

GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2013

Legislative Actuarial Note

BILL NUMBER: Senate Bill 105 (Fourth Edition)

SHORT TITLE: Add Towns to SHP.

SPONSOR(S):

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: The Fourth Edition allows the towns of Matthews and Elizabethtown to enroll their employees and dependents in the Plan under the following conditions:

- Each town must enter into a memorandum of understanding with the Plan at least 60 days prior to joining.
- Each town and enrolling employee must meet the federal requirements to participate in a governmental plan.
- Each town shall determine the eligibility of its employees and their dependents and what portion of premiums the employees will pay.
- The total premiums paid to the Plan will be the same as the fully contributory premiums for State employees.
- The Plan may charge 1.5% interest per month for late payment of premiums.

EFFECTIVE DATE: The Fourth Edition is effective when it becomes law.

ESTIMATED IMPACT ON STATE:

Elizabethtown

The Segal Company, the actuary for the Plan, estimates the following net financial impact on the Plan due to adding Elizabethtown:

Fiscal Year:	FY 2014-15	FY 2015-16	FY 2016-17
Net Financial Impact:	\$52,000	\$74,000	\$79,000

The Segal Company based its estimates on Elizabethtown's existing premiums and plan design and a 150% assumption for adverse selection, i.e. that towns will typically seek to join the Plan when their costs are anticipated to increase.

Hartman & Associates, the actuary for the General Assembly, estimates that the overall impact of adding Elizabethtown will not be material to the Plan. Hartman & Associates noted that the premiums the town is currently paying for similar coverage are quite a bit lower than the average premium they would pay under the Plan. The town is not allowed to continue coverage at the current premiums because under the federal Affordable Care Act, premiums for small employers can no longer reflect positive (or negative) experience of the group for plan years starting in 2014.

Matthews

The Segal Company estimates the following net financial impact on the Plan due to adding Matthews:

Fiscal Year:	FY 2014-15	FY 2015-16	FY 2016-17
Net Financial Impact:	\$154,000	\$219,000	\$235,000

The Segal Company based its estimates on the demographic structure of the employee group and the assumptions of adverse selection discussed above.

Hartman & Associates estimates a net financial impact on the Plan due to adding Matthews of \$80,000 to \$250,000 per year. Hartman & Associates noted that current premiums indicate a high cost group.

Other Comments on Impact

The additional cost impact of the bill would be expected to impact total claims growth by less than one hundredth of a percent (0.01%) for the 2014-2015 fiscal year. Because the bill does not provide coverage to retirees of either town, it does not impact the State’s liability for Other Post-Employment Benefits (OPEB).

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.

Data Submitted by Elizabethtown: The Segal Company and Hartman & Associates based their respective analyses in part on a Distribution of Participants schedule submitted by the town. The schedule below reflects the age and sex demographic data for employees and dependents of the town. Complete claims experience data is typically not available for an employer of this size. However, the town did note that the total premiums for its current coverage range from \$367 per month for employee-only coverage to \$1,372 for family coverage and provided details on the benefits in its current program, which include:

- Co-pays of \$25 for primary care providers and \$50 for specialists (preventive care is free)
- In-network deductibles of \$1,000 for an individual and \$2,000 for a family
- 80% coinsurance for most in-network inpatient and outpatient services up to a maximum of \$2,000 for an individual or \$4,000 for a family
- Prescription drug co-pays for a 30-day supply of \$10 for generics and \$35 for preferred brands

Distribution of Participants - Elizabethtown						
<u>Ages</u>	<u>Active Employees</u>			<u>Dependents of Active Employees</u>		
	<u>Male</u>	<u>Female</u>	<u>Total</u>	<u>Male</u>	<u>Female</u>	<u>Total</u>
0-4			0	3	1	4
5-9			0		1	1
10-14			0	2	3	5
15-19			0		1	1
20-24	6		6		1	1
25-29	3		3			0
30-34	4		4			0
35-39	8	1	9			0
40-44	4		4			0
45-49	2		2			0
50-54	5	3	8	1	2	3
55-59	1		1		1	1
60-64	2	2	4			0
65-69	1		1			0
70-74			0			0
75-79			0			0
>79			0			0
Unknown			0			0
TOTAL	36	6	42	6	10	16

Data Submitted by Matthews: The Segal Company and Hartman & Associates based their respective analyses in part on a Distribution of Participants schedule submitted by the town. The schedule below reflects the age and sex demographic data for employees and dependents of the town.

