Approved: 2-10-99
Date

MINUTES OF THE APPROPRIATIONS COMMITTEE.

The meeting was called to order by Chairperson Phill Kline at 9:00 A.M. on January 20, 1999 in Room 514-S of the Capitol.

All members were present except: Rep. Phil Kline
Rep. Tony Powell
Rep. Shari Weber
Rep. Ed McKechnie

Committee staff present: Legislative Research - Alan Conroy, Robert Waller, Stuart Little, Rae Anne Davis, Leah Robinson, Paul West
Revisor of Statutes - Jim Wilson, Mike Corrigan
Secretary - Ann McMorris

Conferees appearing before the committee:
Dan Stanley, Secretary, Department of Administration
Terry Bernatis, Health Administrator, Department of Administration
Craig Grant, Director of Political Activities, Kansas National Education Association
Bill Curtis, Assoc. Executive Director, Kansas Association of School Boards
Linda DeCoursey, Kansas Insurance Department
Marvin Burris, Director of Planning, Budget & Govt. Affairs, Board of Regents
Dr. Jerry B. Farley, President, Washburn University, Topeka

Others attending

Chairman Kline called the meeting to order at 9:00 p.m. The first matter of business was a hearing on the issue of including public school teachers in the state employee health insurance plan . An Interim Committee reviewed this issue and last year the legislature passed a bill that included a proviso that required the issuance of a report reviewing that inclusion.

The report of the Special Committee on Financial Institutions and Insurance on Health Insurance Coverage for School Employees under the State Employees' Health Care Program was distributed to the committee. (Attachment 1)

Public School Teachers and State Employee Health Insurance

Dan Stanley, Secretary, Department of Administration and Chairman of the Health Care Commission. The Kansas State Employees Health Care Commission was created in 1984 as an independent entity to administer and set eligibility for participation and establish the State Health Care Benefits Program. One of the keys to controlling costs is the size and nature of the pool and one of the issues of bringing in other entites is how it will impact costs. The Interim Committee requested criteria that would not impact the state's plan per se as far as our employees were concerned. The report will be delivered in February. Stanley explained the difference in the state plan as opposed to the school plan - i.e. cash out option vs. use it or lose it. He touched briefly on the Mercer Study and introduced Terry Bernatis.

Terry Bernatis, Health Benefits Administrator, Department of Administration. She prefaced her report by explaining that the Mercer study is the result of a proviso to the 1999 Appropriations Bill SB 495 which directed the Health Care Commission to determine two issues (1) financial fiscal impact and (2) associated effect of mandatory participation of our public school districts in the State of Kansas health benefits program. She presented written testimony which covered the major findings of the Mercer study and the associated effects. The most significant impact would be made in the difference in average salary. (Attachment 2)

Craig Grant, Director of Political Activities, Kansas National Education Association. He stated that one of the problems of KNEA members is securing afforable health care insurance. This situation has been created by insurance pools going under. They believe allowing educators to be a part of the public employees' health insurance plan would provide stability in rates and coverages. Grant stated that the Mercer Study has shown that there is no material difference in the health history of state and school employees and therefore educators could enter the state plan without adversely affecting the plan itself. (Attachment 3)

Bill Curtis, Associate Executive Director, Kansas Association of School Boards, reviewed their efforts in getting health insurance for educators. There is a change in perception on the part of school boards and employees about what must be done to secure stable health care. In recruiting new superintendents and new certificated employees the school districts report having difficulty if they do not have a health plan. Much interest has been shown by the districts in joining the state plan. More school districts are requiring all their employees participating in a health plan. He noted one option would be a minimum time in the plan - possibly 5 years. School boards would consider minimum participation rate of all employees (not eligible only). (Attachment 4)

Linda DeCoursey, Director of Government Affairs, Kansas Insurance Department reviewed the testimony the Insurance Commissioner had presented to the Special Committee on Financial Institutions and Insurance in November. She stated that Commissioner. Sebelius is a strong supporter of permitting school districts to join the state employee health care plan. She noted a basic concept of insurance is the ability to spread risk to as large a group as possible. The Mercer study demonstrates there is no real age difference between employee groups, the same urban/rural mix, that the gender difference has no real financial impact and the only substantial difference is the average salary. (Attachment 5)

Chair closed discussion.

Regents Parity Funding for Faculty Salaries

Marvin Burris, Director of Planning, Budget and Govt. Affairs, Board of Regents explained peer comparison in the Kansas Regents system. Comparisons are made for the overall level of funding and for two components within overall funding, i.e. faculty salaries and other operating expenditures. The Board's plan for FY 2000 through FY 2002 is based on an annual 7.6% increase wich consists of two components: 3.6% increase to keep pace with faculty salary growth at the peer institutions and 4% increase to achieve 100% parity with the peer institutions. (Attachment 6)

Dr. Jerry B. Farley, President, Washburn University, discussed the faculty salary analysis conducted by Washburn in the spring of 1998. He presented the Faculty Compensation Proposal which served as the basis of their budget request to the Governor. (Attachment 7)

Due to lack of time, discussion was limited.

Moved by Representative Neufeld, seconded by Representative Reardon, to introduce a bill to enlarge the membership of the joint committee on state building construction and the joint committee on Information Technology. Motion carried.

Next meeting will be held January 21, 1999.

Adjournment.

Respectfully submitted,
Ann McMorris, Secretary

Attachments - 7

SPECIAL COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE

HEALTH INSURANCE COVERAGE FOR SCHOOL EMPLOYEES UNDER THE STATE EMPLOYEES' HEALTH CARE PROGRAM

CONCLUSIONS AND RECOMMENDATIONS

The Committee recommends that the State Employee Health Care Commission establish criteria for the creation of a program that would admit school district employees to the state employee health care plan and submit such criteria to the appropriate standing committees of the Legislature by not later than February 1, 1999.

BACKGROUND

The 1998 Legislature appropriated $40,000 to the Department of Administration for an actuarial study to "ascertain the fiscal impact and associated effects of requiring participation in the state health care benefits program by all unified school districts." Perhaps as impetus to the appropriation action, two bills were filed in 1997-98 to address the health insurance issues of school districts. H.B. 2784 would have qualified school district employees to participate in the state employee health benefit plan on and after July 1, 1998. H.B. 2713 would have required the Commission to establish and administer a public school district health care benefits program separate from the state health care benefits program for state employees. The House Committee on Insurance held a hearing on the issue but took no action.

COMMITTEE ACTIVITIES

The Special Committee on Financial Institutions and Insurance received this study after the interim period had begun. The Committee spent nearly a full day in total meeting time on the subject and heard from: representatives of William M. Mercer, Inc., the State Employee Health Care Commission, the Kansas Association of School Boards, the Kansas National Education Association, the Southeast Kansas Educational Service Center, the Southwest Plains Regional Service Center, the advisory committee to the State Employee Health Care Commission, as well as the Insurance Commissioner, and teachers and superintendents of various unified school districts (USDs).

Spokespersons for Mercer highlighted the dual nature of their study and report: to ascertain the fiscal impact of including school district employees in the plan and the associated effects of such participation on the plan arising from the inclusion of those employees. They frequently cautioned that their financial analysis was performed under one important assumption, that all USDs will be required to join the state plan and adhere to its eligibility, plan design, and contribution provisions. Any deviation for that assumption, they warned, would materially change the outcome of their analysis.

The Financial Impact. Looking at the financial impact. Mercer provided cost analysis

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under two participation assumptions. At the 90 percent rate, the estimated additional cost of adding the USD population of 61,475 to the state plan population of 35,567 for calendar year 1999 would be $199.5 million for the employee contributions and $68.2 million for the employee contributions (total cost of $267.7 million). At the 70 percent participation rate, the cost would be $155.1 million for the employer and $53.0 million for the employees (total cost of $208.1 million). The estimated employer contribution under the expanded plan of state employees and school district employees would be $268 per month per employee. Since the USD contribution currently ranges from nothing to full coverage, it is not possible to fix the exact additional dollars districts would need to generate in order to join the state plan.

The Associated Effects. A sizeable portion of the Mercer report is dedicated to an identification and discussion of the effects associated with the merging of the two groups. At the outset, it is clear that the two groups share similar characteristics. For example, there is no material difference in age between the groups and the percent of urban penetration is the same. There are, however, more females in the USD group and the average salary of school district employees is lower than for state employees. There is no negative impact on the state plan from bringing in the school employee group based upon health characteristics. Nevertheless, there are at least three significant items to be mentioned and considered:

- **Plan Anniversary Dates**. The state plan begins with the calendar year while school district plans general begin in September.
- **Retirees**. Most school districts seem to terminate retiree coverage at age 65. State retirees may continue coverage throughout their retirement.
- **Cashout Option**. The state plan is a "use it or loose it" benefit. That is, there is no cash benefit provided for those who choose not to be covered. Many school districts, on the other hand, allow employees a cash option in lieu of the insurance coverage.

The cashout provision is a significant difference between the two plans and potentially is the greatest barrier to merging the plans. For many districts, the cashout is a part of the negotiated benefit package and would be difficult to remove as a benefit, particularly from the younger and healthier employees.

Administration. The actuarial study indicates that combining the two groups will necessitate a larger administrative staff. Currently, 13 people provide all the services for state enrollees. The projection is that an additional 25 staff members would be required to provide the services required by a group of nearly 104,000 covered lives.

Representatives of the various teacher and administrator associations acknowledged a role in the health insurance crisis facing several districts. Generally, the approach to contract negotiations over the last several years has resulted in higher health insurance premiums because of adverse selection. Younger and healthier employees take the cashout option leaving the older and sicker employees to be covered by insurance. These conferees believed that several local issues would need to be resolved before coverage under the state plan would be feasible or desirable for many of the districts. Notwithstanding the barriers, the groups suggested to the Committee that the option to join the state group be made available to those who want to participate.

School teachers and administrators relived for the Committee the hardships associated with spiraling insurance premiums and ultimate loss of coverage. The frustration was greater for some districts as the self-funded pools from which they had secured coverage became insolvent. These conferees, too, expressed the opinion that coverage under the state plan should be an option for the districts recognizing that those districts would have to make significant, and perhaps costly, adjustments to the way in which health benefits are currently made available.

The Insurance Commissioner expressed her support for the principle of allowing school district employees into the state health care plan.

The Commissioner commented that the report countered several old myths: that school employees are more unhealthy and therefore a greater insurance risk, and that bringing such employees into the state plan would add substantial costs to coverage. While urging the Committee to move forward with the idea of expanded coverage, the Commissioner listed several questions that need to be answered as the issue goes forward, *i.e.*, mandatory participation, an end to cashout provisions, contract dates, employer contribution rates, and retiree coverage.

CONCLUSIONS AND RECOMMENDATIONS

The Special Committee on Financial Institutions and Insurance concluded that, while there are significant barriers to the merging of the two groups, those barriers are surmountable. Much of the work in clearing a path for implementation of a combined plan will need to be at the local level among teachers, administrators, and boards of education.

In order to keep the issue moving, the Committee requests that the State Employee Health Care Commission establish criteria for the creation of a program that would admit school district employees to the state employee health care plan and submit such criteria to the appropriate standing committees of the Legislature by not later than February 1, 1999.

The Committee requests that the Commission, as a starting point for its work, address the questions posed by the Insurance Commissioner, including:

- Should participation be mandatory or voluntary by district?
- Should discontinuing the "cash out" option be a condition for a district's participation?
- Should participating districts commit to a specified period of time?
- How should contribution rates be determined?
- How can contract dates be reconciled?
- How should school district retirees be handled?

Finally, it should be clear to the Commission that no action should be taken that would disadvantage state employees currently participating in the health care plan.

Testimony To The

HOUSE APPROPRIATIONS COMMITTEE

By
Terry D. Bernatis
Health Benefits Administrator

Wednesday, January 20, 1999
SB 495 - Actuarial Report Regarding Mandatory Inclusion of Unified School District Employees in the state of Kansas Health Care Benefits Program

Mr. Chairperson and members of the committee. Thank you for inviting me to provide a summary of the actuarial study conducted by William M. Mercer, Inc. on behalf of the Health Care Commission. The study is a result of a proviso in the 1999 Appropriations Bill, SB 495, that directed the Health Care Commission to determine the fiscal impact and associated effects of mandatory participation by public school districts in the state of Kansas Health Benefits Program.

The report consisted of four major components: introduction and background; the financial impact; associated effects; and, the impact of voluntary participation. Supporting documentation was provided in the report. I brought copies of the study and they have been distributed to you.

Just over 200 school districts responded to Mercer's survey. The data from 14 districts was incomplete and not included in the analysis. Twelve reporting districts indicated that they do not provide health care coverage. One hundred seventy three districts provide medical and drug coverage either through their own plan offerings and/or though a purchasing group. Fifty-seven of the reporting districts have self-funded medical plans, 43% are insured. Blue Cross Blue Shield is the most prevalent insurer and/or administrator of USD plans. Forty-six percent of the plans offered PPO's, with and without incentives, 37% of the plans are indemnity plans and 17% of the plan are HMO's.

Briefly, let's walk though the major findings of the study. First, in terms of demographic characteristics of the USD employees and participants in the state's health plan:

- There is not material age difference between the groups.
- There is a significant difference in average salary. The average state employee salary is $34,000 (includes unclassified employees) and $24,000 for USD employees.
- There is significantly higher female employment in the USD's ; 74% vs. 50%.

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employer contributions required under the state plan.

I would like to turn now to the "associated effects" section of the report. We recognize that there will be costs associated with providing the benefits, however there are also administrative and other issues that need to be addressed, especially in terms of how a plan of this nature would operate. These issues include:

- Determination of a common "plan anniversary" date. The state plan is on a calendar year basis; most school districts plan year's reflect the school year.
- Plan design. The HCC made significant changes in benefit options and funding mechanisms for the state's health care plan effective January 1, 1996. These changes have stood a relatively short test of time. There are a wide variety of plan designs among the school districts. Consolidating to a single plan will require a major effort. Each school district will have to know how their current plan(s) compare to the state's plan and be able to communicate the differences, which will be a time consuming effort.
- Cash out option. Many USD's currently offer a cash benefit option instead of participation in the health plan. Cash out is not an option on the state plan.
- Autonomy. Fringe benefits, which includes health care benefits, are negotiable items with all USD teachers. Health plan design and funding are not negotiable for state employees.
- Local purchasing. Because of the relatively small size of many districts, local insurance agents and brokers provide a wide range of services. The elimination of commissions and the agent/broker relationship should have a positive financial impact, but may be viewed negatively by the district, the broker/agent and perhaps, community leaders.

Finally, we cannot forget about the administrative magnitude of a plan that could cover as many as 250,000 people. Administrative staffing requirements increase dramatically with the inclusion of school district employees in state plans. Mercer surveyed other states to determine staffing requirements. They surveyed both states that only cover state employees and states that cover both state employees and school districts. Mercer's estimate is that staff will need to be increased by at least 25 more people to manage this enhanced plan. Even if some of the membership/logistical services were outsourced, a minimum of 18 additional staff would needed. Mercer cautions that there is significant cost involved with outsourcing benefits as well as a lengthy implementation phase. The state would have to determine which administrative services were to be outsourced, the cost and value of these services, and whether the overall value provided can be justified. And there will be additional membership, premium collection, premium reconciliation and accounts payable and accounts receivable functions that will need to be addressed at the systems level. These functions cannot be administered through SHARP for non-state employees. The state will either need to purchase or lease the administration system or outsource the function to a vendor. Either alternative will require a significant amount of time, energy and cost and must be thoroughly evaluated by the state.

WILLIAM M.
MERCER

REPORT ON THE FINANCIAL IMPACT AND ASSOCIATED EFFECTS OF REQUIRING PARTICIPATION IN THE KANSAS STATE EMPLOYEE BENEFIT PROGRAM BY ALL KANSAS UNIFIED SCHOOL DISTRICTS

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INTRODUCTION AND BACKGROUND

The Kansas State Employees Health Care Commission (HCC) has been instructed to conduct a feasibility study pertaining to the inclusion of all unified school districts (USD) into the State employees health care benefits program. This study is to have two parts: Part I - an actuarial study to determine the financial impact and Part II - associated effects of requiring the participation of all USDs.

