

2006 Health Benefits Survey of Employers

This reports the results of the second triennial survey of health benefit programs provided by California school employers. The initial survey was undertaken in 2003.

Key findings of the 2006 survey include:

- 1 percent of employers provide the same level of health benefit premium support for their retired employees as it does for current employees. This is a decrease from 3 percent in 2003. That level of support is provided by most employers only to employees who were either hired or retired prior to a specific date.
- 86 percent of employers (employing 62 percent of the employees) provide no payment for health benefits for retired employees after age 65. This is an increase from 78 percent of employers in 2003. The affordability of health care after age 65 was a problem in 2003, which has only gotten worse.
- 19 percent of employers provide no subsidies for health care for any retired employee.
- 11 employers, less than 3 percent of those who responded to the survey, provide full or partial premium payment for Medicare Part B (doctor visits).
- During the past three years, health care costs increased to a lesser degree than employers anticipated when they were surveyed in 2003.
- Employers reported one way they plan to reduce future employer costs is to impose higher co-payments on their employees.
- 50 percent of employers have hired a consultant to lead them through the Government Accounting Standards Board (GASB) reporting requirements. An additional 2 percent have consulted with CalSTRS or CalPERS on GASB provisions. 19 percent reported they are not subject to GASB because they don't offer employer-paid post-retirement health care.

METHODOLOGY

School districts, community college districts and county offices of education were asked to complete an extensive questionnaire regarding their health insurance coverage and health benefit costs that were in effect at the time of the survey or would be in effect as of January 1, 2007. A copy of the actual questionnaire is attached.

The questionnaire was broken into five major components:

- Active member health care coverage and costs;
- Retired certificated members health care coverage and costs;
- Active and Retired health care cost increases over the last three years;
- Information about how the employers are handling benefit obligation disclosure requirements imposed by Governmental Accounting Standards Board (GASB);
- Payment and or reimbursement for Medicare and health care coverage for disability.

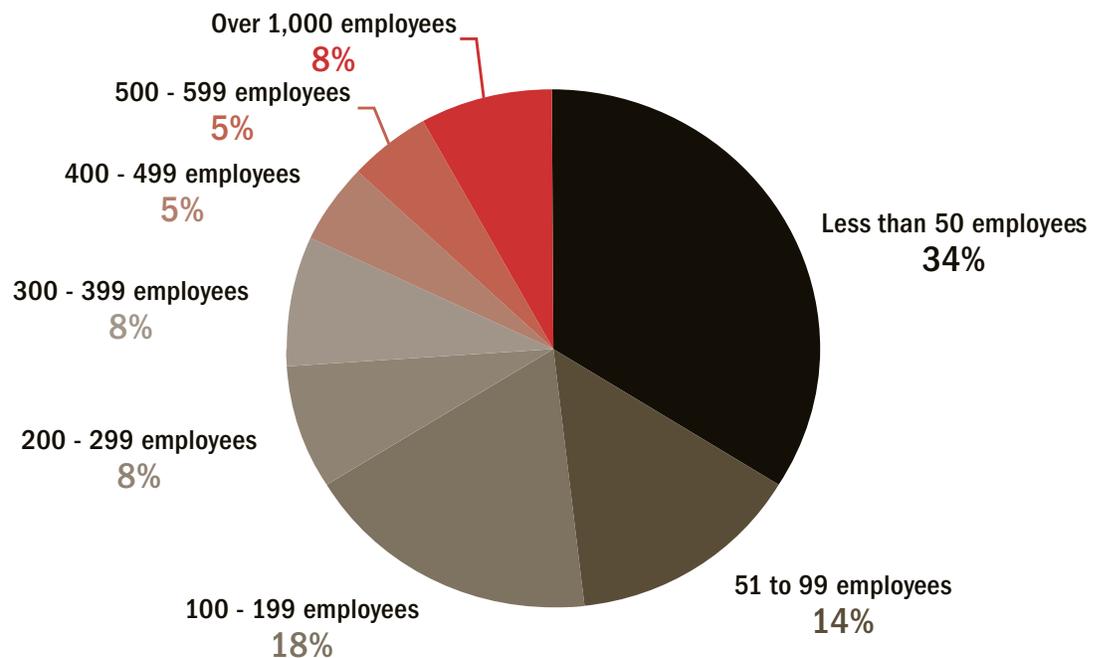
The questionnaire was mailed to 1,114 human resources administrators encompassing the county offices of education, community college districts and K-12 school districts. As of December 15, 2006, 386 employers, representing 35 percent of the employers surveyed had returned completed questionnaires to CalSTRS. The 2003 survey had a return rate of 41 percent of employers.

