School Employees Benefits Board
Meeting Minutes

September 17, 2018
Health Care Authority
Sue Crystal Rooms A & B
Olympia, Washington
1:00 p.m. – 2:30 p.m.

Members Present:
Lou McDermott
Wayne Leonard
Katy Henry
Dan Gossett
Terri House
Patty Estes
Sean Corry
Pete Cutler (Late)

Member Present by Phone:
Alison Poulsen

SEB Board Counsel:
Katy Hatfield

Call to Order

Lou McDermott, Chair, called the meeting to order at 1:00 p.m. Sufficient members were present to allow a quorum. Board and audience self-introductions followed.

Agenda Overview

Dave Iseminger, Director, Employees and Retirees Benefits (ERB) Division, provided an overview of the agenda. Today's meeting is a special meeting under the Open Public Meetings Act and limited to the items on the agenda. At 2:45 p.m. we will go into a combined meeting with the Public Employees Benefits Board for staff to brief both Boards on the Retired and Disabled School Employees Risk Pool Analysis.

Vision Benefit

Lauren Johnston, SEBB Procurement Manager. Slide 2 – Apparently Successful Bidders Proposed Provider Locations – Updated. There was a question at our last meeting of whether or not the providers listed were unique providers. Although I thought they were, they were not. This is an updated slide of proposed unique provider count per county.

Slide 3 – Considerations. The table on the left is the group vision plan. These are carriers who specialize in providing vision benefits such as routine eye exams and any eyewear like contact lenses, eyeglasses, etc. School employees are already familiar with separate vision benefits. There are more purchasing options without the member submitting a reimbursement form. There is higher visibility into plan costs and utilization. This mitigates the future Cadillac tax responsibilities under federal law.

The table on the right is the embedded vision benefits. Regardless of service type, the provider bills one carrier for all services. This could include the routine eye exam and eyewear, as well as any medical services provided during the visit. There are potentially more contracted providers, depending on the carrier within a medical carrier's network. Eye health services are more likely to be integrated and managed with medical services for an embedded carrier.

Stakeholder feedback on Policy Resolution SEBB 2018-35 was generally positive to having separate vision plans.

Dave Iseminger: If I remember correctly, there was a funding question where stakeholders were curious whether it was going to be employer-funded or have employee premium contributions. We're not able to answer that question at this time.

Sean Corry: I have a question about the map showing the providers by county. Could you repeat the process given that we're looking at a likely candidate for contracting with, and I know that's a long process. Some of the counties have very few providers identified in a rather large geographical area. Could you tell us the process of working with the likely contractor, and increasing the numbers so it's not geographically difficult to see a provider?

Lauren Johnston: I can tell you based off conversations we've had so far that the carriers not currently in every county, or those counties that don't have much provider access, were already aware that this was likely going to be an ask of them. They've already started doing recruitment with providers in those counties trying to increase their provider network. They will also receive a file with zip codes and census data so they can determine how many providers they might need in an area. Something to consider is there might not be more providers to contract in certain areas.

Terri House: Do you have a timeline on how long it takes from recruitment to signing as a provider?

Lauren Johnston: My understanding is the average is about 60 days.

Pete Cutler: Right now, we have school districts across the state that have various carve out plans for vision benefits that include a certain number of providers between all of their plans. Do you have a sense of whether that's a much larger number of providers that school employees currently have access to for the vision benefits compared to what we have here? Or, is there not a huge difference? Is the small number of providers shown in the rural areas more a function of a lack of providers in those areas?

Lauren Johnston: I have not done that analysis. If I were to take into consideration Garfield and Columbia Counties, which have none within the medical carriers, it shows the same on the vision carriers' side as well. If it were to follow that trend, I would say they are likely close.

Dave Iseminger: Lauren, for the record, could you describe again the relationship between the stand-alone vision and what benefits, if any, would remain in the medical plans? I want to make sure the record's clear and the Board's clear about that.

Lauren Johnston: Based on a vision provider's licensure, some are able to provide medical services, like an ophthalmologist. There are services that you would receive for your eyes that have to do with a medical diagnosis. This is not elective, like eyewear for daily use. These are medical vision services received for eye surgery, that sort of thing. Those would stay within the medical carriers. This stand-alone benefit is specifically for your routine eye exam, contact lenses, glasses.

Lou McDermott: **Policy Resolution SEBB 2018-35 – Vision Benefit**

Resolved that, the SEBB Program will offer a group vision plan(s) beginning January 1, 2020 that is separate from the medical plans.

Wayne Leonard moved and Katy Henry seconded a motion to adopt.

Voting to Approve: 9
Voting No: 0

Lou McDermott: Policy Resolution SEBB 2018-35 passes.

Disability Insurance

Betsy Cottle, Contract Manager, Employees and Retirees Benefits Division. Slide 2 – Decision for the SEB Board. You have decisions to consider based on information we're providing today. One decision is whether or not to offer a short-term disability product. You will also need to consider long-term disability plan design components, like how long is the waiting period, whether or not employees have a choice to use sick leave or elect their pension, and whether or not we are going to ask them to opt in for supplemental disability insurance or opt out. Opt in means you affirmatively choose supplemental insurance. Opt out means you have it until you say no thank you.

Slide 3 – What is Disability Insurance? Disability insurance is used to replace a portion of a person's income when they are not able to do their job as a result of a disability. It covers a portion of your income to give you an incentive to go back to work. If it were unlimited income replacement, no one would want to return to work.

The benefit is paid on a tax-free basis for the supplemental portion. Basic, or employer paid, benefits gets taxed before it is delivered to the person.

Pete Cutler: Am I right that in terms of whether it's a taxable benefit, it really hinges, not on the label of supplemental, but if the employer pays for it, it's taxable income when received? If funded solely by the employee, it is not taxable?

