

**GUIDE TO THE
TEXAS SCHOOL EMPLOYEES UNIFORM
GROUP HEALTH COVERAGE ACT
(HOUSE BILL 3343)**

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PROGRAM DESCRIPTION

Historically, the provision of health insurance benefits to public education employees was the responsibility of the independent school districts in the state. The school districts chose the benefits plans, financed some or all of the cost, and determined the premiums charged to the employees. State involvement had been limited. While the state provided a significant level of education funding to the districts, no funds were provided specifically for employee health care benefits.

The only specific state involvement was a statutory requirement, enacted in 1995, that districts offer health care plans to their employees that were comparable to the health care plans available to state employees. However, there was no enforcement of this provision. In fact, a comparability study for the 1999–2000 school year conducted by the Teacher Retirement System (TRS) showed that only 202,780 employees (38 percent of reported employees) were covered by a comparable insurance plan, while 350 employees were not offered any health care plans at all. School districts that did offer coverage faced increases in health care costs, reflecting national trends in the health insurance market. In other cases, districts were unable to find any insurance carriers willing to underwrite coverage.

These factors contributed to efforts by the State Legislature to increase the state's role in the provision of health care benefits to school district employees. During the Seventy-seventh Legislative Session in 2001, Senate and House committees worked on crafting school district health insurance legislation. The bill that passed was House Bill 3343.

SUMMARY OF HOUSE BILL 3343

House Bill 3343 created a statewide program for providing health care coverage to public education employees¹ that will begin September 1, 2002 (fiscal year 2003). The

program has four major components: (1) a statewide group health care plan that will at first include school districts with 1,000 or fewer employees, then larger ones, (2) an annual \$900 per participating employee (\$75 monthly) state allotment for health care coverage, (3) a requirement that school districts contribute at least \$150 per month toward each participating employee's health coverage cost, and (4) a \$1,000 per year pass-through for every school district employee. A central feature of the program is that it builds on existing school district funding for employee health care by requiring a combined state and local per employee contribution of \$225 per month. The total projected state cost for the first biennium is \$1.264 billion. The program does not include retirees, who will continue to be covered by the TRS-Care program.

A portion of the funding for these provisions is provided through changes in school finance formulas, as well as from direct General Revenue appropriations. (For more information on the Texas school finance system, please see *Financing Public Education in Texas Kindergarten through Grade 12, Legislative Primer, Third Edition*, Legislative Budget Board, October 2001). Districts are required to use a portion of the additional formula revenue, \$490.4 million, along with \$751.4 million in General Revenue funds for school district employee benefits. TRS, with assistance from the Texas Education Agency (TEA), will be responsible for the program's administration. (A summary of agency responsibilities under House Bill

¹Funding is provided for employees who are active, contributing members of TRS. In general, employees of charter schools and regional education service centers will receive the same state contributions and administrative services as school district employees. Their employers are bound by the same insurance benefit requirements as school districts. However, employees of charter schools who do not join the statewide program will not receive the \$1,000 pass-through.

PROGRAM DESCRIPTION

3343 is included on Page 8.) TRS received \$25 million in fiscal year 2002 for program start-up costs; in subsequent years, administration will be paid out of program funds.

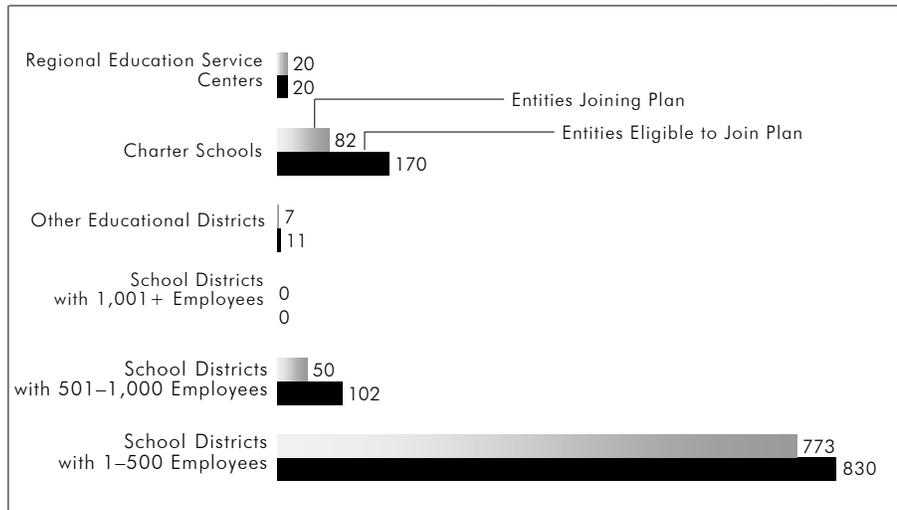
STATEWIDE POOL

The statewide health care program, named TRS-ActiveCare, will offer several tiers of coverage, with one level comparable to the benefits provided by the Employees Retirement System (ERS) to state employees. With a few exceptions, school districts with 500 or fewer employees must join this statewide pool in fiscal year 2003, thereby terminating health insurance plans they were administering locally. Districts with between 501 and 1,000 employees could choose to participate in the pool that same year. Large districts (more than 1,000 employees) will have the option of joining the statewide pool beginning in fiscal year 2006, unless the TRS Board of Trustees allows an earlier opt-in date. (See Page 9 for a summary of participation provisions for the various public education entities.) A new fund, called the Texas School Employees Uniform Coverage Trust Fund, will be set up by the Comptroller of Public Accounts to be used for program operations.

