MEA-MFT
Public Schools, Public Service

EXHIBIT 8
DATE 1-18-05
HB 124

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];

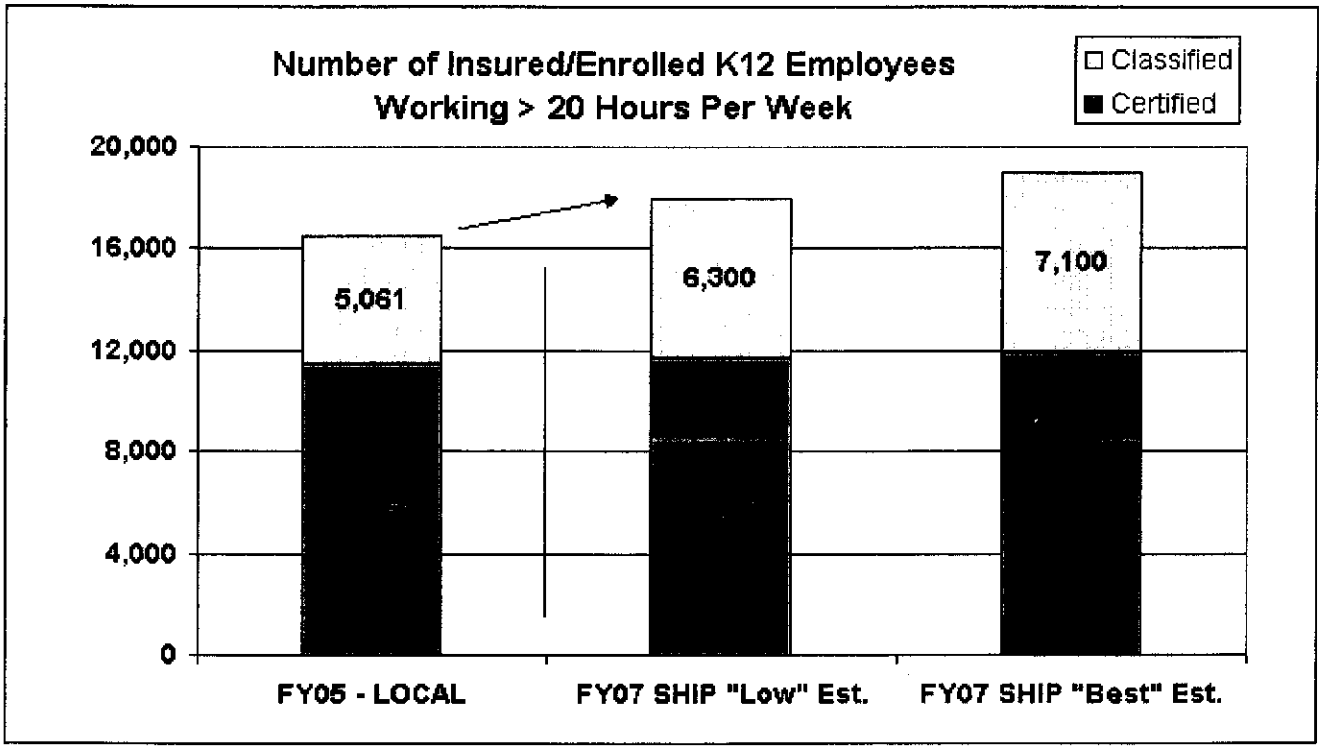
"AND OTHER MEMBERS"--

- **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%**
Growth of Insured Employees				*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**	
Growth of Total K12 Insured				*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 peaepm 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 CY*2006 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.

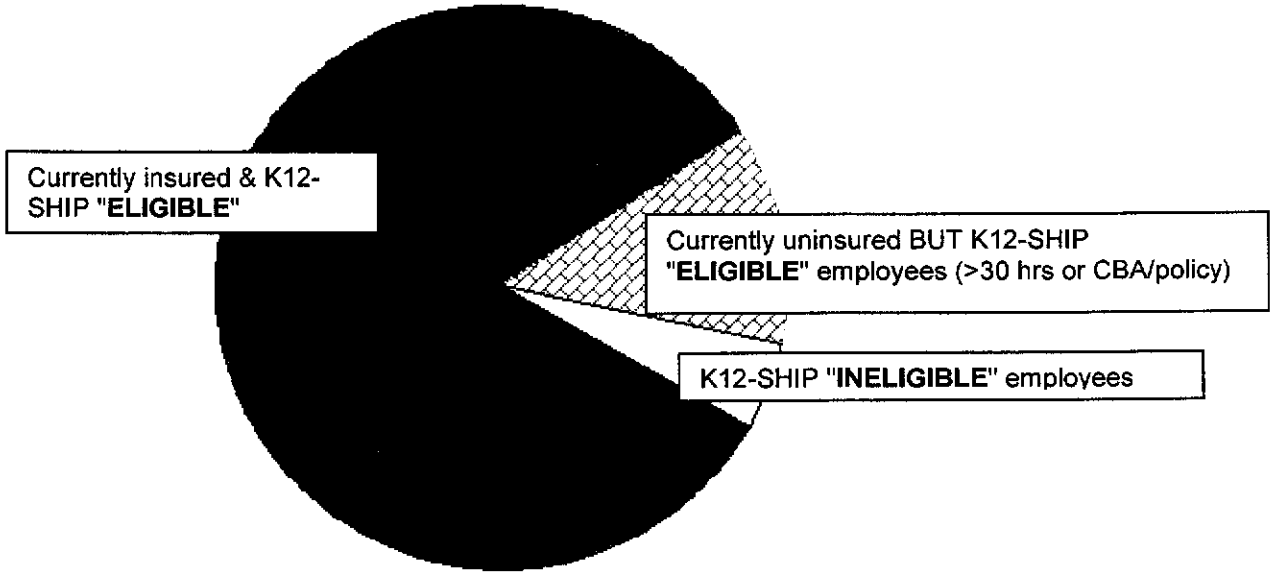
STATUTORY APPROPRIATIONS TO THE K12-SHIP BOARD

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 hs, 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"

