

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE ACTUARIAL NOTE

BILL NUMBER: House Committee Substitute for House Bill 230, Sections 7.21, 7.24, 7.25, 7.26, 7.27, and 7.28

SHORT TITLE: 1995 Expansion and Capital Improvement Appropriations Act

SPONSOR(S): Representatives Billy Creech, George Holmes, and Theresa Esposito

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

BILL SUMMARY: Enhances the benefits under the indemnity program of the Teachers' and State Employees' Comprehensive Major Medical Plan as follows:

Wellness: (a) Covers routine diagnostic examinations at 100% of allowable charges up to \$150 per member per year, in addition to 100% of allowable charges for immunizations, without application of the Plan's \$250 annual deductible and 20% coinsurance up to \$1,000 annually paid by beneficiaries; allowable charges in excess of \$150 per member per year would continue to be covered by the Plan subject to the current annual deductible and coinsurance limitations paid by Plan members. (b) Reduces the minimum age at which Plan members can receive annual routine diagnostic examinations covered by the Plan from 55 to 50; Plan members age 40 to 49 would continue to be able to get routine diagnostic examination coverage every other year.

Lifetime Maximum Benefits: Increases the program's \$1,000,000 lifetime maximum benefit to \$2,000,000.

Oral Dental Surgery: Coverage provided by the Plan when necessitated by medical treatments for other conditions.

Hospital Inpatient Admission Certification: Plan members failing to get pre-certification of an inpatient admission not subjected to a financial penalty if the admission would have been approved had pre-certification been requested before the admission.

Unemployed Employees from Budget Reduction: Employees losing their jobs due to reductions in force from State budget cuts could maintain non-contributory coverage under the Plan for up to 12 months following notification of job loss. Fully contributory

premiums without any limitation would be available after the initial 12-month period following a reduction in force.

Pro-Rated Retiree Premiums Based on Retirement Service Credit: For employees or State officers first hired or taking office on and after October 1, 1995, future coverage as retirees under the Plan will subject them to fully contributory premiums if they have less than 10 years of retirement service credit, and 50% partially contributory premiums if they have 10 but less than 20 years of retirement service credit. For retirees with 20 or more years of retirement service credit, premiums under the Plan would continue to be non-contributory.

EFFECTIVE DATE: July 1, 1995, except for the increase in the program's maximum lifetime benefit which is retroactive to January 1, 1994, in order to cover denied claims of Plan members who reached the Plan's \$1,000,000 claim limit before July 1, 1995.

ESTIMATED IMPACT ON STATE: Based upon information supplied by the Teachers' and State Employees' Comprehensive Major Medical Plan and its claims processor, the consulting actuary for the Plan, Alexander & Alexander Consulting Group, Inc., and the consulting actuary of the General Assembly's Fiscal Research Division, Dilts, Umstead & Dunn, both estimate the additional cost to the Plan for the 1995-96 fiscal year to be \$6.1 million.

For the 1996-97 fiscal year, the Plan's consulting actuary estimates the additional cost to be \$8.9 million whereas the Fiscal Research Division's consulting actuary estimates the additional cost to be \$8.6 million, reflecting lower rates of utilization for the second year of the 1995-97 biennium. For outlying years, using claim cost trend increases of 10% annually adopted by both consulting actuaries, additional costs to the Plan from the bill are estimated to be \$9,829,000 for fiscal year 1997-98, \$10,812,000 for fiscal year 1998-99, and \$11,893,000 for fiscal year 1999-2000. No additional General or Highway Fund appropriations would be required for the bill until the 1997-99 biennium, because of accumulated reserves in the Plan's indemnity program based upon current premiums and anticipated claim costs.

As far as premium savings to the State Retirement Systems from pro-rated retiree premiums are concerned, savings are expected to be minimal by both the consulting actuaries for the Plan and the General Assembly's Fiscal Research Division. Since the earliest that a member of the Teachers' and State Employees' Retirement System and the Legislative Retirement System can retire with a 15% benefit reduction is age 60 with 5 years of retirement service credit, and since the earliest that a member of the Consolidated Judicial Retirement System can retire with a 45% benefit reduction is age 50 with 5 years of retirement service credit, the first year to be impacted by the premium change would be 2000. However, since over 90% of retirees retire with 10 or more years of retirement service credit, the consulting actuary for the General Assembly's Fiscal Research Division estimated premium cost savings of only \$116,000 in year 2000, \$883,000 in year 2005, and

\$2,500,000 in year 2010. The State Retirement System will pay out an estimated \$116 million in retiree premiums to the Plan's indemnity program and HMOs for the year ending June 30, 1995.