The deadline for school districts and other entities to notify TRS of their decision to join the statewide plan was September 30, 2001. Of the 932 school districts in the state with 1,000 or fewer employees, 823 districts joined the plan. Of the 201 charter schools, regional education service centers, and other educational districts,

109 joined the plan. These 932 participating entities have a current employment level of 147,000 employees, which represents an estimated 26 percent of the public education employees in the state. (The actual level of participation in the plan will not be known until after the employee enrollment period in spring/summer 2002.) Figure 1 shows the distribution of eligible public education entities and the number choosing to join the statewide plan.

**FIGURE 1
ENTITIES JOINING STATEWIDE PLAN, BEGINNING SEPTEMBER 1, 2002**



NOTE: See table on Page 9 for specific participation provisions for each entity type.
SOURCE: Teacher Retirement System, May 2002.

In January 2002, the TRS Board of Trustees chose Blue Cross/Blue Shield (BC/BS) to act as the third-party administrator for the medical and hospital benefits provided by the plan. TRS will work with the administrator to set up a network of hospital and physician providers, matching the network to the geographical distribution of the program enrollees. The third-party administrator will also be responsible for assisting with plan enrollment and for processing claims once the plan becomes operational in September 2002. The TRS Board of Trustees chose Merck-Medco to serve as the pharmacy benefits manager responsible for the pharmacy network and the mail-order drug program.

PROGRAM DESCRIPTION

TRS is responsible for determining the provisions and benefit levels of the various plan options. The agency has compiled information on the current plans being offered by the school districts, and factored that information into the plan design for the new program. (Highlights of the plan provisions adopted by the TRS Board of Trustees in February 2002 are provided on Page 7.) In April 2002, TRS, along with the third-party administrator (BC/BS) and local district benefits personnel, began the process of enrolling employees in the plan.

INSURANCE ALLOTMENT

The legislation mandates a combined state and local insurance contribution of at least \$225 per month per participating employee. The state will provide \$75 per month (\$900 per year) for each employee participating in a health care plan. This allotment is provided regardless of whether the employee is participating in the statewide plan or in a plan run by the district (districts with more than 1,000 employees, or other entities that opted out). The allotment will not be provided for employees who have waived coverage. Funding for the allotment comes from school finance formula revenue (see “Formula Adjustment” section on Page 4) and additional state aid provided by TEA.

REQUIRED LOCAL DISTRICT CONTRIBUTIONS - MAINTENANCE OF EFFORT AND MINIMUM REQUIRED EFFORT

There are two provisions in House Bill 3343 that work together to ensure that the local school districts continue to participate significantly in funding their employees’ health care coverage. The maintenance of effort provision requires school districts to continue providing funding at the same level as before enactment of House Bill 3343, while the minimum effort provision ensures

that the districts’ contributions are equal to or greater than a floor amount.

Each school district or other eligible entity must maintain a level of employer contribution for benefits and compensation equivalent to what was spent for health insurance in the 2000–01 school year. This “maintenance of effort” is calculated by multiplying the amount of 2000–01 health care contributions per full-time employee by the total number of full-time employees in the current year. The result of the calculation is an aggregate contribution amount that will change over time based on the number of full-time employees. If district contributions exceed the minimum required effort discussed below, the additional amount must be spent on health care coverage or on other types of employee compensation (salary, other benefits).

Regardless of a district’s current level of effort, the legislation requires a minimum expenditure for health care coverage of \$150 per month per participating employee. If a district is currently spending less than that amount, it will receive additional state assistance to achieve that level. This minimum effort state subsidy will be phased out in \$25 increments over six years. This phaseout provision will not apply to school districts at the maximum \$1.50 maintenance and operations tax rate. Also, the bill recognizes the impact of the state subsidy phaseout on rollback tax rates and Tier 2 effective tax rates. (See the House Bill 3343 bill analysis, Sections 2.06 and 2.11 on Page 14, for more details.)

School district employer health care contributions for fiscal year 2001 will be reported to TEA through districts’ internal audit reports, while data on the number of employees will be reported through the Public Education Information Management System. Once the data have been submitted, TEA will calculate the minimum effort state subsidy.

