



Retiree Health Care Insurance Access  
Preliminary Report Follow-Up

LEOFF Plan 2 Retirement Board

September 24, 2008

# Retiree Health Care Insurance Access

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- Issue Description
- Insurance Commissioner Proposal

# Issues Description

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- Many members lose access to employer provided health care when they retire.

# Insurance Commissioner Proposal

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- Guaranteed Health Benefit Plan
- Provides catastrophic and key preventative health care coverage for all Washington State residents

# Insurance Commissioner Proposal

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## ■ Four Key Components

1. \$10,000 catastrophic coverage per year
2. Limited preventative care
3. Consumers choose additional coverage for other routine care
4. All insurance, catastrophic and routine health care, is provided by private insurers.

# Insurance Commissioner Proposal

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- Paid for through payroll tax
  - 1% of employee earnings
  - 3 to 5% of employer payroll
- Actuarial Analysis due to Governor and Legislature by December 15, 2008



# |Retiree Health Care Insurance Access

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Questions?

# LAW ENFORCEMENT OFFICERS' AND FIRE FIGHTERS' PLAN 2 RETIREMENT BOARD

## Retiree Health Care Insurance Access Preliminary Report Follow-Up

September 24, 2008

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### 1. Issue

Many members lose access to employer provided health care insurance when they retire.

### 2. Staff

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### 3. Members Impacted

Retiree health care could impact all current and future LEOFF Plan 2 retirees. As of September 30, 2006 there were 15,718 active members, 779 retirees and 597 terminated vested members, as reported in the Office of the State Actuary's 2006 LEOFF Plan 2 Actuarial Valuation Report presented. It is projected that there will be nearly 9,000 retirees by 2021.

### 4. Current Situation

LEOFF Plan 2 does not currently provide retiree health care benefits. Access to retiree health care for LEOFF Plan 2 retirees may be provided through employers. Those retirees without employer-sponsored health care access must rely upon coverage available through labor and employer organizations, purchase an individual health care policy, rely on public programs such as Medicare and COBRA, or go without coverage.

LEOFF 2 does not provide retiree health care benefits. Retired state employees belonging to LEOFF 2 may continue to purchase coverage through the Washington State Health Care Authority (HCA) if they elect to continue coverage at the time of retirement. Local government employers may choose to allow members to continue their health care coverage after retirement, however this is not mandated.



## 6. Background Information and Policy Issues

As many workers struggle to get financially prepared for retirement some are overlooking the fact they may be ill-prepared to deal with health care issues as they age. Many members lose access to employer provided health care insurance when they retire. As such, LEOFF Plan 2 retirees and members have identified post-retirement health care as an area of significant concern.

As health care costs continue to increase they will erode the adequacy of pension benefits and thus become a significant factor in planning for a financially secure retirement. When considered with an expected increase in the LEOFF Plan 2 retiree population and longer retiree life expectancy, there will be an increased need for access to affordable retiree health care insurance.

### 2007 Board Proposal

The Board recommended legislation<sup>1</sup> to the 2007 Legislature to address retiree health care. The legislation would have provided LEOFF Plan 2 retirees the opportunity to purchase health care benefits through the Public Employees' Benefits Board (PEBB), administered by the Washington State Health Care Authority (HCA). The health coverage included benefits for LEOFF Plan 2 retirees not yet eligible for parts A and B of Medicare in the community-rated risk pool; premiums charged to these retirees would be based on the experience of the non-Medicare community rated risk pool. The premiums charged to LEOFF Plan 2 retirees who are eligible for Medicare would be calculated from a separate experience risk pool. Those premiums would be reduced by the state-funded prescription drug subsidy under RCW 41.05.085. Premium rates charged to LEOFF Plan 2 retirees would also include amounts for reserves and administration.

The bill was not scheduled for a hearing in House Appropriations, but was passed by the Senate Ways and Means Committee with an amendment which added a contingent clause that would void the act if specific funding was not provided in the omnibus appropriations act.

### Fiscal Note

The 2007 proposal did not pass the Legislature amid questions regarding the fiscal note costs. The Health Care Authority provided varying cost estimates for providing LEOFF Plan 2 retiree access to PEBB. Two things that created the varying cost estimates are the fundamental difference in the computation methodology of health care bills versus pension bills and a misunderstanding of the LEOFF population and resulting erroneous assumptions.

