

Program Budget Comparison

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

Program Budget Comparison									
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Legislative Budget 2016	Legislative Budget 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change	
Personal Services	0	0	1,588,104	1,588,432	0	3,176,536	3,176,536	0.00 %	
Operating Expenses	0	0	2,942,529	2,937,053	0	5,879,582	5,879,582	0.00 %	
Total Costs	\$0	\$0	\$4,530,633	\$4,525,485	\$0	\$9,056,118	\$9,056,118	0.00 %	
Proprietary Funds	0	0	4,530,633	4,525,485	0	9,056,118	9,056,118	0.00 %	
Total Funds	\$0	\$0	\$4,530,633	\$4,525,485	\$0	\$9,056,118	\$9,056,118	0.00 %	

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

Health Care and Benefits Division Major Budget Highlights
<ul style="list-style-type: none"> • Upon passage and approval of SB 418, the Health Care and Benefits Division costs were removed from HB 2 • The Health Care and Benefits Division is entirely funded with non-budgeted, internal service type proprietary funds • Health care costs are continuing to increase

Program Narrative

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 (SEGBP), 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 with the Group Benefits Claims, 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

The legislature initially included the administrative costs of the state employee group benefit plan in HB 2 as required by current statute. However, the legislature passed and the Governor approved SB 418, removing the requirement for administrative costs to be contained in HB 2. To coordinate this action with HB 2, the Governor line item vetoed the Health Care and Benefit Division's costs from HB 2 funding. The program budget comparison table still includes the administrative costs of the SEGBP.

Plan Year 2014 - State Employee Group Benefit Plan

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 declined.

According to the financial report for plan year ending December 31, 2014 issued by the plan's actuary:

- Revenues increased 3.9% when compared to plan year 2013, from \$154.0 million to \$160.2 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 on January 1, 2014 and then increased again to \$887 per state employee per month beginning January 1, 2015
 - 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 increased 20.2% when compared to plan year 2013, from \$154.0 million to \$185.1 million. Health Care and Benefits Division (HCBd) staff have outlined a number of factors that contributed to the changes:
 - Health care costs increasing overall, especially hospital costs
 - 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 from 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 \$62.0 million at December 31, 2014 or \$16.4 million below the actuarially recommended level of reserves. A decrease of \$29.9 million from plan year 2013.

Plan Year 2015

For the first quarter of plan year 2015 the financial report issued by the actuary includes:

- Revenues for the plan increased 14.7% when compared to the same period in plan year 2014
- Expenditures for the plan decreased 9.6% when compared to the same period in plan year 2014
- 5.8% of the reduction in expenditures was due to a reduction of \$2.9 million in the estimate of incurred but not reported claims
- Revenues for medical plan increased 15.5% when compared to the same period in plan year 2014
- Expenditures for medical expenses decreased 10.1% when compared to the same period in plan year 2014

- Plan reserves are projected at \$45.7 million for December 31, 2015, or \$30.8 million below the actuarially recommended level of reserves, based on the information available through March 31, 2015. This results in a further decrease in plan reserves of \$14.0 million since December 2014

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. HCBD had projected at the end of plan year 2014 reserves would be \$4.6 million below the actuarially recommended level while in actuality they were \$16.4 million below the recommended level.

Legislative Requirements

The legislature required the Department of Administration to consider cost containment measures as a condition for the expenditure of funding for the state employee group benefit plan in the 2017 biennium. In addition, while the legislature did not required DOA to implement specific cost containment measures, it did provide options for consideration including:

- Reviewing and consulting with appropriate experts on:
 - Improving primary care case management and coordinated care to improve medical outcomes and reduce costs
 - Sharing data with providers to identify and reduce inappropriate use or overuse of services
 - Implementing pilot programs to improve health outcomes, such as programs for addressing pain management, emergency department use, and drug or alcohol addiction or abuse
 - Increasing the cost-efficiency of the state health clinics, including recommendations for services and controls on or review of referrals
 - Implementing a network-based or referenced-based pricing arrangement, or both, with health care facilities, health care providers, and medical transport providers, considering a multiple of Medicare rates to establish a contract of network providers or as a reference-based pricing model for the arrangement
 - Amending contracts to the extent possible, for the state health clinics to require copayments equal to the copayments required by the state employee group benefit plans for similar services
- Requiring a contractor or third-party administrator to provide data analytics, professional expertise, and recommendations for improvement of the state employee group benefit plan to DOA, the State Employee Group Benefit Advisory Council, and the Legislative Finance Committee

