SPECIAL EXAMINATION • REPORT NUMBER 22-15 • JANUARY 2023

State Health Benefit Plan

Requested Information on Plan Stability

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Why we did this review

The House Appropriations Committee requested this special examination of the State Health Benefit Plan (SHBP). Based on the request, we determined: (1) how SHBP's financial status has changed; (2) what factors contributed to changes in the Plan's financial status; and (3) what the revenue and expenditure projections were for fiscal years 2018-2022 and how they compared with actuals. This review did not examine Plan administration or contract management.

About SHBP

The State Health Benefit Plan was created to provide affordable, quality healthcare coverage that is competitive with other commercial benefit plans in quality of care, access to providers, and efficient management of provider fees and utilization. The Plan provides benefits for employees and dependents of the State Employees Plan, Teachers Plan, and School Employees Plan.

The Board of Community Health provides policy direction for the Plan's operation. The Department of Community Health administers the Plan and its policies and regulations. As of November 2022, 661,514 members were covered by the Plan. Active members comprised 72% of total membership and retirees accounted for 28%.

What we found

While State Health Benefit Plan revenue and expenditures have increased since 2018, the increase in expenditures between fiscal years 2020 and 2022 exceeded the increase in revenues. Revenue growth has been limited by policy decisions and stagnant subscriber levels. Potential reasons for rising costs include inflation and care for members with chronic conditions. To control costs, the Department of Community Health has implemented health programs and initiatives designed to improve members' health.

The SHBP Fund's net position has increased over the past five years.

Health insurance benefits for Plan[1] members are paid through three funds—the SHBP Fund (active employees) and two Other Post Employment Benefit (OPEB) Funds (retirees). The funds are described below.

- **SHBP Fund** – Between fiscal years 2017 and 2021, the SHBP Fund's net position (which reflects its financial stability) increased by 5%—from $571.7 million to $602.0 million. However, the Fund operated at a loss in fiscal year 2021, with expenditures exceeding revenues by approximately $93.5 million.
- **OPEB Funds** – In addition to "pay-as-you-go" contributions, voluntary contributions can be made to the State and School OPEB Funds based on end-of-year surpluses in the SHBP Fund. The last voluntary contributions were made in 2019. At the end of fiscal year 2021, the State OPEB Fund was 88% funded (i.e., 88% of the Fund's prospective liabilities estimated by actuaries are covered by assets). By contrast, the School OPEB Fund was 6% funded because surpluses in the Teachers and School Employees Plans have been significantly smaller than those in the State Employees Plan.

[1] *The Plan refers to the three plans through which members receive their health benefits: the State Employees Plan, the Teachers Plan, and the School Employees Plan.*

Over the past few years, Plan expenditures have outpaced revenues, resulting in an increasing amount of state funds to cover teachers' and school employees' healthcare costs.

While total Plan expenditures increased by approximately 28% between fiscal years 2018 and 2022, revenues increased by 3%. Expenditure growth can potentially be attributed to overall price increases, the COVID-19 pandemic, an aging member population, and inefficiencies within the healthcare delivery system. Revenue growth has been inhibited by stagnant subscriber levels, as well as various policy decisions, including a 2019 employer contribution holiday and a 2020 decrease in the employer contribution rate for state employees.

In particular, revenue for the Teachers and School Employees Plans has not been sufficient to cover members' healthcare expenditures over the past few years. In fiscal year 2022, for example, expenditures for the Teachers Plan and School Employees Plan exceeded revenue by $251 million and $213 million, respectively (by contrast, the State Employees Plan revenue exceeded expenditures by $219 million). This difference was paid using state funds (i.e., through State Employees Plan revenues and supplemental state appropriations).

The revenue gap for the Teachers and School Employees Plans can be attributed to employer contribution rate differences. For the State Employees Plan, employers pay 29.454% of salaries for all state employees (regardless of plan enrollment) annually. For the Teachers and School Employees Plans, employers pay $11,340 annually ($945/month) per covered employee, which—particularly for teachers—can result in a lower effective contribution rate. While any changes to the employer contribution structure would still require state funding for the Teachers Plan (which is funded through Quality Basic Education earnings), local school systems would bear the full burden for any increases to the School Employees Plan.

Actuarial projections for revenues and expenditures have been accurate.

Plan revenue and expenditure projections are calculated based on historic trends and updated regularly. The projections—which are sent to the Governor's Office of Planning and Budget to assist in setting rates—have been accurate over the past five years (less than 3.5% difference from actual revenues and less than 2.0% difference from actual expenditures).

What we recommend

This report is intended to answer questions posed by the House Appropriations Committee and to help inform policy decisions.

See **Appendix A** for a detailed listing of findings.

Agency Response: DCH generally agreed with the report. Responses are summarized at the end of each pertinent finding.

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Purpose of the Special Examination

This review of the State Health Benefit Plan (SHBP) was conducted at the request of the House Appropriations Committee. The House Appropriations Committee requested that we provide an updated overview of the program to fully understand the cost drivers, projections, and plan stability. Based on this request, we address the following questions:

1. How has SHBP's financial status changed from fiscal year 2018-2022?
2. What factors have contributed to changes in the Plan's financial status?
3. What were the revenue and expenditure projections for fiscal years 2018-2022, and how do they compare with actuals?

A description of the objectives, scope, and methodology used in this review is included in **Appendix B**. A draft of the report was provided to the Department of Community Health for its review, and pertinent responses were incorporated into the report.

Background

State Health Benefit Plan

The purpose of the State Health Benefit Plan (the Plan) is to provide affordable, quality healthcare coverage that is competitive with other commercial benefit plans in quality of care, access to providers, and efficient management of provider fees and utilization. Employee health benefit plans are generally offered to attract and retain employees and to protect an organization's labor investment by maintaining its employees' health.

Three primary groups are eligible for Plan coverage, as shown in **Exhibit 1**. O.C.G.A. § 45-18-12 establishes a health insurance plan for state employees, which includes employees of state agencies, the General Assembly, and county governments. O.C.G.A. §§ 20-2-881 and 20-2-911 permit the establishment of a plan for public school teachers, which includes librarians, and a plan for public school employees, which includes classroom aides as well as administrative and maintenance staff.

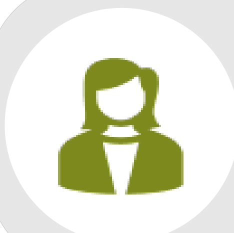
Exhibit 1
The State Health Benefit Plan Consists of Three Plans

Teachers Plan

- Public school certificated employees (e.g., teachers, principals, other staff)
- Regional and county librarians
- Retirees with 10 or more years of credible service as a public school teacher receiving benefits through the Teachers Retirement System

School Employees Plan

- Classroom aides
- Bus drivers
- Lunchroom employees
- Maintenance and custodial employees
- Administrative and clerical employees
- Any other school employee who does not have a professional certification
- Retirees in the Public School Retiree system or Teachers Retirement System



State Employees Plan

- State agency employees
- General Assembly employees
- Superior Court employees
- Other contracted groups
- Retirees in the Employee Retirement System and Judicial Retirement System

Source: SHBP documents

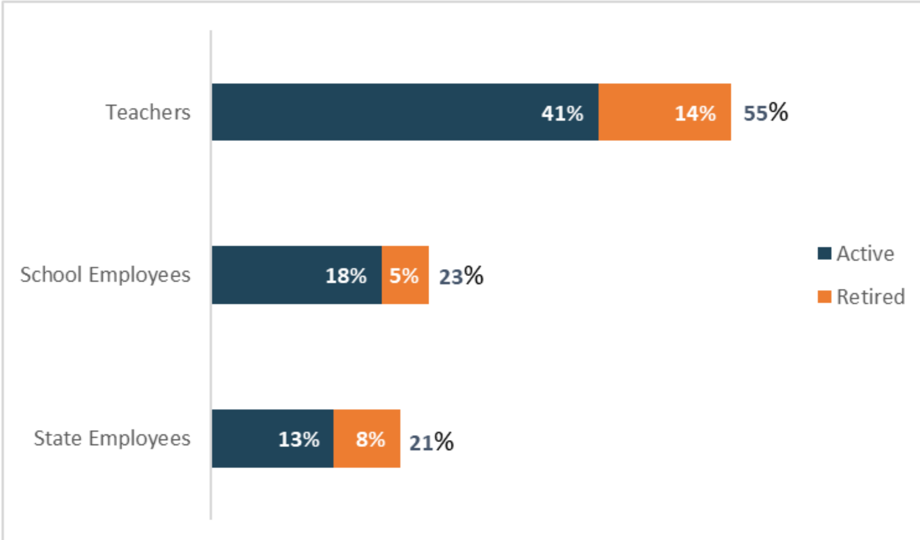
Members include active employees, retirees, and dependents.

Subscribers refer to employees and retirees who are enrolled in the Plan and pay premiums.

As of November 2022, 661,514 members were covered by the Plan. As shown in **Exhibit 2**, the 477,668 active members—which includes employees currently in the workforce and their dependents—comprised 72% of total membership. The remaining 28% (183,846 members) consists of retirees, which include members under age 65 and members eligible for Medicare (65 years or older), as well as any dependents. Public school teachers represent 55% (365,200 members) of total membership, while public school employees and state employees comprise 23% (150,942 members) and 21% (138,554 members), respectively.[2]

[2] SHBP's enrollment data did not provide the detail necessary to determine the membership plan for the remaining 6,818 (1%) included in the total membership count.

Exhibit 2
The State Health Benefit Plan Consists Primarily of Members in the Teachers Plan, as of November 2022 [1,2]



[1] Plan enrollment consists of members and their dependents.
[2] SHBP's enrollment data did not provide the detail necessary to determine the membership plan for 6,818 members, which represent approximately 1% of total membership.
Source: DCH data

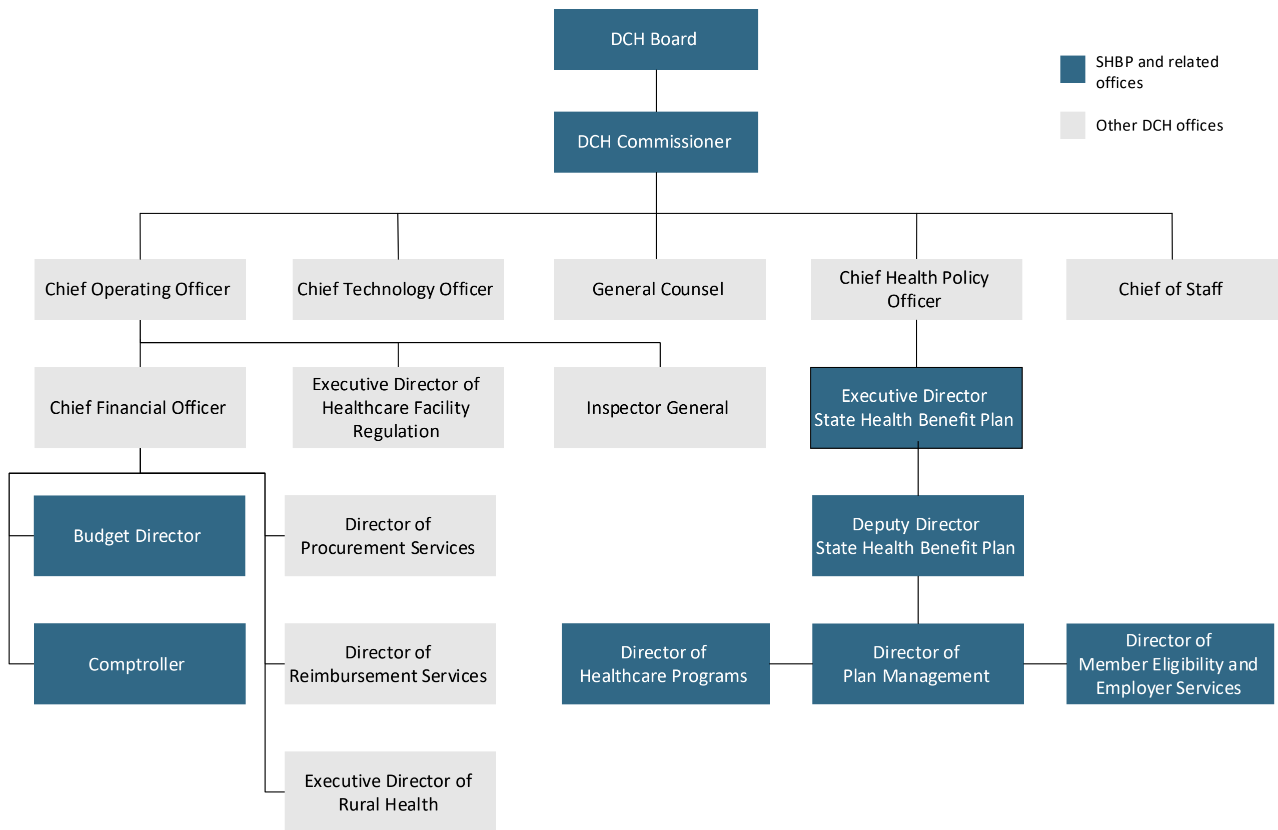
Plan Administration and SHBP Organization

The Department of Community Health (DCH) is statutorily responsible for administering the Plan. The commissioner is responsible for hiring staff, administering the Plan's policies and regulations, managing health benefit funds, calculating the employer contribution rates, and notifying employers of the required contribution rates. Approximately 40 employees are responsible for Plan operations. The executive director oversees the division's day-to-day activities, and the deputy executive director oversees the division's program units: Healthcare Programs, Plan Management, and Member Eligibility and Employer Services (see **Exhibit 3**). Each unit is described below.

