Testimony on HB2679

My name is Paul McKenna. I am the Research Director of SEIU Local 503, which represents about 25,000 state agency and public university employees in Oregon. Until recently, I was a Board member for the Public Employees' Benefit Board and from July 2014 to June 2016, I served as Chair of the Board. I'm here today speaking on behalf of SEIU Local 503, to express support for HB 2679, from the perspective of a long-time PEBB Board member.

According to a recent study, Oregon's rates for inpatient hospitalization are 27% above the average for other states. The study, which was conducted by the Network for Regional Health Care Improvement, compared Oregon's provider rates, utilization, and overall costs with four other states. Oregon's overall "unit costs"--which includes hospital rates, physician rates, and pharmaceutical prices--were found by this study to be 17% above the average.

The study also found that utilization in Oregon was 7% below the average, with inpatient utilization 15% below average. Overall costs, combining unit costs and utilization were found to be 9% above average, with inpatient costs 8% above average.

Unit costs are the largest cost driver for PEBB's overall 2018 cost trend. According to Mercer, PEBB's actuarial consultant, 47% of PEBB's projected increase in costs for 2018 is attributable to unit costs. PEBB's other primary cost drivers are utilization and member risk--which refers to the age and overall health characteristics of the PEBB population. Utilization and member risk, unfortunately are largely out of PEBB's control, certainly in the short run.

It would be easy to limit PEBB's projected cost increases by simply shifting costs to PEBB members by increasing member co-pays, deductibles and other out-of-pocket costs. However, unlike hospital rates, compensation for State employees is not 27% above average. On this point, a study conducted by the Department of Administrative Services in 2016 found that total compensation for State workers, including salaries and benefits combined is already slightly below the total compensation for comparable employees in the Northwest private sector. Salaries alone for State of Oregon employees are 12% behind the private sector.

Cutting employee health benefits to meet PEBB's cost targets would put compensation for State of Oregon employees even further behind the private sector, making it even more difficult for State agencies to recruit and retain the qualified employees that State agencies need and rely on to accomplish their missions.

Limiting the increase in PEBB's unit costs, specifically provider rates, is therefore critical to helping limit PEBB cost increases as well as cost increase in other publicly funded health care programs, , including OEBB and Medicaid . Limiting these cost increase, in turn, will allow the State to invest in critical public services that otherwise might be on the chopping block..

In addressing provider rates and working to bring them under control, PEBB can certainly direct its insurance carriers to take a harder line with providers in negotiating rates. However, PEBB could definitely use the Legislature's assistance in achieving this goal. Setting up a process for hospital rate review as proposed in HB 2679 would be an important component of an overall strategy to limit or reduce hospital rates, which is clearly needed in order to limit the overall increase in PEBB's costs and in health care costs for Oregonians in general.