

GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2007

Legislative Actuarial Note

HEALTH BENEFITS

BILL NUMBER: Senate Bill 2028 (First Edition)
SHORT TITLE: State Health Plan/No Abortion Coverage.
SPONSOR(S): Senator Brock

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: The bill excludes coverage for all medical or surgical abortion procedures, except for miscarriages, as a maternity benefit under the Teachers' and State Employees' Comprehensive Major Medical Plan. Only employees and enrolled spouses are eligible for maternity benefits under the Plan.

EFFECTIVE DATE: July 1, 2008.

ESTIMATED IMPACT ON STATE:

The consulting actuary for the Teachers' and State Employees' Comprehensive Major Medical Plan, Aon Consulting projects the proposed legislation will increase costs to the Plan of \$330,000 for the 2008-2009 fiscal year and \$440,000 for the 2009-2010 fiscal year.

The consulting actuary for the General Assembly's Fiscal Research Division, Hartman and Associates, projects the cost impact to be within the ranges reflected below by fiscal year based upon a combination of the number of abortions excluded from coverage and the number of foregone abortions expected to result in additional deliveries and newborn care of babies:

<u>Delivery Percentage</u>	<u>Fiscal Year 2008-2009</u>	<u>Fiscal Year 2009-2010</u>
25%	\$ 237,329	\$ 307,579
50%	665,953	863,075
75%	1,094,576	1,418,571

ASSUMPTIONS AND METHODOLOGY:

General Assumptions for Senate Bill 2028

The following information was used in part by the actuaries with respect to the analysis of the proposed legislation:

- Only employees and enrolled spouses are eligible for maternity benefits under the Plan.
- Miscarriages, which are considered spontaneous abortions, are assumed not to be prohibited under the proposed legislation. Abortions categorized as induced abortions were assumed to be prohibited under the proposed legislation.

Calendar Year	No. of Cases	<u>Total Abortions¹</u>			<u>Induced Abortions</u>			
		<u>Billed Charges</u>	<u>Allowed Charges</u>	<u>Paid Claims</u>	<u>No. of Cases</u>	<u>Billed Charges</u>	<u>Allowed Charges</u>	<u>Paid Claims</u>
<u>2007</u>								
Employee	715	\$3,123,205	\$1,837,365	\$1,444,665	152	\$367,619	\$213,442	\$173,971
Spouses	64	\$325,490	\$177,996	\$137,219	12	\$56,222	\$27,009	\$21,291
Total	779	\$3,448,695	\$2,015,361	\$1,581,883	164	\$423,841	\$240,451	\$195,262
<u>2006</u>								
Employee	684	\$3,139,710	\$2,033,105	\$1,586,736	127	\$379,429	\$252,852	\$197,043
Spouses	55	\$266,793	\$165,402	\$127,437	7	\$21,999	\$15,260	\$12,020
Total	739	\$3,406,503	\$2,198,506	\$1,714,173	134	\$401,428	\$268,112	\$209,063
<u>2005</u>								
Employee	727	\$2,931,793	\$2,273,733	\$1,580,725	122	\$228,207	\$181,961	\$128,163
Spouses	66	\$325,115	\$245,486	\$168,626	12	\$50,915	\$32,356	\$24,418
Total	793	\$3,256,908	\$2,519,219	\$1,749,351	134	\$279,122	\$214,317	\$152,581

¹ Includes data on spontaneous abortions (e.g., miscarriages).

Data source: Teachers' and State Employees Comprehensive Major Medical Plan

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 administration and claims processing expenses. For the fiscal year beginning July 1, 2007, the Plan

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.

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>	<u>Indemnity Plan</u>	<u>PPO Options</u>	<u>Total</u>	<u>Percent of 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>	<u>Indemnity Plan</u>	<u>PPO 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>	<u>Indemnity Plan</u>	<u>PPO 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, Senate Bill 2028 (1st edition), June 17, 2008, original of which is on file in the General Assembly's Fiscal Research Division.

-Actuarial Note, Aon Consulting, Senate Bill 2028 (1st edition), June 17, 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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