

Iowa Legislative Fiscal Bureau

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State Capitol
Des Moines, IA 50319
July 15, 1992

State Insurance Contract and Related Issues

ISSUE

The rising cost to both State employees and agencies for the provision of insurance

AFFECTED AGENCIES

Department of Personnel, Executive Council, all agencies.

BACKGROUND

Health insurance costs have increased at a high rate over the past 30 years. According Dr. Louis Sullivan, federal Secretary of Health and Human Services:

- As a nation since 1970, health care expenditures have increased at a rate 30.0% faster than the growth in the Gross National Product (GNP). Health care prices have increased at a rate 60.0% faster than the growth in the GNP. This indicates that while prices have increased, utilization has not increased as rapidly.
- As a percent of GNP, the expenditures on health care are nearly 12.0% of the GNP, compared with 5.3% 30 years ago. This compares to education, which has remained nearly constant at 6.0% for the past 30 years.

General Trends--State of Iowa Insurance

The total salary and benefits for all Iowa employees, except Board of Regent and Department of Transportation employees, is \$631.4 million annually. The State of Iowa provides 4 insurance benefits to its employees (costs are the total contract premium for FY 1993, both employer and employee share). The figures below do not include the Board of Regents.

- Health Insurance (\$106.4 million)
- Dental Insurance (\$6.1 million)
- Life Insurance (\$1.2 million)
- Long Term Disability (\$5.7 million)

The total cost of these benefits for FY 1993 is \$119.4 million, of which \$92.3 million is the State share and \$27.1 million is the employees' share. Health insurance is the largest share of the costs, accounting for 89.1% of the total \$119.4 million.

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The current health insurance contract with Blue Cross/Blue Shield takes effect in August 1992 and will be in effect for 2 years. The State has the option of extending the contract for 2 additional 2-year periods. The contract is a minimum premium contract where the State's maximum liability is set at the cost of the contract. If claims are less than the total premium over the life of the contract, then the State receives the excess funds. The administrative fee to Blue Cross/Blue Shield is set at 3.5% of the maximum liability (contract premium less the terminal liability reserve).

Health insurance premiums have risen rapidly since 1982. Blue Cross/Blue Shield Plan 2 (currently the most popular plan accounting for 67.0% of the total participants) family premiums have risen 282.2% over the past 11 years. This results in an average annual increase of 25.7% for a family plan. Blue Cross/Blue Shield Plan 2 costs are listed below:

Table 1
Blue Cross/Blue Shield Plan 2 Monthly Premiums
Comparison 1982 to 1992

Year	Type of Plan	Employer Share	Employee Share	Total Premium	Percent Chg.
1982	Single Plan	52.38	0.00	52.38	
1992	Single Plan	195.94	0.00	195.94	274.1%
1982	Family Plan	66.00	53.80	119.80	
1992	Family Plan	311.98	145.92	457.90	282.2%

The most popular health maintenance organization (HMO) is Share (accounting for 44.0% of the participation in HMO programs in 1992). The total premiums for Share have risen approximately 77.8% for a family plan since 1983. This results in an average annual increase of 7.8% for a family plan. Share costs are listed below:

Table 2
SHARE Costs Monthly Premiums
Comparison 1983 to 1992

Year	Type of Plan	Employer Share	Employee Share	Total Premium	Percent Chg.
1983	Single Plan	71.32	14.48	85.80	
1992	Single Plan	157.16	0.00	157.16	83.2%
1983	Family Plan	80.14	125.80	205.94	
1992	Family Plan	303.28	62.90	366.18	77.8%

Costs for the period 1990 to 1992 have increased, but not as rapidly as the overall period of 1982 to 1992. The average annual increase in premiums for the majority of health plans for 1990 to 1992 has been in the range of 5.0% to 7.0%, as opposed to the 18.0% to 28.0% for the overall period of 1982 to 1992. Please see attached charts for additional information.

For FY 1993, the Blue Cross/Blue Shield premiums have increased by 6.9%, but the State's overall cost for insurance has increased by \$437,612 (5.3%). According to the Department of Personnel, the primary reason for the reduction in the anticipated increase is due to: (1) A total of 1,389 fewer

active health contracts; and (2) Approximately 1,054 Iowa United Professionals Plan 2 employees moved to the Blue Cross/Blue Shield Plan 3.