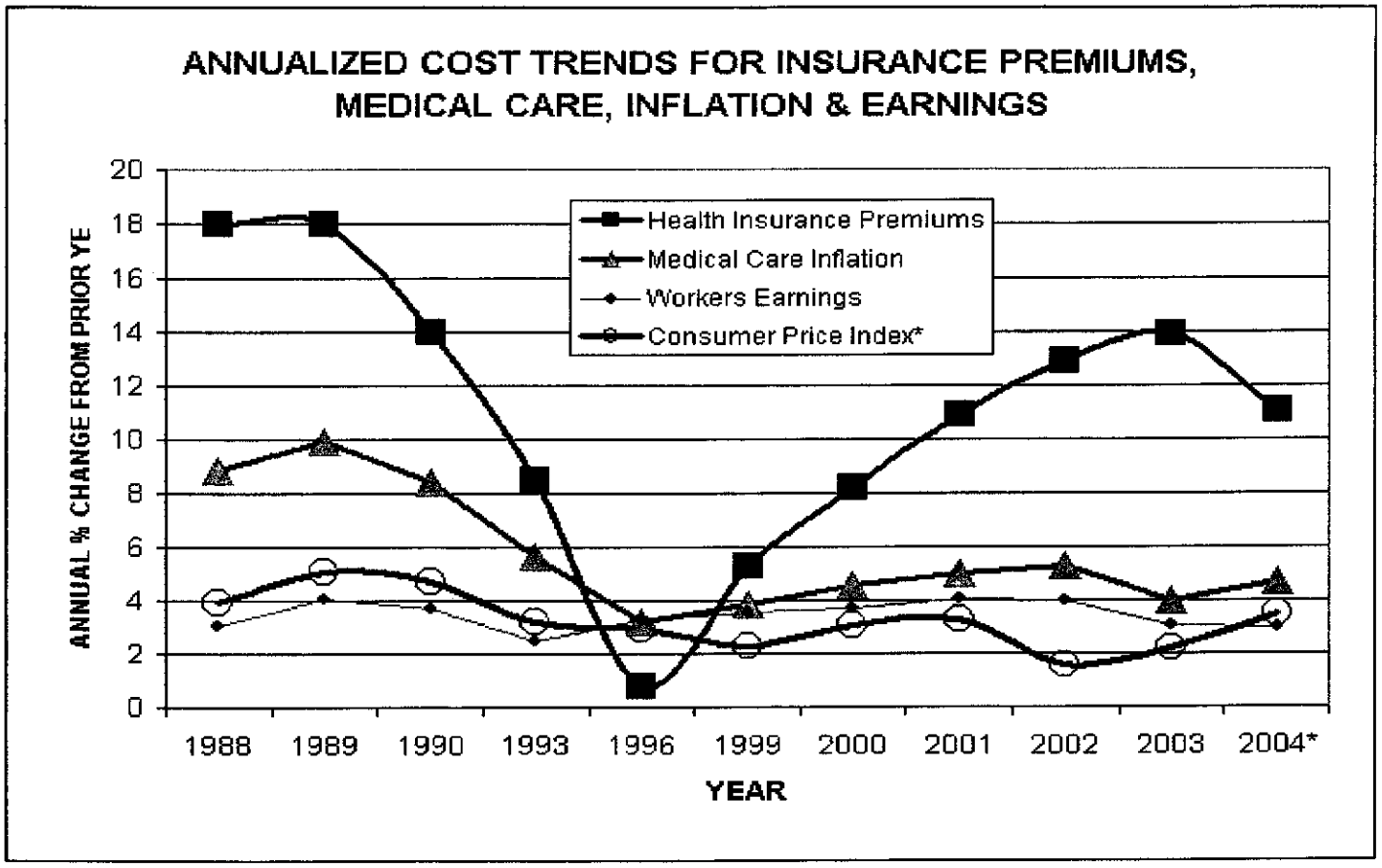


Annual "medical care" inflation rates over the last the last 20 years have averaged about 2 times the average annual rate of general inflation (CPI-U) and have ranged from 3% to 10% per year. "Medical care" inflation rates have been far more stable and predictable than volatile insurance premium increases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

