

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE ACTUARIAL NOTE

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BILL NUMBER: House Bill 1123

SHORT TITLE: State Health Plan Amendments

SPONSOR(S): Rep. Jane Mosley

SYSTEM OR PROGRAM AFFECTED: Teachers' and State Employees' Comprehensive Major Medical 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, and Premium Payments for Coverages Selected by Eligible Former Teachers and State Employees.

BILL SUMMARY: Sections 1, 2, and 3 of the bill involve a change in the Plan's fiscal year from the current July-to-June basis to a January-to-December basis. In making this change, the period July 1, 1999, through December 31, 2000, is considered a fiscal year in which the deductible amounts and aggregate maximum amounts of the Plan's self-insured indemnity program are to be 150% of the program's current deductible and aggregate maximum amounts. Consequently, beginning July 1, 1999, the indemnity program's deductible and maximum aggregate amounts are increased as follows;

Individual Deductible: From \$250 to \$375;

Family Deductible: From \$750 to \$1,125;

20% Coinsurance Limit: From \$1,000 to \$1,500;

Annual Chiropractic Claim Payment Limit: From \$2,000 to \$3,000;

Annual Cardiac Rehabilitation Claim Payment Limit: From \$650 to \$975;

Annual Outpatient Diabetes Self-Care Claim Payment Limit: From \$300 to \$450.

In January 2001, the indemnity program's current deductible and aggregate maximum amounts will be reinstated. Section 3 of the bill directs the Plan's Executive Administrator to require the Plan's nine health maintenance organizations (HMOs) to have plan years of either October 1, 1999, through December 31, 2000, or October 1, 2000, through December 31, 2001.

Sections 4, 5, and 6 of the bill appear to try to change the self-insured indemnity program's benefits for outpatient prescription drugs. The sections appear to "carve out" outpatient drug benefits from the rest of the program's benefits. In doing so, outpatient prescription drug claims would not be subject to the program's annual deductible and coinsurance provisions, which are paid by the program's members. Instead, members of the program would pay a copayment amount per prescription to pharmacies at the time of purchase and pharmacies would, in turn, be reimbursed by the program for the remainder of allowable charges. The copayments for each prescription required by the sections are \$10 for each generic drug, \$15 for each brand-name drug, and \$20 for each brand-name drug for which there is a generic equivalent. Allowable charges are 90% of a drug's average wholesale price plus a pharmacy dispensing fee to be determined by the Plan's Executive Administrator and Board of Trustees.

EFFECTIVE DATE: Sections 5 and 6 of the bill become effective July 1, 1999. The remainder of the bill becomes effective when it becomes law.

ESTIMATED IMPACT ON STATE: Based upon information supplied by the Teachers' and State Employees' Comprehensive Major Medical Plan, the consulting actuary for the Plan, Aon Consulting, estimates the additional savings and cost to the Plan's indemnity program to be:

	<u>1999-2000</u>	<u>2000-2001</u>
<u>Change in Fiscal Year</u>		
1999-2000 (Savings)	\$(35,590,000)	
2000-2001 Cost		\$23,795,000
<u>Change in Prescription Drugs</u>		
1999-2001 Cost	\$ 12,346,000	\$16,297,000
<u>Total Net (Savings) or Cost</u>	<u>\$(23,244,000)</u>	<u>\$40,092,000</u>

For the 1999-2001 biennium, Aon Consulting estimates a net cost to the Plan's indemnity program to be \$16,848,000.

Based upon the same information supplied by the Plan, the consulting actuary for the General Assembly's Fiscal Research Division, Hartman & Associates, estimates the additional savings and cost to the Plan's indemnity program to be:

	<u>1999-2000</u>	<u>2000-2001</u>
<u>Change in Fiscal Year</u>		
1999-2000 (Savings)	\$(36,325,158)	
2000-2001 Cost		\$24,584,525
<u>Change in Prescription Drugs</u>		
1999-2001 Cost	\$ 16,186,049	\$22,576,017
<u>Total Net (Savings) or Cost</u>	<u>\$(20,139,109)</u>	<u>\$47,160,542</u>

For the 1999-2001 biennium, Hartman & Associates estimates a net cost to the Plan's indemnity program to be \$27,021,433.

