



# Legislative Post Audit Performance Audit Report Highlights

## K-12 Health Insurance: Evaluating the Financial Impact of Establishing a Consolidated K-12 Health Insurance Plan

February 2017 • R-17-001

### **QUESTION 1: How Much Could the State Save by Consolidating K-12 Health Insurance, and How Would it Affect Districts' Current Coverage Levels?**

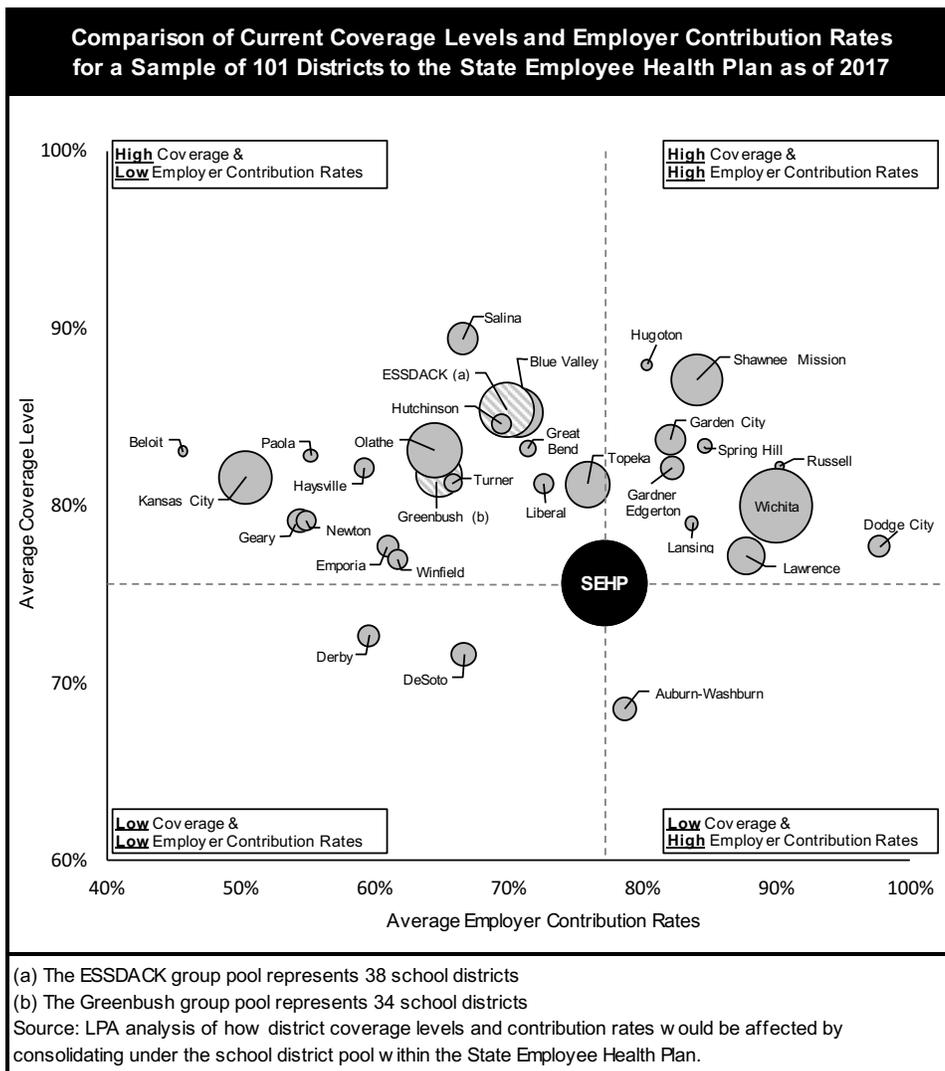
#### **Background Information**

*According to expenditure data compiled by the Kansas State Department of Education, school districts spent \$326 million on health insurance premiums during the 2014-15 school year.*

*The 2016 efficiency study conducted by Alvarez & Marsal (A&M) concluded that school districts could lower insurance costs by \$80 million annually by consolidating K-12 health insurance into a single plan.*

- Depending on the plan design, consolidating K-12 health insurance plans for the 101 districts in our sample could save an estimated \$63 million a year. (p. 9)
  - We collected and assessed the reliability of healthcare data for a sample of 101 of the state's 286 school districts on behalf of KDHE's actuary.
  - KDHE's actuary used our data to estimate the savings associated with 101 districts joining a pool modeled after and administered by the State Employee Health Plan.
  - The actuary estimated consolidating K-12 healthcare could save the 101 districts in our sample a total of \$63 million a year.
- Consolidation would generate an estimated \$38 million in annual savings through increased plan efficiencies. (p. 10)
  - Consolidating K-12 health insurance statewide could make the plans more efficient by reducing administrative costs and eliminating the need for catastrophic coverage.
  - Consolidating K-12 health insurance into a pool administered by the SEHP would create an estimated \$38 million in annual savings through increased plan efficiencies for our sample of districts.
  - There would still be significant efficiency savings even if some school districts did not join a consolidated plan administered by the SEHP.
- Consolidation would also generate \$25 million a year in savings for districts by shifting costs to employees. (p. 13)
  - A consolidated plan that reduces coverage would achieve some savings by shifting costs to employees.
  - Similarly, a consolidated plan that increases the employees' share of the insurance premiums would achieve savings by shifting costs to the employees.
  - Consolidating K-12 health insurance to a plan modeled after the SEHP would reduce coverage for most of the districts in our sample, reducing costs by a total of about \$24 million a year.
  - Consolidating K-12 health insurance to a plan modeled after the SEHP would also increase the employees' share of premiums in Wichita and other districts, further reducing district costs by about \$1 million a year.
  - Wichita accounts for about 89% of the total cost shift related to increasing employees' share of premiums.

