COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1858H.01I
Bill No.: HB 670
Subject: Insurance - Health; State Employees
Type: Original
Date: March 7, 2025

Bill Summary: This proposal creates provisions relating to an option to opt out of coverage under the Missouri Consolidated Health Care Plan and receive an annual stipend instead.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2026	FY 2027	FY 2028
General Revenue Fund	Could exceed ($47,596,500)	Could exceed ($47,596,500)	Could exceed ($47,596,500)
Total Estimated Net Effect on General Revenue	**Could exceed ($47,596,500)**	**Could exceed ($47,596,500)**	**Could exceed ($47,596,500)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2026	FY 2027	FY 2028
Other State Funds	Could exceed ($11,332,500)	Could exceed ($11,332,500)	Could exceed ($11,332,500)
Total Estimated Net Effect on Other State Funds	**Could exceed ($11,332,500)**	**Could exceed ($11,332,500)**	**Could exceed ($11,332,500)**

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2026	FY 2027	FY 2028
Federal Funds	Could exceed ($16,621,000)	Could exceed ($16,621,000)	Could exceed ($16,621,000)
Total Estimated Net Effect on All Federal Funds	**Could exceed ($16,621,000)**	**Could exceed ($16,621,000)**	**Could exceed ($16,621,000)**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2026	FY 2027	FY 2028
Total Estimated Net Effect on FTE	**0**	**0**	**0**

☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed $250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

☐ Estimated Net Effect (savings or increased revenues) expected to exceed $250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2026	FY 2027	FY 2028
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

§103.087 – Annual Stipend for opting out of MCHCP coverage

Officials from the **Missouri Consolidated Health Care Plan (MCHCP)** assume this bill creates a provision for employees and retirees to opt out of coverage under the Missouri Consolidated Health Care Plan (MCHCP) and receive an annual stipend for opting out of the coverage.

Fiscal Impact of the Bill:

Employees:

The legislation states that stipend paid to an employee shall equal the amount that the state would have paid to contribute toward the cost of the health care coverage for the individual employee or retiree during the relevant calendar year if the employee or retiree had enrolled in such coverage. The amount the state contributes is not a single number and is based on the plan that the employee chooses. For the purposes of this fiscal note a weighted average for employee only coverage of $735 per employee per month is used for the calculations for active employees.

As of January 1, 2025, there are approximately 4,112 employees who have not elected coverage under Missouri Consolidated who are eligible. It is assumed that all the employees who currently do not elect coverage under MCHCP would opt in for the annual stipend. This results in a new cost of $3,022,320 per month, or $36,267,840 annually. The number of employees who waive coverage fluctuates monthly as employees are hired and leave employment, so the number of employees annually is typically greater than the number of employees on any given date.

Offering an incentive to not elect or waive coverage would most likely increase the number of employees waiving coverage and opting for the incentive. The most likely employees who would waive coverage are those with low overall expected utilization. Based on claims, MCHCP's actuary estimated that anywhere from an additional 3% to 20% of employees may opt out. For fiscal note purposes, MCHCP will assume a 10% cost of $28.7 million.

Opt-Outs	Opt-Out %	Incentive Cost*	Plan Savings*	Net (Cost) / Savings*
1,014	3.00%	$8.9	$0.0	-$8.9
2,366	7.00%	$20.9	$0.3	-$20.6
3,380	10.00%	$29.8	$1.1	-$28.7
5,070	15.00%	$44.7	$3.8	-$40.9
6,760	20.00%	$59.6	$8.4	-$51.2
*Numbers in Millions				

In addition, as employees who are low utilizers opt out of coverage the average cost per member would increase, due to adverse selection leading to an increasing medical trend above and beyond the market trend of 6-8%. As the premium costs for coverage increases, the waiver incentive given to those who waive coverage would experience a corresponding increase.

