



NORTH CAROLINA GENERAL ASSEMBLY

Session 2019

Legislative Actuarial Note

Health Benefits

Short Title: Purchase Opt/Credit for Prior Year FT Service.
Bill Number: Proposed Committee Substitute to House Bill 777 (H777-CSTVxfp-34 [v.6])
Sponsor(s): Representatives Belk, Gill, Hurley, and Martin

SUMMARY TABLE

ACTUARIAL IMPACT OF H777-CSTVxfp-34 [v.6] (\$ in thousands)

| | <u>FY 2019-20</u> | <u>FY 2020-21</u> | <u>FY 2021-22</u> | <u>FY 2022-23</u> | <u>FY 2023-24</u> |
|----------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| State Impact | | | | | |
| State Health Plan Net Loss | - | - | - | - | - |
| NET STATE IMPACT | - | - | - | - | - |

ACTUARIAL IMPACT SUMMARY

Sections 10 and 22 have potential actuarial impacts on the State Health Plan (Plan).

Section 10: Specifies that the Plan is not required to enroll individual firefighters, rescue squad workers, and members of the National Guard if their enrollment may jeopardize the Plan's tax exempt status as a governmental plan. The Segal Company, the consulting actuary for the Plan, and Hartman & Associates, the consulting actuary for the General Assembly, both estimate that this section will have negligible financial impact on the Plan.

Section 22: Confirms that local government participation in the Plan is irrevocable. Both actuaries estimate that this section will have negligible financial impact on 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.

Summary Information and Data about the State Health Plan (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.

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. Benefit and premium changes are typically effective at January 1. The Plan's PPO benefit design includes two alternative benefit levels listed below:

- 1) The 70/30 Plan that offers higher out-of-pocket requirements in return for lower employee and retiree premiums, and
- 2) The 80/20 Plan that offers lower out-of-pocket requirements with higher employee and retiree premiums.

Medicare-eligible retirees are offered three alternative plans:

- 1) The 70/30 Plan as coverage secondary to Medicare for medical services plus a pharmacy benefit plan,
- 2) "Base" Medicare Advantage Prescription Drug Plan (MA-PDP) from United Healthcare, that is actuarially equivalent to the 80/20 Plan and applies in-network out-of-pocket requirements at out-of-network providers
- 3) "Enhanced" MA-PDP, identical to the "Base" MA-PDP, 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 2019:

Active Employees and Non-Medicare Retirees (if Fully Subsidized)

| | Employer Share | Employee/Retiree Share | |
|------------|----------------|------------------------------|-----------------------------|
| | | Complete Tobacco Attestation | Do Not Complete Attestation |
| 70/30 Plan | \$519 | \$25 * | \$85 * |
| 80/20 Plan | \$159 | \$50 | \$110 |

* \$0 for Non-Medicare Retirees



Medicare Retirees (if Fully Subsidized)

Medicare Advantage Plans

| | Employer Share | Employee/Retiree Share |
|----------------------|----------------|------------------------|
| MA-PDP Base Plan | \$403 | \$0 |
| MA-PDP Enhanced Plan | \$403 | \$63 |

Alternate Plan

| | Employer Share | Employee/Retiree Share |
|------------------------|----------------|------------------------|
| Traditional 70/30 Plan | \$403 | \$0 |

Dependents (paid by employee/retiree in addition to premiums above)

| | All Dependents are Non-Medicare | | One or More Medicare Dependents | | |
|-----------------------------|---------------------------------|------------|---------------------------------|-----------------|------------|
| | 70/30 Plan | 80/20 Plan | MA-PDP Base | MA-PDP Enhanced | 70/30 Plan |
| Employee/Retiree + Children | \$193 | \$255 | \$89 | \$152 | \$155 |
| Employee/Retiree + Spouse | \$565 | \$650 | \$89 | \$152 | \$425 |
| Employee/Retiree + Family | \$573 | \$670 | \$178 | \$304 | \$444 |

The employer share of premiums for retirees is paid from the Retiree Health Benefit Fund. During FY 2018-19, employers contribute 6.27% of active employee payroll into the Fund. Total contributions for the year are projected to be approximately \$1,096 million.

Financial Condition

Projected Results for CY 2019 and CY 2020 – The following summarizes projected financial results for 2019 and 2020, based on financial experience through September 2018. The projection assumes a 7.0% annual claims growth trend for medical claims, a 9.5% trend for pharmacy claims, benefit provisions and member-paid premiums as adopted by the Board for 2019, Medicare-based provider pricing beginning in 2020, and 4% employer premium increases in 2020.



