

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0546-01
Bill No.: SB 140
Subject: Insurance - Medical; State Employees
Type: Original
Date: January 24, 2005

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
General Revenue	(\$38,091,011)	(Expected to exceed \$38,094,553)	(Expected to exceed \$38,098,201)
Total Estimated Net Effect on General Revenue Fund	(\$38,091,011)	(Expected to exceed \$38,094,553)	(Expected to exceed \$38,098,201)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Patrol Highway	(\$1,275,536)	(\$1,313,802)	(\$1,353,216)
Road	(\$4,653,664)	(\$4,793,274)	(\$4,937,072)
All Other	(\$8,645,258)	(Expected to exceed \$8,649,131)	(Expected to exceed \$8,653,121)
Total Estimated Net Effect on <u>Other</u> State Funds	(\$14,574,458)	(Expected to exceed \$14,756,207)	(Expected to exceed \$14,943,409)

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 12 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Federal	(\$12,283,458)	(Expected to exceed \$12,283,458)	(Expected to exceed \$12,283,458)
Total Estimated Net Effect on <u>All</u> Federal Funds	(\$12,283,458)	(Expected to exceed \$12,283,458)	(Expected to exceed \$12,283,458)

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Local Government	(Unknown)	(Unknown)	(Unknown)

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration (COA) - Division of Budget and Planning, Department of Revenue** and **Department of Mental Health** assume the proposal would have no fiscal impact on their organizations.

Officials from the **Missouri Department of Conservation (MDC)** state the proposed legislation would not appear to have a direct impact on MDC funds.

Officials from the **Department of Corrections (DOC)** state the Office of Administration has the appropriation authority for employee benefit disbursements. Therefore, the DOC assumes the proposal would have no direct fiscal impact on their organization.

Officials from the **Department of Health and Senior Services (DOH)** state the proposal would not be expected to fiscally impact the operations of the DOH. If an impact were to result, funds to support the program would be sought through the appropriations process.

ASSUMPTION (continued)

Officials from the **Department of Agriculture, Department of Public Safety (DPS) - Director's Office** and **Department of Economic Development** defer to the Missouri Consolidated Health Care Plan and Office of Administration for response regarding the potential fiscal impact of this proposal on their organizations.

Officials from the **DPS - Missouri State Highway Patrol** defer to the Missouri Department of Transportation for response regarding the potential fiscal impact of this proposal on their organization.

Officials from the **COA - Division of Accounting** and **COA - Division of Personnel** defer to the Missouri Consolidated Health Care Plan for response regarding the potential fiscal impact of this proposal to the state.

However, officials from the COA- Division of Personnel state the long-term implications of the proposal is that the state would pay a significantly greater portion of the health care premiums for state employees. As the cost of health care continues to rise disproportionately to inflation and state revenues, this could eventually result in benefit reductions for state employees as the state may not be able to fund the benefit at current or proposed levels. Employees who do not currently opt for health care through the state because they have coverage through their spouse's plan, may choose to switch to the state for health care coverage.

Officials from the **Department of Social Services (DOS) - Division of Research and Evaluation (R&E)** state a cost to the state will result from two factors:

- In most cases, the sliding scale will increase the amount the state contributes for employee and family coverage, and
- Since employee-only coverage will be free for employees earning \$60,000 or less, there is no disincentive for an employee not to participate in the Missouri Consolidated Health Care Plan. Employees who currently receive coverage through private plans or through another family member's plan can be expected to switch to the Missouri Consolidated Health Care Plan.

The DOS defers to the Office of Administration to calculate this increased cost for all state employees. Since the General Revenue portion of fringe benefits is appropriated to the Office of Administration, the DOS would not have increased General Revenue cost. However, to the extent that federal matching funds are available for administrative expenses in certain programs, the DOS can expect its federal funds budget to be impacted, but the impact is unknown.

ASSUMPTION (continued)

Oversight assumes all employee-related health insurance costs associated with DOS, including the impact to Federal Funds, will be included in Missouri Consolidated Health Care Plan's response.

Officials from the **Department of Natural Resources (DNR)** state if an employee elects to participate in a plan other than the lowest cost premium plan, the state shall contribute a dollar amount equal to that which would have been contributed on behalf of the employee under the lowest cost premium or the full amount of the premium plan, whichever is less. Employees will be reimbursed for plan premiums paid by employees between January 1, 2005 and June 30, 2005, which exceed the premium amount that would have been paid by employees pursuant to section 103.101. The reimbursement amount shall be determined based on the employee premium contribution for the lowest cost premium plan available in the employee's region for the level of coverage in which the employee is currently enrolled, regardless of the plan option currently chosen by the employee, minus the total amount of the premium contribution the employee would have made pursuant to section 103.101.

