

FISCAL NOTE
LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES (See narrative for political subdivision estimates)				
	FY 2017-18		FY 2018-19	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS	\$4,152,038		See Below	
CASH FUNDS	\$71,717		See Below	
FEDERAL FUNDS	\$42,445		See Below	
REVOLVING FUNDS	\$26,890		See Below	
TOTAL FUNDS	\$4,293,090		See Below	

Any Fiscal Notes received from state agencies and political subdivisions are attached following the Legislative Fiscal Analyst Estimate.

LB 604 is the Nebraska Right to Shop Act which applies to health insurance carriers in the state which elect to be subject to the act and also to the State of Nebraska. The act requires insurers participating in the act to disclose the allowed amount for a nonemergency admission, procedure or service within three working days. The information provided to a patient or prospective patient by the insurance carrier shall identify out-of-pocket costs. The information may be provided through a web site or toll-free number. Insurance carriers must establish an interactive mechanism on a web site to enable an insured to obtain information about the cost of a particular health care service in order to compare costs among network providers.

Insurers are also required to develop and implement a program which provides incentives for insureds who opt for services from network providers that charge less than the average price paid by the insurer for that health care service. Insureds are to receive at least 50% of the insurer's saved costs for each service which is chosen by the insured. The savings is not credited to the insured if it is \$50 or less. Incentives for the use of out-of-network providers are also allowable as a credit toward the insured's member cost sharing as specified in the health care plan. Incentives are not considered to be an administrative expense for rate development or rate filing purposes.

Insurance carriers, with the exception of the State of Nebraska, must file a description of the program with the Department of Insurance (DOI) prior to offering the program. Additional information regarding incentive payments and savings must be filed annually with the DOI. The DOI is to file an annual report for all insurance carriers. The State of Nebraska is to submit to information to the Legislature on an annual basis.

Department of Insurance Expenditures: The Department of Insurance indicates that any workload increase associated with the bill can be handled with existing staff and resources.

State of Nebraska Employee Health Insurance Plan: The Department of Administrative Services (DAS) indicates the bill will increase administrative expenditures for the state employee health insurance plan. The current plan does not have a component allowing the comparison of rates charged by providers for non-emergency services and procedures. Likewise, there is no ability to calculate savings for plan participants or to calculate and payout incentives as required by the bill.

DAS indicates the state has a self-funded insurance plan and will need to contract with a vendor to develop and administer a cost comparison and incentive payment program. The estimated increase in premium costs for the new system is \$371,000 per year. The state will pay 79% of the cost (\$152,038 General Funds, \$71,717 Cash Funds, \$42,445 Federal Funds, and \$26,890 Revolving Funds) and state employees will pay 21% of the cost (\$77,910). The DAS Employee Wellness and Benefits Program will need a \$371,000 Cash Fund appropriation to fund the increased vendor expense.

The fiscal impact of the requirement to pay incentives to employees for half of the amount "saved" by using a less costly provider is difficult to estimate. Since the state employee health plan is self-insured and the bill provides that the amount of incentives are not to be used to develop rates for the plan, then funds other than premiums paid for the plan will need to be available for incentive payments. DAS estimates \$3,000,000 of general funds will need to be set-aside in the initial year for this purpose. This is approximately 2% of annual medical claims. It is unknown if this amount will overfund or underfund incentives. It is also unknown how often the fund will need to be replenished for future incentive payments.

It is assumed the incentives in the bill for employees to opt for lower cost non-emergency services will at some point in time result in lower premium rates for the state employee health benefit plan. However, the reduction in premiums and state expenditures for health insurance is not able to be estimated.

University of Nebraska Employee Health Insurance Plan: The University of Nebraska indicates the bill will increase administrative expenditures for the University employee health insurance plan. The current plan carrier has a component allowing the comparison of rates charged by providers in the network for non-emergency services and procedures, but does not have the ability to compare rates for out-of-network providers or to calculate and payout incentives as required by the bill. The amount needed to allow the vendor to comply with the requirements of the bill is unknown.

