MINNESOTA Management & Budget

DATE: June 4, 2013

TO: Representative Ann Lenczewski, Chair
Representative Greg Davids
Representative Lyndon Carlson, Sr., Chair
Representative Mary Liz Holberg

FROM: Margaret Kelly, State Budget Director MK

SUBJECT: Local Impact Note: HF 573: Public employee's insurance program regulated, and school employer participation required.

On May 10, 2013, Minnesota Management and Budget released a local impact note for HF 573 which requires school districts to obtain employee health coverage through the public employees insurance program. We identified a couple of errors in the spreadsheet used to calculate the savings.

1) In order to compare actual FY 2012 School District health care expenditure data with FY 2014 PEIP estimated expenditures, MMB intended to use a 3.14 percent inflation rate on premiums to trend forward the FY 2012 data to FY 2014. This is noted in the narrative section of the note. The spreadsheet (appendix 2) had a 5 percent annual inflation rate. This correction decreases the estimated cost of school district health care expenditures in FY 2015 from \$1.038 billion to \$1.001 billion.

2) MMB estimated the PEIP expenditures (employer plus employee) for a 200,000 member pool in FY 2014 to be \$1.116 billion. The narrative incorrectly indicated the cost would be \$1.189 billion.

3) The PEIP estimated expenditure of \$1.116 billion in FY 2014 should have been trended forward at an annual rate of 5 percent. The spreadsheet had the FY 2015 expenditures at \$1.116 billion. Inflated at 5 percent, the estimated FY 2015 PEIP expenditures should have been \$1.204 billion.

The original local impact note estimated a statewide savings to school districts of \$118.8 million in the FY 2014–2015 biennium and \$259 million in the FY 2016– 2017 biennium. The updated estimate with the above corrections is a statewide savings to school districts of \$37.7 million in the FY 2014–2015 biennium and \$84.4 million in the FY 2016– 2017 biennium. Experience of individual districts will vary, and overall factors such as enrollment mix may raise or lower statewide costs by as much as 10%.

If you or your staff has any questions about the local note process feel free to contact Bryan Dahl, Executive Budget Officer, (651) 201-8031.

cc: Representative John Ward
Legislative staff (electronic)

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HF 573 (Ward) Public employees insurance program regulated, and school employer participation required.

Local Fiscal Impact

Net Statewide Expenditure Increase (Decrease)
Dollars in Thousands, State Fiscal Years

	FY 2014	FY 2015	FY 2016	FY 2017
Statewide	$0	$(37,730)	$(40,937)	$(43,504)

*Estimate of employer expenditures only.

Explanation of the Bill

HF 573 would require all Minnesota school districts to obtain health insurance coverage through the Public Employees Insurance Program (PEIP), administered by Minnesota Management and Budget (MMB). All districts that offer health insurance to their employees at the time of enactment, whether in a self-insured or fully-insured arrangement, or through a service cooperative, must participate in this program. Districts are allowed to opt-out of the program if they cover more than 1,000 lives and obtain agreement with all exclusive representatives of employees.

This analysis is based on 100% enrollment of school districts into PEIP. The bill's effective date is January 1, 2014, however school districts will enter the pool upon expiration of their current insurance administrative contracts. The majority of contracts are renewed in July and September. While the local impact analysis indicates a savings statewide, each district will experience different levels of cost or savings depending on their specific circumstances.

This analysis should not be viewed as an absolute but rather one possible scenario for evaluating the impact of HF 573. Lack of data for medical history, group size, plan design and other factors require additional information to be collected before an actual underwriting analysis could occur. This is a "best estimate" analysis based on existing information gathered from several sources.

Statewide local cost estimate of HF 573 for FY 2014 – FY 2017:

To develop a comprehensive estimate of the net statewide expenditure change that would result if HF 573 became law, MMB used claims experience data from the existing PEIP program, data from rate quotes issued in April, 2013, to 131 school districts, and actual 2012 health insurance expenditure data from the Department of Education (MDE). Further, to assist in the development of accurate cost projections MMB used data and assumptions outlined in the 2004 Reden and Anders, Ltd. report prepared for School Employee Insurance Plan and Design Committee.

MMB started with actual FY 2012 school district employer premium cost data provided by MDE to develop a baseline estimate of current school district employer health insurance expenditures. To then estimate the full cost of school district employee health insurance MMB assumed that the premium cost sharing between employers and employees is 80 percent/20 percent based on the Reden and Anders report.[1] Based on the MDE data and the assumptions above, MMB estimated FY 2012 total school employee health insurance premium expenditures (employer plus employee) to be $1,120,851,000. It is assumed that the expenditures were on behalf of 100,000 insurance eligible and enrolled employees.

