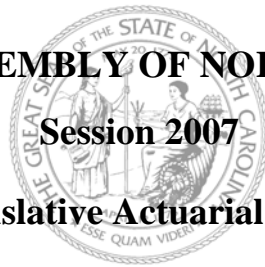


GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2007

Legislative Actuarial Note

HEALTH BENEFITS

BILL NUMBER: House Bill 2159 (First Edition)

SHORT TITLE: Hendersonville/State Health Plan.

SPONSOR(S): Representatives Justus and Walend

SYSTEM OR PROGRAM AFFECTED: Teachers' and State Employees' Comprehensive Major Medical Plan. On and after July 1, 2008 the Plan will be known as the *State Health Plan for Teachers and State Employees* (see Section 28.22A of Session Law 2007-323).

FUNDS AFFECTED: State General Fund, State Highway Fund, other State employer receipts; premium payments for dependents of active employees and retired employees of State agencies and universities, local public schools and local community colleges; premium payments for coverages selected by eligible former employees; premium payments for coverages selected by firefighters, rescue squad workers, members of the National Guard, and certain authorized local governments.

BILL SUMMARY: House Bill 2159 (1st edition) amends Section 31.26(j) of Session Law 2004-124 (2004 Appropriations Act), as further amended by Section 29.32 of Session Law 2005-276 (2005 Appropriations Act). Proposed legislation provides the Town of Hendersonville with the option to become an employing unit under the Teachers' and State Employees' Comprehensive Major Medical Plan (Plan) for the purpose of providing health benefits to the Town's employees, retired employees, and their eligible spouses and dependent children.

If a local government elects to participate as an employer under the Plan, it must do so by legal resolution of its governing board. An irrevocable election is required by the local government if it enrolls its retired employees, and their eligible spouses and dependent children. The local government must also agree to make any premium contributions required by the Plan. All enrolled employees, retired employees, and their family members of a participating local government will be required to participate in disease management, case management, and all other cost containment measures implemented by the Plan. Employees and retired employees of local governments authorized for benefit coverage under the Plan will pay the same premium rates as those charged by the Plan for other participating active and retired employees and their dependents.

In addition, an irrevocable election by a local government to cover retired employees also requires it to make financial contributions to the Local Governmental Employees' Retirement System for the purpose of financing retired employee employees' health benefits offered under the Plan. If a local government does not participate in the Local Governmental Employees' Retirement System, but has another formally established retirement plan, and elects to cover its retired employees, it is required to make premium contributions to the Plan on behalf of its retired employees.

EFFECTIVE DATE: When it becomes law.

ESTIMATED IMPACT ON STATE: : The consulting actuary for the Teachers' and State Employees Comprehensive Major Medical Plan, Aon Consulting, estimates an average annual mid-point loss of \$559,000 to the Plan if the Town of Hendersonville were to become a participating employer under the Plan beginning with the 2008-2009 fiscal year. Aon Consulting projects the loss ratio (expected average claims divided by expected average premium) for the Town to be approximately 152%.

Hartman & Associates, consulting actuary for the General Assembly's Fiscal Research Division, estimates an average annual cost of between \$200,000 and \$400,000 to the Plan year if the Town of Hendersonville were to become a participating employer under the Plan beginning with the 2008-2009 fiscal year. Hartman and Associates noted that the Town's demographics compare favorably to the Plan's similar measures. However, the Town's claims experience for the 2006 and 2007 plan years reflect average per member claims higher than experienced by the Plan on average.

ASSUMPTIONS AND METHODOLOGY:

General Assumptions for House Bill 2159 (1st Edition)

Authorized local governments: Currently, the towns of Black Creek, Forest City, Lake Lure, Sunset Beach, and Tabor City, plus the counties of Beaufort, Bladen, Mitchell, Rutherford, and Washington participate as local government based employing units under the Plan. The towns of Biltmore Forest, Black Mountain, Blowing Rock, and Ocean Isle Beach, and the counties of Cherokee and Wilkes are also authorized to join the Plan as an employing unit but have not yet elected to do so at this time. As of April 2008, local government units have enrolled approximately 2,670 active employees and their dependents in the Plan.

Data submitted by the Town: Aon Consulting and Hartman and Associates base their respective analyses in part on actual claims experience, enrollment data, and plan designs provided by the Town of Hendersonville for 215 covered participants.

