

Report on the

State Employees' Insurance Board
State of Alabama
Montgomery, Alabama

October 1, 2012 through September 30, 2015

Filed: September 30, 2016



Department of
Examiners of Public Accounts

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Ronald L. Jones, Chief Examiner



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State of Alabama
Department of
Examiners of Public Accounts

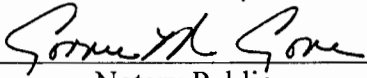
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Honorable Ronald L. Jones
Chief Examiner of Public Accounts
Montgomery, Alabama 36130

Dear Sir:

Under the authority of the *Code of Alabama 1975*, Section 41-5-21, I submit this report on the results of the examination of the State Employees' Insurance Board for the period October 1, 2012 through September 30, 2015.

Sworn to and subscribed before me this
the 16 day of September, 2016.


Notary Public

Respectfully submitted,



Daniel Dupree
Examiner of Public Accounts

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Department of
Examiners of Public Accounts

SUMMARY

**State Employees' Insurance Board
October 1, 2012 through September 30, 2015**

The State Employees' Insurance Board (the "Board") is authorized to establish a plan of health insurance for employees of the State and empowered to promulgate necessary rules and regulations. The Board is invested with corporate powers for the management of the health insurance plan. The Board operates under the authority of the *Code of Alabama 1975*, Sections 36-29-1 through 36-29-52.

This report presents the results of an examination of the Board and a review of compliance by the Board with applicable laws and regulations of the State of Alabama. This examination was conducted in accordance with the requirements of the Department of Examiners of Public Accounts under the authority of the *Code of Alabama 1975*, Section 41-5-14. Our examination was performed for the purpose of determining whether the public officers, agents, and employees of the Board properly and lawfully accounted for all money and other public assets or resources received, disbursed, or in the custody of the Board. Our examination included determining compliance by the Board with state laws and regulations that pertain to financial transactions; personnel; safeguarding of state-owned assets, property, and resources; information dissemination, processing, and retention; and official actions, rulemaking procedures, and meetings. As a part of our examination, we also reviewed internal control policies and procedures relating to the areas listed above. Our examination did not encompass managerial and operational matters, such as whether the Board accomplished its mission or its regulatory, enforcement, investigative, or other oversight activities in an efficient, fair, timely, or legal manner.

Tests performed during the examination did not disclose any significant instances of noncompliance with applicable laws and regulations.

An exit conference was held on August 31, 2016. Individuals in attendance were: William Ashmore, Chief Executive Officer; John E. Parks Jr., Chief Financial Officer; Sally R. Corley, Chief Operation Officer; Keith Cox; and Chris Landry representing the Board along with Maria Catledge and Daniel Dupree from the Department of Examiners of Public Accounts.



Department of
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COMMENTS

**State Employees' Insurance Board
October 1, 2012 through September 30, 2015**

The State Employees' Insurance Board (SEIB) (the "Board") operates under the authority of the *Code of Alabama 1975*, Sections 36-29-1 through 36-29-52. The Board was created to establish and administer a fully insured or self-insured health insurance plan for employees and retirees of the State of Alabama by Act 1965-833. The administration of local government employee and non-state agencies' employee group plans were added to the Board's charge in subsequent years. However, Act 2014-401 created the Local Government Health Insurance Board to administer the Local Government Health Insurance Program (LGHIP). The Local Government Health Insurance Board assumed all control and responsibility for the LGHIP from the SEIB on January 1, 2015.

The Board is vested with all powers and privileges of a corporation for the management of the health insurance plans and benefits.

The SEIB is an eleven-member board composed of the five members of the State Personnel Board, the Director of the Finance Department, the Secretary-Treasurer of the Employees' Retirement System of Alabama, two regular employees of the state, and two retired employees of the state. The regular employees are elected by the Alabama State Employees' Association (ASEA) and the retirees are elected by the Alabama Retired State Employees' Association (ARSEA). The retirees must also be receiving benefits from the RSA and covered by the Plan.