| | (\$ millions) | |
|---|----------------------|----------------------|
| | Projected CY 2019 | Projected CY 2020 |
| Beginning Cash Balance | \$1,056.7 | \$1,079.0 |
| Receipts: | | |
| Net Premium Collections | \$3,690.6 | \$3,841.9 |
| Medicare Subsidies | \$10.3 | \$10.4 |
| Investment Earnings | \$9.3 | \$9.4 |
| Total | \$3,710.1 | \$3,861.7 |
| Disbursements: | | |
| Net Medical Claim Payment Expenses | \$2,533.7 | \$2,530.9 |
| Net Pharmacy Claim Payment Expenses | \$767.7 | \$842.9 |
| Medicare Advantage Premiums | \$171.4 | \$239.2 |
| Administration and Claims-Processing Expenses | \$215.0 | \$207.1 |
| Total | \$3,687.8 | \$3,820.1 |
| Net Operating Income (Loss) | \$22.3 | \$41.6 |

Of the premiums paid in CY 2019, an estimated \$2.4 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 in 2019 and Medicare-based pricing in 2020 and beyond, 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. Medical claim costs are expected to increase at a rate of 7.0% annually and pharmacy claim costs are expected to increase at a rate of 9.5% annually according to assumptions adopted by the Board of Trustees. The active population is projected to remain unchanged, the pre-Medicare retiree population is projected to decrease by 1% per year and the Medicare-eligible retiree population is projected to increase by 3% per year.

Enrollment as of January 1, 2019

| | | Traditional 70/30 | Enhanced 80/20 | Medicare Advantage | Total | Percent of Total |
|---------------------------------------|--|----------------------|-------------------|-----------------------|----------------|------------------------|
| I. No. of Participants | | | | | | |
| <u>Actives</u> | | | | | | |
| Employees | | 112,490 | 192,987 | - | 305,477 | 41.6% |
| Dependents | | 77,656 | 99,369 | - | 177,025 | 24.1% |
| Sub-total | | 190,146 | 292,356 | - | 482,502 | 65.8% |
| <u>Retired</u> | | | | | | |
| Employees | | 44,013 | 23,411 | 140,834 | 208,258 | 28.4% |
| Dependents | | 7,674 | 5,346 | 11,855 | 24,875 | 3.4% |
| Sub-total | | 51,687 | 28,757 | 152,689 | 233,133 | 31.8% |
| <u>Other</u> | | | | | | |
| Employees | | 3,670 | 8,195 | - | 11,865 | 1.6% |
| Dependents | | 2,327 | 3,704 | - | 6,031 | 0.8% |
| Sub-total | | 5,997 | 11,899 | - | 17,896 | 2.4% |
| <u>Total</u> | | | | | | |
| Employees | | 160,173 | 224,593 | 140,834 | 525,600 | 71.7% |
| Dependents | | 87,657 | 108,419 | 11,855 | 207,931 | 28.3% |
| Grand Total | | 247,830 | 333,012 | 152,689 | 733,531 | 100% |
| Percent of Total | | 33.8% | 45.4% | 20.8% | 100.0% | |
| II. Enrollment by Contract | | | | | | |
| | | Traditional | Enhanced | MA | Total | |
| Employee Only | | 118,022 | 170,537 | 128,979 | 417,538 | |
| Employee Child(ren) | | 25,632 | 35,239 | 215 | 61,086 | |
| Employee Spouse | | 4,913 | 6,366 | 11,640 | 22,919 | |
| Employee Family | | 11,606 | 12,451 | | 24,057 | |
| Total | | 160,173 | 224,593 | 140,834 | 525,600 | |
| Percent Enrollment by Contract | | | | | | |
| | | Traditional | Enhanced | MA | Total | |
| Employee Only | | 73.7% | 75.9% | 91.6% | 79.4% | |
| Employee Child(ren) | | 16.0% | 15.7% | 0.2% | 11.6% | |
| Employee Spouse | | 3.1% | 2.8% | 8.3% | 4.4% | |
| Employee Family | | 7.2% | 5.5% | 0.0% | 4.6% | |
| Total | | 100.0% | 100.0% | 100.0% | 100.0% | |
| III. Enrollment by Sex | | | | | | |
| | | Traditional | Enhanced | MA | Total | |
| Female | | 141,753 | 212,564 | 101,689 | 456,006 | |
| Male | | 106,077 | 120,448 | 51,000 | 277,525 | |
| Total | | 247,830 | 333,012 | 152,689 | 733,531 | |
| Percent Enrollment by Sex | | | | | | |
| | | Traditional | Enhanced | MA | Total | |
| Female | | 57.2% | 63.8% | 66.6% | 62.2% | |
| Male | | 42.8% | 36.2% | 33.4% | 37.8% | |
| Total | | 100.0% | 100.0% | 100.0% | 100.0% | |



