GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2009

Legislative Actuarial Note

HEALTH BENEFITS

BILL NUMBER: House Bill 1851 (First Edition)

SHORT TITLE: Amend State Purchases & Contracts Laws.

SPONSOR(S): Representatives Crawford and Cole

SYSTEM OR PROGRAM AFFECTED: State Health Plan for Teachers and State Employees (Plan).

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: Section 18 of the bill amends a portion of the Plan's governing statute under G.S. 135-43, entitled "Confidentiality of information and medical records; provider contracts". The proposed language requires the Plan's Executive Administrator and Board of Trustees to submit proposed contracts that exceed $1 million in value (see Section 16 of the bill) to the Attorney General or their designee for review. The language further requires any affected contract to include a standard clause which provides for the State Auditor and internal auditors for the Plan to audit contractor records and to verify accounts and data affecting fees charged to the Plan and to assess contractor performance. Lastly, the proposed bill prohibits the awarding of any contract on a cost-plus percentage basis.

EFFECTIVE DATE: October 1, 2010 for affected contracts proposed or awarded on or after that date.

ESTIMATED IMPACT ON STATE:

<u>Aon Consulting</u>, the consulting actuary for the State Health Plan for Teachers and State Employees, estimates that Section 18 of the bill's requirements will have not have a fiscal impact on the Plan.

<u>Hartman & Associates</u>, the consulting actuary for the General Assembly's Fiscal Research Division, estimates that Section 18 of the bill will have not an actuarial impact on the Plan, nor have any other cost impact to the Plan.

ASSUMPTIONS AND METHODOLOGY: The actuarial analyses used by each respective consulting actuary are on file with the Fiscal Research Division. Copies of each respective consulting actuary's analysis, including assumptions, are also attached to the original copy of this Legislative Actuarial note

<u>Note</u>: For HB 1851 (First Edition), each actuary's analysis was based on information provided by the Plan's staff evaluation of the potential administrative and legal impact to the Plan. The bill does not impact the Plan's level of claims expenditures or premium contributions received; thus, no actuarial estimate of impact was conducted.

Summary Information and Data about the Plan

The Plan administers health benefit coverage for active employees from employing units of State agencies and departments, universities, local public schools, and local community colleges. Eligible retired employees of authorized employing units may also access health benefit coverage under the Plan. Eligible dependents of active and retired employees are authorized to participate in the Plan provided they meet certain requirements. Employees and retired employees of selected local governments may also participate in the Plan under certain conditions. Members of fire, rescue squads, and the National Guard may also obtain coverage under the Plan provided they meet certain eligibility criteria.

As of July 1, 2009, the State finances the Plan on a self-funded basis and administers benefit coverage under a Preferred Provider Option (PPO) arrangement. The Plan's receipts are derived through premium contributions, investment earnings and other receipts. Premiums for health benefit coverage are paid by (1) employing agencies for active employees, (2) the Retiree Health Benefit Fund for retired employees, and (3) employees and retirees who elect dependent coverage. Total *revised* requirements for the Plan are estimated to be $2.55 billion for FY 2009-10 and $2.74 billion for FY 2010-11. The Plan's PPO benefit design includes two alternative benefit levels listed below:

1) The "Basic" 70/30 plan that offers higher out-of pocket requirements in return for lower fully contributory dependent premiums; and

2) The "Standard" 80/20 plan.

The Basic and Standard plans offer coverage to employees and retired employees on a noncontributory basis. Coverage for dependents under both plans is offered on a fully contributory basis.

Financial Condition

Revised Financial Projection 2009-11 Biennium – The following summarizes a revised financial projection by conducted by the Plan’s consulting actuary, Aon Consulting, for the 2009-11 biennium. The information is provided by fiscal year based on year-to-date financial experience (through March 2010) and other updated factors.

For the fiscal year beginning July 1, 2009, the Plan began its operations with a beginning cash balance of $189.9 million. Receipts for the year are projected to be $2.41 billion from net premium collections, $74.4 million from Medicare Part D subsidies, and $3.4 million from investment earnings for a total of approximately $2.49 billion in receipt income for the year. Projected disbursements from the Plan are expected to be $2.39 billion in net claim-payment expenses and $164.1 million in administration and claims-processing expenses for projected total expenses of nearly $2.55 billion for FY 2009-10. The Plan’s net operating loss is projected to be approximately $66.3 million for the fiscal year, assuming a 9% annual claims growth trend and an annual premium increase of 8.9% effective July 1, 2009.

