



NORTH CAROLINA GENERAL ASSEMBLY

Session 2019

Legislative Actuarial Note

Health Benefits

Short Title: Study State Health Plan Design.
Bill Number: House Bill 184 (Second Edition)
Sponsor(s): Representatives Dobson, Howard, Brisson, and Adcock

SUMMARY TABLE

ACTUARIAL IMPACT OF H.B. 184, V.2 (\$ in millions)

	<u>FY 2019-20</u>	<u>FY 2020-21</u>	<u>FY 2021-22</u>
State Impact			
State Health Plan Net Loss	63 to 86	172 to 182	0 to 241
NET STATE IMPACT	\$63 to \$86	\$172 to \$182	\$0 to \$241

The State Health Plan's Net Loss is projected to increase by the amount shown above, decreasing the cash reserves of the Plan. Any deterioration in Plan financials does not directly translate to an increase in State appropriations in the short-run, but is likely to increase appropriations in the long-run. Roughly 57% of premiums paid to the Plan are derived from the General Fund.

ACTUARIAL IMPACT SUMMARY

House Bill 184 (Second Edition) creates a study committee to recommend a design for the State Health Plan (Plan) and submit its final report no later than December 15, 2019. The bill also requires the Plan to continue to use the Blue Cross Blue Shield of North Carolina Blue Options provider network and to reimburse participating network providers in accordance with 100% of the applicable fee schedule through December 31, 2020. This requirement does not apply to the Medicare Advantage plans.

The State Treasurer has announced his intention to move the Plan to a reference-based pricing approach effective January 2020 that would tie most medical provider prices to a multiple of the prices set by Medicare for the same services.

The Segal Company, the actuary for the Plan, and Hartman & Associates, the actuary for the General Assembly, estimate that the bill will increase the Plan's claims expenses by the following amounts by preventing the reference-based pricing approach until at least 2021:

	FY 2019-20	FY 2020-21	FY 2021-22
The Segal Company	\$63 million	\$182 million	\$241 million
Hartman & Associates	\$86 million	\$172 million	\$0 million

Both actuaries relied on the Plan’s estimated claims savings and did not attempt to duplicate the savings calculation. Both actuaries’ estimates reflect the adjustment in the proposed rates announced on March 13, 2019 to an average of 182% of Medicare prices. The Segal Company assumed that the delay in implementation of the reference-based pricing approach will continue indefinitely, but notes that the FY 2020-21 impact would be reduced by approximately 33% and the FY 2021-22 impact by approximately 75% if the approach is implemented in January 2021 with similar discounts. In contrast, Hartman & Associates assumed that the savings from the reference-based pricing approach would still be realized starting in 2021 and thus that the impact of the bill in FY 2021-22 and following years would be \$0. Hartman & Associates also noted that their estimate assumes a broad provider network could be maintained at the Plan’s proposed reference-based pricing rates.

The bill would also impact the Other Postemployment Benefit (OPEB) liability of the State and related governmental units. The Segal Company states that if the bill passes, the ability to reflect the reference-based pricing approach in the June 30, 2019 valuation would be hampered and subject to auditor scrutiny. The Segal Company estimates that without reflecting the reference-based pricing approach, the Total OPEB Liability will increase by \$1.1 billion and the Actuarially Determined Contribution (ADC) will increase by 0.4% of payroll, relative to the Liability and ADC reflecting the reference-based pricing approach.

Hartman & Associates estimates that the Total OPEB Liability calculated without the reference-based pricing approach would be roughly \$1.0 billion higher than the Liability calculated with the reference-based pricing approach. Hartman & Associates estimates that the Total OPEB Liability would increase by \$42 million if the Liability calculation assumes the reference-based pricing approach is implemented in 2021, but notes that we do not know what the committee will recommend and that the Liability is expected to be calculated without reflecting the reference-based pricing approach until a new model is implemented.

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 State Health Plan (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.

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 two alternative benefit levels listed below:

- 1) The 70/30 Plan that offers higher out-of-pocket requirements in return for lower employee and retiree premiums, and
- 2) The 80/20 Plan that offers lower out-of-pocket requirements with higher employee and retiree premiums.

