

ANALYSIS

Item 2: Oregon Health Authority 2021-23 PEBB Expenditure Limitation

Analyst: Matt Stayner

Request: Increase Other Funds expenditure limitation for the Oregon Health Authority, Public Employees' Benefit Board, by \$8,000,000 for the recording of final payments for state employee health care benefits in 2021-23.

Analysis: To facilitate the close out of the 2021-23 biennium, the Oregon Health Authority (OHA) requires an upward adjustment of the Other Funds expenditure limitation established for the payment of health care benefits for Public Employees' Benefit Board (PEBB) members enrolled in a self-insured plan. The limitation shortfall is primarily due to unanticipated increases in enrollments and monthly claims during the final two quarters of the 2021-23 biennium. OHA reports that weekly self-insured claim payments are approximately \$15 million. The \$8 million shortfall in limitation represents 2.7 days of claim payments and is just over 3.4 tenths of one percent of the program's biennial Other Funds budget for claim payments.

Recommendation: The Legislative Fiscal Office recommends that the Emergency Board increase the Other Funds expenditure limitation for the Oregon Health Authority, Public Employees' Benefit Board, by \$8,000,000 for the recording of final payments for state employee health care benefits in 2021-23.

Request: Increase Other Funds expenditure limitation by \$8.0 million for the Oregon Health Authority Public Employees Benefit Board to make final payments for healthcare benefit claims for the 2021-23 biennium.

Recommendation: Approve the request.

Discussion: The Oregon Health Authority (OHA) is requesting \$8.0 million Other Funds expenditure limitation for the Public Employees Benefit Board (PEBB) to pay claims for the 2021-23 biennium. PEBB provides health insurance and other employment benefits for approximately 140,000 state government, university, and Oregon State Lottery employees and their dependents. PEBB has a budget of \$2.3 billion Other Funds in 2021-23 for paying employee benefits. (PEBB administration is budgeted as part of the Health Policy and Analytics division in a separate appropriation.)

PEBB beneficiaries can choose between a range of health insurance plans and other benefits, including self-insured plans for which PEBB pays claims, and plans which are fully insured, meaning PEBB pays monthly premiums to an insurer who pays the claims. Self-insured plans represent approximately 81 percent of PEBB's budget. PEBB's budget shortfall is due to fully insured plans exceeding their planned expenditures during the biennium, something PEBB had been able to cover with savings from self-insured claims coming in lower than expected. Due to the ongoing rebound in utilization after the end of the pandemic, PEBB experienced an unexpected surge in self-insured claims in the last three months of the biennium, meaning the savings to cover fully insured costs did not materialize as expected. The unexpected nature of the surge late in the biennium also meant OHA was not able to anticipate the budget shortfall in time to request additional Other Funds expenditure limitation during the 2023 Legislative Session.

PEBB operates under a legislative mandate to limit per-member growth to 3.4 percent per year, excluding employee-paid benefits, taxes, and fees. The 3.4 percent statutory test is administered on a calendar year basis, which does not line up neatly with the state's biennial budget (and also excludes certain budgeted expenditures), so a biennial budget overage does not necessarily imply the plans have exceeded their statutory cap. PEBB is monitoring self-insured claims carefully to determine the possible impact on its statutory cap and on its budget needs for 2023-25.

Due to a projected excess fund balance to meet the fund's risk-based capital needs, the 2023 Legislature directed the transfer of a combined \$90 million of the fund's balance to the General Fund and the Risk Fund on May 31, 2025. OHA believes that even with this overage, the fund will have sufficient balance to make the transfer as long as claims costs remain within expected trend and do not experience a further spike due to expanded access to services or pent-up demand for care.

Legal Reference: Increase Other Funds expenditure limitation established by chapter 668, section 7, Oregon Laws 2021, for the Oregon Health Authority, Public Employees Benefits Board from the Public Employees' Revolving Fund for benefit plan premiums and self-insurance, by \$8,000,000 for the 2021-23 biennium.



OFFICE OF THE DIRECTOR

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October 11, 2023

Senator Rob Wagner, President of the Senate
Representative Dan Rayfield, Speaker of the House
Joint Emergency Board
900 Court Street NE
H-178 State Capitol
Salem, OR 97301

Dear Co-Chairs:

Nature of the Request

The Oregon Health Authority (OHA) requests \$8,000,000 Other Funds limitation in the Public Employees' Benefit Board (PEBB) revolving fund to make final payments for health care benefits for state employees for the 2021-23 biennium.

Agency Action

PEBB expenditures fluctuate based on increases (or decreases) in member enrollment in benefit plans and based on utilization (or claims invoices) in self-insured plans which are variable in nature and can swing dramatically from month-to-month and even year-to-year. Approximately 90 percent of PEBB members are enrolled in a self-insured plan while the remaining 10 percent are enrolled in a fully-insured plan. In prior plan years when fully insured plans have been over budget, PEBB has counted on savings in their self-insured plan budget to make up for the shortfall. When those savings didn't materialize by mid-2023 Plan Year, PEBB found itself short of limitation in the final month of the biennium. PEBB has experienced an uptick in utilization in the 2023 Plan Year as workforce shortages have improved and access to services have been better equipped to handle the pent-up demand coming out of the pandemic. Comparing January-June 2022 and January-June 2023 self-insured enrollments increased 3.4 percent and monthly claims increased by 14.4 percent. As PEBB processed final claims for the 2021-23 biennium it was found that an additional \$8,000,000 in Other Funds limitation was needed to finish the biennium. PEBB pays approximately \$15,000,000 weekly in self-insured claims, so the shortfall was about two weeks in limitation over the biennium.

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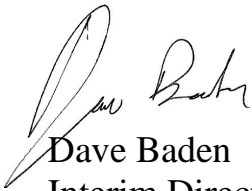
Action Requested

The OHA Public Employees' Benefit Board requests an \$8,000,000 Other Funds limitation increase to support 2021-23 biennial costs for health care benefits for state employees.

Legislation Affected

Oregon Laws 2021, Chapter 668, section 7, increase Other Funds \$8,000,000.

Sincerely,

A handwritten signature in black ink, appearing to read "Dave Baden", is written over the printed name.

Dave Baden
Interim Director

EC: Matt Stayner, Legislative Fiscal Office
Patrick Heath, Department of Administrative Services
Kate Nass, Department of Administrative Services
Amanda Beitel, Legislative Fiscal Office