Cade Walker, Executive Assistant to the ERB Division Director: That's correct with one slight add on. If the premium is paid by the employee on a post-tax basis, the benefit is received to the employee post-tax when they get the benefit itself. Again, premiums for medical are paid pre-tax and this benefit is paid post-tax.

Pete Cutler: So, under a cafeteria-type plan, if the premium is made and it's not paid from after-tax income, like our health is done with pre-tax income, and if the disability benefit premium were paid by the employee also with pre-tax income, then later if they collected disability benefits, at that point it would be taxable income? It's kind of you tax at one end or you tax at the other?

Betsy Cottle: That is the basic principle. I'm sure we are swirling the two concepts and we're going to get confused. Why don't we come back with exactly which tax goes where?

Pete Cutler: Great, I appreciate that.

Dave Iseminger: To summarize quickly, Pete, one of your questions was it's not the name of the benefit "supplemental" versus "basic." It's really a function of how the premium was paid. Was the premium paid with pre- or post-tax dollars. That's the key piece.

Betsy Cottle: Slide 4 – What is the definition on disability? We use the word "disability" a lot. The insurance standard definition of a disability means being unable to perform with reasonable continuity the duties of your job as a result of sickness, injury, pregnancy. The other place where we use the word disability is in connection with Social Security Disability Administration. When you get to Social Security disability, it generally means you have exhausted your long-term disability program and have reached permanent disability. Long-term disability is for a period of time during which you could go back to work. If you become permanently disabled while you are on a disability product, the insurance company who administers that product will assist you in getting to Social Security at the appropriate time. That's why the definitions are different.

Dave Iseminger: Another key piece is when you look at the first definition, it says, "the duties of your job." It's really the top disability definition is rooted in the job you were performing and whether your disability makes you unable to perform that job or those job duties. Whereas, Social Security Administration is more of a permanent disability, and the second line of the definition says, "any substantial, gainful activity by reason of any medically determinable, physical, or mental impairment." That's really any employment. So, the top one for this benefit that we're describing, the employer-sponsored benefit, or SEBB Program benefit, is about your specific job versus permanent disability under Social Security.

Pete Cutler: When I worked with the Insurance Commissioner's office, there were actually different definitions that different companies used, and it was a source of huge headaches because people really didn't understand until they had a problem, everybody wasn’t using the same standard. Is this the definition that's used with whatever carrier provides the disability benefit for the PEBB Program right now?

Betsy Cottle: It is. And, it happens to be the same vendor we're going to use for the SEBB Program, so it is definitely their definition.

Pete Cutler: Great. We lock in on that, so, it definitely applies to what we'd be taking advantage of. Thank you.

Betsy Cottle: Exactly. Slide 5 – Washington School Districts – Income, is an illustration of the current income levels experienced by the SEBB population. Cade will talk about how this is going to change in the next couple years.

Cade Walker: While the data on this chart is from the 2016-2017 S-275 data collected by the Office of the Superintendent of Public Instruction (OSPI), we have some expectations with the recent legislation relationship to *McCleary*. The subsequent funding adjustments, or increases, have been made that we will see some fairly substantial shifting within these bands of salary. We anticipate seeing a migration towards more of the center two bands from the lower bands. We would expect to see adjustments in this, but we wanted to use this for illustrative purposes to articulate and show where current salary levels are, generally speaking, for the K-12 population.

Betsy Cottle: Slide 7 – Washington Paid Family and Medical Leave Program. We thought we would be proposing a short-term disability program for the SEBB population. As a result of the Washington Paid Family and Medical Leave Program that was passed last year, there are other things to consider. Beginning next year, employers, regardless of size, are required to collect and remit premiums to the Employment Security Department, the administrator for this program.

There are two parts to this new program, family leave and medical leave. Family leave covers events like the birth of a baby, adoption, placement of a child, care for a family member, and some military connected events. Medical leave covers self-care for the employee after a qualifying event. Medical leave is sometimes called short-term or temporary disability. Almost all employees in Washington State will begin contributing 0.4% of their income for this benefit starting January 1, 2019 for use starting January 1,

2020. The program pays benefits weekly, which is common with short-term disability products, as well. The maximum benefit payment is up to $1,000 a week and reached if an employee makes $1,405 per week or more. To qualify for the program, employees must have worked 820 hours during the past five quarters, or 15 months. There are 12 weeks of coverage available and up to 18 weeks under very specific circumstances. An example of the 18 weeks of coverage would be a complicated pregnancy. Employees are eligible for this benefit once every 52 weeks.

Lou McDermott: Are we saying a new employee starting their job on January 1, 2020 would have to accumulate 820 hours before they would be eligible for the program, if they didn't have a job before?

Betsy Cottle: That is correct. We will be talking about the groups of people who may be in those gaps in a couple of slides.

Slide 9 – Washington PFML and Group Short-Term Disability Insurance. This slide talks about the breakdown between employee and employer. And, as we said on the previous slide, the PFML Program will provide up to $1,000 a week of an employee's income. Almost all employees of the state will begin to contribute January 1, 2019. Employees pay 63% of the premium and employers pay 37%. Short-term disability insurance generally replaces up to 60% of an employee's salary while they are unable to perform the duties of their job. Premiums for this benefit are generally paid by the employee. Any benefit received from the Washington Paid Family and Medical Leave Program will be deducted from any short-term disability benefit.

Slide 10 – Washington's Paid Family and Medical Leave Program Premium Example. This is an example equation showing how a premium will be paid. If you make $2,500 in a pay period, you would pay a $10 premium. The employer's premium share would be $3.70, or 37% of $10. The employee's share would be $6.30, or 63% of the $10 premium.

Slide 11 – Washington PFML and Group Short-Term Disability Insurance Benefit Payment Examples. Slide 11 shows a variety of annual incomes and compares what you would get from the Paid Family and Medical Leave Program and a traditional short-term disability benefit. Only those people making $100,000 or more would get a better benefit from a short-term disability product.

Sean Corry: Could you tell me, again, how you're defining the short-term disability product? You're showing the short-term disability weekly benefit. How is that structured?

