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STATE OF IOWA  
LEGISLATIVE FISCAL BUREAU

MEMORANDUM

TO: Legislative Fiscal Committee

FROM: Ron Robinson

DATE: November 14, 2000

RE: Response to salary adjustment questions

A copy of the Wellmark Contract (**Attachment M**) has been provided with your material.

Attached are correspondences involving the Department of Management and the Iowa Department of Personnel:

- A February 2, 2000, memo from Mollie Anderson, the Director of the Department of Personnel, to John Norris of the Governor's Office.
- An Issue Paper produced by the Department of Management.
- An April 27, 2000, intra-Department of Management e-mail from Steve Timmins to Randy Bauer, Joel Lunde, and Lynn Barney.

Section 509A.5, **Code of Iowa**, provides the basis for the Health Insurance Premium Reserve Fund not reverting to the General Fund at the close of the fiscal year.

The balance of the Health Insurance Premium Reserve Fund is \$11,942,082, as of November 13, 2000.

You have also asked questions about how the Health Insurance Premium Reserve Fund is divided between employees and employer, and the historical allocation of the Fund between the two entities. The Legislative Fiscal Bureau continues to look into the matter. Steve Smith from the Iowa Department of Personnel and Randy Bauer from the Department of Management are present to respond to these questions.



THOMAS J. VILSACK, GOVERNOR  
SALLY J. PEDERSON, LT. GOVERNOR

DEPARTMENT OF PERSONNEL  
MOLLIE ANDERSON, DIRECTOR

February 2, 2000

To: John Norris

Fr: Mollie Anderson

Re: Employee Benefits Funds' Status

Enclosed are two draft reports from The Segal Company concerning the status of various employee benefits funds, namely health, life, long term disability, and dental. Also enclosed is some information we compiled that may help you in reviewing the reports. My goal in sharing these reports with you before they are finalized is to ensure that the final reports are ones that the State's Executive Branch can stand behind. It is critical to me that we all agree with the numbers found therein, the assumptions made, and the methodologies used.

Don Heilman, the reports' author, will be in Des Moines for other business on Wednesday, February 9. He has agreed to set aside that afternoon to meet with us on this and any other issues we wish to raise. I invite you to meet with us to discuss with Don any questions or concerns you may have. We have blocked the entire afternoon. Please let me know which times work best for you and we will try to find a convenient time.

As you will see when you read the health report, the issues raised are serious and need immediate attention. These matters are far too large for IDOP to resolve alone. I need your help to not only make sure that the report is complete and accurate, but to address the issues raised for both the short and long term.

To recap:

1. Please let me know if you would like to meet with us when we talk to Don on 2-9.
2. Please provide me the best times for you to meet.
3. If you have serious concerns with the numbers, assumptions, or methodologies used, I would appreciate advanced notice so that we can bring any required items to the meeting.
4. Since this report is still a draft, I would appreciate it if you would not widely distribute it. The report may change as a result of the meeting, and I do not want inaccurate drafts in the public domain.

I look forward to hearing from you and to working with you on this significant issue.

Enclosures (2)

## **Executive Summary of the Segal Medical Funding and Proposed Work Plan to Address Issues Raised**

### **Goals:**

- 1) Reach agreement on the status of the benefits funds (primarily health).
- 2) Develop short-term and long-term funding strategies.
- 3) Reach agreement on which strategies to pursue.

### **Issue:**

Based on the draft Segal funding report, IDOP believes that the health insurance program is underfunded. We need to ensure that adequate funds exist to pay our existing and future liabilities.

### **Process:**

1. Segal reviewed DRF's accounts to determine fund balances as of 12-31-99.
2. Segal prepared a draft report discussing current and projected balances as well as estimated premium rates for calendar year 2001.
3. IDOP will distribute the draft report to key stakeholders (Governor's Office, DOM, DRF, etc) for review.
4. Meeting on 2-9 with Segal and key stakeholders to discuss report.
5. Segal to finalize report.
6. Distribution to Governor, Executive Council, Insurance Committee, department directors, and other interested parties.

### **Segal Key Findings:**

1. If we continue the buy-down of state rates through this calendar year, we will have a balance of \$2 mil. If we factor in the encumbered terminal liability as of 12-31-00, we have a negative balance of almost \$18 mil.
2. The state's rate for 2001 will increase substantially. If we fund approx. half the terminal liability owed at 12-31-2002, the employer's rate for 2001 is estimated to increase by approx. 57% over the bought-down rate for 2000. If we don't fund the terminal liability, the state's rate is estimated to increase approx. 42%.
3. In either event, employee rates are estimated to increase approx. 13%. The main difference is because of the employer's buy-down.