- **Healthcare Programs** oversees third party administrator vendors;[3] administers each plan option, open enrollment, and provider networks; administers the Medicare Advantage plan options; oversees vendor performance and quality services for clinical programs; and conducts disability reviews.
- **Plan Management** is responsible for compliance and monitoring activities, data analysis and reporting, project management, eligibility plan documents, and strategic planning.
- **Member Eligibility & Employer Services** provides employer services, assists members with eligibility, and administers the member appeals process.

[3] SHBP contracts with third-party administrators for claims processing and other administrative services.

Exhibit 3
SHBP Has Three Program Units



Source: DCH documents

The Board of Community Health provides policy direction for the Plan's operation. The nine-member board adopts Plan rules and regulations, establishes and designs insurance plans, and establishes member premiums and employer contribution rates (subject to the governor's approval). The board also approves contracts for insurance, health services, and administrative services.

DCH's financial management division is responsible for accounting, auditing, and budgeting related functions to manage Plan revenue and pay expenses. The accounting team ensures all Plan funds are deposited and properly allocated, ensures claims and administrative fees are paid, and tracks and reconciles Plan funds. The audit team reviews employers' supporting documentation to verify employer contributions and allocates funds to employees and employers. The budget office, in consultation with the governor's office, projects Plan revenue from member premiums and employer contributions, and monitors SHBP's budget to ensure funding is available for Plan operations. Staff in various other DCH divisions and offices provide support for SHBP.

Plan Coverage

SHBP contracts with three third-party administrators for claims processing and other administrative services: Anthem Blue Cross Blue Shield (Anthem), Kaiser Permanente (Kaiser), and UnitedHealthcare (United). The plans offered by these vendors are either self-insured or fully insured.

- **Self-Insured** – The employer directly assumes the cost of health insurance claims for their employees. SHBP provides self-insured plan options through Anthem and United, which are available to all active employees and retirees under age 65.
- **Fully-Insured** – The employer contracts with another organization to assume financial responsibility for the enrollees' medical claims and for all incurred administrative costs. A fully insured regional HMO plan is available through Kaiser for active employees and retirees under age 65, and fully insured Medicare Advantage options for retirees are available through Anthem and United.

SHBP provides various plan options for health coverage, as described in **Exhibit 4**. Approximately 80% of the Plan's members (520,174 members) are enrolled in a Health Maintenance Organization (HMO) or Health Reimbursement Arrangement (HRA) plan for 2022. For most health plans, SHBP offers four tiers of coverage (subscriber, subscriber and children, subscriber and spouse, and subscriber and family).

Exhibit 4
Most Members Are Enrolled in an HMO or HRA Plan, as of November 2022[1]

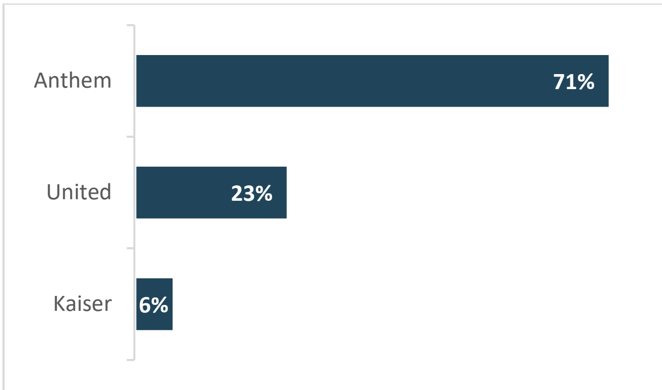
Health Maintenance Organizations (HMO)	**Health Reimbursement Arrangement** (HRA)	**Medicare Advantage Preferred Provider Organization**	**High Deductible Health Plans** (HDHP)
42%	37%	20%	2%
• Provides comprehensive services in a particular geographic area • Members pay a fixed, prepaid fee • Covers most types of preventative care	• Employer-funded and sometimes referred to as Health Reimbursement Accounts • Tax-free reimbursements for medical expenses up to a fixed dollar amount • Unused amounts may be rolled over	• Plan is for Medicare eligible retirees • Coverage is provided through a network of participating healthcare providers • Enrollees may receive services outside the network but generally at higher costs	• Features a higher deductible and lower insurance premiums • Insured is responsible for routine out-of-pocket expenses until deductible is met • Includes catastrophic coverage to protect against large medical expenses

[1] Percentages exceed 100% due to rounding.

Source: DCH documents and data

As shown in **Exhibit 5**, 71% of SHBP members selected an Anthem plan in fiscal year 2022. Approximately 23% enrolled in a United plan, and the remaining 6% enrolled in Kaiser. Each year, eligible members can either continue their current plan option or enroll in a different plan option. Members who elect not to make any changes during the annual open enrollment period continue with their current coverage.

Exhibit 5
Most Members Choose Anthem Plans, as of November 2022



Source: DCH data

Plan Funds

DCH administers three health insurance funds—a proprietary fund and two fiduciary funds—to provide health insurance benefits for Plan members.

- **Proprietary Fund** – Proprietary funds, also referred to as enterprise funds, report an activity for which a fee is charged to external users for goods or services. DCH administers the State Health Benefit Plan Fund (SHBP Fund) to provide benefits for active members of the State Employees Plan, Teachers Plan, and School Employees Plan. DCH administers the health insurance fund for these plans as one Fund, as authorized by state law. Revenue for the SHBP Fund is derived from subscriber premiums, employer contributions, investments, and other income. Revenue is used to pay expenditures for health claims, premiums, and administrative expenses.[4]

- **Fiduciary Fund** – Fiduciary funds account for assets held in a trust or custodial capacity. The state is responsible for ensuring these assets are used for their intended purposes. DCH administers two Other Post-Employment Benefit (OPEB) Funds that were statutorily established in 2009 to provide for

[4] *SHBP pays premiums for fully insured plans, including the regional HMO plan available through Kaiser and Medicare Advantage options for available through Anthem and United.*

the cost of health insurance benefits for retirees.[5, 6]

- The **Georgia State Employees Post-Employment Health Benefit Fund (State OPEB Fund)** was created to provide post-employment health benefits due under the group health plan for members of the State Employees Plan and their dependents.[7] The fund pays for covered healthcare expenses of retired state employees and administration costs. According to statute, assets held in the State OPEB Fund cannot be used for any other purposes.

- The **Georgia School Personnel Post-Employment Health Benefit Fund (School OPEB Fund)** was created to provide~~s~~ post-employment health benefits due under the group health plan for members of the Teachers Plan and the School Employees Plan and their dependents. The fund pays for covered healthcare expenses and administration costs. According to statute, assets held in the School OPEB Fund cannot be used for any other purposes.

Plan Financials

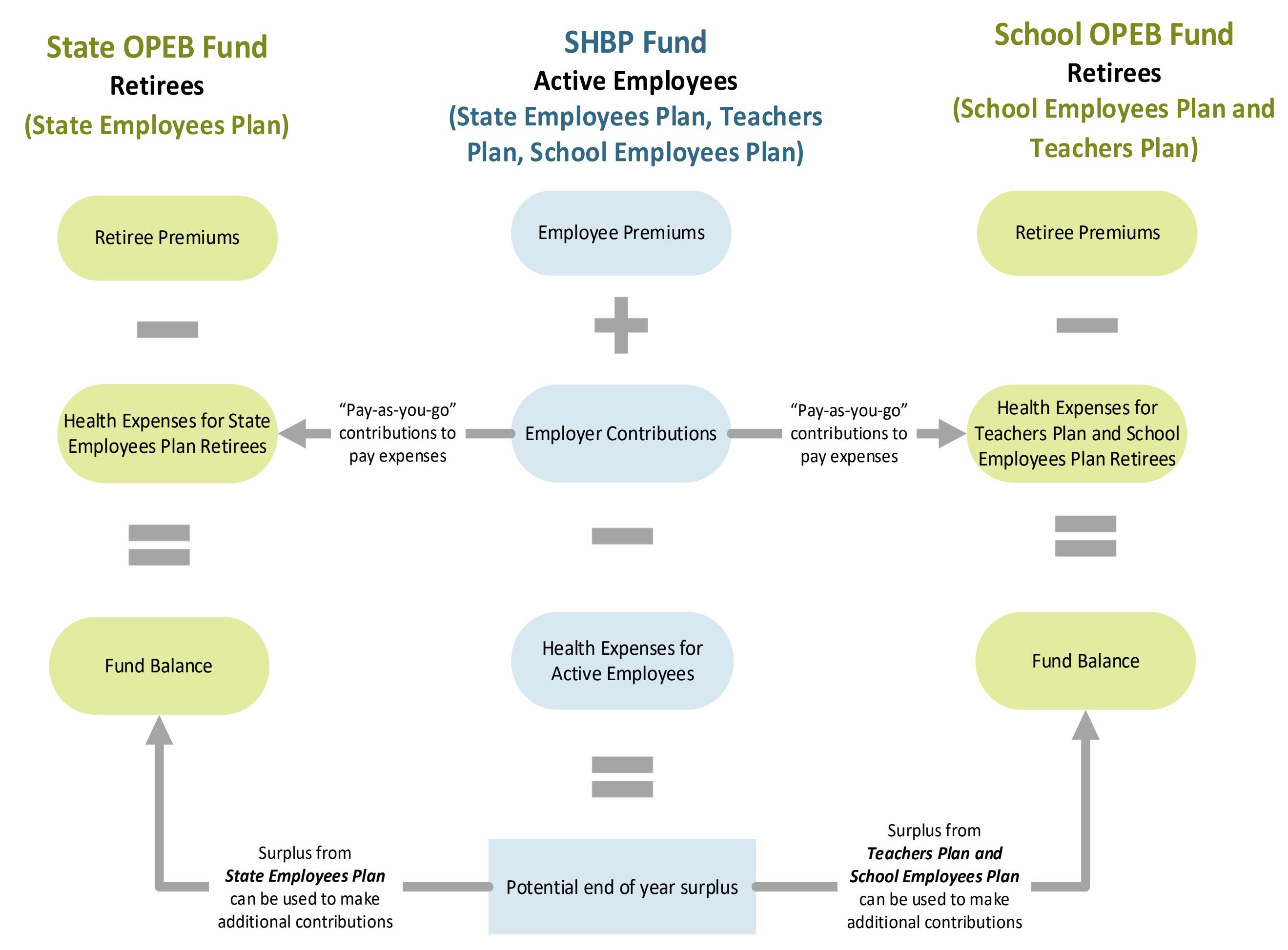
Revenue is primarily generated from employer contributions and subscriber premiums, which are deposited into the SHBP Fund (see **Exhibit 6**). These components are discussed in additional detail below the exhibit.

