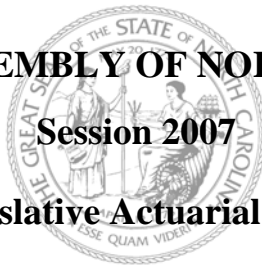


# GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2007

## Legislative Actuarial Note

### HEALTH BENEFITS

**BILL NUMBER:** House Bill 973 (Third Edition)

**SHORT TITLE:** Mental Health Equitable Coverage.

**SPONSOR(S):**

**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, premium payments for coverages selected by firefighters, rescue squad workers, members of the National Guard, and certain authorized local governments.

**BILL SUMMARY:** Amends Chapter 58 of the General Statutes to require group health benefit plans and the Teachers' and State Employees Comprehensive Major Medical Plan to provide that benefits for the treatment of mental illness be the same as benefits provided for the treatment of physical illness generally.

**EFFECTIVE DATE:** January 1, 2008

**ESTIMATED IMPACT ON STATE:** The consulting actuary for the Teachers' and State Employees Comprehensive Major Medical Plan, Aon Consulting, estimates the proposed legislation would increase costs under the Plan's Preferred Provider Option (PPO) program by \$800,000 in the 2007-2008 fiscal year and \$2.50 million in the 2008-2009 fiscal year.

Hartman & Associates, consulting actuary for the General Assembly's Fiscal Research Division, estimates the proposed legislation would increase claim costs to the Plan's PPO program by \$440,000 in the 2007-2008 fiscal year and \$1.83 million in the 2008-2009 fiscal year.

### ASSUMPTIONS AND METHODOLOGY:

Analysis from each actuary assumes that there is no impact to the Indemnity plan since parity in coverage for medical benefits offered for physical illness and mental illness are already authorized in statute under Article 3 of Chapter 135. Coverage for these benefits under the Indemnity plan are provided on a case managed basis after the first 26 visits in a plan year and all visits are subject to medical necessity requirements.

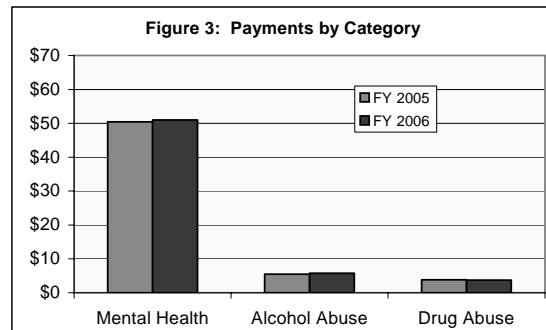
The exception is for the optional PPO programs where mental health benefits are not offered by the Plan on a parity basis with medical benefits for physical illness. According to the Plan’s staff, plan member co-payments for mental health benefits under the PPO are subject to the specialist co-pay but are not subject to plan member out-of-pocket requirements for deductible and co-insurance maximums during a plan year. In addition, there is an annual limit of 30 visits per plan year under the mental health benefit. Therefore, the costs reflected by each actuary pertain to extending parity coverage to benefits offered under the optional PPO programs.

Each actuary was provided with utilization information from the “Report on Mental Health and Substance Abuse Care for the State of North Carolina Teachers’ and State Employees’ Comprehensive Major Medical Plan, Fiscal Years 2002 through 2006.” This report provides experience data on mental health and substance abuse benefits provided through the Indemnity plan under a parity framework. Data from this report was used in part by each actuary in their respective analyses.

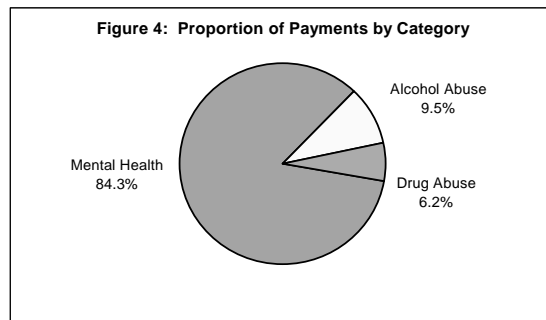
For the purposes of providing general information on the Indemnity program’s recent experience with utilization of mental health and substance abuse benefit coverage, the following summary tables from the above referenced Report are provided below for the 2005-2006 fiscal year:

**FY 2006: Payment Trends for All Participants (Active, Retiree, and COBRA Members)**

When viewed by category (Figure 3), the per capita payment during FY 2006 increased slightly for Mental Health, increased for Alcohol Abuse, but decreased for Drug Abuse. Mental Health per capita payments increased for Active and COBRA members, but declined for Non-Medicare Retirees and Medicare Retirees members.