Dave Iseminger: The short-term disability benefit in this slide is if the Board created a short-term benefit that perfectly mirrored the Paid Family and Medical Leave Program. So, a 12-week benefit, a similar waiting period, and a 60% benefit, you would be able to see the income point at which the benefit under your short-term disability benefit would be better than the Paid Family and Medical Leave benefit. But, this is showing, for most incomes, that the Paid Family and Medical Leave would be a richer benefit.

I think the other key piece to hone in on is from two slides earlier. The Paid Family and Medical Leave Program payment would be deducted from a short-term disability benefit, there are income disregards in disability benefits so that there aren't double payouts. At some point, you get to a scenario where there's no incentive for you to work. In this type of scenario, what it's showing is the Paid Family and Medical Leave for an employee at $30,000, $50,000, or even $80,000, would have a complete income disregard. They would essentially be paying a premium for a SEBB short-term disability benefit with the carrier and then get no real benefit from it, because the Paid Family and Medical Leave benefit, if they pursued that, would be an income disregard against this product.

Betsy Cottle: Slide 12 – Short-term Disability Insurance Considerations. There are potential coverage gaps between the Paid Family and Medical Leave Program and a typical short-term disability benefit. The person that Lou described is exactly the person who would most likely not have a short-term benefit that very first year.

Cade Walker: Or, until they reach the 820 hours worked threshold.

Betsy Cottle: Another detail we discovered when thinking about this program is the initial open enrollment for the SEBB Program is projected to start October 1. If you are a person walking into your very first job, you would potentially be eligible for the Paid Family and Medical Leave Program by March of the following year.

Dave Iseminger: The other piece for a lot of these people is it's their first job. They might be younger, healthier, and invincible and prioritizing other benefits over short-term disability insurance. Most people aren't entering the workforce for the first time. You can stack hours across employers under the new Paid Family and Medical Leave Program. Even if you had entered the workforce prior to 2020, stacking hours, and moving jobs every month, you could add those hours together. It really is the very first time you're entering the work force.

Sean Corry: There's one other category that came to mind and that is people who had been in the work force and are coming back into the work force, with a gap in time. In school districts, that's maybe more common than in other industries, or even with state employees, I'm not sure. But, I know that it's really common in school districts for this to occur.

Betsy Cottle: Another gap that we've identified is coverage for employees making above $1,405 a week. That's the point at which the Paid Family and Medical Leave actually quits giving an equivalent benefit to short-term disability.

This last one is the most complex. Eligibility for Paid Family and Medical Leave requires an employee to work 820 hours in the previous five quarters. Eligibility for

SEBB benefits is anticipated to work 630 hours, or having actually worked 630 hours. As such, an employee who does not work the required 820 hours for PFML would still be eligible for a short-term disability benefit if one were offered in the SEBB Program.

Dave Iseminger: Slide 13 – Short-term Disability Insurance Recommendation. Essentially, one of the things we considered when making a recommendation to not offer a short-term disability benefit, was creating a product tailored for a subset of the population would be difficult to communicate clearly the eligibility for that benefit and how people would swing in and out of eligibility as they hit that 820 hours. We felt there would be complexity in the system and difficult to explain that benefit and which subset of school employees would have access to it. Instead, we are encouraging the Board to rely on the Paid Family and Medical Leave Program as the primary short-term disability benefit.

Pete Cutler: Has the Health Care Authority talked with the insurance company or their actuaries regarding whether a company would even be willing to offer a plan for which enrollment was available to persons who had, at that point, very limited connection to the workforce, historically? I know from working there, again, employee benefits in the past that insurance companies generally, both with health insurance and disability, tend to see much higher claims experience with people who have very limited work connections and histories compared to an average work force. It would be interesting to find out, if there is interest by other Board members, on pursuing a private short-term disability separate from the state, what kind of cost limitations may be involved.

Dave Iseminger: Pete, in fact we did have robust conversations with The Standard, who is the carrier that we've had under contract for the PEBB Program and was the apparently successful bidder. Both their sales and actuaries teams agreed that if the long-term disability benefit were to perfectly dovetail and pick up right where the Paid Family and Medical Leave Program goes off, it wouldn't make sense to put forth and cultivate a short-term product like you've described. You actually described it really well, encapsulated the discussion that we've had with Standard. But, essentially, there wouldn't be a viable product. If employers move in the direction that we're recommending to this Board, that essentially, the short-term disability market in this state will fundamentally change because of the Paid Family and Medical Leave bill.

Betsy Cottle: Historic enrollment numbers in the school employees' arena has been low. One of our vendors has reported 1% to 2% uptake. Another one talked about the possibility of a 10% uptake for supplemental short-term disability.

Sean Corry: If you had talked with the administration for Seattle Public Schools or somebody at Seattle Public Schools, you would know the uptake on the voluntary short-term disability program has historically hovered around 20%.

Betsy Cottle: They were definitely the outlier in the groups that I was able to identify. But, yes, that is correct. Our recommendation is on Slide 13. The Health Care Authority recommends that the SEBB Program does not offer a short-term disability benefit. Offering a short-term disability benefit would likely lead to confusion and redundancy. Employees will already be paying for the Paid Family and Medical Leave Program. Offering short-term disability insurance would largely be duplicative and result in paying for a benefit rendered almost nominal by the Paid Family and Medical Leave Program. There will be minimal gaps in coverage, as discussed previously, for employees who are either just starting employment or exceed the maximum weekly salary. As a result of the Paid Family and Medical Leave Program, it is assumed that the commercial short-term disability market is going to constrict significantly.

Patty Estes: If I'm doing my math correctly, our 630 minimum hour employees eligible for benefits will not hit that minimum for the Paid Family and Medical Leave Act. Yet, they actually have to work four hours more per month to hit that because, typically, our 630 is a 3½ hour, nine-month employee.