A review of literature in the field of health insurance would indicate that the cost increases the State has experienced is not out of line with what the private sector has experienced. The State's cost increases over the past 3 years are below the average cost of increases for the nation as a whole (approximately 10.0% to 20.0% per year).

ALTERNATIVES

1. Continue with the current system.

The current system of purchasing all insurance from other carriers could be continued, however using this years' historical costs as a basis, the costs can be expected to increase between 5.0% and 15.0% each year. One cost saving step taken during FY 1993 was to have employees absorb 50.0% of the increase in insurance costs. Another alternative is to provide pricing and other incentives to move employees from the relatively more expensive plans to less expensive ones.

2. Study whether the State would benefit in the long-term from changing its method of insurance to some other form of insurance. Other forms could include:

- Modified self-insurance. This system would use a self-insurance system that is self-funded but utilizes aggregate stop-loss or specific stop-loss. Aggregate stop-loss pays if all claims from an institution exceed the anticipated amount by a certain percentage. (For example, if the yearly claims for the State were 5.0% higher than expected, aggregate stop-loss would pay the 5.0%. Specific stop-loss covers claims of an individual exceeding a set amount, i.e., the State could self-insure itself for all claims under \$5,000. If an individual filed a claim for a covered procedure amounting to \$25,000, the stop-loss insurance would pay the State \$20,000.
- Complete self-insurance. This system would require that the State fund all covered health care expenditures. No outside insurance premiums are paid to outside companies, but premiums are collected from employees, along with the company's contribution, into a fund set aside for the paying of insurance.

The State's potential benefits from self-insurance include: lower administration costs, control of provided benefits, and negotiated discounts from local health care providers. The control of benefits is unlikely to be available to the State because benefits are considered part of Chapter 20 of the Code of Iowa and are a mandatory subject of bargaining. The primary area of savings would likely be in the area of administration and profit. According to the July 1992 issue of Personnel Journal, insurance companies generally operate at a profit of 20.0% to 30.0%.

