HOUSE
RESEARCH
ORGANIZATION bill analysis | 5/9/2007 | HB 1269 Crownover, et al.

SUBJECT: Authorizing consumer-directed health plans for state employees

COMMITTEE: Insurance — favorable, without amendment

VOTE: 5 ayes — Smithee, T. Smith, Taylor, Hancock, Woolley

0 nays

4 absent — Eiland, Martinez, Thompson, Vo

WITNESSES: For — Mary Katherine Stout, Texas Public Policy Foundation; (*Registered, but did not testify:* Brent Connett, Texas Conservative Coalition; Jenny Fowler, Humana; Shelton Green, Texas Association of Business; Lee Manross, Texas Association of Health Underwriters; Pati McCandless, Unicare; Shannon Meroney, Aetna; Patricia A. Shipton, Consumer Healthcare Products Association; Jared Wolfe, Texas Association of Health Plans; Misty Baker)

Against — Vicki Clark-Bradley, Texas State Employees Union; Andrew Homer, Texas Public Employees Association; Caroline O'Conner, Texas State Employees Union; (*Registered, but did not testify:* Henry H. Brune, Texas Department of Public Safety Officers Association; Leslie Cunningham, Texas State Employees Union; Dwight Harris, Texas Federation of Teachers; Steve Bradley

On — Robert Kukla, Employees Retirement System

BACKGROUND: The federal Medicare Prescription Drug, Improvement, and Modernization Act of 2003 authorized the creation of health savings accounts (HSAs) beginning January 1, 2004. People under 65 covered by high deductible health insurance coverage, defined as plans with minimum deductibles of $1,100 for individual plans or $2,200 for family plans, can make annual contributions to HSAs. These contributions can be the lesser of the annual deductible or $2,850 per year for an individual and the lesser of the annual deductible or $5,650 per year for a family. The contributions can be carried forward from year to year, and non-health withdrawals after age 65 are taxed but not penalized.

DIGEST: HB 1269 would require the state Employees Retirement System (ERS), in a manner that is as revenue-neutral as possible, to offer consumer-directed health plans (CDHPs) as a voluntary benefit for state employees. These plans would be offered as an alternative to basic health insurance coverage, and would include a combination of a state contribution to a high-deductible health plan (HDHP) and state and employee contributions to a health savings account (HSA). Employees also would have the option of making additional tax-free contributions to the HSA.

ERS would have to adopt rules to administer the program, finance or purchase a high-deductible health plan for employees and their dependents, and establish HSAs and administer or select an administrator for them. By July 31, 2008, ERS would have to provide eligible state employees with written information about the option of participating in the program. Employees would have to waive participation in the basic health coverage plan in order to participate in the CDHP.

For each participant, from the state contribution that otherwise would be made for basic coverage for the participant, the state would have to pay premiums for a high-deductible health plan and deposit the remainder of the amount of the state contribution into the employee's health savings account. The total contribution would be equal to the amount the state contributes to the basic health coverage plan. The total state contribution for a calendar year into both the HSA and the high deductible health plan could not exceed the maximum sum allowed by federal law.

Participants would have to contribute any amount required to cover the cost of participating in the consumer-directed health plan that exceeded the state contribution.

ERS would have to develop the state CDHP during fiscal 2008, with coverage beginning September 1, 2008.

The bill would take effect September 1, 2007.

SUPPORTERS SAY:

HB 1269 would give state employees the option of taking control of their own health care expenses and could help the state control the increasing cost of employee health insurance coverage. Texas could serve as a model for other states and private employers by offering its employees this new health benefit option.

The bill would establish a CDHP that combines a high-deductible health plan, which would be less expensive than low-deductible traditional health plans, with a savings account specifically dedicated to health care expenses. CDHPs would be an optional benefit. No employee would be required to participate. Initially, most employees likely would continue with traditional health coverage because of high satisfaction with HealthSelect. The number of employees expected to choose to participate in CDHPs is not expected to be significant enough to affect the operation or cost of the traditional health insurance program.

State employees who chose this option likely would be more careful consumers of health care. Traditional health insurance plans tend to insulate patients from the cost of care, because out-of-pocket costs such as deductibles usually are a small portion of the actual cost of care. A patient who is responsible for the full cost of health treatment would be more likely to question the cost of treatment and the necessity of particular procedures, which naturally would control overall health costs.

There is no evidence to suggest that sicker people would not select CDHPs over traditional health plans. While an individual with a chronic condition may not be able to build substantial savings, HSAs give everyone greater choice and control over their health care decisions. Sicker employees still would have high-deductible insurance to cover health care costs after the deductible had been met. These employees could save money with HSAs because they would be able to use pre-tax dollars to pay ongoing health care costs.

HSAs would give employees the flexibility to control their health care spending by choosing to pay deductibles and other ongoing health care costs from their HSA account and rolling forward any remaining funds. These remaining funds could build up over time and could be used to cover major unexpected health care expenses. When they leave state employment or retire, employees would be entitled to the amount remaining in their HSA.

HSAs are a much more attractive employee benefit than the TexFlex accounts the state currently offers. TexFlex accounts allow employees to pay deductibles and other health care expenses with before-tax dollars but must be used up entirely from one year to the next. An employee who leaves state employment is not entitled to any remaining funds in a flexible health spending account.

Rising health insurance costs have crowded out employee pay raises and other benefit increases for state employees. HB 1269 would offer the potential for the state to control health insurance costs so that it would have money to provide salary increases in the future.

OPPONENTS SAY: HB 1269 could lead to higher costs for the state as a result of "adverse selection" that results when healthy employees leave a group insurance pool while sicker employees, who cost more to insure, remain. While healthy employees would be likely to opt out of traditional health insurance in favor of CDHPs, those with more illnesses probably would continue to choose traditional health insurance, raising the cost of this coverage for the state and for these employees.

Any long-term savings to the state likely are to be the result of cost-shifting rather than lower health care costs. Employees would have to decide whether to use money in their HSAs to pay for preventive care, prescription drug coverage, and emergency care. Employees might choose not to seek preventive care because they did not wish to drain money from their HSAs, which could lead to higher costs for more serious illnesses later.

According to one study conducted for ERS, half of participants in a CDHP who submitted a moderate amount of claims would be likely to experience increased out-of-pocket expenses. CDHPs are best for people who have few or no claims or very high claims. Another study by an affiliate of the Harvard Medical School concluded that women in CDHPs would pay more than men for preventive health care, such as mammograms and gynecological exams, for which out-of-pocket expenses could be significantly higher than those of men.

The state already offers employees a way to save money on deductibles and other health insurance costs through TexFlex accounts. Any money in these accounts that is not spent remains with the state, rather than being withdrawn when a state employee leaves his or her job.

NOTES: HB 1269 originally was set on the May 3 Major State Calendar and was recommitted on a point of order.