

**NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE ACTUARIAL NOTE**

BILL NUMBER: House Bill 822, Second Edition

SHORT TITLE Health Insurance Coverage/Early Intervention

SPONSOR(S): Reps. Alexander & Warren

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, premium payments for coverages selected by eligible former teachers and State employees and premium payments for coverages selected by firefighters, rescue squad workers, and members of the National Guard.

BILL SUMMARY: The bill requires the Teachers' and State Employees' Comprehensive Major Medical Plan to cover medically necessary early intervention services for eligible dependent children with disabilities enrolled in the Plan from birth to age 3. Coverage is up to \$5,000 annually and \$15,000 for the three-year period for each child covered. Services to be covered under the bill are those required for infants and toddlers under the federal Individuals with Disabilities Education Act (IDEA) and those required by rules promulgated under the Act by the Secretary of the North Carolina Department of Health and Human Services, provided the services are not otherwise covered by the Plan and are not services that are provided by Medicaid or any other public assistance program for which the child may be eligible. Children with disabilities include those who (1) are experiencing delays in cognitive development, physical development (including vision and hearing), communication development, social or emotion development, or adoptive development; or (2) have a diagnosed physical or mental condition that has a high probability of resulting in a developmental delay. Early intervention services include; (1) assistive technological services and devices, (2) audiology, (3) family training, counseling and home visits, (4) health services, (5) diagnostic and evaluation medical services, (6) nursing services, (7) nutrition services, (8) occupational therapy, (9) physical therapy, (10) psychological services, (11) service coordination, (12) social work services, (13) special instruction, (14) speech and language pathology, (15) transportation and related services, and, (16) vision services. Providers of services include audiologists, family therapists, nurses, nutritionists, occupational therapists, orientation and mobility specialists, pediatricians and other physicians, physical therapists, psychologists, social workers, special educators, and speech and language pathologists. Services are to be performed, to the maximum extent appropriate, in a child's natural environment, including the home and community settings in which children without disabilities participate.

EFFECTIVE DATE: January 1, 2004

ESTIMATED IMPACT ON STATE: Based upon information provided by the Plan and the North Carolina Department of Health and Human Services, Division of Medical Assistance, Aon Consulting, consulting actuary for the Plan, projects the cost of the bill to the Plan to be \$400,000 for fiscal year 2003-04 and \$1,400,000 for fiscal year 2004-05. Based upon the same information provided by the Plan and the Department of Health and Human Services, Division of Medical Assistance, Hartman & Associates,

consulting actuary for the General Assembly's Fiscal Research Division, estimates the cost of the bill to the Plan to be \$465,000 for fiscal year 2003-04 and \$1,565,000 for fiscal year 2004-05.

Both actuarial projections and estimates only affect dependent costs which are paid by employees and retired employees in the form of fully contributory premium amounts. Based upon the March 31, 2003, Plan enrollments and the Plan's premium rate schedule in effect for the year beginning July 1, 2002, the bill would cost employees and retired employees an additional monthly premium amount of \$0.62 to \$0.92 for employee and child(ren) contracts and \$1.50 to \$2.20 for employee and family contracts, effective October 1, 2003. The difference in the additional monthly premium rates is based upon whether or not Medicare is the primary payer of benefits and the slight difference between the actuarial estimates. Consequently, there would be no additional cost to the State for the Plan from enactment of the bill.

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 only had 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., \$350 annual deductible, 20% coinsurance up to \$1,500 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. Beginning in July 2000, firefighters, rescue squad workers, and members of the National Guard and their eligible dependents were allowed to voluntarily participate in the Plan on a fully contributory basis, provided they were ineligible for any other type of group health benefits and had been without such benefits for at least six months. 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, except for job-sharing public school teachers who are authorized partially contributory premiums at 50% of non-contributory rates. The Plan's Executive Administrator has set the premium rates for firefighters, rescue squad workers, and members of the National Guard and their families at 20% more than the comparable rates charged for employees, retired employees, and their families. 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; however, none of the HMOs with certificates of authority to transact business in North Carolina have offered to participate in the Plan since September 30, 2001. 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, 2002, include:

	<u>Self-Insured Indemnity Program</u>	<u>Alternative HMOs</u>	<u>Plan Total</u>
<u>Number of Participants</u>			
Active Employees	280,065	-0-	280,065
Active Employee Dependents	137,841	-0-	137,841
Retired Employees	117,225	-0-	117,225
Retired Employee Dependents	18,999	-0-	18,999
Former Employees & Dependents with Continued Coverage	2,535	-0-	2,535
Firefighters, Rescue Squad			

Workers, National Guard Members & Dependents	7	-0-	7
Total Enrollments	556,672	-0-	556,672

Number of Contracts

Employee Only	313,439	-0-	313,439
Employee & Child(ren)	40,978	-0-	40,978
Employee & Family	44,710	-0-	44,710
Total Contracts	399,127	-0-	399,127

