

Wrong Diagnosis

Wrong Cure



Michigan Education
Association

Wrong Diagnosis ~ Wrong Cure

Why a Government run health insurance monopoly for school employees is a bad idea.

A Michigan Education Association Policy Brief

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Executive Summary

If Michigan's public schools are experiencing financial difficulties, it is not because health benefit costs are consuming a greater portion of school district resources. Over the last three years, Michigan's public schools have experienced an actual **reduction** of almost \$350 per employee per year in the cost of health benefits paid by school employers. Michigan's public schools already spend less per employee than private sector employers do for employee health benefits. Over the same three-year period, the cost of employee health insurance benefits for private sector employers increased by more than 29 percent. As a result, when it comes to the cost of health benefits in Michigan's public schools, reality differs from public perception in two important ways:

- 1) Premium costs are already competitive with the costs for private sector employers. In most instances, the cost per employee for health benefits is well below those of private employers.***
- 2) Overall expenditures for health benefits provided by public school employers have been declining, while health care costs for private employers have been increasing.***

The Dillon Prescription for Public Sector Healthcare Reform fails to offer any significant prospect of greater cost efficiencies and it runs counter to Michigan's long tradition of local control. The ability to determine how school district resources are allocated, the ability to attract and retain quality employees, and the ability to control the instruction available in the school districts in which we live is linked directly to the autonomy of local school boards to make decisions that best serve the local community.

The goal of public policy makers should be to not only conserve scarce tax dollars, but also to maximize educational outcomes in Michigan's public schools. Last year alone, school resources committed to non-educational functions and purchased services exceeded the total expenditures for employee health benefits by more than 240 percent.

Within that context, rather than creating a government-run public employee health care system, a better public policy decision would be to:

- 1) Maintain the ability of local decision makers to determine the mix of salaries and benefit compensation that will work best in attracting and retaining teachers and other school employees in their local community.
- 2) Focus attention and resources, at the state level, on a strategy that recognizes not only the need to control future costs but also the need to enhance educational outcomes.

Summary of Additional Findings

- Overall expenditures for health benefits provided by public school employers is declining—by more than \$36 million in just the past three years—while health care costs for private employers have been increasing.
- Health insurance benefit costs for Michigan’s teachers are 20 percent below private sector costs.
- In 2008, only about 1 in 4 non-professional school employees had access to any employer-paid medical insurance.
- The Dillon analysis is based on projected public school health benefit costs that are \$365 million to \$645 million above the actual 2007-08 costs for school employee health benefits.
- The potential administrative savings that would have been available from a government-run consolidated health plan is less than \$11 per employee, per year.
- Losing the ability to tailor health care plans to local labor markets eliminates a significant tool schools have used historically and continue to use, to attract and retain quality employees.
- Michigan’s public schools spend less than 10 cents of every dollar of available revenue on the cost of health benefits for Michigan’s public school employees.
- Expenses for non-educational and contract service functions are the fastest growing area in school district’s general fund budgets, increasing \$560 million, or more than 15 percent since 2006.
- Michigan ranks 48th in the nation in the percent of elementary and secondary expenditures devoted to classroom instruction.

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Introduction

The most recent entry in the health care debate is a proposal by Representative Andy Dillon called, *The Dillon Prescription for Public Sector Healthcare Reform*. The Dillon plan would consolidate the planning, delivery and administration of health care benefits, including negotiations and purchasing, for all state, county, city, public school and other municipal employees into one centralized governmental plan. The proposal stems from a claim that the cost of health benefits for public employees is out of line with private sector costs.

When the focus of discussion turns specifically to public school employees and their health benefits, you will soon hear various opinions about high costs and the belief that school employees have very generous health insurance coverage.

In many instances, those opinions have become so entrenched that they have almost reached the status of urban legend. The problem is that if the current discussion on public sector health benefit costs is based on a set of “facts” that are more myth than reality, those “urban legends” created about the cost of health benefits can get public policy makers to act based on stories that are memorable, but not factual.

The Dillon proposal advocates a centralized governmental takeover of functions that have traditionally been left to local school districts and their elected boards of education. If such a major shift in public policy is potentially based on a series of opinions that are more myth than fact, the results could have a far-reaching negative impact on local school districts’ ability to maintain a quality education system—a system that is critical to Michigan’s already fragile economy.

The purpose of this paper is to examine those stories in depth to determine if the commonly-held beliefs about public school employee health benefits are supported by the available facts and data, or are simply memorable stories told repeatedly until they assume the status of “fact.”

Health Benefit Costs in Michigan Schools

Do public school employers spend significantly more for employee health benefits than comparable employers in the private sector?

We are all familiar with stories that tout public school employee health benefits as the “Cadillac” of health insurance—much better and much more expensive than those provided to employees in the private sector. In fact, some Michigan legislators¹ have recently suggested that public employee health benefits are 20 to 40 percent more costly (\$17,000 per employee) than those benefits paid by private employers. While those “statistics” make good sound bites, they are far from accurate when it comes to the cost of health benefits for Michigan’s public school employees. Last year, Michigan’s public schools paid, on average, \$8,311² per employee for all health benefits³. Over the last three years, that amount represents an actual **reduction** of almost \$350⁴ per employee, per year in the cost of the health benefits paid by school employers. During the same period, the cost of employee health insurance⁵ for private sector employers increased by more than 29 percent⁶ from an average employee cost of \$10,046⁷ in 2005 to an average employee cost of \$12,973⁸ by 2008. In fact, in the Midwest region⁹, by 2008, the average private sector employee cost for health insurance was \$13,255¹⁰ per year—2.5 percent higher than the national average. Exhibit 1 shows total expenditures for health benefits for all Michigan public school employees since 2006.

Health insurance costs for Michigan’s public school employees would have been substantially higher had public school employers seen the same increase in health insurance costs as those experienced by private employers (Exhibit 2). What’s more, rather than realizing a reduction of more than \$36 million¹¹ in health benefit costs over the past three years, public school employers would have seen an increase in benefit costs of more than \$692 million.¹² Avoiding the increases in insurance costs experienced by private employers was realized not only through administrative efficiencies, but also through shifting significant health care costs to employees. That cost shift was accomplished largely through the efforts of the collective bargaining done at the local level that resulted in a combination of increased deductibles and co-pays, a reduction in the level of plan benefits, an increase in the portion of premium cost paid by employees, and a reduction in the number of employees eligible for benefits.¹³

