

GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2009

Legislative Actuarial Note

HEALTH BENEFITS

BILL NUMBER: House Bill 751 (First Edition)
SHORT TITLE: Regional Solid Waste Authority/St. Hlth Plan.
SPONSOR(S): Representatives Wainwright and Underhill

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:

House Bill 751 (1st edition) amends Section 31.26(j) of Session Law 2004-124 (2004 Appropriations Act), as further amended by Section 29.32 of Session Law 2005-276 (2005 Appropriations Act). Proposed legislation permits the Coastal Regional Solid Waste Management Authority with the option to become an employing unit under the Plan for the purpose of providing health benefits to the Authority' employees, retired employees, and their eligible spouses and dependent children.

If a local government elects to participate as an employer under the Plan, it must do so by legal resolution of its governing board. An irrevocable election is required by the local government if it enrolls its retired employees, and their eligible spouses and dependent children. The local government must also agree to make any premium contributions required by the Plan. All enrolled employees, retired employees, and their family members of a participating local government will be required to participate in disease management, case management, and all other cost containment measures implemented by the Plan. Employees and retired employees of local governments authorized for benefit coverage under the Plan will pay the same premium rates as those charged by the Plan for other participating active and retired employees and their dependents.

In addition, an irrevocable election by a local government to cover retired employees also requires it to make financial contributions to the Local Governmental Employees' Retirement System for the purpose of financing retired employee employees' health benefits offered under the Plan. If a local government does not participate in the Local Governmental Employees' Retirement System, but has another formally established retirement plan, and elects to cover its retired employees, it is required to make premium contributions to the Plan on behalf of its retired employees.

EFFECTIVE DATE: July 1, 2009

ESTIMATED IMPACT ON STATE:

The consulting actuary for the Plan, Aon Consulting, estimates a financial impact to the Plan if Coastal Regional Solid Waste Management Authority elects to participate in the Plan. Aon Consulting estimates the Authority group would generate a mid-point loss of \$119,419 to the Plan for the 2009-2010 fiscal year assuming an average loss ratio of 149% for the Authority's participating group. In the absence of actual prior claims experience for the Authority, Aon Consulting used an estimated loss ratio to account for potential adverse selection against the Plan where the premiums charged to the group for coverage may not be sufficient to cover their respective medical claims.

Hartman & Associates, consulting actuary for the General Assembly's Fiscal Research Division, estimates that the financial impact to the Plan would not be significant if the Coastal Regional Solid Waste Management Authority elects to participate in the Plan. Hartman and Associates noted that the employee demographics of the Authority are similar to current Plan member demographics, and that given the minimal number of prospective employees to be enrolled, there is not expected to be a material impact. However, Hartman and Associates did note that prior claims experience for the Authority was not available and that adverse selection could potentially occur for this group and thereby increase costs to the Plan.

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.

The Authority was requested to provide two years of prior medical claims related data, but their incumbent insurer declined to provide the information to the Authority since they are part of a small group health insurance pool.

The following Distribution of Participants table for the Coastal Regional Solid Waste Management Authority was used for this analysis.

Distribution of Participants – Coastal Regional Solid Waste Management Authority

Ages	Active Employees			Dependents of Active Employees			Retired Employees			Dependents of Retired Employees		
	Male	Female	Total	Male	Female	Total	Male	Female	Total	Male	Female	Total
0-4			0		1	1			0			0
5-9			0	1		1			0			0
10-14			0	3	1	4			0			0
15-19			0	5	5	10			0			0
20-24	2		2			0			0			0
25-29	2	1	3			0			0			0
30-34	1		1		3	3			0			0
35-39	5		5		2	2			0			0
40-44	2	3	5			0			0			0
45-49	5	1	6	1	2	3			0			0
50-54	4	1	5		1	1			0			0
55-59	6	1	7		2	2			0			0
60-64	2		2			0			0			0
65-69		1	1			0			0			0
70-74			0			0			0			0
75-79			0			0			0			0
>79			0			0			0			0
Unknown			0			0			0			0
TOTAL	29	8	37	10	17	27	0	0	0	0	0	0

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.

As of July 1, 2008, 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 \$2.6 billion for FY 2008-09. The Plan's PPO benefit design includes three alternative benefit levels offered to plan members. The three alternative benefit levels include the following:

- 1) The "Basic" 70/30 plan that offers higher out-of pocket requirements in return for lower fully contributory dependent premiums;
- 2) The "Standard" 80/20 plan; and
- 3) The "Plus" 90/10 plan with enhanced benefits via lower out-of pocket requirements as compared to the other PPO plan alternatives offered.

