MONTANA LEGISLATURE
OFFICE OF RESEARCH & POLICY ANALYSIS

THE BASICS OF HB 332 – INCENTIVIZING A SCHOOL DISTRICT HEALTH INSURANCE TRUST

EDUCATION INTERIM COMMITTEE
PAD MCCRACKEN – SEPTEMBER 2023

BACKGROUND

K-12 employee health benefits have been a perennial topic of discussion and debate in the Montana Legislature for 20+ years. The debate has been fueled 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 taking up a larger share of district general fund budgets.

While House Bill No. 332 (Bedey; 2023) was not a committee bill, the 2021-2022 Education Interim Committee spent considerable time on this issue and compiled a good deal of information which is available on the committee webpage.

WHAT THE BILL DOES IN SIMPLE TERMS

HB 332 provides a significant incentive, $40 million, for school districts to band together in forming a "district health insurance trust" with the idea being that by acting together in a large trust rather than in isolation or in smaller trusts, districts, through the trust, will be able to negotiate better terms from health care providers and third-party administrators and reduce costs by being self-insured, rather than paying for insurance. The $40 million must be used by the trust "to stabilize health insurance costs through capitalization of an operating reserve for the district members of the trust."

Only the first trust that applies and is qualified by the state auditor can receive the incentive. The bill lays out various conditions that a trust must meet to qualify and receive the incentive as well as conditions under which a district may withdraw from the trust. After withdrawing, a district may not rejoin for 5 years. There are also terms for the dissolution of the trust, both voluntary and mandatory for failing to maintain qualifications. These terms include the return of any remaining assets attributable to the $40 million incentive.

This $40 million is only "on the table" until **June 30, 2026**, at which point it will be transferred to the long-range building account of the state. It is up to school districts and the organizations and associations that support them to make this happen. The state auditor has oversight over the self-governing trust through qualification approval, rulemaking authority, serving on the governing board in an ex-officio capacity, reviewing annual financial reports, and the ability to dissolve the trust should it fail to comply with laws, rules, or solvency requirements.

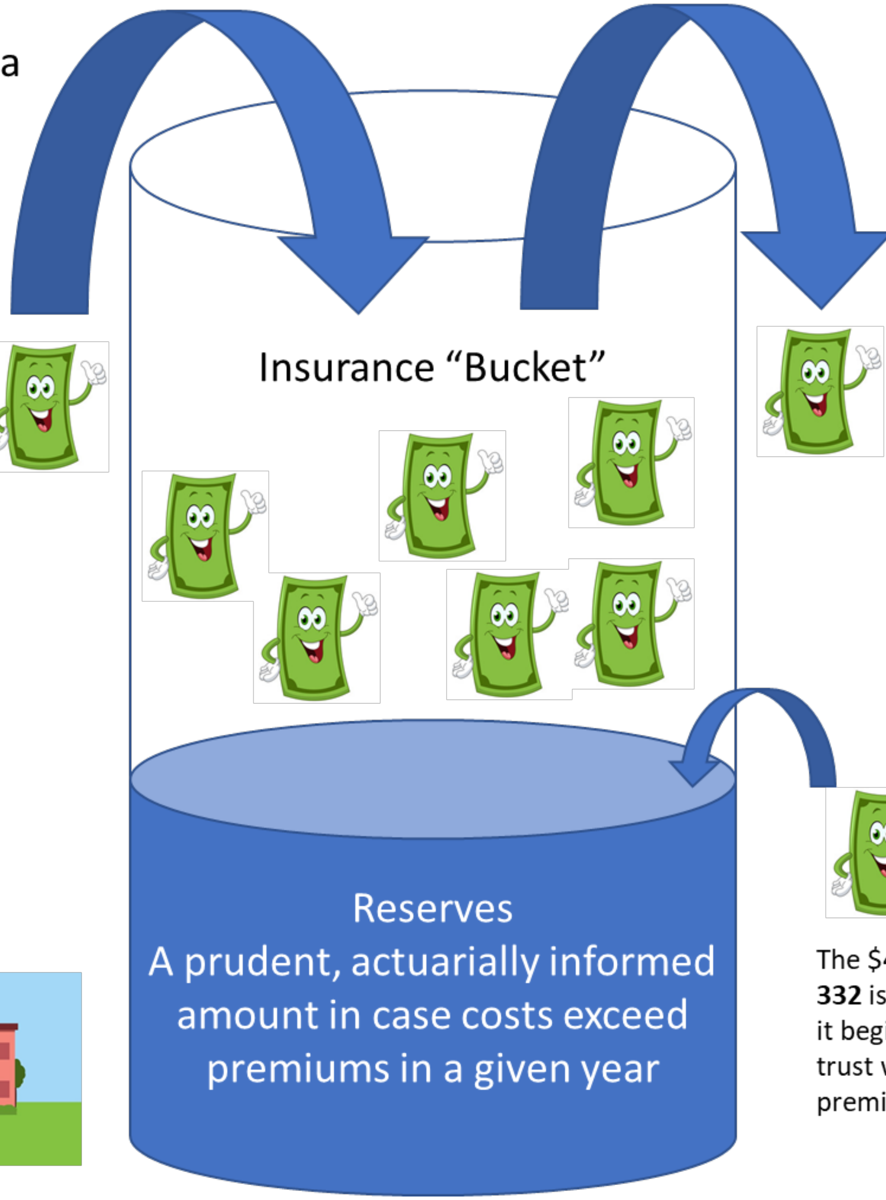
To qualify for the $40 million incentive, a trust must meet multiple conditions including:

- serving at least 150 school districts with at least 12,000 employees who will participate in the trust; and
- limiting administrative costs to no more than 12% of total costs.

Only the first trust that applies and is qualified by the state auditor can receive the incentive.

Basic Function of a Self-Funded Insurance Plan

Contributions/premiums from employees and employers go into the insurance "bucket" in amounts that are determined to be sufficient to cover expected claims. This determination is called underwriting.



Costs
Payments out of the insurance bucket include:

1. **Administrative costs** are the overhead costs of the plan, including those costs paid to a Third-Party Administrator (TPA);
2. **Claims** covered by the plan (minus any deductibles or co-pays which are borne by the employee);
3. **Reinsurance (aka stop-loss coverage)** premiums paid to a secondary insurer for high-cost individual claims and/or high-cost years, if purchased by the plan. Reinsurance allows a self-funded plan to operate on fewer reserves because some of the risk has been offloaded to the reinsurer.

The $40 million incentive provided in **HB 332** is to kickstart the trust's reserves as it begins operations. Otherwise, the trust would need to charge higher premiums in order to build the reserves.