

CERTIFICATION OF ENROLLMENT

SECOND ENGROSSED SECOND SUBSTITUTE HOUSE BILL 1566

Chapter 6, Laws of 1995

54th Legislature
1995 1st Special Session

IMPLEMENTATION OF HEALTH CARE AUTHORITY RESPONSIBILITIES

EFFECTIVE DATE: 7/1/95

Passed by the House May 23, 1995
Yeas 94 Nays 0

CLYDE BALLARD

**Speaker of the
House of Representatives**

Passed by the Senate May 23, 1995
Yeas 47 Nays 0

JOEL PRITCHARD

President of the Senate

Approved June 14, 1995

MIKE LOWRY

Governor of the State of Washington

CERTIFICATE

I, Timothy A. Martin, Chief Clerk of the House of Representatives of the State of Washington, do hereby certify that the attached is **SECOND ENGROSSED SECOND SUBSTITUTE HOUSE BILL 1566** as passed by the House of Representatives and the Senate on the dates hereon set forth.

TIMOTHY A. MARTIN

Chief Clerk

FILED

June 14, 1995 - 10:12 a.m.

**Secretary of State
State of Washington**

SECOND ENGROSSED SECOND SUBSTITUTE HOUSE BILL 1566

Passed Legislature - 1995 1st Special Session

State of Washington 54th Legislature 1995 Regular Session

By House Committee on Appropriations (originally sponsored by Representative Dyer; by request of Health Care Authority)

Read first time 03/24/95.

1 AN ACT Relating to implementation of health care authority
2 responsibilities; amending RCW 41.05.011, 41.05.022, 41.05.055,
3 41.05.065, 47.64.270, 41.05.021, 41.04.205, 28A.400.350, 41.04.230, and
4 41.05.050; adding a new section to chapter 28A.400 RCW; adding a new
5 section to Title 28B RCW; adding new sections to chapter 41.05 RCW;
6 adding a new section to chapter 28B.50 RCW; adding a new section to
7 Title 43 RCW; repealing RCW 41.05.200, 41.05.210, 41.05.240, and
8 43.72.230; providing an effective date; and declaring an emergency.

9 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

10 NEW SECTION. **Sec. 1.** A new section is added to chapter 28A.400
11 RCW to read as follows:

12 (1) In a manner prescribed by the state health care authority,
13 school districts and educational service districts shall remit to the
14 health care authority for deposit in the public employees' and
15 retirees' insurance account established in RCW 41.05.120 the amount
16 specified for remittance in the omnibus appropriations act.

17 (2) The remittance requirements specified in this section shall not
18 apply to employees of a school district or educational service district

1 who receive insurance benefits through contracts with the health care
2 authority.

3 **Sec. 2.** RCW 41.05.011 and 1994 c 153 s 2 are each amended to read
4 as follows:

5 Unless the context clearly requires otherwise, the definitions in
6 this section shall apply throughout this chapter.

7 (1) "Administrator" means the administrator of the authority.

8 (2) "State purchased health care" or "health care" means medical
9 and health care, pharmaceuticals, and medical equipment purchased with
10 state and federal funds by the department of social and health
11 services, the department of health, the basic health plan, the state
12 health care authority, the department of labor and industries, the
13 department of corrections, the department of veterans affairs, and
14 local school districts.

15 (3) "Authority" means the Washington state health care authority.

16 (4) "Insuring entity" means an insurer as defined in chapter 48.01
17 RCW, a health care service contractor as defined in chapter 48.44 RCW,
18 or a health maintenance organization as defined in chapter 48.46 RCW.
19 (~~On and after July 1, 1995, "insuring entity" means a certified health~~
20 ~~plan, as defined in RCW 43.72.010.~~)

21 (5) "Flexible benefit plan" means a benefit plan that allows
22 employees to choose the level of health care coverage provided and the
23 amount of employee contributions from among a range of choices offered
24 by the authority.

25 (6) "Employee" includes all full-time and career seasonal employees
26 of the state, whether or not covered by civil service; elected and
27 appointed officials of the executive branch of government, including
28 full-time members of boards, commissions, or committees; and includes
29 any or all part-time and temporary employees under the terms and
30 conditions established under this chapter by the authority; justices of
31 the supreme court and judges of the court of appeals and the superior
32 courts; and members of the state legislature or of the legislative
33 authority of any county, city, or town who are elected to office after
34 February 20, 1970. "Employee" also includes: (a) (~~By October 1,~~
35 ~~1995, all employees of school districts and educational service~~
36 ~~districts. Between October 1, 1994, and September 30, 1995, "employee"~~
37 ~~includes employees of those school districts and educational service~~
38 ~~districts for whom the authority has undertaken the purchase of~~

