

Brief



February 2001

Senate Research Center • Sam Houston Bldg. • Suite 575 • 201 E. 14th Street • Austin, TX 78701 • (512) 463-0087 • Fax: (512) 463-1271 • TDD: 800-735-2989

Forget the Apple:

School Employees' Health Insurance

A full decade after the legislature first required school districts to make health insurance available to their employees, the 77th Legislature faces increasing pressure to provide state funding to pay for the mandate. More than 663,000 people either work in public schools or have retired, with approximately 340,000 dependents enrolled in health insurance either through a school district or the Teacher Retirement System (TRS). One state plan would create an insurance group of one million participants and could reach as many as 1.6 million when regional education service center and charter school employees are included. Estimates of the cost to the state for health insurance for an employee-only plan starts at \$1 billion annually; adding 50 percent of the cost for dependents could cost more than \$3 billion per year, depending on the plan implemented.



Statutory Requirements

Section 22.004, Texas Education Code, requires each school district to make health coverage available for its employees. Each district must:

- include major medical treatment (medical, surgical, or diagnostic procedure for illness or injury);
- provide benefits comparable to those available to state employees through the Employees Retirement System (ERS); and
- report available insurance options annually to the Teachers Retirement System (TRS) for evaluation.
- Districts are not required to pay any part of the cost of health insurance for employees.



Current Conditions and Compliance

In its 1999 - 2000 *Certification Report and Comparability Study*, TRS identified 480 out of 1,052 districts with health plans that do not comply with the requirement for comparable benefits. In districts that offer comparable plans, only half of the eligible employees enrolled, either because of the high cost or because of the employee's coverage under a spouse's health insurance policies.

TRS identified six school districts, all small, that do not offer health care coverage to employees (See table below).

TRS reviewed 2,629 plans, of which 1,801 failed to meet comparability standards. Thirty-one percent of school districts and 43 percent of employees have access to at least one health plan comparable to state employees' plans. Fifty percent of employees of districts with over 1,000 students had similar coverage; some 30 percent of employees in smaller school districts had comparable coverage. Some have speculated that the high premiums of comparable plans funnel school employees into insurance plans that are not comparable to the state plan.

availability and cost. With information from its members, **Texas State Teachers Association** (TSTA) developed charts to show monthly family premium costs and districts' share of the premium. TSTA reported that nearly 85 percent of all school employees work in districts where the monthly health insurance premium for a family is over \$400. Among TSTA findings were:

- 37 percent of teachers work in districts where family coverage costs more than \$500;
- 5 districts have no insurance plan;
- 8 districts make no contribution toward employees' insurance premiums;
- 176 districts contribute \$99 or less;
- 679 districts contribute between \$100 and \$199 per month;
- 110 contribute more than \$200 per month; and
- 48 percent of school employees work in districts that contribute between \$125 and \$174 per month.

Nearly one-third of school districts pay all or most of the individual employee premiums. School districts pay 85 percent of the total \$976 million cost of employee-only coverage. However, family coverage costs are considerably higher, and, on average, employees pay 95 percent of the cost. The statewide cost of employee and dependent coverage totals \$1.3 billion, with 35 percent of that paid by the employee.

Nine charter schools do not offer health insurance to their employees.

• Districts without Health Insurance

District Name	Total Students	Total Staff
Chester ISD	208	44
Excelsior ISD	66	15
Goree ISD	69	21
Laneville ISD	245	47
Morgan Mill ISD	74	11
Spade ISD	130	25

Many districts offer employees a choice among health plans. While 362 districts provide only one plan, 349 offer two, and the rest offer employees up to seven choices (two districts). While the average cost increased 10 percent between 1999 and 2000, districts of 100 or fewer students saw costs increases between 27 and 31 percent.

Comparable Benefits

The components used by TRS to gauge insurance plan comparability include deductible for employee only, coinsurance, individual annual out-of-pocket, co-pay, and lifetime maximum.

Several teacher organizations conducted research among their members on teacher insurance



In its latest survey of school districts, to which 703 districts responded, the **Texas Association of School Boards (TASB)** found:

- The premium for employee-only coverage increased 10.4 percent over the last year to an average rate of \$190.
- 210 districts pay 100 percent of employee-only coverage.
- One district reported no contributions for coverage.
- Districts with more than 5,000 students pay more than 85 percent of employee-only premiums.
- Districts average paying \$139 per month or 73.9 percent of the cost of employee-only policies.
- The cost of employee-plus-family coverage increased an average of eight percent.

