

**NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE ACTUARIAL NOTE**

BILL NUMBER: House Bill 1723 (Third Edition)

SHORT TITLE: Charter School Retirement Election

SPONSOR(S): Representatives Allred and Ross

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 allows American Renaissance Charter School in Statesville, Exploris Middle School in Raleigh, Healthy Start Academy in Durham, Lake Norman Charter School in Huntersville, Magellan Charter School in Raleigh, and New Century High School in Saxapahaw to become participating employing units in the Teachers' and State Employees' Comprehensive Major Medical Plan, provided the schools elect to participate in the Plan within 30 days after the effective date of the bill.

EFFECTIVE DATE: When the bill becomes law.

ESTIMATED IMPACT ON STATE: Based upon a census provided by five of the six charter schools impacted by the bill, Aon Consulting, consulting actuary for the Plan, projects the bill to have an additional cost to the Plan of \$110,000 for the 2004-05 fiscal year and \$150,000 for the 2005-06 fiscal year. Aon Consulting further notes that the group is very likely to adversely affect the financial condition of the Plan, which is the reason for the estimated additional cost. Based upon the same census provided by the five charter schools to be impacted by the bill, Hartman & Associates, consulting actuary for the General Assembly's Fiscal Research Division, does not expect the bill to have a 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, 2003, include:

| | Self-Insured Indemnity Program | Alternative HMOs | Plan Total |
|---|--------------------------------------|---------------------|---------------|
| <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 |

Percentage of Enrollment by Age

| | | | |
|------------|-------|------|-------|
| 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 |

Percentage of Enrollment by Sex

| | | | |
|--------|-------|------|-------|
| 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 Enrollment of Employees of the Charter Schools Impacted: The following census data was provided by the charter schools affected by the bill:

| Age | <u>American Renaissance</u> | | | <u>Exploris Middle</u> | | | <u>Healthy Start</u> | | | <u>Lake Norman</u> | | |
|-------|-----------------------------|--------|-------|------------------------|--------|-------|----------------------|--------|-------|--------------------|--------|-------|
| | Male | Female | Total | Male | Female | Total | Male | Female | Total | Male | Female | Total |
| 0-4 | | | 0 | | | 0 | | | 0 | | | 0 |
| 5-9 | | | 0 | | | 0 | | | 0 | | | 0 |
| 10-14 | | | 0 | | | 0 | | | 0 | | | 0 |
| 15-19 | | | 0 | | | 0 | | | 0 | | | 0 |
| 20-24 | | | 0 | | | 0 | | 2 | 2 | | 2 | 2 |
| 25-29 | | 5 | 5 | 1 | 1 | 2 | 1 | 4 | 5 | | 7 | 7 |
| 30-34 | 1 | 3 | 4 | 1 | 2 | 3 | 4 | 3 | 7 | 3 | 5 | 8 |
| 35-39 | 1 | 5 | 6 | | 1 | 1 | | 4 | 4 | 2 | 3 | 5 |
| 40-44 | | 4 | 4 | 1 | 1 | 2 | | 3 | 3 | 1 | 10 | 11 |
| 45-49 | | 4 | 4 | | 3 | 3 | | | 0 | | 10 | 10 |
| 50-54 | | 3 | 3 | 2 | | 2 | | 2 | 2 | 1 | 4 | 5 |
| 55-59 | | 3 | 3 | | 2 | 2 | | 1 | 1 | | | 0 |
| 60-64 | | 1 | 1 | | | 0 | 1 | | 1 | | | 0 |
| 65-69 | | | 0 | | | 0 | | | 0 | | 1 | 1 |
| 70-74 | | | 0 | | | 0 | | | 0 | | | 0 |
| 75-79 | | | 0 | | | 0 | | | 0 | | | 0 |
| >79 | | | 0 | | | 0 | | | 0 | | | 0 |
| All | 2 | 28 | 30 | 5 | 10 | 15 | 6 | 19 | 25 | 7 | 42 | 49 |