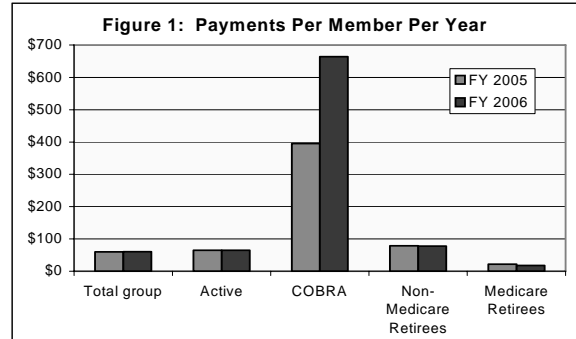


Mental Health conditions accounted for 84 percent of all payments for the total group, while Alcohol Abuse accounted for 10 percent and Drug Abuse for 6 percent (Figure 4). Mental Health services comprised 85 percent of payments in FY 2005.



**FY 2006: Payment Trends for All Participants (Active, Retiree, and COBRA Members)**

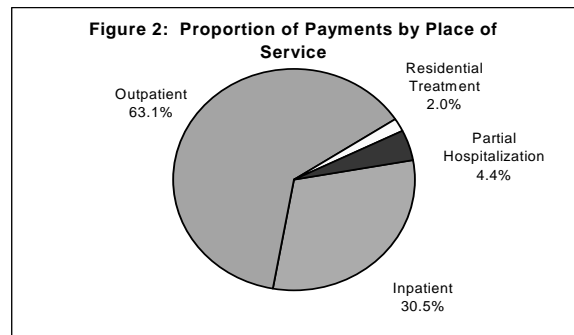
For the State Employees Group as a whole, the payment per capita increased slightly (1.2 percent) during fiscal year (FY) 2006 (Figure 1). Per member per year (PMPY) payments remained stable for the Active group segment, decreased 2 percent for the Non-Medicare Retirees segment, and decreased 17 percent for the Medicare Retirees segment, but increased 68 percent for the COBRA segment.



Sixty-three percent of all payments were for outpatient services during FY 2006. Most outpatient dollars (91 percent) were spent on treatment of Mental Health conditions.

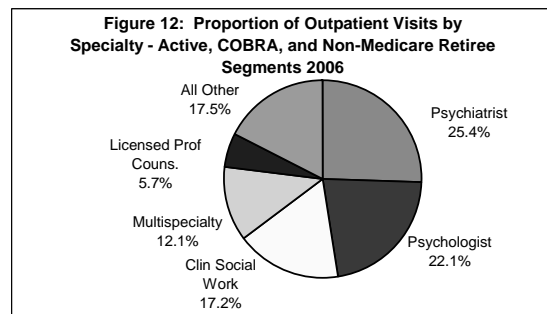
The per member per year payment for outpatient care increased 3 percent in FY 2006.

The per member per year payment for inpatient services dropped 5 percent and comprised 31 percent of the total per member per year payments.

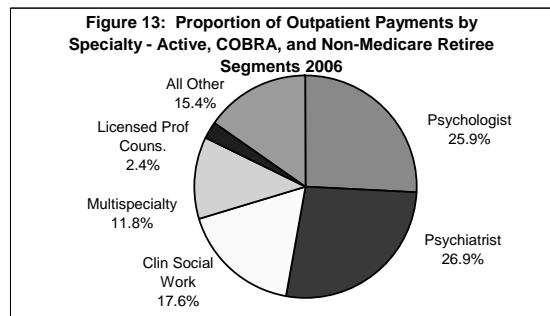


**FY 2006: Outpatient Trends for the Active, COBRA, and Non-Medicare Retiree Members**

Most outpatient visits continued to be made to Psychiatrists and Psychologists (Figure 12). The proportion of visits to Psychiatrists and Psychologists (25 percent and 22 percent, respectively) was comparable to that in FY 2005 (data not shown).



