TEACHERS' RETIREMENT BOARD

BENEFITS AND SERVICES COMMITTEE

SUBJECT: 2012 Health Benefits Survey Report ITEM NUMBER: 8

CONSENT: ___ ATTACHMENT(S): 1

ACTION: ____ DATE OF MEETING: November 6, 2013 / *30 mins.*

INFORMATION: X PRESENTER(S): Ed Derman

PURPOSE OF THE ITEM

The following report is the CalSTRS fourth triennial district health benefits study. Previous studies were conducted in October 2003, October 2006, and December 2009 and were reported to the Committee at their February meetings in 2004, 2007, and 2010 respectively.

BACKGROUND

Historically CalSTRS has played a very modest role in providing health benefits for retired members through the Medicare Premium Payment Program and plays no role in providing health benefits to active members. While CalSTRS administers pension plans for California educators, access to affordable health care is an essential component of our members' financial security as it has tremendous impact on the ability of members to maintain their standard of living in retirement.

The provision of health insurance to California educators is a collective bargaining issue addressed at the local district level. As health care cost plays an important role in retirement readiness, CalSTRS has studied members' access to health care benefits. In addition to the triennial district health benefits survey, the board established a task force of CalSTRS staff and stakeholders to discuss opportunities for CalSTRS to address various challenges that school employers face in providing health benefits to active and retired employees. As a result of those efforts, CalSTRS published *Health Care Have and Have Nots: A Crisis for California's Retired Educator*, in May of 2008.

METHODOLOGY

The methodology used for the 2012 health benefits survey differs from prior year surveys. In prior studies, CalSTRS staff utilized a single large-scale survey to gather its data. For the 2012 study, staff leveraged existing resources by using data collected by the California Department of Education. As the CDE data were limited to K-12 and County Office of Education employers, CalSTRS conducted a limited survey of Community Colleges to collect data from that population.

In order to ensure the 2012 study is comparable to the previous studies, staff compared findings from the CDE data to the findings from the previous 2009 CalSTRS survey. The results from both sets are strongly correlated and varied by only a few percentage points. Subsequently, both data sets were analyzed for health benefit availability, cost, and trends for California educators and retirees.

