



GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2011

Legislative Actuarial Note

HEALTH BENEFITS

BILL NUMBER: House Bill 928 (Second Edition)

SHORT TITLE: State Health Plan Solvency Reform Act.

SPONSOR(S):

SYSTEM OR PROGRAM AFFECTED: State Health Plan for Teachers and State Employees (Plan).

FUNDS AFFECTED: State General Fund, State Highway Fund, other State employer receipts; premium payments for dependents of active employees and retired employees of State agencies and universities, local public schools and local community colleges; premium payments for coverages selected by eligible former employees; premium payments for coverages selected by firefighters, rescue squad workers, members of the National Guard, and certain authorized local governments.

BILL SUMMARY:

The House Bill 928 (Second Edition) makes changes to coverage and administration of the State Health Plan and flexible benefit plans offered by the State. The changes in each section are described below.

Sections 1(a) and 1(b): Provide that retirees who are at least age 65 but do not yet qualify for Medicare are eligible for coverage under the Plan, but are required to pay a premium equal to the difference between the total premium for non-Medicare-eligible retiree coverage and the employer contribution for Medicare-eligible retiree coverage. Since the current Medicare eligibility age is 65, this provision would not affect any plan member unless the Medicare eligibility age changes in federal law.

Section 1(c): Creates a new coverage category, effective July 1, 2012, for certain non-Medicare-eligible retirees who are working for another employer. If these retirees are eligible for health care coverage from the other employer for which the employer pays over 50% of the premium costs, then the retiree would be enrolled in a supplemental plan offered by the Plan. This supplemental plan would cover some of the out-of-pocket expenses not covered by the other employer's coverage.

Section 2: Requires the Plan to adopt an incentive program to encourage Plan members to find errors in medical billings and entitles the member to 10% of savings the member finds.

Section 3: Requires the Plan or its Claims Processor to send questionnaires to Plan members when paying any claim for trauma or similar types of treatment that commonly result from accidents in order to identify third parties responsible for injuries to members.

Section 4: Requires the Plan and its Claims Processor to analyze claims prior to making payments in an effort to detect patterns of fraud and abuse.

Section 5: Requires the Plan to convert from operating on a State fiscal year to a calendar year basis. The Plan would be required to operate on a short plan "year" from July 1, 2012 to December 31, 2012 with

deductibles and out-of-pocket maximums at half the level for a full plan year. The Plan would be required to operate on a calendar plan year beginning January 1, 2013.

Section 6: Authorizes all flexible benefit plans offered by State government to offer TRICARE supplements and mandates the NC Flex plan offered by the Office of State Personnel to offer a TRICARE supplement no later than January 1, 2013. TRICARE provides civilian health benefits for military personnel, military retirees, and their dependents. A TRICARE supplement is private insurance that covers most out-of-pocket costs not covered by TRICARE.

EFFECTIVE DATE: Most sections are effective July 1, 2011. Certain recodifications are effective January 1, 2012 to align with the effective date of the recodification in S.L. 2011-85. Section 1(c) is effective July 1, 2012. The mandate in section 6(e) applies no later than January 1, 2013.

ESTIMATED IMPACT ON STATE:

Overall Cost Impact

Aon Consulting, the consulting actuary for the State Health Plan for Teachers and State Employees, has estimated the following cost impact:

	<u>FY 2011-12</u>	<u>FY 2012-13</u>	<u>Biennium</u>
Sections 1(a) & 1(b) – Non-Medicare over 65	\$0	\$0	\$0
Section 1(c) – Retiree Supplemental Plan	\$0	-\$1.9M	-\$1.9M
Section 2 – Member Audits of Bills	Indeterminate	Indeterminate	Indeterminate
Sections 3 & 4 – Questionnaires, Fraud	\$0	\$0	\$0
Section 5 – Calendar Year	\$0	\$29.8M	\$29.8M
	SEE NOTE BELOW ABOUT EFFECT ON RESERVES		
Section 6 – TRICARE Supplement	Indeterminate	Indeterminate	Indeterminate
Total	\$0	\$27.9M	\$27.9M

Hartman & Associates, the consulting actuary for the General Assembly’s Fiscal Research Division, has estimated the following cost impact:

	<u>FY 2011-12</u>	<u>FY 2012-13</u>	<u>Biennium</u>
Sections 1(a) & 1(b) – Non-Medicare over 65	\$0	\$0	\$0
Section 1(c) – Retiree Supplemental Plan	\$0	Indeterminate	Indeterminate
Section 2 – Member Audits of Bills	Indeterminate	Indeterminate	Indeterminate
Sections 3 & 4 – Questionnaires, Fraud	\$0	\$0	\$0
Section 5 – Calendar Year	\$0	\$22.0M	\$22.0M
	SEE NOTE BELOW ABOUT EFFECT ON RESERVES		
Section 6 – TRICARE Supplement	Indeterminate	Indeterminate	Indeterminate
Total	\$0	\$22.0M	\$22.0M

