

# THE \$100 MILLION QUESTION

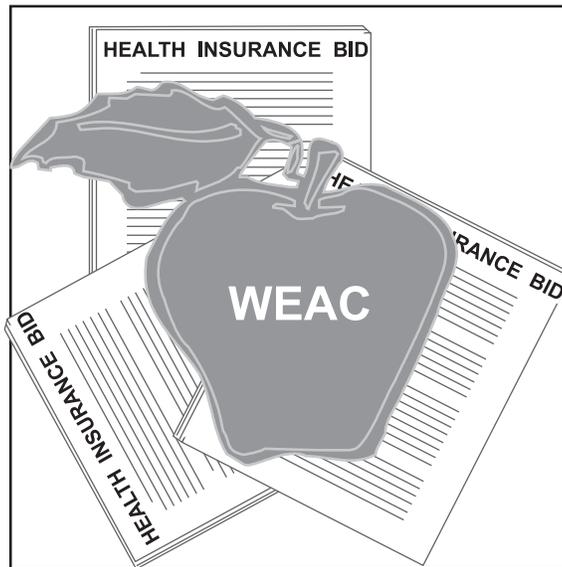
## BREAKING THE HEALTH INSURANCE MONOPOLY

SCOTT NIEDERJOHN

Increases in health insurance costs continue to absorb greater portions of Wisconsin public school teacher raises in total compensation. A recent report issued by Governor Doyle's Task Force on Educational Excellence cited this problem as a major hurdle in attracting and retaining teachers. This paper directly addresses this problem by studying options for controlling health insurance costs borne by Wisconsin school districts.

The Wisconsin Education Association (WEA) Insurance Corporation (WEAIC), an affiliate of the state's largest teachers union, dominates the health insurance market for public school teachers. WEAIC writes health insurance coverage on teachers in approximately 78% of districts in the state. In most districts, the carrier has been chosen through a no-bid process.<sup>1</sup> The market dominance of WEAIC raises the disconcerting question of whether this dual role of insurer and labor union permits WEAIC to exert market power and charge premiums above what they would be in a competitive situation.

It is estimated that if public school teachers were included in the state employee health



insurance pool, the savings on health insurance would exceed \$100 million per year statewide. If shared with the teachers, this would represent an average yearly salary increase of \$1,448 per Wisconsin public school teacher. The results of this analysis clearly demonstrate that establishing a system that allows school districts to competitively bid teacher health

insurance carriers would significantly lower insurance premiums and allow the teachers to benefit in the form of higher salaries.

### **Governor Doyle's Task Force on Educational Excellence**

On June 30, 2004, Governor Doyle's Task Force on Educational Excellence issued their final report.<sup>2</sup> This thoughtfully prepared document was developed in response to a daunting charge from the governor in which he asked the task force to study—and make recommendations for change on—wide ranging aspects of Wisconsin's public school system. This charge included reviewing existing barriers to academic achievement for students, studying

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ways to attract and retain quality teachers, and analyzing issues relating to early childhood and special education in Wisconsin.

Not surprisingly, the section of the report that addressed teacher attraction and retention was centered on public school teacher compensation. The report included statistics that showed Wisconsin teacher salaries lagging behind other Great Lakes states, as well as a decline since 1989 in Wisconsin's rank among the fifty states in average teacher pay. In response to these and other troubling statistics about Wisconsin public school teacher pay, the task force made a number of recommendations related to teacher compensation.

### Rising Benefit Costs for Teachers

The task force, recognizing the interaction between salaries and health insurance costs in the total compensation bill, noted the challenge many school boards face in providing salary increases in an age of skyrocketing health insurance costs. In many cases, increases in insurance costs eat up virtually all of the dollars available for yearly total compensation adjustments.<sup>3</sup> Data from the Wisconsin Association of School Boards (WASB) database show that teacher health insurance costs have grown much faster than teacher salaries in recent years.<sup>4</sup> In fact, the average annual Wisconsin teacher health benefit costs in 2002-03 were over 46% of the average annual base teacher salary. In 1984-1985, health benefit costs averaged just 14% of average annual teacher salaries.

