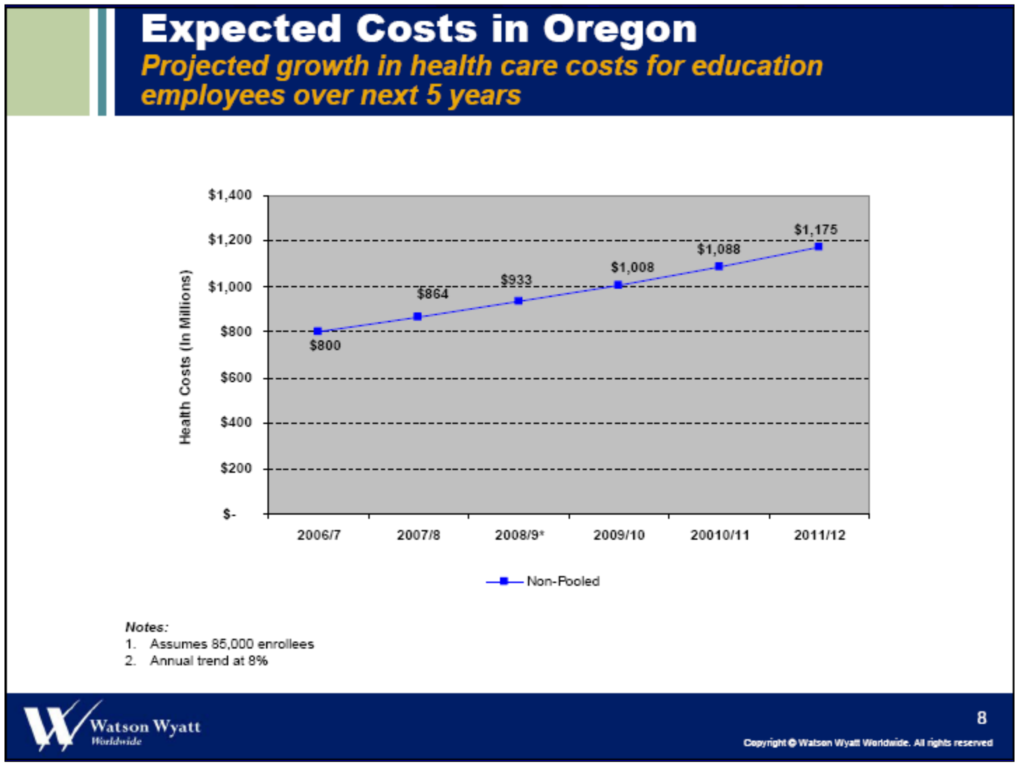
Skyrocketing healthcare costs affect all Oregon families and businesses. The rapidly rising price of healthcare also drains precious resources from Oregon's public schools. If nothing is done, it is projected that in five years healthcare will cost Oregon school districts over $1 billion. That is unacceptable.



