GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2009

Legislative Actuarial Note

HEALTH BENEFITS

BILL NUMBER: House Bill 1931 (First Edition)

SHORT TITLE: State Health Plan/Add Local Government.

SPONSOR(S): Representatives Frye and Rapp

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 1931 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). The bill provides Yancey County with the option to become an employing unit under the Plan for the purpose of providing health benefits to the County's employees, retired employees, and their eligible spouses and dependent children.

EFFECTIVE DATE: July 1, 2010

ESTIMATED IMPACT ON STATE:

Aon Consulting, consulting actuary for the Plan, estimates the County would generate a mid-point cost of $433,225 to the Plan for the 2010-2011 fiscal year.

Hartman & Associates, consulting actuary for the General Assembly's Fiscal Research Division, estimates an average annual cost to the Plan of between $900,000 and $1,200,000 per year if Yancey County were to become a participating employer beginning with the 2010-2011 fiscal year.

The additional cost impact of the requirements of the bill, projected by either consulting actuary, would be expected to impact total claims growth by approximately five one hundredths of one percent (0.05%) for the 2010-2011 fiscal year based on the highest estimate of additional cost (i.e., $1,200,000).

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.

Yancey County provided benefit summaries and claims data for the period September 2008 through September 2009 that reflects 12-month rolling claims experience month by month. For the 12-month period ending September 2009, the County experienced total medical claims of $1.79 million. Based on the experience data provided, the County experienced a 12-month rolling medical loss ratio of 149.8% for the period October 2008 through September 2009 and 108.7% for the prior 12-month period. The reported loss ratios indicate that medical and pharmacy claims for the County exceed premiums paid by the County for benefit coverage.

Benefit coverage offered by the County includes a Preferred Provider Option (PPO) and a High Deductible Health Plan paired with a Health Savings Account. The PPO plan offered enrolls 179 plan members or 79.5% of the County's total membership of 225 participants. As compared to the State Health Plan's PPO Standard Plan, the County's benefits are slightly less rich on average and the premiums charged by the County are moderately greater than those charged by the State Health Plan.

The County experienced total "large" claims of $450,653 for the period November 1, 2007, through October 31, 2008, which represented approximately 38% of total claims. For the subsequent 12-month period November 1, 2008 through October 31, 2009, total large claims were $949,260 or an estimated 53% of total claims. Large claims for the purpose of the actuarial analyses were defined as total annual claims greater than $55,000 for a single plan member per year.

The following Distribution of Participants table for the County was also used for the respective actuarial analyses:

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 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.

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, 2009, 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 *revised* requirements for the Plan are estimated to be \$2.55 billion for FY 2009-10 and \$2.74 billion for FY 2010-11. 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.

Financial Condition

Revised Financial Projection 2009-11 Biennium – The following summarizes a revised financial projection conducted by the Plan's consulting actuary, Aon Consulting, for the 2009-11 biennium. The information is provided by fiscal year based on year-to-date financial experience (through March 2010) and other updated factors.

For the fiscal year beginning July 1, 2009, the Plan began its operations with a beginning cash balance of \$189.9 million. Receipts for the year are projected to be \$2.41 billion from net premium collections, \$74.4 million from Medicare Part D subsidies, and \$3.4 million from investment earnings for a total of approximately \$2.49 billion in receipt income for the year. Projected disbursements from the Plan are expected to be \$2.39 billion in net claim-payment expenses and \$164.1 million in administration and claims-processing expenses for projected total expenses of nearly \$2.55 billion for FY 2009-10. The Plan's net operating loss is projected to be approximately \$66.3 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 \$123.6 million. Receipts for the year are projected to be \$2.68 billion from net premium collections, \$56.1 million from Medicare Part D subsidies, and \$2.7 million from investment earnings for a total of approximately \$2.73 billion in receipt income for the year. Projected disbursements from the Plan are expected to be \$2.55 billion in net claim-payment expenses and \$191.7 million in administration and claims-processing expenses for projected total expenses of nearly \$2.74 billion for FY 2010-11. The

Plan's net operating loss is projected to be approximately $7.1 million for the fiscal year, assuming a 9% annual claims growth trend and an annual premium increase of 8.9% effective July 1, 2010.

Based on the revised financial projection (May 2010), the Plan's estimated ending cash balance on June 30, 2011 is projected to be $116.5 million. This amount is approximately $75.7 million less than the originally projected (April 2009) ending cash balance of $192.2 million.

Original Financial Projection 2009-11 Biennium (April 2009) – Session Law 2009-16 (Senate Bill 287) appropriated funds from various sources, authorized annual premium rate increases, made various benefit and provider related changes to achieve financial savings, and directed other various changes to the Plan. The enacted law also appropriated 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 summarizes the original financial projection by fiscal year for the 2009-11 biennium and assumes the changes enacted in Session Law 2009-16 (Senate Bill 287).

