

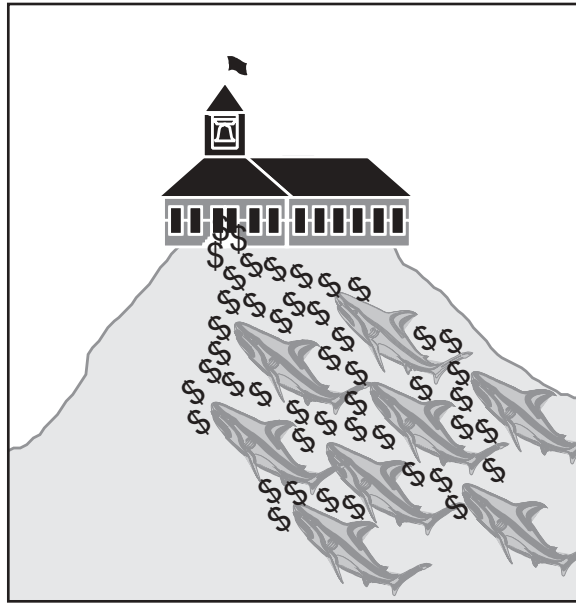
THE TIP OF THE ICEBERG

JAMES H. MILLER

As the Legislature and the governor wrestle with the state's ongoing fiscal problem, politicians of both parties seem anxious to ignore one issue that sits like an elephant ignored at a Sunday brunch — educational health care costs. By some estimates the cost of health insurance for Wisconsin's school districts will top \$1 billion in the next two years, putting additional economic pressure on local school boards and taxpayers, at a time when educational dollars are already being stretched. As the price tag for health care rises, salary increases for teachers continue to shrink and many — especially younger teachers — may be laid off.

Ironically, the only winner seems to be the teachers' union itself.

Over the years, one insurance company has developed a virtual monopoly on health care insurance for school districts across the state. That company is the Wisconsin Education Association Insurance Corporation (WEAIC). Its history is complicated and certainly below the public's radar screen. In 1970 the teachers' union formed a holding company and created the Wisconsin Education Association Insurance Group. One of its affiliates was the Wisconsin Education Association



Insurance Trust. In 1985, it formed the WEA Insurance Corporation, a stock and life insurance company, with the WEA Insurance Trust as its shareholder. It now has 85% of Wisconsin school districts' health insurance business.

At first glance it may appear that they developed a sound business plan. In fact, it has nothing to do with good

business planning; it has everything to do with how school districts choose a vendor. The truth is that a vast majority of the health insurance contracts are negotiated, not put out for bid. Over the years, the teachers' union has been able to badger and batter school districts into submission when it comes to their health care insurance. Now Wisconsin taxpayers are about to pay the piper for this absurd system.

Two years ago a nationally recognized health care insurance scholar, Professor Mark Browne, examined this system in Wisconsin. One of the first things he noted in his report was the lack of competition, which is almost unheard of in the insurance business.¹ As he outlined the costs and premiums, he came up

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with the conclusion that if competition were to be introduced into the health care mix in school districts, especially with the addition of the Wisconsin state system, districts could save \$50 million per year.

The reaction from the teachers' union was quite predictable. Union officials denounced the study and insisted that teachers were satisfied with their coverage. Part of that answer is certainly understandable: what employee anywhere in the country wouldn't be satisfied with the teachers' health care coverage? It is not unusual for a Wisconsin teacher to be covered, not only while they are working but also into retirement, with a policy that requires them to pay nothing, choose any doctor that they wish, with minimal prescription drug costs. While it is certainly excellent coverage for the teachers, it has become a disaster for taxpayers. There is every indication that this disaster is about to become a catastrophe.

Consider the tables on the following pages recently published by the Wisconsin Association of School Boards (WASB). When the teachers' union insurance plan established a firm foothold in Wisconsin, it began to accelerate their premium increases. This school year these premium increases were 22%, next year they appear to be approaching 35%, which means increases of more than 57% in a two-year period.

More to the point, the insurance increases are far outstripping the salary increases for teachers — a very bad deal for teachers, a worse deal for taxpayers, but a money-maker for the insurance company.

