GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Fiscal Note 2009 Biennium

Bill #	HB0399	**Title:**	Health insurance option for local economic development organizations
Primary Sponsor:	Villa, Dan	**Status:**	As Introduced

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

FISCAL SUMMARY

	FY 2008 Difference	FY 2009 Difference	FY 2010 Difference	FY 2011 Difference
Expenditures:				
General Fund	$37,705	$55,139	$65,297	$71,826
State Special Revenue	$17,139	$25,063	$29,680	$32,648
Federal Special Revenue	$13,254	$19,382	$22,953	$25,248
Proprietary and Other	$46,161	$67,505	$79,939	$87,934
Other Group Insurance	$382,953	$804,201	$884,621	$973,083
Revenue:				
Other Group Insurance	$382,953	$804,201	$884,621	$973,083
Net Impact-General Fund Balance	($37,705)	($55,139)	($65,297)	($71,826)

Description of fiscal impact:
This bill provides for local economic development organization employees and their dependents who meet certain eligibility requirements to become participants in the state employee benefit plan. It provides for the local economic development organizations to provide funding to pay the state share contribution on behalf of participants as an employer contribution. The act is effective July 1, 2007, however, the group benefits offered to local economic development organization employees become effective after December 31, 2007. Preparation for expanding services would need to begin prior to December 31, 2007 in order to be ready to provide services by the effective date.

FISCAL ANALYSIS

Assumptions:

The Department of Administration

1. The state anticipates that approximately 50 new employees will become eligible for coverage under the State Plan as a result of their employment with certified regional development corporations (CRDC) authorized by the Department of Commerce under 90-11-116, MCA. The current CRDCs and the staff that were identified are as follows: Bear Paw Development Corp., Havre (8 employees); Beartooth

RC&D, Joliet (8 employees); Eastern Plains RC&D, Sidney (4 employees); Gateway Economic Development Corp., Helena (7 employees plus unable to determine if district employees are employees); Great Northern Development Corp., Wolf Point (1 employee, unable to determine if more); Headwaters RC&D, Butte (unknown number of employees); Lake County Community Development, Ronan (4 employees plus unable to determine if district employees are employees); Missoula Area Economic Development Corporation, Missoula (2 employees); Sweetgrass Development, Cut Bank (4 employees plus unable to determine if district employees are employees); Northern Rocky Mountain RC&D, Bozeman (unknown number of employees); Snowy Mountain Development Corp., Lewistown (unknown number of employees); Southeastern MT Development Corp., Colstrip (5 employees).

2. HB 399 also provides for employees of entities established by local government actively engaged in economic development and business assistance work who are also private, nonprofit corporations to become eligible for coverage under the State Plan. The department does not have a count of those entities or the employees of those entities. For purposes of this fiscal note, the figure of 50 new employees (approximately 1 per county) will be used.
3. The total estimated new employees under the bill would be approximately 100.
4. In the State Employee Plan, for the third-quarter of 2006 there were 15,524 employees, retirees, Legislators, and COBRA contract holders. In total there were 31,469 covered lives in the plan. The ratio of contract holders to covered lives is 2.03.
5. Assuming that there will be approximately 2.03 people per contract for local economic development employees, the total covered lives for the local economic development population would be 2.03 x 100 or roughly 200. The total combined plan would cover about 31,669 lives. This is a 1% increase in the number of individuals covered by the State of Montana's self-insured health plan under HB 399.
6. It is assumed that the net operating losses will be apportioned equally across employees in the plan, therefore about 1% of the losses would be paid by the (the local economic development organization (LEDO) employees coming on the Plan and the remaining 99% would be absorbed by existing State Employee Plan members.
7. The State does not have information or data on the local economic development employees' demographics, claims history or medical history statements to determine relative risk for this population. The bill requires that the employer LEDO contribute a minimum of $10 a month but does not require a contribution above that amount. Finally, employees of a LEDO may participate in the State Employee Group Benefit Plan but are not required to. Given these facts, there is some potential for the employees who come into the State Plan to be higher risk or higher cost than state employees (on average). (e.g. If a LEDO is able to get insurance for its employees at a lower cost than the State Plan, it would not be advantageous for them to join. This would usually be the case if they were lower risk and lower cost than state employee plan participants.) It is assumed that the LEDO employees have a 5% higher risk to account for these impacts.
8. Table A is a calculation of the combined plan results for the 2007-2011 calendar plan years for the incorporated state employee and LEDO employee (as well as retirees and dependents) plan. The 3rd quarter 2006 revenue and expenditure results of the state employee plan were the basis for the calculation. The net result shows that based upon the 5% relative higher risk of LEDO employees, current expenditure trends, and estimated LEDO employer contribution increases, there are net operating losses calculated for those plan years.
9. The estimated employer contribution for LEDO employees is based on the minimum requirement in HB 399. It is assumed that the LEDO employer will contribute the $10 per month minimum toward the cost of the premium or about 2% of the cost of the premium. At the bottom of Table A, the net operating loss apportioned to the LEDOs is shown and 2% of this cost is anticipated to be absorbed by LEDO employer contributions. The remaining 98% is assumed to be paid by the LEDO employee.