1 insurance benefits. The transition to insurance benefits purchasing by
2 the authority may not disrupt existing insurance contracts between
3 school district or educational service district employees and insurers.
4 However, except to the extent provided in RCW 28A.400.200, any such
5 contract that provides for health insurance benefits coverage after
6 October 1, 1995, shall be void as of that date if the contract was
7 entered into, renewed, or extended after July 1, 1993. Prior to
8 October 1, 1994, "employee" includes employees of a school district if
9 the board of directors of the school district seeks and receives the
10 approval of the authority to provide any of its insurance programs by
11 contract with the authority; ~~(b))~~ Employees of a county, municipality,
12 or other political subdivision of the state if the legislative
13 authority of the county, municipality, or other political subdivision
14 of the state seeks and receives the approval of the authority to
15 provide any of its insurance programs by contract with the authority,
16 as provided in RCW 41.04.205; ~~((e))~~ (b) employees of employee
17 organizations representing state civil service employees, at the option
18 of each such employee organization, and, effective October 1, 1995,
19 employees of employee organizations currently pooled with employees of
20 school districts for the purpose of purchasing insurance benefits, at
21 the option of each such employee organization; and (c) employees of a
22 school district if the authority agrees to provide any of the school
23 districts' insurance programs by contract with the authority as
24 provided in RCW 28A.400.350.

25 (7) "Board" means the public employees' benefits board established
26 under RCW 41.05.055.

27 (8) "Retired or disabled school employee" means:

28 (a) Persons who separated from employment with a school district or
29 educational service district and are receiving a retirement allowance
30 under chapter 41.32 or 41.40 RCW as of September 30, 1993;

31 (b) Persons who separate from employment with a school district or
32 educational service district on or after October 1, 1993, and
33 immediately upon separation receive a retirement allowance under
34 chapter 41.32 or 41.40 RCW;

35 (c) Persons who separate from employment with a school district or
36 educational service district due to a total and permanent disability,
37 and are eligible to receive a deferred retirement allowance under
38 chapter 41.32 or 41.40 RCW.

1 (9) "Benefits contribution plan" means a premium only contribution
2 plan, a medical flexible spending arrangement, or a cafeteria plan
3 whereby state and public employees may agree to a contribution to
4 benefit costs which will allow the employee to participate in benefits
5 offered pursuant to 26 U.S.C. Sec. 125 or other sections of the
6 internal revenue code.

7 (10) "Salary" means a state employee's monthly salary or wages.

8 (11) "Participant" means an individual who fulfills the eligibility
9 and enrollment requirements under the benefits contribution plan.

10 (12) "Plan year" means the time period established by the
11 authority.

12 **Sec. 3.** RCW 41.05.022 and 1994 c 153 s 3 are each amended to read
13 as follows:

14 (1) The health care authority is hereby designated as the single
15 state agent for purchasing health services.

16 (2) On and after January 1, 1995, at least the following state-
17 purchased health services programs shall be merged into a single,
18 community-rated risk pool: Health benefits for groups of employees of
19 school districts and educational service districts that voluntarily
20 purchase health benefits as provided in RCW 41.05.011; health benefits
21 for state employees; health benefits for eligible retired or disabled
22 school employees not eligible for parts A and B of medicare; and health
23 benefits for eligible state retirees not eligible for parts A and B of
24 medicare. ((Beginning July 1, 1995, the basic health plan shall be
25 included in the risk pool. The administrator may develop mechanisms to
26 ensure that the cost of comparable benefits packages does not vary
27 widely across the risk pools before they are merged. At the earliest
28 opportunity the governor shall seek necessary federal waivers and state
29 legislation to place the medical and acute care components of the
30 medical assistance program, the limited casualty program, and the
31 medical care services program of the department of social and health
32 services in this single risk pool. Long term care services that are
33 provided under the medical assistance program shall not be placed in
34 the single risk pool until such services have been added to the uniform
35 benefits package. On or before January 1, 1997, the governor shall
36 submit necessary legislation to place the purchasing of health benefits
37 for persons incarcerated in institutions administered by the department

1 of corrections into the single community-rated risk pool effective on
2 and after July 1, 1997.)

3 (3) At a minimum, and regardless of other legislative enactments,
4 the state health services purchasing agent shall:

5 (a) Require that a public agency that provides subsidies for a
6 substantial portion of services now covered under the basic health plan
7 (~~((or a uniform benefits package as adopted by the Washington health
8 services commission as provided in RCW 43.72.130,))~~) use uniform
9 eligibility processes, insofar as may be possible, and ensure that
10 multiple eligibility determinations are not required;

11 (b) Require that a health care provider or a health care facility
12 that receives funds from a public program provide care to state
13 residents receiving a state subsidy who may wish to receive care from
14 them (~~((consistent with the provisions of chapter 492, Laws of 1993)),~~
15 and that (~~((a health maintenance organization, health care service
16 contractor, insurer, or certified health plan))~~) an insuring entity that
17 receives funds from a public program accept enrollment from state
18 residents receiving a state subsidy who may wish to enroll with them
19 (~~((under the provisions of chapter 492, Laws of 1993)));~~

20 (c) Strive to integrate purchasing for all publicly sponsored
21 health services in order to maximize the cost control potential and
22 promote the most efficient methods of financing and coordinating
23 services;

24 (d) (~~((Annually suggest changes in state and federal law and rules
25 to bring all publicly funded health programs in compliance with the
26 goals and intent of chapter 492, Laws of 1993;~~

27 ~~((e)))~~ Consult regularly with the governor, the legislature, and
28 state agency directors whose operations are affected by the
29 implementation of this section; and

30 (e) Ensure the control of benefit costs under managed competition
31 by adopting rules to prevent employers from entering into an agreement
32 with employees or employee organizations when the agreement would
33 result in increased utilization in public employees' benefits board
34 plans or reduce the expected savings of managed competition.

