



March 8, 2010

**HF 866 (Hosch) School District
Employee Insurance Pool**

Local Fiscal Impact				
Net Statewide Expenditure Increase (Decrease)				
Dollars in Thousands, State Fiscal Years				
	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
Statewide	\$0	\$(10,630)	\$(22,961)	\$(59,693)
*Estimate of employer expenditures only.				

Explanation of the Bill

HF 866 would require all Minnesota school districts, with the exception of those currently self insured, to obtain health insurance coverage through a program administered by Minnesota Management and Budget (MMB). The new school employees insurance program (“SEIP”) would be similar to the public employees insurance program (“PEIP”) currently administered by MMB but would exist as a separate entity.¹

This analysis assumes the statewide school pool, with the exception of self-insured, is based on a mandatory enrollment of all eligible districts. It also assumes that the HF 866 effective date of January 1, 2011, would be flexible as it is not realistic to expect a pool of this size could be created under the current timeframe. While the local impact analysis indicates a savings statewide, each district will experience different levels of cost or savings depending on their specific circumstances.

This analysis should not be viewed as an absolute but rather one possible scenario for evaluating the impact of HF 866. Lack of data for medical history, group size, plan design and other factors require additional information to be collected before an actual underwriting analysis could occur. This is a “best estimate” analysis based on existing information gathered from several sources.

Statewide local cost estimate of HF 866 for FY 2010 – FY 2013:

To develop a comprehensive estimate of the net statewide expenditure change that would result if HF 866 became law, MMB used claims experience data from the existing PEIP program, data from previous rate quotes to school districts and actual 2008 health insurance expenditure data from the Department of Education (MDE). Further, to assist in the development of accurate cost projections MMB used data and assumptions outlined in the 2004 Reden and Anders, Ltd. report prepared for School Employee Insurance Plan and Design Committee.

MMB started with actual FY 2008 school district employer premium cost data provided by MDE to develop an accurate baseline estimate of current school district employer health insurance expenditures. To then estimate the full cost of school district employee health insurance MMB assumed that the cost sharing between employers and employees is 80 percent/20 percent based on the Reden and Anders

¹ MMB based this analysis on HF 866, 2nd committee engrossment dated May 11, 2009.

report.² Based on the MDE data and the assumptions above, MMB estimated FY 2008 total school employee health insurance expenditures (employer plus employee) to be \$990,274,000.

To estimate the cost of school health insurance if HF 866 became law, MMB used experience data and rate quotes provided to school districts from the existing PEIP program. MMB estimated FY 2009 premium rates for school districts, based on rate quotes for 121 districts, reflecting 30,652 contracts. Based on the current number of school districts contracts (approximately 1,000) that were participating in the PEIP program, and their distribution of contracts in each of the three plan options under PEIP, an average SEIP contract premium of \$752.26 per month was estimated for the 30,652 contracts.³ Based on data provided in the Reden and Anders report, MMB assumed a SEIP member pool size to be 100,000 employees plus an equal number of dependents (total pool size of 200,000) and then applied the average contract price to develop an aggregate cost of health insurance for school districts statewide if HF 866 became law.⁴

In order to compare the proposed SEIP program to current school district expenditure estimates, MMB used an eight percent medical inflation rate to reduce projected FY 2009 SEIP costs to FY 2008. If HF 866 had been law, MMB estimates total SEIP expenditures (employer plus employee) for a 200,000 member pool in FY 2008 would have been \$902,708,000.

HF 866 excludes districts that are currently self-insured from SEIP. To account for these districts in this analysis MMB removed self-insured districts from the MDE school district expenditure data which represents approximately 13 percent of school expenditures. MMB then applied a 13 percent reduction to the SEIP estimates to align with MDE fully-insured district estimates.

MMB assumed that a new SEIP program would begin January 1, 2011. MMB projected both current school district expenditures and estimated SEIP FY 2008 costs forward at an eight percent annual medical inflation rate through FY 2013. Additionally because this local impact analysis estimates school district costs only, the 20 percent employee cost share is removed from both current expenditure data and projected SEIP expenditures. To adjust the fiscal year analysis to the January 1, 2011 start date MMB divided the FY 2011 impact in half and applied the additional six month reserve build up to FY 2013. The net statewide school district expenditure change if HF 866 became law is shown below.⁵

Local Fiscal Impact				
Net Statewide Expenditure Increase (Decrease)				
Dollars in Thousands, State Fiscal Years				
	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
Statewide	\$0	\$(10,630)	\$(22,961)	\$(59,693)
* Estimate of employer expenditures only with self-insured districts removed.				