Exhibit 6 shows how premiums and employer contributions are accounted for among the three Funds. The SHBP Fund, which pays Plan expenses for active employees and their dependents, also provides employer contributions (known as "pay-as-you-go" contributions) to pay the portion of retirees' monthly health expenditures not covered by their premiums. On average, the SHBP Fund provided more than $500,000 monthly for retiree health expenditures during fiscal years 2017-2021. Of the $534.1 million provided during fiscal year 2021, about 69% was used to pay health expenditures for school retirees, while the remaining 31% was used for state retirees. When there is a surplus in the SHBP Fund at the end of the fiscal year, DCH may make additional contributions to the OPEB Funds. DCH made additional contributions each year between fiscal years 2015 and 2019. These contributions ranged from $132.3 million to $557.6 million.

Subscribers are the individuals (employees and retirees) responsible for paying health insurance premiums. It does not include dependents.

[5] *O.C.G.A. § 20-2-875 and § 45-18-25 required that funds previously held in the Georgia Retiree Health Benefit Fund to provide post-retirement health benefits for public school teachers, public school employees, and state employees be transferred to the post-employment benefit funds.*
[6] *The Fund also provides benefits that are due to qualified beneficiaries of eligible former employees.*
[7] *Retiree medical eligibility is attained when an employee retires and is eligible to draw a retirement annuity from one of the State's retirement plans.*

Exhibit 6
Revenue is Generated From Employer Contributions and Premiums[1]



Source: DCH documents

[1] This exhibit represents how premiums and employer contributions are accounted for in the three Funds.
Source: DCH documents

Employer Contributions

The Plan is primarily funded by contributions that employers pay to cover their share of Plan costs. As discussed above, employer contributions are initially accounted for in the SHBP Fund and are used to pay expenditures for both active employees and retirees. In fiscal year 2022, employer contributions totaled $2.9 billion (77%) of the $3.8 billion in Plan revenue.

The Board of Community Health determines the monthly employer contribution rate for each plan (State Employees Plan, Teachers Plan, and School Employees Plan), subject to the governor's approval. State law authorizes the board to establish these rates as a monthly flat rate per employee or a percentage of salary. Employer contributions for each plan are shown in **Exhibit 7** and described below.

Exhibit 7
Employers Contribute a Flat Rate for Covered Teachers and School Employees

[1] The Teachers Plan includes teachers and librarians. The rate for librarians is $843 per member per month. The Teachers Plan consists of school employees working in a professionally certificated position. This includes teachers, counselors, superintendents, and other positions.
Source: DCH documents

- **State Employees Plan** – Employer contributions for the State Employees Plan are calculated as a percentage of each employee's total salary, regardless of the employee's enrollment in the plan. The current monthly employer contribution rate is 29.454% of active employees' salary. Employer contributions paid for active employees cover both active and retired members; no separate employer contribution is made for retirees (the 29.454% is known as a "blended rate"). The employer contribution rate for state employees was last changed in July 2019; it was lowered from 30.454%.

  Employer contributions for state employees are primarily funded through state appropriations.[8] In fiscal year 2022, employer contributions for state employees totaled $915 million.

- **Teachers Plan** – Employer contributions for the Teachers Plan are calculated as a flat rate per covered employee. The current employer contribution rate for teachers and other certificated personnel is $945 per month, or $11,340 per year. The rate for teachers was last changed in July 2013, when it was increased from $937.34. The current rate for librarians (also covered under this plan) is $843 per month, or $10,116 per year. The rate for librarians was last changed in July 2013, when it was increased from $743. Generally, no separate employer contribution is made for retirees of either group.[9]

  The Georgia Department of Education (GaDOE) uses state appropriations to provide local school systems funds to pay the employer contributions for teachers and other certificated personnel via Quality Basic Education (QBE) earnings. GaDOE provides $11,340 per year for every covered certificated

*[8] Agencies may use federal funds, fee income, and other income to pay employer contributions. A small portion of employer contributions comes from contract agencies that participate in the Plan (see **Exhibit 1**).*
[9] GaDOE pays employer contributions for teachers who retired prior to January 1, 1979. GaDOE paid $265,377 for these employer contributions in fiscal year 2021.

employee.[10] Employer contributions for library employees are funded by regional and county libraries. In fiscal year 2022, employer contributions for teachers and librarians totaled $1.3 billion.

- **School Employees Plan** – Employer contributions for the School Employees Plan are calculated as a flat rate per covered non-certificated employee. The current employer contribution rate is $945 per month, or $11,340 per year. The rate has remained the same since January 2018. Generally, no separate employer contribution is made for retirees.[11]

  Employer contributions for public school employees are funded from local school systems' contributions. GaDOE does not provide local school systems QBE earnings or other funds to pay employer contributions for non-certificated public school employees. In fiscal year 2022, employer contributions for public school employees totaled $715 million.

The Plan may also receive direct appropriations from the General Assembly. While the Plan did not receive one in fiscal year 2021, in fiscal year 2022 it received a direct appropriation of $230 million for claims payments.[12]

Subscriber Premiums

Approximately 22% of Plan revenue comes from monthly subscriber premiums ($860 million in fiscal year 2022). Active members pay premiums via a monthly payroll deduction, while retirees may pay premiums via a monthly deduction from their retirement system benefits or pay SHBP directly. The Board of Community Health determines the premium for each coverage option.

Subscriber premiums vary based on multiple factors, including the type of plan and level of coverage selected, employment status, whether the subscriber includes eligible dependents in plan coverage, and whether the subscriber's premium is subsidized by an employer. Retiree premiums are based on other factors, such as whether the premium is deducted from the retirement system benefit (annuity), whether the retiree pays the premium to SHBP directly, and whether the retiree is subject to the plan's Basic Subsidy Policy or Years of Service Subsidy Policy.[13]

Premiums for active members have increased slightly since 2018--by an average of 3.7% in 2018 and by 5% in 2021. During its August 2022 meeting, the Board of Community Health voted to keep most plan rates for 2022 in effect for 2023. Between 2021 and 2023, premiums for retirees enrolled in Medicare Advantage remained the same for most coverage options.

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[10] *The Certified Personnel Information (CPI) report provides data on the number of certificated employees enrolled in the Plan. QBE earnings are based on the prior year's data, and school systems must make up the difference between QBE earnings and their actual employer contributions expense.*
[11] *GaDOE pays employer contributions for school employees who retired prior to 1985 (a rate of $10,643 in fiscal year 2022).*
[12] *This was a reallocation of federal funds initially appropriated to other DCH programs.*
[13] *Under the Basic Policy, retirees generally receive the same subsidy amount regardless of years of service. Retirees enrolled in commercial plans (i.e., not Medicare Advantage plans) receive the same subsidy amount as active members enrolled in commercial plans. Under the Years of Service Policy, the subsidy a retiree receives toward their premium differs based on years of creditable service. Retirees with 0-9 years of service receive no subsidy; retirees with 10-30+ years of service receive a subsidy amount starting at 15% for 10 years of service with a maximum of 75% for 30 or more years of service.*

Requested Information

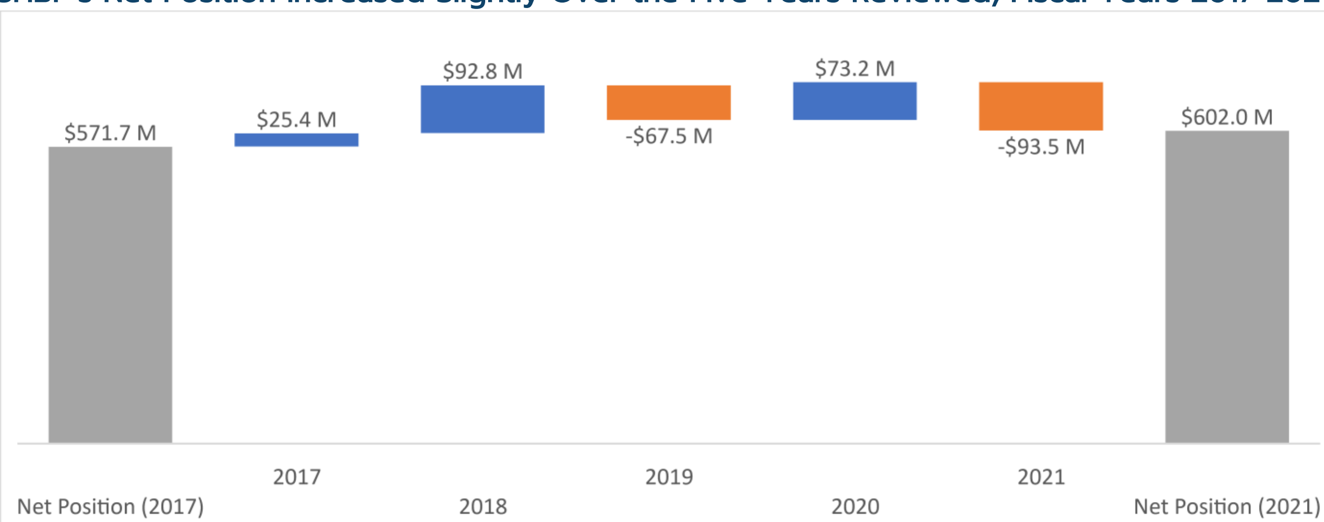
Finding 1: The SHBP Fund's net position increased slightly over the five years reviewed.

Between fiscal years 2017 and 2021, the SHBP Fund's net position increased by 5%—from $571.7 million to $602.0 million. However, in fiscal year 2021, the Fund's operating expenditures exceeded its revenue and resulted in a loss. Due to contributions from the SHBP Fund, the State OPEB Fund was 88% funded at the end of fiscal year 2021, compared to only 6% for the School OPEB Fund.

Generally Accepted Accounting Principles require governmental entities to report their net position to the public. The change in net position (i.e., the extent to which there is a surplus or deficit in revenue after expenses are paid) reflects the entity's financial stability. As previously discussed, the SHBP Fund's revenue and expenditures impact the extent to which the Plan (in its entirety) can pay expenditures related to providing health benefits to active employees and retirees.

At the end of fiscal year 2021, the SHBP Fund's net position was $602.0 million—a 5% increase from $571.7 million at the beginning of fiscal year 2017 (see **Exhibit 8**). While the net position increased over the past five years—indicating that overall revenue increased by more than expenditures—the SHBP Fund operated at a loss in fiscal year 2021.[14] During this period, expenditures exceeded revenues by approximately $93.5 million.

