

CERTIFICATION OF ENROLLMENT  
**SUBSTITUTE HOUSE BILL 2536**

57th Legislature  
2002 Regular Session

Passed by the House February 14, 2002  
Yeas 97 Nays 0

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**Speaker of the House of Representatives**

Passed by the Senate March 6, 2002  
Yeas 44 Nays 0

\_\_\_\_\_  
**President of the Senate**

Approved

\_\_\_\_\_  
**Governor of the State of Washington**

CERTIFICATE

I, Cynthia Zehnder, Chief Clerk of the House of Representatives of the State of Washington, do hereby certify that the attached is **SUBSTITUTE HOUSE BILL 2536** as passed by the House of Representatives and the Senate on the dates hereon set forth.

\_\_\_\_\_  
**Chief Clerk**

FILED

**Secretary of State  
State of Washington**

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**SUBSTITUTE HOUSE BILL 2536**

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Passed Legislature - 2002 Regular Session

**State of Washington**

**57th Legislature**

**2002 Regular Session**

**By** House Committee on Appropriations (originally sponsored by Representatives Fromhold, Cox, Schual-Berke, Talcott, Conway, Doumit, Grant, Cody, Benson, McDermott, Delvin, Sullivan, Armstrong, Eickmeyer, Miloscia, Roach, Casada, Mielke, Morell, Boldt, Barlean, Chase, Rockefeller, Ogden, Lantz, Edwards, Simpson, Kessler, Haigh, Pearson, Dunn, Quall, Voloria, Kagi, McIntire, Wood, Santos and Linville)

Read first time 02/07/2002. Referred to Committee on .

1 AN ACT Relating to offering health care benefit plans to school  
2 district employees; amending RCW 41.05.021 and 41.05.065; and  
3 reenacting and amending RCW 41.05.050 and 41.05.075.

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

5 **Sec. 1.** RCW 41.05.021 and 1999 c 372 s 4 are each amended to read  
6 as follows:

7 (1) The Washington state health care authority is created within  
8 the executive branch. The authority shall have an administrator  
9 appointed by the governor, with the consent of the senate. The  
10 administrator shall serve at the pleasure of the governor. The  
11 administrator may employ up to seven staff members, who shall be exempt  
12 from chapter 41.06 RCW, and any additional staff members as are  
13 necessary to administer this chapter. The administrator may delegate  
14 any power or duty vested in him or her by this chapter, including  
15 authority to make final decisions and enter final orders in hearings  
16 conducted under chapter 34.05 RCW. The primary duties of the authority  
17 shall be to: Administer state employees' insurance benefits and  
18 retired or disabled school employees' insurance benefits; administer  
19 the basic health plan pursuant to chapter 70.47 RCW; study state-

1 purchased health care programs in order to maximize cost containment in  
2 these programs while ensuring access to quality health care; and  
3 implement state initiatives, joint purchasing strategies, and  
4 techniques for efficient administration that have potential application  
5 to all state-purchased health services. The authority's duties  
6 include, but are not limited to, the following:

7 (a) To administer health care benefit programs for employees and  
8 retired or disabled school employees as specifically authorized in RCW  
9 41.05.065 and in accordance with the methods described in RCW  
10 41.05.075, 41.05.140, and other provisions of this chapter;

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

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

19 (ii) Utilization of provider arrangements that encourage cost  
20 containment, including but not limited to prepaid delivery systems,  
21 utilization review, and prospective payment methods, and that ensure  
22 access to quality care, including assuring reasonable access to local  
23 providers, especially for employees residing in rural areas;

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

26 (iv) Development of recommendations and methods for purchasing  
27 medical equipment and supporting services on a volume discount basis;  
28 and

29 (v) Development of data systems to obtain utilization data from  
30 state-purchased health care programs in order to identify cost centers,  
31 utilization patterns, provider and hospital practice patterns, and  
32 procedure costs, utilizing the information obtained pursuant to RCW  
33 41.05.031;

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

35 (d) To provide information and technical and administrative  
36 assistance to the board;

37 (e) To review and approve or deny applications from counties,  
38 municipalities, and other political subdivisions of the state to  
39 provide state-sponsored insurance or self-insurance programs to their

1 employees in accordance with the provisions of RCW 41.04.205, setting  
2 the premium contribution for approved groups as outlined in RCW  
3 41.05.050;

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

6 (g) To establish billing procedures and collect funds from school  
7 districts and educational service districts under RCW 28A.400.400 in a  
8 way that minimizes the administrative burden on districts; ~~((and))~~

9 (h) To publish and distribute to nonparticipating school districts  
10 and educational service districts by October 1st of each year a  
11 description of health care benefit plans available through the  
12 authority and the estimated cost if school districts and educational  
13 service district employees were enrolled; and

14 (i) To promulgate and adopt rules consistent with this chapter as  
15 described in RCW 41.05.160.