PROGRAM DESCRIPTION

EMPLOYEE PASS-THROUGH

The state will also provide \$1,000 per year directly to each employee, which can be used to purchase additional coverage, pay premiums for dependent coverage, deposit into a health care reimbursement account, or be taken as cash. This pass-through payment is provided regardless of whether the employee is participating in a health care plan, and will be distributed by TRS with assistance from the TEA. Amounts taken as compensation will be treated as taxable income by the federal government. In these cases, districts that participate in the Social Security program will have to pay employer matching taxes on the additional income. House Bill 3343 requires the state to offset this cost by providing additional state funding; \$1.4 million has been included in the TRS appropriation for fiscal year 2003 to fund this 'hold harmless' provision.

SCHOOL FINANCE FORMULA ADJUSTMENTS

House Bill 3343 modifies Foundation School Program formulas to give school districts additional revenue to fund two of the health insurance provisions — the \$900 annual insurance allotment and the \$150 monthly minimum effort state subsidy. In 2003, participating school districts are required to allocate 75 percent of the additional revenue resulting from the formula adjustments to these two benefits, thereby generating \$490.4 million of the \$644.5 million total cost for these provisions in fiscal year 2003.

The legislation increases the Tier 2 Guaranteed Yield (which ensures that districts receive a minimum per student revenue level for each penny of maintenance and operations tax) from \$24.99 to \$25.81 in fiscal year 2002 and \$27.14 in fiscal year 2003; it raises the Equalized Wealth Level (the threshold at which districts must reduce their local property wealth per student) from \$295,000 to \$300,000 in fiscal year 2002 and \$305,000 in

fiscal year 2003; and it creates a new funding formula to ensure that school districts that would not otherwise experience a revenue increase from changes in these two formulas enjoy the same revenue increase per weighted student as provided to Tier 2-eligible school districts.

For fiscal year 2002, school districts can use the additional revenue resulting from the formula changes for any lawful purpose. As noted, for fiscal year 2003 and thereafter, school districts will be required to use an amount not to exceed 75 percent of their additional formula revenue to fund the insurance allotment and minimum effort state subsidy. If 75 percent of a district's additional formula aid produces less than \$900 per participating employee, the state will provide the difference. However, if 75 percent of the additional formula revenue generates more than \$900 per employee, the difference is allocated to the minimum effort state subsidy that helps the district provide a \$150 per month insurance contribution.

CHILDREN'S HEALTH INSURANCE PROGRAM

Federal regulations prohibit the federal financing of enrollment in the Children's Health Insurance Program (CHIP) in cases where the child has access to a statewide health care plan. In the event that this prohibition applies to children of employees working in the districts participating in the statewide pool, House Bill 3343 provides additional state funds to the Health and Human Services Commission to replace federal funds for CHIP enrollees made ineligible for the federal match.

APPENDIX A. HOUSE BILL 3343 — MAJOR COST ELEMENTS

This table summarizes the major cost elements of House Bill 3343. It is important to note that these figures are estimates made at the time of the bill's passage, based on projected employee growth and other cost factors.

MAJOR COST ELEMENTS¹

(IN MILLIONS)			
ELEMENT	FISCAL YEAR 2002	FISCAL YEAR 2003	2002-03 BIENNIUM
\$1,000 per Employee Pass-through	NA	\$588.7	\$588.7
\$900 per Participant Insurance Allotment	NA	515.5	515.5
Minimum Effort State Subsidy	NA	129.0	129.0
TRS Program Start-up Costs ²	\$25.0	0.0	25.0
Children's Health Insurance Program	NA	4.2	4.2
Additional Social Security Tax Hold Harmless	NA	1.4	1.4
SUBTOTAL, INSURANCE PLAN ELEMENTS³	\$25.0	\$1,238.8	\$1,263.8
Discretionary State Aid to School Districts ⁴	\$367.2	\$256.3	\$623.5
TOTAL, ALL ELEMENTS	\$392.2	\$1,495.1	\$1,887.3

¹Funds were appropriated both directly to TRS and the Health and Human Services Commission, and indirectly to school districts through the school finance system. As a result, these aggregate cost elements do not directly correspond to specific appropriations in the General Appropriations Act, Seventy-seventh Legislature, 2001.

²The Teacher Retirement System assessed a \$10 annual fee on all active school district employees from 1993 through 1996 to be used for implementation of a health insurance program for active employees. The accumulated balance from this assessment was estimated to be \$22 million. A General Revenue appropriation of \$3 million provides the remainder to reach \$25 million.

³In addition to these elements, House Bill 3343 transferred \$42 million from the retired school employees group insurance fund to the active employee group insurance fund to cover early cash flow needs.

⁴Funding that school districts may use for any lawful purpose.

APPENDIX B. HOUSE BILL 3343 — FUNDING SOURCES

This table summarizes the sources of funding for the provisions of House Bill 3343 for the current biennium.