The SEIB administers the following benefit plans and programs:

State Employees' Health Insurance Program

The SEIB is charged by statute to design a state employees' health insurance plan that bears a reasonable relationship between benefits provided and anticipated claims. The statutes governing the SEIB require that the plan include controls to prevent unnecessary utilization of covered services and to provide reasonable assurance of future stability. The SEIB is responsible for setting premium costs for employee, retiree, and dependent coverage. Premiums are based on the relationship between anticipated claims and the fund balance available for claim payments in the next fiscal year. Premiums are established annually on the advice of an actuarial consulting firm.

In response to its statutory charge the SEIB offers a Preferred Provider Organization (PPO) plan within the State Employees' Health Insurance Plan (SEHIP). The SEHIP offers coverage for routine and major medical care, providing coverage for medical expenses in addition to wellness benefits and subject to various deductibles and co-pays. The SEHIP is a self-insured plan, meaning that the plan acts as its own insurance company subject to the financial risk of the participants' health care costs. SEHIP does not carry "stop loss" coverage and is liable for all incurred costs. This plan, like other self-insured plans in the State, is not subject to regulation by the Alabama Department of Insurance.

The SEIB established a Retiree Health Care Trust in 2007 as directed by the *Code of Alabama 1975*, Section 36-36-1 in the States' response to GASB Statements 43 and 45. The GASB standards require state governments to account for post-employment benefits other than pension, such as retiree health care, on an actuarial basis during an employee's career rather than on a pay-as-you-go basis during the employee's period of retirement. As of September 30, 2014, the liability for retiree health care was estimated to be \$2.9 billion with an annual required contribution of \$204 million over thirty years. The Trust's net position at September 30, 2015 was \$149,258,206.

SEHIP health insurance benefits are available to eligible active employees of the State of Alabama, their dependents, Consolidated Omnibus Budget Reconciliation Act (COBRA) participants, and retirees and their dependents, including probate judges and supernumerary officials. Retired members who were eligible for participation as active employees are also eligible as retirees. Dependents of eligible employees or retirees are also eligible for coverage. Part-time employees are eligible if they agree to have the required premium paid through payroll deduction. Members of the legislature and the Lieutenant Governor are eligible during their terms of office. Seasonal, temporary, intermittent, emergency and contract employees are not eligible for coverage.

The *Additional Information* section of this report contains more detailed information related to the operations of the State Employees' Health Insurance Program.

The Local Government Health Insurance Program

The Local Government Health Insurance Program (LGHIP) was established and previously operated under the authority of the *Code of Alabama 1975*, Section 36-29-14, to provide health insurance benefits for employees and retirees of local government units within Alabama. The administrative responsibility for the LGHIP was previously vested with the State Employees' Insurance Board.

Act 2014-401, Acts of Alabama 2014, created the Local Government Health Insurance Board to administer the LGHIP. The Local Government Health Insurance Board assumed all control and responsibility for the LGHIP from the SEIB on January 1, 2015.

Flexible Employees' Benefit Plan

The Flexible Employees' Benefit Plan (the Plan) is authorized by *Code of Alabama 1975*, Section 36-29-20 through Section 36-29-30 to provide for pre-tax salary deductions to pay for qualified benefits for participating employees in accordance with Section 125 of the Internal Revenue Code. Available benefits include optional and supplemental insurance and eligible health and dependent care expenses. The State Employees' Insurance Board, on behalf of the Flexible Employees' Benefit Board, contracts with Erisa Administrative Services Inc. for the administration of the supplemental and optional insurance plans and with Blue Cross Blue Shield of Alabama to administer the health and dependent care expense reimbursement plans. The SEIB contributed administrative support in the following annual amounts in support of the Flexible Employees' Benefit Plan:

FY 2013	FY 2014	FY 2015
\$1,579,364	\$1,591,428	\$1,596,847

Alabama Health Insurance Plan

The State Employees' Insurance Board administered the Alabama Health Insurance Plan (AHIP) at the request of the Alabama Health Insurance Board. The Alabama Health Insurance Plan was established and operated under the authority of the *Code of Alabama 1975*, Sections 27-52-1 through 27-52-6. The Alabama Health Insurance Plan was created by the legislature primarily for people who have exhausted their employer sponsored coverage and who have no other insurance options available to them. The State Employees' Insurance Board began administering the plan for the Alabama Health Insurance Board on January 1, 1998. The State Employees' Insurance Board received \$360,000 annually, except for fiscal year 2015 when it received \$270,000, from AHIP for administrative costs.

