Wisconsin Department of Administration
Division of Executive Budget and Finance

Fiscal Estimate - 2005 Session

☒ Original ☐ Updated ☐ Corrected ☐ Supplemental

LRB Number **05-0107/3**	Introduction Number **AB-83**

Subject

Payment of stipend to certain state employees in lieu of health insurance coverage

Fiscal Effect

State:

☐ No State Fiscal Effect
☐ Indeterminate
☒ Increase Existing Appropriations
☐ Decrease Existing Appropriations
☐ Create New Appropriations
☐ Increase Existing Revenues
☐ Decrease Existing Revenues
☒ Increase Costs - May be possible to absorb within agency's budget ☐ Yes ☒ No
☐ Decrease Costs

Local:

☐ No Local Government Costs
☐ Indeterminate
1. ☐ Increase Costs ☐ Permissive ☐ Mandatory
2. ☐ Decrease Costs ☐ Permissive ☐ Mandatory
3. ☐ Increase Revenue ☐ Permissive ☐ Mandatory
4. ☐ Decrease Revenue ☐ Permissive ☐ Mandatory
5. Types of Local Government Units Affected
☐ Towns ☐ Village ☐ Cities
☐ Counties ☐ Others
☐ School Districts ☐ WTCS Districts

Fund Sources Affected

☒ GPR ☒ FED ☒ PRO ☒ PRS ☒ SEG ☒ SEGS

Affected Ch. 20 Appropriations

Agency/Prepared By	**Authorized Signature**	**Date**
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Fiscal Estimate Narratives

ETF 2/4/2005

LRB Number **05-0107/3**	Introduction Number **AB-83**	Estimate Type **Original**
Subject		
Payment of stipend to certain state employees in lieu of health insurance coverage		

Assumptions Used in Arriving at Fiscal Estimate

LRB 0107/3 requires the state to make a payment of 25% of the cost of the lowest health insurance plan that the employer would otherwise have been required to pay to any eligible employee who does not elect health insurance, as long as the employee is covered by another health insurance plan. The cost of this bill arising from the cost of the stipend and the additional state share of FICA taxes on the stipend amount, less any net group insurance premium savings, is estimated to range from a cost of $6.0 million to a cost of $2.8 million annually, depending upon the number of employees who accept the stipend.

Currently, an estimated 5,000 employees who meet the definition of eligible employee are not taking any health insurance plan and appear to be eligible for the stipend. This cost is estimated at $10 million. In addition, the Group Insurance Board's actuary assumed an additional 2,200 to 3,675 (between three and five percent of eligible employees) who currently take health insurance would instead elect the stipend option. Aside from the number of employees taking advantage of this offer who do not now take health insurance, the key variable in the determining the net cost or savings is the expected claims cost of new opt-outs, net of any premium the state would have paid on their behalf. It is the actuary's belief, and a common understanding, that offering employees money to opt out of an insurance program promotes adverse selection. This means that the healthiest people will opt out. Since the expected claims cost of those opting out is estimated to be between 50% and 70% of the average claims cost, between 30 and 50% of the per-contract premium savings will need to be absorbed by an increase in the health insurance premium for those remaining in the program. For purposes of this estimate, we have assumed that the average expected claims cost of the group that opts out would be 60%. The net effect of this combined with the $10 million in payments for those currently not covered under the program ranges from a cost of $4.6 million if 3% opt out to a cost of $1.1 million if 5% opt out.

In addition, for the eligible employees who take the cash option, the state would pay an additional 7.65% in FICA taxes, or and estimated $1.4 million to $1.7 annually. This assumes that if the stipend is part of a qualified Section 125 plan only those employees who accept the stipend would be subject to FICA on its cash value. If the law provides otherwise, then the availability of a stipend creates a taxable event for all plan participants. If so, the FICA cost would increase to an estimated $13 million and the stipend amount would be taxable income for all employees regardless of the choice of the health insurance or the stipend. The Department recommends the state seek a ruling on the tax consequences before adopting this or similar legislation.

In sum, estimating that an additional three percent of state employees would opt-out for the stipend results in a net cost stipend and claims cost of $4.6 million plus $1.4 million in FICA taxes for a total cost of $6.0 million. Estimating that an additional five percent of state employees would opt-out for the stipend results in a net cost stipend and claims cost of $1.1 million plus $1.7 million in FICA taxes for a net cost of $2.8 million.

Finally, though the bill requires that employees must be covered under another plan to be eligible, it also states that they will have an enrollment opportunity if they cease to be covered under that other plan. This provision will have additional indeterminate fiscal effect due to adverse selection not included in this estimate.

The above represents costs associated with premiums paid by State agencies to the Department of Employee Trust Fund. In addition to these costs, the Department would incur administrative costs associated with implementation and on-going maintenance. Based on the assumptions listed above, one-time implementation costs are estimated to be approximately $50,000 (IT application modification, form and brochure revisions, and operation manual revisions) and on-going annual costs are estimated to be approximately $55,000 (training, processing, and salary/fringes for 1.0 FTE Trust Fund Specialist).

Long-Range Fiscal Implications

See above narrative.

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Fiscal Estimate Worksheet - 2005 Session

Detailed Estimate of Annual Fiscal Effect

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Subject Payment of stipend to certain state employees in lieu of health insurance coverage			
I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):			
II. Annualized Costs:		**Annualized Fiscal Impact on funds from:**	
		Increased Costs	Decreased Costs
A. State Costs by Category			
	State Operations - Salaries and Fringes	$	
	(FTE Position Changes)		
	State Operations - Other Costs		
	Local Assistance		
	Aids to Individuals or Organizations		
	TOTAL State Costs by Category	**$**	**$**
B. State Costs by Source of Funds			
	GPR		
	FED		
	PRO/PRS		
	SEG/SEG-S		
III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, ets.)			
		Increased Rev	Decreased Rev
	GPR Taxes	$	$
	GPR Earned		
	FED		
	PRO/PRS		
	SEG/SEG-S		
	TOTAL State Revenues	**$**	**$**
NET ANNUALIZED FISCAL IMPACT			
		State	Local
NET CHANGE IN COSTS		$see narrative	$
NET CHANGE IN REVENUE		$	$

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