

LEGISLATIVE FISCAL ESTIMATE
SENATE, No. 2995
STATE OF NEW JERSEY
220th LEGISLATURE

DATED: OCTOBER 12, 2022

SUMMARY

- Synopsis:** Requires use of federal Coronavirus State Fiscal Recovery Fund grants to reduce increases in premium rates for SHBP and SEHBP for calendar year 2023.
- Type of Impact:** One-time appropriation from the Coronavirus State Fiscal Recovery Fund.
- Agencies Affected:** Division of Pensions and Benefits, Department of the Treasury; local government entities, boards of education.

Office of Legislative Services Estimate

Fiscal Impact		<u>Calendar Year 2023-Impacting 2nd half of FY 2023 and 1st half of FY 2024</u>
Expenditure Increase from State Fiscal Recovery Fund		Up to \$800 million

- The Office of Legislative Services (OLS) estimates that this bill would appropriate up to \$800 million from the Coronavirus State Fiscal Recovery Fund for expenditure by the State, local governments, and boards of education to pay for the total increases in premium rates in Plan Year 2023 for active and retired members of the State Health Benefits Program and the School Employees’ Health Benefits Program.

BILL DESCRIPTION

This bill would authorize the use of federal Coronavirus State Fiscal Recovery Funds, to the maximum extent that they are available, to reduce the total increase in the premium rates approved by the State Health Benefits Commission and the School Employees’ Health Benefits Commission for calendar year 2023 for the medical and prescription drug benefit plans for the State employee and retiree group, the participating local government employee and retiree group, and the local education employee and retiree group.

FISCAL ANALYSIS

EXECUTIVE BRANCH

None Received.

OFFICE OF LEGISLATIVE SERVICES

The OLS estimates that this bill would appropriate up to \$800 million from the Coronavirus State Fiscal Recovery Fund for expenditure by the State, local governments, and boards of education to pay for the total increases in premium rates in Plan Year 2023 for active and retired members of the State Health Benefits Program and the School Employees' Health Benefits Program.

The baseline for this fiscal analysis is predicated on the Memorandum of Agreement entered into on September 14, 2022 between the State of New Jersey and labor groups including the:

- American Federation of State, County and Municipal Employee Council 63;
- Communication Workers of America;
- International Federation of Professional and Technical Engineers;
- Local 195;
- Council of New Jersey State College Locals;
- American Federation of Teachers; and
- International Brotherhood of Electrical Workers (IBEW) Local 33.

The agreement states that “effective January 1, 2023, employee contributions for the Unity/NJDirect and Unity/NJDirect2019 plans shall increase by 3 percent. For example, if an employee’s current contribution for the family plan is 7 percent of salary, effective January 1, 2023, the employee’s contribution shall be 7.21 percent of salary. Employee contributions for the employees participating in the Tiered Network plan shall continue to be 75 percent of the Unity/NJDirect plan contribution rates. The new baseline premium to be used to calculate increases or decreases in employee healthcare contributions for Plan Year 2024 shall be the Plan Year 2023 premiums as if the State did not waive any portion of the escalator in Plan Year 2023.” The agreement affects State active employees only.

In addition, the agreement made the following changes to member copays. Commencing on January 1, 2023, specialist copays are required to be \$15 higher than primary care provider copays, including the tiered network and HMO plans. The copay for OB/GYN visits are not changed at this time. Urgent care copays are required to be \$30 higher than primary care provider copays and apply also to the tiered network and HMO plans. In addition, the agreement approved five resolutions which are reaffirmed annually regarding prescription drugs and the tiered network incentive.

The total increase in premium rates approved by the State Health Benefits Commission and the School Employees' Health Benefits Commission for calendar year 2023 for the medical and prescription drug benefit plans for the State employee and retiree group, the participating local government employee and retiree group, and the local education employee and retiree group totals \$1.1 billion. Of this amount, \$373 million comprises the State increase, \$354 million comprises the participating local increase, and \$375 million comprises the education group. The OLS estimates that this bill would appropriate up to \$800 million from the Coronavirus State Fiscal Recovery Fund for expenditure by the State, local governments, and boards of education to pay for the total increases in premium rates in Plan Year 2023 for active and retired members of the State Health Benefits Program and the School Employees' Health Benefits Program. This amount

does not include an estimated \$301 million (97% of premium) the State agreed to pay pursuant to the Memorandum of Agreement for State active employees, but does include an estimated:

- \$9 million for State active employees (3 percent of premium not included in the agreement);
- \$261 million for participating local government active employees;
- \$318 million for active school employees;
- \$62 million for State retirees;
- \$93 million for participating local government retirees; and
- \$57 million for education retirees.

