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May 19, 2015 Joint Committee on Finance Paper #270

Annual Payments to Eligible Employees in Lieu of Health Insurance Coverage (Employee Trust Funds)

[LFB 2015-17 Budget Summary: Page 142, #2]

CURRENT LAW

The eleven-member Group Insurance Board (GIB) in the Department of Employee Trust Funds (ETF) oversees the administration and the establishment of policies for four major insurance plans for state employees and certain local government employees. The four plans are: (a) group health insurance for Wisconsin Retirement System (WRS) annuitants, state employees and employees of those local governments that choose to offer this benefit; (b) group income continuation insurance for state employees and employees of those local governments that choose to offer this benefit; (c) group life insurance benefits for annuitants, state employees and employees of those local governments that choose to offer this benefit; and (d) long-term care insurance for annuitants and state employees.

Membership on GIB is governed by s. 15.165(2) of the statutes. Five members of the Board serve ex officio as a result of the positions that they hold. These ex officio members are the Governor, the Attorney General, the Commissioner of Insurance, the Secretary of the Department of Administration, and the Director of the Office of State Employment Relations (OSER). Any of these ex officio members may appoint a designee to serve on the Board in his or her stead. The remaining six members of the Board are appointed by the Governor to two-year terms. The statutes require that at least five of the six appointees represent specific constituencies in order to ensure a diversity of views on the Board. At least one gubernatorial appointee must be an insured teacher who is a WRS participant, a second must be an insured nonteacher WRS participant, a third must be an insured local employee WRS participant, a fourth must be an insured retired WRS participant, and a fifth must be the chief executive or a member of the governing body of a local unit of government that is a participating employer in the WRS. There is no specific requirement for the sixth gubernatorial appointee to the Board.

GOVERNOR

Provide that full- and part-time state employees who are eligible to receive health care coverage, other than graduate assistants, could elect not to receive health care coverage and instead receive a $2,000 annual payment if the employee makes the election: (a) on a form provided by ETF; and (b) within 30 days of being hired or during the annual health care enrollment period established by ETF. If the employee made the election within 30 days of being hired, the employee could not receive state health care coverage during the calendar year in which the election was made. If the employee made the election during the annual health care enrollment period, the employee could not receive health care coverage during the succeeding calendar year.

Annual payments made to eligible employees in lieu of health insurance coverage would be paid from the appropriation account that would otherwise have been used to pay the employer contribution toward premium payments for that employee. If an employee made an election to receive this payment in lieu of health insurance coverage within 30 days of being hired, the employer would be required to prorate the $2,000 payment according to the remaining number of months in the calendar year in which the election was made.

DISCUSSION POINTS

1. Under 2013 Act 20, the Legislature required the Secretary of ETF and the Director of OSER to study the feasibility of offering a $2,000 annual incentive payment to any state employee who, although eligible to receive health care coverage under the state employee plans, elects not to receive that coverage. On June 30, 2014, ETF and OSER submitted a report from Deloitte to the Governor and the Legislature addressing this issue.

2. Deloitte found that an estimated 3,286 state employees eligible for health insurance coverage in 2014 had foregone state coverage and were, presumably, covered elsewhere. [This figure did not include state employees who were ineligible for state health insurance because their spouse was also a state employee and covered under the state health plan.] Presuming that these employees would continue to opt-out of state health insurance, the immediate impact of the proposal would be to increase state costs by an estimated $6,572,000 annually associated with $2,000 annual opt-out payments to these employees.

3. Deloitte then sought to estimate the number of additional state employees who would annually opt-out of state health insurance if offered a $2,000 annual payment. Deloitte estimated that state employees with single coverage (17,670 in 2014) and state employees where both spouses are employed by the state (6,150 in 2014) would not opt-out of state health insurance coverage "due to a lack of other affordable health insurance options and the state's relatively strong plan design paired with moderate employee contributions." For the remaining state employees, the actuary assumed that "approximately 1-5% will opt out due to the availability of other coverage that costs less than the $2,000 incentive payment." However, the actuary further stated that, "There is little reliable data to validate the 1-5% opt out assumption and it is possible that there would be more opt outs."

