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Is this the new normal for public employee health care contributions?

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Governor Chris Christie has proposed that New Jersey state and local public employees contribute 30% to the cost of their health insurance. State Sen. Stephen M. Sweeney's proposal moves gradually toward the 30% goal over seven years. Both Governor Christie and Senator Sweeney assert that the 30% employee contribution is fair, since it will place state and local public employees at parity with private-sector workers. They are wrong. In New Jersey, comparable private-sector employees contribute 22% to the cost of their health insurance.

While the effort to seek parity in health costs is fundamentally flawed, an investigation of what comparable private-sector workers contribute to their health insurance is nonetheless informative—as long as one understands that the real issue for any employer is the total cost of their employees' compensation. Whatever the mix among benefits and wages compensation, the remuneration is for work performed, which belongs to the employee. What matters is not whether one or another element is at market parity, but whether the entire compensation package is at parity with the market. As demonstrated in our 2010 Economic Policy Institute report, *Are New Jersey Public Employees Overcompensated?*, New Jersey's state and local government employees are neither over- nor undercompensated.

Nevertheless, the data on employee health insurance contributions reveal flaws in current proposals to increase health insurance contributions. Christie uses national estimates for all health insurance plans drawn from the Kaiser Family Foundation/Health Research & Educational Trust (HRET) Employer Health Benefits 2010 Annual Survey for his parity benchmark. According to the survey report, employee contributions cover 30% of the costs of family health insurance plans and 19% of the costs of single health insurance plans. There are several problems with using this estimate, as can be seen in **Table 1**.

The U.S. Department of Health and Human Services' Medical Expenditure Panel Survey (MEPS) estimate for all New Jersey private-sector employers in 2009 is significantly lower. According to MEPS, the average employee contribution to a family plan is 22.8%, considerably lower than the 30% national estimate of Kaiser. However, MEPS estimate of average employee contribution to a single plan in New Jersey is 21.3%, which is slightly higher than Kaiser's 19% national estimate. A more appropriate comparison for New Jersey is the MEPS estimate of health plan contributions

TABLE 1

Average employee's share of health insurance costs (various estimates)

	Single coverage	Family coverage
Kaiser/HRET 2010 survey–all plans,all industries, national average	19.0%	30.0%
HHS 2009 MEPS–New Jersey, private sector, all plans	21.3	22.8
HHS 2009 MEPS–New Jersey, private sector, large firms (1000+)	20.3	19.7
Kaiser/HRET 2010–PPO, state/local government, national average	10.0	21.0
Kaiser/HRET 2010–PPO, Northeast, all industries	19.0	24.0

SOURCE: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2010 Annual Survey; U.S. Department of Health and Human Services, Agency for Healthcare Research and Quality, Center for Financing, Access and Cost Trends, 2009 Medical Expenditure Panel Survey–Insurance Component.

of employees of large private employers (those with at least 1,000 employees): In these firms, employees on average contribute 20.3% of costs for single health care coverage and 19.7% of costs for family coverage.

Large employers such as the state of New Jersey enjoy a couple of advantages when providing their employees with health insurance. First, many rely on preferred provider organizations (PPOs) to manage the delivery of health services. The New Jersey State Health Benefits Plan base plan enrolls employees in a PPO, NJ Direct 15, managed by Horizon Blue Cross–Blue Shield of New Jersey. Employee contributions to PPOs are a lower share of premium costs for family plans (though not for single coverage) than the average for all plans. According to the Kaiser survey, participation in a PPO provides a 6.7% savings on premium costs from the all-plan average for family coverage. Second, most large employers, including New Jersey, self-fund their health plans. In New Jersey, Horizon Blue Cross serves only as the plan administrator, not the insurer. Small firms in part face high costs because insurance companies not only administer their plans but act as the insurer. On the other hand, 90% of large firms self-insure, saving them 13.3% on health insurance costs. These savings reduce premium costs and enable lower employee contributions.

