

Fiscal Note

State of Alaska
2013 Legislative Session

Bill Version: SB 90
Fiscal Note Number: 3
(S) Publish Date: 4/8/13

Identifier: SB090-DOA-HPA-4-05-13
Title: SCHOOL DISTRICT EMPLOYEE HEALTH INSURANCE
Sponsor: DUNLEAVY
Requester: Senate State Affairs

Department: Department of Administration
Appropriation: Centralized Administrative Services
Allocation: Health Plans Administration
OMB Component Number: 2152

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

| | FY2014 Appropriation Requested | Included in Governor's FY2014 Request | Out-Year Cost Estimates | | | | |
|-------------------------------|--------------------------------------|--|-------------------------|------------------|------------------|------------------|------------------|
| | FY 2014 | FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018 | FY 2019 |
| OPERATING EXPENDITURES | | | | | | | |
| Personal Services | | | | | | | |
| Travel | | | | | | | |
| Services | 237.7 | | 9,864.0 | 10,468.7 | 11,203.2 | 11,991.2 | 13,196.4 |
| Commodities | | | | | | | |
| Capital Outlay | | | | | | | |
| Grants & Benefits | | | | | | | |
| Miscellaneous | | | 315,000.0 | 315,000.0 | 315,000.0 | 315,000.0 | 315,000.0 |
| Total Operating | 237.7 | 0.0 | 324,864.0 | 325,468.7 | 326,203.2 | 326,991.2 | 328,196.4 |

Fund Source (Operating Only)

| | | | | | | | |
|-----------------|--------------|------------|------------------|------------------|------------------|------------------|------------------|
| 1017 Group Ben | 237.7 | | 9,864.0 | 10,468.7 | 11,203.2 | 11,991.2 | 13,196.4 |
| 1108 Stat Desig | | | 315,000.0 | 315,000.0 | 315,000.0 | 315,000.0 | 315,000.0 |
| Total | 237.7 | 0.0 | 324,864.0 | 325,468.7 | 326,203.2 | 326,991.2 | 328,196.4 |

Positions

| | | | | | | | |
|-----------|--|--|--|--|--|--|--|
| Full-time | | | | | | | |
| Part-time | | | | | | | |
| Temporary | | | | | | | |

| | | | | | | | |
|---------------------------|--|--|--|--|--|--|--|
| Change in Revenues | | | | | | | |
|---------------------------|--|--|--|--|--|--|--|

Estimated SUPPLEMENTAL (FY2013) cost: 0.0

Estimated CAPITAL (FY2014) cost: 0.0

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No
If yes, by what date are the regulations to be adopted, amended or repealed?

Why this fiscal note differs from previous version:

No applicable, initial version.

| | |
|---|---------------------------|
| Prepared By: Jim Puckett, Director | Phone: (907)465-4471 |
| Division: Division of Retirement & Benefits | Date: 04/05/2013 02:45 PM |
| Approved By: Curtis Thayer, Deputy Commissioner | Date: 04/05/13 |
| Department of Administration | |

FISCAL NOTE ANALYSIS #3

**STATE OF ALASKA
2013 LEGISLATIVE SESSION**

BILL NO. SB 90

Analysis

SB 90 introduces a new section to AS 14.20, AS 14.20.137, which extends group insurance coverage under AS39.30.090 to school district employees. It also amends AS39.30.090(a)(2) extending coverage to dependents of school district employees. It is estimated that 18,300 school district employees and 29,000 dependents will become members of the AlaskaCare Employee Health Plan. The addition of these 47,300 new members will quadruple the overall population of the AlaskaCare Employee Health Plan.

SERVICES -

In FY2014, the Division's RBIS team estimates we will incur a one-time \$115,200 contractor(s) expense reprogramming some of our data applications. This is necessary so school district health care data can be submitted to the division via the DRB e-reporting application and then included in our CRS database. Also included in FY2014 are the publication and communications costs supplying the federally mandated Summary of Benefits and Coverage (SBC) booklet and the division health newsletter and open enrollment supplies. Beginning in FY2015, AlaskaCare will experience the increased health admin cost with the third party administrator fees processing the claims of the new members.

