

SENATE REVENUE COMMITTEE
MAY 2, 2005 9:00 AM STATE CAPITOL BUILDING

Members Present: Senator Ryan Deckert, Chair
Senator Gary George
Senator Rick Metsger
Senator Floyd Prozanski
Senator Charles Starr, Vice Chair

Witnesses Present: James Sager, Governor's Office
Chip Terhune, Oregon Education Association
Steve Carlson, Watson Wyatt
Craig Prewitt, Oregon School Board Association
Ron Wilson, OSBA associate executive director
Kevin McCann, OSBA executive director
Caryn Connolly, Coquille
Kelvin Calkins, Hood River
Tim Hart, Sheridan

Staff Present: Paul Warner, Legislative Revenue Officer
Steve Meyer, Economist
Barbara Guardino, Committee Assistant

TAPE 108, SIDE A

005 Chair Deckert

Calls meeting to order at 9:07 a.m. Will hear SB 639 today and bring it back for a possible work session tomorrow. This bill pools health insurance benefits for teachers. A similar bill was heard during the 2003 legislative session. Deckert was a member of a work group that met for many months to work on this bill.

PUBLIC HEARING, SB 639

021 Steve Meyer

Gives a brief description of SB 639 (**EXHIBIT 1**), which establishes an Educators Benefit Board with 10 members. Requires the board to provide adequate benefit plan coverage for eligible employees. Creates the Oregon Educators Benefit Account in the General Fund. Districts are required to participate in the plans by July 1, 2006. Creates a task force on teacher health benefits.

053 James Sager

Testifies in favor of SB 639 with amendments. Emphasizes, this is one of Governor Kulongoski's priorities. He has put forward a series of efficiency proposals. The goal of this bill is to help districts with one of their major cost drivers. It does not make sense from a business prospective to allow over 200 subsidiaries to arrange their own coverage and then send the bill to the corporate headquarters.

073 Sager

Over the past two years several states have been working on similar measures. Studies in Minnesota and Pennsylvania concluded that a mandatory insurance pool for school districts was a way to help with spiraling insurance costs. They concluded there would be a 5%

savings by pooling, and long-term ability to reduce increases. It requires these pools be mandatory. Also, the insured would have more understanding how their usage of the plan impacts the cost of their health care. They can take control of their own costs.

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| 125 | Sen. Metsger | Responds to Sager's comment that it makes no sense to have 198 entities negotiate separately. Wonders if that's his philosophy on the salary side, too. |
| 134 | Sager | No, there is a difference. With this plan the state can utilize the purchasing power of a pool to negotiate the very best rates for the districts and employees. Local school districts with their collective bargaining agents will negotiate cost sharing inside the various plans. |
| 154 | Sen. George | Questions the wisdom of adding a bureaucracy that would cost 2% in order to save 5%. |
| 164 | Sager | Responds, studies have indicated this 2% allowance is the same system set up for PEBB, the state employee insurance pool. It actually runs much lower. The 2% would allow for the plan in the early years to get up and running. |
| 178 | Sen. George | Suggests an amendment to prevent the administrative costs from exceeding a certain number of dollars. Also asks a question concerning the bottom of page 4 of the bill that says the board can override a negotiated contract between the unions and a local board. Couldn't that have tremendous impact? |
| 187 | Sager | That will be explained in the SB 639-4 amendment. The concept is to have school districts phase into the pool as the various collective bargaining contracts expire. The board will be directed to prepare a menu of options available for school districts. There would be a phase-in process. |
| 214 | Chair Deckert | There is a natural tension how to get a good benefit while achieving efficiencies by a statewide effort. Hopefully the state can reap some great dollar benefits. |
| 226 | Sager | Begins overview of SB 639-2 amendment (EXHIBIT 2). Page 1 through line 5 on page 2 clarify who is eligible for the plan. Page 2 lines 6-10 clarify that the new board would not have public contracting codes. In order to bid on part or all of the package a carrier would not have to serve all counties in Oregon. Lines 11-12 clarify it is the board that establishes the maximum premium cost per benefit plan. |
| 296 | Sager | Lines 14-18 make the pool mandatory.
Lines 19-26 clarify that once an employer or group has joined, they cannot drop out.
Section 19, line 29 gives school districts purchasing power of being part of a large pool while offering a variety of plan choices. |
| 359 | Chair Deckert | Asks, what is the range of where benefits today? |
| 363 | Sager | Does not have those numbers. |
| 376 | Sager | Begins an overview of the SB 639-4 amendment (EXHIBIT 3). |

