



SCHOOL DISTRICT PERFORMANCE AUDIT REPORT

**K-12 Education: Reviewing Issues Related to the
Cost of the Health Care Benefits Provided
By School Districts**

**A Report to the Legislative Post Audit Committee
By the Legislative Division of Post Audit
State of Kansas
April 2010**

Legislative Post Audit Committee

Legislative Division of Post Audit

THE LEGISLATIVE POST Audit Committee and its audit agency, the Legislative Division of Post Audit, are the audit arm of Kansas government. The programs and activities of State government now cost about \$13 billion a year. As legislators and administrators try increasingly to allocate tax dollars effectively and make government work more efficiently, they need information to evaluate the work of governmental agencies. The audit work performed by Legislative Post Audit helps provide that information.

We conduct our audit work in accordance with applicable government auditing standards set forth by the U.S. Government Accountability Office. These standards pertain to the auditor's professional qualifications, the quality of the audit work, and the characteristics of professional and meaningful reports. The standards also have been endorsed by the American Institute of Certified Public Accountants and adopted by the Legislative Post Audit Committee.

The Legislative Post Audit Committee is a bipartisan committee comprising five senators and five representatives. Of the Senate members, three are appointed by the President of the Senate and two are appointed by the Senate Minority Leader. Of the Representatives, three are appointed by the Speaker of the House and two are appointed by the Minority Leader.

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DO YOU HAVE AN IDEA FOR IMPROVED GOVERNMENT EFFICIENCY OR COST SAVINGS?

The Legislative Post Audit Committee and the Legislative Division of Post Audit have launched an initiative to identify ways to help make State government more efficient. If you have an idea to share with us, send it to ideas@lpa.ks.gov, or write to us at the address above.

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April 27, 2010

To: Members, Legislative Post Audit Committee

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This report contains the findings and conclusions from our completed performance audit, *K-12 Education: Reviewing Issues Related to the Cost of the Health Care Benefits Provided By School Districts*.

The report also contains appendices showing a list of current school district risk pool memberships, a summary of health insurance terminology, and health insurance plan information for a sample of 24 school districts and service centers.

We would be happy to discuss the findings presented in this report with any legislative committees, individual legislators, or other State officials.

A handwritten signature in black ink that reads "Barbara J. Hinton". The signature is written in a cursive, flowing style.

Barbara J. Hinton
Legislative Post Auditor

READER'S GUIDE

<i>The Big Picture</i>		<i>The Details</i>	
Audit Highlights	The highlights sheet, inserted in each report, provides an overview of the audit's key findings	"At-a-Glance Box"	Used to describe key aspects of the audited agency; generally appears in the first few pages of the main report
Conclusions and Recommendations	Located at the end of the audit questions, or at the end of the report	Side Headings	Point out key issues and findings
Agency Response	Included as the last Appendix in the report	Charts, Tables, and Graphs	Visually help tell the story of what we found
Table of Contents, and lists of figures and appendices	Lets the reader quickly locate key parts of the report	Narrative Text Boxes	Highlight interesting information or provide detailed examples

This audit was conducted by Brenda Heafey. Scott Frank was the audit manager. If you need any additional information about the audit's findings, please contact Brenda Heafey at the Division's offices.

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K-12 Education: Reviewing Issues Related to the Cost of the Health Care Benefits Provided By School Districts

Employee insurance costs—primarily health insurance—have grown substantially over the last several years, from just more than \$253 million for the 2004-05 school year, to more than \$355.2 million for the 2008-09 school year. Overall, employee insurance costs represent about 6% of school districts’ total reported expenditures for 2008-09.

Because health insurance costs represent such a large and growing cost for school districts, members of the 2010 Commission recently have expressed an interest in finding out whether there are ways districts could better control these costs. This school district performance audit would answer the following question:

What opportunities exist for school districts to decrease health insurance costs by joining pools?

To answer this question, we surveyed school districts to obtain information on the health insurance plans, including the benefits offered under the plans, the total cost of premiums for the plan, and the level of participation by employees. We analyzed the data on the districts’ plans to identify districts that could save money (on the employer contribution portion of the premium) if they joined the current State Employee Health Plan. We followed up with the one district we identified to find out if district officials would be interested. We also interviewed staff from the Kansas Health Policy Authority to find out the advantages and disadvantages of having all districts join the State health plan and built a statistical regression model that we used to estimate premiums for three hypothetical plan designs. Finally, we compared our estimated premiums to what several districts are currently paying to identify districts that might save money by joining a Statewide pool.

A copy of the scope statement for this audit approved by the 2010 Commission is included in *Appendix A*. In order to provide districts with the most useful information, the original question was adjusted to narrow the focus of the audit work that would determine if districts would save money by joining the State Employee Health plan and if districts would save money by forming a statewide risk pool.

We conducted this performance audit in accordance with generally accepted government auditing standards, except that we found significant issues with the claims, enrollment, and demographic data

provided by school districts. As a standard part of our preliminary testing of those data, we reviewed districts' health insurance claims data to determine if it was reasonable. We also compared the health insurance enrollment data to the total number of employees in each district to make sure the data wasn't grossly inaccurate, but we weren't able to assess the reliability of the demographic information such as gender and age because of time constraints and the availability of such data.

Our preliminary testing found problems with the reliability of the claims and enrollment data. Although we have done as much as we can, within the time constraints, to correct many of the problems, it is likely some errors still exist. Despite these limitations, we used these data for our analyses because there weren't any alternative data sources. As a result, the reader should view our estimates as general indicators, and not as absolute fact.

The standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. Keeping in mind the exceptions noted above, we believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Our findings begin on page 7, following a brief overview of school district health insurance in Kansas.

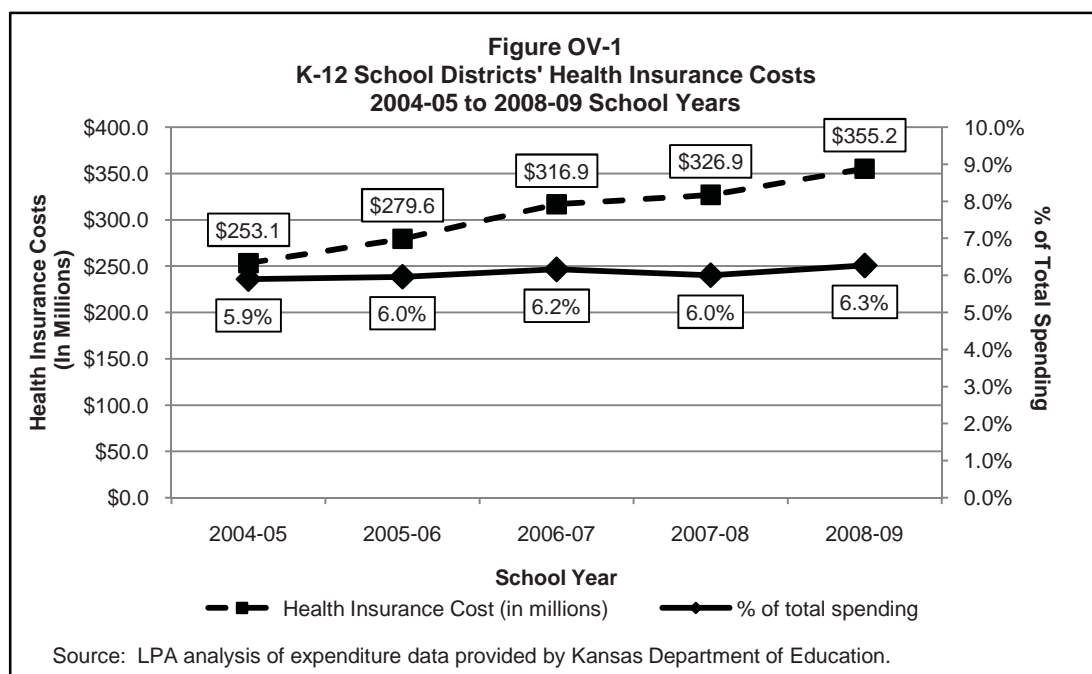
Overview of School District Health Insurance in Kansas

District Spending On Health Insurance Has Increased Significantly Over the Last Five Years

In the 2008-09 school year school districts spent \$355.2 million on employee health insurance. As with many government entities, personnel costs make up the vast majority of expenditures for school districts. As a result, the cost of employee benefits in general, and health insurance in particular, is an important factor in most school districts budgets. The cost of providing employee health insurance represents about 6% of the total spending by Kansas school districts.

