



Written by [Bob Adelman](#) on October 31, 2011

## Walker Rules Save Wisc. School Districts Millions

In late September the Wisconsin Education Association Trust (WEA Trust) announced that it had successfully outbid another insurance carrier to provide health insurance coverage for some 11,000 state employees in west-central Wisconsin. WEA Trust President Mark Moody happily concluded, "It really affirms, independently and objectively, that our rates are competitive."



The WEA Trust, created in 1970 by Wisconsin's largest teachers' union, the Wisconsin Education Association Council, or WEAC, had become the epicenter for criticism that its collective bargaining rules kept local school districts from requesting bids from competing health insurance companies even though there was the potential for substantial savings in doing so. When the new rules became law on June 29, many districts took advantage of the freedom to request bids, and discovered that in many cases they were greatly overpaying to buy the union's insurance.

The school district in Hudson, Wisconsin, is expected to save at least \$1.1 million a year while the Kaukauna School District, near Appleton, turned a \$400,000 deficit [into a \\$1.5 million surplus](#) mostly due to changing insurance carriers. Hartland-Lakeside School District [has reduced](#) its insurance premiums from \$2.5 million annually to \$1.8 million, Pewaukee School District is saving nearly \$400,000 a year by switching out of WEA Trust, and Menomonee Falls School District expects to save \$1.3 million.

Part of the effort to allow school boards to go out for competitive bids came from the restrictions that Wisconsin, under Governor Scott Walker (above left), was able to remove from collective bargaining agreements which previously allowed the unions to direct the coverages to their own union insurance company. Two conservative think tanks, the [Education Action Group Foundation](#) and the [MacIver Institute](#), created a [report](#) which illustrated the stranglehold the unions held over the school boards, and how the union's insurance company, WEA Trust, had systematically been overcharging for the coverages provided. Widely promoted during Walker's efforts to rein in the union's collective bargaining powers, the report pulled no punches:

Our intention is to state plainly, for average readers, a simple truth that's been bubbling to the surface for several years — WEA Trust, a union-affiliated insurance company, has an unfair advantage in Wisconsin's public school insurance market, and uses that advantage to soak every



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penny possible from local school coffers...

The WEA Trust has grown very fat on public school dollars, with a net worth of \$316 million and team of 12 administrators all receiving compensation packages worth six figures per year.

To protect its advantage, WEA Trust would refuse to allow access to its insurance claims records by other insurance companies invited to bid against them, making it virtually impossible to create a competitive proposal. And when a school board was able to obtain competitive bids, the local union would vote it down, even if it cost some teachers their jobs.

For example, when the Milwaukee school district received a bid that would have saved the district some \$48 million and thus avoid laying off hundreds of teachers, the union voted it down, and the layoffs took place.

The study estimated that if school districts in Wisconsin could request bids openly in the free market, the state could save between \$68 million and \$143 million every year for equivalent coverage.

The most outrageous example of the power of the teachers' union and its close affiliation to the WEA Trust was illustrated by the Kettle Moraine school district in Waukesha County. Prior to the year 2000 the district was self-insured but went out for bids when their health insurance costs began to escalate. The low bidder was, surprisingly, the WEA Trust, at least in the beginning. The district paid \$250,000 a month to WEA Trust in the first year, but those premiums rose by 250 percent over the next six years to \$625,000 a month. Under normal circumstances, the school board would have been free to go out to bid once again, but as part of the agreement with the teachers' union and WEA Trust, the union insurance company could not be replaced with another lower-cost provider. The school district found itself, according to the report, "a financial prisoner of WEA Trust and its annual rate hikes."

The report noted further that when local school boards were able successfully to get out from under the WEA Trust, the unions required that any savings be put back into higher salaries for the district's employees, thus negating any opportunity for the district to determine any possible better use for the savings.

Finally, the report tried to find out if there was a traceable flow of funds from the insurance company back to its creator, the WEAC. The report noted:

We received mixed signals from the Wisconsin Office of the Commissioner of Insurance on this topic. An insurance regulator who oversees the WEA Trust told us [initially] he was under the impression, after talking to colleagues, that WEA Trust pays WEAC millions every year for "collective bargaining services." He later said that upon further investigation, he found no evidence of that type of transaction.

Readers of the report suspected that the regulator no doubt had a conversation with a superior who suggested the he change his response to "no evidence."

Included in the announcement that the WEA Trust had outbid Group Health Cooperative of Eau Claire to provide coverage for its 11,000 employees was this curt comment from Peter Farrow, the cooperative's CEO. He said that the district was demanding premiums be 13 to 15 percent lower than what would have been necessary for his company to break even:

We're talking at least \$13 million we would have lost by continuing that coverage. Whoever is going to cover those employees [WEA Trust] is going to lose money. The formula doesn't change based on who the provider is.



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And so WEA Trust, having lost nearly a fifth of its business thanks to the new law limiting unions' abilities to force school districts to buy their insurance, is now buying business that will cost them dearly, just to show that, according to CEO Moody, "our rates are competitive."

It shouldn't be surprising how quickly the free market can weed out losers, the incompetent, and the manipulators, and how quickly customers and consumers can benefit from such weeding out.



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