



Joint Legislative Program Evaluation Oversight Committee
October 7, 2015

North Carolina Should Centralize Management of State Employee Supplemental Insurance Benefits

A presentation to the
Joint Legislative Program Evaluation
Oversight Committee

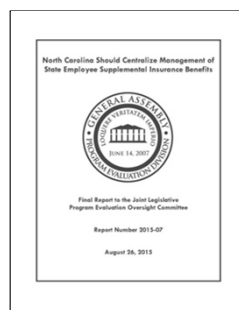
October 7, 2015

Jeff Grimes, Senior Program Evaluator

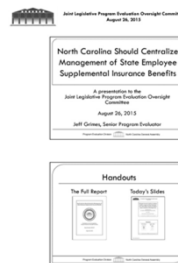
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Handouts

The Full Report

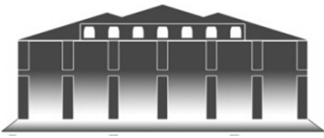


Today's Slides



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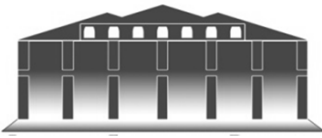
Evaluation Team

- Directive: 2013-15 Work Plan
- Objective: Review supplemental benefits offered to state employees through employee insurance committees
- Team
 - Jeff Grimes, Evaluation Lead
 - Chuck Hefren, Principal Program Evaluator
 - Jim Horne, Senior Program Evaluator

Overview: Four Findings

The employee insurance committee system is ineffective resulting from:

- 1) Failure to manage the selection of supplemental insurance
- 2) Duplication and lack of integration with other state employee benefit programs
- 3) Weak oversight by agencies and universities
- 4) Duplication of administrative functions

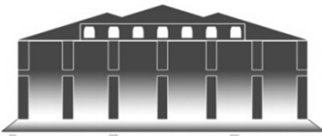


Overview: Two Recommendations

- 1) The General Assembly should replace the employee insurance committee system with a single committee that would oversee all supplemental insurance
- 2) The new committee should oversee the transition to a uniform set of supplemental insurance benefits offered statewide

Background: Supplemental Insurance

- Supplemental insurance represents a way to provide additional employee benefits beyond standard benefits such as the State Health Plan and Teachers' and State Employees' Retirement System
- Examples include dental, life, vision, disability, cancer, accident, hospital indemnity, legal, and pet insurance



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Background: Two Systems in NC

Governance	Office of State Human Resources (NCFlex)	Employee Insurance Committees at Agencies/Universities
Uniformity of Offerings	Same set of benefits statewide	Benefits offered vary across 46 agencies/universities
Tax Treatment	Employees generally pay premiums with pre-tax dollars	Employees pay premiums with post-tax dollars
Top 5 Insurance Products (Employee Contribution Amount)	<u>Dental</u> , Health Care/Dependent Care FSA, Vision, <u>Cancer</u> , <u>Life</u>	<u>Life</u> , <u>Dental</u> , Disability, <u>Cancer</u> , Accident
Estimated Annual Employee Deductions	\$121 million	\$44 million

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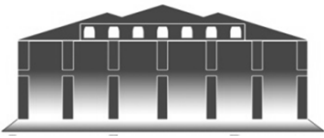
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Background: Employee Insurance Committee Statutory Requirements

- Required at each agency or university offering products through payroll deduction
- Committees made up of 5-9 employees
- Responsible for:
 - selecting insurance products through a competitive process
 - reviewing insurance products offered to determine if those products meet the needs of employees

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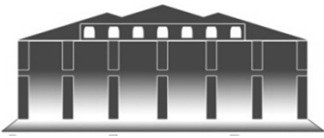
Findings

Insurance

In law and economics, insurance is a form of risk management primarily used to hedge against the risk of a contingent, uncertain loss. Insurance is defined as the equitable transfer of risk of a loss, from one entity to another, in exchange for payment. An insurer is a company selling the insurance; an insured, or policyholder, is an entity buying

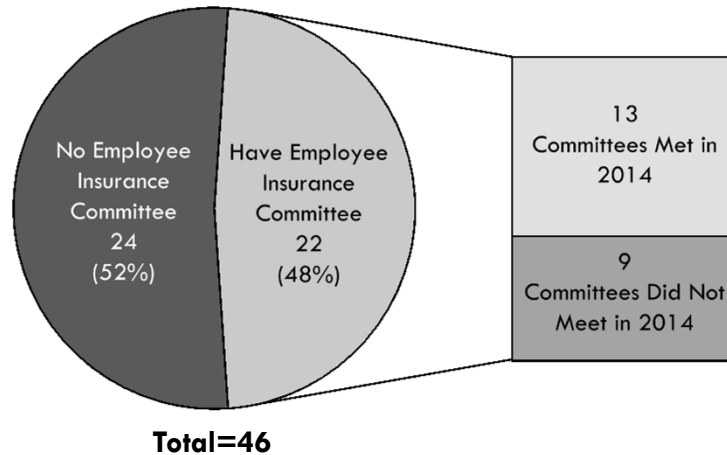
Finding 1

Employee insurance committees are ineffective and have failed to manage the selection of supplemental insurance products



