

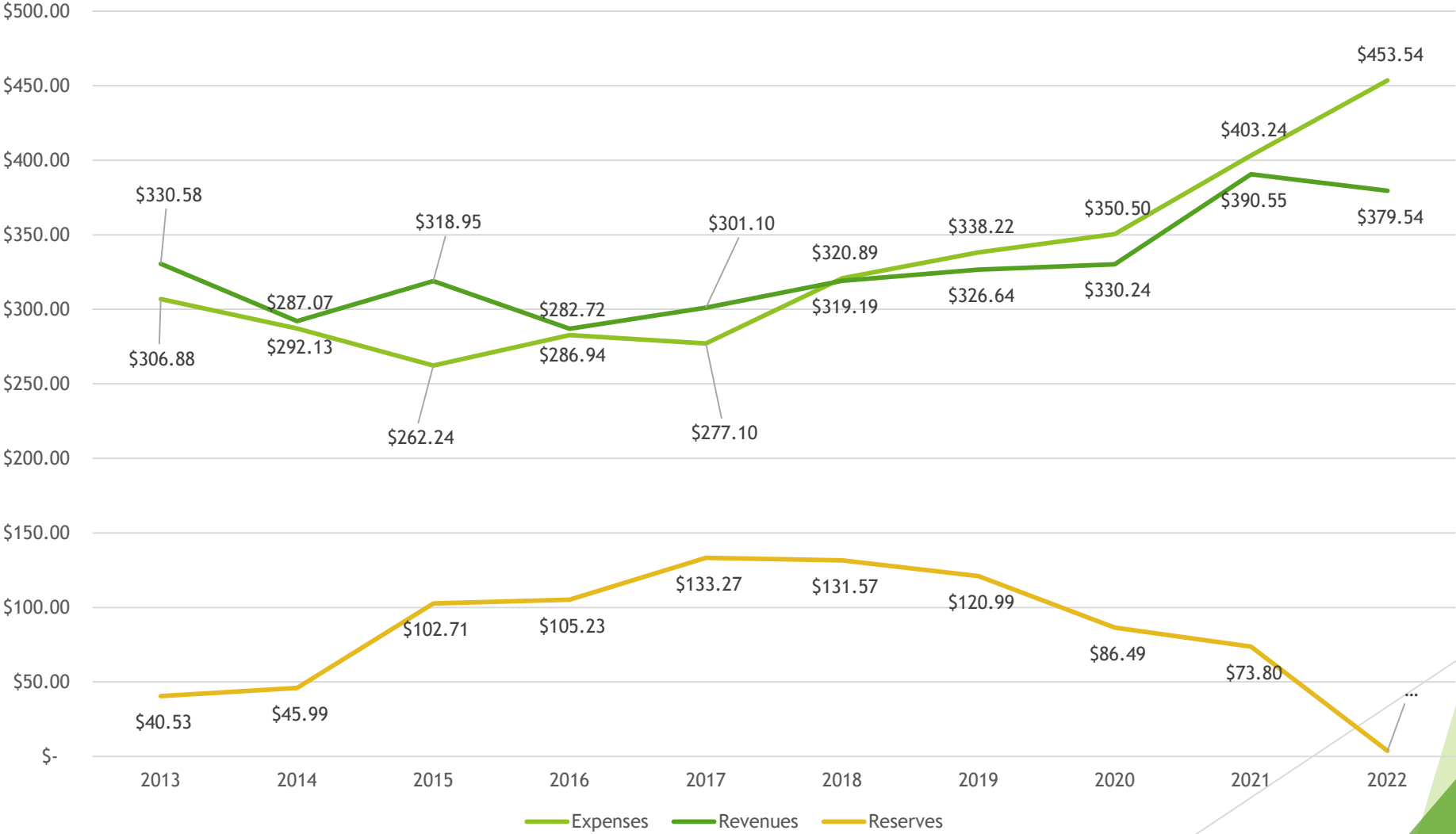
# EBD Funding and Budget Processes Discussion

Nov. 1, 2022

# Discussion Points

- ▶ Background on Funding Processes for Arkansas State Employees (ASE) and Public School Employees (PSE)
- ▶ Discussion of state budget process and dates and plan process
- ▶ Proposed Budget/Financial Planning Schedule/Strategy

# Recent History....



# The challenge...

- ▶ Accurately Project Funding Needs
- ▶ Implement Funding Solutions in a timely manner
- ▶ Accommodate Budgeting Process of the State
- ▶ Accommodate Funding Process of EBD and its members
- ▶ Account for Flexibility in the Process . . . The what if?

