

**NORTH CAROLINA GENERAL ASSEMBLY  
LEGISLATIVE ACTUARIAL NOTE**

**BILL NUMBER:** Senate Bill 1115, Proposed House Committee Substitute, Sections 10.21A, 28.16, and 28.17

**SHORT TITLE:** Modify Appropriations Act of 2001

**SPONSOR(S):** Representatives Redwine, Easterling, Oldham, Thompson, Wright, Earle, and Nye

**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 10.21A of the bill transfers the administration of the Health Insurance Program for Children, including claims processing services, from the Teachers' and State Employees' Comprehensive Major Medical Plan to the Department of Health and Human Services. Section 28.16 of the bill increases the Plan's Board of Trustees from nine to fifteen members. The Speaker of the House of Representatives, the President Pro Tempore of the Senate, and the Governor would have five appointments each, of which one is to be an employee of a state department, agency, or institution, one is to be an employed teacher of a public school system, and one is to be a retired employee of a state department, agency, or institution, or a retired teacher of a public school system. The section also requires the Plan's Executive Administrator to work with the Board of Trustees as opposed to just consulting with the Board and doing whatever he or she wishes. The Plan's Executive Administrator is to also appoint an employee of a state department, agency, or institution, an employed teacher of a public school system, a retired employee of a state department, agency, or institution, or a retired teacher of a public school system to any committee appointed or used by the Executive Administrator to formulate policies, rules, regulations, recommendations to the General Assembly or Governor, or in any other way affecting the operations or decisions of the Plan, including the Plan's pharmacy and therapeutics committee. Section 28.17 of the bill provides for the reimbursement of services to clinical pharmacist practitioners who are approved by the North Carolina Board of Pharmacy and North Carolina Medical Board. Clinical pharmacist practitioners became a new level of pharmacy in North Carolina in July 2000, with rules promulgated by the Board of Pharmacy and Medical Board in April 2001. These pharmacists have advanced training and work collaboratively with licensed physicians to implement pre-determined agreements for drug therapy such as aminoglycoside dosing, anti-coagulation management, theophylline dosing, pain management, refill programs, and disease management programs for chronic diseases such as asthma and diabetes.

**EFFECTIVE DATE:** Section 10.21A of the bill becomes effective October 1, 2002, and applies to all claims incurred after October 1, 2002. Section 28.16 becomes effective October 1, 2002, only for appointments to the Plan's Board of Trustees. The remainder of the section becomes effective when the bill becomes law. Section 28.17 of the bill becomes effective July 1, 2002.

**ESTIMATED IMPACT ON STATE:** Based upon information provided by the Plan, the Plan's consulting actuary, Aon Consulting, estimates the special provisions will have either no cost to the Plan or negligible cost to the Plan for the services of clinical pharmacist practitioners.

Also based upon data supplied by the Plan, the consulting actuary for the General Assembly's Fiscal Research Division, Hartman & Associates, estimates the special provisions will not have a significant financial impact on the Plan.

**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., \$350 annual deductible, 20% coinsurance up to \$1,500 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 premiums 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 20% 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; however none of the HMOs with certificates of authority to transact business in North Carolina have offered to participate in the Plan since September 30, 2001. 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, 2001, include:

	<u>Self-Insured Indemnity Program</u>	<u>Alternative HMOs</u>	<u>Plan Total</u>
<u>Number of Participants</u>			
Active Employees	279,398	-0-	279,398
Active Employee Dependents	142,856	-0-	142,856
Retired Employees	112,042	-0-	112,042
Retired Employee Dependents	18,744	-0-	18,744
Former Employees & Dependents with Continued Coverage	2,859	-0-	2,859
Firefighters, Rescue Squad Workers, National Guard Members & Dependents	4	-0-	4
Total Enrollments	555,903	-0-	555,903
<u>Number of Contracts</u>			
Employee Only	304,906	-0-	304,906
Employee & Child(ren)	42,354	-0-	42,354
Employee & Family	46,246	-0-	46,246

Total Contracts	393,506	-0-	393,506
<u>Percentage of Enrollment by Age</u>			
29 & Under	27.8%	-0-%	27.8%
30-44	21.2	-0-	21.2
45-54	21.2	-0-	21.2
55-64	15.1	-0-	15.1
65 & Over	14.7	-0-	14.7
<u>Percentage of Enrollment by Sex</u>			
Male	38.6%	-0-%	38.6%
Female	61.4	-0-	61.4