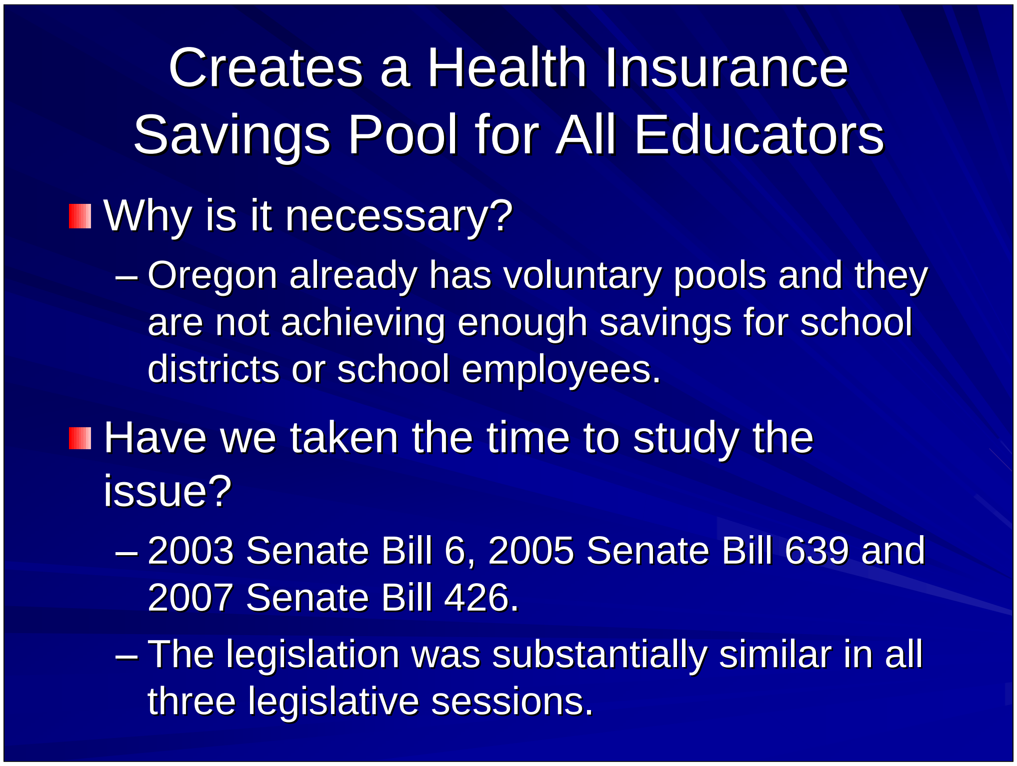
About this Slide…

Expected Costs in Oregon – Projected growth in health care costs for education employees over the next five years without SB 426: This slide shows the trend of medical inflation in Oregon if no further steps are taken to reduce the cost of health care for school employees. Assuming 85,000 enrollees with a base cost in 2006 of $797 million and an annual inflation trend of 8%, health insurance per employee is approximately $9,384 per year. Five years from now it will be $13,788 or a base cost of $1.175 billion.

Oregon Educators Benefit Board
SB 426 Enrolled

- 74th Oregon Legislative Assembly – 2007 Regular Session
- Sponsored by Senators Deckert, Devlin, Walker; and Senator Brown (at the request of Governor Theodore R. Kulongoski)
- Passed the Senate on March 8
  - Ayes, 18; Nays, 11; Excused, 1
- Passed the House on March 12
  - Ayes, 36; Nays, 20; Excused, 4

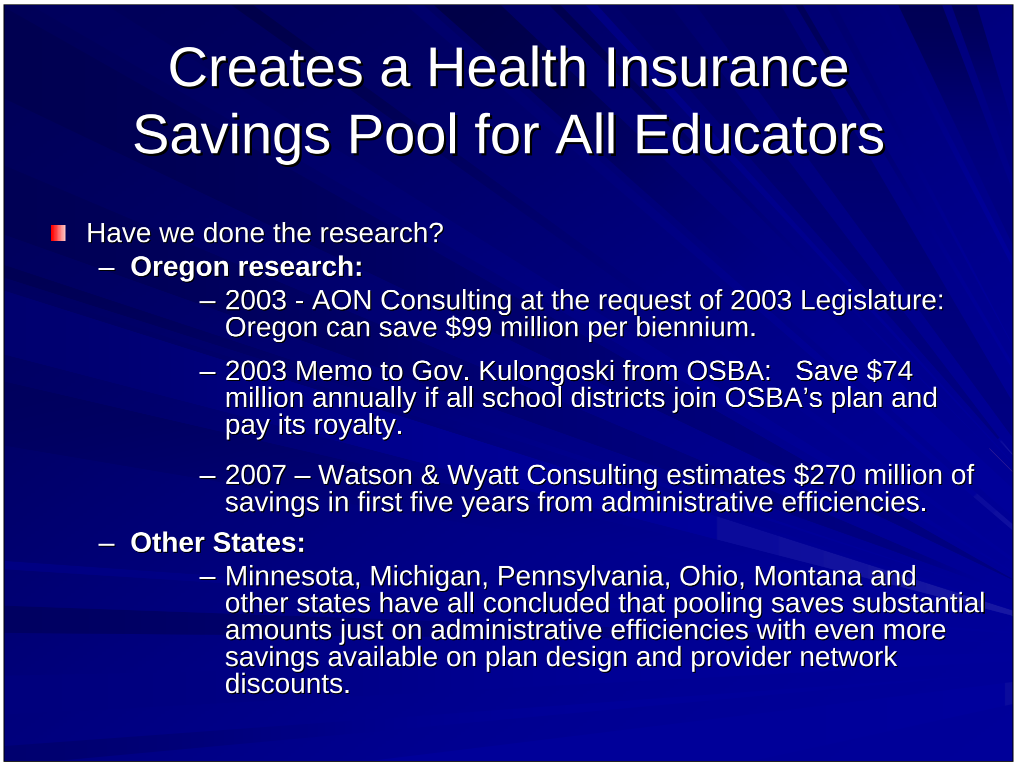
Effective on passage.



