

**NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE ACTUARIAL NOTE**

BILL NUMBER: House Bill 1410 (First Edition)

SHORT TITLE: Sunset Beach in State Health Plan.

SPONSOR(S): Representative Hill

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.

Funds of the Town of Sunset Beach would also be affected by the bill, as would premium payments by employees for enrolled dependents.

BILL SUMMARY: The bill allows the Town of Sunset Beach to provide health benefits for its employees and retired employees and their eligible family members under the State's Teachers' and State Employees' Comprehensive Major Medical Plan. Although the bill includes all of North Carolina's cities, towns, and villages as employing units for the purpose of offering health benefits to their employees and retired employees and their families under the Plan, the bill only applies to the Town of Sunset Beach. Enactment of the bill would result in the first time that units of local government in the state, other than public schools, community colleges, and technical institutes, have been allowed to participate in the Plan.

EFFECTIVE DATE: July 1, 2004

ESTIMATED IMPACT ON STATE: Based upon census data provided by the Town of Sunset Beach, Aon Consulting, consulting actuary for the Plan, states that the bill will have a negligible cost impact upon the Plan. Hartman & Associates, consulting actuary for the General Assembly's Fiscal Research Division, states that the bill will not have a significant financial impact on the Plan, based upon the same census data provided by the Town of Sunset Beach. Both actuaries, however, do express concerns about adverse selection against the Plan.

Although not required in this Actuarial Note, the Town of Sunset Beach would be expected to realize premium savings from the bill as currently written. The Town would be expected to save approximately \$3,823 per month in health benefit premium cost, or more than

\$45,870 annually, on the 32 employees currently provided health benefits if the bill were enacted. Employees with employee and child coverage (3) and employees with employee and family coverage (3) would be expected to see some savings in the monthly premium amounts paid by them. However, employees with employee and spouse coverage (5) would see an approximate 43% increase in the monthly premiums paid by them. A net increase in premiums paid by employees for their spouses and dependent children would be about \$221 per month or over \$2,650 per year.

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, 2003, include:

	Self-Insured Indemnity <u>Program</u>	Alternative <u>HMOs</u>	Plan <u>Total</u>
<u>Number of Participants</u>			
Active Employees	288,089	-0-	288,089
Active Employee Dependents	135,558	-0-	135,558
Retired Employees	122,014	-0-	122,014
Retired Employee Dependents	19,062	-0-	19,062
Former Employees & Dependents with Continued Coverage	2,458	-0-	2,458
Firefighters, Rescue Squad Workers, National Guard Members & Dependents	9	-0-	9
Total Enrollments	567,190	-0-	567,190
<u>Number of Contracts</u>			
Employee Only	327,543	-0-	327,543
Employee & Child(ren)	41,030	-0-	41,030
Employee & Family	43,359	-0-	43,359
Total Contracts	411,932	-0-	411,932
<u>Percentage of Enrollment by Age</u>			
29 & Under	26.5%	-0-%	26.5%
30-44	20.7	-0-	20.7
45-54	20.5	-0-	20.5
55-64	17.1	-0-	17.1
65 & Over	15.2	-0-	15.2
<u>Percentage of Enrollment by Sex</u>			
Male	38.1%	-0-%	38.1%
Female	61.9	-0-	61.9

Assumptions for the Self-Insured Indemnity Program: For the fiscal year beginning July 1, 2003, the self-insured program started its operations with a beginning cash balance of \$123 million. Receipts for the year are estimated to be \$1.564 billion from premium collections and \$7 million from investment earnings for a total of \$1.571 billion in receipts for the year. Disbursements from the self-insured program are expected to be \$1.425 billion in claim payments and \$57 million in administration and claims processing expenses for a total of \$1.482 billion for the year beginning July 1, 2003. For the fiscal year beginning July 1, 2003, the self-insured indemnity program is expected to have a net operating gain of approximately \$89 million for the year. The Plan's self-insured indemnity program is expected to have an available beginning cash balance of \$212 million for the fiscal year beginning July 1, 2004. The self-insured indemnity program is consequently assumed to be able to carry out its operations for the remainder of 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 \$217.66 monthly for employees whose primary payer of health benefits is Medicare and \$285.92 per month for employees whose primary payer of health benefits is not Medicare. Fully contributory premium amounts for employee and child(ren) contracts are \$135.46 monthly for children whose primary payer of health benefits is Medicare and \$178.22 monthly for other covered children, and \$324.88 per month for family contracts whose dependents have Medicare as the primary payer of health benefits and \$427.48 per month for other family contract dependents. Claim cost trends are expected to increase 11% annually. Total enrollment in the program is expected to increase less than 1% annually over the next few years. The number of enrolled active employees is expected to increase about 1.5% annually over the next few years, whereas the growth in the number of retired employees is assumed to be 4.5% per year. The program is expected to have a 3% decrease in the number of active employee dependents per year whereas the number of retiree dependents is expected to increase 3% per year. Investment earnings are based upon a 4.2% 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.