Betsy Cottle: Remember, your 630-hour employees will begin paying for the new PMFL Program in January 2019.

Patty Estes: But, they're not eligible to take it because they will not hit that in 15 months so, they would be paying for something that they're not eligible to receive.

Dave Iseminger: Patty, I want to make sure we understand the question. You're talking about all employees in the state will be paying 0.4% of their income regardless of whether they're eligible for the benefit, is that your question and point?

Patty Estes: Yes. These people that are not eligible to take advantage of this, we're going to leave them in the lurch. They're not going to have anything if we decide not to offer short-term disability?

Dave Iseminger: Patty, if you look at the projected salary of an individual who is working 630 hours, there are different benefit choices they'll have to make. Assuming they're going to focus on medical, dental, or other benefits in the suite, they'll also have this 0.4% income contribution they'll have for the Paid Family and Medical Leave whether they qualify for that benefit or not. Those individuals will likely not prioritize electing a short-term disability with the other choices they'll need to make with their paychecks.

Patty Estes: Do we have any research saying that is the case?

Dave Iseminger: We brought up the short-term disability historically low volumes at least another indicator. Although it's not broken down by classified or certificated staff, it was an indicator, generally in the K-12 market, this is not a benefit with a significant uptake. With the Paid Family and Medical Leave coming, based on the legislative act to fill in and fundamentally change the short-term disability market, it didn't seem the most prudent course forward to recommend a short-term disability benefit.

Patty Estes: I think my biggest concern is that we are going to have all these new employees that weren't eligible for benefits before, that we have no data historically on, and, if we decide not to offer this, they are literally left with nothing. That's my concern.

Pete Cutler: Two things. In terms of my math, as I understand it, if we have somebody, Patty's representation, you have somebody working just 630 hours in a school year, it wouldn't really matter if it's over twelve months or over nine months. But, over that 12-month period, if they continue to work at a 630 hour rate, that would be on average 70 hours a month, which would be another 210 hours in the first three months of the next school year. In the 15-month period, it would be over 820 hours. In theory, somebody at the 630 threshold, if that was the only job they had -- the only hours --

Lou McDermott: Actually, Pete, I think she is correct. If you take the 630 hours, and amortize it over 12 months, it's 52 hours a month. If you were to go 15 months of that, that's 787.

Pete Cutler: I guess if it were somebody working 52½ hours a month, 12 months, that would be a different issue. But, as Patty said, most of what you have are the folks who work part-time over a nine-month period. That correlates to the retirement eligibility standard, as well. The assumption of 70 hours a month being an eligibility standard and generating 630 hours in a year. It is true somebody working 53 hours a month, 12 months a year, then the math would not work out.

Lou McDermott: Do they normally work nine months?

Patty Estes: Yes.

Pete Cutler: Then the other issue, as David pointed out, is the larger problem for all employees who want to work on a part-time basis, and really just won't be getting 820 hours of employment in a 15-month period, the private market sounds like it's going to dry up. There is the risk of trying to cover folks that have that low attachment to the work force doesn't make them an attractive group to even offer an insurance product. That's maybe a larger problem. It certainly wouldn't hurt for the HCA to check if there are other carriers who want to do it. But, there again, from my work with the Insurance Commissioner's Office, my guess is that the whole sector is likely to back out and just say that the remaining population is not a commercially feasible population to try and provide a short-term disability benefit for.

Sean Corry: In response to my friend Pete on that point, my firm, which is an insurance brokerage firm, is actually talking with carriers, including The Standard, about whether effectively a carve-out short-term disability program is constructible, and, whether it's going to be viable.

Secondly, I didn't really hear a resolution of Patty's concern about employees who are going to be paying premiums while they're employees, but it'd be difficult for them to become eligible for this benefit. I know there are other school district people here in the room, of course, and they may have a sense of what percent of employees that is, but it's ill-defined for me at the moment. So, I leave that concern open.

And, finally, with respect to Seattle Public School's voluntary short-term disability program, where the uptake is essentially about 20% on average over the past dozen years or so, which happens also to be with The Standard, it is an "if-then" kind of program in that, only eligible people may apply. The eligibility is limited to those who don't have enough sick leave to take them to their long-term disability benefit. They would have a gap in income. It's a construction we did with The Standard that frankly, in our view, is not that complicated. The one thing that is, the complication is that we look at the employees' number of accumulated sick leave days in the past. And, if they have, at the point of picture, more than enough sick leave days, or hours, to take them to their long-term disability benefit, they're not eligible for the short-term program. So, we're targeting employees who do have that gap. We help them understand that they have the gap. A letter that's easy to send out. It's one piece of paper, which also includes their cost. We have a rather substantial uptake for that.

And, lastly, I think, we haven't talked about in the description of the state program, the possibility of an employer, and I don't know how this fits in this context, being able to create a program that can be used as an opt-out plan from the state program. That's also a possibility. I think it would be much more complicated for the SEBB Program, of course, because I'm sure the employer is defined as the school district. But, maybe not. I just point out the omission is, I think, maybe something worth noting, that, for our minds, the possibility of an opt-out should at least be discussed and considered. And, maybe considered for rejection, but it hasn't been discussed.

Betsy Cottle: I can address a couple of the comments that you've made in that there is no opt-out for any employer. They are able to apply for a self-administered plan, but it must meet or exceed the Paid Family and Medical Leave Program.

Sean Corry: My apologies. That's what I meant to say.

Dave Iseminger: A couple of other things, just to level set for the Board. The Paid Family and Medical Leave insurance that we're describing isn't administered by this agency. I want to make sure that's clear. We're describing another program like yours, that's being built. We're all learning about it. We know more about Paid Family and Medical Leave than when we released the procurement, which was more than we knew when we asked you to take action on going forward with the procurement last March. We are learning about that new product.

