

Joint Budget Committee



Interim Supplemental Budget Requests FY 2025-26

Total Statewide Compensation

JBC Working Document - Subject to Change

Staff Recommendation Does Not Represent Committee Decision

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Interim Supplemental Requests

Employee Benefit Fund Balance Solvency

Item	Total Funds	General Fund	Cash Funds	Reapprop. Funds	Federal Funds	FTE
Request	\$17,678,148	\$9,801,682	\$4,288,025	\$1,674,814	\$1,913,626	0.0
Recommendation	17,678,148	9,801,682	4,288,025	1,674,814	1,913,626	0.0

Staff Recommendation Higher/-Lower than Request	\$0	\$0	\$0	\$0	\$0	0.0
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Does JBC staff believe the request satisfies the interim supplemental criteria of Section 24-75-111, C.R.S.? YES
 [The Controller may authorize an overexpenditure of the existing appropriation if it: (1) Is approved in whole or in part by the JBC; (2) Is necessary due to unforeseen circumstances arising while the General Assembly is not in session; (3) Is approved by the Office of State Planning and Budgeting (except for State, Law, Treasury, Judicial, and Legislative Departments); (4) Is approved by the Capital Development Committee, if a capital request; (5) Is consistent with all statutory provisions applicable to the program, function or purpose for which the overexpenditure is made; and (6) Does not exceed the unencumbered balance of the fund from which the overexpenditure is to be made.]

Does JBC staff believe the request meets the Joint Budget Committee's supplemental criteria? YES
 [An emergency or act of God; a technical error in calculating the original appropriation; data that were not available when the original appropriation was made; or an unforeseen contingency.]

Explanation: JBC staff and the Department agree that this request is the result of data that were not available when the original appropriation was made.

Request

The Department requests \$17.7 million total funds, including \$9.8 million General Fund, to ensure that the Group Benefit Plans Reserve Fund remains solvent for FY 2025-26.

Recommendation

Staff recommends that the Committee approve the request.

Analysis

This request is a direct successor to the Health, Life, and Dental (HLD) conversations that staff had with the Committee when formulating the FY 2025-26 budget.

The main takeaway is that actual expenditures for HLD in FY 2024-25 and FY 2025-26 have far exceeded projected expenditures and current projections indicate that the fund used to pay insurance claims will be insolvent by the end of FY 2025-26.

Background

During the formulation of the FY 2025-26 Long Bill, there were several moving pieces related to the Health, Life, and Dental line items:

- Staff recommended and the Committee approved a 1.5 percent salary base reduction, to be taken out of HLD line items under the assumption that departments would use vacancy savings to make up the difference;
- The Department of Personnel and Administration (DPA) requested, in response to the Partnership Agreement, that the State absorb 100.0 percent of any increase in employee insurance premiums for FY 2025-26. Ultimately, the Committee approved a rate split of 88/12 between the employer (state) share and the employee share; and
- The Department requested that GLP-1 anti-obesity medications (AOMs) be dropped from insurance coverage for state employees. The Committee approved a grandfathering provision for GLP-1 AOMs whereby the State would continue to cover prescriptions received prior to June 30, 2025 with a higher copay amount, but the State would not cover new prescriptions for GLP-1 AOMs starting on July 1, 2026.

At the time, the Department and staff understood that the cost of the grandfather provision – based on actuarial projections – would be roughly \$9.1 million total funds. The Department also based its decisions on projections that showed the ending fund balance for the Group Benefit Plans Reserve (GBPR) Fund at approximately \$53.0 million for FY 2024-25. Additionally, the Department expected employer premium revenues to come in \$5.3 million under expenses. Taken together, the Department felt comfortable with a projected \$14.4 million expenditure from the GBPR Fund.

Problem

The problem is that both the cost of the grandfathering provision for GLP-1 AOMs and the projected \$5.3 million revenue shortfall were wildly underestimated. Instead of a GBPR Fund balance of roughly \$38.6 million ($\$53.0 - \$14.4 = \38.6), the fund began the current fiscal year with a fund balance of \$20.9 million. Additionally, the actuary is now projecting that the fund balance at the end of FY 2025-26 will be -\$10.5 million total funds.