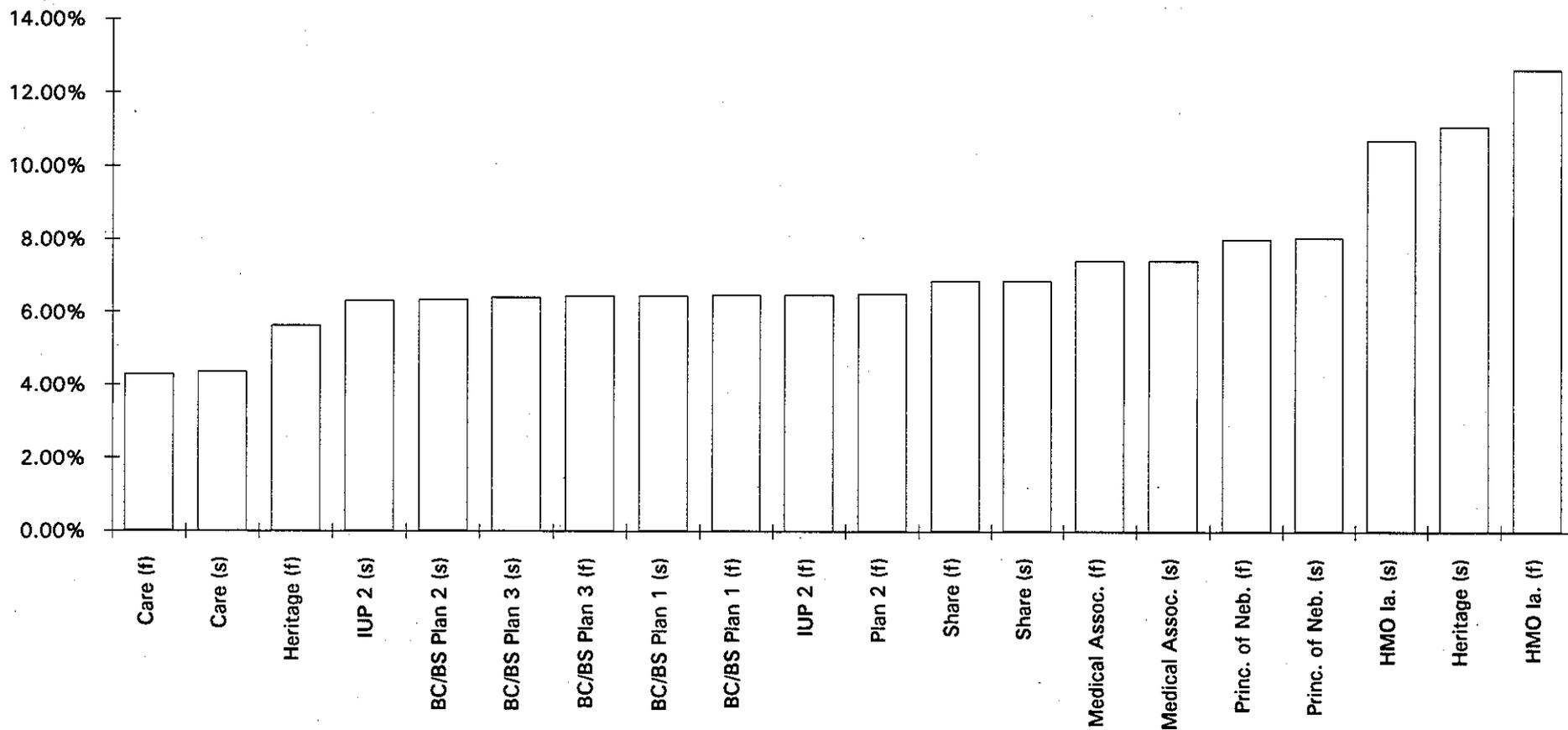
While there are areas of savings, there are also likely areas of increased costs. Employees would have to be hired to administer the program, including administrators, processors, cost control personnel, and customer service personnel. Computer equipment would also have to be purchased to handle the processing, control, and payment of claims. Further, policies would have to be developed and implemented and benefits would have to be defined. These costs are of the ongoing type and could easily erase any savings due to self-insurance. Finally, insurance companies, even though making a profit, are likely able to take advantage of economies of scale in the provision of insurance that would be unavailable to self-insuring employers, even large employers like the State of Iowa.

BUDGET IMPACT

As discussed above, the total cost for all types of insurance (health, life, dental, and LTD) amounts to approximately \$119.4 million in FY 1993, of the total \$92.3 million is the State's portion with \$27.1 million the employees' share.

