

**REPORT OF THE
JOINT SUBCOMMITTEE STUDYING**

Health Care Coverage Alternatives For School Employees

**TO THE GOVERNOR AND
THE GENERAL ASSEMBLY OF VIRGINIA**



House Document No. 33

**COMMONWEALTH OF VIRGINIA
RICHMOND
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INTERIM REPORT OF THE JOINT SUBCOMMITTEE STUDYING
HEALTH CARE COVERAGE ALTERNATIVES AVAILABLE
FOR SCHOOL EMPLOYEES

to

The Governor and General Assembly of Virginia
Richmond, Virginia
January, 1988

To: Honorable Gerald L. Baliles, Governor of Virginia
and
The General Assembly of Virginia

INTRODUCTION

Over the past several years, health care costs have increased at an alarming rate. For teachers and other school employees who are employed by individual school divisions and thus do not have access to the health insurance plans offered to state employees that means money right off the top of what is available locally for their salaries and other benefits. Through their individual school division, they are provided a wide range of health care coverage by a multitude of companies, and contribution by local school divisions for such coverage ranges from no contribution at all to payment in full of the premiums for individual and family coverage.

Growing concern among school employees and local school boards over these escalating health care costs and the wide disparities in coverages offered by the boards led the Virginia Education Association to request that the General Assembly pass a resolution calling for a study of health care alternatives for school employees in Virginia so that comprehensive and uniform health care programs with reasonable rates could be considered. A copy of the resolution appears as Appendix 1 to this report.

The Honorable Thomas W. Moss, Jr. of Norfolk, patron of the resolution, served as Chairman of the joint subcommittee. Other members of the House of Delegates appointed to serve were: the Honorable Bernard S. Cohen of Alexandria, and the Honorable Frank D. Hargrove of Hanover.

Senator Frank W. Nolen of Augusta served as Vice Chairman of the joint subcommittee. The other member of the Senate appointed to serve was Senator Elliot S. Schewel of Lynchburg.

C. William Cramme', III, Senior Attorney, and Terry Mapp Barrett, Research Associate, of the Division of Legislative Services served as legal and research staff. Jeff Finch with the House Clerk's Office provided administrative and clerical duties for the joint subcommittee.

WORK OF THE SUBCOMMITTEE

The joint subcommittee held two meetings in 1987, on September 16 and December 16, to obtain information on the various health insurance coverages provided to school employees by the local school boards and to obtain comments as to various ways to address the problem. One meeting was held on January 15, 1988 during which the subcommittee discussed the issue and developed its recommendations. During its meetings the joint subcommittee heard a significant amount of testimony from representatives of the Virginia Education Association, the Virginia School Boards Association, the Virginia Municipal League, and the Department of Personnel and Training. Several individuals, representing various schools and education associations from different areas of the state, also testified before the subcommittee.

Testimony given at both meetings in 1987 revealed that wide disparities exist between the various health insurance plans offered by the school divisions and that there was a need for some sort of uniformity. A representative of the Virginia Education Association explained that the teachers employed by the 136 school divisions are provided a wide variety of health care coverage by a number of companies yet the bulk of the coverage is provided by Blue Cross and Blue Shield. He pointed out that in the 1987-88 school year, 131 of the 136 divisions made financial contributions towards the insurance premiums for teachers and that such coverage ranged from less than twenty percent in four divisions to 100 percent in thirty-five divisions for individual coverage and from less than sixty percent in four divisions to 100 percent in three divisions for family coverage. He noted that the five divisions that did not make any contributions to the premium costs failed to do so in spite of the fact that health insurance costs are included as a legitimate support component for determining the cost of the standards of quality per pupil expenditure amount and thus state funds are provided to assist the local divisions with their health insurance coverage costs. The VEA representative indicated that they are concerned about the lack of contribution on the part of these five divisions, yet stresses that this is only a small part of a much larger issue of providing a comprehensive level of health care coverage for all school employees at a reasonable cost.

