Greater Southern Tier
Board of Cooperative Educational Services
Employee Health Insurance Cost Reduction Strategies

Report of Examination
Period Covered:
July 1, 2008 — June 30, 2010
2010M-157

Thomas P. DiNapoli
# Table of Contents

**AUTHORITY LETTER**  
2

**INTRODUCTION**  
3  
Background 3  
Objective 3  
Scope and Methodology 4  
Comments of BOCES Officials 4

**EMPLOYEE HEALTH INSURANCE COST REDUCTION STRATEGIES**  
5  
Payments in Lieu of Health Insurance Benefits 5  
Cafeteria Plan 7  
Current Health Care Plan 8

**APPENDIX A**  
Response From BOCES Officials 10

**APPENDIX B**  
Audit Methodology and Standards 12

**APPENDIX C**  
How to Obtain Additional Copies of the Report 14

**APPENDIX D**  
Local Regional Office Listing 15
Dear Board of Cooperative Educational Services (BOCES) Officials:

A top priority of the Office of the State Comptroller is to help BOCES officials manage BOCES resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support BOCES operations. The Comptroller oversees the fiscal affairs of BOCES statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving BOCES operations and Board of Education governance. Audits also can identify strategies to reduce BOCES costs and to strengthen controls intended to safeguard BOCES assets.

Following is a report of our audit of the Greater Southern Tier BOCES, entitled Employee Health Insurance Cost Reduction Strategies. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller’s authority as set forth in Article 3 of the General Municipal Law.

This audit’s results and recommendations are resources for BOCES officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

Office of the State Comptroller
Division of Local Government and School Accountability
Introduction

Background

The Greater Southern Tier Board of Cooperative Educational Services (BOCES) is governed by an 11-member Board of Education (Board) elected by the boards of the component districts. The Board is responsible for the general management and control of the BOCES’ financial and educational affairs. The District Superintendent (Superintendent) is the chief executive officer of BOCES and is responsible, along with other administrative staff, for the day-to-day management of BOCES and for regional planning and coordination.

The BOCES’ budgeted appropriations for the general and special aid funds were $92.5 million for 2008-09 and $94 million for 2009-10. BOCES participates, along with eight school districts, in a self-funded health insurance plan, Central Southern Tier Health Care Plan (Plan), pursuant to Article 44 of the New York State Insurance Law. Total gross health insurance premiums for employees, retirees and COBRA1 participants were $10.4 million for 2008-09 and $11.5 million for 2009-10.

Pursuant to BOCES’ policy and labor agreements, health insurance coverage was provided to 1,067 employees, retirees and employees’ surviving spouses during 2008-09 and 1,075 individuals in 2009-10. In addition, six individuals in 2008-09 and four individuals in 2009-10 purchased insurance through the COBRA program. The Board has initiated a variety of strategies to contain the cost of health insurance, such as payment in lieu of health insurance coverage and a cafeteria plan to use pre-tax income for health and disability insurance payments, dependent care expenses and unreimbursed medical benefits.

Objective

Our objective was to identify practices that assisted BOCES in containing health insurance costs while maintaining employees’ current benefit levels. Our audit addressed the following specific questions:

- Has BOCES achieved cost reductions by using cafeteria plans, and offering payments in lieu of health insurance benefits?

- Has BOCES explored other notable strategies to reduce their employee health insurance cost?

1 Consolidated Omnibus Budget Reconciliation Act of 1985. The COBRA program’s intent is to provide health care coverage to employees whose coverage would cease due to termination, layoff or other changes in their employment status. COBRA participants are generally entitled to pay for group coverage up to 18 months. In special circumstances, a participant will be permitted to extend their coverage for a maximum of 36 months.
Scope and Methodology

We reviewed selected financial information and other documentation relating to health care benefit costs for the period July 1, 2008 through June 30, 2010.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit is included in Appendix B of this report.

Comments of BOCES Officials

The results of our audit have been discussed with BOCES officials and their comments, which appear in Appendix A, have been considered in preparing this report.
Employee Health Insurance Cost Reduction Strategies

It is important for local governments to continuously monitor health insurance costs and implement health insurance savings practices so that health insurance expenditures remain manageable and within fiscal budget constraints. Local governments can employ a variety of strategies to contain or reduce health insurance costs. Strategies that could be implemented are establishing pre-tax cafeteria plans with flexible spending accounts (FSA), offering employees payments in lieu of health insurance, and self-funded insurance plans. Other ways to trim health insurance costs could include a wellness program, incentives for reporting health care billing errors and evaluation of plan options such as deductibles, cost caps and types of coverage.

