

**EXECUTIVE AGENCY  
FISCAL NOTE**

**AGENCY'S ESTIMATES**

Date Prepared: April 6, 2017

Agency Submitting: Public Employees' Benefits Program

<b>Items of Revenue or Expense, or Both</b>	<b>Fiscal Year 2016-17</b>	<b>Fiscal Year 2017-18</b>	<b>Fiscal Year 2018-19</b>	<b>Effect on Future Biennia</b>
Self-Funded Claims (Expense)		\$43,689,636	\$45,050,550	\$95,758,925
Total	0	\$43,689,636	\$45,050,550	\$95,758,925

Explanation

(Use Additional Sheets of Attachments, if required)

BDR 57-996 requires public and private policies of insurance and health plan to provide at least 25 percent of policies apply a copayment before the payment of a deductible to the entire prescription drug benefit. The Public Employees' Benefits Program offers a single self-funded group insurance health plan, therefore to meet the requirements of the bill as written, PEBP would have to change the current plan structure resulting in additional costs to the plan and its participants. Higher costs will be paid through increased employer and employee contributions or a reduction in plan benefits. Please see Exhibit 1 and Exhibit 2 attached for additional information.

Name Damon Haycock

Title Executive Officer

**GOVERNOR'S OFFICE OF FINANCE COMMENTS**

Date Thursday, March 30, 2017

The agency's response appears reasonable.

Name Nikki Hovden

Title Exec. Branch Budget Officer

## DESCRIPTION OF FISCAL EFFECT

BDR/Bill/Amendment Number: 57-996

Name of Agency: Public Employees' Benefits Program

Division/Department: \_\_\_\_\_

Date: March 31, 2017

BDR 57-996 requires public and private policies of insurance and health plan to provide at least 25 percent of policies apply a copayment before the payment of a deductible to the entire prescription drug benefit.

The Public Employees' Benefits Program offers a single self-funded group insurance health plan which includes both a Health Savings Account (HSA) and Health Reimbursement Arrangement (HRA). The BDR as written will invalidate PEBP's ability to offer HSA plans to its members.

The Bill's rules as they are written will invalidate PEBP's ability to continue to offer Health Savings Accounts (HSAs) to its members per the Internal Revenue Service (IRS). Qualifying high deductible plans must have minimum deductibles and out-of-pocket limits in order to allow members to participate in tax qualifying HSAs. Unless BDR 57-996 exempts HSA-qualifying high deductible plans from all of its requirements, PEBP members will no longer have the tax advantages of Health Savings Accounts.

The approximate 36,000 PEBP members in the self-funded high deductible plans participating in the HSA will lose the following tax advantages:

- Tax free contributions to HSAs both by employer and by employee
- Tax free interest accumulation
- Tax free distributions to pay for IRS qualified medical expenses
- Tax free distributions to pay insurance premiums while continuing coverage under COBRA, qualified long-term care coverage, coverage while receiving unemployment compensation, any health care coverage for those over age 65 including Medicare (except Medicare supplemental coverage)

Assuming an exemption would not be available for HSA qualified health plans, PEBP may have to change the current plan structure to a traditional Preferred Provider Organization (PPO) plan. Prior to the implementation of PEBP's High Deductible Health Plan, PEBP offered a traditional PPO plan with copayments. PEBP's experience with PPO plans indicates a much higher cost on a per participant per month basis. The projected increase is approximately 33% per year. The table below provides the cost analysis. Any overhaul to PEBP's self-funded plan offerings would also incur significant time investment and administrative burden redeveloping plan documents, communication to participants, etc.

Plan Year	Cost Per Participant Per Month	Enrollment	Total Cost Per Year		Dollar Change	% Change
2008	\$556	29,439	\$196,417,008.00			
2009	\$617	31,011	\$229,605,444.00		\$61	10.97%
2010	\$645	30,579	\$236,681,460.00		\$28	4.54%
2011	\$646	30,120	\$233,490,240.00		\$1	0.16%
Change to High Deductible Health Plan						
2012	\$486	20,211	\$117,870,552.00		\$0.00	0.0%
2013	\$476	19,415	\$110,898,480.00		(\$10)	-2.06%
2014	\$441	19,414	\$102,738,888.00		(\$35)	-7.35%
2015	\$461	20,362	\$112,642,584.00		\$20	4.54%
2016	\$466	21,706	\$121,379,952.00		\$5	1.08%
<b>2017</b>	<b>\$473</b>	<b>22,513</b>	<b>\$63,891,894.00</b>	<b>First 6 months</b>	<b>\$7</b>	<b>1.50%</b>
2018	\$492	22,463	\$132,599,987.52		\$19	4.00%
2019	\$512	22,293	\$136,860,329.55		\$20	4.00%
2020	\$532	22,378	\$142,877,444.62		\$20	4.00%
2021	\$553	22,378	\$148,592,542.40		\$21	4.00%