As Betsy was just describing, lack of opt-out mechanisms for the most part, are part of the underlying legislation. The legislature would be the ones that changes eligibility requirements related to that. So, Patty, when you asked the question about the individuals who pay into the system and who may never meet the eligibility, we can report that's what we see under legislation and being administered by a separate agency. I know that's probably not a satisfying response, but we're trying to describe this program that's being built by a sister agency, its implications for the insurance market, and the product you're charged with considering.

I think a second piece to keep in mind is, remember that this Board has the jurisdiction over disability benefits. Whether they decide to administer or not administer a benefit, school districts can't fill in the gaps. If this Board didn't pass a disability benefit, short- or long-term disability, there would be no short- or long-term disability benefit available within the K-12 system. Remember that's a feature of how the legislation was clarified in Senate Bill 6241. I just want to remind people about different overlapping authorities and jurisdictions. It gets complicated quickly.

Terri House: I have one quick question. On the eligibility, it says, "to have worked the 820 hours in the previous five quarters." Does that set your eligibility, and then you're eligible from then on, or is that every 820 hours you work in a school year?

Betsy Cottle: I hadn't asked that question, but from what I have read of the law and the rules, it is an ongoing eligibility requirement. If you have not worked 820 hours in the past 15 months, I don't think you're eligible. I can certainly ask and confirm.

Terri House: That would be helpful. Thank you.

Patty Estes: And, with that wording “worked,” what about the school employees who only work nine months a year? Then they have those three months, or however long, that they do not work, how is that taken into consideration for the 15 months?

Betsy Cottle: Those are both really good questions and we'll find out.

Dave Iseminger: We'll do our best to find out if the sister agency has answers to those questions. Can't promise that another agency knows the answer to the question.

Lou McDermott: I'd be interested to know. I'd also be interested to know what hours they're counting as part of that 820. If somebody goes on short-term disability for a period of time, and then they come off, but then they go back on does that count as zero time?

Dave Iseminger: I do think that all of these are great questions to ask about the Paid Family and Medical Leave Program. I'll again draw you back to the bottom of Slide 9 where whomever is eligible for the Paid Family and Medical Leave benefit, receives it, and has paid into it, that any benefit they receive would be deducted from the hypothetical short-term disability benefit that they could also sign up through the SEBB Program. Since there's that fundamental tenant that everybody who is over 820 hours would be eligible for this benefit, they will have paid into this benefit up until somewhere between $80,000 - $100,000 annual salary. It's a better benefit, and a SEBB benefit becomes a duplicative benefit. We're worried about people inadvertently double paying for a benefit. That's a part of the concern.

Katy Henry: Is it possible that someone from the other agency could come and answer questions here? Or, does it have to be filtered through you?

Dave Iseminger: We can see what we can do about inviting them and having questions answered.

Patty Estes: I'd like to see more information on school employees who are taking the short-term disability. What are their incomes? What are their hours? I know we have a very small window with the PEBB population, so, maybe we can see what's going on there.

Sean Cutler: In response to Patty's request, I know that the school districts my firm works with, through our office, probably can get that information very easily. We would be happy to work with you to get it.

Dave Iseminger: Great. Thank you for that, Sean. At this point, we're not intending to bring forward a resolution to this Board. We won't bring forward a negative resolution. It was strange enough to have a presentation built that says don't do something. But, in this context, that's where we are. We'll continue to answer questions about this product. At this point, there won't be a "thou shalt not offer short-term disability" resolution for you to take action on.

Betsy Cottle: Slide 15 – Disability Plan Design Components. We will now talk about long-term disability. The big difference with long-term disability is that it's a monthly benefit. Disability insurance has several standard plan design components. One standard component is the base waiting period. This is the length of time between the beginning of your disability claim and the first payment received. In general, the waiting periods can be anything from 30 days to 365 days. Another standard is the value of the maximum monthly payment. Other components are choice or no choice options for both pension and sick leave. The choice option means that a member chooses to receive payment from either sick leave and/or pension. If a member chooses to receive it, that value is deducted from their disability payment. The no choice option deducts either sick leave or pension from the disability payment whether or not the member receives that benefit payment. In other words, if I have sick leave, under the no choice option I can choose to use it or I can keep it. But, they're going to deduct the value of my sick leave.

Slide 16 – Employer-paid Basic LTD Plan Design. This is an employer paid basic long-term disability plan design. The table shows the waiting period would be the latter of 90 days or the end of the Paid Family and Medical Leave. For pension, you would have a choice to take it or not. That is important to those people who become disabled at a very young age. If we require a young disabled person to receive their pension earlier than is the standard period for that program, it would likely be discounted. In other words, a 30-year old person who is required to take their pension may see $.50 on their dollar, or less. Sick leave, we say no choice because we believe you should use your sick leave before you take a long-term disability benefit. And then, we have representations of what is available to us the same as PEBB, and if we increase the per subscriber per month contribution by the employer by a dollar, how much more we can get per dollar of increased contribution. So the first one is $400, which is 60% of $667.

Cade Walker: One point I'd like to make regarding the very first column that is assuming the per subscriber per month (PSPM), or rate, the dollar amount that is comparable to what is offered in PEBB. What I wanted to highlight is that the maximum monthly benefit of $400 is a 67% increase in the benefit that's available to the PEBB population for the same dollar amount. The primary reason for this is something called the "occupational load." The occupational load is an industry term used to describe the factors about the risk of an industry's potential for becoming disabled and the return to work quickness, of that same industry. We have learned that the occupation load for the SEBB population for the K-12 industry is different enough from the PEBB occupational load that would allow us to have an increase benefit of 67%, or the $400 maximum monthly amount for this population.

Dave Iseminger: I've just tried to describe that we would bring to the Board that dollar incremental PSPM difference, so that eventually, as you start to make choices about where you want to shift or, for example, we described in the life insurance benefit that a swing of $10,000 in basic life is a dollar PSPM. If the Board wants to make the basic life insurance benefit $25,000, take that dollar and put it here, you would see what the long-term disability basic employer-paid benefit could be. We've described to you a range of options, this being the benefit that may be the most enticing to the Board for trying to improve. We wanted to give you a wide range as to the examples of the PSPM increases. If you are able to trade $2, then you can have an $835 benefit. We wanted to make sure we gave you as robust a description as possible, of the incremental increase on a per subscriber per month basis in this benefit, anticipating that you'd have concerns about a $400 benefit being the final benefit offering from the Board.