Pension fiscal notes and health care fiscal notes are fundamentally different. Pension fiscal notes are based on long term projections where a level cost is determined. Health care fiscal notes however are based on a pay as you go basis. The difference between the computational methods along with a misunderstanding of the LEOFF population resulted in a series of fiscal notes as various information and assumptions were refined.

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<sup>1</sup> SB 5589/HB 1678

A misunderstanding of the LEOFF population by HCA contributed to questionable assumptions which initially projected lower costs. For example, the early fiscal notes calculated on the pay as you go basis used only the current number of retirees and as a result understated costs. Updated information regarding projected retirees significantly changed projected costs. As HCA received additional data and information, they refined their assumptions which increased cost projections.

Additional information regarding existing retiree coverage and expected up-take rates also modified underlying assumptions resulting in varying costs. Originally, HCA assumed that 25% of LEOFF Plan 2 retirees would opt into PEBB coverage. This rate was later increased to 50% after HCA became aware of the Medicare eligibility rates and low availability of employer sponsored health care for LEOFF Plan 2 retirees. The 50% rate might still be considered low since coverage that is available to retirees might not contain the same subsidies that PEBB coverage could include thus causing the selection of PEBB over other available coverage.

In order to generate a clearer picture of the cost to provide access to PEBB for LEOFF Plan 2 Retirees, it will be necessary to drive forward and refine the data and assumptions in addition to calculating the costs in a pension fiscal note style.

### **School District and Educational Service District Remittance**

The fiscal note mentions a K-12 remittance to PEBB which partially funds the implicit subsidy. It notes that the LEOFF proposal does not include a similar process, which would lower the LEOFF Plan 2 proposal fiscal note. This point was also discussed by HCA Director Steve Hill during the legislative session.

Washington state K-12 school district and educational service district employees for districts that do not participate in PEBB benefits who separate from employment after becoming vested in a Washington state-sponsored retirement system are eligible to enroll in PEBB health plans when retired or permanently and totally disabled. The non-participating Districts that have retirees who participate in PEBB are then charged on a per member basis an implicit subsidy charge calculated by HCA. The result of this process is that the pool does not experience increased costs because the additional costs have been shifted to the employers.

### **Insurance Commissioner Proposal**

Insurance Commissioner Mike Kreidler has created a proposal called the Guaranteed Health Benefit Plan. The Guaranteed Health Benefit Plan would provide catastrophic and key preventative health care coverage for all Washington State residents. The Guaranteed Health Benefit Plan has four components:

- All residents get catastrophic coverage for health emergencies over \$10,000 a year.
- Limited preventative care is covered, including annual checkup, immunizations, cancer screenings and a yearly dental visit.
- Consumers choose additional coverage for other routine care

- All insurance, catastrophic and routine health care, is provided by private insurers.

The catastrophic portion of the plan would be paid for through a payroll tax, 1 percent of employee's earnings and 3 to 5 percent of employers' payrolls, with small businesses paying a lower rate than large businesses.

The 2008 Legislature passed Engrossed Substitute Senate Bill 6333 (C 311 L 08). The legislation requires a consultant to conduct an actuarial analysis of the Insurance Commissioner's proposal for a Guaranteed Health Benefit Plan. The results of the evaluation are due to the Governor and the Legislature by December 15, 2008.

Included with this report are four handouts from the Office of the Insurance Commissioner including:

- Guaranteed Health Benefits Plan One Page Summary
- Guaranteed Health Benefits Plan Legislation Summary
- Guaranteed Health Benefits Plan Q&A
- Guaranteed Health Benefits Plan Timeline

## **7. Supporting Information**

### **Public Employees' Benefit Board (PEBB)**

PEBB purchases health care benefits for many subgroups composed of many members. By combining insurance purchasing for these groups, the higher costs for sicker and/or older members are somewhat offset by the lower costs for healthier and/or younger members.

PEBB has two distinct groups of members: (1) the state active employees and non-Medicare retirees and (2) Medicare retirees. Each group is referred to as a "risk pool." The insurance companies evaluate the risk involved to insure each group and establish rates based on the perceived risk of future claims. Retiree medical premiums are generally higher before age 65 and the beginning of Medicare coverage. Premiums for Medicare eligible retirees in PEBB are less than the premiums for non-Medicare retirees.