Everyone knows that when you buy in bulk you save money. And when you pool your money together to make a purchase, you get more bang for your buck. That's the principle behind this bill: SB 426 allows school districts to save money on health insurance by pooling resources and purchasing healthcare services in bulk.

Oregon has two voluntary pools: OEA Choice Trust and OSBA Trust. While there is savings from voluntary pooling, voluntary pools pay higher fees for risk than a mandatory pool, because there is no guarantee about who is going to participate.

The bill has only changed in minor ways in the last three legislative sessions.



This is not a new concept. Many of us have been pushing for this critical step for years but have come up against special interests that are fighting hard to protect the current system. Special interests shouldn't be making money at the expense of Oregon school children.

Since 2003 when the House Republicans first proposed the idea of a health insurance savings pool for school employees, the issue has been extensively studied. At least three separate studies have taken place just in Oregon.

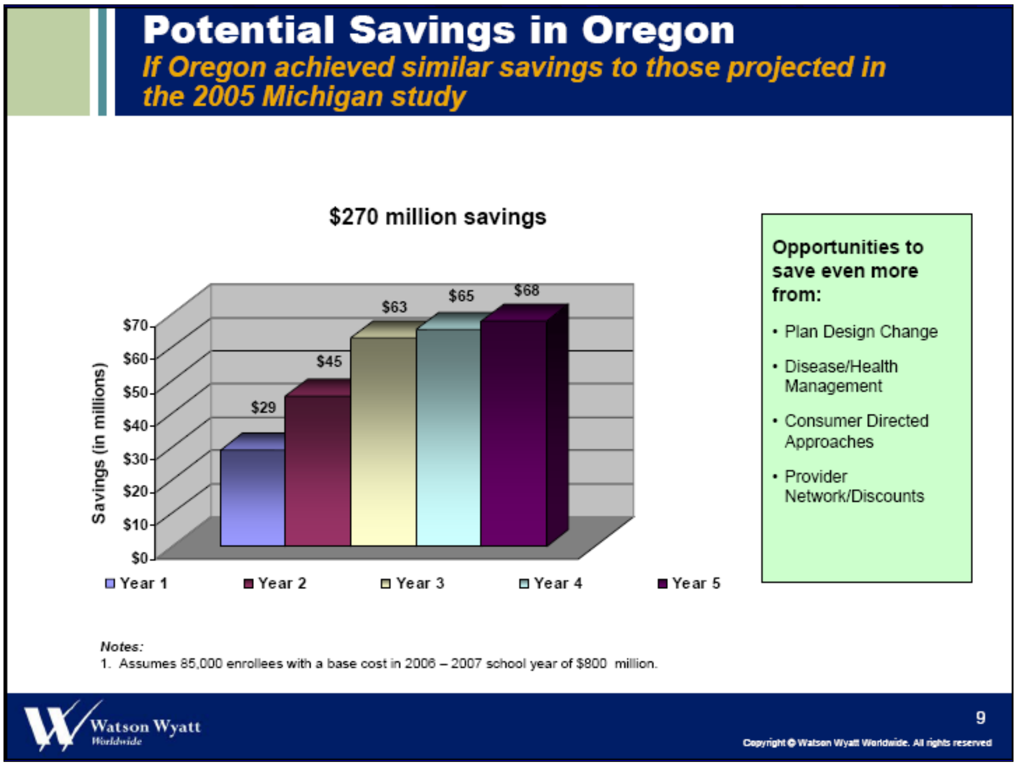
The 2003 legislature asked the Department of Education and AON Consulting to conduct a detailed, independent study. That study determined a statewide pool could save as much as $99 million per biennium.

Even OSBA has studied the issue and found that a statewide pool could save $74 million annually if all school districts were required to join OSBA's plan and pay its royalty. (OSBA Memo to Governor Kulongoski, May 28, 2003)

The most recent actuarial research by Watson and Wyatt, Global Actuarial firm, shows that we can save Oregon school districts over $270 million in administrative efficiencies the first five years that the pool is up and working.

