

Perspectives

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Public School Employee Health Program *Balancing the Budget and Improving Benefits*

How can Texas reduce expenditures for the new public school employee health program while protecting and improving benefits? The Texas 78th Legislature faces this key question as members confront a \$9.9 billion revenue shortfall.

The public school employee health program was passed by the 77th Texas Legislature to provide financial relief to school districts, resolve inequities between local school district health insurance plans and improve the recruitment and retention of teachers.

House Bill 3343 created a group health insurance plan for teachers and other public school employees. Regional service centers and school districts with less than 500 employees are required to participate in the plan; larger districts may choose to participate. All districts must contribute at least \$1,800 annually for each participating employee or maintain their current level of contributions if at a higher rate.

The school health program introduced an innovative form of compensation offering great promise for consumer-centered health care reform. The state gives \$900 annually to school districts for every employee (whether or not they enroll in the state health plan) and gives \$1,000 annually to all public school employees (whether or not their districts participate in the state's plan) to use for either health insurance or salary supplementation or any combination. This wage/benefit trade-off requires the consumer to make fundamental decisions about the quantity and quality of health insurance.

Today, the school health program is targeted for legislative cuts. It is vulnerable because the program is the most recently installed of all state programs and the most precariously funded. The program has threatened to unbalance the state budget since it was first created. Funded for its first year only, the program was financed by revenues taken from a "one time" source; additional blows were delivered by a sagging state economy and rising insurance costs, estimated in the range of \$2.5 billion for the 2004-2005 fiscal year.

The following simple solutions can set the stage today for introducing comprehensive consumer-centered reform of health insurance:

Reduce Supplemental Health Insurance Program Payments. By reducing state funding of the \$1,000 annual teachers' health supplement by \$250, Texas could save \$130 million annually, while reducing supplements to \$500 would save \$260 million. These reductions would increase the employees' cost of insurance premiums to a level comparable to costs currently paid by employees in the private sector. These same savings, however, could be recovered by reducing



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the insurance monies sent to *school districts*, instead of employees.

Reduce Health Insurance Benefits. Texas could save an estimated \$64 million annually by eliminating the choice of three health insurance plans and only offering employees the opportunity to purchase the most basic coverage, ActiveCare1.

Introduce Personal Care Accounts. Texas could cut the impact of rising insurance costs almost in half by offering school employees the opportunity to enroll in personal savings accounts (PCAs). Sometimes called health care reimbursement accounts, PCAs are pre-tax dollars employers deposit for employees and their families to use for routine health care needs (such as purchasing glasses, deductibles, co-payments and prescriptions). Employers generally combine PCAs with wraparound insurance for major or catastrophic care. PCAs, now piloted by some Fortune 500 companies (including Intel, Wells Fargo and CVS), offer an alternative to traditional health insurance. PCAs, only used for the last two years, show early evidence of cost-savings for both employees and employers. PCAs indicate consumers, when responsible for their own health dollars, are less likely to purchase excessive insurance and unnecessary medical care. Preliminary reports indicate employees are highly satisfied with PCAs (reenrollment is about 95 percent), and rising insurance rates are significantly depressed for participating employers (participating employers saw an 8.5 percent increase while overall insurance rates rose by 14.5 percent).

Expand Defined Contribution Health Insurance Plans. Texas could introduce significant savings by expanding the defined contribution health insurance model to all state employee health insurance. Defined contribution plans, such as the public school employee health insurance program, offer real benefits to both employers and employees. The cost of defined contribution plans is fixed and invulnerable to inflation; Texas can predict and control the costs of a defined contribution plan. State employees can benefit with greater control over both the quality and quantity of health care. Advantages of defined contribution plans are detailed in a report by Dr. Haavi Morreim, published by the Foundation at <http://www.texaspolicy.com/pdf/2003-04-08-health-morreim.pdf>.

Recommendations. Today the Texas Legislature seeks immediate, significant cost-savings for the public school employee health insurance program. The simplest means of achieving savings is to reduce the state's contribution toward the program – decreasing either the district or employee allotment. However, cost-saving measures should be coupled with consumer-centered reforms that promise both long-term savings *and* improvements in the quality of health insurance. The Legislature should expand the wage/benefit trade-off to allow employees to choose between pay and health dollars, expand defined contribution health plans to allow employees to determine the quantity and quality of health insurance, and create personal savings accounts giving employees increased flexibility about the investment of health care dollars. These reforms can catalyze genuine consumer-centered changes in health insurance that will provide the quality of care at a price Texans can afford.

Prepared by Chris Patterson, Director of Research for the Texas Public Policy Foundation. This policy perspective is based in part on a forthcoming Foundation report by Dwight M. McNeill, *Texas Public School Employee Health Insurance: Bane or Boon to Balancing the State Budget?*