NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE ACTUARIAL NOTE

BILL NUMBER: Senate Bill 615 Dental Benefits/Health Choice

SHORT TITLE: Dental Benefits/Health Choice

SPONSOR(S): Sen. Bill Purcell

SYSTEM OR PROGRAM AFFECTED: Health Insurance Program for Children Administered through the Teachers' & State Employees' Comprehensive Major Medical Plan.

FUNDS AFFECTED: State General Fund, Federal Funds under Title XXI of the Social Security Act, and Investment Earnings.

BILL SUMMARY: The bill provides additional dental benefits for children covered by the program. These additional benefits include fluoride applications twice rather than once during a 12-month period, the application of sealants, simple tooth extractions, therapeudic pulpotomies excluding final restorations, and prefabricated steel crowns.

EFFECTIVE DATE: July 1, 1999.

ESTIMATED IMPACT ON STATE: Based upon information supplied by the Teachers' and State Employees' Comprehensive Major Medical Plan, the consulting actuary for the Plan, Aon Consulting, estimates the additional monthly premium rates per child to be $2.93 for 1999-2000 and $3.11 for 2000-2001 for children whose family income is at or below 150% of federal poverty levels. For children whose family income is above 150% of federal poverty levels, Aon Consulting estimates the additional monthly premium per child to be $2.78 for 1999-2000 and $2.95 for 2000-2001. Based upon the same information, the consulting actuary for the General Assembly's Fiscal Research Division, Hartman & Associates, estimates the additional monthly premium rates per child to be $4.06 for 1999-2000 and $4.47 for 2000-2001 for children whose family income is at or below 150% of federal poverty levels. For children whose family income is above 150% of federal poverty levels, Hartman & Associates estimates the additional monthly premium per child to be $3.87 for 1999-2000 and $4.28 for 2000-2001. A combined estimate from the two actuaries would be additional monthly premium rates per child of $3.50 for 1999-2000 and $3.79 for 2000-2001 for children whose family income is at or below 150% of federal poverty levels. For children whose family income is above 150% of federal poverty levels, a combined estimate would be an additional monthly premium per child of $3.33 for 1999-2000 and $3.62 for 2000-2001. Estimated additional monthly premium rates per child include provision for administrative costs (3.0%) and claim stabilization costs (7.5%). These combined estimates result in the following additional annual costs to the program:

Source of Funds	1999-2000	2000-2001
Total Additional Cost	$2,598,800	$2,930,000
Less: Federal Funds	1,923,100	2,162,300

State General Fund	$ 675,700	$ 767,700

Outlying year estimated additional costs for the program would be $3,223,000 for fiscal year 2001-2002, $3,545,300 for fiscal year 2002-2003, and $3,899,800 for fiscal year 2003-2004.

ASSUMPTIONS AND METHODOLOGY: On August 5, 1997, the President signed into law the Balanced Budget Act of 1997 (P.L. 105-33). A major part of this Act added Title XXI, Children's Health Insurance Program, to the Social Security Act providing federal funds to states for the purpose of initiating and expanding a health benefits program for uninsured low income children. Funds became available to the states on October 1, 1997. States are required to submit a State Child Health Plan to the U. S. Department of Health and Human Services describing how they propose to provide health care assistance to the children that are affected. North Carolina's 1997-98 allocation of funds under the Act was about $79.5 million to be matched by some $27.5 million in non-federal funds. States generally have three years to use each year's allocation. Public Law 105-33 appropriates federal money for the program through the 2006-07 fiscal year. Certain federal guidelines must be followed by states seeking funds. Federal allotments are for the purpose of providing health benefits to uninsured children whose family income is generally at or below 200% of federal poverty income levels which vary with family size. Children who are found to be eligible for Medicaid are to be enrolled as Medicaid beneficiaries and are not eligible for Title XXI benefits. Other children who are ineligible for Title XXI benefits include those who already have health insurance coverage, children in public institutions, and children who are eligible for health benefits under a public employee's employment-related health benefits plan. Up to 10% of a federal allocation can be used for administration of the program, including eligibility determination, enrollment, marketing and outreach, benefits education, and the direct purchase of services from health care professionals. States are to use the remainder of an allocation to provide benefits. Benefits could be provided through an expansion of Medicaid programs, through creation of a separate heath benefits program, or by a combination of these two approaches. If a state chooses to provide benefits through a program separate from Medicaid, benefits must be the actuarial equivalent of (a) the standard Blue Cross and Blue Shield preferred provider option available to federal employees, (b) the health maintenance organization (HMO) with the largest commercial enrollment in the state, or (c) the health benefits plan offered to employees of a particular state. Regardless of the actuarial equivalent benchmark chosen, benefits must include inpatient and outpatient hospital, physicians' medical and surgical, laboratory, x-ray, well-baby, well-child, and immunization services. Optional benefits include prescription drugs, mental health, vision, and hearing services which must be at least 75% of the actuarial value of the benchmark chosen. Benefits are not allowed to be excluded for pre-existing health conditions other than for circumstances permitted under the Employee Retirement Income Security Act (ERISA) and the Health Insurance Portability and Accountability Act (HIPPA). In out-of-pocket benefit costs to families, states may charge small premium amounts, usually less than $20 monthly, for children whose family income is at or below 150% of the federal poverty income level. For children whose family income is more than 150% of the federal poverty income levels, premiums, deductibles, coinsurance,

