NORTH CAROLINA GENERAL ASSEMBLY

2023 Session

Legislative Actuarial Note – Health Benefits

Short Title: 2023 Appropriations Act.
Bill Number: House Bill 259 (Fourth Edition)
Sponsor(s):

SUMMARY TABLE

ACTUARIAL IMPACT OF H.B. 259, V.4 ($ in thousands)

	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
State Impact					
State Health Plan Net Loss	1,033	(2,900)	(57,700)	(112,500)	(112,700)
NET STATE IMPACT	**1,033**	**(2,900)**	**(57,700)**	**(112,500)**	**(112,700)**

The State Health Plan's Net Loss is projected to increase by the amount shown above, decreasing the cash reserves of the Plan in FY 2023-24 and increasing the cash reserves of the Plan in subsequent years. Any improvement in Plan financials does not directly translate to a decrease in State appropriations in the short-run, but is likely to decrease appropriations in the long-run. Roughly 57% of premiums paid to the Plan are derived from the General Fund.

In addition to the impact above, the bill is expected to shift contributions to pay for retiree medical benefits among employing entities. See below for further details.

ACTUARIAL IMPACT SUMMARY

Sections 4,10, 9L.3, 39.29, and 39.30 have potential actuarial impacts on the State Health Plan (Plan).

Section 4.10: Allows the University of North Carolina Health Care System, ECU Medical Faculty Practice Plan, and ECU Dental School Clinical Operations to enroll all of their new employees, and possibly all of their current employees, in a comprehensive health benefit plan offered by the affected employers instead of enrolling them in the Plan.

This section also closes the Teachers' and State Employees' Retirement System (TSERS) to new hires of the affected employers on or after November 1, 2023 and states that members of TSERS or the Optional Retirement Program (ORP) at the affected employers prior to that date remain members unless they make a one-time, irrevocable election to cease membership in favor of a similar, but unspecified, benefit offered by the employers. Employees of the affected employers hired on or after November 1, 2023 would participate in ORP; participate in a similar, but unspecified benefit; or have a choice between these two programs. Employers of TSERS and ORP

members make contributions to the Retiree Health Benefit Fund (RHBF) as a percentage of their employees' compensation to pay for retiree medical benefits. This analysis assumes that the affected employers would not make such contributions on the compensation of employees enrolled in a new retirement benefit program.

The Segal Company, the consulting actuary for the Plan, estimates that allowing UNCHCS to remove its active employees from the Plan will result in a lost subsidy of $4.1 million in FY 2023-24 (if effective July 1), $4.3 million in FY 2024-25, and $4.5 million in FY 2025-26.

Hartman & Associates, the consulting actuary for the General Assembly, estimates that allowing UNCHCS to remove its active employees from the Plan will result in an annual lost gain of $2 million to $4 million.

Both actuaries estimate that closing TSERS and potentially ORP to new hires and allowing existing employees to choose an alternative retirement program will have no immediate material impact on the State's Other Post-Employment Benefit (OPEB) liability, but note that the State currently funds retiree medical benefits primarily on a pay-as-you-go basis, so contributions on behalf of current employees are in fact used largely to pay for healthcare for current retirees. The loss of these future contributions will mean that other employing entities and the tax revenue or other resources used to support those entities will bear some of the burden of paying for retiree medical benefits for the existing employees and retirees. As of June 30, 2022, the Net OPEB Liability related to UNCHCS was $1.1 billion. Hartman & Associates estimates the shift in payments to offset this liability at $5 million in FY 2023-24, increasing to $35 million by FY 2034-35.

Section 9L.3: Requires anesthesiologists to comply with certain requirements during the supervision of anesthesia care provided by a certified registered nurse anesthetist (CRNA), consistent with the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) requirements for Medicare, in order to qualify for reimbursement from the Plan. This section also specifies that the Plan shall reimburse claims for medical direction of a nurse anesthetist at 50% of the rate of reimbursement the anesthesiologist would have received for services if the services had been performed without the nurse anesthetist.

The Segal Company estimates that this section will reduce the Plan's paid claims cost by $1.7 million in FY 2023-24, $7.2 million in FY 2024-25, and $7.6 million in FY 2025-26. Hartman & Associates estimates that this section will reduce the Plan's paid claims cost by at least a minimal amount and as much as $6 million per year.

