WASHINGTON RESEARCH COUNCIL

POLICY BRIEF

May 10, 1991

Public employee health benefit costs rising fast

Employee benefits, which account for about 5 percent of state general fund spending, are one of the fastest growing areas of the state budget. Between fiscal year 1979–80 (FY 80) and FY 91, the amount provided per employee for insurance benefits grew 78 percent after adjusting for inflation. This is illustrated in the graph below.

During FY 91 the state allocated $256 per employee per month for medical, dental, life and long–term disability insurance — about $3,073 a year. For K–12 employees the amount was $246 per month or about $2,955 a year.

Insurance Benefits Are Subject to Budget Debate

In recent years, the amount of money provided for state and K–12 employee insurance benefits has been negotiated during the budget process. This debate has been prompted by the rapid increase in costs. Maintaining current level benefits for state and K–12 employees in 1991–93 would require an estimated increase in spending of 46 percent over current biennium levels — significantly faster than growth in revenue over the same period.

Policy choices made by the state will affect the future growth in health insurance costs. The Research Council suggests the state pay particular attention to the long–term costs of its present practices in the following three areas:

- subsidized benefits for retirees;
- employer–paid coverage of dependents; and
- cost–sharing with employees.

Cost Increases Prompt Benefit Changes

In response to rapidly increasing insurance costs in the late 1980s the state made some changes in the way it provides benefits. These changes include self–insuring the uniform medical plan, which covers nearly half of all state employees; increasing the amount that employees contribute through deductibles, co–payments and changes in coordination of benefits; and reorganizing the powers and duties of the State Employee Insurance Board under a new State Employee Benefits Board.

> ***Washington is one of seven states that does not require employee contributions toward the premium for family coverage.***
>
> *— State Health Care Authority*

These changes are in line with a nationwide trend cited by the Health Care Authority toward higher employee cost sharing in health benefits.

State Employees Choose From Set of Options

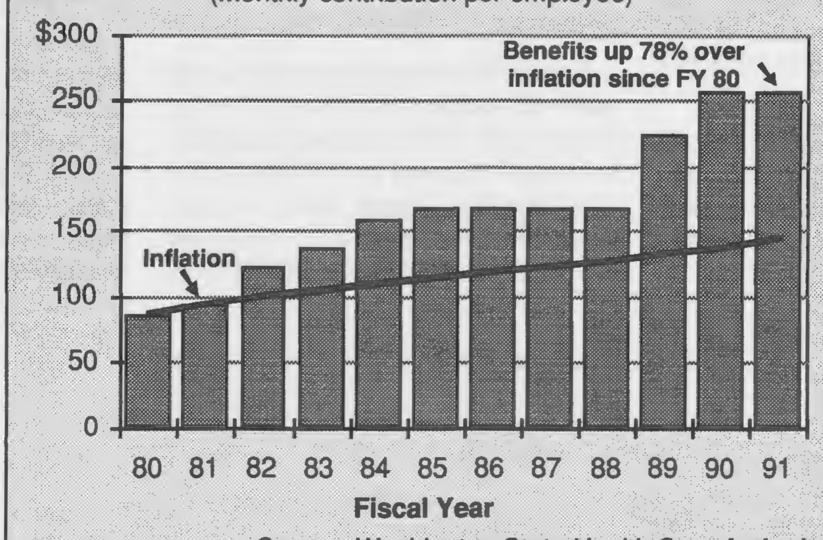
For state employees, the benefit package is set by the seven–member State Employee Benefits Board, based on the premium amount established by the legislature for each year. Employees can choose from a number of different plans, including health maintenance organizations and preferred provider plans.

While the benefit amounts are set per employee, the funds are pooled in such a way that the premiums of employees with dependents are subsidized by the state's contribution for employees without dependents. In most cases the state pays the premiums for the employee, and the employee's spouse and other dependents. Washington is one of seven states that does not require employee contributions toward the premium for family coverage, according to the Health Care Authority. The level of co–payments and deductibles depends on the plan chosen.

Local Districts Set K–12 Benefits

While the state has provided the same premium amount for K–12 employee benefits as it has

State Employee Benefits Up 78%
(Monthly contribution per employee)



Source: Washington State Health Care Authority.

for state employees over the last few years, there are differences in how this money is spent and what it buys. The state distributes funding for K–12 employee insurance benefits to school districts around the state. The local districts then decide how the money is to be spent. At the local level these benefits may be subject to contract negotiations.

Some districts pool the funds, like the state does, so that employees with covered dependents benefit from the lower insurance costs of employees without dependents. Other districts do not pool the insurance funds.

A 1989 study by the Washington State Health Care Authority found that "where districts do not pool ... those with no covered dependents receive an allocation for benefits which will purchase substantially more than 'basic benefits.'"

The study also found that the K–12 plans are richer — provide greater benefit levels for the same or lower cost to the employee — than plans offered to state employees. This disparity is the result of pooling (or absence thereof) and state program participants more heavily subsidizing the benefits received by retirees.

Retiree Subsidies Mean Increased Costs

According to the Health Care Authority, the state subsidizes almost one–third of the costs for state retirees. This subsidy comes from the amount allocated for insurance benefits for active employees.

K–12 retirees receive little or no subsidy, depending upon district policy, and the level of subsidy depends on the plan in which they participated as active employees.

In addition to resulting in unequal benefits between K–12 and state employees, this subsidy also can create cost pressures on the state budget. According to Steve Gold in *The State Fiscal Agenda for the 1990s*, "the health costs of retired state employees are becoming an increasingly significant issue.... Those states that cover retired employees in the same medical insurance system as active employees have experienced much more rapid cost increases than states that have a separate system for retirees. When retired and active employees are grouped together, active employees have sometimes been hit with very large increases in premiums."

> ***Those states that cover retired employees ... have experienced much more rapid cost increases than states that have a separate system for retirees.***
>
> — Steve Gold, *State Fiscal Agenda for the 1990s*

Future Outlook

Continuing to fund state and K–12 employee health benefits at the current levels would require an increase of 46 percent — about $300 million from the state general fund — over the current biennium appropriation, according the Health Care Authority. On a per employee basis, the estimated increase is 34 percent.

Each of the budget proposals for the 1991–93 budget period provide funding for only part of the increase necessary to maintain current benefit levels. For example, Gov. Booth Gardner's proposal would increase state general fund spending for benefits by nearly $170 million. This is an increase of about [illegible] percent.

The benefit changes suggested by the governor to achieve the cost savings include lower assumptions about the rate of inflation, higher co–payments and implementation of the Health Care Purchasing Study initiatives. According to Len McComb, director of the Office of Financial Management, the governor's proposal does not require a payroll deduction from state employees. Instead, the increased cost will be shared by the people who actually use the program, McComb said.

The Senate budget proposal includes the same per employee benefit levels as the governor has proposed. The House would provide the same funding level for K–12 employees and an additional $17 million for state employee benefits. The intent of the additional funding for state employees is to reduce the potential increase in out–of–pocket payments required of state employees through co–payments and co–insurance under the governor's plan.

State employees recognize the importance of their benefits and the trend toward higher health care costs. A recent article in the Washington Public Employees Association (WPEA) *Sentinel* reported that fringe benefits were ranked as the most important reason for remaining with state government by respondents to the Workforce 2000 state employee opinion survey.

Concern over maintaining their benefits, particularly in an environment with rapid increases in health care costs, has led the WPEA and the Washington Federation of State Employees to support lower across–the–board salary increases in exchange for funding of health benefits at current levels.