GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2009

Legislative Actuarial Note

HEALTH BENEFITS

BILL NUMBER: House Bill 438 (First Edition)

SHORT TITLE: State Health Plan/Calendar Year.

SPONSOR(S): Representatives Holliman, Folwell, Blue, and Blackwell

SYSTEM OR PROGRAM AFFECTED: State Health Plan for Teachers and State Employees (Plan).

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: Section 1(a) of the bill amends G.S. 135-45.1 to change the definition of plan year from the current July 1 to June 30 fiscal year basis to an annual period established by the Plan's Executive Administrator and Board of Trustees under a new statutory section under G.S. 135-44.2A.

Section 1(b) of the bill creates a new statutory section under G.S. 135-44.2A to conform with the changes in Section 1(a) by allowing a July 1 to June 30 fiscal year based plan year unless changed to a January 1 to December 31 calendar year based plan year by the Plan's Executive Administrator and Board of Trustees. The section also specifies that the transition year from a fiscal year to a calendar year based plan year be either a six-month or 18 month transition plan year. This section further requires that a potential change from a fiscal year plan year to a calendar year based plan year be subject to the Plan having sufficient funds to finance the transition without altering premiums or benefits. There is also a reporting requirement to the General Assembly's Committee on Employee and Hospital Medical benefits.

EFFECTIVE DATE: When it becomes law.

ESTIMATED IMPACT ON STATE:

The proposed bill provides discretionary authority to the Executive Administrator and Board of Trustees to change the Plan's 12 month plan year from a fiscal year to a calendar year. Under the provisions of the bill, if the Executive Administrator and Board of Trustees do not take action to transition the Plan to a calendar year based plan year, then there is estimated to be no financial impact to the Plan.

If the Executive Administrator and Board of Trustees elect to transition the Plan to a calendar year based plan year, then there is projected to be varying financial impacts to the Plan under several transition plan year scenarios. For purposes of describing the potential impacts of migrating to a calendar year based plan year, three separate transition plan year scenarios were estimated. A description and analysis of those respective scenarios are provided in the following pages.

There are two financial components to evaluate when making a transition from a fiscal year to a calendar year based plan year.

First, there are potential one-time costs or savings respectively to the Plan and plan members from the initial period of time used to transition from a fiscal year to a calendar year. Since the current July to June fiscal year is offset by six-months from a January to December calendar year period, then an initial six-month or 18 month transition plan year period of time must be used by the Plan to get to a calendar year based plan year. During the initial transition period, if there are costs to the Plan, then there will be a one-time average benefit savings to plan members. Conversely, a savings to the Plan during the transition period results in a one-time average benefit cost to plan members.

Any projected costs or savings result from having to adjust plan member out-of-pocket annual deductibles, co-insurance maximums, and prescription drug maximums to proportionately match either a six-month or 18-month transition period. For the six-month transition plan year plan member out-of-pocket requirements for deductible, co-insurance maximums, and prescription drug co-pay limits are assumed to be 50% of normal annual limits. For an 18 month transition plan year, these same out-of-pocket limits are assumed to be 150% of normal annual limits. The normal annual limits are assumed to be those enacted in Session Law 2009-16 (Senate Bill 287) for annual deductible and co-insurance maximums, and for annual out-of-pocket prescription drug maximums the amount specified in G.S. 135-45.6 (b). The table below provides assumed out-of-pocket requirements assuming normal limits, and those under respective six-month and 18 month transition plan years, as of July 1, 2009.