Level of coverage and salary amounts as of December 31, 2004 (calendar year 2005 deductions) were evaluated to determine which plan in each region was the lowest cost plan for each employee and which salary level the employee was categorized at under the proposed legislation. The lowest cost plan for each employee was then compared to the premiums for which plan the employee is currently enrolled. For FY 2006, the state will contribute an amount equal to the lowest cost plan or the premium amount the employee has chosen, whichever is less. Therefore, the state's additional liability is the lesser of the annual lowest cost plan or the annual premium amount for the plan chosen. Reimbursement amounts for premiums paid from January 1, 2005 to June 30, 2005 were determined by evaluating coverage and salary amounts as of December 31, 2004 to determine which plan in each region was the lowest cost plan for each employee. The lowest cost plan for each employee was then compared to the employees annual salary and coverage amount to proposed legislation.

For purposes of this fiscal note, it is assumed that the level of coverage (for example, increasing the level of dependents) for employees would remain constant. However, if employees increased their level of coverage, particularly for those employees whose salary is less than \$40,000, the fiscal impact to the DNR would significantly increase because the employee's contribution would remain zero, but the premium amount for the state's contribution would increase.

The DNR will pay an additional \$1,217,544 in FY 2006 for health care premiums under the proposed legislation. Additionally, under the proposed legislation, in FY 2006, employees would be reimbursed for all or part of health care plan premiums paid from January 1, 2005 to June 30,

ASSUMPTION (continued)

2005. DNR estimates the state contribution for the lowest cost plan for January 1, 2005 to June 30, 2005 is \$683,202. The employee contribution for January 1, 2004 through June 30, 2004, based upon the proposed legislation, is \$72,479. Therefore, the DNR's reimbursement amount to employees for premiums paid in excess of the percentage of annual income per the proposed legislation is \$610,723 (\$683,202 less \$72,479). The total FY 2006 increase to the DNR is \$1,828,267 (\$1,217,544 plus \$610,723). The annual increased cost to the DNR for FY 2007 and after is \$1,217,544.

Oversight assumes DNR employee-related health insurance costs associated with this proposal are included in Missouri Consolidated Health Care Plan's response.

Officials from the **Department of Labor and Industrial Relations (DOL)** state since it is not possible to quickly determine the types of coverage selected by department employees, DOL determined the number of employees and their total salaries by the four salary ranges listed in Section 103.101 2. The DOLt has the following breakout of employees:

\$0 - \$40,000	736	Employees earning \$1,840,214 monthly
\$40,001 - \$60,000	210	Employees earning \$826,721 monthly
\$60,001 - \$80,000	42	Employees earning \$252,062 monthly
\$80,001 and over	33	Employees earning \$245,446 monthly

If all these employees had enrolled in MISSOURI CONSOLIDATED HEALTH CARE PLAN as Employee Only, their costs for FY 2005 would have been \$20 per month for the lowest cost plan or \$245,040 (1,021 employees X \$20/month X 12/months per year). DOL used the rate for Cole County for calculation purposes, but not all employees live or work in Cole County. Under the proposal, any employee selecting Employee Only would pay nothing toward the cost of insurance. Under the proposal the Employee Only rate is 0%. Therefore, it is assumed that these costs would be assumed by the DOL. The additional costs were allocated among the DOL funds based on each fund's total personal service dollars.

The other health care plan options were also reviewed (Employee & Spouse, Employee & Children and Employee & Family) and if all employees were enrolled in those options, the cost increase for the DOL would be greater than the amount reported as the fiscal impact for fiscal note purposes.

The FY 2005 costs were reported as FY 2006 costs (full year) and increased by 2.5% each year thereafter. The DOL estimates the total cost of the proposal to all funds for FY 06 to be \$245,050; costs for FY 07 to be \$251,166; and, costs for FY 08 to be \$257,445.

ASSUMPTION (continued)

Oversight assumes DOL’s employee-related health insurance costs are included in Missouri Consolidated Health Care Plan’s response.

Officials from the **Department of Insurance (INS)** used the following assumptions to determine the range of costs associated with this proposal:

- Current rates used are from the Central Region - Cole County and Mercy Health Care Plan (lowest cost);
- Proposed rates calculated for all FTE in each category based upon current annual salaries and proposed rates;
- Current minimum amounts assume all FTE choose employee only; current maximum amounts assume all FTE choose family.