Medicare-eligible retirees are offered three alternative plans:

- 1) The 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 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 2019:

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

	Employer Share	Employee/Retiree Share	
		Complete Tobacco Attestation	Do Not Complete Attestation
70/30 Plan	\$519	\$25 *	\$85 *
80/20 Plan	\$159	\$50	\$110

* \$0 for Non-Medicare Retirees

Medicare Retirees (if Fully Subsidized)

Medicare Advantage Plans

	Employer Share	Employee/Retiree Share
MA-PDP Base Plan	\$403	\$0
MA-PDP Enhanced Plan	\$403	\$63

Alternate Plan

	Employer Share	Employee/Retiree Share
Traditional 70/30 Plan	\$403	\$0

Dependents (paid by employee/retiree in addition to premiums above)

	All Dependents are Non-Medicare		One or More Medicare Dependents		
	70/30 Plan	80/20 Plan	MA-PDP Base	MA-PDP Enhanced	70/30 Plan
Employee/Retiree + Children	\$193	\$255	\$89	\$152	\$155
Employee/Retiree + Spouse	\$565	\$650	\$89	\$152	\$425
Employee/Retiree + Family	\$573	\$670	\$178	\$304	\$444

The employer share of premiums for retirees is paid from the Retiree Health Benefit Fund. During FY 2018-19, employers contribute 6.27% of active employee payroll into the Fund. Total contributions for the year are projected to be approximately \$1,096 million.

Financial Condition

Projected Results for CY 2019 and CY 2020 – The following summarizes projected financial results for 2019 and 2020, based on financial experience through September 2018. The projection assumes a 7.0% annual claims growth trend for medical claims, a 9.5% trend for pharmacy claims, benefit provisions and member-paid premiums as adopted by the Board for 2019, Medicare-based provider pricing beginning in 2020, and 4% employer premium increases in 2020.

	(\$ millions)	
	Projected CY 2019	Projected CY 2020
Beginning Cash Balance	\$1,056.7	\$1,079.0
Receipts:		
Net Premium Collections	\$3,690.6	\$3,841.9
Medicare Subsidies	\$10.3	\$10.4
Investment Earnings	\$9.3	\$9.4
Total	\$3,710.1	\$3,861.7
Disbursements:		
Net Medical Claim Payment Expenses	\$2,533.7	\$2,530.9
Net Pharmacy Claim Payment Expenses	\$767.7	\$842.9
Medicare Advantage Premiums	\$171.4	\$239.2
Administration and Claims-Processing Expenses	\$215.0	\$207.1
Total	\$3,687.8	\$3,820.1
Net Operating Income (Loss)	\$22.3	\$41.6

Of the premiums paid in CY 2019, an estimated \$2.4 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 in 2019 and Medicare-based pricing in 2020 and beyond, 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 9.5% annually according to assumptions adopted by the Board of Trustees. The active population is projected to remain unchanged, the pre-Medicare retiree population is projected to decrease by 1% per year and the Medicare-eligible retiree population is projected to increase by 3% per year.

Enrollment as of January 1, 2019

I. No. of Participants	Traditional 70/30	Enhanced 80/20	Medicare Advantage	Total	Percent of Total
<u>Actives</u>					
Employees	112,490	192,987	-	305,477	41.6%
Dependents	<u>77,656</u>	<u>99,369</u>	<u>-</u>	<u>177,025</u>	<u>24.1%</u>
Sub-total	190,146	292,356	-	482,502	65.8%
<u>Retired</u>					
Employees	44,013	23,411	140,834	208,258	28.4%
Dependents	<u>7,674</u>	<u>5,346</u>	<u>11,855</u>	<u>24,875</u>	<u>3.4%</u>
Sub-total	51,687	28,757	152,689	233,133	31.8%
<u>Other</u>					
Employees	3,670	8,195	-	11,865	1.6%
Dependents	<u>2,327</u>	<u>3,704</u>	<u>-</u>	<u>6,031</u>	<u>0.8%</u>
Sub-total	5,997	11,899	-	17,896	2.4%
<u>Total</u>					
Employees	160,173	224,593	140,834	525,600	71.7%
Dependents	<u>87,657</u>	<u>108,419</u>	<u>11,855</u>	<u>207,931</u>	<u>28.3%</u>
Grand Total	247,830	333,012	152,689	733,531	100%
Percent of Total	33.8%	45.4%	20.8%	100.0%	
II. Enrollment by Contract					
	Traditional	Enhanced	MA	Total	
Employee Only	118,022	170,537	128,979	417,538	
Employee Child(ren)	25,632	35,239	215	61,086	
Employee Spouse	4,913	6,366	11,640	22,919	
Employee Family	<u>11,606</u>	<u>12,451</u>	<u>-</u>	<u>24,057</u>	
Total	160,173	224,593	140,834	525,600	
Percent Enrollment by Contract					
	Traditional	Enhanced	MA	Total	
Employee Only	73.7%	75.9%	91.6%	79.4%	
Employee Child(ren)	16.0%	15.7%	0.2%	11.6%	
Employee Spouse	3.1%	2.8%	8.3%	4.4%	
Employee Family	<u>7.2%</u>	<u>5.5%</u>	<u>0.0%</u>	<u>4.6%</u>	
Total	100.0%	100.0%	100.0%	100.0%	
III. Enrollment by Sex					
	Traditional	Enhanced	MA	Total	
Female	141,753	212,564	101,689	456,006	
Male	<u>106,077</u>	<u>120,448</u>	<u>51,000</u>	<u>277,525</u>	
Total	247,830	333,012	152,689	733,531	
Percent Enrollment by Sex					
	Traditional	Enhanced	MA	Total	
Female	57.2%	63.8%	66.6%	62.2%	
Male	<u>42.8%</u>	<u>36.2%</u>	<u>33.4%</u>	<u>37.8%</u>	
Total	100.0%	100.0%	100.0%	100.0%	