### Wisconsin's National Rank in the Generosity of Teacher Benefits

In the Task Force report, no mention was made of Wisconsin teachers' national rank in

the fringe benefit component of total compensation. Data for 2001-02 from the U.S. Census Bureau shows that Wisconsin provides the second most generous fringe benefits in the nation, in terms of per-pupil costs, for teachers. As can be seen in Table 1, only New York teachers enjoy more lucrative benefit packages than educators in Wisconsin. In 2001-02, Wisconsin taxpayers spent an average of \$1,397 per pupil on public school teacher benefits, while the national average was \$884 per pupil.

**TABLE 1 TOP FIVE STATES IN COSTS OF BENEFITS PER PUPIL FOR ELEMENTARY AND SECONDARY PUBLIC SCHOOL TEACHERS (2001-2002)**

Rank	State	Benefit Cost Per Pupil
1	New York	\$1,601
2	Wisconsin	\$1,397
3	West Virginia	\$1,331
4	Maine	\$1,323
5	Massachusetts	\$1,315
<b>National Average</b>		<b>\$884</b>

Source: U.S. Census Bureau

### The Role of the QEO

The cost of the lucrative fringe benefit packages afforded public school teachers in Wisconsin has been escalating rapidly in recent years. The Task Force made no recommendation that addressed health care costs;

however, their report did express concern regarding salaries and recommended abolishment of the current Qualified Economic Offer (QEO). This law allows school boards to avoid arbitration if total compensation offers, including salary and fringe benefits, increase over the prior year by 3.8% or more. Specifically, this law states that a school board can avoid arbitration with the teachers union if it offers a QEO.<sup>5</sup>

In addition to the suggestion that the QEO be lifted, the 14th recommendation in the report stated, "Increasing school employee health insurance costs must be addressed so that funding for fringe benefits does not make needed improvements in teacher salaries impossible for districts and their taxpayers." The Task Force report maintained that eliminating the QEO law would pave the way for school districts to increase teacher salaries, as they would no longer be artificially con-

strained by state statute. However, recognizing that there is still only a finite dollar amount available for teacher compensation given the current state of public school district finances, this change may not have the impact teachers desire. The Task Force offers no guidance on this critical issue.

A more reasonable approach to increasing teacher salaries, in this time of tight budgets and onerous property tax burdens, is to get control of school district health insurance costs. Surprisingly, the Task Force makes no mention of allowing school districts to competitively bid teacher health insurance coverage. Businesses and government have understood for years that bidding health insurance typically leads to lower premiums.

**Health Insurance Providers for Public School Teachers**

The WEAIC has a near monopoly over health care for teachers. Table 2 shows that 332 of Wisconsin’s 426 school districts, approximately 78%, contract with WEAIC for their health insurance needs, which makes it by far the most dominant player in the market. The next most popular insurance carrier is Wisconsin Physician Service Insurance Corporation (WPS), used by 4.2% of districts, followed by Blue Cross and Blue Shield United of Wisconsin (3.8%), and Humana Wisconsin Health Organization Insurance Corporation (1.2%). The remaining 13% of districts use a number of other carriers.

**Barriers School Districts Face When Changing Health Insurance Carriers Under Current State Law**

School districts are technically free to solicit bids for health insurance coverage. In fact, state law requires that if a school district desires changing its health insurance carrier, it is required to solicit sealed bids.

However, in practice, school boards are severely limited in their ability to solicit competitive bids. This is because every aspect of health insurance coverage is subject to collective bargaining. The Wisconsin Employment Relations Commission has established that even minute administrative matters must be bargained.<sup>6</sup> This includes not only the overall coverage and employee cost sharing provisions, but also the manner in which the coverage is administered. Further, in many contracts, WEAIC is actually named as the health insurance provider.

All of these factors have rendered it at least difficult, if not impossible, for school boards to move away from WEAIC as the insurance carrier. Collective bargaining provisions have been used to solidify WEAIC’s near monopoly position in the teachers’ health care market.

The benefits that can be reaped by competitively bidding health insurance for public school districts are self-evident. Basic economic theory reveals that a competitive market for any good or service is most likely to result in the most efficient and cost-effective allocation of resources. Private sector employers, as well as governments, have long understood the potential cost savings of such a bidding strategy.

