



GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2017

**Legislative Actuarial Note
Health Benefits**

BILL NUMBER: House Bill 49 (First Edition)
SHORT TITLE: GLOW Charter School in State Health Plan.
SPONSOR(S): Representatives Iler, Grange, and Butler

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: House Bill 49 (First Edition) permits the Board of Directors of Girls Leadership Academy of Wilmington, a public charter school, to become a participating employer 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.

EFFECTIVE DATE: When it becomes law.

ESTIMATED IMPACT ON STATE:

The Segal Company, the consulting actuary for the Plan, estimates a financial loss to the Plan of \$17,000 for FY 2017-2018 if GLOW Charter School elects to participate in the Plan. Segal used the average of two different methods to estimate claims for the School, taking into account the School's current benefit design, the favorable demographics of the School's current participants, and a 150% assumed adverse selection factor.

Hartman & Associates, the consulting actuary for the General Assembly, estimates that the financial impact on the Plan would not be material upon GLOW Charter School electing to participate in the Plan. Hartman & Associates noted that the employee demographics of the School's group would be expected to produce 16% lower average claim costs than 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.

The additional cost impact of the bill, projected by either consulting actuary, would be expected to impact total claims growth by approximately one thousandth of one percent (0.001%) for the 2017-2018 fiscal year based on the highest estimate of additional cost (i.e., \$17,000).

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 January, 2017, there were 88 charter schools with 6,799 enrolled active employees and dependents participating in the Plan.

Data submitted by the School: The Segal Company and Hartman & Associates based their respective analyses in part on a Distribution of Participants schedule submitted by the School. The schedule below reflects the age and sex demographic data for employees and dependents of the School. Complete claims experience data is usually unavailable on a group this size. However, the School did provide information on medical premiums and details on the benefits in its current program, which include:

- In-network office visit and therapy co-pay: \$25 Primary Care; \$50 Specialist
- Preventive care: \$0
- Deductible: \$1,500 (individual, in-network)
- Out-of-pocket maximum: \$4,000 (individual, in-network)
- Inpatient and outpatient hospital: 20% coinsurance after deductible (in-network)
- Prescription drug co-pays: \$4 generic; \$15 preferred brand

Distribution of Participants - GLOW Academy						
	<u>Active Employees</u>			<u>Dependents of Active Employees</u>		
<u>Ages</u>	<u>Male</u>	<u>Female</u>	<u>Total</u>	<u>Male</u>	<u>Female</u>	<u>Total</u>
0-4			0			0
5-9			0	3	1	4
10-14			0	1		1
15-19			0			0
20-24		1	1			0
25-29		4	4			0
30-34		1	1			0
35-39			0			0
40-44		2	2			0
45-49	2	2	4			0
50-54			0			0
55-59			0			0
60-64			0			0
65-69			0			0
70-74			0			0
75-79			0			0
>79			0			0
Unknown			0			0
TOTAL	2	10	12	4	1	5

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 and only one wellness activity,
- 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 three 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 Plan (MA-PDP) from United Healthcare, that is actuarially equivalent to the "Enhanced" 80/20 Plan and applies in-network out-of-pocket requirements at out-of-network providers
- 3) "Enhanced" MA-PDP, identical to the "Base" MA-PDP, 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 2017:

Active Employees and Non-Medicare Retirees (if Fully Subsidized)

	Employer Share	Employee/Retiree Share	
		Complete All Wellness Activities *	Complete No Wellness Activities
Traditional 70/30 Plan	\$479.48	\$0.00	\$40.00
Enhanced 80/20 Plan	\$479.48	\$15.04	\$105.04
Consumer-Directed Health Plan (85/15)	\$479.48	\$0.00	\$80.00

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

Medicare Retirees (if Fully Subsidized)

Medicare Advantage Plans

	Employer Share	Employee/Retiree Share
MA-PDP Base Plan	\$372.56	\$0.00
MA-PDP Enhanced Plan	\$372.56	\$64.00

Alternate Plan

Traditional 70/30 Plan	Employer Share \$372.56	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		
	Traditional 70/30	Enhanced 80/20	CDHP 85/15	MA-PDP Base	MA-PDP Enhanced	Traditional 70/30
Employee/Retiree + Children	\$218.14	\$290.14	\$196.32	\$124.80	\$188.80	\$155.20
Employee/Retiree + Spouse	\$562.10	\$668.48	\$505.90	\$124.80	\$188.80	\$408.08
Employee/Retiree + Family	\$598.70	\$708.72	\$538.82	\$249.60	\$377.60	\$444.66

The employer share of premiums for retirees is paid from the Retiree Health Benefit Fund. During FY 2016-17, employers contribute 5.81% of active employee payroll into the Fund. Total contributions for the year are projected to be approximately \$950 million.