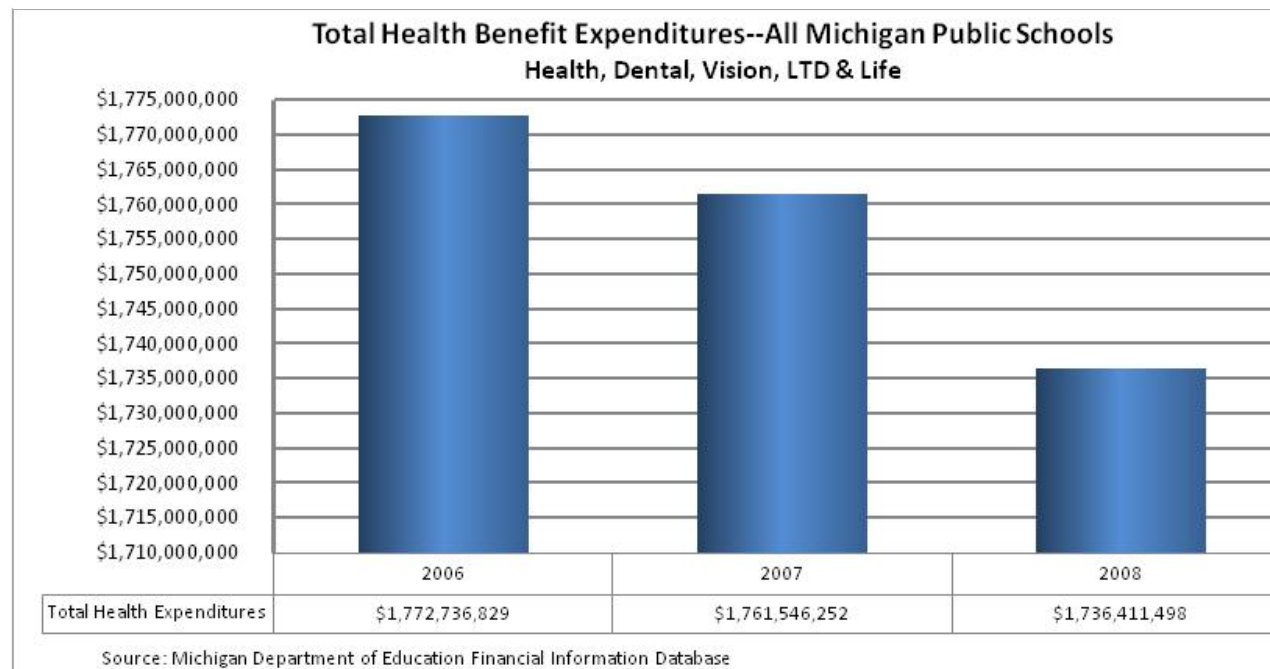
Health Benefit Costs by Employee Group

When discussing health insurance benefits for public school employees, many people assume that all school employees receive the same level of benefits. While many school employees may wish that were true—particularly support personnel such as classroom paraprofessionals, bus drivers, custodians, or food service workers—the reality is quite different. Different employee groups within the school community receive vastly different levels of health benefits. Indeed, a significant number of employees are ineligible for any level of benefits.

Teachers

Teachers represent the largest single group of professional employees receiving health benefits. Teaching professionals represent approximately 45 percent¹⁴ of all public school employees, with almost 100 percent of the group being eligible for some level of health care coverage. In 2008, school districts across the state spent an average of \$12,159¹⁵ per teacher on health benefit costs. Of that amount, districts spent an average of \$10,688¹⁶ per employee on teacher health insurance premiums. When compared to health insurance costs for

Exhibit 1



private sector employees, the cost of health insurance for Michigan's teachers is almost 18 percent less than the average private sector cost nationally and almost 20 percent below private sector costs in the Midwest region¹⁷.

Administrators

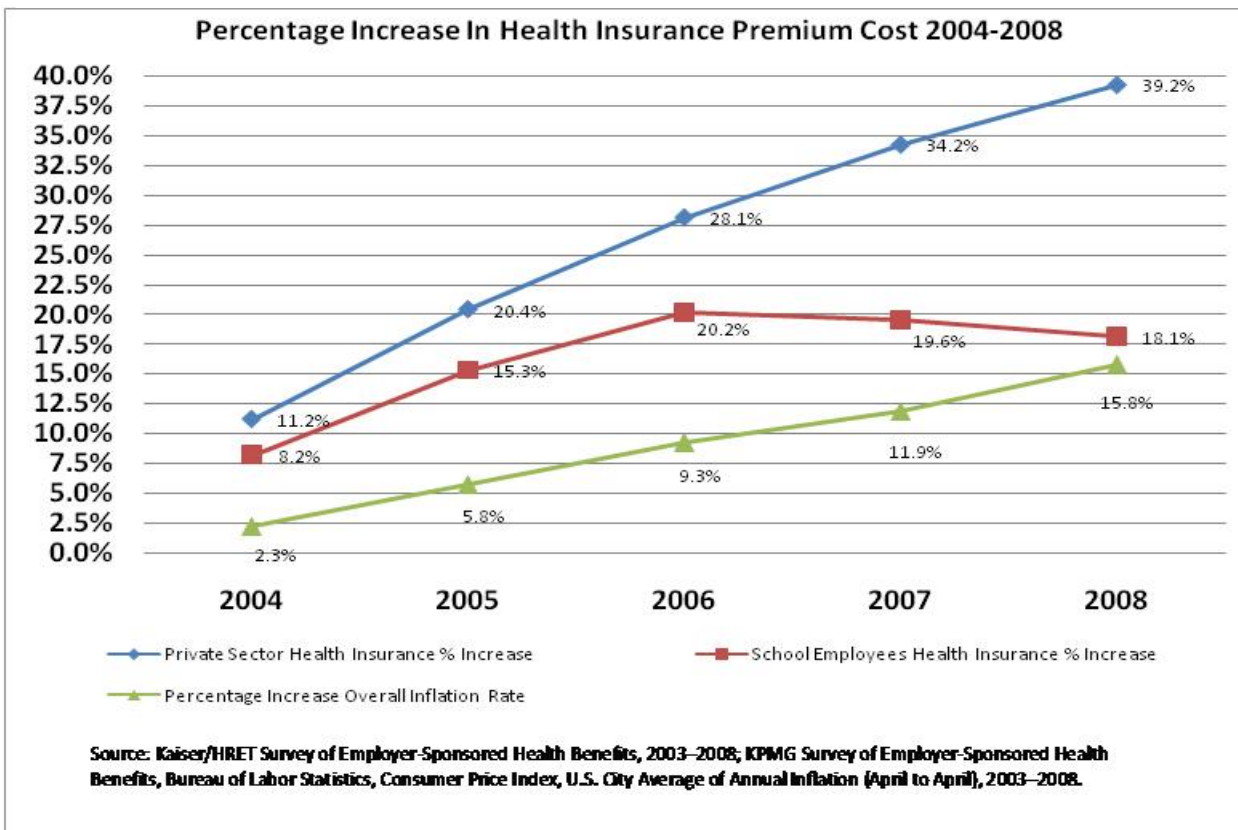
Administrative personnel make up about 5 percent of all school district employees. Effectively, 100 percent of this group of employees is eligible for health care benefits. In 2008, school

districts across the state spent an average of \$15,248¹⁸ per administrative employee for health care benefits. Of that amount, 88 percent, or \$13,400, covered the cost of health insurance benefits. This represents the highest cost per employee for health benefits of any public school employee group and is the only school employee group where the average per employee health insurance cost exceeds both the national and the Midwest region's average health insurance cost for private sector employees¹⁹.

School Support Personnel

The remaining group of school employees is primarily support employees providing various support services. This group includes classroom paraprofessionals, secretaries, bus drivers, custodians and a host of other employees providing technical support. In terms of health

Exhibit 2



benefits, employees in this group are the least likely to have any significant level of employer-paid health coverage available. The average per employee health benefit cost for this group in 2008 was \$4,189²⁰. In addition to relatively small benefit levels, this group has also seen the largest decline in overall employer health benefit expenditures—more than a 9 percent²¹ per employee reduction in expenditures in the last three years. At the same time, they are also the lowest paid group of school employees, with an average per employee wage in 2008 of \$23,894²² per year. This group of school employees mirrors the realities for workers in the private sector, where fewer than 40 percent of those workers earning less than \$22,500 a year even have access to employer-paid health benefits²³. Based on average benefit levels, it appears that

approximately 1 in 4 school support service employees had access to any employer-paid medical insurance²⁴ in 2008.