Exhibit 8
SHBP's Net Position Increased Slightly Over the Five Years Reviewed, Fiscal Years 2017-2021[1]



[1] The amounts shown for fiscal years 2017 and 2020 reflect adjustments made to account for corrections and restatements noted in the following year.
[2] At the time of this review, fiscal year 2021 was the most recent year for which data was available.
Source: State of Georgia Annual Comprehensive Financial Reports

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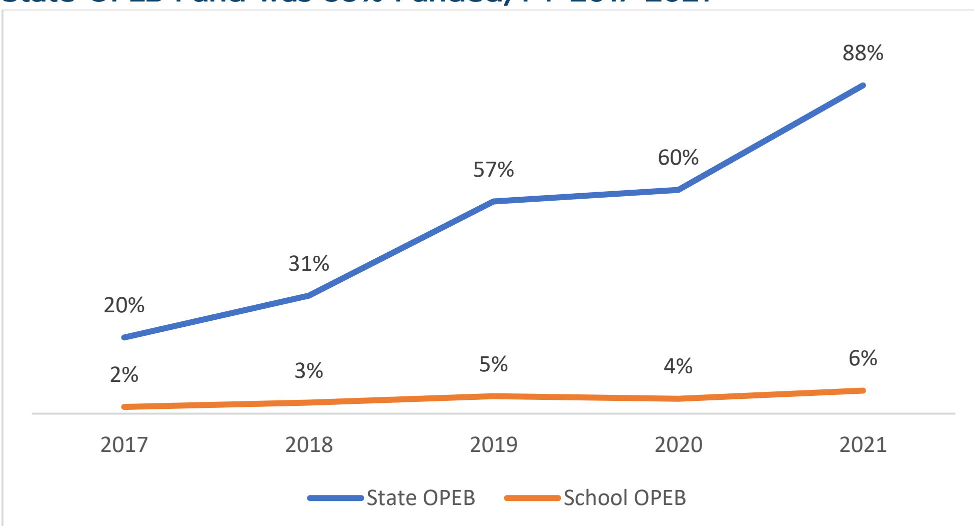
[14] While the SHBP Fund had a negative change in net position in both fiscal years 2019 and 2021, only in fiscal year 2021 was the negative change due to an operating loss. The negative change in net position shown in fiscal year 2019 occurred as a result of additional voluntary contributions DCH made to the Plan's OPEBs. The additional voluntary contribution for fiscal year 2019 was approximately $557.5 million. DCH did not make additional voluntary contributions in fiscal year 2021.

In addition to the "pay-as-you-go" contributions that pay for retiree monthly healthcare expenditures, DCH may make additional voluntary contributions to the Plan's two OPEB Funds based on the extent to which funds are available in the SHBP Fund at the end of the fiscal year.[15] In fiscal year 2015, DCH began making additional voluntary contributions to both OPEB Funds annually to cover retirees' future health benefits.[16] However, due to cashflow uncertainties (and in more recent years uncertainties related to the COVID-19 pandemic), DCH has not made additional voluntary contributions to the two OPEB Funds since 2019.

Total OPEB liability is the actuarial present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employee's past periods of service.

The OPEBs' financial status is reflected in their funded status, which represents the percentage of prospective liabilities (as estimated by actuaries) that are covered by assets. As described on page 7, the OPEB Funds are restricted to provide benefits for their respective retirees. At the end of fiscal year 2021, the funding ratio for the State OPEB Fund was 88%, compared to 6% for the School OPEB Fund (as shown in **Exhibit 9**).[17] The funded status for each OPEB Fund is described below.

Exhibit 9
State OPEB Fund was 88% Funded, FY 2017-2021



Source: State of Georgia Annual Comprehensive Financial Reports

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[15] The SHBP Fund's net position only reflects funds in the SHBP Fund for active employees. While all employer contributions are initially deposited into the SHBP Fund, the Fund's revenue is reduced to reflect "pay-as-you-go" contributions to both OPEB Funds. Consequently, OPEB revenue is increased to reflect these contributions.

[16] Additional voluntary contributions from the SHBP Fund are made to the OPEB Funds in the year following the surplus. Therefore, revenue contributed to the OPEB Funds in fiscal year 2015 were based on the SHBP Fund's surplus from fiscal year 2014. The surplus is determined after allowing for the SHBP Fund's Incurred But Not Reported (IBNR) liability plus 10% of plan benefit expense.

[17] The funding status of the OPEB Funds are among the factors ratings firms consider when assessing the state's credit rating.

- **State OPEB Fund** – Since fiscal year 2017, annual decreases in total OPEB liability[18] and significant increases in its assets have contributed to increases in the State OPEB Fund's funded status (from 20% funded in fiscal year 2017 to 88% funded at the end of fiscal year 2021). In particular, the value of the Fund's assets increased by 103% during this period—from $956.4 million to $1.9 billion—as a result of the additional voluntary contributions from the SHBP Fund. By contrast, total OPEB liabilities decreased by 53% (from $4.7 billion to $2.2 billion). DCH estimated that the $1.9 billion balance would be depleted within 10 years if expenses were taken from the OPEB Fund's assets.[19]
- **School OPEB Fund** – Fluctuations in total OPEB liability, along with modest increases in assets, resulted in minimal increases in the School OPEB Fund's funded status since 2017. During this period, the Fund's assets increased from approximately $260.5 million to $709.0 million, and liabilities decreased from $14.5 billion to $11.5 billion. However, due to the differences in the assets and liabilities, the School OPEB Fund's funding ratio is currently 6%—up slightly from 2% in fiscal year 2017. DCH estimated that the $709.0 million balance would be depleted in just over one year if the OPEB Fund's assets were used to pay expenses.

The difference in the State and School OPEB Funds' funded status is attributed to the methodology by which DCH allocates additional voluntary contributions. The allocation is based on each plan's operating surplus/deficit—the State Employees Plan surplus is deposited in the State OPEB Fund, and the net combined Teachers Plan and School Employees Plan surplus is deposited in the School OPEB Fund.[20] Over the period reviewed, surpluses in the Teacher and School Employees plans have been significantly less than those in the State Employees Plan. For example, in fiscal year 2018, the State Employees Plan's surplus was approximately $354.9 million, while the Teachers Plan and School Employees Plan surplus was $163.1 million and $21.5 million, respectively.

Agency Response: *DCH partially agreed with this finding. DCH stated that while the Fund Balance increased from a financial statement standpoint, there are significant operating differences between fiscal years 2017-2019 and fiscal years 2020-2022. In fiscal years 2017-2019, there were operating surpluses that could have increased the fund balance but were instead used to make OPEB contributions. According to DCH, in fiscal years 2020-2021, "there were no excess funds that could be moved to make recommended OPEB contributions."*

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[18] Total OPEB liability decreased from $4.7 billion in fiscal year 2017 to $2.2 billion at the end of fiscal year 2021. Various factors affect the Total OPEB liability, including benefit design, the discount rate used to value future cash flows, number of plan members, and actuarial assumptions related to health cost increases, member age distribution, and member health.
[19] This estimate, which was as of December 2021, assumed that medical and pharmacy expenses would increase at a blended rate of approximately 9.0% to 9.5%.
[20] These transfers are reviewed for compliance with SHBP's OPEB funding policy during the SHBP's annual financial audit.

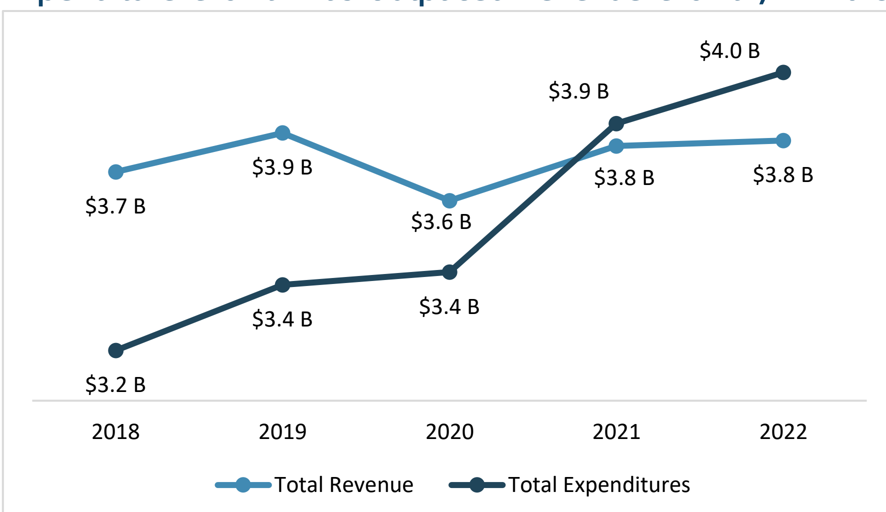
The **Plan** discussed here includes revenue and expenditures from active members (accounted for in the SHBP Fund) and from retired members (accounted for in the State and School OPEB Funds).

Finding 2: Since fiscal year 2018, the Plan's expenditure growth has outpaced its revenue growth.

Plan expenditures increased by approximately 28% between fiscal years 2018 and 2022, compared to an increase of only 2.7% in revenue. In fiscal year 2022, expenditures exceeded revenue by approximately $217 million. Revenue growth has been limited by policy decisions and stagnant subscriber levels. Potential reasons for rising costs include inflation and care for members with chronic conditions. To control costs, SHBP has implemented health programs and initiatives designed to improve members' health.

As shown in **Exhibit 10**, total revenue exceeded total expenditures between fiscal years 2018 and 2020.[21] However, the increase in expenditures between fiscal years 2020 and 2021 exceeded the increase in revenues, and the trend continued in fiscal year 2022. Between fiscal years 2018 and 2022, Plan revenue increased from $3.7 billion to $3.8 billion, or by 2.7%. Total expenditures over the five-year period increased by 28.1% (from $3.2 billion to $4.0 billion), with the greatest increase (14%) occurring between fiscal years 2020 and 2021.

Exhibit 10
Expenditure Growth Has Outpaced Revenue Growth, FY 2018-2022[1]



[1] These figures reflect the SHPB Fund, State OPEB Fund, and the School OPEB Fund.
Source: TeamWorks Financials

To offset the difference between revenue and expenditures in fiscal year 2022, the state provided SHBP an additional $430 million. Of these additional funds, SHBP received $200 million for COVID-related claim reimbursements and $230 million in amended fiscal year 2022 appropriations (allocated from other DCH programs).

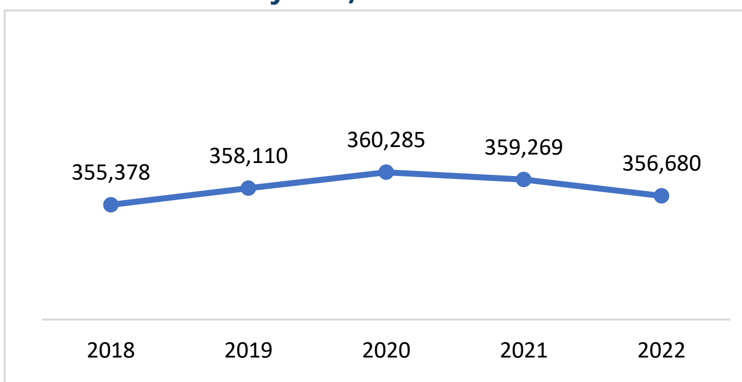
[21] Total revenue includes employer contributions, employee and retiree premiums, and a small amount of interest and investment income. Total expenditures include health costs and administrative expenses.

Revenue Growth

Revenue is impacted by the number of Subscribers, or the employees and retirees enrolled in the Plan.

Plan revenue primarily depends on employer contributions and subscriber premiums. As such, the number of subscribers can influence revenue growth. As shown in **Exhibit 11**, average number of Plan subscribers per month has remained relatively flat, rising by less than 0.4% from fiscal year 2018 to 2022, which has limited SHBP revenue growth.[22] Unchanging subscriber levels particularly affect the Teachers and School Employees Plans, which only receive employer contribution revenue for those who enroll in Plan coverage versus the total number of employees (as done for the State Employees Plan).

Exhibit 11
Average Number of Monthly Subscribers Has Remained Relatively Flat, FY 2018-2022[1]



[1] Average Plan subscribership is the total based on the monthly average for the fiscal year.
Source: DCH data

Various policy decisions have also inhibited revenue growth, as described below.

- **Employer Contribution Holiday** – In 2019, the Governor's Office of Planning and Budget implemented a one-month holiday, which suspended the requirement for participating employers to pay their contributions. The holiday was applicable for the June 2019 payment, which provided for July 2019 coverage.[23] The holiday decreased the Plan's fiscal year 2020 revenues by approximately $243 million. According to staff, revenue surpluses were projected for the Plan at the time the decision was made.

- **Decrease in State Employees Plan Employer Contribution Rate** – Effective fiscal year 2020, the employer contribution rate for the State Employees Plan decreased from 30.454% of salaries to 29.454%. This decreased the Plan's revenue by an estimated $31 million per year.