Overall, we found that BOCES had implemented various strategies to reduce the costs of health insurance coverage for their employees, retirees, and employee’s surviving spouses. These cost-savings strategies included participation in a self-funded insurance plan, establishing pre-tax cafeteria plans with flexible spending accounts and offering employees payments in lieu of health insurance, which resulted in almost $2.4 million in cost savings during our audit period.

<table>
<thead>
<tr>
<th>Cost Saving Strategy</th>
<th>2008-09</th>
<th>2009-10</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payments in Lieu of Health Insurance</td>
<td>$989,614</td>
<td>$1,194,982</td>
<td>$2,184,596</td>
</tr>
<tr>
<td>Cafeteria Plan-Health and Disability Insurance</td>
<td>$69,647</td>
<td>$83,554</td>
<td>$153,201</td>
</tr>
<tr>
<td>Cafeteria Plan-FSA</td>
<td>$8,633</td>
<td>$9,843</td>
<td>$18,476</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$1,067,894</strong></td>
<td><strong>$1,288,379</strong></td>
<td><strong>$2,356,273</strong></td>
</tr>
</tbody>
</table>

In July 2010, BOCES implemented a new health care plan that includes a wellness program and a prescription drug formulary, which emphasizes the use of generic prescription drugs. The estimated cost savings from implementing the new health care plan for 2010-11 for BOCES’ portion of the premium payment is over $2.6 million.

Payments in Lieu of Health Insurance Benefits

Some local governments offer employees the option of a cash payment in lieu of health insurance if employees can provide evidence that they have alternative insurance. Incentives paid to employees to waive health insurance can vary greatly depending on many factors. When properly structured, payments in lieu of health insurance, or buyouts, can be beneficial to both the local government and eligible employees. The program saves the employer money because the buyout amount is typically much less than the health insurance premium the municipality would otherwise have to pay. Additionally,
the employees are increasing their overall compensation in lieu of a benefit they do not need.

BOCES has negotiated a payment in lieu of health insurance with its eligible employees based on prior contractual agreements before the merger. BOCES has three contractual agreements and a policy that covers all employees eligible to participate in health insurance coverage. Each document contains a provision to opt out of health insurance coverage and receive a payment in lieu. In addition, as participation increases, the amount of payment the participant receives increases.

During the 2008-09 school year, 113 (13 percent) of the 847 active BOCES employees eligible to participate in health insurance coverage opted to receive a payment in lieu of health insurance coverage totaling $275,417. In order to calculate the cost savings achieved by BOCES for providing the buyout, we assumed the 110 married employees would have received family health insurance coverage at a cost of $12,972 and the three single employees would have received single health insurance coverage at a cost of $5,052. According to the three contracts, BOCES pays between 88 and 91 percent of the health insurance premium for its employees; therefore, the total BOCES contribution for providing health insurance to the 113 employees would have been approximately $1.29 million. As a result of payment in lieu of health insurance, we estimate BOCES saved almost $990,000 (see chart below). During the 2009-10 school year, 116 employees opted to take the payment in lieu of health insurance totaling $295,000, which saved BOCES almost $1.2 million (see chart below). Even though the number of participants that opted for the payment in lieu of health insurance increased by only three individuals from 2008-09 to 2009-10, BOCES saved an additional $205,000 because of the increase in health insurance premiums.

During the 2008-09 school year, 113 (13 percent) of the 847 active BOCES employees eligible to participate in health insurance coverage opted to receive a payment in lieu of health insurance coverage totaling $275,417. In order to calculate the cost savings achieved by BOCES for providing the buyout, we assumed the 110 married employees would have received family health insurance coverage at a cost of $12,972 and the three single employees would have received single health insurance coverage at a cost of $5,052. According to the three contracts, BOCES pays between 88 and 91 percent of the health insurance premium for its employees; therefore, the total BOCES contribution for providing health insurance to the 113 employees would have been approximately $1.29 million. As a result of payment in lieu of health insurance, we estimate BOCES saved almost $990,000 (see chart below). During the 2009-10 school year, 116 employees opted to take the payment in lieu of health insurance totaling $295,000, which saved BOCES almost $1.2 million (see chart below). Even though the number of participants that opted for the payment in lieu of health insurance increased by only three individuals from 2008-09 to 2009-10, BOCES saved an additional $205,000 because of the increase in health insurance premiums.

