

**NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE ACTUARIAL NOTE**

BILL NUMBER: Senate Bill 822

SHORT TITLES: State Self-Funded Health Plan (HMO).

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 the Executive Administrator and Board of Trustees of the Teachers' and State Employees' Comprehensive Major Medical Plan, after consulting with the Legislative Committee on Employee Hospital and Medical Benefits, to adopt any arrangement for offering health maintenance organization (HMO) alternatives to members of the Plan, including one underwritten by the State. The Plan has, since 1986, provided HMO alternatives with HMOs assuming all of the risk for the coverages offered. HMOs have further been required to compensate the Plan for administrative costs and for enrolling members of the Plan with more favorable risk factors.

The Plan's Executive Administrator says he intends to offer, under the bill, a self-insured HMO alternative to the Plan's self-insured indemnity program under the following circumstances: (a) the Plan will competitively select only one HMO that will be required to have a viable health care provider network in all of the State's 100 counties; (b) the HMO will be provided an administrative fee no greater than the fee paid to the claims processing contractor for the Plan's self-insured indemnity program (Blue Cross & Blue Shield of North Carolina); (c) monthly premiums will be the same as the monthly premiums for the Plan's self-insured indemnity program; (d) most benefits will be actuarially 5-10% better than the benefits of the Plan's self-insured indemnity program with member cost-sharing limited to co-payments; (e) outpatient prescription drug benefits and mental health and substance abuse benefits will be carved-out and will continue to be managed by the self-insured indemnity program's pharmacy benefit manager (AdvancePCS) and mental health case manager (Value Options); (f) a point-of-service option in which HMO members can use out-of-network providers in exchange for higher co-payments will not be offered; and (g) conversion to non-group benefits upon a member's termination of eligibility for group benefits will be provided by the selected HMO on an insured arrangement.

EFFECTIVE DATE: When it becomes law.

ESTIMATED IMPACT ON STATE: The consulting actuary for the Teachers' and State Employees' Comprehensive Major Medical Plan, Aon Consulting, says that the Plan will design a self-insured HMO that will be cost neutral to the State. Aon Consulting further states that the cost savings to the State will come from greater discounts from an HMO's network of institutional and professional health care providers, notwithstanding the fact that changes in utilization management may result in an increase or decrease in cost to the State. In any event, Aon Consulting concludes that the bill results in the risk of adverse experience being transferred to the State by an HMO. The consulting actuary for the General Assembly's Fiscal Research

Division, Hartman & Associates, states that the financial impact of the bill is currently indeterminable, but that a considerable amount of uncompensated risk will be transferred from the commercial HMO market and Plan members selecting an HMO option to the State. Factors related to this position include: inconclusive evidence that splitting the Plan's self-insured efforts into two parts will generate savings not realized by the Plan in total, the likelihood that Plan members will self-select the self-insured option most advantageous at the time which will result in an overall cost increase to the Plan, the likelihood of a viable health care provider network and HMO option with higher benefits in all of the State's 100 counties is quite uncertain, the addition of another self-insured option to the Plan will likely create additional administrative costs to the Plan, the addition of another self-funded option will likely result in increased total claims processing fees since the indemnity program's claims processor's fees are based upon a minimum enrollment to adequately cover fixed expenses, and with the State's anticipation of subjecting managed care plans to malpractice liabilities and increased defensive medical practices, the commercial HMO industry will in all likelihood transfer all of the increased costs for protection against these liabilities and defensive medical practices to the State rather than to its owners and other books of business.

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:

	<u>Self-Insured Indemnity Program</u>	<u>Alternative HMOs</u>	<u>Plan Total</u>
<u>Number of Participants</u>			
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
<u>Number of Contracts</u>			
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 the Plan's HMO Offerings: Summary data for the Plan's HMO offerings during the last 10 years shows:

	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>	<u>1995</u>	<u>1994</u>
<u>No. of HMOs</u>	3	11	10	12	12	7	7
<u>No. of Counties Covered</u>	24	66	66	90	84	73	72
<u>Most Counties Covered by an HMO</u>	22	39	36	62	61	56	56
<u>Member Co-payments</u>							
Inpatient	\$75	None	None	None	None	None	None
Emergency Room	\$50	None	None	None	None	None	None
Office Visit	\$10-\$30	\$10-\$20	\$10-\$15	\$10-\$20	\$5-\$20	\$10-\$20	\$10-\$20
Prescrip. Drug	\$5-\$20	\$5-\$40	\$5-\$40	\$5-\$20	\$5-\$20	\$5-\$10	\$5-\$10
<u>Monthly Premium Over Indemnity Plan</u>							
Individual	\$71-\$78	\$30-\$61	\$21-\$82	\$14-\$62	\$14-\$49	\$13-\$44	\$26-\$41
Parent/Child	\$135-\$148	\$65-\$119	\$46-\$152	\$34-\$117	\$33-\$94	\$33-\$85	\$43-\$80
Family (Non-Medicare Only)	\$211-\$229	\$103-\$187	\$73-\$237	\$55-\$183	\$53-\$201	\$52-\$134	\$56-\$126
<u>HMO Memb. Ages</u>							
<30	20,932	51,043	59,945	63,877	57,965	47,445	35,793
Plan Penetration	12.8%	30.8%	35.2%	38.0%	35.1%	29.6%	22.8%
30-44	13,414	33,504	35,897	39,060	36,235	30,750	23,994
Plan Penetration	11.2%	28.0%	30.3%	32.7%	29.9%	25.2%	19.5%
45-54	9,693	24,054	24,962	26,153	23,092	18,816	14,009
Plan Penetration	8.2%	21.0%	22.6%	24.6%	22.7%	19.5%	15.2%
55-64	4,627	10,659	10,852	10,812	9,161	7,412	5,754
Plan Penetration	5.9%	14.3%	15.3%	16.3%	14.5%	12.1%	9.7%
65>	1,692	3,482	3,635	3,618	3,170	2,716	2,270
Plan Penetration	2.1%	4.5%	4.8%	5.0%	4.5%	3.9%	3.4%
Total	50,358	122,742	135,291	143,520	129,623	107,139	81,820
Plan Penetration	9.0%	22.2%	24.8%	26.9%	24.8%	21.1%	16.4%
<u>HMO Memb. Types</u>							
Employees	28,822	70,681	74,413	78,462	70,454	57,898	43,717
Plan Penetration	10.4%	25.8%	27.8%	29.9%	27.4%	23.0%	17.7%

Employ. Depend.	17,376	44,369	52,163	56,361	51,767	43,330	33,606
Plan Penetration	11.4%	28.7%	32.7%	35.6%	33.1%	28.3%	22.2%
Retirees	3,185	5,712	6,682	6,400	5,441	4,390	3,338
Plan Penetration	3.0%	5.6%	6.8%	6.8%	6.1%	5.1%	4.1%
Retiree Depend.	594	1,165	1,334	1,304	1,169	978	738
Plan Penetration	3.2%	6.6%	7.9%	8.2%	7.5%	6.4%	5.0%
Former Memb.	381	815	699	993	792	543	421
Plan Penetration	11.7%	22.0%	20.1%	27.3%	22.7%	16.5%	13.9%
Total	50,358	122,742	135,291	143,520	129,623	107,139	81,820
Plan Penetration	9.0%	22.2%	24.8%	26.9%	24.8%	21.1%	16.4%

HMO Contract Types

Individual	23,223	54,059	55,100	57,538	51,777	41,134	30,705
Plan Penetration	7.9%	19.0%	20.2%	21.7%	20.1%	16.5%	12.7%
Parent/Child	6,006	14,644	16,564	17,155	14,476	13,261	10,223
Plan Penetration	13.4%	31.7%	35.1%	37.1%	32.6%	29.9%	23.7%
Family	3,026	8,182	9,864	10,767	10,126	8,247	6,373
Plan Penetration	6.2%	17.1%	20.5%	22.8%	21.6%	18.0%	14.0%
Total	32,255	76,885	81,528	85,460	76,379	62,642	47,301
Plan Penetration	8.3%	20.3%	22.2%	23.9%	21.9%	18.4%	14.3%

	<u>1993</u>	<u>1992</u>	<u>1991</u>
<u>No. of HMOs</u>	6	6	4

<u>No. of Counties Covered</u>	50	46	22
--------------------------------	----	----	----

<u>Most Counties Covered by an HMO</u>	24	22	22
--	----	----	----

Member Co-payments

Inpatient	None	None	None
Emergency Room	None	None	None
Office Visit	\$5-\$20	\$5-\$20	\$5-\$15
Prescrip. Drug	\$5-\$10	\$5-\$10	\$5-\$10

Monthly Premium

Over Indemnity Plan

Individual	\$24-\$41	\$17-\$29	\$8-\$19
Parent/Child	\$45-\$81	\$28-\$61	\$9-\$40
Family	\$63-\$128	\$36-\$97	\$5-\$53