The subcommittee learned that for some school divisions health insurance premiums are based on the division's own claims experience while others are pooled into larger groups for rating purposes. It was explained that small rural divisions that are rated on their own experience are vulnerable to erratic fluctuations in premium increases because a small number of high cost claims in a given year can cause a significant increase in premiums. In addition, it was pointed out that health care inflation has a significant impact on the premiums as a special survey conducted by the VEA showed premium increases ranging from five to eight-seven percent for the school divisions in 1986-87. The

divisions responding to the survey cited inflation and increased plan utilization by participants as the reasons for their increases.

The VEA representative reported that many school divisions have responded to the increases in health insurance coverage expenditures by reducing levels of benefits, increasing deductibles and copayments, reducing employer premium contributions, or a combination of the above. He pointed out that adequate and affordable health insurance coverage is a necessary ingredient in the package of benefits used by local school systems in attracting and retaining employees of high caliber and that although they have worked hard to increase the teacher salaries in the state, much of the increases have been eroded by escalating health care coverage costs.

The subcommittee learned that the VEA's ultimate goal is a statewide, state-funded health care plan for educators yet due to the cost implications, this could not be considered for the 1988-90 biennium. The VEA representative pointed out that fourteen states have enacted legislation providing health and medical insurance for educators and school employees and that fourteen other states provide health and medical insurance on a statewide basis through a state-controlled trust. They recommended that the subcommittee continue the study for another year to (1) study the feasibility of establishing a statewide health insurance pool within which school divisions would be required to participate unless they could provide equal benefits at a lower cost, or (2) consider allowing localities to opt into the state employees' health insurance plan. It was pointed out that the size and stability of the group would have a positive effect on controlling health insurance coverage costs for all.

There was some concern among the subcommittee members as to whether the General Assembly could require localities to provide health insurance coverage. Legal counsel for the VEA testified that he had researched this matter and did not believe there are any legal impediments to the General Assembly establishing a statewide health insurance plan for educators as state-mandated plans are already in existence which require educators to participate in the state retirement system and the group life insurance and social security programs.

A representative of the Virginia School Boards Association informed the subcommittee that in response to the requests of many of their members to look into establishing some kind of group or pool to help stabilize health insurance premiums, they hired an employee benefits consulting firm to develop and administer both property and casualty and health insurance plans and began their health plan in July 1987. He explained that their program, within which all school employees, including janitors, bus drivers, and even retirees can participate, is available to school districts with fewer than 250 employees and that thirty-two of the thirty-four districts that qualify participate. He pointed out that their plan has shown a savings of nearly \$650,000

compared to the expected 1987-88 premiums and that their consulting firm is continuing to work with Blue Cross and Blue Shield to find better savings by having more districts participate. It was noted that districts that have more than 250 employees are rated on their own experience yet they are also looking into having these large districts pooled. Although the VSBA indicated that the plan does not entirely eliminate the problems school employees are having, it does help as the coverages are comparable and the costs are lower.

Representatives of various areas of the state related to the subcommittee some of the particular problems their employees are experiencing in regard to health insurance. A representative of the Roanoke County Board of Supervisors testified that because a large number of their younger, healthy teachers are not participating in their health insurance program because of the availability of cheaper coverage elsewhere, they primarily have older people participating which has caused their experience rate to increase dramatically. He explained that they are the largest MSA in the United States that does not have an HMO or a PPO which generally are lower cost alternatives and that despite implementing cost containment programs such as pre-admission reviews and switching insurance carriers, they are faced with increasing premiums. It was pointed out that because of their size they cannot get into the VSBA's plan.

A representative of the Richmond Education Association related the following figures for the employee contributions for KeyCare, a PPO of Blue Cross and Blue Shield, to the subcommittee which illustrate the additional financial burdens many have had to bear because of the increased cost of insurance coverage.