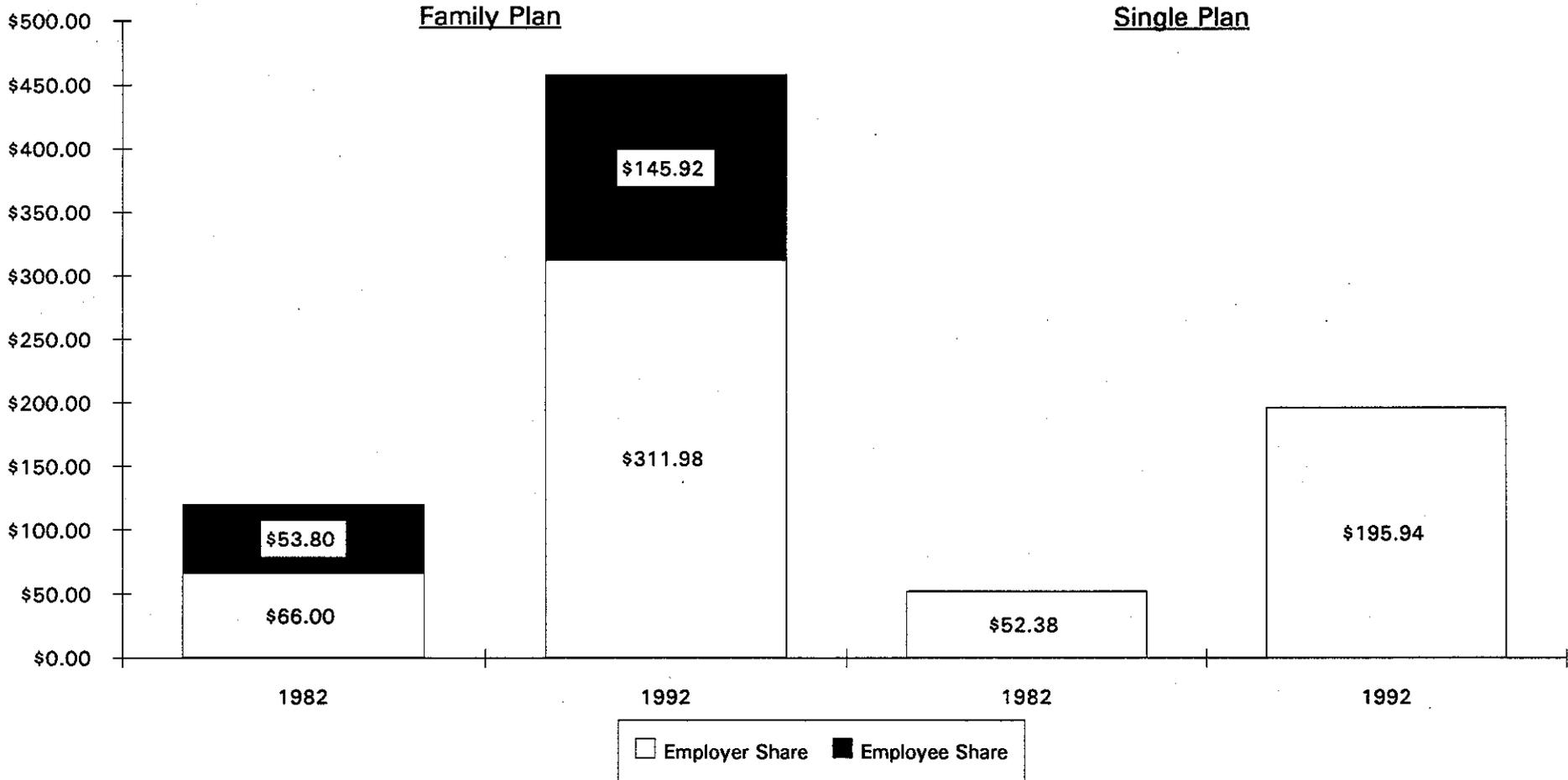
STAFF CONTACT: Larry Sigel (Ext. 16764) Dwayne Ferguson (Ext. 16561)

