

**NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE ACTUARIAL NOTE**

BILL NUMBER: House Bill 208, Second Edition, Sections 1, 3 & 4

SHORT TITLE: Managed Care/Health Benefits Clarifying-AB.

SPONSOR(S): Rep. Wright

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

BILL SUMMARY: The bill amends the State's insurance laws on prompt payment by health benefit plans to provide that:(1) a claimant with an insurer can be an insured as well as a provider of health care services; (2) an insurer is to send notice to a claimant within 15 calendar days after receipt of a claim when proof of loss is inadequate or incomplete, when a claim is not submitted in the proper format, when coordination of benefits information is needed, and when a claim is pending receipt of premiums or fees; and (3) the time limits specified in the law are calendar days.

The bill also amends the State's uniform provider credentialing insurance laws for health plans to require health care practitioners to be licensed practitioners and not applicants for a license. The State's insurance laws on health plan grievance procedures is also amended to stipulate that no person serving on a second-level grievance review panel is to have been previously involved in the grievance nor have a financial interest in the outcome of the review.

The Teachers' and State Employees' Comprehensive Major Medical Plan has been subject to G. S. 58-3-225 since January 1, 2002. The Plan has also been subject to the provisions of G. S. 58-60-62 since July 1, 2002.

EFFECTIVE DATE: Section 1(c) of the bill becomes effective January 1, 2004. The remainder of the bill is effective when it becomes law.

ESTIMATED IMPACT ON STATE: Aon Consulting, consulting actuary for the Plan, states that the cost of the bill upon the Plan is indeterminable since the Plan's claims processing contractor, Blue Cross and Blue Shield of North Carolina, has not provided the Plan with a cost estimate for compliance with the bill's sections on the prompt payment of health care claims. Hartman & Associates, consulting actuary for the General Assembly's Fiscal Research Division, states that since the Plan has not been able to determine how much the bill's provisions dealing with the bill's provisions on the prompt payment of health care claims will cost, or even if it can comply with such provisions, the financial impact of the bill upon the Plan is not determinable. Hartman & Associates further states that the bill's other provisions that affect the Plan should have no significant financial impact on the Plan.

ASSUMPTIONS AND METHODOLOGY: The Comprehensive Major Medical Plan for Teachers and State Employees is divided into two programs. From October 1982 through June, 1986, the Plan only had a self-funded indemnity type of program which covered all employees, retired employees, eligible dependents of employees and retired employees, and eligible former employees and their eligible dependents authorized to continue coverage past a termination of employment other than for retirement or disability purposes. A prepaid program of coverage by health maintenance organizations (HMOs) was offered in July 1986, as an alternative to the Plan's self-insured indemnity program. The benefits of the self-insured indemnity type of program are spelled out in Part 3 of Article 3 of Chapter 135 of the North Carolina General Statutes (i.e., \$350 annual deductible, 20% coinsurance up to \$1,500 annually, etc. paid by the program's members). HMOs are required to offer benefits that are comparable to those provided by the self-insured indemnity program. Beginning in July 2000, firefighters, rescue squad workers, and members of the National Guard and their eligible dependents were allowed to voluntarily participate in the Plan on a fully contributory basis, provided they were ineligible for any other type of group health benefits and had been without such benefits for at least six months. Employer-paid non-contributory premiums are only authorized for the indemnity program's coverage for employees and retired employees. All other types of premium in the indemnity program are fully contributory, except for job-sharing public school teachers who are authorized partially contributory premiums at 50% of non-contributory rates. The Plan's Executive Administrator has set the premium rates for firefighters, rescue squad workers, and members of the National Guard and their families at 20% more than the comparable rates charged for employees, retired employees, and their families. Premiums paid by employers to HMOs are limited to like amounts paid to the indemnity program with employees and retired employees paying any HMO amounts above the indemnity program's non-contributory rates. Both types of coverage continue to be available in the Plan; however none of the HMOs with certificates of authority to transact business in North Carolina have offered to participate in the Plan since September 30, 2001. The Plan's employees and retired employees select the type of program that they wish for themselves and their dependents during the months of August and September of each year for coverage beginning in October. The demographics of the Plan as of December 31, 2002, include:

| | <u>Self-Insured Indemnity Program</u> | <u>Alternative HMOs</u> | <u>Plan Total</u> |
|---|---|-----------------------------|-----------------------|
| <u>Number of Participants</u> | | | |
| Active Employees | 280,065 | -0- | 280,065 |
| Active Employee Dependents | 137,841 | -0- | 137,841 |
| Retired Employees | 117,225 | -0- | 117,225 |
| Retired Employee Dependents | 18,999 | -0- | 18,999 |
| Former Employees & Dependents with Continued Coverage | 2,535 | -0- | 2,535 |
| Firefighters, Rescue Squad Workers, National Guard Members & Dependents | 7 | -0- | 7 |
| Total Enrollments | 556,672 | -0- | 556,672 |
| <u>Number of Contracts</u> | | | |
| Employee Only | 313,439 | -0- | 313,439 |
| Employee & Child(ren) | 40,978 | -0- | 40,978 |
| Employee & Family | 44,710 | -0- | 44,710 |
| Total Contracts | 399,127 | -0- | 399,127 |

Percentage of
Enrollment by Age

| | | | |
|------------|-------|------|-------|
| 29 & Under | 26.9% | -0-% | 26.9% |
| 30-44 | 20.9 | -0- | 20.9 |
| 45-54 | 20.9 | -0- | 20.9 |
| 55-64 | 16.2 | -0- | 16.2 |
| 65 & Over | 15.1 | -0- | 15.1 |

Percentage of Enrollment by Sex

| | | | |
|--------|-------|------|-------|
| Male | 38.3% | -0-% | 38.3% |
| Female | 61.7 | -0- | 61.7 |

Assumptions for the Self-Insured Indemnity Program: For the fiscal year beginning July 1, 2002, the self-insured program started its operations with a beginning cash balance of \$91.6 million. Receipts for the year are estimated to be \$1.371 billion from premium collections and \$7 million from investment earnings for a total of \$1.378 billion in receipts for the year. Disbursements from the self-insured program are expected to be \$1.335 billion in claim payments and \$38 million in administration and claims processing expenses for a total of \$1.373 billion for the year beginning July 1, 2002. For the fiscal year beginning July 1, 2002, the self-insured indemnity program is expected to have a net operating gain of approximately \$5 million for the year. Without reserving an additional \$15 million for implementation of the claims data and privacy requirements of the federal Health Insurance Portability and Accountability Act (HIPPA) that take effect on and after April 14, 2003, the Plan's self-insured indemnity program is expected to have an available beginning cash balance of \$96 million for the fiscal year beginning July 1, 2003. The self-insured indemnity program is nonetheless assumed to be unable to carry out its operations for the 2003-2005 biennium without increases in its current premium rates or a reduction in existing benefits or payments to health care providers or both. This assumption is further predicated upon the fact that the program's cost containment strategies (hospital DRG reimbursements, discounts on hospital outpatient services, pre-admission hospital testing, pre-admission hospital inpatient certification with length-of-stay approval, hospital bill audits, case and disease management for selected medical conditions, mental health case management, coordination of benefits with other payers, Medicare benefit "carve-outs", cost reduction contracts with participating physicians and other providers, a prescription drug benefit manager with manufacturer rebates from formularies, and fraud detection) are maintained and improved where possible. Current non-contributory premium rates are \$186.04 monthly for employees whose primary payer of health benefits is Medicare and \$244.38 per month for employees whose primary payer of health benefits is not Medicare. Fully contributory premium amounts for employee and child(ren) contracts are \$115.78 monthly for children whose primary payer of health benefits is Medicare and \$152.32 monthly for other covered children, and \$277.68 per month for family contracts whose dependents have Medicare as the primary payer of health benefits and \$365.36 per month for other family contract dependents. Claim cost trends are expected to increase 12% annually. Total enrollment in the program is expected to increase less than 1% annually over the next two years. The number of enrolled active employees is expected to show no increase over the next two years, whereas the growth in the number of retired employees is assumed to be 5% per year. The program is expected to have a 2% decrease in the number of active employee dependents per year whereas the number of retiree dependents is expected to increase 2% per year. Investment earnings are based upon a 4.5% return on available cash balances. The self-insured indemnity program maintains 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.

SOURCES OF DATA:

- Actuarial Note, Hartman & Associates, House Bill 208, House Committee Substitute, April 30, 2003, original of which is on file in the General Assembly's Fiscal Research Division.
- Actuarial Note, Aon Consulting, House Bill 208, House Committee Substitute, April 30, 2003, 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: 733-4910

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DATE: April 30, 2003



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