For 2025, the State's projected medical and prescription drug claims are approximately $470 million for the active population. Assuming opt-out percentages with corresponding projected claims shown in the above, premiums for remaining participants would be impacted as follows (note that these increases would be in addition to market trend rates):

Opt-out %	Projected Med / Rx Claims in 2025	Projected Contracts	Projected Per Capita Cost	Projected Premium Increase
0.00%	$470,000,000	33,800	$1,159	0%
3.00%	$470,000,000	32,786	$1,195	3%
7.00%	$469,695,800	31,434	$1,245	7%
10.00%	$468,935,300	30,420	$1,285	11%
15.00%	$466,231,300	28,730	$1,352	17%
20.00%	$461,583,800	27,040	$1,423	23%

Therefor it is anticipated that the increase in the amount paid out to employees who opt out could cost up to an additional $7.15 million per year.

Affordability under the Affordable Care Act:

Since the opt-out credit will be non-contingent on having coverage elsewhere and would be introduced after December 16, 2015, the opt-out payment would be included in the employee's costs when testing for affordability for purposes of compliance with employer shared responsibility requirements. By nature of how the payment is calculated, the full premium amount would need to be used for testing purposes, meaning a significant portion of the population (anyone making under $91,827 in 2025) would potentially qualify for a subsidy in the exchange. In addition to the waive incentive, for each participant that receives a subsidy, the State would be required to pay an IRS penalty of $4,350 (in 2025). These are calculated based on 9.02% affordability threshold in 2025 and the HDHP premium of $704 / month, since it is the lowest priced plan. MCHCP does not have salary data on state employees and is unable to calculate an estimated cost. Nor do they have an estimate of the number of employees who would subsequently seek coverage in the exchange. They are placing a fiscal impact of unknown but greater than $100,000.

MCHCP assumes the cost estimate provided above would be a penalty that the state could be subject to since the insurance offered is no longer affordable under the ACA. It is speculative as it is never a certainty that a penalty will be assessed. The penalty would be to the state itself as the employer and not to MCHCP as the health plan and therefore will not be calculated as a cost in the fiscal note.

<u>Retirees:</u>

The language of the legislation states that the retiree must make the election within thirty-one days of his or her first day he or she is qualified to enroll for coverage. This language does not exactly match the timeframe for when retirement coverage must be elected. MCHCP has assumed that the timeframe to elect an incentive payment would need to be made within 31 days of retiring to mirror the requirements for electing coverage.

MCHCP has assumed this incentive decision may only be made upon retirement and the member would forgo coverage until a life event which would allow the retiree to come onto coverage. Based on these assumptions, only new retirees after the date of this legislation would become eligible for this cash payment.

Retirees receive a subsidy pursuant to 22 CSR 10-2.030. A member's contribution percentage is based on years of service multiplied by 2.5% and is capped at 65% or 26 years of service. For non-Medicare retirees, the contribution is based on the retiree only PPO 1250 premium after incentives with an average state contribution of $692.00 in 2025. For Medicare retirees, the state contribution is based on the retiree only Medicare Advantage Plan premium with an average contribution of $138.44 in 2025. Since each retiree's contribution could differ based on their years of service, these weighted averages are used for the calculation of this fiscal note.

In 2024, 1,234 employees retired from the state that were eligible for coverage through MCHCP and 412 of those individuals did not elect retiree coverage through MCHCP. MCHCP assumes these retirees would have elected to receive the cash payment had it been an option. MCHCP estimates an additional cost of $285,104 per month or $3,421,248 annually. It is further assumed that if a cash payment is available with the ability to return to coverage upon a life event, the number of retirees who elect a cash payment will increase, thus increasing the estimated cost.

Each year this amount will grow as the number of retirees electing this option also increases and as premium costs increase.

Like active employees, retiree costs associated with this change will increase over time due to adverse selection and increasing premiums over time. Annual cash costs could initially increase by $1.1 million but this would be expected to increase significantly each year going forward, just as the active employee costs would be expected to be above normal trend.

Total cost for retirees is estimated to be $3.4 million for the first year with increasing costs in the following years as the number of retirees would increase, as well as the subsidy given to the retirees.