Act 2014-219, Acts of Alabama 2014, suspended the Alabama Health Insurance Program. Because guaranteed issue health insurance coverage is now available to all citizens through federal health care reforms, there is not a need for the State to continue incurring the expense of providing the AHIP.

The SEIB discontinued accepting new enrollments on January 1, 2014, and the claims runout program ended July 1, 2015.

Alabama Department of Corrections Inmate Hospitalization

Effective December 1, 2005, the State Employees' Insurance Board, through an interagency agreement with the Alabama Department of Corrections, provides access to inpatient hospital networks, online claims information, comprehensive claims analyses software, and a variety of summary and detailed claims reports for inmate care. The SEIB acts as a pass-through entity for claim payments. The SEIB is not liable for the claim expenses incurred as they are the responsibility of the Department of Corrections. The State Employees' Insurance Board received \$249,600 annually from the Department of Corrections for administrative costs.

The Board operates from the following funds maintained in the State Treasury:

- **Fund 0457** – To provide payment for health care and related claims incurred by the State Employees' Insurance Plan.
- **Fund 0484** – To provide payment for administrative expenses of the State Employees' Insurance Board.
- **Fund 0532** – To provide payment for health care and related claims incurred by the Local Government Health Insurance Plan.
- **Fund 0917** – To provide payment for administrative expenses of the Flexible Employees' Benefit Board.
- **Fund 1038** – To provide flexible benefit payments for the Flexible Employees' Benefit Board.
- **Fund 1161** – To provide payment for health care and related claims incurred by inmates under the corrections health care plan.
- **Fund 1179** – To accumulate assets to provide post-employment health care benefits for retired state employees.
- **Fund 1196** – To report activity related to retired state employees.
- **Fund 1197** – To report activity related to retired local government employees.
- **Fund 1289** – To provide payment for health care and related claims incurred by inmates under the mental health care plan.
- **Fund 1805** – To provide payment for health care and related claims incurred by the Alabama Health Insurance Plan.

The Board also utilizes a bank account with BB&T financial services holding company in order to accept online and other electronic payment of premiums for SEHIP.

The financial statements of the Board have been audited annually by a public accounting firm and are included in the State of Alabama Comprehensive Annual Financial Report audited by the State of Alabama Department of Examiners of Public Accounts.

Non-consumable personal property in the custody of the Department was compared with the property records maintained by the Property Inventory Control Division of the State Auditor's Office. No discrepancies were found.

Additional Information

SEHIP funding is accomplished through a combination of state funds and plan participant premiums. State employee health insurance plan premiums are due monthly. State entities pay the premiums for their eligible employees. Employees who elect dependent coverage are responsible for paying the premium for dependent coverage. Dependent coverage premiums must be paid by payroll deduction. Eligible retirees may continue their coverage upon retirement.

A schedule of the amounts paid by state agencies for active employees' health insurance premiums and their use to subsidize other coverages follows:

Summary of Employee Premium Uses			
Category	FY 2013	FY 2014	FY 2015
Active Employees	355	365	392
Retired Employees	191	159	166
Dependent Coverage	257	230	244
COBRA, Direct Pays, and Other Coverage	29	23	20
Administrative Costs	14	15	16
ACA Regulatory Fees		10	10
Retiree Trust Fund	2	0	(19)
Reserves	(83)	23	(4)
Total State Allocation	<u>765</u>	<u>825</u>	<u>825</u>

