



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #414

Group Insurance Board Authority to Modify or Expand State Employee Group Health Insurance Coverage (ETF)

[LFB 2001-03 Budget Summary: Page 278, #8]

CURRENT LAW

The Group Insurance Board (GIB) may not enter into any agreements to modify or expand group insurance coverage in a manner which materially affects the level of premiums required to be paid by the state or its employees or the level of benefits provided under any group insurance plan.

GOVERNOR

Create an express exception to this current law provision by authorizing the GIB to enter into an agreement to modify or expand group insurance coverage in a manner that materially affects the level of premiums required to be paid by the state or its employees or the level of benefits provided, if the modification or expansion would reduce the costs incurred by the state in providing group health insurance to state employees.

DISCUSSION POINTS

1. Under current law, state employees become eligible for state group health insurance coverage when they become eligible for participation under the Wisconsin Retirement System (WRS). While most new state employees are eligible for state group health insurance coverage immediately, they generally do not become eligible for state contributions towards health insurance premiums until after six months of service under the WRS. (Major exceptions to this rule are state elected officials and University faculty and academic staff, who become eligible for the state's contribution upon employment.)

2. When the state begins to make contribution towards the costs of an employee's health insurance premiums, it contributes an amount equal to 90% of the premium cost of the Standard Plan or 105% of the premium cost of the lowest cost alternative health care plan (but not more than the total amount of the premium), whichever contribution amount is less, based on the county where the employee receives the medical care.

3. This premium contribution formula provides an incentive to state employees to select coverage from among the available lower cost alternative plans in order to minimize their out-of-pocket premium contributions. In counties where there is a qualified alternative health care plan, there will always be a no-cost group health insurance coverage option available to state employees. Because current law requires that group health insurance agreements continue from year-to-year with their basic benefits structures largely unchanged (except possibly to add additional new mandated benefits), the operation of the state premium contribution formula in an environment of escalating medical insurance costs has had a major impact on total state health insurance expenditures.

4. The following table shows state and state employee estimated total health insurance premium contributions payments for the last five calendar years. The amounts are based on the premium payment levels, the source of the premium payment and the total number of group health insurance coverage contracts in effect for each January of the calendar year indicated:

Estimated Annual State and State Employee Health Insurance Premium Payments

<u>Calendar Year</u>	<u>Employee-Paid Contributions</u>	<u>State-Paid Contributions</u>
1997	\$11,637,100	\$268,008,900
1998	11,864,900	282,209,500
1999	13,248,500	306,678,800
2000	13,352,500	349,905,200
2001	10,582,500	434,492,700

5. The intent of the proposed modification is to authorize the GIB to include a variety of new coinsurance, copayment and deductible cost-saving provisions under its alternative group health insurance plan offerings. The principal argument for adopting the recommended change is that the modified alternative health insurance plans containing these cost-saving features would be expected to have a smaller net premium cost. Even with the state paying up to 105% of the premium costs of the lowest cost modified alternative plan, the lower overall premiums associated with these modified plans would likely result in important health insurance cost savings for the state.

6. To the extent that an employee did not opt for coverage under the lowest cost modified alternative plan, he or she would be subject to increased out-of-pocket premium payments. However, even if the employee might incur no additional out-of-pocket premium costs by selecting the least costly modified alternative plan, the plan's additional copays and deductibles would represent additional costs to the employee.

7. If the Committee believes that these potential modifications have merit, it could adopt the Governor's recommendation.

8. Current represented state employee contractual provisions will likely affect the degree to which the proposed changes may be implemented and applied to such employees. Represented state employee collective bargaining agreements generally have health insurance provisions comparable to the following contract language: "The Employer agrees that the benefits offered under the Standard Plan and all compensable alternative plans shall be comparable. The parties agree that the alternative plans approved by the Group Insurance Board at its meeting on September 15, 1985, are comparable in benefit levels and shall be considered as examples of comparability." [Health insurance coverage language from s. 13/1/1 of the current WSEU contract with the state.] The contract language goes on to specify that the state will contribute towards the costs of premiums based on the 90%/105% formula, as it relates to those comparable alternative plans, as defined in the agreement.

9. Since alternative health plans with higher deductible, copayment or coinsurance provisions were not being offered by the GIB in 1985, the state would not be able to substitute a modified alternative plan for premium contribution payment purposes for its represented employees.

10. Such a modified alternative plan could still be offered to nonrepresented state employees as part of the biennial compensation plan. However, the state would then have bifurcated its alternative health coverage plans offerings, with more comprehensive coverage being available to its represented employees and less comprehensive coverage (and more out-of-pocket expense) being available to its nonrepresented employees.

11. If the Committee has concerns about these aspects of implementing the proposed modifications recommended by the Governor, it could choose to maintain current law.

ALTERNATIVES TO BASE

1. Adopt the Governor's recommendation authorizing the Group Insurance Board to enter into an agreement to modify or expand group insurance coverage in a manner that materially affects the level of premiums required to be paid by the state or its employees or the level of benefits provided, if the modification or expansion would reduce the costs incurred by the state in providing group health insurance to state employees.

2. Maintain current law.

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