National studies on the merits of creating a statewide savings pool for school districts have all reached the same conclusion -- Minnesota, Michigan, Pennsylvania, Ohio, Montana have all concluded that pooling saves substantial amounts of money just on administrative efficiencies with even more saving potential on things like plan design. There are no studies that conclude the opposite.

We have enough information to make an informed decision. We don't need to drag our feet and waste a half million dollars to conclude what we already know. Every way you look at it, a statewide pool saves money.



Savings in Oregon –

Potential for savings on just administrative efficiencies is $270 million in five years once the plan is fully in place.

These do not include opportunities to save even more from: disease/health management; consumer directed approaches; provider network discounts; and prescription contracts.

The projection is based on 85,000 enrollees and includes all school employees, community college employees and their families.

SB 426 Estimated Savings Projected for the 2008-09 School Year

District Size (Employees)	250	500	1,000	2,500
Savings from Independent Contracts				
Monthly Saving per Employee Through State Pooling	$105	$76	$57	$48
Annualized Savings	$315,000	$456,000	$684,000	$1,440,000
Savings Percentage	10.9%	8.2%	6.3%	5.3%
Savings from Association Contracts (OSBA Trust or OEA Choice Trust)				
Monthly Savings per Employee Through State Pooling	$57	$57	$57	$57
Annualized Savings	$171,000	$342,000	$684,000	$1,710,000
Savings Percentage	6.3%	6.3%	6.3%	6.3%

Savings estimate is based on the cost average of plans under OEA Choice Trust and OSBA Trust. This estimate was prepared by Watson Wyatt actuarial firm.

These savings are just on administrative efficiencies. Senate Bill 426 accomplishes savings by eliminating duplication, reducing administrative costs and cutting out the middleman. At the same time schools are savings money on healthcare costs, the bill guarantees that benefits for hard working school district employees will not be reduced. It’s a win-win.

Why is OSBA saying it will cost money and not save?

- OSBA is comparing “apples to oranges”
  - Differences in demographics, plan design and coverage.
    - OSBA plan does not include: mental health parity or require coverage of asthma, heart disease or diabetes.
    - PEBB’s plan does.
  - Differences in out-of-pocket expenses
    - 92% of school employees share costs with districts.
  - OSBA plan in comparison is only available in the western half of Oregon, and only represents about 30% of OSBA’s enrollment.
    - 50% of OSBA’s enrollment is in plans which are more costly than PEBB.
- According to OSBA, 50% of their operating budget comes from a royalty received from the OSBA Health Insurance Trust. (approximately $2.6 million)

First and foremost, SB 426 is not modeled directly after the Public Employee Benefit Board’s (PEBB) plan. It is disingenuous and misleading for OSBA to assume that a PEBB model plan would result once SB 426 is implemented.

OSBA’s assumptions just don’t make sense. There are multiple plan differences that could account for the cost differences between OSBA’s rate and PEBB’s:

Mental Health parity is included in the PEBB rate (included as of Jan. 1, 2007) but not the OSBA rate, worth approximately $250 annually.

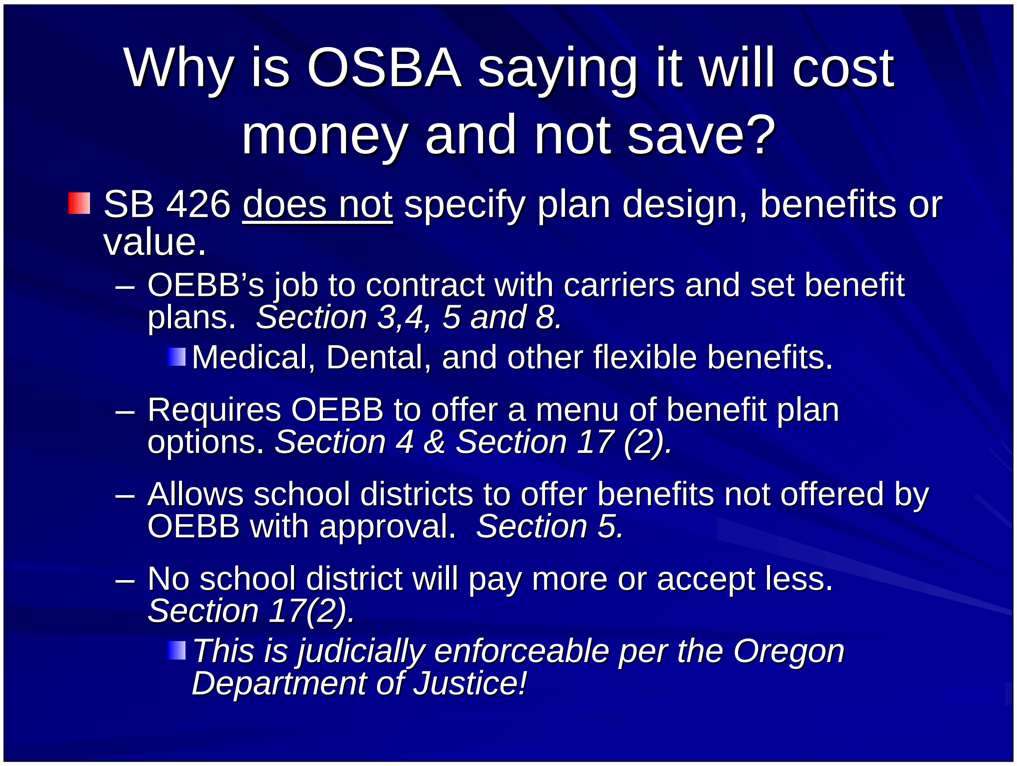
Heart disease, diabetes and asthma are required coverage under PEBB but not under OSBA’s plan.