35 **Sec. 4.** RCW 41.05.055 and 1994 c 36 s 1 are each amended to read
36 as follows:

37 (1) The public employees' benefits board is created within the
38 authority. The function of the board is to design and approve

1 insurance benefit plans for state employees and school district
2 employees.

3 (2) The board shall be composed of nine members appointed by the
4 governor as follows:

5 (a) Two representatives of state employees, one of whom shall
6 represent an employee union certified as exclusive representative of at
7 least one bargaining unit of classified employees, and one of whom is
8 retired, is covered by a program under the jurisdiction of the board,
9 and represents an organized group of retired public employees;

10 (b) Two representatives of school district employees, one of whom
11 shall represent an association of school employees and one of whom is
12 retired, and represents an organized group of retired school employees;

13 (c) Four members with experience in health benefit management and
14 cost containment; and

15 (d) The administrator.

16 (3) The member who represents an association of school employees
17 and one member appointed pursuant to subsection (2)(c) of this section
18 shall be nonvoting members until such time that there are no less than
19 twelve thousand school district employee subscribers enrolled with the
20 authority for health care coverage.

21 (4) The governor shall appoint the initial members of the board to
22 staggered terms not to exceed four years. Members appointed thereafter
23 shall serve two-year terms. Members of the board shall be compensated
24 in accordance with RCW 43.03.250 and shall be reimbursed for their
25 travel expenses while on official business in accordance with RCW
26 43.03.050 and 43.03.060. The board shall prescribe rules for the
27 conduct of its business. The administrator shall serve as chair of the
28 board. Meetings of the board shall be at the call of the chair.

29 **Sec. 5.** RCW 41.05.065 and 1994 c 153 s 5 are each amended to read
30 as follows:

31 (1) The board shall study all matters connected with the provision
32 of health care coverage, life insurance, liability insurance,
33 accidental death and dismemberment insurance, and disability income
34 insurance or any of, or a combination of, the enumerated types of
35 insurance for employees and their dependents on the best basis possible
36 with relation both to the welfare of the employees and to the
37 state((7)). However, liability insurance shall not be made available
38 to dependents.

1 (2) The (~~public employees' benefits~~) board shall develop employee
2 benefit plans that include comprehensive health care benefits for all
3 employees. In developing these plans, the board shall consider the
4 following elements:

5 (a) Methods of maximizing cost containment while ensuring access to
6 quality health care;

7 (b) Development of provider arrangements that encourage cost
8 containment and ensure access to quality care, including but not
9 limited to prepaid delivery systems and prospective payment methods;

10 (c) Wellness incentives that focus on proven strategies, such as
11 smoking cessation, injury and accident prevention, reduction of alcohol
12 misuse, appropriate weight reduction, exercise, automobile and
13 motorcycle safety, blood cholesterol reduction, and nutrition
14 education;

15 (d) Utilization review procedures including, but not limited to a
16 cost-efficient method for prior authorization of services, hospital
17 inpatient length of stay review, requirements for use of outpatient
18 surgeries and second opinions for surgeries, review of invoices or
19 claims submitted by service providers, and performance audit of
20 providers;

21 (e) Effective coordination of benefits;

22 (f) Minimum standards for insuring entities; and

23 (g) Minimum scope and content of (~~standard~~) public employee
24 benefit plans to be offered to enrollees participating in the employee
25 health benefit plans. (~~On and after July 1, 1995, the uniform~~
26 ~~benefits package shall constitute the minimum level of health benefits~~
27 ~~offered to employees.)) To maintain the comprehensive nature of
28 employee health care benefits, employee eligibility criteria related to
29 the number of hours worked and the benefits provided to employees shall
30 be substantially equivalent to the state employees' health benefits
31 plan and eligibility criteria in effect on January 1, 1993. Nothing in
32 this subsection (2)(g) shall prohibit changes or increases in employee
33 point-of-service payments or employee premium payments for benefits.~~

34 (3) The board shall design benefits and determine the terms and
35 conditions of employee participation and coverage, including
36 establishment of eligibility criteria.

37 (4) (~~The board shall attempt to achieve enrollment of all~~
38 ~~employees and retirees in managed health care systems by July 1994.))
39 The board may authorize premium contributions for an employee and the~~

1 employee's dependents in a manner that encourages the use of cost-
2 efficient managed health care systems.

3 (5) Employees shall choose participation in one of the health care
4 benefit plans developed by the board and may be permitted to waive
5 coverage under terms and conditions established by the board.

6 (6) The board shall review plans proposed by ~~((insurance carriers))~~
7 insuring entities that desire to offer property insurance and/or
8 accident and casualty insurance to state employees through payroll
9 deduction. The board may approve any such plan for payroll deduction
10 by ~~((carriers))~~ insuring entities holding a valid certificate of
11 authority in the state of Washington and which the board determines to
12 be in the best interests of employees and the state. The board shall
13 promulgate rules setting forth criteria by which it shall evaluate the
14 plans.

