

## State Employee Health Benefits

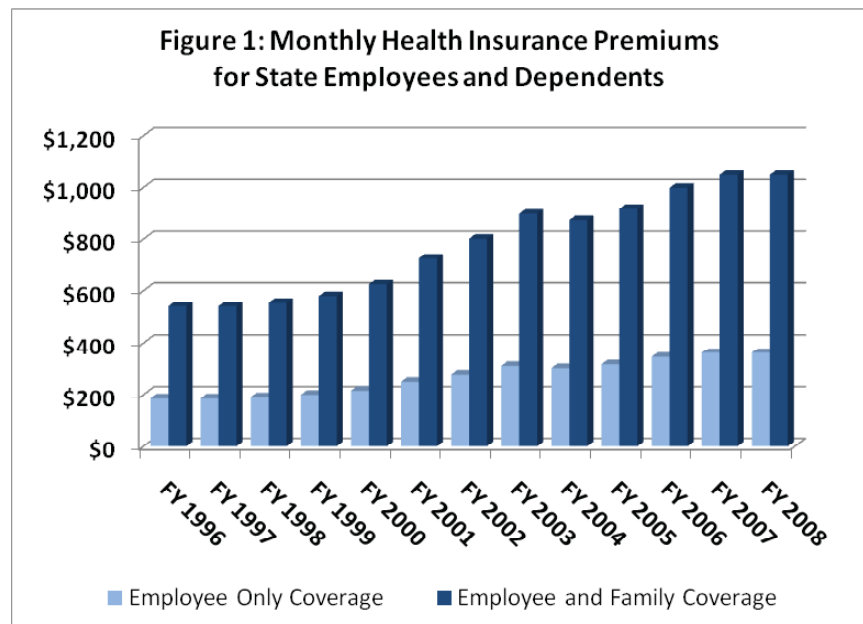
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Each summer, Texas' state employees go through the annual ritual of renewing their health insurance coverage for the upcoming fiscal year. The Employee's Retirement System of Texas (ERS) is preparing for the state's annual enrollment period for the more than 500,000 people participating in ERS insurance plans, including life, health, and dental insurance. Most state employees are enrolled in HealthSelect of Texas from BlueCross BlueShield of Texas, though there are a few health maintenance organizations ERS offers its members.

The state covers the entire cost of the monthly premium for state employees only, and half of the cost of dependent coverage. As previous research from the Foundation has shown, there are very few states paying the full cost of health insurance for state employees, let alone sharing in the cost of dependent coverage as well. The monthly premium\* cost for employee-only coverage has increased from approximately \$200 in 1999 to \$360 in 2009. Since 2007, the monthly premium has not increased, though significant annual increases have been a regular occurrence each year since 1996 and 1997, the last time the monthly premium did not increase from one year to the next.

The FY 2009 monthly premium cost for employees is expected to be \$360, an increase of approximately \$160 since 1999. Though it has remained stable since 2007, significant annual increases have been a regular occurrence each year, excluding 1997.

These increases are particularly acute for state employees who insure their family on the state's plan, where family coverage tops \$1,000 a month, and \$343 of that comes out of the individual's pocket each month. **Figure 1** illustrates the increase in monthly premiums over the last 12 years for employee-only and family coverage.



\*As a self-funded plan, the premiums are essentially the state's expenditures for care divided among the plan members, rather than the way traditional health insurance premiums are calculated.

Few options for state employees, compounded by lack of competition among insurance companies vying for state employees' business, have both driven up the prices and limit state employees' ability to obtain coverage at a lower cost.

With almost 560 state employees per 10,000 Texas residents,<sup>1</sup> the increasing cost of health insurance benefits means state lawmakers must allocate considerable funding for these benefits, which are generously supported by the state's taxpayers. While health insurance benefits are an appropriate benefit for state employees, there are things lawmakers can do to help control these costs.

## Recommendations

**Require state employees to share in the cost of their health insurance.** Texas remains one of only 16 states<sup>2</sup> that covers the entire cost of employee-only coverage. State employees have argued against any effort to increase cost sharing for health insurance, citing already low pay and lack of steady pay raises. This argument, however, fails to recognize that the annual increase in the cost of providing health benefits has meant increases in the total value of compensation, even if those increases are not reflected in their paychecks.

**Introduce a Health Savings Account option for state employees.** Lawmakers should introduce a Health Savings Account (HSA) option to create competition among the plans and provide state employees with more choices, and a more affordable monthly option. This high deductible, low premium plan would allow state employees—particularly those insuring their family on the state plan—to reduce their monthly bill in exchange for the higher deductible. Almost all of the states offering an HSA option require state employees to contribute to their monthly health insurance premiums, making the lower-cost HSA an attractive way to save money each month.

The state of Indiana has even structured its HSA offerings (there are two) to include a considerable state contribution to the employee's HSA to cover costs below the deductible. Indiana's highest deductible insurance offering includes a \$230 monthly employer contribution to the HSA for family coverage, giving state employees roughly \$2,700 annually to pay for health care expenses.<sup>3</sup> Indiana state employees selecting this level of coverage pay nothing in premiums, while others enrolled in the traditional health insurance plan will pay more than \$4,000 over the course of the year to insure their family.<sup>4</sup> The Indiana state employee enrolled in the HSA option not only saves money in monthly premiums but actually earns extra money that can be used for health care expenses now and in the future. Importantly, state employees would have an option to choose a high deductible plan with an HSA, or remain in the traditional insurance program. ★

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## Endnotes

<sup>1</sup> Arthur B. Laffer and Steve Moore, *Rich States Poor States*, American Legislative Exchange Council (Dec. 2007) <http://www.alec.org/am/pdf/richpoor/texas.pdf>.

<sup>2</sup> State Employee Health Benefits, National Conference of State Legislatures (June 2008) <http://www.ncsl.org/programs/health/state-employ.htm>.

<sup>3</sup> State of Indiana 2008 Rates, <http://www.in.gov/spd/2478.htm>.

<sup>4</sup> Ibid.