BILL SUMMARY
1st Session of the 53rd Legislature

Bill No.:	**SB 190**
Version:	**Proposed Committee Sub. 2**
Request Number:	**7342**
Author:	**Rep. Murphey**
Date:	**3/31/2011**
Impact:	***Benefit Allowance Modification***
	State Agency Savings:
	FY-12 $39 million
	FY-13 $80 million
	FY-14 $83 million
	OSF Admin Costs Unknown
	Opt-out Limitation
	State Agency Savings: $7.8 million/yr.
	Education Employer Costs: $2.53 to $3.8 million/yr.
	Pilot Project
	OSEEGIB Cost – est. $780,000 in yr. 1, potential future savings

Research Analysis

Proposed committee substitute 2 to SB 190 modifies provisions related to state employees' flexible benefit allowance by deleting language defining the current benefit allowance and requiring that beginning in 2012 the allowance amount be equal to certain HealthChoice plan premiums. If an employee elects to include dependents, the benefit allowance will include an additional amount equal to 75% of the high-deductible plan premium for each dependent. If an employee elects the HealthChoice qualified high-deductible health plan, the benefit allowance will include an additional 1/12 of the individual or family annual deductible to be placed in a health savings account administered by the Office of State Finance.

The measure prohibits flexible spending account funds from being used for abortions and requires OSEEGIB to contract with a vendor for a web-based healthcare cost-containment pilot program that offers certain incentives to healthcare providers and patients. It authorizes the Health Insurance Plan to contract with providers for specific services based on certain levels of outcomes except in particular circumstances and excludes higher education institutions from certain benefits offered to state and education employees. It also requires the Payment Review Rate Task Force to issue a final report by Dec. 31, 2011 and sunset on Jan. 1, 2012.

Prepared By: Robin McAlister

Fiscal Analysis

Section 1 ends the Payment Rate Review Task Force effective January 1, 2012. Section 1 has no direct fiscal impact.

Section 3 excludes higher education institutions from benefit uniformity under State and Education Employee Group Insurance Board (OSEEGIB) plans. The impact of this on premiums in unknown at this time.

Section 4 *Benefit Allowance Modification*
The Section changes the calculation of Flex Benefit Allowances (FBA) for state employees for plan years 2012 and beyond. The new FBA is based primarily on the premium rate for the HealthChoice qualified high-deductible health plan (HDHP). In addition to dental, disability and basic life insurance premiums the FBA will include 100% of the cost of the state employee's HDHP premium, plus 75% of the HDHP premiums for all covered dependents of the state employee. Employees electing the HDHP will also receive monthly as part of their FBA 1/12th the HDHP annual deductible, to be deposited in a health savings account (HSA) administered by the Office of State Finance (OSF). Indiana has implemented a similar HSA funding mechanism and has seen enrollment in their HDHP plan exceed 70% of employees. For purposes of this analysis we will assume approximately 70% of state employees will enroll in the HealthChoice HDHP and receive the HSA deposits as part of their FBA. For the 2011 plan year the State and Education Group Insurance Board (OSEEGIB) estimates as approximately $409 million, the cost for state agencies related to FBA expenses attributable to medical premiums. Over the last 4 years, a weighted analysis of FBA inflation showed an annual growth of approximately 3.8%. Assuming the part of the FBA calculation attributable to medical premiums is growing at an annual rate of 3.8%; HB 190's FBA modification allows state agencies to realize estimated annual cost savings of $39 million in FY-12, $80 million in FY-13, and $83 million in FY-14. The cost to OSF to administer the HSAs is not yet known.

Section 4 *Employer Coverage Opt-out Limitation*
The measure also stops the practice of active state education employees opting out of health insurance coverage under their education employer in order to receive dependent coverage under their state employee spouse's flexible benefit allowance (FBA.) Education employees are currently being induced to opt-out by financial incentives from education employers. OSEEGIB records show approximately 1,028 education employees currently implementing the practice. School districts pay out approximately $1.7 million in opt-out payments annually to these individuals and the state spouse benefit allowance opted into costs state agencies approximately $7.8 million annually. Eliminating the practice of opting into the state employee FBA will save state agencies $7.8 million annually. Education employers will experience a cost because education employees who under the measure are no longer eligible to opt into their spouse's plan will choose to elect coverage under their education employer. If all 1,028 individuals elect coverage under their education employer the maximum cost would be approximately $3.8 million, ($5.5 million benefit allowance cost, less $1.7 million in opt-out payments avoided.) In practice some individuals will still elect the opt-out payment in lieu of coverage; approximately one third of education employees currently make such election. If this pattern holds for the 1,028 individuals affected by the measure the cost to education employers would be approximately $2.53 million (2/3rds of $5.5 million benefit allowance cost, less 2/3^{rds} of $1.7 million in opt-out payments avoided.)

Section 5 *Pilot Project*
The Section instructs the OSEEGIB to contract with a vendor to provide a web-based healthcare cost containment pilot program for 3 years. The measure requires that the pilot program cover at least 10,000 eligible employees and their dependents. OSEEGIB estimates a program cost of $78 annually per eligible employee. The total cost to OSEEGIB of the program is estimated to be $780,000 per year. The measure instructs OSEEGIB to fund the pilot program with operating

funds and not pass along costs to premium payers. The Pilot Project is designed to incentivize healthier behavior, when fully implemented the program is designed to create a net savings due to lower health care costs and improved health outcomes resulting in lower health care premiums. Though not expected in the first year of implementation, savings could surpass costs in future years.

Prepared By: John McPhetridge

Other Considerations

N/A