

# SENATE BILL REPORT

## 2SSB 5491

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As Passed Senate, March 9, 2009

**Title:** An act relating to developing a strategy to reduce the cost of providing health benefits for K-12 employees.

**Brief Description:** Requiring school districts or educational service districts to purchase employee health insurance coverage through the state health care authority.

**Sponsors:** Senate Committee on Ways & Means (originally sponsored by Senators Brandland, Zarelli and Becker).

**Brief History:**

**Committee Activity:** Health & Long-Term Care: 2/11/09, 2/23/09 [DPS-WM, DNP].

Ways & Means: 3/02/09 [DP2S, DNP].

Passed Senate: 3/09/09, 47-1.

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### SENATE COMMITTEE ON HEALTH & LONG-TERM CARE

**Majority Report:** That Substitute Senate Bill No. 5491 be substituted therefor, and the substitute bill do pass and be referred to Committee on Ways & Means.

Signed by Senators Keiser, Chair; Pflug, Ranking Minority Member; Becker, Fairley, Murray and Parlette.

**Minority Report:** Do not pass.

Signed by Senator Marr.

**Staff:** Mich'l Needham (786-7442)

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### SENATE COMMITTEE ON WAYS & MEANS

**Majority Report:** That Second Substitute Senate Bill No. 5491 be substituted therefor, and the second substitute bill do pass.

Signed by Senators Prentice, Chair; Tom, Vice Chair, Operating Budget; Zarelli, Ranking Minority Member; Brandland, Fairley, Hewitt, Hobbs, Honeyford, Keiser, Kline, Kohl-Welles, McDermott, Murray, Pridemore, Rockefeller and Schoesler.

**Minority Report:** Do not pass.

Signed by Senator Carrell.

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*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.*

**Staff:** Erik Sund (786-7454)

**Background:** There are currently 295 school districts and nine educational service districts (ESDs), with an estimated 104,000 employees. Most school districts purchase benefits for their employees through the Washington Education Association plans, although some self-insure and some purchase benefits through the Public Employees Benefits Board (PEBB) program. School districts bargain over benefits and, as a result, benefit plans may vary by bargaining group. Districts participate in the PEBB by bargaining group, non-represented group, or by entire district. ESDs are administrative agencies and participate in PEBB as entire employer groups; six of the nine ESDs participate in PEBB. Legislation passed in 1993 merged school district retirees into the PEBB for retiree medical coverage, and employees were scheduled to merge shortly thereafter but the merger was repealed just prior to implementation. The link to employee and retiree funding still exists through a mechanism established in the state budget, which requires districts to send the Health Care Authority (HCA) a monthly remittance per employee. The remittance amount is determined by the budget and is included in the benefit funding rate.

The HCA purchases benefits for the PEBB program, which covers state and higher education employees and their dependents, and retirees of the state, higher education, and school districts. In addition, some groups of employees may voluntarily purchase benefits through the PEBB program, like school districts, educational service districts, and other political subdivisions of the state such as cities, counties, water districts, and public hospital districts. The billing methods have varied over the years and include a composite billing that equals the employer benefit funding allocation established in the budget plus the employee share and a tiered-billing approach that reflects the premiums for the individual plan choice and family tier of coverage selected.

The legislative budget establishes the employer funding rate for benefits for the state and school districts. The funding rate for state and school district benefits has often been the same; however, the fiscal years vary and the funding formulas vary (on an eligible headcount basis for state employees vs. a state funded full-time equivalent basis for school districts). At times, one funding rate has been modified separate from the other; for example, the Legislature recently reduced the PEBB employer-funding rate and directed the use of surplus funds that had accumulated in the PEBB account. The centralized budgeting and purchasing of the PEBB benefits has provided greater transparency over benefit purchasing and spending than the decentralized purchasing completed by 295 school districts.

**Summary of Second Substitute Bill:** The HCA is directed to convene a work group to investigate opportunities to reduce the cost of providing health benefits for school employees. The HCA must invite representatives of school districts, educational service districts, labor organizations representing school employees, health carriers, the Legislature, and other entities as deemed appropriate to participate in the work group. The options considered by the work group must include the centralized purchase of health benefits for school employees by the HCA.

No later than December 15, 2009, the HCA must report the findings of the work group to the Governor and the fiscal committees of the Legislature. By January 1, 2010, the HCA must

also submit proposed legislation to implement such findings of the work group as the administrator of the HCA may deem appropriate.

