The Promise of Cafeteria-Style Benefits for Districts and Teachers

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RAPID RESPONSE

Since the 1970s, spending on fringe benefits in education has more than doubled in constant dollars as a percent of salaries. From FY05 to FY08, K–12 spending on fringe benefits for instructional staff[1] increased by 28 percent, while total K–12 expenditures grew by 20 percent and salaries increased by 16 percent.[2] For many school districts, the rising benefits costs have exceeded district projections, forcing district leaders into last-minute budget revisions.

Two problems—escalating costs and unpredictability—have posed enormous challenges for districts in the current economic environment. Nationally, the total spending on fringe benefits is 33 percent of total spending on salaries,[3] and locally, this rate can rise to as high as 75 percent. The high cost of providing benefits means fewer resources for other programs. For example, while Superintendent of Milwaukee Public Schools, William Andrekopoulos said, "The benefit rate we project for next year is more than 74 percent. The district cannot sustain that. We are providing millions for benefits that we could be using to keep teaching staff and buy supplies."[4]

For employees, too, the effects are real. Higher benefits costs mean there are fewer dollars for salaries, as salary and benefits together consume some 60-80 percent of district budgets.[5] With health care costs alone rising an average of 7-10 percent per year, flat revenues in some locales have forced wage cuts.[6]

Looking forward, districts will be under increasing pressure to both reign in the escalating benefits costs and build in more budget stability, while at the same time making sure that funds are used in ways that work to attract and retain valuable staff.

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1 National Center for Education Statistics (NCES) includes teachers, teaching assistants, librarians and library aides, and in-service teacher trainers.

2 NCES, *Revenue and Expenditures for Public Elementary and Secondary Education: School Years 2004–2005*. NCES, *Revenue and Expenditures for Public Elementary and Secondary Education: School Years 2007–2008*.

3 NCES, *Revenue and Expenditures for Public Elementary and Secondary Education: School Years 2007–2008*.

4 Milwaukee Public Schools Press Release, *Proposed FY11 budget includes job cuts, continued support for classrooms, curriculum*, April 2010.

5 Marguerite Roza, *Frozen Assets: Rethinking Teacher Contracts Could Free Billions for School Reform*, Education Sector, January 2007.

6 June Krunholz, "What's Happening in the States," in *Stretching the School Dollar*, Eds. R. Hess and E. Osberg, Cambridge MA: Harvard Education Press, 2010.

This brief describes how a different method of supplying benefits[7] to employees might work for districts: cafeteria plans. While typical school district plans offer a one-size-fits-all package of benefits to employees, cafeteria plans allow employees to customize their benefits within a given cost. Key features of well-designed cafeteria plans hold promise for public education in that they are intended to:

- Maximize the benefit value to employees for a given expenditure level.
- Provide realistic cost containment opportunities with little disruption to current benefit offerings.
- Allow employers to reliably predict and plan for total employee costs.

Typical benefits plans create unstable and unpredictable financial environments for school districts

School districts offer what is essentially a one-size-fits-all package of benefits. Teachers get few choices about health, life, and dental insurance plans. In most cases, the only options are whether or not to include family members on the plan, or to opt out altogether. These plans cost districts a great deal of money. Among districts surveyed in the National Council on Teacher Quality's TR3 database, over 40 percent offer health insurance at no cost to teachers, and 80 percent offer life insurance at no cost to teachers.[8]

In most districts, the type of plan and its cost to teachers is collectively bargained. Multi-year labor agreements spell out the teacher's share of premiums in real dollars or percent share of premiums; the district pays the remaining portion. In the 2010–2011 school year, for example, Hartford Public Schools offers health insurance coverage for teachers at a district/employee split of 86 percent/14 percent toward annual premium costs.[9]

Sick leave and personal days, another facet of a benefits package, also create instability. Using 14 years' worth of data from North Carolina, Michael Hansen looked at teacher attendance patterns and found that the amount of sick leave teachers take in any given year varied considerably throughout their career.[10] Sick leave comes at great cost to districts, as substitute teachers must be hired for each day missed, and districts have a difficult time predicting the amount to budget for substitutes.

