MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

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Legislative Fiscal Analyst
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DATE: September 23, 2009

TO: Legislative Finance Committee

FROM: Lois Steinbeck
Senior Analyst

RE: Update – State Employee Group Health Plan

PURPOSE OF REPORT

The LFC directed staff to include issues related to retiree participation in the budget analysis and level of health plan reserves for consideration by the General Government Joint Appropriation Subcommittee. The subcommittee recommended that the LFC study retiree participation during this interim due to the associated policy issues. The subcommittee also considered the effect of level of health plan reserves on premium costs, but did not make a recommendation on this issue The LFC included the topic of retiree participation in the health plan in the 2011 biennium interim work plan.

This report provides the LFC with background information about health plan changes for the 2010 year and summarizes the financial issues related to retiree participation in the state health plan.

This memorandum has three main purposes. It:

- Provides an update to information provided to legislators during the 2009 session about several state employee group health plan issues including:
  - 2009 health plan performance
  - 2010 plan changes to premiums, prescription drug services, and out-of-pocket (OOP) costs
- Summarizes the issue of premium subsidies to retirees who opt to continue participation in the state health plan
- Outlines steps for the Legislative Finance Committee (LFC) work plan item to review policy issues related to retiree subsidies and potentially the level of health plan reserves

UPDATE TO SESSION INFORMATION – PLAN PERFORMANCE

Figure 1 shows state benefits plan performance from 2006 through 2008. The state benefits plan is administered on a calendar year basis. Over the last three years, plan performance ranged from a loss of $3.3 million in 2008 to an increase in plan reserves of $5.2 million. Net loss in

2008 is due to changes in negotiated provider discounts, which is discussed later, and growth in prescription drug costs.

Premium income is 99 percent of total income and medical and prescription drug costs are 89 percent of total group plan cost. Dental services and administrative costs are each about 6 percent of total cost. Federal payments for the cost of Medicare retiree eligible drug costs offset the cost of other services in 2006 and 2008.

The plan experienced higher costs than anticipated in 2009. In an effort to control costs and maintain services several changes are being implemented in 2010.

Figure 1
State Employee Health Plan 2006-2008
Total Revenues and Costs and Net Change*

	<----------Plan Year---------->			% of
Income/Expense	2006	2007	2008	Total
Contributions	$97,894,190	$106,029,150	$111,811,114	98.7%
Interest Income	1,422,347	2,091,366	1,529,462	1.3%
Total Revenue	99,316,537	108,120,516	113,340,576	100.0%
Benefits/Services				
Medical	66,264,211	66,534,444	78,805,237	67.6%
Prescription Drug	18,910,105	22,812,868	24,081,469	20.7%
Dental	6,552,547	6,280,393	6,794,975	5.8%
Other Services**	(520,111)	906,994	(496,126)	-0.4%
SABHRS	Not Listed	188,742	377,651	0.3%
Administration	5,893,108	6,190,161	7,039,385	6.0%
Total Costs	97,099,860	102,913,602	116,602,591	100.0%
Net Change	$2,216,677	$5,206,914	($3,262,015)	

*Totals include all services and benefits.

**Other services include wellness, managed care, and reimbursements from Medicare Part D drug program. In 2006 and 2008, the Medicare reimbursements more than offset other service costs.

2010 STATE EMPLOYEE BENEFITS PLAN CHANGES

The legislature adopted a pay plan that raised the monthly employer contribution toward monthly group benefits from $626 per month in 2009 to $679 in 2010 and $733 in 2011. During legislative consideration of the pay plan bill, Legislative Fiscal Division (LFD) staff identified several issues for legislative consideration:

1) Department of Administration (DofA) actuarial cost projections indicated that health plan participants who insured dependents would incur OOP cost premium increases above the increase in the employer share due to anticipated health plan cost trends
2) Two policy issues related to health plan administration could potentially be used to offset or lower appropriations for pay plan cost increases
    a. Premiums charged to retirees who choose to continue to participate in the state group health plan could be raised closer to the actual cost to provide healthcare to retirees
    b. The level of plan reserves could be reviewed and potentially changed

2010 Health Plan Premiums

The LFD received the 2010 health plan premium changes September 14, which will be distributed to employees and retirees participating in the health plan on September 23. The premiums will go into effect January 1, 2010. The base rate for individual employee and joint core (both spouses work for the state) coverage are the only premiums lower than the employer share. All other premiums exceed the employer share. Premium changes are listed in Attachment 1.

The state health care plan allows participants to choose among three managed care plans and a traditional plan. Comparing premium changes, provider networks, co-payments, and services across all plans is beyond the scope of this report. However, in comparing only premium costs across all plans, the lowest monthly premium is for individual coverage and rises from $552 per

month in FY 2009 to $622 per month in 2010. The largest premium change is $212 per month ($916 total monthly premium) for family coverage for retirees under 65. The smallest premium increase is $2.