If It Isn't Broke, Don't Fix It

Based on the cost data reported to the state by all Michigan public schools, public school employers clearly do not spend more on employee health benefits than comparable private sector employers do. The data clearly shows they spend significantly less per employee. The available data and research tells a story that is vastly different from public perceptions and from the perceptions of many public policy makers regarding the cost and availability of health benefits for public school employees.

Reality differs from public perceptions in two important ways:

- 1) Premium costs are already competitive with the costs for private sector employers. In most instances, the cost per employee for health benefits is well below those of private employers.***
- 2) Overall expenditures for health benefits provided by public school employers have been declining, while health care costs for private employers have been on the rise.***

Would a radical change in the manner in which health benefits are provided to public employees lead to any significant additional savings? In answering that question, it is important to understand that there are no magic bullets when it comes to saving money on health insurance costs. For large governmental programs, like a statewide health benefits plan for all public employees, achieving those results may be far more difficult in practice than it appears in theory. That is particularly true with health care benefits because there are only a limited number of ways to achieve significant savings.

Four primary factors drive health care plan costs:

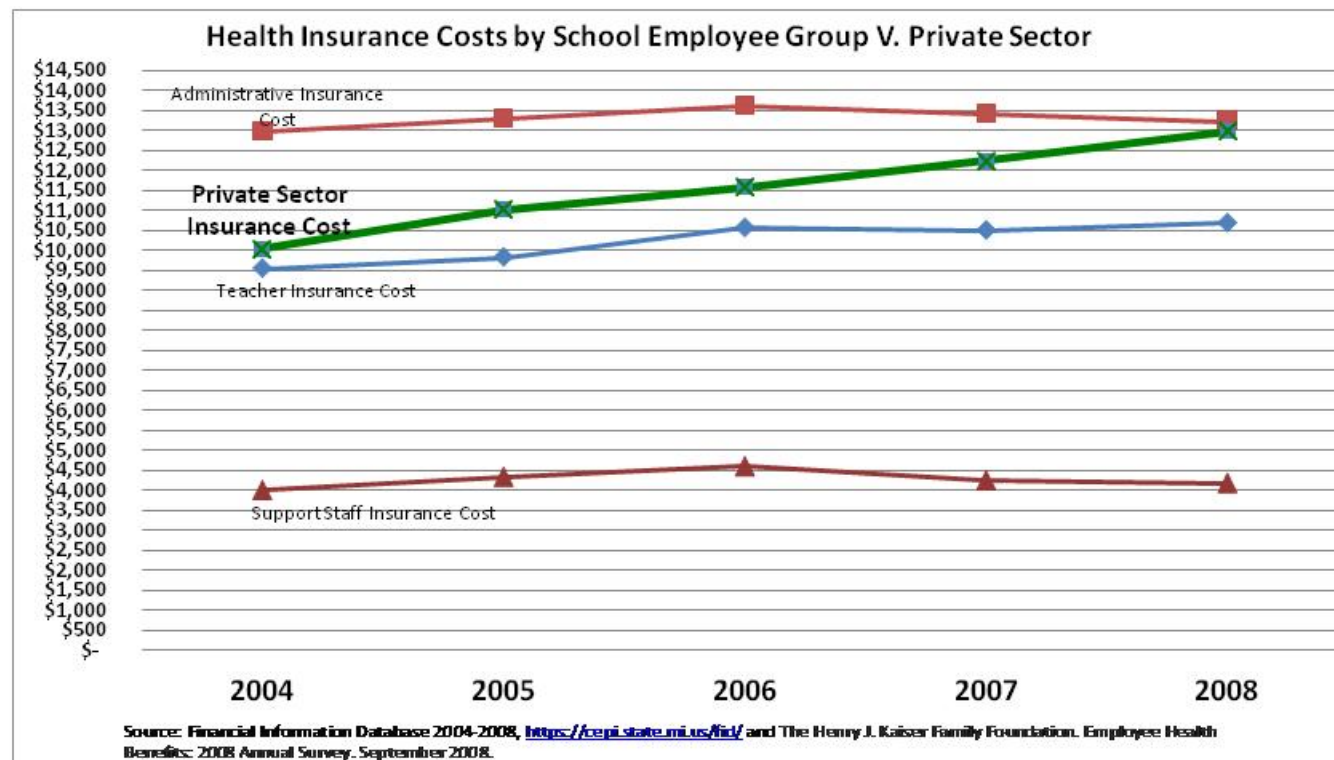
- 1) Level of benefits,
- 2) Cost or level of charges for the covered benefits—how much health care providers are paid,
- 3) Utilization of benefits by the employees and dependents covered by the plan and
- 4) The non-benefit costs required to administer the plan.

Administrative costs—the non-benefit costs required to administer health plans—are frequently cited as the most controllable element of health care costs and a significant factor in the overall cost of medical and other health care benefits.²⁵ There is widespread agreement that excessive costs and unnecessary burdens imposed by complex procedures for filing insurance claims; countless insurance regulations; new

cottage industries that assist third-party payers with billing; re-pricing payments to physicians and hospitals; and managing pharmaceutical benefits and other nonclinical activities can significantly add to the overall costs of health care²⁶.

The recent *Dillon Prescription for Public Sector Healthcare Reform* suggests savings that range from \$165 million to \$275 million²⁷ from administrative costs savings and economies of scale. The question, of course, is whether those theoretical savings can be realized in practice. The Hay Group study, commissioned by the legislature in 2005, sheds some light on the issue of administrative costs for health

Exhibit 3



benefit plans, particularly with respect to public school employee plans. In 2005, The Hay study projected that a statewide plan covering approximately 380,000 lives would have offered a maximum administrative savings of 1.23 percent when compared to a weighted composite of administrative costs for all public school district health plans²⁸. That means the maximum potential savings available through a reduction in administrative costs, at least with respect to public school plans, would have been approximately \$20.7 million, or about \$100 per employee per year.

When we fast forward to 2008, using the same methodology employed by the Hay Group in its 2005 study²⁹, the potential administrative savings that would have been available from a consolidated health plan is less than \$2.3 million, or \$11 per employee, per year³⁰. That is a long way from the real, not theoretical, \$36 million (\$350 annual per employee) savings public schools in Michigan *actually* realized through the ability of local school districts and employee groups to negotiate health benefits tailored to meet local needs.

The other significant problem when the estimate of future “*cost savings*” relies on projected plan savings that are based on theoretical averages and general assumptions about economies of scale is that those studies often inflate projected current costs, and, as a result, overestimate potential future savings. For instance, the 2005 Hay study projected total health benefit costs for the 2005-06 school year of \$2,073,708,814 for all Michigan public schools. That projection was inflated by more than 17 percent, or more than \$300 million, when compared to the **actual** 2005-06 health benefit cost data. The impact of using those inflated projections of cost was that the Hay group recommended the legislature adopt a mandatory statewide health plan for school employees that would have resulted in a price tag in the first year of \$1,804,810,204—or \$32 million more than **actual** 2005-06 school district expenditures and \$223 million more than the actual 2006-07 costs.

