



State Health Plan

Introduction

During the 2012 to the 2014 Legislative Sessions, the increased cost of the state health plan became more concerning as claims continued to exceed projected estimates. As a result, the Bureau of Human Resources (BHR) contracted with a new actuary, made health plan design changes, and implemented a new wellness initiative. The 2014 Legislature also approved the creation of a reserve balance for the state health plan. This issue memorandum will provide general background information about the state health plan, outline the shortfalls from the past three Legislative Sessions, and provide an update on the current status of the state health plan.

Background

In 1972, the Legislature established a group health insurance plan for state employees, which was initially administered by the Board of Trustees of the State Retirement System. In 1988, the Legislature transferred the administration of the health insurance plan to the Bureau of Personnel (now referred to as the Bureau of Human Resources).

The state health plan is a self-funded plan, which means the employer assumes financial risk for providing health benefits to its employees. In practical terms, the state pays for claims out-of-pocket at the time they are presented rather than paying premiums to an insurance carrier. Self-funded plans allow for greater flexibility in designing plan benefits, which can translate to greater budget flexibility and more effective management.

While there are benefits to self-funded health plans, there are also challenges such as contracting with providers, managing vendors, providing satisfactory customer service, and managing claims. BHR is facing new challenges, such as rising health care costs, increasing demand for services, and the implementation of the Affordable Care Act, all while working towards the goal of recruiting and retaining qualified employees.

Timing is another factor that adds to the complexity of the state health plan. When BHR reports information about the state health plan to the Joint Appropriations Committee during Session, it presents data for three fiscal years. It presents the actual figures from the previous fiscal year, status and projections for the remainder of the current fiscal year, and projections for the next fiscal year.

After plan changes are made, the actuary provides claims estimates. The plan need is determined based on revenue and expense projections. Revenues include employer contributions, premiums, and interest, while expenses include claims and administration costs. The plan need is then divided among all benefitted employees, which is also known as the employer contribution base rate.

In other words, the cost of the state health plan is divided by the number of benefitted state employees and is billed to each agency as the employer contribution base rate. State agencies pay the base rate for each member it employs that is enrolled in the plan. Therefore, budget increases for the state health plan essentially represent an increase in the employer contribution base rate.

During the past two legislative sessions, the Legislature has had to backfill the actual shortfall from the previous fiscal year and projected shortfall for the current fiscal year. This is done by amending the current year's General Appropriations Act. In addition, the Legislature has had to cover shortfalls projected for the succeeding fiscal year, which is done through the regular appropriations process and the next fiscal year's General Appropriations Act.

State employees are not charged premiums for health insurance through the state health plan. However, a state employee's spouse and dependents are charged premiums, as well as retirees and COBRA employees. Currently, the state health plan has over 26,000 members. There are three different deductible plans: \$750, \$1,250, and \$1,800. The lowest deductible plan is the most popular, and members must participate in the Latitude Wellness Program, a health screening, and an online health assessment to qualify. However, due to higher premiums and wellness requirements, more members are switching to the middle and highest deductible plans.

2012 Legislative Session

During the 2012 Session, BHR estimated that the state health plan would end FY 2012 with a \$1.3 million surplus, while FY 2013 was projected to have an \$8.2 million shortfall due to medical inflation.

The estimated shortfall for FY 2013 was offset by making administrative changes, which was projected to save \$3.3 million, and implementing plan design changes to increase member contributions, which was projected to raise \$2.4 million in revenues.

To cover the remaining shortfall in FY 2013, the Governor recommended a \$2.6 million budget increase, which included \$0.9 million in general funds, \$0.6 million in federal funds, and \$1.0 million in other funds. This recommendation represented a \$200 employer contribution base rate increase from the FY 2012 base rate of \$6,135, totaling \$6,335 per employee for FY 2013. The Legislature approved this recommendation to increase the base rate, which was included in SB 197, the General Appropriations Act for FY 2013.