Source: SEIB staff

For fiscal year 2015, approximately 90,604 people were covered by the State Employees' Health Insurance Plan, of which 30,436 were active employees. A schedule of active employees, their covered spouses and children for fiscal year 2015 follows:

Plan Participation, Premium Income, and Claims Paid 2015 Alabama State Employee's Health Insurance Plan Entities						
Plan Entities	Participants		Premiums		Claims	
	Number	Percent	Income	Percent	Paid	Percent
Active Employees	30,436	33.59%	\$332,300,210	81.83%	\$151,905,297	35.74%
Dependents	30,738	33.93%	35,313,823	8.70%	115,425,749	27.16%
COBRA	126	0.14%	579,686	0.14%	2,282,915	0.54%
Dependents	47	0.05%	238,089	0.06%	238,053	0.06%
Non-Medicare Retirees	4,509	4.98%	15,769,183	3.88%	41,288,359	9.71%
Dependents	3,026	3.34%	6,788,908	1.67%	15,201,489	3.58%
Non-Medicare Surviving Spouse	113	0.12%	523,845	0.13%	1,106,387	0.26%
Dependents	33	0.04%	62,580	0.02%	76,869	0.02%
Medicare Retirees	14,496	16.00%	1,446,418	0.36%	64,434,522	15.16%
Dependents	5,483	6.05%	9,688,468	2.39%	26,823,343	6.31%
Medicare Surviving Spouse	1,571	1.73%	3,336,392	0.82%	6,159,190	1.45%
Dependents	26	0.03%	55,336	0.01%	88,204	0.02%
Total	90,604	100.00%	\$406,102,938	100.00%	\$425,030,377	100.00%

Source: SEIB staff

Of the \$406,102,938 collected in premiums for fiscal year 2015, \$323,641,796 (79.69%) was paid by state agencies on behalf of active employees and retirees. The other 20.31% was paid by employees for employee premiums, dependent coverage, former employees who elected COBRA coverage for themselves and their dependents, retirees not enrolled in Medicare for their portion of coverage and for dependents, dependents of retirees on Medicare, and surviving spouses of deceased employees/retirees for individual and dependent coverage.

The SEIB continues to contract with Blue Cross/Blue Shield of Alabama to administer the claims portion of the employees' health and dental benefits plan. Amounts paid to Blue Cross/Blue Shield for administrative costs are included in the "Claims Paid" column above. For fiscal year 2015, the Blue Cross/Blue Shield contract provided for administrative fees, paid monthly, based on the number of enrollees and the number of prescription drugs filled in the plan, not to exceed 4.2% of the cost of claims. According to the SEIB staff, for fiscal year 2015, the effective administrative fee was 3.99% of claims paid.

In addition to claims administered by Blue Cross Blue Shield, the SEIB has the following administrative functions:

Utilization Management – Utilization management services aimed to ensure that services paid for by the SEHIP are medically necessary and appropriate for the diagnosis or the condition complained of and that services are provided in the most cost-effective setting. Blue Cross Blue Shield of Alabama provided utilization management services for the SEIB for the 2015 fiscal year.

Worksite Wellness Program – The SEIB contracts with the Alabama Department of Public Health for a department by department program of preventive health education and screening efforts, including on-site blood pressure screening, cholesterol screening, distribution of educational self-care literature, and immunizations (flu, pneumonia, and tetanus boosters). The State Wellness Center and Pharmacy is located at 101 South Union Street in downtown Montgomery.

Disease Management – Disease management is a system of coordinated health care interventions and communications for members with chronic conditions in which patient self-care efforts are extremely significant. The goal is to empower participants to use the most advantageous self-management skills relevant to their particular conditions so they can better manage and improve their own health. A key element of disease management programs is the prevention and early detection of symptoms that suggest disease exacerbation, thus avoiding use of costly medical services, such as emergency room visits and/or hospital admissions. The targeted conditions of SEIB’s disease management program are coronary heart disease, chronic obstructive pulmonary disease (COPD), and diabetes. By encouraging members with these chronic conditions to comply with their treatment plans, it is estimated that the disease management program will help save millions in health care costs.

