

# GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2009

## Legislative Actuarial Note

### HEALTH BENEFITS

**BILL NUMBER:** House Bill 1991 (First Edition)  
**SHORT TITLE:** State Health Plan/Court-Ordered Guardianships.  
**SPONSOR(S):** Representatives Farmer-Butterfield, Goodwin, Hurley, and Bryant

**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:** The bill amends the definition of “Dependent child” under G.S. 135-45.1(10) to include a child for which an employee enrolled in the Plan is a court-appointed guardian and who is legally responsible for the child’s maintenance and support. The effect of the bill would be to allow a minor child under a court-ordered guardianship to be eligible for health benefit coverage under the Plan.

**EFFECTIVE DATE:** July 1, 2010

#### **ESTIMATED IMPACT ON STATE:**

Aon Consulting, consulting actuary for the State Health Plan estimates the midpoint financial impact to the Plan would be an estimated \$18,000 for FY 2010-11. Given there is no readily available experience data to project when a minor child may enter or exit the care of a court-appointed guardian at a particular age, Aon Consulting’s financial estimate assumes a uniform distribution of guardianships across all ages up to age 18. The effect of this methodology is to project a cost that assumes the number of years that a minor child remains under guardianship varies from child to child. The effect of the methodology used by Aon Consulting is to project an average annual cost of the bill.

Hartman & Associates, consulting actuary for the General Assembly’s Fiscal Research Division, estimates the maximum annual cost to the Plan for FY 2010-11 is \$125,000. Given there is no readily available experience data to project when a minor child may enter or exit the care of a court appointed guardian at a particular age, Hartman & Associates’ estimate assumes all guardianships have an 18-year duration spanning from birth up through age 17. The effect of the methodology used by Hartman & Associates is to project a maximum annual cost.

The additional cost impact of the requirements of the bill, projected by either consulting actuary, would be expected to impact total claims growth by approximately five one thousandths of one percent (0.005%) for the 2010-2011 fiscal year based on the highest estimate of additional cost (i.e., \$125,000).

**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

Each actuary was provided with an estimate of guardianships of minor children appointed per year based on information provided by the Administrative Office of the Courts (AOC). It is estimated that there were 54 guardianships of minor children granted in 2005 and 56 in 2009 based on a count for each those respective years by AOC staff. Given the relatively small variance in the number of guardianship cases for minor children in each of these respective years, the same rate of annual court appointed guardianships was assumed to occur into the future for purposes of estimating financial impact under the bill. There was no readily available experience data reflecting the age at which minor children subject to guardianship entered or exited this status.

Based on the ratio of adult State Health Plan members to the population of the State, the respective consulting actuaries estimated that 7% to 8% of plan members would be projected to be guardians of minor children. This results in an estimated average of 4 additional children annually becoming eligible for coverage under the Plan as a minor child under a guardianship arrangement sanctioned by the courts. On a year-to-year basis, total average membership would be 40 dependent child plan members subject to a guardianship arrangement under the estimation methodology used by Aon Consulting which assumes a uniform distribution by age. Similarly, under the estimation method used by Hartman & Associates, total average membership would be a projected 75 plan members who are minor children under a guardianship arrangement assuming the period of guardianship lasted from birth up through age 17.

### **Summary Information and Data 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 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.

As of July 1, 2009, the State finances the Plan on a self-funded basis and administers benefit coverage under a Preferred Provider Option (PPO) arrangement. 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 elect dependent coverage. Total *revised* requirements for the Plan are estimated to be \$2.55 billion for FY 2009-10 and \$2.74 billion for FY 2010-11. The Plan's PPO benefit design includes two alternative benefit levels listed below:

- 1) The "Basic" 70/30 plan that offers higher out-of-pocket requirements in return for lower fully contributory dependent premiums; and
- 2) The "Standard" 80/20 plan.

The Basic and Standard plans offer coverage to employees and retired employees on a noncontributory basis. Coverage for dependents under both plans is offered on a fully contributory basis.

## **Financial Condition**

**Revised Financial Projection 2009-11 Biennium** – The following summarizes a revised financial projection by conducted by the Plan’s consulting actuary, Aon Consulting, for the 2009-11 biennium. The information is provided by fiscal year based on year-to-date financial experience (through March 2010) and other updated factors.

For the fiscal year beginning July 1, 2009, the Plan began its operations with a beginning cash balance of \$189.9 million. Receipts for the year are projected to be \$2.41 billion from net premium collections, \$74.4 million from Medicare Part D subsidies, and \$3.4 million from investment earnings for a total of approximately \$2.49 billion in receipt income for the year. Projected disbursements from the Plan are expected to be \$2.39 billion in net claim-payment expenses and \$164.1 million in administration and claims-processing expenses for projected total expenses of nearly \$2.55 billion for FY 2009-10. The Plan’s net operating loss is projected to be approximately \$66.3 million for the fiscal year, assuming a 9% annual claims growth trend and an annual premium increase of 8.9% effective July 1, 2009.

