

GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2007

Legislative Actuarial Note

HEALTH BENEFITS

BILL NUMBER: House Bill 2214 (First Edition)

SHORT TITLE: Charter School/State Health Plan.

SPONSOR(S): Representative Church

SYSTEM OR PROGRAM AFFECTED: Teachers' and State Employees' Comprehensive Major Medical Plan. On and after July 1, 2008 the Plan will be known as the *State Health Plan for Teachers and State Employees* (see Section 28.22A of Session Law 2007-323).

FUNDS AFFECTED: State General Fund, State Highway Fund, other State employer receipts; premium payments for dependents of active employees and retired employees of State agencies and universities, local public schools and local community colleges; premium payments for coverages selected by eligible former employees; premium payments for coverages selected by firefighters, rescue squad workers, members of the National Guard, and certain authorized local governments.

BILL SUMMARY: House Bill 2214 (1st Edition) permits the Board of Directors of the New Dimensions School, a public charter school, to become a participating employer in the Teachers' and State Comprehensive Major Medical Plan within 30 days after the act becomes law. Under G.S. 135-40.3A, an election to join the Plan by the board of a charter school is irrevocable and shall require all eligible employees of the charter school to participate.

EFFECTIVE DATE: When it becomes law.

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 New Dimensions School elects to participate in the Plan. Aon Consulting estimates an average annual mid-point savings of \$2,592 beginning with the 2008-2009 fiscal year. Comparisons between the Plan's current demographic data and the submitted demographic data by the School were made for the purposes of estimating impact. However, without historical claims experience data, Aon Consulting notes that adverse selection against the Plan may occur and thereby possibly increase the cost impact.

Hartman & Associates, consulting actuary for the General Assembly's Fiscal Research Division, estimates that the financial impact on the Plan would not be significant upon enactment of the bill. Hartman and Associates noted that the employee demographics of the New Dimensions School compare favorably to current Plan member demographics, and that given the minimal number of prospective employees to be enrolled, there is not expected to be a significant impact.

ASSUMPTIONS AND METHODOLOGY:

General Assumptions for House Bill 2214 (1st Edition)

Authorized Charter Schools: As of April 2008, there are 52 charter schools with 2,573 enrolled active employees and dependents participating in the Plan

Data submitted by the School: Aon Consulting and Hartman and Associates based their respective analyses in part on a distribution of participants schedule submitted by the School. This schedule reflects the age and sex demographic data for employees of the school.

Distribution of Participants -- New Dimensions School

Ages	<u>Active Employees</u>			<u>Dependents of Active Employees</u>			<u>Retired Employees</u>			<u>Dependents of Retired Employees</u>		
	<u>Male</u>	<u>Female</u>	<u>Total</u>	<u>Male</u>	<u>Female</u>	<u>Total</u>	<u>Male</u>	<u>Female</u>	<u>Total</u>	<u>Male</u>	<u>Female</u>	<u>Total</u>
0-4			0			0			0			0
5-9			0			0			0			0
10-14			0			0			0			0
15-19			0			0			0			0
20-24		3	3			0			0			0
25-29		3	3			0			0			0
30-34			0			0			0			0
35-39	1		1			0			0			0
40-44		1	1			0			0			0
45-49			0			0			0			0
50-54			0			0			0			0
55-59			0			0			0			0
60-64			0			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	1	7	8	0	0	0	0	0	0	0	0	0

Summary Plan Information

The Plan operates on a self-funded basis funded through premium contributions, investment earnings and other receipts. As of October 1, 2006, the Plan operates an Indemnity plan and an optional Preferred Provider Option (PPO) plan. Effective July 1, 2008, the Plan will no longer operate the Indemnity Plan as a benefit option for plan members. The PPO plan offers three options to plan members that include: (1) a "basic" 70/30 plan that offers higher out-of-pocket requirements in return for lower fully contributory dependent premiums; (2) a "standard" 80/20 plan; and (3) a 90/10 "plus" plan with enhanced benefits via lower out-of-pocket requirements as compared to the other PPO plan options. Participation in the plus plan requires employees and retired employees to make a partially contributory premium contribution to participate in this option. The basic and standard plans offer coverage to employees and retired employees on a noncontributory basis. Coverage for dependents under all plans is offered on a fully contributory basis.