For districts, the structure of traditional benefit plans creates unstable and unpredictable financial environments. For example, because most districts have agreed to cover a fixed percentage of health care premiums, district spending on health insurance is driven by annual premium increases charged by insurance companies. Districts are liable for the growing cost as premiums increase at a rate greater than the negotiated teacher share of expenses. For a district that spends $10 million per year in health insurance premiums, a 5 percent increase in premiums equals $500,000 of new costs (or for a teacher paying $1,000 in annual premiums, this amounts to a $50 annual increase). As premium costs rise faster than budgets—which is the current reality for nearly all school districts across the country—cuts must be made in other parts of the budget to support growing expenditures on health benefits. All of this is unrelated to actual consumption of health care—rising premiums are not necessarily correlated to whether individuals use more or less health care.

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7 For the purpose of this brief, fringe benefits include health, dental, and life insurance and sick and personal days. Pension contributions are intentionally omitted. Potential changes in pension systems require a broad set of approaches and more analysis and will not be covered here.

8 National Council on Teacher Quality, *Teacher Rules, Roles, and Rights*, accessed at http://www.nctq.org/tr3/home.jsp.

9 College Bargaining Agreement Between the Hartford Board of Education and the Hartford Federation of Teachers Local No. 1018, AFT, AFL-CIO July 1, 2008-June 30, 2011, accessed at http://www.nctq.org/docs/56-07.pdf.

10 Michael Hansen, *How Career Concerns Influence Public Workers' Effort: Evidence from the Teacher Labor Market*, National Center for Analysis of Longitudinal Data in Education Research, December 2009.

Cafeteria plans could control costs and allow teachers to select benefits that matter to them

Cafeteria plans, while not commonly used in the public sector, are widely available in the private sector and represent a growing model.[11] Cafeteria plans can work in a number of ways, but each has the same core principles. Employees are provided a "menu" of benefits—including salary—and from this menu they can put together a plan that is tailored to their individual needs. The employer places an upper limit on what it will spend per employee, and the employee can choose how to apply those funds across benefits. Teachers who elect a leaner package of benefits can add the difference to their salaries. Teachers who want more expensive benefits than what the menu allows can pay extra for them.

The teacher workforce is diverse, and a second-year teacher without a family might make different choices regarding health insurance, life insurance, and sick days than a 15-year veteran with a family. A cafeteria plan provides a customizable approach that allows each employee to prioritize the benefits that carry the most value to him or her.

How cafeteria plans can customize (and thus maximize the perceived value of) benefits to teachers

Table 1 shows a list of benefits found in most teacher contracts and estimates of costs for each. The right-hand column illustrates options that could be available in a cafeteria plan.

Table 1: Menu of choices with a cafeteria plan

Benefit	Base value	Options for employees
Personal days (2 days @ $120)	$240	i) Use days; ii) Cash out some days at cash value ($120/day)[12]
Sick days (10 days @ $120)	$1,200	i) Use days; ii) Bank some days; iii) Cash out some days at cash value ($120/day)
Life insurance	$100	i) Elect coverage; ii) Opt out
Dental insurance	$200	i) Elect coverage; ii) Opt out
Health insurance (low-end)		Select less expensive plan at $8,000
Health insurance (mid-level)	$12,000	i) Elect coverage; ii) Opt out
Health insurance (high-end)		Select more expensive plan at $14,000
Total District Contribution	**$13,740**	
Total Employee Contribution	**-**	
% of Salary*	**27.5%**	

*Assumes average salary of $50,000[13]

Table 1 illustrates possible tradeoffs in a district that offers $13,740 worth of fringe benefits from which teachers choose. Should a teacher select a set of benefits that sum to an amount less than $13,740, the difference would come back to the teacher in the form of additional compensation. Teachers who do not use all of their sick days can opt to cash out some of those days or bank the unused days. Conversely, a teacher may also put together a benefits package that totals more than $13,740. In this case, the teacher's salary would be decreased by the difference. Table 2 uses three examples to illustrate how this would work in practice.

