

**NORTH CAROLINA GENERAL ASSEMBLY  
LEGISLATIVE ACTUARIAL NOTE**

**BILL NUMBER:** House Bill 180

**SHORT TITLE:** State Health Plan/Dependent Child Coverage

**SPONSOR(S):** Rep. Howard.

**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, premium payments for coverages selected by eligible former teachers and State employees and premium payments for coverages selected by firefighters, rescue squad workers, and members of the National Guard..

**BILL SUMMARY:** The definition of dependent child in the Teachers' and State Employees' Comprehensive Major Medical Plan is amended to include blood relatives of an employee, a retired employee, or a spouse of an employee or retired employee, provided the blood relative is living in a regular parent-child relationship with the employee, retired employee, or spouse with the expectation that the relationship will continue into adulthood, that the employee, retired employee, or spouse furnishes evidence that he or she agrees to be responsible for the support and maintenance of such child including health care costs covered by the Plan, and that the Plan's claims processor accepts the dependent child as a participant in the Plan by separate documentation. All of the Plan's other conditions for coverage of dependent children would also apply, such as coverage up to age 19, or up to age 26 if pursuing a full-time course of instruction at an accredited school or college, or while physically or mentally incapacitated. The most common situation under the bill will be grandparents rearing their grandchildren.

**EFFECTIVE DATE:** When the bill becomes law.

**ESTIMATED IMPACT ON STATE:** Aon Consulting, the consulting actuary for the Teachers' and State Employees' Comprehensive Major Medical Plan, estimates that enactment of the bill will result in no additional costs to the Plan since fully contributory premium costs for coverage of the blood relatives as dependent children will cover any additional claim costs to the Plan. Hartman & Associates, the consulting actuary for the General Assembly's Fiscal Research Division, makes the same observation that the Plan's fully contributory premium rates should more than cover the expected claims costs of any additional dependent children enrolled in the Plan from enactment of the bill, and that the bill is not expected to have a significant financial impact on the Plan.

**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., \$350 annual deductible, 20% coinsurance up to \$1,500 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, except for job-sharing public school teachers who are authorized partially contributory premiums at 50% of non-contributory rates. 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 20% 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; however none of the HMOs with certificates of authority to transact business in North Carolina have offered to participate in the Plan since September 30, 2001. 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, 2002, include:

	<u>Self-Insured Indemnity Program</u>	<u>Alternative HMOs</u>	<u>Plan Total</u>
<u>Number of Participants</u>			
Active Employees	280,065	-0-	280,065
Active Employee Dependents	137,841	-0-	137,841
Retired Employees	117,225	-0-	117,225
Retired Employee Dependents	18,999	-0-	18,999
Former Employees & Dependents with Continued Coverage	2,535	-0-	2,535
Firefighters, Rescue Squad Workers, National Guard Members & Dependents	7	-0-	7
Total Enrollments	556,672	-0-	556,672
<u>Number of Contracts</u>			
Employee Only	313,439	-0-	313,439
Employee & Child(ren)	40,978	-0-	40,978
Employee & Family	44,710	-0-	44,710
Total Contracts	399,127	-0-	399,127
<u>Percentage of Enrollment by Age</u>			
29 & Under	26.9%	-0-%	26.9%
30-44	20.9	-0-	20.9
45-54	20.9	-0-	20.9
55-64	16.2	-0-	16.2
65 & Over	15.1	-0-	15.1