Additional assumptions include Medicare benefit "carve-outs," cost containment strategies including prior approval for certain medical services, utilization of the "Blue Options" provider network, case and disease management for selected medical conditions, mental health case

management, coordination of benefits with other payers, a prescription drug benefit manager with manufacturer rebates from formularies, and fraud detection, and other authorized actions by the Executive Administrator and Board of Trustees to manage the Plan to maintain and improve the Plan's operation and financial condition where possible. Claim cost trends are expected to increase at a rate of 9% annually according to the Plan's consulting actuary. Investment earnings are based upon a 4.5% return on available cash balances.

Financial Condition

Year-to-date Operating Results ¹

Through May 31, 2008, the Plan has an operating loss of approximately \$38.7 million for the 2007-2008 fiscal year. Year-to-date operating losses in the Indemnity plan total \$91.8 million versus a projected annual loss of \$2.5 million. To date, these losses are partially offset by \$53.1 million in operating gains under the PPO plans. The Plan as a result is operating substantially behind its projected annual operating income of \$57.9 million for the 2007-2008 fiscal year. Based on actual results through May 2008, the Plan revised its projected income to reflect an estimated \$63.9 million loss for the fiscal year, or a reduction of \$121.8 million in projected income. The negative results experienced during the 2007-2008 fiscal year are expected to require the Executive Administrator of the Plan to implement additional cost saving programs for the balance of the 2007-2009 biennium.

Financial Projection (Revised June 2008)²

Combined Benefit Plan Components (Indemnity and PPO): For the fiscal year beginning July 1, 2007, the Plan is projected to start its operations with a beginning cash balance of \$156.7 million. Receipts for the year are estimated to be \$2.223 billion from premium collections, \$51.8 million from Medicare Part D subsidies and \$8.5 million from investment earnings for a total of \$2.283 billion in receipts for the year. Claims payments from the Plan are expected to be \$1.653 billion in medical claim payments, \$548 million in pharmacy claim payments, plus \$9.6 million in other cost adjustments for total net claims payments of \$2.211 billion. Total disbursements of the Plan are expected to be \$2.347 billion after adding total net claims payments plus \$136.9 million in administration and claims processing expenses. For the fiscal year beginning July 1, 2007, the Plan is expected to have net operating income loss of approximately \$63.9 million for the year. The Plan is also projected to have an available beginning cash balance of \$92.8 million for the fiscal year beginning July 1, 2008. The Plan does maintain 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.

¹ Summary of Operations (Cash Basis Reporting), For the Period Ending May 2008, 2007-2008 Fiscal Year, Teachers' and State Employees Comprehensive Major Medical Plan.

² Aon Consulting, Consulting Actuary for the Teachers' and State Employees' Comprehensive Major Medical Plan, June 2008.

Indemnity Plan Component: For the fiscal year beginning July 1, 2007, the Indemnity plan started its operations with a beginning cash balance of \$112.8 million. Receipts for the year are estimated to be \$686.7 million from premium collections, \$47.7 million from Medicare Part D subsidies and \$4.1 million from investment earnings for a total of \$738.5 million in receipts for the year. Claims payments from the Indemnity Plan are expected to be \$545.1 million in medical claim payments, \$232 million in pharmacy claim payments, minus \$1.3 million in other cost adjustments for total net claims payments of \$775.8 million. Total disbursements of the Indemnity plan are expected to be \$837.9 million after adding total net claims payments plus \$62.1 million in administration and claims processing expenses. For the fiscal year beginning July 1, 2007, the Indemnity plan is expected to have net operating income loss of approximately \$99.4 million for the year. The Indemnity plan is projected to have an ending cash balance of \$13.4 million for the fiscal year ending June 30, 2008. The Indemnity plan as a benefit plan option will cease to exist on July 1, 2008.

PPO Plans Component: For the fiscal year beginning July 1, 2007, the consolidated PPO plans started operations with a beginning cash balance of \$43.9 million. Receipts for the year are estimated to be \$1.537 billion from premium collections, \$4.1 million from Medicare Part D subsidies and \$4.4 million from investment earnings for a total of \$1.546 billion in receipts for the year. Claims payments from the Plan are expected to be \$1.108 million in medical claim payments, \$316 million in pharmacy claim payments, plus \$10.9 million in other cost adjustments for total net claims payments of \$1.435 billion. Total disbursements of the Plan are expected to be \$1.510 billion after adding total net claims payments plus \$74.8 million in administration and claims processing expenses. For the fiscal year beginning July 1, 2007, the PPO plans are expected to have net operating income of approximately \$35.6 million for the year. The PPO plans are also projected to have an available beginning cash balance of \$79.5 million for the fiscal year beginning July 1, 2008.

