

Fiscal Estimate Narratives

ETF 3/31/2005

LRB Number	05-1409/1	Introduction Number	SB-131	Estimate Type	Original
Subject					
State employee health savings accounts					

Assumptions Used in Arriving at Fiscal Estimate

LRB 05-1409/1 would require the Group Insurance Board to establish a consumer driven health plan (CDHP) to be offered to state employees as an option to the current comprehensive plans offered under the State Employee Group Health Insurance Program.

CDHPs are comprised of a high deductible plan (HDP) and a health savings account (HSA), as authorized under the federal Medicare Prescription Drug, Improvement and Modernization Act of 2003. One characteristic of an HSA is that it is portable and is "owned" by the employee, so that if the employee leaves employment, the HSA is carried with the employee. HSAs may be used not only to pay for medical expenses incurred before coverage under the HDP, but also for other benefits not currently covered (Long-Term Care Insurance, over-the-counter drugs, and retiree health benefits).

LRB 05-1409/1 would require the state to contribute to the HAS of any employee who chooses this option, an amount equal to the difference between the cost of the lowest cost current health plan offered in the employees county and the cost of the HDP.

For purposes of this estimate, we have assumed the following plan design for the CDHP:

*\$2,000/\$4,000 (single/family) deductible

*20% coinsurance for all covered services in-network up to an out-of-pocket plan maximum of \$5,000 single/
\$10,000 family

*40% coinsurance for all covered services out-of-network up to an out-of-pocket plan maximum of \$8,000
single/\$16,000 family

Based on this plan design, we estimate the difference between the cost of the regular coverage currently offered and the cost of the HDP coverage to be approximately \$1,900 per year for single contracts and \$4,000 per year for family contracts. These are the amounts that would be deposited in the HSA accounts of employees who enroll in the CDHP.

Information regarding costs for 2006 is not yet available from our consulting actuary. As such, the following estimate is based on 2005. Should the actuary determine that costs will be significantly different for 2006, a revised fiscal estimate will be provided.

Our actuaries estimate that the cost of LRB 05-1409/1 to the state will be approximately \$30 to \$34 million in 2005. These costs are derived from three sources:

*Approximately 5% of state employees choose not to enroll in the state health plan even though eligible to do so. We estimate that approximately 60% of this group (or 3% of all state employees) will return to enroll in the state health plan so they can participate in the new CDHP for a very small employee premium contribution. These new enrollees will receive a sizable contribution to an HSA account, which is theirs to keep whether they immediately need it or not.

*Anti-selection against the current plans would most likely occur. CDHPs are most attractive to younger and healthier employees who are unlikely to incur health care costs in excess of their HSAs. As these younger and healthier employees join the CDHP, the cost of the current plans will escalate rapidly, while the cost of the HDP coverage remains the same, or even drops slightly. This will create a higher contribution to the HSAs as the difference in premium costs between the two plans grow.

*Unused HSA funds will remain with the employees, and the state will not receive any of these funds back. Currently, unused premium contributions are used to offset the costs of higher cost plan members.

Long-Range Fiscal Implications

If this bill is passed, there would be a continued and growing disparity between the cost of the current state plans and the cost of the HDP (because of adverse selection) resulting in ever increasing contribution amounts to the HSAs of people enrolled in the CDHP.

Fiscal Estimate Worksheet - 2005 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

LRB Number 05-1409/1		Introduction Number SB-131	
Subject			
State employee health savings accounts			
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	32,000,000		
Local Assistance			
Aids to Individuals or Organizations			
TOTAL State Costs by Category	\$32,000,000		\$
B. State Costs by Source of Funds			
GPR	13,664,000		
FED	3,968,000		
PRO/PRS	11,968,000		
SEG/SEG-S	2,400,000		
III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)			
	Increased Rev	Decreased Rev	
GPR Taxes	\$		\$
GPR Earned			
FED			
PRO/PRS			
SEG/SEG-S			
TOTAL State Revenues	\$		\$
NET ANNUALIZED FISCAL IMPACT			
	<u>State</u>	<u>Local</u>	
NET CHANGE IN COSTS	\$32,000,000		\$
NET CHANGE IN REVENUE	\$		\$
Agency/Prepared By		Authorized Signature	Date
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