

Fiscal Note & Local Impact Statement

127th General Assembly of Ohio

Ohio Legislative Service Commission
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BILL: **H.B. 291** **DATE:** **October 23, 2007**

STATUS: **As Introduced** **SPONSOR:** **Rep. Patton**

LOCAL IMPACT STATEMENT REQUIRED: **Yes**

CONTENTS: **Would prohibit certain health insuring corporation contracts and sickness and accident insurance policies from excluding coverage for prescription drug services provided by nonnetwork pharmacies that are willing to meet network terms and conditions**

State Fiscal Highlights

STATE FUND	FY 2008	FY 2009	FUTURE YEARS
General Revenue Fund			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	- 0 -	Potential increase up to \$15.1 million or more	Potential increase up to \$16.0 million or more

Note: The state fiscal year is July 1 through June 30. For example, FY 2007 is July 1, 2006 – June 30, 2007.

- May increase costs to the state of providing managed care benefits under Medicaid. If so, the federal match (FMAP) would provide approximately 60% of the funding for the increased expenditures.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2008	FY 2009	FUTURE YEARS
Counties, municipalities, townships			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	Potential minimal increase	Increase between \$2.8 million and \$7.2 million	Increase between \$3.0 million and \$7.6 million
School districts			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	Potential minimal increase	Increase between \$3.0 million and \$6.8 million	Increase between \$3.2 million and \$7.2 million

Note: For most local governments, the fiscal year is the calendar year. The school district fiscal year is July 1 through June 30.

- The bill would increase the cost to local governments of providing health benefits to employees and their dependents. The increase would occur to only those jurisdictions that provide pharmaceutical benefits to employees.



Detailed Fiscal Analysis

H.B. 291 would prohibit health insuring corporation (HIC) contracts and sickness and accident insurance policies that provide prescription drug benefits from excluding coverage for prescription drug services that are provided by a nonparticipating pharmacy if that pharmacy is willing to meet the terms and conditions of the insurer's network agreement.

Background

An actuarial report on the effects of implementing the provisions of a similar bill introduced in the 124th General Assembly (Sub. H.B. 53) was produced during that General Assembly by Milliman USA. Such actuarial reports were required at that time under the provisions of H.B. 221 of the 123rd General Assembly for any bills mandating health insurance benefits that received a second hearing. H.B. 53 would have imposed the same requirements on HICs and on insurers that H.B. 291 would, but would have imposed them on public employee benefit plans as well. The Milliman report estimated that the provisions of H.B. 53 would increase health insurance premiums in Ohio by between 0.15% and 0.3% on average, for plans affected by the bill's provisions, and could increase them by up to 0.6% if an employer's health plan featured a pharmacy network that was limited in terms of the number of pharmacies included. Essentially, the Milliman report concluded that the bill's provisions would have reduced insurers' bargaining power with pharmacies, which would have reduced the discounts offered to them by pharmacists. The Milliman report acknowledged that the higher premiums predicted "would be expected" to lead to a reduction in the number of people covered by health insurance in the state, but did not provide an estimate of that reduction and described it as "minimal."

A Department of Administrative Services official reports that the state spent over \$392 million in FY 2007 to provide health benefits to employees and their dependents. That figure includes spending on the self-insured Ohio Med plan and on the two HICs that insure the most participants. The official indicates that all the plans are currently self-insured.

The State Employment Relations Board (SERB) conducts a survey each year of local government spending on health benefits for employees and their dependents. SERB reports that 976 jurisdictions responded to the 2006 survey. Of the jurisdictions that responded, 22.8% of the counties' plans were self-insured, and 14.7% of cities' plans, 1.8% of townships' plans, and 11.9% of school districts' plans were self-insured. The following table reports average monthly health insurance premiums by type of jurisdiction and by type of coverage (single or family), and the percentage of plans sponsored by that type of jurisdiction that offer pharmaceutical benefits.

