



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2009 Biennium

Bill #	SB0297	Title:	Stop loss pool for school health insurance
Primary Sponsor:	Ryan, Don	Status:	As Introduced

- | | | |
|--|---|--|
| <input checked="" type="checkbox"/> Significant Local Gov Impact | <input checked="" type="checkbox"/> Needs to be included in HB 2 | <input type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input checked="" type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

FISCAL SUMMARY

	<u>FY 2008</u> <u>Difference</u>	<u>FY 2009</u> <u>Difference</u>	<u>FY 2010</u> <u>Difference</u>	<u>FY 2011</u> <u>Difference</u>
Expenditures:				
General Fund	\$7,185,926	\$7,983,591	\$8,877,529	\$9,873,904
Other Proprietary - Self Pay	\$7,401,503	\$8,223,100	\$9,143,855	\$10,170,120
Revenue:				
General Fund	\$0	\$0	\$0	\$0
Other Proprietary - Self Pay	\$7,401,503	\$8,223,100	\$9,143,855	\$10,170,120
Net Impact-General Fund Balance	<u>(\$7,185,926)</u>	<u>(\$7,983,591)</u>	<u>(\$8,877,529)</u>	<u>(\$9,873,904)</u>

Description of fiscal impact:

This bill would make state-funded reinsurance for health care costs available to school districts. Costs per claim for an individual ranging from \$150,000 to \$1 million would become the responsibility of the State. Individual claim costs above or below that range would remain the responsibility of the school districts. The Department of Administration would also be responsible for providing case management services and technical assistance to school districts to manage the cost of claims.

FISCAL ANALYSIS

Assumptions:

1. During 2005 the Legislative Quality Schools Interim Committee explored issues related to health insurance coverage for K-12 schools. The Department of Administration (DOA) worked with various

stakeholders to access data permitting analysis of the claims costs and demographics associated with K-12 employees, retirees, and their covered dependents, to provide information during those deliberations. Approximately 2/3 of the claims data from three years (2002/2003, 2003/2004 and 2004/2005) was scrubbed of personal identifier information and fed to a claims warehouse. (Transfer and handling of protected health information was done in accordance with HIPAA.) The department's benefits and actuarial consultant, Buck Consultants then analyzed the data. For purposes of this fiscal note, certain information from these analyses will be used.

2. The state anticipates that there are approximately 20,000 K-12 employees that could be eligible for coverage under this bill. During the 2005 Quality Schools Interim Committee process, the analysis referenced in assumption #1 above included an estimate of 35,250 total covered lives under the K-12 schools. That did not include retirees covered by K-12 districts.
3. Based on 2002-05 medical paid claims data, Buck Consultants trended the claims forward to estimate 2006-07 statewide K-12 medical and prescription drug claims. Results are as follows:
 - * 1% of members generate about 40% of the claims * 369 members generated \$42.9M in claims
 - * 10% of members generate about 80% of the claims * 3,455 members generated \$87.4M in claims
 - * 0.1% of members generate 10.4% of the claims (these are the individual claims exceeding \$150,000 in cost during a year), this equates to 33 members who generate \$11.3M in claims
4. As medical costs increase over time, so do the percentage of claims that exceed the mark of \$150,000 in total costs. In the 2002-05 data analyzed, there were 3.9% of the claims during 2002/03 where costs exceeded \$150,000. In 2003/04, 10.2% of the claims had costs that exceeded \$150,000. In 2004/05, 11.6% of the claims had costs exceeding \$150,000. For purposes of this fiscal note, we will assume a 1% increase in the percentage of claims per year exceeding \$150,000 in costs.
5. Table A. below includes data on claims from the 2002-05 analysis trended forward for 2006-2011. For high cost claims, amounts in excess of \$150,000 (which the State would re-insure under this bill) are shown as well as a projected count of the number of claims.

Table A. MT K-12 Claimant Distribution Data								
Adjusted to include estimated Rx, extrapolated to all K-12								
Active / COBRA Employees and their Dependents - EXCLUDES Retirees								
Distribution	Proj 2006/07 Weighted Avg	Proj 2007/08 Weighted Avg	Proj 2008/09 Weighted Avg	Proj 2009/10 Weighted Avg	Proj 2010/11 Weighted Avg	Proj 2006/07 Wt Avg	Proj 2007/08 Wt Avg	Proj 2008 to 11 Wt Avg
\$150,001 - \$175,000	\$3,364,768	\$3,750,492	\$4,180,433	\$4,659,662	\$5,193,827	15	15	15
\$175,001 - \$200,000	\$816,435	\$910,027	\$1,014,349	\$1,130,630	\$1,260,241	2	3	3
\$200,001 - \$250,000	\$1,493,864	\$1,665,115	\$1,855,997	\$2,068,761	\$2,305,915	5	5	5
\$250,001 - \$500,000	\$4,283,084	\$4,774,079	\$5,321,361	\$5,931,380	\$6,611,330	9	9	10
\$500,001+	\$1,313,117	\$1,463,647	\$1,631,434	\$1,818,455	\$2,026,915	2	2	2
Cumulative	Proj 2006/07 Weighted Avg	Proj 2007/08 Weighted Avg	Proj 2008/09 Weighted Avg	Proj 2009/10 Weighted Avg	Proj 2010/11 Weighted Avg	Proj 2006/07 Wt Avg	Proj 2007/08 Wt Avg	Proj 2008 to 11 Wt Avg
\$150,001+	\$11,271,268	\$12,563,361	\$14,003,574	\$15,608,888	\$17,398,228	33	33	34
\$175,001+	\$7,906,499	\$8,812,869	\$9,823,141	\$10,949,226	\$12,204,402	18	18	19
\$200,001+	\$7,090,065	\$7,902,841	\$8,808,791	\$9,818,596	\$10,944,161	16	16	16
Reserves		\$1,631,038	\$1,818,014	\$2,026,424	\$2,258,725			
Total Cost		\$14,194,399	\$15,821,588	\$17,635,312	\$19,656,953			
12.98% = Incurred But Not Reported (IBNR) Claims Reserve Percentage								
10.36% = Weighted Avg Trend (State Plan - Medical 10%, Rx 13%, Dental 8%)								

