NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE ACTUARIAL NOTE

BILL NUMBER: House Bill 338, Fifth Edition (Sections 40(m), 40(n), 85.5, & 86)
SHORT TITLES: Technical Corrections & Other Changes

SPONSOR(S): Sen. Clodfelter

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, and premium payments for coverages selected by eligible former teachers and State employees.

BILL SUMMARY: Section 40(m): The sub-section amends the Plan's definition of "skilled care" to include licensed clinical social workers as well as certified clinical social workers. Section 40(n): The sub-section includes licensed clinical social workers as well as certified clinical social workers in the Plan's coverage for mental health and chemical dependency benefits. Section 85.5: The section allows the Plan's Executive Administrator to conduct a pilot program in a county that has at least 10,000 members of the Plan to measure the potential cost savings and patient care improvements from medical management by local providers of health care services. Section 86(a): The sub-section requires an election of contributory coverage by employees who have had 12 months of non-contributory coverage following an elimination of a job because of a reduction in funds supporting the job within 90 days after the last day of non-contributory coverage. Section 86(b): The sub-section intends to clarify that the Plan's allowable charges for private duty nursing services are the lesser of the Plan's usual, customary, and reasonable allowances or 90% of the daily semi-private rate at skilled nursing facilities.

EFFECTIVE DATE: When the sections become law.

ESTIMATED IMPACT ON STATE: Licensed Clinical Social Workers Included in Definition of Skilled Care and List of Providers for Mental Health and Chemical Dependency Benefits: The Plan's consulting actuary, Aon Consulting, and the consulting actuary for the General Assembly's Fiscal Research Division, Hartman and Associates, do not expect the inclusion of licensed social workers to have a financial impact on the Plan. Pilot Program for Local Management of Health Care Services: The Plan's consulting actuary, Aon Consulting, and the consulting actuary for the General Assembly's Fiscal Research Division, Hartman and Associates, both state that the financial impact of the pilot program is indeterminable. Hartman and Associates further notes that to the extent that local management's costs duplicate those included in the indemnity program's claims processors' fees, the Plan's total administrative expense would be expected to increase. Election Time for Contributory Continuation Coverage Following Job Losses: The Plan's consulting actuary, Aon Consulting, expects negligible cost savings from the change in eligibility. The consulting actuary for the General Assembly's Fiscal Research Division, Hartman and Associates, does not expect the change in eligibility to have a significant financial impact. Allowable Charges for Private Duty Nursing Set at Lesser of UCR or 90% of Daily Semi-Private Rates at Skilled Nursing Facilities: The Plan's consulting actuary, Aon Consulting, states that the change should result in minimal cost savings. The consulting actuary for the General Assembly's Fiscal Research Division, Hartman and Associates, does not expect the change to have a significant financial impact.

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. 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 47% 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 with three HMOs currently covering about 9% of the Plan's total population in 24 of the State's 100 counties. 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, 2000, include:

	Self-Insured Indemnity Program	Alternative HMOs	Plan Total
Number of Participants			
Active Employees	248,518	28,822	277,340
Active Employee Dependents	134,795	17,376	152,171
Retired Employees	104,305	3,185	107,490
Retired Employee Dependents	17,936	594	18,530
Former Employees & Dependents with Continued Coverage	2,865	381	3,246
Firefighters, Rescue Squad Workers, National Guard Members & Dependents	3	-	3
Total Enrollments	508,422	50,358	558,780
Number of Contracts			
Employee Only	270,322	23,223	293,545
Employee & Child(ren)	38,775	6,006	44,781
Employee & Family	45,764	3,026	48,790
Total Contracts	354,861	32,255	387,116
Percentage of Enrollment by Age			
29 & Under	28.0%	41.6%	29.2%
30-44	20.9	26.6	21.4
45-54	21.3	19.2	21.1

55-64	14.5	9.2	14.0
65 & Over	15.4	3.4	14.3
Percentage of Enrollment by Sex			
Male	39.1%	36.9%	38.9%
Female	60.9	63.1	61.1

Assumptions for the Self-Insured Indemnity Program: For the fiscal year beginning July 1, 2000, the self-insured program started its operations with a cash balance of $188 million. Receipts for the year were $930.5 million from premium collections, $9.9 million from investment earnings, and $8.4 million in risk adjustment and administrative fees from HMOs, for a total of $948.8 million in receipts for the year. Disbursements from the self-insured program were $1.056 billion in claim payments and $29.2 million in administration and claims processing expenses for a total of $1.085 billion for the year beginning July 1, 2000. For the fiscal year beginning July 1, 2001, the self-insured indemnity program began the year with a cash balance of only $51 million. The self-insured indemnity program is consequently assumed to be unable to carry out its operations for the 2001-2003 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, pre-admission hospital testing, pre-admission hospital inpatient certification with length-of-stay approval, hospital bill audits, mental health case management, pharmacy benefit management, coordination of benefits with other payers, Medicare benefit "carve-outs", cost reduction contracts with participating physicians and other providers, prescription drug manufacturer rebates from formularies, and fraud detection) are maintained and improved where possible. Of particular note in these cost containment strategies is that the program's contract with its pharmacy benefit manager, AdvancePCS, calls for a further reduction in claim payments for outpatient prescription drugs for the 2001-03 biennium. Effective July 1, 2001, dispensing fees for pharmacies were reduced from $4.00 to $1.50 per prescription. In addition, ingredient prices for pharmacies were reduced from 90% to 85% of average wholesale price (AWP) for branded drugs and from maximum allowable charges (MAC) by the federal Health Care Financing Administration (HCFA) or 80% of AWP to 45% of AWP for generic drugs. Current non-contributory premium rates are $143.10 monthly for employees whose primary payer of health benefits is Medicare and $187.98 per month for employees whose primary payer of health benefits is not Medicare. Fully contributory premium amounts for employee and child(ren) contracts are $89.06 monthly for children whose primary payer of health benefits is Medicare and $117.16 monthly for other covered children, and $213.60 per month for family contracts whose dependents have Medicare as the primary payer of health benefits and $281.04 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 about 3% annually over the next two years due to enrollment losses from alternative HMOs. The number of enrolled active employees is expected to show a 3% increase annually 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 an increase in the number of active employee dependents and retiree dependents of 2% per year. Investment earnings are based upon a 6% 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.

