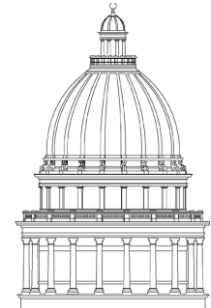


Office of
LEGISLATIVE AUDITOR GENERAL
State of Utah

REPORT NUMBER 2011-07
July 2011



**A Survey of School Districts’
Health Insurance**

All 41 school districts in Utah offer health insurance benefits to their employees. Utah allows school districts to seek their own insurance coverage rather than require they use the state’s program. Large school districts independently purchase health insurance, but most smaller school districts reduce costs by combining to purchase health insurance. Several other states permit school districts to independently purchase health insurance similarly to Utah; however, we are aware of three states in which school districts and state employees have the same health plan and benefits.

This audit surveyed 10 school districts in Utah, and found that health care costs and benefits vary for each school district. The premiums for the family plan varied by \$6,000 among the surveyed school districts. The premium was not adjusted for differences in benefits or the health of the members. Also, the premium cost sharing between the school districts and employees varies greatly.

One factor affecting high premiums is the variation in the districts’ procurement practices. Consistent bidding practices for health insurance fosters competition, and helps school districts obtain health insurance at lower prices. However, four of the ten school districts have not bid their health insurance in more than five years.

**School districts’
health insurance
costs and benefits
vary a great deal.**

**One factor affecting
high premiums is the
lack of consistent
bidding practices by
some school
districts.**

Ten urban and rural school districts were surveyed to review health insurance costs.

Medical benefits offered to employees also affect premiums. Medical benefits vary significantly among the school districts. Two school districts have richer benefits than the benefits offered to state employees, while several other school districts offer health plans with reduced benefits to help control health care costs.

Audit Scope and Objectives

We were asked to review health care costs and coverage for school district employees and their families. The requestor wanted information concerning the costs and coverage differences among school districts. Ten school districts, both urban and rural, were surveyed to determine differences in health care costs and the value of school districts' health plans. For this survey, ten school districts were contacted to review:

- The plans offered to district employees
- A five-year premium history and premium cost sharing
- Health care costs as a percentage of total school district expenditures
- A comparison of medical benefits among the school districts
- The school districts' health insurance procurement history

We also looked at how school districts in other states obtain health insurance compared to Utah.

Variation Exists in School Districts Health Plans and Premiums

In Utah, as is common in many states, larger school districts have enough employees to obtain lower health insurance rates. Smaller districts pool together to have the number of employees necessary to get reduced health insurance rates. However, we are aware of three states that require school districts to join their state employees' health plan to gain the economies that come with a larger employee base. The audit also found that premiums are dissimilar among school districts.

School Districts Independently Purchase Health Plans for Employees

Looking at all 41 school districts in Utah, larger school districts have the staff and resources to independently purchase health insurance at competitive rates. However, many school districts in Utah are relatively small and typically have neither the staff expertise nor the size necessary to obtain competitive health insurance rates.

As a result, most of Utah’s smaller districts join together to purchase health insurance within a self-insured pool. Health insurance pools can offer several potential advantages for smaller districts.

- **Lower Premiums Are Possible**—By acting collectively, smaller employers try to gain the same kind of bargaining power that larger employers have when it comes to purchasing health insurance. Also, by forming pools, members should be able to realize better economies of scale for administrative costs.
- **Premiums Are More Predictable**—For a small employee group, an employee who suddenly incurs very high health care costs can have a significant adverse effect on premiums. When small districts join together, the health costs of any individual employee are spread across more participants, reducing the effect a single employee may have on the premiums for the whole pool.

