

**Program Budget Comparison**

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	22.87	22.87	22.87	22.87	22.87	22.87	0.00	0.00 %
Personal Services	1,626,248	1,683,271	1,886,826	1,888,453	3,309,519	3,775,279	465,760	14.07 %
Operating Expenses	13,604,348	7,446,501	21,661,612	22,163,925	21,050,849	43,825,537	22,774,688	108.19 %
Benefits & Claims	171,346,004	185,043,870	201,982,374	220,406,305	356,389,874	422,388,679	65,998,805	18.52 %
<b>Total Costs</b>	<b>\$186,576,600</b>	<b>\$194,173,642</b>	<b>\$225,530,812</b>	<b>\$244,458,683</b>	<b>\$380,750,242</b>	<b>\$469,989,495</b>	<b>\$89,239,253</b>	<b>23.44 %</b>
Proprietary Funds	186,576,600	194,173,642	225,530,812	244,458,683	380,750,242	469,989,495	89,239,253	23.44 %
<b>Total Funds</b>	<b>\$186,576,600</b>	<b>\$194,173,642</b>	<b>\$225,530,812</b>	<b>\$244,458,683</b>	<b>\$380,750,242</b>	<b>\$469,989,495</b>	<b>\$89,239,253</b>	<b>23.44 %</b>

**Program Description**

The Health Care and Benefits Division provides state employees, retirees, members of the legislature, judges and judicial branch employees, and their dependents with group benefits. The division administers benefits plans including health, dental, prescription drug, life, long-term care, vision coverage, long-term disability, flexible spending accounts, a sick leave fund, employee assistance services, health promotion, and a voluntary employee benefit health care expense trust. Finally, the division is responsible for the centralized oversight and management of workers' compensation related matters impacting the state as an employer.

**Program Highlights**

<p><b>Health Care and Benefits Division Major Budget Highlights</b></p>
<ul style="list-style-type: none"> <li>• The Health Care and Benefits Division is entirely funded with proprietary funds</li> <li>• The executive proposes increases of 22.4% in the 2017 biennium when compared to the 2015 biennium</li> <li>• Higher health care costs are driving the increases</li> </ul>
<p><b>Major LFD Issues</b></p>
<ul style="list-style-type: none"> <li>• Statute requires administrative costs of the program to be included in HB 2</li> <li>• Legislature may wish to increase oversight of the plan due to increased employee costs and declining reserve levels</li> </ul>

**Program Discussion -**

<p><b>LFD ISSUE</b></p>	<p><u>Statute Requires Administrative Costs of the Program to be Included in HB 2</u></p> <p>As detailed in the funding section, this function is funded through proprietary funds. The 1995 Legislature changed the way proprietary funds are budgeted. Rather than directly appropriate funds in HB 2 to support the function, the legislature removed proprietary funds (with very limited exceptions) from HB 2 and instead provided funding through one of two means, depending upon the type of proprietary fund:</p>
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- Internal service funds – The legislature approves a maximum rate the function can charge to client agencies
- Enterprise funds – The legislature does not approve rates for the program; instead the legislature reviews the report submitted by the executive and identifies any concerns with the financial position of the fund

Even though the funding for the State Employee Group Benefit Plan (SEGBP) is from the enterprise fund, 2-18-812, MCA requires that administrative costs of SEGHP be funded from temporary appropriations. Appropriations made in the General Appropriations Act (usually HB 2) are considered temporary appropriations, as they expire at the end of each biennium and must be considered and approved by the following legislature.