Changes to the State Share Contribution to Employee Group Benefits

Also included in SB 418 were changes to the employer contribution to employee group benefits. The legislature increased the employer contribution by:

- 10% to \$976 a month in FY 2016 effective January 1, 2016 for state agency employees and members of the legislature
- 8% to \$1,054 a month in FY 2017 effective January 1, 2017 for state agency employees and members of the legislature

The legislature provided appropriations to fund the changes within HB 2.

Funding

The following table shows 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 %	
State Special Total	\$0	\$0	\$0	\$0	0.00 %	
Federal Special Total	\$0	\$0	\$0	\$0	0.00 %	
06027 Flexible Spending Funds	0	19,811,023	0	19,811,023	4.34 %	
06559 Group Benefits Claims A/C	9,056,118	427,137,380	0	436,193,498	95.52 %	
06575 Workers Comp Management Program	0	643,992	0	643,992	0.14 %	
Proprietary Total	\$9,056,118	\$447,592,395	\$0	\$456,648,513	100.00 %	
Total All Funds	\$9,056,118	\$447,592,395	\$0	\$456,648,513		

The Health Care and Benefits Division is funded entirely with proprietary funds. The legislature appropriated \$4.5 million of the funds within HB 2 each year of the biennium as required by statute, the remaining funding is statutorily appropriated for benefits and claims.

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 %	0	0	0	0.00 %
PL Adjustments	0	0	0	0.00 %	4,530,633	4,525,485	9,056,118	100.00 %
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	\$0	\$0	\$0		\$4,530,633	\$4,525,485	\$9,056,118	

Present Law Adjustments

The “Present Law Adjustments” table shows the adopted changes from the FY 2015 legislative appropriation. Each is discussed in the narrative that follows.

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 2100200 - Administrative Costs in HB 2	0.00	0	0	0	4,530,633	0.00	0	0	0	4,525,485
Grand Total All Present Law Adjustments	0.00	\$0	\$0	\$0	\$4,530,633	0.00	\$0	\$0	\$0	\$4,525,485

**Total Funds” amount includes funding from sources other than General Fund, State Special, or Federal Special (i.e. Proprietary).

DP 2100200 - Administrative Costs in HB 2 -

The legislature funded the administrative costs of the State Employee Group Benefit Plan in HB 2 as required by statute and correspondingly reduced authority in the non-budgeted internal service fund.

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

The plan previously offered two types of health insurance policies:

- Traditional
- Managed care

Plan participants historically 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. Health Care and Benefits Bureau now offers only one health insurance policy option for participant's called the Capitol Plan.

Funding for the program is with internal service type proprietary funds. As such, the legislature does not approve rates or appropriate funds for the benefits and claims of this fund.

Proprietary Rates

	Actual FY12	Actual FY13	Actual FY14	Budgeted FY15	Budgeted FY16	Budgeted FY17
Fee Description: State Share Contribution	733	733	806	887	976	1,054
Rates are established to maintain adequate actuarial reserves. Actual state share rates are set in statute for each calendar year as opposed to a fiscal year.						

The amounts shown as rates above are the state share contributions for each state employee each month. 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 benefit type. Any difference between the state share contribution and actual costs are made up by employee and retiree contributions and investment income.

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.

Proprietary Rates

For the 2017 biennium the following rates were approved by the legislature. The rates charged in the base year are shown for comparison purposes.

	Actual FY14	Budgeted FY15	Budgeted FY16	Budgeted FY17
Fee Description:				
Administrative Fee	0.82	0.82	0.99	0.98

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.

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.

Proprietary Rates

For the 2017 biennium the following rates were adopted by the legislature. 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	0	0	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 debit card option began in FY 2014.						

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.