SOURCES OF FUNDING

(IN MILLIONS)			
FUNDING SOURCE	FISCAL YEAR 2002	FISCAL YEAR 2003	2002-03 BIENNIUM
FOUNDATION SCHOOL PROGRAM FORMULA CHANGES			
Equalized Wealth Level	\$84.9	\$121.9	\$206.8
Tier 2 Guaranteed Yield	260.6	609.5	870.1
Gap District Formula Aid	21.7	15.3	37.0
SUBTOTAL, FSP	\$367.2	\$746.7	\$1,113.9
REGULAR GENERAL REVENUE			
\$1,000 Pass-through	NA	\$588.7	\$588.7
\$900 Allotment ¹	NA	51.5	51.5
Minimum Effort State Subsidy ²	NA	102.6	102.6
Children's Health Insurance Program	NA	4.2	4.2
School Employee's Insurance Program — Start-up Cost	\$3.0	0.0	3.0
Additional Social Security Tax Hold Harmless	NA	1.4	1.4
SUBTOTAL, REGULAR GENERAL REVENUE	\$3.0	\$748.4	751.4
Remaining balances from a \$10 fee on active employees	\$22.0	\$0.0	\$22.0
TOTAL, ALL ITEMS³	\$392.2	\$1,495.1	\$1,887.3

¹Represents the amount necessary to provide the \$900 per year per covered employee insurance allotment that is not funded by the additional state aid resulting from Foundation School Program formula adjustments. Includes \$46.5 million for public schools, and \$5.0 million for regional education service centers and charter schools.

²Reflects the amount that is not funded by the state aid resulting from Foundation School Program formula adjustments necessary to ensure that employing entities provide an employee-only contribution of at least \$150 per month per employee. Includes \$101.6 million for public schools, and \$1.0 million for regional education service centers and charter schools.

³In addition to these elements, House Bill 3343 transferred \$42 million from the retired school employees group insurance fund to the active employee group insurance fund to cover early cash flow needs.

APPENDIX C. HIGHLIGHTS OF PLAN DESIGN

This table summarizes the major plan provisions relating to member cost-sharing adopted by the TRS Board of Trustees.

HIGHLIGHTS OF PLAN DESIGN

PLAN PROVISION	PLAN 1	PLAN 2	PLAN 3 (ERS-COMPARABLE)			
			NETWORK	NON-NETWORK		
MEDICAL						
Deductible						
Individual	\$1,000	\$500	None	\$500		
Family	\$3,000	\$1,500	None	\$1,500		
Coinsurance (Plan pays after deductible)	80% of Network, 60% of Non-network charges	80% of Network, 60% of Non-network charges	90% of Network	70% of allowable charges		
Office Visit Copay	Deductible and coinsurance	In-Network - \$25, Non-Network - Deductible and coinsurance	\$15	Deductible and coinsurance		
Emergency Room	Deductible and coinsurance	Deductible and coinsurance	\$50 copay (waived if admitted)	Deductible and coinsurance		
Hospital Admission	Deductible and coinsurance	Deductible and coinsurance	Coinsurance	Deductible and coinsurance		
Out-of-pocket Maximum (excluding deductible)						
Individual	\$2,000	\$2,000	\$500	\$1,500		
Family	\$6,000	\$6,000	None	None		
Lifetime Maximum	Unlimited	Unlimited	Unlimited	\$1,000,000		
PRESCRIPTION DRUGS						
Retail						
Generic	Deductible and coinsurance	\$5	\$5	\$5		
Brand-name (Formulary)	Deductible and coinsurance	\$25	\$20	\$20		
Brand-name (Non-formulary)	Discount card included	\$45 (plus amounts over network cost if filled by non-network pharmacy)	\$35	\$35 (plus amounts over network cost)		
Mail Order						
Generic	Deductible and coinsurance	\$10	\$10	NA		
Brand-name (Formulary)	Deductible and coinsurance	\$50	\$40	NA		
Brand-name (Non-formulary)	Discount card included	\$90	\$70	NA		
MONTHLY COST						
	PLAN 1		PLAN 2		PLAN 3	
	TOTAL	EMPLOYEE ¹	TOTAL	EMPLOYEE ¹	TOTAL	EMPLOYEE ¹
Employee Only	\$237	\$0	\$315	\$7	\$399	\$91
Employee + Spouse	\$539	\$231	\$717	\$409	\$907	\$599
Employee + Child(ren)	\$377	\$69	\$502	\$194	\$635	\$327
Employee + Family	\$593	\$285	\$789	\$481	\$997	\$689

¹Employee cost is after deducting the \$308 available per month from the \$150 minimum required local effort, the \$75 state insurance allotment, and the \$83 employee pass-through (\$1,000 per year).

SOURCE: Teacher Retirement System, February 22, 2002.

APPENDIX D. AGENCY RESPONSIBILITIES

This table provides information on the distribution of duties required by House Bill 3343.