Addresses a technical issue of contracts between a school district and the insurance underwriter, and collective bargaining agreements. The word "contract" got blended together, so this is clarified in this amendment. The other issue is how to trigger rolling the school districts into the plan. When a contract ends, they become part of the new plan.

Section 19 changes the date to October 1, 2006.

- 425 Sager Summarizes, this amendment attempts to address four issues that arose during the 2003 debate:
- 1) Does it save money? None of the studies indicate it will cost more, and the impact on long-term growth is significant.
 - 2) What effect might it have on school districts with small, limited plans and low premiums? This gives them a menu of options
 - 3) Elimination of competition? This is a way to help stimulate competition among insurance carriers.
 - 4) Would creating this pool shift costs to the private sector? It does not shift costs. It creates a stop-loss. Also this changes behavior by encouraging healthy lifestyles of employees.

TAPE 109, SIDE A

- 037 Sen. George Asks if it would be possible for the board to vary its rates to reflect the size of a district. Can it offer discounts, or will this be a level playing field?
- 041 Sager Responds, the pool should get the rating. That way every part of Oregon benefits from being part of it.
- 053 Sen. George Addresses Sager's comments on changing employee behavior. Not every employer would consider this to be appropriate.
- 060 Sager Responds, raising people's awareness as to what's going on in their community is of great value to them. The bill provides benefit in pooling and in educating them on their options and approaches.
- 070 Chair Deckert Follows up on Sen. George's question.
- 075 Sen. George Sees a possible collision in using government money to coerce people into changing their behavior. Sees that trend occurring all over the nation.
- 089 Sager Unions are already dealing with healthy choices such as smoking abatement. This is nothing new, although it is a more coordinated approach. This utilizes government dollars in the most efficient way to free up dollars to help in the classroom.
- 109 Vice Chair C. Starr Contends, the most extensive way to hold down costs is to put dollars in the hands of the individual. There is legislation regarding medical savings accounts, high deductible major medical. Might this be available under this merging?
- 120 Sager This language does not prohibit health savings accounts, so that could be one of the options.

128	Vice Chair C. Starr	Many individuals who would enjoy the benefits of savings might be in a district with a younger-than-average work force. To make that choice might affect the overall pool. Doubts this offering would be available.
141	Sager	Responds, with over 220 state school entities, it would take a significant shift in that kind of option before there would be much impact on the pool.
160	Sen. Prozanski	Do the states that conducted studies have statewide pools?
167	Sager	No state has implemented this kind of idea yet. Michigan is looking at Oregon in our movement toward this plan. This approach provides a benefit to school districts by having the state create the pool, thus freeing up dollars for schools.
181	Sen. Deckert	Questions page 2 section 2 line 22 (f), concerning the board. What criteria would the governor's office have for those individuals?
194	Sager	It would add to this board some neutral participants who can look at the industry and understand the cost-drivers and help maintain quality and educate the users in the system.
229	Chip Terhune	Testifies in favor of SB 639 on behalf of the Oregon Education Association. See written testimony, paraphrased (EXHIBIT 4). Pooling provides a substantial opportunity to address the cost to employers and employees, and also the underlying problem of ways to slow the rate of medical inflation. In addition, the bill emphasizes local control. SB 639-2 amendment allows for reasonable providers to bid on plan benefits. It requires that many plans be offered, and local districts determine which plan to implement through collective bargaining.
290	Terhune	Oregon cannot afford a commissioned study to the same caliber as Minnesota and Pennsylvania, so OEA hired consulting firm Watson Wyatt to review the studies.
308	Steve Carlson	Testifies in favor of SB 639. Watson Wyatt focused on two studies, Minnesota and Pennsylvania. They took different approaches, and Watson Wyatt prefers the Minnesota approach. It recommended school districts form a mandatory pool and have an opportunity for 5% savings on fixed costs. The Minnesota study was more careful in considering startup costs, forming a mandatory pool, and gathering cost information from around the state.
350	Carlson	Since this study, an Ohio commission has come to a similar conclusion. Discusses where savings from a mandatory pool might come from. An insurance premium has two components: cost of the care; cost of administration. Comments today will be concerning administrative efficiencies. Also there is a stop-loss premium for catastrophic illnesses. It's much easier in a larger group to handle this. Finally, another common element of fixed cost insurance contracts is brokerage commission, paid to an agent to obtain the insurance.
387	Carlson	Comments on the differences between voluntary and mandatory statewide pooling. Voluntary pooling gives school districts the ability to