	PPO Basic			**PPO Standard**		
Plan Member Out-of-Pocket Costs	**July 1, 2009**	**6-months**	**18-months**	**July 1, 2009**	**6-months**	**18-months**
Annual Deductible						
In-network	$800	$400	$1,200	$600	$300	$900
Out-of-network	$1,600	$800	$2,400	$1,200	$600	$1,800
Coinsurance Maximum						
In-network	$3,250	$1,625	$4,875	$2,750	$1,375	$4,125
Out-of-network	$6,500	$3,250	$9,750	$5,500	$2,750	$8,250
Prescription Drugs Annual Maximum	$2,500	$1,250	$3,750	$2,500	$1,250	$3,750

The second financial component is the additional cash reserves required to ensure the Plan's cash balance is adequate to operate over a 30-month period instead of a 24-month standard funding period for the Plan. Currently, the Plan is funded for the 24-month period from July 1, 2009 to June 30, 2011 to coincide with the 2009-11 biennium, and to keep the Plan's claims stabilization reserve level funded until September 30, 2011. These required cash reserves are in addition to the projected costs or savings impact that may occur from an initial six month or 18 month transition plan year. These additional reserves, along with the annual premium increases, benefit changes and other adjustments enacted in Session Law 2009-16 (Senate Bill 287), are projected to provide the Plan with adequate cash to operate until the General Assembly would be expected to enact a potential future premium increase and possible benefit changes effective January 1, 2012 during the next biennium (i.e., 2011-13 biennium).

Scenario Examples

Provided below are separate financial estimates that assume three different transition plan year scenarios for potentially moving the Plan to a calendar based plan year. Scenario 1 assumes a six-month transition plan year from July 1, 2009 to December 31, 2009, with a calendar year based plan year beginning on January 1, 2010. Scenario 2 assumes a six-month transition plan year from July 1, 2010 to December 31, 2010, with a calendar year based plan year beginning on January 1, 2011. Scenario 3 assumes an 18 month transition plan year from July 1, 2009 to December 31, 2010, with a calendar year based plan year beginning on January 1, 2011.

Each of these scenarios estimates the costs or savings from the transition plan year, the additional cash required to extend the financial time period from 24 months to 30 months, and a total amount of additional cash that would have to be accumulated to implement the transition plan year and the additional six-months for the financial time period.

Scenario 1: Six-month Transition Plan Year from July 1, 2009 to December 31, 2009, then begin calendar year based plan year on January 1, 2010.

1. Estimated Cost or Savings Impact to the Plan: The consulting actuary for the Plan, Aon Consulting, estimates an increased cost of $22.8 million to the Plan under this specific scenario for the 2009-11 biennium. The consulting actuary for the General Assembly's Fiscal Research Division estimates the cost to the Plan under this specific scenario to be approximately $19.5 million for the same time period.

2. Estimated Cash Accumulation Required to Fund Plan an Additional Six-months: Based on a projection from Aon Consulting, consulting actuary for the Plan, the Plan will have to accumulate an additional $68.6 million in cash by June 30, 2011 to fund the additional six-months added to the funding period. The estimate is based on the additional cash required to fund the Plan an extra six-months (i.e., July 1, 2011 to December 31, 2011) over and above the 24 months projected to fund the Plan in Session Law 2009-16 (Senate Bill 287) using the assumptions, projected enrollment and other data used to estimate the Plan's funding requirements for the 2009-11 biennium.

3. Estimated Total Cash Accumulation Required to Fund a Transition to a Calendar Year Plan Year under Scenario 1: Assuming a cost of $22.8 million for the six-month transition period as projected by Aon Consulting, and the estimated $68.7 million in additional cash requirements to extend the funding period by six months, the Plan will have to accumulate total cash of $91.4 million based on the assumptions, projected enrollment and other data used in the projection for Session Law 2009-16 (Senate Bill 287) for the 2009-11 biennium.

Scenario 2: Six-month Transition Plan Year from July 1, 2010 to December 31, 2010, then begin calendar year based plan year on January 1, 2011.

1. Estimated Cost or Savings Impact to the Plan: The consulting actuary for the Plan, Aon Consulting, estimates an increased cost of $24.2 million to the Plan under this specific scenario for the 2009-11 biennium. The consulting actuary for the General Assembly's Fiscal Research Division estimates the cost to the Plan under this specific scenario to be approximately $20.0 million for the same time period.