To estimate the cost of school health insurance if HF 573 became law, MMB used experience data and rate quotes provided to school districts from the existing PEIP program. MMB estimated CY 2014 premium rates for school districts based on rate quotes for 131 districts reflecting 30,289 contracts, the current school districts contracts (approximately 4,583) that were participating in the PEIP program, and their distribution of contracts in each of the three plan options under PEIP. An average PEIP school employee contract premium of $930 per employee per month was estimated for the school employee contracts.[2] Based on data provided in the Reden and Anders report, MMB assumed a PEIP member pool size to be 100,000 employees plus an equal number of dependents (total pool size of 200,000) and then applied the average contract price to develop an aggregate cost of health insurance for school districts statewide if HF 573 became law.[3]

In order to compare the proposed changes to the PEIP program to the most recently available school district expenditure data, MMB used an annual 3.14 percent medical inflation rate to trend forward the actual FY 2012 costs to FY 2014. If HF 573 becomes law, MMB estimates total PEIP expenditures (employer plus employee) for a 200,000 member pool in FY 2014 will be $1,116,000,000.

HF 573 bars school employers and school employees from choosing the PEIP high deductible plan. In order to estimate fiscal impact to the state, MMB had to use PEIP estimates and school district actual health care expenditures, both of which currently include high deductible plan options. Therefore, this analysis assumes high deductible plans are included in the school insurance plans. The cost of insurance for both school employers and school employees would likely increase if the high deductible plan was not an option.

HF 573 requires school districts to enter into PEIP after their current contracts expire but not prior to January 1, 2014. The majority of school districts renew their contracts in June and July. In order to estimate the bill's fiscal impact this analysis assumes 100 percent of school districts enter PEIP on July 1, 2014. MMB projected FY 2012 school district expenditures forward at an annual rate of 3.14% to 2014. Both the estimated FY 2014 school district expenditures and the estimated PEIP FY 2014 premiums were then trended forward at a five percent annual medical inflation rate through FY 2017. Additionally because this local impact analysis estimates school district costs only, the 20 percent employee cost share is removed from both current expenditure data and projected PEIP expenditures. The net statewide school district expenditure change if HF 573 becomes law is shown below.[4]

[1] Reden and Anders, Page 24.

[2] The enrollment breakdown between the three PEIP plan options are High Advantage: 50%, Value Advantage: 25% and HSA Advantage: 25%. Information on each of the three plans is provided in appendix 1.

[3] Reden and Anders, Page 3.

[4] FY 2014 – FY 2017 spending projections for a 200,000 member pool for both current law and SEIP is included in appendix 2.

Local Fiscal Impact				
Net Statewide Expenditure Increase (Decrease)				
Dollars in Thousands, State Fiscal Years				
	FY 2014	**FY 2015**	**FY 2016**	**FY 2017**
Statewide	$0	$(37,730)	$(40,937)	$(43,504)
* Estimate of employer expenditures only				

In order to maintain solvency, it is important to build a reserve. While reserve levels can vary greatly, MMB would assume the 10 percent reserves level, $100 million, recommended by the Reden and Anders report would be sufficient.[5] HF 573 allows for self-insured school districts to use existing reserve funds to pay for new reserve obligations. It is unknown how many lives are covered in self-insured districts. Therefore this analysis assumes the entire $100 million will be assessed over the first three years of the program.

Possible Variance

The local impact analysis of HF 573 was prepared with as much information as possible without incurring undo expense on the agency. While these projections represent the most likely cost scenario to PEIP, there are several factors that could alter these projections. Listed below are several factors that could add additional cost or savings to the projection above. These changes, taken together, could alter the most likely projection by up to 10% in either direction. While the total net local impact of HF 573 listed in the table above is still most likely, the table below lists the possible range in net aggregate school district expenditures by fiscal year if HF 573 were enacted.

Local Fiscal Impact **Possible Variance**				
Net Statewide Expenditure Increase (Decrease)				
Dollars in Thousands, State Fiscal Years				
	FY 2014	**FY 2015**	**FY 2016**	**FY 2017**
-10 %	$0	$(131,474)	$(139,368)	$(146,857)
+10 %	$0	$56,014	$57,494	$59,849
* Estimate of employer expenditures only				

Enrollment mix

As currently structured in PEIP, each district would offer 3 health plan options to their members. Currently the High Advantage, Value Advantage and HSA Advantage enrollment is 50%, 25% and 25% respectively. While it was assumed the entire pool of eligible school district members would choose in a similar fashion to those currently in the PEIP program it is difficult to assess what option school district members would choose. Under a larger pool, there may be members that shift from a high out of pocket

[5] Reden and Anders, page 39.

plan design to more comprehensive coverage as a way to take advantage of the larger pool. While their coverage may improve, it would also add to the expense of the district. Conversely, it is possible members would choose more moderate plan options as a way to offset other expenses.[6]

Health status

The actual health status of the individuals that make up school district population could cause additional cost or savings from the projection above. The most likely cost projection assumed that the health status for all 100,000 school district employees and their dependents would be similar to that of the approximately 35,000 whose health claims history was examined by PEIP; if the school district population is either healthier or less healthy the cost of the program could increase or decrease.