ACTIVE MEMBERS

Size of Reporting Employers

Survey responses were received from employers representing 129,419 employees, or 29 percent of the total active CalSTRS membership. Excluding the Los Angeles Unified School District (LAUSD), which accounts for 25 percent of the active employees reported in the questionnaire, the average size of employers who responded to the questionnaire was approximately 260 members. The distribution of employers is reasonably representative of all school employers, although there are relatively fewer responding employers with under 200 employees and relatively more responding employees with 600 or more employees.

Distribution of Responding Employers by Number of Current Employees

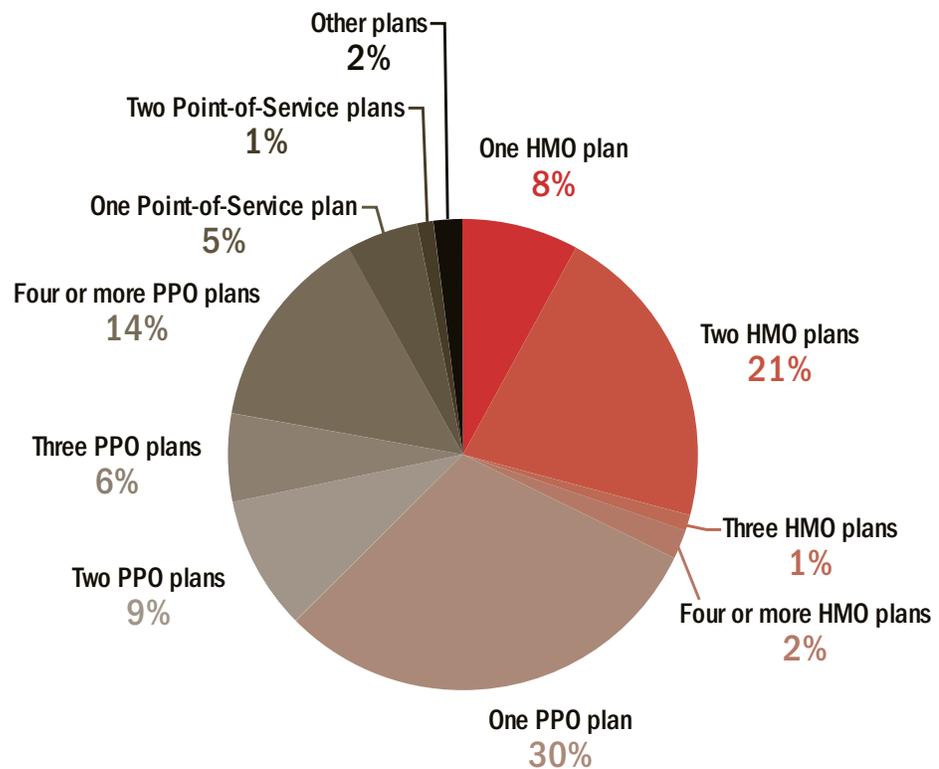


Types of Health Care Offered by Employers

All of the reporting employers either provide or coordinate medical and dental coverage for their employees. Approximately 25 percent of the employers offer a cafeteria plan, and 30 employers have a Health Savings Account plan feature. All but 13 employers provide vision care benefits.

Medical Plans

Health Maintenance Organizations (HMO) or Preferred Provider Organizations (PPO) had the highest number of plans available for employees. Point of Service (POS), Exclusive Provider Organization (EPO) and Traditional Fee-for Service Plans are not made available by most employers. A few employers reported combination type plans, generally described as High Deductible or High Deductible with Health Savings Accounts (HD-HSA). The chart below shows the distribution of these plans, and number of such plans made available by employers.



Reimbursement of Employees - Additional Salary in Lieu of Employer Provided Health Care

The survey asked whether employers reimbursed employees who opt for no medical coverage as provided under a bargaining agreement. Five employers reported that they pay no medical benefits and that their “health benefit” is part of the employee’s salary. Three hundred-ten employers reported no reimbursement of any type, while 56 employers reported some form of reimbursement for medical care cost including dental and vision. Reimbursements ranged from \$91 per month to \$5,000 annually. The average reimbursement was around \$200 per month.

