



STATE OF CONNECTICUT

INSURANCE DEPARTMENT

Testimony Insurance and Real Estate Committee February 21, 2017

Senate Bill No. 542 An Act Establishing the Connecticut Special Education Predictable Cost Cooperative.

Committee Chairs, Co-Chairs, Ranking Member, and Members of the Insurance and Real Estate Committee, the Insurance Department appreciates the opportunity to submit written testimony on **Senate Bill No. 542 An Act Establishing the Connecticut Special Education Predictable Cost Cooperative**. Generally, SB 542 would establish a fund called the Connecticut Special Education Predictable Cost Cooperative that would fund special education services and programs in schools. Below are the Department's technical comments on this concept.

The co-op funding model is common and goes by many different names and authorizes entities in the risk management world. The key element is a pooling vehicle that is designed to reduce the fluctuations in cost – in this example it would seem to be fluctuations in cost at the student and municipal levels. This “pooling” vehicle makes estimating the average cost less volatile and more predictable.

Establishing the Connecticut Special Education Predictable Cost Cooperative is an innovative way to manage special education costs for the state, cities and towns and better align funding with specific student need and service delivery.

To be successful, this proposal should incorporate best practices from similar entities along with a structure and concepts similar to CT Prime, Inc. – a cost collaborative through which thirteen CT municipalities are funding Medical Stop loss coverage related to teachers and some municipal employees. CT Prime not only has reduced volatility and increased cost efficiency but has also increased co-operation across participating member municipalities.

As a regulated entity, the governance structure, business plan, reserve funding, and financial statements would be subject to independent third party regulatory oversight, actuarial review and financial audit – all to promote fairness. This regulation ensures the following:

- Amounts paid to the co-op remain in the co-op in order to be able to pay covered special education expenses,
- Appropriate service providers to run the co-op on a day-to-day basis, maintaining proper accounting records and sufficiently capitalizing the co-op,
- Any investment of assets is done in a manner to protect principal and meet anticipated cost pay out patterns,

About the Connecticut Insurance Department: The mission of the Connecticut Insurance Department is to protect consumers through regulation of the industry, outreach, education and advocacy. The Department recovers an average of more than \$4 million yearly on behalf of consumers and regulates the industry by ensuring carriers adhere to state insurance laws and regulations and are financially solvent to pay claims. The Department's annual budget is funded through assessments from the insurance industry. For every dollar of direct expense, the Department brings in about \$7.45 to the state in revenues. Each year, the Department returns more than \$215 million in assessments, fees and penalties to the state's General Fund.



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- Disbursement of funds, other than for the co-op's primary purposes would require approval by the regulator and only be permissible if an excess of reserves were actuarially established at statistically significant confidence level,
- Reimbursements covered and contribution amounts would be determined on an arm's length basis, and
- Covered reimbursements are appropriately paid by the co-op.

Pool structures like a cost cooperative can help municipalities reduce and stabilize long term costs, create innovation and make special education services for students a top priority and promote intergovernmental collaboration and improve public service.

The Insurance Department stands ready to provide any assistance should this bill continue through the process.

The Department thanks the Insurance Committee Chairs and members for the opportunity to submit testimony on S.B. 542.

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