EXHIBIT 10
DATE 1-18-05
HB 124

Montana Association of School Business Officials

One South Montana Avenue Helena, MT 59601 www.masbo.com
Lynda Brannon, Executive Director (P) 406-442-5599 (F) 406-442-1356
masbo@in-tch.com

SHIP Testimony

Montana Association of School Business Officials posed the following questions to our membership:

MASBO will be an informational witness on this bill. If any of you have thoughts on this please send it in and I will compile (both good and bad) information for the committee.

1. *Will this bill help your district?*
2. *if it does, why*
3. *if the bill does not, why?*

Glendive: it will free up some insurance money that can be used to increase salaries or other areas of need.

Arlee Schools Position on LC0413 - "K-12 SHIP"

The Arlee Schools Insurance Committee has met several times to discuss the proposed legislative bill, LC0413, Statewide Health Insurance Program, (K-12 SHIP). During the meetings, there have been several discussions as to whether or not we should support the proposed legislation that would create the K-12 SHIP. The legislation as drafted, does not limit the possibility of differentiated rates, the rates individual districts may find imposed upon them. We recommend that the language in the legislation includes equalized rate increases for all participating school districts.

A second issue needing attention is the vague language concerning those districts that are not able to join the "K-12 SHIP" in 2006 due to master contract agreements, or other reasons. It is stated that there will be "penalty charges" imposed. Are those districts that do not join in 2006 in fact allowed to join? If so, what are the penalties?

A third issue is that the plan needs to allow flexibility to help with employee, spouse, and/or family premium contributions. We think this could be addressed by putting in choice contribution rates. For example: the school district has three employees equaling a $600 credit. Allow the district to utilize choice where a single employee would receive $150.00 credit, a two party employee would receive a $200 credit, and a family employee would receive a $250 credit. For any increases in premium rates as indexed to the medical inflation rate, the percentage of increase in premium credit would be applied to the type of plan the employee has. The "K-12 SHIP" gives medical coverage to school employees currently not covered with health insurance. Currently, ninety percent (90%) of our employees are on single insurance plans as two party and family plans are too expensive for our staff. To retain more of the younger teachers within our state, and to assist those approaching retirement, different options of contribution rates for singles, two party, and family employees would be of great assistance.

If these amendments are made to LC0413, the "K-12 SHIP," we would support the legislation to create a Statewide Health Insurance Program for those employed by schools in Montana.
January 7, 2005
Arlee Schools Insurance Committee
Reviewed January 12, 2005, by the Arlee School Board of Trustees. By consent, they support the endorsement with the proposed amendments being added to the language.

Harlem: If feel this bill would help our District immensely. Currently our District pays $552,000 annually for employee health insurance coverage.
Our employees pay an additional $76,780. These high premiums are for coverage with a fairly high deductible. If we could get less expensive coverage with a lower deductible through a statewide pool, our employees would have more take home pay and pay less medical out-of-pocket and our District would have more money in their budget to provide a quality education for our children.

Shelby:
1. Yes this bill would help our district.
2. We wouldn't have to pay all of the insurance, better bargaining power and coverage's.

Butte:
I'm writing regarding MASBO's solicitation for input on HB 124 (K-12 SHIP) and its impact on districts. To put it bluntly, this legislation is of such magnitude to the Butte School District and its employees that it may determine our ability to continue to function.

Over the past several years the employees of Butte School District #1 have seen a dramatic increase in their insurance premiums and a corresponding decrease in their insurance coverage. The insurance issue has caused problems for the district, its employees and the community. The impacts to the district and the employees both revolve around trying to manage their budgets; insurance and medical expenses are increasing while resources are decreasing. The impact to the community has been equally difficult. In talking to our hospital administrator they have seen a significant increase in unpaid medical bills in our community and some of that increase is directly attributable to the insurance coverage Butte School District #1 employees are receiving. As deductibles and premiums have increased many employees have migrated away from the insurance plan entirely or moved to a catastrophic plan, which has affected their ability to cover their medical costs. So while some may view this legislation as a school issue I think that it can be easily argued that it is also a community issue and the plan outlined in HB 124 will not only benefit school districts and their employees, but also the communities throughout Montana who have seen negative impacts from the health insurance problem.

Columbia Falls: I have attached two documents regarding K-12 SHIP. One outlines the concerns we have with the proposal and one outlines a proposal that would be for schools with self insured programs. The short answer to your questions below are:

1. In the long run this bill would not help us for a couple of reasons.

First we need the money in the general fund. Second Mr. Biladeau, in his Kalispell presentation, told the teachers present that they need to go after the $200 in salary & benefit negotiations. Once they get it, there is no savings. Also, please see attachment.

3. See reasons outlined in attachments. Also, because a family has to reach two out of pockets, it encourages each individual to take a plan rather than having couples working for the district take one family plan.

