



Legislative Fiscal Bureau

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TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: 2017 Assembly Bill 64 and Senate Bill 30 Provisions Relating to Self-Insuring for State Employee Group Health Plans

At the request of several Committee members, this memorandum provides a summary of provisions included in the Governor's recommended 2017-19 budget (2017 AB 64/SB 30) that relate to an item to self-insure for group health plans for state employees. Specifically, the memorandum addresses: (a) the self-insurance lapse from compensation reserves; (b) per pupil aid increases dependent on the self-insurance lapse; and (c) University of Wisconsin System compensation funding which is impacted by self-insurance. In addition, the memorandum addresses budget provisions that are separate from a decision to self-insure: savings associated with an anticipated repeal of the federal Affordable Care Act's health insurer fee; and funding provided for two general wage adjustments of 2% each in 2018-19.

Under 2015 Act 119, the Group Insurance Board (GIB) must notify the Joint Committee on Finance if it intends to execute a contract to provide self-insured group health plans on a regional or statewide basis to state employees. Under the act, the Committee is provided 21 working days to review the proposed contract. If the Co-chairs of the Committee notify the GIB within the period of review that the Committee has scheduled a meeting for consideration of the contract, the GIB may not execute the contract without the approval of the Committee. If a meeting is not scheduled, the GIB may execute the contract.

Self-Insurance Lapse from Compensation Reserves

The 2017-19 budget bill specifies that, if the GIB executes a contract to provide self-insured group health plans on a regional or statewide basis to state employees for calendar years 2018 and 2019 (other than the current self-insured plan known as the "standard plan"), the Secretary of the Department of Administration (DOA) must calculate the GPR savings in 2017-18 and 2018-19 for state agencies other than the University of Wisconsin (UW) System. The bill specifies that if such a contract is executed, the Secretary of DOA must reduce the estimated GPR expenditures for compensation reserves in 2017-18 and 2018-19 by an amount equal to the state agency savings,

and lapse the estimated savings to the general fund.

The general fund condition statement in the budget bill assumes lapses of \$10,147,000 GPR in 2017-18 and \$20,294,100 GPR in 2018-19 associated with GIB executing a contract to provide self-insured group health plans.

Per Pupil Aid

Under current law, school districts receive a \$250 categorical per pupil aid payment in 2016-17 and each year thereafter. Under the bill, per pupil aid increases of \$188 in 2017-18 and \$380 in 2018-19 and each year thereafter are provided for each school district that meets the following conditions: (a) the school board annually submits to the Department of Public Instruction (DPI) a statement certifying that the school board will distribute this portion of aid to the school administrator of each school in the district based on the number of pupils enrolled in the school (a requirement which would be ongoing); and (b) the school district certifies to DPI in each of 2017-18 and 2018-19 that employees of the school district will be required to pay at least 12% of all costs and payments associated with employee health care coverage plans in that school year (a requirement which would not be ongoing).

Additionally, if a contract to provide self-insured group health plans is executed and if there are lapses to the general fund associated with self-insurance, school districts would be eligible for an additional per pupil aid amount of \$12 in 2017-18 and \$24 in 2018-19. The additional \$12 and \$24 would not be ongoing and would only be provided if the school district met the same two conditions required for the increases of \$188 and \$380. The budget bill estimates that the \$12 and \$24 increases require \$30.3 million GPR, which would be associated with the projected lapse indicated above.

UW System Block Grant for Compensation

The bill would provide funding directly to the UW System in order to support general wage adjustments of 2% on both September 30, 2018, and May 26, 2019, and estimated fringe benefit costs for employees. The bill assumes self-insured group health plan savings of \$9,853,000 GPR in 2017-18 and \$19,705,900 GPR in 2018-19 for the UW System. Funding for salary and fringe benefit adjustments provided to the UW in the bill are net of assumed savings, and total \$126,500 GPR in 2017-18 and \$11,517,900 GPR in 2018-19. The bill specifies that the Board of Regents could not request any funds from the state's compensation reserves during the 2017-19 biennium to fund salary and fringe benefit costs.

Effect of Potential Self-Insurance Decision

The bill estimates total expenditure reductions for state employees, including UW System employees, from executing a contract to provide self-insured group health plans at \$20.0 million GPR in 2017-18 and \$40.0 million GPR in 2018-19. The administration indicates the figures are associated with six months and one full year of expenditure reductions, based on the \$60 million GPR savings estimate that was reported by the GIB when it announced its decision to self-insure for group health plans. Estimated reductions for all fund sources, including GPR, would correspond to \$44.8 million in 2017-18 and \$89.6 million in 2018-19.

Under the bill, if the Committee schedules a meeting for consideration of a contract to self-insure for group health plans and does not approve the contract, per pupil aid increases of \$12 in 2017-18 and \$24 in 2018-19 would not be provided to school districts and estimated lapses from compensation reserves of \$10,147,000 GPR in 2017-18 and \$20,294,100 GPR in 2018-19 would not occur. The administration estimates the amount of the self-insurance lapse associated with health plan savings would essentially equal the cost to provide per pupil aid increases. As a result, the net effect under the bill of not providing per pupil aid increases of \$12 and \$24 (an expenditure reduction) and not lapsing from compensation reserves (increasing assumed expenditures) would likely not affect the balances of the general fund. However, school districts would be provided less per pupil aid.

In addition, under assumptions made by the administration regarding estimates of compensation expenses, the bill would not provide sufficient funding to cover the cost of the proposed general wage adjustments for UW System employees if a self-insurance contract were not approved. To fund the proposed general wage adjustments and estimated fringe benefit costs for UW System employees in this case, the bill would need to be modified to provide an additional \$9,853,000 GPR in 2017-18 and \$19,705,900 GPR in 2018-19 to the UW System.

Separate Budget Provisions

Several Committee members have also inquired about additional budget provisions that are included separately from an item to self-insure for group health plans. The provisions are summarized below.

Health Insurer Fee Savings. Under the bill, savings associated with the anticipated repeal of the federal Affordable Care Act's health insurer fee (otherwise known as a market share fee or premium tax) are accounted for separately from a decision to self-insure for group health plans. Compensation reserves for state employees other than UW System employees assume expenditure reductions of \$4,082,700 GPR in 2017-18 and \$8,165,300 GPR in 2018-19 associated with eliminating the fee. The amount appropriated to the UW System for compensation, described above, assumes expenditure reductions of \$3,247,000 GPR in 2017-18 and \$6,494,100 GPR in 2018-19 associated with eliminating the fee.

General Wage Adjustments. Under the bill, funding provided for compensation reserves and funding provided to the UW System for compensation include amounts intended to support general wage adjustments of 2% on both September 30, 2018, and May 26, 2019, for all state employees including UW System employees. For state agencies except the UW System, funding for general wage adjustments is provided separately and is not conditioned upon Committee approval of a contract to self-insure for group health plans. For the UW System, the funding provided in the bill for compensation would not be sufficient to support general wage adjustments and estimated fringe benefit costs if a contract to self-insure were not approved.

I hope this information is of assistance. Please contact our office with any questions.

BL/RJ/sas