

JLBC MEETING

At its May 25th meeting, the Joint Legislative Budget Committee considered the following issues:

Department of Administration – Review of Self-Insurance for State Employee Health Insurance –

The Committee gave a favorable review of the Department of Administration's (ADOA) plan to self-insure state employee health benefits. The favorable review included the following conditions: 1) that ADOA report to the Committee on whether final negotiated integrated rates are lower than current estimates; 2) that ADOA report to the Committee on what performance measures they will establish to evaluate the new contracts; 3) that ADOA report quarterly to the Committee on the implementation of self-insurance including feedback from state employees and retirees; 4) that ADOA should structure the contribution strategy to treat the administrative costs of integrated contracts nearly the same as non-integrated contracts.

ADOA's proposal is to move from a fully insured system for state employee health insurance benefits to a self-insured system, where the state assumes the risks associated with providing health care coverage to its employees. ADOA was required to self-insure by October 1, 2003. Due to concern that there was insufficient time to implement self-insurance by the October 1 deadline, Laws 2003, Chapter 2 removed the deadline but established language allowing the department to self-insure upon review of the Committee.

Self-insured and fully-insured options have comparable direct costs in FY 2005. Actuarial analysis (contracted by ADOA) has determined that administrative costs under self-insurance are lower than under the state's fully insured contract, which would be offset by the need to establish a \$50 million reserve under the self-insurance option. ADOA actuaries believe that administrative costs in the long run under self-insurance (5% growth) will rise less quickly than administrative costs under a fully integrated system (14% growth). This savings could reach \$40 million by FY 2009. CIGNA, the company that has the current state employee health insurance contract, disputes this analysis.

ADOA had originally proposed non-integrated multiple vendors, and had issued an RFP for these contracts. A non-integrated plan would allow vendors to bid on 5 contracts separately on distinct components – medical services, pharmacy benefits, utilization review/disease management, stop-loss insurance and a third party administrator. There was concern, however, that there was no integrated option, in which one company would provide all of these services for the entire network. As a result, ADOA issued an RFP in April for an integrated plan.

Subsequent to the May 25th meeting, ADOA has moved forward on awarding various contracts for state-employee health care benefits. Contracts were awarded by geographic area and type of plan.

- Employees in Maricopa, Gila, Pinal, Pima and Santa Cruz Counties have a choice between 3 non-integrated and 1 integrated plan.
- Employees in all other counties have only 2 non-integrated plans to choose from.
- Employees will be required to pay \$10 more per month if they select an integrated plan (ADOA had originally proposed a \$15 differential) than a non-integrated plan.
- Walgreen's Health Initiative will be the pharmacy manager. Walgreens, however, is contracting with non-Walgreen pharmacies throughout the state.
- Patients will be able to see more specialists without first seeing a primary care physician than under the current contract.

Department of Economic Security – Approval of Transfer of Appropriations for TANF Cash Benefits – The Committee favorably reviewed the Department of Economic Security's (DES) plan to transfer \$6.5 million of federal Temporary Assistance for Needy Families (TANF) Block Grant monies from the JOBS Special Line Item (SLI) into the TANF Cash Benefits SLI.

This transfer was temporary and was reversed once FY 2004 supplemental funding for TANF Cash Benefits became available to the agency.