That same problem has occurred with the current cost projections being used to evaluate the Dillon proposal for a statewide health plan for public employees. The Dillon analysis is based on projected public school health benefit costs that are \$365 million to \$645 million above the actual 2007-08 costs for employee health benefits³¹.

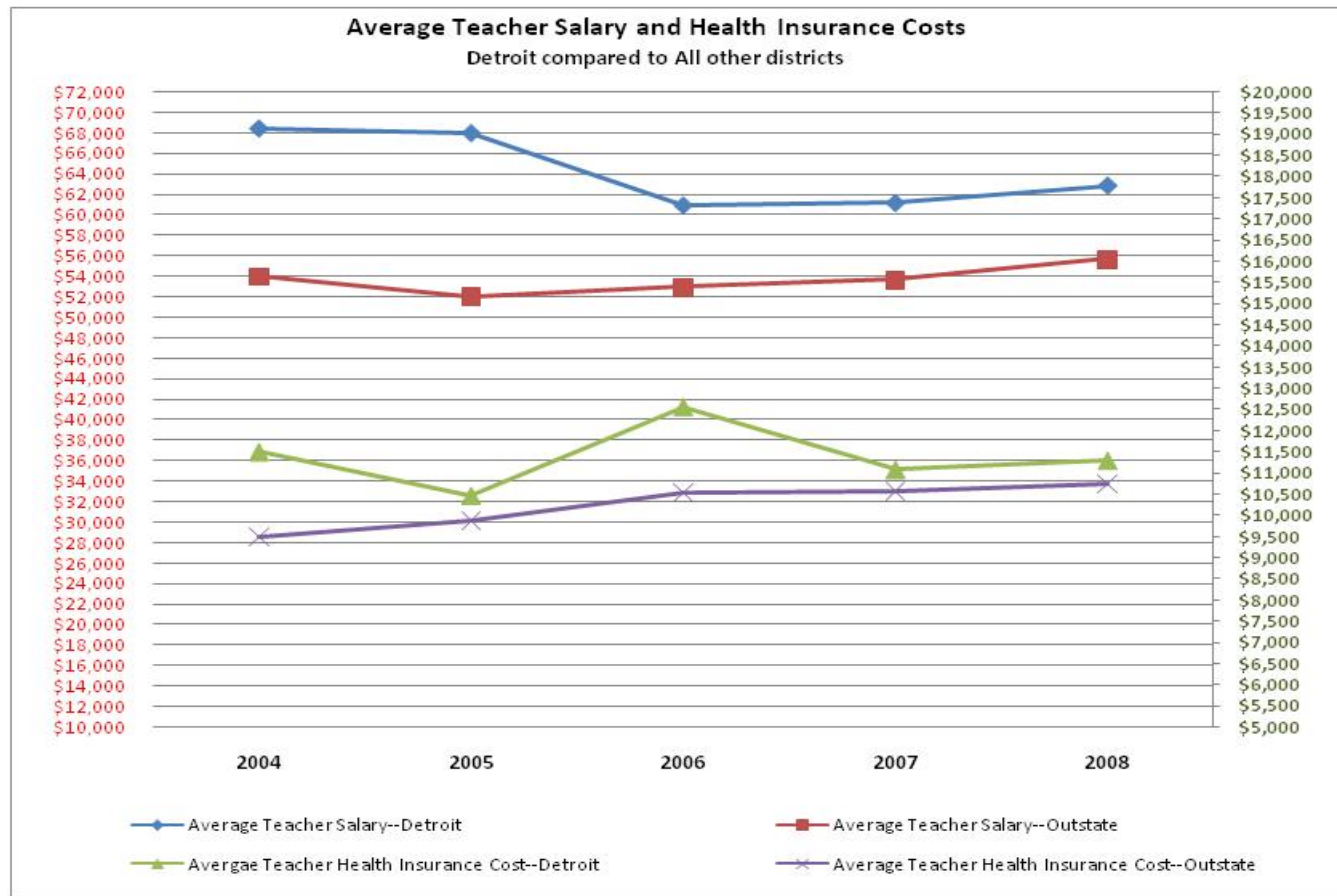
In practice, permanently reducing the cost of administrative inefficiencies in health care requires broad national reforms³², not short term fixes or simple solutions that temporarily shift costs, but do nothing to control long-term expenditures. To accomplish that goal requires solutions that:

- 1) Achieve greater national uniformity of market regulation across health insurance markets, regardless of the type of submarket (e.g., large group, small group, and individual), geographic location or type of health plan.
- 2) Encourage the continued development of patient and physician-friendly electronic systems to handle pricing, billing and claims processing more efficiently at the point of service.
- 3) Press the insurance industry to adopt more standardized claims-filing processes.
- 4) Reduce nonclinical health system costs that do not meet cost-effectiveness criteria of adding value to patient care.
- 5) Institute broader reforms designed to promote value-based decision making so that decisions of insurers, patients, physicians and others take both costs and benefits into consideration.

The Issue of Local Control

"Local control" of educational decision-making is not simply an abstract concept. The ability to determine how school district resources are allocated, the ability to attract and retain quality employees and the ability to control the instruction available in the school districts in which we live is linked directly to the autonomy of local school boards to make decisions that best serve the local community. As the U.S. Supreme Court said in *Milliken v. Bradley*, "Local control over the educational process affords citizens an opportunity to participate in decision-making, permits the structuring of school programs to fit local needs, and encourages experimentation, innovation, and a healthy competition for educational excellence."³³

Exhibit 4



The Dillon proposal runs counter to that long tradition. The potential cost of losing the ability to determine what is best for our public schools at the local level is not just philosophical—it is also practical and can have significant financial impact.

One of the unintended consequences of the loss of local control in determining the type and level of health coverage for public school employees is that a centralized system eliminates a significant element of the "healthy competition" the U.S. Supreme Court saw as vital to educational excellence—recruiting and retaining quality employees. As a 2007 McKenzie

& Company study³⁴ noted in its findings, **the quality of a school system cannot exceed the quality of its staff.** Losing the ability to tailor health care plans to local labor markets eliminates an important tool schools have used historically and continue to use, to attract and retain quality employees. The loss of that tool not only has competitive impact, but also has significant financial impact.

Using the Detroit Public Schools as an example, the average cost of salary and benefit packages for teachers in the Detroit Public Schools has consistently outpaced those same average expenditures in all other outstate school districts (Exhibit 4). The Detroit Schools have historically used higher salary and benefit packages as a means of competing with other school districts and other employers to attract employees into the district.³⁵

Remove the ability of local officials to adjust their benefit package to meet the demands of the local labor market and you **increase**, rather than decrease, Detroit's labor costs. Here is why:

Salary and insurance benefits are simply two pieces of a total employee compensation package. Many employers believe that while low-wage earners prefer a larger salary rather than equivalent amounts paid toward employee benefits³⁶, high-wage earners' preferences are often the opposite—and with good reason—for both the employer and the employee. A dollar spent on benefits costs the employer one

dollar and buys the employee a dollar's worth of value because it is not subject to income tax, FICA, or retirement costs for the employer or the employee.

