

# GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2017

## Legislative Actuarial Note Health Benefits

**BILL NUMBER:** Senate Bill 428 (First Edition)  
**SHORT TITLE:** Chiropractor Parity & Preceptorships.  
**SPONSOR(S):** Senator Hise

**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:

Section 1 of Senate Bill 428 (First Edition) amends G.S. 58-50-30(a3), establishing that an insurer cannot impose a copayment, as a limitation on treatment or level of coverage, for services rendered by a duly licensed chiropractor that is higher than a copayment imposed for services performed by a duly licensed primary care physician for a comparable, medically necessary treatment or condition.

The provisions of this section would apply to the Plan because G.S. 135-48.51 specifies that all the provisions of G.S. 58-50-30 apply to the Plan. The in-network co-pays for primary care and chiropractic visits under the Plan during 2017 are as follows:

Plan:	Traditional 70/30	Enhanced 80/20
Primary Care Co-pay:	\$40	\$10 if visiting the physician named during the annual enrollment process; \$25 otherwise
Chiropractic Co-pay:	\$72	\$52

For purposes of this note, we have assumed that the \$25 co-pay would apply to chiropractic visits under the Enhanced 80/20 Plan. We have also assumed that there are no preventive services provided by chiropractors for which members are currently paying a co-pay in the Enhanced 80/20 Plan, but which would require no out-of-pocket payment if provided by a primary care physician under current provisions of the Plan.

**EFFECTIVE DATE:** Section 1 is effective January 1, 2018 and applies to contracts issued, renewed, or amended on or after that date. For purposes of this note, the change is assumed to first apply to the Plan for the 2018 calendar plan year.

### ESTIMATED IMPACT ON STATE:

The Segal Company, the actuary for the Plan, and Hartman & Associates, the actuary for the General Assembly, estimate the following increase in the Plan's paid claims cost by fiscal year due to Section 1:

	The Segal Company	Hartman & Associates
FY 2017-18	\$1.1 million	\$0.9 million
FY 2018-19	\$2.8 million	\$2.4 million

The additional cost impact projected by either consulting actuary would be expected to impact premium contribution rates by less than an estimated one-tenth of one percent (0.1%) annually.

Both actuaries estimate negligible impacts due to Sections 2 through 4 of the bill.

This estimate only reflects the impact on the Plan and does not include any impact on other health coverage offered within the state.

**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 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. 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, 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 at January 1. The Plan's PPO benefit design includes three alternative benefit levels listed below:

- 1) The "Traditional" 70/30 plan that offers higher out-of-pocket requirements in return for lower employee and retiree premiums and only one wellness activity,
- 2) The "Enhanced" 80/20 plan that offers lower out-of-pocket requirements with higher employee and retiree premiums, which can be lowered by completing three wellness activities, and
- 3) The Consumer-Directed Health Plan (CDHP) that applies deductibles and co-insurance to all services and offers lower employee and retiree premiums if one completes wellness activities

Medicare-eligible retirees are offered three alternative plans:

- 1) The "Traditional" 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 United Healthcare, that is actuarially equivalent to the "Enhanced" 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 2017:

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

	Employer Share	Employee/Retiree Share	
		Complete All Wellness Activities *	Complete No Wellness Activities
Traditional 70/30 Plan	\$479.48	\$0.00	\$40.00
Enhanced 80/20 Plan	\$479.48	\$15.04	\$105.04
Consumer-Directed Health Plan (85/15)	\$479.48	\$0.00	\$80.00

\* Members receive credits for each activity. We have shown all or none for simplicity.

**Medicare Retirees (if Fully Subsidized)**

Medicare Advantage Plans

	Employer Share	Employee/Retiree Share
MA-PDP Base Plan	\$372.56	\$0.00
MA-PDP Enhanced Plan	\$372.56	\$64.00

Alternate Plan

	Employer Share	Employee/Retiree Share
Traditional 70/30 Plan	\$372.56	\$0.00

**Dependents (paid by employee/retiree in addition to premiums above)**

	All Dependents are Non-Medicare			One or More Medicare Dependents		
	Traditional 70/30	Enhanced 80/20	CDHP 85/15	MA-PDP Base	MA-PDP Enhanced	Traditional 70/30
Employee/Retiree + Children	\$218.14	\$290.14	\$196.32	\$124.80	\$188.80	\$155.20
Employee/Retiree + Spouse	\$562.10	\$668.48	\$505.90	\$124.80	\$188.80	\$408.08
Employee/Retiree + Family	\$598.70	\$708.72	\$538.82	\$249.60	\$377.60	\$444.66

The employer share of premiums for retirees is paid from the Retiree Health Benefit Fund. During FY 2016-17, employers contribute 5.81% of active employee payroll into the Fund. Total contributions for the year are projected to be approximately \$950 million.

