

**NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE ACTUARIAL NOTE**

BILL NUMBER: Senate Bill 508

SHORT TITLE: State Health Plan/Temporary Employees

SPONSOR(S): Senator Albertson

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 provides partially contributory premium rates at 50% of non-contributory premium rates under the Teachers' and State Employees' Comprehensive Major Medical Plan for (a) permanent part-time employees designated as half-time or more of all employing units under the Plan, and for (b) all temporary or other employees of an employing unit under the Plan who work at least six months in any continuous twelve-month period for at least two years. The bill also provides coverage under the Plan at fully contributory premium rates for all permanent part-time employees who work less than half-time and for all temporary and other employees not covered by the bill on a partially contributory basis.

EFFECTIVE DATE: July 1, 2003.

ESTIMATED IMPACT ON STATE: Aon Consulting, consulting actuary for the Teachers' and State Employees' Comprehensive Major Medical Plan, projects the bill to have a cost of \$37.2 million for fiscal year 2003-04 and \$41.1 million for fiscal year 2004-05. Although Aon Consulting states that it does not know the Plan's non-contributory premium rates for fiscal years 2003-04 and 2004-05, it estimates that 50% of the Plan's per capita employee costs for 2003-04 and for 2004-05 would be \$1,947 and \$2,156 respectively. These estimates produce additional costs to employers participating in the Plan of \$32.4 million in fiscal year 2003-04 and \$35.8 million for fiscal year 2004-05. The remaining portion of Aon Consulting's cost projections (\$4.8 million for fiscal year 2003-04 and \$5.3 million for fiscal year 2004-05) come from adverse selection against the Plan from the part-time and temporary employees who work less than half-time.

Hartman & Associates, consulting actuary for the General Assembly's Fiscal Research Division, estimates that the Plan's non-contributory premium rates set by the General Assembly for the 2003-04 and 2004-05 fiscal years will be sufficient to cover the claim costs for those covered by the bill on a partially contributory basis. However, Hartman & Associates does note that the potentially large number of part-time and temporary employees who work less than half-time and are eligible for membership in the Plan on a fully contributory basis under the bill can lead to anti-selection against the Plan. Hartman & Associates further states that the fully contributory nature of premiums for these employees should keep anti-selection to a minimum. Hartman & Associates did not quantify the amount of anti-selection against the Plan for these part-time and temporary employees, but it was not expected to be significant.

Based upon the annual employer costs for the Plan for the 2003-05 biennium as contained in the House and Senate Budget Acts for the biennium that are in conference, the estimated additional employer costs for employees covered by partially contributory Plan premiums would be:

	(\$ Million)					
	House Budget Act			Senate Budget Act		
	2003-04	2004-05	Biennial Total	2003-04	2004-05	Biennial Total
<u>General Fund</u>						
Part-Time Employees	\$12.087	\$12.396	\$24.483	\$12.590	\$13.066	\$25.656
Temporary Employees	\$3.713	\$3.808	\$7.521	\$3.867	\$4.014	\$7.881
Total	\$15.800	\$16.204	\$32.004	\$16.457	\$17.080	\$33.537
<u>Highway Fund</u>						
Part-Time Employees	\$0.016	\$0.016	\$0.032	\$0.017	\$0.017	\$0.034
Temporary Employees	\$0.729	\$0.747	\$1.476	\$0.759	\$0.788	\$1.547
Total	\$0.745	\$0.763	\$1.508	\$0.776	\$0.805	\$1.581
<u>Other Employer Funds</u>						
Part-Time Employees	\$7.048	\$7.228	\$14.276	\$7.342	\$7.619	\$14.961
Temporary Employees	\$2.804	\$2.875	\$5.679	\$2.920	\$3.030	\$5.950
Total	\$9.852	\$10.103	\$19.955	\$10.262	\$10.649	\$20.911
<u>Total Employer Funds</u>						
Part-Time Employees	\$19.151	\$19.640	\$38.791	\$19.949	\$20.702	\$40.651
Temporary Employees	\$7.246	\$7.430	\$14.676	\$7.546	\$7.832	\$15.378
Total	\$26.397	\$27.070	\$53.467	\$27.495	\$28.534	\$56.029

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
<u>Percentage of Enrollment by Age</u>			
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
<u>Percentage of Enrollment by Sex</u>			
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 Plan's Coverage of Additional Part-Time and Temporary Employees: Based upon a survey of employers participating in the Plan for the number of calendar year 2002 part-time and temporary employees to be covered by the bill, the following is a census of those employees expected to be granted membership in the Plan.

<u>Employers</u>	<u>Half-Time or More</u>			<u>Less Than Half-Time</u>		
	<u>Part-Time</u>	<u>Temporary</u>	<u>Total</u>	<u>Part-Time</u>	<u>Temporary</u>	<u>Total</u>
<u>State Agencies</u>						
General Fund	754	721	1,475	234	3,067	3,301
Highway Fund	10	459	469	1	1,791	1,792
Other Employer Funds	43	76	119	8	673	681
Total	807	1,256	2,063	243	5,531	5,774
<u>Universities</u>						
General Fund	1,635	557	2,192	1,321	5,947	7,268
Highway Fund	0	0	0	0	0	0
Other Employer Funds	848	863	1,711	432	9,919	10,351
Total	2,483	1,420	3,903	1,753	15,866	17,619
<u>Community Colleges</u>						
General Fund	1,048	0	1,048	191	18,409	18,600
Highway Fund	0	0	0	0	0	0
Other Employer Funds	307	0	307	51	2,045	2,096
Total	1,355	0	1,355	242	20,454	20,696

<u>Public Schools</u>							
General Fund	4,177	1,061	5,238	3,028	4,504	7,532	
Highway Fund	0	0	0	0	0	0	
Other Employer Funds	3,242	827	4,069	4,661	5,235	9,896	
Total	7,419	1,888	9,307	7,689	9,739	17,428	
<u>All Employers</u>							
General Fund	7,614	2,339	9,953	4,774	31,927	36,701	
Highway Fund	10	459	469	1	1,791	1,792	
Other Employer Funds	4,440	1,766	6,206	5,152	17,872	23,024	
Total	12,064	4,564	16,628	9,927	51,590	61,517	

The 16,628 part-time and temporary employees working half-time or more would be eligible for partially contributory premiums under the bill at 50% of the Plan's non-contributory premium rates. The 61,517 part-time and temporary employees working less than half-time would be eligible for participation in the Plan on a fully contributory basis.

SOURCES OF DATA:

- Actuarial Note, Hartman & Associates, Senate Bill 508, May 30, 2003, original of which is on file in the General Assembly's Fiscal Research Division.
- Actuarial Note, Aon Consulting, Senate Bill 508, May 30, 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.

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