



# Secretary of State **Oregon Audits Division**



## Oregon Health Authority: Public Employees' Benefit Board and the Oregon Educator's Benefit Board **Efforts Have Helped Limit Some Employee Health Care Costs, but PEBB and OEGB Can Do More to Manage Costs and Optimize Benefits**

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**Report 2020-39**

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# Executive Summary

## Oregon Health Authority: Public Employees' Benefit Board and the Oregon Educator's Benefit Board Efforts Have Helped Limit Some Employee Health Care Costs, but PEBB and OEBB Can Do More to Manage Costs and Optimize Benefits

### Why This Audit is Important

» Industry health care costs and premiums are continuing to significantly increase.

Overall national health spending is projected to grow to nearly \$6.2 trillion by 2028 and is unsustainable.

» Health insurance is a part of state employees' compensation, and, when combined with salaries and other benefits, helps the state meet its competitive employment goals.

» The Public Employees' Benefit Board (PEBB) administers health plans for 143,890 state government and university employees and their dependents.

» The Oregon Educator's Benefit Board (OEBB) administers health plans for about 157,860 school district, education service district, and community college employees and their dependents.

» The state only allows PEBB and OEBB premiums and claims costs to increase 3.4% per member per year. Health commercial insurance market trends are nearly double that — ranging from 7% to 8% for PEBB and 8% to 9% for OEBB.

### What We Found

1. PEBB and OEBB have kept the growth in premiums relatively low, charged less than allowed for administrative fees, and implemented multiple cost containment strategies. ([pg. 9](#))
2. PEBB and OEBB seem to effectively communicate open enrollment information. However, the programs fall short on member education on benefit use, transparency about board efforts to control costs, and obtaining feedback from employers and members. ([pg. 11](#))
3. PEBB and OEBB rely on contractors for much of the work needed to provide health and wellness benefits. Our limited review of consultant contracts and invoices identified concerns with contract monitoring, contract terms, consultant invoices, and claims oversight. ([pg. 13](#))
4. PEBB's reserve balance was significantly reduced by a \$120 million legislative sweep, triggering a \$12 million federal penalty. The board does not have a strategic plan for how to use reserve funds when the reserve accumulates more than needed to address claims and other program costs. ([pg. 14](#))
5. Thirteen school districts obtain their health insurance outside of OEBB. These districts are not held to the legislative requirements that OEBB must adhere to and their health benefit costs and steps taken to contain costs are not publicly transparent. ([pg. 15](#))

### What We Recommend

Our report includes seven recommendations to PEBB and OEBB to further address managing health care benefit costs for state, university, community college, and K-12 employees. PEBB and OEBB agreed with all of our recommendations. Their response can be found at the end of the report.

We also offered two suggestions for the Legislature to consider.

# Introduction

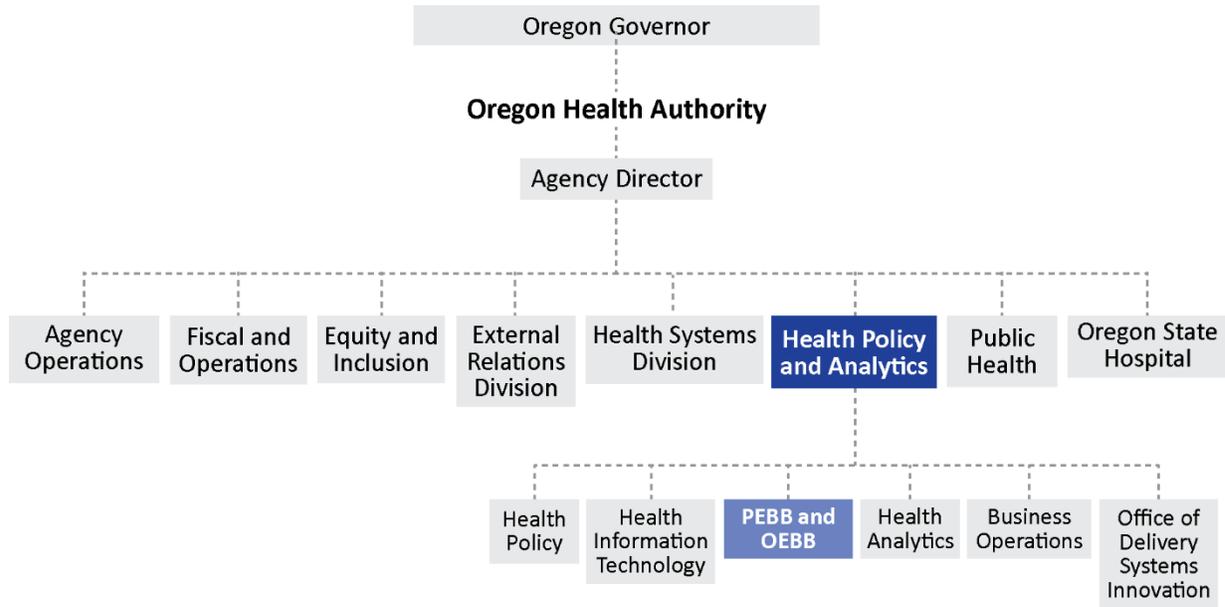
“Behind Medicaid, state and local employer contributions to public employee health insurance premiums represent the second largest cost driver for state health care expenditures.”

- National Conference of State Legislatures

Like other states, employee health benefit plans for Oregon state workers have attracted attention from legislators, the Governor, and policymakers, often due to the impact of increasing health care benefits, a part of employee compensation. Health plan premiums are rapidly rising in states and other costs (e.g., deductibles and out-of-pocket costs) are also on the rise.

The Public Employees’ Benefit Board (PEBB) and Oregon Educator’s Benefit Board (OEBB) are responsible for providing health benefits to state workers and educators. In response to rising health care costs, the Oregon Legislature mandated an annual growth cap on per member costs and other cost containment requirements for state employees’ health benefits in 2017. While the boards have been meeting this requirement, continuing to do so is challenging given the market in which the boards operate.

The purpose of our audit was to evaluate how PEBB and OEBB are managing health care benefit costs. Our audit work was limited due to the disruption caused by COVID-19 and its impact on the health care system and audit resources.



## Oregon offers high-valued health benefits that help to mitigate lower employee wages

A 2015 Economic Policy Institute national report found government employees earned less than similar private-sector workers, despite having higher education levels. To address the wage disparity and entice people to work in public service, state agencies offset some of the difference with generous health and retirement benefits.

Two studies recently examined benefits for Oregon state workers compared to its neighbors. Milliman, commissioned by the Oregon Business Council, reported its study in 2019 and examined the value of health care benefits provided to Oregon’s state workers compared to four

neighboring states — California, Idaho, Nevada, and Washington.<sup>1</sup> The study found, when comparing the costs of the most popular health plan in each state, Oregon state employees had the highest average total premium, employee contribution to premiums were the lowest, and employees paid a lower share of medical costs than three of the other states. For Oregon teachers, the study found the total premiums were generally lower than California or Washington, though there was wide variation in the premium contribution paid by teachers.

The Oregon Department of Administrative Services conducts a compensation study every two years, most recently in 2018. This study measured compensation of state workers against compensation in the sectors it most frequently competes in for applicants: county workers, neighboring states, and the private market.<sup>2</sup> The study found Oregon state workers have a lower wage than their counterparts, the state provides a comprehensive benefit plan consistent with those found in comparison markets, the employer health plan cost is similar to comparison markets, the health plan is more generous with lower out-of-pocket costs for employees, and total employee compensation (salaries and benefits) was 97.5% of market on average. This percentage is within Oregon’s stated goal of compensating employees within 95% to 105% of the market range.

## PEBB and OEGB administer health care benefits to over 301,000 Oregonians

Most states, like Oregon, have a dedicated agency to manage state employee health care plans, and at least 13 states have educator health care handled at a state level, either through a dedicated agency or combined with the state employee coverage. Oregon and many other states allow smaller entities — such as municipalities and districts — to opt into a state-administered plan.

Oregon administers benefits to public employees through two separate boards: PEBB for public employees and OEGB for educators. Together, the two boards are responsible for managing state employee health care plans to over 301,000 employees and their dependents, or about 7% of Oregonians.

Each board operates independently, has its own budget, and is comprised of a mix of management and labor.<sup>3</sup> Each board contracts with a national actuarial firm to identify benchmarks for program cost and design, monitor spending and utilization, and conduct studies to determine effectiveness and feasibility of their goals for employee health care. The firms also act as negotiators for the boards when determining coverage and premium rates with insurance carriers. Standing workgroups, such as the Joint Innovation Workgroup and OEGB’s Strategies on Evidence and Outcomes Workgroup, help the boards coordinate efforts and develop shared solutions to issues.

### Program Vision Statements

**PEBB:** “We seek optimal health for our members through a system-of-care that is patient-centered, focused on wellness, coordinated, efficient, effective, accessible and affordable.”

**OEGB:** “OEGB will work collaboratively with participating entities, members, carriers and providers to offer value-added benefit plans that support improvement in members’ health status, hold carriers and providers accountable for outcomes, and provide affordable benefits and services.”

<sup>1</sup> Milliman Report “Comparison of Health Benefits Offered to State Employees and Teachers.” January 4, 2019.