AGENCY RESPONSIBILITIES UNDER HOUSE BILL 3343

FUNCTION AND DUTY	AGENCY RESPONSIBLE
ADMINISTRATION OF STATEWIDE GROUP INSURANCE POOL	
Implement and administer the Texas School Employees Uniform Group Health Program.	Teacher Retirement System
Implementation duties prior to statewide pool's first year of operation (fiscal year 2003):	NOTE: TRS' full-time-equivalent employees cap increased by 25 for program administration.
<ul style="list-style-type: none"> • Distribute preliminary plan information to districts by July 31, 2001. • Develop health plan options. • Enroll employees. 	TRS may request assistance from the Texas Department of Insurance
DISTRIBUTION OF BENEFITS	
Ensure that school districts receive sufficient funding to provide the \$900 insurance allotment.	Texas Education Agency
Allocate the \$1,000 annual employee pass-through to all public school employees.	Teacher Retirement System, with assistance from TEA
Distribute state subsidy allowing certain districts to meet the \$150 minimum effort.	Teacher Retirement System, with assistance from TEA
CALCULATION OF \$150 MINIMUM EFFORT SUBSIDY	
Compute fiscal year 2001 district insurance expenditures and determine subsidy amounts.	Texas Education Agency, with assistance from TRS
HOLD-HARMLESS PROVISIONS	
Provide state aid to offset Social Security employer tax increase due to \$1,000 pass-through.	Teacher Retirement System
Maintain a state subsidy for districts at the \$1.50 tax rate cap.	Teacher Retirement System, with assistance from TEA
Increase Tier 2 tax rate to offset declining minimum effort state subsidy	Texas Education Agency
CHILDREN'S HEALTH INSURANCE PROGRAM	
Provide state funding in case federal funding is revoked.	Texas Health and Human Services Commission
SCHOOL DISTRICT COMPARABILITY STUDY	
Assess the comparability of school district health insurance plans not participating in the statewide pool to the state employee plan.	Teacher Retirement System

APPENDIX E. ENTITY PARTICIPATION REQUIREMENTS

This table summarizes the participation requirements spelled out in House Bill 3343 for the various public education in the state.

EDUCATIONAL ENTITIES COVERED

ENTITY	AGENCY
SCHOOL DISTRICTS	
500 or fewer employees	Optional if in risk pool or self-insured as of January 1, 2001; all others required to participate effective September 1, 2002
501–1,000 employees	Optional beginning September 1, 2002
Over 1,000 employees	Eligible for participation beginning September 1, 2005 ¹
CHARTER SCHOOLS	Optional beginning September 1, 2002
REGIONAL EDUCATION SERVICE CENTERS	Mandatory participation effective September 1, 2002
OTHER EDUCATIONAL DISTRICTS²	Optional if 500 or fewer employees; otherwise mandatory participation effective September 1, 2002

¹Participation may begin earlier if allowed by TRS Board of Trustees.

²Includes local public agencies that provide services to school districts, such as the Harris County Education Department.

Note: Effective date for joining statewide plan may be later if entity has a health care contract in place that expires after September 1, 2002.

APPENDIX F. IMPLEMENTATION TIMELINE

This table shows the timing of steps taken to implement House Bill 3343 and the projected timing of remaining steps.

TIMELINE FOR IMPLEMENTATION OF HOUSE BILL 3343

DATE	DUTY
JULY 31, 2001	TRS provided general description and initial cost estimates for statewide group plan.
SEPTEMBER 1, 2001	Deadline for districts with 500 or fewer employees who were self-insured or part of a risk pool to opt out of statewide group plan. Deadline for charter school and other public educational entities with 500 or fewer employees to opt into plan.
SEPTEMBER 30, 2001	Deadline for districts with 501–1,000 employees to notify TRS of intention to join statewide group plan.
JANUARY 2002	Selection of third-party administrator of the medical benefits and pharmacy benefits manager.
FEBRUARY 2002	Completion of program design. Begin training sessions for districts.
APRIL 2002	Communication packets, including enrollment materials, will be sent to districts. Program enrollment begins.
SEPTEMBER 1, 2002*	Health care program begins: <ul style="list-style-type: none">• statewide pool• \$900 state insurance allotment• \$1,000 employee pass-through
JANUARY 1, 2005*	Districts with more than 1,000 employees must notify TRS of intent to join statewide group plan.
SEPTEMBER 1, 2005*	Districts with more than 1,000 employees may begin participating in statewide group plan. TRS may allow districts to join sooner if Board of Trustees deems feasible.

*Projected

APPENDIX G. GLOSSARY

COMPARABILITY

A determination made by insurance actuaries as to whether the overall benefit levels provided by two different health insurance plans are similar. Factors such as co-payments, deductibles, and maximum out-of-pocket provisions are factored into the analysis leading to the determination.

CHILDREN'S HEALTH INSURANCE PROGRAM

The Children's Health Insurance Program (CHIP) is a joint federal/state program designed for families who earn too much money to qualify for Medicaid, yet cannot afford commercial insurance. The State of Texas offers a benefits package with a range of coverage including regular checkups, immunizations, prescription drugs, eyeglasses, lab tests, X-rays, hospital visits, dental care, and mental care.

MINIMUM EFFORT

A requirement in House Bill 3343 that entities contribute at least \$150 per month per covered employee for health insurance premiums. The state will provide a subsidy, calculated as the difference between the minimum effort amount and the district's fiscal year 2001 maintenance of effort amount, so that districts can meet the requirement in fiscal year 2003. The subsidy is phased-out in \$25 increments over six years.