Payment Share

MMB assumed that the payment share of both current school district health insurance expenditures and projected expenditures in the PEIP program would be 80 percent employer share and 20 percent employee share. If the actual payment share between employees and employers differs from this assumption the costs or savings to school districts if HF 573 were enacted could significantly change.

Admin fees expenses

The estimated PEIP premiums include all known fees and expenses; direct expenses include medical claims, health plan administrative fees, third party administrator fees, and stop-loss coverage premiums; indirect expenses include legal and actuarial fees, MMB staff salaries and benefits, printing expenses, etc. No considerations were made concerning the use of investment income in the program. It's likely that a program of this size would be able to invest the $100 million reserves to offset program expenses. It would be reasonable to assume that investment income could be used for reserve buildup and maintenance, administration fees or other program expenses.

Health Care Inflation Estimates

Both the estimated FY 2014 school district expenditures and the estimated PEIP FY 2014 premiums were then trended forward at a five percent annual medical inflation rate through FY 2017. If the inflation rate is higher or lower than five percent the state savings estimate would change

Startup costs

MMB did not factor any upfront costs with implementing the provisions of HF 573. While it's likely that MMB will incur some cost as a result of the larger, mandatory PEIP pool, the impact to local units is unknown. Changes to payroll systems, new communications, etc. would be reasonable expenses but difficult to compute. It could also be assumed that the districts would no longer incur expenses related to an RFP process. Expenses to brokers, consultants and health plans may be avoided in a state wide pool. While the analysis assumes an "all in" approach on day one, districts will join the pool upon expiration of their health plan contracts. The analysis assumes stop loss coverage of $100,000 per member for all fiscal years. It could be modeled that more aggressive stop loss would be needed in year one with little to no stop loss in years 3 and beyond. This projection does not take into consideration these cost or savings.

Medical Cost Inflation Trends

Actual 2012 health insurance expenditure data provided by the Department of Education was trended forward to estimate the FY 2014 insurance expenditure. While actual nationwide health spending trends ranged from 4 – 7% annually over the same period, the average annual increase calculated using actual MDE FY 2008 data was 3.14% annually. It is most likely that the low trend rate was in large part due to

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[6] At this point it's unknown what other medical related expenses would impact the program. Currently, we know from the MDE data that Health Reimbursement Accounts (HRAs) make up additional health insurance expenditure within the school districts. It's unknown whether those programs would continue to exist, shrink or grow. This analysis does not factor other aspects of the employee benefit programs other than the medical plan portion.

significant member migration from richer benefit / higher cost plans to reduced benefit / lower cost plans (e.g. high-deductible plans) and the migration to self-insured programs. Using the national trends (4% - 7%) would result in a greater savings to local school districts.

Number of Covered Employees

It is assumed that the actual 2012 health insurance expenditure data provided by the Department of Education was on behalf of 100,000 insurance eligible and enrolled school employees. If a greater number of employees were enrolled in FY 2012, the savings may be overestimated. Conversely, if fewer than 100,000 eligible school employers were enrolled, the savings may be underestimated. No data on how many lives were included in Education's data was available.

Reserves

The reserves can be managed in many ways. Self-insured groups with existing reserves can bring them to the pool thus eliminating the need for a separate reserve buildup. Other options may include spreading reserve buildup over a 3 year period. In addition, the existing PEIP groups already possess the necessary reserves and do not require additional contribution. Reserve buildup policies will also impact re-insurance costs which will change the savings estimate to the LIN. Since the LIN uses the most conservative approach which assumes no group is currently self-insured and the reserves are built over a 3 year period of time, the LIN likely reflects a lower cost savings to the pool.

MNsure/Health Care Exchange

Impact of MNsure on marketplace trends is unknown at this time. It's assumed that a positive impact to the marketplace would benefit both pool and non-pooled groups. However, it is still assumed that a pool would have additional benefits over individuals and small groups participating in the exchange. Based on MN Dept of Education expenditure report it is assumed that a significant number of school districts would not qualify as a small group employer. In addition, while the exchange and guarantee issue offered under the ACA will help provide ease of underwriting, a state wide pool will further spread the remaining risk criteria of age, smoking and geographic areas. Lastly, based on the Reden & Anders report 63% of savings is generated from lower stop-loss, broker fees, reserve levels and commissions, much of which still exists for those purchasing through the exchange.

