Don't Get Sick:

The Benefits LAUSD Employees Have Lost

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I. Background

From December, 2004 through June, 2007, when it was eliminated, I served as an "outside member" of the LAUSD Board of Education's Audit, Business and Technology (ABT) Committee. The ABT Committee received reports from several divisions, including the Office of Risk Management and Insurance Services. Dave Holmquist, who until recently served as Chief Operating Officer, and is now Interim General Counsel, was then Chief Risk Officer. Holmquist's presentations at ABT were always clear and detailed.

When I learned of the changes being made to LAUSD's employee health benefits, I delved into my files. I found Mr. Holmquist's March 1, 2007 presentation of particular interest. The pdf can be directly downloaded at this URL:

http://notebook.lausd.net/pls/ptl/url/ITEM/2A357AEFDEBF708EE0430A000210708E

The picture this presentation paints is dire. LAUSD's student enrollment is declining while unfunded liabilities for retiree health benefits are increasing, requiring higher and higher percentages of the General Fund. Along with other employers, LAUSD has seen steep increases in expenditures for medical care, prescription drugs and insurance premiums. The presentation is a powerful argument for systemic healthcare reform and provides a valuable profile of LAUSD employee health benefits in 2006-7. I have created the charts below based on data from Mr. Holmquist's presentation:

In 2006-7, LAUSD insured 203,335 employees, retirees and dependents:

Chart 1

2006-7 Insureds	Number Insured	% of Insured	% of Plan Costs
Active Employees	71,454	31%	32%
Actives' Dependents	104,194	45%	32%
Retirees	33,600	15%	22%
Retirees' Dependents	21,087	9%	14%

As compensation is the total of salary plus benefits, it is useful to see the distribution of benefits – whether it is only the employee/retiree who is insured or whether the employee has one or more dependents insured:

Chart 2

2006-7 Insureds per Employee/Retiree	% Active Employees	# Active Employees	% Retirees	# Retirees
Participant Only	35%	25,009	45%	15,120
Participant Plus One	23%	16,434	49%	14,464
Family	42%	30.011	6%	2,016

Based on the data in the two tables above, it is possible to determine the number of insureds (including dependents) per active employee:

Chart 3

2006-7	# Insured per Active Employee
Participant Only	1.0
Participant Plus One	2.0
Family	3.92
Overall Average	2.46

The presentation also revealed valuable information about which health plans employees and retirees selected:

Chart 4

2006-7 Health Plan Choice	% Active Employees	% Retirees[3]
Pacificare[1]	9%	2%
Blue Cross[2]	45%	60%
Kaiser	46%	38%

[1] Pacificare was replaced by Health Net.
[2] Enrollment in the Blue Cross HMO and HMO Plus plans is lumped together. See below.
[3] This presentation doesn't break out retirees on Medicare and those who aren't.

A subsequent presentation to the full Board of Education (4/24/07) revealed enrollment in the two Blue Cross Plans:

Chart 5

2006-7 Blue Cross Enrollment by Plan	# Active Employees	% of Active Employees	# Retirees	% of Retirees
Blue Cross HMO	13,000	18.2%	110	0.32%
Blue Cross HMO Plus	19,000	26.6%	20,000	59.5%

According to the presentation at ABT (3/1/07), choice of medical plan in 2006-7 correlated with age and income:

Kaiser was more popular with employees earning $45,000 or less.
Blue Cross was more popular with employees earning more than $50,000.

Kaiser was more popular with active employees under age 45.
Blue Cross was more popular with active employees 45 and older.

The majority of retirees of all ages chose Blue Cross over Kaiser.

II. Changes to Medical Benefits

In September, LAUSD's Benefits Administration posted a three-page letter on its website outlining some of the changes to employee health benefits beginning in January, 2010. The letter, signed by George Tischler (Interim Chief Risk Officer) and Martha Palacios (Interim Director of Benefits Administration) has since been mailed to employees' homes. The pdf of this letter is at:

http://notebook.lausd.net/pls/ptl/docs/PAGE/CA_LAUSD/FLDR_ORGANIZATIONS/FLDR_RISK_MANAGEMENT/DORMIS/BENEFITS_ADMINISTRATION/PRE-ENROLLMENT%20LETTER092509_1.PDF

The key changes described in the letter are:

A. Elimination of Blue Cross Anthem HMO Plus

Hybrid HMO/PPO coverage will no longer be offered (Blue Cross/Anthem HMO Plus). Using the 2006-7 data referenced in Chart 5, 26.6% of active employees (19,000) and 59.5% of retirees (20,000) were enrolled in the plan. When the Open Enrollment packages arrive next month, approximately 39,000 active employees and retirees will need to make an important life decision in a very short time.

