



# CAPE ELIZABETH SCHOOL SCHOOL BOARD

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April 5, 2011

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Kenneth J. Murphy, Ed.D.  
*Board Secretary  
Interim Superintendent of  
Schools*

Re: Lowering Health Insurance Costs

Dear Chairpersons Whittemore and Richardson, and Members of the Joint Committee on Insurance and Financial Services:

## Introduction

The Cape Elizabeth School Board ("CESB") would like to express its support for legislation that would enable all school districts (alone or in combination with other school districts, municipalities, etc.) to be able to conduct a simple, but effective, competitive process to acquire quality health care benefits for their employees at the most reasonable cost available. Currently, CESB, as well as most of the school districts in Maine, are limited to the rates and plans of one entity- Maine Education Association Benefits Trust ("MEABT").

We would like to inform the committee of the benefits that we believe would be achieved by such legislation, based upon the findings of a Committee of the Town of Cape Elizabeth that reviewed this issue. We would like to suggest language that we believe, after consulting some experts in the field, will help accomplish the goals of such legislation.

## Benefits

### 1. Reducing Health Care costs While Maintaining Quality of Health Care Benefits.

A key question for the Legislature to consider is the following:

"Is it possible to reduce health care costs for a school district while maintaining quality (and reasonably equivalent) health care benefits for school district employees?"

A bipartisan and independent committee jointly established by the Town Council and the School Board of Cape Elizabeth studied that question at length, utilizing an expert and with input from the MEABT (and others). The Committee concluded that substantial savings could be obtained, via some form of competitive process, while still maintaining quality and reasonably equal health care benefits. The Cape Elizabeth Health Insurance Review Committee concluded, in a report dated March 3, 2010, that:

"By moving school and municipal employees from the MEA and MMA plans to substantially similar health plans offered directly by the insurance companies offers a reasonable likelihood that significant savings can be realized for the town and its employees, while achieving substantially similar plan benefits. For example, the potential gross savings to the schools and its employees could be about \$359,400 per annum, which assuming an extremely favorable to the employee cost sharing formula, yields a savings of about \$316,300 for the schools and \$43,100 for the employees (or about \$225 per employee)."

It is important to note that the business entity that was used as a model allowed all retirees with 20 years of service to the entity to continue to be members of the entity's health plan.

## **2. Local Control.**

As it now exists, local school boards and local teachers' unions must accept whatever statewide plan structures and prices are established by a large statewide organization - the MEABT. However, by creating competitors to the MEABT, local school boards (most likely in consultation with the local teachers union) would then be able to tailor their health plans to local concerns and needs by factoring them in to the structure of their bid requests. Thus, local school boards, in consultation with local teacher unions, would be able to address their particular local concerns and needs.

## **3. Local Competition for Health Benefits Will Generate Substantial Cost Savings for Education As Well as for State of Maine Budgetary Purposes.**

The State of Maine helps fund local education through the "EPS formula". A substantial factor in said formula that affects the amount the State of Maine pays out to a particular school is the "costs" of operating that school. Thus, if a school can materially reduce the indirect costs it incurs by reducing its health care costs, then more of the funding by the State can go to directly funding the direct education costs of that school. Given Cape Elizabeth's estimated savings of \$360,000 (and Falmouth's estimated savings of \$500,000) this could result in many millions of additional education dollars statewide for local school districts, given the hundreds of school districts in Maine.

Put another way, the State would then be in the enviable position of substantially increasing funding for local education, at no cost to the State, by simply maintaining existing funding levels. Given the size of the cost of local education, and the tremendous need to improve education, the State and local school districts could have the best of both worlds - increasing funding for direct education without, in fact, costing either any additional funds, all without increasing the size of the State budget.

## **4. Increasing Competition for Health Insurance for Local School Districts will Benefit All School Districts-North and South, Large and Small.**

There are numerous health insurance companies in the southern half of Maine. These companies' service areas probably extend north to include the service area of Eastern Maine Medical Center. It is desirable that such insurers expand further into other areas of Northern Maine.

What better way to facilitate further expansion (which in turn creates bidders for competitive bidding) than creating a market throughout Maine? Creating a process would allow the large amount of northern school districts (which in turn represent a large amount of potential customers to be able to become buyers of health insurance policies from these insurers. Again, the key to this process is eliminating the current barrier to these school districts becoming customers by requiring the sharing of key health information by the current single entity that controls it, the MEAHT.

