



PolicyPerspective

Health Savings Accounts for State Employees and Retirees

Same Quality of Care, Lower Cost to Taxpayers

by The Honorable Arlene Wohlgemuth

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Key Findings

- Texas remains one of only 14 states that cover the entire cost of employee-only coverage.
- State contributions for employee and retiree health insurance will be \$4.1 billion in 2010-11, or 2.2 percent of the state budget.
- The cost of providing benefits to state employees will be almost 10 percent higher in the 2010-11 biennium than the 2008-09 biennium.
- In the first year the HSA option was made available in Indiana, about 4 percent of Indiana state employees signed up for the plan. In 2010, over 70 percent of their 30,000 state workers chose it.
- Indiana will save at least \$20 million in 2010 alone under the state employee HSA option.

Introduction

The rising cost of health care affects pocket-books in more ways than one. In addition to increased pressure on an individual's income, it also has a substantial impact on the Texas budget. Since Texas pays for 100 percent of health insurance premiums for state government employees, the increased cost of health care puts a greater strain on the budget each biennium, and the trend is getting worse.

Policymakers anticipate a budget shortfall of \$11-15 billion for the upcoming 82nd Legislative Session; since the Texas Constitution mandates a balanced budget, lawmakers have quite a challenge on their hands. However, at least one reform can be made that would save Texas taxpayers millions without limiting services: giving state employees the option of choosing a Health Savings Account (HSA).

Simply allowing state employees and retirees the option of choosing an HSA has the potential to save taxpayers millions of dollars without sacrificing the quality of care Texas' employees are provided. The State of Indiana recently began allowing its employees the option of enrolling in an HSA and has found that not only are employees who enroll in the HSA plan increasing their take-home pay by thousands on average each year, but that the state will save \$20 million in 2010 alone.¹

The Employees Retirement System of Texas projects health care costs to increase 9 percent in the 2010-11 biennium, due primarily to the increase in health insurance costs caused by medical inflation.² Moreover, by

2011, Texas will increase its number of employees by a little over 9 percent compared to 2006 numbers.³ So, not only is providing health care more expensive, but there will be over 8,000 more employees (plus their dependants) to insure.

This paper will explain how HSAs work and examine their satisfaction rates, reveal how much is currently being spent on state employee health benefits, and present solutions on how to reduce that cost to taxpayers without sacrificing quality or access to health care.

Health Savings Accounts 101

Persons choosing a high deductible health plan (HDHP) are entitled under the law to create a Health Savings Account (HSA), which allows them to pay for health care with pre-tax dollars. An HDHP requires participants to meet their deductible by paying medical bills out-of-pocket (including from the HSA) rather than through co-payments or co-insurance. Under this structure, premiums are lower than traditional health plans. Overall, HSAs provide individuals with greater control over both health care decisions and the way in which health care services are paid. Since contributions are made with pre-tax dollars, this actually represents a cost savings to those who use HSAs.

HSAs allow individuals to see how much their health care costs and gives them an incentive to use only necessary services. Accordingly, HSAs are proven to lower health care costs by 12-20 percent in the first year

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According to a recent industry census, more than 8 million people already have an HSA.⁵ About 60 percent of companies in the United States offer workers a choice of a Consumer Driven Health Plan, such as an HSA.⁶ Patient satisfaction is high, and care is equal to traditional health plans.⁷

Not only is patient satisfaction high, but employers should be pleased as well since HSAs offer them a tremendous opportunity to provide employees with health benefits at a more affordable price and with an enhanced ability to control costs.

States with the HDHP/HSA option currently in place include: Arkansas, Florida, Georgia, Indiana, Kansas, Nebraska, Pennsylvania, South Carolina, South Dakota, Utah, Virginia, and Wyoming.⁸

State employees in most every state with an HDHP/HSA option see savings as a result of choosing the HSA option, but only because most states in the list require their state employees to share in the cost of health insurance. In most cases, the state's contribution to the traditional plan is also applied to the HDHP/HSA; in some cases, a portion of the resulting savings is deposited into the employee's savings account. Since Texas' state employees pay nothing for employee-only coverage—Texas remains one of only 14 states that cover the entire cost of employee-only coverage—the potential out-of-pocket savings for state employees are in the employee's share of family coverage.⁹ The savings in each of the states with the option in place is significant.¹⁰

- In Arkansas the savings for family coverage is \$457/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.

State legislators have attempted to give state employees the option of an HSA plan before, but the efforts failed as some state employees have opposed any effort to increase cost sharing for health insurance, citing already low pay and lack of consistent pay raises.¹¹ This argument, however, fails to recognize that increasing health care costs effectively crowd out the potential for real increases in benefits or take-home pay for employees as the state struggles to manage rising those rising costs.

State Government Employment

The cost of providing benefits to state employees will be almost 10 percent higher in the 2010-11 biennium than the 2008-09 biennium.¹² This is mostly due to the ever increasing cost of health insurance caused by medical inflation, a trend that shows no sign of stopping. Additionally, the Legislative Budget Board (LBB) has stated that certain state agencies have higher than average growth in full-time-equivalent (FTE) positions,¹³ further exacerbating the already high cost of providing health benefits to our employees.