Using the multipliers in Chart 3, approximately 79,262 employees, retirees and dependents will suffer a significant degradation from their current medical coverage – 39% of the total number of people covered by LAUSD. Demographically, they are older (either retirees or active employees over age 45). They mostly earn at least $50,000 per year, which means they are predominantly certificated – teachers and administrators.

This plan allowed employees to keep out-of-pocket expenses low by using the HMO coverage while retaining the option to be treated by doctors outside the HMO (with an annual deductible plus a maximum annual out-of-pocket cost of $7,500). Going outside the HMO is an expensive decision but potentially crucial if an illness or injury is serious.

A surgeon I know needed rotator cuff surgery. His surgical career (and tennis avocation) depended on the outcome. Understandably, he interviewed five orthopedic surgeons who offered different surgical procedures (incision above or below, titanium screws vs. dissolving screws, etc.) He chose the surgeon/approach that he thought had the greatest chance of success.

Last year, a friend was diagnosed with throat cancer and discovered a variety of approaches to the chemo and radiation therapies he needed. After careful consideration, he went with the oncologists whose approaches he preferred and with whom he felt most comfortable.

Personally, I don't recall ever exceeding the deductible using the "Plus" (POS) part of my Anthem Blue Cross HMO Plus plan, but I've felt secure knowing it was there if I ever faced a serious health crisis.

If, in November, I opt for a pure HMO plan (Anthem Blue Cross Select HMO or Health Net HMO), I will have to accept the specialists under contract to the HMO – and many top specialists refuse to work with HMOs. I will have no coverage to be treated by doctors outside the HMO. In most instances, there will not be a huge difference in outcomes, but there will certainly be cases where having the right specialist makes all the difference in the world.

If, in November, I sign up for the Anthem Blue Cross Exclusive Provider Organization (EPO), I will have no access to low cost HMO care, and after paying the annual deductible (one-half percent of my salary), I will have to pay 20% of all doctor, lab, imaging and hospitalization fees until my co-pays have reached $7,500 (and an additional $7,500 for my wife).

Additionally, those who opt for the Anthem Blue Cross EPO will only be covered to see doctors in the Anthem Blue Cross Network. Currently, out of network doctors are covered, though only at 70% rather than 80%. Finally, providers outside the United States will no longer be covered.

B. Exclusion of Cedars-Sinai and UCLA Medical Groups

The medical groups at the Cedars-Sinai and UCLA Medical Centers will not be available through the Anthem Blue Cross Select HMO coverage. They will apparently be available through Health Net.

That is a lot of geography to exclude. Proximity is important - and not just in emergencies. If someone doesn't feel well, it may not be safe to drive long distances in city traffic. Excluding Cedars and UCLA, which are 4.6 miles apart and cover adjacent communities, cuts a wide swath of geography out of the Anthem Blue Cross Select HMO plan.

If employees live in the shadows of St. Joe's or Huntington Memorial, they might not care, but there are many employees for whom Cedars and UCLA are the closest medical centers. Cedars is 2.15 miles from where I live. The closest alternatives are Hollywood Presbyterian, Good Samaritan and Brotman, all between 5 and 6 miles away. I don't include Olympia Medical Center (formerly Midway Hospital) because it doesn't offer such crucial interventions as coronary angiography and cardiac surgery. Patients in need of these life-saving interventions would need to be transferred to a hospital that provides them, and a delay might have dire consequences.

An appendectomy is an appendectomy, but outcomes may differ depending on the quality of care at the institution where it is performed. The federal government has a website that allows comparison of hospitals and their practices in treating various conditions:

http://www.hospitalcompare.hhs.gov/Hospital/Search/compareHospitals.asp

I compared Cedars with Brotman and Hollywood Presbyterian, and Cedars scored a lot higher on such fundamentals as routinely administering antibiotics 24 hours before surgery and discontinuing them 24 hours after surgery. This lowers the likelihood of infection and improves patient outcomes. Is Cedars a better hospital than Brotman and Hollywood Presbyterian? Probably.

Moreover, many employees are established with physicians in the medical groups at Cedars and UCLA, so the Anthem Blue Cross Select HMO will not be a viable option: They will need to choose Health Net and will presumably be allowed to remain with their current physicians. Using the 2006-7 data in Chart 5, an unknown number of the 13,100 active employees and retirees enrolled in the current Anthem Blue Cross HMO plan will need to change their coverage – in addition to the 39,000 enrolled in the current Anthem Blue Cross HMO Plus plan. That's a lot of employees forced to make an important life decision in November. Hopefully LAUSD, Anthem Blue Cross and Health Net are adequately staffed for the flood of inquiries they will no doubt receive.