Appendix 1

PEIP's 3 plan design options incorporate the successful Minnesota Advantage plan tiered networks into their core program. The move to adopt the Advantage tiering was in response to MN Session Laws 2005, Chapter 156, Article 2, Section 47; which suggested that state government better coordinate its purchasing and offer a secure benefit set through the PEIP program. PEIP designed the PEIP Advantage – HSA Compatible plan in response to that requirement. In addition to meeting the requirement of the "secure benefit set," the plan design is compliant with the federal requirements for High Deductable Health Plans (HDHPs) to be used in conjunction with a Health Savings Account (HSA). PEIP Advantage mirrors the state employees' Minnesota Advantage plan to provide a comprehensive benefit set to public employers. The cost sharing and benefit levels are identical to those of the state employees. The PEIP Advantage – Value Option strikes a plan design and premium balance between the other two plan options. All three plan designs provide first dollar coverage for preventive care. In total the three plans offer a range of options for local units of government to meet their broad health insurance needs.

PEIP Advantage:

- Most comprehensive Advantage plan design
- Identical to state employees' benefit design

PEIP Advantage – Value Option

- Higher cost sharing
- Lower premiums
- Designed to fill gap between Advantage and Advantage – HSA Compatible

PEIP Advantage – HSA Compatible

- Health Savings Account compatible
- Catastrophic coverage
- Highest cost sharing
- Lowest premiums

Appendix 2
Full Participation of all insurance eligibles

Dollars in Thousands

		CONTRACTS	2013 & 2014 TREND			2015 - 2017 TREND	
		100,000	3.14%			5.0%	
		FY12 Statewide Educ. Health Spend	Estimated FY13	Projected FY14	Projected FY15	Projected FY16	Projected FY17
Current K-12 Expendutre							
Employer Expenditures	80%	$ 896,681	$ 924,837	$953,877	$1,001,570	$1,051,649	$1,104,231
Employee Expenditures	20%	$ 224,170	$ 231,209	$238,469	$250,393	$262,912	$276,058
	100%	$ 1,120,851	$ 1,156,046	$ 1,192,346	$ 1,251,963	$ 1,314,561	$ 1,380,289

PEIP

Estimated K-12 PEIP Expenditure		Projected FY14	Projected FY15	Projected FY16	Projected FY17
Employer Expenditures	80%	$ 892,800	$ 937,440	$ 984,312	$ 1,033,527.60
Employer Reserve			$ 26,400	$ 26,400	$ 27,200
Employee Expenditures	20%	$ 223,200	$ 234,360	$ 246,078	$ 258,381.90
Employee Reserve			$ 6,600	$ 6,600	$ 6,800
	100%	$ 1,116,000	$ 1,204,800	$ 1,263,390	$ 1,325,910
Cost/(Savings)					
State			$ (37,730)	$ (40,937)	$ (43,504)
Employee			$ (9,433)	$ (10,234)	$ (10,876)
Total			**$ (47,163)**	**$ (51,171)**	**$ (54,380)**

VARIANCE **-10%**

Estimated K-12 PEIP Expenditure		Projected FY15	Projected FY16	Projected FY17
Employer Expenditures	80%	$ 843,696	$ 885,880.80	$ 930,175
Employer Reserve		$ 26,400	$ 26,400	$ 27,200
Employee Expenditures	20%	$ 210,924	$ 221,470.20	$ 232,543.71
Employee Reserve		$ 6,600	$ 6,600	$ 6,800
	100%	$ 1,087,620	$ 1,140,351	$ 2,417,573
Cost/(Savings)				
State		$ (131,474)	$ (139,368)	$ (146,857)
Employee		$ (32,869)	$ (34,842)	$ (36,714)
Total		**$ (164,343)**	**$ (174,210)**	**$ (183,571)**

VARIANCE **10%**

Estimated K-12 PEIP Expenditure		Projected FY15	Projected FY16	Projected FY17
Employer Expenditures	80%	$ 1,031,184	$ 1,082,743.20	$ 1,136,880
Employer Reserve		$ 26,400	$ 26,400	$ 27,200
Employee Expenditures	20%	$ 257,796	$ 270,685.80	$ 284,220
Employee Reserve		$ 6,600	$ 6,600	$ 6,800
	100%	$ 1,321,980	$ 1,386,429	$ 2,947,256
Cost/(Savings)				
State		$ 56,014	$ 57,494	$ 59,849
Employee		$ 14,003	$ 14,374	$ 14,962
Total		**$ 70,017**	**$ 71,868**	**$ 74,811**