Contract Health Insurance Providers

Employers contract with a variety of sources to secure health insurance for members. The survey reported that 68 percent of employers belong to a joint powers authority (JPA) or trust. A JPA is an entity formed and operated by one or more public agencies to spread risk among them for the purpose of establishing, operating and maintaining a joint program for employee benefits, while a trust is a joint effort of labor and management to pool resources to provide a variety of health and welfare benefits to school employees. Fifteen percent of the employers contract directly with health insurance care providers, while seven percent contract with CalPERS’ health benefits program, known as PEM-CHA. Five percent of the employers contract directly with a health insurance provider and also receive health benefits through a JPA. Four percent provide health insurance in other ways such as self-funded health plan or a combination of sources. There were no significant differences in the reported types of health insurance providers between 2003 and 2006.

Comparison of 2003 and 2006 Health Insurance Providers

Survey Year	Direct Contract with Provider	Joint Powers Agreement or Trust	CalPERS	Direct and JPA	Other
2003 Survey	15%	66%	8%	8%	3%
2006 Survey	16%	68%	7%	5%	4%

Health Care Insurance Pool

CalPERS, in consultation with CalSTRS, is currently undertaking a study to determine the feasibility of establishing a statewide health benefits pool for all school employees. Fifty-one percent of the responding employers indicated that they would be interested in participating in a statewide pool for health insurance. Employers that indicated a desire to participate in a statewide pool were asked to rank their reasons to participate in such a pool. In order of descending importance, as reported by employers, their responses were:

- Potential for lower employer and employee costs;
- Possibility of lower co-payments or deductibles;
- More types of health plans or insurance carriers available;
- More potential vendors which would mean more options for employees; and
- Elimination of administrative burden.

Thirty seven percent of the responding employers indicated that they were not interested in participating in a statewide pool primarily because they either are already in a pool (such as a trust) or they did not want to give up control over the benefit structure. Thirteen percent either did not respond to the health care question or were not sure if they would be willing to participate in a pool.

Health Care Insurance Costs

The survey collected extensive data on current health benefit costs. The average costs provided in the survey are fairly consistent with the findings of the 2006 California Employer Health Benefits Survey (CEHBS) sponsored by the California Healthcare Foundation. Among the comparisons between the CEHBS and the CalSTRS survey is:

- An average employer cost for one employee in a PPO plan of \$438 per month in CEHBS, compared with a CalSTRS survey rate of \$410 per month;
- An overall HMO employer cost for one employee of \$342 per month according to the CEHBS, compared with an average employer cost of \$356 in the CalSTRS survey;
- A CEHBS-reported average PPO family cost for monthly premiums of \$1,149, compared to the CalSTRS survey employer rate of \$905;
- An average HMO employer cost for a family plan, according to CEHBS, of \$940, while the CalSTRS survey average employer cost was \$796 per month;
- An average single employee contribution of \$46 per month according to CEHBS, while the CalSTRS survey findings show a monthly average employee cost of \$54 for a PPO and \$24 for an HMO; and
- An average monthly employee contribution for a family plan of \$235 per month in the CEHBS. The CalSTRS survey results show an average family cost of \$147 per month for a PPO and \$70 a month for an HMO.

Differences in the costs could be attributed to the fact that the school employer was asked in the CalSTRS survey only to report on the three plans with the highest enrollment. Over 15 percent of the employers surveyed by CalSTRS have more than three plans.

The charts below display the average PPO and HMO monthly costs for employer and employee single plans and plan with multiple levels of benefits or tiers (there was insufficient data on other types of health plans to provide meaningful average costs). Tiered plans are plans which allow the member to choose from two or more plans with different plan features, such as higher or lower deductibles or co-payments and full or partial coverage. The type of plans available, salary negotiations and other factors such as co-payments and annual deductibles either lowered or raised the overall costs. The costs for the average PPO and HMO plan composite costs are also included. Employers that combined all health and welfare costs within their responses, and didn't distinguish the health benefit costs from other benefit costs, such as vision, dental or life insurance, were excluded.