C. Prescription Co-Pays Steeply Increase

In recent years, prescription drug co-pays have been $5 for a generic and $7.50 for a non-generic for a 30-day supply. Long-term medications, both generic and non-generic, have cost $10 for a 90-day supply. In January, the co-pays for non-generic medications will increase dramatically:

Chart 6

In-Store (up to 30-34 Day Supply)	Generic (% increase)	Preferred Brand (% increase)	Non-Preferred Brand (% increase)
Kaiser	$5 (0% increase)	$25 (233% increase)	Not Covered
Health Net HMO	$5 (0% increase)	$25 (233% increase)	$45 (500% increase)
Anthem Blue Cross Select HMO	$5 (0% increase)	$25 (233% increase)	$45 (500% increase)
Anthem Blue Cross EPO	$10 (100% increase)	$30 (300% increase)	$50 (566% increase)

Chart 7

Mail Order (90-100 Day Supply)	Generic (% increase)	Preferred Brand (% increase)	Non-Preferred Brand (% increase)
Kaiser	$10 (0% increase)	$50 (400% increase)	Not Covered
Health Net HMO	$10 (0% increase)	$50 (400% increase)	$90 (800% increase)
Anthem Blue Cross Select HMO	$10 (0% increase)	$50 (400% increase)	$90 (800% increase)
Anthem Blue Cross EPO	$20 (100% increase)	$60 (500% increase)	$100 (900% increase)

The key question is which medications will be included in the "preferred brand" formulary.

The pharmaceutical industry spends billions of dollars each year to promote profitable medications. New medications, sometimes only marginally different from those they replace, are frequently introduced to preserve revenue streams as older medications lose patent protection and are produced as generics. At the same time, there are new medications that offer significant advantages. The new, steeper co-pays will certainly encourage use of medications available as generics, but there will be many cases where this is not in the best interest of patients.

The new co-pays will cause hardship for employees and retirees with the most significant health problems; disproportionately, these are older people. Imagine a retired couple that, for perfectly good medical reasons, both need to be on multiple medications not available as generics. Under our current coverage, the co-pay for each long-term medication is $40 per year. Beginning in January, that will change:

Chart 8

Annual Mail Order Cost (per medication)	Current Coverage	January, 2010 HMOs	January, 2010 Anthem BC EPO
Generic	$40	$40	$80
"Preferred" Brand	$40	$200	$240
"Unpreferred" Brand	$40 - ?	$360	$400

If a retired couple, between them, needs to be on five "preferred brand" medications, it will cost them $800 more per year than they are presently paying. That's a huge additional expense for retirees on a fixed income.

D. What We Don't Know

The letter from Benefits Administration indicates that, while the co-payments for the new Anthem Blue Cross Select HMO will remain the same as they are in the current Anthem Blue Cross HMO, "there will be higher co-payments and co-insurance requirements for both the Kaiser and Health Net HMO plans." Details are not provided, but it appears that out-of-pocket costs for office and emergency room visits and other medical services and equipment will increase. This appears to be an attempt to encourage Cedars and UCLA patients to stay with the Anthem Blue Cross Select HMO because of lower out-of-pocket costs even if it means changing doctors and traveling further for healthcare.

III. Observations

LAUSD's financial crisis is serious, but the gutting of employee health benefits could not have come at a worse time – just as national healthcare reform will likely be enacted. It is often said that the costs of the uninsured add about $1,000 a year to the premiums of the insured. If so, then employers, including LAUSD, should see savings (or at least slowing in growth of costs) as the ranks of the uninsured decrease.

For employees and their unions, healthcare is a compensation issue. LAUSD has a legitimate interest in keeping costs down, but projected savings won't materialize if employee health is adversely affected. The intent of raising co-pays is to both increase revenue (thereby lowering premiums) *and* decrease demand for healthcare services (also lowering premiums). If employees become sicker because out-of-pocket costs discouraged them from going to the doctor or filling prescriptions, costs for hospitalization and emergency room treatment will offset projected savings. Moreover, a healthy workforce is necessary for LAUSD to fulfill its mission. If absenteeism is high, necessary work isn't done or remaining workers are stressed by added responsibilities.