Financial Condition

Projected Results for CY 2017 and CY 2018 – The following summarizes projected financial results for 2017 and 2018, based on financial experience through September 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, and 3.5% premium increases in 2018.

	(\$ millions)	
	Projected CY 2017	Projected CY 2018
Beginning Cash Balance	\$945.7	\$834.1
Receipts:		
Net Premium Collections	\$3,264.8	\$3,369.6
Medicare Subsidies	\$16.5	\$16.6
Investment Earnings	\$7.2	\$6.2
Total	\$3,288.5	\$3,392.4
Disbursements:		
Net Medical Claim Payment Expenses	\$2,271.9	\$2,374.3
Net Pharmacy Claim Payment Expenses	\$706.9	\$787.2
Medicare Advantage Premiums	\$192.6	\$255.4
Administration and Claims-Processing Expenses	\$228.7	\$219.6
Total	\$3,400.1	\$3,636.5
Net Operating Income (Loss)	(\$111.6)	(\$244.1)

Of the premiums paid in CY 2017, 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, 2017

I. No. of Participants	Traditional 70/30	Enhanced 80/20	Consumer Directed	Medicare Advantage	Total	Percent of Total
<u>Actives</u>						
Employees	125,378	163,187	21,119	-	309,684	43.3%
Dependents	<u>75,032</u>	<u>73,137</u>	<u>21,903</u>	<u>-</u>	<u>170,072</u>	<u>23.8%</u>
Sub-total	200,410	236,324	43,022	-	479,756	67.1%
<u>Retired</u>						
Employees	59,349	25,367	1,671	111,890	198,277	27.7%
Dependents	<u>8,029</u>	<u>4,182</u>	<u>903</u>	<u>9,447</u>	<u>22,561</u>	<u>3.2%</u>
Sub-total	67,378	29,549	2,574	121,337	220,838	30.9%
<u>Other</u>						
Employees	2,618	5,921	980	-	9,519	1.3%
Dependents	<u>1,522</u>	<u>2,368</u>	<u>767</u>	<u>-</u>	<u>4,657</u>	<u>0.7%</u>
Sub-total	4,140	8,289	1,747	-	14,176	2.0%
<u>Total</u>						
Employees	187,345	194,475	23,770	111,890	517,480	72.4%
Dependents	<u>84,583</u>	<u>79,687</u>	<u>23,573</u>	<u>9,447</u>	<u>197,290</u>	<u>27.6%</u>
Grand Total	271,928	274,162	47,343	121,337	714,770	100%
Percent of Total	38.0%	38.4%	6.6%	17.0%	100.0%	
II. Enrollment by Contract						
	Traditional	Enhanced	CDHP	MA	Total	
Employee Only	144,962	154,308	12,663	102,443	414,376	
Employee Child(ren)	25,805	26,363	5,739	179	58,086	
Employee Spouse	6,105	5,106	1,533	9,268	22,012	
Employee Family	10,473	8,698	3,835		23,006	
Total	187,345	194,475	23,770	111,890	517,480	
Percent Enrollment by Contract						
	Traditional	Enhanced	CDHP	MA	Total	
Employee Only	77.4%	79.3%	53.3%	91.6%	80.1%	
Employee Child(ren)	13.8%	13.6%	24.1%	0.2%	11.2%	
Employee Spouse	3.3%	2.6%	6.4%	8.3%	4.3%	
Employee Family	5.6%	4.5%	16.1%	0.0%	4.4%	
Total	100.0%	100.0%	100.0%	100.0%	100.0%	
III. Enrollment by Sex						
	Traditional	Enhanced	CDHP	MA	Total	
Female	159,441	178,330	26,685	80,445	444,901	
Male	112,487	95,832	20,658	40,892	269,869	
Total	271,928	274,162	47,343	121,337	714,770	
Percent Enrollment by Sex						
	Traditional	Enhanced	CDHP	MA	Total	
Female	58.6%	65.0%	56.4%	66.3%	62.2%	
Male	41.4%	35.0%	43.6%	33.7%	37.8%	
Total	100.0%	100.0%	100.0%	100.0%	100.0%	

