# GENERAL ASSEMBLY OF NORTH CAROLINA

## Session 2011

## Legislative Actuarial Note

HEALTH BENEFITS

**BILL NUMBER:** House Bill 578 (Ratified)

**SHORT TITLE:** State Health Plan/Additional Changes.

**SPONSOR(S):**

**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:** House Bill 578 (Ratified), entitled "State Health Plan/Additional Changes," amends Senate Bill 323 (Ratified), entitled "State Health Plan/Appropriations & Transfer II," to make various technical, clarifying and substantive changes to the Plan. The sections described below relate to those provisions that are expected to have a financial impact on the Plan:

Section 1(a): Allows the Plan to offer a non-contributory option to employees in the Basic 70/30 plan during FY 2011-12 provided the Plan has sufficient cash balance reserves to do so;

Section 1(b): Allows the Plan to offer a non-contributory option to employees during FY 2012-13 if it can be funded through savings accrued through wellness programs, Medicare Advantage plans, alternative plan designs, cash balances or other resources; and

Section 2: Changes the effective date to September 1, 2011 for the application of higher out-of-pocket amounts, the repeal of the Comprehensive Wellness Initiative, the authorization to charge employees or retirees a premium for their own coverage, and authorization to charge increased premium contribution rates for dependent coverage.

The sections referenced above from House Bill 578 (Ratified) provide for realistic implementation dates for the changes enacted in SB 323 (Ratified). Due to prevailing federal law requirements and operational time periods required for enrollment of plan members under new premium contribution and out-of-pocket requirements schedules, implementation of certain changes in SB 323 were not possible by the original July 1, 2011 effective date.

**EFFECTIVE DATE:** When it becomes law provided Senate Bill 323 (Ratified) becomes law; otherwise the bill does not become law.

**ESTIMATED IMPACT ON STATE:**

**2011-13 Biennium**

**Increased Premium Contributions**

**Appropriated Funds**

Sections 1.1(a), (b), and (c) of SB 323 (Ratified) appropriate the estimated required funds to support increased employer contributions to the Plan for the 2011-13 biennium. These appropriations are based on increased employer contribution rates derived from an annual 5.3 % premium increase in total premium rates for the fiscal year beginning July 1, 2011, and an additional annual premium increase of 5.3% for the fiscal year beginning July 1, 2012. HB 578 (Ratified) did not change the effective date for increased employer contributions. The table below reflects the allocation of appropriated funds by fund source:

**Additional Employer Contributions**
**Appropriated Funds**

| Fund Source | FY 2011-12 | FY 2012-13 | Biennium |
|---|---|---|---|
| General Fund | $7,119,541 | $102,151,104 | $109,270,645 |
| Highway Fund | $332,245 | $4,767,052 | $5,099,297 |
| Other Funds | $1,468,770 | $21,073,896 | $22,542,666 |
| Total | $8,920,556 | $127,992,052 | $136,912,608 |

**Employee Funds**

Section 1.2(a) of SB 323 (Ratified) establishes new monthly contribution rates for active employees in the Basic 70/30 plan and the Standard 80/20 plan options, and for retired employees enrolled in the Standard 80/20 plan. There is no monthly contribution required for retired employees enrolled in the Basic 70/30 plan option. A summary of the most common estimated monthly contribution rates are reflected below:

**Employee & Retired Employee Contribution Rates for Own Coverage**

| | FY 2011-12 | | FY 2012-13 | |
|---|---|---|---|---|
| | Basic 70/30 | Standard 80/20 | Basic 70/30 | Standard 80/20 |
| Employeee Contribution | | | | |
| Non-Medicare Eligible | | | | |
| Medicare Secondary | $10.81 | $21.63 | $11.38 | $22.77 |
| Medicare Primary | $5.00 | $10.00 | $5.27 | $10.53 |
| Retiree Contribution | | | | |
| Non-Medicare Eligible | $0.00 | $21.63 | $0.00 | $22.77 |
| Medicare Eligible | $0.00 | $10.00 | $0.00 | $10.53 |

However, Section 1(a) and 1(b) of HB 578 (Ratified) provides the Plan with authorization to reduce to zero the monthly premium contribution rates for employee coverage in FY 2011-12 and FY 2012-13 provided certain conditions are met. The amounts below assume that the Plan will offer the Basic 70/30 plan with no premium contribution in either year.

Section 1.2(b) of SB 323 (Ratified) authorizes an annual 5.3% premium increase in contributory premium rates for dependent coverage for the fiscal year beginning July 1, 2011, and an additional annual premium increase of 5.3% for the fiscal year beginning July 1, 2012. Section 2 of HB 578 (Ratified) delays the effective date of the premium contribution rate increase to September 1, 2011 for FY 2011-12. For purposes of estimating additional premium contributions collected by the Plan in FY 2011-12, the estimated amounts below are assumed to be collected over a delayed 10-month period rather than a full 12-month plan year:

**Additional Member Contributions**

| Coverage Category | FY 2011-12 | FY 2012-13 | Biennium |
|---|---|---|---|
| Contributions for Employee Coverage | $57,405,761 | $71,818,378 | $129,224,139 |
| Contributions for Retiree Coverage | $17,858,739 | $22,788,680 | $40,647,419 |
| Contributions for Dependent Coverage | $13,066,442 | $41,685,531 | $54,751,973 |
| Total | $88,330,942 | $136,292,589 | $224,623,531 |