(Non-Medicare Only)

HMO Memb. Ages

<30	31,581	28,458	22,288
Plan Penetration	20.7%	19.0%	15.0%
30-44	21,773	20,301	16,258
Plan Penetration	17.6%	16.3%	12.9%
45-54	11,649	9,702	7,079
Plan Penetration	13.4%	11.9%	9.3%
55-64	4,818	4,141	3,257
Plan Penetration	8.4%	7.4%	5.9%
65>	1,977	1,644	1,302

Plan Penetration	3.1%	2.6%	2.2%
Total	71,798	64,246	50,184
Plan Penetration	14.8%	13.6%	10.8%

HMO Memb. Types

Employees	38,324	34,784	26,903
Plan Penetration	15.9%	14.8%	11.8%
Employ. Depend.	29,663	26,499	20,945
Plan Penetration	19.9%	18.0%	14.0%
Retirees	2,781	2,212	1,680
Plan Penetration	3.5%	3.0%	2.3%
Retiree Depend.	673	523	434
Plan Penetration	4.6%	3.6%	3.0%
Former Memb.	357	228	222
Plan Penetration	12.8%	8.7%	6.7%
Total	71,798	64,246	50,184
Plan Penetration	14.8%	26.9%	10.8%

HMO Contract Types

Individual	26,682	24,132	18,385
Plan Penetration	11.4%	10.7%	8.6%
Parent/Child	9,057	7,848	6,023
Plan Penetration	21.7%	19.3%	15.1%
Family	5,599	5,164	4,311
Plan Penetration	12.4%	11.4%	9.1%
Total	41,338	37,144	28,719
Plan Penetration	12.9%	11.9%	9.5%

This summary data is based upon statistics on December 31st of each year. For the same ten-year period, the Plan assessed HMOs a monthly administrative fee of \$1.00 per contract and the following monthly risk selection fees per affected enrollee in the HMOs:

<u>Age of Enrollee</u>	<u>1991-1997</u>	<u>1998-2000</u>
2 and Under	None	\$12.00
3-4	None	\$12.00
5-19	\$12.00	\$12.00
20-29	\$18.00	\$18.00
30-39	\$16.00	\$16.00
40-49	\$6.00	\$2.00
50 and Over	None	None

The total amount of fees collected by the Plan from HMOs have been:

<u>Year</u>	<u>(\$Million)</u>	<u>Year</u>	<u>(\$Million)</u>
1990-1991	\$3.139	1995-1996	\$7.697
1991-1992	\$3.477	1996-1997	\$13.365
1992-1993	\$4.813	1997-1998	\$16.803
1993-1994	\$5.778	1998-1999	\$16.473
1994-1995	\$6.104	1999-2000	\$14.516

An additional factor expected to impact the bill is the availability of primary care physicians on a statewide basis within North Carolina. According to 1999 information provided by the Cecil G. Sheps Center for Health Services Research at the University of North Carolina at Chapel Hill, there are eight counties within the State that have less than 5 family practitioners, general practitioners, and internists. These same counties had an October, 2000, enrollment of over 7,000 members of the Plan. Another nine counties have 5 but less than 10 family practitioners, general practitioners, and internists. The Plan had another 11,000 enrollees in these counties as of October, 2000. As far as OB/Gyn physicians are concerned, twenty-eight counties within the State do not have an OB/Gyn practitioner. These counties had an enrollment of over 38,000 members in the Plan in October, 2000. Another seventeen counties in the State have one but less than three OB/Gyn physicians. The Plan had an enrollment of over 55,000 in these counties in October, 2000. Furthermore, twenty-four counties within the State do not have a pediatrician. The Plan had an enrollment of 31,000 members in these counties in October, 2000. Another sixteen counties have one but less than three pediatricians. The Plan had an enrollment of over 42,000 members in these counties in October, 2000.

SOURCES OF DATA:

- Actuarial Note, Hartman & Associates, Senate Bill 822, May 10, 2001, original of which is on file in the General Assembly's Fiscal Research Division.
- Actuarial Note, Aon Consulting, Senate Bill 822, 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.

TECHNICAL CONSIDERATIONS: The proposed G. S. 135-39.5B(a) should be amended to clearly specify that the HMOs covered by the subsection are fully insured HMOs and not HMOs insured by the State.

FISCAL RESEARCH DIVISION 733-4910

PREPARED BY: Sam Byrd

APPROVED BY: James D. Johnson

DATE: May 11, 2001



Signed Copy Located in the NCGA Principal Clerk's Offices