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Survey of State Employee Benefits

Comparing Traditional Health Benefits & Health Savings Accounts in the States

by Mary Katherine Stout
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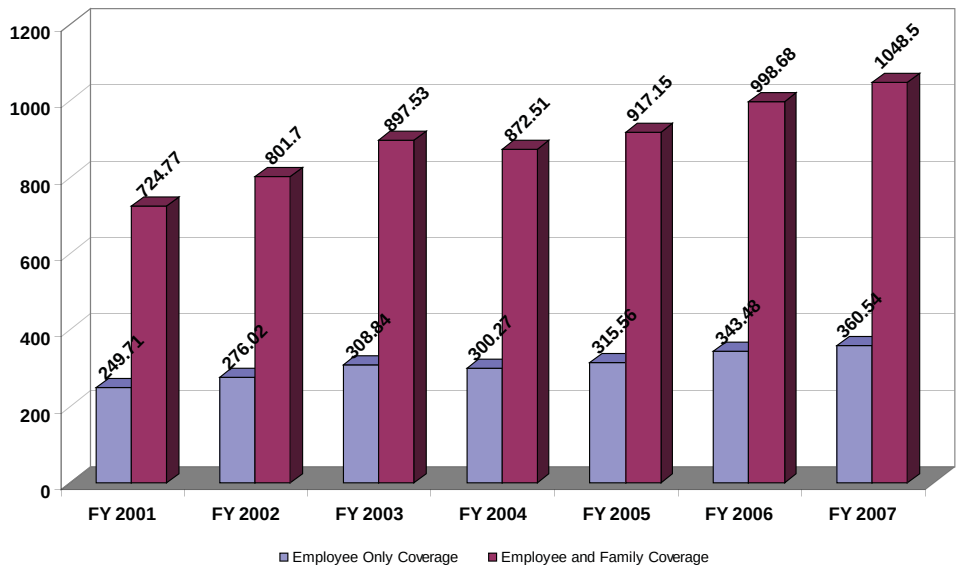
The rising cost of health insurance has been well chronicled, as employers have begun to shift away from covering the full cost of their employees' health insurance or have dropped the coverage altogether. Yet state employees have been largely insulated from these changes. In 2003 the legislature and the Employee's Retirement System made modest reforms to control the increasing cost of care in Fiscal Year 2003, as well as the 2004-05 biennium, prompted by the projected $10 billion budget shortfall during the 78th Legislature.

Despite efforts to adjust the state employees' plan design to control cost, the state has been unsuccessful in holding these increases at bay. In fact, the Employees Retirement System has projected increases of six percent a year in each year of the 2008-09 biennium. As a result, the monthly premium for an employee, which is covered entirely by the state, will reach approximately $400/month by the time the Texas Legislature reconvenes in 2009.

The graph below illustrates the increasing monthly cost of health coverage for state employees and for their families. As a previously published Foundation survey of state employee benefits around the country shows, Texas is one of roughly a dozen states paying the full cost of an individual state employee's health insurance cost.

FIGURE 1: HEALTHSELECT TOTAL MONTHLY PREMIUMS, FY 2001-FY 2007



Source: Employees Retirement System of Texas data, "2005 Comprehensive Annual Financial Report," and published Health Premium rates from FY 1999 to FY 2007.

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Importantly, as state employees clamor for pay raises it is important to realize that their total compensation has increased each year, though those increases come in the form of more costly benefits, rather than wages. Between FY 2001 and FY 2007, each state employee saw an annual compensation increase of at least $1330, which paid health care claims rather than going to the employee's pocket in a pay raise.[1] Moreover, annual family coverage increased by almost $3,900 over that time, with much of that increase coming out of the family's pocket, since state employees are responsible for half the additional cost of dependents.[2]

QuickFact:

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State employee representatives claim that the changes in 2003 simply shifted the higher health care costs to employees through increased co-payments for certain services, but this does not tell the full story. Texas state employee benefits are far more generous than most of the private sector, and, as the Foundation's research has shown, more generous even than most states.[i] The failure to adjust the plan design accordingly has resulted in tremendous cost increases to the state and to families covered under the state plan, though the individual employees are insulated from the cost of their insurance.

Furthermore, as costs have skyrocketed, there has been little competition in state employee coverage. Most state employees effectively have one choice in health insurance, eliminating any competition among plans to deliver better quality service and contain or lower costs. Insulating the individual state employees from the cost of their care has resulted in little sensitivity to price for the employees, while the state struggles to keep up with the increasing cost. Introducing meaningful competition not only gives employees greater flexibility and choice, but also requires health plans to compete vigorously for market share among the state employee workforce.