**Total Increased Premium Contributions From Appropriated and Employee Funds**

The table below reflects the total additional premium contributions projected to be received by the Plan over the 2011-13 biennium as a result of the authorized premium rate increase:

**Total Additonal Premium Contributions From Appropriated and Employee/Retiree Paid Funds**

| Fund Source | FY 2011-12 | FY 2012-13 | Biennium |
|---|---|---|---|
| Appropriated | | | |
| General Fund | $7,119,541 | $102,151,104 | $109,270,645 |
| Highway Fund | $332,245 | $4,767,052 | $5,099,297 |
| Other Funds | $1,468,770 | $21,073,896 | $22,542,666 |
| Sub-total | $8,920,556 | $127,992,052 | $136,912,608 |
| Member Contributions | | | |
| Contributions for Employee Coverage | $57,405,761 | $71,818,378 | $129,224,139 |
| Contributions for Retiree Coverage | $17,858,739 | $22,788,680 | $40,647,419 |
| Contributions for Dependent Coverage | $13,066,442 | $41,685,531 | $54,751,973 |
| Sub-total | $88,330,942 | $136,292,589 | $224,623,531 |
| Total | $97,251,498 | $264,284,641 | $361,536,139 |

**Financial Savings for the 2011-13 Biennium**

Per the requirements of Senate Rule 42.2, House Rule 36.2, and G.S. 120-114 actuarial analyses have been prepared with respect to the bill's authorized increases in plan member out-of-pocket requirements and other changes that are estimated to affect the financial condition of the Plan. A summary of the authorized changes are described below including the estimated actuarial impact of these changes.

Sections 1.3(a)(1), (a)(2) and (b) of Senate Bill 323 (Ratified) authorize various increases in plan member out-of-pocket requirements to include increased annual deductibles and annual co-insurance maximums, increased office visit co-pays and increased outpatient prescription drug co-pays. Section 2 of HB 578 (Ratified) delays the effective date of the increased out-of-pocket amounts to September 1, 2011. Therefore, the financial savings to be generated by increasing current out-of-pocket limits are assumed over a delayed 10-month period for FY 2011-12 instead of a full 12-month plan year.

The in-network out-of-pocket changes for medical and pharmacy benefit related services are summarized in the table below:

| | **Basic 70/30** | | **Standard 80/20** | |
|---|---|---|---|---|
| | Current | New | Current | New |
| **Medical Benefits** | | | | |
| Plan Member Co-pays (per visit) | | | | |
| Primary Care | $30 | $35 | $25 | $30 |
| Mid-Tier | $55 | $64 | $45 | $52 |
| Specialty Care | $70 | $81 | $60 | $70 |
| Urgent Care | $75 | $87 | $75 | $87 |
| Inpatient Hospital | $250 | $291 | $200 | $233 |
| Emergency Room | $250 | $291 | $200 | $233 |
| Annual Deductible (Individual) | | | | |
| In-network | $800 | $933 | $600 | $700 |
| Out-of-network | $1,600 | $1,866 | $1,200 | $1,400 |
| Coinsurance Maximum (Individual) | | | | |
| In-network | $3,250 | $3,793 | $2,750 | $3,210 |
| Out-of-network | $6,500 | $7,586 | $5,500 | $6,420 |
| **Pharmacy Benefits** | | | | |
| Generic (copay) | $10 | $12 | $10 | $12 |
| Preferred Brand (copay) | $35 | $40 | $35 | $40 |
| Non-preferred Brand (copay) | $55 | $64 | $55 | $64 |

Aon Consulting, the consulting actuary for the State Health Plan for Teachers and State Employees, estimates that implementation of the benefit changes included in the bill will yield the following projected savings:

**Aon Consulting**
**Projected Financial Savings**
**Increasing Out-of-Pocket Limits**

| Category | FY 2011-12 | FY 2012-13 | Biennium |
|---|---|---|---|
| Medical Benefits | $36,381,527 | $48,670,257 | $85,051,784 |
| Pharmacy Benefits | $19,923,309 | $27,574,933 | $47,498,242 |
| Total | $56,304,836 | $76,245,190 | $132,550,026 |

Hartman & Associates, the consulting actuary for the General Assembly's Fiscal Research Division, estimates that implementation of the benefit changes included in the bill will yield the following projected savings:

**Hartman & Associates**
**Projected Financial Savings**
**Increasing Out-of-Pocket Limits**

| Category | FY 2011-12 | FY 2012-13 | Biennium |
|---|---|---|---|
| Medical Benefits | $38,782,051 | $52,400,552 | $91,182,603 |
| Pharmacy Benefits | $18,144,189 | $22,277,574 | $40,421,763 |
| Total | $56,926,240 | $74,678,126 | $131,604,366 |

Provided below is a comparison table reflecting the specific results of each consulting actuary by the type of benefit and provider change included in the bill:

**Total Projected Financial Savings From Increasing Out-of-Pocket Limits (By Type)**

| | Aon Consulting (Plan) | | | Hartman & Assoc. (General Assembly) | | |
|---|---|---|---|---|---|---|
| **Category** | **FY 2011-12** | **FY 2012-13** | **Biennium** | **FY 2011-12** | **FY 2012-13** | **Biennium** |
| **Medical Benefits** | | | | | | |
| Primary Care Co-pay (Increase) | $5,541,767 | $7,454,181 | $12,995,948 | $5,687,460 | $8,009,992 | $13,697,452 |
| Mid-tier Specialty Co-pay (Increase) | $2,391,270 | $3,216,476 | $5,607,746 | $2,378,186 | $3,349,342 | $5,727,528 |
| Specialist Co-pay (Increase) | $6,586,243 | $8,859,097 | $15,445,340 | $6,514,216 | $9,375,444 | $15,889,660 |
| Urgent Care Co-pay (Increase) | $377,288 | $507,488 | $884,776 | $396,881 | $563,851 | $960,732 |
| Inpatient Co-pay (Increase) | $1,101,651 | $1,481,822 | $2,583,473 | $1,174,733 | $1,654,448 | $2,829,181 |
| Emergency Room Co-pay (Increase) | $1,835,861 | $2,469,400 | $4,305,261 | $1,878,231 | $2,645,226 | $2,726,939 |
| Deductible and Coinsurance Max (Increase) | $18,547,447 | $24,681,793 | $43,229,240 | $20,752,344 | $26,802,249 | $47,554,593 |
| Sub-total | $36,381,527 | $48,670,257 | $85,051,784 | $38,782,051 | $52,400,552 | $91,182,603 |
| **Outpatient Prescription Drugs (acute drugs)** | | | | | | |
| Generic Drug Co-pay (Increase) | $5,504,247 | $7,576,117 | $13,080,364 | $5,885,447 | $7,626,400 | $13,511,847 |
| Brand Drug Co-pay (Increase) | $9,100,922 | $12,523,397 | $21,624,319 | $6,910,060 | $8,258,637 | $15,168,697 |
| Non-Preferred Brand Drug Co-pay (Increase) | $5,318,140 | $7,475,419 | $12,793,559 | $5,348,682 | $6,392,537 | $11,741,219 |
| Sub-total | $19,923,309 | $27,574,933 | $47,498,242 | $18,144,189 | $22,277,574 | $40,421,763 |
| Grand Total | $56,304,836 | $76,245,190 | $132,550,026 | $56,926,240 | $74,678,126 | $131,604,366 |

## Other Changes Affecting the Plan

Section 1.5 of Senate Bill 323 (Ratified) repeals the "Comprehensive Wellness Initiative" authorized originally under Session Law 2009-16. The Plan's consulting actuary has incorporated the increased financial cost of the program's repeal into the overall actuarial cost projection for the changes proposed in the bill, by assuming approximately 95% of employee or retiree contracts, that involve a plan member who is a tobacco-user and currently enrolled in the Basic 70/30 plan per the requirement of the Comprehensive Wellness Initiative, will migrate back to the Standard 80/20 plan in the absence of the requirement.

Section 2 of HB 578 (Ratified) delays the repeal of the Comprehensive Wellness Initiative to September 1, 2011. For purposes of projecting the additional financial cost to the Plan from repealing the Comprehensive Wellness Initiative, it was assumed that the program would remain in effect until August 31, 2011. Thereafter the program is assumed to be repealed for purposes of estimating financial impact. The Plan's consulting actuary estimates by fiscal year the increased financial impact to the Plan for the 2011-13 biennium:

| | **FY 2011-12** | **FY 2012-13** | **Biennium** |
|---|---|---|---|
| Repeal Comprehensive Wellness Initiative | $14.4M | $26.0M | $40.4M |

Section 1.6 of Senate Bill 323 (Ratified) amends current statutory language under G.S. 135-45 to allow implementation of monthly premium contribution rates to be paid by employees and certain retired employees for their own coverage under the Plan. Section 2 of HB 578 (Ratified) delays the implementation of monthly contribution rates to be paid by employees and certain retired employees for their own coverage to September 1, 2011.

Section 1.7 of SB 323 (Ratified) amends G.S. 135-45.1 to conform to requirements under the federal Affordable Care Act requiring coverage to be offered to dependent children to age 26 without requiring the dependent to be a full-time student. Sections 2(d) and 3 of the HB 578 (Ratified) amended Section 1.7 of SB 323 (Ratified) generally to make various technical and clarifying changes.

Section 1.8 is a boilerplate provision used to set specific employer contribution amounts paid by State agencies and departments, universities, local public schools, and local community colleges to fund health benefit coverage for employees, and percentage-based payroll contributions paid to the Retiree Health Benefit Fund to finance premiums paid by the Retirement Systems Division of the Department of State Treasurer on behalf of retired employees. The HB 578 (Ratified) did not amend or change the effective date of Section 1.8 of SB 323 (Ratified).