| | | | | | | |
|--------------------------|--|---|-----------|------------|------------|-------|
| IV. | Enrollment by Age | Traditional | Enhanced | MA | Total | |
| | 25 & Under | 74,779 | 94,476 | 15 | 169,270 | |
| | 26 to 45 | 64,448 | 92,523 | 294 | 157,265 | |
| | 46 to 55 | 42,687 | 68,051 | 1,182 | 111,920 | |
| | 56 to 65 | 44,009 | 71,768 | 13,155 | 128,932 | |
| | 66 & Over | 21,907 | 6,194 | 138,043 | 166,144 | |
| | Total | 247,830 | 333,012 | 152,689 | 733,531 | |
| | | | | | | |
| | Percent Enrollment by Age | Traditional | Enhanced | MA | Total | |
| | 25 & Under | 30.2% | 28.4% | 0.0% | 23.1% | |
| | 26 to 45 | 26.0% | 27.8% | 0.2% | 21.4% | |
| | 46 to 55 | 17.2% | 20.4% | 0.8% | 15.3% | |
| | 56 to 65 | 17.8% | 21.6% | 8.6% | 17.6% | |
| | 66 & Over | 8.8% | 1.9% | 90.4% | 22.6% | |
| | Total | 100.0% | 100.0% | 100.0% | 100.0% | |
| | | | | | | |
| V. | Retiree Enrollment by Category | | Employee | Dependents | Total | |
| | Non-Medicare Eligible | | 45,030 | 12,353 | 57,383 | |
| | Medicare Eligible in Traditional 70/30 | | 22,394 | 667 | 23,061 | |
| | Medicare Eligible in Base MA Plan | | 121,521 | 9,094 | 130,615 | |
| | Medicare Eligible in Enhanced MA Plan | | 19,313 | 2,761 | 22,074 | |
| | Total | | 208,258 | 24,875 | 233,133 | |
| | | | | | | |
| | Percent Enrollment by Category (Retiree) | | Employee | Dependents | Total | |
| | Non-Medicare Eligible | | 21.6% | 49.7% | 24.6% | |
| | Medicare Eligible in Traditional 70/30 | | 10.8% | 2.7% | 9.9% | |
| | Medicare Eligible in Base MA Plan | | 58.4% | 36.6% | 56.0% | |
| | Medicare Eligible in Enhanced MA Plan | | 9.3% | 11.1% | 9.5% | |
| | Total | | 100.0% | 100.0% | 100.0% | |
| | | | | | | |
| VI. | Enrollment By Major Employer Groups | | Employees | Dependents | Total | |
| | State Agencies | | 65,979 | 32,602 | 98,581 | |
| | UNC System | | 54,857 | 36,678 | 91,535 | |
| | Local Public Schools | | 164,529 | 95,091 | 259,620 | |
| | Charter Schools (94 entities) | | 4,875 | 3,356 | 8,231 | |
| | Local Community Colleges | | 15,237 | 9,298 | 24,535 | |
| | Other | | | | | |
| | Local Goverments (129 entities) | | 11,040 | 5,380 | 16,420 | |
| | COBRA | | 825 | 651 | 1,476 | |
| | Retirement System | | 208,258 | 24,875 | 233,133 | |
| | Total | | 525,600 | 207,931 | 733,531 | |
| | | | | | | |
| | | Percent Enrollment by Major Employer Groups | | Employees | Dependents | Total |
| | | State Agencies | | 12.6% | 15.7% | 13.4% |
| UNC System | | | 10.4% | 17.6% | 12.5% | |
| Local Public Schools | | | 31.3% | 45.7% | 35.4% | |
| Charter Schools | | | 0.9% | 1.6% | 1.1% | |
| Local Community Colleges | | | 2.9% | 4.5% | 3.3% | |
| Other | | | | | | |
| Local Goverments | | | 2.1% | 2.6% | 2.2% | |
| COBRA | | | 0.2% | 0.3% | 0.2% | |
| Retirement System | | | 39.6% | 12.0% | 31.8% | |
| Total | | | 100.0% | 100.0% | 100.0% | |

TECHNICAL CONSIDERATIONS

N/A.

DATA SOURCES

The Segal Company; baseline financial projections updated through Q3 CY2018; dated January 9, 2019. Filename "CY18 Q3 - Baseline - Final v2.pdf"

-Actuarial Note, Hartman & Associates, "Senate Bill 488: An Act to Require Stress Testing for TSERS, to Make Amendments Relating to the Pension Solvency Fund, and to Make Technical Corrections to Various Retirement Plans and the SHP", April 11, 2019, original of which is on file in the General Assembly's Fiscal Research Division.

-Actuarial Note, The Segal Company, House Bill 214, "Retirement Technical Corrections Act of 2019-AB", March 6, 2019, original of which is on file with the State Health Plan for Teachers and State Employees and the General Assembly's Fiscal Research Division.

LEGISLATIVE ACTUARIAL NOTE – PURPOSE AND LIMITATIONS

This document is an official actuarial analysis prepared pursuant to Chapter 120 of the General Statutes and rules adopted by the Senate and House of Representatives. The estimates in this analysis are based on the data, assumptions, and methodology described above. This document only addresses sections of the bill that have projected direct actuarial impacts on State employee health benefit programs and does not address sections that have no projected actuarial impacts.

CONTACT INFORMATION

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