

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 in an efficient manner and at an affordable cost by administering a solvent, prudent benefits program. 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. The division administers a lease and contract to provide daycare services for Helena area state employees. Finally, the division is responsible for the centralized oversight and management of workers' compensation related matters impacting the state as an employer.

Employee benefits are governed by 2-18-701 et seq., 2-18-801 et seq., 2-18-1101 et seq., 2-18-1301 et seq., and 33-2-712, MCA. The Montana Safety Culture Act as it applies to state government is found in 39-71-1501 et seq.

Program Highlights

Health Care & Benefits Division Major Budget Highlights
<ul style="list-style-type: none"> ◆ The Health Care and Benefits Division is entirely funded with proprietary funds ◆ The legislature included administrative costs of the state employee benefit plan in HB 2 as required by statute, however the Governor line-time vetoed the funding ◆ The legislature approved increases of 10% each year of the biennium to the state share contributions in HB 13. The employer state share partially funds the cost of the state employee group health care

Program Narrative

Statute requires that the administrative costs of the State Employee Group Benefit Plan (SEGBP) be included in HB 2. The legislature approved including personal service costs to support 19.64 FTE, operating expenses associated with administration, and benefit and claims costs for the wellness programs offered by the plan in HB 2. Operating expenses include:

- \$4.7 million over the biennium for consulting and professional services
- \$3.8 million over the biennium for third party administrator fees for managed care plans

The legislature approved increased personal services for 6.00 FTE that were added in FY 2012 including:

- Computer Supervisor – 1.00 FTE
- Computer Support Specialist – 1.00 FTE
- Benefit Technician – 2.00 FTE
- Accounting Technician – 1.00 FTE
- Public Relations Specialist – 1.00 FTE

In previous biennia, under a memorandum of understanding the division paid the salaries and benefits of 4.00 FTE to the State Human Resources Division (SHRD) and the individuals worked for the Health Care and Benefits Division. As part of the transfer the legislature approved a decrease in operating costs. The reimbursements to the SHRD were recorded as operating costs by HCBD. The other two positions were transferred from the General Services Division.

Governor Bullock line-itemed vetoed the inclusion of the funding in the bill stating that language included in HB 2 addressing the state share of employee benefits was sufficient to meet the statutory requirements to include the administrative costs of the SEGBP as temporary appropriations.

Funding

The following table shows program funding by source of authority for the 2015 biennium as adopted by the legislature.

Total Department Of Administration Funding by Source of Authority 2015 Biennium Budget - Health Care & Benefits Division							
Funds	HB 2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	MCA Reference	Statutory Category
Proprietary Total	\$0	\$374,069,986	\$0	\$374,069,986	100.0%		
06027 Flexible Spending Funds	\$0	\$14,523,400	\$0	\$14,523,400	3.9%		
06559 Group Benefits Claims A/c	\$0	\$359,000,559	\$0	\$359,000,559	96.0%		
06575 Workers' Comp Management	\$0	\$546,027	\$0	\$546,027	0.1%		
Total All Funds	\$0	\$374,069,986	\$0	\$374,069,986	100.0%		
Percent - Total All Sources	0.0%	100.0%	0.0%				

As shown above, the division is entirely funded from proprietary funds. 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 benefit plan, including administration of health, dental, 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 account for employee deductions for flexible spending, including medical and child care

Proprietary Rates

Proprietary Program Description

The Healthcare and Benefits Division manages two proprietary programs:

- Health care benefits for employees, 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

The 2013 biennium budget for the three proprietary funds supporting these programs are shown on the following page.