There are two types of subsidies that affect the cost of PEBB benefits for retirees. These subsidies are the explicit subsidy and the implicit subsidy. An explicit subsidy exists where the employer pays a specific part of the cost. An implicit subsidy exists where the cost of adding more expensive members is blended with the cost of the existing pool, resulting in a lower overall cost for the newly-added members. Enrolling more non-Medicare retiree enrollees in the risk pool, such as LEOFF Plan 2 Retirees, increases the implicit subsidy.



# Guaranteed Health Benefits

## Isn't it about time?

Insurance Commissioner Mike Kreidler's Guaranteed Health Benefit Plan would provide health care coverage for all Washington residents – and preserve freedom of choice. Our state is long overdue for a health care system that provides peace of mind and ensures high-quality care for all.

### Here's how Commissioner Kreidler's plan works:

- All residents get **catastrophic coverage** for health emergencies over \$10,000 a year.
- Limited **preventive care** is covered, including an annual checkup, immunizations, cancer screenings and a yearly dental visit.
- Consumers **choose** additional coverage for other routine care.
- All insurance – catastrophic and routine health care – is provided by **private insurers**.

### How to pay for guaranteed health benefits

The Commissioner's Guaranteed Health Benefit Plan is a revolutionary shift in how health care is paid for in Washington state. It will not increase health care costs, it will simply use the money already being spent on health care in Washington in a more fair and efficient way. And it will cover everyone.

The catastrophic portion of the plan would be paid for through a payroll tax - 1 percent of employees' earnings and 3 to 5 percent of employers' payrolls, with small businesses paying a lower rate than large businesses.

By removing the cost of catastrophic care (about \$6.5 billion every year), premiums for additional coverage will drop. People who choose to buy routine coverage will pay less than they do now.

### Not controlled by government

- **Voters decide** if they want guaranteed health coverage. First, we will seek legislative approval, then voters will decide whether benefits will be available to all Washingtonians.
- Consumers **choose** their own health plans and doctors.
- **Private** insurers provide coverage.
- Nine-member **board determines benefits**. Representatives would come from business, labor, insurance carriers, health providers and the public.

### What you can do

Insurance Commissioner Mike Kreidler needs your help to make it happen. To find out how you can help guarantee health benefits for all Washington citizens, contact Gabriela Quintana at 206-464-6828 or by e-mail at [gabrielaq@oic.wa.gov](mailto:gabrielaq@oic.wa.gov).

# Guaranteed Health Benefit Plan

**HB 2640/SB 6603**

## Background

Today's health care system is in crisis. Seven hundred thousand people in Washington are uninsured. One of every four people lucky enough to have insurance doesn't have enough coverage to meet their needs -- leaving them unprepared to pay for major medical expenses.

Every 30 seconds, someone in the U.S. files for bankruptcy in the aftermath of a serious health problem. Beyond the financial implications, lack of insurance can mean life or death. If you are diagnosed with cancer, you are twice as likely to die if you have no insurance.

Washington state can lead the way in reforming our ailing health insurance system.

## What is the Guaranteed Health Benefit Plan?

Insurance Commissioner Mike Kreidler is proposing health insurance reform that would guarantee people have coverage in a health crisis – offering peace of mind and a guaranteed level of financial security for all Washington residents.

All residents would have catastrophic coverage for health emergencies over \$10,000 a year plus limited preventive care, including immunizations, cancer screenings, an annual check-up, and an annual dental visit.

Beyond the guaranteed benefits, people choose the additional coverage they want to buy for more routine health care at a more affordable price. By guaranteeing catastrophic coverage, premiums for routine health care are expected to drop by 35-40 percent.

For those needing assistance affording routine health care, access to the Basic Health Plan would be available on a sliding scale to residents earning up to 300 percent of the Federal Poverty Level (or \$30,630 for an individual).

ALL of this insurance – catastrophic and routine health care – would be provided through private health insurers. Consumers choose their own health plans and their own doctors.

Everyone gets covered. And because the risk is pooled, health insurance is less expensive for all of us.

## Smarter and Fairer Funding

The same three payers who cover the costs of health care today will continue to do so tomorrow (individuals, employers and state government). The difference is that it will be done smarter and fairer.