# Decision Points I

- ▶ Cost Allocation Policies Adopted in 2022
  - ▶ Adjust annual for actuarial basis
  - ▶ Uniform employer contribution of 80 percent
  - ▶ Five-year Roll Out (2023, 2024, 2025, 2026, 2027)

## Policy Advantages:

- Fairness
- Accuracy in Projections
- Removes piecemeal decision making from the board

# High Level Considerations I

- ▶ Benefits Drive Expenses
- ▶ Expenses Drive Premiums to members
  - ▶ Employer/Employee Split in Plan Costs establish individual and State expenses
- ▶ The basic formula
  - ▶ Cost of Benefits = State Contribution + Employee Contributions

# Background: ASE

- ▶ ASE & PSE are funded separately
  - ▶ ASE covers employees and retirees of state agencies
    - ▶ Receives state funding through transfers from agency budgets on a per-budget-position basis
      - ▶ \$500 in CY2022; \$550 in CY2023
      - ▶ \$605 if CY2024; \$660 in CY2025
    - ▶ Funded from all sources of revenue; not dependent on specific pieces of legislation
    - ▶ Funded amounts must receive the approval of the Chief Fiscal Officer of the State (Ark. Code Ann. § 25-1-414)

# Background: PSE

- ▶ PSE covers employees and retirees of public schools
  - ▶ Receives state funding through transfers from public schools on a per enrollee basis
    - ▶ \$300 in CY2023; ??? In CY2024
  - ▶ Receives state funding directly through transfers from the Department of Education
  - ▶ Funded primarily through Educational Adequacy Process and Department of Education Appropriations Act
  - ▶ Per Enrollee Funding “shall” increase annually in an amount determined by Educational Adequacy Committee, “factored according to the medical component of the 20 Consumer Price Index for All Urban Consumers.” Ark. Code Ann. § 6-17-1117(b)(1)