Consultants – The SEIB contracted with several consulting firms to provide actuarial services, claims analysis, evaluations of requests for proposal (RFP), financial audits, and specific plan studies.

Administrative Costs			
	FY 2013	FY 2014	FY 2015
Utilization Management	\$1,381,615	\$1,322,700	\$1,312,554
Disease Management	\$ 603,710	\$ 595,105	\$ 590,243
State Wellness Program	\$6,042,682	\$4,074,358	\$4,653,591
Consultants	\$ 664,083	\$ 671,905	\$ 479,374
SEIB Internal	\$1,377,881	\$1,146,029	\$1,322,500

Source: SEIB staff

***Board Members and Official
State Employees' Insurance Board
October 1, 2012 through September 30, 2015***

Board Members		Term Expires
Hon. Joe N. Dickson	Chair	2022
Hon. John Carroll	Member	2021 (1)
Hon. Liane Kelly	Member	2018
Hon. Faye Nelson	Member	2013 (2)
Hon. Myron Penn	Member	2017
Hon. Robert Wagstaff	Member	2016
Hon. Paige Hebson	Member	2018
Hon. William Mellown	Member	2015
Hon. Robert Pickett	Member	2017
Hon. David Bronner	Ex-Officio	Indefinite
Hon. Bill Newton	Ex-Officio	Indefinite
Hon. Marquita Davis	Ex-Officio	2013

***Board Members and Official
State Employees' Insurance Board
October 1, 2012 through September 30, 2015***

Board Members		Term Expires
Hon. Jon Barganier	Member	2017 (3)
Hon. Mark Williams	Member	2017 (4)
Hon. Joanne Randolph	Member	2018 (5)

Official

William L. Ashmore Chief Executive Officer

201 South Union Street
Suite 200
Montgomery, AL 36104
(334) 263-8300
www.alseib.org

- (1) Resigned March 2016
- (2) Continues to serve
- (3) Resigned February 2014
- (4) Resigned September 2015
- (5) Resigned November 2014

***Board Members and Official
Flexible Employees' Benefit Board
October 1, 2012 through September 30, 2015***

Board Members		Term Expires
Hon. Joe N. Dickson	Chair	2022
Hon. John Carroll	Member	2021 (1)
Hon. Liane Kelly	Member	2018
Hon. Faye Nelson	Member	2013 (2)
Hon. Myron Penn	Member	2017
Hon. Paige Hebson	Member	2018
Hon. Bill Newton	Ex-Officio	Indefinite
Hon. Marquita Davis	Ex-Officio	2013
Hon. Jon Barganier	Member	2017 (3)
Hon. Mark Williams	Member	2017 (4)
Hon. Joanne Randolph	Member	2018 (5)

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***State Employees' Health Insurance Plan
Summary of Program Changes
For the Most Recent Three Years***

