N.C. GENERAL ASSEMBLY LEGISLATIVE FISCAL NOTE

Fiscal Research
733-4910

Prepared By / Approved By	Date Prepared	Bill No.	Edition
Prepared By: Richard Bostic	May 2, 1989	H 985	Edition: (as amended)
Approved By: Tom Covington TOMC	MAY 4, 1989		Sponsor: Rep. Judy Hunt

Short Title: N. C. Health Insurance Pool

TYPE OF FISCAL IMPACT	State Gov't	County/ Local Gov't
No Fiscal Impact	( )	( )
Increase Expenditure	(x)	( )
Decrease Expenditure	( )	( )
Increase Revenue	( )	( )
Decrease Revenue	( )	( )
No Estimate Avail.	( )	( )

FUNDS AFFECTED: (x) General ( ) Highway ( ) Local ( ) Other:

State Fiscal Impact	FY 89-90	FY 91-92	FY 93-94
State Total Req'ments	50,000	0	5,629,410**
Receipts/Revenues			
Net State Expend./Rev.			
No. of Positions			

Local Fiscal Impact	FY	FY	FY
Local Total Req'ments			
Receipts/Revenues			
Net Local Expend./Rev.			
No. of Positions			

** See p. 8, line 20 of the bill

Description of Legislation

1. Summary of Legislation
   The bill creates the North Carolina Health Insurance Pool to insure individuals who cannot obtain health insurance coverage.

2. Effective Date: January 1, 1990

3. Fund or Tax Affected: General Fund

4. Principal Department/Program Affected: Department of Insurance

Cost or Revenue Impact on State

FY FY FY

	89-90	91-92	93-94
1. Non-Recurring Costs/Revenues	50,000	0	5,629,410**

2. Recurring Costs/Revenues

3. Fiscal/Revenue Assumptions

Cost/Revenue Impact on County or Local Government

	FY	FY	FY

1. Non-Recurring Costs/Revenues

2. Recurring Costs/Revenues

3. Fiscal/Revenue Assumptions

Sources of Data for Fiscal Note
North Carolina Department of Insurance
Blue Cross/Blue Shield of North Carolina
Comprehensive Health Insurance for High Risk Individuals, Communicating for Agriculture, Inc. Third Edition, October 1, 1982.

Technical Considerations/Comments

House Bill 985 creates the North Carolina Health Insurance Pool for persons who have been rejected for or involuntarily terminated from health insurance coverage. Even with premiums from 150% to 175% above the standard rate, the Pool will eventually lose money due to the expensive medical care needed by its subscribers. After initial profits in the pool in FY 1991-92 and FY 1992-93, it is estimated that the Pool will lose $5,629,410 in FY 1993-94. The bill as amended reports such losses to the House and Senate Appropriations Committees, but does not mandate the state to fund this deficit. As stated in section 58-796 of the bill, Pool benefits are available only to the extent that funds are appropriated by the General Assembly. Without a mandate of state funding or an assessment on health insurers, this program will not be viable. Also, without initial state funding, section 58-796 would prevent the Pool from offering major medical coverage.

Executive Summary - Key Points

- o Five states have had health insurance pools since the mid 1970's to early 1980's.
- o Indiana's enrollment in its health insurance pool equals 47 subscribers per

100,000 population while Wisconsin has 45 subscribers per 100,000 population.

- It is assumed North Carolina will have 46 subscribers per 100,000 population or roughly 3,000 persons (actual = 2,913).
- A similar insurance pool at Blue Cross/Blue Shield called SNAP has 1,940 subscribers, but is expected to reach a maximum of 3,000.
- The Director of Actuarial Services at Blue Cross/Blue Shield estimated 3,000 to 5,000 persons would enroll in a state sponsored health insurance pool.
- HB 985 sets the initial premium at 150% of the standard rate, but allows adjustment in later years to 175% of the standard rate. This fiscal note assumes a 150% rate each year.
- It is estimated that claim costs will be twice the standard premium rate.
- It is assumed administrative costs will be based on 10% of the premiums collected. The actual rate will be set by competitive bid.
- There is $50,000 in start-up costs in the FY 89-91 biennium, a surplus in the pool in the FY 91-93 biennium, then a potential General Fund cost of $5.6 million in FY 93-94. The General Assembly has the choice of funding or not funding any pool losses.