**Annual Employer Contributions**

| | Basic 70/30 | | Standard 80/20 | |
|---|---|---|---|---|
| I. Employees & Retirees | FY 2011-12 | FY 2012-13 | FY 2011-12 | FY 2012-13 |
| Employees | $4,931 | $5,192 | $4,931 | $5,192 |
| Non-Medicare Retiree | $4,931 | $5,192 | $4,931 | $5,192 |
| Medicare Retiree | $3,832 | $4,035 | $3,832 | $4,035 |
| II. Retiree Health Benefit Fund | FY 2011-12 | FY 2012-13 | | |
| Payroll Contribution Rate | 5.0% | 5.3% | | |

Section 1.9 amends G.S. 135-45(b) to make the protection of trade secrets in State Health Plan contracts consistent with the general trade secret protection for all public agency contracts. HB 578 (Ratified) did not amend Section 1.7 of SB 323 (Ratified).

Section 1.10(a) of Senate Bill 323 (Ratified) amends G.S. 135-44.4(18) to allow the Plan to authorize benefit coverage or payment of claims on behalf of a plan member that have been denied as a result of administrative errors or system issues. HB 578 (Ratified) did not amend Section 1.10(a) of SB 323 (Ratified).

Section 1.10(b) of Senate Bill 323 (Ratified) makes the amended change effective July 1, 2010. HB 578 (Ratified) did not amend Section 1.10(b) of SB 323 (Ratified).

Section 1.10(c) of Senate Bill 323 (Ratified) amends G.S. 135-45.1(15) to require Health Benefits Representatives to enroll employees and dependents in accordance with the Plan's eligibility requirements. HB 578 (Ratified) did not amend Section 1.10(c) of SB 323 (Ratified).

Section 2 of SB 323 (Ratified) (Part II), which transfers the Plan to the Department of State Treasurer, and provides the State Treasurer with broad authority over the Plan, is not estimated to have any financial impact on the Plan. HB 578 (Ratified) makes various clarifying and technical changes to Part II of SB 323 (Ratified), however, none of these changes are expected to have a financial impact on the Plan for the 2011-13 biennium.

**Reconciliation of Plan's Projected Financial Requirements for the 2011-13 Biennium**

For the new biennium beginning July 1, 2011 the Plan is estimated to require over $515.5 million in additional financial support to remain solvent and maintain current benefit levels and minimum claim stabilization reserves. This estimate assumes the Plan will experience a 9.5% per capita claims trend, continued implementation of the Comprehensive Wellness Initiative, extending coverage to dependent

children to age 26 per the requirements of the federal Affordable Care Act, receiving $25.6 million in Early Retiree Reinsurance Program as authorized by the federal Affordable Care Act, maintaining "grandfather" status per the federal Affordable Care Act, achieving an additional $151 million in pharmacy cost savings over the biennium through a new pharmacy benefit management contract effective October 1, 2011, and implementing an estimated 6.3% premium increase on July 1, 2011 and again on July 1, 2012.

The bill addresses the projected shortfall described above by authorizing the following changes:

1. Authorizing a 5.3% annual premium increase on July 1 of each fiscal year of the biennium for total premium contribution rates; the employer contributions will be effective July 1, 2011, and all other premium contribution rates paid by employees and retirees will increase or become effective September 1, 2011;

2. Increasing plan member out-of-pocket requirements for certain medical and prescription drug benefits; the changes to out-of-pocket limits will be effective September 1, 2011; and

3. Establishing new monthly contribution rates for active employees in the Basic 70/30 plan and the Standard 80/20 plan options and for retired employees enrolled in the Standard 80/20 plan. There is no monthly contribution required for retired employees enrolled in the Basic 70/30 plan option.

4. Using available cash balances from the Plan's operating reserves.

A financial summary table provided below provides a projected reconciliation of the financial related changes authorized under the bill assuming the Plan's consulting actuary's estimate of projected financial need for the 2011-13 biennium, their projected financial savings due to benefit and other provider related changes, and their estimate of additional premium contributions:

**State Health Plan**

**Summary of Financial Changes[1,2]**

**Senate Bill 323 (Ratified) as Amended by HB 578 (Ratified)**

($ Million)

