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Legislative Memo

Proposed State Takeover of Public Education Employee Health Plans May Add Significant New Costs

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Introduction

One idea some lawmakers in Olympia are considering in an effort to close Washington's looming budget gap is to implement a state takeover of local school health benefits plans and require over 100,000 public education employees to drop their private health coverage and join a plan directed by the Health Care Authority. As proposed, the takeover of local health plans would pool school employees into one plan and save the state an estimated $180 million per biennium.

The broad sweep of the proposal raises three important considerations. First, whether it is good public policy to force such a dramatic change on public education employees merely in the name of budget savings. Second, whether the promised savings would actually materialize for the state. Third, whether depriving school employees of private coverage would serve to weaken Washington's health insurance market. This paper examines these questions.

Background

The takeover proposal stems from a report by the State Auditor, "K–12 Employee Health Benefits." State auditors worked with the consultant The Hay Group of Philadelphia to assemble survey data about employee health benefits from school districts across the state.[1]

The study reports that a range of plans provide health benefits for over 100,000 public education employees in 295 school districts and nine Educational Service Districts. Since the study is the result of a survey sent to school districts, the data in the report is necessarily incomplete. Study findings are based on responses from 42 percent of districts, representing less than 70 percent of public education employees.

The report finds that health benefits for all public education workers cost $1.2 billion in 2009–10, with $780 million, or 64 percent, paid with state tax dollars and the remainder paid by employees and school districts. The state provides a set amount of funding per full-time-equivalent (FTE) employee. In 2009–10 this amount was $745 per FTE.[2]

Presently public education employees can receive health coverage through any private insurance carrier, such as Premera, Regence, Group Health and Aetna. Most (about 55 percent)

[1] "K-12 Employee Health Benefits," Performance Review, Report No. 1004979, Office of the State Auditor, February 2011, www.sao.wa.gov/EN/News/Documents/House_Education_Approps_K-12_health_benefits020311.pdf.
[2] Ibid, page 3.

of public education employees are enrolled in a Premera plan offered through the state's largest teachers' union, the Washington Education Association (WEA). Groups of local public education employees can, if they choose, purchase coverage through the state Health Care Authority (HCA). Currently less than two percent of public education employees receive health coverage through HCA.

The Auditor identifies three recommendations which together, the report says, "could yield significantly greater savings and transparency." These are:

1. Streamline the system to improve efficiency, transparency and stability.
2. Standardize coverage levels for more affordable, quality medical benefits.
3. Reduce costs by restructuring the health benefits system.

The third recommendation would require all local public education employees to join a separate statewide program with its own governing board and managed through the Health Care Authority, similar to the way state employees receive their coverage.

Policy Analysis

The State Auditor report provides information about the structure and cost of public programs, and these policy recommendations may at first seem attractive from the point of view of lawmakers in Olympia. What the report fails to assess, because it is beyond its scope, is the impact these changes would have on public education employees and the private health insurance market.

For example, forcing public education employees into a single state-run plan may not improve "efficiency, transparency and stability" for workers who have chosen other plans. There is no value to "standardize coverage levels" for a diverse population of workers who have chosen different plans depending on their family needs and local circumstances.

The Auditor's report says a mandatory statewide public employee health program could have its own governance structure that would include district management and labor, thus "providing greater confidence in the new system." What this view misses is that school district managers, union representatives and most public education employees have confidence in their current health coverage and give no indication they would like to change.

There is no advantage in seeking employee support for a benefit system imposed from above when it means employees would first lose coverage they have already chosen and with which they appear to be satisfied. For public education employees, the proposal tries to fix something that is not broken.

Public education employees would have no reason to feel enthusiastic about a sweeping policy change when the purpose is not to improve the level or quality of benefits they receive, but simply to secure estimated budget savings for the state.

Creates New State Costs

Enacting a state takeover of public education employee health plans would represent a major expansion of state responsibilities and would impose significant new costs on the state.

Insurance industry sources say setting up the new plan could take six months, could cost the state $60 million a year, and that the state treasury would lose about $30 million annually in insurance premium taxes. Major expenses would include assigning a claims administrator, installing new information technology systems, issuing new claim forms and member identification numbers, and complying with federal HIPAA and COBRA regulations.

These are estimates, but they indicate the complexity and cost involved in creating a major new state health care program. The uncertainty for the state is increased because some 98,000 employees who have private coverage now would be placed in a government program involuntarily, so their reaction to the new policy is unknown. Having taken on the obligation of providing coverage for an additional large population, the state would be responsible for maintaining coverage, regardless of the rise in future costs. At the same time, the private sector would be deprived of 98,000 customers, weakening the current insurance market and discouraging potential new entrants from offering policies in Washington.

Under the current policy, the state's fiscal obligation is limited to its annual defined contribution, leaving the choice of type and cost of coverage to public education employees, their union representatives and district school boards. The result is greater employee satisfaction at the local level and less financial exposure for the state. To summarize, new costs to the state would at a minimum include:

- Compliance costs of federal HIPAA and COBRA regulations
- New information technology and administrative expenses
- Creation of a new reserve fund
- Lost insurance premium tax revenue

A consultant for Washington Education Association-sponsored health plans, which provide private coverage to 60,000 public education employees, estimates the state takeover of local health plans would cost the state $474 million.[3]

Conclusion

Health care coverage through the Health Care Authority is already available for public education employees, yet less than two percent of employees choose this option. Mandating that public education employees join a state-sponsored plan would force 98 percent of workers to accept an option they and their representatives have already rejected. A state takeover would force these employees to lose private coverage and accept a package of benefits they don't want and may not need. The idea of imposing a state-run health benefits system on public education employees comes from officials in Olympia, not from the employees themselves or from their union representatives.

The proposed mandatory expansion of state health coverage moves public policy in the wrong direction. It would shift control over health benefits spending away from local districts to Olympia and would further restrict the private insurance market. Finally, it would represent a major expansion of state responsibilities in a time of tight budgets and, although the intent is to reduce spending, may, by some estimates, result in significant new costs for state taxpayers.

Paul Guppy is Vice President for Research at Washington Policy Center, a non-partisan independent policy research organization in Seattle and Olympia. Nothing here should be construed as an attempt to aid or hinder the passage of any legislation before any legislative body.

[3] "State takeover of K-12 health benefits would cost $474," Aon Hewitt consultants, BusinessWire, April 7, 2011, at www.news.morningstar.com/all/business-wire/20110406006941/new-analysis-by-aon-hewitt-state-takeover-of-k-12-health-benefits-would-cost-474-million.aspx.