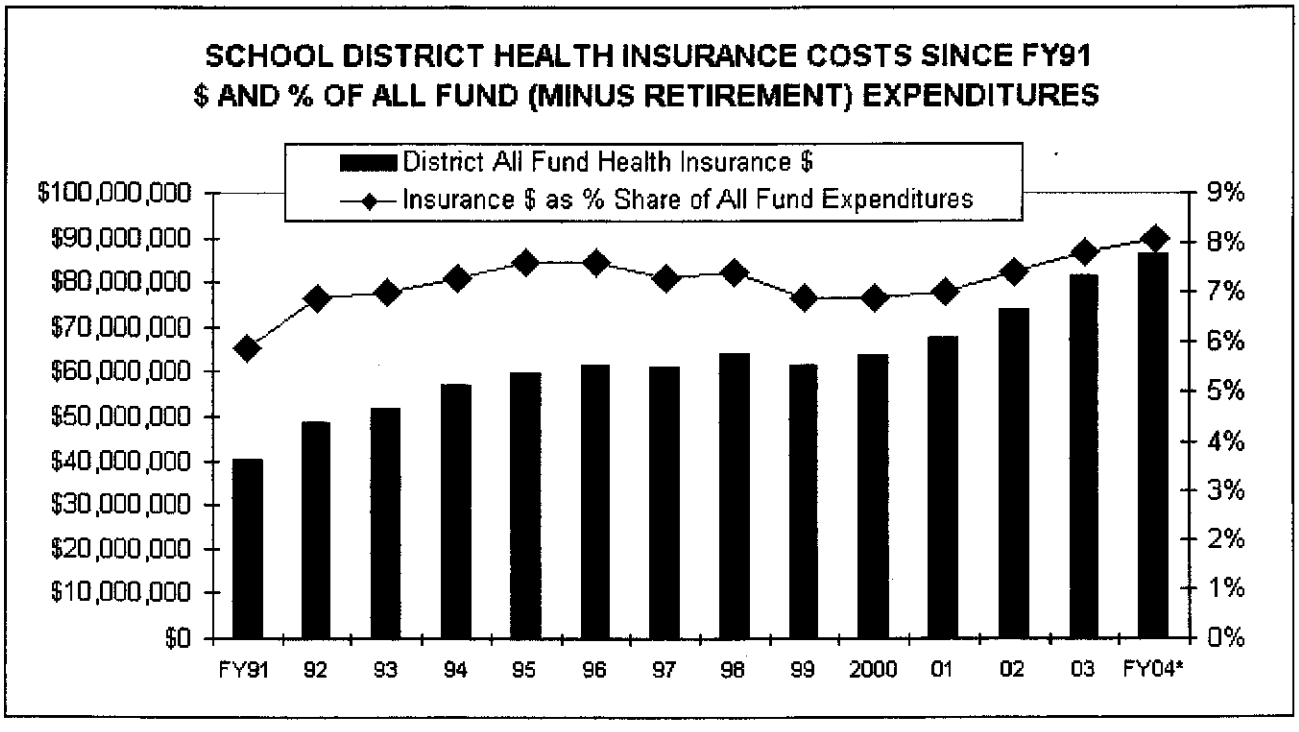
HISTORICAL TREND OF SCHOOL DISTRICT EXPENDITURES FOR HEALTH INSURANCE

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 peaepm) 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: _____

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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
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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

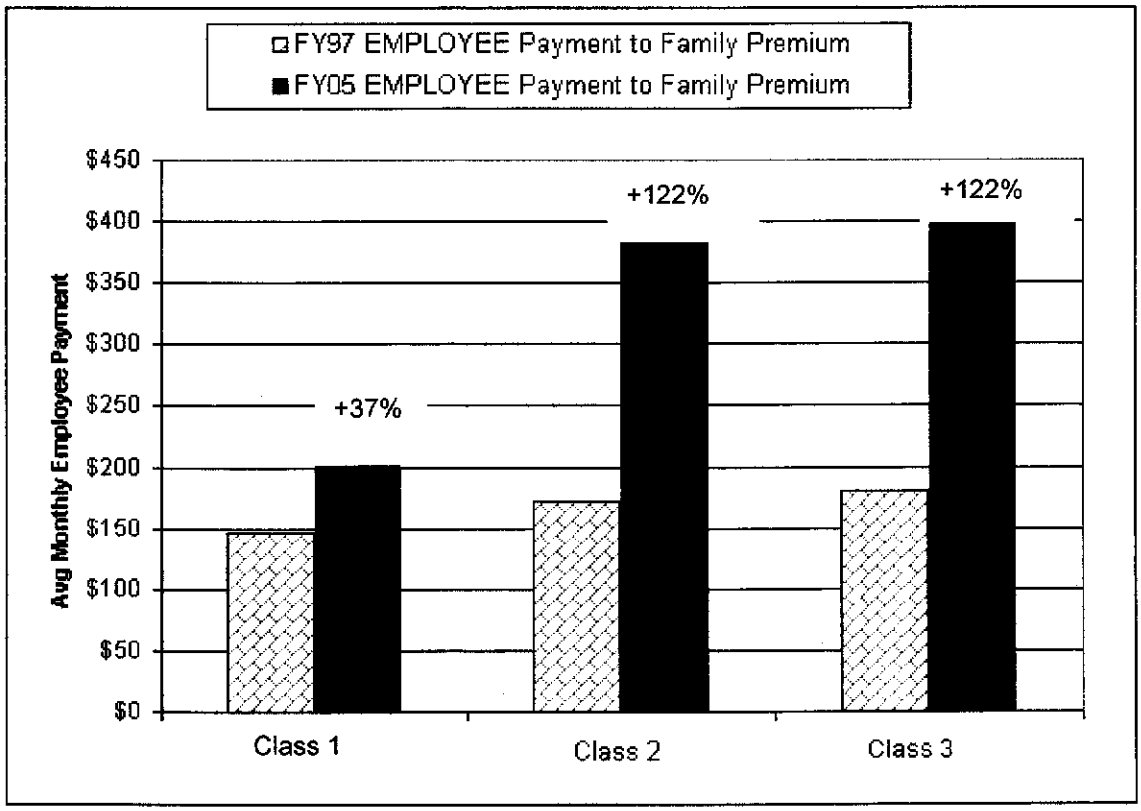
$ AVERAGES FOR 1st (Large), 2nd (Middle-Size) & 3rd (Small) CLASS DISTRICTS

