



## Schools Should Fund Learning, Not Insurance Companies

By Michael Van Beek and Kyle Jackson

### Summary

School districts and taxpayers are saving money now that the Legislature has put caps in place for school employee health insurance premiums, meaning the savings can be redirected toward the classroom where it belongs with expanded course offerings and programs for students.

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Rising health insurance costs have squeezed school budgets considerably in recent years. According to statistics from the Center for Educational Performance and Information, these costs have grown in per-pupil terms by 31 percent since 2004. Michigan taxpayers now contribute over \$2 billion annually, or about \$1,300 per student, to provide health insurance for public school employees.

Factors contributing to these rising costs are many, but two stand out. First, most districts (about 80 percent) purchase health insurance plans from the Michigan Education Special Services Association, a third-party administrator affiliated with the state's largest government employee union — the Michigan Education Association. Secondly, school employees, especially teachers, have for many years contributed far less towards the cost of their own health insurance premiums than the average private-sector employee.

Mackinac Center research found that the average MESSA premiums used by districts in 2011 were \$7,210 for single, \$16,173 for two-person and \$17,692 for family plans. These are substantially more expensive than Michigan's private-sector averages: According to data from the Kaiser Family Foundation, MESSA premiums are 52 percent (single), 64 percent (two-person), and 36 percent (family) more expensive than Michigan's private-sector averages.

Recently approved legislation limits the amount districts can spend on health insurance to \$5,500 for single plans, \$11,000 for two-person and \$15,000 for family plans. If districts purchase more expensive plans, school employees will have to pay the difference. Considering MESSA's average costs, this will assuredly save districts (and taxpayers) millions of dollars.

Districts may choose to spend beyond these, but only if school employees pick up at least 20 percent of the premium. But even these districts will likely save overall, since most teachers have historically contributed very little — or nothing — to the cost of health insurance premiums.

By limiting school health insurance expenditures, Michigan's Legislature made significant strides on two important fronts: Devoting more resources to student learning and leveling the disparities between private- and government-sector benefits. This reform was sorely needed, and is already paying large dividends for schools, students and taxpayers.

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The school district health care database available at [www.mackinac.org/depts/epi/insurance.aspx](http://www.mackinac.org/depts/epi/insurance.aspx)

A 2009 Mackinac Center survey of districts found that teachers contributed on average only 4 percent to the cost of a family health insurance premium, and in more than 300 districts teachers paid nothing. The average for a private-sector employee in Michigan is 22 percent.

This new legislation is spinning off other positive effects. Some districts are starting to draw hard lines at the bargaining table for the benefit of taxpayers. For instance, the Dearborn Heights district went from fully subsidizing teacher health insurance to offering teachers two options: pay 20 percent of the premium for a less expensive health insurance plan or pay between 32.5 and 37.5 percent for high-priced MESSA insurance. The district saved \$750,000.

MESSA also appears to be responding to the changes. It will start offering consumer-drive, high-deductible health insurance plans paired with health savings accounts — a price-effective innovation the Mackinac Center has promoted for years. Perhaps MESSA is recognizing that using the MEA's negotiating power to sell their high-priced plans might not work anymore now that hard caps are in place.

These health insurance savings should be funneled back into student programs and services. This will be especially helpful for districts that have been cutting programs in order to meet rising labor costs. Taxpayers should expect to see schools starting to expand the services and opportunities offered to students.

Of course, there is a very real concern that other rising costs in school budgets will nullify these savings. The state-run school employee pension program, for example, is growing to be a huge financial burden for districts. The state Legislature should get these costs under control and reduce schools' long-term financial obligations.

To be sure, school districts still face many severe fiscal challenges, but recent actions by the Legislature alleviate the rising health insurance costs that had burdened districts for years.

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