Lynda, I am very opposed to this plan. I think a statewide plan could work but this isn't the plan. Please call me if you want more info or if something in the attachments is not clear. They were originally written for Mike after much discussion regarding the ins and outs of the plans. ******
Additional Attachments

Bozeman: When we analyze the Statewide Health Insurance Plan (SHIP) along with increased Per-ANB funding, the priority for Bozeman is clearly increased Per-ANB funding. We administer a very successful self insured plan and have worked hard to establish a culture of wellness. We are concerned about losing the sense of ownership our employees have towards their current insurance. Even though the SHIP bill has funding of $200 per month per employee, in our case, the actuarial reports predict most of that will be eaten up by increased premiums. The Bozeman Board of Trustees has not yet taken an official position on the SHIP but it is clear that increased Per-ANB funding is the priority. If passage of the SHIP jeopardizes increased General Fund allocations it is likely we will lobby against it.

Geyser: Support of K12-SHIP is a no-brainer to me! At Geyser, our monthly premium for a family is $708, with only $350 covered by the district--unaffordable for employees and a huge expense for the district.

Frenchtown: 1. Will this bill help your district?
The extra $200 dollar credit would help the district financially.
However, our self-insurance plan is currently a little lower in premium cost than the upper level plan under the K-12 ship.....AND it also includes dental and vision. So as far as the employee's benefits are concerned, it would have a negative impact. Our self-insurance trust fund is currently showing approximately $800,000 in Reserves so we are not having problems with paying claims for those added benefits.
2. If it does, why
3. If the bill does not, why?
See info above...ALSO.
We have some real concerns about creating an additional administrative entity whose costs would reduce the monies available for benefits and claims payments. Most self-funded health plans have administrative expenses far less than 8%. We are also concerned about making the decision to join an irrevocable decision. If the premiums skyrocket due to administrative costs or the problems inherent with pooling, we are stuck with it. K12-Ship is projecting annual increases in health costs of 9% the premium costs will double in 6 years. Even if OUR claims track record warrants being able to obtain health insurance cheaper elsewhere. For example: Our premium increases were 4.5% from 2003 to
2004 and 3.5% from 2004 to 2005.

"MASBO IS DEDICATED TO TRAINING AND SUPPORTING THE PEOPLE RESPONSIBLE FOR BUSINESS OPERATIONS OF MONTANA SCHOOLS. THE GOAL IS TO ENABLE MEMBERS TO MANAGE THE BUSINESS IN ORDER TO SUPPORT EDUCATION FOR MONTANA CHILDREN"

There is already an entity available to all schools with a similar administrative makeup. It is MUST. However MUST isn't set up as a Health Service Corporation and as such doesn't have the added consequence of being subject to premium assessments for the Montana Comprehensive Health Association. This unnecessary assessment is estimated to cost the K12-ship 1.5 million per year. This money could be better used to increase benefits or reduce premiums.

If the monies were given directly to the districts, we believe that every district would be able to obtain health insurance much cheaper and elsewhere through competition without all of the administrative/overhead costs.

Frenchtown Insurance Committee

No, we have a solid self insurance program in the district. Your proposals would cost more and give lower benefits. You're creating a whole new bureaucracy that is unnecessary. The Montana Unified School Trust (MUST) already exists and can do anything that is proposed in the bill. If the state wants to help by giving DISTRICTS $200 per month to help towards insurance that is a good idea. But to give it to this bureaucracy that, once it has our business, can do anything it wants because we CANNOT leave is just wrong. No governmental organization can be as efficient as what we currently have ESPECIALLY when they have NO motive to satisfy their customers. Your estimating is 7 percent administrative costs. Ours currently is around 3 percent. Plus you tie administrative costs to medical inflation which is also ridiculous as your administrative costs do not rise like the costs of medical coverage.

Mark McMurray
Insurance Committee
Frenchtown School District

Forsyth

Here are the concerns that we at the Forsyth Schools have regarding the K - 12 SHIP.

1. The make-up of the Board is skewed in favor of MEA (4) (five if you consider that the retiree would have a very good chance of being a former MEA member).

   And First Class Schools (5) (six if you consider the retire could have a very good chance of being from a 1st class district).

   Tom Bilodeau stated at a meeting in Colstrip on Monday, Jan 10, that the 1st class schools had been granted a concession regarding the makeup of the board in return for their support of SHIP.

   Since there are no first class districts east of Billings, does that mean that all of the school employees of eastern Montana will be left out in the cold when

it comes to the decision making for SHIP?

2. The term HMO was used in the information that was received at MCEL and at recent meetings. It is also in the definition area of the bill (section 2 subsection 11).

   While HMO may be workable and acceptable for individuals in some areas. I feel very strongly about individual choice when it comes to medical care. We have all read the horror stories about HMO's and their favor of the bottom line over medical care for individuals.