| Savings Resulting from Payments in Lieu of Health Insurance Premiums |
|-------------------|-------------------|-------------------|-------------------|
| Description        | 2008-09           | 2009-10           | Difference        |
| Health Insurance Premium Reduction | $1,286,100        | $1,512,808        | $226,708          |
| Less: Payments to Employees     | $275,417          | $295,240          | $19,823           |
| Less: FICA Contributions 4 | $21,069           | $22,586           | $1,517            |
| Net Savings              | $989,614          | $1,194,982        | $205,368          |

2 On February 10, 2005, the NYS Commissioner of Education signed an order merging the Steuben-Allegany (SA) and Schuyler-Chemung-Tioga (SCT) BOCES. Effective July 1, 2006, the common name of the merged BOCES became the Greater Southern Tier Board of Cooperative Educational Services.

3 2009-10 health insurance premiums were $14,982 for family coverage and $5,832 for single coverage.

4 The Federal Insurance Contributions Act (FICA) tax is a United States employment tax imposed by the Federal government on both employees and employers to fund Social Security and Medicare —Federal programs that provide benefits for retirees, the disabled, and children of deceased workers.
Cafeteria Plan

Section 125 of the Internal Revenue Code makes it possible for employers to offer their employees a plan with the option of receiving certain health, dependent care and other qualifying benefits on a pre-tax basis. These “cafeteria plans” are a method for sheltering employee contributions for qualified expenses from Federal income taxes and generally from Social Security (FICA) and Medicare taxes. This type of tax-sheltered plan can produce savings for both employees and employers. Employee contributions to the cafeteria plan are usually made pursuant to salary reduction agreements between the employer and the employee, in which the employee agrees to contribute a portion of his or her salary on a pre-tax basis to pay for the qualified benefits. Those contributions are not considered wages for Federal income tax purposes. In addition, those sums generally are not subject to (FICA) and Medicare taxes. Because the organization can also save the employer’s share of FICA and Medicare taxes applicable to the amounts covered in a cafeteria plan, it can result in substantial savings.

Section 125 provides for another form of cafeteria plan benefit known as a flexible-spending arrangement (FSA), which also can be advantageous to both employee and employer. Under an FSA, employees are reimbursed for out-of-pocket expenses incurred for medical care (such as deductibles, co-payments, office visits, prescription co-payments and over-the-counter drugs) and certain other qualified benefits, including dependent care assistance. The reimbursements are funded by salary reductions. The benefits are subject to an annual maximum and an annual “use-or-lose” rule. An FSA cannot provide a cumulative benefit to the employee beyond the plan year.

BOCES has established a cafeteria plan under Section 125 for unreimbursed medical expenses, dependent care expenses, and employee contribution for insurance premiums. The plan year runs from October 1 to September 30, and is managed by a third-party administrator (TPA). Employee participation in the cafeteria plan saved BOCES $78,280 in the 2008-09 plan year and $93,397 for the 2009-10 plan year as of June 30, 2010.

Health and Disability Insurance – All active employees that pay a portion of their health and disability insurance premiums are automatically enrolled in the FSA by BOCES. However, a waiver is available for those employees that do not want to participate and would prefer that the deduction be paid with after-tax wages. During our two-year audit period, none of the health insurance participants chose to waive the pre-tax option. However, six of the 336 disability insurance participants for 2008-09 school year and six of the 318 disability insurance participants for 2009-10 school year chose
to waive the pre-tax option. By enrolling employees in the FSA, BOCES saved almost $70,000 in payroll taxes during the 2008-09 school year and another $83,600 for the 2009-10 school year. The use of automatic enrollment assures that BOCES and employees receive the tax benefits of the program.

Flexible Spending Account – For the plan year 2008-09, BOCES had 62 FSA participants that deferred almost $73,000 of their salaries for unreimbursed medical expenses and over $41,500 was deferred by 12 participants for dependent care costs. As a result, BOCES saved approximately $8,600 in payroll taxes. Although the 2009-10 plan year does not end until September 30, 2010, 71 participants deferred $81,000 of their salary for unreimbursed medical costs and 15 participants deferred almost $50,000 for dependent care costs as of June 30, 2010. As a result, BOCES saved approximately $9,800 in payroll taxes.