Section 39.29: Authorizes, but does not require, the Plan to offer to pay or reimburse premiums for alternative coverage for retirees; for example, coverage on the Affordable Care Act exchange. The retiree would be able to choose to accept the alternative coverage or remain in the Plan. Both actuaries state that the savings from this section cannot be estimated.

Section 39.30: Requires urban hospitals to enter into savings agreements with the Plan to achieve a total target savings across all urban hospitals of $125 million in calendar year 2026. Urban hospitals are defined as those in counties with a population greater than 210,000 or those hospitals identified as academic medical center teaching hospitals. The savings target would be

apportioned across the hospitals based on their share of claims during the previous 5 years. The Treasurer would adopt rules to implement the section. If a hospital does not enter into a qualifying agreement, the Department of Health and Human Services would not issue or renew its license after January 1, 2026.

The Segal Company estimates that this section will reduce the Plan's paid claims cost by $54.6 million in FY 2025-26 and $109.2 million in FY 2026-27. Hartman & Associates estimates that this section will reduce the Plan's paid claims cost by approximately $110 million per year once fully implemented. The savings estimated by both actuaries are less than $125 million because some savings would be realized by the Plan members in lower out-of-pocket amounts.

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.

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 on 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 Humana, that 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 2023:

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

	Employer Share	Employee/Retiree Share	
		Complete Tobacco Attestation	Do Not Complete Attestation
70/30 Plan	$585	$25 *	$85 *
80/20 Plan	$585	$50	$110

* $0 for Non-Medicare Retirees

Medicare Retirees (if Fully Subsidized)

Medicare Advantage Plans

	Employer Share	Employee/Retiree Share
MA-PDP Base Plan	$472	$0
MA-PDP Enhanced Plan	$472	$73

Alternate Plan

	Employer Share	Employee/Retiree Share
Traditional 70/30 Plan	$472	$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	$4	$73	$155
Employee/Retiree + Spouse	$565	$650	$4	$73	$425
Employee/Retiree + Family	$573	$670	$8	$146	$444

The employer share of premiums for retirees is paid from the Retiree Health Benefit Fund. During FY 2022-23, employers contribute 6.89% of active employee payroll into the Fund. Total contributions for the year are projected to be approximately $1.4 billion.

Financial Condition

Projected Results for CY 2023 and CY 2024 – The following summarizes projected financial results for 2023 and 2024, based on financial experience through December 2022. The projection assumes a 6.5% annual claims growth trend for medical claims, a 10.0% trend for pharmacy claims, a 7.0% trend for pharmacy rebates, benefit provisions and member-paid premiums as adopted by the Board for 2023, and 4% employer premium increases in FY 2023-24.

	($ millions) Projected CY 2023	Projected CY 2024
Beginning Cash Balance	$849.1	$679.0
Receipts:		
Net Premium Collections	$3,945.1	$4,261.1
Medicare Subsidies	$11.0	$9.8
Investment Earnings	$6.3	$5.3
Total	$3,962.4	$4,276.2
Disbursements:		
Net Medical Claim Payment Expenses	$2,973.0	$3,200.8
Net Pharmacy Claim Payment Expenses	$998.3	$1,046.8
Medicare Advantage Premiums	$18.1	$18.7
Administration and Claims-Processing Expenses	$143.0	$148.8
Total	$4,132.4	$4,415.1
Net Operating Income (Loss)	($170.0)	($138.9)

Of the premiums paid in CY 2023, an estimated $2.7 billion is derived from General Fund sources and an estimated $0.1 billion is derived from Highway Fund sources.

Other Post Employment Benefit (OPEB) Liability

As of June 30, 2022, the State and related units of government had a Total OPEB Liability of $26.6 billion and Plan Fiduciary Net Position (Assets) of $2.8 billion, for a Net OPEB Liability of $23.7 billion. Actual contributions for the year ending June 30 were $1,197 million, far less than the actuarially determined contributions of $2,084 million.

Other Information

Additional assumptions include Medicare benefit "carve-outs," cost containment strategies including prior approval for certain medical services, utilization of the State Health Plan Network of providers, 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 6.5% annually in the short-term and pharmacy claim costs are expected to increase at a rate of 10.0% annually according to assumptions adopted by the Board of Trustees. The active population is projected to decrease by 0.3% per year, the pre-Medicare retiree population is projected to decrease by 2.5% per year and the Medicare-eligible retiree population is projected to increase by 3% per year.