Much of the impetus for this study is provided in SB 495, the fiscal year 1999 appropriations bill for the Cafeteria Benefit Fund/Department of Administration. A proviso providing for the study was attached to the appropriation bill in its final form. Two other pieces of legislation had been introduced, HB2713 and HB2784, which may have provided an incentive to include this proviso, particularly as a result of testimony to HB2713. While the State employee benefit programs have experienced a number of years of relatively stable plan offerings and costs, anecdotal information indicates that some school districts have experienced a virtual "roller coaster ride" and problems in maintaining access to quality affordable medical benefits.

It has been suggested that combining 304 school districts with the State programs might yield administrative efficiencies and lower total costs due to combined bidding opportunities and management in a single configuration. Also, the combined purchasing power of as many as 106,000 employees and 35,000 retirees will foster economies of scale. This large group can help expand health care competition and managed care opportunities throughout Kansas, which might help other residents. At the same time, transitioning to a single set of benefit offerings for employees of both the State and the USDs will create administrative difficulties. Again, the purposes of this study are to estimate the financial impact and associated effects of a merger of the two groups.

The "requiring of participation in the State program by all USDs" means that the benefit plans made available to USDs will be identical to the State's benefit plans, including the State's contribution requirements and eligibility provisions. The following is some general background information on the current State and USD plans.

The State plan consists of the following:

- one traditional indemnity medical plan
- one point-of-service (POS) medical plan;
- one preferred provider organization (PPO) medical plan;
- six health maintenance organizations (HMOs);
- one prescription drug plan;
- one indemnity dental plan;
- one managed dental plan;
- one vision plan;
- one long-term care plan;
- a health care flexible spending account; and
- a dependent care flexible spending account.

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INTRODUCTION AND BACKGROUND

While all of the above plans exist, not all employees are eligible for every plan because of geography.

These plans are financed by contributions from the State and by employees/retirees who elect coverage. While contribution amounts vary by plan and coverage tier, they do not vary by position, seniority or title. There are slight variations in contribution levels based on salary and smoker/nonsmoker status. Benefit levels and contributions are established by the HCC.

The POS and Indemnity/PPO plans administered by Blue Cross Blue Shield of Kansas (BCBS) are self-funded, as are the indemnity dental plan and the prescription drug plan. The PPO sponsored by Preferred Health System (effective January 1, 1999), the six HMOs, the vision plan (effective January 1, 1999) and the managed dental plan are insured. The long-term care plan and flexible spending accounts are basically funded by employee contributions.

During August, 1998, Mercer contacted 304 USD superintendents or chief administrators for the purpose of obtaining data relative to their health benefit programs and their employees. Assistance in gathering this data was provided by the Kansas State Department of Education. Additional demographic data was provided by the Kansas State Employees Public Retirement System (KPERS). Responses to our data request came from 199 districts, though the data from 14 districts was incomplete and not included in the analysis.

The responding (185) districts and plans can be characterized and/or summarized by the following:

- 12 of the reporting districts said they do not provide health care coverage;
- 173 districts provide medical/Rx coverage, either through their own plan offerings and/or through a purchasing group
  - as of this study, there appear to be 3 active purchasing groups (several others have been attempted, but are no longer operating) — ESSDACK and South West Plaines, both of which are self-funded, and the Greenbush group, which was self-funded, but became insured with the Guardian for this school year
  - KEIT, underwritten by BCBS, is a pooled group operating pursuant to small group rate reform laws. Approximately 40 districts participate in KEIT, with a total of 4,000 contracts. (Note: some of the districts in KEIT responded to our data request — KEIT's trustees refused to furnish data, saying that the information is proprietary);
- 57% of the reporting districts have self-funded medical plans, 43% are insured;
- BCBS is the most prevalent insurer and /or administrator of USD plans. As is the case with the State's plans, BCBS is offering either its traditional coverages or managed care where available;
- Other medical providers of note include Humana (in the Kansas City area), Preferred Plan of Kansas (PPK – mainly in the Wichita area) and Central Benefits National Life Insurance Company;

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INTRODUCTION AND BACKGROUND

- Fringe benefits are negotiable in all school districts;
- 83 of the reporting districts provide dental coverage, 102 do not;
- Medical plans consist of the following:

Type	% of Plans	% of Enrolled Employees
HMOs	17%	30%
PPOs (with incentives or disincentives	46%	35%
Indemnity (includes discount arrangements without incentives)	37%	35%

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FINANCIAL IMPACT

General Demographic Characteristics

This section analyzes several general demographic characteristics of the USD total employee population and compares these with the current State enrollees. "USD total employee population" implies all USD employees, whether or not they currently are enrolled in health care plans. This section will not provide expected financial cost differences between the groups, but rather generalize in broader terms how costs and enrollment may differ between the groups simply based on differences in their demographic characteristics. Our comments are based on general underwriting principles and the influence that demographics can have on the cost of a particular group.

The first four characteristics described below—age, salary, gender and urban penetration—are applicable only to the active employee population. Due to additional complexities and issues regarding the retiree population, differences between the two groups are briefly described at the end of this section.

Please note that each demographic characteristic is viewed independently of all other characteristics and influences. Comments for each characteristic assume "all other factors are equal".

Average Age

USD Average Age:	43
State Average Age:	44

There is no material age difference between the groups. All other factors being equal, one would expect no significant cost difference either. The USD population could be slightly less costly given that their average age is one year younger than the State population.

Average Salary

USD Average Salary:	$25,000
State Average Salary:	$34,000 (includes classified and unclassified employees)

There is a significant difference in average salary. Overall, the USD population would be less likely to enroll in family coverage — all other factors being equal--because it constitutes a greater percentage of their income and they would be less able to afford it. Since employee contributions for single coverage under the State's plan are low, most USD employees could be expected to enroll in the single coverage (at a minimum).

There is a greater chance of "adverse selection" by the USD population because they are lower paid than State employees and are more likely to enroll themselves and their dependents if they know that they will be high users of health care benefits. Stated

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another way, the employee contribution cost will be a more important factor in a USD employee's decision to enroll in a health care plan because they generally are lower-paid and the cost of the health care plan is a much higher proportion of their income.

The USD population may have a higher proportion enrolled in the HMOs where available, especially among employees with dependents. Since HMO coverage is generally less costly than indemnity plans (i.e., BCBS Select and Traditional plans) and has favorable cost-sharing provisions (i.e., no deductibles, low copayments), lower-paid employees will more likely enroll in the HMOs, assuming they are available.

Employee Gender

USD Distribution:	26% Male/74% Female
State Distribution:	50% Male/50% Female

As shown above, there is a significantly higher female content for the USDs. Gender costs have the following pattern:

- Females are significantly **more** costly than males during the young and childbearing ages (i.e., ages less than 40);
- Females and males generally have the **same** cost patterns from ages 40 to 50; and
- Females are significantly **less** costly than males after age 50.

Since the average ages of the USD and State populations are 43 and 44, respectively, this implies that their overall costs should roughly be the same based on the patterns above.

Urban Penetration

USD Distribution:	44% Urban/56% Rural
State Distribution:	44% Urban/56% Rural

"Urban penetration" is defined as the proportion of employees residing in urban population areas. Health care costs are generally more costly in urban areas than rural areas. Since urban penetration is identical between both groups, one would expect no significant cost differences based on this characteristic.

The six Kansas counties defined as "urban" for this study are: Johnson, Leavenworth, Miami, Sedgwick, Shawnee and Wyandotte. The six Missouri counties in the Kansas City area defined as "urban" are: Cass, Clay, Jackson, Lafayette, Platte and Ray.

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FINANCIAL IMPACT

Retiree Characteristics

Several issues have to be addressed before reasonable conclusions can be drawn from the demographic content of the USD retiree group, such as:

- Will retirees currently enrolled in USD-sponsored health care plans be allowed to enroll in a State plan?

- Will USD retirees not currently enrolled in a health care plan be allowed to enroll after implementation of the State's plans? The "non-enrollees" would include retirees age 65 and over, those retirees who had health care coverage available to them but chose not to enroll (or remain enrolled) in the plan, and those retirees who never had coverage available to them at all.

- If the State allows USD retirees who are not currently enrolled back into the plan, will it also be necessary to allow the State's own retirees to re-enroll if they so desire in order to avoid a retiree relations problem?

Allowing non-enrolled retirees to enroll (or re-enroll) in a State plan could lead to severe "adverse selection", thus driving up plan costs. Many retired individuals do not enroll or retain coverage because they are healthy and do not believe that the cost is worth the benefits. However, as these individuals age, it is quite likely that medical conditions have arisen (or worsened) and many of these retirees would be very willing to re-enroll in a health care plan.

The current average ages of the USD and State retiree populations are 73 and 72, respectively. Since the average ages are close, there should be no significant cost differences between the two groups based on age (all other factors being equal, of course). Two-thirds of the USD retiree population are female, while only 55% of the State's retired enrollees are female. Generally speaking, older females are less costly than older males; therefore, one would expect the USD retiree population to be less costly (perhaps by 5% to 10%) than the State retirees.

Plan Design Characteristics

Benefit designs among the responding districts fall into the following categories:

- HMO/POS;
- PPO with incentives/disincentives;
- Traditional indemnity some of which may include discount arrangements.

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FINANCIAL IMPACT

As part of this study, the relative plan design differences among the plans reported by the districts were measured. The responding districts have the following distribution of plan designs:

	% of Plans	% of Employees
HMO	17%	30%
PPO	46%	35%
Indemnity	37%	35%

The study used a relative value pricing system that can estimate the relative costs of different plan designs. Using the State's Blue Select and HMO plans as a baseline, the USD plans are, on average, 4% less valuable. (Note: the USDs with insured plans are 2% less valuable, while the districts that self-fund have plans that are 12% less valuable than the baseline plans.

The relative values were used to adjust the USD premium (if insured) or claim costs (if self funded) to arrive at an estimated overall cost of medical and prescription drug benefits for the responding USDs.

FINANCIAL IMPACT

This section provides an analysis of the financial impact to the State Employees' Health Care Plan if the Kansas Unified School Districts (USDs) are allowed to participate. The health care plan includes medical, prescription drug and dental benefits. This analysis describes the impact on the total cost of the plan with the addition of the USDs and separately shows the State's portion of the cost (i.e., the employer contributions) and the employee contributions. This analysis focuses on the impact on the actual cost of the benefits provided and not on the additional expenses that would be borne by the State to administer an expanded plan, which are addressed in the "Associated Effects" Section of this report.

This financial analysis has been performed under one important assumption: all USDs will be required to join the State's plan and adhere to its eligibility, plan design and contribution provisions. **Any deviations from this assumption would materially change the outcome of our analysis**.

Many USDs currently offer health care coverage which allows employees to waive coverage and instead accept a cash out option. Additionally, many USDs do not subsidize any portion of the health care cost--employees must pay the entire premium. Still, other districts contribute toward the medical and prescription drug coverage while requiring employees to bear the entire cost of dental coverage. These practices encourage riskier individuals to enroll and healthy individuals to waive coverage, which results in "adverse selection" to the health care plan. If not enough healthy individuals enroll to "spread" the health care risk, costs are initially high (i.e., higher than costs would be if all

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employees were enrolled in the plan) and will escalate as more unhealthy individuals--and fewer healthy individuals--remain in the plan. Our cost estimates do not take into account the possibility of widespread "adverse selection" by USD employees.

Current State plan eligibility and contribution provisions mitigate the likelihood of significant "adverse selection". Ninety-four percent of the eligible State employees are currently enrolled in the State's plan, primarily because the State subsidizes approximately 95% of the cost for employees and about 35% of the cost for spouses and dependent children. The current State plan design options (indemnity, HMO, etc.) are very competitive and offer benefits that are favorable to participants (low annual deductibles, low employee coinsurance provisions, etc.).

Active Cost Impact

The following table shows the estimate of the financial costs for calendar year 1999 associated with adding the USD active employees to the State Employees' Health Care Plan (costs of adding current retirees are discussed later). Costs are shown under two participation assumptions: (1) assuming 90% of eligible active employees elect coverage, and (2) assuming 70% elect coverage. One important element that ultimately will affect the financial impact (in absolute dollars) of adding the USDs is the number of employees who actually would enroll in the State's health care plan. Based on enrollment analysis of the USD survey respondents as well as the current State employee enrollment, it is expected that between 70% and 90% of the USD employees would enroll in the State's plan. We believe that providing estimates under these two participation assumptions establishes a reasonable "range" of costs that can be expected should the USDs be allowed to participate.

The estimated additional cost (in $millions) of adding USD active employees for calendar year 1999 to the State plan is:

	Employer Contributions	Employee Contributions	Total Costs
90% Participation*	$199.5	$68.2	$267.7
70% Participation*	$155.1	$53.0	$208.1

* *All USDs must participate. Estimated cost assumes 70% to 90% of the active population (68,306 employees) will participate.*

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FINANCIAL IMPACT

The table below shows the combined impact on calendar year 1999 costs (in $millions) for the USD active employees and State active employees under the two participation assumptions:

	Employer Contributions	Employee Contributions	Total Costs
USD Employees (90% enroll)	$199.5	$68.2	$267.7
State Employees*	$112.6	$45.0	$157.6
Total	$312.1	$113.2	$425.3
USD Employees (70% enroll)	$155.1	$53.0	$208.1
State Employees*	$112.6	$45.0	$157.6
Total	$267.7	$98.0	$365.7

* *Based on May 1998 State active enrolled population of 35,567 employees.*

Below are some observations regarding the cost estimates:

- For every 1% change in the USD participation rate, total USD costs are expected to change approximately $3 million;

- Employer contributions for State employees are currently 71% of total costs, while employer contributions for USD employees are expected to be approximately 75% of total costs under both participation assumptions. USD employees are lower-paid on average than State employees and would receive a higher employer subsidy.

In addition to the participation assumption addressed above, other key factors that could affect the variability of the cost estimates are:

Enrollment by coverage tier. The State plan current offers four coverage tiers: (1) Employee Only, (2) Employee plus Spouse, (3) Employee plus Child(ren), and (4) Employee, Spouse and Child(ren). The USDs have a wide variety of coverage tiers, some of which match the State's while others offer two or three-tier coverage. The cost estimates will vary depending on how the USD eligible population enrolls in each of the tier categories. For example, costs could be higher if a greater number of spouses and dependents enroll than has been assumed.

Number of dependent children. The family tiers assume a certain number of dependent children will be covered under each contract. If more children are actually enrolled than has been assumed, costs could be higher than the stated estimates.

Age of enrollees. If older employees enroll in greater proportions than we assumed, costs could be higher than our estimates.

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FINANCIAL IMPACT

Urban penetration. If employees living in urban areas enroll in greater proportions than has been assumed, costs could be higher than the stated estimates.

Managed care enrollment. If employees enroll in managed care plans (i.e., HMOs) in lesser proportions than has been assumed, costs generally could be higher than the stated estimates.

The USD employee population as a whole does not appear to be any more risky (i.e., unhealthy) than the State employee population. While bringing the USD population into the State Employees' Plan would be more costly in terms of absolute dollars, it does not appear it would be any more costly on a per capita basis. This conclusion is based on an analysis of the premium and claims data provided by the USD respondents, as well as an age/sex demographic analysis of the total USD employee population in comparison with the State enrollee population.

Retiree Cost Impact

The State Employees' plan currently allows employees (and eligible dependents) to enroll at retirement and maintain health care coverage for life. The State generally does not subsidize coverage and requires retirees to pay 100% of the applicable premium rate; therefore, the impact to the State's portion of the cost by adding the USD retirees would not be significant. (The State indirectly subsidizes a portion of the cost for retirees under age 65; however, this amount is not material in the aggregate.)

Little retiree enrollment and cost data was received from the USD respondents and, therefore, no credible conclusions were able to be drawn from this group. However, based on an age/sex analysis of the 24,750 USD retirees and surviving spouses currently receiving a KPERS pension benefit, it does not appear that the USD retiree population would be any more costly on a per capita basis than the current State retiree population. This conclusion is based on two factors: (1) the average ages of the two populations are almost the same, and (2) the USD population has a greater proportion of females (67%) than the State's retired enrollee population (55%). Older females are generally less costly than older males. This conclusion also assumes that adverse selection in the USD retiree population occurs in the same proportion as the State's retiree population.

