

Exhibit Number: 2

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2005 Legislature: HB124 / Rep. Tom Facey
K12 Statewide Health Insurance Program (K12-SHIP)
Doing the Right Thing for Montana's Schools, Employees & Retirees

MEA-MFT, joined by most statewide Montana K12 representation organizations, as well as many local school districts, employee and insurance groups including BCBS and MUST (*see list of K12-SHIP Working Group members at the end of this report) fully support HB124 and establishment of a single K12 statewide health insurance program (K12-SHIP) providing quality and affordable health insurance benefits to the vast majority of school and coop employees and retirees. We believe K12-SHIP is a practical means of addressing school employee compensation and retiree income protection issues and that it directly enhances Montana schools capacity to attract and retain a high quality teaching staff.

During the summer and autumn of 2004, K12-SHIP was additionally endorsed by Superintendent of Public Instruction Linda McCulloch and State Commissioner of Insurance John Morrison, the Montana Retired Educators Association – and K12-SHIP was specifically included as one of four legislative “immediate relief measures” presented by the Montana Quality Education Coalition (MQEC) in respect to the remedy phase of the pending adequacy of state support for quality education lawsuit.

Last September, K12-SHIP was recommended by the Governor's Education Renewal Commission and was unanimously adopted by vote of the Interim Legislative Committee on Local Government & Schools. The proposal has been introduced as a committee bill (HB124) sponsored by committee member Representative Tom Facey of Missoula. HB124 is broadly supported by Montana's educational and insurance communities. We believe HB124 will provide equitable provision of quality health benefits to school employees and is a cost-effective way of protecting state, school district and family budgets in the face of ever-rising medical care costs.

K12-SHIP, partially supported by an medical care cost indexed \$200 (FY07) per eligible active employee per month (“peapm”) state funded “credit against premiums,” should increase insurance participation rates among Montana school employees and establish a K12-SHIP pool of 19,000+ employees, plus thousands more dependants and retirees. Additionally, establishment of the K12-SHIP is broadly expected and is projected – by 3 actuarial studies (1997, 2002 & 2004) -- to:

- Reduce total statewide K12 health plan administration costs (for member enrollment and employee data collection, member benefit plan education, payroll office assistance, financial review/audit/actuarial and plan design services, a 1% of premium payment to the Montana Comprehensive Health Association for the otherwise “uninsurable”, as well as claims processing and potentially other third-party or re-insurance administrative expenses) will be reduced to less than 7% of premiums paid. K12-SHIP's administrative efficiencies will save \$5 million statewide compared to administrative costs of 8% to 16%+ among 230+ existing and generally small local group health plans;

- Restrain and stabilize the annual growth of health-care premiums (or “premium shock”) as medical experience costs will be more predictably spread over the statewide employee/dependent group rather than concentrated in small risk groups;
- Provide access to health insurance coverage for more school employees while promoting equitable access to health insurance benefits for all school employers and employees regardless of local employer and employee group variables;
- Position the K12-SHIP board to more effectively negotiate with and facilitate health-care providers to provide care quality and service assurances, implement “best practice protocols, as well as cost-containment, case management and wellness programs – an additional multi-million dollar annual cost “savings” and health quality benefit of K12-SHIP;
- Allow ALL Montana school employees and retirees more flexibility and personal risk-responsibility when making annual specific benefit plan enrollment choices;
- “Save” local employer personnel time devoted to health program administration and operations — educators and school administrators will have more time for educational matters;
- Better fund and fiscally manage, monitor and provide for the maintenance and improvement of plan designs and benefits, by active and informed policy decision-making of the K12-SHIP board and staff, working with contracted plan benefit design professionals, actuaries, claims administrators and as regulated by provisions of the Montana Procurement Act and the Montana Department of Insurance (Title 33);
- Support and enhance the delivery of health care delivery services in rural communities; and
- Strengthen school and coop budgets, as well as employee take-home-pay by rationally and comprehensively addressing issues of health care management and cost containment.

The 2005 K12-SHIP proposal is the culmination of 8 years work. It presents a major step forward in Montana’s efforts to provide quality health care benefits for school and coop employees at affordable costs for employer budgets, employees and retirees. It accomplishes its goals without forcing increases in local school property taxes and provides a cost effective and efficient method for meeting future increases in medical care costs.

Enacting Montana’s K12-SHIP is the right thing to do -- and it’s time to do it NOW!



EMPLOYERS: VOLUNTARY STATE "INCENTIVE CREDIT" & K12-SHIP PARTICIPATION

School district boards and educational cooperative governing bodies voluntarily elect to participate in K12-SHIP. Employer participation in the K12-SHIP is "voluntary" – but significantly encouraged by a \$200 (in FY07, indexed thereafter) "peaepm" (per eligible active employee per month) state general funded incentive credit. Only through K12-SHIP participation will employers gain access to the on-going state "peaepm credit" toward health insurance premiums. [Sec.3(2)] Consistent with long-standing provisions of Montana law, retirees and some trustees remain eligible for enrollment in the K12-SHIP but these individuals will *not* be eligible for the K12-SHIP credit against premium. (In some cases however, retirees may have and will continue to hold on-going contractual rights to employer contributions toward retiree premium costs.) Finally, in respect to MEWA employee groups, school employers, employees and retirees participating in a "multiple employer welfare association" (MEWA) or other national health insurance pool at the time of enactment of the K12-SHIP legislation are exempted from K12-SHIP. [Sec.2(7),(14)]