Even though it is a nonprofit corporation, the Wisconsin Education Association Insurance Corporation has developed a huge budget surplus over the years. This surplus consists of taxes taken from Wisconsin taxpayers and not necessarily used for health care costs. In other words, the surplus benefits only the teachers' insurance company.

As Professor Browne noted, between 1995 and 1999 the WEAIC surplus grew from approximately \$100,957,000 to \$156,986,000, a

staggering increase of 55%. But at the same time that WEAIC was increasing its surplus, the teachers' union was complaining about the lack of money available for school districts to increase salaries for teachers because of the Qualified Economic Offer (QEO).

The two developments are integrally related. The data clearly indicate that, starting in the 1990s with the QEO, WEAIC made deliberate decisions to continually raise their health insurance fees knowing that the school districts would have no option but to pay. The teachers' union certainly was aware that the higher the premiums went the less money would be available for teachers' salaries across the state. That did not bother them; rather, they made a judgment by the mid-1990s that it was more important to get rid of the spending caps.

To do this they needed to develop an artificial fiscal crunch in which school districts were unable to provide additional salaries for their employees because of the enormous rises in fringe benefits, especially health insurance. As you can tell from the data, teachers' raises were minimal from 1995 until 1999, but their insurance company certainly made a lot of money. Another conclusion is that the teachers' union is now embarked on an even more cynical pattern to finally end the spending caps. Because of escalating health insurance rates, school districts have been forced to actually lay off teachers. In addition, because of the lay-offs and the lack of salary increases, the Wisconsin Education Association Council (WEAC) is encouraging its members to become less involved in extracurricular activities that benefit students and their parents.

Why would WEAIC raise premiums while sacrificing some of their younger teachers? The answer is the November 2002 election. Clearly WEAC has decided that this is the year to end spending caps on education at the local level. In the past they have used the plight of young teachers in advertising by consistently complaining that Wisconsin under-funds education. The truth is that the teachers' union is very much aware that the premiums for health

FIGURE 1 HEALTH INSURANCE COMPARED TO THE BA BASE - STATEWIDE DATA

| Year | Family | Percent Increase | BA Base | Percent Increase | CPI Index | CPI-W | Insurance % of BA Base |
|--------------------|--------|------------------|---------|------------------|-----------|-------|------------------------|
| 1984-85 | 2016 | | 14630 | | | | 13.78% |
| 1985-86 | 2058 | 2.10% | 15705 | 7.35% | 107.4 | 3.40% | 13.11% |
| 1986-87 | 2160 | 4.93% | 16715 | 6.43% | 109.5 | 1.96% | 12.92% |
| 1987-88 | 2482 | 14.92% | 17711 | 5.96% | 114.3 | 4.38% | 14.01% |
| 1988-89 | 2958 | 19.18% | 18640 | 5.25% | 119.9 | 4.90% | 15.87% |
| 1989-90 | 3613 | 22.16% | 19541 | 4.83% | 125.6 | 4.75% | 18.49% |
| 1990-91 | 4273 | 18.26% | 20526 | 5.04% | 132.2 | 5.25% | 20.82% |
| 1991-92 | 4625 | 8.23% | 21548 | 4.98% | 136.1 | 2.95% | 21.46% |
| 1992-93 | 4958 | 7.21% | 22558 | 4.69% | 140.3 | 3.09% | 21.98% |
| 1993-94 | 5518 | 11.28% | 23209 | 2.89% | 143.7 | 2.42% | 23.77% |
| 1994-95 | 5673 | 2.81% | 23651 | 1.90% | 147.9 | 2.92% | 23.99% |
| 1995-96 | 5745 | 1.27% | 24031 | 1.61% | 151.8 | 2.64% | 23.91% |
| 1996-97 | 6027 | 4.91% | 24530 | 2.08% | 156.1 | 2.83% | 24.57% |
| 1997-98 | 6218 | 3.17% | 25090 | 2.28% | 158.6 | 1.60% | 24.78% |
| 1998-99 | 6691 | 11.01% | 25733 | 2.56% | 161.2 | 1.64% | 26.00% |
| 1999-2000 | 7124 | 6.47% | 26454 | 2.80% | 166.0 | 2.98% | 26.93% |
| 2000-01 | 8024 | 12.65% | 27054 | 2.27% | 171.7 | 3.43% | 29.66% |
| 2001-02 | 9646 | 20.21% | 27668 | 2.27% | 175.1 | 1.80% | 34.86% |
| 2002-03 | 13022 | 35.00% | 28296 | 2.27% | 181.0 | 3.20% | 46.02% |
| Avg. - Since 84-85 | | | 11.43% | | 3.75% | | 3.12% |
| Avg. - Since 90-91 | | | 10.96% | | 2.90% | | 2.83% |
| Avg. - Since 93-94 | | | 10.88% | | 2.29% | | |
| Aggregate Increase | | | 546% | | 93% | | 68% |