For the fiscal year beginning July 1, 2010, the Plan is projected to begin its operations with a beginning cash balance of $123.6 million. Receipts for the year are projected to be $2.68 billion from net premium collections, $56.1 million from Medicare Part D subsidies, and $2.7 million from investment earnings for a total of approximately $2.73 billion in receipt income for the year. Projected disbursements from the Plan are expected to be $2.55 billion in net claim-payment expenses and $191.7 million in administration and claims-processing expenses for projected total expenses of nearly $2.74 billion for FY 2010-11. The Plan’s net operating loss is projected to be approximately $7.1 million for the fiscal year, assuming a 9% annual claims growth trend and an annual premium increase of 8.9% effective July 1, 2010.

Based on the revised financial projection (May 2010), the Plan's estimated ending cash balance on June 30, 2011 is projected to be $116.5 million. This amount is approximately $75.7 million less than the originally projected (April 2009) ending cash balance of $192.2 million.

Original Financial Projection 2009-11 Biennium (April 2009) – Session Law 2009-16 (Senate Bill 287) appropriated funds from various sources, authorized annual premium rate increases, made various benefit and provider related changes to achieve financial savings, and directed other various changes to the Plan. The enacted law also appropriated the sum of $250 million from the Savings Reserve Account ("Rainy Day Fund") of the General Fund for the 2008-09 fiscal year. The following summarizes the original financial projection by fiscal year for the 2009-11 biennium and assumes the changes enacted in Session Law 2009-16 (Senate Bill 287).

For the fiscal year beginning July 1, 2009, the Plan was projected to begin its operations with a beginning cash balance of $146.9 million. Receipts for the year were projected to be $2.4 billion from net premium collections, $56.3 million from Medicare Part D subsidies, and $8.0 million from investment earnings for a total of approximately $2.5 billion in receipt income for the year. Projected disbursements from the Plan were expected to be $2.3 billion in net claim-payment expenses and $185.6 million in administration and claims-processing expenses for projected total expenses of nearly $2.5 billion for FY 2009-10. The Plan's net operating income was projected to be approximately $14.8 million for the fiscal year, assuming a 9% annual claims growth trend and an annual premium increase of 8.9% effective July 1, 2009.

For the fiscal year beginning July 1, 2010, the Plan was projected to begin its operations with a beginning cash balance of $161.6 million. Receipts for the year were projected to be $2.7 billion from net premium collections, $50.4 million from Medicare Part D subsidies, and $8.8 million from investment earnings for a total of approximately $2.7 billion in receipt income for the year. Projected disbursements from the Plan were expected to be $2.5 billion in net claim-payment expenses and $191.7 million in administration and claims-processing expenses for projected total expenses of nearly $2.7 billion for FY 2010-11. The Plan's net operating income was projected to be approximately $30.6 million for the fiscal year, assuming a 9% annual claims growth trend and an annual premium increase of 8.9% effective July 1, 2010.

Other Information

Historically, the Plan has applied a premium increase in October of the first fiscal year of a biennium. However, the annual premium increases authorized in Session Law 2009-16 (Senate Bill 287) changes that methodology to an annual increase at the beginning of each fiscal year of the 2009-11 biennium.

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.

Enrollment as of December 31, 2009

I. No. of Participants	**Basic**	**Standard**	**Total**	**Percent of Total**
Actives				
Employees	13,830	307,541	321,371	48.6%
Dependents	24,593	135,563	160,156	24.2%
Sub-total	38,423	443,104	481,527	72.8%
Retired				
Employees	2,074	151,395	153,469	23.2%
Dependents	1,313	18,075	19,388	2.9%
Sub-total	3,387	169,470	172,857	26.1%
Former Employees with Continuation Coverage				
Employees	121	3,120	3,241	0.5%
Dependents	87	749	836	0.1%
Sub-total	208	3,869	4,077	0.6%
Firefighters, Rescue Squad & National Guard				
Employees	-	5	5	0.0%
Dependents	-	3	3	0.0%
Sub-total	-	8	8	0.0%
Local Governments				
Employees	91	1,829	1,920	0.3%
Dependents	174	777	951	0.1%
Sub-total	265	2,606	2,871	0.4%
Total				
Employees	16,116	463,885	480,001	72.6%
Dependents	26,167	155,164	181,331	27.4%
Grand Total	**42,283**	**619,049**	**661,332**	**100%**
Percent of Total	**6.4%**	**93.6%**	**100.0%**	