For the fiscal year beginning July 1, 2009, the Plan was projected to begin its operations with a beginning cash balance of $146.9 million. Receipts for the year were projected to be $2.4 billion from net 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 were expected to be $2.3 billion in net claim-payment expenses and $185.6 million in administration and claims-processing expenses for projected total expenses of nearly $2.5 billion for FY 2009-10. The Plan's net operating income was 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 was projected to begin its operations with a beginning cash balance of $161.6 million. Receipts for the year were projected to be $2.7 billion from net 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 were expected to be $2.5 billion in net 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 was 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 as of December 31, 2009

I.	No. of Participants	Basic	Standard	Total	Percent of Total
	Actives				
	Employees	13,830	307,541	321,371	48.6%
	Dependents	24,593	135,563	160,156	24.2%
	Sub-total	38,423	443,104	481,527	72.8%
	Retired				
	Employees	2,074	151,395	153,469	23.2%
	Dependents	1,313	18,075	19,388	2.9%
	Sub-total	3,387	169,470	172,857	26.1%
	Former Employees with Continuation Coverage				
	Employees	121	3,120	3,241	0.5%
	Dependents	87	749	836	0.1%
	Sub-total	208	3,869	4,077	0.6%
	Firefighters, Rescue Squad & National Guard				
	Employees	-	5	5	0.0%
	Dependents	-	3	3	0.0%
	Sub-total	-	8	8	0.0%
	Local Governments				
	Employees	91	1,829	1,920	0.3%
	Dependents	174	777	951	0.1%
	Sub-total	265	2,606	2,871	0.4%
	Total				
	Employees	16,116	463,885	480,001	72.6%
	Dependents	26,167	155,164	181,331	27.4%
	Grand Total	**42,283**	**619,049**	**661,332**	**100%**
	Percent of Total	**6.4%**	**93.6%**	**100.0%**	

II. Enrollment by Contract

Enrollment by Contract	Basic	Standard	Total
Employee Only	3,252	378,539	381,791
Employee Child(ren)	6,026	43,820	49,846
Employee Spouse	2,550	21,785	24,335
Employee Family	4,288	19,741	24,029
Total	**16,116**	**463,885**	**480,001**

Percent Enrollment by Contract	Basic	Standard	Total
Employee Only	20.2%	81.6%	79.5%
Employee Child(ren)	37.4%	9.4%	10.4%
Employee Spouse	15.8%	4.7%	5.1%
Employee Family	26.6%	4.3%	5.0%
Total	**100.0%**	**100.0%**	**100.0%**

III. Enrollment by Sex

Enrollment by Sex	Basic	Standard	Total
Female	22,479	390,209	412,688
Male	19,804	228,840	248,644
Total	**42,283**	**619,049**	**661,332**

Percent Enrollment by Sex	Basic	Standard	Total
Female	53.2%	63.0%	62.4%
Male	46.8%	37.0%	37.6%
Total	**100.0%**	**100.0%**	**100.0%**

IV. Enrollment by Age

Enrollment by Age	Basic	Standard	Total
19 & Under	17,315	95,431	112,746
20 to 29	3,311	57,142	60,453
30 to 44	9,555	120,292	129,847
45 to 54	6,455	108,447	114,902
55 to 64	4,090	128,933	133,023
65 & Over	1,557	108,804	110,361
Total	**42,283**	**619,049**	**661,332**

Percent Enrollment by Age	Basic	Standard	Total
19 & Under	41.0%	15.4%	17.0%
20 to 29	7.8%	9.2%	9.1%
30 to 44	22.6%	19.4%	19.6%
45 to 54	15.3%	17.5%	17.4%
55 to 64	9.7%	20.8%	20.1%
65 & Over	3.7%	17.6%	16.7%
Total	**100.0%**	**100.0%**	**100.0%**

V. Retiree Enrollment by Category	Employee	Dependents	Total
Non-Medicare Eligible	51,747	11,879	63,626
Medicare Eligible	101,722	7,509	109,231
Total	**153,469**	**19,388**	**172,857**

VI. Enrollment By Major Employer Groups	Employees	Dependents	Total
State Agencies	75,367	34,645	110,012
UNC System	50,106	29,726	79,832
Local Public Schools	181,270	88,258	269,528
Local Community Colleges	14,623	7,524	22,147
Other			
Local Goverments	1,920	951	2,871
COBRA	3,241	836	4,077
Nat. Guard, Fire & Rescue	5	3	8
Sub-total	5,166	1,790	6,956
Retirement System	153,469	19,388	172,857
Total	**480,001**	**181,331**	**661,332**

Percent Enrollment by Major Employer Groups	Employees	Dependents	Total
State Agencies	15.7%	19.1%	16.6%
UNC System	10.4%	16.4%	12.1%
Local Public Schools	37.8%	48.7%	40.8%
Local Community Colleges	3.0%	4.1%	3.3%
Other			
Local Goverments	0.4%	0.5%	0.4%
COBRA	0.7%	0.5%	0.6%
Nat. Guard, Fire & Rescue	0.0%	0.0%	0.0%
Sub-total	1.1%	1.0%	1.1%
Retirement System	32.0%	10.7%	26.1%
Total	100.0%	100.0%	100.0%

SOURCES OF DATA:

-Actuarial Note, Hartman & Associates, "House Bill 1931: An Act to Authorize Yancey County to Enroll Its Employees or Retirees in the State Health Plan for Teachers and State Employees, June 21, 2010, an original of which is on file in the General Assembly's Fiscal Research Division.

-Actuarial Note, Aon Consulting, "House Bill 1931 Yancey County/State Health Plan", June 11, 2010, original of which is on file with the State Health Plan for Teachers and State Employees and the General Assembly's Fiscal Research Division.

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