



# NORTH CAROLINA GENERAL ASSEMBLY

Session 2019

## Legislative Actuarial Note

### Health Benefits

**Short Title:** Pensions Benefits Revision.  
**Bill Number:** Senate Bill 408 (First Edition)  
**Sponsor(s):** Senators Krawiec, Hise, and Wells

#### SUMMARY TABLE

#### ACTUARIAL IMPACT OF S.B. 408, V.1 (\$ in thousands)

	<u>FY 2019-20</u>	<u>FY 2020-21</u>	<u>FY 2021-22</u>	<u>FY 2022-23</u>	<u>FY 2023-24</u>
<b>State Impact</b>					
State Health Plan Net Loss	(350)	(350)	(350)	(350)	(350)
<b>NET STATE IMPACT</b>	<b>(350)</b>	<b>(350)</b>	<b>(350)</b>	<b>(350)</b>	<b>(350)</b>

The State Health Plan’s Net Loss is projected to decrease by the amount shown above, increasing the cash reserves of the Plan. Any improvement in Plan financials does not directly translate to a decrease in State appropriations in the short-run, but is likely to decrease appropriations in the long-run. Roughly 57% of premiums paid to the Plan are derived from the General Fund.

Section 7 also has an impact on the Other Post Employment Benefit (OPEB) liability of the State and related governmental units.

#### ACTUARIAL IMPACT SUMMARY

Sections 4, 5, 6, 7, 8, 9, 10, and 11 have potential actuarial impacts on the State Health Plan (Plan).

Section 4: Allows the Plan to garnish the wages of former members now employed in the private sector to recover unpaid premiums or overpaid Plan claims. The Segal Company, the consulting actuary for the Plan, estimates that this section will result in additional Plan revenue of roughly \$350,000 per year. Hartman & Associates, the consulting actuary for the General Assembly, estimates that this section will result in recovery of some portion of the current \$1.4 million outstanding amount owed to the Plan over the course of several years.

Section 5: Clarifies when dependent children over the age of 26 of Plan members may be covered in the Plan. Both actuaries estimate that this section will have negligible financial impact on the Plan.

Section 6: Clarifies and strengthens the subrogation provisions in Plan statutes. The Segal Company states that the impact of this section is indeterminable. Hartman & Associates estimates that this section will have negligible financial impact on the Plan.

Section 7: Clarifies that the “first hired date” for purposes of retiree medical eligibility will be the date of reemployment for those who withdraw their contributions from a State retirement system and are later reemployed. Employees “first hired” on or after October 1, 2006 must have 20 years of service for noncontributory retiree medical coverage and 10 years of service for one-half contributory retiree medical coverage under current law. Employees “first hired” prior to October 1, 2006 only need to have five years of service for noncontributory coverage under current law. The Segal Company estimates that this section will have a negligible impact on the Plan’s cash flow in the next three years, but will ultimately reduce the Total Other Post Employment Benefit (OPEB) Liability by \$350 million to \$500 million and the OPEB Actuarially Determined Contribution by 0.1% of payroll. Hartman & Associates estimates that this section will have minimal initial cash flow impact on the Plan, but will ultimately reduce the Total OPEB Liability by \$24 million to \$90 million and the OPEB Actuarially Determined Contribution by less than 0.1% of payroll.

There is significant uncertainty in these estimates because in theory anyone who earned service in a State retirement system prior to October 1, 2006 and withdrew their contributions could return, work 5 more years, and qualify for noncontributory retiree medical benefits under current law. The number of individuals who have withdrawn contributions related to pre-October 1, 2006 service exceeds 100,000, yet the vast majority will never return to service. Many of those who do return have already retired, will stay for less than 5 years, or will retire with 20 or more years of service, resulting in no change due to this section. In addition, because these individuals withdrew their contributions, the State does not always have readily accessible data on them. Thus, while this section will clearly result in a decrease in the Total OPEB Liability, the magnitude of that decrease is highly uncertain.

Section 8: Increases the threshold that would require approval of a contract by the Plan Board of Trustees from \$500,000 to \$1 million. Both actuaries estimate that this section will have negligible financial impact on the Plan.

