Don't Get Sick, Part II:

The Devil's in the Details

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Alan Warhaftig
Fairfax Magnet Center for Visual Arts
alanwarhaftig@gmail.com

I. What We Know Now

According to a Powerpoint presentation titled "*Tentative* Agreement between LAUSD & Unions/Associations Representing District Employees," dated February 10, 2009, the changes to LAUSD's health plans were decided *at least nine months ago*.

It's understandable that details were kept under wraps, as it is a significant diminution of benefits (and therefore compensation) for all employees and retirees and nothing less than a gutting of benefits for at least a third of employees and 60% of retirees.

Details about the health plans, including co-pays for the three HMO options, finally appeared on the LAUSD Benefits Administration website about ten days ago. Key differences include:

Chart 9

	Anthem BC Select	Kaiser	Health Net
Cedars/UCLA?	No	No	Yes
Annual Co-Pay Maximum (one person)	$1,500	$1,500	$1,500
Annual Co-Pay Maximum (two people)	$3,000	$3,000	$3,000
Annual Co-Pay Maximum (family)	$4,500	$3,000	$3,000
Primary Care Doctor Visit	$10	$20	$20
Specialist Doctor Visit	$10	$20	$30
Physical Therapy Visit	$10	$20	$20
Hearing Test	No charge	$20	$30
Outpatient Surgery	$10	$100	$250
Emergency Room Visit (not admitted to hospital)	$50	$100	$100
Hospitalization	No charge	$100	$100 + 10%
Skilled Nursing (per admission)	No charge	No charge	$250

Basic co-pays for medical services are substantially lower for Anthem Blue Cross Select than for Kaiser, and they are substantially lower for Kaiser than for Health Net. Health Net (formerly Pacificare) has always had the smallest number of enrollees (see **Chart 4** in the first part of "Don't Get Sick" – 9% of active employees and 2% of retirees), so the obvious intent is to turn Health Net into the Cedars/UCLA HMO option. Anyone currently enrolled in Health Net who does not use Cedars or UCLA should change plans.

II. Geographic Diversity

Group insurance spreads risk to achieve better coverage at lower rates. Why shouldn't LAUSD divide up the benefits pot equally among employees and send us into the private insurance marketplace to fend for ourselves? Employees under 30 with no pre-existing conditions might do okay, but older employees, employees with health issues, and employees with families would spend a lot more than the district, on average, pays for them - if they could even get insurance.

Group insurance is premised on diversity. The high cost of older employees is balanced by the lower cost of younger employees and dependent children. The high cost of employees with health issues is balanced by the low cost of the healthy. The high cost of pregnant women is balanced by the non-pregnant (including men).

Lower cost members of the group can't really complain because they might, at any time, become high cost if they become ill. In time, they will become high cost older employees.

Apparently, the members of the Health Benefits Committee were persuaded that use of the Cedars-Sinai and UCLA Medical Centers was a matter of consumer choice, but this is a short-sighted and absurdly narrow interpretation given the size of LAUSD.

Geographical diversity is a key characteristic of our group - a fact of existence. LAUSD covers 700 square miles, and its employees reside in an even larger area – perhaps 1,200 square miles or more. Cedars and UCLA are the primary medical centers in an area of at least 100 square miles, almost all of it (except Beverly Hills) within LAUSD's boundaries. In this area, they are the only hospitals that offer the full range of medical services, including cardiac catheterization and surgery. It's not difficult to imagine circumstances in which a delay in treatment could be tragic.

Should employees be penalized if Cedars or UCLA is the closest hospital to their home or work? If we go down that road, we should penalize employees who smoke, drink, eat fast food, ride motorcycles, are overweight or are women who choose to bear children.

If I need to go to the doctor, the medical offices at Cedars are just under two miles from where I live and where I work. The next closest full service hospitals are between five and six miles away.

The new plan requires Westside residents to pay more (co-pays are significantly higher for Health Net HMO than Anthem Blue Cross Select HMO) or endanger their health by switching to a medical group that Anthem BC Select HMO covers. That's inequitable. Tens of thousands of employees will be penalized because of where they live - sounds a lot like discrimination in lending or pricing auto insurance based on zip code.

Why should one group of employees have $10 co-pays while everyone else has $20 and $30 co-pays? Should Westside members of the group pay for health services based on the actual cost of the services utilized rather than the overall experience of the group – simply because they live on the Westside? That violates the basic logic of group health insurance. In school terms, it is akin to building a high school on 25 acres in South Gate but limiting a campus to three acres in Westwood because of the difference in land values.

