

SEBB Program: Variable waivers and other reporting requirements

Engrossed Substitute Senate Bill 6189; Section 2; Chapter 8; Laws of 2020

Engrossed House Bill 2242; Section 801(7); Chapter 13; Laws of 2017

RCW 41.05.740(8)

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Executive summary

Purpose

Engrossed Substitute Senate Bill (ESSB) 6189, Chapter 8, Laws of 2020, requires the Health Care Authority (HCA) to analyze the projected impacts of changes to the requirement that school employers remit premiums for employees that waive School Employee Benefits' Board (SEBB) benefits under RCW 41.05.050(4)(d). Specifically, the report must include an analysis of the estimated impacts to the projected future funding rates and the estimated amount billed to each school district based on the following:

- 1) A variable rate for employees waiving medical coverage and that are covered under dental, vision, long-term life and disability, and any other benefits not waived;
- 2) A policy allowing members to waive coverage for some or all of the employers paid benefits; and
- 3) Any other options considered by the authority or as recommended by the school employees' benefits board.

In addition, the [final section of this report](#) provides a response to the legislative reporting requirement under Engrossed House Bill (EHB) 2242, Chapter 13, Laws of 2017; RCW 41.05.740(8), which directs HCA to analyze whether the SEBB Program resulted in cost savings to the state. Specifically:

By November 30, 2021, the authority shall review the benefit plans provided through the school employees' benefits board, complete an analysis of the benefits provided and the administration of the benefits plans, and determine whether provisions in chapter 13, Laws of 2017 3rd sp. sess. have resulted in cost savings to the state. The authority shall submit a report to the relevant legislative policy and fiscal committees summarizing the results of the review and analysis.

Key findings and conclusions

HCA's fiscal analysis of the variable funding rate scenarios revealed differing cost impacts to districts based on their district-specific waiver rates when compared to the overall waiver rate for the SEBB Program. Specifically, districts with lower-than-average waiver rates would experience increased costs, whereas districts with higher-than-average waiver rates would have decreased costs. Without an adjustment to the state funding model for school employee benefits, some districts would be underfunded while others would be overfunded. In contrast, there would be insignificant impacts to state costs, and employee contribution amounts would not change.

Implementation of variable funding rates would also require a major overhaul of structural parts of the SEBB Program. In addition to assumed adjustments to the prototypical school funding model, HCA would incur both one-time and ongoing costs for actuarial assistance, modifications to the online enrollment platform (SEBB My Account) and the back-end accounting system (PAY1). Additional work would include: SEBB Program policy updates, rulemaking, special communications, and SEB Board resolutions. Divergent waiver policies between the SEBB and Public Employees Benefits Board (PEBB) Programs could also present equity concerns and complicate future consolidation efforts of the two programs.

Background

Historical district/bargaining group pooling arrangements for subsidizing school employee benefits costs were eliminated with introduction of the SEBB Program, which standardized benefits and employer/employee contribution amounts across all school districts.

Prior to the SEBB Program, state law¹ required districts to pool allocated employee benefit funds not used by employees within a bargaining unit. The unused or excess funds were usually a result of employees waiving benefits, using less funds than what was allocated per full-time equivalent (FTE) (like employees not covering dependents), or employees being ineligible for coverage. These funds were then distributed across the bargaining unit to lower premium costs for employees within that same bargaining unit.² There were more than 1,000 pools in this system, each with its own approach to how and when excess funds could be used.

While pooling arrangements reduced benefit costs for some school employees, differences in benefit packages and cost persisted between bargaining groups and districts, and between employees with and without covered dependents.³ Employees of school districts with high waiver rates or with few employees covering dependents could benefit from lower premiums and/or richer benefits compared to districts with low waivers or high rates of dependent coverage. Disparities also existed between employees who covered dependents and those who insured themselves. According to a 2011 report from the Office of the Washington State Auditor, nearly one third of single subscribers paid no premiums at all, whereas those with family coverage paid an average of \$500 per month.

The SEBB Program eliminated these local pooling arrangements by standardizing eligibility, coverage, and employer contribution amounts for school employee benefits statewide. Today, all eligible school employees have access to the same suite of benefits, and employee contribution amounts are determined according to tier level and plan selection.⁴ The most that an employee will pay to cover themselves and their dependents is three times what a single subscriber will pay for the same plan – a goal desired under state law for years, but finally achieved by the SEBB Program.

¹ As established in 1990 under Engrossed Substitute House Bill 2230.

² See “K-12 Employee Health Benefits” (2011) Office of the Washington State Auditor, Report #1004979 for more information on district pooling arrangements

³ Some of these differences were also attributed to districts’ access to local levy dollars, which was restricted under McCleary et. al v. State of Washington.

⁴ Single subscriber, subscriber plus spouse/state-registered domestic partner, subscriber plus child dependent(s), and subscriber plus spouse/state-registered domestic partner plus child dependent(s).

