



# GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2011

## Legislative Actuarial Note

### HEALTH BENEFITS

**BILL NUMBER:** House Bill 244 (Fourth Edition)

**SHORT TITLE:** State Health Plan/Add Schools; Whistleblowers.

**SPONSOR(S):** Representative Murry

**SYSTEM OR PROGRAM AFFECTED:** State Health Plan for Teachers and State Employees (Plan).

**FUNDS AFFECTED:** State General Fund, State Highway Fund, other State employer receipts; premium payments for dependents of active employees and retired employees of State agencies and universities, local public schools and local community colleges; premium payments for coverages selected by eligible former employees; premium payments for coverages selected by firefighters, rescue squad workers, members of the National Guard, and certain authorized local governments.

#### **BILL SUMMARY:**

Section 1 of the bill permits the Boards of Directors of Sterling Montessori Academy and Charter School, Casa Esperanza Montessori Charter School, and Kestrel Heights School, which are public charter schools, to become participating employers under the Plan within 30 days after the act becomes law. Under G.S. 135-48.54, an election to join the Plan by the board of a charter school is irrevocable and shall require all eligible employees of the charter school to participate.

Section 2 of the bill amends G.S. 22B to prohibit contract provisions restricting whistleblowing related to the Plan.

Section 3 of the bill enacts a new statute, G.S. 135-48.15, which includes a statement of public policy on whistleblower protection and provides for protection from retaliation and for remedies.

**EFFECTIVE DATE:** Section 1 becomes effective when it becomes law. Sections 2 and 3 become effective on October 1, 2012.

#### **ESTIMATED IMPACT ON STATE:**

The consulting actuary for the State Health Plan for Teachers and State Employees, Aon Hewitt, estimates a financial loss to the Plan of \$438,055 for FY 2012-2013 if Sterling Montessori, Casa Esperanza, and Kestrel Heights charter schools all elect to participate in the Plan.

Aon Hewitt noted that by solely comparing the Plan's current average plan membership and the combined charter schools' submitted employee and dependent demographic data, each charter school group should produce less in expected claims, on average, as compared to the Plan's covered group. However, absent historical claims experience data from either school to substantiate this assessment, Aon Hewitt noted that there is no basis to rule out the risk of either school group having higher average claims costs than the current plan members. Therefore, for the purposes of estimating the combined schools' potential cost impact to the Plan, Aon Hewitt assumed potential claims for each school would be 150% greater on average

due to expected adverse selection of costlier plan members entering the Plan. Even with this assumption, and given the small size of each respective school, Aon Hewitt estimates the projected costs would have a negligible impact on the Plan.

Hartman & Associates, consulting actuary for the General Assembly’s Fiscal Research Division, estimates that the financial impact on the Plan would not be material upon Sterling Montessori, Casa Esperanza, and Kestrel Heights charter schools electing to participate in the Plan.

Hartman and Associates noted that the employee and dependent demographics of the combined schools’ groups would be expected to produce similar costs as compared to the Plan’s membership, and that given the minimal number of prospective employees and dependents to be enrolled, there is not expected to be a significant financial impact as a percent of total claims. Hartman & Associates, however, also noted the lack of available historical claims experience from either School to assess potential adverse selection against the Plan.

The additional cost impact of the bill, projected by either consulting actuary, would be expected to impact total claims growth by approximately one and one-half hundredths of one percent (0.015%) for the 2012-2013 fiscal year based on the highest estimate of additional cost (i.e., \$438,055).

**ASSUMPTIONS AND METHODOLOGY:** The actuarial analyses used by each respective consulting actuary are on file with the Fiscal Research Division. Copies of each respective consulting actuary’s analysis, including assumptions, are also attached to the original copy of this Legislative Actuarial note.

Authorized Charter Schools: As of December 2010, there were 59 charter schools with 3,524 enrolled active employees and dependents participating in the Plan.

Data submitted by the Schools: Aon Hewitt and Hartman and Associates based their respective analyses in part on a Distribution of Participants schedule submitted by each school. The schedules below reflect the age and sex demographic data for employees and dependents for each of the respective schools. None of the schools provided complete claims experience data due to a refusal of their respective incumbent carriers to release claims information on each School’s participants.

