

OFFICE OF FISCAL ANALYSIS

Legislative Office Building, Room 5200

Hartford, CT 06106 ◊ (860) 240-0200

<http://www.cga.ct.gov/ofa>

SB-1004

AN ACT CONCERNING PUBLIC INSURANCE OPTIONS FOR
SMALL BUSINESS EMPLOYEES.

OFA Fiscal Note

State Impact:

Agency Affected	Fund-Effect	FY 20 \$	FY 21 \$
Comptroller; State Comptroller - Fringe Benefits ¹	GF - Potential Cost	At least \$200,000	None
State Comptroller - Fringe Benefits (State Employee and Retiree Health Program)	GF&TF - See Below	See Below	See Below
University of Connecticut	Operating Funds - See Below	See Below	See Below
Dept. of Revenue Services	GF-Potential Revenue Loss	See Below	See Below

Note: GF=General Fund; GF&TF=General Fund & Transportation Fund

Municipal Impact:

Municipalities	Effect	FY 20 \$	FY 21 \$
Various Municipalities Participating in the Partnership Plan	See Below	See Below	See Below

Explanation

The bill will result in the fiscal impact described below to the Office of the State Comptroller (OSC), the state employee and retiree health plan, the University of Connecticut, municipalities participating in the Partnership Plan, and the Department of Revenue Services. The fiscal

¹The fringe benefit costs for most state employees are budgeted centrally in accounts administered by the Comptroller. The estimated active employee fringe benefit cost associated with most personnel changes is 41.19% of payroll in FY 20 and FY 21.

impact is related to the following: (1) additional staff and administrative expenses for OSC, (2) impact to the existing pool's claims experience, (3) impact to Partnership Plan premiums, (4) potential costs associated with Employee Retirement Income Security Act (ERISA), and (5) potential General Fund revenue loss from the Insurance Premium tax.

Additional Staff and Administrative Costs

The Comptroller may require two additional Retirement and Benefits Officers to support certain small employers who join the state employee and retiree health plan. The total annualized salary and fringe benefit costs associated with two additional positions is approximately \$178,500.² In addition, there may be administrative costs related to actuarial services to evaluate a small employer's risk, member support and outreach for participating entities prior to administrative fees being realized by OSC. The cost to the state for any additional staff or expenses is anticipated to be offset after administrative fees are received by OSC in accordance with the bill, whereby "administrative costs shall not be paid by the state".³

Impact to the Existing Pool and the Partnership Plan

The state employee and retiree health plan (excluding the Medicare Advantage Plan for employees and dependents age 65 and older) is a self-insured plan. The bill does not provide OSC the discretion to vary the plan design or provide a fully insured product to small employers. Currently, state employees, retirees, unionized graduate assistants at the University of Connecticut, municipalities participating in the Partnership Plan, and all eligible dependents are pooled into a single risk pool. Premiums for the state employee and retiree health plan and the Partnership Plan are calculated based on the risk profile of the single pool. To the extent small employers are pooled with the existing risk pool, there could be an impact to the state, participating

² Based on entry level annual salary for a retirement benefits officer of approximately \$63,200.

municipalities and the University of Connecticut. For reference there are approximately 128,000 small employers with 100 or less employees in the state employing a total of approximately 500,000 employees.⁴ The bill requires the rates paid by state for state employees' not be adversely impacted, however as a self-insured pool, the state bears the risk for costs incurred in excess of plan premiums. The state does not current have stop-loss insurance. The impact to the state and Partnership Plan will depend on the risk profile of participating entities and how their risk is pooled.

There is no impact to the Municipal Employee Health Insurance Plan (MEHIP) from removing small employers from coverage. MEHIP is a fully-insured health insurance plan wherein each participating employer is underwritten independently and the total cost of the program is support by plan premiums.

Employee Retirement Income Security Act (ERISA) Impact

As a self-insured governmental plan, the state plan is exempt from US Department of Labor ERISA regulations. To the extent small employers are pooled with the state employee plan the state plan could lose its ERISA exemption.⁵ Under ERISA, the state would have to comply with fiduciary standards, reporting and disclosure requirements. Failure to comply with ERISA could subject the state to financial penalties and "gives participants the right to sue for benefits and breaches of fiduciary duty".⁶

⁴ Source: (1) Connecticut Small Business Profile, 2018. US Small Business Administration Office of the Actuary. (2) US Census (census.gov).

⁵The issue was pursued by the Malloy Administration in 2012 with regards to the Partnership Plan allowing small employers to pool with the state plan. <https://www.dol.gov/agencies/ebsa/employers-and-advisers/guidance/advisory-opinions/2012-01a>

⁶ Source: US Department of Labor: <https://www.dol.gov/general/topic/health-plans/erisa>

Loss of Revenue

Pursuant to CGS Sec. 12-202 carriers pay an Insurance Premiums Tax to the state of 1.5% on all net direct premiums underwritten. To the extent eligible small employers shift participation from fully-insured commercial health plans or no longer purchase stop-loss coverage for their self-insured plan into the plan offered through OSC, the state will experience a General Fund revenue loss. The state collected \$209 million from the Insurance Premiums Tax in FY 18.⁷

The Out Years

The annualized ongoing fiscal impact identified will continue into the future based on (1) the impact to claims experience for the state and the Partnership Plan from participating entities, (2) administrative costs associated with ERISA, and (3) the impact to Insurance Premium Tax revenue.

⁷ Source: Dept. of Revenue Services Annual Report (2018).