2. Estimated Cash Accumulation Required to Fund Plan an Additional Six-months: Based on a projection from Aon Consulting, consulting actuary for the Plan, the Plan will have to accumulate an additional $69.4 million in cash by June 30, 2011 to fund the additional six-months added to the funding period. The estimate is based on the additional cash required to fund the Plan an extra six-months (i.e., July 1, 2011 to December 31, 2011) over and above the 24 months projected to fund the Plan in Session Law 2009-16 (Senate Bill 287) using the assumptions, projected enrollment and other data used to estimate the Plan's funding requirements for the 2009-11 biennium.

3. Estimated Total Cash Accumulation Required to Fund a Transition to a Calendar Year Plan Year under Scenario 1: Assuming a cost of $24.2 million for the six-month transition period as projected by Aon Consulting, and the estimated $69.4 million in additional cash requirements to extend the funding period by six months, the Plan will have to accumulate total cash of $93.6 million based on the assumptions, projected enrollment and other data used in the projection for Session Law 2009-16 (Senate Bill 287) for the 2009-11 biennium.

Scenario 3: Six-month Transition Plan Year from July 1, 2009 to December 31, 2010, then begin calendar year based plan year on January 1, 2011.

1. Estimated Cost or Savings Impact to the Plan: The consulting actuary for the Plan, Aon Consulting, estimates a savings of $16.7 million to the Plan under this specific scenario for the 2009-11 biennium. The consulting actuary for the General Assembly's Fiscal Research Division estimates a savings to the Plan under this specific scenario to be approximately $22.1 million for the same time period.

2. Estimated Cash Accumulation Required to Fund Plan an Additional Six-months: Based on a projection from Aon Consulting, consulting actuary for the Plan, the Plan will have to accumulate an additional $66.0 million in cash by June 30, 2011 to fund the additional six-months added to the funding period. The estimate is based on the additional cash required to fund the Plan an extra six-months (i.e., July 1, 2011 to December 31, 2011) over and above the 24 months projected to fund the Plan in Session Law 2009-16 (Senate Bill 287) using the assumptions, projected enrollment and other data used to estimate the Plan's funding requirements for the 2009-11 biennium.

3. Estimated Total Cash Accumulation Required to Fund a Transition to a Calendar Year Plan Year under Scenario 1: Assuming a savings of $16.7 million for the six-month transition period as projected by Aon Consulting, and the estimated $66.0 million in additional cash requirements to extend the funding period by six months, the Plan will have to accumulate total cash of $49.3 million based on the assumptions, projected enrollment and other data used in the projection for Session Law 2009-16 (Senate Bill 287) for the 2009-11 biennium.

ASSUMPTIONS AND METHODOLOGY: The actuarial analyses used by each respective consulting actuary are on file with the Fiscal Research Division. Copies of each respective consulting actuary's analysis, including assumptions, are also attached to the original copy of this Legislative Actuarial note.

Currently, per Session Law 2009-16 (Senate Bill 287), the Plan is authorized to implement an 8.9% annual premium increase effective July 1, 2009, and then again on July 1, 2010 by the same annual rate of increase. Without a transition to a calendar year based plan year, the Plan would be expected to have a potential premium rate increase on July 1, 2011 at the beginning of the next biennium (i.e., 2011-13 biennium). If the Plan moves to a calendar year based plan year, then the Plan's first premium increase of the 2011-13 biennium is assumed to be six months into the biennium, or on January 1, 2012. This assumption is made with the expectation that future annual premium rate increases and benefit changes will align with a calendar year based plan year.

Accumulated cash requirements were estimated by the Plan's consulting actuary, Aon Consulting, by comparing and calculating the difference in cash requirements between the following:

1) The estimated reduction in the Plan's projected $187 million Stabilization Reserve by extending the Plan's financial period to December 31, 2011, assuming the financial requirements and other assumptions projected for Session Law 2009-16 (Senate Bill 287); and

2) Estimating, by each calendar year transition scenario, the cash requirements projected for Session Law 2009-16 (Senate Bill 287) plus adding the additional cash requirements of each respective calendar year transition scenario where the Plan's Stabilization Reserve is held approximately equivalent to $187 million on December 31, 2011.