Percentage of Enrollment by Sex

Male	38.3%	-0-%	38.3%
Female	61.7	-0-	61.7

Assumptions for the Self-Insured Indemnity Program: For the fiscal year beginning July 1, 2002, the self-insured program started its operations with a beginning cash balance of \$91.6 million. Receipts for the year are estimated to be \$1.370 billion from premium collections and \$7 million from investment earnings for a total of \$1.377 billion in receipts for the year. Disbursements from the self-insured program are expected to be \$1.325 billion in claim payments and \$38 million in administration and claims processing expenses for a total of \$1.363 billion for the year beginning July 1, 2002. For the fiscal year beginning July 1, 2002, the self-insured indemnity program is expected to have a net operating gain of approximately \$14 million for the year. After reserving an additional \$15 million for implementation of the claims data and privacy requirements of the federal Health Insurance Portability and Accountability Act (HIPPA) that take effect on and after April 14, 2003, the Plan's self-insured indemnity program is expected to have an available beginning cash balance of \$90 million for the fiscal year beginning July 1, 2003. The self-insured indemnity program is nonetheless assumed to be unable to carry out its operations for the 2003-2005 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, discounts on hospital outpatient services, pre-admission hospital testing, pre-admission hospital inpatient certification with length-of-stay approval, hospital bill audits, case and disease management for selected medical conditions, mental health case management, coordination of benefits with other payers, Medicare benefit "carve-outs", cost reduction contracts with participating physicians and other providers, a prescription drug benefit manager with manufacturer rebates from formularies, and fraud detection) are maintained and improved where possible. Current non-contributory premium rates are \$186.04 monthly for employees whose primary payer of health benefits is Medicare and \$244.38 per month for employees whose primary payer of health benefits is not Medicare. Fully contributory premium amounts for employee and child(ren) contracts are \$115.78 monthly for children whose primary payer of health benefits is Medicare and \$152.32 monthly for other covered children, and \$277.68 per month for family contracts whose dependents have Medicare as the primary payer of health benefits and \$365.36 per month for other family contract dependents. Claim cost trends are expected to increase 13% annually. Total enrollment in the program is expected to increase less than 1% annually over the next two years. The number of enrolled active employees is expected to show no increase 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 a 2% decrease in the number of active employee dependents per year whereas the number of retiree dependents is expected to increase 2% per year. Investment earnings are based upon a 4.5% 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 Indemnity Plan's Enrollment of Blood Relatives as Dependent Children: The most prevalent group covered by the bill for which data is available is grandparents rearing grandchildren. In a 1990 ranking of states by the percent of children under age 18 living with grandparents by the U. S. Census Bureau, North Carolina was the ninth highest state in the nation with 111,006 grandchildren living with grandparents. This number of grandchildren was 6.9% of the total number of grandchildren in North Carolina. An estimated 69,379 grandparents were caregivers for these grandchildren, or about 1% of the state's total population. A 2000 Census Bureau study of family relationships by household type revealed that 163,858 grandchildren were living in households in North Carolina (2.1% of total household population). There were 160,576 grandparents as caregivers at the same time, or 2% of the state's population. Approximately 50% of these grandparents were also responsible for their grandchildren (79,810). A 2001 tabular profile of North

Carolina by the U. S. Census Bureau listed 172,614 grandparents in the state as caregivers (2.2% of total population), of which 83,561 were classified as being responsible for their grandchildren. Factors related to this increased growth in the role of grandparents looking after their grandchildren have been substance abuse, death of a parent, child abuse or neglect, abandonment, teenage pregnancy, HIV/AIDS, unemployment, incarceration, divorce, mental illness, family violence, and poverty. The March, 1997, Current Population Survey of the U. S. Bureau of the Census is a leading data source about grandparents who were co-residents with their grandchildren. This study revealed that of the number of families in which grandparents co-resided with their grandchildren, 79% were grandparent maintained families with the remaining 21% of the number of families maintained by parents. Some of the characteristics of grandparent maintained families were:

<u>Age</u>	<u>Percentage</u>	<u>Marital Status</u>	<u>Percentage</u>
Under 45	17.7%	Married with Spouse	69.0%
45-54	34.5	Divorced, Separated	16.5
55-64	30.7	Widowed	10.8
65 & Over	17.1	Never Married	3.7

Some of the characteristics of grandchildren in grandparent maintained families were:

<u>Age</u>	<u>Percentage</u>	<u>Children in Household</u>	<u>Percentage</u>
Under 6	50.8%	One	31.9%
6-11	28.8	Two	29.2
12-17	20.4	Three or More	38.9
		Average – 1.60 Children	
<u>State of Health</u>	<u>Percentage</u>	<u>Health Insurance</u>	<u>Percentage</u>
Excellent	39.6%	Private	30.3%
Very Good	27.8	Public	36.3
Good	27.4	None	33.4
Fair or Poor	5.2		

During the last two fiscal years, the average annual claims costs for children enrolled in the Teachers' and State Employees' Comprehensive Major Medical Plan have been:

<u>Per Capita Annual Claim</u> <u>Costs for Children</u>	<u>Contracts with Children</u>		<u>Total</u>
	<u>Parent &amp; Child</u>	<u>Family</u>	
<u>2001-02</u>			
Age 0-4	\$1,459	\$1,465	\$1,461
Age 5-9	\$497	\$574	\$525
Age 10-14	\$545	\$625	\$574
Age 15-19	\$845	\$890	\$862
Age 0-19	\$787	\$843	\$807
<u>2000-01</u>			
Age 0-4	\$1,529	\$1,497	\$1,517
Age 5-9	\$427	\$490	\$453
Age 10-14	\$531	\$631	\$570
Age 15-19	\$857	\$896	\$872
Age 0-19	\$779	\$824	\$797

**SOURCES OF DATA:**

- Actuarial Note, Hartman & Associates, House Bill 180, March 17, 2003, original of which is on file in the General Assembly's Fiscal Research Division.
- Actuarial Note, Aon Consulting, House Bill 180, March 13, 2003, 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.
- Bureau of the Census, U. S. Department of Commerce, 1990 Ranking of States by Children Living in Grandparents' Households.
- Bureau of the Census, U. S. Department of Commerce, 2000 Relationship by Household Types.
- Bureau of the Census, U. S. Department of Commerce, 2001 Supplemental Survey Tabular Profile of North Carolina.
- Bureau of the Census, U. S. Department of Commerce, March, 1997, Current Population Survey.

**TECHNICAL CONSIDERATIONS:** None.

**FISCAL RESEARCH DIVISION:** 733-4910

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**APPROVED BY:** James D. Johnson, Director Fiscal Research Division

**DATE:** March 18, 2003.



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