

PUBLIC TESTIMONY SUMMARY

I-900 STATE AUDITOR'S PERFORMANCE AUDIT:

K-12 Employee Health Benefits (February 2011)

As Heard by the Joint Legislative Audit & Review Sub-Committee on I-900 Performance Audits
on February 18, 2011

The performance audit being discussed at this hearing was conducted solely and independently by the office of the State Auditor, under the authority of legislation approved by the voters in Initiative 900. The State Auditor is elected directly by the people of the State of Washington and operates independently of the Legislature and the Joint Legislative Audit & Review Committee. Staff to the Joint Legislative Audit & Review Committee prepare a summary of public testimony on State Auditor reports. These summaries are for informational purposes only, and do not serve as an assessment by committee staff of the findings and recommendations issued by the State Auditor nor do they reflect a staff opinion on legislative intent.

Title: K-12 Employee Health Benefits	
Audit Scope and Objectives: SAO's executive summary reports that the study asked two main questions: <ol style="list-style-type: none">1. What is the current cost of public school employee health-benefits coverage and what level of benefits do the plans provide?2. Are there opportunities to reduce current or contain future costs through alternative health care coverage? If so, how might these opportunities be realized? SAO indicates it worked with The Hay Group of Arlington, Virginia, to examine these questions. Hay sent a survey to all public school and educational service districts to collect information about health benefits coverage, costs, and associated district administration for 2009-10.	
SAO Findings: The study presents results on: <ul style="list-style-type: none">• How much is spent for K-12 employee health benefits;• What benefits are purchased; and• Opportunities for cost savings.	SAO Recommendations: The study does not include recommendations. Instead, it identifies options or opportunities in three categories: <ol style="list-style-type: none">1. Streamlining the system;2. Standardizing coverage levels; and3. Restructuring the benefits system.
Agency Responses in Audit Report?	No.
Legislative Action Requested?	No; the report presents options rather than express recommendations.

Audited Agencies Testifying:

(See testimony below of groups representing K-12 employees.)

Summary of Testimony from Audited Agencies:

(See testimony below of groups representing K-12 employees.)

Other Parties Testifying:

Randy Parr, Washington Education Association

Todd Ringwood and Elaine Corrough, Aon Hewitt on behalf of Washington Education Association

Jack McRae and Lyn Felker, Premera

Doug Nelson, PSE SEIU (Public School Employees of WA, Service Employees Int'l Union)

John Kvamme, WASA and AWSP (WA Association of School Administrators and Association of WA School Principals)

Summary of Testimony from Other Parties:

WEA is proud of the health benefits plans we provide to school employees across the state. We appreciate that the report bears out current use of monies in the rate stabilization fund is appropriate. It is true that there are a large number of pools, but this is due in part to administrators, classified employees, and certificated employees typically being in separate pools in each district. Also, while it is true that there are over 200 plans, over half of the employees are enrolled in one of the six WEA plans. We concur that the pooling language in statute is no longer serving its original purpose, and we are open to possible solutions to address this.

We estimate is that it could cost between \$475 million to \$575 million in start-up costs for a new self-insured plan. Other cost factors to consider are: the difference between amount of state contribution for school employees versus for state employees; and the difference between school employees being funded on a pro-rata basis versus state employees being funded on a head-count basis. In addition, the report's estimates of savings assume that school districts would continue to contribute the same amount of local levy funds. This assumes that one school district's local funds will subsidize another school district. Administrative costs may increase from 5.7 percent to 14 percent, based on findings from an OFM study. The state would see a reduction of \$30 million in premium tax revenue.

In terms of standardization of benefits, this is being accomplished with the existing range of plans through market mechanisms; people are price-sensitive to the premium they pay and choose plans accordingly. The current system offers people choice rather than a standardized product and forces those who offer plans to stay competitive.

Premera has been the administrator of the WEA plans for over 45 years. The SAO study verifies administrative costs of less than 6 percent. There have been rate increases of only 7.98 percent over a five-year period. People are choosing on their own to move to the lower cost plans. Legislators should look at needed changes in the pooling requirements; more standardization in that area would be helpful.

Eighty percent of the classified employees are part-time. This has significant implications for both funding and pooling. You have to recognize different systems for different groups. The

Legislature should not act on this study until a separate study is completed on the impacts to classified employees. State employees are funded at \$850 dollars for each half-time or more employee. For K-12 classified employees, it is \$760 for each 60 students. For bus drivers, payment is by weighted pupil mile. When I explained the funding formula to the authors of the SAO study, they responded that it appears the state is getting off cheaply compared to other states. Funding for classified school employees should be equivalent to funding for classified state employees. Going to fewer insurance pools would create internal friction.

Moving all school employees into a single pool separate from the PEBB is a good idea. The amount of local money that school districts are putting in to the current system is \$155 million beyond what the state is allocating. Health benefits are an issue of major importance in bargaining. The current system is fragmented. Staff in the central offices have to deal with all of the issues associated with the different pooling. There are big differences in what employees are paying. Real savings could come from moving toward a statewide system, though there would be intricacies to consider for classified employees.