Distribution of Participants – Sterling Montessori												
Ages	Active Employees			Dependents of Active Employees			Retired Employees			Dependents of Retired Employees		
	Male	Female	Total	Male	Female	Total	Male	Female	Total	Male	Female	Total
0-4	0	0	0	0	0	0			0			0
5-9	0	0	0	1	0	1			0			0
10-14	0	0	0	1	3	4			0			0
15-19	0	0	0	1	3	4			0			0
20-24	0	0	0	1	1	2			0			0
25-29	0	4	4	0	0	0			0			0
30-34	4	7	11	0	0	0			0			0
35-39	2	8	10	0	0	0			0			0
40-44	1	17	18	1	1	2			0			0
45-49	1	7	8	0	2	2			0			0
50-54	1	9	10	1	0	1			0			0
55-59	1	1	2	1	0	1			0			0
60-64	1	0	1	0	0	0			0			0
65-69	0	2	2	0	0	0			0			0
70-74	0	1	1	0	0	0			0			0
75-79	0	0	0	0	0	0			0			0
>79	0	0	0	0	0	0			0			0
Unknown	0	0	0	0	0	0			0			0
TOTAL	11	56	67	7	10	17	0	0	0	0	0	0

Distribution of Participants – Casa Esperanza												
Ages	Active Employees			Dependents of Active Employees			Retired Employees			Dependents of Retired Employees		
	Male	Female	Total	Male	Female	Total	Male	Female	Total	Male	Female	Total
0-4			0		1	1			0			0
5-9			0	3	1	4			0			0
10-14			0		4	4			0			0
15-19			0			0			0			0
20-24		1	1	1	1	2			0			0
25-29	1	6	7			0			0			0
30-34		7	7			0			0			0
35-39		11	11			0			0			0
40-44	1	5	6			0			0			0
45-49		3	3	1		1			0			0
50-54		6	6			0			0			0
55-59		2	2			0			0			0
60-64		2	2	1		1			0			0
65-69			0			0			0			0
70-74			0			0			0			0
75-79			0			0			0			0
>79			0			0			0			0
Unknown			0			0			0			0
TOTAL	2	43	45	6	7	13	0	0	0	0	0	0

Distribution of Participants – Kestrel Heights												
Ages	Active Employees			Dependents of Active Employees			Retired Employees			Dependents of Retired Employees		
	Male	Female	Total	Male	Female	Total	Male	Female	Total	Male	Female	Total
0-4	0	0	0	1	0	1			0			0
5-9	0	0	0	1	0	1			0			0
10-14	0	0	0	2	3	5			0			0
15-19	0	0	0	3	1	4			0			0
20-24	0	2	2	1	1	2			0			0
25-29	1	2	3	0	0	0			0			0
30-34	3	4	7	0	0	0			0			0
35-39	3	4	7	0	0	0			0			0
40-44	5	1	6	0	0	0			0			0
45-49	3	3	6	0	3	3			0			0
50-54	2	1	3	0	1	1			0			0
55-59	1	1	2	0	0	0			0			0
60-64	1	2	3	0	0	0			0			0
65-69	0	1	1	0	0	0			0			0
70-74	0	0	0	0	0	0			0			0
75-79	0	0	0	0	0	0			0			0
>79	0	0	0	0	0	0			0			0
Unknown	0	0	0	0	0	0			0			0
TOTAL	19	21	40	8	9	17	0	0	0	0	0	0

### Summary Information and Data about the Plan

The Plan administers health benefit coverage for active employees from employing units of State agencies and departments, universities, local public schools, and local community colleges. Eligible retired employees of authorized employing units may also access health benefit coverage under the Plan. Eligible dependents of active and retired employees are authorized to participate in the Plan provided they meet certain requirements. Employees and retired employees of selected local governments may also participate in the Plan under certain conditions. Members of fire, rescue squads, and the National Guard may also obtain coverage under the Plan provided they meet certain eligibility criteria.