IV. Enrollment by Age	Traditional	Enhanced	CDHP	MA	Total
25 & Under	73,899	70,290	18,777	3	162,969
26 to 45	68,332	76,095	13,837	228	158,492
46 to 55	46,137	56,424	8,217	873	111,651
56 to 65	47,542	66,377	6,204	11,420	131,543
66 & Over	36,018	4,976	308	108,813	150,115
Total	271,928	274,162	47,343	121,337	714,770

Percent Enrollment by Age	Traditional	Enhanced	CDHP	MA	Total
25 & Under	27.2%	25.6%	39.7%	0.0%	22.8%
26 to 45	25.1%	27.8%	29.2%	0.2%	22.2%
46 to 55	17.0%	20.6%	17.4%	0.7%	15.6%
56 to 65	17.5%	24.2%	13.1%	9.4%	18.4%
66 & Over	13.2%	1.8%	0.7%	89.7%	21.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

V. Retiree Enrollment by Category	Employee	Dependents	Total
Non-Medicare Eligible	48,342	11,835	60,177
Medicare Eligible in Traditional 70/30	38,045	1,279	39,324
Medicare Eligible in Base Medicare Advantage Plans	93,707	6,871	100,578
Medicare Eligible in Enhanced Medicare Advantage Plans	18,183	2,576	20,759
Total	198,277	22,561	220,838

Percent Enrollment by Category (Retiree)	Employee	Dependents	Total
Non-Medicare Eligible	24.4%	52.5%	27.2%
Medicare Eligible in Traditional 70/30	19.2%	5.7%	17.8%
Medicare Eligible in Base Medicare Advantage Plans	47.3%	30.5%	45.5%
Medicare Eligible in Enhanced Medicare Advantage Plans	9.2%	11.4%	9.4%
Total	100.0%	100.0%	100.0%

VI. Enrollment By Major Employer Groups	Employees	Dependents	Total
State Agencies	68,024	32,792	100,816
UNC System	52,910	34,217	87,127
Local Public Schools	168,892	91,264	260,156
Charter Schools (88 entities)	4,111	2,688	6,799
Local Community Colleges	15,747	9,111	24,858
Other			
Local Governments (91 entities)	8,882	4,128	13,010
COBRA	637	529	1,166
Sub-total	319,203	174,729	493,932
Retirement System *	198,277	22,561	220,838
Total	517,480	197,290	714,770

Percent Enrollment by Major Employer Groups	Employees	Dependents	Total
State Agencies	13.1%	16.6%	14.1%
UNC System	10.2%	17.3%	12.2%
Local Public Schools	32.6%	46.3%	36.4%
Charter Schools	0.8%	1.4%	1.0%
Local Community Colleges	3.0%	4.6%	3.5%
Other			
Local Governments	1.7%	2.1%	1.8%
COBRA	0.1%	0.3%	0.2%
Sub-total	61.7%	88.6%	69.1%
Retirement System	38.3%	11.4%	30.9%
Total	100.0%	100.0%	100.0%

* Includes 6 employees and 6 dependents covered as firefighters, rescue squad workers, or National Guard members

SOURCES OF DATA:

The Segal Company; baseline financial projections updated through Q3 CY2016 with 3.52% employer and employee premium increase in 2018, no further increases in wellness premiums/credits; dated January 24, 2017. Filename “CY16 Q3 - New Baseline - S1 - No Credit Increase in 2018+.pdf”

-Actuarial Note, Hartman & Associates, “House Bill 49: An Act to Authorize Girls Leadership Academy of Wilmington to Elect to Participate in the State Health Plan for Teachers and State Employees”, March 13, 2017, original of which is on file in the General Assembly’s Fiscal Research Division.

-Actuarial Note, The Segal Company, House Bill 49, “Glow Charter School In State Health Plan”, March 13, 2017, 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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