The **Association of Texas Professional Educators** concluded that only 10 percent of educators had access to a comparable plan with the cost of employee-only coverage paid by the district.

School districts have several options for group insurance, including:

- private insurance companies,
- health maintenance organizations,
- preferred provider organizations,
- local government risk pools,
- self insurance with TRS approval, or
- organizations such as TASB.

Both TASB and TSTA support a state-paid health plan for school employees with the same benefits as the Employee Retirement System's (ERS) group plan for state employees.

The \$300 per month raises teachers and others received last year barely paid for health premium increases, as TSTA reported:

- insurance companies **raised rates in 718 of the 973 school districts reporting** in 2000;
- monthly premiums rose by **\$50 or more in 105 districts**;
- nearly 750 districts raised family premiums, a cost that few districts subsidize; and
- more than **200 districts** raised premiums more than **\$100 a month**.
- Many teachers saw one-third or more of the \$3,000 salary increase consumed by family insurance premium increases.

What Do Other States Do?

Some states allow school district employees to enroll in the state employees' health plans. However, only 19 states pay the full cost of health insurance for state employees, and just seven states pay the full premium for family coverage. In most states, the amount paid depends upon the health plan and level of coverage selected by the employee. (See Table on *States Including Schools in State Plan and Costs* page 4.)

States use various methods to provide health insurance to school employees. Nine have a state insurance plan that covers school employees. Most states leave it to the local board. (See Table on *Who Selects Insurance Plans* page 5.)

Additional Considerations

TRS-Care

The state health insurance program for retired school employees, TRS-Care, needs infusions of general revenue (GR) each biennium to keep it solvent because the group is limited to retirees, a population with high health-care costs. This biennium, it will absorb about \$450 million with a 10-year projected need for \$6.5 billion more than the plan receives in contributions and earnings. If this group were merged with the active school employees, it would spread the cost over a larger, lower-cost group of people. Because TRS-Care has lower premiums than state employees have, a school employee insurance plan may increase retirees' costs.

Comparisons with ERS

ERS has nearly 600,000 participants and belongs to a larger Blue Cross-Blue Shield network that negotiates payment rates for 1.6 million insured, including HEB, TXU, and some federal employees. The state employee pool has significant differences from school employees who are predominantly female, younger, and more geographically dispersed across the state. Those differences prevent planners from using ERS experience to model a school employee plan; while a compensating factor could be added, it would make cost predictions, already unreliable after three years, even less informative. The unpredictability



States Including Schools in State Plan and Costs

States that include school emp. in state emp. insurance	Number of ISD employees participating	State cost for employee only /mo.	Emp. cost employee only /mo.	State cost family /mo.	Emp cost family /mo.
Alaska	900	448	84	488	84
California	120,650	174	varies	452	varies
Georgia	134,450	229	45	374	132
Hawaii	5,700	80	53	239	160
Kentucky	82,000	214	varies	214	varies
Louisiana	27,950	113	113	224	224
Mississippi	47,050	172	0	172	243
Missouri	250	197	varies	197	varies
Nevada	650	327	0	327	228
New Jersey	75,600	78 - 117	0	170 - 299	0 if HMO
New York	100,000	205	23	415	93
North Carolina	unknown	188	0	188	281
North Dakota	600	350	0	350	0
Oklahoma-cafeteria benefit plan	39,300	262	varies	379	50 % (average)
South Carolina	70,900	165	15	337	142
Tennessee	28,350	164	41	410	103
Virginia	4,900	205	14	406	185
Washington	1,800	391	0 - 19	391	10 - 62
West Virginia	33,850	235	10	452	48

Source: Workplace Economics, Inc., Washington, D. C., January, 2000.

results from a medical cost increase of eight percent and a 22 percent increase for pharmaceuticals. ERS requested \$1.86 billion for 2002-2003.

