

**NORTH CAROLINA GENERAL ASSEMBLY  
LEGISLATIVE ACTUARIAL NOTE**

**BILL NUMBER:** House Bill 32

**SHORT TITLE:** Remove Cap on Charter Schools

**SPONSOR(S):** Rep. Gorman

**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, premium payments for coverages selected by eligible former teachers and State employees, and premium payments for coverages selected by firefighters, rescue squad workers, and members of the National Guard.

**BILL SUMMARY:** The bill repeals the State's statute that limits the number of charter schools that the State board of Education may approve to no more than 100 statewide nor more than five in one public school local administrative unit.

**EFFECTIVE DATE:** When it becomes law.

**ESTIMATED IMPACT ON STATE:** Aon Consulting, the consulting actuary for the Teachers' and State Employees' Comprehensive Major Medical Plan, estimates that enactment of the bill would result in no additional cost to the Plan for the 2003-05 biennium. Aon Consulting bases this estimate on the fact that it has not been given any information that the current statewide limit of 100 charter schools would be exceeded during the 2003-05 biennium.

Hartman & Associates, consulting actuary for the General Assembly's Fiscal Research Division, estimates that the financial impact on the Plan would not be significant upon enactment of the bill. However, despite favorable claims experience by charter school employees in the Plan for the last three fiscal years, Hartman & Associates does note that the potential exists for future antiselection when optional enrollments are provided in health plans.

**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., \$350 annual deductible, 20% coinsurance up to \$1,500 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, except for job-sharing public school teachers who are authorized partially contributory premiums at 50% of non-contributory rates. 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 20% 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; however, none of the HMOs with certificates of authority to transact business in North Carolina have offered to participate in the Plan since September 30, 2001. 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, 2002, include:

	<u>Self-Insured Indemnity Program</u>	<u>Alternative HMOs</u>	<u>Plan Total</u>
<u>Number of Participants</u>			
Active Employees	280,065	-0-	280,065
Active Employee Dependents	137,841	-0-	137,841
Retired Employees	117,225	-0-	117,225
Retired Employee Dependents	18,999	-0-	18,999
Former Employees & Dependents with Continued Coverage	2,535	-0-	2,535
Firefighters, Rescue Squad Workers, National Guard Members & Dependents	7	-0-	7
Total Enrollments	556,672	-0-	556,672
<u>Number of Contracts</u>			
Employee Only	313,439	-0-	313,439
Employee & Child(ren)	40,978	-0-	40,978
Employee & Family	44,710	-0-	44,710
Total Contracts	399,127	-0-	399,127
<u>Percentage of Enrollment by Age</u>			
29 & Under	26.9%	-0-%	26.9%
30-44	20.9	-0-	20.9
45-54	20.9	-0-	20.9
55-64	16.2	-0-	16.2
65 & Over	15.1	-0-	15.1
<u>Percentage of Enrollment by Sex</u>			
Male	38.3%	-0-%	38.3%
Female	61.7	-0-	61.7

Assumptions for the Self-Insured Indemnity Program: For the fiscal year beginning July 1, 2002, the self-insured program started its operations with a beginning cash balance of \$91.6 million. Receipts for the year are estimated to be \$1.371 billion from premium collections and \$7 million from investment earnings for a total of \$1.378 billion in receipts for the year. Disbursements from the self-insured program are expected to be \$1.335 billion in claim payments and \$38 million in administration and claims processing expenses for a total of \$1.373 billion for the year beginning July 1, 2002. For the fiscal year beginning July 1, 2002, the self-insured indemnity program is expected to have a net operating gain of approximately \$5 million for the year. Without reserving an additional \$15 million for implementation of the claims data and privacy requirements of the federal Health Insurance Portability and Accountability Act (HIPAA) that take effect on and after April 14, 2003, the Plan's self-insured indemnity program is expected to have an available beginning cash balance of \$96 million for the fiscal year beginning July 1, 2003. The self-insured indemnity program is nonetheless assumed to be unable to carry out its operations for the 2003-2005 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. Current non-contributory premium rates are \$186.04 monthly for employees whose primary payer of health benefits is Medicare and \$244.38 per month for employees whose primary payer of health benefits is not Medicare. Fully contributory premium amounts for employee and child(ren) contracts are \$115.78 monthly for children whose primary payer of health benefits is Medicare and \$152.32 monthly for other covered children, and \$277.68 per month for family contracts whose dependents have Medicare as the primary payer of health benefits and \$365.36 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 less than 1% annually over the next two years. The number of enrolled active employees is expected to show no increase 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 a 2% decrease in the number of active employee dependents per year whereas the number of retiree dependents is expected to increase 2% per year. Investment earnings are based upon a 4.5% 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 Indemnity Plan's Coverage of Charter School Employees: The 1996 Session of the General Assembly specified that charter schools, as private non-profit corporations within a local public school administrative unit, are employing units under the Teachers' and State Employees' Comprehensive Major Medical Plan. As such, employees of charter schools are eligible for membership in the Plan when they are "deemed to be public employees and members of a State-Supported Retirement System." The U. S. Department of the Treasury issued a letter ruling in January 1998, which allowed charter school employees to participate in the State Retirement System without adversely affecting the qualification of the System as a governmental retirement plan. Consequently, charter school employees became eligible for benefits under the Teachers' and State Employees' Comprehensive Major Medical Plan on February 1, 1998, upon participation in the State Retirement System. The 1998 Session of the General Assembly, effective October 30, 1998, acted to no longer require membership in the State Retirement System for participation in the State's Major Medical Plan. Furthermore, boards of directors of charter schools have to make irrevocable elections to join the Plan, and if elected, all employees of the charter schools are eligible for coverage under the Plan, including its HMO alternatives. Charter schools approved by the State Board of Education in 1997 and 1998 had to make an election by the end of November 1998. Charter schools approved after 1998 have 30 days after the date that a

