

House Bill 1766

Testimony before the Senate Committee on State Affairs

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The debate over health care reform has sparked many new ideas over the future of the American health care industry, some good and some bad. However, there is widespread agreement that something needs to be done to rein in the rising costs of health care for Americans. Individuals and small businesses have particular concerns in this arena as their lack of market share affords them very little bargaining power. Health Savings Accounts (HSAs) have become a proven means of cost containment, particularly for employee groups.

Studies have validated HSAs ability to contain costs. In May 2009, the American Academy of Actuaries published a monograph on consumer directed plans that showed a 12 to 20 percent savings in the first year and a rate of inflation in subsequent years of 3 to 5 percent, or roughly half that of traditional plans.

The Foundation has experienced terrific results from utilizing HSAs for our employees. Overall, Foundation monthly health care cost per employee went from \$270.98 in 2004 to \$288.00 in 2010, an increase of only 6.2 percent. At the same time, the national average of employer-sponsored health insurance premiums increased 32.3 percent.

Currently, the Employee Retirement System (ERS) pays \$413.26 and \$807.86 per month for an individual and family, respectively. In 2010, the average cost to a private market employer was \$345.83 and \$814.41 for an individual and family, respectively. One can see that ERS provides a robust individual plan and an average family plan. Suffice it to say ERS has good benefits. However, in the wake of a recession and facing a complicated budget cycle, Texas needs to add a Health Savings Account paired with a High Deductible Health Plan (HSA/HDHP) option for its employees.

Consumer directed health plans have proven successful in a number of other states. Indiana began offering an HSA/HDHP

option in 2005. In the first year only 4 percent of Indiana state employees signed up for it. As years went on more employees began to sign up for them, and in 2010, 70 percent of Indiana's 30,000 state employees had signed up for them voluntarily. Indiana estimated savings of \$20 million in 2010 alone, and Mercer Consulting estimates the state's costs are being reduced by 11 percent due to the HSA/HDHP alone.

Employees in Indiana are benefitting as well. Collectively, Indiana employees saved \$8 million in their accounts in 2010. Only 3 percent of account holders went back to the standard PPO plan. Most importantly, the state saw behavior changes. HSA holders visited the ER and physicians 67 percent less than their counter parts, and they opted for generic drugs over name brand much more frequently. Bottom line estimates showed that HSA holders spent \$65 for every \$100 spent under traditional plans.

The common critique of HSA/HDHPs is that they only apply to the young and healthy. This is a valid concern, but is refuted by much empirical data. For instance, in Indiana in 2009 only 6 percent of enrollees emptied their savings account. In fact, a Rand Corporation study stated that, "People who are medically vulnerable—those with low incomes or chronic health problems—who enroll in high-deductible health plans are at no more risk for cutting back on needed health care than other people who enroll in the plans."

Consumer directed health plans have proved successful in a number of private and public applications. Historically, this proposal has faced difficulties in be implemented, but in the current season of budget needs the State cannot afford to wait to cut the rate of inflation in half and save millions doing it. The State of Texas should expand the health care options available to employees by offering a consumer directed health plan. ★