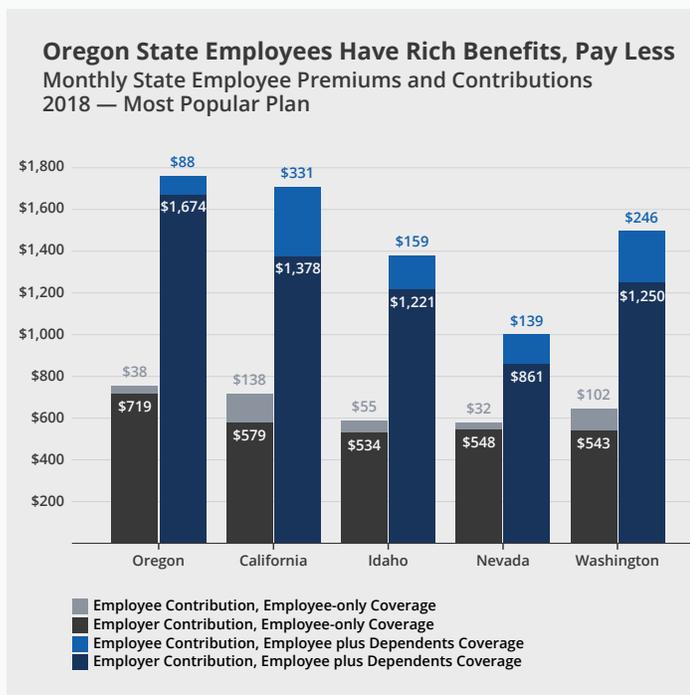


# PEBB AND OEGB: OREGON COULD SAVE SIGNIFICANT COSTS IN PUBLIC EMPLOYEE HEALTH INSURANCE

## WE PAY MORE THAN WE SHOULD FOR PUBLIC EMPLOYEE COVERAGE

Adjustments to health insurance benefits for public employees offer a ready opportunity for cost savings that would make additional funds available for public services — or for more competitive pay to attract and keep talented public employees. Public leaders are in a position to act on this opportunity because many public employees in Oregon have health coverage through either of two main providers. The Public Employee Benefit Board (PEBB) covers state agency staff and university employees. Most Oregon school districts (except some large districts) and a number of local governments are members of the Oregon Educators Benefit Board (OEGB).



Source: Comparison of Health Benefits Offered to State Employees and Teachers: California, Idaho, Nevada, Oregon, and Washington. Milliman draft report, Dec. 2018.

A new study by actuarial firm Milliman (to be published December, 2018) notes that Oregon state employees have rich benefits and pay less for their coverage than employees in the four states adjoining Oregon. While cost comparisons are more difficult to make for teachers, Milliman found a slightly different story there: coverage costs relatively less, but as with state employee coverage, public employees, i.e. taxpayers, bear more of the cost.

The potential for cost savings is greater for coverage provided through the Public Employee Benefit Board (PEBB),

but there are also potential cost improvements that could be made for school districts and some local government employees covered through the Oregon Educators Benefit Board (OEGB) system.

## PEBB COSTS MORE THAN OTHER STATE PLANS

Several factors drive higher costs for PEBB:

- **Plans are richer and more expensive for Oregon state employees.** The plans for state employees are more generous and expensive than coverage offered in other states.
- **Employees pay much less of the premium costs than in other states so they have little incentive to choose more efficient plans.** In Oregon, the average contribution toward premiums is 3 percent for employees and employees with dependents. Other states require a 10 to 20 percent contribution for employee-only coverage and a 12 to 20 percent contribution for employees with dependents. While California employees enjoy rich benefits, they also make a more significant contribution to their plan costs. Indeed, the share that Oregon employees contribute for both employee-only and dependent-coverage plans is the lowest of the five states in the Milliman study by a significant margin.
- PEBB's consultant, Mercer recently reported that **Oregon provider reimbursements are average or higher compared to the rest of the nation (i.e. the cost of health care is higher in Oregon).** Another study, the 2018 Health Care Cost Institute Healthy Market Index, found that health care prices in Portland are 7 percent above the national average when comparing 112 U.S. cities. This ranks Portland tenth highest of the cities included.

## THERE ARE THINGS WE CAN DO TO REDUCE THESE COSTS

A concerted, thoughtful effort to reform health benefits could help address Oregon's budget shortfall and lead to a better total compensation package for public employees. This work needs to be conducted in concert with a total compensation study that benchmarks total compensation for state employees to ensure the state can recruit and retain talent. (The Oregon Business Plan has provided recommendations for how such a total compensation study should be carried out.)

*Health benefit reform needs to be conducted in concert with a total compensation study that benchmarks total compensation for state employees to ensure the state can recruit and retain talent.*

To help control health care costs for state and school employees, the following measures should be considered.

