TEXAS PUBLIC POLICY FOUNDATION
Testimony

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Center for Health Care Policy

Testimony to the Senate State Affairs Committee

Relating to the actuarial and financial conditions of health care programs administered by the Employees Retirement System

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Senator Duncan and members of the Committee, thank you for this opportunity to testify before you today. My name is Elizabeth Young, and I am a health care policy analyst at the Texas Public Policy Foundation. I will be speaking to you today about the actuarial and financial conditions of health care programs administered by the Employees Retirement System (ERS).

ERS provided health insurance benefits to more than a half million state employees, retirees, and dependents in FY 2009. The Legislative Budget Board (LBB) projects the cost of providing benefits to state employees will be almost 10 percent higher in the 2010-11 biennium than the 2008-09 biennium, due mostly to the ever increasing costs of health insurance caused by medical inflation. In fact, ERS projects that the health insurance plan could be in the red towards the end of this biennium "due to a projected higher benefit cost trend than previously assumed."

State contributions for employee and retiree health insurance will be $4.1 billion in 2010-11, or 2.2 percent of the state budget. Since 2001, lawmakers have had to increase appropriations to cover these health insurance costs by $2 billion, a 94 percent increase—or almost 19 percent every biennium.

Given the growing burden on taxpayers, the state should consider giving state employees and retirees the option of choosing a Health Savings Account (HSA) plan.

HSA's allow individuals to see how much their health care costs and gives them an incentive to use only necessary services. At least 10 other states currently have the option in place, in addition to many large private companies. States with the High Deductible Health Plan/HSA option currently in place include: Arkansas, Colorado, Florida, Georgia, Indiana, Kansas, Mississippi, South Carolina, South Dakota, and Utah.

Texas legislators have attempted to give state employees the option of an HSA plan before, but their efforts have consistently fallen short. One argument against efforts to increase cost sharing for health insurance is that state employees already have low pay and lack consistent pay raises. This argument, however, fails to recognize that the annual increase in the cost of providing health benefits raised the total dollar amount of their compensation, even if those increases do not add value to their compensation. In other words, increasing health care costs effectively crowd out the potential for real increases in benefits or take-home pay for employees.

Indiana is one state that has already given its employees the option of choosing an HSA health plan, and both the state's budget and its employees are reaping the benefits. In the first year the option was made available, about 4 percent of Indiana employees signed up for the plan. In 2010, over 70 percent of Indiana's state workers chose it.

Indiana's HSA participants receive deposits from the state totaling $2,750 per year into an account controlled by the employee. The state is responsible for covering the premium. As of March 2010, about $30 million in unused funds existed in these accounts, which equals about $2,000 per employee. In 2009, only 6 percent

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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.

The state of Indiana will save at least $20 million in 2010 alone. The independent Mercer Consulting group "calculates the state's total costs are being reduced by 11 percent solely due to the HSA option."

In addition to active employees, retirees can also benefit from HSAs. If the HSA rolls 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 in Texas. 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.

The savings to the state from HSAs would also decrease the unfunded liability for retirement benefits, which was estimated by the Texas Pension Review Board to be $38.5 billion as of February 2010 in Texas. Switching to HSAs could improve the viability of the program in future years and at the least would give legislators more flexibility in meeting the other obligations of the state. ☆

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