Table A. Calculation of Combined Plan Revenue and Expenditure based on 3rd Q 2006 State Plan Experience

	State Plan Enrollment 3rd Quarter 2006	*Local Economic Development Organization (LEDO) Enrollment	State Plan Distribution (%)	LEDO Distribution (Calculated %)
Traditional Plan	9,759	69	63%	69%
New West Plan	3,689	10	24%	10%
Blue Choice Plan	1,858	18	12%	18%
Peak Plan	218	3	1%	3%
Total Med/Rx/Dental	15,524	100	100%	100%

* Note: LED contracts are redistributed to reflect availability of plans relative to population

	Plan Year 2007 Revenue (per ee)	Plan Year 2007 Expenses - State Plan (per ee)	Plan Year 2007 Expenses - LEDO (per ee)	Loss Ratio (State Plan)	Loss Ratio (LEDO)
Traditional Plan	$550.57	$577.81	$606.70	105%	110%
New West Plan	$525.25	$403.78	$423.97	77%	81%
Blue Choice Plan	$602.83	$531.87	$558.47	88%	93%
Peak Plan	$592.93	$593.31	$622.97	100%	105%

*Note: 3rd Q 2006 results are trended by 10% for revenue increases and 10% for claims trend to estimate 2007 plan year results and 6% revenue and 10% claims trend for 2008 plan year results.

	Plan Year 2007 Total Revenue (State Plan)	Plan Year 2007 Total Revenue (LEDO)	Plan Year 2007 Total Expenses (State Plan)	Plan Year 2007 Total Expenses (LEDO)	New Plan Loss Ratio
Traditional Plan	$64,476,386	$455,874	$67,665,939	$502,346	105%
New West Plan	$23,251,767	$63,030	$17,874,400	$50,876	77%
Blue Choice Plan	$13,440,765	$130,212	$11,858,618	$120,629	88%
Peak Plan	$1,551,113	$21,346	$1,552,091	$22,427	100%
Totals	$102,720,030	$670,461	$98,951,049	$696,278	96%
2008 LEDO PY Totals:	Total Revenue (6%+)	$710,689	Total Expenses (10%+)	$765,906	
			Net Operating Loss for Plan Year 2008	$55,217	
2009 LEDO PY Totals:	Total Revenue (6%+)	$753,330	Total Expenses (10%+)	$842,496	
			Net Operating Loss for Plan Year 2009	$89,166	
2010 LEDO PY Totals:	Total Revenue (10%+)	$828,663	Total Expenses (10%+)	$926,746	
			Net Operating Loss for Plan Year 2010	$98,083	
2011 LEDO PY Totals:	Total Revenue (10%+)	$911,529	Total Expenses (10%+)	$1,019,420	
			Net Operating Loss for Plan Year 2011	$107,891	