Sections 1(a) and 1(b) – Coverage for Non-Medicare Retirees over Age 65

Both Aon Consulting, the consulting actuary for the Plan, and Hartman & Associates, the consulting actuary for the General Assembly, state that these sections have no fiscal impact in the biennium. If the federal Medicare eligibility age were raised in the future, this would shift part of the premium contribution to the member.

Section 1(c) – Retiree Supplemental Plan

Aon Consulting, the consulting actuary for the Plan, estimates the following savings:

	<u>FY 2011-12</u>	<u>FY 2012-13</u>	<u>Biennium</u>
Supplemental Plan	\$0	-\$1.9M	-\$1.9M

Hartman & Associates, the consulting actuary for the General Assembly, states that it is not possible to provide a reliable estimate due to the limited details available about the plan, but that the savings are likely to be under \$5 million per year and may be significantly less.

Section 2 – Member Audits of Bills

The Plan has stated that it does not have reliable data on billing errors nor a means to estimate the degree to which members would participate in an incentive program to discover billing errors. Both actuaries stated that they have insufficient information to estimate the financial impact of this provision.

Sections 3 and 4 – Accident Questionnaires, Fraud Detection

The Plan has stated that its current practices comply with both of these provisions. Therefore, both actuaries have stated that these sections have no financial impact on the Plan.

Section 5 – Calendar Year

Estimated Cost Impact to the Plan

Aon Consulting, the consulting actuary for the Plan, estimates a cost of \$29.8 million that will fall during FY 2012-13. This cost is due to lower member cost sharing during the short plan year. For example, the deductible in the Standard 80/20 Plan during the short plan year is assumed to be \$350, as compared to \$700 during a full plan year. A member in the Standard 80/20 Plan who had a medical procedure performed during the fall of 2012 would pay up to \$350 less in deductible for that procedure than they would pay under the provisions of Senate Bill 323 (Session Law 2011-85). The lower payment by the member will result in a corresponding higher amount paid by the Plan.

Hartman & Associates, the consulting actuary for the General Assembly, estimates a cost of \$22.0 million that will fall during FY 2012-13. This cost is due to lower member cost sharing during the short plan year.

Effect on Plan’s Cash Reserves

House Bill 928 (Second Edition) does not change premium contributions set in Senate Bill 323 (Session Law 2011-85). That law provides for a 5.3% increase in premium contributions at July 1, 2011 and July 1, 2012, and no other increases during the biennium. It is common practice to increase premiums only at the beginning of a plan year, so with the change to a calendar plan year, the next increase in premiums after the biennium would probably occur at January 1, 2014.

Aon Consulting has projected that if there is no further premium increase until January 1, 2014, the Plan’s cash balance will be only \$12 million at December 31, 2013. The Plan’s Target Stabilization Reserve, which is the amount needed to cover reasonable expected variation in claims, is projected to be \$223 million at that point, so this would leave the Plan \$211 million short of its target reserve. \$41 million of this \$211 million shortfall is due to the delayed implementation of Senate Bill 323 (Session Law 2011-85)

and the assumption that the Plan will offer non-contributory coverage to employees in the Basic 70/30 Plan in FY 2011-12 and FY 2012-13. The remaining \$170 million is due to the provision in this section.

Hartman & Associates also notes that the risk of the Plan having insufficient cash reserves significantly increases if no rate increases are provided beyond those included in Senate Bill 323.

Section 6 – TRICARE Supplement

Both actuaries have stated that insufficient data exists to forecast savings for this benefit. Therefore, its financial impact is indeterminable.

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.

General Assumption Highlights

This note assumes that the premiums and benefit provisions adopted in Senate Bill 323 (Session Law 2011-85) and House Bill 578 (Session Law 2011-96) will remain in place throughout the biennium and beyond.

The Supplemental Plan in section 1(c) is similar to a provision in place for the State of Alabama. The Plan obtained data from Alabama on the participation rate, type of coverage elected, plan provisions, and per member savings that was used by both actuaries in developing their estimates.