In response to the Plan's financial condition, the Plan has said it needs the following amounts for its self-insured indemnity program to remain solvent during the 2001-2003 biennium:

	($Million)	
2001-2002	2002-2003	Biennium
$382.258	$545.032	$927.290

Of these requirements, Governor Easley recommended the following amounts of additional premium income to be paid on behalf of teachers, state employees, and retired teachers and state employees:

Employer Financing ($Million)	2001-2002	2002-2003	Biennium
General Fund	$150.000	$200.000	$350.000
Highway Fund	7.000	9.000	16.000
Other Employer Funds	30.945	41.176	72.121
Total	$187.945	$250.176	$438.121

The General and Highway Fund parts of this additional premium income are included in both the House and Senate versions of the Appropriation Act for the 2001-2003 biennium. This additional premium income is equivalent to a 30% across-the-board increase in rates effective October 1, 2001. With this increase in premium financing for teachers, state employees, and retired teachers and state employees, premiums for these individuals will continue to be non-contributory. The Plan's Executive Administrator sets the premium rates for spouses and dependent children covered under the Plan by teachers, state employees, and retired teachers and state employees. A 30% across-the-board increase in these premiums effective October 1, 2001, will generate additional premium income paid by employees:

	2001-2002	2002-2003	Biennium
Employee Financing ($Million)	$49.960	$66.477	$116.437

In addition to these amounts of additional premium income for the Plan for the biennium, the Plan's Executive Administrator says he will reduce the program's payments to hospitals and physicians by the following amounts:

Reduced Provider Payments ($Million)	2001-2002	2002-2003	Biennium
Additional 20% Discount on Hospital Outpatient Charges	$19.174	$26.985	$ 46.159
Additional 3.45% Discount on Hospital Inpatient Charges	5.725	7.554	13.279
Additional 13% Discount on Charges for Non-Primary Care Physician Services	23.683	46.766	70.449
Total	$48.582	$81.305	$129.887

Even after a reduction in payments to hospitals and physicians, the program still would need additional financial support. This remaining support comes in the form of benefit reductions. Benefits in the program have not been reduced since 1991. To remain solvent, the benefit reductions would have to equal the following amounts:

	($Million)	
2001-2002	2002-2003	Biennium
$95.771	$147.074	$242.845

Changes in the benefits of the Plan's self-insured indemnity program were enacted by the General Assembly and signed into law by the Governor effective July 1, 2001 (Session Law 2001-253).

Assumptions for the Plan's Counties with 10,000 Members and Medical Management Programs: In October, 2000, the Plan had the following counties with an enrollment of at least 10,000 members: Wake (64,232),

Mecklenburg (27,108), Guilford (24,576), Orange (19,642), Durham (16,677), Cumberland (15,474), Pitt (15,047), Forsyth (14,660), Buncombe (12,602), Wayne (12,147), Johnston (10,971), and Burke (10,139). The medical management components of the Plan's self-insured indemnity program include mental health case management, pharmacy benefit management, case management for high risk maternity, organ transplants, extended home health, private duty nursing, extended skilled nursing facility stays, extended hospital stays, HIV, metastatic cancer, spinal cord injuries, traumatic brain injuries, and conditions with death expected within 6 months, disease management for diabetes and cardio-vascular disease, pre-admission and length-of-stay certification for hospital inpatient admissions, and prior approval of certain durable medical equipment, extended ambulance services, outpatient physical, occupational, and speech therapies, private duty nursing, skilled nursing facility stays, home care aide services, hospice care, and certain other surgical procedures.

SOURCES OF DATA:
-Actuarial Note, Hartman & Associates, Senate Committee Substitute for Senate Bill 822, September 14, 2001, original of which is on file in the General Assembly's Fiscal Research Division.
-Actuarial Note, Aon Consulting, Senate Committee Substitute for Senate Bill 822, September 14, 2001, 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
-Actuarial Note, Hartman & Associates, Senate Committee Substitute for House Bill 338, Sections 40(m) & 40(n), November 27, 2001, original of which is on file in the General Assembly's Fiscal Research Division.
-Actuarial Note, Aon Consulting, Senate Committee Substitute for House Bill 338, Sections 40(m) & 40(n), November 27, 2001, 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

PREPARED BY: Sam Byrd

APPROVED BY: James D. Johnson

DATE: November 28, 2001