SEBB Program funding rate

The SEBB Program equitably redistributes unused funds for waived medical benefits across all benefits eligible school employees statewide through a single funding rate.

The SEBB funding rate, which is set by the Legislature each biennium, is the primary revenue source for the SEBB Program and pays for employer-paid benefits, administrative costs, the K-12 remittance⁵, and funding for reserves. Medical benefits represent the largest expenditure, as shown in the following table. A single funding rate ensures standardized employer contributions across all school districts.

Table 1. Funding rate breakdown for the SEBB Program, School Year (SY) 2021, SEBB Projection Model version 6.0.

SEBB Funding Rate Components	2020 Supplemental – Enacted Budget
Medical Premium Contribution (PSPM) ⁶	\$781
100% Dental Premium (PSPM)	\$79
100% Vision Premium (PSPM)	\$11
100% Basic Life Premium (PSPM)	\$4
100% Basic LTD Premium (PSPM)	\$2
K-12 Remittance (PSPM)	\$74
Admin and other costs (PSPM) ⁷	\$11
Surplus/Deficit Spend ⁸	\$38
Total Cost (PSPM)⁹	\$1,000

School districts receive state funding through their monthly apportionment payments from the Office of the Superintendent of Public Instruction (OSPI). The apportionment payments are based on the appropriations provided in the biennial and supplemental budgets, each district's number of state-funded staff unit allocations (FTEs), adjusted by benefit allocation factors (BAF) for classified and certificated employees.¹⁰

Under existing rules, HCA collects the funding rate from SEBB organizations for each benefits-eligible employee, regardless of whether an employee waives medical coverage and whether the organization received state funding for the employee. SEBB Program rules established by the SEB Board permit school employees to waive medical benefits only if they meet certain conditions. Specifically, employees may waive medical coverage if they are enrolled in another employer-based group medical insurance, a TRICARE plan, or Medicare.

All benefits-eligible employees are required to enroll in the following five benefits: employer-paid dental, vision, basic life, basic accidental death and dismemberment (AD&D), and basic long-term disability (LTD) insurance. Employees are not permitted to waive coverage in these benefits, and any employee who does not affirmatively

⁵ A fee paid by school districts to HCA to account for the cost of school retirees in the PEBB Program. Approximately 80 percent of the K-12 remittance is attributed to the explicit subsidy, which is a premium subsidy for state and school retirees enrolled in the PEBB Medicare risk pool. The remaining 20 percent is attributed to the implicit subsidy, which is provided to school retirees through community rated plan premiums in a risk pool that is primarily state employees.

⁶ Per Subscriber Per Month

⁷ Includes GF-S loan repayment by June 30, 2022

⁸ Surplus/Deficit from GF-S loan spend and funding rate shortfall

⁹ Values are rounded within the modeling

¹⁰ While the state allocates funds for K-12 employee salaries and benefits on a per FTE basis, it is common for school districts to hire multiple part-time positions under a single FTE. Under the SEBB Program, part-time school employees who work at least 630 hours during the school year are eligible for benefits. When calculating the funding rate paid to each school district to cover benefits, the BAF converts FTE to headcount to pay for every employee hired under a single FTE who is eligible for benefits. In the 2021-2023 enacted operating budget, the BAF is 1.02 for certificated staff and 1.43 for classified staff. The BAFs are the same statewide (i.e., they do not vary by school district).

elect benefits within the required time are defaulted into coverage in these plans (as well as medical coverage).¹¹ Premiums for these five benefits are 100 percent employer paid.

The funding rate represents the average amount needed to cover benefit expenses for the SEBB Program and target a desired surplus/deficit position. Average cost is used because some employees will be higher utilizers, whereas others may not use their benefits at all. In addition, some employees will cover many dependents, whereas others will only insure themselves. Importantly, the calculation establishing the funding rate includes an assumption that a certain percentage of school employees will waive medical coverage based on historical trends.¹² HCA therefore charges each school district the full funding rate for every benefits-eligible employee, even if an employee waives medical coverage. This approach ensures that the state provides funding to school districts to pay for benefits for every eligible employee. Additionally, a single funding rate reduces administrative complexity for both state agencies and school districts and eliminates waivers as an incentive or barrier to employees' enrollment decisions.

If districts were to pay variable funding rates based on the benefits employees elect, the state would have to find a new way to customize funding to districts. Otherwise, the state health care allocation to districts would not align with current employer funding requirements. In addition, removing the medical waiver assumption from the funding rate calculation would not change the program's underlying revenue requirements.

¹¹ Dependents are not automatically enrolled.

¹² Based on actual historical waiver rates. The SEBB Program used PEBB historical trends for the 2020 school year and SEBB actual waiver rates for 2021.

Analysis

The modeled scenarios described in this section utilize the funding rate for school year (SY) 2021 and average school employee enrollment for SY2020. Estimated costs throughout this report are for illustrative purposes only, and all figures are rounded. Table 2 provides details on the benefits costs and administrative components included in the modeled funding rates described under scenarios A and B.