In order to maintain solvency, it is important for SEIP to build a reserve. In the projection above, it was

² Reden and Anders, Page 24.

³ The enrollment breakdown between the three PEIP plan options is: High Advantage: 43%, Value Advantage: 40% and HSA Advantage: 17%. Information on each of the three plans is provided in appendix 1.

⁴ Reden and Anders, Page 3.

⁵ FY 2008 – FY 2014 spending projections for a 200,000 member pool for both current law and SEIP is included in appendix 2. Appendix 3 contains projections with self-insured districts removed.

assumed the reserves would be built in FY 2011 – 2013 by assessing an additional 5 percent to the needed premium. While reserve levels can vary greatly, MMB would assume the 10 percent reserves levels recommended by the Reden and Anders report would be sufficient.⁶

Possible Variance

The local impact analysis of HF 866 was prepared with as much information as possible without incurring undo expense on the agency. While these projections represent the most likely cost scenario for a SEIP program, there are several factors that could alter these projections. Listed below are five factors that could add additional cost or savings to the SEIP projection above. These changes, taken together, could alter the most likely projection by up to 10% in either direction. While the total net local impact of HF 866 listed in the table above is still most likely, the table below lists the possible range in net aggregate school district expenditures by fiscal year if HF 866 were enacted.

Local Fiscal Impact Possible Variance				
Net Statewide Expenditure Increase (Decrease)				
Dollars in Thousands, State Fiscal Years				
	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
-10 %	\$0	\$(53,093)	\$(114,681)	\$(155,261)
+10 %	\$0	\$31,833	\$68,759	\$35,875
* Estimate of employer expenditures only with self-insured districts removed.				

Enrollment mix

The proposed SEIP program would be based on the existing PEIP program. As such each district would offer 3 health plan options to their members. Currently the High Advantage, Value Advantage and HSA Advantage enrollment is 43%, 40% and 17% respectively. While it was assumed the entire pool of eligible school district members would choose in a similar fashion to those in the PEIP program it is difficult to assess what option SEIP members would choose. Under a larger pool, there may be members that shift from a high out of pocket program to more comprehensive coverage as a way to take advantage of the larger pool. While their coverage may improve, it would also add to the expense of the district. Conversely, it is possible members would choose more moderate plan options as a way to offset other expenses.⁷

Health status

The actual health status of the individuals that make up the population covered by the SEIP program could cause additional cost or savings from the projection above. The most likely cost projection for the SEIP program assumed the population health status for school district employees and dependents would be similar to that of the PEIP program; if the SEIP population is either healthier or less healthy the cost of the program could increase or decrease.

⁶ Reden and Anders, page 39.

⁷ At this point it's unknown what other medical related expenses would impact the program. Currently, we know from the MDE data that Health Reimbursement Accounts (HRAs) make up additional health insurance expenditure within the school districts. It's unknown whether those programs would continue to exist, shrink or grow. This analysis does not factor other aspects of the employee benefit programs other than the medical plan portion.

Payment Share

MMB assumed that the payment share of both current school district health insurance expenditures and projected expenditures in the SEIP program would be 80 percent employer share and 20 percent employee share. If the actual payment share between employees and employers differs from this assumption the costs or savings to school districts if HF 866 were enacted could significantly change.

Admin fees expenses

It is difficult to know without conducting an actual underwriting analysis what administration fees and expenses would be required for the SEIP program. Additionally, no considerations were made concerning the use of investment income in the program. It's likely that a program of this size would be able to invest the more than \$100 million reserves to offset program expenses. It would be reasonable to assume that investment income could be used for reserve buildup and maintenance, administration fees or other program expenses.

Startup costs

MMB did not factor any upfront costs with starting the program. While it's clear that MMB will incur some cost as a result of the SEIP pool, the impact to local units is unknown. Changes to payroll systems, new communications, etc. would be reasonable expenses but difficult to compute. It could also be assumed that the districts would no longer need to incur expenses related to an RFP process. Expenses to brokers, consultants and health plans may be avoided in a state wide pool. While the analysis assumes an "all in" approach on day one, it is more likely that some districts will join the pool to best align with bargaining and health plan contracts. Without this flexibility it would be reasonable to assume that some districts would incur additional expense related to early withdrawal from existing health plan or cooperative contracts. The analysis also assumes stop loss coverage of \$100,000 per member for all fiscal years. It could be modeled that more aggressive stop loss would be needed in year one with little to no stop loss in years 3 and beyond. This projection does not take into consideration these cost or savings.⁸

⁸ For estimates on start up cost see the fiscal note for SF 915-1E, dated April 1, 2009.