16 (2) On and after January 1, 1996, the public employees' benefits  
17 board may implement strategies to promote managed competition among  
18 employee health benefit plans. Strategies may include but are not  
19 limited to:

20 (a) Standardizing the benefit package;

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

22 (c) Limiting the state's contribution to a percent of the lowest  
23 priced qualified plan within a geographical area;

24 (d) Monitoring the impact of the approach under this subsection  
25 with regards to: Efficiencies in health service delivery, cost shifts  
26 to subscribers, access to and choice of managed care plans state-wide,  
27 and quality of health services. The health care authority shall also  
28 advise on the value of administering a benchmark employer-managed plan  
29 to promote competition among managed care plans.

30 **Sec. 2.** RCW 41.05.050 and 1995 1st sp.s. c 6 s 22 and 1994 c 153  
31 s 4 are each reenacted and amended to read as follows:

32 (1) Every department, division, or separate agency of state  
33 government, and such county, municipal, school district, educational  
34 service district, or other political subdivisions as are covered by  
35 this chapter, shall provide contributions to insurance and health care  
36 plans for its employees and their dependents, the content of such plans  
37 to be determined by the authority. Contributions, paid by the county,  
38 the municipality, ~~((school district, educational service district,))~~ or

1 other political subdivision for their employees, shall include an  
2 amount determined by the authority to pay such administrative expenses  
3 of the authority as are necessary to administer the plans for employees  
4 of those groups(~~(. Until October 1, 1995, contributions to be paid by~~  
5 ~~school districts or educational service districts shall be adjusted by~~  
6 ~~the authority to reflect the remittance provided under RCW~~  
7 ~~28A.400.400)), except as provided in subsection (3) of this section.~~

8 (2) The contributions of any department, division, or separate  
9 agency of the state government, and such county, municipal, or other  
10 political subdivisions as are covered by this chapter, shall be set by  
11 the authority, subject to the approval of the governor for availability  
12 of funds as specifically appropriated by the legislature for that  
13 purpose. Insurance and health care contributions for ferry employees  
14 shall be governed by RCW 47.64.270.

15 (3)(a) Beginning September 1, 2002, school districts and  
16 educational service districts shall be charged the same composite rate  
17 as state agencies, plus the same amounts for employee premiums by plan  
18 and family size as are charged to state employees, for groups of  
19 district employees enrolled in authority plans as of January 1, 2002.

20 (b) For all groups of district employees enrolling in authority  
21 plans for the first time after September 1, 2002, the authority shall  
22 charge districts the same composite rate charged to state agencies,  
23 plus the same amounts for employee premiums by plan and by family size  
24 as are charged to state employees, only if the authority determines  
25 that this method of billing the districts will not result in a material  
26 difference between revenues from districts and expenditures made by the  
27 authority on behalf of districts and their employees.

28 (c) If the authority determines at any time that the conditions in  
29 (b) of this subsection cannot be met, the authority shall offer  
30 enrollment to additional groups of district employees on a tiered rate  
31 structure until such time as the authority determines there would be no  
32 material difference between revenues and expenditures under a composite  
33 rate structure for all district employees enrolled in authority plans.

34 (d) The authority may charge districts a one-time set-up fee for  
35 employee groups enrolling in authority plans for the first time.

36 (e) For the purposes of this subsection:

37 (i) "District" means school district and educational service  
38 district; and

1       (ii) "Tiered rates" means the amounts the authority must pay to  
2 insuring entities by plan and by family size.

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

7       **Sec. 3.** RCW 41.05.065 and 1996 c 140 s 1 are each amended to read  
8 as follows:

9       (1) The board shall study all matters connected with the provision  
10 of health care coverage, life insurance, liability insurance,  
11 accidental death and dismemberment insurance, and disability income  
12 insurance or any of, or a combination of, the enumerated types of  
13 insurance for employees and their dependents on the best basis possible  
14 with relation both to the welfare of the employees and to the state.  
15 However, liability insurance shall not be made available to dependents.