Budgetary Factors

The comptroller of public accounts (CPA) has projected a surplus in this biennium of \$3.3 billion. It estimates that tax revenues for the upcoming biennium, 2002-2003, will increase by nearly \$2.9 billion, a six-percent rise. All but

\$1.1 billion is proposed to be distributed either in H.B.1 and S.B.1 and supplemental spending bills. Close to the end of a session, the comptroller often emerges with a new higher projection of state revenues, perhaps as much as \$500 million this time.

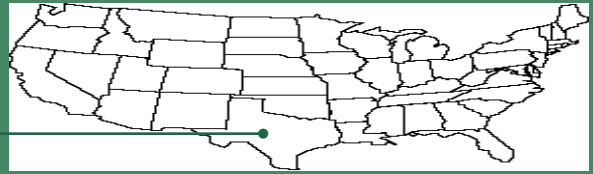
Local Property Value Effects

Increases in local property values reduce state costs. The state guarantees each district will receive \$25 per penny of tax rate

per student. When a district's property value increases from \$15 per penny to \$20, the cost to the state of the guarantee drops from \$10 to \$5, but the district still gets \$25. State revenue is delivered through the Foundation School Program (FSP). A slowing in enrollment growth is another factor in reducing state costs. Both factors have reduced costs by nearly \$1.5 billion, and the Legislative Budget Board (LBB) has earmarked that state revenue for



Who Selects Insurance Plans



Rate	State	State Insurance Plan	Local Board Decision	Collective Bargaining	Additional Local Option	State-wide District	
1	California		X				A school district may participate as a contracting agency in the state health plan for Public Employees' Retirement system under the Public Employees' Medical and Hospital Care Act. (GC 22754 (g))
2	Texas		X				
3	New York		X	X			Collective bargaining under two major state-wide unions.
4	Florida		X				Funding by state is lumped with public education appropriations
5	Illinois			X			115 ILCS 5 Illinois Educational Labor Relations Act
6	Pennsylvania		X	X			Collective bargaining on a local level by state-wide unions.
7	Ohio		X				Section 313.202 Revised Code of Ohio
8	Michigan	X					Act 429 of 1978 Salaries and Benefits of Nonclassified State Employees
9	New Jersey		X				
10	Georgia	X			X		State pays on a base level of 13.1% of all school employees. The local board has the option to provide further supplemental insurance.
11-20	*	2	4	1			* 11-20: North Carolina, Virginia, Massachusetts, Indiana, Washington, Tennessee, Missouri, Wisconsin, Maryland, Arizona
21-30	*	2	6	1			21-30: Minnesota, Louisiana, Alabama, Colorado, Kentucky, South Carolina, Oklahoma, Oregon, Connecticut, Iowa
31-40	*	2	7				31-40: Mississippi, Kansas, Arkansas, Utah, Nevada, West Virginia, New Mexico, Nebraska, Maine, Idaho
41-50	*	1	8		1	1	41-50: New Hampshire, Hawaii, Rhode Island, Montana, Delaware, South Dakota, North Dakota, Alaska, Vermont, Wyoming
Total		9	32	5	2	1	

Source: Telephone survey of all 50 states conducted by David Courreges, SRC Intern.

public education, rather than using it in other budget areas. The 2000-2001 property value increases resulted in the state support of public education declining to 40 percent, as TEA Commissioner Jim Nelson told the House Appropriations Committee, January 25. The comptroller initially projected a 7.1 percent increase statewide in property value to be taxed by local districts. LBB used most of the projected increase in its budget proposal, making S.B. 1 a current-

services, not current-revenue, bill. In Art. III of S.B. 1, LBB already factored in much of the approximately \$1.5 billion increase made available by rising local property tax values.

Spending Issues

The constitutional cap on state-spending growth limits the expenditure of tax revenue only, so lottery earnings, federal funds, the Available School Fund (ASF), and some gas taxes are not included in the limit.