Average Annual Percentage Change in Total Insurance Premium 1990 - 1992

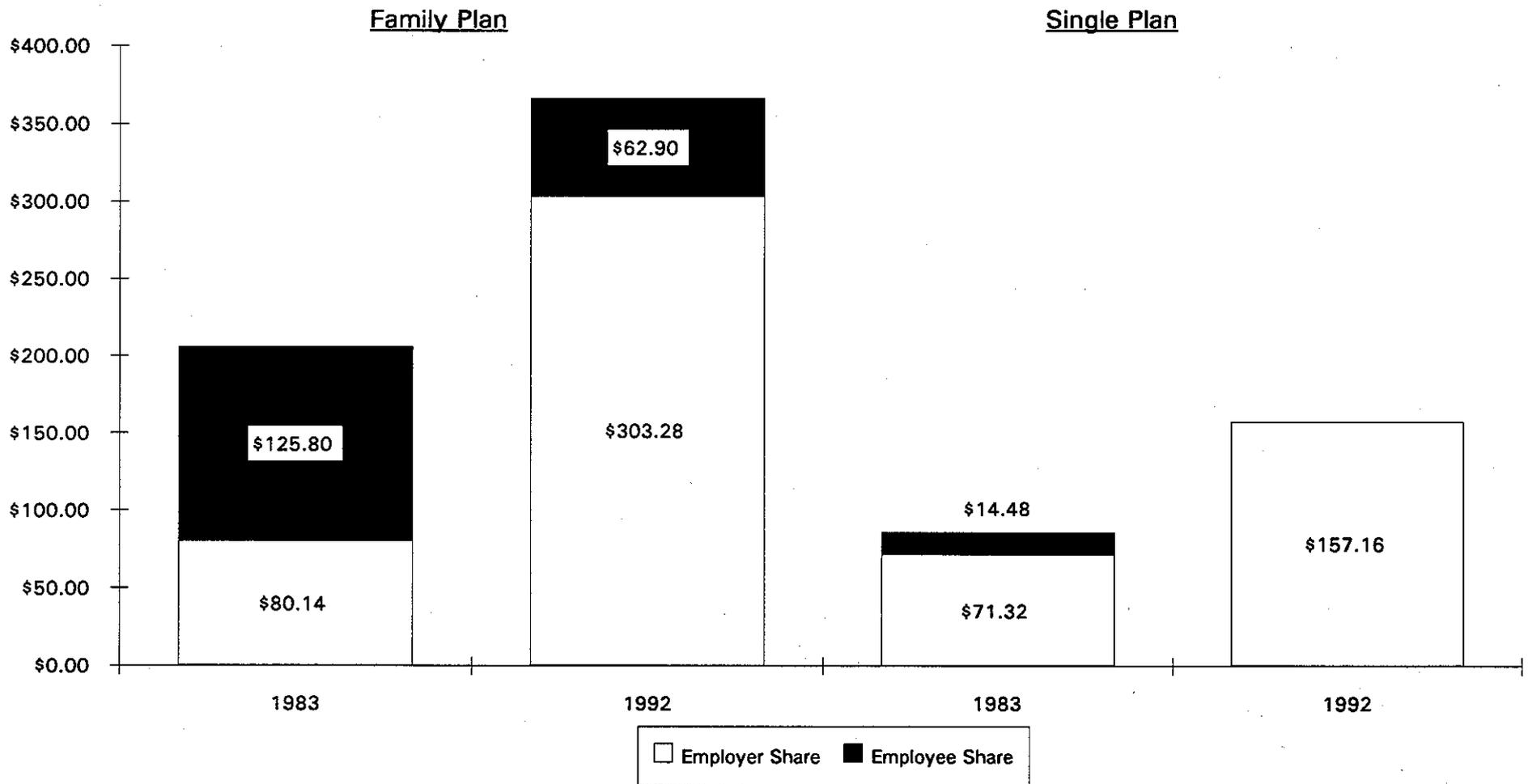


Note: (f) denotes family plan and (s) denotes single plan.
Total Premium Includes Employer and Employee Cost

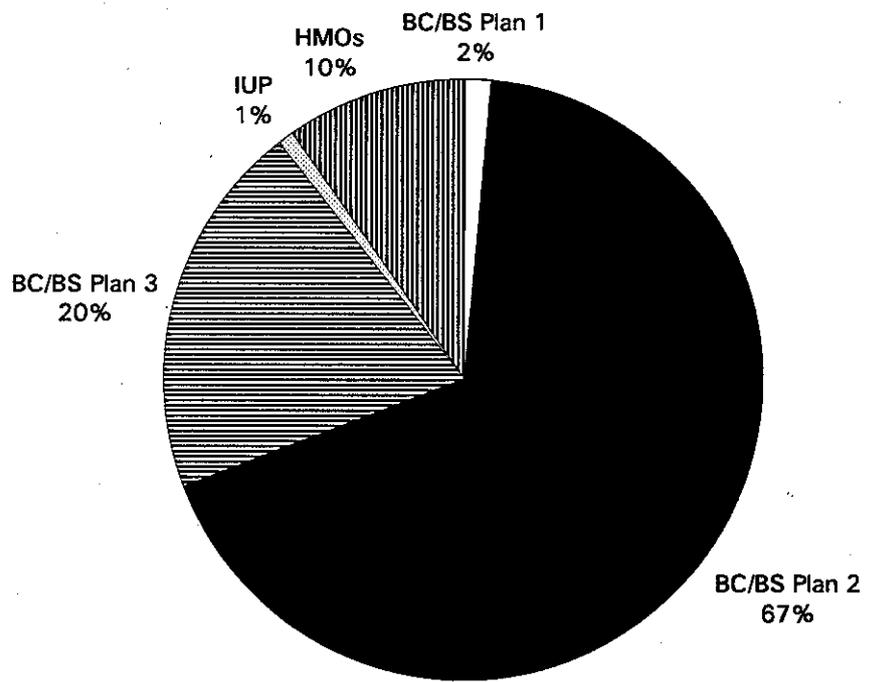
Blue Cross/Blue Shield Plan 2 Monthly Premiums 1982 - 1992



