NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE ACTUARIAL NOTE

BILL NUMBER: House Bill 287, Section 8.4

SHORT TITLE: Health Reform Funds/HFC

SPONSOR(S): Representative W. W. Dickson

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: Appropriates $500,000 from the State's General Fund to the Comprehensive Major Medical Plan for Teachers and State Employees for fiscal year 1996-97 to provide electronic patient identification cards for State employees who are members of the Plan. The electronic patient identification cards are to have a magnetic stripe on the reverse side, which when scanned, shall provide the following information: a) patient name, address, social security number, and the next of kin, b) payer information, benefits coverage, precertification requirements, and c) name of third-party administrators and relevant phone numbers. Magnetic coding is to be in accordance with existing ANSI standards.

Card requirements are contained in a proposed new Article 2 to Chapter 131G of the North Carolina General Statutes as contained in House Bill 288. House Bill 288 sets up the North Carolina Health Care Data Base within the Department of Insurance to compile, coordinate, analyze, and disseminate a uniform set of health care data on utilization, costs, and other related information from health care providers, insurers, and patients.

EFFECTIVE DATE: October 1, 1996

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 electronic patient identification cards to be $820,000 in the year of implementation and $213,000 per year thereafter in recurring operating costs.

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:

	Self-Insured Indemnity Program	Alternative HMOs	Plan Total
Number of Participants			
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
Number of Contracts			
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
Percentage of Enrollment by Age			
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 Self-Insured Indemnity Program's Electronic Patient Identification Cards: The Executive Administrator and claims processor, Blue Cross and Blue Shield of North Carolina, for the Teachers' and State Employees' Comprehensive Major Medical Plan have included additional costs to the Plan for expanding its current data bases to accommodate new data, creating new transactions to load the additional data into the expanded data bases, creating new transactions

to load the additional data into the expanded data bases, creating a tracking mechanism for the new loaded data, and creating new disk space to store the new loaded data. Costs did not include the additional expense of new terminals and scanners for use by providers, the cost of network connectivity, the cost of provider education, nor the additional cost of working with health benefit representatives in State agencies, public schools, community colleges, and universities for assistance in gathering new information.

Initial data collection costs involve direct mailings ($150,000), data entry and tracking ($120,000), production of cards for all Plan Members ($37,000), distribution of cards ($140,000), and computer system changes and testing ($160,000). On-going costs of maintaining the new data base, issuing new cards, and card replacement is estimated at $213,000 annually.

SOURCES OF DATA:

- Actuarial Note, Dilts, Umstead & Dunn, House Bill 287, Section 8.4, April 11, 1995, original of which is one file in the General Assembly's Fiscal Research Division.

- Actuarial Note, Alexander & Alexander Consulting Group, Inc., House Bill 287, Section 8.4, 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.

- Cost 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: Since the Teachers' and State Employees' Comprehensive Major Medical Plan is financed by (1) premiums paid by State agencies, public schools, community colleges, and universities for their individual employees, and (2) by premiums paid by the State Retirement System for retired employees, and (3) by premiums paid by active employees and retired employees for their eligible dependents enrolled in the Plan, and (4) premiums paid by former employees separated from active service for reasons other than retirement or disability for continued coverage for themselves and their dependents according to federal law, and (5) by earnings by the State Treasurer on the Plan invested assets, Section 8.4 of House Bill 287 should be deleted. The Plan should, in turn, be directed to provide the electronic patient identification cards from its own operating receipts.

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DATE: April 13, 1995

Signed Copy Located in the NCGA Principal Clerk's Offices