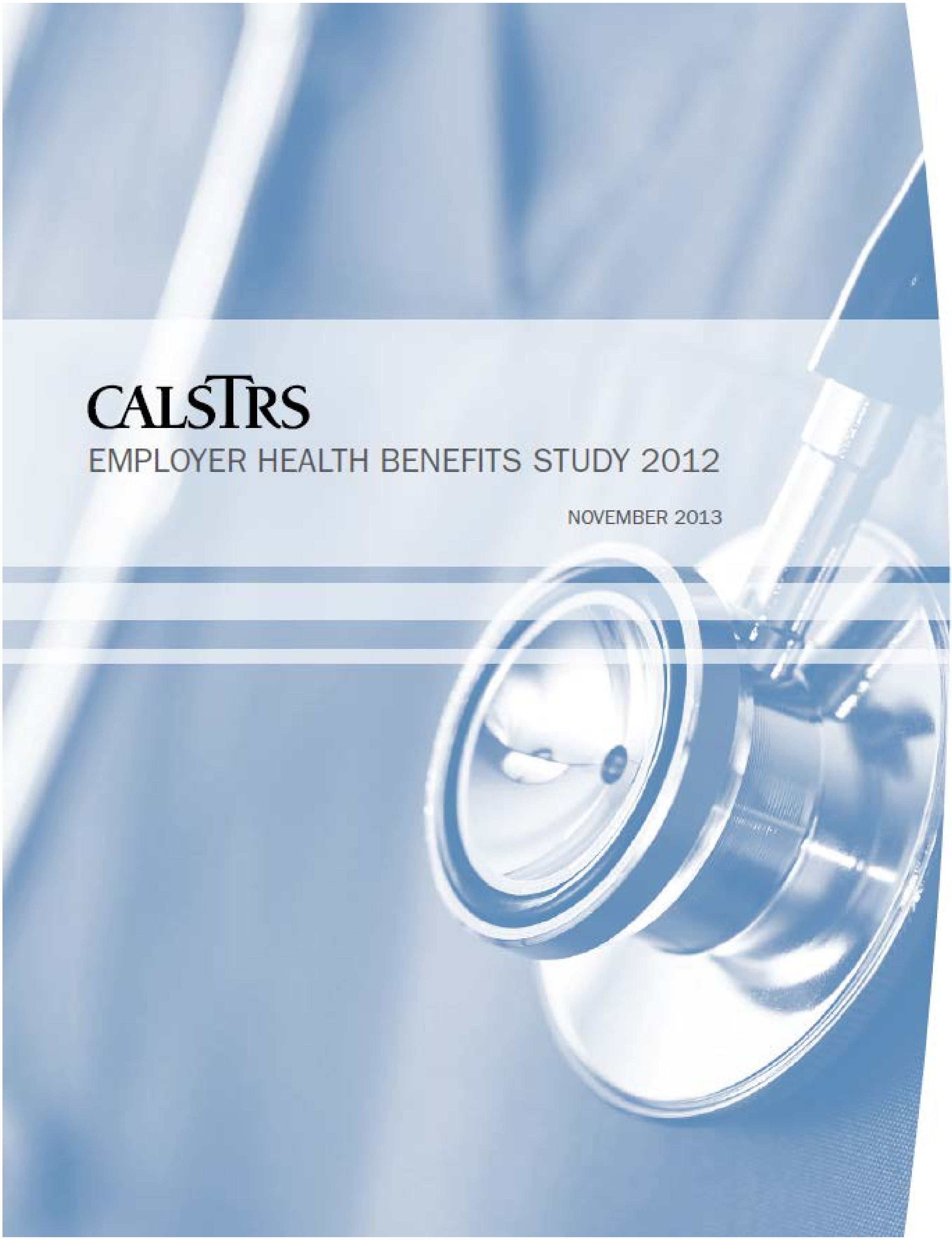
KEY STUDY FINDINGS

The findings from the 2012 study are generally consistent with findings of prior studies and reflected broader emerging trends in healthcare:

- Active employees are well covered.
- A majority of retirees under age 66 receive at least some support for insurance premiums.
- Most retirees over age 65 do not receive employer support for premiums.
- Postretirement premium support varies by hire date and is decreasing.

The complete results of the survey are attached.

Attachment 1
Benefits and Services Committee – Item 8
November 6, 2013



CALSTRS

EMPLOYER HEALTH BENEFITS STUDY 2012

NOVEMBER 2013

EXECUTIVE SUMMARY

The availability of affordable health care is an essential component of financial security, especially during retirement. CalSTRS currently plays a modest role in postretirement health for our members through the Medicare Premium Payment Program, and no role in health benefits for active members. The provision of health insurance to California educators is a collective bargaining issue addressed at the district level.

Over the years, to better understand the health benefits California educators have access to, CalSTRS has conducted surveys of employers in 2003, 2006, and 2009 to determine the scope of benefits available to members and educators. Previous surveys have shown that while active educators generally have high levels of access to employer-sponsored health coverage while working, retired member access is less prevalent, particularly for a retired member who have attained age 65 and are eligible for Medicare. In addition, the board established a task force of CalSTRS staff and stakeholders to discuss opportunities for CalSTRS to address various challenges that school employers face in providing health benefits to active and retired employees. As a result of those efforts, CalSTRS published *Health Care Have and Have Nots: A Crisis for California's Retired Educator*, in May of 2008.

In 2012, rather than perform a large-scale survey, CalSTRS staff utilized data collected by the California Department of Education on K-12 and County Office of Education employers. CalSTRS conducted a limited survey of community colleges, and combined those findings with the CDE's data collection to assess availability, cost and trends for California educators and retired members.

The findings are consistent with prior studies and with broader emerging trends in healthcare.

- ***Active employees are well covered.*** Consistent with prior year survey results, nearly all employers offer health benefits to active employees. Ninety-eight percent of employers provide coverage that is employer-supported to some degree. The remaining 2 percent provide benefits support through the salary schedule.
- ***A majority of retired members under 66 receive at least some support for insurance premiums.*** Sixty-nine percent of employers (representing 83 percent of employees) provide support for health benefit premiums during retirement to retired employees under age 66. This is largely consistent with the 71 percent of employers who reported providing support to such retired employees in CalSTRS' 2009 survey.
- ***Most retired members over 65 do not receive employer support for premiums.*** Eighty-three percent of employers (representing 60 percent of employees) do not provide any premium support for retired employees who have attained Medicare age. There is no significant change from 2009.
- ***Postretirement premium support varies by hire date and is decreasing.*** Though many employers currently provide postretirement premium support, minimum eligibility and service requirements have become more stringent over time, and more recent hires will not enjoy the same levels of support as their predecessors.