For estimating the impact of the change to a calendar plan year in section 5, both actuaries assumed the following out-of-pocket amounts for the July 1, 2012 to December 31, 2012 plan year:

Component	Basic 70/30 Plan	Standard 80/20 Plan
Deductible	\$467	\$350
Coinsurance Maximum	\$1,897	\$1,605
Rx OOP Maximum	\$1,250	\$1,250

Based on the provisions in SB 323 (SL 2011-85) and HB 578 (SL 2011-96), the Plan is projected to have cash reserves of \$173M at June 30, 2013, which is \$41M less than the projected Target Stabilization Reserve of \$214M. This shortfall is due to the delayed implementation of most of SB 323 from July to September, 2011 and the assumption that the Plan will offer non-contributory coverage to employees in the Basic 70/30 Plan in FY 2011-12 and FY 2012-13. However, according to the Plan's Executive Administrator on May 17, 2011, by the end of the plan year on June 30, 2011, the Plan's ending cash balance is expected to be \$50 million higher than the estimate used in these projections and the projections referenced earlier under Section 5.

Summary Information and Data about the 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 may also participate in the Plan under certain conditions. Members of fire, rescue squads, and the National Guard may also obtain coverage under the Plan provided they meet certain eligibility criteria.

The State finances the Plan on a self-funded basis and administers benefit coverage under a Preferred Provider Option (PPO) arrangement. 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 elect dependent coverage. Total requirements for the Plan are estimated to be \$2.90 billion for FY 2011-12 and \$3.08 billion for FY 2012-13. The Plan's PPO benefit design includes two alternative benefit levels listed below:

- 1) The "Basic" 70/30 plan that offers higher out-of pocket requirements in return for lower fully contributory dependent premiums; and
- 2) The "Standard" 80/20 plan.

The Basic and Standard plans offer coverage to employees and retired employees on a noncontributory basis. Coverage for dependents under both plans is offered on a fully contributory basis.

The following table provides a summary of most monthly premium rates for the Plan in FY 2010-11:

<u>Coverage Type</u>	PPO Basic		PPO Standard	
	Employee/ Retiree	Employer	Employee/ Retiree	Employer
Non-Medicare Active Employee/Retiree				
Employee	\$0.00	\$410.80	\$0.00	\$410.80
Employee + Child(ren)	\$178.68	\$410.80	\$237.62	\$410.80
Employee + Spouse	\$460.36	\$410.80	\$547.48	\$410.80
Employee + Family	\$490.34	\$410.80	\$580.44	\$410.80
<u>Coverage Type</u>	PPO Basic		PPO Standard	
	Employee/ Retiree	Employer	Employee/ Retiree	Employer
Medicare Primary for Only Employee/Retiree				
Employee	\$0.00	\$312.76	\$0.00	\$312.76
Employee + Child(ren)	\$187.60	\$312.76	\$237.62	\$312.76
Employee + Spouse	\$469.28	\$312.76	\$547.48	\$312.76
Employee + Family	\$499.26	\$312.76	\$580.44	\$312.76

The employer share of premiums for retirees is paid from the Retiree Health Benefit Fund. During FY 2010-11, employers contribute 4.9% of active employee payroll into the Fund. Total contributions for the year are projected to be approximately \$721 million.

Financial Condition

Current and Projected Results for 2009-11 Biennium – The following summarizes actual financial results for FY 2009-10 and projected financial results for FY 2010-11, based on financial experience through December, 2010.

(\$ millions)	
Actual FY 2009-10	Projected FY 2010-11

Beginning Cash Balance	\$189.9	\$121.5
Receipts:		
Net Premium Collections	\$2,412.6	\$2,677.4
Early Retirement Reinsurance Program	\$0.0	\$45.0
Medicare Part D Subsidies	\$74.4	\$60.5
Investment Earnings	\$3.5	\$2.4
Total	\$2,490.5	\$2,785.3
Disbursements:		
Net Medical Claim Payment Expenses	\$1,797.5	\$1,860.5
Net Pharmacy Claim Payment Expenses	\$596.7	\$647.7
Administration and Claims-Processing Expenses	\$164.6	\$171.7
Total	\$2,558.9	\$2,679.9
Net Operating Income (Loss)	(\$68.4)	\$105.4

Financial Projection 2011-13 Biennium – The following summarizes a financial projection conducted by the Plan’s consulting actuary, Aon Consulting, for the 2011-13 biennium. The information is provided by fiscal year based on year-to-date financial experience (through December 2010) and other updated factors. The projection assumes a 9.5% annual claims growth trend, that benefit provisions remain the same, and that both employer and member-paid premiums are increased by 6.3% effective July 1, 2011 and July 1, 2012.