Table 2. SEBB Program comparison of funding rate components: SY2021 vs. modeled variable funding rates

SEBB Funding Rate Components	2020 Supplemental – Enacted Budget	Medical Waived Funding Rate	Medical Only Funding Rate
Medical Premium Contribution (PSPM) ¹³	\$781	-	\$781
100% Dental Premium (PSPM)	\$79	\$79	-
100% Vision Premium (PSPM)	\$11	\$11	-
100% Basic Life Premium (PSPM)	\$4	\$4	-
100% Basic LTD Premium (PSPM)	\$2	\$2	-
K-12 Remittance (PSPM)	\$74	\$74	\$74
Admin and other costs (PSPM) ¹⁴	\$11	\$11	\$11
Surplus/Deficit Spend ¹⁵	\$38	-	\$38
Total Cost (PSPM)¹⁶	\$1,000	\$181	\$904

Scenario A: Variable funding rate for medical waivers only

Section 2(1)(a) directs HCA to consider the estimated impacts of instituting a variable funding rate for employees waiving medical coverage. Under this scenario, school districts with lower waiver rates would have increased costs and districts with higher waiver rates would have decreased costs. Presumably, the state apportionment allocations to individual districts would be modified so that the state contribution toward total program costs remains the same. The state would experience a minor increase in program expenditures due to initial and ongoing implementation costs, while employee contributions and the program health benefit costs would not change.

Table 3. Scenario A cost summary

	Current Projected Costs Single Funding Rate	Modeled Projected Costs Variable Funding Rates	Estimated Year 1 Implementation Costs
	\$1,747,752,000	\$1,747,752,000	\$308,000
Total			\$1,748,060,000

¹³ Per Subscriber Per Month

¹⁴ Includes GF-S loan repayment by June 30, 2022

¹⁵ Surplus/Deficit from GF-S loan spend and funding rate shortfall

¹⁶ Values are rounded within modeling

Methodology

Our analysis estimated the state and district-level cost impacts of instituting two SEBB Program funding rates based on whether benefits-eligible school employees waived medical coverage.

1. **Medical waived funding rate.** The first funding rate would be charged for employees who waive medical coverage and only includes net costs¹⁷ for mandatory employer-paid benefits. These include vision, dental, life, accidental death and dismemberment (AD&D), and long-term disability (LTD).
2. **Full benefits funding rate.** The second funding rate would cover full benefits, which includes all SEBB Program funding rate components as shown in the 2020 Supplemental – Enacted Budget in Tables 1 and 2 (i.e., the status quo).

We targeted the projected SEBB Program revenue in 2022 (see Table 3 and Appendix 1) to establish the amount of the two variable funding rates under Scenario A. As previously mentioned, the current SEBB Program funding rate represents the average benefits cost per eligible employee, assuming a certain percentage of employees will waive medical coverage. By removing the waiver assumption from the funding rate calculation, we do not change the underlying funding requirements for the SEBB Program. In other words, the program still requires the same projected revenue to operate and insure everyone who enrolls.

Holding SEBB Program revenue constant, we separated the funding rate into two variable rates based on whether an employee elected medical coverage. The estimated medical waived funding rate represents the combined cost of non-medical benefits and administrative expenses under the 2021 funding rate.¹⁸ The full benefits funding rate includes medical coverage, all employer-paid benefits, and administrative expenses.

Table 4. Scenario A - SY2021 funding rates summary

	Single Funding Rate Current Methodology	Two Variable Funding Rates Modeled Scenario A	
		Medical Waived Funding Rate	Full Benefits Funding Rate
	\$1,000	\$181	\$1,126
Total Billed Amount	\$1,747,752,000	\$41,950,000	\$1,705,802,000
Total Revenue	\$1,747,752,000	\$1,747,752,000	

We then applied the two different funding rates to estimate the billed amounts per school district, based on average 2020 medical waiver rates. Appendix 2 provides a breakdown of the annual billed amount per district under the current single funding rate methodology and the modeled methodology under Scenario A (variable funding rates). The difference in billed amounts between these two methodologies represents the potential increase or decrease for each district. The amounts shown on Appendix 2 in the “Annual Difference” column should not be interpreted as the net financial impact to each district. Presumably, the state health benefit allocation (apportionment) to each SEBB organization would see a corresponding increase or decrease. The net financial impact to each SEBB organization is complex and depends on each organization’s unique funding sources and waiver percentage.

¹⁷ The net funding rate is the projected or estimated cost of the benefit program for benefits, less revenue from sources other than school districts and educational service districts (funding rate). In other words, the net funding rate represents the actual program cost per eligible employee, not considering surplus or deficit spending.

¹⁸ Net of surcharge revenue and rounded to the nearest dollar.