The FY 2013 health plan changes included increasing the \$300 deductible plan to a \$500 deductible, reducing the \$2,000 deductible plan to an \$1800 deductible, and modifying medical and pharmacy plan co-payments. In addition to increasing member contributions, BHR also made several administrative changes in FY 2013. These included assigning case managers to high cost claimants, managing the use of emergency department facilities, auditing pre and post payment claims, contracting directly with providers, and focusing on member wellness.

Table 1 shows the FY 2011 unaudited actuals, FY 2012 budgeted figures, and FY 2013 budgeted figures for the state health plan during the 2012 Legislative Session. The FY 2012 budgeted figures include the budget increase, and the FY 2013 budget figures include the budget increase, plan design changes, and administrative savings.

Table 1 – FY 2011 unaudited actuals, FY 2012 budgeted figures, and FY 2013 budgeted figures for the state health plan during 2012 Legislative Session.

	FY 2011 Unaudited	FY 2012 Budgeted	FY 2013 Budgeted
Base Rate	\$6,135	\$6,135	\$6,335
Revenue			
Contributions to Plan			
Employer Paid	\$78,734,012	\$78,040,861	\$80,337,566
Retiree, COBRA, Dependents	\$19,224,469	\$19,504,061	\$19,504,061
Federal Early Retirement Program	\$973,223	\$650,000	\$0
Administrative Fee	\$138,725	\$145,168	\$145,168
Interest Revenue	\$786,699	\$600,000	\$600,000
Refund of Prior Years Claims	\$1,984,528	\$2,300,000	\$1,350,000
Total Revenue	\$101,841,656	\$101,240,090	\$101,936,795
Expenses			
Claims	\$94,574,971	\$91,642,174	\$91,888,080
Employer Life Claims	\$390,000	\$550,000	\$550,000
Administration	\$7,466,890	\$7,733,751	\$9,460,770
Total Expenses	\$102,431,861	\$99,925,925	\$101,898,850
Over/Underrecovery	(\$590,205)	\$1,314,165	\$37,945
Prior Year Over/Underrecovery	\$665,367	\$75,162	\$1,389,327
Cumulative Over/Underrecovery	\$75,162	\$1,389,327	\$1,427,272

2013 Legislative Session

Although BHR projected that FY 2012 would end in a \$1.3 million surplus, the state health plan actually ended FY 2012 with an \$8.5 million shortfall. This was caused by \$5.4 million in high cost claimants, which are members that experience over \$50,000 in annual medical expenses, \$2.0 million from an increased use of specialty drugs, and \$2.8 million from a change in claims processing. Beginning in FY 2012, claims were paid weekly, rather than every other week as they were paid in previous years. This \$10.5 million in additional expenses was offset by \$1.7 million in additional miscellaneous revenue, totaling an \$8.5 million shortfall for FY 2012.

Unfortunately, FY 2013 was facing a similar situation. Even after implementing health plan changes, administrative changes, and a base rate increase, BHR projected a \$12.6 million shortfall for the state health plan in FY 2013. The shortfall was caused by higher claim projections from the actuary (\$9.7 million), an increased need to carry a higher reserve for claims incurred but not reported (\$1.9 million), increased administrative fees from the implementation of the Intensive Case Management and Emergency Room Management Programs (\$500,000), and reduced interest revenue (\$500,000).

To offset the funding gap, the Governor recommended a \$21.3 million budget increase to the General Appropriations Act for FY 2013, which included \$7.9 million in general funds, \$4.9 million in federal funds, and \$8.5 million in other funds. The 2013 Legislature approved this recommendation with the passage of HB 1060, which amended the General Appropriations Act for FY 2013. The budget increase represented a one-time adjustment to the employer base rate of \$1,615, which brought the employer contribution base rate up to \$7,950 per employee for FY 2013.

Table 2 displays FY 2012 unaudited actuals, FY 2013 revised estimate from the original estimate made in the 2012 Session, and FY 2013 budgeted figures, which include the budget increase, for the state health plan during the 2013 Legislative Session.

Table 2 – FY 2012 unaudited actuals, FY 2013 revised estimate, and FY 2013 budgeted figures for the state health plan during the 2013 Legislative Session.

