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OREGON LEGISLATURE

Insurance costs have legislators' attention

Health benefits for Oregon's employees cost the state more annually than PERS

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SALEM — Finding their hands largely tied in making more cost-curbing changes to public employee pensions, some state lawmakers now are looking at another major expense: health insurance for government workers.

The state shells out about \$1.7 billion a year for the health plans of workers at state agencies, universities and K-12 public schools — a bigger single expense than the Public Employees Retirement System.

A review by The Register-Guard found that Oregon spends much more per employee on health insurance premiums than either Washington or California do on equivalent workers.

As with the cash-strapped Oregon Public Employees Retirement System, however, it may be difficult or impossible to cut health insurance costs.

A 2015 Oregon Supreme Court decision changed the game on PERS reform, lawyers on both sides of that fight agree.

The ruling held that the Legislature cannot touch any pension benefits already earned by workers; it can trim only future benefits.

That's a major hurdle to changing PERS this legislative session, as lawmakers try close a \$1.6 billion gap between state revenues and expenses.

PERS's current unfunded liability of \$22 billion is all for benefits already earned and therefore cannot be reduced, said PERS Executive Director

Steve Rodeman. Taxpayers and investment returns must, over time, cover that bill in full.

Lawmakers still can slow the PERS liability's growth by reducing current workers' yet-to-be-earned pension benefits. Or they could try to increase what workers must pay into the system going forward.

But one key proposed reform already has [run into complications](#). Several others would achieve only marginal savings, especially in the first few years.

The upshot? Changing PERS can't solve the state's budget dilemma.

"There are clear limits to what we can do with PERS reforms," said Rep. Julie Parrish, a West Linn Republican.

"We're having the wrong conversation. The bigger bucket of savings is in public employee health insurance."

Added House Speaker Tina Kotek, a Portland Democrat: "It's fair to say that looking at the overall employee compensation package (for cost curbs) is a better approach than just focusing on PERS."

Oregon workers cost more

Data reviewed by The Register-Guard show that, on average, health insurance premiums for Oregon's state agency employees and its K-12 public school teachers are significantly more expensive than those for similar employees in neighboring Washington and California.

Also, Oregon state workers, on average, contribute much less of their own money toward their health insurance premiums than state workers in Washington or California do.

None of the three states tracks similar data on employee health care premium contributions for K-12 school employees, which varies by district.

Sen. Richard Devlin, a Tualatin Democrat and key budget crafter, acknowledged that Oregon's public worker health insurance premiums are on the high side, compared to other states.

"There's some merit in looking" at curbing those costs to help alleviate the state's long-term budget problems, he said.

"Clearly there are some areas of our budget — schools, prisons — where most of the (total) costs are associated with the cost of" employees, Devlin said. "To achieve significant cost savings, you have to look" at curbing overall worker compensation or reducing the workforce size.

\$16,992 per employee

Health plans offered through the Public Employees Benefit Board and the Oregon Educators Benefit Board cover 110,000 government workers and 166,000 dependents, spouses and children this year. Combined, PEBB and OEBC plans cost \$1.8 billion a year, the bulk of which is covered by taxpayers. PEBB covers state government and higher education workers; OEBC covers K-12 workers.

(Oregon's cities and counties either are self-insured or get health coverage through Citycounty Insurance Services. That agency declined to release to The Register-Guard health insurance costs for its local government workers.)

The average health plan premium for an employee at an Oregon state agency cost the state \$16,992 this year. In Washington, the cost for the same type of worker is \$12,312 a year; in California, it's an estimated \$15,500 annually. Those weighted averages lump together lower-cost, employee-only plans with more expensive employee-plus-family plans.

Furthermore, Oregon state agency employees contribute much less, on average, toward their health insurance premiums than do their counterparts in Washington and California. Those workers in Oregon — including corrections and state police officers, social workers and university professors — pay on average 5 percent of their health plans' premium cost, with the government picking up 95 percent. In Washington, their counterparts chip in 15 percent. In California, workers pick up 23 percent.

For Oregon's state agencies, high-cost health plan premiums coupled with low employee premium contributions is a "double-whammy," said John Tapogna, president of consulting firm ECONorthwest.

Costs ranked No. 6 in U.S.

The Register-Guard's findings mirror a 2014 study by The Pew Charitable Trusts. That report ranked Oregon sixth in the nation for most expensive per-employee health plan premiums at state agencies — behind only Alaska, New Hampshire, New Jersey, Vermont and Wisconsin.

It was fifth, meanwhile, for lowest employee contributions to health insurance premiums behind Alaska, Iowa, Oklahoma and North Dakota.

"These kinds of state-to-state comparisons are long overdue," Tapogna said. "Policy makers in Oregon are going to have to grapple with the fact that they are on the wrong end of both equations."

Joe Baessler of Oregon AFSCME, a union that represents many state workers, doesn't dispute that the premiums for their health insurance plans are higher than average.

