

Senator Hewitt,

Thank you for your response regarding Senate Bill 6442 relating to a consolidated purchasing system for school employees.

I hate to be the bearer of bad news, but you have been misled – this will not save money at all. In fact the Health Care Authority estimates it will cost more than \$21 million just to get started and adds 30 new state employees.

As you suggested, I reviewed the State Auditor’s report. The Auditor reported that \$90 million a year could be saved by a state takeover of the K-12 insurance system. This savings was based on cutting employee benefits and the state administering the K-12 program as a self-insured plan.

But the Auditor’s Executive Summary notes that the study did not calculate the costs to create a statewide, self-insured plan because it was beyond the scope of the study. The largest of these costs was a reserve fund. The Auditor’s Executive Summary noted on p.11 “a substantial reserve fund would need to be established to pay insurance claims and mitigate insurance risk.”

The Health Care Authority report estimated \$275 million was needed to establish the reserves and rejected the proposal for a self-insured plan because of the additional costs. (See pp. 35 and 74, Volume 1 of HCA Report.)

Moreover, **the Health Care Authority report does not identify cost savings through consolidation. Indeed, the report states specifically that “no aggregate ‘savings’ are projected as part of this modeling effort.** Rather, costs are shifted, primarily between the Employee tiers with dependents and the Employee Only tier, between premiums and additional point-of-service cost-sharing in the chosen plan designs, and in some cases, between employer and employee.” (See p. 6, Volume 3.)

The Health Care Authority proposal is designed as “cost-neutral”, and shifts any additional costs to local school districts. The report states “the new system will require districts to bear the added risk of varying employer contributions, based on employees’ tier selections.” (See p. 11, Executive Summary.)

The actuaries who conducted this analysis acknowledge the risk of this cost shift to the local school districts. The Financial Modeling section of the report includes the caveat “(w)e believe our model makes reasonable assumptions, but our point estimates could differ from actual results by a material amount.” (See p. 9, Financial Modeling.)

This is significant because the financial provisions included in the bill to maintain a cost neutral impact for the State is borne by shifting the financial risk and any cost directly to the school districts.

I've reviewed the State Auditor's study and the Health Care Authority report and find no savings. The Health Care Authority report will cost taxpayers \$21.5 million in start up costs, and any additional costs are shifted to school districts.

After reviewing the two reports, it's clear that the higher employee cost for family coverage in the K-12 system is because that system is funded at a much lower rate than the PEBB program. SB 6442 will not fix this inequity.

Full-time K-12 employees receive a state contribution of \$768 a month for insurance benefits. State employees receive \$850 – \$82 more a month.

State employees who work half-time also receive \$850 a month. Indeed, State Senators, who serve on a part-time basis, also receive \$850 a month for health insurance. In contrast, a half-time K-12 employee receives only \$384 a month for insurance, which is \$466 a month less for a half –time K-12 employee. Again, that is why K-12 employees pay more for family coverage, and **SB 6442 will not fix this inequity.**

Given these facts, which are available for anyone to see in the reports you suggested I read, I urge you to reconsider your support for SB 6442. It is not reform, and it is not cost-effective. SB 6442 is bad policy for taxpayers, employees, and school districts.

I eagerly await your follow-up reply.

Sincerely,

Susan Bauer