USD Active Cost Impact

This section analyzes the potential calendar year 1999 cost impact to the USDs of joining the State Employees' Health Care Plan and providing benefits to its active employees. This section only addresses the actual cost of the benefits provided and not the administrative expenses expected to be borne by the State to administer the plans.

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FINANCIAL IMPACT

The employer contribution under an expanded health care plan (State employees plus USD employees) is estimated to be $268 per month per employee during calendar 1999. This $268 figure represents the average employer contribution over the four coverage tiers (employee only, employee plus spouse, etc.), based on expected enrollment and costs used in this analysis. Additionally, the figure represents the average employer contribution over all active employees (and dependents) expected to enroll in the State plan.

With respect to health care plan sponsorship and level of employer contributions, USDs fall into one of three categories:

1. No plan sponsorship;
2. Plan sponsorship with no employer contribution; or
3. Plan sponsorship with a partial employer contribution.

The employer cost impact will be greatest for those USDs falling into the first two categories, which is estimated to average $268 per month per active enrollee (regardless of the coverage tier chosen). Stated another way, those USDs who currently are not contributing toward the cost of health care coverage would now have to pay $268 per month for each active (and enrolled) employee.

The cost impact for those USDs currently subsidizing coverage is dependent on the current employer contribution. Employer contribution information was not specifically requested in the data collection phase; however, 45 USDs did volunteer this information. The employer contribution for this group averaged $160 per month per employee. The $160 per month subsidy represents the average employer contribution over all coverage tiers, including some different tier structures (e.g., two-tier, three-tier, etc.) reported by some of the districts.

It is estimated that the total amount of additional funds (i.e., "new money") required to bring the USDs into the State Employees' plan could range from $100 to $175 million. The variation in the "new money" estimate can be attributable to the following:

- If allowed to join, enrollment participation percentages in the plan are expected to range from 70% to 90%;
- Over 100 USDs did not respond to the data request; and
- Only 45 USDs, or 15% of the total number of districts, provided detailed employer contribution information, from which the $160 average employer contribution mentioned above was calculated.

To determine the true cost impact, it is strongly recommended that each USD research its current contribution policy and compare it with the employer contributions required under the State Plan.

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ASSOCIATED EFFECTS

This section outlines the associated effects that will confront the State and USDs as the legislature considers the feasibility of adding USD employees to the State's plan. This section is divided into two parts: Part I – implementation issues and Part II – administration/system requirements.

Implementation Issues

Plan Anniversary. School districts generally have plan anniversaries in September or October. With a September date, school districts can communicate plan issues prior to summer leave, and can conveniently enroll new staff upon their arrival for the fall session. A January 1 plan anniversary would not work for school districts.

The State, on the other hand, has a January 1 plan anniversary, which is the most common date among employer plans. For the average employee, this is the optimal date because deductibles and out-of-pocket maximums typically operate on a calendar year basis. The State could move to a July 1 plan anniversary to coincide with its fiscal year, but this date may not work well for either school district employees or State employees.

Perhaps separate plan anniversary dates for the school districts and State would be the most logical approach for these distinctly different groups. The separate anniversary approach would create administrative challenges to the insurance carriers and managed care companies and to the State's renewal processes.

Eligibility. Eligibility for USD employees is an open issue. SB No. 495 merely refers to participation in the State health care benefits program. A determination will need to be made whether eligibility will include only health care (medical, dental and prescription drug) as this study assumes, or ancillary coverages as well (e.g., vision, long-term care, and flexible spending accounts).

Retirees. The State plan allows retirees to continue coverage throughout their retirement years. Kansas statute 12-5040 mandates local governments to make coverage available to retired former employees, but coverage may cease upon the attaining of age 65. Based on the data submitted, most districts seem to terminate retiree coverage at 65.

Plan Designs. The HCC made significant changes in benefit options and funding mechanisms for the State's health care plans effective January 1, 1996. These changes have stood a relatively short test of time and will continue in the foreseeable future with only minor adjustments on plan anniversaries. The HCC is committed to a specific action plan that includes emphasis on managed care options; recognition of cost in no-choice areas; the deliberate reduction of reserves and demand management. All HMOs offered by the State provide a standardized plan summary of benefits. The Blue Select plan, which covers the majority of State employees, is available as a common design in all Kansas counties but three.

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ASSOCIATED EFFECTS

There is wide variety of plan designs among the school districts. Plan designs include HMOs, PPOs and indemnity arrangements. Deductible, coinsurance and out-of-pocket levels vary, office visit copays vary; some plans include hospital admission copayments, while others do not. Many districts provide dental coverage, but many more do not.

Consolidating to a single plan will require a major effort. Each school district will have to know how their current plan(s), if any, compare to the State's plan. Plan and cost differences must be communicated to and within each district — a time consuming effort.

Even with the economies of scale enjoyed by the State plan, the new plans will be more costly for many districts than their current plans. ***Districts will have to find revenue to pay for more costly benefits.***

Cashout option. Many USDs currently offer health coveage which allows employees to waive coverage (i.e., not enroll) and instead accept a benefit in the form of a cash out option. Cash out options are not allowed in the State plan.

Plan Financing. With regard to the State's plans, the legislature has given the HCC the ability to set the funding levels under K.S.A. 75 6506(a) and 75 6508(a1)). The levels are reported as fund rates.

USD operations are financed from general fund money and local property taxes. While school districts currently receive proportionate amounts, how they allocate the money varies significantly from one district to the next.

To include every district in the State plan, all districts must contribute the same amount toward each coverage, thereby assuring similar enrollment patterns throughout the districts. Having common employer contributions is hardly a novel idea or approach, since there are common employer contributions for retirement benefits under KPERS. If districts are allowed to deviate from predetermined contribution levels, employee enrollment could vary significantly. This could have a negative impact on the prices set by the various insurance carriers and managed care plan and on the budgets set for the self-funded plans.

However, this jump to common contributions could cause dramatic changes among the school districts. Districts have historically earmarked funds as they saw fit — some for employee benefits, but others for a variety of goods and services utilized by the schools. With mandated common employer contributions, school districts will be forced to redistribute current budget or come up with "new money".

Coverage Tiers. The State currently offers four coverage tiers: "employee only", "employee plus spouse", "employee plus child(ren)" and "employee, spouse and child(ren)". Many school districts utilize this same four-tier approach. However, many

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others use either a two-tier ("employee only" and "employee plus dependents") or three-tier ("employee only", "employee plus one dependent" and "employee plus two or more dependents") approach.

While most employers believe that the four-tier approach is the most equitable for today's workforce, transitioning from a two-tier or three-tier can create financial and public relations problems. For example, in a two-tier environment, employees with many dependents will be subsidized by employees with one dependent. When the coverage tiers are unbundled and employees elect a tier that more closely relates to their family situation, premiums will increase for the employees with large families. A switch to four tiers can be particularly troublesome at a time when premiums are rising.

Autonomy. It is our understanding that testimony to HB2713 was from small and mid-sized districts, which may suggest that there is a subsection of the districts who feel they have exhausted their benefit options and are willing to cede control of their plans in exchange for enhanced benefits, tighter financial controls and/or greater economies of scale.

The larger or more urban districts may not react positively towards required participation in the State program. Such a requirement would impact autonomy. Autonomy allows these districts to design their own benefit plans, choose attractive funding arrangements and purchase benefits from whom they choose. One superintendent, for instance, volunteered that "this study is for the rural districts" and "I'm happy with the current plan and do not want to change".

Fringe benefits, which includes health care benefits, are negotiable items with all USD teachers.

Local Purchasing. Due to its size, nature and capabilities, the State does not utilize the services of an agent or broker. Therefore, no commissions are paid. In many instances, the State's staff provides services similar to those provided by an agent or broker. In areas where the State believes it does not have the tools, expertise or time, it has sought outside consulting assistance on a project by project basis.

School districts often operate differently. Because of the relatively small size of many districts, local agents and brokers provide a wide range of services. These include bidding, renewal negotiations, open enrollment meetings, employee complaints/grievances and others. Often, the relationship with the agent/broker is long-standing. The elimination of commissions and the agent/broker relationship could have a positive financial impact, but will be viewed negatively by the district, the broker/agent and, perhaps, community leaders.

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ASSOCIATED EFFECTS

MEWA. This study involves the feasibility of bringing 304 school districts into the State's health care programs. The question arises whether this arrangement, if completed, constitutes a Multiple Employer Welfare Association (MEWA). ERISA defines a MEWA as a plan covering the employees of two or more employers. The application of this definition in the context of governmental plans is not entirely clear; however, it is probably not relevant since government plans are exempt from ERISA. Therefore, there should be no federal restrictions on extending State coverage to the school districts, but state law limitations, if any, would need to be reviewed.

HCC. The commission is composed of five members. The Secretary of Administration and Commissioner of Insurance are members by statute. The Governor appoints the other three members — a representative of the general public, a current state employee and a retired state employee. Adding the school districts to the State's plans could more than double the number of covered active employees. HCC representation may need to be increased and/or reconfigured to represent the interests of school district employees.

Employee Advisory Committee (EAC). The EAC is comprised of 21 members, 18 active employees and 3 direct bill participants. Members represent a balance of geography, agency, gender, age and plan participation. As with the HCC, the EAC may need to be increased and/or reconfigured to represent the interests of USD employees.

Administration/System Requirements

Staffing Needs. There are two distinct areas related to staffing that must be addressed: the conceptual and the logistical. Conceptual work involves identifying issues and developing strategies to implement or resolve these issues. Included in the conceptual are such issues as developing the strategy for benefit plan design, funding, compliance and plan management. Due to the magnitude and complexity of these issues, conceptual activities will have to be maintained centrally and supported by senior staff members of the HCC, EAC and USDs.

The logistical involves the actual carrying out of the conceptual. This involves a wide range of activities such as employee communication, customer service, membership processing and billing. There are two ways to handle the logistical as outlined in this section.

Conceptual

The State's staff plays an active role in the administration and communication of benefits to employees, retirees and covered dependents. These duties include preparation for and attendance at HCC and EAC meetings (including defining the agenda and providing research and information to committee members); developing and adhering to an overall benefits philosophy; and developing the strategy for communication materials and enrollment meetings.

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ASSOCIATED EFFECTS

School district staff perform similar duties. However, the capabilities, experience and time commitments probably vary dramatically among the districts. In addition, District staffs will be unfamiliar with the State's benefit package, how it differs from their current plans, the impact on their employees and how these benefits are administered For these reasons, the State staff will need to assist the school districts in establishing and maintaining the State's plans.

Logistical

Once the conceptual duties and responsibilities have been established, they must be put into action. Some logistical duties are described in the following. A description of "how" these services can be provided and the number of staff needed to provide these services is described in the "Staffing Size" section of this report.

Eligibility Support	Process enrollment and change forms Maintain eligibility database Liaison between internal and external systems
Customer Service	Answer all employee inquiries Follow-up on enrollment applications/changes Provide initial research on question areas May serve as employee advocacy group
Accounting Service	Validate vendor premium costs Monitor payments from various entities Monitor payments from self-pays (i.e., retirees, COBRA continuants) Monitor delinquency report Monitor payments to vendors Supervise internal staff responsible for State and USD premium payments
Attorney	Negotiate contracts with vendors Research regulatory issues Research employee inquiries Interact with other staff (i.e., communication, customer service)
Communication Services	Develop printed communication materials Develop open enrollment materials Provide updates (i.e., legislative, etc.) to employees
COBRA/HIPAA Administrative Services	Maintain COBRA/HIPAA eligibility records Provide COBRA/HIPAA notification to employees Initial collection point for COBRA premium payments

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ASSOCIATED EFFECTS

Nurse Auditor	Review large claims on self-funded plans Review large claims on insured/HMO plans Review employee appeals Discusses alternative options with vendors Liaison to customer service team and attorney
Data Manager	Collection and maintenance of claims data Report to State staff regarding data collection issues
Field Force	Conduct open enrollment meetings Conduct meetings with school districts' staff Conduct meetings with school districts' boards
Health Claims Analyst	Review claims data Report to State staff regarding issues related to cost and utilization patterns Provide recommendations to State staff concerning plan design and vendors

In the initial year of USD participation in the State's plan, heavier emphasis would be placed on certain activities. The need for these services would diminish as the USDs become more familiar with the State's plans and philosophies. These services would include:

- conducting meetings with each of the USDs;
- developing written materials that would clearly introduce and explain the State's objectives, philosophies, the new plans and contribution levels;
- attending school board meetings to explain the program (this places a heavy workload on the State's staff, but will be worthwhile if the districts are more comfortable with the plans being offered); and
- interacting with school district employees and retirees to explain benefits and resolve benefit, eligibility and claims issues.

In addition, the State's staff will have to contend with dissatisfied "customers". School district employees may be disgruntled because they have been forced to give up "their plan" and adopt the State's plans. School districts may be adversarial because they have lost autonomy — this may be especially true for the larger districts. The State's employees may be impacted by the additional duties placed on State staff, thus creating slow downs in traditional services. For these reasons, the State staff will have to maintain high levels of responsiveness and understanding to deal with the myriad issues facing the now larger base of employees.

It should be noted that the composition of school district "benefit staffs" may not change even if the State plays a more visible and active role in the benefit programs. In the smaller districts, staff members perform a wide range of duties. Removing one task would probably not have a material impact on job functions or the need for staff. It is

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our feeling that, for the vast majority of districts across the state, there will be minimal change in local benefit personnel.

Staffing Size. During the 1997 plan year, an average of 36,100 active employees, 9,536 direct bill participants (mostly retirees) and 1,050 COBRA continuants participated in the State's health care programs. KPERS reported the following USD memberships as of 8/1/98 — 76,210 actives, 13,350 inactives and 25,243 retirees. The financial impact phase of this study assumes that 70% to 90% of the active USD participants will enroll in the State's plans. Thus, the entrance of all school districts will more than double the participation in the State's plans.

To help estimate the administrative needs of an expanded health plan population, we conducted a State Employees' Health Insurance Organization and Management Survey. We contacted eight states, six of which are geographically proximate to Kansas and two known to include school district employees. The survey results are attached as an Exhibit to this report. Information was gathered on the following:

- number of enrolled State and other public employees;
- benefit lines being managed;
- public groups included in the medical program;
- the number of administrative staff employees by job function; and
- positions and salary levels by job function.

Kansas is designated as State A on the enclosed survey response exhibits. Of current interest would be the comparisons between Kansas, Iowa and Colorado. Iowa and Colorado are geographically proximate to Kansas, do not include school district employees and are relatively similar in numbers of covered employees, number of medical options and types of benefits managed. Iowa, with 27,000 covered employees, 6,000 retirees and $125,000,000 in plan costs, has an administrative staff of 8. Colorado, with 30,000 covered employees, zero retirees and $80,000,000 in health plan costs, has a total staff of 10. Kansas has an administrative staff of 13 (including EAP/wellness job functions), with a higher covered population, at 46,000, and higher plan costs at $165,000,000.

Nebraska has a staff of four, but only 15,000 covered state employees and no other public entities enrolled in the state program.

Administrative staffing requirements increase dramatically with the inclusion of school district employees in state plans. The other five states included in our mini-survey cover school districts. Tennessee, Arkansas and Georgia mandate school district inclusion, while Oklahoma and Missouri enroll districts on a "voluntary" basis.

Arkansas is of interest because it combined their State and School District employees within the past two years. Their overall approach, including current staffing needs, are a bit the result of "trial and error", but mostly the result of several committee studies and

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position papers. Arkansas' covered population (at 62,000 actives) is smaller than the projected Kansas population. Arkansas has 334 school districts and an administrative staff of 22. Their administrative staff serves largely in a conceptual role, with the majority of logistical services outsourced to third parties.

Following is a guesstimate of staffing needs if Kansas administration is to include State and School District employees.

