ISSUE REVIEW

Iowa Legislative Fiscal Bureau

Dennis Prouty
(515) 281-5279
FAX 281-8451

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Insurance Costs And Existing Reserves

ISSUE

The costs of health insurance for State employees and use of existing insurance reserves.

AFFECTED AGENCIES

All, except Board of Regents Professional and Scientific and Faculty staff

CODE AUTHORITY

Various

BACKGROUND

As part of the collective bargaining agreements negotiated with the labor unions, the State and the unions agreed to continue the policy of dividing the increased cost of health insurance evenly between the employer and the employees. Currently, the State pays approximately 68.0% of the total insurance cost. The central State employees' General Fund health insurance cost increases are estimated to be $4.4 million (a 19.0% increase) for FY 1994 and $6.3 million (a 19.0% increase) for FY 1995. There are two sources of funding that could be used to offset the insurance increases:

1. The savings realized by employees moving to a less expensive health plan.
2. The use of accumulated insurance reserves to buy down the rate increases.

INCENTIVE PLANS

One way of moving individuals among insurance plans is to offer an incentive. As part of the collective bargaining agreement negotiated with the American Federation of State, County, and Municipal Employees (AFSCME), the Union has provided that at least 1,500 members will transfer from Blue Cross/Blue Shield (BCBS) Plan 2 to the less expensive BCBS Plan 3. Employees who change from BCBS Plan 2 to BCBS Plan 3 will receive a FY 1994 incentive of $20 per month for a family plan (in the form of a reduced premium) and $25 per month for a single plan (in the form of a cash payment). If AFSCME is unable to provide 1,500 members, the State is not obligated to offer the incentive. The Iowa Department of Personnel (IDOP) has extended this incentive plan beyond AFSCME employees to non-contract covered central staff employees.

The savings to the State for changing from BCBS Plan 2 to BCBS Plan 3 is $66 each month for a family plan and $69 for each single plan (not including the incentive). The savings stated in this report are estimates and are based on preliminary numbers provided by the IDOP and the Department of Management (DOM). They have yet to be ratified by the Executive Council. If the anticipated minimum 1,500 AFSCME members transfer to BCBS Plan 3, the projected State savings would be approximately $0.8 million for FY 1994 and $1.2 million for FY 1995. The increased savings in FY 1995 are due to offering the incentive to move from BCBS Plan 2 to BCBS Plan 3 only during FY 1994.

If all current 16,774 BCBS Plan 2 enrollees transfer to BCBS Plan 3, the projected State savings would be $9.1 million for FY 1994 and $13.7 million for FY 1995. As with the example above, the increased savings in FY 1995 are due to not offering the

incentive.

An agency's cost savings will be the FY 1993 BCBS Plan 2 cost compared to the FY 1994 BCBS Plan 3 cost. This is the appropriate comparison for an agency if the costs for health insurance increases are not funded. Table 1 summarizes the monthly savings of changing a family contract from Plan 2 to Plan 3. On an annual basis, when including the cost of the $20 monthly incentive, the State saves $104.82 per contract compared to the current Plan 2 rates. This figure is derived from 1 month savings at the FY 1993 rate and 11 months savings at the FY 1994 rate net of the incentive (due to the contract running from August 1 to July 31).

Table 1

Monthly Savings Compared to FY 1993 Rates for BCBS Plan 2 - Family

	State Share	Employee Share	Total Cost
1993 Plan 2	$ 311.98	$ 145.92	$ 457.90
1994 Plan 3	286.00	143.00	429.00
Total Savings (w/o incentive)	$ 26.10	$ 2.72	$ 28.82

As with the family contract, single contracts produce similar savings. Table 2 summarizes the monthly savings from moving a single contract from Plan 2 to Plan 3. On an annual basis, when including the cost of the $25 monthly incentive, the State saves $117.60 per contract compared to the current Plan 2 rates.