Up to 40 cents of every premium dollar today is dedicated to catastrophic care. The Kreidler Plan proposes funding that more broadly through a shared payroll assessment. It recommends a 1 percent assessment of employees' wages and 3 to 5 percent of employers' gross wages based on a sliding scale. Small businesses would pay less than large businesses.

Kreidler is open to other funding mechanisms – if they are broad-based and fair.

Ultimately, the plan would seek approval by voters.

## Benefit Details

Every person who is a permanent resident of Washington for at least six months will get the guaranteed coverage Kreidler proposes. Residents new to the state after the law takes effect also would have a 12-month waiting period for pre-existing conditions.

A nine-member Guaranteed Benefits Board would define the schedule of benefits with representatives from business, labor, insurance carriers, health providers and the public.

## Access, Quality and Costs

The health care crisis is a multi-faceted problem. The Guaranteed Benefits Health Plan focuses on access to health care. But it also builds upon the critical work of the state Blue Ribbon Commission, rewarding evidence-based care that works and designing administrative cost savings plans and incentives.

**March 10, 2008**

# Guaranteed Health Benefit Plan Q&A

June 12, 2008

## Overview

Insurance Commissioner Mike Kreidler's Guaranteed Health Benefit Plan would provide catastrophic coverage for all claims over \$10,000 a year and key preventive care for every Washington resident.

## Eligibility and registration

**Q1. What are the registration requirements? How would people sign up?**

A. People who have other insurance would be covered under the same carrier, so there would be no need to register separately. Others would sign up when they received care.

**Q2. Will this encourage people to move to Washington when they get sick or need a transplant?**

A. No. To be eligible for coverage, a person must be a permanent resident of Washington for at least six months, and if they move to our state after the law goes into effect, they will have a 12-month waiting period for pre-existing conditions.

**Q3. Does "resident" include undocumented immigrants?**

A. Every resident means every resident. If a person can prove that he or she is a permanent resident of our state, he or she is covered, regardless of citizenship.

**Q4. What if I already have catastrophic coverage? How will this help me?**

A. It will lower the cost overall in the system and likely to you as an individual.

**Q5. What if I don't want to enroll in this program?**

A. Unlike traditional health plans, you won't enroll for catastrophic coverage. If you are a Washington resident, you will automatically be covered.

## Catastrophic coverage

**Q6. What qualifies as "catastrophic"?**

A. Any costs that total over \$10,000 in a calendar year, regardless of the illness or injury that is treated.

**Q7. If treatment spans more than one year, would I have to pay the \$10,000 again in the second year?**

A. Yes. The catastrophic payment basically works like an annual deductible; it is based on the calendar year.



# Guaranteed Health Benefit Plan Q&A

June 12, 2008

## **Q8. Why \$10,000?**

- A. The Commissioner determined that \$10,000 was the right threshold for guaranteed benefits because it meets two critical needs:
1. It provides meaningful coverage for people who are otherwise uninsured – while \$10,000 is a lot of money, most medical-related bankruptcies and severe financial hardship occur in cases where medical bills exceed \$10,000.
  2. It doesn't disrupt coverage for people who are already insured, while still saving costs through broader pooling.

## **Q9. What if someone can't afford the first \$10,000?**

- A. The Guaranteed Health Benefit Plan is not universal comprehensive coverage, but it does offer some clear advantages over our current system:
- All state residents will be guaranteed access to preventive care and will no longer have to worry about what will happen to them if the worst happens.
  - The costs for routine health care will drop significantly, making it more affordable to purchase either on your own or through your employer.
  - The state's Basic Health Plan will be expanded to provide subsidies for comprehensive coverage up to 300 percent of the Federal Poverty Level, or \$62,000 a year for a family of four.

## **Q10. Is there a cap on benefits?**

- A. No.

## **Q11. Does this catastrophic insurance stay with me if I change jobs?**

- A. Yes.

## **Costs and funding**

### **Q12. How will you pay for this?**

- A. The Guaranteed Health Benefit Plan is a revolutionary shift in how health care is paid for in Washington state. It will not increase health care costs, it will simply use the money already being spent on health care in Washington in a more fair and equitable way. And it will cover everyone.