opt in and out. This increases the risk and decreases the stability of the pool. Mandatory pool takes a longer-term prospective.

415 Carlson Makes other comments on why the state studies are relevant: variable costs of care and fixed administrative costs. It's the administrative cost side that's universal. In terms of those elements, economies of scale can be achieved.

433 Carlson Directs members' attention to slide 6 in exhibit 5: Health Insurance Cost Elements, Comparison of Today versus Future. There are two primary approaches to deliver health benefits. Those are the two stacked bars on the left and right. Center bar is a comparison under the mandatory statewide pool. Explains retention charges. There are opportunities under the statewide pool for fixed costs to be reduced.

TAPE 108, SIDE B

040 Sen. Prozanski Asks Carlson to elaborate on "opportunities to reduce".

041 Carlson Responds, the board would have an opportunity seek competitive bids from the marketplace. Those bids would yield lower costs than individual groups.

046 Carlson The driving concern in this bill is the expected growth in cost. Slide 7, Expected Costs in Oregon, shows the average monthly premium for an educator and family and its potential growth over the next five years. It's based on a 10% inflation rate, which is probably understated.

064 Carlson Slide 8, Potential Savings in Oregon if Oregon achieved similar savings to those projected in the Minnesota study. Contends potential savings of adopting SB 639 are substantial. Estimates \$182 million savings in fixed costs only over the next five years.

100 Sen. George Comments that in September 2006, the \$1 billion mark will be crossed. That is not possible to sustain. There's no way state revenues will cover those costs long-term – with a 10% average annual growth rate.

110 Carlson Agrees, that 10% rise is a frightening prospect. It supposes there will be some consideration to purchase less benefits. This is really an opportunity to help everyone involved to address the overall cost of insurance. It can't be done at the small group level.

120 Sen. Deckert Comments on the disconnect between revenue versus settlements being negotiated. What do the school districts pay per year?

128 Carlson The range for monthly premiums is \$600-\$1,000 per month for families.

136 Sen. Metsger Asks Carlson to elaborate on his comment that he has not seen a study with a contrarian view.

140 Carlson The urgency is growing dramatically in the states as premiums rise. A comprehensive study to illustrate savings is a big undertaking, but states believe returns will be in hundreds of millions. Oregon can

avoid the cost of a study by using data from other states.