STATUTORY DESIGNATED PROGRAM RECEIPTS (SDPR) -

Under SDPR the participating school districts will pay into the Group Health and Life Fund the AlaskaCare benefit credit amount, \$1389.00, per employee per month. The school districts will also be billed approximately \$10 million annually for health claim as per required by statute AS 14.17.300. The amounts collected from school districts in payment of the first 4 months of claim costs, will be used to repay the draw on the Public Education Fund over a 10 year period.

Buck Consultants, the AlaskaCare Employee Health Plan benefits consultant, performed projections that were used for this fiscal note. Additional information regarding the development of this fiscal note are included in Buck's April 5, 2013 attached letter.



A Xerox Company

April 5, 2013

Mr. Jim Puckett
State of Alaska
PO Box 110203
Juneau AK 99811

Re: Projection of AlaskaCare Employee Health Plan Reserves and Benefits Rate Calculation under HB196/SB90

Dear Jim:

Buck Consultants projected AlaskaCare Employee Benefit Health Plan revenues, expenses and reserves through FY19 using our baseline modeling and extending coverage to school district employees and their dependents. The following are key methods and assumptions used, and a table showing benefit credits and plan reserves for FY14 through FY19. Plan reserves are expressed as the number of months of each fiscal year's cost available at fiscal year-end. We targeted reserves of 25% of fiscal year plan costs, or 3.0 months.

Methods

Buck annually projects plan revenues, expenses and reserves using claims and enrollment data from previous years, projected forward at assumed trend rates and adjusted for anticipated plan changes. Projections under HB196 were completed in the same manner, with the number of participants and hence revenues and expenses, increasing after January 1, 2014 to reflect inclusion of school district employees. Reserve projections shown below assumes and estimated 18,300 new employees and their 29,000 dependents are added to the plan, along with a one-time funding infusion of \$100m.

Assumptions

Most key assumptions are unchanged from our analysis of plan reserves without regard to HB196/SB90, and include the following:

- The total number of employees covered by the plan is assumed to increase 2.0% per year.
- Medical and Rx claims trend at a combined annual rate of about 8.5% through 2014, grading down 1% per year thereafter.
- Dental and vision claims trend at annual rates of about 5.0% and 4.8%, respectively, through 2017, grading down 1% per year thereafter.
- Combination Premium Employee / Standard Family coverage is eliminated 7/1/2013, the very few employees in this coverage are assumed to migrate to the Standard Plan.
- Premium and Standard Plan contribution rates are increased while Economy Plan rates are held flat. This reduces the subsidy inherent in current contribution rate structure. We have assumed that from 2% to 5% of employees in each plan migrate to lower-priced plans each year.

Mr. Jim Puckett
April 5, 2013
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Additional key assumptions have been made to address inclusion of school district employees:

- School district employees are initially assumed to generate 2.5% higher claims per employee than current plan members.
- Health management programs are assumed to reduce the higher claims cost for school district employees by 0.5% per year so that by 2019 no excess risk is assumed.
- Improved provider contracting attributable to increased enrollment is assumed to reduce underlying medical and Rx claims trend by 1% in 2015 and another 1% in 2016.

Benefit credits and plan reserves at fiscal year-end

| Fiscal Year | Monthly Benefit Credit | FYE Reserve Months |
|-------------|------------------------|--------------------|
| 2014 | \$1,389 | 3.1 |
| 2015 | \$1,389 | 2.6 |
| 2016 | \$1,389 | 2.5 |
| 2017 | \$1,389 | 2.6 |
| 2018 | \$1,389 | 3.0 |
| 2019 | \$1,389 | 4.0 |

We believe that in combination, methods and assumptions used are moderate to slightly conservative. For example, a combined plan population of 25,000 employees may result in greater bargaining power and better network discounts than assumed. Based on the methods and assumptions used, the influx of a larger, less healthy population initially pushes projected reserves below the target 3 month level, but by fiscal year-end 2019 a 4-month reserve is attained without increasing the monthly benefit credit during the projection period.



Monica DeGraff
Principal, Health and Productivity



Chris Hulla
Principal, Health and Productivity

Enclosure

c: Emily Cotter, State of Alaska
Melissa Bissett, Buck Consultants