The 2013 Legislature included appropriations for the administrative costs in HB 2 and sent the bill to the Governor for his signature. The Governor line item vetoed the appropriation for SEGBP administration stating:

*The state contribution toward the employee benefit plan is statutorily established in 2-18-703, MCA, and is routinely reviewed in HB 13 by the Legislature. In accordance with 2-18-212(1), MCA, the plan must be actuarially sound and is audited by the Legislative Audit Division. The language contained on Page R-5, Lines 25-26 and Page R-6, Lines 1-3<sup>[1]</sup> is sufficient to meet the requirements of 2-18-812(4), MCA, therefore making this appropriation unnecessary and redundant.*

The language included in the bill refers to the state contribution to employee health insurance costs. The LFD requested a legal opinion from legislative legal staff on the question of whether the language cited in the Governor’s veto complied with the requirement outlined in 2-18-703, MCA regarding appropriating the administrative costs from temporary appropriations.

<sup>[1]</sup> (5. Health Care and Benefits Division

Because state employee benefit plans require a large number of individual contributions for a variety of benefit options, because the portion of the contributions paid by the state is statutorily established in 2-18-703, and because the employee and retiree-paid portion of those contributions must be adjusted from time to time to meet the requirements of 2-18-812(1) to maintain state employee group benefit plans on an actuarially sound basis, the legislature defines “rates and fees” for state employee programs to mean the state contribution toward employee group benefits provided for in 2-18-703 and the employee contribution toward group benefits necessary to meet the requirements of 2-18-812(1).

A review of HB 2 shows the executive has not included the administrative costs in the bill but rather considered the appropriations part of the proprietary funding that is budgeted through statutory authority and not routinely considered by the legislature each biennium. According to Legislative Services Division legal staff;

*There is no dispute that Montana law requires the SEGBP to be maintained on an actuarially sound basis (2-18-812(1), MCA) However, Montana law also requires that the expenditures for the actual and necessary expenses for the plan’s administration be made from temporary appropriations. (2-18-812(4), MCA). Section 2-18-812, MCA, requires both that the plan be maintained on an actuarially sound basis and that expenditures to cover its costs be made from temporary appropriations.*

The figure below shows the costs that should, by statute, be included in HB 2.

Department of Administration Health Care and Benefits Division Administrative Costs			
Expenditures	Actuals FY 2014	Proposed FY 2016	Proposed FY 2017
Personal Services	\$1,344,921	\$1,588,104	\$1,588,432
Operating Expenses	<u>8,097,876</u>	<u>9,601,008</u>	<u>9,595,523</u>
Total Administrative Costs	<u>\$9,442,797</u>	<u>\$11,189,112</u>	<u>\$11,183,955</u>

## Legislative Option:

Include the costs of administering the SEGHP in HB 2 as intended by statute.

*Plan Year 2014*

The state employee group benefit plan (SEGBP) operates on a calendar year basis. For a number of years SEGBP has retained reserves that were higher than the amount needed as estimated by the plan's actuary. In calendar year 2014 the financial health of the plan as measured by the level of reserves has declined.

As summary of the information provided in the September 30, 2014 report on SEGBP is provided on the next page. Legislative Fiscal Division staff noted the following concerns with the medical plan as reported in the September 30, 2014 financial report:

- Revenues increased 2.3% when compared to the same period in plan year 2013, from \$111.5 million to \$108.3 million, an amount that does not provide for the costs of the claims during this period. The change is a combination of two factors:
  - Revenues increased by the state share contribution, which was raised 10% from \$733 per state employee per month to \$806 for the first six months and then increased again to \$887 per state employee per month beginning July 1<sup>st</sup> 2014
  - Revenues decreased for contribution reductions of \$20 per participant 18 years or older per month for participation in health screenings and tobacco cessation programs, up to a maximum of \$40 per month per family
- Expenditures for medical expenses increased 36.8% when compared to the same period in plan year 2013, from \$105.4 million to \$137.2 million. Health Care and Benefits Division (HCBD) staff have outlined a number of factors that contributed to the changes:
  - Health care costs increasing overall
  - Higher numbers of employees participating in health screening, which identified a number of chronic diseases such as diabetes or illnesses such as cancer that have high treatment costs
  - Open enrollment in October 2014 that added an additional 500 participants, a number that had high health care costs
  - Third party administrator paying claims slower than the previous contractors, resulting in an incurred but not reported (IBNR) estimate of claims of \$5.5 million in unanticipated claims in plan year 2013. These claims were incurred in plan year 2013 but were either not submitted by providers until plan year 2014 or were not processed by the third party administrator until plan year 2014. This increases the amount of IBNR by \$5.5 million
  - Planned losses in FY 2014 of \$4.8 million due to excess recommended reserve levels at the time the premium rates were established
- In addition, HCBD staff believe that the first quarter of plan year 2013 costs were lower than anticipated for three reasons:
  - Transition between third party administrators resulted in payment delays
  - Implementation of new care policies directed by HCBD staff are believed to have improved the medical review process for medical care and related costs but resulted in delayed payments
  - Claim repricing for network discounts were delayed in implementation
- Plan reserves were \$57.3 million at September 30, 2014 or \$25.1 million below the actuarially recommended level of reserves.