HEALTH SAVINGS ACCOUNTS

The combination of High Deductible Health Plans (HDHPs) and Health Savings Accounts (HSAs) has proven to be one tool in controlling health costs by giving individuals greater control of, and greater responsibility for, their health care decisions. In January 2007 there were 4.5 million people nationwide with an HSA,[3] with millions more in other similar consumer-driven health care plans. HSAs provide individuals with far more flexibility than the traditional consumer-driven health care designs, such as a Flexible Spending Account, which a sizeable number of Texas' state employees already use to put aside pre-tax health care dollars, but with the stipulation that all funds must be spent by the end of the year or lost.

The 79th Texas Legislature considered establishing an HSA option for state employees. Although the legislation passed by a wide margin in the Texas House, it was never considered in the Senate committee with jurisdiction. At the time, critics decried the option as an untested experiment in health insurance. Two years later, there are even more employers offering an HSA to their employees. Some like Wendy's fast food did a full replacement in health benefits and only offers employees an HDHP/HSA, while others offered the plan as an alternative to traditional coverage. When considered in 2005, only a few states and the federal government had begun to offer HSAs to their employees, However, as the 80th Texas Legislature considers and HDHP/HSA option again, there are now many more states offering an HSA option to employees.

[i] *See "Surveying State Employee Health Benefit Plans," October 2006, http://www.texaspolicy.com/pdf/2006-08-PP-statebenefitsurvey-mks.pdf.*

Comparing Cost

At least 10 other states currently have an HDHP/HSA option in place. States with the HDHP/HSA option currently in place include:

- Arkansas
- Colorado
- Florida
- Georgia
- Indiana
- Kansas
- Mississippi
- South Carolina
- South Dakota
- Utah

The HDHP/HSA design varies from state to state, with deductibles and cost sharing that generally reflect the structure of the traditional benefits plan already in place. In most cases, the state's contribution to the traditional plan is also applied to the HDHP/HSA, and in some cases a portion of the resulting savings is deposited into the state employee's savings account. It is important to note that Texas is one of roughly a dozen states that pays the full premium for state employees, and almost all of the states offering an HSA require some premium sharing with the state employees in their states. Tables 1 and 2 below show the total monthly cost, state share, and employee

TABLE 1: INDIVIDUAL COVERAGE

	TOTAL		STATE SHARE		EMPLOYEE SHARE		
	Traditional Plan	HDHP	Traditional Plan	HDHP/HSA	Traditional Plan	HDHP/HSA	State Contribution to HSA
Arkansas	$469.74	$297.32	$254.56	$254.56	50.00	15.00	None
Colorado	281.02	264.86	244.12	244.12	50.00	15.00	None
Florida*	427.86	392.86	377.86	377.86*	50.00	15.00	500.00*
Georgia	442.06 (COBRA)	N/A	370.92	N/A	71.14	45.00	None
Indiana*	455.82	350.33 (I) 381.16 (II)	350.35	350.35 (i)* 350.33 (II)*	105.47	0.00 (I) 30.81 (II)	1,375.00 (I)* 935.00 (II)*
Kansas**	286.68	199.36	229.66	195.38	57.02	3.98	900.00
Mississippi	339.00	322.00	322.00	322.00	17.00	0.00	None
South Carolina	332.10	247.92	238.64	238.64	93.46	9.28	None
South Dakota	441.60	441.60	441.60	441.60	0.00	0.00	None
Utah	369.65	282.73	343.78	282.73	0.00	0.00	650.00

*Florida's and Indiana's contribution to the savings account is included in the "State Share" column.

** Kansas traditional plan rates are based on salary schedule.

Note: Georgia's health benefits information only reports the premium rates for members. The COBRA number is used to show the unsubsidized portion of the benefit for comparison. Indiana offers two HDHP/HSA options.

Source: *Published premium rates by state.*

TABLE 2: FAMILY COVERAGE

	TOTAL		STATE SHARE		EMPLOYEE SHARE		
	Traditional Plan	HDHP	Traditional Plan	HDHP/HSA	Traditional Plan	HDHP/HSA	State Contribution to HSA
Arkansas	$1,242.20	$785.20	$547.84	$547.84	$694.36	$237.36	None
Colorado	814.76	766.76	567.42	567.42	249.58	199.34	None
Florida*	967.60	851.90	787.60	787.60*	180.00	64.30	1,000.00*
Georgia	820.47 (COBRA)	N/A	603.31	N/A	217.16	146.00	None
Indiana*	1,253.52	963.43 (I) 1,043.33 (II)	963.43	963.43 (I)* 963.43 (II)*	290.09	0.00 (I) 79.90 (II)	2,750.00 (I)* 1,870.00 (II)*
Kansas**	518.06	279.10	282.02	185.43	236.04	93.67	1,350.00
Mississippi	868.00	808.00	322.00	322.00	546.00	486.00	None
South Carolina	840.80	654.78	546.22	546.22	294.58	108.56	None
South Dakota***	693.68	544.46	441.66	441.66	126.01	102.80	None
Utah	1,017.47	819.00	946.25	819.00	71.22	0.00	1,300.00

