

SENATE REVENUE COMMITTEE
MAY 3, 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: Tricia Smith, Oregon School Employees Association
Kimberly Fandino, Lebanon
Kathy Spagle, Aurora
Kevin McCann, Oregon School Boards Association
Kevin McCartin, independent actuary
Inga Nelson, American Federation of Teachers – Oregon
Chuck Bennett, Confederation of Oregon School Administrators
Kent Hunsaker, COSA
BethAnne Darby, Oregon Education Association

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

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005 Chair Deckert Calls meeting to order at 9:10 A.M.

WORK SESSION, SJR 2

010 Paul Warner SJR 2 is part of a series of bills for reserve funds. It makes one change to the current education stability fund – raises the cap from 5% to 10% of revenue for the state's general fund during the prior biennium. Under trend projections, the 5% cap should be reached by 2010. At 10% it would take at least an additional four years.

024 Vice Chair C. Starr **MOTION: MOVES SJR 2 TO THE SENATE FLOOR WITH A DO PASS RECOMMENDATION.**

027 Chair Deckert **ORDER: THERE BEING NO OBJECTION THE CHAIR SO ORDERS. VOTE: 4-0-1**
MEMBERS VOTING AYE: GEORGE, METSGER, C. STARR, DECKERT
MEMBERS EXCUSED: PROZANSKI

PUBLIC HEARING, SB 639

040 Steve Meyer Gives an overview of SB 639-5 amendment (**EXHIBIT 1**), which consolidates SB 639-2, SB 639-3 and SB 639-4 amendments. Clears up a conflict in Section 19, changes a date to October.

055 Tricia Smith Testifies in support of SB 639 and SB 639-5 amendment on behalf of Oregon School Employees Association. Reads written testimony,

(EXHIBIT 2). OSEA members are choosing between eating and health care, and many are dropping their health care. When they don't have health care, they delay treatment. When they seek it, they go to the emergency room, which is costly.

- 104 Smith Addresses issues raised by opponents of this bill:
Real cost drivers: OSBA mentioned employees, expensive procedures, prescription drug costs, and escalating hospital and physician fees. SB 639 can address these better than OSBA due to economies of scale. Hospital fees are increasing with the number of uninsured. Most insurance plans restrict the usage of high tech procedures when a cheaper procedure is just as good. Aging employees may be the result of widespread access to health care. The issue is whether we age well. Health care improves our chances of maintaining health while aging.
- 145 Smith Another argument – School districts have mechanisms to control costs: These are the things that are driving members out of insurance plans. They don't reduce the cost of health care, they shift costs to employees.
- 168 Smith Health insurance costs for most school districts would increase: Counters, double digit inflation will continue if not addressed.
- 172 Smith Costs savings are unsubstantiated. Common sense tells you bigger is better. More employees in a pool reduce costs. Urges the committee to pass this bill.
- 182 Kimberly Fandino Testifies in support of SB 639. See written testimony verbatim **(EXHIBIT 3)**. The Catch 22 of the state budget issue: In the last 10 years Lebanon has lost almost 90 teachers. Bargaining gets uglier and public opinions of school teachers becomes negative. Insurance went from full coverage to \$200 out-of-pocket with increased deductibles and co-pays. Regardless of who pays the bill the state has to come up with the money.
- 231 Fandino Presents a copy of plans available to her (page 3). Average out-of-pocket ranges from \$160 to \$196 monthly. It is disturbing that, taking the \$8,160 district contribution and her out-of-pocket premium of \$1,927, her minimum annual cost is \$10,087, not including co-pays or deductibles. That money is going to insurance companies and most does not stay in Oregon. Concludes, if public employees have more money to spend on goods and services there is a multiplier effect that helps the economy grow. Public employees no longer enjoy the benefits that made it acceptable to pay them less. This results in high turnover.
- 275 Kathy Spagle Reads written testimony in support of the bill **(EXHIBIT 4)** which details the medical situation of herself and her family.
- 299 Chair Deckert There's universal agreement that price increases are unsustainable. Asks Spagle what it is about a pool that appeals to her.
- 319 Spagle It gives educators greater buying power. We can have better coverage

with fewer dollars. Coverage and benefits are going down and costs are going up. "At this rate, I'm too old to change my profession" (age 53). This pool could help the coverage. Some of her young colleagues are leaving teaching because they can't afford to stay. Others like her daughter would like to become a teacher but can't because of the lack of benefits. Understands medical costs have gone up, but insurance rates keep going up. Four years ago she paid nothing and her coverage was far superior. "We're going to lose a tremendous amount of experience and passion." This bill could benefit both the state and public employees.

