NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE ACTUARIAL NOTE

BILL NUMBER: Senate Bill 299 Senate Committee Substitute

SHORT TITLE: Long-Term Care Benefits

SPONSOR(S): Sen. Bob Martin

SYSTEM OR PROGRAM AFFECTED: Teachers' and State Employees' Comprehensive Major Medical Plan.

FUNDS AFFECTED: Fully Contributory Premium Payments for Coverages Selected by Eligible Employees, Retired Employees, and Their Dependents.

BILL SUMMARY: The bill makes available an optional group program of long-term care benefits for teachers and state employees, retired teachers and state employees, and retired employees and surviving beneficiaries of retired employees of the Local Governmental Employees' Retirement System who elect to pay for the program by making fully contributory premium payments for themselves and their eligible dependents. Long-term care benefits provide treatment, therapeutic, rehabilitative, maintenance, and personal care help to individuals who are unable to care for themselves because of a prolonged chronic illness, injury, or disability. Eligible dependents can include not only spouses and children, but parents, parents-in-law, and grandparents as well. The program is to be provided through the Teachers' and State Employees' Comprehensive Major Medical Plan. The Plan's Executive Administrator and Board of Trustees are authorized to provide the program either on a self-insured basis or through a competitively bid contract of insurance from a commercial insurer.

Nursing home benefits are provided for skilled and intermediate nursing care when confinement to a nursing home is medically appropriate for an illness, disease, or injury upon recommendation of an admitting physician. Medical appropriateness is based upon a physical inability to perform the activities of daily living or upon mental disorientation. Employees, retired employees, and their dependents can select from a menu of daily amounts that will be paid for nursing home stays, along with the number of days that the daily amount will be paid, which together constitute a lifetime benefit.

Custodial benefits are provided as a percentage of the daily amount chosen by employees, retired employees, and their dependents for nursing home stays when a nursing home stay would otherwise be medically appropriate. The percentage is chosen by employees, retired employees, and their dependents from a menu of options. Benefits would be payable for services provided by assisted living facilities, which include adult care homes, family care homes, group homes for developmentally disabled adults, and multiunit assisted housing services, as well as for services provided by adult day care facilities and home care agencies. Use of custodial benefits is contingent upon recommendation of such services by an attending physician or other allied health professional, such as a registered nurse, licensed clinical social worker, or licensed physical, occupational, respiratory, or speech therapist.

Other alternative long-term care benefits are also available under the bill to employees, retired employees, and their dependents who elect such benefits. Prior approval of the Plan and an attending physician is required before such benefits will be payable. A menu of other alternative benefits might include caregiver training, rehabilitation equipment, respite services, in-home meals, in-home safety devices, hospice, homemaker services, and chore services. Coordinated care and case management services could also be available to help employees, retired employees, and their dependents choose appropriate levels of care and contain costs.

Employees, retired employees, and their dependents would choose from among several elimination periods before nursing home and custodial benefits are paid. Elimination periods are initial periods of a stay for which benefits are not payable. Inflationary increases to daily benefits and lifetime benefits are also available to those selecting coverage. Such increases may be compounded or be a fixed daily amount. The bill provides a bed reservation benefit when residents of a nursing home or an assisted living facility are hospitalized. Waiver of premiums are provided for minimum lengths of stay in a nursing or assisted living facility. Retroactive premium payments are also included for failure to pay premiums because of functional incapacity. Benefits would include clinically diagnosed cases of Alzheimer's disease and related degenerative and dementing illnesses. Benefits would also be required to be tax-qualified under federal law. As such, age-based premiums would be eligible for federal income tax deductions. Federal qualification would further require that only two activities of daily living (eating, bathing, dressing, transferring, toileting, and continence) qualify for functional incapacity for a duration of at least 90 days. Additional federal measures include guaranteed renewability and the option for nonforfeiture of benefits in which premiums are returned or a reduced amount of paid-up benefits are provided upon cancellation of coverage. Employees, retired employees, and their dependents could convert to a non-group form of long-term care benefits upon a cessation of group benefits provided by the Plan.

Benefits provided under the bill could include most all eligible members of the Teachers' and State Employees' Comprehensive Major Medical Plan on a guaranteed issue basis, in which case exclusions for preexisting health conditions would be required, or medical underwriting criteria could be used for selective enrollments without any preexisting health condition exclusions. The General Assembly's Committee on Employee Hospital and Medical Benefits would have an oversight responsibility on implementation and operation of the long-term care benefits provided under the bill.

