



**GENERAL ASSEMBLY OF NORTH CAROLINA**

**Session 2015**

**Legislative Actuarial Note  
Health Benefits**

**BILL NUMBER:** Senate Bill 865 (First Edition)

**SHORT TITLE:** State Health Plan/Admin Changes/Local Govts.

**SPONSOR(S):** Senator Sanderson

**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:** Senate Bill 865 (First Edition) makes several changes to the statutes governing the State Health Plan. The changes in each section are described below.

Section 1: Amends G.S. 135-48.32 to require claims processing contractors to provide all available claims data elements to the Plan, including the identification of providers and the allowed amounts paid. This information would not be available to anyone other than certain Plan staff unless allowed under the contract.

Section 2: Amends G.S. 135-48.34 to exempt contracts between the Plan and various external parties from Parts 3 and 4 of Article 15 of Chapter 143B, which cover oversight of information technology projects and procurement by the Department of Information Technology.

Section 3: Amends G.S. 135-47(c) to increase the enrollment limitation on the number of employees and dependents of local governments from 10,000 to 20,000.

Section 4: Amends G.S. 135-48.47(b)(3) to forbid local governments that participate in the Plan from charging employees more for their coverage than in the structure set by the Plan.

Section 5: Provides a window for local governments to withdraw from participating effective January 1, 2017. While the local government is not required to provide a reason, some may wish to withdraw if they do not want to accept the restrictions of Section 3.

Section 6: Specifies that the Plan is responsible for federal filing requirements under sections 6055 and 6056 of the Internal Revenue Code for retirees and direct bill members, but employing units are responsible for those filings for all other individuals. The Plan shall provide employing units with access to the necessary data and may facilitate a reporting solution, but the employing unit is responsible for paying all costs of that solution. For 2015, the Plan provided and paid for a solution for all employing units. The filing requirements relate to the “individual mandate” and “employer mandate” under the federal Affordable Care Act.

**EFFECTIVE DATE:** Section 4 becomes effective January 1, 2017. All other sections become effective when they become law and apply to contracts entered into, renewed or amended after that date.

## **ESTIMATED IMPACT ON STATE:**

Section 3: Both The Segal Company, the actuary for the Plan, and Hartman & Associates, the actuary for the General Assembly, state that the impact of this section cannot be determined due to a lack of demographic data and claims experience for the workforce of the local governments that might wish to join. The current cap of 10,000 employees and dependents was just enacted in 2015 and reached in April 2016, so claims data on the current population will not be available for a while.

However, both actuaries note the possibility of a cost due to adverse selection. Adverse selection occurs when local governments and/or employees with higher-than-average claims cost are more likely to join the Plan than those with lower-than-average claims costs and those higher costs cannot be recovered through adjustments to premiums. The following aspects of the bill contribute to the potential for adverse selection:

- Participation is optional for local governments and the Plan cannot deny participation to any local unit. It is possible that local governments with higher-than-average claims costs will be more likely to choose to join.
- Local governments can determine eligibility. Local governments could choose to set eligibility rules that encourage employees with higher-than-average claims costs to enroll.
- Premiums cannot vary with the experienced claims for a particular local government, so the Plan cannot charge a higher premium to a local government whose employees incur higher-than-average claims.

Section 5: Hartman & Associates estimates that Section 5 could have a financial impact on the Plan for the same reason as Section 3 but did not have sufficient data to estimate the magnitude.

Section 6: The Segal Company estimates that Section 6 will reduce costs to the Plan by \$2.5 million per year, which is the estimated cost to administer the federal reporting. However, this cost will be shifted to the employing units and thus does not represent a reduction for the State as a whole.

Both The Segal Company and Hartman & Associates estimate that the impacts of all other sections are negligible.