<sup>2</sup> DAS’ 2018 Oregon Salary and Benefit Report, <https://www.oregon.gov/das/HR/Documents/Salary-benefit-report-2018.pdf>.

<sup>3</sup> By statute, PEBB and OEGB members serve four-year, repeatable terms. PEBB has at least eight voting members (four members represent the state as an employer and four represent employees) and two non-voting members who are also members of the Legislature. OEGB has at least ten voting members (four members represent the district boards and management, four represent employees, and two with expertise in health policy or risk management).

While the boards share many similarities and have an established partnership to deliver on their missions, there are notable differences.

**Figure 1: PEBB and OEGB have some notable differences in how they administer their plans**

	PEBB	OEGB
<b>Plan Year</b>	January 1 – December 31	October 1 – September 30
<b>Employers</b>	100+ state agencies, universities, state library, semi-independent agencies	250+ school districts, community colleges, education service districts, counties
<b>Member Enrollment</b>	56,610 employees/subscribers 143,890 total lives covered	66,040 employees/subscribers 157,860 total lives covered
<b>Employer Contribution</b>	Agencies pay 95% or 99%, and universities pay 95% or 97%, depending on plan choice	Each employer determines contribution amount
<b>Plan Offerings</b>	IRS Section 125 Cafeteria Plan – all employers must offer all 5 plans to all employees	Operates like an “Exchange of Plans” – each employer can choose to offer a subset of plans, or all 10 plans, to employees

For example, PEBB is largely self-funded meaning the board is responsible for paying the cost of members’ claims and must carry enough reserves to cover the risk of expensive claims. Self-funding is a strategy where the employer (in this case, the state) pays a third-party administrator to process health care claims, but the employer is the payer of the claims. This gives more control over the benefits offered and eliminates most premium taxes, though it carries with it the financial risk for setting the premium levels and paying claims. Whereas with fully insured health plans, the insurance carrier is responsible for setting premiums and paying the medical costs. For the 2019 plan year, about 81% of PEBB members were enrolled in PEBB’s self-funded medical plans, either Providence or Moda plans, and 19% were in fully insured plans offered by Kaiser. OEGB has many plan options, but all are fully insured.

PEBB also administers a “cafeteria plan,” which requires all members be allowed to choose from all plans. In contrast, OEGB is set up as a health care exchange, providing a wide variety of plan options to meet the needs of its diverse membership, which are primarily school districts.

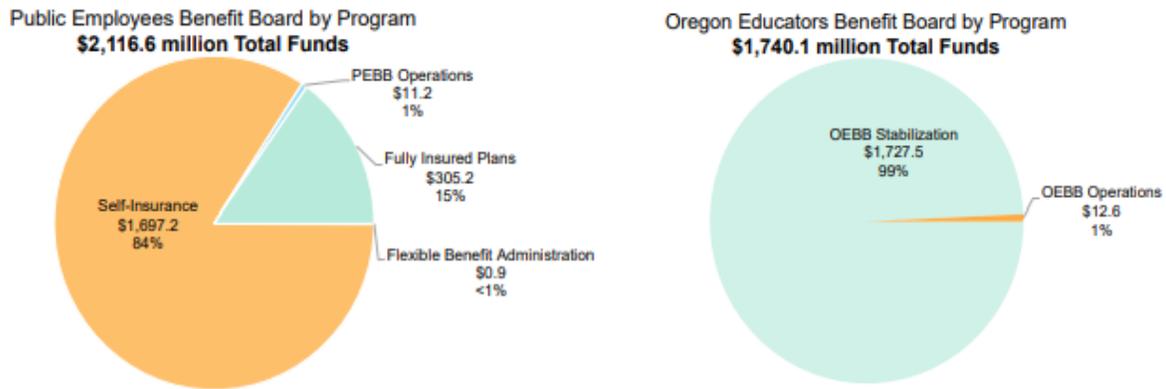
PEBB and OEGB are budgeted with Other Funds, revenue received from premium payments collected for all insured individuals.<sup>4</sup> Their combined 2019-21 legislatively adopted budget was \$3.86 billion. As legislatively mandated by Senate Bill 1067, passed in 2017, PEBB and OEGB administrative functions were combined in 2018 to about 40 staff positions.

PEBB and OEGB program operations are funded through an administrative charge that is added to medical and dental insurance premiums. By statute, the administrative charge cannot exceed 2% of monthly premiums. Both programs are charging less than the 2% cap. For PEBB, the administration rate for the 2020 plan year is 0.90%. For OEGB, the administration rate is 1.3% for the 2019-20 plan year.

Our plan to analyze further cost details was halted due to complications and competing priorities arising from COVID-19.

<sup>4</sup> Of the PEBB premium payments collected from agencies and universities, nearly 45% is paid with General Fund moneys. According to program management, OEGB is estimated to derive approximately 57% of premiums from General Fund moneys.

**Figure 2: PEBB and OEBB have a combined legislatively adopted budget of approximately \$3.86 billion for 2019-21 biennium**



Source: OHA 2021-23 Agency Request Budget

***PEBB and OEBB benefits offer multiple plan choices with key decisions left to employers and members***

PEBB and OEBB benefits offered to employers and members are based on factors such as union bargaining agreements, board mission and goals, and state mandates and directives. The boards annually negotiate with multiple insurance carriers to provide medical health plan coverage to members. Though there are different carriers, the coverage is similar with varying cost structures with the exception of OEBB high-deductible plans.

PEBB offers five medical plans, consisting of:

- Providence PEBB Statewide (36% members enrolled);
- Providence Choice (35% members enrolled);
- Kaiser Permanente Traditional (15% members enrolled);
- Kaiser Permanente Deductible (3% members enrolled); and
- Moda (9% members enrolled).<sup>5</sup>

OEBB offers 10 medical plans, consisting of:

- Seven Moda plans (71% members enrolled); and
- Three Kaiser Permanente plans (21% members enrolled).<sup>6</sup>

PEBB members select one of the five available plans. For those in OEBB, districts select which of the ten plans to offer their employees — some districts offer all plans, and some choose to offer less — and employees select a plan from those offered.

Union negotiations with employers participating in PEBB and OEBB dictate the employee contribution amounts and health care coverage to be offered. For PEBB, many state agency employees pay 1% or 5% of the monthly premium depending on the health care plan they selected.<sup>7</sup> For OEBB members, employees pay any remaining premium costs for the plan they

<sup>5</sup> Current enrollee counts as of March 2019, includes both employed and retired members (Kaiser enrollee counts were estimated between the two plans). There were approximately 2% of employees that did not enroll for PEBB medical coverage. Within each medical plan, there is a part-time employee plan offered. Also, Providence and Moda are self-funded medical insurance coverage.

<sup>6</sup> Current enrollee counts for the October 2018 to September 2019 benefit year, includes both employed and retired members. There were approximately 7% of employees that did not enroll for OEBB medical coverage.

<sup>7</sup> Some university employees pay either 3% or 5% of the monthly premium for PEBB plans.

select beyond what employers have agreed to contribute for coverage. Beyond contributing to the insurance premium either through PEBB or OEBB, covered employees must pay a share of the cost (e.g., deductible, copays, and coinsurance) when they use health care services.

PEBB participant premiums are based on four different coverage tiers: employee only, employee and children, employee and spouse or domestic partner, and employee and family. The premiums vary by the level of dependent coverage the employee selects. Dependents that can be covered include a current spouse, domestic partner, or an eligible dependent child. OEBB employers either use the four-tier structure or have one composite rate, which is one rate for all employees regardless of how many dependents are covered, for premiums.

Eligible retirees wishing to continue PEBB or OEBB coverage can do so until they qualify for Medicare, and they must self-pay the entire premium. Some OEBB employers contribute towards the premium cost for eligible retirees' health care.

Besides medical plans, PEBB and OEBB offer wellness programs, such as Healthy Team Healthy U and WW (Weight Watchers Reimagined) and coordinate dental and vision benefit plans. They also offer optional benefits for employers and members, such as life insurance, long-term care insurance, disability insurance, and an employee assistance program. PEBB also offers flexible spending accounts and commuter accounts.

**Deductible:** Amount employee pays before the plan begins paying for covered services.

**Copays:** A flat fee the employee pays for a covered service.

**Coinsurance:** Employee's share of a covered service after the deductible has been met (e.g., 20%).

**Out-of-Pocket Maximum:** The most employees will pay with a plan year for covered services.

**Premium:** The monthly cost for an employee's medical plan, which is shared between the employer and the employee.

## Oregon legislative mandates seek to manage and contain the state's overall health care costs as well as PEBB and OEBB costs

With health care inflation rates exceeding the rate of state revenue growth, health care is taking a larger share of the state budget. Oregon's Legislature has implemented programs and initiatives to help contain and manage the state's overall health care costs.

**Figure 3: Examples of some steps Oregon has taken to help manage state health care costs**

Program or Initiative	Description
<b>Oregon Health Policy Board</b>	This board, created in 2009, is charged with overseeing the development and implementation of state health care policy.
<b>Medicaid Coordinated Care Organizations</b>	In 2012, Oregon changed its Medicaid program by establishing coordinated care organizations. The organizations provide a model to have health care providers work together in their local communities, focus on prevention, and help people manage chronic conditions.
<b>Health Plan Quality Metrics Committee</b>	This committee, established by 2015 legislation, is the single body created to align health outcome and quality measures used in Oregon and ensure measures and requirements are coordinated, evidence-based, and focused on a long-term statewide vision.