As previously noted for the state employee plan, the fiscal impact of the requirement to pay incentives to employees for half of the amount “saved” by using a less costly provider is difficult to estimate. Since the state University health plan is also self-insured and the bill provides that the amount of incentives are not to be used to develop rates for the plan, then funds other than premiums paid for the plan will need to be available for incentives.

Based upon the fiscal note provided by the University of Nebraska, it is assumed that \$1 million of general funds will initially need to be set-aside for the cost of incentives. It is unknown if this amount will overfund or underfund incentives. It is also unknown how often the fund will need to be replenished for future incentive payments.

It is assumed the incentives in the bill for employees to opt for lower cost non-emergency services will at some point in time result in lower premium rates for the University employee health benefit plan. However, the reduction in premiums and state expenditures for health insurance is not able to be estimated.

<u>ADMINSTRATAIVE SERVICE STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSE</u>		
LB: 604	AM:	AGENCY/POLT. SUB: Department of Insurance
REVIEWED BY: Gary Bush	DATE: 2/23/17	PHONE: (402) 471-4161
COMMENTS: Concur.		

<u>ADMINSTRATAIVE SERVICE STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSE</u>		
LB: 604	AM:	AGENCY/POLT. SUB: Dept. of Administrative Services
REVIEWED BY: Gary Bush	DATE: 2/2/17	PHONE: (402) 471-4161
COMMENTS: No basis to disagree with the estimate provided by the agency. The agency’s assumptions appear to be reasonable.		

<u>ADMINSTRATAIVE SERVICE STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSE</u>		
LB: 604	AM:	AGENCY/POLT. SUB: University of Nebraska
REVIEWED BY: Gary Bush	DATE: 1/31/17	PHONE: (402) 471-4161
COMMENTS: No basis to disagree with the estimate provided by the University.		

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2017

LB⁽¹⁾ 604

FISCAL NOTE

State Agency OR Political Subdivision Name: ⁽²⁾ Dept. of Administrative Services (DAS) – State Personnel - Benefits

Prepared by: ⁽³⁾ Josh Stafursky Date Prepared: ⁽⁴⁾ 1/23/2017 Phone: ⁽⁵⁾ 402-471-4165

ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION

	FY 2017-18		FY 2018-19	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS (New Fund)	<u>3,000,000</u>	<u> </u>	<u> </u>	<u> </u>
GENERAL FUNDS (Rate Increase)	<u>152,038</u>	<u> </u>	<u> </u>	<u> </u>
CASH FUNDS (Benefits Program)	<u>371,000</u>	<u>371,000</u>	<u> </u>	<u> </u>
CASH FUNDS (Rate Increase)	<u>71,717</u>	<u> </u>	<u> </u>	<u> </u>
FEDERAL FUNDS (Rate Increase)	<u>42,445</u>	<u> </u>	<u> </u>	<u> </u>
REVOLVING FUNDS (Rate Increase)	<u>26,890</u>	<u> </u>	<u> </u>	<u> </u>
TOTAL FUNDS	<u>3,664,090</u>	<u>371,000</u>	<u>See Below</u>	<u>See Below</u>

Explanation of Estimate:

LB604 requires the State of Nebraska Health Insurance Plan (“Plan”) to provide a mechanism for covered employees and eligible dependents to obtain allowable amounts and out-of-pocket cost information for non-emergency health services or procedures within a prescribed timeframe for the purposes of determining whether less costly options are available. The bill requires that the Plan provide information concerning average costs for qualifying procedures and providing incentive payments of at least fifty percent (50%) of the savings directly to plan participants who elect to receive these services from providers that charge less than the identified average price, unless the amount of the saved cost is \$50 or less.

The bill requires the Plan to develop an interactive mechanism on a publicly accessible website that enables plan members to request and obtain information concerning payments made to network providers for health care services. This interactive mechanism must allow a plan member to compare costs among network providers. The Plan is required to provide, within two working days of a request, a good faith estimate of the amount the plan member will be responsible to pay out-of-pocket for a procedure.

The Plan is a self-funded health insurance plan (no appropriations are currently provided to support the Plan or DAS), administered by a third-party administrator (“TPA”). The benefits of self-funded insurance include reduced administrative costs and the potential for savings over a fully-insured plan if group claims experience is positive in any given year. Premium rates for self-funded plans are paid by employees and the employer (State agencies) and are set based on historical claims experience, administrative costs and anticipated trends in the medical and pharmaceutical markets. Self-funded health insurance plans are not subject to regulation by the Nebraska Department of Insurance.