Summary Plan Information

The Plan operates on a self-funded basis funded through premium contributions, investment earnings and other receipts. As of October 1, 2006, the Plan operates an Indemnity plan and an optional Preferred Provider Option (PPO) plan. Effective July 1, 2008, the Plan will no longer operate the Indemnity Plan as a benefit option for plan members. The PPO plan offers three options to plan members that include: (1) a "basic" 70/30 plan that offers higher out-of-pocket requirements in return for lower fully contributory dependent premiums; (2) a "standard" 80/20 plan; and (3) a 90/10 "plus" plan with enhanced benefits via lower out-of-pocket requirements as compared to the other PPO plan options. Participation in the plus plan requires employees and

retired employees to make a partially contributory premium contribution to participate in this option. The basic and standard plans offer coverage to employees and retired employees on a noncontributory basis. Coverage for dependents under all plans is offered on a fully contributory basis.

Additional assumptions include Medicare benefit “carve-outs,” cost containment strategies including prior approval for certain medical services, utilization of the "Blue Options" provider network, 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, and fraud detection, and other authorized actions by the Executive Administrator and Board of Trustees to manage the Plan to maintain and improve the Plan's operation and financial condition where possible. Claim cost trends are expected to increase at a rate of 9% annually according to the Plan's consulting actuary. Investment earnings are based upon a 4.5% return on available cash balances.

Financial Condition

Year-to-date Operating Results ¹

Through May 31, 2008, the Plan has an operating loss of approximately \$38.7 million for the 2007-2008 fiscal year. Year-to-date operating losses in the Indemnity plan total \$91.8 million versus a projected annual loss of \$2.5 million. To date, these losses are partially offset by \$53.1 million in operating gains under the PPO plans. The Plan as a result is operating substantially behind its projected annual operating income of \$57.9 million for the 2007-2008 fiscal year. Based on actual results through May 2008, the Plan revised its projected income to reflect an estimated \$63.9 million loss for the fiscal year, or a reduction of \$121.8 million in projected income. The negative results experienced during the 2007-2008 fiscal year are expected to require the Executive Administrator of the Plan to implement additional cost saving programs for the balance of the 2007-2009 biennium.

Financial Projection (Revised June 2008)²

Combined Benefit Plan Components (Indemnity and PPO): For the fiscal year beginning July 1, 2007, the Plan is projected to start its operations with a beginning cash balance of \$156.7 million. Receipts for the year are estimated to be \$2.223 billion from premium collections, \$51.8 million from Medicare Part D subsidies and \$8.5 million from investment earnings for a total of \$2.283 billion in receipts for the year. Claims payments from the Plan are expected to be \$1.653 billion in medical claim payments, \$548 million in pharmacy claim payments, plus \$9.6 million in other cost adjustments for total net claims payments of \$2.211 billion. Total disbursements of the Plan are expected to be \$2.347 billion after adding total net claims payments plus \$136.9 million in

¹ Summary of Operations (Cash Basis Reporting), For the Period Ending May 2008, 2007-2008 Fiscal Year, Teachers' and State Employees Comprehensive Major Medical Plan.

² Aon Consulting, Consulting Actuary for the Teachers' and State Employees' Comprehensive Major Medical Plan, June 2008.

administration and claims processing expenses. For the fiscal year beginning July 1, 2007, the Plan is expected to have net operating income loss of approximately \$63.9 million for the year. The Plan is also projected to have an available beginning cash balance of \$92.8 million for the fiscal year beginning July 1, 2008. The Plan does maintain 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.

Indemnity Plan Component: For the fiscal year beginning July 1, 2007, the Indemnity plan started its operations with a beginning cash balance of \$112.8 million. Receipts for the year are estimated to be \$686.7 million from premium collections, \$47.7 million from Medicare Part D subsidies and \$4.1 million from investment earnings for a total of \$738.5 million in receipts for the year. Claims payments from the Indemnity Plan are expected to be \$545.1 million in medical claim payments, \$232 million in pharmacy claim payments, minus \$1.3 million in other cost adjustments for total net claims payments of \$775.8 million. Total disbursements of the Indemnity plan are expected to be \$837.9 million after adding total net claims payments plus \$62.1 million in administration and claims processing expenses. For the fiscal year beginning July 1, 2007, the Indemnity plan is expected to have net operating income loss of approximately \$99.4 million for the year. The Indemnity plan is projected to have an ending cash balance of \$13.4 million for the fiscal year ending June 30, 2008. The Indemnity plan as a benefit plan option will cease to exist on July 1, 2008.