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 had only a self-insured indemnity type of program which covered all employees, retired employees, eligible dependents of employees and retired employees, and 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. 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. 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 seven HMOs currently covering about 16% of the Plan's total population in about 70 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, 1994, include:

	<u>Self-Insured Indemnity Program</u>	<u>Alternative HMOs</u>	<u>Plan Total</u>
<u>Number of Participants</u>			
Active Employees	203,200	43,700	246,900
Active Employee Dependents	117,500	33,600	151,100
Retired Employees	78,500	3,300	81,800
Retired Employee Dependents	14,000	800	14,800
Former Employees & Dependents with Continued Coverage	2,600	400	3,000
Total Enrollments	415,800	81,800	497,600
<u>Number of Contracts</u>			
Employee Only	211,800	30,700	242,500
Employee & Child(ren)	32,800	10,200	43,500
Employee & Family	39,100	6,400	45,500
Total Contracts	283,700	47,300	331,000
<u>Percentage of Enrollment by Age</u>			
0-29	29.1%	43.8%	31.5%

30-44	23.8	29.3	24.7
45-54	18.8	17.1	18.5
55-64	12.8	7.0	11.9
65+	15.5	2.8	13.4

Percentage of
Enrollment by Sex

Male	40.0%	40.3%	40.1%
Female	60.0	59.7	59.9

Assumptions for the Self-Insured Indemnity Program: For the fiscal year beginning July, 1994, the self-insured program started its operations with a beginning cash balance of \$287.1 million. Receipts for the year are estimated to be \$597 million from premium collections, \$20 million from investment earnings, and \$6 million in risk selection and administrative fees from HMOs, for a total of \$623 million in receipts for the year. Disbursements from the self-insured program are expected to be \$545 million in claim payments and \$18 million in administration and claims processing for a total of \$563 million for the year beginning July, 1994. For the fiscal year beginning July, 1995, the self-insured indemnity program is anticipated to have an operating cash balance of over \$347 million with a net operating gain of \$60 million for the 1994-95 fiscal year. For the next few years, the self-insured indemnity program is assumed to be able to carry out its operations without any increases in its current premium rates or a reduction in existing benefits until the 1997-98 or 1998-99 fiscal years. This assumption is 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, and fraud detection) are maintained and improved where possible. Current non-contributory premiums rates are \$110.08 monthly for employees whose primary payer of health benefits is Medicare and \$144.60 per month for employees whose primary payer of health benefits is not Medicare. Fully contributory premium amounts for employee and child(ren) contracts are \$68.50 monthly for children whose primary payer of health benefits is Medicare and \$90.12 monthly for other covered children, and \$164.30 per month for family contracts whose dependents have Medicare as the primary payer of health benefits and \$216.18 per month for other family contract dependents. Claim cost trends are expected to increase about 10% annually. Total enrollment in the program is expected to increase about one-half of one percent (0.5%) annually. Growth in the number of enrolled active employees is expected to be a little less than 1% annually, whereas the growth in the number of retired employees is assumed to be a little more than 4% per year. The program is expected to lose about 2% of its number of active employee dependents each year, whereas the number of enrolled retiree dependents is assumed to show no appreciable change from year to year. Investment earnings are based upon a 6% monthly 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 the Bill's Impact on the Plan's Self-Insured Indemnity Program: The Executive Administrator and claims processor, Blue Cross and Blue Shield of North Carolina, for the Teachers' and State Employees' Comprehensive Major Medical Plan provided the following data upon which actuarial notes have been prepared. This data included the amount of allowable charges for wellness benefits, including immunizations, subjected to the indemnity program's deductible and coinsurance for 1992-93 (\$3,992,836) and 1993-94 (\$4,314,747). The indemnity program also has 34,500 members aged 50-54. Other data included three members of the indemnity program that have already reached their current \$1,000,000 lifetime maximum benefit as of December 31, 1994, with another dozen members with lifetime maximum benefits exceeding \$750,000, and another forty-six members having exceeded \$500,000 in lifetime benefits.

SOURCES OF DATA:

- o Actuarial Note, Dilts, Umstead & Dunn, House Bill 439, April 17, 1995, original of which is one file in the General Assembly's Fiscal Research Division.
- o Actuarial Note, Alexander & Alexander Consulting Group, Inc., House Bill 439, April 7, 1995, 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.
- o Actuarial Note, Dilts, Umstead & Dunn, House Committee Substitute for House Bill 772, May 19, 1995, original of which is on file in the General Assembly's Fiscal Research Division.
- o Actuarial Note, Alexander & Alexander Consulting Group, Inc., House Bill 772, May 22, 1995, 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.
- o Actuarial Note, Dilts, Umstead & Dunn, Special Provision in Appropriations Act for Pro-Rated Retiree Premiums, June 27, 1995, original of which is on file in the General Assembly's Fiscal Research Division.
- o Actuarial Note, Alexander & Alexander Consulting Group, Inc., Special Provision in Appropriations Act for Pro-Rated Retiree Premiums, June 27, 1995, 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.
- o Cost, claim denial and demographic data provided by the Teachers' and State Employees' Comprehensive Major Medical Plan and its claims processor, Blue Cross and Blue Shield of North Carolina.

TECHNICAL CONSIDERATIONS: None

FISCAL RESEARCH DIVISION

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