Currently, all services for enrollees of the State's plan are provided by 13 employees. This number would have to dramatically increase if the State were to administer benefits for both groups of employees and retirees. The following provides a breakdown of current staff and our preliminary estimate of the staff needed with the inclusion of the USDs.

	Current			Needed		
Description	**Conceptual**	**Logistical**	**Total**	**Conceptual**	**Logistical**	**Total**
Director	1	0	1	1	0	1
Eligibility, enrollment and customer service	2	4	6	3	9	12
Financial/ accounting	0	.5	.5	1	1	2
EAP/wellness/ compliance and support staff	1	2.5	3.5	2	4	6
Communications	0	0	0	1	1	2
Data manager/ claims monitoring	0	2	2	1	3	4
Nurse auditor	0	0	0	0	1	1
Attorney	0	0	0	0	1	1
Field force	0	0	0	0	6	6
Programming manager	0	0	0	0	1	1
Legislative liaison	0	0	0	0	1	1
Total	4	9	13	9	28	37

The eligibility/enrollment/customer service function would be a key area. It would have the dual role of maintaining the current high employee satisfaction level while providing quality and timely services to the thousands of USD employees. It is envisioned that the current staff would have to double to accomplish this important task.

The finance/accounting and communications areas would require a minimum of two full-time employees each, rather than the part-time attention provided now.

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ASSOCIATED EFFECTS

The EAP/wellness services would have to be nearly doubled due to the doubling of the covered workforce. The "needed" category assumes a manager and five support staff members. These additional members would be necessary due to the expansion of such services as COBRA and Section 125 plans.

Because of the magnitude of the anticipated plan costs of the combined State and USD groups, it is imperative that claims be continuously evaluated and monitored. Due to the complexities involved with this evaluation process, it is envisioned that the State will require a full-time data manager plus a staff including the two current members and an additional staff member.
Covering over 100,000 employees and their eligible dependents will require a nurse auditor to monitor the ongoing health coverage for State employees. This will include monitoring the utilization review functions provided by the HMOs and managed care plans. This will insure the most cost effective and highest quality coverage for State plan members.

The State would need to assist local USDs' staff with certain benefit functions. Included in these services would be attending school board meetings, conducting open enrollment meetings and interacting with employees on benefits, claims and other issues. As few as six (6) staff members would be needed to perform these functions, perhaps with each staff member representing 1/6 of the 304 districts. These six members would not need to be located in Topeka, but located near their applicable assigned districts. It is believed that these staff members will be key to the satisfaction of the school districts and ultimately to the success of the State's health plan.

Other functions will need to be provided or continued, more than likely on an out-sourcing basis. These would include actuarial and general underwriting services.

Alternatives

The State can choose to provide the services outlined in this section entirely through internal staff, entirely through outsourcing or some combination of the two. As noted, the addition of the USDs will require a significant expansion of State staff. The current staff could not be expected to provide the large number of new activities while maintaining their current job descriptions. If the State decides to include the USDs, but not expand conceptual and/or logistical staff, problems will occur.

Additional staff will be necessary to provide new and expanded conceptual services, as outlined previously. If this expansion does not occur, the current administrative staff will be able to focus only on the maintenance of the current plans and not proactively consider changes to the plans that will benefit the State, the USDs and the plan members. In addition, the logistical services required by the joint State and USD plans will require a dramatic increase in the administrative staff in order to meet the needs of the larger plan. If this staff is not expanded – either internally or through outsourcing – logistical duties will either become the responsibility of the conceptual staff or will be omitted.

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Therefore, if the State opts to provide these services through internal staff, serious expansion of current staff will be required. As outlined above, it is believed that an additional 25 staff members will be required. Assuming an average salary range of $25,000 to $35,000, it is estimated that this expansion will require additional salaries of $625,000 to $875,000 annually. This cost does not include the cost of benefits which could total as much as an additional $250,000 to $350,000 per year.

The State's second alternative would be to outsource the administrative duties, or a subset of these duties, to a third party. This approach has merit in that few, if any, additional staff positions would be required and current payroll could be maintained. Third-party companies that specialize in this service maintain both staff and systems that are capable of meeting the State's needs for the current time and into the future. Because they currently provide these services to many companies, they would not be forced to begin from "ground zero" as the State would. Outsourcing costs vary according to the actual services outsourced and the third-party selected to provide the services. These fees could range from $.71 per employee per month to over $4.00 per employee per month. Assuming all eligible State and USD employees enroll and are outsourced, annual costs would range from approximately $900,000 to $5,000,000.

However, there are drawbacks with this approach as well. There is a significant cost involved with outsourcing benefits, as well as a lengthy implementation phase. The State would have to determine which administrative services were to be outsourced, the cost and value of these services, and whether the overall value provided can be justified.

System Needs

The administration and accounting system would have to be changed significantly with the addition of USDs in the State's plan. Currently, the State utilizes the SHARP system to administer benefits. This includes eligibility maintenance and premium collection. <u>However, these functions cannot be administered through SHARP</u> for non-State employees. This will require the State to seek an alternative solution - either the purchase or lease of an administration system that can handle both State and USD employees, or outsource this function to a vendor that can support both groups. Either alternative will require a significant amount of time, energy and cost and must be thoroughly evaluated by the State. This report does not address the financial or administrative impact of either alternative.

In addition to member eligibility and premium reconciliation, the accounts payable and accounts receivable functions must be expanded with the addition of the USD employees. This includes premium payments from the USDs to the State as well as payments from the to the HMOs and insurance vendors. Administrative systems must be capable of handling these functions, and must be established prior to the influx of USD employees.

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VOLUNTARY PARTICIPATION

The premise for this report is that all USDs would be required to be included in the State plan and on the same basis as all State employees. This means that all USDs would be required to join the State's plan and adhere to its eligibility, plan design and contribution requirements. The results of this study would change dramatically if USDs were allowed to participate on a voluntary basis.

The following briefly speculates on the disadvantages to the State if USDs were allowed to voluntarily participate.

Adverse Selection. If individual districts are allowed to choose to participate in the State plan, adverse selection will occur. This means that USDs with poorer claim experience would most likely migrate toward the State's plan, while those with better experience would continue to provide benefits through some alternative vehicle. This would result in an increase in the age of covered plan members and in the benefit costs.

Administrative Expenses. The combined pool of State employees and all USD employees will have potentially lower administrative costs on a per employee basis. If only a portion of the USDs join, the fixed expenses will increase resulting in higher administrative expenses on a per employee basis.

Purchasing Power. If all USDs are brought into the State's plan, the purchasing power would be enhanced significantly. Adding only a portion of the USDs might still enhance purchasing power, but certainly not by as much as the full group.

Larger Districts. The larger districts will be likely to maintain their own plans and autonomy, thus withholding their employees from the State's plan. The loss of these districts would impact administrative expenses and purchasing power.

Urban Districts. Urban districts would not be as likely to join the State's plan because of their ability to select from a broader range of managed care plans and vendors. Thus, the composition of the State's plan would reflect an increase in rural indemnity plan lives and higher costs due to the absence of managed care plan discounts and cost management provisions.

Staff Requirements. If USDs are allowed to join on a voluntary basis, the additional conceptual staff members outlined in this report would continue to be needed. While it may appear logical that the number of additional logistical staff members would be reduced, it is doubtful that the number would be reduced substantially. For example, the entire field force would still likely be needed to provide coverage statewide. The data manager, nurse auditor and attorney would still be necessary. Some areas — such as eligibility support and customer service — might have reductions from the numbers shown in this report, but would nonetheless need to be increased significantly over current levels.

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VOLUNTARY PARTICIPATION

Questionable Areas. Many new questions will arise if USDs are allowed to join on a voluntary basis, including:

- Will a district's decision to join or to leave the State's plan be irrevocable?
- If decisions are not irrevocable, what conditions will be placed on such districts? For example, how long will a district be required to stay out of the State plan before it is eligible to rejoin?
- Will the current situation change significantly? Will USDs still not provide coverage because of the expense? Will the number of covered employees change to any significant degree?
- How large a voice will the USDs have on the HCC? the EAC, or any reconfigured similar group? Would this change year over year with the changing USD enrollment?

The following speculates on the advantages that exist for the USDs if participation is allowed to be voluntary, as outlined below:

Autonomy. USDs who do not want to participate in the State's plan could maintain their individual autonomy. They could continue to determine their own benefit levels, eligibility requirements, contribution strategies and managed care vendors. This would be particularly important to the larger USDs who are able to negotiate benefits and costs with their vendors.

"Cherry Picking". USDs could evaluate the marketplace and compare their costs under the State plan with those of other vendors. This would allow the USDs to select the lowest cost option to benefit their employees. If no restrictions are placed on their entry or departure from the State's plan, individual USDs might move in or out of the plan frequently.

Continuance of Cash Out Options. The cash out option is an important benefit to many USD employees throughout the State. It is viewed, more often than not, as a part of the employees' salaries. With voluntary participation, districts could continue providing a cash out option and could negate a potential employee relations issue.

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EXHIBITS

Active Cost Assumptions

Active Demographic Summary

Retiree Demographic Summary

Employee Locations

- USD Active Employees
- USD Retired Employees
- USD Active Respondents
- State Active Enrollees
- State Retired Enrollees

USD Respondent Summary

USD Insured Plan Costs

USD Self-Insured Plan Costs

State Employees' Health Insurance Organization and Management Survey

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EXHIBITS

Active Cost Assumptions

	Total USD Employees		State Enrollees		Combined	
Total Eligible	68,306		37,678		105,984	
Total Enrolled						
90% USD Participation	61,475	90%	35,567	94%	97,042	92%
70% USD Participation	47,814	70%	35,567	94%	83,381	79%
Medical Counts by Coverage Tier (90% USD Participation)						
Employee Only	35,348	57.5%	17,694	49.7%	53,042	54.7%
Employee Plus Spouse	4,611	7.5%	4,011	11.3%	8,622	8.9%
Employee Plus Child(ren)	7,684	12.5%	5,300	14.9%	12,984	13.4%
EE, Sps and Child(ren)	13,832	22.5%	8,562	24.1%	22,394	23.1%
Total	61,475	100.0%	35,567	100.0%	97,042	100.0%
Medical Counts by Coverage Tier (70% USD Participation)						
Employee Only	27,493	57.5%	17,694	49.7%	45,187	54.2%
Employee Plus Spouse	3,586	7.5%	4,011	11.3%	7,597	9.1%
Employee Plus Child(ren)	5,977	12.5%	5,300	14.9%	11,277	13.5%
EE, Sps and Child(ren)	10,758	22.5%	8,562	24.1%	19,320	23.2%
Total	47,814	100.0%	35,567	100.0%	83,381	100.0%
1999 Monthly Medical Total Cost						
Employee Only	$229.00		$219.00		$226.00	
Employee Plus Spouse	$452.00		$440.00		$446.00	
Employee Plus Child(ren)	$393.00		$383.00		$389.00	
EE, Sps and Child(ren)	$560.00		$544.00		$554.00	
Total	$341.00		$347.00		$343.00	
1999 Monthly Dental Total Cost						
Employee Only	$15.00		$15.00		$15.00	
Employee Plus Spouse	$30.00		$29.00		$30.00	
Employee Plus Child(ren)	$27.00		$27.00		$27.00	
EE, Sps and Child(ren)	$37.00		$34.00		$36.00	
Total	$23.00		$23.00		$23.00	

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Active Demographic Summary

	Total USD Employees		State Enrollees		Combined	
Counts						
Male	17,824	26%	17,587	49%	35,411	34%
Female	50,482	74%	17,980	51%	68,462	66%
Total	68,306	100%	35,567	100%	103,873	100%
Average Age						
Male	43.7		44.3		44.0	
Female	43.3		43.2		43.3	
Total	43.4		43.8		43.5	
Age Distribution						
< 20	96	0.1%	37	0.1%	133	0.1%
20 - 24	1,837	2.7%	783	2.2%	2,620	2.5%
25 - 29	6,127	9.0%	2,754	7.7%	8,881	8.5%
30 - 34	6,888	10.1%	3,948	11.1%	10,836	10.4%
35 - 39	9,176	13.4%	5,128	14.4%	14,304	13.8%
40 - 44	11,136	16.3%	5,862	16.5%	16,998	16.4%
45 - 49	12,530	18.3%	6,083	17.1%	18,613	17.9%
50 - 54	10,340	15.1%	5,056	14.2%	15,396	14.8%
55 - 59	6,460	9.5%	3,488	9.8%	9,948	9.6%
60 - 64	2,805	4.1%	1,790	5.0%	4,595	4.4%
65+	911	1.3%	638	1.8%	1,549	1.5%
Total	68,306	100.0%	35,567	100.0%	103,873	100.0%
Average Annual Pay	$25,000		$34,000		$28,000	
Annual Pay Distribution						
< $17,000	25,205	36.9%	2,490	7.0%	27,695	26.7%
$17,000 - $29,999	15,369	22.5%	17,570	49.4%	32,939	31.7%
$30,000+	27,732	40.6%	15,507	43.6%	43,239	41.6%
Total	68,306	100.00%	35,567	100.0%	103,873	100.0%

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Retiree Demographic Summary

	Total USD Employees*		State Enrollees		Combined	
Counts						
Male	8,068	33%	4,306	45%	12,374	36%
Female	16,682	67%	5,237	55%	21,919	64%
Total	24,750	100%	9,543	100%	34,293	100%
Average Age						
Male	70.6		70.5		70.6	
Female	73.7		72.6		73.4	
Total	72.7		71.7		72.4	
Age Distribution						
< 55	418	1.7%	363	3.8%	781	2.3%
55 - 59	1,521	6.1%	447	4.7%	1,968	5.7%
60 - 64	3,773	15.2%	1,295	13.6%	5,068	14.8%
65 - 69	4,857	19.6%	1,826	19.1%	6,683	19.5%
70 - 74	3,949	16.0%	1,861	19.5%	5,810	16.9%
75 - 79	3,563	14.4%	1,688	17.7%	5,251	15.3%
80 - 84	3,023	12.2%	1,180	12.4%	4,203	12.3%
85 - 89	2,171	8.8%	650	6.8%	2,821	8.2%
90 - 94	1,134	4.6%	198	2.1%	1,332	3.9%
95 - 99	300	1.2%	29	0.3%	329	1.0%
100+	41	0.2%	6	0.1%	47	0.1%
Total	24,750	100.0%	9,543	100.0%	34,293	100.0%
Average Annual Pension	$8,800		$7,200		$8,400	

