

STATE EMPLOYEE HEALTH BENEFITS

THE ISSUE

The Employees Retirement System of Texas (ERS) oversees the retirement and insurance benefits of state employees across Texas. ERS operates five retirement plans: state employees, elected officials, law enforcement, and two judicial plans, making up the 53rd largest pension fund in the United States in 2005. In addition to retirement benefits, ERS provided insurance benefits to more than half a million state employees, retirees, and their dependents in FY 2007.

The cost of providing health benefits to Texas' state employees has been climbing for years, increasing by 5 to almost 9 percent a year, each year from Plan Year 2004 to Plan Year 2007. For Plan Year 2008, the monthly premium for state employees and their dependents remained unchanged from the previous year.

In an effort to control mounting costs and combat a \$10 billion budget shortfall, the 78th Texas Legislature directed significant changes in employee health benefits, including added cost sharing and a 90-day waiting period for new hires. Yet the cost of health benefits for state employees continues to be the full obligation of the state; the state covers the entire cost of state employee's health benefits, and 50 percent of the cost for dependent premiums established by the ERS board.

While individual state employees have not realized any increase in the cost of their coverage, those who share in the cost of dependent coverage have seen their monthly cost rise every year. In addition, the Legislature passed a state employee pay raise in 2005—the first wage increase since the Legislature passed one in 2001. However, their total compensation increased every year with the increase of their benefits, crowding out funds that might have been used for a pay increase in between.

THE FACTS

- ★ In FY 2005, ERS provided insurance benefits to more than a half million state employees, retirees, and their dependents.
- ★ Texas pays the full cost of the premium for state employees and half the cost of the premium for an employee's dependents, an expected cost of approximately \$2.1 billion for the 2008-09 biennium. Texas is among only a handful of states that cover the full cost of health insurance for state employees.
- ★ Texas state employees also have the option of participating in the TexFlex program, providing employees a Flexible Spending Account to make pre-tax savings deposits for out-of-pocket health and child care expenditures.

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- ★ Overall increases in the cost of health care, running roughly 12 percent, fueled an increase of almost \$200 million in appropriations for the state employees' group health insurance over the 2004-05 biennium.
- ★ In Plan Year 2004, the premium for employee-only benefits was \$298/month, for Plan Year 2007 the monthly cost for the employee-only benefit increased 21 percent to \$361/month, and remained the same for Plan Year 2008.
- ★ The Federal Employee Health Benefits Plan began offering federal employees the option of a high deductible health plan (HDHP) coupled with a Health Savings Account (HSA) in January 2005; federal employees choosing the HDHP/HSA option had more than a dozen different plans from which to choose.
- ★ A survey of state health benefits in May 2007 found that state employees in Arkansas, Colorado, Florida, Georgia, Indiana, Kansas, Mississippi, South Carolina, South Dakota, and Utah all had an HDHP/HSA option for state employees.
- ★ In some states, state employees who smoke pay a higher health insurance premium than their non-smoking co-workers; Georgia charges state employee smokers a surcharge of \$40/month.
- ★ In many states, the state employees receive a considerable contribution from the state to the employee's HSA. For instance, for certain HSA enrollees, Indiana may contribute as much as \$1,400 annually on the state employee's behalf.

RECOMMENDATIONS

- ★ Readjust cost sharing for state employees, requiring state employees to pay a portion of the monthly premium.
- ★ Offer state employees the option of a high deductible health plan and health savings account to control cost and allow employees to share in the premium savings.
- ★ State employees should have the choice of enrolling in a high deductible health plan with the minimum high deductible allowed under law and a plan with an even higher deductible, in order to give state employees the most choice.

RESOURCES

- *Surveying State Employee Health Benefit Plans* by Mary Katherine Stout, Texas Public Policy Foundation (Oct. 2006) <http://www.texaspolicy.com/pdf/2006-08-PP-statebenefitsurvey-mks.pdf>.
- *Facts About Health Savings Accounts* by Mary Katherine Stout, Texas Public Policy Foundation (May 2007) <http://www.texaspolicy.com/pdf/2007-05-PB25-HSAfacts-mks.pdf>.
- *Survey of State Employee Benefits* by Mary Katherine Stout, Texas Public Policy Foundation (May 2007) <http://www.texaspolicy.com/pdf/2007-05-PP10-HSA-mks.pdf>.
- *Healthy Competition: What's Holding Back Health Care and How to Free It* by Michael Cannon and Michael Tanner, CATO Institute (2005).
- *Health Savings Accounts: Answering the Critics, Parts I-III* by John Goodman and Devon Herrick, the National Center for Policy Analysis, Brief Analysis Nos 544, 545, and 546 (Mar. 2006).

