BILL SUMMARY
2nd Session of the 59th Legislature

Bill No.:	**SB 1272**
Version:	**ENGR**
Request Number:	
Author:	**Rep. Sneed**
Date:	**3/28/2024**
Impact:	**OMES: $22,000,000**

Research Analysis

SB 1272 directs the Office of Management and Enterprise Services (OMES) to record the internal benchmark for funds held in the Health and Dental Insurance Reserve Fund for operating state-administered plans. Excess funds will be used to lower premiums and insurance costs for the following plan year according to the schedule outlined by the measure. OMES must also submit a yearly report to the legislature and Oklahoma Employees Insurance and Benefits Board containing information specified in the measure.

Prepared By: Autumn Mathews

Fiscal Analysis

SB 1272 directs the Office of Management and Enterprise Services (OMES) to record the internal benchmark for funds required to operate the state-administered plans within the Health and Dental Insurance Reserve Fund. Funds in excess of the benchmark are to be used to lower premiums and health insurance costs. The Office of Management and Enterprise Services (OMES) provided the following analysis on behalf of Aon Health Solutions.

"It is estimated there will be an **annual fiscal impact of Twenty-Two Million Dollars ($22,000,000).** This loss of investment income will need to be accounted for by correspondingly increasing HealthChoice premium rates beginning January 1, 2029. Prior to 2029, the fiscal impact is directly tied to the percent of spend down and availability of investment income. Additionally, there are several considerations regarding the HealthChoice premium rates.

Leading areas of consideration are as follows:

1) Loss of investment income

The Oklahoma Employees Insurance and Benefits Board (OEIBB) investment policy will need to be adjusted to account for more liquid assets, which generate a lower return. This would result in the fiscal impact of $22,000,000. Currently the HealthChoice premium rates budgeted an investment return of this level for 2024.

2) Duration of time to spend down the excess surplus and the resulting volatility in HealthChoice premium rates

The current OEIBB policy is to gradually spend down the excess surplus over 3 to 5 plan year to avoid premium rate fluctuations. The amended language in the bill would not only expedite the spend down period to one year, but also prescribes the exact amount of spend down required regardless of any exigent circumstances, which increases the volatility in the premium rates. Theoretically, after 2029, there would be no available surplus to reduce premium levels.

3) Impact to benefit allowance

The state employee and school district employee benefit allowances are directly impacted by the HealthChoice premium rates. HealthChoice premiums have averaged a 3% premium increase over the last 10 years due to current Board policy in management of the excess funds spend down over 3 to 5 years. Setting the exact percent of the excess to be spent eliminates the ability of leadership to subsidize premiums by more than this percent, leading to annual volatility. This will not only impact HealthChoice premium rates, but also the State's benefit allowance calculation and appropriation of funds for the benefits of both the State and Education employees.

4) Future rate increase tied to healthcare trends

If all of the excess funds need to be exhausted in the following plan year, future healthcare premium increases will be being directly tied to healthcare trend. Historically healthcare trend is several percentage points higher than general inflation.

5) Adverse Selection/Migration risk

If the annual premium rates fluctuate year over year, there will be more migration between the self-funded HealthChoice plans and fully insured HMOs. This would need to be considered when setting HealthChoice premium rates as selection risk would need to be factored into the premiums rates."

Prepared By: Alexandra, Ladner House Fiscal Staff

Other Considerations

None.