

GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2015

Legislative Actuarial Note Health Benefits

BILL NUMBER: House Bill 56 (First Edition)
SHORT TITLE: State Health Plan/Rehired Retiree Eligibility.
SPONSOR(S): Representatives Holloway, L. Johnson, McGrady, and Lucas

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:

Overview

House Bill 56 (First Edition) changes the health coverage for rehired State retirees working on a temporary, full-time basis for State agencies, public schools, community colleges, and universities. The bill would require these employees to be covered under the regular Plan options (Traditional 70/30, Enhanced 80/20, or Consumer Directed Health Plan), with the employer paying the employer premium initially, but later being fully reimbursed by the Retiree Health Benefit Fund (RHBF). Examples of temporary employees include certain substitute teachers, interim principals, adjunct professors, interim managers, and temporary office staff. "Full-time" generally means working 30 or more hours per week.

The current statutes governing rehired retiree health coverage were added in Sections 35.16 and 35.16A of Session Law 2014-100 (the 2014 budget), in preparation for the 2015 effective date of the employer mandate under the federal Affordable Care Act. However, those statutes are similar to a provision that has been in the budget since 2007, most recently in Section 35.15 of Session Law 2013-360.

Coverage Options

The following table shows the coverage options that would be available in different time periods to retirees if this bill becomes law. The "2015 before July" row reflects the changes made in Session Law 2014-100. In the table, 70/30 is the Traditional 70/30 Plan, 80/20 is the Enhanced 80/20 Plan, CDHP is the Consumer Directed Health Plan, MA are several Medicare Advantage Plans, and HDHP is the High Deductible Health Plan. The HDHP is generally less desirable than the other plans due to both high out-of-pocket requirements and a \$92 per month employee premium for employee-only coverage.

Work Status:	Full-time		Not Full-time	
	Non-Medicare	Medicare	Non-Medicare	Medicare
Time Period:				
2014	70/30,80/20,CDHP	70/30,MA	70/30,80/20,CDHP	70/30,MA
2015 before July	HDHP	HDHP	70/30,80/20,CDHP	70/30,MA
2015 after June	70/30,80/20,CDHP	70/30,80/20,CDHP	70/30,80/20,CDHP	70/30,MA

Impact on State Employers (State Agencies, Public Schools, Community Colleges, Universities)

Many State employers have reported that the change in coverage from 2014 to 2015 under Session Law 2014-100 has hurt their ability to recruit and retain retirees in temporary full-time positions. Only 17 retirees have signed up for the HDHP, so many retirees appear to have quit or reduced their hours to avoid being full-time employees under the current law.

The financial cost to employers of premiums under current law is minimal, as they pay no premium for part-time retirees and \$118 per month for each of the 17 covered under the HDHP. Under this bill, the net cost to employers would be \$0 for all retirees after employers receive reimbursement from the Retiree Health Benefit Fund.

Federal Restrictions

Two federal laws impact the coverage that the State must offer its employees:

- The Affordable Care Act imposes a penalty on any employer that does not offer affordable minimum essential coverage to its full-time employees. The law generally defines full-time as working 30 or more hours per week, but the regulations allow some flexibility in how an employer determines full-time status for those whose hours vary.
- Medicare secondary-payer law, in place since 1980, forbids employers from refusing to cover, offering different coverage, restricting coverage, or in other ways discriminating against employees who are on Medicare. It also requires the employer’s plan to be primary (pay first) if the employee elects to be covered in the employer’s plan. These requirements do not apply to someone whose only relationship to the employer is as a retiree.

Other

The bill does not affect coverage for any of the following:

- Permanent, full-time employees, for example regular classroom teachers. In most cases, a retiree who started working on a permanent, full-time basis would have to suspend his or her retirement benefit and resume making contributions to and earning service in the retirement system, and thus would no longer be a retiree.
- Non-retiree, temporary, full-time employees, for example young postdoctoral researchers at a university.
- Part-time employees, regardless of retiree status or whether they are permanent or temporary.

This legislation was recommended by the Joint Legislative Education Oversight Committee in its report to the 2015 General Assembly.

EFFECTIVE DATE: July 1, 2015

ESTIMATED IMPACT ON STATE:

The Segal Company, the actuary for the Plan, estimates that the bill will have the following fiscal impacts:

Financial Entity	FY 2015-16	FY 2016-17
State Health Plan	\$2,232,000	\$2,388,000
Retiree Health Benefit Fund	\$486,000	\$520,000

Hartman & Associates, the actuary for the General Assembly, estimates that the bill will have the following fiscal impacts:

Financial Entity	FY 2015-16	FY 2016-17
State Health Plan	\$2,012,000 - \$4,477,000	\$2,530,000 - \$5,582,000
Retiree Health Benefit Fund	\$649,000 - \$1,153,000	\$649,000 - \$1,153,000

The primary reason for the impact on the Plan is that many Medicare-eligible retirees who might have worked full-time in 2014 have chosen not to work full-time in 2015. They are therefore covered as retirees with the Plan providing relatively inexpensive secondary coverage to Medicare. Under the bill, many would be expected to return to full-time employment since they would no longer face the possibility of moving to the HDHP. They would then be active employees with the Plan providing primary coverage, which is far more expensive than secondary coverage.

