



Joint Change in Employee Compensation Committee Idaho State Legislature

January 22, 2018

To: Members of the 64th Idaho Legislature, Second Regular Session

The Joint Change in Employee Compensation (CEC) Committee has completed its hearings and deliberations. The committee received many reports, including an overview of the statutory requirements of Idaho's compensation system and information from the Division of Human Resources, the Division of Financial Management, and the Legislative Services Office. In addition, the committee received written testimony from the public and verbal testimony from some agency directors. The committee also received information on the group healthcare plan and retirement system.

The CEC Committee recognizes that the goal of Idaho's total compensation system for state employees is to fund a competitive salary and benefit package that will attract qualified applicants to the work force, retain employees who have a commitment to public service excellence, motivate employees to maintain high standards of productivity, and reward employees for outstanding performance within the means reasonably available to the state. To that end, and in accordance with §67-5309C(4), Idaho Code, the CEC Committee offers the following recommendations to the Joint Finance-Appropriations Committee:

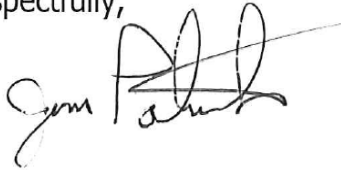
- a) Market Related Changes Necessary to Address System-Wide Salary Structure Adjustments:** The compensation schedule should be shifted upwards by 3% at the minimum, policy, and maximum pay rates in all pay grades from FY 2018 to FY 2019 and the Legislature should fully fund that shift. The exception to the change is that the minimum wage would remain at \$7.25 per hour in pay grade D.
- b) Market Related Changes to Address Specific Occupational Inequities:** The state should maintain the job classifications that currently have a payline exception to address specific recruitment or retention issues, as recommended in the FY 2019 Change in Employee Compensation & Benefits Report from the Division of Human Resources.
- c) Merit Increase Component:** The Legislature should fund an ongoing three percent (3%) increase in personnel costs to provide a merit-based increase for state employees with flexibility allowed for agency heads and institution presidents in distribution of the increase.
- d) Changes to the Employee Benefit Package:** The Legislature should accept the unanimous recommendations of the 2017 State Employee Group Insurance and Benefits Interim Committee as outlined in its final report (see attached).

The Legislature should transfer \$13,140,000 from the Employee Group Insurance Fund to the General Fund for FY 2019.

The CEC Committee does not recommend insurance premium holidays for FY 2019. The state should maintain its per benefit eligible full-time equivalent position appropriation amount from FY 2018 to FY 2019, and, in accordance with legal accounting practices, any balance(s) remaining in the Employee Group Insurance Fund which exceed FY 2019 Statewide Cost Allocation Program insurance internal service fund requirements and the actuarially required reserve at the end of FY 2019 should be placed in an escrow account(s), or like fund(s). The intended use of the funds should be for the development and funding of employee health savings accounts and/or for start-up costs of a self-funded health care model should the state choose to move in that direction. It is further the intent of this recommendation that should the state not develop a health savings account or not move to a self-funded insurance model, any money in the escrow account(s), or like fund(s), be transferred back to the Employee Group Insurance Fund for use in subsequent years.

If any member of the Legislature has questions about our deliberations, please contact us.

Respectfully,



Senator Jim Patrick, Co-chair



Representative Neil Anderson, Co-chair

Senator Jim Guthrie
Senator Fred Martin
Senator Todd Lakey
Senator Steve Thayn
Senator Mary Souza
Senator Antony Potts
Senator Janie Ward-Engelking
Senator Grant Burgoyne

Representative Stephen Hartgen
Representative Fred Wood
Representative Steven Harris
Representative James Holtzclaw
Representative Kelley Packer
Representative Eric Redman
Representative Phylis King
Representative Sue Chew

FINAL REPORT
STATE EMPLOYEE GROUP INSURANCE AND BENEFITS
LEGISLATIVE INTERIM COMMITTEE
HCR 13 (2017)