Section 9: Clarifies the subject and basis for decisions regarding appeals of enrollment and eligibility decisions made by the Plan. Both actuaries estimate that this section will have negligible financial impact on the Plan.

Section 10: Clarifies the adjudication process for appealed claims by the Plan. Both actuaries estimate that this section will have negligible financial impact on the Plan.

Section 11: Provides for the Plan to offer expanded access to supplemental dental and vision insurance products and to increase transparency of the claims data on those products and other offerings. Both actuaries estimate that this section will have negligible financial impact on the Plan.

## **ASSUMPTIONS AND METHODOLOGY**

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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 State Health Plan (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.

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. Benefit and premium changes are typically effective at January 1. The Plan's PPO benefit design includes two alternative benefit levels listed below:

- 1) The 70/30 Plan that offers higher out-of-pocket requirements in return for lower employee and retiree premiums, and
- 2) The 80/20 Plan that offers lower out-of-pocket requirements with higher employee and retiree premiums.

Medicare-eligible retirees are offered three alternative plans:

- 1) The 70/30 Plan as coverage secondary to Medicare for medical services plus a pharmacy benefit plan,
- 2) "Base" Medicare Advantage Prescription Drug Plan (MA-PDP) from United Healthcare, that is actuarially equivalent to the 80/20 Plan and applies in-network out-of-pocket requirements at out-of-network providers
- 3) "Enhanced" MA-PDP, identical to the "Base" MA-PDP, 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 2019:

Active Employees and Non-Medicare Retirees (if Fully Subsidized)

	Employer Share	Employee/Retiree Share Complete Tobacco Attestation	Do Not Complete Attestation
70/30 Plan	\$519	\$25 *	\$85 *
80/20 Plan	\$159	\$50	\$110

\* \$0 for Non-Medicare Retirees

Medicare Retirees (if Fully Subsidized)

Medicare Advantage Plans

	Employer Share	Employee/Retiree Share
MA-PDP Base Plan	\$403	\$0
MA-PDP Enhanced Plan	\$403	\$63

Alternate Plan

	Employer Share	Employee/Retiree Share
Traditional 70/30 Plan	\$403	\$0

Dependents (paid by employee/retiree in addition to premiums above)

	All Dependents are Non-Medicare		One or More Medicare Dependents		
	70/30 Plan	80/20 Plan	MA-PDP Base	MA-PDP Enhanced	70/30 Plan
Employee/Retiree + Children	\$193	\$255	\$89	\$152	\$155
Employee/Retiree + Spouse	\$565	\$650	\$89	\$152	\$425
Employee/Retiree + Family	\$573	\$670	\$178	\$304	\$444

The employer share of premiums for retirees is paid from the Retiree Health Benefit Fund. During FY 2018-19, employers contribute 6.27% of active employee payroll into the Fund. Total contributions for the year are projected to be approximately \$1,096 million.

Financial Condition

Projected Results for CY 2019 and CY 2020 – The following summarizes projected financial results for 2019 and 2020, based on financial experience through September 2018. The projection assumes

a 7.0% annual claims growth trend for medical claims, a 9.5% trend for pharmacy claims, benefit provisions and member-paid premiums as adopted by the Board for 2019, Medicare-based provider pricing beginning in 2020, and 4% employer premium increases in 2020.

	(\$ millions)	
	Projected CY 2019	Projected CY 2020
Beginning Cash Balance	\$1,056.7	\$1,079.0
Receipts:		
Net Premium Collections	\$3,690.6	\$3,841.9
Medicare Subsidies	\$10.3	\$10.4
Investment Earnings	\$9.3	\$9.4
Total	\$3,710.1	\$3,861.7
Disbursements:		
Net Medical Claim Payment Expenses	\$2,533.7	\$2,530.9
Net Pharmacy Claim Payment Expenses	\$767.7	\$842.9
Medicare Advantage Premiums	\$171.4	\$239.2
Administration and Claims-Processing Expenses	\$215.0	\$207.1
Total	\$3,687.8	\$3,820.1
Net Operating Income (Loss)	\$22.3	\$41.6