Plan Year	Plan Changes	Savings/ (Costs)
2013	<ol style="list-style-type: none"> 1. Increased employee monthly premium to \$85 2. Increased non-tobacco user's monthly discount to \$45 3. Increased non-Medicare and surviving spouse premium \$15 for single coverage and \$25 for family coverage 4. Increased Medicare retiree premium \$5 for single and family coverage 5. Increased Medicare surviving spouse premium \$15 for single coverage and \$25 for family coverage 	
	Wellness participation discounts forfeited	\$ 93,245.00
	Opt not to have coverage	2,150,415.00
	Supplemental coverage for employees and retirees eligible for other coverage	13,771,070.00
	Non-Tobacco Usage Discounts Forfeited	4,667,670.00
	Federal Poverty Level assistance	(613,997.00)
	Pre-tax employee contributions	1,180,685.00
	Retiree contributions based on years of service and reduction in growth of retiree population	13,256,634.00
2014	<ol style="list-style-type: none"> 1. Increased employee monthly premium to \$90 2. Increased non-tobacco user's monthly discount to \$50 3. Increased non-Medicare retiree premium \$15 for single coverage and \$25 for family coverage 4. Increased Medicare retiree premium \$5 for single and \$25 for family coverage 5. Increased surviving spouse premium \$20 for single and \$25 for family coverage 6. Dental coverage became a separate plan. Premiums were \$3 for single coverage and \$8 for family coverage for BCBS or Southland 7. Spousal surcharge of \$50 per month implemented 8. Implemented a Health Reimbursement Arrangement (HRA), referred to as State Employees Premium Only Plan (SEPOP), providing up to \$150 monthly toward other employer group health coverage. 	
	Medical Benefit Changes:	
	1. No copay for some preventive and women's health services	
	2. Increased outpatient surgery copay from \$100 to \$150	
	3. Increased emergency room copay from \$50 to \$150	
	4. Increased major medical deductible from \$100 to \$300	
	5. Lowered lab test copay from \$10 to \$7.50	
	6. Increased urgent care facility copay from \$35 to \$50	
	7. Reduced wellness center copay from \$20 to \$0	
	8. Increased maximum out of pocket member costs to match ACA limits	

State Rate		% Increase	Dependent Rate		% Increase	Tobacco Usage Surcharge	
\$	765.00	0%	\$	275.00	2%	\$	45.00

\$	825.00	8%	\$	280.00	2%	\$	50.00
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***State Employees' Health Insurance Plan
Summary of Program Changes
For the Most Recent Three Years***

Plan Year	Plan Changes	Savings/ (Costs)
	Pharmacy Benefit Changes:	
	1. Implemented the Generic First program	
	2. Allowed 90 day generic supply (Tier 1 at 1.5 times copay)	
	3. Moved high cost generics to Tier II	
	4. Increased Medicare Rx EGWP copays \$5 per script	
	Legislative Changes:	
	1. Authorized the Board to offer a high deductible health plan with a federally qualified health savings account and health reimbursement arrangement to eligible state employees, state retirees, and their dependents	
	Wellness participation discounts forfeited	\$ 870,925.00
	Spousal surcharges	2,813,800.00
	Opt not to have coverage	3,314,850.00
	Supplemental coverage for employees and retirees eligible for other coverage	14,250,699.00
	Non-Tobacco Usage Discounts Forfeited	4,793,355.00
	Federal Poverty Level assistance	(788,317.00)
	Pre-tax employee contributions	1,307,267.00
	Retiree contributions based on years of service and reduction in growth of retiree population	12,990,663.00
2015	1. Increased non-Medicare retirees' premiums by \$10	
	2. Increased non-Medicare retirees' family coverage premium by \$20	
	3. Increased surviving spouse's single coverage premium by \$10	
	4. Increased surviving spouse's family coverage premium by \$20	
	5. Implemented a spousal non-tobacco user discount of \$50, paired with a \$50 increase in the family spousal rate	
	6. Added single coverage vision option for \$12 premium	
	7. Implemented a spousal wellness discount of \$25, paired with a \$25 increase in the family spousal rate	
	8. Implemented change that re-employed Medicare retirees working an average of less than 10 hours per week will be Medicare primary	
	9. Eliminated the dental related-party exclusion	
	Wellness participation discounts forfeited	\$ 1,338,625.00
	Spousal surcharges	3,594,650.00
	Opt not to have coverage	5,256,075.00
	Supplemental coverage for employees and retirees eligible for other coverage	15,827,434.00
	Non-Tobacco Usage Discounts Forfeited	5,026,900.00
	Federal Poverty Level assistance	(916,508.00)
	Pre-tax employee contributions	1,375,704.00
	Retiree contributions based on years of service and reduction in growth of retiree population	21,238,808.00



State Rate	% Increase	Dependent Rate	% Increase	Tobacco Usage Surcharge
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\$ 825.00	0%	\$ 405.00	45%	\$ 50.00
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