* *USD retirees and surviving spouses currently receiving a KPERS pension.*

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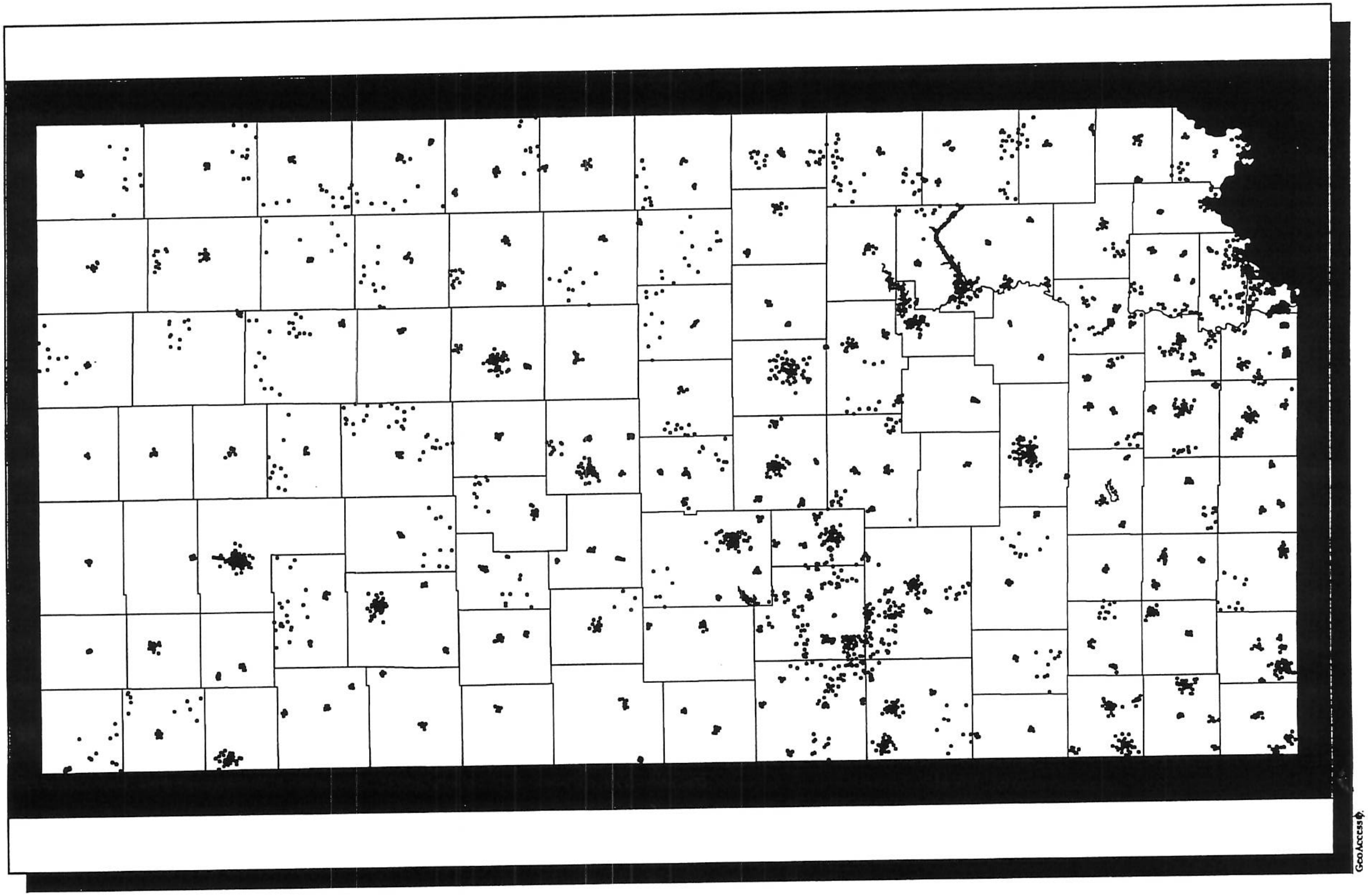
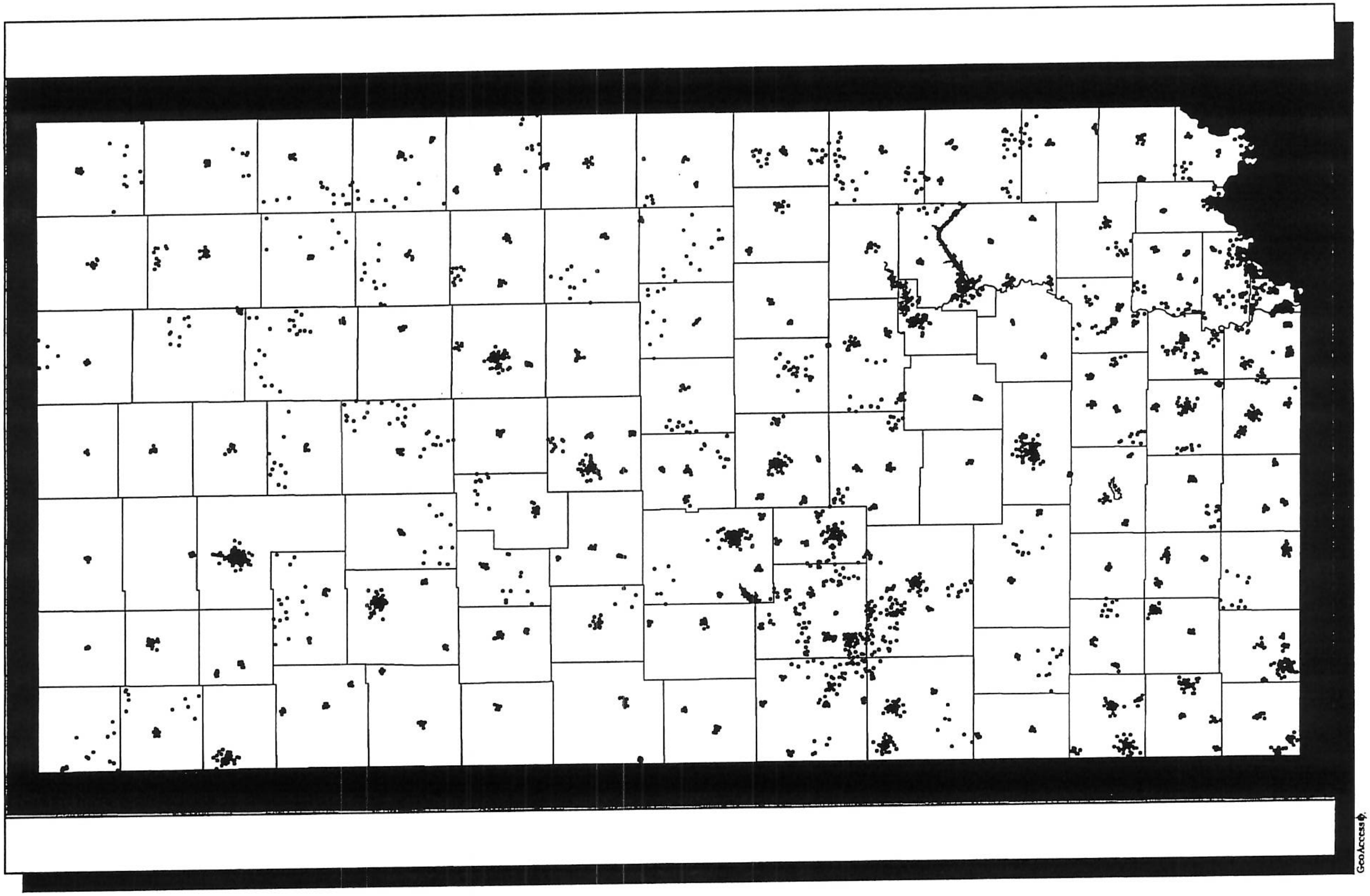
USD Active Employees

2.33

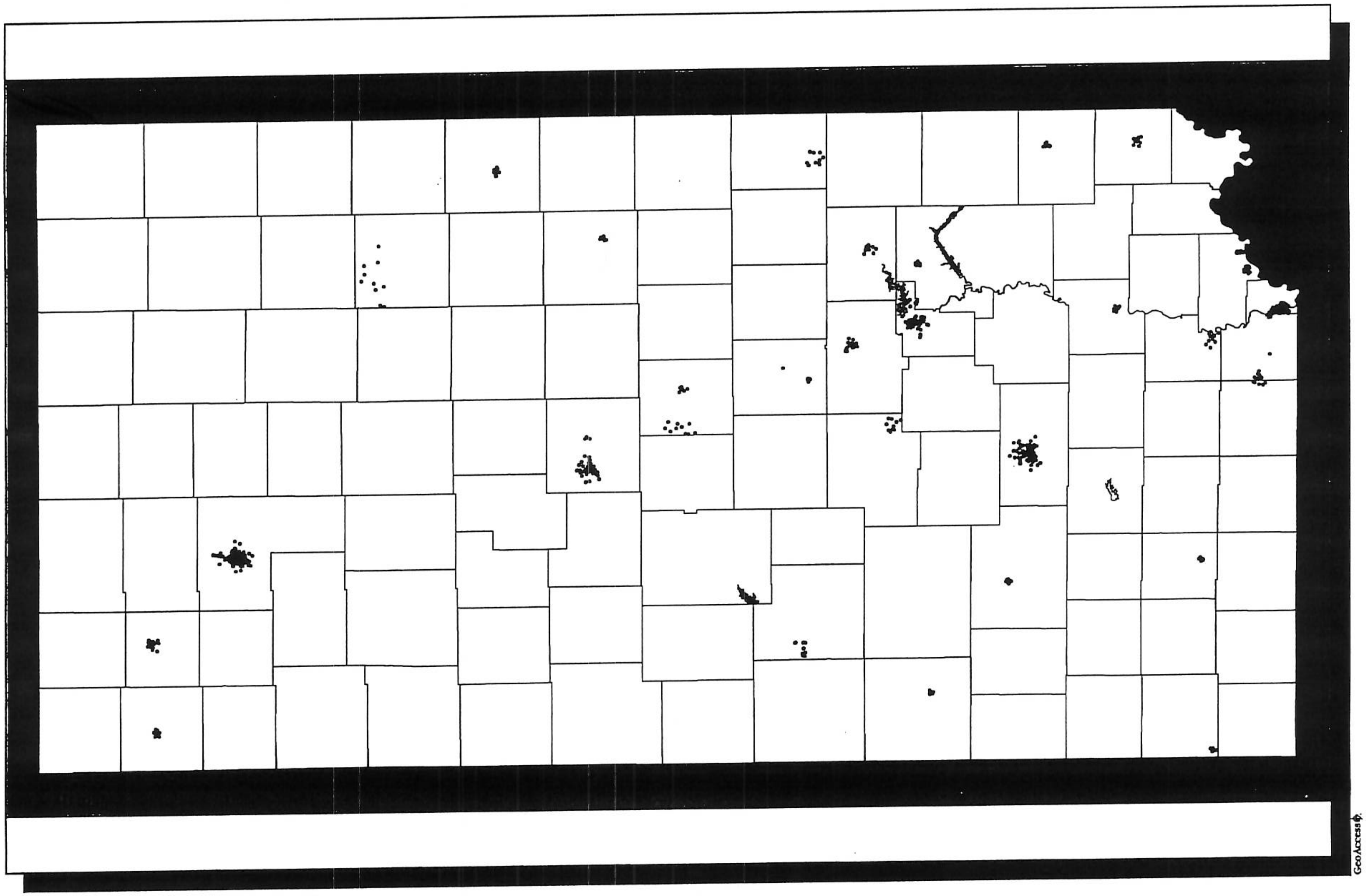


USD Retired Employees

2-34

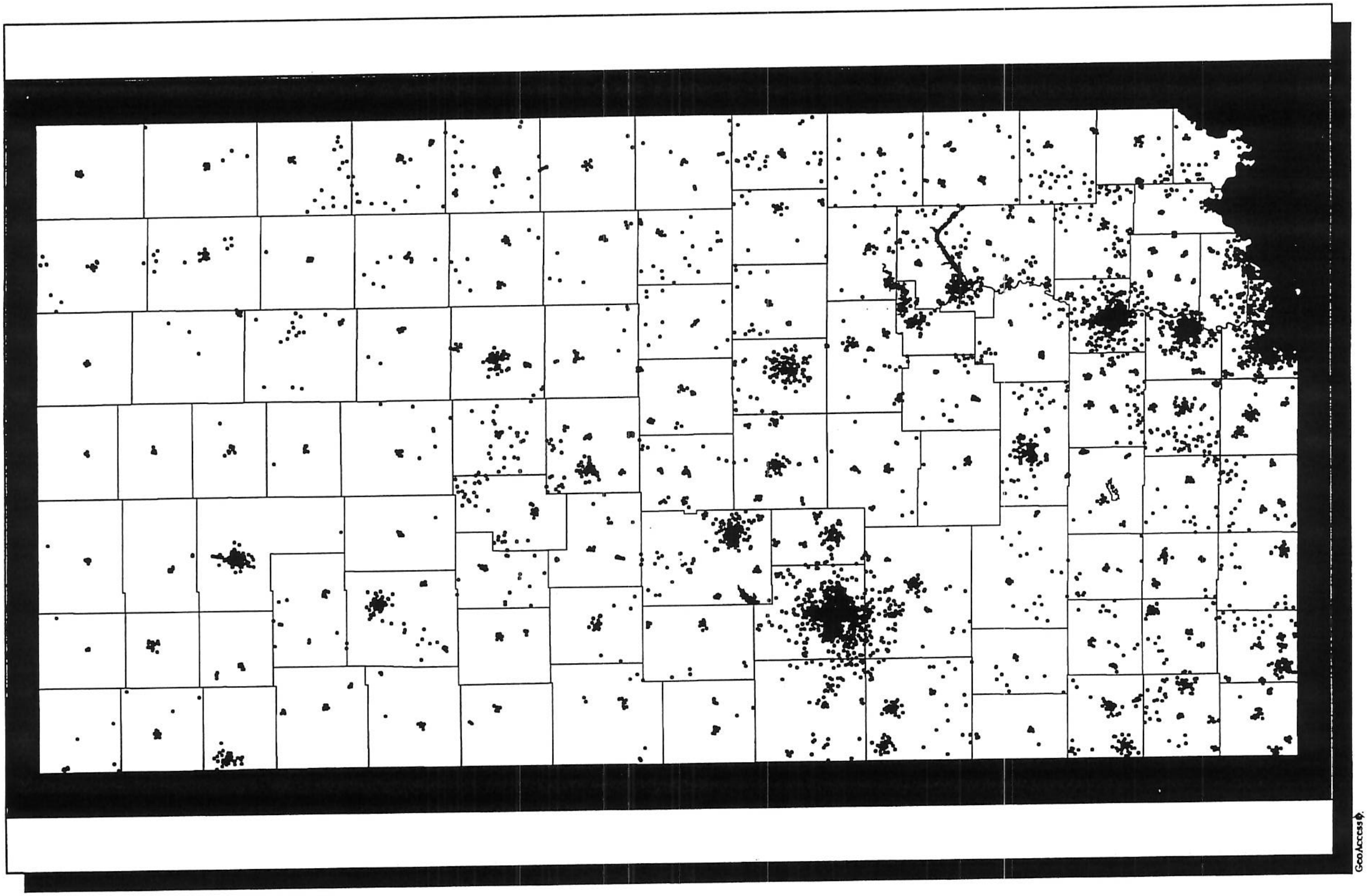


USD Active Respondents (who provided individual census data)



ˉ ˈte Active Enrollees

2-36



State Retired Enrollees

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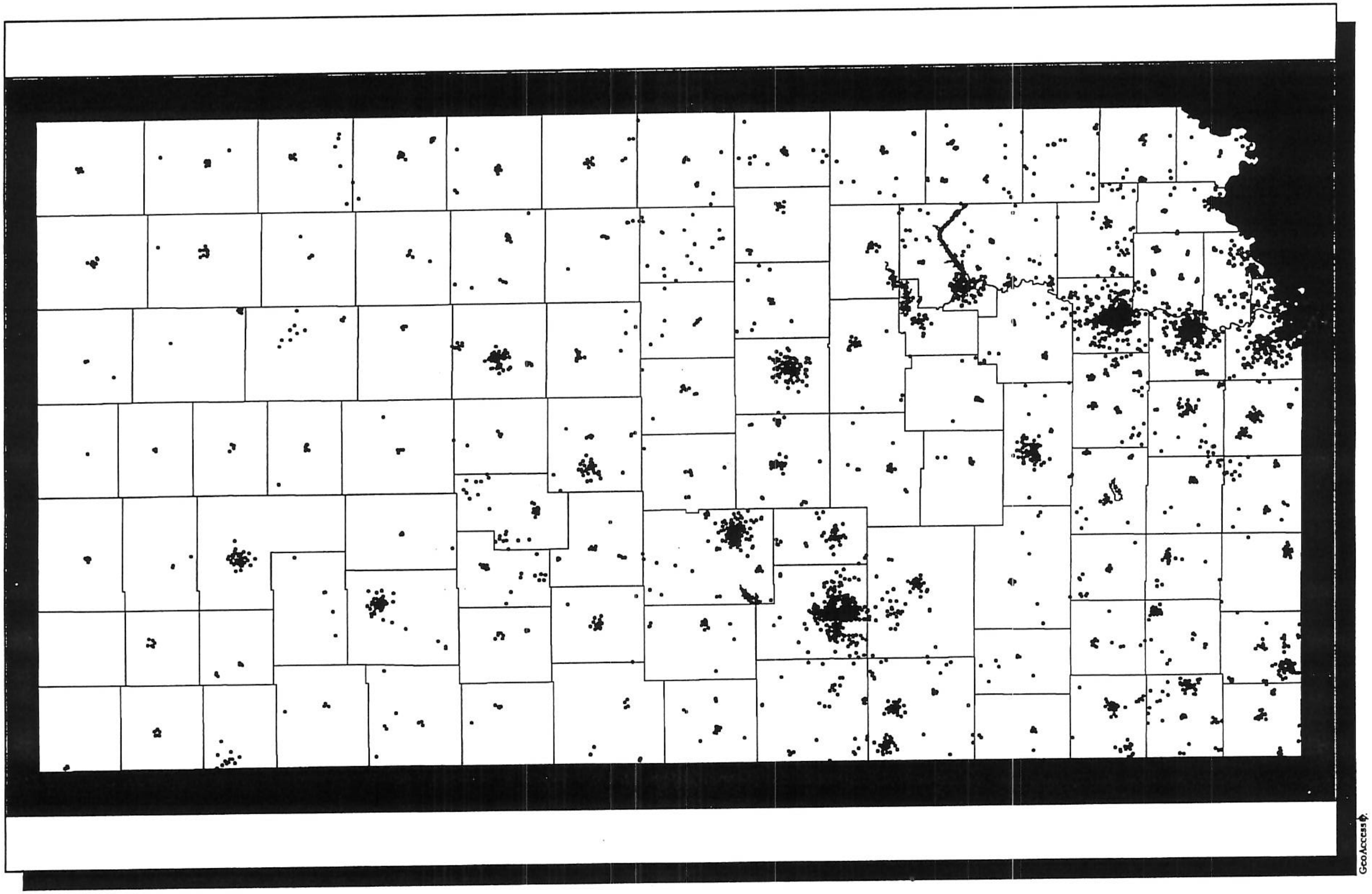