The catastrophic portion of the plan would be paid for through a payroll tax - 1 percent of employees' earnings and 3 to 5 percent of employers' payrolls, with small businesses paying a lower rate than large businesses.

### **Q13. How much will this plan cost?**

- A. In Washington state, it is estimated that catastrophic care costs individuals, employers and government about \$6.5 billion every year. This plan will not

# Guaranteed Health Benefit Plan Q&A

June 12, 2008

change that; it will simply remove those costs from the risk pool and make other coverage more affordable.

**Q14. Will the payroll tax really cover all the costs or can we expect the payroll tax to increase?**

A. Based on initial analysis from Milliman\*, the Commissioner's proposed funding mechanism will raise the funds needed to provide guaranteed catastrophic coverage to all Washington residents not currently enrolled in a federal health care program, such as Medicare.

**Q15. How will you collect the payroll tax?**

A. We are exploring this right now. We want to tap into existing state resources and, recognizing the administrative challenges that many businesses currently face, we want to avoid any burdensome systems to collect the revenue.

**Q16. What about people who are self-employed? How will they pay into the system?**

A. At this point, we have not identified how this will work. We are working with other state agencies to see how they collect from this group for other benefits, such as workers compensation.

**Q17. I already have good coverage. How will this plan affect me?**

A. Chances are you will not even notice a difference in your coverage. Your employer will deduct your premiums differently, but the net result should be the same.

**Q18. How will this program help control rapidly rising costs of health care?**

A. Two ways. First, the plan promotes the use of evidence-based medicine. We also plan to include information on administrative simplification.

The Commissioner actively supports Governor Gregoire's work to contain costs and improve quality in Washington's health care system as a whole.

## **Federal health care reform**

**Q19. Why not wait for a federal solution?**

A. We can't afford to wait. Our health care system is in crisis and we need to take steps now to fix it in Washington state.

**Q20. If a federal program passes, would this plan go away?**

A. It depends on what the plan is and what it covers.

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\* Milliman, Inc. is a nationally-recognized consulting firm that specializes in independent actuarial analysis of the insurance industry, including health care.

# Guaranteed Health Benefit Plan Q&A

June 12, 2008

## Other programs

### **Q21. How does this plan work with the Basic Health Plan?**

A. This plan wouldn't change anything for current Basic Health members. However, because the costs for catastrophic care would be covered, the state would be able to expand coverage under Basic Health to cover residents who earn up to 300 percent of the federal poverty level.

### **Q22. How does this plan work with Medicare and Medicaid?**

A. This plan would not change anything for people who are covered under Medicare or Medicaid.

## Administration

### **Q23. How is the plan administered? Is there additional administration required?**

A. A nine-person board would oversee the program, determining the schedule of benefits, looking for ways to reduce administrative burden in the system, proposing ways to refine the program over time, and ensuring the use of evidence-based medicine. The board would be made up of representatives from business, labor, the insurance industry, health care providers and the public.

### **Q24. Are you really trying to promote a government-run health system?**

A. No. This plan preserves the elements of the system that work today: a private market together with strong government oversight of the insurance industry, and choice in the marketplace. All components of this plan are offered through the private market, and consumers will continue to choose their own health plans and doctors.

# Guaranteed Health Benefits

Guaranteed coverage and more affordable health care for all Washingtonians. How we get there.

The Insurance Commissioner and his staff meet with a broad array of stakeholders, including small and large business groups, members of the insurance industry, consumer advocates, health care providers, civic organizations, community leaders, state and local government officials and labor unions.

The Commissioner contracts with Milliman\* to review his plan to make sure it is actuarially sound.

Milliman\* conducts case studies to test how the Commissioner's plan works (and affects the bottom line) for major employers, small businesses and public-sector employers.

The Commissioner convenes Leadership Councils across the state to evaluate current health care reform proposals, including his Guaranteed Health Benefit Plan.

The Commissioner presents the findings from Milliman's\* work and the Leadership Councils to the Legislature.

The Legislature passes the Guaranteed Health Benefit Plan leading to a vote by the public.

WINTER 2007/2008

SPRING 2008

SUMMER 2008

FALL 2008

WINTER 2008/2009

SPRING 2009

\* Milliman, Inc. is a nationally-recognized consulting firm that specializes in independent analysis of the insurance industry, including health care.

