LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

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OFFICE OF GROUP BENEFITS FUND BALANCE ANALYSIS

The state Office of Group Benefits, the agency that provides health and life insurance coverage to state workers and retirees, has seen its fund balance or surplus erode "substantially" from $482 million on Jan.1, 2012 to $275 million by Nov. 30, 2013, with the decrease expected to continue, according to a report released Monday by Legislative Auditor Daryl Purpera.

The informational audit by Purpera's Financial Audit Services Division said that OGB's actuarial projections as of last November indicate that the surplus in the program "will be further reduced to $56 million by Dec. 31, 2014." The program had an all-time high surplus of $500 million as recently as June 30, 2011.

The report to the Legislature on the status of the program cautioned that, based on an estimated average monthly shortfall of $17 million in 2014, Group Benefits' surplus could be wiped out by April 2015. "Any deficit before the end of fiscal year 2015 could require additional general fund monies to sustain program operations, depending on OGB's cash flow," the report said.

During August 2012, when the fund balance was "near its historic peak," the program reduced premiums paid by state employees and state agencies by 7 percent. Another 1.77 percent reduction in premiums took effect August 1, 2013.

"The reductions in premium have contributed to program losses at the same time that increased costs for medical and drug claims have further reduced (the) fund balance," according to the report from the state auditor. "Actuarial assumptions by OGB's contracted actuary at January 2014 include costs trends for medical and drug claims of 5 to 8 percent, and 8 percent, respectively." Without changes in benefits or organizational structure, the report said, "we estimate that a premium increase of 17 percent would be necessary to prevent continued operational losses," according to the report.

In its official response, OGB stated that it has developed "a comprehensive plan to ensure its solvency," including a 5 percent premium rate increase beginning July 1, 2014, and $131.8 million in claims cost savings from plan changes during fiscal year 2015. If both actions result in their intended outcomes, auditors project that the $17 million monthly deficit could be reduced to a $10 million monthly deficit based on OGB's projected reduction in fund balance of $119.6 million between July 1, 2014, and June 30, 2015, as disclosed in its response.

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In separate correspondence, the interim OGB CEO explained the $131.8 million in projected savings as follows: "The estimated $131.8 million represents the total projected savings in claims cost realized from aggressive plan changes proposed by OGB and Alvarez and Marsal. Those changes include standardized coverage benefits that better align services with the appropriate plan, pharmacy benefit changes which will promote the use of step therapy management, the launch of Live Better Louisiana - a comprehensive wellness program that will incentivize preventive care, smoking cessation support, prior authorizations for certain medical procedures, and member education on selecting the most appropriate for their lifestyle and risk factors. These preliminary plan changes have not been finalized. We hope to have additional data to share in June."

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On Twitter: OGB's fund balance eroding substantially, expected to continue decreasing.