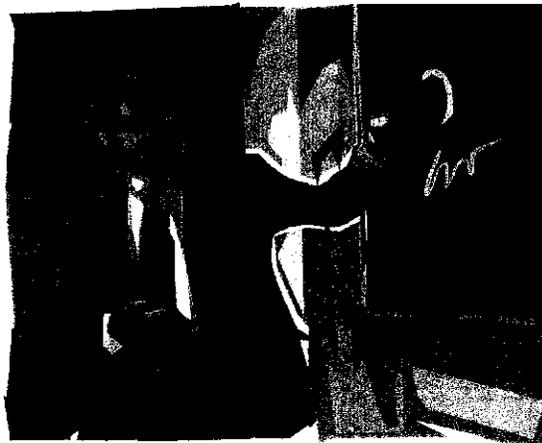
Members of the K12-SHIP include:

"ELIGIBLE EMPLOYEES" (K12-SHIP members eligible for state funded "peaepm" credit):

- specified by statute as any certified, administrative or classified employee who is regularly employed 30 hours or more per week during the school year [Sec.2(7), 3(1)];
or
- any active employee at a lesser hourly threshold if so specified by locally bargained collective bargaining agreement, or – for non-represented employee groups – as may be specified by local school board or educational cooperative governing board policy [Sec. 2(7), 3(1)ii];

"AND OTHER MEMBERS" --

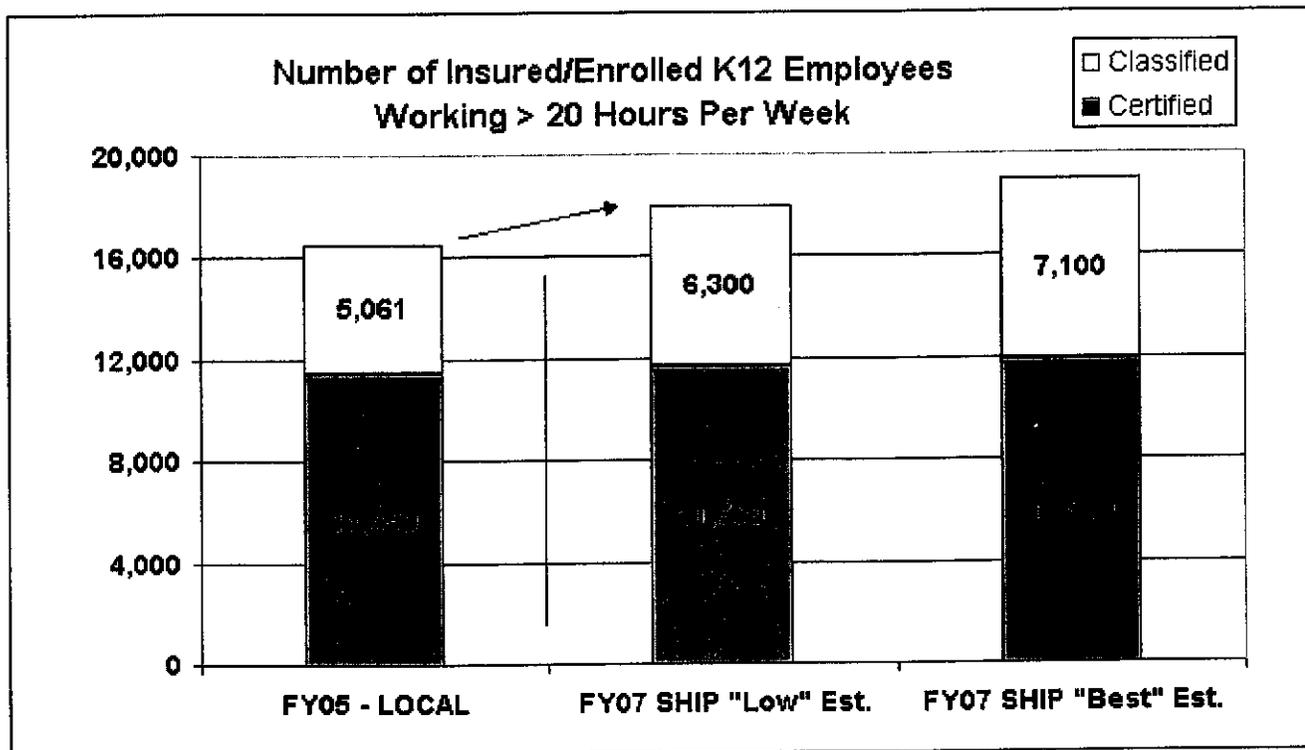
- current retirees and/or dependants enrolled in local group health insurance plans prior to employer participation in the K12-SHIP [Sec. 2(16)];
- future retirees per individual enrollment choice at the time of severance pursuant to existing Montana statute [Sec. 2(16)]; and
- school board trustees choosing enrollment in the K12-SHIP per existing Montana statute and local school board policy [Sec. 2(16),(19)].