- **Rate Differences for the Teachers Plan and School Employees Plan** – As previously discussed, the rate structure for the Teachers Plan is

[22] *Average plan subscribership is the monthly average for the fiscal year.*
[23] *To implement the holiday for agencies that use TeamWorks, the State Accounting Office adjusted the percentage of payroll for the SHBP employer contribution to 0% for the two payroll cycles in June 2019. For teachers and non-certificated employees, the June per member per month rate for local school systems was $0.*

based on a flat rate of $945 per covered member per month (or $11,340 annually), compared to the percentage of total salary payroll for the State Employees Plan.[24] In fiscal year 2022, the average salary of a certificated staff member enrolled in the Teachers Plan was approximately $67,000; as such, the effective employer contribution rate for the certificated staff member was 16.9%, compared to 29.454% for state employees. If employers in the Teachers Plan were charged a contribution rate similar to the State Employees Plan, SHBP would have collected an estimated $1.37 billion in additional revenue in fiscal year 2022.[25] As certificated staff salaries increase, the gap in effective employer contribution rate as a percentage of salary for teachers will also increase.

While the School Employees Plan rate structure is similar to the Teachers Plan ($945 per month), the effective contribution rate is higher due to lower average salaries. In fiscal year 2022, for example, the average non-certificated school employee enrolled in SHBP earned almost $30,400 per year in salary, resulting in an average effective employer contribution rate of 37.3%, compared to 29.454% for state employees. However, because they are charged a flat rate, the effective contribution rate would decrease as school employee salaries rise.

- **Fewer Contributions in Teachers Plan and School Employees Plan** – For the State Employees Plan, the employer contribution rate is applicable to total salary payroll, regardless of whether all employees subscribe to the Plan. By contrast, employers only make contributions to the Teachers Plan and School Employees Plan on behalf of employees who subscribe to Plan coverage. As a result, the Plan's revenue is lessened. For example, in the 2021-2022 school year, approximately 79% (107,023) of total certificated employees eligible for QBE funded health insurance (135,765) were enrolled in the Plan.[26] If employers made contributions for all certificated employees, including the 28,742 not enrolled in SHBP, the Teachers Plan would have generated an estimated $326 million in additional revenue.[27]

[24] *The change to a flat rate contribution structure occurred in fiscal year 2013; prior to the change, the Teachers Plan used a percentage of salary payroll contribution structure similar to the State Employees Plan. The prior Teachers Plan rate was generally 18.5%, while the State Employees Plan rate was generally 22.2%.*
[25] *This number was calculated by subtracting actual Teachers Plan revenue for fiscal year 2022 ($1.78 billion) from the number obtained by applying the State Employees Plan rate (29.454%) to the estimated total salary payroll for certificated staff enrolled in SHBP in fiscal year 2022 ($2.68 billion).*
[26] *Certificated employees employed by entities outside of local school systems (e.g., Department of Juvenile Justice and regional education service agencies) are not eligible for QBE funded health insurance.*
[27] *This number was calculated by subtracting the contribution rate applied to only enrolled certificated staff members ($11,340 x 107,023) from the rate applied to all certificated staff eligible for QBE health insurance funding ($11,340 x 135,765).*

Expenditures are impacted by number of Members – defined as all individuals covered by the Plan, including subscribers and their dependents.

Expenditure Growth

As previously discussed, Plan expenditures have increased significantly over the past two fiscal years compared to the previous three. Rising costs may generally be attributed to factors outside the state's control. For example:

- From the first quarter of 2018 to the third quarter of 2022, the GDP price index, which measures price increases for payers across the economy, rose by approximately 17%.[28]
- The COVID-19 pandemic impacted health insurance costs beginning in the second half of fiscal year 2020. DCH estimates that expenditures for COVID-related claims increased from about $33 million in fiscal year 2020 to approximately $313 million in fiscal year 2022.
- According to the Bureau of Labor Statistics, the average employee age has increased from approximately 40 in 2001 to 42 in 2021. While we did not examine the ages of SHBP members for this report, studies indicate that older employees can increase health benefit costs.
- Academic literature points to inefficiencies within the healthcare delivery system and over-utilization of healthcare services as potential causes for increased costs.

Over the next few years, actuarial expenditure projections (discussed in more detail in Finding 4) estimate that annual growth in medical and pharmaceutical claim expenditure per capita will be 7.75% and 12.5%, respectively. These rates are higher than industry averages reported for earlier years. DCH financial management also projects increasing expenditures, but by an average of $250 million each year rather than by a percentage growth rate.

SHBP has been implementing changes throughout the past 20 years to manage costs. For example, in 2008 SHBP introduced new coverage options (such as the Health Reimbursement Arrangements and High Deductible Health Plans) that—according to staff—would reduce costs and offer a more "consumer directed" approach. SHBP also eliminated Open Access Plans, which were expensive to operate. SHBP has also identified specific factors that impact Plan expenditures

Retiree Expenditures

While retiree expenditures may be assumed to drive overall expenditures, retiree health costs declined by almost 6% from fiscal years 2018 to 2022. In fiscal year 2022, retiree health costs represented over 17% of total health costs, falling from over 23% in fiscal year 2018. (See Appendix C for revenue and expenditure information for active versus retired members and Appendix D for revenue and expenditure information for the three plans.)

[28] *While there are price indexes that examine healthcare price growth, the latest available data is from 2020. The most recent data from the GDP price index was used because it includes payers beyond consumers—unlike the Consumer Price Index—and thus reflects a broader economy-wide inflation that includes healthcare inflation.*

and implemented new programs or offered new covered benefits intended to mitigate rising health expenditures. For example:

- **Chronic conditions** – SHBP management indicated care for members with chronic conditions such as diabetes are expensive to treat. Staff indicated that in March 2022, Anthem began offering a diabetes management program focused on disease awareness and lifestyle coaching, and United began offering the program in April 2022. The program sets goals and milestones for members to meet, which are intended to help them better manage the disease. SHBP intends to evaluate this program annually.

- **Low cancer screening rates** – According to literature, treatment costs are higher for breast cancer patients who were diagnosed at more advanced stages. SHBP indicated cancer screening rates varied across the state due to access. As such, in November 2021, SHBP implemented the Mobile Mammogram program to close screening and access gaps in targeted regions. SHBP intends to evaluate this program annually.

- **Weight Loss and Bariatric Care** – In January 2022, prescription weight loss medication and bariatric surgery became a covered benefit. SHBP staff indicated that these became covered benefits in response to consumer demand.

Agency Response: *DCH agreed with this finding. DCH noted the impact of the amended fiscal year 2022 appropriation and additional Coronavirus Relief Funds, totaling $428.9 million in one-time funds on SHBP's fiscal year 2022 deficits. According to DCH, "without this much needed and appreciated infusion, the operating deficit would have been $374.8 million. At this rate, SHBP's fund balance would be negative within two years, and more importantly, cashflow would be severely impacted by March 2024."*

Finding 3: The Teachers and School Employees Plans have experienced shortfalls in recent years, which has required an increasing amount of state funds.

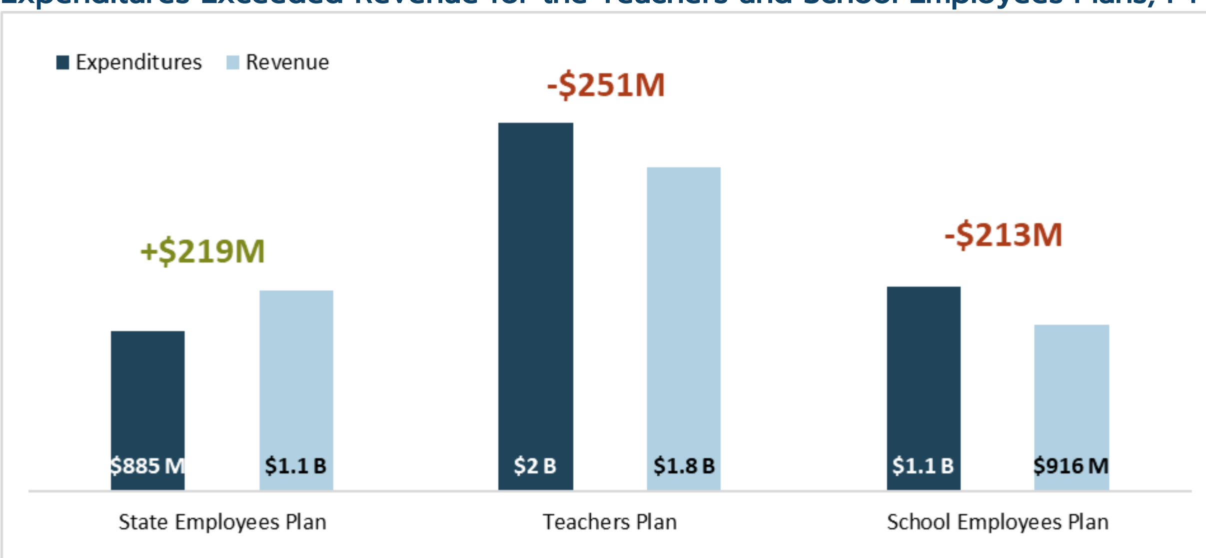
In recent years, revenue for the Teachers and School Employees Plans has not been sufficient to cover members' healthcare expenditures. Revenue growth is limited due to the plans' employer contribution rate structure (based on a flat rate per covered member). In particular, the insufficient local employer contribution for the School Employees Plan has required an increasing amount of state funds to remedy shortfalls over the past three years.

As previously discussed, subscriber premiums and employer contributions are collected separately for each of the three plans (State Employees, Teachers, and

School Employees) that comprise the entire State Health Benefit Plan. State law authorizes DCH to combine revenue from the three plans into one health insurance fund (SHBP Fund) to be used to pay any healthcare expenditure—regardless of the member incurring the cost. However, the level of surplus for a given plan determines how much will be available to transfer to each plan's respective OPEB fund.

Total Teachers Plan and School Employees Plan revenue has been less than expenditures between fiscal years 2018 and 2022. Since fiscal year 2018, Teachers Plan health expenditures have increased by 35.4%, compared to a 6.9% increase in revenue. Similarly, School Employees Plan health expenditures increased by 30.8%, while revenue increased by only 3.4%. In fiscal year 2022, for example, Teachers Plan revenue was $251 million (14%) less than expenditures, while School Employees Plan revenue was $213 million (23%) less (see **Exhibit 12).** By contrast, State Employees Plan revenue has been sufficient to cover expenditures. As discussed in Finding 2, combined revenue for all three plans has not increased at the same rate as expenditures, which could lead to shortfalls in each of these plans in coming years.

Exhibit 12
Expenditures Exceeded Revenue for the Teachers and School Employees Plans, FY 2022



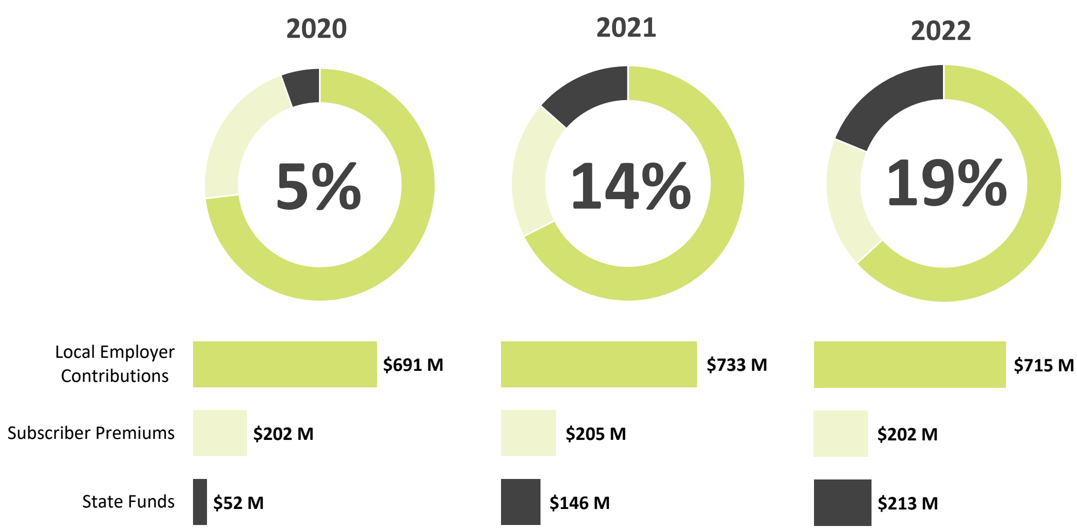
Source: TeamWorks Financials

When Teachers Plan and School Employees Plan revenue is insufficient to pay expenditures, the state must use other sources—including revenue from the State Employees Plan and supplemental state appropriations—to cover the shortfall. A shortfall in these plans could result in a decrease in the SHBP Fund's net position, as discussed in Finding 1, as well as limit the amount of funds that can be transferred to the OPEB Funds.