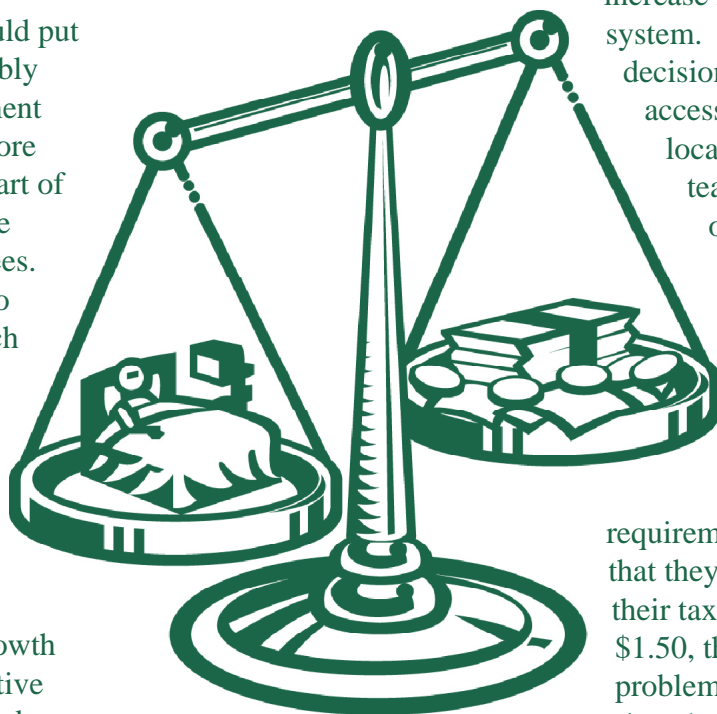
ASF, made up of earnings, dividends, and interest from the Permanent School Fund (PSF) and one-quarter of the motor fuels taxes, will increase by nearly \$100 million to \$1.6 billion. The State Board of Education sets aside part of ASF to buy textbooks; the remainder is distributed to school districts on a per capita basis, approximately \$250 per student, not through the equalized funding system. The PSF has more than doubled since 1990, and its full-



market value has grown 149 percent. The annual realized capital gains from the sale of PSF investments increased 700 percent since 1990 to \$2.45 billion in 2000. Unrealized capital gains reflecting the increase in market value equaled \$5.47 billion in 2000.

One funding alternative would put **PSF "excess profits,"** possibly defined as return on investment including capital gains of more than seven percent, to pay part of the cost of a health insurance program for school employees. Currently all capital gains go into the corpus of PSF, which over the last decade has nearly doubled in value because of the increase in stock prices. Adding capital gains to the ASF would require a constitutional amendment, and the change would reduce the growth of the corpus. It is an attractive source of funding because it does not rely on GR. Some oppose it because it will limit the growth of the fund and reduce future payments to the ASF. In S.B. 389, by Senator Shapleigh, between three and seven percent of average fair market value of PSF would be divided two thirds to ASF and one third to a school employees' health fund. Representative Junell has filed H.J.R. 54 and H.B.1020, companions to S.J.R. 19 and S.B. 490 by Senators Ellis and Bivins, that would increase ASF revenue by \$400 million. After determining the PSF total rate of return for a rolling five-year average, and deducting the rate of inflation and

enrollment growth over five years, then between 3.5 percent and 6.5 percent of the net return would be distributed 80 percent to ASF and 20 percent to a public school employee health insurance fund.



Equity Concerns

FSP equalizes school maintenance-and-operations tax revenues among the state's 1,050 school districts. The *Edgewood III* decision led people to believe that when school districts have no discretion to set a tax rate different than one set by the state, the Supreme Court could decide that a state property tax existed. Some argue when nearly all school districts have tax rates at the \$1.50 cap in statute, it's a state tax. Now, approximately 200 independent school districts (ISDs) have tax rates above \$1.49, and 90

percent of students live in ISDs whose tax rates top \$1.40.

A state-funded health insurance plan could disequalize the funding system depending on its structure. Sending \$3 billion to school districts on a per FTE basis would increase inequality in the funding system. But the supreme court decisions were limited to FSP access to revenue from the local tax base and viewed teacher retirement as outside of the finance system. So attaching health insurance to membership in TRS would keep the benefit outside FSP and the equalized finance system. If the state imposes a spending

requirement on school districts that they cannot meet because their tax rates are at the cap of \$1.50, that may also create a problem with equity. For districts that pay for health insurance, a TRS-based health plan would free up that money for other uses including a tax cut, but it is an expenditure issue within the district, not a state revenue issue. A district could reduce its tax rate as a result of a state health insurance benefit, and some would consider that it increases the measure of equity because the district has a lower tax rate.