<b>Primary Care Transformation Initiative</b>	Legislatively mandated in 2017, this initiative on Oregon’s primary care health infrastructure was to support innovation and care improvement in primary care, besides reporting of medical spending for primary care by certain health care payer and requiring health insurance carriers and coordinated care organizations to allocate at least 12% of health care expenditures to primary care by 2023.
<b>Oregon Health Care Cost Growth Benchmark Program</b>	Legislation in 2019 created a program to set a state spending target for all insurance companies, hospitals, and health care providers to rein in the increasing costs of health care.
<b>Universal Health Care Task Force</b>	This task force was created to recommend, for the 2021 legislative session, a design for a publicly funded health care plan for all Oregonians that provides equitable, affordable, comprehensive, and high-quality health care to all residents.

Further, with increasing pharmaceutical costs, Oregon enacted the Prescription Drug Price Transparency Act in 2018 to provide accountability of specific cost and price information from pharmaceutical manufacturers and health insurers.<sup>8</sup>

Oregon’s Legislature also mandated requirements to contain state health care costs in specific state government programs, including PEBB and OEBC.<sup>9</sup> Legislation in 2017 set forth PEBB and OEBC requirements, such as:

- Limiting both annual growth in per member expenditures for health services and health benefit plan premiums to no more than 3.4%;
- Limiting payments to in-network hospitals to 200% and out-of-network to 185% of the Medicare allowable rate;
- Appointing the executive director of PEBB as executive director of OEBC, and requiring the combination of administrative functions and operations of PEBB and OEBC to the greatest extent practicable;
- Requiring any actuarial or technical support contracts the board enters into be solicited at least every three years and defines certain proposal information to include;
- Instructing a carrier or third party to audit dependent eligibility annually (legislatively changed in 2019 to allow PEBB and OEBC to conduct these as frequently as determined by the board); and
- Prohibiting duplicate health benefit plan coverage by public employees and opt out payments to PEBB/OEBC double-covered employees (legislatively changed in 2019 to allow for a surcharge fee).

***PEBB and OEBC have kept annual premium increases notably lower than Oregon’s health insurance market trends***

Premium rates for health insurance plans are subject to varying factors. For PEBB and OEBC, some factors are within their control (e.g., plan design, level of reserves and fund balances, and

<sup>8</sup> The Prescription Drug Price Transparency Act requires pharmaceutical manufacturers to report on new prescription drugs costing more than \$670 a month, or a shorter course of treatment, within 30 days of introducing the drug, and prescription drugs that had net yearly price increases of 10% or more and had a price of \$100 or more for a one-month supply or for a course of treatment lasting less than one month during the previous year.

<sup>9</sup> To help contain costs and create more predictable budget environments, Oregon capped health care cost increases for the Oregon Health Plan at two percentage points below the national trend starting in 2012, which resulted in a growth cap of 3.4% per member per year. The Legislature extended this cap to health care costs in the PEBB and OEBC budgets in 2019.

administrative costs), and some are not (e.g., age of members, the extent members use services, and health care inflation and market rates).

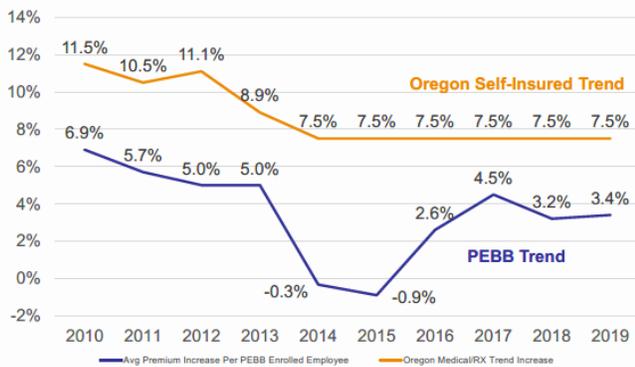
PEBB and OEBB contract with commercial health carriers to provide and manage health care coverage for their members. As such, premiums for fully insured plans and actual health care costs for self-insured plans are subject to the trends in those markets.

According to their actuaries, PEBB and OEBB have maintained their annual insurance cost increases at or below 3.4% since 2014, which was generally half the cost increases experienced in the commercial markets. Oregon’s self-insurance market generally grew 7.5% a year and Oregon’s commercial insurance market grew between 8% and 9% during the same time period.

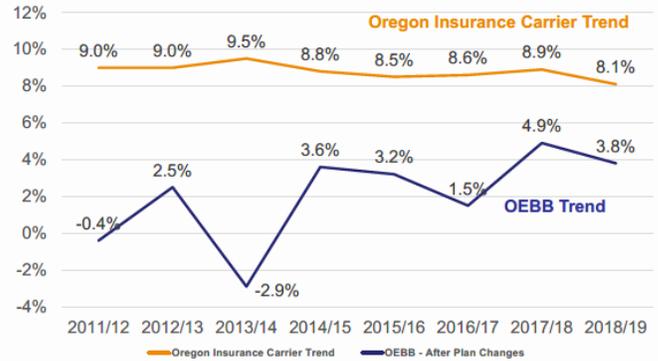
People get health coverage in a variety of ways, from employers, government program, and purchasing individually. **About 94% of Oregonians**, or approximately 3.9 million residents, **have health insurance**.

**Figure 4: PEBB and OEBB annual insurance health care premium costs have stayed lower than their relative market trends**

### PEBB Cost Trend Against “Self Insurance” Trend



### OEBB Cost Trend Against Commercial Trend



Source: PEBB and OEBB actuarial consultant reports.

Each board appears to be outperforming national health care trends. OEBB’s consultant reported that OEBB is 6% more efficient than national health care providers, and 4% more efficient than government health care providers for a 2018 savings of \$45.5 million and \$30.9 million, respectively.<sup>10</sup>

While the boards have been able to meet this requirement, management acknowledges keeping to that cap, when Oregon’s commercial insurance market trend averages 6% to 7%, is its biggest challenge, as that equates to a combined annual savings requirement of \$70 to \$80 million.

### PEBB and OEBB made some plan adjustments to facilitate health services with the COVID-19 pandemic

PEBB and OEBB have taken action to address potential concerns with benefit eligibility and plan costs with the COVID-19 pandemic. For example, the boards removed the member cost share for in-network testing and treatment related to COVID-19, as well as expanding telehealth services.

<sup>10</sup> The consultant’s study involved 2,248 companies in 18 industry groups including governments across the United States and was normalized for four things to compare plans between entity groups - age and gender, family status (size), geography, and plan value.

Both programs also enacted a temporary rule through 2020 to continue health coverage for people in a leave without pay status due to COVID-19. Consultants have advised the boards that expenses are expected to drop in 2020 as elective procedures are cancelled. However, these costs are expected to be shifted to an upcoming plan year and this is a consideration in boards' decisions as they plan for unexpected expenses in future years.

Further, PEBB and OEBC created a webpage for members on resources to help with mental and physical wellbeing support during COVID-19, which are offered through the Employee Assistance Program and carriers.

# Audit Results

Health care is an expensive and complex industry. PEBB and OEBC must balance containing health care costs in an environment where health costs continue to rise faster than inflation and meet their goals of improved member health. PEBB and OEBC go through a rigorous process each year of analyzing options and negotiating with carriers to meet cost and quality needs.

Our intended review of plan benefits, wellness programs, claims processing, and data handling, as well as cost analyses, were not conducted due to COVID-19 impacts on resources and priorities.

Our limited review found that PEBB and OEBC have implemented strategies to help address costs, but those strategies have some limitations. We also found areas where the program could make further improvements to help manage costs in: communication and member education, contract administration and oversight, and managing PEBB stabilization reserves. Additionally, while PEBB and OEBC have legislatively required caps placed on them that they have met, we found there is no similar directive for school districts outside of OEBC to contain health care costs.

## Like other states, Oregon's PEBB and OEBC implement multiple strategies for state health care cost containment

PEBB and OEBC boards put forth considerable effort to try to provide quality benefits that are affordable to employers and members. They regularly use information from consultants, work groups, and program staff to explore cost containment measures. This includes budget, financial benchmarks, and other statistics, such as plan enrollment and benefit utilization. The boards also coordinate with the Oregon Health Policy Board and Oregon Health Authority on health initiatives and health plan quality metrics.

**Half of Oregon adults have at least one chronic disease** (e.g., cancer, lung or cardiovascular diseases, diabetes, or asthma), and **many citizens have risk factors for developing or complicating a disease.**

Each benefit year, PEBB and OEBC boards go through a rigorous process of decision-making to meet financial and benefit coverage goals. Boards review previous plan year information (e.g., aggregate costs, large claims, and chronic condition costs) and consultants present data from their national surveys of health plans and compare survey results to initial carrier offerings for the new plan year. This process involves multiple rounds of communication and negotiations with the carriers over the course of several months.

Both boards have implemented multiple recognized strategies to help manage plan costs. Examples of strategies include:

- pooling state employee health benefits with other entities (e.g., municipalities);
- reviewing costs and member utilization trends (e.g., different types of care obtained, where getting care, and specialty drug medications);
- prioritizing preventive care;
- moving to value-based payments for services;
- incentivizing members to select lower cost plans that promote the use of coordinate care;
- offering wellness services and programs; and
- regularly ensuring dependents are eligible.

