

**NORTH CAROLINA GENERAL ASSEMBLY  
LEGISLATIVE ACTUARIAL NOTE**

**BILL NUMBER:** Senate Committee Substitute for Senate Bill 825

**SHORT TITLE:** State Health Plan Contracts/Exempt from APA

**SPONSOR(S):** Sen. Rand.

**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:** The bill exempts contract disputes between the Teachers' and State Employees' Comprehensive Major Medical Plan and any of its contractors from the contested case provisions of the State's Administrative Procedures Act.

**EFFECTIVE DATE:** When it becomes law. The bill would apply to cases pending on that date.

**ESTIMATED IMPACT ON STATE:** Based upon information provided by the Teachers' and State Employees' Comprehensive Major Medical Plan and the North Carolina Attorney General's Office, both the consulting actuary for the Plan, Aon Consulting, and the consulting actuary for the General Assembly's Fiscal Research Division, Hartman and Associates, estimate that the bill will result in administrative savings to the Plan. Aon Consulting further estimated the Plan's savings to be \$50,000 for each case not carried to the Office of Administrative Hearings.

**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 only had 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. Beginning in July, 2000, firefighters, rescue squad workers, and members of the National Guard and their eligible dependents were allowed to voluntarily participate in the Plan on a fully contributory basis, provided they were ineligible for any other type of group health benefits and had been without such benefits for at least six months. Employer-paid non-contributory premiums are only authorized for the indemnity program's coverage for employees and retired employees. All other types of premium in the indemnity program are fully contributory. The Plan's Executive Administrator has set the premium rates for firefighters, rescue squad workers, and members of the National Guard and their families at 47% more than the comparable rates charged for employees, retired employees, and their families. 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 three HMOs currently covering about 9% of the Plan's total population in 24 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, 2000, include:

	<b><u>Self-Insured Indemnity Program</u></b>	<b><u>Alternative HMOs</u></b>	<b><u>Plan Total</u></b>
<b><u>Number of Participants</u></b>			
Active Employees	248,518	28,822	277,340
Active Employee Dependents	134,795	17,376	152,171
Retired Employees	104,305	3,185	107,490
Retired Employee Dependents	17,936	594	18,530
Former Employees & Dependents with Continued Coverage	2,865	381	3,246
Firefighters, Rescue Squad Workers, National Guard Members & Dependents	3	-	3
<b>Total Enrollments</b>	<b>508,422</b>	<b>50,358</b>	<b>558,780</b>
<b><u>Number of Contracts</u></b>			
Employee Only	270,322	23,223	293,545
Employee & Child(ren)	38,775	6,006	44,781
Employee & Family	45,764	3,026	48,790
<b>Total Contracts</b>	<b>354,861</b>	<b>32,255</b>	<b>387,116</b>
<b><u>Percentage of Enrollment by Age</u></b>			
29 & Under	28.0%	41.6%	29.2%
30-44	20.9	26.6	21.4
45-54	21.3	19.2	21.1
55-64	14.5	9.2	14.0
65 & Over	15.4	3.4	14.3
<b><u>Percentage of Enrollment by Sex</u></b>			
Male	39.1%	36.9%	38.9%
Female	60.9	63.1	61.1