With the exception of two school districts, all of the smaller school districts (with fewer than 900 fulltime equivalent employees (FTEs)) have created pools to purchase health insurance. Thirteen school districts have joined together in one risk pool through the Utah School Board Association (USBA), purchasing their health insurance through the Public Employees’ Health Program (PEHP). Nine school districts have joined together in a risk pool and purchase their health insurance through Educators Mutual Insurance Association (EMIA). The remaining 19 school districts purchase health insurance independently, outside of any group insurance pool. (Different health providers have varying guidelines for the number of employees needed for an employer to be a stand-alone purchaser. One health provider requires 100 employees, another generally requires 500 employees.)

Health insurance pools help smaller school districts to control premium costs.

Most of the smaller school districts in Utah have joined pools to purchase health insurance.

Most School Districts Offer Only One Health Insurance Provider. Among the 41 school districts, four districts utilize two health insurance providers to give their employees more plan options, while the other 37 school districts each have only one health insurance provider. Sixty-three percent of the school districts health insurance providers are PEHP or EMIA. The remaining 37 percent utilize four private or non-profit health insurance providers. It is important to note that a health insurance provider may offer one or more health plans to school districts. School districts may select one or multiple health plans to offer to employees.

The Number of Health Plans Offered to School District Employees Varies. We did not gather health plan data for all 41 school districts. We reviewed a sample of 10 school districts for this audit. The survey showed that four of the ten school districts offer only one plan to their employees. Five school districts offer employees two to six health plans, while one school district offers eight plans. The plans vary in cost and richness of benefits. All 10 surveyed school districts have selected health plans on a self-insured basis. Self-insurance means that employers assume all or some of the responsibility for any health care costs of their covered employees.

Several States' School Districts Purchase Health Insurance Similarly to Utah

Twelve states were contacted to determine how school districts procure their health insurance. The audit found that six of the twelve states have a process similar to Utah's. School districts can independently procure their own health insurance or they can pool with other school districts to procure health insurance.

Six of the contacted states have either voluntary or mandatory participation in their state employees' health plan. Figure 1 describes how other states' school districts procure health insurance.

Of the 10 school districts surveyed, 6 districts offer multiple health plans and 4 districts offer one health plan.

School districts can independently procure health insurance or pool with other school districts.

Figure 1. Summary for School Health Plan Design in Other States.

In most states school districts procure their own health insurance. Four states allow schools districts to either procure their own health plans or voluntarily participate in the state’s health plan.

State	School Districts Independently Procure Health Plans	Voluntary Participation in State Health Plan	Mandatory Participation in State Health Plan
Arizona	X	X	
Colorado	X		
Georgia			X
Idaho	X		
Kansas	X	X	
Michigan	X		
Montana	X		
Oregon	X		X
Pennsylvania	X		
Texas	X	X	X
Washington	X		
Wyoming	X	X	
Utah	X		

Like Utah, school districts in 6 of the 12 contacted states do not allow participation in their state’s health plans.

Three states require school districts to participate in their state employees’ health plan to help control health care costs:

- Georgia requires all school districts to participate in their state employees’ health plan.
- Oregon requires all school districts to participate in their state employees’ health plans unless they qualify for an exemption. A school district can procure their own health insurance if they can procure a health plan that does not cost more than their state’s plan and the benefits are comparable. Only a few school districts in Oregon have met this exemption.
- Texas requires school districts with fewer than 500 employees to participate in their state’s health plans. School districts in Texas with more than 500 employees can participate in their state’s health plan, or they can independently procure health insurance for their employees.

Three states require school districts to participate in their state’s health plan.

Neither Arizona nor Wyoming requires school districts to participate in their state employees' health plan, but school districts can choose to participate in the plan. In Arizona, no school districts have chosen to participate in the state employees' health plan. In Wyoming, only one school district has chosen to participate in the state employees' health plan. That school district's health costs were reduced as a result of the reduced health benefits. The state's employees' health plan was not as rich in benefits as the district's previous health plan.

School Districts' Premiums Vary

Individual school districts offer different plans and benefits to their employees. It is difficult to compare different health plans accurately because premiums are based on plan design and the health of the employees. To provide a basic overview of premium rates in each school district, we compared premiums for family coverage in the health plan with the highest membership. Figure 2 shows the family premium for each of the 10 school districts in the sample. The premium has not been adjusted for benefits or risk.

