
State Employee Health Insurance

January 23, 2018

Health and Welfare Appropriations Subcommittee

JLBC

Employee Health Insurance Overview

- ❑ Through ADOA, the state offers 3 employee health insurance plans:
 - Exclusive Provider Organization (EPO)
 - Preferred Provider Organization (PPO)
 - High Deductible Health Plan with a Health Savings Account (HSA)
- ❑ Both single and family coverage
- ❑ EPO and PPO offer choice of networks
- ❑ Majority of employees on EPO (82%)
- ❑ Employees pay approximately 12% of premium while Retirees pay 100% of premium
- ❑ Plan operates on a calendar year
 - Changes made to employer contributions in a fiscal year are implemented over 2 plan years

'18 Steps to Reduce HITF Shortfall

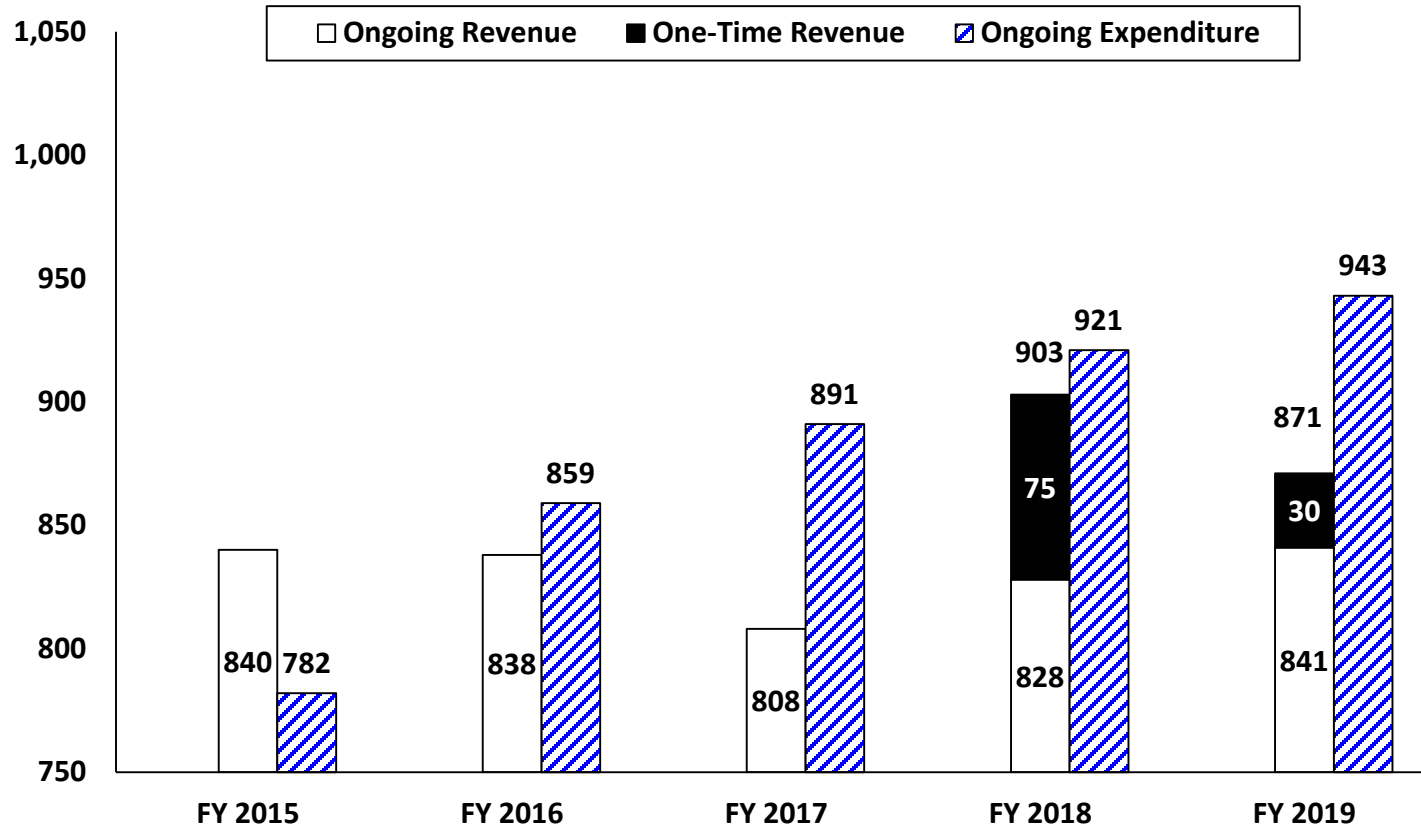
- ❑ A year ago, the fund had a projected \$(80) M structural shortfall in '18
- ❑ In response, budget increased employer contributions 1-time by \$75 M (\$25 M GF, \$50 M non-GF)
- ❑ Employer contributions from all fund sources transferred to Health Insurance Trust Fund.
- ❑ Improved cash balance but not structural shortfall
- ❑ ADOA raised employee costs by \$58 M annually by higher premiums and copays
- ❑ Along with updated projections, these changes are projected to result in \$(93) M structural shortfall and \$135 M cash balance at end of '18