The TPA does not currently provide a service that provide cost comparison between network providers or that calculates savings and provides incentive payments directly to plan members as described in the bill. In looking at similar state models, the **cost of contracting with a second vendor to administer a cost comparison and incentive payment program is estimated to be approximately \$371,000 per year, plus the additional costs necessary to create and maintain an information link with the current TPA.** Those costs are unknown. These additional administrative costs would likely result in increased premium rates for all plan members.

LB640 prohibits incentive payments from counting as administrative costs for rate-setting purposes, thus a new fund

would be required and new appropriation to pay for the cost of employee incentive payments. **The State will need to seed this “incentive fund” with a minimum of \$3,000,000 in the first year to ensure the State’s exposure to new costs that cannot be expended from the State Health Insurance Fund be funded appropriately.** This figure equates to about two percent (2%) of the Plan’s annual medical claims costs and is equivalent to approximately \$107 per covered life. Additional funds would be necessary if payments exceed initial funding. LB640 does not address the issue of whether these payments would be considered income, bonuses or some other form of compensation for tax purposes, so additional unknown costs may result.

LB640, as written, would have a fiscal impact on DAS – Employee Wellness and Benefits of approximately \$3,000,000 in the first year for creation of the incentive fund, additional annual administrative fees of approximately \$371,000 plus the costs of the information link with the current TPA. A new fund would be created for the \$3,000,000 of General Fund appropriation and would be used to fund the incentive payments. The fund would require monitoring and additional General Fund appropriation to replenish the fund as incentives are paid out.

The estimated administrative costs would require an increase in Cash Fund appropriation for the DAS Employee Wellness and Benefits Program. The source of the funding for this Program is the Plan rates that are in the State’s Health Insurance Fund. Currently the State pays 79% of the premium rate and the employee 21%. As the Plan is self-insured all expenses of the program must be covered by the premium rates.

An increase in expenditures of \$371,000 would likely increase the premium rates that must be charged. Assuming 79% of the increased costs or \$293,090 would be the State’s share (\$371,000 x 79% = \$293,090). The remainder of the increased costs would be paid by the employees.

The table below summarizes the impact by fund type of the estimated increase in Plan premium rates. The allocation by fund type is based on a four (4) year average (2013-2016) of benefit expenditures. The increased amounts may require additional appropriation for all state agencies, boards and commissions.

Fund Type	FY17-18 Benefit Expenditures
General	152,038
Cash	71,717
Federal	42,445
Revolving	26,890
Total	293,090

No costs are estimated for FY18-19. Presently it is impossible to determine when and at what level the new incentive fund would be need to be replenished and/or what the ongoing administrative costs would be.

BREAKDOWN BY MAJOR OBJECTS OF EXPENDITURE

Personal Services:

<u>POSITION TITLE</u>	<u>NUMBER OF POSITIONS</u>		<u>2017-18 EXPENDITURES</u>	<u>2018-19 EXPENDITURES</u>
	<u>17-18</u>	<u>18-19</u>		
Benefits.....			293,090	
Operating.....			3,371,000	
Travel.....				
Capital outlay.....				
Aid.....				
Capital improvements.....				
TOTAL.....			3,664,090	

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2017

LB⁽¹⁾ 604

FISCAL NOTE

State Agency OR Political Subdivision Name: ⁽²⁾ Nebraska Department of Insurance

Prepared by: ⁽³⁾ Robert M. Bell Date Prepared: ⁽⁴⁾ 2/22/2017 Phone: ⁽⁵⁾ (402) 471-4650

ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION

	<u>FY 2017-18</u>		<u>FY 2018-19</u>	
	<u>EXPENDITURES</u>	<u>REVENUE</u>	<u>EXPENDITURES</u>	<u>REVENUE</u>
GENERAL FUNDS	_____	_____	_____	_____
CASH FUNDS	_____	_____	_____	_____
FEDERAL FUNDS	_____	_____	_____	_____
OTHER FUNDS	_____	_____	_____	_____
TOTAL FUNDS	=====	=====	=====	=====

Explanation of Estimate:

Legislative Bill 604 adopts the Nebraska Right to Shop Act and permits health insurance carriers to elect to be subject to the act via the filing of a notice with the Nebraska Department of Insurance. It is unknown if any health carriers will elect to be subject to the act. If a health carrier does elect to be subject to the act, it is expected that any additional regulatory responsibilities will be accomplished with existing staff. Section 12 requires health insurance carriers subject to the act to submit various information to the Department annually that, in turn, must be reported to the Legislature annually. This annual report will not cause a fiscal impact on the Department.

