STATE OF MINNESOTA

Office of Governor Tim Pawlenty

130 State Capitol ♦ 75 Rev. Dr. Martin Luther King Jr. Boulevard ♦ Saint Paul, MN 55155

May 25, 2007

The Honorable Margaret Kelliher
Speaker of the House
463 State Office Building
Saint Paul, Minnesota 55155

Dear Speaker Kelliher:

I have vetoed and am returning Chapter Number 142, House File 464, a bill that creates a statewide health insurance pool for school district employees.

The policy created by H. F. 464 is flawed on many fronts. As reflected in the testimony and written communications by the Department of Commerce and numerous other interested parties this session and in previous legislative sessions, this bill will not achieve its goal of reducing health care costs for school employees because it does not address the real issues driving health care costs.

Moreover, this bill does not provide adequate oversight and consumer protections for the insurance pool and it limits local control over this important issue. Although supported by Education Minnesota, the entity that would have significant control of the pool created by this bill, the bill was opposed by many, including the Minnesota School Boards Association, Minneapolis Public School District, Minnesota Rural Education Association, and many other state school districts and teacher groups.

Creating the statewide mandatory insurance pool required by this bill does not address the real factors that are driving school districts' health-care costs upward. The real drivers include an aging employee population, prescription drug costs, benefit plan design, utilization rates, high-tech procedures and the high cost of insuring retirees. None of these cost drivers are addressed or resolved by a statewide mandatory health insurance pool for school employees. Ironically, school districts that have worked successfully to reduce utilization and increase the health of their employees stand to be the most adversely impacted by the creation of a statewide mandatory pool.

There is little credible evidence that this bill will actually reduce premiums for participants. It is undisputed that the four percent savings estimated by the Reden and Anders study was based on assumptions that are no longer applicable to this bill. As a result, little, if any, savings are expected from this bill. In fact, the cost associated with this program, including repaying the $4 million loan and the cost of building up reserves should the plan choose to self insure, may actually result in premium increases for these plans above market rate. This is not a good result for teachers or taxpayers.

Minnesota has over 1,000 pages of statutes relating to oversight and regulation of insurance and health care. These laws were enacted for the purpose of protecting individuals and consumers. Under this bill, issues of claims reserves, stabilization reserves, reinsurance, solvency, and the long term stability of the governing entity are left solely to the newly created Minnesota School Employee Insurance Board ("MSEIB"). Teachers may not be protected by many regulatory safeguards that apply to Minnesota consumers and other state and local governmental employees.

Although this bill allows the Commerce Commissioner to approve the plans, there is no linkage between the plans offered and the more important question of the financial stability of the pool. Plan approval is futile if the entity offering the plans is financially unstable.

The Minnesota Department of Commerce has estimated that a pool of this size, should it become self-insured, would require a minimum of $150 million in reserves to pay for potential claims. This bill has no specific reserve requirement to ensure the stability of the program. This increases the risk of insolvency and could potentially put individuals participating in the plan at risk.

The composition of the governing Board is also a concern. The bill does not require appointment of Board members with knowledge or expertise in insurance. Such knowledge is essential to ensure that this pool will be well managed and remain viable. Expert management of this type of program is critical. If there are problems, errors, or mismanagement by the governing Board – as the state has seen in the management of a number of other locally administered pension programs – the state will likely be asked to bear the financial burden of correcting those problems, either directly or through funding it provides to schools. As we have seen in the context of teacher pension programs, this creates a significant burden on public taxpayer funds.

I believe strongly that locally elected school boards should continue to have the right to purchase business services from the best providers in the market. This is currently the case for items such as payroll services, supplies purchases, building construction, and health and other insurance products. A state law that mandates that districts purchase insurance from a sole provider takes away a right from local employee groups and local boards to choose their provider. As a result, it is likely that most districts will end up paying more for their health insurance. Eliminating local control of plan design also creates little incentive to continue to reduce costs and little ability for local entities to address their unique concerns.

The bill also under funds and caps the pool's tax obligations. This pool should pay the entire Minnesota Comprehensive Health Association assessment now and in the future. Should the pool dissolve, some of the 200,000 enrollees will have to seek private health care coverage and some will not be insurable, meaning they will likely go to Minnesota Comprehensive Health Association (MCHA) for coverage. If MCHA is to assume this potential liability, it must have the level of resources appropriate to serve its customers. Like all other insurers in the state, including those which insure government employees, the pool should pay the entire one percent premium tax and the MCHA assessment. Allowing exemptions to the funding sets a bad precedent and will likely result in other insurers of governmental and non-profit groups to seek similar exemptions.

In short, this bill leaves too many issues unresolved, including the primary issue of whether the program will result in any real savings in insurance costs for teachers. The bill fails to provide adequate consumer protection and creates a governance model that fails to require expertise and knowledge of insurance and insurance finances. The bill also removes local control over this important issue and is opposed by many school districts and teacher groups.

Alternatives to lower and stabilize premiums for teachers exist and were discussed during the legislative process. It is unfortunate that these alternatives were not pursued. Finding affordable health care options for all Minnesotans, including teachers, is important to Minnesota's economic vitality. There are several efforts underway to reform Minnesota's health care system. I urge supporters of this bill to join these efforts.

Sincerely,

Tim Pawlenty
Governor

cc: Senator Lawrence J. Pogemiller, Senate Majority Leader
Senator David Senjem, Senate Minority Leader
Representative Margaret Anderson Kelliher, Speaker of the House
Representative Marty Seifert, House Minority Leader
Chief Senate Author Don Betzold
Chief House Author Anthony "Tony" Sertich
Mr. Patrick E. Flahaven, Secretary of the Senate
Mr. Al Mathiowetz, Chief Clerk of the House
Mr. Mark Ritchie, Secretary of State