

**NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE ACTUARIAL NOTE**

BILL NUMBER: House Bill 557

SHORT TITLE: State Health Plan: Increase Wellness Benefit

SPONSOR(S): Reps. Jeffus and Culp

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, premium payments for coverages selected by eligible former teachers and State employees and premium payments for coverages selected by firefighters, rescue squad workers, and members of the National Guard.

BILL SUMMARY: The bill increases the maximum annual amount that the Plan will pay per person for routine wellness examinations and tests that are not subject to the Plan's annual deductible and coinsurance from \$150 to \$300. No change is made in the services covered under the Plan's wellness provisions.

EFFECTIVE DATE: July 1, 2003.

ESTIMATED IMPACT ON STATE: Based upon information provided by the Plan, Aon Consulting, the Plan's consulting actuary, projects that the bill will cost the Plan an additional \$7,900,000 for 2003-04 and \$10,600,000 for 2004-05. Also, based on information provided by the Plan, Hartman & Associates, the consulting actuary for the General Assembly's Fiscal Research Division, estimates that the Plan will incur additional costs of \$4,014,000 for 2003-04 and \$5,395,000 for 2003-05 if the bill is enacted. These additional costs would be expected to come from the following sources:

	<u>Aon Consulting</u>			<u>Hartman & Associates</u>		
	<u>2003-04</u>	<u>2004-05</u>	<u>Biennium</u>	<u>2003-04</u>	<u>2004-05</u>	<u>Biennium</u>
<u>Employer Cost</u>						
-General Fund	\$5,119,000	\$6,869,000	\$11,988,000	\$2,601,000	\$3,496,000	\$6,097,000
-Highway Fund	\$ 256,000	\$ 343,000	\$ 599,000	\$ 130,000	\$ 175,000	\$ 305,000
-Other Funds	\$1,024,000	\$1,374,000	\$ 2,398,000	\$ 520,000	\$ 699,000	\$1,219,000
-Total Employer	\$6,399,000	\$8,586,000	\$14,985,000	\$3,251,000	\$4,370,000	\$7,621,000
<u>Employee Cost</u>	\$1,501,000	\$2,014,000	\$ 3,515,000	\$ 763,000	\$1,025,000	\$1,788,000
<u>Total Cost</u>	\$7,900,000	\$10,600,000	\$18,500,000	\$4,014,000	\$5,395,000	\$9,409,000

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 only had a self-funded indemnity type of program which covered all employees, retired employees, eligible dependents of employees and retired employees, and eligible 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., \$350 annual deductible, 20% coinsurance up to \$1,500 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. Beginning in July 2000, firefighters, rescue squad workers, and members of the National Guard and their eligible dependents were allowed to voluntarily participate in the Plan on a fully contributory basis, provided they were ineligible for any other type of group health benefits and had been without such benefits for at least six months. 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, except for job-sharing public school teachers who are authorized partially contributory premiums at 50% of non-contributory rates. The Plan's Executive Administrator has set the premium rates for firefighters, rescue squad workers, and members of the National Guard and their families at 20% more than the comparable rates charged for employees, retired employees, and their families. 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; however, none of the HMOs with certificates of authority to transact business in North Carolina have offered to participate in the Plan since September 30, 2001. 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, 2002, include:

	<u>Self-Insured Indemnity Program</u>	<u>Alternative HMOs</u>	<u>Plan Total</u>
<u>Number of Participants</u>			
Active Employees	280,065	-0-	280,065
Active Employee Dependents	137,841	-0-	137,841
Retired Employees	117,225	-0-	117,225
Retired Employee Dependents	18,999	-0-	18,999
Former Employees & Dependents with Continued Coverage	2,535	-0-	2,535
Firefighters, Rescue Squad Workers, National Guard Members & Dependents	7	-0-	7
Total Enrollments	556,672	-0-	556,672
<u>Number of Contracts</u>			
Employee Only	313,439	-0-	313,439
Employee & Child(ren)	40,978	-0-	40,978
Employee & Family	44,710	-0-	44,710
Total Contracts	399,127	-0-	399,127

Percentage of
Enrollment by Age

29 & Under	26.9%	-0-%	26.9%
30-44	20.9	-0-	20.9
45-54	20.9	-0-	20.9
55-64	16.2	-0-	16.2
65 & Over	15.1	-0-	15.1