We made the following assumptions in our analysis:

- Instituting variable funding rates for medical waivers would not impact total projected state expenditures for SEBB Program benefits. In other words, the outcome is calculated to be revenue neutral for the SEBB Program.
- Changes to the funding rate approach, such as instituting variable funding rates for waiving medical or any combination of medical and employer-paid benefits, would apply to all SEBB organizations including educational service districts (ESDs) and charter schools. The terms school district and SEBB organization are used interchangeably throughout this report.
- School employees would still be required to meet SEBB Program criteria to waive medical benefits, as described in the previous section of this report and detailed in WAC 182-31-080.
- HCA would establish the medical waived funding rate and the Legislature would establish the full benefits funding rate (managing any use of surplus or deficit).
- Under Scenario A, all eligible school employees are still required to enroll in employer-paid vision, dental, life & AD&D, and LTD benefits.
- Employees who waive SEBB Program medical coverage retain eligibility for PEBB Program retiree coverage.

Findings

Through our analysis we found that creating a second funding rate for medical waivers a) increases the estimated projected funding rate for full benefits, and b) results in increased billed amounts for districts with below average medical waiver rates and decreased billed amounts for districts with above average waivers. This scenario does not impact total program costs or costs to employees.

As shown in Table 4 and detailed in Appendix 1, the variable funding rates in Scenario A are adjusted to account for the cost of benefits an employee elects while targeting the same overall SEBB Program revenue. This dynamic explains why the full benefits funding rate is increased compared to the SY2021 single funding rate. The full benefits funding rate must compensate for the significantly lower medical waived funding rate.

At the district level, creating a second funding rate for employees who waive medical coverage increases the amount billed to districts with below average waiver rates. Appendix 2 shows the difference between the annual amount billed per school district under the single versus variable funding rate methodology as described in Section 2(1)(a). Some large districts with waiver rates significantly lower than the SEBB Program average in 2020 would pay several million dollars more under a variable funding rate scenario. In contrast, districts with above average waiver rates would pay less. While costs would shift between districts, the overall cost to fund the SEBB Program would not change. In addition, funding rate amounts do not impact how much employees contribute toward benefits.¹⁹

¹⁹ The employee medical premium is the difference between a plan's bid rate and the Employer Medical Contribution (EMC). The EMC is collectively bargained and covers 85 percent of the bid rate for Uniform Medical Plan Achieve 2.

Scenario B: Variable funding rates for waiving employer-paid benefits

Section 2(1)(b) directs HCA to assess the cost impacts of a policy allowing employees to waive any or all employer-paid benefits. This scenario would require 32 distinct funding rates to cover all possible combinations benefits employees could waive. All 32 funding rates would need to be developed to maintain projected funding requirements for the program regardless of actual employee waiver decisions (i.e., even if few or no employees waive certain benefits). While it is unknown how many employees may waive employer-paid benefits, the number is expected to be very small. This is because these benefits are zero cost to the employee, so there is not a financial incentive to waive them. If employees waive all employer-paid benefits, districts will experience increases and decreases to their billed amounts, just as in the previous scenario.

However, compared to medical waivers under Scenario A, the magnitude of potential cost impacts is small due to the relatively lower costs of non-medical benefits. Based on modeling, minimal state savings are possible (meaning the savings in benefit costs offset the implementation costs) if 3 percent of school employees waive all employer-paid benefits; however, savings are not significant enough to impact the funding rate. Employee costs would not change (i.e., benefits would remain fully employer paid). Tables 5 and 6 illustrate the interaction between waiver levels, program costs/savings, and implementation costs.

Table 5. Scenario B-1 cost summary (1% waivers)

	Current Projected Costs Single Funding Rate	Modeled Projected Costs Variable Funding Rates	Estimated Year 1 Implementation Costs
	\$1,747,752,000	\$1,747,092,000	\$657,000
Total			\$1,747,749,000

Table 6. Scenario B-2 cost summary (3% waivers)

	Current Projected Costs Single Funding Rate	Modeled Projected Costs Variable Funding Rates	Estimated Year 1 Implementation Costs
	\$1,747,752,000	\$1,746,442,000	\$657,000
Total			\$1,747,099,000

Methodology

To estimate cost impacts of employer-funded benefits waivers we:

- Calculated the number of variable funding rates required to cover all combinations of employer-paid and medical benefits.
- Interviewed SEBB Program carriers to estimate how many employees would waive fully employer-paid benefits based on other large group experience, and to estimate any potential rate impacts from waivers.
- Estimated two projected future funding rates based on whether employees waived all employer-paid benefits:
 1. **Medical only funding rate.** The first funding rate would be charged for employees who waive employer-paid benefits and only includes costs for medical coverage.
 2. **Full benefits funding rate.** The second funding rate would cover full benefits, which includes all SEBB Program funding rate components as shown in the 2020 Supplemental – Enacted Budget in Tables 1 and 2 (i.e., the status quo).
- Modeled two cost scenarios—B-1 and B-2—based on 1 percent and 3 percent waiver rates for all employer-paid benefits.

