

SENATE BILL REPORT

SB 5940

As of April 6, 2012

Title: An act relating to implementation of reforms to school employee benefits purchasing consistent with recommendations of the state auditor's performance review.

Brief Description: Regarding reforms to school employee benefits purchasing.

Sponsors: Senators Hobbs, Ericksen, Keiser, Tom, Kastama and Zarelli.

Brief History:

Committee Activity: Ways & Means: 4/06/12.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Mich'l Needham (786-7442) and Erik Sund (786-7454)

Background: In 2010 the State Auditor's Office conducted a performance review of the public school employees' health benefits purchased by 295 school districts. The report became available to legislators during the 2011 legislative session, and included three main recommendations: streamline the benefits array of school employees to improve efficiency, transparency, and stability; standardize coverage levels for more affordable and equitable health care benefits; and reduce costs by restructuring the health benefits array. Legislation passed in the 2011 special session (section 213 of the state budget) directed the Health Care Authority (HCA) to develop a proposal for consolidating the purchase of school district benefits to improve administrative efficiency, transparency, and equity. The HCA report delivered in December identified that over \$1 billion in public funds is spent each year on school employee benefits for 109,000 employees and the additional 94,000 dependents that are enrolled in benefits.

The state provides funding to school districts to support the purchase of health benefits for employees. For the 2011-13 fiscal biennium, the state provides \$768 per full-time equivalent employee (FTE). The amount of the school funding rate is commonly passed through as an allocation to each school district employee through bargaining agreements. In addition, some school districts have, in some instances, bargained local funds that are added to the state allocation.

At the district level, the actual distribution of the health benefit allocation is determined through collective bargaining. There are no state mandated maximum or minimum amounts

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.

that a district must spend per employee or FTE. In many districts, the amount provided for health benefits is pro-rated based on the amount of time an employee works; in some districts employees may be eligible for benefits beginning at 10 percent of full-time employment. In other districts, employees working at least half-time are provided the same benefit as a full-time employee.

School district employee contributions vary by district, and often by bargaining unit within districts. Similarly, benefits may be purchased by bargaining unit or other groups of employees, and each bargaining unit or group of bargaining units may receive funding in separate funding pools. Recent studies indicate that significantly more than 1,000 funding pools are operated in Washington's 295 school districts. Employee premiums may vary significantly between districts and funding pools. There is also substantial variation in the share of the costs employees pay between those insuring only themselves, and those insuring families. Full-time school district employees that are insuring only themselves on average pay about 4 percent of the cost of benefits, while those full-time school district employees that insure their families on average pay about 43 percent of the cost.

During study of the school district health benefit system in 2011, the HCA stated that it was unable to collect some of the needed demographic, payroll, and benefits data. The HCA identified a number of the obstacles to data collection that it found and would need to be dealt with to enable analysis of the effectiveness of the administration and purchasing systems employed by districts. Among the obstacles to data transparency identified were (1) variations in district budget practices; (2) contracts with third party administrators that made it difficult to assess administrative costs; and (3) contracts with benefits carriers which allow the carriers to withhold information about the make-up of premiums, including components of administrative fees, and claims information at the school district, employee bargaining group, or individual member level.

The Office of the Insurance Commissioner oversees Washington's insurance industry, ensuring that companies, agents, and brokers follow state law.

Summary of Bill: The bill as referred to committee not considered.

Summary of Bill (Proposed Substitute): School districts must modify their benefits for employees to require every employee to pay a minimum premium for the medical benefit coverage, subject to collective bargaining. The employee premiums must be structured to ensure employees selecting richer benefit plans pay the higher premiums. School districts must offer a high deductible health plan option with a health savings account similar to that required for state employees. The benefit plans must be structured to reduce administrative costs for school districts; improve customer service; reduce differential plan premium rates between employee only coverage and family premiums; protect access to coverage for part-time employees; and use innovative health plan features that reduce the health benefit premium trends and reduce utilization of services.

School districts and school district employee health benefit providers are required to annually submit specified financial and enrollment information on the health benefit plans operated for district employees to the Office of the Insurance Commissioner (OIC). The information is protected from public disclosure, with all other similarly reported data.

School districts or school district employee benefit providers that do not comply with the data reporting requirements are subject to the enforcement actions of the OIC. Similarly, the authority to operate in the state is removed from any individual or joint local government self-insured health and welfare benefits plan formed by a school district that does not comply with the data reporting requirements contained in the act. In addition, the Attorney General must take all necessary action to terminate the operation of an out-of-compliance self-insured health and welfare benefits program. If a school district does not comply with the reporting requirements, the Superintendent of Public Instruction must notify the Legislature, and may limit the school district's authority to offer employee benefits to those offered through the state HCA.

Beginning December 1, 2013, the OIC must submit an annual report to the Legislature containing specific information and analysis on school district health benefit plans. The report must include information on detailed financial and performance data such as premium expenses, claims expenses, claim reserves, and administrative expenses including compensation paid to brokers, and enrollment data. In addition, the OIC must report on district and provider efforts to reduce administrative costs, improve customer service, use of innovative plan design features, and progress towards reducing the difference in premium rates between single employee coverage and family coverage.

The OIC must also review the appropriateness of the legislative goal that full family coverage premiums be no more than three times the premiums for employee only coverage for the same plan, and report on the goal by December 1, 2013, including any alternative goals that may be recommended. The OIC must develop a schedule of the incremental improvements school districts must make to achieve the goal by the 2017-2018 school year. The report must indicate whether each school district is meeting the improvement increment. The OIC must review and report on the goal that districts offer full-time employees at least one health benefit plan that has an employee premium share that does not exceed the state employee weighted average share of premium for the benefit year that started immediately prior to the school year.

By December 1, 2015, the OIC must determine which districts have achieved their incremental improvement goals for classified school employees. If it is determined the district has not achieved the goals for classified employees, and the classified employees are represented by the largest classified union, then the classified employee benefits for that unit of employees must be provided by a single consolidated classified school employee health benefits purchasing plan, to be developed by the technical working group and implemented for the 2017-2018 school year.

The School Employees' Benefits Technical Working Group is established with broad representation of school district employee groups and management. The working group is established within the OIC by January 30, 2013, and the Commissioner serves as the convenor. The tasks of the working group include: (1) review and analysis of benefits, opportunities and risks enrollment in health benefits plan offered through the Washington Health Benefit and the Apple Health for Kids program; (2) submitting a report to the Governor and the Legislature by December 30, 2013, on any findings or recommendations on utilization of the Exchange and Apple Health; (3) providing assistance and advice to the

OIC; and (4) if the OIC determines the single consolidated classified school employee health benefits purchasing plan is required, the working group must develop the plan by December 31, 2016.

An enhanced benefit adjustment factor is provided for classified staff for the 2012-2013 school year, with a \$7 million appropriation. The school district benefit allocation is increased for the 2012-2013 school year , with an appropriation of \$19 million.

Appropriation: An enhanced benefit adjustment factor is provided for classified staff for the 2012-2013 school year, with a \$7 million appropriation. The school district benefit allocation is increased for the 2012-2013 school year , with an appropriation of \$19 million.

Fiscal Note: Not requested.

Committee/Commission/Task Force Created: No.

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