



State Employee Health Benefits

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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 55th largest pension fund in the United States in 2009. In addition to retirement benefits, ERS provided insurance benefits to more than half a million state employees, retirees, and their dependents in FY 2009.

The cost of providing health insurance to Texas' state employees and retirees has increased about 94 percent since the 2000-01 biennium. In the 2010-11 biennium, providing state employees health insurance will cost \$4.1 billion, or approximately 2.2 percent of the state's budget. The main reason for the dramatic growth in cost is the increasing price of health insurance.

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.

While individual state employees have not personally realized any increase in the cost of their coverage, the cost to the state of providing these benefits has increased. Additionally, those employees who share in the cost of dependent coverage have seen their monthly cost rise every year. In both cases, costs are increasing without any corresponding increase in real benefits. Both employees and taxpayers suffer.

THE FACTS

- ★ In FY 2009, 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, a total appropriation of about \$2.1 billion for FY 2009. 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.
- ★ In Plan Year 2004, the premium for employee-only benefits was \$300/month, for Plan Year 2007 the monthly cost for the employee-only benefit increased 20 percent to \$360/month, and remained the same for Plan Year 2008. Contribution by the state is estimated around \$2.4 billion for group insurance premiums resulting in an increase of \$193 million in General Revenue Funds compared to the 2008-09 biennium.
- ★ 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 to choose from.

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- ★ 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, Alabama increased smoker charges from \$25 to \$30 a month, and in Indiana non-smokers save up to \$500 a year in deductibles.
- ★ 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 contributes as much as almost \$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

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Health Savings Accounts: Answering the Critics, Parts I-III by John Goodman and Devon Herrick, National Center for Policy Analysis, Brief Analysis Nos 544, 545, and 546 (Mar. 2006) <http://www.ncpa.org/pub/hea.html>.

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Texas Employees Retirement System 2008 Comprehensive Annual Financial Report (2008) http://www.ers.state.tx.us/news/reports/cafr_2008.aspx.

State Employee Health Benefits by National Conference of State Legislators (Feb. 2010) <http://www.ncsl.org/default.aspx?tabid=14345>. ★