To limit the complexity of our analysis, we modeled two funding rates based on whether employees waived all employer-paid benefits. Consistent with the approach described in Scenario A, we targeted the projected SEBB Program revenue, less any program savings from waivers, to establish the amount of the two variable funding

rates under Scenario B (see Appendix 1). The estimated medical only funding rate represents the cost of medical benefits and administrative expenses under the SY2021 funding rate.²⁰ The full benefits funding rate includes medical coverage, all employer-paid benefits, and administrative costs.

We interviewed the SEBB Program’s fully insured dental, vision, life and AD&D, and LTD carriers for their input on how many employees might waive these benefits, as well as any rate impacts due to waivers. Specifically, how many waivers would trigger a rate review, and how much rates could change. As part of establishing rates, fully insured carriers assume that a certain percentage of members will not use benefits. These “non-utilizers” help subsidize costs for members who use benefits. This concept is similar to the medical waiver assumption built into the SEBB Program funding rate described earlier in this report. However, under Scenario B carriers would no longer collect premiums for members who waive. This decrease in total revenue means that carriers’ rates (per member per month) would increase. The number of waivers that would trigger a rate increase, and the amount of that increase, is unique to each carrier’s claims experience and rating methodology. Carriers are generally able to manage a small dip in enrollment before there is an impact to rates. Below this threshold, the state would be paying for slightly fewer members without a commensurate increase in premiums.

Based on responses, we modeled two waiver scenarios: a 1 percent and a 3 percent total waiver rate. In other words, we looked at what would happen to both state and district costs if 1 percent or 3 percent of eligible school employees waived all employer-paid benefits. We’ve labeled these two scenarios B-1 and B-2, respectively. We subtracted state savings generated by the 1 percent and 3 percent waiver assumptions from the projected revenue to establish a new revenue target, shown as the annual billed amounts and total revenue in the tables below (also see Appendix 1). We then used this target to calculate the variable funding rates for Scenarios B-1 and B-2.

Table 7. Scenario B-1 – SY2021 funding rates summary (1% waivers)

	Single Funding Rate Current Methodology	Two Variable Funding Rates Modeled Scenario B - 1	
		Medical Only Funding Rate	Full Benefits Funding Rate
	\$1,000	\$904	\$1,001
Annual Billed Amount	\$1,747,752,000 ²¹	\$16,740,000	\$1,730,352,000
Total Revenue	\$1,747,752,000	\$1,747,092,000	

Table 8. Scenario B-2 – SY2021 funding rates summary (3% waivers)

	Single Funding Rate Current Methodology	Two Variable Funding Rates Modeled Scenario B-2	
		Medical Only Funding Rate	Full Benefits Funding Rate
	\$1,000	\$904	\$1,002
Annual Billed Amount	\$1,747,752,000	\$46,750,000	\$1,699,692,000
Total Revenue	\$1,747,752,000	\$1,746,442,000	

To estimate the billed amounts per school district, we applied the medical only and full benefits funding rate amounts to the 1 percent and 3 percent waiver assumptions. Appendices 3 and 4 provide a breakdown of the annual cost per district under the current single funding rate methodology and the modeled methodology under Scenarios B-1 and B-2. The difference in billed amounts between these two methodologies represents the benefits funding requirements for each district.

²⁰ Net of surcharge revenue and rounded to the nearest dollar.

²¹ SY2021 annual billed amount/revenue less savings due to waivers

Assumptions

We made the following assumptions in our analysis:

- Employees would have full waiving privileges for any or all SEBB Program benefits.
- Employees who waive any employer-paid benefits are likely to waive all employer-paid benefits.
- Employees who waive any benefits for themselves would not enroll any dependents in those benefits. In other words, employees' waiver decisions would extend to all dependents on their accounts.
- Projected changes in the SEBB fund surplus or deficit position would be reflected in any funding rate that includes medical coverage because these benefits are the greatest contributor to surplus activity. The funding rate typically includes considerations for surplus spending or buildup.
- School districts would have waiver rates for employer-paid benefits in proportion to their medical waiver rates.
- A funding rate would be required for school districts to pay administrative fees, including the K-12 remittance, for employees who opt out of all SEBB Program benefits.
- Employees who waive any or all SEBB Program benefits retain eligibility for PEBB Program retiree coverage.
- Employees would not receive financial incentives (i.e., pay in lieu of benefits) for opting out of 100 percent employer-paid benefits.

Findings

In our analysis of Scenario B, we found that employer-paid benefits waivers have a minor impact on projected future funding rates, billed amounts per school district, and state costs.

We identified 32 funding rates that would cover every combination of medical, dental, vision, life and AD&D, and LTD coverage. These combinations are presented in Table 9. The rows in white reflect the two variable funding rate scenarios modeled in this report: medical waived and medical only.