Members of the Committee

Senator Todd Lakey, Co-Chair
Senator Dan Johnson
Senator Bob Nonini
Senator Jim Patrick
Senator Mark Nye

Representative Fred Wood, Co-Chair
Representative Neil Anderson
Representative Robert Anderst
Representative Dustin Manwaring
Representative Hy Kloc/Rep. Mat Erpelding

Staff

Kristin Ford, Senior Legislative Analyst
Robyn Lockett, Principal Budget and Policy Analyst
Ana Lara, Committee Secretary

Committee Charge

The State Employee Group Insurance and Benefits Committee was authorized by 2017 HCR 13. The charge of the committee was to continue the work of the 2016 State Employee Group Insurance and Benefits Legislative Interim Committee in studying the state employee group insurance plan to include, but not be limited to, consideration of the costs and benefits of allowing the grandfathered status of the current plan to lapse, as well as the structural plan changes that will be required as a result; consideration of other cost-effective benefit plan changes while maintaining a total compensation and benefits package; consideration of a self-insured plan or a fully insured plan structure; and development of a list of changes to the employee group insurance benefit package, as well as potential statutory changes outlining the minimum employee group insurance benefit plan design that will comply with the Patient Protection and Affordable Care Act should the Legislature adopt structural plan changes. The Committee was authorized to retain the services of a consultant familiar with health insurance and health care plans to provide advice and assistance to the Committee in selecting the most appropriate form of employee health care benefit plan for recommendation to the Idaho Legislature.

Meetings

The Committee met seven times in the State Capitol in Boise:

May 4, 2017
May 18, 2017
June 2, 2017
July 31, 2017
September 21, 2017
November 8, 2017
December 1, 2017

An RFP for a health care plan consultant was published in April, and the Committee held its first meeting on May 4th, in order to review the RFP responses from potential consultants. The Committee discussed guiding principles and asked questions of Deputy Attorney General Julie Weaver. The Committee then went into executive session in order to consider the hiring of a consultant and then emerged with the request that invitations be issued to three applicants to provide additional information on their proposals.

On May 18, 2017, the Committee again went into executive session in order to hear the three different proposals from consultants. After executive session, the Committee voted to pursue contract negotiations with the health care consultant Mercer.

On June 2, 2017, the Committee met and were given a contract negotiation status update with Mercer and the Committee authorized the co-chairs to finalize the negotiated contract. Co-chairs Wood and Lakey provided remarks on guiding principles for the Committee and listed the aspects of health care plans they felt should be addressed and analyzed. Mercer representatives then made a presentation on health care trends at the local and national level. Committee members asked

questions and Mercer asked the members to take their survey on what they would like to see in a health care plan.

On July 31, 2017, the Committee met and heard a presentation on the Office of Group Insurance's cost projections for the state's health plan. Next, Mercer consultants reviewed the results of the Committee members' response to their survey, provided information regarding the Affordable Care Act future excise tax and then went into great detail regarding accountable care organization models. Committee members asked questions regarding value-based care arrangements, subscription primary care models, and strategies to reduce costs.

On September 21, 2017, the Committee again met with Mercer consultants, who presented their draft strategic roadmap for changes to the state health care plan model, and then presented a self-funding financial analysis for the state. Committee members had many questions and further information was requested from Mercer. The Committee was scheduled to meet again on October 19, 2017, but the meeting was postponed in order to allow for additional time to obtain information from Mercer, Blue Cross of Idaho, and the Department of Insurance.

On November 8, 2017, the Committee met and heard a presentation from Cynthia York, Administrator of the Idaho Department of Health and Welfare's SHIP (Statewide Healthcare Innovation Plan) program and their use of the primary care medical home model and the successful establishment of seven regional health collaboratives. The program is also moving toward payment reform in the form of value-based services instead of the fee-for-service model. The Committee heard from Blue Cross of Idaho regarding the current hybrid platform of self-insurance versus full insurance. Blue Cross also supported the cost savings potential of moving to a value-based care model, and then reviewed its current program offerings and potential additional opportunities. The Director of the Department of Insurance, Dean Cameron, also offered some comments regarding the utility of the best practices set forth in chapter 40, title 41, Idaho Code.

