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MEMORANDUM

TO: Interested Parties

FROM: Pam Johnson *PJ*

SUBJECT: Results of the November 8 Consensus Estimating Conference on State Employees' Health Insurance

DATE: November 9, 1994

Attached for your information are the results of the November 8 Consensus Estimating Conference on State Employees' Health Insurance. The first three tables shown in the package are the traditional ones produced by the Conference, and the figures result from assuming that the current administration of health insurance for state employees remains in place. This analysis predicts an ending balance for the State Employees' Health Insurance Trust Fund of \$90.9 million in 1994-95, and \$59.7 million in 1995-96.

The outlook for the Trust Fund, however, is complicated by the passage during the 1993 Legislative session of CS/SB 1914, 2006, 1784, & 406, which provided for the Agency for Health Care Administration to purchase health care for state employees through community health purchasing alliances as long as benefits are not reduced and costs are not increased. In the event that this occurs, although recurring outflows from the Trust Fund would be no greater than under the current situation, some non-recurring costs would be experienced due to the fact that the Conference normally does a cash analysis for the Trust Fund, not adjusting for the outstanding liabilities which exist at any given point in time.

The Department of Management Services has done an analysis which estimates that non-recurring costs due to paying for claims incurred but not reported as \$41.0 million, claims paid but not cleared as \$6.5 million, Blue Cross/Blue Shield Administration during the runout period of \$3.5 million, and prepaid premiums which would be necessary with a change in coverage to the alliances would amount to \$42.0 million. Subtracting these figures from the projected 1995-96 ending cash balance of \$59.7 million would leave a cash deficit of \$33.3 million which would have to be covered during 1995-96 in order to keep the Trust Fund solvent. The figure of \$33.3 million would be reduced by the amount of any savings which would be able to be achieved by purchasing coverage through the alliances, and thus represents a worst case scenario. Details of the Department calculations of the outstanding liabilities are attached after the traditional conference tables.



State Employees' Health Insurance Trust Fund
 Analysis of Income and Expenses
 1993-94

	Jan 1994 Estimate	Actual	Diff
BEGINNING BALANCE	\$56.5	\$56.5	\$0.0
<u>INCOME</u>			
Retired Teachers Appropriation	\$3.9	\$3.9	\$0.0
Premiums--State	\$346.0	\$475.7	\$4.9
Premiums--Employees	\$89.4		
Premiums--Medicare Patients	\$20.3		
Premiums--Other Non-employees	\$15.1		
Interest	\$2.5	\$2.4	(\$0.1)
Transfer from Pretax Trust Fund	\$9.6	\$10.8	\$1.2
Other (COB's, audits and overpayment returns)	\$7.0	\$8.5	\$1.5
 TOTAL INCOME	 \$493.8	 \$501.3	 \$7.5
<u>EXPENDITURES</u>			
Blue Cross/Blue Shield Administered Claims	\$297.7	\$282.7	(\$15.0)
Prescription Drug Program Claims and Administration	\$44.4	\$43.7	(\$0.7)
HMO Payments	\$128.2	\$129.5	\$1.3
Blue Cross/Blue Shield Administration	\$9.6	\$10.3	\$0.7
Division of State Employees' Insurance Administration	\$3.5	\$2.6	(\$0.9)
Transfer to Agency for Health Care Administration	\$0.7	\$0.8	\$0.1
 TOTAL EXPENDITURES	 \$484.1	 \$469.6	 (\$14.5)
 NET INCOME (INCOME LESS EXPENDITURES)	 \$9.7	 \$31.7	 \$22.0
 ENDING BALANCE	 \$66.2	 \$88.2	 \$22.0

State Employees' Health Insurance Trust Fund
 Analysis of Income and Expenses
 1994-95

	July 1994 Estimate	Nov 1994 Estimate	Diff.
BEGINNING BALANCE	<u>\$88.2</u>	<u>\$88.2</u>	<u>\$0.0</u>
INCOME			
Retired Teachers Appropriation	\$3.9	\$3.9	\$0.0
Premiums--State	\$356.4	\$357.4	\$1.0
Premiums--Employees	\$91.9	\$92.4	\$0.5
Premiums--Medicare Patients	\$22.0	\$21.6	(\$0.4)
Premiums--Other Non-employees	\$15.6	\$15.6	\$0.0
Interest	\$1.5	\$3.2	\$1.7
Transfer from Pretax Trust Fund	\$9.9	\$9.8	(\$0.1)
Other (COB's, audits and overpayment returns)	\$7.5	\$8.5	\$1.0
TOTAL INCOME	<u>\$508.7</u>	<u>\$512.4</u>	<u>\$3.7</u>
EXPENDITURES			
Blue Cross/Blue Shield Administered Claims	\$320.7	\$298.7	(\$22.0)
Prescription Drug Program Claims and Administration	\$48.0	\$49.2	\$1.2
HMO Payments	\$158.8	\$146.3	(\$12.5)
Blue Cross/Blue Shield Administration	\$10.6	\$10.7	\$0.1
Division of State Employees' Insurance Administration	\$3.5	\$4.1	\$0.6
Transfer to Agency for Health Care Administration	\$0.7	\$0.7	\$0.0
TOTAL EXPENDITURES	<u>\$542.3</u>	<u>\$509.7</u>	<u>(\$32.6)</u>
NET INCOME (INCOME LESS EXPENDITURES)	(\$33.6)	\$2.7	\$36.3
ENDING BALANCE	<u><u>\$54.6</u></u>	<u><u>\$90.9</u></u>	<u><u>\$36.3</u></u>