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
1st	217	361	414	735	**147**	**201**	355	637
2nd	201	356	489	849	**172**	**382**	371	647
3rd	187	328	444	825	**180**	**399**	NA	NA

PERCENTAGE INCREASES IN PREMIUMS & EMPLOYEE PAYMENT TO FAMILY PREMIUMS

1st	**66%**	**78%**	**37%**	79%
2nd	**77%**	**74%**	**122%**	74%
3rd	**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.

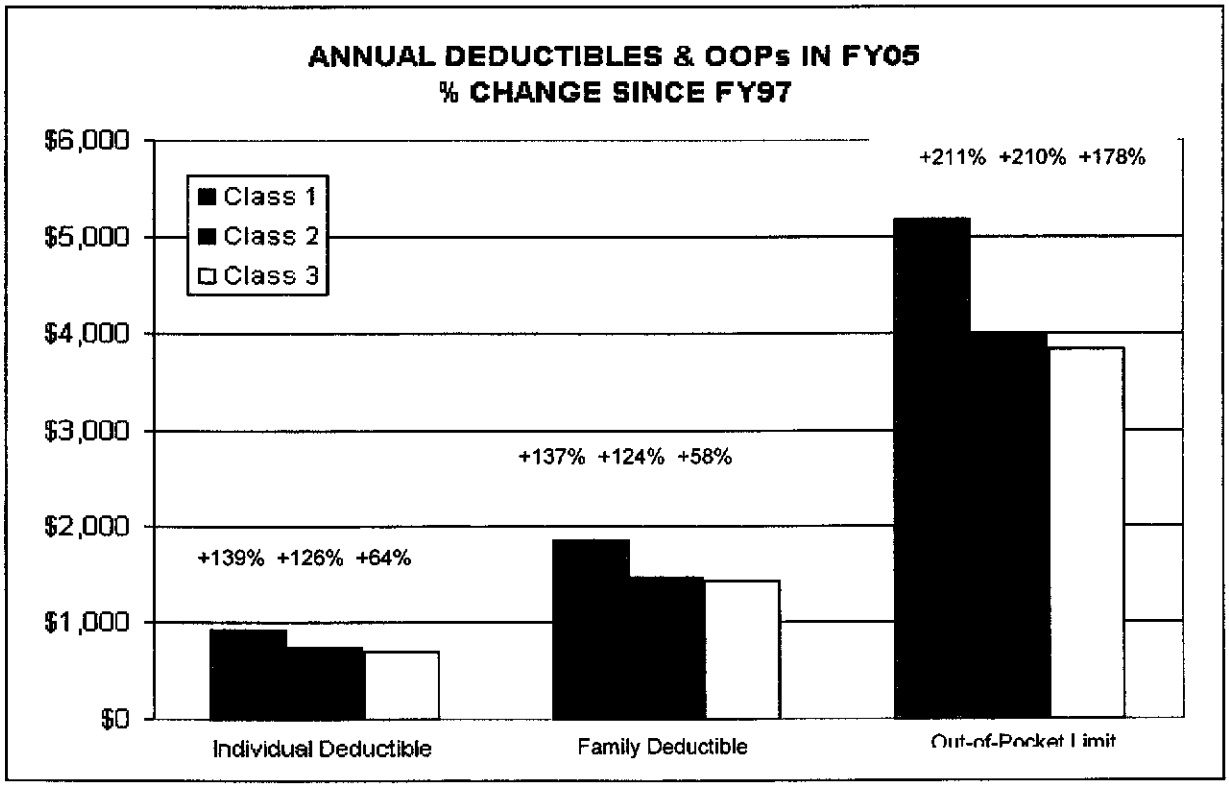
Local plan deductibles and out-of-pocket limitations have also grown notably since FY97.

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	Individual Deductible		Family Deductible		Out-of-Pocket Limit	
CLASS	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

1st	139%	137%	211%
2nd	126%	124%	210%
3rd	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.

While co-pays have generally been maintained at 80%/20%, over the last seven years more than 3 dozen districts plans have converted to 75/25%, 70/30%, 60/40% or -- in at least three instances -- 50/50% co-pays. Higher out-of-pocket maximums have followed suit – trending toward $2,000 / $4,000 per year, with at least a few districts adopting annual family OOPs of $6,000 to $10,000 for some offered plans. Total compensation and effective take-home pay for school employees has steadily declined almost in direct relationship to the increase in employee-paid health care costs. Most local insurance committees and district plan administrators expect these trends to continue – unless significant systemic reform – such as K12-SHIP -- is undertaken in the immediate future.