Source: WASB Database, 4/8/02

2002-2003 data is an estimate based upon preliminary projections.

FIGURE 2 STATEWIDE - HEALTH INSURANCE PROJECTIONS BASED UPON HISTORICAL TRENDS

| Year | 11.43% | | 3.75% | | Insurance % of BA Base |
|---------|------------------------|--------|------------------|-------|---------------------------|
| | Family Health Increase | | BA Base Increase | | |
| 2003-04 | 14510 | 11.43% | 29357 | 3.75% | 49.43% |
| 2004-05 | 16169 | 11.43% | 30457 | 3.75% | 53.09% |
| 2005-06 | 18017 | 11.43% | 31598 | 3.75% | 57.02% |
| 2006-07 | 20077 | 11.43% | 32782 | 3.75% | 61.24% |
| 2007-08 | 22372 | 11.43% | 34011 | 3.75% | 65.78% |
| 2008-09 | 24929 | 11.43% | 35285 | 3.75% | 70.65% |
| 2009-10 | 27779 | 11.43% | 36607 | 3.75% | 75.88% |
| 2010-11 | 30954 | 11.43% | 37979 | 3.75% | 81.50% |
| 2011-12 | 34493 | 11.43% | 39402 | 3.75% | 87.54% |
| 2012-13 | 38436 | 11.43% | 40879 | 3.75% | 94.02% |
| 2013-14 | 42829 | 11.43% | 42411 | 3.75% | 100.99% |
| 2014-15 | 47725 | 11.43% | 44000 | 3.75% | 108.47% |
| 2015-16 | 53181 | 11.43% | 45649 | 3.75% | 116.50% |
| 2016-17 | 59260 | 11.43% | 47360 | 3.75% | 125.13% |
| 2017-18 | 66034 | 11.43% | 49134 | 3.75% | 134.39% |
| 2018-19 | 73582 | 11.43% | 50976 | 3.75% | 144.35% |
| 2019-20 | 81993 | 11.43% | 52886 | 3.75% | 155.04% |
| 2020-21 | 91366 | 11.43% | 54868 | 3.75% | 166.52% |
| 2021-22 | 101810 | 11.43% | 56924 | 3.75% | 178.85% |
| 2022-23 | 113448 | 11.43% | 59057 | 3.75% | 192.10% |
| 2023-24 | 126416 | 11.43% | 61270 | 3.75% | 206.33% |
| 2024-25 | 140867 | 11.43% | 63566 | 3.75% | 221.61% |
| 2025-26 | 156969 | 11.43% | 65948 | 3.75% | 238.02% |
| 2026-27 | 174913 | 11.43% | 68419 | 3.75% | 255.65% |
| 2027-28 | 194907 | 11.43% | 70983 | 3.75% | 274.58% |
| 2028-29 | 217187 | 11.43% | 73643 | 3.75% | 294.92% |
| 2029-30 | 242014 | 11.43% | 76403 | 3.75% | |

Source: Wisconsin Association of School Boards, 2002

insurance, especially for single younger teachers, are exorbitant and produce a fringe benefit that most younger teachers neither need nor necessarily want. But the surplus created by these exorbitant premiums feeds the union's ever-growing revenue machine. This again suggests that WEAC is willing to sacrifice the economic well-being of some teachers, not to mention taxpayers in Wisconsin, to their larger agenda.