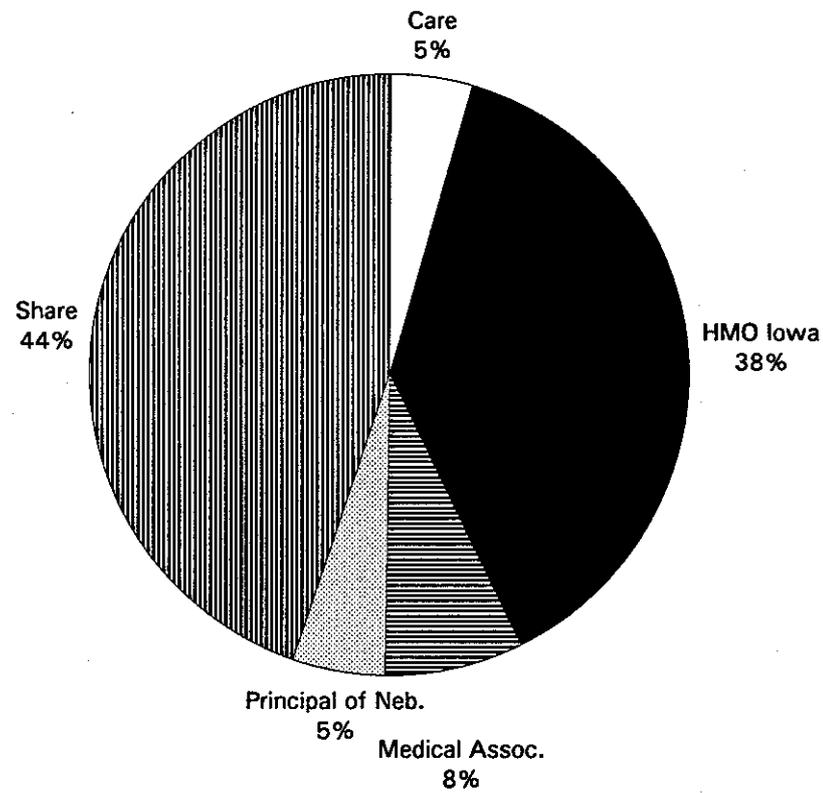
Share Monthly Premiums 1983 - 1992



Distribution of Insurance Plans
State of Iowa Employees - January 1992
Total: 27,821 Employees Enrolled