On the other hand, a dollar spent on salary costs the employer approximately \$1.25 and subjects the employee to income tax, FICA and retirement contribution costs. When looking at the

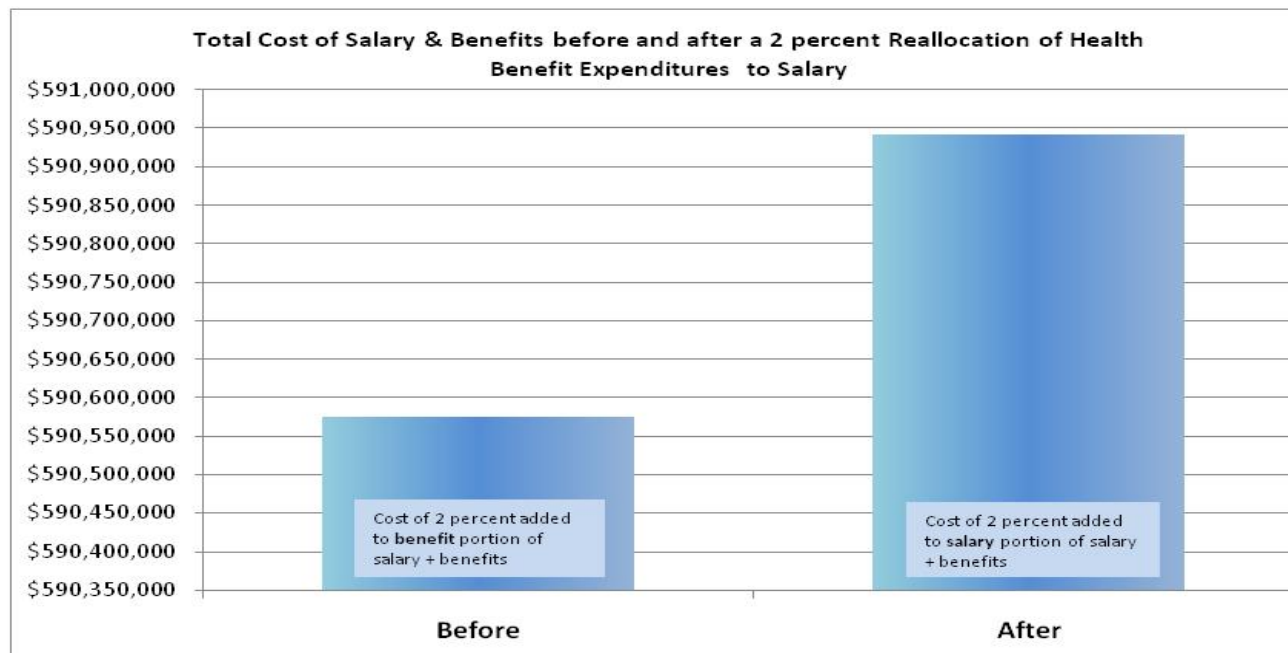
The Salary Equation



combined employer-employee cost, the employer pays \$1.25 and the employee receives 68 cents of value.³⁷ If school districts are unable to enhance health care benefits because they no longer control their benefit package, they are left with only salary compensation as a usable tool to remain competitive.

Again using Detroit as the example, Exhibit 5 shows the financial impact of a 2 percent increase in benefit cost versus putting that same amount of money into salary. If the goal in creating a statewide system of public employee health benefits was to reduce overall compensation costs, a better public policy decision would be to maintain the ability of local decision makers to determine the mix between salaries and benefit compensation that will work best in attracting and retaining teachers and other school employees in their local community.

Exhibit 5



Allocation of Local School District Resources

As the analysis above demonstrates, compared to the private sector, the cost of employee health benefits is not out of line. However, there is still a critical question remaining. Even though health care costs are in line with other employers, is the escalating cost of health benefits, in general, taking an ever-increasing portion of available resources at the expense of other instructional needs?

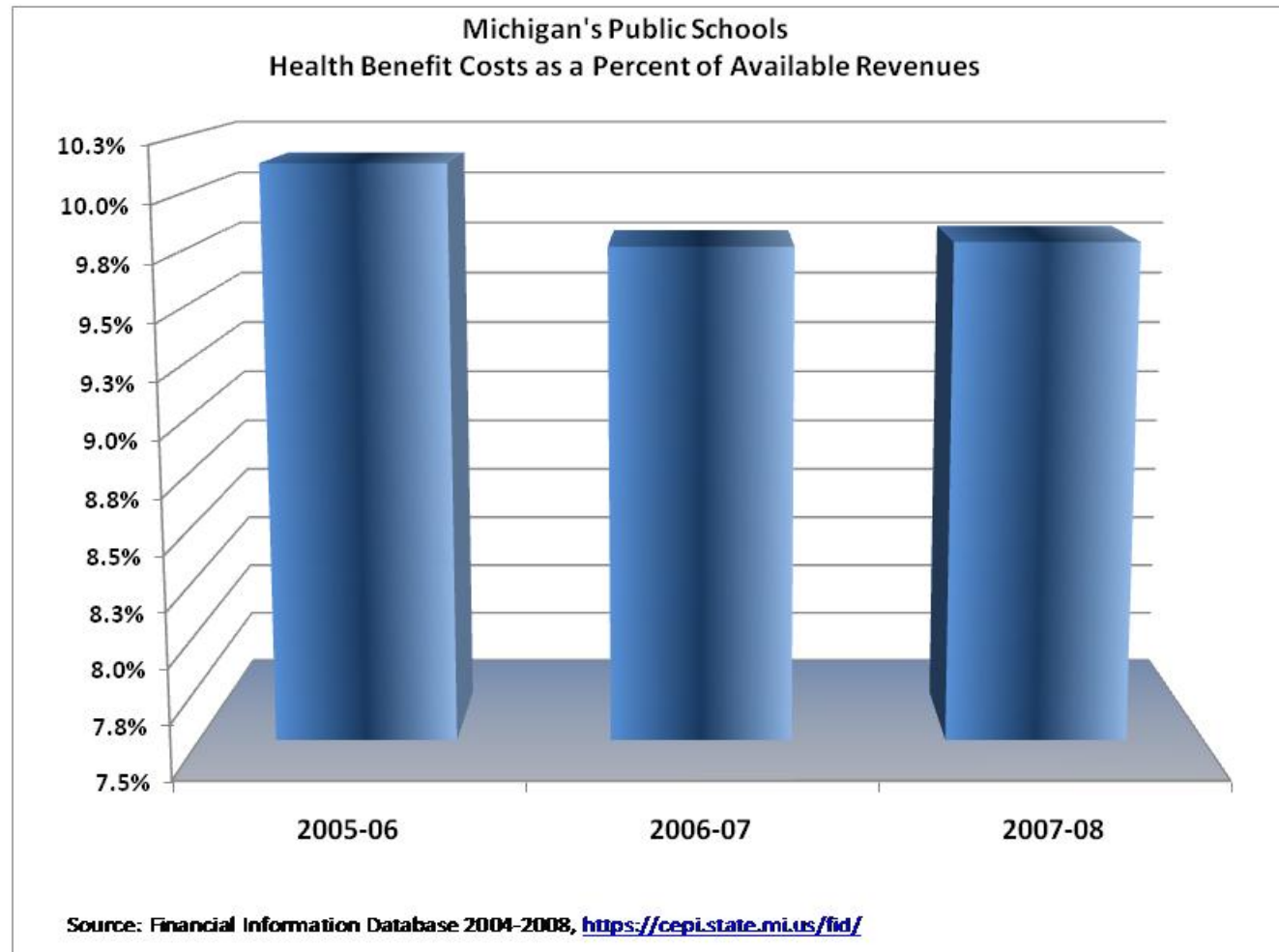
For Michigan's public schools, the ability to achieve their primary

mission of maintaining a school system that is able to deliver the best possible instruction to every child is more dependent upon how those schools spend their money, than it is on how much money those schools have to spend.³⁸

Within that context, the good news is that the percentage of the available revenue Michigan's public schools have allocated to employee health benefits over the past three years has actually decreased. Last year Michigan's public schools spent less than 10 cents of every dollar of available revenue on employee health benefits. (Exhibit 6) ***If Michigan's public schools are experiencing financial difficulties, it is not because health benefit costs are consuming a greater portion of their resources.*** School districts, on average, are actually allocating less of their resources in order to provide employee health benefits.