The proportion of payments to Psychologists (26 percent) was lower than payments in FY 2005, while that for Psychiatrists (27 percent) was slightly higher.



**Table 3E - Total Payments #  
For Mental Health and Substance Abuse Care  
State - Total Group**

	July 2004 - June 2005		July 2005 - June 2006		Pct Change (per capita)
	Total Dollars	Per Capita	Total Dollars	Per Capita	
<b>Mental Health</b>					
<b>Inpatient</b>	\$9,203,523	\$16.08	\$8,797,945	\$14.93	-7.2
<b>Outpatient</b>	\$19,088,268	\$33.35	\$20,368,501	\$34.56	3.6
<b>Residential Treatment</b>	\$346,623	\$0.61	\$596,569	\$1.01	67.2
<b>Partial Hosp Treatment</b>	<u>\$218,711</u>	<u>\$0.38</u>	<u>\$274,999</u>	<u>\$0.47</u>	22.1
<b>Total</b>	\$28,857,124	\$50.41	\$30,038,013	\$50.97	1.1
<b>Alcohol Abuse</b>					
<b>Inpatient</b>	\$1,110,226	\$1.94	\$1,322,640	\$2.24	15.7
<b>Outpatient</b>	\$1,222,141	\$2.14	\$1,224,570	\$2.08	-2.7
<b>Residential Treatment</b>	\$74,094	\$0.13	\$73,171	\$0.12	-4.1
<b>Partial Hosp Treatment</b>	<u>\$751,213</u>	<u>\$1.31</u>	<u>\$759,905</u>	<u>\$1.29</u>	-1.7
<b>Total</b>	\$3,157,673	\$5.52	\$3,380,285	\$5.74	4.0
<b>Drug Abuse</b>					
<b>Inpatient</b>	\$798,595	\$1.40	\$757,367	\$1.29	-7.9
<b>Outpatient</b>	\$852,385	\$1.49	\$885,549	\$1.50	0.9
<b>Residential Treatment</b>	\$35,517	\$0.06	\$25,943	\$0.04	-29.1
<b>Partial Hosp Treatment</b>	<u>\$492,385</u>	<u>\$0.86</u>	<u>\$529,769</u>	<u>\$0.90</u>	4.5
<b>Total</b>	\$2,178,882	\$3.81	\$2,198,628	\$3.73	-2.0
<b>Grand Total</b>					
<b>Inpatient</b>	\$11,112,344	\$19.41	\$10,877,951	\$18.46	-4.9
<b>Outpatient</b>	\$21,162,794	\$36.97	\$22,478,621	\$38.14	3.2
<b>Residential Treatment</b>	\$456,233	\$0.80	\$695,682	\$1.18	48.1
<b>Partial Hosp Treatment</b>	<u>\$1,462,309</u>	<u>\$2.55</u>	<u>\$1,564,672</u>	<u>\$2.65</u>	3.9
<b>Total</b>	\$34,193,679	\$59.74	\$35,616,927	\$60.43	1.2

# Includes both Institutional and Professional payments.

Note: All data based on date of service and not on claims paid date.

**SOURCES OF DATA:**

- Report on Mental Health and Substance Abuse Care for the State of North Carolina Teachers' and State Employees' Comprehensive Major Medical Plan, Fiscal Years 2002 through 2006, Corporate Analysis, and Risk Assessment, February 28, 2007.

-Actuarial Note, Hartman & Associates, PCS H973-CSLN-20 [v.1], May 2, 2007, original of which is on file in the General Assembly's Fiscal Research Division.

-Actuarial Note, Aon Consulting, PCS H973-CSLN-20 [v.1], May 1, 2007, 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:** Mark Trogdon

**APPROVED BY:** Lynn Muchmore, Director  
Fiscal Research Division

**DATE:** May 23, 2007



**Signed Copy Located in the NCGA Principal Clerk's Offices**