

**NORTH CAROLINA GENERAL ASSEMBLY  
LEGISLATIVE ACTUARIAL NOTE**

**BILL NUMBER:** Senate Bill 1557

**SHORT TITLE:** Dental, Hearing & Vision Benefits for Children of State Employees.

**SPONSOR(S):** Senator Tony Rand.

**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, and Premium Payments for Coverages Selected by Eligible Former Teachers and State Employees.

**BILL SUMMARY:** The bill provides limited dental, vision, and hearing benefits for dependent children under 19 years of age of active employees, retired employees, and other former employees enrolled in the Plan. Benefits are the same as provided by the General Assembly and Governor for uninsured children of low income families under Title XXI of the Social Security Act during the Special Legislative Session called by the Governor on March 24, 1998. Routine examinations and diagnostic services are covered without application of annual deductibles and coinsurance but are subject to annual benefit maximums for such services. Dental benefits are limited to examinations, cleaning and scaling, x-rays, fluoride applications, and routine fillings. Vision benefits include examinations, eyeglass and contact lenses, eyeglass frames, and optical supplies and solutions. Hearing benefits include diagnostic testing services and hearing aids and accessories. The bill affects both the Plan's self-insured indemnity program and alternative health maintenance organizations (HMOs) participating in the Plan.

**EFFECTIVE DATE:** January 1, 1999.

**ESTIMATED IMPACT ON STATE:** The bill's major impact will be on the Plan's self-insured indemnity program since some of the Plan's participating HMOs already have some limited dental and vision benefits. Two of the Plan's participating HMOs cover dental examinations and teeth cleaning, one HMO covers examinations, cleaning, and x-rays, and an additional HMO covers examinations, cleaning, x-rays, and dentures. Ten of the twelve participating HMOs cover routine eye examinations and five HMOs cover lenses, including contact lenses, and frames. Other HMOs contract with selected providers to provide plan members discounts on the purchase of lenses and frames. The costs of providing these services and supplies are borne by employees electing to participate in these programs since employer contributions to HMOs are limited to the amount of employer contributions to the self-funded indemnity program for benefits provided by the self-funded program, which do not currently include dental, vision, and hearing benefits.

As far as costs to the Plan's self-funded indemnity program are concerned, since all of the benefits provided by Senate Bill 1557 are for the dependent children of employees enrolled in the Plan, the costs of the bill are to be paid by employees. The Plan's existing statutes require that dependent claim costs be covered through fully contributory premiums paid by employees on behalf of their spouses and dependent children. Senate Bill 1557 makes no change in this existing statute. The reason why the bill makes no change in these statutes is directly tied to requirements handed down by the U. S. Department of Health & Human Services concerning the eligibility of children of teachers and state employees to participate in North Carolina's Health Insurance Program for Children under Title XXI of the Social Security Act. Although Title XXI of the Social Security Act (P. L. 105-33) excludes children of families that are "...eligible for health benefits coverage under a State health benefits plan on the basis of a family member's employment with a public agency in the State," the Department of Health & Human Services' Health Care Financing Administration directed on March 16, 1998, that the "...children of...State employees can be covered under...(the Health Insurance Program for Children under Title XXI)...because employees must pay the full cost of insurance coverage for dependent children without any subsidy from the state." Consequently, lower-paid state employee families will not be allowed participation by their children in the Health Insurance Program for Children if the State or its employers share in the premium costs for dependent child coverage. Although total family income is not known, an estimated 35,000 active and retired employees with children under 19 years of age in the Plan's self-insured indemnity program and HMOs have annual salaries and retirement benefits within the income eligibility limits for participation in North Carolina's Health Insurance Program for Children. Over 55,000 children are currently covered by these employees.

The estimated costs to the Plan's self-insured indemnity program to cover the benefits provided by Senate Bill 1557 is \$16.43 per month per child according to the consulting actuary of the General Assembly's Fiscal Research Division, Hartman & Associates. The consulting actuary for the Plan, Aon Consulting, estimates the cost to the program to be \$16.39 per month per child for the first year that the benefits are provided and \$13.11 per month per child for subsequent years. A composite, blended rate for the first year and subsequent years is estimated to be \$14.75 per member per month. Since these costs would be paid by employees enrolling their children in the program, conversion into premium rates would result in an additional \$24.78 per month in current premium rates paid by employees with parent & child coverage and an additional \$12.83 per month in current premiums paid by employees with family coverage. However, for the period January 1, 1999, through September 30, 1999, Senate Bill 1557's estimated additional claim cost of \$6 million can be financed from the accumulated reserves of the Plan's self-insured indemnity program. Estimates by both the Plan and the Fiscal Research Division reflect a need for a general premium rate increase by the program beginning October 1, 1999. The additional costs of Senate Bill 1557 would be built into the rates paid by employees for dependent children at that time.

**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 retired employees. Whenever employees and office holders first employed or taking office on and after October 1, 1995 become eligible for health benefits as retired employees, the amount of premium paid by the State for individual coverage will be based upon the retiree's amount of retirement service credit at the time of retirement. Only retired employees with 20 or more years of service credit at retirement will be eligible for non-contributory health benefit premiums. Retirees with 10 or more years of service credit at retirement will be eligible for 50% partially contributory health benefit premiums. Retired employees with 5 or more year of service credit at retirement will be eligible to continue their health benefits on a fully contributory basis. 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 27% of the Plan's total population in about 88 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, 1997, include:

	<u>Self-Insured Indemnity Program</u>	<u>Alternative HMOs</u>	<u>Plan Total</u>
<u>Number of Participants</u>			
Active Employees	183,500	78,500	262,000
Active Employee Dependents	102,000	56,400	158,400
Retired Employees	87,100	6,400	93,500
Retired Employee Dependents	14,600	1,300	15,900
Former Employees & Dependents with Continued Coverage	2,700	900	3,600
Total Enrollments	389,900	143,500	533,400