The data shows that school employees, on average, have not only reduced their level of health care coverage and increased their out-of-pocket expense to maintain those

Exhibit 6



stable benefit costs; they have also foregone any significant increase in salary and wages. Since 2004, the portion of Michigan school district's available revenues allocated to employee salary and wages has decreased by more than \$520 million.³⁹

Within the entire school community non-professional employees have suffered the greatest loss. Since 2005, the average salary of school support personnel has *decreased* by 6 percent from over \$25,400 per year in 2005, to less than \$23,900 last year. At the same time, those employees saw a reduction of expenditures for health benefits of more than 10 percent.⁴⁰

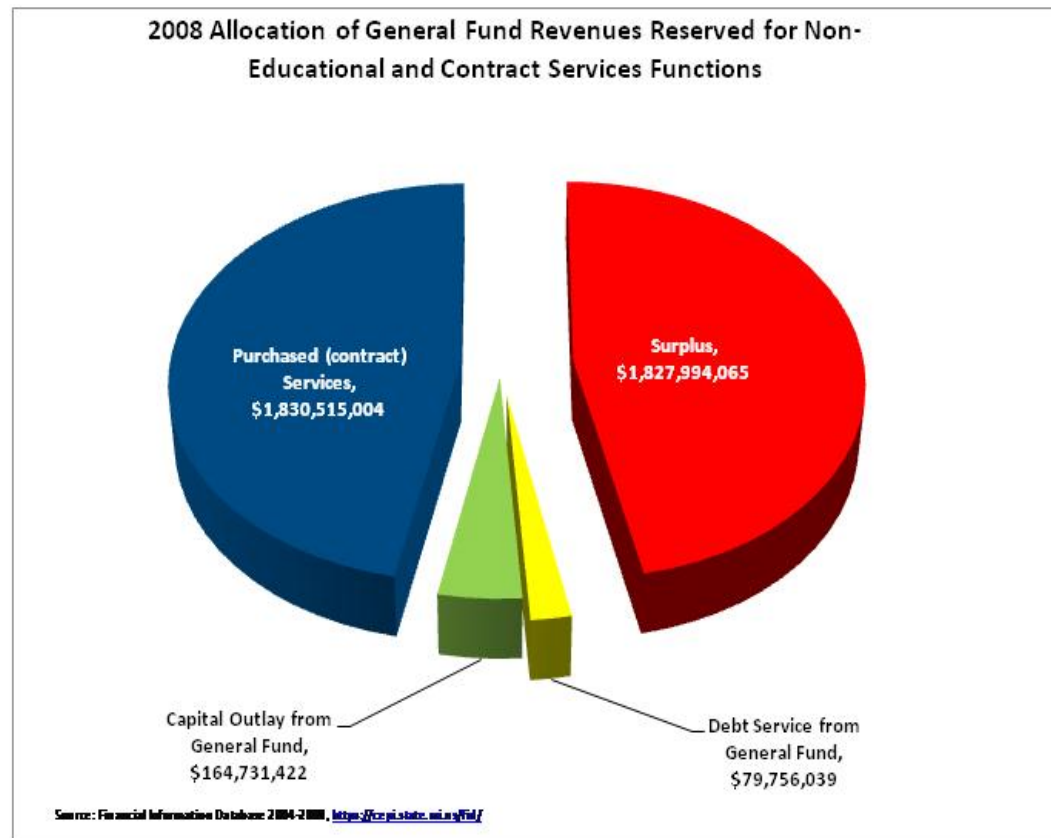
Factors Responsible for the Decline in School Resources

If Michigan's public schools are experiencing financial difficulties, it is not because either salary or health benefit costs are placing a greater burden on the allocation of school resources. Other factors must be responsible for what is perceived as a decline in public school resources.

If public policy makers are seeking to create greater efficiencies in public school operations, it is clear that the cost of employee health benefits is not the problem. Public schools in Michigan are already controlling those costs.

It is equally clear that if school districts in Michigan are experiencing financial problems, trying to create greater cost efficiencies through changing how employee health benefits are provided is also not the solution. With school districts spending less than 10 cents of every

Exhibit 7



available dollar of revenue on employee health benefits, eliminating health benefits completely for school employees—not a position anyone advocates—would free up less than 10 percent of overall district resources.

When you look at the broader picture of how districts allocate their resources, a larger area of concern is the resources that Michigan's public schools currently allocate from general fund tax dollars—dollars intended to provide a full range of educational services for students—to non-educational and contract service functions⁴¹. Last year alone, that total represented more than \$4.2 billion⁴², or approximately \$1 of every \$4 schools had available for providing educational services to students. As a means of comparison, last year those resources exceeded the total expenditures for employee health benefits by more than 240 percent (Exhibit 7). Expenses for non-educational and contract service functions are also the fastest growing area in

school districts' general fund budgets, increasing \$560 million, or more than 15 percent since 2006⁴³.

The non-educational allocation of resources has consequences. According to the latest national data available, Michigan ranks 48th in the nation in the percent of elementary and secondary expenditures devoted to classroom instruction.⁴⁴ (Table 1) What we know as educators and what the research supports is that **student performance rises when schools increase [not decrease] the percentage of total operating**

