



NORTH CAROLINA GENERAL ASSEMBLY

Session 2021

Legislative Actuarial Note

Health Benefits

Short Title: Enhance SHP Debt Collection Abilities.-AB
Bill Number: House Bill 176 (First Edition)
Sponsor(s): Representatives Lambeth, McNeill, and Hurley

SUMMARY TABLE

ACTUARIAL IMPACT OF H.B. 176, V.1 (\$ in thousands)

	<u>FY 2021-22</u>	<u>FY 2022-23</u>	<u>FY 2023-24</u>	<u>FY 2024-25</u>	<u>FY 2025-26</u>
State Impact					
State Health Plan Net Loss	(495)	(495)	(495)	(495)	(495)
NET STATE IMPACT	(495)	(495)	(495)	(495)	(495)

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.

ACTUARIAL IMPACT SUMMARY

Section 1: Allows the State Health Plan (Plan) to attach or garnish intangible property or wages of an individual who is no longer employed by an employing unit to whom the Plan has made an overpayment or erroneous payment or who owes an unpaid premium. The Segal Company, the consulting actuary for the Plan, estimates that this section will result in additional revenue to the Plan of \$425,000 per year. Hartman & Associates, the consulting actuary for the General Assembly, estimates that this section will result in recovery over the course of several years of some portion of the outstanding \$1.7 million owed to the Plan.

Section 2: Makes any claims processor for the Plan responsible for recovering any overpayments or erroneous payments made by the processor. It provides that the requirement to repay is not limited by time, quantity, or any other means or agreements with the provider. Any amounts not recovered within one year of the date the claim was paid are to be repaid by the claims processor, and no amounts due may be forgiven by a claims processor. The Segal Company estimates that this section will increase Plan revenues by \$70,000 per year and Hartman & Associates estimates this section will increase Plan revenues by \$55,000 per year.

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.

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 on 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 Humana, 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 2021:

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

	Employer Share	Employee/Retiree Share	
		Complete Tobacco Attestation	Do Not Complete Attestation
70/30 Plan	\$522	\$25 *	\$85 *
80/20 Plan	\$522	\$50	\$110

* \$0 for Non-Medicare Retirees

Medicare Retirees (if Fully Subsidized)

Medicare Advantage Plans

	Employer Share	Employee/Retiree Share
MA-PDP Base Plan	\$406	\$0
MA-PDP Enhanced Plan	\$406	\$73

Alternate Plan

	Employer Share	Employee/Retiree Share
Traditional 70/30 Plan	\$406	\$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	\$4	\$73	\$155
Employee/Retiree + Spouse	\$565	\$650	\$4	\$73	\$425
Employee/Retiree + Family	\$573	\$670	\$8	\$146	\$444

The employer share of premiums for retirees is paid from the Retiree Health Benefit Fund. During FY 2020-21, employers contribute 6.68% of active employee payroll into the Fund. Total contributions for the year are projected to be approximately \$1,200 million.

Financial Condition

Projected Results for CY 2021 and CY 2022 – The following summarizes projected financial results for 2021 and 2022, based on financial experience through September 2020. The projection assumes a 6.0% 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 2021, and 10% employer premium increases in 2022.

	(\$ millions)	
	Projected CY 2021	Projected CY 2022
Beginning Cash Balance	\$1,007.9	\$796.6
Receipts:		
Net Premium Collections	\$3,724.2	\$4,062.0
Medicare Subsidies	\$14.4	\$13.8
Investment Earnings	\$7.7	\$6.4
Total	\$3,746.3	\$4,082.2
Disbursements:		
Net Medical Claim Payment Expenses	\$2,880.0	\$3,036.3
Net Pharmacy Claim Payment Expenses	\$863.8	\$941.9
Medicare Advantage Premiums	\$18.7	\$19.8
Administration and Claims-Processing Expenses	\$195.2	\$162.3
Total	\$3,957.7	\$4,160.3
Net Operating Income (Loss)	(\$211.4)	(\$78.1)

Of the premiums paid in CY 2021, an estimated \$2.4 billion is derived from General Fund sources and an estimated \$0.1 billion is derived from Highway Fund sources.

Other Post Employment Benefit (OPEB) Liability

As of June 30, 2020, the State and related units of government had a Total OPEB Liability of \$29.8 billion and Plan Fiduciary Net Position (Assets) of \$2.1 billion, for a Net OPEB Liability of \$27.7 billion. Actual contributions for the year ending June 30 were \$1,163 million, far less than the actuarially determined contributions of \$2,824 million.

Other Information

Additional assumptions include Medicare benefit “carve-outs,” cost containment strategies including prior approval for certain medical services, utilization of the State Health Plan Network of providers, 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 6.0% annually in the long-term 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.

Both actuaries relied on data provided by the Plan showing outstanding debts owed by individuals no longer employed by employing units and the amount of provider debt written off in recent years.