15 **Sec. 6.** RCW 47.64.270 and 1993 c 492 s 224 are each amended to
16 read as follows:

17 ~~((Until December 31, 1996,))~~ Absent a collective bargaining
18 agreement to the contrary, the department of transportation shall
19 provide contributions to insurance and health care plans for ferry
20 system employees and dependents, as determined by the state health care
21 authority, under chapter 41.05 RCW; and the ferry system management and
22 employee organizations may collectively bargain for other insurance and
23 health care plans, and employer contributions may exceed that of other
24 state agencies as provided in RCW 41.05.050, subject to RCW 47.64.180.
25 ~~((On January 1, 1997, ferry employees shall enroll in certified health~~
26 ~~plans under the provisions of chapter 492, Laws of 1993.))~~ To the
27 extent that ferry employees by bargaining unit have absorbed the
28 required offset of wage increases by the amount that the employer's
29 contribution for employees' and dependents' insurance and health care
30 plans exceeds that of other state general government employees in the
31 1985-87 fiscal biennium, employees shall not be required to absorb a
32 further offset except to the extent the differential between employer
33 contributions for those employees and all other state general
34 government employees increases during any subsequent fiscal biennium.
35 If such differential increases in the 1987-89 fiscal biennium or the
36 1985-87 offset by bargaining unit is insufficient to meet the required
37 deduction, the amount available for compensation shall be reduced by
38 bargaining unit by the amount of such increase or the 1985-87 shortage

1 in the required offset. Compensation shall include all wages and
2 employee benefits.

3 **Sec. 7.** RCW 41.05.021 and 1994 c 309 s 1 are each amended to read
4 as follows:

5 (1) The Washington state health care authority is created within
6 the executive branch. The authority shall have an administrator
7 appointed by the governor, with the consent of the senate. The
8 administrator shall serve at the pleasure of the governor. The
9 administrator may employ up to seven staff members, who shall be exempt
10 from chapter 41.06 RCW, and any additional staff members as are
11 necessary to administer this chapter. The administrator may delegate
12 any power or duty vested in him or her by this chapter, including
13 authority to make final decisions and enter final orders in hearings
14 conducted under chapter 34.05 RCW. The primary duties of the authority
15 shall be to: Administer state employees' insurance benefits and
16 retired or disabled school employees' insurance benefits((7))i
17 administer the basic health plan pursuant to chapter 70.47 RCW; study
18 state-purchased health care programs in order to maximize cost
19 containment in these programs while ensuring access to quality health
20 care((7))i and implement state initiatives, joint purchasing
21 strategies, and techniques for efficient administration that have
22 potential application to all state-purchased health services. The
23 authority's duties include, but are not limited to, the following:

24 (a) To administer health care benefit programs for employees and
25 retired or disabled school employees as specifically authorized in RCW
26 41.05.065 and in accordance with the methods described in RCW
27 41.05.075, 41.05.140, and other provisions of this chapter;

28 (b) To analyze state-purchased health care programs and to explore
29 options for cost containment and delivery alternatives for those
30 programs that are consistent with the purposes of those programs,
31 including, but not limited to:

32 (i) Creation of economic incentives for the persons for whom the
33 state purchases health care to appropriately utilize and purchase
34 health care services, including the development of flexible benefit
35 plans to offset increases in individual financial responsibility;

36 (ii) Utilization of provider arrangements that encourage cost
37 containment, including but not limited to prepaid delivery systems,
38 utilization review, and prospective payment methods, and that ensure

1 access to quality care, including assuring reasonable access to local
2 providers, especially for employees residing in rural areas;

3 (iii) Coordination of state agency efforts to purchase drugs
4 effectively as provided in RCW 70.14.050;

5 (iv) Development of recommendations and methods for purchasing
6 medical equipment and supporting services on a volume discount basis;
7 and

8 (v) Development of data systems to obtain utilization data from
9 state-purchased health care programs in order to identify cost centers,
10 utilization patterns, provider and hospital practice patterns, and
11 procedure costs, utilizing the information obtained pursuant to RCW
12 41.05.031;

13 (c) To analyze areas of public and private health care interaction;

14 (d) To provide information and technical and administrative
15 assistance to the board;

16 (e) To review and approve or deny applications from counties,
17 municipalities, and other political subdivisions of the state to
18 provide state-sponsored insurance or self-insurance programs to their
19 employees in accordance with the provisions of RCW 41.04.205, setting
20 the premium contribution for approved groups as outlined in RCW
21 41.05.050;

22 (f) To appoint a health care policy technical advisory committee as
23 required by RCW 41.05.150;

24 (g) To establish billing procedures and collect funds from school
25 districts and educational service districts under *RCW 28A.400.400 in
26 a way that minimizes the administrative burden on districts; and

27 (h) To promulgate and adopt rules consistent with this chapter as
28 described in RCW 41.05.160.