copayments, and other forms of benefit cost-sharing may not exceed an annual aggregate amount for all children in a family of more than 5% of the total family income for the year. However, none of these cost-sharing approaches is permitted to be assessed for well-baby care, well-child care, and immunizations.

During the Special Session of the General Assembly called by the Governor on March 24th to consider a Children's Health Insurance Program for North Carolina, the Teachers' and State Employees' Comprehensive Major Medical Plan was chosen by the Assembly to administer the State's Health Insurance Program for Children. Since the Plan is a benchmark by which the Children's Health Insurance Program must be the actuarial equivalent, actual use of the Plan to pay the Program's benefits could be accomplished without having to create an entirely new framework. The Plan has an indemnity program (i.e., $250 annual deductible and 20% coinsurance up to $1,000 annually paid by Plan members) operating in all 100 of the State's counties and ten health maintenance organizations (HMOs) operating in all but thirty-four counties of the State. According to a report of the State's Task Force on Child Health Insurance, there are an estimated 138,743 uninsured children whose family income is below 200% of the federal poverty income levels in North Carolina. Of this number, 67,401 are estimated to be eligible for Medicaid benefits with the remaining 71,342 eligible for benefits under Title XXI of the Social Security Act. In comparison, the indemnity program of the State Employee Plan has an average monthly enrollment of children through age 19 of some 68,000. HMOs in the Plan have an average monthly enrollment of children through the same age of about 42,500. Consequently, the addition of some 70,000 more children was not thought by the General Assembly to be a major problem for the Plan. However, certain changes in the indemnity program's benefits would have to be made for Title XXI children. The Special Session of the General Assembly made these required changes. For children in families whose family income is above 150% of the federal poverty income levels, the following copayments are required to be paid to health care providers: $5.00 for each physician office visit, $5.00 for each hospital outpatient visit, $6.00 for each prescription drug purchased, and $20.00 for each hospital emergency room visit unless an inpatient admission is made or unless no other care is available. The Special Session also levied a $50.00 enrollment fee per child enrolled up to $100.00 per family for children in families whose family income is above 150% of the federal poverty income levels to be assessed and retained by enrolling county social services departments. Of course, the Session complied with federal guidelines on these cost-sharing limitations. The Special Session further provided Title XXI children with benefits not provided to children of teachers and state employees. These benefits include preventive and maintenance dental benefits including filings, routine vision benefits including examinations and eyeglasses, and diagnostic hearing benefits including hearing aids and accessories. The estimated monthly cost to the Plan's indemnity program for covering acute medical care expenses for a Title XXI child was between $85 and $90, including elimination of deductibles and coinsurance as well as adding benefits for dental, vision, and hearing services. This estimate was based upon 1996-97 claims experience. The estimated 1998-99 monthly cost per Title XXI child were expected to be about $100 to $105, using the claim cost trends experienced and projected for the Plan's indemnity program since 1996-97. The Plan is to establish monthly premium rates based upon these estimated costs from which it will pay the acute medical care expenses of enrolled children. These costs assume a single community rated premium for children of all ages rated separately and apart from all other members of the State Employee Plan. Monthly costs are based on the average age for