On December 1, 2017, the Committee met a final time to review and approve the final report and recommendations. The Committee took testimony from Susan Buxton, Administrator, Idaho Division of Human Resources, and also consulted with Jennifer Pike, Administrator, Office of Group Insurance, and Sean White, Mercer consultants, as it discussed the Committee's recommendations. The Committee concluded that the issuance of an RFP in 2018 that allows vendors to submit health benefit proposals addressing Mercer's recommendations, under both a fully-insured hybrid model or a self-funded model, or both, would be beneficial to the Committee's ability to assess the best path forward for state employee health benefits.

Mercer's recommendations to the Committee are as follows:

1. The State of Idaho should self-fund state employee health benefits.
2. The State of Idaho should exempt itself from Chapter 40 of Title 41, Idaho Code, just as the state exempted all counties of the state in 2001.

3. Cost savings Programs: Mercer has recommended 23 programs that have been shown nationally, if implemented using first-in-class vendors and properly operated, to provide long-term reductions in annual increases of health care costs. These programs are listed in the work products delivered to the Committee.
4. The state should replace its current three health benefit plans for employees as follows:

Current State Employee Health Benefit Plans	Mercer Recommendations
Non-Health Savings Account (HSA) qualified high-deductible health plan (HDHP) with no state contribution for the deductible to the HDHP.	HSA-qualified HDHP with the option of the state funding an HSA contribution of a predetermined dollar amount per employee or employee plus family.
Preferred Provider Organization (PPO) plan	Continue same or similar PPO plan but review operation of the plan for the most cost-effective PPO network and plan management available.
Traditional plan	Evaluate Value-Based Care (VBC) opportunities, including an Accountable Care Organization model. The VBC plan may be an option or inclusion on each health plan.

Committee Recommendations

It is the unanimous recommendation of the members of the State Employee Group Insurance and Benefits Committee that:

1. The Department of Administration, with the assistance of the Committee’s contractor Mercer, shall develop a Request for Proposals (RFP) to be issued by the state, for the selection of one or more administrators, including carriers, third party administrators (TPAs) and vendors to administer an array of health benefit plans adopted for employee health care benefits. The Committee recommends that the RFP request bids on the three health care benefit plans recommended by Mercer in the foregoing chart.

All plans should use as many elements of value-based care as possible. All administrators should incorporate, to the extent possible, the 23 Mercer recommended programs to reduce long-term costs and rates of cost increases to health care. Administrators shall be allowed to bid on any one or any combination of the recommended plans. Bids need not

be statewide bids. The RFP shall provide for administrators to bid using the current hybrid fully-insured model or a self-funded model, or both. Bids using the self-funded model should have as part of the bid, an analysis of Chapter 40 of Title 41, Idaho Code, with a recommendation as to whether the state should exempt itself from the chapter, as the state exempted all counties in 2001. The analysis should be based on costs, flexibility, potential liability, and other relevant considerations.

2. The Legislature reauthorize the State Employee Group Insurance and Benefits Legislative Interim Committee to meet in 2018 in order to work with the consultant in acting upon the Committee's recommendations.
3. The Legislature authorize the extension of the contract with Mercer consultants in 2018, contingent upon the successful negotiation of a new statement of work and contract price for the contract between the consultant and the Co-Chairs of the State Employee Group Insurance and Benefits Legislative Interim Committee, as approved by the Committee.
4. The Committee review the results and award of the RFP outlined in Recommendation No. 1, above for compliance, fairness and thoroughness. Based upon that review, the Committee shall make a funding recommendation to the Joint Finance-Appropriations Committee and the Idaho Legislature.