

TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE



**CORRECTED  
FISCAL NOTE**

**SB 2111 - HB 2410**

March 23, 2016

**SUMMARY OF BILL:** Specifies that the authorizations provided in Tenn. Code Ann. §§ 8-27-202, 8-27-302, and 8-27-702 to establish health plans, does not prohibit a local government entity or local education authority from adopting or making available voluntary benefits that are treated as supplemental benefits and are deemed not to be a “group health plan” when established in accordance with 26 U.S.C. § 5000(b)(1) that defines a group health plan.

**ESTIMATED FISCAL IMPACT:**

On March 7, 2016, a fiscal note was issued with an estimated fiscal impact of:

*Increase State Expenditures –*

*Exceeds \$5,000,000/FY16-17*

*Exceeds \$7,000,000/FY17-18 and Subsequent Years*

*Increase Local Expenditures –*

*Exceeds \$3,000,000/FY16-17/Permissive/Local Education Agencies*

*Exceeds \$4,000,000/FY17-18 and Subsequent Years/Permissive/*

*Local Education Agencies*

Based on additional information received from the Department of Finance and Administration, it was determined this impact was in error. The estimated fiscal impact is:

**(CORRECTED)**

**Other Fiscal Impact – Passage of the proposed legislation will continue enrollment in the Limited PPO plan in conjunction with gap policies offered by local education agencies. This combination will result in projected increase in plan costs in FY16-17 of \$7,500,000 (\$3,093,800 state portion and \$4,406,200 LEAs and enrollees). The Local Education and Local Government Insurance Committees will take action to make up these funds by increasing premiums or limiting plan offerings.**

**SB 2111 - HB 2410 (CORRECTED)**

Assumptions:

*General Information:*

- The provisions of Tenn. Code Ann. § 8-27-202 do not apply to local government authorities or local education authorities.
- Based on information from the Department of Finance and Administration, the Division of Benefits Administration (Benefits Administration), the state does not contribute to local government health insurance plans which are separate from local education agency health insurance plans.
- Local education agencies have a portion of their members' premiums paid for by the state through the Basic Education Program (BEP).
- Pursuant to Tenn. Code Ann. § 8-27-104, "voluntary benefits" are benefits for which the premium is fully paid by enrolled members and may include, but are not limited to, dental, vision, long-term care, and disability insurance benefits.
- Gap or wraparound insurance policies are supplemental policies that providers such as local government or local education agencies (LEAs) may choose to offer their members. Gap or wraparound insurance policies cap members' out of pocket maximums. The plan sponsor is responsible for paying the remaining medical bills exceeding the member's maximum out of pocket costs.
- While the provisions of the proposed legislation apply to local government agencies opting into the state health plan, sufficient information has not been collected to confirm the use of gap policies within local government agencies; therefore, the fiscal analysis focuses on LEAs.

*Benefits Administration Enrollment Information:*

- According to information provided by Benefits Administration, local government agencies have been offered a Limited PPO option since 2004. In 2014, this plan option was extended to LEAs as a plan with lower employer cost that helped meet the employer responsibility requirements under the Affordable Care Act.
- Enrollment data for the local government plan from plan year 2011 (the date when the state offered the Limited PPO) through plan year 2013 shows a gradual shift in enrollment from the Partnership PPO to the Limited PPO of three percent. In 2014, the Limited PPO plan enrollment increased 10 percent while the Partnership PPO enrollment decreased by 16 percent. Enrollment percentages have remained relatively constant since.
- Similarly, enrollment data for the local education plan offered to LEAs beginning in plan year 2014 (the date when the state offered the Limited PPO) shows a shift from the Partnership PPO to the Limited PPO in 2015. Limited PPO enrollment increased 13 percent in 2015 while Partnership PPO enrollment decreased by 15 percent.
- Total enrollment in the local education plans for 2015 was as follows:
  - Limited PPO = 9,502
  - Partnership PPO = 32,010
  - Standard PPO = 13,297
- The Limited PPO plan experienced higher than expected enrollment, but since enrollment increased at a similar rate to the local government plan, it is difficult to pinpoint the exact cause of the increase.

- In plan year 2016, a Health Savings plan was introduced as an additional plan option. It is unclear how this will impact enrollment in other plans.