Similarly, other states are addressing rising health care costs. A strategy used by nearly all the states is to offer self-funded plan options. PEBB offers multiple self-funded plans to members,

and OEGB offers only fully insured plans. Oregon has also considered the feasibility of modeling processes successful in other states such as Maryland's hospital payment rate setting process.

We found some states have taken unique initiatives to help reduce their health care costs that may be of benefit to Oregon. Recognizing each state varies widely on state employee health care plan eligibility, plan benefits, premiums, and cost-sharing arrangements, not all of these may be directly applicable in Oregon.<sup>11</sup>



Some other states provide financial incentives for members to shop for lower cost services from approved high-quality providers, known as right-to-shop programs. For example, Florida's shared savings program gives credits to a member's account or can be provided as a reimbursement for out-of-pocket medical expenses when members shop around and choose lower cost services on select procedures.



For Utah public employees, the state has a pharmacy tourism program. This program pays for members to travel to Canada or Mexico to fill prescriptions for certain high-cost medicines (e.g., multiple sclerosis disease modifying therapies, which have increased annually at rates five to seven times higher than prescription drug inflation). The state has found a three-month supply of these medications to be much less expensive in Canada or Mexico.



Colorado allows health care cooperatives to directly negotiate health care prices with providers. The Peak Health Alliance in Summit County found this approach reduced premiums by 15% to 20% for its collective of small and large businesses and individuals. The state is considering an expansion to a statewide purchasing alliance.



Some states have created or implemented statewide prescription drug cost controls. Maryland, for example, created a prescription drug affordability board with the authority to establish the maximum costs for certain drugs, including some of the most expensive medications, that state and local governments purchase for employees and programs.



California is creating a statewide purchasing system for prescription drugs where a coalition of public and private purchasers would pool purchasing power to negotiate lower prices with drug manufacturers. Further, a few states have enacted legislation for prescription drug importation like Vermont, which has developed a plan to administer a wholesale prescription drug importation program using Canadian suppliers.

As mentioned, health care is expensive and complex. Even the best cost containment strategy cannot address all the factors that go into health care costs such as the expense of new technologies and medications, provider consolidation, the age of members, and disease prevalence. As the boards continue their efforts and look for further ways to contain costs and maintain quality coverage, OHA has a policy package option for its 2021-2023 budget to align PEBB and OEGB with other publicly funded programs (e.g., Oregon Health Plan, the Marketplace, and other local governments) for stronger state purchasing power to improve care and lower costs.

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<sup>11</sup> Our research was conducted prior to COVID-19; the pandemic may affect how these initiatives operate.

## PEBB and OEBB can enhance communication with members and employers

We found PEBB and OEBB seem to effectively communicate open enrollment information to members but fall short in multiple areas including educating members on selecting and using their benefits, providing clarity on board efforts, and obtaining and analyzing feedback from employers and members. Improvements in these areas would help the programs better identify issues, more effectively roll out cost-control measures, and help employees better manage costs and their own health care. When members understand, use, and appreciate their health care benefits, they are more likely to optimize them to stay healthy, which ultimately helps to contain health insurance costs in the long run.

### ***PEBB and OEBB need to better educate members on their benefits and board efforts to more effectively implement cost containment strategies***

Employees are key partners in containing health care costs — they select the health plans purchased and choose the services to use each plan year. As employees share in the cost of premiums and insurance claims, it is important they know how to effectively select and use the health care plan best suited for their situation to optimize cost and health outcomes.

Health care plan selection can be overwhelming, and employees may form incorrect assumptions about benefits (e.g., an assumption that the most expensive plans are the best). To help, PEBB's and OEBB's communication with members has mainly revolved around open enrollment, the one-month time period when members are selecting their plans for the next plan year. Open enrollment communications focus on plan option information, enrollment requirements, and high-level summaries of insurance coverage provided. This information is provided in multiple ways (e.g., webinars, emails, and physical mailers). PEBB also provides a virtual benefits counselor, an online benefit comparison tool, and payroll deduction estimator on its website to help members with enrollment decisions.

Once plans have been selected, education should also be provided to help members understand and effectively use their benefits. For example, explaining covered preventative care and other health services as well as providing information on how to evaluate choices and costs when faced with a medical situation (e.g., primary doctor, specialist, urgent care, or emergency room) or treatment. This could also reduce the stress of not knowing how much their care will cost.



 2020 PEBB Benefits  
Public Employees Benefit Board  
[www.PEBBBenefits.com](http://www.PEBBBenefits.com)

PEBB's enrollment guide cover (2020 benefit year).



OEBB's enrollment guide cover (2020-21 plan year).

Helping members understand their benefits and options empowers them to be more active in health decisions such as evaluating the cost of services prior to making health care decisions (e.g., the same procedure can have a large cost difference depending on the provider used). A well-informed consumer can make better choices and more optimally use health plan features to get the care needed to prevent or manage conditions. Better-informed consumers can also help identify and report incorrect billings, keeping the system accurate and accountable.

Further, PEBB and OEBB generally do not proactively give members details about the board's ongoing administration of benefits, including efforts and decisions made to help control benefit costs and the reasons behind the decisions. Generally, meeting recordings

and materials are available online for recent PEBB and OEBB board meetings, subcommittees, and workgroups, but members would need to listen to hours of discussion involving dense information and industry terminology to figure out what applies to them and how it affects their situation.

Members have little opportunity to understand from the programs the extent boards represent their interests. Educating members on board actions and decisions and the reasoning behind those decisions could help members be more informed about cost containment efforts and help better engage in the boards' cost-control measures being implemented.

### ***PEBB and OEBB need to obtain more feedback from employers and members to better inform board decisions***

PEBB and OEBB are missing opportunities for obtaining feedback from employers and members. There is limited contact between board members and plan members to help each group understand the needs and goals of the other. While board and member goals may be simple — stay healthy, keep costs down — the experiences of members as they obtain and pay for their health care are not consistently collected for board decision making.

One example of an underused feedback mechanism is PEBB's and OEBB's annual survey of employees. These surveys focus almost exclusively on members' experience interacting with program staff, not about their other benefit experiences such as access to benefits, experiences with carriers and providers, or the extent of their satisfaction with benefits. This is a missed opportunity for the boards to learn key information about how well the benefits are serving members and to address problems they are having.

HealthCare.gov has member experience as one of its three categories for quality ratings of health plans, which is based on surveys of member satisfaction with their health care and doctors, and the ease of getting appointments and services.

Another underused avenue is obtaining members' input. PEBB's member advisory committee, comprised of labor and management members, was created with the intent to provide advice and feedback to the board. The committee has focused, at the request of the board, on PEBB's wellness offerings for the past two years. The committee, supported by program staff and consultants, has monthly discussions of issues impacting members. Program management stated committee members regularly bring individual concerns from members at their respective agencies for discussion, but these are informal and are not tracked.

OEBB, however, does not have an equivalent member committee to help represent its over 250 employers. Having such a committee could enable more informed decision-making, improve success with initiatives, and promote better communication and relations.

PEBB and OEBB staff take a combined average of **5,000 calls a month during open enrollment**, with an annual combined average of **31,000 calls a year**.

Customer service calls from members is another feedback opportunity not used effectively to identify member issues and inform board decisions. When members call the programs with questions or concerns, staff track and categorize the calls. However, the categories have not been tracked consistently. For example, program staff stated that contact reasons have been removed or consolidated in the system, causing affected calls to be reclassified as "unknown." From October to December 2017, PEBB classified

nearly 52% of calls as unknown. Without having consistent and known categories, ensuring staff are using the categories consistently, and analyzing the information to inform management and board decisions, the value of the feedback collected is substantially reduced.

Communication is a vital component for any program. Identifying ways to better inform members throughout the plan year and encouraging their feedback will help to strengthen the programs and ensure cost containment measures are understood and more effectively implemented.

## Contract and claims oversight improvements need to be implemented to ensure transparency and accountability

PEBB and OEGB rely on contractors to perform much of the work needed to attain their boards' missions. There are gaps in the program's oversight that can be improved to ensure clarity and accountability of contracted services.

PEBB and OEGB contract annually with consultants for actuarial services and to negotiate carrier contracts. They also contract with carriers to deliver medical services to members and handle medical claims processing. In reviewing the consultant contracts and a sample of consultant invoices, we found issues with contract monitoring, contract terms, consultant invoices, and claims oversight. Specifically:

**Contract monitoring** has not been prioritized and implemented by program management. Although various staff track some aspects of the contracts, the programs have no systematic process for identifying contract deliverables and confirming they are received. For one consultant contract we reviewed, the consultant had not submitted annual work plans for 2019 or 2020, though required by the contract. Staff also did not calculate and track the not-to-exceed amount on the same consultant's contract. We estimated payments to the consultant in 2019 exceeded the contract's maximum amount by \$83,000, and payments in 2020 through April exceeded the maximum amount by almost \$290,000. If the work was part of the contract, then the consultant was overpaid. If this was additional work, then the contract should have been revised to ensure contract terms clearly defined the extra work to be done and the cost.

In 2019, PEBB and OEGB spent a combined total of **\$3.8 million** to their **actuarial consultants**.

In their last completed plan year, **PEBB and OEGB members incurred a total of over \$1.5 billion in claims**.

