

**NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE ACTUARIAL NOTE**

BILL NUMBER: House Bill 1166

SHORT TITLE: State Employees' Health Plan/Workers' Compensation

SPONSOR(S): Rep. Baddour

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: The bill intends to clarify that the hospital and medical expenses related to occupational illnesses and injuries of employees of state departments, agencies, institutions, boards, and commissions who enter into a final settlement of a workers' compensation claim that releases the employer from the responsibility for paying future medical expenses for the same illnesses and injuries are covered by the Teachers' and State Employees' Comprehensive Major Medical Plan.

EFFECTIVE DATE: When it becomes law. The bill applies to claims pending on and after that date.

ESTIMATED IMPACT ON STATE: Based upon information provided by the Plan, the Plan's consulting actuary, Aon Consulting, estimates the cost of the bill's settlement liability to be \$3.6 million for fiscal year 2001-02 and \$4.1 million for fiscal year 2002-03. Aon Consulting further estimates the present value of expected claims to be paid for a workers' compensation claimant resulting from a lump sum settlement over their remaining life expectancies to be \$633,000 for fiscal year 2001-02 and \$1,646,000 for fiscal year 2002-03. Aon Consulting assumes a 6% discount rate, a 7-year payout, and mid-year liability timing in this present value calculation. The consulting actuary for the General Assembly's Fiscal Research Division, Hartman and Associates, estimates the cost of the bill's settlement liability to be \$2,978,746 for fiscal year 2001-02 and \$4,003,435 for fiscal year 2002-03 based upon information provided by the Plan. Since the data provided for the preparation of an actuarial estimate is derived from the State accounting system's current expense payments for settlements of future medical expenses, Hartman and Associates assumes that the current expense payments already represent the present value of future medical expenses related to the occupational illness or injury.

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., \$250 annual deductible, 20% coinsurance up to \$1,000 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:

| | <u>Self-Insured Indemnity Program</u> | <u>Alternative HMOs</u> | <u>Plan Total</u> |
|---|--|------------------------------------|------------------------------|
| <u>Number of Participants</u> | | | |
| 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 |
| <u>Number of Contracts</u> | | | |
| 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 |
| <u>Percentage of Enrollment by Age</u> | | | |
| 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 |
| <u>Percentage of Enrollment by Sex</u> | | | |
| 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 beginning cash balance of \$188 million. Receipts for the year are estimated to be \$929 million from premium collections, \$10 million from investment earnings, and \$8 million in risk adjustment and administrative fees from HMOs, for a total of \$947 million in receipts for the year. Disbursements from the self-insured program are expected to be \$1.085 billion in claim payments and \$31 million in administration and claims processing expenses for a total of \$1.116 billion for the year beginning July 1, 2000. For the fiscal year beginning July 1, 2001, the self-insured indemnity program is expected to have an operating cash balance of only \$19 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, required second surgical opinions, mental health case 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 will be reduced from \$4.00 to \$1.50 per prescription. In addition, ingredient prices for pharmacies will be 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.

Assumptions for Indemnity Plan's Coordination of Workers' Compensation Medical Claims: Data from the North Carolina Accounting System maintained by the State Controller's Office, and comparable data from the North Carolina Department of Transportation show the following medical costs related to workers' compensation claims:

| <u>Agencies</u> | <u>1997-1998</u> | <u>1998-1999</u> | <u>1999-2000</u> | <u>2000-2001*</u> |
|------------------------|------------------|------------------|------------------|-------------------|
| State Departments, | | | | |
| Agencies, Institutions | \$13,143,700 | \$15,078,386 | \$16,939,129 | \$15,827,768 |
| Community Colleges | 378,723 | 302,037 | 476,750 | 344,864 |
| Public Schools | 18,869,263 | 17,492,346 | 18,210,617 | 13,747,809 |
| Total | \$32,391,686 | \$32,872,769 | \$35,626,496 | \$29,920,441 |

*9 Months' Data

Information provided by the North Carolina Office of State Personnel reveals that the number of clincher settlements in workers' compensation medical claims for state departments, agencies, and institutions, and for the community colleges was 146 in fiscal year 1999-2000 resulting in payments of \$1,324,244. For the 2000-2001 fiscal year, the Office of State Personnel reports 126 such cases and a payment amount of \$1,365,970 for nine months.

In comparison to these workers' compensation claim statistics, the claims processing contractor for the Plan's self-insured indemnity program, Blue Cross and Blue Shield of North Carolina, maintains that it cannot recall making claim cost reductions in the program as a result of workers' compensation medical claim lump sum settlements. In fact, the contractor says that it has no current way of knowing about workers' compensation lump sum settlements for future medical expenses related to occupational illnesses or injuries, other than from claimants or health care providers at the time claims are filed. The only medical expenses that the contractor says that it captures is for current medical expenses filed by Plan members and health care providers who disclose that a medical condition is related to employment. The contractor further says that any offsets to claim payments by the program for these current expenses are minimal at most.

SOURCES OF DATA:

-Actuarial Note, Hartman & Associates, House Bill 1166, May 18, 2001, original of which is on file in the General Assembly's Fiscal Research Division.

-Actuarial Note, Aon Consulting, House Bill 1166, May 15, 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: If the bill is intended to cover all employees covered by the Teachers' and State Employees' Comprehensive Major Medical Plan, the words "the State of North Carolina" should be replaced by the words "an employing unit". An employing unit is defined in G. S. 135-40.1 to be a North Carolina school system, community college, state department, agency, or institution, administrative office of the courts, association or occupational examining boards whose employees are eligible for membership in a state-supported retirement system, and charter schools created in accordance with Part 6A of Chapter 115C of the General Statutes.

FISCAL RESEARCH DIVISION 733-4910

PREPARED BY: Sam Byrd

APPROVED BY: James D Johnson

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