EXHIBITS

KANSAS USD FEASIBILITY STUDY
Summary Statistics
USD Respondent Summary

Type of Respondents

		Number	Percentage
1.	Total Respondents	199	65%
2.	No health plan	12	6%
3.	Data incomplete and not analyzed	14	7%
4.	Insured	75	38%
5.	Self-funded with TPA administration	98	49%
6.	Dental coverage offered	83	42%

Subsidies

7.	Reported subsidizing health care coverage	45	23%
8.	Average subsidy (based upon number of districts)		$ 158 per month
9.	Average subsidy (based upon number of employees)		$ 160 per month

Plan Designs

		% of Plans	% of Employees
10.	HMO	17%	30%
11.	PPO (with incentive or disincentive):	46%	35%
12.	Indemnity (includes discount arrangements without incentives)	37%	35%
13.	Percent with multiple plan offerings	35%	65%

14. Average Relative Value (Ratio of State's plans to USD plans)
    - a. Insured 1.02
    - b. Self-Insured 1.12

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EXHIBITS

USD Insured Plan Costs

1. Number of USD Respondents with Insured Plans	75
2. Number of Contracts	
a. Employee Only	8,645
b. Employee + Spouse	749
c. Employee + Child(ren)	437
d. Family	3,431
e. Total Contracts	13,262
3. Total Annual Premium	$51,804,843
4. Premium Per Employee Per Month	$326
5. Weighted Average Relative Value	1.02
6. Adjusted Actuarial Cost per Employee	$320
7. Weighted Anniversary Date	September 1
8. Projected to Calendar 1999	$328

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USD Self-Insured Plan Costs

Purchasing Groups Analyzed
- South West Plains Regional Service Center Health Insurance Group (SWPHIG)
- South Central Kansas Health Insurance Group (SCKHIG)
- Greenbush Health (Greenbush)

Other Purchasing Groups
- ESSDACK Insurance Group
- Smoky Hill Health Insurance Group

Summary of Plan Costs

Purchasing Group / USD	SWPHIG	SCKHIG	Greenbush*	Great Bend	Hayes	Total
1. Expected Claim Cost	$305	$299	$220	$336	$321	$293
2. Reinsurance Costs	10	108	110	51	11	66
3. Administration	15	36	18	13	14	23
4. Total	$330	$443	$348	$400	$346	$382
5. Reinsurance Level	$75,000	$25,000	$10,000	$50,000	$75,000	$44,113
6. Number of Employees Enrolled	1,204	1,595	723	281	528	4,331
7. Number of USDs	27	29	13	1	1	71

* *Only includes USDs with Greenbush who responded.*

State Employees' Health Insurance Organization and Management Survey

Number of State and Public Employees Enrolled in State Insurance Program

	Employees	Dependents	Retirees	1997 Cost of Health Ins Program (active/retiree)	Number of Medical Options			
					Indemnity	PPO	POS	HMO
State A (KS)	35,500	36,900	9,700	$165M	1	1	2	6
State B (AR)	62,103 [1]	57,218 [1]	9,871	$234 M	—	1	1	5
State C (CO)	30,000	66,000 [3]	—	$80 M [1]	—	2	—	6
State D (GA)	208,586	285,386	53,603	$893 M	2	—		
State E (IA)	27,000	33,000	6,000	$125 M	1	1	—	9
State F (MO)	65,000	64,000	10,100	125M	—	2	6	15
State G (NE)	15,215	N/A	475	$60M	—	2	—	2
State H (OK)	92,000 [1]	68,250 [1]	34,600	$264 M [2]	1	—	—	6
State I[4] (TN)	107,000	100,001-200,000	6,400	$251 M-500 M	1	—	—	5

[1] Active Only
[2] Medical and Pharmacy
[3] Approximate
[4] 1996 Survey Information

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State Employees' Health Insurance Organization and Management Survey

Other Benefit Types Managed by the Insurance Program

	Benefit Type									
	Dental	Vision	Prescription Drug	Employee Life Insurance	Dependent Life Insurance	Disability	Retirement	Flexible Spending Account	Long-Term Care Insurance	Other
State A	✓	✓	✓				✓	✓	✓	COBRA, Shared Leave
State C	✓	✓	✓	✓	✓	✓	✓	✓		
State D	✓		✓	✓	✓	✓	✓	✓	✓	Legal Insurance
State E			✓	✓	✓	✓		✓		
State E	✓	✓	✓	✓		✓	✓	✓		
State F	✓	✓								Employee Assistance Program
State G	✓	✓		✓	✓	✓		✓	✓	COBRA
State H	✓		✓	✓				✓		
State I [1]	✓			✓	✓					

[1] 1996 Survey Information

State Employees' Health Insurance Organization and Management Survey

Public Groups Offered the Medical Program

	Public Groups								
	State Employee	**Public School EE**	**University**	**Community College**	**Public Library**	**Municipality**	**County**	**City**	**Other**
State A	✓		✓						
State B	✓	✓							
State C	✓		✓						
State D	✓	✓			✓		(1)		
State E	✓		✓						
State F	✓	✓	✓	✓	✓	✓	✓	✓	
State G	✓								
State H	✓	✓	✓	✓	✓	✓	✓	✓	
State I (2)	✓	✓	✓			✓	✓		some non-profit

(1) One county

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State Employees' Health Insurance Organization and Management Survey

Number of Employees by Job Function

	Job Function							
	Claims Monitoring/ Actuarial	**Finance/ Accounting/ Audit**	**Enrollment/ Billing**	**Customer Service**	**Communi-cation**	**Plan Monitoring/ Quality Assurance**	**EAP/ Wellness**	**Other**
State A	2 [1],[3]	.25 FTE	6 [4]	[4]	.10 FTE	[3]	1.5	COBRA/125 Compliance - 1, Administrative - 2
State B	—	6	5	5	1	3	—	Retiree - 1, COBRA - 1
State C	Job functions shared. Most benefit calls referred to the dedicated customer service unit at each health plan. Agency has ten total employees. No functions are outsourced.							
State D	8	10	15	8	1	5 [7]	—	Compensation
State E	1	1	2	2	0	1	1	
State F	0	6	16	15	1	4	—	75 total employees: HR, Administrative, Mailroom, Data Management, Marketing, and other areas not reported
State G	—	1	1.25	1.25	.5	—	—	
State H	2 [1]	11	59	24	3	14	9 [2]	Data Services - 14, Administrative Functions - 29
State I [5]	2	3	4 [6]	14	1	3	3	Support Staff - 7

[1] Actuarial Outsourced
[2] EAP outsourced
[3] Health Plan Monitoring and Quality Assurance combined with Claims Monitoring/Actuarial
[4] Customer Service combined with Enrollment (4 employees for actives, 2 employees for retirees)
[5] 1996 Survey Information
[6] Includes two employees from State Information Division
[7] Includes two part-time employees counted as one full-time employee

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State Employees' Health Insurance Organization and Management Survey

Positions and Salary Levels by Job Function

	Claims Monitoring/ Actuarial	Finance/ Accounting/ Audit	Enrollment/ Billing	Customer Service	Communication	Plan Monitoring/ Quality Assurance	EAP/Wellness	Other
State A	Program Consultant II 35,000 - 45,000	Mgmt. System Analysis II 35,000 - 45,000	HR Prof. IV 45,000 - 55,000				HR Prof. III 45,000 - 55,000	
State B	Did Not Provide							
State C	Job functions shared. Benefit Planner: 48,000 - 72,000; Administrative Assistant: 19,000 - 24,000							
State D	Health Benefits Division Director 65,000 - 85,000	Financial Division Director 65,000 - 85,000	Eligibility Unit Manger 35,000 - 45,000	Support System Unit Manager 35,000 - 45,000	Advanced Benefits Information Specialist 35,000 - 45,000	Quality Assurance Manager 40,000 - 50,000		Compensation/ Staffing Division Director 65,000 - 85,000 Admin/Systems Division Director 65,000 - 85,000
State E	Benefit Program Administrator $44,000 - 60,000		Enrollment Coordinator 28,000 - 35,000 COBRA Administrator 33,000 - 43,000				Wellness Coordinator 42,000 - 53,000	
State F		Manager of Fiscal Affairs 42,000 – 69,000	Manager of Membership 42,000 – 69,000	Manager of Customer Support 42,000 – 69,000		Manager of Research and Compliance 44,000 – 73,000		
State G	—	Accountant 32,000 – 43,000	Benefit Technician I 24,000 – 32,000	Benefit Technician II 28,000 – 37,000	Benefit Technician II 28,000 – 37,000			
State H	CPA 65,000 - 75,000	Director of Accounting 60,000 - 70,000	CPA 45,000 - 55,000	Member Service Manager 30,000 - 40,000	Director of Public Information 45,000 - 55,000	Asst. Administrator 55,000 - 65,000	Wellness Coordinator 30,000 - 40,000	D.P. App. Specialist 35,000 - 45,000 Deputy Administrator 65,000 - 75,000
State I[1]	Legislation/Policy Dir 50,000 - 60,000 Program Evaluation 35,000 - 45,000	Accountant III 25,000 - 35,000 Account Clerk I 17,000 - 20,000	Information 28,000 - 35,000 Systems Support 20,000 - 25,000	benefit Specialist 25,000 - 30,000 Appeals Coordinator 22,000 - 25,000 Customer Service 20,000 - 25,000	Communication Specialist 25,000 - 40,000	Operations Manager 40,000 - 55,000 Program Eval. 35,000 - 45,000 Benefit Specialist 25,000 - 30,000	Director 45,000 - 60,000 EAP Coordinator 35,000 - 45,000 Wellness Coord. 35,000 - 45,000 Wellness Specialist 22,000 - 30,000 Support Staff 15,000 - 22,000	

[1] 1996 Survey Information

KANSAS NATIONAL EDUCATION ASSOCIATION / 715 W. 10TH STREET / TOPEKA, KANSAS 66612-1686

Craig Grant Testimony Before the
House Appropriations Committee
Wednesday, January 20, 1999

Thank you, Mr. Chairman. Members of the committee, I am Craig Grant and I represent Kansas NEA. I appreciate this opportunity to visit with the committee about the important topic of education employees' health insurance.

It is an important topic to our members. I would venture to guess that over half of my calls this summer and fall have been about the problems members are having with affordable health care. With problems such as groups canceling group coverage to gigantic rate increases, educators are finding out that their number one concern is turning to health insurance. When five out of six of the insurance pools put together to spread the risk have gone under, other district employees with a more stable insurance history begin to worry that this could happen to them.

One solution to our situation, we believe, is allowing educators to be part of the other public employees health insurance plan. By joining with 86,000 other covered individuals, certainly this would provide the stability in rates and coverages which our members seek. We testified before the House Insurance Committee last year in support of the concept which was embodied in Representative Long's bill.

For a number of years we have been hearing that the state employees were worried that the school employees entering their system would ruin the current system. They told us that rates would be sure to rise and that this would be the beginning of the end of their health care system as they know it. What has happened this summer is that an actuary study by the Mercer Company has shown that there is no material difference in the health history of state employees and school employees. What that means to me is that school districts could enter the state health plan without adversely affecting the plan itself. That information should be important to this committee and to the legislature.

The interim committee asked the Health Care Commission to develop standards for school districts to enter the state plan. We eagerly await those standards and hope they will be fair to educators and to the plan itself. We realize that we may no longer have cash options

Attachment 3-1
House Appropriations Committee
January 20, 1999

Telephone: (785) 232-8271 FAX: (785) 232-6012

available to us and that this would be a "use it or lose it" proposition. Each district may have to have a percentage of employees participate in the plan. We also realize that a district may have to make a decision for a length of time and stay with the program. Once these standards are in place, each district could decide for itself if this would be the best for that particular district. We believe that many would do so.

This area is one we hope the 1999 Legislature will not need to take legislative action on to solve a very serious problem in our school districts. We do hope, however, that if the standards need work we can come to you for assistance. We stand ready to work with you and the Department of Administration on the details of such a plan and thank you for your consideration of our concerns.

KANSAS ASSOCIATION OF SCHOOL BOARDS
1420 SW Arrowhead Road • Topeka, Kansas 66604-4024
785-273-3600

Testimony by Bill Curtis
Before the House Appropriations Committee
Wednesday, January 20, 1999

Mr. Chairman and members of the committee, we appreciate the opportunity to appear today to offer some comments on the proposal to permit school district employees to join the state health insurance plan. It is an important issue as illustrated by the number of responses KASB received in its survey conducted last September. Approximately 54% of 971 respondents, representing 219 school districts, indicated that health insurance was an important issue that had been discussed in at least one school board meeting within the past twelve months. Certainly the number of telephone calls received in our office during the past six months concerning health insurance availability would reinforce that notion.

During the past year three regional health pools for school employees have ceased operations. As of April 1, 1999 Heartland Health, a subsidiary of the Kansas Medical Society offering health insurance to groups in Kansas, will also cease operations. The point here is that there are now fewer alternatives for school districts. Efforts to form health insurance plans for school district employees have not been successful. While there are several reasons why those efforts have been unsuccessful, the most important reason has been the lack of sufficient numbers in the plans to stabilize premiums. The state plan possesses those numbers or critical mass. Insurance is predicated on sharing the risk among large numbers of insureds. The state plan offers an opportunity to school distrticts for stability. A number of superintendents and school board members are tired of dealing with health insurance on an annual basis.

The feasibility study presented to the Special Committee on Financial Institutions and Insurance by William M. Mercer, Inc. indicated there was no material difference in risk between state employees and school employees. That would indicate that with some requirements protecting against adverse selection, the addition of school employees to the state plan would not adversely impact the cost. School districts anxiously await the publication of admission criteria to the state plan. Several assumptions have been made concerning those criteria as a result of discussions by the interim committee. Those assumptions include (1) participation by school employees will not be mandatory for all school districts; (2) the state will not contribute funds for school employees; (3) there will be required contributions by the employer (school districts); (4) there will be minimum participation requirements; (5) no "cashout" options will be permitted; (6) school districts will need to enroll in the state plan for more than one year (perhaps as many as five years).

Once the admission criteria are known, I believe many school districts will begin to work on meeting them. It may take longer than one year as employee benefits are mandatorily negotiable for certificated school employees. However, the time is right. School districts are seeking a stable health care plan for their employees and the state plan, because of its size, offers that opportunity. Thank you for listening to our comments.

