

DISTRICT'S RESPONSE TO ASSOCIATIONS' HEALTH CARE ARTICLES

The Associations' Articles 27 (Classified) and 210 (Teachers) are not acceptable to the District for the following reasons.

1. THE ASSOCIATIONS' PROPOSAL INCREASES THE DISTRICT'S COSTS BY \$1.1 MILLION.

The Associations assert in their respective Articles that:

"The district will pay 100% of the cost of the High Deductible Plan. The District will enjoy all savings benefited from reduced usage through a High Deductible Plan."

The asserted cost savings is not accurate. In reality, there would be no cost savings to the District. Rather, the District would be paying an additional \$1.1 million in health care plan costs.

Colleen Savoie, Consultant to the Health Care Program Committee, has estimated that if the current Health Plan was changed to the Associations' High Deductible Health Plan (HDHP), the total health care costs of the District's plan would be reduced from the current budgeted \$27,270,201 per year to \$24,317,311 per year. See Exhibits A and B, attached.

This represents a total cost reduction of almost \$3,000,000, or approximately 11%. HOWEVER, the District's budgeted share of the current \$27.3 million health plan cost is \$23.2 million. The remaining \$4.1 million is paid through the 15% employee contributions. See Exhibits C, D and E attached.

Under the Associations' plan, the employees do not make any contribution to the plan's cost. The District would pay 100% of the cost. 100% of the cost, estimated at \$24.3 million. The District's cost would thus rise from the current \$23.2 million to \$24.3 million. An additional \$1.1 million. That is the difference between the HDHP plan saving 11% but the District losing revenue of 15%.

2. EMPLOYEES WOULD NOT MAKE A PERCENTAGE CONTRIBUTION TO THE COSTS OF THE HDHP. THEREFORE, EMPLOYEE COSTS WOULD ESSENTIALLY REMAIN THE SAME, OR DECREASE. ONLY THE DISTRICT'S COSTS WOULD INCREASE.

The Associations' proposal only benefits the financial interests of their members. The proposal would reduce funds available for the District's full educational program, thereby negatively impacting students, their families, and the community as a whole.

Exhibit F, attached, analyzes the Associations' proposed health care plan costs from an employee's perspective. Under the current plan, the employee contributes 15% of the plan cost which equates to \$3,300 per employee in FY '16. For an employee with only individual coverage under the current plan, the employee would also have a \$200 deductible and a \$1,000 maximum out of pocket health cost, not including the deductible. The total plan cost to the individual employee is \$4,500 per year.

The \$3,300 contribution from the individual employee would no longer be paid under the Associations' proposal. The increased deductible and increased out of pocket maximums would equal \$3,500 per year, per employee. That is \$1,000 less than the \$4,500 total plan cost to the employee under the current plan.

More importantly, if the HDHP costs increase from year to year, the employee's deductible does not increase, and the employee's maximum out of pocket amount does not increase. So, because the Associations' proposal requires the District to pay 100% of the plan costs, only the District's costs would increase from year to year.

That same analysis for an employee with family coverage shows a current total plan cost of \$6,900 and a maximum total cost under the HDHP of \$7,000. If the employee does not expend the deductible or maximum out of pocket amounts, the employee with family coverage would be paying less for health insurance than under the current plan.

3. THE EMPLOYEES' CURRENT SHARE OF HEALTH CARE PLAN COSTS ARE AT THE LOWEST PERCENTAGE OF TOTAL PLAN COSTS SINCE THE 2008-2009 SCHOOL YEAR.

As attached Exhibits E and G demonstrate, in FY 08, employees were paying 17.38% of the health care plan costs. That percentage peaked in FY 12 at 24.15%. Under the current plan, the employees are paying 15%.

4. THE EMPLOYEES' CURRENT DOLLAR AMOUNT OF HEALTH CARE PLAN COSTS HAS DECREASED AS WELL.

As Exhibit E demonstrates, in FY 11, employees contributed \$4,635,498 towards the cost of the health care plan. That amount peaked in FY 12 at almost \$5.3 million.

5. THE ASSOCIATIONS' PROPOSAL DOES NOT PROVIDE ANY INCENTIVE TO EMPLOYEES WITH ALTERNATIVE INSURANCE TO OPT OUT OF THE PLAN.

If an employee is not paying any contribution to the costs of the plan, there is no incentive for the employee to opt out of the plan. Even if the plan costs increase each year, the

employee's deductible and out of pocket maximum does not change. Without a required employee contribution to the plan, an employee with available alternative coverage would have no incentive to opt out of the Associations' proposed HDHP.