**Contract terms** in one consultant contract we reviewed did not have a defined cost tied to the work. The contract terms did not clearly state what work would be completed for what total cost. Additionally, the contract had a not-to-exceed (NTE) amount stated in terms of a percentage of premiums paid rather than a set amount. While permissible, defining the NTE as a percentage creates tracking issues for monitoring as noted in the previous paragraph. Without clearly defined work and corresponding cost, contractors cannot be held accountable in a clear, transparent way. Further, neither PEBB's nor OEGB's consultant contracts had identified performance measures in their contracts, which is a good accountability practice for contractors to demonstrate the quality of work being delivered.

**Consultant invoices** lacked information to verify amounts billed and contract compliance. The invoices we reviewed for one particular contract did not have enough information to verify amounts billed were mathematically accurate and adhered to contract terms. The contract's terms defined compensation by staff hour, but invoices did not provide the individual staff rates used to calculate the invoice cost. Additionally, with no contract budget to compare to, cost accountability could not be verified.

**Claims oversight** by the programs is not comprehensive. In the sample of carrier contracts that we reviewed, there were various provisions to help address aspects of improper claims such as required reports, claims processing accuracy measures, and clinical audits of claims that exceed high dollar thresholds. Though, program staff stated that information is not consistently

“The financial losses due to health care fraud are estimated in the tens of billions of dollars each year [in the U.S.]. A conservative estimate is 3% of total health care expenditures.”

*The National Health Care Anti-Fraud Association*

reviewed and used. Management reported there are some efforts taken by carriers to identify and address improper claims, including fraudulent claims; however, it is not something the program monitors. While their consultants perform some claims data analysis, program management clarified that this work is high level and not necessarily specific to improper payments. PEBB had a claims audit conducted of two of their carriers in 2016, which included medical claims, pharmacy claims, clinical assessments, and behavioral health program assessments, though it was unclear if all audit findings were fully resolved.

Having limitations in contract administration and monitoring processes puts greater financial, legal, and reputational risk on those involved. PEBB and OEBC need to ensure all of their contracts are appropriately administered to ensure clear contract terms, monitoring, and accountability. Proper contract administration includes defining and assigning responsibilities, as well as ensuring staff have the proper training and knowledge of the contract terms. PEBB and OEBC also need to have a comprehensive strategy for ensuring claims accuracy and have that reflected in their contracts. Without proper monitoring and oversight of claims and claims data such things as system errors, billing errors, misapplied benefit rules, incorrect billings, and fraud could go undetected and impact plan costs.

## PEBB’s reserve needs better planning and legislative sweeps have reduced the balance

Most PEBB members have enrolled in self-funded plans, where PEBB is responsible for paying claims costs. PEBB maintains a reserve balance to cover its share of costs when claims and other program costs exceed monthly premium contributions, such as unanticipated specialized hospital care. PEBB has set a targeted reserve level, but the board does not have a strategic plan for using funds when the reserve accumulates more than needed. This has left the reserve open to Legislative sweeps and resulting federal penalties.

PEBB began moving toward self-funded plans in 2006 to better control premium cost increases and help save money. PEBB plans were mostly self-funded by 2010. Under self-funded plans, PEBB pays for employees’ health benefits with its own funds (collected from premiums) and assumes direct risk for paying benefit claims, with any moneys remaining saved in reserve. The PEBB board, based on consultant recommendations, sets the premium rates, which includes a calculation for the reserve. PEBB has historically targeted a middle reserve level.<sup>12</sup>

According to program management, PEBB’s reserves grew considerably higher than anticipated over the years as the board used a conservative reserve calculation based on national and market projections, while actual costs came in lower than projected. Rather than using some of the reserve to lower premiums, or other allowable services to reduce benefit plan costs, the reserve continued to grow for multiple years. PEBB’s reserve was reduced significantly by the Legislature when it was used to help balance the state’s budget. The Legislature swept

**Multiple legislative sweeps lessen PEBB reserves by about \$147.5 million — \$135 million to balance the budget and about \$14.5 million in federal fines.**

<sup>12</sup> Consultants have proposed four rate stabilization reserve ranges – low, mid-point (low to middle), middle, and high. The greater the range, the more funds that should be maintained in the reserve. For example, going from the low level to the mid-point level or from the mid-point level to the middle level, increases the targeted reserve level by \$10.5 million.

\$120 million from PEBB's nearly \$435 million reserve in Spring 2017 and is set to take another \$15 million in 2021.

As a result, PEBB was fined \$12 million for the first sweep from the federal government. The Office of Management and Budget's A-87 Circular requires that allocating the cost of plans to agencies be done on a consistent basis and there should be an equitable distribution of costs based on benefits received. The legislative sweep violated those required cost principles. Likewise, the program is expected to be fined \$2.5 million from the second sweep in 2022.

Per [OAR 101-001-0015](#), PEBB may use its reserves for the four following purposes:

- reimburse insurers for contracts payments (e.g., if benefit expenses exceed premium revenues);
- minimize premium increases and the impact on premium contributions due to benefit plan changes;
- pay for expenses critical to PEBB program administration (e.g., data processing); and
- pay for services, programs, or studies that will reduce benefit plan costs.

In accordance with state statute, the board has opted to use some reserves to help pay for program costs such as program incentives (e.g., the Health Engagement Model) and taxes (state tax on commercial health insurance plans). Reserve funds have also been used to align tiers, such as employee and family, within each medical plan so the program would avoid a tax penalty. Recently, in June 2020, the board discussed options and approved using some reserve funds to buy-down premiums to help with agencies' budgets in addressing forecasted budget concerns and economic uncertainties of the COVID-19 pandemic.

However, the board does not have a formal policy or strategic plan for determining the appropriate reserve amount to be maintained or for the steps to take when the reserve reaches higher or lower than targeted levels. Having a policy or plan could help ensure reserve funds are more effectively used toward meeting the program mission and containing plan costs.

## **Not all school districts are required to adhere to legislatively mandated OEBB cost containment requirements**

The Legislature mandated requirements for PEBB and OEBB to help contain state employee health care costs. Although OEBB manages plans for most educators and staff, including all education service districts and community colleges, there are some school districts that obtain health care for all or some employees on their own.<sup>13</sup> As of June 2020, there are 13 school districts that do not use OEBB for overseeing all their health plans. These districts are not held to the legislative requirements the other educator entities must adhere to and their health benefit costs and steps taken to contain costs are not transparent.

Prior to OEBB, Oregon's educational entities purchased and administered health care benefits on their own. They obtained benefits on the open market through brokers, directly from carriers, the Oregon School Boards Association Health Trust, the Oregon Education Association Choice Trust, or the Oregon School Employees Association.<sup>14</sup> With this, there were about 90 different medical plans offered throughout Oregon school districts. OEBB was created to centralize health care benefit administration for school districts and education service districts. The intent was to increase stability in premium rates and reduce administrative costs.

When OEBB started in 2008, districts with a previously established trust or were self-funded could opt out of OEBB. Otherwise, districts were required to join OEBB when their current

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<sup>13</sup> Please refer to Appendix A and B for a complete list of employers participating in PEBB and OEBB.

<sup>14</sup> With how these were designed, school districts could join or leave the plans at their discretion.

**School districts obtaining health care outside of OEGB for all its employees**

Ashland  
Beaverton  
Fern Ridge  
Medford  
North Clackamas  
St. Paul  
Springfield  
Three Rivers  
West Linn-Wilsonville

**Districts obtaining health care outside of OEGB for its teachers**

Bethel  
Central  
Corvallis  
Portland

collective bargaining contracts expired, no later than October 2010. This meant that some districts or subgroups were not required to join for up to two years.

Restrictions were later legislatively relaxed, allowing districts to delay joining if a comparability assessment proved that their benefit plans were comparable to OEGB's in both cost and plan design. Legislation in 2013 eliminated the requirement for regular comparability assessments and allowed districts already outside of OEGB to remain so indefinitely with no reporting requirements. School districts already in OEGB were not allowed to opt out. Since OEGB's creation, each regular legislative session has had bills proposed to allow districts participating in OEGB to opt out. Though none of the bills moved out of committee, 17 bills have been put forward since 2009.

School districts outside of OEGB collectively comprise about 14,500 employees, including approximately 28% of the state's teachers. These districts are not held to the same OEGB legislatively mandated cost containment requirements, such as the 3.4% growth and payment caps, surcharges for double coverage through the

state, and regular dependent eligibility verification. Further, their costs and cost containment strategies are not transparent and shared.

Additionally, information on which schools covered by OEGB plans is not readily provided. Given there are school districts where only some of the employees are covered and other districts not in its program, OEGB should clearly state the extent school districts and their employees are covered by OEGB plans such as on its website and externally with stakeholders.

In 2020, the Oregon School Boards Association approached OEGB management to work with multiple education associations — the Oregon School Boards Association, the Oregon Education Association, the Coalition of Oregon School Administrators, the Oregon School Business Professionals Association, and the Oregon School Employees Association — to facilitate better communication about OEGB and engage in data sharing.

However, without appropriate cost reporting for all school districts, the state does not know whether health benefit costs are being effectively contained. Comprehensive reporting of health care benefits and cost by all school districts is not within OEGB's authority. Such a change would require action by the Legislature to determine and require the reporting and analysis needed to ensure all school districts are adequately containing health care costs. As an example, Wisconsin, which does not have state managed insurance pool for educators, requires its school districts to annually report plan design and cost information to the state about health insurance programs provided to district employees.