	<u>Individual coverage</u>	<u>Family Coverage</u>
1986	\$ 13.34	\$ 73.34
Now	106.98	415.81
Increase of	702%	467%

She pointed out that many school employees switched to HMOs for their coverage because they were the least expensive option and not only did many have to give up their family doctors, but they also had difficulties in finding primary care physicians who were willing to take on new patients. It was also pointed out that because of the high premiums, many have had to go without coverage for themselves and/or their families.

A representative of Norfolk City Schools testified that since 1985 when the costs of traditional indemnity health insurance skyrocketed most of their employees have switched to HMOs or IPA models and that they cannot find a traditional indemnity plan to offer to their employees this year. He pointed out that adverse selection comes into play when HMOs enter the picture, especially when they capture a large portion of the employees, because traditional indemnity plans no longer have the advantage of cream-skimming. It was noted that all of the changes and

the premium increases have upset their employees.

Concern was expressed by a representative of the Richmond City Schools and echoed by the representatives of other school districts that because school districts operate on fixed budgets there is little they can do to help their employees and thus must pass the increased costs of health insurance premiums on to them each year. It was pointed out that as costs increase, often benefits are decreased through coverage restrictions, increased deductibles or increased co-payments. All indicated that they supported the recommendations of the VEA of either implementing a statewide, state-funded health care for educators or allowing school districts to opt into the state employees' health insurance plan.

After much discussion over the two solutions presented to them, the subcommittee decided to elicit the comments of the manager of the state benefits program with the Department of Personnel and Training on whether it would be feasible to allow the local school divisions to participate in the state plan and the pros and cons of such. It was estimated that there are 65,000 teachers and between 65,000 and 80,000 other school employees.

The response to the subcommittee's request for comments was in the form of a letter, a copy of which appears as Appendix 2 to this report, and the manager of the state benefits program was present at the final meeting of the subcommittee to respond to any questions the members had. Some of the points made in the letter and at the meeting included:

- 1 - adding more members to the state employee plan would probably benefit the efficiency of that plan while improving in a more substantial way the coverage of those added to the state group, yet this would not be the case for all as some school districts might provide better coverage than the state.

- 2 - the state plan would incur substantially higher costs if school systems were allowed to enter or leave the plan whenever they pleased.

- 3 - the state plan could not be effectively managed if school districts were allowed to offer alternative health plans in addition to the state plan.

- 4 - decisions on the types of plans, memberships, benefits, and costs would be based on the needs of the whole group, not just to those of a particular area.

- 5 - pulling school employees out of groups which cover local employees as well might detrimentally affect those groups.

- 6 - the administrative costs of the Department would increase significantly.

During the meeting, it was pointed out that although the Department of Personnel and Training has no position on this issue because their mission relates only to state employees, they would do whatever the legislature wants. The manager of the state benefits program informed

the subcommittee that generally, for insurance purposes, the bigger the group the better, with all other things being equal, because there is more stability, predictability and control over costs. Some of the points listed above were discussed at length and it was pointed out that if school divisions were allowed to participate in the state plan, to maintain the stability of the group, they would have to be required to stay in it for at least one contract period which generally ranges between five and ten years. It was also pointed out that if participation was voluntary, then those electing to participate should be required to stay in the plan for twenty to twenty-five years so as to even out the effects of adverse selection. Representatives of the VEA and several school divisions indicated that they were encouraged by the comments of the benefits manager.

The subcommittee members questioned whether the five school divisions which currently do not contribute to the health insurance premiums of their employees should be mandated to participate in the state plan and the other 131 given the option to participate. A representative of the VEA indicated that they hoped the five localities will start contributing because of what the Governor said in his address to the General Assembly about money being made available for health plans.

Recognizing that there were so many variables to consider, many of which indicate that allowing the school divisions to participate will be beneficial and many of which indicate that it will not, and at the same time wanting to be sure that anything they do will not detrimentally affect those who already belong to the state plan, the subcommittee decided to continue the study. They felt that additional information is needed before an equitable solution for all could be determined. It was also determined that since the problems of constitutional officers in regard to health insurance coverage were so similar to those of school employees, the study would be expanded to consider solutions for them as well.

