



SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE
STATEMENT OF ESTIMATED FISCAL IMPACT
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Bill Number: H. 3481 Prefiled on December 16, 2020
Author: G. M. Smith
Subject: State Employee Health Insurance Program
Requestor: House Ways and Means
RFA Analyst(s): Miller
Impact Date: January 12, 2021

Fiscal Impact Summary

This joint resolution suspends the required transfer of year-end cash balances in the state's employee health insurance program's (EIP) operating account to the South Carolina Retiree Health Insurance (SCRHI) Trust Fund. This excess is currently estimated at \$175,000,000. The Public Employee Benefit Authority anticipates that if the transfer is not suspended, and deferred health care costs exceed the cash available, there may be a need for a premium increase, employer contribution increase, or a General Fund appropriation to cover any shortfall in the operating account due to the dollar value of unpaid health insurance claims incurred but not reported as of year-end 2020.

Explanation of Fiscal Impact

Prefiled on December 16, 2020

State Expenditure

This joint resolution suspends the required transfer of the year-end excess cash balance from the EIP operating account of the state's employee health insurance program to the South Carolina Retiree Health Insurance Trust Fund for FY 2020-21. Based on current law, the cash balance in excess of 140 percent of the actuarially-determined unpaid health claims incurred but not reported (IBNR) will be transferred to the SCRHI Trust Fund no later than January 31 of each calendar year. Once the transfer is complete, these funds cannot be returned to the EIP operating account. The joint resolution would keep the year-end excess cash balance for 2020 in the operating account until January 31, 2022, at which time, the total excess cash balance for 2020 and 2021 would transfer to the SCRHI Trust Fund. Additionally, this bill stipulates that if the transfer is made prior to the effective date of this joint resolution, then the SCRHI Trust Fund must reimburse the EIP operating account the amount of the transfer within ten days. This bill will take effect upon signature by the Governor.

Because of the cost and timing of COVID-19 related claims, PEBA has indicated that 140 percent of the IBNR may not be sufficient to pay outstanding claims from deferred health care costs at year-end. Deferred health care costs as used here means costs incurred during 2020 but billed or paid after the close of the plan year on December 31, 2020. If the excess cash balance is transferred, as required by current law, and the deferred health care costs exceed the available cash in the operating account after the transfer, this may lead to a shortfall in the operating

account that may have otherwise been avoided. Per Section 1-11-703(12), the operating account is funded by premiums for enrollees in self-funded health plans and employer contributions for active employees covered by such self-funded health plans. Therefore, the shortfall may be covered by an increase in premiums, an increase in employer contribution, or by a General Fund appropriation. As to the requirement to retroactively undo the transaction if it occurs within ten days prior to the passage of this resolution, PEBA indicates that a retroactive reimbursement from the SCRHI Trust Fund to the operating account may conflict with GASB (Governmental Accounting Standards Board) standards. The effect of this conflict is unknown.

Year-end transfers over the last five years have ranged from \$21,656,555 to \$130,985,483, as shown below. The Public Employee Benefits Authority (PEBA) anticipates receiving an actuarial report on the excess cash balance in the operating account as of year-end 2020 by late January. However, based on third-quarter data, PEBA estimates the excess cash balance available for transfer as of year-end 2020 may total approximately \$175,000,000. Additionally, any interest earned in the operating account on the \$175,000,000 during the delay will increase the amount of excess cash transferred in FY 2021-22. Because the interest earned on money in the operating account is similar to the interest earned on money in the SCRHI Trust Fund, there will be no loss to the SCHRI Trust Fund due to interest earnings once the delayed transfer has been made in FY 2021-22. Therefore, this bill will delay the transfer of approximately \$175,000,000 from the state’s employee health insurance program operating account to the SCRHI Trust Fund from FY 2020-21 to FY 2021-22, at which point the excess cash balance from both 2020 and 2021 will be transferred.

Year-End Transfers from EIP to SCRHI Trust Fund					
Plan Year	2015	2016	2017	2018	2019
Amount	\$21,656,555	\$76,931,437	\$104,573,394	100,803,192	\$130,985,483

State Revenue

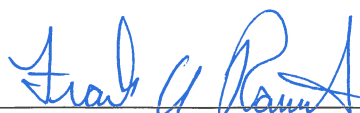
N/A

Local Expenditure

N/A

Local Revenue

N/A



 Frank A. Rainwater, Executive Director