The effect of reduced property-tax rates on both state appropriations to FSP and on revenue available to school districts is not clear. If a state plan were implemented, and local tax rates declined, the guar-



anteed yield of FSP could be increased so that school districts would not lose tons of state money because fewer pennies are taxed.

Details, Details

Insurance is one part of the overall compensation of school employees. The employee share of monthly premiums for health insurance varies among districts. About 25 percent of districts pay the entire cost of employee coverage. In about 160 districts, employees pay more than \$100 per month for employee-only coverage. For family coverage, in five districts the employee would pay over \$700 per month, while employees pay between \$400 and \$600 in about one-half of districts. If

the state pays some, most, or all premium costs, some school employees could see very little change in total compensation, and others may have \$300 or \$400 more in their paychecks. Instead of passing on that increase in take-home pay, districts also could keep employees' net income steady and use funds previously tied up in insurance for other purposes.

School districts have **existing insurance contracts** of varying terms. Any state plan will need to allow school districts to enter the new state program at the end of its contract. If a district's contract

expires in July and the new program does not start until September 1, the district may have to extend its contract for two months at potentially a more expensive rate.



Some school employees have enrolled their children in the Children's Health Insurance Plan (CHIP); after a state plan begins, these children may not be eligible for CHIP and may add additional cost to a state plan.

77th Legislature Bills

At the end of the first week of February, 10 options had been included in at least 13 bills filed. The senate bills, described on page 8, create a school employees' health insurance plan within TRS. The Ellis-Junell bills and constitutional amendments do not

create a health insurance program but provide a partial funding mechanism.

H.B. 50, by Representative Chavez, creates an unspecified per-capita allotment in Section 42.159, Texas

Education Code, and requires school districts and charter schools to use it to increase financial support of employee health insurance costs. It seems the only bill at this time that may have equity implications because state money flows through in Tier 1, H.J.R. 46, by Representative Clyde Alexander, would amend Section 7-A, Article VIII of the Texas Constitution, to dedicate one-quarter of revenue resulting from any increase in

gasoline taxes to health insurance rather than the ASF. H.B. 523 by Representative Tillery would split costs 50/50 between state and ISDs. H.B. 575 by Representative Green creates one large insurance pool for all school employees with no state funding. H.B. 1189 by Representative Telford would provide state-paid basic coverage with additional coverage selected and paid by the district. Representative Delisi proposes a defined-contribution plan that allows employees to shop and apply market-forces to medical insurance.



The 77th

Legislature: Senate Bills

	S.B. 127 (Staples) H.B. 326	S.B. 135 (Carona) H.B. 12	S.B. 178 (Armbrister)	S.B. 389 (Shapleigh)	S.B. 473 (Bernsen)
Governance	TRS	TRS	TRS	TRS	TRS
Participation	ISD must participate to get state aid; if ISD doesn't join, it must make comparable insurance available; employee may waive	ISD mandatory; employee may waive	ISD mandatory; employee may waive	ISD if levies health insurance tax or pays contribution; employee may waive coverage or pay premium if ISD doesn't	ISD optional, no state aid if opts out; individual employee may waive, cannot buy in if ISD doesn't
Coverage	comparable to ERS plans	comparable to ERS plans	comparable to ERS plans	comparable to ERS plans	comparable to ERS plans
Employee only	state pays 35%; ISD no more than 65%, employee pays what ISD doesn't	state pays same amount as ERS	Appropriation determines state contribution per employee. TRS pays 100 % of employee only	state pays 100% of employee only	state pays 100% of employee only
Dependents	ISD may contribute	state pays 50%	employee pays 100%	state pays 50%	employee pays 100%
Retirees	included, state pays	included	included, state pays half or all	included, state pays 50% for 10 years service	included, current funding
Cost	FY 2003 \$225 million, increasing to \$504 million in FY 2005	FY 2003 \$2.8 billion, increasing to \$3.9 billion in FY 2005	About \$3 billion at full implementation	About \$4 billion at full implementation	About \$3 billion at full implementation
Participation Begins	Sept. 2003	Sept. 2003	Sept. 2003	Sept. 2003	Sept. 2003

As Representative Hochberg said, "Nothing in school finance is so complicated that you can't get around it by making it more complicated."

—by Betsy Heard, SRC