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Shawn Sullivan, Director of the Budget

Sam Brownback, Governor

February 15, 2017

The Honorable Larry Campbell, Chairperson
House Committee on K-12 Education Budget
Statehouse, Room 286-N
Topeka, Kansas 66612

Dear Representative Campbell:

SUBJECT: Fiscal Note for HB 2142 by House Committee on K-12 Education Budget

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2142 is respectfully submitted to your committee.

HB 2142 would require the Kansas State Employees Health Care Commission to develop and provide the implementation and administration of a unified school district (USD) employee healthcare benefits program. The Commission would establish conditions, restrictions, limitations and exclusions for designating people qualified to participate in the program.

For the health plan coverage commencing January 1, 2019, and each year going forward, all school district employees would be qualified to participate in the USD health care program. School district employees would only be eligible to elect a high-deductible health plan with a health savings account. If an employee has not previously participated in the USD health care program, the employer would calculate the average savings to the employer of the high-deductible plan compared to the previous health benefit plan and contribute that amount monthly to the employee’s health care savings account, up to the maximum allowed by federal law. In addition, the employer would allow additional voluntary contributions by the employee to the account, up to the maximum allowed by federal law.

The bill would prohibit any school district to offer any health plan in lieu of the USD employee health care program administered by the state. However, a district may offer supplemental health coverage in addition to the plan provided by the state. USD employees would only be eligible for the supplemental coverage if the employee elects to participate in the USD health care benefits program.

The bill would make participation in the USD employee health care benefits program by district employees voluntary and the cost of the program would be established by the Commission. The bill would allow for periodic deductions from school district payrolls with procedures prescribed by the State Board of Education to cover the costs of the program. All payments would be remitted to the Commission in accordance with rules and regulations adopted by the Commission. All costs for administering the program by the Commission would be paid by school districts. The bill would also authorize the Department of Administration’s Director of Accounts and Reports to make deductions from state retirement payments or other benefit payments to retired school district employees who are qualified to participate in the USD employee healthcare benefits program.

To estimate the potential fiscal effect for the enactment of HB 2142, the Division of the Budget reviewed two publications that examine the state consolidation of USD healthcare plans.

In October of 2015, the Kansas Legislature retained the firm of Alvarez & Marsal (A&M) to engage in a formal review of state operations and spending to identify potential savings and efficiencies. Through this effort, the Legislature released an efficiency analysis report titled *Kansas: Statewide Efficiency Review*. In this report, A&M identified potential statewide savings of approximately $80.0 million a year when fully implemented, if all school districts would consolidate health insurance plans in the State Employee Health Plan (SEHP) using only a high-deductible plan. The report noted that the Kansas Department of Health and Environment (KDHE) would require between 10.0 and 15.0 FTE positions to administer the consolidated program, with estimated costs between $500,000 and $750,000 each year. In *The FY 2018 Governor's Budget Report*, the Governor included anticipated USD healthcare consolidation savings totaling $40.0 million in FY 2018 and $80.0 million in FY 2019 through reduced General State Aid payments. However, no additional expenditures for administration were included for KDHE.

On February 8, 2018, the Legislative Division of Post Audit released its performance audit report titled *K-12 Health Insurance: Evaluating the Financial Impact of Establishing a Consolidated K-12 Health Insurance Plan*. In this report, the actuarial firm Segal Consulting, in conjunction with the Kansas Department of Health and Environment, examined 101 districts which represented 73.0 percent of all USD healthcare expenditures statewide during the 2014-2015 school year. The actuary used sample data to estimate savings related to the administrative efficiencies and changes to employee coverage and contributions with these 101 districts joining a non-state employee pool within the SEHP. Depending on the plan design, consolidating K-12 health insurance plans for the 101 districts in the sample could save an estimated $63.0 million a year, including $38.0 million in savings through increased plan efficiencies and $25.0 million resulting from districts shifting healthcare costs to employees.

As identified in the LPA performance audit report, the following are the main differences between the two cost savings estimates of A&M and Segal Consulting:

1. A&M based its savings estimate on a sample of 15,500 district employees, where Segal Consulting sample included approximately 40,000 district employees;
2. A&M assumed its sample was representative of all districts and projected savings accordingly, while Segal Consulting savings estimate is specific to the 101 sampled districts;
3. A&M assumed that all district employees would join a high-deductible health plan, while Segal Consulting assumed a blend of standard and high-deductible health plans;
4. A&M included a one-time cost of $500,000 to perform an actuarial study of existing K-12 plans to develop a refined cost and savings estimate and an ongoing estimate of up to $750,000 a year in costs to administer the consolidated USD health benefits program, where Segal Consulting did not account for the administration costs.

The Division of the Budget estimates that HB 2142 would likely generate savings between the savings identified by Segal Consulting in the LPA performance audit report and the savings identified by A&M, or somewhere between $63.0 million and $80.0 million. However, these savings would not begin until FY 2019, as the bill would not be in effect until the health plan coverage year commencing January 1, 2019, and would only have six months of savings in FY 2019. In addition, the way the savings are utilized in HB 2142 would be different than what was assumed in *The FY 2018 Governor's Budget Report.* The bill would require any savings generated by an employee of a district using the consolidated high-deductible plan from the district's prior health insurance plan to be deposited monthly in an employee's health savings account, up to the maximum allowed by federal law. Also, as noted in the LPA performance audit report, not all school districts would experience savings by participating in a consolidated USD healthcare program. As a result, the Division of the Budget estimates the bill would not generate any savings benefitting the state, as included in *The FY 2018 Governor's Budget Report*.

The Division of the Budget notes for the 2017 plan year, the maximum annual contribution to an individual's health savings account is $3,400 for single coverage and $6,750 for dependent coverage. These maximums apply to the sum of the employee and employer contributions. Employees ages 55 and over can make additional "catch up" contributions of up to $1,000 to a health savings account each year, until enrolled in Medicare. These maximums can be increased each year under IRS regulations; however the annual maximum contribution for the 2019 plan year with HB 2142 is not known.

In addition, KDHE indicates that it would require administrative costs totaling $675,000 in FY 2019 and $1,377,000 in FY 2020 and $1,404,540 in FY 2021, as well as 15.0 FTE positions each year. For FY 2019, the estimated cost of $675,000 includes the salary, benefits and overhead costs for the 15.0 FTE positions totaling $90,000 per FTE position for six months ($90,000 X 15.0 FTE positions X 0.50 year = $675,000). For FY 2020, the estimated cost per FTE position increases to $91,800 with a full year of expenditures totaling $1,377,000 ($91,800 X 15.0 FTE positions = $1,377,000). For FY 2021 the estimated cost increases to $93,636 per FTE position, for a total cost of $1,404,540 ($93,636 X 15.0 FTE positions = $1,404,540). The increased FTE position cost each year is based on fringe benefit and overhead costs increases. KDHE states that the costs would be paid with administrative fees charged to school districts participating in the program. The Division of the Budget notes that administrative costs for KDHE have not been included in *The FY 2018 Governor's Budget Report.*

Sincerely,

Shawn Sullivan,
Director of the Budget

cc: Dan Thimmesch, Health & Environment
Dale Dennis, Education