

MEETING SUMMARY

**STATE AND PUBLIC SCHOOL
LIFE AND HEALTH INSURANCE PROGRAM
LEGISLATIVE TASK FORCE**

**Tuesday, July 15, 2014
1:30 P.M.
Room 149, State Capitol
Little Rock, Arkansas**

Senator Jim Hendren, the Chair of the State and Public School Life and Health Insurance Program Legislative Task Force, called the meeting to order at 1:30 p.m.

MEMBERS OF THE STATE AND PUBLIC SCHOOL LIFE AND HEALTH INSURANCE PROGRAM LEGISLATIVE TASK FORCE IN ATTENDANCE: Senator Jim Hendren, Chair; Representative Harold Copenhaver, Vice Chair; Senator Cecile Bledsoe; Senator Eddie Cheatham; Senator Linda Chesterfield; Senator Jason Rapert; Senator David Sanders; and Representative George McGill.

OTHER MEMBERS OF THE GENERAL ASSEMBLY IN ATTENDANCE: Senator Joyce Elliott; Senator Jane English; Senator Johnny Key; Senator Bill Sample; Representative Charles L. Armstrong; Representative Charlotte Vining Douglas; Representative Debra Hobbs; Representative Douglas House; Representative Sheilla Lampkin; Representative Homer Lenderman; Representative Betty Overbey; Representative John Payton; Representative James Ratliff; and Representative Mary Slinkard.

Remarks by the Chair and Vice Chair

Senator Hendren thanked the staff of the Bureau of Legislative Research (BLR) for their hard work which has enabled the Task Force to make progress. He remarked on the recently completed Special Session and on changes to health insurance plans put into statute as a result of the work of the Task Force. He commented that the changes were a fix to the immediate problem of the pending 35% rate increase for the Public School Employee (PSE) Plan. However, this did not address the long term issues associated with the PSE Plan and the Arkansas State Employee (ASE) Plan, to which the Task Force will begin to review. He said two possible long-term structural changes have been discussed thus far and now the process of investigating those two possible solutions, as well as looking for other solutions, will begin. He stated the focus of the next Task Force meeting will be on one of the solutions, that of combining the PSE Plan and the ASE Plan. He said research will be undertaken to see if combining the plans is a viable option. He stated the other part of that meeting will be about evaluating differences in parity in benefits, in funding, and the path forward as far as intent. Senator Hendren said the second potential solution that will be investigated as a long-term option is school districts having the flexibility to contract and to take care of their own health insurance at the local level. He said if the data is ready, that option will be investigated at the September meeting. He said the Task Force is working with the Arkansas Department of Education (ADE) on cost, on structure, and on legal ramifications to stay in compliance with the court. Senator Hendren said that on future agendas, the Task Force would be looking into wellness programs to improve the health of both state and public school employees, as well as marketing and messaging to employees about what is taking place. Senator Hendren said he appreciates the hard work of the Task Force and the entire legislature for addressing this issue.

The Honorable Harold Copenhaver, State Representative, District 58, and Vice Chair of the Task Force, was recognized. Representative Copenhaver stated he appreciated the efforts put forth by the BLR and colleagues in the House of Representatives and Senate to create more opportunities for PSE employees. He said he concurred wholeheartedly with the long-term recommendations made in the Special Session.

Minutes:

Without objection, the minutes of April 30, 2014, May 14, 2014, and June 10, 2014, were approved as written.

Exhibits:

Exhibit C1 – 04/30/14 Minutes
Exhibit C2 – 05/14/14 Minutes
Exhibit C3 – 06/10/14 Minutes

Senator Hendren noted that **Mr. Jeff Altemus**, Deputy Superintendent, Marion School District, would be allowed to address the Task Force after completion of agenda items.

Senator Hendren announced that there would be a deviation from the agenda, and the Task Force would first take up Item H.

Presenter:

Mr. Bob Alexander, Director, Employee Benefits Division (EBD), Arkansas Department of Finance and Administration, was recognized. Mr. Alexander made presentations on all agenda items in the meeting. He participated in question and answer sessions and in-depth discussions of each topic.

