

Report Highlights

The Feasibility of Placing Public School Employees Under the Commonwealth’s Jurisdiction for the Purpose of Providing Health Benefits

House Resolution 159 called on the LB&FC to conduct a study of the feasibility and cost effectiveness of merging public school employees and Commonwealth employees under one health benefits plan. The LB&FC contracted with the Hay Group to conduct this study. Many of the study findings are based on an August 2003 survey Hay sent to all of PA’s 647 local education agencies (LEAs). LEAs include school districts, intermediate units, and certain other educational entities.

Findings:

LEA health plans differ markedly from most employer plans. For more than two-thirds of the LEAs surveyed, the most prevalent health plan is a fee-for-service or point-of-service health plan. For other governmental and private-sector employers, PPOs and HMOs are, by far (82%), the most prevalent plans. For 79% of the LEAs, the LEA paid 100% of plan costs, compared to only 19% of other employers paying the plan’s full cost.

Almost all LEAs provide either a good or very good health plan. With few exceptions, LEAs provide broadly equivalent benefit levels. Some LEAs, however, have enhanced plans that are materially better than the “standard” LEA plan.

A Commonwealth-wide health plan could have saved approximately \$585 million in health care costs in 2002-03. LEAs paid approximately \$9,558 per employee for health benefits in the 2002-03 school year. Under a Commonwealth-wide plan administered similarly to the Commonwealth employees’ health care plan, costs would have been \$7,375, a savings of \$2,183 per school employee. These savings could be achieved without any significant change in health care coverage.

A Commonwealth-wide health plan would need to be phased in. The earliest practicable date to begin a Commonwealth-wide LEA health plan is July 2005, and even then LEAs would join only after their collective bargaining agreements expire. As a result, first-year savings (2005-06) would be in the \$83-129 million range. Annual savings would rise to \$682-\$835 million in FY 2009-10, when all current collective bargaining agreements would have expired.

States vary widely in how they provide health coverage to school employees. Of the ten other states reviewed, three have no state health plan for school employees (like PA), five allow voluntary participation, and two require mandatory participation in the state health plan.

Recommendation:

The Commonwealth should, either explicitly or implicitly, require LEAs to join a statewide health plan. (Under a voluntary approach, low-cost LEAs may opt out of the plan, creating a problem of adverse selection.) Recommended plan features include:

- Creating a Public School Employee Trust, ideally comprised of equal labor and management representation, to develop a limited number of health plan options
- Using the PA Employee Benefit Trust Fund to administer the plan
- Pro rata cost sharing between state and LEA funds
- Providing a subsidy so no LEA would pay more than under their current plan
- Including retirees in the statewide plan
- Implementing the plan by July 2005

Estimated Savings	
	\$ Millions
Savings for active employees	\$524
Savings for retired employees	38
Savings from stop loss premiums	15
Savings from prescription drug rebates .	8
Total estimated savings	\$585