Most larger-district plans have moved to higher deductibles and OOPs maximums of $2,000/$4,000 – or higher. (See "Appendix C" Plan Summaries" in eBenX, 10/2004, EBR's March 2004 analysis of FY04 AA school plans, or MEA-MFT/MtSBA/MSSF's annual ;school insurance survey.) Between FY97 and FY05, "average" family deductibles have grown by 137% in 1st class districts, 124% in 2nd class districts and by 58% in smaller or 3rd class districts. Total out-of-pocket limits for employees have simply exploded – more than doubling (+200%) in just 7 years.

K12-SHIP HEALTH or CORE BENEFIT PLANS – A BETTER OPTION FOR THE FUTURE

K12-SHIP seeks to establish a solid foundation for school employee health benefits and protects the buying-power of local employer budgets, employee and retirees paychecks.

Following study, benefits design and further actuarial consultancy, specific details of the "basic," "standard" and "preferred" health (or collectively "core") benefit plans will be determined by the K12-SHIP board in late 2005. The K12-SHIP board will publish detailed plan documentation and premium statements to all school districts, education coops, K12-SHIP membership/employee groups and the general public in December of 2005. These plans and premium schedules would become effective and operational as of July 1, 2006 (for FY07, or the 2006-07 school year.) [Sec.5(4)] Individual members annually select plan participation. [Sec.5(4),(5)]

The "BASIC" value plan will present higher deductibles, greater co-payment cost-sharing and out of pocket (OOP) maximum costs chargeable to employees, and provide limited "1st dollar" coverage compared to the "standard" plan. The "basic" plan will NOT offer pharmaceutical benefits and is anticipated to be designed by the K12-SHIP to be fully "medical" and "health savings account" (HSA) qualified under federal and state law. By statute, premium for individual coverage under the basic plan will not exceed $200 per month, or otherwise not exceed the amount of K12-SHIP credit toward premium. [Sec. 2(1), Sec.5(9)] This targeted minimum & maximum premium for individuals enrolled in the "basic" plan will be indexed to the rate of medical cost inflation for future years. Targeted premium and medical cost inflation are essential to maintaining benefits protection and avoiding future year "unfunded mandates" on employer budgets.

Basic Plan

The Basic Plan will not offer pharmaceutical benefits and will be designed to be fully "health savings account" qualified at both the state and federal level. By statute, the premium for individual coverage will not exceed $200 per month -- or the indexed rate in future years.

- Deductible: $2,000 Individual or $4,000 Family
- 70/30% co-payment
- Maximum out-of-pocket costs = $4,000 Individual /$8,000 Family (including deductible)
- Maximum lifetime benefit = $1 million
- Minimal deductible waivers for preventive, new-born and well-child care
- All other services subject to deductible
- No Rx program or benefits
- Fully Medical/Health Savings Account qualified

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Standard Plan

The Standard Plan will provide first dollar coverage with waived deductibles for common physician/medical service provider office visits, diagnostic and other routine services. The Standard Plan will be designed to be "actuarially equivalent" in value to existing school benefit plans and the State's traditional health plan in 2003.

- Deductible: $1,000 Individual or $2,000 Family
- 80/20% co-payment
- Maximum out-of-pocket costs = $2,000 Individual / $4,000 Family (including deductible)
- Deductible waived on preventive, new-born and well-child care
- Additional services where deductible is waived include:
  - Physician/medical service provider office visits
  - Chiropractic sessions (limited to 25 per year)
  - Diagnostic (X-rays and labs)
- Accident injury benefit of $1,500 per incident, multiple incidents allowed
- Maximum Lifetime benefit = $3 million
- Standard Rx program -- $50 per person Rx deductible ($20/20%, $30/30%, $40/40%) $1,500 annual maximum out-of-pocket

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Preferred Plan

The Preferred Plan will provide broad first dollar coverage with waived deductibles for common services, as well as a high-value/no deductible Rx benefit program, relatively low deductibles, and lower annual out-of-pocket limits.

- Deductible: $300 Individual / $600 Family
- 80/20% co-payment
- Maximum out-of-pocket costs = $1,300 Individual / $2,600 Family (including deductible)
- Deductibles waived and accident benefit available as per "standard" plan
- Maximum Lifetime benefit = $3 million
- Preferred Rx program (same as "standard Rx except deductible is eliminated) $1,500 annual maximum out-of-pocket

K12-SHIP will also develop and establish network-care, HMO or local preferred provider organization (PPO) or other similar health care plan options to be available on a regional or statewide basis. Additionally, a statewide K12-SHIP Medicare supplement program will be provided and be operational as of initial implementation in July 2006. [Sec. 2(11)(13)]

As projected by the actuary (eBenX, Oct/Nov 2004), the FY07 "family premium" for the "standard" plan is estimated to be $803 per month – *and no school district or coop in Montana would have a premium greater than this amount.* FY07 composite premiums for the "standard" and "preferred" plans would be $533 and $610 respectively. FY07 premiums for single enrollees would be $200 per month for the "basic" plan, $321 for the "standard" and $367 per month for the preferred plans.