As of July 1, 2009, the State will continue to finance the Plan on a self-funded basis and administers benefit coverage under a Preferred Provider Option (PPO) arrangement. The Plan's receipts will be derived through premium contributions, investment earnings and other receipts. Premiums for health benefit coverage will be 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 \$2.5 billion for FY 2009-10 and \$2.7 billion for FY 2010-11. The Plan's PPO benefit design will include 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.

Financial Condition

Financial Projection (Revised Summer 2008) for FY 2008-09 -- For the fiscal year beginning July 1, 2008, the Plan began its operations with a beginning cash balance of \$139.8 million. Receipts for the year were projected to be \$2.3 billion from premium collections, \$53.9 million from Medicare Part D subsidies, and \$2.7 million from investment earnings, for a total of slightly over \$2.3 billion in receipt income for the year. Projected disbursements from the Plan were expected to be \$2.4 billion in claim-

payment expenses and \$168.7 million in administration and claims-processing expenses for projected total expenses of nearly \$2.6 billion for FY 2008-09. The Plan's net operating loss was projected to be approximately \$264.4 million for the fiscal year, assuming a 9% annual claims growth trend.

Projected operating losses were expected to deplete the Plan's cash balance of \$139.8 million and leave it without sufficient operating resources to continue operations for the fiscal year.

Financial Projection (Revised April 2009) for FY 2008-09 -- For the fiscal year beginning July 1, 2008, the Plan began its operations with a beginning cash balance of \$139.8 million. Receipts for the year are projected to be \$2.3 billion from premium collections, \$49.0 million from Medicare Part D subsidies, \$3.3 million from investment earnings, and \$250.0 million from a direct General Fund appropriation from the Rainy Day Fund (Savings Reserve Account) for a total of approximately \$2.6 billion in receipt income for the year. The \$250 million from a direct General Fund appropriation was provided by Session Law 2009-16 (Senate Bill 287) to finance a shortfall in funds available to pay health care benefits, administrative costs, and adequately fund the Plan's beginning cash balance on July 1, 2009. Projected disbursements from the Plan are expected to be \$2.4 billion in claim-payment expenses and \$180.7 million in administration and claims-processing expenses for projected total expenses of nearly \$2.6 billion for FY 2008-09. The Plan's net operating income is projected to be approximately \$7.1 million for the fiscal year, assuming a 9% annual claims growth trend.

Financial Projection 2009-11 Biennium (April 2009) – Session Law 2009-16 (Senate Bill 287) appropriates funds from various sources, authorizes annual premium rate increases, makes various benefit and provider related changes to achieve financial savings, and directs other various changes to the Plan. The enacted law also appropriates the sum of \$250 million from the Savings Reserve Account ("Rainy Day Fund") of the General Fund for the 2008-09 fiscal year. The following summarized financial projections by fiscal year for the 2009-11 biennium assume the changes enacted in Session Law 2009-16 (Senate Bill 287).

For the fiscal year beginning July 1, 2009, the Plan is projected to begin its operations with a beginning cash balance of \$146.9 million. Receipts for the year are projected to be \$2.4 billion from premium collections, \$56.3 million from Medicare Part D subsidies, and \$8.0 million from investment earnings for a total of approximately \$2.5 billion in receipt income for the year. Projected disbursements from the Plan are expected to be \$2.3 billion in claim-payment expenses and \$185.6 million in administration and claims-processing expenses for projected total expenses of nearly \$2.5 billion for FY 2008-09. The Plan's net operating income is projected to be approximately \$14.8 million for the fiscal year, assuming a 9% annual claims growth trend and an annual premium increase of 8.9% effective July 1, 2009.

For the fiscal year beginning July 1, 2010, the Plan is projected to begin its operations with a beginning cash balance of \$146.9 million. Receipts for the year are projected to be \$2.7 billion from premium collections, \$50.4 million from Medicare Part D subsidies, and \$8.8 million from investment earnings for a total of approximately \$2.7 billion in receipt income for the year. Projected disbursements from the Plan are expected to be \$2.5 billion in claim-payment expenses and \$191.7 million in administration and claims-processing expenses for projected total expenses of nearly \$2.7 billion for FY 2010-11. The Plan's net operating income is projected to be approximately \$30.6 million for the fiscal year, assuming a 9% annual claims growth trend and an annual premium increase of 8.9% effective July 1, 2010.

Other Information

Historically, the Plan has applied a premium increase in October of the first fiscal year of a biennium. However, the annual premium increases authorized in Session Law 2009-16 (Senate Bill 287) changes that methodology to an annual increase at the beginning of each fiscal year of the 2009-11 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% annually according to the Plan's consulting actuary. Investment earnings are based upon a 4.5% return on available cash balances.