**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.

## **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 and charter schools 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, with the exception of many Medicare-eligible retirees who are in fully-insured Medicare Advantage plans. 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 a plan with a non-zero premium or who elect dependent coverage. Benefit and premium changes are typically effective at January 1. The Plan's PPO benefit design includes three alternative benefit levels listed below:

- 1) The "Traditional" 70/30 plan that offers higher out-of-pocket requirements in return for lower employee and retiree premiums without needing to complete wellness activities,
- 2) The "Enhanced" 80/20 plan that offers lower out-of-pocket requirements with higher employee and retiree premiums, which can be lowered by completing wellness activities, and
- 3) The Consumer-Directed Health Plan (CDHP) that applies deductibles and co-insurance to all services and offers lower employee and retiree premiums if one completes wellness activities

Medicare-eligible retirees are offered three alternative plans:

- 1) The "Traditional" 70/30 plan as coverage secondary to Medicare for medical services plus a pharmacy benefit plan,
- 2) "Base" Medicare Advantage Prescription Drug Plans (MA-PDPs) from a choice of two carriers, Humana or United Healthcare, that are actuarially equivalent to the "Enhanced" 80/20 Plan and apply in-network out-of-pocket requirements at out-of-network providers
- 3) "Enhanced" MA-PDPs, identical to the "Base" MA-PDPs, except with lower co-pays and higher retiree premiums

The following tables provide a summary of the most common monthly premium rates for the Plan in 2016:

**Active Employees and Non-Medicare Retirees**

Wellness Plans

	Employer Share	Employee/Retiree Share	
		Complete All Wellness Activities *	Complete No Wellness Activities
Enhanced 80/20 Plan	\$463.68	\$14.20	\$104.20
Consumer-Directed Health Plan	\$463.68	\$0.00	\$80.00

Alternate Plan

	Employer Share	Employee/Retiree Share
Traditional 70/30 Plan	\$463.68	\$0.00

\* Members receive credits for each activity. We have shown all or none for simplicity.

**Medicare Retirees**

Medicare Advantage Plans

	Employer Share	Employee/Retiree Share
MA-PDP Base Plan	\$360.24	\$0.00
MA-PDP Enhanced Plan	\$360.24	\$66.00

Alternate Plan

Traditional 70/30 Plan	Employer Share \$360.24	Employee/Retiree Share \$0.00
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**Dependents** (paid by employee/retiree in addition to premiums above)

	All Dependents are Non-Medicare			One or More Medicare Dependents		
	Enhanced 80/20	CDHP	Traditional 70/30	MA-PDP Base	MA-PDP Enhanced	Traditional 70/30
Employee/Retiree + Children	\$280.52	\$189.82	\$210.92	\$132.00	\$198.00	\$150.06
Employee/Retiree + Spouse	\$646.32	\$489.14	\$543.46	\$132.00	\$198.00	\$394.56
Employee/Retiree + Family	\$685.22	\$520.96	\$578.86	\$264.00	\$396.00	\$429.92

The employer share of premiums for retirees is paid from the Retiree Health Benefit Fund. During FY 2015-16, employers contribute 5.60% of active employee payroll into the Fund. Total contributions for the year are projected to be approximately \$915 million.

**Financial Condition**

**Projected Results for CY 2016 and CY 2017** – The following summarizes projected financial results for 2016 and 2017, based on financial experience through December, 2015 and enrollments for January, 2016. The projection assumes a 7.0% annual claims growth trend for medical claims, an 8.5% trend for pharmacy claims, benefit provisions and member-paid premiums as currently adopted by the Board, a new pharmacy benefit manager contract approved in March 2016 with an open formulary, and no assumed premium increase in 2017 (corresponds to General Assembly using half of the \$71 million Reserve for Future Benefit Needs for premium increases).

	(\$ millions)	
	Projected CY 2016	Projected CY 2017
Beginning Cash Balance	\$1,015.2	\$863.2
Receipts:		
Net Premium Collections	\$3,118.0	\$3,153.0
Medicare Part D / EGWP Subsidies	\$18.4	\$17.2
Investment Earnings	\$3.6	\$2.4
Total	\$3,139.9	\$3,172.6
Disbursements:		
Net Medical Claim Payment Expenses	\$2,198.4	\$2,309.7
Net Pharmacy Claim Payment Expenses	\$748.1	\$727.0
Medicare Advantage Premiums	\$193.2	\$213.0
Administration and Claims-Processing Expenses	\$250.4	\$249.1
Total	\$3,390.1	\$3,498.8
Net Operating Income (Loss)	(\$250.2)	(\$326.2)

Of the premiums paid in CY 2016, an estimated \$2.1 billion is derived from General Fund sources and an estimated \$0.1 billion is derived from Highway Fund sources.