Cost impacts of multiple provisions of the federal Affordable Care Act will not be fully known for a few years. Employers have responded to increased costs by shifting a greater portion to employees and imposing more stringent requirements for retired member health benefits support. It is essential to our members' future financial security that they are proactive in finding out what level of support they can expect during retirement, evaluating a savings target and making a plan for managing future medical costs.

DATA STUDIED

Each year, the California Department of Education (CDE) collects data on salary and benefits for certificated K-12 and county office of education school employees. Participation by employers is voluntary, but the survey generally receives a strong response, with the follow up effort particularly focusing on encouraging medium and large employers to respond. In 2012, the CDE achieved a response rate of 85 percent of employers, who collectively enroll 98 percent of the state's average daily attendance.

The CDE survey content is similar to—and at times more detailed than—previous CalSTRS surveys. CalSTRS compared the CDE data against prior year survey responses and the findings were consistent. Statistically, the larger sample size and greater frequency of the CDE data provides greater validity and reliability for comparing and understanding results over time.

One notable shortcoming of the CDE data, from CalSTRS perspective, is that community college employers do not report this data to the CDE, and there is no similar up-to-date benefits coverage data available from an alternate source. To fill in this gap, CalSTRS sent a questionnaire mirroring the relevant CDE content to all 72 community college district offices. The response rate, though low at 28 percent, represents the largest community college employers.

When combined with the CDE data, this study examines the benefits environment of 877 employers representing 285,245 employees; a total of 81 percent of CalSTRS employers are represented (figure 1). This is an increase from the 39 percent response rate in the 2009 study, which reflected the results of surveys conducted entirely by CalSTRS.

FIGURE 1. RESPONSE RATE BY EMPLOYER TYPE

	County Offices of Education	Elementary districts	High school districts	Unified	Common administration	Community College districts	Total
Statewide total	58	536	79	330	5	72	1,080
Respondent total	44	420	72	316	5	20	877
Response rate	76%	78%	91%	96%	100%	28%	81%

Source: California Department of Education J-90 data and CalSTRS 2012 Community College Survey

This study reports findings by number or percentage of employers or, often, weighted by the number of employees to account for employer size. The weighted counts are based on *current active employees* – they don't always reflect the number of individuals who are actually subject to specific provisions. This distinction is particularly important when considering retired member data—in many cases the coverage levels described apply to the current population of retired members and may not be available to future retired members.

CalSTRS staff compared the results from the CDE and the community college survey against other government sources, as well as recent studies of private and public sector workers, nationally and statewide, to assess trends, commonalities, and differences.

ACTIVE MEMBERS

Active members include full time certificated staff counts provided by employers to the CDE and the same counts provided by community college respondents as of 2011-12. The data indicates that active members have broad access to health benefits coverage with employer support. When reported at the employee level, note that the data is skewed by Los Angeles Unified School District, by far the largest school employer in the state.

ACCESS TO HEALTH COVERAGE

Nearly all employers provide some financial support for health benefits (figure 2), whether it is through direct premium support, contributions to a cafeteria plan for active employees, or by adding money to the salary schedule in lieu of providing direct support. Only six employers reported that they offered no health benefits coverage to their employees or did not report any support for benefits. In total, less than one percent of employees represented in this survey were employed by one of the six employers that reported offering no health benefits coverage or benefit support to their employees. Dental and vision coverage are also customary, though less common.