Cost Drivers

Premium changes were influenced significantly by adjustments in provider discounts and prescription drug costs. The cover letter that will accompany 2010 health plan enrollment information includes the following statement about provider discounts:

> Across the state we have experienced increases in what we pay for inpatient and outpatient hospital services, mainly due to reductions in the negotiated discounts between hospitals and our health plan administrators. (We looked to see if our population is using more services or if we are 'sicker' than in the past, and determined that these type changes are not having a significant impact on overall costs.) You will see these reduced discounts reflected in changes between the rates for the various medical plans.

Plan Changes to Prescription Medications

DofA also will implement changes to the prescription medication component of the state employee health plan effective January 1, 2010 including:

- Elimination of the $100 deductible
- Publication of a comprehensive drug list classifying each drug based on medical evidence indicating drugs with the best clinical outcomes
- Assignment of a grade from A to F to each drug on the list, including an S classification indicating a specialty drug
- Assignment of a co-payment[1] amount based on the grade
    - $15 to $30 for a B rated drug
    - 100 percent coinsurance for an F rated drug
- Development of a process to allow persons to pay a more favorable cost share for a lower graded drug if there are medical reasons that the higher rated drug cannot be used
- Imposition of a total annual co-payment amount of $1,650 for an individual and $3,300 for a family

Out-of-Pocket Cost Increases

During the 2009 session, the legislature expected that employees who insured dependents would incur OOP cost increases above the increase in the employer share authorized in the pay plan bill. DofA is not able to estimate net OOP changes for 2010 because co-payment changes in drug costs are anticipated to cause some persons to replaced higher cost medications with lower cost, equally effective drugs. The DofA goal in pricing prescription drugs is that participants would pay 25 percent of the total cost of prescription drugs and the plan would pay 75 percent.

However, depending on prescription usage there two instances where employees who remain in the same health plan could incur lower OOP (traditional plan and PEAK managed care) for health care premiums. In other instances, monthly OOP increases for active employees range from $9 to $92 per month depending on the plan and type of coverage. Attachment 1 shows the

[1] There are some specialty drugs that care a $0 co payment.

monthly change in OOP by type of eligibility category (active employee or retiree) and type of coverage such as individual, spouse, or family.

RETIREE COSTS AND PREMIUM PAYMENTS

Retirees pay the full premium and co-payments so any change in premium cost is also an OOP cost change. Retiree only coverage premiums and OOP costs change from a $2 monthly decrease to a $112 increase depending on the plan chosen.

Until this year, DofA has pegged nonMedicare retiree premiums to the amount charged active employees. Medicare eligible retiree[2] premiums are lower because Medicare pays part of the healthcare cost.

While the premium to cover an individual retiree remains the same as the cost to cover an individual employee, DofA opted to raise the premiums for retirees who insure spouses and other dependents above the amount charged to active employees for comparable coverage. Monthly premiums for retiree plus spouse, children, and family coverage increase from $28 per month to $212 in different managed care plans, with percent increases ranging from 3 percent to 47 percent.

Loss Ratio for Health Plan Participants by Category

DofA opted to raise premiums for retiree coverage for spouses and dependents in order to bring loss ratios (a measure of financial performance) in line with industry standards. A loss under 100 percent means that revenues exceed costs and a ratio over 100 percent means that costs exceed revenues. For instance, a loss ratio of 160 percent means that health plan costs were $1.60 for each $1.00 in revenue received. DofA's goal is lower the loss ratio for nonMedicare retirees to 150 percent and to 125 percent for Medicare eligible retirees.

Figure 2 shows loss ratios for participants in the state employee group health plan for 2006 through 2008. Health plan premium income exceeded costs each year for active employee participants and their dependents, with loss ratios ranging from 83 percent to 89 percent. Conversely costs for retirees exceeded revenue from health plan premiums paid by retirees in each year. The highest losses for retirees under 65 occurred in 2008 (162 percent). Loss ratios for Medicare-eligible retirees have declined from 151 percent to 131 percent.

Figure 2

Per Capita Average Monthly Revenue, Cost, Increase, and Loss by Enrollee Group*

Montana State Employee Group Health Plan - Years 2006 - 2008

Plan	Active Employees		Revenue Over (Under)	Retirees Under 65		Revenue Over (Under)	Loss as % of	Retirees Over 65		Revenue Over (Under)	Loss as % of
Year	Revenue	Cost	Cost	Revenue	Cost	Cost	Rev.	Revenue	Cost	Cost	Rev.
2006	$536	$447	$89	$557	$797	($240)	-43.0%	$263	$396	($133)	-50.6%
2007	569	465	104	600	829	(229)	-38.3%	262	386	(125)	-47.6%
2008	589	526	63	632	1,027	(395)	-62.5%	271	355	(84)	-30.9%