MAINTENANCE OF EFFORT

House Bill 3343 requires entities to make the same contribution for benefits and compensation that they provided for health care coverage in fiscal year 2001. The fiscal year 2001 maintenance of effort level is calculated by dividing the total dollars contributed by the number of total full-time employees. The current year's level is the 2001 amount multiplied by the current number of full-time employees. Entities must provide the greater of this amount, or the minimum effort level, in fiscal year 2003 and thereafter.

MEDICAL SAVINGS ACCOUNT

An employee-directed health insurance account into which employees and employers make regular tax-free deposits. Employees can make withdrawals to cover health care expenses or health insurance premiums without tax penalties. Similar to a health care reimbursement account, but currently only a pilot program under federal law.

PASS-THROUGH

A payment that is made by the Teacher Retirement System to public education entities, which must be held in trust and applied to the benefit or compensation options chosen by public education employees. House Bill 3343 provides a \$1,000 annual pass-through for public education employees that they can direct towards a group insurance benefit, health care expenses under a health care reimbursement account, supplemental compensation, or some combination of these options.

STATEWIDE POOL

A coverage plan for public education entities throughout the state. The legislation provides that small school districts, medium size districts that opt in, regional education service centers, special education districts, and charter schools that comply with open record requirements participate in the pool during the initial years following its inception.

SELF-INSURED RISK POOL

Insurance pools operated locally by a group of school districts, who pooled their employees to form a larger group with the goal of reducing average costs and obtaining more favorable coverage.

APPENDIX H. SECTION-BY SECTION BILL ANALYSIS

HOUSE BILL 3343 CONFERENCE COMMITTEE REPORT

Prepared by the Legislative Budget Board staff¹

ARTICLE 1 GROUP HEALTH COVERAGE PROGRAM

SECTION 1.01

Creates the Texas School Employees Uniform Group Insurance Program. The Texas Teacher Retirement System is the administrator, with all necessary rule-making authority; ability to hire and compensate employees; and contract with a group insurance consultant or actuary.

TRS must offer at least two health care plans:

1) a catastrophic or “basic” plan equal in benefits to the TRS-Care 2 (which is free to retirees not covered by Medicare Part A; Per Person Deductible: \$1,800); and 2) an ERS-similar or “primary” plan.

The size of the statewide plan is “phased-in”, so that for the first five years the plan includes small school districts (fewer than 500 employees) and medium districts (500 to 1,000 employees).

In fiscal year 2003, most small districts are required to participate, while medium size districts have a onetime window in which to join the plan (they must notify TRS by September 30, 2001). Small school districts participating in risk pools, or that are self-funded, as of January 1, 2001 may elect to participate in the statewide pool.

Charter schools that agree to certain audit and open record provisions may elect to participate in the statewide

pool. However, all regional education service centers must participate in the statewide pool.

Beginning in September 1, 2005 (fiscal year 2006), school districts of any size may be in the statewide plan, unless the TRS trustees open the plan to all districts at an earlier date.

Insurance contribution: All participating, full-time employees benefit from a \$900 per year (\$75 per month) state insurance contribution to the districts. State cost: \$515.5 million (Foundation School Program: \$469 million; General Revenue: \$46.5 million).

The rationale behind the \$75 contribution is that, when combined with the \$150 monthly minimum school district contribution, this equals \$225 per month—the projected cost of employee-only coverage under the basic/catastrophic TRS active employee insurance program. A recent TRS comparability study found that school districts contribute, on average, \$150 per month for employee-only coverage. Under a later subsection of the bill, school districts are required to provide at least their current contribution levels (a.k.a. maintenance of effort). Districts spending less will initially receive additional state funds to reach the \$150 requirement (the minimum state subsidy, described later in this document).

SECTION 1.02

Pass-through: All full-time employees, whether they participate or waive coverage, receive the \$1,000 per year pass-through. They can choose to apply this money towards a) dependent coverage, b) medical costs not covered by the employer’s benefit plan (a.k.a. a cafeteria plan reimbursement account), or c) supplemental

¹Bill analysis prepared by House Bill Analysis is available at the Legislature’s website: www.capitol.state.tx.us

APPENDIX H. SECTION-BY SECTION BILL ANALYSIS

compensation. Cost: \$588.7 million for fiscal year 2003; increases at a rate of 3 percent (employee growth) per year.

SECTION 1.03

All school districts, charter schools, and regional education service centers must contribute the greater of:

A) the **Maintenance of Effort** level, which is the amount per full-time employee that they contributed in school year 2000–01, multiplied by the number of full-time employees in the current year, or

B) the **Minimum Effort** level, which is \$1,800 (\$150 per month) times the number of **participating** employees².

The maintenance of effort level is determined by dividing the school year 2001 contributions by the number of full-time employees and then multiplying the result by the current year's full-time employee count. If this total amount is more than \$1,800 multiplied by the number of participating employees, then the entity must pay that amount; if it is less, then it is eligible for the state subsidy mentioned below.