11 John Greenwald, Adam Zagorin, and Russell Leavitt, "A Varied Menu of Benefits," *Time Magazine*, June 27, 1983, accessed at http://www.time.com/time/magazine/article/0,9171,953960,00.html.

12 The cash out value of personal or sick days, however, need not equal the cost to the district.

13 Close approximation of the average K–12 teacher salary ($49,630). Average salaries for full-time teachers in public and private elementary and secondary schools, by selected characteristics: 2007–08, Digest of Education Statistics, National Center for Education Statistics, accessed at http://nces.ed.gov/programs/digest/d09/tables/dt09_075.asp.

Table 2: Different benefits packages based on need and want

	Ms. Garcia	Mr. Johnson	Mrs. Kaufmann
Personal days ($120/day)	$240 (2 days)	$120 (1 day)	$240 (2 days)
Sick days	$600	$1,200	$240
($120/day)	(2 days taken, 3 days banked)	(8 days taken, 2 days banked)	(2 days taken)
Life insurance	decline	decline	$100
Dental	$200	decline	$200
Health insurance	$8,000 (low-end)	$12,000 (mid-level)	$14,000 (high-end)
Total Benefits	$9,040	$13,320	$14,780
District Contribution	$13,740	$13,740	$13,740
Cash Bonus or Salary Deduction	+$4,700 (Cash Bonus)	+$420 (Cash Bonus)	-$1,040 (Salary Deduction)

Ms. Garcia may be a young teacher with no dependents who favors a lower-end health insurance plan. With that in mind, Ms. Garcia puts together a package of true fringe benefits worth $9,040—$4,700 less than the district-allotted $13,740. Ms. Garcia takes that $4,700 as additional compensation. Mr. Johnson, on the other hand, uses his personal and sick days differently, chooses the mid-level health plan, and foregoes dental and life insurance, for a package total of $13,320. The remaining unused allotment of $420 is taken as additional compensation. Finally, Mrs. Kaufmann chooses the high-end health coverage as well as dental and life insurance. This mix of benefits, along with her personal and sick days, yields a package totaling $1,040 *above* the district allotment. Mrs. Kaufmann, who values maximum coverage, would have the difference deducted from her salary.

Through customizable employee benefits, districts maximize what each employee values while also bringing some predictability and stability to budgeting. Using this approach, the district will know the exact cost of teacher fringe benefits and total personnel costs, including the cost of hiring substitutes. The method of setting or indexing the total benefits package can be done in one of several ways (see Table 4). This is determined at the outset of the conversion to cafeteria plans, and therefore the financial liability for benefits is known well ahead of budgeting time.

Implementation details determine district costs and predictability

There are different ways employer contributions to cafeteria plans can be structured—each with different implications for districts. Table 3 shows the typical benefits arrangement currently in place in most districts and Table 4 compares three alternative options districts can pursue when considering employee benefits.

Table 3: Typical benefits arrangement

Typical Model	What affects district spending	What gets negotiated	Effect on budget stability between contracts	Effect on overall district spending
Districts pay rising costs of negotiated benefits	Increases in premiums for health, dental, and life insurance; rising costs of sick and personal days taken; negotiations	Each benefit (e.g. dental plan, health plan, number of sick days, etc.)	Little improvement in stability or predictability since district contribution depends on price changes of benefits	Dependent on changes in costs of benefits

The scenarios in Table 4 share the key element of cafeteria plans: that teachers put together the plan that best optimizes value for the teacher. Under these three options, districts and unions negotiate the district's contribution of total benefits per teacher, rather than negotiating the level and type of each benefit for teachers, as they do with a traditional one-size-fits-all package.