**TABLE 2 WISCONSIN PUBLIC SCHOOL HEALTH INSURANCE CARRIERS IN 2004**

Carrier	# of Districts	% of Districts
WEAIC	332	77.9%
WPS	18	4.2%
BCBSUW	16	3.8%
Humana	5	1.2%
Other	55	12.9%
<b>TOTAL</b>	<b>426</b>	<b>100.0%</b>

**WEAIC Versus ETF**

It is useful to compare the pricing of health insurance for teachers with other public employees. The Department of Employee Trust Funds (ETF) purchases health insurance for state employees and for many local governments. Table 3 compares the average health insurance premiums for HMOs offered by ETF in Dane County for Wisconsin public sector employees to the average health insurance premiums for Wisconsin public school districts

from 1998 to 2004.<sup>7</sup> In addition, the average insurance premiums paid by Wisconsin school districts that utilize WEAIC coverage are also displayed in this table.<sup>8</sup>

These data reveal that, on average over the years sampled, health insurance premiums for Wisconsin public sector employees (as provided by ETF) are lower than those for Wisconsin public school teachers. In addition, the highest average premiums are paid for WEAIC coverage by districts. There could be a multitude of reasons for this finding and it is these differences that will be discussed in the next section.

More pertinent to the topic of discussion in this section are the differences in the average increases of health insurance premiums between the two groups over the sample years. These differences show the benefits of compet-

itively bidding insurance carriers. Insurance premiums for Wisconsin public employees are secured utilizing an innovative competitive bidding system developed by ETF. It is clear from the data in Table 3, that this system is more successful at constraining the increases in health insurance costs. While insurance costs negotiated by ETF rose by an average of 10.5% between 1998 and 2004, school district insurance premiums rose at an average rate of over 15%.

The state's system for negotiating affordable health care for their employees is further shown by the 2005 insurance premiums they will offer. In a time of soaring health insurance costs, ETF has continued to proactively manage health insurance costs. The agency announced that 2005 health insurance premiums will increase by about 5%.

**TABLE 3 HEALTH CARE PREMIUM COST COMPARISONS**

(1) Year	(2) Average Monthly Family Premium (State Plan HMO)	(3) Percent Increase of (2)	(4) School Year	(5) Average Monthly Family Premium For Wisconsin School Districts	(6) Percent Increase of (5)	(7) Average Monthly Family Premium For Wisconsin School Districts with WEAIC Coverage	(8) Percent Increase of (7)	(9) Consumer Price Index (CPI-W)	(10) Percent Increase of (9)
1998	\$525.59	--	1997-1998	\$518.17	--	\$550.18	--	159.7	--
1999	571.26	8.7%	1998-1999	557.58	7.6%	584.58	6.3%	163.2	2.2%
2000	616.90	8.0%	1999-2000	593.67	6.5%	622.68	6.5%	168.9	3.5%
2001	700.58	13.6%	2000-2001	668.67	12.6%	707.39	13.6%	173.5	2.7%
2002	787.15	12.4%	2001-2002	803.83	20.2%	849.65	20.1%	175.9	1.4%
2003	865.55	10.0%	2002-2003	1,085.17	35.0%	1,107.68	30.4%	179.8	2.2%
2004*	957.88	10.7%	2003-2004	1,189.23	9.6%	1,226.75	10.7%	183.2	1.9%
<b>Average</b>	<b>\$717.84</b>	<b>10.5%</b>		<b>\$773.76</b>	<b>15.3%</b>	<b>\$806.99</b>	<b>14.6%</b>		<b>2.3%</b>

Notes: (2) Average premium of Dane County plans from ETF  
 (5) WASB Database  
 (7) WASB Database  
 (9) CPI for urban wage earners and clerical workers (base period = 1982-84) from Bureau of Labor Statistics

\*The 2004 data are for the first half of the year.

