HOUSE BILL REPORT

HB 1784

As Reported By House Committee On:
Appropriations

Title: An act relating to health care insurance for employees and retirees of school districts and educational service districts.

Brief Description: Allowing retired and disabled school employees to purchase health care insurance from the state health care authority.

Sponsors: Representatives Locke, Sommers, Dellwo, Wang, Brough, Jacobsen, Karahalios, Peery, Talcott, Dorn, Cothern, Ogden, Holm, Pruitt, Jones, Romero, Campbell, Valle, Thibaudeau, King, Ballard, Basich, Quall, Veloria, Linville, Rayburn, Kessler, Orr, Carlson, Johanson, L. Johnson, Leonard, J. Kohl, Lemmon, H. Myers, Hansen, Patterson and Shin.

Brief History:
Reported by House Committee on:
Appropriations, February 25, 1993, DPS.

HOUSE COMMITTEE ON APPROPRIATIONS

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 24 members: Representatives Locke, Chair; Valle, Vice Chair; Silver, Ranking Minority Member; Carlson, Assistant Ranking Minority Member; Appelwick; Basich; Cooke; Dellwo; Dorn; Dunshee; G. Fisher; Jacobsen; Lemmon; Linville; Morton; Peery; Rust; Sehlin; Sheahan; Sommers; Stevens; Talcott; Wang; and Wolfe.

Staff: Barbara McLain (785-7153).

Background:

<u>State Employees/State Retirees</u>

State employees may continue health insurance coverage from the State Employees' Benefits Board and the Health Care Authority (HCA) when they retire. The premium rates retirees pay for this insurance are indirectly subsidized because state law requires that the cost of retiree premiums be developed from an experience pool that includes active employees.

The subsidy is funded by the Legislature when money is appropriated for insurance for active state employees. The latest data available shows that in fiscal year 1992, $13.72 of the $289.95 per month premium appropriated for active employees actually went to help retirees -- 4.7 percent of the total.

School District Employees/School District Retirees

The Legislature appropriates the same per-active premium for school district employees as it does for state employees. However, the appropriation is for allocation purposes only. School district contributions for employee insurance are collectively bargained at the local level. Some insurance plans for school employees offer a subsidy for retirees, others do not.

School districts can purchase employee insurance from the HCA if all employees in the district join the HCA plan. If a school employee who is covered by the HCA plan retires, that retiree receives an indirect subsidy for insurance just as a state retiree would.

Federal COBRA Law/State COBRA Extension

Federal law under the Consolidated Omnibus Budget Reconciliation Act (COBRA) requires that employees who retire be allowed to purchase group health insurance from their employer for a period of 18 months, at a rate no more than 2 percent higher than an active employee would pay. COBRA does not apply to retirees eligible for Medicare.

Health Care Authority Study

The HCA was directed to study the issue of insurance coverage for school district retirees, and make recommendations to the Legislature by January 15, 1993. The study recommended establishing a direct subsidy for school district retirees, based on a set percent of the premium appropriated for active employees. School district retirees could receive the subsidy by purchasing insurance offered by the HCA, with plans for retirees under 65 and Medicare supplement plans for those over 65.

Summary of Substitute Bill:

State COBRA Extension

Extended insurance coverage under the terms of the federal Consolidated Omnibus Budget Reconciliation Act that is provided under state law to certain school district retirees is terminated on September 30, 1993, rather than June 30, 1994.

Insurance for School District Retirees

The State Employees' Benefits Board is authorized to develop and offer health care benefit plans for retired or disabled school district employees and their dependents. Medicare supplement plans are to be made available for retirees eligible for Medicare coverage. HCA is authorized to administer the plans.

A representative of retired or disabled school employees is added to the State Employees' Benefits Board, along with an additional management member, bringing the total membership to nine.

Retirees and their dependents may purchase the plans after October 1, 1993. Any former school district employee receiving a pension from a state retirement system as of September 30, 1993, qualifies as an eligible retiree. However, for employees who retire after October 1, 1993, the retiree must either be eligible to receive a state pension immediately after separating from active service to qualify as an eligible retiree, or if retiring under disability, be eligible for a deferred pension.

Retirees must pay the cost of the insurance coverage offered by the HCA, including any amounts necessary for reserves and administration, but their premiums will be reduced by a direct subsidy.

Subsidy for School District Retirees

The retired school employees' subsidy account is created, to be used to reduce the insurance premiums charged by the HCA to retired or disabled school employees. The amount of the premium reduction is established by the State Employees' Benefits Board, but it cannot be more than 50 percent. Premium reductions for dependents are at the discretion of the board.