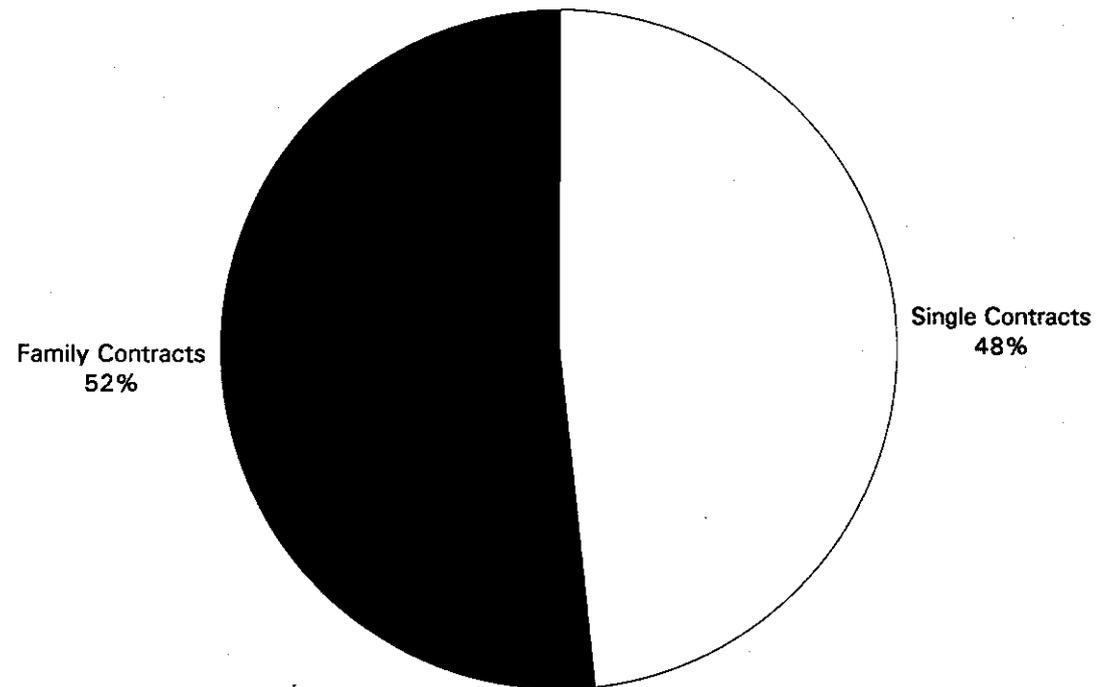


Distribution of HMO Participation
State of Iowa Employees - January 1992
Total: 2,659 Employees Enrolled



Distribution of Family and Single Contracts

State of Iowa Employees - January 1992



Secretary of State
FY 1991 and FY 1992 Revenues and Expenditures

General Office	FY 1991 Actual	Expended and Encumbered thru June 30, 1992	Increase (Decrease) FY 1991 to FY 1992
Available Resources			
Appropriated funds	\$ 1,722,676	\$ 2,123,450	\$ 400,774
FY 1992 Cuts		(87,156)	
Refunds & Reimbursements	59,701	65,337	5,636
Total	<u>\$ 1,781,625</u>	<u>\$ 2,101,631</u>	<u>\$ 320,006</u>
Disposition of Resources			
Personal Services	\$ 1,390,947	\$ 1,354,998	\$ (35,949)
In-State Travel	15,078	2,663	(12,415)
Out of State Travel	0	10,146	10,146
Office Supplies	151,819	119,733	(32,086)
Facility Maintenance Sup	0	952	952
Equipment Maintenance	17,712	15,228	(2,484)
Prof. & Scientific Supplies	4,044	3,630	(414)
Other Supplies	1,016	624	(392)
Printing & Binding	436	0	(436)
Communications	17,840	19,277	1,437
Rentals	2,947	3,092	145
Prof & Scientific Services	8,281	2,775	(5,506)
Outside Services	29,246	40,669	11,423
Advertising & Publicity	508	75	(433)
Outside Repairs & Service	2,148	2,035	(113)
Data Processing	122,551	484,639	362,088
Reimb. to Other Agencies	4,406	13,933	9,527
Office Equipment	12,646	1,688	(10,958)
Total	<u>\$ 1,781,625</u>	<u>\$ 2,076,157</u>	<u>\$ 294,532</u>

FY 1992 Senate Action for General Office budget (base amount)	\$ 1,623,450
Increase for the purchase of equipment and automation	500,000
Amount passed by Conference Committee	<u>\$ 2,123,450</u>
FY 1992 Senate Action for General Office budget (base amount)	\$ 1,623,450
FY 1991 actual expenditures from appropriated funds	1,722,676
FY 1992 reduction to the General Office budget	<u>\$ (99,226)</u>

Compared to FY 1991, the FY 1992 budget for the Office of the Secretary of State was reduced by a total of \$186,382 (\$99,226 in reduced appropriations and \$87,156 in across-the-board cuts and deappropriations). The appropriation to the Office included \$500,000 to purchase optical disk scanner equipment and office automation. The Office spent \$350,000 on equipment purchases and has \$14,000 still outstanding for May and June payments, for a total of \$364,000. Of the remaining \$136,000, \$87,156 was used to offset the across-the-board cuts and deappropriations, and to-date \$43,758 has been used to offset the reduction to the base amount. The total offset to-date is \$130,914. The Office does not anticipate a significant reversion at the end of the year, so the remaining funds will also be used to offset the reduction to the General Office budget.