Table 9. Scenario B: Complete funding rate combinations

Medical	Dental	Vision	Life	LTD	Medical	Dental	Vision	Life	LTD
Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes
Yes	No	Yes	Yes	Yes	No	No	No	No	No
Yes	No	Yes	Yes	No	No	Yes	Yes	Yes	No
Yes	No	Yes	No	Yes	No	Yes	Yes	No	Yes
Yes	No	Yes	No	No	No	Yes	No	Yes	No
Yes	No	No	Yes	Yes	No	Yes	No	Yes	Yes
Yes	No	No	Yes	No	No	Yes	No	Yes	No
Yes	No	No	No	Yes	No	Yes	No	No	Yes
Yes	No	No	No	No	No	Yes	No	No	No
Yes	Yes	No	Yes	Yes	No	No	Yes	Yes	Yes
Yes	Yes	No	Yes	No	No	No	Yes	Yes	No
Yes	Yes	No	No	Yes	No	No	Yes	No	Yes
Yes	Yes	No	No	No	No	No	Yes	No	No
Yes	Yes	Yes	No	Yes	No	No	No	Yes	Yes
Yes	Yes	Yes	No	No	No	No	No	Yes	No
Yes	Yes	Yes	Yes	No	No	No	No	No	Yes

Medical benefits are the largest portion of the funding rate, with employer-paid benefits each representing only a small portion of overall cost. While we did not model projected future funding rates for every combination of benefits, we know that funding rates that exclude medical coverage will be very small. In contrast, funding rates that include medical will be large and very similar to each other. This is illustrated in Tables 7 and 8, above, which

show a minor increase to the projected future funding rate for full benefits if 1 percent and 3 percent of employees waive all employer-paid benefits.

In addition, anticipated low waiver rates suggest that districts are unlikely to realize any significant change to billed amounts under Scenario B. SEBB Program carriers unanimously shared the view that few if any employees are expected to waive any non-medical SEBB Program benefits. This is because dental, vision, life and AD&D, and LTD are fully employer-paid benefits with no cost to employees.

However, for the purpose of this report we modeled state and district costs under hypothetical 1 percent and 3 percent waiver rates for all employer-paid benefits. We found that districts with lower waiver rates have increases in their billed charges, while districts with higher waiver rates would see decreases. The magnitude of this impact would be substantially less than under Scenario A. A full accounting of the estimated billed amounts per district can be found in Appendices 3 and 4. It is assumed that the state allocations for districts would similarly increase or decrease, thus muting the net impact for each district. The net financial impact to each SEBB organization is complex and depends on each organization's unique funding sources and waiver percentage.

Finally, under the modeled Scenarios B-1 and B-2, there would be small cost savings to the state as employer-paid benefits carriers could absorb a certain threshold of waivers under existing rate agreements (see Appendix 1). In addition, as presented in Tables 5 and 6, costs to implement 32 variable funding rates would fully or largely offset any state savings. However, if waivers increased beyond the levels modeled, benefits costs per member per month (PMPM) could increase as program costs are spread over a smaller population. Exact cost impacts would vary by benefit type and individual carrier.

Other options

HCA shared preliminary results of its analysis to the SEB Board on May 5, 2021, and elicited feedback for this report. The Board did not identify any other options for consideration, but provided the following suggestions:

- HCA should include discussion of the impacts to its benefits eligibility and payment system, PAY1.
- HCA should clarify that historical local pooling arrangements are different from pooling under the SEBB Program. Under the waiver scenarios analyzed in this report, some districts would have to lose state funding for other districts to get more funding. At the end of the day, the SEBB Program requires the same amount of revenue to fund benefits for everyone who enrolls. This is why HCA assumes that instituting variable funding rates would require a change to the prototypical school funding model.

Limitations

Our analysis was limited by lack of data and overall complexity. Specifically:

- HCA does not have historical data on how many employees would waive fully employer-paid benefits. In fact, we do not know which, if any, districts allowed waiver of non-medical benefits prior to the SEBB Program.
- Allowing employees to waive any combination of medical and employer-paid benefits would require 32 separate funding rates.
- Fully insured carriers may have different thresholds for how many employees can waive coverage before raising rates, as well as different methodology for calculating rate increases. Modeling 32 funding rates would require calculating unique waiver scenarios and rate impacts per carrier, per funding rate.
- It is unclear how state funds would be allocated to districts under variable funding rates, which could impact HCA's policies, procedures, and program costs.

Additional considerations

Instituting variable funding rates would require significant adjustments to how the SEBB Program is funded and administered. There would be additional costs to the state to implement these changes, as well as new policies and processes for the Office of Financial Management (OFM), OSPI, HCA, and school districts.

HCA would incur both one-time and ongoing costs for actuarial assistance; modifications to PAY1 and SEBB MyAccount; and additional staff to accommodate new billing procedures.