For Section 4.10, both actuaries used demographic and Plan claims data on the roughly 10,000 current employees of UNCHCS with total compensation of roughly $740 million. Data for the affected employers at East Carolina University (ECU) was not available. However, we estimate that the count of affected employees at ECU is less than 20% of the count of affected employees at UNCHCS. Both actuaries assumed that UNCHCS would establish an alternative comprehensive health benefit plan and immediately enroll all of its employees in that plan instead of the Plan. Section 4.10 is unclear about when the alternative plan would be offered and whether it would be offered to all employees or only a subset, for example those employees who are participating in new retirement benefit programs.

For the OPEB impact of Section 4.10, Hartman & Associates assumed that all current TSERS participants would elect to remain in TSERS, half of current ORP members would elect to remain in ORP, and all other UNCHCS employees would participate in an alternative retirement benefit program offered by UNCHCS. Hartman & Associates assumed 1,000 new UNCHCS hires each year, distributed by age based on current year new hires and an average new hire salary in FY 2023-24 of $46,000. They also assumed that the State would contribute 50% of the OPEB actuarially determined employer contribution each year and that payroll would increase by 1% per year.

For Section 9L.3, both actuaries relied on data provided by the Plan on 59,212 anesthesia claims totaling $32.1 million paid during 2022.

For Section 39.30, Hartman & Associates assumed that agreements are reached with each urban hospital; the parties achieve the savings targets under each agreement; no costs are shifted from urban hospitals to rural hospitals or other entities; and the baseline projections used to measure projected claims accurately reflect medical cost trend and utilization for urban hospitals without the healthcare savings agreements.

For Section 39.30, The Segal Company assumed the savings target remains $125 million after 2026.

Enrollment as of January 1, 2023

I.	No. of Participants	70/30	80/20	Medicare Advantage	Total	Percent of Total
	Actives					
	Employees	118,294	173,997	-	292,291	39.2%
	Dependents	85,540	91,139	-	176,679	23.7%
	Sub-total	203,834	265,136	-	468,970	62.9%
	Retired					
	Employees	48,559	17,689	157,649	223,897	30.1%
	Dependents	8,946	4,865	19,354	33,165	4.5%
	Sub-total	57,505	22,554	177,003	257,062	34.5%
	Other					
	Employees	4,512	7,708	-	12,220	1.6%
	Dependents	3,186	3,636	-	6,822	0.9%
	Sub-total	7,698	11,344	-	19,042	2.6%
	Total					
	Employees	171,365	199,394	157,649	528,408	70.9%
	Dependents	97,672	99,640	19,354	216,666	29.1%
	Grand Total	**269,037**	**299,034**	**177,003**	**745,074**	**100%**
	Percent of Total	**36.1%**	**40.1%**	**23.8%**	**100.0%**	

II.	Enrollment by Contract	70/30	80/20	MA	Total
	Employee Only	124,099	149,663	138,295	412,057
	Employee Child(ren)	29,534	32,793	254	62,581
	Employee Spouse	5,055	5,514	19,100	29,669
	Employee Family	12,677	11,424		24,101
	Total	**171,365**	**199,394**	**157,649**	**528,408**

	Percent Enrollment by Contract	70/30	80/20	MA	Total
	Employee Only	72.4%	75.1%	87.7%	78.0%
	Employee Child(ren)	17.2%	16.4%	0.2%	11.8%
	Employee Spouse	2.9%	2.8%	12.1%	5.6%
	Employee Family	7.4%	5.7%	0.0%	4.6%
	Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

III.	Enrollment by Sex	70/30	80/20	MA	Total
	Female	157,965	189,487	116,892	464,344
	Male	111,072	109,547	60,111	280,730
	Total	**269,037**	**299,034**	**177,003**	**745,074**

	Percent Enrollment by Sex	70/30	80/20	MA	Total
	Female	58.7%	63.4%	66.0%	62.3%
	Male	41.3%	36.6%	34.0%	37.7%
	Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

IV.	Enrollment by Age	70/30	80/20	MA	Total
	25 & Under	84,371	86,893	18	171,282
	26 to 45	68,727	78,996	266	147,989
	46 to 55	45,183	63,015	913	109,111
	56 to 65	46,944	63,217	11,375	121,536
	66 & Over	23,812	6,913	164,431	195,156
	Total	**269,037**	**299,034**	**177,003**	**745,074**