Distribution of Current Participants - Matthews						
<u>Ages</u>	<u>Active Employees</u>			<u>Dependents of Active Employees</u>		
	<u>Male</u>	<u>Female</u>	<u>Total</u>	<u>Male</u>	<u>Female</u>	<u>Total</u>
0-4			0	5	2	7
5-9			0	5	1	6
10-14			0	9	10	19
15-19			0	7	6	13
20-24	3	3	6	1	3	4
25-29	11	1	12			0
30-34	9	4	13			0
35-39	12	3	15			0
40-44	23	5	28			0
45-49	21	3	24			0
50-54	8	7	15			0
55-59	6	4	10			0
60-64	7	3	10			0
65-69	0		0			0
70-74			0			0
75-79			0			0
>79			0			0
Unknown			0			0
TOTAL	100	33	133	27	22	49

Hartman & Associates also based its analysis on the premiums and plan provisions of the coverage currently offered by the town. While the town offers two plans, the vast majority of employees choose the Blue Options HSA plan. Total premiums under that plan are \$455 per month for employee-only coverage, \$602 per month for employee-child coverage and \$838 per month for employee-children coverage. The major benefit provisions include in-network deductibles of \$2,700 for an individual and \$5,450 for a family. The deductibles apply to all goods and services covered by the plan and 100% of costs are covered after the deductible is met.

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 and charter schools 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.

The State finances the Plan on a self-funded basis and administers benefit coverage under a Preferred Provider Option (PPO) arrangement, with the exception of many Medicare-eligible retirees who are in fully-insured Medicare Advantage plans. 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 participate in a plan with a non-zero premium or who elect dependent coverage. Starting in 2014, benefit and premium changes are typically effective at January 1. The Plan's PPO benefit design includes three alternative benefit levels listed below:

- 1) The "Traditional" 70/30 plan that offers higher out-of-pocket requirements in return for lower employee and retiree premiums without needing to complete wellness activities,
- 2) The "Enhanced" 80/20 plan that offers lower out-of-pocket requirements with higher employee and retiree premiums, which can be lowered by completing wellness activities, and
- 3) The Consumer-Directed Health Plan (CDHP) that applies deductibles and co-insurance to all services and offers lower employee and retiree premiums if one completes wellness activities

Medicare-eligible retirees are offered three alternative plans:

- 1) The "Traditional" 70/30 plan as coverage secondary to Medicare for medical services plus a pharmacy benefit plan,
- 2) "Base" Medicare Advantage Prescription Drug Plans (MA-PDPs) from a choice of two carriers, Humana or United Healthcare, that are actuarially equivalent to the "Enhanced" 80/20 Plan and apply in-network out-of-pocket requirements at out-of-network providers
- 3) "Enhanced" MA-PDPs, identical to the "Base" MA-PDPs, except with lower co-pays and higher retiree premiums

The following tables provide a summary of the most common monthly premium rates for the Plan in 2014:

Active Employees and Non-Medicare Retirees

Wellness Plans

	Employer Share	Employee/Retiree Share	
		Complete All Wellness Activities *	Complete No Wellness Activities
Enhanced 80/20 Plan	\$448.11	\$13.56	\$63.56
Consumer-Directed Health Plan	\$448.11	\$0.00	\$40.00

Alternate Plan

	Employer Share	Employee/Retiree Share
Traditional 70/30 Plan	\$448.11	\$0.00

* Members receive credits for each activity. We have shown all or none for simplicity.

Medicare Retirees

Medicare Advantage Plans

	Employer Share	Employee/Retiree Share
MA-PDP Base Plan	\$348.25	\$0.00
MA-PDP Enhanced Plan	\$348.25	\$33.00

Alternate Plan

	Employer Share	Employee/Retiree Share
Traditional 70/30 Plan	\$348.25	\$0.00

Dependents

	All Dependents are Non-Medicare			One or More Medicare Dependents		
	Enhanced 80/20	CDHP	Traditional 70/30	MA-PDP Base	MA-PDP Enhanced	Traditional 70/30
Employee/Retiree + Children	\$272.80	\$184.60	\$205.12	\$114.50	\$147.50	\$145.94
Employee/Retiree + Spouse	\$628.54	\$475.68	\$528.52	\$114.50	\$147.50	\$383.72
Employee/Retiree + Family	\$666.38	\$506.64	\$562.94	\$229.00	\$295.00	\$418.10

The employer share of premiums for retirees is paid from the Retiree Health Benefit Fund. During FY 2013-14, employers contribute 5.40% of active employee payroll into the Fund. Total contributions for the year are projected to be approximately \$834 million.