EFFECTIVE DATE: January 1, 1998.

ESTIMATED IMPACT ON STATE: The consulting actuary for the Plan, Aon Consulting, and the consulting actuary of the General Assembly's Fiscal Research Division, Dilts, Umstead & Dunn, both estimate that the Plan will incur some administrative expense for implementing and monitoring the payment of the benefits provided by the bill.

This administrative expense is estimated by the Plan to be $115,000 annually plus an additional one-time amount of $45,000 for implementation. However, such expenses are expected to be covered or recovered by premiums paid by employees and retired employees electing to purchase the benefits for themselves and their dependents. The actual claim costs for the benefits provided by the bill will also be paid by those electing to purchase the benefits through fully contributory premiums.

Consequently, no additional claim costs are expected to be borne by the Plan through employer-provided funds.

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 most retired employees. 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 twelve HMOs currently covering about 25% of the Plan's total population in about 85 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, 1996, include:

	Self-Insured Indemnity Program	Alternative HMOs	Plan Total
Number of Participants			
Active Employees	186,400	70,400	256,800
Active Employee Dependents	104,700	51,800	156,500
Retired Employees	84,400	5,400	89,800
Retired Employee Dependents	14,400	1,200	15,600
Former Employees & Dependents with Continued Coverage	2,700	800	3,500
Total Enrollments	392,600	129,600	522,200
Number of Contracts			
Employee Only	206,300	51,800	258,100
Employee & Child(ren)	29,900	14,500	44,400
Employee & Family	36,600	10,100	46,700
Total Contracts	272,800	76,400	349,200
Percentage of Enrollment by Age			
29 & Under	27.3%	44.7%	31.6%
30-44	21.6	28.0	23.2
45-54	20.0	17.8	19.5
55-64	13.8	7.1	12.1
65 & Over	17.3	2.4	13.6

Percentage of Enrollment by Sex			
Male	39.8%	40.0%	39.8%
Female	60.2	60.0	60.2

Asssumptions for Long-Term Care Benefits: Long-term care benefits sponsored by employers have been available only since the late 1980's. Based upon a survey by the Health Insurance Association of America, employer-sponsored long-term care plans only numbered 5 in 1988. By 1990, this number had grown to more than 80 and by 1994, almost 1,000 employers were sponsoring long-term care plans. Employee participation in these plans was typically 2-10%, although some employers, like Ford Motor Co., achieved participation rates as high as 15% of salaried workers. Increased life expectancies spawned by medical advances have led to this increased emphasis upon long-term care benefits. The U. S. Bureau of the Census now forecasts that by the year 2050, the average lifespan for males could be almost 80 years with the same average for females exceeding 85 years. Current estimates place the average lifespan for males at a little over 70 years and at almost 80 years for females. As a result, many older citizens will outlive their financial resources. A 1995 study of public-private long-term care partnership programs in Connecticut, Indiana, New York, and California established by the states, commercial insurers, and the Robert Wood Johnson Foundation to stimulate the long-term care benefit market has provided some benchmark data by which to judge the demand for long-term care benefits. Approximately 60% of the purchasers were female. Average ages of purchasers ranged from 59 in Connecticut to 69 in Indiana. The average age for group purchasers was 49 whereas the average age for individual purchasers was 64.

In comparison with the foregoing experiences of other employers and in other states, the Teachers' and State Employees' Comprehensive Major Medical Plan has the following membership data as of December 31, 1996, for Plan members age 40 and over, which is the primary age group for purchasers of long-term care benefits:

	Number of Members by Age				
Plan	40-49	50-59	60-69	70 +	Total
Indemnity Plan					
Employees	68,400	43,900	9,100	500	121,900
Employee Depend.	9,800	7,600	2,200	100	19,700
Tot. Employee Group	78,200	51,500	11,300	600	141,600
Retirees	1,200	10,300	31,300	41,400	84,200
Retiree Depend.	600	2,300	4,900	3,700	11,500
Tot. Retiree Group	1,800	12,600	36,200	45,100	95,700
Tot. Indemnity Plan	80,000	64,100	47,500	45,700	237,300
Average Age					57 Years
Percent Female					63%
HMOs					
Employees	22,900	11,800	1,900	100	36,700
Employee Depend.	3,600	1,700	400	-	5,700
Tot. Employee Group	26,500	13,500	2,300	100	42,400
Retirees	200	1,300	2,500	1,400	5,400
Retiree Depend.	-	200	300	200	700
Tot. Retiree Group	200	1,500	2,800	1,600	6,100
Total HMOs	26,700	15,000	5,100	1,700	48,500