BREAKDOWN BY MAJOR OBJECTS OF EXPENDITURE

Personal Services:

<u>POSITION TITLE</u>	<u>NUMBER OF POSITIONS</u>		<u>2017-18</u>	<u>2018-19</u>
	<u>17-18</u>	<u>18-19</u>	<u>EXPENDITURES</u>	<u>EXPENDITURES</u>
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
Benefits.....	_____	_____	_____	_____
Operating.....	_____	_____	_____	_____
Travel.....	_____	_____	_____	_____
Capital outlay.....	_____	_____	_____	_____
Aid.....	_____	_____	_____	_____
Capital improvements.....	_____	_____	_____	_____
TOTAL.....	_____	_____	_____	_____

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2017

LB⁽¹⁾ 604

FISCAL NOTE

State Agency OR Political Subdivision Name: ⁽²⁾ University of Nebraska

Prepared by: ⁽³⁾ Michael Justus Date Prepared: ⁽⁴⁾ January 25, 2016 Phone: ⁽⁵⁾ 402-472-2191

ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION

	<u>FY 2017-18</u>		<u>FY 2018-19</u>	
	<u>EXPENDITURES</u>	<u>REVENUE</u>	<u>EXPENDITURES</u>	<u>REVENUE</u>
GENERAL FUNDS	<u>430,000</u>	<u> </u>	<u>430,000</u>	<u> </u>
CASH FUNDS	<u>240,000</u>	<u> </u>	<u>240,000</u>	<u> </u>
FEDERAL FUNDS	<u>50,000</u>	<u> </u>	<u>50,000</u>	<u> </u>
OTHER FUNDS	<u>280,000</u>	<u> </u>	<u>280,000</u>	<u> </u>
TOTAL FUNDS	<u>1,000,000</u>	<u> </u>	<u>1,000,000</u>	<u> </u>

Explanation of Estimate:

We believe that if it is determined that the bill applies to the University of Nebraska, LB 604 has a fiscal impact to the University plan which would likely increase costs, determining an exact amount is difficult given the language of the bill. However, we expect, at a minimum a 1% increase in cost, which would be about \$1,000,000. The high end of the estimate would be substantially higher.

As introduced, the bill requires the State of Nebraska to establish a program to incentivize the use of cost transparency tools by insureds. In particular, we believe that the largest cost driver under the bill is found in Sections 7 and 10 of the bill. Section 7 requires insurers provide incentives for members who shop for services of at least fifty percent of the saved costs for the service. Section 10 requires a similar payment if there are savings obtained through use of an out of network provider, but allows this to be applied to the member's cost sharing. While the bill provides a limited description of "shoppable" services, it is not clear what may be included for incentives. Part of the cost determination is dependent on the distribution of members using shoppable services versus the other covered services, which is difficult to determine without more detailed review of our plan costs.

There may also be additional administrative costs related to development and delivery of services.

BREAKDOWN BY MAJOR OBJECTS OF EXPENDITURE

Personal Services:

<u>POSITION TITLE</u>	<u>NUMBER OF POSITIONS</u>		<u>2017-18 EXPENDITURES</u>	<u>2018-19 EXPENDITURES</u>
	<u>17-18</u>	<u>18-19</u>		
<u>Benefits.....</u>	<u> </u>	<u> </u>	<u>1,000,000</u>	<u>1,000,000</u>
<u>Operating.....</u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u>Travel.....</u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u>Capital outlay.....</u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u>TOTAL.....</u>	<u> </u>	<u> </u>	<u>1,000,000</u>	<u>1,000,000</u>