Financial Condition

Projected Results for CY 2014 and CY 2015 – The following summarizes projected financial results for 2014 and 2015, based on financial experience through December, 2013 and enrollments for January, 2014. The projection assumes an 8.5% annual claims growth trend, benefit provisions and member-paid premiums as currently adopted by the Board, and assumed premium increases in 2015 based on the maximum annual employer premium for FY 2014-15.

	(\$ millions)	
	Projected CY 2014	Projected CY 2015
Beginning Cash Balance	\$838.4	\$819.9
Receipts:		
Net Premium Collections	\$2,910.7	\$2,996.6
Medicare Part D / EGWP Subsidies	\$36.0	\$38.0
Investment Earnings	\$3.3	\$3.1
Total	\$2,950.0	\$3,037.8
Disbursements:		
Net Medical Claim Payment Expenses	\$1,982.2	\$2,124.5
Net Pharmacy Claim Payment Expenses	\$640.2	\$635.3
Medicare Advantage Premiums	\$157.8	\$196.9
Administration and Claims-Processing Expenses	\$188.4	\$214.4
Total	\$2,968.6	\$3,171.2
Net Operating Income (Loss)	(\$18.6)	(\$133.4)

Of the premiums paid in CY 2014, an estimated \$2.0 billion is derived from General Fund sources and an estimated \$0.1 billion is derived from Highway Fund sources.

Other Information

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, fraud detection, and other authorized actions by the State Treasurer, 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 8.5% annually according to the Plan's consulting actuary. The active population is projected to decline by 1% per year and the retired population is projected to increase by 1% per year.

Enrollment as of January 1, 2014

I. No. of Participants	Traditional 70/30	Enhanced 80/20	Consumer Directed	Medicare Advantage	Total	Percent of Total
<u>Actives</u>						
Employees	145,741	160,388	8,432	-	314,561	46.5%
Dependents	81,434	69,832	8,581	-	159,847	23.6%
Sub-total	227,175	230,220	17,013	-	474,408	70.1%
<u>Retired</u>						
Employees	53,590	30,249	791	96,532	181,162	26.8%
Dependents	6,329	3,884	299	6,851	17,363	2.6%
Sub-total	59,919	34,133	1,090	103,383	198,525	29.3%
<u>Other</u>						
Employees	1,326	1,448	35	-	2,809	0.4%
Dependents	830	510	35	-	1,375	0.2%
Sub-total	2,156	1,958	70	-	4,184	0.6%
<u>Total</u>						
Employees	200,657	192,085	9,258	96,532	498,532	73.6%
Dependents	88,593	74,226	8,915	6,851	178,585	26.4%
Grand Total	289,250	266,311	18,173	103,383	677,117	100%
Percent of Total	42.7%	39.3%	2.7%	15.3%	100.0%	
II. Enrollment by Contract						
	Traditional	Enhanced	CDHP	MA	Total	
Employee Only	154,239	153,049	5,041	96,532	408,861	
Employee Child(ren)	27,169	24,228	2,077	195	53,669	
Employee Spouse	6,685	5,630	567	6,656	19,538	
Employee Family	11,079	8,407	1,499			
Other (e.g. Split Contract)	1,485	771	74		2,330	
Total	200,657	192,085	9,258	103,383	484,398	
Percent Enrollment by Contract						
	Traditional	Enhanced	CDHP	MA	Total	
Employee Only	76.9%	79.7%	54.5%	93.4%	84.4%	
Employee Child(ren)	13.5%	12.6%	22.4%	0.2%	11.1%	
Employee Spouse	3.3%	2.9%	6.1%	6.4%	4.0%	
Employee Family	5.5%	4.4%	16.2%	0.0%	0.0%	
Other (e.g. Split Contract)	0.7%	0.4%	0.8%	0.0%	0.5%	
Total	100.0%	100.0%	100.0%	100.0%	100.0%	
III. Enrollment by Sex						
	Traditional	Enhanced	CDHP	MA	Total	
Female	170,705	174,259	10,133	67,923	423,020	
Male	118,545	92,052	8,040	35,460	254,097	
Total	289,250	266,311	18,173	103,383	677,117	
Percent Enrollment by Sex						
	Traditional	Enhanced	CDHP	MA	Total	
Female	59.0%	65.4%	55.8%	65.7%	62.5%	
Male	41.0%	34.6%	44.2%	34.3%	37.5%	
Total	100.0%	100.0%	100.0%	100.0%	100.0%	