Appendix 1

PEIP's 3 plan design options incorporate the successful Minnesota Advantage plan tiered networks into their core program. The move to adopt the Advantage tiering was in response to MN Session Laws 2005, Chapter 156, Article 2, Section 47; which suggested that state government better coordinate its purchasing and offer a secure benefit set through the PEIP program. PEIP designed the PEIP Advantage – HSA Compatible plan in response to that requirement. In addition to meeting the requirement of the “secure benefit set,” the plan design is compliant with the federal requirements for High Deductible Health Plans (HDHPs) to be used in conjunction with a Health Savings Account (HSA). PEIP Advantage mirrors the state employees' Minnesota Advantage plan to provide a comprehensive benefit set to public employers. The cost sharing and benefit levels are identical to those of the state employees. The PEIP Advantage – Value Option strikes a plan design and premium balance between the other two plan options. All three plan designs provide first dollar coverage for preventive care. In total the three plans offer a range of options for local units of government to meet their broad health insurance needs.

PEIP Advantage:

- Most comprehensive Advantage plan design
- Identical to state employees' benefit design

PEIP Advantage – Value Option

- Higher cost sharing
- Lower premiums
- Designed to fill gap between Advantage and Advantage – HSA Compatible

PEIP Advantage – HSA Compatible

- Health Savings Account compatible
- Catastrophic coverage
- Highest cost sharing
- Lowest premiums

Appendix 2 Full Pool

Dollars in thousands

Statewide Education Expenditures

		FY 2008 Educ. Health Spend	Projected FY09 - 8% trend	Projected FY10 - 8% trend	Projected FY11 - 8% trend	Projected FY12 - 8% trend	Projected FY13 - 8% trend	Projected FY14 - 8% trend
Current K-12 Expenditure								
Employer Expenditures	80%	\$ 792,219	\$ 855,597	\$ 924,044	\$ 997,968	\$ 1,077,805	\$ 1,164,030	\$ 1,257,152
Employee Expenditures	20%	\$ 198,055	\$ 213,899	\$ 231,011	\$ 249,492	\$ 269,451	\$ 291,007	\$ 314,288
	100%	\$ 990,274	\$ 1,069,496	\$ 1,155,055	\$ 1,247,460	\$ 1,347,257	\$ 1,455,037	\$ 1,571,440
SEIP								
Estimated K-12 SEIP Expenditure								
Employer Expenditures	80%	\$ 722,166	\$ 779,940	\$ 842,335	\$ 909,722	\$ 982,499	\$ 1,061,099	\$ 1,145,987
Add'l Contribution to Reserves (5.0%)				\$ 63,862	\$ 68,971			
Employee Expenditures	20%	\$ 180,542	\$ 194,985	\$ 210,584	\$ 227,430	\$ 245,625	\$ 265,275	\$ 286,497
	100%	\$ 902,708	\$ 974,925	\$ 1,052,919	\$ 1,201,015	\$ 1,297,096	\$ 1,326,374	\$ 1,432,484
Cost/(Savings)		\$ (70,053)	\$ (75,657)	\$ (81,709)	\$ (24,384)	\$ (26,334)	\$ (102,930)	\$ (111,165)
Start Date Adjustment				\$	(12,192)	(26,334)	(68,445)	(111,165)
VARIANCE								
10% variance (+10%)								
Estimated K-12 SEIP Expenditure								
Employer Expenditures	80%	\$ 794,383	\$ 857,934	\$ 926,568	\$ 1,000,694	\$ 1,080,749	\$ 1,167,209	\$ 1,260,586
Add'l Contribution to Reserves (5.0%)				\$ 70,249	\$ 75,869			
Employee Expenditures	20%	\$ 198,596	\$ 214,483	\$ 231,642	\$ 250,173	\$ 270,187	\$ 291,802	\$ 315,147
	100%	\$ 992,979	\$ 1,072,417	\$ 1,158,210	\$ 1,321,116	\$ 1,426,805	\$ 1,459,012	\$ 1,575,733
Cost/(Savings)		\$ 2,164	\$ 2,337	\$ 2,524	\$ 72,975	\$ 78,813	\$ 3,180	\$ 3,434
Start Date Adjustment				\$	36,487	78,813	41,114	3,434
10% variance (-10%)								
Estimated K-12 SEIP Expenditure								
Employer Expenditures	80%	\$ 649,950	\$ 701,946	\$ 758,101	\$ 818,750	\$ 884,249	\$ 954,989	\$ 1,031,389
Add'l Contribution to Reserves (5.0%)				\$ 57,476	\$ 62,074			
Employee Expenditures	20%	\$ 162,487	\$ 175,486	\$ 189,525	\$ 204,687	\$ 221,062	\$ 238,747	\$ 257,847
	100%	\$ 812,437	\$ 877,432	\$ 947,627	\$ 1,080,913	\$ 1,167,386	\$ 1,193,737	\$ 1,289,236
Cost/(Savings)		\$ (142,269)	\$ (153,651)	\$ (165,943)	\$ (121,742)	\$ (131,481)	\$ (209,040)	\$ (225,763)
Start Date Adjustment				\$	(60,871)	(131,481)	(178,003)	(225,763)