Preliminary Discussion of the Transition of Part-time Employees off of the Public School Employees (PSE) Health Insurance Plan

Mr. Alexander discussed EBD plans for making part-time employees aware of their options and helping them during the transition process. He said that the EBD has had regional meetings with school district insurance representatives to disseminate information, and will continue to educate individuals at each school district through email blasts and on-site meetings. He stated that information will be given to part-time employees who are going to lose coverage so they can contact certified insurance agents who have gone through training about options in the open market, through the Exchange, or outside the Exchange.

Issues Included in the Discussion:

- communicating information in a more timely manner,
- communicating to affected part-time employees who don't have access to the Internet,
- developing information packets specific to this issue, and
- concern that half of school districts do not attend EBD meetings.

Senator Hendren announced that the Task Force would return to the regular agenda and pick up Item D.

Update on the Financial Status of Funds Administered by the Employee Benefits Division (EBD)

Mr. Alexander summarized financial statements for the ASE Plan and the PSE Plan. He first reviewed financials for the PSE Plan. He said the Plan had close to a \$6 million deficit in June 2014; but has a surplus of \$17 million for the year. He said in 2013, the Plan had a \$10 million deficit in June with an \$18 million deficit for the year. He stated the Plan is \$35 million to the better for 2014. He explained that June is always a bad month because no state revenue is allocated; and, if there are any liabilities, those liabilities are booked in June because it is the end of the fiscal year. He said this June a \$2.8 million liability to pay reinsurance tax under the Affordable Care Act (ACA) was booked.

Senator Hendren advised Task Force members to use the handout and compare differences between June 2013 and June 2014 figures side by side. He said funding is up Year to Date (YTD) and is \$157 million for 2014 vs. \$144 million for 2013. He said the other outstanding thing is that expenses are down by \$22 million YTD for 2014, of which \$10 million has been generated by prescription and pharmacy reform.

Mr. Alexander confirmed that medical and pharmacy claims are down, and drug claims, overall, are significantly down because of reference pricing.

Senator Hendren said it is important to note that net assets available in 2013 were minus \$7.8 million; in 2014 there are net assets of \$3.5 million. He said things are going in the right direction, but the reserves are not there. He said it is important that the EBD makes sure there are adequate reserves, and that any savings and build-up of funds be immediately transferred in the form of premium decreases back to public school employees.

Mr. Alexander commented that actuarial projections are for the PSE Plan to have between \$8 million and \$9 million in reserves by the end of December 2014.

Mr. Alexander next reviewed statements for the ASE Plan. He said June is a little different on the state side because it has continuous funding from the employer side. He noted a gain of \$3 million in June 2014, and \$12 million for the year vs. a negative \$8 million this time last year, and said it is about \$20 million to the better. He said claims did not go up and expenses actually went down. He said a decrease in drug claims can be attributed purely to reference pricing and other measures that have been taken.

Issues Included in the Discussion:

- clarification of the reinsurance tax under ACA and other taxes, and
- paying ACA tax only on participants, and not on ghost employees, in the state plan.

Update on Rates for the 2015 Plan Year for Arkansas State Employees (ASE) and Public School Employees (PSE)
and
Preliminary Discussion of Plan Structure and Pricing for Plan Year 2016 and Beyond

Mr. Alexander discussed projections and expectations with regard to rates and benefits. He said rates and benefits for the ASE Plan have been published and distributed. He stated that rates and benefits for the PSE Plan have not as yet been set. He said the Benefits Subcommittee will meet and make a recommendation to the State and Public School Life and Health Insurance Board on July 28; then the Board will meet on July 29 and set the rates and benefits for the PSE Plan. Mr. Alexander next discussed the three (3) new ASE Plan options: the Premium Plan, the Classic Plan, and the Basic Plan. He noted that discussions have taken place about using the same structure for the PSE Plan.