All local school districts and education coops – per existing statute -- are explicitly required to continue and maintain current retirees formerly covered by the local health plan and to permit new retirees to elect continued health benefits coverage under the proposed K12-SHIP. [Sec. 2(16), Sec.5(6b)]

GROWING THE NUMBER OF MONTANA'S HEALTH INSURED K12 EMPLOYEES & RETIREES --

MT K12 Staff & Retirees --	Employees # >20 HRS	FY05 Insured Enrollment	%	--- K12-SHIP (FY07) 'Insured' ---			
				"Low" Est.	%	"Best" Est.	%
Certified Staff (teachers/spec/admin)	12,000	11,450	95%	11,700	98%	11,900	99%
Classified Staff (support staff)	8,000	5,061	63%	6,300	79%	7,100	89%
Employee Sub-total:	20,000	16,511	83%	18,000	90%	19,000	95%
<i>Growth of Insured Employees</i>				1,489	9%	2,489	15%
Retirees Insured by K12 Plan		2,145		2,145		2,500	
Total K12 Employee+Retired Insured:		18,656		20,145		21,500	
<i>Growth of Total K12 Insured</i>				1,489	8%	2,844	15%



Employer participation in the K12-SHIP is determined by simple majority vote of the local school board or governing body of an educational COOP. The local district board K12-SHIP "participation election" is made on a district-wide basis in respect to ALL eligible employees and ALL employee groups. These local school district board / educational coop governing body votes may take place as early as January 2006, or any month thereafter. A local board or governing body vote to elect participation in the K12-SHIP is final and irrevocable. The local district board or coop governing body discussion and vote regarding the issue of K12-SHIP participation is exempted from provisions of Montana's public employee collective bargaining act. [Sec. 4(1),(2)]

Voluntary K12-SHIP participation by board vote, coupled to the indexed/\$200 peaeprm credit toward premium assures that no district or cooperative budget will be subject to any actual or inferred "unfunded mandate."

Initial local board participation votes are expected to take place as early as January 2006, or in the months immediately prior to implementation of K12-SHIP on July 1, 2006. Employer participation in the K12-SHIP may be delayed pursuant to collective bargaining agreement(s) in effect as of passage of the K12-SHIP legislation and which continue in effect beyond July 1, 2006. Districts and coops which begin participation in the K12-SHIP *after* CY2006 will be assessed a surcharge on premiums to be actuarially determined as necessary to recoup appropriate start-up loan repayments, reserves building and other expenses of the K12-SHIP. These surcharges on premiums will be assessed over a number of years pursuant to agreement between the K12-SHIP board and the local employer.

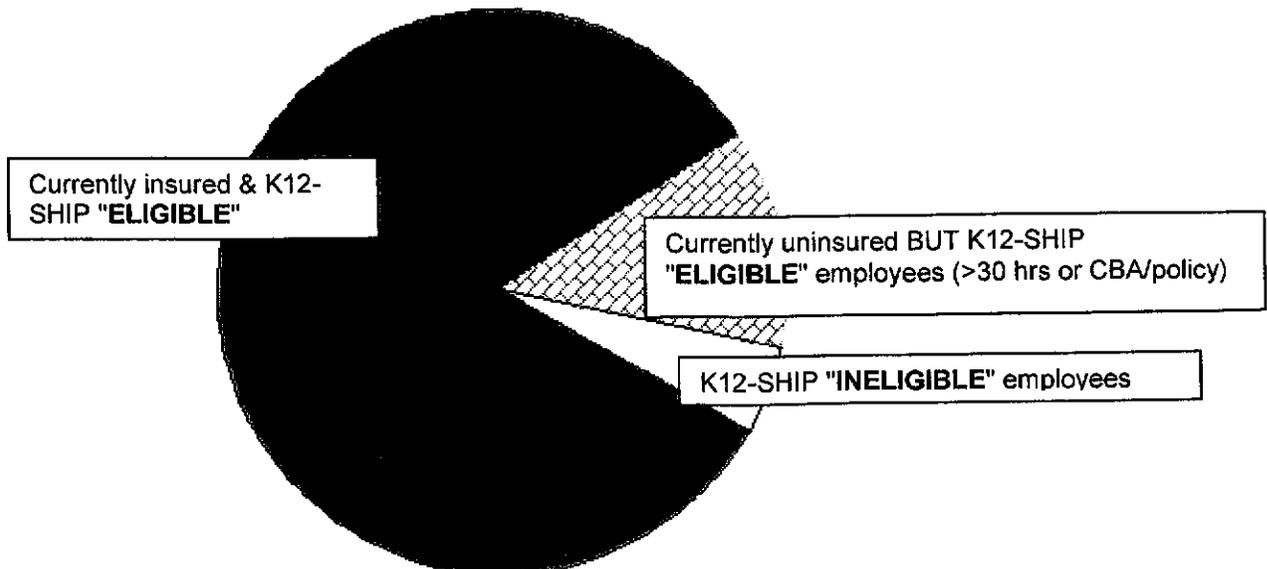
STATUTORY APPROPRIATIONS TO THE K12-SHIP BOARD

The K12-SHIP proposal establishes an on-going statutory appropriation from the state general fund to the K12-SHIP board. This annual and on-going statutory appropriation is equal to \$200 per eligible active employee per month of the K12-SHIP and the appropriation is indexed to the annual rate of US Department of Labor-Bureau of Labor Statistics "medical care inflation." [Sec 3(1),(2)]