## Recommendations

To strengthen cost containment, communication, and contract administration, we recommend PEBB and OEBB:

1. Regularly communicate to members further educational opportunities in addition to open enrollment for members to learn how to better understand the details of their insurance coverage and how to utilize their benefits to make optimal health and cost decisions.
2. Periodically communicate to employers, members, and stakeholders about the board's ongoing administration of benefits, cost containment efforts, and the anticipated effects on affordability and accessibility of health care coverage to stakeholders, including employers and members.
3. Consistently collect, analyze, and share results of employers' and members' experiences to better inform board decisions; for example, consistently track customer service calls to the programs, ask about benefit and claim experiences on the annual member survey, and obtain information from carriers on claims calls and appeals.
4. Promptly enhance oversight and clarity of consultant and carrier contracts, which should include:
  - a. ensuring consultant contracts have clearly defined deliverables that are of value and the related costs;
  - b. identifying deliverables in current contracts, and monitoring and enforcing deliverables are contract compliant;
  - c. verifying invoices for mathematical accuracy and contract compliance by staff who have the pertinent training and knowledge of contract terms; and
  - d. having a comprehensive program for identifying improper claim payments that is reflected in contracted services.

To better manage its reserve, we recommend PEBB:

5. Develop a formal strategic plan that includes elements such as the appropriate amount to be maintained in reserve and steps to take when the reserve reaches higher or lower levels than targeted.

To further strengthen communication and information for decision-making, we recommend OEBB:

6. Clearly communicate the extent school districts participate in OEBB (e.g., when communicating externally to stakeholders such as in Legislature communications and on OEBB's website).
7. Create a member advisory committee or an alternative method for member advice and feedback to the board.

To help ensure adequate cost transparency and that cost containment strategies are being used by all school districts in the state, we offer the following for the Legislature to consider:

8. Consider requiring school districts outside of OEBC to regularly report on their health care cost containment efforts.
9. Consider having OEBC and school districts not participating in OEBC to regularly report basic facts and costs of their health plans.

# Objective, Scope, and Methodology

## Objective

The purpose of this audit was to evaluate how PEBB and OEBC are managing state employees' health care benefit costs.

## Scope

This audit focused on the cost containment measures and management practices PEBB and OEBC have implemented to address rising health care costs. Our intended review of plan benefits, wellness programs, carrier contracts, claims processing, and data handling, as well as cost analyses, were not conducted due to COVID-19 impacts on resources and priorities.

## Methodology

To address our objective, we interviewed PEBB and OEBC board chairs, program management, and staff. We also interviewed legislative members, board consultants, school districts, and management at agencies in other states responsible for employee benefits.

We reviewed PEBB and OEBC laws and rules, legislative mandates placed on the boards for cost containment and associated legislatively required reports, and board meeting minutes and materials. We also listened to recordings of select board meetings, legislative testimony, and work group meetings. Further, we reviewed comprehensive annual financial reports and union agreements for school districts to obtain public information on benefits, and studies and reports related to employee health benefit cost containment practices and efforts to reduce health care spending.

We obtained and reviewed the lists of 2020 participating employers from PEBB and OEBC. We also reviewed management performance metrics, consultant reports to the boards, communication mailers and guides to employers and members, PEBB carrier audit reports, and dependent eligibility verification removal rates.

We also obtained and reviewed two years of monthly member services call data from PEBB and OEBC for the volume and reason for member calls. We also reviewed five years of data on the annual number and type of appeals made by members to the program.

We performed a limited, high-level review of key PEBB and OEBC contracts and contract administration. We obtained copies of recent consultant contracts and reviewed them for content and key controls for review. For each of the consultants, we also obtained and reviewed two to three months of 2019 invoices for contract compliance. Further, we compared the 2019 consultant not-to-exceed provisions to payments and expanded this comparison for one consultant into 2020.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We sincerely appreciate the courtesies and cooperation extended by officials and employees of PEBB and OEBC during the course of this audit.

## Appendix A: Employers Participating in PEBB

The following are 107 Oregon employers participating in the PEBB program for medical insurance as of May 2020:

Appraiser Certification and Licensure Board	Corrections Enterprise	District Attorneys and their Deputies
Beef Council	Criminal Justice Commission	Division of State Lands
BenefitHelp Solutions	Dairy Products Commission	Dungeness Crab Commission
Board of Accountancy	Department of Administrative Services	Eastern Oregon University
Board of Chiropractic Examiners	Department of Agriculture	Employment Department
Board of Clinical Social Workers	Department of Aviation	Employment Relations Board
Board of Dentistry	Department of Consumer and Business Services	Film & Video Office
Board of Examiners for Engineering and Land Surveying	Department of Corrections	Government Standards and Practices Commission
Board of Geologist Examiners	Department of Education	Health Related Licensing Board
Board of Massage Therapists	Department of Energy	Higher Education Coordinating Commission
Board of Optometry	Department of Environmental Quality	Housing and Community Services
Board of Parole and Post-Prison Supervision	Department of Fish and Wildlife	Judges
Board of Pharmacy	Department of Forestry	Judicial Department
Board of Tax Service Examiners	Department of Geology and Mineral Industries	Land Use Board of Appeals
Bureau of Labor and Industries	Department of Human Services	Landscape Contractors Board
Columbia Drainage Vector Control District	Department of Justice	Legislative Administration
Commission for The Blind	Department of Land Conservation and Development	Legislative Assembly
Commission on Indian Services	Department of Parks and Recreation	Legislative Counsel Committee
Commission on Judicial Fitness and Disability	Department of Public Safety Standards and Training	Legislative Fiscal Office
Community College Association	Department of Revenue	Legislative Policy and Research Committee
Construction Contractors Board	Department of Transportation	Legislative Revenue Office
	Department of Veterans Affairs	Long Term Care Ombudsman
		Mental Health Regulatory Agency
		Office of the Governor

Oregon Advocacy Commissions Office	Oregon Salmon Commission	Psychiatric Security Review Board
Oregon Business Development Department	Oregon State Library	Public Defense Services Commission
Oregon Forest Resources Institute	Oregon State Lottery	Public Employees Retirement System (PERS)
Oregon Health Authority	Oregon State Marine Board	Public Utility Commission
Oregon Hop Commission	Oregon State Police	Secretary of State
Oregon Institute of Technology	Oregon State Treasury	Southern Oregon University
Oregon Liquor Control Commission	Oregon State University	State Board of Architect Examiners
Oregon Medical Board	Oregon Tourism Commission	State Board of Nursing
Oregon Military Department	Oregon Travel Information Council	Teachers Standards & Practices
Oregon Patient Safety Commission	Oregon Trawl Commission	University of Oregon
Oregon Potato Commission	Oregon Wheat Commission	Water Resources Department
Oregon Racing Commission	Oregon Youth Authority	Watershed Enhancement Board
Oregon Real Estate Agency	Physical Therapist Licensing Board	Western Oregon University
	Portland State University	

## Appendix B: Employers Participating in OEBC

The following are over 250 employers participating in the OEBC program for medical health insurance as of May 2020:

Adel SD 21	Central Curry SD 1	Dayton SD 8
Adrian SD 61	Central Linn SD 552	Dayville SD 16J
Alsea SD 7J	Central Oregon Community College	Diamond SD 7
Amity SD 4J	Central Point SD 6	Double O SD 28
Annex SD 29	Central SD 13J*	Douglas County SD 15
Arlington SD 3	Chemeketa Community College	Douglas County SD 4
Arock SD 81	Clackamas Community College	Douglas ESD
Ashwood SD 8	Clackamas Community College	Drewsey SD 13
Astoria SD 1	Clackamas ESD	Dufur SD 29
Athena-Weston SD 29RJ	Clatskanie SD 6J	Eagle Point SD 9
Baker SD 5J	Clatsop Community College	Eagle Ridge High School
Bandon SD 54	Colton SD 53	Echo SD 5
Banks SD 13	Columbia Gorge Community College	Eddyville Charter School
Bend-LaPine SD 1	Columbia Gorge ESD	Elgin SD 23
BenefitHelp Solutions (BHS)-TPA	Condon SD 25J	Elkton SD 34
Bethel SD 52*	Coos Bay SD 9	Enterprise SD 21
Blachly SD 90	Coquille SD 8	Eola Hills Charter School
Black Butte SD 41	Coquille Valley Hospital	Estacada SD 108
Blue Mountain Community College	Corbett SD 39	Eugene SD 4J
Brookings-Harbor SD 17C	Corvallis SD 509J*	Falls City SD 57
Burnt River SD 30J	Cove SD 15	Forest Grove SD 15
Butte Falls SD 91	Crater Lake Charter Academy	Fossil SD 21J
Camas Valley SD 21J	Creswell SD 40	Four Rivers Community School
Canby SD 86	Crook County SD	French Glen SD 16
Cascade SD 5	Crow-Applegate-Lorane SD 66	Frontier Charter Academy
Centennial SD 28J	Culver SD 4	Gaston SD 511J
Center for Advanced Learning - CS	Dallas SD 2	Gervais SD 1
	David Douglas SD 40	Gladstone SD 115
		Glendale SD 77

