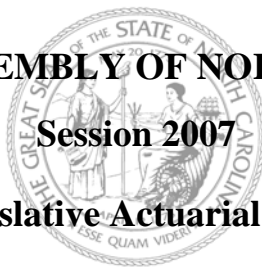


GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2007

Legislative Actuarial Note

HEALTH BENEFITS

BILL NUMBER: House Bill 503 (Second Edition)

SHORT TITLE: State Health Plan/Various Local Govt.

SPONSOR(S):

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, premium payments for coverages selected by firefighters, rescue squad workers, members of the National Guard, and certain authorized local governments.

BILL SUMMARY: Proposed Committee Substitute for HB 503 amends Section 31.26(j) of Session Law 2004-124 (2004 Appropriations Act), as further amended by Section 29.32 of Session Law 2005-276 (2005 Appropriations Act). Proposed legislation permits Beaufort County and the Town of Black Mountain to become employing units under the Teachers' and State Employees' Comprehensive Major Medical Plan (Plan) for the purpose of providing health benefits to their respective employees, retired employees, and their eligible spouses and dependent children. Currently, the Town of Forest City, and the counties of Bladen, Washington, and Rutherford participate as employing units under the Plan.

If any local government unit authorized under the bill elects to participate in the Plan, it must do so by legal resolution of its respective governing board. An irrevocable election is required by a local government unit choosing to enroll its retired employees, and their eligible spouses and dependent children. Each local government unit must also agree to make any premium contributions required by the Plan. All enrolled employees, retired employees, and their family members of any town will be required to participate in disease management, case management, and all other cost containment measures implemented by the Plan. Employees and retired employees authorized for benefit coverage under the Plan will pay the same premium rates as those charged by the Plan for other participating active and retired employees and their dependents.

In addition, an irrevocable election by a local government unit to cover retired employees also requires it to make additional financial contributions to the Local Governmental Employees' Retirement System for the purpose of financing retired employees' health benefits offered under the Plan. If a local government unit does not participate in the Local Governmental Employees' Retirement System, but has another formally established retirement plan, and elects to cover its

retired employees, it is required to make premium contributions to the Plan on behalf of its retired employees.

EFFECTIVE DATE: July 1, 2007

ESTIMATED IMPACT ON STATE: The consulting actuary for the Teachers' and State Employees Comprehensive Major Medical Plan, Aon Consulting, estimates a negligible financial impact to the Plan if the Town of Black Mountain is included under the Plan. Aon Consulting estimates an average annual mid-point loss of \$113,050 for the 2007-2009 biennium. Comparisons between the Plan's current demographic data and the submitted demographic data by the Town were made for the purposes of estimating impact. Claims data submitted by the Town were analyzed but determined to be of limited use for the Aon analysis due to the size of the group. Aon Consulting, further estimates a negligible financial impact if Beaufort County is included under the Plan. Their analysis projects an average annual gain of \$77,400 for the 2007-2009 biennium. Comparisons between the Plan's current demographic data and the submitted demographic data by the County, including claims experience data provided by the County, were made for the purposes of estimating impact.

Hartman & Associates, consulting actuary for the General Assembly's Fiscal Research Division, estimates that the proposed change allowing the Town of Black Mountain and Beaufort County to participate under the Plan would not have a significant financial impact. The estimate by Hartman & Associates assumes that respective employees and retired employees of each respective local government unit have a similar demographic profile as compared to those of the Plan's current members. This assessment is based on demographic and claims experience data submitted by the both local government units. However, Hartman & Associates noted that if participation by either unit's employees is optional, it is possible for adverse selection against the Plan to occur.

ASSUMPTIONS AND METHODOLOGY: A current census of employees and dependents were provided to each actuary from information provided by each local government unit. The demographic profile of each group was compared to the current membership of the Plan for estimating claims experience. Both local government units provided actual claims experience for the purposes of more accurately predicting any possible cost impacts to the Plan. Additionally, Aon Consulting, for Beaufort County only, assumed that this unit would participate under the PPO program only.

Distribution of Participants -- Black Mountain

Ages	Active Employees			Dependents of Active Employees			Retired Employees			Dependents of Retired Employees		
	Male	Female	Total	Male	Female	Total	Male	Female	Total	Male	Female	Total
0-4			0	4	1	5			0			0
5-9			0	1	9	10			0		1	1
10-14			0	2	1	3			0		1	1
15-19			0	3		3			0			0
20-24	4	1	5			0			0			0
25-29	6	2	8			0			0			0
30-34	10	2	12		1	1			0			0
35-39	11	3	14			0			0			0
40-44	10	3	13			0	2		2			0
45-49	9	3	12		1	1	2		2			0
50-54	6	4	10	1		1	2		2			0
55-59	2	3	5		1	1	3		3		1	1
60-64	2	1	3			0			0			0
65-69			0			0			0			0
70-74			0			0			0			0
75-79			0			0			0			0
>79			0			0			0			0
Unknown			0			0			0			0
TOTAL	60	22	82	11	14	25	9	0	9	0	3	3

Distribution of Participants -- Beaufort County

Ages	Active Employees			Dependents of Active Employees			Retired Employees			Dependents of Retired Employees		
	Male	Female	Total	Male	Female	Total	Male	Female	Total	Male	Female	Total
0-4			0	20	10	30			0	0	0	0
5-9			0	19	13	32			0	0	0	0
10-14			0	2	4	6			0	0	0	0
15-19			0	16	8	24			0	0	0	0
20-24	13	11	24	3	8	11			0	0	0	0
25-29	19	13	32	0	2	2			0	0	0	0
30-34	11	23	34	0	3	3			0	0	0	0
35-39	14	27	41	3	1	4			0	0	0	0
40-44	4	21	25	1	0	1			0	0	0	0
45-49	9	28	37	3	2	5			0	0	0	0
50-54	14	34	48	3	4	7			0	0	0	0
55-59	6	30	36	8	2	10		4	4	0	0	0
60-64	6	11	17	3	1	4	1	8	9	0	0	0
65-69	0	3	3	1	0	1			0	0	0	0
70-74	1	0	1			0			0	0	0	0
75-79	0	0	0			0			0	0	0	0
>79	1	0	1			0			0	0	0	0
Unknown			0			0			0	0	0	0
TOTAL	98	201	299	82	58	140	1	12	13	0	0	0

SOURCES OF DATA:

-Actuarial Note, Hartman & Associates, Senate Bill 1192, April 4, 2007, original of which is on file in the General Assembly's Fiscal Research Division.

-Actuarial Note, Hartman & Associates, PCS -- House Bill 503-CSST-31[v.1], April 26, 2007, original of which is on file in the General Assembly's Fiscal Research Division.

-Actuarial Note, Aon Consulting, Senate Bill 1192, April 4, 2007, 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.

-Actuarial Note, Aon Consulting, PCS -- House Bill 503-CSST-31[v.1], April 30, 2007, 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: May 21, 2007



Signed Copy Located in the NCGA Principal Clerk's Offices