Per studies conducted by Coopers-Lybrand in 1996 and eBenX in 2002 and again in 2004, Montana's schools employ approximately 20,000 employees regularly employed at 20+ hours per week during the regular school year. Adjusting for the proposed 30 hour statutory and lesser hourly threshold per collective bargaining agreement (CBA), the projected FY07 statutory appropriation to the K12-SHIP board would be 45.6 million based upon the "best estimate" of 19,000 K12 eligible employees.

K12-SHIP in FY07 -- EMPLOYEES WORKING >20 HOURS PER WEEK NUMBER & STATE CREDIT COST FOR "ELIGIBLE" EMPLOYEES	% and Number of Employees		Annualized \$200 Per Month "PEAEPM" State Credit
Currently insured & K12-SHIP "ELIGIBLE" employees	83%	16,511	\$39,626,400
Currently uninsured BUT K12-SHIP "ELIGIBLE" employees (>30 hrs, or by CBA/policy)	12%	2,489	\$5,973,600
Currently uninsured BUT K12-SHIP "INELIGIBLE" employees (<30 hrs, no CBA/policy)	5%	1,000	
Estimated Number of Employees Regularly Employed >20 Hours per Week	100%	20,000	\$45,600,000

20,000 K12 SCHOOL EMPLOYEES in FY07 PROJECTED 19,000 K12-SHIP "ELIGIBLE"



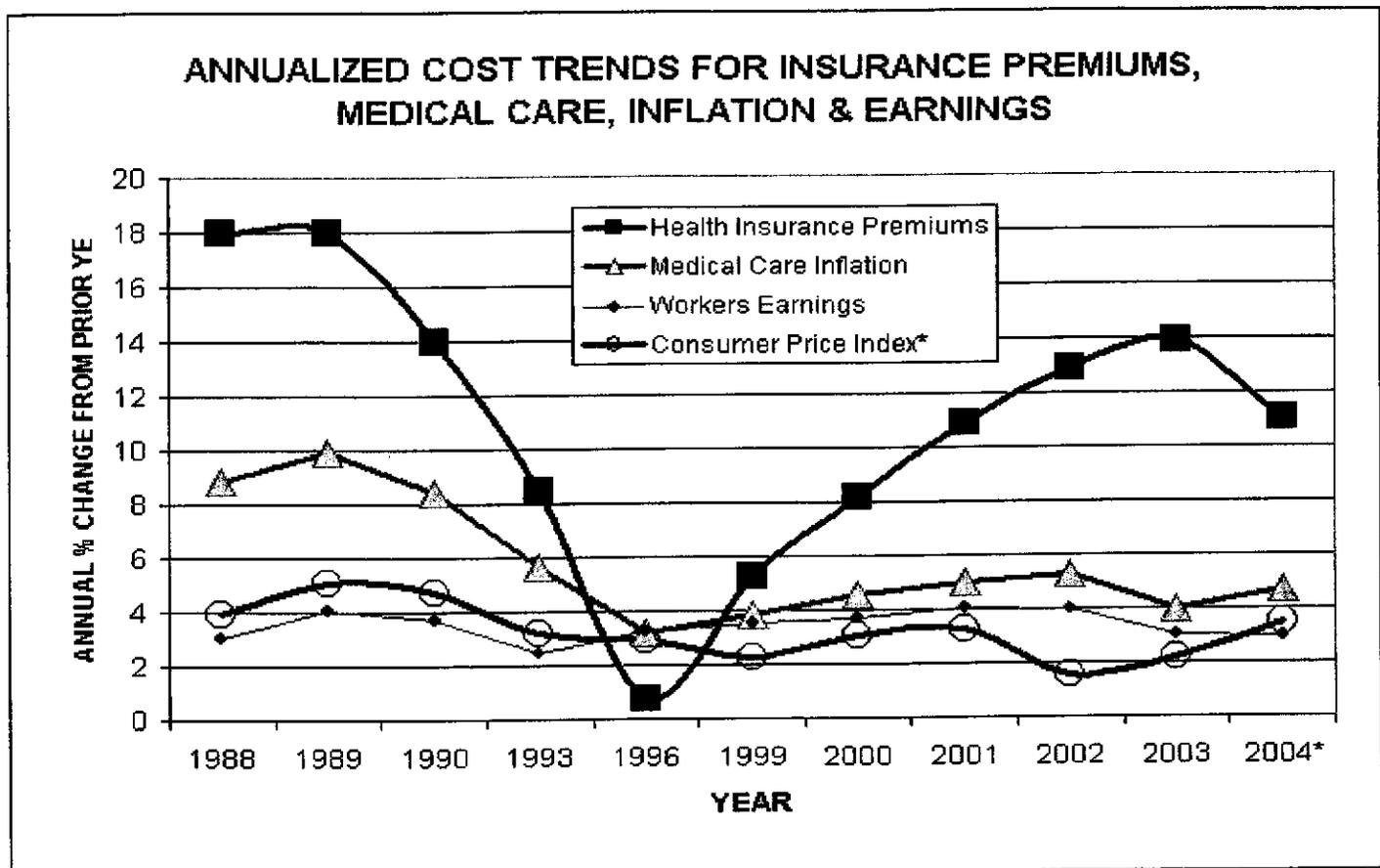
Annual "medical care" inflation rates over the last 20 years have averaged about 2 times the average annual rate of general inflation (CPI-U) and have ranged from 3% to 10% per year. "Medical care" inflation rates have been far more stable and predictable than volatile insurance premium increases (anything from +1% to nearly +20%) on an annual basis over the last 20 years.