This bill would authorize the use of the Coronavirus State Fiscal Recovery Fund while the funding source of the Governor's agreement is assumed to be the General Fund. In addition, the Governor's agreement does not include early retirees or Medicare retirees. This bill would include funds to pay for the total cost of the increase in early and Medicare retiree premium increases for State, participating local, and education retirees. The OLS notes that according to the Plan Year 2023 Rate Renewal Reports, P.L.2011, c.78, which requires that members contribute towards their health care benefits, does not apply to existing retirees as of 7/1/2011 or to employees who had 20 or more years of service on 7/1/2011. As such, Aon is assuming no changes to retiree contributions for Plan Year 2023, which means that the majority of retirees will continue to have no contribution for the cost of their health benefits.

The bill specifies that it would affect calendar year premium rate increases. The OLS notes that calendar year premium increases coincide with the Rate Renewal Plan Year. However, plan year/calendar year increases overlap with two State fiscal years. Plan Year 2023 overlaps with the last six months of Fiscal Year 2023 and the first six months of Fiscal Year 2024. Therefore, presumably one-half of the fiscal impact of this bill will overlap with the second half of Fiscal Year 2023 (January through June of 2023) and presumably one-half of the fiscal impact of this bill will overlap with the first six months of Fiscal Year 2024 (July through December 2023). Finally, The OLS notes that certain assumptions were made in order to analyze the fiscal impacts of the bill. If additional information is obtained or provided that would change the assumptions, then the fiscal estimate will change accordingly.

Coronavirus State and Local Fiscal Recovery Fund. The American Rescue Plan Act of 2021 established the Coronavirus State Fiscal Recovery Fund to provide states and local governments with resources to address the pandemic and provide economic support to families and businesses, maintain vital public services, and make investments to produce long-term sustainable economic growth. States and local governments are able to use the funds to:

- replace lost public sector revenue;
- respond to far-reaching public health and negative economic impacts of the pandemic;
- provide premium pay for essential workers; and
- invest in sewer, water, and broadband infrastructure.

States and local governments are required to use the funds by December 31, 2024. The law requires the allocation of the funds in two tranches, with 50 percent delivered no later than 60 days after the date on which the certification required and the remainder delivered no earlier than one year later. States and local government are not able to use the funds towards pensions or to offset revenue resulting from a tax cut enacted since March 3, 2021. The State of New Jersey and its local governments were allocated \$10.2 billion, \$6.2 billion of which was allocated to the State.

The Fiscal Year 2022 Appropriations Act appropriated \$866 million from the Coronavirus State Fiscal Recovery Fund to pay for various projects (\$416 million) and to pay for Level I Trauma Centers (\$450 million). The Fiscal Year 2023 Appropriations Act Revenue Certification

anticipates the receipt of \$1.4 billion in Coronavirus State Fiscal Recovery Funds. Appropriations from the Coronavirus State Fiscal Recovery Fund must be approved through the enactment of legislation or by the Joint Budget Oversight Committee. In November 2021, the Joint Budget Oversight Committee approved the appropriation of \$262.6 million in Coronavirus State Fiscal Recovery Fund allocations.

The Final Rule published by the United States Department of the Treasury in January 2022 provides information regarding eligible and ineligible uses of funds (as well as other program provisions).

<https://home.treasury.gov/system/files/136/SLFRF-Compliance-Statement.pdf>

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This legislative fiscal estimate has been produced by the Office of Legislative Services due to the failure of the Executive Branch to respond to our request for a fiscal note.

This fiscal estimate has been prepared pursuant to P.L.1980, c.67 (C.52:13B-6 et seq.).