The figure below shows the reported quarterly data including costs by type of plan.

Department of Administration State Employee Group Health Plan				
	Plan Year 2013	Plan Year 2014		
	Jan - Sept	Jan - Sept	Difference	% Change
<b>Revenues</b>				
Charges for Services	\$114,119,421	\$116,758,182	\$2,638,761	2.31%
Investment Earnings	134,010	714,378	580,368	433.08%
State Share Excess	1,563,534	2,388,768	825,234	52.78%
Miscellaneous	<u>2,546</u>	<u>132,201</u>	<u>129,655</u>	<u>5092.50%</u>
<b>Total Revenues</b>	<b>115,819,511</b>	<b>119,993,529</b>	<b>4,174,018</b>	<b>3.60%</b>
<b>Expenditures</b>				
<b>Personal Services</b>				
Salaries	752,821	769,928	17,107	2.27%
Benefits	242,727	263,394	20,668	8.51%
Personal Services - Other	<u>118</u>	<u>5,945</u>	<u>5,827</u>	<u>4938.14%</u>
<b>Total Personal Services</b>	<b>995,665</b>	<b>1,039,268</b>	<b>43,602</b>	<b>4.38%</b>
<b>Operating Expenses*</b>				
Other Services	7,953,151	10,353,501	2,400,350	30.18%
Supplies and Materials	59,984	137,249	77,264	128.81%
Communications	102,706	85,832	(16,874)	-16.43%
Travel	18,765	14,393	(4,371)	-23.29%
Rent	217,264	266,151	48,887	22.50%
Repair and Maintenance	49,858	14	(49,844)	-99.97%
Other Expenses	<u>198,529</u>	<u>488,766</u>	<u>290,237</u>	<u>146.19%</u>
<b>Total Operating</b>	<b>8,600,257</b>	<b>11,345,905</b>	<b>2,745,649</b>	<b>31.93%</b>
Capital Leases	(10,528)	0	10,528	-100.00%
<b>Benefits &amp; Claims</b>				
<b>From State Sources</b>				
Medical Claims	75,922,822	103,880,704	27,957,882	36.82%
Pharmacy Claims	20,287,064	21,448,501	1,161,437	5.73%
Medicare Part D	(1,400,000)	(1,491,593)	(91,593)	6.54%
Dental Claims	<u>5,958,475</u>	<u>5,909,807</u>	<u>(48,668)</u>	<u>-0.82%</u>
<b>Total Benefits and Claims</b>	<b>100,768,361</b>	<b>129,747,419</b>	<b>28,979,058</b>	<b>28.76%</b>
Incurred But Not Reported	2,318,230	7,518,674	5,200,444	224.33%
<b>Total Expenditures</b>	<b><u>112,671,985</u></b>	<b><u>149,651,266</u></b>	<b><u>36,979,281</u></b>	<b><u>28.64%</u></b>
<b>Net Income (Loss)</b>	<b><u>\$3,147,526</u></b>	<b><u>(\$29,657,737)</u></b>	<b><u>(\$32,805,263)</u></b>	<b><u>-900.63%</u></b>
* Includes State Employee Clinic Costs				

