

Report on the

**State Employees' Insurance Board
State of Alabama
Montgomery, Alabama**

October 1, 2015 through September 30, 2019

Filed: June 4, 2021



**Department of
Examiners of Public Accounts**

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Rachel Laurie Riddle, Chief Examiner



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Honorable Rachel Laurie Riddle
Chief Examiner of Public Accounts
Montgomery, Alabama 36130

Dear Madam:

An examination was conducted on the State Employees' Insurance Board, Montgomery, Alabama, for the period October 1, 2015 through September 30, 2019, by Examiners Natalya Grantham and Katie Little. I, Natalya Grantham, served as Examiner-in-Charge on the engagement, and under the authority of the *Code of Alabama 1975*, Section 41-5A-19, I hereby swear to and submit this report to you on the results of the examination.

Respectfully submitted,

A handwritten signature in blue ink that reads 'Natalya Grantham'.

Natalya Grantham
Examiner of Public Accounts

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Department of
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SUMMARY

**State Employees' Insurance Board
October 1, 2015 through September 30, 2019**

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 the Board's compliance 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 41-5A-12. 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.

EXIT CONFERENCE

William Ashmore, Chief Executive Officer, was invited to an exit conference held via teleconference on May 6, 2021. Individuals in attendance were: William Ashmore; John E. Parks, Jr., Chief Financial Officer; and Sally R. Corley, Chief Operation Officer, along with Brad Grier, Natalya Grantham, and Katie Little from the Department of Examiners of Public Accounts.

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COMMENTS

**State Employees' Insurance Board
October 1, 2015 through September 30, 2019**

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.

SEHIP 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.

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 is below:

Summary of Employee Premium Uses				
Category	FY 2016	FY 2017	FY 2018	FY 2019
Active Employees	393	378	416	446
Retired Employees	177	154	125	113
Dependent Coverage	256	223	220	248
COBRA, Direct Pays, and Other Coverage	22	68	73	74
Administrative Costs	18	21	20	(2)
ACA Regulatory Fees	6	2	0	0
Retiree Trust Fund	(37)	0	0	0
Reserves	(10)	4	76	51
Total State Allocation	825	850	930	930

Source: SEIB staff

For fiscal year 2019, 97,395 people were covered by the State Employees' Health Insurance Plan, of which 31,640 were active employees. A schedule of active employees, their covered spouses and children for fiscal year 2019 is below:

Plan Participation, Premium Income, and Claims Paid 2019 Alabama State Employee's Health Insurance Plan Entities						
Plan Entities	Participants		Premiums		Claims	
	Number	Percent	Income	Percent	Paid	Percent
Active Employees	31,640	32.49%	\$369,446,732	82.14%	\$175,760,131	40.95%
Dependents	30,930	31.76%	36,752,191	8.17%	138,182,804	32.20%
COBRA	123	0.13%	555,900	0.12%	2,019,772	0.47%
Dependents	43	0.04%	208,782	0.05%	202,834	0.05%
Non-Medicare Retirees	5,307	5.45%	14,750,493	3.28%	35,357,698	8.24%
Dependents	3,824	3.93%	5,339,921	1.19%	12,590,788	2.93%
Non-Medicare Surviving Spouse	132	0.14%	519,470	0.12%	1,430,215	0.33%
Dependents	39	0.04%	54,363	0.01%	118,798	0.03%
Medicare Retirees	17,294	17.76%	6,532,943	1.45%	37,056,292	8.63%
Dependents	6,410	6.58%	11,546,146	2.57%	22,833,277	5.32%
Medicare Surviving Spouse	1,622	1.67%	4,008,242	0.89%	3,563,334	0.83%
Dependents	31	0.03%	48,048	0.01%	72,836	0.02%
Total	97,395	100.00%	\$449,763,231	100.00%	\$429,188,779	100.00%