Figure 2. Annual Premiums for the 2010-11 Plan Year for the Family Plan. The average premium for the 10 school districts was \$14,097.

School District	Premium	School District	Premium
Rich	\$ 16,716	Tooele	\$ 14,059
Jordan*	16,434	Granite*	13,762
Iron	15,002	Wasatch*	13,200
Salt Lake City*	14,881	Nebo*	12,655
Davis*	14,178	Park City	10,078

*The plan with the highest membership was used for this figure for school districts that offer more than one health plan.

The school district with the highest premium was Rich School District with an annual total premium of \$16,716. Park City School District had the lowest premium at \$10,078. Among the 10 school districts there is a \$6,638 spread in premium rates that we believe can be partially attributed to bid negotiations and services provided.

For the Past Five Years, School District Premiums Increased Slightly More than the State Premiums Increased. Premium increases over the past five years have varied among the reviewed

There is a \$6,600 difference in premium rates among the 10 school districts. Premium was not adjusted for benefits or risk.

school districts. Figure 3 shows that the school districts' overall premium increase the past five years has, on average, approximated the state's rates increases at 24 percent overall, compared to the state's 21 percent.

Figure 3. School District Premium Increases from 2007-11. Premium rates were compared using the family plans for each the school districts and the state.

School District	Percent	School District	Percent
Park City	7 %	Wasatch	25 %
Nebo	14	Davis	28
Tooele	14	Rich	34
Granite	15	Iron	36
Jordan	15	Salt Lake City	56
State Employees' Premium Increase			21 %

Note: If a school district offered more than one plan, the plan with the highest membership was used for this comparison. Also, the State's Advantage Care and Summit Care health plans were used to compare premium rates with the school districts.

Park City School District had the smallest premium rate increase. In 2007 Park City had the lowest premium among the 10 school districts reviewed. In 2011, Park City still has the lowest premium rate. That school district offers one plan for its employees. Salt Lake City School District has had the highest rate (56 percent). In 2007, Salt Lake City had the second lowest premiums among the 10 school districts. Even with the 56 percent increase, three other school districts' premiums were higher than Salt Lake City's as of the 2010-11 plan year.

Total Health Care Costs Are Similar Among School Districts.

The annual total premium the employer pays as a percent of annual expenditures was reviewed for each school district. Nine school districts spent between 8 and 11.5 percent of total expenditures for medical costs. One school district, Rich, spent more of their total expenditures for medical costs. However, Rich School District is small, with only 37 FTEs. This school district does not have as many different types of expenditures as other school districts in the sample.

Employee Portion of the Premium Varies Widely.

Health insurance as a percent of total compensation was also reviewed. However, the 10 school districts vary in the health insurance benefit they provide to employees because of employee cost sharing.

The school districts' overall premium increases for the past five years have averaged 24 percent.

Nine of the 10 school districts spent between 8 and 11.5 percent of total expenditures for health insurance.

Cost sharing of premiums varies among the school districts from a high of 100 percent to a low of 53 percent paid by the district.

Through employee representation and negotiation, some district employees have taken a higher salary rather than having the school district pay all or most of their health insurance premiums. Other districts pay a higher percentage of the insurance premiums and thus do not offer the salary adjustment.

For example, two of the 10 school districts pay 100 percent of the health insurance premiums, and another school district pays 98 percent of the premiums. At the other end of the spectrum, one school district only pays 53 percent and another school district pays 67 percent of the health insurance premium. Employees are required to pay the difference. It is not reasonable to compare and summarize the health care benefit as a percent of total compensation between school districts, since the components of total compensation are negotiated or set differently in each school district. However, it is important to note that the state pays 90 percent of the premiums for state employees (beginning July 2011). Five of the ten school districts pay less than 90 percent of the premium for their employees.