The primary reason for the impact on the RHBF is that the RHBF currently pays a monthly premium of \$348 to the Plan for each Medicare-eligible retiree, but under the bill would be reimbursing employers \$448 per month for a Medicare-eligible retiree working full-time.

This bill is not expected to significantly affect Plan claims or premiums paid by the RHBF for non-Medicare retirees.

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.

Summary Information and Data about the Plan

Data on Rehired Retirees

While we do not have data on hours worked for rehired retirees, we do have data on both their earnings at State employers in 2014 and their earnings for State employers prior to retirement. Both actuaries used the ratio of earnings in 2014 to earnings prior to retirement (indexed for general wage growth) to estimate how many retirees might be averaging more than 30 hours per week. Here is a summary of those counts using different ratios:

	Under Age 65	Age 65 or Over	Total
2014 Comp > 45% of Indexed Pre-Retirement Wage	695	761	1,456
2014 Comp > 50% of Indexed Pre-Retirement Wage	416	539	955
2014 Comp > 55% of Indexed Pre-Retirement Wage	216	352	568
2014 Comp > 75% of Indexed Pre-Retirement Wage	29	103	132
Number Enrolled in HDHP	10	7	17

While 30 hours divided by the weekly work schedule of roughly 40 hours at many employers would imply a ratio of 75%, we know that many employees are willing to work for much lower hourly wages as retirees than they were as active employees. For example, the daily pay for a substitute teacher is much lower than the daily pay for a regular teacher with many years of experience.

We also obtained data on those retirees who were hired on or after October 1, 2006 and are required to pay 50% or 100% of the premium for their own coverage. The count of these retirees who were working full-time in 2014 appears to be below 10 and therefore was not considered significant for this Note.

Other Information 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 and charter schools 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.

The State finances the Plan on a self-funded basis and administers benefit coverage under a Preferred Provider Option (PPO) arrangement, with the exception of many Medicare-eligible retirees who are in fully-insured Medicare Advantage plans. 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 participate in a plan with a non-zero premium or who elect dependent coverage. Starting in 2014, benefit and premium changes are typically effective at January 1. The Plan's PPO benefit design includes three alternative benefit levels listed below:

- 1) The "Traditional" 70/30 plan that offers higher out-of-pocket requirements in return for lower employee and retiree premiums without needing to complete wellness activities,
- 2) The "Enhanced" 80/20 plan that offers lower out-of-pocket requirements with higher employee and retiree premiums, which can be lowered by completing wellness activities, and
- 3) The Consumer-Directed Health Plan (CDHP) that applies deductibles and co-insurance to all services and offers lower employee and retiree premiums if one completes wellness activities

Medicare-eligible retirees are offered three alternative plans:

- 1) The "Traditional" 70/30 plan as coverage secondary to Medicare for medical services plus a pharmacy benefit plan,
- 2) "Base" Medicare Advantage Prescription Drug Plans (MA-PDPs) from a choice of two carriers, Humana or United Healthcare, that are actuarially equivalent to the "Enhanced" 80/20 Plan and apply in-network out-of-pocket requirements at out-of-network providers
- 3) "Enhanced" MA-PDPs, identical to the "Base" MA-PDPs, except with lower co-pays and higher retiree premiums

The following tables provide a summary of the most common monthly premium rates for the Plan in 2014:

Active Employees and Non-Medicare Retirees

Wellness Plans

	Employer Share	Employee/Retiree Share	
		Complete All Wellness Activities *	Complete No Wellness Activities
Enhanced 80/20 Plan	\$448.11	\$13.56	\$63.56
Consumer-Directed Health Plan	\$448.11	\$0.00	\$40.00

Alternate Plan

	Employer Share	Employee/Retiree Share
Traditional 70/30 Plan	\$448.11	\$0.00

* Members receive credits for each activity. We have shown all or none for simplicity.