Other Post-Employment Benefits (OPEB) Liability:

Other Post-Employment Benefits (OPEB) liabilities are the unfunded costs of benefits that retired employees receive in addition to their pension. For this fiscal note, health insurance is the benefit under discussion.

The Governmental Accounting Standards Board (GASB) has required that governmental employers calculate the future cost of provided health insurance to retirees. That liability then becomes part of the employer's annual financial report. For fiscal year 2024, the unfunded OPEB liability for retiree coverage is at $1.58 billion. The actuary has estimated the impact resulting from this bill to the state's OPEB liability will be an additional $480 million.

An increase in the OPEB trust liabilities will not be reflected in the fiscal note.

Overall Fiscal Impact:

Active Employees Fiscal Impact
MCHCP estimated cost is unknown but greater than $72.15 million ($36.3 + $28.7 + $7.15).

In addition, state employees would experience an increase in individual premiums unknown but potentially greater than $95 annually per employee due to the adverse selection principle. This cost will not be reflected in the fiscal note.

Retirees
MCHCP estimated cost is unknown but greater than $3.4 million. This estimation does not take into account any increases in retiree premiums based on adverse selection as it speculative as to which retirees would take the opt out payment and how it would affect premium.

In summary, MCHCP assumes a cost of $75,550,000 annually to provide for the implementation of the changes in this proposal.

Oversight does not have any information to the contrary. Therefore, Oversight will reflect the following to the General Revenue Fund, Other State Funds and Federal Funds.

General Revenue - $47,596,500 (63%)
Federal Funds - $16,621,000 (22%)
Other State Funds - $11,332,500 (15%)
Total - $75,550,000 (100%)

Officials from the **Office of Administration** and the **Missouri State Employee's Retirement System** each assume the proposal will have no fiscal impact on their respective organizations. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for these agencies.

FISCAL IMPACT – State Government	FY 2026 (10 Mo.)	FY 2027	FY 2028
GENERAL REVENUE FUND			
Cost – MCHCP Annual Stipend (§103.087)	Could exceed ($47,596,500)	Could exceed ($47,596,500)	Could exceed ($47,596,500)
ESTIMATED NET EFECT TO THE GENERAL REVENUE FUND	**Could exceed ($47,596,500)**	**Could exceed ($47,596,500)**	**Could exceed ($47,596,500)**
FEDERAL FUNDS			
Cost – MCHCP Annual Stipend (§103.087)	Could exceed ($16,621,000)	Could exceed ($16,621,000)	Could exceed ($16,621,000)
ESTIMATED NET EFECT TO FEDERAL FUNDS	**Could exceed ($16,621,000)**	**Could exceed ($16,621,000)**	**Could exceed ($16,621,000)**
OTHER STATE FUNDS			
Cost – MCHCP Annual Stipend (§103.087)	Could exceed ($11,332,500)	Could exceed ($11,332,500)	Could exceed ($11,332,500)
ESTIMATED NET EFECT TO OTHER STATE FUNDS	**Could exceed ($11,332,500)**	**Could exceed ($11,332,500)**	**Could exceed ($11,332,500)**

FISCAL IMPACT – Local Government	FY 2026 (10 Mo.)	FY 2027	FY 2028
	$0	**$0**	**$0**

FISCAL IMPACT – Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

This bill allows state employees or retirees eligible for state health care coverage to opt out of the health insurance and receive an annual stipend equal to the amount the state would have contributed to the individual's health coverage. The stipend amount doesn't include contributions for spouses or dependents and is considered taxable income. If any relevant period in which the employee or retiree is forgoing health care coverage is less than a full calendar year, the stipend will be prorated. These provisions do not apply to dental or vision benefits.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Administration
Missouri Consolidated Health Care Plan
Missouri State Employee's Retirement System

Julie Morff
Director
March 7, 2025

Jessica Harris
Assistant Director
March 7, 2025

KC:LR:OD