29 (2) On and after ((July)) January 1, ((1995)) 1996, the public
30 employees' benefits board ((shall)) may implement strategies to promote
31 managed competition among employee health benefit plans ((in accordance
32 with the Washington health services commission schedule of employer
33 requirements)). Strategies may include but are not limited to:

34 (a) Standardizing the benefit package;

35 (b) Soliciting competitive bids for the benefit package;

36 (c) Limiting the state's contribution to a percent of the lowest
37 priced qualified plan within a geographical area((~~. If the state's~~
38 ~~contribution is less than one hundred percent of the lowest priced~~

1 ~~qualified bid, employee financial contributions shall be structured on~~
2 ~~a sliding scale basis related to household income));~~

3 (d) Monitoring the impact of the approach under this subsection
4 with regards to: Efficiencies in health service delivery, cost shifts
5 to subscribers, access to and choice of managed care plans state-wide,
6 and quality of health services. The health care authority shall also
7 advise on the value of administering a benchmark employer-managed plan
8 to promote competition among managed care plans. The health care
9 authority shall report its findings and recommendations to the
10 legislature by January 1, 1997.

11 (3) The health care authority shall, no later than July 1, 1996,
12 submit to the appropriate committees of the legislature, proposed
13 methods whereby, through the use of a voucher-type process, state
14 employees may enroll with any health carrier to receive employee
15 benefits. Such methods shall include the employee option of
16 participating in a health care savings account, as set forth in Title
17 48 RCW.

18 (4) The Washington health care policy board shall study the
19 necessity and desirability of the health care authority continuing as
20 a self-insuring entity and make recommendations to the appropriate
21 committees of the legislature by December 1, 1996.

22 **Sec. 8.** RCW 41.04.205 and 1993 c 386 s 3 are each amended to read
23 as follows:

24 (1) Notwithstanding the provisions of RCW 41.04.180, the employees,
25 with their dependents, of any county, municipality, or other political
26 subdivision of this state shall be eligible to participate in any
27 insurance or self-insurance program for employees administered under
28 chapter 41.05 RCW if the legislative authority of any such county,
29 municipality, or other political subdivisions of this state determines,
30 subject to collective bargaining under applicable statutes, a transfer
31 to an insurance or self-insurance program administered under chapter
32 41.05 RCW should be made. In the event of a special district employee
33 transfer pursuant to this section, members of the governing authority
34 shall be eligible to be included in such transfer if such members are
35 authorized by law as of June 25, 1976 to participate in the insurance
36 program being transferred from and subject to payment by such members
37 of all costs of insurance for members.

1 (2) When the legislative authority of a county, municipality, or
2 other political subdivision determines to so transfer, the state health
3 care authority shall:

4 (a) Establish the conditions ~~((under which the transfer may be
5 made, which shall include the requirements that:~~

6 ~~(i) All the eligible employees of the political subdivision
7 transfer as a unit, and~~

8 ~~(ii) The political subdivision involved obligate itself to make
9 employer contributions in an amount at least equal to those provided by
10 the state as employer)) for participation; and~~

11 ~~(b) ((Hold public hearings on the application for transfer; and
12 (c)))~~ Have the sole right to reject the application.

13 Approval of the application by the state health care authority
14 shall effect a transfer of the employees involved to the insurance,
15 self-insurance, or health care program applied for.

16 (3) Any application of this section to members of the law
17 enforcement officers' and fire fighters' retirement system under
18 chapter 41.26 RCW is subject to chapter 41.56 RCW.

19 (4) ~~((The requirements in subsection (2)(a) (i) and (ii) of this
20 section need not be applied to))~~ School districts may voluntarily
21 transfer, except that all eligible employees in a bargaining unit of a
22 school district may transfer only as a unit and all nonrepresented
23 employees in a district may transfer only as a unit.

24 NEW SECTION. Sec. 9. The following acts or parts of acts are each
25 repealed:

26 (1) RCW 41.05.200 and 1993 c 492 s 228;

27 (2) RCW 41.05.210 and 1993 c 492 s 229;

28 (3) RCW 41.05.240 and 1993 c 492 s 468; and

29 (4) RCW 43.72.230 and 1993 c 492 s 465.

30 NEW SECTION. Sec. 10. A new section is added to Title 28B RCW to
31 read as follows:

32 Employees of technical colleges who were members of the public
33 employees' benefits trust and as a result of chapter 238, Laws of 1991,
34 were required to enroll in public employees' benefits board-sponsored
35 plans, must decide whether to reenroll in the trust by January 1, 1996,
36 or the expiration of the current collective bargaining agreements,
37 whichever is later. Employees of a bargaining unit or administrative

1 or managerial employees otherwise not included in a bargaining unit
2 shall be required to transfer by group. Administrative or managerial
3 employees shall transfer in accordance with rules established by the
4 health care authority. If employee groups elect to transfer, they are
5 eligible to reenroll in the public employees' benefits board-sponsored
6 plans. This one-time reenrollment option in the public employees'
7 benefits board sponsored plans is available to be exercised in January
8 2001, or only every five years thereafter, until exercised.