Appendix 3 Self-Insured Removed
Dollars in thousands
Statewide Education Expenditures

		FY 2008 Educ. Health Spend	Projected FY09 - 8% trend	Projected FY10 - 8% trend	Projected FY11 - 8% trend	Projected FY12 - 8% trend	Projected FY13 - 8% trend	Projected FY14 - 8% trend
Current K-12 Expenditure								
Employer Expenditures	80%	\$ 691,045	\$ 746,329	\$ 806,035	\$ 870,518	\$ 940,159	\$ 1,015,372	\$ 1,096,602
Employee Expenditures	20%	\$ 172,761	\$ 186,582	\$ 201,509	\$ 217,629	\$ 235,040	\$ 253,843	\$ 274,150
	100%	\$ 863,806	\$ 932,911	\$ 1,007,544	\$ 1,088,147	\$ 1,175,199	\$ 1,269,215	\$ 1,370,752
SEIP								
Estimated K-12 SEIP Expenditure								
Employer Expenditures	80%	\$ 629,946	\$ 680,341	\$ 734,769	\$ 793,550	\$ 857,034	\$ 925,597	\$ 999,645
Add'l Contribution to Reserves (5.0%)					\$ 55,707	\$ 60,164		
Employee Expenditures	20%	\$ 157,486	\$ 170,085	\$ 183,692	\$ 198,388	\$ 214,259	\$ 231,399	\$ 249,911
	100%	\$ 787,432	\$ 850,427	\$ 918,461	\$ 1,047,645	\$ 1,131,457	\$ 1,156,996	\$ 1,249,556
Cost/(Savings)		\$ (61,099)	\$ (65,987)	\$ (71,266)	\$ (21,260)	\$ (22,961)	\$ (89,775)	\$ (96,957)
<i>Start Date Adjustment</i>					\$ (10,630)	\$ (22,961)	\$ (59,693)	\$ (96,957)
VARIANCE								
10% variance (+10%)								
Estimated K-12 SEIP Expenditure								
Employer Expenditures	80%	\$ 692,940	\$ 748,376	\$ 808,246	\$ 872,905	\$ 942,738	\$ 1,018,157	\$ 1,099,609
Add'l Contribution to Reserves (5.0%)					\$ 61,278	\$ 66,180		
Employee Expenditures	20%	\$ 173,235	\$ 187,094	\$ 202,061	\$ 218,226	\$ 235,684	\$ 254,539	\$ 274,902
	100%	\$ 866,175	\$ 935,469	\$ 1,010,307	\$ 1,152,410	\$ 1,244,602	\$ 1,272,696	\$ 1,374,512
Cost/(Savings)		\$ 1,895	\$ 2,047	\$ 2,211	\$ 63,666	\$ 68,759	\$ 2,785	\$ 3,008
<i>Start Date Adjustment</i>					\$ 31,833	\$ 68,759	\$ 35,875	\$ 3,008
10% variance (-10%)								
Estimated K-12 SEIP Expenditure								
Employer Expenditures	80%	\$ 566,951	\$ 612,307	\$ 661,292	\$ 714,195	\$ 771,331	\$ 833,037	\$ 899,680
Add'l Contribution to Reserves (5.0%)					\$ 50,137	\$ 54,147		
Employee Expenditures	20%	\$ 141,738	\$ 153,077	\$ 165,323	\$ 178,549	\$ 192,833	\$ 208,259	\$ 224,920
	100%	\$ 708,689	\$ 765,384	\$ 826,615	\$ 942,881	\$ 1,018,311	\$ 1,041,297	\$ 1,124,600
Cost/(Savings)		\$ (124,094)	\$ (134,021)	\$ (144,743)	\$ (106,186)	\$ (114,681)	\$ (182,335)	\$ (196,921)
<i>Start Date Adjustment</i>					\$ (53,093)	\$ (114,681)	\$ (155,261)	\$ (196,921)