Districts' spending on employee health insurance has increased by more than \$100 million (40%) over the past five years. Much of this increase is because districts' staffing has increased by 10% over those five years (from 64,000 FTE employees in 2004-05, to 70,400 FTE employees in 2008-09). Another significant factor has been the rising cost of health care in this country. Over the same five-year period, the medical consumer price index, which measures the national growth in health care cost, grew by 21%.

Figure OV-1 summarizes school district spending on health insurance over the last five years.



Most School Districts Buy Health Insurance Directly From Insurance Companies Or Join a Risk Pool

As part of this audit, we surveyed all 293 Kansas school districts to learn more about how they provide health insurance to their employees, which insurance companies they use, and how much they contribute towards the premiums. We received responses from 259 school districts (88%).

Figure OV-2 summarizes the different ways school district officials told us they provide health insurance, broken down by the number of districts, as well as the number of full-time-equivalent employees each group represents.

Figure OV-2 How School Districts Provide Health Insurance					
Method for Providing	School Districts		Employees (a)		
	Total #	% of Total	Total #	Avg # per district	% of Total
Purchase directly from an insurance provider	149	51%	37,010	250	53%
Belong to a risk pool	113	39%	13,088	116	19%
Operate own self-insured health plan	13	4%	5,939	457	8%
Don't provide any health insurance benefits	4	1%	155	39	0%
Unknown (b)	14	5%	14,217	1,016	20%
Total	293	100%	70,409	240	100%

(a) Full-time equivalent employees in the 2008-09 school year.
 (b) These are districts that didn't respond to our survey, and don't belong to one of the risk pools.

Source: LPA survey of school districts, Kansas Department of Education.

As the figure shows, more than 50% of all school districts purchase health insurance directly from an insurance company. Many districts belong to risk pools, which are designed to join small districts together to purchase health coverage collectively and take advantage of the same benefits larger employers have, such as increased buying power. The State Employee Health Plan and the Greenbush Health Group are two examples of risk pools. As the figure shows, the average number of employees in districts belonging to risk pools tends to be less than in districts that purchase insurance directly. We'll discuss risk pools in more detail in Question 1.

In addition, some districts choose to operate their own self-insured health insurance program. This means the responsibility for paying all medical claims lies with the district (not the insurance company). The advantage of self-insuring is districts have more control over coverage and plan design, know which medical services are used the most, and can track health care dollars better. Finally, four districts told us they don't provide any health care benefits. Not surprisingly, these are very small districts (on average they had fewer than 40 employees). **Appendix C** contains definitions of common health Insurance terms used in this report.

Whether districts buy directly from insurance carriers, join a risk pool, or operate a self-insured pool, the vast majority get insurance from Blue Cross and Blue Shield of Kansas. For the districts that responded to our survey, most of them told us they use Blue Cross and Blue Shield of Kansas. Preferred Health Systems was the second most common company school districts are use. *Figure OV-3* lists the health insurance carriers each group currently uses. *Appendix B* shows a more detailed list of which districts are currently in each of the risk pools.

Figure OV-3 Health Insurance Providers For School Districts						
Insurance Provider	Method For Providing Health Insurance					Total
	Purchase directly from an insurance provider	Belong to a risk pool	Operate own self-insured health plan	Don't provide any health insurance benefits	Unknown (a)	
NUMBER OF DISTRICTS						
BC/BS of Kansas (b)	103	113	6	---	---	222
Preferred Health Systems	29	---	---	---	---	29
BC/BS of Kansas City	4	---	---	---	---	4
Coventry	8	---	---	---	---	8
Other	5	0	3	0	0	8
None	---	---	---	4	---	4
Unknown	---	---	4	---	14	18
Total	149	113	13	4	14	293
NUMBER OF EMPLOYEES (c)						
BC/BS of Kansas (b)	21,245	10,839	3,058	---	---	35,142
Preferred Health Systems	8,171	---	---	---	---	8,171
BC/BS of Kansas City	3,957	---	---	---	---	3,957
Coventry	2,544	---	---	---	---	2,544
Self-Insured	---	---	1,962	---	---	1,962
Other	1,093	---	920	---	---	2,013
None	---	---	---	155	---	155
Unknown	---	2,248	---	---	14,217	16,465
Total	37,010	13,087	5,940	155	14,217	70,409
(a) These are districts that didn't respond to our survey, and don't belong to one of the risk pools.						
(b) The State Employee Health Plan offers employees a choice of four insurance carriers but most choose BC/BS of KS. Therefore, we've counted all members of the State plan as BC/BS of KS.						
(c) Full-time equivalent employees in the 2008-09 school year.						
Source: LPA survey of school districts, Kansas Department of Education.						

***Recent Activities Related
To Health Insurance
At the Federal Level
Could Affect Our Results***

In March 2010, President Obama signed a health care reform bill that will change many important aspects of health insurance across the country. The reform package is complex but some of the key elements are as follows:

- Beginning in 2014, all U.S. citizens and legal residents must purchase health insurance or face an annual fine (there are some subsidies and special programs for those with low-income).
- Beginning in 2014, all employers with at least 50 employees will be required to provide health insurance benefits.
- Beginning in 2014, insurance companies no longer will be able to deny coverage to anyone with pre-existing conditions (for children, this prohibition begins six months after the law is enacted).

Kansas is among several states considering measures that challenge the constitutionality of the new federal law. Many states are calling for ballot questions to amend their state constitutions to add a new article stating no law or rule passed after August 2009 could “compel” anyone to participate in “any health care system or purchase health insurance.” Kansas hasn’t taken any official action at the time this report was written, and it’s unclear how the new law might affect the findings and conclusions of this audit.

What Opportunities Exist For School Districts To Decrease Health Insurance Costs By Joining Pools?

Answer in Brief:

Employers join health insurance pools in order to obtain lower and more predictable premiums. Currently there are five such pools available to school districts, including the State Employee Health Plan. We only identified one district that could potentially save money by joining the State plan. Because many districts are interested in forming a new Statewide pool of school district employees, we built estimates of what that pool might look like and what it might cost to. We looked at a sample of 22 school districts and two service centers and, based on our analysis, it didn't appear that they would benefit from joining a Statewide pool, either because they wouldn't save money, or because more out-of-pocket costs would be shifted onto their employees. Finally, if districts were to pool together, it would be difficult to sustain without sufficient safeguards to control who belonged to the pool, such as screening out districts with less health employees, instituting minimum employee participation requirements, or requiring higher employer contributions. These and other findings are described in more detail in the sections that follow.

Employers Join Health Insurance Pools To Obtain Lower and More Predictable Health Insurance Premiums

As noted in the Overview, most school districts in Kansas offer some form of health insurance benefit to their employees. The cost of providing these benefits can be very expensive, and because most school districts are relatively small, they typically don't have specialized staff that can develop the expertise to get the best deal on health insurance.

One strategy many employers, including school districts, have adopted to try to overcome some of these problems is to join together to purchase health insurance as a pool. Health insurance pools offer several potential advantages for employers:

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

- Increased Number of Plan Options—Because of the administrative costs associated with offering several health plans, it can be difficult for small employers acting alone to offer their employees very many choices.

For a health insurance pool to be successful in lowering premiums, it must first be large enough to realize administrative savings and amass significant bargaining power. In addition, the pool will need to have sufficient safeguards in place to avoid “adverse selection.”

Adverse selection occurs when either the employees or employers that make up the pool make decisions about health insurance that benefit them to the detriment of the pool. For employees, this occurs when healthy employees choose less expensive health insurance (or no insurance at all), leaving primarily “sicker” employees in the pool and driving up costs. For employers, this occurs when an employer with relatively healthier employees leaves a pool because that employer can get a better deal outside the pool. Likewise, it occurs when an employer with “sicker” employees joins a pool, because it would be cheaper.

Among the things successful pools do to control adverse selection include restricting who can enter the pool, making it difficult to leave the pool, and limiting the share of insurance premiums that the employers can pass off to their employees. These safeguards are discussed in more detail on page 21.

Currently Five Health Insurance Pools Are Available to Districts, Including the State Employee Health Plan

Kansas’ experience with school district health insurance pools dates back to the early-1990s. Among the first pools formed for school district employees were the Southwest Plains, Smoky Hill, and Greenbush Health Insurance groups. The districts that formed the early pools lacked guidance on how to properly project claims and set adequate premiums, and didn’t adopt necessary restrictions to protect against adverse selection and stabilize the pools’ membership. These pools collapsed when some districts suddenly left and there weren’t sufficient reserves build up to pay the remaining claims.