FIGURE 2. PERCENT OF ACTIVE EMPLOYEES WITH LIMITS TO ACCESS

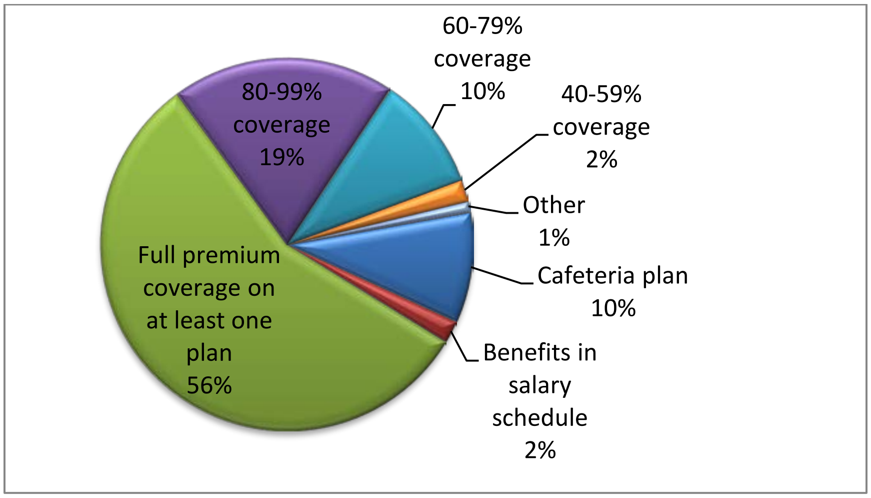
	Percent of employees without access through employer	Percent of employees with access but without employer premium support	Percent of employees with both access and support
Health	<1%	<1%	99%
Vision	12%	<1%	90%
Dental	5%	11%	84%

Source: California Department of Education J-90 data and CalSTRS 2012 Community College Survey

EMPLOYER SUPPORT FOR MEDICAL BENEFITS

The majority of active California educators have access to at least one single-coverage plan with full premium coverage by the employer. Most employers provide financial support for medical benefits, with 56 percent of employers (representing 70 percent of employees) offering at least one option with the premium entirely paid by the employer (figure 3).

FIGURE 3. EMPLOYER HEALTH BENEFITS COVERAGE LEVELS



Source: California Department of Education J-90 data and CalSTRS 2012 Community College Survey

The methods by which employers offer support, and the levels of support they provide, are collectively bargained and vary by employer. Though most employers provide direct premium support, others include premium support in the salary schedule, and a few employers (three out of 877, representing a fraction of 1 percent of employees) offer no premium support at all.

COMMUNITY COLLEGE PART-TIME EMPLOYEES

Community college employers reported the level of support provided for part-time adjunct faculty. When reported at the employee level, responses to this survey are weighted heavily by Los Angeles Community College District, the largest community college employer in the state.

- 38 percent of responding employers, representing 23 percent of employees, do not provide any employer-funded health benefits to part-time certificated employees.
- 48 percent of respondents, representing 72 percent of employees, report minimum time base requirements for health benefits coverage ranging from 40 to 68 percent.
- The remaining 14 percent of respondents provide varying levels of support to part-time staff based on hours worked.

COMPARISON TO OTHER PUBLIC AND PRIVATE EMPLOYERS

Active educators in California have superior access to health benefits coverage. In the United States, 70 percent of private sector workers have access to health benefits coverage through an employer. Public school teachers tend to have greater access, at 88 percent nationwide, according to the Bureau of Labor Statistics. In contrast, nearly all (99 percent) California educators have access to coverage.

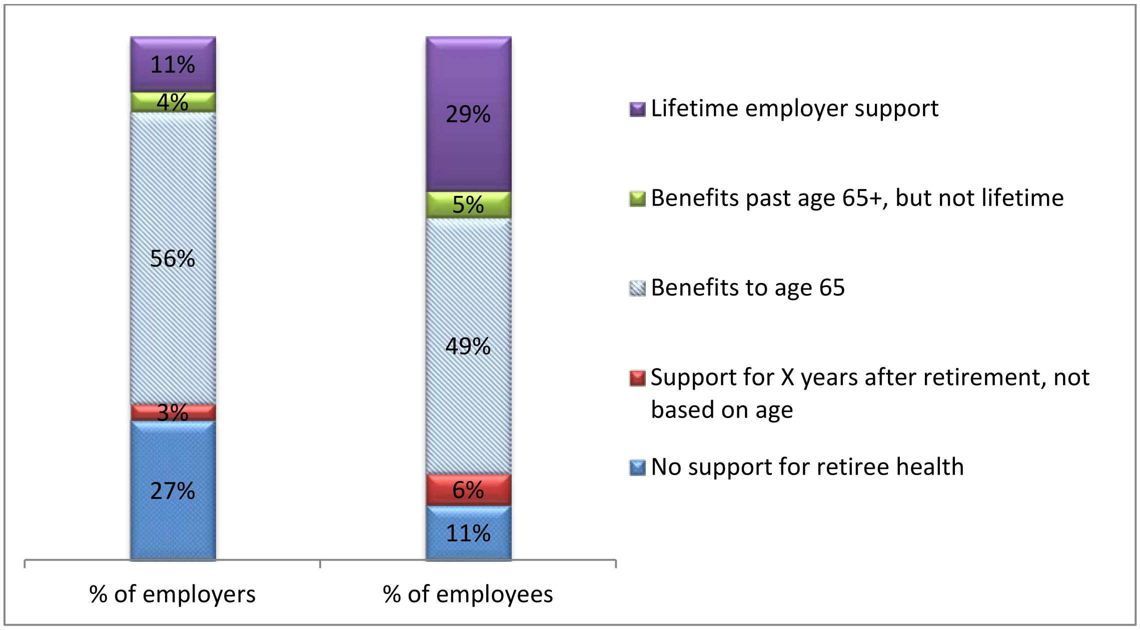
California educators have strong levels of employer support. According to a 2013 study conducted by Kaiser Family Foundation and the Health Research and Education Trust, workers nationwide are likely to pay at least some of their premium costs, with just 14 percent in plans that require no contribution by the employee for single coverage. Similarly, a study conducted by the California Healthcare Foundation and National Opinion Research Center (NORC) at the University of Chicago found that in California, 17 percent of covered workers are employed by firms that pay the full premium for single coverage. Fully 70 percent of active California educators have access to this level of support.