A variety of factors affect premium rates such as:

- Benefit plan design
- The experience or health of group members
- Competitive procurement practices
- Costs of medical procedures and service—including the underlying costs of new technologies and drugs
- Health insurance provider selected (network discounts and administrative costs vary between providers)

It is not possible to review all factors that affect premium rates, but for this audit, medical benefits and procurement practices were reviewed. They will be discussed in the next section of the report.

School Districts Should Evaluate Procurement Practices and Medical Benefits

Competitively bidding health insurance helps to reduce favoritism and obtain insurance plans at the lowest practicable price. However, four of the ten school districts have not competitively bid for their health insurance in more than five years. Three of these four districts

have the highest premiums of the ten school districts surveyed. Consistent competitive bidding can help control health insurance costs.

Also, medical benefits were compared for each of the ten school districts. Medical benefits vary significantly among school districts' health plans. Only three school districts have benefits as rich as the state employees' medical benefits.

School Districts Should Consistently Bid Health Insurance

The audit found that four of the ten school districts have not competitively bid for their health insurance in more than five years. Best practices for contract management suggest that a common term frame for contracts is three years. Options to renew vary, but generally, contracts terms do not run longer than three years. The purpose of competitively bidding goods and services is to ensure fairness, efficiency, and security. Competitive bidding aims to prevent favoritism and fraud, stimulate competition, and obtain goods and services at the lowest practicable price for the best interest of taxpayers.

Figure 4 shows the last year each of the 10 school districts competitively bid for their health insurance.

Figure 4. School Districts' Procurement History. Five or half of the school districts surveyed have competitively bid their health insurance in the last three years.

School District	Year Last Bid	School District	Year Last Bid
Granite	1997	Wasatch	2008
Rich	1999	Davis	2009
Iron	2002	Salt Lake City*	2009
Jordan	2005	Nebo	2010
Tooele*	2006	Park City	2010

*Salt Lake City School District and Tooele are in the process of bidding their health insurance for the 2011 -12 plan year.

Four school districts have not bid their health insurance within the last five years. Tooele School District has not bid its health insurance for four years, but is in the process of bidding for the 2011-12 plan year.

Competitive bidding aims at obtaining goods and services at the lowest practicable price.

Four school districts have not bid their health insurance for the last five years.

Five school districts have bid their health insurance within the last three years.

Wasatch School District participates in the USBA's risk pool. USBA procures health insurance for the school districts that participate in its risk pool. USBA last bid in 2008 but they do not plan on bidding again for about two more years. USBA reported it is an expensive and time-consuming process to complete. USBA has been with PEHP since the risk pool was formed in 1998; USBA reported that PEHP has been the most competitive each time they have bid. Salt Lake City School District last bid in 2009, but is in the process of rebidding to try to better control their health care costs.

Procurement practices can have an effect on health care costs. Three of the four school districts that have not bid their health insurance within the last five years have the highest premiums of the 10 school districts for the current plan year (see Figure 2). Also, two of the school districts, Iron and Rich, have had high premium rate increases over the last five years (see Figure 3). School districts should consistently bid their health insurance to help control their costs.

Benefits Vary Significantly Among School Districts' Health Plans

One of the factors that affects premium is the richness of the medical benefits that health plans offer to school district employees. Using a medical benefit adjustment process to compare districts, the audit found that medical benefits are not the same for school district employees throughout the state. Benefits varied by 19 percent among the sampled school districts.

Medical benefits were compared for each of the 10 school districts surveyed. For school districts that offer more than one health plan to employees, the plan with the highest membership within the district was used for this comparison. Each district's medical plans were actuarially benefit-adjusted to compare the richness of benefits to that of the state employees' Advantage Care and Summit Care health plans.

The state's health plans were used as a baseline to compare benefits with the 10 sampled school districts. The audit of PEHP released in January 2011 showed that the state's health plans, mentioned above, were not overly rich in benefits; in fact, the state was lower than the

Three of the four school districts that have not bid their health insurance in five years have the highest premiums in the survey.

