



## Fiscal Estimate Narratives

ETF 5/9/2005

LRB Number	<b>05-2359/1</b>	Introduction Number	<b>AB-352</b>	Estimate Type	<b>Original</b>
<b>Subject</b>					
Coverage of certain individuals under the state employee health care coverage plan					

### Assumptions Used in Arriving at Fiscal Estimate

AB-352 allows individuals receiving a pension from the Pension Guaranty Benefit Corporation or is eligible for a tax credit under the federal Trade Adjustment Assistance Reform Act to enroll for coverage under the state employee group health insurance program.

Assumptions used in the preparation of this estimate as as follows:

- \* The total number of eligible state residents is estimated to be 4,000.
- \* All eligible residents are between the ages of 55 - 65. Since the bill requires that the participant not have other health insurance, it was assumed that residents 65 and older are covered under Medicare and therefore, would not be able to enroll under the state employee health program.
- \* No underwriting would be required since the bill prohibits any limitations on pre-existing conditions.
- \* The expected claims experience of the eligible group is approximately 70% greater than the average claims cost for the current state group health plan population due to age. An additional claims experience factor of 20% (over the current population's experience) was assumed due to adverse selection.

Adverse selection occurs when participants can voluntarily opt in and/or out of the plan. This tends to encourage participants with a higher than average claims experience to join the plan and encourages individuals with a lower than average claims experience to opt out of the plan.

- \* A 10% sales agent commission load is assumed since the coverage most likely would be obtained via insurance brokers.
- \* Eligible residents would pay the entire cost of the premium.

According to the Group Insurance Board's consulting actuary, the cost associated with this bill is dependent on the number of eligible residents who would enroll. Assuming that enrollment would be between 500 and 2,000 individuals (12.5% to 50% of the eligible population), the actuary estimates that the additional cost to the state program would be between \$3.2 million and \$12.8 million annually. This additional cost represents the additional cost to cover the current population of state employees (it does not include the cost of the premiums for the non-state employees enrolling in the plan).

Allowing non-government employees to enroll in the plan could make the plan subject to provisions of the Employment Retirement Income Security Act (ERISA). Compliance costs associated with these provisions are not included in this estimate.

### Long-Range Fiscal Implications

The effects of adverse selection are expected to increase costs over time.

## Fiscal Estimate Worksheet - 2005 Session

Detailed Estimate of Annual Fiscal Effect

Original     
  Updated     
  Corrected     
  Supplemental

<b>LRB Number</b> 05-2359/1		<b>Introduction Number</b> AB-352	
<b>Subject</b>			
Coverage of certain individuals under the state employee health care coverage plan			
<b>I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):</b>			
See narrative.			
<b>II. Annualized Costs:</b>		<b>Annualized Fiscal Impact on funds from:</b>	
		Increased Costs	Decreased Costs
<b>A. State Costs by Category</b>			
State Operations - Salaries and Fringes		\$	
(FTE Position Changes)			
State Operations - Other Costs			
Local Assistance			
Aids to Individuals or Organizations			
<b>TOTAL State Costs by Category</b>		<b>\$</b>	<b>\$</b>
<b>B. State Costs by Source of Funds</b>			
GPR			
FED			
PRO/PRS			
SEG/SEG-S			
<b>III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)</b>			
		Increased Rev	Decreased Rev
GPR Taxes		\$	\$
GPR Earned			
FED			
PRO/PRS			
SEG/SEG-S			
<b>TOTAL State Revenues</b>		<b>\$</b>	<b>\$</b>
<b>NET ANNUALIZED FISCAL IMPACT</b>			
		<u>State</u>	<u>Local</u>
NET CHANGE IN COSTS		\$See	\$
NET CHANGE IN REVENUE		\$	\$
<b>Agency/Prepared By</b>		<b>Authorized Signature</b>	<b>Date</b>
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