9 NEW SECTION. **Sec. 11.** A new section is added to chapter 41.05 RCW
10 to read as follows:

11 (1) The state of Washington may enter into benefits contribution
12 plans with employees of the state pursuant to the internal revenue
13 code, 26 U.S.C. Sec. 125, for the purpose of making it possible for
14 employees of the state to select on a "before-tax basis" certain
15 taxable and nontaxable benefits pursuant to 26 U.S.C. Sec. 125. The
16 purpose of the benefits contribution plan established in this chapter
17 is to attract and retain individuals in governmental service by
18 permitting them to enter into agreements with the state to provide for
19 benefits pursuant to 26 U.S.C. Sec. 125 and other applicable sections
20 of the internal revenue code.

21 (2) Nothing in the benefits contribution plan constitutes an
22 employment agreement between the participant and the state, and nothing
23 contained in the participant's benefits contribution agreement, the
24 plan, this section, or sections 12 through 17 of this act gives a
25 participant any right to be retained in state employment.

26 NEW SECTION. **Sec. 12.** A new section is added to chapter 41.05 RCW
27 to read as follows:

28 The authority shall have responsibility for the formulation and
29 adoption of a plan, policies, and procedures designed to guide, direct,
30 and administer the benefits contribution plan. For the plan year
31 beginning January 1, 1996, the administrator may establish a premium
32 only contribution plan. Expansion of the benefits contribution plan to
33 a medical flexible spending arrangement or cafeteria plan during
34 subsequent plan years shall be subject to approval by the director of
35 the office of financial management.

36 (1) A plan document describing the benefits contribution plan shall
37 be adopted and administered by the authority. The authority shall

1 represent the state in all matters concerning the administration of the
2 plan. The state, through the authority, may engage the services of a
3 professional consultant or administrator on a contractual basis to
4 serve as an agent to assist the authority or perform the administrative
5 functions necessary in carrying out the purposes of this section and
6 sections 11 and 13 through 16 of this act.

7 (2) The authority shall formulate and establish policies and
8 procedures for the administration of the benefits contribution plan
9 that are consistent with existing state law, the internal revenue code,
10 and the regulations adopted by the internal revenue service as they may
11 apply to the benefits offered to participants under the plan.

12 (3) Every action taken by the authority in administering this
13 section and sections 11 and 13 through 16 of this act shall be presumed
14 to be a fair and reasonable exercise of the authority vested in or the
15 duties imposed upon it. The authority shall be presumed to have
16 exercised reasonable care, diligence, and prudence and to have acted
17 impartially as to all persons interested unless the contrary be proved
18 by clear and convincing affirmative evidence.

19 NEW SECTION. **Sec. 13.** A new section is added to chapter 41.05 RCW
20 to read as follows:

21 (1) Elected officials and all permanent employees of the state are
22 eligible to participate in the benefits contribution plan and
23 contribute amount(s) by agreement with the authority. The authority
24 may adopt rules to permit participation in the plan by temporary
25 employees of the state.

26 (2) Persons eligible under subsection (1) of this section may enter
27 into benefits contribution agreements with the state.

28 (3)(a) In the initial year of the medical flexible spending
29 arrangement or cafeteria plan, if authorized, an eligible person may
30 become a participant after the adoption of the plan and before its
31 effective date by agreeing to have a portion of his or her gross salary
32 contributed and deposited into a health care and other benefits account
33 to be used for reimbursement of expenses covered by the plan.

34 (b) After the initial year of the medical flexible spending
35 arrangement or cafeteria plan, if authorized, an eligible person may
36 become a participant for a full plan year, with annual benefit
37 selection for each new plan year made before the beginning of the plan
38 year, as determined by the authority, or upon becoming eligible.

1 (c) Once an eligible person elects to participate and the amount of
2 gross salary that he or she shall contribute and the benefit for which
3 the funds are to be used during the plan year is determined, the
4 agreement shall be irrevocable and may not be amended during the plan
5 year except as provided in (d) of this subsection. Prior to making an
6 election to participate in the benefit contribution plan, the eligible
7 person shall be informed in writing of all the benefits and
8 contributions that will occur as a result of such election.

9 (d) The authority shall provide in the benefits contribution plan
10 that a participant may enroll, terminate, or change his or her election
11 after the plan year has begun if there is a significant change in a
12 participant's status, as provided by 26 U.S.C. Sec. 125 and the
13 regulations adopted under that section and defined by the authority.

14 (4) The authority shall establish as part of the benefits
15 contribution plan the procedures for and effect of withdrawal from the
16 plan by reason of retirement, death, leave of absence, or termination
17 of employment. To the extent possible under federal law, the authority
18 shall protect participants from forfeiture of rights under the plan.

19 (5) Any contribution under the benefits contribution plan shall
20 continue to be included as reportable compensation for the purpose of
21 computing the state retirement and pension benefits earned by the
22 employee pursuant to chapters 41.26, 41.32, 41.40, and 43.43 RCW.

23 NEW SECTION. **Sec. 14.** A new section is added to chapter 41.05 RCW
24 to read as follows:

25 The authority shall keep or cause to be kept full and adequate
26 accounts and records of the assets, obligations, transactions, and
27 affairs of a benefits contribution plan created under section 11 of
28 this act.