| | FY 2011-12 | FY 2012-13 | Biennium |
|---|---|---|---|
| 1) Projected Financial Support Required | $168.8 | $346.7 | $515.5 |
| 2) Benefit Reductions (Changes in Out-of-Pocket Amounts) Effective July 1, 2011 | | | |
| Medical | | | |
| Primary Care Co-pay (Increase) | ($5.5) | ($7.5) | ($13.0) |
| Mid-tier Specialist Co-pay (Increase) | ($2.4) | ($3.2) | ($5.6) |
| Specialist Co-pay (Increase) | ($6.6) | ($8.9) | ($15.4) |
| Urgent Care Co-pay (Increase) | ($0.4) | ($0.5) | ($0.9) |
| Inpatient Co-pay (Increase) | ($1.1) | ($1.5) | ($2.6) |
| Emergency Room Co-pay (Increase) | ($1.8) | ($2.5) | ($4.3) |
| Deductible and Coinsurance Maximum (Increase) | ($18.5) | ($24.7) | ($43.2) |
| Sub-total | ($36.4) | ($48.7) | ($85.1) |
| Outpatient Acute and Specialty Prescription Drugs | | | |
| Generic Drug Co-pay (Increase) | ($6.6) | ($7.6) | ($14.2) |
| Brand Drug Co-pay (Increase) | ($9.1) | ($12.5) | ($21.6) |
| Non-Preferred Brand Drug Co-pay (Increase) | ($5.3) | ($7.5) | ($12.8) |
| Sub-total | ($21.0) | ($27.6) | ($48.6) |
| Total -- Benefit Reductions | ($57.4) | ($76.3) | ($133.7) |
| 3) Appropriations by the General Assembly | | | |
| Premium increase for Employing Agencies | | | |
| General Fund | ($7.1) | ($102.2) | ($109.3) |
| Highway Fund | ($0.3) | ($4.8) | ($5.1) |
| Other Employer Funds | ($1.5) | ($21.1) | ($22.5) |
| Total Additional Employer Funds | ($8.9) | ($128.0) | ($136.9) |
| 4) Premium increases paid by Employees and Retirees | | | |
| Paid for Employee's Own Coverage | ($57.4) | ($71.8) | ($129.2) |
| Paid for Retiree's Own Coverage | ($17.9) | ($22.8) | ($40.6) |
| Paid for Spouses and Dependent Children | ($13.1) | ($41.7) | ($54.8) |
| Total Employee Additional Funds | ($88.3) | ($136.3) | ($224.6) |
| 5) Net Financial Effect of Member Migration Between Plan Options | $6.2 | $19.6 | $25.8 |
| 6) Balance | $20.3 | $25.7 | $46.1 |

Notes:

[1] The $46.1 million balance remaining at the end of the biennium (see Item 6) is a product of rounding error and a difference in projected ending cash balances between baseline financial projections and final projections after the authorized premium increases, benefit changes, and other program changes. An estimated $28.3 million of this remaining balance is attributable to the delayed effective date (September 1, 2011) of applying higher out-of-pocket limits on plan members and beginning to charge of premium contributions to employees and certain retired

employees in FY 2011-12. An additional $13.0 million of the total is based on an assumption that the Plan will offer non-contributory coverage to employees in the Basic 70/30 plan in FY 2011-12 and FY 2012-13. Year-to date operating results for the Plan through March 30, 2011, adjusting for one-time gains of certain financial transaction that increase Plan receipts in the current plan year, indicate the Plan's cash balance is $102 million greater than expected as noted in the Plan's August 31, 2010 Authorized Budget. According to the Plan's Executive Administrator on May 17, 2011, by the end of the plan year on June 30, 2011, the Plan's ending cash balance is expected to be $50 million higher than originally estimated.

[2]The $25.8 million in financial costs to the Plan (see Item 5) reflects mostly the predicted effect of certain plan members currently enrolled in the Basic 70/30 plan migrating back to the Standard 80/20 plan to receive lower out-of-pocket requirements. This assumption is due to the repeal of the requirement under the current Comprehensive Wellness Initiative for a plan member to enroll in the Basic 70/30 plan if that plan member is a tobacco-user who declines to participate in tobacco use cessation programs to maintain eligibility for the Standard 80/20 plan.

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**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.

Premium contributions rates and estimates of aggregate collections, projected claims expenditures, estimated administrative expenditures, projections of enrollment migration between the Basic 70/30 plan and the Standard 80/20 plan, effects due to the repeal of the Comprehensive Wellness initiative, and other financial impacts on the Plan were estimated by the Plan's consulting actuary for the purposes of this Legislative Actuarial Note.

**General Assumption Highlights**

The following items represent key assumptions used with respect to predicting the Plan's financial requirements for the 2011-13 biennium:

1. The Plan will maintain "grandfather' status under the federal Affordable Care Act. To maintain grandfather status under the federal guidelines, premium contributions for an employee or retired employee's own coverage cannot exceed 5% of the premium cost. In addition, the out-of-pocket limits cannot increase by more than 15% plus the rate of medical inflation in FY 2011-12, and by the rate of medical inflation in FY 2012-13. For the purposes increasing out-of-pocket limits in the bill, FY 2011-12, the rate of increase was 16.7% which is calculated by using a medical inflation rate of 1.7% plus the aforementioned 15% one-time adjustment. There was no adjustment made for the FY 2012-13.
2. The Plan will achieve $151 million in additional savings over the 2011-13 biennium on pharmacy related claims and administrative costs over current costs. These savings are estimated due to the implementation of a new pharmacy benefit management contract effective October 1, 2011.
3. The Plan will incur projected additional costs of $15.6 million in FY 2011-12 and $17.0 million in FY 2012-13 to provide dependent coverage to age 26 per the requirements of the federal Affordable Care Act.
4. The Plan will collect $45.1 million in FY 2010-11, and $25.6 million in FY 2011-12 in Early Retiree Reinsurance Program funds authorized under the federal Affordable Care Act.
5. Approximately 95% of employee or retiree contracts, that involve a plan member who is a tobacco-user and currently enrolled in the Basic 70/30 plan per the requirement of the Comprehensive Wellness Initiative, will migrate back to the Standard 80/20 plan in the absence of the requirement. An estimated 25% of Non-Medicare retiree only contracts and 20% of Medicare-eligible retiree only contracts in the Standard 80/20 plan are expected to migrate to the Basic 70/30 plan to avoid paying a monthly premium contribution charged to retired employees in the Standard 80/20 plan. It

is estimated that 25% of employee only contracts and 5% of contracts covering dependents in the Standard 80/20 plan will migrate to the Basic 70/30 plan to reduce their amount of monthly premium contribution paid. It is generally assumed that plan members will migrate to the plan option that will most benefit them economically based on their relative need for medical services.