	FY 2012 Unaudited	FY 2013 Revised Estimate	FY 2013 Budgeted
Employer Base Rate	\$6,135	\$6,335	\$7,950
Revenue			
Contributions to Plan			
Employer Paid	\$77,896,559	\$80,514,054	\$101,105,304
Retiree, COBRA, Dependents	\$19,453,041	\$18,972,174	\$18,972,174
Federal Early Retirement Program	\$0	\$0	\$0
Administrative Fee	\$147,770	\$147,000	\$147,000
Interest Revenue	\$468,447	\$150,000	\$150,000
Refund of Prior Years Claims	\$5,192,171	\$1,500,000	\$1,500,000
Total Revenue	\$103,157,988	\$101,283,228	\$121,874,478
Expenses			
Claims	\$103,238,667	\$103,520,232	\$103,520,232
Employer Life Claims	\$577,500	\$550,000	\$550,000
Administration	\$7,962,083	\$9,258,225	\$9,258,225
Total Expenses	\$111,778,250	\$113,328,457	\$113,328,457
Over/Underrecovery	(\$8,620,262)	(\$12,045,229)	\$8,546,021
Prior Year Over/Underrecovery	\$75,162	(\$8,545,100)	(\$8,545,100)
Cumulative Over/Underrecovery	(\$8,545,100)	(\$20,590,329)	\$921

For FY 2014, BHR estimated a \$20.1 million gap, if no changes were made to the state health plan. BHR implemented plan design changes to increase member contributions, which included increasing out-of-pocket costs, eliminating copays except for emergency room visits, expanding prescriptions to a 5 tier system, increasing dependent premiums by 5%, and increasing retirees and COBRA premium rates by 12%. These plan changes were projected to raise \$5.6 million in revenue. BHR also implemented contract and administrative changes, expecting to save \$2.6 million.

To cover the remaining shortfall in FY 2014, the Governor recommended a budget increase of \$12.3 million, which included \$4.5 million in general funds, \$2.9 million in federal funds, and \$4.9 million in other funds. This budget increase represents a \$934 employer contribution base rate increase, totaling \$7,269 per employee for FY 2014. The recommendation was approved by the Legislature and was included in HB 1185, the General Appropriations Act for FY 2014. Table 3 shows the FY 2014 estimated figures if plan changes were not implemented and the state health plan FY 2014 budgeted figures, which include the budget increase, administrative savings, and plan design changes.

Table 3 – FY 2014 estimated figures and FY 2014 budgeted figures for the state health plan during the 2013 Legislative Session.

	FY 2014 Estimated	FY 2014 Budgeted
Employer Rate	\$6,335	\$7,296
Revenue		
Contributions to Plan		
Employer Paid	\$80,771,250	\$91,707,418
Retiree, COBRA, Dependents	\$18,973,374	\$20,061,381
Federal Early Retirement Program	\$0	\$0
Administrative Fee	\$147,000	\$147,000
Interest Revenue	(\$500,000)	\$150,000
Refund of Prior Years Claims	\$1,500,000	\$1,500,000
Total Revenue	\$100,891,624	\$113,565,799
Expenses		
Claims	\$111,400,000	\$103,756,278
Employer Life Claims	\$550,000	\$550,000
Administration	\$9,258,225	\$9,258,225
Total Expenses	\$121,208,225	\$113,564,503
Over/Underrecovery	(\$20,316,601)	\$1,296
Prior Year Over/Underrecovery	\$917	\$917
Cumulative Over/Underrecovery	(\$20,315,684)	\$2,213

The Governor also recommended a budget increase of \$8.1 million for FY 2014 to implement a wellness initiative, which amounted to an additional \$550 base rate increase per employee. However, the Appropriations Subcommittee on the State Health Plan recommended a delay on the wellness component and recommended that BHR develop a Health Savings Reimbursement Account Program with an employer/employee matching component. The Subcommittee also recommended that BHR obtain proposals for aggregate reinsurance coverage, in light of the Affordable Care Act removing life time maximums.