29 NEW SECTION. **Sec. 15.** A new section is added to chapter 41.05 RCW
30 to read as follows:

31 (1) The state may terminate the benefits contribution plan at the
32 end of the plan year or upon notification of federal action affecting
33 the status of the plan.

34 (2) The authority may amend the benefits contribution plan at any
35 time if the amendment does not affect the rights of the participants to
36 receive eligible reimbursement from the participants' benefits
37 contribution accounts.

1 NEW SECTION. **Sec. 16.** A new section is added to chapter 41.05 RCW
2 to read as follows:

3 The authority shall adopt rules necessary to implement sections 11
4 through 15 of this act.

5 NEW SECTION. **Sec. 17.** A new section is added to chapter 41.05 RCW
6 to read as follows:

7 Sections 11 through 16 of this act shall be construed to effectuate
8 the purposes of 26 U.S.C. Sec. 125 and other applicable sections of the
9 internal revenue code as required.

10 **Sec. 18.** RCW 28A.400.350 and 1993 c 492 s 226 are each amended to
11 read as follows:

12 (1) The board of directors of any of the state's school districts
13 may make available liability, life, health, health care, accident,
14 disability and salary protection or insurance or any one of, or a
15 combination of the enumerated types of insurance, or any other type of
16 insurance or protection, for the members of the boards of directors,
17 the students, and employees of the school district, and their
18 dependents. Such coverage may be provided by contracts with private
19 carriers, with the state health care authority after July 1, 1990,
20 pursuant to the approval of the authority administrator, or through
21 self-insurance or self-funding pursuant to chapter 48.62 RCW, or in any
22 other manner authorized by law. (~~Except for health benefits purchased
23 with nonstate funds as provided in RCW 28A.400.200, effective on and
24 after October 1, 1995, health care coverage, life insurance, liability
25 insurance, accidental death and dismemberment insurance, and disability
26 income insurance shall be provided only by contracts with the state
27 health care authority.~~)

28 (2) Whenever funds are available for these purposes the board of
29 directors of the school district may contribute all or a part of the
30 cost of such protection or insurance for the employees of their
31 respective school districts and their dependents. The premiums on such
32 liability insurance shall be borne by the school district.

33 After October 1, 1990, school districts may not contribute to any
34 employee protection or insurance other than liability insurance unless
35 the district's employee benefit plan conforms to RCW 28A.400.275 and
36 28A.400.280.

1 (3) For school board members and students, the premiums due on such
2 protection or insurance shall be borne by the assenting school board
3 member or student. The school district may contribute all or part of
4 the costs, including the premiums, of life, health, health care,
5 accident or disability insurance which shall be offered to all students
6 participating in interschool activities on the behalf of or as
7 representative of their school or school district. The school district
8 board of directors may require any student participating in
9 extracurricular interschool activities to, as a condition of
10 participation, document evidence of insurance or purchase insurance
11 that will provide adequate coverage, as determined by the school
12 district board of directors, for medical expenses incurred as a result
13 of injury sustained while participating in the extracurricular
14 activity. In establishing such a requirement, the district shall adopt
15 regulations for waiving or reducing the premiums of such coverage as
16 may be offered through the school district to students participating in
17 extracurricular activities, for those students whose families, by
18 reason of their low income, would have difficulty paying the entire
19 amount of such insurance premiums. The district board shall adopt
20 regulations for waiving or reducing the insurance coverage requirements
21 for low-income students in order to assure such students are not
22 prohibited from participating in extracurricular interschool
23 activities.

24 (4) All contracts for insurance or protection written to take
25 advantage of the provisions of this section shall provide that the
26 beneficiaries of such contracts may utilize on an equal participation
27 basis the services of those practitioners licensed pursuant to chapters
28 18.22, 18.25, 18.53, 18.57, and 18.71 RCW.

29 NEW SECTION. **Sec. 19.** A new section is added to chapter 28B.50
30 RCW to read as follows:

31 (1) In a manner prescribed by the state health care authority,
32 technical colleges who have employees enrolled in a benefits trust
33 shall remit to the health care authority for deposit in the public
34 employees' and retirees' insurance account established in RCW 41.05.120
35 the amount specified for remittance in the omnibus appropriations act.

36 (2) The remittance requirements of this section do not apply to
37 employees of a technical college who receive insurance benefits through
38 contracts with the health care authority.

1 NEW SECTION. **Sec. 20.** A new section is added to Title 43 RCW to
2 read as follows:

3 For the purpose of accurately describing professional health
4 services purchased by the state, health-related state agencies may
5 develop fee schedules based on billing codes and service descriptions
6 published by the American medical association or the United States
7 federal health care financing administration, or develop agency unique
8 codes and service descriptions.

9 **Sec. 21.** RCW 41.04.230 and 1993 c 2 s 26 (Initiative Measure No.
10 134, approved November 3, 1992) are each amended to read as follows:

11 Any official of the state authorized to disburse funds in payment
12 of salaries and wages of public officers or employees is authorized,
13 upon written request of the officer or employee, to deduct from the
14 salaries or wages of the officers or employees, the amount or amounts
15 of subscription payments, premiums, contributions, or continuation
16 thereof, for payment of the following:

17 (1) Credit union deductions: PROVIDED, That twenty-five or more
18 employees of a single state agency or a total of one hundred or more
19 state employees of several agencies have authorized such a deduction
20 for payment to the same credit union. An agency may, in its own
21 discretion, establish a minimum participation requirement of fewer than
22 twenty-five employees.