Summary Information and Data about the Plan

The Plan administers health benefit coverage for active employees from employing units of State agencies and departments, universities, local public schools, and local community colleges. Eligible retired employees of authorized employing units may also access health benefit coverage under the Plan. Eligible dependents of active and retired employees are authorized to participate in the Plan provided they meet certain requirements. Employees and retired employees of selected local governments may also participate in the Plan under certain conditions. Members of fire, rescue squads, and the National Guard may also obtain coverage under the Plan provided they meet certain eligibility criteria.

As of <u>July 1, 2008</u>, the State finances the Plan on a self-funded basis and administers benefit coverage under a Preferred Provider Option (PPO) arrangement. The Plan's receipts are derived through premium contributions, investment earnings and other receipts. Premiums for health benefit coverage are paid by (1) employing agencies for active employees, (2) the Retiree Health Benefit Fund for retired employees, and (3) employees and retirees who elect dependent coverage. Total requirements for the Plan are estimated to be $2.6 billion for FY 2008-09. The Plan's PPO benefit design includes three alternative benefit levels offered to plan members. The three alternative benefit levels include the following:

1) The "Basic" 70/30 plan that offers higher out-of pocket requirements in return for lower fully contributory dependent premiums;

2) The "Standard" 80/20 plan; and

3) The "Plus" 90/10 plan with enhanced benefits via lower out-of pocket requirements as compared to the other PPO plan alternatives offered.

As of <u>July 1, 2009</u>, the State will continue to finance the Plan on a self-funded basis and administers benefit coverage under a Preferred Provider Option (PPO) arrangement. The Plan's receipts will be derived through premium contributions, investment earnings and other receipts. Premiums for health benefit coverage will be paid by (1) employing agencies for active employees, (2) the Retiree Health Benefit Fund for retired employees, and (3) employees and retirees who elect dependent coverage. Total requirements for the Plan are estimated to be $2.5 billion for FY 2009-10 and $2.7 billion for FY 2010-11. The Plan's PPO benefit design will include two alternative benefit levels listed below:

1) The "Basic" 70/30 plan that offers higher out-of pocket requirements in return for lower fully contributory dependent premiums; and

2) The "Standard" 80/20 plan.

The Basic and Standard plans offer coverage to employees and retired employees on a noncontributory basis. Coverage for dependents under both plans is offered on a fully contributory basis.

Financial Condition

Financial Projection (Revised Summer 2008) for FY 2008-09 -- For the fiscal year beginning July 1, 2008, the Plan began its operations with a beginning cash balance of $139.8 million. Receipts for the year were projected to be $2.3 billion from premium collections, $53.9 million from Medicare Part D subsidies, and $2.7 million from investment earnings, for a total of slightly over $2.3 billion in receipt income for the year. Projected disbursements from the Plan were expected to be $2.4 billion in claim-payment expenses and $168.7 million in administration and claims-processing expenses for projected total expenses of nearly $2.6 billion for FY 2008-09. The Plan's net operating loss was projected to be approximately $264.4 million for the fiscal year, assuming a 9% annual claims growth trend.

Projected operating losses were expected to deplete the Plan's cash balance of $139.8 million and leave it without sufficient operating resources to continue operations for the fiscal year.

Financial Projection (Revised April 2009) for FY 2008-09 -- For the fiscal year beginning July 1, 2008, the Plan began its operations with a beginning cash balance of $139.8 million. Receipts for the year are projected to be $2.3 billion from premium collections, $49.0 million from Medicare Part D subsidies, $3.3 million from investment earnings, and $250.0 million from a direct General Fund appropriation from the Rainy Day Fund (Savings Reserve Account) for a total of approximately $2.6 billion in receipt income for the year. The $250 million from a direct General Fund appropriation was provided by Session Law 2009-16 (Senate Bill 287) to finance a shortfall in funds available to pay health care benefits, administrative costs, and adequately fund the Plan's beginning cash balance on July 1, 2009. Projected disbursements from the Plan are expected to be $2.4 billion in claim-payment expenses and $180.7 million in administration and claims-processing expenses for projected total expenses of nearly $2.6 billion for FY 2008-09. The Plan's net operating income is projected to be approximately $7.1 million for the fiscal year, assuming a 9% annual claims growth trend.