RECOMMENDATION

THAT A JOINT RESOLUTION CONTINUING THE STUDY SHOULD BE PASSED BY THE GENERAL ASSEMBLY AND THAT THE STUDY SHOULD BE EXPANDED TO INCLUDE CONSTITUTIONAL OFFICERS IN ADDITION TO THE SCHOOL EMPLOYEES.

REASONS FOR RECOMMENDATION

In making this recommendation, the joint subcommittee determined that it is necessary that the study be continued so that they may gather additional information on the issue since, as explained earlier, there are so many variables to consider, many of which indicate that allowing the school divisions to participate in the state health program will be beneficial and many of which indicate that it will not. It was also determined that the study should be expanded to address the problems local constitutional officers are having with their insurance coverage because their problems are very similar to those of school employees.

The subcommittee felt that before passing a law allowing or requiring local school divisions to participate in the state program, they should seek feedback from those who would be affected by such. The Department of Personnel and Training indicated that it would furnish the Virginia School Boards Association and the Virginia Association of Local Executive Constitutional Officers with information on the benefits and projected costs of the state plan for distribution to the local school divisions and the constitutional officers. The Virginia Education Association indicated that it would work with the VSBA on distributing the information, obtaining the feedback from the local school divisions, and providing this information to the subcommittee.

A copy of the resolution continuing the study appears as Appendix 3 to this report.

CONCLUSION

The subcommittee expresses its appreciation to all parties who participated in its study and its desire that they will continue to participate in the next year of the study. The study group's recommendation has been offered only after careful and thorough study of the information it received. The subcommittee believes that its recommendation is in the best interest of the Commonwealth and encourages the General Assembly to adopt it.

Respectfully submitted,

Thomas W. Moss, Jr., Chairman
Frank W. Nolen, Vice Chairman
Bernard S. Cohen
Frank D. Hargrove
Elliot S. Schewel

GENERAL ASSEMBLY OF VIRGINIA -- 1987 SESSION
HOUSE JOINT RESOLUTION NO. 250

Establishing a joint subcommittee to study health care coverage alternatives for school employees.

Agreed to by the House of Delegates, February 8, 1987
Agreed to by the Senate, February 24, 1987

WHEREAS, state employees participate in the Commonwealth of Virginia health care coverage plan; and

WHEREAS, employees of local school divisions do not have access to such a state health care coverage plan; and

WHEREAS, wide disparities exist in health care coverage and contributions for health insurance premiums provided school employees by local school boards; and

WHEREAS, health care costs continue to escalate at a alarming rate in many localities; now, therefore, be it

RESOLVED by the House of Delegates, the Senate concurring, That a joint subcommittee be established to study health care coverage alternatives for school employees.

The joint subcommittee shall consist of five members to be appointed as follows: three members from the House Committee on Corporations, Insurance and Banking to be appointed by the Speaker of the House; and two members from the Senate Committee on Commerce and Labor to be appointed by the Senate Committee on Privileges and Elections.

The joint subcommittee is hereby requested to complete its study in time to submit recommendations to the 1988 Session of the General Assembly.

The indirect costs of this study are estimated to be \$11,000; the direct costs of this study shall not exceed \$3,600.



COMMONWEALTH of VIRGINIA

Department of Personnel and Training

M PAK
OR

JAMES MONROE BUILDING
101 N. 14th STREET
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January 4, 1988

Ms. Terry Mapp Barrett
Division of Legislative Services
General Assembly Building
910 Capitol Street
Richmond, Virginia 23219

Dear Ms. Barrett:

This is in response to your letter dated December 17 regarding the inclusion of local school divisions into the State Employee Health Benefits Program. Let me start with a thumbnail sketch of the State employee program as it will exist after January 1, 1989.

