

NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE ACTUARIAL NOTE

BILL NUMBER: Senate Committee Substitute for House Bill 1108,
Sections 28.24, 28.25, and 28.26.

SHORT TITLE: Modify State Budget for 1996-97

SPONSOR(S): Senators Plyler, Perdue, and Odom

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, and Premium Payments for Coverages Selected by Eligible Former Teachers and State Employees.

BILL SUMMARY: Section 28.24 of the bill conforms the preexisting health conditions policy of the self-insured indemnity program of the Teachers' and State Employees' Comprehensive Major Medical Plan to the same type of uniform policies adopted by the 1995 General Assembly, effective July 1, 1995, for health insurers doing business in North Carolina (Section 23A.1 of Chapter 507 of the 1995 Session Laws). Specifically, these changes require insurers to give credit for an insured's previous health benefit coverage against maximum 12-month waiting periods during which coverage of preexisting health conditions can be excluded, provided not more than 60 days lapse between coverages. In addition, the section more precisely specifies that a preexisting health condition must have been diagnosed and treated within 6 months prior to the effective date of coverage before it can be excluded from coverage as a preexisting condition when applicable. Section 28.25 allows skilled nursing facility benefits to be paid from the self-insured indemnity program of the Plan for stays in facilities that are not Medicare-certified provided the non-certified facilities absorb the portion of the claim costs that would have been borne by Medicare had the facility been certified by Medicare. The program's existing policy on the use of skilled nursing facilities requires the facilities to be Medicare-certified in order for Medicare to be the primary payer of health benefits when applicable. Section 28.26 of the bill extends coverage under the Plan's indemnity program for the entire practice of acupuncture when provided by any doctor of medicine or any acupuncturist licensed or certified in the state in which the acupuncturist practices. Coverage would however be limited to \$500 per covered individual per fiscal year. The program's existing coverage for acupuncture is limited to the treatment of pain and for the production of a regional anesthesia when performed by doctors of medicine. Article 30 of Chapter 90 of the General Statutes of North Carolina defines the practice of acupuncture as: "The insertion of acupuncture needles and the application of moxibustion to specific areas of the human body based upon acupuncture diagnosis as a primary mode of therapy. Adjunctive therapies within the scope of acupuncture may include

massage, mechanical, thermal, electrical, and electromagnetic treatment and the recommendation of herbs, dietary guidelines, and therapeutic exercise." The Executive Administrator of the Teachers' and State Employees' Comprehensive Major Medical Plan is to report the financial impact of Section 28.26 upon the Plan's indemnity program to the Joint Legislative Commission on Governmental Operations at the end of March and May of 1997.

EFFECTIVE DATE: Section 28.24 becomes effective July 1, 1995, as was the effective date for preexisting health condition changes enacted for health insurers. Section 28.25 of the bill becomes effective July 1, 1996. Section 28.26 of the bill becomes effective October 1, 1996 but expires September 30, 1998.

ESTIMATED IMPACT ON STATE: The consulting actuary for the Teachers' and State Employees' Comprehensive Major Medical Plan, Alexander & Alexander Consulting Group, Inc., and the consulting actuary of the General Assembly's Fiscal Research Division, Dilts, Umstead & Dunn, both concur that Sections 28.24 and 28.25 will not measurably affect costs to the Plan's indemnity program. 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., estimates the additional cost of Section 28.26 of the bill to the Plan's indemnity program to be \$500,000 for fiscal year 1996-97 and \$700,000 for fiscal year 1997-98. Based upon similar information supplied by the Plan, the consulting actuary for the General Assembly's consulting actuary, Dilts, Umstead & Dunn, estimates the additional cost of the same section of the bill to the Plan's indemnity program to be \$368,000 for fiscal year 1996-97 and \$680,000 for fiscal year 1997-98. For outlying years, using claim cost trends of 8-10% annually adopted by the consulting actuaries, additional costs to the Plan from the same section are estimated to be \$187,000-\$189,000 for fiscal year 1998-99 only since the section expires September 30, 1998. No additional General or Highway Fund appropriations would be required for Section 28.26 of the bill until the 1997-99 biennium, because of accumulated reserves in the Plan's indemnity program based upon existing premiums and anticipated claim 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-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., \$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. Whenever employees and office holders first employed or taking office on and after October 1, 1995 become eligible for health benefits as retired employees, the amount of premium paid by the State for individual coverage will be based upon the retiree's amount of retirement service credit at the time of retirement. Only retired employees with 20 or more years of service credit at retirement will be eligible for non-contributory health benefit premiums. Retirees with 10 or more years of service credit at retirement will be eligible for 50% partially contributory health benefit premiums. Retired employees with 5 or more year of service credit at retirement will be eligible to continue their health benefits on a fully contributory basis. 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 21% 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, 1995, include:

	<u>Self-Insured</u> <u>Indemnity Program</u>	<u>Alternative</u> <u>HMOs</u>	<u>Plan</u> <u>Total</u>
<u>Number of Participants</u>			
Active Employees	193,600	57,900	251,500
Active Employee Dependents 152,900	109,600	43,300	
Retired Employees	81,600	4,400	86,000
Retired Employee Dependents 15,200	14,200	1,000	
Former Employees & Dependents with Continued Coverage 3,200	2,700	500	
Total Enrollments	401,700	107,100	508,800
<u>Number of Contracts</u>			
Employee Only	208,700	41,100	249,800
Employee & Child(ren)	31,000	13,300	44,300
Employee & Family	37,500	8,200	45,700
Total Contracts	277,200	62,600	339,800
<u>Percentage of Enrollment by Age</u>			
29 & Under	28.1%	44.3%	31.5%
30-44	22.7	28.7	24.0
45-54	19.3	17.6	19.0
55-64	13.4	6.9	12.0
65 & Over	16.5	2.5	13.5
<u>Percentage of Enrollment by Sex</u>			
Male	39.9%	40.1%	40.0%

Female

60.1

59.9

60.0

Assumptions for the Self-Insured Indemnity Program: For the fiscal year beginning July 1, 1995, the self-insured program started its operations with a beginning cash balance of \$348.9 million. Receipts for the year are estimated to be \$585 million from premium collections, \$24.5 million from investment earnings, and \$7.5 million in risk adjustment and administrative fees from HMOs, for a total of \$617 million in receipts for the year. Disbursements from the self-insured program are expected to be \$575 million in claim payments and \$18 million in administration and claims processing expenses for a total of \$593 million for the year beginning July 1, 1995. For the fiscal year beginning July 1, 1996, the self-insured indemnity program is expected to have an operating cash balance of over \$372 million with a net operating gain of \$24 million for the 1995-96 fiscal year. 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, prescription drug manufacturer rebates from voluntary formularies, and fraud detection) are maintained and improved where possible. Current non-contributory premium 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 8-10% 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 Acupuncture Costs: Due to the limited coverage for acupuncture under the Plan's indemnity program, claim costs have averaged only about \$17,655 for each of the last four fiscal years according to reports provided by the Plan. Consequently, the Plan's claims experience is not considered to be sufficient to project the

financial impact of Section 28.26 of the bill. Information supplied, however, by the North Carolina Acupuncture Licensing Board as of May, 1996, indicates that there are 61 licensed acupuncturists residing in 20 of the State's 100 counties. Another 8 licensed acupuncturists reside out of the State. Of the number of licensed acupuncturists residing in the State, approximately 70% reside in the counties of Buncombe, Durham, Mecklenburg, New Hanover, Orange, and Wake. With this information, the Plan's consulting actuary used 1993 literature from the New England Journal of Medicine on the use of alternative medicine to extrapolate the statistical data in the literature and apply the results to the population served by the Plan's indemnity program. Such was the methodology used by the Plan's consulting actuary to estimate the additional cost of Section 28.26 of the bill to the indemnity program. The consulting actuary of the General Assembly's Fiscal Research Division used utilization and cost data provided by the Plan on chiropractic services as a basis for estimating the additional cost of Section 28.26 of the bill to the Plan's indemnity program. This data includes average annual claim payments by the Plan's indemnity program of \$4,451,000 for the last four fiscal years. Through three quarters of the current 1995-96 fiscal year, actual claims payments for chiropractic care have been \$3,760,000. The average annual number of chiropractic service cases has been about 17,500 over the last four fiscal years, including 12-16 visits annually per case at a charge per visit of \$37-\$44. The total number of licensed chiropractors in North Carolina for 1994 was 1,196, and 1,292 for 1995 according to information supplied by the Plan. Effective July 1, 1995, the 1995 Session of the General Assembly increased the indemnity program's fiscal year maximum claim payment per covered individual for chiropractic services from \$1,000 to \$2,000.

SOURCES OF DATA:

- Actuarial Note, Dilts, Umstead & Dunn, Draft Legislation on Preexisting Health Conditions, April 3, 1996, original of which is on file in the General Assembly's Fiscal Research Division.
- Actuarial Note, Dilts, Umstead & Dunn, Draft Legislation on Non-Medicare Certified Skilled Nursing Facility Coverage, June 11, 1996, original of which is on file in the General Assembly's Fiscal Research Division.
- Actuarial Note, Dilts, Umstead & Dunn, Proposed Amendment to Senate Bill 1254 Limiting Acupuncture Coverage to \$500 Per Person Per Year, June 12, 1996, original of which is on file in the General Assembly's Fiscal Research Division.
- Actuarial Note, Alexander & Alexander Consulting Group, Inc., Draft Legislation on Preexisting Health Conditions, March 26, 1996, 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.
- Actuarial Note, Alexander & Alexander Consulting Group, Inc., Draft Legislation on Non-Medicare Certified Skilled Nursing Facility Coverage, June 7, 1996, 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.

-Actuarial Note, Alexander & Alexander consulting Group, Inc., Proposed Amendment to Senate Bill 1254 Limiting Acupuncture Coverage to \$500 Per Person Per Year, June 12, 1996, 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.

TECHNICAL CONSIDERATIONS: None.

FISCAL RESEARCH DIVISION

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