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Chapter 44: Analyzing the Financial and Structural Challenges in School Health Benefits

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Impact of Chapter 44 (P.L. 2020, c. 44) on K–12 School Health-Benefit Costs

A. Background

Chapter 44 (enacted 2020) sought to stabilize school health insurance costs by freezing benefit designs through 2028 and requiring school district employees to enroll employees in specific plans. The report "Structural and Financial Challenges in the State Health Benefits Program for Local Government" now warns that the *School Employees' Health Benefits Program* (SEHBP) faces "significant financial and actuarial risks" and may potentially enter a "death spiral" similar to the SHBP-LG without further changes. Indeed, premiums recommended by AON, the state's actuary and approved by the School Employees State Health Benefits Commission will increase SEHBP Premiums by 31.9% as of January 2026.

In particular our report focuses on the impact this law and subsequent plan commission decisions have had on local school districts and taxpayers. Specifically we address section 18A:16-13.3 of the law regarding **'Use of actual savings realized by school district'.** This section requires tracking actual cost savings by school districts and annual reporting to the NJDOE on those results. Actual school district savings were mandated to reduce district tax levies. The law also required an actuarial report validating savings of at least $300 million comparing plan years 2020, 2021 and 2022. The failure to achieve $300 million of savings would have required the SEHBP Plan Design Committee to make plan design changes, or adjustments to employee contributions or both for the NJEHP, Garden State Health Plan, NJ Direct 10 and NJ Direct 15.

Additionally, we outline selected additional issues related to the implementation of the law.

B. Executive Summary

While the primary focus of this report is the cost of local education health benefits it is important to put the issue in perspective. School districts are subject to 2% tax levy caps with minimal statutory exceptions. Per the Taxpayers Guide to Spending issued by the NJ Department of Education, salaries and benefits comprise 82% of a local district's budget. The NJ School Boards Association's contract settlement analysis shows average salary settlements for FY25 at 3.45% and for FY26 at 3.51%. This financial structure combined with the health benefits data presented in this report results in impossible budgeting scenarios including larger class sizes, reduction in staff and programs, and the elimination of courtesy bussing, sports and extracurricular activities. It is with this background that we present the results of our data analysis.

The above mentioned AON savings analysis report indicated that $340.5 million in savings were realized for Active Employees and $ 122.2 million for Retirees. Our summarization of the NJDOE C. 44 Data Collection reports does not support that conclusion. We contend that the savings did not reach the benchmark and that the Plan Design Committee should take action to make the necessary plan design changes and/or changes to employee contributions.

Additionally, as evidenced by actual reported results, school districts overall have not saved on health benefit costs and also continue to shoulder a disproportionate share of the spiraling increases. This imbalance has contributed to districts reaching fiscal cliffs forcing them to eliminate services, layoff staff, increase class sizes, etc. Due to the movement of employees to EHP plans required after 2020, employees have saved on their contributions due to the change from a Chapter 78 percent of premiums method to the Chapter 44 percent of salary formula. Since Chapter 44 was enacted and over a 4-year period employee contributions increased by a total of 8.1%. Chapter 44 contributions are only impacted by salary increases for individual employees without a connection to premium increases. For the same 4-year time period, employer costs increased 34.4%. The employer share has a direct impact on taxpayers, and the projected savings have not materialized, nor have they reduced local tax levies as anticipated in the enacted law.

Collective Bargaining Agreements negotiated after the enactment of Chapter 44 have had their health benefit provisions grieved and challenged despite Section 8 of the law which was inserted to recognize negative impacts to districts as a result of the implementation of the law. While this provision was added to recognize potential problems, districts are unable to successfully negotiate plan terms or contributions under Chapter 44.

Finally, the timing of the budget cycles and the calculation of the health benefit adjustment under NJSA 18A:7F-38 creates fiscal issues for many districts.

See Section E for Specific Detailed Recommendations.