In the years since the first health insurance pools for school districts failed, new pools have formed. Currently, five pools are available to Kansas school districts (although one just began operating in Kansas, and currently doesn’t have any districts enrolled). The five pools are listed below:

- State Employee Health Plan—A self-insured pool administered by the Kansas Health Policy Authority. (28 school districts currently enrolled)

- Kansas Educational Insurance Trust (KEIT)—A fully-insured pool that is administered by Blue Cross and Blue Shield of Kansas. (18 districts currently enrolled)
- Educational Services and Staff Development Association of Central Kansas (ESSDACK)—A fully-insured pool managed through an educational service center. (37 school districts currently enrolled)
- Greenbush Health Group—A fully-insured pool managed through an educational service center. (30 school districts currently enrolled)
- Midwest Public Risk—A self-funded pool that operates in Missouri and Kansas but currently doesn't have any Kansas districts.

Figure 1-1 starting on page 10 provides more detailed information about each of these health insurance pools, including who provides the insurance, the number of employees in the districts that belong to the pool, the requirements for joining the pool, and any other restrictions on participating in the pool. The reader should note a couple of important things about these pools:

- **All five pools have adopted safeguards to protect the pool against adverse selection.** Safeguards include requiring 70-75% of employees to participate, mandatory employee contributions, and penalties for leaving the group.
- **Only the State Employee Health Plan accepts “high-risk” districts.** A district is considered high-risk if its members have experienced abnormally high claims, often because they have employees with severe health issues. Other than the State Employee Health Plan, which doesn't screen for risk, the pools try to protect the interests of their members by not letting high-risk districts enter the pool. For example, any district that wants to join the ESSDACK pool must fall within 15% of the pools' current risk rating.
- **Only three of the pools are available to small districts (those with 50 or fewer employees).** These are the State Employee Health Plan, ESSDACK, and Midwest Public Risk.

ISSUES RELATED TO SCHOOL DISTRICTS JOINING THE STATE EMPLOYEE HEALTH PLAN

We Identified Only One District That Could Potentially Save Money By Joining the State Employee Health Plan

We looked more closely at the State Employee Health Plan because, as we mentioned earlier, it's the only pool that accepts districts of any size and doesn't screen out “high-risk” districts. Although the plan is open to all districts, it does include certain requirements for membership that are designed to ensure the stability of the plan and protect against adverse selection:

- At least 70% of the eligible employees in the district have to participate in the plan.

**Figure 1-1
Health Insurance Risk Pools Available to School Districts in Kansas**

	Kansas Educational Insurance Trust (KEIT)	Greenbush Health Group	ESSDACK Health Group
General			
Description	Insurance trust administered by Blue Cross and Blue Shield of Kansas specific to educational entities with more than 50 employees.	Educational service center operating a health insurance pool for <u>any</u> school districts with more than 50 employees.	Educational service center operates a health insurance pool for school districts that are <u>members</u> of ESSDACK.
Year Started	1994	1996	1990
Funding mechanism	Fully Insured	Fully Insured	Fully Insured
Plans			
# of Insurance Plans Offered in 2010	9	3	3
# of Tier Options in 2010	4 Tiers - Employee Only - Employee & Spouse - Employee & Child - Employee & Family	4 Tiers - Employee Only - Employee & Spouse - Employee & Child - Employee & Family	2 Tiers - Employee Only - Employee & Family
Insurance Carriers			
Medical	BC/BS of KS	BC/BS of KS	BC/BS of KS
Dental	not offered	Delta Dental	not offered
Vision	not offered	Vision Service Plan	not offered
Participating Districts			
# of districts	18	30	37
Smallest (# of FTE employees in district)	51.8	46.9 (d)	31.6
Largest (# of employees in district)	453.8	405.3	545.9
Restrictions & Safeguards			
District size	More than 50 employees	More than 50 employees	None
Employee participation (e)	none	75% of eligible employees	75% of eligible employees
Minimum time commitment	none	2 years	1 year
Penalty for leaving	3-year wait to apply again	2-year wait to apply again	3-year wait to apply again
Minimum employer contribution	100% of employee only (on least expensive plan)	\$150 per employee per month	90% of employee only (on least expensive plan) (f)
Cash in lieu of benefits allowed	No	No	Yes
Premiums and Other Costs			
Start-up costs to join the pool	none	\$150 per month for each eligible employee for the first year plus additional fees for actuary work.	For the first 1-5 years, depending on where new districts' risk % falls, must contribute an additional 10% on top of the regular premiums to a fund that is used to stabilize rates.
On-going administrative fees to be a member of the pool	Fees are unidentifiable because they are built into the premiums.	\$5 per person enrolled per month	Fees are unidentifiable because they are built into the premiums.
Premium structure	Premiums vary among districts	All districts pay the same premium.	For the first 5 years, districts with less healthy employees pay and additional 10% on top of the regular premiums.
<p>(a) 1999 was the first year that school districts were allowed to join the State Employee Health Plan. (b) Midwest Public Risk is self-insured, but has a stop-loss policy to cover claims more than \$275,000 per claimant and an additional \$100,000 aggregating deductible. (c) Midwest Public Risk currently has no Kansas school districts, but it does have 38 districts from Missouri. (d) The Greenbush Health Trust only accepts groups with more than 50 full-time employees. USD 462 has less than 50 and Greenbush officials said the district had more than 50 staff when they joined but now the district only has 21 employees enrolled. (e) The definition of an eligible employee varies by pool. For example, Greenbush and the State Employee Health Plan consider any employee who works at least 630 hours in a year to be an eligible employee. On the other hand, KEIT allows the district to define who is eligible. (f) ESSDACK encourages districts to pay 90% of the employee-only coverage, but this isn't a firm requirement.</p>			
Source: LPA Survey of K-12 school districts in Kansas.			

Figure 1-1 (con't)
Health Insurance Risk Pools Available to School Districts in Kansas

	State Of Kansas Employee Health Plan	Midwest Public Risk
General		
Description	Health insurance program governed by the Kansas State Employees Health Care Commission (HCC) and available to State and non-State employees.	Health insurance risk pool available to school districts in Missouri and Kansas with more than 10 employees.
Year Started	1999 (a)	1983
Funding mechanism	Self Insured	Self Insured (b)
Plans		
# of Insurance Plans Offered in 2010	3	3
# of Tier Options in 2010	4 Tiers - Employee Only - Employee & Spouse - Employee & Child - Employee & Family	3 Tiers - Employee Only - Employee & One Dependent - Employee & Family
Insurance Carriers		
Medical	BC/BS of KS Coventry Preferred Health Systems United Health Care	Humana
Dental	Delta Dental	Delta Dental
Vision	Superior Vision Services	Vision Service Plan
Participating Districts		
# of districts	28	0 (c)
Smallest (# of FTE employees in district)	10.2	n/a
Largest (# of employees in district)	561.5	n/a
Restrictions & Safeguards		
District size	None	More than 10 employees
Employee participation (e)	70% of eligible employees	75% of eligible employees
Minimum time commitment	3-5 years	none
Penalty for leaving	Dependent on assessment of liquidated damage	none
Minimum employer contribution	95% of employee only 55% of other options	50% of employee only
Cash in lieu of benefits allowed	No	Yes
Premiums and Other Costs		
Start-up costs to join the pool	none	unknown
On-going administrative fees to be a member of the pool	School districts pay 3-17% more in admin. fees than what State agencies pay.	unknown
Premium structure	All districts pay the same premium	unknown
(a) 1999 was the first year that school districts were allowed to join the State Employee Health Plan. (b) Midwest Public Risk is self-insured, but has a stop-loss policy to cover claims more than \$275,000 per claimant and an additional \$100,000 aggregating deductible. (c) Midwest Public Risk currently has no Kansas school districts, but it does have 38 districts from Missouri. (d) The Greenbush Health Trust only accepts groups with more than 50 full-time employees. USD 462 has less than 50 and Greenbush officials said the district had more than 50 staff when they joined but now the district only has 21 employees enrolled. (e) The definition of an eligible employee varies by pool. For example, Greenbush and the State Employee Health Plan consider any employee who works at least 630 hours in a year to be an eligible employee. On the other hand, KEIT allows the district to define who is eligible. (f) ESSDACK encourages districts to pay 90% of the employee-only coverage, but this isn't a firm requirement.		
Source: LPA Survey of K-12 school districts in Kansas.		