Table 1

Total expenditures for public elementary and secondary education, by function and state: 2005-06 ⁴¹									
[In thousands of current dollars]									
State	Rank	Elementary/ secondary current expenditures	Instruction	Percent of Expenditures	State	Rank	Elementary/ secondary current expenditures	Instruction	Percent of Expenditures
New York	1	\$ 41,149,457	\$28,462,577	69.2%	Arkansas	26	\$ 3,808,011	\$ 2,292,086	60.2%
Maine	2	\$ 2,119,408	\$ 1,393,238	65.7%	Indiana	27	\$ 9,241,986	\$ 5,550,922	60.1%
Massachusetts	3	\$ 12,210,581	\$ 7,957,018	65.2%	West Virginia	28	\$ 2,651,491	\$ 1,589,476	59.9%
New Hampshire	4	\$ 2,139,113	\$ 1,380,638	64.5%	Kansas	29	\$ 4,039,417	\$ 2,419,648	59.9%
Minnesota	5	\$ 7,686,638	\$ 4,949,826	64.4%	Iowa	30	\$ 4,039,389	\$ 2,413,984	59.8%
Tennessee	6	\$ 6,681,456	\$ 4,295,030	64.3%	Hawaii	31	\$ 1,805,521	\$ 1,077,351	59.7%
Vermont	7	\$ 1,237,442	\$ 787,788	63.7%	Kentucky	32	\$ 5,213,620	\$ 3,102,318	59.5%
Nebraska	8	\$ 2,672,629	\$ 1,697,132	63.5%	Texas	33	\$33,851,773	\$20,130,884	59.5%
Connecticut	9	\$ 7,517,025	\$ 4,762,341	63.4%	Wyoming	34	\$ 965,350	\$ 571,810	59.2%
Utah	10	\$ 2,778,236	\$ 1,755,649	63.2%	Washington	35	\$ 8,239,716	\$ 4,876,294	59.2%
Georgia	11	\$ 13,739,263	\$ 8,598,901	62.6%	Florida	36	\$ 20,897,327	\$12,352,747	59.1%
Arizona	12	\$ 7,130,341	\$ 4,418,230	62.0%	Mississippi	37	\$ 3,550,261	\$ 2,098,153	59.1%
North Carolina	13	\$ 10,476,056	\$ 6,480,355	61.9%	New Jersey	38	\$20,869,993	\$12,326,559	59.1%
Idaho	14	\$ 1,694,827	\$ 1,044,784	61.6%	Illinois	39	\$19,244,908	\$11,329,436	58.9%
Pennsylvania	15	\$ 19,631,006	\$12,056,932	61.4%	Oregon	40	\$ 4,773,751	\$ 2,801,665	58.7%
Maryland	16	\$ 9,381,613	\$ 5,749,590	61.3%	Alabama	41	\$ 5,699,076	\$ 3,333,081	58.5%
Virginia	17	\$ 11,470,735	\$ 7,025,890	61.3%	Louisiana	42	\$ 5,554,278	\$ 3,238,598	58.3%
Wisconsin	18	\$ 8,745,195	\$ 5,352,462	61.2%	South Carolina	43	\$ 5,696,629	\$ 3,316,986	58.2%
Nevada	19	\$ 2,959,728	\$ 1,809,449	61.1%	South Dakota	44	\$ 948,671	\$ 549,811	58.0%
North Dakota	20	\$ 857,774	\$ 521,320	60.8%	Ohio	45	\$17,829,599	\$10,208,622	57.3%
Missouri	21	\$ 7,592,485	\$ 4,607,368	60.7%	Alaska	46	\$ 1,529,645	\$ 874,604	57.2%
Montana	22	\$ 1,254,360	\$ 757,786	60.4%	Oklahoma	47	\$ 4,406,002	\$ 2,497,439	56.7%
Delaware	23	\$ 1,405,465	\$ 848,259	60.4%	Michigan	48	\$16,681,981	\$ 9,442,946	56.6%
California	24	\$ 53,436,103	\$32,244,567	60.3%	New Mexico	49	\$ 2,729,707	\$ 1,535,203	56.2%
Rhode Island	25	\$ 1,934,429	\$ 1,164,366	60.2%	Colorado	50	\$ 6,368,289	\$ 3,576,989	56.2%

funds devoted to classroom instruction.⁴⁵

As the debate continues on the Dillon “reform” package, public policy makers should not forget that when it comes to changing how we reallocate resources, the best strategy is one that can be implemented in a manner that will actually achieve the desired results.

As *Table 1* demonstrates, if the “desired result” is to improve the quality of education in Michigan’s public schools—if it is important to assure that taxpayers dollars are used in a manner that will deliver maximum educational impact—what should be of primary interest to policy makers is how they can shift more of that \$4.2 billion allocated to non-educational functions into improving instruction. That should

include strategies that will retain and attract quality educators to Michigan’s schools, rather than strategies that may actually diminish that objective.

Conclusions

In the final analysis, we end where we started—with a simple question: ***“Do public school employers spend significantly more for employee health benefits than comparable employers in the private sector?”***

The simple answer to that question is, **No.**

The evidence clearly shows that Michigan’s public schools already spend less per employee for employee health insurance than private sector employers do.

The evidence clearly shows that overall expenditures for health benefits provided by public school employers is declining while health care costs for private employers have been on the rise.

The evidence clearly shows that losing the ability to tailor health care plans to local labor markets eliminates a significant tool schools have used historically, and continue to use, to attract and retain quality employees.

Most importantly, the evidence clearly shows that when it comes to Michigan’s public schools, public policy makers need to focus their attention on a strategy that translates into doing something that will not only control future costs, but will also enhance educational outcomes.

A government- run monopoly providing school employee health insurance benefits will not achieve either of those goals.

Notes

¹ "DILLON SAYS STUDY SHOWS NEED FOR HIS HEALTH CARE PROPOSAL," *The Michigan Report*, Gongwer News Service, Vol. 138, No. 48, July 22, 2009, pages 9-10.

² In 2008, there were 208,942 full-time equated employees in Michigan's public schools with health benefit expenditures of \$1,736,411,498 (This study uses FTE rather than employee headcount so that the comparisons used are always full-time employee to full-time employee to avoid under reporting per employee costs. The actual 2008 school employee head count is approximately 278,000 employees). 2007-08 Expenditure Report query—All Districts, Source: Financial Information Database, available at www.michigan.gov/cepi.

³ Amount also includes any district payments for the cost of life insurance, dental insurance, vision insurance and long-term disability coverage.

⁴ The average expenditure per employee for health benefits in the 2005-06 school year was \$8,658, 2005-06 Expenditure Report query—All Districts, Source: Financial Information Database, available at www.michigan.gov/cepi.

⁵ Amount includes the premium costs for medical only. References to "health benefits" refer to a package of benefits that includes dental, vision, life insurance and long term disability coverage.

⁶ The Henry J. Kaiser Family Foundation. Employee Health Benefits: 2008 Annual Survey. September 2008, available at <http://ehbs.kff.org/>.

⁷ Cost of PPO health coverage only in firms over 200 employees, Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2008.

⁸ Cost of PPO health coverage only in firms over 200 employees, Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2008.

⁹ Includes Illinois, Indiana, Iowa, Kansas, **Michigan**, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota and Wisconsin. Source: U.S. Department of Commerce, Economics and Statistics Administration, U.S. Census Bureau, available at http://www.census.gov/geo/www/us_regdiv.pdf.

¹⁰ Cost of PPO health coverage only in firms over 200 employees, Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2008.

¹¹ 2005-06 through 2007-08 Expenditure Report query—All Districts, Source: Financial Information Database, www.michigan.gov/cepi.

¹² Based on the average annual increase in private sector health insurance premium costs since 2005, Source: The Henry J. Kaiser Family Foundation. Employee Health Benefits: 2008 Annual Survey. September 2008.

¹³ Based on a review of contract settlements, Source: Michigan Education Association Contract Settlement Reports.

¹⁴ Based on 2008 statewide school employees by category report—Source: Financial Information Database, www.michigan.gov/cepi.

¹⁵ In 2008, Michigan public schools spent \$1,131,979,898 on health benefits for 93,097 teachers. 2007-08 Expenditure Report query—All Districts, Source: Financial Information Database, www.michigan.gov/cepi.