The State plan will cover approximately 87,000 employees and 17,000 retirees in either the "Standard Plan" or an alternative plan. We expect the alternative plan to be a group or staff model Health Maintenance Organization (HMO). (The HMO option will not be available in all areas of the State.) Within the Standard Plan, the employee will have two or three choices, depending upon where he/she lives. In all areas of the State we will offer a basic plan (excellent coverage, no restrictions on choice of providers), and a preferred provider organization (PPO). Those who choose the preferred provider organization will be financially disadvantaged if they seek care from a provider of services who has not contracted with the PPO. If, however, they seek services within the provider network, they will have excellent coverage and an important dental benefit. The third option under the Standard Plan is an IPA type HMO, but this option will not be available in all areas of the State. The State pays 100% of the cost of Employee-only coverage and 71% of the cost of Family coverage. Health benefits plans are selected through competitive negotiation under Virginia's Competitive Procurement Act.

One of the reasons for offering a triple option Standard Plan is to avoid the crippling effects of adverse selection. Part of the problem behind exorbitant increases in health insurance premiums for some school systems is adverse selection. Adverse selection assumes that eligible persons will generally do what is in their own best interests. Employees will take "free" coverage, young families will seek excellent maternity benefits and well baby care, mentally troubled persons will look for a generous psychiatric benefit, etc.

What is happening in some urban school districts today is that alternative health benefits plans are marketing to the young, healthy people in the insured group, leaving the poorer risks in the group's experience rated standard plan. Naturally, the cost per participant under the experience rated plan increases dramatically while the profit making alternative plans enjoy the benefits of good claims experience.

Just as individuals maximize their own best interests, so do school systems. The State employee health benefits program would incur substantially higher costs if school systems were allowed to enter or to leave the plan whenever they pleased. Similarly, the State plan could not be effectively managed if school systems were allowed to offer alternative health benefits plans in addition to the State plan. From this emerges the greatest single negative consideration against creating a unified plan for State employees and school division employees, loss of local control.

One can assume a significant amount of variety among the systems with respect to benefits and types of membership (single or family, as in the State Group, or additional types such as single plus child, or two persons). If the benefits package of an individual system is significantly less than the State's package, the cost of the State package could be higher than the school system's premium because of the benefit configuration. The State plan would not offer the lower benefit package of that school system at a lower rate. The State plan would offer only a unified plan. Decisions on the type of plans to be offered, the types of memberships offered, the benefits, and the costs would be based on technical considerations relating to the welfare of the entire group as a whole, not to the needs of a particular jurisdiction.

This is not to say that decision making cannot be shared. The State plan today has a Health Insurance Benefits Advisory Committee which meets three to five times a year to review policies, plans and operations of the State plan. A similar arrangement could be established so that the plan would have the input of local officials.

Financing does not appear to be a great obstacle because there are so many choices. Inflation in health care costs is such a serious problem that some responsibility for premiums should remain with the individual. The lowest cost alternative available to the General Assembly, and, it would appear, a fair starting point for implementing such a combined program would be to pay into the health benefits plan the funds the State currently provides to school districts for health benefits. Since it appears that the General Assembly, when it provides funds to school districts for health benefits, intends school districts to provide health benefits for their employees so that school systems can attract and retain competent employees, appropriating the funds to a trust organized to provide health benefits would simply effect the will of the General Assembly directly rather than indirectly. School systems could still decline to offer health benefits to their employees, but there would be no incentive, as there is now, to decline. School systems should

be encouraged to supplement the General Assembly's contribution up to, say, 90% of the required premium, with the employee paying the remainder. The unified plan should also require some employer contribution to the cost of family coverage. As stated earlier, the State pays 71% of the cost of family coverage for State employees. This contribution is substantial enough to insure a fair selection of risks. The only disadvantage I can think of under this arrangement is that a separate rate sheet would have to be printed for each jurisdiction because, even though the total premium would be the same, the employee's share would be different. But, in every case the employee would have some contribution made by the State toward the cost of a comprehensive and efficient health plan.