Pete Cutler: I think you've been completely clear, but I want you to verify that I'm understanding correctly. This basically says that if we wanted to offer a base benefit, a maximum monthly benefit of about $1,000 a month, take the $1,060 example, that whatever amount the PEBB Program currently pays for the long-term disability, if we add $3 per subscriber per month to that dollar amount, it would be roughly enough to pay for a $1,000 maximum benefit.

Dave Iseminger: Correct, Pete.

Sean Corry: I pulled the trigger and I pushed the button. Frankly, I can't remember whether this Board has voted on what the base LTD plan will look like. Have we not?

Dave Iseminger: Did you say "base LTD?"

Sean Corry: That base long-term disability program. Have we?

Dave Iseminger: No. This is the first presentation about the disability benefit, both short- and long-term. Subsequently there will be proposed resolutions for future action. I know it’s hard to track all the different moving parts.

Sean Corry: Understood. I personally, on behalf of the employees of school districts, the vast majority of whom I think have a substantially better long-term disability benefit than is offered to state employees through the PEBB Program, to have that costed out on a district by district basis, of course, would not nearly be as economical as it would be if it were a statewide purchase of an incremental $1,000 benefit, for example, if it were done by the state. I know that I speak for others who are not in this room, and also especially the beneficiaries of a more robust long-term disability program, to ask that when we move forward in our discussions with this that we hear from you folks some clear and accurate analysis of what the incremental cost is to have a robust 60%, 66 2/3%, plan for school district employees so that we have that number in mind when we're talking about whether -- and I know that we talked a bit about this last meeting. I heard clearly the interest in making sure that we have reasonable costs for employees on the medical plan. But without knowing what that trade-off is, without having a clear picture, we don't know what we're rejecting or what we're choosing. I personally make that request of you, to bring that information to the Board for us to have a clear conversation about the trade-offs.

Dave Iseminger: Sean, can I clarify? You'd be interested basically in another column on the chart that showed what the value of an employer-paid benefit would cost for a full 60% of salary?

Sean Corry: The value -- define what you mean by value.

Dave Iseminger: The PSPM or annual cost.

Sean Corry: The cost. That would be helpful.

Dave Iseminger: Okay. But at a 60% of salary?

Sean Corry: I threw that out because that's pretty common for the level of benefit that we have so I think that would be a good starting point.

Dave Iseminger: Okay.

Betsy Cottle: Slide 17 – Employee-paid Supplemental LTD Plan Design, represents a supplemental or employee-paid long-term disability plan design. It has the same sets of criteria for waiting periods, and whether or not there's a choice or no choice. We have listed an opt-in version of the plan. You are welcome to consider an opt-out plan, but that would often come with a lot of people who are surprised by a benefit that they didn't expect. We'd have to communicate about that.

Dave Iseminger: If you had an opt-out benefit, this Board would be saying "X number of dollars are coming out of school employees' paychecks to pay for a benefit until an employee says don't do that." Right?

Betsy Cottle: Right.

Dave Iseminger: But opt-in is an affirmative choice and the employee makes an affirmative knowledgeable choice about what's being deducted out of their paycheck.

Betsy Cottle: Exactly. We previously talked about pension choice and sick leave no choice previously. Here we have a range of premiums and estimated monthly benefits if we were to offer a supplemental employee-paid long-term disability product that gives you 60% of $10,000 a month. The left side of the table shows the range for a monthly premium for someone making $30,000, between $9 and $15 a month. Their estimated monthly benefit would be $1,500. The chart describes the rising premium based on income and what an approximate 60% benefit would be at those annual income levels.

Dave Iseminger: For the Board's knowledge, the reason there are ranges here is it depends on what the basic benefit is. That represents the full range of a $400 to a $2,048 monthly benefit. Then the range of estimated monthly premium is directly related to what the basic plan is that's paid. That's why those ranges are there. The $30K, $50K, $80K, and 100K came from the earlier income slide. That was the high point of each of the main breaks on the initial income slide in the presentation.

Patty Estes: Just to point out, I know that it might be a redundant point, but $30,000 a year is about twice what a 630-hour employee actually makes. That bottom line is probably about half of that.

Betsy Cottle: We understood that most of the people in that category were less than full-time when we pulled the numbers.

Slide 18 – Long-term Disability Considerations. The proposed SEBB employer-paid long-term benefit design mirrors the PEBB benefit waiting period pension and sick leave design features, but offers a larger monthly benefit of $400, a 67% increase from the PEBB benefit. The Health Care Authority will continue presenting options in October for the Board to consider benefit trade-offs to potentially increase the basic long-term disability benefit.

Dave Iseminger: A little more about that last piece. For example, your decision to have a stand-alone group vision benefit, as we engage in the conversations with carriers, there may be the potential for some cost savings. If there are, on a PSPM basis or on a claims basis, we'll bring you that information; and say in that specific area we're going to assume you're probably interested investing it. We'll provide you the value of the decision and how much more you can put towards long-term disability. We anticipate bringing that back in October.

Sean Corry: Just to make sure, on Slide 18, that it's 67% increase, which is $400. It's a really big percentage. It makes it sound like it's quite grand. What is the SEBB level now?

Dave Iseminger: The PEBB level?

Sean Corry: The PEBB level now?

Betsy Cottle: $240.

Pete Cutler: Is it reasonable to infer that the underlying proposed policy is to have the SEBB long-term disability benefit funded at the same rate as the PEBB benefit. And one outcome of that is that it is the $400 versus the $240, but in reality the policy driving that $400 has nothing to do with that $400 as a good number. It has to do with that's how much you can buy, if you use the same amount of premium dollars that are currently used in the PEBB Program.