C. NJASBO Data Analysis Process

NJASBO submitted an OPRA request to the NJDOE to obtain the ACTUAL Chapter 44 data collection reports for ALL school Districts statewide for the Fiscal Years 2021 through 2024. We summarized the Actual total premium costs for each district for every year along with the split between the costs covered by the district compared to the costs paid by the employees i.e. employee contributions. Every district was required to report all three components for every plan offered by their district in accordance with NJSA 18A:16-13.3b regardless of whether they participated in the state plan, a private plan, or a HIF. All were required to participate in the NJSEHBP plans or offer a NJ Employee Health Plan or Garden State Plan equivalent all things being equal.

This report primarily draws on this recent NJDOE Data in addition to recent reports and news. We reviewed the 2025 *"Structural and Financial Challenges in the SHBP-LG"* report (NJ Division of Pensions), which assesses both State and School plans and is the first formal analysis of post–Chapter 44 trends. In particular, we incorporated NJ.com reporting on Governor Murphy's July 9th press release "ICYMI: AON Releases Recommended Rate Increase for State Health Benefits Plans for Plan Year 2026" and the recent rate renewal report from AON entitled "State of New Jersey School Employees' Health Benefits Program Plan Year 2026 Rate Setting Recommendation Analysis."

While the NJASBO data analysis focused primarily on the data collection reports we have also summarized historical data from AON Rate Setting reports which provide a visual of several underlying issues related to the health specifically of the State's local education plan. As you will see below active employee enrollments in that plan are dropping. AON assumed level enrollment in their most recent rate setting report. Anecdotally, given the latest rate increases, districts who have the experience to enable them to market themselves to other carriers are doing so. Most likely active enrollments will continue to decrease while retirees who represent 68% of the total enrollments as of 2025 remain relatively level.

CHART ONE: SEHBP Enrollment Trends

SEHBP Actual Total Enrollments							
	Actual FY22	Actual FY23	Change 23 vs 22	Actual FY24	Change 24 vs 23	Actual FY25	Change 25 vs 24
Total Active	60,333	61,999	2.8%	60,217	-2.9%	53,509	-11.1%
Early & Medicare Retirees Total	111,823	112,686	0.8%	113,220	0.5%	114,291	0.9%
Combined Active & Retirees	**172,156**	**174,685**	**1.5%**	**173,437**	**-0.7%**	**167,800**	**-3.3%**

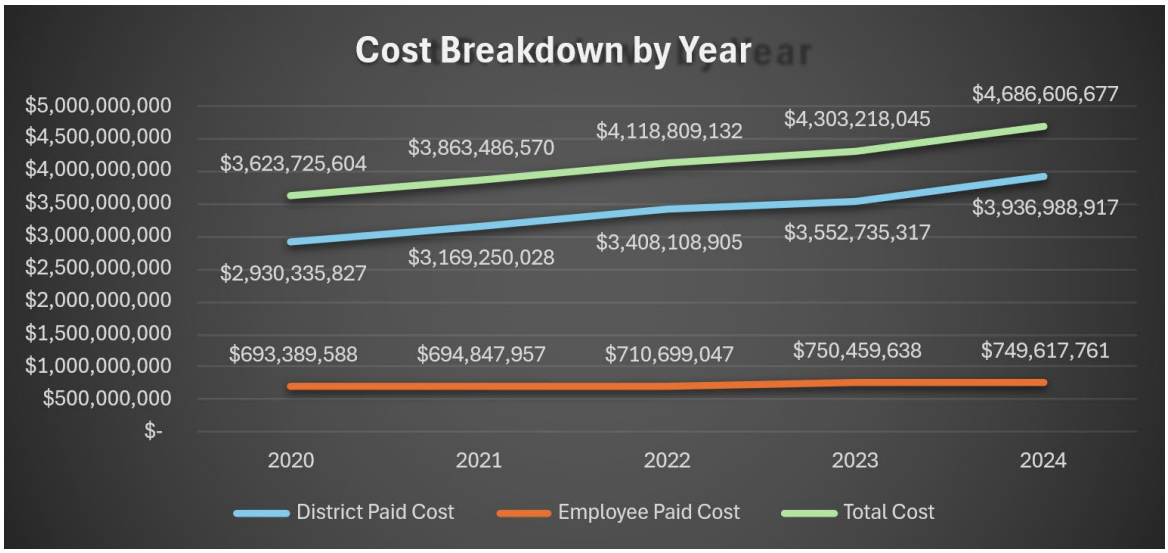
Source: AON Rate Setting Recommendation Reports