Due to the nature of this fund, and how HLD premium payments work, this fund essentially cannot have a negative fund balance. This means that if the projection is correct, the \$10.5 million deficit *will be paid one way or another*. The question is in what manner will it be paid?

Either the Committee approves overexpenditure authority now for departments to spend more than what is in their HLD lines, or the Committee waits until January supplementals to adjust the Long Bill, or the Committee denies these requests and requires departments to pay the shortfall out of their Personal Services lines.

Group Benefit Plans Reserve Fund

Established in Section 24-50-613, C.R.S., the Group Benefit Plans Reserve Fund is the fund established to stabilize the state's self-insurance revenue and expenditures.

- (1) There is hereby established the group benefit plans reserve fund. The state treasurer shall be ex officio treasurer of this fund, and the state treasurer's general bond to the state shall cover all liabilities for acts as treasurer of the fund. The director shall remit to the treasurer for deposit in the group benefit plans reserve fund all payments received by the director for group benefit plans premium costs from employees and the state as employer. The director shall also remit to the treasurer for deposit in the group benefit plans reserve fund any payments received by the director from the carriers of group benefit plans. Such payments shall not be included in the general revenues of the state of Colorado and shall not be general assets of the state. At the end of the fiscal year, any unexpended funds shall not revert to the general fund but shall be held by the state treasurer in custodial capacity, to be used subject to direction from the director.

All insurance premiums paid by the state and employees are credited to the fund, and all claims payouts come from the fund. This is the only statutory purpose for this fund.

Within the GBPR fund, there is an account called the Premium Stabilization Reserve Account (PSR). The purpose of this account is to:

...offset unexpected year-end deficits and extraordinary fluctuation in annual premiums.
(Section 24-50-613 (3), C.R.S.)

When setting HLD rates, the Department's goal – at the recommendation of the actuary – is to fill this reserve account with 7.5 percent of medical, prescription, and dental expenditures. The following table, provided by the department, shows a brief history of the fund balances in the GBPR fund and the PSR.

Fiscal Year	Total Expenses	Target PSR at 7.5%	Fund Balance at FYE	Excess (Shortage) Fund Bal Over (Under) PSR at FYE	Medical, Dental, and Rx Projected Claims Costs*
FY 2020-21	\$492,771,434	\$21,145,282	\$68,215,954	\$48,357,489	\$281,937,093
FY 2021-22	514,706,232	23,441,894	60,497,847	39,175,547	312,558,586
FY 2022-23	558,949,174	27,289,181	37,579,568	12,811,608	363,855,745
FY 2023-24	606,176,345	29,497,521	47,289,319	18,808,983	393,300,277
FY 2024-25	720,261,511	36,384,231	20,944,647	-13,712,729	485,123,091
FY 2025-26 Projection	789,390,000	31,322,713	-10,475,353	-41,798,066	459,030,037

*PSR is based on the projected claims costs during the fiscal year, before actuals are known

It is important to note that *only medical, prescription, and dental expenses form the basis for the recommended 7.5 percent Target PSR, not total expenses*. This is why the amounts in the Target PSR column are not equal to 7.5 percent of the amounts in the Total Expenses column. Instead, the amounts in the Target PSR column are equal to 7.5 percent of the amounts in the Medical, Dental, and Rx Projected Claims Costs column.

It is clear to see in this table when the fund started to nosedive out of balance.