Assumptions for the Self-Insured Indemnity Program: For the fiscal year beginning July 1, 2001, the self-insured program started its operations with a beginning cash balance of \$51.2 million. Receipts for the year are estimated to be \$1.233 billion from premium collections, \$4 million from investment earnings, \$1 million in risk adjustment and administrative fees from HMOs, and a \$36 million transfer from State's General Fund from the Governor's Budget Office for a total of \$1.274 billion in receipts for the year. Disbursements from the self-insured program are expected to be \$1.215 billion in claim payments and \$36 million in administration and claims processing expenses for a total of \$1.251 billion for the year beginning July 1, 2001. For the fiscal year beginning July 1, 2002, the self-insured indemnity program is expected to have a beginning cash balance of \$74 million with a net operating loss of approximately \$29 million for the year. For the fiscal year beginning July 1, 2003, the self-insured indemnity program is expected to have a beginning cash balance of only \$45 million. The self-insured indemnity program is consequently assumed to be unable to carry out its operations for the 2003-2005 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, discounts on hospital outpatient services, pre-admission hospital testing, pre-admission hospital inpatient certification with length-of-stay approval, hospital bill audits, case and disease management for selected medical conditions, mental health case management, coordination of benefits with other payers, Medicare benefit "carve-outs", cost reduction contracts with participating physicians and other providers, a prescription drug benefit manager with manufacturer rebates from formularies, and fraud detection) are maintained and improved where possible. Current non-contributory premium rates are \$186.04 monthly for employees whose primary payer of health benefits is Medicare and \$244.38 per month for employees whose primary payer of health benefits is not Medicare. Fully contributory premium amounts for employee and child (ren) contracts are \$115.78 monthly for children whose primary payer of health benefits is Medicare and \$152.32 monthly for other covered children, and \$277.68 per month for family contracts whose dependents have Medicare as the primary payer of health benefits and \$365.36 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. 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 7% 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 5% 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 on the Plan's Claims Processing Cost for the Health Insurance Program for Children: The Plan began processing claims for the Health Insurance Program for Children in October 1998. For the period October 1, 1998, through June 30, 1999, the Plan paid Blue Cross & Blue Shield of North Carolina, its claims processing contractor, \$4.75 per enrolled child per month. Blue Cross & Blue Shield was to be paid increases in their administrative fees for the Program equal to the increases in the overall consumer price index but not less than 3% annually nor more than 5% annually. On June 30, 1999, the Program had 43,331 children enrolled. On June 30, 2000, the Program had 67,169 children enrolled; on June 30, 2001, the Program had 60,153 children enrolled; and on June 30, 2002, the Program had 85,769 children enrolled. For the period July 1, 2001, through June 30, 2002, the Plan paid Blue Cross & Blue Shield of North Carolina \$5.38 per enrolled child per month.

Assumptions on the Plan's Compensation to Trustees: For the last five fiscal years, the Plan has paid the following amounts in compensation to members of its Board of Trustees: \$8,000 in 2001-02; \$2,700 in 2000-01; \$1,400 in 1999-2000; \$1,200 in 1998-99; and \$1,200 in 1997-98.

Assumptions for the Plan's Use of Clinical Pharmacist Practitioners: According to the Board of Pharmacy, nine pharmacists had been approved as clinical pharmacist practitioners through August 2001 in North Carolina. These pharmacists resided in the following counties: Guilford (4), Buncombe (2), Orange (2), and Rockingham (1). As of June 23, 2002, 34 pharmacists had been approved as clinical pharmacist practitioners.

**SOURCES OF DATA:**

- Actuarial Notes, Hartman & Associates, Senate Bill 1115, Proposed House Committee Substitute, Special Provisions, August 2, 2002, original of which are on file in the General Assembly's Fiscal Research Division.
- -Actuarial Note, Aon Consulting, Senate Bill 1115, Proposed House Committee Substitute, Special Provisions, August 2, 2002, 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:** 733-4910

**PREPARED BY:** Sam Byrd

**APPROVED BY:** James D. Johnson

**DATE:** August 6, 2002



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