Department of Administration Health Care and Benefits Division Proprietary Program Costs - Non HB 2					
Program/Costs	Actual FY 2012	Estimated FY 2013	Budgeted FY 2014	Budgeted FY 2015	% of Total
<u>Health Care Administration</u>					
FTE	19.64	13.87	19.64	19.64	
Personal Services	\$1,329,567	\$964,753	\$1,315,575	\$1,318,363	0.70%
Operating Costs	<u>1,009,068</u>	<u>1,675,407</u>	<u>1,119,550</u>	<u>1,111,350</u>	<u>0.60%</u>
Subtotal Health Care Administration	2,338,635	2,640,160	2,435,125	2,429,713	1.30%
<u>Employee Benefits Program</u>					
Personal Services	0	0	0	0	0.00%
Operating Costs	5,904,551	6,752,440	6,159,551	6,159,551	3.29%
Other Benefits*	4,395,437	1,849,171	4,395,437	4,395,437	2.35%
Medical Services and Dental Benefits	110,154,328	131,091,948	121,345,575	128,357,950	66.75%
Precription Benefits	<u>26,963,676</u>	<u>30,288,788</u>	<u>38,154,922</u>	<u>45,167,298</u>	<u>22.27%</u>
Subtotal Employee Benefits Program	147,417,992	169,982,347	170,055,485	184,080,236	94.67%
<u>Flexible Spending Accounts</u>					
Personal Services	0	0	0	0	0.00%
Operating Expenses	138,515	175,482	138,515	138,515	0.07%
Reimbursements to Plan Members	<u>7,123,185</u>	<u>8,396,323</u>	<u>7,123,185</u>	<u>7,123,185</u>	<u>3.81%</u>
Subtotal Flexible Spending Account Expenses	7,261,700	8,571,805	7,261,700	7,261,700	3.88%
<u>Workers' Compensation Management</u>					
Personal Services	255,636	213,899	235,842	236,389	0.13%
Operating Costs	<u>31,528</u>	<u>200,697</u>	<u>36,945</u>	<u>36,851</u>	<u>0.02%</u>
Subtotal Workers' Compensation Mangement	287,164	414,596	272,787	273,240	0.15%
Total Operating Expenses - Non HB 2	<u>\$157,305,491</u>	<u>\$181,608,908</u>	<u>\$180,025,097</u>	<u>\$194,044,889</u>	<u>100.00%</u>
* Other benefits include vision care, long term care, long term disability, life insurance, and general benefits					

The budget for the Employee Benefits Program is about 95% of the 2015 biennium budget. The majority of the costs are medical, dental, and prescription services for plan members. The flexible spending accounts program is about 4% of the total with the majority of the expenses related to employee reimbursements for child care costs and medical cost reimbursements. The Workers' Compensation Management Program coordinates state agency workers' compensation coverage and policy management issues.

Employee Benefits Program - 06559

Program Description

The Health Care and Benefits Bureau manages the following:

- State employee group benefit health plan
- State employee sick leave fund
- Employee assistance services
- Health promotion
- Voluntary employee benefit health care expense trust

Prior to the 2015 biennium budget, the administrative costs of the program were not included in HB 2. The legislature included the costs in the appropriations bill as required by statute. However, the Governor removed the appropriations from HB 2 by a line-item veto.

Program Narrative

Expenses

Significant costs for the program include:

- \$341.8 million in benefits and claims over the 2015 biennium including:
 - \$247.3 million for projected medical and dental claims – an increase of 10.27% above the FY 2012 base amount in FY 2014 and 16.7% in FY 2015
 - \$83.3 million for projected prescription drug payments – an increase of 41.5% above the FY 2012 base amount in FY 2014 and 67.5% in FY 2015

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 \$58.8 million over the biennium for medical and prescription drug cost and utilization increases compared to the FY 2012 base budget of \$141.5 million. By comparison the projected budget increase for the 2013 biennium was \$57.8 million over the biennium compared to a base budget of \$101.4 million.

Higher costs in the base year were driven by higher incurred medical payments. Measurements related to medical costs for the 2012 plan year include:

- Medical expenses per eligible participant were 0.2% lower when compared to 2011 plan year
- Prescription costs were 11.0% higher when compared to the 2011 plan year
- Dental claims were 2.0% higher when compared to the 2011 plan year
- Medical paid claims loss ratio of 88.2% compared to 84.0% for the 2011 plan year for active employees. A loss ratio is the amount of health care costs incurred during the year compared to the amount of premium
- Medical paid claims loss for retirees included:
 - Early retirees medical paid loss ratio of 156.0% compared to 147.6% a year ago
 - Retirees eligible for Medicare medical paid loss ratio of 80.6% compare to 72.6% a year ago

Revenues

The State Employee Group Benefit Plan is self-insured, and as such is responsible for medical costs incurred by its members. The health plan is funded by the state (employer share) and premium payments by members. As a component of employee compensation, the state contribution amount is a subject of collective bargaining and is negotiated as part of the overall pay package for state employees. The state share in the 2013 biennium was \$733 per month and is established in 2-18-703(2), MCA. HB 13 included increases of 10% per year for the employer share of the health plan increasing the per month allotment to:

- \$806 per month per employee in FY 2014
- \$887 per month per employee in FY 2015

The figure below shows the estimated premium revenues for the State Employee Group Benefit Plan and the various revenue sources.