A combined estimate from the two actuaries on the additional savings and cost to the Plan's indemnity program are:

	<u>1999-2000</u>	<u>2000-2001</u>
<u>Change in Fiscal Year</u>		
1999-2000 (Savings)	\$(35,958,000)	
2000-2001 Cost		\$24,190,000
<u>Change in Prescription Drugs</u>		
1999-2001 Cost	\$ 14,266,000	\$19,437,000
<u>Total Net (Savings) or Cost</u>	<u>\$(21,692,000)</u>	<u>\$43,627,000</u>

For the 1999-2001 biennium, the combined estimates produce a net cost to the Plan's indemnity program of \$21,935,000. This combined estimate for the Plan's indemnity program would be financed as follows:

<u>Source of Funds</u>	<u>1999-2001</u>
General Fund	\$13,819,100
Highway Fund	1,096,700
Other Employer Funds	2,193,500
Total Employer Funds	\$17,109,300
Employee Paid Funds	4,606,400
Former Employee Funds	219,300
Total	\$21,935,000

The estimated additional costs for the Plan's indemnity program for outlying years are \$25,225,000 for fiscal year 2001-2002, \$29,009,000 for fiscal year 2002-2003, and \$33,360,000 for fiscal year 2003-2004.

Including the same amount of 1999-2001 increased employer costs for employees and retired employees covered in the nine health maintenance organizations (HMOs) would result in revised employer-funded costs as follows:

<u>Source of Funds</u>	<u>1999-2001</u>
General Fund	\$17,946,900
Highway Fund	1,424,300
Other Employer Funds	2,848,700
Total Employer Funds	\$22,219,900

ASSUMPTIONS AND METHODOLOGY: The Comprehensive Major Medical Plan for Teachers and State Employees is divided into two programs. From October 1982, through June 1986, the Plan had only a self-funded indemnity type of program which covered all employees, retired employees, eligible dependents of employees and retired employees, and eligible former employees and their eligible dependents authorized to continue coverage past a termination of employment other than for retirement or disability purposes. A prepaid program of coverage by health maintenance organizations (HMOs) was offered in July 1986, as an alternative to the Plan's self-insured indemnity program. The benefits of the self-insured indemnity type of program are spelled out in Part 3 of Article 3 of Chapter 135 of the North Carolina General Statutes (i.e., \$250 annual deductible, 20% coinsurance up to \$1,000 annually, etc. paid by the program's members). HMOs are required to offer benefits that are comparable to those provided by the self-insured indemnity program. Employer-paid non-contributory premiums are only authorized for the indemnity program's coverage for employees and retired employees. Whenever employees and office holders first employed or taking office on and after October 1, 1995 become eligible for health benefits as retired employees, the amount of premium paid by the State for individual coverage will be based upon the retiree's amount of retirement service credit at the time of retirement. Only retired employees with 20 or more years of service credit at retirement will be eligible for non-contributory health benefit premiums. Retirees with 10 or more years of service credit at retirement will be eligible for 50% partially contributory health benefit premiums. Retired employees with 5 or more year of service credit at retirement will be eligible to continue their health benefits on a fully contributory basis. All other types of premium in the indemnity program are fully contributory.