Kathleen Sebelius
Commissioner of Insurance
Kansas Insurance Department

TO: House Committee on Appropriations

FROM: Linda J. De Coursey, Director of Government Affairs

RE: Public School Teachers and State Employee Health Insurance Plan

DATE: January 20, 1999

Mr. Chairman and members of the Committee:

Thank you for allowing me this opportunity to share information with you regarding the very important issue of allowing public school teachers into the state employee health care plan. I have attached a copy of the Commissioner's testimony given before the Special Committee on Financial Institutions and Insurance at its November, 1998 meeting. In that testimony the Insurance Commissioner stated that she is a strong supporter of permitting school districts to join the state employee health care plan. I would like to briefly summarize her comments.

In the Committee Report of the Special Committee on Financial Institutions and Insurance the recommendation was made to keep the issue moving. It requested the State Employee Health Care Commission establish criteria for the creation of a program that would admit school district employees into the state employee health care plan, and submit that criteria to the appropriate standing committees of the Legislature by February 1, 1999. For a starting point, the committee requested that the questions posed by the Insurance Commissioner in her testimony be addressed.

The draft minutes of the Health Care Commission meeting on December 2, 1998 state that the Department of Administration was directed to develop the criteria necessary to allow USD participation, and that the Commission will be apprised of the criteria as it is developed, and

Attachment 5-1
House Appropriations Committee
January 20, 1999

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entertain the Commission's comments. At this time, no further information has been received by the Insurance Commissioner, as a member of the Health Care Commission.

If I may reiterate the Commissioner's comments, there are serious issues to be resolved, that's a given. But once at that point, the need is clearly demonstrated, and the expertise is available to make decisions that will benefit the public employees of Kansas, and provide quality, affordable health coverage for more Kansas families.

We would respectfully urge moving forward on this issue and open the state purchasing pool to school district employees.

Kathleen Sebelius
Commissioner of Insurance
Kansas Insurance Department

TO: Special Committee on Financial Institutions and Insurance

FROM: Kathleen Sebelius, Insurance Commissioner

RE: School Employees in State Employee Health Plan

DATE: November 13, 1998

Mr. Chairman and Members of the Special Committee:

I am appearing today in support of the principles behind allowing the State Employees Health Care Commission to set up a health plan for employees of public school districts. It is a topic that surfaced last year in a house bill, but the concept of adding school district employees and other local entities is not new. When the statute was written, creating the Health Care Commission, the Legislature contemplated an employee benefits plan which was designed for state employees, but "in the event that the Kansas state employees health care commission designates by rules and regulations a group of persons on the payroll of a county, township, city, special district or other local governmental entity, public school district, ...as qualified to participate in the state health care benefits program,.....periodic deductions from payrolls of the local governmental entity, public school district.....may be made to cover the costs of the state health care benefits program payable by such persons when authorized by such persons." K.S.A. 75-6506.

As a member of the State Employees Health Care Commission, I am a strong supporter of permitting school districts and local units of government to join the state employee health care plan. A basic concept of insurance is the ability to spread risk to as large of a group as possible. The state employee's health care plan provides coverage for approximately 87,000 state employees and family members, and is one of the largest health insurance plans in Kansas.

5-3

420 SW 9th Street
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Consumer Assistance Hotline
1 800 432-2484 (Toll Free)

State Health Care Plan Statistics				
Active single coverage	18,354			
Active member/spouse	4,047			
Active member/children	6,238			
Active member/sp/chld	6,691			
Total Active Participants	35,330	35,330		
Active participants in waiting period		1,377		
Total Active Participants		36,705	36,705	
Direct Bill Participants (retirees)			9,715	
COBRA participants			825	
Total active contracts			47,245	
Total dependents (spouses & children)			39,530	
Total covered lives (incl. spouses & children)				**86,775**

Health insurance pricing is often ruled by the number of covered lives. Providers, including doctors, hospitals, and pharmacies, trade discounts for volume. Also, spreading the risk to a large number of participants helps to spread costs of the large health risks across an adequate pool. Increasing the size of a purchasing group, if care is taken to avoid adverse selection, should help to drive costs down.

Some of the demographic information about the comparison of teachers and state employees is helpful. The study demonstrates that there is no real age difference between employee groups, the same urban/rural mix, that the gender difference has no real financial impact, and the only substantial difference is the average salary, with state employees earning $9,000 more per year than teachers, on average. This data makes a compelling case for policy makers to assist in finding more affordable insurance options for the lower paid public employees.

The Mercer Study effectively counters some of the other myths, which have been used over the years to discourage the active consideration of inclusion of school district employees in the state plan. The statement on page10 of the report effectively counters those faulty assumptions:

> "The USD employee population as a whole does not appear to be any more risky (i.e., unhealthy) than the State employee population. While bringing the USD population into the State Employees' Plan would be more costly in terms of absolute dollars, it does not appear it would be any more costly on a per capita basis. This conclusion is based on an analysis of the premium and claims data provided by the

USD respondents, as well as an age/sex demographic analysis of the total USD employee population in comparison with the State enrollee population."

Over the years, as school districts tried to find alternatives for health insurance coverage, many plans have been promoted and dropped, and many of the cooperative purchasing pools, designed to provide a larger insurance unit, have experienced serious administrative and financial difficulties. We constantly hear from school employees in smaller districts, who can't find affordable health insurance.

I am pleased that the Kansas Legislature took an active role in this debate and directed the Health Care Commission to conduct a feasibility study to consider allowing employees school districts to join the state employees health care program. The data collected by the consultants is very helpful in moving this discussion forward, and dispelling some of the most discouraging myths. This is an appropriate public policy decision, and I would urge the Committee to move forward with some additional steps.

A fundamental decision needs to be made about including others in the state-purchasing plan. Once that issue is settled, if the Committee decides in the affirmative, here are some of the additional questions, which need to be considered. There may be several others.

1. Must all school districts participate, or could there be a district-by-district decision? (If voluntary participation occurs, some mandatory internal participation rates would need to be determined).
2. Should participating districts agree to discontinue any "cash out" option, as a pre-condition to participation?
3. Who would determine the employer contribution for school districts? (The 95% state contribution for single employees is a significant factor in determining the 94% participation rate).
4. What would the contract dates be? (The current Jan 1-Dec 31 doesn't work for teachers' groups).
5. If a district joined the plan, what is the length of the commitment? (The duration of the insurers contracts or a longer period of time).

6. How should school retirees be handled, particularly those who have no current insurance coverage?

While there are some serious issues to be resolved, the trend of opening state purchasing pools to smaller groups has been tried successfully in other parts of the country. Each of the policy decisions has some cost implications that could be evaluated by our health consultants. The experience of other states in determining staffing and contract issues could be very helpful.

I would urge the Committee to recommend moving forward to develop the contract design to open the state purchasing pool to school district employees. While there are numerous issues to be resolved, the need is clearly demonstrated, and the expertise is available to make decisions, which will benefit the public employees of Kansas, and provide quality, affordable health coverage for more Kansas families.

The Insurance Commissioner expressed her support for the principle of allowing school district employees into the state health care plan. The Commissioner commented that the report countered several old myths: that school employees are more unhealthy and therefore a greater insurance risk, and that bringing such employees into the state plan would add substantial costs to coverage. While urging the Committee to move forward with the idea of expanded coverage, the Commissioner listed several questions that need to be answered as the issue goes forward, *i.e.*, mandatory participation, an end to cashout provisions, contract dates, employer contribution rates, and retiree coverage.

Conclusions and Recommendations

The Special Committee on Financial Institutions and Insurance concluded that, while there are significant barriers to the merging of the two groups, those barriers are surmountable. Much of the work in clearing a path for implementation of a combined plan will need to be at the local level among teachers, administrators, and boards of education.

In order to keep the issue moving, the Committee requests that the State Employee Health Care Commission establish criteria for the creation of a program that would admit school district employees to the state employee health care plan and submit such criteria to the appropriate standing committees of the Legislature by not later than February 1, 1999.

The Committee requests that the Commission, as a starting point for its work, address the questions posed by the Insurance Commissioner, including:

- Should participation be mandatory or voluntary by district?
- Should discontinuing the "cash out" option be a condition for a district's participation?
- Should participating districts commit to a specified period of time?
- How should contribution rates be determined?
- How can contract dates be reconciled?
- How should school district retirees be handled?

Finally, it should be clear to the Commission that no action should be taken that would disadvantage state employees currently participating in the health care plan.

5-7

PEER COMPARISONS IN THE KANSAS REGENTS SYSTEM

Presentation to the
House Appropriations Committee
by
Marvin A. Burris
Director of Planning, Budget and Governmental Affairs
Kansas Board of Regents
January 20, 1999

For the past 20 years, the Regents universities have compared themselves to carefully chosen sets of peer institutions. The purpose of this presentation is twofold: (1) to provide a brief, non-technical overview of the peer comparison methodology and (2) to describe how the peer comparisons are used as a basis for the Board's three-year faculty salary initiative. In the late 70s, the Board of Regents recognized the need to develop an objective benchmark to determine whether the institutions under its control were adequately and equitably funded. The use of data from comparable institutions in other states provides one measure for making these types of assessments objectively. The use of institutions outside Kansas as benchmarks is based on the supposition that the Regents institutions have differential missions and roles. Therefore, to provide the best possible comparisons, the Regents institutions are compared with similar institutions in other states rather than simply to each other. Since Regents institutions must compete in a national marketplace for faculty, students, research grants, etc., it is only appropriate that national comparisons be made.

Originally, the Board adopted peer institutions based upon the recommendations of a special task force it appointed in 1976. That task force spent considerable effort identifying and selecting comparable institutions, using the following criteria:

* *Peer institutions should be located in states similar to Kansas in terms of characteristics such as population, urban-rural population distribution and per capita income.*

* *Peer institutions should be publicly-controlled.*

* *Each peer institution should be similar to its Regents counterpart in terms of size of enrollment, program emphasis, distribution of degrees conferred by academic disciplines and institutional traditions.*

* *Peer institutions should not be chosen from heavily-populated states, or states with highly-industrialized economies. (Accordingly, institutions in states such as California, New York and Texas were not selected as peers.)*

* *In view of the need for careful data collection, no more than five peer institutions should be selected for each type of Regents institution.*

* *A majority of the institutions in each peer group should be located in the Midwest.*

* *An institution that was both the state's land grant institution and state university should not be selected. (Accordingly, neither the University of Missouri nor the University of Nebraska was selected.)*

Since the beginning, the peer institutions selected for KU and KSU have remained constant. Over the years, the peer institutions for WSU and the regional universities have changed. Most recently, the peers for WSU and the regional universities were altered in FY 1995 based upon the recommendations of another task force appointed by the Board to review the validity of the then current peers. The list of current peer institutions is displayed in Exhibit A.

The peer comparisons are expressed as percentages representing the ratio of the Regents institution's level of funding to the average of the peer group for that institution. Comparisons are made for the overall level of funding and for two components within overall funding, i.e. faculty salaries and other operating expenditures (OOE). Analysis of the peer comparison data reveals that the Regents institutions historically have been underfunded relative to their peers. In terms of overall funding, the Regents institutions were funded at 87 percent of the peer average in FY 1976; by FY 1996, relative funding had dropped to 81 percent. In other words, in FY 1996 the Regents universities only had $81 available to support their operations for every $100 spent by the peer institutions as a group. The Regents institutions have been underfunded in OOE, with the systemwide average hovering around 60 to 65 percent of the peer average for the past several years. For FY 1998, faculty salaries at the Regents institutions are funded at 89 percent of the peer average. Exhibit B displays faculty salary comparisons from FY 1988 - FY 1998.

Because maintaining quality faculty is critical to the future of our state universities, the Regents have proposed a three-year initiative to bring faculty salaries up to parity with their peer institutions. The Board's plan for FY 2000 through 2002 is based on an annual increase of 7.6 percent, which consists of two components:

- a 3.6 percent increase to keep pace with faculty salary growth at the peer institutions. This component is based on the actual increase in the systemwide peer average for FY 1998, and would be recomputed each year based on the most recent peer data.

- a 4 percent increase to achieve 100 percent of parity with the peer institutions. The plan envisions that 4 percent would requested for each institution in the first two years. For the third year of the plan, the percentage would be based on the amount necessary for each institution to reach full peer parity. Accordingly, the percentages may vary from institution to institution.

Exhibit C outlines the projected costs of the plan and the progression towards achievement of parity with the peer average. It is estimated that approximately \$102.2 million in additional funding would be required over the three years. Of that amount \$48.4 million would be needed to keep pace with peer salary growth, and \$53.8 million would be needed to achieve peer parity.

It is important to note that comparisons are made to the peer **average** and that efforts are made to achieve funding levels at the peer **average**. Exhibit B also displays the FY 1998 faculty salary averages for each peer institution. Note that in each peer group, several institutions have averages much higher than the Regents institution average. It would take a great deal more funding to achieve parity with the highest average salary in each group. However, the Regents institutions are not trying to achieve parity with the best funded institutions in the country, or even in their peer group. They are attempting to achieve parity with the peer **average**.

The mission of the Board of Regents is to provide students and Kansans high quality educational, research and public service programs. There is a direct correlation between this mission and the use of peer comparisons as benchmarks for determining the level of funding needed to fulfill each institution's unique mission. The attainment of parity with peer funding levels is a measurable outcome, but not an end in and of itself. It represents a way of securing additional investment in faculty which will return tremendous benefits to Kansans in the form of improved educational programs, economic growth and a higher standard of living.

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Exhibit A

KANSAS BOARD OF REGENTS CURRENT PEER INSTITUTIONS SELECTED IN 1995

UNIVERSITY OF KANSAS
University of Colorado
University of Iowa
University of North Carolina
University of Oklahoma
University of Oregon

KANSAS STATE UNIVERSITY
Colorado State University
Iowa State University
North Carolina State University
Oklahoma State University
Oregon State University

WICHITA STATE UNIVERSITY
University of Akron (Ohio)
University of Nevada - Las Vegas
Portland State University (Oregon)
Oakland University (Michigan)
Old Dominion University (Virginia)

EMPORIA STATE UNIVERSITY
PITTSBURG STATE UNIVERSITY
FORT HAYS STATE UNIVERSITY
Western Carolina University (N. Carolina)
Northwest Missouri State University
Salisbury State University (Maryland)
Northern Michigan University
Eastern Washington University

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Exhibit B

Average Salary Instructional Faculty, Compared to Peer Institutions
FY 1998

Institution	Avg. Salary Kansas	Avg. Salary Peers*	Relative Funding
University of Kansas	$55,818	$63,287	88.2%
Kansas State University	$50,042	$56,838	88.0%
Wichita State University	$47,752	$51,803	92.2%
Emporia State University	$41,593	$45,734	90.9%
Pittsburg State University	$45,111	$49,074	91.9%
Fort Hays State University	$41,232	$47,024	87.7%
System Total	$49,799	$55,876	89.1%

Relative Funding of Instructional Faculty Salaries, FY 1988 - 1998

Institution	FY 1988	FY 1989	FY 1990	FY 1991	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
University of Kansas	88.6%	90.9%	92.1%	88.8%	88.0%	87.9%	87.6%	89.0%	89.7%	88.2%	88.2%
Kansas State University	87.4%	89.6%	91.6%	90.5%	90.2%	90.0%	90.3%	91.5%	91.1%	88.8%	88.0%
Wichita State University	88.2%	89.7%	90.3%	89.3%	90.2%	90.4%	90.7%	91.1%	93.8%	91.9%	92.2%
Emporia State University	87.2%	90.0%	92.8%	90.4%	90.3%	91.5%	90.4%	92.5%	90.4%	90.1%	90.9%
Pittsburg State University	89.4%	92.6%	92.6%	91.8%	91.2%	90.7%	90.5%	91.8%	89.4%	89.1%	91.9%
Fort Hays State University	84.8%	90.6%	94.4%	91.8%	90.8%	90.6%	90.8%	90.4%	88.2%	88.4%	87.7%
System Total	87.9%	90.4%	92.3%	89.9%	89.5%	89.6%	89.4%	90.6%	90.6%	89.1%	89.1%

REGENTS PEERS AND AVERAGE ALL RANKS FACULTY SALARIES, FY 1998

University of Kansas	$55,818
University of Colorado	$60,848
University of Iowa	$65,981
University of N. Carolina	$71,463
University of Oklahoma	$54,037
University of Oregon	$50,352
Wichita State University	$47,752
University of Akron (Ohio)	$53,652
Univ. of Nevada LV	$57,654
Portland State Univ (Oregon)	$50,576
Oakland University (Michigan)	$58,821
Old Dominion (Virginia)	$56,803

Kansas State University	$50,042
Colorado State	$60,656
Iowa State	$63,158
North Carolina State	$66,171
Oklahoma State	$55,079
Oregon State	$52,342
Emporia State University	$41,593
Pittsburg State University	$45,111
Fort Hays State University	$41,232
Western Carolina State University	$50,237
Northwest Missouri State University	$43,683
Salisbury State University (Maryland)	$47,839
Northern Michigan University	$52,673
Eastern Washington University	$45,889

* Peer average is a weighted average of four faculty ranks, which factors in the distribution by faculty rank of the Regents institution.