- **Actuarial.** HCA’s contracted actuaries create and update the SEBB Projection Model (SPM), which uses projected asset fund balances for the SEBB Program to establish the funding rate HCA recommends to the Legislature. Creating variable funding rates would require modifications to the SPM, as well as actuarial support in benefits procurement and rate development.
- **PAY1 & SEBB My Account (SMA).** Customizing district invoicing based on the benefits employees select would also require manual updates to PAY1 and SMA. PAY1 generates monthly invoices for the funding rate per eligible employee, and SMA acts as the interface between HCA and school districts.
- **Accounting.** In addition, variable funding rates create complexity for HCA’s accounting staff to review invoiced amounts for accuracy based on employees’ benefit choices, audit accounts for appeals, and key manual account adjustments into PAY1. To accomplish this additional work, the accounting team would require 1.0 additional FTE to implement Scenario A or 2.0 additional FTEs to implement Scenario B. Specific estimated costs associated with these tasks are detailed below.

Table 10. Summary of Scenario A implementation costs

	Year 1	Year 2	Year 3
One-time			
PAY1	\$107,000	-	-
SEBB MyAccount	-	-	-
Ongoing			
Accounting	\$101,000	\$92,000	\$92,000
Actuarial Services	\$100,000	\$20,000	\$20,000
Total	\$308,000	\$112,000	\$112,000

Table 11: Summary of Scenario B implementation costs

	Year 1	Year 2	Year 3
One-time			
PAY1	\$283,000	-	-
SEBB MyAccount	\$22,000	-	-
Ongoing			
Accounting	\$202,000	\$184,000	\$184,000
Actuarial Services	\$150,000	\$30,000	\$30,000
Total	\$657,000	\$214,000	\$214,000

Other work to institute variable funding rates would include preparing and disseminating special communications; updating SEBB Program policies and rules; and presenting policy resolutions to the SEB Board for action. Allowing new waivers for employer-paid benefits would impact HCA communications to members, vendors, and school districts. Specifically, it would require updates to enrollment forms, guides, and SMA (online enrollment platform); vendor materials such as certificates of coverage; and outreach and training materials for school district benefits administrators. Changes considered in this report would also require amendments to current laws and regulations pertaining to waivers and employer contributions for benefits; retiree coverage under the Public Employees’ Benefits Board (PEBB) program; and payment of the K-12 remittance.

Specific WACs and RCWs that would be impacted include at least the following:

- [WAC 182-31-080](#), which describes when an eligible school employee may waive enrollment in SEBB medical.
- [RCW 41.05.050](#), which requires all school districts, educational service districts for their represented employees, and charter schools to provide contributions for insurance and health care plans for school employees eligible under RCW 41.05.740 (6)(d) and their dependents as required in [RCW 41.05.050](#) (4)(d). This includes school employees who elect to waive enrollment in medical benefits.
- [RCW 41.05.740](#), which requires school employees to choose participation in a health care benefit plan developed by the SEB Board, except for waivers as permitted for school employees eligible for benefits under subsection (6)(d) according to terms and conditions established by the SEB Board.
- [RCW 41.05.080](#), which allows for retired or disabled school employees to continue their participation in insurance plans and contracts after retirement or disablement; and for separated employees to continue their participation in insurance plans and contracts if participation is selected immediately upon separation from employment.
- [RCW 28A.400.410](#), which requires school districts and ESDs remit to the health care authority for deposit in the public employees' and retirees' insurance account established in RCW [41.05.120](#) the amount specified for remittance in the omnibus appropriations act (i.e., the K-12 remittance).

In addition, the SEB Board would need to pass resolutions modifying the terms and conditions for waiving enrollment in SEBB Program benefits.

Other HCA policy considerations relevant to this analysis include:

- **School employees' access to PEBB Program retiree coverage.** HCA assumes that employees who waive all SEBB Program benefits would retain future eligibility for retiree coverage under the PEBB Program, and that districts would still be required to pay the K-12 remittance for every eligible employee, regardless of waiver status.
- **Extension to educational service districts (ESDs) and charter schools.** While this legislation looks at the potential impacts of variable funding rates on school districts, any changes would also apply to ESDs for their represented employees and charter schools.
- **Compliance with federal laws.** SEBB Program policies allowing employees to waive benefits for any reason would need to comply with HIPAA and IRS rules for when an employee may be allowed to return from waived enrollment.
- **Indirect effects on the PEBB Program.** The SEBB and PEBB Programs currently share the same waiver criteria, and changes in only one program could present equity concerns. In addition, overhauling the SEBB Program funding model and waiver policy will create substantial complexity if the Legislature decides to move forward with consolidating the two programs.

Policy changes would need to be coordinated across organizations involved in funding for school employee benefits, including OFM, OSPI, and school districts. Instituting variable funding rates represents a major overhaul of current administrative procedures and policies for the SEBB Program, and the extent of the impact to OFM and OSPI operations is likely to be substantial. For example, neither agency will know precisely how much money each district needs to pay for benefits without advanced notice of employees' waiver choices. While the overall state cost for benefits will not substantively change, some districts will require more funding compared to the status quo and others will need less. HCA does not have specific guidance from partnering agencies on how the prototypical school funding model will accommodate these changes. In general, we assume that payments to districts will need to be tailored to their unique waiver rates with additional financial reconciliation following employee benefit elections.