### **Factors to remember:**

1. We are spending more than we take in. From 1-1-00 through 6-30-00, for instance, we are spending over \$11 mil more than we take in.
2. There will be no money available to buy down the state's rate in 2001.
3. The state has not paid its actual rates for several years. The state's cost has been masked by using health insurance funds to pay a portion of the state's rates (in 2000, estimated to be over \$19 mil).
4. Wellmark had an approx. \$7 mil deficit in 1999, which shows how much health care has risen.

5. We need to fund the terminal liability, which will be over \$20 mil by contract end (12-31-2002).
6. The last Wellmark contract ended in 1998. The maximum terminal liability for that contract is approx. \$16 mil. So far, we have spent approx. \$14 mil.
7. Segal is projecting 10% increase in health care costs. Given the 1999 actuals, this number may be low.
8. **The report is in draft and most of the figures are estimates! It is possible that the rate increases could be higher or lower.**

Source: IDOP, 2-2-00

11113100

Ron -

The date reference to Feb. 3 vs Feb 2  
on original memo to John Norris was  
due to the copy sent to Director Eisenhower  
being a day later.

Steve



THOMAS J. VILSACK, GOVERNOR  
SALLY J. PEDERSON, LT. GOVERNOR

DEPARTMENT OF MANAGEMENT  
CYNTHIA P. EISENHAUER, DIRECTOR

## Issue Paper

### **Issue:**

Response to the February 3, 2000 memo from Director of the Department of Personnel.

### **Background:**

The February 3, 2000 memo from Director Anderson discussing health insurance funds status started the path of review by the Department of Management with initial completion in May 2000. Work was done reviewing past practice, gathering financial data and putting all pertinent information into the proper context.

Three state departments are involved in the health insurance program. The Department of Personnel administers the program, the Department of Revenue and Finance has the fiduciary responsibility of the health insurance funds, and the Department of Management provides budgetary review. There was not a joint review done by the 3 departments and communication between the three departments was not always coordinated.

### **Findings:**

Based upon the work done by all three departments, in May it was determined that the assumptions made for salary calculations for Fiscal Year 2001 would have to be revised to reflect a faster than anticipated depletion of insurance reserves. Also, based upon conversations with Wellmark and Segal, an increase of health insurance premiums on January 1, 2001, would be higher than the amount built in the salary calculations. Because of these findings, the changes in health insurance premiums were done.

### **Conclusion:**

Because of the work done by the three departments, a core group of state employees now meet on a periodic basis to discuss the health insurance program. Within the Department of Management, one staff person has been given responsibility for review and oversight of the program. Periodic reports are being developed to insure that the flow of information on the program will be done between the three departments.

## Lyons, Holly

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From: Randy Bauer [Randy.Bauer@idom.state.ia.us]  
Sent: Tuesday, November 14, 2000 3:47 PM  
To: Holly Lyons; Ron Robinson  
Subject: FW:

Holly,

At the last Fiscal Committee meeting, there was much discussion about when the Department of Management became aware of issues relating to the status of health insurance utilization and the reserve funds. After looking through my e-mail and correspondence, I have concluded that this was the first e-mail or correspondence I received directly on the subject. You will note that it was dated in late April; as I have said in response to questions at past Fiscal Committee meetings, the final decision was made in late May.

I understand that others on DOM staff were working on health insurance reserves issues in the preceding months. As you know, those months are an extremely busy time, and we do not have the budget luxury of assigning even the majority of a staff person's time to health insurance issues. Given necessary time to investigate the many issues involved, I think decisions were made and communicated within a reasonable time frame.

Randy Bauer

> -----Original Message-----

> From: Steve Timmin1  
> Sent: Thursday, April 27, 2000 10:29 AM  
> To: Randy Bauer; Joel Lunde; Lynn Barney  
> Cc: Jean Gruver  
> Subject:

>  
> In preparing for the salary projections that state agencies use to load  
> their FY01 budgets, should we consider changing the amount that agencies  
> will spend on health insurance due to the likelihood that the health  
> insurance reserve fund will run out of money in mid-year? We could  
> maintain the Governor's assumption for health insurance for allocating  
> salary adjustment, but would we be better off by loading a more realistic  
> cost of health insurance for agencies to use in loading their FY01  
> budgets?

>  
> In addition, when do we tell DRF and IDOP that the initial rates used for  
> health insurance charged to state agencies need to be changed and what  
> decision process will we follow in making this decision?