As discussed on page 16, revenues for the Teachers and School Employees Plans could be increased by changing the employer contribution rate structure. This includes changing the flat rate to a percentage, increasing the flat rate, or requiring contributions for all employees regardless of whether they enroll in the Plan. Because employer contributions for the Teachers Plan are largely paid with state funds provided through QBE earnings, such changes would not eliminate the need for additional state resources to manage these shortfalls (rather, the state funds would be redirected to QBE payments versus relying on one-time appropriations or the State Employees Plan revenue).

Changes to the employer contribution rate for the School Employees Plan would lessen the state's obligation, however, because employer contributions for school employees are paid with local funds. As shown in **Exhibit 13**, the portion—and amount—of expenditures covered by the state has increased over the past three fiscal years. In fiscal year 2022, the state covered nearly 20% of School Employees Plan expenditures, up from only 5% in fiscal year 2020. Because expenditures have also increased, state dollars supporting the Plan quadrupled from $52 million to $213 million. Increasing the School Employees Plan employer contribution rate would mitigate the growing gap between revenue and expenditures, but the burden would be borne solely by local school systems.

Exhibit 13
State Funds to School Employees Plan Have Grown, FY 2020-2022



Source: TeamWorks Financials

It should be noted that the state has historically supported the School Employees Plan in some form. Prior to fiscal year 2012, the Georgia Department of Education (GaDOE) made direct contributions to the School Employees Plan, which supplemented local employer contributions. When GaDOE discontinued these payments, responsibility shifted entirely to local school systems. The School Employees Plan's employer contribution rate, which was $162.72 per covered member per month at the beginning of fiscal year 2011, was gradually increased to $945 in January 2018 to compensate for the loss of GaDOE contributions. The rate has remained the same since. As discussed above, however, state funds continue to support the School Employees Plan indirectly.

Agency Response: *DCH agreed with this finding*.

Finding 4: Plan revenue and expenditure projections have been accurate over the past five years.

Plan revenue and expenditure projections are calculated based on historic trends and updated regularly. The projections—which are sent to the Governor's Office of Planning and Budget to assist in setting rates—have been accurate over the past five years (less than 3.5% difference from actual revenues and less than 2.0% difference from actual expenditures).

O.C.G.A. § 45-18-3 and DCH rule 111-4-1-.02 state that the Board of Community Health shall design the State Health Benefit Plan to provide reasonable assurance of the Plan's financial stability in future years. According to DCH staff, regular projections regarding the Plan's revenue and expenses are needed to perform this function. DCH performs its own revenue projections but contracts out expenditure projections.

DCH sends the projections to the Governor's Office of Planning and Budget (OPB) to assist in its annual Plan rate setting analysis. OPB uses the expenditure projections directly as the expectation of future expenses. OPB staff may use the revenue projections directly or calculate their own if they want to include factors not accounted for by DCH. For example, OPB used the projections as they were received in fiscal years 2021 and 2022 but is using its own projections for fiscal year 2023 to account for a $5,000 cost of living adjustment.

Revenue Projections

DCH's revenue projections are the combination of projections for employee premiums and employer contributions. Projections for each are for up to three years into the future and are updated monthly to account for evolving data and conditions that would impact projections. Both premium and contribution projections use historic enrollment growth trends to estimate future values.

- **Premiums –** To estimate premiums, DCH first calculates the average enrollment growth trend from historic data for both active and retired employees. This is then multiplied by a rolling average[29] of monthly premium revenue by member type (e.g.,

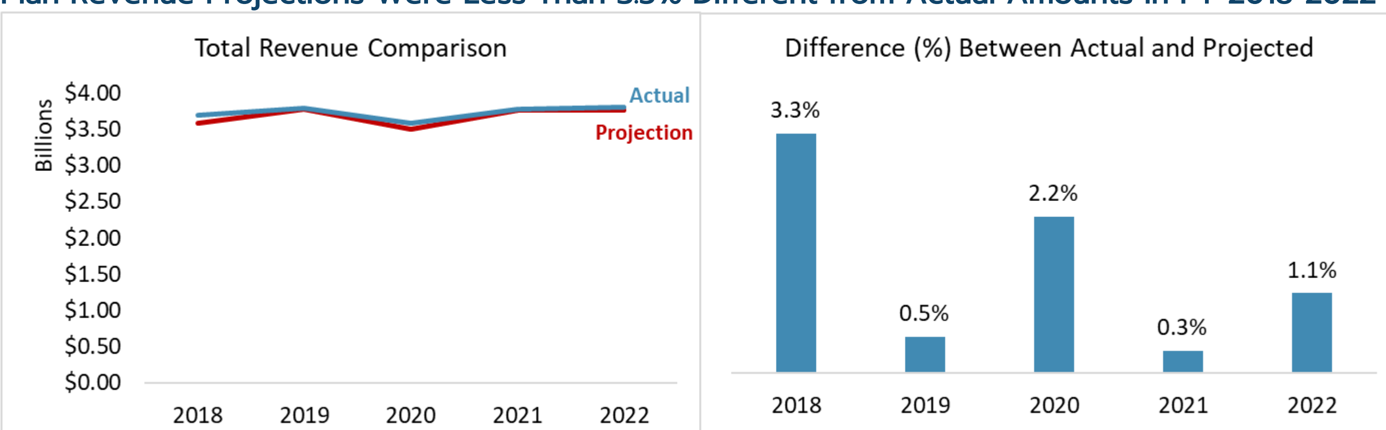
[29] *We observed rolling averages of six months for premium calculations and spans of varying length for employer contribution calculations. Projected payroll used a 9-month average, teacher enrollment used a 12-month average, and librarians and non-certificated employee enrollment used a single month of historic data. DCH occasionally adjusts the length of the rolling averages to account for anomalies in the historic data whose effects are not desired in the projections (e.g., collections holiday).*

active teachers). The result provides monthly premium projections, which are aggregated to fiscal years.

- **Employer Contributions** – Employer contribution projections start by multiplying the average enrollment growth trend by monthly rolling averages of estimated state employee payroll and enrollment count by member type. The monthly payroll history is estimated by dividing actual contribution receipts by the contribution rate in the historic months, while estimated enrollment is determined by dividing receipts by the appropriate fixed contribution amount for teachers, librarians, and non-certificated employees. Projected enrollment counts for teachers, librarians, and non-certificated employees are multiplied by their appropriate fixed contribution amounts (currently $945, $843, and $945, respectively) to give their employer contribution projections. Estimated payroll for active state employees is multiplied by the contribution rate (currently 29.454%).

Actual Plan revenues collected between fiscal years 2018 and 2022 exceeded DCH's projections by less than 3.5%, as shown in **Exhibit 14**. As indicated by the line chart, projected revenue tracked actual revenue very closely over the five fiscal years reviewed. The largest difference was in fiscal year 2018 (3.3%), while the smallest difference occurred in fiscal year 2021 (0.3%).

Exhibit 14
Plan Revenue Projections Were Less Than 3.5% Different from Actual Amounts in FY 2018-2022



Source: DCH records and TeamWorks Financials

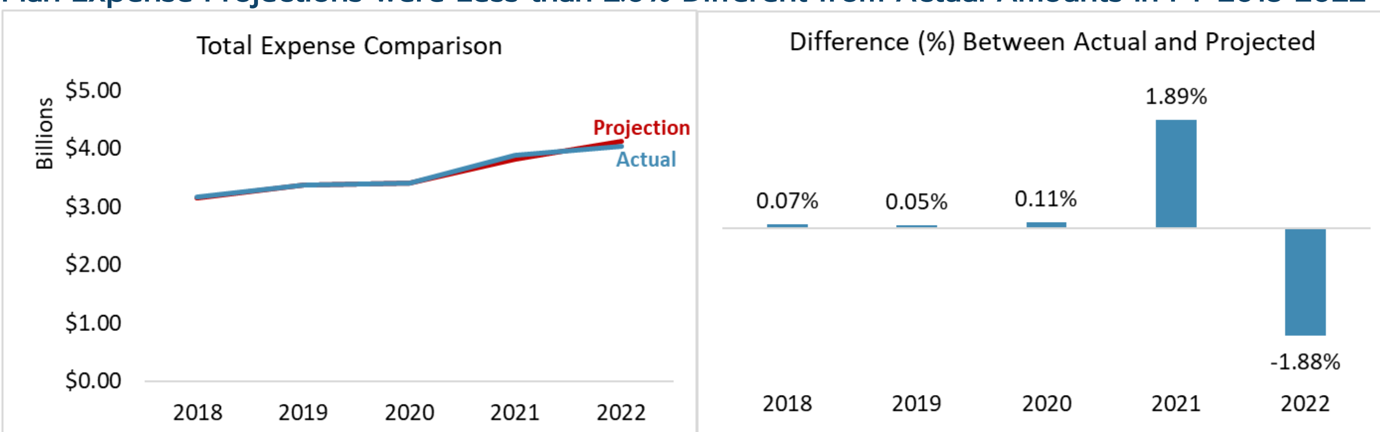
Expenditure Projections

Unlike revenue projections, DCH contracts with a private company to project Plan expenditures. Aon has received $1.5 million per fiscal year for recent projections and other actuarial work.

Plan expense projections are created in a manner similar to the revenue projections. Aon applies historic growth trends to the most recent 12 months of claims expense and Plan enrollment. These projected claims expenses and enrollment counts are then combined to get overall total expense projections. Aon updates these calculations quarterly to account for evolving data and conditions that would impact projections. The trends are adjusted to account for changes in marketplace conditions, population, and benefit plans.

Compared to actual expenses between fiscal years 2018 and 2022, Aon's projections in differences of less than 2.0% per fiscal year, as shown in **Exhibit 15**. As indicated by the line chart, projected expenses tracked actual expenses very closely over the five fiscal years reviewed. The largest differences were in fiscal years 2021 and 2022 (1.9% each), while the smallest difference occurred in fiscal year 2019 (0.05%).

Exhibit 15
Plan Expense Projections were Less than 2.0% Different from Actual Amounts in FY 2018-2022



Source: DCH records and TeamWorks Financials

Agency Response: *DCH agreed with this finding.*

Appendix A: Table of Findings and Recommendations

	Agency Agreement
Finding 1: The SHBP Fund's net position increased slightly over the five years reviewed. (p. 12)	**Partially Agree**
No recommendations included	N/A
Finding 2: Since fiscal year 2018, the Plan's expenditure growth has outpaced its revenue growth. (p. 16)	**Agree**
No recommendations included	N/A
Finding 3: The Teachers and School Employees Plans have experienced shortfalls in recent years, which has required an increasing amount of state funds. (p. 20)	**Agree**
No recommendations included	N/A
Finding 4: Plan revenue and expenditure projections have been accurate over the past five years. (p. 23)	**Agree**
No recommendations included	N/A

Appendix B: Objectives, Scope, and Methodology

Objectives

This report provides an overview of the State Health Benefit Plan (SHBP). Specifically, our examination set out to determine the following:

1. How has SHBP's financial status changed from fiscal year 2018-2022?
2. What factors have contributed to changes in the Plan's financial status?
3. What were the revenue and expenditure projections for fiscal years 2018-2022, and how do they compare with actuals?