OSBA is using older rates (October 2006) against brand new PEBB rates (Jan. 1 2007). This difference is worth about $250 annually per employee. If they were comparing apples to apples, they would use the October 2006 PEBB rate.

Blue Cross administers both plans that OSBA is comparing. If this is an apples to apples comparison, why is Blue Cross charging the state so much more?

Is OSBA saying that PEBB could save $1,087.92 per person AND keep the same level benefits if they contracted with OSBA (and paid OSBA’s Trust royalty)? That is over $40 million per year in savings to the state! *If so, then differences in plan design and demographics must be at play, indicating this is not a valid comparison. If not, perhaps we need PEBB and Regence at the next hearing to explain why the state is paying double what OSBA does!*

OSBA has a $100 deductible (employee cost) not included in the PEBB plan which impacts the annual rate.



SB 426 encourages multiple insurance carriers to offer benefit plans through the savings pool, even if they cannot provide benefits on more than a regional basis. SB 426 anticipates a menu of benefit options that local school districts can choose to provide to their local school district. A formal bid process for school district health insurance plans will encourage competition and transparency among carriers. SB 426 will open up the bid process allowing more Oregon businesses to participate.

While it is anticipated that the new pool will offer a wide range of benefit options, if there is benefit that a school district wants that is NOT offered, SB 426 allows the school district to offer it anyway with OEBB's approval.

OEA also had its own attorney take a look at this section. Greg Hartman from the Bennett Hartman agrees with the Oregon Department of Justice, that this section is enforceable. To see both letters, go to the OEA website at www.oregoned.org/healthcare.

OEBB Governance

- Ten members appointed by the Governor and subject to Senate confirmation:
  - – Two members representing district boards;
  - – Two members representing district management;
  - – Two members representing OEA;
  - – One member representing OSEA;
  - – One member representing AFT-Oregon; and
  - – Two members with expertise in health policy or risk management.
- Members serve at the pleasure of the Governor for four year terms and are eligible for reappointment.

If you are interested in serving on OEBB, or know someone else who is, please contact the Governor's office or go to www.oregon.gov for additional information.

Just like the local bargaining table, SB 426's governance board has an equal number of management members and labor representatives. The ten members on the Oregon Educators Benefit Board include four management members, four education employees represented by labor, and two members with expertise in health policy or risk management.

The purpose of this division is to ensure that both management and labor share responsibility in plan design and benefit packages with input from experts in the healthcare field, just like they do at the local level. School districts continue to be responsible for determining which plans are made available for their employees and how the cost will be shared between employees and employers.

Creates a statewide health insurance savings pool for all school districts.

- A board equally representing employers and employees will contract for a variety of health insurance plans.
- Provide a broad range of benefit plans at a comparable or better cost to what the district had before joining.
- Local school districts will choose a plan or plans to purchase through OEBB at the negotiated rate.
- Bargaining table will determine which plans to purchase and how to share the cost with employees.
- School districts phase-in between 2008 -2010.
- No school district will have to pay more or accept less.