3. The system WILL NOT decrease time at the school level. I did not believe that with the preliminary information and now that I have read the bill, I know it will not be true. With monthly required reporting of hours, wage information, union status, etc., just imagine the increased workload.

   Also, the employees can select each year which program they wish to enroll in which will also require additional clerical time.

4. We have been told that once a Board of Trustees votes to participate in SHIP, the district will remain in the program virtually forever.

   What if future legislatures refuse to fund the $200 state contribution?

   What if the program ceases to meet the needs of our employees?

   What if the SHIP Board becomes unresponsive to the concerns of the employees as could happen with a Board that is skewed in favor of MEA members from class 1 schools?

Overall, I believe that the K-12 SHIP is a good program and that it will benefit schools but the above concerns merit consideration.

Victor

Because of our size (and aging staff population) we have difficulty meeting enough numbers to qualify for small business. We actually have mandatory insurance to staff who would like to opt out, but to meet our numbers we must have them participate. Our retired folks from 55-65 can't afford the premiums and are forced to go without or with very high deductibles ($5000). We don't qualify for the HSA's because of the prescription component on our insurance. Staff that is part time (during the school year) has to pay for the percentage that isn't covered. Most can't afford the premiums. Currently for our insurance for full coverage with a $500 deductible for a family is $1067.70. Only one person is actually paying this premium. She clears about $150 each month. Hope this helps.

"MASBO IS DEDICATED TO TRAINING AND SUPPORTING THE PEOPLE RESPONSIBLE FOR BUSINESS OPERATIONS OF MONTANA SCHOOLS. THE GOAL IS TO ENABLE MEMBERS TO MANAGE THE BUSINESS IN ORDER TO SUPPORT EDUCATION FOR MONTANA CHILDREN"

Canyon Creek
We do feel that we will benefit by this bill. Except for the last couple of years, our health premiums have varied widely. Even though they have been pretty consistent the past few years, our premium is really too high for our younger staff to take advantage of--a problem which makes the premium higher.
No one will be forced to take advantage of this program--another plus. As a district, we would like to see the bill pass.

Concerns Regarding K-12 Ship

I'd rather have the "incentive" money coming to the district's general fund than going as an offset to the insurance premiums paid by a variety of funds. With the coalition's victory the issues of caps can be addressed. Also, whether the money goes to a program controlled by a board of directors or to the schools, the legislators will take credit for giving us the money. **It is the general funds that need the money.**

There is no opt out. If the plan gets too costly, the only option for districts and the plan itself is to reduce benefits.

Employees choose the plan they want to be on. If the employer could choose or negotiate the plan that individuals were on, our district could use the basic plan as a coordination of benefits option. We would belong to K-12 SHIP, everyone would be on the basic plan and we could continue to self insure to our current plan limits. There would be other changes required besides the "employees choose annually" language for this to work for our district.

The plan designs for the standard and premium plans are opposite of the trend in benefits design which encourages people to take responsibility for maintaining their health and managing or reducing health risks by increasing wellness benefits and increasing deductibles. These options encourage positive lifestyle choices and limit premium increases while still providing for catastrophic and chronic issues.

Both the standard and premium plans have first dollar coverage for physician office visits, chiropractic sessions, diagnostic x-ray and lab, and accident benefits. This encourages use rather than having individuals consider self treating, use of nurse hotlines, reduce or manage health risks as outlined above, etc. which in the long run will increase costs as compared to our plan.

The bill draft indicates that it is optional for the board of directors to purchase stop loss insurance. The comment from MEA and the BCBS representative at the meeting is that the stop loss insurance isn't really needed because of the line of credit available from board of investments. Borrowing money costs money. Having reserves earns money.

Currently our administration cost is approx 5%. I guess the law of diminishing returns comes in at some point when groups get too big.

Reserve limits are not adequate as presented in the bill draft. Cash reserves are limited, according to Section 16 (2)(b) to the lesser of $750,000 or an amount equal to one month's average income from premiums paid. The comment from MEA and BCBS was that that was the minimum not the maximum and they could

use the other $20+ million line of credit in place of other reserves. That is not what the bill draft says.

Having the inflation factor built into the incentive is good. However, 2002 data shows that the Medical CPI growth (4.6%) was approximately ½ of the total increase in spending (9.3% in total and 8.3% per capita). Over the long haul there will be increasing costs for the plan which the incentive factor will not keep up with.

The control of the plan rests with a 9 person board appointed by the governor. I'm not sure there are 9 people in the state from the groups to be represented with the knowledge to lead a program with a possible 16,000 participants. I would rather maintain control here and hire consultants that we choose.

We have buy-in with our plan that a statewide plan will never have. People, at least, are beginning to understand that usage drives cost and prevention is better than treatment.