Of the premiums paid in CY 2019, an estimated \$2.4 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 in 2019 and Medicare-based pricing in 2020 and beyond, 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. Medical claim costs are expected to increase at a rate of 7.0% annually and pharmacy claim costs are expected to increase at a rate of 9.5% annually according to assumptions adopted by the Board of Trustees. The active population is projected to remain unchanged, the pre-Medicare retiree population is projected to decrease by 1% per year and the Medicare-eligible retiree population is projected to increase by 3% per year.

Enrollment as of January 1, 2019

I. No. of Participants	Traditional 70/30	Enhanced 80/20	Medicare Advantage	Total	Percent of Total
<u>Actives</u>					
Employees	112,490	192,987	-	305,477	41.6%
Dependents	77,656	99,369	-	177,025	24.1%
Sub-total	190,146	292,356	-	482,502	65.8%
<u>Retired</u>					
Employees	44,013	23,411	140,834	208,258	28.4%
Dependents	7,674	5,346	11,855	24,875	3.4%
Sub-total	51,687	28,757	152,689	233,133	31.8%
<u>Other</u>					
Employees	3,670	8,195	-	11,865	1.6%
Dependents	2,327	3,704	-	6,031	0.8%
Sub-total	5,997	11,899	-	17,896	2.4%
<u>Total</u>					
Employees	160,173	224,593	140,834	525,600	71.7%
Dependents	87,657	108,419	11,855	207,931	28.3%
<b>Grand Total</b>	<b>247,830</b>	<b>333,012</b>	<b>152,689</b>	<b>733,531</b>	<b>100%</b>
<b>Percent of Total</b>	<b>33.8%</b>	<b>45.4%</b>	<b>20.8%</b>	<b>100.0%</b>	
<b>II. Enrollment by Contract</b>					
	<b>Traditional</b>	<b>Enhanced</b>	<b>MA</b>	<b>Total</b>	
Employee Only	118,022	170,537	128,979	417,538	
Employee Child(ren)	25,632	35,239	215	61,086	
Employee Spouse	4,913	6,366	11,640	22,919	
Employee Family	11,606	12,451		24,057	
<b>Total</b>	<b>160,173</b>	<b>224,593</b>	<b>140,834</b>	<b>525,600</b>	
<b>Percent Enrollment by Contract</b>					
	<b>Traditional</b>	<b>Enhanced</b>	<b>MA</b>	<b>Total</b>	
Employee Only	73.7%	75.9%	91.6%	79.4%	
Employee Child(ren)	16.0%	15.7%	0.2%	11.6%	
Employee Spouse	3.1%	2.8%	8.3%	4.4%	
Employee Family	7.2%	5.5%	0.0%	4.6%	
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	
<b>III. Enrollment by Sex</b>					
	<b>Traditional</b>	<b>Enhanced</b>	<b>MA</b>	<b>Total</b>	
Female	141,753	212,564	101,689	456,006	
Male	106,077	120,448	51,000	277,525	
<b>Total</b>	<b>247,830</b>	<b>333,012</b>	<b>152,689</b>	<b>733,531</b>	
<b>Percent Enrollment by Sex</b>					
	<b>Traditional</b>	<b>Enhanced</b>	<b>MA</b>	<b>Total</b>	
Female	57.2%	63.8%	66.6%	62.2%	
Male	42.8%	36.2%	33.4%	37.8%	
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	



<b>IV. Enrollment by Age</b>	<b>Traditional</b>	<b>Enhanced</b>	<b>MA</b>	<b>Total</b>
25 & Under	74,779	94,476	15	169,270
26 to 45	64,448	92,523	294	157,265
46 to 55	42,687	68,051	1,182	111,920
56 to 65	44,009	71,768	13,155	128,932
66 & Over	21,907	6,194	138,043	166,144
<b>Total</b>	<b>247,830</b>	<b>333,012</b>	<b>152,689</b>	<b>733,531</b>