MINIMUM EFFORT STATE SUBSIDY:

The state provides a subsidy to all school districts which have a maintenance of effort level less than \$150 per month in school year 2000–01, so that they can reach the \$150 per month minimum effort level in fiscal year 2003. Cost: \$129 million for fiscal year 2003 (Foundation School Program provides \$28 million; General Revenue: \$101 million)

²A full-time employee is used in this analysis to mean a TRS retirement eligible. A participating employee is someone who elects insurance coverage.

Subsidy Step-down for fiscal years 2004–06: The state subsidy decreases by \$25 each year until it reaches \$0 in 2009.

State cost decreases to fiscal year 2004: \$60.7 million; fiscal year 2005: \$25 million; fiscal year 2006: \$7.6 million.

Tax Rate Cap Hold Harmless: If a district reaches the \$1.50 M&O tax rate, the state minimum effort state subsidy continues indefinitely. Cost: \$1 million annually beginning in fiscal year 2004.

Social Security Hold Harmless: A school district that pays Social Security retirement taxes is provided a state subsidy equal to the tax liability incurred resulting from its employees using the \$1,000 pass-through as compensation. Cost: \$1.4 million annually beginning in fiscal year 2003. This provision expires September 1, 2008.

SECTION 1.04

Children's Health Insurance Program (CHIP). The bill clarifies that children of school district employees covered by the mandatory statewide insurance pool are still eligible to participate in CHIP with funding provided by state General Revenue appropriations (rather than federal funds). Cost: \$4.2 million

ARTICLE 2 SCHOOL FINANCE

SECTION 2.01

Prevents the increase in the Tier 2 yield from causing an increase in the teacher minimum salary schedule that school districts must follow. This has significance for state costs because TRS state retirement contributions are pegged to the minimum salary schedule.

APPENDIX H. SECTION-BY SECTION BILL ANALYSIS

SECTION 2.02 & 2.03

Increases the Equalized Wealth Level to \$300,000 for fiscal year 2002 and \$305,000 for fiscal year 2003. Cost: 207 million (with set-aside adjustment).

SECTION 2.04

Provides that “gap” districts will get the same increase in revenue per WADA that Tier 2-eligible districts receive. However, in the second year of the biennium the revenue gain is reduced to reflect growth in gap districts’ tax bases. The cost of this adjustment cannot exceed \$37 million. This provision expires September 1, 2003.

SECTION 2.05

Provides for additional state aid to districts in which 75 percent of the gain in revenue from the changes to the equalized wealth level, the guarantee level for Tier 2, or the special assistance to districts authorized by section 2.04 of the bill does not equal \$900 per employee participating in a group health insurance program. Cost: \$46.5 million (the General Revenue portion of the \$515.5 million total cost for the insurance allotment cited in Section 1.01)

SECTION 2.06

Requires TEA to raise the tax rate used for the purpose of calculating Tier 2 state aid by the amount a district increases its M&O rate in order to offset the declining minimum effort state subsidy. Cost: \$10 million in fiscal year 2005.

SECTION 2.07

Provides that in fiscal year 2002, a school district can use the additional revenue attributable to the Tier 2 yield, the Equalized Wealth Level increases, or the “gap” district Tier 2 funding for any lawful purpose.

SECTION 2.08

For fiscal year 2003 and thereafter, school districts and charter schools must use 75 percent of the additional revenue from increases in the Tier 2 yield, Equalized Wealth Level, and “gap” district Tier 2 funding for group insurance contributions, OR they must use the sum of the \$900 insurance allotment plus the minimum effort state subsidy, if that sum is less than 75 percent of the formula gain.

SECTION 2.09 & 2.10

Raises the Tier 2 yield to \$25.81 for fiscal year 2002 and \$27.14 in fiscal year 2003. These yields were determined to be sufficient to reach the 85 percent equalized students target (keeping Dallas in the system), when using the approach to calculating weighted average daily attendance required by House Bill 2879, Seventy-seventh Legislature, 2001 (i.e. “pre-set-asides” WADA). Cost: \$868 million.

SECTION 2.11

Adjusts the rollback tax rate to reflect higher expenditures and tax rates a school district experiences resulting from the declining (stepping down) minimum effort state subsidy.

ARTICLE 3

CONFORMING AMENDMENTS

ARTICLE 4

APPROPRIATION TRANSFERS

SECTION 4.01

Moves \$42 million out of the TRS retiree health insurance fund to the new Texas School Employees Uniform Coverage Trust Fund to cover initial group insurance claims.

APPENDIX H. SECTION-BY SECTION BILL ANALYSIS

SECTION 4.02

Moves \$3 million out of the TEA Foundation School Program (FSP) appropriation to the Teacher Retirement System, so that combined with \$22 million in remaining balances from active member fees assessed from 1993–96, TRS can fund start-up costs.

Moves \$691.1 million from the TEA FSP appropriation to the TRS for the \$1,000 employee pass-through and the minimum effort state subsidy.