As shown in the table,

- Revenues for both the medical and dental plans increased 3.6% for the first nine months of the 2014 plan year when compared to the same period in plan year 2013, which is significantly below expenditures for the same period

- Expenditures for the plan benefits were 28.8% higher when compared to the same period in plan year 2013. Total expenditures exceeded revenues by \$29.6 million in the first nine months of the plan year

Information on the reserves and recommended levels is provided in the Appendix. To address higher costs for increased medical and dental claims the Governor has implemented increased contributions, deductibles, and copays for participants for plan year 2015. The figure below shows the planned changes to deductibles and copay amounts.

Department of Administration Health Care and Benefits Division Changes to Deductible and Out of Pocket Costs			
Item	2014	2015	% Change
Single Member In Network Deductible	500	750	50.00%
Family In Network Deductible	1,000	1,500	50.00%
Single Member Out of Network Deductible	750	1,250	66.67%
Family Out of Network Deductible	1,750	2,750	57.14%
Single Maximum In Network Out of Pocket	4,150	4,950	19.28%
Family Maximum In Network Out of Pocket	8,300	9,900	19.28%
Single Maximum Out of Network Out of Pocket	5,900	6,600	11.86%
Family Maximum Out of Network Out of Pocket	12,800	14,200	10.94%
Office Visit	15	20	33.33%

Contributions for next year were based on the following assumptions:

- Increased projections in costs of:
  - Medical and dental - 8%
  - Pharmacy - 10%
  - Vision - 3%
  - Administration- 2%
- No contributions to plan reserves or to the dependent "subsidy" are contemplated

Proposed contribution increases for various groups are shown on the following page.

Department of Administration Health Care and Benefits Division Premium Increases			
Participants	Plan Year 2014	Plan Year 2015	% Change
Single Employee	717	845	17.85%
Employee and Spouse	926	1,070	15.55%
Employee and Children	809	935	15.57%
Employee and Family	981	1,134	15.60%
Non Medicare Retiree	734	931	26.84%
Mon Medicare Retiree and Spouse	1,037	1,314	26.71%

According to HCBD staff, the increases in the contributions, deductibles, and out of pocket amounts are projected to cover the estimated costs of the plan but will not increase the reserves. HCBD had projected at the end of plan year 2014 reserves would be \$4.6 million below the actuarially recommended level. As previously stated as of October 17, 2014 the reserves were \$13.4 million below the actuarially recommended level of March 2014.

Proprietary Funding

The division is entirely funded from proprietary funds, which are not appropriated in HB 2 and, in the case of the state employee group benefit plan, not approved as a proprietary rate. The various accounts provide for two programs and a third function within the division:

- Health Care Benefits Bureau provides oversight and administrative functions for the state employee group health plan, including administration of health, dental, vision, life insurance, and flexible spending accounts. It is funded from the Group Benefits Claims A/c, an account used for the administrative costs of the bureau and benefit and claim costs
- Workers' Compensation Management Bureau is the central resource for state agencies in working to:
  - Enhance worker safety
  - Provide for loss-prevention
  - Develop and provide return-to-work programs
  - Coordinate workers' compensation coverage and policy management issues
- Flexible spending funds accounts for employee deductions for flexible spending, including medical and child care

Funding

The following table shows proposed program funding by source from all sources of authority.