Enrollment Category	% of Enroll	Rate Index	**-- Projected FY07 Premiums (eBenX, 10/2004) --** "Basic" Plan	"Standard" Plan	"Preferred" Plan
Single	35.65%	1.00	$200	$321	$367
Two Party	17.7%	2.00	$400	$642	$734
Parent/Child(ren)	8.1%	1.90	$380	$610	$697
Family	25.5%	2.50	$500	$803	$918
Single Retiree	3.7%	1.00	$200	$321	$367
Two Party Retiree	3.7%	2.00	$400	$642	$734
Single Medicare	3.2%	0.55	$110	$177	$202
Two Party Medicare	1.9%	1.10	$220	$353	$404
1+1 > 65	0.3%	1.55	$310	$498	$569
Composite	100%		$332	$533	$610

Compared to FY04 local district plan premiums adjusted for premium inflation of +10% in FY05 and +9% per year in FY06, projected K12-SHIP premiums under the proposed statewide K12-SHIP "standard" plan are less than projected local school district plan premiums for more than 80% of school districts and employees. A majority of districts and employees are projected to experience a K12-SHIP "premium savings" of more than $40 per month per employee compared to comparable benefits plans otherwise offered by local school districts. Dozens of employers and more than 1,000 employees statewide are expected to have K12-SHIP family premiums available to them that will cost $100 to $200 less per month than comparable benefits plans otherwise available on a local district, small-group pool rate basis. Statewide "calculable savings" of K12-SHIP vs continuance of local health plans are estimated to exceed 8%, or $10m in FY07 alone.

OTHER GROUP BENEFIT PLANS

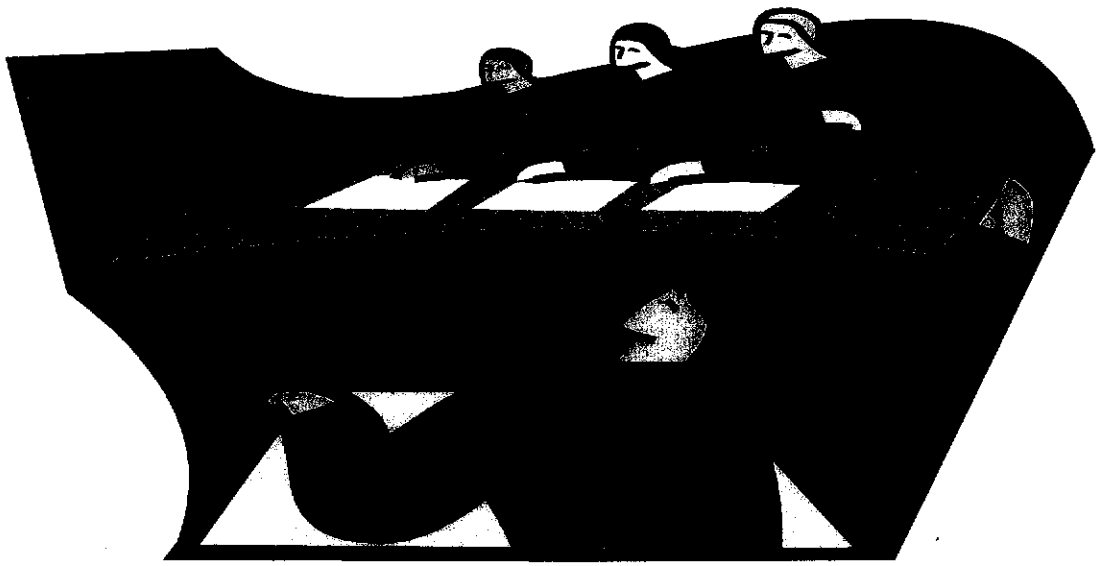
In addition to "core" health/medical benefits, the K12-SHIP will also sponsor "rider-benefit" packages for dental/orthodontia care, vision, disability, accidental death and dismemberment, life and potentially other insurances. Districts may elect to participate in these "other group benefits plans" through contract with the statewide K12 program. Unlike provisions dealing with core health/medical benefits, the bill allows districts and coops to purchase "rider-benefit" packages through the K12-SHIP *or* from other private venders. [Sec.2(9), Sec.4(3b), Sec.7]

K12-SHIP BOARD COMPOSITION, NOMINATION & APPOINTMENT

The K12 SHIP board will consist of 9 members appointed to 5-year staggered terms by the governor. [Sec.6] The members of the board must be appointed from nomination lists submitted to the governor as follows:

- four members who are enrolled in the statewide public school health benefit plan, including at least three members from first-class districts and at least one classified employee appointed from a list of at least 8 nominees submitted by MEA-MFT;
- two representatives of public school administrators, including at least one representative from a first-class district appointed from a list of art least 4 nominees submitted jointly by the school administrators of Montana and the Montana association of county superintendents of schools;
- two representatives of public school board trustees, including at least one representative from a first-class district appointed from a list of at least 4 nominees submitted jointly by the Montana school boards association, Montana rural education association and the Montana association of school business officials; and
- one retiree who is a participating member of the K12 SHIP.

