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MEMORANDUM

TO: Interested Parties

FROM: Pam Johnson 

SUBJECT: Results of the October 25 Consensus Estimating Conference on State Employees' Health Insurance

DATE: November 24, 1993

Attached for your information are the results of the October 25 Consensus Estimating Conference on State Employees' Health Insurance. The first two 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 \$56.8 million in 1993-94 and of \$12.2 million in 1994-95.

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 of 6/30/94, claims paid but not cleared as of 6/30/94, and prepaid premiums which would be necessary with a change in coverage to the alliances would amount to \$89.9 million. Subtracting this figure from the projected 1994-95 ending cash balance of \$12.2 million would leave a cash deficit of \$77.7 million which would have to be covered during 1994-95 in order to keep the Trust Fund solvent. The figure of \$77.7 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 Departments calculations of the outstanding liabilities are attached after the traditional conference tables.

Analysis of reserve balance of the State Employees' health Insurance Trust Fund

The reserve balance of the State Employees' Health Insurance Trust Fund is projected to be \$56.8 million as of 6/30/94. This figure represents a cash balance and does not reflect outstanding liabilities for the Trust Fund. Adjustments to the cash balance for the outstanding liabilities give a more accurate reflection of the status of the Trust Fund. The adjustments are listed below:

1. Claims Incurred But Not Reported- Under the self-insured plan, an individual or a provider has 16 months to submit claims for payment. The Department of Management Services (DMS) expects that on 6/30/94, there will be \$44.5 million in outstanding claims which the State is 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, then one can expect a final run-out period and the State will have to pay the outstanding claims equal to the \$44.5 million. The run-out period, however, does not represent a difference in costs under the current system versus the community health purchasing alliances. Rather, the State is paying off current outstanding liabilities. This is a cash flow issue only.

It should be noted that the administration costs during the run-out period should be less than current costs because Blue Cross/Blue Shield would be processing only the run-out claims and, given that 90 percent of the claims are processed within 60 days from the date the service was provided, the claims volume should drop considerably over the full run-out period.

2. Claims Paid But Not Cleared - DMS estimates that there will be \$6.5 million in outstanding checks that will clear after 6/30/94. These are checks for claims that have been processed, but not presented for payment. This figure would not be altered by moving from self-insured to insured coverage under the community health purchasing alliances.
3. Prepaid Premiums - Under the current system, a state employee is required to prepay the health insurance premium. Premiums are paid in June for July coverage. In accordance with this policy, on 6/30/94 there will be an estimated \$38.9 million in prepaid premiums deposited in the Trust Fund. This liability for the State exists under the current system and would not be altered by moving from self-insured to insured coverage under the community health purchasing alliances.

If the State chooses to purchase health care coverage from the community health purchasing alliances, it is not necessary to alter the current system in which the State receives prepayments from state employees but does not pay providers until the end of the coverage month. The State can specify in its Request for Proposal that payment will come at the end of the coverage month. In this case, there would be no "speed up" of costs during June 1993.

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

	July 1993 Estimate	Oct 1993 Estimate	Diff.
BEGINNING BALANCE	\$39.9	\$56.8	\$16.9
<u>INCOME</u>			
Retired Teachers Appropriation	\$3.9	\$3.9	\$0.0
Premiums--State	\$357.9	\$355.5	(\$2.4)
Premiums--Employees	\$92.5	\$91.8	(\$0.7)
Premiums--Medicare Patients	\$23.0	\$22.1	(\$0.9)
Premiums--Other Non-employees	\$15.7	\$15.5	(\$0.2)
Interest	\$1.5	\$1.5	\$0.0
Transfer from Pretax Trust Fund	\$10.0	\$9.5	(\$0.5)
Other (COB's, audits and overpayment returns)	\$9.5	\$9.5	\$0.0
 TOTAL INCOME	 \$514.0	 \$509.3	 (\$4.7)
<u>EXPENDITURES</u>			
Blue Cross/Blue Shield Administered Claims	\$385.9	\$335.5	(\$50.4)
Prescription Drug Program Claims and Administration *	\$52.6	\$48.5	(\$4.1)
HMO Payments	\$137.8	\$155.0	\$17.2
Blue Cross/Blue Shield Administration	\$10.9	\$10.7	(\$0.2)
Division of State Employees' Insurance Administration	\$3.5	\$3.5	\$0.0
Transfer to Agency for Health Care Administration	\$0.0	\$0.7	\$0.7
 TOTAL EXPENDITURES	 \$590.7	 \$553.9	 (\$36.8)
 NET INCOME (INCOME LESS EXPENDITURES)	 (\$76.7)	 (\$44.6)	 \$32.1
 ENDING BALANCE	 (\$36.8)	 \$12.2	 \$49.0

The liabilities stated above would adjust the cash balance of the State Employee Health Insurance Trust Fund as follows:

State Employees' Health Insurance Trust Fund

Cash Balance as of 6/30/94	\$ 56.8 m
Less:	
Claims Incurred But Not Reported (as of 6/30/94)	(44.5 m)
Claims Paid But Not Cleared (as of 6/30/94)	(6.5 m)
Prepaid Premiums - (July coverage paid in June)	<u>(38.9 m)</u>
Ending Reserve Balance	(\$33.1 m)

The adjusted reserve balance indicates that the cash in the State Employees' Health Insurance Trust Fund is not sufficient to cover the liabilities under the current system. Further, if the current system is maintained for another year and no changes are made, the Consensus Estimating Conference projects that health insurance expenditures in 1994-95 will exceed the additional revenues by \$ 44.6 million. This will result in a deficit in the reserve balance of \$77.7 million.

Under the terms specified in the Health Care and Insurance Reform Act of 1993 (Chapter 93-129, Laws of Florida), the Agency for Health Care Administration is authorized to purchase health coverage for state employees as long as the benefits are not reduced and the costs are not increased. The goal in 1994-95 is to reduce the expenditures in the State Employee Health Insurance Program in order to reduce the projected loss of \$44.6 million.

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