*Florida's and Indiana's contribution to the savings account is included in the "State Share" column.
** Kansas traditional plan rates are based on salary schedule.
***South Dakota's family coverage is determined by age of employee. Amounts shown reflect spouse age 30-39.
Note: Georgia's health benefits information only reports the premium rates for members. The COBRA number is used to show the unsubsidized portion of the benefit for comparison. Indiana offers two HDHP/HSA options.

Source: *Published premium rates by state.*

share for states with an HSA option, comparing each state's traditional coverage with the HDHP/HSA option for individual and family coverage.

Comparing Plan Design

In addition to considering the cost of premiums, it is equally important to consider plan design, which is critical in attracting enrollees in the HSA option and achieving meaningful savings for both the state and the individual state employees. Some of the states with an HSA option have established deductibles in their HDHP/HSA plan that meet federal minimum guidelines, while others exceed that minimum. Most of the states offering an HSA cover all or most of the cost of preventive services. These factors will determine how many state employees will choose to enroll in the new coverage, as well as weighing their out-of-pocket costs in the traditional plan in comparison to the HSA option.

Table 3 compares deductibles for the HDHP/HSA plans with the traditional plans in the states with an HSA option. In some cases the deductible reported for the HDHP/HSA is lower (Colorado) or equal to (Mississippi) the deductible reported for the traditional plan. In cases where the traditional plan has a high enough deductible to otherwise be compatible with an HSA, the traditional plan typically has other co-payment arrangements or prescription drug coverage that does not comply with the requirements for an HDHP/HSA combination.

TABLE 3: COMPARISON OF DEDUCTIBLES FOR INDIVIDUAL COVERAGE

STATE	DEDUCTIBLE, TRADITIONAL PLAN	DEDUCTIBLE, HDHP/HSA
Texas	$0	N/A
Arkansas	500	1,250
Colorado	1,500	1,400
Florida	250	1,250
Georgia	500	1,100
Indiana	500	2,500 (I) 1,700 (II)
Kansas	0	1,500
Mississippi	1,100	1,100
South Carolina	350	3,000
South Dakota	0	2,000
Utah	250	1,100

Source: Published benefits comparisons by state.

WHAT AN HSA MEANS FOR STATE EMPLOYEES

State employees in most every state with an HDHP/HSA option realize some savings as a result of choosing the HSA option, but only because most every state in the list requires their state employees to share in the cost of their health insurance. Since Texas' state employees pay nothing for employee only coverage, the best picture of the potential out-of-pocket savings for state employees can be seen in the employee's share of family coverage. The savings in each of the states with the option in place is significant.

- In Arkansas, the savings for family coverage is $457/month;
- In Colorado, the savings for family coverage is $50.24/month;
- In Florida, the savings for family coverage is $115.70/month;
- In Indiana, the savings for family coverage is $290.09/month; and
- In South Carolina the savings for family coverage is $186.02/month.

In addition, state employees in Indiana receive a significant savings contribution to their savings account, as the state deposits a portion of the state's savings into the employee or family savings account.

It is also important to note that family coverage in the traditional plan offered by most states listed in the tables above, as well as in Texas, uses an annual family deductible and/or out-of-pocket maximum that must be satisfied by each member of the family before insurance covers services in full. Also, in many states, including Texas, state employees who satisfy the out-of-pocket maximum still pay co-payments for office visits throughout the year. By contrast, the HDHP/HSA option employs a family deductible and out-of-pocket maximum, which is satisfied by any single family member or a combination of family members. As a result, families can reduce their out-of-pocket exposure signifi-

Talking*Point*:

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cantly, while both families and individuals may also realize savings by eliminating co-payments after the deductible is met.

Consider a state employee in Texas covering a family of four with no deductible but a $1,000 out-of-pocket maximum per year, per person. The family will not see full coverage from their health insurance until they have paid $4,000 out-of-pocket, which under a typical 80/20 cost sharing arrangement will require $20,000 in bills for the family to have paid their 20 percent share of $4,000. And again, even satisfying the out-of-pocket maximum will not eliminate co-payments throughout the year.