- 391 Chair Deckert Comments, the statistics on retaining teachers is frightening.
- 409 Sen. George What other professions could these teachers go into that offers better benefits?
- 421 Spagle Law, education, high-tech – there are many other professions, but we tell our young people the more educated they are, the better cared for they will become. Her lifestyle has changed because of health insurance. Her husband chooses not to take his medication because he can't pay for it. Hopefully the educators in this state will be considered valuable enough that we may have this coverage.

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- 020 Fandino Concurr, there are many other professions where you can make more and get better benefits than teachers do. Teachers who drop out of teaching in the first five years can significantly increase their wages and get better health care.
- 045 Kevin McCann Responds to issues raised from previous testimonies on behalf of OSBA Insurance Trust (**EXHIBIT 5**).
- 1) Question from committee on data on 5-year history of premium increases for OSBA Insurance Pool and PEBB Insurance Pool
 - 2) Question from Committee on Watson-Wyatt health insurance cost elements regarding retention charges and administrative costs.
- 106 Sen. George Comments, it appears this might be adding to costs, not reducing them.
- 111 McCann Responds, in a lot of ways OSBA and PEBB are quite similar. Employees who run OSBA's program number somewhere around 2 full-time equivalents (FTE). There are lots of other costs in the system, and there's always a potential to drive up costs.
- 127 Sen. Deckert Expands on Sen. George's question. Concerning the 17 employees at PEBB. Is it a fair assumption that OSBA could achieve fewer FTE administering health plans by moving to a statewide central pool?
- 138 McCann Based on his observations while working at Oregon State University for 19 years, he would not concede this point. Both systems could generate efficiencies that do not now exist. Online enrollment creates a lot of efficiencies.

- 158 Chair Deckert His work group did a count of school districts and found there would definitely be FTE savings.
- 163 Sen. George Refers to a letter from Regence BlueCross letter against SB 639 (**EXHIBIT 6**). They say the assumptions in data should not be proven by an untested experiment. They recommend turning this bill into a legislative task force to substantiate the assumptions. What is McCann's opinion on that approach?
- 186 McCann Responds, for anyone to attempt to compare two plans is very difficult because of all the different systems. Professionals have told him that the only way to find out is to put together a health care plan and have vendors bid on it. Refers to data on page 1 of his testimony relative to administrative costs. All plans are bid differently.
- 209 Chair Deckert Comments, McCann's predecessor sat on a task force similar to one he is suggesting.
- 219 Sen. George Asks, did they move to the point of soliciting bids?
- 222 Chair Deckert No, they took a skeptical look at the issue, but concluded that the savings were significant enough to move forward. The bill was filed late in the session. Other than OSBA opposition it seemed good enough to move forward.
- 225 McCann Refers to a Web site on pages 3-4 of exhibit 5 concerning Minnesota's proposal. The targeted administrative cost was over 5%. There are winners and losers in this, and some school districts will end up paying more. Nothing in the bill gets at the cost drivers. With costs out of control school board members do not want to cut benefits, and OSBA agrees with this. We have to stop the trend. Concludes, creating a larger pool will not prevent costs from going up.
- 276 Chair Deckert Agrees cutting/shifting is not an appetizing position. School quality in Oregon has slipped tremendously, so he was surprised when OSBA endorsed a lower school funding from the state.
- 292 McCann Is baffled that Deckert has drawn this conclusion. "We do not support a lower number." \$5.4 billion, the top number in this building, is not enough for OSBA. An OSBA lobbyist was misquoted.
- 342 Sen. Prozanski Comments that changes in the school funding formula can skew the numbers to appear that someone is getting more.
- 366 Kevin McCartin Reads written testimony verbatim (**EXHIBIT 7**) against SB 639. He disagrees that economies of scale will drive down fixed costs.
- 390 McCartin Explores where these possible savings could come from (page 1): Administrative savings, premium tax, risk charges

