ISSUE
Cost of State Employee Health Insurance

AFFECTED AGENCIES
All, including merit system employees of the Board of Regents

CODE AUTHORITY
Various

BACKGROUND
During the 1993 Legislative Session, funding was approved by the General Assembly for payment of salary increases due to the collective bargaining agreements between the State and the employee unions. As part of the collective bargaining agreements, health insurance coverage was also negotiated and agreed upon. However, no funding was appropriated for the increased cost of health insurance ($6.5 million in FY 1994 and $8.2 million in FY 1995) and agencies must fund the increased cost through their operating budgets.

CURRENT SITUATION
A report by the Segal Company (an insurance consulting firm) provides data covering 1991 and 1992 on each state’s cost of employee health insurance. Because the data for the report is collected on a calendar year basis, and states’ insurance plans do not necessarily follow the same time period (e.g., Iowa’s insurance coverage year runs from August 1, to July 31), there may be some data discrepancies due to timing.

Although the report contains many different types of data, there are 3 primary areas of interest; the cost comparison of single health insurance plans, the cost comparison of family plans, and the cost of retirees’ health plans. First, for single plans, the national average increase in total cost was 12.3%, while Iowa’s costs increased 11.3%. Of the 51 plans (Oregon has 2 plans), 27 plans (like Iowa) do not charge the employees for single plan health insurance (an additional 3 charge less than $10 per month). Iowa ranks 19th in the nation in total cost for a single health insurance plan. See Attachment A for a 50 state comparison.
For a family plan, the national average increase in total cost was 10.4%, while Iowa's cost increased 11.3%. Of the total 11.3% cost increase, the employer and employee split the increase evenly, so the employees experienced a 20.4% increase in their costs, while the State saw an 8.3% increase in costs. The difference in the amount of increase is due the State paying approximately 70.0% of the total cost with the employee paying approximately 30.0% of the total cost. When the cost increase is split equally, the employee bears a relatively larger portion of the increase. Of the 51 plans, only 9 do not charge employees for family health insurance. Iowa ranks 15th nationally for total state employee health insurance costs, with the national average total monthly premium at $374 compared to $429 for Iowa. See Attachment B for a 50 state comparison.

Iowa is one of 11 states which does not pay any portion of retirees' health insurance coverage. The national average total cost for retirees' health insurance coverage is $111 per month, with an average increase of 11.2% from 1991 to 1992. State of Iowa retirees experienced a 12.1% increase in health insurance costs between 1991 and 1992. See Attachment C for a 50 state comparison.

For FY 1994, health insurance costs for State employees increased 19.1% (with the employer and employee splitting the cost increase equally). Because the State utilizes a minimum premium contract with Blue Cross/Blue Shield, the amount of the increase is the maximum the State will pay. If State employee claims are less than those projected in the contract, the State and employee shares in future years will be reduced by the amount of underutilization.

ALTERNATIVES

This is presented as an informational item only.

BUDGET IMPACT

Health insurance costs are estimated to increase $6.5 million for FY 1994 and $8.2 million for FY 1995.
State Employee Health Insurance
1992 Single Plan Total Cost

Source: The Segal Company
Legislative Fiscal Bureau
September 3, 1993
State Employee Health Insurance
1992 Family Plan Total Cost

Source: The Segal Company
Legislative Fiscal Bureau
September 3, 1993
Retiree Health Insurance Groups Which Bear Cost

Source: The Segal Company
Legislative Fiscal Bureau
September 3, 1993