The bill further provides that the governor and nominating organizations shall make appointments and nominations with due consideration given to demonstrated experience in the administration of school health insurance plans. The K12-SHIP board's composition reflects participant member and premium payer-payers interests from Montana's school community. The board's composition, nomination and appointment structure is similar to structures now in place for more than a dozen other existing governing, regulatory or licensure boards provided by existing Montana law. "Weighting" of board membership toward class 1 (large) districts will assure that the board will include a majority of members with extensive experience in the management of large, often self-insured local school health programs. K12-SHIP board members will be minimally compensated and have expenses paid in accord with 2-15-124(7) MCA as applicable of quasi-judicial boards. [Sec.6(6)]



POWERS, DUTIES & GENERAL OPERATIONS OF THE K12-SHIP & K12-SHIP BOARD

The K12-SHIP board – under provisions of Section 7 will:

- act as fiduciary for the K12-SHIP and beneficiaries of the K12-SHIP;
- be empowered to employ and manage it's own staff;
- employ one state employee to have secured access to the state's accounting and data management system – *a response to Legislative Auditor concerns;*
- prepare RFP's and contract for claims payment, actuarial and other specialized professional services pursuant to the Montana Procurement Act;
- be subject to select provision of Title 33, regulation as a health services corporation, with overview and policy-holder services provided by department of insurance;
- determine preferred methods for providing K12-SHIP education and information services to local members and employers [Sec.5(1f)], provide effective and cost-efficient administration of the k12-SHIP for payroll office assistance, enrollment and data transfer processing, claims processing and member claims assistance procedures;
- pursuant to applicable provisions of Title 33 and fiduciary duty, determine whether the K12-SHIP requires re-insurance or stop-loss protections, and if so determine the most appropriate specific and/or aggregate re-insurance levels [Sec.7(1f)];
- be required to conduct financial status reviews at each of the board's 6 annual meetings;
- undergo annual financial reviews by, or at the direction of, the Department of Insurance as required by applicable provisions law and regulation pursuant to Title 33 MCA and the Department of Insurance [Sections 10-32], as well as biennial audits by or at the direction of the Legislative Auditor [Sec.8];
- establish (initially by December 1, 2005 and annually by January thereafter) K12-SHIP "basic," "standard" and "preferred" health benefit plans, as well a network or managed health care programs, and Medicare supplement health plans;
- closely monitor the performance of each K12-SHIP plan and annually adjust plan benefits as deemed prudent and necessary;
- establish supplemental or rider dental, vision, life, LTD, and other statewide insurance plans to be made available to districts for voluntary participation;
- annually (by December 2005, and by March 1 thereafter) set tiered-rate and composite-rate premiums for eligible member enrollment in K12-SHIP group benefit plans;
- assure that the individual premium for the "basic" health plan does not exceed the amount of the state funded credit toward premium -- $200 peaepm in FY07, thereafter indexed to the rate of increase in the medical cost inflation – and thereby avoid any issue of "unfunded mandates" and continue to offer access to "basic" health insurance plan enrollment;
- guarantee from state funded credit monies and from premiums to repay the start-up loan ($2 million) and any draw upon line-of-credit reserves made available by the Montana Board of Investments [Sec.7(1m), Sec.9]; and
- otherwise manage and administer the K12-SHIP.

The bulk of administrative services necessary for the board, for payroll and member plan benefit education and assistance and enrollment operations of the K12-SHIP would be done by staff directly hired and managed by the board. Per board decision in late 2005 or very early 2006, some of these "front-end" functions of the K12-SHIP may be sub-contracted to regional service providers. [Sec. 7(1e)] It is anticipated that all "back-end" claims payment processing operations will be sub-contracted following RFP/bidding process established by the Montana Procurement Act. [Sec.7(5)] The board's independent "hire and management" powers are common to more than a dozen other state commissions, offices and boards. See: 2-18-103 MCA. Board decisions are subject to review pursuant to the Montana Administrative Procedures Act (MAPA). [Section 11]

Initial implementation or "start-up" costs of the K12-SHIP and K12-SHIP board expenses for staffing, initial study, actuarial and benefits design services and establishing the health risk pool and benefit plans, will be funded by a $2 million loan provided to the K12-SHIP board by the Montana Board of Investments. All repayment costs of the start-up loan, as well as costs associated with reserves-building will be guaranteed by state funded "credit" monies. [Sec. 7(1m), Sec.9]. Any "default" on loan payment to BoI becomes the joint obligation of all employers/members of the K12 statewide health risk pool and benefits plan per Title 17 MCA.

RESERVES*

By the very first day of operation, the K12-SHIP will establish initial reserves of $24 million by access to a "line of credit" provided by the Montana Board of Investments. [Sec.9] This level of reserves meets reserves standards recommended by most health benefit plan administrators and actuaries, and has been reviewed by eBenX, the office of the State Commissioner of Insurance by reference to applicable provisions of Title 33, the Heinz Endowment, and staff of the Department of Insurance. [Sec.17] Internal reserves building capacity was also costed by the actuary into the administrative cost structure of the K12-SHIP. It is not anticipated that the K12-SHIP board will ever need to draw upon the line-of-credit, or if it does will draw a small fraction of the available line-of-credit. Any draw monies will be repaid through premium charges in future years and K12-SHIP is anticipated to have accrued it's own sufficient internal reserves within 10 years of op0eration.

Repayment of the start-up loan and reserves building -- and per Board decision concerning a small additional amount of premium charge for FY07 and FY08 stop-loss insurance -- will be guaranteed from state funded "credit" monies and by explicit charges to premiums. Repayment will be scheduled by contract with the BoI over a period not to exceed 10 years. Per the suggestion of Representative Branae, none of the loan or line-of-credit repayments, or any amount of current statewide premiums may be used to pay for local group plan expenses incurred prior to July 1, 2006 -- or later in respect to "late-joining" employer/employee groups.