### **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. Medical claim costs are expected to increase at a rate of 7.0% annually and pharmacy claim costs are expected to increase at a rate of 8.5% annually according to assumptions adopted by the Board of Trustees. The active population is projected to decline by 1% per year and the retired population is projected to increase by 1% per year.

**Enrollment as of January 1, 2016**

<b>I. No. of Participants</b>	<b>Traditional 70/30</b>	<b>Enhanced 80/20</b>	<b>Consumer Directed</b>	<b>Medicare Advantage</b>	<b>Total</b>	<b>Percent of Total</b>
<u>Actives</u>						
Employees	124,524	172,262	12,987	-	309,773	44.2%
Dependents	74,027	78,800	13,726	-	166,553	23.8%
Sub-total	198,551	251,062	26,713	-	476,326	68.0%
<u>Retired</u>						
Employees	57,363	31,377	1,364	105,878	195,982	28.0%
Dependents	6,221	4,205	507	8,615	19,548	2.8%
Sub-total	63,584	35,582	1,871	114,493	215,530	30.8%
<u>Other</u>						
Employees	1,919	3,686	517	-	6,122	0.9%
Dependents	1,077	1,324	412	-	2,813	0.4%
Sub-total	2,996	5,010	929	-	8,935	1.3%
<u>Total</u>						
Employees	183,806	207,325	14,868	105,878	511,877	73.0%
Dependents	81,325	84,329	14,645	8,615	188,914	27.0%
<b>Grand Total</b>	<b>265,131</b>	<b>291,654</b>	<b>29,513</b>	<b>114,493</b>	<b>700,791</b>	<b>100%</b>
<b>Percent of Total</b>	<b>37.8%</b>	<b>41.6%</b>	<b>4.2%</b>	<b>16.3%</b>	<b>100.0%</b>	
<b>II. Enrollment by Contract</b>						
	<b>Traditional</b>	<b>Enhanced</b>	<b>CDHP</b>	<b>MA</b>	<b>Total</b>	
Employee Only	141,203	163,058	7,846	97,263	409,370	
Employee Child(ren)	24,867	28,046	3,356	191	56,460	
Employee Spouse	6,087	5,835	1,023	8,424	21,369	
Employee Family	10,327	9,454	2,488		22,269	
Other (e.g. Split Contract)	1,322	932	155		2,409	
<b>Total</b>	<b>183,806</b>	<b>207,325</b>	<b>14,868</b>	<b>105,878</b>	<b>511,877</b>	
<b>Percent Enrollment by Contract</b>						
	<b>Traditional</b>	<b>Enhanced</b>	<b>CDHP</b>	<b>MA</b>	<b>Total</b>	
Employee Only	76.8%	78.6%	52.8%	91.9%	80.0%	
Employee Child(ren)	13.5%	13.5%	22.6%	0.2%	11.0%	
Employee Spouse	3.3%	2.8%	6.9%	8.0%	4.2%	
Employee Family	5.6%	4.6%	16.7%	0.0%	4.4%	
Other (e.g. Split Contract)	0.7%	0.4%	1.0%	0.0%	0.5%	
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	
<b>III. Enrollment by Sex</b>						
	<b>Traditional</b>	<b>Enhanced</b>	<b>CDHP</b>	<b>MA</b>	<b>Total</b>	
Female	154,763	189,650	16,456	75,648	436,517	
Male	110,368	102,004	13,057	38,845	264,274	
<b>Total</b>	<b>265,131</b>	<b>291,654</b>	<b>29,513</b>	<b>114,493</b>	<b>700,791</b>	
<b>Percent Enrollment by Sex</b>						
	<b>Traditional</b>	<b>Enhanced</b>	<b>CDHP</b>	<b>MA</b>	<b>Total</b>	
Female	58.4%	65.0%	55.8%	66.1%	62.3%	
Male	41.6%	35.0%	44.2%	33.9%	37.7%	
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	