Enrollment as of January 1, 2021

I. No. of Participants	70/30	80/20	Medicare Advantage	Total	Percent of Total
<u>Actives</u>					
Employees	114,204	188,749	-	302,953	40.6%
Dependents	<u>83,781</u>	<u>97,485</u>	<u>-</u>	<u>181,266</u>	<u>24.3%</u>
Sub-total	197,985	286,234	-	484,219	64.8%
<u>Retired</u>					
Employees	53,778	19,384	142,712	215,874	28.9%
Dependents	<u>8,266</u>	<u>4,801</u>	<u>15,191</u>	<u>28,258</u>	<u>3.8%</u>
Sub-total	62,044	24,185	157,903	244,132	32.7%
<u>Other</u>					
Employees	4,004	8,091	-	12,095	1.6%
Dependents	<u>2,778</u>	<u>3,753</u>	<u>-</u>	<u>6,531</u>	<u>0.9%</u>
Sub-total	6,782	11,844	-	18,626	2.5%
<u>Total</u>					
Employees	171,986	216,224	142,712	530,922	71.1%
Dependents	<u>94,825</u>	<u>106,039</u>	<u>15,191</u>	<u>216,055</u>	<u>28.9%</u>
Grand Total	266,811	322,263	157,903	746,977	100%
Percent of Total	35.7%	43.1%	21.1%	100.0%	
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II. Enrollment by Contract	70/30	80/20	MA	Total	
Employee Only	126,401	163,238	127,521	417,160	
Employee Child(ren)	28,083	35,025	211	63,319	
Employee Spouse	4,983	5,926	14,980	25,889	
Employee Family	<u>12,519</u>	<u>12,035</u>		<u>24,554</u>	
Total	171,986	216,224	142,712	530,922	
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Percent Enrollment by Contract	70/30	80/20	MA	Total	
Employee Only	73.5%	75.5%	89.4%	78.6%	
Employee Child(ren)	16.3%	16.2%	0.1%	11.9%	
Employee Spouse	2.9%	2.7%	10.5%	4.9%	
Employee Family	<u>7.3%</u>	<u>5.6%</u>	<u>0.0%</u>	<u>4.6%</u>	
Total	100.0%	100.0%	100.0%	100.0%	
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III. Enrollment by Sex	70/30	80/20	MA	Total	
Female	154,935	204,953	104,691	464,579	
Male	<u>111,876</u>	<u>117,310</u>	<u>53,212</u>	<u>282,398</u>	
Total	266,811	322,263	157,903	746,977	
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Percent Enrollment by Sex	70/30	80/20	MA	Total	
Female	58.1%	63.6%	66.3%	62.2%	
Male	<u>41.9%</u>	<u>36.4%</u>	<u>33.7%</u>	<u>37.8%</u>	
Total	100.0%	100.0%	100.0%	100.0%	



IV. Enrollment by Age	70/30	80/20	MA	Total
25 & Under	80,584	92,768	14	173,366
26 to 45	66,909	88,426	234	155,569
46 to 55	43,609	66,627	864	111,100
56 to 65	46,262	67,672	11,270	125,204
66 & Over	29,447	6,770	145,521	181,738
Total	266,811	322,263	157,903	746,977
Percent Enrollment by Age	70/30	80/20	MA	Total
25 & Under	30.2%	28.8%	0.0%	23.2%
26 to 45	25.1%	27.4%	0.1%	20.8%
46 to 55	16.3%	20.7%	0.5%	14.9%
56 to 65	17.3%	21.0%	7.1%	16.8%
66 & Over	11.0%	2.1%	92.2%	24.3%
Total	100.0%	100.0%	100.0%	100.0%
V. Retiree Enrollment by Category		Employee	Dependents	Total
Non-Medicare Eligible		42,231	12,328	54,559
Medicare Eligible in Traditional 70/30		30,931	739	31,670
Medicare Eligible in Base MA Plan		128,139	12,517	140,656
Medicare Eligible in Enhanced MA Plan		14,573	2,674	17,247
Total		215,874	28,258	244,132
Percent Enrollment by Category (Retiree)		Employee	Dependents	Total
Non-Medicare Eligible		19.6%	43.6%	22.3%
Medicare Eligible in Traditional 70/30		14.3%	2.6%	13.0%
Medicare Eligible in Base MA Plan		59.4%	44.3%	57.6%
Medicare Eligible in Enhanced MA Plan		6.8%	9.5%	7.1%
Total		100.0%	100.0%	100.0%
VI. Enrollment By Major Employer Groups		Employees	Dependents	Total
State Agencies		66,292	34,024	100,316
UNC System		55,031	37,485	92,516
Local Public Schools		161,032	96,498	257,530
Charter Schools (98 entities)		5,440	3,948	9,388
Local Community Colleges		15,158	9,311	24,469
Other				
Local Governments (128 entities)		11,284	5,839	17,123
COBRA		811	692	1,503
Retirement System		215,874	28,258	244,132
Total		530,922	216,055	746,977
Percent Enrollment by Major Employer Groups		Employees	Dependents	Total
State Agencies		12.5%	15.7%	13.4%
UNC System		10.4%	17.3%	12.4%
Local Public Schools		30.3%	44.7%	34.5%
Charter Schools		1.0%	1.8%	1.3%
Local Community Colleges		2.9%	4.3%	3.3%
Other				
Local Governments		2.1%	2.7%	2.3%
COBRA		0.2%	0.3%	0.2%
Retirement System		40.7%	13.1%	32.7%
Total		100.0%	100.0%	100.0%



TECHNICAL CONSIDERATIONS

N/A.

DATA SOURCES

The Segal Company; baseline financial projections updated through Q3 CY2020; dated December 9, 2020. Filename "CY20 Q3 - Baseline v2.pdf"

-Actuarial Note, Hartman & Associates, "House Bill 176/Senate Bill 160: Enhance SHP Debt Collection Abilities", March 3, 2021, original of which is on file in the General Assembly's Fiscal Research Division.

-Actuarial Note, The Segal Company, House Bill 176 / Senate Bill 160, "Enhance SHP Debt Collection Abilities.-AB", March 11, 2021, 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

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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