Dave Iseminger: Pete, the Policy Resolution SEBB 2018-38 that's before you describes the benefit, because this Board has the choices to make between the benefit trade-offs. Over the past several months I've described what we believe is a zero sum game that, over the course, and I'm making up this number just for illustrative examples, let's say there's $100 per subscriber per month that's paid for everything that's not medical. And PEBB spends it, divides it evenly across the benefits. This Board does not have to use the same distribution across the benefits, but the same sum total of $100 couldn't be exceeded. If you want to take a dollar that's spent on PEBB on life insurance and instead put it on LTD, you're still spending $100. You're putting a dollar somewhere differently than PEBB is.

We've described along the benefits portfolio, so far, life insurance, now disability, what the benefit would be for this population in SEBB if you spent the same PSPM. We've also given you incremental differences so you could make the decision to trade off benefits as you reach the decision-making point in October and November. It's not that we're trying to just frame up all of the pieces so you can see what the same distribution will buy, knowing that the population is different. The demographics are different. The carriers will say that one is riskier or less risky relative to the others. What the same PSPM would buy. Ultimately, your choice as to how you're going to distribute that is up to you.

Pete Cutler: I fully agree. Frankly, coming from a budget background, there will be what I call a box and a dollar amount that will be collectively bargained between the school employee organizations and the Governor for how much will be proposed to the Legislature as funding for the insurance benefits. I personally believe that we are dealing within that dollar amount, if you spend more on something you're going to have less to spend on something else. But having said that, I think it would be more helpful for the record for this recommendation to be clearer, that it is tied to providing the benefit at the same funding level that is currently used for the Public Employees

Benefits Board. Otherwise, it looks like the $400 is being proposed as some great enhancement. When in reality, it's still a very small amount and I would say still a token amount compared to the need. I think somehow adding that other concept would be in my view helpful.

Dave Iseminger: Pete, for clarity, in the resolution or in the record?

Pete Cutler: I don't have a strong feeling for that. As long as the record is the same as the slide so people going through the briefing materials online or whatever, it stands out clearly. This is tied to a funding benchmark, not to a policy decision or recommendation that this is somehow a desirable target.

Dave Iseminger: I think you're correct, Pete. That will be in the record. Again, the reason we put up the resolution the way we did, we're not going to ask the Board to take action on this resolution until the November meeting. If you want to trade something along the way we would just strike the last part and change $400 to a different number and 60% to a different number. That would be the resolution you pass because you've traded off something somewhere else in the resolution. We've just teed up what we believe is the box of money that you have to spend. We're trying to show each of the benefits with the same PSPM and then again, what your incremental differences could be so that you can make a decision. I think everything you said is correct and on the record.

Sean Corry: I'll say again, which I've said, I think, in this arena, but also privately to you, Dave, that the amount of money that we'll have to spend is not yet set. It will eventually become a fixed dollar amount. It's subject to negotiations, not only as going on what I think that was contemplated in the last mention, but it will be subject to negotiations every day of the session until the last day of the session. I think it's important to realize that, yes, we will have a fixed dollar amount at some point in time. But we don't know what that number is now.

Secondly, with respect to making benefit choices for school district employees, especially where we have more discretion about whether to, and also looking at, what in the areas of coverage are in the five basic benefits, for example, dramatically different between what happens at school districts and what happens for state employees. I think it's much more important from my view to have incremental costs available so that we can see what that actual tradeoff dollar amount might be, for life and disability coverage. It may be worth it to us, as representatives of school districts across the state, to do something different than what is being proposed and discussed here. But we won't be able to do that unless we have clear information about the benefit choices and their costs, anything that any employer here would expect when they're working on their own employees' benefits. They want to know what the tradeoffs are, what the numbers are, to make a good informed decision. I don't think that we are getting that kind of information, in order to make that informed decision. I would strongly ask that we get that kind of information before we have to make a decision on what kind of plans we're going to be offering to state employees.

Dave Iseminger: Sean, maybe we can follow up offline afterwards if you'd like. Can you describe for me more the level of incremental information you want because my staff has put forward a $10,000 swing in life insurance is a dollar PSPM. $20,000.00 is $2 PSPM, $30,000 is $3 PSPM. This chart on Slide 9 shows the incremental dollar increase for $7. We didn't give you 60% of the benefit because looking at the entire suite of benefits it seems challenging to find even $7 PSPM. We can certainly provide what the legislative price tag, essentially, would be for a 60% benefit. What other information can we describe for you for the tradeoff pieces? I think my staff and I would appreciate any clarity about the additional context you're looking for.

Sean Corry: I'd be happy to provide that once I talk with my staff about what's most common, or uniform, across the school districts we work with. I think it would be perhaps helpful to hear from other members of this committee about what they would like to see as well. It could be a very simple thing. It could be just one or two other possibilities within the benefit plan structure. So perhaps we can work on that together.

Dave Iseminger: And that's a perfect segue. I was going to open it up and see if there are things others wanted to ask.

Wayne Leonard: I do recognize that when we offer a package of benefits there is going to be a balance in terms of cost and what can be provided. I was wondering if you have data about the frequency of long-term disability claims. In my 25 years, maybe it's just I haven't heard about them because of HIPAA or something, but I don't know if I recall any of my employees ever out on a long-term disability claim.

Betsy Cottle: I can tell you that there was some research done by the Massachusetts Institute of Technology. I don't remember the citation, but I can certainly provide it to the Board, that one in four people, in their employed life, will be disabled.

Wayne Leonard: Long-term?

Betsy Cottle: With an average claim of three years.

Wayne Leonard: Okay. Thanks.

Dave Iseminger: We'll take that as a to-do, to see if there's something we can bring back to the Board, Wayne, what our data shows about the frequency of claims.