Premiums paid by employers to HMOs are limited to like amounts paid to the indemnity program with employees and retired employees paying any HMO amounts above the indemnity program's non-contributory rates. Both types of coverage continue to be available in the Plan with nine HMOs currently covering about 25%

of the Plan's total population in 66 of the State's 100 counties. The Plan's employees and retired employees select the type of program that they wish for themselves and their dependents during the months of August and September of each year for coverage beginning in October. The demographics of the Plan as of December 31, 1998, include:

	<u>Self-Insured Indemnity Program</u>	<u>Alternative HMOs</u>	<u>Plan Total</u>
<u>Number of Participants</u>			
Active Employees	192,800	74,400	267,200
Active Employee Dependents	107,400	52,200	159,600
Retired Employees	91,600	6,700	98,300
Retired Employee Dependents	15,600	1,300	16,900
Former Employees & Dependents with Continued Coverage	2,700	700	3,400
Total Enrollments	410,100	135,300	545,400

<u>Number of Contracts</u>			
Employee Only	217,400	55,100	272,500
Employee & Child(ren)	30,600	16,500	47,100
Employee & Family	38,400	9,900	48,300
Total Contracts	286,400	81,500	367,900

<u>Percentage of Enrollment by Age</u>			
29 & Under	27.0%	44.3%	31.3%
30-44	20.2	26.5	21.7
45-54	20.8	18.5	20.2
55-64	14.6	8.0	13.0
65 & Over	17.4	2.7	13.8

<u>Percentage of Enrollment by Sex</u>			
Male	39.5%	39.2%	39.5%
Female	60.5	60.8	60.5

Assumptions for the Self-Insured Indemnity Program: For the fiscal year beginning July 1, 1998, the self-insured program started its operations with a beginning cash balance of \$334.1 million. Receipts for the year are estimated to be \$590 million from premium collections, \$20 million from investment earnings, and \$15 million in risk adjustment and administrative fees from HMOs, for a total of \$625 million in receipts for the year. Disbursements from the self-insured program are expected to be \$720 million in claim payments and \$19 million in administration and claims processing expenses for a total of \$739 million for the year beginning July 1, 1998. For the fiscal year beginning July 1, 1999, the self-insured indemnity program is expected to have an operating cash balance of over \$220 million with a net operating loss of \$185 million for the 1999-2000 fiscal year. For the fiscal year beginning July 1, 2000, the self-insured indemnity program is expected to have an operating cash balance of \$35 million with a net operating loss of \$270 million for the 2000-2001 fiscal year. The self-insured indemnity program is consequently assumed to be unable to carry out its operations for the 1999-2001 biennium without increases in its current premium rates or a reduction in existing benefits or both. This assumption is further predicated upon the fact that the program's cost containment strategies (hospital DRG reimbursements, pre-admission hospital testing, pre-admission hospital inpatient certification with length-of-stay approval,

hospital bill audits, required second surgical opinions, mental health case management, coordination of benefits with other payers, Medicare benefit “carve-outs”, cost reduction contracts with participating physicians and other providers, prescription drug manufacturer rebates from voluntary formularies, and fraud detection) are maintained and improved where possible. Current non-contributory premium rates are \$110.08 monthly for employees whose primary payer of health benefits is Medicare and \$144.60 per month for employees whose primary payer of health benefits is not Medicare. Fully contributory premium amounts for employee and child(ren) contracts are \$68.50 monthly for children whose primary payer of health benefits is Medicare and \$90.12 monthly for other covered children, and \$164.30 per month for family contracts whose dependents have Medicare as the primary payer of health benefits and \$216.18 per month for other family contract dependents. Claim cost trends are expected to increase 8-10% annually. Total enrollment in the program is expected to decrease about one percent (1.0%) annually due to competition from alternative HMOs. The number of enrolled active employees is expected to show a 1-2% loss annually, whereas the growth in the number of retired employees is assumed to be 4% per year. The program is expected to lose about 2-3% of its number of active employee dependents each year, whereas the number of enrolled retiree dependents is assumed to grow 1-2% from year to year. Investment earnings are based upon a 5-6% monthly return on available cash balances. The self-insured indemnity 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.

