uniform order in which plans pay their claims. They avoid duplication of benefits by permitting a reduction in the benefits of a plan when it does not have to pay its benefits first. A primary plan is one whose benefits are determined before those of another (secondary plan) without considering the secondary plan's benefits. A plan is primary based upon the following criteria: (1) the plan has no order of benefit determination, (2) the plan of an individual as an employee, or (3) the plan covering an individual for the longer period of time when criteria (1) and (2) are not applicable. For Medicare-eligible individuals, plan benefits are coordinated with Medicare in a manner consistent with federal law. Of the 50-75% of members of boards, commissions, and councils that are not estimated to be already covered by the Plan, a vast majority is estimated to have health benefit coverage elsewhere, either through their employers or on their own initiative. If these board members

choose duplicate coverage through the Plan, the Plan will receive the full amount of premiums from state agencies and institutions and from local boards of education and community college institutions but will be responsible only for claims as a secondary plan payer, resulting in gains to the Plan.

SOURCES OF DATA:
-Actuarial Note, Hartman & Associates, Senate Bill 775, April 17, 2001, original of which is on file in the General Assembly's Fiscal Research Division.
-Actuarial Note, Aon Consulting, Senate Bill 775, April 24, 2001, 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.
-Directory of North Carolina Boards and Commissions published by the Office of the North Carolina Secretary of State, August 1, 1996.

TECHNICAL CONSIDERATIONS: None.

FISCAL RESEARCH DIVISION 733-4910

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Signed Copy Located in the NCGA Principal Clerk's Offices