D. School District Implications

Overall Premium Costs- The charts (below) show statewide cost breakdowns by year based on actual costs drawn from district Chapter 44 data collection reports. **Chart Two** summarizes total premiums, employee contributions and the district costs from the base year of 2019-2020 through 2023-2024. **Total statewide health benefits costs increased $1.06 Billion or 29%. Employee contributions increased a mere $56 million or 8.1%**

during that time period. The chart does not incorporate the 2022 premium holiday value of approximately $79 million. Without that holiday the total costs would have been even greater.

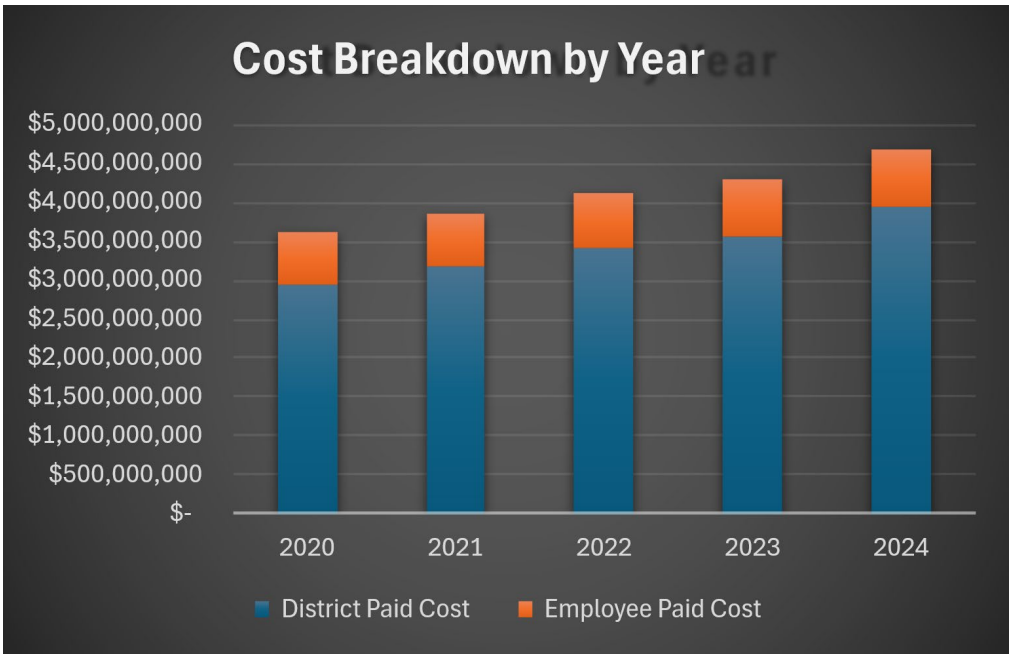
CHART TWO: Total State Health Benefit Costs All Plans Statewide



Source: NJDOE Data Collection Reports Mandated by NJSA 18A:16-13.3b.

Chart Three is another visual representation of the Cost Share of the Annual Premiums.

CHART THREE: Annual Premiums Covered by Districts vs Employee Contributions



Source: NJDOE Data Collection Reports Mandated by NJSA 18A:16-13.3b.

Chart Four demonstrates that the schools and local taxpayers have been picking up nearly 100% of annual increases in most years. Absent a change in plan design or employee contributions, it is logical to conclude that the majority of the cost increases in 2024-2025 have been shouldered by the districts and taxpayers, and this will continue 2025-2026 as well. School districts have no leverage with their local bargaining units and have largely been unable to obtain relief via negotiations. Finally, the minimal contribution schedule is a disincentive to individuals to waive benefits.