Assumptions for the Self-Insured Indemnity Program’s Outpatient Prescription Drug Claims: For the last several fiscal years, claims experience for outpatient prescription drug in the Plan’s indemnity program has been:

Type of Drug	1993-94	1994-95	1995-96	1996-97	1997-98
<u>Brand Drugs</u>					
Number of Prescriptions	1,669,915	1,773,974	1,876,122	2,024,409	2,186,890
% Change	3.2%	6.2%	5.8%	7.9%	8.0%
Total Charges	\$67,810,329	\$75,430,295	\$84,613,583	\$98,409,330	\$115,927,964
% Change	8.0%	11.2%	12.2%	16.3%	17.8%
Total Allowed Charges	\$59,352,084	\$66,316,612	\$74,410,827	\$86,682,862	\$101,337,962
% Change	9.1%	11.7%	12.2%	16.5%	16.9%
<u>Allowed Charges Applied</u>					
to Deductible	\$12,140,282	\$12,648,434	\$14,127,198	\$15,264,043	\$16,357,937
% Change	7.6%	4.2%	11.7%	8.0%	7.2%
<u>Allowed Charges Applied</u>					
to Coinsurance	\$8,452,054	\$9,625,021	\$10,818,606	\$12,753,872	\$15,109,477
% Change	8.5%	13.9%	12.4%	17.9%	18.5%
Total Paid	\$38,759,748	\$44,043,157	\$49,465,023	\$58,664,947	\$69,870,548
% Change	9.7%	13.6%	12.3%	18.6%	19.1%
<u>Brand Drugs with Generics</u>					
Number of Prescriptions	431,975	417,947	374,943	336,173	334,814
% Change	-3.6%	-3.2%	-10.3%	-10.3%	-0.4%
Total Charges	\$13,122,995	\$13,314,333	\$12,785,948	\$12,313,930	\$13,539,502
% Change	6.1%	1.5%	-4.0%	-3.7%	10.0%

Total Allowed Charges	\$10,891,508	\$11,144,910	\$10,760,774	\$10,295,733	\$11,412,600
% Change	8.9%	2.3%	-3.4%	-4.3%	10.8%
Allowed Charges Applied to Deductible	\$3,961,211	\$4,154,393	\$3,621,949	\$3,328,113	\$3,267,785
% Change	2.3%	4.9%	-12.8%	-8.1%	-1.8%
Allowed Charges Applied to Coinsurance	\$1,282,709	\$1,296,574	\$1,316,847	\$1,264,286	\$1,491,598
% Change	12.3%	1.1%	1.6%	-4.0%	18.0%
Total Paid	\$5,647,588	\$5,693,943	\$5,821,978	\$5,703,334	\$6,653,217
% Change	13.2%	0.8%	2.2%	-2.0%	16.7%
<u>Generic Drugs</u>					
Number of Prescriptions	1,230,443	1,431,276	1,476,145	1,550,269	1,612,914
% Change	15.3%	16.3%	3.1%	5.0%	4.0%
Total Charges	\$17,306,107	\$21,479,694	\$22,937,681	\$24,922,520	\$27,740,795
% Change	26.8%	24.1%	6.8%	8.7%	11.3%
Total Allowed Charges	\$12,914,294	\$16,795,978	\$18,368,094	\$20,227,151	\$22,977,094
% Change	36.7%	30.1%	9.4%	10.1%	13.6%
Allowed Charges Applied to Deductible	\$3,113,021	\$4,165,013	\$4,487,481	\$4,774,829	\$4,693,580
% Change	37.6%	33.8%	7.7%	6.4%	-1.7%
Allowed Charges Applied to Coinsurance	\$1,763,643	\$2,299,739	\$2,525,996	\$2,792,401	\$3,282,494
% Change	35.4%	30.4%	9.8%	10.5%	17.6%
Total Paid	\$8,037,630	\$10,331,226	\$11,354,617	\$12,659,921	\$15,001,020
% Change	36.7%	28.5%	9.9%	11.5%	18.5%
<u>Compounded Drugs</u>					
Number of Prescriptions	88	100	87	59	62
% Change	-34.3%	13.6%	-13.0%	-32.2%	5.1%
Total Charges	\$12,266	\$5,409	\$4,114	\$2,422	\$3,116
% Change	60.5%	-55.9%	-23.9%	-41.1%	28.7%
Total Allowed Charges	\$12,255	\$5,325	\$4,046	\$2,383	\$2,937
% Change	60.5%	-56.5%	-24.0%	-41.1%	23.2%
Allowed Charges Applied to Deductible	\$243	\$176	\$24	\$46	\$118
% Change	-73.1%	-27.6%	-86.4%	91.7%	156.5%
Allowed Charges Applied to Coinsurance	\$3,084	\$3,985	\$3,482	\$1,230	\$1,323
% Change	207.5%	29.2%	-12.6%	-64.7%	7.6%
Total Paid	\$8,928	\$1,164	\$540	\$1,107	\$1,496
% Change	55.8%	-87.0%	-53.6%	105.0%	35.1%
<u>Total Drugs</u>					
Number of Prescriptions	3,332,421	3,623,297	3,727,297	3,910,910	4,134,680
% Change	6.3%	8.7%	2.9%	4.9%	5.7%
Total Charges	\$98,251,69	\$110,229,73	\$120,341,32	\$135,648,202	\$157,211,37