If all members of a group insurance plan were young, healthy, and prohibited from giving birth, premiums would be low, but the employees of LAUSD are of various ages and health statuses. Older employees and retirees generally require more medical care than younger employees and dependent children. Women of childbearing age may require maternity care. In effect, the young, healthy and non-childbearing bring down the cost of the group plan, and the old, health-challenged and pregnant raise the costs. As I look at the modifications in our coverage, it is clear to me that older employees and retirees have been targeted for the steepest cuts – and it doesn't seem fair.

Health benefits for retirees may be an increasing cost, but it is an obligation – deferred compensation, not a gift. One of the reasons employees stay with LAUSD, which often doesn't pay salaries as high as other districts, is good benefits, including excellent health benefits in retirement.

For retirees on Medicare, will LAUSD insurance continue to function as it has in the past – as a Medicare supplement with freedom to go to any physician? Or will there be higher co-pays (in addition to the steep increases for prescriptions drugs)?

If Anthem Blue Cross could not offer the medical groups at Cedars and UCLA at a reasonable price, and Health Net offered Cedars and UCLA at a better price, perhaps all the HMO business should have been transferred to Health Net. Was Health Net asked to bid on a hybrid HMO/PPO plan to replace Anthem Blue Cross HMO Plus? Anthem doesn't have a very good reputation, and their high prices reflect inability to control costs and/or greed. I don't believe that Medicare pays more to remove a gall bladder at Cedars or UCLA than at White Memorial.

Some have said that it isn't fair that some employees have more expensive coverage (Anthem Blue Cross HMO Plus) than others, though that concern doesn't hold water since the coverage was available to any employee simply by selecting it. Most employees who've chosen Anthem Blue Cross HMO Plus wonder why anyone would opt for lesser coverage.

Some have also said that it isn't fair that some employees use more expensive hospitals (Cedars-Sinai and UCLA), but any employee has been free to sign up for a medical group at these hospitals. Most don't because Cedars and UCLA aren't convenient to where they live or work. This is the first time that major hospitals have been excluded from a non-Kaiser plan. Costs may have been at the root of this decision, but this kind of geographic discrimination is unacceptable.

Chart 1 shows that in 2006-7 LAUSD covered more dependents (125,281) than employees/retirees (105,054). Recall Charts 2 and 3:

Chart 2

2006-7 Insureds per Employee/Retiree	% Active Employees	# Active Employees	% Retirees	# Retirees
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Chart 3

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Employee compensation equals salary plus benefits. Consider two teachers who are the same age and gender, the same health status and at the same place on the salary schedule, but one is single and the other is married with three children. The compensation for the teacher who's married with children will be significantly higher than that of the single teacher – because of the value of health benefits for dependents. The difference might be as much as $10-15,000 per year. In effect, the 35% of active employees and 45% of retirees who receive coverage only for themselves are transferring some of what would be their equal allocation of the total benefits part of compensation to employees and retirees with dependents. Employees with families average 3.92 people covered by the plan (including the employee). Dependent coverage results in a far greater disparity in compensation than choosing the most expensive plan (Anthem Blue Cross HMO Plus) or receiving care at the most expensive hospitals (Cedars and UCLA).

In Spring, 2004, UTLA conducted a Health Benefits Member Poll. The poll specified 21 potential changes to coverage and the cost savings that would be realized from each change. The choices were stark, including requiring employees to pay the difference in cost for the Blue Cross HMO Plus coverage (savings: $38 million) and employees paying half of the cost of coverage for dependents (savings = $90 million). Did UTLA follow the wishes of its members as expressed in this survey? Why weren't other options presented, such as allowing employees to pay part of the cost of the Anthem Blue Cross HMO Plus plan? There are far more equitable ways to share the pain.

Benefits are more important than salary to many employees. Was a temporary pay reduction considered so that benefits could be preserved while the economy is struggling and healthcare reform approaches the homestretch? A 2% pay cut (effectively 1.4-1.5% after taxes are considered) would have allowed preservation of $80 million in health benefits.

Agreeing to a three-year deal with a 3.5% cap on annual increases was a monumental blunder for anyone familiar with the analysis presented by Mr. Holmquist to ABT – and presumably presented in even greater detail to the union representatives on the Health Benefits Committee. Far from assuring employee benefits, with double digit annual increases, the agreement guaranteed that our health benefits would be steeply cut.

How did my union, United Teachers Los Angeles, allow this to happen? The changes unfairly target older employees, retirees and employees on the Westside who see doctors at Cedars and UCLA. I pay almost $700 a year in dues to UTLA, and I'm astonished at the officers' complete abdication of their responsibility to protect the interests of all members. Perhaps they were too busy selling out the substitute teachers to pay attention to healthcare.