March 16, 2017

Review and Recommendations
Davis Joint Unified School District
Health Benefits Committee

In May 2016, Davis Joint Unified School District (DJUSD) retained the California Education Coalition for Health Care Reform (CECHCR) to complete an independent review and evaluation of the health plan DJUSD offers through CalPERS. As a component of our review, we would evaluate the costs and quality of the current plans offered through CalPERS, and offer recommendations based on our findings.

We were also asked to assist in the development of the Health Benefits Committee (HBC), which now has the framework to move forward with any recommendations for health plan improvements and changes to the current employer/employee contribution structure.

Over the last several months we have collected the data necessary to draft a Request for Proposal (RFP), and sent the packets out to the large purchasers the last week of December 2016. In order to meet the March 2017 deadline, we asked that the proposals be returned to us no later than February 17, 2017.

WHAT PURCHASING OPTIONS ARE AVAILABLE?

It is important to understand that there are four distinct ways school employers/employees can purchase health insurance. There are pros and cons of each option, depending on the size of the district, collective bargaining agreements, contribution strategies, and health plan network considerations.

1. **Direct Contract, Fully-Insured/Self-Insured**

Any California School District can self-insure or offer a health plan that is fully-insured. If an employer directly contracts with a fully-insured health plan, the health plan will require a minimum percentage of covered lives to ensure the financial stability of the group. Fully-insured plans are regulated by the Department of Managed Health Care (DMHC). Self-insured plans are regulated by the Departmet of Insurance (DOI).

It is usually large school employers like Fresno USD/Oakland USD/Los Angeles USD that self-insure or enter a direct fully-insured arrangement with a health plan. Because these employers have a significant number of lives covered under the employer sponsored plan, the "risk" is spread across the larger group and generally, claims costs are more stable and predictable.

2. **Public Employees Medical Health Care Act (PEMCHA) – CalPERS Health Program**

CalPERS is one of the largest purchasers of health insurance in the U.S. The CalPERS Board of Administration administers the health benefits program and determines the benefit design, including any co-pays, deductibles, provider networks, and premiums. By statute, contracting agencies (school districts) in California are eligible to contract with the CalPERS Health Benefits Program. Contracting agencies can contract to cover all bargaining units, or specific employee units (bargaining units) under the CalPERS rules.

To enter or exit the CalPERS Health Program, the Governing Board of the school district must pass a resolution. In addition, the school district must agree to all the terms and conditions of the CalPERS Health Plan contract.

3. **Joint Power Authorities**

In the mid-70s public agencies were faced with increasing health insurance costs and fewer options. Insurers were rating school districts individually, which led to increased costs. To address the issue of individual rating and to provide rate stability, the California Legislature amended the Government Code (Article I, Chapter 5, Division 7, Title I, Section 6500), which allowed for two or more public agencies to join together to purchase insurance. As a result, California's school districts began joining JPAs to stabilize rates.

A JPA may include specific contractual terms by which the signatory school districts must agree to be bound. The JPA Board of Directors can amend the by-laws of, alter, or terminate the JPA. To enter or exit the JPA, the Governing Board must pass a resolution.

4. **Jointly Managed Trust**

A Jointly Managed Trust (JMT) is established under 501 (c)(9) of the Internal Revenue Code. The California school JMTs have five basic characteristics: one or more employers contribute to the JMT; Participation into the JMT is collectively bargained with each participating employer and bargaining unit; The assets are managed by a joint board of trustees equally representative of labor and management; and, assets are placed in a trust fund to be used exclusively for the benefit of the plan participants (covered employees and dependents).

The Governing Board must pass a resolution to enter or exit the JPA. The school district, and each respective union that enters into the JMT must also sign a participation agreement, and a termination agreement to enter or exit the JMT.

RESULTS OF THE REQUEST FOR PROPOSAL (RFP)

A key CECHCR principle is that the concept of pooling is critical to protect California's school districts from rate fluctuation, to ensure regulatory compliance, and lower administrative costs. CECHCR only solicits Request for Proposals (RFP) from purchasing entities that have a signigicant number of lives to impact the marketplace

We sent RFPs to California's Valued Trust (CVT), Self-Insured Schools of California (SISC), California Schools VEBA, and Keenan & Associates, which administers Municipalities, Colleges, and Schools Insurance Group (MCSIG).