Assumptions for the Town of Sunset Beach: The Town of Sunset Beach currently provides health benefits for its employees and retired employees and their family members through one of United Healthcare of North Carolina’s preferred provider (PPO) products. The Town provides the full cost of the individual employee monthly premium amount as well as 30% of the difference between the monthly premium amount for spousal, child, or family coverage and the monthly premium amount for individual employee coverage. Current monthly premium amounts are:

<u>Coverage</u>	<u>Monthly Premium</u>
Employee Only	\$ 355.40
Employee & Spouse	781.88
Employee & Child	675.26
Employee & Family	1,101.74

The Town has 52 lives currently covered through United Healthcare – 32 employees, 8 spouses, and 12 children. Employees have chosen the following types of coverage: 21 have chosen employee only coverage, 5 have chosen employee & spouse coverage, 3 have chosen employee & child coverage, and 3 have chosen employee & family coverage. Although the Town has 32 employees enrolled in United Healthcare, it has 36 employees enrolled in the Local Governmental Employees’ Retirement System. An age and gender

comparison of the Town's enrolled employees with those of the Teachers' and State Employees' Comprehensive Major Medical Plan shows:

Ages	Sunset Beach Employees				Employees from Brunswick Co. in State Plan				All Employees in State Plan			
	Male	Female	Total	Percent	Male	Female	Total	Percent	Male	Female	Total	Percent
0-4			0	0.0%			0	0.0%			0	0.0%
5-9			0	0.0%			0	0.0%			0	0.0%
10-14			0	0.0%			0	0.0%			0	0.0%
15-19			0	0.0%	1		1	0.1%	53	51	104	0.0%
20-24	2		2	6.3%	13	23	36	2.0%	2,970	7,983	10,953	3.8%
25-29	2		2	6.3%	39	90	129	7.0%	7,901	18,522	26,423	9.2%
30-34	8		8	25.0%	57	147	204	11.1%	11,084	21,816	32,900	11.4%
35-39	2	1	3	9.4%	52	133	185	10.1%	11,538	22,468	34,006	11.8%
40-44	2	1	3	9.4%	72	201	273	14.9%	13,022	26,922	39,944	13.9%
45-49	5	1	6	18.8%	87	223	310	16.9%	14,550	32,521	47,071	16.3%
50-54	2	2	4	12.5%	88	247	335	18.3%	14,984	32,292	47,276	16.4%
55-59	2	1	3	9.4%	79	170	249	13.6%	11,171	21,650	32,821	11.4%
60-64	1		1	3.1%	33	58	91	5.0%	5,118	8,024	13,142	4.6%
65-69			0	0.0%	6	10	16	0.9%	1,229	1,375	2,604	0.9%
70-74			0	0.0%	2	2	4	0.2%	367	296	663	0.2%
75-79			0	0.0%	1		1	0.1%	76	60	136	0.0%
>79			0	0.0%	1		1	0.1%	30	16	46	0.0%
TOTAL	26	6	32	100.0%	531	1,304	1,835	100.0%	94,093	193,996	288,089	100.0%
Percent	81.3%	18.8%	100.0%		28.9%	71.1%	100.0%		32.7%	67.3%	100.0%	

Although eligible for coverage, the Town currently has no retired employees covered through United Healthcare. However, the Local Governmental Employees' Retirement System, which is administered by the State, has records showing that three service retirees and one disability retiree retired from the Town of Sunset Beach and are receiving payments from the System.

SOURCES OF DATA:

- Actuarial Note, Hartman & Associates, Senate Bill 1051, May 24, 2004, original of which is on file in the General Assembly's Fiscal Research Division.
- Actuarial Note, Aon Consulting, Senate Bill 1051, May 24, 2004, 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: Although mentioned in the actuarial notes on the bill from both Aon Consulting and Hartman & Associates, the bill, as currently written, presents several opportunities for adverse selection against the Teachers' and State Employees' Comprehensive Major Medical Plan. These opportunities include:

1. The ability of the Town to only enroll their high-risk employees and family members in the Plan while enrolling other lower risk employees and family members in other health benefit programs. To prevent such selection against the Plan, the Town might be required to enroll all of its eligible employees and family members in the Plan. Furthermore, since the bill as written does not appear to mandate that the Town participate in the Plan, such voluntary participation should require the Plan to rate the Town's underwriting experience separately from that of other employers in the Plan to further lessen the potential for adverse selection against the Plan if the Town chooses to participate.
2. Although the Town does not currently provide health benefits for all of its retired employees, the Teachers' and State Employees' Comprehensive Major Medical Plan does. Consequently, the personnel policies of the Town on providing health benefits for its retired employees and family members would be displaced by the Plan's statutes. Furthermore, G.S. 135-40.1(17) does not appear to adequately define "...any retirement system supported in whole or in part by contributions of the State..." such that members and beneficiaries of the Local Governmental Employees' Retirement System are definitely excluded from Article 3 of Chapter 135 of the General Statutes. Consequently, the service and disability retirees of the Town might be included in the Plan. If this possibility is correct, the Town might be required to make an irrevocable election to participate in and make the required contributions to the Plan, as is the case with its participation in the Local Governmental Employees' Retirement System. Without this protection for the Plan, the Town's retired and disabled employees could be covered by the Plan for life, while the Town could selectively opt out of the Plan at a later date.
3. (If the Town's retired employees are covered by the Plan, the bill, as currently written, does not require the Town to make additional payroll contributions to the Local Governmental Employees' Retirement System for retiree health benefits. All other employers participating in the Plan are required to make a required 3.20% additional payroll contribution to the Retirement Systems to pay for retiree health benefit premium payments to the Plan. A 3.20% additional payroll contribution to the Local Governmental Employees' Retirement System would be expected to cost the Town about \$41,600 per year.

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