children of about eleven years and an average of 1.69 children enrolled per employee and child(ren) contract experienced by the Plan's indemnity program. Estimated costs also assume that there will be no attempts at selective enrollment in the Title XXI program by any parties involved with the program. To protect the Plan's self-insured indemnity program from any anti-selection in these regards, the Special Session directed that the program not assume any financial risks in excess of the funds that it receives for the Title XXI program. Cost estimates are not available from the HMOs participating in the State Employee Plan. The Special Session of the 1998 General Assembly was faced with two problems, however, in using the State Employee Health Benefit Plan to process claims for the State's Title XXI program. The first was the Plan's lack of benefits for chronic long term care situations. The Plan has been intended to cover only acute medical situations unlike the State's Medicaid program which covers long term care. The State's Task Force on Child Health Insurance recognized such limitations and recommended that the State create a reinsurance pool for the specialized services that children with special needs require in this respect. The Special Session resolved this problem by having the Plan process claims for children with special needs from Title XXI funds separate and apart from the Title XXI funds supported by premium payments used by the Plan to pay for children's acute medical care claims. Another problem with using the State Employee Plan or any program other than an expansion of Medicaid to cover Title XXI children is the issue of excluding children of public employees from participation under federal law. Although P.L. 105-33 specifically makes such an exclusion, federal officials resolved this problem by interpreting the law to clarify that public employers must share in the premium cost of their employees' dependent children in order for the exclusion under federal law to be applicable. Public employers do not share any of the premium costs of dependents' coverage under the Teachers' and State Employees' Comprehensive Major Medical Plan. Consequently, the Special Session of the 1998 General Assembly called by the Governor completed it assigned work on a Health Insurance Program for Children on April 30th and the legislation was signed into law by the Governor on May 7th. The U. S. Department of Health and Human Services approved the State's Child Health Plan on July 14th and the Health Insurance Program for Children, called N. C. Health Choice, went into effect October 1, 1998.

The demographics of the Health Insurance Program for Children as of March 31, 1999, include:

	Members @ 150% & Below Fed. Pov.	Members > 150% Fed. Pov.	Program Total
Number of Participants	21,600	9,800	31,400
Percentage of Enrollment by Age			
4 & Under	11.3%	28.5%	16.6%
5-9	38.4	33.7	36.9
10-14	33.6	25.5	31.1
15-19	16.7	12.3	15.4
Percentage of Enrollment by Sex			
Male	50.2%	51.4%	50.6%
Female	49.8	48.6	49.4

Assumptions for the Plan's Health Insurance Program for Children: For the Plan's first six months of operating the program, premium collections from the North Carolina Department of Health and Human Services have been $10.7 million. The Department further provided the Plan $1.5 million for start-up costs. The program's investment earnings have been approximately $49,000. Total program receipts have been $12.3 million for the first six months. During this same period of time, claim payments have been $7.4 million for the program's acute medical care services and supplies plus another $1,000 paid out for the other needs of special needs children. The Plan has paid out another $1.9 million for claims processing, of which $1.5 million was for start-up costs. The program's total disbursements for its first six months have been $9.3 million. Financial projections through June 30, 1999, have proved to be unreliable because of a constantly increasing number of children enrolled in the program. Enrollment is not currently expected to stabilize until January, 2000. Nonetheless, current membership estimates put average annual enrollment for fiscal year 1999-2000 at 63,100 – 37,900 in families at and below 150% of federal poverty income levels and 25,200 in families with incomes above 150% of federal poverty levels. Average annual enrollment for fiscal year 2000-2001 is estimated to be 65,600, with 39,400 in families at and below 150% of federal poverty income levels and 26,200 in families with incomes above 150% of federal poverty levels. Current premium rates paid by the Department of Health and Human Services to the Plan are $87.70 monthly for children in families at and below 150% of federal poverty income levels and $85.13 per month for children in families with incomes above 150% of federal poverty levels. Claims experience for the program's first six months of operations reveals that 65% of premium collections for children in families at and below 150% of federal poverty income levels has been paid out in claims and almost 80% of premium receipts for children in families with incomes above 150% of federal poverty levels has been paid out in claims. Overall, some 70% of the program's premium receipts from the Department of Health and Human Services has been paid out in claims. Obviously, this experience shows that the monthly premium rates received by the program need to be adjusted and increased for the next biennium in order for claims to be paid in an orderly and expeditious manner. The consulting actuary for the State Employee Health Benefit Plan has estimated that the program should have the following monthly premiums as follows, based upon the program's claims experience since October, 1998:

	Current	1999-2000	2000-2001
Members @ 150% of Fed. Pov. & Below	$ 96.39	$103.02	$111.26
Members Above 150% of Fed. Pov.	$121.81	$131.56	$142.08

These estimated premium rates are projected to have the following claims cost for the 1999-2001 biennium:

	1999-2000	2000-2001
Members @ 150% of Fed. Pov. & Below	$46,853,500	$52,603,700
Members Above 150% of Fed. Pov.	$39,783,700	$44,670,000
Total Claim Costs	$86,637,200	$97,273,700
Less: Federal Funds	64,111,500	71,788,000
State Appropriations	$22,525,700	$25,485,700

Claim cost trends are expected to increase 8-10% annually. Investment earnings are based upon a 5-6% monthly return on available cash balances. The 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.

SOURCES OF DATA:
-Actuarial Note, Hartman & Associates, Senate Bill 615, April 22, 1999, original of which is on file in the General Assembly's Fiscal Research Division.
-Actuarial Note, Aon Consulting, Senate Bill 615, April 19, 1999, 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.

TECHNICAL CONSIDERATIONS: None.

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DATE: Tuesday, April 27, 1999

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