As seen in Figure 1, the number of state employees in Texas increased almost 6 percent from 218,342 in 2006 to 230,476 in 2009.¹⁴ The number of appropriated 2011 employees is 238,490 or a little over 9 percent higher than the actual number of state employees in 2006.¹⁵ Table 1 shows the number of state employees from 2006-11 by function and their year-to-year percent growth.

Employee benefit costs include contributions to retirement programs, insurance premiums, Social Security matching, and death benefits for survivors of law enforcement and retired state employees. Combined, these expenditures account for about 2.7 percent of the 2010-11 state budget, or more than \$4.9 billion.¹⁶

**Figure 1: Growth in Full-Time State Government Employees
(Fiscal Years 2006-2011)**



Table 1: Full-Time State Government Employees (Fiscal Years 2006-2011)

| Function | Actual 2006 | Actual 2007 | Actual 2008 | Actual 2009 | Appropriated 2010 | Appropriated 2011 |
|----------------------------------|----------------|----------------|----------------|----------------|-------------------|-------------------|
| General Government | 9,270 | 9,302 | 9,256 | 9,468 | 10,083 | 10,094 |
| <i>Change</i> | | 0.35% | -0.49% | 2.29% | 6.50% | 0.11% |
| Health & Human Services | 45,436 | 47,700 | 54,024 | 54,687 | 57,353 | 57,493 |
| <i>Change</i> | | 4.88% | 13.26% | 1.23% | 4.88% | 0.24% |
| Education | 80,177 | 81,133 | 83,771 | 83,392 | 85,654 | 85,680 |
| <i>Change</i> | | 1.19% | 3.25% | -0.45% | 2.71% | 0.03% |
| The Judiciary | 1,317 | 1,318 | 1,347 | 1,360 | 1,399 | 1,420 |
| <i>Change</i> | | 0.08% | 2.20% | 0.97% | 2.87% | 1.50% |
| Public Safety & Criminal Justice | 52,206 | 51,537 | 50,969 | 52,804 | 53,324 | 53,263 |
| <i>Change</i> | | -1.28% | -1.10% | 3.60% | 0.98% | -0.11% |
| Natural Resources | 8,018 | 8,015 | 8,265 | 8,484 | 8,824 | 8,848 |
| <i>Change</i> | | -0.04% | 3.12% | 2.65% | 4.01% | 0.27% |
| Business & Economic Development | 18,563 | 18,269 | 17,608 | 16,742 | 18,246 | 18,244 |
| <i>Change</i> | | -1.58% | -3.62% | -4.92% | 8.98% | -0.01% |
| Regulatory | 3,353 | 3,298 | 3,388 | 3,539 | 3,522 | 3,448 |
| <i>Change</i> | | -1.64% | 2.73% | 4.46% | -0.48% | -2.10% |
| Total | 218,342 | 220,573 | 228,628 | 230,476 | 238,404 | 238,490 |
| <i>Change</i> | | 1.02% | 3.65% | 0.81% | 3.44% | 0.04% |

Source: Legislative Budget Board

Figure 2: Total State Contributions for Employee and Retiree Group Health Insurance (in Millions, All Funds)



Source: Legislative Budget Board

Note: Combines Teacher Retirement System (retiree insurance only), Employees Retirement System, and higher education contributions; Excludes group health insurance contributions made by institutions of higher education.

The largest factor contributing to this rising burden to the state is the cost of health insurance. State contributions for employee and retiree health insurance will be \$4.1 billion in 2010-11, or 2.2 percent of the state budget.¹⁷ Since 2001, lawmakers have increased appropriations to cover these health insurance costs by \$2 billion—a 94 percent increase, or almost 19 percent every biennium.¹⁸ Figure 2 shows the growth in state contributions to employee and retiree group health insurance since 2000. Giving state employees and retirees the option of choosing an HSA plan will reduce this burden on taxpayers.

Employees Retirement System

The Employees Retirement System of Texas (ERS) oversees the retirement and insurance benefits of state employees and operates five retirement plans: state employees, elected officials, law enforcement, and two judicial plans.¹⁹ In addition to retirement benefits, ERS provided health insurance benefits to more than half a million state employees, retirees, and their dependents in FY 2009.²⁰

The ERS was appropriated approximately \$3.3 billion for 2010-11, an increase of \$223.6 million in General Revenue Funds compared to 2008-09.²¹ According to the LBB, this increase is due primarily to payroll growth for state em-

ployees, growth in full-time-equivalent positions at state agencies, and annual increases in the state contributions for group insurance benefits [emphasis added].²²

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The state pays 100 percent of the health insurance premium for full-time employees, while the state covers 50 percent for employees' dependants with the remaining cost being covered by the employee.²³ Part-time employees pay 50 percent of their health insurance coverage, and any new hire must wait 90 days before they are eligible for coverage. Employees must cover the cost of any coverage deemed voluntary.²⁴

Group insurance premiums for employees will cost about \$2.4 billion in the 2010-11 biennium, up \$193 million from the previous biennium.²⁵ Most recently, ERS Executive Director Anne Fuelberg predicted that ERS will need up to \$700 million in additional funding next biennium to cover its health care programs due to a projected higher benefit cost trend than previously assumed.