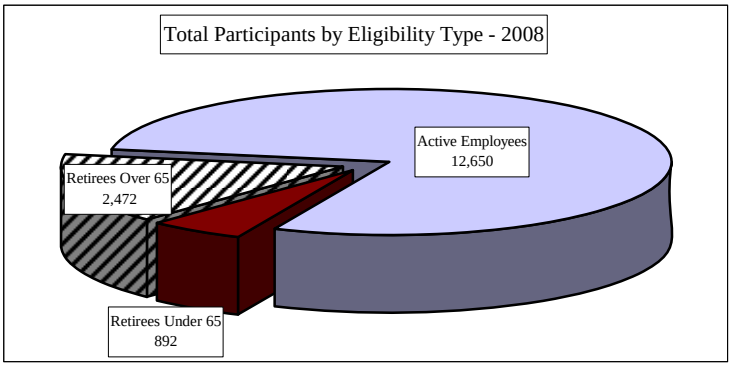
*Information taken from year end actuarial reports. Revenue and costs are for the medical and prescription drug plans only. Dental and vision services are not included.

[2] Persons who are Medicare eligible must purchase Part A and Part B coverage if they choose to remain in the state plan. Medicare then becomes the primary payor, with the state plan being secondary.

Number of Participants

Figure 3 shows the number of participants by eligibility group in 2008. There were about 16,000 total primary participants. Active employees were the largest eligibility group with 12,650 or 79 percent. Retirees under 65 were the smallest group with 892 or 6 percent of the total.

Figure 3



On average, there are about 2 persons insured for each primary participant. Including primary participants, spouses, and covered dependents, the state plan covers over 32,000 people.

Total Net Plan Change by Group

Figure 4 shows the total net income change to the state employee health plan by eligibility group for 2006 through 2008 for health plan premium income and costs only. Payments for dental and vision coverage, wellness programs, administrative costs, and investment income is not included in Figure 4.

Figure 4
State Employee Health Plan 2006-2008
Revenue Increase/(Decrease) by Eligibility Group*

Plan Year	Active Employees	Retirees Under 65	Retirees Over 65	Total*
2006	$12,938,613	($2,661,558)	($3,809,036)	$6,468,019
2007	15,502,459	(2,458,893)	(3,628,229)	9,415,337
2008	9,574,026	(4,229,793)	(2,487,030)	2,857,204

*Total by year only includes premium income compared to plan expenses. It does not include other plan income such as interest on investments.

The cost of healthcare for retirees has exceeded income by $6.1 million to $6.4 million from 2006 through 2008. The overall employee group plan deficit in 2008 was about half the amount of the loss related to retirees.

November 2008 Staff Report – Retiree Subsidy

The LFC heard a staff report at its November 2008 meeting about governmental accounting standards[3] that require a state to include unfunded liabilities for post employment benefits other than pension plans in its year end financial statements. Healthcare plans are the most common type of post employment benefit other than pension benefits.

[3] The Governmental Accounting Standards Board (GASB) issued Statement Number 45: Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions. Health plans are the primary type of post employment benefit addressed by GASB 45, which requires state and local governments to account for unfunded liabilities on government wide annual reports.

Unfunded Montana Liability

The Health Care and Benefits Division of the Department of Administration (DofA) received an actuarial evaluation, which estimated a total unfunded, accrued liability attributable to the subsidy for retiree health plan participation of $449.3 million (total funds) for the Montana state employee group health benefit plan of as of 12/31/2007 . The total estimated liability is based on the premise that the state will continue the level of subsidy for retiree participation in the state employee group health plan. A liability of $41.2 million was included on the state financial statements for FY 2008 and a liability of $41.6 million was included for FY 2009.[4]

Next Steps

The next steps to continue the LFC interim review of health plan issues related to retiree participation and level of plan reserves and potential report dates are:

1) Review health plan performance for 2008 and year to date for 2009 with respect to plan reserves (December 2009) with quarterly updates at future meetings
2) Compare state employee health plan and university system health plan attributes and performance (December 2009)
3) Identify and begin discussion of policy options for health plan issues (March 2010)
4) If resolved, review potential impacts of federal healthcare reform on state health plan (March 2010)
5) Make decisions and if necessary direct staff to prepare draft legislation (June 2010)
6) Depending on LFC decisions regarding legislation review/fine tune draft legislation (October 2010)

[4] The Department of Administration included this note in the 2008 financial schedules. "Both of these plans (state of Montana and university system) allow retirees to participate, as a group, at a rate that does not cover all of the related costs. This results in the reporting of an "implied rate" subsidy in the related financial statements and footnotes. While this liability is disclosed for financial statement purposes, it does not represent a legal liability of the State or any of its component units."