## **Financial Condition**

**Projected Results for CY 2017 and CY 2018** – The following summarizes projected financial results for 2017 and 2018, based on financial experience through September 2016. The projection assumes a 7.0% annual claims growth trend for medical claims, an 8.5% trend for pharmacy claims, benefit provisions and member-paid premiums as currently adopted by the Board, and 3.5% premium increases in 2018.

	(\$ millions)	
	Projected CY 2017	Projected CY 2018
Beginning Cash Balance	\$945.7	\$834.1
Receipts:		
Net Premium Collections	\$3,264.8	\$3,369.6
Medicare Subsidies	\$16.5	\$16.6
Investment Earnings	\$7.2	\$6.2
Total	\$3,288.5	\$3,392.4
Disbursements:		
Net Medical Claim Payment Expenses	\$2,271.9	\$2,374.3
Net Pharmacy Claim Payment Expenses	\$706.9	\$787.2
Medicare Advantage Premiums	\$192.6	\$255.4
Administration and Claims-Processing Expenses	\$228.7	\$219.6
Total	\$3,400.1	\$3,636.5
Net Operating Income (Loss)	(\$111.6)	(\$244.1)

Of the premiums paid in CY 2017, an estimated \$2.1 billion is derived from General Fund sources and an estimated \$0.1 billion is derived from Highway Fund sources.

## **Other Information**

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, 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 7.0% annually and pharmacy claim costs are expected to increase at a rate of 8.5% annually according to assumptions adopted by the Board of Trustees. The active population is projected to decline by 1% per year and the retired population is projected to increase by 1% per year.

**Enrollment as of January 1, 2017**

<b>I. No. of Participants</b>	<b>Traditional 70/30</b>	<b>Enhanced 80/20</b>	<b>Consumer Directed</b>	<b>Medicare Advantage</b>	<b>Total</b>	<b>Percent of Total</b>
<u>Actives</u>						
Employees	125,378	163,187	21,119	-	309,684	43.3%
Dependents	<u>75,032</u>	<u>73,137</u>	<u>21,903</u>	<u>-</u>	<u>170,072</u>	<u>23.8%</u>
Sub-total	200,410	236,324	43,022	-	479,756	67.1%
<u>Retired</u>						
Employees	59,349	25,367	1,671	111,890	198,277	27.7%
Dependents	<u>8,029</u>	<u>4,182</u>	<u>903</u>	<u>9,447</u>	<u>22,561</u>	<u>3.2%</u>
Sub-total	67,378	29,549	2,574	121,337	220,838	30.9%
<u>Other</u>						
Employees	2,618	5,921	980	-	9,519	1.3%
Dependents	<u>1,522</u>	<u>2,368</u>	<u>767</u>	<u>-</u>	<u>4,657</u>	<u>0.7%</u>
Sub-total	4,140	8,289	1,747	-	14,176	2.0%
<u>Total</u>						
Employees	187,345	194,475	23,770	111,890	517,480	72.4%
Dependents	<u>84,583</u>	<u>79,687</u>	<u>23,573</u>	<u>9,447</u>	<u>197,290</u>	<u>27.6%</u>
<b>Grand Total</b>	<b>271,928</b>	<b>274,162</b>	<b>47,343</b>	<b>121,337</b>	<b>714,770</b>	<b>100%</b>
<b>Percent of Total</b>	<b>38.0%</b>	<b>38.4%</b>	<b>6.6%</b>	<b>17.0%</b>	<b>100.0%</b>	
<b>II. Enrollment by Contract</b>						
	<b>Traditional</b>	<b>Enhanced</b>	<b>CDHP</b>	<b>MA</b>	<b>Total</b>	
Employee Only	144,962	154,308	12,663	102,443	414,376	
Employee Child(ren)	25,805	26,363	5,739	179	58,086	
Employee Spouse	6,105	5,106	1,533	9,268	22,012	
Employee Family	10,473	8,698	3,835		23,006	
<b>Total</b>	<b>187,345</b>	<b>194,475</b>	<b>23,770</b>	<b>111,890</b>	<b>517,480</b>	
<b>Percent Enrollment by Contract</b>						
	<b>Traditional</b>	<b>Enhanced</b>	<b>CDHP</b>	<b>MA</b>	<b>Total</b>	
Employee Only	77.4%	79.3%	53.3%	91.6%	80.1%	
Employee Child(ren)	13.8%	13.6%	24.1%	0.2%	11.2%	
Employee Spouse	3.3%	2.6%	6.4%	8.3%	4.3%	
Employee Family	5.6%	4.5%	16.1%	0.0%	4.4%	
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	
<b>III. Enrollment by Sex</b>						
	<b>Traditional</b>	<b>Enhanced</b>	<b>CDHP</b>	<b>MA</b>	<b>Total</b>	
Female	159,441	178,330	26,685	80,445	444,901	
Male	112,487	95,832	20,658	40,892	269,869	
<b>Total</b>	<b>271,928</b>	<b>274,162</b>	<b>47,343</b>	<b>121,337</b>	<b>714,770</b>	
<b>Percent Enrollment by Sex</b>						
	<b>Traditional</b>	<b>Enhanced</b>	<b>CDHP</b>	<b>MA</b>	<b>Total</b>	
Female	58.6%	65.0%	56.4%	66.3%	62.2%	
Male	41.4%	35.0%	43.6%	33.7%	37.8%	
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	

