



April 27, 2011

S.F. 646 (Hann) / **H.F. 834** (Hoppe)
Public employee insurance program provisions modifications for local government employees

Local Fiscal Impact				
Net Expenditure Increase/Revenue Loss or (Expenditure Decrease/Revenue Gain)				
Dollars in Thousands, State Fiscal Years				
	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
Statewide	\$1,777	\$3,514	\$4,527	\$5,685

Explanation of the bill

The bill requires that groups joining the public employee insurance program (PEIP) after May 1, 2011 pay the Minnesota Comprehensive Health Association (MCHA) assessment and the 2 percent tax on premiums. It also requires PEIP maintain a claim reserve equal to at least two months of anticipated claim costs.

Background

Minnesota Management & Budget (MMB) administers PEIP. In 1990, PEIP began offering local units of government group health, dental and life insurance. The program’s size fluctuates annually, during FY 2003-2005 it served over 100 groups compared to the 61 groups it has today. In 2010, PEIP covered approximately 5,600 lives, through 61 local units of government, including 21 school districts and 32 cities and townships. It collected about \$34.2 million in health premiums.

Local units of government come to PEIP from two distinct sources, each of which participates in premium taxes and MCHA differently. Some originate from a health insurance carrier as a fully insured program. This group already contributes to the premium tax and MCHA assessment. Many groups independently self-insure or self-insure through group purchasing pools similar to PEIP. These groups, including the service cooperatives do not participate in the premium tax or MCHA assessment. According the 2004 Reden & Anders report, the majority of smaller school districts purchases their coverage from a service cooperative and do not currently contribute to the premium tax or MCHA assessment. A group wishing to avoid the premium tax or MCHA assessment will not choose PEIP and will opt to self-insure or self-insure through a purchasing pool such as the service cooperatives.

Analysis

MMB has followed the Minnesota Department of Revenue analysis to complete its revenue analysis on S.F. 646. Under that analysis, Revenue estimated the number of new groups affected by this bill and the change in revenue collected based on the bill’s provisions. This note also includes the MCHA assessment. The impact on local units of government is the total of the new tax and assessment that will be placed on certain local units of government.

New employees after May 1, 2011

- In 2009, 81 groups representing 10,400 school district employees requested health insurance quotes from PEIP. Fourteen school districts with 2,500 employees accepted the quotes and entered PEIP. This group represents 24 percent of the total number of employees covered by school districts seeking insurance quotes from PEIP in 2009.
- In 2011, 232 groups of school district employees requested health insurance quotes from PEIP. This group of 232 covers 56,000 employees. School district employees will not make the decision to join PEIP for several months. A school district can choose to purchase health insurance through PEIP, a service cooperative, or through another source.
- If a similar percentage of the total employees covered by the 2011 PEIP quotes enter PEIP as occurred in 2009, approximately 13,000 new employees will be covered by PEIP.
- The provisions in this bill increase the cost of insurance offered by PEIP. Therefore, it is assumed that the percentage of employees that will enter PEIP will be 25 percent lower than the 2009 percentage. Given this assumption, it is estimated that approximately 10,000 new employees will be covered by the PEIP self-funded pool. It is assumed the coverage for these employees will be effective in calendar year 2012.
- School districts can next seek quotes from PEIP in 2013 for calendar year 2014. It is assumed an additional 5,000 employees will join PEIP in calendar year 2014.
- The average insurance premium for the 14 school districts that entered PEIP in calendar year 2010 is \$10,358 per employee. Based on the medical consumer price index, premium amounts are assumed to grow at 2.8 percent per year. It is assumed that the estimated 10,000 new employees covered by PEIP will have premiums similar to those in the 2010 group. The product of total new employees in PEIP multiplied by \$10,358 equals the premiums subject to the 2 percent gross premium tax.

Insurance Premium Tax

- A 2004 report by Reden and Anders on a statewide health insurance pool for school district employees estimates the effective gross premium tax rate to be 0.8 percent. There are two levels of insurance premiums tax: a 1 percent tax level and a 2 percent tax level. It is assumed that a vast majority of school district insurance premiums is subject to the 1 percent gross premium tax under current law. An effective rate of less than 1 percent is used because it includes insurance purchased through other self-insured options. Self-insured plans, including those plans offered by the service cooperatives, do not pay the insurance premium tax. Reduced collections from the 1 percent gross premium tax are reflected as reductions in collections by the health care access fund.
- The general fund total reflects the revenue gain from the 2 percent gross premium tax.
- The revenue gain and loss for fiscal year 2012 reflects six months of activity in calendar year 2012 and a full year of activity in fiscal year 2013. The revenue estimate for fiscal year 2015 reflects the full impact of 15,000 new employees covered by PEIP.

MCHA Assessment

The MCHA assessment is calculated as the result of actual claim experience. The actual rate that will be assessed to PEIP is unknown. The Minnesota Department of Commerce estimated that the current rate will be 2.615 percent of premiums. The net impact was reduced to reflect new member groups that currently pay the MCHA assessment. That amount was applied to six months of activity for fiscal year 2012 and a fully year in fiscal year 2013. The assessment for fiscal year 2015 reflects the full impact of 15,000 new employees covered by PEIP.

The role of MCHA past 2013 is unclear. The Patient Protection and Affordable Care Act (PPACA, also known as health care reform) provides for guarantee issue and MCHA enrollees may be able to find coverage in the private market.

It should be noted that the Department of Revenue did not include the MCHA assessment, as it is not a tax. That cost is included in this local impact note because it will be an increased cost to local units of government.

Additional Cost

PEIP has provided quotes to 232 groups for coverage beginning after May 1, 2011. Those quotes did not include the additional costs of a 2 percent insurance premium tax or an MCHA assessment of approximately 2.615 percent. The total increased costs to local units of government will be approximately 4.6673 percent (the tax becomes part of the premium and the MCHA assessment will be imposed on the premium including the tax).

If this bill is enacted, the quotes that were recently provided will be approximately 4.6673 percent below what PEIP will need to collect in premiums. To cover these costs PEIP will be required to either increase the quotes by 4.6673 percent or fund the mandate through its reserves which is in effect an increase to all members.

Reserves

The bill requires PEIP maintain a claim reserve equal to at least two months of anticipated claim costs. This provision will have no impact on local units of government because the plan maintains a reserve that is currently higher than two months of anticipated claims. However, legally requiring a reserve level of two months will likely mean the plan must maintain an even higher reserve because the amount fluctuates over the course of a plan year as claims and other plan expenses are paid and revenues are received.

Sources

- Minnesota Department of Revenue, Tax Research Division
http://www.taxes.state.mn.us/taxes/legal_policy
- State Wide Health Insurance Pool for School District Employees and Retirees Study of Feasibility, Costs, Impact, Plan Designs, Funding, Wellness/Consumer Education, and Other Issues for the School Employee Insurance Plan and Design Committee, January 23, 2004 (The Reden and Anders Report)
- Tina Armstrong, Director of Health Policy, Minnesota Department of Commerce