For State and Public School Employees and Retirees

The Buzz

Spring 2013 Employee Benefits Division

Understanding how rates are set

One of the most frequently asked questions to Employee Benefits Division is "why is there a difference in premiums between state employees and public school employees?"

This one question has been around for years, and just recently led to special legislative subcommittee meetings to address the topic. EBD would like to take the opportunity to explain the rating process so you will have a better understanding how rates are set.

Each year, the State and Public School Life and Health Insurance Board, which oversees the ARBenefits Plan, approve premiums for the upcoming plan year. This process takes place over several months leading up to the meeting in September where rates are set. The meetings are open to the public, so any member of the plan may attend.

The rates are ultimately set by the board. However, EBD and our actuaries work on the rates throughout the year, crunching numbers and watching our data closely to allow us to come up with a rate that is as accurate as possible for the coming year. Essentially, this process requires the ability to see into the future, using the past as a guide.

The rates that are set by the board are known as "base premium." This is the amount that it costs to insure a member (or a member and spouse, or a member and family) for a month. If you are familiar with EBD-produced rate sheets available at www.ARBenefits.org, the left column is the base premium. It is the ACTUAL cost to insure the member prior to any contributions.

In the last rating process, the amount of base premium necessary to insure a state employee versus a public school employee for the employee-only Gold Plan was only separated by a few dollars. As recently as 2011, it was actually less expensive at the base level to insure a public school employee on the plan than it was a state employee. It is a cyclical process based on claims from year to year, and the cost of insuring an average educator is really no different than the cost of insuring an average state employee.

It is correct to say that state employees (ASE) pay less in premium out-of-pocket than public school employees (PSE). This is because the respective employers of these two separate groups contribute at a different level. We often hear from many in the public school employee group that they are also "state employees". According to an opinion from the Attorney General, this is not true. The school district is the employer because the school district hires and terminates employment, determines salary and controls its own budget. Salary is based on a scale created by the school district (which can vary from district to district). The amount of money a PSE member pays out-of-pocket for health insurance is determined by the school district, and not EBD.

State Law ACA § 6-17-1117 requires local school districts to contribute a minimum of $131 toward the cost of insurance for each eligible employee on the plan. Currently, about 50 percent of the school districts in Arkansas contribute at the minimum level of $131. However, the other 50 percent contribute at a level higher than $131. The more money a school district contributes, the less the employee must pay out-of-pocket. The decision of how much to contribute lies entirely on the school district.

In contrast, the State of Arkansas, as the employer, provides $390 per budgeted position to employees and retirees of state agencies. This amount of contribution is at a significantly higher level than the minimum amount required by law for school contribution, and thus provides a larger pool of funding to "buy down" the state employee rate.

So, with this background information in place, the difference in the out-of-pocket amount for premium for an Arkansas State Employee versus Public School Employee is entirely based on the amount of contribution given to each group by the respective employer, adhering to Arkansas State Law.

Also, please keep in mind that there are two other plan options beside the Gold Plan, which is the most expensive plan and has some of the richest benefits around. The Silver and Bronze Plans provide coverage at a lower premium because of some increased cost-sharing with the member (mainly the addition of deductibles).

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