Enrollment Data as of December 31, 2007

I. <u>No. of Participants</u>	Indemnity <u>Plan</u>	PPO <u>Options</u>	<u>Total</u>	Percent of <u>Total</u>
<u>Actives</u>				
Employees	68,745	253,572	322,317	50.0%
Dependents	21,031	135,744	156,775	24.3%
Sub-total	89,776	389,316	479,092	74.4%
<u>Retired</u>				
Employees	85,753	55,948	141,701	22.0%
Dependents	7,859	11,611	19,470	3.0%
Sub-total	93,612	67,559	161,171	25.0%
<u>Former Employees with Continuation Coverage</u>				
Employees	682	1,022	1,704	0.3%
Dependents	226	616	842	0.1%
Sub-total	908	1,638	2,546	0.4%
<u>Firefighters, Rescue Squad & National Guard</u>				
Employees	3	-	3	0.0%
Dependents	-	-	-	0.0%
Sub-total	3	-	3	0.0%
<u>Local Governments</u>				
Employees	16	1,082	1,098	0.2%
Dependents	-	459	459	0.1%
Sub-total	16	1,541	1,557	0.2%
<u>Total</u>	<u>184,315</u>	<u>460,054</u>	<u>644,369</u>	
Percent of Total	28.6%	71.4%	100.0%	100.0%
II. <u>Retiree Enrollment by Category</u>	Indemnity <u>Plan</u>	PPO <u>Options</u>	<u>Total</u>	
Non-Medicare Eligible	25,859	34,711	60,570	
Medicare Eligible	67,753	32,848	100,601	
Total	93,612	67,559	161,171	
<u>Percent by Category (Retiree)</u>	Indemnity <u>Plan</u>	PPO <u>Options</u>	<u>Total</u>	
Non-Medicare Eligible	27.6%	51.4%	37.6%	
Medicare Eligible	72.4%	48.6%	62.4%	
Total	100.0%	100.0%	100.0%	

Enrollment Data Continued

III. <u>Enrollment by Age</u>	Indemnity	PPO	<u>Total</u>
	<u>Plan</u>	<u>Options</u>	
29 & Under	25,706	147,450	173,156
30 to 44	23,965	105,402	129,367
45 to 54	28,204	89,488	117,692
55 to 64	40,880	82,975	123,855
65 & Over	65,560	34,739	100,299
Total	184,315	460,054	644,369

<u>Percent Enrollment by Age</u>	Indemnity	PPO	<u>Total</u>
	<u>Plan</u>	<u>Options</u>	
29 & Under	13.9%	32.1%	26.9%
30 to 44	13.0%	22.9%	20.1%
45 to 54	15.3%	19.5%	18.3%
55 to 64	22.2%	18.0%	19.2%
65 & Over	35.6%	7.6%	15.6%
Total	100.0%	100.0%	100.0%

IV. <u>Enrollment by Sex</u>	Indemnity	PPO	<u>Total</u>
	<u>Plan</u>	<u>Options</u>	
Female	117,283	284,899	402,182
Male	67,032	175,155	242,187
Total	184,315	460,054	644,369

<u>Percent Enrollment by Sex</u>	Indemnity	PPO	<u>Percent of Total</u>
	<u>Plan</u>	<u>Options</u>	
Female	63.6%	61.9%	62.4%
Male	36.4%	38.1%	37.6%
Total	100.0%	100.0%	100.0%

SOURCES OF DATA:

-Actuarial Note, Hartman & Associates, House Bill 2214 (1st Edition), June 3, 2008, original of which is on file in the General Assembly's Fiscal Research Division.

-Actuarial Note, Aon Consulting, House Bill 2214 (1st Edition) [Revised note], July 1, 2008, 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

FISCAL RESEARCH DIVISION: (919) 733-4910

PREPARED BY: Mark Trogon

APPROVED BY: Lynn Muchmore, Director
Fiscal Research Division

DATE: July 7, 2008



Signed Copy Located in the NCGA Principal Clerk's Offices