

Testimony to the House Pensions, Investments, & Financial Services Committee for HB 1176

Voluntary Consumer-Directed Health Plan for State Employees

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Health Savings Accounts

Health Savings Accounts (HSAs) refer to the savings account portion of the combination of a high deductible health plan (HDHP) and a savings account to pay for health care with pre-tax dollars. The high-deductible policy protects the insured from the cost of a catastrophic illness, prolonged hospitalization, or a particularly unhealthy year. An HDHP requires participants to meet their deductible by paying medical bills out-of-pocket (presumably with funds in the HSA), rather than copayments and co-insurance. Premiums are often lower than traditional health insurance plans that feature high premiums and low or no deductibles or cost-sharing.

Since HSAs became available in 2004, their use has grown rapidly as they offer greater patient control over health care decisions and the way in which health care services are paid. HSAs can contribute greatly to slowing growth of the soaring cost of state employee health benefits.

Cost of Covering State Employees

The cost of providing health benefits to Texas' state employees has steadily climbed during the past few years, increasing from 5 to almost 9 percent a year, between Plan Year 2004 to Plan Year 2007. While individual state employees have not seen any increase in the cost of their coverage, those who share in the cost of dependent coverage have seen their monthly cost rise every year. The state pays the full cost of the premium for state employees and half the cost of the premium for an employee's dependents. Texas remains one of only 16 states that cover 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 consistent pay raises. This argument, however, fails to recognize that

the annual increase in the cost of providing health benefits raised the total value of their compensation, even if those increases are not reflected in their paycheck.

HDHP/HSA Programs in Other States

At least 10 other states currently have the HDHP/HSA option in place including Arkansas, Colorado, Florida, Indiana, and South Carolina. In most cases, the state's contribution to the traditional plan are also applied to the HDHP/HSA; in some cases, a portion of the resulting savings is deposited into the state employee's savings account. State employees in almost every state with an HDHP/HSA option see some savings as a result of choosing the HSA option, but only because almost every state in the list below 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.

Legislative Appropriations Request

Between 2001 and 2007, the state paid an additional \$1,300 annually for each state employee's health care, while family coverage increased by \$3,900 over the same time period. The Legislative Appropriation Request (LAR) for the fiscal years 2010-2011 is an astounding \$2.6 billion, a half billion dollar increase from the last biennium. This increased funding demonstrates the need to continually get more money to keep the program funded to the level it is now.

Recommendations

To control state spending and preserve a quality benefit for state employees, Texas should allow state employees an option between the current basic care plan and an HDHP in combination with an HSA, as HB 1176 proposes. Employees who choose the HDHP/HSA will obtain greater control over their health care, while all state employees will benefit from competition and choice in benefits. Individuals with family coverage will realize the greatest savings due to their higher level of involvement in the cost-sharing of less expensive premiums.

The Texas Public Policy Foundation supports providing Texas state employees the option of waiving participation in the basic coverage plan and instead participating in the state consumer-directed health plan. As health care expenditures in the HealthSelect plan—the state's group benefit plan—have climbed amid generally increasing health care costs, so have the premiums for employees and their dependents (Figure 1). The Employees Retirement System of Texas proj-

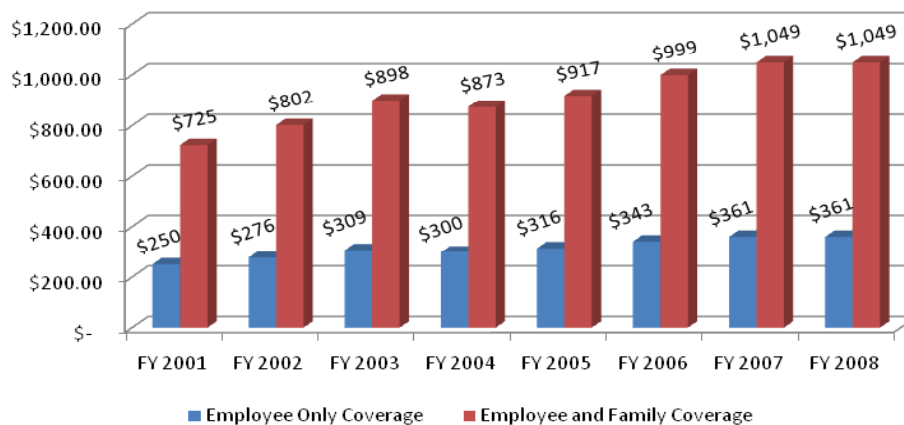
ects health care costs to climb 8.3 percent a year in 2010 and 2011, for a total of \$522.4 million. Annual increases in this pattern cannot be sustained, and are not well controlled with the current plan design which pays premium first-dollar coverage.

In its LAR, the Employees Retirement System stated that funding at the current level would require "significant program changes since current spending would not be enough to cover projected benefit cost increases." The LAR states that an additional \$312.4 million in General Revenue is needed to cover the projected health benefit cost increases over the next biennium.

HB 1176 requires participants in the consumer-directed health plan to contribute any amount required to cover participation that exceeds the state contribution amount. Cost-sharing would fix the state's responsibility for the future and would prevent a need for plan redesign. By participating in an HSA, employees who bear some of the cost of their monthly health insurance premium have the opportunity to share in future savings. The creation of an optional HSA plan will create competition among the plans and provide state employees with more choices and a more affordable monthly option.

State employees should have the choice of enrolling in a high deductible health plan—with the minimum high deductible allowed under law—and a plan with an even higher deductible in order to give state employees the most choice. ★

Figure 1: HealthSelect Monthly Premiums FY 2001-FY 2008
(rounded to nearest dollar)



Source: Texas Employees Retirement System, "2008 Comprehensive Annual Financial Report"