Our plan is a more complete plan – medical, dental, vision, life, and wellness and flex. The SHIP plan is medical only. Any savings on medical coverage for plans like ours will probably more than be eaten up by costs of adding back the additional coverages.

Costs may also increase to the district because more people may choose to be on the insurance. For example, our employee spouses should choose to be covered by 2 single policies rather than 1 family policy because of the structure of the maximum out of pocket limits and the way our district contribution is currently structured.

For retirees, not having a modified composite rate, may make insurance even more unaffordable, especially for single retirees. A tiered rate would benefit them but if a tiered structure were bargained, the family cost would be significantly higher than it is currently, resulting in additional district contribution.

K-12 SHIP
Option for Self Insured Plans

As proposed, K-12 SHIP has 3 medical only plans. Schools would be allowed to purchase dental, life, vision, disability etc. outside of the SHIP plan. For schools that are currently successfully self insured there is currently no option to join K-12 SHIP without abandoning the medical part of the self insured plan. As currently written, employees get to choose which of the 3 plans offered they want to belong to each year.

Proposal for Self Insured Plans:
Allow districts with self insured plans the option of negotiating that all employees on the insurance program be enrolled in the Base Plan offered by SHIP.

The Base Plan would be primary for all employees who take district insurance.

The Self Insured plan would be secondary in all cases.

RESULT:
District receives the incentive for belonging to K-12 SHIP which, in turn, frees up general fund money (at least in the short run).

K-12 SHIP has a larger pool of lower useage people in their plans.

District Plan has lower expected claims, less chance of having a specific stop loss claim, less chance of having an aggregate claim with a result of significantly lower projected premiums even taking into consideration the potential additional administration cost for the self funded plan due to increased coordination of benefits activity.

Employees maintain current program at reduced cost with the benefit of having our dental, vision, life and prescription coverages and the ability for having flex claims paid automatically.

District still has control of and buy-in to the full insurance plan. There is motivation for both District and Staff to support wellness/health promotion programs which not only help all the benefit plans but, in the long run, reduce absenteeism, and can improve quality of life for employees not only while they are working but through their retirement years.

Samples of Claims Process

Basic Sample Info	CF Self Ins Plan	Base Plan(SHIP)
Deductible	$600	$2,000
Co Pay	70/30	70/30
Total Out of pocket	$2,100	$4,000
Lifetime Max	$2 Million	$1 Million

Sample 1 – 3 Individual Medical Claims for $1,000 (assume total charges allowed by both plans)

1st $1,000 Claim comes in
Base plan applies it to deductible
CF Plan applies $600 to deductible and pays $280 (70% of remaining $400)

2nd $1,000 Claim comes in
Base plan applies it to deductible ($2,000 deductible now met)
CF Plan pays $700 (70% of $1000)

3rd $1,000 Claim comes in
Base plan pays $700 (70% of $1,000)
CF Plan Pays $0 (70% of $1,000 less $700 paid by Base Plan)

Sample 2 – Brand Name Prescriptions for $100 submitted after $600 Deductible Met
Base plan pays $0. Prescriptions not allowed under Base Plan
CF Plan Pays $70 (70% of $100. Deductible applies but has been met)

Sample 3 – Generic Prescriptions for $100 submitted prior to meeting $600 deductible
Base plan pays $0. Prescriptions not allowed under Base Plan
CF Plan Pays $80 (80% of $100. Deductible does not apply to Generic Drugs)

Sample 4 – Claim for $10,000 submitted
Base plan pays $6,000
District plan pays $1,900 (after COB)
Insured pays $2,100 (total out of pocket for District plan)

Base Plan (SHIP):	Base Plan	Insured
Claim Submitted	$10,000	
Less Deductible	2,000	$2,000
Remaining	8,000	
Plan pays 70% of 6,667	4,667	2,000
Total Out of Pocket		$4,000
Add'l Paid at 100%	1,333	
Less net paid by District Plan		1,900*
Total Paid	$ 6,000	$2,100**

District Plan:	Dist Plan	Insured
Claim Submitted	$10,000	
Less Deductible	600	$ 600
Remaining	9,400	
Plan Pays 70% of 5,000	3,500	1,500
Total Out of Pocket		$2,100**
Add'l Paid at 100%	4,400	
Total Paid	7,900	
Less COB from Base Plan	6,000	
Net Paid	$ 1,900*	

* District plan payment offsets insured's out of pocket in base plan.
**District plan out of pocket = total paid by insured.

Insured satisfies total out of pocket on both plans. Base plan pays 100% of allowable charges for remainder of benefit year up to $1,000,000 lifetime max. District plan pays 100% of allowable charges not covered by the Base plan and any allowable charges in excess of $1,000,000 up to the District plan's $2,000,000 lifetime max, for remainder of benefit year.