CHART FOUR: Percent of Increase Shouldered by Districts

Fiscal Year	Annual Increase	Amt picked up by EES	Amt picked up by Districts	% of Total by districts
FY21	$ 239,760,966	$ 1,458,369	$ 238,302,597	**99.4%**
FY22	$ 255,322,561	$ 15,851,089	$ 239,471,472	**93.8%**
FY23	$ 184,408,913	$ 39,760,591	$ 144,648,322	**78.4%**
FY24	$ 383,388,632	$ (841,877)	$ 384,230,510	**100.2%**

Source: Calculated from NJDOE Data Collection Reports Mandated by NJSA 18A:16-13.3b.

Health Benefit Adjustments- While NJSA 18A:7F-38 provides for an Adjustment for Increase in Health Care Costs, the timing of the SEHBP rate increase adoptions limits this adjustment. The NJDOE Budget Guidelines read "the adjustment for a budgeted increase in health care costs applies to regular districts with a projected increase in health care costs that exceeds two percent of the prebudget year. Pursuant to N.J.S.A. 18A:7F-38 subsection (d), the allowable adjustment cannot exceed the average percentage increase of the State Health Benefits Program (SHBP), as determined annually by the Division of Pensions and Benefits. The average percentage increase of SHBP is preloaded into the budget application. Health benefits are defined as group health and prescription only. It does not include dental, vision, life or any other additional employee benefit offered by the district. For use in 2025-26, the average percentage change of the SHBP is an increase of 14%. Therefore, the maximum adjustment is 14 percent less 2 percent, or 12 percent increase over the prior year."

District budgets are adopted in the Spring and rates for the second half of the ensuing budget year are not announced until Fall. The NJDOE cap is based on AON's rate recommendation report for the previous year. For example, the 2025-2026 school budget health benefit cap was 14% which was recommended by AON in September of 2024. Districts could avail of the 12% health benefit adjustment for the full budget year, however

the recommended rate increase that impacts the January-June 2026 is 31.9%, well above the adjustment percentage.

No budget provisions are available for districts to adjust for this massive change. Tax levies cannot be adjusted mid-year if the health benefit adjustment percentage calculated by the Division of Pensions and Benefits is understated. These budget 'holes' must be solved by pulling funds from other areas of the budget provided that is possible, or mid-year staffing cuts must be made. Budget transfers are also restricted to 10% of a line item, limiting the ability to move funds provided they are not already committed.

Chart 5 below demonstrates the significant swings both from year to year within the state's plan but also between its plan types. For districts in the state plan, the makeup of the district's enrollment, the employee plan selections and the chapter 78 vs Chapter 44 contributions can vary the financial impacts significantly from district to district. Extend the comparison to districts not in the state plan and the statutory adjustment percentage may have little relevance to the reality of a district's actual situation. Additionally, this adjustment is tied to a historical rate related to the state's plan which may or may not even represent future actual rate increases of the state plan.

CHART FIVE: SEHBP Approved Annual Rate Increases

SEHBP Historical Rates Increases				
	2023 Increases	2024 Increases	2025 Increases	2026 Increases
Active				
PPO 10/15	15.3%	11.0%	21.9%	36.2%
NJEHP	14.9%	2.6%	8.0%	29.5%
GSHP	N/A	12.2%	8.3%	30.1%
Horizon Total Active	**15.10%**	**6.30%**	**14.0%**	**31.90%**
Early Retirees				
NJEHP	15.8%	3.3%	2.8%	28.1%
GSHP	N/A	14.9%	12.9%	28.3%
Total Early Retirees	**15.8%**	**3.4%**	**12.8%**	**28.1%**
Medicare Retirees	N/A	N/A	N/A	N/A
MEDICARE Advantage	N/A	N/A	N/A	24.3%
Medicare Supplement	N/A	N/A	N/A	10.1%
Total Medicare	**-0.1%**	**6.9%**	**5.2%**	**25.8%**

Source: AON Rate Setting Reports

Health Benefit Negotiations- Section 8 of the original law was added to allow for collective bargaining negotiations to mitigate the negative impacts of the implementation of the law. School districts have consistently been on the losing end of recent arbitration decisions in which benefits have clearly been defined by Collective Bargaining Agreements (CBAs) negotiated after the implementation of the law. For example, districts that have bargained for the ACA definition of eligibility of 30 hours per week rather than the SEHBP definition of 25 hours have been overturned. In fact the State's own NJ Direct and NJ Educators Health Plan Member Guidebook states "Each participating employer defines the minimum hours required for full-time by a resolution filed with the Division of Pensions and Benefits, but it can be no less than 25 hours per week or more if required by contract or resolution." These decisions have the potential to significantly increase the employer costs for health benefits subsequent to agreed upon CBA terms. In some cases, higher salary increments were agreed to in exchange for the negotiated health care benefit provisions.