Table 4: Cafeteria plan options and their effects on budget stability and spending

Options to contain benefits costs	What affects district spending	What gets negotiated	Effect on budget stability between contracts	Effect on overall district spending
1. Constrain total district contribution to fixed percentage growth	Negotiated annual growth percentage	Annual growth percentage of total benefits amount (not actual benefits)	Predictable, as total benefits spending is not affected by changes in benefits costs	Can be constrained as needed by the district
2. Constrain total district contribution to percent of average salaries (e.g., 27.5%)	Average salary of teaching corps	Salaries (benefits allocation remains a fixed percent of average salaries)	Substantial improvement in stability/ predictability since benefits costs follow changes in salaries	Can be constrained as needed by the district
3. Constrain total dollar amount of district contribution (e.g., $13,740)	Negotiated dollar amount of district contribution	Total dollar value of district contribution to benefits	Most predictable and stable since gross benefits expenditures are tied to size of teaching corps	Can be constrained as needed by the district

Option 1 constrains the district's contribution to benefits to a fixed percentage of growth. The district negotiates with teachers only the annual growth percentage above a baseline amount of district spending on benefits. The district would, for example, increase spending on benefits by the negotiated 3 percent above the baseline from year to year regardless of the actual increase in costs. The district contribution is known from year to year and is not sensitive to changes in price of each benefit.

Option 2 pegs the district's contribution to a percent of average salary. The district and teachers would negotiate the ratio of benefit expenditures to salaries, not the allocation of costs. This method brings stability to district finances as spending is not sensitive to benefit price changes and is also financially predictable because it is sensitive to average salary costs.

Option 3 sets a flat dollar value per teacher that is constant over time. This is the most stable and predictable option, as total spending is directly tied to the size of the teaching corps. This method, however, is the most insensitive to rising costs. Here, the district and teachers determine the dollar allotment per teacher only.

Cafeteria plans may provide a viable option

As federal recovery funds are depleted, and state budgets remain constrained, many districts face a "funding cliff." Couple that with projected increases in benefits costs, and many districts will be faced with unpalatable tradeoffs between constraining wages, reducing benefits, or increasing employee contributions. For example, Milwaukee Public Schools froze teacher salaries last year, and they are now negotiating with their union about health benefits. Teachers for the first time will contribute 1 percent to 2 percent of their salary to health care packages.[14]

For some districts, the cafeteria-style approach described here may provide a more palatable alternative, one that can provide a longer-term solution to help districts solve this structural imbalance and stabilize spending on benefits. Where used, such a system would change the role for the union in negotiations. In a hallmark role for collective bargaining, unions have traditionally negotiated the details of their benefits programs—down to paid time off for driver license renewal, and coverage for specific drugs, etc.[15] In a cafeteria plan, unions might work to arrange a larger set of health plans or other benefits, thereby ensuring that their members have access to meaningful options. As such, some locales might anticipate resistance, whereas in others, redefining union negotiations in this way could be a welcome change.

Where employees do adopt cafeteria plans, they choose their own tradeoffs between wages and benefits. The results are customized compensation packages that apply resources in ways that can attract and retain educators. The alternative, of course, is that district leaders make these tradeoffs for their personnel, with decisions that reflect the preferences of some but not all staff.

14 Becky Vevea and Erin Richards, "MPS, teacher union reach deal on contract," *Milwaukee-Wisconsin Journal Sentinel*, October 1, 2010, accessed at http://www.jsonline.com/news/milwaukee/104157693.html.

15 For instance, Milwaukee Public Schools has been involved in a legal battle with its union over coverage for erectile dysfunction drugs. See, for example, "Teachers' union sues Milwaukee school system for exclusion of erectile dysfunction drugs from health care plan," NSBA Legal Clips, August 2010, accessed at http://legalclips.nsba.org/?p=1522.

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