- The district must contribute at least 95% of the cost of employee-only coverage (\$434 per month in 2009-10). Employees must pay the remaining share of the premium. Districts have a few years to ramp-up the contribution.
- The district must contribute at least 55% of the cost of dependent coverage (\$762 per month for full family coverage in 2009-10). As with employee-only coverage, the employee must pay the remaining share of the premium, and districts are allowed to ramp-up to this level of contribution.
- The district can't offer incentives that would discourage employees from joining the plan, such as cafeteria-style options which give employees cash instead of benefits.

Based on our analysis of school districts' current premiums and participation rates, only the Pratt school district potentially could save money by joining the State Employee Health Plan.

As mentioned in the Overview, we surveyed school districts to learn about the health insurance benefits they provide to their employees. Among the things we asked about were who the districts purchase health insurance from, what percent of each district's employees get health insurance through the district, and how much of the total monthly premiums for health insurance each districts pays for. (More information about the survey is included in the Overview.)

We analyzed data for 234 districts that responded to our survey but don't belong to the State Employee Health Plan. Of those, 141 districts met the State's 70% participation requirement. For these districts, we compared the districts' current share of monthly health insurance premiums to what they would be required to pay under the State Employee Health Plan to see if any of the districts could save money by joining the State plan. The results of our analysis for those 141 districts are summarized in *Figure 1-2* on page 13. As the figure shows:

- **14 districts currently contribute more towards employee-only coverage than they would have to on the State Employee Health Plan.**
- **5 districts currently contribute more towards family coverage than they would have to on the State Employee Health Plan.**
- **Only one district (USD 382 – Pratt) currently pays more for both types of coverage.** This is the only district we identified that could potentially save money by joining the State Employee Health Plan.

**Figure 1-2
Summary of Potential Savings for School Districts (a)
Under the State Employee Health Plan**

		For <u>Employee-Only Coverage</u> , the number of districts that...		TOTAL
		...currently pay <u>less</u> than they would on the State plan.	...currently pay <u>more</u> than they would on the State plan.	
For Family Coverage, the number of districts that...	...currently pay <u>more</u> than they would on the State plan.	4	1 <i>(USD 382 - Pratt)</i>	5
	...currently pay <u>less</u> than they would on the State plan.	123	13	136
TOTAL		127	14	141

(a) Analysis is based on 141 school districts that responded to our survey, meet the State's employee participation requirements, and don't currently belong to the State Employee Health Plan.
Source: LPA analysis of employer contributions school districts reported through on-line survey.

If the Pratt school district were to join the State Employee Health Plan, it potentially could save about \$77,000 per year. We talked to officials from the Pratt school district about joining the plan. They told us the district previously belonged to the State Employee Health Plan, but left about five years ago because it was unhappy with mid-year rate increases which made budgeting difficult, as well as having to pay higher premiums than State agencies for the same coverage. A few years ago the district was accepted into the ESSDACK health insurance pool and officials told us they are pleased with their current arrangement.

The State Employee Health Plan tends to be more expensive for school districts because the minimum employer contribution requirement is more than most districts currently pay, and because the plan's annual deductible is lower. The State Employee Health Plan is a fairly large risk pool with about 43,700 employees as members. Because this is much larger than the pools most school

districts belong to, it would seem like more districts should be able to save money by joining the plan. This doesn't end up being the case, for two primary reasons:

- **The minimum employer contribution requirements are greater than what most school districts currently pay on average.** As we pointed out earlier, employers on the State plan are required to pay 95% of the cost of employee-only coverage, and 55% of the dependent coverage. We compared the current contributions within each plan option (employee-only, employee with spouse, employee with children, employees with family) for both the State Employee Health Plan and districts' plans. We found that on average, school districts contribute far less for all options, except for employee-only coverage than under the State plan. This is shown in **Figure 1-3**.

Figure 1-3 2009-2010 Average Employer Contributions		
	Amount Employers Contribute on Average	
	State Employee Plan	School Districts
% of premium employers pay for employee and family coverage.		
Employee Only	96%	86%
Employee Spouse	75%	43%
Employee Child	78%	48%
Employee Family	64%	33%

Source: LPA and survey of school districts and Kansas Health Policy Authority.

- **The annual deductible for employees under the State Employee Health Plan tends to lower than what most districts offer.** **Figure 1-4** compares three facets of the State Employee Health Plan (annual deductible, co-insurance maximum, and office visit copayment) to what's typical for most school districts' plans. As the figure shows, the most of the elements under the State plan tend to be better for the employees, meaning their out-of-pocket costs are less.

Figure 1-4 Comparison of State Employee Plan to School Districts Most Common 2010 Plans		
Plan Facet	State Employee Plan	School Districts' most common plans
Annual Deductible (<i>amount of claims an employee must pay out-of-pocket in a year before the insurance carrier begins to pay</i>)	\$150 single/\$300 family	\$500 single/\$1000 family \$1000 single/\$2000 family
Coinsurance Max (employee only) (<i>maximum amount an employee is required to pay annually for medical care</i>)	\$1,200 (single)	\$1,000 (single)
Office Visit Copayment (<i>amount a person pays per visit to see a primary care physician</i>)	\$20	\$25

Source: Plan information provided by school districts and Kansas Health Policy Authority.

An issue that potentially could affect premiums and coverage under the State Employee Health Plan is its current financial status. In March 2009, legislators approved the Governor's recommendation to place a six-pay-period moratorium on the State's payments into the employee health care fund to help address the current budget crisis. The moratorium was given only to State agencies and withheld about \$60 million in payments. In order to make up for the lost revenue, the Kansas Health Policy Authority will have to make changes to the plan, by increasing premiums (both the employer and employee share), increasing out-of-pocket costs for employees, or some combination of both.

ISSUES RELATED TO SCHOOL DISTRICTS FORMING A NEW STATEWIDE POOL

We Built Estimates of What a New Statewide Pool Would Look Like

Because health insurance costs have been growing substantially for several years, several school district superintendents expressed an interest in seeing if there would be any cost savings if all districts pooled together. In addition, 213 of the 259 districts responding to our survey indicated they'd be interested in joining a Statewide risk pool for school districts if it could save them money.

In order to estimate what the premiums would be for a Statewide pool of school districts we did the following:

- Collected two years of data on health care plans, claims experience, and the demographics of the enrollees from school districts. We talked extensively with officials from the Kansas Health Policy Authority, the Kansas Insurance Department, and a few private insurance brokers to learn as much as we could about health insurance and determine the types of data we'd need.
- Used statistical regression techniques to build a model that captured how demographics and plan coverage affected costs. For example, older employees tend to be more expensive to insure, while children tend to be less expensive. Also, health care plans with higher out-of-pocket maximums are less expensive to insure (because more costs are shifted onto the employees).
- Developed three hypothetical healthcare plans to assess the cost of insuring a Statewide pool. One plan reflects the type of coverage typically provided by school districts. The other two plans provide a relatively low level of coverage, but are designed so that more districts would achieve cost savings.
- Used the model we developed to estimate the cost of providing insurance to a Statewide pool using each of the three hypothetical plans. The demographics of the Statewide pool are based on demographic data we gathered from school districts. It assumes that the proportions of adults, spouses, and children in the new pool are the same as the proportions districts currently insure.

Texas Implemented a Statewide Health Plan for School District Employees

As part of our audit work we looked at six other neighboring states to see if any of them were operating a statewide risk pool just for school district employees. We found two— Nebraska and Texas. Of the two states, Texas has been by far the most aggressive in creating a pool just for districts.

Texas created a statewide health insurance plan solely for school district employees in 2002 called TRS Active Care in order to address concerns that large increases in health insurance premiums would prevent smaller school districts from providing health coverage to their employees. The plan is administered by the Texas Retirement System, and is kept separate from the state employee health plan. Participation in the plan is mandatory for all school districts with 500 or fewer employees. Districts with more than 500 employees can participate voluntarily, but once they join, they're not allowed to leave.

According to one school district official from Texas we talked to, the plan has been very well accepted. The overwhelming majority of Texas' 1,260 school districts (87%) participate in the plan. The districts that haven't joined are larger districts that already receive good insurance rates from their individual providers. Unfortunately, the savings generated by the plan likely can't be quantified, because of the myriad of individual plans held by districts before TRS Active Care was created. According to the official we spoke to, the average cost per employee is likely to have decreased simply due to increased buying power, but the more significant benefit is better coverage options for school employees.

