



Rye Neck Union Free School District

Health Insurance Cost Savings

2022M-164 | February 2023

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Report Highlights

Rye Neck Union Free School District

Audit Objective

Determine whether Rye Neck Union Free School District (District) could achieve cost-savings by offering a health insurance buyout incentive (buyout).

Key Findings

District officials (officials) could achieve cost-savings by offering a buyout in lieu of health insurance coverage.

Total savings could range between approximately \$130,000 and \$190,000 annually if the District offered family plan coverage buyouts of \$4,500 or \$6,000 and individual plan coverage buyouts of \$2,000 or \$2,500.

Key Recommendation

- Consider offering a buyout to help reduce costs.

District officials generally agreed with our recommendation and indicated they will consider our recommendation.

Background

The District serves the City and the Town of Rye in Westchester County. The District is governed by an elected six-member Board of Education (Board) responsible for the general management and control of financial and educational affairs.

The Superintendent of Schools is responsible for the District's day-to-day management under the Board's direction. The Assistant Superintendent for Business and Finance (Assistant Superintendent) oversees the District's business operations, including health insurance coverage.

The District participates in the State-Wide Schools Cooperative Health Plan (SWSCHP). At the time of our audit, the District had not negotiated a health insurance buyout to offer to their employees.

Quick Facts

Health Insurance Participants	332
2021-22 Health Insurance Cost	\$6.2 million
2021-22 Total Appropriations	\$46.1 million

Audit Period

July 1, 2021 – June 30, 2022

Health Insurance Cost Savings

How Can Officials Contain Health Insurance Costs?

Officials have a responsibility to provide necessary services, including contractual employee benefits such as health insurance. Officials should procure these services in the most cost-effective manner to ensure tax dollars are spent in a prudent and economical manner. Officials should annually evaluate health insurance costs and determine whether the same or a better level of coverage can be obtained at a lower cost, while looking for ways to control these costs.

Collective bargaining agreements (CBAs) and employment contracts (contracts) should define the amounts that the school district and its employees contribute to the cost of health insurance. As part of the negotiation process, a school district may offer an annual payment in lieu of health insurance coverage (referred to as a buyout incentive) to its employees. To be eligible to participate in the buyout, the employee should be required to provide proof of coverage available from another source and choose to receive the payment in return for not being covered by the school district's health insurance. Buyout incentives may provide cost savings and are mutually beneficial when the buyout payments provided are less than the school district would spend on health insurance for these employees.

Officials Could Achieve Savings by Offering a Buyout Incentive

Officials could achieve health insurance cost savings by offering a buyout to employees in lieu of health insurance coverage. During the audit period, the District paid approximately \$6.2 million for health insurance coverage for 332 individuals comprised of 212 active employees, 113 retirees and six survivors of retirees and one employee's dependent. An additional 37 employees waived family plan coverage at no cost to the District.

The District's portion of the health insurance costs was approximately \$5.5 million after deducting employee contributions of approximately \$721,000 or 12 percent of the total costs. Employee contribution rates varied between bargaining units based on dates of hire. Contribution rates ranged from 10 percent for one individual's contract to 19 percent in a CBA for employees hired after July 1, 2021. Additionally, nine individual contracts had annual contribution rates of \$100.

In our conversations with officials, they expressed interest in the cost-benefit of potentially offering a buyout. As a result, we surveyed the active employees to determine whether they would be interested in various buyout amounts, if offered. Of the 90 employees who responded to the survey, 19 indicated they had health insurance coverage from another source and would participate in a buyout, if offered.

We estimated that the potential annual savings to the District would be between approximately \$130,000 and \$190,000 depending on the buyout amount and coverage type. Our estimate includes:

We estimated the potential annual savings to the District would be between approximately \$130,000 and \$190,000 depending on the buyout amount and the coverage type.

- The cost of the buyout payment for the 37 employees who previously waived health insurance coverage.
- Buyout amount choices ranging from \$3,000 to \$6,000 a year for family plan coverage and \$1,500 to \$2,500 a year for individual plan coverage¹ (Figure 1).

Figure 1: Cost-Savings Analysis

	Minimum Buyout Amount			Maximum Buyout Amount		
	Family	Individuals	Total	Family	Individuals	Total
Buyout Amount	\$4,500	\$2,000		\$6,000	\$2,500	
Interested Employees	12	7	19	12	7	19
Annual Premium Costs	\$354,840	\$91,572	\$446,412	\$354,840	\$91,572	\$446,412
Estimated Employee Contributions	(\$50,279)	(\$14,492)	(\$64,771)	(\$50,279)	(\$14,492)	(\$64,771)
Net Premium Costs	\$304,561	\$77,080	\$381,641	\$304,561	\$77,080	\$381,641
Employees Who Waived Coverage	20	17	37	20	17	37
Buyout Cost – Employees Who Waived Coverage	(\$90,000)	(\$34,000)	(\$124,000)	(\$120,000)	(\$42,500)	(\$162,500)
Buyout Costs – Interested Employees	(\$54,000)	(\$14,000)	(\$68,000)	(\$72,000)	(\$17,500)	(\$89,500)
Total Buyout Costs	(\$144,000)	(\$48,000)	(\$192,000)	(\$192,000)	(\$60,000)	(\$252,000)
Potential Total Savings	\$160,561	\$29,080	\$189,641	\$112,561	\$17,080	\$129,641

