

## Department of Planning and Budget 2004 Fiscal Impact Statement

**1. Bill Number** HB943

**House of Origin**    ☒ Introduced    ☐ Substitute    ☐ Engrossed  
**Second House**    ☐ In Committee    ☐ Substitute    ☐ Enrolled

**2. Patron**        Pollard

**3. Committee**    General Laws

**4. Title**            Health insurance; program for local employees.

**5. Summary/Purpose:**

Provides that employees of local governments, local officers, teachers, and retirees, and the dependents of such employees, officers, teachers and retirees may participate, with the approval of the local government, in the state employee health insurance plan. The local government shall be responsible for whatever portion of the cost of such insurance not paid by the employee.

**6. Fiscal Impact Estimates are:**

**6a. Expenditure Impact:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Positions</i>	<i>Fund</i>
2003-04	\$0	0	N/A
2004-05	\$1,289,830	0	GF
2004-05	\$1,125,171	2	NGF
2004-05	\$329,318	0	Employee
2005-06*	\$105,750	0	GF
2005-06*	\$92,250	0	NGF
2005-06*	\$27,000	0	Employee
2006-07*	\$105,750	0	GF
2006-07*	\$92,250	0	NGF
2006-07*	\$27,000	0	Employee
2007-08*	\$105,750	0	GF
2007-08*	\$92,250	0	NGF
2007-08*	\$27,000	0	Employee
2008-09*	\$105,750	0	GF
2008-09*	\$92,250	0	NGF
2008-09*	\$27,000	0	Employee
2009-10*	\$105,750	0	GF
2009-10*	\$92,250	0	NGF
2009-10*	\$27,000	0	Employee

\*Costs beyond FY 2005 are for the continued administration of the expanded program and do not include any possible additional actuarial costs (See Item 8).

- 7. Budget amendment necessary:** Yes, Item 500 of HB/SB 30 would require an additional \$1,289,830 (general fund) in FY 2005 and \$105,750 (general fund) in FY 2006.
- 8. Fiscal implications:** Even though the proposed legislation indicates that the Commonwealth shall not be obligated to pay the cost associated with expanding the state employee plan to localities, it nonetheless would result in a fiscal impact to the Commonwealth. Specifically, there would be start-up costs associated with expanding the program to new members and the only source of funding for these costs would be the plan already in place.

The start up costs include items such as creating enrollment and billing systems that are capable of tracking all of the individuals that would be eligible. Currently, the systems used by the Department of Human Resource Management (DHRM) do not have this capability. In addition, there would be a start-up cost to cover an actuarial review of all the new potential groups for the purpose of determining the overall program costs for the purpose of setting plan premiums. DHRM estimates that if this expansion of the state employee program will require the addition of two permanent full-time positions to handle the increased workload. Moreover, an expansion of the sort mandated in the proposed legislation would require that the reserves of the program be increased to accommodate the additional members.

The costs shown in Item 6 above assume the initial addition of approximately 2,000 individuals to the state employee plan. Under such program expansions, it is practice to provide funding for at least two months of premium costs for the added members. The Department of Human Resource Management indicates that two months of premiums for 2,000 individuals would be approximately \$2.3 million dollars. Added to this, is the cost of setting-up the new program and administering it on an ongoing basis. The following table summarizes these costs (including the required reserve).

	FY 2005 Cost	Known Ongoing Costs
Development and programming automated eligibility/billing system	\$100,000	\$0
Actuarial expenses	\$50,000	\$0
Marketing and employee materials	\$20,000	\$0
Required Actuarial Reserve	\$2,349,320	UNKNOWN
Program Manager/Contract Specialist (1 Position)	\$77,000	\$77,000
Administrative/Billing Specialist (1 Position)	\$50,000	\$50,000
Other administration, customer service and overhead	\$50,000	\$50,000
Annual billing expenses	\$48,000	\$48,000
	<b>\$2,744,320</b>	<b>\$225,000</b>

Additional costs to the state employee health insurance plan are spread between general fund agencies, nongeneral fund agencies and employees. Out of the total cost previously shown, approximately 47 percent will be covered by state agencies funded from the general fund, 41 percent will be covered by agencies funded through nongeneral fund sources (such as VDOT), and 12 percent will be paid directly by the employee. This results in a general fund cost of \$1,289,830, an NGF cost of \$1,125,171 and a cost to the employees of \$329,318 in the first year of the 2005-06 biennium.

The costs after the first year, are less easily determined due to the fact that the actuarial impact of the proposed program expansion is not known. The ongoing costs shown on the previous page reflect the continued cost of administering the program and do not include any possible actuarial impact to the plan.

The language in the proposed legislation is not clear as to whether individual local employees may choose to enroll in the state employee plan or if the locality will choose to enroll all of its employees. If individuals can choose, there could be an impact to the entire plan resulting from adverse selection. Specifically, individuals who are less healthy and perceive the state plan to have richer benefits may decide to enroll in the state employee plan while individuals who are more healthy and rarely use their existing plan may decide to remain with their existing coverage. The net result is the state plan may have more individuals who are likely to incur claims which would drive up the cost of the plan for everyone. If the intent of the bill is to give a locality the option to enroll their entire group in the state plan as opposed to individual employees, the adverse selection impact will be greatly reduced.

**9. Specific agency or political subdivisions affected:** The Department of Human Resource Management and all localities.

**10. Technical amendment necessary:** No

**11. Other comments:** None

**Date:** 2/10/2004

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cc: Secretary of Administration