Department of Administration, 21-Health Care & Benefits Division Funding by Source of Authority						
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
General Fund	0	0	0	0	0.00 %	
<b>State Special Total</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>0.00 %</b>	
<b>Federal Special Total</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>0.00 %</b>	
06027 Flexible Spending Funds	0	19,811,023	0	19,811,023	4.22 %	
06559 Group Benefits Claims A/C	0	449,510,554	0	449,510,554	95.64 %	
06575 Workers Comp Management Program	0	667,918	0	667,918	0.14 %	
<b>Proprietary Total</b>	<b>\$0</b>	<b>\$469,989,495</b>	<b>\$0</b>	<b>\$469,989,495</b>	<b>100.00 %</b>	
<b>Total All Funds</b>	<b>\$0</b>	<b>\$469,989,495</b>	<b>\$0</b>	<b>\$469,989,495</b>		

The Health Care and Benefits Division is funded entirely with proprietary funds.

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget
2015 Budget	0	0	0	0.00 %	196,474,602	196,474,602	392,949,204	0.00 %
PL Adjustments	0	0	0	0.00 %	29,056,210	47,984,081	77,040,291	0.00 %
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
<b>Total Budget</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>		<b>\$225,530,812</b>	<b>\$244,458,683</b>	<b>\$469,989,495</b>	

**Present Law Adjustments -**

The “Present Law Adjustments” table shows the changes from FY 2015 legislative appropriation to the budget proposed by the executive. PSPL adjusts all personal services. LGPL provides for adjustments to other expenditures such as operating expenses. Each is discussed in the narrative that follows. Total funds in the Present Law Adjustments table do not include proprietary funds budgeted in House Bill 2.

Present Law Adjustments	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 98 - LEG. Personal Services Present Law	0.00	0	0	0	0	0.00	0	0	0	0
DP 99 - LEG. Present Law	0.00	0	0	0	0	0.00	0	0	0	0
<b>Grand Total All Present Law Adjustments</b>	<b>0.00</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>0.00</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

DP 98 - LEG. Personal Services Present Law -

The Personal Services Present Law Adjustments (PSPL) in the table below includes all present law adjustments related to personal services, including statewide present law personal services adjustments. This adjustment has been broken out by some of its component parts for a more detailed understanding of the adjustments. FY 2016 and FY 2017 contain the reductions in FTE made by the executive to implement the boilerplate language in HB 2. The net impact to this program is zero.

DP 99 - LEG. Present Law -

The LGPL adjustments are equal to zero.

**Other Issues -**

**Proprietary Rates**

The Healthcare and Benefits Division manages two proprietary programs:

- Employee benefits, which includes the state’s health and other benefit insurance plans, and contract administration of the flexible spending accounts
- Management of the state agency workers’ compensation insurance

**Employee Benefits Program - 06559**

*Program Description*

The Health Care and Benefits Bureau manages the following:

- State employee group benefit plan including on-site employee health centers in Helena, Billings, Miles City, Missoula, and in November Butte
- State employee sick leave fund
- Employee assistance services
- Health promotion
- Voluntary employee benefit health care expense trust

For additional information on the various services see the Appendix.

*Program Narrative*Expenses

Both revenues and expenses for the plan are shown in the figure on the following page. Both the 2015 and 2017 biennia, by fiscal year, are shown for comparison purposes. Administrative costs for the program include:

- Personal services costs of \$3.2 million over the biennium to support 19.44 FTE. Changes included in personal services include the elimination of vacancy savings without a corresponding reduction in FTE
- Operating expenses of \$18.4 million, including health care clinic costs of \$6.7 million

In the 2015 biennium the budget did not include projections of costs for the employee health care clinics (clinics) as part of the operating expenses. As shown in the figure, in FY 2014 the plan paid a total of \$12.0 million for other services, \$6.7 million of this was for costs of the state employee health care clinics. The FY 2015 budget for other services under operating expenses was \$5.9 million.