Moves \$1.4 million from the TEA FSP appropriation to the TRS for the Social Security hold harmless.

Moves \$4.2 million from the TEA FSP appropriation to the Texas Health and Human Services Commission for the CHIP state subsidy.

SECTION 4.03

Increases TRS's FTE cap by 25 each fiscal year, to reflect the additional employees the agency will need to administer the Texas School Employees Uniform Group Insurance program.

SECTION 4.04

Increases TEA's FTE cap by 3 each fiscal year, to reflect the additional employees the agency will need associated with the Texas School Employees Uniform Group Insurance program.

ARTICLE 5

TRANSITION AND EFFECTIVE DATE

SECTION 5.01

Directs TRS to develop a plan during fiscal year 2002 to prepare for program coverage in September 2003.

SECTION 5.02

Directs TRS to transfer any remaining balances from the annual fees assessed on active members (\$10 per year from 1993–96) intended for costs related to active employee plan. Fund balance is estimated to be \$22 million. These funds are appropriated in Senate Bill 1.

SECTION 5.03

Requires TRS to distribute general plan information to district by July 31, 2001.

SECTION 5.04

Requires the larger districts, that must wait until fiscal year 2006 (i.e. September 1, 2005), to notify TRS by January 1, 2005 of their election to join the statewide insurance pool.

SECTION 5.05

Allows TRS to modify, as necessary, any existing contracts for benefits administration to accommodate the new statewide insurance pool.

SECTION 5.06

Requires the Health and Human Services Commission to seek federal rulings on the treatment of CHIP expenditures for children of parents participating in the statewide plan, as soon as possible after September 1, 2001.

SECTION 5.07

Districts required to join the statewide insurance pool (those with fewer than 500 employees) are exempted from competitive bidding requirements for school year 2001–02 group insurance contracts.

SECTION 5.08 EFFECTIVE DATES

Sections 5.03 and 5.07: immediately

Sections 1.02, 2.03, 2.05, 2.08, 2.10: on September 1, 2002

All other sections: on September 1, 2001

APPENDIX I. EXAMPLE OF FUNDING CALCULATIONS

This table presents three hypothetical school districts and illustrates the calculations for state funding under House Bill 3343. The districts are assumed to be identical except for the increase in formula revenue due to the school finance formula changes (line 3) and the fiscal year 2001 average district health care contribution per employee (line 8). Note that fiscal year 2001 = 2000–01 school year; fiscal year 2003 = 2002–03 school year.

STATE FUNDING CALCULATIONS IN THE HEALTH INSURANCE PROGRAM — DISTRICT EXAMPLES

	FISCAL YEAR 2003		
	DISTRICT A	DISTRICT B	DISTRICT C
DISTRICT CHARACTERISTICS			
(1) Number of employees, fiscal year 2003	210	210	210
(2) Number of participating employees, fiscal year 2003	185	185	185
(3) Increase in formula revenue due to House Bill 3343 formula changes	\$190,000	\$210,000	\$230,000
A. \$900 STATE INSURANCE ALLOTMENT			
(4) Allotment cost (\$900 times line (2) participating employees)	\$166,500	\$166,500	\$166,500
(5) Formula revenue required to be used for insurance (75 percent of line (3) formula revenue increase)	\$142,500	\$157,500	\$172,500
(6) Additional state assistance for allotment (if \$900 allotment cost in line (4) is not fully covered by 75 percent of formula revenue increase shown in line (5))	\$24,000	\$9,000	\$0
B. MAINTENANCE OF EFFORT AND MINIMUM EFFORT TRANSITION ASSISTANCE			
(7) Minimum required effort (<i>\$1,800 times line (2) number of participating employees</i>)	\$333,000	\$333,000	\$333,000
(8) Fiscal year 2001 average district contribution per employee	\$1,900	\$1,500	\$1,500
(9) Fiscal year 2003 maintenance of effort (<i>line (8) contribution per employee times line (1) number of employees</i>)	\$399,000	\$315,000	\$315,000
(10) Remaining formula revenue applied toward line (7) minimum required effort (<i>excess of line (5) formula revenue applied towards insurance over line (4) allotment cost</i>)	\$0	\$0	\$6,000
(11) Final state minimum effort transition assistance, if line (7) minimum required effort exceeds the sum of line (9) maintenance of effort and line (10) remaining formula revenue (<i>line (7) minimum required effort minus line (9) maintenance of effort minus line (10) remaining formula revenue</i>)	\$0	\$18,000	\$12,000
C. \$1,000 EMPLOYEE PASS-THROUGH			
(12) Pass-through (<i>\$1,000 times line (1) number of employees</i>)	\$210,000	\$210,000	\$210,000
SUBTOTAL			
State funding for health insurance plan components (<i>sum of lines 5, 6, 11, and 12</i>)	\$376,500	\$394,500	\$394,500
Discretionary state aid (<i>25 percent of line (3) formula revenue increase</i>)	\$47,500	\$52,500	\$57,500
TOTAL	\$424,000	\$447,000	\$452,000