16       (2) The board shall develop employee benefit plans that include  
17 comprehensive health care benefits for all employees. In developing  
18 these plans, the board shall consider the following elements:

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

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

24       (c) Wellness incentives that focus on proven strategies, such as  
25 smoking cessation, injury and accident prevention, reduction of alcohol  
26 misuse, appropriate weight reduction, exercise, automobile and  
27 motorcycle safety, blood cholesterol reduction, and nutrition  
28 education;

29       (d) Utilization review procedures including, but not limited to a  
30 cost-efficient method for prior authorization of services, hospital  
31 inpatient length of stay review, requirements for use of outpatient  
32 surgeries and second opinions for surgeries, review of invoices or  
33 claims submitted by service providers, and performance audit of  
34 providers;

35       (e) Effective coordination of benefits;

36       (f) Minimum standards for insuring entities; and

37       (g) Minimum scope and content of public employee benefit plans to  
38 be offered to enrollees participating in the employee health benefit

1 plans. To maintain the comprehensive nature of employee health care  
2 benefits, employee eligibility criteria related to the number of hours  
3 worked and the benefits provided to employees shall be substantially  
4 equivalent to the state employees' health benefits plan and eligibility  
5 criteria in effect on January 1, 1993. Nothing in this subsection  
6 (2)(g) shall prohibit changes or increases in employee point-of-service  
7 payments or employee premium payments for benefits.

8 (3) The board shall design benefits and determine the terms and  
9 conditions of employee participation and coverage, including  
10 establishment of eligibility criteria. The same terms and conditions  
11 of participation and coverage, including eligibility criteria, shall  
12 apply to state employees and to school district employees and  
13 educational service district employees.

14 (4) The board may authorize premium contributions for an employee  
15 and the employee's dependents in a manner that encourages the use of  
16 cost-efficient managed health care systems. The board shall require  
17 participating school district and educational service district  
18 employees to pay the same employee premiums by plan and family size as  
19 state employees pay.

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

23 (6) The board shall review plans proposed by insuring entities that  
24 desire to offer property insurance and/or accident and casualty  
25 insurance to state employees through payroll deduction. The board may  
26 approve any such plan for payroll deduction by insuring entities  
27 holding a valid certificate of authority in the state of Washington and  
28 which the board determines to be in the best interests of employees and  
29 the state. The board shall promulgate rules setting forth criteria by  
30 which it shall evaluate the plans.

31 (7) Before January 1, 1998, the public employees' benefits board  
32 shall make available one or more fully insured long-term care insurance  
33 plans that comply with the requirements of chapter 48.84 RCW. Such  
34 programs shall be made available to eligible employees, retired  
35 employees, and retired school employees as well as eligible dependents  
36 which, for the purpose of this section, includes the parents of the  
37 employee or retiree and the parents of the spouse of the employee or  
38 retiree. Employees of local governments and employees of political  
39 subdivisions not otherwise enrolled in the public employees' benefits

1 board sponsored medical programs may enroll under terms and conditions  
2 established by the administrator, if it does not jeopardize the  
3 financial viability of the public employees' benefits board's long-term  
4 care offering.

5 (a) Participation of eligible employees or retired employees and  
6 retired school employees in any long-term care insurance plan made  
7 available by the public employees' benefits board is voluntary and  
8 shall not be subject to binding arbitration under chapter 41.56 RCW.  
9 Participation is subject to reasonable underwriting guidelines and  
10 eligibility rules established by the public employees' benefits board  
11 and the health care authority.

12 (b) The employee, retired employee, and retired school employee are  
13 solely responsible for the payment of the premium rates developed by  
14 the health care authority. The health care authority is authorized to  
15 charge a reasonable administrative fee in addition to the premium  
16 charged by the long-term care insurer, which shall include the health  
17 care authority's cost of administration, marketing, and consumer  
18 education materials prepared by the health care authority and the  
19 office of the insurance commissioner.

20 (c) To the extent administratively possible, the state shall  
21 establish an automatic payroll or pension deduction system for the  
22 payment of the long-term care insurance premiums.