4. Based on an assumption that healthier employees would be more likely to opt out of state health insurance coverage, the actuary assumed that the "expected claims cost of the opt out employees would be between 50-80% of the average for the current group." Table 1 provides Deloitte's estimate of the annual savings associated with the additional state employees who would newly opt out of state health insurance if offered a $2,000 annual payment. Estimated savings from this group of new opt outs varied depending on: (a) the assumed level of health care claims that would have been submitted by these opt outs (either 50% or 80% of average claims); and (b) of the remaining state employees (after excluding employees with single coverage and state employees where both spouses are employed by the state), what percentage of them would opt out of state health insurance (1%, 3%, or 5%). Table 2 provides Deloitte's estimate of the anticipated net savings or costs from the opt-out proposal, reducing estimated savings by the $6,572,000 cost of paying a $2,000 annual opt-out payment to state employees who were already opting out of state health insurance for other reasons.

TABLE 1

Estimated Opt-Out Savings from State Employees Who Would Newly Opt Out of State Health Insurance if Offered a $2,000 Annual Opt Out Payment

Expected Claims of Additional Opt Outs as a % of Average	Additional Opt Outs 1% 390 Contracts	3% 1,160 Contracts	5% 1,930 Contracts
50%	$3,253,000	$9,759,000	$16,265,000
80	4,992,000	14,977,000	24,961,000

TABLE 2

Net Estimated Opt Out Savings From the Proposal to Offer a $2,000 Annual Opt Out Payment to State Employees

Expected Claims of Additional Opt Outs as a % of Average	Current Opt Outs - 5%, 3,286 Contracts 1% 390 Contracts	3% 1,160 Contracts	5% 1,930 Contracts
50%	-$3,319,000	$3,187,000	$9,693,000
80	-1,580,000	8,405,000	18,389,000

5. A key assumption underlying Deloitte's report regarding the possible costs or savings associated with annual opt-out payments was the percentage of additional state employees who might elect to opt-out. In regards to this key assumption, Deloitte indicated that, "There is little reliable data to validate the 1-5% opt out assumption and it is possible that there would be more opt outs." Deloitte indicated that if only an additional 1% of state employees opt-out of receiving state

health insurance, the proposal would increase state costs between $1.6 million and $3.3 million annually. If, however, an additional 5% of state employees would opt-out of receiving state health insurance annually, the proposal could save the state from $9.7 million to $18.4 million annually. The administration has assumed in the budget that this proposal will save the state $18.4 million annually.

6. Subsequent to the Deloitte report, ETF has entered into a contract with Segal Consulting to provide recommendations regarding changes to the state's group health insurance program. In its March 25, 2015, report to GIB, Segal Consulting also addressed the possible savings under an opt-out provision with a $2,000 annual payment as recommended in the budget. While identifying a possible range of outcomes that increased the possible increased costs under the proposal, $5 million annually, and reduced the possible savings under the proposal, $7 million annually, the consultant concluded by indicating that, "If an opt-out option is made available to ETF employees, we believe there would be negligible financial impact overall on the program."

7. In order to possibly reduce state health insurance costs by permitting eligible employees to opt-out of state health insurance coverage, the Committee could approve the recommendation. [Alternative 1] On the other hand, given the uncertainties identified by two ETF actuaries as to the level of savings under the opt-out recommendation, and the possibility that this proposal could actually increase costs under the state health insurance program, the Committee could delete the recommendation. [Alternative 2]

8. The Committee should note that compensation reserves were reduced by $4,183,600 GPR in 2015-16 ($9,194,700 all funds), and $8,367,000 GPR in 2016-17 ($18,389,000 all funds) associated with this recommendation, assuming that the recommendation would generate savings on the upper end of Deloitte's range when fully implemented. Under a separate paper on compensation reserves, the Committee may elect to restore funding to compensation reserves associated with this proposal. If the Committee deletes the opt-out provision and does not restore the associated compensation reserve funding under the compensation reserves paper, GIB could be required to identify other changes to the group health insurance program during 2015-17 to generate the required savings.

ALTERNATIVES

1. Approve the Governor's recommendation to provide $2,000 annual payments to eligible state employees who elect to not receive state health care coverage.

2. Delete provision.

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