RETIRED CERTIFICATED MEMBERS

Over half of employers offer at least one single-coverage medical plan with premiums paid by the employer.

The majority of employer respondents provide some level of benefits support for retired members. Most employers provide a higher degree of support for early retired members than for those who have attained Medicare age. Twenty-seven percent of respondents do not offer employer-supported health benefits for any retired members (figure 4). In such cases, state and federal law provides individuals the opportunity to continue coverage at their own expense.

FIGURE 4. POSTRETIREMENT HEALTH BENEFITS COVERAGE, 2011-12



Source: California Department of Education J-90 data and CalSTRS 2012 Community College Survey

To assess any trends, CalSTRS examined the same CDE aggregate and longitudinal data for 2006 and 2009 (figure 5). There was no significant change to offerings to retired member who are under age 65; however, there is a slight increase in employers who do *not* offer support to retired members over age 65.

FIGURE 5. EMPLOYERS NOT PROVIDING SUPPORT FOR BENEFITS

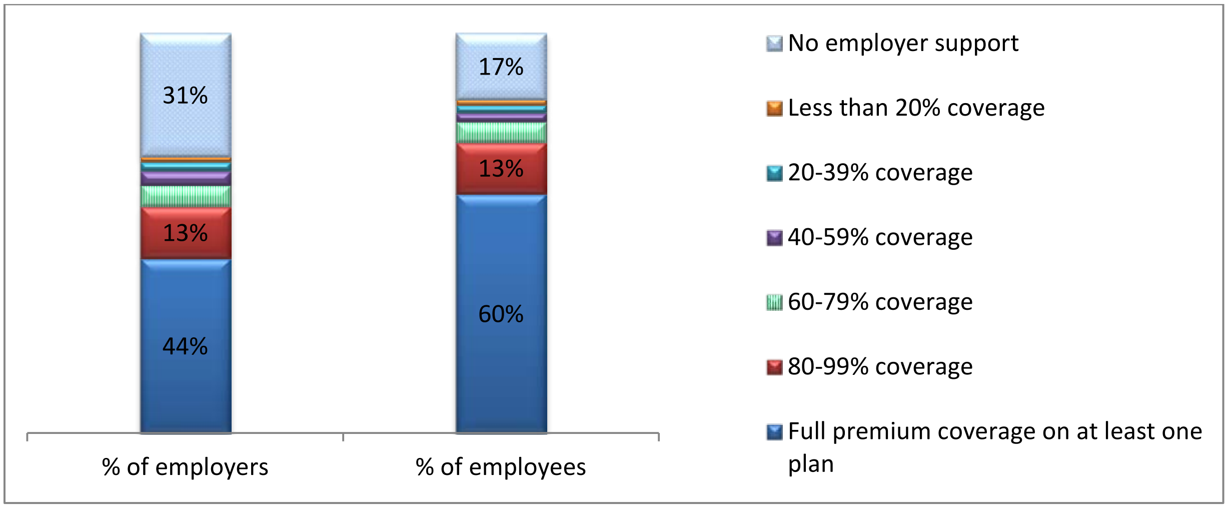
	No benefits to early retired members		No benefits to retired members over 65	
	Annual totals	Longitudinal (N=741)	Annual totals	Longitudinal (N=741)
2005-06	28%	24%	79%	78%
2008-09	26%	23%	78%	78%
2011-12	27%	23%	81%	81%

Source: California Department of Education J-90 data

EARLY RETIRED MEMBERS - UNDER AGE 66

Sixty-nine percent of districts provided premium support to early retired members (defined as those under age 66).