II. Enrollment by Contract	Basic	Standard	Total
Employee Only	3,252	378,539	381,791
Employee Child(ren)	6,026	43,820	49,846
Employee Spouse	2,550	21,785	24,335
Employee Family	4,288	19,741	24,029
Total	**16,116**	**463,885**	**480,001**

Percent Enrollment by Contract	Basic	Standard	Total
Employee Only	20.2%	81.6%	79.5%
Employee Child(ren)	37.4%	9.4%	10.4%
Employee Spouse	15.8%	4.7%	5.1%
Employee Family	26.6%	4.3%	5.0%
Total	**100.0%**	**100.0%**	**100.0%**

III. Enrollment by Sex	Basic	Standard	Total
Female	22,479	390,209	412,688
Male	19,804	228,840	248,644
Total	**42,283**	**619,049**	**661,332**

Percent Enrollment by Sex	Basic	Standard	Total
Female	53.2%	63.0%	62.4%
Male	46.8%	37.0%	37.6%
Total	**100.0%**	**100.0%**	**100.0%**

IV. Enrollment by Age	Basic	Standard	Total
19 & Under	17,315	95,431	112,746
20 to 29	3,311	57,142	60,453
30 to 44	9,555	120,292	129,847
45 to 54	6,455	108,447	114,902
55 to 64	4,090	128,933	133,023
65 & Over	1,557	108,804	110,361
Total	**42,283**	**619,049**	**661,332**

Percent Enrollment by Age	Basic	Standard	Total
19 & Under	41.0%	15.4%	17.0%
20 to 29	7.8%	9.2%	9.1%
30 to 44	22.6%	19.4%	19.6%
45 to 54	15.3%	17.5%	17.4%
55 to 64	9.7%	20.8%	20.1%
65 & Over	3.7%	17.6%	16.7%
Total	**100.0%**	**100.0%**	**100.0%**

V.	Retiree Enrollment by Category	Employee	Dependents	Total
	Non-Medicare Eligible	51,747	11,879	63,626
	Medicare Eligible	101,722	7,509	109,231
	Total	**153,469**	**19,388**	**172,857**

VI.	Enrollment By Major Employer Groups	Employees	Dependents	Total
	State Agencies	75,367	34,645	110,012
	UNC System	50,106	29,726	79,832
	Local Public Schools	181,270	88,258	269,528
	Local Community Colleges	14,623	7,524	22,147
	Other			
	Local Goverments	1,920	951	2,871
	COBRA	3,241	836	4,077
	Nat. Guard, Fire & Rescue	5	3	8
	Sub-total	5,166	1,790	6,956
	Retirement System	153,469	19,388	172,857
	Total	**480,001**	**181,331**	**661,332**

Percent Enrollment by Major Employer Groups	Employees	Dependents	Total
State Agencies	15.7%	19.1%	16.6%
UNC System	10.4%	16.4%	12.1%
Local Public Schools	37.8%	48.7%	40.8%
Local Community Colleges	3.0%	4.1%	3.3%
Other			
Local Goverments	0.4%	0.5%	0.4%
COBRA	0.7%	0.5%	0.6%
Nat. Guard, Fire & Rescue	0.0%	0.0%	0.0%
Sub-total	1.1%	1.0%	1.1%
Retirement System	32.0%	10.7%	26.1%
Total	100.0%	100.0%	100.0%

SOURCES OF DATA:

-Actuarial Note, Hartman & Associates, "House Bill (Section 18): Contracting Requirements Under the State Health Plan", June 3, 2010, original of which is on file in the General Assembly's Fiscal Research Division.

-Actuarial Note, Aon Consulting, "House Bill 1851 Amend State Purchases & Contracts Laws", June 4, 2010, original of which is on file with the State Health Plan for Teachers and State Employees and the General Assembly's Fiscal Research Division.

FISCAL RESEARCH DIVISION: (919) 733-4910

PREPARED BY: Mark Trogdon

APPROVED BY: Marilyn Chism, Director
Fiscal Research Division

DATE: June 9, 2010

Signed Copy Located in the NCGA Principal Clerk's Offices