Type of jurisdiction	Single	Family	Percentage offering drug benefit
County	\$413.00	\$1,083.15	81.82%
City	\$407.85	\$1,073.92	84.11%
Township	\$438.91	\$1,200.80	91.26%
School district	\$403.30	\$1,014.86	74.93%

The U.S. Bureau of Labor Statistics reports that there were 569,000 local government employees in Ohio in May 2007, of which 318,200 were employed in local government education. That implies there were 250,800 employed by counties, municipalities, townships, and other noneducation jurisdictions.

The Kaiser Family Foundation's *Employer Health Benefits 2007 Annual Survey* reports that 80% of state and local government employees are covered by their employer's health benefit plan (nationwide). The rate of growth of health insurance premiums from 2006 to 2007 found in the survey was 6.1%.

Fiscal effects

The bill may impose costs on the state and on local governments to provide health benefits to employees and their dependents. To the extent that governmental entities self-insure benefits for workers, there would appear to be no effect, since the bill's provisions apply specifically to HIC contracts and sickness and accident insurance policies; there is no requirement imposed on public employee benefit plans. The bill may also impose costs on Medicaid managed care.

For the state, all health benefit plans for employees are now self-insured. Thus, the bill's provisions do not apply to them, and the bill does not increase costs to cover state employees. There may be an increase in costs to the state Medicaid program, by way of increasing costs of managed care. For the conference committee on the budget, LSC forecast that managed care would account for approximately \$5 billion of Medicaid costs in FY 2009. Applying the 0.3% estimate of cost increases, that could increase Medicaid costs by up to \$15.1 million or more. The federal government would provide matching funds for approximately 60% of this amount.

Of the estimated 318,200 school district employees statewide, 254,560 are assumed to be covered by a school district-sponsored health plan, and of those 168,044 are assumed to be covered by a plan that (1) includes pharmacy benefits, and (2) is not a self-insured plan. Using approximate percentages from a previous year's SERB survey, 30% of these are assumed to have single coverage and 70% are assumed to opt for family coverage. Using the statewide average school district health insurance premiums (\$403.30 and \$1,014.86 per month, respectively), the cost to school districts of providing health benefits to workers would have increased by between \$2.5 million and \$5.7 million statewide in FY 2006, assuming the bill's provisions had been in effect. Projecting this forward using the Kaiser figure for growth in health insurance costs (6.1% per year), this increases to between \$2.8 million and \$6.4 million statewide in FY 2008, and to between \$3.0 million and \$6.8 million statewide in FY 2009. There is assumed to be a minimal increase in costs in FY 2008, since the bill's effects depend on negotiations that may already be completed, or may be ongoing now.

Similarly, of the estimated 250,800 employees of other local governments statewide, 200,640 are assumed to be covered by a local government-sponsored health plan, and of those, 149,476 are assumed to be covered by a plan that (1) includes pharmacy benefits, and (2) is not a self-insured plan. The same percentages are assumed for single versus family coverage choices. Because the SERB survey did not report the number of employees covered by each type of jurisdiction, LSC staff do not

have data with which to calculate the weighted average premiums across the three jurisdictions for single and family coverage. Instead, the low estimate of cost uses the statewide average premiums for cities, which are the lowest average among the three types, and the high estimate uses the statewide average premiums for townships (which are highest). The cost to counties, municipalities, and townships of providing health benefits to workers would have been between \$2.4 million and \$6.0 million higher in FY 2006 than they were assuming the bill's provisions had been in effect then. Projecting these figures forward using the 6.1% growth rate for two years would mean costs in FY 2008 would be between \$2.6 million and \$6.8 million higher statewide due to the bill's prohibition. For FY 2009 the increase is projected to be between \$2.8 million and \$7.2 million statewide. There is assumed to be a minimal increase in costs in FY 2008, since the bill's effects depend on negotiations that may already be completed, or may be ongoing now.

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