The plan offers two types of health insurance policies:

- Traditional
- Managed care

Plan participants have moved from the traditional plan to managed care, mainly due to the difference in contribution costs, as for the most part plan elements are similar. This makes comparing plan costs difficult. In addition, the plan has begun to separately identify the costs of dental claims in the state accounting records, whereas before these were included with medical claims. To compare the costs the medical, dental, and tradition plan costs were summed. FY 2014 costs for medical and dental were \$128.9 million while FY 2015 costs are projected at \$127.1 million or \$1.7 million less in FY 2015 than FY 2014 actuals. Given the increases in medical costs in plan year 2014, it does not appear likely that the FY 2015 projections will be accurate, increasing financial pressures on the structural soundness of the plan.

Benefit and claims costs are projected to increase significantly over the 2017 biennium. Compared to FY actuals, costs are projected to increase from \$164.2 million in FY 2014 to of \$192.8 million in FY 2016, and \$210.3 million in FY 2017, or an increase of 17.4% and 28.1%, respectively. Primary cost drivers for both medical and dental claims and prescription drug payments are projected costs and service utilization. The projected budget anticipates cost increases of \$88.1 million over the biennium.

Revenues

The state employee group health plan is self-insured, and as such is responsible for medical costs incurred by its members. SEGHP is funded through a combination of state share and member (employee and retiree) contribution payments. The state share is \$887 per month and is established in 2-18-703(2), MCA. As a component of employee compensation, the state share contribution amount is a subject of collective bargaining and is negotiated as part of the overall pay package for state employees.

Plan revenues from premiums are estimated at \$210.0 million in FY 2016 and \$230.0 million in FY 2017, as shown in the figure below.

Department of Administration State Employee Group Health Plan				
	Actual FY 2014	Projected FY 2015	Proposed FY 2016	Proposed FY 2017
Beginning Fund Balance	\$75,411,649	\$52,959,358	\$45,184,771	\$43,372,693
<b>Revenues</b>				
Charges for Services	159,684,201	175,000,000	210,000,000	230,000,000
Investment Earnings	982,704	1,100,000	1,200,000	1,200,000
Fines/Forfeits	26,430	27,000	27,000	27,000
Grants/Transfers/Misc	1,573,665	1,320,000	1,320,000	1,320,000
Federal	<u>1,400,000</u>	<u>1,400,000</u>	<u>1,400,000</u>	<u>1,400,000</u>
Total Revenues	163,667,000	178,847,000	213,947,000	233,947,000
<b>Expenditures</b>				
<b>Personal Services</b>				
Salaries	1,011,018	1,091,588	1,182,790	1,182,037
Benefits	333,903	338,179	405,314	406,395
Other Post Employment Benefits	<u>68,838</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Personal Services	1,413,759	1,429,767	1,588,104	1,588,432
<b>Operating Expenses</b>				
Other Services	12,030,707	5,906,965	20,023,121	20,512,417
Supplies and Materials	181,594	74,064	181,745	181,801
Communications	146,763	70,183	150,708	150,708
Travel	18,031	18,671	17,515	17,584
Rent	319,941	102,468	319,941	319,941
Repair and Maintenance	39,344	439	39,344	39,344
Other Expenses	<u>668,394</u>	<u>1,098,345</u>	<u>651,981</u>	<u>650,075</u>
Total Operating	13,404,774	7,271,135	21,384,355	21,871,870
<b>Benefits &amp; Claims</b>				
<b>From State Sources</b>				
Managed Care - Hourly Payments	297	19,395	297	297
Medical And Dental Claims	105,721,325	68,321,373	134,286,047	151,790,495
Prescription Drug Payments	29,700,080	45,167,298	29,700,080	29,700,080
Tradnl Medical & Dental Claims	15,164,872	58,824,352	15,164,872	15,164,872
Vision Care	1,188,971	1,133,814	1,188,971	1,188,971
Long Term Care	67,958	145,991	67,958	67,958
Long Term Disability	247,698	385,152	247,698	247,698
IM Premium Incentive Assistance	1,314,585	474,490	1,314,585	1,314,585
Infusion and Home Care Services	0	718,340	0	0
Life Insurance	2,784,764	2,721,061	2,784,764	2,784,764
Dental	8,031,347	0	8,031,347	8,031,347
General	<u>0</u>	<u>9,419</u>	<u>0</u>	<u>0</u>
Total From State Sources	164,221,897	177,920,685	192,786,619	210,291,067
<b>Insurance Payments</b>				
lbnr-Benefit Expense	<u>7,463,200</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Insurance Payments	<u>7,463,200</u>	<u>0</u>	<u>0</u>	<u>0</u>