| Age | <u>Magellan</u> | | | <u>New Century</u> | | |
|-------|-----------------|--------|-------|----------------------|--------|-------|
| | Male | Female | Total | Male | Female | Total |
| 0-4 | | | 0 | Census Not Available | | |
| 5-9 | | | 0 | | | |
| 10-14 | | | 0 | | | |
| 15-19 | | | 0 | | | |
| 20-24 | | 1 | 1 | | | |
| 25-29 | 1 | 4 | 5 | | | |
| 30-34 | | 3 | 3 | | | |
| 35-39 | 1 | 1 | 2 | | | |
| 40-44 | | 2 | 2 | | | |
| 45-49 | | 6 | 6 | | | |
| 50-54 | 1 | 5 | 6 | | | |
| 55-59 | 2 | 1 | 3 | | | |
| 60-64 | | 1 | 1 | | | |
| 65-69 | | | 0 | | | |
| 70-74 | | | 0 | | | |
| 75-79 | | | 0 | | | |
| >79 | | | 0 | | | |
| All | 5 | 24 | 29 | | | |

In comparison with the enrollment of employees already in the Comprehensive Major Medical Plan for Teachers and State Employees, the enrollment of employees in five of the six charter schools impacted by the bill shows:

| Age | Total | | | | All Employees in State Plan | | | |
|-------|-------|--------|--------|---------|-----------------------------|---------|---------|---------|
| | Male | Female | Total | Percent | Male | Female | Total | Percent |
| 0-4 | | | 0 | 0.0% | | | 0 | 0.0% |
| 5-9 | | | 0 | 0.0% | | | 0 | 0.0% |
| 10-14 | | | 0 | 0.0% | | | 0 | 0.0% |
| 15-19 | | | 0 | 0.0% | 53 | 51 | 104 | 0.0% |
| 20-24 | 0 | 5 | 5 | 3.4% | 2,970 | 7,983 | 10,953 | 3.8% |
| 25-29 | 3 | 21 | 24 | 16.2% | 7,901 | 18,522 | 26,423 | 9.2% |
| 30-34 | 9 | 16 | 25 | 16.9% | 11,084 | 21,816 | 32,900 | 11.4% |
| 35-39 | 4 | 14 | 18 | 12.2% | 11,538 | 22,468 | 34,006 | 11.8% |
| 40-44 | 2 | 20 | 22 | 14.9% | 13,022 | 26,922 | 39,944 | 13.9% |
| 45-49 | 0 | 23 | 23 | 15.5% | 14,550 | 32,521 | 47,071 | 16.3% |
| 50-54 | 4 | 14 | 18 | 12.2% | 14,984 | 32,292 | 47,276 | 16.4% |
| 55-59 | 2 | 7 | 9 | 6.1% | 11,171 | 21,650 | 32,821 | 11.4% |
| 60-64 | 1 | 2 | 3 | 2.0% | 5,118 | 8,024 | 13,142 | 4.6% |
| 65-69 | 0 | 1 | 1 | 0.7% | 1,229 | 1,375 | 2,604 | 0.9% |
| 70-74 | | | 0 | 0.0% | 367 | 296 | 663 | 0.2% |
| 75-79 | | | 0 | 0.0% | 76 | 60 | 136 | 0.0% |
| >79 | | | 0 | 0.0% | 30 | 16 | 46 | 0.0% |
| All | 25 | 123 | 148 | 100.0% | 94,093 | 193,996 | 288,089 | 100.0% |
| | 16.9% | 83.1% | 100.0% | | 32.7% | 67.3% | 100.0% | |

In spite of the apparent favorable enrollment characteristics of the employees from five of the six schools affected, it should be noted that American Renaissance, Lake Norman, and New Century schools have been chartered since the 1998-99 school year, according to the North Carolina Department of Public Instruction. Exploris Middle, Healthy Start, and Magellan schools have been chartered since the 1997-98 school year, according to the Department. Blue Cross and Blue Shield of North Carolina has provided health benefit coverage for employees and their families of American Renaissance, Exploris Middle, Healthy Start, Lake Norman, and Magellan schools through the 2003-04 school year. Wellpath has provided health benefit coverage for employees and their families of the New Century school for the 2003-04 school year.

SOURCES OF DATA:

- Actuarial Note, Hartman & Associates, House Bill 1723, Proposed Senate Committee Substitute, July 6, 2004, original of which is on file in the General Assembly’s Fiscal Research Division.
- Actuarial Note, Aon Consulting, House Bill 1723, Proposed Senate Committee Substitute, July 6, 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: None.

FISCAL RESEARCH DIVISION (919) 733-4910

PREPARED BY: Sam Byrd

APPROVED BY: James D. Johnson, Director
Fiscal Research Division

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