Convert High Deductible Plan to PPO Plan

Plan Year	Cost Per Participant Per Month	Enrollment	Total Cost Per Year	Change In Cost - PPO Plan	% Change
2011	\$646	30,120	\$233,490,240.00		
2012	\$646	20,211	\$156,675,672.00	\$38,805,120.00	33%
2013	\$633	19,415	\$147,476,340.00	\$36,577,860.00	33%
2014	\$586	19,414	\$136,519,248.00	\$33,780,360.00	33%
2015	\$613	20,362	\$149,782,872.00	\$37,140,288.00	33%
2016	\$620	21,706	\$161,492,640.00	\$40,112,688.00	33%
<b>2017</b>	<b>\$629</b>	<b>22,513</b>	<b>\$169,928,124.00</b>	<b>Annualized</b>	
2018	\$654	22,463	\$176,289,624.00	\$43,689,636.48	33%
2019	\$680	22,293	\$181,910,880.00	\$45,050,550.45	33%
2020	\$707	22,378	\$189,854,952.00	\$46,977,507.38	33%
2021	\$735	22,378	\$197,373,960.00	\$48,781,417.60	33%

Notes:

Calculations assumes no inflation for Plan Year 2012 and similar increases or decreases as experienced with CDHP.

Health Savings Accounts will be discontinued and all participants would receive Health Reimbursement Arrangement

### DESCRIPTION OF FISCAL EFFECT

BDR/Bill/Amendment Number: 57-996

Name of Agency: Public Employees' Benefits Program

Division/Department:

Date: 31-Mar-17

#### Experience PPO Plan Converted to High Deductible Plan (Current Plan Design)

Plan Year	Cost Per Participant Per Month	Enrollment	Total Cost Per Year		Dollar Change	% Change
2008	\$556	29,439	196,417,008.00			
2009	\$617	31,011	229,605,444.00		61.00	11.0%
2010	\$645	30,579	236,681,460.00		28.00	4.5%
2011	\$646	30,120	233,490,240.00		1.00	0.2%
Change to High Deductible Health Plan						
2012	\$486	20,211	\$117,870,552.00		\$0.00	0.0%
2013	\$476	19,415	\$110,898,480.00		(\$10)	-2.1%
2014	\$441	19,414	\$102,738,888.00		(\$35)	-7.4%
2015	\$461	20,362	\$112,642,584.00		\$20	4.5%
2016	\$466	21,706	\$121,379,952.00		\$5	1.1%
<b>2017</b>	<b>\$473</b>	<b>22,513</b>	<b>\$63,891,894.00</b>	<b>First 6 months</b>	<b>\$7</b>	<b>1.5%</b>
2018	\$492	22,463	\$132,599,987.52		\$19	4.0%
2019	\$512	22,293	\$136,860,329.55		\$20	4.0%
2020	\$532	22,378	\$142,877,444.62		\$20	4.0%
2021	\$553	22,378	\$148,592,542.40		\$21	4.0%

#### Fiscal Impact to Return to PPO Plan from High Deductible Plan

Plan Year	Cost Per Participant Per Month	Enrollment	Total Cost Per Year	Change In Cost - PPO Plan	% Change
2011	\$646	30,120	\$233,490,240.00		
2012	\$646	20,211	\$156,675,672.00	\$38,805,120.00	32.9%
2013	\$633	19,415	\$147,476,340.00	\$36,577,860.00	33.0%
2014	\$586	19,414	\$136,519,248.00	\$33,780,360.00	32.9%
2015	\$613	20,362	\$149,782,872.00	\$37,140,288.00	33.0%
2016	\$620	21,706	\$161,492,640.00	\$40,112,688.00	33.0%
<b>2017</b>	<b>\$629</b>	<b>22,513</b>	<b>\$169,928,124.00</b>	<b>Annualized</b>	
2018	\$654	22,463	\$176,289,624.00	\$43,689,636.48	32.9%
2019	\$680	22,293	\$181,910,880.00	\$45,050,550.45	32.9%
2020	\$707	22,378	\$189,854,952.00	\$46,977,507.38	32.9%
2021	\$735	22,378	\$197,373,960.00	\$48,781,417.60	32.8%

Notes:  
 Calculations assumes no inflation for Plan Year 2012 and similar increases or decreases as experienced with CDHP.  
 Health Savings Accounts will be discontinued and all participants would receive Health Reimbursement Arrangement