

To: Members of House Appropriation and Senate Ways and Means
From: Jennifer Flory, Interim Director, State Employee Health Benefits Plan
Subject: Requests for Information Related to the State Employee Health Plan Reserve Fund
Date: April 11th, 2022

Members of House Appropriation and the Senate Ways and Means Committees:

Thank you for the opportunity to provide additional background on the State Employee Health Plan Reserve Fund.

With a healthy reserve, the Health Care Commission can reduce, eliminate, or minimize rate increases for the contributions paid by the employees and reduce or maintain the members cost share and benefits provided by the plan.

The SEHP is a self-funded plan responsible for paying for all covered claims and expenses incurred by covered members. The target reserve for the health plan should be approximately \$50 million.

The average ending reserve balance since plan year 2016 is \$43,990,905. (This average balance is only this high as there was a reduction of claims expense due to two years of COVID). The claims expense has now increased back to and above normal claims expenses.

I want to be clear that the current balance of the reserve is adequate. However, this GBA is an opportunity to provide an investment for benefits to state employees, without creating a long-term increase in employer contribution.

I would like to address a few questions brought up during last week's discussion of the Governor's Budget Amendment:

In 2009, SB 572 created a requirement for vendors to the State Employee Health Plan to be audited. Initial estimates indicated that the state could recover \$9 million from vendors. \$9 million was taken from the Reserve Account in 2009, although the state was not able to recover more than a negligible amount from vendors. A copy of SB 572 is included in this packet.

In 2014, the US Department of Health and Human Services performed an audit that penalized the state for depositing earned interest on the Reserve Fund into State General Fund. The federal government forbids this practice for certain federally funded benefits-eligible positions in the state. HHS levied a penalty of \$17,394,334, which was paid in installments from FY 2014-2019 from the Reserve Fund. The first installment payment of \$2,521,955 was made from the SEHP fund balance in 2013. The Reserve Fund has never been made whole after it paid the HHS penalty.

I have included two additional documents that provide a snapshot of the Reserve Fund history since 2009, as well as actions that the HCC has taken since FY21 that have impacted rates.

I appreciate the opportunity to provide this information, and I would be happy to answer any additional questions.

Rate History

2020:

The HCC voted for a **4.5% State of Kansas Employer contribution increase**

Employee Rates:

- Employee and Employee + children: **no increase**
- Employee + Spouse & Family: **reduced six (6) percent**

2021:

The HCC voted for a **3% State of Kansas Employer contribution increase**

Employee Rates:

- Employee & Employee + children: **no increase**
- Employee + Spouse & Family: **reduced two (2) percent**

2022

The HCC voted for a **5% State of Kansas Employer contribution increase**

Employee rates:

- Employee and Employee + children: **no increase**
- Employee+ Spouse & Family: **reduced two (2) percent**

Reserve Fund Historical Background

FY09

- Legislative action resulted in state agencies **not contributing the Employer contribution for seven pay periods**, resulting in a **\$64 million decrease** in the fund balance.

FY10

- **SB 572 reduced the fund by \$9.675 million.**

FY14-19

- The US Department of Health and Human Services assessed penalties on the SEHP Fund based on audit findings related to “disallowed cost”
- Interest on the SEHP fund balance accrued to the State General Fund for fiscal years 2012, 2013 and 2014.
- All interest earned after 2014 now accrues to the SEHP fund.
- **The penalty of \$17,394,334.28 was paid in installments from FY 2014-2019 from the SEHP Fund.**

FY15

- The HCC voted to **reduce the State of Kansas Employer contribution by 8.5 percent.**

FY16

- The HCC voted to **keep the State of Kansas Employer contribution flat, continuing the balance reduction**