Percentage of
Enrollment by Sex

Male	38.3%	-0-%	38.3%
Female	61.7	-0-	61.7

Assumptions for the Self-Insured Indemnity Program: For the fiscal year beginning July 1, 2002, the self-insured program started its operations with a beginning cash balance of \$91.6 million. Receipts for the year are estimated to be \$1.371 billion from premium collections and \$7 million from investment earnings for a total of \$1.378 billion in receipts for the year. Disbursements from the self-insured program are expected to be \$1.335 billion in claim payments and \$38 million in administration and claims processing expenses for a total of \$1.373 billion for the year beginning July 1, 2002. For the fiscal year beginning July 1, 2002, the self-insured indemnity program is expected to have a net operating gain of approximately \$5 million for the year. Without reserving an additional \$15 million for implementation of the claims data and privacy requirements of the federal Health Insurance Portability and Accountability Act (HIPPA) that take effect on and after April 14, 2003, the Plan's self-insured indemnity program is expected to have an available beginning cash balance of \$96 million for the fiscal year beginning July 1, 2003. The self-insured indemnity program is nonetheless assumed to be unable to carry out its operations for the 2003-2005 biennium without increases in its current premium rates or a reduction in existing benefits or payments to health care providers or both. This assumption is further predicated upon the fact that the program's cost containment strategies (hospital DRG reimbursements, discounts on hospital outpatient services, pre-admission hospital testing, pre-admission hospital inpatient certification with length-of-stay approval, hospital bill audits, case and disease management for selected medical conditions, mental health case management, coordination of benefits with other payers, Medicare benefit "carve-outs", cost reduction contracts with participating physicians and other providers, a prescription drug benefit manager with manufacturer rebates from formularies, and fraud detection) are maintained and improved where possible. Current non-contributory premium rates are \$186.04 monthly for employees whose primary payer of health benefits is Medicare and \$244.38 per month for employees whose primary payer of health benefits is not Medicare. Fully contributory premium amounts for employee and child(ren) contracts are \$115.78 monthly for children whose primary payer of health benefits is Medicare and \$152.32 monthly for other covered children, and \$277.68 per month for family contracts whose dependents have Medicare as the primary payer of health benefits and \$365.36 per month for other family contract dependents. Claim cost trends are expected to increase 12% annually. Total enrollment in the program is expected to increase less than 1% annually over the next two years. The number of enrolled active employees is expected to show no increase over the next two years, whereas the growth in the number of retired employees is assumed to be 5% per year. The program is expected to have a 2% decrease in the number of active employee dependents per year whereas the number of retiree dependents is expected to increase 2% per year. Investment earnings are based upon a 4.5% 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 Indemnity Plan's Claims Experience for Wellness Benefits: For the last three fiscal years, the Plan's claims experience for wellness benefits has been:

<u>Group</u>	<u>No. of Users</u>	<u>Charges</u>	<u>Allowed Charges</u>	<u>Copayments</u>	<u>Deductible</u>	<u>Coinsurance</u>	<u>Paid Claims</u>
<u>2001-02</u>							
<u>Employee Group</u>							
No Deductible	169,814	\$30,003,874	\$20,108,668	\$2,003,550	\$0	\$0	\$18,105,118
Deductible	86,469	\$15,506,678	\$11,446,863	\$500,190	\$4,182,729	\$874,381	\$5,889,563
Total	256,283	\$45,510,552	\$31,555,531	\$2,503,740	\$4,182,729	\$874,381	\$23,994,681
<u>Retiree Group</u>							
No Deductible	50,461	\$5,365,140	\$3,850,404	\$292,440	\$0	\$0	\$3,557,964
Deductible	25,719	\$3,552,447	\$2,701,553	\$98,205	\$874,357	\$224,721	\$1,504,270
Total	76,180	\$8,917,587	\$6,551,957	\$390,645	\$874,357	\$224,721	\$5,062,234
<u>Contin. Group</u>							
No Deductible	1,147	\$196,472	\$149,326	\$13,440	\$0	\$0	\$121,507
Deductible	537	\$111,135	\$90,723	\$3,225	\$18,065	\$7,341	\$58,854
Total	1,684	\$307,607	\$240,049	\$16,665	\$18,065	\$7,341	\$180,361
<u>Total Group</u>							
No Deductible	221,422	\$35,565,486	\$24,094,019	\$2,309,430	\$0	\$0	\$21,784,589
Deductible	112,725	\$19,170,260	\$14,235,901	\$601,620	\$5,075,151	\$1,106,443	\$7,452,687
Total	334,147	\$54,735,746	\$38,329,920	\$2,911,050	\$5,075,151	\$1,106,443	\$29,237,276
<u>2000-01</u>							
<u>Employee Group</u>							
No Deductible	144,616	\$23,254,002	\$16,975,085	\$273,550	\$0	\$0	\$16,701,535
Deductible	78,811	\$19,539,907	\$16,585,874	\$83,250	\$3,677,993	\$2,074,265	\$10,750,366
Total	223,427	\$42,793,909	\$33,560,959	\$356,800	\$3,677,993	\$2,074,265	\$27,451,901
<u>Retiree Group</u>							
No Deductible	46,055	\$4,842,453	\$3,755,769	\$46,330	\$0	\$0	\$3,709,439
Deductible	21,549	\$5,623,482	\$4,939,010	\$23,300	\$962,751	\$684,665	\$3,268,294
Total	67,604	\$10,465,935	\$8,694,779	\$69,630	\$962,751	\$684,665	\$6,977,733
<u>Contin. Group</u>							
No Deductible	1,087	\$186,820	\$156,515	\$1,870	\$0	\$0	\$137,819
Deductible	601	\$171,238	\$152,693	\$640	\$19,261	\$22,152	\$107,821
Total	1,688	\$358,058	\$309,208	\$2,510	\$19,261	\$22,152	\$245,640
<u>Total Group</u>							
No Deductible	191,758	\$28,283,275	\$20,870,543	\$321,750	\$0	\$0	\$20,548,793
Deductible	100,961	\$25,334,627	\$21,674,758	\$107,190	\$4,660,005	\$2,781,082	\$14,126,481
Total	292,719	\$53,617,902	\$42,545,301	\$428,940	\$4,660,005	\$2,781,082	\$34,675,274
<u>1999-2000</u>							
<u>Employee Group</u>							
No Deductible	115,930	\$16,283,190	\$12,177,643	\$276,610	\$0	\$0	\$11,901,033
Deductible	49,311	\$6,637,559	\$5,500,408	\$63,360	\$1,536,710	\$530,031	\$3,370,307
Total	117,132	\$22,920,749	\$17,678,051	\$339,970	\$1,536,710	\$530,031	\$15,271,340
<u>Retiree Group</u>							
No Deductible	39,736	\$3,376,868	\$2,696,838	\$46,220	\$0	\$0	\$2,650,618
Deductible	11,767	\$1,579,374	\$1,321,208	\$17,500	\$257,681	\$152,469	\$893,558
Total	40,337	\$4,956,242	\$4,018,046	\$63,720	\$257,681	\$152,469	\$3,544,176
<u>Contin. Group</u>							
No Deductible	1,056	\$144,191	\$108,534	\$2,300	\$0	\$0	\$106,234

Deductible	382	\$51,594	\$40,973	\$610	\$9,828	\$4,251	\$26,284
Total	1,084	\$195,785	\$149,507	\$2,910	\$9,828	\$4,251	\$132,518
Total Group							
No Deductible	156,722	\$19,804,249	\$14,983,015	\$325,130	\$0	\$0	\$14,657,885
Deductible	61,460	\$8,268,527	\$6,862,589	\$81,470	\$1,804,219	\$686,751	\$4,290,149
Total	158,553	\$28,072,776	\$21,845,604	\$406,600	\$1,804,219	\$686,751	\$18,948,034

Groups include both employees and their enrolled spouses and dependent children. “No Deductible” refers to benefits paid without deductibles and coinsurance being assessed up to \$150 per person per year.

SOURCES OF DATA:

- Actuarial Note, Hartman & Associates, House Bill 557, April 26, 2003, original of which is on file in the General Assembly’s Fiscal Research Division.
- Actuarial Note, Aon Consulting, House Bill 557, April 22, 2003, 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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