Additionally, local school districts will still maintain complete authority to determine their budgeting priorities and apply the money they receive from the state to meet the needs of their local community. The make-up of a school district health plan – what benefits are included, employee co-pays, who qualifies for coverage, how costs are shared with employees – will continue to be determined at the local bargaining table. This bill actually provides more local control by freeing money that would have gone to insurance brokers and special interests that the district can then invest into the classroom.

School districts phase-in as their collective bargaining agreements expire, but no later than October 1, 2010.

Oregon Educators Benefit Board SB 426

- What about community colleges?
  - Community colleges may “opt-in” to the health insurance pool, but once they “opt-in” they must stay in.
  - Community colleges “opt-in” because many already participate in health insurance pools with cities and counties to save money on health insurance.
- What about retirees?
  - SB 426 doesn’t change how retirees purchase their insurance.
- Who can opt-out?
  - Self-Insured school districts or those with a health insurance trust <u>AND</u> that can meet or beat a comparable package provided by the pool.
    - North Clackamas, Portland, Ashland, Medford for all benefits.
    - Corvallis is self-insured for vision and dental only.

This is a great plan for community colleges too, if they choose to join. Community colleges may “opt-in” to the health insurance pool. The reason community colleges are allowed to “opt-in” is because many of them already participate in health insurance pools with cities and counties for the purpose of saving money on health insurance.

Many of you ask why the bill allows the four school districts with their own health insurance trust or that are self-insured to opt-out of the pool if they can provide a comparable benefit package at a price that is comparable or less than that provided the pool. The research says that you must have the majority of school districts participating to achieve real administrative savings, and all of the employees from these four school districts represent less than 10% of total plan participants.

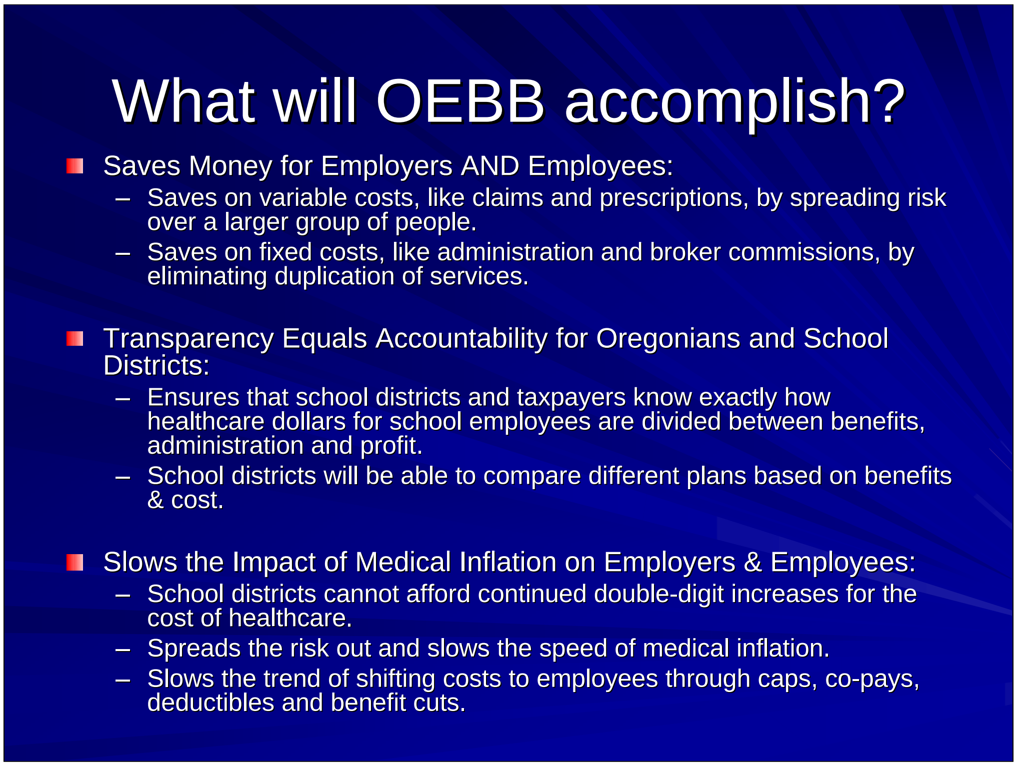
School districts that are self-insured assume all of the financial liability and risk for their benefit claims, unlike most school districts that rely on their insurance carrier to assume those same risks. It is an expensive difference. Self-insured districts become self-insured in a deliberate attempt to try and control their health insurance costs at an administrative level. SB 426 allows them to opt-out only if they can show that they are as efficient as the new pool.