While most districts we talked to were able to provide information about their plan coverage and the demographics of their enrollees, many districts had trouble providing claims data. Often this was because they had difficulty obtaining the data from their insurance carriers. In some cases, this was because the companies were concerned that providing such data would violate Health Insurance Portability and Accountability Act (HIPAA) privacy requirements (this was especially common when the district was small), or that the data might be used to expose their business models to other health insurance companies. This limited the number of districts we could include in our estimates.

Finally, the reader should keep in mind that the estimates we've developed should only be used as indicators of what a Statewide pool might cost. District officials might use this information to determine if forming a new pool is something they're interested in. However, if school districts decided to form a new pool, our work isn't a substitute for the kinds of estimates and projections that would need to be put together by qualified actuaries.

Employees in a new Statewide pool for school districts likely would be younger than those currently on the State Employee Health Plan, but would tend to enroll fewer children. *Figure 1-5* on page 17 summarizes various demographic data for our estimate of what a Statewide pool of school districts might look like. For comparison purposes, we've included similar information for the State employees who participate in the State Employee Health Plan.

Figure 1-5
Demographic Comparison of a Potential Statewide School District Pool to the Current State Employee Pool

	Percent of Employees In the Pool	
	School District Employees (estimated)	State Employees (a)
By Age		
Less than 50 years old	52%	46%
50 years old or older	48%	54%
Total	100%	100%
By Gender		
Male	27%	48%
Female	73%	52%
Total	100%	100%
By Plan Tier		
Employee Only	74%	55%
Employee and Spouse	10%	15%
Employee and Children	8%	15%
Employee and Family	7%	15%
Total	100%	100%
(a) Based on 2009 State Employee Plan.		
Source: LPA analysis of plans, claims, enrollment, and census data obtained from individual school districts and Kansas Health Policy Authority.		

As the figure shows, school district employees tend to be younger than State employees (based on the percent of employees who are under age 50). This would tend to make school districts less expensive to insure, because older populations tend to incur more claims than younger ones. On the other hand, school districts have a much lower percent of their employees opt for family or child coverage, meaning they don't enroll as many children on their plans. This is another important cost factor which would tend to make school district's plans more expensive, because children tend to be far less expensive to insure than adults. School districts also tend to have far more female employees than male employees, but this didn't end up making a big difference in cost estimates.

We Estimate That a Statewide Pool Could Cost About \$431-\$471 a Month For Employee-Only Coverage, Depending on The Plan Design

Once we had an idea of what a Statewide pool for school districts might look like, we needed to develop some hypothetical health insurance plans to estimate what it would cost to insure the pool. Based on the information school districts provided us regarding their current health insurance plans, we developed three hypothetical plans that are somewhat typical of what many districts currently offer. The characteristics of each of these plans are summarized in the top half of **Figure 1-6** on page 18.

Based on what we learned from our statistical models, we estimated what the total monthly premiums (employee and employer share) would be for each of the three hypothetical plans if all school districts pooled together for health insurance. We used total monthly premiums for these analyses because that reflects the total cost of health insurance. Any reduction in total monthly premiums would create savings which could be split by the district and its employees (most likely through negotiation). Those results are summarized in the bottom half of *Figure 1-6*.

**Figure 1-6
School District Employees
Plan Comparison and Estimated Premiums**

	LPA Plan A	LPA Plan B	LPA Plan C
Plan Characteristics			
Deductible (employee only)	\$500	\$1,000	\$2,500
Co Insurance	20%	20%	20%
Max-Out-Of-Pocket	\$1,200	\$1,200	\$5,000
Total Monthly Premiums (employer and employee share)			
Employee Only	\$471	\$453	\$431
Employee and Spouse	\$1,107	\$1,070	\$1,024
Employee and Children	\$970	\$939	\$899
Employee and Family	\$1,472	\$1,421	\$1,357

Source: LPA analysis of claims and enrollment data.

As expected, Plan A, which has the lowest deductible and lowest maximum out-of-pocket cost for employees also has the highest monthly premiums (\$471 a month for employee-only coverage and \$1,472 a month for family coverage). Likewise, Plan C, which shifts more out-of-pocket costs to employees, has the lowest monthly premiums (\$431 a month for employee-only coverage and \$1,357 a month for family coverage).

It's important to note that using total premiums for this analysis is different from the earlier section examining the potential savings from joining the State Employee Health Plan, which only looked at the employer share of premiums. That's because the State plan has a minimum contribution that the districts would have to pay (there's no such assumption for our hypothetical plans). The only way districts would save money by switching to the State plan is if their current contributions were higher than what the State requires (even if the total premiums were lower under the State plan). In this analysis, any reduction in total premiums could be split between the district and employees under our hypothetical plans.

The actual premiums for a new school district pool likely would vary from these estimates for a number of reasons. The process of estimating premiums for groups of people is a complicated task because there are so many moving parts that can all affect premiums. We weren't able to capture all of the factors that affect rates such as the current health conditions and lifestyles of employees. Here are some factors we didn't include in our estimates that could significantly affect costs:

- **Districts with healthier employees would be less likely to join a new pool, causing the premiums to increase.** It's likely some of the districts we've included in our analysis wouldn't join a Statewide pool because they wouldn't save money. Depending on which districts opted out, the premiums could go up significantly.
- **By pooling together, districts may amass enough bargaining power to negotiate for lower premiums.** The advantage of pooling small districts with larger districts is the increase in bargaining power that larger districts have for such things as administrative fees, provider write-offs, and the cost of using an insurance companies provider network. The Kansas Health Policy Authority negotiates who keeps the savings incurred from the insurance company's cost agreements with providers. For example, if a doctor's fee is \$50 and the insurance company negotiates the fee of \$40, the \$10 savings is passed on to the State rather than being split with the insurance carrier.
- **Increasing employer contributions could decrease total premiums.** Increasing employer contributions towards family coverage adds an incentive to enroll more kids which are fairly inexpensive to insure and decrease premiums in the long run. Conversely, a decrease in employer contributions can negatively impact premiums because healthy employees may opt out of coverage.
- **Teachers may be inherently more expensive to insure.** During our fieldwork, some of the health insurance professionals we spoke with indicated that teachers tend to be more expensive to insure than other professional groups. We didn't find any differences between teachers' costs and State employees' costs that couldn't be explained by demographic or plan differences. However, if teachers actually are more expensive to insure (and we just didn't detect it), a Statewide pool might be more expensive than what we estimated.
- **The claims and enrollment data used in this audit likely contains errors and should be considered when viewing our estimates.** Our preliminary testing found problems with the reliability of the claims and enrollment data. Although we have done as much as we can, within the time constraints, to correct many of the problems, it is likely some errors still exist. As a result, the reader should view our estimates as general indicators, and not as absolute fact.

Extensive actuarial work would be necessary to start a pool. Officials at the Kansas Health Policy Authority told us the actuarial fees are included in administrative fees that are already included in the premiums. This would cover the initial work of signing everyone up and maintaining the pool.

Most of the Districts We Looked At Wouldn't Appear to Benefit From Joining a Statewide Pool

To determine if school districts would benefit from joining a new Statewide plan, we compared the out-of-pocket costs and estimated total monthly premiums (employer and employee combined) for our three hypothetical plans, to the actual plans and premiums for

Figure 1-7
 Comparing Total Premiums and Plan Elements For a Sample of Districts and Service Centers
 To Three Hypothetical Insurance Plans