Conclusion

The Legislature established the SEBB Program in part to ensure equity in benefits for school employees statewide. To achieve this goal, benefits purchasing was consolidated under HCA, and SEBB²² pay a single funding rate for every eligible employee. The funding rate represents the average benefits cost per member, accounting for waivers, variation in benefits utilization, and tier mix (i.e., the number and types of dependents under a subscriber's account). Every benefits-eligible employee has access to the same suite of benefits with the same premium costs and employer contribution. This means that employees do not have to consider the value of waiving benefits on the costs for other employees in their bargaining unit.

Instituting variable funding rates based on school employees' benefits elections would be a major change to the financial structure of the SEBB Program. This policy would fundamentally change how benefits are funded by the state and would require significant and costly operational adjustments for HCA, OFM, OSPI, and school districts. School employees would not experience lower costs or benefit enhancements, and costs to school districts would shift according to waiver rates. In other words, the cost to fund the SEBB Program would stay the same, but how that money is allocated to districts would change. Specifically, districts with lower-than-average waiver rates would require additional funding compared to the status quo, whereas districts with higher-than-average waiver rates would need less. Ultimately, creating variable funding rates to account for waivers requires implementation costs and does not result in overall SEBB Program savings.

²² School districts, educational service districts (ESDs), and charter schools. ESHB 2140 delayed implementing SEBB Program coverage for non-represented employees of ESDs until 2024. Many of the non-represented ESD employees currently access insurance benefits through the PEBB Program.

Response to the legislative reporting requirement from EHB 2242 (2017); RCW 41.05.740(8)

EHB 2242 (2017); RCW 41.05.740(8) requires HCA to complete an analysis of the SEBB Program's costs to determine whether the enacted changes resulted in a cost savings to the state. The goals of the SEBB Program, and the significant systemic changes required for its implementation, are important context for this review.

To accomplish equity in access to comprehensive, affordable benefits for all school employees it was necessary for the Legislature to make a significant financial investment for both the startup and ongoing costs for SEBB Program benefits.

Prior to SEBB, benefits eligibility was negotiated by each bargaining unit within each school district, resulting in variable benefits costs for school employees. School districts used a "defined contribution" model to allocate money for benefits to eligible employees, and employees were responsible for any premium costs that exceeded the allocated employer contribution. Most employees were eligible for benefits through the school district, however employees who did not work full-time were subject to a prorated portion of the allocated employer contribution. This meant that part-time employees or employees who elected to cover their dependents on their employer-sponsored benefits often paid substantially more toward premiums.

The SEBB Program implemented many changes to school district benefits, including statewide bargaining for a "defined benefit" model. With a defined benefit, the employer contribution is the same for every employee who is eligible for benefits, and all employees select from the same suite of benefits with the same premiums. The legislation that established the SEBB Program also required implementation of a long-sought policy goal that the cost to the employee for full-family medical insurance could be no more than three times the employee premium for individual coverage. Expanded eligibility for benefits was established for employees who work or are anticipated to work 630 hours per school year, and all eligible employees receive the full employer contribution because no proration was included as part of the SEBB Program.

The Legislature's investment in the SEBB Program supported expanded employee eligibility, defined benefits with no proration of the employer contribution, and increased affordability for employees who enroll dependents. While administrative functions have shifted between HCA and school districts, the net change has likely not resulted in significant administrative cost savings.

Consolidating school employee benefits purchasing has had many positive effects, such as better equity for employees between districts and for employees who want to cover their dependents. While savings have likely been realized in certain areas of benefits administration (such as payments to insurance brokers), given the financial investment made to expand eligibility and support a defined benefit model, there is not net cost savings to the state.

Appendix 1: Summary of variable funding rates

Please [view this appendix on our website](#).

It contains a summary of variable funding rates for the following:

- Scenario A: Medical waived funding rate
- Scenario B-1: Medical only funding rate, 1% waivers
- Scenario B-2: Medical only funding rate, 3% waivers

Appendix 2: Billed amounts per school district- Scenario A (medical waived)

Please [view this appendix on our website](#).

It contains the list of billed amounts per school district for Scenario A (medical waived).

Appendix 3: Billed amounts per school district - Scenario B-1 (medical only; 1% waivers)

Please [view this appendix on our website](#).

It contains the list of billed amounts per school district for Scenario B-1 (medical only, 1% waivers).

Appendix 4: Billed amounts per school district - Scenario B-2 (medical only; 3% waivers)

Please [view this appendix on our website](#).

It contains the list of billed amounts per school district for Scenario B-2 (medical only, 3% waivers).