**Appropriation:** None.

**Fiscal Note:** Requested on January 31, 2009.

**Committee/Commission/Task Force Created:** Yes.

**Effective Date:** Ninety days after adjournment of session in which bill is passed.

**Staff Summary of Public Testimony (Health & Long-Term Care):** PRO: This is the time to look for savings and this may provide an opportunity. It is an important dialogue to have, with fundamental policy questions to be answered. Years ago it did seem the school districts had better benefits and would lose in transferring to the PEBB benefits, but today that is not the case. The benefits are pretty comparable, although the employees with families pay significantly more in school districts than in the state. It is a philosophical question about whether the benefit funding amount belongs to the individual employee or whether it is meant to cover the entire pool of employees equitably. Employees with families would be much better off in the PEBB plans, but the bargaining is dominated by employees without families that have access to coverage with no premium sharing under the current arrangements. There would be savings to the school districts that have been paying the carve-out with local funds on top of the state benefit allocation. There would be issues with the part-time employees and with the school district fiscal year that would need to be accommodated. School administrators would welcome the shift into PEBB and a move away from the constant bargaining pressure to use more local funds to supplement the benefits. The data on what school districts purchase and how they spend the money is not available; it is not reported to anyone. It may be time to gather robust data.

CON: The PEBB benefits are a good value but the school districts work with their local brokers and agents to find the best value they are interested in, and the agents can help them tailor their package to their individual needs. The option for brokers to assist districts with finding the best price and value needs to be maintained. The mandate to join is the wrong approach and we prefer to leave it voluntary for districts to join PEBB, and to leave collective bargaining over benefits. There is not great savings to be found. The majority of the Washington Education Association (WEA) enrollees are in employee-only coverage and they pay nothing for their coverage, so they would see an increase in out-of-pocket costs shifting to the PEBB system. Only the minority of employees, those with family coverage, would be better off under the PEBB system. Some districts are self-insured and they want to maintain local control and local governance of the benefits.

**Persons Testifying (Health & Long-Term Care):** PRO: Senator Brandland, prime sponsor; Randi Dorn, Superintendent of Public Instruction; Jenny Jenkins, Superintendent of Northwest Educational Service District; Tim Yeomans, Superintendent of Meridian School District; Kelly Bashaw, Bellingham School Board; John Deeder, Superintendent of Evergreen School District; John Kvamme, Washington Association of School Administrators; Bill Fromhold, Evergreen School District.

CON: Mel Sorensen, Washington Association of Health Underwriters; Randy Parr, WEA; David Westberg, AFL-CIO and Stationary Operating Engineers; Doug Nelson, Public School Employees and SEIU 1948; Bill Stauffacher, Independent Insurance Agents and Brokers of Washington; Mike Peterson, The Sound Partnership, Tacoma School District.

**Staff Summary of Public Testimony (Ways & Means):** PRO: The K-12 system needs to be brought into the state health care system. This subject has been debated for decades and the time to act is now. Escalating medical costs have put a great deal of pressure on school districts, a situation which has worsened under these difficult economic circumstances. Every opportunity to save money needs to be considered. Cutting benefits costs will enable schools to put more money towards educational purposes at a time when schools are trying to preserve basic programs. Purchasing school employees' benefits through the PEBB will be more cost-effective and will still provide comparable benefits. School employees with families would pay much less for PEBB benefits than they currently do for coverage purchased elsewhere. The allocation formulas for school district benefit funding should be changed to provide funding on an eligible head count basis rather than a full-time equivalent basis.

CON: School employees have demonstrated their preference for the medical plans available on the open market by voting with their feet. Purchasing benefits on the private market provides additional options for school employees. The vision, dental, and long-term disability plans offered by PEBB are worse than those available from other sources. In Seattle, 62 percent of school employees would fare worse under PEBB programs, while only 11 percent would do better. Part-time employees in particular are better off under the current system. The studies that have been done over the years have not found potential for significant administrative savings or indicated compelling or immediate reasons to require K-12 participation in PEBB programs. Under this proposal, both the state and the high-risk insurance pool would lose substantial premium tax revenues from the purchase by school districts of insurance through private brokers. If any changes must be made, they should be coordinated with a systematic reform effort for health care in general.

**Persons Testifying (Ways & Means):** PRO: Bill Fromhold, Evergreen School District; Richard Gantman, Mount Baker School District; John Kvamme, Washington Association of School Administrators, Association of Washington School Principals; Dan Steele, Washington School Directors' Association.

CON: Jack McRae, Premera; Doug Nelson, Public School Employees - Service Employees' International Union 1948; Randy Parr, Washington Education Association; Bill Stauffacher, Independent Insurance Agents & Brokers; Carrie Tellefson, Regence; David Westberg, Joint Council of Stationary Engineers.