What Texas Can Learn from Indiana

Indiana has given its employees the option of choosing an HSA health plan, and both the state's budget and its employees are reaping the benefits.

Similar to the current fiscal situation in Texas, Indiana was facing a \$700 million budget shortfall when lawmakers decided to give state employees the option of switching to health plans with health savings accounts.²⁶ In the first year the option was made available, about 4 percent of Indiana state employees signed up for the plan.²⁷ In 2010, over 70 percent of Indiana's 30,000 state workers chose it.²⁸

In Indiana, HSA participants receive deposits from the state totaling \$2,750 per year into an account controlled by the employee, out of which the employee pays all of their health bills up to their deductible.²⁹ The state is responsible for covering the premium.³⁰ As of March 2010, about \$30 million in unused funds existed in these accounts, which equals about \$2,000 per employee.³¹ In 2009, only 6 percent of those on the HSA plan used their entire account balance, but those who do so are protected since the state covers any health care expenses beyond \$8,000.³²

Indiana Governor Mitch Daniels had this to say about the results in his recent opinion-editorial in *The Wall Street Journal*:

What we, and independent health-care experts at Mercer Consulting, have found is that individually owned and directed health-care coverage has a startlingly positive effect on costs for both employees and the state. What follows is a summary of our experience: State employees enrolled in the consumer-driven plan will save more than \$8 million in 2010 compared to their coworkers in the old-fashioned preferred provider organization (PPO) alternative. In the second straight year in which we've been forced to skip salary increases, workers switching to the HSA are adding thousands of

*dollars to their take-home pay. (Even if an employee had health issues and incurred the maximum out-of-pocket expenses, he would still be hundreds of dollars ahead.) HSA customers seem highly satisfied; only 3 percent have opted to switch back to the PPO.*³³

In addition to increased earnings of its employees, Indiana will save at least \$20 million in 2010 alone.³⁴ One study calculates that Indiana's total costs are being "reduced by 11 percent solely due to the HSA option."³⁵

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The state is seeing changes in the behavior of its employees on the plan as well, changes which result in the cost savings. During 2009, workers on the HSA plan went to emergency rooms and saw physicians 67 percent less than their co-workers with traditional health care plans.³⁶ Additionally, they were more likely to use generic drugs which resulted in an average lower cost per prescription of \$18, and they were admitted into hospitals a little less than half as frequently than their co-workers.³⁷

Critics argue these cost savings to the state are the result of HSA participants denying themselves the care they need to save money. However, the above mentioned study found no evidence of HSA participants being more likely to avoid needed care or preventative measures.³⁸

Provide Retirees an HSA Option

As the life span of Americans has increased, so has the length of time employers pay for supplemental insurance for their retirees. As mentioned above, ERS pays 100 percent of the premium for retired employees and 50 percent for dependent coverage. But, Americans are not only living longer, they are healthier longer. According to researchers at Harvard University, while disability does increase with age, staying healthy longer is the biggest trend in late life

over the past 20 years.³⁹ Because of this, it is reasonable to hypothesize that retirees should experience an increasing number of years of good health to build up their HSA accounts, allowing them to enjoy similar cost savings in insurance premiums.

Further, if the HSA rolled over seamlessly from active coverage to retiree coverage, the accumulated savings available to pay for added health care needs in older age years could be a significant advantage for fixed income retirees. For instance, the savings account could be used to pay for home health care, which would increase the choices and independence of retirees should their health begin to fail.

Finally, the savings to the state would decrease the unfunded liability for retirement benefits, which was estimated to be \$38.5 billion as of February 2010 in Texas.⁴⁰ This could help keep the program viable in future years and at the least would give legislators more flexibility in meeting the other obligations of the state. Providing state retirees the option of an HSA plan would save seniors and the state money without negatively impacting the quality of their health care.

Conclusion

The results seen in Indiana could be indicative of how successful Texas might be if we empower our state employees to manage their own health care. Indiana Governor Mitch Daniels said it best when he stated that “a system built on ‘cost-plus’ reimbursement (i.e., the more a physician does, the more he or she gets paid) coupled with ‘free’ to the purchaser consumption, is a machine perfectly designed to overconsume and overspend.”⁴¹ As of 2010, that is exactly the system the State of Texas operates under.

As Texas lawmakers begin the task of balancing next biennium’s budget, they should consider giving state employees and retirees the option of choosing an HSA health plan. States that have already done so are numerous, and the savings they have seen are considerable. HSAs offer states a significant tool to address sky-high health insurance costs without *forcing* change upon any employee. Allowing state employees and retirees the option of choosing an HSA plan is a solution proven to lower costs without impacting quality or access to health care. ★

Endnotes

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About the Authors

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Elizabeth Young joined the Texas Public Policy Foundation in March 2009 as a Higher Education Policy Analyst for the Foundation's Center for Higher Education and in June 2009 added health care policy to her portfolio. Her research focuses on consumer driven solutions for health care policy reform and higher education costs, affordability, value, and transparency.

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