After bidding out health-care services and working with a VEBA trust to engage in alternative investments and improve administration, Colorado Springs School District 11 has found a better approach to providing health-care benefits.

For more than 25 years, District 11 — the largest district in southern Colorado — has self-funded its health-care benefits to cut out the middle man (insurance companies) and ultimately save on costs. The district is therefore responsible for finding its own solutions. Employees make co-payments and pay deductibles, and the district pays everything else. The district also had a long-term contract with its local municipal hospital.

This model worked well throughout the 1990s and early 2000s. Despite the occasional bumps and spikes related to a large claim, the overall long-term results were successful, and the district was able to manage its cost increases with minor plan design changes and small premium increases. Wellness and disease management were also added to create a more consumer-driven health plan and encourage healthy behavior.

When the Great Recession hit, health-care costs were virtually frozen for nearly five years. Doctors and hospitals were forced to hold down price increases, and utilization remained stable, so the district didn’t have to increase premiums. But as soon as the recession was over, prices started to jump as pent-up demand was unleashed. How would the district solve the problem this time?

A NEW PARTNERSHIP

It was time to be aggressive and explore non-traditional options. First, the district bid out its hospital network, ultimately choosing as its preferred provider a group comprising 17 hospitals and dozens of health neighborhoods in Colorado and Kansas. Rather than focusing solely on treating illnesses, the new hospital system brought new and creative ideas to invest more in wellness and prevention, including providing biometric testing, wellness coaching, and exercise classes. The new system also provided programs targeting specific high-cost plan elements to reduce utilization expenses. Employees were happy with both the rates and quality of care. The relationship was a true health-care partnership rather than a vendor relationship.

One of the more creative plan additions mutually developed through

Colorado Springs District 11 Rethinks Health Care

By Glenn E. Gustafson and Jessica Reijgers
The partnership was the opening of a dedicated health clinic for District 11 employees and dependents. The clinic, which is operated by the hospital system, offers basic services at a central location and without the wait of a doctor’s office or an emergency department.

The district’s dedicated clinic offers basic services at a central location and without a long wait.

Working with the hospital group has helped accelerate District 11’s efforts to meet its objective of delivering sustainably affordable health care while developing a culture of health throughout the district. Exhibit 1 shows the recent historical costs of the District 11 health-care plan.

**VEBA TRUST**

In addition to the new hospital network, the district worked with its VEBA trust, the Boards of Education Self-Funded Trust (BEST), to implement a new investment opportunity for the trust assets. (School districts in Colorado are statutorily limited in terms of eligible investments, but a VEBA trust is not covered under these statutes.)

A VEBA trust is established under section 501(c)(9) of the Internal Revenue Code as an employee association to provide for designated benefits. VEBAs typically operate independently of the sponsoring employer and involve participants in their governance. GFOA recommends creating a qualified trust fund to prefund OPEB obligations. To ensure that the trust is established and administered properly, governments should consult qualified legal counsel and fully understand the legal authority of the employer to establish an OPEB trust and the forms of trust allowed, the employer’s legal obligations to provide benefits and the legal consequences of establishing a trust, and the comparative advantages of creating a single-employer trust, which is controlled by the employer and administered by either the employer or an independent board of trustees, versus participating in a multi-employer trust. For more information about VEBA trusts, see GFOA’s best practice, Establishing and Administering an OPEB Trust, at www.gfoa.org.

District 11’s relationship with BEST also provides health-care consulting, improved purchasing power on third-party administration expenses, prescription drug networks, and additional wellness programs.

**CONCLUSIONS**

Health-care costs remain a vexing budgetary problem for school districts throughout the country. In Colorado, typical health-care costs for an aging employee demographic are outpacing the minimal funding increases coming to school districts. District 11 tried a multitude of approaches to address these challenges, including re-dividing the total cost of health care between the employee and the employer and reducing benefit coverage. However, it wasn’t until the district was able to enter convert its VEBA trust relationship to the BEST pool and enter into a partnership with a health-care network that it started seeing meaningful results. With the strategic help of District 11’s partners, it is on the cutting edge of health-care benefit provision and looks forward to a future where health-care costs will not overwhelm the district or its compensation structure.

GLENN E. GUSTAFSON is chief financial officer for Colorado Springs School District 11 (Colorado), and JESSICA REIJGERS is employee benefits manager for the district.

---

**Exhibit 1: Historical Costs for the District 11 Health-Care Plan**

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Claims</th>
<th>Rx</th>
<th>Other Services</th>
<th>Total Plan Costs</th>
<th>Percentage Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2011-12</td>
<td>$17,039,041</td>
<td>$4,499,735</td>
<td>$2,272,369</td>
<td>$23,811,145</td>
<td>N/A</td>
</tr>
<tr>
<td>FY 2012-13</td>
<td>$17,410,714</td>
<td>$3,966,613</td>
<td>$2,285,561</td>
<td>$23,662,888</td>
<td>-0.62 percent</td>
</tr>
<tr>
<td>FY 2013-14</td>
<td>$16,663,979</td>
<td>$4,001,832</td>
<td>$2,219,946</td>
<td>$22,885,757</td>
<td>-3.28 percent</td>
</tr>
<tr>
<td>FY 2014-15</td>
<td>$13,396,514</td>
<td>$4,316,837</td>
<td>$3,101,957</td>
<td>$20,815,308</td>
<td>-9.05 percent</td>
</tr>
</tbody>
</table>