K-12 HEALTH BENEFITS

LEGISLATIVE SERVICES DIVISION

K-12 health benefits are a perennial topic of discussion and debate in the Montana Legislature. This brief is an attempt to provide a bit of background on this topic that has been churning for two decades or more, fueled mainly by two persistent problems:

- large variability in the health benefits offered by school districts and in the cost of providing those benefits; and
- increasing costs of providing health benefits that is taking up a larger share of district budgets.

Chronology of previous studies and proposals

2003-2005

Following the narrow failure of HB 302—which would have created a new statewide K-12 health benefits program—in the 2003 session, the 2003-2004 Education and Local Government Interim Committee bravely took on the issue. Its work is summarized on pages 10-12 of the committee's final report. The committee proposed HB 124 also known as K-12 SHIP (Statewide Health Insurance Program) in the 2005 session. The ship apparently lost steam during its journey, being tabled in House Appropriations after passing 2nd reading 76-24.

In an effort to satisfy a Montana Supreme Court decision (Columbia Falls v. State) that found the state's funding formula unconstitutional, the Quality Schools Interim Committee (QSIC) met feverishly from May to December of 2005 trying to redesign Montana's K-12 funding formula in advance of a special session. School employee health benefits was one of the many issues the committee attempted to address. See pages 26-27 of the final report for a summary of QSIC's work on this issue. The committee ultimately decided not to recommend either of two K-12 health benefits options it had considered:

- Bringing K-12 employees into the state employee health pool and allowing districts to permissively levy for the costs; and
- A stop-loss proposal from Governor Schweitzer's budget office that had the state take on the cost and management of high-cost claims and provide other support for school districts in securing quality, cost-effective health benefits for their employees

GLOSSARY

Self-funded or self-insured plan describes a plan that insures itself, meaning it uses employer/employee contributions (and any accumulated surplus or reserves) to pay for its beneficiaries' claims. The state employee plan is self-funded as are the plans of several (typically) larger school districts. Some self-funded plans reinsure for high-cost claims.

Reinsurance (often called **stop-loss coverage**) is basically when a health benefit plan purchases insurance itself to cover high-cost claims; reinsurance can cover individual claims that reach a certain threshold and/or aggregate claims for the year over a certain amount. When a self-funded plan reinsures, it is offloading some of its risk and can operate with lower reserves. The State of Montana and Helena School District do not reinsure; MUS and Bozeman and Kalispell Schools do.

MUST (Montana Unified School Trust) is a self-funded plan that offers health benefits to school districts. By joining together through MUST, districts are able to increase their bargaining power and offload administrative burden. Districts' premiums vary based on demographics and, for larger districts, claims history, so each district remains to some degree its own risk pool.

A health insurance **risk pool** is a group of individuals whose premiums are driven by the medical costs of the group. Higher-cost claims are balanced by other members with lower-cost claims and risk is shared, stabilizing premiums. State employees all belong to the same risk pool; Helena school district employees all belong to the same risk pool.

A **third-party administrator (TPA)** is an organization that provides services to a self-funded plan, services like processing claims and paying providers. The state health plan currently contracts with Allegiance for its TPA.