PARTICIPATION

It is anticipated that 3,000 to 5,000 individuals will use the proposed Pool based on the enrollment in health insurance pools in other states and on the experience of a similar program sponsored by Blue Cross/Blue Shield. The Department of Insurance estimates the lower end of the range to be 2,000 to 2,500 with a maximum of 5,000.

Five states have had health insurance pools since the mid 1970's to early 1980's. The two states with pools comparable to the one proposed in HB 985 are Indiana and Wisconsin. Indiana has 2,610 enrolled in its Comprehensive Health Insurance Association while Wisconsin has 2,143 (non-Medicare) enrolled in its Health Insurance Risk Sharing Plan. These enrollments are equivalent to 47 subscribers per 100,000 population in Indiana and 45 per 100,000 in Wisconsin. Assuming a similar subscription rate of 46 per 100,000 population, then North Carolina could expect 2,913 persons to enroll in its pool given the state's population of 6.3 million.

Blue Cross/Blue Shield operates the Special Nongroup Application Program or SNAP for those rejected by the company for standard health insurance coverage. SNAP began operation in January 1986 with 35 subscribers, but had 1,940 enrolled in the program as of December 1988. The Director of Actuarial Services at Blue Cross anticipates SNAP to "max out" at 3,000 subscribers similar to an earlier version of the program in 1974. When asked what enrollment the state might expect with HB 985, this official estimated a range of 3,000 to 5,000. The following is a comparison of SNAP and the proposed state pool:

	SNAP	Pool
Underwriting requirements	no	no
Annual premium	no limit	175% of standard (max.)
Deductible	$500	$500; $1000; etc.
Coinsurance	20%	20%
Max. annual out-of-pocket	no limit	$3,500(single) $5,000(family)
Life max. medical coverage	$250,000	$1 million
Pre-existing conditions	12 months	6 months

PREMIUMS

Since HB 985 states that the initial premiums can not exceed "150% of rates established as applicable for individual standard risks", then it is important to estimate the standard rate for future years. An actuary for the Department of Insurance quoted the current non group comprehensive rate per month for an individual as $150.03. Given the 21% inflation experienced by Blue Cross/Blue Shield the past two years, it is assumed the standard rate will increase 20% both in 1990 and 1991. In 1992 and 1993, it is assumed medical inflation will decline to 15% each year based on observations by the Director of Actuarial Services at Blue Cross/Blue Shield. A schedule of the inflation-adjusted rates is shown below.

	STANDARD	150%
1989	$150.03/mo.	$225.04/mo.
1990	$180.04/mo.	$270.06/mo.
1991	$216.04/mo.	$324.06/mo.
1992	$248.45/mo.	$372.67/mo.
1993	$285.72/mo.	$428.58/mo.

CLAIMS

Each of the 5 states that created a health insurance pool on or before 1983 had claims exceeding premiums in 1987. These losses ranged from a approximately $1 million in Wisconsin to $10.5 million in Minnesota. On average, the premiums covered only 56.7% of the claims made in 1987. The average loss per subscriber in 1987 was $1,194. These losses can be attributed to premium caps of (1) 125% in Connecticut and

Minnesota and (2) 150% in Florida, Indiana and Wisconsin.

	PREMIUMS	($000) CLAIMS	LOSSES	PREM/ CLAIM
Connecticut	$3,053	$5,504	$2,451	55.5%
Florida	2,858	3,964	1,106	72.1%
Indiana	6,302	11,565	5,263	54.5%
Minnesota	11,407	21,893	10,486	52.1%
Wisconsin	2,960	3,956	996	74.8%

In the first 8 months of 1988, the SNAP program at Blue Cross had claims exceeding income by $596,200. Viewed in another way, premiums were covering only 74.2% of claim cost. This loss is occurring even though SNAP rates are 143.5% of the standard rate. The Director of Actuarial Services at Blue Cross believes that the rate for SNAP or any pool of this type should be at least 200% of the standard rate just to break even. A rate increase pending now before the Insurance Commissioner would raise SNAP rates in July 1989 to 197.4% of the standard rate.