Table 2

Monthly Savings Compared to FY 1993 Rates For BCBS Plan 2 - Single

	State Share	Employee Share	Total Cost
1993 Plan 2	$ 195.94	$ 0.00	$ 195.94
1994 Plan 3	163.00	0.00	163.00
Total Savings	$ 32.66	$ 0.00	$ 32.66

INSURANCE RESERVES

There are two insurance reserve accounts, the Health Insurance Operating Reserve account and theTerminal Liability Reserve account. The Operating Reserve account contains funds collected from employees and the State and are used to pay claims . The Terminal Liability Reserve account contains funds which are used to pay for claims which occur after the end of the contract.

There is an estimated accumulated surplus of $8.0 million in the operating account of the State health insurance contract that ended in August 1992. These funds are a combination of employee and employer contributions and State General Fund and non-General Fund sources. The surpluses accumulated because employees' health insurance usage was less than projected. Of the $8.0 million surplus, approximately $1.7 million is employee contributed funding with the remainder being State contributed. The Executive Council, in the absence of Legislative action, approves the use of these funds. These funds could be used to buy down insurance rates or provide incentives to move employees to less expensive plans. In addition, other reserve funds have, or will have, accumulated surpluses.

Currently, the IDOP is recommending that the employee-contributed share ($1.7 million) be used to reduce the employees health insurance cost. No final recommendation has been made by the Executive Council with respect to insurance reserves.

For example, using the reserves would reduce the State share for a BCBS Plan 2 family plan from $352.04 to $322.49 per month, a savings to agencies of $29.55 per contract per month. Compared to FY 1993, there would still be an increase in the State share (from $311.98 to $322.49) of $10.51 per contract per month, but this is less than the $40.06 increase that agencies would otherwise absorb. As presented in Table 3 below, the buy down of rates does not affect the total cost of insurance, but does reduce the cost increase which the agencies have to pay.

Table 3

Illustration of Rate Reduction for Blue Cross/Blue Shield Plan 2 (Monthly Basis)

	State Share	Employee Share	Total Buy Down	Total Cost
1994 Full Contract Rate	$ 352.04	$ 191.26	$ 0.00	$ 543.30

1994 Reduced Rate (estimate)	322.00	178.00	42.00	543.00
Total Reduction	$ 29.55	$ 12.86	$ 42.41	$ 0.00

Additional reserves, amounting to approximately $8.0 million (all funds and sources) have accumulated in the Terminal Liability Reserve account. These funds, used to pay the costs of medical services incurred after the end of the contract, will be available in early 1994 and could be used to buy down the FY 1995 health insurance rates. It is important to note that the actual amount will not be known until December 1993, so the projected $8.0 million may be more or less depending on claims between now and the end of the year.

CURRENT SITUATION

No action has currently been taken by the Executive Council regarding the disposition of reserves.

ALTERNATIVES

In absence of legislative action, the Executive Council will decide the use of the insurance reserves. The following options are available:

Allocate the State portion of insurance reserves to buy down the rates and collect the savings due to employees switching insurance plans centrally to the General Fund. This will reduce the funds which State agencies are required to provide from their operating budgets to fund insurance cost increases.

Allow agencies to keep the savings from employees switching plans to offset health insurance cost increases and not use the reserves to offset the increases.

Allocate the insurance reserves to buy down the rates while at the same time allowing agencies to keep the savings from employees switching health insurance plans. This option could offset any underfunding of the collective bargaining agreements without additional cost to the General Fund.

Allocate a portion of the reserves to an advertising program to facilitate employees switching from relatively more expensive ins urance plans to less expensive ones. This option may be used with any of the 3 prior options.

BUDGET IMPACT

The General Fund impact upon agencies is approximately $4.4 million in FY 1994 and $6.3 million in FY 1995. Insurance cost increases were not funded in the salary adjustment bill and must therefore be absorbed by agencies.

STAFF CONTACT: Larry Sigel (Ext. 16764)