<u>Number of Contracts</u>			
Employee Only	207,000	57,500	264,500
Employee & Child(ren)	29,000	17,200	46,200
Employee & Family	36,500	10,800	47,300
Total Contracts	272,500	85,500	358,000

<u>Percentage of Enrollment by Age</u>			
29 & Under	26.8%	44.5%	31.5%
30-44	20.6	27.2	22.4
45-54	20.5	18.2	19.9
55-64	14.3	7.6	12.5
65 & Over	17.8	2.5	13.7

Percentage of  
Enrollment by Sex

Male	39.6%	39.7%	39.6%
Female	60.4	60.3	60.4

Assumptions for the Self-Insured Indemnity Program: For the fiscal year beginning July 1, 1997, the self-insured program started its operations with a beginning cash balance of \$384.9 million. Receipts for the year are estimated to be \$580 million from premium collections, \$25 million from investment earnings, and \$15 million in risk adjustment and administrative fees from HMOs, for a total of \$620 million in receipts for the year. Disbursements from the self-insured program are expected to be \$640 million in claim payments and \$18 million in administration and claims processing expenses for a total of \$658 million for the year beginning July 1, 1997. For the fiscal year beginning July 1, 1998, the self-insured indemnity program is expected to have an operating cash balance of over \$346 million with a net operating loss of \$98 million for the 1998-99 fiscal year. For the fiscal year beginning July 1, 1999, the self-insured indemnity program is expected to have an operating cash balance of \$248 million with a net operating loss of \$170 million for the 1999-2000 fiscal year. The estimated cash balance for the self-insured indemnity program is expected to be \$78 million at the end of the 1999-2000 fiscal year. The self-insured indemnity program is consequently assumed to be able to carry out its operations without any increases in its current premium rates or a reduction in existing benefits until the 1999-2000 fiscal year. This assumption is predicated upon the fact that the program's cost containment strategies (hospital DRG reimbursements, pre-admission hospital testing, pre-admission hospital inpatient certification with length-of-stay approval, hospital bill audits, required second surgical opinions, mental health case management, coordination of benefits with other payers, Medicare benefit "carve-outs", cost reduction contracts with participating physicians and other providers, prescription drug manufacturer rebates from voluntary formularies, and fraud detection) are maintained and improved where possible. Current non-contributory premium rates are \$110.08 monthly for employees whose primary payer of health benefits is Medicare and \$144.60 per month for employees whose primary payer of health benefits is not Medicare. Fully contributory premium amounts for employee and child(ren) contracts are \$68.50 monthly for children whose primary payer of health benefits is Medicare and \$90.12 monthly for other covered children, and \$164.30 per month for family contracts whose dependents have Medicare as the primary payer of health benefits and \$216.18 per month for other family contract dependents. Claim cost trends are expected to increase 8-10% annually. Total enrollment in the program is expected to decrease about one percent (1.0%) annually due to competition from alternative HMOs. The number of enrolled active employees is expected to show a 1-2% loss annually, whereas the growth in the number of retired employees is assumed to be 4% per year. The program is expected to lose about 3-4% of its number of active employee dependents each year, whereas the number of enrolled retiree dependents is assumed to show no appreciable change from year to year. Investment earnings are based upon a 5% monthly 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 on the Population of Children Affected by the Bill: As of December 31, 1997, the Plan had the following number of children that would be affected by Senate Bill 1557:

<u>Contracts &amp; Children</u>	<u>Self-Insured Indemnity Program</u>	<u>Alternative HMOs</u>	<u>Plan Total</u>
<u>Parent &amp; Child Contracts</u>			
Number of Contracts			
Active	27,495	16,866	44,361
Retired	1,415	174	1,589
Total	28,910	17,040	45,950
Number of Children to Age 19			
Active	40,471	27,746	68,217
Retired	945	188	1,133
Total	41,416	27,934	69,350
<u>Family Contracts</u>			
Number of Contracts			
Active	24,834	9,916	34,750
Retired	11,454	769	12,223
Total	36,288	10,685	46,973
Number of Children to Age 19			
Active	25,325	14,058	39,383
Retired	658	132	790
Total	25,983	14,190	40,173
<u>Total Contracts</u>			
Number of Contracts			
Active	52,329	26,782	79,111
Retired	12,869	943	13,812
Total	65,198	27,725	92,923
Number of Children to Age 19			
Active	65,796	41,804	107,600
Retired	1,603	320	1,923
Total	67,399	42,124	109,523

The Plan had another 17,750 children enrolled that are not included in the foregoing population (12,914 in the self-insured indemnity program and 4,836 in HMOs) and are not covered by the provisions of Senate Bill 1557. These children are either full-time students or are physically or mentally incapacitated. Approximately one-half of the number of family contracts in the Plan are made up of employee and spouse only without any enrolled children.

**SOURCES OF DATA:**

-Actuarial Note, Hartman & Associates, Draft Bill to Provide Dental, Vision & Hearing Benefits for Dependent Children under the Age of 19 Years in the Teachers' & State Employees' Comprehensive Major Medical Plan, June 3, 1998, original of which is on file in the General Assembly's Fiscal Research Division.

-Actuarial Note, Aon Consulting, Draft Bill on Dental, Hearing & Vision Benefits for Children Enrolled in the Teachers' & State Employees' Comprehensive Major Medical Plan, May 28, 1998, 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.

**FISCAL RESEARCH DIVISION**

**733-4910**

**PREPARED BY:** Sam Byrd

**APPROVED BY:** Tom L. Covington

**DATE:** June 9, 1998.



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