1 1 DIVISION I
 1 2 ADMINISTRATION

1 3 Sec. 101. There is appropriated from the general fund of
 1 4 the state to the office of the secretary of state for the
 1 5 fiscal year beginning July 1, 1991, and ending June 30, 1992,
 1 6 the following amount, or so much thereof as is necessary, to
 1 7 be used for the purposes designated:

1 8 For salaries, support, maintenance, miscellaneous purposes,
 1 9 and for not more than the following full-time equivalent
 1 10 positions:
 1 11 \$ 2,123,450
 1 12 FTEs 50.00

General Fund appropriation to the Secretary of State.

DETAIL: This is an increase of \$400,774 compared to the adjusted FY 1991 appropriation. The Conference Committee increased the amount originally passed by the Senate by \$500,000 and indicated that the increased funding is to be used for the purchase of optical disk equipment and continued automation of the Office.

NOTE: HF 479 contains increases to Uniform Commercial Code filing fees totalling approximately \$1,956,000 for FY 1992. The Secretary of State had proposed to the Administration Appropriations Subcommittee during this and the previous legislative session that these fees be increased to pay for the purchase of this equipment.

1 13 Sec. 102. There is appropriated from the general fund of
 1 14 the state to the offices of the governor and the lieutenant
 1 15 governor for the fiscal year beginning July 1, 1991, and
 1 16 ending June 30, 1992, the following amounts, or so much
 1 17 thereof as is necessary, to be used for the purposes
 1 18 designated:

Attachment 3
RECEIVED
MAY 6 1992

LEGISLATIVE
FISCAL BUREAU



SECRETARY OF STATE
HOOVER BUILDING
STATE OF IOWA
DES MOINES
50319

ELAINE BAXTER
SECRETARY OF STATE

ALLEN WELSH
DEPUTY ASSISTANT
SECRETARY OF STATE
DIRECTOR, CORPORATIONS DIVISION
515-281-8363

May 4, 1992

The Honorable Leonard Boswell, Chair
Fiscal Committee, Legislative Council
State Senate
Statehouse
L O C A L

Dear Senator Boswell:

This letter is to bring you up to date on final financing arrangements for the secretary of state's optical imaging system.

As you know, the 1991 and 1992 General Assemblies provided funds for the purchase of an optical imaging system to be used in the administration of the uniform commercial code and Iowa corporation laws. A vendor for the project has been selected through competitive bidding.

Some time ago, a lease-purchase arrangement had been considered as a means for financing the optical imaging system. Vendors provided the state with lease-purchase options as required by the request for proposal. However, by the time the contract was finalized in April, 1992, the department of purchasing determined that use of the state's master installment agreement would provide a far less costly means of financing the system than a lease-purchase agreement. Consequently, the lease-purchase option was rejected.

In lieu of a lease-purchase arrangement, the state's master installment agreement with Norwest will be used to finance the purchase of the system according to the following terms.

Senator Leonard Boswell
May 4, 1992
page two

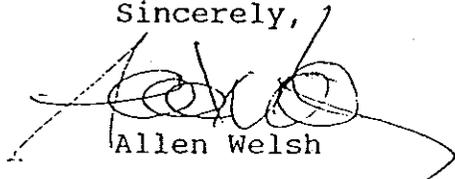
Purchase price	\$1,695,000
Down payment	\$ 350,000
Amount financed	\$1,345,000
Interest rate	6.246% *
Periods (months)	54
Monthly payment	\$29,590 **

* The vendor will be paid for services rendered as the contract is performed, with a 10% hold back to be paid upon full performance. The balance of the amount financed is held in escrow, and earns interest in favor of the state. This interest income will significantly reduce the interest rate. The effective rate cannot be calculated at this time.

** Payments one and two are in the amount of \$7,000.18. Payments three through fifty-four are \$29,540, beginning July 15, 1992.

We appreciate your cooperation and support of the project over the past two years. We will continue to keep you and other members of the committee informed about the progress of the project and the financing arrangement. Please let me know if you have any further questions about the optical imaging system.

Sincerely,



Allen Welsh

copy: Dennis Prouty, LFB