

**SUBJECT:** Supplemental coverage for state employees with TRICARE insurance

**COMMITTEE:** Insurance — favorable, without amendment

**VOTE:** 6 ayes — Smithee, Seaman, Eiland, B. Keffer, Taylor, Van Arsdale

0 nays

3 absent — Isett, Oliveira, Thompson

**WITNESSES:** For — Glen Gardner, Texas VFW; Walter Markovsky, ASI Tricare Supplement

Against — None

On — William Nail, ERS

**BACKGROUND:** TRICARE is the Department of Defense health insurance plan for active and retired military personnel and their families. It consists of three programs: a health maintenance organization (HMO) with lower out-of-pocket costs but limited geographic availability; a preferred provider organization (PPO) with annual deductibles and cost-sharing; and a standard fee-for-service option. Retirees who are eligible for Medicare also are eligible for TRICARE for Life, a Medicare supplement.

Supplemental insurance policies for TRICARE are designed to reimburse recipients for deductible and co-payment costs. They are offered by military associations and by private firms and generally have rules concerning acceptance for pre-existing conditions, eligibility requirements for other family members, and deductibles.

State employees and their families can receive health benefits through the Employees Retirement System (ERS) of Texas. The state also has three options: an HMO with no cost-sharing, a point-of-service plan (analogous to a PPO), and fee-for-service. State employees have the option of declining health benefits or choosing only certain benefits, such as dental only.

For fiscal 2005, the state contributes between \$268 and \$317 per month toward group health benefits for full-time employees. It contributes between \$523 and \$620 per month for employees and their families, and the employee contributes between \$255 and \$302 per month.

TRICARE and ERS health plans compare in the following ways:

- neither charges deductibles beyond co-payments in the HMO program;
- the TRICARE PPO charges 15 percent cost-sharing for active and 20 percent for retired military personnel, and the ERS point-of-service plan charges a 20 percent deductible for in-network services;
- TRICARE fee-for-service charges 20 percent cost-sharing for active and 25 percent for retired military personnel, and the ERS in-network plan charges a 30 percent deductible;
- prescription drugs have no or very low — \$3 to \$9 — co-payments under TRICARE, while ERS plans have a \$50 annual deductible and co-payments that range between \$10 and \$55.

ERS data show that there are nearly 1,800 state employees with ERS benefits who also are eligible for TRICARE. In addition, there are nearly 700 state employees who have declined their state coverage in favor of TRICARE.

According to one company that offers a TRICARE supplemental health coverage product, North Carolina has enacted legislation to authorize a supplemental health coverage option in 2005 for TRICARE-eligible employees. South Carolina, Florida, Alabama, and Nebraska did not require legislation and have enrolled in the plan.

**DIGEST:**

HB 417 would permit ERS to offer a voluntary supplemental health coverage benefit for employees who are eligible for TRICARE and opt to participate in that plan, rather than state group health benefits, if it were cost effective and advantageous to the state or program participants.

The cost of the supplemental health coverage benefit would be paid by the state in the same manner as group health benefits, except that the employee contribution for the supplemental coverage could be reduced to reflect the reduced cost of the coverage.

ERS could either purchase the supplemental health coverage or directly provide the benefit by self-funding it, if it were cost effective to do so. ERS also could coordinate purchasing of the supplemental benefit with other agencies, political subdivisions, or retirement systems.

The bill would take immediate effect if finally passed by a two-thirds record vote of the membership of each house. Otherwise, it would take effect September 1, 2005.

**SUPPORTERS  
SAY:**

HB 417 would save the state money and offer improved health care benefits to state employees who also are veterans. TRICARE is a well-regarded health benefit plan that many veterans and their families choose to join. Already, nearly 700 state employees have opted for TRICARE over the ERS plans. If most of the remaining 1,800 eligible employees joined TRICARE, the state would see significant savings in the coming biennium.

State employees who are TRICARE-eligible would have a financial incentive to change programs and assurance of availability of physicians. Often the only reason TRICARE-eligible state employees choose to stick with the state plan is because of high possible costs associated with balance billing in the fee-for-service TRICARE plan and fears that there may not be sufficient doctors who take TRICARE in their area. With a supplemental benefit, the employee could pay no deductibles or balance billing, giving state employees the financial certainty they would need to make the switch and the additional reimbursement to give providers a reason to accept patients with TRICARE supplemental coverage.

HB 417 has an assurance of cost-savings built in. ERS only could go forward with the plan if it were cost effective and advantageous to the state or employees. The state also could self-insure. If the envisioned savings were not attainable or the supplemental plan options did not materialize, ERS would not offer the supplement.

This bill would benefit low-earning state employees the most. Because rising deductibles and cost-sharing have outpaced pay raises over recent years, low-earning state employees have seen their incomes stagnate. This bill would put money back into the pockets of TRICARE-eligible employees by paying the deductibles and cost-sharing for them and their families.

OPPONENTS  
SAY:

The market strongly suggests that a supplemental benefit that would save the state money may not be advantageous to the employee. Most supplemental benefit plans require deductibles and have exclusions for pre-existing conditions that would make the TRICARE option just as expensive as the state benefit for employees. Any company that promises no deductibles or exclusions is an outlier in the market. The reason deductibles and exclusions are built into the health care system is to prevent utilization and costs from sinking an insurance carrier.

HB 417 would create inequity among benefit packages for state employees. In effect, TRICARE-eligible employees would contribute nothing toward the cost of their health care, while the rest of state employees shoulder an ever larger burden. The disparity would be most acute for low-income state employees who are not TRICARE-eligible. If the state wishes to move employees off the health care benefit rolls, supplemental insurance should be offered to all employees who have other health care options. An employee whose spouse has health insurance, for example, could use such a supplement to pay for the contribution to join the spouse's insurance at a savings to the state.

OTHER  
OPPONENTS  
SAY:

The state could save even more money if it better informed eligible employees about the TRICARE option. That health benefit involves significantly less out-of-pocket expenses for the employee, yet many are unaware that they can decline state health benefits and join TRICARE. If the state made an effort to let employees know that TRICARE is less expensive for them, then more would choose it. Then the state would save the cost of the employee's health benefit without paying for a supplemental benefit.

NOTES:

The fiscal note estimates a savings to the state in fiscal 2006-07 of \$4.5 million in general-revenue related funds if 75 percent of the eligible employees opted to join TRICARE and take the supplement.

A provision to establish a supplemental health benefit for TRICARE-eligible state employees is included in other filed bills including: HB 2416 by Chisum, HB 2773 by Isett, HB 2970 by Eissler, SB 1572 by Williams, and SB 1609 by Ogden.