## Insuring Public School Teachers through the State Employee Pool

The cost of obtaining health insurance through WEAIC is demonstrably higher than other carriers.<sup>9</sup> Yet, in spite of costing more, WEAIC is the carrier of choice for 78% of Wisconsin school districts. It is apparent that WEAIC owns a significant and unfair advantage over other insurance carriers. Unlike other public and private entities in Wisconsin, school district choices of health insurance carriers is affected by the relationship between WEAIC, the health insurer, and Wisconsin Education Association Council (WEAC), the teachers' union.

Consider the following:

- Wisconsin Education Association Insurance Trust (WEAIT)—the umbrella organization which contains the health insurance company WEAIC—is the only health insurance carrier included at the bargaining table when school district contracts are negotiated with teachers.
- School districts cannot change from WEAIC without agreement from the teachers' union, most of which are represented by WEAC.
- WEAIC is reluctant to readily make available important data needed for school districts to solicit competitive bids.

Without change, school districts will continue paying excessive health insurance prices. WEAIC will resist changes that have yielded lower costs for other governmental units.

### How ETF Works

Reforms in the process, by which the health insurance coverage of public school teachers is determined, could be adopted by school districts to create a more competitive

environment for the health insurance market. These reforms would have to center on a system that encourages school districts to competitively bid for their health insurance carriers. A proxy for a health insurance market for public school teachers that provides service through a competitive bidding strategy is the state health insurance pool for Wisconsin public employers. Employee Trust Funds, a subdivision of the Wisconsin Retirement System, operates this pool. Employees statewide receive their coverage from this pool system.

The interesting and innovative method in which this pool operates creates a more traditional supply and demand market. The supply

side of the market is established each year as the ETF collects bids and premiums from health insurers whose policies meet certain state identified standards. The policies can range from full indemnity coverage to HMO coverage. Qualifying plans must meet the established state standards to provide extensive coverage. State employees can select from among all of the plans that are available in their county. The ETF categorizes policy options into one of

three tiers based on the relative efficiency with which the plan is able to provide benefits and quality of service. The state guarantees that each employee will have access to at least one policy in both the tier one and tier three categories regardless of county of residence.

Subsequently, to establish the demand side of the market, employees select a plan from the available choices in their respective county of residence. This individualized choice creates an environment in which insurers have incentive to offer the highest quality plans at the lowest possible prices in order to be competitive. This system stands in stark contrast to the options currently available to school districts which generally offer a single plan.

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Allowing public school teachers to select their own individual health insurance policy would be a significant departure from the current collective bargaining system. Even with these changes, school districts and unions would still need to negotiate the dollar amount each employee would be required to contribute towards each respective tier plans, similar to the manner in which state employee unions bargain under Wisconsin statutes.

Many local governments participate in the health care plans offered by ETF. However, only the Monona Grove school district and Yorkville J2 school district already participate in the Wisconsin public employer's group health insurance plan.<sup>10</sup> In addition, the Wisconsin Retirement System already operates the retirement program for public school teachers in Wisconsin.

If school district employees chose to join the state health insurance pool, the advantage that WEAIC has would no longer exist. Of course, WEAIC would still be able to compete in the health care market by developing a competitive insurance policy for state employees and offering it as another option within the current state plan.<sup>11</sup>

### **Choices for Teachers**

It should be noted that joining the state plan would provide teachers with significantly more choices than they currently have. They would have the ability to choose an indemnity type plan through the state (like many teachers have today) or they could choose one of the generous HMO options available and enjoy a lower premium. In other words, such a reform is not equivalent to forcing teachers into a poor health insurance plan to save money. In fact, this is the health insurance plan that is used by Wisconsin's governor and state legislators.

It might be argued that such a reform would provide a substantial incentive for attracting bright young teachers into the profession. It is likely that most young teachers, often in good health, would be interested in a reform that would allow them to make their

own health care choices. Instead of these young teachers being forced into expensive health care options that their unions choose, they would be able to select less expensive options and enjoy this savings in the form of higher salary. Wisconsin public employees benefit from this choice as 93.5% of all active state employees are enrolled in one of the state's HMO plans.<sup>12</sup>

### **Advantages for School Districts**

The difference in the cost of health insurance that local school districts currently pay and what they would pay if they joined the state plan is significant. If coverage were obtained through the state plan, most districts would significantly save on the cost of health insurance. We are able to calculate the potential savings by calculating the difference between the employer's contribution of total state pool premiums and the employer's contribution of the premiums paid by the school districts. State premiums are available in the "It's Your Choice" guide provided each year to Wisconsin state employees and the district premiums are available from the Wisconsin Association of School Boards.