23 (2) Parking fee deductions: PROVIDED, That payment is made for
24 parking facilities furnished by the agency or by the department of
25 general administration.

26 (3) U.S. savings bond deductions: PROVIDED, That a person within
27 the particular agency shall be appointed to act as trustee. The
28 trustee will receive all contributions; purchase and deliver all bond
29 certificates; and keep such records and furnish such bond or security
30 as will render full accountability for all bond contributions.

31 (4) Board, lodging or uniform deductions when such board, lodging
32 and uniforms are furnished by the state, or deductions for academic
33 tuitions or fees or scholarship contributions payable to the employing
34 institution.

35 (5) Dues and other fees deductions: PROVIDED, That the deduction
36 is for payment of membership dues to any professional organization
37 formed primarily for public employees or college and university
38 professors: AND PROVIDED, FURTHER, That twenty-five or more employees

1 of a single state agency, or a total of one hundred or more state
2 employees of several agencies have authorized such a deduction for
3 payment to the same professional organization.

4 (6) Labor or employee organization dues may be deducted in the
5 event that a payroll deduction is not provided under a collective
6 bargaining agreement under the provisions of RCW 41.06.150: PROVIDED,
7 That twenty-five or more officers or employees of a single agency, or
8 a total of one hundred or more officers or employees of several
9 agencies have authorized such a deduction for payment to the same labor
10 or employee organization: PROVIDED, FURTHER, That labor or employee
11 organizations with five hundred or more members in state government may
12 have payroll deduction for employee benefit programs.

13 (7) Insurance contributions to the authority for payment of
14 premiums under contracts authorized by the state health care authority.
15 However, enrollment or assignment by the state health care authority to
16 participate in a health care benefit plan, as required by RCW
17 41.05.065(5), shall authorize a payroll deduction of premium
18 contributions without a written consent under the terms and conditions
19 established by the public employees benefits board.

20 (8) Deductions to a bank, savings bank, or savings and loan
21 association if (a) the bank, savings bank, or savings and loan
22 association is authorized to do business in this state; and (b) twenty-
23 five or more employees of a single agency, or fewer, if a lesser number
24 is established by such agency, or a total of one hundred or more state
25 employees of several agencies have authorized a deduction for payment
26 to the same bank, savings bank, or savings and loan association.

27 Deductions from salaries and wages of public officers and employees
28 other than those enumerated in this section or by other law, may be
29 authorized by the director of financial management for purposes clearly
30 related to state employment or goals and objectives of the agency and
31 for plans authorized by the state health care authority.

32 The authority to make deductions from the salaries and wages of
33 public officers and employees as provided for in this section shall be
34 in addition to such other authority as may be provided by law:
35 PROVIDED, That the state or any department, division, or separate
36 agency of the state shall not be liable to any insurance carrier or
37 contractor for the failure to make or transmit any such deduction.

1 **Sec. 22.** RCW 41.05.050 and 1994 c 309 s 2 are each amended to read
2 as follows:

3 (1) Every department, division, or separate agency of state
4 government, and such county, municipal, or other political subdivisions
5 as are covered by this chapter, shall provide contributions to
6 insurance and health care plans for its employees and their dependents,
7 the content of such plans to be determined by the authority.
8 Contributions, paid by the county, the municipality, or other political
9 subdivision for their employees, shall include an amount determined by
10 the authority to pay such administrative expenses of the authority as
11 are necessary to administer the plans for employees of those groups.
12 Contributions to be paid by school districts or educational service
13 districts shall be adjusted by the authority to reflect that retired
14 school employees are covered under RCW 41.05.250, and are not covered
15 under RCW 41.05.080. All such contributions will be paid into the
16 public employees' health insurance account.

17 (2) The contributions of any department, division, or separate
18 agency of the state government, and such county, municipal, or other
19 political subdivisions as are covered by this chapter, shall be set by
20 the authority, subject to the approval of the governor for availability
21 of funds as specifically appropriated by the legislature for that
22 purpose. Insurance and health care contributions for ferry employees
23 shall be governed by RCW 47.64.270 (~~until December 31, 1996. On and~~
24 ~~after January 1, 1997, ferry employees shall enroll with certified~~
25 ~~health plans under chapter 492, Laws of 1993~~)).

26 (3) The authority shall transmit a recommendation for the amount of
27 the employer contribution to the governor and the director of financial
28 management for inclusion in the proposed budgets submitted to the
29 legislature.

30 NEW SECTION. **Sec. 23.** This act is necessary for the immediate
31 preservation of the public peace, health, or safety, or support of the
32 state government and its existing public institutions, and shall take
33 effect July 1, 1995.

Passed the House May 23, 1995.

Passed the Senate May 23, 1995.

Approved by the Governor June 14, 1995.

Filed in Office of Secretary of State June 14, 1995.