Scope

This special examination generally covered activity related to the financial status of the Plan during fiscal years 2018-2022, with consideration of earlier periods when relevant. Information used in this report was obtained by reviewing relevant laws, rules, agency documents, and reports from DOAA's prior examinations of SHBP. We also interviewed Department of Community Health (DCH) staff in SHBP, as well as financial management staff including the comptroller and budget director. We analyzed Plan enrollment data and information regarding SHBP's activities as reported in DCH's annual reports. This review did not examine Plan administration or contract management.

We extracted financial information from TeamWorks, including all DCH general ledger expense and revenue records from fiscal year 2018 through 2022. We assessed the controls over this data and determined that the data used were sufficiently reliable for our analyses.

Government auditing standards require that we also report the scope of our work on internal control that is significant within the context of the audit objectives. We reviewed internal controls as part of our work on Objective 2. Specific information related to the scope of our internal control work is described by objective in the methodology section below.

Methodology

To determine the extent to which SHBP's fund status changed from fiscal year 2018-2022, we reviewed the State of Georgia Annual Comprehensive Financial Reports (ACFR) for fiscal years 2017-2021. We utilized information from various financial statements—including the Statement of Net Position and the Statement of Revenue, Expenses, and Changes in Net Position—to analyze trends in the SHBP Fund's operating revenue, operating expenses, operating income, and net position.

We interviewed DCH financial management staff and reviewed DCH analyses and other documents for information regarding the extent to which contributions from the SHBP Fund were made to the Plan's Other Post-Employment Benefits (OPEB) Funds. We reviewed DCH's funding policy for accumulating reserve funding for SHBP's OPEB liability to determine the process for making additional voluntary contributions to the OPEB Funds. We analyzed reports of "pay-as-you-go" contributions and voluntary additional contributions from the SHBP Fund to the Plan's OPEB Funds.

We reviewed Notes to the Financial Statements in the ACFR and actuarial analyses of the State and School OPEB Funds for fiscal years 2017-2021 for information about their funding strategy and funding status. We reviewed documentation of the State of Georgia's bond ratings from multiple firms. We also conducted a literature review and interviewed bond ratings firm representatives to understand the methodology for determining government bond ratings and the impact an OPEB Fund's financial status has on those ratings.

To identify factors that contributed to changes in the Fund's status, we interviewed DCH financial management staff about SHBP revenue and expenditures by plan, revenue derived from employer contributions, and variances in the rate structure for employer contributions. We also reviewed various reports that examined factors that contribute to trends in Plan revenue and expenditures, including DCH reports, external consultant reports, and the Governor's Office of Planning and Budget's (OPB) fiscal year 2016 Zero-Based Budgeting report.

We analyzed board documents and state appropriation bills to identify changes in employer contribution rates and explanations for changes in employer contribution rates and employee premiums. We also reviewed findings and recommendations from the 2015 report from SHBP's consultant, which examined Plan costs. We reviewed literature regarding cost drivers and other factors that impact revenue and expenditures for employer sponsored health plans. Based on the literature review, we determined that medical cost inflation influences health plan costs. To estimate medical cost inflation, we utilized GDP Price index data for 2018-2022 from the U.S. Department of Commerce's Bureau of Economic Analysis.

We also interviewed OPB staff to determine how each membership plan is funded, OPB's role in establishing employer contribution rates, and decisions to revise these rates. We reviewed OPB documentation of the policy decision to designate an employer contribution holiday for June 2019, written guidance provided to entities for implementation, and estimates of the financial impact of the employer contribution holiday.

We interviewed the Georgia Department of Education's (GaDOE) budget director to determine the extent to which GaDOE provides funding to local school systems for employer contributions, the process for determining the amount allocated, and the process for transmitting funds. We obtained and analyzed salary data to estimate the employer contributions for covered school employees and compare with State Employees Plan employer contributions. We utilized statewide Certified and Personnel Information enrollment data to determine the number of certificated staff participating in SHBP.

We conducted interviews of SHBP program staff and reviewed DCH annual reports and agency documentation to identify changes in coverage options, changes in plan eligibility, and new programs implemented since our 2005 audit. We also used this information to determine reasons for: 1) implementing changes in Plan coverage and eligibility, 2) selecting new programs implemented, and 3) the extent to which DCH examined the effectiveness of new programs. We also reviewed data and documentation of new employers and members added to the Plan. We reviewed literature regarding trends and strategies in managing costs for providing health coverage to employees.

To understand the design and operating effectiveness of DCH's internal controls for revenue collection, claims payment, eligibility determination, and enrollment, we reviewed DCH's organizational chart, interviewed staff within DCH's financial management division and each of SHBP's program units, and reviewed vendor service organization control reports. We also reviewed the results of audit work performed by the Department of Audits and Account's Financial Audit Division, including narratives of financial processes and the fiscal year 2021 Single Audit report.

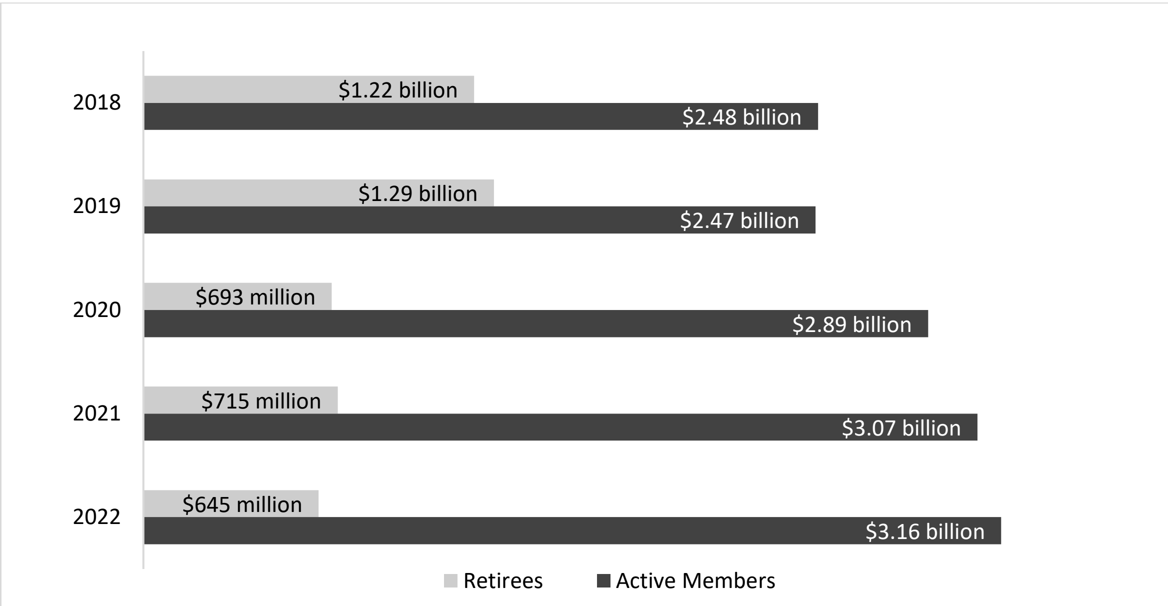
To determine revenue and expenditure projections for fiscal years 2018-2022 and how they compare with actuals, we interviewed DCH budget and finance staff about their revenue projection method and reviewed appropriate TeamWorks comparison accounts. We also interviewed staff at Aon, a private company used by DCH to conduct expense projections, about the expense projection methodology. We analyzed revenue and expenditure data from TeamWorks, as well as revenue projections from DCH and expenditure projections from Aon. We compared TeamWorks fiscal year total expense and revenue (actuals) to the last revenue and expense projection for a fiscal year before the year became part of the actual data. Since projections are made many years into the future and are updated several times per year, we regarded the last projection provided for a fiscal year as the fairest comparison point. These projections should be based on the most mature and accurate data available. We assessed the controls over the TeamWorks data and determined that the data used were sufficiently reliable for our analyses.

To obtain information on Plan enrollment and coverage, we interviewed SHBP staff and reviewed summary benefit and coverage documents for each health insurance vendor. We obtained historic Plan enrollment data that DCH provided from its vendor for fiscal years 2017-2022. We used this data to analyze enrollment by membership plan, plan coverage, health insurance vendor, and employment status.

We conducted this special examination in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

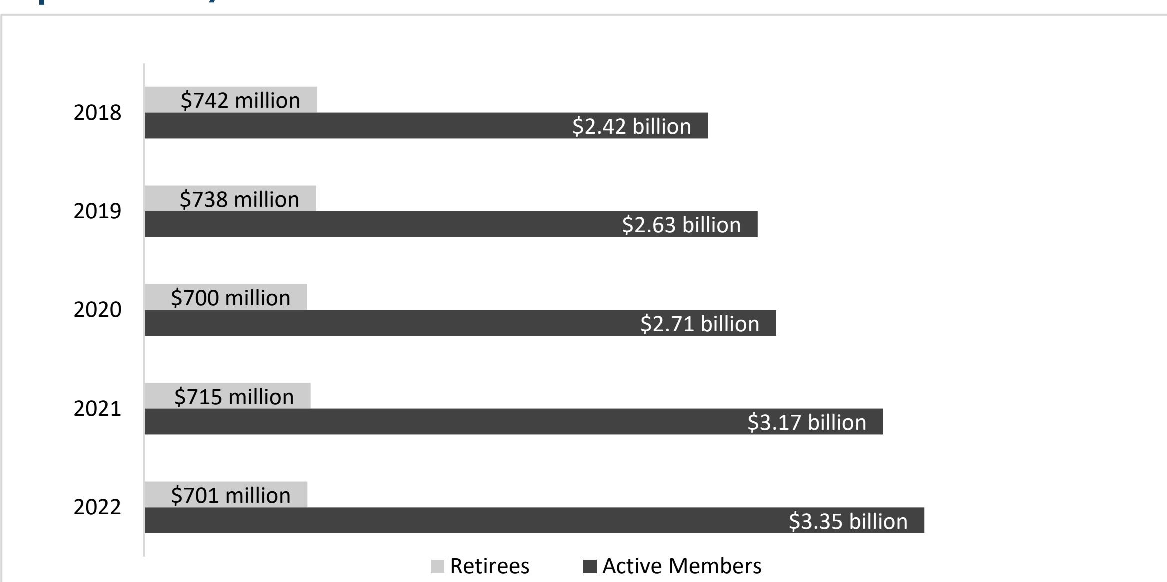
Appendix C: Revenue and Expenditures by Employment Class

Exhibit C-1
Revenue, Fiscal Years 2018-2022



Source: TeamWorks Financials

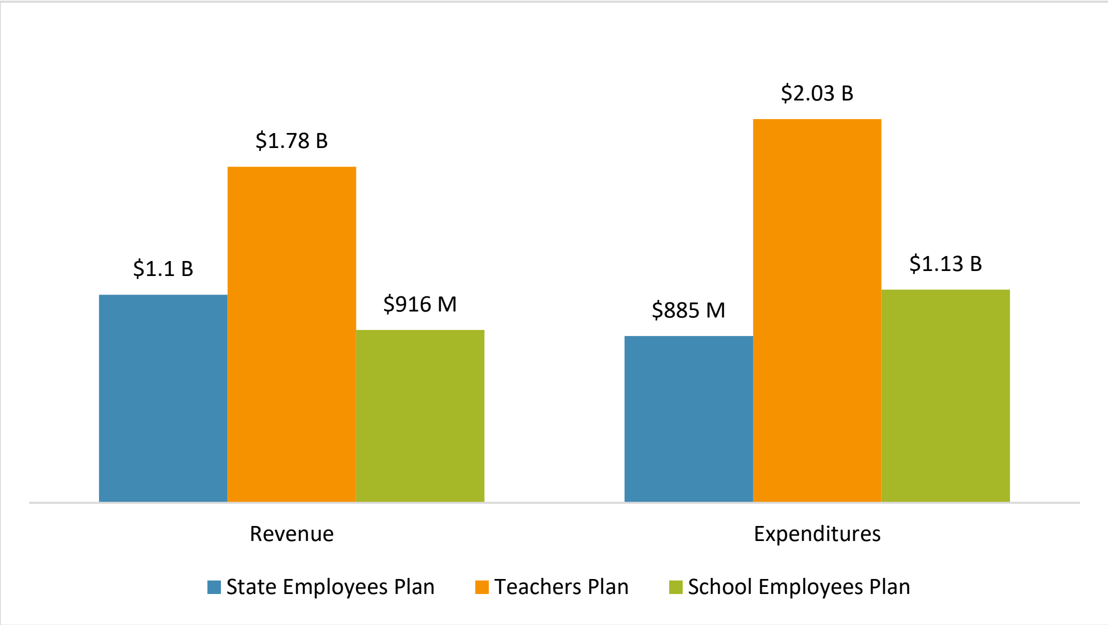
Exhibit C-2
Expenditures, Fiscal Years 2018-2022[1]