** Existing local school districts' self-funded health benefit plan "reserves" are fully retained by the local district/health benefit group. These local district reserves may be used to pay any and all outstanding claims and liabilities experienced by the local district prior to participation in the K12-SHIP. Following K12-SHIP enrollment, remaining local reserves will be maintained by the district and/or member benefits group for future benefit costs of K12-SHIP as specified by local collective bargaining agreement, employer policy or practice and as otherwise required by applicable state and federal law and regulation. [Section 5(4)]*

CONCLUSION --

K12-SHIP presents an important step forward in Montana's efforts to provide quality health care benefits for school and coop employees and retirees, doing so at affordable costs for employer budgets, employees and retirees.

K12-SHIP is the right thing to do –now!

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or *ANY* member of the K12-SHIP Working Group
(see following page for list of members)

Resources:

eBenX actuarial studies (2002 & 2004) of local Montana k12 health plan enrollment, demographic characteristics of the enrolled populations, claims experience, plan design benchmarks, and premiums.

Annual MSSF/MEA-MFT/MtSBA insurance survey data for Montana school districts.

Employee Benefit Resources (2004) study of benefit offerings and premiums and other benchmarks for large "AA" local school health plans and of the state of Montana health benefits program.

Montana Small Schools Alliance survey reports on health plan offerings of small schools since the mid-1990s.

MEA-MFT bill summaries and local impact statements prepared for HB302 (2003 legislative session.)

Coopers-Lybrand actuarial study (1996) of local Montana k12 health plans and projection of favorable insurance and benefits coverage, administrative savings and effective insurance program management results of establishment of a k12 statewide health insurance program in Montana.

Recent 2004 legislatively contracted reviews of proposals to establish statewide k12 health programs in Minnesota and Pennsylvania.

OPI OPICORE budget and expenditure data for Montana school districts (FY91 through FY04 for budgets and FY03 for expenditures), and specifically expenditure data for benefits -- object code #200s.

Other Resources:

K12 Statewide Health Insurance Program (K12-SHIP)
K12-SHIP "Working Group" Members – 2004

Members of the K12-SHIP Working Group include:

- MEA-MFT, Tom Bilodeau
- Montana School Board Association (MtSBA), Bob Vogel & Lance Melton
- School Administrators of Montana (SAM), Darrell Rud
- Montana Unified School Trust (MUST / MSSF, Bob Robinson & Bev Spoja
- BCBS, Tanya Ask
- Great Falls Public Schools, Judy Higgins and Donnie McVee
- Employee Benefit Management Services (EBMS), Cori Cook#
- Billings Public Schools self-insured group, Dan Martin and Jeff Greenfield
- Missoula Public Schools self-insured group, Marta York and Joe Potter
- Montana School Health and Welfare Program (MSHWP) Dixie Kibbee#
- Deaconess Billings Clinic (DBC), John Jones#
- Montana Rural Education Association (MREA), Dave Puyear
- Montana Small Schools Alliance, Claudette Morton
- MT Association of County Superintendents, Dottie Donovan
- Montana Association of School Business Officers (MASBO), Linda Brannon

Employee Benefit Resources and the eBenX actuarial firm provided resource information and analysis for the Working Group. Substantial additional assistance was also provided by the Connie Erickson and Eddye McClure from Legislative Services, Connie Welsh and others from the State Health Benefits Bureau, Carroll South from the Montana Board of Investments, and Commissioner of Insurance staffpersons Erin McGowan and Christina Goe. Input was also received from the Governor's office, Jim Edwards, Earl Hansen, Allegiance health plan administrators, and others.

Nine meetings of the Working Group were held between January and September of 2004. Considerable discussion occurred regarding general policy objectives of a SHIP, specific establishment and administrative procedures, funding methods, school district participation and employee eligibility guidelines, and other related matters. At the September 1 meeting, the Working Group achieved broad-based support or "sufficient consensus" for endorsement of the K12-SHIP bill as outlined above.

The Working Group's proposed legislation was drafted by the Legislative Services Division during the fall of 2004. The Governor's Renewal Commission, the interim Committee on Taxation Policy, and then the interim Local Government & Public School Committee endorsed K12-SHIP in mid-September, 2004. The K12-SHIP Working Group scheduled 20+ local/regional K12-SHIP information meetings presented across the state between mid-Oct. and Dec., 2004. By the end of 2004, the proposal was endorsed by the Commissioner of Insurance, Superintendent of Public Instruction, Montana Retired Educators' Assn, and by a number of large and small school districts/employee groups and insurance committees from across the state (Thompson Falls to Missoula, Roundup to Billings). Many additional "formal endorsements" of K12-SHIP are expected from large and small, east and west, high and low budgeting districts during Jan/Feb, 2005.

The K12-SHIP bill draft was repeatedly reviewed and then approved by sponsor Representative Tom Facey, a member of the Local Government and Public Schools Cmte and has now been introduced into the 2005 Legislative session as a Committee bill, HB124.

 # Working Group participants not agreeing to part or all of consensus K12-SHIP proposal.