If employees with alternative coverage have the right and incentive to opt out of the HDHP, the potential for a significant cost reduction exists. The Associations' proposal precludes that eventuality because it precludes both the right and the incentive.

6. THE ASSOCIATIONS' PROPOSAL CONTINUES TO REQUIRE THE DISTRICT TO PROVIDE HEALTH INSURANCE COVERAGE TO EMPLOYEES WORKING LESS THAN 30 HOURS A WEEK.

Pursuant to the Affordable Care Act, the District is not required to provide health insurance to those employees who work less than 30 hours a week. However, under the current plan, the District is required to provide health insurance for employees who work only 20 hours per week. When District retirement contributions and District health insurance costs are added together, the District could be paying over 100% of an employee's wages for the employee's benefits. As health insurance costs rise, that benefit level becomes fiscally unsustainable.

7. THE ASSOCIATIONS ASSERT THAT THE DISTRICT WILL BENEFIT FROM REDUCED HEALTH INSURANCE USAGE BY ITS MEMBERS. HOWEVER, THE ASSOCIATIONS ARE UNWILLING TO ASSUME ANY OF THE RISK THAT ITS ASSERTION IS NOT ACCURATE.

As discussed in numbered paragraph 2 above, the Associations' proposal does not require any cost contribution from its members. The Associations expect the District to rely upon their unsubstantiated statement that the District benefits by paying 100% of the HDHP costs. As demonstrated in numbered paragraph 1 above, the District will pay \$1.1 million more in the HDHP's first year of implementation than what it is paying under the current plan.

The HDHP will have a higher deductible and a higher out of pocket maximum for the Associations' members. However, while those limits do not increase from year to year, the medical/dental/vision claims, and the administrative costs of the plan, may well increase. The District will be required to pay 100% of those increased costs under the Associations' proposal.

If the Associations believe that their proposed HDHP will decrease the medical/dental/vision/administrative costs of the Plan, they should be agreeable to capping the District's costs. Then, the District would not bear that increased financial obligation if the Associations' underlying premise is incorrect.

Ironically, despite this analysis identifying why the Associations' proposed HDHP is fiscally unacceptable, the Associations have packaged their HDHP with increases in salaries, paid leaves, and stipends. The packaging fosters the inaccurate assertion that because their HDHP is so beneficial to the District, the District should reward the Associations with increases to the salary schedule, paid leaves, and stipends, among other favorable changes to the current Negotiated Agreement.

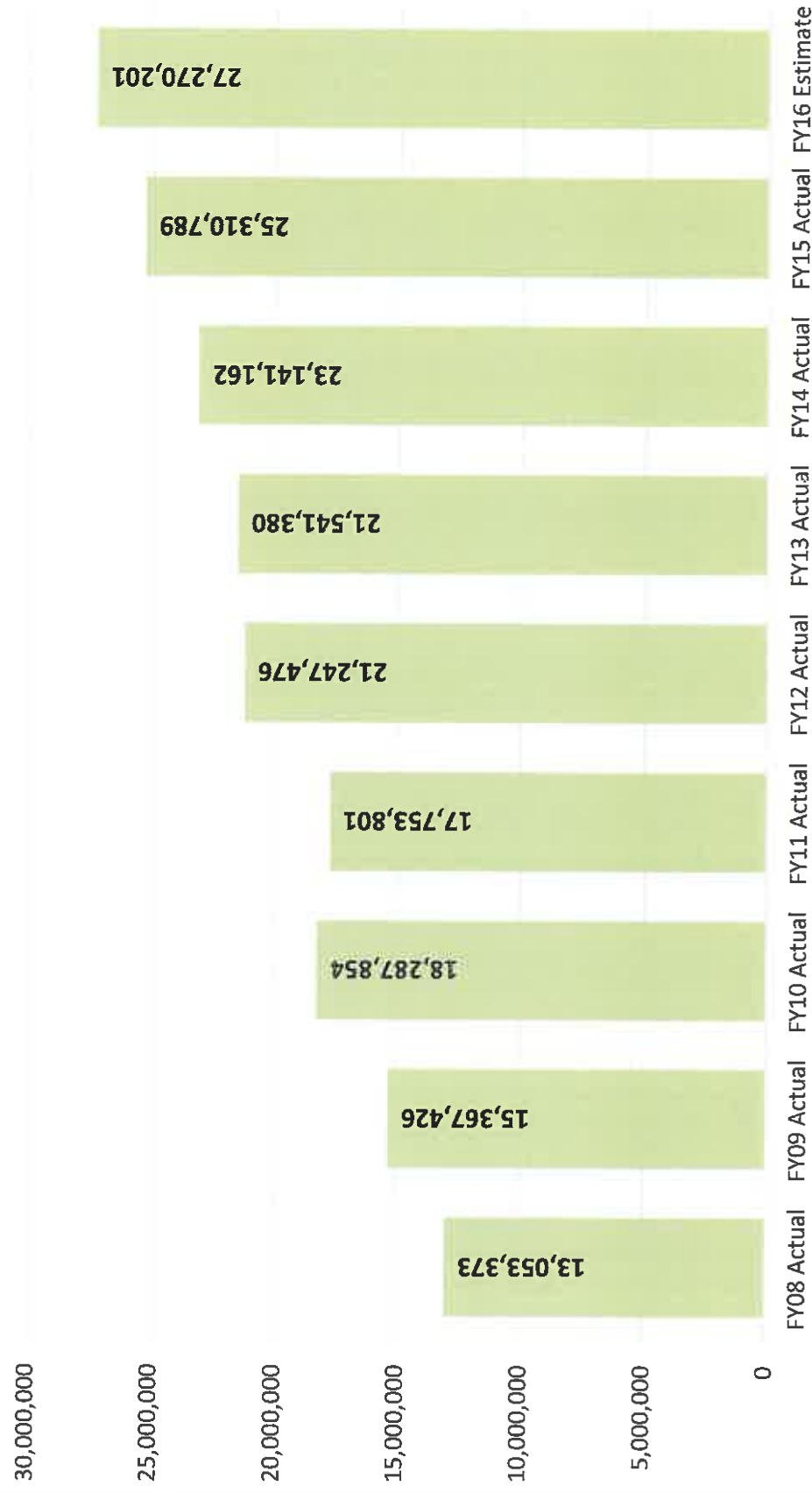
8. CONCLUSION.