[1] Expenditures include healthcare and administrative expenses allocated to each plan.
Source: TeamWorks Financials

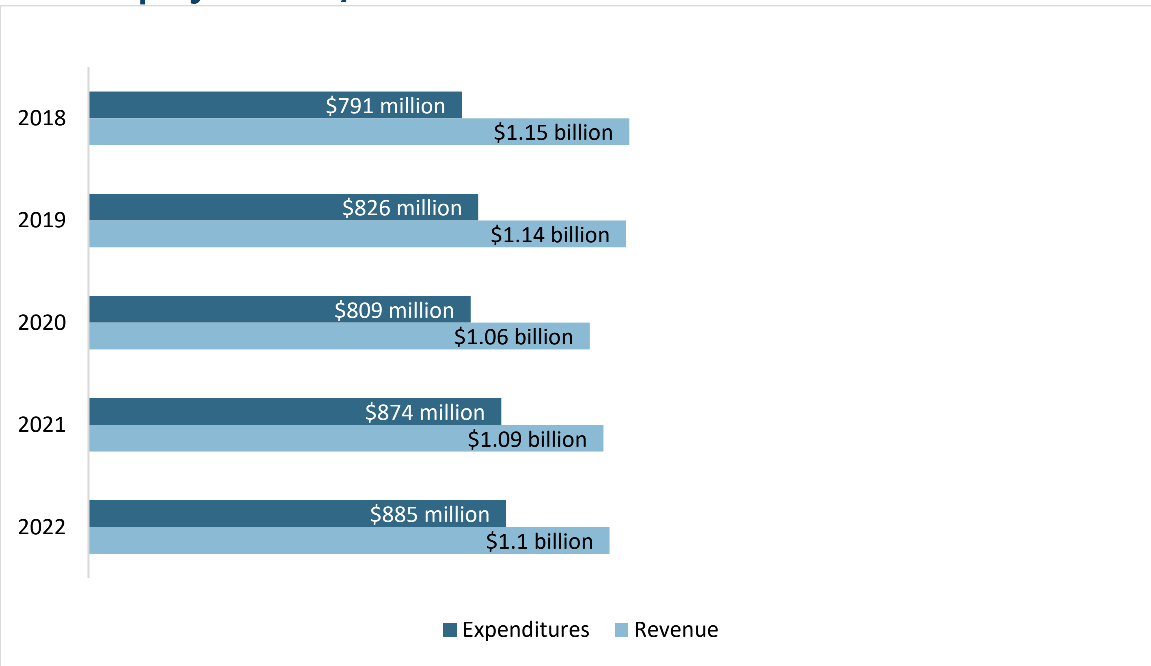
Appendix D: Revenue and Expenditures by Plan

Exhibit D-1
Revenue and Expenditures by Plan, Fiscal Year 2022[1]



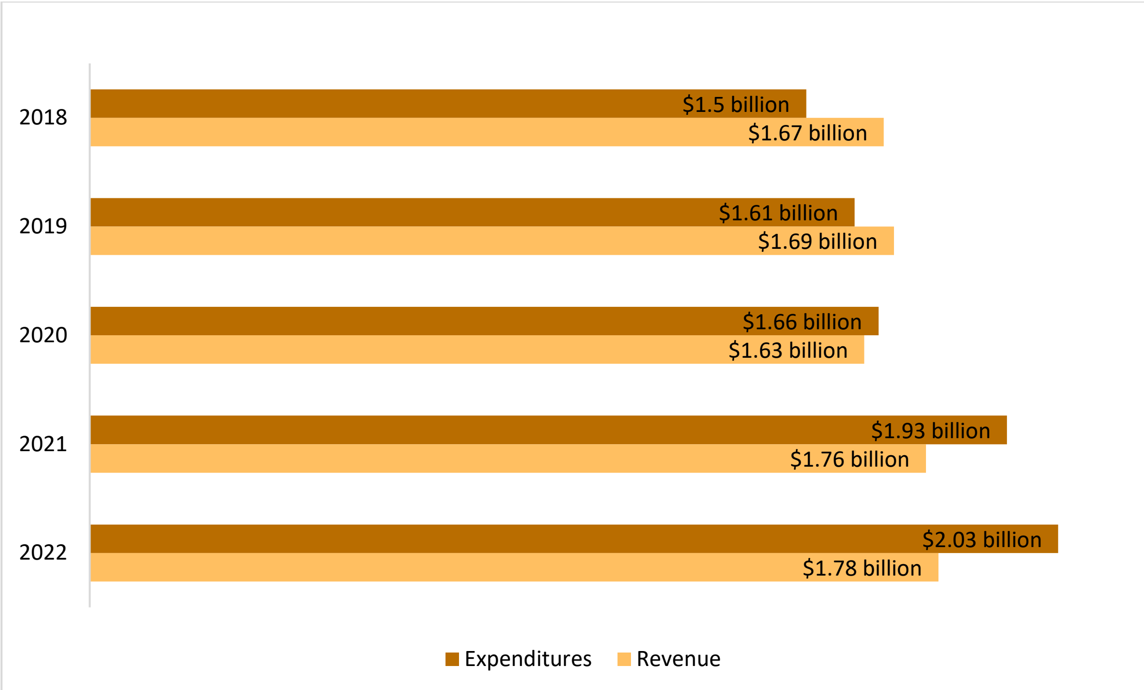
[1] Expenditures include healthcare and administrative expenses allocated to each plan.
Source: TeamWorks Financials

Exhibit D-2
State Employees Plan, Fiscal Years 2018-2022



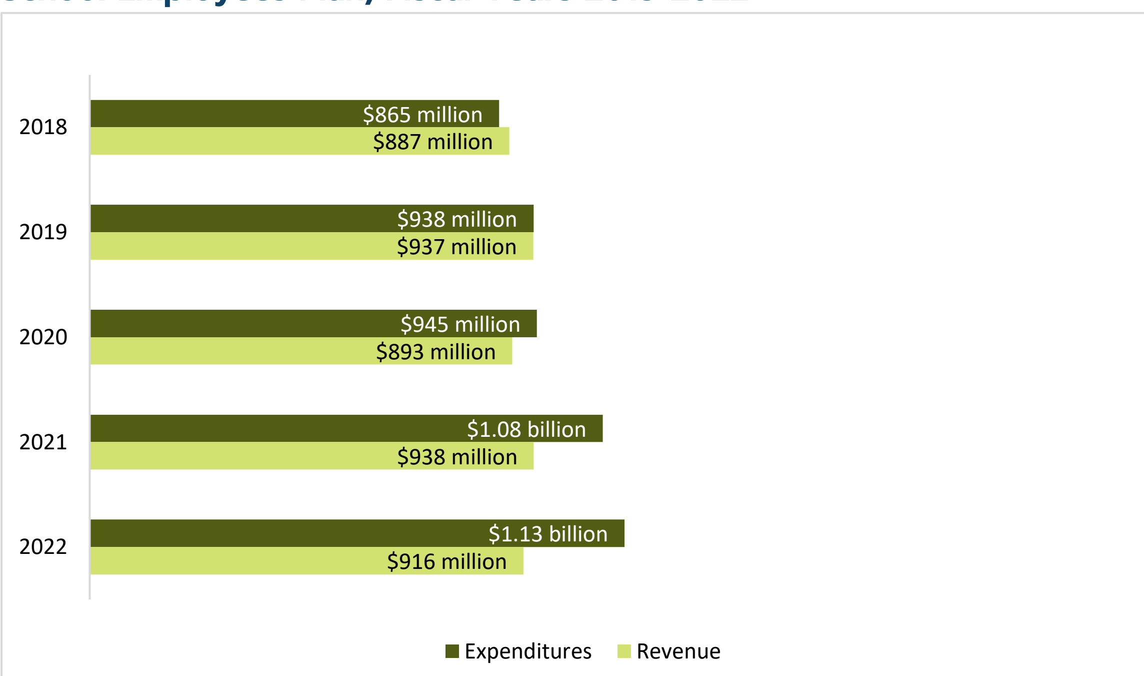
Source: TeamWorks Financials

Exhibit D-3
Teachers Plan, Fiscal Years 2018-2022



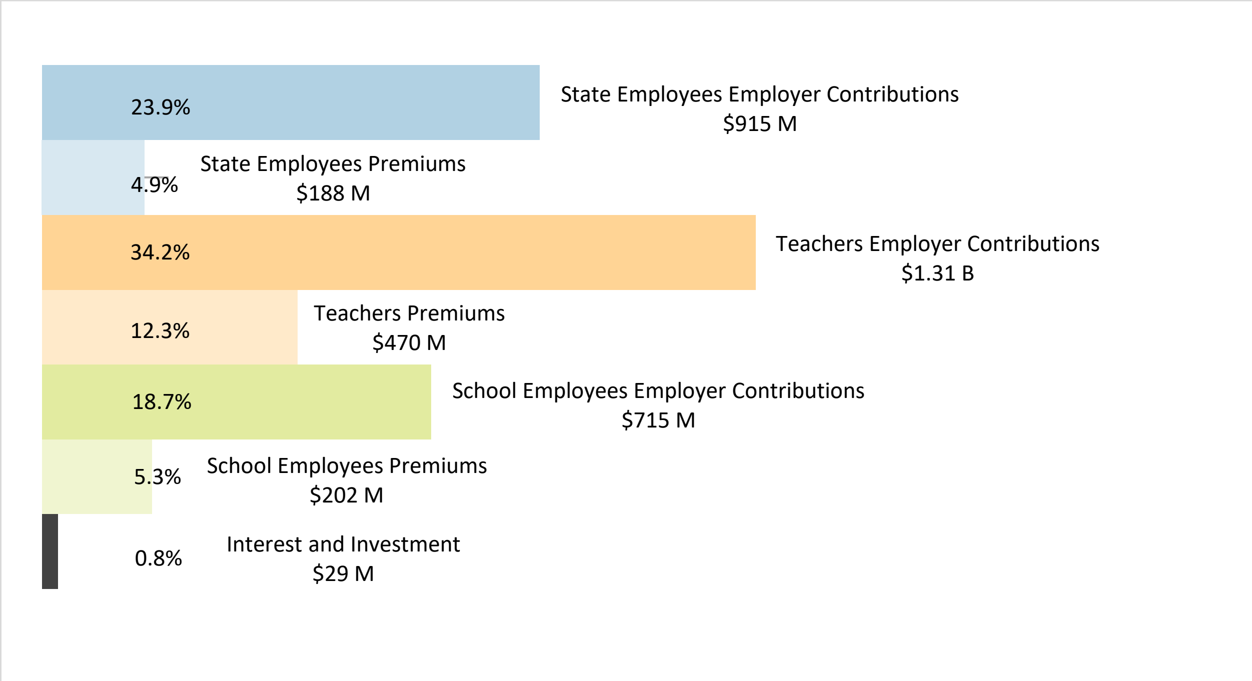
Source: TeamWorks Financials

Exhibit D-4
School Employees Plan, Fiscal Years 2018-2022



Source: TeamWorks Financials

Exhibit D-5
Revenue by Source, Fiscal Year 2022



Source: TeamWorks Financials

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