charter is granted to make an election. Of the number of charter schools approved by the State Board of Education, the following reflects the number that are still in operation:

<u>Year Approved</u>	<u>Number Approved</u>	<u>Number in Operation</u>
1997	35	27
1998	32	21
1999	26	19
2000	17	16
2001	9	8
2002	4	2
Total	123	93

Of the four charter schools approved in 2002, two expect to become fully operational sometime in 2003.

Of the 93 charter schools that are fully operational, 40 were participating in the Teachers' and State Employees' Comprehensive Major Medical Plan on January 31, 2003. Only 25 of these 40 schools were participating in the Teachers' and State Employees' Retirement System. These 40 schools had a total of 1,115 active employees on December 31, 2002. However, only 718 (64%) of these employees were participating in the Plan on January 31, 2003. Of these 718 employees, 538 had Employee Only coverage, 99 had Employee & Child(ren) coverage with 178 dependent children enrolled, and 81 had Employee & Family coverage with 232 spouses and dependent children enrolled. The Plan also had nine retired employees who had retired from a charter school. All of these retired employees had Employee Only coverage.

At the end of the Plan's last three fiscal years, the active employee charter schools group had the following characteristics:

	<u>June 30, 2002</u>			<u>June 30, 2001</u>			<u>June 30, 2000</u>		
	<u>Employees</u>	<u>Dependents</u>	<u>Total</u>	<u>Employees</u>	<u>Dependents</u>	<u>Total</u>	<u>Employees</u>	<u>Dependents</u>	<u>Total</u>
Male	141	219	360	117	183	300	77	111	188
Female	512	162	674	396	125	521	248	91	339
Total	653	381	1,034	513	308	821	325	202	527
Age 0-29	164	307	471	126	250	376	77	162	239
Age 30-44	289	45	334	225	29	254	139	18	157
Age 45-54	157	19	176	127	24	151	93	18	111
Age 55-64	40	10	50	32	4	36	15	3	18
Age 65+	3	0	3	3	1	4	1	1	2
Total	653	381	1,034	513	308	821	325	202	527
Individual Contract	485	0	485	382	0	382	237	0	237
Parent/Child Contract	90	162	252	65	116	181	42	79	121
Family Contract	78	219	297	66	192	258	46	123	169
Total	653	381	1,034	513	308	821	325	202	527

A comparison of the active employee charter school group with the Plan's overall active employee group reveals the following percentages of total group membership over the last three fiscal years:

	Charter School Group			Total Health Plan Group		
	Percent of	Percent of	Percent of	Percent of	Percent of	Percent of
	Employees	Dependents	Group	Employees	Dependents	Group
Age 0-29	24.5%	80.6%	45.5%	12.5%	45.5%	12.5%
Age 30-44	43.6%	10.0%	31.0%	37.3%	31.0%	37.3%
Age 45-54	25.8%	7.2%	18.8%	34.7%	18.8%	34.7%
Age 55-64	5.7%	1.8%	4.2%	14.4%	4.2%	14.4%
Age 65+	0.5%	0.3%	0.4%	1.1%	0.4%	1.1%
Individual Contract	73.9%	0.0%	46.2%	73.2%	46.2%	73.2%
Parent/Child Contract	13.1%	39.8%	23.1%	14.5%	23.1%	14.5%
Family Contract	13.0%	60.2%	30.7%	12.3%	30.7%	12.3%

The active employee charter schools' group compares favorably with the Plan's overall active employee group in these respects and has had a favorable underwriting experience during the last three fiscal years.

**SOURCES OF DATA:**

- Actuarial Note, Hartman & Associates, House Bill 32, March 25, 2003, original of which is on file in the General Assembly's Fiscal Research Division.
- Actuarial Note, Aon Consulting, House Bill 32, March 17, 2003, 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.
- Charter School Approval and Employee Data provided by the Office of Charter Schools, North Carolina Department of Public Instruction.
- Charter School Retirement System Participation & Retiree Data provided by the Retirement Systems Division, North Carolina Department of State Treasurer.

**TECHNICAL CONSIDERATIONS:** None.

**FISCAL RESEARCH DIVISION:** (919) 733-4910

**PREPARED BY:** Sam Byrd

**APPROVED BY:** James D. Johnson

**DATE:** March 26, 2003



**Signed Copy Located in the NCGA Principal Clerk's Offices**