FISCAL NOTE

Bill #: SB0448 **Title:** Local government access to state health insurance pool

Primary Sponsor: Nelson, L **Status:** As Amended in House Committee

Sponsor signature Date Chuck Swysgood, Budget Director Date

Fiscal Summary

	FY 2004 Difference	FY 2005 Difference
Expenditures:		
General Fund	$0	$0
Other	$3,912,952	$7,870,755
Revenue:		
General Fund	$0	$0
Other	$3,548,394	$6,346,290
Net Impact on General Fund Balance:	$0	$0

- ☒ Significant Local Gov. Impact
- ☐ Included in the Executive Budget
- ☐ Dedicated Revenue Form Attached
- ☒ Technical Concerns
- ☒ Significant Long-Term Impacts
- ☐ Needs to be included in HB 2

Fiscal Analysis

ASSUMPTIONS:

1. This bill would allow employees of local government entities to join a State and Local Employee Health Plan on a voluntary basis. The initial group required to join would need to total 1,000 employees either from a single governmental entity or combined from several governmental entities.
2. After the initial 1,000 employees join, it is assumed that any additional employees who wish to join may join, regardless of the number. For purposes of this fiscal note, it is assumed that only 1,000 local government employees join the State Employee Health Plan.
3. For purposes of this fiscal note, the demographics of the employees and retirees coming onto the plan are assumed to mirror those of the current State Employee Health Plan participants.
4. Based on information from the State Employee Health Plan, the plan actuary consultant estimates that for 1,000 members, the cost of medical coverage (excluding dental, but including prescription drug, managed care, and an employee assistance program) would cost approximately $5.5 million. Adding dental coverage would cost approximately $460,000. Funding the incurred but not reported (IBNR) reserve for these claims would cost approximately $750,000. These costs are all based off of anticipated calendar year 2004 costs for the current plan participants. In addition, these amounts should be increased by

approximately 15 percent to reflect the voluntary nature of the plan participation. The total of these components is estimated to be $7.7 million for calendar year 2004 for an initial group of 1,000.

5. For calendar year 2005, the current trend estimate for the State Employee Health Plan for medical and prescription drug claims, is 12 percent above calendar year 2004 anticipated costs. Dental claims are assumed to trend at 8 percent above calendar year 2004 anticipated costs. Funding the additional IBNR reserve required for higher overall claims costs will increase costs in calendar year 2005 by approximately 11 percent of the reserve amount funded in calendar year 2004. The cost in calendar year 2005 should also be increased by 15 percent to, again, reflect the voluntary nature of the plan participation.
6. Administrative expenses for the additional 1,000 local government employees are estimated to be $12.15 per employee per month, based on the experience of other similar large employer pools. The State employee health plan has a $6 per member per month fee built into its current premium rates. The difference in administrative expenses for the local government group, which is not covered in the premium rates assumed in #7, would total approximately $74,000 per year, assuming no inflation in the administrative cost between FY 2004 and FY 2005. This administrative expense covers the cost of contracted plan administrators, actuaries, claims administrators, managed care contracts, etc. Internal operating costs are not part of this amount.
7. It is assumed that premiums charged to the additional 1,000 participants under this bill would be equivalent to premiums charged for the State Employee Health Plan, plus an additional 15 percent to offset an increase in claims risk that potentially could be incurred upon the addition of the new participants. These premium rates do not include establishing a reserve fund for managing the plan's risk exposure. (See technical note #4). This fiscal note assumes that the local government group deposits $750,000 in reserves into the State and Local Employees' Health fund on January 2004 to offset the additional risk exposure the plan would incur with the increase in members and claim volumes.
8. For purposes of this fiscal note it is assumed that only local government employees, that are in active status as of January 2004, and their dependents, are eligible to join the health plan. For estimating premium revenues, it is assumed that there are no retirees, or joint core members, added to the plan in either FY 2004 or FY 2005. All new local government plan members are assumed to take the Traditional plan and enrollment in the plan will mirror current FY 2003 enrollment. Premium rates for medical coverage increase 12 percent, and dental rates increase 8 percent, in FY 2005.
9. The average reserve level maintained by the local government group is assumed to be $750,000 throughout the biennium. These funds will be invested in STIP at a 5 percent return rate in FY 2004 and FY 2005. For purposes of this fiscal note, it is assumed that the current reserve levels, maintained by the state employee health plan, would not be affected by performance of the local government portion of the plan. It is assumed that there will be no investment gains or losses on funds owned by the local government sector of the plan.
10. An additional Pay-Benefit Technician FTE is added to the state Employee Benefits Bureau staff as of January 1, 2004, to assist with the additional administrative tasks inherent in enrollment, collection of contributions, coordination with payroll offices, and record-keeping duties that will accompany addition of local government units and members to the plan. If membership were to increase by more than 2,000 the bureau would need to add additional professional staff to handle the workload. The FTE and funding requirements for internal operations will be dependent upon the additional numbers of voluntary participants joining the plan.