<b>IV. Enrollment by Age</b>	<b>Traditional</b>	<b>Enhanced</b>	<b>CDHP</b>	<b>MA</b>	<b>Total</b>
25 & Under	73,899	70,290	18,777	3	162,969
26 to 45	68,332	76,095	13,837	228	158,492
46 to 55	46,137	56,424	8,217	873	111,651
56 to 65	47,542	66,377	6,204	11,420	131,543
66 & Over	36,018	4,976	308	108,813	150,115
<b>Total</b>	<b>271,928</b>	<b>274,162</b>	<b>47,343</b>	<b>121,337</b>	<b>714,770</b>
<b>Percent Enrollment by Age</b>					
25 & Under	27.2%	25.6%	39.7%	0.0%	22.8%
26 to 45	25.1%	27.8%	29.2%	0.2%	22.2%
46 to 55	17.0%	20.6%	17.4%	0.7%	15.6%
56 to 65	17.5%	24.2%	13.1%	9.4%	18.4%
66 & Over	13.2%	1.8%	0.7%	89.7%	21.0%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>V. Retiree Enrollment by Category</b>			<b>Employee</b>	<b>Dependents</b>	<b>Total</b>
Non-Medicare Eligible			48,342	11,835	60,177
Medicare Eligible in Traditional 70/30			38,045	1,279	39,324
Medicare Eligible in Base Medicare Advantage Plans			93,707	6,871	100,578
Medicare Eligible in Enhanced Medicare Advantage Plans			18,183	2,576	20,759
<b>Total</b>			<b>198,277</b>	<b>22,561</b>	<b>220,838</b>
<b>Percent Enrollment by Category (Retiree)</b>			<b>Employee</b>	<b>Dependents</b>	<b>Total</b>
Non-Medicare Eligible			24.4%	52.5%	27.2%
Medicare Eligible in Traditional 70/30			19.2%	5.7%	17.8%
Medicare Eligible in Base Medicare Advantage Plans			47.3%	30.5%	45.5%
Medicare Eligible in Enhanced Medicare Advantage Plans			9.2%	11.4%	9.4%
<b>Total</b>			<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>VI. Enrollment By Major Employer Groups</b>			<b>Employees</b>	<b>Dependents</b>	<b>Total</b>
State Agencies			68,024	32,792	100,816
UNC System			52,910	34,217	87,127
Local Public Schools			168,892	91,264	260,156
Charter Schools (88 entities)			4,111	2,688	6,799
Local Community Colleges			15,747	9,111	24,858
Other					
Local Governments (91 entities)			8,882	4,128	13,010
COBRA			637	529	1,166
Sub-total			319,203	174,729	493,932
Retirement System *			198,277	22,561	220,838
<b>Total</b>			<b>517,480</b>	<b>197,290</b>	<b>714,770</b>
<b>Percent Enrollment by Major Employer Groups</b>			<b>Employees</b>	<b>Dependents</b>	<b>Total</b>
State Agencies			13.1%	16.6%	14.1%
UNC System			10.2%	17.3%	12.2%
Local Public Schools			32.6%	46.3%	36.4%
Charter Schools			0.8%	1.4%	1.0%
Local Community Colleges			3.0%	4.6%	3.5%
Other					
Local Governments			1.7%	2.1%	1.8%
COBRA			0.1%	0.3%	0.2%
Sub-total			61.7%	88.6%	69.1%
Retirement System			38.3%	11.4%	30.9%
<b>Total</b>			<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

\* Includes 6 employees and 6 dependents covered as firefighters, rescue squad workers, or National Guard members

**SOURCES OF DATA:**

The Segal Company; baseline financial projections updated through Q3 CY2016 with 3.52% employer and employee premium increase in 2018, no further increases in wellness premiums/credits; dated January 24, 2017. Filename “CY16 Q3 - New Baseline - S1 - No Credit Increase in 2018+.pdf”

-Actuarial Note, Hartman & Associates, “Senate Bill 428: An Act Reenacting a Law Concerning Health Benefit Plan Co-Payments for Chiropractic Services, Allowing Chiropractic Students to Participate in Preceptorship Programs, and Allowing Chiropractors to Perform Medical Exams for Public School Student Athletes”, April 17, 2017, original of which is on file in the General Assembly’s Fiscal Research Division.

-Actuarial Note, The Segal Company, Senate Bill 428, “Chiropractor Parity & Preceptorships”, April 18, 2017, 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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