¹⁶ Based on typical average rates for Delta dental coverage, VSP vision coverage, and typical LTD and Life insurance costs representing approximately 12.1 percent of the total per employee health care cost of \$12,159.

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- ¹⁷ Based on a national average per employee cost of \$12,973 and a Midwest average per employee cost of \$13,255, Source: The Henry J. Kaiser Family Foundation. Employee Health Benefits: 2008 Annual Survey. September 2008, available at <http://ehbs.kff.org/>.
- ¹⁸ Based on 2008 statewide school employees by category report and the 2007-08 Expenditure Report query—All Districts —Source: Financial Information Database, www.michigan.gov/cepi.
- ¹⁹ Based on a national average per employee cost of \$12,973 and a Midwest average per employee cost of \$13,255, Source: The Henry J. Kaiser Family Foundation. Employee Health Benefits: 2008 Annual Survey. September 2008, available at <http://ehbs.kff.org/>.
- ²⁰ The average expenditure per employee for health benefits in the 2007-08 school year for all staff other than teachers and administrators was \$4,189 based on a total cost of \$440,175,727 for this group of 105,000 employees 2007-08 Expenditure Report query—All Districts, Source: Financial Information Database, available at www.michigan.gov/cepi.
- ²¹ The per employee cost for health benefits for support personnel in the 2005-06 school year was \$4,609, 2005-06 Expenditure Report query—All Districts, Source: Financial Information Database, available at www.michigan.gov/cepi.
- ²² Based on 2008 statewide school employees by category report and the 2007-08 Expenditure Report query—All Districts —Source: Financial Information Database, www.michigan.gov/cepi.
- ²³ Source: The Henry J. Kaiser Family Foundation. Employee Health Benefits: 2008 Annual Survey. September 2008, available at <http://ehbs.kff.org/>.
- ²⁴ Based on employee head count data from MPSERS, the MEA contract database and the average employee cost for health benefits taken from the FID 2007-08 Expenditure Report query, we were able to estimate that of the approximate 168,000 support staff workers in Michigan’s Public Schools only slightly over 42,000 of those workers are either full time, full year employees or full time, school year employees. These are the employee classifications most likely eligible to receive medical benefits.
- ²⁵ Report on the Feasibility and Cost Effectiveness of a Consolidated State-wide Health Benefits System for Michigan Public School Employees, July 2005, The Hay Group, available at: http://council.legislature.mi.gov/files/full_report.pdf.
- ²⁶ *Administrative Costs in Health Care Coverage*, Series on the AMA proposal for reform, available at: www.voicefortheuninsured.org.
- ²⁷ Source: *The Dillon Prescription for Public Sector Healthcare Reform*, by Michigan’s House of Representatives Speaker Andrew Dillon, July 2009.
- ²⁸ Report on the Feasibility and Cost Effectiveness of a Consolidated State-wide Health Benefits System for Michigan Public School Employees, July 2005, The Hay Group, available at: http://council.legislature.mi.gov/files/full_report.pdf.
- ²⁹ In 2005, Hay used the administrative costs for the ASC groups administered by BCBSM to estimate an administrative cost for self-funded groups at 6.2 percent. The study estimated that a larger statewide group could achieve a 6 percent administrative cost burden. That 6 percent administrative cost when compared to the 2005 weighted average administration charge for all school employee plans resulted in a annual savings of 1.23 percent. According to the current Consolidated Statements of Operations, for the years ended December 31, 2008 and 2007 for Blue Cross Blue Shield of Michigan and Subsidiaries that administrative cost charge for self-funded groups in 2008 was approximately 7.1 percent.
- ³⁰ Assuming the same 0.02 percent reduction in that cost as the result of a larger pool, the 2008, overall administrative savings available from creating a statewide plan, based on that same 7.23 percent composite administrative cost for current school district health plans, would be 0.013 percent.
- ³¹ Based on the \$15,000 per employee estimate used in *The Dillon Prescription for Public Sector Healthcare Reform*, by Speaker Andrew Dillon and the \$17,000 per employee cost estimate reported in “DILLON SAYS STUDY SHOWS NEED FOR HIS HEALTH CARE PROPOSAL,” *The Michigan Report*, Gongwer News Service, Vol. 138, No. 48, July 22, 2009, pages 9-10.
- ³² *Administrative Costs in Health Care Coverage*, Series on the AMA proposal for reform, available at: www.voicefortheuninsured.org.

³³ Milliken v. Bradley, 418 U.S. 717 (1974), available at: <http://supreme.justia.com/us/418/717/case.html>.

³⁴ *How the World's Best-Performing School Systems Come out on Top*, McKinsey & Company, September 2007. Available at: http://mckinsey.com/client-service/social-sector/resources/pdf/Worlds_School_Systems_Final.pdf.

³⁵ Report on the Feasibility and Cost Effectiveness of a Consolidated State-wide Health Benefits System for Michigan Public School Employees, July 2005, The Hay Group, available at: http://council.legislature.mi.gov/files/full_report.pdf.

³⁶ The Henry J. Kaiser Family Foundation, Employee Health Benefits: 2008 Annual Survey. September 2008, available at <http://ehbs.kff.org/>.

³⁷ Based on an employer FICA contribution of 7.65 percent and MPERS contribution of 16.42 percent in addition to a 7.65 percent employee FICA contribution, a 3 percent Retirement contribution, 4.35 percent state income tax and an effective federal tax rate of 17 percent. School district contribution rates to MPERS are determined annually by the Michigan Legislature. For FICA information, see www.irs.gov.

³⁸ *How the World's Best-Performing School Systems Come out on Top*, McKinsey & Company, September 2007. Available at: http://mckinsey.com/client-service/social-sector/resources/pdf/Worlds_School_Systems_Final.pdf.

³⁹ Based on 2008 statewide school employees by category report and the 2003-04 through 2007-08 Expenditure Report queries—All Districts —Source: Financial Information Database, www.michigan.gov/cepi, the portion of all school district's available revenues committed to employee salary and wages has decreased by 2.9 percent, or \$520,843,171.69.

⁴⁰ Based on 2008 statewide school employees by category report and the 2005-06 through 2007-08 Expenditure Report queries—All Districts —Source: Financial Information Database, www.michigan.gov/cepi.

⁴¹ Non-educational expenditures from the general fund includes fund surplus, direct expenditures for debt service and capital outlay and transfer of general fund revenues to other auxiliary funds, such as debt retirement, capital projects, school lunch fund and athletics. Purchased or contract services are amounts paid for services rendered by persons who are not on the payroll of the school system. A product may or may not result from the transaction. Purchased services include such things as travel and workshops, management information services, transportation by a contract carrier, tuition, advertising, equipment and other rentals, building repair and maintenance directly from the general fund, etc.

⁴² Based on 2007-08 Expenditure Report queries—All Districts —Source: Financial Information Database, www.michigan.gov/cepi.

⁴³ Based on the 2005-06 through 2007-08 Expenditure Report queries—All Districts —Source: Financial Information Database, www.michigan.gov/cepi.

⁴⁴ Source: Digest of Education Statistics: 2008, National Center for Education Statistics, U.S. Department of Education.

⁴⁵ *How the World's Best-Performing School Systems Come out on Top*, McKinsey & Company, September 2007. Available at: http://mckinsey.com/client-service/social-sector/resources/pdf/Worlds_School_Systems_Final.pdf.