Through September 30, 1994, moneys in the subsidy account are also to be used to reduce premiums charged to non-Medicare eligible retirees covered under a group-purchased insurance plan offered through a district. The HCA will send the subsidy to the insurance carrier covering the retiree upon receipt of satisfactory information that the retiree is eligible for the subsidy and actually benefits from it. However, if health insurance for active school employees is required to be provided solely through the HCA on or before October 1, 1993, then the provision dealing with a subsidy for retirees on a group-purchased insurance plan has no effect.

These subsidies are not a matter of contractual right.

Source of Funding for Subsidy Account

From October 1, 1993 to September 30, 1994, school districts and educational service districts will remit to the HCA for deposit in the retired school employees' subsidy account, $10 for each full-time employee for each month of the school year.

For each part-time employee who earns state retirement system credit and who qualifies under district collective bargaining for district contributions toward insurance benefits, the district will remit $10 for each month of the school year, prorated by the proportion of district insurance contributions that the part-time employee receives.

After October 1, 1994, the amount of the remittance will be 4.7 percent of the active employee premium allocation appropriated by the Legislature for a full-time employee, and 4.7 percent of the active premium allocation, prorated, for each part-time employee who earns retirement credit and receives district contributions toward insurance benefits.

The Legislature reserves the right to increase or decrease these percentages or amounts required to be remitted.

Other

If a school district wishes to purchase HCA insurance for its active employees, the school district employees can transfer to the HCA by bargaining unit, rather than requiring that all district employees transfer. A school district is no longer required to make employer contributions equal to those made by the state toward insurance for transferring employees, thereby allowing pro-rated coverage of part-time employees.

Retired school employees who were covered under HCA plans as active employees can purchase HCA insurance the same as other retired school employees, and qualify for the same direct subsidy. These retirees are therefore excluded from the pool of active and retired state employees that currently determines premium rates for retired state employees. School districts that purchase HCA insurance for active employees will be charged a premium rate that reflects that the district is already paying a direct subsidy for its retirees, so as not to be charged for the indirect subsidy based on the pool.

Substitute Bill Compared to Original Bill: The state COBRA extension is terminated September 30, 1993, rather than being extended to September 30, 1994. Membership on the State Employees' Benefits Board is modified to include a representative of retired school employees, rather than having the board consult with a school advisory committee. All eligible retirees can purchase the HCA insurance effective October 1, 1993, rather than having a phased-in implementation for Medicare-eligible retirees and those not covered by the COBRA extension in the first year, and then allowing other retirees to join in the second year after the COBRA extension has ended.

The definitions of eligible retirees are clarified, and include a provision for persons retiring under disability. Language addressing the cost that retirees pay for the insurance coverage is clarified.

Through September 30, 1994, moneys in the subsidy account can be used to subsidize premiums of retirees covered under group-purchased insurance plans offered through districts. The original bill limited this to retirees covered under the COBRA extension, which terminates under the substitute. This form of subsidy will not take effect if insurance for active school employees is required to be offered through the HCA.

The amount of the remittance from school districts in the first year is $10 per active employee, rather than 4.2 percent of the active employee premium allocation.

Under the original bill, retirees who were covered under HCA insurance as actives stayed in the state employee/retiree pool and received an indirect subsidy. Districts were not charged for the subsidy on any active employee covered under HCA plans. Under the substitute bill, these retirees are eligible for the direct subsidy, and school districts that cover their active employees under HCA plans pay premium rates adjusted to reflect that their retirees are not in the state employee/retiree pool.

Fiscal Note: Requested February 12, 1993.

Effective Date of Substitute Bill: Sections of the bill dealing with districts that purchase HCA insurance for their active employees, including the rates they are charged and the treatment of their retirees, take effect October 1,

1993. The remaining sections contain an emergency clause and take effect immediately.

Testimony For: The bill implements the HCA recommendations and provides an equitable solution to a long-standing problem. Stable, affordable health insurance is a top priority for retirees. This is also good for active employees because it alleviates their concerns about the availability of affordable insurance upon retirement. The concept of carving out a portion of the active premium allocation is a form of deferred compensation.

Testimony Against: Reducing the amount of the active premium to create a subsidy for retirees could push some active employees out of coverage because the pool of insurance dollars will be smaller. If there is a very small increase in premiums for actives next year, then a carve-out for retirees could lead to a premium for actives that is actually lower than last year. The State Employee's Benefits Board should have K-12 representation on it if it will be administering these K-12 retiree plans.

Witnesses: Susan O'Loughlin, Health Care Authority (pro); John Kvamme, Washington Association of School Administrators (pro); Randy Parr, Service Employees International Union (pro, with concerns); Chris Townley, Public School Employees (pro, with concerns); Lee Ozmun, Retired Teachers' Association (pro); Karen Davis, Washington Education Association (pro, with concerns); Walter Ball, Association of Washington Principals (pro); and Guz Schwartz, Retired Public Employees (pro).