	7	1	6		7
% Change	10.6%	12.2%	9.2%	12.7%	15.9%
Total Allowed Charges	\$83,170,141	\$94,262,825	\$103,543,741	\$117,208,129	\$135,730,593
% Change	12.6%	13.3%	9.8%	13.2%	15.8%
Allowed Charges Applied to Deductible	\$19,214,757	\$20,968,016	\$22,236,652	\$23,367,031	\$24,319,420
% Change	10.3%	9.1%	6.1%	5.1%	4.1%
Allowed Charges Applied to Coinsurance	\$11,501,490	\$13,225,319	\$14,664,931	\$16,811,789	\$19,884,892
% Change	12.4%	15.0%	10.9%	14.6%	18.3%
Total Paid	\$52,453,894	\$60,069,490	\$66,642,158	\$77,029,309	\$91,526,281
% Change	13.5%	14.5%	10.9%	15.6%	18.8%

Increases in the indemnity program's per capita claim costs for outpatient prescription drugs have been 19.0% for 1997-98, 14.5% for 1996-97, 17.0% for 1995-96, 13.0% for 1994-95, and 13.0% for 1993-94.

For the purposes of pricing outpatient prescription drug costs in the bill, the Executive Administrator of the Plan has said that the Plan's indemnity program will pay a \$6.00 per prescription pharmacy dispensing fee as directed in the bill. This is the same pharmacy fee that the General Assembly adopted for the Health Insurance Program for Children in April of 1998. The pricing approach also assumes no limits on supplies of drugs per prescription since none were specified in the bill. Member copayments are also assumed to be actual charges not to exceed the copayment amounts specified in the bill

SOURCES OF DATA:

-Actuarial Note, Hartman & Associates, House Bill 1123, April 30, 1999, original of which is on file in the General Assembly's Fiscal Research Division.

-Actuarial Note, Aon Consulting, House Bill 1123, April 30, 1999, 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: The Plan and its consulting actuary have recommended that the bill be rewritten to include prescription drugs under G.S. 135-40.5, to clarify that copayments will not exceed charges for a drug, and to specify a daily supply limit. The bill should also have a prohibition against pharmacies balance billing Plan members when the pharmacies accept a member's copayment and the Plan's remainder of allowable charges. The Plan is also recommending a January 2000, implementation date.

FISCAL RESEARCH DIVISION: 733-4910

PREPARED BY: Sam Byrd

APPROVED BY: Tom Covington

DATE: Wednesday, May 05, 1999



Signed Copy Located in the NCGA Principal Clerk's Offices