

MEMORANDUM

October 11, 2016

TO: Education Committee

FROM: Craig Howard, Senior Legislative Analyst *CH*

SUBJECT: **Discussion – MCPS Group Insurance**

Today, the Committee will follow-up on MCPS group insurance questions and issues raised this past spring during budget deliberations. MCPS representatives expected to attend the worksession include Dr. Jack Smith, Superintendent of Schools; Nicky Diamond, MCPS Chief Strategy Officer; and Sue DeGraba, MCPS Chief Financial Officer.

During its FY17 budget decisions on compensation and benefits, the Council approved the agencies' tax supported requests for active employee group insurance while also supporting the following recommendation: **“Recognize the efforts by MCPS in FY15-16 to move toward aligning the group insurance premium cost share for active employees with the cost share established by County Government. Encourage further efforts in this direction starting in FY18. The goal is to channel more tax dollars to initiatives that reduce class size and target the achievement gap.”**

MCPS group insurance benefits are subject to collective bargaining between the Board of Education (BOE) and the MCPS employee unions and fall under the decision-making authority of the BOE. At the same time, the Council has historically reviewed and discussed agency benefit issues as part of its fiscal oversight responsibilities. For today's discussion, Council staff will provide background information on current cost share rates for all the County tax supported agencies as well as details on:

- Projected agency savings if MCPS adopted the same premium cost share as County Government;
- The potential impact a cost share shift could have on MCPS employees; and
- Information on active employee group insurance costs share splits for other local school systems.

Agency group insurance costs and cost share rates

FY17 approved tax supported spending on active employee and retiree group insurance (including OPEB pre-funding) for MCPS, County Government, Montgomery College, and M-NCPPC totals \$591.6 million, or 13% of the \$4.6 billion in total tax supported spending for all agencies. In MCPS, the approved FY17 tax supported total is \$365.5 million or 16% of its \$2.3 billion total tax supported budget.

Over the past several years, in conjunction with the onset of the Great Recession, the Council has closely examined agency group insurance spending through several efforts, including: the Office of Legislative Oversight's initial and follow-up reports on the County's structural budget deficit; the Task Force on Wellness and Consolidation of Agency Group Insurance Programs; and health data collection and reporting efforts.

These initiatives led to changes in the structure of agency group insurance benefits via adjustments to plan designs and to the employer/employee cost share rates, as well as ongoing efforts within all the agencies to reduce the demand for health care services through an increased focus on employee wellness and disease management programs.

In FY12, the Council approved major structural changes to group insurance benefits that included changing the active employee cost share for group insurance premiums to 20% for HMO medical coverage and 25% for all other medical, prescription, dental, vision, and life insurance coverage. This change led to approximately \$6 million in annual savings to the County Government beginning in FY13.

While the Board of Education (BOE) chose not to change cost share rates in FY12, the Board and the MCPS employee unions negotiated a cost share change beginning in FY15 that increased the employee share by 7% total phased-in over two years. Specifically, the premium cost share for HMO plans shifted from a 95% agency, 5% employee (95/5) split to an 88/12 split. For POS medical and prescription plans, the cost share shifted from a 90% agency, 10% employee (90/10) split to an 83/17 split.

The negotiated agreement also included the ability for an employee to achieve cost share credits and or be required to pay a cost share penalty. Employees are able to earn cost share credits of 1% each for completing a Health Risk Assessment and having a Biometric Screening. Employees that use tobacco have to pay a 3% cost share penalty. Based on these credits and penalties, the MCPS employee share for medical plans could be as low as 10% (for an employee enrolled in an HMO plan who also earns the maximum 2% cost share credit and does not use tobacco) or as high as 20% (for an employee enrolled in a POS plan who does not earn any credits and pays the 3% tobacco user penalty). For prescription coverage, the range for an employee is from a low of 15% (with credits) to a high of 20% (with the penalty).

MCPS estimated agency savings of approximately \$5 million in FY15 and \$13.5 million in FY16 from these changes. Since the changes are permanent, the agency savings from these actions continue each year and are embedded in the MCPS budget. As of March 1, 2016, MCPS reports that about 60% of enrollees are receiving the biometric screening credit, about 35% are receiving the health risk assessment credit, and about 15% are paying the tobacco user penalty. The current health benefits premium cost share for the tax supported county agencies is shown below.

2016 Health Benefits Premium Cost Share for Active Employees by County Agency

Employee Status or Plan Type	Base Health Premium Cost Share	
	Agency Pays	Employee Pays
Montgomery County Government		
HMO plans	80%	20%
POS and Rx plans	75%	25%
MCPS*		
HMO plans	88%	12%
POS and Rx plans	83%	17%
Montgomery College		
All plans	75%	25%
M-NCPPC		
HMO, EPO, and Rx plans	85%	15%
POS plan	80%	20%
FOP represented employees (all plans)	80%	20%

*With cost share credits and penalties, actual MCPS cost share can vary from 90/10 to 80/20.

Projected agency savings from aligning MCPS cost share with that of County Government

Aligning MCPS cost share with that of County Government would require an 8% increase in MCPS employees’ base share of the premium. Using MCPS group insurance plan enrollment data as of March 1, 2016 and calendar year 2017 plan premium costs, the table below shows Council staff’s estimate of initial FY18 savings and annualized savings from two scenarios: an 8% shift that occurs all at once and an 8% shift phased in over four years at 2% per year. Since health plans operate on a calendar year instead of a fiscal year basis, projected FY18 savings represent savings from one-half of the fiscal year and the annualized savings would not occur until FY19.

Council staff estimates that MCPS could achieve approximately \$25.6 million in agency savings on an annualized basis if it were to adopt the same cost share rates as County Government. If the cost share change was phased-in at 2% per year, the annualized agency savings would total \$6.4 million each year over four years until reaching the same \$25.6 million total.