### Controlling the Cost of Payments to Health Care Providers

- Continue to hold the PEBB and OEBB boards accountable for limiting growth in per member health care costs to 3.4 percent.
- Hold school districts outside of OEBB to the same target.
- Have the boards and school districts establish contracting requirements of their carriers for hospitals and providers to move from billing fee-for-service to value-based, global payments for the overall care of patients by 2023.
- Increase efforts to manage complex, high-cost patients; provide customized service to help them get the right care they need.

### Reforming Employer/Employee Contributions

- Over time, move to a fixed dollar contribution for health benefits that increases by CPI. This creates incentives for employees to select a lower cost plan that meets their needs.
- Set a target for the fixed dollar contribution that brings Oregon's costs closer in line with other public-sector and large Oregon purchasers, with more room for salary increases.
- Increase in 5 percent increments the percentage paid by employees until it is comparable to other public and large Oregon employers.
- Create shared savings models with employees.

### Offering More Choice in Plans and Options

- For PEBB, offer additional benefit plans, with different price points including a Consumer Directed Health Plan, that allow employees to select the right amount of coverage they need while not over insuring.

## OEBB PREMIUMS ARE LOWER COMPARED TO PEBB AND OTHER STATES

While comparing school teacher health benefits across states is more difficult, the Milliman study found that in general, premiums in OEBB are lower than those for

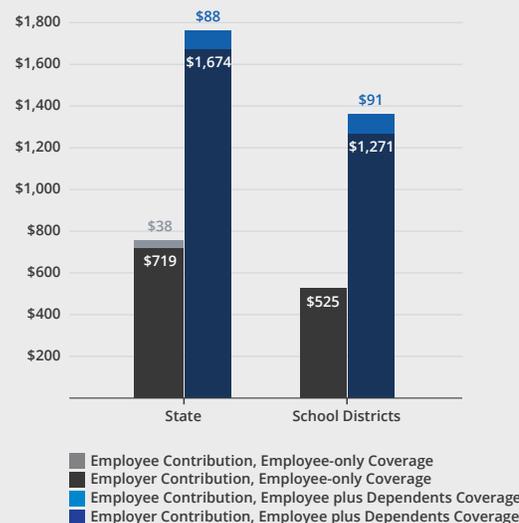
school teachers in Washington and California. However, teachers in other states pay a greater share of the premium when compared to Oregon. In Oregon, the average contribution for employee coverage is paid in full for districts paying on a 4-tiered rating structure, and 7 percent for those who have one composite rate. For employees with dependents, they pay on average 6 percent for plans on a tiered basis, and 7 percent for composite rates. As with PEBB in Oregon, Washington and California only offer benefits with premiums on a tiered rating structure. On average, the contributions for employee-only coverage in Washington and California ranges from 0 to 23 percent and 31 to 45 percent for employees with dependents. The school districts in all three states offer a range of comparable benefit plan options.

Although OEBB costs are lower than PEBB, there is still room for improvement in some jurisdictions.

For example:

- The decisions on the plans offered, the employer contribution, and the rating structure used in offering benefits are made at the district level and vary considerably across the state. Districts and labor leaders may not have the tools to know how to best structure their plan offerings and contribution approaches to create savings.
- Some districts take advantage of the OEBB model and support choice of offerings with contribution approaches that create the right incentives; other districts don't. These decisions impact the district costs; sometimes resulting in district costs above 3.4 percent.

**Oregon State and School Employees Pay a Small Share into Their Plans**  
Monthly Premiums and Contributions  
2018 — Most Popular Plan



Source: Comparison of Health Benefits Offered to State Employees and Teachers: California, Idaho, Nevada, Oregon, and Washington. Milliman draft report, Dec. 2018.

## OEBB SHOULD CONSIDER THESE REFORMS

- Require districts to offer plans on a 4-tiered premium rating structure, like PEBB and other school districts. This could allow more savings to apply to salary adjustments for starting teachers.
- Create a labor, management team including OEBB staff to help districts optimize the elements of the OEBB model to offer choice of plans, control district costs, create shared savings models with employees, and help employees make better decisions.
- Encourage more cities and counties to move to OEBB or the same model.

## REFORMS SHOULD AVOID POTENTIAL COST SHIFTING

While these changes will help allow for savings for the state for other investments, there is concern that the changes may shift costs to other Oregonians. Steps to avoid this include the following.

- As with the 3.4 percent growth target for PEBB and OEBB, create a statewide, all-payer health care spending target to ensure that health care costs do not outpace growth in the economy and wages, with mechanisms for ensuring that health systems operate within the target.
- Build on existing state data sources to create a system for transparent reporting on health care cost drivers.
- Leverage and align contracts across all payers, including the regulated markets, to require hospitals and providers to move from billing fee-for-service to value-based, global payments for the overall care of patients by 2023.