Under the HDHP/HSA arrangement, however, a family deductible of $2,200 (the minimum allowed under federal law for 2007) with full coverage after the deductible[ii] can be satisfied as soon as total payments cross $2,200 regardless of whether each person in the family has met the deductible individually. In addition, the insured pay a negotiated rate for health care services under the deductible, meaning the first $2,200 in services satisfies the deductible, while the traditional plan requires significantly higher medical bills before any services can be covered in full. Furthermore, by satisfying the deductible and any out-of-pocket costs, the insured eliminates additional cost sharing for the duration of the plan year. As a result, the costs are incurred up front, rather than by "nickel and diming" with small payments throughout the year.

In fact, even with a higher deductible or out-of-pocket maximum, state employees covering their families are likely to do at least as well in the HDHP/HSA as they would in the traditional plan given the likely premium savings of the HSA option, which helps fund the HSA to pay for care. This is especially true for families who will see their monthly premium costs decline, allowing them to put the premium savings into the HSA to cover health care costs under the deductible.

Finally, state employees have an opportunity for significant savings. Despite criticisms that HSAs will only benefit the wealthy, the potential for premium savings will impact families covered under the state's plan immediately upon enrolling, arguably helping lower paid state employees more than those with higher salaries. Furthermore, if Texas established an HDHP/HSA option that channeled some or all of the state savings to the employee's HSA account similar to what Indiana does, state employees would see more cash coming to their pockets to help pay medical bills. In reality, the HSA option, if structured correctly, can be an important enhancement to state employee benefits.

QuickFact:

The Employees Retirement System has projected increases of six percent a year in each year of the 2008-09 biennium. As a result, the monthly premium for an employee, which is covered entirely by the state, will reach approximately $400/month by the time the Texas Legislature reconvenes in 2009.

RECOMMENDATIONS

The Foundation has long supported Health Savings Accounts, and uses HSAs as the Foundation's own employee health benefit. Premium increases year after year made the HSA a better and more affordable option for the Foundation and its employees, just as it has proven for other employers and individuals around the country. The state's situation is no different from what most employers have experienced in recent years, except the state has been remarkably slow to change to keep up with the shifting landscape of employee health benefits.

Opponents in the 2005 effort to introduce an HSA option to state employees suggested the concept was untested, failing to realize

[ii] *Depending on plan design the HDHP/HSA may have an additional out-of-pocket maximum following the deductible, that could increase the total out-of-pocket exposure. In the case of a higher out-of-pocket maximum the individual shares a percentage of the cost of services above the deductible until the higher out-of-pocket maximum is met.*

that state employees would not even see the HSA option until September 1, 2007, over which time the concept has continued to gain steam. Once again, it is unlikely that any state employee would even get the opportunity to enroll in an HSA until Fiscal Year 2009, leaving significant time for continued growth in enrollment around the country and to educate state employees about the option. By 2009, it is likely that many more states will have added an HSA option, and waiting until 2009 to create the option will likely deny state employees from having this choice until Fiscal Year 2011—roughly seven years after Congress created HSAs and the first person was enrolled. By that time, Texas' state employee benefits will exceed $400/month for employee-only coverage and state employees covering their families will likely experience crippling increases to be paid from their own pocketbooks.

In an effort to control cost in the state employee health benefits and give state employees more choices in health insurance coverage, the Texas Legislature should:

- Offer state employees the choice to enroll in an HDHP/HSA plan to help control the employees' and the state's cost for health insurance.
- Direct ERS to create at least one HSA option, giving the agency significant latitude to establish the plan design that delivers the best choice and savings to employees and the state.
- Encourage ERS to explore offering two HSA options to state employees, one with a deductible at or near the federal minimum requirement, and a second option with a higher deductible for state employees interested in additional monthly premium savings.
- Direct ERS to offer HSAs to state employees beginning Fiscal Year 2009, with significant educational and outreach efforts aimed at providing state employees with information about how HSAs work. These efforts should begin well before the open enrollment period for 2009.
- Direct ERS to contribute any cost savings from HSAs to state employees' HSAs, including additional deposits at the end of the year, subject to federal limits on total annual deposits.
- Conduct an interim study looking at state employee health benefits and whether additional reforms to the traditional program are necessary. ★

ENDNOTES

[1] Calculations from the Employees Retirement System of Texas data, "2005 Comprehensive Annual Financial Report," and published Health Premium Rates from FY 1999 to FY 2007.

[2] Ibid.

[3] America's Health Insurance Plans, "January 2007 Census Shows 4.5 Million People Covered by HSA/High-Deductible Health Plans," April 2007,6 http://www.ahipresearch.org/PDFs/FINAL%20AHIP_HSAReport.pdf.

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About the Author

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Previously, Mary Katherine worked at the Texas Workforce Commission as a policy analyst for Diane Rath, Chair and Commissioner Representing the Public.

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