*Gap Policy Enrollment:*

- Based on information provided by a gap policy provider contracting with LEAs across the state, there were two LEAs providing a gap insurance plan. In 2015, the number of LEAs increased to a total of 32 LEAs. Currently (in 2016) this number has grown to a total of 50 LEAs.
- Enrollment information provided for plan year 2015 indicates an average enrollment of 6,648 in the gap insurance policies.
- The gap policies are offered to all enrollees, therefore it is unclear the proportion of enrollment in the Limited PPO plan. Fiscal Review Committee staff does not have access to data from each individual LEA.
- The gap policies are best coordinated with the Limited PPO plan and it is assumed the majority of gap policy holders are also enrolled in the Limited PPO plan.
- Based on 2015 enrollment numbers, it is assumed approximately 70 percent of Limited PPO enrollees are also gap policy holders (6,648/9,502).

*Limited PPO Plan Impact:*

- Benefits Administration extended the Limited PPO to LEAs as a lower cost option, but the plan was underwritten based on a lower risk population.
- The gap policies offered can lead to a higher cost population enrolling in the Limited PPO plan.
- Based on actuarial information provided by Benefits Administration, healthcare claims in 2015 have been higher than projected while revenue for the plans have been lower than projected.
- Since the offering of the Limited PPO plan did not anticipate the plan in combination with gap policies, the local education plan premium revenue is not sufficient to meet incurred claim expenditures.
- Based on actuarial information, the total estimated impact to the local education plan with continued enrollment in both the Limited PPO and gap policies is estimated to be \$12,000,000 in plan year 2016; \$15,000,000 in plan year 2017; and \$19,000,000 in plan year 2018. Fiscal Review staff has not been provided the calculations used to arrive at these estimates.

*Fiscal Impact:*

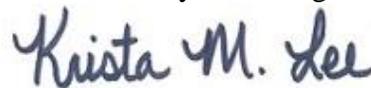
- A letter dated March 11, 2016 from Benefits Administration addressed to “Agency Benefit Coordinators” identifies the additional plans that will be accepted by the Local Education and Local Government Insurance Committees as supplemental to the local education plan. These accepted plans do not include gap policies.
- The letter further explains the decisions are effective as of March 11, 2016, for any agencies considering the addition of a non-approved plan for 2016 and for all agencies with the 2017 plan year. Benefits Administration has been directed by the Local Insurance Committees to enforce sanctions if agencies do not apply.
- If the proposed legislation passes, there will be a continuation of the current enrollment in both the Limited PPO and the gap policies; thus, the premium revenue will be less and

the claims experience will be greater than originally projected when initially offering the plan.

- Based on the previously mentioned letter, any current gap policies will continue until January 1, 2017; therefore any fiscal impact in FY16-17 will be for one-half of plan year 2017.
- The state contributes 45 percent of instructional member premiums (75 percent of Local Education Plan members) and 30 percent of support staff member premiums (25 percent of Local Education Plan members).
- If the actuarial projections are correct, the costs to the local education plan in FY16-17 will be \$7,500,000 ( $\$15,000,000 \times 50\%$ ). This would result in an increase in state expenditures of at least \$3,093,750 [ $(\$7,500,000 \times .75 \times .45) + (\$7,500,000 \times .25 \times .30)$ ].
- The remaining \$4,406,250 ( $\$7,500,000 - \$3,093,750$ ) will be paid by a combination of LEAs and enrollee contributions.
- The total cost, including the state, LEAs and enrollee contributions, for FY17-18 is projected to be \$17,000,000 [ $(\$15,000,000 \times 50\%) + (\$19,000,000 \times 50\%)$ ] per the actuarial.
- To account for the projected plan costs associated with the offering of the Limited PPO in conjunction with gap policies, the local education plans will either:
  - Stop offering the Limited PPO plan as an option;
  - Set the premium rates for the Limited PPO at an amount relative to the value between the Limited PPO and the Partnership PPO; or
  - Increase premium rates for all local education and local government plans to account for the changes in expenditures.
- Any increase in local government expenditures as a result of offering gap policies will be permissive and cannot be reasonably quantified since it is unknown how many local governments will choose to offer such supplemental insurance in the future.

## **CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.



Krista M. Lee, Executive Director

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