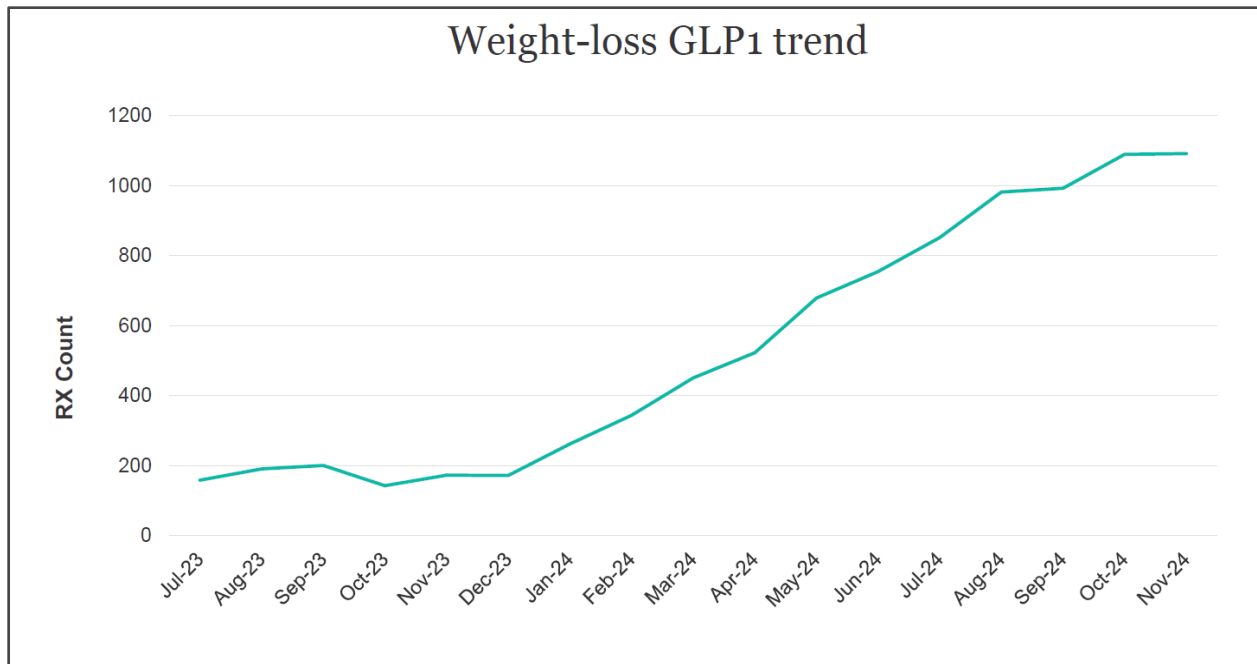
Projection Issues

Up to this point, it seems that DPA has managed the fund responsibly and without issue. In staff's estimation, the following discussion is something of a black swan event with the introduction of a new drug that appears effective for a wide array of ailments. The GBPR fund has been able to maintain sufficient reserves and, more importantly, the ability to pay out all claims expenses that it has been required to. The Department states that, "In at least the past 10 fiscal years, there has not been another HLD supplemental request submitted, on or off cycle."

Why, then, have the projections for the last two fiscal years been so far under actual expenses?

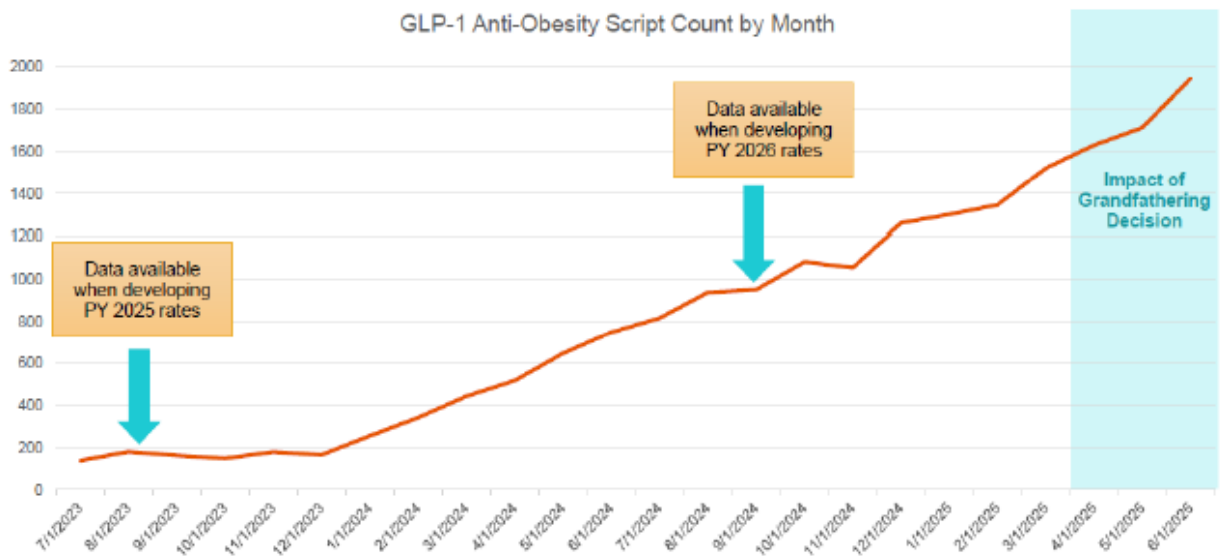
The Department provides three primary causes:

- 1 Migration from High-Deductible Health Plans (HDHP) to Standard Plans (Copay Basic and Copay Plus)
 - The way that the different plan levels interact is that the lower risk pool of those on HDHP and Copay Basic plans pay more into the fund than what the Department expects to pay out in claims. These higher payments subsidize the cost of the Copay Plus plan, as that plan attracts the highest cost risk because of the generous benefits it offers. Because of this interaction, when more people elect the Standard Plans, there are fewer low-risk people in the HDHP to subsidize the cost of those Standard Plans. When the subsidy from those in the High-Deductible plan decreases, the State ends up making up the difference.
- 2 Increased High-Dollar Claims
 - The Department reports that from FY 2023-24 to FY 2024-25 payments for high-cost claimants increased by \$27.0 million – a 13.0 percent increase. A high-cost claimant is one who claims a total of \$25,000 to \$500,000 over the course of a plan year. The State has stop-loss insurance that triggers when a claimant claims more than \$500,000 in a plan year. Staff sees this as an instance of inconvenient timing. There is no discernable reason why there have been more high-cost claimants over the past two fiscal years, and staff would be surprised if this trend continues. More likely, the number of high-cost claimants will revert to the mean in the coming years.
- 3 Escalated GLP-1 Utilization and Costs
 - This cause, in staff's estimation, is the largest contributor to the projection inaccuracies. When the Committee made its decision to grandfather coverage for existing prescriptions, the following graph represents the data available to the Department.



Based on these data, the actuary believed that utilization would level off to some degree. Staff believes this is defensible because of what looks to be the beginning of a trend starting in August 2024 where there were months with no growth in prescriptions. The following graph represents the data that are currently available, and shows that the leveling-off assumption was very wrong.

GLP-1 Anti-Obesity Growth



It is clear that despite a few months that showed flat growth in prescriptions, starting in December 2024 the growth in prescriptions continued at roughly the same rate as it was growing prior to August 2024. Then, in the last few months of FY 2024-25, there

looks to be a steeper increase, which the actuary attributes to a rush of people getting prescriptions before the grandfathering period started.

How Do We Account for the Drop in the Reserve?

Included here again is the same table from page 3, for ease of reference.

Fiscal Year	Total Expenses	Target PSR at 7.5%	Fund Balance at FYE (Projected PSR)	Excess (Shortage) Fund Bal Over (Under) PSR at FYE	Medical, Dental, and Rx Projected Claims Costs*
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From the end of FY 2023-24 and projecting through the end of FY 2025-26, the reserve will have dropped by nearly \$60.0 million. The full \$60.0 million is still a projection, but the Department did provide some information on what caused the \$26.0 million drop in the reserve in FY 2024-25.

Compared to the projected expenditures in FY 2024-25, GLP-1 utilization costs were \$11.1 million higher than expected. Additionally, general claims expenses – including higher high-cost claims – cost \$11.4 million more than anticipated. Those amounts account for \$22.5 million of the drop in the deficit. It is unclear what caused the remaining \$3.8 million, but there are numerous variables, both positive and negative, that contribute to actual expenditures differing from the projections.