The State finances the Plan on a self-funded basis and administers benefit coverage under a Preferred Provider Option (PPO) arrangement. The Plan's receipts are derived through premium contributions, investment earnings and other receipts. Premiums for health benefit coverage are paid by (1) employing agencies for active employees, (2) the Retiree Health Benefit Fund for retired employees, and (3) employees and retirees who participate in the Standard plan or who elect dependent coverage. Total requirements for the Plan are estimated to be \$2.87 billion for FY 2011-12 and \$3.03 billion for FY 2012-13. The Plan's PPO benefit design includes two alternative benefit levels listed below:

- 1) The "Basic" 70/30 plan that offers higher out-of pocket requirements in return for lower premiums from employees and retirees; and
- 2) The "Standard" 80/20 plan.

The Basic plan offers coverage to employees and retired employees on a noncontributory basis. The Standard plan offers coverage to employees and retired employees on a partially contributory basis. Coverage for dependents under both plans is offered on a fully contributory basis.

The following table provides a summary of most monthly premium rates for the Plan in FY 2012-13:

<u>Coverage Type</u>	PPO Basic		PPO Standard	
	Employee/ Retiree	Employer	Employee/ Retiree	Employer
Non-Medicare Active Employee/Retiree				
Employee	\$0.00	\$432.66	\$22.76	\$432.66
Employee + Child(ren)	\$198.06	\$432.66	\$286.16	\$432.66
Employee + Spouse	\$510.32	\$432.66	\$629.64	\$432.66
Employee + Family	\$543.54	\$432.66	\$666.18	\$432.66
Medicare Primary for Only Employee/Retiree				
Employee	\$0.00	\$336.25	\$10.52	\$336.25
Employee + Child(ren)	\$198.06	\$336.25	\$273.92	\$336.25
Employee + Spouse	\$510.32	\$336.25	\$617.40	\$336.25
Employee + Family	\$543.54	\$336.25	\$653.94	\$336.25

The employer share of premiums for retirees is paid from the Retiree Health Benefit Fund. During FY 2011-12, employers contribute 5.0% of active employee payroll into the Fund. Total contributions for the year are projected to be approximately \$764 million.

## **Financial Condition**

**Projected Results for 2011-2013 Biennium** – The following summarizes a financial projection prepared by the Plan’s consulting actuary, Aon Hewitt, for the 2011-2013 biennium. It reflects the provisions of SL 2011-85 and SL 2011-96 and is based on financial experience through December, 2010.

	(\$ millions)	
	Projected FY 2011-12	Projected FY 2012-13
Beginning Cash Balance	\$226.8	\$219.5
Receipts:		
Net Premium Collections	\$2,769.9	\$2,923.2
Early Retiree Reinsurance Program	\$25.6	\$0.0
Medicare Part D Subsidies	\$60.1	\$62.6
Investment Earnings	\$2.2	\$2.1
Total	\$2,857.8	\$2,987.9
Disbursements:		
Net Medical Claim Payment Expenses	\$2,045.1	\$2,179.7
Net Pharmacy Claim Payment Expenses	\$639.6	\$671.7
Administration and Claims-Processing Expenses	\$180.5	\$183.6
Total	\$2,865.1	\$3,035.0
Net Operating Income (Loss)	(\$7.3)	(\$47.0)

The projection assumes 9.5% annual claims growth trend. It incorporates \$151 million in projected savings over the biennium from a new Pharmacy Benefit Manager (PBM) contract that was effective October 1, 2011. It assumes that the Plan maintains “grandfathered” status under the federal Affordable Care Act (ACA). It assumes the Plan experiences an increase of \$33 million in claims over the biennium due to requirements in the ACA to cover additional dependents.

## **Other Information**

Additional assumptions include Medicare benefit “carve-outs,” cost containment strategies including prior approval for certain medical services, utilization of the "Blue Options" provider network, case and disease management for selected medical conditions, mental health case management, coordination of benefits with other payers, a prescription drug benefit manager with manufacturer rebates from formularies, fraud detection, and other authorized actions by the State Treasurer, Executive Administrator, and Board of Trustees to manage the Plan to maintain and improve the Plan's operation and financial condition where possible. Claim cost trends are expected to increase at a rate of 9.5% annually according to the Plan’s consulting actuary. Investment earnings are based upon a 1.0% return on available cash balances. The active population is projected to decline by 1% per year, the COBRA population is projected to remain constant, and the retired population is projected to increase by 1% per year.