23 (d) The public employees' benefits board and the health care  
24 authority shall establish a technical advisory committee to provide  
25 advice in the development of the benefit design and establishment of  
26 underwriting guidelines and eligibility rules. The committee shall  
27 also advise the board and authority on effective and cost-effective  
28 ways to market and distribute the long-term care product. The  
29 technical advisory committee shall be comprised, at a minimum, of  
30 representatives of the office of the insurance commissioner, providers  
31 of long-term care services, licensed insurance agents with expertise in  
32 long-term care insurance, employees, retired employees, retired school  
33 employees, and other interested parties determined to be appropriate by  
34 the board.

35 (e) The health care authority shall offer employees, retired  
36 employees, and retired school employees the option of purchasing long-  
37 term care insurance through licensed agents or brokers appointed by the  
38 long-term care insurer. The authority, in consultation with the public  
39 employees' benefits board, shall establish marketing procedures and may



1 consider all premium components as a part of the contract negotiations  
2 with the long-term care insurer.

3 (f) In developing the long-term care insurance benefit designs, the  
4 public employees' benefits board shall include an alternative plan of  
5 care benefit, including adult day services, as approved by the office  
6 of the insurance commissioner.

7 (g) The health care authority, with the cooperation of the office  
8 of the insurance commissioner, shall develop a consumer education  
9 program for the eligible employees, retired employees, and retired  
10 school employees designed to provide education on the potential need  
11 for long-term care, methods of financing long-term care, and the  
12 availability of long-term care insurance products including the  
13 products offered by the board.

14 (h) By December 1998, the health care authority, in consultation  
15 with the public employees' benefits board, shall submit a report to the  
16 appropriate committees of the legislature, including an analysis of the  
17 marketing and distribution of the long-term care insurance provided  
18 under this section.

19 **Sec. 4.** RCW 41.05.075 and 1994 sp.s. c 9 s 724, 1994 c 309 s 3,  
20 and 1994 c 153 s 6 are each reenacted and amended to read as follows:

21 (1) The administrator shall provide benefit plans designed by the  
22 board through a contract or contracts with insuring entities, through  
23 self-funding, self-insurance, or other methods of providing insurance  
24 coverage authorized by RCW 41.05.140.

25 (2) The administrator shall establish a contract bidding process  
26 that:

27 (a) Encourages competition among insuring entities;

28 (b) Maintains an equitable relationship between premiums charged  
29 for similar benefits and between risk pools including premiums charged  
30 for retired state and school district employees under the separate risk  
31 pools established by RCW 41.05.022 and 41.05.080 such that insuring  
32 entities may not avoid risk when establishing the premium rates for  
33 retirees eligible for medicare;

34 (c) Is timely to the state budgetary process; and

35 (d) Sets conditions for awarding contracts to any insuring entity.

36 (3) The administrator shall establish a requirement for review of  
37 utilization and financial data from participating insuring entities on  
38 a quarterly basis.

1 (4) The administrator shall centralize the enrollment files for all  
2 employee and retired or disabled school employee health plans offered  
3 under chapter 41.05 RCW and develop enrollment demographics on a plan-  
4 specific basis.

5 (5) All claims data shall be the property of the state. The  
6 administrator may require of any insuring entity that submits a bid to  
7 contract for coverage all information deemed necessary including  
8 subscriber or member demographic and claims data necessary for risk  
9 assessment and adjustment calculations in order to fulfill the  
10 administrator's duties as set forth in this chapter.

11 (6) All contracts with insuring entities for the provision of  
12 health care benefits shall provide that the beneficiaries of such  
13 benefit plans may use on an equal participation basis the services of  
14 practitioners licensed pursuant to chapters 18.22, 18.25, 18.32, 18.53,  
15 18.57, 18.71, 18.74, 18.83, and 18.79 RCW, as it applies to registered  
16 nurses and advanced registered nurse practitioners. However, nothing  
17 in this subsection may preclude the administrator from establishing  
18 appropriate utilization controls approved pursuant to RCW 41.05.065(2)  
19 (a), (b), and (d).

20 ~~((7) Beginning in January 1990, and each January thereafter until  
21 January 1996, the administrator shall publish and distribute to each  
22 school district a description of health care benefit plans available  
23 through the authority and the estimated cost if school district  
24 employees were enrolled.))~~

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