For the fiscal year beginning July 1, 2010, the Plan is projected to begin its operations with a beginning cash balance of \$123.6 million. Receipts for the year are projected to be \$2.68 billion from net premium collections, \$56.1 million from Medicare Part D subsidies, and \$2.7 million from investment earnings for a total of approximately \$2.73 billion in receipt income for the year. Projected disbursements from the Plan are expected to be \$2.55 billion in net claim-payment expenses and \$191.7 million in administration and claims-processing expenses for projected total expenses of nearly \$2.74 billion for FY 2010-11. The Plan’s net operating loss is projected to be approximately \$7.1 million for the fiscal year, assuming a 9% annual claims growth trend and an annual premium increase of 8.9% effective July 1, 2010.

Based on the revised financial projection (May 2010), the Plan’s estimated ending cash balance on June 30, 2011 is projected to be \$116.5 million. This amount is approximately \$75.7 million less than the originally projected (April 2009) ending cash balance of \$192.2 million.

**Original Financial Projection 2009-11 Biennium (April 2009)** – Session Law 2009-16 (Senate Bill 287) appropriated funds from various sources, authorized annual premium rate increases, made various benefit and provider related changes to achieve financial savings, and directed other various changes to the Plan. The enacted law also appropriated the sum of \$250 million from the Savings Reserve Account ("Rainy Day Fund") of the General Fund for the 2008-09 fiscal year. The following summarizes the original financial projection by fiscal year for the 2009-11 biennium and assumes the changes enacted in Session Law 2009-16 (Senate Bill 287).

For the fiscal year beginning July 1, 2009, the Plan was projected to begin its operations with a beginning cash balance of \$146.9 million. Receipts for the year were projected to be \$2.4 billion from net premium collections, \$56.3 million from Medicare Part D subsidies, and \$8.0 million from investment earnings for a total of approximately \$2.5 billion in receipt income for the year. Projected disbursements from the Plan were expected to be \$2.3 billion in net claim-payment expenses and \$185.6 million in administration and claims-processing expenses for projected total expenses of nearly \$2.5 billion for FY 2009-10. The Plan’s net operating income was projected to be approximately \$14.8 million for the fiscal year, assuming a 9% annual claims growth trend and an annual premium increase of 8.9% effective July 1, 2009.

For the fiscal year beginning July 1, 2010, the Plan was projected to begin its operations with a beginning cash balance of \$161.6 million. Receipts for the year were projected to be \$2.7 billion from net premium collections, \$50.4 million from Medicare Part D subsidies, and \$8.8 million from investment earnings for a total of approximately \$2.7 billion in receipt income for the year. Projected disbursements from the

Plan were expected to be \$2.5 billion in net claim-payment expenses and \$191.7 million in administration and claims-processing expenses for projected total expenses of nearly \$2.7 billion for FY 2010-11. The Plan's net operating income was projected to be approximately \$30.6 million for the fiscal year, assuming a 9% annual claims growth trend and an annual premium increase of 8.9% effective July 1, 2010.

### **Other Information**

Historically, the Plan has applied a premium increase in October of the first fiscal year of a biennium. However, the annual premium increases authorized in Session Law 2009-16 (Senate Bill 287) changes that methodology to an annual increase at the beginning of each fiscal year of the 2009-11 biennium.

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, and fraud detection, and other authorized actions by the 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 9% annually according to the Plan's consulting actuary. Investment earnings are based upon a 4.5% return on available cash balances.

**Enrollment as of December 31, 2009**

<b>I. No. of Participants</b>	<b>Basic</b>	<b>Standard</b>	<b>Total</b>	<b>Percent of Total</b>
<u>Actives</u>				
Employees	13,830	307,541	321,371	48.6%
Dependents	24,593	135,563	160,156	24.2%
Sub-total	38,423	443,104	481,527	72.8%
<u>Retired</u>				
Employees	2,074	151,395	153,469	23.2%
Dependents	1,313	18,075	19,388	2.9%
Sub-total	3,387	169,470	172,857	26.1%
<u>Former Employees with</u>				
Continuation Coverage				
Employees	121	3,120	3,241	0.5%
Dependents	87	749	836	0.1%
Sub-total	208	3,869	4,077	0.6%
<u>Firefighters, Rescue Squad &amp;</u>				
National Guard				
Employees	-	5	5	0.0%
Dependents	-	3	3	0.0%
Sub-total	-	8	8	0.0%
<u>Local Governments</u>				
Employees	91	1,829	1,920	0.3%
Dependents	174	777	951	0.1%
Sub-total	265	2,606	2,871	0.4%
<u>Total</u>				
Employees	16,116	463,885	480,001	72.6%
Dependents	26,167	155,164	181,331	27.4%
<b>Grand Total</b>	<b>42,283</b>	<b>619,049</b>	<b>661,332</b>	<b>100%</b>
<b>Percent of Total</b>	<b>6.4%</b>	<b>93.6%</b>	<b>100.0%</b>	