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(continued)

FISCAL IMPACT:

	FY 2004 Difference	FY 2005 Difference
FTE	1.00	1.00
Expenditures:		
Operating Expenses	$54,702	$137,408
Claims Cost	3,427,000	7,254,660
Reserves	431,250	478,688
TOTAL	$3,912,952	$7,870,756
Funding of Expenditures:		
Other	$3,912,952	$7,870,756
Revenues:		
Other		
Premiums	$ 2,779,644	$6,308,790
Investment Earnings	18,750	37,500
Transfers-in	750,000	$0
TOTAL	$3,548,394	$6,346,290
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):		
Other	($364,558)	($1,524,466)

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:
This bill could have significant impact on county or other local government revenues or expenditures based on whether these entities provide employer contributions to the cost of coverage on behalf of the employees. (See technical note #2).

LONG-RANGE IMPACTS:
For potential considerations regarding the long-term impact of this bill, please see the technical notes. It is not possible to determine the potential long-range impacts in the time allowed for development of this fiscal note, particularly given all the unknown factors.

TECHNICAL NOTES:
1. Local government entity may need to be clarified. Currently Section 7(6) defines a local government entity as "a political subdivision of the state or organizations or entities supported in whole by public funds or expending public funds, including counties, incorporated cities or towns, or a district formed pursuant to Title 7." It is unclear whether the intent is to include entities such as a local art gallery which receives state and federal grants (expends public funds), or a day care which receives state assistance as eligible to join this plan.
2. The bill does not address any requirement that employers contribute a portion of the cost of coverage on behalf of employees. Currently the state contributes a flat amount per employee per month. In order to provide the maximum stability to the pool and encourage participation by younger, healthier employees, it is desirable to require a contribution by the employer.
3. As written the bill essentially permits voluntary participation in the pool. This has the potential to allow for significant adverse selection. Currently, participation in the State Employee Health Plan is not

voluntary; therefore the current State Plan participants would suffer significant impact due to the addition of other participants with less stringent eligibility requirements.

4. The bill does not contain a requirement that entities joining the pool bring claims reserves. As shown in assumptions above, a claims reserve would need to be established. Currently the State does not have sufficient claims reserves to cover these additional entities.
5. There may be bills in the session that could be used as a vehicle to enable local governments to obtain bonds required to establish the necessary reserves, or the bill could provide a mechanism for local governments to obtain borrowing authority to set up reserves. (See HB 302)
6. There are long-term issues regarding the impact this bill would have both on state finances and on local government finances. For example, if addition of local employees on a voluntary basis caused overall plan costs to increase, there would be a significant increase to the cost for state government (both for employers and employees).
7. The bill should provide a financing mechanism for the state to receive payments from local governments and employees.
8. The risk associated with the addition of local government groups to the employee health plan could potentially be limited if the group can obtain stop loss coverage. This coverage is difficult to obtain and expensive. This fiscal note has not considered the impact that stop loss coverage could have to the health plan.