Senate Fiscal Agency
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BILL ANALYSIS

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Senate Bill 43 (as enacted)
Sponsor: Senator Goeff Hansen
Senate Committee: Insurance
House Committee: Insurance

PUBLIC ACT 55 of 2017

Date Completed: 6-27-17

RATIONALE

The Public Employees Health Benefit Act allows public employers to join with other public employers to establish and maintain a public employer pooled plan to provide medical, optical, or dental benefits to public employees. These pooled plans are required to maintain minimum cash reserves and are allowed to use a letter of credit to satisfy the reserve requirement. Evidently, some people believe the cash reserve amount that pooled plans are required to maintain is excessive for a mature plan, and that the letter of credit is unnecessary. It was suggested that decreasing the required reserve amount and eliminating the letter of credit for the reduced reserve would lower costs.

CONTENT

The bill amends the Public Employees Health Benefit Act to establish a minimum cash reserve that a public employer pooled plan established on or after October 1, 2007, may elect to maintain as an alternative to the minimum reserve currently required, and prohibit a pooled plan from satisfying the alternative reserve requirement with a letter of credit.

The bill will take effect on September 13, 2017.

The Act provides that, subject to collective bargaining requirements, a public employer may provide medical, optical, or dental benefits to public employees and their dependents by a number of methods, including by joining with other public employers and establishing and maintaining a pooled plan to provide the benefits to at least 250 public employees on a self-insured basis.

In addition to meeting other requirements, a pooled plan established on or after October 1, 2007 (the effective date of the Act) must establish and 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.

Under the bill, as an alternative, a pooled plan that has operated for at least five years may 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.

The Act allows a pooled plan to use an irrevocable and unconditional letter of credit to satisfy up to 100% of the reserve requirement in the first year of operation, up to 75% in the second year, and up to 50% in the third and subsequent years. The bill prohibits a pooled plan that elects the alternative minimum cash reserve from satisfying any portion of the reserve requirement with a letter of credit.

MCL 124.79

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

The law requires an arbitrary reserve amount that equates to 500% of what is actuarially required for, and five times more than what is needed by the West Michigan Health Insurance Pool (WMHIP), the only pooled plan operating under the Act. This has resulted in additional expenses to member organizations that have had to pay excessive premiums in order to maintain an unreasonable balance, as well as waste money on an unnecessary letter of credit. According to testimony on behalf of the WMHIP, most of the organizations in the pooled plan never used the letter of credit because it could have affected their credit ratings. The amendments will maintain a high level of security, assist in creating a more efficient solution for the public sector and taxpayers, and not affect members' health care benefits.

Opposing Argument

The Department of Insurance and Financial Services estimates that the West Michigan Health Insurance Pool has been required to hold reserves equaling approximately $13.8 million. According to the Department, the amendments will reduce the statutory reserve amount to about $4.8 million, equivalent to approximately one month of claims. Reducing the financial requirements for a pooled plan might pose a financial risk to employers participating in the pool and to the insured individuals covered by it. School districts and other public employers could be financially responsible for paying claims in the event that a pooled plan went out of business. If public employers do not immediately have the financial means to cover claims, the insured individuals might begin receiving bills for health care services. Also, the changes will apply to any pooled plan that is created in the future, after it operates for five years, and there is nothing to guarantee that any future pooled plan will be run with the same financial responsibility as the WMHIP.

Legislative Analyst: Stephen Jackson

FISCAL IMPACT

The bill will reduce the costs of a local government that participates in a public employer pooled insurance plan that adopts the reduced reserve requirements authorized by the bill. Funds currently used for reserve requirements will become available for other operating purposes and savings will be realized if the public employer pooled plan no longer has to obtain a letter of credit to satisfy a portion of the reserve requirements. The fiscal impact on a local unit of government that participates in a public employer pooled plan will depend on the decision to operate under the alternative reserve requirement, the prior level of reserves, and the extent to which the reserve requirement was satisfied by a letter of credit.

For the West Michigan Health Insurance Pool (which includes school districts, cities, community colleges, and other local employers), the statute requires 35% of the prior-year claims in the reserve. The bill will require roughly 10.5% of the prior-year claims (which is a combination of the average 8% reserve requirement to pay for claims incurred but not reported that the Pool is currently experiencing, plus the 2.5% of prior-year claims reserve requirement). With the 2014-15 claims totaling roughly $40.0 million, this difference in the reserve requirement will be approximately $10.0 million. (Under current statute, 35% means a $14.0 million reserve requirement, and approximately 10.5% under the bill means a $4.5 million reserve requirement.) Of the $10.0 million, $7.0 million will have otherwise been satisfied by a letter of credit and the remaining $3.0 million will have been satisfied by cash from the employers. In addition, the Pool will save on the bank fees associated with having an open letter of credit (currently between $60,000 and $100,000).

Fiscal Analyst: Elizabeth Pratt
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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.