ADMINISTRATIVE COSTS

HB 985 directs the Board of Directors of the Pool, subject to the approval of the Insurance Commissioner, to award a contract and set the rates of payments for a Pool administrator. The Administrator will be selected in a competitive bidding process. In most states the administrative fee is based on the percentage of premiums collected or the percent of claims audited or paid. Minnesota and North Dakota specifically state in their legislation an administrative rate of 12.5% (Montana = 12%). At Blue Cross the administrative costs is approximately 8% of premiums.

IMPLEMENTATION

The Pool will not accept subscribers until Fiscal Year 1991-92 assuming the maximum number of days set forth in the bill are required. The bill timeline is as follows:

- @ The act is effective on January 1, 1990.
- @ The Commissioner of Insurance has 90 days to select the Board of Directors of the Pool, set the initial meeting of the Board, and notify all insurers of the meeting.
- @ The Board has 190 days to submit its Plan for the Pool.

- @ If the Board fails to submit an acceptable Plan, then the Commissioner of Insurance can adopt rules to implement the program.
- @ Through the competitive bidding process, the Board will select an insurer to administer the pool.
- @ The Pool administrator must establish a premium billing procedure.

PROJECTED COSTS

I. FY 1989-90 & FY 1990-91

The Department of Insurance will need $50,000 in start-up costs to implement HB 985. This appropriation should be nonreverting until June 30, 1992 so that funds will be available throughout the FY 89-91 biennium.

II. FY 1991-92

Assume the following:

- @ Subscribers = 1,000
- @ Standard premium = $216.04 / mo.
- @ Pool premium at 150% of standard = $324.06 / mo.
  = $3,888.72 / yr.
- @ Claims per subscriber are twice the standard premium =
  $216.04 x 2 x 12 = $5,184.96
- @ Administrative costs = 10% of premiums
- @ 6 month preexisting conditions clause will cut claims costs in half in first year of enrollment

Premiums = $3,888.72 x 1,000 = $3,888,720

Claims = $5,184.96 x 1,000 x .5 = $2,592,480

Admin. cost = $3,888,720 x .1 = $388,872

Premiums	$3,888,720
Claims	(2,592,480)
Admin. Cost	(388,872)
Balance	$ 907,368

III. FY 1992-93

Assume the following:

- @ Subscribers = 3,000
- @ Standard premium = $248.45 / mo.
- @ Pool premium at 150% of standard = $372.67 / mo.
  = $4,472.10 / yr.
- @ Claims per subscriber are twice the standard premium =
  $248.45 x 2 x 12 = $5,962.80
- @ Administrative costs = 10% of premiums
- @ 6 month preexisting conditions clause will cut claims costs in half for the 2,000 newly enrolled

Premiums = $4,472.10 x 3,000 = $13,416,300

Claims = $5,962.80 x 1,000 = $5,962,800
+ $5,962.80 x 2,000 x .5 = $5,962,800
Total claims = $11,925,600

Admin. costs = $13,416,300 x .1 = $1,341,630

Premiums	$13,416,300
Claims	(11,925,600)
Admin. Cost	(1,341,630)
Balance	$ 149,070
+ Previous Bal.	907,368
Total Bal.	$ 1,056,438

IV. FY 1993-94

Assume the following:

- @ Subscribers = 3,000
- @ Standard premium = $285.72 / mo.
- @ Pool premium at 150% of standard = $428.58 / mo.
  / = $5,142.96 / yr.
- @ Claims per subscriber are twice the standard premium =
  $285.72 x 2 x 12 = $6,857.28
- @ Administrative costs = 10% of premiums

Premiums = $5,142.96 x 3,000 = $15,428,880

Claims = $6,857.28 x 3,000 = $20,571,840

Admin. costs = $15,428,880 x .1 = $1,542,888

Premiums	$15,428,880
Claims	(20,571,840)
Admin. Cost	(1,542,888)
Loss	($6,685,848)
Previous Bal.	1,056,438
Net Loss	($5,629,410)

V. As the number of subscribers increases, so will the losses increase in the Pool. If an additional 2,000 people enter the Pool to reach the 5,000 maximum projected by Blue Cross and the Department of Insurance, then Pool losses will increase approximately $4.5 million. (Assume $2,228 loss per subscriber based on loss shown in item IV, above.)