SENATE BILL REPORT
SB 6442

As Reported by Senate Committee On:
Health & Long-Term Care, February 2, 2012
Ways & Means, February 22, 2012

Title: An act relating to establishing a consolidating purchasing system for public school employees.

Brief Description: Establishing a consolidating purchasing system for public school employees.

Sponsors: Senators Hobbs, Litzow, Keiser, Holmquist Newbry, Hatfield, Hewitt, Kastama, Schoesler, Tom, Fain, Hill, Zarelli, Hargrove, Kline, Murray, Shin, Sheldon, Fraser, Haugen, Morton, Honeyford, Benton, Carrell, Delvin and King.

Brief History:
Committee Activity: Health & Long-Term Care: 1/26/12, 2/02/12 [w/oRec-WM, DNP, w/oRec].
Ways & Means: 2/06/12, 2/22/12 [DPS, DNP, w/oRec].

SENATE COMMITTEE ON HEALTH & LONG-TERM CARE

Majority Report: That it be referred without recommendation and be referred to Committee on Ways & Means.
Signed by Senators Keiser, Chair; Becker, Ranking Minority Member; Kline, Parlette and Pflug.

Minority Report: Do not pass.
Signed by Senators Conway, Vice Chair; Frockt and Pridemore.

Minority Report: That it be referred without recommendation.
Signed by Senator Carrell.

Staff: Mich'l Needham (786-7442)

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Substitute Senate Bill No. 6442 be substituted therefor, and the substitute bill do pass.

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.

Signed by Senators Zarelli, Ranking Minority Member; Parlette, Ranking Minority Member Capital; Baumgartner, Hatfield, Hewitt, Holmquist Newbry, Honeyford, Kastama, Keiser, Padden, Pflug, Schoesler and Tom.

Minority Report: Do not pass.
Signed by Senator Pridemore.

Minority Report: That it be referred without recommendation.
Signed by Senators Murray, Chair; Kilmer, Vice Chair, Capital Budget Chair; Brown, Conway and Regala.

Staff: 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 report includes a proposal to consolidate the purchasing of school district health benefits under the proposed School Employees Benefits Board (SEBB).

The school district retirees were merged into the Public Employees Benefits Board (PEBB) coverage in 1994 in preparation for the merger of all school district employees that was scheduled for 1995. Although the employee merger was repealed in 1995, the PEBB retiree coverage is the only school district sponsored retiree coverage. The active employee benefit allocation includes an amount calculated as a retiree subsidy, commonly called the retiree carve-out, that must be provided to the HCA to help pay for the retiree coverage.

Summary of Bill (Recommended Substitute):
The stated intent of the act is to assure equitable access to health care for all eligible employees and their dependents; improve transparency of financial data; assure cost-effectiveness through pooling, leveraged purchasing, administrative simplification and efficient utilization of resources; ensure accountability to the taxpayers with a competitive bidding process consistent with state procurement requirements for the purchase of benefits plans from the private insurance market; enable shared responsibility with state, school district and employee participation in purchasing system governance and the retention of local collective bargaining for benefits not established by the School Employees' Benefits Board (SEBB).

The SEBB is created as a new separate purchasing program within the HCA. By October 30, 2012, the Governor must appoint members to the board including two members representing administrators; two members representing school board directors; two members representing certificated employees; two members representing classified employees; one non-represented employee; two at-large active employees; two members with expertise in employee health benefits policy and administration, one of which must be nominated by the school business officials; the director of the HCA or designee; one representative of the Office of Financial Management; and one representative of the Office of Superintendent of Public Instruction (OSPI). The board members must select a chair and vice chair.

Beginning January 1, 2013, the SEBB has the following responsibilities:

- to develop employee benefit plans that include comprehensive, evidence-based health care benefits, with a focus on health (medical, vision) and dental benefits;
- to authorize premium contributions related to a benchmark plan for the employee and the dependents, limiting share of premiums paid by full-time employees for dependent premiums to no more than three times the percentage of premiums costs paid for employee-only coverage;
- to provide as an option for employees a Health Savings Account (HSA) with a high deductible health plan;
- to determine the terms of employee, dependent and retiree enrollment policies, and dependent eligibility criteria, and allow school districts to determine the employee eligibility criteria;
- to allow exceptions to mandatory school district participation for district that self-insure, provided that the district provides adequate access to providers and neither the total premium cost per employee nor the employee share of premium costs exceed those within the SEBB; and
- to participate with the HCA in the preparation of bid specifications and the selection of carriers for health and dental coverage.