Percentage of
Enrollment by Age

29 & Under	26.9%	-0-%	26.9%
30-44	20.9	-0-	20.9
45-54	20.9	-0-	20.9
55-64	16.2	-0-	16.2
65 & Over	15.1	-0-	15.1

Percentage of
Enrollment by Sex

Male	38.3%	-0-%	38.3%
Female	61.7	-0-	61.7

Assumptions for the Self-Insured Indemnity Program: For the fiscal year beginning July 1, 2002, the self-insured program started its operations with a beginning cash balance of \$91.6 million. Receipts for the year are estimated to be \$1.371 billion from premium collections and \$7 million from investment earnings for a total of \$1.378 billion in receipts for the year. Disbursements from the self-insured program are expected to be \$1.335 billion in claim payments and \$38 million in administration and claims processing expenses for a total of \$1.373 billion for the year beginning July 1, 2002. For the fiscal year beginning July 1, 2002, the self-insured indemnity program is expected to have a net operating gain of approximately \$5 million for the year. Without reserving an additional \$15 million for implementation of the claims data and privacy requirements of the federal Health Insurance Portability and Accountability Act (HIPPA) that take effect on and after April 14, 2003, the Plan's self-insured indemnity program is expected to have an available beginning cash balance of \$96 million for the fiscal year beginning July 1, 2003. The self-insured indemnity program is nonetheless assumed to be unable to carry out its operations for the 2003-2005 biennium without increases in its current premium rates or a reduction in existing benefits or payments to health care providers or both. This assumption is further predicated upon the fact that the program's cost containment strategies (hospital DRG reimbursements, discounts on hospital outpatient services, pre-admission hospital testing, pre-admission hospital inpatient certification with length-of-stay approval, hospital bill audits, case and disease management for selected medical conditions, mental health case management, coordination of benefits with other payers, Medicare benefit "carve-outs", cost reduction contracts with participating physicians and other providers, a prescription drug benefit manager with manufacturer rebates from formularies, and fraud detection) are maintained and improved where possible. Current non-contributory premium rates are \$186.04 monthly for employees whose primary payer of health benefits is Medicare and \$244.38 per month for employees whose primary payer of health benefits is not Medicare. Fully contributory premium amounts for employee and child(ren) contracts are \$115.78 monthly for children whose primary payer of health benefits is Medicare and \$152.32 monthly for other covered children, and \$277.68 per month for family contracts whose dependents have Medicare as the primary payer of health benefits and \$365.36 per month for other family contract dependents. Claim cost trends are expected to increase 12% annually. Total enrollment in the program is

expected to increase less than 1% annually over the next two years. The number of enrolled active employees is expected to show no increase over the next two years, whereas the growth in the number of retired employees is assumed to be 5% per year. The program is expected to have a 2% decrease in the number of active employee dependents per year whereas the number of retiree dependents is expected to increase 2% per year. Investment earnings are based upon a 4.5% 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 for Early Intervention Services: Data provided by the North Carolina Department of Health and Human Services, Division of Medical Assistance, indicates that an average of 11,549 children, age 0-3, were provided early intervention services by the State's Medicaid program for fiscal years 1999-2000, 2000-01, and for three-quarters of fiscal year 2001-02. This average number of children is 5-6% of the total number of children served by the program. During these same fiscal year periods, the Medicaid program spent the following amounts for early intervention services for children, age 0-3, which Blue Cross & Blue Shield of North Carolina, claims processor for the Teachers' and State Employees' Comprehensive Major Medical Plan, maintains would and would not be covered by the Plan.

Fiscal Year	Medicaid Expenditures	Expenditures Covered by Plan	Expenditures Not Covered by Plan
1999-2000	\$8,905,278	\$1,102,449	\$7,802,829
2000-01	\$9,689,455	\$2,496,072	\$7,193,383
2001-02 (9 Months)	\$12,540,438	\$2,627,889	\$9,912,549

The services and related expenditures that would not be covered by the Plan include those performed by local health departments, home health agencies, hospital outpatient departments, and local educational agencies in a group setting. Specific services include speech and language pathology, audiology, physical therapy, occupational therapy, and psychiatric and psychological services. On average, Medicaid reimbursement rates for professional providers are set at amounts not to exceed 95% of comparable Medicare rates.

The Teachers' and State Employees' Comprehensive Major Medical Plan has 13,149 children under the age of three years. The Plan's reimbursement rates for professional providers of health care services average about 155% of comparable Medicare rates.

SOURCES OF DATA:

- Actuarial Note, Hartman & Associates, House Bill 822, House Committee Substitute, May 8, 2003, original of which is on file in the General Assembly's Fiscal Research Division.
- Actuarial Note, Aon Consulting, House Bill 822, as Amended, May 8, 2003, 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.

FISCAL RESEARCH DIVISION: 733-4910

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DATE: May 9, 2003.



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