Vermont Legislative Joint Fiscal Office

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ISSUE BRIEF

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Overview of the Estimated Savings under the New VEHI Health Care Plans

A. Background

In January 2018, all school employees in Vermont are moving to new health insurance plans offered by the Vermont Education Health Initiative (VEHI). Most Supervisory Unions (SUs) are currently negotiating contracts based on the new plans.

- There are four different new plans that on average have lower premiums and generally higher deductibles and different co-pay structures than the current plans. In response, it is assumed school employees would make different decisions about how to use health care (generic drugs vs. brand-name drugs, emergency room visit vs. office visit, and the like)
- The change will affect only 6 months in FY18: health insurance plans start January 1, halfway through the school fiscal year

Current employee benefits are a significant and an increasing share of statewide education spending, exceeding 20% in FY15.[1]

B. The Governor's Plan: Assumptions for Estimated Savings

The Governor has proposed that the new health insurance plans be negotiated at the State level rather than at the SU level beginning with plans effective on January 1, 2018. He has asserted that these negotiations will result in savings up to $26 million in annualized saving (half-year savings of $13 million in FY18). The Governor proposes that these savings be used to support existing General Fund obligations, teacher pensions, and property tax relief.

The Governor assumes employers pay $26 million[2] less in premiums for a full plan year based on the following assumptions:

- Employers pay 80% of the premium for the Gold Consumer Directed Health Plan (CDHP) in contrast to the current average premium split of 86% paid by the employer, 14% paid by the employee[3]. On average, while employees will pay a larger share of premiums (20%), the actual amount paid by employees will not increase because total plan costs will be lower.
- Employers contribute to Health Savings Accounts (HSAs) or Health Reimbursement Accounts (HRAs)[4] to keep employees from paying more in out-of-pocket (OOP) costs.[5]

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[1] Summary of the Annual Statistical Report of Schools (SASRS), Agency of Education.
[2] Laura Soares, President, VEHI, based on BCBSVT actuarial estimates. Assumes $75.5 million in premium savings to employers less $49.5 million in increased contributions to HSAs/HRAs. See footnote below for $49.5 million estimate.
[3] Vermont School Boards Association (VSBA).
[4] Flexible Spending Accounts (FSAs) are not mentioned in the Governor's plan but could be bargained.

C. JFO: Areas of Concern Regarding Savings Estimates

Estimating actual savings is difficult because of the following concerns:

- Overall savings depend on the final outcome of collective bargaining, regardless of who negotiates
    - If the state negotiates health care benefits, SUs will still negotiate other compensation (wages, leave, etc.) If wages rise or other benefits increase more than they would have without the change in health insurance plans, overall savings would diminish
- If employers pay more than 80% of Gold CDHP premiums, employer premium savings would be lower
- If employers contribute a different amount than assumed to cover OOP costs through HSAs or HRAs, overall savings would change
- If utilization is higher than expected by BCBSVT, premiums would rise in future years which could potentially increase costs for employers and employees in a variety of ways
- Eight supervisory unions have already settled contracts for FY18, setting precedent for others
    - The eight SUs may or may not be representative of the remaining SUs
    - Four SUs agreed to pay more than 80% of premiums, and at least three agreed to pay OOP costs above the average amount assumed under the Governor's plan
- Some districts already budgeted savings in FY18 in anticipation of lower health care costs
- For the 21 SUs already at impasse, the VSBA estimates that the cost of mediation and fact-finding would be roughly $336,000 for these SUs; another 32 SUs are still in negotiations

D. What happens to the potential savings under the various proposals?

- If the State takes no action regarding health insurance plans for school employees, school districts still could see some savings; any savings would become an FY18 surplus for the district
- Under other proposals, savings would be measured as the difference between each district's budgeted and actual expenditures on teachers' health care in FY18; these actual savings would be deducted from each district's education payment
- Those savings would be used in alternative ways under the different proposals:
    - Governor's plan: collective bargaining at the State level; the savings would be divided: one-third for the normal cost of teachers' pensions, currently a General Fund obligation; one-third for General Fund; and one-third for property tax relief
    - Beck proposal: collective bargaining at the State level; the savings would be an FY18 surplus for the Education Fund for use in subsequent years
    - Webb amendment (House-passed): collective bargaining at the SU level; the savings would be returned to the districts that achieved savings, as a grant, and used to reduced homestead tax rates after voters have approved school budgets

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[5] $49.5 million is the estimated difference between the potential OOP costs that would be incurred under the new plans if everyone reaches the maximum OOP allowed and total OOP cost paid in FY15 based on the average OOP cost per person in the plans. Source: Laura Soares, VEHI.