LPA Plan A - \$500 Deductible (Single)		LPA Plan B - \$1000 Deductible (Single)		LPA Plan C - \$2,500 Deductible (Single)	
The new plan offers...		The new plan offers...		The new plan offers...	
...an increased out-of-pocket expense.	...about the same out-of-pocket expense.	...an increased out-of-pocket expense.	...about the same out-of-pocket expense.	...an increased out-of-pocket expense.	...about the same out-of-pocket expense.
2 districts: 353, 360	1 district: 233	2 districts: 241, 378	1 district: 467	1 service center, 5 districts: ESSDACK, 218, 219, 232, 234, 273	4 districts: 200, 244, 274, 453
3 districts: 203, 230, 260	1 service center, 1 district: Greenbush, 428	1 service center, 9 districts: ESSDACK, 200, 218, 219, 232, 234, 244, 273, 274, 453	3 districts: 207, 214, 216	2 districts: 241, 467	1 district: 378
...more the expensive...	...about same.	...more the expensive...	...more the expensive...	...more the expensive...	...more the expensive...
Total Premiums for the new plan are...	Total Premiums for the new plan are...	Total Premiums for the new plan are...	Total Premiums for the new plan are...	Total Premiums for the new plan are...	Total Premiums for the new plan are...
<p>Index of Districts:</p> <p>Districts 200 - Greeley 203 - Piper 207 - Fort Leavenworth 214 - Ulysses 216 - Deerfield 218 - Elkhart 219 - Minneola 230 - Spring Hill 232 - DeSoto 233 - Olathe 234 - Fort Scott 241 - Wallace 244 - Burlington 260 - Derby 273 - Beloit 274 - Oakley 353 - Wellington 360 - Caldwell 378 - Riley 428 - Great Bend 453 - Leavenworth 467 - Leoti</p> <p>Service Centers ESSDACK Greenbush</p>					
<p>Color Index:</p> <p>District appears to benefit from the plan: Total premiums decrease (saving districts & employees money) Plan deductible & Out-Of-Pocket Max decrease (benefiting employees' expenses)</p> <p>New plan is about the same as the district's current plan: Total premiums either stay the same or increase. Plan deductibles & Out-Of-Pocket Max either stay the same or increase.</p> <p>District doesn't appear to benefit from the plan: Total premiums increase (costing districts & employees more money) Plan deductibles & Out-Of-Pocket Max increases. (costing employees more money)</p>					

Source: LPA comparison of premiums provided by school districts.

a sample of 22 districts and two service centers. Because many of these districts and service centers offer more than one health insurance option for their employees, for the purposes of this comparison we only analyzed districts' most popular option. Our results are shown in *Figure 1-7*. *Appendix D* has more detailed information on the districts we used for this analysis.

As the figure shows, most of the districts we looked at wouldn't appear to benefit from joining a Statewide pool, either because they wouldn't save money, or because more out-of-pocket costs would be shifted onto their employees:

- **Only four districts appear to benefit under Plan A (\$500 deductible).** Two of the districts (241 – Wallace and 378 – Riley) would reduce out-of-pocket costs for employees and save money on premiums. One district, 233 – Olathe would spend less on premiums, while 467 – Leoti would be able to lower out-of-pocket costs for its employees. Conversely, six districts would be worse off under the plan, because they would pay more in premiums, increase out-of-pocket costs for employees, or both.
- **Only three districts appear to benefit under Plan B (\$1,000 deductible).** All three districts (241 – Wallace, 378 – Riley, and 467 – Leoti) would spend less on premiums, while the Riley school district also would be able to lower out-of-pocket costs for its employees. On the other hand, 11 districts and one service center would be worse off under the plan.
- **None of the districts or service centers appear to benefit under Plan C (\$2,500 deductible).** Thirteen districts and one service center clearly wouldn't benefit, as they would have both higher premiums and higher out-of-pocket costs for employees. It's not as clear for the other districts—they would spend less on premiums, but the plan also would shift more costs onto their employees.

It's important to keep in mind that we've selected these districts for illustrative purposes. These results don't necessarily reflect what other districts' actual experience with a Statewide pool would be.

***It Would Be Difficult
To Sustain a New
Statewide Pool Without
Sufficient Safeguards***

As we mentioned earlier, all five risk pools currently available to school districts have safeguards in place to protect those pools. In general, we identified two types of safeguards that help stabilize costs and keep rates low. They are:

- Safeguards to control which groups belong to the pool.
- Safeguards to encourage low-cost individuals to get insurance through the pool.

Risk pools should have safeguards to help control which groups enter and exit the pool. There are two reasons for controlling which districts join and leave the pool—lowering costs and keeping costs stable. When districts with bad claims experience join, or when ones with good claims experience leave, it increases the overall cost for the other members of the pool. Also, when districts join and leave frequently, it can be difficult for the insurance company to set premiums accurately because they can't predict future claims. Successful pools should have safeguards that:

- **Control who is allowed to join the pool**—To keep costs low, many pools screen potential districts and only allow relatively healthy groups to join. For example, ESSDACK's health insurance pool requires a potential member's estimated costs to be within 15% of the cost of the pool or else they won't be admitted.
- **Limit districts' ability to exit the pool**—This helps keep costs lower by keeping healthier groups in the pool. Among the things pools do to keep districts in the pool are requiring districts to stay in the pool for a set period of time and imposing penalties on those that leave.

For example, districts that join the State Employee Health Plan are required to stay in the pool for a minimum of three years. The Kansas Educational Insurance Trust has established penalties for districts that shop around for a better deal—the districts are kicked out of the group and aren't allowed back in for three years. Texas went a step further to protect its teacher pool—under state law districts aren't allowed to leave the pool once they've joined.

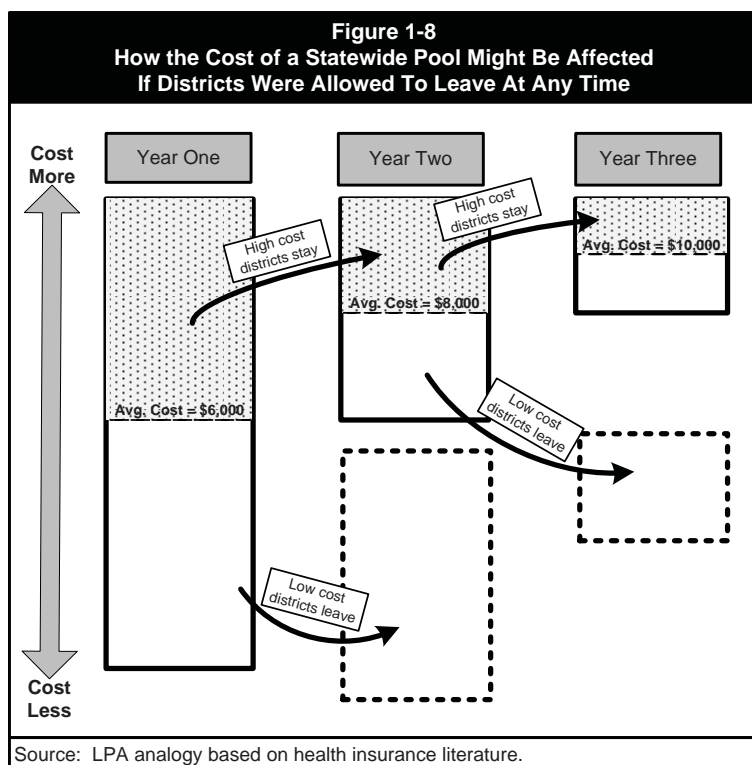


Figure 1-8 illustrates how a risk pool would degrade over time if districts are allowed to exit freely (there could be a similar effect if any district could join the pool freely). As the figure shows, over time lower-cost districts (with healthy employees) would tend to leave the pool if they can get better prices outside the pool. This leaves behind increasingly higher-cost districts, resulting in a pool of high claims and high premiums to go with it.

Risk pools can lower the costs by adopting safeguards that encourage low-cost employees and their families to join the pool.

The following are some most common safeguards we learned about:

- **Increase employer contributions**—Because children are less expensive to insure than adults, maximizing the number of employees who add them to their coverage makes for a healthier overall pool. When employers pass on too much of the cost of family coverage to the employee, employees may look for alternatives for their children’s coverage (most commonly, adding them to their spouse’s coverage).

One way to keep this from happening is to set a minimum amount that employers must contribute towards dependent coverage. For example, employers that participate in the State Health Plan must pay at least 55% of the cost of dependent coverage and as a result 30% of State employees choose dependant coverage. Conversely, school districts typically pay far less (see **Figure 1-3** on page 14), only 15% of school district employees opt for family or child coverage.

- **Minimum participation levels**—By setting a minimum participation rate, groups can protect against adverse selection by ensuring that healthy employees join the plan, as well as the unhealthy. If the minimum requirement rate is high enough, it ensures that pool will be the employers’ primary source of insurance, making it very difficult for employers to put their only unhealthy employees in the pool, and shop around for a better deal for the rest of their employees. As mentioned earlier, the State Employee Health Plan has a 70% participation requirement for this very purpose.
- **Prohibitions on cafeteria-style plans**—Cafeteria-style benefits often provide employees who opt out of health care coverage with a cash payment. The theory is that the employer benefits by not having to pay for coverage and the employee benefits by getting more pay. However, because the healthier employees are more likely to take advantage of these benefits and opt out of coverage, it can result in a more unhealthy pool, which drives up costs.