NOTE: Data for FY 1996 and beyond reflect comparisons of new peers for WSU, ESU, PSU, and FHSU.
Prepared by: Office of the Board of Regents
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Exhibit C

Board of Regents 3-Year Faculty Salary Plan
FY 2000 - 2002

Assumes Annual Increases of 7.6% at Regents Institutions
Assumes Annual Increases of 3.6% at Peer Institutions

	FY 1999	FY 2000	FY 2001	FY 2002	3-Year Total
Regents Institutions' Average	$49,799	$53,584	$57,656	$62,038	
Peer Average	$55,876	$57,888	$59,971	$62,130	
Relative Funding	89.1%	92.6%	96.1%	99.9%	
Funding Request (millions):					
3.6% Increase to Keep Pace with Peers		$15.0	$16.1	$17.3	$48.4
4.0% Increase to Achieve Peer Parity		$16.6	$17.9	$19.3	$53.8
Total Increase		$31.6	$34.0	$36.6	$102.2

WASHBURN UNIVERSITY
Office of the President

Testimony to
House Appropriations Committee
from
Dr. Jerry B. Farley, President
Washburn University
January 20, 1999

Re: Faculty Salary Analysis

Mr. Chairman, Members of the Committee:

It is a pleasure to appear before you today to briefly discuss the faculty salary analysis conducted by Washburn University in the spring of 1998. The attached document represents the results of our analysis and it was reviewed by our Board of Regents in May and has served as the basis of our budget request to the Governor and to you.

The results of our analysis are quite similar to those which have been shared with you regarding faculty salaries at the Kansas Regents' universities. By virtually any measure, our faculty salaries lag approximately ten percent behind comparable institutions. We urge you and your colleagues to take the necessary steps to begin to eliminate this disparity at Washburn and our sister institutions before it emerges into a crisis and begins to adversely effect the quality of our instructional offerings.

Thank you again for the opportunity to share this information with you.

Att.

Attachment 7-1
House Appropriations Committee
January 20, 1999

TESTIMONY/PRES-JBF/HS.APPROP.012099

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Faculty Compensation Proposal

I. Introduction

Washburn University is committed to be an outstanding public metropolitan educational resource for the people of Kansas and the region, emphasizing excellence in teaching. The key ingredient in obtaining quality instruction is a well educated, strongly motivated, and dedicated faculty. Washburn must recruit and retain outstanding professors against national competition. Therefore it is crucial that faculty salaries and benefits are competitive with national institutions.

II. Compensation Proposal

The Washburn University compensation goal and plan will be presented in this section, and the supporting evidence for the goal and plan for future action will be given in Section III.

COMPENSATION GOAL:

Washburn University's faculty should receive salary and fringe benefits which are at least as good as the average salary and fringe benefits for similar institutions of higher education (Category IIA Comprehensive-public Universities).

PLAN OF ACTION:

A. SALARY

- The 10.0% difference between the average WU faculty salary and the IIA Comprehensive-public average faculty salary should be adjusted over a three-year period.
- A base increase of 3.5% in salary each year is needed simply to keep up with the present rate of increase at IIA Comprehensive-Public institutions.
- An additional 3.7% increase each year will raise WU's faculty compensation in three years to the average of IIA Comprehensive-public institutions.
- A total salary increase of 7.2% per year for three years is needed to reach Washburn's goal.

B. FRINGE BENEFITS

- The 1.5% difference between Washburn and IIA institutions in fringe benefits should be corrected as soon as resources are available.
- A 1.0% increase in University retirement contributions should be initiated in the FY1999 budget.

III. Supporting Data

A. Why use Category IIA Comprehensive-public for Comparison to Washburn?

Washburn University has been, is, and plans to continue to be an outstanding public metropolitan educational institution which emphasizes excellence in teaching. The essential component needed to sustain and maintain this level of excellence is a quality faculty, professors who are well trained, strongly motivated and possess the personal traits needed to catalyze the transmission of knowledge. Washburn must recruit and retain its faculty against national competition. The universities in the U. S. which are most like Washburn, those public institutions which are predominately undergraduate with some professional and masters level programs and are principally interested in teaching as opposed to research, are classified in the AAUP salary study are Category IIA Comprehensive-public universities. This group is defined as follows:

> "Public institutions characterized by diverse post baccalaureate programs (including first professional), but they do not engage in significant doctoral-level education. These institutions must grant a minimum of thirty post baccalaureate degrees and grant degrees in three or more post baccalaureate programs."

There are 291 Category IIA Comprehensive-public campuses in the U.S. in 1998.

An independent educational consulting firm, Higher Education Executive Associate of Franktown Colorado, was asked to identify peer institutions for Washburn University. They used sixteen major variables in their selection. Using data from 1996 and 1997, such factors as the following were examined: Number of full and part-time faculty, faculty-student ratio, full and part-time undergraduate enrollment, total enrollment, percentage of students over 25 years of age, E & G. amount of budget, market value of endowment, percentage of in-state students, tuition and fee charges, average faculty salary, and percentage of students in campus housing. Their list is given in Table I. All of these institutions were in the IIA Comprehensive-public category at the time of the preparation of the list. One university, Wichita State University, has moved this year to a Category I (doctoral-level institution).

Table I
Consultant's Suggested Washburn Peers

Auburn University at Montgomery, AL
Framingham State College, MA
Indiana University - South Bend, IN
Southern Illinois University - Edwardsville, IL
SUNY College at Brockport, NY
University of Colorado - Colorado Springs, CO
University of Houston - Clear Lake, TX
University of Michigan - Flint, MI
University of Minnesota - Duluth, MN
University of Nebraska - Omaha, NE
University of North Carolina - Wilmington, NC
University of Southern Maine, ME
University of Tennessee - Chattanooga, TN
University of Wisconsin - Parkside, WI
Wichita State University, KS

The IIA Comprehensive-public university is a good fit for the type of institutions Washburn must compete with for recruiting and retaining faculty members.

B. Why use WU Average Salaries excluding School of Law salaries?

There are two reasons for the exclusion of salaries from the School of Law from the WU averages when making comparisons to IIA schools. First, the SOL salary increases have been funded differently than other salary increases at Washburn. The Law School Financing Plan, which uses increases in Law School Tuition as its major source of funding, has been their principal source of new resources. They have increased tuition, with their students consent, at a much greater rate than would be possible in other areas.

Second, the SOL salaries, which need to be competitive with other law schools, greatly distort the overall salary average for the rank of professor. The data are given in Table II.

Table II

Data with and without Law Faculty Salaries for 1997-98

	Professor	Associate	Assistant	
	(In $1000 units)			
A. Washburn Avg with SOL	64.4	45.9	36.3	
B. Washburn Avg without SOL	55.6	45.2	36.3	
C. Difference (A - B)	8.8	0.7	0.0	
D. Percent change because of SOL	15.8%	1.5%	0.0%	
E. Total No. of Faculty in Rank	76	52	63	
F. Number of Faculty in SOL in Rank	20	3	0	.G
Percent of Rank at WU in SOL	26.3%	5.8%	0.0%	

From Table II it can be seen that at Washburn, the SOL salaries at the professorial level greatly distort the University average (a 15.8% increase). Schools of Law are rare at IIA Comprehensive-public universities. Only 12 (including Washburn) of the 291 campuses have schools of law (4.1%). In Sections IIIC, IIID, and IIIE, comparisons will be made to average values for public IIA institutions. Although the public IIA data includes the numbers for law faculty, given the large number of faculty salaries being averaged, this inclusion does not make much of a change in the overall values. Assuming that the salaries at those institutions with law schools would be affected similarly to the numbers at WU, the average professor's salary would change by no more than $400 and the associate professors by about $100. In other words, because of the large number of total faculty which make up the IIA averages, the small number of higher paid law professors have little effect on the numbers. The above calculation probably overestimates the effect, since the average size of Category IIA campuses with law schools is nearly twice the size of Washburn (12,050). This would decrease the relative effect of the law salaries on the average.

C. Why use a 3.5% base increase for faculty salaries?

Since the overriding principle that the Washburn compensation proposal is to make its package competitive with other IIA Comprehensive-public universities, it is critical that the salary increase be at least equal to the schools in that category. If the increase is not at least equal to the average, then Washburn will become less competitive. The average salary percentage change for continuing faculty at IIA Comprehensive-public institutions for the last five years is given in Table III.

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Table III

Percentage Change in Salary
for Continuing Faculty at IIA Comprehensive-Public Institutions

Fiscal Year		Percentage Change
1997-98		3.4
1996-97		2.3
1995-96		3.7
1994-95		4.4
1993-94		3.6
	Five-year Average	3.5%

From Academe: March/April issue for each year.

Table IV illustrates the effect of applying the IIA Comprehensive-public institutional average salary increase at WU. The starting salaries used in this comparison are those for Washburn Professors (without SOL) and IIA Comprehensive-public professors. Both are increased each year by 3.5%.

Table IV

Effect of Increasing Professor' Salaries by 3.5% for the next five years.

	A	B	C	D	E
Year	WU Prof Salary ($1000)	IIA Comp-Pub Prof Salary ($1000)	Dollar Difference ($1000)	% Difference (B-A)/Bx100	Additional Dollars to IIA Prof over base year
Base	55.6	61.8	6.2	10%	-
1	57.5	64.0	6.5	10%	$300
2	59.6	66.2	6.6	10%	$400
3	61.6	68.5	6.9	10%	$700
4	63.8	70.9	7.1	10%	$900
5	66.0	73.4	7.4	10%	$1200

From Table IV it can be seen that the percentage difference between the Washburn professor and the IIA Comp-pub average professor's salary has stayed the same (10%) over the five years, but the Washburn professor has fallen $1200 farther behind in actual take-home dollars. This approach of just "keeping up with our competitors" only serves to make Washburn less competitive in its efforts to recruit and retain good faculty members.

D. How was the WU Salary Deficit Calculated?

The average salaries for faculty at Washburn (with and without law), IIA Comprehensive-public universities, the peers identified by the consultant, and Wichita State University (the Kansas Regent school most similar to Washburn) are given in Table V. Percentage differences of Washburn salaries (without law) compared with IIA Comprehensive-public, peer institutions and Wichita State University are given in Table VI. The similarity between the three comparisons are exeellent with the exception of the Associate Professor comparison with WSU. Washburn faculty salaries are behind the average IIA Comprehensive-public salaries by 8.9% to 11.0%, depending on rank. Using a weighted average based on the number of faculty in each rank and the percentage the rank is behind the IIA salary average, the faculty salaries at Washburn are 10.0% behind the salaries at universities competing for the same professors.

Assuming a three-year time period for "catch-up" and a 3.5% average salary increase, each of the next three years for Category IIA Comprehensive-public institutions, Washburn would need a 7.2% annual increase in faculty salaries (3.5% to match the increase at IIA schools and 3.7% in salary enhancement) to reach the IIA Comprehensive-public universities average salaries. As seen in Table IV, a 3.5% raise would only keep the WU faculty at the same percentage behind the comparison group, but the actual dollar difference would be increasing. Table VII illustrates the three-year "catch-up" proposal.

Table V

Average Salary Comparisons (in $1000)[1]

	Professor	Associate	Assistant
Washburn (without law)[2]	55.6	45.2	36.3
Washburn (with law)	64.4	45.9	36.0
IIA Comprehensive Public	61.8	49.6	40.8
Peers (14 institutions)[3]	61.2	49.5	40.6
Wichita State University	61.5	47.8	41.0

[1] All numbers, except WU (without law), are from AAUP, Academe March/April 1998 and are 1997-98 faculty salary averages.

[2] From W.U. Institutional Research

[3] One institution on the Peers list, Framington State University, was not reported in the AAUP salary study so only fourteen institutions of the fifteen Peer institutions were used in this average.

Table VI
Percentage Differences of Washburn Salaries (without law)

(a) Compared with IIA Comprehensive public Averages

	Professor	Associate	Assistant
% WU Salaries Are Behind	10.0%	8.9%	11.0%
% Increase Needed to Equal IIA Average	11.2%	9.7%	12.4%

(b) Compared with Peers

	Professor	Associate	Assistant
% WU Salaries Are Behind	9.2%	8.7%	10.6%
% Increase Needed to Equal Peers	10.1%	9.5%	11.8%

(c) Compared with Wichita State University

	Professor	Associate	Assistant
% WU Salaries Are Behind	9.6%	5.4%	11.5%
% Increase Needed to Equal WSU	10.6%	5.8%	12.9%

Table VII
Enhancement Required to "Catch-up" Salaries at WU to
IIA Comprehensive-public Average

Assuming:	10.0%	Salary deficit
	3.5%	Annual increase in IIA Comprehensive-public Faculty Salaries
	3.7%	Annual WU Salary Increase above IIA Averages
	7.2%	Total WU Increase

Year	WU Salary	IIA Comprehensive-Public Institution	% Behind
Base Year	90.0	100.0	10.0%
1	96.5	103.5	6.8%
2	103.4	107.1	3.5%
3	110.9	110.9	0.0%

E. How does WU compare with other IIA universities in terms of fringe benefits?

Fringe benefits for 1997-98 as a percentage of salary for IIA universities and Washburn are given on Table VIII. Washburn is 1.5% behind the IIA average. There is a 1.0% difference in retirement contributions. In Table IX the self reported fringe benefits as a percentage of salary for the Kansas Regent universities are listed. Washburn is from 1 to 3% behind the Regent universities.

Table VIII
Fringe Benefits for 1997-98 As a Percentage of Salary

Benefit	WU	Average for IIA Schools [1]
Retirement	8.6	9.6
Medical-Dental Ins.	6.6	6.2
Life Ins.	0.3	0.3
Social Security	6.9	6.6
Unemployment	0.2	0.2
Disability	-	0.3
Worker Comp.	0.3	0.5
Others [2]	-	0.7
Total	**22.9**	**24.4**

[1]Taken from Academe March/April 1998
[2] Includes Tuition and Benefits in kind

Table IX
Fringe Benefits for 1997-98 as Percentage of Salary
Reported by Kansas Regent Universities

University	Benefit as % of Salary*
Kansas State University	25%
University of Kansas-Main Campus	24%
Emporia State University	24%
Fort Hays State University	24%
Pittsburg State University	26%
For Comparison:	
Washburn University	23%
IIA Institution Average	24%

*Taken from Academe March/April 1998

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F. What will the Faculty Compensation Proposal Cost?

An estimation of the cost of the faculty compensation proposal for FY 2000, 2001 and 2002 is given on Table X. The faculty salary component, both the base and salary enhancement, amounts to $834,000, $894,000 and $958,000 for FY 2000, 2001 and 2002, respectively.

Table X
Cost Estimates for Faculty Compensation Proposal

	FY 2000	FY 2001	FY 2002
Faculty Salaries (without SOL)	$12,411,992	$13,305,655	$14,263,662
Faculty Base Increase (3.5%)	405,242	434,419	465,698
Faculty Salary Enhancement (3.7%)	428,399	459,244	492,309
Total Salary Increase (7.2%)	833,641	893,663	958,007

Planning/SHC:ny
5-27-98

7-10