Total Benefits & Claims	<u>171,685,097</u>	<u>177,920,685</u>	<u>192,786,619</u>	<u>210,291,067</u>
Total Expenditures	186,503,630	186,621,587	215,759,078	233,751,369
Adjustments	<u>384,339</u>	<u>0</u>	<u>0</u>	<u>0</u>
Ending Fund Balance	<u>\$52,959,358</u>	<u>\$45,184,771</u>	<u>\$43,372,693</u>	<u>\$43,568,324</u>
% Decrease		-14.68%	-4.01%	0.45%

**LFD  
ISSUE**

Legislature May Wish To Increase Oversight of the Plan Due to Increases Employee Costs and Declining Reserve Levels

As discussed in the narrative, the financial condition of the SEGBP has declined in the last year as measured by the reserve levels of the plan, costs exceeding revenues, and increasing deductibles and out of pocket costs passed onto employees. The state, as an employer, contributes to state employee health insurance costs through the state share. In FY 2014 73.0% of the revenues for the plan were derived from the state contribution.

In FY 2016 the state share of the plan contribution will decrease under current statute to 64.9% and in FY 2017 it is forecasted to provide only 59.2% of the revenues. Without significant other revenues, which are not currently anticipated, or legislatively approved increases in the state share state, employees and retirees will be required to make up the additional revenues through increased contributions or increases in deductibles and out of pocket costs. Overall revenues would need to increase 20% in FY 2016 and an additional 9.5% in FY 2017 to meet estimates.

As discussed, the plan is supported through an enterprise fund. The legislature does not appropriate the fund, nor does it approve the contribution rates charged to state employees and retirees. It does provide for the state share contribution in HB 2 from a number of funding sources, including the general fund. As discussed in the LFD issue on page x, administrative costs are statutorily required to be included in HB 2. Should the legislature wish more direct oversight of the plan given the changes in the reserve levels and forecasted increased costs to state employees it may wish to increase legislative oversight by requiring the division to report its financial status to the State Administration and Veteran’s Affairs Interim Committee on a regular basis during the 2017 interim.

Legislative Option

The legislature may wish to consider increasing legislative oversight of SEGBP through required reports to the State Administration and Veteran’s Affairs Interim Committee.

**Proprietary Rates**

Funding for the program is with enterprise type proprietary funds. As such, the legislature does not approve rates or appropriate funds for the benefits and claims of this fund. Statute requires that the administrative costs of the fund be included in HB 2.

	<b>Actual FY12</b>	<b>Actual FY13</b>	<b>Actual FY14</b>	<b>Budgeted FY15</b>	<b>Budgeted FY16</b>	<b>Budgeted FY17</b>
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Fee Description:	733	733	770	847	887	887
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**Rates are established to maintain adequate actuarial reserves. Actual state share rates are set for each calendar year as opposed to a fiscal year. This table shows the average monthly state share rate for each fiscal year. Rates for FY 16 and FY 17 have not been determined at this time.**

The amounts shown as rates above are the state share contributions for each state employee each month. The rates are contained in statute. The executive proposes to increase the state share in HB 13 to \$976 in FY 2016 and \$1,054 in FY 2017. The various contribution costs for the program are not limited through the legislative process but are determined by the division based on actuarial estimates of the claim costs for each insurance type. Any difference between the state share contribution and actual costs are made up by employee and retiree contributions and investment income. As the plan year for the state employee health insurance is a calendar year, the revenues for the plans are a combination of contributions from two plan years.