2015-2016

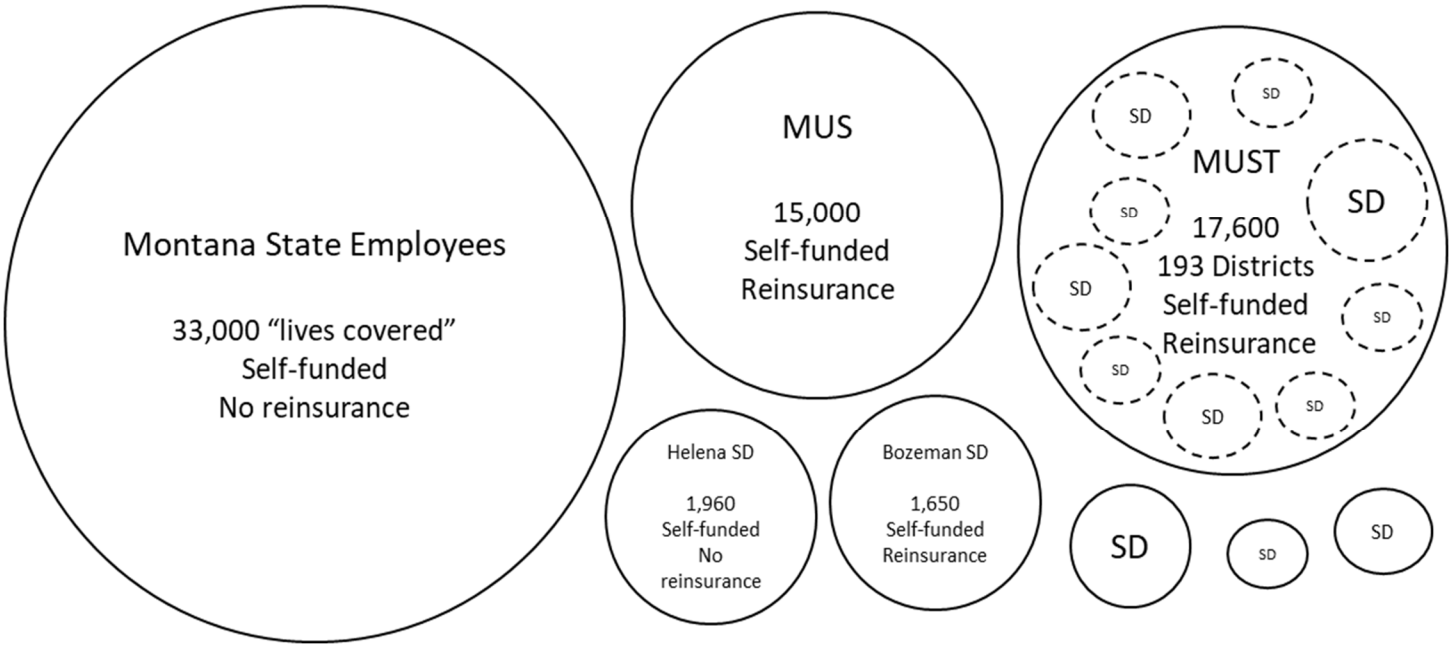
The School Funding Interim Commission spent time on this issue during the 2015-2016 interim; its work is summarized in the commission's final report (see pages 45-46). Ultimately, the commission proposed SB 69 to create a task force to study public employee health benefits. The bill was tabled in its first committee during the 2017 session. Here are some resources utilized by the commission:

- A 2-page staff brief on previous legislative proposals to create a statewide health plan for K-12 employees
- A 3-page information response from the Education Commission of the States describing approaches taken by other states in creating health benefit programs for K-12 employees

2019

A new approach was proposed in HB 235 that would have provided incentives for districts to participate in a health insurance trust (like MUST) that pools risk, has at least 10,000 individuals (or "lives") covered, and serves at least 100 school districts. The bill was tabled in its first committee.

One way to view the landscape



This not-to-scale graphic may help explain the landscape of the various health plans for public employees. There are two large Montana public employee plans in existence, the state employee plan and the Montana University System plan. A dozen or so school districts operate their own self-funded plans, utilizing third-party administrators; some districts purchase health insurance for their employees on the open market; a number of districts participate in MUST.

It is worth noting that local government subdivisions (other than school districts) can permissively levy for increases in the costs of providing health insurance, and that cost increases for state and university system employees are mostly provided through state appropriations. The cost increases borne by school districts in providing health benefits come out of districts' general fund budgets. Health benefit cost increases have long exceeded the inflationary increases provided to school district general fund budgets; this creates a pinch in district budgets and can result in providing less generous health benefits, offloading a greater share of health benefit costs onto employees, or allocating less money for instruction.

Topic brief prepared by:
Pad McCracken, Research Analyst
Office of Research and Policy Analysis
Montana Legislative Services Division
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