Current Health Care Plan

Other ways to reduce health insurance costs are to implement a wellness program, increase employees’ awareness about their health and evaluate current health plan options. Various studies of public and private employer health promotion programs have demonstrated that worksite wellness programs can improve employee health, nutrition, and behavior. Successful programs have generated noteworthy returns on employer investments by achieving:

- Reductions in health care costs
- Reductions in employees’ blood pressure, cholesterol, and weight
- Decrease in absenteeism due to illness, depression, and stress
- Declines in on-the-job injuries
- Increases in job satisfaction, morale, and productivity.

Due to the steady increase of health insurance costs and a desire to take a proactive approach to reducing those costs, BOCES has negotiated a new health care plan with its employees for the 2010-11 school year. The new plan emphasizes a wellness program, which is a unique combination of wellness, chronic condition management and health education. The wellness program includes an optional blood test for a health risk assessment for both current employees and retirees. The blood test is for a wide range of health risks, which allows for early detection of potential health issues. The new plan allows for

---

5 There were 780 health insurance participants in 2008-09 and 771 participants in 2009-10.
a maximum monthly reimbursement of $40 for gym and/or weight management plan membership fees incurred by the employee and/or an employee’s spouse. Finally, the new plan changed prescription drug benefits to include the allowance of smoking cessation and weight loss drugs. Prescription drug co-pays are based on a formulary that ensures generic prescription drugs have the lowest co-pay ($5), followed by preferred (brand name) prescription drugs ($20 co-pay) and non-preferred (non-formulary) prescription drugs ($30 co-pay).

Although the long-term effect of instituting a wellness program cannot be immediately measured, the change in the 2010-11 health insurance premium costs for employees and BOCES is substantial. We calculated the estimated savings from changing plans by comparing the 2010-11 premium rates for the prior health insurance plan used by BOCES to the 2010-11 premium rates for the current health care plan. Using the number of active and retiree participants billed to the BOCES at June 30, 2010 and an average contribution rate for BOCES and participants, the estimated cost savings for 2010-11 for BOCES’ portion of the premium payment for the current health care plan is over $2.6 million.
APPENDIX A

RESPONSE FROM BOCES OFFICIALS

The BOCES officials’ response to this audit can be found on the following page.
January 4, 2011

Mr. Edward V. Grant, Jr.
Chief Examiner
Rochester Regional Office
Office of the State Comptroller
The Powers Building
16 West Main Street – Suite 522
Rochester, NY 14614

Dear Mr. Grant:

I am writing in response to the Office of the State Comptroller’s audit of the Greater Southern Tier BOCES which focused on Employee Health Insurance Cost Reduction Strategies for the period July 1, 2008 to June 30, 2010. As discussed in the exit conference and in the report, there are no findings or recommendations which would require GST BOCES to prepare a corrective action plan.

On behalf of the Greater Southern Tier BOCES Board I would like to thank the staff of the Office of the State Comptroller for their work in our BOCES.

Sincerely,

[Signature]

Dr. Horst G. Graefe
District Superintendent/CEO
APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

We reviewed the BOCES’ health and disability insurance program for the period July 1, 2008 to June 30, 2010 to determine if BOCES achieved cost savings by using cafeteria plans and offering payments in lieu of health insurance benefits, and to determine if BOCES explored other notable strategies to reduce their employee health insurance cost. To accomplish the objective of this audit and to obtain valid audit evidence, our procedures included the following steps:

• We interviewed BOCES officials and employees to gain an understanding of the health insurance coverage provided to employees, retirees and employees’ surviving spouses.

• We reviewed the BOCES’ employee collective bargaining agreements and policy for non-unit workers to determine the provisions providing a health insurance buyout incentive, IRS Section 125 FSA and the contribution percent allocation between employees and BOCES for health and disability insurance premiums.

• We reviewed relevant financial data and health and disability insurance invoices to determine the total annual cost of providing health and disability insurance benefits to BOCES employees, the number of employees who received health insurance coverage during the audit period, and the number of employees that received a payment in lieu of health insurance.

• We compared the number of participants for health and disability insurance deductions to the invoices for health insurance and reports to the insurance company to determine that the information was reasonable.

• We compared the number of participants and amount of contributions from the payroll records to the TPA reports to determine that the information was reasonable.

