



2007-2009 Bargaining Goals: WASB Position Paper Series

Written by the WASB Employee Relations Staff

The Case Against Long Term Care Insurance

The purpose of this bargaining goals position paper is to define the strategy that the employee unions are using in their attempts to secure employer-paid long term care (LTC) insurance, and to discuss why the WASB Employee Relations Staff continues to strongly recommend that school districts reject bargaining proposals involving employer-paid LTC.

The Emerging Trend in Bargaining Over Long Term Care

During contract negotiations across the state in 2003 to the present, a trend emerged in the way that the teachers' unions bargained to add long term care (LTC) insurance to their standard benefits package. In previous bargaining cycles, WEAC and the local unions often proposed compensation packages that involved salary increases, no changes to health insurance, *plus* the addition of LTC insurance. Facing state-imposed revenue limits and 15%-35% annual increases in health insurance premiums, school boards had little trouble dismissing the idea of adding LTC as a new, paid benefit. In the 2003-2005 and 2005-2007 bargaining cycles, the unions came to the table with a new approach.

The unions know that school boards across the state are making serious attempts to contain health insurance costs through employee contributions, the addition of prescription drug co-payments, and other changes to plan structures and carriers. In most cases, a school board will seek insurance concessions in exchange for salary increases that will help re-balance the salary vs. benefits ratio in the compensation package as a whole. In 2003-2005 and 2005-2007 bargaining, many boards have found that unions were willing to seriously discuss health insurance changes. That in itself represented a change over previous bargains. However, the unions often initially stated that they would consider health insurance concessions only if part of the savings went toward the addition of employer-paid LTC. The unions argued the following points:

- The board is getting at least part of what it wants (the health insurance concessions and some money to put toward salaries).
- Because the health insurance premium mitigation generated by the union's proposed health insurance concession(s) are usually more than sufficient to cover the LTC premiums (at least at today's LTC rates), there is no additional "cost" to the district.
- The teachers should have a voice in determining where insurance "savings" go, and the board should be indifferent about the addition of LTC when it involves a "shift" of money from health insurance to LTC. A dollar toward teacher benefits is a dollar toward teacher benefits, no matter what it pays for.

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As icing on the cake, the unions were typically willing to express the district's contribution to LTC premiums as a fixed dollar amount (for example, \$50.00 per month per teacher). This contract language, school boards are told, completely insulates the district from exposure to increases in LTC premiums and puts teachers on the hook for 100% of any future increases.

The unions' 03-05/05-07 strategy for securing LTC insurance was successful in a limited number of districts. However, the WASB Employee Relations Staff found that many unions dropped the demand for LTC when the school board voiced a strong objection to the proposal. Moreover, many of the unions that initially proposed LTC in exchange for health insurance concessions still seriously considered and ultimately agreed to health insurance concessions in exchange for salary increases without adding LTC. The position of WASB's ER Staff is that, in nearly all circumstances, there is a very strong case to be made against the addition of LTC to teacher benefits.

The Salary vs. Benefits Tradeoff

The teachers' public stance is that their salaries are dropping in comparison to teachers in other states and that great schools need teachers who are paid a "fair" salary. Wisconsin's Qualified Economic Offer (QEO) law is held up as a symbol and rallying point for what the teachers argue is systematic suppression of teacher salaries in Wisconsin.

Completely missing from the teachers' public rhetoric on salaries is the "salary vs. benefits tradeoff." It has been well-documented that Wisconsin teachers have bargained to obtain (and maintain) some extraordinarily expensive fringe benefits. According to United States Census Bureau data, Wisconsin ranks 4th highest among the 50 states in staff benefits. Thus, to some extent, Wisconsin teachers have affirmatively chosen to place more and more of each compensation dollar toward fringe benefits instead of salary. When total compensation (salary plus fringe benefits) for Wisconsin teachers is compared to total compensation for teachers in other states, the alleged "obvious" inequity of teacher compensation in Wisconsin begins to ring hollow.

In many Wisconsin school districts, the escalating costs associated with existing fringe benefits and the teachers' stated concerns with their salary levels have led school boards to conclude that something has to be done to re-balance the teacher compensation package and to control the ongoing benefit-cost increases that threaten the fiscal health of the districts. Stated differently, school boards are deeply concerned about the salary vs. benefits tradeoff.