Also, small school districts could joint venture, for health plan purposes, to create a large enough pool of potential enrollees necessary to attract competitive bidding.

**5. Health Care Cost Savings Benefits Teachers, Schools, Taxpayers and Most Importantly, School Children.**

The savings should be significant. If a small town like Cape Elizabeth could save \$360,000, think of the savings that could be achieved on a statewide basis it could easily be in the millions of dollars.

The local school districts could use the savings to improve the quality of direct education through buying newer textbooks, better computer systems, and, most importantly, increasing the salaries of underpaid teachers so Maine could attract the best teachers. The school districts could also use part of the saving to provide tax relief to local taxpayers. A true win/win situation could possibly exist.

**Suggested Improvements.**

While LD 404 and LD 844 are significant improvements to the current situation, we would respectfully submit the following additional concepts be incorporated in to any final legislation.

**1. Ensure that All Potential Sources of Information Necessary to Permit Effective Bidding Are Covered by the Legislation.**

Currently, LD 404 only covers insurers, and LD 844 only appears to cover nonprofit hospitals, medical service organizations, insurers, and HMOs. However, this list does not encompass the vast number of entities that may have necessary information. For example, the MEABT might not be considered an insurer, or any of the other entities described above because it is a not for profit employee welfare benefit plan. We respectfully suggest the following language:

“any employee welfare benefit plan under the Employee Retirement Income Security Act of 1974, as amended (“ERISA”); voluntary employees’ beneficiary association (“VEBA”) under Section 501(c)(9) of the Internal Revenue Code of 1986, as amended; benefits trust; Taft-Hartley health and welfare fund; multiple employer welfare arrangement (MEWA); group health plan; health insurance plan; claims administrator; third party administrator; plan administrator; contract administrator; insurer; and/or any entity that owns, possess, or has access to [the required information].

The required information would be a broad defined term. See Point 2 *infra*.

**2. Ensure that All Possible Information That Might be Helpful in Constructing A Bid Is Made Available and In a Useful Format.**

“Loss information” (LD 404) is an imprecise term. “Experience and claims history” (LD 844) is much more inclusive, but it may not be broad enough (i.e. it might be read to not include utilization data on an enrollee-by-enrollee basis).

To make sure everything that might be necessary is covered, we would offer the following language:

“claims history, claims experience, enrollment information, utilization information, and all other information of the type that: (i) a potential provider of health insurance benefits might need to offer quality health insurance at the lowest

possible cost for a particular group of potential enrollees, and/or (ii) a reasonable employer would need to purchase or review insurance coverage for its employees. Such information shall be de-identified and made available based on a participant's employment location."

**3. The Process to Obtain Health Insurance Should be Simple and Designed Locally.**

Both LD 404 and LD 844 envision school districts utilizing the current bidding statute-20-A Sec. 1001(14) as the competitive process. It is our suggestion that Sec. 1001(14) be stricken and a simple process, locally designed, be substituted in its place.

A cursory review of Sec. 1001(14) reveals many of the bidding process requirements that are not only not necessary, but would be impossible for a school board to perform. As examples: (1) the school board is required to develop a complicated and detailed "prequalification questionnaire" that a school board is not qualified to write, and it would seek vast amounts of information that a school board is not qualified to evaluate - See (14)(1); (2) the school board must also approve a highly technical "request for proposal", again something a school board has neither the time nor the expertise to develop - See (14)(C)(2); and (3) the school is required to combine for bidding purposes all lines of insurance (i.e. workers compensation, life, health, etc) when health insurance companies rarely offer insurance other than health. This is a highly technical process that could lead to the losing bidders filing lawsuits.


Many school districts might prefer the method used by private firms - hiring an experienced brokerage firm who creates the entire competitive process. This often involves, at the end, a process with the best proponents being pitted against each other, in an auction-like format, on price and benefits. Others may prefer another approach. We would respectfully suggest something like the following simple language (with the bidding process portions of section 1001(14) being repealed):

"each school district or municipality may devise a competitive process that it deems, in its sole discretion, will result in the best product at the best price".

**Conclusion:**

We strongly support legislation that will enable us to obtain competitive health insurance rates.

**For the Cape Elizabeth School Board**

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Mary Townsend, Chairperson