

**NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE ACTUARIAL NOTE**

BILL NUMBER: Senate Bill 1011

SHORT TITLE: State Employee Reduction in Force Rights/Options

SPONSOR(S): Senator Mark McDaniel

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

BILL SUMMARY: The bill provides employees of State departments and agencies continued coverage under Teachers' and State Employees' Comprehensive Major Medical Plan whenever they lose their jobs because of a reduction in force resulting from budgetary cuts. Employees would be provided non-contributory coverage for up to 12 months following notification of a job loss, which would be their period of priority reemployment. Fully contributory coverage for employees and their eligible dependents would be available thereafter without limitation.

EFFECTIVE DATE: July 1, 1995

ESTIMATED IMPACT ON STATE: The consulting actuary for the Teachers' and State Employees' Comprehensive Major Medical Plan, Alexander & Alexander Consulting Group, Inc., and the consulting actuary of the General Assembly's Fiscal Research Division, Dilts, Umstead & Dunn, both concur in that the bill will not measurably increase the costs to the Plan. The bill's only measurable cost would be the non-contributory premium cost to state departments and agencies employing employees subject to a reduction in force for continuing the Plan's coverage for the maximum period of time following separation from service. This premium cost would currently be \$144.60 per month.

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-insured indemnity type of program which covered all employees, retired employees, eligible dependents of employees and retired employees, and 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. 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 seven HMOs currently covering about 16% of the Plan's total population in about 70 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, 1994, include:

| Plan | Self-Insured Indemnity Program | Alternative HMOs | |
|--|-----------------------------------|---------------------|---------|
| <u>Total</u> | | | |
| <u>Number of Participants</u> | | | |
| Active Employees | 203,200 | 43,700 | 246,900 |
| Active Employee Dependents | 117,500 | 33,600 | 151,100 |
| Retired Employees | 78,500 | 3,300 | 81,800 |
| Retired Employee Dependents | 14,000 | 800 | 14,800 |
| Former Employees & Dependents with Continued Coverage | 2,600 | 400 | 3,000 |
| Total Enrollments | 415,800 | 81,800 | 497,600 |
| <u>Number of Contracts</u> | | | |
| Employee Only | 211,800 | 30,700 | 242,500 |
| Employee & Child(ren) | 32,800 | 10,200 | 43,500 |
| Employee & Family | 39,100 | 6,400 | 45,500 |
| Total Contracts | 283,700 | 47,300 | 331,000 |
| <u>Percentage of Enrollment by Age</u> | | | |
| 0-29 | 29.1% | 43.8% | 31.5% |
| 30-44 | 23.8 | 29.3 | 24.7 |
| 45-54 | 18.8 | 17.1 | 18.5 |
| 55-64 | 12.8 | 7.0 | 11.9 |
| 65+ | 15.5 | 2.8 | 13.4 |
| <u>Percentage of Enrollment by Sex</u> | | | |
| Male | 40.0% | 40.3% | 40.1% |
| Female | 60.0 | 59.7 | 59.9 |

Assumptions for the Self-Insured Indemnity Program: For the fiscal year beginning July, 1994, the self-insured program started its operations with a beginning cash balance of \$287.1 million. Receipts for the year are estimated to be \$597 million from premium collections, \$20 million from investment earnings, and \$6 million in risk selection and administrative fees from HMOs, for a total of \$623 million in receipts for the year. Disbursements from the self-insured program are expected to be \$545 million in claim payments and \$18 million in administration and claims processing for a total of \$563 million for the year beginning July, 1994. For the fiscal year beginning July, 1995, the self-insured indemnity program is anticipated to have an operating cash balance of over \$347 million with a net operating gain of \$60 million for the 1994-95 fiscal year. For the next few years, the self-insured indemnity program is 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 1997-98 or 1998-99 fiscal years. 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, and fraud detection) are maintained and improved where possible. Current non-contributory premiums 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 about 10% annually. Total enrollment in the program is expected to increase about one-half of one percent (0.5%) annually. Growth in the number of enrolled active employees is expected to be a little less than 1% annually, whereas the growth in the number of retired employees is assumed to be a little more than 4% per year. The program is expected to lose about 2% 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 6% 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.

SOURCES OF DATA:

- o Actuarial Note, Dilts, Umstead & Dunn, Senate Bill 1011, May 15, 1995, original of which is on file in the General Assembly's Fiscal Research Division.

- o Actuarial Note, Alexander & Alexander Consulting Group, Inc., Senate Bill 1011, May 18, 1995, 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

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Official



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