Do any members of the Health Benefits Committee live in that 100 square miles served by Cedars and UCLA?

III. Newly Available Data

The February 10, 2009 Powerpoint presentation includes data from November, 2008 which suggests that the basic characteristics of the LAUSD group haven't changed substantially since the 2006-7 data David Holmquist provided to the Board's Audit, Business and Technology Committee on March 1, 2007:

Chart 10

	2006-7	November, 2008	2008 Cost Per Employee
Active Employees	71,454	72,648	$9,041.51
Total Retirees	33,600	34,007	–
Retirees Pre-65	Not Provided	6,733	$13,580
Retirees 65 and Over	Not Provided	27,274	$6,440.04

The costs cited are not *per covered individual*; they include dependent costs (see **Chart 2** and **Chart 3** in the first part of "Don't Get Sick"). Active employees have younger children (on average) than retirees between 55-64. Children of retirees over 65 would most likely be too old to be covered by the plan. In addition, for retirees over 65 the LAUSD insurance is secondary to Medicare and LAUSD receives reimbursement from Medicare D for drug coverage.

Benefits are an element of total compensation, but the cost of health benefits represents very different percentages of salary, depending on income level:

Chart 11

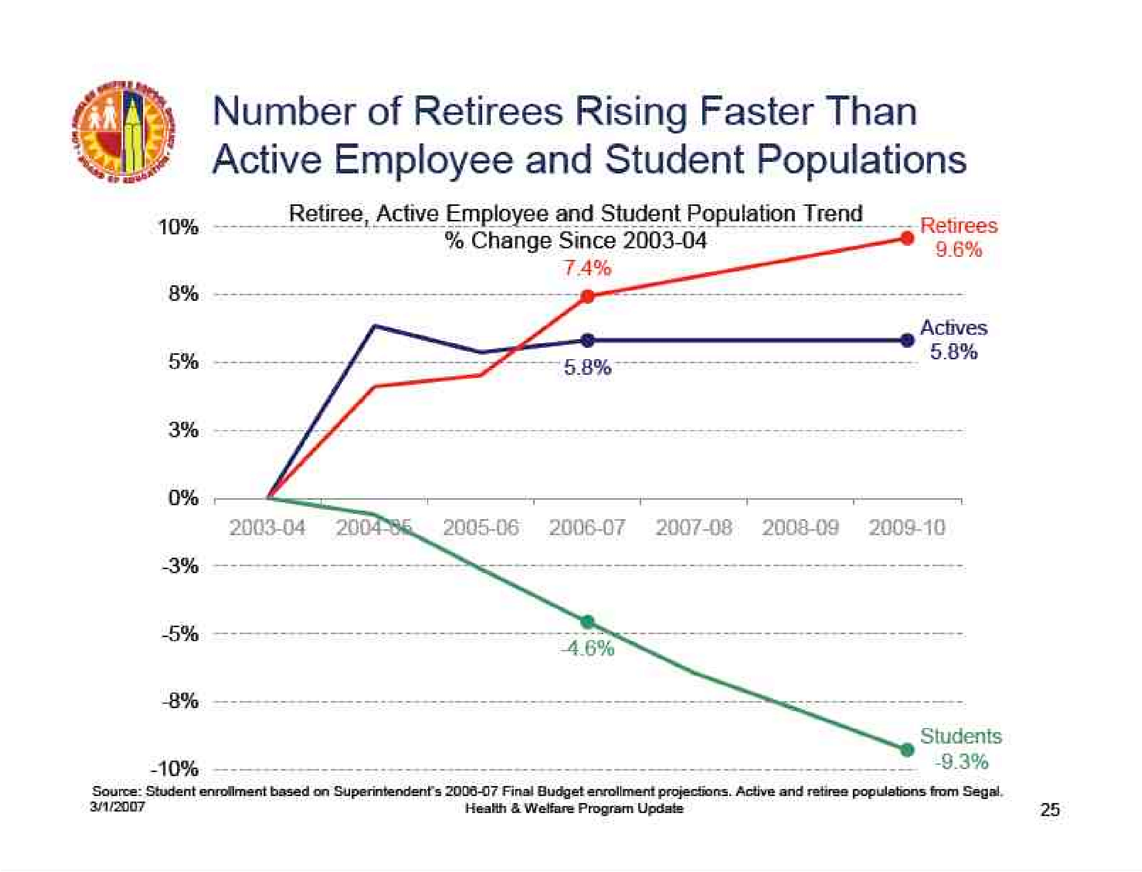
Annual Salary	2008 Health Benefits	Health Benefits as % of Salary
$30,000	$9,041.51	30.1%
$50,000	$9,041.51	18.1%
$75,000	$9,041.51	12.1%
$110,000	$9,041.51	8.2%

From this perspective, the same benefits cost comparatively less for a principal than for teachers, and less for teachers than for most classified employees. Income level is another characteristic of diversity in our group. Benefits are a much higher percentage of total compensation for an employee earning $30,000 per year than one who earns $75,000.