2014 Legislative Session

After implementing plan design changes, administrative changes, and a higher base rate employer contribution, the state health plan still ended FY 2013 with a \$7.2 million gap. BHR reported that this gap was caused by higher administration costs, high cost claimants, and an underestimation of claims.

BHR also projected that the state health plan would end FY 2014 with a \$15.9 million claims gap. This gap was calculated from \$7.6 million in additional claims, an actuarial copayment error of \$4 million, and removing \$2.6 million in administrative savings that were not realized. However, BHR implemented mid-year changes in FY 2014, which are detailed in the following paragraph, including the Tier 1 program and other facility contracts. BHR estimated these changes would save \$1 million, lowering the projected claims gap for FY 2014 from \$16.9 million to \$15.9 million. The total program shortfall was estimated to be \$23.1 million, including the projected \$15.9 million shortfall for FY 2014 and \$7.2 million shortfall carried over from FY 2013.

During FY 2014, BHR made several mid-year changes, including the implementation of the Tier 1 system, which contracts for specific procedures at certain facilities at discounted rates. BHR also contracted with a new actuarial and benefit design consultant, AON Hewitt, beginning July 1, 2013.

To address the funding gap from FY 2013 and FY 2014, the Governor recommended a \$23.3 million budget increase, which included \$8.8 million in general funds, \$5 million in federal funds, and \$9.5 million in other funds. The Governor also recommended an additional \$3 million increase to create a state employee health insurance reserve, which included \$1.1 million in general funds, \$0.7 million in federal funds, and \$1.2 million in other funds. Both recommendations were approved by the Legislature and were included in HB 1040, which revised the General Appropriations Act for FY 2014.

For FY 2015, BHR estimated that the state health plan would have a \$21.6 million program gap if no plan changes were implemented. BHR made several plan changes to increase revenues, including raising the \$500 deductible plan to \$750 (\$1.6 million), raising the \$1,000 deductible plan to \$1,250 (\$0.7 million), increasing medical out-of-pockets for all three plans by \$750 (\$1.7 million), raising prescription copayments (\$1.3 million) and eliminating COBRA and retiree subsidies (\$0.5 million). BHR estimated that these plan changes would amount to an additional \$5.8 million in revenue.

In addition to implementing plan changes, the Governor recommended a \$17.9 million budget increase, which included \$6.7 million in general funds, \$3.9 million in federal funds, and \$7.3 million in other funds. This recommendation would increase the employer contribution base rate by \$1,353, bringing the base rate up to \$8,622 for FY 2015. The recommendation was approved by the Legislature and was included in SB 187, the General Appropriations Act for FY 2015.

Table 4 shows FY 2013 unaudited actuals, FY 2014 budgeted figures, which include the budget increase, and FY 2015 budgeted figures, which include the budget increase and plan design changes, for the state health plan during the 2014 Legislative Session.

Table 4 – FY 2013 unaudited actuals, FY 2014 budgeted figures, and FY 2015 budgeted figures for the state health plan during the 2014 Legislative Session.

	FY 2013 Unaudited	FY 2014 Budgeted	FY 2015 Budgeted
Employer Rate	\$7,950	\$9,304	\$8,622
Revenue			
Contributions to Plan			
Employer Paid	\$101,717,350	\$118,502,499	\$109,301,316
Retiree, COBRA, Dependents	\$19,013,362	\$19,591,141	\$20,162,871
Federal Early Retirement Program	\$0	\$0	\$0
Administrative Fee	\$149,423	\$150,000	\$150,000
Interest Revenue	\$197,220	\$70,000	\$70,000
Refund of Prior Years Claims	\$1,784,219	\$1,500,000	\$1,500,000
Total Revenue	\$122,861,574	\$139,813,640	\$131,184,187
Expenses			
Claims	\$111,120,581	\$117,000,422	\$118,169,664
Employer Life Claims	\$465,000	\$550,000	\$550,000
Administration	\$9,978,208	\$12,003,538	\$12,295,322
Total Expenses	\$121,563,789	\$129,553,960	\$131,014,986
Over/Underrecovery	\$1,297,785	\$10,259,680	\$169,201
Prior Year Over/Underrecovery	(\$8,545,104)	(\$7,247,319)	\$3,012,361
Cumulative Over/Underrecovery	(\$7,247,319)	\$3,012,361	\$3,181,562