- The HCBBD will need two additional nurse case managers FTE to oversee the case management services associated with managing the K-12 reinsurance related services. In addition, the HCBBD will need one FTE reinsurance program manager and one FTE to provide technical assistance to K-12 school districts. The projected cost of personal services from FY 2008 through FY 2011 is assumed not to change.
- The internal operating costs in HCBBD are estimated to be \$57,796 for FY 2008 including the onetime setup of office equipment and furniture as well as travel costs of \$4,356 annually for the technical assistance staff to go around the state to various school districts. In FY 2009, 2010, and 2011 respectively, operating costs are projected at \$49,869, \$50,838, and \$51,837. Annual increases in operating costs reflect a contractual 2% increase in leased office space, additional in-state travel costs, and a 3% inflation adjustment of other operating expenses in FY 2010 and 2011.
- In order to maintain the pool on an actuarially sound basis, a reserve for incurred but not reported (IBNR) claims must be established. This is the funding for claims for which the State has a liability but has not yet been billed. The estimate of IBNR claims applied for purposes of this fiscal note is the same as used for the State Employee Plan. A weighted average of 16.67% for medical claims (75% of total claims) and 1.92% for Rx claims (25% of total claims) for purposes of this fiscal note resulting in an IBNR percentage of 12.98% is used.

9. The HCBD will need to access data for purposes of managing the reinsurance risk. Expansion of existing systems to support this additional functionality is estimated to cost approximately \$100,000 annually and will be contracted.
10. The bill states that the state shall make reinsurance available to school districts, covering active employees, their spouses, and dependents for individual claims amounts between \$150,000 and \$1M. Subsequently the bill provides that spouses and dependents may participate on a self-pay basis for a fee established by the department of administration. Assuming that there will be approximately 2.03 people per contract for K-12 employees it is projected that approximately 49% (1 divided by 2.03) of the reinsurance costs will be for the employee and the remaining approximate 51% (1.03 divided by 2.03) applies to spouses and dependents. For purposes of this fiscal note we will assume that the state will be required to provide reinsurance for the employee (general funded) and that spouses and dependents will be charged a fee for reinsurance coverage (proprietary funding). Operating and personal services expenditures will be proportionally allocated for funding purposes in these same ratios.

	<u>FY 2008</u> <u>Difference</u>	<u>FY 2009</u> <u>Difference</u>	<u>FY 2010</u> <u>Difference</u>	<u>FY 2011</u> <u>Difference</u>
<u>Fiscal Impact:</u>				
FTE	4.00	4.00	4.00	4.00
<u>Expenditures:</u>				
Personal Services	\$235,234	\$235,234	\$235,234	\$235,234
Operating Expenses	\$157,796	\$149,869	\$150,838	\$151,837
Benefits	\$14,194,399	\$15,821,588	\$17,635,312	\$19,656,953
TOTAL Expenditures	<u><u>\$14,587,429</u></u>	<u><u>\$16,206,691</u></u>	<u><u>\$18,021,384</u></u>	<u><u>\$20,044,024</u></u>
<u>Funding of Expenditures:</u>				
General Fund (01)	\$7,185,926	\$7,983,591	\$8,877,529	\$9,873,904
Other - Proprietary (06)	\$7,401,503	\$8,223,100	\$9,143,855	\$10,170,120
TOTAL Funding of Exp.	<u><u>\$14,587,429</u></u>	<u><u>\$16,206,691</u></u>	<u><u>\$18,021,384</u></u>	<u><u>\$20,044,024</u></u>
<u>Revenues:</u>				
General Fund (01)	\$0	\$0	\$0	\$0
Other - Proprietary (06)	\$7,401,503	\$8,223,100	\$9,143,855	\$10,170,120
TOTAL Revenues	<u><u>\$7,401,503</u></u>	<u><u>\$8,223,100</u></u>	<u><u>\$9,143,855</u></u>	<u><u>\$10,170,120</u></u>
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	(\$7,185,926)	(\$7,983,591)	(\$8,877,529)	(\$9,873,904)
Other - Proprietary (06)	\$0	\$0	\$0	\$0

Effect on County or Other Local Revenues or Expenditures:

SB 297 could reduce the cost of health insurance obtained by school districts.

Long-Range Impacts:

This will be a new program that the State is assuming permanently. As health care costs continue to increase, there will be a corresponding increase in the cost of this program.

Sponsor's Initials

Date

Budget Director's Initials

Date