Net Operating Loss by Fiscal Year Due to LEDOs					
		FY 2008	**FY 2009**	**FY 2010**	**FY 2011**
TOTAL OPERATING LOSS		$27,608	$72,191	$93,624	$102,987
LEDO Share	1% net operating loss	$276	$722	$936	$1,030
LEDO share of additional net operating costs (apportioned by employee & employer)	LEDO Employees (98%)	$271	$707	$918	$1,009
	LEDO Employers (2%)	$6	$14	$19	$21
State Plan Share	**99% net operating loss**	$27,332	$71,469	$92,688	$101,957
State Plan's share of addl net operating costs (apportioned by employee & employer)	State Employees (1/3)	$9,111	$23,823	$30,896	$33,986
	State Contribution (2/3)	$18,222	$47,646	$61,792	$67,971

10. Table A also shows the allocation of the 99% of the operating shortfall which will be paid by existing members of the State Employee Plan. At the bottom of Table A, these costs are split 1/3 to be paid by the employees and 2/3 by the employer. This allocation is based on historic funding ratios in the State Plan.
11. The DOA is responsible for operation and administration of the combined plan. Currently the Health Care and Benefits (HCBD) division within the department has 10.87 FTE authorized for operating the existing state employee benefit plan and an additional 4.0 FTE are requested in the Executive Budget. No additional FTE would be requested for the division for HB399.
12. The Benefit Operations section within DOA's payroll unit is responsible for the data integrity of the benefits eligibility processing of all participants in the State of Montana's self-insured health plan. Currently the section employs 5.43 FTE to support the 32,000 participants on the plan. No additional FTE would be requested for the section for HB399 and any additional operating costs would be absorbed into the program's current budget..
13. DOA's Information Technology Services Division (ITSD) and the SABHRS unit in DOA's Administrative Financial Services division provide all information technology support for the benefit eligibility system. It is estimated that there will be no additional IT costs associated with HB399.
14. DOA's Payroll and Benefit Operations section, ITSD and SABHRS programs will invoice the HCBD for services provided in maintaining and administering the health insurance plan for the benefit of the LEDO.
15. The State's share of the resulting loss to the health plan, from the merging of the LEDO's loss ratios with the State's more favorable loss ratio, is spread amongst the funding sources in the following percentages. General fund = 33%; State Special Revenue fund = 15%; Federal Special Revenue fund = 11.6%; and Other funds = 40.4%. The remaining revenues and expenses included in this fiscal note occur in other proprietary funds.
16. Currently the State Employee Benefit Plan is required by 2-18-812, MCA to maintain reserves sufficient to fund the unrevealed claims liability (i.e. incurred but not reported claims liability - IBNR). The new combined plan would be subject to the same parameter. The amount of reserves necessary to fund the estimated IBNR for the additional eligible members added to the existing plan are:

Table B. Projected IBNR (Reserves) Balances Needed			Fiscal Year Basis	
	FY 2008	FY 2009	FY 2010	FY 2011
LEDO Employee IBNR	$86,927	$95,619	$105,181	$115,700
State Employee IBNR	$13,107,446	$15,175,816	$16,751,220	$18,490,168
State Empl (Grand. Rsv)	$1,084,350	$1,013,950	$948,150	$886,550
Total IBNR Combined	**$14,278,722**	**$16,285,385**	**$17,804,552**	**$19,492,417**

17. The reserves for the combined State Employee/LEDO Health Plan may be funded in one of two ways:
    a. At this time, the IBNR for the State Employee Benefit Plan is funded and is calculated at 16.67% of medical claims, 1.92% of prescription drug claims, and 8.33% of dental claims. The total required reserve needed to satisfy IBNR is estimated to be $12.5M at the end of calendar (plan) year 2006. The State Plan has sought to maintain operating reserves (called the claims fluctuation reserve) above this required IBNR requirement in order to maintain plan solvency and stability. At the end of calendar (plan) 2006, the claims fluctuation reserve or ending fund balance (without IBNR) is projected to be $29.1M.