The District's health insurance proposal provided to the Associations on January 13, 2016, provides the Associations with a road map for reaching an agreement on the difficult issue of health insurance. Successfully resolving that issue in a way that does not place the District in an unacceptable fiscal posture due to uncontained health insurance cost increases is possible but not through the Associations' packaging effort presented at the last round of bargaining.

**CONSULTANT'S COMPARISON OF COSTS BETWEEN CURRENT
HEALTH CARE PLAN AND ASSOCIATIONS' PROPOSED HIGH
DEDUCTIBLE PLAN**

	Current Benefit	HDHP - full replacement with no HRA
Cost Per EE per Month	1,860	1,658
Cost Per EE per Month	Split 85/15	100% ER Paid
Employer	1,581	1,658
Employee	279	
Estimated Annual Cost		
Employer	23,179,671	24,317,311
Employee	4,090,530	
Total	27,270,201	24,317,311
Note: For consistency, all pricing is based upon the January 2015 projections for the 2015-16 Fiscal Year.		

Total Health Care Plan Costs by Year



Kenai Peninsula Borough School District
Total Health Care Plan Costs
FY08 through FY15 with estimate for FY16

Fiscal Year	Administrative Fee/ Stop Loss Premium	Health Care Costs	Prescription Costs	Total Care Plan Costs	Average # Employees per Month	Total Employees	Average Cost per Employee	Employee Payroll Contribution	Employee Use of Reserves	Employee Paid Into Reserves	Total Employee Contribution	District Contribution	Total Contribution
FY08 Actual	*	13,053,373	**	13,053,373	1,105	13,256	11,813	2,283,628			2,283,628	10,857,387	13,141,015
FY09 Actual		14,537,561	829,865 ++	15,367,426	1,161	13,932	13,236	2,487,148			2,478,148	12,823,910	15,302,058
FY10 Actual	1,184,951	15,551,234	1,551,669	18,287,854	1,207	14,487	15,151	3,361,635			3,361,635	14,487,000	17,848,635
FY11 Actual	1,230,775	14,765,833	1,757,193	17,753,801	1,211	14,528	14,660	4,635,498			4,635,498	15,959,252	20,594,750
FY12 Actual	1,654,971	17,811,340	1,781,165	21,247,476	1,235	14,825	17,204	5,277,201			5,277,201	16,578,952	21,856,153
FY13 Actual	2,082,705	17,624,127	1,834,548	21,541,380	1,221	14,655	17,642	3,625,250	880,641		4,505,891 ^	17,624,414	22,130,305
FY14 Actual	2,481,754	18,772,341	1,887,067	23,141,162	1,223	14,672	18,922	3,237,286	696,711		3,933,987 ^^	19,207,165	23,141,162
FY15 Actual	3,026,206	20,183,863	2,100,720	25,310,789	1,214	14,566	20,849	4,145,578		-348,960	3,796,618 ~	21,514,171	25,310,789
FY16 Estimate				27,270,201	1,222		22,453	4,090,530			4,090,530	23,179,671	27,270,201

* FY08 Administrative Fees included in Health Care Costs.