A precise estimate of the total savings that is possible through a change to the state plan would require information on the number of employees choosing individual or family coverage. For the purposes of producing an estimate of the potential savings, the assumption is made that one-third of the employees choose single coverage and the remaining two-thirds choose family coverage. The savings estimates will be off to the extent that the number of employees in any district health insurance plan differs from the number of Full Time Equivalent Employees (FTEs) reported in the Department of Public Instruction (DPI) database. The state employee premiums that are used in this analysis are those for the benefit year 2004. Similarly, the school districts' premiums are those from the 2003-04 benefit year.

Three hundred eighty out of the 426 school districts, 89.2%, would lower their health

insurance cost if they switched to the state insurance plan. Based on the outlined assumptions, the Milwaukee Public School district would save \$5,117,478 per year by transferring to the state plan. The Kenosha district would save \$7,677,174 and the Racine district \$8,134,320 per year. After summing the total savings and losses across all 426 school districts, the estimated tax dollar savings for the state as a whole is \$100,953,535.<sup>13</sup>

Table 4 reports the ten districts that would achieve the greatest savings, if they were to participate in the state pool. The table clearly shows that significant savings can be attained in many school districts. The table also reports the insurer providing coverage in each of these

**TABLE 4 DISTRICTS THAT WOULD SAVE THE MOST MONEY MOVING HEALTH COVERAGE TO THE STATE POOL**

Rank	School District	Savings	Current Carrier
1	Racine	\$8,134,320	Self Fund
2	Kenosha	\$7,677,174	WEA
3	Milwaukee	\$5,117,478	United
4	Waukesha	\$4,045,241	WEA
5	Madison Metropolitan	\$2,436,971	Various Insurers
6	West Allis-West Milwaukee	\$2,198,433	WEA
7	Burlington Area	\$1,633,128	WEA
8	Oconomowoc Area	\$1,629,275	Self Fund
9	Janesville	\$1,629,107	Self Fund
10	Mukwonago	\$1,482,364	WEA

districts. Of the 50 districts that would save the most by changing to the state plan, WEAIC is the current insurer in 34 cases.

**Advantages for Taxpayers and Teachers**

The expense that the school districts would save by providing health insurance coverage through the state pool could either be returned to the taxpayers through a reduction in property taxes or used for other needs.

Under current state law, most of the savings would result in higher salaries provided the overall compensation increase remains at or below 3.8%. It is also true that by moving teachers' health insurance to the state plan, it is likely that over time a smaller portion of their increases in total compensation would be assigned to benefits. The

**TABLE 5 DISTRICTS THAT WOULD SAVE THE MOST MONEY MOVING HEALTH COVERAGE TO THE STATE POOL ON A PER FTE BASIS**

Rank	School District	Savings per FTE	Current Carrier
1	Burlington Area	\$6,160	WEA
2	Paris J1	\$6,092	WEA
3	Linn J6	\$5,718	WEA
4	Washington-Caldwell	\$5,634	WEA
5	North Cape	\$5,398	WEA
6	Sharon J11	\$5,394	WEA
7	Oconomowoc Area	\$5,389	SELF FUND
8	Union Grove J1	\$5,358	WEA
9	Williams Bay	\$5,176	WEA
10	Racine	\$5,097	SELF FUND

competitive bidding system would help to control future increases in these benefit costs as well.

In fact, for 2005 Employee Trust Funds was quite successful in holding insurance cost increases for state employees to around 5% over the 2004 level,<sup>14</sup> significantly below the national average. The yearly per teacher increase would be \$1,012 in Madison; \$687 in Milwaukee; \$351 in Green Bay; \$4,639 in Kenosha; and \$5,097 in Racine. The average yearly potential increase in salary for a public school teacher in the state would be \$1,448.