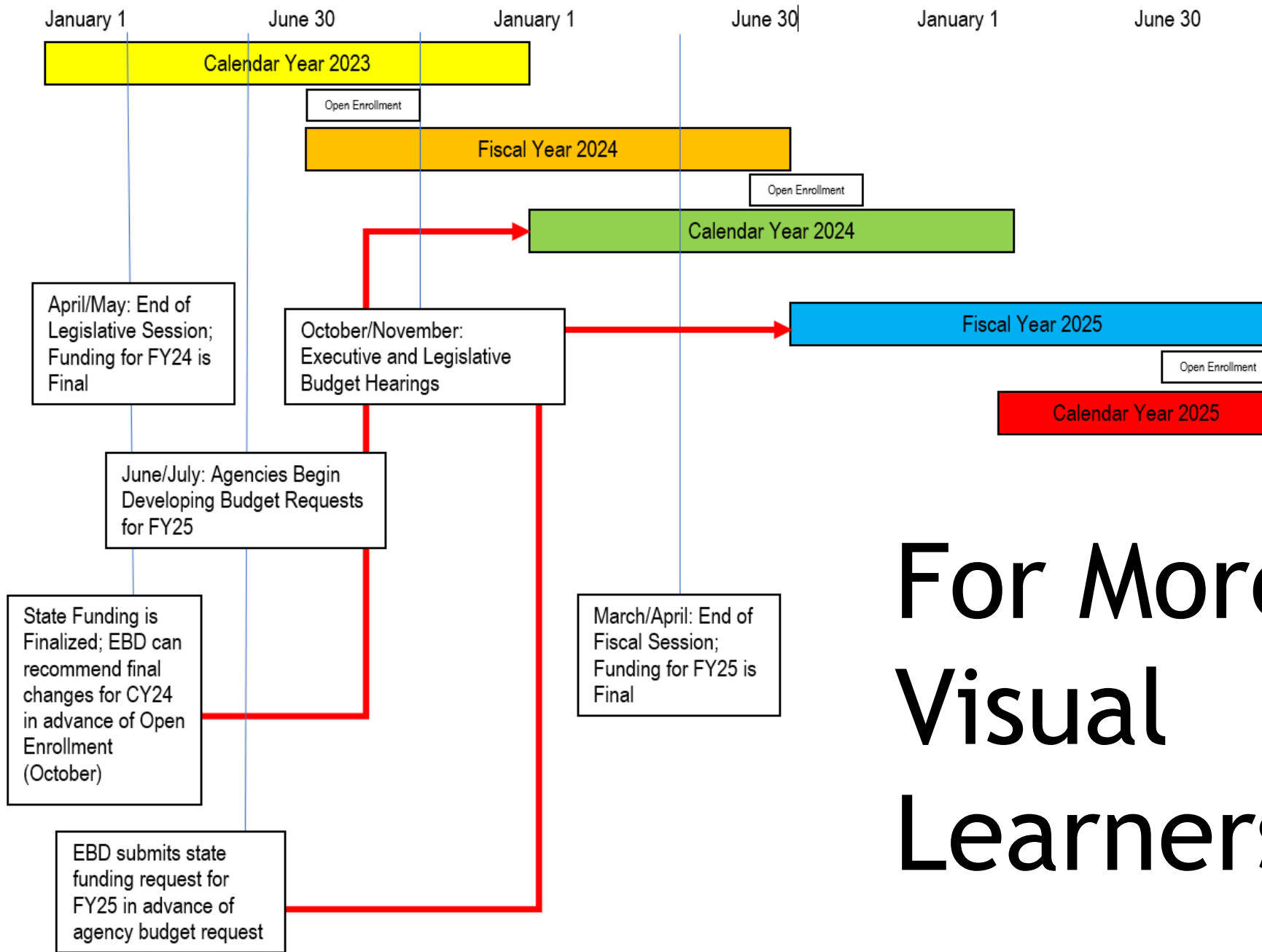


# State Budget Process

- ▶ The state operates on a fiscal year basis (7/1 - 6/30)
- ▶ Annual Sessions (Regular and Fiscal) occur in the spring before the start of the fiscal year
- ▶ Tends to operate with limited ongoing commitments and significant one-time surplus payments
- ▶ Budget hearings before Legislature begin in the fall preceding the session
- ▶ Agencies submit budget requests in the spring/summer advance of budget hearings
- ▶ The agencies/Department of Education will need to know EBD's requests in advance of their submissions.
- ▶ We need at least a month to give Board of Finance and ALC time to review
- ▶ So if we want to submit a budget request for the fiscal year beginning July 1, 2024, we need to prepare our request no later than April 1, 2023

# Plan Year Processes

- ▶ The plan operates on a calendar year basis (1/1 - 12/31)
- ▶ Open Enrollment is in October in advance of the next calendar year
- ▶ Changes need to be adopted into the system well in advance of open enrollment (May-June)
- ▶ We won't know funding from the state until the end of the legislative session in the spring before the next calendar year (April or May)
- ▶ So if we submit a budget request for the fiscal year beginning July 1, 2024 by no later than April 1, 2023, funding provided by that request will not be available until the calendar/plan year beginning Jan. 1, 2025 (FY2025)



# For More Visual Learners.....

# Considerations

- ▶ The plan budgets at least 19-20 months in advance
- ▶ What if
  - ▶ The circumstances change during that time;
  - ▶ The legislature denies or cannot meet our funding requests;
  - ▶ The legislature adopts legislation which changes plan expenses;
    - ▶ Fiscal Impact Analysis
  - ▶ Things aren't as anticipated?

# Responses

- ▶ The State can't or won't meet plan funding needs for the next calendar year or if something unexpected occurs
  - ▶ Legislative Session Ends in April/May. The plan would have about a month or so to determine whether and to what extent to change funding for the plan
  - ▶ If the state cannot provide the funding, the plan must
    - ▶ Cut benefits or
    - ▶ Increase member costs
    - ▶ Operate off of reserves
  - ▶ The advisory commissions will be responsible for these recommendations

# Proposed Process

- ▶ Every April/May, the Advisory Commissions make two recommendations
  - ▶ Recommend state funding amounts for the calendar year beginning 19-20 months away
    - ▶ May 2023 recommend funding for plan year beginning January 2025
  - ▶ Recommend changes as needed to benefits, premiums and plan design for the calendar year beginning 7-8 months away
    - ▶ May 2023 recommend plan changes for plan year beginning January 2024
- ▶ Project plan expenses at least 18-20 months in advance
- ▶ Request state funding in advance; hold off on any further plan changes until state funding can be determined
- ▶ Adjust plan/benefits to accommodate levels of state funding

# High Level Considerations II

- ▶ Step 1: Determine Projected Cost of Benefits for Future Calendar Year
- ▶ Step 2: Request State Funding for Specific Calendar Year
- ▶ Step 3: Establish Benefits, Premiums and Employer/Employee Contributions after State Funding is Established