The richness of benefits varied by 19 percent among the sampled school districts.

average of other major insurance carriers that were used in the comparison. Although most of the school districts reviewed had lower benefits than the state, premiums were higher. Only three school districts' benefits were as rich as the state's plans.

School districts in Utah have reduced benefits to help control costs. As stated earlier in the report, as a requirement for school districts in Oregon to procure their own insurance, districts must select health plans that have comparable benefits to the state employees' benefits.

Other States Have Not Implemented Cost Savings Studies

We are aware of three states that have completed studies of school district health care costs. Those studies that we could identify reviewed the possibility of unifying school districts to gain economies of scale in health insurance purchases. All of these states have a large number of districts that do not pool for purchases.

In 2004, a Pennsylvania study showed that if its 629 small school districts pooled with the state plan, an estimated annual savings of \$2,183 per school employee could be achieved. The study also reported that most school districts in Pennsylvania provide district employees with good or very good medical benefits. It appears that part of the savings would come from reducing benefits by participating in a statewide plan. The recommendations from this study were never implemented. School districts maintain local control.

Washington completed a study of school district health care costs in 2010. Washington's 295 school districts spend more than \$1 billion a year on health benefits. State employees are enrolled in more than 200 medical plans, and more than 30 percent of the employees have medical plans 14 percent richer than the largest federal employee medical plan. The study showed that by restructuring the system—creating a separate statewide self-funded benefits program with standardized coverage for school districts—Washington could save about \$90 million a year. This savings mostly comes from a decrease in medical benefits. As of this report the recommendations have not been implemented.

The state of Oregon requires that school districts' health plans have comparable benefits to the state employees' health plans.

Studies in other states show potential savings by pooling school districts; however, school districts still maintain local control.

Kansas also completed a study about a year ago. Many school districts in Kansas were interested in forming a new statewide pool. This study concluded that sampled school districts would not benefit from joining a statewide pool, either because it would not save money, or because more out-of-pocket costs would be shifted to employees. The study identified only one district of the 22 sampled that could potentially save money by joining the state employees' health plan.

Recommendations

1. We recommend that the Legislature look at options to help school districts maintain cost-effective and adequate health insurance plans, such as:
 - Creating a statewide pool for school districts
 - Allowing small school districts to join the state's risk pool
2. We recommend that school districts competitively bid for their health plans every three years to five years.

Agency Response

This Page Left Blank Intentionally

July 5, 2011

John M. Schaff, Auditor General
Office of the Legislative Auditor General
W315 Utah State Capitol Complex
Salt Lake City, Utah 84114-5315

Dear Mr. Schaff:

Thank you for allowing my staff and I to study a draft of the report, A Survey of School Districts' Health Insurance. The Utah State Office of Education (USOE) staff has reviewed it carefully and finds no disagreement with the recommendations in the report. We would note that employee compensation and benefits has long been a function of local school districts and any statewide policy mandating participation by local districts may be met with some resistance.

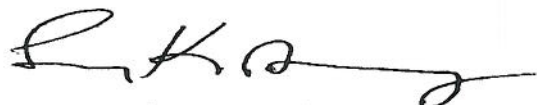
We support the creation of a statewide pool for districts and allowing small districts to join the state's risk pool. We would suggest that any legislation be permissive and provide greater flexibility, particularly for small districts as they provide health insurance benefits.

We support the concept of competitive bids for insurance plans but also recognize that in the most rural and small districts multiple options may not be available. This is particularly true in areas serviced with a single health care provider. It should also be noted that changes in health care providers can be disruptive to school employees when certain providers may not be included in competitive plans. Any efforts to increase options while allowing for additional cost savings would be greatly appreciated.

It should also be noted that USOE employees are currently part of the state's risk pool and that this response does not pertain to USOE employees.

Thank you again for examining this matter and for the opportunity to review this report.

Sincerely,



Larry K. Shumway, Ed.D.
State Superintendent of Public Instruction