NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE ACTUARIAL NOTE

BILL NUMBER: House Bill 823, Sections 4 & 5

SHORT TITLE: Mental Health Parity

SPONSOR(S): Representative Martha Alexander

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

BILL SUMMARY: Section 4 of the bill removes a $200 daily maximum benefit, an $8,000 fiscal year maximum benefit, and a $25,000 maximum lifetime benefit per person for the treatment of chemical dependency in the indemnity program of the Teachers' and State Employees' Comprehensive Major Medical Plan. In so doing, the bill results in the treatment of chemical dependency in the Plan under no less favorable conditions than is the treatment of physical illness in the Plan. Although Section 5 of the bill purports to cover other mental health illnesses in the same manner, the Plan has been so doing since 1992, when mental health case management provisions were added to the Plan.

EFFECTIVE DATE: January 1, 1996

ESTIMATED IMPACT ON STATE: The consulting actuary for the Teachers' and State Employees' Comprehensive Major Medical Plan, Alexander & Alexander Consulting Group, Inc., has estimated the cost to the Plan's indemnity program for removal of the chemical dependency limits to be $431,000 for fiscal year 1995-96 and $1,896,000 for fiscal year 1996-97. The consulting actuary for the General Assembly's Fiscal Research Division, Dilts, Umstead & Dunn, estimates the costs to the Plan for removal of the bill's chemical dependency limitations to be $495,000 for fiscal year 1995-96 and $1,197,000 for fiscal year 1996-97.

The basic difference between the two actuarial estimates is that the Plan's consulting actuary anticipates a large jump in the utilization of chemical dependency benefits in the Plan for 1996-97 as a result of removal of benefit limitation, whereas the consulting actuary for the General Assembly's Fiscal Research Division only projected a normal utilization and price increase trend. Using the more conservative and cautious estimate of the Plan's consulting actuary for 1996-97, the bill's impact upon the Plan's indemnity program is expected to result in the following additional costs for outlying years assuming normal trends for utilization and prices: $2,086,000 for fiscal year 1997-98, $2,295,000 for fiscal year 1998-99, and $2,525,000 for fiscal year 1999-2000.

No additional General or Highway Fund appropriations would be required for the bill until the 1997-99 biennium, because of accumulated reserves in the Plan's indemnity program based upon current premiums and anticipated claim costs. Regardless of the projected increase in chemical dependency costs to the Plan from the bill, both the consulting actuary for the Plan and the General Assembly's Fiscal Research Division note that the anticipated cost increases for chemical dependency could be offset if the Plan were to adopt the same type of case management activities for chemical dependency as has been adopted by the Plan's indemnity program for other mental health illnesses pursuant to G.S. 135-40.7B(d).

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 had only a self-insured indemnity type of program which covered all employees, retired employees, eligible dependents of employees and retired employees, and 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., $250 annual deductible, 20% coinsurance up to $1,000 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. Employer-paid non-contributory premiums are only authorized for the indemnity program's coverage for employees and retired employees. All other types of premium in the indemnity program are fully contributory. 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 with seven HMOs currently covering about 16% of the Plan's total population in about 70 of the State's 100 counties. 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, 1994, include:

	Self-Insured Indemnity Program	Alternative HMOs	Plan Total
Number of Participants			
Active Employees	203,200	43,700	246,900
Active Employee Dependents	117,500	33,600	151,100
Retired Employees	78,500	3,300	81,800
Retired Employee Dependents	14,000	800	14,800
Former Employees & Dependents with Continued Coverage	2,600	400	3,000

Total Enrollments	415,800	81,800	497,600

Number of Contracts			
Employee Only	211,800	30,700	242,500
Employee & Child(ren)	32,800	10,200	43,500
Employee & Family	39,100	6,400	45,500
Total Contracts	283,700	47,300	331,000
Percentage of Enrollment by Age			
0-29	29.1%	43.8%	31.5%
30-44	23.8	29.3	24.7
45-54	18.8	17.1	18.5
55-64	12.8	7.0	11.9
65+	15.5	2.8	13.4
Percentage of Enrollment by Sex			
Male	40.0%	40.3%	40.1%
Female	60.0	59.7	59.9