	(\$ millions)	
	Projected FY 2011-12	Projected FY 2012-13
Beginning Cash Balance	\$226.8	\$239.0
Receipts:		
Net Premium Collections	\$2,829.0	\$2,995.2
Early Retirement Reinsurance Program	\$25.6	\$0.0
Medicare Part D Subsidies	\$60.1	\$62.6
Investment Earnings	\$2.3	\$2.5
Total	\$2,917.0	\$3,060.3
Disbursements:		
Net Medical Claim Payment Expenses	\$2,065.1	\$2,199.0
Net Pharmacy Claim Payment Expenses	\$659.2	\$699.4
Administration and Claims-Processing Expenses	\$180.5	\$183.6
Total	\$2,904.8	\$3,082.0
Net Operating Income (Loss)	\$12.2	(\$21.7)

This projection incorporates \$151 million in projected savings over the biennium from a new Pharmacy Benefit Manager (PBM) contract to be effective October 1, 2011. It assumes that the Plan maintains “grandfathered” status under the federal Affordable Care Act (ACA). It assumes the Plan experiences an

increase of \$33 million in claims over the biennium due to requirements in the ACA to cover additional dependents.

Other Information

In the 2009-11 biennium, the annual premium increases were applied at the beginning of each fiscal year of the biennium. Historically, the Plan had applied a premium increase in October of the first fiscal year of a biennium.

Additional assumptions include Medicare benefit “carve-outs,” cost containment strategies including prior approval for certain medical services, utilization of the "Blue Options" provider network, 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, and fraud detection, and other authorized actions by the Executive Administrator and Board of Trustees to manage the Plan to maintain and improve the Plan's operation and financial condition where possible. Claim cost trends are expected to increase at a rate of 9.5% annually according to the Plan's consulting actuary. Investment earnings are based upon a 1.0% return on available cash balances. The active population is projected to decline by 1% per year, the COBRA population is projected to remain constant, and the retired population is projected to increase by 1% per year.

Enrollment as of December 31, 2010

State Health Plan Enrollment as of December 31, 2010				
I. No. of Participants	Basic	Standard	Total	Percent of Total
<u>Actives</u>				
Employees	65,849	256,468	322,317	48.6%
Dependents	<u>50,588</u>	<u>105,759</u>	<u>156,347</u>	<u>23.6%</u>
Sub-total	116,437	362,227	478,664	72.2%
<u>Retired</u>				
Employees	16,429	143,764	160,193	24.2%
Dependents	<u>4,352</u>	<u>14,173</u>	<u>18,525</u>	<u>2.8%</u>
Sub-total	20,781	157,937	178,718	26.9%
<u>Former Employees with Continuation Coverage</u>				
Employees	1,014	1,237	2,251	0.3%
Dependents	<u>403</u>	<u>347</u>	<u>750</u>	<u>0.1%</u>
Sub-total	1,417	1,584	3,001	0.5%
<u>Firefighters, Rescue Squad & National Guard</u>				
Employees	2	3	5	0.0%
Dependents	<u>1</u>	<u>2</u>	<u>3</u>	<u>0.0%</u>
Sub-total	3	5	8	0.0%
<u>Local Governments</u>				
Employees	486	1,429	1,915	0.3%
Dependents	<u>303</u>	<u>629</u>	<u>932</u>	<u>0.1%</u>
Sub-total	789	2,058	2,847	0.4%
<u>Total</u>				
Employees	83,780	402,901	486,681	73.4%
Dependents	55,647	120,910	176,557	26.6%
Grand Total	139,427	523,811	663,238	100%
Percent of Total	21.0%	79.0%	100.0%	
II. Enrollment by Contract				
	Basic	Standard	Total	
Employee Only	55,472	335,154	390,626	
Employee Child(ren)	13,817	36,176	49,993	
Employee Spouse	5,719	17,462	23,181	
Employee Family	8,772	14,109	22,881	
Total	83,780	402,901	486,681	
Percent Enrollment by Contract				
	Basic	Standard	Total	
Employee Only	66.2%	83.2%	80.3%	
Employee Child(ren)	16.5%	9.0%	10.3%	
Employee Spouse	6.8%	4.3%	4.8%	
Employee Family	10.5%	3.5%	4.7%	
Total	100.0%	100.0%	100.0%	