Medicare Retirees

Medicare Advantage Plans

	Employer Share	Employee/Retiree Share
MA-PDP Base Plan	\$348.25	\$0.00
MA-PDP Enhanced Plan	\$348.25	\$33.00

Alternate Plan

	Employer Share	Employee/Retiree Share
Traditional 70/30 Plan	\$348.25	\$0.00

Dependents

	All Dependents are Non-Medicare			One or More Medicare Dependents		
	Enhanced 80/20	CDHP	Traditional 70/30	MA-PDP Base	MA-PDP Enhanced	Traditional 70/30
Employee/Retiree + Children	\$272.80	\$184.60	\$205.12	\$114.50	\$147.50	\$145.94
Employee/Retiree + Spouse	\$628.54	\$475.68	\$528.52	\$114.50	\$147.50	\$383.72
Employee/Retiree + Family	\$666.38	\$506.64	\$562.94	\$229.00	\$295.00	\$418.10

The employer share of premiums for retirees is paid from the Retiree Health Benefit Fund. During FY 2013-14, employers contribute 5.40% of active employee payroll into the Fund. Total contributions for the year are projected to be approximately \$834 million.

Financial Condition

Projected Results for CY 2014 and CY 2015 – The following summarizes projected financial results for 2014 and 2015, based on financial experience through December, 2013 and enrollments for January, 2014. The projection assumes an 8.5% annual claims growth trend, benefit provisions and member-paid premiums as currently adopted by the Board, and assumed premium increases in 2015 based on the maximum annual employer premium for FY 2014-15.

	(\$ millions)	
	Projected CY 2014	Projected CY 2015
Beginning Cash Balance	\$838.4	\$819.9
Receipts:		
Net Premium Collections	\$2,910.7	\$2,996.6
Medicare Part D / EGWP Subsidies	\$36.0	\$38.0
Investment Earnings	\$3.3	\$3.1
Total	\$2,950.0	\$3,037.8
Disbursements:		
Net Medical Claim Payment Expenses	\$1,982.2	\$2,124.5
Net Pharmacy Claim Payment Expenses	\$640.2	\$635.3
Medicare Advantage Premiums	\$157.8	\$196.9
Administration and Claims-Processing Expenses	\$188.4	\$214.4
Total	\$2,968.6	\$3,171.2
Net Operating Income (Loss)	(\$18.6)	(\$133.4)

Of the premiums paid in CY 2014, an estimated \$2.0 billion is derived from General Fund sources and an estimated \$0.1 billion is derived from Highway Fund sources.

Other Information

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, fraud detection, and other authorized actions by the State Treasurer, 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 8.5% annually according to the Plan's consulting actuary. The active population is projected to decline by 1% per year and the retired population is projected to increase by 1% per year.

Enrollment as of January 1, 2014

I. No. of Participants	Traditional 70/30	Enhanced 80/20	Consumer Directed	Medicare Advantage	Total	Percent of Total
<u>Actives</u>						
Employees	145,741	160,388	8,432	-	314,561	46.5%
Dependents	81,434	69,832	8,581	-	159,847	23.6%
Sub-total	227,175	230,220	17,013	-	474,408	70.1%
<u>Retired</u>						
Employees	53,590	30,249	791	96,532	181,162	26.8%
Dependents	6,329	3,884	299	6,851	17,363	2.6%
Sub-total	59,919	34,133	1,090	103,383	198,525	29.3%
<u>Other</u>						
Employees	1,326	1,448	35	-	2,809	0.4%
Dependents	830	510	35	-	1,375	0.2%
Sub-total	2,156	1,958	70	-	4,184	0.6%
<u>Total</u>						
Employees	200,657	192,085	9,258	96,532	498,532	73.6%
Dependents	88,593	74,226	8,915	6,851	178,585	26.4%
Grand Total	289,250	266,311	18,173	103,383	677,117	100%
Percent of Total	42.7%	39.3%	2.7%	15.3%	100.0%	
II. Enrollment by Contract						
	Traditional	Enhanced	CDHP	MA	Total	
Employee Only	154,239	153,049	5,041	96,532	408,861	
Employee Child(ren)	27,169	24,228	2,077	195	53,669	
Employee Spouse	6,685	5,630	567	6,656	19,538	
Employee Family	11,079	8,407	1,499			
Other (e.g. Split Contract)	1,485	771	74		2,330	
Total	200,657	192,085	9,258	103,383	484,398	
Percent Enrollment by Contract						
	Traditional	Enhanced	CDHP	MA	Total	
Employee Only	76.9%	79.7%	54.5%	93.4%	84.4%	
Employee Child(ren)	13.5%	12.6%	22.4%	0.2%	11.1%	
Employee Spouse	3.3%	2.9%	6.1%	6.4%	4.0%	
Employee Family	5.5%	4.4%	16.2%	0.0%	0.0%	
Other (e.g. Split Contract)	0.7%	0.4%	0.8%	0.0%	0.5%	
Total	100.0%	100.0%	100.0%	100.0%	100.0%	
III. Enrollment by Sex						
	Traditional	Enhanced	CDHP	MA	Total	
Female	170,705	174,259	10,133	67,923	423,020	
Male	118,545	92,052	8,040	35,460	254,097	
Total	289,250	266,311	18,173	103,383	677,117	
Percent Enrollment by Sex						
	Traditional	Enhanced	CDHP	MA	Total	
Female	59.0%	65.4%	55.8%	65.7%	62.5%	
Male	41.0%	34.6%	44.2%	34.3%	37.5%	
Total	100.0%	100.0%	100.0%	100.0%	100.0%	