Assumptions for the Self-Insured Indemnity Program: For the fiscal year beginning July, 1994, the self-insured program started its operations with a beginning cash balance of $287.1 million. Receipts for the year are estimated to be $597 million from premium collections, $20 million from investment earnings, and $6 million in risk selection and administrative fees from HMOs, for a total of $623 million in receipts for the year. Disbursements from the self-insured program are expected to be $545 million in claim payments and $18 million in administration and claims processing for a total of $563 million for the year beginning July, 1994. For the fiscal year beginning July, 1995, the self-insured indemnity program is anticipated to have an operating cash balance of over $347 million with a net operating gain of $60 million for the 1994-95 fiscal year. For the next few years, the self-insured indemnity program is assumed to be able to carry out its operations without any increases in its current premium rates or a reduction in existing benefits until the 1997-98 or 1998-99 fiscal years. This assumption is predicated upon the fact that the program's cost containment strategies (hospital DRG reimbursements, pre-admission hospital testing, pre-admission hospital inpatient certification with length-of-stay approval, hospital bill audits, required second surgical opinions, mental health case management, coordination of benefits with other payers, Medicare benefit "carve-outs", cost reduction contracts with participating physicians and other providers, and fraud detection) are maintained and improved where possible. Current non-contributory premiums rates are $110.08 monthly for employees whose primary payer of health benefits is Medicare and $144.60 per month for employees whose primary payer of health benefits is not Medicare. Fully contributory premium amounts for employee and child(ren) contracts are $68.50 monthly for children whose primary payer of health benefits is Medicare and $90.12 monthly for other covered children, and $164.30 per month for family contracts whose dependents have Medicare as the primary payer of health benefits and $216.18 per month for other family contract dependents. Claim cost trends are expected to increase about 10% annually. Total enrollment in the program is expected to increase about one-half of one percent (0.5%) annually. Growth in the number of enrolled active employees is expected to be a little less than 1% annually, whereas the growth in the number of retired employees is assumed to be a little more than 4% per year. The program is expected to lose about 2% of its number of active employee dependents each year, whereas the number of enrolled retiree dependents is assumed to show no appreciable change from year to year. Investment earnings are based upon a 6% monthly 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 for the Self-Insured Indemnity Program's Mental Health and Chemical Dependency Benefits: For the period July 1, 1993, through March 31, 1995, the Plan's indemnity program had denied $1,574,000 in chemical dependency charges which had exceeded the limits removed by the bill. A cumulative 425 patients were involved in these denied charges. For the same period of time, the Plan's indemnity program paid $757,332 in professional chemical dependency claims.

SOURCES OF DATA:

o Actuarial Note, Dilts, Umstead & Dunn, House Bill 823, Sections 4 & 5, May 5, 1995, original of which is on file in the General Assembly's Fiscal Research Division.

o Actuarial Note, Alexander & Alexander Consulting Group, Inc., House Bill 823, Sections 4 & 5, May 4, 1995, 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.

o Claim denial reports prepared by the Plan's claims processor, Blue Cross and Blue Shield of North Carolina.

o Claims experience summary reports prepared by the Plan's claims processor, Blue Cross and Blue Shield of North Carolina.

TECHNICAL CONSIDERATIONS: If the Plan's indemnity program is to use case management practices to offset the cost increases projected for the bill, a further amendment to G.S. 135-40.7A would be in order as follows:

"Sec. . G.S. 135-40.7A is amended by adding a new subsection to read:

"(d) Benefits provided under this section shall be subject to a managed, individualized care component consisting of (i) inpatient utilization review through pre-admission and

and length-of-stay certification for scheduled inpatient admissions and length-of-stay reviews for unscheduled inpatient admissions, and (ii) a network of qualified, available providers of inpatient and outpatient psychiatric treatment psychotherapy. Where qualified preferred providers of inpatient and outpatient care are reasonably available, use of providers outside of the preferred network shall be subject to a twenty percent (20%) coinsurance rate up to five thousand dollars ($5,000) per fiscal year to be assessed against each covered individual in addition to the general coinsurance percentage and maximum fiscal year amount specified by G.S. 135-40.4 and G.S. 135-40.6."

FISCAL RESEARCH DIVISION
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Date: 8 May, 1995

FISCAL RESEARCH DIVISION
DATE May 9, 1995

FISCAL NOTE TRANSMITTAL FORM

The attached fiscal note on the bill(s) named above is being transmitted to:

Chief Sponsor, House **Rep. Alexander**
Chief Sponsor, Senate
Fiscal Note Requested By

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Chairman of the House Subcommittee on
Committee Counsel ______________________

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