Financial Projection 2009-11 Biennium (April 2009) – Session Law 2009-16 (Senate Bill 287) appropriates funds from various sources, authorizes annual premium rate increases, makes various benefit and provider related changes to achieve financial savings, and directs other various changes to the Plan. The enacted law also appropriates the sum of $250 million from the Savings Reserve Account ("Rainy Day Fund") of the General Fund for the 2008-09 fiscal year. The following summarized financial projections by fiscal year for the 2009-11 biennium assume the changes enacted in Session Law 2009-16 (Senate Bill 287).

For the fiscal year beginning <u>July 1, 2009</u>, the Plan is projected to begin its operations with a beginning cash balance of $146.9 million. Receipts for the year are projected to be $2.4 billion from premium collections, $56.3 million from Medicare Part D subsidies, and $8.0 million from investment earnings for a total of approximately $2.5 billion in receipt income for the year. Projected disbursements from the Plan are expected to be $2.3 billion in claim-payment expenses and $185.6 million in administration and claims-processing expenses for projected total expenses of nearly $2.5 billion for FY 2008-09. The Plan's net operating income is projected to be approximately $14.8 million for the fiscal year, assuming a 9% annual claims growth trend and an annual premium increase of 8.9% effective July 1, 2009.

For the fiscal year beginning July 1, 2010, the Plan is projected to begin its operations with a beginning cash balance of $146.9 million. Receipts for the year are projected to be $2.7 billion from premium collections, $50.4 million from Medicare Part D subsidies, and $8.8 million from investment earnings for a total of approximately $2.7 billion in receipt income for the year. Projected disbursements from the Plan are expected to be $2.5 billion in claim-payment expenses and $191.7 million in administration and claims-processing expenses for projected total expenses of nearly $2.7 billion for FY 2010-11. The Plan's net operating income is projected to be approximately $30.6 million for the fiscal year, assuming a 9% annual claims growth trend and an annual premium increase of 8.9% effective July 1, 2010.

Other Information

Historically, the Plan has applied a premium increase in October of the first fiscal year of a biennium. However, the annual premium increases authorized in Session Law 2009-16 (Senate Bill 287) changes that methodology to an annual increase at the beginning of each fiscal year of the 2009-11 biennium.

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.

Enrollment Data as of December 31, 2008

I.	No. of Participants	Basic	Standard	Plus	Total	Percent of Total
	Actives					
	Employees	11,623	271,243	47,687	330,553	49.6%
	Dependents	20,454	115,875	28,156	164,485	24.7%
	Sub-total	32,077	387,118	75,843	495,038	74.2%
	Retired					
	Employees	1,726	127,081	17,967	146,774	22.0%
	Dependents	1,117	14,935	3,476	19,528	2.9%
	Sub-total	2,843	142,016	21,443	166,302	24.9%
	Former Employees with Continuation Coverage					
	Employees	60	1,349	344	1,753	0.3%
	Dependents	61	501	182	744	0.1%
	Sub-total	121	1,850	526	2,497	0.4%
	Firefighters, Rescue Squad & National Guard					
	Employees	-	3	2	5	0.0%
	Dependents	-	3	-	3	0.0%
	Sub-total	-	6	2	8	0.0%
	Local Governments					
	Employees	72	1,577	319	1,968	0.3%
	Dependents	141	637	218	996	0.1%
	Sub-total	213	2,214	537	2,964	0.4%
	Total					
	Employees	13,481	401,253	66,319	481,053	72.1%
	Dependents	21,773	131,951	32,032	185,756	27.9%
	Grand Total	**35,254**	**533,204**	**98,351**	**666,809**	**100%**
	Percent of Total	**5.3%**	**80.0%**	**14.7%**	**100.0%**	