'19 Executive Proposal

- ❑ Executive replaces 1-time \$75 M employer contribution with another 1-time \$30 M (\$10 M GF, \$20 M non-GF)
- ❑ Results in \$(102) M structural shortfall and \$62 M cash balance at the end of '19
- ❑ Assumes an underlying 5% increase in health costs after adjusting for increased employee costs.
- ❑ Since proposal does not solve structural shortfall, Executive has said they may implement other changes
 - Report due to Governor's Office in March

Health Insurance Trust Fund (HITF)

- Structural Balance Has Become Shortfall



\$ in M

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Transfer to GF	54	4	79	0	0
Structural Balance	58	(21)	(83)	(93)	(102)
Cash Balance	340	315	153	135	62

Legislative Oversight of Health Insurance

- ❑ Other than funding increased employer contributions, Legislature does not have approval over plan structure
- ❑ ADOA reports plan changes to JLBC prior to implementation
- ❑ JLBC may review, but ADOA not required to follow guidance
- ❑ Legislature may want to consider stronger oversight

JLBC Requested Options To Raise \$50 M

- ADOA Responded November 2017

- ❑ Increase employer premium contribution by 9%
 - Consists of approximately 1/3 GF, 1/3 University tuition and 1/3 all other funds
- ❑ Increase employee premium contribution 50%
 - Single EPO: \$40 to \$60
 - Family EPO: \$243 to \$365
 - Retiree EPO: \$652 to \$978
- ❑ Increase deductibles and out-of-pocket maximums
 - Single EPO: \$0 to \$350
 - Single PPO: \$500 to \$1,000
- ❑ Combination of increased employer and employee contributions

JLBC Requested HSA Option

- ❑ High Deductible Plan has lower premiums and higher deductibles
 - Single premium \$264 vs \$528 EPO (annual cost)
 - No deductible on EPO

- ❑ Employees pay for 100% of health care costs until the \$1,300 deductible is reached

- ❑ After deductible is reached, employees pay a 10% coinsurance until the \$2,000 out-of-pocket maximum is reached.

Health Savings Account

- Funds can be used to pay deductible and coinsurance up to the out-of-pocket maximum
- State deposits \$720 annually into account
- Employee can deposit up to \$3,400 annually
- HSA funds roll over and can be used for future expenses even if an employee leaves state service

HSA Comparisons

- ❑ Current ADOA HSA is not materially different from the EPO
 - 1.8% of employees currently enrolled in HSA
 - Premium savings not significant enough for employee to take on added out-of-pocket risk with a deductible
- ❑ Public Employers vary in types of plans offered

	<u>Arizona</u>	<u>Pima County</u>	<u>Indiana</u>
Employee Premium	\$ 264	\$ 420	\$ 398
Employer Premium	4,464	3,692	5,082
Deductible	1,300	2,000	2,500
Out-of-Pocket Max	2,000	3,000	4,000
Employer HSA Contribution	720	1,000	1,250

ADOA's Report Also Addressed HSA-Only Option

- Generates \$125 M in Savings

	Current <u>HSA</u>	HSA <u>Option</u>	Current <u>EPO</u>
Employee Premium	\$ 264	\$ 828	\$ 528
Employer Premium	4,464	6,672	6,600
Deductible	1,300	2,100	0
Out-of-Pocket Max	2,000	4,200	7,350
Employer HSA Contribution	720	720	N/A