Average Age					50 Years
Percent Female					62%
Total Plan					
Employees	91,300	55,700	11,000	600	158,600
Employee Depend.	13,400	9,300	2,600	100	25,400
Tot. Employee Group	104,700	65,000	13,600	700	184,000
Retirees	1,400	11,600	33,800	42,800	89,600
Retiree Depend.	600	2,500	5,200	3,900	12,200
Tot. Retiree Group	2,000	14,100	39,000	46,700	101,800
Total Plan	106,700	79,100	52,600	47,400	285,800
Average Age					56 Years
Percent Female					63%

In addition, retired membership data of the Local Governmental Employees' Retirement system as of December 31, 1995, for members age 40 and over reflects the following:

	Number of Members by Age				
Retired Members	40-49	50-59	60-69	70 +	Total
Service Retirees	100	1,500	6,500	7,900	16,000
Disabled Retirees	800	1,200	1,100	500	3,600
Total Retirees	900	2,700	7,600	8,400	19,600
Surv. Beneficiaries	100	300	800	1,700	2,900
Total Group	1,000	3,000	8,400	10,100	22,500
Average Age					68 Years
Percent Female					44%

Total membership, age 40 and over, eligible for the benefits provided by the bill are:

	Number of Members by Age				
Group	40-49	50-59	60-69	70 +	Total
Employee Group	104,700	65,000	13,600	700	184,000
Retiree Group	3,000	17,100	47,400	56,800	124,300
Total Group	107,700	82,100	61,000	57,500	308,300
Average Age					57 Years
Percent Female					62%

Based upon the Plan's population and the experiences of other employers and in other states, it is estimated that some 6,000 long-term care benefit contracts could be purchased through the Plan by the year 2000, provided the Plan has a sufficient number of contacts located throughout the State to service the benefits. In addition, given the increased visibility of long-term care benefits stimulated by the 104th Congress' inclusion of the benefits in the Health Insurance Portability and Accountability Act of 1996, it would not be unreasonable to assume that an additional 2,000 to 3,000 contracts could be issued through the Plan by the year 2000 just from the Act alone.

Currently, the State of North Carolina has licensed or registered the following number of long-term care facilities to serve the 8,000 to 9,000 contracts that could be issued through the Plan:

Nursing Facilities	362
Nursing Facilities in Hospitals	52

Homes for the Aged	481
Family Care Homes	723
Developmentally Disabled Adult Group Homes	211
Multiunit Assisted Housing Services	5
Home Care Agencies	868
Adult Day Care Facilities	73

According to information supplied by the North Carolina Health Care Facilities Association and the North Carolina Association of Long Term Care Facilities, the average daily charge in the State for a private-pay resident in a nursing home is about $100 for skilled and intermediate care and about $50 for a private-pay stay in an assisted living residence. The average statewide charge per visit for home care agencies in the indemnity program of the Comprehensive Major Medical Plan for Teachers and State Employees is about $85 for skilled nursing and physical, speech, and occupational therapy, $110 for clinical social workers, and $50 for home health aides.

Before concluding the assumptions used for long-term care benefits, mention should be made of a previous State effort in offering such coverage. The State Retirement Systems, in May, 1991, began a program of long-term care insurance for retired members of the Teachers' and State Employees' Retirement System, the Consolidated Judicial Retirement System, the Legislative Retirement System, and the Local Governmental Employees' Retirement System. By the end of 1992, some 80 contracts were in effect through monthly retirement payroll deduction of premiums. By the end of 1994, some 240 contracts were in effect through payroll deduction of premiums. By the end of 1996, some 580 contracts were in effect through monthly retirement payroll deduction of premiums plus another 300 contracts in effect with direct payments of annual premiums. In comparison, the total number of retired members of the several Retirement Systems was about 113,000 at the same time.

SOURCES OF DATA:

-Actuarial Note, Dilts, Umstead & Dunn, Senate Bill 299, March 12, 1997, original of which is on file in the General Assembly's Fiscal Research Division.

-Actuarial Note, Aon Consulting, Senate Bill 299, March 21, 1997, 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.

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