**Assumptions for the Self-Insured Indemnity Program:** For the fiscal year beginning July 1, 2000, the self-insured program started its operations with a beginning cash balance of \$188 million. Receipts for the year are estimated to be \$929 million from premium collections, \$10 million from investment earnings, and \$8 million in risk adjustment and administrative fees from HMOs, for a total of \$947 million in receipts for the year. Disbursements from the self-insured program are expected to be \$1.085 billion in claim payments and \$31 million in administration and claims processing expenses for a total of \$1.116 billion for the year beginning July 1, 2000. For the fiscal year beginning July 1, 2001, the self-insured indemnity program is expected to have an operating cash balance of only \$19 million. The self-insured indemnity program is consequently assumed to be unable to carry out its operations for the 2001-2003 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, 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 formularies, and fraud detection) are maintained and improved where possible. Of particular note in these cost containment strategies is that the program's contract with its pharmacy benefit manager, AdvancePCS, calls for a further reduction in claim payments for outpatient prescription drugs for the 2001-03 biennium. Effective July 1, 2001, dispensing fees for pharmacies will be reduced from \$4.00 to \$1.50 per prescription. In addition, ingredient prices for pharmacies will be reduced from 90% to 85% of average wholesale price (AWP) for branded drugs and from maximum allowable charges (MAC) by the federal Health Care Financing Administration (HCFA) or 80% of AWP to 45% of AWP for generic drugs. Current non-contributory premium rates are \$143.10 monthly for employees whose primary payer of health benefits is Medicare and \$187.98 per month for employees whose primary payer of health benefits is not Medicare. Fully contributory premium amounts for employee and child(ren) contracts are \$89.06 monthly for children whose primary payer of health benefits is Medicare and \$117.16 monthly for other covered children, and \$213.60 per month for family contracts whose dependents have Medicare as the primary payer of health benefits and \$281.04 per month for other family contract dependents. Claim cost trends are expected to increase 12% annually. Total enrollment in the program is expected to increase about 3% annually over the next two years due to enrollment losses from alternative HMOs. The number of enrolled active employees is expected to show a 3% increase annually over the next two years, whereas the growth in the number of retired employees is assumed to be 5% per year. The program is expected to have an increase in the number of active employee dependents and retiree dependents of 2% per year. Investment earnings are based upon a 6% 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 Indemnity Plan's Contracts: The Teachers' and State Employees' Comprehensive Major Medical Plan has the following current contracts:

<u>Contractor</u>	<u>Contract Term</u>	<u>Purpose of Contract</u>
AdvancePCS	December 1, 2000 - November 30, 2003	Pharmacy benefit management services and outpatient prescription drug claims processing
Aon Consulting	October 1, 1998 - September 30, 2001	Actuarial and consulting services
Blue Cross & Blue Shield of North Carolina	July 1, 1997 – June 30, 2005 with optional Plan extensions through June 30, 2007	Comprehensive claims processing services
Cherry, Beckert, & Holland	July 1, 2000 – June 30, 2001 with optional Plan extensions through June 30, 2003	Claim audit services
Coventry Health Care	October 1, 2000 – September 30, 2001	Health maintenance organization (HMO) benefits
Landacorp (ProMedex)	November 1, 2000 - October 31, 2001	Disease management services for diabetes and cardiovascular disease
MedAmerica Insurance Co.	March 1, 1998 - December 31, 2003 with optional Plan extensions	Long-term care insurance benefits

	through December 31, 2005	
National Health Services	January 1, 2001 - December 31, 2003	Case management services for high risk obstetric cases, catastrophic disease & injury cases, high cost cases, and organ transplants
Prudential Health Care	October 1, 2000 - September 30, 2001	Health maintenance organization (HMO) benefits
Value Options	July 1, 1997 – June 30, 1995 with optional Plan extensions through June 30, 2007	Sub-contractor of Blue Cross & Blue Shield of North Carolina for mental health and substance abuse case management services
Wellpath Community Health Plans	October 1, 2000 - September 30, 2001	Health maintenance organization (HMO) benefits

The only current contract dispute between the Plan and a contractor is a dispute involving Wellpath Community Health Plans' attempt to drop coverage for Plan members residing in 13 of its 22-county service area under the Plan. The dispute is proceeding under a settlement between the North Carolina Department of Insurance and Wellpath that Wellpath will continue coverage of Plan members living in the 13-county area until the dispute can be resolved by the State's Office of Administrative Hearings.

**SOURCES OF DATA:**

- Actuarial Note, Hartman & Associates, Senate Committee Substitute for Senate Bill 825, May 7, 2001, original of which is on file in the General Assembly's Fiscal Research Division.
- Actuarial Note, Aon Consulting, Senate Committee substitute for Senate Bill 825, May 7, 2001, 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.

**FISCAL RESEARCH DIVISION 733-4910**

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**DATE:** May 11, 2001



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