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025 McCartin

Page 2: Portability, pooling/stop-loss premiums, OEBA administrative costs, contribution caps

071	McCartin	Recommendation: Allow the state to develop and offer plans under the same rules applied to other competitors. Then, if the savings are real, more districts would tend to migrate to the state plan and state contributions could be limited to OEBB premium levels.
080	Inga Nelson	Submits written testimony from Robert Wagner, AFT legislative affairs (EXHIBIT 8). AFT-Oregon, representing classified and community college employees, enthusiastically supports SB 639 with the SB 639-5 amendment. It isn't a fix-all, but has good points. Health care costs are the No. 1 issue at the bargaining table, and shifting costs is exacerbating the nation's health care crisis. This would save \$182 million which could be used to fund education. Also supports limited opt-out language because unless it's mandatory the cost savings go away.
114	Sen. George	Reading from Minnesota School Board Association's analysis, they believe employees would end up with fewer benefits. Gives example of Medicare/Medicaid and the Oregon Health Plan when promises were made and now coverage is being cut. Might this plan end up in the same situation?
125	McCartin	We will continue to see medical inflation rise faster than general inflation. This has happened 50 straight years. The past five years of cost-shifting has been primarily due to two items: Increase in medical technology and Medicare's balanced budget amendment, which has resulted in a huge cost shift. This bill won't address the major cost drivers. "We are tinkering with 10% of the pie." This is a false hope.
148	Sen. Prozanski	Asks, what size pool would make a difference in rates?
155	McCartin	You reach a point of limiting return somewhere around 5,000 to 10,000 employees. Why cut down on the number of pools operating in a competitive marketplace? Why not promote multiple pooling options?
169	Sen. George	Will this bill eliminate any possibility of achieving medical savings accounts?
173	McCartin	Does not see this bill as a deterrent.
181	Sen. George	This is his point. We already have a board that is limiting opportunities for innovation in health care.
186	Chair Deckert	Refers to work group findings which asked actuaries to answer these questions. Their opinion on medical savings accounts was that this would hone the conversation in one place. They also said the size of the pool gives better leverage when negotiating with insurance companies.
213	McCartin	Counters, there is a fallacy in thinking about size being better. For a carrier to write this plan, in meeting safety net requirement, writers must have \$40 million in surplus. Only a handful of carriers meet those criteria. Another large concern is, when you accumulate purchasing power, does the state then try to negotiate its own fee schedules with hospitals, physicians and pharmaceuticals? Fears this creates another

situation like Medicare and Medicaid.

- 246 Chair Deckert Cites a memo to the governor that estimates \$74 million in savings. It would benefit the committee to see this.
- 255 Nelson Will get that information.
- 272 Chuck Bennett COSA opposes the bill including the SB 639-5 amendment. To weigh the facts, it seems clear that the savings proposed by proponents remain questionable. Has been hearing “hopefully, “if” and “maybe.” The bill incorporates that kind of language by holding districts harmless if they don’t save money. It exempts certain districts including the largest school district from participating. There needs to be a task force to find out whether there would be a savings.
- 316 Chair Deckert Asks if the governor’s office was unclear on whether there would be a 5% savings. Did not hear an “if” or a ‘hope”.
- 324 Bennett Has yet to hear a real guaranteed savings on this. We are all hoping for a savings, but to support a bill like this you must be certain there will be a savings. This is not about a brand loyalty to OSBA. School districts come and go from OSBA. We all want a better cost savings.
- 378 Bennett Responds to an earlier Fred Meyer analogy. Recollects a discussion concerning Measure 5, this was a funding issue. Does not recall that the public turned over their local control of their school districts to the extent suggested. In the Fred Meyer case, they aren’t a centralized pool. They offer several choices.
- 448 Chair Deckert Comments, Fred Meyer has a single group that does the negotiating.
- 458 Bennett Continues, the configuration looks a lot more like the way Oregon insures schools. Take a look at the analogy. Also, does the state want to take on the responsibilities of a 90-member school board and statewide collective bargaining? That’s not what the voters contemplated.