Projected FY18 MCPS Active Employee Group Insurance Costs

	8% shift all at once	2% per year phase-in
Estimated FY18 MCPS “Agency” Cost: Current Cost Share	\$272.5 million	\$272.5 million
Estimated FY18 MCPS “Agency” Cost: MCG Cost Share	\$259.7 million	\$269.3 million
Difference	(\$12.8 million)	(\$3.2 million)
Annualized	(\$25.6 million)	(\$6.4 million)

This estimate assumes current plan design, no enrollment changes, and no changes in plan rates for 2018 and beyond. Changes in any of these variables could increase or decrease projected savings going forward. Additionally, the estimate assumes that MCPS maintains its current cost share credit and penalty structure. Council staff did not include data for the limited number of employees still in MCPS’ closed POS plan (only open to employees hired before 1994).

Potential impact of cost share shift on MCPS employees

The projected savings shown above are not the result of a reduction in the annual premium amounts; instead they reflect a shift of premium costs from MCPS to employees. To show this impact, Council staff estimated the increased annual cost to an employee based on the coverage type and the plan options an employee chooses. Based on an 8% cost share shift:

- MCPS employees enrolled in the least expensive plan options would pay an additional \$520 (individual coverage) to \$1,495 (family coverage) per year.
- MCPS employees enrolled in the most expensive plan options would pay an additional \$689 (individual coverage) to \$1,840 (family coverage) per year.
- The 2% phase-in approach would have the same eventual impact, but would spread the increases out over four years. For example, the employee with the maximum possible increase of \$1,840 for family coverage would pay an additional \$460 each year.

Projected MCPS Employee Premium Increases by Coverage Type and Plan Options

Coverage Type	Projected Annual Employee Premium Cost		
	Current Cost Share	8% Increase in Cost Share	2% Increase in Cost Share
Employee Enrolled in Least Expensive Plan Options			
Individual	\$899	\$1,418	\$1,029
Difference	--	+\$520	+\$130
2 Party (employee +1)	\$1,737	\$2,736	\$1,986
Difference	--	+\$999	+\$250
Family	\$2,544	\$4,039	\$2,918
Difference	--	+\$1,495	+\$374
Employee Enrolled in Most Expensive Plan Options			
Individual	\$1,464	\$2,154	\$1,636
Difference	--	+\$689	+\$172
2 Party (employee +1)	\$2,928	\$4,306	\$3,272
Difference	--	+\$1,378	+\$345
Family	\$3,910	\$5,750	\$4,370
Difference	--	+\$1,840	+\$460

*Estimates assume no changes to an employee's current credits or penalties. The least expensive plan options includes CareFirst BlueChoice HMO medical, Caremark Rx, Aetna Dental, and Davis Vision. The most expensive plan options includes Cigna Open Access Plus POS, Caremark Rx, CareFirst Dental, and Davis Vision.

Additionally, using average salary data from MCPS' FY16 Staff Statistical Profile, Council staff calculated what the minimum (\$520) and maximum (\$1,840) possible increase would represent as a percent of salary for three employee types. Since health premiums do not vary by salary, lower-paid employees would bear a greater burden from a cost share shift.

- The FY16 average salary for **Administrator** positions is \$129,626. For this average, an increase of \$520 represents 0.4% of salary and \$1,840 represents 1.4% of salary.
- The FY16 average salary for **10-month Teacher** positions is \$77,887. For this average, an increase of \$520 represents 0.7% of salary and \$1,840 represents 2.4% of salary.
- The FY16 average salary for **Support Staff** positions is \$45,186. For this average, an increase of \$520 represents 1.2% of salary and \$1,840 represents 4.1% of salary,

Cost share rates in nearby school districts

To provide additional context, the table on the next page compares MCPS active employee premium cost share rates with those for DC Public Schools, Prince George's County Public Schools, Howard County Public Schools, and Fairfax County Public Schools. Council staff notes that this comparison looks at cost share only; it does not compare other aspects that impact overall costs such as plan design features (co-pays, deductibles, out-of-pocket maximums, etc.) or plan enrollment.

The table shows that each of these school systems takes a slightly different approach to setting cost share rates, with differing cost shares by plan type, coverage type, or employee service time or hire date. **In general, MCPS employees pay between 3% and 13% less in base cost share rate than employees in the DC, Prince George's, and Fairfax County school systems (except for those who select individual coverage in Fairfax). Howard County school system employees pay a cost share rate that is either slightly higher or slightly lower than MCPS employees depending on specific plan choices.**

2016 Health Benefits Premium Cost Share for Active Employees in Nearby School Systems

Employee Status or Plan/Coverage Type	Base Health Premium Cost Share	
	Agency Pays	Employee Pays
MCPS*		
HMO plans	88%	12%
POS and Rx plans	83%	17%
District of Columbia Public Schools		
Employees hired before 10/1/87 (all plans)	72%	28%
Employees hired after 10/1/87 (all plans)	75%	25%
Prince George's County Public Schools		
Employees with <8 years of service (all plans)	75%	25%
Employees with 8+ years of service (all plans)	80%	20%
Howard County Public Schools		
Employees hired before 6/30/11 (all plans)	87%	13%
Employees hired after 6/30/11 (all plans)	85%	15%
Fairfax County Public Schools		
Individual coverage (all plans)	85%	15%
Minifamily and Family coverage (all plans)	75%	25%
Two-employee Family coverage (all plans)**	80%	20%

* With cost share credits and penalties, actual MCPS cost share can vary from 90/10 to 80/20.

**Employee and spouse both work for the school system in benefits-eligible positions.