Wayne Leonard: And for the record, I guess, too, is even though if school districts couldn't offer another benefit that doesn't preclude employees who don't think this benefit is sufficient to get a private disability insurance policy, correct?

Dave Iseminger: I think that's correct.

Sean Corry: I wanted to respond to Wayne. From my experience, a privately purchased disability policy that has any robust features would be medically underwritten and difficult to purchase. Costly. And in the market today, not many people buy them.

Dave Iseminger: I was going to add to that, Sean. I think when you look at life insurance, disability in particular, there's a much more robust individual market for life insurance than there is disability for the reasons Sean was just describing.

Betsy Cottle: Draft Policy Resolution SEBB 2018-38 – Employer-paid Basic Long-term Disability. The SEBB Program will offer the following employer-paid long-term disability plan to subscribers beginning 1/1/2020:

- Waiting period - later of 90 days or end of Family and Medical Leave.
- No choice sick leave
- Choice pension
- Maximum monthly benefit $400 (60% of $667)

Dave Iseminger: Again, we've already described the proposal and why we put the dollar amount that we have. As the Board goes through its subsequent conversations and we present the rest of the benefits suite at the October 4 meeting, if the Board wants to do some trading, it will be very simple to strike the bottom part and change it to a different amount, as you're exchanging different benefit pieces across the portfolio.

Dan Gossett: And the earliest we'll vote on this is the November meeting?

Dave Iseminger: Correct.

Sean Corry: In response to you saying in effect, if we vote for this, the majority says yes to this in the November meeting, we can change it in the future? We will be able to? I appreciate that opportunity but in our communication, know that we're going to be changing, or at least not tying into a number we know we can change later. I'm trying to get to what the process is. If we choose to not approve this resolution as it's written, what's the process for bringing it back in a way that would be more compatible with the interests of flexibility or different levels of benefits that we just talked about for the past 20 minutes. Tell me again what the process would be if we reject this resolution in November, as it's written.

Dave Iseminger: If the Board, after we present in October, comes in November and in their discussion there's a motion and a second on this resolution and you come to a general consensus that you want to raise the last line to $1,060 because you believe you have $3 PSPM, and as a group you're thinking when we go to the life insurance benefit, we are going to make sure it’s $25,000 so there's a dollar. The staff described, that in the vision there's a $1.50 and we have another $.50. You'll change it right then at the moment and pass a resolution as you would amend the resolution on the floor to say "maximum monthly benefit of $1060. We wouldn't reintroduce the whole concept of the resolution and then bring it back at a subsequent meeting. The horse trading that

I've described, the tradeoff between benefits, would happen during that November meeting.

Sean Corry: One other question. The way we will get that information about these benefit choices, the alternatives, I think the routine would be in the packet which would come to us a few days before the meeting itself? Is that how you would anticipate that we would get that additional information?

Dave Iseminger: The core of that information will be presented at the October 4 meeting. So 34 days before the November 8 vote. Then follow-up questions. It depends on the granularity of the follow-up questions. But the PSPM incremental increase on disability is here today on September 17, compared to November 8. The $1 PSPM and life insurance was presented in August 30 for November 8. The core rest of the information will be at October 4.

Pete Cutler: I was going to ask if The Standard can provide information about the utilization of the long-term disability benefit by state employees, or by PEBB Program members. I'm not sure if they consider that proprietary information but it would provide a baseline in understanding that the occupational risk is considered higher for state employees than school employees. If it's available, that's part of what I'd like to have by October, if possible.

Betsy Cottle: I have that available.

Dave Iseminger: The other thing I just want to remind the Board is I've described this as a relay race, and you're both lead and anchor. I've also said it with the analogy of do 90% of your homework by November and there's 10% left to do after legislative session. We're not going to hit it right on the dot without the final legislative answer to the funding question. We'll have to revisit once the funding comes in. That will be the tail-end refinement next summer as you're setting final rates on the medical plans.

Sean Corry: But that dollar here or dollar there question is really -- you also have to include not only the cost to the benefits but what the impact is on the employee payroll deduction, right?

Dave Iseminger: Correct.

Sean Corry: So that's effectively where it gets to. I want to make sure that we all understand that the net is always paid by the employee.

Dave Iseminger: I just wanted to reinforce to the Board that even after November there's still some refinement to go. November is not the last time, but it is a core piece for setting up the macro structure of the benefit so it can further inform the legislative process about what they're funding.

Betsy Cottle: Slide 20 – Draft Policy Resolution SEBB 2018-39 – Employee-paid Supplemental Long-term Disability. The SEBB Program will offer the following employee-paid supplemental long-term disability plan design:

- Waiting period - Later of 90 days or end of Paid Family and Medical Leave Act
- No choice sick leave
- Choice pension
- Maximum monthly benefit $10,000 (60% of $16,667)

The Appendix has handouts from the Employment Security Department's Paid Family and Medical Leave Program.

Next Meeting

October 4, 2018
9 a.m. – 5:00 p.m.

Preview of October 4, 2018 SEB Board Meeting

Dave Iseminger provided a preview of the October meeting. The core of the meeting will be to present benefit design proposals and resolutions on vision, fully insured dental, fully insured medical, and then the revisiting of the self-insured plan treatment limitations.

We'll provide additional information about the Centers of Excellence Program and a resolution related to creating that program in the SEBB Program; dual enrollment; asking for action on basic life and self-insured dental; and discuss eligibility proposals.

Wayne Leonard: I think you said maybe at the last meeting that you might have information on results of the state collective bargaining process at the October 4 meeting?

Dave Iseminger: It depends. I believe a tentative agreement is out for ratification. In no way are we influencing that, but we're hoping that we'll be able to describe something about a potentially ratified TA at the next Board meeting. For any ratified TA, there's a submittal that goes through the OFM process on October 1. We're anticipating if there's that transmittal, then we'll be able to talk about it on October 4. If not, we won't be able to talk about it on October 4.

Meeting adjourned at 2:31 p.m.