The Medical Expenditure Panel Survey is conducted annually by the U.S. Census Bureau for HHS's Agency for Healthcare Research and Quality. It has a considerably larger sample size and is considered more reliable than the Kaiser survey. In fact, the Kaiser Family Foundation in its State Health Facts website uses the MEPS to provide state-level cost estimates, since the smaller Kaiser survey is not reliable below the regional level. Nevertheless, the Kaiser employer health benefits survey's estimates for the Northeast confirm the national differences in employee contributions: For family coverage, the average employee contribution to the health insurance premium for a PPO in the Northeast is 24% compared with 30% nationally.[1] Both Governor Christie and Senator Sweeney, however, rely upon the national estimate rather than the Northeast estimate to establish their benchmark for parity, which raises questions about their calculations.

As an alternative to national estimates, we could use what other state and local government employees contribute to their health insurance as a benchmark. The Kaiser survey reports that state and local public employees with family coverage on average contribute 21% of their premium costs, while public employees with single coverage contribute 10% of their premium costs.[2]

These are financially challenging times for the state of New Jersey. Asking all parties to contribute to the financial viability of the state makes sense. Governor Christie and Senator Sweeney have both proposed that state and local public employees should contribute more to their health insurance costs. In effect, they are demanding that all employees take a pay cut to bail out the state while couching their arguments in the misleading rhetoric of equity and fairness. Nevertheless, if the governor wants employee compensation to be equitable and fair, he first needs to correctly assess what employee contribution parity would be in the state, not the country.

Table 2 provides the most current estimates of private employee contributions in New Jersey; adjustments to the MEPS 2009 estimates for single and family coverage that reflect the increasing costs employers shifted to their workers between 2009 and 2010.

TABLE 2

Average New Jersey private employee's share of health insurance costs, 2010

	Single coverage	Family coverage
HHS 2009 MEPS estimates–New Jersey, private large firms	20.3%	19.7%
*Kaiser 2010 employee contribution increases**	2.4	2.2
Adjustments to MEPS estimates to reflect employer cost-shifting	**22.7**	**21.9**

* The percentage-point contribution increases reflect a 12% increase in employee contributions to single health insurance plans and an 11% increase in employee contributions to family health insurance plans.

SOURCE: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2010 Annual Survey; HHS Agency for Healthcare Research and Quality, Center for Financing, Access and Cost Trends, 2009 Medical Expenditure Panel Survey-Insurance Component.

First, while 2010 was a relatively modest year for health cost inflation (costs rose 5% for single plans and 3% for family plans), employers—though highly profitable on average—took advantage of the difficult economic environment to shift a considerable amount of premium costs to employees. According to the Kaiser survey, employers increased single coverage employee contributions by 12% and family coverage employee contributions by 11% over 2009 employee contributions. This translates into a 2.6 percentage point increase in employee contributions to single coverage health insurance plans and a 2.5 percentage point increase in employee contributions to family plans.

When we adjust the New Jersey MEPS 2009 estimates to reflect these increases in employee contributions, we find that in 2010 large private-sector employers in New Jersey required their employees to contribute 22.7% of the premium costs for single coverage and 21.9% for family coverage. New Jersey is different from many other states: It is wealthier than most states, it is more educated, it has a more highly compensated labor force, and it has different social norms and expectations than the South and Southwest. Each of these attributes contributes to lower employee contribution rates.

If the goal that Governor Christie and Senator Sweeney seek is private-sector parity, the public employee health insurance contribution benchmark rate should be 22% not 30%.

What are the implications of this estimate? The Communications Workers of America New Jersey has begun negotiations with the state. The union wants to continue to collectively bargain over health insurance, which has been the practice and the law in New Jersey. What CWA negotiates with the state is then translated into legislation and becomes the policy for the State Health Benefits Plan.

CWA has presented the state with a proposal that the union says would save the state 22%. We have not analyzed the costs of their proposal; such analysis should be the next step taken by the state negotiating team. Regardless, the parties are reasonably close to an agreement on health insurance employee contributions, if all agree that the public employee health insurance contribution rate should be 22%, not 30%.

The governor should negotiate with CWA. New Jersey leaders need to stop legislating by the seat of their pants through dueling press conferences, and instead let collective bargaining and the legislative processes work. They will produce better quality and more acceptable agreements.

