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BILL ANALYSIS

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Senate Bill 1152 (as introduced 11-9-16)
Sponsor: Senator Goeff Hansen
Committee: Insurance

Date Completed: 12-7-16

CONTENT

The bill would amend 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, could 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 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 had operated for at least five years could 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 would prohibit a pooled plan that elected the alternative minimum cash reserve from satisfying any portion of the reserve requirement with a letter of credit.

The bill would take effect 90 days after enactment.

MCL 124.79

Legislative Analyst: Julie Cassidy

FISCAL IMPACT

The bill would reduce the costs of a local government that participates in a public employer pooled insurance plan that adopted the reduced reserve requirements that would be authorized by the bill. Funds currently used for reserve requirements would become available for other operating purposes and savings would be realized if the public employer pooled plan no longer obtained 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 would 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 would 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 would be approximately $10.0 million. (Under current statute 35% would mean a $14.0 million reserve requirement, and approximately 10.5% under the bill would mean a $4.5 million reserve requirement.) Of the $10.0 million, $7.0 million would have otherwise been satisfied by a letter of credit and the remaining $3.0 million would have been satisfied by cash from the employers. In addition, the Pool would 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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