The INS estimate the proposal would cost the Insurance Examiners Fund \$27,720 to \$78,044 in FY 06 and \$18,480 to \$52,029 in each FY 07 and FY 08. The proposal would also cost the Insurance Dedicated Fund \$50,940 to \$488,889 in FY 06 and \$33,960 to \$325,926 in each FY 07 and FY 08. Costs to the Insurance Examiners Fund and Insurance Dedicated Fund for FY 06 include the costs to reimburse employees for amounts paid in excess of the premium amount that would have been paid had the proposal been in effect.

Oversight assumes INS’s employee-related health insurance costs are included in Missouri Consolidated Health Care Plan’s response.

Officials from the **Missouri Department of Transportation (DOT)** state effective July 1, 2005, state employee’s cost towards medical insurance premiums will be based on the following percentages of their annual income.

Contribution	Employee Only % of Contribution	Emp. & Spouse % of Contribution	Emp. & Children % of Contribution	Family % of
\$0-\$40,000	0%	0%	0%	0%
\$40,001-\$60,000	0%	1%	0%	2%
\$60,001-\$80,000	0%	2%	1%	3%
\$80,001 and over	0%	3%	2%	4%

Currently the Highway and Patrol Medical Plan does not have the same rate categories as listed in this legislation. DOT’s medical plan does not have an Employee and Children rate category.

ASSUMPTION (continued)

DOT's medical plan requires members to be in a Family rate category if they are covering themselves and three or more children. For purposes of this fiscal note, DOT is calculating these members at the Family percentage. Based on calculations in the additional worksheets, the Missouri Highway Transportation Commission (MHTC)/DOT would have an additional monthly cost of \$390,582 and the Missouri State Highway Patrol (MHP) would have an additional monthly cost of \$124,118 for CY 2005.

To do the above calculations, DOT found the average salary of DOT and Patrol employees within each range and rate category. DOT then calculated what the proposed employee's cost would be per category based on the above percentages. After finding the employee's cost, DOT subtracted this amount from the current total premiums, which gave the state's proposed cost. DOT then multiplied the number of individuals in each rate category and range by the new proposed monthly cost to give the total proposed state cost per month per category. Finally, DOT calculated the change in the state cost per month per category by subtracting the current cost from the proposed cost and then totaled all ranges and categories for MHTC/DOT and MHP.

The DOT assumes the proposal would result in additional costs of \$6,124,454 for FY 06 (\$118,081 to GR; \$1,275,536 to Patrol Highway Fund; \$4,653,664 to Road Fund; and \$129,119 to All Other Funds); \$6,308,187 for FY 07 (\$121,623 to GR; \$1,313,802 to Patrol Highway Fund; \$4,793,274 to Road Fund; and \$132,992 to All Other Funds); and \$6,497,431 for FY 08 (\$125,271 to GR; \$1,353,216 to Patrol Highway Fund; \$4,937,072 to Road Fund; and \$136,982 to All Other Funds).

Historically, the DOT and the plan members have shared in any premium increases necessary because of increases in benefits. The costs may be shared in the long run (meaning shared between three categories: absorbed by the plan, state appropriated funds, and/or costs to individuals covered under the plan). However, the MHTC/DOT must make a decision on what portion they will provide. Until the MHTC/DOT makes a decision, DOT can only provide the cost to the medical plan.

This fiscal note response represent only the costs associated with the DOT and Highway Patrol Medical Plan. The DOT has several employees that chose to remain in the Missouri Consolidated Health Care Plan when they were hired/transferred to the DOT. The Office of Administration is assigned the appropriation to pay the premium expenses for these employees to the Missouri Consolidated Health Care Plan. Therefore, DOT assumes the expense related to these employees will be included in the Office of Administration's fiscal note response.

ASSUMPTION (continued)

Officials from the **Missouri Consolidated Health Care Plan (HCP)** state the proposal will have a significant impact on the HCP. The estimated effect for FY 06 is an increase in costs of \$58,772,528 to all funds.

These estimates are based on FY 04 information. At the present time, HCP has not been able to obtain more current information from which to determine more accurate cost estimates. The FY 04 estimates were calculated by employing a 14% inflation rate, using the current coverage levels for FY 04, assuming the acquisition of 50% of the FY 04 current employees opting to waive coverage, and based on FY 04 regional low-cost Premium Coverage plans (or the HCP Copay plan in regions where a Premium plan was unavailable.

HCP notes the proposal bases the state's contribution on the lowest cost premium plan design or the CoPay Plan. However, no allowance is made if these options are not available at some future date. Also, the formula takes much of the competition out of the bid process because there will be little difference in cost between the rate tiers. This has the potential to result in higher bid responses.