Average Monthly Employer and Employee Health Insurance Costs

Single Employee PPO (single/tiered)		
Employer Costs	Employee Costs	% With No Employee Costs
\$410	\$54	45%

Single Employee HMO (single/tiered)		
Employer Costs	Employee Costs	% With No Employee Costs
\$356	\$24	87%

Employee Plus One PPO (single/tiered)		
Employer Costs	Employee Costs	% With No Employee Costs
\$673	\$202	25%

Employee Plus One HMO (single/tiered)		
Employer Costs	Employee Costs	% With No Employee Costs
\$619	\$154	30%

Employee Plus Family PPO (single/tiered)		
Employer Costs	Employee Costs	% With No Employee Costs
\$905	\$300	17%

Employee Plus Family HMO (single/tiered)		
Employer Costs	Employee Costs	% With No Employee Costs
\$796	\$154	24%

PPO Composite		
Employer Costs	Employee Costs	% With No Employee Costs
\$850	\$147	43%

HMO Composite		
Employer Costs	Employee Costs	% With No Employee Costs
\$733	\$70	54%

A review of the reporting employers indicates that the average employer's monthly cost for health benefits for a single employee employed in district with less than 100 employees is \$403 per month while districts with over 100 employees, but less than 500 employees have a monthly employer cost of \$353 per month. On the other hand, districts with over 500 employees have an average employer cost for a single employee of \$462 a month. Employee costs are about \$40 per month for employer districts with less than 100 employees while districts with over 100 employees but less than 500 employees average \$93 per month in employee costs. The average employee cost for members in districts with over 500 employees is around \$67 per month. These averages include all plans and tiered plans including HMOs, PPOs, PSOs, and other plans available for a single member.

Co-Payments for Treatment

Employers reported that one of the ways they plan to reduce future employer health benefit costs is to impose higher co-payments on the employee. Co-payments are paid either by a dollar amount, for example \$10 per office visit or as a percentage of the amount charged. In some instances, a member may pay the full amount of a charge up to the plan deductible, and then pay a prescribed percentage after the deductible is paid. The following chart shows how co-payments for different services provided by PPOs and HMOs were distributed among employers.

Dollar Co-payment	PPO	HMO	Percentage Co-payment	PPO	HMO
Office Visits					
\$0	28%	16%	10%	2%	3%
\$5 to \$7	Less than 1%	7%	20%	2%	0%
\$10	25%	46%	30%	Less than 1%	0%
\$15	6%	12%	Over 30%	0%	0%
\$20	21%	12%			
\$25	8%	2%			
\$30	7%	2%			

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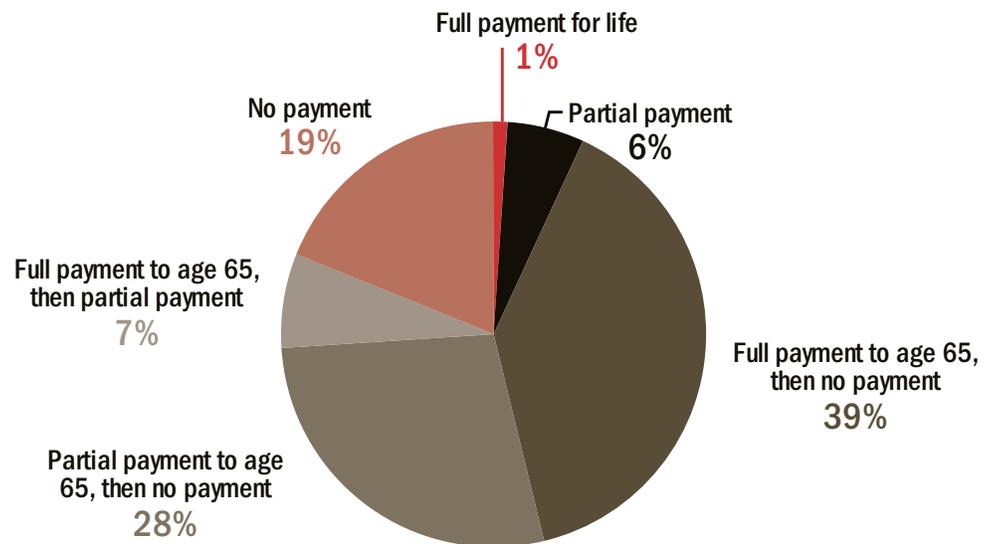
Dollar Co-payment	PPO	HMO	Percentage Co-payment	PPO	HMO
Hospital Outpatient Care					
\$0	39%	50%	10%	17%	1%
\$5 to \$7	0%	2%	20%	14%	1%
\$10	4%	20%	30%	1%	0%
\$15	1%	3%			
\$20	3%	2%			
\$25	1%	1%			
\$30	0%	2%			
\$35	12%	0%			
\$40	0%	0%			
Over \$50	8%	18%			
Hospital In-patient Care					
\$0	40%	72%	10%	19%	0%
\$5 to \$7	Less than 1%	2%	20%	22%	2%
\$10	1%	3%	30%	2%	0%
\$15	Less than 1%	0%			
\$20	1%	0%			
\$30	0%	0%			
\$35	1%	Less than 1%			
\$50	1%	1%			
\$100	1%	Less than 1%			
\$200	Less than 1%	Less than 1%			
\$250	10%	17%			
Over \$250	1%	2%			
Co-payment for Generic Prescription Drugs¹					
Less than \$5	4%	3%			
\$5	44%	62%			
\$7	19%	0%			
\$10	23%	33%			
Over \$10	10%	2%			

