

# Washington Research Council

## Public Policy Brief

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### Most Businesses Require Employee Contributions for Health Care Premiums, Consultant Tells State

Most businesses — and some state governments — require their employees to pay part of the premiums for health insurance, and the contribution has risen in recent years.

That's one of the findings in a report prepared for the state of Washington by the consulting firm of Coopers & Lybrand.

The consultant's report suggests controlling the cost of insurance coverage for state workers by changing benefits or eligibility, requiring employee premium contributions, or some combination of those. It details how much money would be saved by instituting a deductible or co-payment option, as well as the savings possible by eliminating dental or vision care.

The state currently pays all of the cost of insurance premiums for employee and dependent health care covered by Blue Cross and most HMOs. Some form of copayment or deductible is required under most of the health care options available to state employees.

Blue Cross, the state's primary health insurance carrier, told state officials that it needs increased funding beginning July 1, 1988 to maintain current health care benefits for state employees. Coopers & Lybrand was hired to look into the request and provide recommendations as to how to proceed.

The firm studied national trends in health care costs and actual claims data from Blue Cross and determined that the request from the company for increased funding was reasonable.

Citing a U.S. Department of Labor survey of employee benefit coverage in 1986, Coopers & Lybrand noted that most employers require premium contributions — for families, if not for the employee — and that these have increased in recent years. This also was the case for the other state governments surveyed by the consultant.

Rep. Jean Marie Brough (R-Federal Way) commented at the hearing during which Coopers & Lybrand presented their report that Washington's health insurance plan was

"really a Cadillac" compared with other programs with which she had experience.

Coopers & Lybrand said that deductions and co-payments can promote a more cost-conscious attitude toward the use of health coverage. Rep. Art Sprenkle (D-Snohomish), a medical doctor by profession, expressed frustration over patients who have no financial incentive to control their health care purchases, saying that he felt obligated to over-test and over-treat.

On the other hand, public employees argue that the current health care package is part of their compensation, and that requiring employee premium payments effectively results in a cut in pay.

One of the issues discussed at the hearing was the possibility of self-insurance. By itself this option would not save money, the consultant's report said, although it might improve cash flow. On the minus side are increased claims liability and fluctuation in claims which could result in a funding short-fall. On the plus side are ownership of claims data (cost savings from some of the options was not possible to calculate because of insufficient claims data) and greater flexibility of benefits design.

The report also discussed ways to restructure the State Employees Insurance Board (SEIB) so it could better respond to the changing health care environment, as well as to increase its accountability.

Sprenkle summed up the issue this way: "The system is broke in two ways — there is not enough money and it doesn't work."

Coopers & Lybrand declined to tell the Legislature precisely what to do, and instead provided options, analyses and recommendations. The policy decisions now are in the hands of legislators.

Supplemental budget proposals from both the House (\$60.7 million) and the governor (\$50 million) include additional funding for the SEIB, although not enough to cover the entire cost increase requested by Blue Cross. A Republican amendment to the House bill would have

cut the funding by about half. In both budget proposals funding is provided for both state employees and K-12 employees, although the governor's proposal funds K-12 at a lower rate.

Sen. Dan McDonald's budget proposal doesn't include any funding for SEIB. He said he thinks it is better to pass a budget first and then deal with the health care issue.

In the recent past, the state has allocated the same amount of funding for health insurance benefits for K-12 and state employees. The SEIB has the authority to negotiate benefit packages for state employees based on available funds. However, the K-12 money is distributed to the districts where it is potentially subject to contract negotiations. This tends to increase the flexibility of the system. In some cases the local districts may fully fund health benefits. In others, employees may be responsible for co-payments or premium contributions.

A bill co-sponsored by Sprenkle and House Health Care Committee Chairman, Rep. Dennis Braddock (D-Bellingham), has been introduced to make some changes in the system.

"The consultant's report confirmed that we need to do something," Braddock said. "The SEIB has done well in the past, (but we are) entering a new game in health care

purchasing ... The bill gives the state the means to enter the health care market as a prudent buyer."

The proposal would restructure the SEIB to increase its expertise in the area of health care purchasing and its accountability to the executive branch. The Washington State Health Care Authority would establish health care plans that provide benefits for all qualified employees, possibly including "co-insurance and other forms of employee financial participation at a level that creates an incentive for employees to make prudent decisions about utilization of health care." Under the current law at least one option must be provided with no premium contribution by the employee.

The bill passed House committees. Braddock said that the bill's prospects are good and that there is commitment to passage on the part of the House leadership. Negotiations of specific details relating to the Authority are underway on the House floor.

The Senate has begun its review of the budget where employee health benefit funding will be a central issue, together with how the SEIB is administered and held accountable.

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