<b>IV. Enrollment by Age</b>	<b>Traditional</b>	<b>Enhanced</b>	<b>CDHP</b>	<b>MA</b>	<b>Total</b>
24 & Under	68,579	71,417	11,272	6	151,274
25 to 44	68,236	77,686	8,265	261	154,448
45 to 54	44,917	57,827	5,192	991	108,927
55 to 64	45,251	77,793	4,524	1,467	129,035
65 & Over	38,148	6,931	260	111,768	157,107
<b>Total</b>	<b>265,131</b>	<b>291,654</b>	<b>29,513</b>	<b>114,493</b>	<b>700,791</b>

  

<b>Percent Enrollment by Age</b>	<b>Traditional</b>	<b>Enhanced</b>	<b>CDHP</b>	<b>MA</b>	<b>Total</b>
24 & Under	25.9%	24.5%	38.2%	0.0%	21.6%
25 to 44	25.7%	26.6%	28.0%	0.2%	22.0%
45 to 54	16.9%	19.8%	17.6%	0.9%	15.5%
55 to 64	17.1%	26.7%	15.3%	1.3%	18.4%
65 & Over	14.4%	2.4%	0.9%	97.6%	22.4%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</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	53,515	9,734	63,249
Medicare Eligible in Traditional 70/30	36,589	1,199	37,788
Medicare Eligible in Base Medicare Advantage Plans	87,652	6,063	93,715
Medicare Eligible in Enhanced Medicare Advantage Plans	18,226	2,552	20,778
<b>Total</b>	<b>195,982</b>	<b>19,548</b>	<b>215,530</b>

  

<b>Percent Enrollment by Category (Retiree)</b>	<b>Employee</b>	<b>Dependents</b>	<b>Total</b>
Non-Medicare Eligible	27.3%	49.8%	29.3%
Medicare Eligible in Traditional 70/30	18.7%	6.1%	17.5%
Medicare Eligible in Base Medicare Advantage Plans	44.7%	31.0%	43.5%
Medicare Eligible in Enhanced Medicare Advantage Plans	9.3%	13.1%	9.6%
<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	68,920	32,894	101,814
UNC System	51,808	33,122	84,930
Local Public Schools	169,576	89,302	258,878
Charter Schools (86 entities)	3,786	2,377	6,163
Local Community Colleges	15,683	8,858	24,541
Other			
Local Governments (44 entities)	5,354	2,410	7,764
COBRA/Reduction in Force	763	398	1,161
Nat. Guard, Fire & Rescue	5	5	10
Sub-total	315,895	169,366	485,261
Retirement System	195,982	19,548	215,530
<b>Total</b>	<b>511,877</b>	<b>188,914</b>	<b>700,791</b>

  

<b>Percent Enrollment by Major Employer Groups</b>	<b>Employees</b>	<b>Dependents</b>	<b>Total</b>
State Agencies	13.5%	17.4%	14.5%
UNC System	10.1%	17.5%	12.1%
Local Public Schools	33.1%	47.3%	36.9%
Charter Schools	0.7%	1.3%	0.9%
Local Community Colleges	3.1%	4.7%	3.5%
Other			
Local Governments	1.0%	1.3%	1.1%
COBRA/Reduction in Force	0.1%	0.2%	0.2%
Nat. Guard, Fire & Rescue	0.0%	0.0%	0.0%
Sub-total	61.7%	89.7%	69.2%
Retirement System	38.3%	10.3%	30.8%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

**SOURCES OF DATA:**

The Segal Company; baseline financial projections updated through Q2 FY2016 with 0% employer and employee premium increase in 2017 and new PBM contract with open formulary; dated March 11, 2016. Filename “FY16 Q2- Baseline - 0% for ER and EE with PBM BAFO (Open).pdf”

-Actuarial Note, Hartman & Associates, Senate Bill 865, “Senate Bill 865: An Act to Make Administrative Changes to the State Health Plan, to Increase the Number of Local Governments Able to Participate in the State Health Plan, and to Make Changes to State Health Plan Premiums Paid by Local Governments”, May 23, 2016, original of which is on file in the General Assembly’s Fiscal Research Division.

-Actuarial Note, The Segal Company, Senate Bill 865, “State Health Plan/Admin Changes/Local Gov”, May 26, 2016, 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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**Signed Copy Located in the NCGA Principal Clerk's Offices**