

Texas Public Policy Foundation

# Keeping Texas Competitive

## A Legislator's Guide to the Issues 2013-2014



### State Employee Health Benefits

#### The Issue

The Employees Retirement System of Texas (ERS) oversees state employees' retirement and insurance benefits. ERS provides health care benefits through their Group Benefit Program (GBP). Despite reforms to employee health benefits enacted in 2003, the cost of employee health benefits remains the full obligation of the state. Currently, Texas covers the entire cost of an employee's health benefits, as well as 50% of premiums for dependents.

During the 82nd legislative session (2011), ERS was facing a shortfall of \$400-\$600 million in its health insurance program. This prompted the ERS, along with the state and the employees, to enact cost-saving measures. These include a higher coinsurance, co-payments, and deductibles. The plan also incorporated higher payments for smokers specifically. The GBP also incorporated program changes designed to save money such as the Dependent Eligibility Audit, contracts with regional medical providers for medical home initiatives, utilization management, and lower provider contract rates.

These changes, among others, allowed ERS to cover the shortfall they faced in 2011. Individual state employees have realized an increase in their exposure to risk through higher co-insurance and co-payments. Additionally, this increase in exposure has come without a corresponding increase in real benefits. However, there is still a need for further improvements. ERS expects that contributions to the GBP will have to increase by 7% to 8% each year to maintain the current program. The state's budget is increasingly constrained by Medicaid growth along with other needs, and it is unlikely that the state will be able to maintain 7% to 8% annual growth.

In 2009, Texas was one of only 14 states to fully fund employee health benefits. It is reasonable to ask state employees to contribute to the cost of their health care as costs increase at 7% to 8% annually. ERS has made improvements in cost containment in the GBP over the last few years, and it is in better condition than many other state employee health benefit funds across the nation. The GBP could be further strengthened through new choices for state employees.

#### The Facts

- In FY 2011, ERS provided insurance benefits to more than a half million state employees, retirees, and 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 \$2.4 billion for the 2010-11 biennium.
- Texas state employees also have the option of participating in the TexFlex program—a Flexible Spending Account to which they 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 per month, for Plan Year 2007, the monthly cost for the employee-only benefit increased 20% to \$360 per month, and remained the same for Plan Year 2008. The state's present contribution is estimated at \$2.7 billion for group insurance premiums—an increase of \$236.5 million in General Revenue Funds compared to the 2010-11 biennium.
- ERS commissioned a Milliman study on the offering of an HSA to state employees. The state has long passed the recommended start date of September 1, 2009. Had the state begun offering the HSA as an option we would now be realizing the impact of the slower growth in costs that HSAs are proven to afford. Their growth rate is roughly half the rate of traditional insurance.

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- ERS has seen a unique problem in noncompliance with prescription medication among the clients of ERS. For instance, only 52% of clients with diabetes are compliant in taking their prescribed medications. This can cost the program the plan an additional \$3,700 each year. An HSA would be well positioned to address this issue as clients have greater exposure to first dollar coverage such as prescription medications.
- Many states make large contributions—almost \$1,400 annually in Indiana's case—to individual employee HSAs.

### Recommendations

- Readjust cost sharing for state employees, requiring them 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 costs.
- Fully fund the employees who choose the high deductible health plan and health savings account leaving the difference between the amount per beneficiary on traditional health insurance and the HSA as the required employee contribution. This will incentivize enrollment in the HSA option.
- Allow employees choice of a high deductible health plan with the minimum high deductible allowed under law or a plan with even higher deductible.

### Resources

*Facts About Health Savings Accounts* by Mary Katherine Stout, Texas Public Policy Foundation (May 2007).

*Reducing the Cost of Health Care: A Case Study on Health Savings Accounts* by Spencer Harris, Texas Public Policy Foundation (Dec. 2010).

*State Employee Benefits* by National Council for State Legislatures (Jan. 2012).

*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, 546 (Mar. 2006).

*Legislative Budget Board "Fiscal Size-Up" 2012-13 Biennium* by Legislative Budget Board.

*Texas Employees Retirement System 2011 Comprehensive Annual Financial Report* by Legislative Budget Board.