Generally speaking, larger groups of employees, assuming they are more representative of the population as a whole, can get better terms--lower costs, improved benefits, better service--than smaller groups. Thus, it is theoretically reasonable to assume that adding more members to the State employee plan would benefit the efficiency of that plan while improving in a more substantial way the coverage of those added to the State Group.

This theoretical advantage, however, may not obtain in every single case. If the new members' use of medical services is substantially lower than the average of the State Group, or the prices they pay for medical care are significantly lower than the average for the State as a whole, the new members could actually pay more for their coverage than under a separately rated contract.

One could argue, however, that over the long run, it would be theoretically advantageous for every school system to join the State group at sometime since, unless the school system deliberately shuns older employees, the average use of medical services increases with age. That is, even if a given plan with comparable benefits were priced competitively with the State plan, all things being equal, at some point the members of the given plan will age, utilization will increase and costs will exceed the costs of the larger, more efficient State Group.

School districts almost certainly already have in place the administrative mechanisms for a group health plan, namely, designated administrators, channels of communication and payroll deduction capabilities. Where these do not exist, they would have to be put in place.

There are some collateral issues which should be considered in developing a position on the merits of this question. These are the effect of pulling school system employees out of groups which cover local employees, and the effect of retirees on the rates of the group.

Some health benefits plans now cover local employees as well as school system employees. It is possible that pulling the school system employees out of the group could cause a significant increase in the premiums of the remaining employees. I don't know that would

be the case, and I have no idea of how many groups could be affected.

It is quite clear to me, however, that the State plan would have to offer coverage to retirees who are not eligible for Medicare at the same rates for active employees. In the State employee program, the State makes no direct contribution to the cost of insurance for retirees not eligible for Medicare, but there is an indirect contribution in that the rate paid by retirees is heavily subsidized. Rates for the State employee group are about 3% higher than they would be if the retirees not eligible for Medicare were rated separately. However, if retirees not eligible for Medicare were rated separately, their premiums would increase more than 70%, making the cost of coverage prohibitive.

I have not touched at all on the various cost containment programs which are part of the State employee plan, and which could impact favorably upon the experience of the school system groups. Nor have I discussed the impact on the administrative costs of this office, which would increase significantly. (Some non-general fund money could be used to offset these increases.)

Health insurance benefits administration is exceedingly complex. Virtually everything which has been said above needs to be understood in context or qualified. I salute you who are about to enter this dismal swamp and offer any further assistance I can give.

Sincerely,



A.C. Graziano

1 D 1/15/88 Barrett C 1/17/88 OWJ

2 HOUSE JOINT RESOLUTION NO.....

3 Continuing the joint subcommittee studying health care coverage
4 alternatives for school employees.

5
6 WHEREAS, the 1987 Session of the General Assembly established,
7 pursuant to House Joint Resolution No. 250, a joint subcommittee to
8 study health care coverage alternatives for school employees; and

9 WHEREAS, the joint subcommittee heard considerable testimony
10 about the wide disparities that exist in the health insurance
11 coverages provided and employer contributions made by local school
12 boards, and the problems school employees are having with their
13 insurance coverage; and

14 WHEREAS, a number of solutions to the problems were suggested and
15 considered, yet the subcommittee feels that additional information is
16 needed before the most appropriate solution can be reached; and

17 WHEREAS, since problems that local constitutional officers are
18 having in regard to their health insurance coverages are similar to
19 those of school employees, the subcommittee decided that these, too,
20 should be addressed; now, therefore, be it

21 RESOLVED by the House of Delegates, the Senate concurring, That
22 the joint subcommittee established in 1987 to study the health care
23 coverage alternatives for school employees be continued. In addition
24 to considering alternatives for school employees, the joint
25 subcommittee shall consider health care coverage alternatives for