	Percent Enrollment by Age	70/30	80/20	MA	Total
	25 & Under	31.4%	29.1%	0.0%	23.0%
	26 to 45	25.5%	26.4%	0.2%	19.9%
	46 to 55	16.8%	21.1%	0.5%	14.6%
	56 to 65	17.4%	21.1%	6.4%	16.3%
	66 & Over	8.9%	2.3%	92.9%	26.2%
	Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

V.	Retiree Enrollment by Category	Employee	Dependents	Total
	Non-Medicare Eligible	42,382	13,326	55,708
	Medicare Eligible in Traditional 70/30	23,866	485	24,351
	Medicare Eligible in Base MA Plan	142,106	16,500	158,606
	Medicare Eligible in Enhanced MA Plan	15,543	2,854	18,397
	Total	**223,897**	**33,165**	**257,062**

	Percent Enrollment by Category (Retiree)	Employee	Dependents	Total
	Non-Medicare Eligible	18.9%	40.2%	21.7%
	Medicare Eligible in Traditional 70/30	10.7%	1.5%	9.5%
	Medicare Eligible in Base MA Plan	63.5%	49.8%	61.7%
	Medicare Eligible in Enhanced MA Plan	6.9%	8.6%	7.2%
	Total	**100.0%**	**100.0%**	**100.0%**

VI.	Enrollment By Major Employer Groups	Employees	Dependents	Total
	State Agencies	60,059	31,852	91,911
	UNC System	53,975	36,676	90,651
	Local Public Schools	157,408	94,694	252,102
	Charter Schools (98 entities)	5,960	4,422	10,382
	Local Community Colleges	14,889	9,035	23,924
	Other			
	Local Goverments (128 entities)	11,340	6,046	17,386
	COBRA	880	776	1,656
	Retirement System	223,897	33,165	257,062
	Total	**528,408**	**216,666**	**745,074**

	Percent Enrollment by Major Employer Groups	Employees	Dependents	Total
	State Agencies	11.4%	14.7%	12.3%
	UNC System	10.2%	16.9%	12.2%
	Local Public Schools	29.8%	43.7%	33.8%
	Charter Schools	1.1%	2.0%	1.4%
	Local Community Colleges	2.8%	4.2%	3.2%
	Other			
	Local Goverments	2.1%	2.8%	2.3%
	COBRA	0.2%	0.4%	0.2%
	Retirement System	42.4%	15.3%	34.5%
	Total	**100.0%**	**100.0%**	**100.0%**

TECHNICAL CONSIDERATIONS

N/A.

DATA SOURCES

The Segal Company; baseline financial projections updated through Q4 CY2022; dated February 24, 2023. Filename "CY22 Q4- Baseline.pdf"

-Actuarial Note, Hartman & Associates, "Senate Bill 743: Transformational Investments in NC Health (Sections 2.11 through 2.16)", April 24, 2023, original of which is on file in the General Assembly's Fiscal Research Division.

-Actuarial Note, The Segal Company, Senate Bill 743, "Transformational Investments in NC Health", April 24, 2023, original of which is on file with the State Health Plan for Teachers and State Employees and the General Assembly's Fiscal Research Division.

-Actuarial Note, Hartman & Associates, "Senate Bill 385: Anesthesia Care/TEFRA Compliance", May 15, 2021, original of which is on file in the General Assembly's Fiscal Research Division.

-Actuarial Note, The Segal Company, Senate Bill 385, "Anesthesia Care/TERFA Compliance", May 12, 2023, original of which is on file with the State Health Plan for Teachers and State Employees and the General Assembly's Fiscal Research Division.

-Actuarial Note, Hartman & Associates, "Senate Budget Sections 39.29 and 39.30", May 11, 2023, original of which is on file in the General Assembly's Fiscal Research Division.

-Actuarial Note, The Segal Company, "State Health Plan Salaries and Benefits Special Provisions 2023-SHP-S2(H39.29)i and 2023-SHP-S1-P; Alternative Health Benefit Coverage And State Health Plan Hospital Savings Initiative", May 12, 2023, 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

Questions on this analysis should be directed to the Fiscal Research Division at (919) 733-4910.

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May 17, 2023

Signed copy located in the NCGA Principal Clerk's Offices