ANNUAL % COST TRENDS IN THE CHANGING HEALTH CARE MARKETPLACE-- Kaiser Foundation, 2004

Annual Index % Items:	1988	1989	1990	1993	1996	1999	2000	2001	2002	2003	2004*	AVG
Health Insurance Premiums	18.0	18.0	14.0	8.5	0.8	5.3	8.2	10.9	12.9	13.9	11.1	11.1
Medical Care Inflation	8.9	9.9	8.4	5.6	3.2	3.9	4.5	5.0	5.3	4.0	4.7	5.8
Workers Earnings	3.1	4.1	3.7	2.5	3.3	3.6	3.7	4.1	4.0	3.1	3.0	3.5
Consumer Price Index*	3.9	5.1	4.7	3.2	2.9	2.3	3.1	3.3	1.6	2.2	3.5	3.3

Data: Kaiser premium surveys, US Dept of Labor-BLS & Current Earnings (annual per April.)

*2004 est., CPI Dec 04-vs-Dec 03



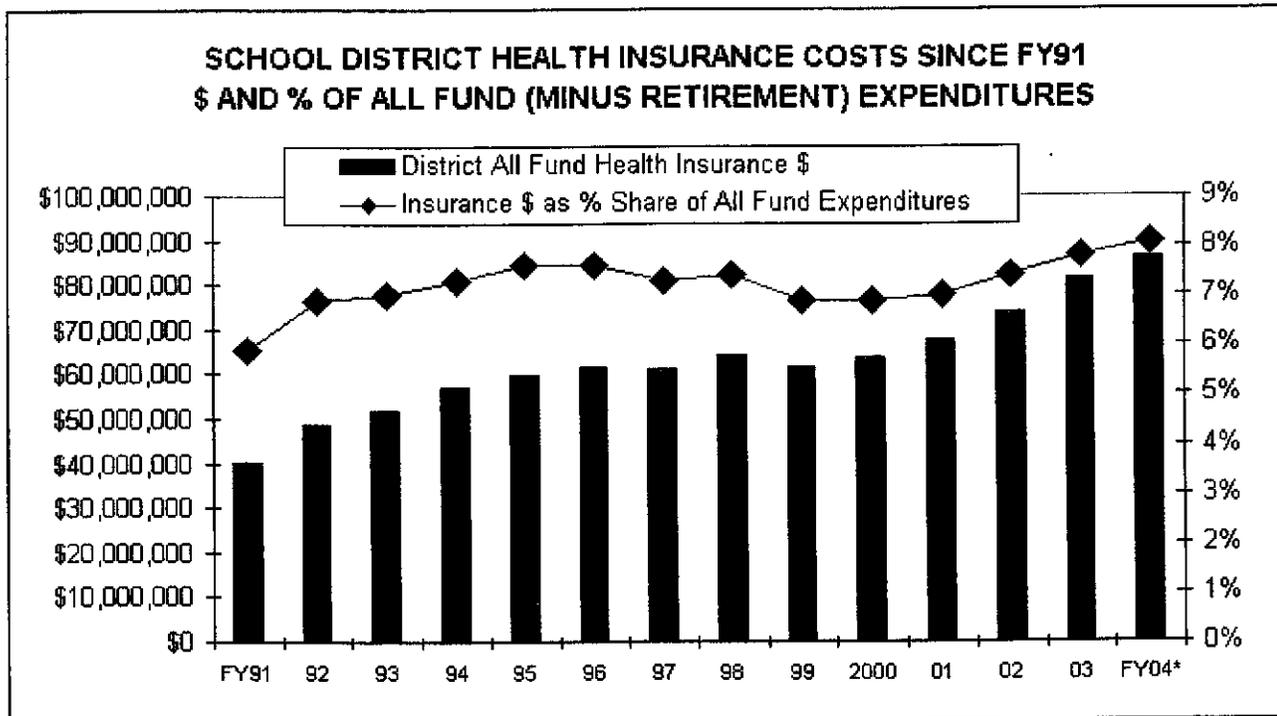
Premium cost growth and increased levels of employee-paid health care cost sharing have not spared an increasing health care burden to be imposed on school district budgets and expenditures. Since FY91, total school district expenditures for health insurance benefits have doubled – moving from \$41 million in FY91 to more than \$86.5 million in FY04 (or growth of more than 109%). Just since FY97, total district expenditures for health insurance have grown by almost 41%. The growth in district health insurance costs have out-paced growth in overall school budgets. In FY91, district-paid health insurance costs consumed less than 6% of total expenditures in all funds minus the retirement fund. Today, total district-paid health insurance costs consume 8% or more of total expenditures in all funds minus the retirement fund

HISTORICAL TREND OF SCHOOL DISTRICT EXPENDITURES FOR HEALTH INSURANCE DISTRICT HEALTH COSTS DOUBLED SINCE FY91 & NOW CONSUME 8% OF EXPENDITURES!