FY 2014 Actuals

During the 2014 Session, BHR projected the state health plan would end FY 2014 with a \$10.3 million surplus after plan design changes were implemented and the employer contribution base rate was increased. However, the state health plan actually ended FY 2014 with a \$21.6 million surplus. After carrying over the cumulative shortfalls from previous years, at the end of FY 2014, the state health plan had an overall positive balance of \$18.1 million, including the state employee health insurance reserve of \$3.0 million. Table 5 shows the full accrual basis financial statement for the state health plan from FY 2011 to FY 2015. The figures from FY 2011 to FY 2014 are actuals, while the FY 2015 figures are the projected estimates from the 2014 Legislative Session.

Table 5 – State health plan FY 2011 to FY 2015 full accrual basis financial statement.

Full Accrual Basis Financial Statements					
	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015 (Estimate)
Employer Rate	\$6,135	\$6,135	\$6,335 base rate + one-time adjustment of \$1,615 = \$7,950	\$7,269 base rate + one-time adjustment of \$2,035 = \$9,304	\$8,622
Revenue					
Contributions to Plan					
Employer Paid	\$78,734,012	\$77,896,559	\$101,717,350	\$119,338,160	\$109,301,316
Retiree, COBRA, Dependents	\$19,224,469	\$19,453,041	\$19,013,362	\$19,428,379	\$20,162,871
Federal Early Retirement Program	\$973,223	\$0	\$0	\$0	\$0
Administrative Fee	\$138,725	\$147,770	\$149,423	\$151,421	\$150,000
Interest Revenue	\$786,698	\$468,447	\$197,220	\$186,015	\$70,000
Refund of Prior Years Claims	\$1,984,528	\$5,192,171	\$1,784,219	\$1,054,483	\$1,500,000
Total Revenue	\$101,841,655	\$103,157,988	\$122,861,574	\$140,158,458	\$131,184,187
Expenses					
Claims	\$94,574,971	\$103,238,667	\$111,120,581	\$106,286,028	\$118,169,664
Employer Life Claims	\$390,000	\$577,500	\$465,000	\$182,500	\$550,000
Administration	\$7,466,890	\$7,962,083	\$9,978,208	\$12,045,075	\$12,295,322
Total Expenses	\$102,431,861	\$111,778,250	\$121,563,789	\$118,513,603	\$131,014,986
Current Year Over/Underrecovery	(\$590,206)	(\$8,620,262)	\$1,297,785	\$21,644,855	\$169,201
Prior Year Overstatement of FY13 Claims				\$3,708,848*	
Prior Year Over/Underrecovery	\$665,364	\$75,158	(\$8,545,104)	(\$7,247,319)	\$18,106,385
Cumulative Over/Underrecovery	\$75,158	(\$8,545,104)	(\$7,247,319)	\$18,106,384	\$18,275,586

*Prior year adjustment of FY 2013 claims - AON estimated claims Incurred But Not Paid at \$15,952,000 and Actual was \$12,243,152