For FY 2025-26, the Department attributes the remaining decrease in the reserve primarily to four factors. The following numbers describe the roughly \$41.0 million difference between the Target PSR for FY 2025-26 (\$31,322,713) and the projected PSR fund balance at the end of the year (-\$10,475,353).

The first contribution is from the migration from High-Deductible Health Plans to Standard Plans. The Department claims that this migration accounts for about \$2.0 million of the difference between the Target PSR and the Projected PSR.

The second contribution is from lower than expected stop-loss reimbursements. Compared to the projections available when setting the Long Bill, the Department now expects \$2.0 million less in reimbursements.

The third contribution is from higher plan utilization. The projections have increased by \$13.0 million from when the Department initially set the rates for FY 2025-26.

The fourth and largest contribution is from the cost to cover GLP-1 AOMs. When the Committee decided to grandfather in existing coverage, the Department's actuary predicted there would be a 10.0 percent spike in new prescriptions. The Department projected this would cost roughly \$9.1 million total funds, including \$5.0 million General Fund. To avoid further

General Fund strain, the Committee decided to force the GBPR fund to absorb this cost instead of appropriating additional dollars for it. We now know that new prescriptions of GLP-1 AOMs increased 30.0 percent, rather than 10.0 percent.

Therefore, when the Long Bill closed, the GBPR fund was starting in a \$9.1 million hole. Add to that an increase in new prescriptions that is 3 times more than the actuarial projections and the amount that the grandfather decision has actually cost the state is \$23.9 million.

Adding these four factors together accounts for \$40.9 million of the discrepancy between the Target PSR of \$31.3 million and the Projected PSR of -\$10.5 million.

Funding Justification and Potential Risks

In the request, the Department is asking for \$17.7 million total funds, including \$9.8 million General Fund. They arrived at this number because that amount will:

- 1 Cover the \$10.5 million deficit; and
- 2 Allow for a 1.0 percent buffer of \$7.2 million if the actuarial projections for FY 2025-26 are again too low.

The 1.0 percent buffer relates again to the Premium Stabilization Reserve account. The Department took 1.0 percent of FY 2024-25 total expenditures and requested that amount on top of the \$10.5 million to cover the projected deficit.

Staff is unsure if 1.0 percent is an appropriate amount of reserve for the current fiscal year. In the Department's own words, "DPA anticipates a moderate to high risk that actual expenditures will exceed projections by more than 1.0% for Plan Year 2026."

The reason given for requesting a potentially insufficient reserve amount is that the Department is not trying to rebuild the PSR through this request. They are simply trying to cover the costs for the current fiscal year. Staff believes that now is as good a time as any to start rebuilding the PSR.

While staff acknowledges the conservative approach to this request, staff questions if it is the right approach in this scenario. For example, what happens if the Committee approves the 1.0 percent reserve amount, and then in March, April, May, or even June it becomes clear that the 1.0 percent will be insufficient to cover all claims expenses for the fiscal year? Does the State not pay out insurance claims?

Staff believes that it would be prudent to fund the PSR at a level greater than 1.0 percent of prior year expenditures. This accomplishes two goals: It ensures that claims expenses will be paid in full in FY 2025-26, and it begins the process of rebuilding the PSR. The downside is those funds would become unavailable for other uses. The upside, however, is that DPA would request lower HLD rates in future years because they would not need as much to build the PSR back up to the 7.5 percent level.

Funding Options

From staff's point of view, there are three options for the Committee to consider now, and one additional option that staff believes is not currently available to the Committee. The first is to

approve the \$17.7 million overexpenditure in HLD lines across all agencies. The second is to deny this request and wait until the mid-year supplemental process in January to reconsider. The third option is to deny this request now and in the future and force each department to cover the deficit from their personal services lines. The fourth option, which staff believes is not available to the Committee in this interim supplemental process but will be available during the mid-year supplemental process in January, is to approve the increase in HLD lines **and** fund the PSR at 3.0 percent.