<u>FISCAL IMPACT - State Government</u>	FY 2006 (12 Mo.)	FY 2007	FY 2008
GENERAL REVENUE FUND			
<u>Costs - Missouri Department of Transportation</u>			
Increase in health insurance premiums	(\$118,081)	(\$121,623)	(\$125,271)
<u>Costs - Missouri Consolidated Health Care Plan</u>			
Increase in health insurance premiums	<u>(\$37,972,930)</u>	<u>(Expected to exceed \$37,972,930)</u>	<u>(Expected to exceed \$37,972,930)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$38,091,011)</u>	<u>(Expected to exceed \$38,094,553)</u>	<u>(Expected to exceed \$38,098,201)</u>

<u>FISCAL IMPACT - State Government</u>	FY 2006 (12 Mo.)	FY 2007	FY 2008
PATROL HIGHWAY FUND			
<u>Costs - Missouri Department of Transportation</u>			
Increase in health insurance premiums	<u>(\$1,275,536)</u>	<u>(\$1,313,802)</u>	<u>(\$1,353,216)</u>
ESTIMATED NET EFFECT ON PATROL HIGHWAY FUND	<u>(\$1,275,536)</u>	<u>(\$1,313,802)</u>	<u>(\$1,353,216)</u>
ROAD FUND			
<u>Costs - Missouri Department of Transportation</u>			
Increase in health insurance premiums	<u>(\$4,653,664)</u>	<u>(\$4,793,274)</u>	<u>(\$4,937,072)</u>
ESTIMATED NET EFFECT ON ROAD FUND	<u>(\$4,653,664)</u>	<u>(\$4,793,274)</u>	<u>(\$4,937,072)</u>
ALL OTHER FUNDS			
<u>Costs - Missouri Department of Transportation</u>			
Increase in health insurance premiums	(\$129,119)	(\$132,992)	(\$136,982)
<u>Costs - Missouri Consolidated Health Care Plan</u>			
Increase in health insurance premiums	<u>(\$8,516,139)</u>	<u>(Expected to exceed \$8,516,139)</u>	<u>(Expected to exceed \$8,516,139)</u>
ESTIMATED NET EFFECT ON ALL OTHER FUNDS	<u>(\$8,645,258)</u>	<u>(Expected to exceed \$8,649,131)</u>	<u>(Expected to exceed \$8,653,121)</u>

<u>FISCAL IMPACT - State Government</u>	FY 2006 (12 Mo.)	FY 2007	FY 2008
FEDERAL FUNDS			
<u>Costs - Missouri Consolidated Health Care Plan</u>			
Increase in health insurance premiums	<u>(\$12,283,458)</u>	<u>(Expected to exceed \$12,283,458)</u>	<u>(Expected to exceed \$12,283,458)</u>
ESTIMATED NET EFFECT ON FEDERAL FUNDS	<u>(\$12,283,458)</u>	<u>(Expected to exceed \$12,283,458)</u>	<u>(Expected to exceed \$12,283,458)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2006 (12 Mo.)	FY 2007	FY 2008
ALL POLITICAL SUBDIVISIONS			
<u>Costs - All Political Subdivisions</u>			
Increase in health insurance premiums	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON ALL POLITICAL SUBDIVISIONS	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

DESCRIPTION

This proposal requires state employees to contribute a percentage of their annual income toward their health insurance coverage beginning in fiscal year 2006. The coverage will be Missouri Consolidated Health Care Plan's premium plan option and will be based on the employee's annual salary. If the employee's plan is not the lowest cost plan, the state will contribute the amount of the lowest cost premium or the full amount of the premium plan, whichever is less. If no plan option is available, the rates will be applicable to coverage under the co-pay plan.

Moneys shall be appropriated by the General Assembly in the fiscal year 2006 budget to cover the cost of reimbursing employees for the Missouri Consolidated Health Care Plan premiums

DESCRIPTION (continued)

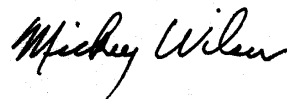
paid by employees between January 1, 2005 and June 30, 2005, which exceed the premium amount that they would have paid had the act been in effect.

This act contains an emergency clause.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Agriculture
Office of Administration -
 Division of Budget and Planning
 Division of Accounting
 Division of Personnel
Department of Economic Development
Department of Mental Health
Department of Natural Resources
Department of Corrections
Department of Health and Senior Services
Department of Labor and Industrial Relations
Department of Revenue
Department of Social Services -
 Division of Research and Evaluation
Missouri Department of Transportation
Department of Public Safety -
 Director's Office
 Missouri State Highway Patrol
Missouri Consolidated Health Care Plan
Department of Insurance
Missouri Department of Conservation



L.R. No. 0546-01
Bill No. SB 140
Page 12 of 12
January 24, 2005

Mickey Wilson, CPA
Director
January 24, 2005