Department of Administration Health Care and Benefits Division Estimated Premium Revenues				
	FY 2014 (in millions)	% of total Revenues	FY 2015 (in millions)	% of total Revenues
State Share Included In HB 2	\$121.0	73.3%	\$121.0	69.14%
State Share Included in HB 13	5.5	3.3%	14.9	8.51%
Additional Employee Premiums and Investment	38.5	23.3%	39.1	22.34%
Estimated Premium Revenues	\$165.0	100.0%	\$175.0	100.00%

As shown, plan revenues from premiums are estimated at \$165.0 million in FY 2014 and \$175.0 million in FY 2015. The state share for the state employee group health plan is budgeted at \$121.0 million in both FY 2014 and FY 2015 in HB 2 and provides the majority of the funding for the program. HB 13 includes an additional \$5.5 million in FY 2014 and \$14.9 million in FY 2015 for anticipated premium increases, with the remainder primarily from additional premiums paid by members including retirees and investment income.

Proprietary Rates

For the 2015 biennium, the following rates are included in HB 13 and are shown below. The rates charged in the base year are shown for comparison purposes.

Department of Administration Health Care and Benefits Division				
	Actual FY 12	Budgeted FY 13	Budgeted FY 14	Budgeted FY 15
Fee Group A				
State share per employee per month	\$733	\$733	\$806	\$887
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 as required in statute.				

The rates shown above are the state contribution for each state employee each month. The rates are contained in the pay plan (HB 13) and are include in statute. The various premium costs for the program are not limited through the legislative process but are determined by the division based on actuarial estimates of the claims costs for each insurance type. Any difference between the state contribution and actual costs are made up by employee premiums 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 premiums 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 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 are for:

- o Personal services of \$472,231 over the biennium
- o Operating costs of \$73,796 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 in HB 2 is \$0.82 for each payroll warrant in FY 2014 and FY 2015.

Proprietary Rates

For the 2015 biennium the following rates were adopted by the legislature as shown below. The rates charged in the 2013 biennium are shown for comparison purposes.

Department of Administration Health Care and Benefits Bureau Workers' Compensation Management Program				
	Actual FY 12	Budgeted FY 13	Budgeted FY 14	Budgeted FY 15
Fee Group A				
Administrative Fee (per payroll warrant per pay period)	\$1.09	\$1.08	\$0.82	\$0.82
Program rates have been established to maintain a 60-day working capital. The rates are to be paid by state agencies and are based on a projected number of payroll warrants to be issued.				
Note: This analysis does not include OPEB expenses.				

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 employees to defer part of their gross pay into an account for reimbursement of qualified:

- o Medical expenses
- o Childcare expenses

Program Narrative

HCBD contracts to administer a flexible spending account program for state employees, who can set aside a certain amount of their pay into accounts for costs throughout the year. The “set aside” funds are withdrawn from employee pay prior to assessment of taxes, effectively lowering employee taxable pay. Employees must submit claims for allowable expenses to use funds deposited into the accounts. Employees forfeit any unspent funds.

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.

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. The fee was waived in the 2013 biennium. At times the flexible spending account program has accumulated additional funds due to forfeited funds. In the 2013 biennium the program used the additional funds to waive the monthly \$2.26 fee charged to participants.

Proprietary Rates

For the 2015 biennium the legislature adopted the rates as shown below. The rates charged in the base year are shown for comparison purposes.

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.

Department of Administration Health Care and Benefits Division Flexible Spending Account Program				
	Actual FY 12	Budgeted FY 13	Budgeted FY 14	Budgeted FY 15
Fee Group A				
Administrative Fee (per member per month)	\$0.00	\$0.00	\$2.26	\$2.26
Administrative fees charged and collected from plan participants are determined through the competitive bid process as part of the selection of a plan administrator.				