**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.

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 requirements for the Plan are estimated to be $2.90 billion for FY 2011-12 and $3.08 billion for FY 2012-13. 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.

The following table provides a summary of most monthly premium rates for the Plan in FY 2010-11:

| | Basic 70/30 | | Standard 80/20 | |
|---|---|---|---|---|
| Coverage Type | Employee/ Retiree | Employer | Employee/ Retiree | Employer |
| Non-Medicare Active Employee/Retiree | | | | |
| Employee | $0.00 | $410.80 | $0.00 | $410.80 |
| Employee + Child(ren) | $178.68 | $410.80 | $237.62 | $410.80 |
| Employee + Spouse | $460.36 | $410.80 | $547.48 | $410.80 |
| Employee + Family | $490.34 | $410.80 | $580.44 | $410.80 |
| Medicare Primary for Only Employee/Retiree | | | | |
| Employee | $0.00 | $312.76 | $0.00 | $312.76 |
| Employee + Child(ren) | $187.60 | $312.76 | $237.62 | $312.76 |
| Employee + Spouse | $469.28 | $312.76 | $547.48 | $312.76 |
| Employee + Family | $499.26 | $312.76 | $580.44 | $312.76 |

The employer share of premiums for retirees is paid from the Retiree Health Benefit Fund. During FY 2010-11, employers contribute 4.9% of active employee payroll into the Fund. Total contributions for the year are projected to be approximately $721 million.

**Financial Condition**

**Current and Projected Results for 2009-11 Biennium –** The following summarizes actual financial results for FY 2009-10 and projected financial results for FY 2010-11, based on financial experience through December, 2010.

| | ($ millions) | |
|---|---|---|
| | Actual FY 2009-10 | Projected FY 2010-11 |
| Beginning Cash Balance | $189.9 | $121.5 |
| Receipts: | | |
| Net Premium Collections | $2,412.6 | $2,677.4 |
| Early Retirement Reinsurance Program | $0.0 | $45.0 |
| Medicare Part D Subsidies | $74.4 | $60.5 |
| Investment Earnings | $3.5 | $2.4 |
| Total | $2,490.5 | $2,785.3 |
| Disbursements: | | |
| Net Medical Claim Payment Expenses | $1,797.5 | $1,860.5 |
| Net Pharmacy Claim Payment Expenses | $596.7 | $647.7 |
| Administration and Claims-Processing Expenses | $164.6 | $171.7 |
| Total | $2,558.9 | $2,679.9 |
| Net Operating Income (Loss) | ($68.4) | $105.4 |

**Financial Projection 2011-13 Biennium –** The following summarizes a financial projection conducted by the Plan's consulting actuary, Aon Consulting, for the 2011-13 biennium. The information is provided by fiscal year based on year-to-date financial experience (through December 2010) and other updated factors. The projection assumes a 9.5% annual claims growth trend, that benefit provisions remain the same, and that both employer and member-paid premiums are increased by 6.3% effective July 1, 2011 and July 1, 2012.

| | ($ millions) | |
|---|---|---|
| | Projected FY 2011-12 | Projected FY 2012-13 |
| Beginning Cash Balance | $226.8 | $239.0 |
| Receipts: | | |
| Net Premium Collections | $2,829.0 | $2,995.2 |
| Early Retirement Reinsurance Program | $25.6 | $0.0 |
| Medicare Part D Subsidies | $60.1 | $62.6 |
| Investment Earnings | $2.3 | $2.5 |
| Total | $2,917.0 | $3,060.3 |
| Disbursements: | | |
| Net Medical Claim Payment Expenses | $2,065.1 | $2,199.0 |
| Net Pharmacy Claim Payment Expenses | $659.2 | $699.4 |

| | | |
|---|---|---|
| Administration and Claims-Processing Expenses | $180.5 | $183.6 |
| Total | $2,904.8 | $3,082.0 |
| Net Operating Income (Loss) | $12.2 | ($21.7) |

This projection incorporates $151 million in projected savings over the biennium from a new Pharmacy Benefit Manager (PBM) contract to be effective October 1, 2011. It assumes that the Plan maintains "grandfathered" status under the federal Affordable Care Act (ACA). It assumes the Plan experiences an increase of $33 million in claims over the biennium due to requirements in the ACA to cover additional dependents.

**Other Information**

In the 2009-11 biennium, the annual premium increases were applied at the beginning of each fiscal year of the biennium. Historically, the Plan had applied a premium increase in October of the first fiscal year of a 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 9.5% annually according to the Plan's consulting actuary. Investment earnings are based upon a 1.0% return on available cash balances. The active population is projected to decline by 1% per year, the COBRA population is projected to remain constant, and the retired population is projected to increase by 1% per year.