But he said that state workers in Oregon have made a priority of protecting their health insurance benefits during the past decade. In exchange, they've accepted smaller annual pay raises and, during the Great Recession, taken some unpaid furlough days, he said.

Generous pension and health benefits help government attract workers, since it often can't compete on base salary with the private sector, Baessler said.

"When people talk about (reducing health benefit costs), they're really saying public employees should make less money," he said. "Do we really want the government to be the least attractive employer in the state?"

K-12 costs higher, too

Data on health insurance costs for K-12 public schools are harder to find. In Oregon, state government pays for the majority of K-12 schools' operating expenses. Health benefits typically are negotiated at the local

level between the teachers union and the school board, and therefore vary by district.

But numbers compiled by The Register-Guard show that costs in Oregon are higher than in Washington and California.

For the 2015-16 school year, Oregon's health plan premiums for K-12 schools, on average, cost \$12,204 per employee.

In California, the average premium was \$9,825 per worker. In Washington, it was \$9,360.

None of the three states tracks what school employees pay toward their health insurance premiums, on average.

But, in Oregon, most school districts have a cap on how much they will pay for each employee's health insurance. That means if a teacher chooses a plan that costs less than their district cap, they don't have to pay anything for their health insurance premium. But if they choose a more expensive plan, higher than the cap, they must make up the full difference - themselves.

The average annual cost cap for health plan premiums at Oregon's school districts was \$14,892 in the 2015-16 school year, according to data provided by the Oregon Education Association, the state's largest teachers union.

That's more than the average cost of their health plan premiums, indicating that many school employees aren't paying anything toward their premiums.

"Compared to the private sector, some of our plans are pretty rich plans," said Jim Green, executive director of the Oregon School Boards Association.

"Obviously, you want to provide good health insurance for your employees," he added. "But are the plans offered through (the Oregon Educators Benefit Board) focused on cost containment? I would argue no."

But OEA President Hanna Vaandering said in a prepared statement that Oregon teachers have “historically ... accepted lower salaries in exchange for better health care coverage for their families.

“That said, OEA has worked hard over the years to bring down health insurance costs by creating OEGB and is currently working to reduce the costs of health care by supporting legislation to rein in out-of-control hospital spending and runaway profits by Big Pharma,” she added.

“All Oregonians will benefit when we reduce these drivers of escalating health care costs,” she said.

“We have to keep pushing”

In recent years, health insurers who want to do business with PEBB or OEGB and sell health insurance to public employees have had to agree to limit their plans’ annual inflation to 3.4 percent, with some exceptions.

That concrete step toward limiting the growth of government health insurance costs came at the direction of the 2013 Legislature. But the limit is somewhat informal: It was never voted into Oregon law, meaning it’s nonbinding.

ECONorthwest’s Tapogna argued that holding down insurance cost increases is only a partial solution because the insurance plan costs for Oregon’s governments were comparatively too high to begin with.

“We’ve been containing the rate of growth, with no one paying attention to where our starting level was,” he said.

Speaker Kotek countered that the Legislature has made “a lot of progress” in containing government health insurance costs.

“But I feel like we have to keep pushing,” she added.

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STATE AGENCY WORKERS

Health insurance for Oregon public employees is a big drain on taxpayer dollars. Insurance premium costs for state government agencies and public universities
(for 2017):

OREGON

Average cost per employee: \$16,992 a year

Average portion paid by employee: 5 percent; rest paid by government

WASHINGTON

Average cost per employee: \$12,312 a year

Average portion paid by employee: 15 percent; rest paid by government

CALIFORNIA

Average cost per employee (estimated): \$15,500 a year

Average portion paid by employee: 23 percent; rest paid by government

K-12 PUBLIC SCHOOL TEACHERS

Premium costs for K-12 public schools (for 2015-16 school year):

OREGON

Average cost per employee: \$12,204 a year

Portion paid by employee: Varies by district, average not tracked.

WASHINGTON

Average cost per employee: \$9,360 a year

Portion paid by employee: Varies by district, average not tracked.

CALIFORNIA

Average cost per employee: \$9,825 a year

Portion paid by employee: Varies by district, average not tracked.

Sources: Oregon Health Authority, Washington State Health Care Authority, CalPERS, Washington Education Association, California Department of Education

BENEFIT FACILITATORS

Oregon's two main programs for providing health insurance to government workers:

Public Employees Benefit Board

Covers most workers at state agencies, including the Department of Corrections, the Oregon Health Authority, the Oregon Department of Transportation, Oregon State Police, the Oregon Lottery, and the state's public universities. In 2016, it covered 51,515 state employees and 81,363 dependents.

Oregon Educators Benefit Board

Covers most K-12 public school employees, as well as some community college and charter school workers. In 2016, it covered 57,877 workers and 83,145 dependents.