

# ERS Health Benefits at Risk

## ERS Budget and State Fiscal Problems Create Multiple Threats

TPEA Executive Director Gary Anderson sent a letter to Governor Perry and other state leaders on January 7, alerting them to potentially significant cuts to our state health benefits and asking for consideration to prevent or mitigate such cuts.

As explained in the letter, state employees and retirees could be hit with two separate cuts to ERS health benefits this year, one because of unexpected budgetary problems at ERS, and the second because state leaders are directing state agencies to make 5 percent budget reductions to deal with Texas' growing fiscal problems. The combined impact of these two potential cuts could result in significant ERS health benefit reductions. Given that state retirees haven't received any sort of retirement enhancement in nearly 10 years and most state employees didn't get pay raises this biennium, TPEA believes such changes would impose disproportionate economic hardships on state employees, retirees and their families.

To further complicate matters, fiscal experts agree that the state of Texas will face a large budget deficit when legislators convene for the next regular session in 2011. TPEA believes that legislative budget writers could face a budget deficit of \$15 billion or more, and this poses yet another potential threat to our health benefits.

TPEA is asking all state employees and retirees to communicate with their legislators and with key state leaders to let them know the potential impact these cuts would have on state employees, retirees, and their families. Please read the Statehouse Report on page 22 of this magazine and follow the directions to contact key state leaders. In addition, it is important that all concerned active and retired state employees sign up for TPEA's home email updates by going to our web site at [www.tpea.org](http://www.tpea.org) and registering for the newsletter in the box on the left side of the home page.

### Spike in Health Costs Creates Potential Budget Deficit

The first threat to our health benefits was revealed in early December 2009. ERS briefed legislative offices, TPEA, and other concerned parties about the potential for a significant budget shortfall in the Group Benefits Program (GBP) because of an unexpected "spike" in the health care cost trend. The abrupt increase in health care costs occurred in the last quarter of FY 2009, which ended August 31. ERS has been monitoring subsequent cost data to determine whether this spike was a temporary aberration or a more permanent problem.

Legislative budget writers intended to preserve state health benefits over our current two-year budgetary period. But, in order to free up funds for other uses, the budget required ERS to spend down its Reserve Fund as a method of finance and left no margin for error should the cost trend change.

ERS has projected that it could face a deficit of as much as \$148 million, although updated cost information may lower that estimate. Should ERS face the prospect of a significant deficit, this will likely result in major cuts to state health benefits. TPEA believes ERS has the ability to achieve some cost savings by tightening its network of providers and reining in expenditures for certain expensive and over-utilized procedures. Beyond that, the options to deal with any potential deficit are increases in co-payments, deductibles, coinsurance or other cost sharing mechanisms. State and employee contributions for health coverage (essentially insurance premiums) are set in the state budget and cannot be changed without legislative action. So, other than shifting costs to plan participants, there are not a lot of options to deal with a budget shortfall at ERS.

ERS should have an estimate of the size of its potential deficit in February. It will then begin to determine which benefit changes would be necessary to close the deficit gap. This could require increases in most co-payments, imposition of a new deductible for medical services or changes in the co-insurance rate or the out of pocket maximum, for example. ERS is planning to conduct a survey to assess participant

preferences for alternative changes in employee benefits. Once ERS makes its list of proposed benefit changes public, TPEA will disseminate this through our email updates.

## State Leaders Order Agency Budget Reduction Plans

Late last year TPEA became aware that the state's executive and legislative leadership, Governor Perry, Lt. Governor Dewhurst and Speaker Straus, were concerned about growing state fiscal problems and were planning on issuing a directive to state agencies to develop budget reduction plans. These state leaders ultimately issued a joint letter on January 15 that directs all state agencies to develop spending reduction plans that would cut spending of General Revenue and General Revenue-dedicated funds by 5 percent for their 2010-2011 budgets. These plans were due to be submitted by February 15.

TPEA Executive Director Gary Anderson had anticipated the issuance of the leadership budget reduction letter and was concerned that any mandated budget reductions for ERS would be on top of the ongoing efforts by ERS to close its anticipated budget deficit. Mr. Anderson communicated TPEA's concerns in a letter to state leaders preemptively on January 7, expressing to them the hardship that state employees and retirees would face with a double hit. He detailed how the potential of proposed cuts "would be excessive and financially damaging to plan participants, as well as being grossly inequitable."

ERS had previously estimated that if it needed to close a \$148 million budget deficit, this would amount to an 8 percent reduction in state health benefits. However, if ERS is required to cut an additional 5 percent of General Revenue funds, TPEA estimates this would result in a 14 percent overall benefit reduction. ERS has not provided information on the specific plan design changes that would be needed to accomplish this level of reduction, but, given the aggregate size of the combined cuts, they would necessarily be draconian.

## Legislators Will Face Huge Budget Deficit in 2011

Maintenance of state health benefits at current levels are at significant risk due to the combined ERS cuts already under consideration. Unfortunately, the state's likely fiscal condition as legislators write the next state budget in 2011 raises the specter of further budget cuts to ERS.

TPEA has conducted its own analysis and consulted with state fiscal experts, and as a result we believe the state will face a budget deficit of \$15 to \$20 billion when they convene next January. The primary component of this deficit is the roughly \$11 billion in non-recurring funding sources used in financing the state's current \$182 billion budget for FYs 2010-2011. It includes \$6 billion in federal stimulus funds that are being used as general revenue, \$2 billion in surplus funds that were available to budget writers in 2009 from the prior biennium, and \$3 billion that the legislature "pre-funded" in 2007 for the Property Tax Relief Fund. TPEA also believes that state tax receipts will be below projections, and that state expenditures in some programs will exceed budgeted amounts.

On the positive side, legislators will have at least \$8 billion, and possibly more than \$10 billion, available for use in the state's "Rainy Day Fund." Legislative rules require a two thirds vote of the legislature to appropriate Rainy Day funds, and current expectations are that legislative leaders will attempt to preserve half of whatever is available for future use. Depending on how soon and how rapidly Texas recovers from the current recession, budget writers may also see revenue growth of several billion dollars over the 2012-2013 biennium.

Even with a robust Rainy Day Fund, the 2011 budget process will require reductions from current spending levels. Health care inflation over the past decade has been three to four times greater than general inflation, and even with flat state funding for ERS, it will still require benefit reductions. TPEA is also concerned about how state leaders treat the use of ERS' Reserve Fund as a method of finance when calculating the base budget for the next biennium. While technical in nature, the failure of state leaders to count Reserve Funds as part of ERS' spending base will exacerbate the impact of any budget reductions.

## Stay Informed, Get Involved

The potential of health benefit reductions, both currently under consideration and on the horizon, is sobering. While it is too early to tell just how deep any benefit cuts will be, we have the ability to try to limit the scale of any benefit cuts by working hard as advocates.

TPEA is trying to inform all state employees and retirees about the possibility for severe cuts to our benefits. Please stay informed by signing up for TPEA's home email list. Most importantly, get involved as an advocate to help preserve our benefits. Please use the information contained in the Statehouse Report in the back of this magazine to help preserve our health benefits.