PPO Plans Component: For the fiscal year beginning July 1, 2007, the consolidated PPO plans started operations with a beginning cash balance of \$43.9 million. Receipts for the year are estimated to be \$1.537 billion from premium collections, \$4.1 million from Medicare Part D subsidies and \$4.4 million from investment earnings for a total of \$1.546 billion in receipts for the year. Claims payments from the Plan are expected to be \$1.108 billion in medical claim payments, \$316 million in pharmacy claim payments, plus \$10.9 million in other cost adjustments for total net claims payments of \$1.435 billion. Total disbursements of the Plan are expected to be \$1.510 billion after adding total net claims payments plus \$74.8 million in administration and claims processing expenses. For the fiscal year beginning July 1, 2007, the PPO plans are expected to have net operating income of approximately \$35.6 million for the year. The PPO plans are also projected to have an available beginning cash balance of \$79.5 million for the fiscal year beginning July 1, 2008.

Enrollment Data as of December 31, 2007

I. <u>No. of Participants</u>	Indemnity <u>Plan</u>	PPO <u>Options</u>	<u>Total</u>	Percent of <u>Total</u>
<u>Actives</u>				
Employees	68,745	253,572	322,317	50.0%
Dependents	21,031	135,744	156,775	24.3%
Sub-total	89,776	389,316	479,092	74.4%
<u>Retired</u>				
Employees	85,753	55,948	141,701	22.0%
Dependents	7,859	11,611	19,470	3.0%
Sub-total	93,612	67,559	161,171	25.0%
<u>Former Employees with Continuation Coverage</u>				
Employees	682	1,022	1,704	0.3%
Dependents	226	616	842	0.1%
Sub-total	908	1,638	2,546	0.4%
<u>Firefighters, Rescue Squad & National Guard</u>				
Employees	3	-	3	0.0%
Dependents	-	-	-	0.0%
Sub-total	3	-	3	0.0%
<u>Local Governments</u>				
Employees	16	1,082	1,098	0.2%
Dependents	-	459	459	0.1%
Sub-total	16	1,541	1,557	0.2%
<u>Total</u>	<u>184,315</u>	<u>460,054</u>	<u>644,369</u>	
Percent of Total	28.6%	71.4%	100.0%	100.0%

II. <u>Retiree Enrollment by Category</u>	Indemnity <u>Plan</u>	PPO <u>Options</u>	<u>Total</u>
Non-Medicare Eligible	25,859	34,711	60,570
Medicare Eligible	67,753	32,848	100,601
Total	93,612	67,559	161,171
<u>Percent by Category (Retiree)</u>	Indemnity <u>Plan</u>	PPO <u>Options</u>	<u>Total</u>
Non-Medicare Eligible	27.6%	51.4%	37.6%
Medicare Eligible	72.4%	48.6%	62.4%
Total	100.0%	100.0%	100.0%

Enrollment Data Continued

III. <u>Enrollment by Age</u>	Indemnity	PPO	<u>Total</u>
	<u>Plan</u>	<u>Options</u>	
29 & Under	25,706	147,450	173,156
30 to 44	23,965	105,402	129,367
45 to 54	28,204	89,488	117,692
55 to 64	40,880	82,975	123,855
65 & Over	<u>65,560</u>	<u>34,739</u>	<u>100,299</u>
Total	184,315	460,054	644,369

<u>Percent Enrollment by Age</u>	Indemnity	PPO	<u>Total</u>
	<u>Plan</u>	<u>Options</u>	
29 & Under	13.9%	32.1%	26.9%
30 to 44	13.0%	22.9%	20.1%
45 to 54	15.3%	19.5%	18.3%
55 to 64	22.2%	18.0%	19.2%
65 & Over	35.6%	7.6%	15.6%
Total	100.0%	100.0%	100.0%

IV. <u>Enrollment by Sex</u>	Indemnity	PPO	<u>Total</u>
	<u>Plan</u>	<u>Options</u>	
Female	117,283	284,899	402,182
Male	<u>67,032</u>	<u>175,155</u>	<u>242,187</u>
Total	184,315	460,054	644,369

<u>Percent Enrollment by Sex</u>	Indemnity	PPO	Percent of
	<u>Plan</u>	<u>Options</u>	<u>Total</u>
Female	63.6%	61.9%	62.4%
Male	<u>36.4%</u>	<u>38.1%</u>	<u>37.6%</u>
Total	100.0%	100.0%	100.0%

SOURCES OF DATA:

-Actuarial Note, Hartman & Associates, House Bill 2159 (1st Edition), June 23, 2008, original of which is on file in the General Assembly's Fiscal Research Division.

-Actuarial Note, Aon Consulting, House Bill 2159 (1st Edition), June 16, 2008, 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

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DATE: June 30, 2008



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