<b>II. Enrollment by Contract</b>	<b>Basic</b>	<b>Standard</b>	<b>Total</b>
Employee Only	3,252	378,539	381,791
Employee Child(ren)	6,026	43,820	49,846
Employee Spouse	2,550	21,785	24,335
Employee Family	4,288	19,741	24,029
<b>Total</b>	<b>16,116</b>	<b>463,885</b>	<b>480,001</b>

<b>Percent Enrollment by Contract</b>	<b>Basic</b>	<b>Standard</b>	<b>Total</b>
Employee Only	20.2%	81.6%	79.5%
Employee Child(ren)	37.4%	9.4%	10.4%
Employee Spouse	15.8%	4.7%	5.1%
Employee Family	26.6%	4.3%	5.0%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

<b>III. Enrollment by Sex</b>	<b>Basic</b>	<b>Standard</b>	<b>Total</b>
Female	22,479	390,209	412,688
Male	19,804	228,840	248,644
<b>Total</b>	<b>42,283</b>	<b>619,049</b>	<b>661,332</b>

<b>Percent Enrollment by Sex</b>	<b>Basic</b>	<b>Standard</b>	<b>Total</b>
Female	53.2%	63.0%	62.4%
Male	46.8%	37.0%	37.6%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

<b>IV. Enrollment by Age</b>	<b>Basic</b>	<b>Standard</b>	<b>Total</b>
19 & Under	17,315	95,431	112,746
20 to 29	3,311	57,142	60,453
30 to 44	9,555	120,292	129,847
45 to 54	6,455	108,447	114,902
55 to 64	4,090	128,933	133,023
65 & Over	1,557	108,804	110,361
<b>Total</b>	<b>42,283</b>	<b>619,049</b>	<b>661,332</b>

<b>Percent Enrollment by Age</b>	<b>Basic</b>	<b>Standard</b>	<b>Total</b>
19 & Under	41.0%	15.4%	17.0%
20 to 29	7.8%	9.2%	9.1%
30 to 44	22.6%	19.4%	19.6%
45 to 54	15.3%	17.5%	17.4%
55 to 64	9.7%	20.8%	20.1%
65 & Over	3.7%	17.6%	16.7%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

<b>V. Retiree Enrollment by Category</b>	<b>Employee</b>	<b>Dependents</b>	<b>Total</b>
Non-Medicare Eligible	51,747	11,879	63,626
Medicare Eligible	101,722	7,509	109,231
<b>Total</b>	<b>153,469</b>	<b>19,388</b>	<b>172,857</b>

<b>VI. Enrollment By Major Employer Groups</b>	<b>Employees</b>	<b>Dependents</b>	<b>Total</b>
State Agencies	75,367	34,645	110,012
UNC System	50,106	29,726	79,832
Local Public Schools	181,270	88,258	269,528
Local Community Colleges	14,623	7,524	22,147
Other			
Local Governments	1,920	951	2,871
COBRA	3,241	836	4,077
Nat. Guard, Fire & Rescue	5	3	8
Sub-total	5,166	1,790	6,956
Retirement System	153,469	19,388	172,857
<b>Total</b>	<b>480,001</b>	<b>181,331</b>	<b>661,332</b>

<b>Percent Enrollment by Major Employer Groups</b>	<b>Employees</b>	<b>Dependents</b>	<b>Total</b>
State Agencies	15.7%	19.1%	16.6%
UNC System	10.4%	16.4%	12.1%
Local Public Schools	37.8%	48.7%	40.8%
Local Community Colleges	3.0%	4.1%	3.3%
Other			
Local Governments	0.4%	0.5%	0.4%
COBRA	0.7%	0.5%	0.6%
Nat. Guard, Fire & Rescue	0.0%	0.0%	0.0%
Sub-total	1.1%	1.0%	1.1%
Retirement System	32.0%	10.7%	26.1%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

**SOURCES OF DATA:**

-Actuarial Note, Hartman & Associates, “House Bill 1991: An Act to Allow State Employees to Enroll Children For Which They Are Court-Appointed Guardians as Dependents in the State Health Plan for Teachers and State Employees”, June 15, 2010, an original of which is on file in the General Assembly’s Fiscal Research Division.

-Actuarial Note, Aon Consulting, “House Bill 1991 State Health Plan/Court-ordered Guardianships”, June 18, 2010, an 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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