

**SUBJECT:** Revising health benefit provisions under Employees Retirement System

**COMMITTEE:** Pensions and Investments — favorable, without amendment

**VOTE:** 4 ayes — Ritter, Grusendorf, Martinez Fischer, Rose

0 nays

3 absent — Telford, McClendon, Pena

**WITNESSES:** For — None

Against — *(Registered, but did not testify:)* Ted Melina Raab, Texas Federation of Employees

On — Rand Harris, Comptroller's Office

**BACKGROUND:** Insurance Code, ch. 1551, the Texas Employees Group Benefits Act, governs health insurance benefits and other coverages for state employees that are members of the Employees Retirement System (ERS). Generally, each full-time state employee and annuitant is covered automatically by the basic coverage plan unless coverage specifically is waived or unless the employee or annuitant is expelled for fraud. Automatic coverage begins on the date an employee or annuitant becomes eligible for coverage.

ERS offers three main health insurance benefit plans: HealthSelect, the state's self-insured preferred provider plan; fully insured health maintenance organization (HMO) plans; and HealthSelect Plus, the state's self-insured HMO-type plan. Under the terms of the plans, a HealthSelect enrollee pays a \$15 copayment for a visit to a primary care provider's office, and HMO and HealthSelect Plus participants pay a \$10 copayment.

**DIGEST:** HB 3456 would specify that automatic coverage for a state employee under ERS would begin on the 90th day after the date on which the employee began employment. Automatic coverage for an annuitant still would begin on the date the annuitant became eligible for coverage.

The bill also would place minimum copayment requirements in statute. A health benefit plan under ERS would have to require a copayment of at least \$20 for a visit to a primary-care physician; \$25 for a visit to a nonprimary care specialist under an HMO-type plan; and \$30 for a visit to a nonprimary care specialist under a preferred provider-type plan.

The bill would take effect September 1, 2003, and would apply to health benefit plans as effective June 1, 2003, beginning with fiscal 2004-05.

**SUPPORTERS  
SAY:**

HB 3456 would implement proposals of the comptroller's e-Texas report *Limited Government, Unlimited Opportunity* in response to concerns about the rising costs of providing health insurance to state employees and the decrease in ERS' reserve fund balance. The e-Texas report points out the sharp increase in the state's cost of providing health insurance to state employees and their dependents. From fiscal 1998 through 2003, ERS estimates a 72 percent rise in total health-plan expenditures and a 79 percent increase in the state's portion. During the same period, ERS' reserve fund balance plunged from \$236 million to \$10.6 million.

Requiring employees to pay higher copayments for visits to doctors and specialists would save the state from having to take more onerous measures, such as eliminating benefits for part-time employees, sharply reducing the state's contribution for dependent care, or implementing a deductible for all health-care services.

The proposed waiting period for coverage of newly hired employees would be a prudent step to conform more closely with the practices of private-sector employers. Many employers require a waiting period for health-care coverage for new employees. Depending on the size of the employer, average waiting periods range from 50 days to more than four months.

While changing employee benefits is a difficult decision, HB 3456 would release \$44.6 million per year in general revenue-related funds that could be applied to programs for needier Texans, such as children and the elderly. This bill would reflect the state's current fiscal crisis rather than the Legislature's determination of state employees' worth.

**OPPONENTS  
SAY:**

The state already underpays most of its employees in comparison with comparable private-sector functions. A reduction in employee benefits would amount to a pay cut for these employees.

State employees are concentrated in Travis County and have little, if any, constituent influence beyond the Austin delegation. However, the work of these public servants improves the quality of life in every legislative district. Lawmakers should weigh the demoralizing effects of health-benefit cuts on state employees who are hard-working and conscientious.

Any savings from the 90-day freeze on benefits for new employees would depend on the number of new hires during the coming biennium. As the bill's fiscal note points out, hiring freezes and reductions in force by state agencies to comply with planned budget cuts could reduce the estimated savings significantly.

**NOTES:**

The fiscal note for HB 3456 estimates that it would save \$89.2 million in general revenue-related funds for fiscal 2004-05 and \$44.6 million each year from fiscal 2006 through 2008. Total savings in all funds for fiscal 2004-05 are projected at \$146.2 million.

HB 2104 by Merritt also contains a provision for a 90-day waiting period before new state employees would be eligible to receive group health benefits. The Pensions and Investments Committee considered HB 2104 in a public hearing on March 24 and left it pending. SB 1370 by Duncan, which also contains a similar provision, has been referred to the Senate State Affairs Committee.