Table 5 reports the ten districts that would be able to increase teacher salaries by the greatest amount, if the savings from participating in the state pool were passed on to the teachers in the district. The largest potential increase [\$6,160] is in the Burlington Area school district. The table also reports the current insurer in each of these districts. WEAIC provides insurance in eight of these ten districts.

### Conclusion

A recent report by Governor Doyle's Task Force on Educational Excellence identified Wisconsin teacher compensation as a major problem in the attraction and retention of quality educators. The report highlighted the troubling quandary of rising health insurance costs for school districts eating into teacher salary increases.

This paper provides a potential solution to this critical problem. The health insurance market for Wisconsin school districts is dominated by WEAIC. WEAIC writes the insurance plans for over 78% of Wisconsin school districts. This paper shows that WEAIC charges more for health insurance coverage than other carriers. This is likely attributable to the exertion of market power through WEAIC's affiliation with the WEAC union.

Reform that would foster competition in the market for teachers' health insurance would serve the interests of Wisconsin's taxpayers and teachers. A model for reform is the health insurance pool for state employees. The Department of Employee Trust Funds admin-

isters this plan. If health insurance for teachers was provided through ETF, savings that could accrue to school districts are estimated to be over \$100 million per year. If the savings were passed on to Wisconsin's teachers, the average teacher in the state would potentially receive a pay raise of \$1,448. A substantial raise in salary in exchange for moving to an insurance plan suitable for the governor of the state of Wisconsin, in addition to significantly more choice in insurance coverage, seems like a straightforward decision for the state's teachers and those looking out for their best interest.

### Notes

1. According to conversations with Wisconsin Association of School Boards (WASB) representatives.
2. This report is available at: <[http://edexcellence.wisconsin.gov/final\\_report.asp](http://edexcellence.wisconsin.gov/final_report.asp)>
3. According to conversations with Wisconsin Association of School Boards (WASB) representatives.
4. This data is available at: <<http://www.wasb.org/employee/inscosts.pdf>>
5. A description of the QEO law can be found in: <[http://edexcellence.wisconsin.gov/final\\_report.asp](http://edexcellence.wisconsin.gov/final_report.asp)>
6. Section 111.70 *Wis. Stat*
7. Employee Trust Funds charges premiums over a calendar year for Wisconsin public sector employees while public school districts operate on an academic year.
8. Data for public school districts was obtained from the WASB database. All districts do not report data every year so the sample of analysis may change by year.
9. This is demonstrated by both Table 3 in this paper as well as a statistical analysis conducted in: Niederjohn, Scott "The Case for Competitively Bidding Health Coverage: Raising Public School Teacher Salaries in Wisconsin without Tax Increases," *Wisconsin Policy Research Institute Report* Volume 18, Number 1, January 2005.
10. Small, estimated differences in the employer's share of contribution still arise from the potential shift to the state pool because our estimation uses state employee premiums as opposed to the premiums offered to local government employees. In addition, the data from the WASB on school district premiums are based on an academic year while the state plan is based on a calendar year.
11. Currently, WEAIC only offers their insurance products to Wisconsin public school teachers affiliated with the National Education Association. WEAIC is not prevented from expanding their business to com-

pete in the state employee pool by their charter/articles of incorporation.

12. This information is available from the 2004 "Group Health Insurance Fact Sheet" available from ETF at: <<http://etf.wi.gov/>>
13. Calculation of this value: the savings or losses per year per employee in each district, when current premium levels are compared to the best value alternative state plan premiums by county, are multiplied by each respective district's number of full-time employees (FTEs), as reported by DPI, for both single and family plans. One third of subsequent savings or losses for each district from single plans is summed with two thirds of the subsequent savings or losses from

family plans to acquire an estimation of savings or losses for each district. This saving or loss is then summed across all 426 DPI public school districts to obtain the potential net savings to the state. The details, by school district, from this analysis are available from the following WPRI report: Niederjohn, Scott "The Case for Competitively Bidding Health Coverage: Raising Public School Teacher Salaries in Wisconsin without Tax Increases," *Wisconsin Policy Research Institute Report* Volume 18, Number 1, January 2005.

14. In 2005, state employee health insurance costs will only rise by about 5%. See the press release from Employee Trust Funds at: <[http://etf.wi.gov](http://etf.wi.gov/)>