**Workers' Compensation Management Program – 06575**

*Program Description*

The Health Care & Benefits Division manages the Workers' Compensation Management Program. The program assists employees and state agencies in ensuring a safe working environment and reducing on-the-job injuries and accidents in the workplace, and assists employees who are injured in returning to meaningful and productive work. The program is the central resource in working with the state's workers' compensation insurer, Montana State Fund, to coordinate workers' compensation coverage and policy management issues.

*Program Narrative*

Expenses

Significant costs for the program include:

- Personal services of \$0.6 million over the biennium, which supports 3.0 FTE. The program eliminated vacancy savings without a corresponding reduction in FTE, resulting in increased costs
- Operating expenses of \$69,300 over the biennium

Revenues

The workers' compensation management program fees are composed of a fixed cost rate allocated to each state agency based on the average number of payroll warrants issued each pay period. The rate proposed in HB 2 is \$1.02 for each payroll warrant in FY 2016 and FY 2017. This is an increase of 24.4 % and is due to increases in personal service costs.

*Proprietary Rates*

For the 2017 biennium the following rates are proposed by the executive. The rates charged in the base year are shown for comparison purposes.

	<b>Actual FY14</b>	<b>Budgeted FY15</b>	<b>Budgeted FY16</b>	<b>Budgeted FY17</b>
Fee Description:	0.82	0.82	1.02	1.02

The rates approved by the legislature are the maximum the program may charge during the biennium. They are not the rates the program must charge.

In FY 2014 state agencies provided support to the program from the following funds:

General Fund	\$110,589
State Special Revenue	\$89,702
Federal Special Revenue	\$40,360
Enterprise Fund	\$9,403
Internal Service Fund	\$44,266
Pension Trust Fund	\$1,127

**Flexible Spending Account Program - 06027**

*Program Description*

The Flexible Spending Account Program allows state employees to defer part of their gross pay into an account for reimbursement of qualified medical and childcare expenses.

*Program Narrative*

HCBD contracts for the administration of the Flexible Spending Account Program. State employees can elect to set aside a certain amount of their pay into accounts to pay dependent care and out-of-pocket medical costs. The “set aside” funds are withdrawn from employee pay prior to assessment of taxes, effectively lowering employee taxable pay. Employees must submit claims to use the funds deposited in the accounts for allowable expenses.

Federal rules govern the use of and the amount that can be contributed to flexible spending accounts. The current contribution maximums are \$2,500 per year for medical and \$5,000 per year for dependent care. In the fall of 2013 the Internal Revenue Service announced that participants can roll over up to \$500 from the medical flexible spending account into the next benefit year. The plan implemented this change beginning with plan year 2014. Employees forfeit any unspent funds beyond the \$500 rollover for medical and any remaining dependent care balance at the end of the year.

Expenses

Significant costs for the program are for the administration contract.

Revenues

The Flexible Spending Account Program is funded from an administrative fee of \$2.26 per month on each account for participation in the program. Employees may also elect to use a debit card to pay for medical or dependent care costs. The administrative fee for the debit card is an additional \$1.00 for month per employee.

*Proprietary Rates*

For the 2017 biennium the following rates are proposed by the executive. The rates charged in the base year are shown for comparison purposes.

	Actual FY12	Actual FY13	Actual FY14	Budgeted FY15	Budgeted FY16	Budgeted FY17
Fee Description:						
FSA Account	2.25	2.25	2.25	2.25	2.25	2.25
FSA Debit Card	1.00	1.00	1.00	1.00	1.00	1.00
This is a per member per month fee for the members that have elected to participate.						

The rates approved by the legislature are the maximum the program may charge during the biennium. They are not the rates the program must charge. At times the flexible spending account program has accumulated additional funds due to forfeited funds. When able, the program uses the additional funds to waive the fees charged to participants.