¹About one percent of prescription drug plans have percentage, rather than dollar co-payments

RETIRED CERTIFICATE MEMBERS

The provision of post-retirement health care is subject to collective bargaining agreements that are negotiated between employees and their employer. Thus, there are a variety of packages that are formulated, which often require employees to have achieved a specified age and/or years of service to qualify for post-retirement benefits. The 2006 survey shows that 86 percent of the employers surveyed (representing 62 percent of the employees) do not pay for employee health insurance after age 65. This is an increase from the 78 percent of employers (representing 57 percent of retired employees) which the 2003 survey reported imposed the entire cost of health benefit costs after age 65 on the retired employee. Nineteen percent of the employers surveyed offer no employer-paid health care for any retired employees. Any coverage provided by the employers must be paid entirely by the retired employee.

Post-retirement Health Benefit Coverage



The following table compares the responses to these questions in 2003 to the 2006 survey. The percentage of employers who responded to the survey and indicate that they paid the entire cost for health benefits for life decreased from three percent in 2003 to one percent in 2006.

Post Retirement Health Care Paid for by the Employers

	2003 Survey	2006 Survey
Full payment for health benefits for life	3%	1%
Full payment to age 65, then no payment	36%	39%
Partial payment for life	4%	6%
Partial payment to age 65, then no payment	18%	28%
Full payment to age 65, then partial payment	4%	7%
No payment for health benefits	20%	19%
Other types of health benefits	12%	0%
No health benefits provided	4%	0%

Change in Employer Health Care Coverage for Retired Employees

Employers were asked whether there had been any health care coverage changes for retired employees over the last three years. Twelve percent of the employers who responded to our question reported some change in coverage for retired employees. The primary change reported is that some employers have gone from providing employer paid full health insurance to age 65 to partial health insurance coverage to age 65. Other employers noted that some of the health coverage benefits are now limited to a specified amount and the employer no longer pays for all of the employee's health insurance coverage. Other employers reported that the eligibility requirements have changed, including coverage for a spouse.

Certificated Part-Time Retired Employees

The survey also investigated whether health benefits were provided to retired part-time employees. Forty percent of the employers reported that they did not have part-time certificated employees, while another 22 percent indicated that they did not offer post retirement health care insurance benefits to their part-time employees. Of the 38 percent who indicated that they do offer post retirement care insurance benefits to their retired part-time employees, most employers require that the member have a specified amount of service with the employer. In most instances the employer required 10 to 15 years of service.

Certificated Part-Time Retired Employees (cont.)

Some employers paid the health care coverage based on a percentage secondary to a variety of formulas including age, years of service and full time equivalent.

HEALTH CARE INCREASES

Health Benefit Premium Costs

Employers were asked whether their health benefit premium costs had increased in the last three years and what their estimated health care premium costs could be in the next couple of years.

As the following chart indicates, there was a major increase in health care premium costs of 10 to 19 percent in 2004 and a lower percentage of increase in the one to nine percent range in 2005 and 2006. Such findings are consistent with recent health care studies which have shown a seven to eight percent cost increase in health care premiums over the last two years.