Source: SEIB staff

Of the \$449,763,231 collected in premiums for fiscal year 2019, \$354,480,567 (78.81%) was paid by state agencies on behalf of active employees and retirees. The other 21.19% 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 contracts 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 2019, 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 2019, the effective administrative fee was 3.33% 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 provides utilization management services for the SEIB.
- ◆ **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 2016	FY 2017	FY 2018	FY 2019
Utilization Management	\$1,280,425	\$1,304,376	\$1,308,680	\$1,300,983
Disease Management	\$ 575,763	\$ 581,922	\$ 581,637	\$ 578,213
Teladoc	\$ 0	\$ 238,565	\$ 314,708	\$ 312,461
State Wellness Program	\$1,522,108	\$1,682,006	\$1,346,617	\$1,165,474
Consultants	\$1,601,991	\$ 980,202	\$1,305,537	\$1,117,237
ACA Regulatory Fees	\$2,597,063	\$ 699,129	\$ 190,496	\$ 185,159
SEIB Internal	\$1,588,699	\$1,875,225	\$1,081,844	\$1,320,337

Source: SEIB staff

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 2016	FY 2017	FY 2018	FY 2019
\$1,549,057	\$1,750,720	\$1,767,623	\$1,771,231

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 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 1289** – To provide payment for health care and related claims incurred by inmates under the mental health care 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.

Nonconsumable 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.

Schedule of Cash Receipts, Disbursements and Balances
For the Period October 1, 2017 through September 30, 2019

	2018-2019	2017-2018
Receipts		
Charges for Goods and Services	\$ 4,455,183.39	\$ 4,395,712.94
Premiums and Contributions		297,944.13
Plan Member Contributions	106,087,616.09	107,759,768.92
Employer Contributions	357,053,703.20	351,205,794.47
Other Nonoperating Revenues		1,070.77
Transfers In	4,426,788.22	4,201,281.59
Insurance Recovery Proceeds		592.15
Total Receipts	<u>472,023,290.90</u>	<u>467,862,164.97</u>
Disbursements		
Personnel Costs	3,890,159.45	3,780,541.09
Employee Benefits	1,403,507.33	1,387,532.50
In-State Travel	20,992.11	21,578.50
Out-of-State Travel	11,159.70	6,134.45
Repairs and Maintenance	86,165.22	7,140.02
Rentals and Leases	997,443.06	1,039,430.06
Utilities and Communication	217,493.41	218,496.90
Professional Services	2,345,613.41	2,850,653.85
Supplies, Materials, and Operating Expenses	523,085.84	509,333.96
Transportation Equipment Operations	11,821.48	15,887.97
Grants and Benefits	454,058,692.33	432,937,102.07
Transportation Equipment Purchases	37,656.00	
Other Equipment Purchases	108,869.49	173,294.65
Miscellaneous	4,397,398.22	4,201,281.59
Total Disbursements	<u>468,110,057.05</u>	<u>447,148,407.61</u>
Excess (Deficiency) of Receipts Over Disbursements	3,913,233.85	20,713,757.36
Cash Balances at Beginning of Year	1,437,507.68	2,251,374.32
Balance Sheet Activity Impacting Total Ending Cash	<u>2,590,252.60</u>	<u>(21,527,624.00)</u>
Cash Balances at End of Year	<u>\$ 7,940,994.13</u>	<u>\$ 1,437,507.68</u>

***Board Members and Official
State Employees' Insurance Board
October 1, 2015 through September 30, 2019***

Board Members		Term Expires
Hon. Faye Nelson	Chairman	2013 (1)
Hon. Joe Dickson	Member	Deceased
Hon. David Bronner, Ph.D.	Ex-Officio	Indefinite
Hon. Kelly Butler	Ex-Officio	Indefinite
Hon. Clinton Carter	Ex-Officio	2018
Hon. Bill Newton	Ex-Officio	2016
Hon. Connie Grier	Member	2021
Hon. Paige Hebson	Member	2018 (2)
Hon. David Mellon, J.D.	Member	2022
Hon. Rachel Bunning	Member	2024
Hon. Robert Pickett	Member	2021
Hon. Michael Washington, Jr.	Member	2020
Hon. Carolyn Middleton	Member	2023

***Board Members and Official
State Employees' Insurance Board
October 1, 2015 through September 30, 2019***

Board Members	Term Expires
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Hon. Evan Thornton	Member	2021
Hon. Myron Penn	Member	2023
Hon. Liane Kelly	Member	2018
Hon. Miles Gagner	Member	2020 (2)
Hon. John Carroll	Member	2016 (2)
Hon. Robert Wagstaff	Member	2015

Official

William Ashmore	Chief Executive Officer 201 South Union Street Suite 200 Montgomery, AL 36104 (334) 263-8300 www.alseib.org
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(1) Continues to serve beyond expiration of term.

(2) Resigned or retired prior to expiration of term.