But even if the caps remain after the November election, the insurance problem will continue to spiral out of control. As the school board study demonstrates, if we continue spending on higher health care premiums, within twelve years we will have teachers in our system whose health care insurance will cost more than their salaries. In addition, many districts allow retiring teachers to keep these health benefits; so taxpayers will continue to spend millions of dollars on health insurance costs for teachers who are no longer in the classroom. The question is, how did we get into this mess and can anything be done to get us out of it?

To start with, when the teachers formed their insurance company and turned it into a negotiated benefit, they de facto took the power away from the school boards. In the early 1980s, as shown on the WASB chart, the local premiums were not high. They would have been approximately thirteen to fourteen percent of the base wage. From a school board standpoint this was not necessarily bad policy, even though the premiums were not bid out. The school board was not interested in having the local union officials angry when contract time rolled around. It was one thing for the school district to take criticism over wages from the public, but no school board was going to risk a work stoppage over fringe ben-

efits. The other problem was that school boards, like most political entities, did not want a problem to occur on their watch. Many school board members who enacted the current system, which gave almost total control to the teachers' union, are no longer around today when the bill comes due. While the school boards played an important role in creating this problem, they were not the only culprits. The teachers' union skillfully orchestrated the system for their own profit and eventually chose the collection of revenues over the welfare of some of their members.

There is little doubt that somewhere in the 1990s WEAC decided that young single teachers were expendable

when it came to the greater good of the union's finances. WEAC certainly understood that under the QEO school districts could not raise wages if the fringe benefits continued to skyrocket. Even today the union has the ability to save many of the jobs of its members being laid off across Wisconsin. How? A surplus of \$150 million would translate into approximately 3000 teaching jobs if that surplus

were to be used for lowering health insurance premiums to school districts. That is based on the simple assumption that the average young teacher would cost \$50,000 with salary and benefits. The union appears to have little interest in helping these members. At any given time the union could reduce layoffs across the state.

Next are the politicians. While the Democratic Party in Wisconsin certainly doesn't benefit as much as the teachers' union, they have certainly gained a political advantage from this system. Simply put, the teachers' union plows millions of dollars into Democratic campaigns. Those candidates win and the status quo continues, particularly in

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the area of health care insurance. There is little reason to believe that the Democrats will do much to change this system unless it begins to implode in the next two years.

Finally there are the Republicans. In some respects it is the Republicans, especially in the Legislature, who share much of the blame for this current system. Republicans say that they are concerned about good government and Wisconsin taxpayers, but on the issue of educational health insurance they have failed on both counts. This issue is clearly not good government and penalizes Wisconsin taxpayers. The surplus that the Wisconsin Education Association Insurance Company now has does not come from Iowa or Kansas: it comes directly from the pockets of Wisconsin families, passed on to the union through their school districts. It is neither helping education nor individual teachers; it is only helping the union. What is astonishing is that the Republicans have allowed this to continue when it would be in their self-interest to stop it. While the Democrats benefit because they win elections, the Republicans suffer because they lose those elections. For the Republicans to allow this to continue is unbelievable. In the 1990s the Republicans twice won the Senate and twice the teachers' union was able to buy it back. Why they refuse to act only their leaders can answer.

What does this all mean? Educational health care costs are spiraling out of control. In any other economic system there would be

some market mechanism to hold down the costs. That does not apply for educational health insurance: it is a classic monopoly. The Wisconsin Education Association Insurance Corporation can charge whatever premiums they like and they are almost assuredly going to be paid. If you examine the rising percentage of the premiums, you have to remember one economic fact: unlike the private sector, which also has large increases in their rates, the public educational sector has much higher base premiums; therefore, the actual dollar amounts of the increase are much higher than they would be in the private sector. That is why educational health care costs are likely to go over \$1 billion in the next two years. The only way out is to have the Legislative Audit Bureau examine what the actual impacts are on school districts, taxpayers, and teachers. Unless this occurs, there is a very real possibility that some school districts across Wisconsin may actually end up going out of business because of the costs involved with health insurance. If all this sounds improbable, ask the question: How can any institution in a state like Wisconsin have almost total control of taxpayers' money with no accountability when the dollar amount approaches \$1 billion? Something is going to have to change, and it is going to have to change soon.

Notes

1. Mark Browne and Linda Leetch: *Health Insurance for Public School Teachers in Wisconsin: A Good Value for Taxpayers or a Case of Market Abuse?*