



NORTH CAROLINA GENERAL ASSEMBLY

Session 2017

Legislative Actuarial Note

Health Benefits

Short Title: Add Piedmont Community Charter School to SHP.
Bill Number: House Bill 935 (First Edition)
Sponsor(s): Representative Torbett

SUMMARY TABLE

ACTUARIAL IMPACT OF H.B. 935, V.1 (\$ in thousands)

	<u>FY 2018-19</u>	<u>FY 2019-20</u>	<u>FY 2020-21</u>	<u>FY 2021-22</u>	<u>FY 2022-23</u>
State Impact					
State Health Plan Net Loss	73 to 254	78 to 273	84 to 294	91 to 316	97 to 339
NET STATE IMPACT	\$73 to \$254	\$78 to \$273	\$84 to \$294	\$91 to \$316	\$97 to \$339

Any impact on State Health Plan financials does not directly translate to an impact on State appropriations in the short-run, but is likely to impact appropriations in the long-run.

ACTUARIAL IMPACT SUMMARY

House Bill 935 (First Edition) permits the Board of Directors of Piedmont Community Charter School (School), a public charter school, to become a participating employer under the State Health Plan (Plan) within 30 days after the act becomes law. Under G.S. 135-48.54, an election to join the Plan by the board of a charter school is irrevocable and shall require all eligible employees of the charter school to participate.

The Segal Company, the consulting actuary for the Plan, estimates a financial loss to the Plan of \$254,000 for FY 2018-2019 if the School elects to participate in the Plan. Segal used the average of two different methods to estimate claims for the School, taking into account the School's current benefit design, the demographics of the School's current participants, and a 150% assumed adverse selection factor.

Hartman & Associates, the consulting actuary for the General Assembly, estimates that the financial impact on the Plan would be \$73,000 to \$184,000 per year upon the School electing to participate in the Plan, reflecting an adverse selection factor of 0% to 20%.

The additional cost impact of the bill, projected by either consulting actuary, would be expected to impact total claims growth by approximately one thousandth of one percent (0.02%) for the 2018-2019 fiscal year based on the highest estimate of additional cost (i.e., \$254,000).

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.

Data Submitted by the School

The Segal Company and Hartman & Associates based their respective analyses on a distribution of participants schedule and details of the School's current health benefit program submitted by the School. The age and sex distribution of 72 employees and 22 dependents participating in the School's health benefit program, considered in isolation, indicates a group that would have 1% to 4% lower claims than existing Plan members. Details of benefits and premiums in the School's current program include:

- In-network office visit and therapy co-pay: \$30 Primary Care; \$60 Specialist
- Preventive care: \$0
- Deductible: \$2,500 (individual, in-network)
- Out-of-pocket maximum: \$6,000 (individual, in-network)
- Inpatient and outpatient hospital: 30% coinsurance after deductible (in-network)
- Prescription drug co-pays: \$10 generic; \$50 preferred brand
- Employer monthly premium: \$633 per employee

Complete claims experience data is usually unavailable on a group this size.

Summary Information and Data about the State Health Plan (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 and charter schools may also participate in the Plan under certain conditions.

The State finances the Plan on a self-funded basis and administers benefit coverage under a Preferred Provider Option (PPO) arrangement, with the exception of many Medicare-eligible retirees who are in fully-insured Medicare Advantage plans. 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 participate in a plan with a non-zero premium or who elect dependent coverage. Benefit and premium changes are typically effective at January 1. The Plan's PPO benefit design includes two alternative benefit levels listed below:

- 1) The 70/30 Plan that offers higher out-of-pocket requirements in return for lower employee and retiree premiums, and



- 2) The 80/20 Plan that offers lower out-of-pocket requirements with higher employee and retiree premiums.

Medicare-eligible retirees are offered three alternative plans:

- 1) The 70/30 Plan as coverage secondary to Medicare for medical services plus a pharmacy benefit plan,
- 2) "Base" Medicare Advantage Prescription Drug Plan (MA-PDP) from United Healthcare, that is actuarially equivalent to the 80/20 Plan and applies in-network out-of-pocket requirements at out-of-network providers
- 3) "Enhanced" MA-PDP, identical to the "Base" MA-PDP, except with lower co-pays and higher retiree premiums

The following tables provide a summary of the most common monthly premium rates for the Plan in 2018:

Active Employees and Non-Medicare Retirees (if Fully Subsidized)

	Employer Share	Employee/Retiree Share	
		Complete Tobacco Attestation	Do Not Complete Attestation
70/30 Plan	\$499	\$25 *	\$85 *
80/20 Plan	\$499	\$50	\$110

* \$0 for Non-Medicare Retirees

Medicare Retirees (if Fully Subsidized)

Medicare Advantage Plans

	Employer Share	Employee/Retiree Share
MA-PDP Base Plan	\$387	\$0
MA-PDP Enhanced Plan	\$387	\$66