Effective January 1, 2014, all school districts and educational service districts, unless granted an exception, must participate in the SEBB for health and dental benefits, and will constitute a new single, community-rated risk pool. The school district and educational district employees that participate in the PEBB program must transition to SEBB. The PEBB membership is modified to remove the K-12 active employee and eligibility is modified for the existing K-12 employees effective December 31, 2013. Any district that opts out of SEBB participation to offer self-insured plans must provide sufficient documentation to enable the SEBB to verify that the district meets the required standards for total premiums paid per employee, employee premium shares, and adequate access to providers.

By December 15, 2012, the HCA, in consultation with the PEBB and SEBB, must complete an analysis of the most appropriate risk pool for retired school employees, including identifying the impacts on costs for state and school district retirees of moving retirees from one pool to another, the need for and the amount of an on-going retiree subsidy allocation from the active school employees, and the timing and suggested approach for a transition.

School districts and contracted insuring entities that provide medical and dental benefits plans outside the PEBB must provide the HCA with specified data by June 30, 2012, to support an initial benefits procurement.

The multiple school district benefit pools established by a bargaining unit are eliminated. Local collective bargaining may include eligibility criteria for benefits, the proration of part-time employee contributions, employer and employee contributions to Voluntary Employee Benefit Association (VEBA) accounts, health reimbursement arrangements, short-term disability insurance, and cancer insurance. Except where the selection of insurance plans and premiums by the SEBB is concerned, nothing in the act may be construed to expand or contract collective bargaining rights or obligations.

EFFECT OF CHANGES MADE BY WAYS & MEANS COMMITTEE (Recommended Substitute): The deadline for the appointment of members to the SEBB by the Governor is delayed by one month until October 30, 2012. School districts may only opt out of SEBB participation if they self-insure, provide adequate access to providers, and ensure that neither total premium cost per employee nor the employee share of premium costs exceed those within the SEBB. Districts that opt out must provide data allowing the SEBB to verify compliance with the opt-out requirements. Local collective bargaining may include eligibility criteria for benefits, the proration of part-time employee contributions, employer and employee contributions to VEBA accounts, health reimbursement arrangements, short-term disability insurance, and cancer insurance. Except where the selection of insurance plans and premiums by the SEBB is concerned, nothing in the act may be construed to expand or contract collective bargaining rights or obligations.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

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

Staff Summary of Public Testimony (Health & Long-Term Care): PRO: During these trying budget times, it is appropriate to be efficient, but this measure is not really about savings. It is about covering more people that are uninsured and about creating equity for our hard-working school employees to ensure all they can all have access to affordable health care. In the 295 districts, there are over a thousand insurance pools and over 300 plans, and it does not make sense to maintain this. This measure is intended to provide quality, affordable insurance for employees and has the added benefit of creating savings and efficiencies in the long term for the state, and providing transparency and accountability for the billion plus dollars spent on health care every year. The problem today is one of equity with insurance. Over 20 years ago there was legislation passed that tried to create equity for employees and eliminate the major difference in out-of-pocket costs for dependent coverage. We have known about this for 22 years, and nothing has changed. It is time to change the system and insert equity for employees. Some employees pay nothing today while other employees pay over a thousand dollars a month for family coverage. We have hundreds of letters from employees describing how they assign their whole check to the district and write an additional check for their insurance, and others that simply cannot pay that much and remain uninsured or leave their families uninsured. Schools depend on healthy employees - all of the employees need to be healthy and have access to health care for themselves and their families. There may be opportunity to use the savings from eliminating millions in broker fees and administrative fees and redirect that savings to help cover the part-time employees with more affordable health care. Some of the vested interests refused to provide data to help the analysis for this study and bill, but Oregon was able to demonstrate savings with solid evidence of their success in removing administrative costs when they consolidated the school employees. This change does not eliminate bargaining, it does change some of the nature of bargaining but much of what we bargain over remains at the local level, and the concept of creating a super coalition for bargaining with the Board is a good addition. The Superintendent of Public Instruction supports this bill as an issue of fairness. We want employees to be have a living wage and benefits they can afford. The current system has a strong bias toward employee only coverage with some employees paying nothing vs. family coverage costing thousands of dollars. This creates a system of inequity. Consolidating the benefit purchasing doesn't solve all the problems with equity but it does begin, and it provides transparency for the state, school districts, and employees on what is driving the costs. The benefit board can help move us toward value based benefits like Oregon. The Oregon model has also demonstrated administrative savings. The board member makeup should be modified and be an equal mix of employees and administrators, and the super coalition language needs further clarity. This bill retains a lot of bargaining at the local level and will help level the playing field between small and large districts. There is a concern with the potential increase in family coverage that there would be impact on the districts.