**Enrollment as of September 30, 2011**

<b>I. No. of Participants</b>	<b>Basic</b>	<b>Standard</b>	<b>Total</b>	<b>Percent of Total</b>
<u>Actives</u>				
Employees	116,124	197,696	313,820	47.2%
Dependents	70,353	88,489	158,842	23.9%
Sub-total	186,477	286,185	472,662	71.1%
<u>Retired</u>				
Employees	25,109	141,696	166,805	25.1%
Dependents	5,459	13,709	19,168	2.9%
Sub-total	30,568	155,405	185,973	28.0%
<u>Former Employees with Continuation Coverage</u>				
Employees	1,255	1,289	2,544	0.4%
Dependents	528	350	878	0.1%
Sub-total	1,783	1,639	3,422	0.5%
<u>Firefighters, Rescue Squad &amp; National Guard</u>				
Employees	3	4	7	0.0%
Dependents	3	1	4	0.0%
Sub-total	6	5	11	0.0%
<u>Local Governments</u>				
Employees	530	1,364	1,894	0.3%
Dependents	402	536	938	0.1%
Sub-total	932	1,900	2,832	0.4%
<u>Total</u>				
Employees	143,021	342,049	485,070	73.0%
Dependents	76,745	103,085	179,830	27.0%
<b>Grand Total</b>	<b>219,766</b>	<b>445,134</b>	<b>664,900</b>	<b>100%</b>
<b>Percent of Total</b>	<b>33.1%</b>	<b>66.9%</b>	<b>100.0%</b>	
<b>II. Enrollment by Contract</b>				
	<b>Basic</b>	<b>Standard</b>	<b>Total</b>	
Employee Only	104,153	284,789	388,942	
Employee Child(ren)	21,354	29,930	51,284	
Employee Spouse	6,653	15,312	21,965	
Employee Family	10,861	12,018	22,879	
<b>Total</b>	<b>143,021</b>	<b>342,049</b>	<b>485,070</b>	
<b>Percent Enrollment by Contract</b>				
	<b>Basic</b>	<b>Standard</b>	<b>Total</b>	
Employee Only	72.8%	83.3%	80.2%	
Employee Child(ren)	14.9%	8.8%	10.6%	
Employee Spouse	4.7%	4.5%	4.5%	
Employee Family	7.6%	3.5%	4.7%	
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	

<b>III. Enrollment by Sex</b>	<b>Basic</b>	<b>Standard</b>	<b>Total</b>
Female	125,914	288,637	414,551
Male	93,852	156,497	250,349
<b>Total</b>	<b>219,766</b>	<b>445,134</b>	<b>664,900</b>

<b>Percent Enrollment by Sex</b>	<b>Basic</b>	<b>Standard</b>	<b>Total</b>
Female	57.3%	64.8%	62.3%
Male	42.7%	35.2%	37.7%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

<b>IV. Enrollment by Age</b>	<b>Basic</b>	<b>Standard</b>	<b>Total</b>
19 & Under	49,389	60,779	110,168
20 to 29	24,898	36,748	61,646
30 to 44	52,875	73,944	126,819
45 to 54	42,716	67,407	110,123
55 to 64	43,858	92,724	136,582
65 & Over	6,030	113,532	119,562
<b>Total</b>	<b>219,766</b>	<b>445,134</b>	<b>664,900</b>

<b>Percent Enrollment by Age</b>	<b>Basic</b>	<b>Standard</b>	<b>Total</b>
19 & Under	22.5%	13.7%	16.6%
20 to 29	11.3%	8.3%	9.3%
30 to 44	24.1%	16.6%	19.1%
45 to 54	19.4%	15.1%	16.6%
55 to 64	20.0%	20.8%	20.5%
65 & Over	2.7%	25.5%	18.0%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

