Ruthless cuts in West Virginia public employee health care

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29 December 2015

The West Virginia Public Employees Insurance Agency (PEIA), which provides health insurance coverage for more than 200,000 public employees and retirees throughout the state, has announced, in the words of its executive director, “draconian” cuts to its members’ health care benefits.

Under a plan first proposed by the PEIA Finance Board in October and approved on December 10, a more than $120 million budget shortfall for the agency will be filled through steep hikes in deductibles, out-of-pocket costs and premiums, as well as changes in prescription drug plans. Active employees will shoulder the costs of nearly $83 million, while retirees will bear the remaining $41 million.

“These are fairly draconian cuts to the plan that are being made,” remarked PEIA executive director Ted Cheatham when the reductions were first proposed back in October. “We can’t tweak $2 here or there to get where we need to be.”

Beginning July 1, 2016, current public employees will see their deductibles increased by $500 for single coverage and $1,000 for families, while their annual out-of-pocket maximums will be raised by $1,500 and $3,000, respectively. Depending on their plan, a typical family can now expect to pay at least $1,400 in deductibles, with an annual out-of-pocket maximum of $9,000.

Active employees will also see changes in their prescription drug plan, the most significant of which is the switch from a co-pay of $25-$30 for preferred brand drugs to 30-35 percent of the drug’s cost.

Starting January 1, 2017, retirees will be hit with an 8 percent premium increase, along with higher deductibles and out-of-pocket maximums, although not quite as severe as those for active employees. Other participating plan holders, such as non-state workers from county and municipal agencies, will see premium increases of 3 percent.

The new reductions come on top of more than $40 million in health care benefit cuts for public workers and retirees for the current 2015-2016 plan year. Last year, PEIA held a series of public meetings throughout the state and offered workers the right to choose how they wanted the cuts imposed. Public meetings in the first two weeks of November on the new round of cuts drew hundreds of angry workers and retirees, many of whom complained about the burden the reductions would mean for them and their families.

The PEIA benefit cuts are only one expression of an unfolding economic and social crisis throughout the state and region. The collapse of global energy prices, driven by slowdowns in markets such as China, has hit West Virginia’s extraction industries hard and rippled through the state’s economy.

“West Virginia’s coal producers have endured dramatic declines in production over the past several years,” researchers at West Virginia University explained in their 2016 West Virginia Economic Outlook report released in October. “Since reaching nearly 158 million tons in 2008, coal production has plunged sharply and reached a seasonally-adjusted annualized average of 104 million tons during the first half of this year.”

If the current trends continue, the state is on pace for its lowest coal output since militant strikes in 1977-1978 pushed production below 100 million tons. The result has been a hemorrhaging of thousands of mining jobs, the closure of dozens of coal mines, and the bankruptcy of major coal companies like Alpha Natural Resources, Patriot Coal, and Walter Energy.

The collapse of energy prices has sent state revenue collections from income taxes, sales taxes, and severance taxes on coal, oil and natural gas extraction plummeting. According to West Virginia Deputy Revenue Secretary Mark Muchow, the state is on track for revenue shortfalls of $250 million this budget year, and as much as $300 million next year.

West Virginia governor Earl Ray Tomblin has already cut the state budget by nearly 20 percent over the past three years. After two consecutive years of 7.5 percent reductions, Tomblin announced the latest round of cuts—a 4 percent across-the-board cut for most state agencies—in October. Shortly thereafter, Tomblin notified the PEIA that his proposed 2016-2017 state budget would not include any increase in funding above the current $422.4 million for the state's share of premium costs.

With state law setting the PEIA's employer-employee premium ratio at 80-20, and the agency's reserve funds exhausted from four years of rising costs without additional funding, the PEIA was left no option but to impose the cuts. Similarly, any additional funding for the PEIA, while perhaps restoring the benefit cuts, will result in mandatory premium hikes for workers and retirees to maintain the mandatory funding ratio. Without a pay raise to offset the additional employee premiums, the resulting pay cut would hit already struggling state workers hard.

These latest attacks on workers' benefits highlight the crisis facing all public employees in West Virginia, who are already among the lowest paid in the US. The state struggles to attract and retain employees, including teachers, in the face of pressure from the private sector as well as neighboring states.

A recent report by the state's Department of Education showed that the number of uncertified educators the state relies on—either substitutes or those teachers not endorsed to teach the subject they are currently teaching—has ballooned over recent years to nearly 600 positions. As the report explained, the state's average starting teacher salary is $33,600, far below that of neighboring states where the fiscal situation is not yet as dire as that in West Virginia.

Following Governor Tomblin's budget cuts in October, Moody's Investor Services downgraded West Virginia's economic outlook from stable to negative. In making its revision, the Wall Street agency cited the state's high unemployment rate and noted, "The negative outlook reflects the recent decline in key economic health indicators, including rapidly declining coal and natural gas prices and layoffs across the state for key energy sector employers."

The crisis in West Virginia is the product of the global crisis of capitalism, of which the collapse of energy prices is one immediate expression. This is not some purely natural event, however. Both of the big business political parties, including the state's Democratic Party establishment led by Governor Tomblin, are presiding over the crisis and implementing the attacks demanded by Wall Street.

Over the past decade, the state's leaders have slashed taxes and imposed austerity budgets. Since becoming governor in 2010, Tomblin has slashed the state's Corporate Net Income Tax rate from 8.5 to 6.5 percent and completely eliminated the Business Franchise Tax at the start of 2015.

According to The State of Working West Virginia 2014 report by the West Virginia Center on Budget and Policy, cuts in state taxes since 2006 cost the state $360 million in lost revenue in 2014 alone and were projected to cost another $425 million in 2015.