State Employees' Health Insurance Trust Fund
 Analysis of Income and Expenses
 1995-96

	<u>July 1994</u> Estimate	<u>Nov 1994</u> Estimate	<u>Diff.</u>
BEGINNING BALANCE	\$54.6	\$90.9	\$36.3
<u>INCOME</u>			
Retired Teachers Appropriation	\$3.9	\$3.9	\$0.0
Premiums--State	\$367.4	\$369.4	\$2.0
Premiums--Employees	\$94.6	\$95.4	\$0.8
Premiums--Medicare Patients	\$23.8	\$23.2	(\$0.6)
Premiums--Other Non-employees	\$16.1	\$16.3	\$0.2
Interest	\$0.5	\$2.5	\$2.0
Transfer from Pretax Trust Fund	\$10.2	\$10.3	\$0.1
Other (COB's, audits and overpayment returns)	\$8.0	\$8.5	\$0.5
 TOTAL INCOME	 \$524.5	 \$529.5	 \$5.0
<u>EXPENDITURES</u>			
Blue Cross/Blue Shield Administered Claims	\$346.0	\$320.0	(\$26.0)
Prescription Drug Program Claims and Administration	\$52.0	\$55.3	\$3.3
HMO Payments	\$193.8	\$168.7	(\$25.1)
Blue Cross/Blue Shield Administration	\$11.8	\$11.9	\$0.1
Division of State Employees' Insurance Administration	\$3.5	\$4.1	\$0.6
Transfer to Agency for Health Care Administration	\$0.7	\$0.7	\$0.0
 TOTAL EXPENDITURES	 \$607.8	 \$560.7	 (\$47.1)
 NET INCOME (INCOME LESS EXPENDITURES)	 (\$83.3)	 (\$31.2)	 \$52.1
 ENDING BALANCE	 (\$28.7)	 \$59.7	 \$88.4



DEPARTMENT OF MANAGEMENT
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LAWTON CHILES, GOVERNOR


DIVISION OF STATE EMPLOYEES' INSURANCE

WILLIAM H. LINDNER, SECRETARY

November 9, 1994

MEMORANDUM

TO: State Employees' Health Insurance Trust Fund Consensus Estimating Conference Principals and Participants

FROM:  Jeff Dykes, State Benefits Administrator

SUBJECT: Analysis of the State Employees' Health Insurance Trust Fund

The State Employees' Health Insurance Trust Fund is projected to have a cash reserve balance of \$75.3 million as of 12/31/95. However, this reserve represents a cash balance and does not reflect estimated liabilities against the Trust Fund. Adjustments to the cash balance to include these liabilities provide a more accurate reflection of the projected status of the Trust Fund. The adjustments are as follows:

1. Claims Incurred but not Reported - Under the self-insured plan, an individual or a provider has 16 months to submit a claim for payment. The Department of Management Services (DMS) estimates that on 12/31/95, there will be \$41.0 million in outstanding claims which the State will be responsible for paying. This liability exists whether the State remains self-insured or moves to insured coverage.

If the State moves from self-insured to insured coverage under the Community Health Purchasing Alliances (CHPAs), administrative costs to be paid to Blue Cross and Blue Shield during the run-out period would be approximately \$3.5 million for processing the \$41.0 million in outstanding claims.

2. Outstanding Drafts - DMS estimates that there will be \$6.5 million in outstanding drafts that will clear the bank account after 12/31/95. These are drafts for claims that have been processed, but not presented for payment. This estimate would not be altered by moving from self-insured to insured coverage under the CHPAs.

3. Prepaid Premiums - Under the current system, a state employee is required to prepay his/her health insurance premium. For example, premiums are paid in December for January coverage. In accordance with this policy, on 12/31/95, there will be an estimated \$42 million in prepaid premiums deposited in the Trust Fund. This liability exists under the current system and would not be altered by moving from self-insurance to insured coverage under the CHPAs.

To assure that there would be no "speed up" of costs during the transition to CHPA plans, the State could specify in its Request For Proposal (RFP) that premium payouts will come at the end of the coverage month, as currently established.

The liabilities stated above would have the following effect on the State Employees' Health Insurance Trust Fund.

State Employees' Health Insurance Trust Fund

Estimated Cash Reserve Balance as of 12/31/95	\$ 75.3
Less Estimated Liabilities:	
Claims Incurred but not Reported	(41.0)
Blue Cross/Blue Shield Administration During Run-Out	(3.5)
Outstanding Drafts	(6.5)
Prepaid Premiums - (January coverage paid in December)	<u>(42.0)</u>
Estimated Adjusted Balance as of 12/31/95	\$ (17.7) =====

The estimated adjusted balance indicates that the projected cash in the State Employees' Health Insurance Trust Fund will not be sufficient to cover the estimated liabilities under the current system.

If you should have any questions, please call me at 921-4515.

JBD:dm

cc: Millie Seay

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