California's Valued Trust
California's Valued Trust (CVT) is a Jointly Managed Trust (JMT) that provides health, dental, vision and life insurance to 120,000 school employees and their covered dependents. CVT is one of the largest purchasing pools for school employees in California, and has been serving California's school districts since 1984.

CVT's eligibility rules require that every fulltime employee (defined by the collective bargaining agreement), receive a minimum contribution for employee only coverage (minimum of a Bronze plan). CVT will allow Grandfathering of employee opt-out of up to 20 percent of eligible employees.

CVT declined to quote due to the high number of opt-outs – almost 40% of eligible employees. Concerns were also expressed that quotes would be due almost a year prior before the effective date of the new plan.

CVT's representative also requested a "*clean census*" to be able to quote on a district that could only provide demographic information to obtain a quote. To clarify the census issue, CVT was requesting a census that would mirror the current (*January 2017 at the time*) CalPERS billing roster, which also illustrates all dependents as well as eligible employees not participating in the medical plan. In addition, CVT wanted a "*plan to plan*" match of the District census to the CalPERS roster. For example, the Anthem *Sacramento Area* plans should be on both the District census and the PERS billing roster. Given the date of CVT's request (January 25) and the work that would be involved from the District to compile a new census with updated information, we manually updated the original census the evening of January 25th and forwarded the file over to CVT. We were contacted again by CVT on January 27th, asking for the clarification on the census information, the file was re-sent and a very detailed message was left on voice mail.

We were hoping that the new enrollment numbers might entice CVT to bid, but knew the number of opt-outs would be a huge obstacle. If CVT would have expressed any interest in bidding, we would then come back and ask the Business Department to compile the data for a new census. We didn't want to put the District through all that work if there was not a chance we would get a positive response from CVT.

There is still ample time to work up a new census, and ask CVT to issue a quote. CalPERS will release "preliminary" rates on Tuesday, May 16, 2017 and we would be happy to pursue a CVT quote. If the District, or DTA/CSEA opts to move forward with CVT, it would most likely require work through the summer.

Self-Insured Schools of California

The Self-Insured Schools of California (SISC) is a Joint Power Authority (JPA) administered by the Kern County Office of Education. SISC was established in 1979, and is the largest purchasing pool for educational employees in the U.S. SISC has over 400 public school agencies participating, and a purchasing pool of over 300,000 members.

SISC's participation rules require that all 90 percent FTE or higher employees enroll in the district sponsored plan. SISC will negotiate Grandfathering opt-outs based on each District's circumstances. In addition, SISC generally requires the employer contribution at minimum, be equal to the employee only coverage of the least expensive plan offered (can be a Bronze plan).

SISC declined to quote because the employer contribution will not pay for an employee only Bronze level plan and also had concerns regarding the percentage of opt-outs. If the employer contribution was increased to meet SISC's minimum standard, we would still have to negotiate what an acceptable opt-out rate would be for SISC to issue a quote.

California Schools VEBA

The California Schools VEBA (VEBA) is a JMT established in 1993 in San Diego. VEBA currently serves 60 school districts, and its risk pools serves 120,000 members. VEBA's primary area of marketing has been in the five South Counties (San Diego, Orange, Los Angeles, Riverside, San Bernardino). However, over the past three years VEBA has expanded its marketing to Northern California.

VEBA declined to quote due to the number of employees opting out. In addition, VEBA's rating structure is based on the percentage of the employer contribution for family coverage. The current employer contribution would not meet VEBA's minimum standards.

Municipalities, Colleges, and Schools Insurance Group (Keenan)

The Municipalities, Colleges, and Schools Insurance Group (MCSIG) is a JPA with approximately 16,000 lives. MCSIG primarily marketed in Monterey County until three years ago, when it expanded its services to municipalities, public colleges, and now markets throughout Northern California.