163	Sen. Metsger	Follow up. If SB 639 were enacted, would there be savings over the current system?
168	Carlson	No question, savings will be in the millions of dollars. It does require that this pool be mandatory or have only limited exceptions.
205	Craig Prewitt	Testifies on behalf of Oregon School Board Association Insurance Trust in opposition to SB 639. The trust's focus has always been to provide a safe harbor for districts that cannot find cost-effective insurance. There are many plans from which to choose. It has always been a very good bargain.
250	Prewitt	<p>Begins reading written testimony (EXHIBIT 6). This bill is not a solution to the rising cost of health care. Gives the following reasons:</p> <ul style="list-style-type: none">• The real cost-drivers of health insurance premiums are not addressed. They are aging, skyrocketing prescription drug costs, etc. The OSBA Insurance Trust statewide pool is working to address these cost-drivers and control premium rate increases. One method is a new program called Advicare. There is also a prescription drug card.
301	Sen. Prozanski	Asks whether the biggest cost-driver is prescription drugs or insuring retired members.
321 329	Prewitt Chair Deckert	<p>Last year it was prescription drug costs.</p> <p>Would a benefit board be precluded from addressing any of these issues?</p>
334	Prewitt	OSBA's board of trustees addresses all these issues. SB 639 is another PERS crisis waiting to happen. The governing board has the makings of another out-of-control PERS board. Six out of 10 board members are beneficiaries of this new plan, and there is no single public member.
347	Sen. Prozanski	How much money comes back in from OSBA's services? Is hearing that under SB 639 the middleman can be taken out.
365	Kevin McCann	Last year OSBA's endorsement fee was .8% of all premiums, amounting to \$1.5 million, or 60% of the association's revenue.
372	Chair Deckert	Comments, other state school board associations charge a straight-up fee for service to school districts. Oregon has a unique situation where royalties are paid based on health insurance.
379	Sen. George	Agrees with the statement on page 2 concerning a PERS crisis waiting to happen. Comments on a possible four-year opt-out clause. Asks, if districts are forced to come into this pool, what value would it be to give an opt-out after four years?
410	Prewitt	Responds, if there are a number of opt-out clauses, the purpose of the pool would be defeated. The OSBA program offers in-and-out options

to school districts.

- 425 Sen. Prozanski Suggests, another option might be to include a 4- to 6-year sunset clause. If the pool isn't working it can be dismantled.
- 439 Chair Deckert Why is PEBB able to negotiate a lower rate than school districts?
- 459 Prewitt Skips to page 3 to refute this:
- Health insurance costs for most school districts would increase. Disagrees that PEBB rates are cheaper. Compares PEBB average monthly premium costs with OSBA.

TAPE 109, SIDE B

- 037 Chair Deckert Asks if Prewitt is aware of language in amendments, "comparable benefit at better cost."
- 039 Prewitt Has not seen the amendments so cannot comment. But if language guarantees lower cost, why have the mandatory pool in the first place? Gives an example of car insurance to state that size is irrelevant.
- 060 Prewitt Returns to page 2 of written testimony.
School districts already have mechanisms for controlling costs.
"We are headed in the right direction."
- 070 Chair Deckert Refers to a graph from previous testimony, exhibit 5, slide 7. Asks, is this the right direction?
- 075 Prewitt Offers a comparison that indicates the difference in health care increase costs of PEBB to OSBA last year. PEBB's costs last year increased over 15%, so the 10% estimate is conservative. OSBA's increase was under 10%.
- 085 Chair Deckert Asks, what are the 5- to 10-year percentages?
- 087 Ron Wilson Does not have that information, but can supply it.
- 090 Prewitt Continues written testimony on page 2, bottom:
- Replacing marketplace competition with a government-run monopoly will increase health insurance costs. Having choices and competition helps contain costs. SB 639 does not encourage competition. Under a statewide mandatory pool, all school boards will be at the mercy of whatever OEBA dictates.
- 110 Prewitt Page 3, middle.
- The cost savings asserted are unsubstantiated. Contends school districts would pay more, not less.
 - There are other options, listed on pages 3-4.
- 127 Sen. Prozanski Asks Prewitt to address the various state studies that have shown a positive return. Has he had a chance to review them?
- 139 McCann Explains what causes OSBA to take its position – every state has a different marketplace and different conditions. OSBA serves 60% of school employees. Comparing Oregon to another state like Ohio is not

a fair comparison.

