HOUSE RESEARCH ORGANIZATION bill analysis 5/4/2015

HB 966
Crownover, et al.

SUBJECT: Creating a consumer-directed health plan option for state employees

COMMITTEE: Pensions — favorable, without amendment

VOTE: 6 ayes — Flynn, Hernandez, Klick, Paul, J. Rodriguez, Stephenson

1 nay — Alonzo

WITNESSES: For — Jessica Watts, Texas Association of Health Underwriters; John Davidson, Texas Public Policy Foundation; Becky Parker; (*Registered, but did not testify*: Teresa Devine, Blue Cross and Blue Shield of Texas; Christy Willhite, Capital Metropolitan Transportation Authority; Marc Alcedo, Cigna Healthcare; Lee Loftis, Independent Insurance Agents of Texas; Annie Spilman, National Federation of Independent Business-Texas; Amanda Martin, Texas Association of Business; Jamie Dudensing, Texas Association of Health Plans; Darren Whitehurst, Texas Medical Association)

Against — Donald Zavodny, AFSCME Texas Corrections; Ted Melina Raab, Texas American Federation of Teachers; Ray Hymel, Texas Public Employees Association; Joanne Day and Leroy Haverlah, Texas State Employees Union; (*Registered, but did not testify*: Mark Cebulski, and Maura Powers, AFSCME Texas Retirees; Currie Hallford, CWA Texas Legislative and Political Committee; Bill Hamilton, Retired State Employees Association of Texas; Rene Lara, Texas AFL-CIO; Glenn Scott, Texas Alliance for Retired Americans)

On — (*Registered, but did not testify*: Robert Kukla, Employees Retirement System of Texas)

BACKGROUND: Under federal law, an adult not enrolled in Medicare covered under a high-deductible health plan can make annual tax-exempt contributions to a health savings account. Contributions made by an employer to an employee's account may be excluded from the employee's gross income. The contributions can be carried forward from year to year. Employees can keep their accounts if they changes jobs or leave the workforce.

Insurance Code, ch. 1551 establishes the Texas Employees Group Benefits Act, which provides insurance coverage including health benefits for state employees and their dependents.

DIGEST: HB 966 would establish a state consumer-directed health plan option for state employees and their eligible dependents. The board of trustees of the Employees Retirement System of Texas (ERS) would be directed to establish health savings accounts and finance a self-funded high deductible health plan.

Definitions. The bill would use the federal definition of "high deductible health plan" as a plan which meets certain cost requirements for annual deductibles and out-of-pocket expenses. A "plan enrollee" would mean an employee or annuitant who is enrolled in the state consumer-directed health plan. The bill would define "qualified medical expense" as an expense paid by a plan enrollee for medical care, as defined by the Internal Revenue Code of 1986.

State and employee contributions. The state would contribute to a high-deductible health plan the amount necessary to pay the cost of coverage, not to exceed the amount the state would annually contribute for a full-time or part-time employee for basic coverage under the existing Group Benefits Program.

For dependents, the state would contribute to a high-deductible health plan the same percentage of the costs of coverage it would annually contribute for basic coverage for the dependent. Any remaining required contributions for dependent coverage would be paid by the employee. Amounts contributed by a plan enrollee for dependent coverage could be used to pay the cost of coverage not paid by the state or allocated by the ERS board to an enrollee's health savings account.

Before each plan year, the ERS board would be authorized to determine the amount of allocation of the state's contribution, if any, to an enrollee's health savings account that remained after payment for coverage. A plan enrollee could contribute any amount allowed under federal law to the enrollee's health savings account.

ERS requirements. The ERS board would have to ensure that the plan included preventive health care and would have to provide information about the plan to eligible employees.

The board would have exclusive authority to determine whether a plan enrollee would be eligible to participate in a flexible spending account program. A plan enrollee could not participate in any flexible spending account that would disqualify the enrollee's health savings account from favorable tax treatment under federal law.

The account administrator selected to administer a health savings account would have to be qualified to serve as trustee under the Internal Revenue Code of 1986 and be experienced in administering health savings accounts or other similar trust accounts.

ERS would be directed to develop the state consumer-directed health plan so that coverage began on September 1, 2016. ERS would be required to develop and implement the health savings account program in a manner that was as revenue-neutral as possible.

The bill would state that it was the intent of the Legislature that ERS could not divide the self-funded risk pool of the existing Group Benefits Program.

This bill would take effect September 1, 2015.

SUPPORTERS SAY:

HB 966 would give state employees the option of controlling their health care expenses through participation in a high-deductible health plan with a health savings account. Health savings accounts are tax-protected accounts that can be spent only on health care expenses. In order to qualify for a health savings account, an individual would have to enroll in a high-deductible health care plan.

This bill would give employees the freedom to choose a plan that best fit their needs. Employees would be able to build up their health savings account year to year through their own contributions, along with any state contributions, and could take their account with them if they changed jobs. No employee would be required to participate in the consumer-directed health plan.

Adding this option would not weaken the existing employee health plan through “adverse selection” as some have claimed because the bill clearly states the Legislature’s intent that the two plans not be divided into separate risk pools. The overall cost of state employee health coverage would be shared by all participants, no matter which health plan they chose.

This type of plan could encourage participants to actively participate in their health care as consumers, not just as patients. Employees who chose a high-deductible health plan with a health savings account could become more involved in the health care process and more conscious of health care costs. This would encourage participants to take personal responsibility for their heath, which could lead to lower health costs overall for the state.

A 2006 study prepared for ERS concluded that a consumer-directed health plan option could be an attractive choice for a subset of employees without causing a substantial negative impact to the current plan and enrollees.

Texas would join a number of other states and many private companies that offer their employees a consumer-driven health plan. An industry group has estimated that enrollment in health savings account plans had grown on average 15 percent annually since 2011. Indiana was one of the first states to adopt consumer-driven health plans in 2006. A 2010 study of Indiana’s experience found lower average costs for employees covered by consumer-driven health plans compared to those covered by traditional plans. The study found factors that lead to reduced costs include substituting generics for brand drugs, avoiding unnecessary visits to the emergency room, and going to a primary care physician instead of a specialist when possible. The study found no evidence that participants in the plans delayed care due to cost concerns.

OPPONENTS SAY:

HB 966 could pose unnecessary risks to the health of state employees and the long-term stability of the state's group insurance program.

With deductibles of at least $1,300 for individuals and $2,600 for families, high-deductible plans are most likely to be chosen by younger, higher-paid employees. This could leave older and perhaps less healthy workers in the traditional plan and cause premium costs to increase. This type of "adverse selection" could undermine the concept of insurance as spreading risk over the broadest possible pool to keep costs under control.

Studies have found that average contributions by employers to employees' health savings accounts did not cover the deductibles in a high-deductible plan. Some lower-wage workers could experience financial hardships covering the gap between their health savings and the cost of care. Others could avoid or delay care because of costs. Health savings accounts could be particularly burdensome on women, who routinely need more medical care than men.

Health savings accounts would not slow the overall growth of health care costs. Once an individual met the plan's out-of-pocket maximum, the plan would cover expenses in full, similar to a traditional plan. Individuals with chronic disease and high claims still would drive the bulk of health benefit costs, regardless of the type of plan.

Participants in high-deductible health plans with health savings accounts are expected to shop for health insurance plans. Comparing plans can be difficult, as can managing the health savings account. The onus of making prudent health care decisions should not rest solely on state employees.

A 2006 study prepared for ERS said implementing a consumer-directed health plan option could be time-consuming and expensive relative to the potentially low enrollment expected if the plan was optional.