IV. Projections Are Not Always Accurate

This data from the February 10, 2009 Powerpoint presentation also casts new light on projections that Mr. Holmquist presented to the ABT Committee on March 1, 2007. Page 25 of Mr. Holmquist's presentation asserted that the number of retirees was increasing at a significantly higher rate than the number of active employees:

Chart 12



Evidently, between 2003-4 and 2006-7 (four years), this was true: Active employees grew by 5.8% and retirees grew by 7.4%. Projections about what would happen between 2006-7 and 2008-9 (two years) do not appear to have been accurate. Rate of growth of active employees was actually 38% higher (1.67%) than retirees (1.21%).

Chart 13

	Projected Change: 2003-10	Actual Change: 2003-06	Actual Number: 2006	Actual Number: 2008	Actual Change: 2006-08	% Change: 2006-08
Actives	5.8%	5.8%	71,454	72,648	+ 1,194	1.67%
Retired	9.6%	7.4%	33,600	34,007	+ 407	1.21%

The long-term picture may still be dire for a school district with declining enrollment, but the actual numbers appear not to have been as bad as predicted.

IV. The Elders

The changes to LAUSD’s health plans will likely affect retirees more severely than active employees, if only because of the steep increases in co-pays for medication. Older people tend to have more health issues and take more medication – and retirees are not eligible for a Flexible Spending Account (FSA), which allows pretax dollars to reimburse co-pays for medical services and pharmaceuticals.

Retirees don’t have a vote on the Health Benefits Committee and cannot vote in union elections. They are essentially powerless, which is why the law offers special protections for their vested health benefits, which are considered as deferred compensation, not a gift. The changes in LAUSD’s retiree health benefits appear to violate California law.

See “A Short Primer on Retirees’ Vested Health Benefits,” by Robert J. Bezemek, in the December, 2003 (Issue 163) *California Public Employee Relations Journal* and the same author’s “Retiree Health Benefits: Still Protected…Still Misunderstood” in the October, 2007 (Issue 186) of the same journal (www.pebc.ca.gov/.../CPER%20Retiree%20Health%20Benefits%20Article.pdf).

V. Discontinuity of Care

The Open Enrollment Period is about to begin, and tens of thousands of employees will discover that the medical benefits they’ve had for years have gone up in smoke. They will be angry at their employer and, speaking as a teacher, feel betrayed by their union, which never bothered to ask what was important to its members.

Employees who, for years, have kept the same health plan and not even bothered with Open Enrollment, will have a three week period (November 1-22) to understand what has happened to them, find answers to a lot of complicated questions, and make an important life choice.

Continuity of care is at risk. Did the Health Benefits Committee seriously consider dropping Kaiser? In 2006-7, Kaiser was the choice of 46% of LAUSD's employees and 38% of its retirees. Of course not. A radical change would create both inconvenience and risk discontinuity in medical care. Unfortunately, that's exactly what has been done to the 26.6% of employees and 59.5% of retirees who (in 2006-7) were enrolled in the Blue Cross HMO Plus.

19,000 active employees and 20,000 retirees who have been enrolled in Anthem Blue Cross HMO Plus will need to select a new plan. In addition, 13,000 active employees and 110 retirees have been enrolled in the Anthem Blue Cross HMO, which allows access to medical groups at all hospitals, including Cedars and UCLA.

If these employees and retirees (some very elderly) don't understand the choices involved or the Open Enrollment process – or their package is lost in the mail – by default they will be assigned to the Anthem Blue Cross Select HMO. If they are patients at Cedars or UCLA, they will no longer be able to see the doctors that have been taking care of them.

The result could be tragic.

Perhaps LAUSD and UTLA kept this deal under wraps until the last possible moment because it's embarrassing when principles are betrayed and human consequences ignored.