Alternate Plan

	Employer Share	Employee/Retiree Share
Traditional 70/30 Plan	\$387	\$0

Dependents (paid by employee/retiree in addition to premiums above)

	All Dependents are Non-Medicare		One or More Medicare Dependents		
	70/30 Plan	80/20 Plan	MA-PDP Base	MA-PDP Enhanced	70/30 Plan
Employee/Retiree + Children	\$193	\$255	\$124	\$190	\$155
Employee/Retiree + Spouse	\$565	\$650	\$124	\$190	\$425
Employee/Retiree + Family	\$573	\$670	\$248	\$380	\$444

The employer share of premiums for retirees is paid from the Retiree Health Benefit Fund. During FY 2017-18, employers contribute 6.05% of active employee payroll into the Fund. Total contributions for the year are projected to be approximately \$1,058 million.

Financial Condition

Projected Results for CY 2018 and CY 2019 – The following summarizes projected financial results for 2018 and 2019, based on financial experience through December 2017. The projection assumes a 7.0% annual claims growth trend for medical claims, an 8.5% trend for pharmacy claims, benefit provisions and member-paid premiums as currently adopted by the Board, and 4% employer premium increases in 2019.

	(\$ millions)	
	Projected CY 2018	Projected CY 2019
Beginning Cash Balance	\$1,009.9	\$966.1
Receipts:		
Net Premium Collections	\$3,553.8	\$3,694.8
Medicare Subsidies	\$10.4	\$9.5
Investment Earnings	\$8.2	\$8.4
Total	\$3,572.4	\$3,712.6
Disbursements:		
Net Medical Claim Payment Expenses	\$2,482.6	\$2,549.4
Net Pharmacy Claim Payment Expenses	\$699.9	\$733.8
Medicare Advantage Premiums	\$227.3	\$253.1
Administration and Claims-Processing Expenses	\$206.6	\$199.7
Total	\$3,616.3	\$3,736.0
Net Operating Income (Loss)	(\$43.9)	(\$23.4)

Of the premiums paid in CY 2018, an estimated \$2.3 billion is derived from General Fund sources and an estimated \$0.1 billion is derived from Highway Fund sources.

Other Information

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, fraud detection, and other authorized actions by the State Treasurer, Executive Administrator, and Board of Trustees to manage the Plan to maintain and improve the Plan's operation and financial condition where possible. Medical claim costs are expected to increase at a rate of 7.0% annually and pharmacy claim costs are expected to increase at a rate of 8.5% annually according to assumptions adopted by the Board of Trustees. The active population is projected to remain unchanged, the pre-Medicare retiree population is projected to decrease by 1% per year and the Medicare-eligible retiree population is projected to increase by 3% per year.



Enrollment as of January 1, 2018

I. No. of Participants	Traditional 70/30	Enhanced 80/20	Medicare Advantage	Total	Percent of Total
<u>Actives</u>					
Employees	124,269	182,757	-	307,026	42.2%
Dependents	<u>82,915</u>	<u>92,226</u>	<u>-</u>	<u>175,141</u>	<u>24.1%</u>
Sub-total	207,184	274,983	-	482,167	66.3%
<u>Retired</u>					
Employees	45,726	24,657	133,096	203,479	28.0%
Dependents	<u>7,849</u>	<u>5,359</u>	<u>10,790</u>	<u>23,998</u>	<u>3.3%</u>
Sub-total	53,575	30,016	143,886	227,477	31.3%
<u>Other</u>					
Employees	3,708	7,933	-	11,641	1.6%
Dependents	<u>2,311</u>	<u>3,604</u>	<u>-</u>	<u>5,915</u>	<u>0.8%</u>
Sub-total	6,019	11,537	-	17,556	2.4%
<u>Total</u>					
Employees	173,703	215,347	133,096	522,146	71.8%
Dependents	<u>93,075</u>	<u>101,189</u>	<u>10,790</u>	<u>205,054</u>	<u>28.2%</u>
Grand Total	266,778	316,536	143,886	727,200	100%
Percent of Total	36.7%	43.5%	19.8%	100.0%	
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II. Enrollment by Contract	Traditional	Enhanced	MA	Total	
Employee Only	129,477	164,903	122,306	416,686	
Employee Child(ren)	26,732	32,463	217	59,412	
Employee Spouse	5,325	6,371	10,573	22,269	
Employee Family	<u>12,169</u>	<u>11,610</u>		<u>23,779</u>	
Total	173,703	215,347	133,096	522,146	
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Percent Enrollment by Contract	Traditional	Enhanced	MA	Total	
Employee Only	74.5%	76.6%	91.9%	79.8%	
Employee Child(ren)	15.4%	15.1%	0.2%	11.4%	
Employee Spouse	3.1%	3.0%	7.9%	4.3%	
Employee Family	<u>7.0%</u>	<u>5.4%</u>	<u>0.0%</u>	<u>4.6%</u>	
Total	100.0%	100.0%	100.0%	100.0%	
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III. Enrollment by Sex	Traditional	Enhanced	MA	Total	
Female	153,721	202,334	95,551	451,606	
Male	<u>113,057</u>	<u>114,202</u>	<u>48,335</u>	<u>275,594</u>	
Total	266,778	316,536	143,886	727,200	
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Percent Enrollment by Sex	Traditional	Enhanced	MA	Total	
Female	57.6%	63.9%	66.4%	62.1%	
Male	<u>42.4%</u>	<u>36.1%</u>	<u>33.6%</u>	<u>37.9%</u>	
Total	100.0%	100.0%	100.0%	100.0%	