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Many Agencies and Universities Do Not Have Employee Insurance Committees



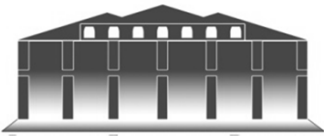
Finding 1, pp. 7-8

Several Agencies Permit Vendors to Offer Insurance Without a Contract

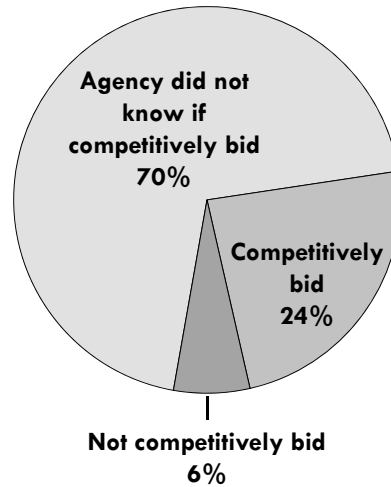
Current Vendor Relationships



Finding 1, pp. 8-9



Agencies Could Only Demonstrate Competitive Bid Processes 24% of the Time



Finding 1, pp. 8-10

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Finding 2

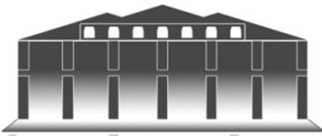
Separation of the employee insurance committee system and the NCFlex program makes supplemental insurance selection and enrollment confusing and unnecessarily complex for state employees

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Duplicative Systems Complicate Product Selection

- Employees have to navigate separate enrollment processes
- Varying plan designs
- Varying information formats
- Difficulty in comparing costs

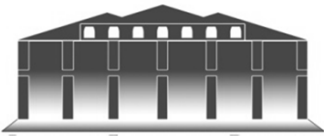
Finding 2, pp.11-12



Overlapping Benefits Complicate Supplemental Insurance Selection

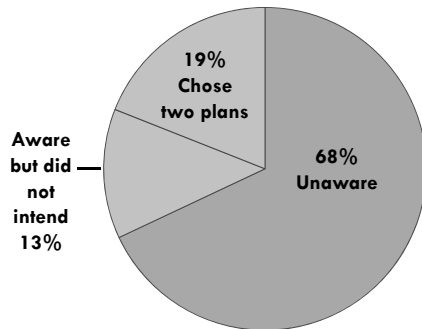
Type of Product	Employee Insurance Committees	NCFlex	Other State Benefit Program
Cancer Insurance	✓	✓	
Dental Insurance	✓	✓	
Disability Insurance	✓		✓
Life Insurance	✓	✓	✓





Employees Unintentionally Enrolled in Two Dental Plans

Survey Results of Employees Newly Enrolled



Note: PED surveyed 154 employees and received 37 responses for a 24% response rate

- 434 state agency employees were simultaneously enrolled in two separate dental plans
- Average cost of having two plans is over \$1,000/year per employee

Finding 2, pp. 13-14

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Overlapping Disability Insurance Can Result in More Coverage Than Needed

Disability Income Plan of North Carolina
Short-Term Disability Benefit of 50% of Salary

+

Employee Insurance Supplemental Disability Plan
Short-Term Disability Benefit of 60% of Salary

Short-Term Benefit of 110% of Salary

When benefits are not coordinated, employees can become overinsured by having combined short-term disability benefits that exceed pay

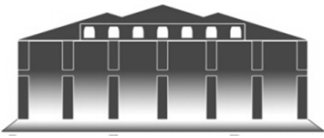
Finding 2, pp. 14-15

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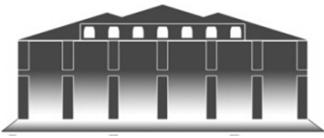


Finding 3

Weak oversight and management of supplemental insurance elections and payroll deductions by agencies and universities presents risk to employees and the State

Inadequate Reconciliation of Payroll Deduction Amounts

- Reconciliation is a process that brings together different sets of records to ensure agreement
- Agencies and universities have responsibility for reconciling deductions for employee insurance committee products
- 17 of 46 agencies and universities confirmed that they conduct a monthly reconciliation



Payroll Deduction Errors Identified

- PED reviewed BEACON deductions for dental insurance and legal insurance
- Found payroll deduction errors resulting from agencies not reconciling amounts
 - DOT dental insurance deductions
 - DHHS legal insurance deductions

Finding 3, pp. 16-17

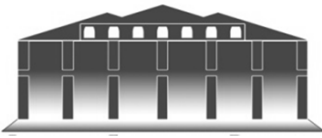


Agencies Unable to Reconcile Deductions

- Agencies do not have access to enrollment data
- When employees change agencies, problems arise if those employees continue to be enrolled in a plan administered at their former agency
- Example: inaccurate deductions for dental plans for employees switching between DHHS and DPS