Health Care Premium Cost Increases

Year	0%	1-9%	10-19%	20-29%	30-39%	40-49%	50% +
2004	4%	35%	50%	9%	2%	0%	1%
2005	7%	45%	37%	9%	2%	0%	0%
2006	5%	52%	35%	5%	2%	1%	0%
Future	1%	41%	48%	8%	1%	1%	0%

The 2006 survey findings suggest that health care premium costs are increasing less than expected, but future increases are anticipated. In the 2003 survey, approximately 66 percent of the employers reported health insurance premiums increased by less than 20 percent. The current survey responses revealed that 85 percent of the employers have seen premiums increase by less than 20 percent. In 2003, 42 percent of the employers projected that health care insurance costs would rise by 20 to 29 percent while 8 percent of the employers in the 2006 survey show a projected increase in cost in the 20 to 29 percent range.

Health Care Benefit Changes

Employers were asked to provide information regarding whether there had been any changes in the co-payments or deductibles employees pay as part of their plan benefit. Twenty-two of the employers reported one or more benefit changes regarding co-payments and/or deductibles.

Percentages of Employers Reporting Increases in Co-Payment and Deductibles

Benefit Changes	2004	2005	2006
Co-payments for prescription drugs are higher	8%	8%	6%
Co-payments for service other than prescription drugs are higher	5%	6%	5%
Deductibles are higher	4%	6%	2%

Reduction or Loss of Health Care Providers

Fifteen percent of the responding employers reported a reduction, or loss, of health insurance carriers over the last three years. Most of the losses or reduction of providers occurred in the year 2004.

The primary reason for the reduction of health care providers was that some health care providers did not re-bid on providing or continuing employer health insurance coverage for the next year. Another primary reduction reason was that the proposed rates offered by the vendors were too high.

Employers Who Reported a Reduction or Loss of Health Insurance Carriers: 15 Percent of Respondents Indicated a Reduction or Loss

Reduction in Health Care Providers	In 2004	In 2005	In 2006
HMO(s) stopped offering service in our area	14%	5%	5%
Health carrier(s) ceased operations	5%	2%	2%
Health carriers did not bid on business	16%	7%	11%
Health carriers(s) proposed rates too high so employer opts not to offer the insurance option	7%	13%	11%
Withdrew from CalPERS health contract	0%	2%	0%