** FY08 Prescription Costs included in Health Care Costs.

+ FY09 Administrative Fees included in Health Care Costs.

^ FY09 Prescription Cost data reflects prescription costs for January 1 - June 30, 2009. Balance of prescription costs for the year are included in the Health Care Costs.

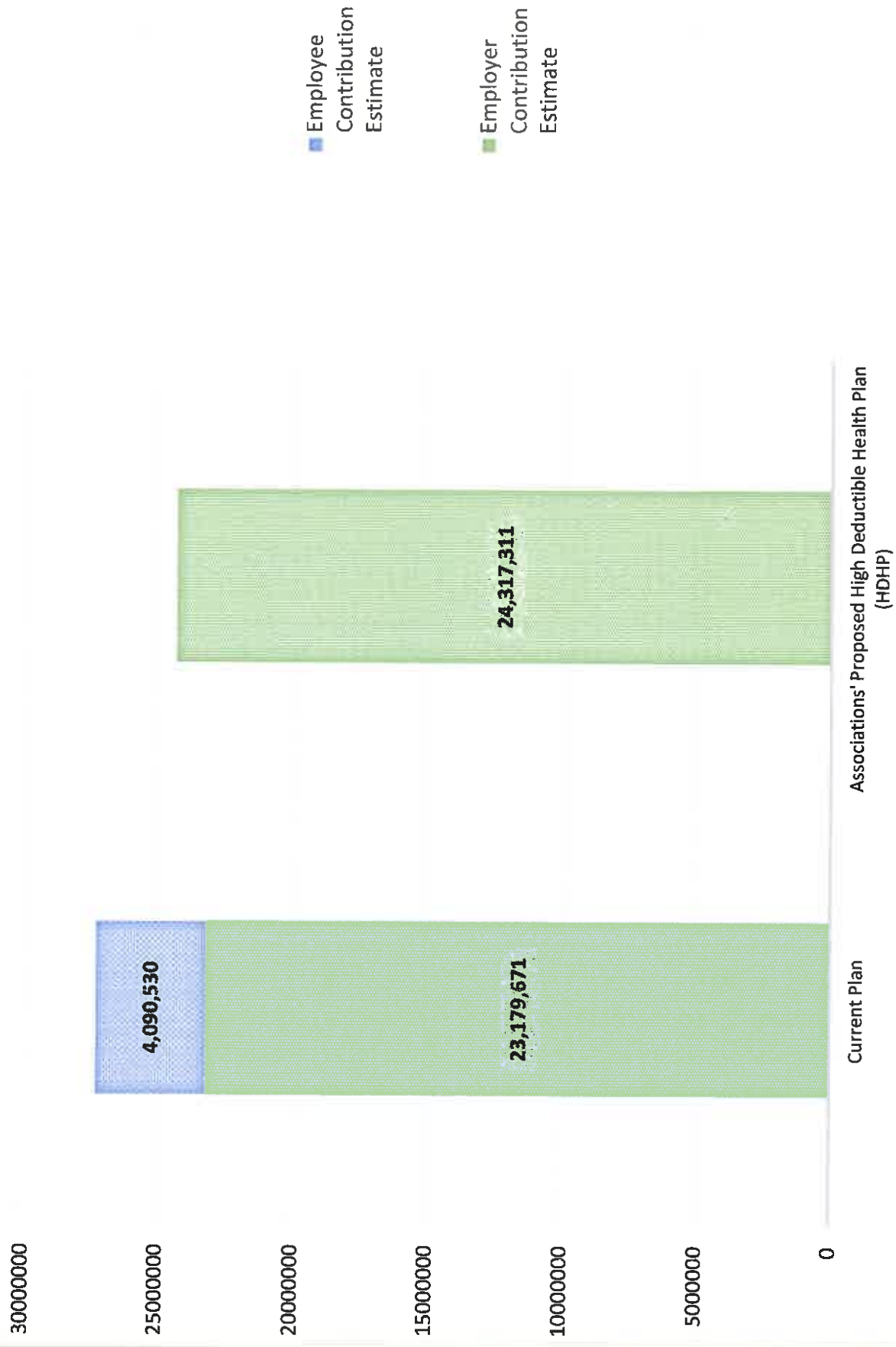
^^ FY13 Employee contribution includes \$3,625,250 employee contributions through payroll and \$880,641 from employee share of Health Care Reserve