Summary

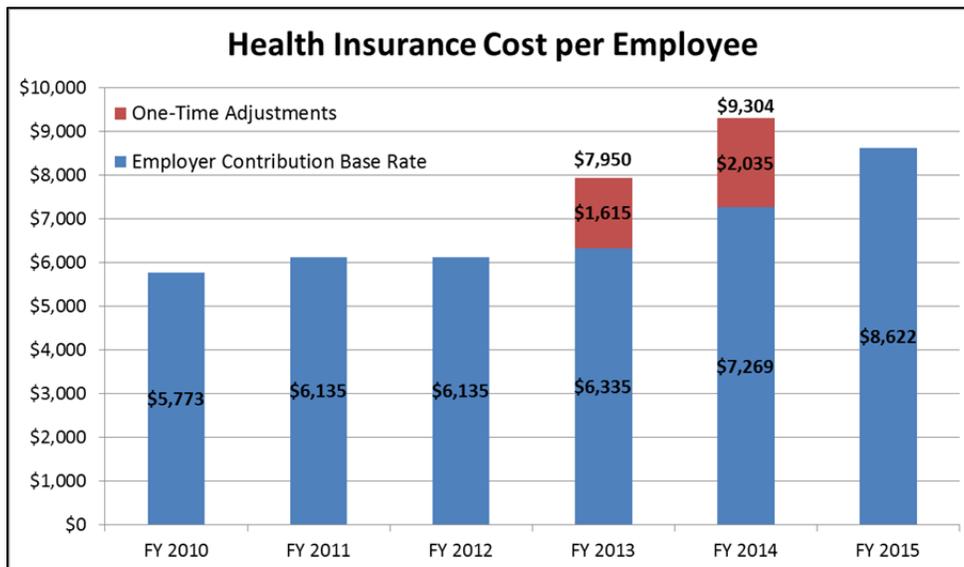
Table 6 provides a summary of BHR’s projected shortfalls for the state health plan and estimated effects of policy changes that were made to cover the shortfalls, as presented to the Joint Appropriations Committee each Legislative Session. For example, in the 2013 Session, BHR estimated the state health plan would end FY 2014 with a \$20.1 million shortfall. The shortfall was covered with a \$12.3 million budget increase, administrative changes projected to save \$2.6 million, and plan design changes projected to raise \$5.6 million in revenue.

Table 6 – Summary of State Health Plan Shortfalls and Estimated Effects of Policy Changes to Cover Shortfalls by Legislative Session

	Health Plan Overrecovery/ (Underrecovery)	Estimated Effects of Policy Changes to Cover Health Plan Shortfalls
2012 Legislative Session		
FY 2011 Actual	(\$0.6 million)	
FY 2012 Estimate	\$1.3 million	
FY 2013 Estimate	(\$8.2 million)	\$2.4 M - revenue from plan changes \$3.3 M - administrative savings \$2.6 M - budget increase for base rate
2013 Legislative Session		
FY 2012 Actual	(\$8.5 million)	
FY 2013 Estimate	(\$12.6 million)	\$21.3 M budget increase for base rate
FY 2014 Estimate	(\$20.1 million)	\$4.5 M - savings from eliminating co-payments \$1.1 M - revenue from increasing deductibles \$2.6 M - administrative savings \$12.3 M - budget increase for base rate
2014 Legislative Session		
FY 2013 Actual	(\$7.2 million)	\$23.3 M - budget increase for base rate
FY 2014 Estimate	(\$15.9 million)	\$3.0 M - budget increase for reserve
FY 2015 Estimate	(\$21.6 million)	\$5.8 M - revenue from plan changes \$17.9 M - budget increase for base rate

During the past two Legislative Sessions, the Legislature has had to use one-time adjustments to increase the employer contribution base rate to backfill the state health plan’s shortfalls from the previous and current fiscal years. At the same time, the Legislature has also had to increase the base rate for the next fiscal year to cover projected future program gaps. Chart 7 shows the employer contribution base rate each fiscal year from FY 2010 to FY 2015 and one-time adjustments that have been made to cover the state health plan's gaps.

Chart 7 – Employer Contribution Base Rate and One-Time Adjustments



Conclusion

The state health plan is an essential part of a state employee's benefits package and is an important tool for the state to recruit and retain employees. While the state health plan experienced claims gaps in FY 2012 and FY 2013, FY 2014 ended with an \$18.1 million cumulative surplus. In the upcoming 2015 Legislative Session, BHR will present data on the status state health plan, projections for the remainder of FY 2015, and projections for FY 2016. There are several options the Legislature may decide it wants to explore in light of the surplus balance, including increasing the state employee health insurance reserve, giving back to the state health plan by reducing employee contributions, or further exploring aggregate reinsurance coverage.

This issue memorandum was written by Stephanie Gruba, Fiscal Analyst on 11/10/2014 for the Legislative Research Council. It is designed to supply background information on the subject and is not a policy statement made by the Legislative Research Council.