

## Comparing the cost of public-sector and private-sector employee health benefits in Washington state

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November 2018

### Key Findings

1. Since 1943, employers have been providing tax-free health benefits for employees.
2. Today half of all Americans, including government workers, receive their health benefits from their employer or their spouse's employer.
3. Health insurance costs continue to rise in spite of the greater use of preferred provider organizations, health maintenance organizations, and in-network insurance plans.
4. A national survey of 10,000 employers found that the average cost of health coverage for public employees is 17.5 percent higher than for private workers.
5. Yet public employees pay, on average, 45 percent less in monthly premiums than private-sector employees.
6. As health insurance premiums rise for everyone, the burden on taxpayers increases to pay for government workers' insurance.
7. Rather than continuing to fund ever-rising health care costs, the solution is to reduce the price distortion created by third-party payer health coverage, for employers to pay higher cash wages, and to allow all workers to obtain their own affordable health insurance in an open and competitive free market.

### Introduction

Since 1943, employers have been providing tax-free health benefits for employees. Wage and price controls during World War II limited employers' ability to compete for workers by paying higher wages. Consequently, the federal government allowed employers to offer health insurance to employees as hiring and job incentives. The government also let employers deduct the cost of that insurance from their federal corporate income tax.

The wage and price controls were repealed after the war, but the policy of employer-paid health insurance has persisted. Today, half of all Americans, including government workers, receive their health benefits from their employer or their spouse's employer.

In the case of government employees, however, taxes actually pay for those health benefits. As the cost of health insurance increases, the burden on taxpayers likewise increases. This Policy Note compares the cost of health benefits by private companies with those provided by government agencies.

### Health insurance plan comparison: the cost of public-sector coverage

Excluding 51,000 higher education workers, Washington's state government employs over 65,000 people.<sup>1</sup> These state government workers receive their health insurance through the Public Employees Benefit Board or PEBB.<sup>2</sup> Other public employer groups can participate in PEBB provided these groups have at least 5,000 public employees. Starting in 2020, all employees in K-12 school districts and charter schools will receive health insurance through the School Employees Benefit Board (SEBB).<sup>3</sup>

1 "Number of employees and headcount trends," Office of Financial Management, Washington State Government, August 2, 2018, at <https://ofm.wa.gov/state-human-resources/workforce-data-planning/workforce-data-trends/workforce-profile-overview/number-employees-and-headcount-trends>.

2 "Medical benefit comparison," Washington State Health Care Authority, at <https://fortress.wa.gov/hca/pebbhealthplan/compare.aspx>.

3 "School Employees Benefit Board Program (SEBB), Washington State Health Care Authority, at <https://www.hca.wa.gov/employee-retiree-benefits/about-sebb>.

Insurance plans are offered to state government employees on a county by county basis. Every county has at least two plans available, with employees in the larger counties offered a choice of up to six separate policies.

Standard family plans for state workers in 2018 have a cost range for the worker of \$134 to \$456 per month, with an average cost of \$254 per month. Plans associated with health savings accounts and high-deductible insurance are more affordable, with an average cost to the employee of \$81 per month.

The Association of Washington Cities (AWC) offers health benefit plans to municipalities in Washington state through a pooling arrangement. The AWC covers 16,000 public employees and retirees and a total of 36,000 people, including family members.<sup>4</sup> The AWC offers multiple health benefit plans through two, major state-wide insurance companies.<sup>5</sup>

The Washington Counties Insurance Fund (WCIF) is a non-profit trust fund that provides health insurance for 100 public employers and 30,000 public workers and their families. The WCIF offers a choice of plans through nine health insurance companies.<sup>6</sup>

### **The cost of private-sector coverage**

Sixteen private companies in Washington state with eight to 60,000 employees provided health benefit information for this study.<sup>7</sup> The vast majority of these companies offer employees only one plan, though several offer two policies, and only one offers workers a choice of more than two plans (four). Where information was provided, the range of monthly premium-cost for employees is \$400 to \$800 per month for an individual worker.

Several of these companies pay the full premium cost for the employee, although employees may be responsible for the cost of family members and for deductibles. In general, the private plans offer a broad menu of health services such as dental, prescription drugs, and mental health treatment. Employees can purchase these extra services for additional costs.

Many of the private plans also distinguish between “in-network” and “out of network” plans in their pricing. Out of network policies can increase monthly premiums by up to a factor of six - \$800 per month for an in-network plan compared with an out of network plan costing \$4,800 per month for one company’s family policy.

4 “How Obamacare’s ‘Cadillac Tax’ will effect local governments, public employees, and taxpayers,” By Roger Stark, MD, Policy Brief, Washington Policy Center, July, 2014, at <https://www.washingtonpolicy.org/library/doclib/Stark-CadillacTax.pdf>.

5 “Employee benefit trust,” The Association of Washington Cities, 2018, at <https://wacities.org/services/employee-benefit-trust/benefits>.

6 “2018 plan information,” Washington Counties Insurance Fund, at <https://wcif.net/employees/2018-plan-information/>.

7 Much of this information is confidential and we agreed to not use the company names in this paper.

## Public versus private employee insurance costs nationally

A national survey of 10,000 employers found that the average cost of health insurance in the public sector was 17.5 percent higher than in the private sector.<sup>8</sup> However, public employees paid, on average, 45 percent less than private employees in monthly premiums. Likewise, deductibles and co-pays are, in general, higher for private employees compared to public workers.