For the first option, the request would allow departments to overspend their HLD lines by amounts outlined in the table below. Then, in January, DPA would submit a mid-year supplemental to adjust the Long Bill accordingly. If the Committee chooses to go this route, it is important to note that the amounts in the January supplemental will almost certainly be different from what you see in the table below. The discrepancy would result from the standard HLD adjustment that happens every year resulting from updated data, and adjusting the below amounts based on new data that will come in between now and then.

Department	Total Funds	General Fund	Cash Funds	Reapprop. Funds	Federal Funds
Agriculture	\$190,084	\$56,574	\$118,501	\$0	\$15,008
Corrections	3,266,423	3,220,840	45,583	0	0
Early Childhood	162,575	66,918	34,630	14,070	46,958
Education	383,134	159,700	60,993	36,221	126,220
Governor's Office	773,339	89,032	69,922	571,989	42,396
HCPF	477,769	190,901	38,513	0	248,355
Higher Education	129,831	41,643	68,472	0	19,715
Human Services	2,557,758	1,519,418	145,315	411,339	481,686
Judicial	2,924,842	2,690,682	231,131	3,029	0
Labor and Employment	944,669	81,972	466,262	4,684	391,750
Law	340,876	82,041	57,757	192,353	8,723
Legislature	203,810	203,810	0	0	0
Local Affairs	132,588	61,379	26,447	18,539	26,223
Military Affairs	82,312	32,816	1,652	0	47,844
Natural Resources	1,067,361	147,535	871,220	31,148	17,457
Personnel and Administration	237,666	92,198	6,610	138,857	0
Public Health	1,122,442	213,186	382,898	106,555	419,804
Public Safety	1,295,958	432,328	731,107	116,735	15,788
Regulatory Agencies	312,098	9,104	271,791	25,505	5,698
Revenue	884,606	392,801	488,016	3,790	0
State	81,076	0	81,076	0	0
Transportation	78,921	0	78,921	0	0
Treasury	28,011	16,803	11,208	0	0
Total	\$17,678,148	\$9,801,682	\$4,288,025	\$1,674,814	\$1,913,626

For the second option, the Committee would deny the overexpenditure authority until at least January. When the Department requests its mid-year supplemental, the Committee would have the opportunity to reconsider the request. The projections in January may be higher or lower than the current projections, but more data means potentially more accurate projections. The downside of this option, as the Department sees it, is that in January agencies will have less time to plan for additional funding, which would theoretically cause greater strain on the

General Fund. The theory here is that by allowing agencies to plan for higher premium rates now, they will be able to use cash funds and federal funds to defray some of the General Fund costs of those rates. On the other hand, if the rates increase in January, they will necessarily need to use more General Fund because they will not have had time to plan and defray General Fund costs. This argument is not without merit, but staff believes that the benefit to the General Fund would be marginal at best.

The third option would be, in practice, an increase to the 1.5 percent base reduction that the Committee approved in the Long Bill. If the Committee recalls, the 1.5 percent reduction was taken from HLD lines across state agencies. Denial of this overexpenditure would increase the reduction to all departments by an additional 1.0 percent, approximately. Staff's assumption is that departments would use their personal services lines to make up any deficit. Some departments might have additional vacancy savings to use for this, but some departments will not. It is hard to know which departments will have funds available or not. For those departments that will not have vacancy savings to use, they will have to source funds from other programs and/or FTE.

The inverse is that approving funding would eliminate much of the total decrease from the 1.5 percent base reduction. It would not be full 'repayment' across the board, but some agencies would actually receive *more* from this request than was deducted from their HLD lines in the Long Bill.

Finally, staff would like to note that while the recommendation is to approve the overexpenditure as requested, staff believes that it would be wise to further increase funding in the mid-year supplemental. As mentioned previously, the Department itself believes there is a moderate to high risk that 1.0 percent PSR will not be sufficient to cover all claims expenses for FY 2025-26. Staff believes that the Committee should consider funding the PSR at a level of 3.0-4.0 percent for FY 2025-26. This would require approximately \$10.0-\$15.0 million more total funds on top of the requested \$17.7 million.