**Enrollment by Category Type**

**State Health Plan Enrollment as of December 31, 2010**

| I. No. of Participants | Basic | Standard | Total | Percent of Total |
|---|---|---|---|---|
| Actives | | | | |
| Employees | 65,849 | 256,468 | 322,317 | 48.6% |
| Dependents | 50,588 | 105,759 | 156,347 | 23.6% |
| Sub-total | 116,437 | 362,227 | 478,664 | 72.2% |
| Retired | | | | |
| Employees | 16,429 | 143,764 | 160,193 | 24.2% |
| Dependents | 4,352 | 14,173 | 18,525 | 2.8% |
| Sub-total | 20,781 | 157,937 | 178,718 | 26.9% |
| Former Employees with Continuation Coverage | | | | |
| Employees | 1,014 | 1,237 | 2,251 | 0.3% |
| Dependents | 403 | 347 | 750 | 0.1% |
| Sub-total | 1,417 | 1,584 | 3,001 | 0.5% |
| Firefighters, Rescue Squad & National Guard | | | | |
| Employees | 2 | 3 | 5 | 0.0% |
| Dependents | 1 | 2 | 3 | 0.0% |
| Sub-total | 3 | 5 | 8 | 0.0% |
| Local Governments | | | | |
| Employees | 486 | 1,429 | 1,915 | 0.3% |
| Dependents | 303 | 629 | 932 | 0.1% |
| Sub-total | 789 | 2,058 | 2,847 | 0.4% |
| Total | | | | |
| Employees | 83,780 | 402,901 | 486,681 | 73.4% |
| Dependents | 55,647 | 120,910 | 176,557 | 26.6% |
| **Grand Total** | **139,427** | **523,811** | **663,238** | **100%** |
| **Percent of Total** | **21.0%** | **79.0%** | **100.0%** | |

| II. Enrollment by Contract | Basic | Standard | Total |
|---|---|---|---|
| Employee Only | 55,472 | 335,154 | 390,626 |
| Employee Child(ren) | 13,817 | 36,176 | 49,993 |
| Employee Spouse | 5,719 | 17,462 | 23,181 |
| Employee Family | 8,772 | 14,109 | 22,881 |
| **Total** | **83,780** | **402,901** | **486,681** |

| Percent Enrollment by Contract | Basic | Standard | Total |
|---|---|---|---|
| Employee Only | 66.2% | 83.2% | 80.3% |
| Employee Child(ren) | 16.5% | 9.0% | 10.3% |
| Employee Spouse | 6.8% | 4.3% | 4.8% |
| Employee Family | 10.5% | 3.5% | 4.7% |
| **Total** | **100.0%** | **100.0%** | **100.0%** |

| III. Enrollment by Sex | Basic | Standard | Total |
|---|---|---|---|
| Female | 75,627 | 338,703 | 414,330 |
| Male | 63,800 | 185,108 | 248,908 |
| **Total** | **139,427** | **523,811** | **663,238** |

| Percent Enrollment by Sex | Basic | Standard | Total |
|---|---|---|---|
| Female | 54.2% | 64.7% | 62.5% |
| Male | 45.8% | 35.3% | 37.5% |
| **Total** | **100.0%** | **100.0%** | **100.0%** |

| IV. Enrollment by Age | Basic | Standard | Total |
|---|---|---|---|
| 19 & Under | 35,455 | 74,859 | 110,314 |
| 20 to 29 | 12,915 | 46,222 | 59,137 |
| 30 to 44 | 31,582 | 98,133 | 129,715 |
| 45 to 54 | 27,089 | 85,600 | 112,689 |
| 55 to 64 | 29,854 | 106,470 | 136,324 |
| 65 & Over | 2,532 | 112,527 | 115,059 |
| **Total** | **139,427** | **523,811** | **663,238** |

| Percent Enrollment by Age | Basic | Standard | Total |
|---|---|---|---|
| 19 & Under | 25.4% | 14.3% | 16.6% |
| 20 to 29 | 9.3% | 8.8% | 8.9% |
| 30 to 44 | 22.7% | 18.7% | 19.6% |
| 45 to 54 | 19.4% | 16.3% | 17.0% |
| 55 to 64 | 21.4% | 20.3% | 20.6% |
| 65 & Over | 1.8% | 21.5% | 17.3% |
| **Total** | **100.0%** | **100.0%** | **100.0%** |

| V. Retiree Enrollment by Category | Employee | Dependents | Total |
|---|---|---|---|
| Non-Medicare Eligible | 53,034 | 11,292 | 64,326 |
| Medicare Eligible | 107,159 | 7,233 | 114,392 |
| **Total** | **160,193** | **18,525** | 178,718 |

| Percent Enrollment by Category (Retiree) | Employee | Dependents | Total |
|---|---|---|---|
| Non-Medicare Eligible | 33.1% | 61.0% | 36.0% |
| Medicare Eligible | 66.9% | 39.0% | 64.0% |
| **Total** | **100.0%** | **100.0%** | 100.0% |