<b>Percent Enrollment by Age</b>	<b>Traditional</b>	<b>Enhanced</b>	<b>MA</b>	<b>Total</b>
25 & Under	30.2%	28.4%	0.0%	23.1%
26 to 45	26.0%	27.8%	0.2%	21.4%
46 to 55	17.2%	20.4%	0.8%	15.3%
56 to 65	17.8%	21.6%	8.6%	17.6%
66 & Over	8.8%	1.9%	90.4%	22.6%
<b>Total</b>	<b>100.0%</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	45,030	12,353	57,383
Medicare Eligible in Traditional 70/30	22,394	667	23,061
Medicare Eligible in Base MA Plan	121,521	9,094	130,615
Medicare Eligible in Enhanced MA Plan	19,313	2,761	22,074
<b>Total</b>	<b>208,258</b>	<b>24,875</b>	<b>233,133</b>

<b>Percent Enrollment by Category (Retiree)</b>	<b>Employee</b>	<b>Dependents</b>	<b>Total</b>
Non-Medicare Eligible	21.6%	49.7%	24.6%
Medicare Eligible in Traditional 70/30	10.8%	2.7%	9.9%
Medicare Eligible in Base MA Plan	58.4%	36.6%	56.0%
Medicare Eligible in Enhanced MA Plan	9.3%	11.1%	9.5%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

<b>VI. Enrollment By Major Employer Groups</b>	<b>Employees</b>	<b>Dependents</b>	<b>Total</b>
State Agencies	65,979	32,602	98,581
UNC System	54,857	36,678	91,535
Local Public Schools	164,529	95,091	259,620
Charter Schools (94 entities)	4,875	3,356	8,231
Local Community Colleges	15,237	9,298	24,535
Other			
Local Governments (129 entities)	11,040	5,380	16,420
COBRA	825	651	1,476
Retirement System	208,258	24,875	233,133
<b>Total</b>	<b>525,600</b>	<b>207,931</b>	<b>733,531</b>

<b>Percent Enrollment by Major Employer Groups</b>	<b>Employees</b>	<b>Dependents</b>	<b>Total</b>
State Agencies	12.6%	15.7%	13.4%
UNC System	10.4%	17.6%	12.5%
Local Public Schools	31.3%	45.7%	35.4%
Charter Schools	0.9%	1.6%	1.1%
Local Community Colleges	2.9%	4.5%	3.3%
Other			
Local Governments	2.1%	2.6%	2.2%
COBRA	0.2%	0.3%	0.2%
Retirement System	39.6%	12.0%	31.8%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

## **TECHNICAL CONSIDERATIONS**

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N/A.

## **DATA SOURCES**

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The Segal Company; baseline financial projections updated through Q3 CY2018; dated January 9, 2019. Filename "CY18 Q3 - Baseline - Final v2.pdf"

-Actuarial Note, Hartman & Associates, "Senate Bill 408: Pensions Benefits Revisions", April 5, 2019, original of which is on file in the General Assembly's Fiscal Research Division.

-Actuarial Note, The Segal Company, Senate Bill 408, "Pension Benefits Revision", April 8, 2019, original of which is on file with the State Health Plan for Teachers and State Employees and the General Assembly's Fiscal Research Division.

## **LEGISLATIVE ACTUARIAL NOTE – PURPOSE AND LIMITATIONS**

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This document is an official actuarial analysis prepared pursuant to Chapter 120 of the General Statutes and rules adopted by the Senate and House of Representatives. The estimates in this analysis are based on the data, assumptions, and methodology described above. This document only addresses sections of the bill that have projected direct actuarial impacts on State employee health benefit programs and does not address sections that have no projected actuarial impacts.

## **CONTACT INFORMATION**

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Questions on this analysis should be directed to the Fiscal Research Division at (919) 733-4910.

## **ESTIMATE PREPARED BY**

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David Vanderweide

## **ESTIMATE APPROVED BY**

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Mark Trogdon, Director of Fiscal Research  
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April 11, 2019



Signed copy located in the NCGA Principal Clerk's Offices