IV. Enrollment by Age	Traditional	Enhanced	CDHP	MA	Total
24 & Under	76,689	61,793	6,901	14	145,397
25 to 44	80,007	70,332	5,155	344	155,838
45 to 54	49,210	53,187	3,236	1,328	106,961
55 to 64	50,478	74,807	2,712	1,821	129,818
65 & Over	32,866	6,192	169	99,876	139,103
Total	289,250	266,311	18,173	103,383	677,117

Percent Enrollment by Age	Traditional	Enhanced	CDHP	MA	Total
24 & Under	26.5%	23.2%	38.0%	0.0%	21.5%
25 to 44	27.7%	26.4%	28.4%	0.3%	23.0%
45 to 54	17.0%	20.0%	17.8%	1.3%	15.8%
55 to 64	17.5%	28.1%	14.9%	1.8%	19.2%
65 & Over	11.4%	2.3%	0.9%	96.6%	20.5%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

V. Retiree Enrollment by Category	Employee	Dependents	Total
Non-Medicare Eligible	54,826	9,292	64,118
Medicare Eligible in Traditional 70/30	29,803	1,220	31,023
Medicare Eligible in Base Medicare Advantage Plans	62,843	2,633	65,476
Medicare Eligible in Enhanced Medicare Advantage Plans	33,689	4,218	37,907
Total	181,161	17,363	198,524

Percent Enrollment by Category (Retiree)	Employee	Dependents	Total
Non-Medicare Eligible	30.3%	53.5%	32.3%
Medicare Eligible in Traditional 70/30	16.5%	7.0%	15.6%
Medicare Eligible in Base Medicare Advantage Plans	34.7%	15.2%	33.0%
Medicare Eligible in Enhanced Medicare Advantage Plans	18.6%	24.3%	19.1%
Total	100.0%	100.0%	100.0%

VI. Enrollment By Major Employer Groups	Employees	Dependents	Total
State Agencies	70,922	32,938	103,860
UNC System	51,237	31,643	82,880
Local Public Schools	173,477	85,054	258,531
Charter Schools	3,056	1,766	4,822
Local Community Colleges	15,869	8,446	24,315
Other			
Local Governments	1,887	965	2,852
COBRA/Reduction in Force	917	405	1,322
Nat. Guard, Fire & Rescue	6	4	10
Sub-total	317,371	161,221	478,592
Retirement System	181,162	17,363	198,525
Total	498,533	178,584	677,117

Percent Enrollment by Major Employer Groups	Employees	Dependents	Total
State Agencies	14.2%	18.4%	15.3%
UNC System	10.3%	17.7%	12.2%
Local Public Schools	34.8%	47.6%	38.2%
Charter Schools	0.6%	1.0%	0.7%
Local Community Colleges	3.2%	4.7%	3.6%
Other			
Local Governments	0.4%	0.5%	0.4%
COBRA/Reduction in Force	0.2%	0.2%	0.2%
Nat. Guard, Fire & Rescue	0.0%	0.0%	0.0%
Sub-total	63.7%	90.3%	70.7%
Retirement System	36.3%	9.7%	29.3%
Total	100.0%	100.0%	100.0%

SOURCES OF DATA:

The Segal Company; North Carolina State Health Plan; Financial Projections – Dec 2013; March 20, 2014. Filename “NCSHP Q2 Financial Update - Baseline Modified Jan Enrollment Estiamte Adj Reserve.pdf”

-Actuarial Note, Hartman & Associates, “Proposed Committee Substitute to Senate Bill 105, Section 2: An Act to Authorize the Town of Matthews to Enroll Its Employees and Dependents in the State Health Plan”, June 26, 2014, original of which is on file in the General Assembly’s Fiscal Research Division.

-Actuarial Note, Hartman & Associates, “Proposed Committee Substitute: An Act to Authorize the Town of Elizabethtown to Enroll Its Employees, Retirees, and Dependents in the Teachers’ and State Employees’ Comprehensive Major Medical Plan”, June 24, 2014, original of which is on file in the General Assembly’s Fiscal Research Division.

-Actuarial Note, The Segal Company, “Proposed House Committee Substitute S105-CSSV-56 [v.1] Political Signs/Add Towns to SHP”, June 26, 2014, original of which is on file with the State Health Plan for Teachers and State Employees and the General Assembly’s Fiscal Research Division.

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