| VI. Enrollment By Major Employer Groups | Employees | Dependents | Total |
|---|---|---|---|
| State Agencies | 75,779 | 33,151 | 108,930 |
| UNC System | 50,357 | 29,457 | 79,814 |
| Local Public Schools | 180,864 | 86,046 | 266,910 |
| Local Community Colleges | 15,317 | 7,693 | 23,010 |
| Other | | | |
| Local Goverments | 1,915 | 932 | 2,847 |
| COBRA | 2,251 | 750 | 3,001 |
| Nat. Guard, Fire & Rescue | 5 | 3 | 8 |
| Sub-total | 326,488 | 158,032 | 484,520 |
| Retirement System | 160,193 | 18,525 | 178,718 |
| **Total** | **486,681** | **176,557** | **663,238** |

| Percent Enrollment by Major Employer Groups | Employees | Dependents | Total |
|---|---|---|---|
| State Agencies | 15.6% | 18.8% | 16.4% |
| UNC System | 10.3% | 16.7% | 12.0% |
| Local Public Schools | 37.2% | 48.7% | 40.2% |
| Local Community Colleges | 3.1% | 4.4% | 3.5% |
| Other | | | |
| Local Goverments | 0.4% | 0.5% | 0.4% |
| COBRA | 0.5% | 0.4% | 0.5% |
| Nat. Guard, Fire & Rescue | 0.0% | 0.0% | 0.0% |
| Sub-total | 67.1% | 89.5% | 73.1% |
| Retirement System | 32.9% | 10.5% | 26.9% |
| **Total** | **100.0%** | **100.0%** | **100.0%** |

**SOURCES OF DATA:**

Aon Consulting, North Carolina State Health Plan, Financial Projections – January 2011, Total for All Plans – 9.5% Trend with Risk Adjustment, with PBM Contract Savings, February 4, 2011.

Aon Consulting, North Carolina State Health Plan, Financial Projections – January 2011 – 14b ($12 Generic), Total for All Plans – 9.5% Trend with Risk Adjustment, with Max GF Benefits except $12 Generic, with PBM Contract Savings, Additional Premium Charged to All Tiers – Active: 5% Std, 2.5% Basic; NMC Retiree 5% Std, 0% Basic; MC Retiree $10 Std, $0 Basic No CWI, Non-Smoker Movement: Active 5% single, 5% dep; NMC Retiree: 25% single, 5% dep; MC Retiree: 20% Single, 5% dep, April 26, 2011. [For Employer Contributions].

Aon Consulting, North Carolina State Health Plan, Financial Projections – January 2011 – 14b ($12 Generic – Start September – No Premium Increase for Late Start, Total for All Plans – 9.5% Trend with Risk Adjustment, with Max GF Benefits except $12 Generic, with PBM Contract Savings, Additional Premium Charged to All Tiers – Active: 5% Std, 2.5% Basic; NMC Retiree 5% Std, 0% Basic; MC Retiree $10 Std, $0 Basic No CWI, Non-Smoker Movement: Active 5% single, 5% dep; NMC Retiree: 25% single, 5% dep; MC Retiree: 20% Single, 5% dep, May 6, 2011.

Aon Consulting, North Carolina State Health Plan, Financial Projections – January 2011 – 14b ($12 Generic – Start September – No Premium Increase for Late Start, Total for All Plans – 9.5% Trend with Risk Adjustment, with Max GF Benefits except $12 Generic, with PBM Contract Savings, Additional Premium Charged to All Tiers – Active: 5% Std, 0% Basic; NMC Retiree 5% Std, 0% Basic; MC Retiree $10 Std, $0 Basic No CWI, Non-Smoker Movement: Active 25% single, 5% dep; NMC Retiree: 25% single, 5% dep; MC Retiree: 20% Single, 5% dep, May 17, 2011.

Medco Health Solutions, various outpatient acute, specialty, and maintenance drug data and discount assumptions, December 2010.

State Health Plan, various summarized claims reports for medical claims by category and purpose and time period, December 2010.

Various communications with the Plan's staff regarding year-to-date operating results and cash balances and operation issues regarding implementation of required benefit changes.

-Actuarial Note, Hartman & Associates, House Bill 578 PCS , "House Bill 578 Proposed Committee Substitute H578-PCS50340-ME-16: An Act to Make Additional Changes and Clarifications to the State Health Plan", May 17, 2011, original of which is on file in the General Assembly's Fiscal Research Division.

-Actuarial Note, Hartman & Associates, Senate Bill 323 PCS, "Senate Bill 323 Proposed Committee Substitute S323-PCCS55289-ME-1: An Act to Make Appropriations and Adjustments for the 2011-13 Biennium to the State Health Plan and to Transfer the Plan to the Office of State Treasurer", May 6, 2011, original of which is on file in the General Assembly's Fiscal Research Division.

-Actuarial Note, Aon Consulting, House Bill 578 PCS, "House Bill 578 Proposed Senate Committee Substitute H578-PCS50340-ME-16 State Health Plan/Additional Changes", May 17, 2011, original of which is on file with the State Health Plan for Teachers and State Employees and the General Assembly's Fiscal Research Division.

-Actuarial Note, Aon Consulting, Senate Bill 323 PCS, "Senate Bill 323 Proposed Committee Substitute S323-PCCS55289-ME-1 State Health Plan/Appropriations and Transfer", May 10, 2011, 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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**DATE:** May 23, 2011


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