Furthermore, the state's budget crisis cannot be resolved through pay cuts. New Jersey has a fiscal crisis because it has had an unacceptably high unemployment rate for three years. High unemployment has robbed the state of sales and

TABLE 3

State rankings of employment growth, January 2010 to January 2011 (in thousands of jobs)

States by ranking		Jobs created	States by ranking		Jobs created
1	*Texas*	241.5	26	*Mississippi*	13.0
2	*California*	108.3	27	*Massachusetts*	12.5
3	*Pennsylvania*	73.0	28	*Iowa*	11.8
4	*Illinois*	62.0	29	*Idaho*	9.1
5	*Ohio*	52.8	30	*Alaska*	8.4
6	*Michigan*	45.5	31	*West Virginia*	8.1
7	*New York*	45.5	32	*Vermont*	7.9
8	*Florida*	30.7	33	*Maine*	7.1
9	*Virginia*	27.9	34	*New Hampshire*	6.4
10	*Kentucky*	26.5	35	*Hawaii*	6.1
11	*Indiana*	26.2	36	*North Carolina*	5.2
12	*Tennessee*	24.0	37	*South Dakota*	4.0
13	*Oregon*	22.5	38	*Wyoming*	3.8
14	*Connecticut*	21.4	39	*Delaware*	3.2
15	*Washington*	20.2	40	*Maryland*	2.5
16	*Wisconsin*	19.8	41	*Georgia*	2.2
17	*Oklahoma*	18.9	42	*Montana*	1.8
18	*Arkansas*	18.1	43	*Missouri*	0.6
19	*North Dakota*	17.8	44	*Rhode Island*	0.1
20	*Utah*	17.4	45	*Alabama*	0.0
21	*Louisiana*	16.9	46	*Arizona*	-0.5
22	*Minnesota*	16.4	47	*New Mexico*	-3.5
23	*Colorado*	15.3	48	*Nevada*	-5.8
24	*Nebraska*	13.9	49	*Kansas*	-6.1
25	*South Carolina*	13.8	50	*New Jersey*	-15.0

SOURCE: Bureau of Labor Statistics, state and area employment, hours, and earnings.

income tax revenue, while increasing the demand for social services. New Jersey leaders need to focus on job creation as their main job—to solve the fiscal crisis and improve the life of all citizens.

In 2010, Governor Christie's first year in office, New Jersey ranked 50th out of 50 states in job creation. New Jersey was one of only five states to lose jobs (see **Table 3**). It was the exception in the Mid-Atlantic region, which performed well in job creation. Pennsylvania ranked 3rd nationally, adding 73,000 new jobs; New York ranked 7th, with 45,500 new jobs; and New Jersey ranked dead last, losing 15,000 jobs.

In summary, New Jersey political leaders should insist upon collective bargaining over health insurance. The relevant benchmark for employee contribution to health benefits is 22%, not 30%, if parity with the private sector is the goal.

Then New Jersey political leaders need to turn their attention to genuine job creation if they want to improve the lives of citizen-taxpayers and resolve the chronic fiscal crisis. Cutting pay, downsizing workers, reducing services, and walking away from public investments will not create jobs nor stimulate economic growth.

The effort of New Jersey's political leaders to seek parity in public employee contributions to health insurance costs is based on an incorrect assumption. Market principles for compensation require an employer to assess the competitive position of their total employee compensation costs, regardless of the specific form that compensation takes. Whatever the mix among benefits and wages in total compensation, the remuneration is for work performed by employees, which belongs to the employee. Within the constraints of costs, the compensation mix should match employee preferences for wages and benefits. What matters is not whether one or another element is at market parity, but whether the entire compensation package is at parity with the market. As we demonstrated in the 2010 EPI report, *Are New Jersey Public Employees Overcompensated?*, New Jersey's state and local government employees are neither over-, nor undercompensated.

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Endnotes

1. We use the Kaiser Northeast, all industries PPO employee contribution estimate as a comparison, since the New Jersey State Health Benefits health plan is a PPO.
2. We use the Kaiser state and local government PPO employee contribution estimate as a comparison, since the New Jersey State Health Benefits health plan is a PPO.