• We compared the full-time equivalent participants receiving the payment in lieu of health insurance and the list of health insurance participants to the list of employees with duplicate addresses to determine the number of families where one spouse received the payment while the other spouse carried family coverage.

• We analyzed gross wages and nontaxable deductions for participants over the Social Security wage base to determine the amount of savings in Medicare and Social Security for the cafeteria plan.

• We reviewed the TPA’s reports of the unreimbursed medical and dependent care contributions, and related financial data to determine the amount of contributions not used and the cost to administer the plan.

• We compared the premium rates for the current wellness program to the prior health insurance plan using 2010-11 rates. We estimated the cost savings of converting to the current wellness program by using the number of participants at June 30, 2010. Estimated contributions for
the BOCES portion of the premium were based on an average of all the employee and retiree contribution rates.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.
APPENDIX C

HOW TO OBTAIN ADDITIONAL COPIES OF THE REPORT

To obtain copies of this report, write or visit our web page:

Office of the State Comptroller
Public Information Office
110 State Street, 15th Floor
Albany, New York  12236
(518) 474-4015
http://www.osc.state.ny.us/localgov/
APPENDIX D
OFFICE OF THE STATE COMPTROLLER
DIVISION OF LOCAL GOVERNMENT
AND SCHOOL ACCOUNTABILITY

Steven J. Hancox, Deputy Comptroller

LOCAL REGIONAL OFFICE LISTING

ALBANY REGIONAL OFFICE
Kenneth Madej, Chief Examiner
Office of the State Comptroller
22 Computer Drive West
Albany, New York 12205-1695
(518) 438-0093 Fax (518) 438-0367
Email: Muni-Albany@osc.state.ny.us

Serving: Albany, Columbia, Dutchess, Greene, Schenectady, Ulster, counties

BINGHAMTON REGIONAL OFFICE
Office of the State Comptroller
State Office Building, Room 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313
Email: Muni-Binghamton@osc.state.ny.us

Serving: Broome, Chenango, Cortland, Delaware, Otsego, Schoharie, Sullivan, Tioga, Tompkins counties

BUFFALO REGIONAL OFFICE
Robert Meller, Chief Examiner
Office of the State Comptroller
295 Main Street, Suite 1032
Buffalo, New York 14203-2510
(716) 847-3647 Fax (716) 847-3643
Email: Muni-Buffalo@osc.state.ny.us

Serving: Allegany, Cattaraugus, Chautauqua, Erie, Genesee, Niagara, Orleans, Wyoming counties

GLENS FALLS REGIONAL OFFICE
Office of the State Comptroller
One Broad Street Plaza
Glens Falls, New York 12801-4396
(518) 793-0057 Fax (518) 793-5797
Email: Muni-GlensFalls@osc.state.ny.us


HAUPPAUGE REGIONAL OFFICE
Ira McCracken, Chief Examiner
Office of the State Comptroller
NYS Office Building, Room 3A10
Veterans Memorial Highway
Hauppauge, New York 11788-5533
(631) 952-6534 Fax (631) 952-6530
Email: Muni-Hauppauge@osc.state.ny.us

Serving: Nassau, Suffolk counties

NEWBURGH REGIONAL OFFICE
Christopher Ellis, Chief Examiner
Office of the State Comptroller
33 Airport Center Drive, Suite 103
New Windsor, New York 12553-4725
(845) 567-0858 Fax (845) 567-0080
Email: Muni-Newburgh@osc.state.ny.us

Serving: Orange, Putnam, Rockland, Westchester counties

ROCHESTER REGIONAL OFFICE
Edward V. Grant, Jr., Chief Examiner
Office of the State Comptroller
The Powers Building
16 West Main Street – Suite 522
Rochester, New York 14614-1608
(585) 454-2460 Fax (585) 454-3545
Email: Muni-Rochester@osc.state.ny.us

Serving: Cayuga, Chemung, Livingston, Monroe, Ontario, Schuyler, Seneca, Steuben, Wayne, Yates counties

SYRACUSE REGIONAL OFFICE
Rebecca Wilcox, Chief Examiner
Office of the State Comptroller
State Office Building, Room 409
333 E. Washington Street
Syracuse, New York 13202-1428
(315) 428-4192 Fax (315) 426-2119
Email: Muni-Syracuse@osc.state.ny.us

Serving: Herkimer, Jefferson, Lewis, Madison, Oneida, Onondaga, Oswego, St. Lawrence counties