HOUSE RESEARCH ORGANIZATION bill analysis | 5/11/2005 | HB 1795 Crownover, et al. (CSHB 1795 by Eiland)

SUBJECT: Authorizing health savings accounts for state employees

COMMITTEE: Pensions and Investments — committee substitute recommended

VOTE: 7 ayes — Eiland, Flynn, Griggs, Krusee, McClendon, Rodriguez, Straus

0 nays

WITNESSES: For — Ron Buffum, Texas Association of Health Underwriters; Dan Perrin, The HSA Coalition; Misty Baker (*Registering, but not testifying:* Hilary Dennis, Texas Medical Association; Jenny Fowler, Humana, Inc.; Shelton Green, Texas Association of Business; John Oates, Aetna, Inc.; Leah Rummel, Texas Association of Health Plans)

Against — Gary Anderson, Andrew Homer, Texas Public Employees Association; Caroline O'Connor, Texas State Employees Union; Ted Melina Raab, Texas Federation of Teachers

On — Ann Fuelberg, ERS; Mary Katherine Stout, Texas Public Policy Foundation

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 $1,000 for individual plans or $2,000 for family plans, can make annual contributions to HSAs. These contributions can be the lesser of the annual deductible or $2,650 per year for an individual and the lesser of the annual deductible or $5,250 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: CSHB 1795 would require the state Employees Retirement System (ERS) to offer Health Savings Accounts (HSAs) for eligible individuals and their dependents, fund or purchase at least one high deductible health plan, and provide information to eligible individuals about the option to participate in and operation of HSAs and high deductible health plans. Each state agency would have to offer employees the option of participating in the program.

To participate in the program, an individual eligible for group health insurance through ERS would have to waive basic plan coverage and purchase a high deductible health plan. Participation in the program would qualify the participant to receive contributions to a health savings account.

For each participant and dependent, the state would annually contribute the same percentage to a high deductible health plan as the state contributes for an employee or dependent covered by the basic coverage plan and, to the person's health savings account, an amount determined by ERS. This amount would have to be at least 50 percent of the difference between the cost of basic coverage and the cost of a high deductible plan. The board would have to establish state contributions that would encourage participation in the program while also maximizing the use of state resources. For a calendar year, the state contribution to an employee's health savings account could not exceed the monthly limitations imposed by federal law.

Each participant would have to contribute any amount required to cover the cost of participation in a high-deductible health plan that exceeded the state contribution amount. A participant could contribute any amount allowed under federal law to the health savings account.

ERS would have to adopt rules, plans and procedures regarding eligibility and the coordination of benefits with other cafeteria plan benefits. ERS would have to develop and implement the program in a manner that was as revenue neutral as possible.

The bill would take effect September 1, 2005. ERS would have to develop enrollment requirements during 2005-06, with coverage beginning September 1, 2006. ERS would have to provide written notice about the program to eligible employees by July 31, 2006.

SUPPORTERS SAY:

CSHB 1795 would let state employees take 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.

HSAs would be an optional benefit. No employee would be required to participate. The bill could save the state money because employees who chose HSAs would enroll in high deductible health insurance plans, which typically cost hundreds of dollars less in monthly premiums. While a portion of this cost savings would be passed on to the employee through funds deposited in the employee's HSA, the state's overall contribution for that employee's health insurance coverage still would be lower.

There is no evidence to suggest the sicker people would not select HSAs 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.

State employees who chose HSAs 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 would naturally control overall health 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, 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. CSHB 1795 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:

CSHB 1795 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.

One aspect of this adverse selection is outlined in the bill's fiscal note. According to LBB, HSAs would attract a relatively small number of healthy employees who are less costly to insure. For many, the state contribution to the HSA on their behalf would be higher than the amount of claims they would have incurred had they remained in the current plan. For these employees, the cost to the state of providing high deductible insurance and contributing to an HSA would be higher than under the current system. Even though the bill directs ERS to adopt a plan that is revenue neutral, the ERS actuary estimates that the cost to the state of this adverse selection would be $13.4 million between fiscal 2007 and fiscal 2010.

While healthy employees would be likely to opt out of traditional health insurance in favor of HSAs, those with more illnesses would probably 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 from HSAs are likely 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 may choose not to seek preventive care because they do not wish to drain money from their HSA, which could lead to higher costs for more serious illnesses later. The HSA plan design puts the greatest burden on those employees who require ongoing care for chronic illness, such as diabetes or asthma.

The success of any consumer-driven health plan hinges on employees making intelligent decisions about health care. This includes making the most decisions about the most cost-effective providers, as well as about which kind of plan best fits with one's personal health spending patterns. Approving a HSA plan before putting a strong communication plan in place would be putting the cart before the horse.

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 left his or her job.

OTHER OPPONENTS SAY:

Offering HSAs to Texas state employees would be premature. The legislature should postpone consideration of HSAs until at least next session, when more information will be available about the experience of public employers, particularly the federal government, in offering the option of HSAs to their employees.

NOTES:

The committee substitute would direct ERS to develop and implement the HSA program in a manner that is as revenue neutral as possible and made other non-substantive revisions.