MCSIG allows employees to opt-out of coverage, except a married couple working for the District: each must take employee only coverage. MCSIG does not allow cash-in-lieu of benefits.

Keenan performed a CalPERS Breakaway Analysis to determine if Davis JUSD would benefit from exiting CalPERS. Davis JUSD was rated well below the threshold necessary for Keenan to secure a competitive quote. Among the negative factors that were cited are the high number of employees opting out, participating employee demographics and Employer contribution.

We want to remind the Committee that the only purchasing entity that offers guaranteed issue is CalPERS. If the employer can agree to meet the purchaser's standards, it will increase the chances of getting quotes from the purchasers, but there is no requirement a bid be issued.

The District also asked that we provide “what if” rates that would be based on 100% participation. Unfortunately, the pools will not provide illustrative rates based on speculative enrollment. We can make assumptions based on other data that is available, but this would not necessarily be credible based on the actual participation of district membership.

EVALUATION OF REASONABLENESS OF THE COSTS AND QUALITY OF THE EMPLOYER PLAN
CalPERS has tremendous purchasing power, and has recently been focused on health improvement of its members. The plans PERS offers have high actuarial values, and provide an excellent plan of benefits to its members.

We reviewed the responses to the employer/employee surveys CalPERS solicited for the last five years. The two issues that ranked highest with employers are: (1) No flexibility in plan design. No plan(s) that provide a reduced benefit; and therefore, premium reduction; (2) The cost of retiree health care, and the impact on the District’s budget. Most school employers appreciate the low administrative costs of the CalPERS plans, and the ease of administration once the initial enrollment was completed.

EMPLOYER/EMPLOYEE CONTRIBUTION STRATEGY
Health insurance premiums are expensive by anyone’s standards. The issue with the contribution strategy at Davis JUSD is that there is no participation requirement for medical coverage, and the employer contribution is very low. In reviewing the collective bargaining agreements, it appears that the employer contribution has not increased in several years, but healthcare inflation has continued to increase making healthcare unaffordable for the employees and families who do not have access to coverage through another source.

QUANTITATIVE ASSESSMENT OF THE QUALITY PERFORMANCE OF HOSPITAL AND MEDICAL AND MEDICAL GROUPS
We provided the Hospital Quality Matrix in the Benefits Guide we developed last year. We have enclosed a Medical Group Quality Matrix and the Hospital Matrix.

DENTAL AND VISION BENEFITS
We are in the process of soliciting a bid from SISC for dental and vision benefits. We have found the dental and vision rates to be quite favorable. Employees will maintain their current level of coverage, and incentive level under the Delta Dental plan.

NEXT STEPS
Although the current number of non-participating employees has decreased, it is still quite high. There are most likely two factors driving the low participation: (1) Lack of lower cost minimum essential coverage (MEC) plans available through CalPERS and (2) A lower than average employer contribution to cover the cost of health coverage; (3) Employee might have coverage through spouse/partner through another employer.

Additionally, the District does not have a requirement that employees participate in the medical coverage program. Conversely, all employees are required to participate in the dental, vision (management exempt) and EAP programs, but most of the pools do not have a participation requirement for ancillary benefits and in many cases, offer an EAP benefit at no cost.

With research planning and negation, we believe it would be possible the revise the current benefit program and have a better opportunity to solicit competitive bids from the pools:

- Survey District membership – especially employees currently opting out of the medical program to understand why they are not participation, where are they obtaining coverage and what options would they like to see from the District;
- Based on data analysis, negotiate updated participation requirements and employer/ employee contributions;
- The Benefits Guide we developed last year provided employees with an easy guide to plan choices, premium cost, employer deductions, contact information, and many other features that assisted in making insurance choices during the open enrollment period. We would recommend updating for the next PERS Open Enrollment, so employees have updated information to make health plan choices;
- Based on the Employee Wellness Survey we just received, there is significant interest in pursuing a comprehensive wellness program. We would recommend the HBC develop a calendar and wellness program for the 2017/18 school year.

We are prepared to assist the District with the above steps and provide the necessary resources to expand and improve the current benefit program.