- KDHE's actuarial savings estimate is based on more data and better assumptions than savings estimates previously reported by both A&M and LPA. (p. 17)
  - The Alvarez and Marsal (A&M) efficiency study relied on less information and different assumptions than the analysis performed by the KDHE actuary.
    - Differences in the A&M estimate and those developed by the KDHE actuary include that A&M's estimates were based on a much smaller sample of district employees, were projected statewide, and assumed all employees would join a high-deductible plan.
  - Our 2010 audit of K-12 health insurance concluded that only a few school districts would benefit from joining a single statewide pool, but several important factors limited that analysis.
- Joining a pool administered by and modeled after the state employee health plan is just one option available to consolidate K-12 health insurance in the state. (p. 18)
  - School districts could save a total of \$63 million a year (\$38 million through efficiencies and \$25 million through cost shifts) by consolidating under a pool administered by and modeled after the SEHP.
  - School districts could still achieve \$38 million in savings through increased efficiencies by consolidating under a pool administered by the SEHP but modeled after a different set of plans.
- Any savings from consolidation would be realized by school districts unless a mechanism is developed to transfer them to the state. (p. 19)



## **QUESTION 2: What Options Would the State Have in Structuring a Consolidated K-12 Health Insurance Plan?**

- The Legislature would need to decide whether the state or school districts keep the potential savings from consolidation. (p. 21)
  - The Legislature could allow districts to keep any savings realized through consolidation as a form of additional funding.
  - The Legislature could recoup any savings realized through consolidation by reducing school district funding by the actuarially estimated saving amounts.
  - Alternatively, the Legislature could allow the state to administer and pay for all K-12 health insurance and reduce district funding by the entire cost of coverage.
- The Legislature would also need to make several key decisions that could affect how much is saved through consolidation. (p. 22)
  - The Legislature would need to decide whether all districts would be required to participate, or if some districts could opt out of consolidation.
    - Requiring mandatory participation maximizes state savings but could negatively affect some districts.
    - None of the four states we reviewed required all districts to participate in their consolidated healthcare program.
  - The Legislature would also need to decide whether districts would have any discretion over their share of the insurance premiums.
    - A mandatory contribution rate could require some districts to pay less of their employees' premiums, saving districts money but reducing employee benefits.
    - Similarly, a mandatory contribution rate could require other districts to pay more of their employees' premiums, increasing districts' costs but improving employee benefits.
    - Only two of the states we reviewed had mandatory requirements on employer contribution rates.
- Either the Legislature or KDHE officials would need to decide how many different plan options to offer. (p. 25)
  - Offering multiple plans increases coverage variety and pricing options, but could adversely affect savings.
  - All four states we reviewed offered multiple plan types and options to their districts.
- The time needed to implement a consolidated K-12 health insurance plan and several other factors will make it difficult for the state to achieve the savings outlined in the Governor's FY 2018 Budget. (p. 25)
  - The Governor's budget assumed consolidating K-12 health insurance would generate \$40 million in savings in fiscal year 2018, and \$80 million in fiscal year 2019.
  - Based on the results of the actuary's analysis, those estimates appear high without significant cost shift to district employees.
  - The timeline proposed in the Governor's Budget to achieve these savings appears aggressive.
    - Several factors will make it difficult for the state to fully implement a consolidated K-12 health insurance quickly.
    - Several factors will also make it difficult for school districts to achieve all potential savings from consolidation quickly.

- We identified two other issues that should be considered if the state decides to consolidate K-12 health insurance. (p. 26)
  - Self-insured districts would have to determine what to do with their existing reserve funds.
  - The provider networks established under a consolidated K-12 health insurance system could require employees to switch medical professionals.

**Conclusion**

- The results of the analysis conducted by KDHE’s actuary confirm that consolidating K-12 health insurance plans across the state does appear to have the potential to generate significant savings, including \$38 million through increased plan efficiencies.
- However, it is also important to consider how consolidation may affect the coverage levels and employer contribution rates of Kansas school districts.
- Finally, consolidating K-12 healthcare across the state would be an extremely complicated and complex process and several important decisions will need to be made before consolidation is possible.

***SUMMARY OF RECOMMENDATIONS***

This audit did not have any recommendations.

***AGENCY RESPONSE***

This audit did not have any agency responses.

**HOW DO I REQUEST AN AUDIT?**

By law, individual legislators, legislative committees, or the Governor may request an audit, but any audit work conducted by the division must be directed by the Legislative Post Audit Committee. Any legislator who would like to request an audit should contact the division directly at (785) 296-3792.

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