When considering a union proposal that attempts to swap health insurance concessions for the addition of LTC, a fundamental question school boards need to ask themselves is the following: Why are we seeking the health insurance concessions that are part of our proposal? If the answer is that the board is trying to address a benefit-heavy compensation package and the spiraling costs of health insurance, pensions, and other retirement benefits, then adding LTC is not a good solution. Adding LTC will keep available compensation dollars on the benefits side

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of the salary vs. benefits tradeoff. And, as discussed in the sections below, the money is likely to stay there far into the future.

It may be helpful to put the long-term salary vs. benefits tradeoff into perspective. In 1984-85, about \$0.76 cents of every compensation dollar went toward salaries, and \$0.24 went toward benefits (not including post-employment benefits). In 2002-03, \$0.67 cents of every compensation dollar went toward salaries, and \$0.33 went toward benefits. If school districts had been able to maintain the 1984-85 salaries vs. benefits tradeoff, 2002-03 teacher salaries could have been about \$5,000 higher than they were. If school districts had been able to maintain salaries at even the percentage of total compensation that existed in 1993-94 (\$0.72 of every dollar toward salaries), 2002-03 teacher salaries could have been almost \$3,000 higher than they were.

As a final point on the salary vs. benefits tradeoff, we believe that one reason that a limited number of boards agreed to add LTC in 2003-04, 2004-05, or 2005-06 was that health insurance premium increases in those years were generally lower than the astronomical increases experienced in 2001-02 and 2002-03. School boards have easily rejected LTC when the proposal to add LTC was coupled with health insurance “concessions” that served only to mitigate 15%-30% health insurance premium increases. Stated another way, if the overall health insurance premiums are still increasing by double digits *even after* factoring in the proposed “concessions,” it is easy to resist the idea of adding LTC as a new benefit because the need to direct all available funds toward salaries will be obvious. However, in 2004-2005 when a 4% increase in premiums from the carrier was coupled with a 5% insurance concession, the insurance “savings” seemed much more substantial, and the concept of paying for a new LTC benefit with the “savings” probably seemed much less egregious. The problem, of course, was that the respite from double-digit premium growth was a temporary aberration. School districts need to take a long-term view of the tradeoff and consistently work toward rebalancing compensation over the course of several contracts. In fact, by 2006-2007, health insurance premium increases returned to double-digit levels in a majority of school districts, and teacher salaries were once again at risk. The districts that agreed to add LTC in 2004-2005 found that the new benefit served only to put their salaries further behind in 2006-2007. That is, the \$500 (or more) per teacher per year that the district committed to the cost of LTC premiums in 2004-2005 was lost on the benefits side of the tradeoff; and, in some cases, the LTC premiums themselves have increased at a double-digit rate.

While the salary vs. benefits tradeoff is “Exhibit A” in the case against employer-paid LTC, there are several other reasons not to accept a proposal that involves swapping insurance concessions for LTC contributions.

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LTC Plans that Involve Mandatory Participation Are Problematic

In general, teachers have been proposing LTC insurance plans that require mandatory participation by all teachers who are eligible for district health insurance. These plans impose uniform premiums per employee regardless of the age of the individual teacher(s). Such a plan is probably a “bargain” for an older teacher who is near retirement and who would be unlikely to find an individual LTC policy that would cost \$600 a year. However, this “bargain” comes at the expense of new, younger teachers who will be required to participate in the LTC plan at the “average” premium rate throughout their career. If presented with the option, younger teachers may well prefer to receive \$600 a year for 20 years in additional salary, rather than deferring that money for a speculative insurance benefit at rates that subsidized the LTC premiums of their near-retirement colleagues. Just as importantly, the board may wish to be able to recruit new teachers by offering a salary that is \$600 higher than it would be if that new teacher were not required to participate in the mandatory LTC insurance plan.