Source: OPICORE Budget & Exp files; Coopers-Lybrands, & eBenX, MEA-MFT estimates of health insurance share of all benefits costs.

GENERAL FUND DISTRICT EXPENDITURES					ALL FUNDS MINUS RETIREMENT EXPENDITURES			
Fiscal Year	Benefits (200s) Expenditures	85% of Benefits (Health \$ Est.)	Annual % Change	Share of GF Budget	Benefits (200s) Expenditures	90% of Benefits (Health \$ Est.)	Annual % Change	Share of All Expenditures
FY91	35,310,055	30,013,547	BASE	5.3%	44,651,364	40,186,228	BASE	5.9%
92	43,258,290	36,769,547	22.5%	6.3%	54,080,852	48,672,767	21.1%	6.9%
93	47,341,686	40,240,433	9.4%	6.6%	57,673,346	51,906,011	6.6%	7.0%
94	48,530,302	41,250,757	2.5%	6.7%	63,209,047	56,888,142	9.6%	7.3%
95	51,387,202	43,679,122	5.9%	7.0%	66,327,049	59,694,344	4.9%	7.6%
96	54,208,191	46,076,962	5.5%	7.2%	68,123,470	61,311,123	2.7%	7.6%
97	53,932,344	45,842,492	-0.5%	7.0%	67,824,041	61,041,637	-0.4%	7.3%
98	57,250,442	48,662,876	6.2%	7.3%	71,376,994	64,239,295	5.2%	7.4%
99	54,291,025	46,147,371	-5.2%	6.8%	68,116,543	61,304,889	-4.6%	6.9%
2000	54,893,095	46,659,131	1.1%	6.7%	70,656,921	63,591,229	3.7%	6.9%
01	58,788,434	49,970,169	7.1%	7.0%	75,276,931	67,749,238	6.5%	7.0%
02	63,441,660	53,925,411	7.9%	7.4%	81,867,634	73,680,871	8.8%	7.4%
03	67,613,731	57,471,671	6.6%	7.7%	90,659,657	81,593,691	10.7%	7.8%
FY04*	71,670,555	60,919,972	6.0%	8.0%	96,099,236	86,489,313	6.0%	8.1%

* FY04 expenditures estimated (early Dec.04) projecting +6% employer expenditure for health insurance vs +9% avg premium increase.



HB124's credit in FY07, thereafter indexed to medical care inflation [Sec.3(2b)] will assist districts in catching-up to budgeted health care costs experienced in recent years AND then help them maintain adequate funding for future health care cost increases.

The state credit statutory appropriation monies shall be used by the K12-SHIP board to:

- guarantee repayment of the start-up loan to the Board of Investments [Sec.7(1m)];
- guarantee reserves-building or line of credit draw to the Montana Board of Investments,
- pay administrative costs associated with the K12-SHIP; and
- provide a credit toward monthly premium for each enrolled employee member of the K12-SHIP. [Sec 2(18), Sec.5(9),(13)]

The K12-SHIP credit (\$200 peremp) will be accounted for as a local district board or coop contribution toward premium. [Sec.4(3a)] Existing collective bargaining obligations – e.g. duty to bargain level of employer contribution to health benefit costs or premium structure, etc.) – are preserved under existing provisions of Montana’s public employee collective bargaining act. [Sec. 4(3b)]

EMPLOYEES: ANNUAL PLAN CHOICE & CONTINUED LOCAL BARGAINING OF EMPLOYER PREMIUM CONTRIBUTION OR COMPOSITE RATE PREMIUM STRUCTURE

Individual members of the K12-SHIP (active employees, retirees and some trustees) will be provided an annual choice of enrollment in the “basic,” “standard,” or “preferred” health benefit plans, or – as available regionally or on a statewide basis -- in the K12-SHIP network care or Medicare supplement plans. [Sec.5(4),(5),(6)] This individual employee/retiree choice option is similar – though broader –to the plan choice options provided to state employees under the State of Montana health benefits program.

K12-SHIP members will also be allowed to decline enrollment in K12-SHIP but only by written and signed declaration acknowledging restricted future enrollment rights. Consistent with existing statute and practice, retirees who decline continued enrollment in the K12-SHIP would lose future re-enrollment rights entirely. [Sec 5(7)(8)]

Where collective bargaining relationships exist, local employers and bargaining units will – pursuant to Section 4(3b) -- continue to bargain:

- whether the district/local will participate in K12-SHIP core health benefit programs using a tiered-rate or composite rate premium payment structure;
- whether the district/local will offer a group sponsored dental, vision, life or other supplemental insurance benefits and whether that insurance would be provided as a rider plan from the K12-SHIP or purchased from another private provider; and
- the level and method of employer contribution toward premiums for health or other benefits.