<b>V. Retiree Enrollment by Category</b>	<b>Employee</b>	<b>Dependents</b>	<b>Total</b>
Non-Medicare Eligible	55,059	12,072	67,131
Medicare Eligible	111,746	7,096	118,842
<b>Total</b>	<b>166,805</b>	<b>19,168</b>	<b>185,973</b>

<b>Percent Enrollment by Category (Retiree)</b>	<b>Employee</b>	<b>Dependents</b>	<b>Total</b>
Non-Medicare Eligible	33.0%	63.0%	36.1%
Medicare Eligible	67.0%	37.0%	63.9%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

<b>VI. Enrollment By Major Employer Groups</b>	<b>Employees</b>	<b>Dependents</b>	<b>Total</b>
State Agencies	73,838	33,930	107,768
UNC System	50,223	30,672	80,895
Local Public Schools	174,370	86,182	260,552
Local Community Colleges	15,389	8,058	23,447
Other			
Local Governments	1,894	938	2,832
COBRA	2,544	878	3,422
Nat. Guard, Fire & Rescue	7	4	11
Sub-total	318,265	160,662	478,927
Retirement System	166,805	19,168	185,973
<b>Total</b>	<b>485,070</b>	<b>179,830</b>	<b>664,900</b>
<b>Percent Enrollment by Major Employer Groups</b>	<b>Employees</b>	<b>Dependents</b>	<b>Total</b>
State Agencies	15.2%	18.9%	16.2%
UNC System	10.4%	17.1%	12.2%
Local Public Schools	35.9%	47.9%	39.2%
Local Community Colleges	3.2%	4.5%	3.5%
Other			
Local Governments	0.4%	0.5%	0.4%
COBRA	0.5%	0.5%	0.5%
Nat. Guard, Fire & Rescue	0.0%	0.0%	0.0%
Sub-total	65.6%	89.3%	72.0%
Retirement System	34.4%	10.7%	28.0%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>



**SOURCES OF DATA:**

Aon Hewitt, North Carolina State Health Plan, Financial Projections - January 2011 - 14b (\$12 Generic) - Start September - No Premium Increase for Late Start, Total For All Plans - 9.5% Trend with Risk Adjustment, with Max GF Benefits except \$12 Generic, with PBM Contract Savings, Additional Premium Charged To All Tiers - Active: 5% Std, 0% Basic; NMC Retiree 5% Std, 0% Basic; MC Retiree \$10 Std, \$0 Basic, No CWI, Non-Smoker Movement: Active: 25% single, 5% dep; NMC Retiree: 25% single, 5% dep; MC Retiree: 20% single, 5% dep, May 17, 2011.

-Actuarial Note, Hartman & Associates, House Bill 244, “House Bill 244 Proposed Committee Substitute H244-CSR-18 [v.2]: An Act to Authorize Sterling Montessori Academy and the Casa Esperanza Montessori Charter School to Elect to Participate in the State Health Plan for Teachers and State Employees,” June 1, 2011, an original of which is on file in the General Assembly’s Fiscal Research Division.

-Actuarial Note, Hartman & Associates, House Bill 1213, “House Bill 1213: An Act to Authorize Kestrel Heights School to Elect to Participate in the State Health Plan for Teachers and State Employees,” June 6, 2012, an original of which is on file in the General Assembly’s Fiscal Research Division.

-Actuarial Note, Aon Consulting, House Bill 244, “ House Bill 244 Proposed Committee Substitute H244-CSR-18 [v.2] State Health Plan/Add Sterling Montessori Academy,” June 1, 2011, an original of which is on file with the State Health Plan for Teachers and State Employees and the General Assembly’s Fiscal Research Division.

-Actuarial Note, Aon Hewitt, House Bill 1213, “ House Bill 1213 State Health Plan / Add Kestrel Heights School,” June 15, 2012, an original of which is on file with the State Health Plan for Teachers and State Employees and the General Assembly’s Fiscal Research Division.

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**DATE:** June 22, 2012



**Signed Copy Located in the NCGA Principal Clerk's Offices**