Conclusion:

Because of rising and unpredictable health care costs, several school districts have expressed an interest in forming a new Statewide pool for school district employees. Our initial analyses didn’t reveal a lot of benefits to school districts by forming a new pool, but it’s important to keep in mind that these are general indicators—not the kinds of estimates and projections that would need to be put together by qualified actuaries if districts decided to form a new pool.

It’s also important to keep in mind that many of the policies and requirements that districts dislike about the current health insurance pools, such as minimum participation requirements and employer

contributions, prohibitions on cafeteria-style cash benefits, and restrictions to keep districts in the pools, are safeguards designed to help sustain a healthy pool. In part, it was the absence of many of these safeguards that caused the first school district pools in Kansas to fail. If Kansas school districts decide to form a new pool to achieve cost savings, it will be vital that they include adequate safeguards that restrict districts' behavior in order to protect the pool.

APPENDIX A

Scope Statement

At its meeting on May 28, 2009, the 2010 Commission approved an audit to identify ways school districts could reduce health insurance costs. This appendix contains the scope statement that outlines our work.

K-12 Education: Reviewing Issues Related to the Cost of the Health Care Benefits Provided By School Districts

Employee insurance costs—primarily health insurance—have grown substantially over the last several years, from just more than \$253 million for the 2004-05 school year, to more than \$355.2 million for the 2008-09 school year. Overall, employee insurance costs represent about 6% of school districts' total reported expenditures for 2008-09.

Because health insurance costs represent such a large and growing cost for school districts, members of the 2010 Commission recently have expressed an interest in finding out whether there are ways districts could better control these costs. This school district performance audit would answer the following question:

1. **What opportunities exist for school districts to decrease health insurance costs by joining pools?** To answer this question, we would survey school districts to obtain information on the health insurance plans they offer, including the benefits offered under the plans, the total cost of premiums for the plan, and the level of participation by employees. We would analyze the data on the districts' plans to identify districts that appear to be paying more than others with similar plans, and follow up with those districts to look for ways to reduce those costs. Finally, we would interview staff from the Kansas Health Policy Authority to find out the advantages and disadvantages of having all districts join the State health plan, look at any estimates they have of what it might cost the State, and estimate how much it might save school districts. We would conduct additional test work as needed.

Estimated Resources: 2 staff (10-12 weeks)

APPENDIX B

This appendix includes a list of the risk pools school districts are currently members of as well as the total number of full-time-equivalent staff employed at each of the districts as of 2008-09 school year. Although there are five risk pools available in Kansas, this appendix only includes the four that districts are using. Midwest Public Risk recently became an option for schools but to date, none of the districts have joined.

**APPENDIX B
Health Insurance Pools' Membership (a)**

ESSDACK		Greenbush		State Employee Health Plan		KEIT	
USD	FY09 Staffing (FTE)	USD	FY09 Staffing (FTE)	USD	FY09 Staffing (FTE)	USD	FY09 Staffing (FTE)
106 - Western Plains	40.8	246 - Northeast	91.3	101 - Erie	112.0	208 - WaKeeney	81.2
206 - Remington-Whitewater	83.1	247 - Cherokee	123.8	103 - Cheylin	38.7	287 - West Franklin	109.4
255 - South Barber Co.	49.0	248 - Girard	118.0	108 - Washington Co.	63.5	323 - Westmoreland	107.3
268 - Cheney	109.1	249 - Frontenac	95.9	213 - West Solomon	10.2	343 - Perry	126.6
303 - Ness City	47.9	250 - Pittsburg	353.8	240 - Twin Valley	82.4	346 - Jayhawk	73.9
309 - Nickerson	169.4	251 - North Lyon Co.	101.3	242 - Weskan	28.3	352 - Goodland	182.8
310 - Fairfield	71.0	252 - Southern Lyon Co.	88.2	243 - Lebo-Waverly	101.2	365 - Garnett	147.4
311 - Pretty Prairie	45.7	254 - Barber Co.	80.3	256 - Marmaton Valley	71.2	367 - Osawatomie	152.0
312 - Haven	156.1	258 - Humboldt	85.7	271 - Stockton	68.0	389 - Eureka	113.7
313 - Buhler	274.4	286 - Chautauqua	60.8	272 - Waconda	62.2	415 - Hiawatha	135.3
331 - Kingman	142.7	289 - Wellsville	111.4	281 - Graham County	65.0	429 - Troy	51.8
349 - Stafford	51.0	290 - Ottawa	405.3	283 - Elk Valley	34.0	436 - Caney	102.9
350 - St. John-Hudson	67.1	327 - Ellsworth	90.2	288 - Central Heights	66.6	438 - Skyline	58.3
354 - Claflin	47.0	328 - Lorraine	85.0	293 - Quinter	70.4	442 - Nemaha Valley	96.4
355 - Ellinwood	78.8	344 - Pleasanton	60.5	300 - Commanche Co.	59.0	450 - Shawnee Heights	453.8
361 - Anthony-Harper	135.8	348 - Baldwin City	181.8	322 - Onaga	56.6	452 - Stanton County	73.5
369 - Burrton	44.9	366 - Woodson	70.3	326 - Logan	35.9	488 - Axtell	56.2
376 - Sterling	82.3	379 - Clay Center	296.2	333 - Concordia	263.9	498 - Valley Heights	69.1
382 - Pratt	145.6	404 - Riverton	160.0	340 - Jefferson West	140.8		
398 - Peabody-Burns	77.2	413 - Chanute	215.6	342 - McLouth	75.1		
400 - Smoky Valley	141.5	446 - Independence	244.8	364 - Marysville	205.3		
401 - Chase	31.6	447 - Cherryvale	121.9	392 - Osborne	56.4		
403 - Otis-Bison	37.4	462 - Central	46.9	421 - Lyndon	74.1		
405 - Lyons	197.6	473 - Chapman	144.7	423 - Moundridge	67.8		
408 - Marion	78.4	484 - Fredonia	105.2	432 - Victoria	51.0		
410 - Durham-Hills	88.9	493 - Columbus	165.1	445 - Coffeyville	228.0		
411 - Goessel	45.5	499 - Galena	119.9	489 - Hays	561.5		
418 - McPherson	545.9	503 - Parsons	199.2	494 - Syracuse	93.7		
419 - Canton-Galva	74.7	504 - Oswego	76.6				
431 - Hoisington	115.2	508 - Baxter Springs	134.0				
439 - Sedgwick	63.1						
440 - Halstead	103.1						
444 - Little River	49.2						
448 - Inman	74.6						
460 - Hesston	103.6						
474 - Haviland	34.3						
487 - Herington	116.0						

(a) The Midwest Public Risk pool isn't included in this table because none of the districts in Kansas are currently enrolled in this group.

Source: Membership lists provided by ESSDACK, Greenbush, KEIT, and Kansas Health Policy Authority. Staffing data provided by the Kansas Department of

APPENDIX C

A Summary of Health Insurance Terminology

This appendix includes definitions of health insurance terms we frequently refer to in this report.

Adverse selection occurs when healthy employees choose less expensive health insurance (or no insurance at all), leaving primarily “sicker” employees in the pool and driving up costs. For employers, this occurs when an employer with relatively healthier employees leaves a pool because that employer can get a better deal outside the pool. Likewise, it occurs when an employer with “sicker” employees joins a pool, because it would be cheaper.

Coinsurance is the amount an employee is required to pay for medical care after they’ve met their deductible. The coinsurance rate is usually expressed as a percentage. For example, a 20% coinsurance means the health insurance company pays 80% of the claim, and the employee pays 20%.

Co-payment is a way of sharing medical costs. The employee pays a flat fee every time he or she receives a medical service (for example, \$5 for every visit to the doctor). The health insurance company pays the rest.

Deductible is the amount of money the employee must pay each year to cover medical care expenses before the health insurance policy starts paying.

Fully-Insured health care means the employer contracts with an insurance company to cover the employees and dependents. The premium rates are fixed for a year, and the employer pays a monthly premium based on the number of employees enrolled in the plan. The insurance company collects the premiums and pays the health care claims. The enrollees are responsible to pay any deductible amounts or co-payments required for covered services under the policy.

Maximum Out-of-Pocket is the cap on how much an employee will have to pay in a year for health insurance through deductibles, coinsurance, and co-payments (premiums aren’t counted against this cap).

Pre-existing Condition is a health problem that existed before the date the health insurance became effective. Under current law, insurance companies are allowed to deny someone coverage for a pre-existing condition (this will change with the new federal health insurance law, as described in the Overview).

Premium is the amount employee and employer pay in exchange for health insurance coverage.