IV. Enrollment by Age	Traditional	Enhanced	MA	Total
25 & Under	80,100	87,509	17	167,626
26 to 45	70,847	87,100	304	158,251
46 to 55	46,043	65,072	1,233	112,348
56 to 65	46,604	71,135	13,372	131,111
66 & Over	23,184	5,720	128,960	157,864
Total	266,778	316,536	143,886	727,200
Percent Enrollment by Age	Traditional	Enhanced	MA	Total
25 & Under	30.0%	27.6%	0.0%	23.1%
26 to 45	26.6%	27.5%	0.2%	21.8%
46 to 55	17.3%	20.6%	0.9%	15.4%
56 to 65	17.5%	22.5%	9.3%	18.0%
66 & Over	8.7%	1.8%	89.6%	21.7%
Total	100.0%	100.0%	100.0%	100.0%
V. Retiree Enrollment by Category		Employee	Dependents	Total
Non-Medicare Eligible		46,750	12,447	59,197
Medicare Eligible in Traditional 70/30		23,633	761	24,394
Medicare Eligible in Base MA Plan		114,255	8,100	122,355
Medicare Eligible in Enhanced MA Plan		18,841	2,690	21,531
Total		203,479	23,998	227,477
Percent Enrollment by Category (Retiree)		Employee	Dependents	Total
Non-Medicare Eligible		23.0%	51.9%	26.0%
Medicare Eligible in Traditional 70/30		11.6%	3.2%	10.7%
Medicare Eligible in Base MA Plan		56.2%	33.8%	53.8%
Medicare Eligible in Enhanced MA Plan		9.3%	11.2%	9.5%
Total		100.0%	100.0%	100.0%
VI. Enrollment By Major Employer Groups		Employees	Dependents	Total
State Agencies		66,927	33,280	100,207
UNC System		53,842	35,616	89,458
Local Public Schools		166,429	93,952	260,381
Charter Schools (89 entities)		4,443	3,058	7,501
Local Community Colleges		15,385	9,235	24,620
Other				
Local Governments (129 entities)		10,814	5,243	16,057
COBRA		827	672	1,499
Retirement System		203,479	23,998	227,477
Total		522,146	205,054	727,200
Percent Enrollment by Major Employer Groups		Employees	Dependents	Total
State Agencies		12.8%	16.2%	13.8%
UNC System		10.3%	17.4%	12.3%
Local Public Schools		31.9%	45.8%	35.8%
Charter Schools		0.9%	1.5%	1.0%
Local Community Colleges		2.9%	4.5%	3.4%
Other				
Local Governments		2.1%	2.6%	2.2%
COBRA		0.2%	0.3%	0.2%
Retirement System		39.0%	11.7%	31.3%
Total		100.0%	100.0%	100.0%



TECHNICAL CONSIDERATIONS

N/A.

DATA SOURCES

The Segal Company; baseline financial projections updated through Q4 CY2017 with preliminary estimates of impact of 2018 enrollment; dated February 23, 2018. Filename "CY17 Q4 - Baseline - with Jan 2018 Census + Revenue Seasonality.pdf"

-Actuarial Note, Hartman & Associates, "Draft Bill: An Act to Authorize Piedmont Community Charter School to Elect to Participate in the State Health Plan for Teachers and State Employees", May 2, 2018, original of which is on file in the General Assembly's Fiscal Research Division.

-Actuarial Note, The Segal Company, Bill Draft 2017-MR-111 [V.3], "Add Piedmont Community Charter School to State Health Plan", April 26, 2018, original of which is on file with the State Health Plan for Teachers and State Employees and the General Assembly's Fiscal Research Division.

LEGISLATIVE ACTUARIAL NOTE – PURPOSE AND LIMITATIONS

This document is an official actuarial analysis prepared pursuant to Chapter 120 of the General Statutes and rules adopted by the Senate and House of Representatives. The estimates in this analysis are based on the data, assumptions, and methodology described above. This document only addresses sections of the bill that have projected direct actuarial impacts on State employee health benefit programs and does not address sections that have no projected actuarial impacts.

CONTACT INFORMATION

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Signed copy located in the NCGA Principal Clerk's Offices