Where no collective bargaining relationship exists between employers and employee groups, the employer will retain all existing rights to determine rate structures, supplemental insurance offerings and employer contribution toward premium costs by local employer policy. [Sec.5(4)]

NOTES:

K12-SHIP / 3 Levels of Decision-Making

LOCAL SCHOOL BOARD

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**Voluntary K12-SHIP
"participation" determined by
simple majority vote**

***Vote in January 2006, or later
Board vote per ALL employees
Board decision exempt from CB
Multiple votes are possible***

***Once made, decision to
"participate" is final & irrevocable***

COLLECTIVE BARGAINING

- =====
- a) Employer contribution toward K12-SHIP premium**
 - b) Tier or composite premium structure**
 - c) Employer payments toward other benefits, compensation**

Continuing CB duties

CB made per bargaining unit

***Locally determined compensation
and benefits structure***

INDIVIDUAL CHOICE

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Access to health care

Annual enrollment in:

- a) "basic" plan**
- b) "standard" plan**
- c) "preferred" plan**

***Adaptable to personal & family
circumstances***

Personal responsibility for risk

***Employees & retirees allowed
to select plan each year***

**SCHOOL BENEFIT PLANS SINCE the 1990s –
RISING COSTS / PREMIUM SHOCK, COST-SHIFTING & BENEFITS EROSION**

K12-SHIP is intended to halt recent year's trends of health care benefits erosion and recurring double digit premium cost inflation.

FY05 COMPARED TO FY97

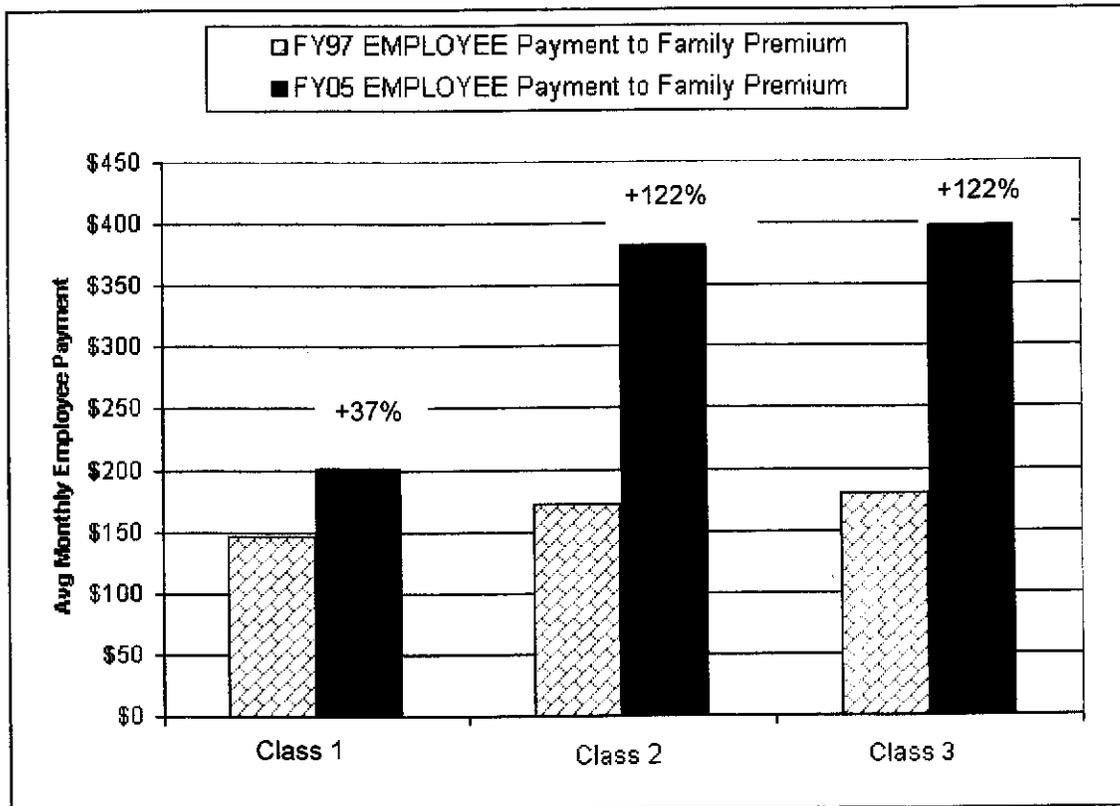
**INDIVIDUAL, FAMILY & COMPOSITE PREMIUMS & EMPLOYEE PAYMENTS
\$ AVERAGES FOR 1st (Large), 2nd (Middle-Size) & 3rd (Small) CLASS DISTRICTS**

Source: Annual MtSBA/MEA-MFT/MSSF School Insurance Survey

DISTRICT CLASS	--- Individual --- Premium		----Family ---- Premium		Employee Payment to Family Premiums		Composite Premium	
	FY97	FY05	FY97	FY05	FY97	FY05	FY97	FY05
1 st	217	361	414	735	147	201	355	637
2 nd	201	356	489	849	172	382	371	647
3 rd	187	328	444	825	180	399	NA	NA

PERCENTAGE INCREASES IN PREMIUMS & EMPLOYEE PAYMENT TO FAMILY PREMIUMS

1 st	66%	78%	37%	79%
2 nd	77%	74%	122%	74%
3 rd	75%	86%	122%	



For a majority of districts and employees, the 65% to 86% increase in premiums since FY97, were only partially mitigated by a 41% increase in employer budgeted contributions. The remainder of the increase was substantially cost-shifted to employees in the form of higher out-of-pocket employee-paid premiums for dependants.