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| 157 | Sen. Prozanski | Asks for a written comparison with Minneapolis, which is similar to Portland. |
| 165 | McCann | <p>Believes pools are a great idea, which is why OSBA created one. OSBA and PEBB pools are the best comparison in Oregon because they are relatively similar in size, and administrative costs for both are around 7%.</p> <p>Comments on the chart in exhibit 5, page 6, the Claims portion. It is not drawn to scale. We all need to be focusing together on the cost-driving. How do we get our members to understand the impact they have in controlling their own costs? OSBA has a program to do just that.</p> |
| 198 | Chair Deckert | Uses an example of Fred Meyer. Would Fred Meyer ever allow one of its subsidiaries to go out and negotiate, when it's the state that's writing the check for 70% of school funding? |
| 217 | McCann | Part of the question is whether to examine what local control of Oregon's school districts really is. The corporate example doesn't ring true because the only thing that matters is whether it will save money. OSBA contends it will not. |
| 240 | Sen. George | Asks OSBA to make the page 6 slide to scale (Health Insurance Cost Elements). |
| 251 | McCann | Watson Wyatt would have to do this. |
| 261 | Caryn Connolly | Testifies in support of SB 639. Is a school teacher and represents South Coast on OEA Board of Directors. Her local union in Coquille was forced to go through OSBA for insurance, and experienced increases in out-of-pocket expenses. Encourages the committee to support SB 639. |
| 284 | Kelvin Calkins | President of Hood River Education Association, asks the committee to support SB 639. Over the last several years Hood River School District has been faced with escalating increases near 20%. Last year it was 40%. They keep changing carriers and reducing benefits. In Hood River there is a cap on the amount the district will pay, so out-of-pocket expenses keep going up. Gives an example of what his family pays, which is about \$300 per month. That does not include his monthly payment which comes out of his paycheck. |
| 321 | Calkins | Another benefit of the pool is that it saves time, and time is money. The proposed pool is not the final solution to the health care crisis, but it buys some time and saves some dollars. |
| 351 | Tim Hart | Thanks committee for addressing this issue. In Sheridan, where he teaches sixth grade, benefits continue to be a problem. Sheridan's school board and fellow teachers are doing many things to offset costs. They have a 99% enrollment in their plan and save thousands in cost benefits. Addresses the generic drug issue, using his father's cancer treatment as an example. Also his wife went through a difficult |

pregnancy and it cost \$18,000, not easy on a teacher's salary. Today the district pays 77% of the cost of insurance, but will lose 5% of that each year over the next three years. That is an average of \$300 per employee.

429 Hart Sheridan continues to lose teachers because of health care costs. Through pooling they can alleviate some of this. Sheridan has minimal choices in where they can go and what benefits they can choose. Sees an alarming trend of teachers leaving teaching entirely because they can't afford to teach due to insurance costs.

TAPE 110, SIDE A

030 Sen. George Asks Mr. Calkins what he believes is the long-term fix.

035 Calkins Does not know. Is open for suggestions.

040 Chair Deckert Agrees, this may be one part of the solution. Closes public hearing at 10:57 a.m.

Tape Log Submitted by,

Barbara Guardino, Committee Assistant

Exhibit Summary:

1. SB 639, Staff Measure Summary, Meyer, 4/29/05, 1 pp.
2. SB 639, Amendment SB 639-2, Sager, 4/27/05, 3 pp.
3. SB 639, Amendment SB 639-4, Sager, 5/2/05, 2 pp.
4. SB 639, Oregon Education Association, Health Insurance Purchasing Cooperative, Terhune, 5/2/05, 3 pp.
5. SB 639, testimony and slide presentation of Stephen Carlson, Watson Wyatt, 12/8/04, 9 pp.
6. SB 639, testimony of Craig Prewitt, OSBA Insurance Trust, 5/2/05, 8 pp.
7. SB 639, Amendment SB 639-3, Legislative Counsel, 5/2/05, 1 pp.