FIGURE 6. EARLY RETIRED MEMBER PREMIUM SUPPORT, BY EMPLOYER AND WEIGHTED BY EMPLOYEES



Source: California Department of Education J-90 data and CalSTRS 2012 Community College Survey

EARLY RETIRED MEMBERS: COMPARISON TO OTHER EMPLOYERS

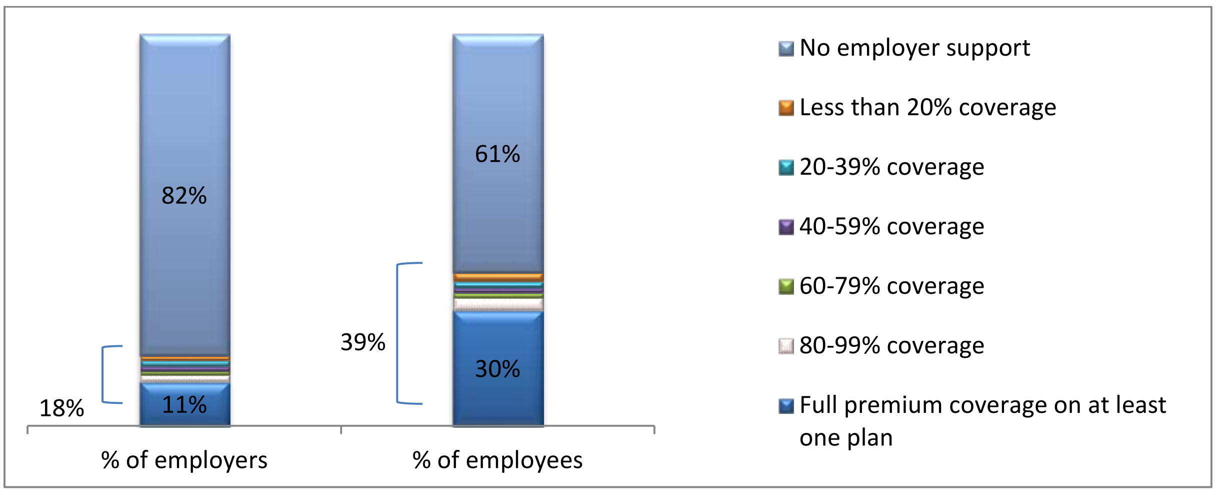
California educators have superior access to early retirement benefits. Nationwide, the number of workers with access to retired member health benefits is low and declining. According to a 2012 Employee Benefit Research Institute issue brief by Paul Fornstin and Nevin Adams, for early retired members in the private sector, the access rate has declined from 29 percent of employees in 1997 to 18 percent in 2010. Nationwide, more local government employers have opted to stop providing coverage as well, from 46 percent who did not offer coverage in 2011 up to 59 percent in 2012. Local governments in California are more likely to provide benefits than nationally, with 66 percent who provide benefits, according to Cobalt Community Research. Similar to their counterparts in local government, 69 percent of CalSTRS employers currently offer some degree of coverage.

In recognition of the declining rate of employer coverage nationwide, one provision of the Affordable Care Act provided federal reimbursement for early retired member medical claims to employers through the Early Retiree Reinsurance Program. According to the Department of Health and Human Services, over 200 California school employers participated in the ERRP, which allows employers to use the funds to offset employer health costs or provide premium support for workers. The program stopped accepting new claims in May 2011.

RETIRED MEMBERS OVER AGE 65

Reflecting the experience of other workers nationwide, California public school employers are less likely to provide support for CalSTRS retired members who have attained Medicare age. Just 18 percent of employers (representing 39 percent of employees) provide support for benefits past age 65.