Enrollment Data as of December 31, 2008

I. No. of Participants	Basic	Standard	Plus	Total	Percent of Total
<u>Actives</u>					
Employees	11,623	271,243	47,687	330,553	49.6%
Dependents	20,454	115,875	28,156	164,485	24.7%
Sub-tot al	32,077	387,118	75,843	495,038	74.2%
<u>Retired</u>					
Employees	1,726	127,081	17,967	146,774	22.0%
Dependents	1,117	14,935	3,476	19,528	2.9%
Sub-tot al	2,843	142,016	21,443	166,302	24.9%
Former Employees with					
<u>Continuation Coverage</u>					
Employees	60	1,349	344	1,753	0.3%
Dependents	61	501	182	744	0.1%
Sub-tot al	121	1,850	526	2,497	0.4%
Firefighters, Rescue Squad &					
<u>National Guard</u>					
Employees	-	3	2	5	0.0%
Dependents	-	3	-	3	0.0%
Sub-tot al	-	6	2	8	0.0%
Local Governments					
Employees	72	1,577	319	1,968	0.3%
Dependents	141	637	218	996	0.1%
Sub-tot al	213	2,214	537	2,964	0.4%
Total					
Employees	13,481	401,253	66,319	481,053	72.1%
Dependents	21,773	131,951	32,032	185,756	27.9%
Grand Total	35,254	533,204	98,351	666,809	100%
Percent of Total	5.3%	80.0%	14.7%	100.0%	

II. Enrollment by Contract	Basic	Standard	Plus	Total
Employee Only	2,684	328,635	49,246	380,565
Employee Child(ren)	4,958	36,903	8,589	50,450
Employee Spouse	2,274	18,145	4,469	24,888
Employee Family	3,565	17,570	4,015	25,150
Total	13,481	401,253	66,319	481,053
Percent Enrollment by Contract				
Employee Only	19.9%	81.9%	74.3%	79.1%
Employee Child(ren)	36.8%	9.2%	13.0%	10.5%
Employee Spouse	16.9%	4.5%	6.7%	5.2%
Employee Family	26.4%	4.4%	6.1%	5.2%
Total	100.0%	100.0%	100.0%	100.0%

Enrollment Data Continued

III. Enrollment by Sex	Basic	Standard	Plus	Total
Female	18,837	334,917	61,752	415,506
Male	16,417	198,287	36,599	251,303
Total	35,254	533,204	98,351	666,809

Percent Enrollment by Sex	Basic	Standard	Plus	Total
Female	53.4%	62.8%	62.8%	62.3%
Male	46.6%	37.2%	37.2%	37.7%
Total	100.0%	100.0%	100.0%	100.0%

IV. Enrollment by Age	Basic	Standard	Plus	Total
29 & Under	17,390	136,277	27,211	180,878
30 to 44	8,125	107,375	17,315	132,815
45 to 54	5,164	94,548	18,277	117,989
55 to 64	3,195	102,901	23,452	129,548
65 & Over	1,380	92,103	12,096	105,579
Total	35,254	533,204	98,351	666,809

Percent Enrollment by Age	Basic	Standard	Plus	Total
29 & Under	49.3%	25.6%	27.7%	27.1%
30 to 44	23.0%	20.1%	17.6%	19.9%
45 to 54	14.6%	17.7%	18.6%	17.7%
55 to 64	9.1%	19.3%	23.8%	19.4%
65 & Over	3.9%	17.3%	12.3%	15.8%
Total	100.0%	100.0%	100.0%	100.0%

V. Retiree Enrollment by Category	Employee	Dependents	Total
Non-Medicare Eligible	49,534	12,080	61,614
Medicare Eligible	97,240	7,448	104,688
Total	146,774	19,528	166,302

Percent by Category (Retiree)	Employee	Dependents	Total
Non-Medicare Eligible	33.7%	61.9%	37.0%
Medicare Eligible	66.3%	38.1%	63.0%
Total	100.0%	100.0%	100.0%

SOURCES OF DATA:

-Actuarial Note, Hartman & Associates, "House Bill 751: An Act to Authorize the coastal Regional Solid Waste management Authority to Enroll Its Employees and Retirees in the State Health Plan for Teachers and State Employees, May 4, 2009, original of which is on file in the General Assembly's Fiscal Research Division.

-Actuarial Note, Aon Consulting, "House Bill 751 Coastal Regional Solid Waste Management Authority/State Health Plan", May 5, 2009, original of which is on file with the State Health 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: Marilyn Chism, Director
Fiscal Research Division

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