Local plan deductibles and out-of-pocket limitations have also grown notably since FY97.

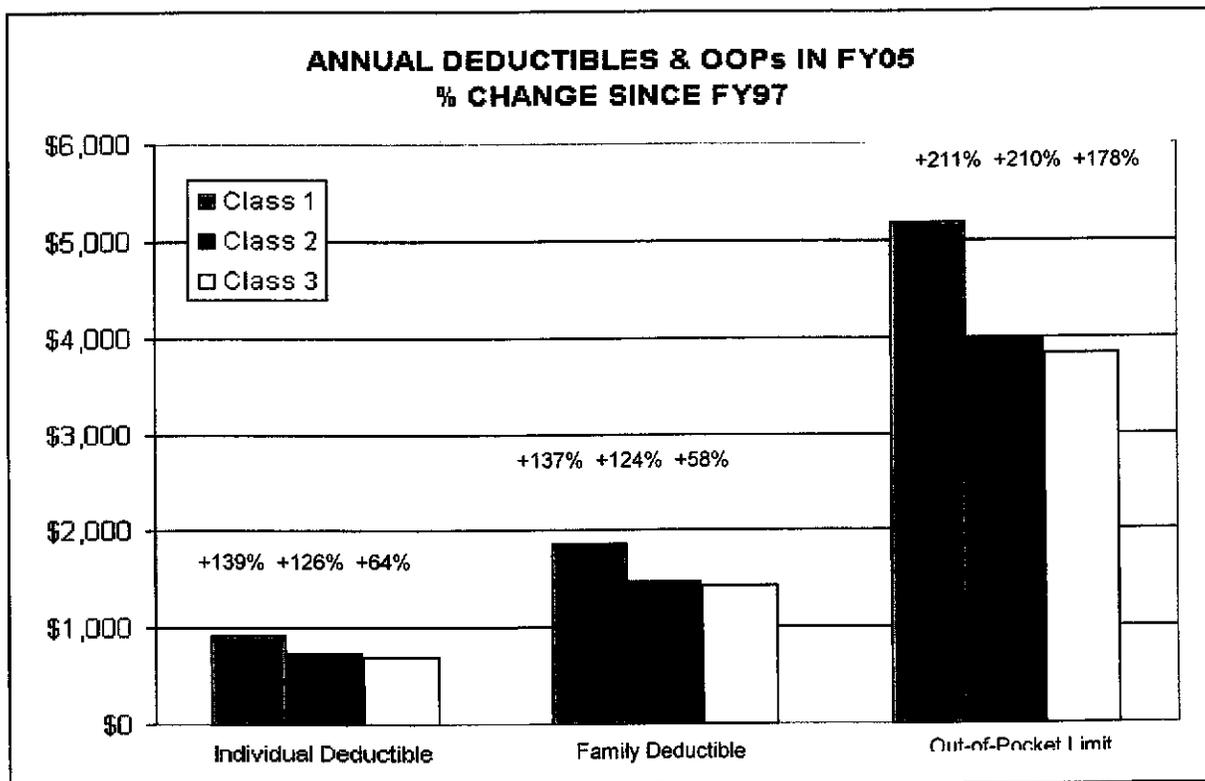
**INDIVIDUAL & FAMILY DEDUCTIBLES & OUT-OF-POCKET LIMITS
\$ AVERAGES FOR 1st (Large), 2nd & 3rd (Small) CLASS DISTRICTS**

Source: MtSBA/MEA-MFT/MSSF Insurance Survey

DISTRICT CLASS CLASS	Individual Deductible		Family Deductible		Out-of-Pocket Limit	
	FY97	FY05	FY97	FY05	FY97	FY05
1st	390	931	785	1,863	1,665	5,181
2nd	327	739	655	1,469	1,293	4,003
3rd	423	692	909	1,440	1,383	3,839

PERCENTAGE INCREASES IN DEDUCTIBLES & OUT-OF-POCKET LIMITS

1 st	139%	137%	211%
2 nd	126%	124%	210%
3 rd	64%	58%	178%



Trends among Montana schools since the later 1990s clearly point toward higher deductibles and "out-of-pocket" (OOP) costs for employees. While FY05 annual deductibles remain as low as \$200 for individuals and \$400 for families among a fair number of generally smaller to mid-size school district plans, a majority of district plans have moved to higher deductible levels over recent years. In the last 4 renewal years alone, half of MUST's 160+ local school plans increased deductibles, generally moving from \$200/\$400 to \$500/\$1000, but often moving to \$1000/\$2000 deductible levels.