~ FY14 Employee contribution includes \$3,237,286 employee contributions through payroll and \$696,711 from employee share of Health Care Reserve

~~ FY15 Employee contribution included Health Care Reserve replacement collected for FY14 of \$320,665 and FY15 of \$28,294 for a total of \$4,145,578 FY15 employee contributions.

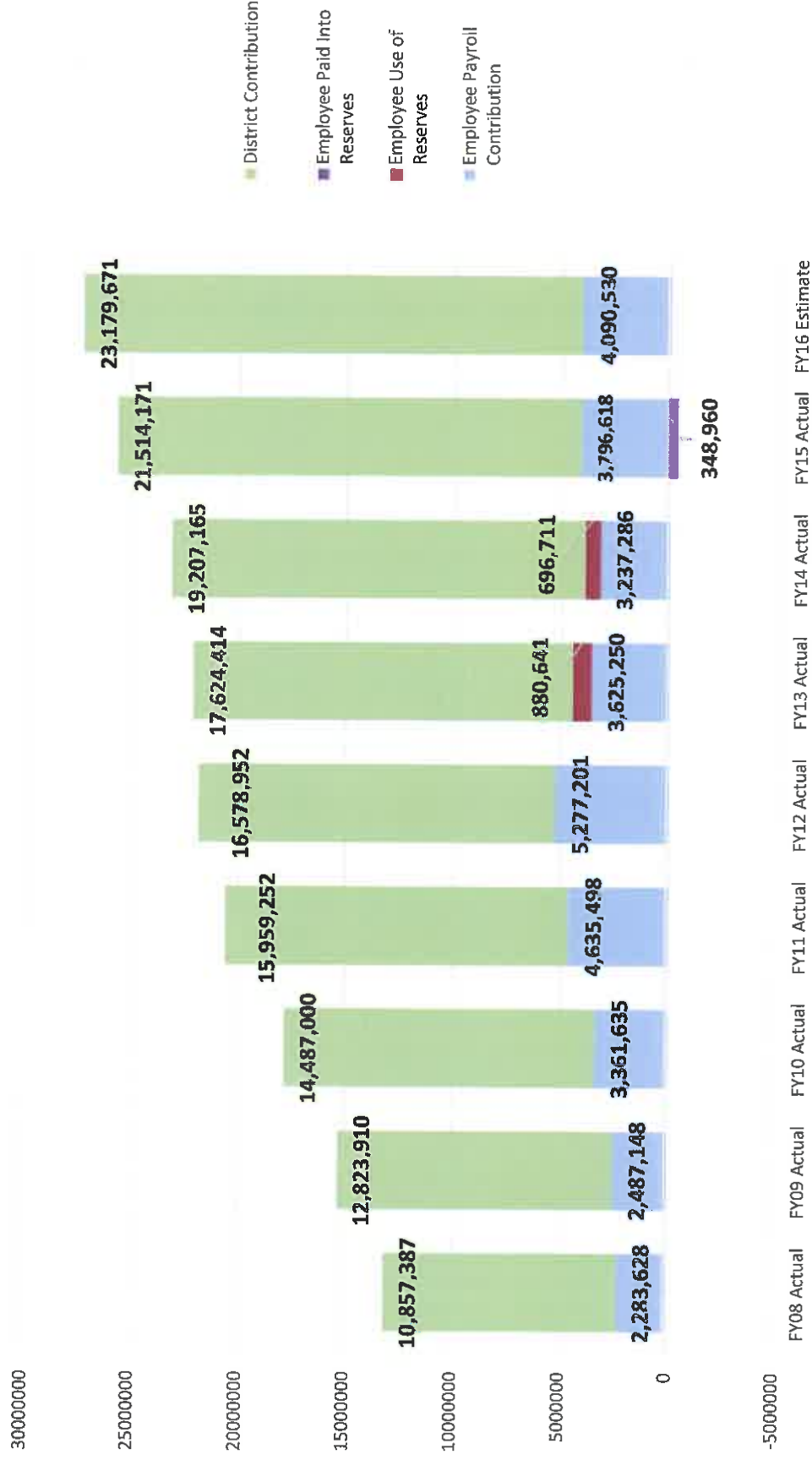
~~~ FY16 Estimate based on January 2015 Health Care Cost estimate by Health Care Plan Broker

