

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 81ST LEGISLATIVE REGULAR SESSION

March 31, 2009

TO: Honorable John T. Smithee, Chair, House Committee on Insurance

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

IN RE: HB2470 by Gattis (Relating to the establishment of the Texas Mutual Health Benefit Plan Company.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB2470, As Introduced: a negative impact of (\$190,073,809) through the biennium ending August 31, 2011.

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
2010	(\$1,439,953)
2011	(\$188,633,856)
2012	(\$14,039,543)
2013	(\$15,092,508)
2014	(\$16,224,447)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/ (Cost) from <i>General Revenue Fund</i> 1	Probable Savings/ (Cost) from <i>GR Dedicated Accounts</i> 994	Probable Savings/ (Cost) from <i>Federal Funds</i> 555	Probable Savings/ (Cost) from <i>Other Special State Funds</i> 998
2010	(\$1,439,953)	(\$87,912)	(\$491,827)	(\$12,596)
2011	(\$188,633,856)	(\$11,516,414)	(\$64,429,396)	(\$1,650,033)
2012	(\$14,039,543)	(\$857,138)	(\$4,795,318)	(\$122,808)
2013	(\$15,092,508)	(\$921,423)	(\$5,154,966)	(\$132,018)
2014	(\$16,224,447)	(\$990,530)	(\$5,541,589)	(\$141,920)

Fiscal Year	Probable Savings/ (Cost) from <i>State Highway Fund</i> 6
2010	(\$467,712)
2011	(\$61,270,301)
2012	(\$4,560,194)
2013	(\$4,902,209)
2014	(\$5,269,874)

Fiscal Analysis

The bill would amend the Insurance Code to create the Texas Mutual Health Benefit Plan Company, a mutual health insurance company operating under Chapter 883 of the Insurance Code, which governs mutual insurance companies. The company's board of directors would be comprised of the Executive Director of the Employees Retirement System (ERS), the Executive Director of the Teacher Retirement System (TRS), and seven members appointed by the Governor. The Executive Directors of ERS and TRS would be co-presiding officers of the board. The bill would also establish the Texas Mutual Health Benefit Company Implementation Committee, which would evaluate and make recommendations concerning the establishment and operation of the company.

The bill would take effect September 1, 2009, with the company to be fully operational by January 1, 2012.

Methodology

The bill would require ERS to apply to the company for the provision of health benefit plan coverage for some or all individuals covered by the Group Benefits Plan (GBP) under Chapter 1551. The bill authorizes other entities, such as TRS, the Texas A&M University System, and The University of Texas System, to apply for coverage by the company.

It is assumed that the company would maintain capitalization of at least 200 percent of minimum risk based capital, which is the “no-action” level recommended by the National Association of Insurance Commissioners. It is also assumed that ERS would be the only entity purchasing coverage through the company. With the GBP as the only policyholder, the ERS actuary for insurance estimates the amount of capitalization that is required prior to the start of operations is approximately \$325 million. Additional start-up costs are estimated to be a minimum of \$5 million incurred in fiscal year 2010 and fiscal year 2011. The method of finance used for the initial capitalization is the same as used for the funding of ERS participants' health insurance costs. This would likely be reasonable; however there is some precedent for the federal government to balk at significant one-time expenditures, so General Revenue Funds could have to substitute for the Federal Funds in the initial capitalization. It is assumed that capitalization costs would increase at the same rate as the GBP health plan benefit cost trend of 7.5 percent.

ERS has estimated that additional costs would be incurred due to lack of competitive bidding for ERS administrative operations, their provider network, and the Pharmacy Benefits Manager contract. Additionally, annual risk premiums would be charged. These estimated costs are \$20 million a year greater than is shown in the fiscal note. Most of the net increase in risk premium charges are shown as increases in the capitalization charges and included in the fiscal note. There is some risk that administrative costs would be higher under the mutual insurance company design; however, ERS's greater concern is the ability of the mutual insurance company to negotiate with providers as effectively as the current arrangement of ERS partnered with Blue Cross Blue Shield.

TRS reports that any costs related to service on the Implementation Committee and the Board of Directors would be minimal and could be absorbed within the current administrative budget. The Texas A&M System reports that the bill would not have a fiscal impact on the system.

The Texas Department of Insurance (TDI) reports that an additional 1/4 full-time-equivalent position (FTE) Attorney IV would be required for: rule development for implementation of the bill; legal assistance to address inquiries and other matters arising from implementation and other changes to the health benefit plan issuance process, as well as the review and hearings process associated with the Plan of Operation for the company; development and completion of any necessary other-or-ancillary rule amendments; and assistance in drafting and/or reviewing any bulletins that might be necessary. It is expected that the costs associated with this 1/4 FTE could be absorbed by TDI.

Local Government Impact

The bill would allow a political subdivision or an independent school district to apply to the company for the provision of health benefit plan coverage. The costs to a local governmental entity would vary

depending on an entity's decision to apply for a health benefit plan from the company, and the rates the company sets for the insurance coverage.

Source Agencies: 323 Teacher Retirement System, 327 Employees Retirement System, 454 Department of Insurance, 710 Texas A&M University System Administrative and General Offices, 720 The University of Texas System Administration

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