

GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2007

Legislative Actuarial Note

HEALTH BENEFITS

BILL NUMBER: House Bill 265 (Eighth Edition)

SHORT TITLE: Establish Health Insurance Risk Pool.

SPONSOR(S):

SYSTEM OR PROGRAM AFFECTED: Teachers' and State Employees' Comprehensive Major Medical Plan (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, premium payments for coverages selected by eligible former teachers and State employees, premium payments for coverages selected by firefighters, rescue squad workers, members of the National Guard, and certain authorized local governments.

BILL SUMMARY: HB 265 (8th Edition) generally establishes a high-risk pool to offer insured health benefit coverage to eligible citizens of the State who presumably otherwise cannot secure affordable coverage by other means. The bill authorizes the Pool to charge the Plan a financial assessment based on the yearly number of lives included in certain enrollment classifications within the Plan. Specifically, the assessment is calculated by multiplying the yearly enrollment counts for active employee plan members and their eligible dependents that are plan members times \$1.50 per member per year. The assessment fee calculation does not include enrollment counts for retired employee plan members or their dependents.

EFFECTIVE DATE: Sections 2.1, 2.2 and 3 of the bill become effective July 1, 2007, and expire July 1, 2009. The remainder of the bill is effective when it becomes law. Enrollment in the Pool shall commence no later than January 1, 2009.

ESTIMATED IMPACT ON STATE:

Aon Consulting, the consulting actuary for the Teachers' and State Employees' Comprehensive Major Medical Plan (Plan), estimates the bill if enacted would cost the Plan a midpoint estimate of \$700,000 annually beginning with the 2008-2009 fiscal year based on December 2006 enrollment. Hartman and Associates, consulting actuary for the North Carolina General Assembly, estimates the bill if enacted would cost the Plan a projected \$692,000 annually beginning with the 2008-2009 fiscal year based on December 2006 enrollment.

ASSUMPTIONS AND METHODOLOGY:

General Plan Assumptions

The Plan currently operates on a self-insured 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) program. 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.

Combined Financial Components of the Plan: For the fiscal year beginning July 1, 2006, the Plan started its operations with a beginning cash balance of \$246 million. Receipts for the year are estimated to be \$1.946 billion from premium collections, \$34 million from Medicare Part D subsidies and \$11 million from investment earnings for a total of \$1.991 billion in receipts for the year. Disbursements from the Plan are expected to be \$1.977 billion in claim payments and \$105 million in administration and claims processing expenses for a total of \$2.082 billion. For the fiscal year beginning July 1, 2006, the self-insured indemnity program is expected to have a net operating loss of approximately \$91 million for the year. The Plan is expected to have an available beginning cash balance of \$155 million for the fiscal year beginning July 1, 2007. The Plan 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.

Indemnity Plan Component: For the fiscal year beginning July 1, 2006, the Indemnity plan started its operations with a beginning cash balance of \$246 million. Receipts for the year are estimated to be \$1.113 billion from premium collections, \$34 million from Medicare Part D subsidies and \$9.5 million from investment earnings for a total of \$1.156 billion in receipts for the year. Disbursements from the Indemnity plan are expected to be \$1.213 billion in claim payments and \$66 million in administration and claims processing expenses for a total of \$1.279 billion. For the fiscal year beginning July 1, 2006, the self-insured indemnity program is expected to have a net operating loss of approximately \$123 million for the year. The Indemnity plan is expected to have an available beginning cash balance of \$123 million for the fiscal year beginning July 1, 2007.

PPO Program Component: For the fiscal year beginning July 1, 2006, the PPO program started its operations with a beginning cash balance of \$0 million. Receipts for the year are estimated to be \$833 million from premium collections, \$0 million from Medicare Part D subsidies and \$1.5 million from investment earnings for a total of \$835 million in receipts for the year. Disbursements from the Indemnity plan are expected to be \$763 million in claim payments and \$39 million in administration and claims processing expenses for a total of \$803 million. For the fiscal year beginning July 1, 2006, the self-insured indemnity program is expected to have net operating income of approximately \$32 million for the year. The Plan is expected to have an available beginning cash balance of \$32 million for the fiscal year beginning July 1, 2007. The Plan 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.

The Plan is consequently assumed to not be able to carry out its operations for the 2007-2009 biennium without increases in its current premium rates or a reduction in existing benefits or payments to health care providers or both. This assumption is further predicated upon the fact that the program's cost containment strategies (hospital DRG reimbursements, discounts on hospital

outpatient services, pre-admission hospital testing, pre-admission hospital inpatient certification with length-of-stay approval, hospital bill audits, case and disease management for selected medical conditions, mental health case management, coordination of benefits with other payers, Medicare benefit “carve-outs”, cost reduction contracts with participating physicians and other providers, a prescription drug benefit manager with manufacturer rebates from formularies, and fraud detection) are maintained and improved where possible.

Enrollment Data

<u>Percent Enrollment by Age</u>	Indemnity <u>Plan</u>	PPO <u>Options</u>	<u>Total</u>
29 & Under	16.6%	33.6%	26.6%
30 to 44	14.2%	24.7%	20.4%
45 to 54	16.0%	21.3%	19.1%
55 to 64	21.9%	16.4%	18.7%
65 & Over	31.3%	4.1%	15.3%

<u>Percent Enrollment by Sex</u>	Indemnity <u>Plan</u>	PPO <u>Options</u>	<u>Total</u>	Percent of <u>Total</u>
Female	62.4%	162,497	223,760	386,257
Male	37.6%	92,714	139,717	232,431
Total	100.0%	255,211	363,477	618,688

Plan Enrollment as of December 31, 2006

<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	100,405	211,349	311,754	50.4%
Dependents	<u>32,776</u>	<u>112,785</u>	<u>145,561</u>	<u>23.5%</u>
Sub-total	133,181	324,134	457,315	73.9%
<u>Retired</u>				
Employees	108,263	29,764	138,027	22.3%
Dependents	<u>11,876</u>	<u>7,700</u>	<u>19,576</u>	<u>3.2%</u>
Sub-total	120,139	37,464	157,603	25.5%
<u>Former Employees with Continuation Coverage</u>				
Employees	1,391	297	1,688	0.3%
Dependents	<u>478</u>	<u>154</u>	<u>632</u>	<u>0.1%</u>
Sub-total	1,869	451	2,320	0.4%
<u>Firefighters, Rescue Squad & National Guard</u>				
Employees	5	2	7	0.0%
Dependents	<u>-</u>	<u>2</u>	<u>2</u>	<u>0.0%</u>
Sub-total	5	4	9	0.0%
<u>Local Governments</u>				
Employees	16	1,045	1,061	0.1%
Dependents	<u>1</u>	<u>379</u>	<u>380</u>	<u>0.1%</u>
Sub-total	17	1,424	1,441	0.2%
<u>Total</u>	<u>255,211</u>	<u>363,477</u>	<u>618,688</u>	
Percent of Total	41.3%	58.7%	100.0%	100.0%

SOURCES OF DATA:

-Actuarial Note, Hartman & Associates, House Bill 265 Proposed Senate Committee Substitute [v.7] Amendment: An Act to Establish the North Carolina High Risk Pool, July 23, 2007 original of which is on file in the General Assembly's Fiscal Research Division.

-Actuarial Note, Aon Consulting, House Bill 265 with Proposed Substitute H265-ALN-68 [v.1], Establish High Risk Pool, July 19, 2007, 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: July 27, 2007



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