       One method of funding the reserves for the combined plan would be to use the claims fluctuation reserve as the required IBNR for the 100 projected LEDO employees plus their dependents coming into the plan. This would require that the reserves from the State Employee Group Benefits Plan, which were built by the state as an employer and state employees, retirees, Legislators and their dependents as plan participants, would be used to form the reserves for other employer groups (LEDOs) coming into the plan.
    b. Given the amount of reserves necessary to fund this obligation on behalf of LEDOs, this fiscal note incorporates the cost of providing this additional reserve as a cost.
18. A summary of total impacts resulting from the addition of LEDOs to the State Employee Plan is shown in Table C. below.

Table C. Total Impact Summary				
LEDO Costs	**FY 2008**	**FY 2009**	**FY 2010**	**FY 2011**
Admin/Operating Expense (1%)	$0	$0	$0	$0
LEDO Share of Net Operating Loss (1%)	$276	$722	$936	$1,030
LEDO Total Revenues (Premiums)	$355,344	$732,009	$790,997	$870,096
Total LEDO Impact	**$355,620**	**$732,731**	**$791,933**	**$871,126**
State Plan Costs				
Admin/Operating Expense (99%)	$0	$0	$0	$0
State Plan Share of Net Operating Loss (99%)	$27,332	$71,469	$92,688	$101,957
Reserves (Funding for Addition of LEDO Employees)	$86,927	$95,619	$105,181	$115,700
Total State Impact	**$114,259**	**$167,089**	**$197,869**	**$217,656**
TOTAL Program Expenditures	**$469,880**	**$899,820**	**$989,802**	**$1,088,783**

	FY 2008 Difference	FY 2009 Difference	FY 2010 Difference	FY 2011 Difference
Fiscal Impact:				
Expenditures:				
Benefits	$382,953	$804,201	$884,621	$973,083
Transfers	$114,259	$167,089	$197,869	$217,656
TOTAL Expenditures	$497,212	$971,290	$1,082,490	$1,190,739
Funding of Expenditures:				
General Fund (01)	$37,705	$55,139	$65,297	$71,826
State Special Revenue (02)	$17,139	$25,063	$29,680	$32,648
Federal Special Revenue (03)	$13,254	$19,382	$22,953	$25,248
Proprietary and Other	$46,161	$67,505	$79,939	$87,934
Other Health Insurance	$382,953	$804,201	$884,621	$973,083
TOTAL Funding of Exp.	$497,212	$971,290	$1,082,490	$1,190,739
Revenues:				
Other Health Insurance	$382,953	$804,201	$884,621	$973,083
TOTAL Revenues	$382,953	$804,201	$884,621	$973,083
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	($37,705)	($55,139)	($65,297)	($71,826)
State Special Revenue (02)	($17,139)	($25,063)	($29,680)	($32,648)
Federal Special Revenue (03)	($13,254)	($19,382)	($22,953)	($25,248)
Proprietary and Other	($46,161)	($67,505)	($79,939)	($87,934)
Other Health Insurance	$0	$0	$0	$0

Long-Range Impacts:

This fiscal note assumes much of the same operation of the combined plan as the historic operation of the state employee plan. Specifically, increasing dependent premium costs to cover the operating shortfall. If those priorities or behaviors change, other performance of the plan may change also. In order to reduce adverse selection and encourage young, healthy participants to stay in the plan, the employer contribution has been historically high. If this priority shifts and more of the cost is on the member, the entire pool may become more high-risk. This is balanced by the relative number of new participants coming into the Plan. All of these are unknowns and impact the long-range performance of the pool.

Technical Notes:

Under 2-18-702 (b) MCA, counties, cities, or towns may permit employees of private, nonprofit economic development organizations to be employees of that county, city or town for purposes of participation in health insurance, long-term disability, accident or group life insurance coverage. As proposed by HB 399, participation by local economic development organization employees is voluntary. This allows for the potential for economic development organizations to choose to move between entities (with the State Plan as an insurer of last resort) seeking the best premiums in some cases. While this is to the advantage of the local economic development organization, it does increase the potential for the State to be subject to groups with worse risk and therefore seeking guaranteed coverage at lower rates. Other members of the State Plan would subsidize this risk.

Sponsor's Initials	*Date*	*Budget Director's Initials*	*Date*