III. Enrollment by Sex	Basic	Standard	Total
Female	75,627	338,703	414,330
Male	63,800	185,108	248,908
Total	139,427	523,811	663,238
Percent Enrollment by Sex	Basic	Standard	Total
Female	54.2%	64.7%	62.5%
Male	45.8%	35.3%	37.5%
Total	100.0%	100.0%	100.0%
IV. Enrollment by Age	Basic	Standard	Total
19 & Under	35,455	74,859	110,314
20 to 29	12,915	46,222	59,137
30 to 44	31,582	98,133	129,715
45 to 54	27,089	85,600	112,689
55 to 64	29,854	106,470	136,324
65 & Over	2,532	112,527	115,059
Total	139,427	523,811	663,238
Percent Enrollment by Age	Basic	Standard	Total
19 & Under	25.4%	14.3%	16.6%
20 to 29	9.3%	8.8%	8.9%
30 to 44	22.7%	18.7%	19.6%
45 to 54	19.4%	16.3%	17.0%
55 to 64	21.4%	20.3%	20.6%
65 & Over	1.8%	21.5%	17.3%
Total	100.0%	100.0%	100.0%
V. Retiree Enrollment by Category	Employee	Dependents	Total
Non-Medicare Eligible	53,034	11,292	64,326
Medicare Eligible	107,159	7,233	114,392
Total	160,193	18,525	178,718
Percent Enrollment by Category (Retiree)	Employee	Dependents	Total
Non-Medicare Eligible	33.1%	61.0%	36.0%
Medicare Eligible	66.9%	39.0%	64.0%
Total	100.0%	100.0%	100.0%

VI. Enrollment By Major Employer Groups	Employees	Dependents	Total
State Agencies	75,779	33,151	108,930
UNC System	50,357	29,457	79,814
Local Public Schools	180,864	86,046	266,910
Local Community Colleges	15,317	7,693	23,010
Other			
Local Governments	1,915	932	2,847
COBRA	2,251	750	3,001
Nat. Guard, Fire & Rescue	5	3	8
Sub-total	326,488	158,032	484,520
Retirement System	160,193	18,525	178,718
Total	486,681	176,557	663,238
Percent Enrollment by Major Employer Groups	Employees	Dependents	Total
State Agencies	15.6%	18.8%	16.4%
UNC System	10.3%	16.7%	12.0%
Local Public Schools	37.2%	48.7%	40.2%
Local Community Colleges	3.1%	4.4%	3.5%
Other			
Local Governments	0.4%	0.5%	0.4%
COBRA	0.5%	0.4%	0.5%
Nat. Guard, Fire & Rescue	0.0%	0.0%	0.0%
Sub-total	67.1%	89.5%	73.1%
Retirement System	32.9%	10.5%	26.9%
Total	100.0%	100.0%	100.0%

SOURCES OF DATA:

-Actuarial Note, Hartman & Associates, House Bill 928 (H928-CSME-20[v.5]), “House Bill 928 Proposed Committee Substitute H928-CSME-20 [v.5]: An Act to Reform the State Health Plan for Teachers and State Employees”, June 7, 2011, original of which is on file in the General Assembly’s Fiscal Research Division.

-Actuarial Note, Aon Consulting, House Bill 928 (H928-CSME-20[v.5]), “HOUSE BILL 928 PROPOSED COMMITTEE SUBSTITUTE H928-CSME-20 [V.5]”, June 7, 2011, original of which is on file with the State Health Plan for Teachers and State Employees and the General Assembly’s Fiscal Research Division.

Aon Consulting, North Carolina State Health Plan, Financial Projections – January 2011 – 14b (\$12 Generic – Start September – No Premium Increase for Late Start, Total for All Plans – 9.5% Trend with Risk Adjustment, with Max GF Benefits except \$12 Generic, with PBM Contract Savings, Additional Premium Charged to All Tiers – Active: 5% Std, 0% Basic; NMC Retiree 5% Std, 0% Basic; MC Retiree \$10 Std, \$0 Basic No CWI, Non-Smoker Movement: Active 25% single, 5% dep; NMC Retiree: 25% single, 5% dep; MC Retiree: 20% Single, 5% dep, May 17, 2011.

Aon Consulting, North Carolina State Health Plan, Financial Projections – January 2011 – 14b (\$12 Generic – Start September – No Premium Increase for Late Start, Total for All Plans – 9.5% Trend with Risk Adjustment, with Max GF Benefits except \$12 Generic, with PBM Contract Savings, Hit Target Stabilization Reserve 12/31/2013, No CWI, Non-Smoker Movement: Active 25% single, 5% dep; NMC Retiree: 25% single, 5% dep; MC Retiree: 20% Single, 5% dep, Short Plan Year July – December 2012; Calendar Year Plan Thereafter, June 6, 2011.

FISCAL RESEARCH DIVISION: (919) 733-4910

PREPARED BY: David Vanderweide

APPROVED BY:

Lynn Muchmore, Director
Fiscal Research Division

DATE: June 9, 2011



Signed Copy Located in the NCGA Principal Clerk's Offices