The Assistant Superintendent stated that officials did not consider offering a buyout in prior years because they were not discussed during bargaining unit negotiations. She also said that the District provides competitive health insurance coverage, therefore, eligible employees may not give up the coverage to participate in a buyout. However, with significant increases in health insurance costs each year, the Superintendent and Assistant Superintendent agreed that a health insurance buyout could potentially produce significant savings. If the District offered a buyout, it could potentially save between approximately \$130,000 to \$190,000 per year, depending on the buyout amount offered.

¹ Buyout amounts of \$3,000 for family plan and \$1,500 for individual plan were not accepted by the eligible survey respondents and therefore, are not included in our calculations. The two-person health insurance plan was not included because eligible employees enrolled in the two-person plan did not respond to the survey expressing an interest in the buyout.

What Do We Recommend?

The Board and officials should:

1. Consider offering a buyout to all eligible employees in an effort to reduce the District's overall health insurance costs.

Appendix A: Response From District Officials



Eric Lutinski, Ed. D.
Superintendent of Schools

February 10, 2023

Ms. Dara Disko-McCagg, Chief of Municipal Audits
Office of the State Comptroller
Newburgh Regional Office
33 Airport Center Drive, Suite 103
New Windsor, NY 12553-4725

Dear Ms. Disko-McCagg:

The Rye Neck UFSD wishes to thank the State Comptroller's Office for the opportunity to determine whether the District could achieve cost-savings by offering a health insurance buyout incentive.

It is of the utmost importance to the district to protect public funds and spend these funds in the most fiscally responsible manner. Historically, a buyout has never been discussed with any of the district's four bargaining units, however the District is willing to consider potential buyout options with its bargaining units in the next rounds of collective bargaining agreement negotiations in order to realize potential cost savings for the district. The district acknowledges that actual savings could vary greatly from what was calculated in this report. The district also acknowledges that a buyout could have significant financial implications if staff were to come off and on the health insurance plan during open enrollment periods and also if staff who take a buyout rejoin the plan prior to retirement.

In closing, the District thanks the Comptroller's Office for conducting this examination and offering information and a recommendation about the potential cost benefit of offering a health insurance buyout

Regards,

Eric Lutinski, Ed. D.
Superintendent of Schools

Appendix B: Audit Methodology and Standards

We conducted this audit pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We examined financial records and reports, and reviewed health insurance benefits, costs, coverages and CBAs to obtain an understanding of the District's health insurance coverage and costs during the audit period.
- We interviewed officials and employees to gain an understanding of the processes used by the District to administer health insurance coverage, employee contributions and health insurance opt outs (waivers) by employees with alternative insurance. We discussed with District officials the possibility of the District offering a buyout in lieu of coverage to save costs. They expressed interest in the cost-benefit of potentially offering a buyout.
- We surveyed 211 employees to determine whether eligible employees would be interested in a buyout for each type of coverage (family, two-person and individual), if offered by the District.
- We reviewed survey results and determined that 19 eligible employees indicated they were interested in a buyout. We further analyzed the survey results to identify the minimum buyout amounts the 19 employees would accept based on coverage type (family or individual). The results contained responses for family and individual plan coverage and the lowest and highest buyout amounts.
- We reviewed the health insurance bills and payments for the audit period to determine the amounts paid monthly and annually and calculated how many employees were currently covered by the District by coverage type (family or individual).
- We analyzed employee contributions to calculate the total amount contributed by employees. We then used these computed contributions to calculate the District's net annual health insurance costs. Using the total contributions by coverage type, we divided by the number of participants to calculate an average contribution amount for each coverage type.
- We then calculated the additional costs for health insurance buyout payments or breakeven costs for the 37 employees who previously opted out of health insurance coverage.
- We calculated the net premium cost-savings by subtracting employee contributions of potential employees participating in the buyout from the insurance premiums costs. We calculated the minimum and maximum cost savings by subtracting the buyout costs for potential and current employees opting out of the District's health insurance plan from the net premium savings.

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.

Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and provided to our office within 90 days, pursuant to Section 35 of General Municipal Law, Section 2116-a (3)(c) of New York State Education Law and Section 170.12 of the Regulations of the Commissioner of Education. To the extent practicable, implementation of the CAP must begin by the end of the next fiscal year. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. The CAP should be posted on the District's website for public review.

Appendix C: Resources and Services

Regional Office Directory

www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

www.osc.state.ny.us/local-government/publications

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/local-government/fiscal-monitoring

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.state.ny.us/local-government/publications

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/local-government/resources/planning-resources

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.state.ny.us/files/local-government/publications/pdf/cyber-security-guide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

www.osc.state.ny.us/local-government/required-reporting

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

www.osc.state.ny.us/local-government/publications

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

www.osc.state.ny.us/local-government/academy

Contact

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