LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 79TH LEGISLATIVE REGULAR SESSION

April 25, 2005

TO: Honorable Robert Duncan, Chair, Senate Committee on State Affairs

FROM: John S. O'Brien, Deputy Director, Legislative Budget Board

IN RE: **SB1513** by Averitt (Relating to the creation, powers, and duties of the health insurance division of the Texas Department of Insurance.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for SB1513, As Introduced: a negative impact of ($8,735,167) through the biennium ending August 31, 2007.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2006	($6,617,925)
2007	($2,117,242)
2008	($913,378)
2009	($913,378)
2010	($913,378)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from *GENERAL REVENUE FUND* 1	Probable Savings/(Cost) from *OTHER FUNDS* 997
2006	($6,617,925)	($2,205,975)
2007	($2,117,242)	($705,747)
2008	($913,378)	($304,459)
2009	($913,378)	($304,459)
2010	($913,378)	($304,459)

Fiscal Analysis

The bill would transfer administration of the group health insurance programs run by the Employees Retirement System (ERS), the Teacher Retirement System (TRS), the University of Texas System (UT), and the Texas A&M University System (TAMU) to a new division within the Texas Department of Insurance (TDI). In each case there would remain some degree of retained responsibility for the programs with the originating agency. UT and TAMU would jointly administer with TDI the programs currently administered by UT and TAMU. ERS would retain determination of eligibility and the ability to appoint an advisory committee. TRS would retain a requirement for the Retirees Advisory Committee, which recommends plan design features to the trustee.

Article 2 of the bill would require TDI to collect demographic data on the number of uninsured Texans.

The act would take effect September 1, 2005.

Methodology

TDI currently does not administer any health insurance plans; it regulates them. The regulation could present a conflict of interest to the extent this division with TDI would be contracting directly with entities TDI regulates, especially Health Maintenance Organizations (HMOs). Currently, other than HMOs, the health plans affected by this proposal are self-funded.

TDI would have to implement a substantial program to perform health plan administration for the various plans. It is assumed that the various programs could be administered at a per-enrollee cost similar to the state's largest program, which is administered by ERS. This would be roughly equivalent to assuming current costs at the originating agencies would be able to fund ongoing costs at TDI, with the exception of certain start-up costs. There may be some costs, which are currently contracted out that would be done in house, or vice versa, but ongoing administrative costs are not estimated to be significantly different than the current totals. Each plan would remain separate, as would its funding stream, as would the responsibility of advisory committees to determine basic plan design features, though TDI would have ultimate responsibility for ERS and TRS programs. So TDI may have to bid the administration of each plan separately. Note that administrative costs are well below 1 percent of program costs.

The costs shown in the fiscal note are the start-up costs for the Texas Department of Insurance. These reflect the costs of a migration team, servers, other hardware, and software costs. The majority of costs for the 2006-07 biennium would be hardware and software costs and are estimated to be a one-time cost of $7,059,900. FTE and budget reductions at other agencies for ongoing costs would be equivalent to FTE and budget increases at TDI, so the net effect would be zero and is not shown.

For each system, there would be some degree of retained administrative responsibility, ranging all the way up to joint responsibility with TDI. This may lead to some duplication of effort, actually increasing total administrative costs. ERS states there would be some additional costs to its remaining programs, including the retirement programs, relating to certain fixed costs for overhead and support functions.

The greatest potential from any savings would be from a reduction in the basic costs of self-funded health care, which runs several billion dollars a year. However, the majority of covered lives are already agglomerated for the purposes of determining provider and network discounts; and the other self-funded plans are also part of larger networks. There would be no clear reason to anticipate a significant reduction in costs just because one entity bid for the administration of the various plans.

Local Government Impact

No significant fiscal implication to units of local government is anticipated.

Source Agencies: 308 State Auditor's Office, 323 Teacher Retirement System, 327 Employees Retirement System, 454 Department of Insurance, 529 Health and Human Services Commission, 696 Department of Criminal Justice, 710 Texas A&M University System Administrative and General Offices, 720 The University of Texas System Administration

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