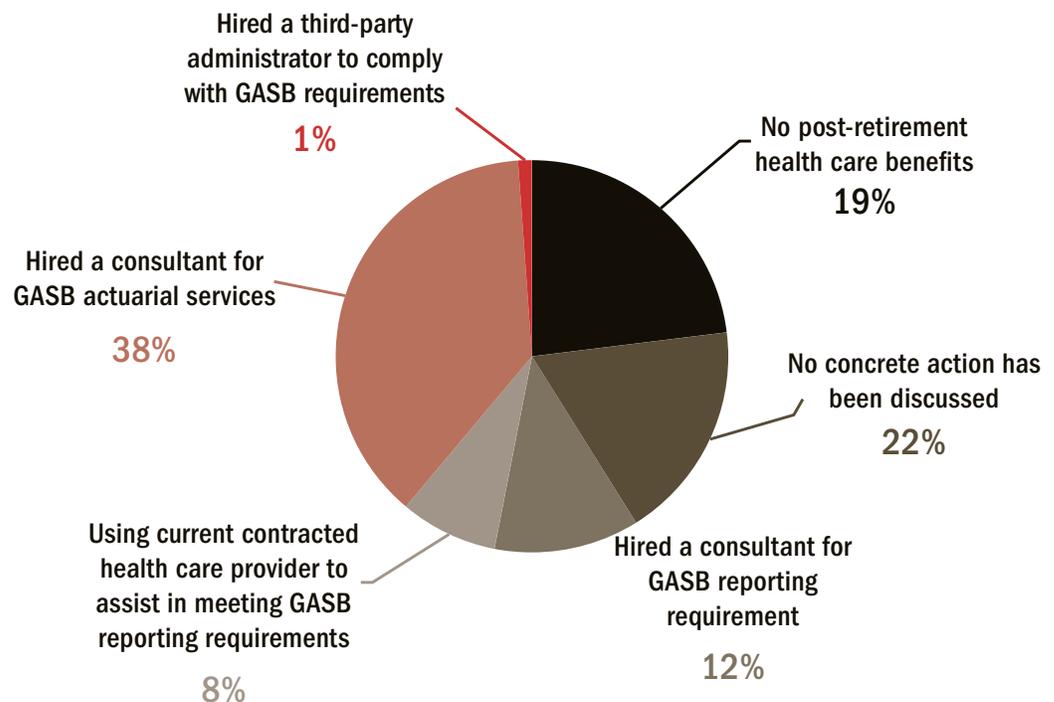
GOVERNMENTAL ACCOUNTING STANDARDS BOARD

During 2004, the Governmental Accounting Standards Board (GASB) imposed two new standards: Statement 43 and Statement 45. These statements deal with accounting, reporting and disclosure requirements for post-employment benefits other than pensions. These new standards have the potential for tremendous increases in the expenses and liabilities reported in the financial statements of many governmental entities.

Post-retirement benefits, other than pensions, are typically funded on a pay-as-you-go basis, and only the current cash outlay is reported. Many entities provide generous non-pension benefits for retirees that are not accounted for on an accrual basis. Although many governmental entities may not have the same legal obligation for non-pension post-retirement benefits as for pension benefits, the GASB views both types of benefits as a form of compensation that employees earn each year, even if the payments are not made until after retirement.

Employers were asked whether any steps have been taken to ensure that the reporting requirements under GASB 43 and 45 will be met. Fifty percent of the employers have hired a consultant to lead them through the GASB reporting requirements. An additional two percent of responding employer's indicated that they had consulted with CalPERS or CalSTRS on GASB provisions. Nineteen percent indicated that they do not provide post-retirement health care benefits and are thus not subject to GASB.

Complying with GASB Requirements



MEDICARE AND DISABILITY BENEFITS

Medicare Reimbursement

Thirteen employers reimburse the full amount of the premium for Medicare Part B (doctor's visits) while another 10 employers pay a partial reimbursement ranging from \$100 per month to 80 percent of the premium. This means that 94 percent of the employers do not reimburse the retired member for Medicare Part B costs. Although reimbursing for Part B premiums is still rarely provided as a benefit, this does represent an increase from the 11 employers that reported that they reimburse for Medicare Part B in the 2003 survey.

Disabled Employees Health Insurance Options

Employers provide a variety of health care alternatives for members who become disabled while working for the employer. Only two percent provide either a full or partial health care package, unless the member is eligible to retire or meets the other employer requirements for post-retirement health care. Twenty-six percent of the employers will pay for the disabled member's health care until the member is eligible to retire, and then the member is subject to the same post-retirement coverage as other retired members. Disabled employees from 30 percent of the employers have the option to be covered by employer health insurance while on disability but must pay all the premiums.

Another 28 percent of employers offer health care for the period of time required by federal law and then require employees to secure health insurance individually. In some instances, members secure health care coverage while on disability through more than one alternative. For instance, the employer may pay the member's health care until the member reaches retirement age. At this point, the member may opt for COBRA coverage or opt to be covered by the employer plan, but pay all of the premium costs. Fifteen percent of the responding employers had alternative coverage generally involving time and age requirements and health care caps. These findings are consistent with the 2003 CalSTRS health benefits survey.

Future Changes

When asked to describe any other anticipated major or significant changes in the future, most employers noted that they expect health care premiums to rise and that employees may be asked to pay a higher share of the overall costs. Some noted that the employer may cap the amount the employer pays for health and welfare benefits while others noted that employee co-payments may rise in the future to keep down health care costs.

CONCLUSION

Accessibility to affordable health care is a major factor in the financial security of CalSTRS members, particularly those who are retired. A comparison between the 2003 survey of school employers and the 2006 survey indicate a mixed change in the environment. On the one hand, a lower percentage of employers experienced the dramatic increase in health benefit premium increases in the prior three years than was expected in 2004. More employers are paying the Medicare Part B premium than before, although the number of employers providing this benefit is still extremely small.

On the other hand, the percentage of employers that cease paying for any portion of health benefits after age 65 increased from 78 percent in 2003 to 86 percent. In addition, the reported incidence of employers paying the same cost of health benefits for the life of the retired member that they pay for their current employees decreased from three percent in 2003 to one percent in 2006

Finally, employers are more likely to offer two HMOs, and either one PPO, or four or more PPO providers. The means by which employers secure health benefits, whether by JPA, trust, or directly contracting with an administrator, hasn't changed significantly since 2003.