Glide SD 12	Junction City SD 69	Monument SD 8
Grant ESD	Juntura SD 12	Morrow SD 1
Grants Pass SD 7	Klamath Community College	Mt Angel SD 91
Greater Albany Public SD 8J	Klamath County	Mt Hood Community College
Gresham-Barlow SD 10J	Klamath County SD	Multnomah ESD
Harney County Health District	Klamath Falls City Schools	Myrtle Point SD 41
Harney County SD 3	Knappa SD 4	Neah-Kah-Nie SD 56
Harney County SD 4	La Grande SD 1	Nestucca Valley SD 101J
Harney County Union High SD 1J	Lake County SD 7	Newberg SD 29J
Harney ESD Region XVII	Lake ESD	Nixyaawii Community School
Harper SD 66	Lake Oswego SD 7J	North Bend SD 13
Harrisburg SD 7J	Lane Community College	North Central ESD
HB2557	Lane ESD	North Douglas SD 22
Helix SD 1	Lebanon Community SD 9	North Lake SD 14
Hermiston SD 8	Lewis and Clark Montessori Charter School	North Marion SD 15
High Desert ESD	Lincoln County SD	North Powder SD 8J
Hillsboro SD 1J	Linn Benton Lincoln ESD	North Santiam SD 29J
Hood River County	Linn-Benton Community College	North Wasco County SD 21
Hood River County SD	Long Creek SD 17	Northwest Regional ESD
Huntington SD 16J	Lowell SD 71	Nyssa SD 26
Imbler SD 11	Luckiamute Valley Charter School	Oakland SD 1
InterMountain ESD	Malheur ESD Region 14	Oakridge SD 76
Ione SD R2	Mapleton SD 32	Ontario SD 8C
Jefferson County SD 509J	Marcola SD 79J	Oregon Cascades West COG
Jefferson ESD	McKenzie SD 68	Oregon Charter Academy
Jefferson SD 14J	McMinnville SD 40	Oregon City SD 62
Jewell SD 8	Milton-Freewater Unified SD 7	Oregon Coast Community College
John Day SD 3	Mitchell SD 55	Oregon Trail SD 46
Jordan Valley SD 3	Molalla River SD 35	Oregon Virtual Education
Joseph SD 6	Monroe SD 1J	Paisley SD 11
Josephine County		Parkrose SD 3

Pendleton SD 16	Santiam Canyon SD 129J	Teach NW
Perrydale SD 21	Scappoose SD 1J	Tigard-Tualatin SD 23J
Philomath SD 17J	Scio SD 95	Tillamook Bay Community College
Phoenix-Talent SD 4	Seaside SD 10	Tillamook SD 9
Pilot Rock SD 2	Self-Pay Retirees	Treasure Valley Community College
Pine Creek SD 5	Sheridan All Prep Academy	Troy SD 54
Pine Eagle SD 61	Sheridan SD 48J	Ukiah SD 80R
Pinehurst SD 94	Sherman County SD	Umatilla SD 6R
Pleasant Hill SD 1	Sherwood SD 88J	Umpqua Community College
Plush SD 18	Siletz Valley Charter School	Union SD 5
Port Orford-Langlois SD 2CJ	Silver Falls SD 4J	Vale SD 84
Portland Community College	Silvies River Charter School	Vernonia SD 47J
Portland SD 1J*	Sisters SD 6	Village School
Powell Butte Community Charter School	Siuslaw SD 97J	Wahtonka Community School
Powers SD 31	South Coast ESD	Wallowa SD 12
Prairie City SD 4	South Harney SD 33	Warrenton-Hammond SD 30
Prospect SD 59	South Lane SD 45J3	Web Academy Public Charter School
Rainier SD 13	South Umpqua SD 19	West Lane Technical Learning Center
Redmond SD 2J	South Wasco County SD 1	Willamette ESD
Reedsport SD 105	Southern Oregon ESD	Willamina SD 30J
Region 18 ESD	Southwestern Oregon Community College	Winston-Dillard SD 116
Reynolds SD 7	Spray SD 1	Woodburn SD 103
Riddle SD 70	St Helens SD 502	Yamhill Carlton SD 1
Riverdale SD 51J	Stanfield SD 61	Yoncalla SD 32
Rogue Community College	Suntex SD 10	
Rogue River SD 35	Sutherlin SD 130	
Salem-Keizer SD 24J	Sweet Home SD 55	

\* - not all district employees are covered by OEBC; some employees are provided with health care benefits from the district's employee trust



HEALTH POLICY AND ANALYTICS  
Public Employees' Benefit Board  
Oregon Educators Benefit Board

Kate Brown, Governor



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November 20, 2020

Kip Memmott, Director  
Secretary of State, Audits Division  
255 Capitol St. NE, Suite 500  
Salem, OR 97310

Dear Mr. Memmott,

This letter provides a written response to the Audits Division's final draft audit report titled *Efforts Have Helped Limit Some Employee Health Care Costs, but PEBB and OEBB Can Do More to Manage Costs and Optimize Benefits*.

It was a pleasure working with the audit staff assigned to PEBB and OEBB from the Secretary of State's Office. We thought the audit was conducted very professionally, was fair to PEBB and OEBB, and overall was very well done. We welcomed the opportunity for a professional, third-party evaluation of our programs and thought the time and resources we dedicated to assist the auditors was time well spent.

Cost containment is without a doubt the biggest challenge the boards face each year. Yet the boards have been able to maintain top quality benefit offerings for PEBB and OEBB members while meeting the 3.4% annual rate of growth the legislature has mandated. Beating the commercial insurance market trend of 6-7% each year is not the only cost containment challenge. Securing the Operating budget authority to invest in new communication mediums and dedicated contracting resources are identified as top priorities of the board as reflected in this year's board meeting agendas focused on supporting members moving to a more virtual workplace, along with new legislatively mandated RFP's and alterations to benefit designs forced by COVID-19.

As detailed in this report, there is still much work to be done. The PEBB and OEBB boards remain committed to alignment and participation in the SB 889 Statewide Cost Growth Committee's proposed "Compact" around value-based payments and the statewide cost growth target. The future looks bright to leverage the purchasing power of the boards and other publicly-funded programs, and even expand the size of the risk pools by welcoming new local government entities. The boards remain focused on embracing innovation, centering around health equity, and executing on their short- and long-term strategic plans even while battling a pandemic.

Below is our detailed response to each recommendation in the audit.

<b>RECOMMENDATION 1</b>		
<p>To strengthen cost containment, communication, and contract administration, we recommend PEBB and OEGB:</p> <p>Regularly communicate to members further educational opportunities in addition to open enrollment for members to learn how to better understand the details of their insurance coverage and how to utilize their benefits to make optimal health and cost decisions.</p>		
<b>Agree or Disagree with Recommendation</b>	<b>Target date to complete implementation activities</b>	<b>Name and phone number of specific point of contact for implementation</b>
Agree	<p>PEBB New Hire training Q4 2020</p> <p>Comms Strategy Phases 1-4 throughout 2021 and 2022, complete in Q3 2022</p> <p>OEGB carrier benefits videos Q2 2021</p>	<p>Cindy Bowman 971-600-8969</p>

**Narrative for Recommendation 1**

PEBB staff are currently collaborating with Rise Partnership, SEIU, and DAS to develop training and materials for newly hired State employees. Rise Partnership and SEIU began piloting the training with DAS in October 2020.

In 2019, the PEBB Board directed our consultant, Mercer, to develop a comprehensive communications strategy.

- Staff will begin work in Q1 2021 with Mercer, to develop and implement a dedicated new hire section for the PEBB website, with supporting materials. This section is aimed at guiding new employees through the benefits decision-making process.
- PEBB will also work with Mercer to create a monthly calendar for “Did you know?” emails, integrating carrier resources where possible. Calendar is targeted for Q4 2020 completion; implementation to begin Q1 2021.

PEBB and OEGB, in collaboration with contracted insurance carriers will create educational resources including webinars, targeted videos, downloadable flyers and newsletters. The goal to create the same “on demand” experience we have during open enrollment. Open Enrollment focuses on choosing the right plan. This resource hub will be focused on how best to use your plan once chosen.

<p><b>RECOMMENDATION 2</b></p> <p>To strengthen cost containment, communication, and contract administration, we recommend PEBB and OEBB:</p> <p>Periodically communicate to employers, members, and stakeholders about the board's ongoing administration of benefits, cost containment efforts, and the anticipated effects on affordability and accessibility of health care coverage to stakeholders, including employers and members.</p>		
<p><b>Agree or Disagree with Recommendation</b></p>	<p><b>Target date to complete implementation activities</b></p>	<p><b>Name and phone number of specific point of contact for implementation</b></p>
<p>Agree</p>	<p>July 1, 2021</p>	<p>Cindy Bowman 971-600-8969</p>

**Narrative for Recommendation 2**

PEBB and OEBB already sponsor and lead employer focus groups. They are the PEBB Information Exchange (PIE) and OEBB Business Information Exchange (BIE) and were created to communicate and exchange information on emerging issues from board meetings, act as a conduit to the boards and place an emphasis on disseminating Board decision-making around benefits, cost-containment efforts, and making sure information is getting to the right places at the right time. These focus group meetings have been on hold during COVID-19 but will re-emerge on a more frequent basis with an expanded outreach to other stakeholders.