One example that school districts face everyday is a bus aide who works 5 hrs. per day, 5 days per week at $20/hr. for 180 days who would earn $18,000 for that school year. Under the NJEHP they would pay 3.3% of their salary for family coverage or $594. The January 2026 cost of that plan in the SEHBP NJEHP plan is $51,405 or almost three times the bus aide's annual salary. The total cost to the district for the part-time bus aide is an untenable $68,811.

Districts are considering shifting the provision of services from employees to outside contractors where possible to offset spiraling health benefit costs for some groups of 'less than' full-time employees. Additionally, layoffs are considered where tasks such as lunchroom supervision can be reassigned to teaching staff.

Finally, the negotiation concept of 'equal to or better than' regarding health benefits has been removed from collective bargaining due to Chapter 44. In the past, both parties had the ability to determine locally the most beneficial compensation package whether that be salary, health benefits or other terms and conditions. Now, health benefits are largely off-the-table in negotiations, which puts school districts at a disadvantage and greatly increases the costs for taxpayers.

E. Recommendations

Given these challenges, we offer multi-pronged recommendations:

Plan Design reform:

- **Reexamine the actual savings report or legislate an allowance for changes prior to 2028. We contend either option will allow necessary plan design and contribution changes**. The SEHBP plan design committee should implement more equitable cost-sharing via adjustments to employee contribution percentages

based on premiums rather than salaries. Additionally, this should include plan design changes to align benefit levels to a lesser actuarial valued plan which is more reflective of the current market trends and cost sharing. As quoted from the Structural and Financial Changes in the State Health Benefits Program for Local Government report "Historically, plans under SHBP (State and Local) and the School Employees' Health Benefits Program (SEHBP) have maintained actuarial values (AV) between 93% and 98%, exceeding the ACA Platinum-tier threshold of 90%."

- Allow districts to opt out of C44 if savings are not realized.
- Reexamine waiver incentives in relation to employee contributions.

Governance and Oversight:

- Revise Chapter 44 to allow the SEHBP Plan Design Committee to implement plan changes prior to 2028 providing more flexible authority so they can act on urgent cost issues to avoid massive rate increases and a potential 'death spiral. One consideration which the Structural and Financial Challenges Report recommends is that authority be delegated from the Plan Design Committee to the State Treasurer or the Director of Pensions and Benefits similar to the governance model of North Carolina's State Health Plan for Teachers and State Employees.
- Incorporate diverse stakeholders and independent experts on the PDC including individuals familiar with the health benefit market and the financial impacts on school district budgets and taxpayers.

Health Benefit Adjustments:

- Preferably revise the Health Benefit Budget SGLA to reflect an adjustment for any projected and supported health benefit increases exceeding the tax levy cap rather than the irrelevant SEHBP increase.
- Alternatively, revise NJSA 18A:7F-38d to reflect subsequently adopted actual approved SEHBP percentage increases for the corresponding budget year. This would require mid-year tax levy adjustments or state loans for the difference between the adjustment percentage and the state plan's midyear rate approvals**. The former recommendation is preferred as a majority of districts are not in the state plan which makes the correlation irrelevant.**
- Establish a new Health Benefit Reserve account for districts.
- Align the state's calendar year plan rate renewals with district fiscal year budgets and timelines.

Health Benefit Negotiations: Section 8 of the final law anticipated utilizing collective bargaining to enable districts and unions to adopt changes and health benefit provisions within their negotiated contracts to offset negative outcomes of the enactment of this law. Arbiters need to honor and recognize the intent of this provision in challenges to CBAs negotiated after the implementation of this law.

We appreciate your review of these findings and your thoughtful consideration of the recommendations presented.