

Department of Planning and Budget 2009 Fiscal Impact Statement

1. Bill Number: HB2522

House of Origin X Introduced Substitute Engrossed
Second House In Committee Substitute Enrolled

2. Patron: Nichols

3. Committee: General Laws

4. Title: **Health insurance plan for state employees; coverage for employees of small employers.**

5. Summary: Permits employers with 50 or fewer employees to apply for coverage under the health insurance plan for state employees. The premiums and an administrative costs are payable by the participating employer or its eligible employees.

6. Fiscal Impact Estimates: Not Available

7. Budget Amendment Necessary: No

8. Fiscal Implications: By allowing employees of small businesses to enroll in the state employee health insurance program, this bill could create a significant fiscal impact on state resources. The potential long term impact created in this situation is that those small employers that can obtain favorable rates in the market place will do so and those that are poorer risks will enroll in the state employee plan. This adverse selection creates a scenario under which poorer risks are attracted to the state plan which will increase the risk of the state plan as a whole, thereby increasing premiums. The end result would be higher premiums for general fund state agencies, nongeneral fund state agencies, state employees, and retired state employees not yet eligible for Medicare.

Even though the bill indicates that the new employee group will pay their share of the administrative expenses of the plan, there will be an impact to the Commonwealth for the implementation of the provisions of this proposed legislation. Specifically, there would be start-up costs associated with expanding the program to new members prior to their enrollment 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. On an ongoing basis, the provisions of this bill would require additional staff and related expenses at the Department of Human Resource Management to handle billing, contract management, and other administrative functions required to maintain the expanded program and serve a new plan population. In addition, 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.

Another potential impact of this bill is that it may threaten the loss of the state employee health insurance plans' exemption from the requirements of the Employee Retirement Income Security Act of 1974 (ERISA). Health plans with contributions from private employers are usually considered as assets protected by ERISA. The loss of the Commonwealth's ERISA exemption for the state employee health insurance program will result in additional reporting requirements and potential liabilities that are not currently factored into the cost of the existing program.

In the long run, there may be adequate enrollment to support the added administrative expenses, however at program start-up and possibly for some time after, the existing funds in the state employee health insurance fund will be required to cover these costs. The source of the existing funds in the state employee health insurance fund are the premiums paid by general fund state agencies, nongeneral fund state agencies, state employees, and retired state employees non yet eligible for Medicare. Any increase in spending in the state employee health insurance fund will result in increased premiums for all of these groups.

9. Specific Agency or Political Subdivisions Affected: All state agencies, especially the Department of Human Resource Management

10. Technical Amendment Necessary: No

11. Other Comments: None

Date: 1/28/2009 JDH

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