Contributor to the Discussion:

Mr. Tony Wood, Commissioner, Arkansas Department of Education

Issues Included in the Discussion:

- ◆ benefits of having a high deductible plan,
- ◆ managing health care dollars in a health savings account (HSA),
- ◆ cost of each ASE Plan option,
- ◆ employer contributions to HSAs,
- ◆ striving for parity in plan benefits vs. having an alternative where benefits are different,
- ◆ establishing a minimum amount that an employee must set aside each month into an HSA to be eligible for the consumer-driven health plan,

- ◆ HSA plan vs. a cafeteria plan,
- ◆ understanding changes to the plans,
- ◆ using professional development (PD) to educate teachers about health insurance reform,
- ◆ training insurance agents and developing information packets specific to this issue, and
- ◆ educating employees about disease management.

Senator Hendren remarked that since the previous discussion covered both Items E and F on the agenda, the Committees would proceed with Item G.

Preliminary Discussion of Implementation of Health Savings Accounts and FICA Savings

Mr. Alexander discussed the FICA savings implementation that would take place on January 1, 2015. He said it would potentially generate \$4 million to \$5 million in savings, but that it was hard to project savings prior to going through an open enrollment. He also explained that the statute requiring those with a consumer-driven health plan to open an HSA is in conflict with federal law. He said federal law states certain people are not eligible for an HSA. He discussed how the EBD plans to administer the state law in conjunction with the federal law. He noted a list of technical corrections regarding implementation of the HSA requirement will be prepared for the next General Session. Mr. Alexander also discussed spousal exclusion.

Issue Included in the Discussion:

- schedule of regional meetings with school districts.

Preliminary Discussion of Current and Proposed Wellness Initiatives

Senator Hendren commented in his opening remarks that the Task Force would be looking into wellness programs to improve the health of both state and public school employees in future meetings.

Handouts:

Act 6 of the Second Extraordinary Session, 2014
Act 7 of the Second Extraordinary Session, 2014
ASE PSE Financial Reports 2013 2014

Senator Hendren, noting that all agenda items had been completed, invited Mr. Jeff Altemus to address the Task Force.

Mr. Jeff Altemus, Deputy Superintendent, Marion School District, was recognized, and presented his credentials. He commented that health insurance became an issue for public school employees in about 1985. He said most of the recent articles written on the subject tend to agree that the core problem being faced with health insurance in Arkansas is a lack of funding from the employer side. He added that, for many years, most of the rate increases have been borne on the backs of employees. He noted while the rates in Arkansas are very similar to those in surrounding states, public school employees in Arkansas pay more out-of-pocket than those in the other states. He said there are 23,000 public school employees who will see a rate increase of between 37% and 355% depending on where they choose to go in the plan to maintain the level of coverage they had last year. Mr. Altemus commented on deductibles and rate structures and discussed effects on public school employees. He stressed that significant changes have to be made in the future to make health insurance work for public school employees.

Contributor to the Discussion:

Mr. Bob Alexander, Director, Employee Benefits Division (EBD), Arkansas Department of Finance and Administration

Issues Included in the Discussion:

- ≈ fundamental reform to the program in addition to looking at the overall funding structure,
- ≈ rate structures for the new plans,
- ≈ creating economies of scale in the plans,
- ≈ making starting salary schedules part of the conversation,
- ≈ clarification of the total state contribution to the health insurance program,
- ≈ services of Insurance Advantage for teachers and retired teachers,
- ≈ state efforts to help employees understand changes to plans and to help them choose the most advantageous plan,
- ≈ school districts participating in contributions to health insurance for public school employees,
- ≈ school districts' unrestricted fund balances, and
- ≈ responsibility of leadership at the local level to commit/contribute to the funding of health insurance.

Senator Hendren stated that parity issues regarding funding and benefits, and dollars sent to school districts going for the intended purpose, would be discussed at the next Task Force meeting.

Next Scheduled Meeting:

Tuesday, August 26, 2014, at 1:30 p.m. in Room 171 of the State Capitol in Little Rock

Adjournment:

The meeting adjourned at 3:30 p.m.

Approved: 08/26/14