Finding 3, pp. 17-18





Consequence of Failure to Reconcile Payroll Deductions: Example

In 2001, the DOT employee insurance committee cancelled CIGNA life policies without notifying employees

- DOT continued deductions for 93 employees' cancelled policies until 2010 (9 years later)
- Caused a dispute with broker/vendor, resulting in DOT paying \$225,000 settlement

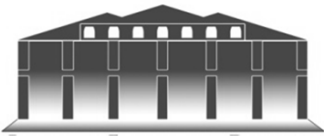
Finding 3, p. 19

Weak Oversight of Payroll Deductions Allows Some Vendors to Sell Unauthorized Products

Example: Administrative Office of the Courts Employee Insurance Committee

Insurance Product Type	Company Awarded Contract	Company Enrolling Without Contract
Accident	AFLAC	Colonial Life (286 policies)
Cancer	Colonial Life	AFLAC (5 policies)
Supplemental Hospitalization	Colonial Life	AFLAC (1 policy)
Whole and Universal Life	ING/Voya	Colonial Life (52 policies)

Finding 3, p. 17



Improper Tax Treatment of Payroll Deduction

Appalachian State University has offered some products on a pre-tax basis since 2007



- Did not have statutory authority
- Risks non-compliance with IRS code

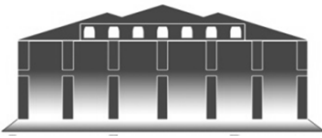
Finding 3, pp. 19-20



Finding 4

Continuing the employee insurance committee system has costs whereas centralizing supplemental insurance would reduce duplication and result in a number of benefits to the State and its employees





Decentralized Employee Insurance Committee System Has Costs

- Duplication of procurement/contracting function
- Employee time serving on 46 separate committees
- Office of the State Controller estimates payment processing costs of between \$14,000 and \$57,000 dollars per year

Finding 4, p. 21

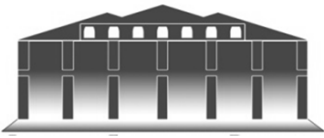
Inefficient Payment Processing for Vendors with One Employee Enrolled

Cost of \$1,080 to set up a vendor account in BEACON

Vendor	Employees Participating in State
Veterinary Pet Insurance	1
New York Life Insurance	1
Aegon SID	1
American General Life Insurance	1
National Traveler's Life	1

Source: BEACON payroll data, December 2014

Finding 4, p. 22

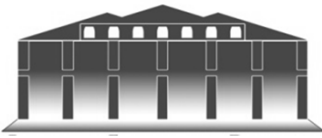


Recommendations



Recommendation 1

The General Assembly should replace the employee insurance committee system with a single committee charged with selection and oversight of all pre- and post-tax supplemental insurance benefits offered to state employees



Potential Benefits of Centralization

- Better value to employees through competitive bidding and large volume purchasing
- Improved state oversight
- Streamlined insurance enrollment for state employees
- Improved data availability and decision-making
- Uniformity of product offerings
- Greater assurance of accurate payroll deduction amounts

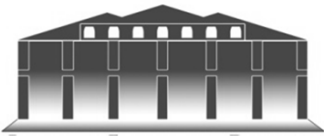
Finding 4, pp. 23-24



Centralized Committee Would Select All Supplemental Insurance

- Recommended committee made up of OSHR director, OSBM director, UNC president, State Controller, and State Treasurer, or their designees
- Similar to 2015 Governor's Budget Bill
- Administered by OSHR



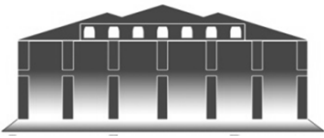


Responsibilities of Committee

- Request proposals from vendors
- Competitively bid products at least every five years to ensure competition
- Oversee all contracts
- Review all benefits, including receiving input from agency and university health benefit representatives
- Survey state employees at least every five years on product design, vendor performance, and administration

Recommendation 2

The General Assembly should direct the newly-created committee to establish a process for terminating payroll deduction for insurance products not associated with a valid contract and to phase out products with valid contracts when the contracts expire

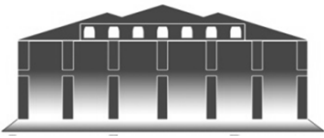


Recommended Transition

- Attorney General's Office should determine which vendors currently have valid contracts
- Provide written notification to employees at least 6 months prior to termination of payroll deduction
- Employees have options of switching to products available through centralized committee, purchasing on open market, or exercising portability provisions when available

Summary

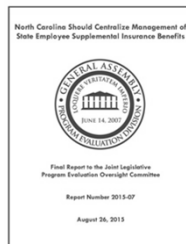
- The employee insurance committee system is ineffective as a result of management failures, duplication and lack of integration with other benefit programs, and weak oversight
- North Carolina should create a single centralized committee to oversee all supplemental insurance benefits



Legislative Options

- Accept the report
- Refer it to any appropriate committees
- Instruct staff to draft legislation based on the report

Report available online at
www.ncleg.net/PED/Reports/reports.html



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