II.	Enrollment by Contract	Basic	Standard	Plus	Total
	Employee Only	2,684	328,635	49,246	380,565
	Employee Child(ren)	4,958	36,903	8,589	50,450
	Employee Spouse	2,274	18,145	4,469	24,888
	Employee Family	3,565	17,570	4,015	25,150
	Total	**13,481**	**401,253**	**66,319**	**481,053**

Percent Enrollment by Contract	Basic	Standard	Plus	Total
Employee Only	19.9%	81.9%	74.3%	79.1%
Employee Child(ren)	36.8%	9.2%	13.0%	10.5%
Employee Spouse	16.9%	4.5%	6.7%	5.2%
Employee Family	26.4%	4.4%	6.1%	5.2%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Enrollment Data Continued

III. Enrollment by Sex	Basic	Standard	Plus	Total
Female	18,837	334,917	61,752	415,506
Male	16,417	198,287	36,599	251,303
Total	**35,254**	**533,204**	**98,351**	**666,809**

Percent Enrollment by Sex	Basic	Standard	Plus	Total
Female	53.4%	62.8%	62.8%	62.3%
Male	46.6%	37.2%	37.2%	37.7%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

IV. Enrollment by Age	Basic	Standard	Plus	Total
29 & Under	17,390	136,277	27,211	180,878
30 to 44	8,125	107,375	17,315	132,815
45 to 54	5,164	94,548	18,277	117,989
55 to 64	3,195	102,901	23,452	129,548
65 & Over	1,380	92,103	12,096	105,579
Total	**35,254**	**533,204**	**98,351**	**666,809**

Percent Enrollment by Age	Basic	Standard	Plus	Total
29 & Under	49.3%	25.6%	27.7%	27.1%
30 to 44	23.0%	20.1%	17.6%	19.9%
45 to 54	14.6%	17.7%	18.6%	17.7%
55 to 64	9.1%	19.3%	23.8%	19.4%
65 & Over	3.9%	17.3%	12.3%	15.8%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

V. Retiree Enrollment by Category	Employee	Dependents	Total
Non-Medicare Eligible	49,534	12,080	61,614
Medicare Eligible	97,240	7,448	104,688
Total	**146,774**	**19,528**	**166,302**

Percent by Category (Retiree)	Employee	Dependents	Total
Non-Medicare Eligible	33.7%	61.9%	37.0%
Medicare Eligible	66.3%	38.1%	63.0%
Total	**100.0%**	**100.0%**	**100.0%**

SOURCES OF DATA:

-Aon Consulting, North Carolina State Health Plan, Financial Projections – October 2008, Total For All Plans – 9% Trend, July 2009 & 2010 Rate Increases, $250 Million Grant, No Plus Option – July 2009, Benefit Option, Pharmacy Initiatives, Chiro PT/OT/ST MH/CD Middle Tier April 23, 2009.

- Aon Consulting, Analysis of the various calendar year scenarios, Emailed spreadsheet reflecting estimated additional cash requirements, May 4, 2009.

-Actuarial Note, Hartman & Associates, "House Bill 438: An Act to Allow the State Health Plan to Change its Plan Year From a Fiscal Year to a Calendar Year", April 23, 2009, original of which is on file in the General Assembly's Fiscal Research Division.

-Actuarial Note, Aon Consulting, "House Bill 438 (1st Edition) Calendar Year Change", April 23, 2009, original of which is on file with the State Health Plan for Teachers and State Employees and the General Assembly's Fiscal Research Division.

TECHNICAL CONSIDERATIONS:

An amendment to G.S. 135-45(g), as amended by Session Law 2009-16 (Senate Bill 287), may be required to permit the Executive Administrator and Board of Trustees with the authority to implement annual deductibles, co-insurance maximums and prescription drug co-pay limits at 50% of the annual limits for a six-month transition plan year, or 150% of the annual limits for an 18 month transition plan year.

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