The value of the HMO Plus coverage was knowing that there were options. If I fell and seriously injured my hand, I'd want to be treated by an excellent surgeon. As the quality of my life would be affected by the outcome, I wouldn't want to be restricted to the one (or two) hand surgeons under contract to my HMO. If I went outside the HMO, it would cost me a pretty penny (my deductible plus up to $7,500), but it might well be worth it to me. (I'd also have to hope that the accident didn't happen at work, or I'd be restricted to the doctors willing to work in the workers compensation system - which makes the average specialist in an HMO look like a superstar.)

VI. Spreading the Pain

I've been asked how I would have more equitably cut $80 million from the cost of LAUSD health benefits.

My preference would be a temporary 2% pay cut. There's a tax advantage to this, and it would actually equate to a 1.4-1.5% cut in take home pay for most employees. This would preserve benefits while we see how national healthcare reform shapes up and whether there are savings for employers that provide health insurance.

If cuts needed to be imposed, they should be done equitably. Unfortunately, the cuts that have been announced will have a disproportionate impact on older employees, retirees and employees who live on the Westside.

A more equitable approach would be to offer HMO coverage (including Kaiser) to all employees, with no hospitals excluded. Only the employee would be insured with no premium contribution required. Dependents would be insured for a monthly premium contribution of $25 each - less than 10% of what LAUSD pays to provide this coverage. (**Chart 2** shows that the average number of insureds per employee with family coverage is 3.92 (including the employee). LAUSD policy has been to cover all dependents free of charge – a generous, even enlightened policy. Unfortunately, in a severe financial crunch, family coverage cannot be exempt from cuts.)

The HMO Plus coverage would be offered to employees for a monthly premium contribution of $50 for themselves and $50 for each dependent - a small percentage of what LAUSD pays to provide this coverage.

These premium contributions would be pretax through payroll deduction, lowering the effective cost to employees.

Using the 2006-7 data, LAUSD's 104,194 dependents of active employees would contribute approximately $35,000,000 per year toward premiums.

Some of the 19,000 active employees (plus dependents) enrolled in the HMO Plus plan would switch to a less expensive HMO plan, but if a total of 30,000 employees + dependents paid the $50 per month premium contribution, they would contribute approximately $18,000,000 per year. Savings for those who switch to a less expensive HMO might total another $4,000,000.

There should be no significant changes to the co-pays for retirees if, in fact, increases are legally permissible.

HMO co-pays for office visits should increase to $20 for all HMOs. (The 2004 UTLA Member Poll on Health Benefits estimated that this change would save $13,000,000.)

Co-pays for emergency room visits (that don't result in hospitalization) should not be raised. The savings would be small, and it seems risky if it dissuades employees from seeking timely treatment.

Co-pays for non-generic meds should be doubled to $15 for a 30-day supply and increased to $25 (from $10) for a 90-day supply. "Non-preferred brands" should be covered at the same rates if the physician presents an appropriate medical justification (efficacy, side effects, etc.). Based on the 2004 UTLA Health Benefits Member Poll, these changes would save around $10,000,000.

The total of these suggested changes is at least $80,000,000. Employee health benefits would be preserved with hopes that national reforms will improve the picture; meanwhile, the pain would be spread equitably. Employees with dependents would pay based on the number of people insured, though they would pay a small fraction of the cost of that insurance. Employees who choose the most expensive coverage would contribute to defray its higher cost. Everyone would have higher co-pays, but the medication co-pays for individuals with the greatest medical needs would not be as high a mountain to climb.

VII. Passionate Intensity

In a four-page document, “Health Benefits 2010 Q&A,” dated 10/1/09, UTLA offers a tortured explanation:

> For the first time, however, modifications could be selected by the union-led Health Benefits Committee as a result of the agreement negotiated last year. In the past, LAUSD officials would have made the recommendations to the School Board, which would have ultimately made the decision. This year, that could have led to unilaterally cancelling one provider altogether and forcing employees to give up trusted doctors, or by introducing contributions through payroll deductions, shifting the cost increases to employees, with money taken out of your paycheck each month for health care. Instead, the HBC, with the help of a private consultant, negotiated with health care providers, studied numerous options, and came up with changes that cover the funding shortfall while not increasing your expenses by a large percentage.

In the upside-down world of A.J. Duffy and Julie Washington (the vice-president who represented UTLA on the Health Benefits Committee), the right to self-mutilate is classified as a victory.

Did UTLA survey its members about health benefits? Did UTLA’s leaders consider the needs of *all* members, including older members and those who live and work on the Westside? Did they keep faith with retirees?

The Health Benefits Committee attempts to achieve consensus among bargaining units with interests that don’t always coincide. What are teachers to do if they can’t trust their leaders to represent and protect them in that forum?