Provider is any person (doctor, nurse, dentist) or institution (hospital or clinic) that provides medical care.

Self-insured health care means the employer is liable for all the health care claims. While the employer typically contracts with an insurance company to process the claims, the company isn’t liable for the claims. If the claims are less than expected, the employer realizes the savings; if the claims are more than expected, the employer is responsible for the loss. Among the advantages of self-insured health care are the following:

- The district doesn’t have to pay an insurance company to assume the risk.
- The district can pay for health care that its employees actually use.
- The district has more control over health coverage and more flexibility in designing the plan.
- The district would know where its health care dollars go from month to month and year to year, and which medical services its members use most.

APPENDIX D
Health Insurance Plan Information for
24 Sample School Districts and Service Centers

This appendix includes a list of the 24 school districts and service centers in our sample that we used to evaluate the premiums and employee out-of-pocket costs for our three hypothetical plans. We have included a few of the characteristics for each plan:

- Annual deductible for single and family
- Coinsurance
- Office visit co-pay
- Out-of-pocket maximum
- Total monthly health insurance premiums, by level of coverage

APPENDIX D
A Sample of School Districts' Health Insurance Plans Offered
In the 2009-2010 School Year

School District or Service Center	Out-of-Pocket Costs for Employees (In-Network Cost)					Total Monthly Premiums (2009-10 School Year) (a)			
	Annual Deductible (Single/Family) :	Coinsurance:	Co-Pay for Office Visits:	Out-Of-Pocket Max:	Employee Only	Employee + Spouse	Employee + Child	Employee + Family	
203 Piper	\$0	70%	\$20/\$40	\$2,000/single \$4,000/family	\$348	\$730	\$674	\$1,063	
230 Spring Hill	\$0	0%	\$30	Inpatient/Outpatient surgical copays limited to 5 copays per member per calendar	\$412	(b)	(b)	\$1,109	
260 Derby	0\$	90%	\$20/\$30	\$2,000/single \$4,000/family	\$456	\$1,023	\$841	\$1,318	
353 Wellington	\$0	0%	\$10/\$20	\$1,500/single \$3,000/family	\$495			\$1,315	
360 Caldwell	\$0	0%	\$25/\$40	\$2,000/single \$4,000/family	\$522	\$1,152	\$965	\$1,551	
Greenbush	\$500/ \$1,500	0%	\$20	\$500/person \$1,000/2 people \$1,500/3+ people	\$523	\$930	\$880	\$1,288	
207 Fort Leavenworth	\$500/ \$1,000	90%	\$20/\$35	\$2,000/single \$4,000/family	\$473	\$993	\$898	\$1,371	
214 Ulysses	\$500/ \$1,000	50%	\$0	\$2,000/single \$4,000/family	\$290	\$623	\$561	\$894	
216 Deerfield	\$500/ \$1,000	50%	\$20	\$1,000/single \$2,000/family	\$446	\$861	\$959	\$1,161	
233 Olathe	\$500/ \$1,000	90%	\$30	\$1,500/single \$3,000/family	\$506	\$1,062	\$937	\$1,417	
428 Great Bend	\$500/ \$1,000	70%	\$30	\$2,000/single \$4,000/family	\$540	\$942	\$942	\$1,110	
ESSDACK	\$1,000/ \$2000	80%	Unavailable	\$3,000/single \$6,000/family	\$401			\$890	
218 Elkhart	\$1,000/ \$2,000	80%	\$20	\$2,000/single \$4,000/family	\$417	\$909	\$830	\$1,304	
232 DeSoto	\$1,000/ \$2,000	20%	\$30	\$4,000/single \$8,000/family	\$340	\$818	\$602	\$1,080	
234 Fort Scott	\$1,000/ \$3,000	varies (c)	\$30	\$2,500/single \$5,500/family	\$475			\$770	

APPENDIX D
A Sample of School Districts' Health Insurance Plans Offered
In the 2009-2010 School Year

School District or Service Center	Out-of-Pocket Costs for Employees (In-Network Cost)					Total Monthly Premiums (2009-10 School Year) (a)			
	Annual Deductible (Single/Family) :	Coinsurance:	Co-Pay for Office Visits:	Out-Of-Pocket Max:	Employee Only	Employee + Spouse	Employee + Child	Employee + Family	
241 Wallace	\$1,000/ \$2,000	80%	\$30	\$2,500/single \$5,000/family	\$550	\$1,099	\$1,017	\$1,594	
273 Beloit	\$1,000/ \$2,000	80%	\$25	\$2,000/single \$4,000/family	\$420			\$755	
467 Leoti	\$1,000/ \$2,000	80%	\$25	\$2,000/single \$4,000/family	\$560			\$1,195	
219 Minneola	\$1,000/ \$2,000	80%	\$30	\$2,000/single \$4,000/family	\$392	\$774	\$739	\$1,011	
200 Greeley	\$1,500/ \$3,000	80%	\$30	\$2,500/single \$5,000/family	\$449	\$965	\$866	\$1,382	
244 Burlington	\$1,500/ \$3,000	20%	\$20	\$2,500/single \$5,000/family	\$403	\$701	\$626	\$866	
274 Oakley	\$1,500/ \$3,000	Unavailable	\$25	\$2,500/single \$5,000/family	\$388	\$832	\$748	\$1,193	
378 Riley	\$1,500/ \$3,000	20%	\$25	\$1,000/single \$2,000/family	\$498	\$1,069	\$958	\$1,529	
453 Leavenworth	\$2,500/ \$7,500	70%	25/\$50	\$4,500/single \$9,000/family	\$438	\$824	\$824	\$1,008	

(a) Total monthly premium includes employer and employee share.

(b) Some of the districts in this comparison analysis only offer two tiers of coverage - employee only and employee plus family.

(c) Coinsurance varies depending on type of service, for example 100% for preventive care (X-Ray and lab), 90% hospital, and 70% out-patient (such as emergency room care and physical therapy).

Source: Insurance plans provided by school districts.

APPENDIX E

Agency Response

On April 21, 2010, we provided a copy of the draft audit report to the Kansas Department of Education and the Kansas Health Policy Authority. The responses are included in this appendix. In general, both departments agreed with our findings and conclusions.



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April 20, 2010

Mrs. Barbara J. Hinton
Legislative Post Auditor
Legislative Division of Post Audit
800 S. W. Jackson Street, Suite 1200
Topeka, Kansas 66612-2212

Dear Mrs. Hinton:

Thank you for the opportunity to respond to your performance audit, *K-12 Education: Reviewing Issues Related to the Cost of the Health Care Benefits Provided by School Districts*. Your auditors appear to have conducted a very thorough review of the issues related to health insurance costs in Kansas school districts.

The information obtained in this performance audit will be very helpful to school districts as they review their health insurance plans/costs and potentially secure a better health plan with the funds available. If school districts are not able to form a new statewide pool for school district employees, the data in this audit will be helpful to many school districts.

Please feel free to contact this office if we can assist you further.

Sincerely,

Dale M. Dennis, Deputy
Commissioner of Education

DMD:tjm

Coordinating health & health care
for a thriving Kansas

KHPATM

KANSAS HEALTH POLICY AUTHORITY

April 23, 2010

Barbara J. Hinton
Legislative Post Auditor
800 SW Jackson, Ste 1200
Topeka, KS 66612-2212

Dear Ms. Hinton,

I am in receipt of the draft copy of your office's audit entitled *K-12 Education: Reviewing Issues Related to the Cost of the Health Care Benefits Provided by School Districts*, and appreciate the opportunity to comment.

The audit accurately describes the structure and functionality of State Employee Health Plan (SEHP). Further, the audit includes a thorough description of the structural issues that exist, which are often cited by school districts as barriers to joining the SEHBP. I wholeheartedly concur with the audit's assertion that the structural issues that appear as barriers to school districts are also necessary safeguards in maintaining a financially stable health plan. Finally, I commend the LPA's effort to construct a hypothetical risk pool for purposes of comparison. However, I would be very cautious about using the rates included in that hypothetical pool for purposes of making decisions about school district health care purchasing. As the audit states, an accurate estimate of costs would require professional actuarial analysis.

Since the KHPA and the SEHP were not targets of this audit, we do not plan to address the Post Audit Committee directly regarding the audit. However, the KHPA will have staff members in attendance at the meeting on the 27th to answer any questions that may arise.

If you should have further questions, please do not hesitate to contact me at 296-8146.

Sincerely,



Doug Farmer
Director, State Employee Health Benefits Plan

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