IV. Enrollment by Age	Traditional	Enhanced	CDHP	MA	Total
24 & Under	76,689	61,793	6,901	14	145,397
25 to 44	80,007	70,332	5,155	344	155,838
45 to 54	49,210	53,187	3,236	1,328	106,961
55 to 64	50,478	74,807	2,712	1,821	129,818
65 & Over	32,866	6,192	169	99,876	139,103
Total	289,250	266,311	18,173	103,383	677,117

Percent Enrollment by Age	Traditional	Enhanced	CDHP	MA	Total
24 & Under	26.5%	23.2%	38.0%	0.0%	21.5%
25 to 44	27.7%	26.4%	28.4%	0.3%	23.0%
45 to 54	17.0%	20.0%	17.8%	1.3%	15.8%
55 to 64	17.5%	28.1%	14.9%	1.8%	19.2%
65 & Over	11.4%	2.3%	0.9%	96.6%	20.5%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

V. Retiree Enrollment by Category	Employee	Dependents	Total
Non-Medicare Eligible	54,826	9,292	64,118
Medicare Eligible in Traditional 70/30	29,803	1,220	31,023
Medicare Eligible in Base Medicare Advantage Plans	62,843	2,633	65,476
Medicare Eligible in Enhanced Medicare Advantage Plans	33,689	4,218	37,907
Total	181,161	17,363	198,524

Percent Enrollment by Category (Retiree)	Employee	Dependents	Total
Non-Medicare Eligible	30.3%	53.5%	32.3%
Medicare Eligible in Traditional 70/30	16.5%	7.0%	15.6%
Medicare Eligible in Base Medicare Advantage Plans	34.7%	15.2%	33.0%
Medicare Eligible in Enhanced Medicare Advantage Plans	18.6%	24.3%	19.1%
Total	100.0%	100.0%	100.0%

VI. Enrollment By Major Employer Groups	Employees	Dependents	Total
State Agencies	70,922	32,938	103,860
UNC System	51,237	31,643	82,880
Local Public Schools	173,477	85,054	258,531
Charter Schools	3,056	1,766	4,822
Local Community Colleges	15,869	8,446	24,315
Other			
Local Governments	1,887	965	2,852
COBRA/Reduction in Force	917	405	1,322
Nat. Guard, Fire & Rescue	6	4	10
Sub-total	317,371	161,221	478,592
Retirement System	181,162	17,363	198,525
Total	498,533	178,584	677,117

Percent Enrollment by Major Employer Groups	Employees	Dependents	Total
State Agencies	14.2%	18.4%	15.3%
UNC System	10.3%	17.7%	12.2%
Local Public Schools	34.8%	47.6%	38.2%
Charter Schools	0.6%	1.0%	0.7%
Local Community Colleges	3.2%	4.7%	3.6%
Other			
Local Governments	0.4%	0.5%	0.4%
COBRA/Reduction in Force	0.2%	0.2%	0.2%
Nat. Guard, Fire & Rescue	0.0%	0.0%	0.0%
Sub-total	63.7%	90.3%	70.7%
Retirement System	36.3%	9.7%	29.3%
Total	100.0%	100.0%	100.0%

SOURCES OF DATA:

The Segal Company; North Carolina State Health Plan; Financial Projections – Dec 2013; March 20, 2014. Filename “NCSHP Q2 Financial Update - Baseline Modified Jan Enrollment Estiamte Adj Reserve.pdf”

-Actuarial Note, Hartman & Associates, Senate Bill 6, “Senate Bill 6: An Act to Allow Retirees Who Return to Work for the State in Nonpermanent Positions to Retain Their Coverage Options Under the State Health Plan”, February 26, 2015, original of which is on file in the General Assembly’s Fiscal Research Division.

-Actuarial Note, The Segal Company, Senate Bill 6, “State Health Plan/Rehired Retiree Eligibility”, February 20, 2015, original of which is on file with the State Health Plan for Teachers and State Employees and the General Assembly’s Fiscal Research Division.

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