FIGURE 7. PREMIUM SUPPORT AFTER 65, BY EMPLOYER AND WEIGHTED BY EMPLOYEES



Source: California Department of Education J-90 data and CalSTRS 2012 Community College Survey

RETIRED MEMBERS OVER 65: COMPARISON TO OTHER EMPLOYERS

California educators have limited access to benefits past Medicare age. CalSTRS members are more likely than private sector employees to have access to employer-sponsored coverage past age 65, but not by much. In 2011, 12 percent of private sector employers nationwide provided benefits past Medicare age, compared to 18 percent of California educator employers.

California educators' benefits are notably less favorable in contrast to other public sector employees once they attain age 65. A 2011 study conducted by the Agency for Healthcare Research and Quality found that, nationwide, 25 percent of state and local public sector employers provide financial support for coverage, and in the Pacific census region (including California), coverage is even more common at 42 percent. In California alone, 53 percent of California's local government employers provide employer-funded lifetime benefits, according to Cobalt Community Research. However the data is sliced, the coverage offered to California educators after age 65 is less favorable than other public sector employers.

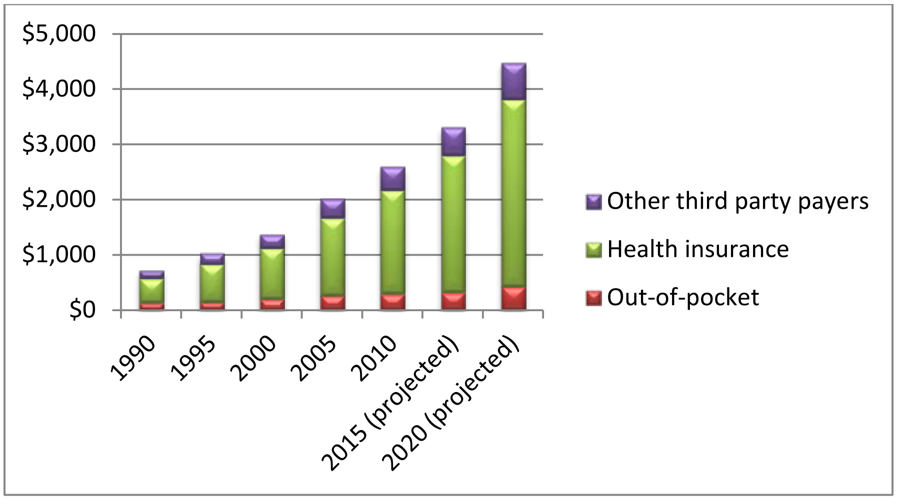
The number of California educators with access is declining. CalSTRS staff studied employment contracts in depth for 20 randomly selected employers who self-reported that they provided benefits to retired members over age 65. Just five employers from that sample continue to offer coverage with no recent changes to minimum requirements for coverage past age 65. The remaining 15 districts examined are either not offering benefits past age 65 to those hired after a certain date, or have implemented more stringent requirements for eligibility for those hired after a certain date. For example, Los Angeles Unified School District, by far the largest school employer in the state, offers lifetime support for health benefits to those employees hired between 1984 and 1987 who worked 10 years with the district immediately prior to retirement. However, those hired after April 1, 2009, must have 25 years of service without interruption to qualify, and their age combined with years of service must equal at least 85.

Overall, employer requirements for retired member health coverage have become more stringent, and more recently-hired employees planning to retire in the future will have to meet greater service and age requirements to qualify, or in many cases will not be eligible at all.

HEALTH CARE TRENDS

Escalating healthcare costs are a national concern. Since 1990, national health expenditures have nearly quadrupled, and the Centers for Medicare and Medicaid Services anticipate a 60 percent further increase in expenditures between now and 2020.

FIGURE 8. NATIONAL HEALTH EXPENDITURES, BY PAYMENT SOURCE 1990-2020



Source: CMS, National Health Expenditures, historic and projections

The future trajectory of costs is contingent on what cost-cutting measures are taken. However, if current trends continue, the average premium for families nationwide will reach nearly $25,000 by 2020. In 2014, the Centers for Medicare and Medicaid Services project a one-time increase in national health expenditures of 7.4 percent over 2013 due to implementation of certain provisions of the Affordable Care Act.