There is a national trend toward the greater use of health savings accounts and high-deductible insurance plans, especially in the private sector. This data indicates more comprehensive benefits for government employees when compared to private workers.

On average, federal employees receive 80 percent more in wages and benefits than private workers for comparable jobs.<sup>9</sup> State and local public employees receive 40 percent more than workers in private industries. In general, private-sector workers, who pay the taxes that fund government budgets, receive less in pay and benefits than the public-sector workers whose salaries they fund.

The Kaiser Family Foundation recently published a 2017 survey of 2,100 private and non-federal public employers with three or more employees.<sup>10</sup> The study did not differentiate between private and public employees.

The average total annual premium cost of covering a family rose five percent to \$19,600, with the worker paying \$5,500 of that premium. Deductibles have gradually increased over the past twenty years and rose faster in small companies. The Affordable Care Act, also known as Obamacare, has so far had no impact on the number of large companies offering employee health benefits.

## The Obamacare Cadillac Tax

The goals of the Cadillac Tax are to help finance the ACA, decrease the overall cost of health care by discouraging the use of “generous” insurance plans and make it fairer for individuals who don’t have the tax-exempt status that employer plans enjoy. Like many parts of the ACA, this provision is very unpopular and legislation has been introduced in Congress to repeal the Cadillac Tax.

Local taxpayers could face a large tax increase when the Cadillac Tax on health insurance plans begins in 2022. This new tax will impose a 40 percent excise tax on health insurance plans the ACA sees as too generous, defined as \$10,200 per year for an individual and \$27,500 per year for a family. The cost of a health insurance plan above those amounts will be subject to the 40 percent tax.

The problem for taxpayers is that many, if not most government employees enjoy rich health benefits and already have policies that will be subject to the

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8 “Cost compared: public versus private sector health plans,” By Stephen Miller, CEBS, Society for Human Resource Management, January 16, 2015, at <https://www.shrm.org/ResourcesAndTools/hr-topics/benefits/Pages/employee-health-costs.aspx>.

9 “Reforming federal worker pay and benefit,” by Chris Edwards, Downsizing the Federal Government, September 20, 2017, at <https://www.downsizinggovernment.org/federal-worker-pay>.

10 “2017 employer health benefits survey,” The Henry J. Kaiser Family Foundation, September 19, 2017, at <https://www.kff.org/health-costs/report/2017-employer-health-benefits-survey/>.

federal Cadillac Tax. By 2022, unless public employers hold down benefit costs, state and local taxpayers will have to pay the excise tax to the federal government for public employees.

The Cadillac Tax is an example of the federal government forcing a new tax on local and state governments. It is too early to predict accurately the total amount of new taxpayer cost the tax will create. Public employers, however, will have only two options – either reduce health care benefits for their public workers or pass the cost of the federal tax on to taxpayers.

The tax was deferred until 2022 for apparently political reasons. Private employers are starting to make adjustments to employee health insurance plans. Because union contracts are typically for three years, the large public employee unions are already including the retention of generous health benefits in their contract negotiations.

### **Policy analysis**

Health insurance costs continue to rise in spite of the greater use of preferred provider organizations, health maintenance organizations, and in-network insurance plans. Overall, health coverage in the U.S. is becoming less, not more, affordable.

As insurance costs increase, workers in the private sector bear a greater share of those costs than public employees. Public employees receive more generous health care benefits and yet pay a smaller percent of their own premium costs than privately-employed workers.

The argument is that the public sector must pay more to attract high quality workers. However, private companies must also hire good employees, especially when considering that a private-sector businesses must earn a profit and match competitors to survive. In contrast, government agencies have no competitors and have little incentive to control rising costs.

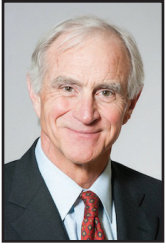
Both government and private employers are third-party payers of health insurance, isolating all employees from the real cost of health care. However, as health insurance premiums rise for everyone, the burden on taxpayers increases faster to pay for government workers' insurance.

In the private sector, employers shoulder this increase in health benefit cost at the expense of higher wages. There is much less incentive for public employers to hold down the costs of health benefits for public workers.

### **Conclusion**

Public employees in Washington state appear to pay less for comparable health insurance than private workers. This is at the expense of taxpayers at the local, county, and state levels, as private-sector workers must reduce their after-tax pay to fund the more generous health care benefits of their public-sector counterparts.

Rather than continuing to fund ever-rising health care costs, the solution is to reduce the price distortion created by third-party payer health coverage, for



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*Published by*  
Washington Policy Center  
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employers to pay higher cash wages, and to allow all workers to obtain their own affordable health insurance in an open and competitive free market.<sup>11</sup>

Government employees should not receive more generous health care benefits than private workers, especially at taxpayer expense. All employees should be free to use their own dollars to purchase health insurance in the private marketplace.

*Research Assistant Edwin Beusch assisted with the collection of the data for this Policy Note as a part of Washington Policy Center's Doug and Janet True Internship Program.*

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<sup>11</sup> "Health care reform; lowering costs by putting patients in charge," By Roger Stark, MD, Policy Brief, Washington Policy Center, June 2015, at [https://www.washingtonpolicy.org/library/docLib/Stark-\\_Health\\_care\\_reform\\_and\\_alternatives\\_to\\_the\\_Affordable\\_Care\\_Act.pdf](https://www.washingtonpolicy.org/library/docLib/Stark-_Health_care_reform_and_alternatives_to_the_Affordable_Care_Act.pdf).