APPENDIX 1

MASTER RATE SHEET - 2010 RATES - State Employee Group Health Plan

State Share	
2009	$ 626.00
2010	$ 679.00
Increase	$ 53.00

New Medical Rates	2010 Rate	2010 Rate	2010 Rate	2010 Rate	2009 Rate	2009 Rate	2009 Rate	2009 Rate
Category:	Traditional	New West	Blue Choice	Peak	Trad	NW	Blue Choice	Peak
Actives:								
Base Rate-Employee	$642	$638	$624	$622	$590	$526	$552	$624
EE+Spouse	$798	$819	$774	$776	$814	$691	$710	$820
EE+Children	$704	$725	$684	$686	$712	$606	$622	$718
EE+Family	$828	$849	$802	$806	$830	$704	$722	$836
Joint Core	$660	$681	$640	$644	$646	$554	$568	$654
Retirees								
Retiree only:	$642	$638	$624	$622	$590	$526	$552	$624
RR+spouse	$872	$894	$844	$848	$814	$691	$710	$820
RR+children	$768	$789	$744	$748	$712	$606	$622	$718
RR+family	$894	$916	$866	$868	$830	$704	$722	$836
RR+Medicare spouse	$756	$777	$734	$736	$700	$596	$612	$706
RR+Med sp.+child.	$798	$819	$774	$776	$736	$626	$642	$742
Medicare Retirees								
Retiree only	$264	$268	$260	$264	$218	$182	$196	$224
MR+spouse	$524	$544	$510	$514	$454	$392	$400	$460
MR+children	$448	$468	$438	$440	$386	$335	$342	$392
MR+family	$550	$570	$536	$538	$480	$413	$422	$486
MR+Medicare spouse	$462	$482	$450	$454	$400	$347	$354	$406
MR+Med. Sp.+ fam.	$498	$518	$486	$488	$430	$372	$378	$436
Dental Rates:								
EE/RR only	$34.10	$34.10	$34.10	$34.10	$34.10	$34.10	$34.10	$34.10
EE/RR +spouse	$51.90	$51.90	$51.90	$51.90	$51.90	$51.90	$51.90	$51.90
EE/RR+ children	$50.40	$50.40	$50.40	$50.40	$50.40	$50.40	$50.40	$50.40
EE/RR + family	$58.00	$58.00	$58.00	$58.00	$58.00	$58.00	$58.00	$58.00
EE joint core	$39.80	$39.80	$39.80	$39.80	$39.80	$39.80	$39.80	$39.80

ACTIVE EMPLOYEES*	Out of Pocket (oop) dollar increase 2010 from 2009*				
	Traditional 2009 to Traditional 2010	New West 2009 to New West 2010	Blue Choice 2009 to Blue Choice 2010	Peak 2009 to Peak 2010	New West 2009 to Blue Choice 2010
Base Rate-Employee	-$1	$59	$19	-$55	$45
EE+Spouse	-$69	$75	$11	-$97	$30
EE+Children	-$61	$66	$9	-$85	$25
EE+Family	-$55	$92	$27	-$83	$45
Joint Core	-$39	$74	$19	-$63	$33

RETIREES	Traditional 2009 to Traditional 2010	New West 2009 to New West 2010	Blue Choice 2009 to Blue Choice 2010	Peak 2009 to Peak 2010	Traditional 2009 to Traditional 2010	New West 2009 to New West 2010	Blue Choice 2009 to Blue Choice 2010	Peak 2009 to Peak 2010
Retirees	Percent increase 2010 from 2009				oop dollar increase 2010 from 2009			
Retiree only:	9%	21%	13%	0%	$52	$112	$72	-$2
RR+spouse	7%	29%	19%	3%	$58	$203	$134	$28
RR+children	8%	30%	20%	4%	$56	$183	$122	$30
RR+family	8%	30%	20%	4%	$64	$212	$144	$32
RR+Medicare spouse	8%	30%	20%	4%	$56	$181	$122	$30
RR+Med sp.+child.	8%	31%	21%	5%	$62	$193	$132	$34
Medicare Retirees	Percent increase 2010 from 2009				oop dollar increase 2010 from 2009			
Retiree only	21%	47%	33%	18%	$46	$86	$64	$40
MR+spouse	15%	39%	28%	12%	$70	$152	$110	$54
MR+children	16%	40%	28%	12%	$62	$133	$96	$48
MR+family	15%	38%	27%	11%	$70	$157	$114	$52
MR+Medicare spouse	16%	39%	27%	12%	$62	$135	$96	$48
MR+Med. Sp.+ fam.	16%	39%	29%	12%	$68	$146	$108	$52

*Out of pocket (OOP) increases are not equal to health premium changes for active employees because other benefits, such as dental services and basic life insurance, are funded from the employer share as well. OOP changes are the net change from the empl

Source: Connie Welsh, Administrator, Health Care and Benefits Division, Department of Administration, September 16, 2009.