Legislative Analysis

ALLOW PUBLIC EMPLOYER POOLED HEALTH PLAN TO USE LOWER CASH RESERVE REQUIREMENT

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Senate Bill 43 as passed by the Senate
Sponsor: Sen. Goeff Hansen
House Committee: Insurance
Senate Committee: Insurance
Complete to 5-3-17

(Enacted as Public Act 55 of 2017)

SUMMARY:

Under the Public Employees Health Benefit Act public employers can join together to create a public employer pooled plan (a PEPP) to provide medical, vision, and dental benefits to public employees. These plans are required to maintain minimum cash reserves and are allowed to use a letter of credit to satisfy the reserve requirement. Senate Bill 48 would amend the act to allow a pooled plan to use a lower alternative cash reserve requirement but would not allow this requirement to be met with a letter of credit.

Specifically under the bill, a pooled plan that had operated for at least five years could elect to maintain minimum cash reserves in an amount equal to 2.5% of the preceding year's claims plus its most recent designated reserve for incurred but not reported claims, as indicated in its annual financial statement filed with the Director of the Department of Insurance and Financial Services.

Currently, a pooled plan must maintain minimum cash reserves of at least 25% of the aggregate contributions in the current fiscal year or, in the case of new applicants, 25% of the aggregate contributions projected to be collected during its first 12 months of operation, as applicable; or at least 35% of the claims paid in the preceding fiscal year, whichever is greater.

MCL 124.79

FISCAL IMPACT:

The bill would reduce costs for local units of government associated with a Public Employer Pooled Plan (PEPP) under the Public Employees Health Benefit Act by lowering the calculated statutory cash reserve amount that must be held by a PEPP. Assuming a PEPP currently satisfied a portion of its statutory cash reserve with a line of credit, the PEPP would realize fee and interest savings if it chose the alternative statutory cash reserve under the provisions of the bill. The magnitude of any fiscal impact would depend on the existing PEPP's level of reserves compared to the alternative cash reserve calculation and the costs incurred by the PEPP for carrying a line of credit to satisfy the statutory cash reserve requirement. To qualify for the alternative cash reserve requirements, a PEPP must have been in operation for at least five years.

Today, the West Michigan Health Insurance Pool (WMHIP) is the only PEPP to operate under the Public Employees Health Benefit Act. According to the Department of Insurance and Financial Services, the provisions of the bill would authorize WMHIP to lower its statutory cash reserve amount from its currently level of $13.8 million to approximately $4.8 million; a difference of $9.0 million. In addition, WMHIP would realize interest and fee savings that it annually incurs on its line of credit used to satisfy its current statutory cash reserve requirement if it elected the alternative statutory cash reserve requirement under the provisions of the bill. WMHIP has indicated these costs can exceed $100,000 annually.

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