CON: We believe this approach will cost taxpayers millions of dollars, and increase the costs to employees while reducing benefits. It is not the right time to invest money in this when the state does not currently provide adequately for basic education. We believe there will be significant new cost for creating the system and more dependents will come to coverage and result in significant cost increases. It may result in a sizable impact on the school districts if so many more dependents enroll in coverage, and we can see there are a lot more dependents in the dental coverage (average family size of 2.92 vs. average size in medical of 1.92) to predict how many will come to health care if the premiums for families are lower. The state has funded the health care differently for school employees and we have purchased better coverage at less cost. We have nearly a statewide insurance pool now through the Washington Education Association (WEA) plans with community rating and the efficiency that a big system can offer. The WEA has offered an alternative approach in the house with a change to the local pools and the requirement for all employees to pay a premium. We believe that is a better approach that builds in the right incentives to change behavior while protecting bargaining and retaining the current benefits. There needs to be an option for districts that have been very successful with their benefits to opt out of this approach. Seattle has been very successful using different funding pools and we have kept the employee premiums down and more equitable. It is really important to maintain bargaining over eligibility for benefits at the local level. Bargaining locally puts a real face on the issue and people and allows room for local solutions. Many members of the health underwriters have been serving these school districts for decades helping employees find benefits and providing value added services like claims services, application assistance, education for employees, payroll support, enrollment, COBRA and FMLA assistance, etc. These are value added services that would have to be provided or replaced. The school district benefit market is a competitive market with eight insurance carriers offering products. The WEA-Premera plans have had flexibility and demonstrated innovation and introduced cutting edge benefits. It is very efficient with statewide pooling of all the districts that purchase through WEA-

Premera, and we provide very efficient products that result in $0.92 of every dollar being paid on medical claims, $0.06 on administration and $0.02 on premium tax.

OTHER: It is important to bargain the eligibility at the local level since so many of the staff are funded with local dollars and they need to be at the table with the employer in a personal interchange. We support the idea of consolidated statewide purchasing but we are concerned with the bargaining and whether it can be binding to tie the employer to a funding rate when they are not at the table. The bargaining language needs further clarification.

Persons Testifying (Health & Long-Term Care): PRO: Senator Hobbs, prime sponsor; Doug Nelson, Anne Smyth, Public School Employees (PSE); Debra Grove, PSE Peninsula School District; Shawn Lewis, OSPI; John Kvamme, WA Assn. of School Administrators, Assn. of WA School Principals; Nancy Moffatt, WA Assn. of School Business Officials; Marie Sullivan, WA State School Directors Assn.

CON: Mary Lindquist, Randy Parr, WEA; Debbie Donaldson, Aon Hewitt; Dave Westburg, Stationary Engineers; Todd Kahn, AFT WA-Renton; Barb Randall, AFT Washington-Tacoma; Jeff Johnson, WA State Labor Council AFLCIO; Mel Sorensen, WA Assn. of Health Underwriters; Len Sorrin, Premera Blue Cross.

OTHER: Linda Wright, Service Employees International Union (SEIU) 925-Marysville School District; Adair Dammann, SEIU 925-Seattle.

Staff Summary of Public Testimony (Ways & Means): PRO: This bill would provide more equitable treatment for employees with families and increase the transparency of school benefit expenditures. This proposal would also reduce school district costs by eliminating brokerage fees, streamlining enrollment processes, and moving decisions to the new central board. In Oregon, where the teachers brought forth a very similar proposal, they have saved $45 million a year. For 22 years, single employees have paid virtually nothing for insurance while families' premium costs have been absurd. Some employees pay over $1,500 a month for family coverage and others simply can't afford insurance at all and must leave their families without coverage. The state system provides more affordable coverage.

CON: The current K-12 system costs less. The WEA Premera program already provides an efficient, consolidated, statewide purchasing system in which more than $0.92 cents out of every dollar is spent on medical care. In addition to costing the state more, this legislation would increase the financial risk faced by school districts by at least $25 million and perhaps as much as $80 million. The Seattle School District by itself would pay at least $2 million more per year under this proposal. We are pleased that the Legislature is looking at ways to increase equity for classified employees, but this proposal could hurt the individuals that it is meant to help. Most members would actually pay more for health care under this proposal and many of those who would come out ahead would be part-time employees who would actually save only a little. This proposal puts all of the financial risk on school districts, which could result in districts laying off classified employees if actuarial projections are off by even a little. We can't support legislation that eliminates local collective bargaining.

Persons Testifying (Ways & Means): PRO: John Kvamme, WA Assn. of School Administrators, Assn. of WA School Principals; Doug Nelson, Public School Employees.

CON: Randy Parr, WA Education Assn.; Mel Sorenson, WA Assn. of Health Underwriters; Len Sorrin, Premera Blue Cross; Loni Todd, Service Employees International Union 925; David Westberg, Joint Council of Stationary Engineers.