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- 022 Kent Hunsaker Opposes legislation on behalf of COSA. A coalition of school superintendents look at various issues and they oppose the legislation. The decision is based on comparing current rates of PEBB and OSBA. PEBB rates are \$75/month higher than OSBA rates. Many school districts believe the savings are speculative and are not guaranteed. Superintendents would embrace something guaranteed to save money. This is speculation. The bigger you get, the less employee involvement occurs. Also, the bill exempts people for various reasons. Put the pool together and bid it and show true savings.
- 073 Chair Deckert Reiterates Hunsaker’s testimony that COSA would support the bill if there were a bidding process and the savings were apparent.
- 097 Hunsaker Agrees. Wants to see something that really saves money. Warns not to tear apart a successful system that’s worked for 35 years.

- 106 Chair Deckert Disagrees that the pool is speculative. The work group sat for hours trying to decide whether this was speculative and concluded it is not.
- 115 Bennett You can get initial bids and that's great, but the question, is what will happen over time?
- 135 BethAnne Darby A subsection of the bill that impacts community colleges was inadvertently left off. Reads the subsection. Will work with Sen. Devlin to fix this in the Ways and Means process.
- 141 Chair Deckert Closes public hearing on SB 639. Opens work session.

WORK SESSION, SB 639

- 143 Metsger Asks, since the bill will move to Ways and Means, should the committee just send the bill, along with the amendment, as opposed to having it printed again? It costs \$1,000 to print it, and there will be other amendments.
- 160 Chair Deckert Agrees, will bring it back Thursday to await other amendments.
- 165 Prozanski Disagrees with waiting to vote on the SB 639-5 amendment.
- 171 Sen. Metsger **MOTION: MOVES SB 639 TO THE COMMITTEE ON WAYS ON MEANS WITH A DO PASS RECOMMENDATION.**
- 173 Vice Chair C. Starr Strongly opposes the bill. It is speculative and will create a huge bureaucracy and will likely delay medical savings accounts.
- 187 Sen. George Has concluded that it cannot be proven that this bill will save money, it is speculation. Hopes Ways and Means will look at this and conclude it would be better for a task force to solicit that information to provide a real basis for a decision.
- 194 Sen. Prozanski Supports the motion on the premise that this is a work in progress. If the savings are there, it's something we should look at. Ways and Means can review it to see if there are savings.
- 218 Chair Deckert He began as a skeptic and became convinced there are efficiencies to be had. It does need amending.
- 224 Chair Deckert **ROLL CALL VOTE: 3-2-0
MEMBERS VOTING AYE: METSGER, PROZANSKI, DECKERT
MEMBERS VOTING NO: GEORGE, C. STARR**
- 234 Chair Deckert Closes work session. Adjourns meeting at 10:45 a.m.

Tape Log Submitted by,

Barbara Guardino, Committee Assistant

Exhibit Summary:

1. SB 639, Amendment SB 639-5, Meyer, 5/3/05, 4 pp.

2. SB 639, testimony of Tricia Smith, Oregon School Employees Association, 5/3/05, 4 pp.
3. SB 639, testimony of Kimberly C. Fandino, 5/3/05, 3 pp.
4. SB 639, testimony of Kathy Spagle, 2 pp.
5. SB 639, testimony of Kevin McCann, OSBA Insurance Trust, 5/3/05, 4 pp.
6. SB 639, letter from Regence BlueCross BlueShield, McMullan, 5/3/05, 2 pp.
7. SB 639, testimony of Kevin McCartin, 5/3/05, 2 pp
8. SB 639, testimony of Inga Nelson, AFT-Oregon, AFL-CIO, 5/2/05, 2 pp.