# Comparison of Associations' Proposed Employee/Employer Health Care Plan Contributions

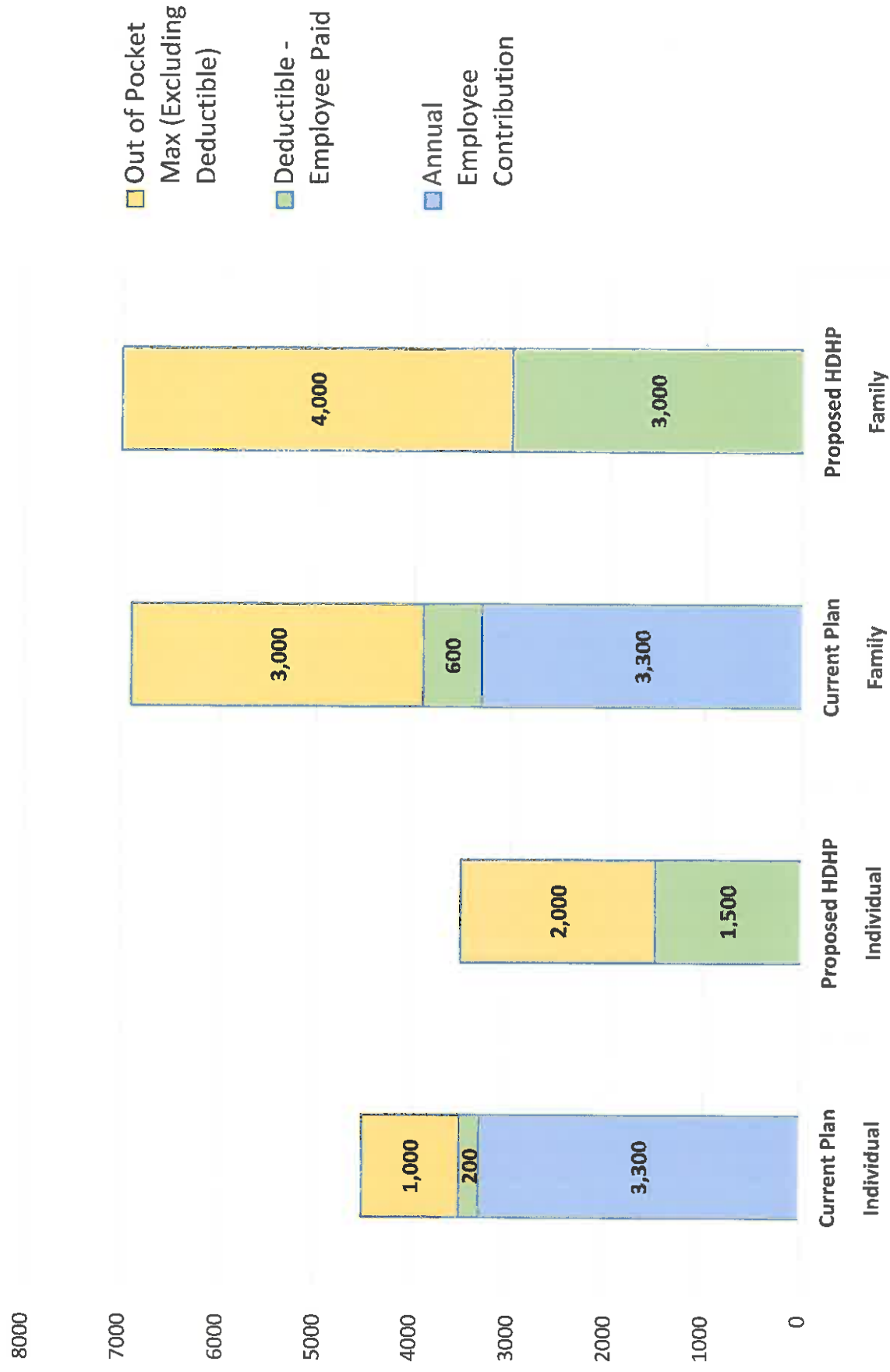




# Employee and Employer Contributions for Health Care Plan Costs FY08 through FY16



Comparison of Associations' Proposed Health Care Plan Employee Cost  
with Current Health Care Plan Employee Cost



# Employee and Employer % Contribution to Health Care Plan Costs