Mandatory participation raises another problem. A new teacher who began accepting long-term care premium contributions from the district in 2005-2006 will not be likely to support eliminating the LTC benefit at some later point. That is, after foregoing increased salary for several years in favor of the LTC premiums, the teacher is not going to want to abandon those “sunk costs.” From the teacher’s perspective, it would be akin to stopping payments on a term life insurance policy. As a result of teachers feeling “locked in” to the benefit, the parties lose future flexibility to adjust the salary vs. benefits tradeoff. In this sense, LTC is very different from health insurance. Health insurance involves current premiums for current benefits. LTC largely involves current premiums for a future benefit.

The bargaining unit as a whole is unlikely to have full information about the trade-offs that are implicit in adding LTC as a mandatory-participation fringe benefit, and experienced teachers on the negotiating team may naturally look out for their own best interest. School boards can step in and look out for the interests of the district as a whole.

LTC Plans Tied to Maintaining a Particular Insurance Carrier Limit Flexibility

Some LTC insurance plans come with what is effectively a “multiple plan” discount. That is, the LTC premiums can be lower if the district accepts a LTC policy from the same company that currently provides the district’s health insurance, life insurance and/or long-term disability coverage. By agreeing to add LTC insurance at such a discounted rate, the board will likely lose future flexibility to evaluate and change the health insurance plan on its own merits. The reason for the lost flexibility is that the teachers will be concerned about how changing their health insurance carrier will affect their LTC premiums.

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What Are Teachers Really Getting for the Money?

Another question to ask is whether the teachers really understand the coverage the proposed LTC policy offers and how that coverage compares to other LTC policies. Some of the relevant considerations include the degree of physical or mental impairment necessary to qualify for benefits under the policy, the type of healthcare settings in which the coverage applies, policy maximums on covered expenses, and co-payments on covered expenses. How many teachers out of 100 are likely to receive *any* benefits from the policy? Rarely have teachers “comparison shopped” so that they really know the value of what they are asking for. Of course, if the board’s objection to the addition of LTC is at the more fundamental level of not wanting to add any type of LTC benefit, then asking the teachers to “comparison shop” is a futile exercise.

Evaluate the Assertion that the Board has “No Risk” with Regard to Future Premium Costs

As mentioned above, unions attempt to convince the board to offer LTC benefits by proposing contract language that expresses the district’s contribution to premiums as a fixed dollar amount. This contract language, the unions assure the board, insulates the district from all future premium increases. The truth is that the district’s premium contribution will always be subject to future bargaining, and implementing a QEO under Wisconsin law may also affect board contributions. Future increases in the costs of LTC are just as difficult to predict as future changes in health insurance premiums. While expressing the district’s premium contribution as a fixed dollar amount gives the district the advantage of being able to argue for continuation of the “status quo,” we have seen in many other settings how a “small” increase to sick leave payout or “just” one more year of retirement health insurance is “thrown in” to reach a voluntary agreement. There is little doubt that the unions will be back at the table in future years asking for increased contributions to LTC insurance. The board’s current resolve to “hold the line” on LTC contributions may wane when “just” an additional \$10 per month per teacher will result in a new contract. However, that additional \$10 per month is one more short-term piece of the long-term puzzle that is the salary vs. benefits tradeoff.

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Bargaining Goals Recommendations

For the past several years, the WASB bargaining goals have included the recommendation that school boards avoid providing new employer-paid insurance benefits, such as long term care insurance. This simple and direct statement continues to be an effective guide for bargaining. However, we recommend modifying the bargaining goals with respect to long term care insurance in order to directly identify and confront the current WEAC bargaining strategy:

School Boards should reject union proposals that seek to add employer-paid long term care insurance to the existing employee benefits package.

- Do not trade health insurance concessions for new employer-paid insurance benefits such as long term care insurance. Where proposed modifications to health insurance benefits result in premium savings, any portion of the savings that will be returned to the employees should generally be applied to the main salary schedule.
- When teachers seek to bargain for the addition of employer-paid long term care insurance, school boards should respond by pointing out (1) the salary vs. benefits tradeoff, (2) the board's position with respect to applying available funds to salary as opposed to benefits, and (3) the problems associated with long term care insurance policies that involve mandatory participation and/or discounts for remaining with a particular health insurance provider.