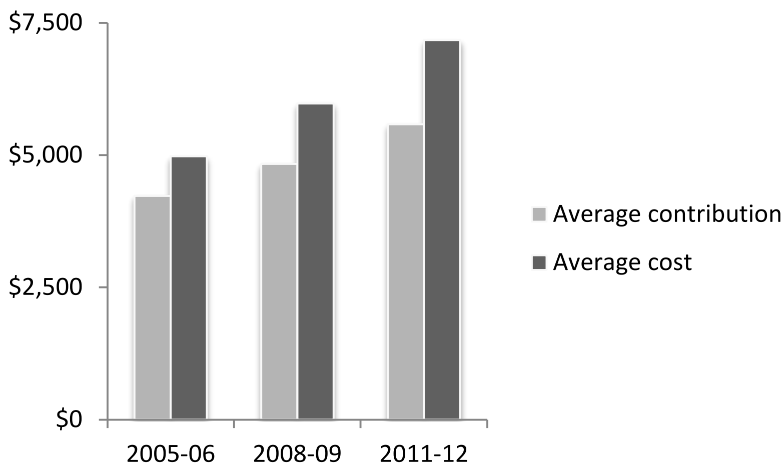
Many provisions of the Affordable Care Act are still being implemented and will bring further changes to the health care market. CalSTRS staff are following developments in how the implementation affects part time workers, and how employers will prepare for and react to changes coming in 2014.

HEALTHCARE CONSUMER COSTS: HIGHER AND INCREASING

Not only is health insurance premium in California higher than the national average, it has outpaced the state's overall inflation rate during the same period. According to the California Healthcare Foundation and NORC study, between 2002 and 2012, health premiums increased by an overall 169.7 percent compared with 31.5 percent increase for the state overall inflation rate. The average California employee's share of premium costs has more than doubled for single policyholders since 2003, according to Senior Vice President for Policy, Research, and Evaluation at the Commonwealth Fund Cathy Schoen.

The Center for State and Local Government Excellence reports that government employers, similar to private industry employers, are shifting more costs to consumers. Though benefits currently available to CalSTRS members are substantial, this trend is also apparent among school employers. Since 2005-06, while the average school employer contribution amount has increased, it has not kept pace with increases in premium cost.

FIGURE 9. EMPLOYER SUPPORT FOR SINGLE COVERAGE PREMIUM, 2005-06 TO 2011-12



The average premium cost for single coverage has increased by 44 percent, while the average level of employer support has increased by 32 percent.

Source: California Department of Education J-90 data and CalSTRS 2012 Community College Survey

While this report focused on premium costs, another prevalent method in cost shifting among employers in the public and private sector is to increase consumer responsibility for out-of-pocket health care costs. Aon Hewitt found that nationwide, over a six-year period employee costs increased by 64 percent including out-of the pocket expenses while employers increased their support by only 40 percent.

OTHER POST-EMPLOYMENT BENEFITS

Since 2004, employers are obligated under the Governmental Accounting Standards Board (GASB) to report liabilities for post-employment benefits other than pensions, including retired member health care. The expenses and liabilities for district-paid retired member health care are reported in their financial statements.

Employers providing postemployment benefits to retired members past age 65 have been required to secure an actuarial study of those benefits. Districts that have been providing benefits to retired members, but not past age 65, may have voluntarily secured an actuarial study. A total of 516 school employers studied reported GASB postretirement health liabilities totaling $20 billion. Los Angeles

Unified School District reported $11 billion of that total, the result of a June 2011 actuarial study. No other single employer's obligations exceeded $1 billion.

CONCLUSION

Most active members have access to employer-supported health care coverage, but retired member access to financial support is less prevalent. Over the four triennial district health benefit studies completed by CalSTRS to date, the percentage of employers reporting that they offer no health benefit support to retired employees over the age of 65 in the period between 2003 and 2012 has increased from 78 percent to 83 percent. CalSTRS staff anticipate that the declining rates of support for retired members will continue in coming years.

A member's access to health benefits coverage during retirement and anticipated medical expenses should be key considerations when planning for retirement. According to Fidelity Brokerage Services, a couple covered by Medicare and retiring at age 65 in 2013 without employer support should expect to spend $220,000 for future medical costs. Despite the significance of this expense, very few Americans are aware of what costs to expect or have a savings plan in place. Only 30 percent of workers in their 50s have established plans to meet future healthcare costs, and only 40 percent of workers in their 60s have a plan (SunLife Financial).

The sooner a member researches his or her employer's offerings and sets a target for saving, the more time there will be to take action and make a plan for a healthy financial future.

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