What will OEBB accomplish?

- What happens to the savings?
  - The savings generated by the pool reduces the costs of health care for all school districts relative to their size.
- Who gets the savings?
  - Provides more local control by freeing money that would have gone to insurance brokers and special interests which the district can then invest into the classroom.
- What about collective bargaining agreements?
  - The local bargaining table still decides how much to spend on benefits; sharing of costs; and the impact on the total compensation package.

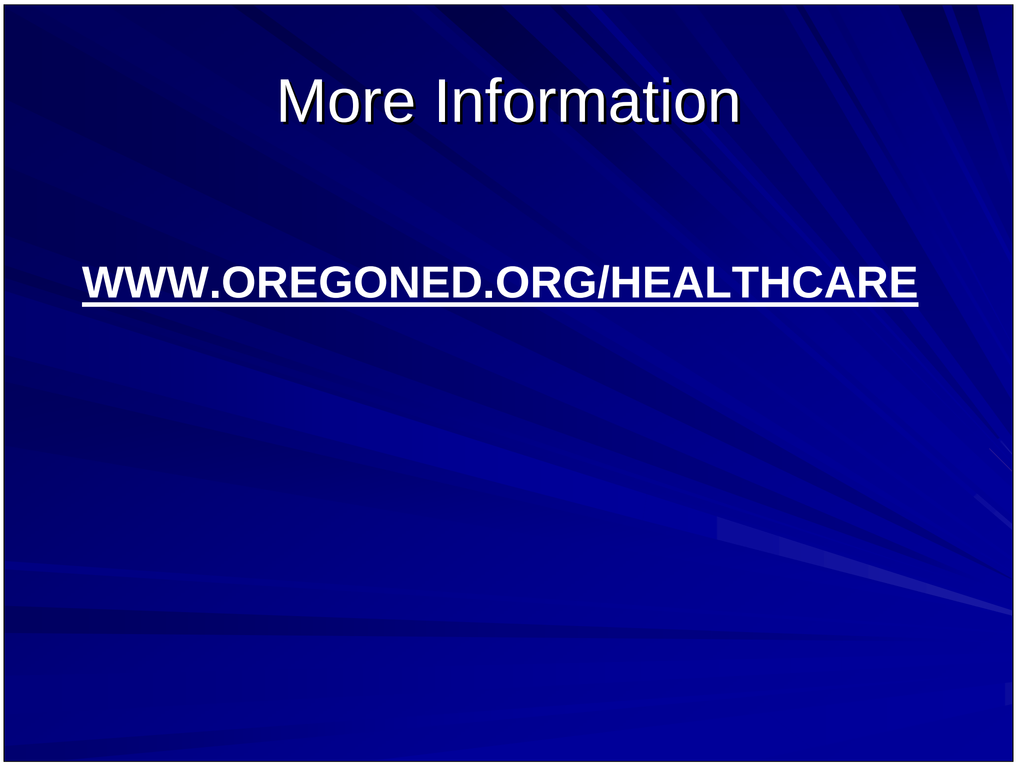
One of the great points about the health insurance savings pool for school employees is that we'll be saving money without reducing benefits or raising costs. Section 17(2) of the bill guarantees that the plan will initially provide school districts with a comparable benefit at a comparable cost to what they had before joining the pool. Most insurance carriers will only write an insurance contract for one year. This is true for big districts, small districts and those currently in a voluntary trust like OSBA or OEA Choice. SB 426 guarantees a second year at the same rate or better with level benefits.

SB 426 guarantees that hard working school district employees will not see their benefits reduced and at the same time we are accountable to the taxpayer by ensuring the best and most efficient use of limited dollars. This is exactly what we've been trying to do at the state and local level for years. Again, it's a win-win.



Finally, folks, this is a statutory change, not constitutional. The bill establishes a legislative taskforce to look at whether we are accomplishing our goal of saving money by creating a statewide health insurance pool. The taskforce can make recommendations for future legislative changes and fine-tuning to help us be sure that the pool is running as efficiently as possible.

In 2003, the Oregonian saw the value of the health insurance pool, editorializing that “every teacher and school board member in Oregon ought to favor a plan that would reduce costs, protect benefits and get more money into schools.” We agree.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