IV. Enrollment by Age	Traditional	Enhanced	MA	Total
25 & Under	74,779	94,476	15	169,270
26 to 45	64,448	92,523	294	157,265
46 to 55	42,687	68,051	1,182	111,920
56 to 65	44,009	71,768	13,155	128,932
66 & Over	21,907	6,194	138,043	166,144
Total	247,830	333,012	152,689	733,531

Percent Enrollment by Age	Traditional	Enhanced	MA	Total
25 & Under	30.2%	28.4%	0.0%	23.1%
26 to 45	26.0%	27.8%	0.2%	21.4%
46 to 55	17.2%	20.4%	0.8%	15.3%
56 to 65	17.8%	21.6%	8.6%	17.6%
66 & Over	8.8%	1.9%	90.4%	22.6%
Total	100.0%	100.0%	100.0%	100.0%

V. Retiree Enrollment by Category	Employee	Dependents	Total
Non-Medicare Eligible	45,030	12,353	57,383
Medicare Eligible in Traditional 70/30	22,394	667	23,061
Medicare Eligible in Base MA Plan	121,521	9,094	130,615
Medicare Eligible in Enhanced MA Plan	19,313	2,761	22,074
Total	208,258	24,875	233,133

Percent Enrollment by Category (Retiree)	Employee	Dependents	Total
Non-Medicare Eligible	21.6%	49.7%	24.6%
Medicare Eligible in Traditional 70/30	10.8%	2.7%	9.9%
Medicare Eligible in Base MA Plan	58.4%	36.6%	56.0%
Medicare Eligible in Enhanced MA Plan	9.3%	11.1%	9.5%
Total	100.0%	100.0%	100.0%

VI. Enrollment By Major Employer Groups	Employees	Dependents	Total
State Agencies	65,979	32,602	98,581
UNC System	54,857	36,678	91,535
Local Public Schools	164,529	95,091	259,620
Charter Schools (94 entities)	4,875	3,356	8,231
Local Community Colleges	15,237	9,298	24,535
Other			
Local Governments (129 entities)	11,040	5,380	16,420
COBRA	825	651	1,476
Retirement System	208,258	24,875	233,133
Total	525,600	207,931	733,531

Percent Enrollment by Major Employer Groups	Employees	Dependents	Total
State Agencies	12.6%	15.7%	13.4%
UNC System	10.4%	17.6%	12.5%
Local Public Schools	31.3%	45.7%	35.4%
Charter Schools	0.9%	1.6%	1.1%
Local Community Colleges	2.9%	4.5%	3.3%
Other			
Local Governments	2.1%	2.6%	2.2%
COBRA	0.2%	0.3%	0.2%
Retirement System	39.6%	12.0%	31.8%
Total	100.0%	100.0%	100.0%

TECHNICAL CONSIDERATIONS

N/A.

DATA SOURCES

The Segal Company; baseline financial projections updated through Q3 CY2018; dated January 9, 2019. Filename "CY18 Q3 - Baseline - Final v2.pdf"

-Actuarial Note, Hartman & Associates, "House Bill 184 Committee Substitute Favorable 3/26/19: An Act to Study the State Health Plan Design", March 27, 2019, original of which is on file in the General Assembly's Fiscal Research Division.

-Actuarial Note, The Segal Company, "House Bill 184, Committee Substitute Favorable 3/26/19, Study State Health Plan Design", March 29, 2019, original of which is on file with the State Health Plan for Teachers and State Employees and the General Assembly's Fiscal Research Division.

LEGISLATIVE ACTUARIAL NOTE – PURPOSE AND LIMITATIONS

This document is an official actuarial analysis prepared pursuant to Chapter 120 of the General Statutes and rules adopted by the Senate and House of Representatives. The estimates in this analysis are based on the data, assumptions, and methodology described above. This document only addresses sections of the bill that have projected direct actuarial impacts on State employee health benefit programs and does not address sections that have no projected actuarial impacts.

CONTACT INFORMATION

Questions on this analysis should be directed to the Fiscal Research Division at (919) 733-4910.

ESTIMATE PREPARED BY

David Vanderweide

ESTIMATE APPROVED BY

Mark Trogdon, Director of Fiscal Research
Fiscal Research Division
April 1, 2019



Signed copy located in the NCGA Principal Clerk's Offices