PEBB and OEBB will include a more detailed breakdown of board discussions, the decision-making process, and take a more pro-active role in disseminating information. Examples would include adding a new section to the PEBB monthly "Did you know" and will expand PEBB and OEBB Board web pages to highlight board decisions.

<p><b>RECOMMENDATION 3</b></p> <p>To strengthen cost containment, communication, and contract administration, we recommend PEBB and OEBB:</p> <p>Consistently collect, analyze, and share results of employers' and members' experiences to better inform board decisions; for example, consistently track customer service calls to the programs, ask about benefit and claim experiences on the annual member survey, and obtain information from carriers on claims calls and appeals.</p>		
<p><b>Agree or Disagree with Recommendation</b></p>	<p><b>Target date to complete implementation activities</b></p>	<p><b>Name and phone number of specific point of contact for implementation</b></p>
<p>Agree</p>	<p>July 1, 2021</p>	<p>Cindy Bowman 971-600-8969</p>

**Narrative for Recommendation 3**

OEBB currently has “benefit-experience” related questions on the annual member survey. Rather than expand the number of questions in the survey, staff will work with contracted insurance carriers to collect and synthesize information annually about: utilization of benefits, claims processing timeliness, member call resolution, overall satisfaction as well as information related to benefit appeals.

PEBB currently performs a customer-service focused survey that does not contain benefit utilization questions. PEBB will seek to align with OEBB over the next year and request the carriers collect the same information.

<p><b>RECOMMENDATION 4</b>                  To strengthen cost containment, communication, and contract administration, we recommend PEBB and OEBB:</p> <p>Promptly enhance clarity and oversight of consultant and carrier contracts, which should include:</p> <ul style="list-style-type: none"> <li>a) ensuring consultant contracts have clearly defined deliverables that are of value and the related costs;</li> <li>b) identifying deliverables in current contracts, and monitoring and enforcing deliverables be contract compliant;</li> <li>c) verifying invoices for mathematical accuracy and contract compliance by staff who have the pertinent training and knowledge of contract terms; and</li> <li>d) having a comprehensive program for identifying improper claim payments that is reflected in contracted services.</li> </ul>		
<p><b>Agree or Disagree with Recommendation</b></p>	<p><b>Target date to complete implementation activities</b></p>	<p><b>Name and phone number of specific point of contact for implementation</b></p>
<p>Agree</p>	<p>New processes established and documented by end of 2021</p>	<p>Brian Olson (503) 983-4446</p>

**Narrative for Recommendation 4**

**a) Ensuring consultant contracts have clearly defined deliverables that are of value and the related costs.**

We have implemented new processes and regular meetings with both consultants to better track assigned work and approve invoices, which have gone well and have been effective. We have also asked Mercer to provide additional information as part of their invoice process, which has been helpful. We plan to build on all this going forward. In addition, we have decided to move to a raw dollar NTE, which will be

amended into the consultant contracts for the upcoming terms. Furthermore, we are addressing these various needs through our development of an upcoming Consultant RFP. Currently, we have Contracts staff working with other department staff and leadership to identify what our exact consultant needs are going forward and how to best build that into the next procurement.

b) **Identifying deliverables in current contracts, and monitoring and enforcing deliverables be contract compliant.**

Contracts staff worked with leadership to review and refine carrier contractual reporting requirements, scoping down what was not needed and being actively monitored. In the future, we will review each report and ensure it is assigned to specific staff with the requisite expertise to review.

Staff is developing several updated contract administration processes, including those tied to monitoring and enforcement. We are currently focusing on the annual contract renewal process. This updated process will be a full end to end process that actively incorporates contract deliverables and analysis into real time decision-making processes for the subsequent plan year renewals. We envision reporting certain information from contracts to consultants and the Boards at the very beginning of the annual renewal process and again before the end of the process after we have a more complete picture of the prior year (due to claims lag). We also envision asking consultants and certain staff to take a more active role in determining reporting needs and required performance measures during the renewal process itself and around the time we provide contract report information to the decision-makers. We anticipate partially standing up new processes in 2021 and then refining and adjusting them near the end of 2021 based on our experience.

c) **Verifying invoices for mathematical accuracy and contract compliance by staff who have the pertinent training and knowledge of contract terms.**

See comments in a) regarding changes in how we review consultant work and invoices.

d) **Having a comprehensive program for identifying improper claim payments that is reflected in contracted services.**

This will be partially addressed through the process work described above in b). Specifically, we will review the current claims-related contract deliverables staff receive (there are some claims reports as well as some claims-related performance measures) and determine whether the deliverables are adequate and appropriate. As part of the renewal process work, we will identify when and where the contract deliverable information will flow into the annual renewal process. We will then determine how that information will be coupled with more detailed and complex claims information our consultants typically develop and present during the renewal process. We will also need to determine how that information together is best used to lead to Board renewal decisions.

<p><b>RECOMMENDATION 5</b>  To better manage its reserve, we recommend PEBB:</p> <p>Develop a formal strategic plan that includes elements such as the appropriate amount to be maintained in reserve and steps to take when the reserve reaches higher or lower levels than targeted.</p>		
<p><b>Agree or Disagree with Recommendation</b></p>	<p><b>Target date to complete implementation activities</b></p>	<p><b>Name and phone number of specific point of contact for implementation</b></p>
<p>Agree</p>	<p>Oct. 1, 2021</p>	<p>Ali Hassoun 503-779-4385</p>

**Narrative for Recommendation 5**

The PEBB board maintains the Stabilization Fund (also known as “the reserve”) in the state treasury. The board works with its consultant actuary each year to project an amount in the Stabilization Fund sufficient to meet both anticipated and unanticipated fluctuations in claims costs. The Board has used the fund to stabilize premiums, subsidize the employee premium share, and fund programs designed to reduce premium increases, but the board has no formal policy for how to manage funds in the event that reserves exceed the fully funded target level. When the PEBB Reserve exceeds the targeted fully funded reserve level, the legislature has in recent years legislated a “fund sweep” of those excess reserves that have resulted in an OMB Circular A87 Federal payback for an unallowable transfer. Over the next 12 months the PEBB board will consider developing a “Formal” reserve policy that includes direction for handling of excess funds in the reserve when they exceed the target. One item to note is that PEBB’s legislatively adopted biennial budget is developed using a 3.4% annual increase. For the board to “buy-down” a higher than anticipated annual contract renewal beyond the 3.4%, it would likely need to secure additional budget limitation from the legislature in an Emergency Board rebalance request, or full legislative session. A formal reserve policy may inhibit future fund sweeps.

<p><b>RECOMMENDATION 6</b>  To further strengthen communication and information for decision-making, we recommend OEGB:</p> <p>Clearly communicate the extent school districts participate in OEGB (e.g., when communicating externally to stakeholders such as in Legislature communications and on OEGB’s website).</p>		
<p><b>Agree or Disagree with Recommendation</b></p>	<p><b>Target date to complete implementation activities</b></p>	<p><b>Name and phone number of specific point of contact for implementation</b></p>
<p>Agree</p>	<p>January 31, 2021</p>	<p>Damian Brayko 503-559-3763</p>

**Narrative for Recommendation 6**

Because a total penetration figure will be more meaningful than a raw number to most audiences, staff will add a statement to the OEBB website indicating the percentage of education-based entities covered by OEBB. Since local government entities can participate in OEBB but were never required to, staff will also add the raw number of local government entities who have chosen to participate in OEBB. Staff will use these figures in future communications to the Legislature, such as the Ways and Means presentation in January 2021.

<b>RECOMMENDATION 7</b>		
To further strengthen communication and information for decision-making, we recommend OEBB:  Create a member advisory committee or an alternative method for member advice and feedback to the board.		
<b>Agree or Disagree with Recommendation</b>	<b>Target date to complete implementation activities</b>	<b>Name and phone number of specific point of contact for implementation</b>
Agree	October 31, 2021	Damian Brayko 503-559-3763

**Narrative for Recommendation 7**

Staff will present the OEBB board with a proposal to establish an OEBB advisory committee similar to PEBB's Member Advisory Committee (PMAC). Staff will seek both OEBB entity representatives and OEBB members from across the state to serve on the committee and will look to center health equity in the proposal. Accordingly, staff will seek to add diverse candidates in all committee recruitments. The intent would be to first secure approval from the board, then formally establish the group with a charter and bylaws by the end of October 2021, and to establish a desired meeting frequency at the initial committee meeting by January 2022.

Please contact Damian Brayko at 503-559-3763 or Ali Hassoun at 503-779-4385 with any questions.

Sincerely,  
 Ali Hassoun  
 Director,  
 Oregon Educators Benefit Board /  
 Public Employees' Benefit Board

cc:



## **Audit Team**

Ian Green, M.Econ, CGAP, CFE, CISA, Audit Manager

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Karen Peterson, Principal Auditor

Wendy Kam, MBA, CFE, Staff Auditor

Jeffrey Watson, Staff Auditor

## **About the Secretary of State Audits Division**

The Oregon Constitution provides that the Secretary of State shall be, by virtue of the office, Auditor of Public Accounts. The Audits Division performs this duty. The division reports to the elected Secretary of State and is independent of other agencies within the Executive, Legislative, and Judicial branches of Oregon government. The division has constitutional authority to audit all state officers, agencies, boards and commissions as well as administer municipal audit law.

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